



AFRICA'S MACROECONOMIC PERFORMANCE AND OUTLOOK

JANUARY 2026



AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE
DE DÉVELOPPEMENT



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ISBN 979-8-9925925-7-3

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FOREWORD

The global economy continues to navigate an increasingly complex and uncertain landscape marked by heightened geopolitical fragmentation, persistent trade policy tensions, climate-related shocks, and lingering post-pandemic vulnerabilities. These forces are reshaping global trade, financial flows, and macroeconomic policy space, testing the resilience of economies across the world. For Africa, these forces—combined with domestic shocks—have posed formidable challenges to strengthening the growth momentum, stabilizing prices, and rebuilding fiscal and external buffers. Amid these headwinds, Africa has demonstrated strong resilience and remains a global growth frontier.

Africa's growth strengthened in 2025, with average real gross domestic product (GDP) expanding by an estimated 4.2 percent, up from 3.5 percent in 2024. This improvement was broad based (across countries and sectors) and supported by easing inflationary pressures, improved macroeconomic management, favorable agricultural conditions, and a weaker US dollar that helped cushion the impact of external shocks. More than half of African countries are estimated to have recorded improved growth in 2025, with several expanding by more than 5 percent.

East Africa remains the fastest-growing region, underpinned by strong domestic demand, sustained public investment, and continued expansion in services. It is followed by West and North Africa, where growth is benefiting from increased extractive activity, infrastructure development, and improved services performance. In Central Africa, growth is supported by renewed investment in mining and infrastructure. By contrast, Southern Africa continues to record the slowest

growth in the continent, reflecting persistent structural constraints, subdued external demand, electricity shortages, logistics bottlenecks, and weaker diamond export revenue. This breadth of performance demonstrates Africa's potential to harness its demographic assets and diversify its natural capital as engines of more resilient and sustained growth.

Looking ahead, Africa's medium-term outlook remains positive. Real GDP growth is projected to stabilize at 4.3 percent in 2026 and further to 4.5 percent in 2027, supported by buoyant private consumption, easing monetary conditions, improving external balances, and continued reform efforts across many countries. With this growth momentum, Africa is projected to remain one of the fastest-growing regions in 2026. This underscores the continent's long-term investment potential, particularly where growth is anchored in climate-resilient infrastructure, value addition, and productivity-enhancing investment.

The macroeconomic environment is strengthening. Inflationary pressures are gradually easing as global food and energy prices stabilize, exchange rates adjust, and tighter monetary policies gain traction. Fiscal positions are expected to improve gradually as growth rebounds and governments strengthen revenue mobilization and expenditure efficiency.

Despite these positive developments, Africa's growth remains fragile and exposed to significant downside risks. Persistent debt distress, geopolitical conflicts, climate shocks, and renewed global financial volatility could undermine recent gains. Debt vulnerabilities remain elevated, constraining fiscal space and diverting resources away from social and productive investment, with important

implications for inclusive growth and long-term development. High debt-service burdens continue to limit policy space, while inflation, though easing, still erodes purchasing power for millions of households. Moreover, geopolitical tensions and trade fragmentation pose risks to export performance, investment flows, and regional stability. Navigating these challenges while sustaining growth momentum is therefore a central policy imperative for African countries.

This edition of *Africa's Macroeconomic Performance and Outlook* underscores the urgency of combining macroeconomic stabilization with bold structural reforms to strengthen resilience and unlock Africa's growth potential. The report highlights well-coordinated monetary, fiscal, and exchange rate policies to contain inflation, rebuild buffers, and safeguard financial stability. Equally important is the urgency of mobilizing development financing at scale for investment in productive and climate-resilient infrastructure and in modernizing basic services. These are critical to raise productivity, create jobs, and harness

Africa's demographic dividend to sustain higher growth rates and accelerate structural transformation. Enhancing domestic resource mobilization, increasing diaspora capital, improving public investment efficiency, and deepening regional integration under the African Continental Free Trade Area—all are critical to financing Africa's development ambitions in an increasingly fragmented world.

There is growing consensus that mobilizing development financing at scale, strengthening fiscal institutions, fostering competitive and diversified productive sectors, and anchoring growth in Africa's vast natural capital potential are critical to building resilient, inclusive, and sustainable economies. As Africa confronts an uncertain global environment, the policy choices today will determine whether the continent can translate its resilience into sustained prosperity for current and future generations.

Dr. Sidi Ould Tah

President, African Development Bank Group

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ACKNOWLEDGEMENTS

A*frica's Macroeconomic Performance and Outlook 2026* was prepared in the Vice Presidency for Economic Governance and Knowledge Management (ECVP) Complex under the general direction of Prof. Kevin Chika Urama (Chief Economist and Vice President, ECVP Complex), with support from Alexandre Kopoin, Adamon Mukasa, Amah Koffi, Jasma Salim Ahmed, and Michael Abah.

Preparation of the report was supervised by Anthony Simpasa (Director, Macroeconomic Policy, Forecasting, and Research Department, ECMR). The core team comprised Paul Mpuga (Division Manager, Macroeconomic Policy, Forecasting, and Debt Sustainability Division, ECMR.1), Francis Leni Anguyo, Hammed Amusa, Lacin Balma, Kebba Jammeh, Martin Wafula Nandengela, and Assi Okara, all from ECMR.1. The report was co-led by Hammed Amusa and Francis Leni Anguyo, with contributions from the core team. Richard Dutu, Blaise Gnimassoun, and Zackary Seogo contributed to various sections of the report. Marie Therese N'zi, Félicie Zongo Kaboré, and Hamida Riahi provided administrative support.

The statistical information was compiled by the Statistics Department, led by Babatunde Samson Omotosho (Director, Statistics Department, ECST) and supported by Louis Koua Kouakou (Division Manager, Economic and Social Statistics, ECST.1) and the team comprising Anouar Chaouch,

Stephane Regis Hauhouot, Slim Jerbi, Soumaila Karambiri, and Beejaye Kokil.

The report benefited from reviews and comments by internal Bank staff and external experts. Within the Bank, comments and suggestions were received from George Auma Kararach, Hoth Hot Chany, Jose Anthonio Pedrosa Garcia, Ahmed Ragab Elsaid Abdelhamid Hamona, Veripamue Kahimise, Bernice Savy, Admit Zerihun, Yusif Eltahir, and Iyad Dhaoui (Country Economics Department, ECCE); Seedwell Hove, Miguel Luba Bahosi, and Dereck Obura Ngala (African Development Institute, ECAD); and Michael Machokoto (Microeconomics, Institutional and Development Impact Division, ECMR.2). It also benefited from valuable comments and suggestions by external peer reviewers—Prof. Christopher Adam (University of Oxford) and Prof. Léonce Ndikumana (University of Massachusetts at Amherst).

The cover of the report is based on a general design by Guy Ange Gnabro, Justin Kabasele, and Laetitia Yattien Amiguet of the Bank's Communication and External Relations Department. Editing, translation, and layout were provided by a team from Communications Development Incorporated (CDI), led by Bruce Ross-Larson and including Joe Caponio, Mike Crumplar, Meta de Coquereumont, Christopher Trott, and Elaine Wilson, with translation support from Jean-Paul Dailly and a team at JPD Systems.

ABBREVIATIONS

AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
AFSM	African Financial Stability Mechanism
AGOA	Africa Growth and Opportunity Act
ECB	European Central Bank
ECMR	Macroeconomic Policy, Forecasting, and Research Department
ECVP	Economic Governance and Knowledge Management Complex
FDI	Foreign direct investment
GDP	Gross domestic product
GNI	Gross national income
HCI	Human Capital Index
ICT	Information and communications technology
IMF	International Monetary Fund
IRIS	Institutional Repository for Information Sharing
MEO	Macroeconomic Performance and Outlook
NPL	Nonperforming loan
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
PMI	Purchasing Managers' Index
TFP	Total factor productivity
US	United States
USAID	US Agency for International Development
WAEMU	West African Economic and Monetary Union
WHO	World Health Organization

KEY MESSAGES

Africa's growth performance has improved, and the medium-term outlook appears broadly stable, despite rising fragmentation of the global economy and persistent uncertainties in global trade policy. Average real gross domestic product (GDP) growth is estimated at 4.2 percent for 2025, consistent with the projection in the Macroeconomic Performance and Outlook (MEO) 2025 update. This represents an increase of 0.7 percentage points from the 3.5 percent recorded in 2024. However, growth remains well below what is required to lift millions of Africans out of poverty.

The growth uptick in 2025 was broad based, with stronger estimated performance in 32 of 54 African countries, 22 of them by more than 5 percent. These developments reflect a mix of sectoral recoveries, improved macroeconomic management, and a weaker US dollar, which has helped mitigate the impact of global shocks on domestic economies. In several countries, growth has been supported by stronger agricultural output, reflecting not only favorable weather conditions but also the gradual adoption of climate-smart agricultural practices, alongside increased infrastructure investment and renewed private sector confidence.

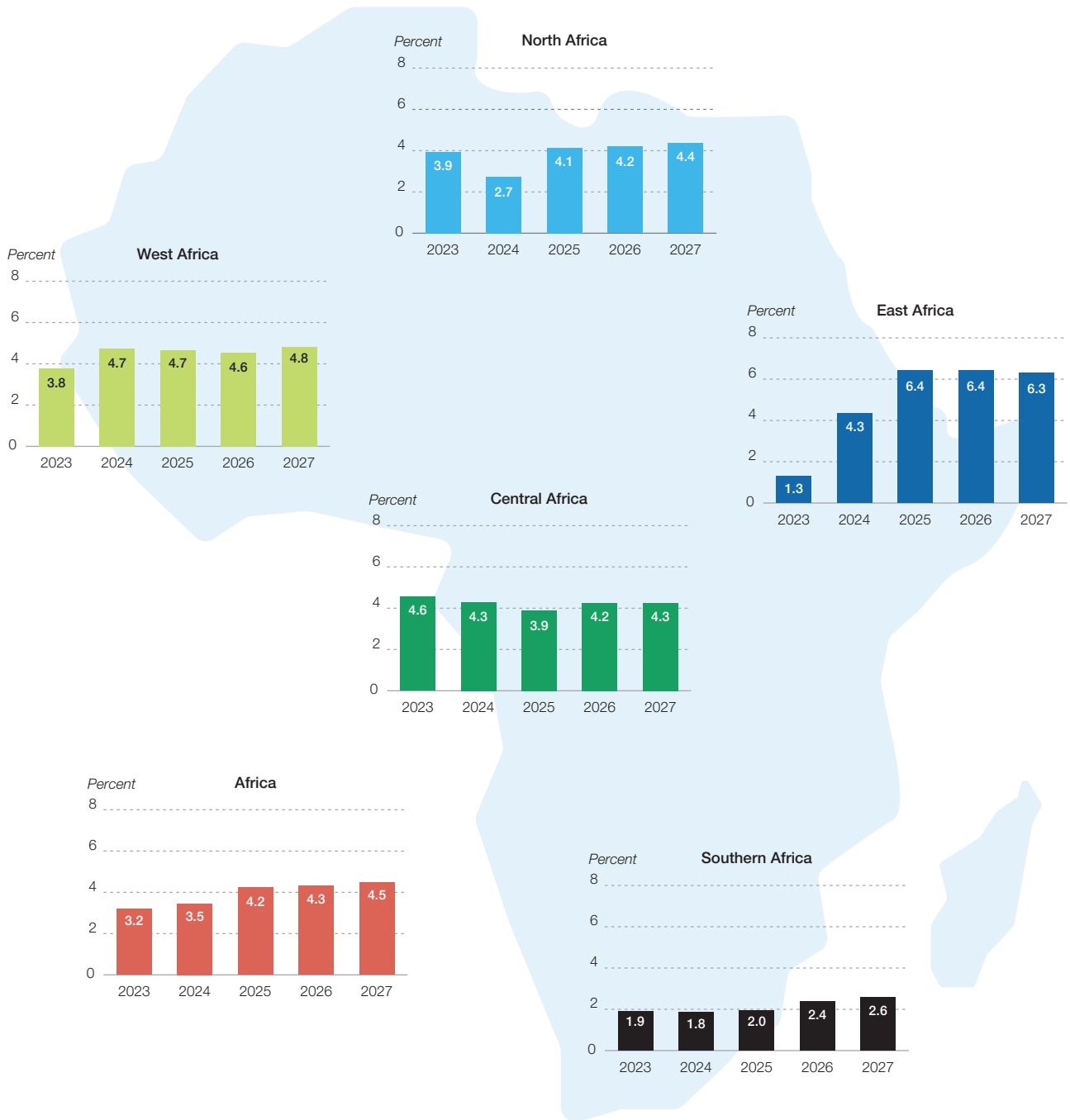
Looking ahead, Africa's real GDP growth is projected to reach 4.3 percent in 2026 and rise to 4.5 percent in 2027. The favorable economic outlook is bolstered by relatively buoyant private consumption, accommodative monetary policy, a softer US dollar that is aiding disinflation, and stronger export demand from key trading partners. Despite global headwinds, Africa remains

a global growth frontier, on track to remain one of the fastest-growing regions in 2026 and hosting 12 of the world's 20 fastest-growing economies. This underscores the continent's resilience to shocks and its long-term growth potential, even as outcomes remain subject to both upside opportunities—such as easing global monetary conditions and stronger global demand and reform momentum—and downside risks stemming from persistent debt distress, shrinking fiscal space, pockets of regional conflicts, and political instability.¹

The continent's aggregate growth masks substantial regional variations (figure 1).

- East Africa is estimated to have remained the fastest-growing region in 2025, with growth estimated at 6.4 percent in 2025. Growth is projected to remain steady in 2026 before decelerating to 6.3 percent in 2027. Strong performers in 2025 include Ethiopia (9.8 percent), Rwanda (7.5 percent), and Uganda (6.4 percent), driven by robust agricultural production, service sector expansion, and increased investment flows. Reflecting a bounce back from recent economic decline, growth in South Sudan is projected at 30.0 percent in 2026 and 8.3 percent in 2027, supported by the resumption of oil exports, expanded investment in non-oil sectors, and ongoing efforts to enhance institutional reform and economic stabilization. However, this masks underlying fragilities, and the country's growth path remains highly volatile due to persistent political and security challenges.
- West Africa's economy is estimated to have grown by 4.7 percent in 2025, driven by solid

FIGURE 1 Growth performance and outlook by African region, 2023–27



Note: Data for 2025 are estimates; data for 2026 and 2027 are projections.

Source: African Development Bank statistics.

performance in Senegal (8.1 percent), Niger (7.8 percent), Guinea (7.2 percent), Benin (7.1 percent), and Côte d'Ivoire (6.4 percent), reflecting gains in extractives, infrastructure

investment, and agricultural output. Growth is projected to stabilize at 4.6 percent in 2026 and 4.8 percent in 2027, aided by increased public investment, including the expansion of

road and port infrastructure, to support the extractive industry.

- Growth in North Africa is estimated to have increased to 4.1 percent in 2025 from 2.7 percent in 2024. Growth in 2025 is estimated at 12.4 percent in Libya, Morocco (4.4 percent), Egypt (4.0 percent), Mauritania (4.0 percent), Algeria (3.3 percent), and Tunisia (2.5 percent). The recovery reflects improved hydrocarbon output, higher tourism receipts, and easing inflationary pressures. Growth in North Africa is projected to increase to 4.2 percent in 2026 and 4.4 percent in 2027, driven by improved agricultural output, tourism, and increased investment in the extractives sector.
- Growth in Central Africa is estimated to have declined slightly from 4.3 percent in 2024 to 3.9 percent in 2025, constrained by weaker performance in oil-producing economies such as Equatorial Guinea (–1.6 percent) and Gabon (2.3 percent). The Democratic Republic of Congo continues to post strong momentum, expanding by 5.5 percent in 2025, driven by mining and infrastructure investment. Growth in Central Africa is projected to strengthen to 4.2 percent in 2026 and 4.3 percent in 2027, underpinned by improved oil and mineral production.
- Growth in Southern Africa is estimated at 2.0 percent in 2025, up from 1.8 percent in 2024. The low growth reflects structural constraints and subdued external demand. Two economies—Zambia (5.2 percent) and Zimbabwe (6.0 percent)—show signs of recovery underpinned by mining, agriculture, and policy reforms. Growth in South Africa is expected to have edged up to 1.0 percent in 2025 from 0.6 percent in 2024, constrained by persistent public infrastructure challenges, limited fiscal space, and logistics bottlenecks. Botswana’s economy contracted by an estimated 0.8 percent in 2025 due to declining export revenue on account of weak demand for diamonds. The growth outlook for the region is expected to strengthen to 2.4 percent in 2026 and 2.6 percent in 2027, aided by improved activity in the agricultural and mining sectors.

The inflation outlook in Africa is set to improve gradually as global food and energy prices

stabilize, monetary tightening takes effect, and exchange rates adjust, supporting broader macroeconomic stability. Average inflation is estimated at 13.6 percent in 2025, down from 21.8 percent in 2024. A steady reduction in inflation is projected for 2026 and 2027, to 9.5 percent and 8.6 percent, respectively. About two-thirds of African economies are expected to maintain inflation below 5 percent (table 1), reflecting improved food supply conditions, stronger currencies, and effective monetary policy. Another 10 countries are projected to experience moderate inflation of 5 to 9.9 percent, indicating ongoing but contained price pressures linked to supply-chain adjustments, imported energy costs, and currency pass-through effects. However, double-digit inflation persists in about a fifth of economies—Angola, Burundi, Egypt, Ethiopia, Malawi, Nigeria, South Sudan, Sudan, and Zimbabwe, where lingering fiscal imbalances, exchange-rate depreciation, and climate-induced food shocks continue to fuel price increases. Inflation is particularly acute in fragile and conflict-affected states, where political instability, supply disruptions, and deficit financing through monetary policy remain prevalent.

Fiscal positions are also expected to improve gradually, supported by declining subsidy costs, easing interest rates, and renewed growth momentum. The average fiscal deficit is estimated to have widened to 5.1 percent of GDP in 2025, from 4.8 percent in 2024, reflecting increased interest payments and subdued government revenue due to low export earnings and low tourism receipts. However, the fiscal outlook is projected to improve, with the deficit expected to narrow to 4.8 percent in 2026 and 4.4 percent in 2027, signaling a gradual return to fiscal consolidation as governments rebuild buffers. More than half of African countries are projected to maintain deficits below 3 percent of GDP, supported by improved revenue mobilization, rationalized expenditure, and stronger growth. Another one-third is expected to post moderate deficits of 3–5 percent, reflecting ongoing adjustment amid tight financing conditions. However, fiscal gaps exceeding 5 percent of GDP will persist in some economies where subsidy costs, high debt

Average inflation is estimated at 13.6 percent in 2025, down from 21.8 percent in 2024, and a steady reduction in inflation is projected for 2026 and 2027

TABLE 1 Outlook for key macroeconomic indicators in Africa, 2026–27 average

	Real GDP growth (%)	Inflation (%)	Current account balance (% of GDP)	Fiscal balance (% of GDP)		Real GDP growth (%)	Inflation (%)	Current account balance (% of GDP)	Fiscal balance (% of GDP)
Algeria	3.9	2.8	-2.9	-14.2	Lesotho	1.1	4.7	-2.2	3.9
Angola	2.4	16.8	0.4	-3.0	Liberia	5.4	7.0	-15.1	-2.2
Benin	6.9	1.9	-3.8	-1.8	Libya	4.7	1.9	4.2	-2.1
Botswana	3.1	4.3	-6.3	-8.4	Madagascar	4.3	7.2	-6.1	-3.9
Burkina Faso	6.1	1.9	-1.8	-3.1	Malawi	2.9	20.7	-18.7	-12.5
Burundi	4.2	27.3	-7.7	-3.8	Mali	5.9	2.2	-4.8	-3.0
Cabo Verde	4.9	2.0	-2.9	-1.5	Mauritania	5.1	1.2	-8.1	-0.5
Cameroon	4.2	3.0	-2.9	-0.3	Mauritius	3.6	3.8	-4.8	-4.1
Central African Rep.	3.0	1.4	-4.9	-3.0	Morocco	4.1	1.9	-2.5	-3.1
Chad	3.4	3.4	-2.9	-2.5	Mozambique	3.9	5.0	-28.1	-4.8
Comoros	4.5	2.4	-3.6	-1.8	Namibia	3.6	4.4	-12.7	-4.2
Congo, Dem. Rep.	5.6	7.2	-3.0	-2.0	Niger	7.2	2.6	-6.0	-2.5
Congo	3.2	3.0	0.9	2.1	Nigeria	3.9	15.3	4.3	-2.6
Côte d'Ivoire	6.5	2.4	-2.3	-3.0	Rwanda	7.3	4.4	-15.6	-5.1
Djibouti	6.1	1.5	13.1	-0.4	São Tomé and Príncipe	3.4	6.0	-3.8	-0.1
Egypt	4.5	11.9	-4.5	-6.4	Senegal	5.8	1.7	-6.6	-7.4
Equatorial Guinea	0.6	2.5	-4.3	-2.2	Seychelles	3.6	1.8	-9.3	-0.8
Eritrea	3.6	4.8	13.0	0.2	Sierra Leone	4.7	7.8	-5.4	-3.8
Eswatini	3.6	3.5	0.0	-3.1	Somalia	3.5	3.9	-8.6	-0.7
Ethiopia	7.6	10.8	-1.3	-2.3	South Africa	1.6	3.3	-1.1	-4.9
Gabon	3.0	2.3	2.2	-6.2	South Sudan	19.2	17.7	-0.2	2.6
Gambia	5.1	6.0	-3.6	-0.5	Sudan	3.0	62.5	-6.1	-2.0
Ghana	5.6	8.5	2.7	-2.0	Tanzania	6.1	3.3	-2.5	-3.3
Guinea	9.1	3.0	-7.9	-2.3	Togo	6.5	1.9	-2.7	-2.4
Guinea-Bissau	5.5	1.7	-4.2	-3.3	Tunisia	2.9	5.6	-4.5	-5.2
Kenya	5.2	4.8	-1.9	-5.0	Uganda	7.8	4.7	-4.0	-4.8
					Zambia	6.1	8.4	2.7	-2.3
					Zimbabwe	4.0	14.2	1.8	-0.4

Note: Countries are classified into three categories: good performers (green), fair performers (yellow), and weak performers (red). Real GDP growth rates of 5 percent or more are green, 0–4.99 percent are yellow, and negative growth are red. Inflation below 5 percent is green, 5–9.9 percent is yellow, and 10 percent or more is red. A current account surplus is green, a deficit up to 5 percent is yellow, and a deficit above 5 percent is red. A fiscal deficit of up to 2.99 percent is green, 3–5 percent is yellow, and more than 5 percent is red.

Source: African Development Bank statistics.

service payments, and limited fiscal flexibility continue to weigh on public finances.

Despite post-pandemic fiscal consolidation and debt restructuring, debt vulnerabilities persist across Africa, reflecting

concentration of US dollar-denominated debt and associated currency risks, rising debt servicing costs, and exposure to macro-financial shocks, rather than rapid debt accumulation. Public debt stocks increased from an estimated \$1.6 trillion in 2020 to \$1.9 trillion

in 2024, or about a 4.4 percent annual increase on average, broadly in line with nominal GDP growth over the period, implying only a marginal increase in aggregate debt-to-GDP ratios. Much of the increase in debt reflects countercyclical fiscal responses to the Covid-19 pandemic, climate-related disasters, and commodity price volatility, as well as efforts to address infrastructure and essential social services. At the same time, the composition of public debt has shifted markedly, with countries relying more on external commercial borrowing, non-Paris Club creditors, and domestic debt markets as access to concessional financing has tightened. Consequently, the share of domestic debt in total public debt rose from 29 percent in 2010 to 38 percent in 2023 (the latest year with data), deepening fiscal-financial linkages. While this diversification has broadened financing options, it has also increased rollover, interest-rate, and liquidity risks, particularly in shallow domestic markets or narrow investor bases. Encouragingly, the pace of debt accumulation is slowing down, with the average public debt-to-GDP ratio declining from 63.9 percent in 2023–24 to an estimated 62.0 percent in 2025. The pace is projected to fall further to 61.4 percent in 2026, due to stronger nominal GDP growth, ongoing fiscal consolidation efforts, and improved debt management in several economies.

