Macro Dev

Macroeconomics and development
JULY 2024 | N° 57

SEMESTRIAL PANORAMA 2024 #2

International economy: Is FDI running dry?

Coordinator:
Sylvain Bellefontaine

ÉDITIONS AFD
AGENCE FRANÇAISE DE DÉVELOPPEMENT

MacroDev - Semestrial Panorama

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). A thematic section accompanies the country focus and sheds light on the economic and structural issues of developing countries.

List of authors

Gaëlle Balineau, Sylvain Bellefontaine, Vincent Joguet, Benoît Jonveaux, Laura Marie, Amaury Mulliez, Maxime Terrieux, Morgane Salomé, Thibault Vasse, Alix Vigato

Contents

Editorial
Amaury Mulliez p. 3

International economy: Preventing FDI from running dry p. 5
Sylvain Bellefontaine

Country focus p. 13

Egypt
Is the geopolitical rent the only catalyst for foreign investment? p. 14
Maxime Terrieux

Kenya
Too big to fail p. 16
Gaëlle Balineau

Mozambique
An outward-looking and externally-financed economy p. 18
Alix Vigato

Namibia
Between renewable energies and oil, the country chooses both p. 20
Vincent Joguet

Senegal
Economic promises amid political renewal p. 22
Benoît Jonveaux

Argentina
Stability at all costs p. 24
Thibault Vasse

Costa Rica
Attracting FDI as the backbone of the economic model p. 26
Morgane Salomé

Armenia
Economic momentum faced with geopolitical tensions p. 28
Laura Marie

Turkey
Restoring confidence and attractiveness p. 30
Sylvain Bellefontaine

List of acronyms and abbreviations p. 33

List of diagrams and figures p. 35

Editorial

Amaury Mulliez – mullieza@afd.fr

2024 was supposed to be a year of rate cuts, ending with a question mark over the US elections which would reopen the scenarios for 2025…

Yet, firstly, inflation is struggling to leave the stage and give way to widespread and significant rate cuts. Secondly, political factors already seem to be gaining the upper hand by bringing about fresh uncertainty over the path of the global economy in the short and medium term.

Admittedly, the elections in Indonesia, Mexico and Pakistan have ensured political continuity. But elsewhere, while there haven't been hard breaks, we have seen shifts in Turkey, South Africa, Taiwan, Senegal, India, and in the European Union (EU). Together, they change the backdrop, as the US presidential election is set to take center stage in November.

Major emerging countries are, of course, not all required to wait for the U.S. Federal Reserve (Fed). Some of them, in particular in Latin America, have already embarked on a monetary easing path. However, broadly speaking, the lack of short-term visibility means that we need to look at the structural factors. In this regard, many of them are likely to affect the economic growth model we have known since the post-World War II period and, especially, since the end of the Cold War.

The unsustainable and non-transparent (or weakly regulated) debt of both public and private actors could result in shocks that are more difficult to absorb. They would be all the more severe as room for maneuver is constrained by the context of quantitative tightening, which will persist despite expected rate cuts, and reduced international cooperation.

While oil prices display good resistance (with an upward trend) to the tensions in the Middle East, and grain prices seem to be returning to the levels that prevailed before the war in Ukraine, the continuation and/or extension of the conflicts could permanently change certain supply chains and certain commodity markets. The first consequence would be volatile and structurally higher inflation, potentially driven by an acceleration and intensification of climatic disasters.

Finally, the reconstitution of rival blocs could adversely affect trade, financial, and migration flows, which had reduced inequalities and increased productivity across the globe.

For this reason, in this latest edition in the MacroDev Semestrial Panorama series, we have decided to put the spotlight on the path of foreign direct investment (FDI), which stands as both a weak signal of the geoeconomic reconfiguration and a fundamental element of the sustainability of external accounts, development, and the economic convergence of emerging and developing countries.

Enjoy your reading!

International economy

Preventing FDI from running dry

Sylvain Bellefontaine – bellefontaines@afd.fr

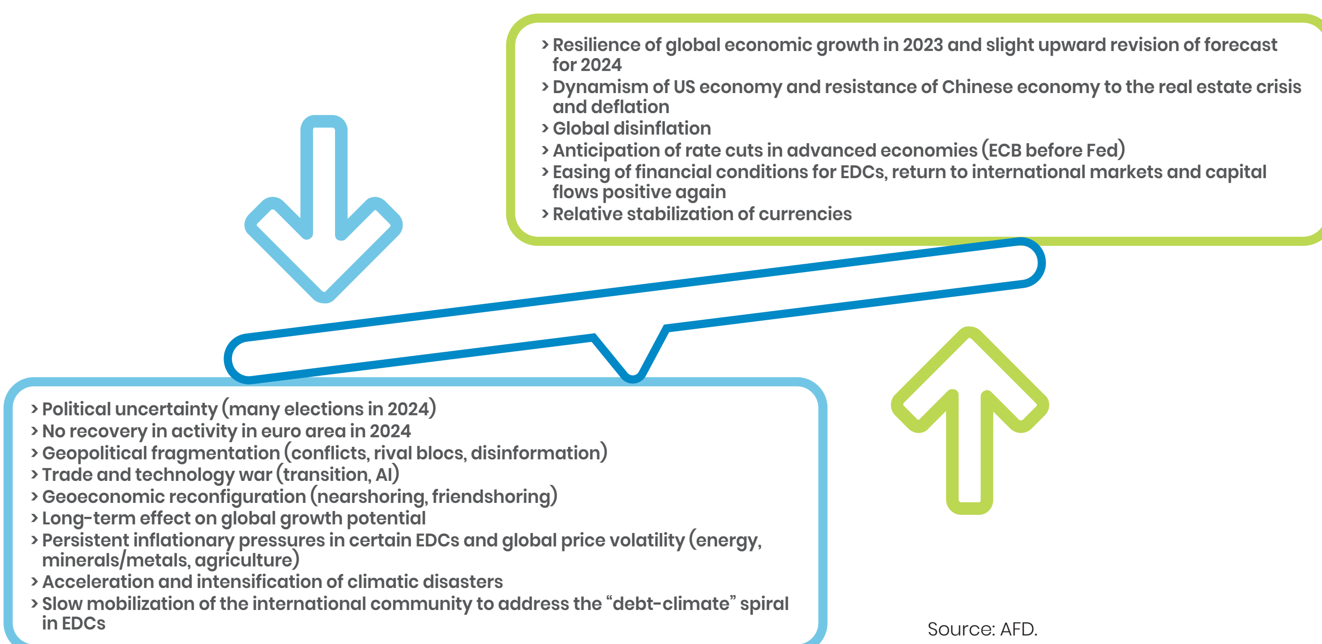
Despite certain positive developments in the past few quarters and expected in the short term, the sources of fragility and risk factors for the global economy persist for the medium and long term (see Diagram 1). With the tense geopolitical environment and a geoeconomic reconfiguration underway, foreign direct investment flows slowed in emerging and developing countries (EDCs) in 2022-2023. Their path for the coming years is a cause for concern, given the major spillover effects it can have on the real economy, but also the role it plays in financing current account deficits, and therefore in balance-of-payments sustainability.

Globalization and the growth of major emerging countries over the last decades have made trade and financial relations more complex. This has put an end to the model of unequivocal relations between developed countries exporting manufactured goods and capital to EDCs that supply raw materials or labor-intensive and low value-added goods. Aware of its excessive exposure to U.S. Treasury bonds, and true to its soft power strategy embodied by the "New Silk Road", China has diversified its international financial assets since the global financial crisis of 2008 and invested across the board in Asia, Latin America and Africa. This financing implemented by Chinese banks and public enterprises is often linked to projects that attract FDI, in particular in the energy, mining and infrastructure sectors.

The multinationalization of firms (private or public) is no longer the preserve of developed countries. Emerging countries have seen national flagship companies go international over the last decades, in particular China, India, Brazil, Turkey and Mexico, to name but a few. Using a questionable but well-known term, substantial "South-South" and "South-North" investment flows now stand alongside the traditional "North-South" and "North-North" flows.

Financial interdependence serves as a reminder against protectionist measures and trade tensions, in particular between the two systemic economies: the USA and China. However, the dual constraint of the low-carbon transition and the post-pandemic reorganization of value chains, and the context of geoeconomic fragmentation, are forcing companies to rethink their investment strategies, and governments to prioritize securing supply chains (relocations, nearshoring, friendshoring).

Diagram 1 - Balance of international risks at short, medium and long term



Source: AFD.

The two global systemic economies continue to hold up in 2024

In 2023-2024, the strong resilience of economic activity in the USA (26.1% of world GDP in 2023) and in China (16.9% of world GDP) contrasts with sluggish growth in the euro area (14.8% of world GDP), and a contrasted dynamic among EDCs (24.6% of world GDP, excluding China).

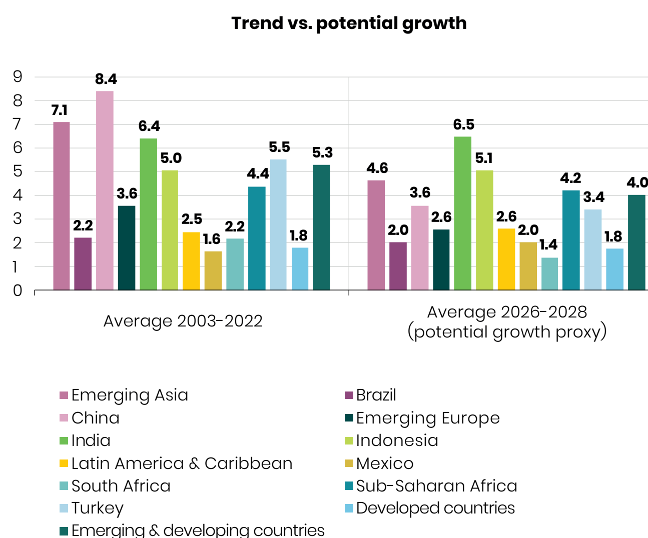
In 2024, global growth is expected to remain on par with that of 2023, at about 3.2% according to the World Economic Outlook (WEO) of the International Monetary Fund (IMF) of April 2024. The USA could maintain real GDP growth in excess of 2.5% this year, given that domestic demand remains dynamic and that the labor market is still tight four months ahead of the presidential election. In the euro area, economic growth should not exceed 0.8% this year, after 0.4% in 2023, in particular pending the recovery of the German economy, which would allow the euro area and the USA to converge in 2025, with growth of 1.5% and 1.9%, respectively.

In EDCs, growth should exceed 4% on average in 2024 (4.3% in 2023), driven by Asia. The strong performance of economic activity in China in the first quarter of 2024 has prompted the IMF to revise up its annual forecast from 4.6% to 5%, in line with the government's target, following the IMF mission to Beijing in late May. Support measures for the real estate sector are deemed positive, but do not provide a permanent solution to the crisis. Following an exceptional year in 2023, Indian growth is expected to slow by one percentage point in 2024 to 6.8%. Latin America will in all likelihood maintain growth at around 2%, as is the case for Brazil (2.2%) and Mexico (2.4%), while Argentina is heading for a second year of recession (-2.8% forecasted by the IMF). Projections for the North Africa – Middle East – Central Asia region lie on the downside given the difficult geopolitical situation. This is especially the case for the regional powers: Turkey (3.1%, in line with expectations in a context of monetary orthodoxy, which curbs growth) and Egypt (3%), which is affected by the neighboring conflict and by its own fiscal problems. Finally, Sub-Saharan Africa could benefit from a slight acceleration from 3.4% in 2023 to 3.8% in 2024, despite a fragile situation in South Africa (0.9% of expected growth). Nigeria and Kenya are expected to maintain relatively stable growth rates, at around 3% and 5% respectively, but with a rather high level of uncertainty. This is especially the case for Nigeria, which is affected by its fiscal and monetary adjustment policies.

China as a symbol of the structural weakening of global growth

The prospect of relatively stable global growth on average in 2025 compared to 2023-2024 – the expected slowdown in the USA, China and India should be offset by an acceleration elsewhere – is consistent with the outlook of structurally weaker growth, which is expected to fall below 3% by 2030, against 5% in 2008 (see Graph 1). The specter of a "Japanization" (demographic decline, aging, weak growth, deflation, high level of debt) of the Chinese economy could reduce its contribution to global growth from about a third in the 2010s to less than a quarter by the end of the decade. Its direct and indirect knock-on effect on the Southeast Asia subregion and, more broadly, on a number of EDCs that export raw materials (excluding critical minerals and metals) would logically be reduced.

