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REPORT

Africa's 2025 Economic Outlook

Online
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Context
On the 4th of February, the Corporate Council on Africa organised the Webinar *Africa's 2025 Economic Outlook,* where **Dr. Andrew Debalen**, the World Bank's Africa Region Chief Economist, presented key insights into the continent's economic prospects for this year and shared recommendations to minimise poverty and achieve sustainable development in the region. The webinar was moderated by **Florizelle Liser,** CEO at the Corporate Council on Africa.

Economic Prospects and Recovery

Sub-Saharan Africa's economy is projected to **grow by 3%** in 2024-2025, driven by increased **private consumption and investment**. Growth per capita is expected to grow to 0.5, although the region has not been able to go back to **pre-pandemic levels** of income per capita, and is not expected to do so until 2026. Economic growth projections have been significantly affected by the civil war in Sudan, which has collapsed the economic activity of the country, its infrastructure, governmental activities, and human development. Due to expectations of monetary interest rate cuts, private consumption and business investments are deemed to grow. Inflation is also expected to become more stable in the region[1].

Debt and Fiscal Constraints

Although **fiscal balances** continue to improve through a minimization of expenditures relative to revenues, and the median fiscal deficit is expected to decline, the benefits of fiscal consolidation are being jeopardized by the **high and rising interest payments** made by African governments. Total debt has increased due to greater interest payments arising from a shift from concessional financing to **market financing**. Some key insights are:

- The share of African debt has increased by 40%. However, interest payments are disproportionately allocated to **new creditors**. While these creditors (private and non-Paris Club governments) hold 43% of the debt, they receive almost 80% of the interest payments.
- Multilateral debt has also risen, leading to three key consequences:
    1. **Constraints on Public Investment**: Governments have limited fiscal space for essential public investments (human capital, energy, transportation, etc.).
    2. **Potential Tax Increases**: To address the debt burden, countries may need to raise taxes, reducing business competitiveness and increasing the cost of living. Limiting overall business expansion and job creation.
    3. **Rising Fiscal Deficits**: While the difference between expenditures and revenues is nearly balanced, including interest payments into the equation pushes the **fiscal deficit** to around 4%. This makes the economies of Sub-Saharan countries more exposed to economic shocks, this is particularly the case of countries who have access to non-concessional financing.

[1] World Bank. (2024, October).

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As a result, governments face **difficult trade-offs between funding education and healthcare or servicing debt**. Some countries in critical debt situations allocate more to interest payments than to human development, hindering their efforts in minimizing poverty.

Climate Shocks and Conflict

Climate shocks, particularly **floods** (in Central and Western Africa) **and droughts** (in Eastern Africa), continue to impact the region. While floods occur more frequently, droughts have a more severe effect on households, food production, and overall economic stability of the continent. **Political/armed conflicts** are also rising, negatively affecting economic performance. For example, the war in Sudan alone has reduced Africa's GDP growth by 0.5 percentage points, showing that political instability in smaller economies can severely disrupt services and economic activity in the whole region.

Long-term Growth Prospects and Opportunities

Despite these challenges, the region's **long-term growth** prospects remain **positive**. Compared to the past, African economies are larger and benefit from more competent policymakers, robust central banks, and a growing private sector, offering better resilience. Several key areas to focus on are:

- **Energy Access**: The current ambitions for universal energy access are insufficient. Africa needs abundant, affordable, and reliable electricity to support businesses and economic growth. Off-grid solutions will be an active investment in 2025 to connect more remote areas.
- **Water Management**: Leveraging new technologies for better water management is crucial.
- **Agriculture and Food Systems**: There is significant potential in storage, cold chains, wholesale markets, and value-added processing. It is important to scale-up farmer-led irrigation (e.g.water harvesting reuse), and sustainable soil, land, and forest management practices.
- **Infrastructure Development**: Roads, railways, and logistics are key areas for investment to transform Africa into a major economic center. There is a need for expanding infrastructure and the productive use of digital technologies by African enterprises, as well as improving transport connectivity and railway infrastructure.

Structural Constraints and Policy Priorities

Africa must address structural constraints such as **inequality** and **low human capital development**. Key areas for improvement include:

1. **Investment in Health and Education**: Early childhood education and skill formation are essential for long-term growth. Important to focus on early childhood and girls' development.
2. **Strengthening Local Capacity**: Countries must enhance their ability to design and implement projects effectively. They must improve service delivery, eliminate regulatory barriers and encourage local investments in natural capital.

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3. **Removing Market Obstacles**: Addressing inefficiencies in credit and land markets can improve resource allocation and foster entrepreneurship.
4. **Transparent Fiscal Policies**: Ensuring that fiscal policies create opportunities, tackle inequality, and remain transparent is vital for sustainable development and for maintaining the trust of the population in their local institutions and governments.