Africa's current account position is estimated to have strengthened modestly, with the average deficit narrowing to 1.8 percent of GDP in 2025. Part of this adjustment reflects constrained foreign savings rather than a sustained improvement in underlying external competitiveness. But trade-related factors also play a role: a favorable import bill, supported by a weaker US dollar, and stronger export earnings driven by improved global growth, particularly for commodity exporters of oil, minerals, and agricultural products.² Even so, persistent global trade uncertainties, geopolitical tensions, and supply chain disruptions continue to pose downside risks to external stability. Looking ahead, the average current account deficit is expected to stabilize around 2.0 percent of GDP in 2026–27, as imports rise in line with strengthening domestic demand.

POLICY PRIORITIES FOR STRENGTHENING AFRICA'S MACROECONOMIC OUTLOOK

Navigating the effects of multiple shocks and strengthening Africa's macroeconomic outlook requires macroeconomic stabilization policies to address short-term imbalances while leveraging Africa's capital and domestic financing potential to accelerate growth and structural transformation.

Macroeconomic stabilization policies for safeguarding stability and rebuilding buffers

- African countries should advance monetary policy reforms to transition to fully fledged interest-rate-based frameworks, strengthening the transmission mechanism and anchoring inflation expectations while safeguarding access to credit for productive sectors. Better coordination between monetary and fiscal authorities will be critical to mitigate policy spillovers and preserve overall macroeconomic and financial stability.
- African countries need to build adequate foreign exchange reserve buffers to strengthen exchange rate stability. They should take advantage of recent improvements in current account balances to rebuild foreign exchange reserves, reduce vulnerability to external shocks, and support exchange rate stability. Deepening foreign exchange markets and promoting flexible market-based allocation of scarce foreign currency will help reduce disruptive volatility and improve price discovery.
- African countries need to rationalize fiscal spending, strengthen governance, and protect the vulnerable segments of the population. Governments should improve the efficiency of public spending by rationalizing recurrent expenditures, reforming state-owned enterprises, and addressing leakages through stronger fiscal governance, transparency, and accountability in budget execution. Public investment programs should be progressively restructured and better aligned with national development priorities to channel resources into productive, labor-intensive sectors, including infrastructure, agriculture, and other

Navigating the effects of multiple shocks and strengthening Africa's macroeconomic outlook requires macroeconomic stabilization policies to address short-term imbalances

African countries should foster productivity-driven growth through large-scale investment in integrated and productive infrastructure

growth-enhancing activities. Subsidies and social transfers should be better targeted to ensure that fiscal consolidation does not disproportionately affect low-income households. Expanding and strengthening social protection systems will be critical to cushioning vulnerable groups from the lingering effects of high inflation and adjustment measures. Collectively, these reforms will enhance the quality of public spending, create jobs, and support inclusive, sustainable growth.

- To ease financing pressures, African countries facing liquidity pressures should undertake timely, transparent, and well-communicated debt restructuring, including domestic debt where necessary, while minimizing market disruption. Effective communication is critical for maintaining public trust and reducing uncertainty. Where domestic debt restructuring poses systemic risks, policymakers should deploy targeted measures such as liquidity support, regulatory forbearance, bank recapitalization, and the creation of a dedicated financial stability fund. In parallel, domestic resource mobilization must be enhanced through digitalized and modernized tax systems, improved tax administrations, and reduced leakages.

Policies to accelerate structural transformation and build long-term fiscal sustainability

- African countries should foster productivity-driven growth through large-scale investment in integrated and productive infrastructure and by deepening diversification across manufacturing, agribusiness, and modern services. Improving the investment climate is essential. Predictable regulations, efficient and transparent foreign exchange market operations, and streamlined approval processes will help sustain investor confidence and attract long-term capital inflows, including private sector participation and blended finance solutions. These efforts should support the emergence of national and regional industrial champions capable of driving value addition, technological upgrading, export competitiveness, and innovation. Complementary policies—such as local-content requirements, preferential

procurement for smaller enterprises, and technology-transfer partnerships—can further enhance integration into regional and global markets. At the same time, governments should invest in human capital, technology diffusion, and green infrastructure to boost productivity, while strengthening institutions, governance, and macro-fiscal buffers. That will help achieve and sustain growth above 7 percent, build resilience to global shocks, and advance inclusive and sustainable development across the continent.

- African countries need a regional, comprehensive, and well-coordinated strategy to address escalating debt risks while preserving space for development financing. At the national level, governments should strengthen fiscal governance and debt management systems by enhancing transparency in public debt reporting, reinforcing parliamentary oversight, and conducting regular debt audits. Integrating contingent liabilities into fiscal frameworks and aligning borrowing decisions with productive, inclusive, and sustainable growth priorities will improve accountability and long-term debt sustainability. To contain spending pressure and curb debt accumulation, countries need to adopt credible fiscal rules as guardrails for discipline and establish strong fiscal institutions, such as fiscal councils, to enhance transparency, compliance, and oversight.
- African countries need to implement complementary reforms to enhance domestic resource mobilization. Notably, digitalizing tax systems, broadening the tax base, improving tax administration, and reducing leakages will decrease reliance on debt financing and strengthen fiscal buffers. At the regional level, closer coordination is needed to harmonize debt sustainability practices, share risk assessments, and establish effective early-warning systems. Fast tracking the establishment of the African Financial Stability Mechanism (AFSM) will provide liquidity support, debt financing, and technical assistance to African nations facing economic shocks. Collective African advocacy for reforms to the global debt architecture—including improvements to the G20 Common Framework to ensure timely,

predictable, and inclusive restructuring—will also be essential for securing fairer access to affordable financing.

- African countries should leverage external financial flows—foreign direct investment, remittances, and portfolio investment—to build a diversified and resilient financing base that supports structural transformation. This requires deepening reforms to enhance the business environment, attract sustainable FDI into productive and export-oriented sectors, and create incentives for diaspora investment through dedicated instruments and platforms.

Governments should also work to lower remittance transfer costs and promote the use of formal channels, unlocking additional external resources to support exchange rate stability, bolster liquidity management, and mobilize financing for growth-enhancing sectors and critical infrastructure, such as energy and logistics. African countries should also cultivate strategic partnerships with development partners anchored in investment, technology transfer, and blended finance to shift from aid dependence to self-sustaining, competitive, and inclusive growth.

African countries should leverage external financial flows to build a diversified and resilient financing base that supports structural transformation

NOTES

1. IMF 2025.
2. A weaker US dollar has similar positive effects for West and Central African countries that use the CFA

franc, which is pegged to the euro. A depreciation of the US dollar against the euro is transmitted to the CFA franc through the peg.

MACROECONOMIC PERFORMANCE AND PROSPECTS

GROWTH PERFORMANCE AND OUTLOOK

Africa's GDP growth prospects have remained positive, sustaining an upward trajectory amid lingering global policy uncertainty and trade tensions

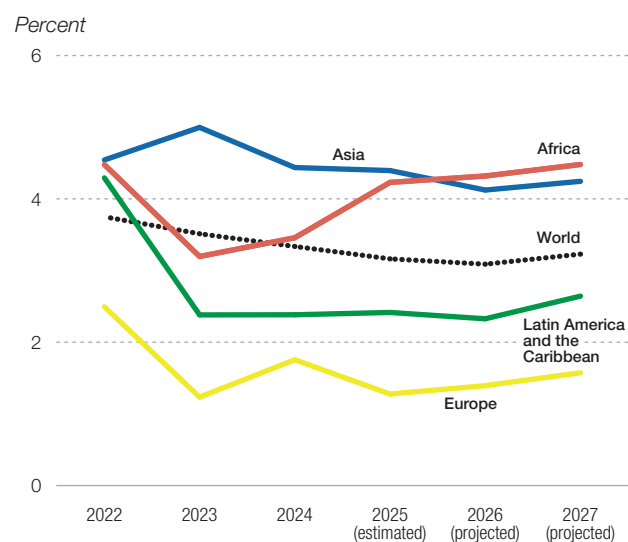
Global policy uncertainty and geopolitical fragmentation have tested Africa's resilience and its ability to respond to multiple shocks. Across the region, the current wave of internal shocks—social unrest in Madagascar and protracted conflicts in Sudan, the Horn of Africa, and the Sahel—has posed challenges to consolidating Africa's macroeconomic gains. Globally, the lingering trade policy uncertainties between the United States and other countries and the continued geopolitical fragmentation have limited Africa's trade penetration and investment flows. Yet, despite multiple regional and global headwinds, African economies have demonstrated economic resilience, as illustrated by their robust growth performance.

Average growth in Africa's real GDP is estimated at 4.2 percent in 2025, 0.7 percentage points higher than in 2024, underscoring the robustness of the continent's growth performance (figure 1.1). Growth in 2025 was higher than in 2024 across 32 of the 54 countries. Notably, three of the five largest are among the countries posting higher GDP growth—South Africa (0.4 percentage points), Morocco (0.6 percentage points), and Egypt (1.7 percentage points). And 14 other countries recorded growth increases of more than 1.0 percentage points, led by South Sudan, Sudan, Libya, Zimbabwe, and Ethiopia.¹ The high growth in South Sudan and Libya is fueled by expanding oil production; that in Zimbabwe and

Ethiopia by higher yields in agriculture. Despite the ongoing conflict, Sudan is slowly emerging from a recession with the gradual reopening of transport lines and increased economic activity in Port Sudan. In Botswana and Equatorial Guinea, economic contraction was expected from a prolonged downturn in diamond revenue² and shrinking oil output, respectively.

The growth momentum in Africa is poised to remain strong, with average real GDP growth projected at 4.3 percent in 2026 and accelerating further to 4.5 percent in 2027. This growth outlook will be bolstered by macroeconomic reforms, easing inflationary pressures, and improved agricultural production. Expectations of reduced trade tensions and peace in the Middle East may

FIGURE 1.1 Real GDP growth, 2022–27



Source: African Development Bank statistics; International Monetary Fund *World Economic Outlook*, October 2025.

In 2025, Africa accounted for 12 of the 20 fastest-growing economies in the world, and its growth momentum is projected to be sustained in the 2026–27 forecast period

improve global supply chains and trade. And fiscal consolidation policies will bolster governments' capacity to invest in public infrastructure and social services.

In 2025, Africa accounted for 12 of the 20 fastest-growing economies in the world, and its growth momentum is projected to be sustained in the 2026–27 forecast period.

Despite the favorable medium-term growth outlook, African countries need to accelerate structural transformation while strengthening resilience to

cushion the continent against emerging and recurrent shocks. Strategic policy interventions aimed at improving institutional and economic governance will catalyze private investment, drive structural transformation, and strengthen economic resilience to contain the impact of emerging shocks (box 1.1).

Africa's real GDP growth is also reflected in the Purchasing Managers' Index (PMI) in four of its largest economies—Egypt, Kenya, Nigeria, and South Africa (figure 1.2), which account for 52 percent of the continent's GDP. The average

BOX 1.1 Sustaining 7 percent growth in Africa: Sources, constraints, and opportunities

Sustained annual average growth of at least 7 percent for a decade is required for Africa to achieve structural transformation, accelerate poverty reduction, and build resilience against global and domestic shocks. Evidence from China, the Republic of Korea, and Vietnam shows that long periods of high growth expand productive capacity, support large-scale job creation, and facilitate the shift from low-productivity activities to higher-value manufacturing and services. However, since 1961, only 23 African countries have achieved average GDP growth of 7 percent or more for at least a decade, and only Botswana has sustained such growth for three consecutive decades (box table 1.1).

While Africa's growth has strengthened in recent years, consistently outpacing global averages, it remains below the threshold to trigger durable transformation. As of 2024, Seychelles retained its high-income status, while Cabo Verde and Libya joined Botswana, Equatorial Guinea, and Gabon in the upper-middle-income group. However, high growth episodes have not consistently translated into sustained income convergence. Several resource-rich economies, including Angola, Equatorial Guinea, Gabon, and Libya, recorded high per-capita incomes during past commodity-driven booms, yet their incomes in 2024 remained relatively modest. This pattern underscores the volatility of commodity-led growth, weaknesses in institutional quality, and the limited structural transformation achieved.

Growth outcomes across the continent remain highly uneven and volatile. Middle-income Angola, Côte d'Ivoire, and Equatorial Guinea have at times slipped into lower-income categories before recovering, reflecting vulnerability to external shocks and policy reversals. Similarly, conflict-affected countries including the Democratic Republic of Congo, Liberia, Mozambique, and Sierra Leone have had short-lived post-crisis rebounds that were not sustained over a full decade. These experiences highlight that reform continuity, stable macroeconomic environments, and economic diversification are critical to sustaining high growth and translating it into lasting income gains—outcomes typically associated with stronger institutions and deeper structural transformation.

Growth-accounting shows that the Solow residual, interpreted as total factor productivity (TFP) under standard assumptions, has accounted for the largest share of Africa's per capita GDP growth. The gains of the 1960s and early 1970s were mainly productivity-led,¹ whereas the downturns of the late 1970s and early 1980s reflected negative TFP growth due to macroeconomic instability, low-capacity utilization, and policy distortions.² Productivity rebounded from the mid-1990s onward, supporting the region's growth resurgence.

According to AfDB and AUC (2025), Africa's labor productivity performance has diverged sharply from that of the East Asian Pacific Five (EAP5; Indonesia, Korea, Malaysia, Singapore, and

(continued)

BOX 1.1 Sustaining 7 percent growth in Africa: Sources, constraints, and opportunities
(continued)

BOX TABLE 1.1 Growth and the transition to high income in Africa

Country	Average per capita income for high-growth periods and 2024							Country income group, 2024	
	1961–70	1971–80	1981–90	1991–2000	2001–10	2011–20	2021–24		
Angola					2,942			2,845	Lower middle
Botswana	531	1,521	2,950					6,937	Upper middle
Cabo Verde				1,340			4,022	4,449	Upper middle
Chad					821			850	Low
Congo, Dem. Rep.							523	554	Low
Côte d'Ivoire	1,907							2,396	Lower middle
Equatorial Guinea				1,592	9,777			5,042	Upper middle
Eswatini			1,508					3,864	Lower middle
Ethiopia					314	615		883	Low
Gabon		9,551						6,619	Upper middle
Kenya		1,147						1,860	Lower middle
Lesotho		394						991	Lower middle
Liberia				450				665	Low
Libya	9,213	17,577					7,515	7,696	Upper middle
Mauritania	1,525							1,689	Lower middle
Mozambique					408			606	Low
Nigeria					1,913			2,325	Lower middle
Rwanda					467		980	1,070	Low
Seychelles		5,526						16,586	High
Togo	635							931	Low
Tunisia		1,591						4,006	Lower middle
Uganda					640			986	Low
Zambia					967			1,343	Lower middle

Source: African Development Bank staff calculations using African Development Bank statistics and data from World Development Indicators, 2025.

Thailand). In the 1960s, African workers were 40–45 percent more productive than the average for the EAP5. But this had reversed by 2010, when EAP5 workers were more than three times more productive than their African counterparts. By 2022, workers in Indonesia and Thailand were more than two times more productive than those in Africa, and workers in Korea and Singapore were more than 6 and 10 times more productive, respectively. Africa's weaker performance reflects both lower human capital investment and lower efficiency in combining labor and capital.

The continent's weak productivity stems from several interrelated structural constraints. First, the region faces persistent scarcity of physical capital. Capital-labor ratios remain low and, in recent periods, capital per worker has declined, indicating capital-shallowing rather than deepening. As a result, economic activities have become less capital-intensive over time, in contrast

(continued)

Sustained annual average growth of at least 7 percent for a decade is required for Africa to achieve structural transformation, accelerate poverty reduction, and build resilience against global and domestic shocks

BOX 1.1 Sustaining 7 percent growth in Africa: Sources, constraints, and opportunities
(continued)

to regions that experienced successful growth take-offs, such as the EAP5 economies. This gap in capital per worker has persisted despite increases in public and private investment across the continent, as investment growth has lagged behind the rapid expansion of employment.

Second, human capital levels remain comparatively weak. Many countries continue to face limited investment in health and education, with declining educational quality and poor learning outcomes. Of the 25 countries with the lowest Human Capital Index (HCI) scores globally, 23 are in Africa. In 2017, 24 of 40 African countries with HCI data recorded scores below 0.40. Such scores imply that children born in these countries in 2017 will reach only 40 percent of their potential productivity in adulthood, given the prevailing gaps in education and healthcare.

Despite these challenges, Africa can still achieve and sustain growth rates of more than 7 percent by leveraging transformative opportunities. These include harnessing the demographic dividend by investing in human capital and skills development, unlocking the full potential of natural capital, diversifying into higher-value products and services, and boosting labor productivity.

Notes

1. Fosu 2013.
2. Block 2014; Devarajan et al. 2003.

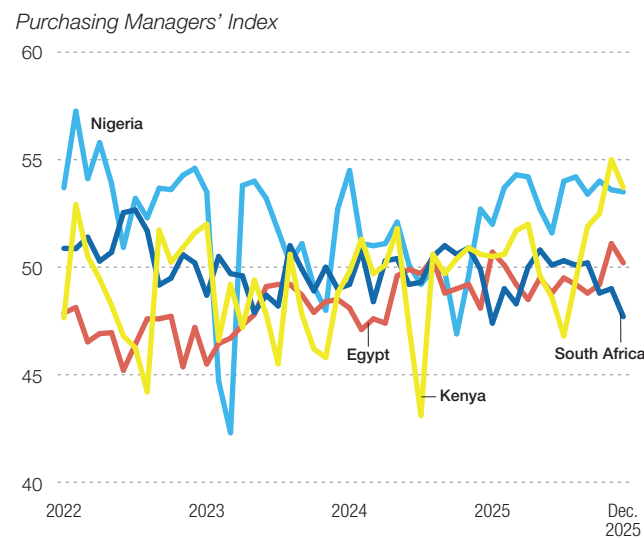
PMI rose from 2024 to 2025 in Nigeria (2.8 points), Egypt (0.8 points), and Kenya (1.4 points), signaling stronger activity, but declined in South Africa (0.7 points). Notably, the average PMI values for Nigeria (53.4) and Kenya (51.0) were above the

50-point mark, underscoring strong business conditions in the year.

Nigeria's business conditions were buoyant throughout 2025, with the monthly PMI exceeding the 50-point mark for 13 consecutive months. This strong performance reflects improved consumer demand that helped firms expand purchasing activity and inventory holdings. In Kenya, business activity was also buoyant for most of the year, with the PMI in improved conditions territory for eight months of the year and peaking at 55 in November 2025, the highest in five years. While business conditions in Egypt improved strongly toward the end of the year, the expansion in activity and new orders was not enough to push the average PMI for 2025 above the 50-point mark. In South Africa, although electricity supply has stabilized, business conditions remain weak due to increased input price inflation attributed to purchase prices and wage costs. The higher input costs led firms to raise prices in October 2025, and this affected consumer demand in the last quarter of the year.

International commodity market conditions remain fragile, amid global economic uncertainty. Evidence points to a 7.0 percent decline in global commodity prices in 2025 due to elevated trade

FIGURE 1.2 Purchasing Managers' Index in Africa, 2022–December 2025



Source: Haver Analytics and IHS Markit.

tensions, policy uncertainty, and a slowdown in global economic growth (figure 1.3). This is weighing heavily on commodity-dependent African exporting countries. In the global energy commodity market, OPEC+ (the Organization of the Petroleum Exporting Countries plus selected non-member countries) agreed in April 2025 to increase oil production quotas. This put downward pressure on crude oil prices and presents an opportunity for Africa’s fuel-importing countries.

The average food price index in 2025 also declined by 7.0 percent from 2024, on account of improved weather conditions and use of climate-smart agriculture that led to increased yields reported in a number of countries. For instance, favorable weather conditions in the Southern Africa region spurred a rebound in cereal production. The prices of other commodities—such as metals and minerals, non-food agricultural commodities, and raw materials—increased on average in 2025. But the price increases were insufficient to offset declines elsewhere. The net effect was an overall decline in the composite global commodity price index.

The outlook for global commodity prices indicates a decline in 2026, driven by several factors, including increased oil production by OPEC+ countries, to be maintained through 2026, scaling up global oil supply. This may also contribute to downward momentum on inflationary pressures in Africa.

Africa’s real GDP per capita growth improved from an average of 1.1 percent in 2024 to 1.9 percent in 2025, surpassing that of Latin America and the Caribbean and Europe (figure 1.4). It is projected to rise further to 2.1 percent in 2026 and to consolidate at 2.3 percent in 2027, maintaining its position above Latin America and the Caribbean and Europe. But real GDP per capita growth remains below the minimum 4.5 percent required to drastically reduce poverty and improve livelihoods.³ Accelerating it requires sustained implementation of prudent macroeconomic policies and public financial management, as well as structural reforms and increased investment in public infrastructure, value chains, and skills development to support inclusive growth, create jobs, and expand productive capacities and incomes.⁴

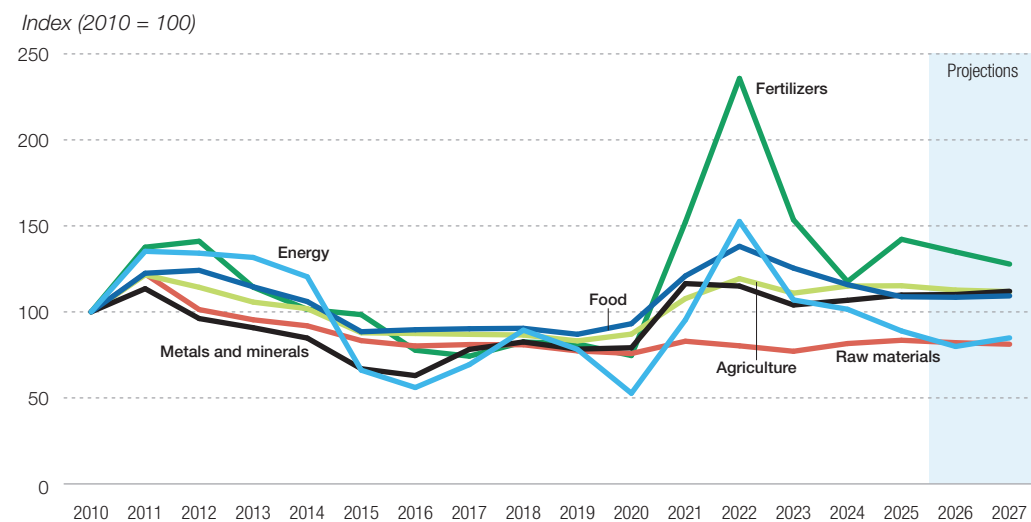
SECTORAL AND DEMAND-SIDE DECOMPOSITION OF GROWTH

The rise in real GDP growth is underpinned by increased household consumption spending on the demand side and by growth in the service sector on the supply side

Private consumption spending has historically been the main driver of Africa’s real GDP growth on the demand side. Growth in private

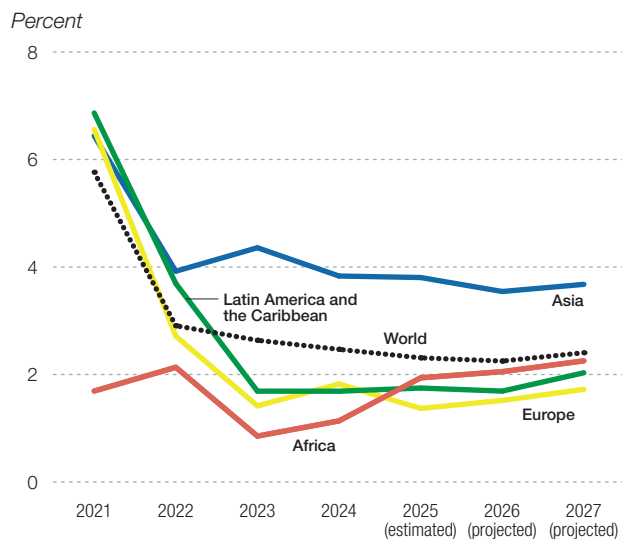
Africa’s real GDP per capita growth improved from an average of 1.1 percent in 2024 to 1.9 percent in 2025 and is projected to rise further to 2.1 percent in 2026 and to consolidate at 2.3 percent in 2027

FIGURE 1.3 Global commodity price indices, January 2010–December 2027



Source: African Development Bank staff calculations based on the World Bank Commodity database (2025).

