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Item 3 of the provisional agenda*
Overview of recent economic and social developments in Africa

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I. Economic performance

A. Subdued growth performance and prospects

1. Growth in Africa bottomed out at 2.6 per cent in 2023 but was forecast to rebound to 2.9 per cent in 2024 and to recover further to 3.8 per cent in 2025 and to 4.1 per cent in 2026 (see figure I). The recovery is being driven primarily by increased private consumption, fuelled by the easing of inflationary pressures, which is enhancing household purchasing power. Improvements in trade performance and a gradual relaxation of tight global financial conditions are also contributing to growth.[1]

2. In resource-intensive economies, however, growth is expected to be subdued owing to the softening of commodity prices in response to improved supply conditions – mainly for energy and food commodities – despite heightened geopolitical tensions.[2] The gross domestic product (GDP) of Africa is expected to exceed global GDP growth, with the latter forecast to stabilize at about 2.8 per cent between 2024 and 2026 (see figure I), stymied mainly by declining inflation rates associated with monetary easing to support economic activity in developed and developing economies. Short-term to medium-term growth in Africa may be hampered by global economic risks, adverse weather patterns, supply chain disruptions caused by geopolitical tensions, and commodity and food price increases caused by elevated shipping costs.

* E/ECA/COE/43/1.

[1] International Monetary Fund (IMF), *World Economic Outlook: Steady but Slow: Resilience amid Divergence* (Washington, D.C., 2024); World Bank, *Tackling Inequality to Revitalize Growth and Reduce Poverty in Africa*, No. 29, *Africa's Pulse* (Washington, D.C., 2024).

[2] World Bank, *Global Economic Prospects, January 2025* (Washington, D.C., 2005).

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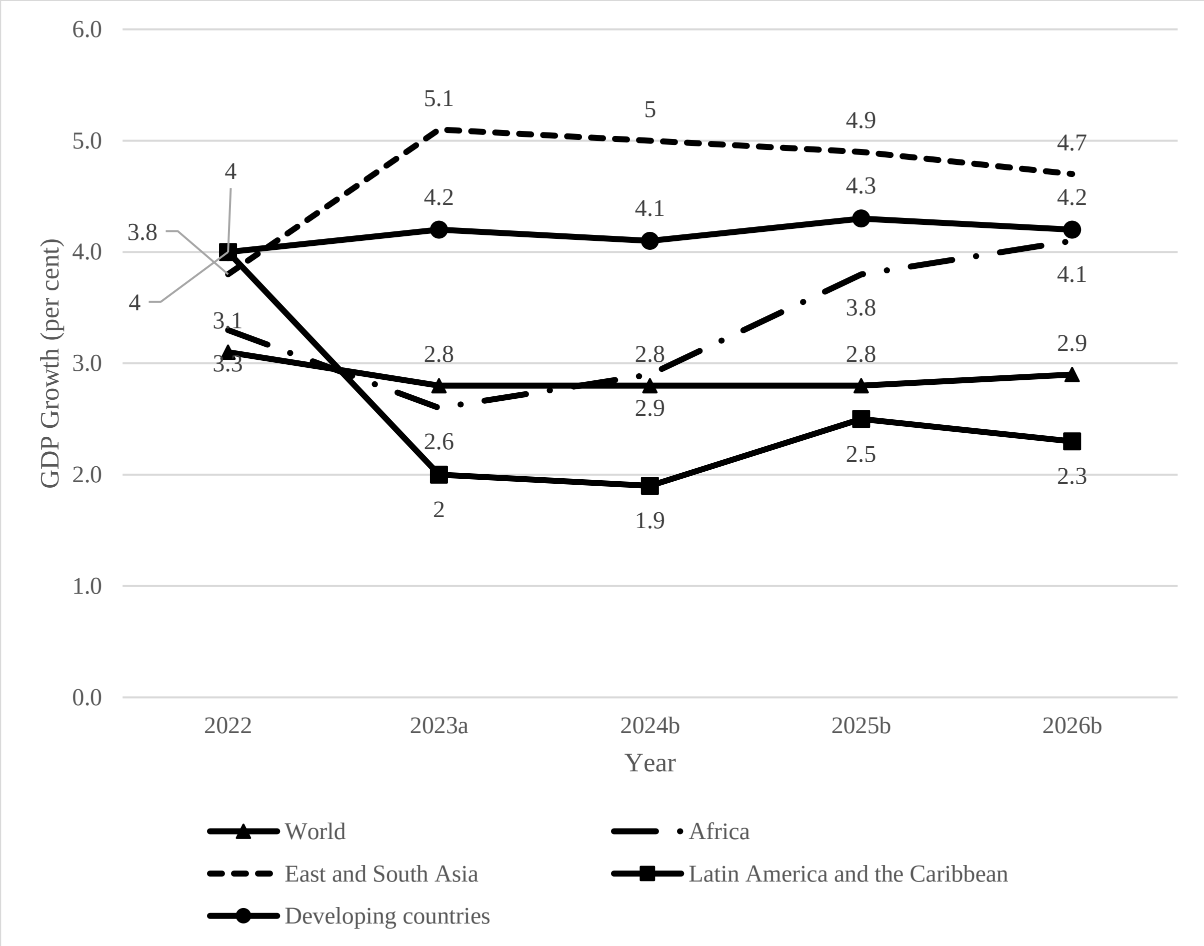
Figure I
Growth in gross domestic product by region, 2022–2026
(Percentage)



Source: Department of Economic and Social Affairs, *World Economic Situation and Prospects 2025* (New York, United Nations, 2025).

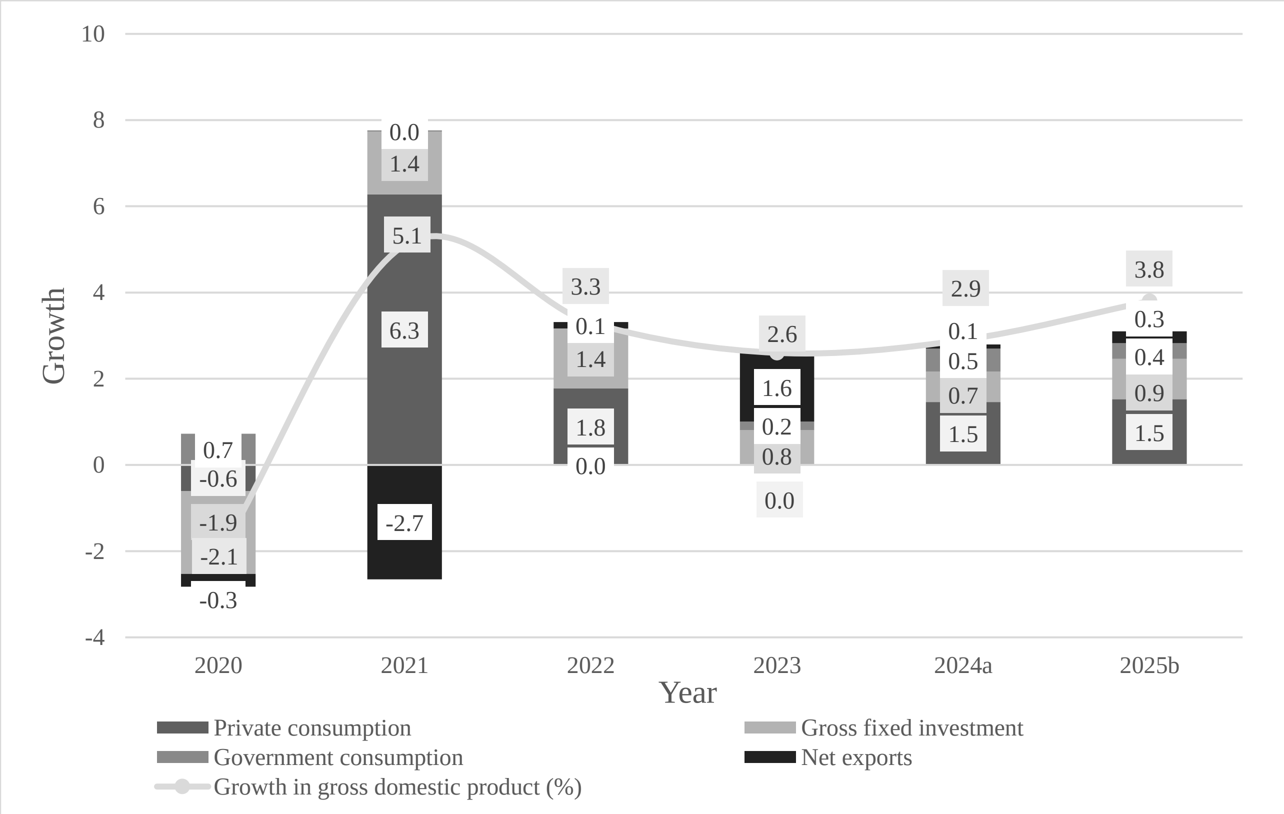
[a] Estimates.

