

# AFRICA *UPDATE*

AFRICA'S PULSE VOL. 27

LEVERAGING RESOURCE WEALTH  
DURING THE LOW CARBON TRANSITION



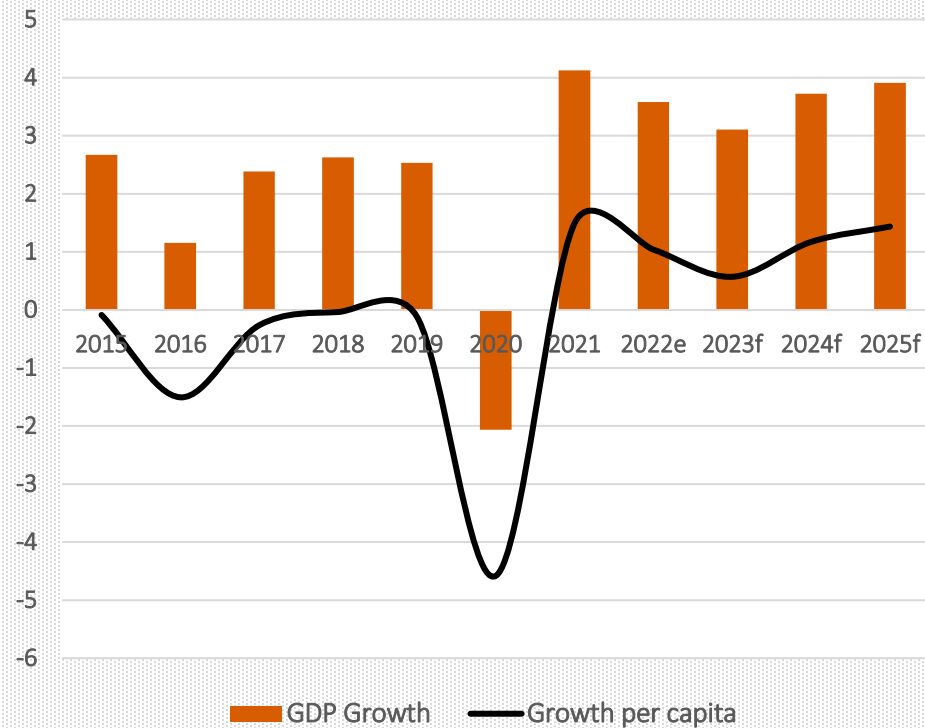
**World Bank Tokyo Morning Seminar Series**  
**10 May 2023**

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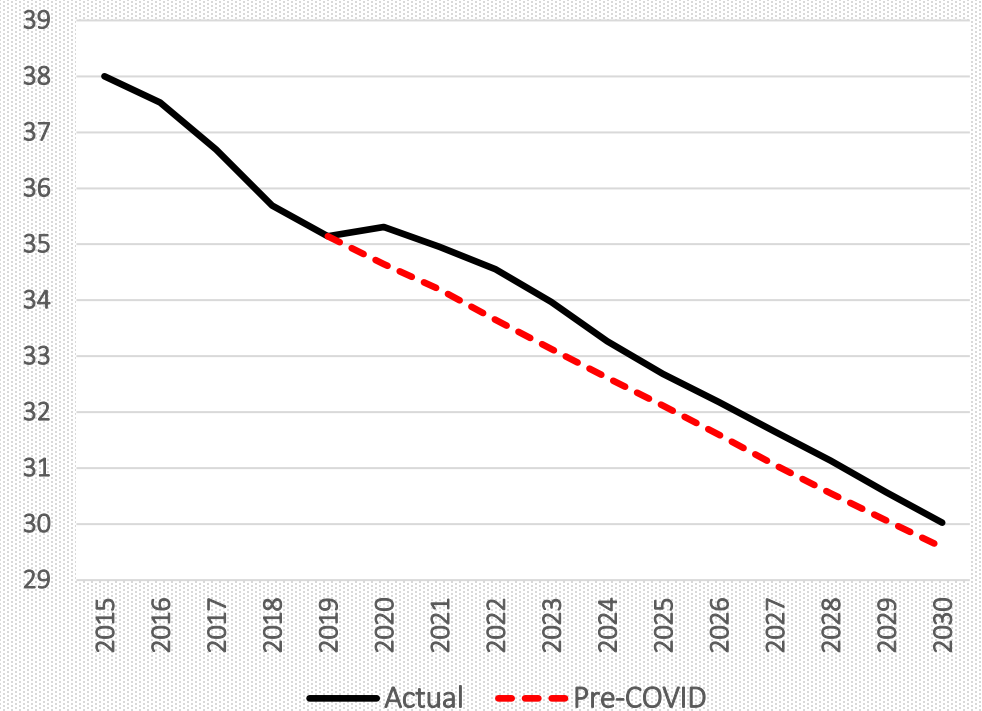
From the Office of the Chief Economist, Africa Region

# Economic growth for the region remains challenging, although bottoming out

## Growth in Sub-Saharan Africa



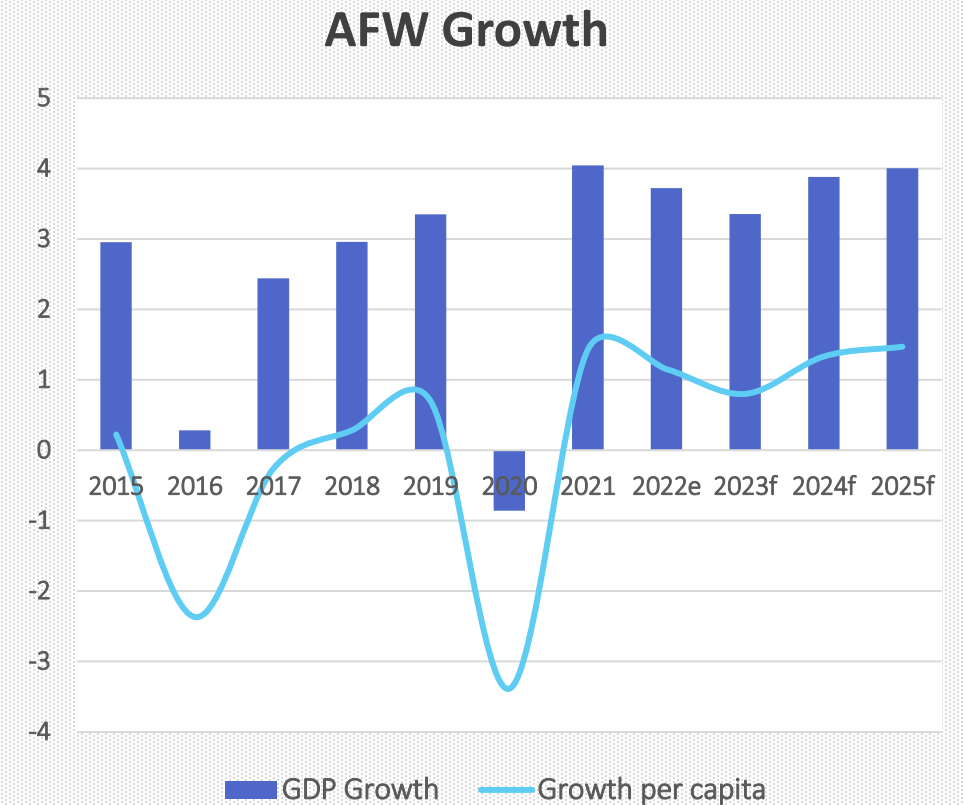
## SSA Poverty Rate



Source: World Bank staff estimates.

Note: Extreme poverty is measured as the percentage of people living on less than \$2.15 per day (2017 PPP). e = estimate; f = forecast; GDP = gross domestic product.

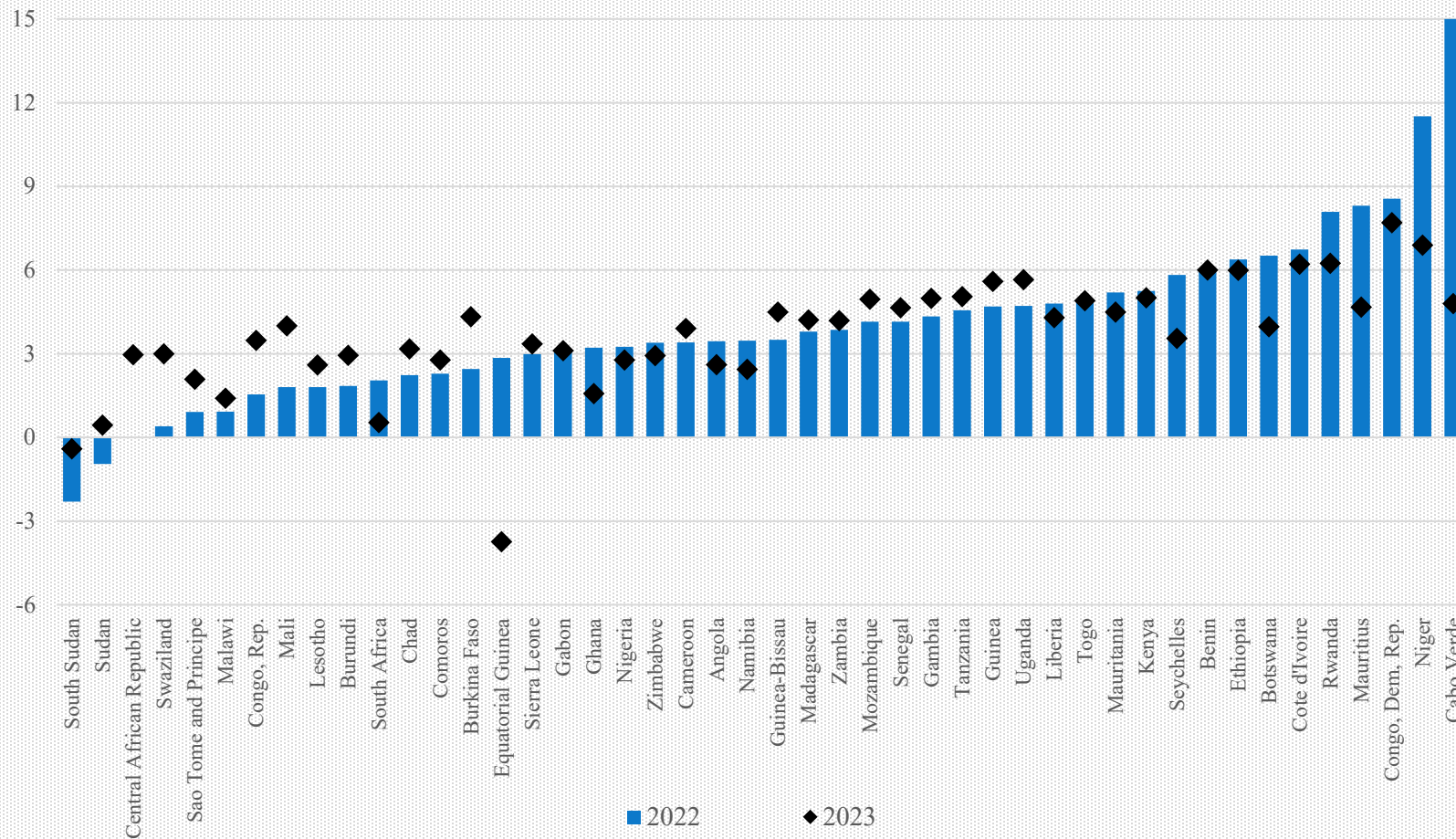
# ... and the growth for the next two years is modest



Source: World Bank staff estimates.  
Note: e = estimate; f = forecast; GDP = gross domestic product.