FIGURE 1.4 Africa's real GDP per capita growth, 2021–27



Source: African Development Bank statistics; International Monetary Fund *World Economic Outlook*, October 2025.

The contribution of net exports to real GDP growth improved from **-1.3 percent in 2024** to an estimated **-0.2 percent in 2025**

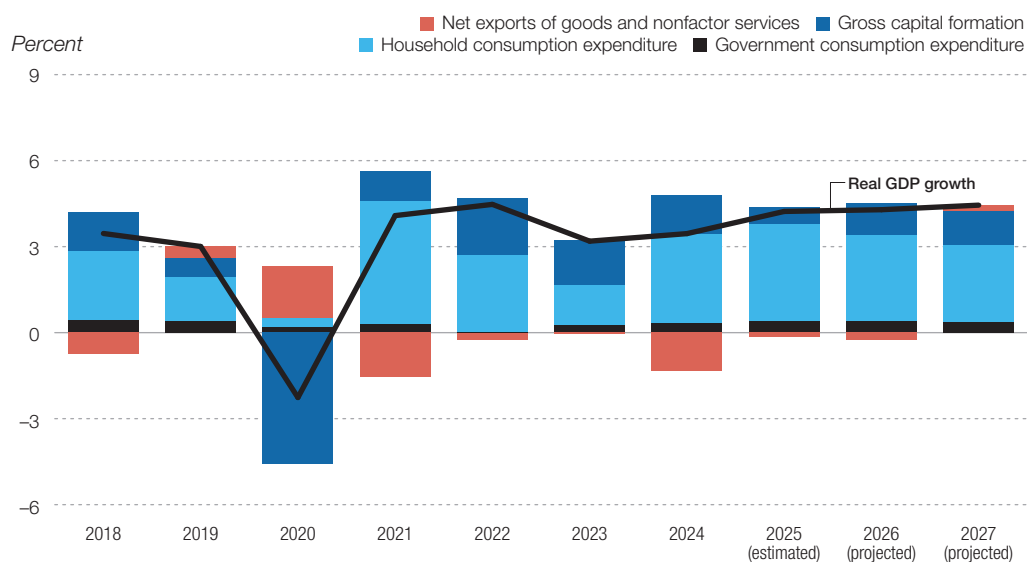
consumption spending increased from 3.1 percent in 2024 to 3.4 percent in 2025 (figure 1.5). Much of this increase was due to growth in per capita income and easing inflationary pressures. However, growth in private consumption is projected to decline to 3.0 percent in 2026 and 2.7 percent in 2027 due to global policy uncertainty that is

elevating macroeconomic imbalances, including exchange rate volatility.

The contribution of net exports to real GDP growth improved from -1.3 percent in 2024 to an estimated -0.2 percent in 2025. This contribution reflects improvements in trade, with exports increasing from 0.2 percent in 2024 to 1.7 percent in 2025 (up 1.5 percentage points), while imports increased from 1.5 percent to 1.9 percent (up 0.4 percentage points). The higher export growth reflects the rising friend-shoring strategy to diversify trade in the global value chains. Export growth is also supported by nearshoring in countries including Algeria, Egypt, and Morocco, which offer good access to markets in Europe and the Middle East. But the high tariffs imposed by the United States on several African countries and the loss of access to the Africa Growth and Opportunity Act (AGOA) call for diversifying export markets to build resilience and absorb emerging trade shocks.

The contribution of net exports to GDP growth is projected to improve from -0.3 percent in 2026 to 0.2 percent in 2027, driven by expected improvements in supply chains as countries in the global South strengthen collaboration. Implementing the recent trade agreement between the United States and China, the two largest economies, will enhance global trade stability.

FIGURE 1.5 Demand-side decomposition of GDP growth, 2018–27



Source: African Development Bank statistics.

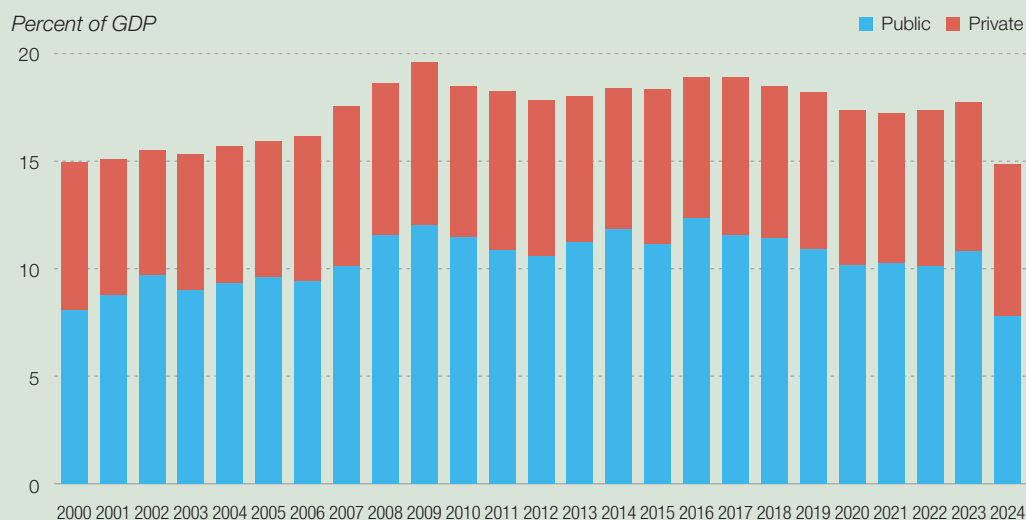
BOX 1.2 Public and private investment in Africa

Investment, both public and private, is a key driver of economic performance. Public investment in Africa is disproportionately higher than private investment because of weak business environments, financing constraints, and policy risks that limit private sector participation. Since 2000, public investment as a share of GDP has averaged about 10 percent, and private investment approximately 7 percent (box figure 1.2.1). Investment in Africa is cyclical, and its performance tracks headwinds buffeting the continent. There is also a high level of inefficiency in public investment in Africa, estimated at 39 percent—so for every dollar invested, 39 cents is lost due to waste and other leakages.¹ Low domestic revenue limits domestically financed public investment. Tax revenue is estimated at only 14.8 percent of GDP, below Africa’s capacity of 20 percent. As a result, the bulk of public investment, especially in infrastructure projects, is financed through debt.

The high inefficiency of public investment has limited the productivity of Africa’s debt-financed infrastructure and its ability to repay the debt. This, in turn, has led to debt sustainability challenges facing many countries. The situation is compounded by recurrent, overlapping shocks and elevated fiscal risks stemming from weak institutional governance and public expenditure inefficiency. Addressing constraints to private investment could help address many of Africa’s infrastructure development challenges, drive structural transformation, and strengthen resilience to shocks. In 2024, investment in Africa declined to 14.8 percent of GDP from 17.1 percent in 2023, due to perceived risk as well as geopolitical tensions and policy uncertainty that lowered global investor confidence in Africa. This was below Latin America and the Caribbean (19.8 percent), Asia (22.7 percent), and Europe (21.9 percent).

The contribution of net exports to GDP growth is projected to improve from –0.3 percent in 2026 to 0.2 percent in 2027

BOX FIGURE 1.2 Public and private investment in Africa, 2000–24



Source: World Development Indicators, 2025.

Note

1. Kararach et al. 2022.

The service sector maintained its dominant role as the key driver of real GDP growth, accounting for 2.4 percent of the estimated 4.2 percent growth in 2025

Investment growth is expected to have declined from 1.3 percent in 2024 to an estimated 0.6 percent in 2025 due to elevated policy uncertainty. This is expected to reverse during 2026–27, with an uptick in investment’s contribution to real GDP growth, supported by the easing of global financial conditions and declining inflation. Public investment has played a dominant role in supporting Africa’s growth (box 1.2). But current policy uncertainty, compounded by weak domestic resource mobilization and public-sector inefficiencies, is limiting governments’ and the private sector’s ability to exploit available investment opportunities. Policy measures to improve public-sector efficiency and strengthen private sector participation in economic growth are needed to increase productivity and the contribution of investment to economic growth.

On the supply side, the service sector maintained its dominant role as the key driver of real GDP growth, accounting for 2.4 percent of the estimated 4.2 percent growth in 2025. Its dominance in 2025 is attributable to the strong performance of the financial sub-sector and easing domestic inflationary pressures. This trend is expected to continue over the medium term, with the sector’s contribution projected to average 2.2 percent in 2026–27 (figure 1.6).

In 2025, the contribution of agriculture to overall growth improved slightly from 0.5 percent to 0.7 percent and that of industry from 0.6 percent

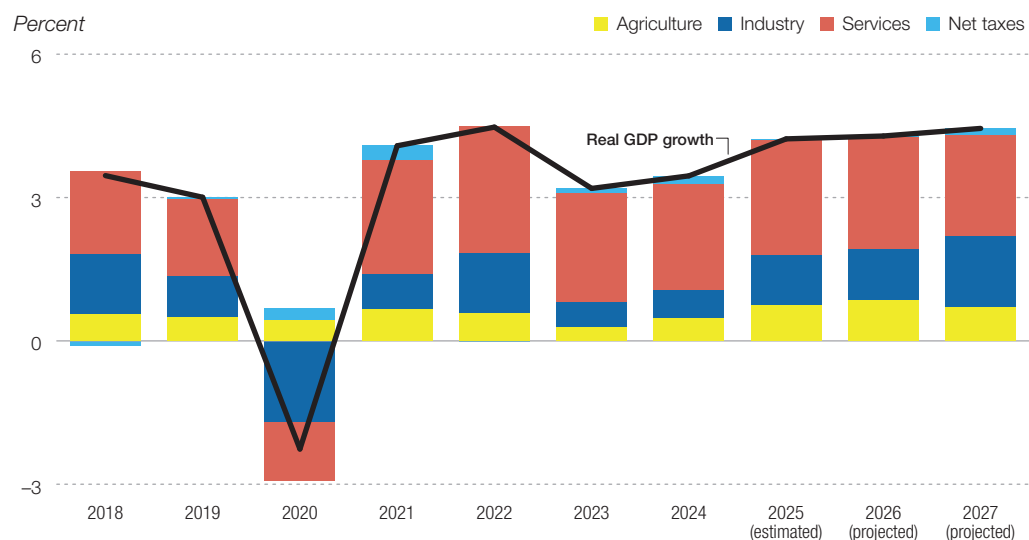
to 1.0 percent. In 2026–27, the contribution of agriculture is projected to further improve to 0.8 percent and that of industry to 1.3 percent. But the low growth rates in these sectors hold back overall growth, job creation, and structural transformation. More than half of Africa’s adult population is employed in the agriculture sector, but jobs in this sector are vulnerable to shocks, especially the increasing effects of climate change. The performance of industry is characterized by low productivity, weak backward and forward linkages to the rest of the economy, and minimal job creation. In 2024, Africa’s productive capacity index was estimated at only 31.7 of 100, below the world average of 47.3 and behind Europe (60.2) and Asia (48.1).⁵ Notably, Africa performs poorly in ICT (7.3), energy (22.1), human capital (19.6), and transport (17.4), the key enablers of industrial sector performance and economic growth.

GROWTH PERFORMANCE AND OUTLOOK ACROSS REGIONS AND COUNTRIES

Resilience in the growth outlook across Africa’s regions amid volatile global economic prospects

Despite uncertainty in global trade policies and related adjustments weighing on global economic

FIGURE 1.6 Sectoral decomposition of GDP growth, 2018–27



Source: African Development Bank statistics.

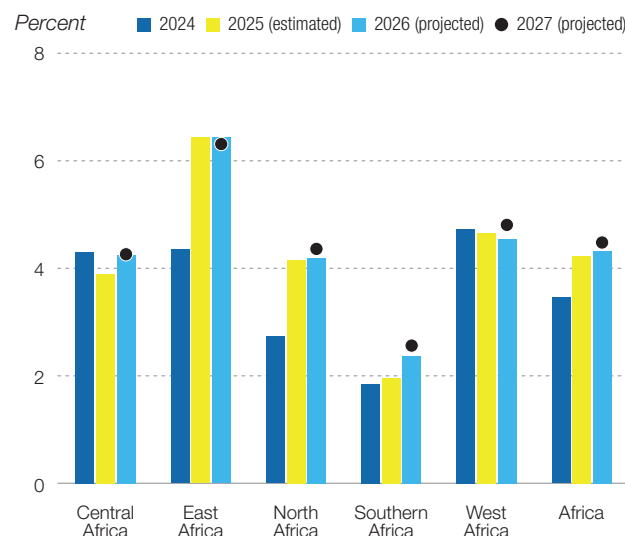
prospects, African countries continue to demonstrate strong resilience. In 2025, the estimated growth rate in 22 of the 54 countries was 5 percent or higher. This number is projected to increase to 23 countries in 2026.

Growth in **Central Africa**, estimated to average 3.9 percent in 2025, is projected at 4.2 percent in 2026 and 4.3 percent in 2027 (figure 1.7). Four of the region's seven countries are projected to grow at 3 percent or higher in 2026 and 2027. A few countries lead growth in Central Africa. The Democratic Republic of Congo is expected to remain the region's fastest-growing economy, with projected growth of 5.6 percent in 2026, up from an estimated 5.5 percent in 2025. This buoyant growth is underpinned by increased mining production driven by expansions at existing sites and the commissioning of new mines and by scaling up associated infrastructure projects, such as the rehabilitation of the Congolese section of the Lobito Corridor.

Growth in Cameroon is expected to increase from an estimated 4 percent in 2025 to 4.3 percent in 2026, driven by expanded liquefied natural gas production, enhanced capacity in logistics and energy infrastructure, increased public spending, and stronger private consumption. But declining oil production from aging oil fields and rising recovery costs could constrain growth. Equatorial Guinea's economy is estimated to have declined by 1.6 percent in 2025, due to the continued decline in oil output and associated export earnings, persistent domestic arrears, and weak domestic production growth. A slight rebound of 0.4 percent is projected in 2026.

East Africa remains the continent's fastest-growing region, with real GDP growth estimated at 6.4 percent in 2025. Growth is projected to remain steady at 6.4 percent in 2026, before moderating slightly to 6.3 percent in 2027. This strong economic performance is broad based, with more than half of the region's 13 countries (7 in 2025 and 9 in both 2026 and 2027) expected to grow by 4.0 percent or higher. In South Sudan, continued recovery in oil exports and expanded investment in non-oil sectors, electricity interconnectivity, and renewable energy as well as logistics and transport infrastructure are expected to support the strong jump in growth from an estimated 4.0 percent in 2025 to 30 percent in

FIGURE 1.7 Real GDP growth in Africa by region, 2024–27



Source: African Development Bank statistics.

2026. This will place South Sudan as the world's fastest-growing economy in 2026. Growth in Ethiopia was estimated at 9.8 percent in 2025 and is projected at 7.5 percent in 2026, reflecting increased industrial production, facilitated by the completion of natural gas projects and higher electricity production. Ethiopia's economic expansion will also benefit from improved value chains and increased mining activity, driven by the commissioning of new gold mines. In Rwanda, the estimated growth of 7.5 percent in 2025 and the projected growth of 7.4 percent in 2026 are supported by robust performance of services and mining and by sustained public infrastructure investment to support logistics and manufacturing.

Anticipated growth acceleration in Djibouti, Kenya, Tanzania, and Uganda will be supported by increased private investment and sustained government financing of large-scale infrastructure development in energy, transportation networks, and logistics corridors. Sudan is expected to slowly pull out of recession, with real GDP growth estimated at 1.5 percent for 2025, a reversal of the 13.5 percent contraction in 2024. This turnaround is due to the gradual reopening of transport lines in Khartoum, improved security, increased pockets of stability, sustained agricultural livelihood support in accessible areas, and economic activity in Port Sudan. However, the humanitarian crisis

Economic performance in South Africa, the region's largest economy, will remain sluggish, with growth estimated to have picked up to 1 percent in 2025 and projected to rise to 1.5 percent in 2026

stemming from ongoing conflict may inhibit the momentum of growth.

Real GDP growth in **North Africa** was estimated to average 4.1 percent in 2025 and is projected to rise to 4.2 percent in 2026 and 4.4 percent in 2027. Libya is expected to post 12.4 percent growth in 2025, before moderating to 5.2 percent in 2026. The 2025 growth reflects a strong recovery in oil production, which averaged nearly 1.3 million barrels per day in 2025, up from about 1.1 million barrels per day in 2024. For Morocco, growth was estimated at 4.4 percent in 2025 and is projected at 4.0 percent in 2026 and 4.3 percent in 2027. This continued economic expansion will be aided by the boost to agricultural output from improved rainfall and the government recovery program to rebuild the livestock herd following years of drought-related losses. Also contributing are strengthening tourism receipts, sustained public investment to modernize transport systems, and increased manufacturing productivity driven by expansion in phosphate production and higher value exports by the automotive and aeronautical sectors.

The growth of Egypt's economy was estimated at 4.1 percent in 2025 and is projected at 4.4 percent in 2026, underpinned by strong foreign direct investment in port infrastructure development, the creation of strategic industrial zones, and the expansion of the manufacturing sector, which has benefited from rising domestic demand and stabilization of import costs. Economic growth is also expected to benefit from accelerated public investment in tourism and energy infrastructure and from a rebound in private consumption, supported by increases in public and private sector wages, rising remittance inflows, and declining inflation. For Mauritania, a growth upturn from an estimated 4.0 percent in 2025 to 5.2 percent in 2026 is forecast, aided by the favorable outlook in the extractive sector, which is set to benefit from improved production and exports of liquefied natural gas and iron ore. In Algeria, investment to modernize and expand production in the gas fields, strong public spending to improve social infrastructure, and rising household consumption expenditure are expected to boost economic activity from an estimated 3.3 percent in 2025 to a projected 3.9 percent in 2026. In Tunisia,

growth in 2025 was estimated at 2.5 percent and is projected at 2.8 percent in 2026 and 3.0 percent in 2027, aided by a gradual easing of inflation, recovery of tourism and improved agricultural performance.

Growth in **Southern Africa** was estimated at 2 percent in 2025 and is projected to rise to 2.4 percent in 2026 and 2.6 percent in 2027. Despite the average regional low growth, robust economic performance is forecast for some countries in the region. In Zambia, real GDP growth was estimated at 5.2 percent in 2025 and is projected at 5.8 percent in 2026. Growth is driven by a strong recovery in agricultural output and exports, facilitated by favorable weather, improved extension services, improved mining output, increased investment in digital infrastructure, and the expansion of financial services. In Zimbabwe, real GDP growth is estimated at 6 percent in 2025, before moderating to 4.5 percent in 2026. This is underpinned by strong performance of mining, particularly gold exports, and by a strong recovery in agricultural output, aided by improved climate conditions and targeted government support for smallholder farmers.

Economic performance in South Africa, the region's largest economy, will remain sluggish, with growth estimated to have picked up to 1 percent in 2025 and projected to rise to 1.5 percent in 2026. Deteriorating infrastructure and logistics networks, amid constrained public finances and subdued private investment, are constraining growth in South Africa. In Botswana, the prolonged downturn in the diamond market and declining non-diamond mining output (including coal, copper, and nickel) due to severe underinvestment will continue to weigh on economic performance. The economy is estimated to have contracted by 0.8 percent in 2025 before rebounding to a projected 2.4 percent in 2026 aided by increased non-mining production and beneficiation, improvements in domestic electricity generation, and an economic diversification-driven reform agenda focused on expanding investment in high-growth areas of agro-processing, digital technology, renewables, and tourism.

In **West Africa**, growth projections remain strong, sustaining the post-pandemic recovery. Growth was estimated at 4.7 percent in 2025, before moderating slightly to 4.6 percent in 2026

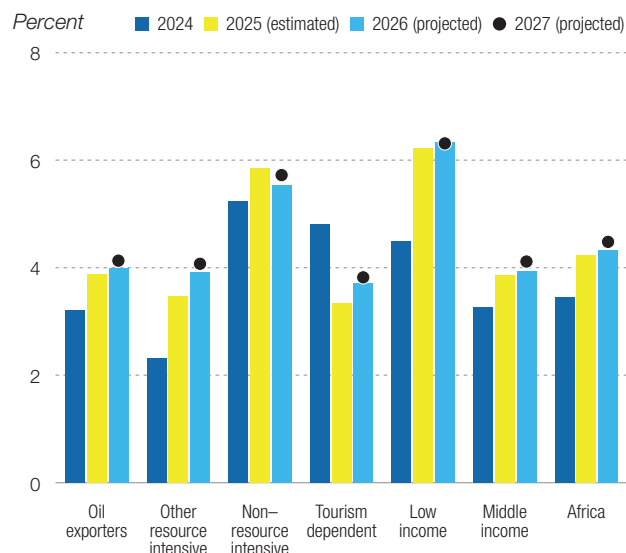
and rising to 4.8 percent in 2027. This momentum is supported by strong economic performance in several countries, with 14 of the region's 15 countries estimated to have grown at 5 percent or higher in 2025, and 12 projected to maintain this high growth rate in 2026 and 2027. In Guinea, growth is projected to increase from an estimated 7.2 percent in 2025 to 8.7 percent in 2026, aided by public investment, including the expansion of road and port infrastructure, to support the extractive industry. Expansion of oil production is expected to deliver robust growth in Niger, with real GDP projected to grow from an estimated 7.8 percent in 2025 to 8.2 percent in 2026.

In Senegal, a similar ramp-up in hydrocarbon production, complemented by investment in agro-industries, energy, and transport infrastructure, will contribute to robust economic performance, with real GDP growth estimated at 8.1 percent in 2025 and projected to moderate to 5.6 percent in 2026. Growth in Côte d'Ivoire, expected to have remained steady at 6.4 percent in 2025, is projected at 6.5 percent in 2026. This performance is underpinned by robust exports from the agricultural sector and the extractive industries, strong household consumption, and solid private investment spending.

The growth momentum in West Africa is also supported by the improved outlook in two of the region's major economies: Nigeria (3.9 percent in 2025 and 3.7 percent in 2026) and Ghana (5.5 percent in both 2025 and 2026). Nigeria will be aided by strong service-sector growth, especially in information and communication technologies, finance, and real estate, and by reduced exchange rate volatility thanks to higher foreign exchange reserves. In Ghana, improved confidence in the country's reform agenda, progress in debt restructuring, and the cedi's appreciation by more than 20 percent since the beginning of the year have bolstered economic prospects.

By country grouping, GDP growth in **non-resource-intensive** countries was estimated at 5.8 percent in 2025 and is projected at 5.5 percent in 2026 and 5.7 percent in 2027 (figure 1.8). Growth for these countries is broad based, with 12 of the 27 countries in this group set to grow by 5.0 percent or more in 2026, led by Ethiopia and Uganda (7.5 percent), Rwanda (7.4 percent), Benin

FIGURE 1.8 GDP growth in Africa by country grouping, 2024–27



Source: African Development Bank statistics.

(6.8 percent), Côte d'Ivoire and Togo (6.5 percent), Djibouti (6.1 percent), Senegal (5.6 percent), Guinea-Bissau (5.6 percent), Mauritania (5.2 percent), and The Gambia (5 percent). Economic performance for this group will benefit from buoyant public investment spending targeting key growth sectors of services and manufacturing (Rwanda) as well as finalization of ongoing infrastructure projects in energy, roads, and other transport networks (in Djibouti, Ethiopia, Senegal, and Uganda). It will also benefit from a more favorable outlook for agricultural output and from scaling up both private and public investment to improve agricultural productivity and deepen agroindustry value chains in Benin, Côte d'Ivoire, The Gambia, and Togo.