[b] Forecasts.

B. Private consumption to drive growth in 2024–2025

3. Increased private consumption and investment are likely to remain the main drivers of growth in Africa over the short to medium term (see figure II). Although trade played a crucial role in the rebound in economic growth that the region experienced in 2023, its contribution to growth has been declining in many countries and has been minimal on overall growth in Africa since the coronavirus disease (COVID-19) pandemic. In the future, it will be important for most African countries to rebalance their sources of growth away from consumption and towards trade and investment. Figure II indicates that countries that draw most of their GDP from trade tend to grow more quickly, which would suggest that strategic trade-supporting policies are needed. Enhanced implementation of the Agreement Establishing the African Continental Free Trade Area combined with well-designed industrial policies may help to improve competitiveness, including through technology-driven productivity gains and through skills enhancement.

Figure II
Economic growth components in Africa, 2020–2025
(Percentage points)



Source: Economic Commission for Africa (ECA) calculations based on data from Economist Intelligence Unit (2024). EIU Database. Available at: https://viewpoint.eiu.com/data/ (accessed in December 2024) and *World Economic Situation and Prospects 2025* (see figure I).

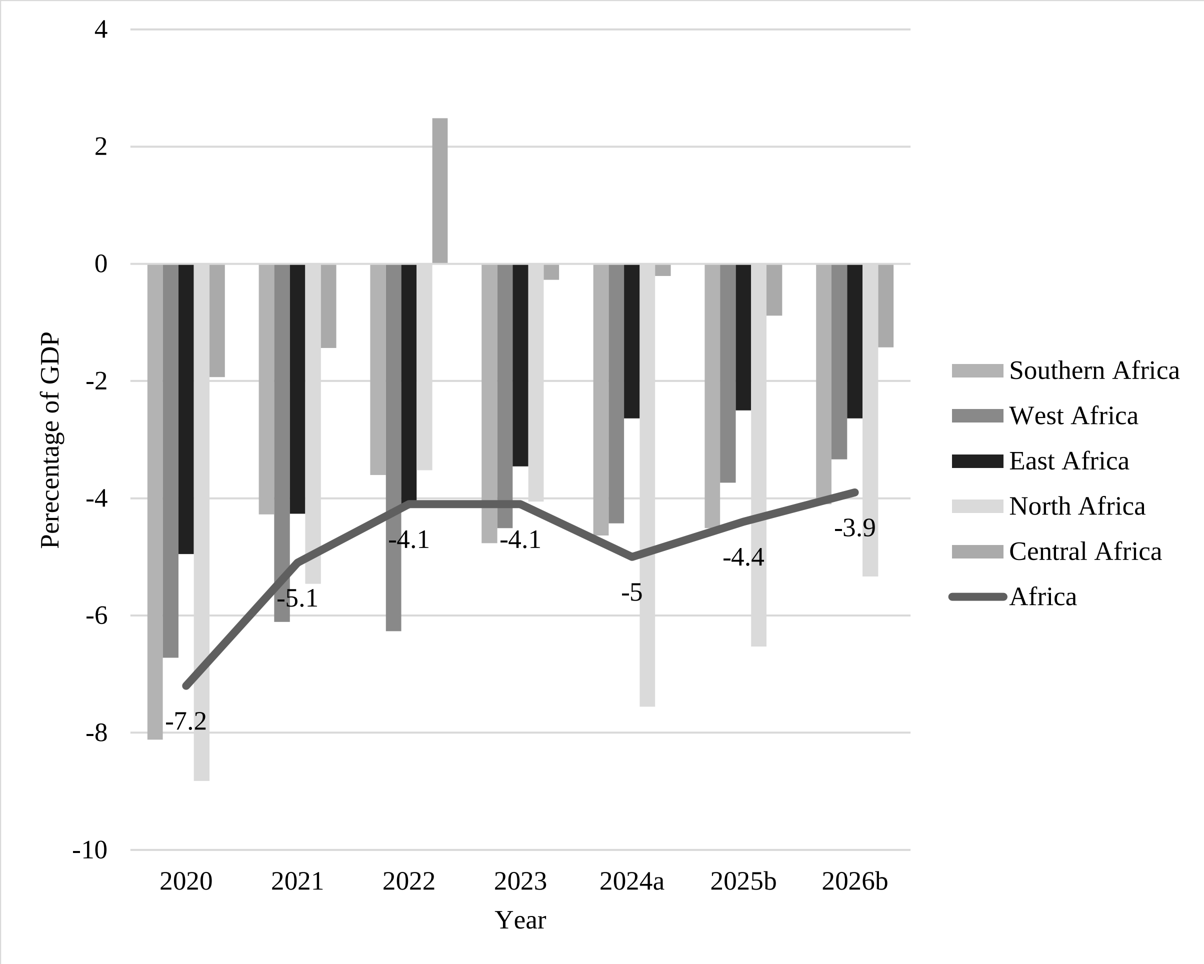
[a] Estimates.

[b] Forecasts.

C. Expected improvement in fiscal performance in 2025

4. African countries have faced significant fiscal challenges since the height of the COVID-19 pandemic while trying to balance their high public debt levels, elevated interest rates and increasing public spending needs. Their fiscal space remains severely constrained owing to high debt levels, high interest rates, the strengthening of the United States dollar and subdued global economic growth. As a result, most Governments are expected to tighten their fiscal policy to reduce their budget deficits and public debt burdens. The average fiscal deficit of African countries was projected to widen slightly in 2024 but is then forecast to return to pre-pandemic levels in 2025 or 2026 as countries gradually restore their fiscal positions by reducing their spending and implementing strategies to increase their domestic revenue. The average deficit is forecast to narrow from 5.0 per cent of GDP in 2024 to 4.4 per cent in 2025 and 3.9 per cent in 2026 (see figure III). The widening of deficits in 2024 can be attributed primarily to a slight expansion of the primary balance (the difference between government revenue and expenditure, excluding interest payments) as a result of steps taken to alleviate the impact of relatively high food prices caused by increased net capital outflows and currency devaluations in some countries and as a result of subdued export revenues, mainly in resource-intensive economies, largely caused by subdued demand from China.

Figure III
Fiscal balance in Africa by subregion, 2020–2026



Source: ECA calculations based on International Monetary Fund (IMF), World Economic Outlook Database. Available at www.imf.org/en/Publications/WEO/weo-database/2024/April (accessed on 22 August 2024).