# Still, some countries in the region showed resilience

## Growth across Sub-Saharan African countries, 2022-23

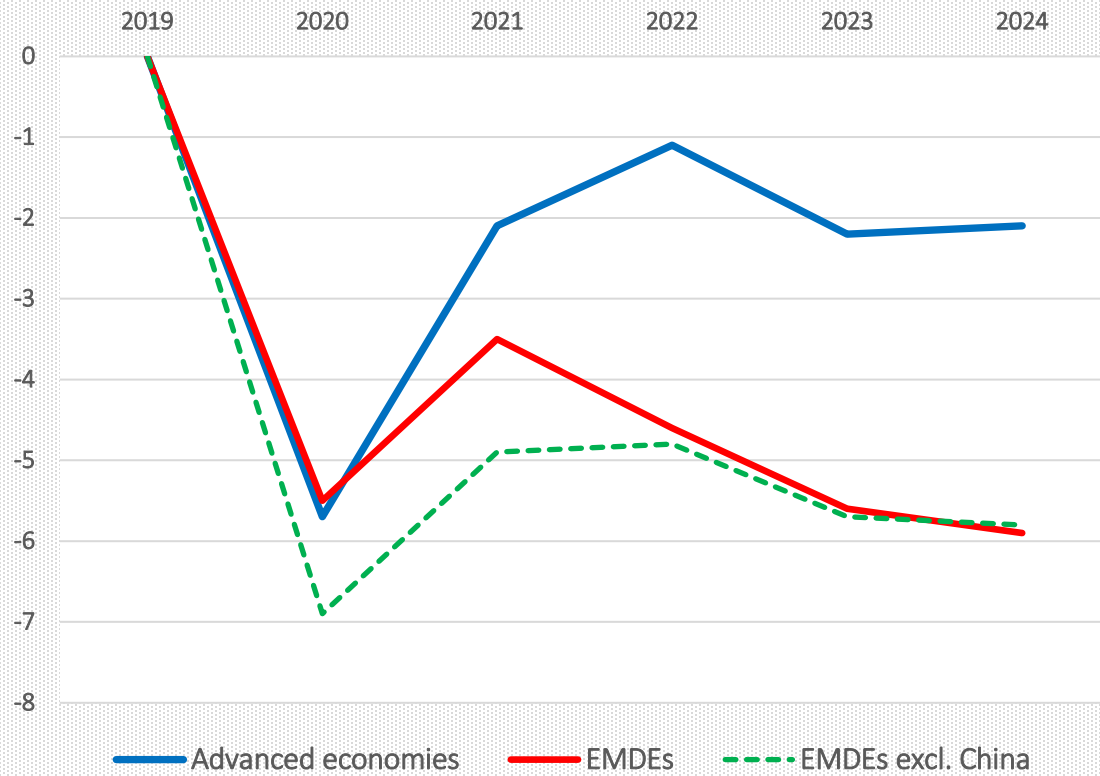


# 2023 Growth Deceleration: Drivers

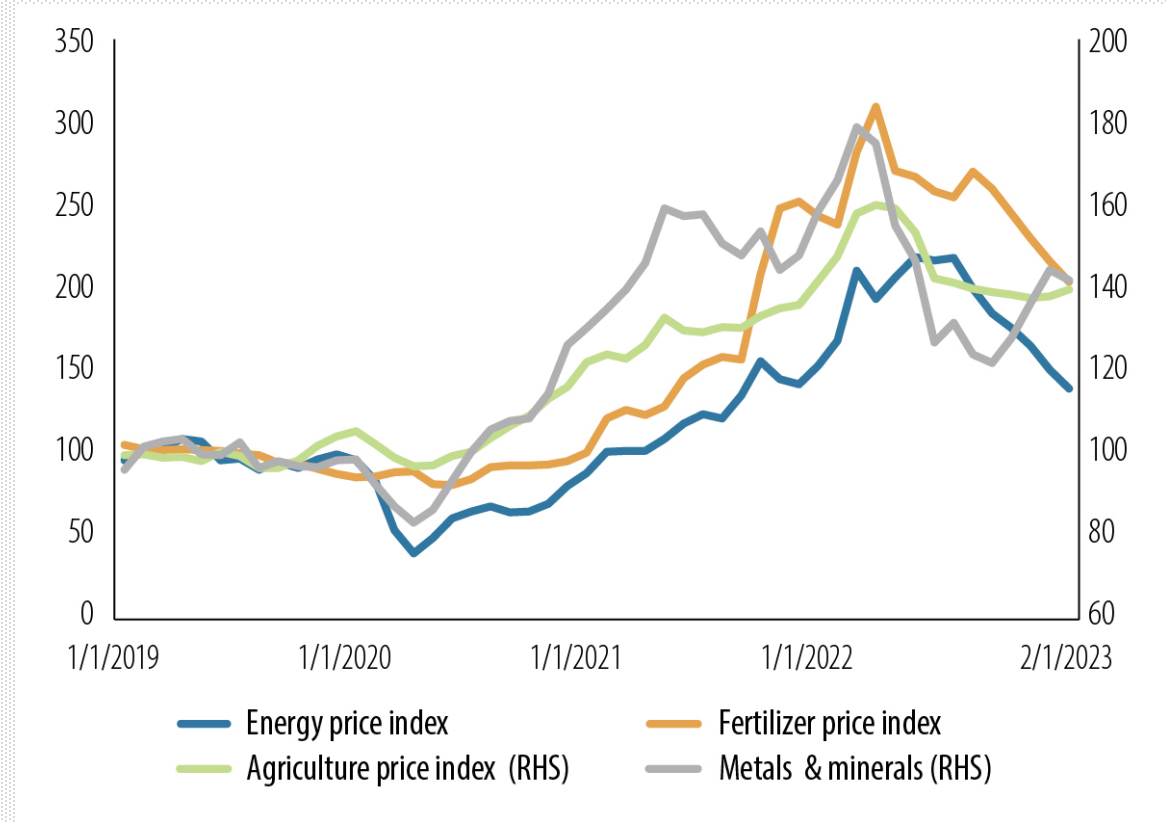
- (1) Sluggish and uncertain global growth
- (2) Tightened global financial conditions
- (3) Lack of investments in the region
- (4) Persistent inflation
- (5) High levels of public debt

# [1] Sluggish and uncertain low global growth

## Weak recovery in the global economy



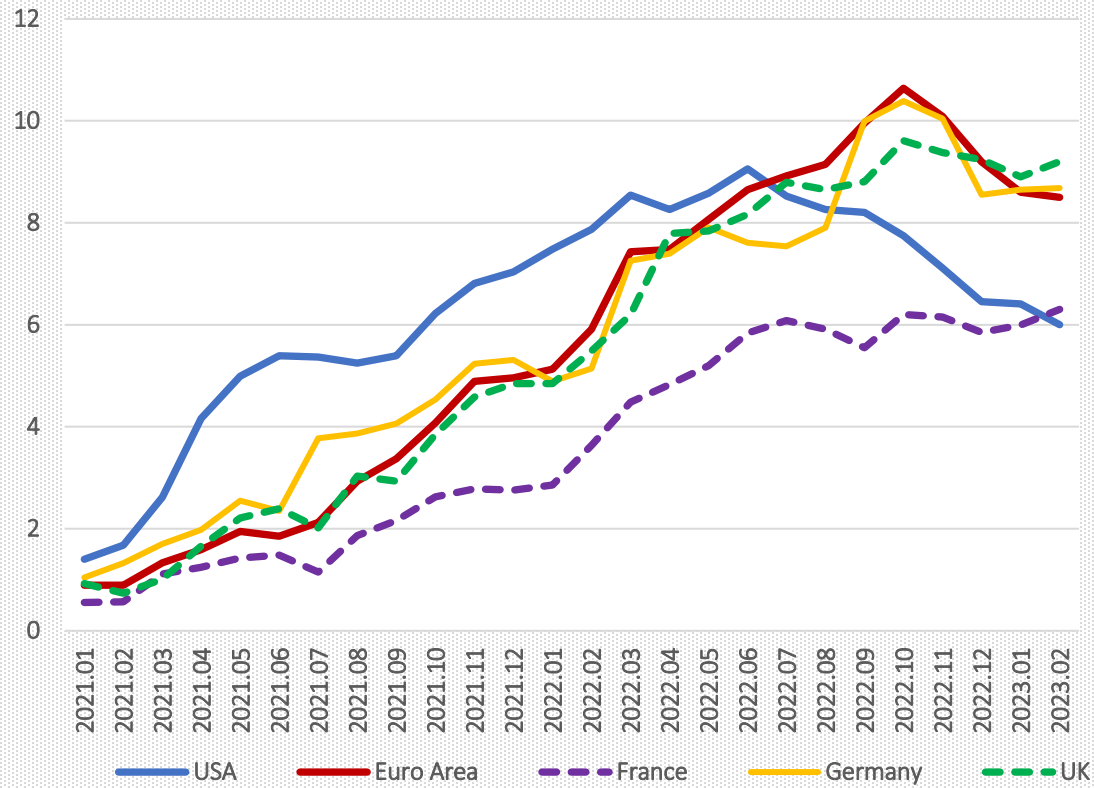
## Commodity prices easing in recent months