Among the **oil-exporting countries**, growth was estimated at 3.9 percent in 2025, with projections of 4 percent in 2026 and 4.1 percent in 2027. The strong recovery in oil production and exports is supporting robust growth in South Sudan (4 percent in 2025 and 30 percent in 2026) and Libya (12.4 percent in 2025 and 5.2 percent in 2026). In Algeria, investment by the state oil company, in partnership with foreign firms, to modernize and expand oil and gas production networks will contribute to sustained growth, estimated at 3.3 percent in 2025 before rising to 3.9 percent in 2026. In Nigeria, gradual improvements in oil

GDP growth in non-resource-intensive countries was estimated at 5.8 percent in 2025 and is projected at 5.5 percent in 2026 and 5.7 percent in 2027

High debt-service costs continue to erode fiscal space and limit public investment

production following years of volatility and output disruptions are expected to sustain economic performance, with growth estimated at 3.9 percent in 2025 before moderating to 3.7 percent in 2026. Despite these improvements, oil output remains below fiscal targets, reflecting the residual effects of aging oil fields, underinvestment in infrastructure, and operational challenges. In Equatorial Guinea, GDP was estimated to have declined by 1.6 percent in 2025, with a rebound of 0.4 percent projected in 2026 as the country grapples with the continued decline in hydrocarbon production and related export revenue. In the medium term, the growth of oil-exporting countries will depend on trends in crude oil prices and global economic conditions. The persistence of downward risks, including geopolitical fragmentation and the intensification of protectionist policies that harm trade, could weigh down on revenue receipts for countries in this group.

Average growth in **other resource-intensive countries**, estimated at 3.5 percent in 2025, is projected to rise to 3.9 percent in 2026 and 4.1 percent in 2027. It is generally broad based, with growth in more than half the countries estimated at 5 percent or more in 2025 and 2026. The momentum is underpinned by global commodity demand, fueled by expansion in electric-vehicle manufacturing, construction activity, and rising investment in energy-transition infrastructure. Taking advantage of the strong demand, countries producing bauxite, iron ore, copper, and cobalt—the Democratic Republic of Congo, Guinea, and Zambia—are commissioning new mines and attracting new investment to scale up production capacity. Others have commenced operations to exploit and export a new range of minerals such as lithium (Zimbabwe). Increases in retail investor demand and some emerging market economies switching their official reserve assets from holdings of the US dollar and US government bonds to gold reserves have contributed to a meteoric rise in gold demand and prices. Improved macroeconomic conditions in key export markets in Asia and Europe, sustained demand, and higher commodity prices will support robust economic performance in Burkina Faso and Ghana. In Mali, the resumption of gold mining operations at the Loulo-Gounkoto complex and plans to resume

operations at the Morila gold mine are expected to help expand production and support higher growth.

Growth in the **tourism-dependent countries**, estimated at an average of 3.3 percent in 2025, is projected at 3.7 percent in 2026 and 3.8 percent in 2027. During the first half of 2025, Africa recorded a 12 percent increase in international tourist arrivals over the same period in 2024, making it the fastest-growing region globally for tourism demand.⁶ The increase in visitors is buoyed by supportive policies that have facilitated enhanced air connectivity to markets in the Middle East and Asia, targeted marketing efforts to position local destinations as hubs for ecotourism and sustainable investment, and investment to modernize tourism infrastructure and enhance the quality of lodging facilities. These actions—complemented by enhanced diversification through sustained public investment in the blue economy, digital services, logistics networks, and renewable energy—will contribute to steady growth in 2026–27 across the six countries in this country group. However, economic and geopolitical uncertainties that push up travel costs and weigh on consumer travel confidence pose a downside risk to growth performance for this country grouping.

RISKS TO THE OUTLOOK

Risks to Africa’s growth outlook remain tilted to the downside, underpinned by both regional and global factors

Downside risks

Africa’s economic outlook faces strong headwinds from persistent debt distress and shrinking fiscal space. Despite some fiscal consolidation, debt levels remain above pre-pandemic levels. As of September 2025, 7 African countries were in debt distress and 13 at high risk—including large economies such as Nigeria, Ghana, and South Africa. High debt-service costs continue to erode fiscal space and limit public investment, which is crucial for growth and resilience. The combined effect of heavy debt burden and

constrained fiscal space threatens the momentum of Africa's growth and structural transformation. Rising refinancing needs may also force governments into procyclical austerity or costly short-term borrowing. With global financial conditions easing, several African countries returned to the Eurobond market in 2025. Kenya raised \$1.5 billion in October, followed by Angola (\$1.75 billion) and Nigeria (\$2.35 billion). However, borrowing costs remain high, as sovereign spreads exceed pre-pandemic level. Kenya's bond was issued in two tranches, with the 7-year tenor at 7.875 percent and the 12-year at 8.8 percent. In Angola, the 5-year bond was issued at 9.25 percent and the 10-year bond at 9.78 percent. Combined with currency risks, elevated financing costs pose a threat to debt sustainability and social spending. They could derail the current growth momentum, impair long-term development, and thus increase the risk of social and political fragility.

Political instabilities in parts of the Horn of Africa and the Sahel pose a major downside risk to Africa's growth outlook. The armed and civil conflicts in these regions adversely affect production and growth and divert scarce resources from development priorities toward military spending. In addition, capital inflows into these countries have slowed down, project financing has been delayed, and diplomatic tensions with regional blocs have disrupted trade and financial linkages. Fragile and conflict-affected situations now make up nearly two-thirds of low-income countries in Africa. Intense conflicts reduce GDP per capita by an estimated 15 percent within five years.⁷ Persistent political instability also creates spillover risks for neighboring countries, undermining intra-African trade and regional political cohesion, both key to economic growth. These risks may be compounded in the near term by the high number of general elections scheduled across the continent—around a dozen in 2026 alone—which, while a normal feature of democratic governance, can heighten political uncertainty, delay economic decisionmaking, and temporarily increase the risk of instability in already fragile settings. The fluidity of these shocks means that Africa's outlook will continue to evolve in line with trends in political environments.

A stock market correction in the United States could ripple through the world economy.

After a strong second quarter, the US economy is accumulating signs of weakness: manufacturing has been shrinking for eight months, layoffs in October 2025 hit their highest in 20 years, and the housing market is experiencing low affordability and general uncertainty about the economy. Combined with relatively high interest rates and an ongoing trade war, the outlook for the US economy appears increasingly uncertain. Any weakness could trigger a sharp downturn in the US stock market, whose gains have fueled strong consumer spending. Weaker US demand would pull down metal and energy prices, which would squeeze fiscal revenue and external balances for African commodity exporters. Risk aversion would translate into lower foreign direct investment to Africa, already down by 42 percent in the first half of 2025, amid a widespread “wait-and-see” attitude of investors, with escalating trade wars and geopolitical tensions. A flight to safety would trigger an appreciation of the US dollar, with additional adverse effects on funding and the depreciation of domestic currencies for many African countries, some of which have pared their losses in 2024.

Upside risks

A faster decline in inflationary pressures, particularly in high-inflation African economies, could support stronger growth in 2026–27.

Many African countries have begun easing monetary policy in response to falling inflation and a more favorable outlook for both inflation and growth. Average inflation in Africa (excluding Egypt and Nigeria, two major African economies with inflation above 20 percent) declined to 7.6 percent in 2025 from 9.3 percent in 2024, with projections indicating a further moderation to 5.5 percent, due to subdued global commodity prices. Oil prices, which are down 12 percent since the start of the year, along with the recent Middle East peace agreement could accelerate disinflation in countries still facing double-digit inflation rates. This would lower real interest rates, boost credit demand, and stimulate private investment, while easing fiscal pressures by reducing debt service

Many African countries have begun easing monetary policy in response to falling inflation and a more favorable outlook for both inflation and growth

Demand for African exports—commodities and manufactured goods—could increase, bolstering trade balances and medium-term economic growth prospects

and subsidy costs. A faster deceleration of inflation in Africa would also provide more headroom for central banks to pursue accommodative monetary policy, thus enhancing household purchasing power, encouraging consumption-led growth, and improving external competitiveness through more stable exchange rates.

Accelerating the implementation of the African Continental Free Trade Area (AfCFTA) presents a substantial upside risk to Africa's growth outlook.

Deeper intraregional trade, expanding value chains, and greater investment can benefit from the faster and more effective implementation of the AfCFTA. Intra-African trade now accounts for only around 15 percent of Africa's trade, far below the level in Asia (51.1 percent).⁸ By decisively tackling nontariff barriers, slow customs procedures, and regulatory disparities, African countries can accelerate the AfCFTA's rollout. That would expand trade in intermediate and capital goods, promote technology transfer, and develop regional value chains. In so doing, the AfCFTA would help diversify export revenue away from commodities, increase its economic independence by reducing exposure to external shocks, and strengthen intra-African investment flows, fostering stronger medium-term growth across the continent. The gains are potentially large: one study estimates that full implementation could raise incomes by 7 percent (roughly \$450 billion in 2014 prices) and significantly increase employment, especially among unskilled workers and women.⁹ And implementing the AfCFTA, complemented by domestic reforms, could raise intra-African goods trade by more than 50 percent and lift real per capita GDP in the median African country by more than 10 percent in the long run.¹⁰ Increased investment and trade partnerships with nontraditional partners like China and Gulf nations are also

providing capital inflows for infrastructure projects and market access for African goods.

Easing monetary conditions in advanced economies could also boost Africa's economic growth prospects.

After signaling further monetary policy accommodation amid cooling inflation and softening labor markets, the US Federal Reserve cut its benchmark rate by 25 basis points in December 2025 to a range of 3.5–3.75 percent. It also announced that it would no longer shrink its balance sheet. Similarly, tepid economic growth in the European Union, coupled with inflation holding steady at the European Central Bank's (ECB) 2.0 percent target, is poised to prompt European monetary authorities to consider additional rate cuts in the coming months. These moves by the US Federal Reserve Bank and the ECB would likely translate into lower global interest rates, fostering a weaker US dollar that would strengthen African currencies and reduce debt-servicing burdens for countries facing heightened risk of debt distress or already in debt distress. As growth in advanced economies picks up, demand for African exports—commodities and manufactured goods—could increase, bolstering trade balances and medium-term economic growth prospects. With easing inflationary pressures at home, African central banks would then have room to implement more accommodative monetary policy, while improved risk sentiment could reverse the FDI outflows recorded in early 2025, with the potential to unlock additional private infrastructure financing across the continent. However, in an environment still characterized by elevated global uncertainty, volatile capital flows, and lingering inflationary pressures in several African economies, a premature easing of domestic monetary policy could expose some African countries to renewed exchange rate pressure, capital outflows, and a resurgence of inflation.

NOTES

1. IMF 2025.
2. IMF 2024.
3. See AfDB, AUC, AUDA, and NEPAD 2024.
4. World Bank 2024.
5. UNCTAD 2025.
6. <https://www.untourism.int/news/international-tourism-up-5-in-first-half-of-2025-despite-global-challenges>.
7. World Bank 2025a.
8. WTO 2023.
9. World Bank 2020.
10. IMF 2023a.

INFLATION DEVELOPMENTS, IMPLICATIONS, AND OUTLOOK

(about 9 percent of its projected 2025 GDP), up from \$6.8 billion at end-2024. The cedi also benefited from monetary policy tightening and fiscal consolidation.

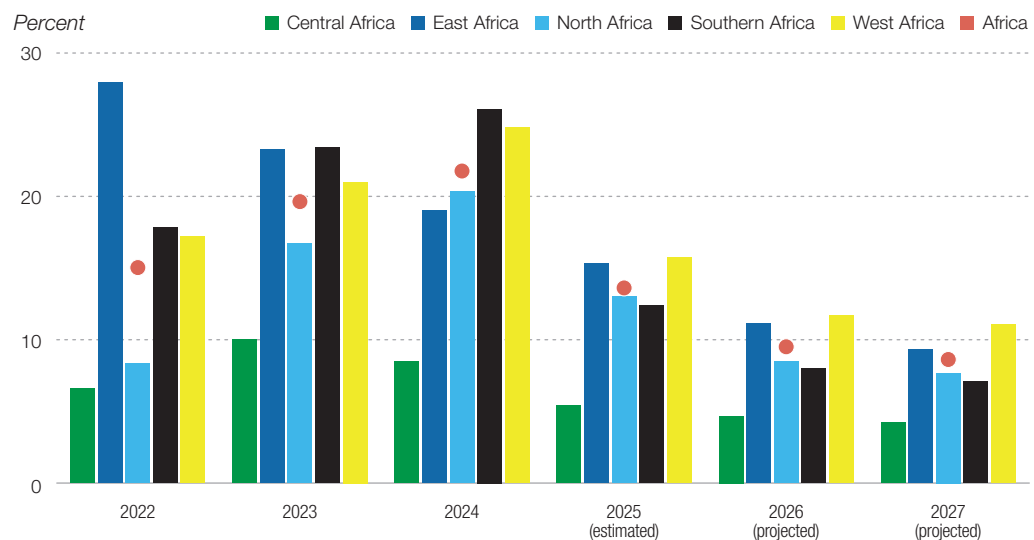
In several countries, while currencies continued to depreciate against the US dollar, the pace of depreciation slowed significantly in 2025, notably in Zimbabwe (45.7 percent), Egypt (38.3 percent), Sudan (12.3 percent), and Nigeria (5.5 percent). The continued currency depreciation in Sudan was due to protracted political instability, which depressed export earnings and foreign exchange reserves, putting substantial downward pressure on the Sudanese pound. The Nigerian naira continued to depreciate amid persistent structural weaknesses and a weak external position. Heavy reliance on oil exports amid subdued global oil prices created supply–demand mismatches in the official foreign currency window. Sustained inflation further contributed to the naira’s continued depreciation. In Egypt, the continued currency depreciation was mainly attributed to the substantial external financing needs and continued monetary policy easing. The Ethiopian birr depreciated by 72 percent in 2025, compared with 47.1 percent in 2024, reflecting a correction in the exchange rate after the transition to a market-based exchange rate regime in July 2024.

Medium-term inflation is expected to drop to single-digits for the first time since 2020

Average inflation in Africa is projected to decline to 9.5 percent in 2026 and 8.6 percent in 2027, down from an estimated 13.6 percent in 2025. The downward trend is attributed to several factors, including appreciation of domestic currencies, improved food supply due to favorable weather conditions, and low oil and energy prices. The low global inflation outlook will also help suppress imported inflation in Africa. Although inflation estimates and outlooks are broadly unchanged from the November 2025 MEO update, there are notable variations across regions (figure 2.2) and countries (figure 2.3). For example, the estimated inflation in North Africa (13.0 percent in 2025) and the projected inflation (8.5 percent in 2026) are lower by 0.2 percentage points and 0.9 percentage points, respectively, relative to the update. The largest downward revision was in Libya (by 0.9 percentage points to 1.6 percent from 2.5 percent) and in Algeria (by 0.5 percentage points to 3.0 percent from 3.5 percent). The largest downward revision to projected inflation in 2026 was in

Average inflation in Africa is projected to decline to 9.5 percent in 2026 and 8.6 percent in 2027, down from an estimated 13.6 percent in 2025

FIGURE 2.2 Inflation dynamics by Africa region, 2022–27



Source: African Development Bank statistics.

The easing of inflationary pressures across the continent has led central banks in many African countries to adopt more accommodative monetary policy or pause contractionary policy

relative to the MEO update. Double-digit rates are expected to persist in 2026 (11.8 percent, which is a 0.6 percentage point downgrade from the MEO update) and 2027 (10.9 percent). Estimated inflation remains low in non-resource-intensive countries (5.8 percent in 2025, 0.1 percentage points lower than in the MEO update) and in tourism-dependent economies (maintained at 3.4 percent in 2025). And it is projected to remain broadly stable in 2026 (5.5 percent and 3.5 percent) and 2027 (5.0 percent and 3.3 percent). For other resource-intensive countries, inflation is expected to drop from an estimated 13.4 percent in 2025 to single digits in 2026 (8.1 percent, a downward revision of 2 percentage points from the MEO update) and in 2027 (6.8 percent).

Across a dozen countries, estimated inflation in 2025 will be double-digit or higher, but this could drop to 9 percent in 2026 and 8 percent in 2027 as disinflation takes hold across the continent. Countries with relatively high inflation are Angola, Burundi, Egypt, Ethiopia, Malawi, Nigeria, South Sudan, Sudan, and Zimbabwe. Inflationary pressures in these countries are driven by supply constraints from any of these factors, or a combination of them: climate conditions and conflicts, weak domestic currencies, and persistent fiscal and external imbalances. This dichotomy in inflation outturns and forecasts points to an emerging two-speed disinflation pattern.

One set of countries is converging rapidly toward single-digit inflation, supported by tighter monetary policy, easing food and fuel prices, and improved fiscal management. The other group continues to face significant macroeconomic and structural challenges, including persistent currency depreciation, the effects of subsidy removal, ongoing conflicts, and climate-related shocks that have fueled spikes in food prices.

The elevated inflation in the second group could have a significant impact on growth (box 2.1). On the positive side, inflation rates are generally lower in countries with targets. For instance, in 20 out of 30 countries with inflation targets, the rates are expected to remain within the target ranges. Even in inflation-targeting countries where projections exceed the target rates, they remain within the single-digit range, with signs of convergence toward the target.

MONETARY POLICY DEVELOPMENTS, IMPLICATIONS, AND OUTLOOK

As inflationary pressures ease, central banks in many countries have either begun lowering interest rates or paused their contractionary monetary policy stance in recent months

The easing of inflationary pressures across the continent has led central banks in many African countries to adopt more accommodative monetary policy or pause contractionary policy. Overall, central banks in Africa reduced policy rates by an average of 77 basis points in 2025 (figure 2.4). Thirty-four countries cut policy rates by an average of 130 basis points. Notably, the Central Bank of Kenya cut its policy rate by 25 basis points from 9.5 percent to 9.25 percent in October 2025, citing a sustained drop in inflation to 4.5 percent in 2024, from 7.7 percent in 2023. In September 2025, the Central Bank of Angola also cut its policy interest rate, from 19.5 percent to 19 percent, citing easing inflation. Further rate reductions include the Central Bank of Nigeria, which cut rates by 50 basis points from 27.5 percent to 27 percent after inflation declined to 20.1 percent in August 2025, marking the first decline since 2020 at the height of the Covid-19 pandemic. Similarly, the central banks of Lesotho, Mozambique, Namibia, the West African Economic and Monetary Union, and the Central African Economic and Monetary Community recently cut policy rates. Meanwhile, the South African Reserve Bank held its key policy rate at 7.0 percent in September 2025, following earlier cuts, suggesting that its inflation outlook is consistent with the 3–6 percent medium-term target range. After initial cuts, the central banks of Morocco and Uganda kept their policy rates steady for more than five months.

Despite this loosening or pausing of the contractionary stance, risks to the medium-term inflation outlook remain in at least 12 countries. Potential headwinds from global economic uncertainty, domestic and regional conflicts, and political instability, as well as fiscal slippages, may heighten inflationary pressures and delay growth-supportive monetary policies.

BOX 2.1 Curbing inflation in Africa—Implications for growth from the sacrifice ratio

Lingering inflationary pressures in Africa have dented growth by eroding real incomes, increasing production costs, and weakening consumption and investment. In addition, policies to rein in the inflation tide often come with a trade-off—slower output growth. But macroeconomic stabilization policies—notably tighter monetary policy—impose short-term costs on real GDP through the sacrifice ratio.¹ The resulting impact of subdued economic growth could be disproportionately higher in low-income African countries, where the need for growth-driven structural transformation is urgent.

Over the past 20 years, episodes of broad-based disinflation include the post-2008 global financial crisis and the 2015–16 commodity price decline. In both cases, GDP growth was lower than trend growth. During the first disinflation period, when inflation declined from 13.3 percent in 2008 to 5.9 percent in 2014, the loss in GDP growth amounted to 2.9 percentage points.

During the second episode, inflation fell from 11.3 percent in 2016 to 7.8 percent in 2018, while the GDP loss amounted to 2.8 percentage points. Averaging over the two episodes yields a sacrifice ratio of 0.6, implying that economies had to forgo 0.6 percentage points of cumulative GDP growth below trend to achieve a permanent 1 percentage point reduction in inflation.² By contrast, the 2000–07 disinflation episode was associated with above-trend economic growth, highlighting the ambiguity of the GDP growth–inflation relationship in Africa.³

On the optimal speed of adjustment, the traditional view is that gradual disinflation is less costly because it allows wages and prices to adjust. Some have argued, to the contrary, that rapid disinflation reduces costs by enhancing policy credibility and accelerating adjustment of inflation expectations. Starting from low to moderate initial inflation, the speed of disinflation (shock therapy versus gradual disinflation) does not seem to matter in emerging economies, however.⁴ Country-specific factors are likely to influence the sacrifice ratio. For instance, in emerging market economies, trade openness is associated with lower sacrifice ratios, whereas central bank independence is associated with higher sacrifice ratios.⁵

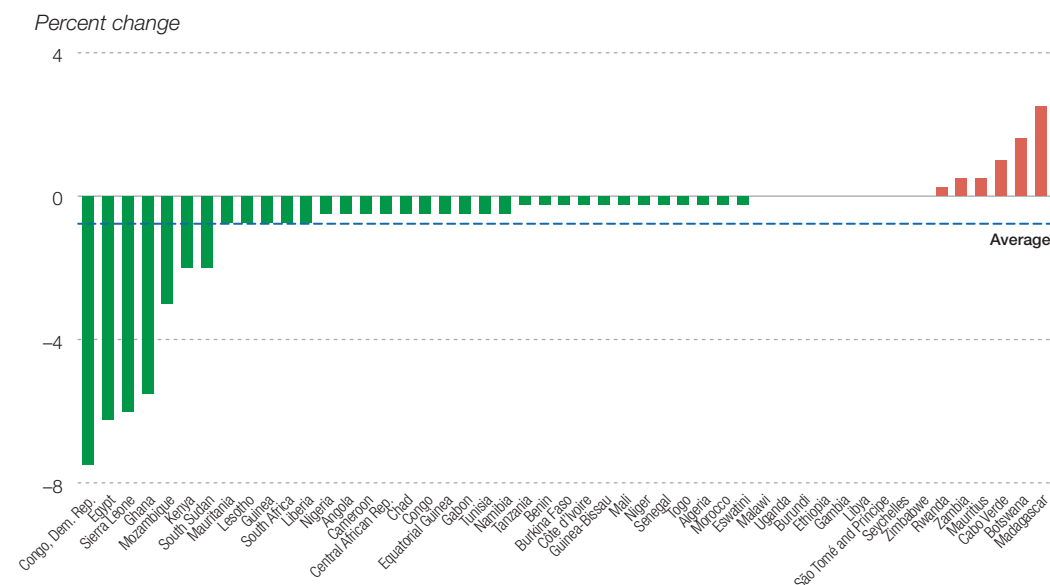
So, the costs of reducing inflation in Africa, though relatively modest, are real. Inflation-containment measures, while essential for long-term macroeconomic stability, could weigh on growth in the short to medium term. Policymakers should therefore calibrate their policy stance carefully, avoiding unnecessarily tight monetary or fiscal measures that seek to cure inflation but impose disproportional costs on economic growth. And if inflation in Africa is primarily supply driven, as the evidence suggests, policies targeting supply bottlenecks—such as enhancing productivity, improving logistics, and strengthening food and energy value chains—may be more effective than demand-suppression approaches and interest rate increases that constrain private investment.

