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One Region, Two Paths: Divergence  
in Sub-Saharan Africa

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## One Region, Two Paths: Divergence in Sub-Saharan Africa

October 2024 Regional Economic Outlook: Sub-Saharan Africa Analytical Note

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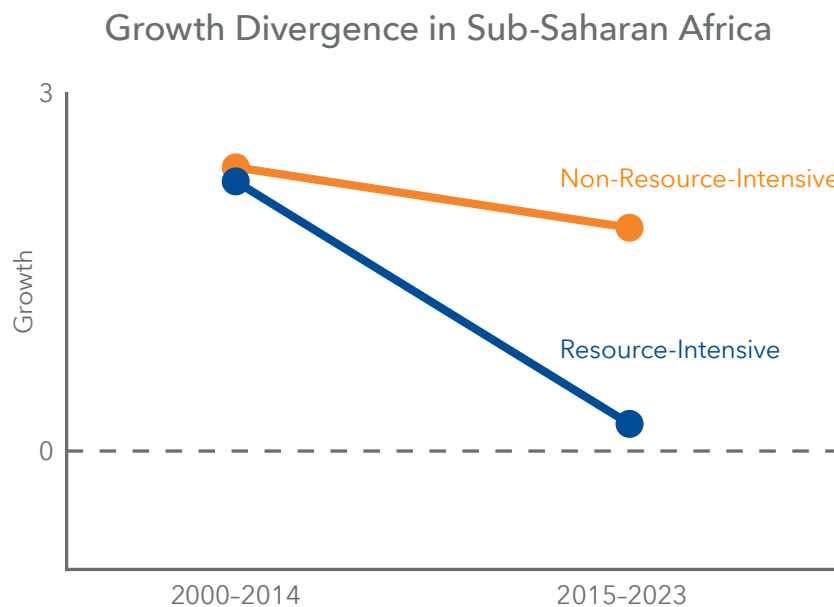
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# One Region, Two Paths: Divergence in Sub-Saharan Africa

Over the past decade, growth in sub-Saharan African resource-intensive countries (RICs) has been less than half of that in non-RICs; and fuel exporters have fared particularly poorly. This divergence has been largely driven by a dramatic terms-of-trade shock experienced by RICs, and especially fuel exporters, compounded by lower fuel production. Further, the impact of these shocks on RICs was exacerbated by structural vulnerabilities, including weak governance and management of resource revenues, a poor business environment, limited human capital, and a high incidence of conflict and fragility. These factors imparted a pro-cyclical bias to fiscal policy and have impeded diversification and private-sector development. Reigniting durable growth will require a stable macroeconomic environment and a removal of policy distortions. Stronger fiscal frameworks can help ensure growth is more resilient going forward. Broad-based reforms to address structural weaknesses—strengthening governance, enhancing the business environment, accumulating human capital, and addressing infrastructure bottlenecks—can help countries diversify and grow.



## Resource-Rich but Zero Growth



## A sudden departure

### Diverging growth trends...

This year, from the top twenty fastest growing economies in the world, almost half will be from sub-Saharan Africa (9 out of 20). Statistics like this are routinely impressive, but rarely feature in discussions of the region's outlook. Instead, headline figures for sub-Saharan Africa have typically emphasized its relatively modest overall performance. In part, this disconnect reflects sub-Saharan Africa's **two-track growth pattern**, in which a sizable proportion of the region has been underperforming (Figure 1).

Over the past ten years, growth in sub-Saharan Africa's **resource-intensive countries (RICs)** has been less than half that of non-RICs in the region. This was not always the case. In the decade leading up to 2015, RICs grew rapidly, in line with a general improvement across the continent. After 2015, however, growth in RICs slowed down sharply, falling well below that of non-RICs. Reversing this growth divergence is a regional priority, since RICs account for approximately two-thirds of sub-Saharan Africa's GDP and population.