[a] Estimates.

[b] Forecasts.

5. North Africa is the only subregion in Africa for which the average fiscal deficit by country is forecast to widen in 2025, from 4.1 per cent to 7.6 per cent of GDP (see figure III). This widening of the deficit is attributed to tax revenue shortfalls and rising debt payments. The other subregions of Africa are expected to narrow their average fiscal deficits. According to estimates, Southern Africa was expected to experience an average fiscal deficit by country of 4.6 per cent of GDP in 2024, owing to high debt servicing costs, which have affected the fiscal spending capacity of the countries in the subregion. Similarly, West Africa was expected to strengthen its fiscal position by slightly reducing the average budget deficit of the countries in the subregion from 4.5 per cent in 2023 to -4.4 per cent in 2024, owing to improvements in the fiscal positions of such countries as Côte d’Ivoire, Ghana, Nigeria and Sierra Leone. Finally, Central Africa was estimated to have the smallest average deficit in 2024, followed by East Africa. According to forecasts, this will continue to be the case in 2025.

6. Fiscal policies in Africa have historically tended to be procyclical, with the notable exception of the continent’s response to the 2009 global financial

crisis.[3] The adoption of countercyclical policies in Africa gained prominence during the crisis and was further reinforced during the COVID-19 pandemic. Both crises saw African countries implement coordinated fiscal and monetary policies to stabilize their economies, although the scale of intervention was more significant during the pandemic owing to its widespread and prolonged economic impact. Countercyclical policies enhance resilience to external shocks and create fiscal space for countercyclical interventions, but high debt levels limit the ability of many African countries to maintain such policies or support public investment.

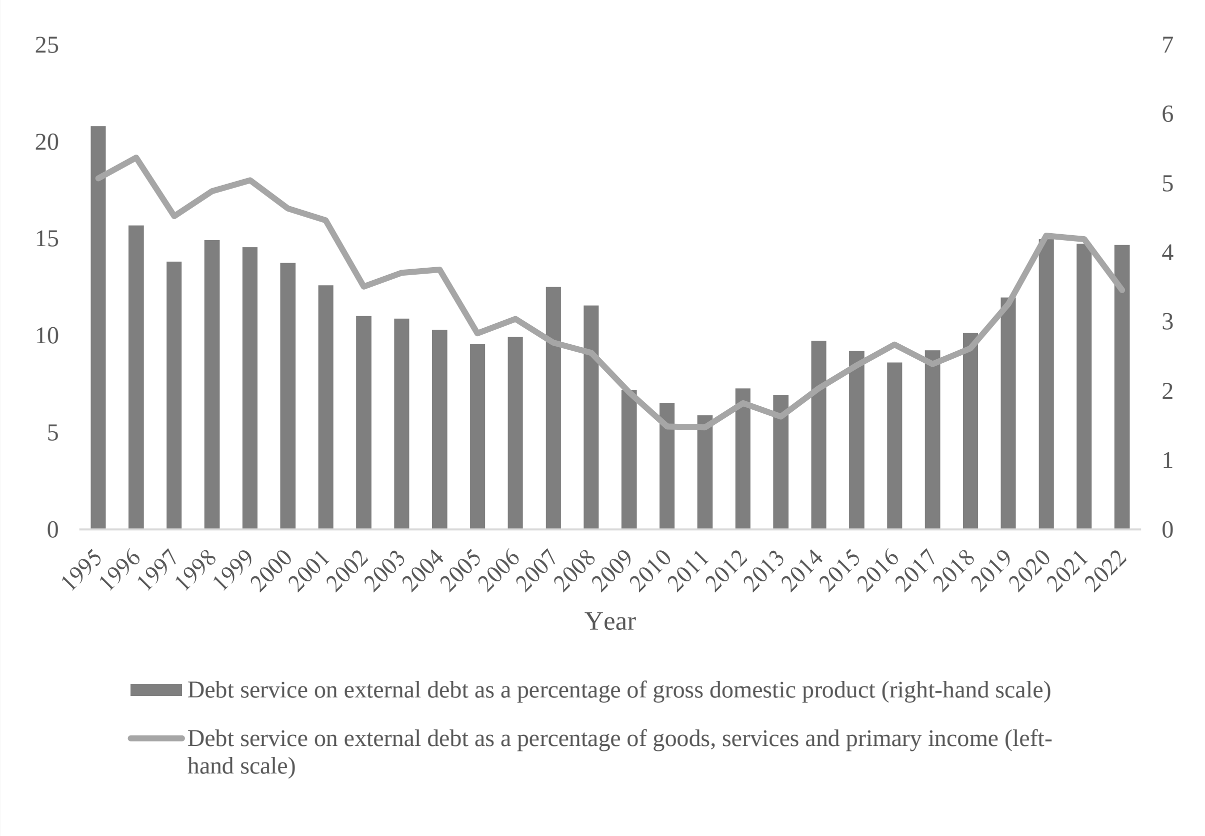
D. Growing debt service burden

7. The rapidly growing debt servicing burden is increasingly crowding out resources for essential public services and investment in African countries. External debt service as a percentage of GDP rose from 1.6 per cent in 2011 to 4.1 per cent in 2022 and rose as a percentage of goods, services and primary income by about 7 percentage points during the same period (see figure IV). Average interest payments rose to an estimated 27 per cent of government revenue in 2024, up from 19 per cent in 2019, in part because, in recent years, some of the continent's largest economies – including Angola, Egypt, Ghana, Nigeria and Uganda – made interest payments that exceeded their total expenditure on education and health. This situation reflects the severe trade-offs that African countries face in terms of financing their development priorities (UNDESA 2025).[4]

[3] Louis Kasekende, Zuzana Brixiova and Leonce Ndikumana, "Africa: Africa's counter-cyclical policy responses to the crisis", *Journal of Globalization and Development*, vol. 1, No. 1 (2010).

[4] Department of Economic and Social Affairs, *World Economic Situation and Prospects 2025* (New York, United Nations, 2025).

Figure IV
Average debt service on external debt among African countries, 1995–2022
(Percentage of GDP)