Graph 1 – Global structural slowdown



Source: IMF (WEO).

More generally, the analysis of the decomposition of economic growth in terms of supply[1] conducted by the IMF (WEO, April 2024) highlights the combination of lower productive investment, a misallocation of capital, a decline in the participation rate, and the demographic transition (excluding Africa, for which the demographic dividend remains subject to polemical debate) as main drivers of the global downward trend. The decline in total factor productivity (TFP) is also thought to have affected every category of country. In advanced economies, annual TFP growth is thus estimated to have fallen from 1.3% in 1995-2000 to 0.2% after the pandemic, equivalent to half the decline in GDP growth. Similarly, in middle-income economies and low-income countries, TFP growth is estimated to have fallen from 2.5% and 2%, respectively, in 2001-2007 to just 0.7% and almost 0% post-pandemic. In coming years, the fluidity of investment allocations, improvements in participation rates, trade growth, and transfers of knowledge and innovation could continue to be suffer from geoeconomic tensions.

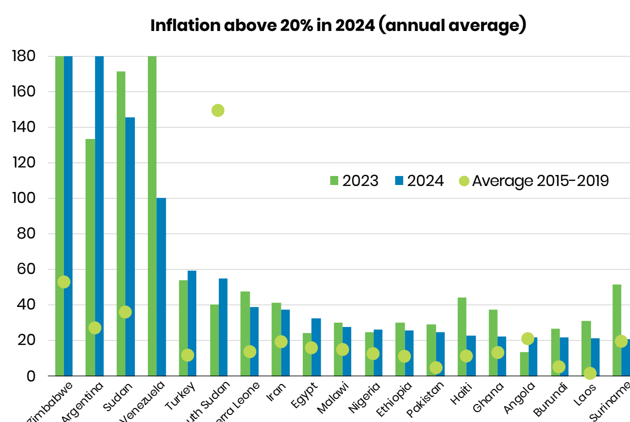
Disinflation stalls...

Following a peak at 8.9% year-on-year (yoy) in late 2022, global inflation slowed to 6.2% in late 2023 and is projected at 5.3% in 2024, before converging towards its pre-pandemic level by 2026-2027 (3.4% on average between 2011 and 2020). The evolution of commodity prices (hydrocarbons, minerals/metals, agricultural products) will remain a key variable in a tense geopolitical context, and in view of issues related to climate change and the low-carbon transition.

As with economic growth, a nuanced analysis is required in the short term. The latest US inflation data (at around 3.5% for several months) show resistance to the downward trend, in the context of robust domestic demand and tensions on the labor market and in services. This is also the case, to a lesser extent, in the euro area (2.6% in May, after 2.4% in April), in connection with the slight rise in prices for energy and services.

A number of EDCs, faced with chronic macro-financial instability and imported inflation due to continued pressures on currencies, and/or in the process of reforms to liberalize the economic policy framework (Argentina, Turkey, Nigeria), show important inflation inertia. In some cases, it verges on hyperinflation, with alarming social and political consequences (see Graph 2). For all EDCs, the weighted inflation rate should remain at above 7% at the end of the year (against a trend of just over 4% before the pandemic) and decelerate progressively to 5% from 2026 onwards. In China, deflationary pressures are underpinned by the production overcapacity, fueled by the policy to support supply in a context of sluggish domestic demand, as well as by the fall in real estate prices.

Graph 2 – Downward inflation inertia in a number of EDCs



Source: IMF (WEO), AFD calculations.

[1] The decomposition of growth in terms of supply, using the standard analysis of the production function, is based on the Solow model (1956). It makes it possible to estimate the contributions to growth of production factors (capital and labor) and the trend in total factor productivity (TFP or "Solow residual"). TFP is an unobserved variable. It is defined as technical progress resulting from the degree of efficiency in the allocation and the combination of factors of production, infrastructure quality and human capital, and the efforts made in R&D (this expenditure is at least partly in the capital stock), which the institutional framework and business environment largely contribute to.

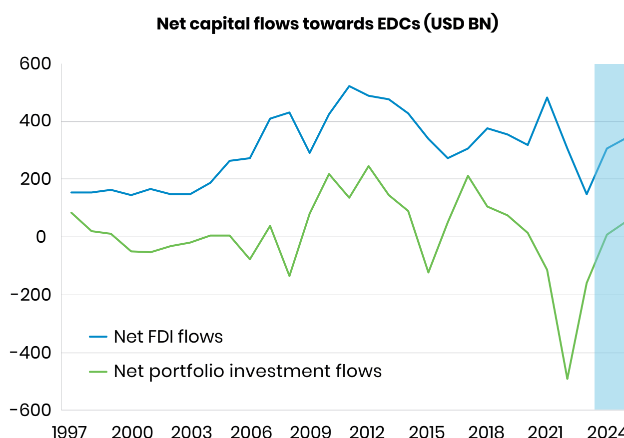
...as is the case for expectations of key interest rate cuts, at the risk of countering the easing of international markets

In terms of monetary policy, this difficult convergence towards the 2% inflation target of the Fed and European Central Bank (ECB) has thus translated into the Fed postponing the cut in its key interest rates to the end of the third or beginning of the fourth quarter of 2024. The ECB's decision to cut its three key interest rates by 25 bp on 6 June thus breaks with the tradition of the ECB as a "follower" of the Fed, both in cycles of monetary easing and tightening. In any event, the easing of key interest rates, if it materializes, will remain very gradual.

The potential implications for EDCs of "higher for longer" rates in developed countries, and in particular in the USA, require vigilance. The strategic choices of international investors, in terms of changes in yields for "risk-free" bonds, the yield curve (proportional decline or steepening), and the direction of the dollar, will be crucial to a rebound in investment flows toward EDCs (see Graph 3). The stability of exchange rates, the disinflationary trend, and the monetary easing, which all support economic growth, public finances and socioeconomic development, will depend on this.

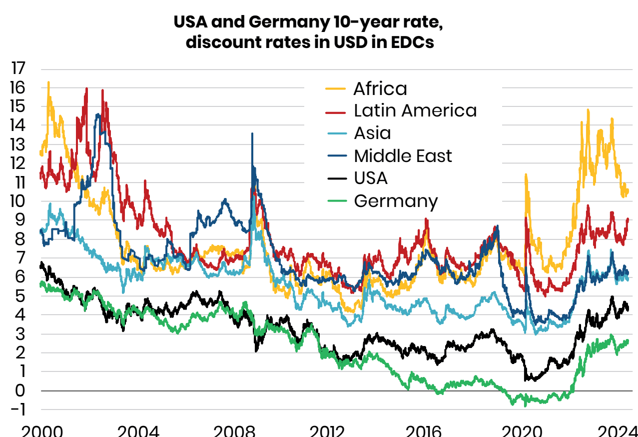
In the meantime, international financing conditions have generally stabilized for EDCs since the beginning of 2024 and have improved for Sub-Saharan African countries, which have been excluded from markets since 2022 (see Graph 4). For example, the narrowing of sovereign spreads enabled Côte d'Ivoire, Kenya and Benin to issue Eurobonds at the beginning of the year, followed by Senegal in early June. Nigeria could follow suit in coming months.

Graph 3 – Expected rebound in capital flows towards EDCs



Source: IMF (WEO).

Graph 4 – Easing of international interest rates for African countries



Source: Macrobond, J.P. Morgan.

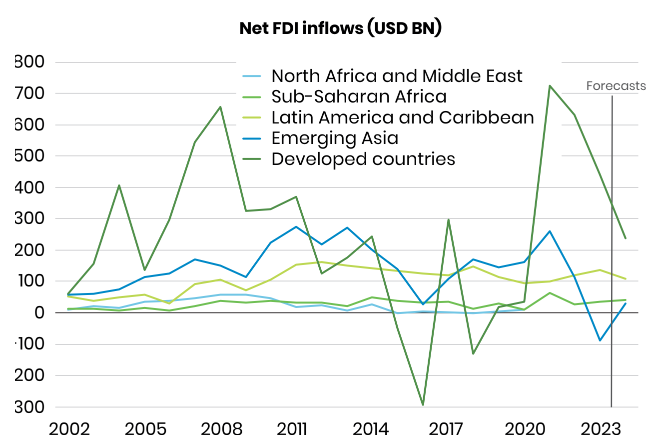
The hoped-for return of FDI

Four years of successive shocks have modified the trajectory of FDI flows, and the looming structural breaks for the global economy may have a long-lasting impact on them. The IMF estimates that the reallocation of FDI could generate losses of around 2% of global production in the long term, primarily affecting EDCs (WEO, April 2023). Advanced countries have been the most favored destination for FDI since 2021 in absolute terms, the corollary of a slowdown in investment flows in EDCs (see Graph 5).

According to data from fDi Markets,[2] global greenfield[3] FDI flows reached 1.337 USD trillion in 2023, a peak since the global financial crisis. Europe is estimated to have attracted 38.1%, followed by Asia (24.7%), North America (13.7%), Africa – Middle East (16%), and Latin America & the Caribbean (7.5%). However, in relation to the size of the economy in terms of nominal GDP, EDCs continue to attract more FDI than advanced countries (see Graph 6).

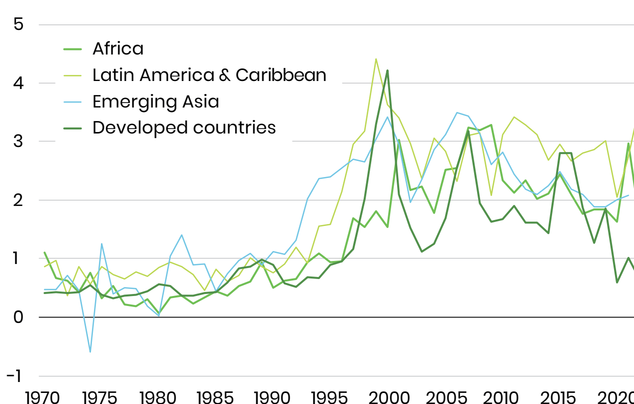
Emerging Asia remains the most attractive region for FDI among EDCs, led by India. However, net FDI flows in the region were negative in 2023, reflecting a situation not seen in China for 25 years. The slowdown in inflows to the country, which increasingly serve for producing "in China for China", is combined with the continued extraversion of Chinese companies which are increasingly investing abroad. This strategy is driven by the aim of benefiting from lower labor costs than at home, and moving closer to export markets, and thus circumvent protectionist measures, in particular those taken by the USA, and symbolized by the recent announcement of an increase in import tariffs on Chinese electric vehicles from 27.5% to 102.5%.[4] Countries like Mexico take full advantage of this to attract Chinese investors, given its strategic position and its integration in the North American Free Trade Area (agreement between Mexico, the USA and Canada, T-MEC).[5] This generates politico-commercial tensions between the two countries bordering the Rio Grande. At the same time, the EU's future Carbon Border Adjustment Mechanism (CBAM), which comes into force in 2027, poses a major challenge for non-EU companies wishing to maintain their access to the European market.

Graph 5 – Acceleration of FDI flows in advanced countries, decline in Asia (i.e., China)



Source: IMF (WEO).

Graph 6 – A more mixed picture for FDI flows in relation to the size of the economy



Source: UNCTAD.

[2] The *fDi Report 2024*, fDi Intelligence, Financial Times Group, May 2024.

[3] Distinctions should be made between FDI related to privatizations and equity investments, which are not indefinitely recurrent, greenfield FDI, and intra-group loans with an ambivalent status.

[4] In mid-June, the European Commission announced that it would combat the Chinese government's excessive subsidies for the production of electrical vehicles by increasing customs duties from 10% today to up to 38% on 1 July.

[5] Agreement formerly known as NAFTA in English and ALENA in French.

