

1 RECENT ECONOMIC DEVELOPMENTS IN AFRICA

Global economic growth tapered from 2.5 per cent in 2015 to 2.3 per cent in 2016, reflecting a slight decline in gross fixed capital formation (investment) growth and in households' final consumption growth. Growth slipped a little in the United States (US) (from 2.4 per cent in 2015 to 2.2 per cent in 2016), was unchanged in the euro area (1.7 per cent) and continued its deceleration in China (from 6.9 per cent to 6.4 per cent). The contractions in Brazil (3.8 per cent in 2015 and 3.4 per cent in 2016) and the Russian Federation (from 3.7 per cent to 1.9 per cent), were less deep (box 1.1).

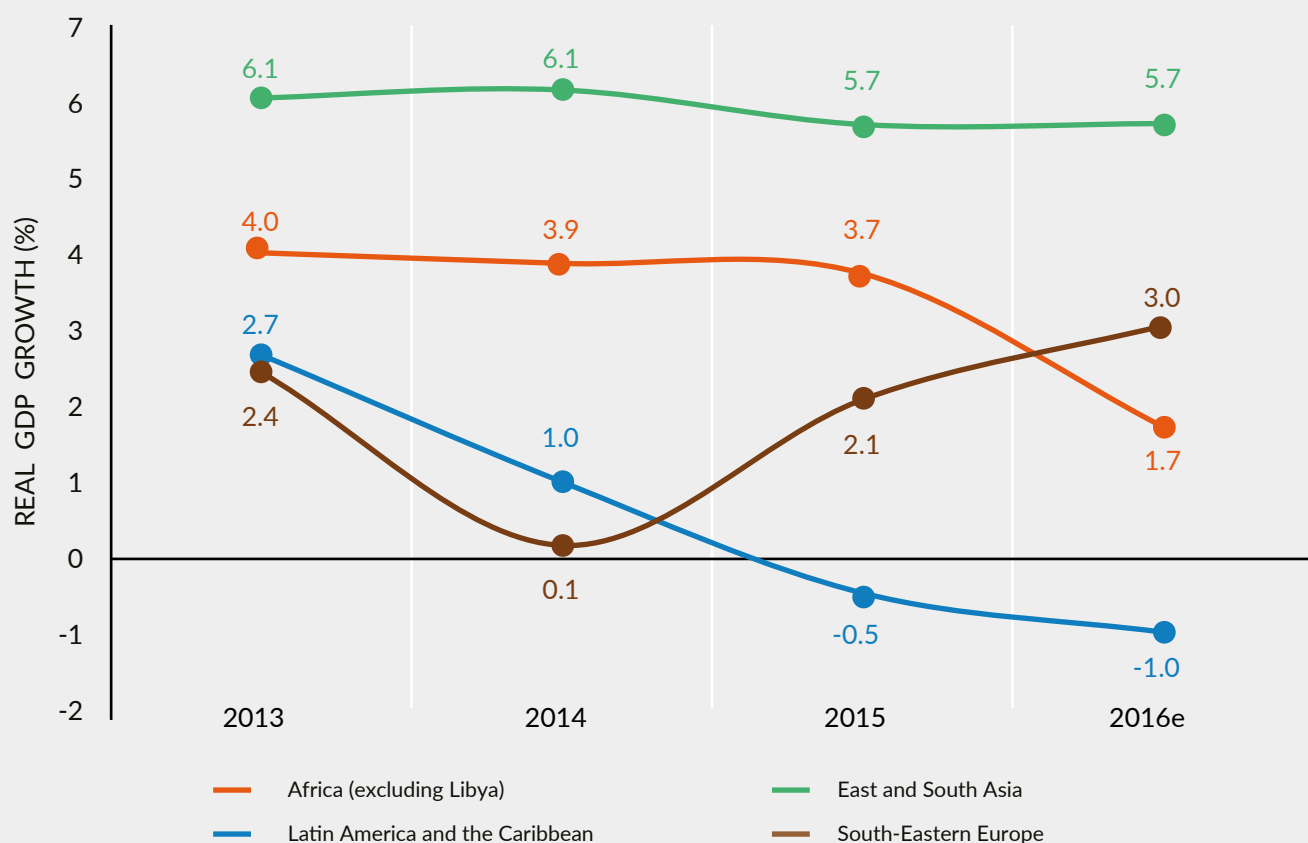
Subdued global growth prospects are attributed to persistently weak fundamentals, mainly in emerging markets and developing economies, mostly due

The decline in commodity prices since 2014 affected current accounts and government revenue, bearing down on domestic currencies and creating inflationary pressures.

to low commodity prices, diminishing investment, contracting trade, weak demand and rising inflation.

Africa's growth declined to a decade-low of 1.7 per cent in 2016 from 3.7 per cent in 2015, below both the global rate (2.3 per cent) and that in most other developing regions (figure 1.1).