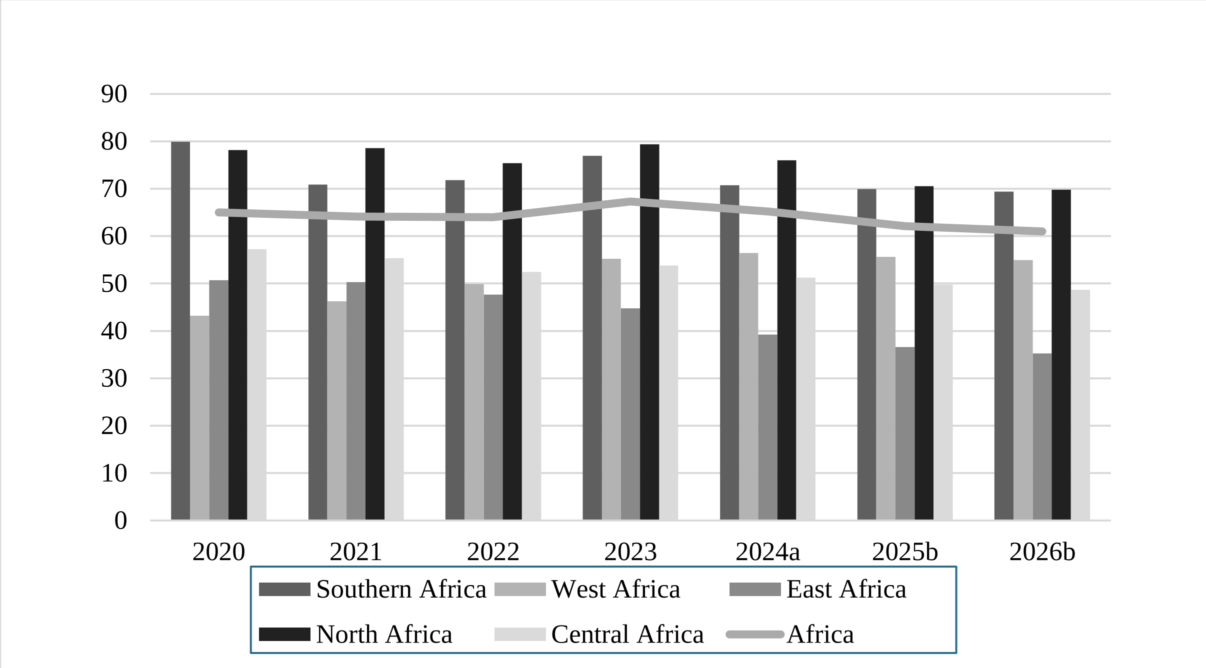


Sources: World Bank, "Debt service on external debt, total (TDS, current US$)", International Debt Statistics database. Available at https://databank.worldbank.org/source/international-debt-statistics (accessed in November 2024); and World Bank, "GDP (current US$)", World Development Indicators database. Available at https://databank.worldbank.org/reports.aspx?source=2&series=NY.GDP.MKTP.CD&country (accessed in November 2024).

E. Debt vulnerabilities remain high

8. The debt-to-GDP ratio in Africa is estimated to have declined from 67.3 per cent in 2023 to 65.2 per cent in 2024 and is forecast to decline further to 62.1 per cent in 2025 (see figure IV), although debt levels remain high in some countries. The decline is being supported by a return to normal fiscal policy following the unprecedented levels of support during the multiple crises, alongside robust growth and narrowing fiscal deficits. The significant debt repayments that African countries make are expected to decline in 2025 after peaking in 2024, and ongoing financing challenges are compelling countries to reduce essential public spending and to redirect their resources towards debt servicing. In 2024, Africa is estimated to have incurred $163 billion in debt service costs, an increase of approximately 12 per cent from the previous year. Although debt service costs are forecast to decline in 2025, they will remain above pre-pandemic levels in the short to medium term. Vulnerabilities remain high, with some countries facing high interest rates, public finance volatilities, accumulation of arrears and the prolonged impact of external shocks. North Africa is estimated to have been the subregion with the highest debt-to-GDP ratio in 2024, at 76.0 per cent, while East Africa is estimated to have had the lowest, at 39.2 per cent (see figure V).

Figure V
Gross government debt in Africa by subregion, 2020–2026
(Percentage of gross domestic product)



Source: World Economic Outlook Database (see figure III).

[a] Estimates.

[b] Forecasts.

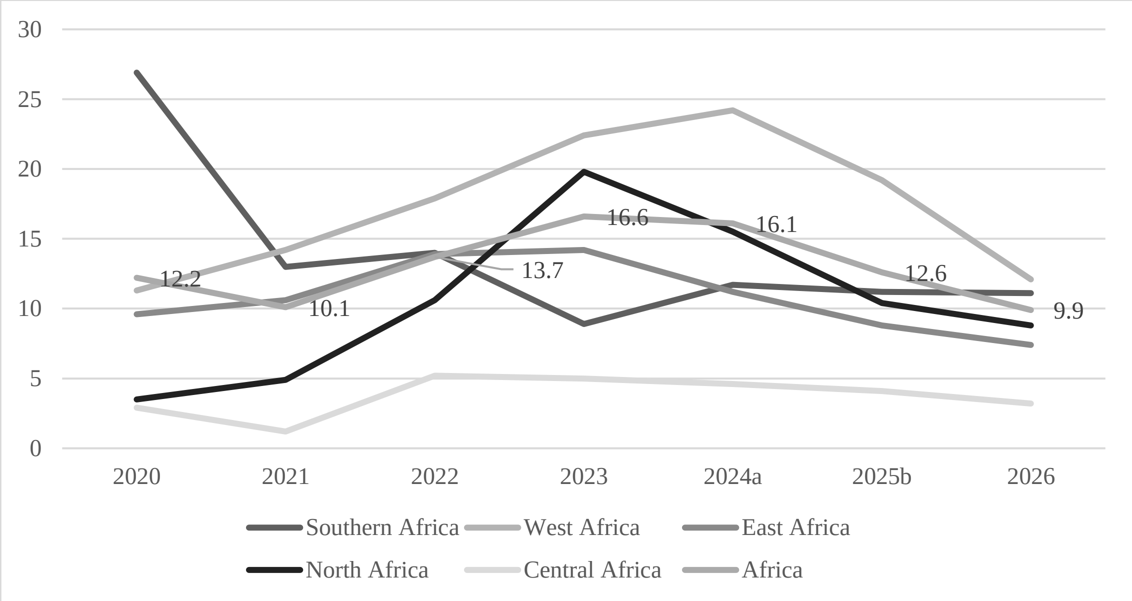
F. Easing inflationary pressures

9. Despite the tightening of monetary policy in many African countries, consumer price inflation remains persistently high in the region. The average rate per country is estimated to have declined slightly from 16.6 per cent in 2023 to 16.1 per cent in 2024 and is forecast to decline more steeply to 12.6 per cent in 2025 and 9.9 per cent in 2026 (see figure VI). The increase in 2024 reflected ongoing high food prices, currency depreciations and the imbalance between supply and demand in domestic and global food markets.[5] However, the effect of the expected decrease in international food and energy prices caused by an increase in the global energy supply and the weak second-round pass-through effects to headline inflation are expected to contribute to disinflation in 2025.[6]

[5] African Development Bank, *African Economic Outlook 2024: Driving Africa's Transformation: The Reform of the Global Financial Architecture* (Abidjan, 2024).

[6] IMF, *Regional Economic Outlook: Sub-Saharan Africa: a tepid and pricey recovery* (Washington, D.C., 2024); Department of Economic and Social Affairs, "World economic situation and prospects 2024: mid-year update" (United Nations, 2025).

Figure VI
Consumer price inflation, 2020–2026
(Percentage)



Source: *World Economic Situation and Prospects 2025* (see figure I).

[a] Estimates.

[b] Forecasts.

10. According to estimates, West Africa was the subregion with the highest inflation rate in 2024, at 24.2 per cent, and Central Africa the one with the lowest, at 4.6 per cent. Inflation declined in three of the five subregions of Africa, mainly because of moderating global food and energy commodity prices.[7] In some subregions, however, prices remain relatively high in most countries because lower agricultural yields caused by dry weather have made food scarce and more expensive and because import prices have been driven up by exchange rate pass-through from substantial currency depreciations, which have exacerbated inflationary pressures.[8]

11. Data from July 2024 indicate the potential of monetary policy to complement fiscal efforts and support growth, since it can give African countries more space to reduce their interest rates. Figure VII shows that monetary policy rates in real terms are increasing in all but a few countries in Africa. Where inflation rates are declining, looser monetary policy could significantly support price stability. Where inflation rates are still rising or are still above the target rates, further tightening of monetary policy will be needed until inflation is coming firmly down and is forecast to return to the target range.[9]

[7] Department of Economic and Social Affairs, *World Economic Situation and Prospects 2025*.

[8] IMF, *Regional Economic Outlook*.

[9] Ibid.