Notes

1. The sacrifice ratio is a macroeconomic measure of how much GDP growth must be forgone to reduce inflation by 1 percentage point.
2. Estimating the sacrifice ratio requires identifying episodes of disinflation, summing the corresponding cumulative output gaps (actual GDP minus potential GDP), and dividing this total loss by the number of percentage points by which inflation fell (Ball 1994).
3. Berg and Portillo 2018.
4. Stojanovikj and Petrevski 2024.
5. Stojanovikj and Petrevski 2024.

Potential headwinds may heighten inflationary pressures and delay growth-supportive monetary policies

FIGURE 2.4 Change in policy rate, 2024 to 2025



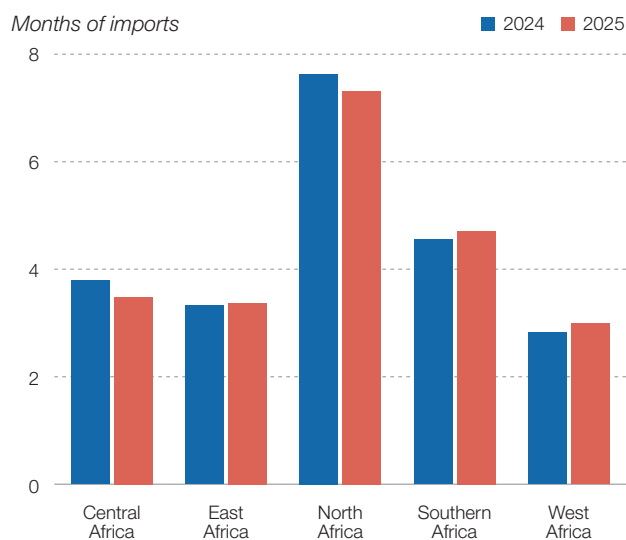
Source: African Development Bank statistics.

The easing of monetary policy in Africa is supported by overall stable levels of foreign exchange reserves in 2025

Although some countries experienced a depletion of their foreign exchange reserves in 2025, international reserves in Africa, on average, reached 4.0 months of imports, a slight improvement of 0.6 percent from 2024. Three of the five

regions—East Africa, Southern Africa, and West Africa—recorded increases in their reserves measured in months of imports (figure 2.5). North Africa maintained the highest reserves in 2025 at 7.3 months of imports, despite an 8.2 percent decline from 2024, mainly driven by Algeria’s strong reserve position of 15.8 months of imports. Supported by the improvement in Nigeria’s reserves (increasing by 7.9 percent in 2025 to reach 6.3 months of imports), West Africa posted an average of 3.0 months of import coverage.

FIGURE 2.5 Foreign exchange reserves by region, 2024 and 2025



Source: African Development Bank statistics.

The relative stability in reserves across Africa strengthened currencies, providing central banks with room to undertake monetary easing cycles to support growth. By limiting pressure on exchange rates and strengthening the authorities’ ability to defend their currencies, a strong foreign-exchange reserves position helps anchor inflation expectations and reduce the risk of sharp currency depreciations. In Morocco, Mauritania, and Kenya, the strength of reserves helped ease external pressures and support financial stability, facilitating the interest rate cuts in 2025.

The recent accommodative monetary policy phase in many African countries follows a prolonged tight monetary policy across many countries for much of 2022–24, constraining credit and private investment (box 2.2). The easing of monetary policy in 2025 opens the prospect of a gradual

BOX 2.2 Transmission of monetary policy to the real economy in Africa

Less favorable inflation conditions across Africa led to widespread interest rate increases to contain inflation, especially between 2022 and 2024. But given the shallowness of financial markets in Africa and the fact that bank credit remains the primary source of external financing for businesses, the extent to which monetary policy decisions influence the funding of the economy and, ultimately, growth, is an important question. While strong and stable growth is necessary to improve living standards on the continent, most monetary policy theories emphasize that monetary policy affects growth's volatility. And an inappropriate monetary policy can durably hinder economic growth.

An empirical analysis of 26 African countries, spanning 2000–24, shows that the effectiveness of monetary policy depends largely on the depth and structure of financial systems. The analysis is based on a local projection method and defines monetary tightening as a 1 percentage point increase in the policy rate, which accounts for approximately 15 percent of observations over the period. The strategy traces, horizon by horizon, the evolution of the main real variables after a monetary policy shock and assesses the persistence of its effects. More specifically, the empirical model is as follows:

$$\Delta y_{i,t+h} = \alpha_h + \beta_h \text{MonetaryShock}_{i,t} + X'_{i,t} \gamma_h + \mu_i + \tau_t + \varepsilon_{i,t+h}$$

where Δy refers to the growth of bank credit to the private sector, private investment growth, or real GDP. X is the vector of control variables, including quality of governance, inflation rate, terms of trade, exchange rate against the dollar, and real GDP per capita; μ_i and τ_t denote the country and time fixed effects, respectively. The variables and their sources are presented in table A.1 in annex 1.

The results show that monetary policy tightening leads to an immediate and significant contraction in bank credit to the private sector, an immediate decline in private investment, and a moderate impact on GDP growth (box figure 2.2.1). A 1 percentage point (100 basis point) increase in the policy rate results in a decrease in credit to the economy of approximately 1 percent in the year of the shock. This effect persists over the following two years before a gradual return to equilibrium (the situation before the monetary policy shock). This result suggests a rapid response from the bank credit channel, driven by higher refinancing costs and tighter lending conditions. In such a context, banks tend to favor more liquid investments, such as government bonds, over private loans.

Private investment responds more sharply to a rise in the interest rate, declining by about 2 percent in the year of monetary tightening, before stabilizing the following year. This high sensitivity reflects the central role of the cost of capital in investment decisions. A rise in the policy rate increases the cost of credit, makes project financing more expensive, and can lead companies to postpone or cancel productive investment. A decline in bank credit amplifies this mechanism by restricting the availability of financing, especially in economies with underdeveloped capital markets and companies relying almost exclusively on banks for funding. While bank credit is the main external source of financing for businesses, internal financing remains the most common source of funding for small and medium enterprises. Thus, the faster recovery in investment than in bank credit could be explained by the low sensitivity of these internal or informal sources of financing to monetary policy.

For real GDP growth, the estimated effect of monetary tightening is negative but not statistically significant. This lack of a marked response from overall GDP reflects the complexity of monetary policy transmission in economies with weak financial sectors and those with predominant primary and informal sectors. It may also reflect the slowness of actual adjustments, the presence of countercyclical fiscal policies, or the weak synchronization between the credit and business cycles in an environment subject to recurring supply shocks. Finally, the weak transmission of monetary

(continued)

Monetary policy tightening leads to an immediate and significant contraction in bank credit to the private sector, an immediate decline in private investment, and a moderate impact on GDP growth

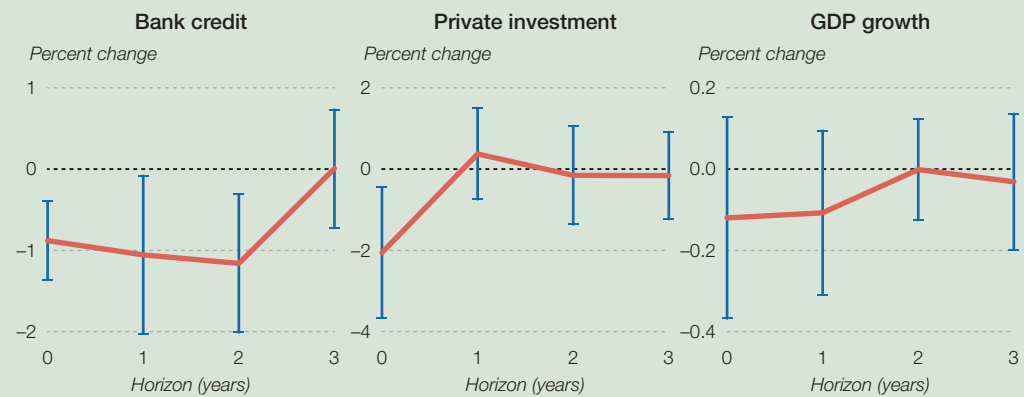
BOX 2.2 Transmission of monetary policy to the real economy in Africa (continued)

policy to the real economy can also be explained by the fact that agriculture—an engine of growth in Africa—receives only a very small share of bank credit, and that extractive industries, critical for growth in many countries, do not rely on domestic bank credit.

These results confirm the credit channel as an important transmission vector of monetary policy in Africa, while also highlighting its limitations. The impact of monetary policy on the real economy remains partial. It is often mitigated by structural factors, such as the weak banking competition, the prevalence of informal credit, and the underfinancing of agriculture by the banking sector. In countries with partial dollarization of their economies and liquidity constraints, these factors can also hinder the transmission of monetary signals to the real economy.

Developing more active capital markets, improving banking competition, and promoting digital finance can increase the sensitivity of credit and investment to monetary policy decisions. This would facilitate faster and more predictable transmission of monetary policy, while also enabling central banks to better balance price stability with support for economic growth.

BOX FIGURE 2.2.1 Response to a 1 percentage point (100 basis point) policy interest rate shock



Note: The red lines represent responses to the 1 percentage point monetary tightening shock. The vertical lines are confidence intervals.

Source: African Development Bank staff calculations using data from local projections.

This accommodative monetary policy phase remains uneven and fragile, however, as it unfolds amid heightened external risks

recovery in lending and support for economic activity. In economies where inflation is now under control and macroeconomic stability has been restored—such as Kenya, Morocco, South Africa, and the WAEMU zone—the reduction in policy rates should lower domestic financing costs and support the recovery of private investment. This easing could also encourage banks to expand access to credit for small businesses and households, thus stimulating domestic demand and boosting growth, especially in Africa’s middle-income countries, where household consumption spending responds to favorable macroeconomic conditions.

This accommodative monetary policy phase remains uneven and fragile, however, as it unfolds amid heightened external risks—trade policy uncertainty, commodity price fluctuations, geopolitical tensions, currency fragility, and dependence on external financing. In some economies dependent on commodity exports or external funding, the sustainability of a strong reserves position remains uncertain. Persistent current account deficits, volatile capital flows, and pressure on local currencies could erode these buffers, limiting the scope of monetary easing if external conditions were to deteriorate. In countries facing high inflation and

significant fiscal and external imbalances, the caution exercised by monetary authorities—by maintaining high interest rates—is essential to preserve their credibility and prevent a resurgence of inflationary pressures. The effectiveness of monetary easing will thus depend on the strength of the monetary transmission channels, fiscal discipline, and governments’ ability to restore investor confidence.

FISCAL POSITION DEVELOPMENTS, OUTLOOK, AND IMPLICATIONS

Increased public expenditures amid slow revenue growth continue to characterize fiscal performance

The pandemic-induced fiscal expansion in many countries, which widened the fiscal deficit, has continued, as revenue growth remains low. Public expenditure as a share of GDP increased from 21.4 percent in 2022 to an estimated 24.1 percent in 2025, reflecting a sustained rise in spending needs to cushion economies from the impacts of recurrent shocks and maintain recovery. During this period, total domestic revenue (tax and non-tax, inclusive of grants) as a share of GDP increased, though at a slower pace, from an average of 17.4 percent of GDP in 2022 to an

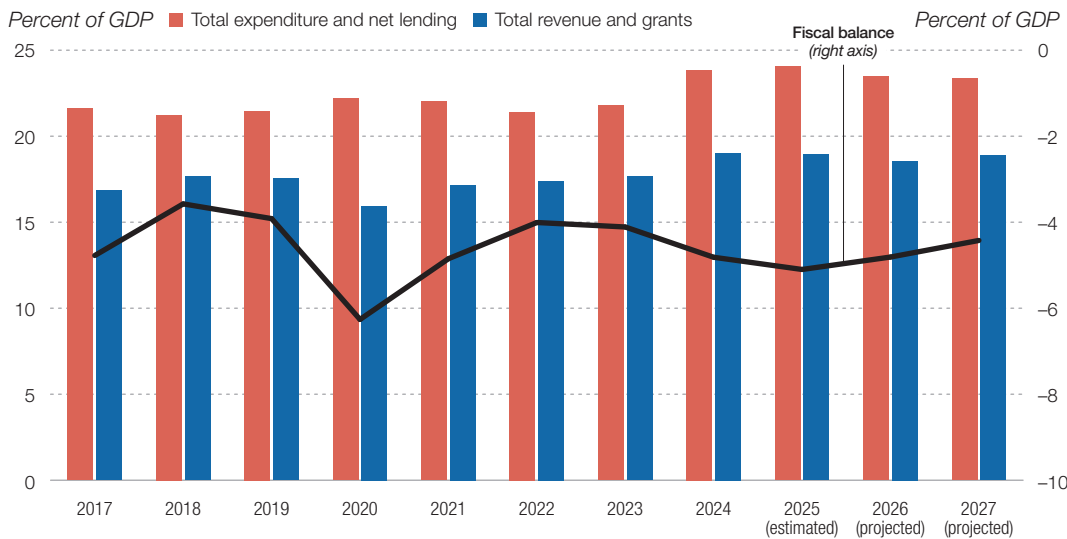
estimated 18.9 percent in 2025. As a result of a revenue-spending mismatch, the fiscal deficit has steadily deteriorated since 2022 (figure 2.6).

In 2025, the average fiscal deficit stood at an estimated 5.1 percent of GDP, up from 4.8 percent in 2024. The widening of the deficit in 2024 reflects increased interest payments and less satisfactory government revenue performance, driven by low export earnings and tourism receipts in most countries, as well as aid cuts in countries dependent on official development assistance to finance their budgets. The decline in commodity prices, combined with the depreciation of the US dollar, hit the revenue of oil-exporting countries and non-resource-intensive countries dependent on agricultural commodity exports. The weak dollar also affected tourism receipts in local currency terms, thus influencing the revenue of tourism-dependent countries.

Broad-based fiscal consolidation is expected in 2026 and 2027 (figure 2.6), a significant improvement from the estimated expansion in 2025. The average fiscal deficit is expected to narrow to 4.8 percent of GDP in 2026, a downward revision of 0.1 percentage points from the MEO update, and further to 4.4 percent in 2027. Fiscal tightening is expected across all regions (figure 2.7) and country groupings (figure 2.8) as several countries undertake budget prioritization measures amid heightened debt vulnerabilities and reduced aid flows.

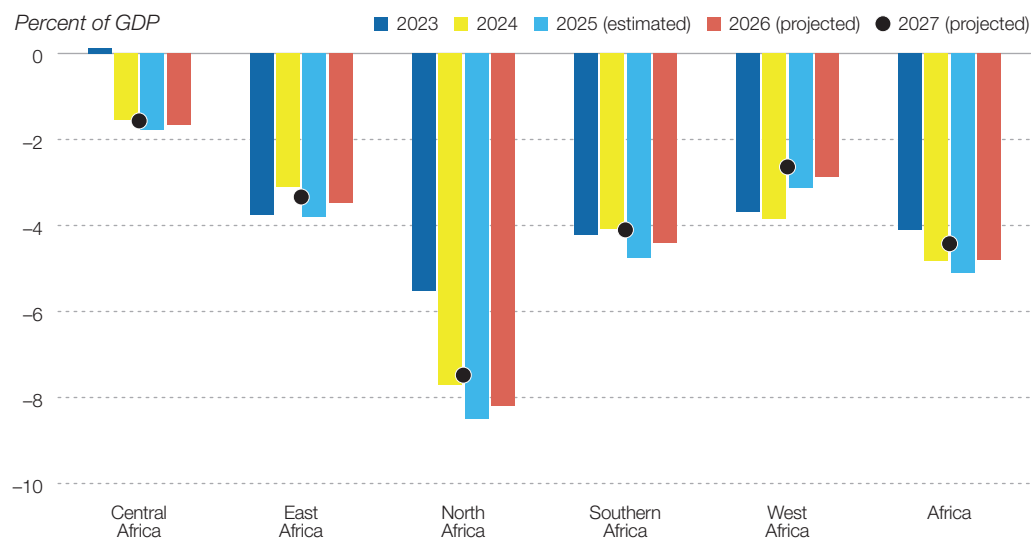
The pandemic-induced fiscal expansion in many countries, which widened the fiscal deficit, has continued, as revenue growth remains low

FIGURE 2.6 Government revenue and expenditure, 2017–27



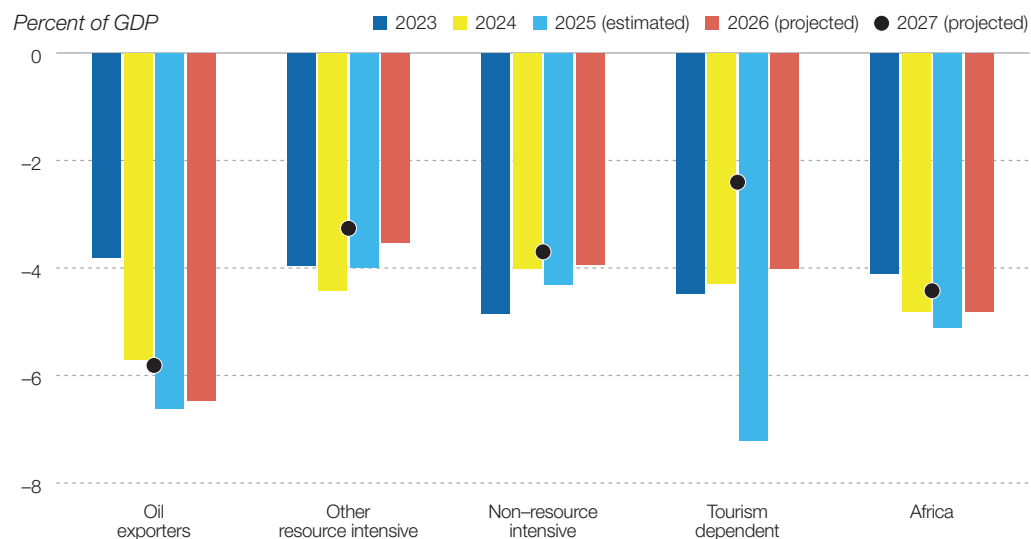
Source: African Development Bank statistics.

FIGURE 2.7 Fiscal balance as a share of GDP by regions, 2023–27



Source: African Development Bank statistics.

FIGURE 2.8 Fiscal balance as a share of GDP by country grouping, 2023–27



Source: African Development Bank statistics.

In East Africa, both the estimated fiscal deficit and the outlook for 2026 have been revised downward by 0.3 percentage points relative to the MEO update, reflecting strong growth momentum and broad-based consolidation efforts across the region. The fiscal deficit is expected to narrow to 3.5 percent of GDP in 2026 (from an estimated 3.8 percent in 2025) and further to 3.3 percent in 2027. Except for Ethiopia, fiscal policy tightening

is expected across East Africa. The fiscal expansion in Ethiopia is attributed to increased social, recurrent, and capital expenditures, including the rehabilitation of conflict-affected areas. Similarly, due to broad fiscal tightening measures, fiscal deficits in both Southern Africa and West Africa are expected to shrink in the medium term. In Southern Africa, the deficit is expected to decline from an estimated 4.8 percent of GDP in 2025

to 4.4 percent in 2026 and 4.1 percent in 2027. The expected improvement is mainly reflected in smaller countries such as Lesotho, Mauritius, and Zambia, with the projected fiscal deficits in the region's largest economies (South Africa and Angola) remaining relatively stable in the outlook period. In West Africa, the fiscal deficit is expected to decline from the estimated 3.1 percent of GDP in 2025 to 2.9 percent in 2026 and 2.6 percent in 2027. This improvement is expected to be broad based, except in the region's biggest economy, Nigeria, where expectations of low oil prices, amid higher wage bills and increased social and security expenditure, could widen the deficit by about 0.2 percentage points to 2.6 percent of GDP in 2026.

The fiscal deficit in North Africa, however, remains higher, estimated at 8.5 percent of GDP in 2025, but is expected to narrow slightly to 8.2 percent in 2026 (a downward revision of 0.2 percentage points) and further to 7.5 percent in 2027. North Africa's high fiscal deficit mainly reflects positions in two of its biggest economies, Algeria and Egypt, largely due to weak hydrocarbon production and exports, growing investment-driven imports, and public spending. In Algeria, the fiscal deficit was estimated at 14.4 percent of GDP in 2025 and projected at 14.5 percent in 2026 and 14.0 percent in 2027. In Egypt, the fiscal deficit was estimated at 7.5 percent of GDP for 2025 and projected at 7.1 percent in 2026 and 5.6 percent in 2027. The implications of the relatively large fiscal deficits in these countries could be a rise in Algeria's debt level and the persistence of high debt in Egypt.

In the Central Africa region, fiscal policy is expected to be relatively stable, with the deficit projected to narrow slightly to 1.7 percent of GDP in 2026 and 1.6 percent in 2027, from 1.8 percent in 2025. The fiscal surplus in the Congo is expected to persist in the medium term, while in three countries (Cameroon, the Central African Republic, and the Democratic Republic of Congo), fiscal deficits are expected to narrow. But in Gabon, Equatorial Guinea, and Chad, the fiscal deficit is expected to widen in both years, from 2025. The stable fiscal deficit in Central Africa augurs well for the region's inflation and debt outlook.

Narrower fiscal deficits are expected in all groups (see figure 2.8). Tourism-dependent

economies are projected to record the sharpest improvement in the fiscal deficit in 2026, at 4.0 percent of GDP, and in 2027, at 2.4 percent, from the estimated 7.2 percent in 2025. The improved fiscal position largely reflects narrowing deficits in Mauritius, the region's largest economy, driven by expenditure rationalization and tax reforms aimed at enhancing revenue mobilization. The fiscal deficit in other resource-intensive economies is expected to narrow to 3.5 percent of GDP in 2026 and 3.3 percent in 2027 (from 4.0 percent estimated for 2025), driven by rising prices for some minerals, such as gold and copper. In non-resource-intensive economies, the fiscal deficit is projected to decline to 3.9 percent in 2026 and 3.7 percent in 2027 (from 4.3 percent estimated for 2025). This improvement signals a gradual return to fiscal consolidation as governments rebuild buffers after years of pandemic-related spending and global disruptions. Despite projections of lower oil prices, fiscal consolidation efforts are expected to lead to a slight improvement in the fiscal balance for oil-exporting economies, to 6.5 percent of GDP in 2026 and 5.8 percent in 2027, from the estimated 6.6 percent in 2025.

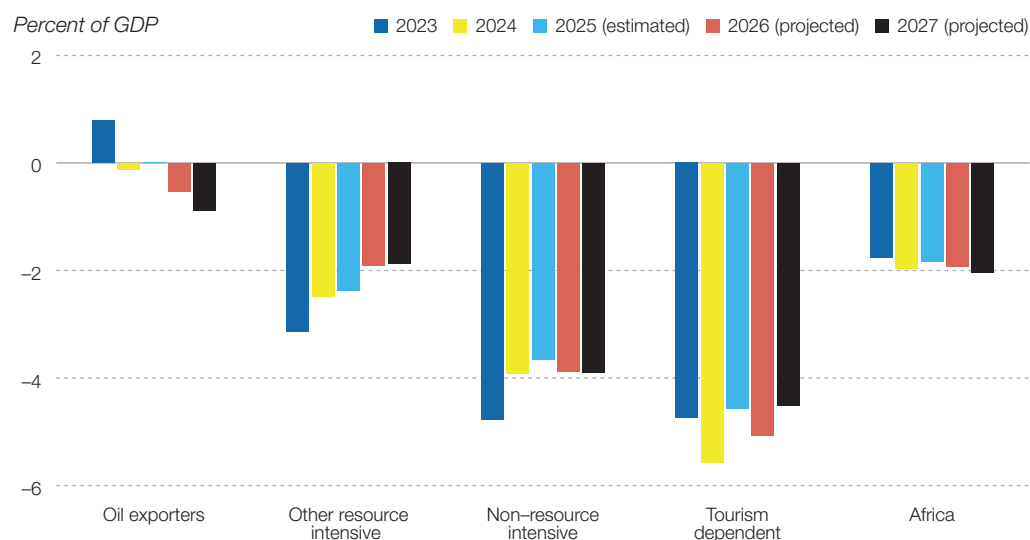
EXTERNAL POSITION AND CURRENT ACCOUNT BALANCE DEVELOPMENTS, OUTLOOK, AND IMPLICATIONS

Global commodity prices and trade policy uncertainty continue to weigh on Africa's current account

The estimated current account position and outlook for Africa is broadly unchanged from the 2025 MEO update. Despite the steep decline in export commodity prices in 2025, the average current account deficit is estimated to have narrowed to 1.8 percent of GDP, from 2.0 percent in 2024 (figure 2.9). While part of this adjustment reflects constrained foreign savings rather than a sustained improvement in underlying external competitiveness, trade-related factors also play a role. The narrower trade deficit stemming from a favorable import bill, supported by a weaker US dollar, contributed to the improved current account position. The current account

Despite the steep decline in export commodity prices in 2025, the average current account deficit is estimated to have narrowed to 1.8 percent of GDP

FIGURE 2.9 Current account balance by country grouping, 2023–27



Source: African Development Bank statistics.