FIGURE 1.1 Economic growth in Africa and emerging and developing countries, 2013–2016



Source: Based on UNDESA (2016a) and EIU (2016)
 Note: e=estimates.

1.1 AFRICA'S GROWTH OUT TURN IN 2016

Economic growth in Africa fell by more than half from 3.7 per cent in 2015 to 1.7 per cent in 2016 amid weak global economic conditions, still-low (even if rising) oil and commodity prices and adverse weather conditions (drought). This decline also reflected weakening economic conditions in Africa's largest economies in 2016—Nigeria (-1.6 per cent), South Africa (0.6 per cent) and Angola (0.8 per cent)—and growth deceleration in Algeria (2.9 per cent), Egypt (3.4 per cent) and Morocco (1.7 per cent). Performances diverged: Côte d'Ivoire saw 8 per cent growth in 2016, Kenya 6 per cent, Morocco 1.7 per cent and South Africa 0.6 per cent, but Nigeria recorded a 1.6 per cent contraction and Equatorial Guinea one of 4.5 per cent.

The decline in commodity prices since 2014 affected current accounts and government revenue, bearing down on domestic currencies and creating

inflationary pressures. African countries need to adopt a counter-cyclical fiscal stance, and those continuing to achieve high economic growth such as Côte d'Ivoire (8 per cent), Kenya (6 per cent), Ethiopia (5.4 per cent), Tanzania (7 per cent) and Senegal (6.3 per cent), should build up fiscal buffers.

GROWTH CONTINUED TO DECELERATE, VARIABLY BY ECONOMIC GROUPING

Commodity prices started to recover since the end of first quarter in 2016 after falling for the last two years, but are still below their 2014 annual average level. Growth in the economic groupings—oil-exporting, oil-importing and mineral-rich economies—decelerated, to 0.8 per cent, 2.5 and 2.2

BOX 1.1 DEVELOPMENTS IN THE WORLD ECONOMY AND IMPLICATIONS FOR AFRICA

Global economic activity remained vulnerable in 2016: advanced economies struggled to accelerate growth and many commodity exporters were hindered by deteriorating terms of trade. The outlook is subject to substantial downside risks including a slowing Chinese economy, geopolitical risks and tensions, and heightened macroeconomic problems of commodity exporters if their terms of trade remain unfavourable.

World growth remains sluggish and labour markets recovered slowly.

The global economy slowed to grow by an estimated 2.3 per cent in 2016, amid weak aggregate demand in advanced countries, intensified economic stress in many commodity exporters and political instability.

Prospects appear slightly more positive with growth expected to accelerate slightly to 2.7 per cent in 2017, owing to stronger performance in emerging countries and accelerated growth in advanced economies, which combined are expected to outweigh the likely continued growth deceleration in China. Downside risks remain geopolitical tensions, erosion of trust in the effectiveness of policy levers, a sharper slowdown than currently foreseen in China, a larger than expected fallout from uncertainties surrounding the departure of the United Kingdom from the European Union—Brexit—and the yet to be confirmed steps of the new US administration.

Economic growth in developed economies slipped from 1.9 per cent in 2015 to 1.8 per cent in 2016 and is likely to stay around 1.9 per cent in 2017. That in developing countries stayed at 3.8 per cent in 2016, as commodity prices recovered somewhat and capital inflows intensified, particularly to Brazil and India.

Global unemployment remained at 5.8 per cent in 2016 mainly as labour market conditions improved in the advanced economies, although several emerging economies, including Brazil, Russia and South Africa, struggled (ILO, 2016). In 2017 the global rate is forecast to fall marginally to 5.7 per cent, even though the absolute number of unemployed is likely to surpass 200 million.

The generally weak world economy in 2016 affected Africa (Europe is Africa's main trade partner). The slowdown in China, as well as its reorientation from an investment-led to a consumption-based economy, has hit many African countries directly through a fall in demand and indirectly via lower global commodity prices. Countries such as South Africa and Nigeria, with closer trade and investment ties with the European Union and the United Kingdom in particular, might feel the impact more (given Brexit's unknowns).

Inflation kept its head down

Measured by the changes in consumer prices, global inflation pressures remained muted in 2016 at 0.7 per cent in advanced economies and 4.5 per cent in emerging and developing economies (against 0.3 and 4.7 per cent in 2015, respectively). Many large economies maintained or reinforced accommodative monetary measures, while several developing economies tightened monetary policies in a bid to head off inflationary pressures.

Fiscal balances worsened in middle-income and emerging economies

Global fiscal deficits moderated to around 3.6 per cent in 2016, but considerably above the 2.9 per cent registered in 2013–2014. Slight improvements among advanced economies were outweighed by difficulties in many middle-income and emerging economies amid low oil and commodity prices, heightened political tensions and cautious investor sentiment (IMF, 2016a). The emerging markets' combined fiscal deficit widened from 4.5 per cent in 2015 to 4.7 per cent in 2016, worse than before the 2008–2009 global financial crisis. In 2017 world fiscal deficits are projected to narrow by 0.5 percentage points in to 3.1 per cent from 3.6 per cent in 2016.

