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Rate cuts do not a summer make

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Semestrial Panoramas are special issues of the **MacroDev** series written by analysts from the Agence Française de Développement (AFD, French Development Agency). They present a synthesis of macroeconomic and socioeconomic analyses of emerging and developing countries (EDCs).

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Editorial

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Three decades ago, it was believed that the end of the (first) Cold War would herald the "end of history" and the advent of economic globalization dominated by multinational companies, relegating governments to the sidelines. Today, we appear to be back in a political era, with governments brandishing the economic weapon and thereby fueling geopolitical fragmentation...

In 2024, all eyes will once again be on the USA, as Americans will be among the half of the world's population called to the polls this year. But in contrast to many other countries, their choice in the presidential election in November is likely to affect much of the world!

Bangladesh, Ghana, India, Indonesia, Mexico, Pakistan, Russia, Senegal, South Africa, South Korea, Sri Lanka, Taiwan, the United Kingdom, Uzbekistan, Tunisia... Few of these countries are likely to experience a radical change of political orientation in 2024. But in some cases, the continuity in itself will be enough to fuel geopolitical tensions (Russia's presidential election in particular comes to mind).

"Fragmentation", "Global South", "Friendshoring", "BRICS10", "Multi-alignment": these are some of the words that economists will need to get to grips with in the future, along with their share of unknowns. Indeed, like "macroeconomic laws", geopolitical workings are neither unequivocal nor mechanical. The interplay of alliances central to "*real politik*", along with economic, trade and military tensions, add to the difficulties of making economic forecasts and anticipating the trajectories of emerging and developing countries (EDCs).

This MacroDev Semestrial Panorama is being published in a global context that is more "geopolitical" than ever before. It does not set out to provide answers, but aims to modestly help inform the debate and ask the right questions. If the beginning of the US Federal Reserve (FED) – and probably the European Central Bank (ECB) – policy rate cut is the major "novelty" expected for 2024, it will probably not be the only one to make its mark on the global economy this year!

International economy

A ray of light on a cloudy horizon

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Inflation, the greater evil of the global economy faced with the succession of shocks, would now appear to be relatively under control, while there was more of a positive surprise with economic growth in 2023. The markets are anticipating a scenario with a soft landing, a monetary pivot, and an easing in interest rates. They are carried along by a wave of euphoria, which central banks are trying to moderate through prudent communication. Indeed, a number of persisting risks and uncertainties are drawing the outlines of a new and lasting global geopolitical and economic paradigm, rather than simply a difficult economic context.

The scenario of a soft landing in 2024 could be undermined by the significant delayed effects of monetary policies on demand and the soundness of companies, or even financial institutions (in particular non-bank institutions). They could even lead to a recession in certain advanced and emerging countries.

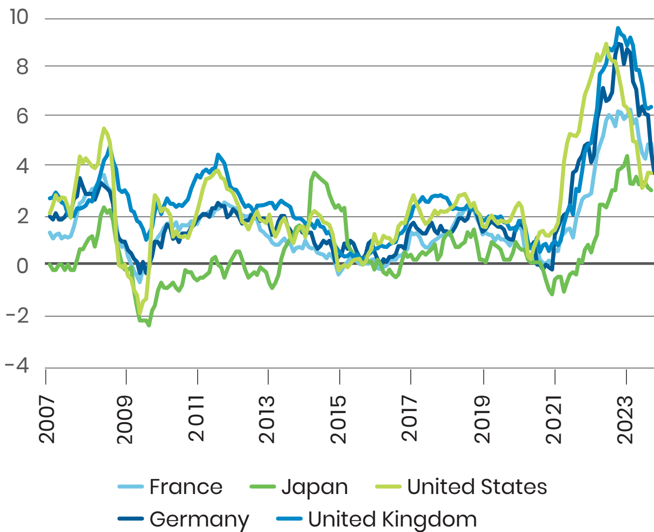
There is reason to fear that there will be sustained pressure on the level of prices in the medium-long term, due to the continuation and even escalation of geo-economic tensions and trade disputes. This especially concerns: i) renewable energies, pushing up the cost of the green transition; ii) foodstuffs, generating food insecurity; and iii) new technologies, resulting, for example, in diverging productivity trajectories, which may be detrimental to emerging and developing countries (EDCs). This comes with the intensification of adverse climate events, which disrupt world trade, especially in energy and agricultural commodities. They also exacerbate fiscal vulnerabilities and a "debt-climate" spiral, which requires a large-scale mobilization of the international community.

A failure of Chinese economic policies to tackle the real estate crisis and support structural changes to the economic model could also penalize the global economy and EDCs. The same applies in the event of a continuing degradation of public finances in the USA, or in Europe, which could stem the decline in bond yields. In any event, 2024 will be a crucial year with the U.S. presidential election in November (but also in a number of other countries, representing more than 50% of the world's population), and the launch of the campaign which is already paralyzing the action of the Biden administration. As we gear up for a potential remake of the duel with Donald Trump in 2020, the outcome of the election could reshuffle the cards in terms of diplomacy and geopolitics. There is less likelihood of this on the economic front, except on climate and green transition issues. The risk of wider conflict in Ukraine and the Middle East, and potentially around Taiwan (although this scenario is unlikely in the short term), is a source of global destabilization, dragging world public opinion into an intense information war.

Global disinflation…

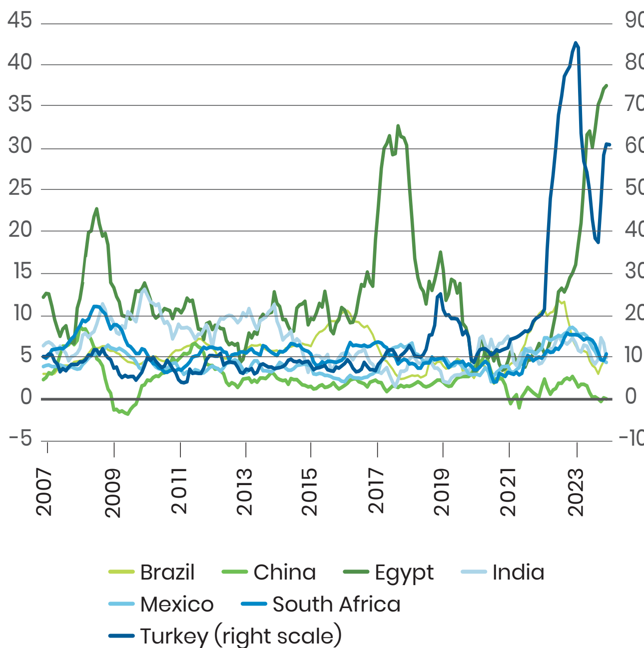
Inflation is continuing to gradually slow. After peaking at an annual average of 8.7% in 2022, a record since 1996, the global inflation rate would have reached 6.9% in 2023 according to the IMF (World Economic Outlook, October 2023) and it is projected at 5.8% in 2024. The core inflation rate (excluding food and energy) is also declining. It fell from 8.5% in the first quarter of 2022 (annualized rate) to 4.9% in the second quarter of 2023. For the USA and the euro area, a decomposition of the GDP deflator between labor costs and corporate profits shows that the latter were the main driver of inflation at the beginning of the pandemic (2020-2021). But since 2022, labor costs are estimated to have contributed a growing share to rising prices, in particular in the USA. However, the risk of a wage-price spiral seems to have largely abated as the slowdown in manufacturing activity has led to a slowdown in the service sector. The IMF highlights the beneficial effect of these wage increases, which are considered to have mainly been for the lowest-paid jobs. They have thereby narrowed the income distribution gap and reduced inequalities.

Graph 1 – Inflation –
Advanced economies (%, yoy)



Source: World Bank

Graph 2 – Inflation –
emerging countries (%, yoy)



Source: World Bank

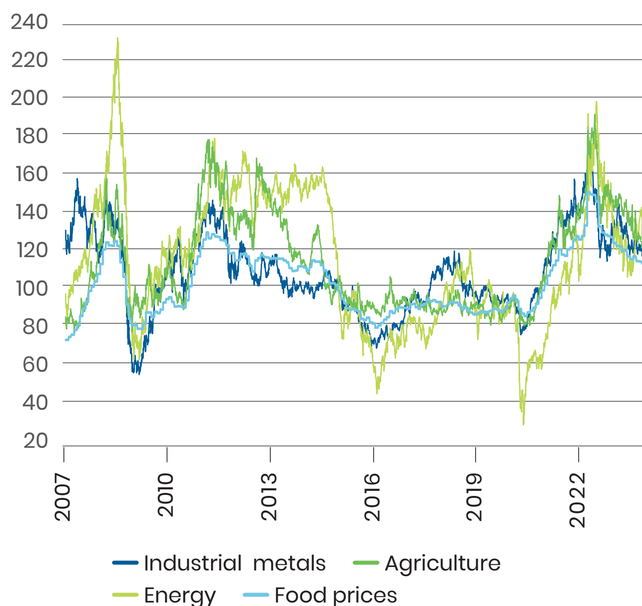
… but risks of a ratchet effect and persistent pressures on price level

Despite the marked decline in commodity prices (energy, minerals, agricultural products) since their surge in the first half of 2022, they remain on average 30% higher than their pre-pandemic level. They are also subject to a number of uncertainties, including geopolitics, global economic growth, the stance of monetary policies and climate shocks. The price of Brent crude oil has not overreacted to the conflict in the Middle East since 7 October 2023, ending the year at around USD 80. Projections for 2024 remain at between USD 70 (IMF) and USD 90 (Oxford Economics). The prospects of sluggish global growth and an increase in production in the USA would tend to suggest that the strategy of Saudi Arabia and Russia to maintain the price of a barrel at below USD 90 may fail. However, the risk of volatility has increased with two open conflicts in Ukraine and the Middle East, potentially affecting prices, uncertainty over the Chinese recovery, and the reduction of OPEC+ quotas. The oil cartel is facing tensions between proponents of production cuts (Saudi Arabia and Russia) and other countries such as Nigeria and Angola, the latter having announced its withdrawal from the organization in December. Furthermore, the BRICS club, which has had 10 member countries since 1 January 2024, now accounts for 40% of world hydrocarbon production (IEA data), double the level following the membership of Saudi Arabia, the United Arab Emirates, Iran, Egypt and Ethiopia (the only new member country with no fossil resources). Following the attacks by the Yemeni Houthis against Red Sea ships, the main shipping companies and major oil groups have decided to temporarily suspend their activities in the Red Sea, through which transits 12% of global trade. According to S&P, the bypass of Africa (40% longer for a Singapore-Rotterdam route than a passage through the Suez Canal) could further destabilize supply chains and increase transport costs, as well as the risk premiums applied by insurers.

Regarding the natural gas market, the reserves have been replenished in Europe and should allow prices to be maintained at levels on par with the first half of the 2010s (below USD 20/MMBtu in Europe), here again provided that producer countries like Qatar do not overreact to developments in the Israeli-Palestinian conflict. Similarly, projections for metal and food prices for 2024 are relatively stable (IMF, Oxford Economics), but with volatility factors inherent to weather conditions, the Russia-Ukraine conflict (Russia's weakened control over the Black Sea is conducive to Ukrainian cereal exports) and economic activity in China, the world's largest importer of minerals and metals. It should be noted that the IMF has highlighted a relatively strong monetary policy transmission (USA) towards commodity prices. For example, an increase of 10 basis points in the U.S. federal funds rate would bring down oil prices by 2%, with a persistent effect for eight months, while food prices would fall by 1% with a less persistent effect.