Foreign Direct Investment (FDI) and Economic Sectors

FDI in Africa has largely focused on key sectors:

- **Mining and Critical Minerals**: Investments in copper, cobalt, and gold continue to dominate.
- **Fintech and ICT**: The digital economy is experiencing rapid growth, especially in the areas of financial services and banking.
- **Infrastructure**: Chinese investments have been particularly significant in the building of roads, bridges, and railways. However, since COVID-19, Chinese investment has slowed substantially, creating financing challenges for the region.

Some challenges are:

- Many African countries lack sufficient domestic savings or access to financial markets to **fund investments internally**. This makes **external capital** crucial until domestic financial markets mature.
- Rising global interest rates have led to **capital outflows** from Africa, further slowing investment. Only a few African countries (Ivory Coast, Benin, Kenya, Nigeria, Senegal) have consistent access to international financial markets.
- The region must focus on **attracting investments in critical minerals** while ensuring value-chain diversification (development of domestic processing and refining capacities) to enhance security and economic benefits.

Public Debt and Fiscal Management Concerns and Solutions

Some African countries face **severe solvency challenges**, including Ghana, Zambia, Chad, and Ethiopia. These countries lack the fiscal space to meet debt obligations. The region is at high risk of a **debt distress** and **liquidity crisis**. While a full-blown financial crisis has been avoided, many governments are cutting expenditures to align budgets, which is not a long-term solution unless economic growth accelerates. Some past borrowing may have funded consumption rather than productive investments. **Future borrowing** should be tied to **high-return projects** to ensure long-term sustainability. Some high-growth areas for investment include:

1. **ICT Solutions**: Technological innovations addressing agriculture, credit, and distributed energy (e.g., mini-grids) are critical.
2. **Agriculture**: Coordinating producers, adding value to agricultural products, and improving regional market access are significant opportunities.
3. **Healthcare**: Expanding e-health services, insurance solutions, and healthcare infrastructure is essential for human capital development.

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Growth Trends in Non-Resource-Rich Economies

Surprisingly, some of Africa's fastest-growing economies are **non-resource-rich countries**, including:

- **West Africa**: Senegal, Ivory Coast, Benin
- **East Africa**: Etiopia, Tanzania, Uganda, Rwanda.

These economies benefit from **diversification**, strong service sectors (tourism, transportation, logistics, textiles), and a more balanced agricultural and industrial base. Nigeria and South Africa continue to attract investment but have yet to translate this into significant economic growth.

Localization Strategies

Localization in Africa takes two key forms:

1. **Value Addition**: Enhancing domestic processing of raw materials before export to capture more value within the continent.
2. **Skill Development**: Strengthening local talent and reducing dependence on foreign expertise.

Efforts to build regional production hubs and strengthen value chains are showing progress.

Scaling Mining Businesses in Africa

Many **African minerals** remain unexplored, providing further investment opportunities. The key question is how to channel **wealth** from natural resources into improving living standards. Small enterprises (SMEs) in Africa face several challenges:

1. **Macroeconomic Volatility**: Many economies rely on agriculture and minerals, making them sensitive to climate and external demand fluctuations.
2. **Lack of Large Enterprises**: A robust ecosystem of medium and large enterprises is crucial for small business stability.
3. **Limited Technology Adoption**: Many businesses struggle to scale due to difficulties in adopting productivity-enhancing technologies.

Energy Transition and Reliability

Africa's energy mix varies by region:

- **South Africa**: Relies heavily on coal.
- **West Africa**: Primarily dependent on gas.
- **East Africa**: Almost entirely powered by renewable energy (hydro, wind, solar).

While renewables are expanding, reliability remains an issue. Until energy storage technology improves, a diversified energy mix will be necessary.

World Bank Priorities in Africa

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The World Bank's focus areas include:

- **Energy Access**: Mission 300 aims to achieve near-universal access to electricity.
- **Education and Skills Development**: Early education and specialized training centers (e.g., chemistry, mining, geography) are critical.
- **Digital Technologies**: Expanding digital infrastructure and services.
- **Water and Sanitation**: Improving access and efficiency.
- **Domestic Resource Mobilization**: Strengthening countries' ability to finance development internally.

Conclusions

- Africa requires massive investments in transportation, infrastructure, and human capital.
- Public-Private Partnerships (PPPs) will become increasingly important in bridging investment gaps.
- A transparent and attractive investment environment is key to driving sustainable development.

Source consulted:

World Bank. (2024, October). *Africa's pulse: An analysis of issues shaping Africa's economic future* (Vol. 30). Office of the Chief Economist for the Africa Region. https://openknowledge.worldbank.org/server/api/core/bitstreams/baea7aea-da11-45e8-82ec-101ac5f1e6ab/content

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