In 2016, the generally weak world economy, especially the slowdown in China, as well as its reorientation from an investment-led to a consumption-based economy, has hit many African countries directly through a fall in demand and indirectly via lower global commodity prices.

World commodity prices staged a partial recovery

The commodity prices captured by the International Monetary Fund (IMF) commodity price index began recovering in the first half of 2016 after hitting a nadir of 83.05 in January 2016—reflecting the combined effect of abundant global supply, subdued demand and a strengthening dollar. The recovery continued reaching at 114.69 in December 2016 (IMF, 2016b). In 2017 global commodity prices are not forecast to see much further pickup as the supply–demand balance is not seen changing much.

The global crude oil (petroleum) index rose from its low point of 56.05 in January 2016 as demand grew in Europe and China, US output fell and supply difficulties were felt in several countries. The price index for metals stabilized at around 120 points in the third quarter of 2016. After a rally at the start of 2016 on supply readjustment, falls in prices of copper, nickel and uranium were largely offset by increases in the prices of aluminium, iron ore and zinc. Prices of food and agricultural commodities increased after the first quarter of 2016. The food price index rose from 139.68 in March 2016 to 145.33 in December 2016, while agricultural commodities price index rose from 109.57 to 117.24 for the same period.

World trade growth and foreign direct investment stayed weak

In 2016 growth in world trade is expected to slow to 1.8 per cent from 2.4 per cent registered in the previous year (UNDESA, 2016b; WTO, 2016). Western Europe drove global trade growth, with Asian economies, China in particular, registering only small increases. Changes in terms of trade were more favourable to developed economies—increasing by 1.1 per cent in 2016 after a 1.9 per cent rise in 2015—against a decline of 2.3 per cent in 2016 following a contraction of 3.9 per cent in 2015—in emerging and developing economies. Many of this latter group depend on commodity exports.

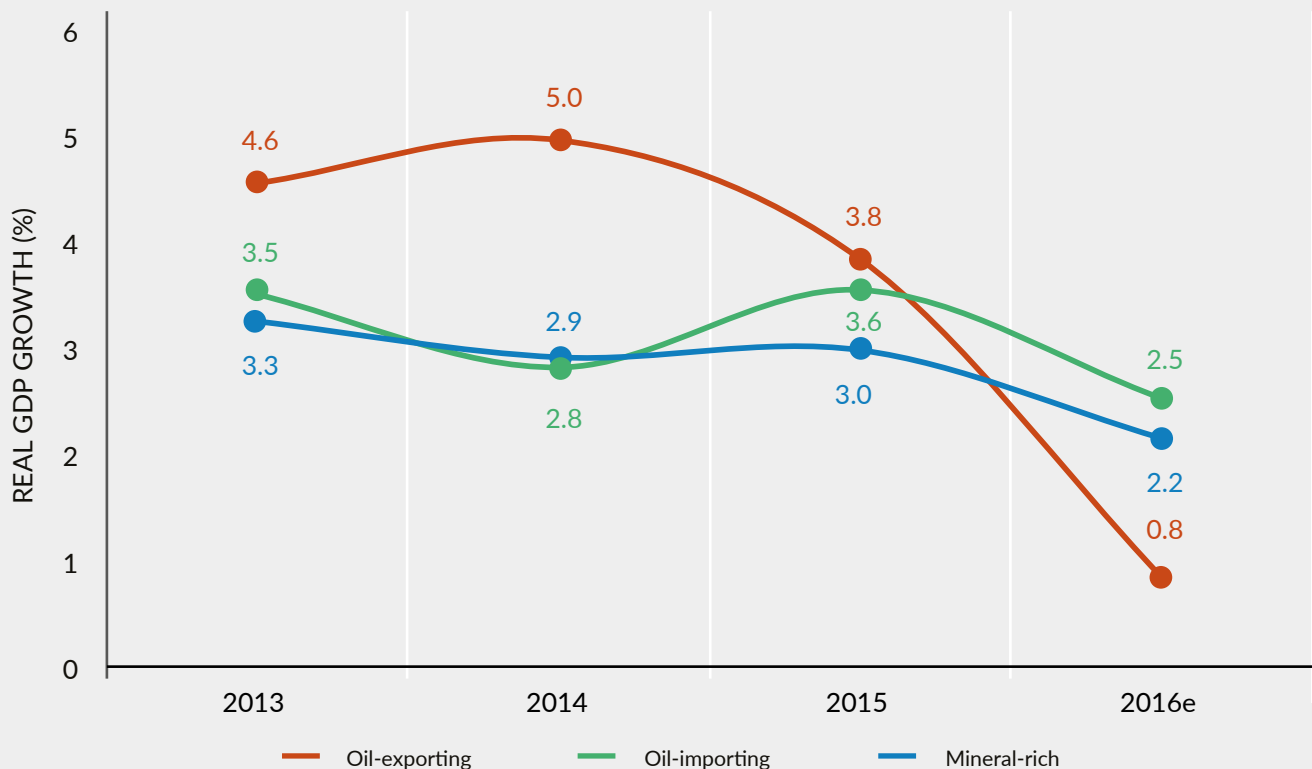
In 2016 foreign direct investment (FDI) inflows are expected to have fallen by up to 15 per cent owing to weak global demand, concerns over the prospects of many emerging countries, volatile financial markets and apprehensions over the robustness of economic growth (UNCTAD, 2016a). Over the medium term, global FDI is expected to pick up in step with guardedly more optimistic expectations of the global macroeconomy.