In the medium-long term, some factors point to structural pressures on world prices. A persistent increase in the prices of certain metals critical to the low-carbon transition is to be expected, in view of the imbalance between supply and demand and risks associated with the trade, strategic and technological war between China and the USA, or even Europe, through protectionist measures, subsidies (USA) and the Carbon Border Adjustment Mechanism (EU). Similarly, the effects of climate change on agricultural yields, combined with demographic pressure in some parts of the world, pose serious risks for the level of world agricultural prices and food security over the coming decades. In terms of fossil fuels, the International Energy Agency (IEA) now anticipates a peak in global demand even before 2030 (World Energy Outlook, October 2023). OPEC does not support this scenario and forecasts the peak oil for around 2045.

Graph 3 – Commodity and food prices (index 31/12/2019=100)

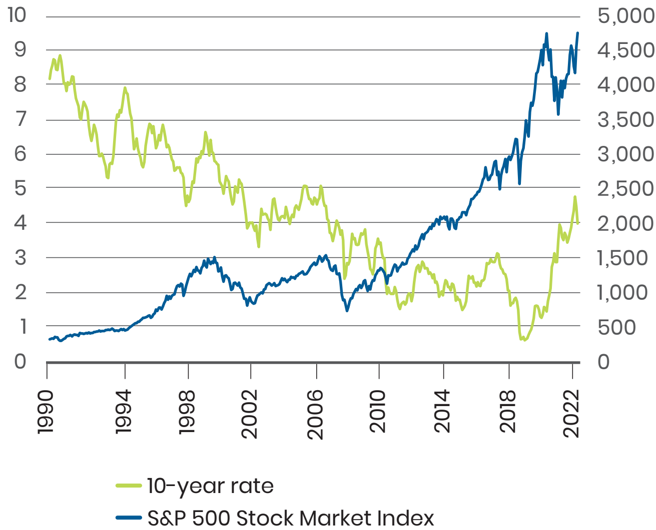


Source: FAO, S&P GSCI, AFD calculations.

Monetary pivot in 2024...

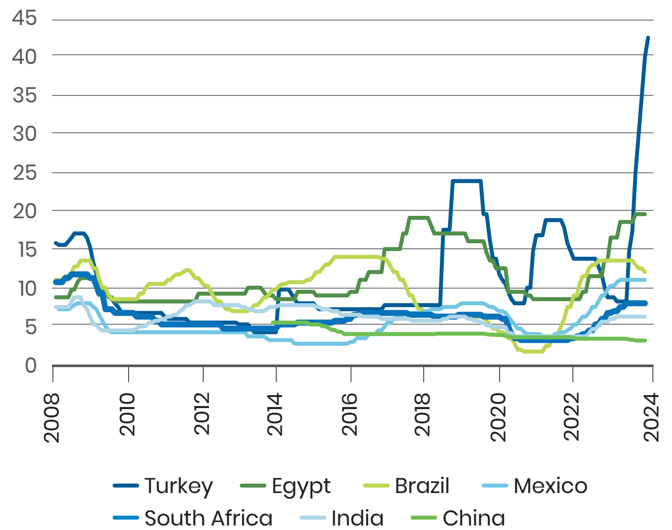
The slowdown in inflation heralds the end of the monetary tightening cycle and a gradual easing of interest rates in most economies, unless a further inflationary and/or financial shock affects the currencies of EDCs. Financial markets have integrated the scenario of a soft landing for the economy and an early reduction of key interest rates. However, faced with the euphoria of the markets, central banks in the USA and Europe are continuing to communicate on the need for a decisive anchoring of inflation expectations towards the target of 2% and a reduction of tensions on the labor market. The exit from non-conventional policies (asset purchases by central banks) and the associated reduction of the balance sheets of central banks is expected to continue at a very gradual pace.

Graph 4 – Bond rates
and stock market in the U.S.



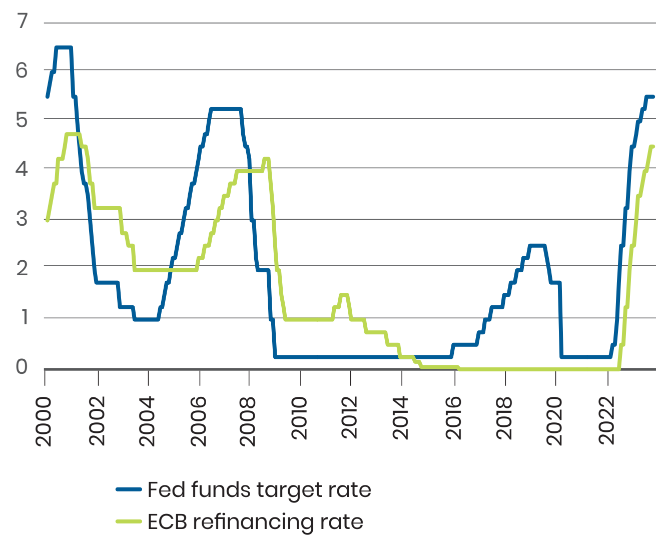
Source: U.S. Department of Treasury, S&P.

Graph 6 – Policy rates in emerging countries
(%, per annum)



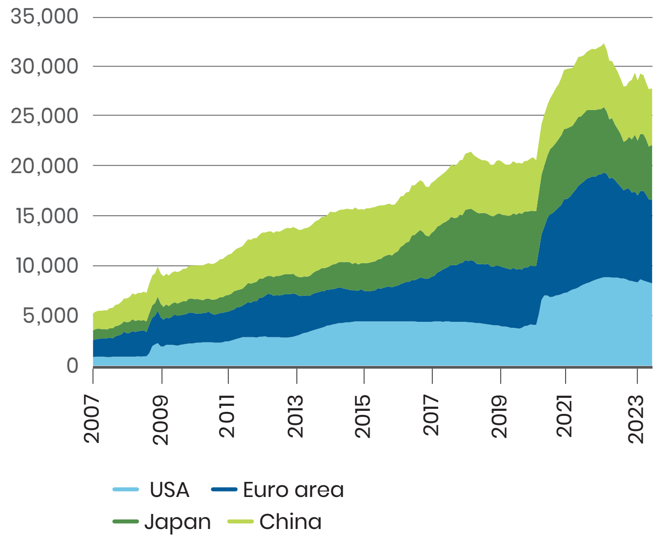
Source: Central banks.

Graph 5 – Policy rates in the U.S.
and euro area (%, per annum)



Source: Central banks.

Graph 7 – Assets of main Central Banks
($ BN)



Source: Central banks.

According to the IMF, global financial systemic risks are for the time being under control (Global Finance Stability Report, October 2023). The points still requiring vigilance concern unregulated finance (*i.e.* non-bank financial institutions) and in particular the capacity of this sector to meet its financial commitments in a context of lower liquidity and high rates. One example for advanced economies is the debt related to the commercial real estate sector, whose sources of financing and asset values are declining, while its refinancing needs are increasing. This debt accounts for nearly 12% of GDP in Europe and 18% in the USA. Furthermore, according to the OECD, the business failure rate has already exceeded the level reached in 2009 in certain countries. Allianz Group forecasts an increase in the global business insolvency rate of 10% in 2024, after 6% in 2023.

…facilitated by economic growth that remains weak

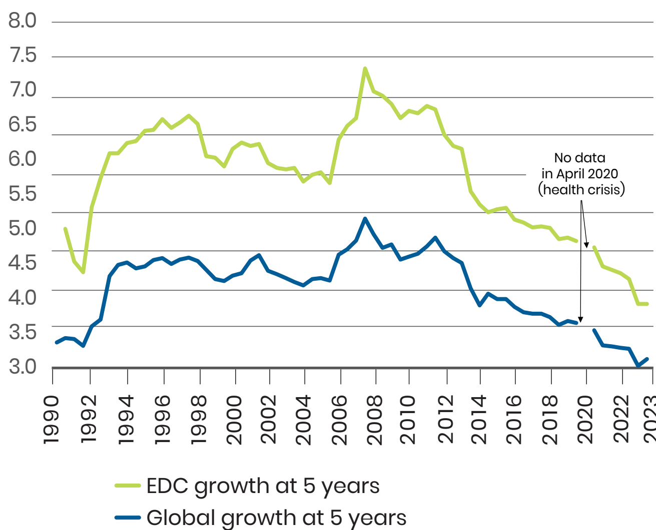
Global economic growth has removed fears of recession in advanced countries, in particular in the USA, and finally proved to be resilient in 2023. At 3% worldwide and 4% in EDCs according to the IMF, it is estimated to be above the projections of November 2022 (2.7% and 3.7%, respectively) and April 2023 (2.8% and 3.9%, respectively). As inflation is also slowing down, the scenario of a soft landing for the global economy seems more likely.

However, growth in economic activity remains uneven depending on the areas and is generally low. The USA showed robust real GDP growth in Q3 2023 (4.9% on an annualized quarterly basis), bringing the growth rate carried over for the year to 2.3% (therefore above the growth rates of 1.6% and 2.1% projected by the IMF in the WEO of April and October, respectively). Europe is experiencing a slowdown in its path, but it remains in positive territory with growth in the euro area at around 0.7% in 2023 (against 0.8% in the April forecasts), despite the likelihood of a recession in Germany. The divergence between the growth rates in the USA and the euro area is in particular due to buoyant consumption in the USA, bolstered by a slight increase in real wages and substantial dissaving (savings ratio of around 5% of gross disposable income in 2023), while European households have remained cautious (savings ratio of around 15%). EDCs are expected to have ended the year in a piecemeal fashion at around the average of 4%: Asia above 5% and Africa 3% (despite growth below 1% for the South African heavyweight), with only slightly above 2% in Latin America. Even before the effects of the Israeli-Palestinian conflict, the Middle East and Central Asia remained on a growth path of 2%.

In 2024, the IMF projects global growth to remain on par with 2023. The USA and euro area are expected to converge at around 1.2-1.5%. In EDCs, growth should remain at around 4%. Asia is expected to be adversely affected by the slowdown in China (where growth could be close to 4%), despite an Indian economy that remains dynamic (6.3%). The Philippines and Vietnam could also be close to 6%, while Indonesia is likely to remain at a level of around 5%. Latin America is projected to remain at a relatively low level of growth for a second consecutive year, in all likelihood at around 2%, on par with Brazil (1.5%) and Mexico (2.1%) which are expected to experience a marked slowdown. However, Colombia should benefit from a similar growth rate (2%), following a difficult 2023 (1.3%). It is difficult to make projections for Central Asia and the Middle East in the current context, but they are on a more upward trend, following a slowdown in 2023. Finally, Sub-Saharan Africa could benefit from a slight acceleration (from 3.3% to 4%), with some fragile or uncertain situations, in particular in Central Africa. At the crossroads of the latter two blocs, Egypt is likely to be among the exceptions, with a decline in growth to below 4%.