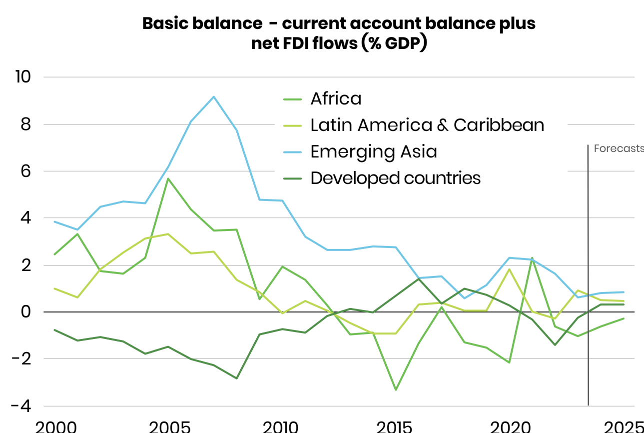
Furthermore, UNCTAD notes a growing number of foreign investment projects in renewable energies in EDCs over the last decade.[6] More generally, fDi Markets data show that renewable energies have been the main global greenfield investment sector in the last four years (a total of more than 700 USD billion in 2022-2023). They are followed in order by the electronics sector, the hydrocarbon and coal sectors and, finally, semi-conductors.

FDI stands as a marker of the attractiveness of the host countries, and the industrial and financial strength of the companies in the countries of origin, and is lauded for its many virtues. Attracting productive investments generates significant knock-on effects for the real economy. The establishment of an industrial site, a hydropower plant, a financial company, or a call center contributes to economic growth, job creation, technology transfers (joint ventures, subcontracting companies), productivity gains, export revenues,[7] and tax revenues.[8]

Major industrial projects or projects in the mining sector generally come with a short-term acceleration of imports of intermediate goods and services and, in the medium term, increased repatriation of dividends by multinational firms, following a reinvestment phase. Consequently, the analysis of FDI is particularly important when it comes to the sustainability of current account deficits, depending on its level and its structural or cyclical nature, given that FDI is considered as sustainable and associated with long-term strategies.

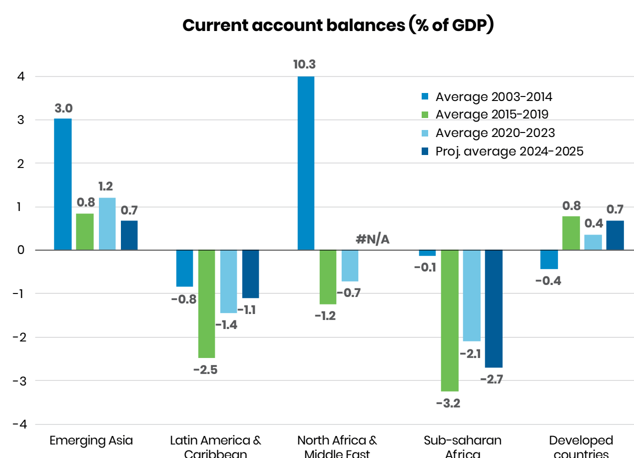
In this respect, the basic balance, defined as the sum of the current account balance and net FDI flows, is a simple and relevant indicator of countries' dependence on more volatile portfolio investments (shares or bonds), and other debt-creating financing (from markets, multilateral and bilateral donors, commercial credit), to balance external payments without a loss in foreign exchange reserves. The basic balance was clearly positive for all emerging and developing regions during the commodity super cycle (2003-2014). It has since remained in positive territory in Asia and, to a lesser extent, in Latin America, but is negative in Africa, where the current account imbalance is expected to continue (see Graphs 7 and 8).

Graph 7 – Current account deficits not covered by FDI in Africa...



Source: IMF (WEO), AFD calculations.

Graph 8 – ...a situation likely to continue according to IMF projections



Source: IMF (WEO).

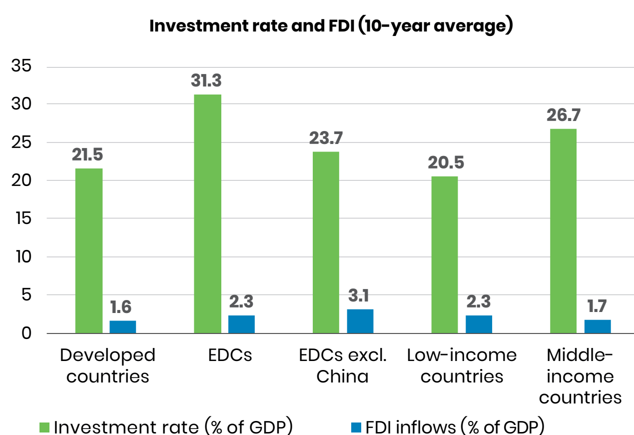
[6] World Investment Report 2023, United Nations Conference on Trade and Development (UNCTAD), July 2023.

[7] Insofar as all or part of local production is destined for export, bearing in mind that some countries benefit from a domestic market large enough (critical size, purchasing power) to encourage investors to locate there to produce and sell locally.

[8] Notwithstanding preferential tax regimes and other tax exonerations/exemptions to attract investors (tax competition).

While FDI flows ultimately account for a small proportion of total investment across all regions (see Graph 9), their attractiveness remains a major issue for a number of EDCs, which have huge investment needs, in particular for infrastructure and the energy transition. In comparison, domestic resources to finance them and technical capacities to implement them are often limited. This imbalance between resources and needs is illustrated by the gap between the national saving and investment rates, thus reflecting the widespread use of foreign savings and the scale of the current account deficit.

Graph 9 – FDI, a major issue for the least developed countries with low investment rates

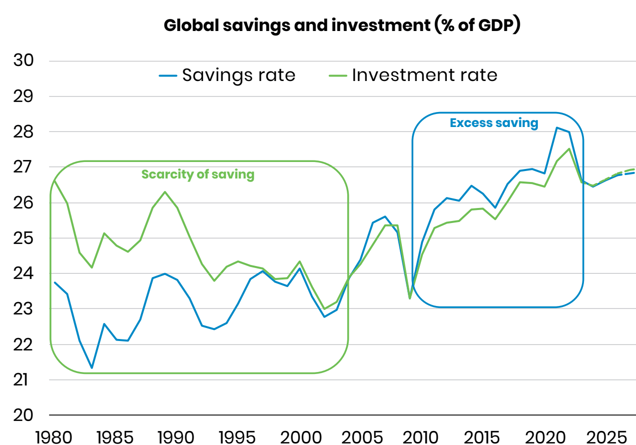


Source: UNCTAD.

Globally, the substantial amounts of liquidity generated by the monetary policy of quantitative easing (QE) in developed countries following the financial crisis of 2007-2008, the commodity super cycle that benefited many EDCs until 2014, Asian trade surpluses, in particular Chinese, and, more recently, the lockdowns due to the pandemic, have all supported growth in the aggregate saving rate. According to IMF estimates, it reached a peak of 28% of GDP in 2021-2022, freeing up investment capacities (see Graph 10). The global investment rate reached a record level of 27% in 2022, but has remained highly constrained in Latin America and the Caribbean (19.7% of GDP on average between 2014 and 2023) and Sub-Saharan Africa (21.7% of GDP), a level close to that of developed countries (see Graph 11). Above all, there has been a slowdown in global productive investment over the last decade, raising questions over the quality of the allocation of a savings surplus.

In addition to the risk of adverse selection, the global savings glut raises the issue of overvalued asset bubbles (financial, real estate, crypto).

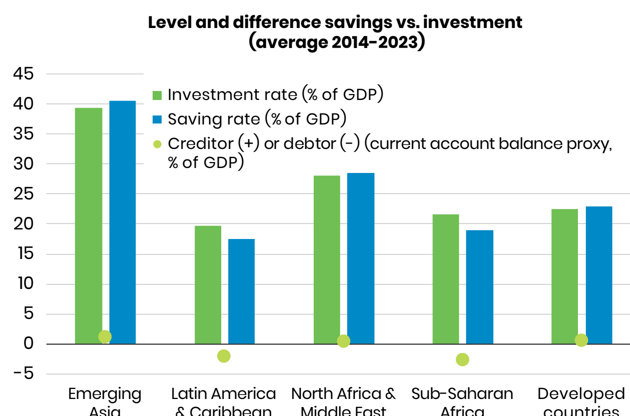
Graph 10 – End of the abundance of global savings and constraints on investment...



Source: IMF (WEO).

Various factors point to a long-term change in the global saving rate: monetary tightening, the end of QE, dissaving to cope with the inflationary shock, high levels of public and private debt, and the potential shift in the Chinese model towards more domestic demand. The contraction of the savings surplus could constrain investment in the coming years, in particular to the detriment of the most fragile countries with the greatest needs.

Graph 11 – ...a priori to the detriment of countries with the greatest investment needs



Source: IMF (WEO), AFD calculations.

Country focus

Egypt
Kenya
Mozambique
Namibia
Senegal
Argentina
Costa Rica
Armenia
Turkey

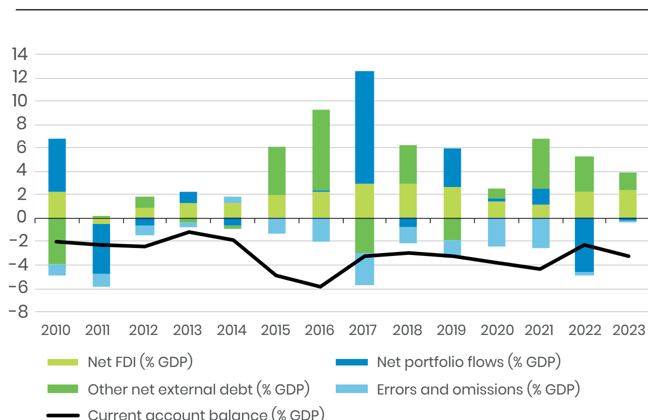
Egypt: Is the geopolitical rent the only catalyst for foreign investment?

Maxime Terrieux – terrieuxm@afd.fr

On the verge of a balance of payments crisis over the last two years, Egypt has once again pulled through. Cairo has again activated its role as a mediator to contain regional instability, which has contributed to the major announcements at the beginning of the year: massive cash injection from the UAE, floating of the pound and exchange rate unification, board approval of the first reviews of the IMF program and increase in donor financing, etc. External liquidity pressures have thus eased and, with them, fears over sovereign risk. With confidence restored in the short term, the authorities now need to continue structural reforms to turn Egypt into an attractive regional hub for foreign investors.

A sigh of relief. This was surely the reaction of the Egyptian authorities at the announcement in late February 2024 of a UAE investment for the development of a tourism and industrial mega project. With this announcement, Egypt has brought two years of protracted crisis to an end and, at the same time, has restored the confidence of donors, investors, and the market. It further confirms the geopolitical rent it has benefited from for several decades. But will this key moment be sufficient to initiate a major transformation of the Egyptian economic model?

Graph 12 – Financing of the current account deficit



Source: IMF (IFS).

Egypt suffers another sudden stop in 2022

In February 2022, Russia's invasion of Ukraine led to another bout of portfolio investment outflows (sudden stop) for the Egyptian economy, whereas investors had been attracted by high yields since 2018. There are at least three reasons behind that sudden stop. First, discrimination against emerging countries and flight to safety, which is directly related to the conflict. Second, and simultaneously, the Fed's monetary tightening by the Fed, making US assets more attractive. Third, for Egypt in particular, a drop in the real interest rate in a context of post-Covid-19 inflationary pressure. In just a few months, more than 20 USD billion left the economy, generating fears of another balance of payments crisis, which Egypt is accustomed to (1991, 2003, 2016). The Central Bank of Egypt's (CBE) interventions to stabilize the exchange rate also fueled the fall in foreign exchange reserves (-30% in 2022) and pressures on the Egyptian pound (EGP) which was ultimately devalued three times in less than a year (almost -50% against the USD). This sudden sharp drop in external liquidity does in fact reflect a long-standing vulnerability. The current account, which is structurally in deficit and dependent on a few traditional economic rents (such as remittances, tourism revenues, the Suez Canal, and hydrocarbon exports) deteriorated in 2020-2021, with a deficit of 4.1% of GDP on average, against 3.1% of GDP during the previous three years. At the same time, FDI, which traditionally finances the deficit (2.7% of GDP on average over 2016-2019, against 1.3% over 2020-2021), was largely replaced by much more volatile portfolio flows (a sixfold increase in net inflows between 2020 and 2021),

exposing Egyptian external accounts to a loss of investor confidence. The conflict 3,000 km further north created a spark strong enough for this risk to materialize.

In response, the authorities called on the IMF for a new financing agreement, the third in six years. But in 2023, the program was making no headway. In particular, the floating of the EGP, an absolute precondition of the program, had yet to materialize. Its implementation was politically sensitive given elevated inflation (25% on average for 2022-2023) and this lack of progress prevented completion of the first two reviews of the the IMF program. This, in turn, fuelled uncertainties, loss of confidence, and pressures on the exchange rate. Salvation finally came from its Gulf neighbors.