Medium-term prospects and downside risks

Still, the medium-term outlook remains subject to significant downside risks, given low aggregate demand, rising inequality and an ageing population in many advanced economies.

Persistently unfavourable terms of trade have highlighted structural vulnerabilities of many commodity-exporting, emerging and developing economies. (These were further heightened by diverging monetary policies of the advanced economies.) And with reduced fiscal buffers, monetary authorities in many of them are struggling to alleviate growth concerns while managing potential inflation, their capital accounts and business confidence.

Downside risks facing Africa are lower demand for exports and weaker FDI inflows than currently forecast. As world financial markets are tighter and increasingly volatile, African economies might face higher interest payments and an increased risk of contingent liabilities (IMF, 2016a, c).

FIGURE 1.2 Africa's growth performance by economic grouping, 2013–2016

Source: Based on UNDESA (2016a).
Note: e=estimates.

per cent (figure 1.2). Growth in the non-oil sector of the oil-exporting economies was not enough to cushion the impact of low oil prices, prompting policy responses in these countries (box 1.2).

EAST AFRICA SHOWED THE FASTEST GROWTH AMONG SUBREGIONS

As for the previous three years, in 2016 East African growth was the fastest on the continent, at a slightly decelerating 5.5 per cent (figure 1.3). The subregion's growth was driven by Ethiopia, Kenya, Rwanda and Tanzania. Public spending on infrastructure was the main contributor of Ethiopian growth. In Kenya investment in infrastructure and buoyant household consumption continued to drive the expansion, offsetting a decline in tourism on security concerns. In Rwanda agriculture and services continued to drive growth, though lower commodity prices (especially of coffee and tea) and poor infrastructure hurt the country's growth potential. In Tanzania robust domestic demand with growing services and manufacturing sectors were the main drivers in 2016.

Growth in West Africa fell sharply from 4.4 per cent in 2015 to 0.1 per cent in 2016 to become the slowest growing subregion, displacing Southern Africa. The step down was mainly because of the economic contraction in Nigeria, due to depressed oil prices, falling oil production, energy shortages and price hikes, scarcity of foreign exchange and depressed consumer demand. In contrast Senegal and Côte d'Ivoire performed better in the subregion, registering robust growth of 6.3 per cent and 8.0 per cent, respectively. In Senegal higher public and private investment, particularly in energy, infrastructure, agriculture, fisheries, tourism, textiles, information technology and mining continued to underpin growth, though power shortages need to be overcome. Côte d'Ivoire's growth was underpinned by improvements in the investment environment and increased infrastructure spending in transport and energy, even if bad weather weighed on agricultural growth. Ghana's growth decelerated to 3.8 per cent in 2016—the slowest in two decades—reflecting tensions related to recent elections, lower consumer confidence, reduced oil production and low oil prices.

BOX 1.2 SOME POLICY RESPONSES OF AFRICAN OIL-EXPORTING COUNTRIES TO THE COMMODITY PRICE SLUMP

Falling export revenues hit these countries' trade balances and current accounts, especially Nigeria, Angola and Algeria, which for the first time this decade recorded trade deficits. The external position was further undermined by declining FDI and other capital inflows, leading to policy interventions that depleted foreign exchange reserves (box figure) and forced the authorities in countries with pegged exchange rate regimes, like Nigeria, to relax them. Currency pressures also led to rising inflation, prompting central banks to raise interest rates and prevent further currency depreciation against the dollar, leading to very low real interest rates in some countries like Nigeria. Further currency depreciation among oil-exporters appears inevitable.