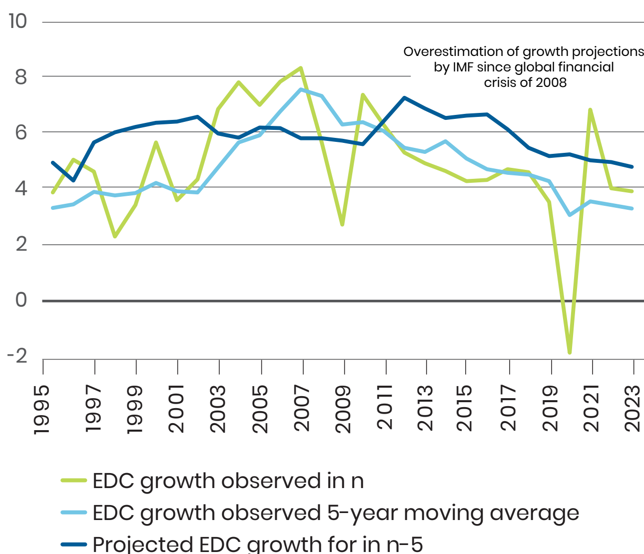
Since the 2008 global financial crisis, the IMF's medium-term growth forecasts (5-year horizon) have continuously declined. They fell from 5.1% in October 2007 for global growth projected in 2013 to 3% in April 2023 (3.1% in October) for growth in 2028. This is the lowest projection since 1990. The forecasts of the other institutions, aggregated in the Consensus Economics analyses, followed the same trend. The path is even more marked for EDCs, with the IMF reducing the estimated proxy for potential growth from 7.3% in 2007 to 3.9% in 2023. Furthermore, an historical analysis of the WEO highlights a positive bias and a tendency to overestimate projections by the IMF compared to actual growth rates since the global financial crisis of 2008. In contrast, during the initial phase of the commodity supercycle (2003-2008), the IMF had largely underestimated the dynamism of EDCs. In other words, EDCs outperformed their growth potential (positive output gap) in the years preceding the financial crisis and have since underperformed (negative output gap).

Graph 8 – Economic growth at 5 years (proxy for potential growth)



Source: IMF, AFD calculations.

Graph 9 – Economic growth in EDCs (%)



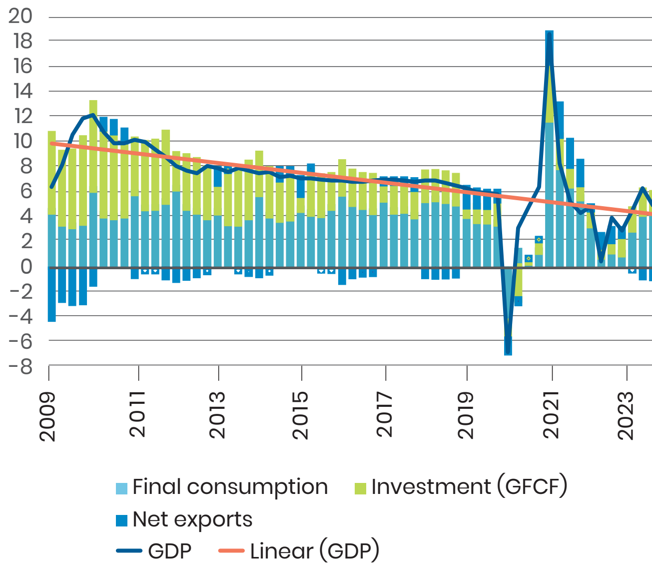
Source: IMF, AFD calculations.

Systemic role of China faced with its own internal turpitude

China remains a major factor of uncertainty for the global economy, affecting at the same time demand for raw materials, the availability of goods that will be key to the environmental transition, and the fluidity of global value chains. On the domestic front, real estate developers saw the volume of real estate sales fall drastically in 2023. Following the tightening of regulations on the debt of real estate developers, requests for rescheduling, payment defaults and bankruptcies have multiplied. The public insurer China Bond Insurance has provided a guarantee for the six main real estate developers. With 8% of loans allocated to the real estate sector (28% when mortgages are included), this real estate crisis could seriously affect certain systemic banks with lower capital buffers. The tensions are continuing to spread to public finances for which a substantial portion of the resources (3 to 4% of GDP) come from real estate activity. This could represent an overall loss (tax revenues and financing) of at least 30% for local authorities.

In addition, an asset manager has also defaulted on its savings products, which may raise fears of further financial tensions and, especially, an increase in the loss of confidence on the part of consumers, which is today central to the issue of demand-led growth. In a context of low levels of confidence on the part of households and consumers/savers, the government's support measures and the reallocation of credit towards the productive sector have contributed to the manufacturing overcapacity. The latter is exported by China, especially since the decline in domestic prices and the weakness of the yuan have boosted export competitiveness. Consequently, while the real estate crisis has not yet massively affected growth, which has remained at around 5%, it raises questions over the growth drivers in the medium-long term to achieve high-income status and sustain macroeconomic and socio-political stability, as well as China's role as an engine of the global economy.

Graph 10 – Contributions to real GDP growth (%, yoy, year-to-date)



Final consumption
Investment (GFCF)
Net exports
GDP
Linear (GDP)

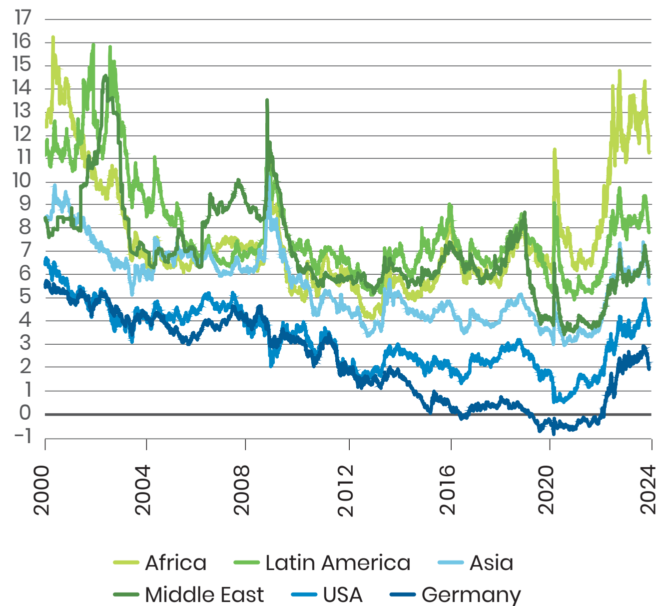
Source: NBS

(Overly) slow mobilization of the international community to address the "debt-climate" spiral

The lack of attractiveness of emerging economies for foreign direct investment (FDI) and international financing flows has remained a strong marker since the health crisis. Despite the more restrictive monetary policies implemented by most EDCs, external imbalances continue to weigh on certain currencies (Angola, Argentina, Egypt, Kenya, Nigeria, Pakistan, Turkey and Zambia) and the external liquidity position through the decline in foreign exchange reserves. Consequently, movements in WAEMU foreign exchange reserves is a point requiring vigilance, in view of the increase in financing needs resulting from the drying up of sources of financing, as seen in many other EDCs. The amount of aggregated reserves fell by 45% between January 2022 and September 2023, to a record low of 3.4 months of coverage of imports of goods and services. This is below the comfort zone of [4.5-6.5] months estimated by the IMF in early 2023. At this level, the reserves only cover 54% of the regional external financing requirements.

Macro-financial vulnerabilities of EDCs face up to climate vulnerabilities[1]. When the cost of climate events exacerbates fiscal imbalances and affects the ability to repay public debt, a government may see its investment capacity to mitigate the cost of future climate shocks drastically reduced. The vicious circle arising from this double vulnerability raises fears of a "debt-climate spiral". The sustainability of the sovereign debt of an increasing number of EDCs is undermined, despite the prospect of a slow decline in interest rates and therefore of a possible loosening of international financing conditions.

Graph 11 – 10-year rate USA and Germany, yield to maturity in USD in EDCs

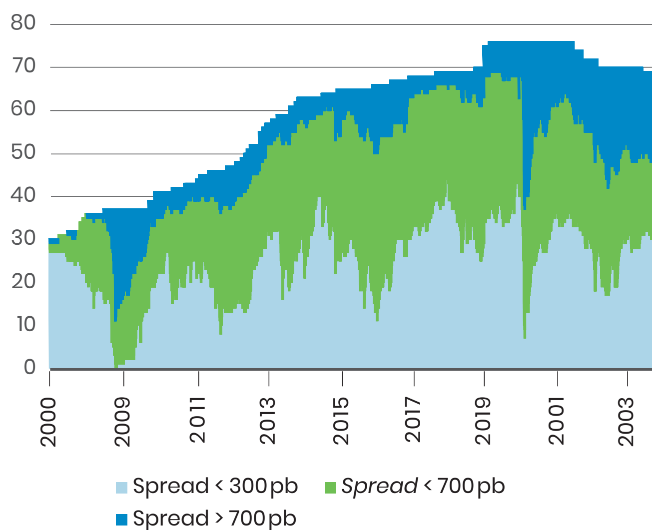


Africa
Latin America
Asia
Middle East
USA
Germany

Source: JP Morgan.

1 See MacroDev n° 51.

Graph 12 – Number of countries by level of sovereign spreads



Source: JP Morgan, AFD calculations.

In this difficult global context, there have been 18 sovereign debt defaults [2] in the last 3 years alone, higher than the total of 15 during the two previous decades. As at 31 August 2023, 26 of the 69 low-income countries (LICs) eligible for the Poverty Reduction and Growth Trust (PRGT) were at high risk of debt distress and 10 were in debt distress, according to the IMF (the number stood at 16 and 2 in 2013, respectively). 28 countries eligible to borrow from the World Bank's International Development Association (IDA) are now at high risk of debt distress and 11 are in debt distress (World Bank, International Debt Report 2023). Furthermore, several middle-income countries particularly stand out for the significant deterioration of their macroeconomic fundamentals (Bolivia, Egypt, Kenya), and other countries also face major vulnerabilities and challenges (Argentina, Pakistan, Tunisia).

The risk of another debt crisis, whether systemic or not, along with the observation of the inadequacy of existing restructuring tools, prompted the launch of the recovery plan of the Sustainable Development Goals (SDGs) by the United Nations Secretary-General in February 2023 and the Paris Summit for a New Global Financial Pact in June. To address the substantial financing needs, an increase in the financing capacity of multilateral development banks (MDBs) is recommended, in particular by rechanneling the Special Drawing Rights (SDR) allocated to advanced countries in 2021. The lending conditions of MDBs need to change, in particular by extending maturities, using conditional climate clauses, and allocating more loans in local currency and guarantee instruments. The G20 New Delhi Declaration in September 2023 referred to pledges to channel SDR or equivalent contributions from G20 countries and non-G20 countries amounting to SDR 73 billion (USD 103.4 billion), including 1/4 pledged for the PRGT and 45% earmarked for the IMF's Resilience and Sustainability Trust (RST), with the substantial remainder still to be allocated, in particular through MDBs.

2 In 10 countries: Argentina, Belarus, Ecuador, El Salvador, Ghana, Lebanon, Sri Lanka, Suriname, Ukraine and Zambia.

Country focus

Benin
Cameroon
Republic of Congo
Côte d'Ivoire
Tanzania
Albania
Iraq
Vietnam

Benin: Growth measures up to the challenges

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Benin navigates between horizons of dynamic economic activity and persistent challenges. While the country's post-Covid recovery is apparent, dependence on fluctuations in international prices continues to undermine its growth. In 2023, this growth was hampered by the closure of the border with Niger and the political changes in Nigeria. While the expansion of the Port of Cotonou could strengthen Benin's regional position, major concerns remain, such as fiscal challenges, the growing debt burden, and security risks in the north of the country. The impact of climate change adds to the pressures, highlighting the complexity of the challenges along Benin's path towards development.

Benin's economy is open and traditionally based on agriculture, with this sector mobilizing almost 35% of its workforce. The country remains highly dependent on the cotton sector, which accounts for a predominant share of its exports (65% of the total in 2022), while the agricultural sector suffers from insufficient productivity and high vulnerability to climate hazards. In an effort towards diversification and a reduction of its dependence on cotton, Benin has undertaken a dynamic transformation of its economy, shifting firmly towards the development of the service sector, which has become the main driver of economic growth. This sector benefits from the country's strategic geographical position and has gained importance, rising from 35% of GDP in 1990 to 60% in 2023. The economy largely depends on re-export activities, with a significant portion informal, mainly towards Nigeria.

