

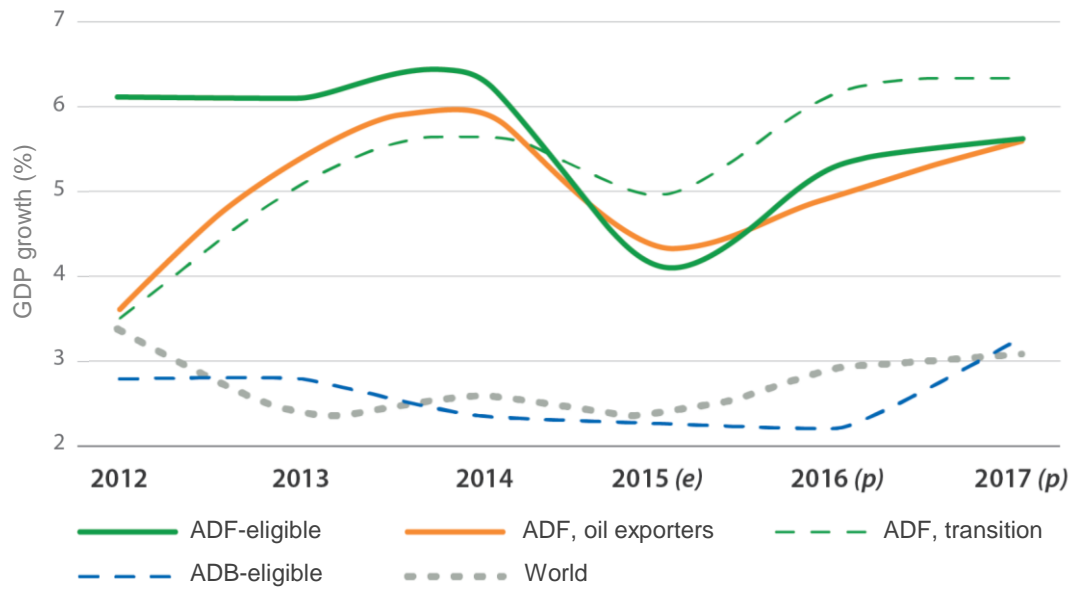
# *Réunion de Reconstitution*

## *14<sup>th</sup> 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

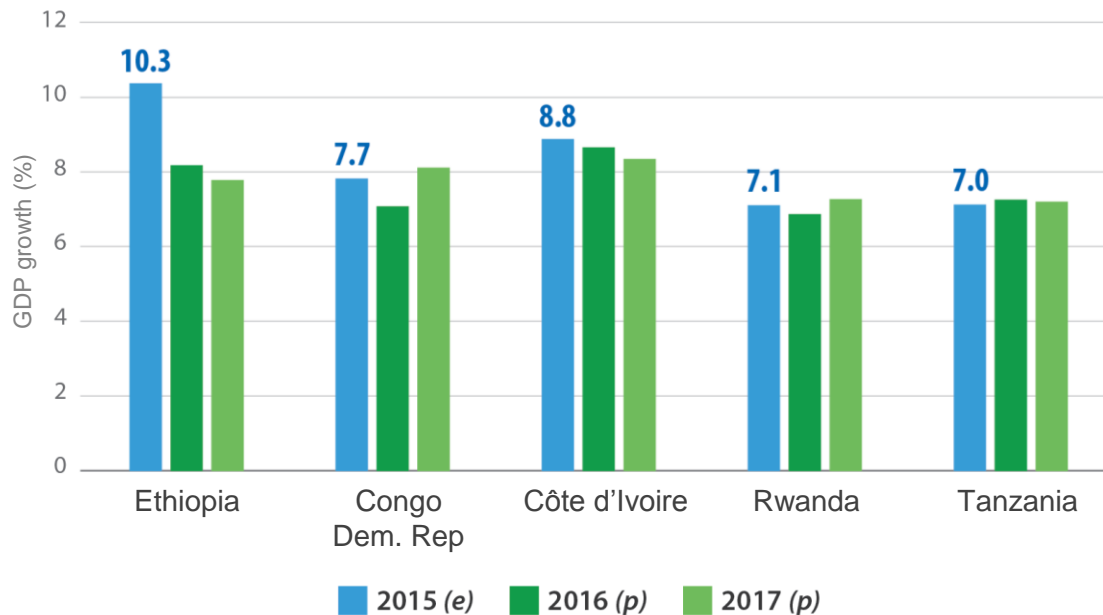


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# ADF countries are among the fastest-growing in the world

