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Economic Prospects for Africa in 2015

by Carlos Lopes 20150309
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The new Africa story with growth, investment and expanding opportunities wa

The world is slowing down. Africa, fortunately, is not.

Economic stagnation in Europe and Japan has seen the introduction of stimulus packages that dwarf Africa's economic size. Yet the public deficits there continue to grow and the malaise of deflation has become their number one concern.

Recent positive growth in the US has contributed to the phasing out of its quantitative easing, with enormous consequences for the currency markets, eroding most of the gains from largest exporting regions of Asia and Latin America.

Russia's economy is contracting fast. China is experiencing its slowest growth rate in nearly a quarter of a century. And the list goes on.

The IMF has just revised its global growth forecast, downwards, to 3, 5%, despite the theoretical incentive cheap oil prices should provide to

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industrialized economies.

The extent of the damage provoked by the 2008-2009 crises is still being assessed. Many pundits believe we are not yet out of the doldrums, justifying strong calls by the US and the European Central Bank for new policies. Under this calamitous pressure Africa seems to be doing better than the rest. Its forecasted growth has been revised downwards as well, but in a scale that puts the continent above any other.

The IMF now believes growth in 2015 will be just below 5%. However if the lessons of previous crisis cycles are to be taken into account Africa will probably perform better than predicted.

I know many will accuse me of optimism, but in fact the reasons for a fairer reasoning are widely shared by specialists.

According to an Ernst & Young recent report Africa is the second most attractive investment destination, after Southeast Asia. They also say Intra-African Foreign Direct Investment is soaring and has grown at 32,4% a year. According to the World Bank by 2030 the continentâs savings will be in the range of 23 trillion USD, from the current 12 trillion. Rand Merchant Bank estimates over 5% growth in disposable income.

McKinsey projects Africa as the second fastest consumer growth market. Deloitte & Touche says that is true for investment on the same consumer market by 2017. Standard Chartered Bank believes the actual real growth in the continent may be closer to 7% if the real numbers could be mastered.

Every country that did a rebasing of national accounts discovers their economy is considerably bigger. Financial data provider Dealogic predicts more than 656 mergers and acquisition deals may have taken place in 2014, up from 67 in 1995. Financial Times reports that the London Stock Exchange ñis launching an aggressive attempt to increase the number of listings of African companiesò, given the enormous demand for these stocks.

The sceptics may be unconvinced, nevertheless, in order to persuade them we need to do better. We can start by acknowledging 2015 will be a testing year, never-the-less.

Four trends influencing performance

First, unfavourable headwinds of falling commodity prices are reminding us that Africa cannot continue to remain at the lower end of the value chain. Geopolitics is at play in the decline of the global crude oil prices. The current drop of 44, 1% between June and December 2014, or a monthly average decline of 7, 4% is happening at the back of the US shale gas boom, coupled with huge accumulated stocks, the need to exhaust the artificial price increases of the recent past and limited demand in emerging economies.

Africa accounts for just 7% of oil output, 3.6% of coal production and 1% of gas output. Still energy production is Africaâs largest export. We will suffer from that end of the spectrum. But since most countries are oil importers the current price trends are welcomed. In any event Africa is expected to reduce its exports from 51% to 36 % by 2035 to meet growing domestic demand. Natural gas export projects have been derailed from Australia to Africa.

Tanzania, Mozambique and Nigeria want to develop giant gas fields, while boosting the economy in the short term. This could tie them to commodity cycles and the dominant position the US will assume in the market. Meanwhile, China is filling strategic and commercial reserves at relatively little cost. Analysts suggest that 308 million tonnes imported in 2014 were not merely demand driven as China increased its refined products exports.

This is additional competition for African countries that need to enter the refined products market in order to continue the diversification process.

Nigeria, Ethiopia and the Democratic Republic of Congo are still very modest per capita energy consumers despite their large populations. The diversification process offers an opportunity for African oil producers to shift from exports to transformation. The future of our energy production is to look into African markets demand. For the time being oil prices will impact in 2015 Africa's growth only marginally.

Metal prices have fallen far less than oil prices in the last six months. Still for countries that depend on one single metal, such as Zambia, this will hit hard. The same is fortunately not true for most of the continent's soft commodities. In any event, the continent's economic growth is now more diversified. Governments have worked hard to make life easy for investors. Rwanda, 21 years later, is now better placed for investors than Italy.