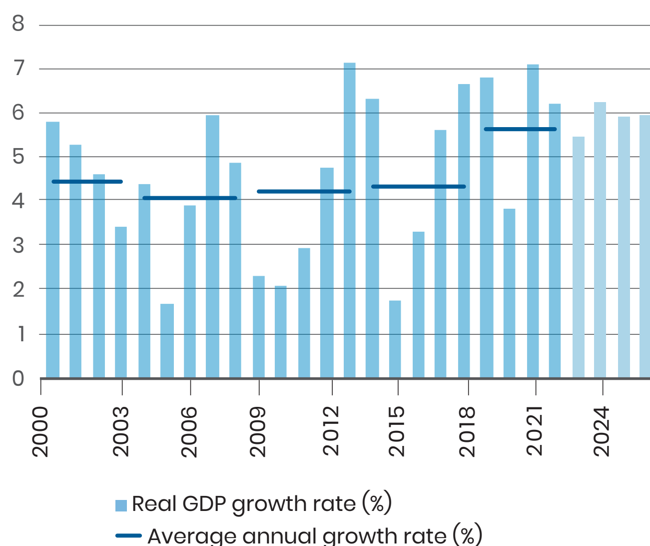
Dynamic growth at the start of major regional ambitions

Benin stands out for its dynamic activity, with an average annual growth rate (AAGR) of 4.5% over the period 2010-2019, thus exceeding the average in Sub-Saharan Africa by almost two percentage points. However, this path is characterized by volatility, largely due to increased dependence on fluctuations in international prices, exposing the economy to both external shocks and economic changes of neighboring countries.

In 2020, Benin's economy showed some resilience, with a growth rate of 3.8%, driven by economic support measures and record cotton production. The post-Covid recovery held up in 2022 (+6.3%, after +7.2% in 2021), boosted by the rebound in agriculture, trade and transport. In 2023, despite the increase in public investment and robust agricultural production, growth was hampered by the closure of the border with Niger, as a result of regional sanctions on transit trade. Furthermore, the removal of fuel subsidies in Nigeria by the new administration in place since May 2023 has led to a significant increase in the price of contraband fuel in Benin, resulting in a rise in energy prices of 17% year-on-year (yoy) in September 2023. Inflation, estimated at an annual average of 5% in 2023, after 1.4% in 2022, also affected private consumption in early 2023. Indeed, food inflation reached 17% in August yoy, before slowing down to 4% in November. The International Monetary Fund (IMF) estimates real GDP growth at 5.5% in 2023, and expects a rebound at 6.3% in 2024.

In the medium term, growth is expected to remain dynamic, supported by an increase in trade. In addition, Benin will firmly establish as a regional hub, thanks to the creation of Special Economic Zones (SEZ) and the ambitious expansion project for the Port of Cotonou (2021-2026), which will connect the port to the overland transit network. The country has the opportunity to increase its competitiveness by engaging in activities in global value chains, thereby orienting its exports towards higher value-added products. This strategy could reduce the current account deficit (estimated at 6% of GDP in 2023), which is structurally high, mainly due to massive imports, especially of agricultural products. However, the escalation of political tensions in the Sahel could hamper the fluidity of trade with these landlocked countries.

Graph 13 – Strong growth marked by high volatility



Source: IMF (World Economic Outlook).

Need for fiscal consolidation to alleviate the debt burden

Benin suffers from an insufficient mobilization of public revenues, due to a limited tax base and numerous exemptions. With the support of the $638 million IMF program signed in July 2022, focused on increasing domestic revenues, it is estimated that the deficit was reduced to 4.3% of GDP in 2023, after 5.6% of GDP in 2022. This improvement would stem from improvements in domestic tax collection and the end of several temporary support measures, such as tax exemptions on certain import products and gasoline subsidies. In the medium term, the ambitious fiscal consolidation aims at reducing the public deficit to below the WAEMU convergence criteria (3% of GDP) for 2025.

Following the Covid-19 crisis, the public debt ratio rose sharply as of 2020. It reached 54.2% of GDP in 2022. The fiscal consolidation measures anticipated in 2023 are estimated to have resulted in a slight reduction to 53% of GDP, a trend expected to continue very gradually in the medium term. In recent years, Benin has diversified its sources of financing by issuing Eurobonds in 2019 and 2021, resulting in a substantial increase in its external debt. While the proactive management has so far contained refinancing risks, the public debt service ratios and interest (40.5% and 11.2% of revenues in 2023, respectively) remain major sources of vulnerability, as Benin has limited space to absorb potential shocks (IMF Debt Sustainability Analysis, December 2023).

Sources of fragility looming over the horizon in Benin

Despite transitioning from a low-income country (LIC) to a lower-middle-income country (LMIC) in 2020, the sustained growth has not significantly improved the socioeconomic indicators. The poverty rate remains a concern. It reached 47.2% in 2022 at the threshold of $3.65 a day and could deteriorate in 2023 with the rise in prices. This situation is shaped by the prevalence of the informal sector, which accounts for 97% of employment (3rd highest proportion in Sub-Saharan Africa according to the International Labour Organization). The World Bank estimates that at the current rate, it would take Benin about 30 years to achieve the average of LMICs in terms of per capita income.

Since 2022, northern Benin has witnessed an upsurge of attacks attributed to Islamist groups spreading from Burkina Faso and posing a growing threat to local people and economic activity in agricultural production areas, especially for cotton. At the same time, Benin is highly exposed to climate change, which is already visible. In the coming years, the country will face periods of prolonged drought, more intense rainy seasons and flood risks. These events will cause substantial agricultural losses, likely to exacerbate the level of food insecurity, which was already of concern in 2022 (10%), while Benin's population is projected to double by 2050.

Cameroon: Engine slowly gathering steam

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The largest economy in Central Africa (and tenth in Sub-Saharan Africa), the Cameroonian "locomotive" impresses by its resilience. Indeed, despite the succession of internal and external shocks, economic activity remains dynamic and the country's growth has been systematically higher than the regional average for a decade. Public and external accounts, Cameroon's traditional weak points, also benefit from a slight improvement, partly due to the high level of commodity prices. These good results contrast with the difficult emergence of new growth drivers and, more generally, the many difficulties facing the private sector. Cameroon's economic model is still not sufficiently inclusive, which prevents any substantial and sustainable improvement in the country's human development indicators.

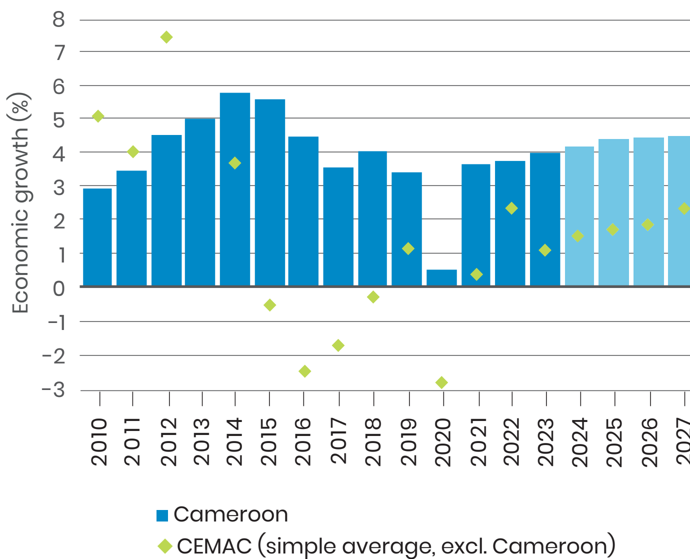
The traditional regional "locomotive", Cameroon is the largest economy in the Central African Economic and Monetary Community (CEMAC), an area made up of Cameroon, the Central African Republic, Chad, the Republic of the Congo, Equatorial Guinea and Gabon. While oil has historically been the main driver of Cameroon's activity, domestic production has been declining since a peak in 1985 (185,000 barrels per day, against 59,000 in 2022 according to the Energy Information Administration). Its economy today stands out as the most diversified in the region, relying primarily on the dynamism of trade and the agriculture sector (cocoa, coffee, cotton, fruit) and the development of the forestry sector, driven by lumber exports to Asia. Since 2018, the country has also benefited from an increase in natural gas production, previously in its infancy, which offsets the decline in its oil resources. However, the manufacturing industry still has low added value, due to the lack of local processing for domestic agricultural, forestry and energy production.

The economy remains on the right track despite the shocks

Despite the end of the "commodity supercycle" and the low level of international prices as of the summer of 2014, Cameroon's average annual economic growth rate stood at 4.2% between 2014 and 2019. The country also maintained a positive growth rate in 2020, despite the Covid-19 pandemic (+0.5%), before a rebound of 3.6% in 2021. In 2022 and 2023, the acceleration of inflation and deterioration in the global economic environment affected economic activity. However, the high level of commodity prices enabled good macroeconomic results, with growth at 3.8% then 4.0% according to the IMF. This performance of the Cameroounian economy is especially remarkable as the country has faced a deterioration in its internal political-security situation over the last decade, on top of this accumulation of external shocks. Indeed, Cameroon is regularly faced with incursions by Islamist groups in the north of the country (Boko Haram and Islamic State in West Africa), along with the fallout from tensions in the neighboring Central African Republic. Furthermore, since 2016, the English-speaking regions in the west of the country (home to 20% of the population) have been subject to violent protest movements, resulting in 6,000 deaths and 765,000 displaced persons according to the International Crisis Group.

This resilience to shocks strengthens Cameroon's role as a locomotive and macroeconomic stabilizer in the CEMAC area, as the neighboring economies have been harder hit by the deterioration of the economic situation over the last decade. Indeed, Cameroon's economic growth has been systematically higher than the regional average since 2013 (see graph). The Cameroonian economy alone accounted for 45% of CEMAC's GDP in 2023, against less than 30% in 2012. In the short and medium term, economic growth is expected to continue to gather pace to a level close to 5% a year (almost double the regional average), in particular driven by the development of new infrastructure, an increase in gas and agricultural production, and the continuation of structural reforms. This means that Cameroon could account for half of CEMAC's GDP by 2030.

Graph 14 – Since 2013, Cameroonian growth has been systematically higher than in the rest of the CEMAC area



N.B.: Growth in the CEMAC area stood at -6.0% in 2013.

Source: IMF.

At the same time, public and external accounts, the traditional weak points of Cameroon's economy, have seen an improvement. Cameroon's fiscal balance, supported by the consolidation efforts implemented under two IMF programs (2017-2020 and 2021-2024), as well as by the acceleration of economic growth and high commodity prices, is moving closer to balance (-0.8% of GDP estimated at year-end 2023), while public debt started declining in 2021 (42% of GDP estimated in 2023). However, major structural weaknesses persist in terms of public finances, as shown by the downgrading of Cameroon's sovereign rating by S&P and Moody's in the summer of 2023 (to CCC+ and Caa1, respectively), brought on by tensions in treasury management and the recurring accumulation of domestic and external arrears. The recent improvement in Cameroon's external accounts would appear to be even more fragile. While the current account deficit stood at 1.8% in 2022 and is estimated at 2.6% of GDP in 2023 (against an average of 3.6% of GDP between 2014 and 2021), this progress is primarily due to the high prices of commodities which account for about 95% of Cameroon's exports

Still too many barriers to growth

Cameroon's good macroeconomic results over the last decade contrast with the country's difficulties in creating new growth drivers. While the oil sector now only accounts for 5% of GDP, it still generates 20% of budgetary revenues and half of the country's export revenues. At the same time, large swathes of the economy remain predominantly dependent on public spending. Indeed, the diversification of the economy and development of the formal private sector are held back by a number of barriers, including the lack of infrastructure, recurrent shortages (including power outages), the underdevelopment of the banking sector, difficulties in accessing foreign exchange, high taxes, recurrent government arrears towards its suppliers, and endemic corruption (142nd out of 180 countries on Transparency International's Corruption Perceptions Index). Ambitious structural reforms are envisaged under the IMF program (2021-2024) and the National Development Strategy 2020-2030, but their implementation is slow.