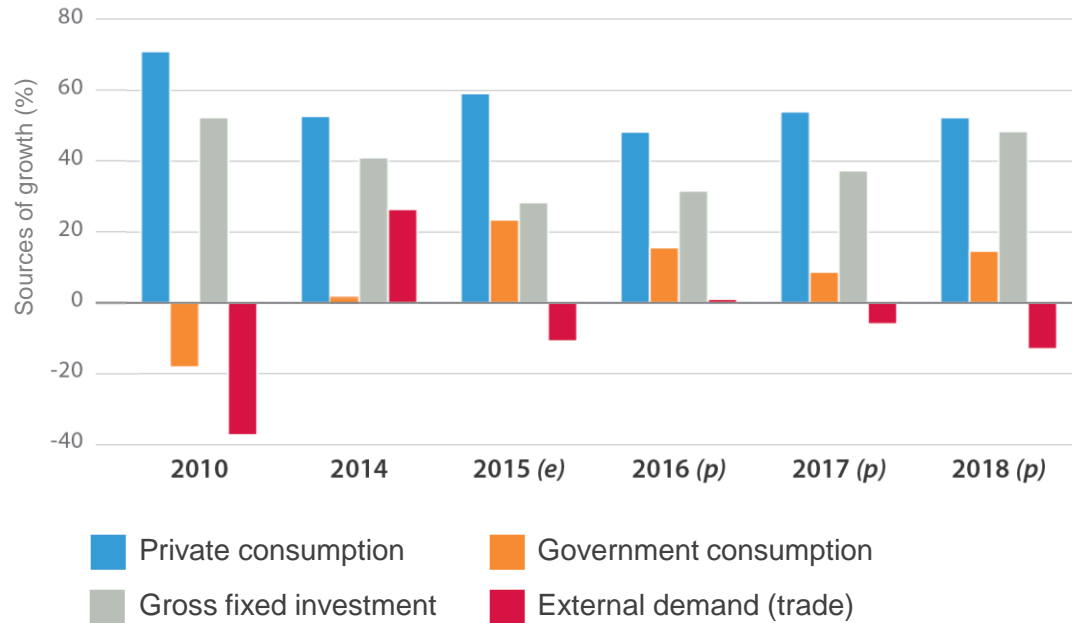
## Fastest-growing ADF countries



- 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 (%)

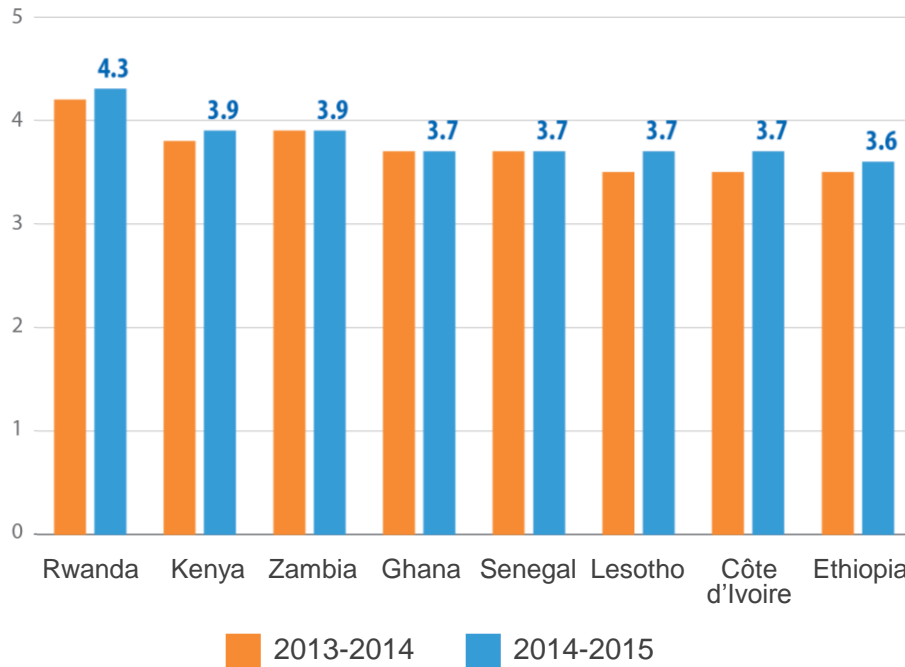


- Strong private consumption and investment will continue driving growth in the short- to medium-term
- Growth is also supported by improved business environment – ease of doing business has improved
- The Bank has played a catalytic role in leveraging public investments in ADF countries