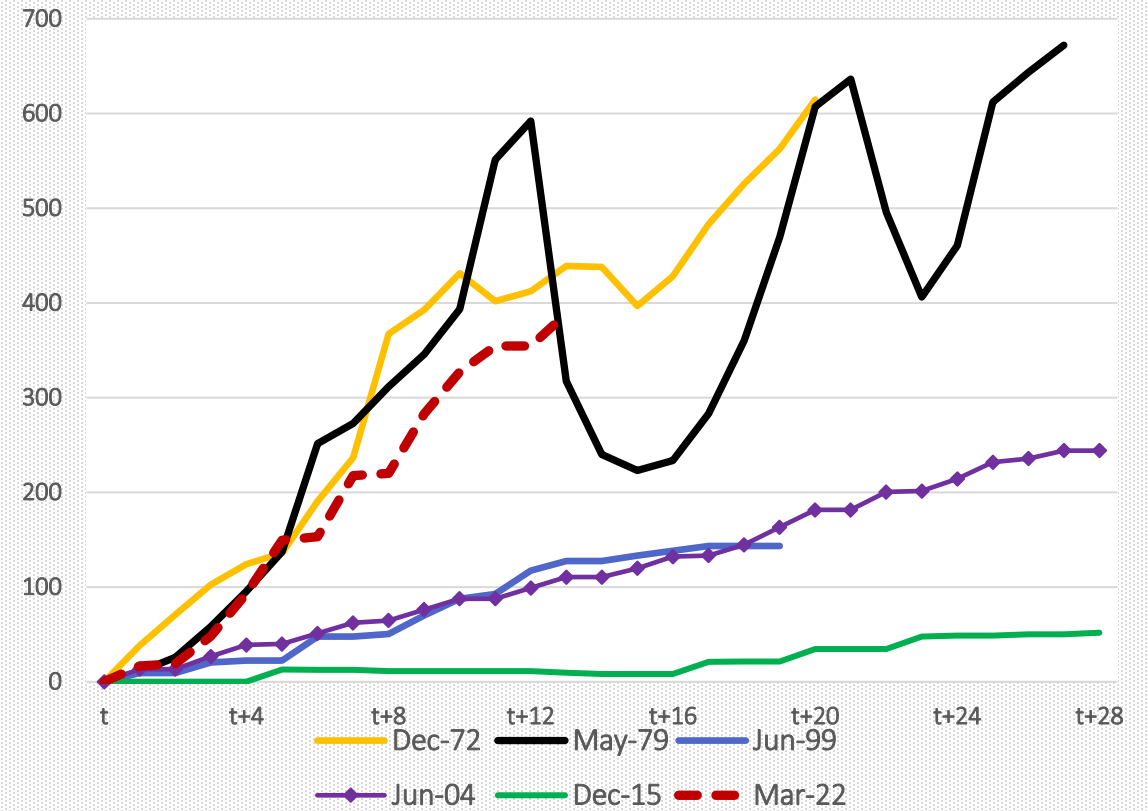
Sources: World Bank, Bloomberg, Haver Analytics

# [2] Tightened Global financial conditions

## Inflation in Advanced Economies (%)



## G-7 Policy Rates

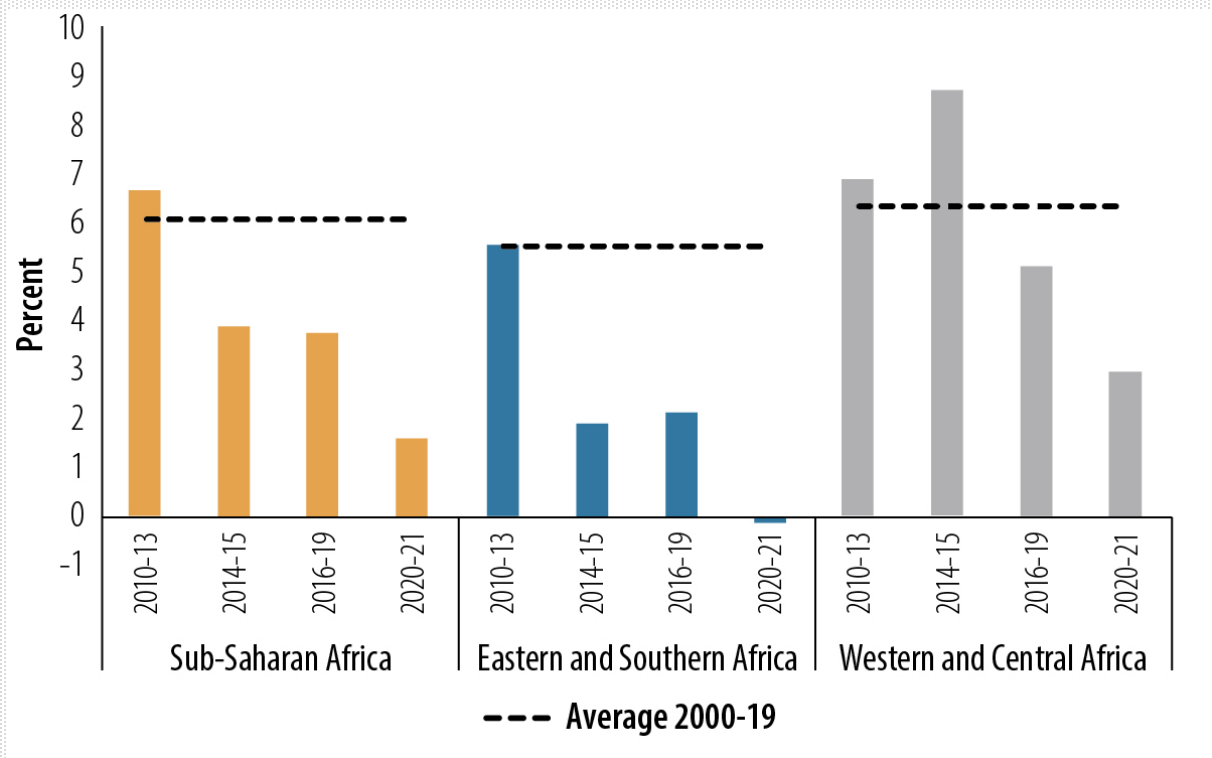


Source: BIS (database); Bloomberg; Haver Analytics; WDI (database); World Bank. IMF International Financial Statistics

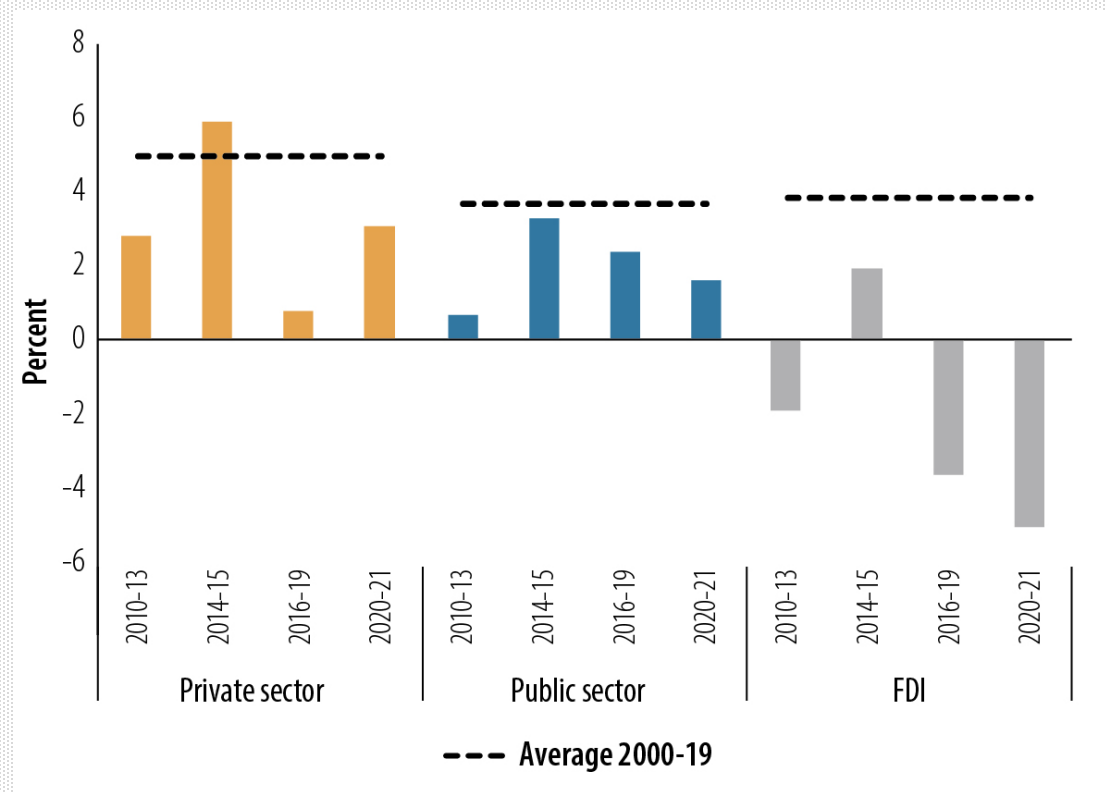


# [3] Lack of investments in SSA

## Slower investment growth in Sub-Saharan Africa and subregions



## Slower investment growth in private, public and foreign investments

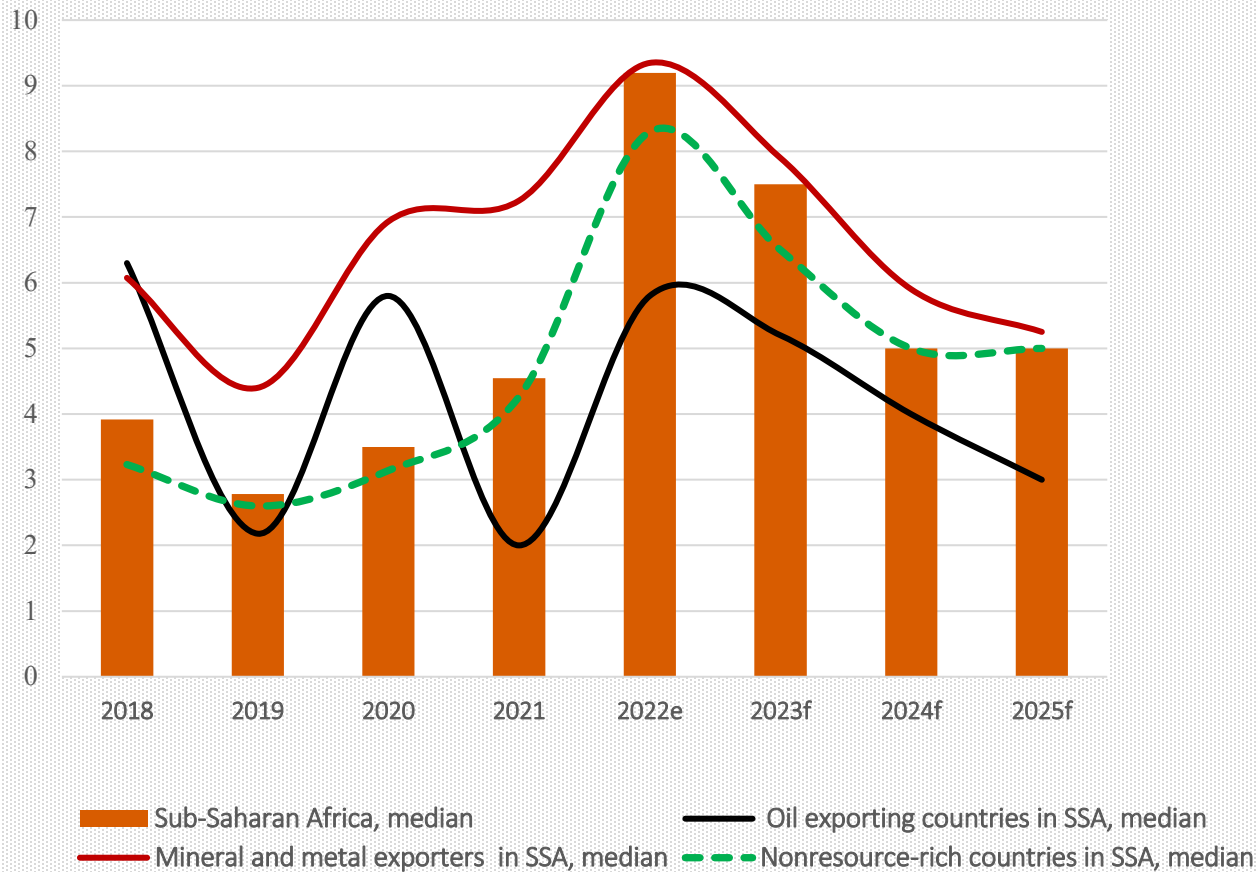


Sources: World Bank – World Development Indicators.