This situation partly accounts for the weakness of Cameroon's human development indicators. Despite achieving the status of lower-middle-income country (LMIC) in 2005, the per capita income of 28 million Cameroonians is only increasing slowly. The country is also just below the Sub-Saharan African average in terms of GDP per capita, with around $3,750 in purchasing power parity (PPP) in 2022. Furthermore, it is estimated that nearly one quarter of the population is living in extreme poverty (at the threshold of $2.15 of the 2017 PPPs). This figure has been generally stable over the last 20 years according to the World Bank. The lack of inclusiveness of Cameroon's economic model, symbolized by the omnipresent informal sector (around 40% of GDP and 90% of employment) and persistent inequalities which have hardly been reduced, could ultimately compromise the country's emergence, planned for 2035 by the authorities.

Republic of Congo: An economy in need of diversification

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The Congolese economy is highly dependent on the oil sector, which accounts for about 40% of its GDP, 60% of its fiscal revenues and 80% of its exports. Consequently, growth and the major macroeconomic balances depend on trends in international oil prices. Since 2022, Congo has benefited from strong prices, which have enabled the country to increase its growth and improve its public accounts. In the longer term, it remains essential to diversify the economy, which would make it more resilient and limit the impact of the low-carbon transition. The IMF program, which has already accelerated the consolidation of public finances, plans to support the structural reforms. However, The IMF's support may prove to be insufficient in view of the scale of the financing requirements.

Over the last four decades, Congo has mainly based its economic development on oil exploitation. Its production has more than doubled in 30 years and reached a production peak at 329,000 barrels of crude oil per day in 2019. The oil sector has developed at the expense of the other economic sectors, meaning that Congo has not initiated a structural transformation. Yet the country has a number of assets, which it could use to diversify its economy: natural gas reserves, abundant mineral resources, a major forest basin, and considerable hydropower potential.

The dependence of the Congolese economy on oil results in a high volatility of growth, as well as of the fiscal and current account balances. It also leads to high risks associated with the low-carbon transition. Indeed, the IMF estimates that the transition will generate losses of between $25 million and $30 million a year in terms of fiscal revenues, and of between $90 million and $110 million in terms of exports for the period 2022-2040.

A volatile and insufficiently inclusive economic growth

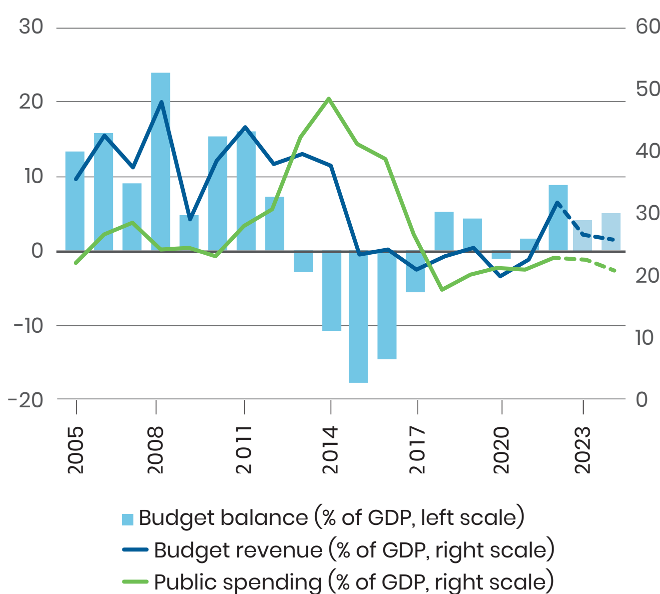
While the commodity supercycle enabled Congo to achieve relatively sustained growth between 2000 and 2014 (+3.5% on average for 2000-2009, then +5.6% for 2010-2014), the fall in oil prices and the sharp decline in investments in the oil sector as of 2014 plunged the country into a deep recession, at 4.8% on average for 2015-2019. In 2020, the economy largely suffered from the dual shock (Covid-19 and falling oil prices), with a contraction in real GDP of 6.2%. In 2021, Congo experienced positive growth (+1.1%), as a result of progress in non-oil activity and despite the contraction of the oil activity. In 2022, growth was disappointing, at 1.8% according to the IMF, due to a slowdown in oil production, related to disagreements between the State and sector operators. It is projected at 4.0% in 2023, close to its potential according to the IMF, given the signing in 2022 of new contracts on production sharing.

With a per capita income of $2,060 in 2022 (Atlas method) according to the World Bank, Congo has been a lower-middle-income country (LMIC) since 2005. However, per capita GDP has declined sharply since 2014, and it even fell below the Sub-Saharan African average in 2019. While the extreme poverty rate had fallen from 55% in 2005 to 35% in 2011, the post-2014 crisis and health crisis ran it back up to 52% in 2021. The unemployment rate, which is structurally high, rose to 23% in 2021, whereas it had remained perfectly stable between 2016 and 2019 (21%). The country is also facing a high level of food insecurity, which reached 90% for 2019-2021 according to the database of the United Nations Food and Agriculture Organization (FAOSTAT). Inflation could further affect the socioeconomic indicators. While it remained below 3% on average in 2022, despite food inflation at 6%, inflation was negatively affected by the phasing-out of fuel subsidies in 2023, and reached 4.7% year-on-year in October 2023.

A consolidation of public finances supported by the IMF program

Given the dependence on oil, the fiscal balance is also strongly correlated with price developments. Consequently, Congo recorded very high fiscal deficits in 2014-2016 (14.7% of GDP on average), owing to the end of the commodity supercycle. This situation led the authorities to conduct a significant fiscal consolidation, which achieved surpluses in 2018-2019 (5.2% of GDP on average). After recording a slight deficit in 2020 (1.1% of GDP), as a result of the stimulus package of 1.6% of GDP introduced to address the health crisis, Congo returned to a positive balance in 2021 (1.6% of GDP). In 2022, the budget surplus rose sharply to 8.9% of GDP due to the increase in oil prices and despite a slight fiscal easing. It is projected to decline in 2023, in a context of less favorable oil prices, but the measures to consolidate public finances supported by the IMF program should maintain it at a high level (4.1% of GDP).

Graph 15 – Fiscal balance returned to surplus in 2021 thanks to the increase in oil prices



Source: IMF (WEO).

Indeed, since January 2022, Congo has benefited from a new IMF program (three-year ECF for $455 million). Its main objectives are to i) strengthen the economy's resilience to external shocks by increasing social and infrastructure spending, while continuing fiscal consolidation efforts through an improved prioritization of spending and mobilization of revenues; ii) clear external arrears; iii) increase public investment and improve debt management; and iv) implement effective structural reforms to support the development of the non-oil sector. While the approval of the second review had been postponed and conditioned on the adoption by the authorities of an amended 2023 budget law – including the removal of the new subsidy to the public oil company (SNPC) introduced in 2022 and the phasing-out of fuel subsidies (+5% on 31 January 2023 and +25% on 15 July) –, the third and fourth reviews were approved with no delay (in June and December 2023, respectively), with the last one even being considered "broadly satisfactory".

As a result of restructuring plans with the various creditors (including China), public debt has been on a downward trend since it peaked at 103% of GDP in 2020, and fell to 93% of GDP in 2022. In this context, S&P upgraded Congo's sovereign rating from CCC+ to B- in July 2023, just after the approval of the third program review. However, Congo's debt remains the highest in the CEMAC area and its profile is relatively high-risk (57% held by non-residents, even though it is partly concessional). In view of the persistent external arrears – although they are declining (3.5% of GDP in February 2023, against 4.4% of GDP in February 2022) –, the IMF still considers Congo to be in "debt distress" (Debt Sustainability Analysis of July 2023), but the debt is also considered sustainable.

Côte d’Ivoire: Race towards emergence challenged by shocks

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A heavyweight of the WAEMU, the Ivorian economy has been robust over the last decade (7.2% of growth on average since 2012) and particularly resilient to the successive shocks since 2020 (Covid-19 pandemic, war in Ukraine, climate hazards). Its growth model, which has traditionally been based on agricultural exports, is continuing its diversification, driven by the boom in the hydrocarbon sector, but it does not appear to be sufficiently inclusive. Investment requirements remain high for this lower-middle-income country (LMIC) which aspires to become an upper-middle-income country (UMIC) by 2030. However, its fiscal space has been largely reduced since 2020, and the record high amount of the program launched with the IMF in May 2023 ($3.5 billion for 40 months) shows the scale of the financing needs and the country’s weakened external position.

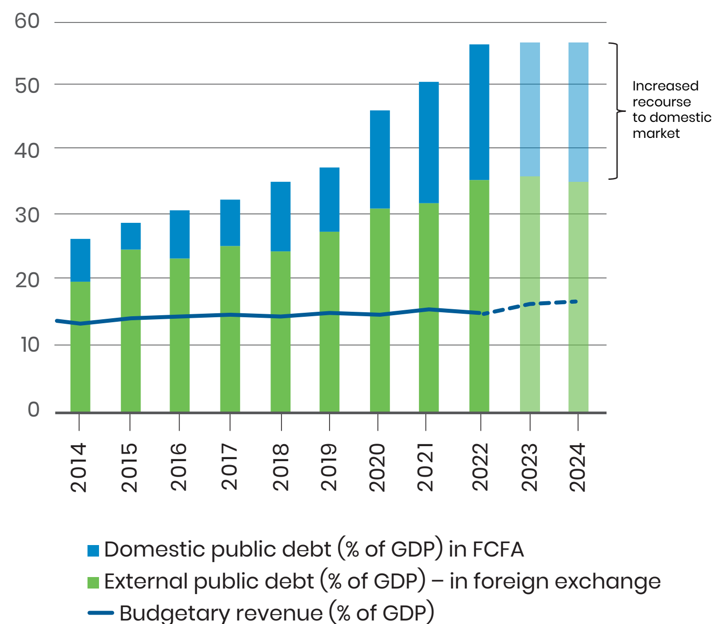
Since the end of the “lost decade” marked by the internal political-military conflict, which led to stagnation in per capita GDP in purchasing parity terms between 2000 and 2010, Côte d’Ivoire has set the course for emergence, organizing its economic development model around its successive National Development Plans (NDPs). The objective of the NDP 2021-2025 is to move up the value chains by establishing regional clusters of competitiveness. It also gives priority to strengthening human capital. This strategy entails relatively high levels of investment (22% of GDP on average since 2015), and an increased financial effort focused on labor productivity and the integration of young people into the labor market (2.5% of GDP for 2023-2025 via the Government Youth Program – PJ-Gouv). The commissioning of major offshore gas and oil fields (called *Baleine*) in August 2023 should double national oil production by 2025, today estimated at 20,000 barrels per day. The production target for 2030 is 150,000 barrels of oil per day and 250 million cubic feet of gas per day. This will allow Côte d’Ivoire to cover its domestic gas needs and increase its crude oil exports. Despite this encouraging momentum, the deterioration in the fiscal and external position, uncertainty over the succession of President Alassane Ouattara, and security tensions in the Sahel are major factors of concern.

