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EXECUTIVE SUMMARY

ECONOMIC LETTER OF EAST AFRICA AND THE INDIAN OCEAN (EAIO)

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The Demography of the EAIO

In concise...

The population in EAIO increased 7.5 times between 1950 and 2022, from 50 million to 410 million, representing an average annual growth rate of 2.8%. GDP per capita has increased overall in the region (except in Madagascar), allowing countries such as Mauritius and the Seychelles to move into the upper middle income country category, and Kenya and Tanzania to move into the lower middle income country category. The EAIO population is expected to reach 1.15 billion by 2100 according to United Nations estimates. While this significant demographic growth brings strong potential for economic growth, it also comes with some risks (poverty, food insecurity, conflicts, etc.). In order to reap benefits from their demographic transition, these countries must take up a double challenge: develop their human capital while promoting the emergence/development of a local demand for qualified labor.

In detail ...

Population dynamics and GDP per capita

The demographic transition of the EAIO region began in the first part of the last century. Between 1950 and 2022, the death rate dropped significantly from 25.4% to 6.7%. By 2035, the latter is expected to approach 5.8% before rising slightly to 9.1% in 2100 due to the aging population. At the same time, the birth rate peaked at 49.4% in 1970 before declining steadily and significantly to 32.2% in 2022. By 2100, the latter is expected to tend toward 13.0% and thus approaching the mortality rate (9.0%). As a consequence of these two concurrent dynamics, the population in EAIO increased 7.5 times between 1950 and 2022 from 50 million to 410 million, an average annual growth rate of 2.8%. According to United Nations estimates, the EAIO region will complete its demographic transition by the beginning of the next century where the population is expected to approach 1.15 billion. According to these projections, Ethiopia is on track to become the seventh most populous country in the world and the third most populous in Africa behind Nigeria and the Democratic Republic of Congo. Tanzania just behind Ethiopia should be the fourth most populous country on the continent.

A heterogeneous demographic context behind the aggregate figures...

While some countries in the region are on the verge of completing their demographic transition (Mauritius, Seychelles, Djibouti), others are still at a relatively early stage (Somalia, Burundi). The vast majority of these countries are nevertheless at the 3rd stage of their transition (Kenya, Rwanda, Tanzania, Eritrea, Madagascar, Ethiopia, Uganda, South Sudan, Comoros). Indeed, fertility rates remain extremely varied from within the region. For example, the number of children per woman was 1.4 in Mauritius in 2022, compared with 6.2 in Somalia, for an average of 4.6 in Sub-Saharan Africa. **Moreover, the demographic transition in some countries follows a unique trajectory. This is the case in Rwanda, whose population growth was interrupted by the genocide;** Djibouti, which is significantly affected by migratory flows due to recurrent instability in neighboring countries (Somalia, Ethiopia, Eritrea); Mauritius, which is resorting to selective immigration to compensate for the contracting active population. Another outlier is Eritrea, which has seen a decline in its birth rate since 1962 without any significant improvement in the living conditions of the local population, which is usually a precondition for a decline in birth rates.

the rapidly expanding population was accompanied by growth in the average GDP/capita...

At the regional level, despite a rapidly expanding population, the average GDP/capita grew significantly between 1980 and 2022, from 606.3 USD/person to 3,799,3 USD/person¹. This significant growth was driven by the economic development of the countries in the region, whose GDP grew by an average of 7.4% per year. The strongest growth in gdp/capita has been in Mauritius, Ethiopia and Seychelles, with 3.7%, 3.2% and 2.7% growth in gdp/capita respectively between 1980 and 2022. However, disparities have widened considerably within the region, with declines in GDP per capita of 35.4% in Madagascar and 19.3% in Burundi between 1980 and 2022.

Eager to contain their population growth, many countries have put in place public policies to promote education (especially for girls), access to health care and family planning. However, in some countries, these initiatives are hampered by unstable political situations. This is particularly the case in South Sudan or in Ethiopia, where the recent conflict in Tigray seems to have slowed down the government's ambitions in terms of education and health in the affected regions.