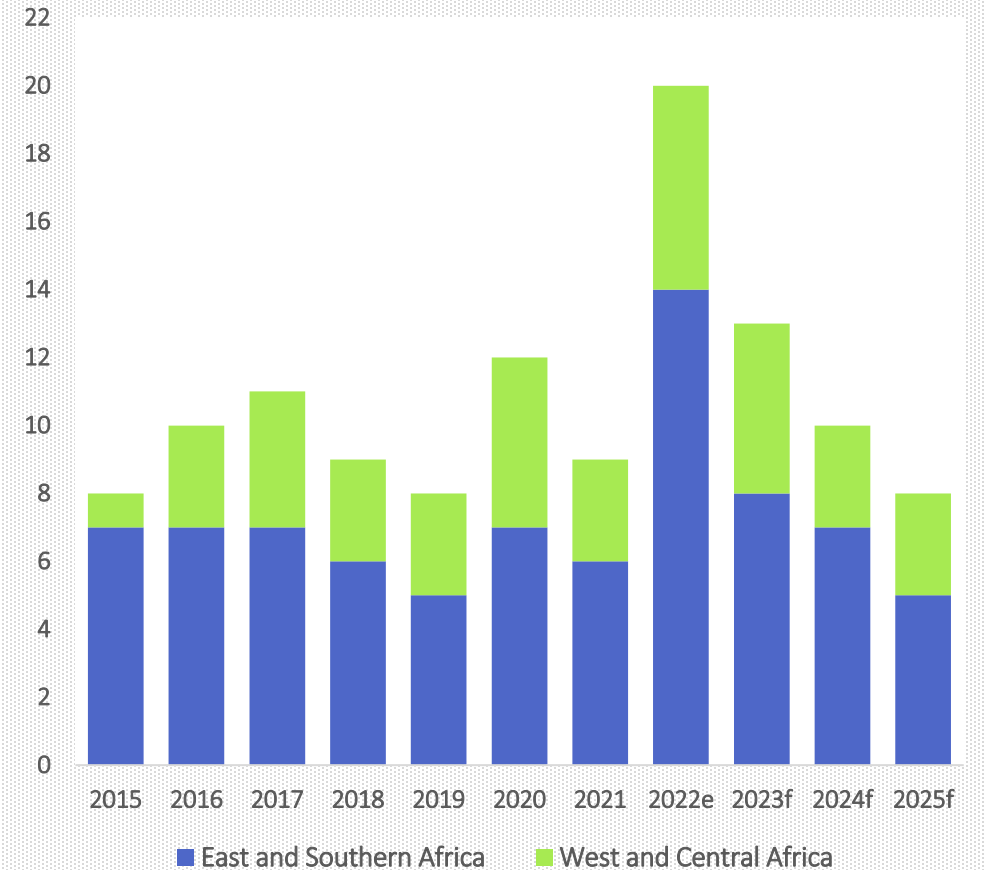


# [4] Persistent inflation

## CPI Inflation Rate, 2018-2025 (%)



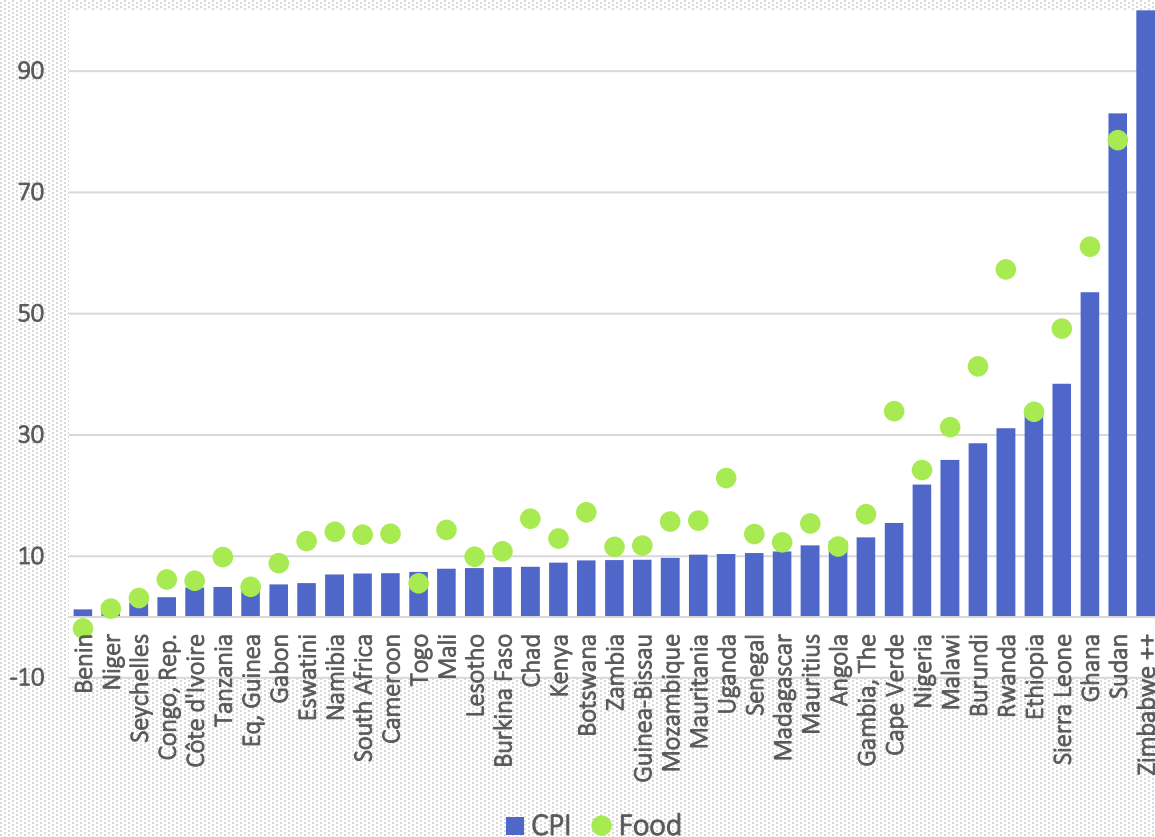
## Number of Countries with 2+ digit inflation



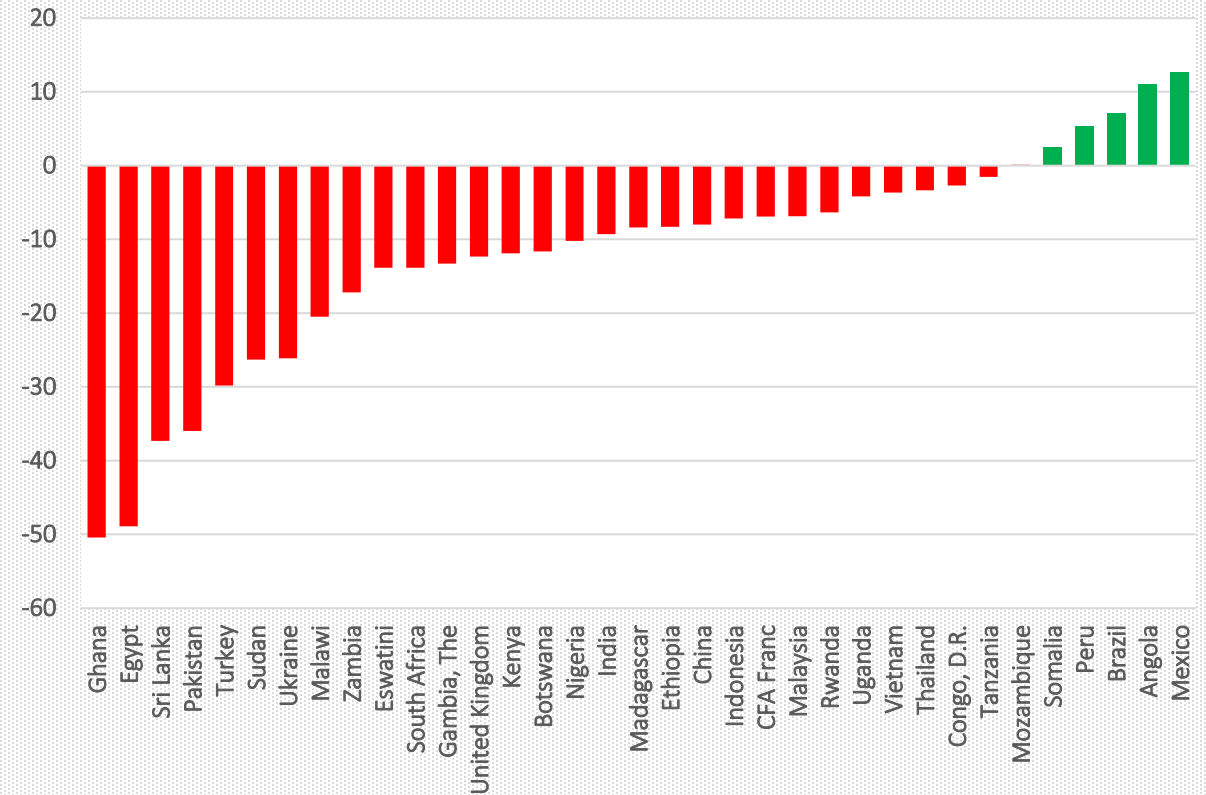
Source: World Bank Staff Estimates

# ...fueled by high food inflation and weaker currencies

Monthly headline and food inflation, Jan. 2023  
(%, y/y)