# Better macroeconomic management has improved the business environment

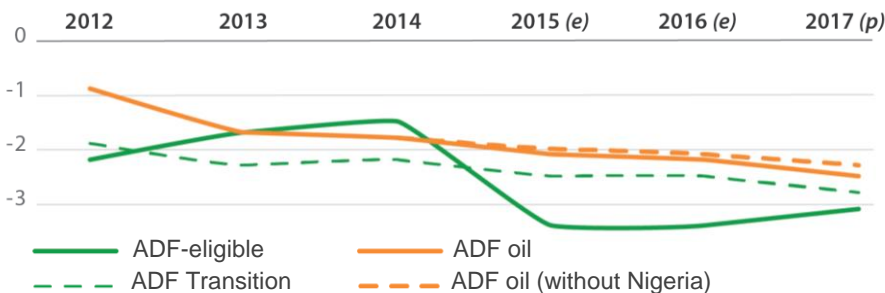
## Global competitiveness index (out of 7)



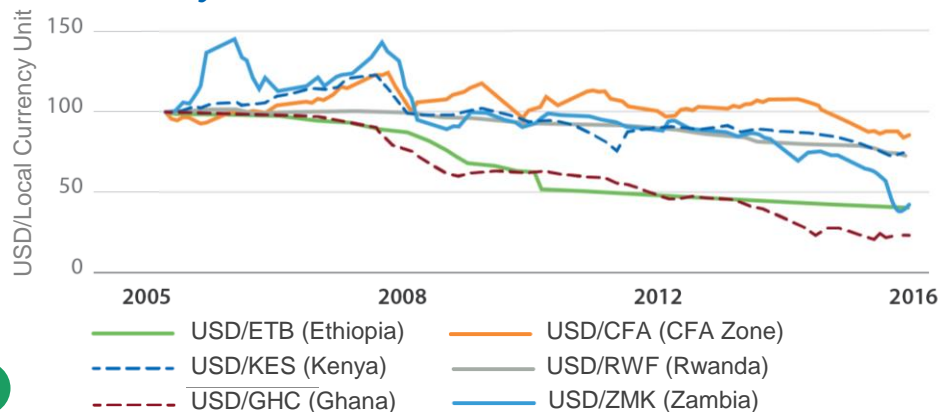
- ADF countries have recorded marked improvement in doing business environment with improvement in both competitiveness index and country ranking (African Competitiveness Report)
- Rwanda and Kenya for instance, are more competitive than the average of Latin America and North Africa respectively
- Zambia, 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