Between destabilization in the Sahel and electoral uncertainty for 2025

The recent military coups in Mali, Burkina Faso, Guinea and Niger, and the expansion of jihadism in the region, have numerous social and security implications. According to the United Nations High Commissioner for Refugees (UNHCR), Côte d’Ivoire recorded 43,000 new arrivals of asylum seekers via the country’s northern borders between January and December 2023, due to the escalation of attacks by “non-state armed groups” (NSAGs), in particular in Burkina Faso. In response, the national authorities built two centers for refugees in 2023, with a total capacity of 15,000 people. They are also stepping up efforts to prevent the recruitment of young people by NSAGs, with the adoption of an ambitious social program (PSGouv 2) for FCFA 3,200 billion over three years, representing 7% of GDP. Indeed, the socio-economic indicators at national level remain very low, despite a strong economic growth over the last decade, and there are major regional disparities. The incidence of poverty is high (37.5% in 2022 according to the preliminary figures of the harmonized survey on households living standards) and life expectancy at birth only reached 58.6 years in 2021 (against 67 years on average in LMICs). There is still mass illiteracy, which contributes to Côte d’Ivoire ranking among the last countries on the Human Development Index (HDI), in 159th place out of 189 countries.

In terms of security, the Ivorian army has been strengthened through the increase in security spending since 2020 (reaching 2.9% of GDP in 2023). These potential security risks could destabilize the country, which is gearing up for the next presidential elections in October 2025. There is a major question mark over the succession of President Ouattara, in power since the end of the political-military crisis of 2011. Building on his positive economic results, he has managed to create unity around the presidential party, the *Rally of Houphouëtists for Democracy and Peace* (RHDP). Indeed, this party won in 60% of the municipalities and 80% of the regions in the last local elections in September 2023, marked by the historical participation of all the opposition parties.

Graph 16 – Sharp rise in public debt while budgetary revenue has stagnated



Source: IMF.

Fiscal and financial leeway eroded by the successive shocks since 2020

Victim of a scissor effect, there has been a sharp deterioration in the country's external accounts: less dynamic exports, combined with the increase in the cost of imports (energy, food) and the continuation of major investment projects, have increased the current account deficit. Substantial amortizations of external public debt related to the repayment of Eurobonds issued between 2014 and 2021 contribute to the increase in the external financing requirement. Consequently, Côte d'Ivoire's external liquidity position is deteriorating, with a decline of 31% in the country's consolidated foreign exchange reserves at the Central Bank of West African States (BCEAO) between January 2022 and September 2023. The record amount of the program approved by the IMF in May 2023 under the Extended Credit Facility and Extended Fund Facility, of $3.5 billion over 40 months, *i.e.*, 400% of the country's quota, shows the scale of the country's public and external financing requirements. This pattern can also be seen at the aggregate level of the West African Economic and Monetary Union (WAEMU), where the common reserves of the eight countries in the area now only cover 3.2 months of imports of goods and services.

Côte d'Ivoire is also facing the structural challenge of domestic resources mobilization, as budgetary revenue has stagnated at around 14.7% of GDP on average for a decade. The accumulation of particularly high public deficits (6.8% in 2022, 5.2% estimated in 2023) since 2020 has contributed to a dramatic increase in public debt. It has doubled in nominal terms compared to 2019 and increased by 19 pp over the same period, reaching 59.3% of GDP at year-end 2023. With almost constant resources, and considering the tightening of both external and domestic financing conditions, the burden of servicing the public debt has increased. The authorities have taken stock of the challenge and, through the IMF program, have undertaken to increase tax revenues by 0.5 *pp* of GDP a year until 2026. The IMF has thus maintained its debt sustainability analysis at "moderate risk", but the issue of refinancing this public debt at sustainable rates is being closely scrutinized. The regional domestic market has for the moment proved to be sufficiently deep to absorb Côte d'Ivoire's financing needs, but we have seen some liquidity stress in 2022-2023. The BCEAO took a proactive approach by increasing its liquidity injections and conducting outright sovereign debt repurchases in order to ease the balance sheets of commercial banks, although inflation targeting remains the main objective of its mandate. Inflation is still relatively high and stood at 4.6% year-on-year in October 2023 in Côte d'Ivoire and 2.7% in the WAEMU area, which has led it to increase the marginal lending rate six times (overall increase of 150 bp). It has stood at 5.5% since December 2023.

Tanzania: A "diligent" management of the economy

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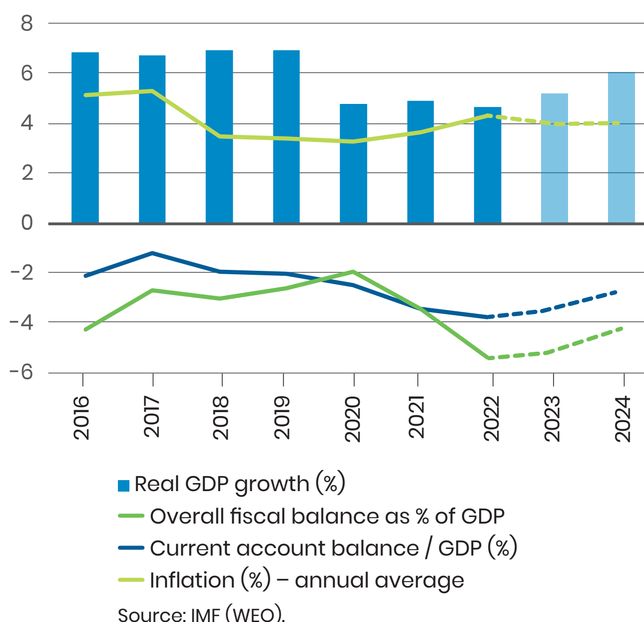
Two and a half years after the death of President John Magufuli, his authoritarian and nationalist parenthesis, which drove international investors away and drew widespread international criticism, would appear to be well and truly closed. His Vice-President, Samia Suluhu Hassan, who has taken over as head of the country, is going against her predecessor despite pressure from the hardliners from her party: democratization of public life, international openness, stimulation of foreign direct investment… However, she does benefit from the pragmatic economic management of the Covid crisis by President Magufuli. It has enabled the country, which openness with the rest of the world is fairly narrow, to maintain robust growth. The public works policy, the prudent management of public finances, enhanced by an ongoing IMF program, and the future exploitation of gas reserves are setting Tanzania towards a sustainable growth and development path in the medium term.

The name of its economic capital, Dar es Salaam, "haven of peace", accurately reflects the political reality of Tanzania. Indeed, few African countries can boast such stability: since its independence in the early 1960s, Tanzania has never experienced a major political crisis, in contrast to all its neighbors. The corollary is the absence of political alternative and a hybrid and partially free regime, dominated by the *Chama Cha Mapinduzi* party (CCM, Revolutionary Party). This stability has benefited the economy whose growth has averaged 6.5% over the last 20 years. Tanzania thus became a lower-middle-income country (LMIC) in July 2020, five years ahead of its national strategy. However, major socioeconomic challenges remain: 45% of Tanzanians continue to live below the extreme poverty line, which is ten points higher than the Sub-Saharan African average. Demography remains the most important challenge for the future: the urban population growth rate has been above 5% a year for the last 20 years, one of the highest in Africa, posing significant challenges in terms of urban planning, employment, and pressures on natural resources.

The new President is strengthening the democratic process and revitalizing the economy

The political situation in Tanzania has taken a more liberal direction since the death of the incumbent President, John Magufuli, in 2021. His Vice-President, Samia Suluhu Hassan, has taken steps to strengthen democracy by developing a "Four Rs" policy (reconciliation, resilience, reforms and reconstruction): end to the ban on political rallies, proposed amendment to the Elections Act and National Electoral Commission, acceptance in principle of the recurrent demand by the opposition to adopt a new constitution. On the diplomatic and economic front, she has made efforts to ease relations with the neighbors and donors. She has also ended the excessive taxation which contributes to strengthening the business climate. However, major efforts are required in the field of public governance: the country is in a poor position for all the indicators measured by the World Bank, although Tanzania is one of the highest ranked countries in East Africa in terms of corruption perceptions (94th out of 180).

Graph 17 – Growth remains robust and inflation controlled despite twin deficits



Source: IMF (WEO).

Gold, tourism and tomorrow gas

The Tanzanian economy has not been significantly affected by the health crisis, as the government opted to impose the fewest possible constraints and health restrictions: between 2020 and 2022, economic growth fluctuated between 4.7% and 4.9%.

The diversification of the economy, which is not very open, has contributed to absorbing external shocks. Consequently, inflation remains contained at below 5%, a rate unparalleled in the neighboring countries. The Central Bank has therefore not raised its policy rate which has preserved economic growth.

Constraints on the Tanzanian economy caused by the international situation should ease slightly in 2023 and 2024. Growth is also expected to return to a level of above 5%. In the short and medium term, the economy will benefit from the recovery in tourism. For the fiscal year 2022/23, arrivals exceeded 1.65 million, a record level, with revenues tripling since July 2021. It will also benefit from an increase in foreign direct investment (FDI), as there are major infrastructure projects underway, including the oil megaproject (East African Crude Oil Pipeline, EACOP). Indeed, investment is central to the country's growth strategy: it has accounted for an average of 37% of GDP over the last decade, well ahead of the other East African countries.

However, these investments result in an increase in imports of capital goods, which widens the trade deficit in a context of global inflation. The current account deficit reached 5.4% of GDP in 2022. Despite an import bill which is continuing to increase (+18% year-on-year in March 2023), the current account deficit should be reduced very gradually due to the strong recovery in exports: vigorous tourism activity (+20% of revenues in July 2023 compared to 2019) and increase in gold volumes (+64%).

The IMF estimates the economic growth potential at 7% in the medium term. But it could be much higher after the exploitation of the huge offshore gas reserves begins, the timetable for which is not known at this time.

Fiscal space needs strengthening

The fiscal austerity imposed between 2015 and 2020 has contained the fiscal deficit to 2.2% of GDP on average. The pandemic response plan, the continuation of substantial spending for the public works projects, followed by the fuel subsidies after the invasion of Ukraine by Russia, increased the fiscal deficit in 2021 (-3.4% of GDP) and 2022 (-3.7% of GDP). As the subsidies were withdrawn in January 2023, the fiscal deficit should be reduced to 3.3% of GDP.

Public finance management is the weak point of the administration and is central to the $1.1 billion Extended Credit Facility approved by the IMF in July 2022. The program aims to strengthen the country's fiscal space by improving the mobilization of tax revenues (an average of only 11.8% of GDP excluding grants since 2016) and the quality of expenditure.

Thanks to its long-term public deficit control and high level of grants, Tanzania has one of the lowest debt ratios in East Africa (42% of GDP). 45% of total public debt, two-thirds of which is foreign-currency denominated, is held by bilateral and multilateral donors and is concessional. Without ever having issued on the markets, Tanzania is making increasing use of commercial debt flows (23.5% of the total public debt stock and over 30% of payments in FY2021/22) to finance the major public works (Standard Gauge Railway, Julius Nyerere Hydropower Plant). Consequently, the public debt service is rising, contributing to the increase in the external financing needs which puts pressures on foreign exchange reserves. Between the end of 2021 and June 2023, they fell by $1.1 billion to $5.2 billion. To maintain them, the Central Bank (BoT) has stopped its interventions on the foreign exchange market. As a result, the shilling has depreciated by 8% against the dollar since May 2023. However, the reserves cover 4.8 months of imports of goods and services, reflecting a level higher than the thresholds set by the government (4 months) and the East African Community (4.5 months), and in line with IMF recommendations.

Albania: Time to Euro-up!