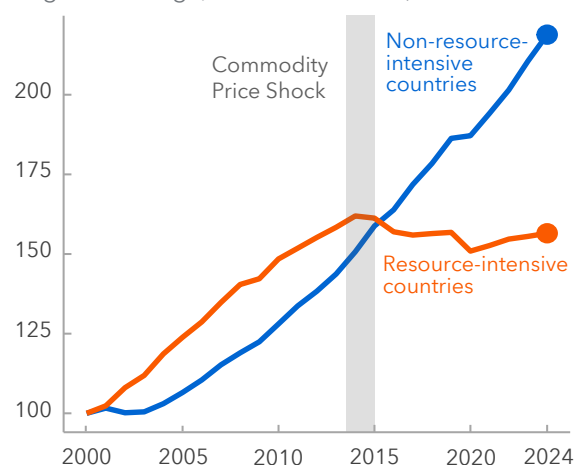
The gap between resource-intensive and non-resource-intensive countries is evident across a broad range of metrics.<sup>1</sup> Total factor productivity (TFP), a key component of growth, collapsed sharply in RICs, and capital accumulation has been much slower than in non-RICs in the region. Over the past decade, for example, the median non-RIC has invested about 3 percent of GDP per year more than its resource-intensive counterpart. Moreover, RICs have seen particularly slow expansion in higher-productivity sectors, including manufacturing and modern services. Unsurprisingly, **poor growth has translated into poor development outcomes**—progress in tackling poverty in RICs effectively halted in 2014; so that a child born in a RIC today is expected to live 4 years less on average, and is 25 percent more likely to live in poverty, compared to children in other parts of the region.

### ...but not all RICs are equal.

Fuel exporters have struggled the most, with median GDP per capita contracting by almost 2 percent per year over 2015–23, accompanied by a sharp decline in total factor productivity (TFP) (Figure 2). Investment also fell, from 26 percent of GDP per year over 2000–14 to about 22 percent of GDP in the post-shock period. Real consumption growth also collapsed, from 6.6 percent per year during 2000–14 to 1.3 percent per year during 2015–23.

**Figure 1. Sub-Saharan Africa: Real GDP Per Capita, 2000–25**

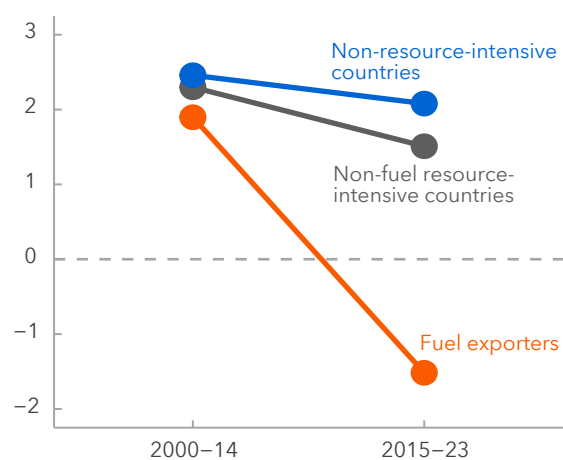
(Weighted average, index 2000 = 100)



Source: IMF, World Economic Outlook database.

**Figure 2. Sub-Saharan Africa: Real GDP Per Capita Growth, Post 2014 Growth Divergence**

(Median, PPP international dollars)



Source: IMF, World Economic Outlook database.

Note: The fuel exporters are Angola, Cameroon, Chad, Equatorial Guinea, Gabon, Nigeria, and Republic of Congo. Non-fuel resource-intensive countries are Botswana, Burkina Faso, Central African Republic, Democratic Republic of Congo, Eritrea, Ghana, Guinea, Liberia, Mali, Namibia, Niger, Sierra Leone, South Africa, Tanzania, Zambia, and Zimbabwe.

<sup>1</sup> The divergence is evident using both median and mean values across country groups, and even after taking into account a range of drivers of growth, such as the initial level of development.