## Fiscal deficit (% of GDP)



## Currency movements in selected ADF countries



- 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



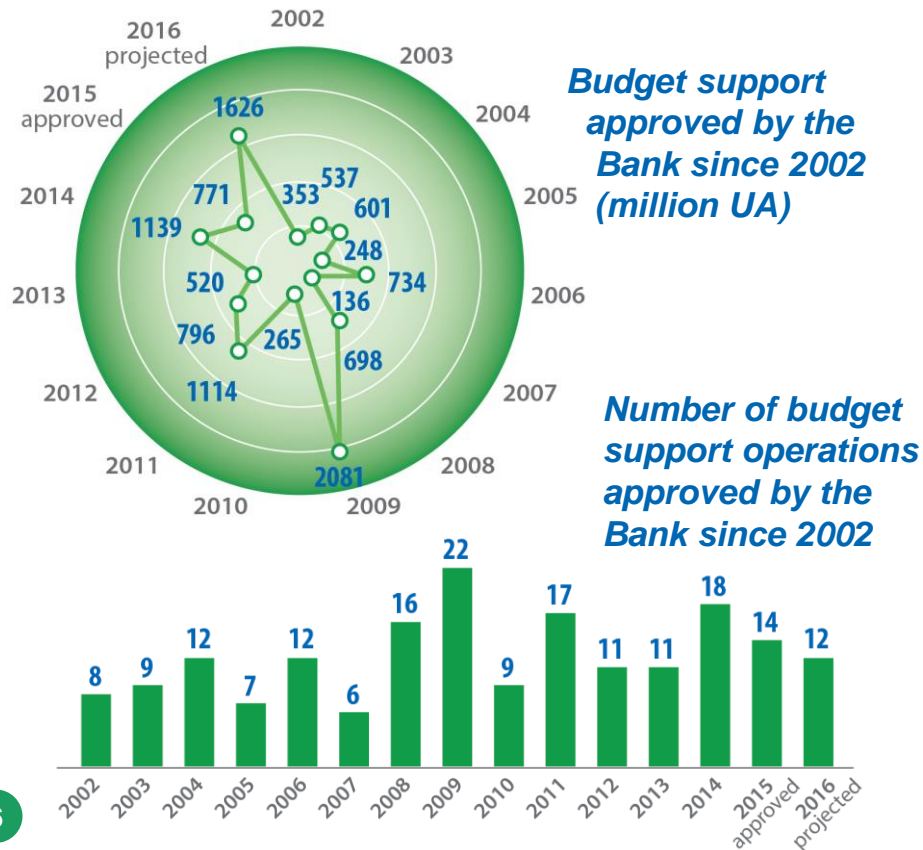
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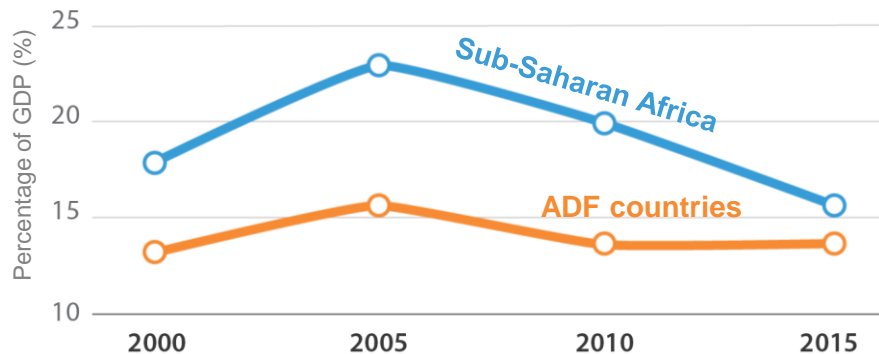
# The Bank responded vigorously via counter-cyclical interventions in the past



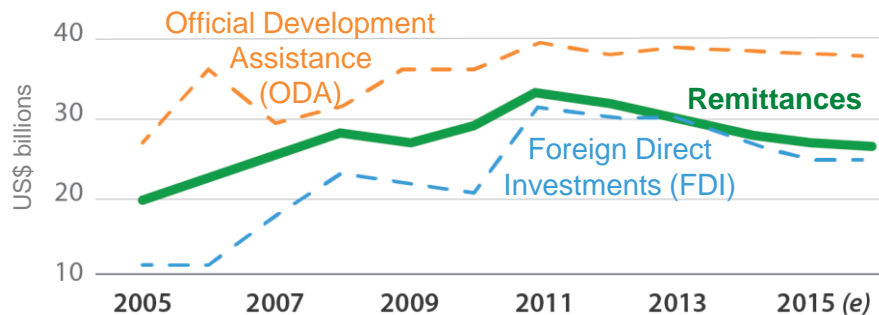
- During the 2008 global financial crisis, the Bank provided support using different flexible and adaptable instruments including:
  - Multi-purpose (US\$ 1.5 bn) Emergency Liquidity Facility
  - Trade Finance Facility (TFF), and
  - Accelerated Transfers to ADF Countries
- Program-Based Lending increased 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

## Savings (% GDP)



## External flows to ADF countries



- 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*



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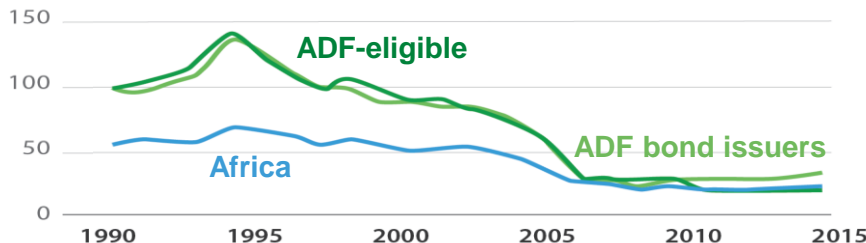
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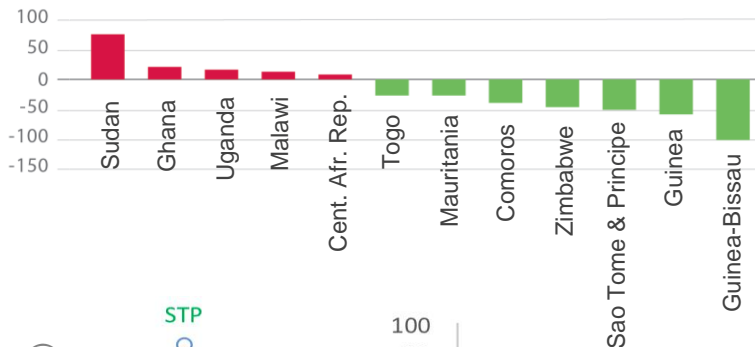
# Debt levels are low but variations are wide