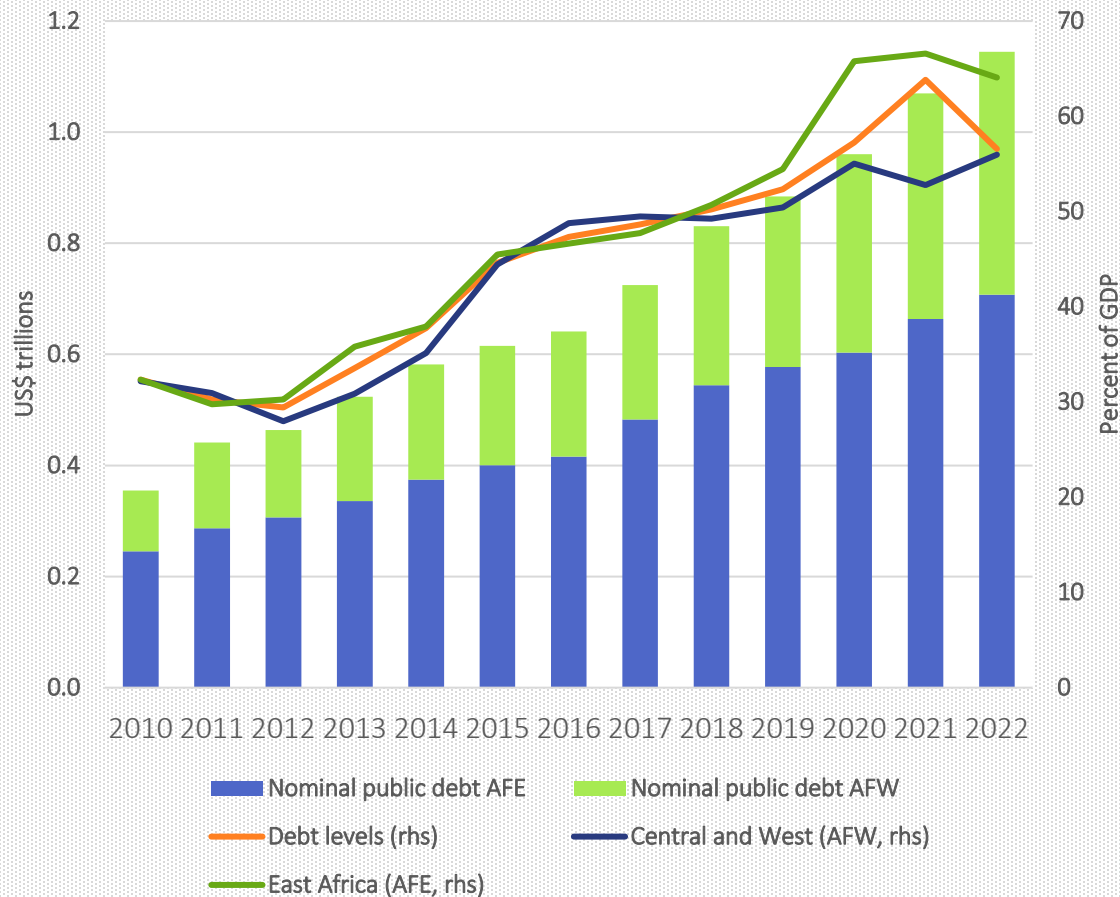
Cumulative variation in exchange rates from Dec. 2021 to Mar. 2023 (%)