The Ras El-Hekma Mega Project, simply a breathing space?

The announcement by ADQ,[9] a fund from Abu Dhabi, of a 35 USD billion investment, put an end to external liquidity pressures. ADQ will in particular make a 24 USD billion cash injection (half of which will be disbursed by June 2024) to develop a mega project in Ras El-Hekma (project for a tourist area, a financial center and a free zone) on the Mediterranean coast. This announcement helped the much-awaited floating of the EGP by the CBE in early March, enabling the unification of the official and parallel exchange rates (immediate depreciation of almost 40%). These two elements unlocked the IMF board approval of the first two reviews in late March 2024, making more than 800 USD million of fresh cash available. In addition, the IMF increased its financing by 5 USD billion to bridge the new external gap estimated over the duration of the program. This financing is combined with support from the EU (8 USD billion) and the World Bank (6 USD billion). Foreign exchange reserves should rapidly return to their pre-pandemic level and cover more than 6 months of imports of goods and services (4.2 months at the end of March 2024). Sovereign spreads fell in just a few weeks from a prohibitive level (more than 1,000 bp) to 600 bp, enabling Egypt to envisage a return to international markets.

Egypt once again owes this salvation to its geopolitical rent, its role as a mediator in the conflict in Gaza and its geostrategic position in the region still making it an essential player. But this breathing space could prove to be another lost opportunity for the authorities to initiate more structural reforms. Some are saying that there is a real risk of the Egyptian authorities interpreting the recent announcements as a confirmation that the country is too big to fail, and that it will continue to benefit from bailouts.

Continuing structural reforms is essential

While a sustained shift to the floating exchange rate regime will need to be monitored in the short term, in the longer term, a substantial part of the functioning of the economy will need to be overhauled. This includes the role of the State, which has undertaken major and sometimes controversial works in recent years (including the new capital), but also and above all the army, which has a strong historical presence in the economy and has strengthened its weight over the last ten years, for example, in the cement, tourism and agri-food sectors. The investment rate is currently capped at less than 15% of GDP, less than a third of which is private. Without a take-up by the private sector, there is a risk that the economy will be condemned to substantial public deficits, fueling a considerable sovereign risk which recurring balance of payments pressures will continue to exacerbate. To address the problem, privatizations of public enterprises, including military ones, are among the pillars of the ongoing IMF program. ADQ's investment is an example of the more general appetite of Gulf investors (primarily from the United Arab Emirates and Saudi Arabia), which have become the main source of FDI in Egypt since the Covid-19 crisis. However, they are much more demanding, now positioned as real private investors and no longer simply as geopolitical partners. With the relaxation of foreign exchange pressures, the valuation of Egyptian assets should now be easier, which should contribute to an increase in FDI in the short to medium term. But it will be necessary to continue lifting structural barriers to private investment, by reducing the preferential customs and tax treatments enjoyed by companies linked to the State or army, strengthening the prerogatives of the competition authority, and simplifying customs procedures. The second largest recipient of FDI in Africa in 2022, Egypt could, with these reforms, its geographical position, and its local market of more than 100 million inhabitants, become a key regional hub. Renewable energies and information and communication technologies (ICTs) are sectors closely watched by investors.

[9] Usual name of the Abu Dhabi Developmental Holding Company.

Kenya: Too big to fail

Gaëlle Balineau – balineaug@afd.fr

Kenya enjoys an advantageous geostrategic position, a relatively diversified economy, stable democratic institutions, and robust growth. At around 5% on average during the pre-Covid decade, growth was linked more to major public investments and an accumulation of capital than to growth in factor productivity. The successive shocks over the last four years have pushed this development model to its limits. In 2023, public debt reached 73% of GDP and the interest on debt 27% of government revenue. In addition, the historical depreciation of the shilling (-21% in 2023) and the depletion of foreign exchange reserves almost plunged Kenya into a balance of payments crisis, which was largely avoided thanks to the exceptional support from donors. The persistence of several forms of corruption in certain sectors of the economy is among the barriers to more sustainable and inclusive growth, because it holds back private and foreign investment.

Since 2020, Kenya has experienced the same shocks as the rest of the world: Covid-19, increase in commodity prices, tighter financing conditions, reconfiguration of the global geopolitical order. In addition, there have been five consecutive droughts in East Africa, as well as conflicts and civil wars in Ethiopia, Sudan, and in the Great Lakes region. Kenya itself is faced with a constant threat from the terrorist group Al-Shabaab based in Somalia. While it is important to stress that Kenya has managed to overcome these external shocks, the respite will be short-lived. Major reforms are needed to strengthen the private sector and attract foreign investors for an economy partly "captured by the State".

Between 2020 and 2022, Kenya avoided a triple health, political and social crisis

For two years, the authorities took steps to curb the spread of the Covid-19 virus, including lockdowns, curfews, the wearing of masks, travel restrictions, and vaccination. Ministry of Health figures report 322,702 cases and 5,638 deaths. While studies show that these figures may have been underestimated, the increased mortality rate is thought to have been confined to the Delta wave and people aged over 65. Kenya thus avoided a major health crisis.

However, the pandemic, along with the droughts and the increase in commodity prices following Russia's invasion of Ukraine, have not spared Kenya from the deterioration of the situation of its economy and its population, especially the most vulnerable: while the recession was contained at -0.3% in 2020, the poverty rate rose from 34% to 43% between 2019 and 2020.

During the pre-election period in the spring-summer of 2022, inflation was about to reach its peak at 9-10%, as fuel price subsidies and other "Covid-19" support were coming to an end, and there were violent protests against the rising cost of living and fuel shortages. In this context, the fact that the presidential election in August 2022 took place with no major clashes was commended by the international community, and described as a "triumph for Kenya's democracy".[10]

In 2024, Kenya is thus in a relatively better situation than may have been expected and, especially, feared. The IMF estimates economic growth at 5%, tourism is recovering, and poverty is beginning to decline again. Despite this, the three rating agencies have downgraded Kenya's sovereign rating in six months, between December 2022 and May 2023 (Fitch and S&P from B+ to B, and Moody's from B2 to B3), mainly due to the significant deterioration in the country's external position.

[10] "A Triumph for Kenya's Democracy", International Crisis Group, 8 September 2022.

In 2023, the IMF allocated "exceptional support" to Kenya to avoid a balance of payments crisis

Kenya's current account is structurally in deficit due to a dependence on imports of energy, capital goods and foodstuffs during the now recurrent droughts. The ratio of exports to GDP has halved over the last decade (from 21% on average between 2006 and 2009 to 12% on average between 2016 and 2019). In 2021, remittances (3.4% of GDP) became the main source of foreign exchange, ahead of tourism (0.4% of GDP), and tea, coffee and horticultural exports. Consequently, at the height of the energy crisis following the invasion of Ukraine, the current account deficit reached 5.2% of GDP in 2022, including 4.5 points linked to energy imports. At the same time, financing conditions tightened considerably. Kenyan spreads had thus reached 1,400 bp in July 2022, reflecting the monetary tightening in rich countries, but also uncertainties related to the pre-election period.

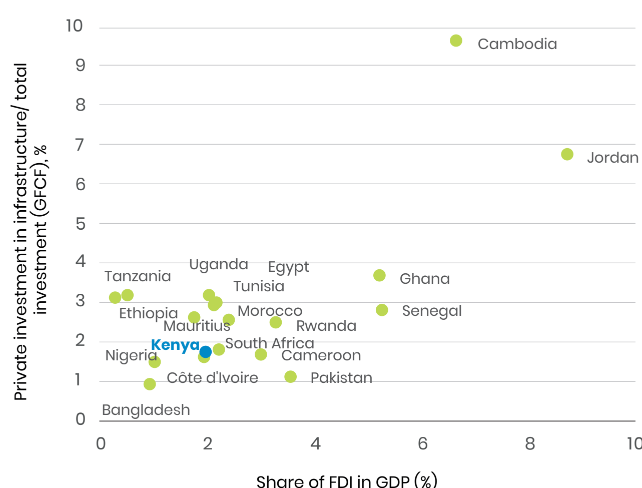
As Kenya also attracts less FDI (relative to GDP) than Rwanda, Uganda, Tanzania and lower-middle-income countries (LMICs) on average, it had to draw on its foreign exchange reserves to cover the external financing needs. This happened again in 2023 with, on top of that, the prospect of a default on the repayment of a 2 USD billion Eurobond maturing in June 2024. If not self-fulfilling, these expectations have had serious repercussions in terms of capital flight, financing conditions, the depletion of foreign exchange reserves, and the depreciation of the shilling: after years of parity maintained at around 1/100, the shilling reached a record low of 1/162 in January 2024.

Following months of diplomacy and active communication, the government and President William Ruto received substantial support from Kenya's financial partners in 2023-2024, including the IMF, which approved 938 USD million of exceptional financing in January 2024. Combined with the issuance of a 1.5 USD billion Eurobond in February 2024 with the easing of spreads, the Eurobond maturing in 2024 will be repaid. "Too big to fail", Kenya has narrowly averted a liquidity crisis.

Reform "captured" sectors to attract investment and increase productivity

The image of the start-up nation attracting investors from all over the world in the information and communication technologies sector coexists with another reality: Kenya attracts little foreign direct investment and private investment remains weak. It has even contributed negatively to growth since 2016. The persistence of corruption, in particular in the form of "regulation capture", is one of the possible explanatory factors. For instance, the World Bank points out that beyond the traditional public enterprises, the companies in which the State is involved contribute to the establishment of regulations for competitive procedures. This is the case, for example, with the regulatory committee for the licenses and certifications required for private operators in the seed research sector. In the steel and wines and spirits sectors, The Economist notes that the entry barriers for competitors are put up by companies already in place, which often have links with the State. Generally speaking, sectors where the State has a stronger presence are also more protected from competition (customs duties 5% higher on average). According to the Organisation for Economic Co-operation and Development (OECD) and World Bank, this "regulation capture" results in a less open market structure than in Tanzania, Uganda, and Zambia. Kenyan small businesses are the first to suffer from this.

Graph 13 – Kenya attracts little foreign investment



Source: World Bank (PPI), UNCTAD.

Mozambique: An outward-looking and externally-financing economy

Alix Vigato – vigatoa@afd.fr

Mozambique is one of the world's poorest countries and has alarming human development indicators. Yet it has had one of the most dynamic economic growth rates in the world for about 30 years. This paradox is largely due to the nature of the country's development model. Indeed, this extractivist model is primarily based on the exploitation of raw materials with no, or only minimal, local processing prior to export. This results in a very open economy, both outward-looking and externally-financed, hence the considerable external account imbalance.

With a GDP per capita below 1,500 USD in purchasing parity terms in 2022 (647 current USD), Mozambique is the world's fifth poorest country, after Burundi, the Central African Republic, the Democratic Republic of the Congo, and Somalia. Logically, it is in the list of the least developed countries (LDCs), and three-quarters of the population lives in extreme poverty. At the same time, the figures for literacy (60%), life expectancy (59 years), access to electricity (31%), and HIV prevalence (12% of adults) have not improved sufficiently, or have seen no improvement, over the long term. The development model is focused on the exploitation of raw materials by a small number of companies, in particular multinational companies. It is also not very inclusive, with an extremely limited redistribution of the benefits of growth, and a position as the tenth most unequal country in the world (Gini of 50 in 2019). The exploitation of raw materials with no, or only minimal, local processing prior to export also results in a very low level of job creation, which accounts for the all-pervading informal sector, which absorbs about 95% of workers.

An extractivist and outward-looking development model...

Mozambique has had one of the world's most dynamic economic growth rates over the last 30 years, at 6.6% on average between 1992 (end of the civil war) and 2023, making it eighth in terms of global performance. Over this period, only Equatorial Guinea and Ethiopia have done better in Sub-Saharan Africa (14.1% and 7.9%, respectively).