**External debt / GDP (%)**

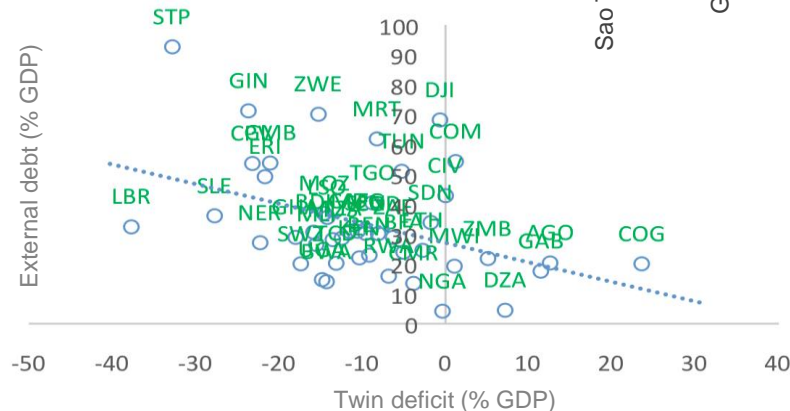


- External debt levels have remained low, averaging 17.4% of GDP (2010-15)
- Significant variation across countries and over time for individual countries suggest unpredictability in debt patterns
- Rise in domestic debt may pose risks in underdeveloped financial markets
- *Debt levels could rise in 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.*

**Percentage change in external debt to GDP**



**External debt and resource balance**



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# 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

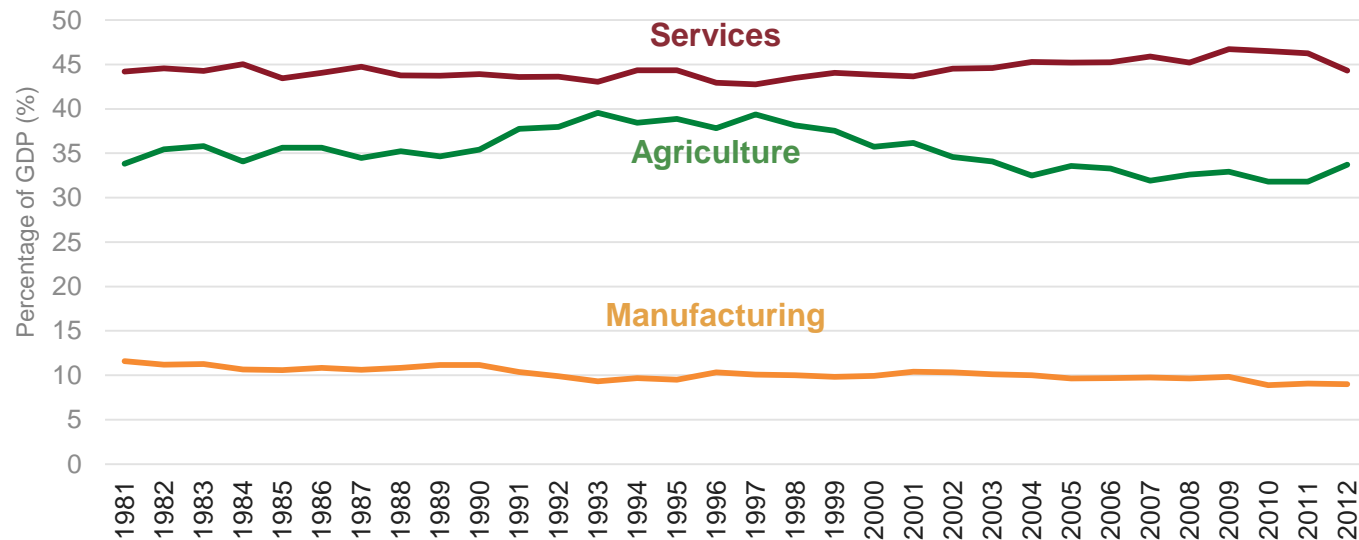


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# Structural weaknesses call for diversification

## 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*



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# 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!



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