A demographic transition that has been accompanied by an increase in education but continues to pose risks

The demographic transition is a source of opportunity for the region's economies: the area's GDP, which was 264.8 billion USD (0.4% of world's GDP) in 2011, will reach 2028 billion USD in 2028 (0.6% of world GDP), increasing the share of EAIO economies in world GDP by 0.2pp. However, the ability of governments to capture the demographic dividend will depend on the ability of the governments to invest in education and of the economies to provide stable, well-paying jobs for new entrants to the labor market. Indeed, enrolment rates have improved significantly with major efforts made by many countries to develop their human capital (free education, school construction, etc.). This has resulted in a net enrolment rate of 84.6% in Ethiopia in 2015 (x2.5 since 1998) and 94% in Mauritius in 2020. **However, these improvements remain to be qualified, with literacy rates reaching only 52% in Ethiopia and 34% in South Sudan in 2017, and 40% in Somalia, compared to 92% in Mauritius in 2022.**

the informal sector dominates employment in the EAIO...

The informal sector remains the primary provider of employment in EAIO and captures the majority of new entrants to the labor market. The formal sector accounts for 95% of employment in Madagascar and 80% in Tanzania. In Kenya, informal employment has grown at an average rate of 11% per year since 1985, compared to 2.5% for formal employment. **While many countries are only halfway through their demographic transition, many are struggling to absorb the cohort of new labor market entrants into the**

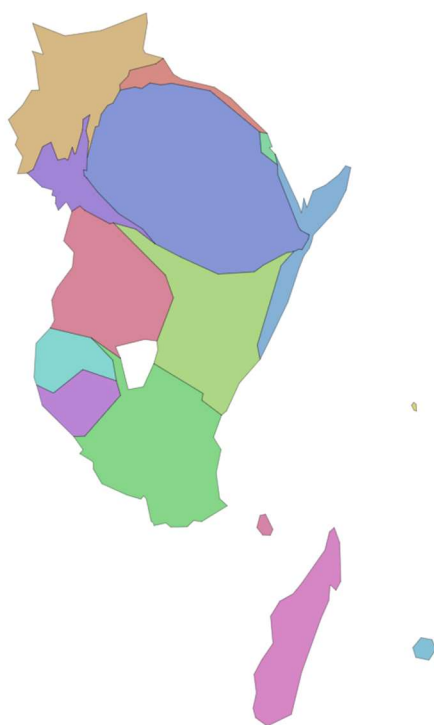
¹ GDP per capital in current prices - weighted average excluding Djibouti, Erythrea, Somalia, South Sudan du Sud.

formal sector. This is particularly the case in Ethiopia, where the participation rate is declining (from 81.2% in 2013 to 68.3% in 2021) and the unemployment rate is rising (from 5% in 2005 to 8% in 2021). These dynamics contrast with the significant growth in GDP over the recent period and reflect the low inclusiveness of growth in EAIO. In addition, the prevalence of informal employment does not allow for the establishment of a pension contribution system, even though the dependency ratio would be favorable (except for Mauritius and the Seychelles).

the population growth is not without risks...

Among the risks highlighted by the population growth is food insecurity: countries will have to be able to feed their populations in a context where climate change is weighing on agricultural production, with the frequency and severity of droughts and extreme climatic events increasing. **In addition, the growth of urban populations is expected to continue** and is a source of concern in the area, particularly in terms of urbanization. For example, **the population of Dar Es Salaam in Tanzania is expected to double to more than 10 million by 2050 according to the United Nations.** Similarly, according to the World Bank, the majority of Madagascar's population (61% rural in 2021) could be living in urban areas by 2036 due to the massive rural exodus. **In Burundi and Rwanda - the most densely populated countries in the world with ratios of 476 and 503 inhabitants/km² respectively in 2020 - urban population growth is reducing the amount of land available for cultivation and putting upward pressure on land yields and prices.** This significant growth of urban populations in EAIO poses two major risks: (i) a health risk with conditions conducive to the development and proliferation of diseases and (ii) a risk of political instability, if young populations are lacking economic opportunities.

[Anamorphic map of the population in EAIO \(2022\)](#)



Source : UN

[Evolution of population 2020-2050 \(millions\)](#)

	2022	2050
Burundi	12,7	24,0
Comoros	0,8	1,2
Djibouti	1,1	1,5
Eritrea	3,7	5,9
Ethiopia	121,8	213,2
Kenya	53,5	84,7
Madagascar	29,3	51,2
Mauritius	1,3	1,2
Uganda	46,6	86,9
Rwanda	13,6	22,9
Seychelles	0,1	0,1
Somalia	0,0	0,0
Sudan	46,3	83,8
South Sudan	10,8	17,4
Tanzania	64,5	128,7
EAIO	406,1	722,7

Source : IMF/WEO October 2022

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