Figure VII
Real monetary policy rates

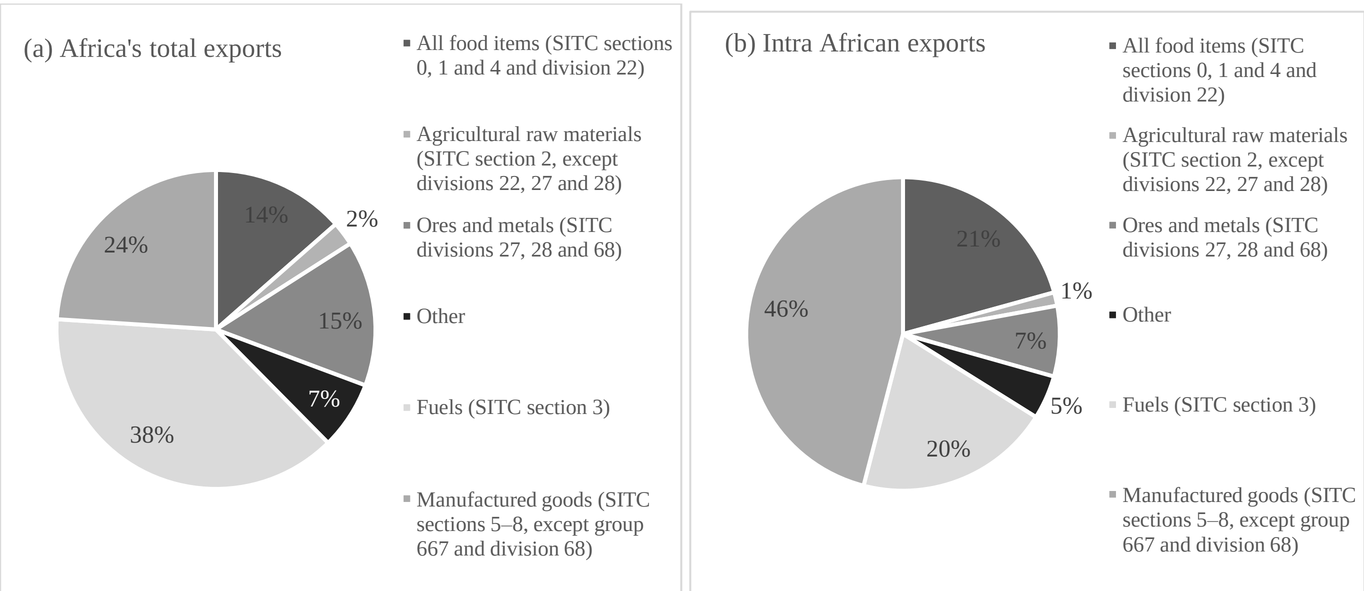
Source: ECA calculations based on Oxford Economics, Oxford Economics Global Macroeconomic Data database. Available at https://data.oxfordeconomics.com/databanks (accessed in September 2024).

G. Trade performance

1. Primary commodities dominate African exports

12. The composition of exports varies significantly among African countries, depending on the direction of trade (see figure VIII). Total exports to countries outside Africa continue to be dominated by primary commodities, especially fuels. The main intra-African exports, by contrast, are manufactured goods, followed by food. Empirical evidence suggests that the African Continental Free Trade Area has substantial potential to reduce the dependency of Africa on primary commodities, as it is expected to transform African economies and diversify their export sources and growth avenues.[10] To achieve this, countries need to enhance the structural transformation of their economies by diversifying away from primary products, on which they are reliant, and towards manufacturing, technology and modern services. The expedited implementation of the Agreement Establishing the African Continental Free Trade Area is expected to significantly boost trade in Africa and reposition the continent in the global trade landscape.

Figure VIII
Exports from Africa, by sector, 2019–2023
(Country averages)



Source: United Nations Conference on Trade and Development, "Merchandise: total trade and share, annual", UNCTADstat database. Available at https://unctadstat.unctad.org/datacentre/dataviewer/US.TradeMerchTotal (accessed on 14 August 2024).

Abbreviation: SITC, Standard International Trade Classification.

2. Implementation of the Agreement Establishing the African Continental Free Trade Area and its effects

13. Strengthened intra-African trade under the Agreement Establishing the African Continental Free Trade Area can stimulate growth and reduce volatility, as it has the potential to reduce the vulnerability of African economies to global shocks. As mentioned above, intra-African trade can advance structural transformation through enhanced diversification and industrialization. Evidence suggests that the African Continental Free Trade Area could boost

[10] Centre for International Prospective Studies and Information and ECA, *Africa's Trade and Green Transition: a Continentally Coordinated Approach* (forthcoming).

intra-African trade by about 45 per cent by 2045, the largest beneficiaries being exporters of manufactured products, such as agrifoods, pharmaceuticals, chemicals and automotive parts, as well as the tourism and health services sectors. Enhanced regional integration will increase market sizes and reduce vulnerability to shocks, thereby helping to improve credit ratings, resulting in lower borrowing costs for African Governments.

14. Intra-African trade and integration are fundamental to strengthening food security, since they create just-in-case linkages rather than just-in-time ones. Beyond fostering trade and investment, the Agreement Establishing the African Continental Free Trade Area could enhance food security through collaboration in the agricultural sector, thereby contributing to more stable and accessible food supplies across the continent. The Agreement could transform food systems by reducing trade barriers and tariffs among African countries, thus promoting the movement of food across borders and facilitating the sourcing and distribution of food from countries with surplus food to those in need. By encouraging the development of regional value chains, the Agreement will allow more processing and value addition to be carried out within Africa, thus creating a larger and more integrated market for agricultural products and increasing access to a wider consumer base and diversified food production.[11] Recent estimates suggest that the implementation of the Agreement would increase intra-African trade in agrifoods by about 60 per cent by 2045, with the greatest increases occurring for milk and dairy products, processed food, cereals and crops, and sugar.[12]

15. By advancing intra-industry trade, the Agreement can also deepen regional integration and contribute to greater convergence among African countries, thus facilitating the move towards monetary union in Africa. A common currency would boost intra-African trade by reducing transaction costs, eliminating exchange rate fluctuations and promoting a single market. It could also drive convergence, thus fostering trade, boost harmonization cycles and facilitate the achievement of a regional monetary policy.[13] The Pan-African Payment and Settlement System – a financial platform that supports instant payment, prefunding and net settlement – is the latest milestone towards financial integration. The System is also encouraging the harmonization of legal and regulatory environments across the continent and helping to support the wider objective of promoting intra-African trade. When fully implemented, the System could reduce currency conversions costs in Africa by as much as $5 billion per year.[14]

16. Although the focus of the Agreement is on trade, it is believed that it will promote industrial development through diversification and the development of regional value chains. Given the political attention that the Agreement has generated among leaders and development partners, it can play a vital role as Africa seeks to address challenges related not only to trade but also to industrial policy. It provides the continent with an opportunity to return to industrial development as a means to boost trade diversification and industrialization. For Africa to achieve this, however, it will need to adopt new industrial policy instruments and effectively apply existing ones amid the current economic shocks, volatile inflation and geopolitical tensions. For growth to occur,

[11] ECA, "Enhancing food security in Eastern Africa through greater intra-African trade: a review of the issues" (Kigali, forthcoming).

[12] Centre for International Prospective Studies and Information and ECA, *Africa's Trade and Green Transition*.

[13] ECA, "Concept note on single currency and fintech to boost intra Africa trade and enhance AfCFTA implementation", paper presented at the third round table on equity and fairness in boosting intra-African trade under the African Continental Free Trade Agreement, Dakar, 23 and 24 August 2021.