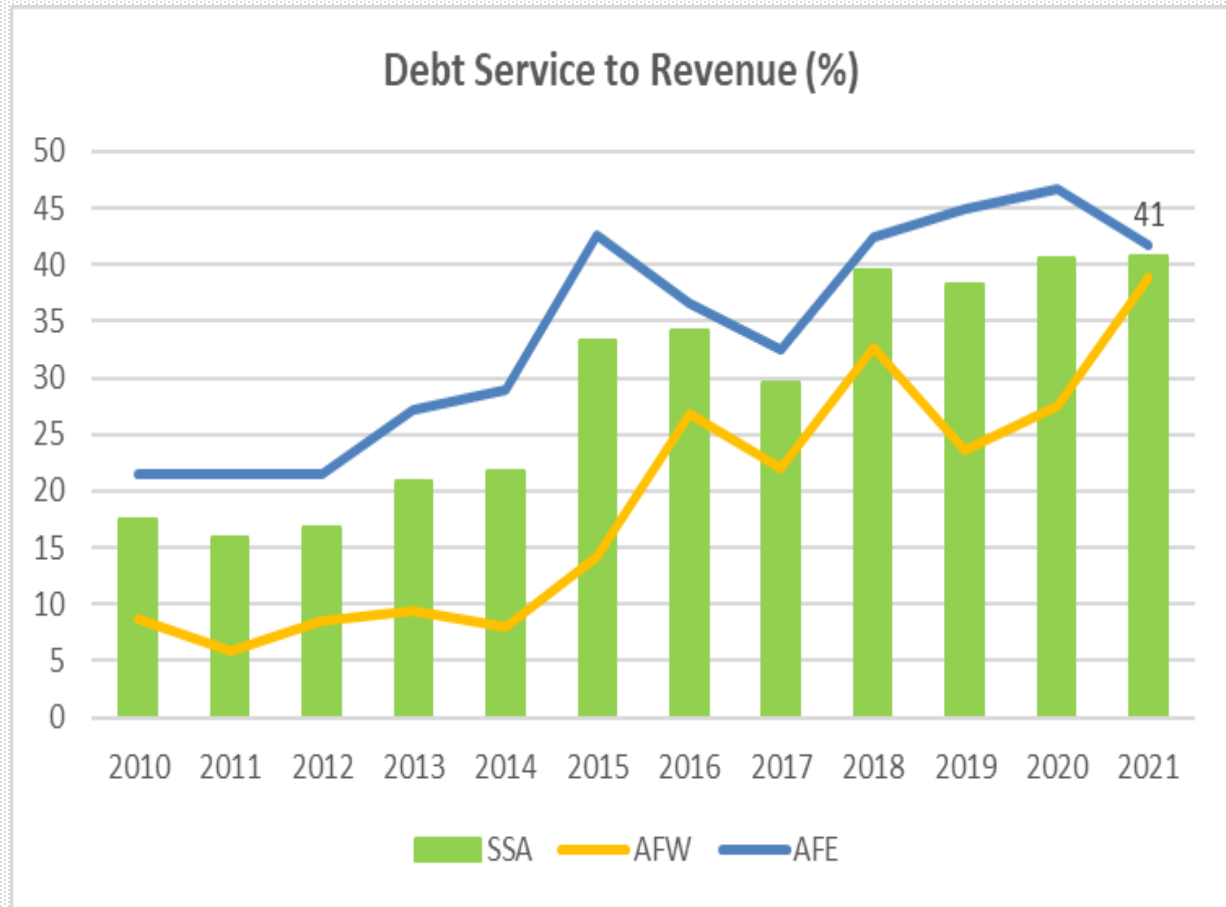
Source: Haver Analytics, Bloomberg

# [5] High levels of public debt

## Public Debt in Sub-Saharan Africa

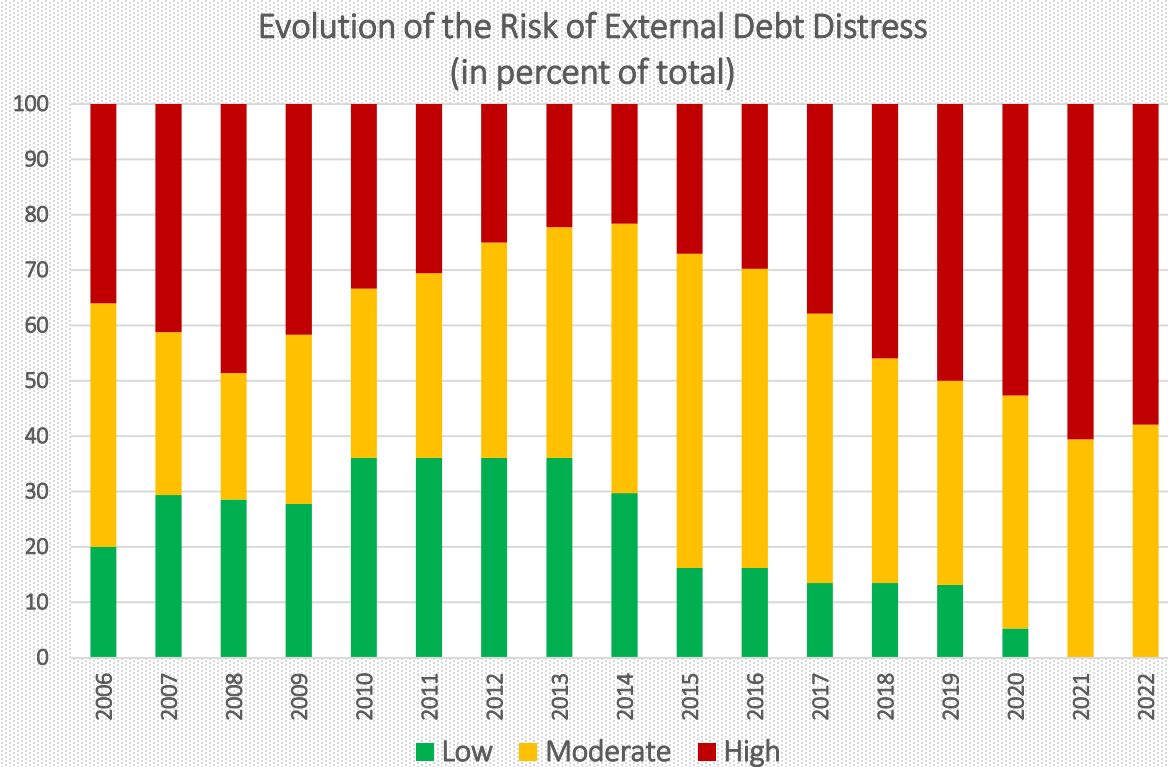


## Rising Debt Service

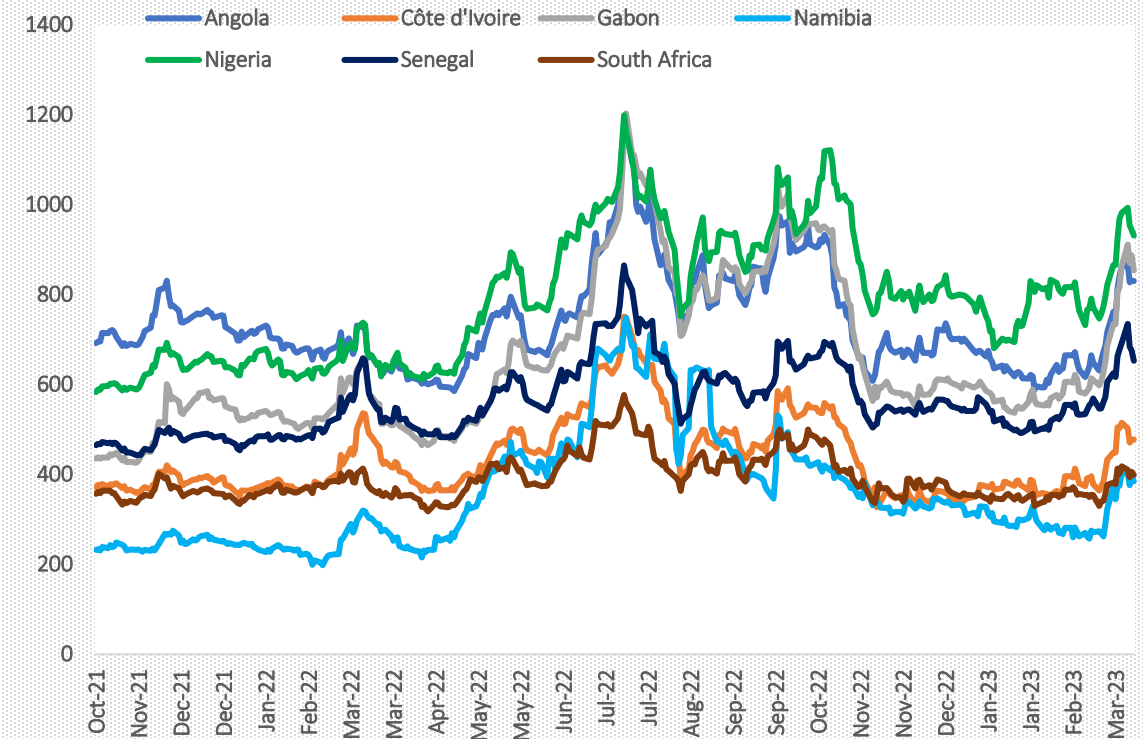


# ... and elevated debt vulnerabilities

## High Risk of debt distress for most SSA countries



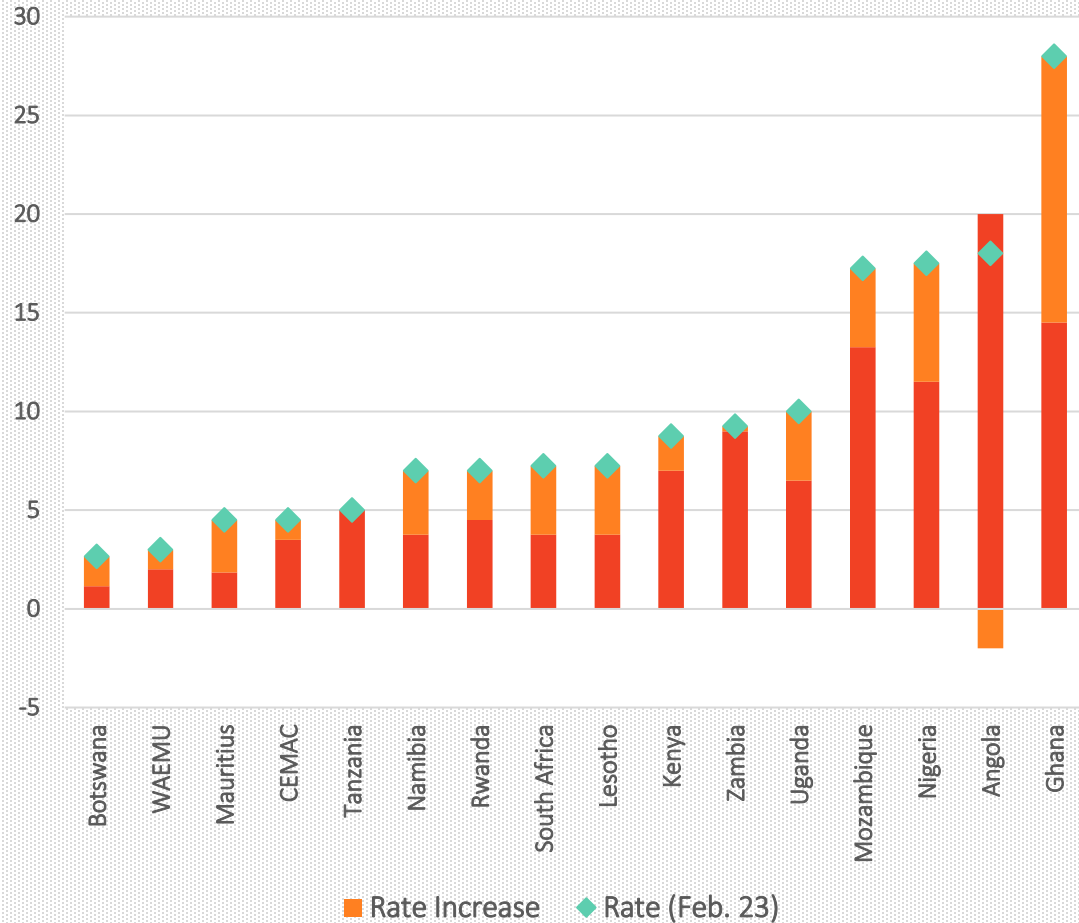
## Sovereign Spreads (in basis points)



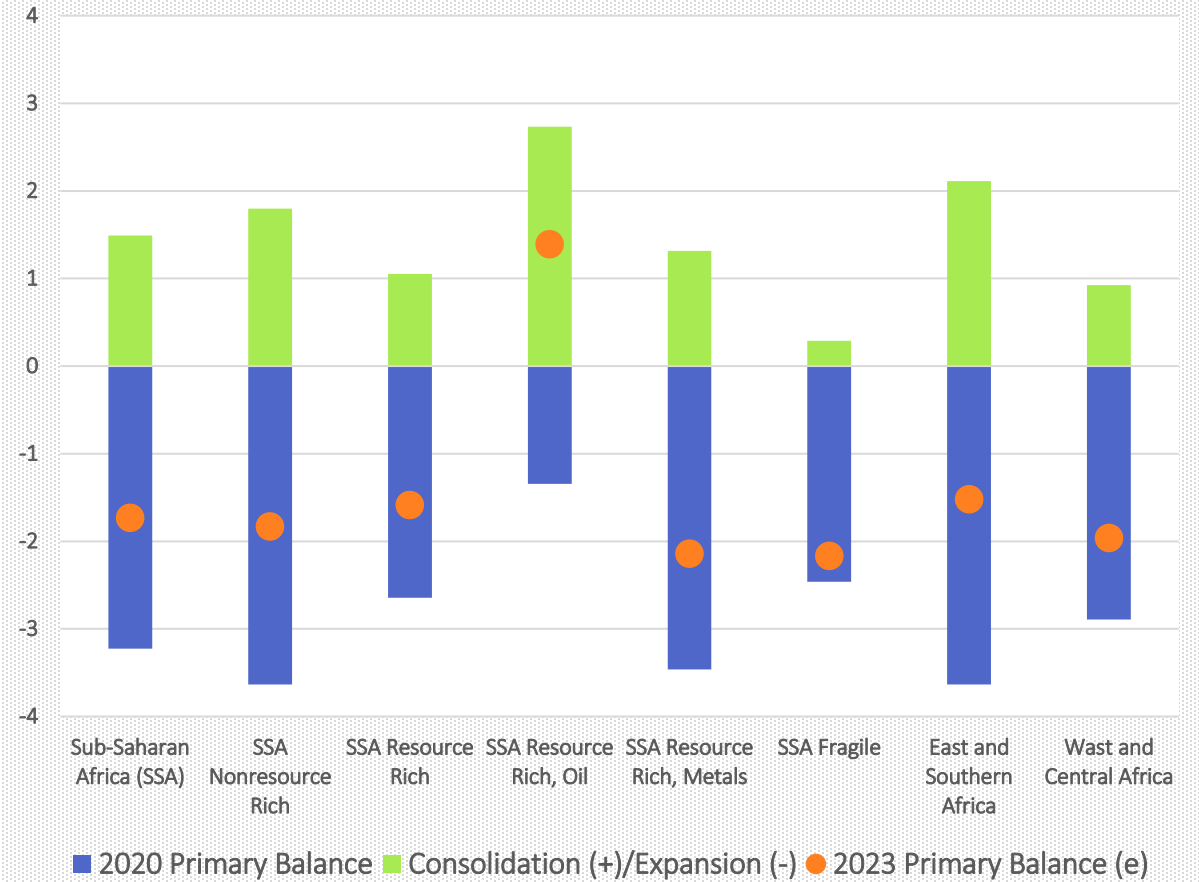
Source: World Bank staff calculations, Bloomberg

# Macroeconomic policy response so far...

## Monetary Policy Rates in SSA



## Primary Balance (% GDP)



Source: IMF World Economic Outlook, World Bank, Haver Analytics, Bloomberg.

# Policies: restoring stability and reigniting growth

African policymakers must rely increasingly on their domestic policy space to:

- (1) Restore macroeconomic stability
- (2) Deepen structural reforms to foster inclusive growth
- (3) Seize the opportunities available during the low carbon transition

# Restore macroeconomic stability

## Restoring macroeconomic stability

- Monetary tightening while keeping an eye on its effects on economic activity and the financial sector.
- Strengthen institutions that support an independent, transparent, sound and accountable central bank.
- Policy coordination to avoid actions that weaken monetary transmission such as fiscal dominance and FX restrictions.
- Fiscal policy anchored on debt sustainability.

## Accelerating debt reduction and improve debt restructuring mechanisms

- Speed up debt treatments under the Common Framework (clear timeline for different stages of the process, transparent rules and producers).
- Incentives to encourage earlier participation of the private creditors and new bilateral lenders.
- Increase uptake: Expand eligibility to middle-income countries with debt distress.
- Increase debt transparency to facilitate debt reconciliation and restructuring.