## The cost of concentration: commodity dependence in a shock-prone world

### The timing and size of the slowdown mirrored global changes in commodity prices ...

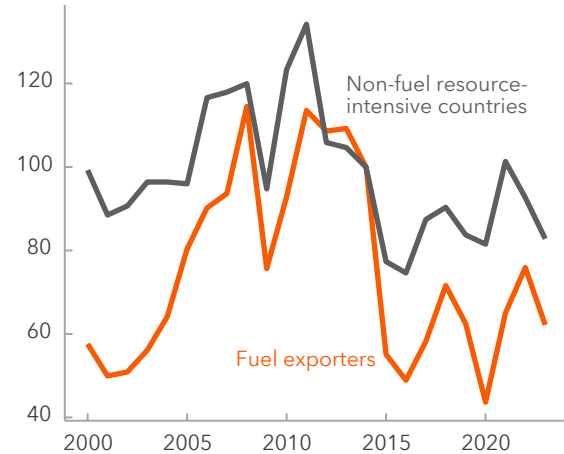
The growth divergence was largely driven by a dramatic decline in commodity prices, particularly for fuel exporters. During the commodity-price shock of 2014–15, broad commodity prices fell by almost 40 percent between June 2014 and January 2015, with oil prices dropping by more than one-half. Despite some recovery in the past few years, export prices are still below their 2011–14 average, especially for energy and even more so in real terms (Figure 3). Broadly speaking, such terms-of-trade shocks are strongly correlated with growth. In sub-Saharan Africa, TFP and capital accumulation, and even growth in non-resource sectors such as manufacturing, have tended to move with commodity prices. Staff have looked into drivers of growth dynamics across a global sample of countries, focusing in particular on the impact of terms of trade movements—while also taking into account other drivers of growth, such as investment, as well as unobserved country differences and global shocks. Estimates based on the local-projections method (Jorda 2005) suggest that, keeping everything else constant, the **terms-of-trade shock** observed after 2014 **by itself accounted for** approximately one-third of the growth decrease observed in sub-Saharan African RICs, and **one-half of the growth decrease observed in fuel exporters**.

### ... exacerbated by structural weaknesses.

Sub-Saharan African RICs, and especially fuel exporters, suffer from elevated structural vulnerabilities. These include a poorer business environment, weaker governance, and higher incidences of conflict and state fragility (Figure 4). Some of these gaps, including in the business environment, have increased since 2014. Further, given weak growth in labor productivity and limited exchange rate flexibility, and especially in the wake of the commodity-price shock, RICs have been more likely to have overvalued exchange rates (IMF External Sector Assessments, Dakoure and others 2023). Compounding this, the public sector in many RICs (for instance, Botswana and Namibia) is disproportionately large with significant public wage premia, leaving less room for private-sector development and reducing private-sector competitiveness.

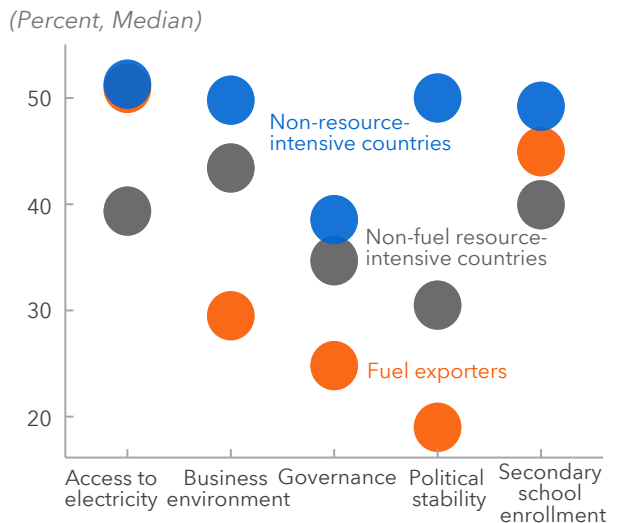
These weaknesses both weigh directly on growth and magnify the impact of negative external shocks.

**Figure 3. Sub-Saharan Africa: Real Export Prices**  
(Index 2014 = 100)



Source: IMF, Commodity Terms of Trade database.  
Note: Commodity export price index deflated by US CPI.

**Figure 4. Sub-Saharan Africa: Selected Structural Indicators**  
(Percent, Median)



Sources: World Bank, World Development Indicators; World Bank, World Governance Indicators; and Fraser Institute.

Note: Governance and business environment scores are rescaled 0–100. Political stability is represented by the proportion of countries in each category, following the World Bank classification of fragile and conflict-affected states. For all other indicators, averages from the last five years (2015–21) are used.