[14] Zainab Usman and Alexander Csanadi, "Latest milestone for the African Continental Free Trade Area: the Pan-African Payment and Settlement System", Carnegie Endowment for International Peace, 7 February 2022.

industrial policies must be adopted that can create high quality jobs and that can be continually adapted to evolving economic conditions, including in response to climate change, epidemics and evolving technological developments.[15] The Agreement also provides a major opportunity for countries to boost their growth, reduce poverty and broaden economic inclusion. It is estimated that, across all of Africa, implementation of the Agreement could lift 30 million people out of extreme poverty and boost the incomes of nearly 68 million others. It could also increase exports from Africa by $560 billion, mostly in manufacturing and agroprocessing.[16]

H. Increasing inflows of foreign direct investment to greenfield sites

17. Global flows of foreign direct investment (FDI) decreased modestly in 2023, by 2 per cent, to $1.3 trillion. This reflected suppressed investor appetite owing to geopolitical conflicts, trade tensions and tight financial conditions. Mirroring these global trends, FDI inflows to Africa decreased by 3 per cent in 2023, to $53 billion (see figure IX). Despite the drop in FDI, some countries increased their inflows. Namibia, for instance, increased its inflows by 119 per cent, and Nigeria by 109 per cent. European investors continue to dominate FDI stocks in Africa, with the Kingdom of the Netherlands ($109 billion), France ($58 billion) and the United Kingdom of Great Britain and Northern Ireland ($46 billion) having maintained their top rankings in 2023. The United States of America also remains a major investor ($46 billion of FDI stocks in 2023).[17]

18. Gulf Cooperation Council countries have stepped up their investments in Africa in recent years. Their greenfield announcements to Africa surged to $60 billion in 2022, and remained high at $53 billion in 2023. These figures mark a massive jump from previous years, with announcements during the 10 previous years having hovered between $4 billion and $17 billion. The surge in investment was a result of a strategic drive by these oil-rich countries to diversify away from hydrocarbons, most notably into green hydrogen and other renewable energy projects, as well as into data centres.[18]

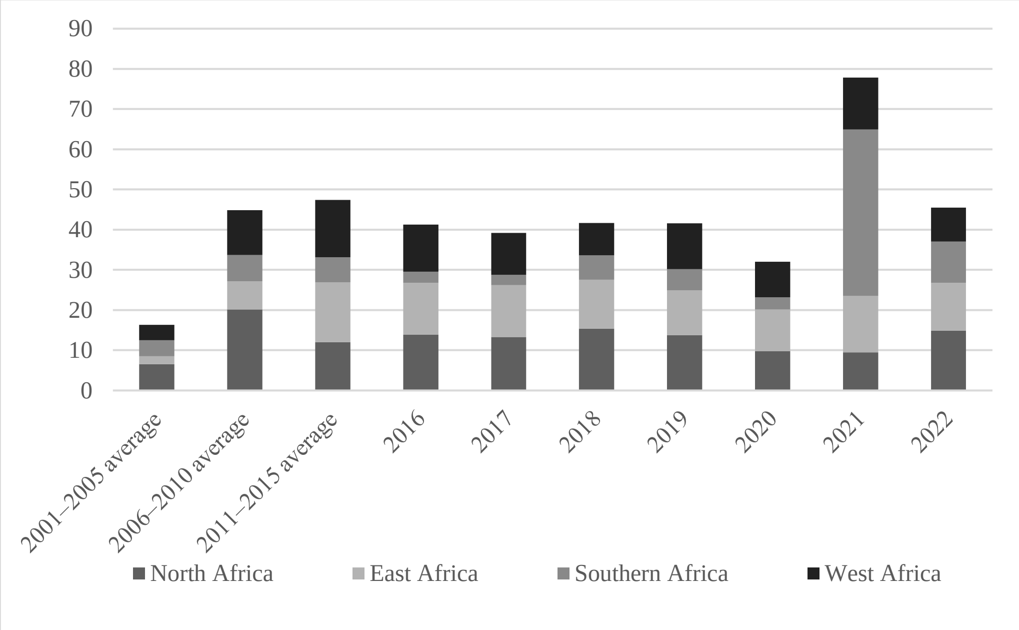
[15] ECA, *Economic Report on Africa 2014*: *Dynamic Industrial Policy in Africa* (Addis Ababa, 2014).

[16] ECA, “With the right policies, the AfCFTA can drive Africa’s industrialization”, 25 November 2022.

[17] *World Investment Report 2024: Investment Facilitation and Digital Government* (UNCTAD/WIR/2024), chap. I.

[18] Alex Irwin-Hunt, “FDI into Africa from GCC hits new heights”, Financial Times, 12 February 2024.

Figure IX
Foreign direct investment flows, by subregion, 2001–2022
(Billions of United States dollars)



Source: *World Investment Report 2024: Investment Facilitation and Digital Government* (UNCTAD/WIR/2024).

Note: The surge in 2021, when FDI inflows peaked at $83 billion, was significantly influenced by a single intrafirm transaction in South Africa related to a major corporate reconfiguration that was carried out through a share exchange between two corporations.

19. In services and selected manufacturing industries, the share of intra-African investment, although a modest 20 per cent, is higher than in resource-based processing industries (13 per cent).[19] This trend shows that African investors are seizing the opportunities presented by the anticipated surge in demand for services and manufactured goods across the continent, thereby contributing to the diversification of African economies. The implementation of the Agreement Establishing the African Continental Free Trade Area could further unlock intra-African investment flows by streamlining investment regulations, by providing protection and facilitation services at the continental level and by eliminating obstacles to capital flows.[20]

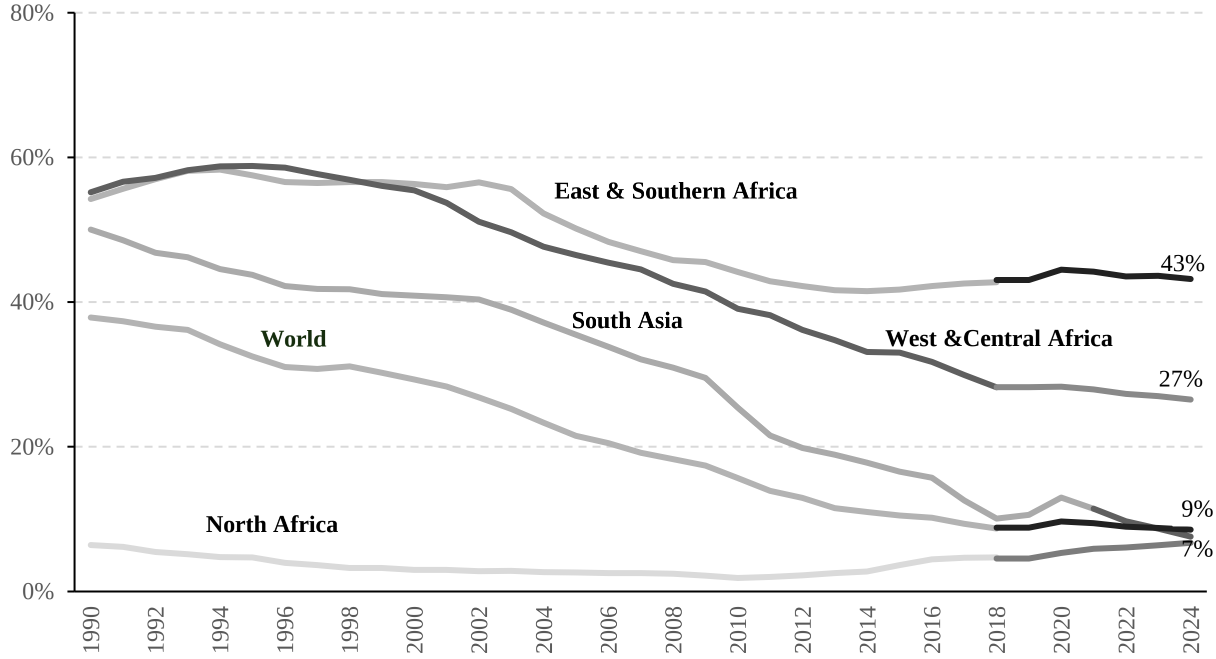
II. Recent social developments

A. Protracted decline in poverty, albeit slowed by the pandemic

20. Extreme poverty in Africa has declined, in line with the downward global trend, but remained high in almost all the subregions of Africa in 2024, North Africa being the exception (see figure X). Extreme poverty was highest in East and Southern Africa. Owing to the multiple recent and overlapping crises, in addition to population growth, the number of people in Africa living in extreme poverty has increased to an estimated 468 million, up from 285 million in 1990 (see figure XI).