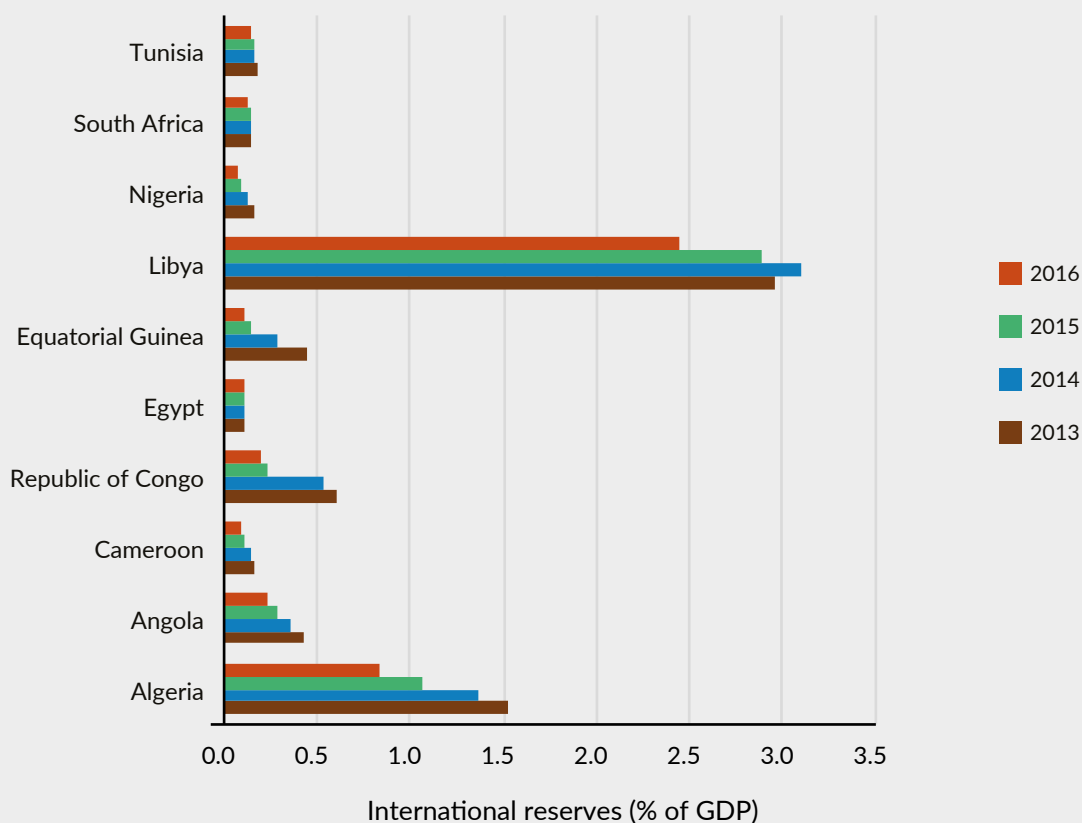
Falling oil-export revenues also hit government incomes, deteriorating fiscal positions. While in most oil-exporters the fiscal deficit remains moderate, prospects for medium-term fiscal space are pegged to individual location on the debt-sustainability curve. With the oil price recovering, those countries with low debt-to-GDP ratios, like Nigeria, could direct any gains in this space to financing growth-enhancing priority sectors like energy, infrastructure and agriculture.

Other African oil-exporters, like Equatorial Guinea and Republic of Congo, whose currencies are pegged, were unable to devalue their currencies. Their options included departure from monetary union, an adjustment of the currency band at which the Central African CFA franc is pegged to the euro, or a break of the peg altogether. Oil accounts for 90 per cent of Equatorial Guinea's GDP and virtually all of its exports. But Republic of Congo, with a healthy international reserves position of greater than 150 per cent of GDP in 2013, has a comfortable cushion to weather the current crisis.

Libya, the fifth largest African oil-producer for which oil constitutes 95 per cent of export earnings, is in serious danger: financing fiscal requirements with its international reserves, has experienced the fastest rate of reserve depletion by more than one fifth after January 2014. This has raised the urgency for reviewing its 2002 peg of the dinar to the IMF's Special Drawing Rights, which maintains currency stability.

African oil-exporters have few options to protect their currencies against lower oil prices. Short-term palliatives like defending their currencies with foreign reserves is not sustainable, while diversification of sources of export earnings can only be considered over the medium to longer term.

BOX FIGURE 1.1 International reserves (% of GDP) in selected African economies, 2013–2016



Source: EIU (2016).

Growth in Southern Africa dropped from 2.5 per cent in 2015 to 1.0 per cent in 2016, reflecting sharply decelerating growth in South Africa and Angola. Stronger growth in Mauritius (3.6 per cent) and Mozambique (4.2 per cent) were brighter spots for the subregion.