In particular,

- **Ineffective resource management reduces fiscal space and buffers, imparting a pro-cyclical bias to fiscal policy** that reinforces the original shock. Fiscal policy remains far more pro-cyclical in RICs, including in sub-Saharan Africa, than in other countries (notwithstanding some easing of pro-cyclicality over the past 15 years; Jalles and others 2023; Marioli and Vegh 2023). This pro-cyclicality is reflected in a tendency to embark on costly, often poorly planned and implemented capital projects when commodity prices are high, with corresponding sharp reductions in capital spending when commodity prices fall. Many fuel exporters also provide sizable fuel subsidies, whose cost increases as oil prices rise, limiting their ability to save during booms.
- **Weak governance, systemic corruption, and an unfavorable business climate take a toll on productivity and output and become particularly salient when commodity prices fall.** They affect both the resource sector itself, and prospects for diversification in response to shocks (IMF 2022). Challenges include insecurity and conflict, policy uncertainty, limited transparency, uncertain contract enforcement, inefficiency in state-owned enterprises (including oil companies), and corruption. These all increase risk, push up operating expenses, and reduce profits. In Nigeria, for instance, regulators and market participants estimate that seven percent or more of oil production is stolen (Dimkpa and others 2023), with a further indirect effect on efficiency as producers adjust operations to minimize theft. High risk and elevated costs lead to rapidly declining profits when commodity prices fall, discouraging production and investments. In Cameroon, for example, the delayed publication of the 2016 mining code's implementation text undercut resource-sector development (IMF 2024), and in Angola weak governance has been a central impediment to private sector investment (IMF 2022b).

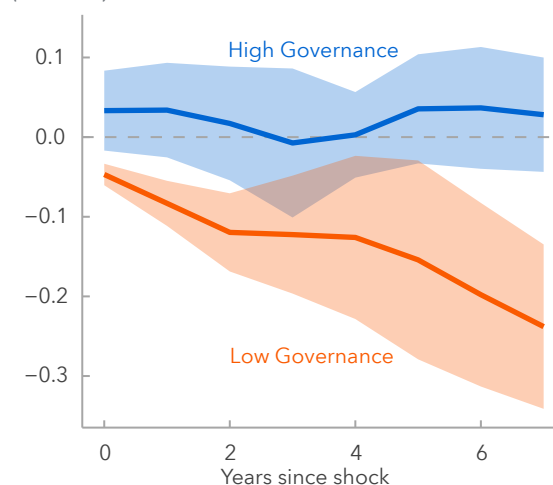
In this regard, staff analysis confirms that terms-of-trade shocks have a stronger and longer-lasting impact on growth in countries with weak governance (Figure 5). Estimates suggest that for every one-percent worsening in a country's terms of trade, medium-term growth is around  $\frac{1}{4}$  percentage point lower in countries with greater governance challenges. Moreover, the estimated median return to capital (specifically, the marginal product of capital) was much higher in non-RICs than in RICs in the region, pointing to the important role of these structural weaknesses in contributing to lower capital accumulation.

### The aftermath of the 2014–15 shock

The commodity-price shock of 2014–15 hit fuel exporters particularly hard. When prices fell, structural weaknesses and a poor investment climate exacerbated the chronic problem with oil production, and undermined reallocation of resources to non-oil sectors. In stark contrast to comparators outside the region (with generally stronger governance indicators), security challenges, underinvestment including in exploration to offset the depletion of existing oil fields, and insufficient maintenance have undermined production capacity in sub-Saharan Africa (Figure 6; Cust and Zeufack 2023). Reinforcing this, sub-Saharan fuel production is relatively high-cost

compared to other regions, such as the Middle East, so that lower fuel prices disproportionately reduce profits. As a result, after 2014, fuel exporters in sub-Saharan Africa experienced relatively larger cutbacks in oil production

**Figure 5. Sub-Saharan Africa: Impulse Response of GDP Per Capita to Terms of Trade Shock**  
(Percent)



Sources: World Bank, World Development Indicators; and IMF staff calculations.

Note: The figure is based on a cross-country local projections growth regression for sub-Saharan African countries using annual data. It depicts the cumulative dynamic response of real GDP per capita to a 1 percent decline in the terms of trade for countries with above average (blue) and below-average (red) aggregate governance scores based on the World Bank's Worldwide Governance Indicators. The regression controls for gross fixed capital formation as a percent of GDP, the governance index, and two lags of the dependent variable and terms of trade (to control for autocorrelation, following Montiel Olea and Plagborg-Møller (2021)).

than producers outside the region. And the combination of reduced returns and high country risk have recently led to an exodus of foreign companies (for instance, in Angola and Nigeria; *The Economist* 2024).