The rapid expansion of GDP is largely the result of the development of the mining sector. Indeed, Mozambique's subsoil holds vast reserves of metals, minerals and hydrocarbons, much of which remains unexplored and untapped. From the 2000s onwards, a massive inflow of investment from multinational companies and the increasing number of mega projects largely brought about this boom, in particular in the context of the commodity super cycle (2004-2014). In addition to coal in Tete Province (the country's leading export item since 2016), Mozambique is one of the main global producers of titanium, rubies, zirconium and graphite. It is also set to become a major natural gas producer, as vast reserves, potentially the tenth largest in the world, were discovered off the coast of Cabo Delgado Province in the early 2010s. Similarly, the huge Mozal aluminum plant commissioned in 2002 primarily owes its development to the capital contribution of an Australian-Japanese-South African consortium (the second largest company in the country, with

a net income of almost 3% of GDP in 2022). Services, while being relatively weak, are also largely dependent on foreign investment in various subsectors (finance, transport and tourism in particular). However, in the agriculture sector, while the availability of arable land and the high potential for productivity gains have attracted foreign investment in the past (ProSavana project in particular),[11] it is today limited and agribusiness has only seen minor development.

The economic model is thus open to both trade (outward-looking) and foreign investment (externally financed). Indeed, the country's average ratio of trade openness reached 100% of GDP between 2010 and 2022, against an average of 57% in Sub-Saharan Africa. Above all, FDI inflows reached 24% of GDP on average between 2010 and 2022, the third best global performance over the period, and far ahead of the average in Sub-Saharan Africa (only 2% of GDP).

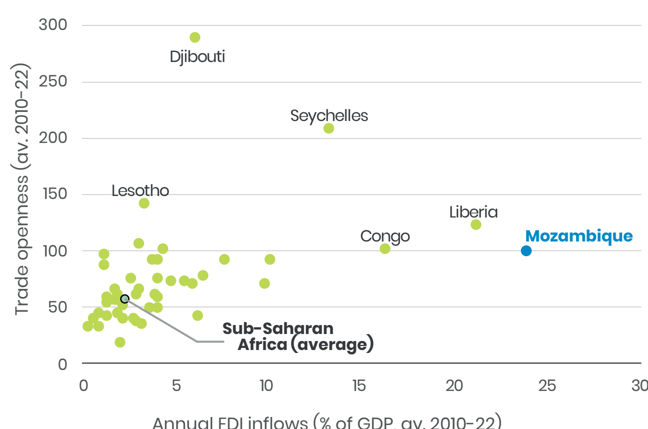
...resulting in a considerable external account imbalance

Mozambique's current account is structurally in deficit, as it has not seen a surplus since 1979. Despite substantial foreign exchange inflows (commodity exports, donor grants, diaspora remittances, etc.), they are not sufficient to offset the outflows. Consequently, a massive and constant inflow of external financing is necessary to offset this current account deficit, otherwise the country may be forced to draw on its foreign exchange reserves to balance external payments.

After reaching 10% of GDP on average over the decade 2000-2009, the current account deficit has grown significantly since 2010 and the discovery of huge deposits of natural gas. To exploit them, Mozambique has substantially increased its imports of capital goods and services. From 2014 onwards, the external accounts were also weighed down by the turnaround in international commodity prices. Between 2010 and 2023, Mozambique thus had the highest ratio of current account deficit to GDP in the world (28% on average). However, as these mega projects are mainly directly financed by flows of FDI amortized during the gas exploitation (rather than by debt flows), the risk of slippage appears limited and is largely taken on by the multinational companies. But aside from the gas mega projects, the remaining foreign exchange requirement is still considerable (about 20% of GDP on average for 2010-2023), and its coverage may prove to be complicated. Since 2010, Mozambique has thus had to regularly draw on its foreign exchange reserves to bring its balance of payments in equilibrium.

At the end of 2023, foreign exchange reserves stood at around 3 USD billion, equivalent to 4 months of imports (excluding mega projects), a level considered adequate by the IMF. While the current account deficit is expected to remain substantial until the completion of the infrastructure works for the gas mega projects (horizon 2030), the current sequence is positive: the country has benefited from renewed donor support since mid-2022 (conclusion of an IMF program), FDI outside the gas sector remains at a high level, and Banco de *Moçambique* is gradually reducing its interventions on the foreign exchange market. Pressures on the balance of payments have thus eased considerably in recent years, and the IMF expects foreign exchange reserves to remain at a level equivalent to between 4 and 4.5 months of imports in the medium term.

Graph 14 – Mozambique is open to both trade and foreign investment



Source: World Bank, UNCTAD.

[11] Launched in 2009 by Japan, Brazil and Mozambique, the ProSavana project aimed to develop agriculture in the "Nacala corridor" in northern Mozambique. It was abandoned in 2017, in particular due to opposition from local communities and international NGOs.

Namibia: Between renewable energy and oil, the country chooses both

Vincent Joguet – joguetv@afd.fr

One of the richest countries in Africa, but also one of the most unequal in the world, Namibia had been mired in an economic slump since 2016, due to its extractive growth model, prior to the outbreak of the pandemic. The future looks less bleak. Namibia's comparative advantage for the production of cheap green energy particularly interests developed countries, including some in the European Union. But it is especially the recent major discoveries of offshore hydrocarbon deposits which place the country at the threshold of a new era. They are already stimulating inflows of foreign direct investment, which are reaching record levels and could propel the country into the category of oil-exporting countries.

"It is poignant and reassuring to note that today, even in this time of loss, our Nation remains calm and stable." In his inaugural address as President of the Republic of Namibia last February, following the sudden death of the President-in-Office, Hage Geingob, his Vice-President, Nangolo Mbumba, who succeeds him under the Constitution, thus summed up the stability and quality of the institutions of this young Southern African democracy.

A strong democracy, but one of the most unequal countries in the world

Almost 35 years after independence in February 1990, Namibia is one of the five freest democracies in Africa, according to Freedom House. The country has a sound governance framework, among the best in Africa, for each of the six dimensions measured by the World Bank, with a particularly high classification for political stability, voice and accountability, and the rule of law.

However, this performance is declining. Like its South African neighbor with the African National Congress, the country is a victim of the stranglehold of the South West Africa People's Organisation (SWAPO party). The latter, tarnished by corruption scandals, cases of political patronage, its unkept promises, the gloomy economic climate, and high youth unemployment has seen its electoral performance eroded. But the opposition would not appear to be strong enough to prevent the ruling party's victory at the general and presidential elections in November 2024.

With three million inhabitants at the last census in 2023 over a territory the size of France, Belgium and the UK put together, Namibia is the second least densely populated country in the world. It is an upper-middle-income country with a GNI per capita of 5,010 USD (Atlas method). Despite this level of wealth, its social indicators are penalized by the scale of inequality, a legacy of apartheid, placing the country second-bottom in the world. In addition, the reversal of terms of trade in the mid-2010s set back the Human Development Index (HDI) of this mining country by 10 years.

An undiversified economy focused on extractive industries

The mining sector (diamonds, uranium, gold…) accounts for 10% of GDP and 55% of export revenue. Despite a large and dynamic service sector (65% of GDP: public services, trade, finance, tourism), the decline in prices for mining products from 2014 onwards, combined with chronic drought and a slowdown in South African demand, has had a strong negative impact on the Namibian economy. Its real GDP stagnated between 2016 and 2019, alternating between very weak growth and recession, prior to the shock caused by the health crisis in 2020 (-8.1%).

The economic growth rate has improved since 2021. According to the Namibia Statistics Agency (NSA), commodity prices and the gradual return of tourists helped bring it to 4.2% in 2023, after 5.3% in 2022. But without structural reforms to diversify the model, the medium-term potential is estimated at only 2.5% by the IMF. In addition, the mining sector is not labor-intensive. Consequently,

the unemployment rate has remained at a high level of 20% for 10 years and fuels the frustrations of a growing number of unemployed young people (the population has increased by 30% in 12 years).

For the financial year 2024/25, which benefits from the increase in revenues driven by economic growth, a moderate fiscal stimulus is planned, following two years of cuts to reduce public spending after the shock in 2020. These increases target investment expenditure and current expenditure (after being de-indexed from inflation, the payroll, which absorbs half of fiscal revenues, has thus been revalued by 5%). Half of the budget is earmarked for the social sector, but the quality of the services offered and the predominance of salaries do not enable improvements in the social indicators.

Green hydrogen and hydrocarbons could shake up the Namibian economy in the medium term

With its extensive wind and solar resources, Namibia could become a supplier of green hydrogen and its derivatives (green ammonia, fertilizer) for developed countries, in particular the EU. Several pilot projects have been launched, but due to the highly technical nature of this industry and the associated costs, the scale-up is expected to take several years. If they are well-designed, they could also benefit national electricity production, which is currently insufficient, meaning the country has to import over half of its annual consumption.

But the real game changer for the Namibian economy could come from a much less green industry. Indeed, since 2022, there have been successive discoveries of light oil and gas in the Orange River Basin off the southern Namibian coast. Based on existing discoveries, the country has an exploitation potential of 700,000 barrels per day, which could place the country among the top 15 global producers by 2035.

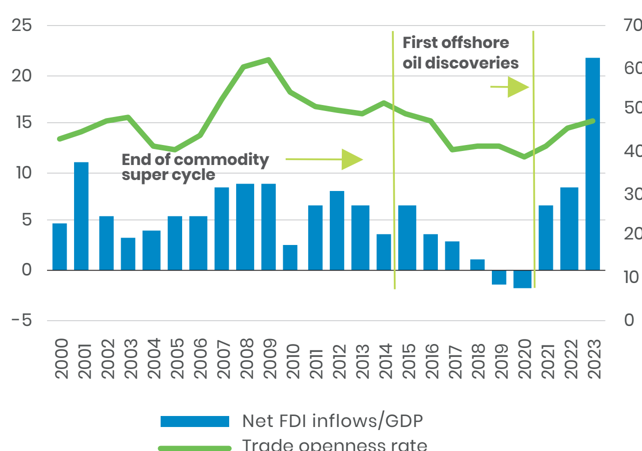
FDI inflows, a corollary of the widening current account deficit

All these discoveries catalyze foreign direct investment. It had tended to abandon the country from 2016 onwards, whereas it had largely contributed to growth between 2000 and 2015, accounting for 6% of GDP on average. Since 2021, it has been back in force and reached 21.5% of GDP in 2023. Two-thirds is related to oil and gas exploration activities, or involve intra-group loans in the mining sector. Namibia has become the African country which attracts the most FDI relative to its GDP.

These massive capital inflows, and the accompanying imports of goods and services, affect the current account, especially because it is a small economy sensitive to external shocks. In 2022 and 2023, the current account deficit reached 14% of GDP on average, driven by a services deficit of 8.1% of GDP in 2023, not seen in Namibia for 30 years, as there had been a threefold increase in services imports in a year. These imports are related to offshore exploration, which is financed by FDI. For this reason, the current account deficit is expected to remain high in the coming years.

This results in a significant improvement in the financial balance: record net inflows of FDI cover the entire current account deficit and contribute to build international reserves. They increased by 11% in 2023 and have reached 2.7 USD billion, covering 4.4 months of imports of goods and services, a level that the IMF considers sufficient to support the fixed parity between the Namibian dollar and the South African rand. Most of these existing and future FDI will take the form of equity capital. As for intragroup loans in the mining sector, accounted for as FDI, they represent the majority of private external debt..

Graph 15 – FDI boom following oil discoveries



Source: World Bank, UNCTAD.

Senegal: Economic promises amid political renewal

Benoît Jonveaux – jonveauxb@afd.fr

2024 marks a turning point for Senegal in many respects. When the country starts to exploit its hydrocarbon resources in the second half of the year, it should experience a significant acceleration in economic growth. Senegal could thus become Africa's most dynamic economy in 2024-2025. At the same time, the country experienced major political renewal at the beginning of the year when Bassirou Diomaye Faye was elected President in March with his agenda for systemic change. While the outlook appears promising at this stage, a number of factors call for caution, due to uncertainty over the economic policy choices that prevail in a context where the economic model is dependent on external financing, in particular from donors and foreign investors.

Following a long period of uncertainty and political and social tensions, the presidential election was finally held at the end of March 2024, underscoring the strength of Senegal's democracy and the soundness of its institutions. Bassirou Diomaye Faye's victory in the first round of voting also creates a dynamic of political renewal against the backdrop of economic and social demands. Indeed, the President's new agenda, often referred to as being an agenda for "systemic change", proposes new paradigms on the reform of institutions, foreign policy choices, and on certain aspects of economic policies. This political renewal falls within a context of accelerated economic growth over the last ten years, which could gather pace with the exploitation of oil and gas resources by the end of 2024. This prospect should contribute to restoring the major macroeconomic balances by reducing the twin deficits. However, financing these deficits requires substantial flows of external capital, in the form of foreign direct investment (FDI) or donor support.