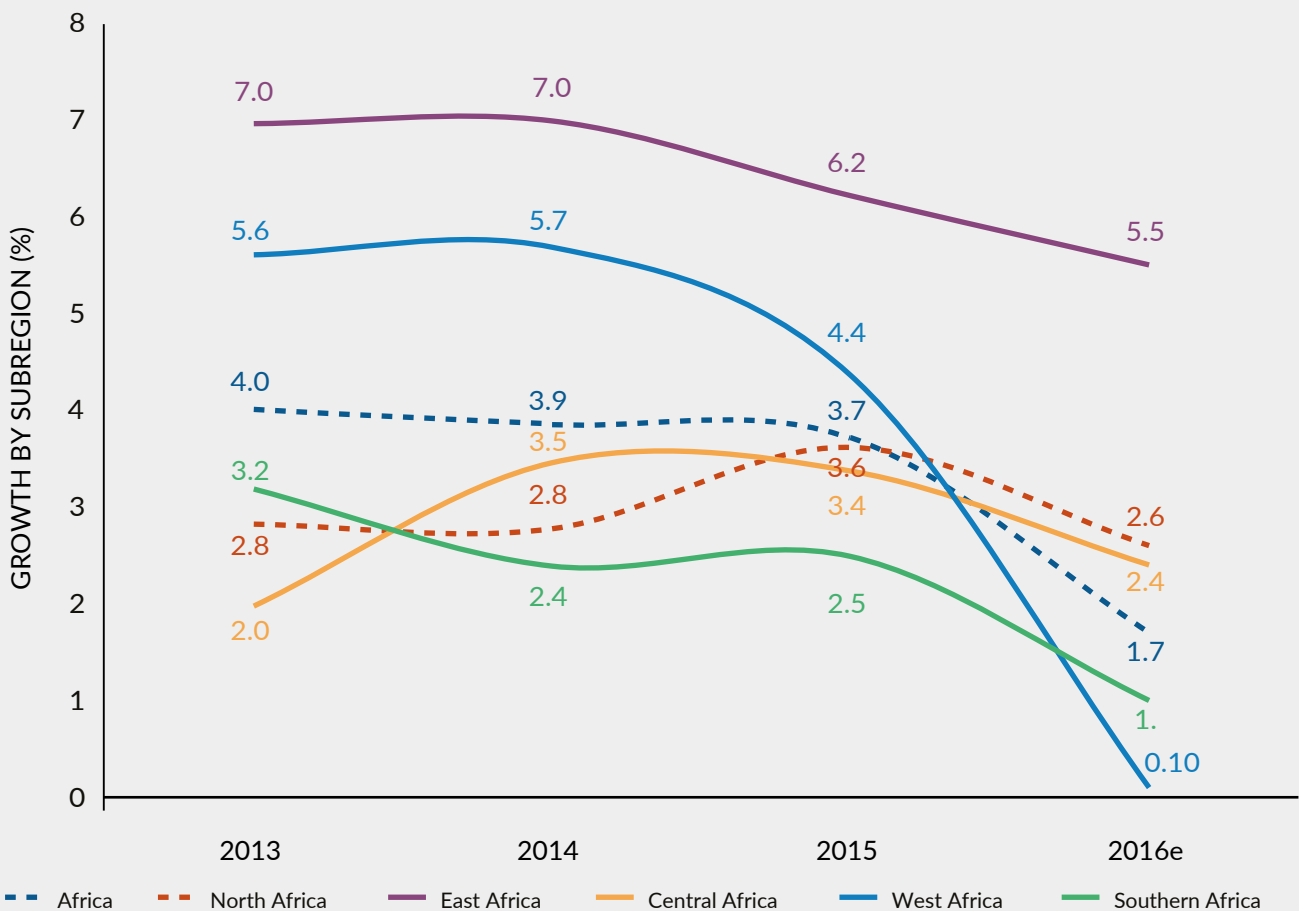
Factors weighing on growth in South Africa, the subregion's largest economy, included low commodity prices, drought and shortage of electricity, tighter financial conditions and low business and consumer confidence. Labour productivity continued its post-2011 downtrend. A rise in final consumption expenditure mainly driven by increase in government expenditure picked up the pace of growth in Mauritius. Mozambique registered growth of 4.2 per cent in 2016, despite a slump in government consumption, slow inward investment and poor business sentiment, and weather-related disruptions to agriculture.

Growth in Central Africa moderated from 3.4 per cent in 2015 to 2.4 per cent in 2016, reflecting

the balance of growth in Cameroon (5.3 per cent), Central African Republic (5.1 per cent), Chad (1.1 per cent), Gabon (3.2 per cent) and Republic of Congo (1.6 per cent), and contractions in Equatorial Guinea (-4.5 per cent). Cameroon's growth slipped to 5.3 per cent in 2016 given a fall in oil output growth and low oil prices. Chad's expansion slowed as the non-oil economy was hit by spending cuts and security problems. CAR's growth accelerated, with political stability boosting consumption and investment. Expansion in Republic of Congo accelerated as new oilfields became operational, though weak global oil prices meant major cuts in public investment and weighed on growth in the non-oil sector. Gabon's expansion declined to 3.2 per cent, triggered by low oil prices affecting government revenues and ultimately public investment in infrastructure. Equatorial Guinea's economy shrank further in 2016, in line with falling oil output and low prices, as well as a reduction in public investment.