Africa's trade deficit is expected to widen by 0.4 percentage points to 3.4 percent of GDP in 2026, from the estimated 3.0 percent in 2025

deficit is expected, however, to widen slightly to 1.9 percent of GDP in 2026 and to 2.0 percent in 2027. The anticipated deterioration of the current account deficit in the medium term is largely attributed to the expected widening of the trade deficit, driven by unfavorable export receipts due to a projected further deceleration in commodity prices. Africa's trade deficit is expected to widen by 0.4 percentage points to 3.4 percent of GDP in 2026, from the estimated 3.0 percent in 2025. The anticipated deterioration in the trade balance is mainly due to subdued commodity prices and slow growth prospects in China.

Across economic and country groupings, the outlook of the external position is mixed. The current account position in **oil-exporting economies** is expected to deteriorate from an estimated balanced position in 2025 to a 0.5 percent of GDP deficit in 2026, and further to 0.9 percent in 2027. This deterioration is attributed to expectations of further declines in oil prices, which are projected to fall by 3.5 percent, from \$68.2 per barrel in 2025 to \$65.8 in 2026 and remain around this level in 2027. The recent breakthrough in peace negotiations in the Middle East helped ease concerns over disruptions of global oil supply. In addition, the strong oil supply from OPEC+ members and other producers—combined with the ongoing energy transitions, including growth in electric

vehicles—is expected to keep oil prices subdued in the medium term.

The current account deficit in **other resource-intensive economies** is expected to narrow from an estimated 2.4 percent of GDP in 2025 to 1.9 percent in 2026 and 2027. If sustained, the recent increases in the prices of minerals, including gold and copper, due to heightened uncertainties, could support the external positions of countries rich in such minerals. Gold prices could remain high after nearly doubling in less than two years—from \$2,026 per troy ounce in December 2023 to \$4,087 in November 2025—as central banks accumulate reserves and investors seek safe-haven assets. Accordingly, external positions of gold-exporting countries are expected to improve—Ghana (surpluses of 3.0 percent of GDP in 2026 and 2.5 percent in 2027, from an estimated 2.9 percent in 2025), South Africa (narrowing deficit from an estimated 1.3 percent of GDP in 2025 to 1.2 percent in 2026 and 1.1 percent in 2027), Mali (narrowing deficit from an estimated 5.3 percent of GDP in 2025 to 4.3 percent in 2026 and 5.2 percent in 2027), and Burkina Faso (narrowing deficit from an estimated 2.5 percent of GDP in 2025 to 2.0 percent in 2026 and 1.6 percent in 2027).

The external position in **non-resource-intensive economies**, which mainly export agricultural commodities and other raw materials, is

expected to deteriorate from an estimated deficit of 3.7 percent of GDP in 2025 to 3.9 percent in both 2026 and 2027. This is largely attributed to unfavorable trade balance due to the projected low prices for agricultural commodities and other raw materials. Similarly, the current account deficit in **tourism-dependent economies** could widen from an estimated 4.6 percent of GDP in 2025 to 5.1 percent in 2026. A slight improvement to 4.5 percent is projected in 2027. The trend in the current account position for tourism-dependent economies will closely mirror developments in the group's largest economy, Mauritius, which accounts for about 70 percent of the group's GDP. The current account deficit in Mauritius is expected to widen to 5.2 percent of GDP in 2026 due to subdued exports, but to decline to 4.4 percent in 2027, reflecting an improvement in the trade balance on account of lower global food and energy prices, the country's key imports.

Within the regional groupings (figure 2.10), West Africa is expected to record a reduction in the current account surplus to 0.6 percent of GDP in 2026 and 0.3 percent in 2027, from an estimated 0.7 percent surplus in 2025. The anticipated surpluses will be driven by two of the region's large economies: Nigeria (4.9 percent of GDP in 2026 and 3.6 percent of GDP in 2027) and Ghana (3.0 percent of GDP in 2026

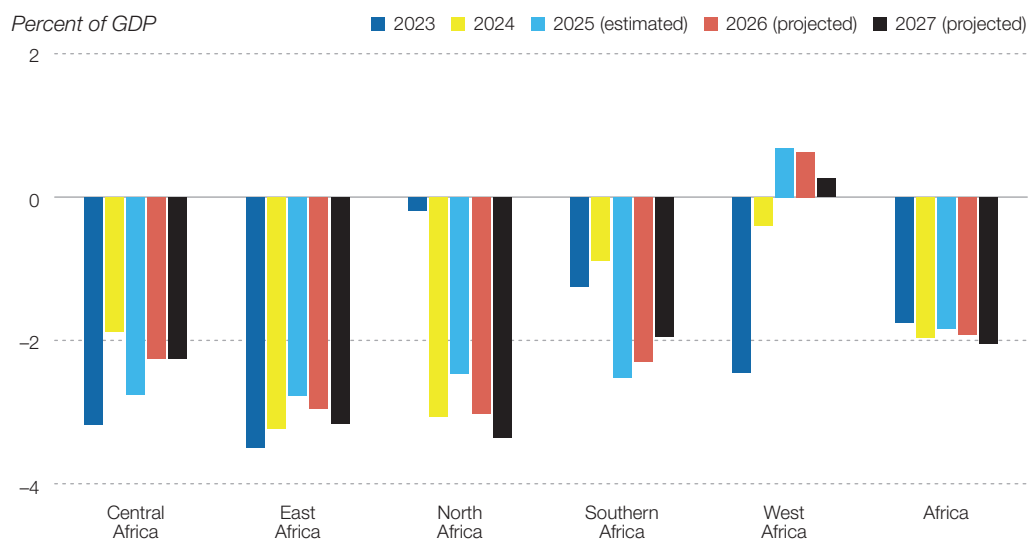
and 2.5 percent of GDP in 2027). A narrowing of the current account deficit is expected in Central Africa (from an estimated 2.8 percent of GDP in 2025 to 2.2 percent in 2026 and 2027) and in Southern Africa (from an estimated 2.5 percent of GDP in 2025 to 2.3 percent in 2026 and 1.9 percent in 2027). The improvement in Central Africa's external position is attributed to the benefits of surplus external positions in the Congo and Gabon. The improvement in Southern Africa is attributed to the narrowing of South Africa's deficit and the surplus positions in Angola, Zambia, and Zimbabwe.

Despite large current account surpluses in smaller economies such as Djibouti (averaging 13.1 percent of GDP in 2026 and 2027) and Eritrea (13.0 percent of GDP in 2026 and 2027), East Africa's external deficit will remain relatively high at 2.9 percent of GDP in 2026, rising to 3.2 percent in 2027. Most countries in this region are exporters of agricultural commodities and other raw materials, and the outlook for a wider deficit is attributed to low projected commodity prices.

The anticipated widening current account deficit in Africa could heighten depreciation pressures, since affected countries must draw down their foreign exchange reserves to finance the expanded deficit. The effect of such a drawdown would be particularly significant in countries where

The anticipated widening current account deficit in Africa could heighten depreciation pressures, since affected countries must draw down their foreign exchange reserves

FIGURE 2.10 Current account balance by region, 2023–27



Source: African Development Bank statistics.

EXTERNAL FINANCIAL FLOWS, IMPLICATIONS, AND OUTLOOK

foreign exchange reserves are already relatively low. In addition, the expected deterioration of current account balances could exert fiscal pressure on governments to borrow externally to alleviate weak current account positions, leading to debt buildup and increased debt vulnerabilities in several African countries. Relatedly, the widening current account deficit could also negatively affect risk premia and, in the extreme case, lead to a sudden loss of market access.

Decomposition of the current account

The decomposition of the current account reveals that the expected widening in the medium term is primarily due to a deterioration in the trade balance, from an estimated deficit of 3.0 percent of GDP in 2025 to deficits of 3.4 percent in 2026 and 2027 (figure 2.11). The deficit in net income is projected to remain broadly unchanged at 2.5 percent of GDP in 2026 and 2027. The projected deficit in the trade balance of 0.4 percentage points in 2026 is larger than the expected improvement in current transfers of 0.2 percentage points in the same period. The 0.1 percentage point decline in current transfers in 2027 and the widening trade deficit by the same magnitude largely explain the deterioration in the current account deficit.

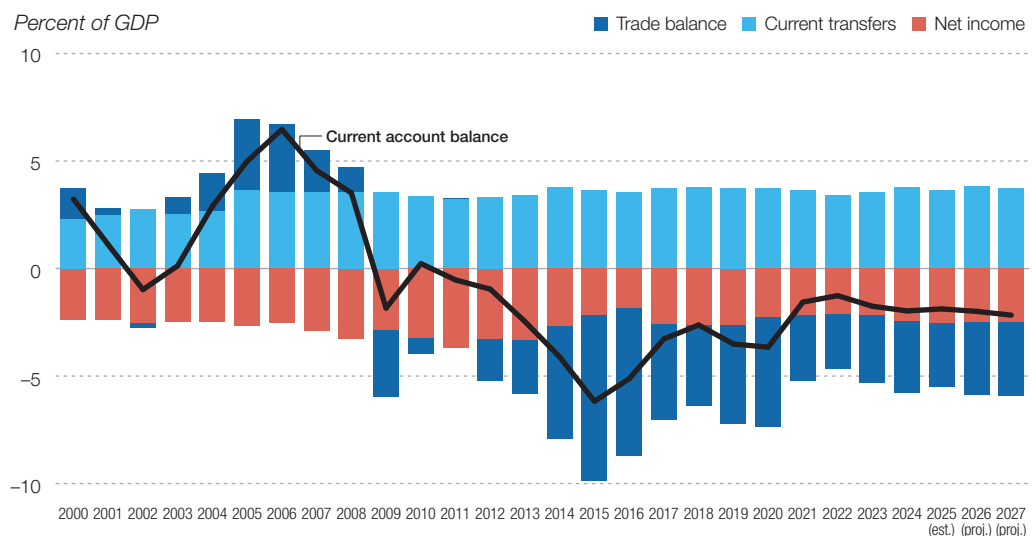
Foreign direct investment (FDI) flows to Africa rebounded strongly in 2024, rising by more than 75 percent to \$97 billion

Increased external financial inflows from other external sources could partly offset the anticipated decline in aid flows to Africa

Foreign direct investment (FDI) flows to Africa rebounded strongly in 2024, rising by more than 75 percent to \$97 billion (figure 2.12). This growth underscores renewed optimism about the continent's investment potential, especially given the modest 4 percent growth in global FDI inflows.

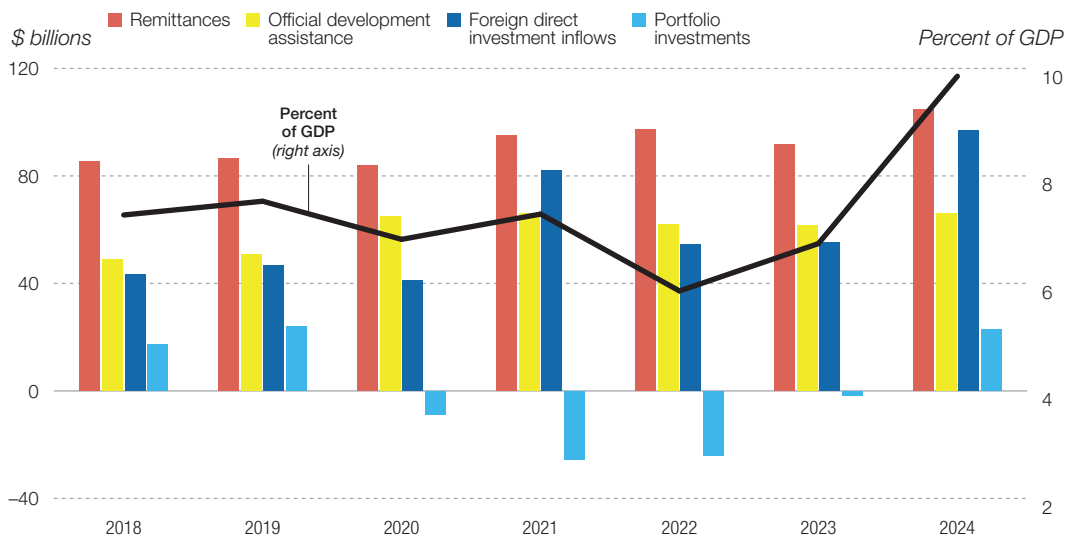
The continent's strong performance was primarily driven by sharp increases in FDI inflows to Egypt, from \$9.8 billion to \$46.6 billion, mainly to finance the Ras El-Hekma Development Project (box 2.3). Excluding Egypt, FDI to Africa still rose by about 10 percent in 2024, consistent with historical patterns but on a clear upward trajectory. Among the 52 African countries with consistent data, 34 recorded higher inflows in 2024. Besides Egypt, the largest increases were observed in Zambia, Eswatini, Botswana, and Guinea, each registering FDI inflow growth of more than 100 percent. This occurred even as FDI flows to developing economies stabilized and inflows to developed economies contracted by 22 percent.

FIGURE 2.11 Dynamics and decomposition of the current account in Africa, 2000–27



Source: African Development Bank statistics.

FIGURE 2.12 External financial flows to Africa, 2018–24



Source: African Development Bank statistics.

Africa’s strong performance—following a modest 1.5 percent rise in 2023—confirms the continent’s resilience and continued attractiveness as an investment destination in a fragmented global financial landscape. Although FDI tends to focus on sectors not financed by aid flows, sustaining the current upward trajectory could help mobilize additional financing for infrastructure and free public resources for sectors vacated by aid cuts, such as health and other social services. However, strengthening the role of FDI as a stable source of capital formation will require renewed efforts to promote investment by improving the business environment and leveraging emerging opportunities. This will help narrow Africa’s investment-financing gap and complement public investment in growth-enhancing sectors.

Remittance flows to Africa also rebounded strongly in 2024, rising by more than 14 percent to \$104.6 billion, fully offsetting the 6 percent decline recorded in 2023. The increase in remittance inflows was broad based across countries, led by Africa’s two largest recipients—Egypt and Nigeria, which recorded gains of 51.3 percent and 8.9 percent, respectively. As a share of GDP, remittances accounted for about 3.5 percent in Africa, with higher ratios in several economies. In countries such as The Gambia, Lesotho, and South Sudan, remittances represented more than 20 percent of

GDP, figures likely to understate the true scale of remittances, as they exclude flows through informal channels.

The rebound in 2024 reaffirms remittances as a stable and countercyclical source of external finance for Africa and the continent’s largest non-debt source of foreign inflows, surpassing FDI inflows. This trend highlights the strategic importance of remittances as a reliable and resilient source of external resources for African economies. Beyond their traditional role in supporting household consumption, remittances can be harnessed as a catalytic financing resource for Africa’s structural transformation, including through innovative instruments such as diaspora bonds and remittances-backed securities.² As highlighted in the 2025 AEO, the continent could use diaspora bonds to mobilize some of the untapped \$30 billion in formal remittances as financing resources. These opportunities underscore the potential of the African diaspora to contribute more meaningfully to the continent’s socioeconomic development.

However, Africa continues to feature the world’s highest remittance costs, eroding the developmental benefits of migration.³ In 2023, the average cost of sending remittances to Africa stood at 7.9 percent, almost twice the 4.3 percent observed in South Asia, the lowest-cost region,

Remittance flows to Africa also rebounded strongly in 2024, rising by more than 14 percent to \$104.6 billion, fully offsetting the 6 percent decline recorded in 2023

As global production networks reconfigure around trusted partners and regional proximity, Africa stands to gain from its geostrategic position, abundant resources, and growing integration under the AfCFTA

BOX 2.3 Friend-shoring and geoeconomic fragmentation—Emerging investment patterns in North Africa

With the ongoing geopolitical tensions and growing geoeconomic fragmentation, friend-shoring is increasingly shaping global trade and investment relationships. Amid recent global shifts, this approach has in some cases become the most viable option for countries to circumvent trade barriers and sustain cross-border flows. For instance, the trade restrictions imposed on China's access to US markets triggered both trade diversion and trade creation. Chinese exports surged toward Asian and European partners as manufacturers redirected goods in response to US tariffs. In particular, China rerouted clothing exports to Europe, with EU imports of Chinese clothing and textiles rising by 20 percent in the first half of 2025 compared with the same period in 2024.¹ Several factors underpin the reshaping of trade and investment patterns in this fragmented landscape, notably political alliances and geographic proximity, which facilitate regional value chains and investment flows.

North Africa's strategic location between Europe and the Middle East positioned it as a major beneficiary of investment realignments. Countries in the region are leveraging their locational advantages to attract investment and integrate into new value chains. Their proximity to Europe has enhanced market access, especially as European economies seek to diversify their energy sources, while Middle Eastern and Asian investors expand investment across sectors and regions.

In 2024, foreign direct investment (FDI) inflows to North Africa reached \$52.1 billion, accounting for more than half (53.7 percent) of Africa's total and almost four times the level in 2023. Egypt emerged as the largest recipient, capturing nearly half (48 percent) of Africa's \$97 billion FDI inflows in 2024. Its strategic position has made it a prime destination for large-scale investment.

A major driver was the Ras El-Hekma Development Project, a \$35 billion partnership between Abu Dhabi Developmental Holding and the Government of Egypt that includes hospitals, universities, resorts, residential districts, and other public facilities. European investors are also committed to three major renewable energy projects, each valued at around \$4 billion, involving France's Meridiam and the United Kingdom's Pash Global.

Tunisia and Morocco have also benefited from near-shoring, leveraging their geographic proximity to attract new investment, especially in renewable energy. FDI inflows rose by 21.2 percent to \$936 million in Tunisia and by 55.4 percent to \$1.6 billion in Morocco. TotalEnergies (France) announced a \$6 billion renewable energy project in Tunisia, while Morocco secured investment in real estate (45.4 percent of total net FDI inflows), manufacturing (45.2 percent of total net FDI inflows), and energy, particularly green ammonia and synthetic fuel production, from investors based in China, France, the United Arab Emirates, and the United Kingdom.

The trend toward friend-shoring presents opportunities for Africa. As global production networks reconfigure around trusted partners and regional proximity, Africa stands to gain from its geostrategic position, abundant resources, and growing integration under the AfCFTA. By strengthening trade facilitation, harmonizing investment frameworks, and enhancing infrastructure and energy connectivity, African countries can attract more FDI and benefit from the supply chain realignments. Realizing these benefits will require proactive policies to strengthen competitiveness, deepen regional value chains, and ensure political and regulatory stability.

Source: Information on investment projects was mainly drawn from the *World Investment Report* (UNCTAD 2025).

Note

1. <https://www.ft.com/content/245ff63f-42ec-433c-8c1d-068eb469843f?emailId=d0a03b2b-e834-4121-b687-59edeb4acf4f&segmentId=22011ee7-896a-8c4c-22a0-7603348b7f22>.

and more than 2.5 times the Sustainable Development Goal target of 3 percent. This will require improvement in domestic business conditions and appropriate fiscal and other incentives to attract remittance transfers through official channels.

Portfolio investment also benefited from the easing of global financial conditions in 2024, encouraging investors to maintain or expand their positions in African assets. Portfolio flows to Africa reversed from net outflows of \$1.6 billion in 2023 to net inflows of \$22.9 billion in 2024. This ended the sustained period of net outflows since the onset of the Covid-19 pandemic and subsequent global shocks, when investors reallocated capital toward safer markets outside Africa. This turnaround in 2024 was supported by a more favorable global financing environment, as major central banks in advanced economies began to cut policy rates in the second half of 2024 amid receding inflation. Lower global interest rates made returns on African assets relatively more attractive. The strengthening of many African currencies against the US dollar further bolstered investor confidence and enhanced returns on local-currency-denominated assets. In this context, deepening those assets, including sovereign bonds and corporate issuances, can reduce exposure to exchange-rate risks that have historically amplified external debt vulnerabilities. Expanding local-currency instruments will be essential to accelerate the development of domestic capital markets, broaden the investor base, and lower long-term financing costs for Africa's development priorities.

Portfolio flows either increased (shifting from net outflows to net inflows) or held steady in 43 of the 54 countries. Notably, Côte d'Ivoire moved from net outflows of \$896.1 million in 2023 to inflows of \$3.9 billion in 2024, supported by improved external balances driven by strong exports of cocoa, gold, and crude oil. Egypt had a similar turnaround—from net outflows of \$4.1 billion to inflows of \$14.3 billion—following the exchange rate unification in March 2024, which reduced exchange rate volatility and improved access to foreign exchange for international transactions. Despite anticipated declines, portfolio investment in Africa is expected to remain positive, with inflows of \$10.3 billion in 2025 and \$7.5 billion in 2026. With these projections, the 2024 rebound could mark the beginning

of a return to pre-pandemic portfolio investment patterns. However, future dynamics will depend on investor confidence, driven by macroeconomic stability and improved investment climate in Africa, as well as global market conditions.

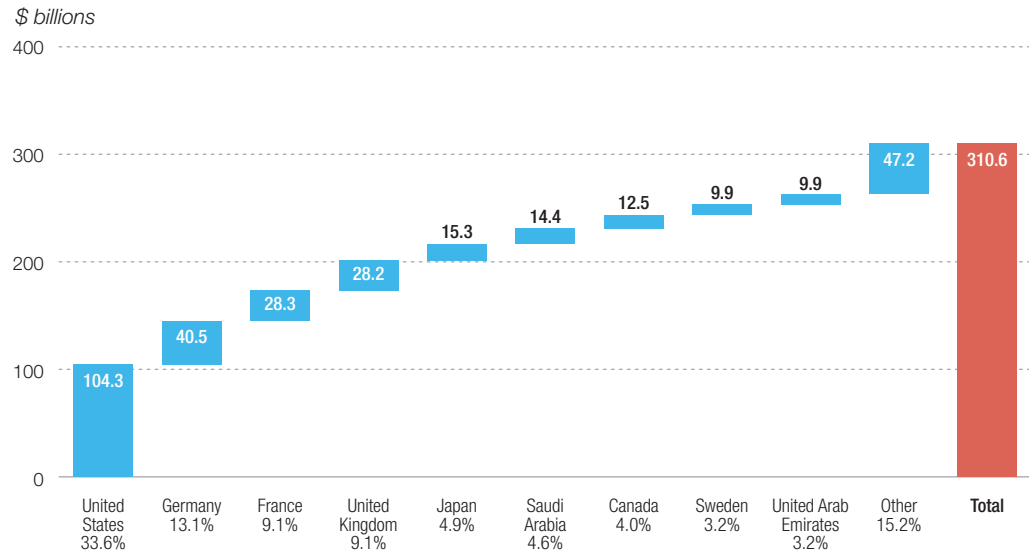
Official development assistance (ODA) flows to Africa increased by 6.9 percent to \$65.9 billion in 2024, reversing the post-pandemic downward trend. Amid aid cuts by several bilateral donors, this rebound was driven primarily by higher disbursements from multilateral institutions. Development assistance to Africa from multilateral institutions rose by 15.3 percent to \$34.6 billion in 2024, more than offsetting the 1.1 percent decline in bilateral official aid. However, the growing pressures on donor budgets and indications that some countries may reduce contributions to international organizations pose considerable risks to the flow of development assistance to Africa at a particularly challenging time marked by elevated fiscal pressures and volatile external conditions. Bilateral ODA to Sub-Saharan Africa could decline by 16 percent over the medium term under a low-cut scenario and by up to 28 percent under a high-cut scenario.⁴ Such cuts could have serious negative implications for development investment in Africa, particularly in health and education, which rely heavily on ODA. In addition, for many African countries, ODA is an important source of international financial flow, and such declines could negatively impact their financial markets.