[19] *World Investment Report 2024*, chap. I.
[20] ECA, "Towards a common investment area in the African Continental Free Trade Area", 7 December 2021.

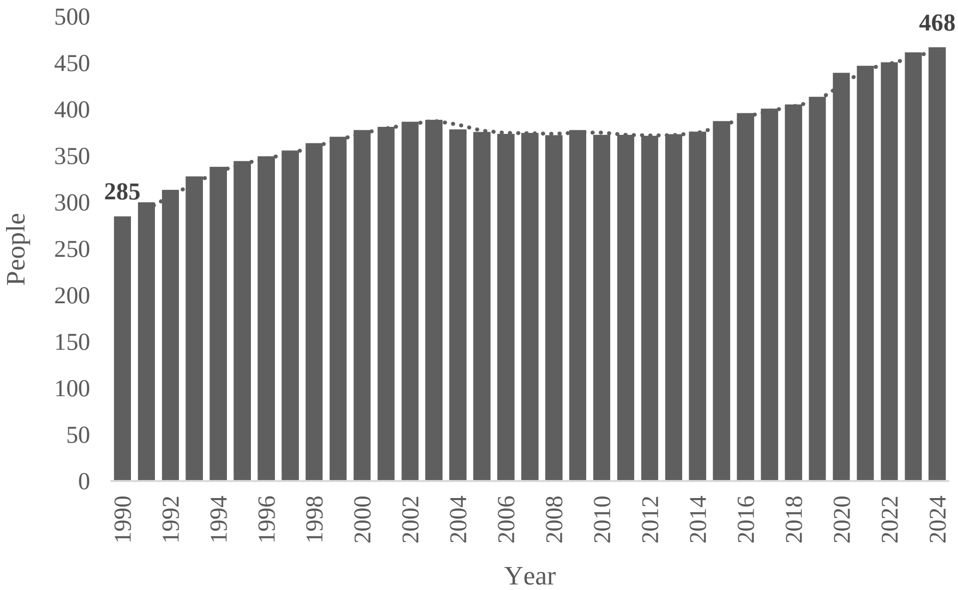
Figure X
Extreme poverty headcount ratio, by subregion and by year



Source: Compiled by ECA using data from World Bank, “Poverty and Inequality Platform”. Available at https://pip.worldbank.org/home (accessed on 6 February 2025).

Note: Dotted lines indicate forecasts.

Figure XI
Number of people in Africa living in extreme poverty (income of less than $2.15 per person per day)
(Millions of people)



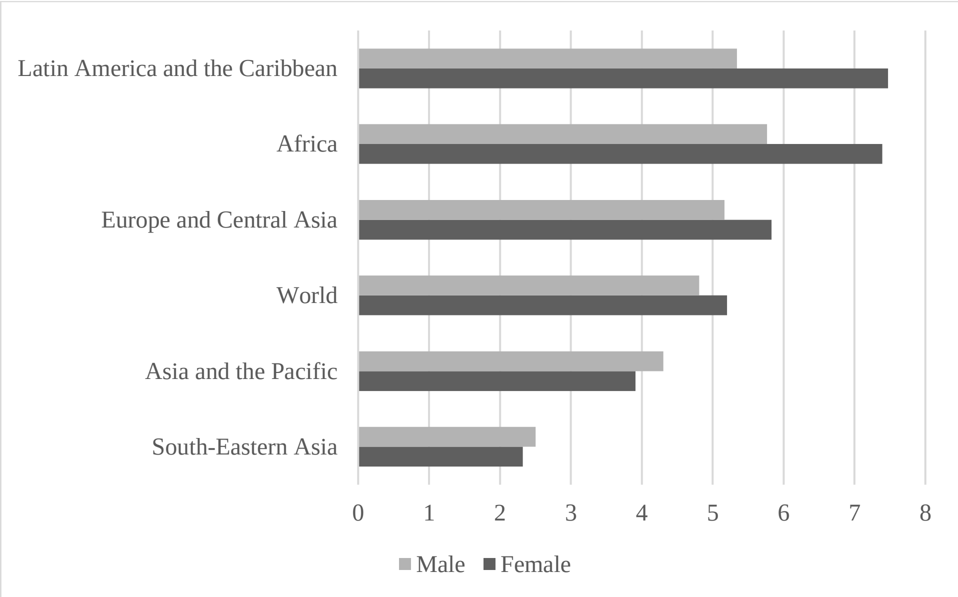
Source: Compiled by ECA using data from World Bank, “Poverty headcount ratio at national poverty lines (% of population)”, Poverty and Inequality Platform. Available at https://data.worldbank.org/indicator/SI.POV.NAHC (accessed on 23 January 2025).

21. Some 55 per cent of global poverty is concentrated in Africa, where 23 of the 28 countries in which more than 30 per cent of the population live in poverty are situated.[21] Much of this extreme poverty is in least developed countries, where conflicts, droughts, floods and other crises have taken their toll. By contrast, in four of the countries with the highest incomes in Africa (Algeria, Mauritius, Tunisia and Seychelles), fewer than one per cent of the population are classified as extremely poor. Those countries are on target to achieve Sustainable Development Goal 1, on ending poverty by 2030. Cabo Verde, Egypt, Gabon, Mauritania, Morocco and Senegal have a poverty rate below 10 per cent.

B. Low-productivity employment remains a challenge

22. Africa is the region with the second largest share of female unemployment in the world, after Latin America and the Caribbean, and the region with the highest share of male unemployment (see figure XII). Some subregions in Africa have the lowest participation rates of women in the labour force in the world, with the lowest rate occurring in North Africa. Although working poverty has decreased worldwide, in Africa it has increased, with more than 145 million employed people (or 29 per cent of the working population) in the region living in extreme poverty. Nearly three quarters of them live in Central Africa (43 per cent of the working population) and East Africa (38 per cent). Southern and North Africa, by contrast, have the lowest proportions of working poor, at 10 per cent and 5 per cent, respectively.

Figure XII
Unemployment rate in Africa, by gender, November 2024
(Percentage of total labour force)



Source: International Labour Organization, "Unemployment by sex and age -- ILO modelled estimates, Nov. 2024 (thousands) – Annual", ILOSTAT Data Explorer. Available at https://rshiny.ilo.org/dataexplorer34/?segment=indica tor&id=UNE_2EAP_SEX_AGE_RT_A (accessed in August 2024).

23. Africa is home to the youngest labour force in the world, but almost 76 million young people in Africa are not in employment, education or training, owing to a shortage of jobs for young people. The proportion of young people

[21] ECA/RFSD/2024/5/Rev.1.

not in employment, education or training is particularly high in West and East Africa and, to a smaller extent, Central Africa.