The economic catching-up in recent years could gather pace from 2024 onwards

Since the early 2000s, the succession of exogenous and domestic shocks has adversely affected Senegal's economic growth rate. Between 2000 and 2014, the average annual GDP growth rate was thus almost half the average in Sub-Saharan Africa. However, since 2014, the trend has been reversed, with an acceleration of the country's growth path to more than 5% on average over the last decade (6% before the Covid crisis). Senegal's per capita GNI did not exceed 75% of the Sub-Saharan Africa average in 2014, but is now at the same level as the regional average. This performance is partly due to the reduction in commodity prices, which has eased external, fiscal and inflationary pressures. In addition, the launch of the Emerging Senegal Plan (PSE) in 2014 has led to a marked increase in investment (both public and private), which rose from 20% of GDP in the early 2010s to over 30% in 2018, and 45% in 2023.

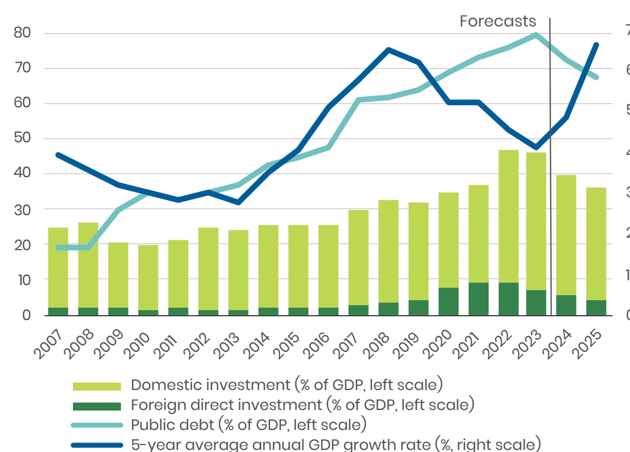
The short-term growth prospects also benefit from major discoveries of hydrocarbon resources (mainly gas, but also oil, estimated to be the 27th and 50th largest reserves in the world, respectively). After several postponements, production at the main fields should start in the second half of 2024 and result in a marked acceleration in growth. The IMF estimates that it may reach 7.1% in 2024 and 10.2% in 2025, which would make Senegal the African economy with the strongest growth rate in 2024-2025, and one of the highest in the world.

Continue on the path towards development while maintaining macroeconomic balances

However, the acceleration of growth over the last decade has led to a marked widening of the twin deficits and a substantial increase in the country's public debt (from 35% of GDP in 2010 to 80% in 2023). The Covid crisis has also led to an increase in the public deficit (6% of GDP on average for 2020-2023), requiring a consolidation of public accounts combined with an IMF program set up in July 2023. Finally, the development of the hydrocarbon sector has led to a marked increase in imports of goods and services (doubled between 2016 and 2021), and therefore to a current account deficit on the balance of payments. This has been largely offset by flows of foreign investment, reducing pressures on the external accounts. However, these trends show the weaknesses of a growth model that requires substantial amounts of financing and exposes the economy to exogenous shocks (loss of confidence of economic actors, caution among donors, tighter financing conditions). The dividends from the oil and gas production should contribute to reducing these weaknesses, but without removing them completely. The IMF estimates that hydrocarbons will account for 3-4% of GDP by 2030, generate net fiscal revenues of around 1% of GDP on average, and increase exports by around 6% of GDP.

Furthermore, several structural weaknesses persist, in particular in terms of boosting productivity (agriculture still accounts for 70% of employment, but only 15% of GDP), increasing non-hydrocarbon growth potential, and reducing dependence on public or foreign investment. The diversification of the economy and moving it upmarket, along with private sector development, require reforms to improve human capital, financialize the economy, remove barriers to competitiveness favor business climate. Above all, the authorities will, at the same time, need to address legitimate demands from the population for a better sharing of the benefits of growth, in a country where a third of the population lives on less than 3.65 USD a day and which ranks in 169th place in the world out of 192 countries in the HDI.

Graph 16 – Growth driven by investment, particularly foreign, but at the cost of a rise in debt



Source: IMF, UNCTAD, AFD calculations.

Economy remains dependent on flows of external financing

Due to its twin deficits, Senegal is heavily reliant on flows of external financing through support from international donors, the regional capital market of the West African Economic and Monetary Union (WAEMU), and foreign investment. Since 2010, Official Development Assistance (ODA) has accounted for an average of 6% of GDP per year, almost double the Sub-Saharan African average. This level is set to remain unchanged in the context of the IMF program set up in 2023, which also catalyzes donor support. At the same time, FDI inflows rose from 1.9% of GDP on average between 2010 and 2016 to 6.4% of GDP on average between 2017 and 2023. This figure should gradually decline when the development of the oil and gas projects reaches completion, but the diversification of non-hydrocarbon FDI would stimulate growth potential. The position of the new authorities towards donors and foreign investors will thus be a key factor for continuing to secure sustainable financing for the country's development model. This is especially the case because both international and regional financing conditions have tightened since 2022, adding additional pressure in terms of covering financing needs in a context of an already elevated level of public debt.

Argentina: Stability at all costs

Thibault Vasse – vasset@afd.fr

Argentina is currently experiencing an upheaval of its economy under the structural adjustment program of President Javier Milei. The drastic measures implemented open the perspective for a reduction of the macroeconomic imbalances that have affected the country for years, but they also come with a heavy social and political cost. Improving macroeconomic stability now appears to be a precondition for removing the malaise affecting FDI in Latin America's third largest economy, despite its major strengths. It is crucial to improve the country's attractiveness for international investors in order to attract foreign currencies and strengthen its external position, as foreign exchange reserves have today stabilized at levels that remain a cause of concern.

Once one of the richest countries in the world and the fifth largest economy at the end of the Second World War, the Argentina inherited by President Javier Milei when he took office in December 2023 is in an extremely fragile situation. With repeated crises, its per capita GDP (26,500 USD in 2023) has tended to diverge from that of its peers, while major economic and social vulnerabilities have built up after years of poor macroeconomic management. Inflation reached 211% yoy at year-end 2023, poverty was rising with 45% of the population living below the national poverty line, and the country was facing with a potential umpteenth sovereign debt crisis, in particular due to high gross financing needs and the rapid erosion of foreign exchange reserves, despite controls on capital flows.

Shock therapy seemingly paying off, but at what cost?

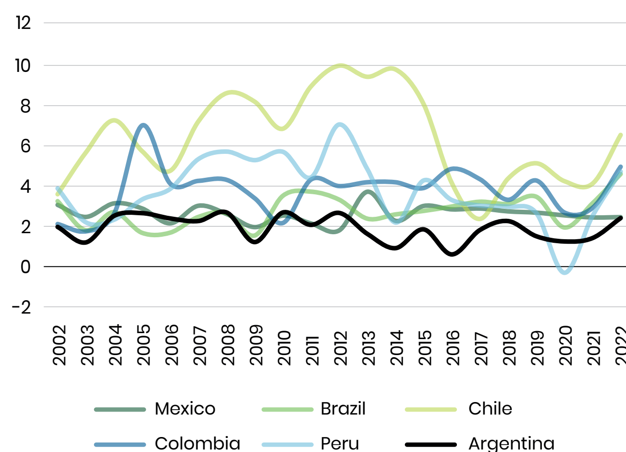
Since December 2023, President Milei has implemented a package of drastic macroeconomic adjustment measures. He started by sharply devaluing the peso by 54% on 13 December (two days after his inauguration). In addition, the authorities have embarked on a fiscal austerity strategy, mainly by reducing subsidies for essential products, investment, public wages, as well as transfers to the provinces. The budget balance, which had deteriorated almost continuously since the period of surplus between 2003 and 2008, to its lowest level of -8.6% in 2020, is thus sharply reducing. It is expected to be balanced in 2024, after -4.2% of GDP in 2023.

These aggressive adjustment measures open up the perspective for a significant reduction of the macroeconomic imbalances affecting the country for years. The difference between the official exchange rate and the parallel market rate has fallen from over 60% to 10%. After a leap from 85% of GDP to 155% of GDP in 2023 due to the depreciation of the peso, government debt is now on a downward path, with the IMF projecting a sharp reduction to 48% of GDP by 2029. Similarly, external accounts are improving, with a current account balance which should rapidly move to a surplus of around 0.9% of GDP in 2024 and stabilize at this level in the medium term, following a deficit of 3.5% of GDP in 2023. Finally, the erosion of foreign exchange reserves has abated. While they had reached a low point at 22 USD billion in November 2023, they have since increased and stood at $28 billion in April 2024, equivalent to less than 5 months of imports of goods and services.

All this has put the IMF program for 2022-2024 (Extended Credit Facility of $44 billion) back on track, and allowed the release of 4 USD billion in January 2024, for a total disbursement of 40.6 USD billion. The program had previously gone off rails since early 2023, hindered by the expansionary policies of the previous administration, with targets regularly and largely missed. In view of the new stabilization targets of the Argentinian authorities, the revamped program has set more ambitious targets for fiscal consolidation, the normalization of monetary policy, the accumulation of foreign exchange reserves, the clearance of domestic arrears, and a gradual easing of restrictions on capital flows.

Despite these positive trends, the authorities' shock therapy comes with an immense social and political cost. Fiscal austerity, combined with rising inflation (289% yoy in April 2024), is expected to lead to another recession of 2.8% in 2024, the ninth since 2007. Since Javier Milei came into office, according to the estimates of the Pontifica Universidad Católica Argentina, the poverty rate jumped to 55.5% on average over the first quarter of 2024, its highest level for 20 years, while purchasing power is 23% below its 2016 level. Social contestation is gathering pace, with strikes and protests sometimes gathering more than 100,000 people and often marred by violence. In addition, Javier Milei's coalition, which does not have a majority at Congress, is faced with strong opposition to its reforms, several of which have already been rejected by the legislature. Consequently, the growing risk of social and political opposition could slow down or even compromise the President's adjustment program.

Graph 17 – Net FDI inflows as a % of GDP



Source: IMF, UNCTAD, AFD calculations

Stability a prerequisite for attracting FDI

Argentina is thus seeking to overcome its chronic instability, which is in particular responsible for its "FDI malaise". FDI inflows only accounted for 1.7% of GDP on average between 2010 and 2022 (mainly from the USA and Spain), well below the levels of the other major economies in the region. In addition, three-quarters of FDI over this period was made up of intra-group loans and reinvested profits rather than equity investments, illustrating the reluctance of foreign investors to invest more in the country.

Yet Argentina benefits from major strengths. The country has vast natural resources, including copper, lithium, and hydrocarbons. The economy remains one of the richest in Latin America with a skilled labor force, a modern and competitive agriculture sector, and a relatively diversified industry. With a GDP of 620 USD billion and a robust middle class, the country has a large and potentially dynamic market. The modest contribution of foreign investment to the Argentinian economy despite these strengths reflects the high level of macroeconomic instability and the persistence of controls on capital flows. In addition, international companies often point to the high and unpredictable tax burden, as well as the rigidity of labor regulations, as barriers to new investment.

President Milei has high hopes for his efforts to liberalize and stabilize the economy, in particular to increase the attractiveness of his country for foreign investors, which is crucial for giving new impetus to the economy and replenishing foreign exchange reserves. An increase in FDI would ease pressures on external liquidity by providing a more stable source of foreign exchange and strengthening the country's external solvency. However, macroeconomic stability and the lifting of restrictions on transfers of international funds are a precondition, against the backdrop of strong uncertainty as to the authorities' ability to successfully implement their strategy in the current socio-political context. It remains to be seen whether Javier Milei has found the right formula for addressing the malaise in his country.

Costa Rica: Attracting FDI as the backbone of the economic model

Morgane Salomé – salomem@afd.fr

A small Central American country, Costa Rica has based its growth model on openness to foreign capital by establishing a free zone regime in the early 1990s, which endures today. These zones have since been instrumental to growth, as they generate the bulk of exports and absorb a high proportion of FDI inflows. In 2023, net FDI inflows largely covered the current account deficit, contributing to an improvement in the external position.

