Réunion de Reconstitution

14th ADF Replenishment Meeting

Economic Outlook of ADF Countries
ADF countries showed resilience despite weakening global economy

*Medium-term economic growth prospects*

- ADF countries have shown resilience amid global headwinds and regional shocks, with a GDP growth outturn of 4.1% in 2015
- Growth outlook remains positive at 5.3% in 2016 and 5.6% in 2017
- However, growth is still lower than what is required to meet the SDGs – at least 7% GDP growth is needed for the next 10 years to eliminate poverty.

Source: AfDB and World Bank, Projections as of 2016
ADF countries are among the fastest-growing in the world

- Five ADF countries were among the top ten fastest-growing economies in the world in 2015
- Seven ADF countries grew by 6% and above in 2015 (Djibouti and Mozambique included)
Strong growth prospect underpinned by strong domestic demand

Sources of growth in ADF countries (%)

• Strong private consumption and investment will continue driving growth in the short- to medium-term
• Growth is also supported by improved business environment – ease of doing business has improved
• The Bank has played a catalytic role in leveraging public investments in ADF countries
Better macroeconomic management has improved the business environment

**Global competitiveness index (out of 7)**

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- ADF countries have recorded marked improvement in doing business environment with improvement in both competitiveness index and country ranking (African Competitiveness Report)
- Rwanda and Kenya for instance, are more competitive than the average of Latin America and North Africa respectively
- Zambia, Lesotho, Ghana, Senegal, Côte d’Ivoire, Cameroon and Ethiopia do better than the SSA average of 3.6
- All the above countries except Zambia and Cameroon recorded an improved competitive index score between 2014 and 2015
Recent headwinds slowed the growth momentum in 2015

- Oil and other commodity prices have fallen rapidly since 2011
- Current and fiscal deficits are widening
- Pressure on exchange rates has increased
- Exposure to these shocks calls for increased Bank support in strengthening macro stability to consolidate the recent gains

- The Bank has recently provided counter-cyclical support to Ghana, and is currently in discussion with Nigeria

Source: AfDB computations based on Global Economic Monitor
During the 2008 global financial crisis, the Bank provided support using different flexible and adaptable instruments including:

- Multi-purpose (US$ 1.5 bn) Emergency Liquidity Facility
- Trade Finance Facility (TFF), and
- Accelerated Transfers to ADF Countries

Program-Based Lending increased from UA 135 million in 2007 to UA 698 million and UA 2.08 billion in 2008 and 2009 respectively.

Enhanced dialogue with RMCs - Bank organized a meeting of ministers of finance and central bank governors on 12 November 2008 and helped establish the Committee of Ten to monitor the crisis.
Development financing has improved but more is needed

- Domestic resource mobilization has improved in most ADF countries with tax GDP ratio increasing from 9.7% in 2000-2004 period to 12% in 2010-2014 period
- Significant improvements in external flows - remittances, FDI - have also helped spur domestic consumption and fiscal space
- But, domestic savings rates averaging 12.7% since 2009 still fall short of the 20% required to sustain growth rates of 5% or above
- The Bank continues to be a strong partner in supporting ADF countries improve their domestic resource capacity – example of Togo and technical assistance to Ethiopia
Debt levels are low but variations are wide

External debt / GDP (%)

- External debt levels have remained low, averaging 17.4% of GDP (2010-15)
- Significant variation across countries and over time for individual countries suggest unpredictability in debt patterns
- Rise in domestic debt may pose risks in underdeveloped financial markets
- Debt levels could rise in the near-term in the absence of counter-cyclical buffers
- Fiscal deficits for instance, account for close to 40% of the variation in external debt. The rest of the 65% was for investment.
The big picture: the challenges confronted by ADF countries are still significant

- Poverty and inequality remain unacceptably high
- Infrastructure gaps remain huge
- Chronic unemployment and underemployment, particularly among the youth pose a significant development challenge
- Fragility in some ADF countries hinders development
- Deindustrialization
Structural weaknesses call for diversification

Sectoral value-added shares (% of GDP)
Structural transformation is key to achieving sustainable development

Improvements in competitiveness through:

- Closing infrastructure gap mainly in energy, transport, communication, etc.
- Transforming agriculture from a subsistence to a thriving business enterprise.
- Deepening regional integration and harnessing potentials for industrialization.
- Sustained reform to improve the business climate to attract FDI and promote private-sector led development.
- Better management of natural resources.

To achieve the targets set in SDGs, the resource gap is wide: $130 billion is needed annually over the next ten years to sustain growth at 7% or more.
Key messages

• ADF countries have shown resilience amid global headwinds; the outlook is positive yet some countries face vulnerabilities that may slow down the momentum. Consolidating the recent gains remains important.

• There is opportunity in adversity: recurrent shocks call for structural change and economic diversifications.

• Domestic capacity has improved in the ADF countries but more is needed to achieve higher and sustainable growth.

• External debt is still low but variability across countries is wide. ADF countries need counter-cyclical buffers to avoid accumulation of costly debt.

• From the long-term perspective, eliminating poverty and improving lives requires significant additional resources to finance higher per capita income growth.
Thank you!