

RISING MACROECONOMIC PERFORMANCE IN AFRICA AND PROSPECTS FOR INCLUSIVE GROWTH

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1.0 Introduction

African economies have shown remarkable resilience in recent times amid multiple shocks, fuelled by the COVID-19 global pandemic, the Russian invasion of Ukraine, as well as weak global demand for its natural resources that drive economic growth across the region. After sustaining a sharp decline, estimated at -1.8% in 2020, a downturn attributed to the global pandemic, economic output across the region rose rapidly to 4.6% in 2021, but declined to 3.6% in 2022 and 3.1% in 2023. Most economies in the region recorded economic slowdown in the past couple of years, including major economies as Egypt, Nigeria, Kenya, Ghana and South Africa. These countries are particularly influential in driving economic growth in their respective sub-regions- North, West, East and Southern Africa, respectively (United Nations, 2024). The positive economic impact that accompanied the resumption of international tourism after the COVID-19 pandemic, a major driver of economic growth in 2022, waned in 2023. Sub-Saharan Africa features an extremely diverse economic profile, comprising low, lower-middle, upper-middle, and high-income countries – 22 of which are fragile or conflict prone – and 13 small states, marked by a small population, limited human capital, and a confined geographic space. The region boasts of rich natural resources and the world's largest free trade area, accompanied by a 1.2-billion person market and a growing profile of an emergent middle class (World Bank, 2024).

Africa is set to remain as the second-fastest growing region in the world after Asia. The top eleven African economies projected to record strong economic performance in 2024 are: Niger (11.2%), Senegal (8.2%), Libya (7.9%), Rwanda (7.2%), Cote D'Ivoire ((6.8%), Ethiopia (6.7%), Benin (6.4%), Djibouti (6.2%), Tanzania (6.1%), Togo (6%) and Uganda (6%). While Africa is richly endowed with natural resources, comprising crude oil natural gas, solid minerals, as well as forest reserves; in a paradox of plenty, the region has been largely unable

to transform its rich endowment in natural resources into prosperity for the majority of its population. Sub-Saharan Africa is home to 464 million people living in extreme poverty in 2024. However, rising economic performance holds prospects for inclusive growth and the potential to lift millions out of the vicious circle of poverty into a virtuous circle of prosperity.

The major objective of this paper is to shed light on the rising profile of Africa's macroeconomic performance and implications for inclusive growth. It explores the prospects of Africa's vast natural resources to sustain the region's economic growth and development.

2.0 Africa's Long-Term Growth and Future Prospects

Africa's economic growth, particularly since the early 21st century reveals periods of significant economic transformation, marked by various phases of inconsistent growth, economic challenges, and resilience. It is noteworthy that in the 1980s and 1990s, several African countries witnessed severe economic downturn, including high inflation rates and stagnant growth. The economic challenges were exacerbated by political instability, declining commodity prices, which fuelled negative terms of trade that triggered a debt "overhang". This development forced several countries to approach the Bretton woods Institutions – the World Bank and the International Monetary Fund (IMF) – for financial assistance. In return for a bailout, IMF imposed "conditionalities", comprising economic reforms aimed at addressing structural imbalances and fostering economic liberalization. The package of economic reforms culminated into the Structural Adjustment Program (SAP), which was widely embraced by several countries in the region. The late 1990s and early 2000s marked a shift in macroeconomic outcomes, as many countries across the region implemented economic reforms, leading to improved macroeconomic stability and increased growth rates. In the early 2000s, Africa recorded a significant increase in GDP growth, driven by rising commodity prices, improved governance, foreign investment, and a rising service sector (Reents and Gern, 2018). The period witnessed robust growth, with GDP rising by 5.2% annually, more than double its pace in the 1980s. Unlike Africa's growth in the previous era, growth in the early 2000s was

not solely dependent on natural resources, but largely attributable to significant contributions from the service sector, particularly information technology, banking, and retail. Figure 1 illustrates Africa's long-term growth from the 1980s into the 2010s.