On the fiscal side, the drop in revenues following the commodity-price shock both prompted fuel exporters to borrow (on average, about 5 percent of GDP per year in the four years following the shock), and led to a sharp fiscal adjustment given a general absence of prior savings.<sup>2</sup> This reflected these countries' dependence on the fuel sector for the majority of their fiscal revenues, as well as the prevalence of asymmetric contracts with oil companies (especially with respect to corporate income taxes and profit sharing in the presence of fixed costs), which result in governments receiving a smaller share of total oil revenues when prices fall (Cherif and Matsumoto 2021). Over time, the resulting debt has become increasingly costly and difficult to roll over, particularly since weak governance and poor fiscal management have increased risk premia. Indeed, the median fuel exporter spent about one-third of its fiscal revenues (excluding grants) on debt service over 2015–23, almost twice the amount in non-RICs. The net result for many of these countries has been a crowding out of much-needed non-interest spending (which fell on average by about 6 percentage points of GDP between 2011–14 and 2015–23).

By contrast, non-fuel resource-intensive countries in sub-Saharan Africa grew faster than fuel exporters after 2014, in line with the smaller shock to their export revenues. Total resource rents in these countries, as a share of the economy, were about one-quarter of those earned by fuel exporters in the period 2000–14, making them less vulnerable to the commodity-price shock. Moreover, the recent post-shock surge in global demand for gold and transition metals has led to strong recovery in several countries' export prices. That said, per capita income growth in non-fuel RICs since 2019 has still been about 1 percentage point lower than that in non-RICs, again partly reflecting their unresolved structural weaknesses, low public investment, and infrastructure gaps.

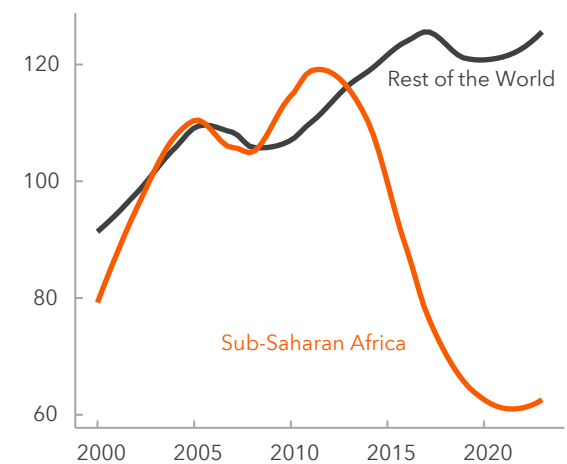
## Getting back on track: reigniting growth in sub-Saharan Africa's resource-intensive economies

The RICs need deep reforms to revive growth and ensure its resilience and durability. RICs face an urgent need to diversify away from the resource sector for more durable and inclusive growth, particularly fuel exporters facing a global green-energy transition to address climate change.

Macroeconomic stability is an essential precondition for sustainable growth. As a first step, therefore, resource-intensive countries should ensure that their current macroeconomic policy mix is appropriate, while removing any key policy distortions that may be holding back business confidence and investment. Specific priorities will differ from country to country. For instance, in some countries phasing out regressive fuel subsidies, while offsetting their impact on the poor through targeted social transfers, can reduce fiscal imbalances and help create space for more productive development expenditure. Inflation also remains significantly elevated in a number of countries (Angola, Nigeria) and if left unchecked can create significant uncertainty for businesses and consumers. A tight monetary policy stance, coordination with fiscal policy, and the avoidance of monetary financing,

**Figure 6. Fuel Exporters: Real Oil GDP**

(Index, 2003 = 100, smoothed median.)



Source: IMF, World Economic Outlook database.

<sup>2</sup> Since 2011, the average oil-exporting country in sub-Saharan Africa has consistently spent all its oil revenues in the year they accrued—that is, windfall revenues were not saved (October 2022 REO–Note “[Managing Oil Price Uncertainty and the Energy Transition](#)”). For instance, in Gabon, debt actually rose from 20 percent to 34 percent of GDP during 2008–14.



can help bring prices under control. Fuel exporters with non-pegged exchange rate regimes should let the currency adjust to the market-determined rate to avoid distortions in foreign exchange market, which can add to rent-seeking behavior and discourage investment inflows. Early action on transparency and governance can also help governments retain a greater share of resource rents and utilize these resources more effectively.