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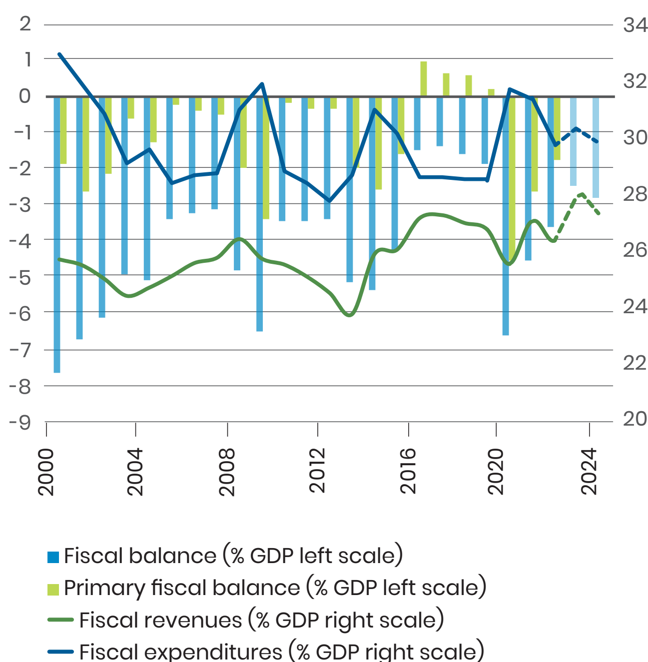
Over the last two years, the Albanian economy has benefited from a record development of the tourism sector, which has supported growth and fiscal consolidation, despite the succession of external shocks. Indeed, the country has proved resilient than its neighbors to the consequences of the war in Ukraine, due in particular to its domestic hydropower generation. While the Russia-Ukraine conflict is urging Brussels to revive the process of EU enlargement to the Western Balkans, stalled for several years, the objective of Albania's accession in 2030 seems ambitious but achievable, through the momentum of structural reforms underway. However, these favorable conditions cannot obscure the country's deficiencies in terms of infrastructure, the fight against corruption, restrictions on civil liberties, and organized crime. These factors continue to fuel mass emigration, which is likely to intensify with the easier access to the European labor market.

After experiencing highly volatile economic activity during the Communist period and the economic recession of the first years of transition (1990-1995), the focus was placed on economic development and Albania saw sustained growth rates for about 15 years (6.5% on average from 1993 to 2008). The pace of growth subsequently slowed after the global financial crisis (2 to 4% from 2010 to 2019). The economy is based on services and is mainly driven by private consumption and public investment. Economic development continues to be hindered by structural constraints, in particular the size of the informal sector (more than a third of the economy), the lack of diversification and the weakness of the industrial sector, as well as the low level of productivity and endemic corruption. In addition, the tax system, which is largely based on the collection of VAT and excise duties, is egalitarian without being redistributive and equitable. While per capita income has increased tenfold since the 1990s, allowing the country to become an upper-middle-income country in 2019, per capita GDP ($15,000 PPP in 2022) remains the lowest in the Western Balkans, after Kosovo ($12,400) and well below Montenegro ($21,900).

The war in Ukraine : driving force behind the revival of the EU accession

While Albania's accession process appeared to have stalled since it obtained candidate status in 2014, the war in Ukraine has urged Brussels to revive the process of enlargement to the Western Balkans. Encouraged by this objective, Albania has taken gradual steps to overcome its structural barriers and is estimated to have achieved two-thirds of the criteria required for accession. The reforms to strengthen the judicial system launched in 2016, which should be fully implemented by the end of 2024, enabled Albania to start negotiations for accession to the European Union in July 2022. The objective of accession for 2030 would appear to be achievable if efforts are made in terms of governance.

Graph 18 – Fiscal consolidation under the guidance of the IMF



Sources: IMF, WEO.

Resilient public accounts despite a risky financing strategy

Despite the earthquake in 2019, the health crisis in 2020 and the war in Ukraine in 2022, the objective of European accession has led the Albanian authorities to continue their fiscal consolidation efforts, conducted jointly with the IMF under the Economic Reform Program (ERP 2022-24). The IMF estimates that the fiscal balance will have achieved a primary surplus in 2023, one year ahead of the initial objective. The total fiscal deficit is estimated at 2.5% of GDP in 2023, allowing Albania to be in line with objective of the fiscal rule: a deficit below 2.6% of GDP.

Consequently, the public debt ratio is estimated to have fallen to 62.9% of GDP in 2023, following a peak at 75.8% of GDP in 2020. The IMF's latest Debt Sustainability Analysis (DSA) in December 2022 considers that it remains sustainable, but with refinancing and foreign exchange risks related to its high share of foreign currency (48% of public debt in 2022), held by non-residents (45% of total debt). This is due to the authorities' public financing strategy, which has led to an increase in commercial debt in recent years (35% of the total in 2022) following the issuance of several Eurobonds in euros. The public financing requirement is thus expected to remain high at about 17% of GDP on average in the medium term, due to the maturities of the Eurobonds in 2025 (€580 million) and 2027 (€610 million). However, it remains below the pre-crisis ratios (about 30% between 2011 and 2019).

In addition, market conditions are currently favorable in Albania. In June 2023, the Albanian Eurobond was largely oversubscribed, raising €600 million, against the €500 million initially expected. Furthermore, in December 2023, the sovereign spread in euros stood at less than 300 basis points above the German Bund. This positive perception of the markets limits refinancing risks, at least in the short term.

Favorable conditions for the implementation of structural reforms

The European Commission estimates that growth will stand at 3.5% in 2023 then 3.1% in 2024, driven by the resistance of private consumption and the remarkable vitality of the construction and tourism sectors. The tourism sector recorded record revenues in 2023 (+31% compared to 2022 and +60% compared to the level before the health crisis). This performance has contributed to the improvement in the current account deficit which is structurally high (6% of GDP in 2022). This is the lowest level since 1999 and it is estimated to be stable in 2023. This improvement in the external accounts has led to an appreciation of the lek (13% in 2023), as well as an increase in foreign exchange reserves. The reserves are thus expected to have exceeded the equivalent of 7 months of import coverage in 2023, providing adequate protection against liquidity risks.

The country's relative energy independence, combined with the appreciation of the lek, has kept inflation down at 6.7% in 2022, the lowest rate in the region. In 2023, inflation stood at an annual average of 3.95%, against the backdrop of a tight labor market, and is expected to gradually return to the target of 3% set by the Bank of Albania, in early 2025 according to the IMF. Despite the "de-euroization" efforts, half of loans and deposits remain denominated in euros, which limits the effectiveness of the monetary policy.

Prospects and challenges

The country's growth potential remains limited at 3.5%, in particular due to a massive emigration of Albanians. It is estimated that over 60% of Albanians were living abroad in 2023. The objective of European accession has resulted in structural progress, both in terms of governance and more prudent public finance management, as shown by Albania's recent removal from the gray list of the Financial Action Task Force (FATF). This progress has favored foreign direct investment and job creation, in particular in the tourism sector. However, the alignment with European standards has also increased professional mobility for Albanians, encouraging many of them to seek opportunities in Europe, and especially in Germany. In addition to the issues of governance, the need to diversify the economy remains essential, in order to slow the massive emigration of elites and reduce the predominance of the informal economy.

Iraq: Highly constrained economic model with volatile performance

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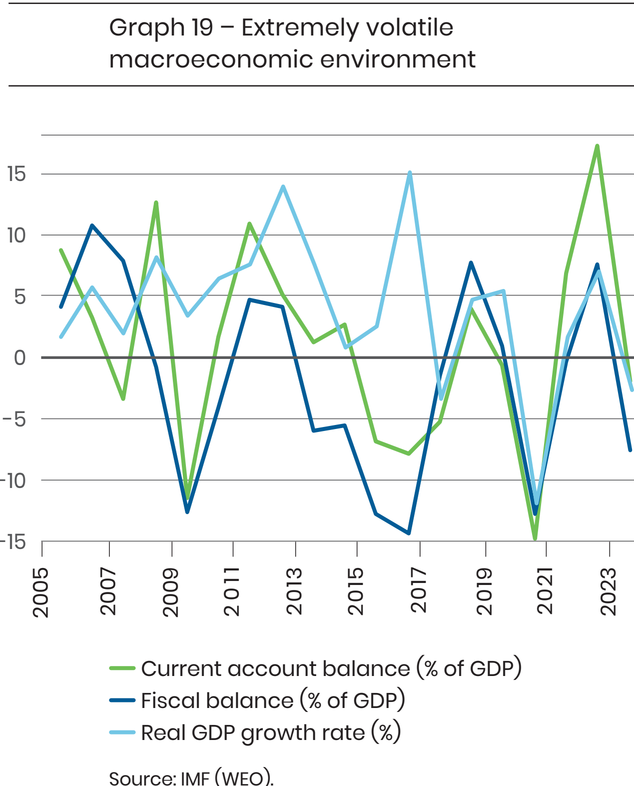
Despite a relative improvement in the political andsecurity situation, which has held back the economic and human development of the country for the past 20 years, the performance of the Iraqi model remains modest. Many structural barriers persists: extreme dependence of the economy on oil, fragilities in the financial sector, weak governance, stifled non-oil private sector, lack of prospects for diversifying the economic activity. In addition, macroeconomic imbalances seem to be intensifying, even as oil prices remained at a high level in 2023. The country might have experienced a recession, twin deficits have increased, and foreign exchange shortages have worsened.

Iraq's recent history is characterized by episodes of war and instability, which have included the American invasion, followed by a communal civil war and the rise of the Islamic State over a large part of the country. These conflicts have come with a very high cost, both human (at least 200,000 civilian casualties between 2003 and 2020, 7 million displaced persons) and economic (destruction of infrastructure, emigration of the most highly-skilled). There has been a marked improvement in the security situation in recent years, (740 civilian casualties recorded in 2022, compared with an average of 15,000 per year between 2014 and 2017). The political situation would also appear to have stabilized, with the formation of a government in October 2022 headed by Mohammed Chia al-Soudani, following a long period of governmental vacancy. This political and security environment could foster the development and reconstruction of the country, but many barriers remain, while macroeconomic performance in 2023 is not as good as expected.

Graph 19 – Extremely volatile macroeconomic environment



Source: IMF (WEO).

Strong persisting structural constraints pose a threat to the Iraqi model

The Iraqi economy is one of the most dependent on hydrocarbons in the world: in 2022, oil accounted for a total of 57% of GDP, 95% of government revenues and 99% of goods exports. The remaining activity is undiversified, with a weak agriculture sector, no manufacturing industry and a service sector dominated by the public and quasi-public sector. The economy remains uncompetitive and unproductive, hampered by a degraded business climate, the shortage of human capital, the lowest in the Middle East and North Africa (MENA) region, and the destruction of physical infrastructure. This partly accounts for the particularly erratic growth regime over the last 20 years. The average annual GDP growth rate stood at 4% between 2010 and 2022, but at only 0.9% for non-oil GDP.

Furthermore, the banking sector is particularly fragile and provides little financing for the real economy. It is dominated by three public banks (Rafidain, Rasheed and Trade Bank of Iraq) which account for 75% of the consolidated assets of the sector. They are probably undercapitalized, have not published audited accounts since 2014, are subject to little supervision by the Central Bank of Iraq (CBI), and mainly finance the State and public enterprises. The rest of the market is fragmented between more than 65 small and unprofitable private banks. Combined with one of the lowest bank penetration rates in the MENA region (19%, against 48% for the region as a whole), this contributes to limiting the level of credit to the private sector to 10% of GDP (53% on average in the MENA region) and holds back the diversification of the economy.