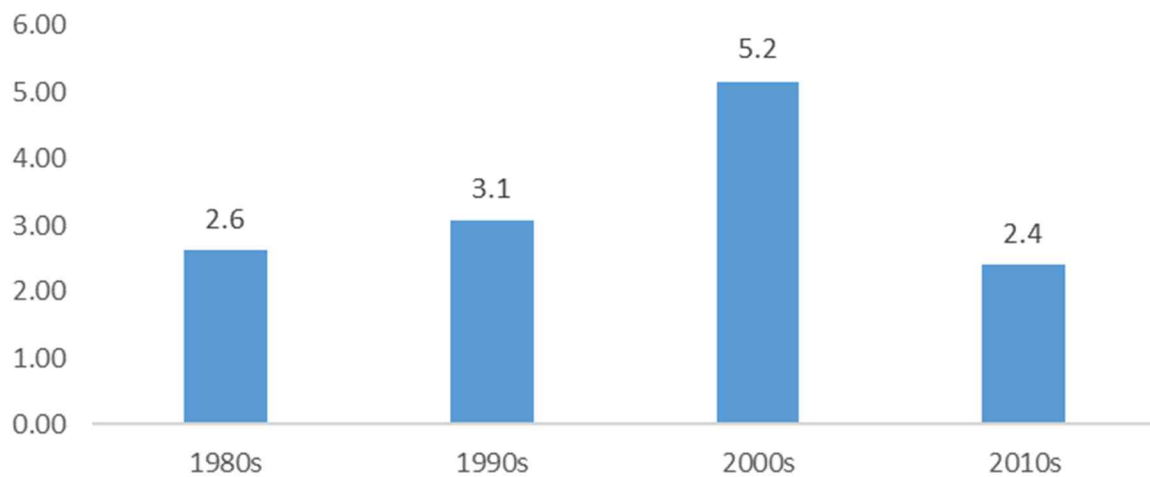


Figure 1: Africa's Annual Growth Rate, 1980s-2010s

Source: Reents and Gern, 2018

Figure 1 reveals Africa's economic growth from the 1980s through 2010s. It shows growth in the region's GDP at 2.6, 3.1, 5.2, and 2.4% for the 1980s, 1990s, 2000s, and 2010s, respectively. It is noteworthy that the region's economy demonstrated resilience during the 2008-09 global financial crisis. However, the region's economy eventually experienced a downturn in 2015, undermined by falling commodity prices and weak demand from China. It was yet to recover from the recession, when it was hit by the COVID-19 pandemic in 2020, which plunged its GDP to -1.8% reduction, the worst economic downturn since the 1980s.

McKinsey Global Institute (MGI) (2020), in a report on Africa's economic growth, reveals that African economies experienced a broad-based economic acceleration in the first decade of the 21st century, revealing that between 2000 and 2010, the region's real GDP rose by 5.1% per annum, roughly double the rate in the 1990s. Also, more than two-thirds of the region's 30 largest economies accelerated their growth during the period relative to the 1990s.

It affirms that a strong global commodity cycle triggered a boom in African mining from 2000 to 2007, with metal prices almost tripled.

Weak commodity prices dampened economic growth in Africa in the latter half of the 2010s, a development that was further compounded by the COVID-19 global pandemic in 2020. However, recovery from the pandemic was swift, with the region's average annual GDP rising from -1.8% in 2020 to 4.6% in 2021, driven by a rebound in global demand, higher crude oil prices, looser COVID-19 restrictions, particularly in China, as well as increased consumption and investment in African countries (UNECA, 2023). However, the 2021 growth rate could not be sustained, declining to 3.7 in 2022 and 3.1% in 2023. The decline is attributed to a variety of factors, including persistently high food and energy prices, against the backdrop of Russian's invasion of Ukraine, weak global demand weighing down on export performance, climate change, and extreme weather events, as well as political instability and conflicts in some African countries. Despite these challenges, 15 African countries recorded a growth rate of at least 5% in 2023. While three of the continent's largest economies (Egypt, Nigeria, and South Africa) recorded lower real GDP growth rates, more than half (31) of African countries had higher real GDP growth rates in 2023 than 2022, with six of them – Burkina Faso, Djibouti, eSwatini, Libya, the Republic of Congo and South Sudan – recording real GDP growth rate of more than 2%.