**Strengthening and adhering to fiscal frameworks are key to addressing terms of trade volatility and guarding against future shocks:**

- A well-governed and effective fiscal framework can better allow commodity exporters to save resource windfalls, supporting service delivery and development spending when commodity prices fall, and providing for future generations. In this regard, suitably calibrated fiscal rules (as implemented, for instance, in Chile) can reduce the pro-cyclicality of fiscal policy, dampen volatility, reduce borrowing costs, and ultimately enhance the effectiveness of development efforts (IMF 2023). While many countries have fiscal rules, they often need to be strengthened, and more generally, stronger efforts are necessary to adhere to them. These measures are particularly salient when commodity prices show signs of recovery.
- Even if it is not feasible for a country to perfectly smooth global fluctuations in export prices, **fiscal rules centered around the principle of insurance** against shocks can be particularly helpful in boosting macroeconomic stability (Eyraud, Gbohoui, and Medas 2023).
- The framework should be underpinned by efforts to broaden the tax base and enhanced revenue administration to **reduce budgetary dependence on the resource sector**. Mansour and Schneider (2019) provide detail guidance on how to raise tax revenue in countries with governance challenges including choosing a simple tax base and structure and minimizing exemptions. Efforts should also be made **to ensure that taxation of international oil companies corresponds to best practice** and contributes adequately to the budget. Joining the Extractive Industries Transparency Initiative and adopting its measures can help.
- Finally, **most oil exporters in sub-Saharan Africa have a fixed exchange-rate arrangement**. In this context, fiscal policy is the primary adjustment mechanism for external shocks, adding to the importance of a prudent fiscal framework and sufficient fiscal and external buffers. In the absence of exchange rate adjustment, keeping public wage premia in check can help reduce exchange rate overvaluation.

**Removing obstacles to diversification is essential, both to strengthen future resilience and to promote sustained improvements in living standards.** Successful diversification strategies require a long-term commitment and broad-based policies to address structural weaknesses. Country case studies point to the importance of maintaining macroeconomic stability, boosting infrastructure quality, workforce skills, and financial access, while also enhancing the regulatory environment and fostering competition (IMF 2024b). In this context experience also indicates that government **interventions aimed at supporting specific sectors (Industrial Policy) should be used carefully**, especially in a context of limited fiscal space and weak governance. Research strongly suggests that such policies are no substitute for broader reform—investors often prioritize stability, institutional quality, and the availability of essential inputs over tax incentives (IMF 2024c, 2024d). Policy priorities, therefore, should focus on fundamental obstacles:

- **Improving governance and the business environment.** A more supportive environment would not only bring much needed investment into the resource sector to spur growth, but it would also allow for private-sector development outside the resource sector, increasing the overall economy’s resilience. Specific measures include enhancing the effectiveness of public service delivery; strengthening the rule of law with respect to security, property rights, and contract enforcement; and streamlining administrative regulations for businesses. For countries rich in the critical green-transition minerals (for instance, lithium, nickel, manganese, and cobalt), an improved business environment would also allow local firms to diversify from raw materials to processed minerals, which not only provide greater value added but also tend to be less volatile (April 2024 REO—Note [“Digging for Opportunity: Harnessing Sub-Saharan Africa’s Wealth in Critical Minerals”](#).)

- **Investing in people.** As a share of GDP, education spending in the median sub-Saharan African resource-intensive country is only three-quarters that of its non-resource counterpart. But in the context of a region-wide demographic boom, a country's ability to expand into higher productivity sectors (such as agri-business, manufacturing, and services), or its ability to take advantage of new opportunities (including digitalization and AI), will depend on having a well-educated workforce. Ensuring adequate schooling access and quality is therefore an essential prerequisite for diversification and growth (Giri, Quayyum, and Yin 2019; April 2024 REO–Note "[Building Tomorrow's Workforce: Education, Opportunity, and Africa's Demographic Dividend](#)").
- **Addressing infrastructure gaps.** Infrastructure gaps increase costs and hinder growth—especially when they are in key network sectors such as power or transport—and these gaps are particularly widespread in RICs in sub-Saharan Africa. Moreover, poor infrastructure is often acutely relevant for RICs' large rural populations, where lack of access to markets, energy, or water can hold back agricultural productivity. However, projects should be carefully selected and implemented to ensure high returns.

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