With a per capita income of 12 ,670 USD in 2022 (Atlas method) according to the World Bank, Costa Rica has been an upper-middle-income country (UMIC) since 2000, and is close to the category of high-income countries (HIC, threshold set at 13,846 USD in 2024). The standard of living of Costa Ricans has thus doubled since 1990 and is among the highest in the Latin America and Caribbean region. However, the country continues to face major socioeconomic challenges, which have been exacerbated by the Covid-19 crisis. In particular, the levels of poverty (22% in 2023, national threshold) and inequalities (Gini of 0.47) remain high for a UMIC. While unemployment is falling (8% at the end of 2023, against a peak of 24% at the height of the Covid-19 crisis), the concomitant reduction in the participation rate suggests that the situation on the labor market is not improving. This rather deteriorated socioeconomic context is primarily due to a growth model that is not sufficiently inclusive, as it is largely based on the free zones. It is exacerbated by the ongoing fiscal adjustment, which tightens social and investment expenditures.

A growth model largely based on free zones

After experiencing the worst economic crisis in its history, from the 1980s onwards, Costa Rica gradually abandoned its import substitution industrialization model and replaced it with a strategy of economic openness, with the aim of attracting foreign capital. To achieve this, the authorities introduced liberal economic and market-opening strategies, by substantially reducing export taxes and implementing major structural reforms to support and facilitate the establishment of new international companies in the country. In this context, the country introduced a free zone regime in 1990, granting a number of incentives for companies locating in these zones and exporting a minimum of 75% of their production: income tax exemption, no customs duties on imports of intermediate goods for eight years, 50% reduction in these duties for the following twelve years, etc.

These tax incentives have i) attracted substantial FDI flows, resulting in large multinational companies locating in the country ii) increased and diversified exports, with the share of manufactured goods exceeding the share of traditional agricultural goods at the end of the 1990s. Consequently, the free zones generated 65% of Costa Rican exports in 2023 and absorbed 61% of FDI (against 36% on average for 2000-2016). Their contribution to growth has increased in recent years, and was even instrumental in supporting the economy during the pandemic. However, the free zones only employ 10% of the labor force and contribute considerably to income inequalities between regions.

In this context, Costa Rica has experienced relatively strong economic growth, at 4.3% on average in the 2000s and 3.8% in the 2010s. GDP growth remained dynamic both in 2022 and 2023, at 4.6% and 5.1%, respectively, according to the latest IMF figures, a level above its potential (estimated at between 3 and 3.5%), with demand driven by household consumption and trade. It is expected to remain above its potential in 2024 (4%), before converging in 2025.

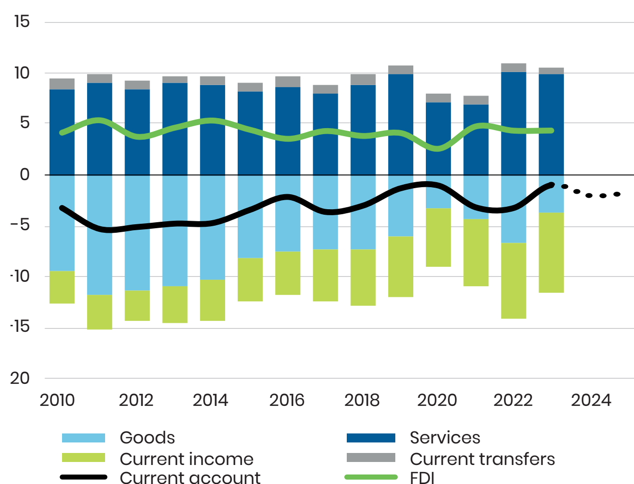
An improvement in external accounts, partly reflecting the appreciation of the colon

As the deficits in the trade and income balances are only partly offset by surpluses in the services and transfers balances, the current account balance is structurally in deficit (3.3% of GDP on average in 2010-2022). However, the current account deficit decreased in 2023 to 1.4% of GDP (after 3.7% of GDP in 2022), due to the moderation in commodity prices and despite the appreciation of the colon (+13% against the dollar yoy in 2023). According to IMF forecasts, it will reach 2.1% of GDP in 2024 and remain below 2% from 2025 onwards.

The current account deficit is generally covered by net FDI inflows, which remain at a high level and mainly benefit the free zones (annual average of 2.6 billion USD over 2010-2022, or about 3% of GDP). In 2023, net FDI inflows stood at 3.9 USD billion according to the Central Bank (Banco Central de Costa Rica, BCCR), or 4.5% of GDP, a relatively stable level compared to 2022. Almost 70% of gross FDI inflows in 2023 were from the USA, followed at some distance by the European Union (primarily Belgium), while 61% went to the free zones (against 81% in 2022). In terms of sectors, FDI next concerns the "definitive regime" (meaning companies outside the free zones, 19% of FDI 2023), and the tourism and real estate sectors (each with 7%).

The FDI inflows, combined with the foreign exchange purchase operations by the BCCR ("own operations" for a total of 1.9 USD billion in 2023, conducted in the context of an appreciation of the colon), the issuance of Eurobonds, and donor financing, enabled the country to build up foreign exchange reserves since mid-2022. The latter had reached a record level of 13.2 USD billion, or almost 6 months of imports, at year-end 2023 (against 3.7 months of imports at year-end 2022). External debt (held by non-residents), 40% of which is contracted by the public sector, would now appear to be on a downward path, at 47% of GDP in 2023 (after 52% of GDP in 2022). 90% of this external debt has a long maturity and is mainly foreign currency-denominated, as non-resident investors are not very active on the domestic local currency bond market.

Graph 18 – Current account deficit covered by FDI



Source: IMF (WEO, BOPS).

After depreciating in 2021 (-6% yoy against the dollar), the colon has appreciated since the beginning of 2022 (+7% in 2022 and +13% in 2023). This appreciation largely reflects the improvement in public finances. Indeed, the fiscal reform of 2018 and the IMF program which the country has benefited from since March 2021 have effectively consolidated public finances (decline in the fiscal deficit since 2021, the first primary surplus in 2022 since 2008). The improvement in fiscal indicators, combined with the approval in late 2022 of a Eurobond issuance program of 5 USD billion for 2023-2025, largely justifies the upgrade in Costa Rica's sovereign rating by the two main rating agencies since early 2023 (+3 notches for Fitch, +2 notches for S&P and +1 notch for Moody's). It has also contributed to a sharp reduction in sovereign spreads which stood at about 190 bp at the end of April 2024 (against a peak of 550 bp in mid-2022).

Armenia: Economic momentum faced with geopolitical tensions

Laura Marie – mariel@afd.fr

This small land-locked economy of 2.8 million inhabitants has derived positive economic benefit from the inflows of Russian migrants and capital since the outbreak of the war in Ukraine. Economic growth was robust in 2022 (12.6%) and 2023 (8.7%), the external accounts were strengthened, and public finances were consolidated. However, the country's historically volatile economic performance remain exposed to the growing (geo)political risks in the region (conflict with Azerbaijan, Russia/EU rift). The government of Nikol Pashinyan is responding to the pressure through precaution, and is seeking to secure Western support in the conflict with Azerbaijan. However, on the domestic front, it faces sharp criticism over the concessions it would grant to its neighbor in the context of the border demarcation following Baku's military takeover of Nagorno-Karabakh in September 2023. Given the country's vulnerability to a turnaround in financial inflows, the IMF urges caution and recommends building up additional fiscal and external buffers. This will especially be necessary because Armenia must internally manage the arrival and economic and social integration of the 100,000 refugees from Nagorno-Karabakh.

Armenia, which opted for a transition towards a market economy at its independence in 1991, has experienced rapid economic development in recent years, and became an upper-middle-income country in 2018. The level of national wealth per capita has almost doubled in ten years, from 3,390 USD in 2010 to 5,960 USD in 2022 (Atlas method), while per capita GDP, benefiting from the activity of non-residents, doubled between 2020 and 2023 (reaching 8,143 USD, current, against 4,269 USD). The country's economy, which is highly reliant on its external trade and financial ties, is volatile.The country was indeed hit hard by the economic shock caused by the global pandemic and, on top of this, the resurgence of military conflict with Azerbaijan in 2020 (44-Day War), with a recession of 7.2% of GDP in 2020. Since 2022, the influx of Russian migrants (more than 110,000 people), companies (nearly 2,600), and individual entrepreneurs (6,000) has had positive effects on economic activity, in particular on the services and construction sectors, which have experienced strong growth (+58% and +21% between 2021 and 2023, respectively, according to the Statistical Committee of the Republic of Armenia).

This context of strong domestic demand has fueled a particularly high inflation (peak of 10.3% in June 2022), to which the Central Bank of Armenia (CBA) has responded by raising its key interest rate from 5.5% to 10.75% between 2021 and July 2023. In early 2024, the easing of inflationary pressures (-0.7% in April 2024 yoy) enabled the CBA to ease its monetary policy (8.25% in May 2024). However, the rise in real estate, food and energy prices does pose the risk of increasing poverty among the most disadvantaged groups.

The country has been set on a resolutely democratic path since the Velvet Revolution of April 2018, with a marked improvement in its governance indicators, according to the World Bank. Since Azerbaijani troops seized control of the Nagorno-Karabakh region in September 2023, the political agenda and the demands of the Armenian people have been focused on issues of sovereignty and external security, overshadowing socio-economic demands.

The country's current account has improved since 2021, despite vulnerabilities inherent to the export model

Armenia is an economy open to trade (with a rate of openness at 58% in 2023, against 41% in 2021), but faces a structural need for commercial diversification, in terms of both its partners and the goods traded. This is compounded by its logistical isolation and geopolitical constraints, in particular due to connections being cut off with Turkey and

Azerbaijan. The country's economic complexity index for foreign trade in 2022 is relatively weak, ranking the country 66th out of 133 countries studied (Observatory of Economic Complexity, OEC), just behind Georgia and Moldova, which contributes to the vulnerability of its export model. According to Harvard University's Growth Lab, the country's leading export item in 2021 was copper (24% of exports), followed by tourism services (16%), and ICT services (12%).

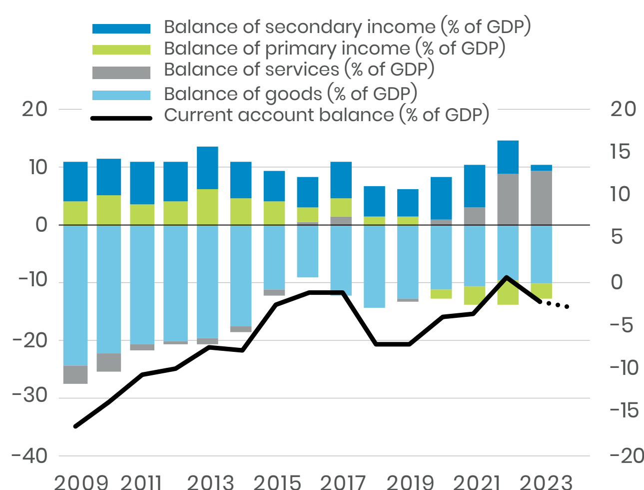
Despite these vulnerabilities, the country has seen a considerable leap in foreign trade in recent years, due to the deepening of its financial and trade ties. Between 2021 and 2022, exports to Russia increased threefold in value to 2.4 USD billion, confirming its place as a leading trade partner for Armenia (38% of exports for 2021-2023), followed by the EU (15%). There has been a sharp increase in the share in foreign trade of the United Arab Emirates and China (14% and 8% for 2021-2023, against 6% and 3% in 2017-19, respectively).

In 2022, the current account balance, historically showing a deficit, was thus transformed into a small surplus at 0.8% of GDP, a result of the increase in diaspora remittances, tourism revenues, and exports of goods.

With the Armenian diaspora estimated at 7 million people and primarily settled in Russia, remittances accounted for around 10 to 13% of GDP between 2017 and 2022, according to the World Bank (World Development Indicators, WDI). However, this share tends to decline (-59% of net flows recorded by the CBA between 2022 and 2023), demonstrating a reconfiguration of cross-border exchanges of workers between Russia and Armenia. In terms of flows of Official Development Assistance (ODA), according to the figures of the OECD's Development Assistance Committee (DAC), in 2020-2021, the EU remained the main provider of ODA funds (122 USD million on average over the period), followed by European bilateral donors. The bulk of the aid focuses on the transport and energy sectors.

In 2023, the current account balance once again showed a deficit (-1.9% of GDP according to the IMF), in view of the increase in imports to meet sharply growing domestic demand, and the reduction in net inflows of diaspora remittances. However, this deficit remains partly covered by financial flows.

Graph 19 – A marked reduction in the current account deficit



Source: IMF (WEO, BOPS).