24. Africa has made significant progress towards gender equality in the social dimension, but substantial gender gaps in favour of males persist, especially with regard to participation in the economy and in political and public life. Cultural norms, gender stereotypes, occupational segregation, the gender digital divide and the gender digital skills divide continue to hinder the attainment of gender equality. For Africa to accelerate its progress towards gender equality, it needs to enhance the inclusion of women and girls in education; improve training and employment opportunities for women by promoting women's voices, leadership and rights in the public and private sectors; promote women's access to fintech and credit; and address other gender-related challenges.

III. Growth risks and uncertainties

A. Macroeconomic vulnerabilities

25. Despite its encouraging growth recovery following the pandemic, Africa still faces significant threats to its short-term and medium-term growth owing to macroeconomic vulnerabilities related to price stability, fiscal health and external positions. Inflation remains in double digits in many countries, which erodes household purchasing power. Fiscal deficits and debt levels are relatively high, and debt service burdens are rising, which diminishes the resources available for development financing. In addition, countries struggle to gain access to development financing owing to persistently high international interest rates. Implementing reforms has become increasingly difficult because of political fragility stemming from conflicts and coups d'état, in particular in the Sahel countries. These challenges seem to be greater in middle-income countries, which find themselves in a "middle-income trap" with limited access to concessional finance. Such countries need significant investment to maintain their middle-income status but are constrained by limited access to concessional financing. Innovative financing tools, such as green bonds, social bonds, sustainability-linked bonds, blended finance and public-private partnerships, could play a critical role in this regard, in particular because they will mobilize private capital and attract global investment.

B. Effects of climate change

26. Although Africa produces less than 10 per cent of the world's greenhouse gas emissions, it is disproportionately affected by the impact of climate change and is the least equipped to mitigate its negative effects. The region experiences increasingly frequent and severe weather events, including droughts, floods, heatwaves, heavy rains and tropical cyclones, which greatly threaten its biodiversity, food security and human livelihoods. The economic consequences of climate change in Africa are particularly severe, and the risks associated with climate change could undermine decades of development, exacerbating poverty and inequality.

27. The economic cost of climate-related disasters in Africa is already significant. The annual financial burden of such disasters is estimated at between $7 billion and $15 billion and is projected to reach $50 billion by 2030.

These escalating costs will further drain resources that could otherwise be directed towards economic development and poverty reduction.[22]

C. Agricultural sector risks

28. Agriculture, which contributes significantly to GDP and employs a large portion of the population in many African countries, is highly vulnerable to climate variability. Every degree of warming above historical levels is expected to lead to a 5 per cent decrease in crop productivity. Building resilience is therefore urgent, since studies show that a rise in temperatures of 2°C could reduce yields by up to a fifth. In addition, irregular rainfall could lead to drought and famine.[23]

29. Temperature increases would also affect agricultural production by allowing crop pests and diseases to spread, leading to significant economic losses and more severe food insecurity, which, in turn, would exacerbate economic vulnerabilities, threaten the livelihoods of millions of people, and increase poverty and inequality across the region.

30. Climate change also affects the trade sector in Africa, in particular in parts of the continent that are dependent on exports of agricultural products, minerals and other natural resources. Fluctuations in global commodity prices, driven by climate-induced supply disruptions, can lead to economic instability. Without significant investment in climate resilience and diversification, the continent's economic stability would be at risk.

D. Trade war between China and the United States

31. China is the largest bilateral trade partner of Africa ($282 billion in 2023) and a major provider of development finance and FDI. Anything that happens to the economy of China would therefore have knock-on effects on Africa. In 2019, it was estimated that, by 2021, trade tensions could reduce GDP by 2.5 per cent in resource-intensive countries in Africa and by 1.9 per cent in oil-exporting countries.[24] Given the persistent effects of the multiple crises that have affected the continent, these magnitudes could be significantly higher under the current economic conditions in Africa. The trade war could depress global commodity prices and decrease Chinese demand for imports from Africa, which would exacerbate the economic vulnerabilities that Africa faces.

IV. Conclusions and policy recommendations

32. African countries are grappling with rising financing needs amid slow growth, limited financing options and high borrowing costs. As a result, Governments need to carry out fiscal consolidation while also boosting their revenue without adversely affecting their economy or their citizens. To support economic growth and improve living standards, they should prioritize revenue enhancement over cuts to essential expenditure, and they should also seek to make their expenditures more efficient. Strategies they might adopt to boost revenue include broadening the tax base by targeting hard-to-tax sectors, enhancing the efficiency and effectiveness of tax administration through improved compliance and digital technologies, addressing illicit financial flows, and tapping into non-tax revenue sources, which remain largely

[22] ECA, *Economic Report on Africa 2023: Building Africa's Resilience to Global Economic Shocks* (Addis Ababa, 2023).

[23] World Bank, "Climate-smart agriculture: successes in Africa" (Washington, D.C., 2016).

[24] Bhaso Ndzendze, "Impact of the US-China Trade War on Africa's Development Agenda", presentation made at the Africa-China Think Tanks Forum, Lusaka, May 2019.

underutilized by many countries. In addition, a number of countries need to mitigate their significant debt vulnerabilities, which are caused by their high debt levels, and they need to expedite the debt restructuring process via the Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative.

33. The limited and declining contribution of African trade to the region's growth, slower growth in China, global trade tensions and rising protectionism should provide impetus for African countries to hasten the implementation of the Agreement Establishing the African Continental Free Trade Area. The resulting boost to intra-African trade could foster economic diversification, industrialization and, consequently, growth. This would significantly reduce the vulnerability of African economies to global shocks.

34. Greater regional trade integration under the Agreement could enhance food availability and affordability. Since food prices make a significant contribution to most countries' inflation baskets, more affordable food could stabilize or reduce inflationary pressures. The Agreement could also open up new markets to farmers and agricultural businesses and foster production networks and value chains across Africa, boosting exchange of knowledge, competition and productivity.[25]

35. Since inflationary pressures are showing signs of easing in most African countries, countries with inflation below or within their target bands could consider reducing their policy rates to boost private investment. Countries that still have high rates of inflation need to tighten their monetary policy until inflationary pressures show signs of easing.

36. Africa has the highest rate of informal employment, in particular in the low-productivity agricultural sector, which is highly vulnerable to climate change. Better regional coordination, greater support from the public sector, wider safety nets and innovative digital solutions are needed to address the effects of climate change, boost agricultural productivity, create formal jobs and reduce informality. The African Continental Free Trade Area presents a unique opportunity to tackle such challenges through enhanced market integration and larger volumes of intra-African trade.

37. Growth of the services sector and the informal economy is pivotal to urbanization, since it would provide much-needed employment opportunities. Rapid urbanization, however, also creates significant challenges, including infrastructure deficits, environmental degradation, social and economic inequality and a growing informal economy, in particular for services. To respond to such challenges, countries need to adopt effective policy responses through sustainable urban development, improved governance and comprehensive urban planning. Initiatives such as the urban agenda for Africa of the United Nations Human Settlements Programme (UN-Habitat), in which urbanization is aligned with broader development goals, such as the Sustainable Development Goals and the aspirations, goals and targets of Agenda 2063: The Africa We Want, of the African Union, are effective tools for the promotion of inclusive urban growth, environmental sustainability and improved governance, which would allow urbanization to contribute positively to the continent's transformation.

38. In order for Africa to respond to the current wave of new industrial policies being adopted globally and to exploit the potential of the African Continental Free Trade Area, it needs to adopt new industrial policies in which climate policies, renewable practices, low-carbon strategies and digital frontier technology policies and strategies are taken into consideration. Such industrial policies should be adopted in such a way that the gains generated through trade

[25] Centre for International Prospective Studies and Information and ECA, *Africa's Trade and Green Transition*.

openness are not reversed, the underlying trade-enhancement objectives of the Area are not undermined and the effective convergence of countries' macroeconomic and trade policies is supported.