Implications of increased uncertainty in ODA flows on African economies

Africa's development prospects are increasingly jeopardized by the current contraction in global development aid, an important source of external finance for many low-income economies. Between 2020 and 2023, development aid accounted for more than a quarter of average per capita income in some African countries. Africa relies on a few bilateral donors now implementing aid reductions. Four countries accounted for about 65 percent of official development assistance (ODA) to Africa between 2015 and 2023: the United States (33.6 percent), Germany (13.1 percent), France (9.1 percent), and the United Kingdom (9.1 percent) (figure 2.13). In 2024, all four donors reduced

Africa's development prospects are increasingly jeopardized by the current contraction in global development aid

FIGURE 2.13 ODA disbursements to Africa by official bilateral donors, 2015–23



Source: African Development Bank staff calculations using data from the Organisation for Economic Co-operation and Development.

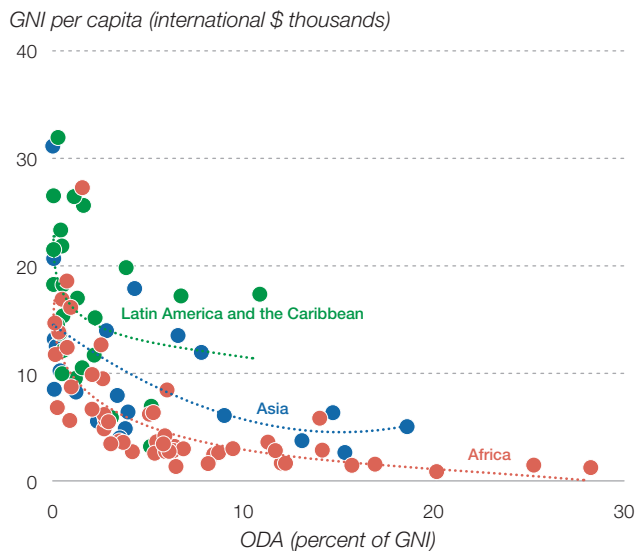
their ODA for the first time in nearly 30 years, with further cuts in 2025. This risks a squeeze in development financing. Compounded by weak domestic revenue mobilization (despite some progress), debt-service burdens, and limited access to

affordable private capital, many African countries have few shock-absorbing alternatives.

Against this backdrop, Africa is likely to be disproportionately affected by aid reductions. Countries with lower-income, many of them in Africa, tend to be the most aid-dependent (figure 2.14). Compared with Latin America and the Caribbean and Asia, Africa has a higher concentration of countries with elevated ODA-to-GNI ratios. Consequently, the ongoing cuts threaten to widen Africa's development financing gaps and could erode socioeconomic gains, particularly in social sectors that are heavily reliant on external funding.

Aid cuts would constrain fiscal space in several African countries, limiting resources to support economic growth. The contraction in official development finance is likely to harm African economies through mutually reinforcing channels. Reduced concessional flows immediately compress fiscal space, particularly where a significant share of government budgets depends on external resources. In 14 African countries, grants accounted for more than 15 percent of government revenue in 2023 (figure 2.15). In Burundi, the Central African Republic, Comoros, The Gambia, and Somalia, this share is close to or exceeds 40 percent. For them, the abrupt aid cuts imply reduced fiscal space. Where the scope to compensate through domestic resources or

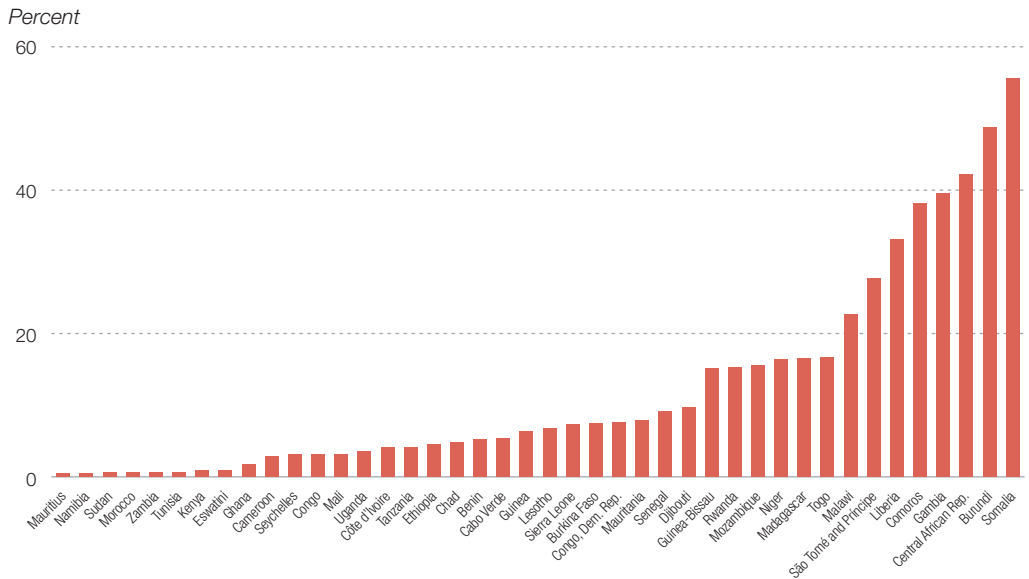
FIGURE 2.14 Empirical relationship between ODA and GNI, 2020–23 average



Note: Small island outliers with tiny populations are excluded.

Source: African Development Bank staff calculations using data from World Development Indicators.

FIGURE 2.15 Grant share in total government revenue, 2023



Source: African Development Bank statistics.

private finance is limited, the negative aid shock can force governments to delay or scale back infrastructure investment (transport, energy, and digital) that drives productivity growth and private sector competitiveness. This comes on top of the large investment shortfall. Africa's estimated annual infrastructure financing needs range from \$184 billion to \$221 billion.⁵

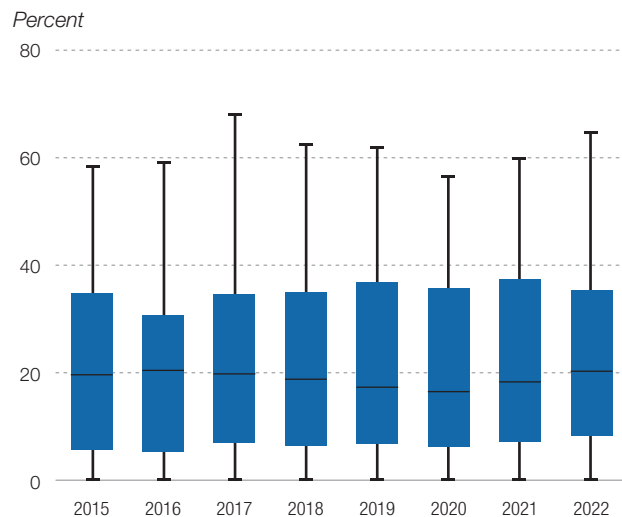
The repercussions may extend even further. As financial conditions deteriorate, incentives for foreign investors weaken. In developing countries, a 1 percent decline in aid relative to GNI reduces FDI relative to GDP by 0.9 percent, as governments respond to the resulting liquidity shock by tightening financial regulations.⁶ And as long-term, affordable funding declines, banks lose access to blended-finance instruments and guarantees that enable lower-cost lending. In response, they revert to shorter-term, higher-cost credit, which constrains firm expansion, slows capital deepening, limits job creation, and entrenches existing structural bottlenecks.⁷ In addition, the withdrawal of stable external resources can erode African countries' ability to maintain countercyclical buffers. During external shocks, in particular, concessional finance helps stabilize budgets and preserve core social expenditures.

The social impacts of aid cuts could be substantial. The reduction in aid flows threatens

critical social sectors, such as health, education, and social protection, on which many programs in African countries rely heavily. Domestic resource shortfalls worsen these vulnerabilities. Between 2015 and 2022, external sources accounted for more than 20 percent of current health expenditures (figure 2.16). In some countries, this share exceeds 50 percent. This high dependency leaves

The reduction in aid flows threatens critical social sectors, such as health, education, and social protection

FIGURE 2.16 External health expenditure, percent of current health expenditure in Africa, 2015–22



Source: African Development Bank staff calculations using data from World Development Indicators.

As governments face growing difficulty sustaining economic growth amid dwindling resources, poverty is likely to expand

national health systems extremely exposed: any negative shift in aid flows can have immediate and severe consequences.

In the health sector, one of the largest donors has been the US Agency for International Development (USAID). The March 2025 announcement that 82 percent of USAID programs would be terminated exposed Africa’s health development financing landscape to acute shortfalls. Given both the sector’s structural reliance on external funding and the sizable US ODA contributions to Africa, the implications are far-reaching. Estimated USAID cuts for 2024–25 range from 8 percent to 100 percent of individual country programs (figure 2.17). In absolute terms, the estimated cuts for the 44 African countries with data amount to \$4 billion, roughly equivalent to the combined annual health budgets of several low-income African countries. The funding reduction has led to the termination, suspension, or severe underfunding of several key health programs, threatening progress in health and broader population outcomes.⁸

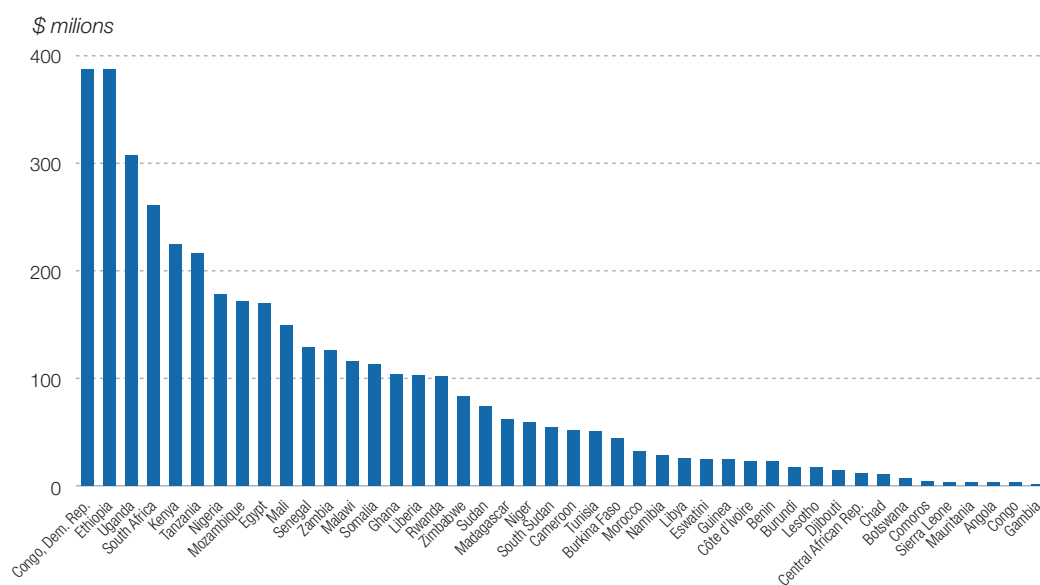
In education, aid cuts threaten human-capital formation and endanger long-term growth prospects. In developing economies, a 1 percentage point decline in aid reduces economic growth by 0.004–0.08 percentage points, while lower education spending can reduce GDP by up to

0.1 percent.⁹ The reductions will hit underfunded systems struggling to keep pace with rapidly growing school-age populations. Between 2021 and 2023, only 6 of 35 African countries with data met the Global Partnership for Education target of allocating at least 20 percent of annual total public spending to education.¹⁰ As aid-dependent sectors experience shortfalls, governments may be forced to reallocate domestic resources from relatively protected sectors to those under acute pressure to maintain minimum service levels.

As a result, the impact of aid cuts can become economy-wide, exacerbating poverty. Households could face higher out-of-pocket costs for essential social services, while poorer households, unable to afford additional payments, may be excluded from them. As governments face growing difficulty sustaining economic growth amid dwindling resources, poverty is likely to expand. Evidence from the Sub-Saharan region indicates that a 1 percent increase in GDP per capita reduces poverty by about 1 percent, underscoring how aid cuts can widen poverty by constraining economic growth.¹¹

The expected socioeconomic impacts of aid cuts call for a refocus on domestic resources

FIGURE 2.17 Estimates of USAID aid cuts by recipient



Source: Center for Global Development.

and alternative financing sources. The full socioeconomic consequences of the aid reductions will become clearer over time, as uncertainty around their scale and duration recedes and more data becomes available. However, initial projections suggest that the impacts could be severe for many African countries in the absence of adequate coping mechanisms. At the same time, while concessional and other official financing flows have fallen short of the continent's needs, global capital markets remain liquid. In this context, the importance of mobilizing domestic development finance cannot be overstated. Africa needs to strengthen its financial architecture to mobilize resources at scale and at an affordable cost to ensure long-term, stable development financing. The current challenges present an opportunity to advance long-delayed reforms—modernizing domestic revenue systems, deepening capital markets, diversifying financing instruments, and improving governance of public investment. This will help to

accelerate the shift from dependence on external aid toward self-financing by leveraging the abundant and diverse pools of capital, as highlighted in the 2025 AEO.¹²

Furthermore, this calls for renewed emphasis on endogenous financing solutions and on rethinking Africa's development cooperation model from one centered on aid dependency to one anchored in investment, expertise, and strategic partnerships to promote sustainable growth. Promising examples of this shift are already emerging. The UK–Ghana partnership—under which UK experts have supported Ghana's tax reform efforts, presumably helping generate £100 million in extra revenue in 2024—shows how technical cooperation and capacity building can complement declining aid.¹³ Such models could be scaled up across Africa to enable countries to replace falling ODA with enhanced domestic resource mobilization, improved fiscal systems, and access to private and blended finance.

Countries could replace falling ODA with enhanced domestic resource mobilization, improved fiscal systems, and access to private and blended finance

NOTES

1. Board of Governors of the Federal Reserve System (US), Nominal Broad USUS Dollar Index [DTWEX-BGS], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/DTWEX-BGS>, January 4, 2026.
2. See discussion in AfDB (2025b).
3. Abdel Jelil et al. 2025.
4. OECD 2025.
5. AfDB 2025a.
6. Tian 2025.
7. OECD 2022.
8. Selected reports include <https://www.economist.com/middle-east-and-africa/2025/10/30/aid-cuts-are-devastating-health-services-in-africa>, [https://iris.who.int/server/api/core/bitstreams/5165ec74-d75e-4438-8f5d-e7507d75c876/content](https://magazine.publichealth.jhu.edu/2025/sudden-impact-when-health-programs-end), and <https://www.theguardian.com/global-development/2025/dec/01/global-health-hiv-aids-funding-cuts-infections-prevention>.
9. Maruta et al. 2020.
10. AfDB 2025a.
11. Wu et al. 2024.
12. AfDB 2025a.
13. <https://www.gov.uk/government/news/uk-ministers-visit-to-ghana-showcases-new-modernised-development-approach>; <https://www.msn.com/en-us/news/world/uk-to-give-poor-countries-advice-instead-of-aid/ar-AA1N1n1m>.

AFRICA'S DEBT DYNAMICS AND IMPLICATIONS FOR ITS DEVELOPMENT FINANCING

ELEVATED DEBT PRESSURES AND THE COMPLEX LANDSCAPE OF DEVELOPMENT FINANCING PRESENT BOTH CHALLENGES AND OPPORTUNITIES FOR AFRICA

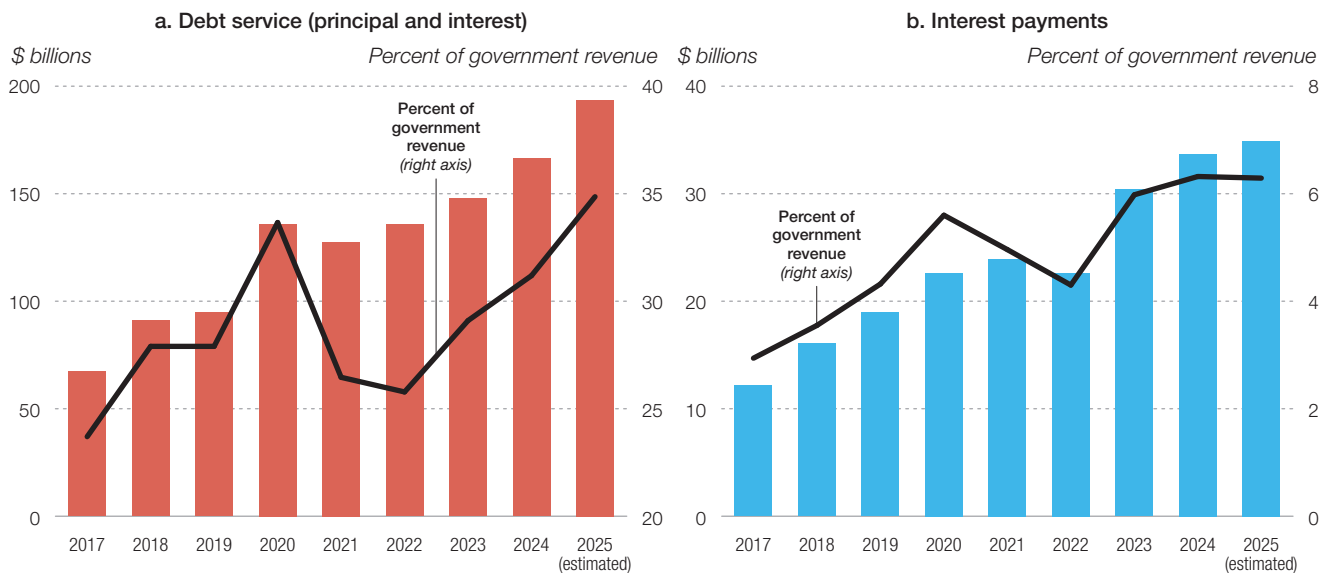
Africa's public debt continues to rise in nominal terms, and debt vulnerabilities remain elevated

Between 2015 and 2020, Africa's public debt stock grew at an average annual rate of 10 percent to reach \$1.6 trillion in 2020. The growth in debt is driven by infrastructure financing needs, a widening of fiscal deficit, and fiscal stimulus packages during the pandemic. The post-pandemic fiscal consolidation measures and debt restructuring slowed the growth of debt. The public debt stock increased to about \$1.9 trillion in 2024, equivalent to an average annual increase of 4.4 percent. Broadly in line with nominal GDP growth over the period, this implies only a marginal increase in aggregate debt-to-GDP ratios. Those ratios are expected to decline, from an average of 63.9 percent in 2023–24 to 62.0 percent in 2025 and 61.4 percent in 2026.¹ But debt vulnerabilities remain, primarily due to changes in the composition of debt and associated servicing costs. The structure and composition of public external debt have shifted from concessional lending toward commercial borrowing, including Eurobonds and syndicated loans, as well as financing from non-Paris Club creditors, driving up debt service costs. As a result, the share of commercial loans in total external borrowing increased from 35 percent in 2010 to 46 percent at the end of 2023, and 70 percent of this is denominated in US dollars.

Despite the expected decline of debt-to-GDP ratios, debt vulnerabilities are still cause for concern as governments increasingly turn to external commercial and domestic borrowing to cover revenue shortfalls. As of September 2025, 7 African countries were in debt distress, and 13 were at high risk of debt distress. And debt servicing costs have escalated, further straining fiscal space. The consequences for development financing are large. The average share of government revenue devoted to external debt service (principal and interest) rose by 10 percentage points from 23.7 percent in 2017 to 33.7 percent in 2020 due to the pandemic-related fiscal stimulus packages, lower revenue base, and unfavorable interest rate-growth differential due to economic slowdowns. Debt service as a share of revenue declined to 25.8 percent in 2022 due to fiscal consolidation measures, debt relief, and a stronger rebound in growth. Since 2022, debt service as a share of government revenue has been rising, reaching more than 31 percent in 2024. This is due to tightening global financial conditions, exchange rate depreciation, and limited domestic resource mobilization (figure 3.1a).

In nominal terms, debt service increased steadily. Between 2022 and 2024, African countries paid roughly \$450 billion more in principal and interest than they received in new debt inflows. This is in line with the World Bank's recent estimates, which show that between 2022 and 2024, debt-related outflows to developing countries exceeded inflows of new financing for more than 50 years.² African countries allocated an average of 6.3 percent of government revenue to interest payments on external debt in 2024 (figure 3.1b). In nominal terms, about \$87 billion flowed

FIGURE 3.1 Public external debt service and interest payments, 2017–25



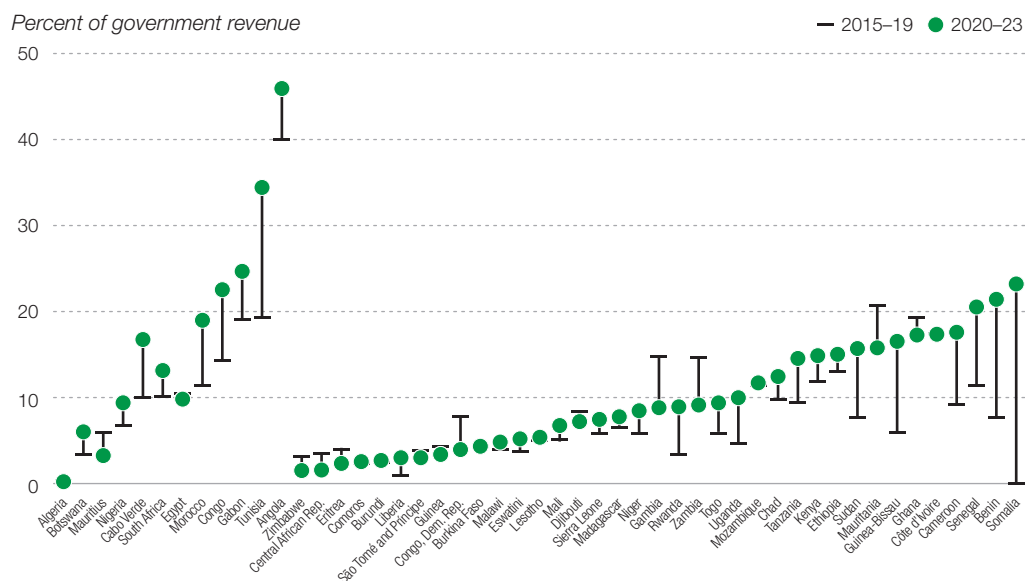
Source: African Development Bank staff calculations using data from World Bank International Debt Statistics.

out of the continent in interest payments between 2022 and 2024, representing 19 percent of total debt service payments.

There are significant differences in debt service burden across countries (figure 3.2). For instance, between 2020 and 2023, the average debt service cost as a share of government revenue in 7 of the

49 countries with data exceeded 20 percent. In 25 countries, this ratio was below 10 percent. Comparing the post-pandemic debt service burden with the pre-pandemic level also displays cross-country differences. Of the 49 countries, 13 saw their debt service ratio to government revenue decline below pre-pandemic levels, and 2 have stabilized at that

FIGURE 3.2 Debt service on external debt, 2015–23



Source: African Development Bank staff calculations using data from World Bank International Debt statistics.