North Africa witnessed a decline in growth to 2.6 per cent in 2016 from 3.6 per cent the previous

FIGURE 1.3 Africa's growth by subregion (%), 2013–2016



Source: Based on UNDESA (2016a).
Note: e=estimates.

year, driven by slower growth in Algeria, Egypt and Morocco. Low oil prices weighed on public investment and private consumption in Algeria; Egypt was hurt by tourism's weaker performance and a consequent decline in foreign currency earnings; and Morocco was affected by drought which hit agriculture, crimping private consumption and government spending.

PRIVATE CONSUMPTION AND INVESTMENT STAYED AFRICA'S MAIN GROWTH DRIVERS

On the expenditure side, the solid economic growth performance in Africa in 2014 and 2015 was largely underpinned by a positive contribution from private consumption, an increase in government spending on infrastructure and a positive contribution from investment (figure 1.4). Despite low growth registered in 2016 it was still driven mainly by private consumption and investment.

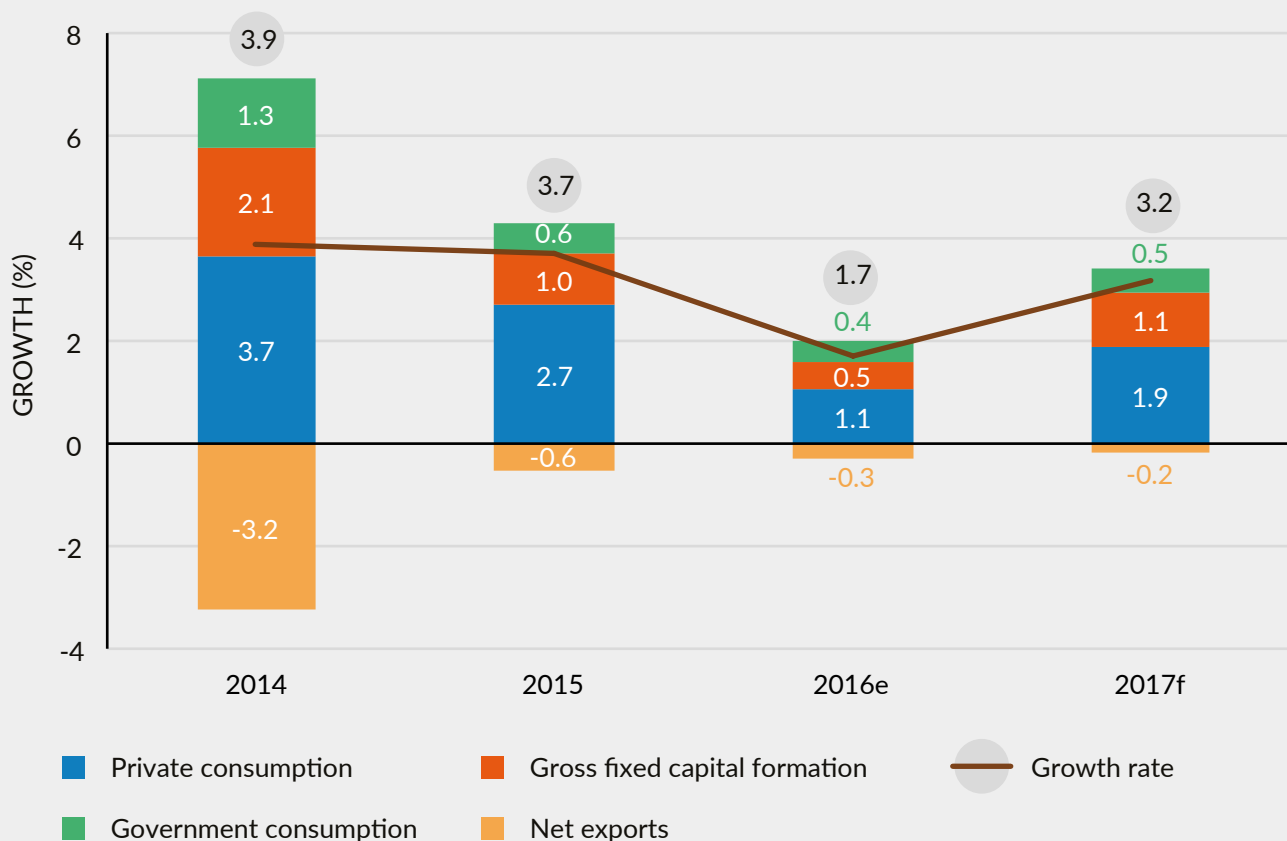
STRUCTURAL TRANSFORMATION AND PRODUCTIVITY

Recent literature on Africa has emphasized the importance of successful structural transformation if the continent is to sustain the growth performance of the first decade or so of this century. African economies should diversify into higher value added services and goods, while continuing to raise agricultural productivity, even as agriculture's share in the economy declines (Badiane and Collins, 2014).