# Deepen structural reforms

## Bolster private investment and improve competitiveness

- Market reforms to curtail structural and regulatory barriers.
- Trade and FDI policies to boost participation in global markets and access to intermediate inputs
- Strengthening institutions to enforce competition laws (competition agencies, procurement systems)

## Boost public investment efficiency amid scarce financing resources

- Improve governance of investment projects (appraisal and selection)
- Enhance management of public-private partnerships
- Strengthen credibility of multi-year budgeting

## Attracting FDI and getting the most of it

- Infrastructure: Expanding/upgrading transportation system, access to electricity
- Institutions: Strengthening investment/export promotion agencies, modernizing customs/border control procedures
- Incentives: Competitive exchange rates, transparent regulations, pro-export trade policies

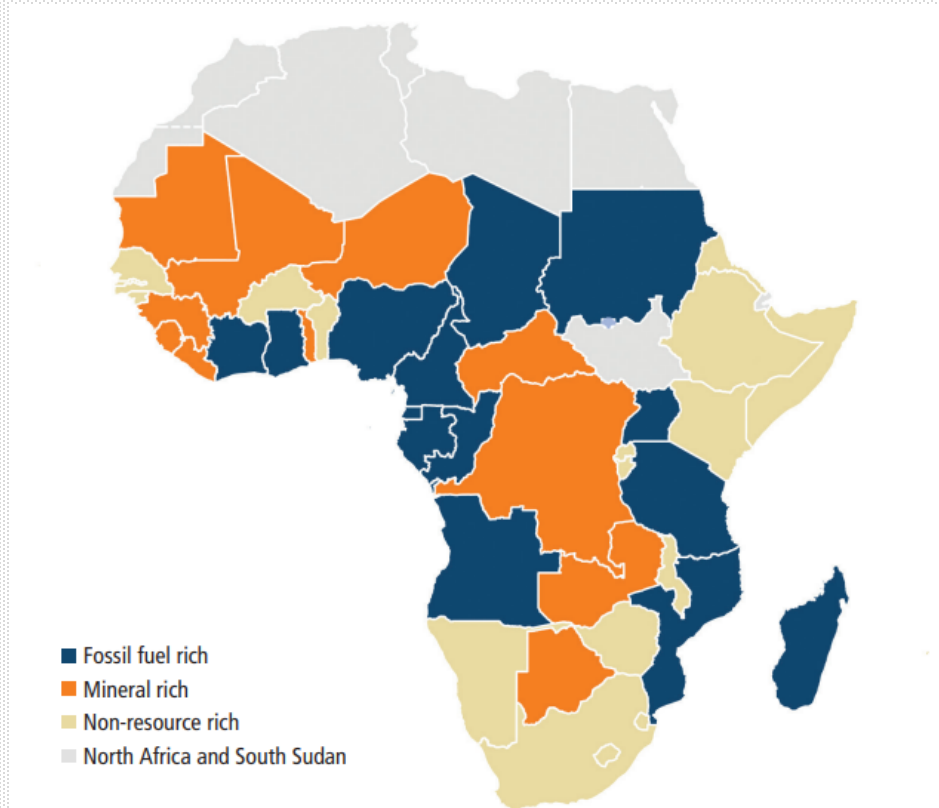


## **THE LOW CARBON TRANSITION PRESENTS AN OPPORTUNITY TO:**

- Achieve fiscal stability
- Drive economic transformation

# The number of resource rich countries in Africa is growing, with significant recent discoveries

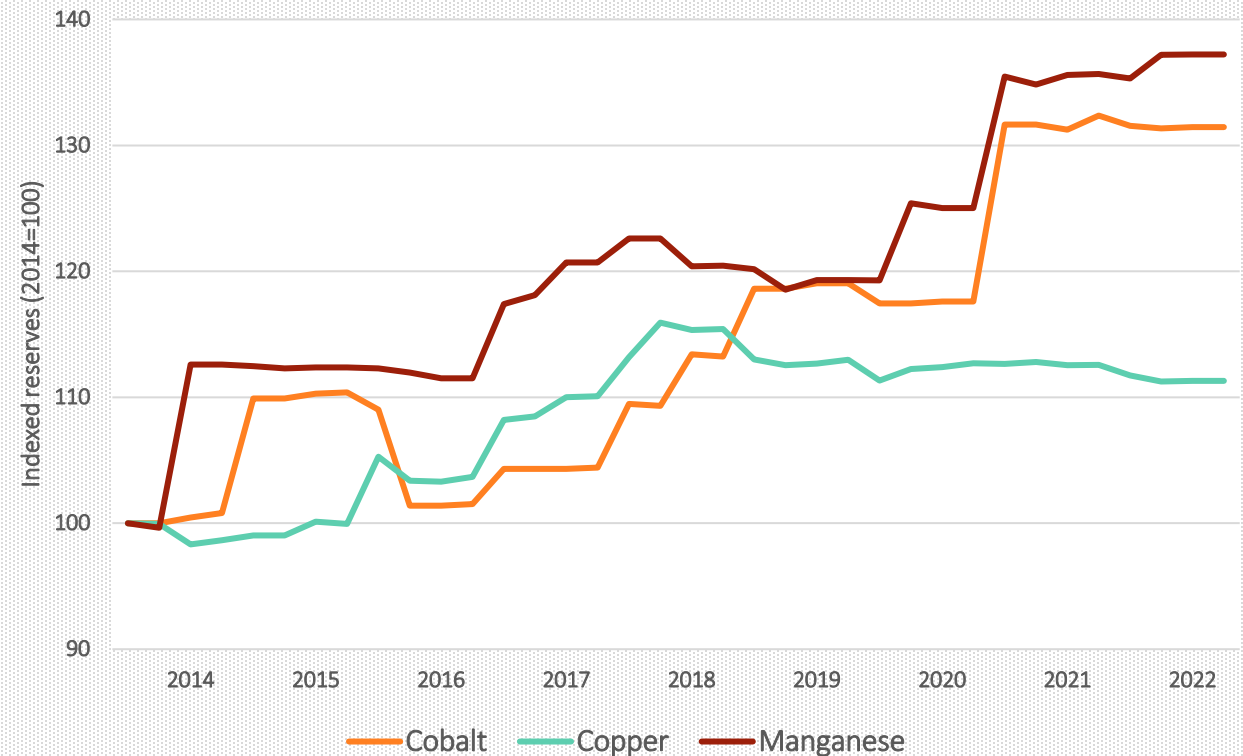
## Resource rich countries in Africa



Source: Based on IMF 2012.

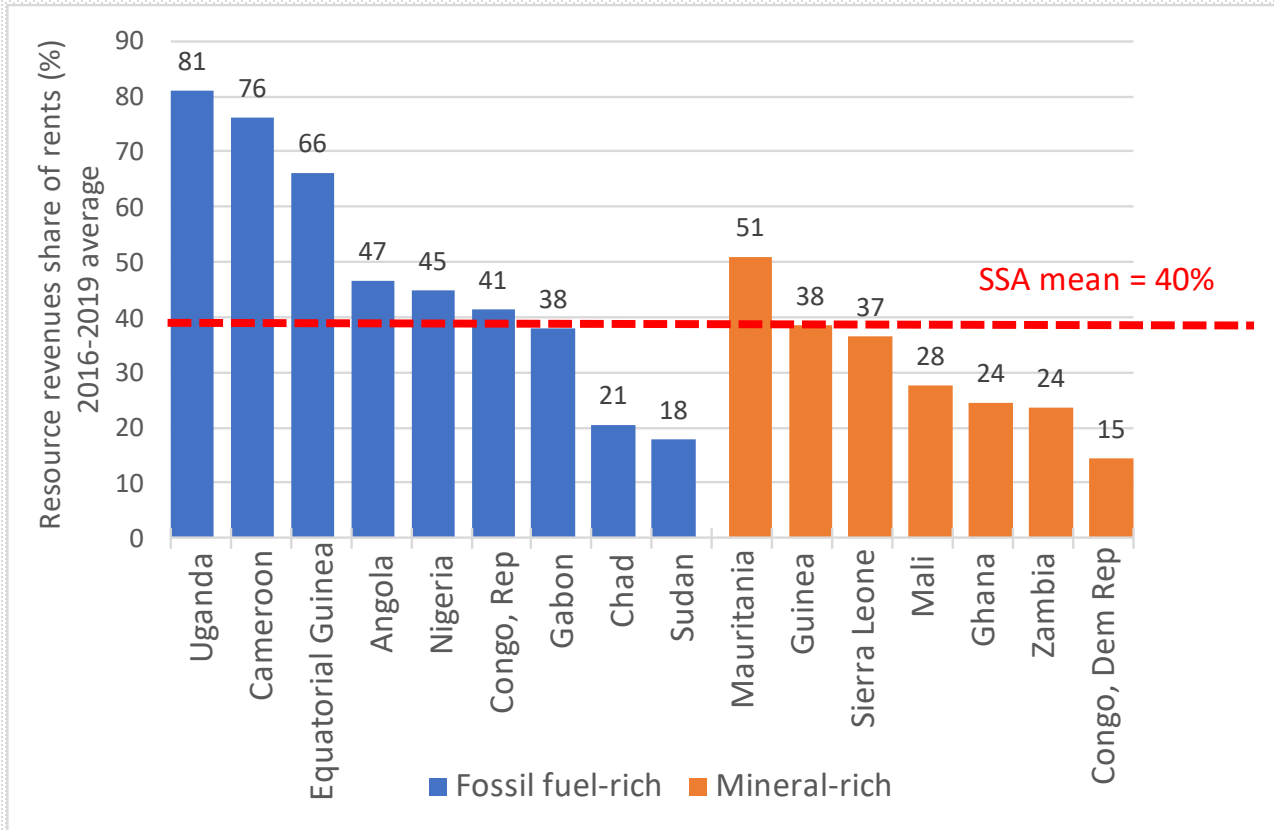
Note: Resource-rich countries are defined in IMF (2012) as low-income, lower-middle-income, or upper-middle-income countries that had either natural resource revenue or exports equating to at least 20 percent of total fiscal revenue or exports, respectively, over the period 2006–10, including countries with identified reserves but where production has not begun or has not reached significant levels. Countries where the main type of natural resource is oil or gas are in blue. Countries where the main type of natural resource is minerals and metals are in orange. South Sudan is not included in the IMF (2012) resource-rich country classification.

## Growth in mineral reserves



Source: World Bank 2023

# Significant untapped fiscal opportunities from natural resources



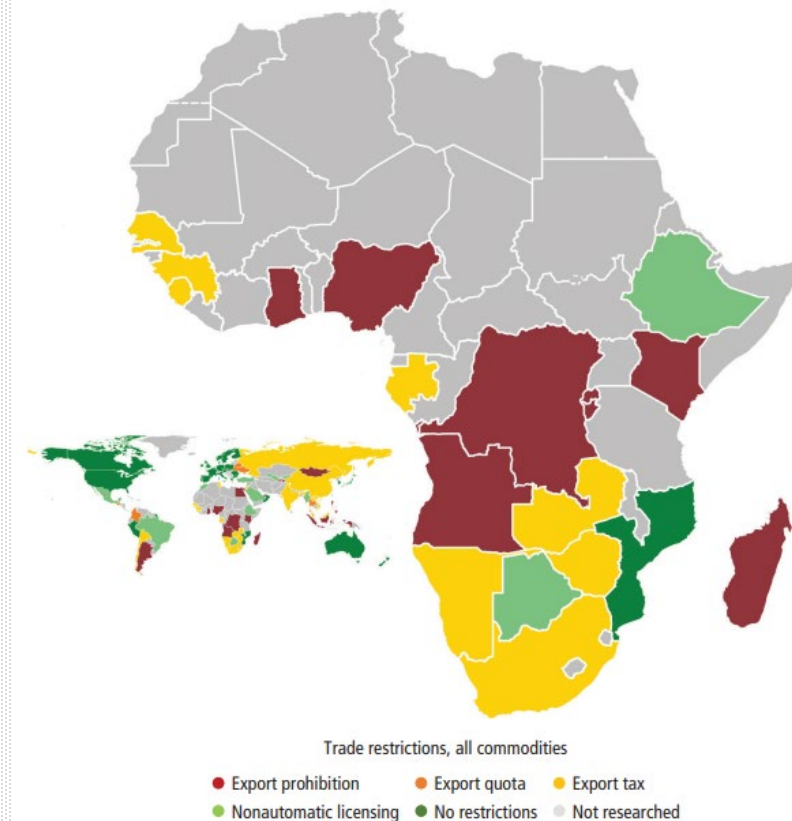
Source: World Bank 2023

- Fiscal opportunity: Africa's resource rich countries captured around 40% of total rents as government revenues
- New discoveries can generate new sources of investment and revenues
- Strengthening fiscal administration can boost revenue capture from existing projects
- Taxing fossil fuels more would reduce any implicit production subsidy, helping to mitigate carbon emissions

# Regional Integration Presents an Opportunity to Unlock Regional Value Chains

- African Continental Free Trade Area Could help mining sector policies to be more regional and continental
- Reducing and harmonizing mineral tariffs can help promote regional value chains
- New examples of regional cooperation are emerging such as recent 'Battery Minerals' mou between DRC, Zambia and the USA.