Above all, the economic and political governance indicators of the World Bank are among the lowest in the world (in terms of respect for the rule of law, corruption, effective government and regulatory quality). A consequence of a weak State, public expenditure on development, reconstruction and non-oil investment has remained low over the last decade, contributing to an official unemployment rate of 16%, which reaches 35% among young people. Formal employment is concentrated in the public service (40% of the active population). The majority of employment outside the public sector and oil sector is informal. These imbalances are expected to increase in the coming years in a context of high population growth (2.4% a year), jeopardizing both socio-political stability and economic growth prospects.

2023: high oil prices but a deterioration in the macroeconomic situation

In 2022, real GDP growth reached 8.1%, benefiting from the upturn in oil prices, but the country is estimated to have been once again in recession in 2023 (-2.7% according to the IMF) due to the underperformance of the oil sector. Oil production fell by 6.5%, partly due to the interruption of oil exports from Iraqi Kurdistan since March 2023 and maintenance operations on fields in the south of the country, while prices were 25% lower during the first eight months of the year.

Public finances are volatile and dependent on oil prices, with oil accounting for 90-95% of total budgetary revenues. Public expenditure is high (43.3% of GDP in 2022) and its structure is rigid, in particular due to civil servant wages and pensions, which absorbs almost 20% of GDP to serve the 4 million employees (against less than a million in 2003). The increase in prices in 2022 resulted in a comfortable budget surplus of 6.4% of GDP, but estimates for 2023 point to a return to a high deficit that may persist (7.7% of GDP in 2023, 7.8% in 2024 according to the IMF). The 2023 budget is indeed extremely expansionary (+40% in nominal terms; +12 GDP percentage points), and includes plans to create 600,000 civil servant positions. The oil fiscal break-even price is thus estimated at $97 per barrel by the IMF and $112 per barrel by the World Bank.

Furthermore, to address the impact of the pandemic, in late 2020, the CBI devalued the dinar (IQD) by 20% against the dollar (USD), which contributed to an acceleration of inflation (6% in 2021 and 5% in 2022). The CBI revalued the IQD by more than 10% in early 2023 and raised its key interest rate, which had remained unchanged since 2016, by 350 basis points in June 2023, to 7.5%. On the external front, the increase in hydrocarbon prices (99% of exports) in 2022 contributed to a current account surplus of 17.3% of GDP. However, it is expected to experience a deficit in 2023 (-1.9% of GDP), which is likely to grow in the coming years due to the increase in imports driven by the expansionary budgetary policy and certain investment projects. At the same time, there has been a substantial increase in foreign exchange reserves since the low point reached in late 2020 (7 months of imports). Reserves reached a record high in mid-2023, corresponding to 10.4 months of imports. However, the extreme concentration of foreign exchange in the public and oil sectors, in an exchange regime pegged to the dollar, limits the availability of foreign exchange in the rest of the economy. Up until mid-2023, the CBI organized foreign exchange auctions for banks, at a fixed rate and with capped amounts. This system has been discontinued, with the CBI preferring to entrust this function to the correspondent banks of Iraqi banks. This has resulted in a drying up of liquidity in dollars and a 20% difference (as of September 2023) between the market exchange rate and the official exchange rate.

Vietnam: Towards a climate *Đôi mói*?

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Three decades of remarkable economic and social progress have enabled Vietnam to eradicate extreme poverty and firmly establish itself as a middle-income country. The economy continues to offer attractive prospects in the medium term, but in the longer term, it could be caught in the middle-income trap if the authorities fail to address two structural issues: first, productivity and, even more importantly, the fight against climate change. This last point would now appear to be taken very seriously in Vietnamese planning, which has set the objective of carbon neutrality by 2050. However, the numerous strategies now need to be harmonized to avoid contradictions, and they must especially be followed up with concrete actions.

"Vietnam needs a green *Đôi mói," the United Nations Development Programme (UNDP) stated in 2022.*[3] The nod to *Đôi mói*, the economic liberalization which started in 1986, comes with a reference to the climate here, reflecting a new twofold imperative: reconciling economic development and the fight against climate change. How does Vietnam plan to address it?

Three decades of quite remarkable progress

On the heels of the economic opening launched in the late 1980s, Vietnam experienced three decades of robust growth, with a CAGR of 7%, which enabled it to reach middle-income status. Thanks to numerous free trade agreements, the country has managed to position itself in global value chains, partly replacing China which has become less competitive. Exports (in particular textiles, shoes and electronics) are thus one of the spearheads of the economy, along with FDI attracted by a competitive workforce. Since 1990, this economic boom has resulted in a 30-fold increase in per capita income (Atlas method) to $4,000 at the end of 2022, thus firmly establishing Vietnam in the category of LMICs. At the expected growth rate, the country will move to the upper-middle-income category (UMICs) by 2025. This growth has been coupled with considerable socioeconomic progress. Extreme poverty has been eradicated in 30 years (45% of the population in 1990, 0.7% at the end of 2020) and the country is now in the category of countries with a high level of human development, just behind Indonesia. Furthermore, the unemployment rate is low (2.3% as of end 2023), and there is a moderate level of inequality (Gini coefficient at 35.7% at the end of 2019). This success is due both to socio-political stability (continuity of the Communist Party, robust social pact) and a cautious policy mix (fiscal and monetary policies). The fact that these fundamentals are still in place continues to make Vietnam a prime destination for foreign investors seeking to diversify outside China. Despite upheavals in 2023 and real GDP growth expected at about "only" 5% (4.7% according to the October 2023 WEO), the economy should continue to offer strong growth prospects, with medium-term potential output growth at around 7%. There are, however, several challenges.

Improve productivity to avoid the middle-income trap

To achieve the authorities' objective of becoming a high-income country (per capita income threshold in 2022 of $13,800) by 2045, an average annual growth rate of around 6.5% will be necessary. At the current pace, this is achievable, but in addition to public investment, it will require several reforms. Bureaucracy and corruption will need to be reduced, the business environment improved (for example, through the effective implementation of the new legal framework for companies and public-private partnerships), and SoE privatization accelerated. But the focus must especially be placed on improving productivity. Indeed, in 2022, the World Bank considered that despite its attractiveness for foreign investors, Vietnam had no specific advantage in terms of wage-adjusted productivity compared to its peers (Bangladesh, Philippines, Sri Lanka). Improving skills by increasing university and vocational training

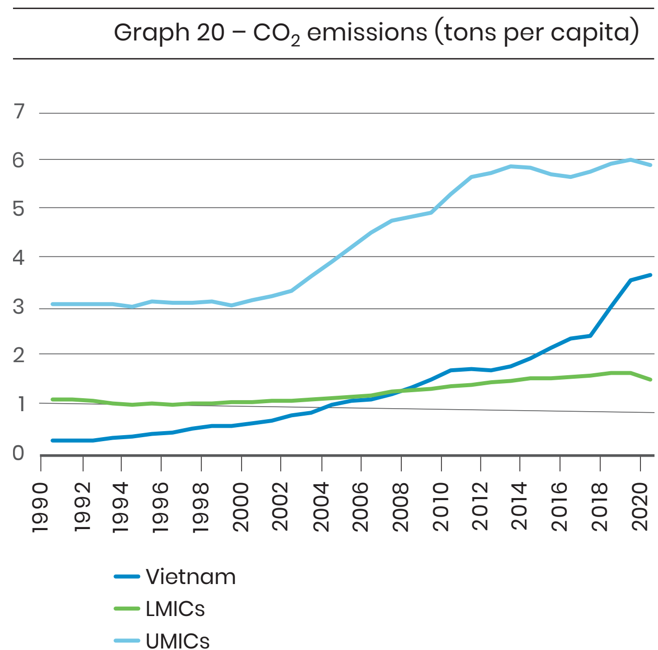
3 Hanoï Times, "Vietnam needs 'green climate Đôi Mói': UNDP", 28 May 2022.

participation rates, expanding the adoption of digital technology, and increasing incentives for the formalization of both workers and companies are priority areas. In this respect, the reform of the Enterprise Law (comprising a simplification of administrative procedures) and the Labor Code of 2021 (which requires formal companies to include informal workers in social security systems) are steps in the right direction.

Address climate change challenges

Climate change will also need to be better integrated to support the continued development of the economy. Indeed, Vietnam is one of the countries most vulnerable to climate change. With a coastline over 3,200 km long, the country is particularly exposed to (i) the acceleration of natural disasters (cyclones, floods, but also periods of drought) and (ii) sea-level rise. Vietnam therefore ranks 7th in terms of exposure to the risk of natural disasters and 1st for exposure to floods (Inform Climate Change Risk Index 2022). These changes could have substantial human and economic consequences: the World Bank estimates losses associated with climate change at 3.2% of GDP for 2020 alone. Without adaptation measures, 45% of the Mekong Delta would be affected by salt water intrusion by 2030. It is estimated that 10 to 12% of the country's population will be directly affected by the effects of climate change. In addition, it is estimated that air pollution, related to the greenhouse gas emissions boom which came along with economic development (7.9% annual increase since 2005), is responsible for 60,000 premature deaths a year and considerably affects labor productivity, with losses estimated at 1% of GDP in 2020. Indeed, the energy and electricity mix relies heavily on carbon, with three-quarters based on fossil fuels: coal (43%), oil (20%) and gas (13%).

Graph 20 – CO_2 emissions (tons per capita)



Source: World Bank (ESG data).

To address these issues, at COP26 in 2021, the authorities made ambitious commitments towards the decarbonization of the economy: coal exit by 2040, and net-zero emissions by 2050. This low-carbon transition could especially be envisaged as it would have relatively moderate effects on the economy. Indeed, only about 10% of government and external revenues are exposed to "sunset" industries in the context of the transition (hydrocarbons). The authorities therefore now have a window of opportunity to turn the numerous strategies which have been issued [4]. into concrete actions. The signing of a Just Energy Transition Partnership in late 2022, the fiscal space available to mobilize public investment (public debt stabilized at a moderate level of around 35% of GDP), and the introduction of a cap-and-trade system as of 2025 will help achieve the objectives. But above all, political consensus (some leaders are in favor of maintaining cheap energy, including coal) and inter-ministerial coordination (the climate strategy is poorly integrated in the other planning documents) will be key to turning a vision into a reality.

4 Green Growth Strategy 2021-2030 (2021), National Climate Change Strategy for 2050 (2022), National Energy Efficiency Program, National Climate Change Adaptation Plan for 2030 (2020), and NDC updated in 2022.

List of acronyms and abbreviations

AAGR	Average annual growth rate
BCEAO	Central Bank of West African States
bp	Basis point
CBI	Central Bank of Iraq
CCM	*Chama cha Mapinduzi* (Revolutionary Party, Tanzania)
CEMAC	Central African Economic and Monetary Community
DSA	Debt Sustainability Analysis
EACOP	East African Crude Oil Pipeline
ECF	Extended Credit Facility
EFF	Extended Fund Facility
ERP	Economic Reform Program
EU	European Union
FAOSTAT	Food and Agriculture Organization Corporate Statistical Database
FATF	Financial Action Task Force
FDI	Foreign direct investment
GDP	Gross domestic product
IMF	International Monetary Fund
IQD	Iraqi dinar
LIC	Low-income country
LMIC	Lower-middle-income country
MENA	Middle East and North Africa Region
NDP	National Development Plan
NSAG	Non-state armed groups
RHDP	Rally of Houphouëtists for Democracy and Peace (Ivorian political party)
SNPC	Société Nationale des Pétroles du Congo
UMIC	Upper-middle-income country
UNHCR	United Nations High Commissioner for Refugees
USD	American dollar
WAEMU	West African Economic and Monetary Union
WEO	World Economic Outlook, IMF report
yoy	year-on-year

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