The African Development Bank (AfDB) (2024), in a report, projects a marginal increase in Africa's real GDP growth from 3.1% to 3.7% in 2024 and 4.3% in 2025. This is higher than the projected global average growth rates for 2024 and 2025, respectively. While economic growth is accelerating across the African continent, growth is uneven across the region. Economic growth in Sub-Saharan Africa is projected to grow by 3.0% in 2024, from 2.4% in 2023, and accelerate to 4% in 2025-26. Projections also reveal that in East Africa, growth is expected to rise from 1.7% in 2023 to 2.2% in 2024. On the other hand, West Africa

is expected to witness growth from 3.3% in 2023 to 3.9 in 2024. Table 1 reveals the 10 largest African economies in 2024.

Table 1: Africa’s Ten Largest Economies, by Ranking, 2024

Rank	Country	GDP (billions)
1	South Africa	\$373bn
2	Egypt	\$347bn
3	Algeria	\$266bn
4	Nigeria	\$252bn
5	Ethiopia	\$205bn
6	Morocco	\$152bn
7	Kenya	\$104bn
8	Angola	\$92bn
9	Cote D' Ivoire	\$86bn
10	Tanzania	\$79bn

Source: Agbetiloye, 2024

Table 1 shows the profile of the ten largest African economies in 2014, revealing the rank, country, and GDP estimates. It shows the three largest African economies, led by South Africa, with GDP of US\$ 373 billion, while Egypt and Algeria are ranked second and third, with GDP of US\$347 billion, and US\$266 billion, respectively.

3.0 Natural Resource Endowment and Economic Growth in Africa

Africa’s rich natural resource endowment provides a robust opportunity for economic growth, particularly in Sub-Saharan Africa. In several countries of the region, export of natural resources account for the bulk of government revenue and foreign exchange earnings. However, empirical evidence suggests that translating this resource wealth into stronger economic performance and a higher standard of living has become challenging. Lack of institutional and administrative capacity to effectively manage public finances in several countries in the region has been blamed (IMF, 2013).

Africa is richly endowed with productive land and valuable natural resources, including renewable (water, forestry and fisheries), and non-renewables (minerals, coal, natural gas and crude oil) (AfDB, 2007). Africa features 22 resource- rich economies, defined as countries,

where fuel and mineral exports contribute more than 20% to GDP. These countries account for more than two-thirds of Africa's GDP and half of its population. While half of these countries are oil exporters, the rest are mineral exporters. It is noteworthy that only four of the resource-rich countries are landlocked. On the other hand, there are 31 resource-scarce countries accounting for 30% and 48% of regional GDP and population, respectively; while one-third of these are landlocked.

While resource-rich economies benefit from natural wealth, empirical evidence reveals many with negative economic outcomes, in a development attributed to “natural resource curse” in literature. The poor management of natural resources in Sub-Saharan Africa is further exacerbated by pro-cyclicality of fiscal policy in resource-rich countries. For example, available data reveal significant correlation between real public spending and commodity exports in Angola, Nigeria and South Africa, particularly in the early 2000s. However, after the commodity bust in 2015, exchange rates depreciated, especially in Angola and Nigeria, accompanied by rising inflation in all three countries. While Sub-Saharan Africa witnessed accelerated economic growth, averaging more than 7% per annum between 2003 and 2013, and placing the region second behind East Asia and the Pacific among the world's fastest-growing regional economies; unlike the “Asian miracle”, accelerated growth in sub-Saharan Africa was unaccompanied by significant structural transformation (Igbatayo, 2021). The dependence of resource-rich countries in Africa on global markets, which are marked by cyclical price volatility, undermines the region's economic growth and development sustainability. This explains why resource-rich economies are confronted with economic underperformance.

4.0 Conclusion

Africa's economy has demonstrated resilience over the past couple of decades, particularly against the 2008-09 global economic crisis, as well as the 2020 COVID-19 global pandemic. Since the early 2000s, Africa's GDP recorded accelerated growth until 2015. The

region's growth was driven by economic reforms embarked upon in the 1980s, good governance, rising commodity prices, and increased foreign investment. However, weak demand for Africa's resource-rich exports in 2015 slowed down the region's economic growth and was hit in 2020 by the global pandemic, which plunged the region into its most severe crisis since the 1980s. However, recovery was swift, with real GDP growth rising from -1.8% in 2020 to 4.5% in 2021. While economic growth has moderated since 2021, indications are that the region's real GDP, estimated at 3.7% in 2024, is projected to rise further to 4.3% in 2025. Thus, Africa is set to become the second- fastest growing region in the world, behind Asia.

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