Foreign investors are becoming more interested in the non-resource sectors of African economies. A third of intra-African foreign investment is in financial services. Most of Nigeria's growth came from non-oil sectors such as financial services. In 1998-99, during an oil-price fall, the Nigeria Naira lost 80% of its value.

Today, services represent 60% of GDP in Nigeria. Angola, Africa's second largest oil producer in 2013, had 5, 1% growth last year coming mostly from manufacturing and construction. Second, as I stated, most of Africa's growth is actually coming from internal consumption. The continent is less at the mercy of commodity markets as telecommunications, transportation and finance are all expected to spur economic growth. Better fiscal policy is playing an important role. Financial markets have heeded the call from African countries to fund their huge needs for investment into infrastructure and services through sovereign debt. Kenya, in the midst of its fight against terrorism received US$2 billion.

Ethiopia, Nigeria, Senegal, Rwanda, Ghana, Zambia, and Cote d'voire all had demand outstripping their bonds offer. Others accessed funds directly such as Morocco and Djibouti. However it is important to note this easiness may be over. The lower rates some obtained will jump in light of increased risk perception. This will make debt control calls more strident and buyers more cautious.

Third, we have now a more realistic reading of the Ebola impact in the continent. ECA has identified from the beginning the alarmist projections were wrong as we could not visualize more than a marginal impact in the region's performance, given the size of the three most affected countries being less than 1% of Africa's combined GDP. This being said we insist Guinea, Liberia and Sierra Leone's suffering is dramatic.

Their relationship with International Financial Institutions is at a critical juncture as the imperative for debt cancellation is being discussed after our vocal case for it. It should not lead to lack of confidence on these countries viability and credit worthiness. In fact they face recognized unique complex development challenges which limit their ability to contain the EVD outbreak itself, while promoting economic growth, improved public service delivery, meet regular debt service payments and plan for economic recovery. The setback induced by EVD exacerbate weak initial conditions, structural vulnerabilities and limited potential to sustain growth under widening fiscal deficits. External debt cancellation would offer the three countries a breathing space,

In 2014, only Africa managed to grow as an investment destination. While Africa was courted, let us not be carried away. It only attracted 3.7% of the US$1.530 trillion investments that turned narratives in concrete changes. About 20% went to South America and 30% to Asia. With a 50 billion interest in Africa has not yet translated into hard investment cash. China for all the talk made puts less than 5% of its investment in our land. By the way Africa's value proposition is equally attractive to China as it is to India.

Total investment stocks held by China and India are very similar, even though

Chinese investments tend to attract far more attention. India, like Malaysia, the holder of the largest developing country investment stock in Africa, has been quietly buying their way into various sectors of our economy. Our strategic direction will influence the nature of partnerships, old and new.

Fourth, we cannot discount the impact of the ongoing conflicts that divert major productive resources. Local conflicts are becoming affiliates or franchises of global terror networks. Economic transformation ought to make resources available to manage African diversity. Pastoralists missing the economic transitions in marginalized Sahelian countries found a haven in terrorism.

Extremism, particularly religious extremism, as practiced by Boko Haram in northern Nigeria, Seleka, Anti-Balaka, Al Shabbab, some of the Libya militia or other AQMI and Mujao, are manifestations, in part, of African inability to leverage the productive forces of the continent. The situation in Somalia is a stark reminder that conflicts have regional and continental implications. Their impact in the continentǿs economic performance stretches from missed opportunities to contagious risk perceptions many times worse than Ebola.

Whatǿs next?

Growth, cash and jobs need markets to expand. We have two years to go before 2017 establishment of the Continental Free Trade Agreement, a fundamental change for current and future generations. Africaǿs trade performance has been relatively impressive with strong increases, especially since 2000. However we failed to diversify exports from primary products and natural resources, limiting the potential for industrialization.

This can be explained by highly ineffective trade policy design, implementation and coherence. Moreover, asymmetric trade agreements we continue to sign have led to insufficient incentives for industrializing through trade. We must be bold and courageous when we negotiate. If we create a common market it will have the size of Chinaǿs population. It is a short walk to 2017. If we cannot do it, who will believe in Agenda 2063?

African 3000 richest individuals have now an accumulated wealth approaching US$400 billion. Together with the 600 billion USD our Central Banks accumulated in reserves makes US$1 trillion.

If we just look into these figures in terms of Africaǿs own capacities and resources we can start charting the way forward. The Africa new narrative is well and alive. But it is also shaky if we allow any cough to be transformed into an epidemic. ***- The author is the Executive Secretary of the United Nations Economic Commission for Africa***

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