Domestic commercial banks increased their exposure to the public sector, while exposure to the private sector declined relative to the public sector

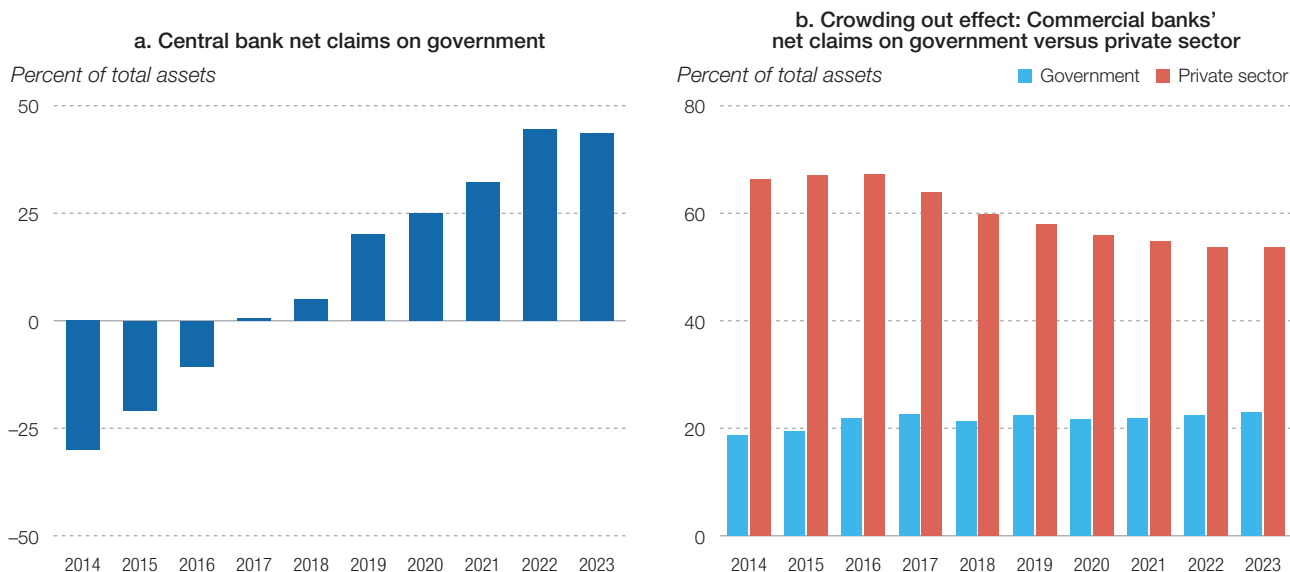
(figure 3.4a). The average central bank claims on government for the 18 African countries with data were negative between 2014 and 2016, indicating central bank financial losses and government recapitalization. This trend reversed in 2017, with central bank net claims on government as a percentage of total assets increasing from 0.5 percent to 43.5 percent in 2023.

Similarly, domestic commercial banks increased their exposure to the public sector, while exposure to the private sector declined relative to the public sector, an indication of a crowding-out effect. While commercial banks' net claims on the government remained relatively stable since 2014, their net claims on the private sector declined from 66.3 percent of total assets to 53.6 percent in 2023 (figure 3.4b). The causality of risk along the sovereign–banking nexus runs in both directions: sovereign defaults imply asset losses on the financial sector's balance sheet and risks to citizens' deposits, while banking crises can lead to sovereign defaults as demand for domestic debt recedes. Furthermore, quasi-fiscal operations and monetary financing of the government deficit can distort domestic asset pricing and undermine

price stability. Ultimately, this concentration of sovereign debt holdings constrains private credit, crowds out productive investment, and weakens opportunities for growth and job creation.

In some cases, the domestic debt overhang contributed to sovereign debt challenges, with implications for private credit. Since 2019, five African countries, including Chad, Ethiopia, Ghana, Malawi, and Zambia, had to restructure their government debt. Amid heightened domestic debt vulnerabilities, Ghana (2022–23) opted to undertake both domestic and external debt restructuring, while Chad, Ethiopia, Malawi, and Zambia carried out only external debt restructuring. Although domestic debt can be restructured more readily, such operations can affect the financial system and private credit conditions. For example, the restructuring of Ghana's \$17.5 billion domestic debt (about half of its total debt) led to an increase in the banks' nonperforming loan (NPL) ratio from 14.1 percent in December 2022 to 18.7 percent in June 2023. Growth in credit to the private sector slowed significantly—to about 10 percent year-over-year in August 2023, from more than 50 percent in November 2022—hitting a large number of

FIGURE 3.4 Sovereign–banking balance sheet linkages, 2014–23



Note: Countries with data include Angola, Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea, Eswatini, Gabon, Lesotho, Mauritania, Mauritius, Morocco, Nigeria, São Tomé and Príncipe, Seychelles, Sierra Leone, Somalia, and Tunisia.

Source: African Development Bank staff calculations using data from International Monetary Fund International Finance Statistics database.

sectors.³ It was also accompanied by a slowdown in economic growth from 3.8 percent in 2022 to 2.9 percent in 2023.⁴ The episode illustrates how rising domestic debt burdens and fiscal distress can spill over into the banking sector, crowd out private credit, and undermine growth.

Accounting for domestic public debt service costs provides better insight into its contribution to overall debt vulnerabilities. Because domestic debt has mainly short-term, high-cost instruments (treasury bills and short-term bonds) and a limited investor base dominated by commercial banks, its costs are generally higher than those of external borrowing. Since 2014, domestic debt service obligations have consistently exceeded those of external debt service, with the median domestic debt service in Africa peaking at 4.7 percent of GDP in 2024—more than twice the external debt service.⁵ Short tenors and higher interest rates on domestic debt also expose countries to rollover and refinancing risks.

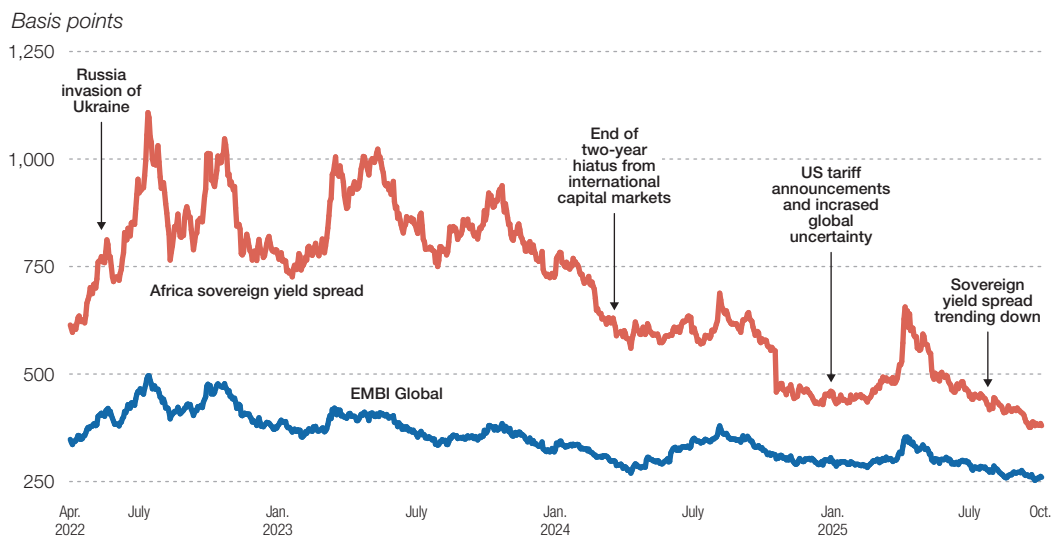
Several factors affect Africa’s debt sustainability. First, the cost of servicing debt increased due to rising global interest rates, heightened sovereign risk perceptions, and currency depreciation, which together amplify repayment burdens. While

the recent monetary policy easing in advanced economies helped narrow the sovereign yield spreads for frontier African economies, borrowing costs remain above pre-pandemic levels (figure 3.5). Some countries re-entered the international capital markets, with Benin raising \$500 million in January 2025, Côte d’Ivoire \$1.75 billion in March 2025, Angola \$1.75 billion in October 2025, Kenya \$1.5 billion in October 2025, and Nigeria \$2.35 billion in November 2025. But the bulk of this new debt refinanced maturing Eurobonds, without a new capital injection for investment. For instance, the successful issuance of Côte d’Ivoire was meant to buy back Eurobonds maturing in 2028 and 2032. Likewise, Kenya’s issuance was meant to amortize debt maturing in 2028. Despite broadly contained sovereign spreads, still-elevated base rates amid policy uncertainty have been contributing to high funding costs, which are weighing on public debt rollover obligations.

Second, limited transparency and fragmented creditor coordination, particularly among bilateral, private, and emerging lenders, complicate and slow debt restructuring efforts. Third, domestic resource mobilization in many African countries is low, with tax-to-GDP ratios averaging only

The cost of servicing debt increased due to rising global interest rates, heightened sovereign risk perceptions, and currency depreciation

FIGURE 3.5 Africa sovereign yield spread and global emerging market bond index, 2022–25



Note: Countries in the sovereign yield spread include Algeria, Angola, Cameroon, Côte d’Ivoire, Egypt, Ethiopia, Gabon, Ghana, Kenya, Morocco, Mozambique, Namibia, Nigeria, Senegal, South Africa, Tunisia, and Zambia.

Source: African Development Bank staff calculations using data from Bloomberg.

14 percent, leaving limited scope to finance development from domestic resources or to absorb shocks and contributing to debt accumulation. Fourth, macroeconomic and climate-related shocks exacerbate fiscal stress, especially in resource-rich and fragile states. Fifth,

weaknesses in public financial management—including challenges in budget execution and oversight, growing contingent liabilities from state-owned enterprises, and off-budget borrowing—further undermine fiscal sustainability and increase debt-related risks.

NOTES

1. AfDB 2025b.
2. World Bank 2025b.
3. IMF 2023b.
4. AEO 2024.
5. World Bank 2025b.

POLICY RECOMMENDATIONS

Monetary and exchange rate policies should be carefully calibrated to avoid overly tight stances that could suppress growth and excessive easing that could further worsen already high inflationary pressure. Central banks need to exercise prudent judgment in setting monetary and interest rate targets and coordinating policy actions. Carefully calibrating monetary policy to balance inflation-control and growth-support objectives is warranted. They should undertake monetary policy reforms to move to a fully-fledged interest-rate-based monetary policy to anchor inflation expectations while safeguarding access to credit for productive sectors. Prudent adjustments to interest rate and liquidity targets, supported by enhanced coordination between monetary and fiscal authorities, will help mitigate policy spillovers and preserve overall macroeconomic stability.

African countries need to build adequate foreign exchange reserve buffers to strengthen exchange rate stability. They should take advantage of recent improvements in current account balances to rebuild foreign exchange reserves, aiming to reduce vulnerability to external shocks and stabilize exchange rates. In the near term, policymakers should enhance macroeconomic coordination to manage volatile capital flows, curb excessive import dependence, especially for consumption goods that can be substituted by domestic production, and strengthen export competitiveness. Improving the investment climate—through predictable regulations, efficient foreign exchange markets, and market mechanisms for allocating scarce resources and pricing assets and inputs—will help sustain investor confidence. Governments should also work to reduce

remittance transfer costs, promote formal channels to unlock additional external resources that can support exchange rate stability and liquidity management, and mobilize resources for investment in growth-creating sectors.

On the fiscal side, African countries need to rationalize recurrent spending and improve the efficiency of public spending, including by state-owned enterprises. Governments need to strengthen fiscal governance by addressing leaks in public resource management and improving transparency and accountability in budget execution. To contain spending pressures and mounting debt levels, countries could adopt fiscal rules as guardrails to foster fiscal discipline and establish strong fiscal institutions, such as fiscal councils, to improve compliance. Public investment programs need to be progressively restructured and aligned with national development plans to channel resources into productive, labor-intensive sectors, such as infrastructure and agriculture. Better targeting of social transfers is needed to protect the most vulnerable. Such reforms will enhance the quality of public spending, create jobs, and promote inclusive and sustainable growth.

On the supply side, addressing structural bottlenecks and strengthening supply chains are essential to improve value addition for sustained growth. Rising global fragmentation underscores the urgency of deepening intra-African trade under the AfCFTA, diversifying production and export bases, and building resilience against external shocks. This will provide an opportunity to strengthen the AfCFTA's negotiating power and align its international engagements with regional

Strengthening domestic fiscal governance and debt management architecture is a critical first step

development goals. Tackling nontariff barriers, streamlining customs procedures, and reducing regulatory disparities should also be essential parts of a comprehensive trade strategy. While uncertain trade policy highlights the risk of overrelying on extracontinental markets and global value chains, it presents an opportunity to accelerate regional integration and strengthen institutional capacity.

On the debt side, a comprehensive policy response is needed to reduce debt vulnerabilities while safeguarding development financing.

Strengthening domestic fiscal governance and debt management architecture is a critical first step, requiring more transparent and regular reporting of public debt, integrating contingent liabilities into fiscal frameworks, and strengthening parliamentary oversight. Domestic resource mobilization can be enhanced by modernizing and digitalizing tax systems, improving tax administration, and curbing leaks and inefficiencies. At the regional level, greater coordination to promote harmonized debt sustainability practices and to build early warning systems will enable governments to manage risk and learn proactively from shared experiences. At the international level, the African Development Bank and African countries must continue to advocate for a fairer and more effective global debt and financing architecture. Reform of the G20 Common Framework to ensure timely, predictable, and inclusive restructuring, especially by engaging private and non-Paris Club creditors, is vital to restoring debt sustainability and aligning relief with the continent's long-term development goals. Decisions to restructure domestic debt need to be communicated effectively at an early stage to gain public support and reduce market uncertainty and economic disruption. Depending on the severity of spillovers from domestic debt restructuring into the financial system, the policy response may need to include liquidity support, regulatory measures, recapitalization, and a financial stability fund. The African Financial Stability Mechanism could be critical in this regard.

African countries should leverage external financial flows—FDI, remittances, and portfolio investment—to build a diversified and resilient financing base that supports structural

transformation. This requires deepening reforms to enhance the business environment, attract sustainable FDI into productive and export-oriented sectors, and create incentives for diaspora investment through dedicated instruments and platforms. To offset the decline in aid flows, governments should strengthen domestic resource mobilization, improve public financial management, and promote regional cooperation on cross-border infrastructure and trade. African countries should also cultivate strategic partnerships anchored in investment, technology transfer, and blended finance to shift from aid dependence to self-sustaining, competitive, and inclusive growth.

The positive trends in FDI, remittances, and portfolio inflows in 2024 can be sustained through stable macroeconomic frameworks, predictable regulatory regimes, and credible investment protection policies.

This could serve as a springboard to accelerate Africa's transition toward financial agency and unlock capital at scale to support development. Rather than viewing these inflows as transient sources of external capital, African countries should strategically channel them through domestic financial institutions to strengthen their capitalization and multiply their developmental impact. The African Development Bank and regional development finance institutions can play a convening role to structure innovative instruments that pool and recycle these external resources into regional capital markets.

Remittances, the largest and most stable source of external financial flows to Africa, could be critical in this process.

To leverage these flows, innovative instruments such as diaspora bonds, securitized remittance-backed assets, and digital savings platforms need to be supported by robust governance frameworks and regional financial cooperation mechanisms to build confidence. The African Development Bank is spearheading initiatives to establish Pan-African Diaspora Investment Platforms that connect diaspora savings with investment-ready projects. By linking diaspora capital, domestic savings, and regional financial institutions into a unified ecosystem, Africa can leverage this potential to finance development.

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ANNEX 1

TRANSMISSION OF MONETARY POLICY TO THE REAL ECONOMY IN AFRICA

TABLE A1.1 Variables used in the empirical analysis of box 2.2

Variables	N	Mean	Standard deviation	Minimum	Maximum	Data source
Monetary policy interest rates	545	7.31	6.95	0.25	70.00	MFS, IMF
Growth in credit to the private sector	599	13.95	26.62	-90.74	284.01	WDI, WB
Growth in private investment	503	11.92	33.13	-83.32	436.45	WB
Real GDP growth	650	4.22	5.32	-36.39	63.38	WDI, WB
Inflation rate	451	6.43	8.51	-3.23	98.22	WDI, WB
Terms of trade	624	104.17	25.29	20.10	223.12	WDI, WB
Exchange rate (in dollars)	646	371.02	311.47	0.54	2,340.04	WDI, WB
Real GDP per capita, log	650	7.29	0.89	5.74	9.48	WDI, WB
Quality of governance	597	0.05	0.94	-1.82	2.56	WDI, WB

Note: The quality of governance is a variable constructed using principal component analysis applied to the World Bank's six governance indicators, namely control of corruption, government effectiveness, rule of law, regulatory quality, voice and accountability, and political stability.

Source: African Development Bank staff calculations using local projections.

ANNEX 2

STATISTICAL APPENDIX

TABLE A2.1 Real GDP growth (percent)

	2024	2025 (estimated)	2026 (projected)	2027 (projected)
Central Africa	4.3	3.9	4.2	4.3
Cameroon	3.5	4.0	4.3	4.2
Central African Rep.	1.8	2.2	2.8	3.2
Chad	3.5	3.2	3.5	3.2
Congo	2.6	3.1	3.2	3.3
Congo, Dem. Rep.	6.5	5.5	5.6	5.7
Equatorial Guinea	0.8	-1.6	0.4	0.8
Gabon	3.4	2.3	3.1	2.9
East Africa	4.3	6.4	6.4	6.3
Burundi	3.5	3.7	4.1	4.4
Comoros	3.4	3.8	4.4	4.6
Djibouti	6.8	6.3	6.1	6.2
Eritrea	2.9	3.2	3.5	3.6
Ethiopia	7.6	9.8	7.5	7.7
Kenya	4.7	4.9	5.4	5.0
Rwanda	8.9	7.5	7.4	7.2
Seychelles	2.9	3.4	3.6	3.5
Somalia	4.1	3.0	3.3	3.6
South Sudan	-27.6	4.0	30.0	8.3
Sudan	-13.5	1.5	2.9	3.1
Tanzania	5.5	5.7	6.0	6.2
Uganda	6.3	6.4	7.5	8.0
North Africa	2.7	4.1	4.2	4.4
Algeria	3.6	3.3	3.9	4.0
Egypt	2.4	4.1	4.4	4.6
Libya	-0.4	12.4	5.2	4.2
Mauritania	6.3	4.0	5.2	5.0
Morocco	3.8	4.4	4.0	4.3
Tunisia	1.5	2.5	2.8	3.0

(continued)

	2024	2025 (estimated)	2026 (projected)	2027 (projected)
Southern Africa	1.8	2.0	2.4	2.6
Angola	4.4	2.1	2.3	2.5
Botswana	-3.0	-0.8	2.4	3.8
Eswatini	2.8	4.3	3.5	3.7
Lesotho	2.9	1.0	0.8	1.3
Madagascar	4.4	3.5	4.0	4.5
Malawi	1.7	2.2	2.7	3.0
Mauritius	4.9	3.1	3.5	3.6
Mozambique	2.1	2.0	3.5	4.3
Namibia	3.7	3.3	3.6	3.6
São Tomé & Príncipe	1.1	2.1	3.0	3.8
South Africa	0.6	1.0	1.5	1.6
Zambia	3.8	5.2	5.8	6.4
Zimbabwe	1.7	6.0	4.5	3.5
West Africa	4.7	4.7	4.6	4.8
Benin	7.5	7.1	6.8	7.0
Burkina Faso	5.0	5.5	5.9	6.2
Cabo Verde	7.3	5.1	4.9	4.8
Côte d'Ivoire	6.0	6.4	6.5	6.5
Gambia	5.3	5.8	5.0	5.1
Ghana	5.6	5.5	5.5	5.6
Guinea	6.1	7.2	8.7	9.5
Guinea-Bissau	4.1	5.5	5.6	5.5
Liberia	4.8	5.3	5.3	5.5
Mali	5.0	5.5	6.1	5.7
Niger	10.3	7.8	8.2	6.3
Nigeria	4.1	3.9	3.7	4.0
Senegal	6.9	8.1	5.6	6.0
Sierra Leone	4.0	4.6	4.7	4.8
Togo	6.5	6.2	6.5	6.4
Africa	3.5	4.2	4.3	4.5

Source: African Development Bank statistics.

TABLE A2.2 Country groupings

Oil exporters	Other resource intensive	Non-resource intensive	Tourism 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	Eswatini		Gambia	Congo
Libya	Namibia	Ethiopia		Guinea	Côte d'Ivoire
Nigeria	Niger	Gambia		Guinea-Bissau	Djibouti
South Sudan	Sierra Leone	Guinea-Bissau		Liberia	Egypt
	South Africa	Kenya		Madagascar	Equatorial Guinea
	Sudan	Lesotho		Malawi	Eswatini
	Tanzania	Madagascar		Mali	Gabon
	Zambia	Malawi		Mozambique	Ghana
	Zimbabwe	Mauritania		Niger	Kenya
		Mauritius		Rwanda	Lesotho
		Morocco		Sierra Leone	Libya
		Mozambique		Somalia	Mauritania
		Rwanda		South Sudan	Mauritius
		São Tomé and Príncipe		Sudan	Morocco
		Senegal		Togo	Namibia
		Seychelles		Uganda	Nigeria
		Somalia		Zambia	São Tomé and Príncipe
		Togo			Senegal
		Tunisia			Seychelles
		Uganda			South Africa
					Tanzania
					Tunisia
					Zimbabwe

Despite increasing global geopolitical fragmentation, dynamic economic conditions, and policy uncertainty, Africa's growth performance in 2025 and its medium-term outlook have strengthened, underscoring its resilience. Average real GDP growth for Africa was estimated at 4.2 percent in 2025, a 0.7 percentage point increase over 2024. The improved performance is broad-based, with 32 of the 54 economies recording higher growth in 2025 than in 2024, including 14 that posted increases exceeding 1.0 percentage point.

Africa's economic growth is projected to stabilize at 4.3 percent in 2026 and increase to 4.5 percent in 2027. With this growth momentum, Africa is projected to remain among the world's fastest-growing regions in 2026. The projected medium-term growth performance will be underpinned by relatively buoyant private consumption, accommodative monetary policy, a softer US dollar that is aiding disinflation, and stronger export demand from key trading partners. Furthermore, Africa's expanding middle class will continue to fuel investment opportunities in retail and digital services, agribusiness, manufacturing, and logistics.

Although Africa's growth prospects appear more favorable, the medium-term outlook faces strong headwinds from a range of countervailing factors, both external and domestic. The increasing geopolitical fragmentation, trade policy uncertainty, and strategic realignments limit Africa's trade penetration and investment inflows. Internal shocks, ranging from social unrest to prolonged conflicts in some countries, also pose challenges to consolidating Africa's macro-economic gains and deepening fiscal consolidation.

Despite some fiscal consolidation, debt levels remain above pre-pandemic levels, with high debt service costs constraining fiscal space and limiting public investment in key infrastructure and essential social services. Owing to the persistence of conflicts in some of the continent's sub-regions, fragile and conflict-affected situations now make up nearly two-thirds of low-income countries in Africa. Continued political instability adversely affects production and growth performance, diverts scarce resources from development priorities, and disrupts trade. The fluidity of the geopolitical environment and shocks means that Africa's outlook will continue to evolve, underscoring the need to expand intra-Africa trade and financial agency by leveraging the continent's free trade agreement, abundant natural capital, and demographic assets.

Against this backdrop, this January 2026 edition of *Africa's Macroeconomic Performance and Outlook* proposes a mix of macroeconomic stabilization policies to address short-term imbalances while leveraging Africa's capital and domestic financing potential to accelerate growth and structural transformation and deepen long-term fiscal sustainability:

- Foster productivity-driven growth through large-scale investments in integrated and productive infrastructure.
- Improve the efficiency of public spending by rationalizing recurrent expenditures, reforming state-owned enterprises, and addressing leakages through stronger fiscal governance, transparency, and accountability in budget execution.
- Develop a regional, comprehensive, and well-coordinated strategy to address escalating debt risks while preserving space for development financing.
- Deepen reforms to enhance the business environment, attract sustainable foreign direct investments into productive and export-oriented sectors, and create incentives for diaspora investment through dedicated instruments and platforms.

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