Executive summary

The *African Economic Outlook 2015* reports favourably on the continent's financial, social and governance indicators, predicting continued broad-based progress. The report examines in depth the challenge of unlocking Africa's regional development for greater spatial inclusion. It suggests policy options to ensure that no one is left behind because of where they live.

The continent's **macroeconomic prospects** are encouraging. In 2014, average growth was 3.9%, slightly higher than in 2013 (3.5%) and stronger than the global average of 3.3%. Growth performance varied widely across countries and regions, depending on their political and social stability and other factors, notably the outbreak of Ebola in West Africa and power outages in South Africa. Africa´s growth is expected to accelerate to 4.5% in 2015 and further to 5% in 2016, converging with Asia's current growth rates and close to levels prior to the global financial crisis in 2008/09. Countries in sub-Saharan Africa, excluding South Africa, are expected to lead this growth momentum, expanding at an average of 5% between 2015 and 2016.

The sharp fall in oil prices presents high downside risks to oil-producing economies but could provide relief to net oil-importing countries. Although oil production has increased in oil-exporting countries and growth in non-oil sectors has been remarkably higher, lower oil prices have significantly affected government revenues and the external sector. To deal with dwindling revenues, governments will need to make significant public expenditure adjustments, without compromising their allocations to social sector programmes and critical infrastructure.

The main risks to medium growth forecasts stem from a protracted decline in commodity prices, a weaker global economy, insecurity, political and social tensions, and second-order effects of the Ebola outbreak such as the cost of reconstruction efforts. Africa's growth performance nevertheless stems from generally sound macroeconomic fundamentals and attendant resilience observed in many countries.

The range of financing options for the continent has widened substantially over the last decade. Generally, **tax revenue** collection has improved, but efforts still fall short of needs, and some countries lack the capacity to curb illicit financial flows. **External financial flows** have also increased and are projected to reach USD 193 billion in 2015, almost double the figure recorded in 2005. Foreign investment flows and remittances have become Africa's most important external financial sources. In response to growing urbanisation, foreign direct investments are increasingly shifting from extractive resources towards the retail sector, notably consumer goods and services. Africa continues to attract investors from emerging countries and within the continent. Conversely, aid to the neediest countries in Africa is declining, and countries are bridging the financing gap with soft loans. Africa's middle-income countries are tapping the international capital markets, mainly to secure funding for infrastructure development. As official aid flows decline, increasing domestic revenues and attracting private external flows will be important in financing the United Nations' Post-2015 Development Agenda. In particular, remittances have a huge potential to spur investment and stem the rise in income inequality. For low-income African countries, more and better targeted aid will remain key to addressing the unique challenges they face.

While Europe remains Africa's largest trading partner, trade with Asia – especially China – has been growing fast in recent years. This diversification can be an important safeguard against economic shocks and sudden changes in trade relations. However, fundamentally, regional economic integration remains essential for unlocking Africa's growth potential, stimulating development, increasing trade and broadening participation in the global economy. But greater **regional integration** is hampered by Africa's disproportionately high costs of crossing borders relative to other regions. This impedes access to regional markets and integration into global value chains. Deepening regional integration and facilitating trade in accordance with the 2013 Bali Package can help alleviate these obstacles. Preparations in 2015 to launch the Continental Free Trade Area and the launch of the COMESA-EAC-SADC Tripartite Free Trade Area could be milestones in Africa's integration agenda.

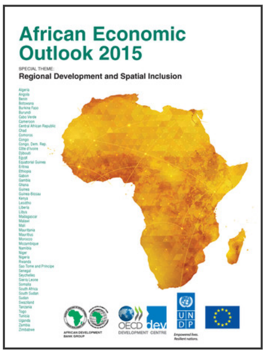
African countries have improved in all dimensions of **human development** including education, health and income. Despite these improvements, human development levels remain low with significant variations between and within countries. Gender inequality and high levels of discrimination in social institutions and practices are undermining progress towards better human development outcomes. Therefore, new policies and investments are required to accelerate and sustain these gains. Addressing inequalities requires equitable participation in the labour market, especially in the non-agricultural sector, enhancing agricultural productivity and increasing access to energy. Priority must be given to ensuring equity and sustainability and reducing vulnerability to economic, social and environmental risks in planning and allocating resources and in implementing and monitoring the post-2015 goals.

Africa's gains in **political and economic governance** over the past three decades are holding, but threats for possible reversals abound. In 2014, there were advances towards democracy – the new constitution in Tunisia, the transition in Burkina Faso, and a record 179 million people participating in mostly peaceful and credible elections. However, several countries continued to experience instability, acts of terrorism or conflicts.

Promoting regional development and spatial inclusion should be at the heart of Africa's development strategies. This 14th edition of the *African Economic Outlook* takes a close look at the challenges posed by demographic and spatial dimensions in the continent's quest for **structural transformation**. By 2050, Africa's population will rise to over 2 billion people, representing 25% of the world's population, against 15% today. Beyond the sheer size of the continent's future population, this demographic boom is also unique in terms of its spatial dynamics: both cities and rural areas will grow fast, and their interactions will intensify. While dependency ratios will fall, jobs will need to be created for the youth entering the labour market.

How can Africa meet those unique challenges? Lessons from demographic, urban and economic transitions in OECD or Asian countries may be too inconsistent with Africa's circumstances to inform policy response. Similarly, policy prescriptions focusing on specific economic sectors – such as industry or agriculture – are not comprehensive enough. What African countries need are innovative, context-specific, multi-sectoral and place-based development strategies.

Indeed, developing the potential inherent in the continent's diverse regions is key to accelerating economic transformation and promoting spatial inclusion. Efforts to tackle regional inequalities through spatial management, infrastructure development and decentralisation have had limited impact. Policy makers must therefore take a fresh look at regional dynamics, such as the fast-changing relations between urban and rural areas. They should focus beyond economic sectors, improve regional statistics and deepen their knowledge of local areas. People and places need to be at the centre of **development strategies** that create productive jobs, accelerate demographic transitions, invest in education and promote intermediary cities to capitalise on urban/rural dynamics. Financial resources must be scaled up to meet the associated long-term investment needs, in particular by better mobilising domestic resources at local and national levels.



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