The country's financial account has benefited from the influx of Russian migrants

Historically led by the energy, mining and telecommunications sectors, net FDI flows are increasing and have been particularly strong due to the influx of Russian capital since 2022. Driven by the increase in equity investments and the formation of companies, in particular in the IT sector, FDI thus rose from 2.6% to 5.1% of GDP between 2021 and 2022, and leveled off at 4% of GDP in 2023.

Due to the strengthening of the external accounts, the dram, which benefits from a flexible exchange rate, has appreciated markedly (+18% against the dollar between December 2021 and March 2024).

This favorable macroeconomic context prompted the rating agencies Fitch and S&P to upgrade their sovereign rating by a notch with a stable outlook (BB-/S) in the summer of 2023. However, the strongly interwoven links with the Russian economy could become a factor of vulnerability in the event of a turnaround in the geopolitical situation: risk of stronger sanctions against Russia, given that Armenia applies the international sanctions, risk of a return of the Russian migrants settled in Armenia, risk of a deterioration in diplomatic relations between the two countries, while Armenia is seeking to reduce its political and security dependence on Russia.

Turkey: Restoring confidence and attractiveness

Sylvain Bellefontaine – bellefontaines@afd.fr

The third decade of the Erdoğan-AKP era, which is beginning at the same time as the second centenary of the Republic of Turkey,[12] needs to place the economy, prosperity and national cohesion at the heart of priorities. The return to a credible and effective monetary policy, led by an independent Central Bank and taken up by a relatively sound banking sector per se, should be followed by fiscal consolidation from 2025 onwards, after the slippage in 2023-2024, partly due to exceptional expenditures for post-earthquake reconstruction. Reforms are also expected to improve the business environment, support non-price competitiveness, productivity, attractiveness to investors, the external position, economic growth potential, and the green transition.

The defeat of the AKP and President Erdoğan in the local elections of March 2024 sanctioned above all the failure of the executive to safeguard the standard of living and social and economic gains of the population. Conceded with no challenge, the victory of the Kemalist opposition is not expected to undermine the orthodox shift in economic policy initiated following the general elections in May 2023.

The difficult path towards macro-financial stabilization after the slippage of "Erdoğanomics"

The expansion of bank credit since 2010 has been a powerful driver of domestic demand, fueling the current account deficit and a depreciation spiral of the exchange rate-inflation. The easing bias of monetary policy, its unpredictability, and political interference have become intensified since 2016, in an inappropriate and even pernicious response to the endogenous and exogenous shocks to the Turkish economy.

This situation reflects Mundell's impossible trinity (1960), by which it is impossible to reconcile perfect capital mobility (effective in Turkey since 1990), a fixed exchange rate (or stable in the framework of a *de jure* flexible exchange regime as in Turkey), and a monetary policy independent of international conditions. More specifically, the economic and financial openness of Turkey and its dependence on foreign capital flows are incompatible with a heterodox monetary policy. Yet the Turkish authorities have always refused to establish capital and foreign exchange controls on foreign investors, or return to a form of financial autarky.

Ultimately, the withdrawal of foreign investors from Turkish financial markets over the last decade infers that the more recent pressures on the lira are largely attributable to local economic agents who mistrust their own currency (currency flight). Savers have nevertheless maintained their confidence in the banking system, the cornerstone of the Turkish economic model and inherently sound and agile.

Since June 2023, the efforts towards transparency and independence of the TCMB have not silenced certain voices pointing to an underestimation of inflation. Fatih Karahan, the sixth Governor of the TCMB in five years, has shown determination to stay on track. The first focus of the normalization strategy involves restoring the key interest rate as the main monetary policy instrument. It was raised from 8.5% to 50% between June 2023 and March 2024, while maintaining negative real interest rates in view of the official inflation rate of 75.5% yoy in May 2024 (against 120.7% according to the estimate of the think tank ENAGrup). The TCMB recognizes the importance of inflation inertia in view of the cumulative effects of the depreciation of the lira (28% in a year), the increase in food prices and taxes, as well as a price-wage spiral. The second focus is the gradual phase-out of short-term bank deposits in lira protected from the exchange risk (*Kur Korumalı Mevduat*, KKM), by increasing commission fees and minimum reserve requirements on these deposits. The third focus targets a quantitative tightening of consumer and real estate credit for the benefit of productive sectors.

[12] Since 31 May 2022, in all its official languages, the United Nations has referred to the Republic of Turkey using its Turkish name *Türkiye*. This publication maintains the name used by the French Ministry for Europe and Foreign Affairs at the time of its publication.

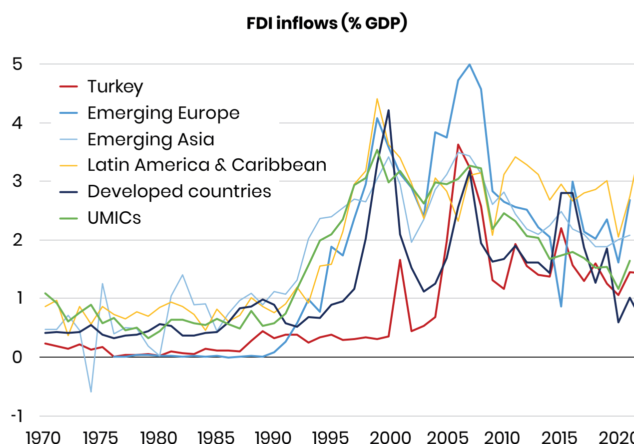
Confidence and reforms *a sine qua non* for attracting investors

A sign of renewed confidence among foreign investors, net portfolio investment flows have turned positive again since the summer of 2023. Sovereign spreads and credit default swap (CDS) premiums fell from more than 600 bp in May 2023 to less than 300 bp in June 2024. The rating agencies Fitch and S&P upgraded their sovereign rating by a notch, with a positive outlook, (B+/P) in March and May 2024, respectively.

The Medium-Term Program (MTP 2024-2026) presented by the government in September 2023 sets a more credible framework than the previous ones. It aims to achieve high-income status in 2026 (>14,000 in current USD per capita), which the IMF projects for 2029, with real GDP growth potential estimated at 3.5%. To ensure the country's socioeconomic development and macroeconomic stabilization in the medium-long term, reforms are expected: make the labor market more flexible and strengthen social safety nets; improve employability (initial and continuing training); sectoral reforms (industry, technologies, agriculture, energy) and tax reforms (increase direct taxes and reduce indirect taxes), in particular in connection with the low-carbon transition; promote local and foreign investment to foster innovation, productivity, and a moving up in the value chain; support small and medium-sized enterprises (SMEs); restore the independence of the judiciary and fundamental rights.

Turkey's economic fabric is made up of large numbers of SMEs, which are major providers of jobs, as well as large groups and conglomerates, which are competitive internationally and benefit from good governance. In a climate of increasing macroeconomic, (geo)political and legal uncertainty over the last decade, longstanding foreign investors present in industry and services have stayed and learned to adapt, as has been the case for local companies. But many potential investors have refrained from entering a competitive market with a complex and deteriorated business environment, despite the fact that there are no restrictions on upstream dividends (except briefly during the health crisis).

Graph 20 – FDI flows below the country's potential



Source: UNCTAD.

On average, over the last five years, the financial account surplus of the balance of payments (2.2% of GDP) has not covered the current account deficit (2.6% of GDP), contributing to the loss of foreign exchange reserves (contained for the past year). The "basic balance" (current account balance plus net FDI flows) is structurally negative. The relative weakness of net FDI (0.8% of GDP in 2019-2023) reflects the weakening trend of inflows (1.4% of GDP) and the high level of investment abroad by Turkey's largest companies (0.5% of GDP). Three-quarters of the FDI stock in Turkey comes from Europe, 22% from Asia, and only 4% from the USA.

Turkey's geostrategic position and large domestic market constitute advantages for attracting productive investments in the context of the geoeconomic reconfiguration, the reconfiguration of value chains, and nearshoring to the European market. The EU absorbs more than 40% of Turkish exports, in particular for manufactured goods, and the authorities in Ankara are expected to call for a reinforcement of the Customs Union, while pursuing its diversification strategy (Africa, Caucasus, Central Asia, Middle East). The European Green Deal and the EU Carbon Border Adjustment Mechanism (CBAM) pose a major challenge for Turkish companies, and are among the reasons for the acceleration of the green and digital transformation.

List of acronyms and abbreviations

ADQ	Abu Dhabi Developmental Holding Company
AKP	*Adalet ve Kalkınma Partisi* (Justice and Development Party, Turkey)
ANC	African National Congress
BCCR	*Banco Central de Costa Rica* (Central Bank of Costa Rica)
bp	Basis point
CBA	Central Bank of Armenia
CBAM	Carbon Border Adjustment Mechanism (EU)
CBE	Central Bank of Egypt
CDS	Credit Default Swap
DAC	Development Assistance Committee (OECD)
ECB	European Central Bank
EDCs	Emerging and developing countries
EU	European Union
FDI	Foreign direct investment
Fed	U.S. Federal Reserve
HDI	Human Development Index
HIV	Human immunodeficiency virus
ICTs	Information and communication technologies
IFS	International Financial Statistics (IMF database)
IMF	International Monetary Fund
KKM	*Kur Kurumali Mevduat* (deposits with protected exchange rate, Turkey)
LDCs	Least developed countries
LMIC	Lower-middle-income country
NSA	Namibia Statistics Agency
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PSE	Emerging Senegal Plan
QE	Quantitative easing
SWAPO	South West Africa People's Organisation (Namibian political party)
TFP	Total factor productivity (or “Solow residual”)
TCMB	*Türkiye Cumhuriyet Merkez Bankası* (Central Bank of the Republic of Turkey)
UMIC	Upper-middle-income country
UNCTAD	United Nations Conference on Trade and Development
USMCA	United States-Mexico-Canada Agreement
WAEMU	West African Economic and Monetary Union
WEO	World Economic Outlook (IMF)
yoy	Year-on-year

List of diagrams and figures

Diagram 1 Balance of international risks at short, medium and long term

Graph 1 Global structural slowdown

Graph 2 Downward inflation inertia in a number of EDCs

Graph 3 Expected rebound in capital flows towards EDCs

Graph 4 Easing of international interest rates for African countries

Graph 5 Acceleration of FDI flows in advanced countries, decline in Asia (i.e., China)

Graph 6 A more mixed picture for FDI flows in relation to the size of the economy

Graph 7 Current account deficits not covered by FDI in Africa...

Graph 8 ...a situation likely to continue according to IMF projections

Graph 9 FDI, a major issue for the least developed countries with low investment rates

Graph 10 End of the abundance of global savings and constraints on investment...

Graph 11 ...a priori to the detriment of countries with the greatest investment needs

Graph 12 Financing of the current account deficit (Egypt)

Graph 13 Kenya attracts little foreign investment

Graph 14 Mozambique is open to both trade and foreign investment

Graph 15 FDI boom following oil discoveries (Namibia)

Graph 16 Growth driven by investment, particularly foreign, but at the cost of a rise in debt (Senegal)

Graph 17 Net FDI inflows as a % of GDP (Argentina)

Graph 18 Current account deficit covered by FDI (Costa Rica)

Graph 19 A marked reduction in the current account deficit (Armenia)

Graph 20 FDI flows below the country’s potential (Turkey)

Agence française de développement
5, rue Roland Barthes
75012 Paris | France
www.afd.fr

Éditions Agence française de développement publishes analysis and research on sustainable development issues. Conducted with numerous partners in the Global North and South, these publications contribute to a better understanding of the challenges faced by our planet and to the implementation of concerted actions within the framework of the Sustainable Development Goals. With a catalogue of more than 1,000 titles and an average of 80 new publications published every year, Éditions Agence française de développement promotes the dissemination of knowledge and expertise, both in AFD's own publications and through key partnerships. Discover all our publications in open access at editions.afd.fr. Towards a world in common.

Disclaimer
The analyses and conclusions of this document are entirely those of its author. They do not necessarily reflect the official views of the Agence française de développement or its partner institutions.

Publication director Rémy Rioux
Editor-in-chief Thomas Mélonio
Graphic creation MeMo, Juliegilles, D. Cazeils
Design and production eDeo-design.com

Final drafting date: 11/06/24

Credits and authorizations
Creative Commons license
Attribution – Non-commercial – No Derivatives
https://creativecommons.org/licenses/by-nc-nd/4.0/

Legal Deposit 3rd quarter 2024
ISSN 2116-4363
Printed by the AFD reprographics department

To see other publications in the **MacroDev** series, visit: https://www.afd.fr/en/collection/macrodev