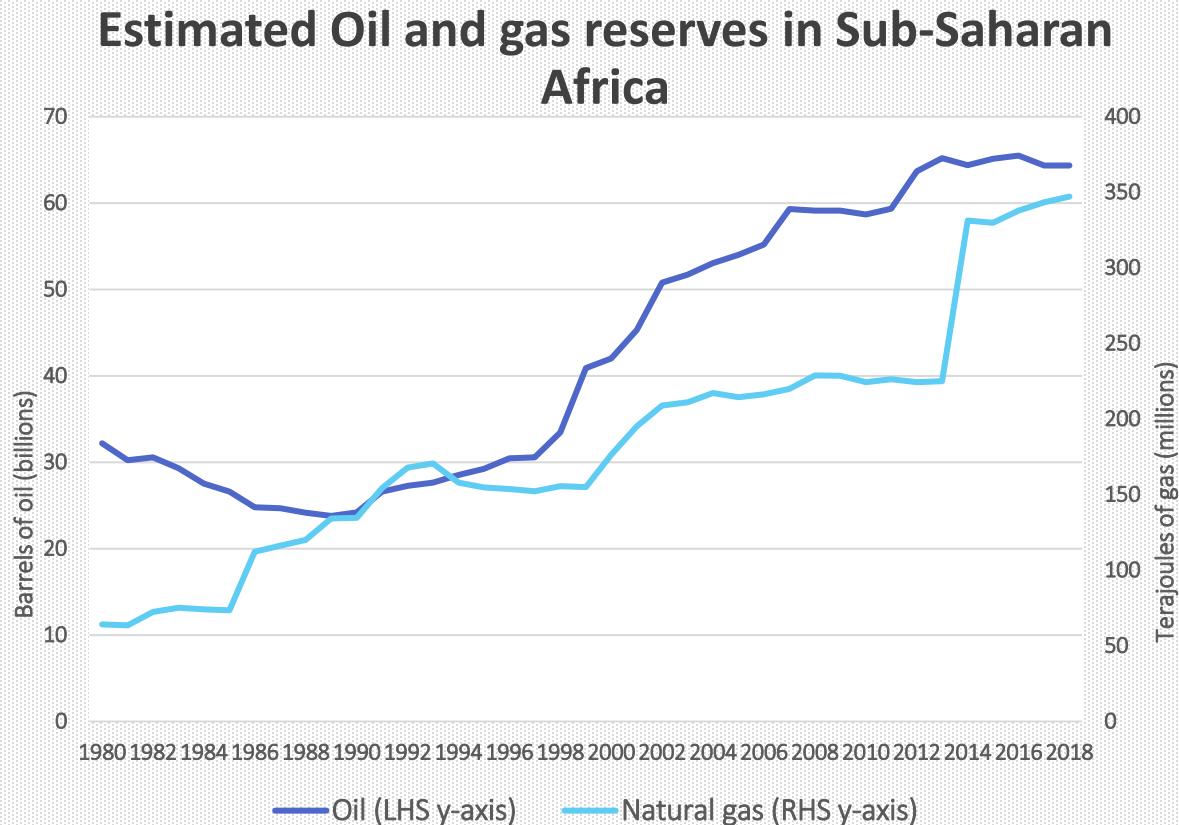
## National mineral trade restrictions may impede progress on AfCFTA and regional integration



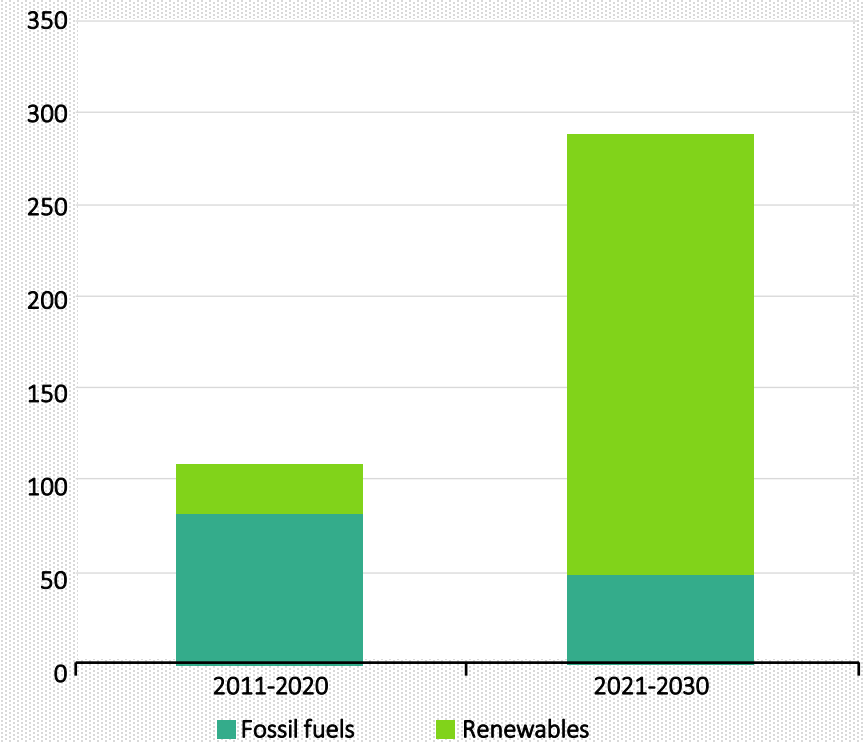
Source: Based on Trade in Raw Materials Database, OECD 2020.

Note: Color coding is indicative of severity of restriction and not of the number of restrictions. Countries in gray have no data.

# Leveraging natural gas reserves will play a role in meeting universal energy access goals



### Power generation capacity additions in Africa to reach universal energy access by 2030

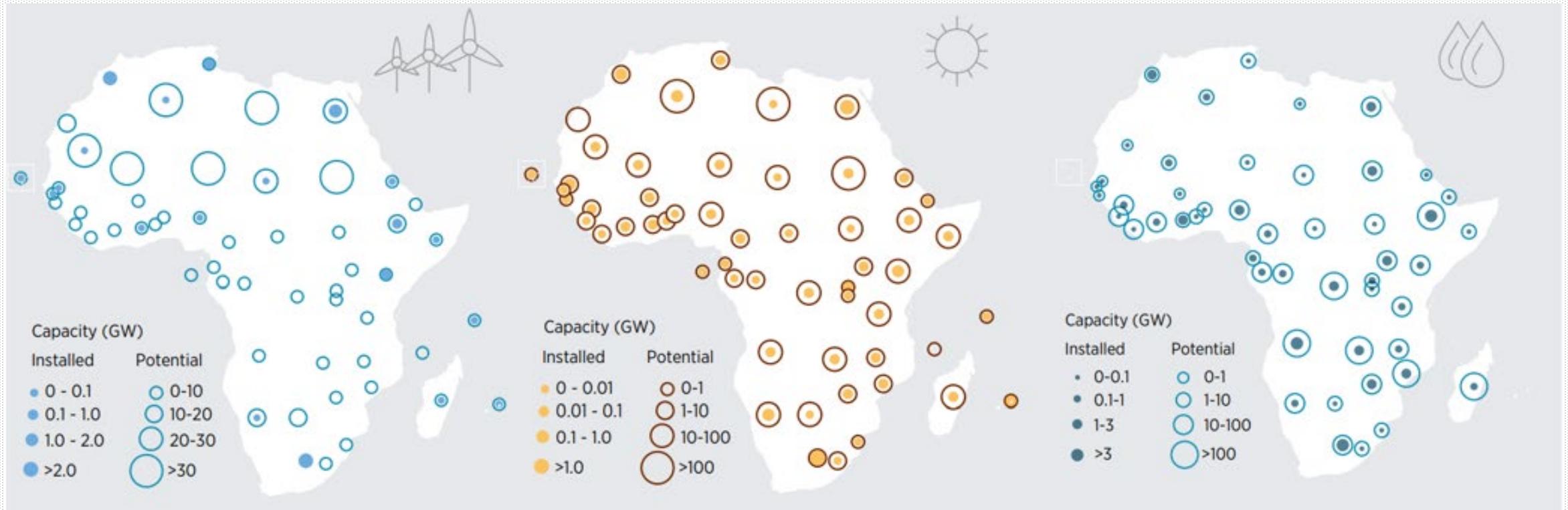


Source: World Bank (2021) and International Energy Agency (2022).



# Africa has significant – and untapped – renewable energy potential

Potential and installed capacity for wind (left), solar (middle), and hydropower (right)



Source: International Renewable Energy Agency (2022)





# Policies:

## Opportunities to leverage resources for growth

### **Leverage natural resources for fiscal revenue and economic growth**

- Increase value captured from both fossil fuels and mining, through fiscal regime that maximizes resource rent capture, while being stable and robust to changing circumstances
- Manage the boom and boom and bust cycle with by managing expectations, developing and maintaining sound fiscal policies, and investing resource revenues into human capital development
- Prepare for a future by supporting asset diversification and skills development amidst automation

### **Utilize into the African Continental Free Trade Area to build regional value chains**

- Work towards tariff harmonization and implementation of continental free trade
- Mitigate non-tariff barriers, including energy, transportation, and customs barriers
- Work to maximize regional value addition and build regional value chains, particularly by mitigating nationally-focused protections and restrictions



# Policies: Opportunities to move towards universal energy access

## Recommendations for improving access to electricity

- Ambitious scaling up of energy generation and access to meet Africa's growing needs. This includes important roles for Africa's significant gas reserves alongside renewables
- Utilize fiscal revenue from, and investments in, the mining, oil and gas sectors to support universal energy access through public investments in renewable energy.
- Strengthen grid and mini-grid infrastructure wherever feasible, while limiting subsidies to low quality electricity alternatives



**Thank you!**