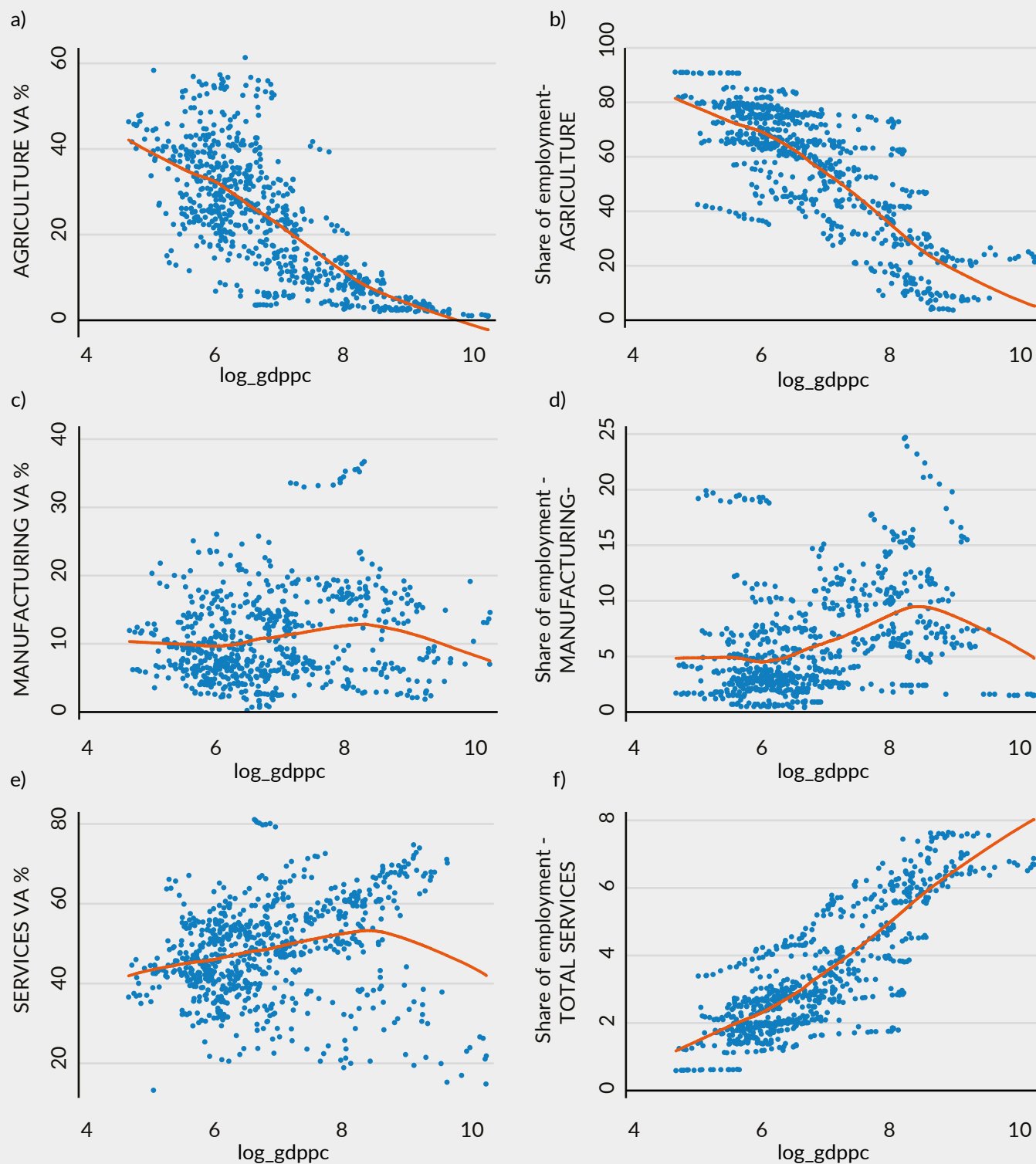
In Africa's structural transformation in 2000–2014 (figure 1.5), increases in GDP per capita were

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FIGURE 1.4 Africa's GDP growth and associated growth components, 2014–2017



Source: Based on UNDESA (2016a) and EIU (2016).
Note: e=estimates; f=forecast.

FIGURE 1.5 Africa's structural transformation, (%), 2000–2014


Notes: VA % is value added as a percentage of GDP; log_gdppc is the log of GDP per capita over the period 2000–2014 for 52 African countries (excluding Somalia and South Sudan).

Source: Based on World Bank (2016a) and ILO (2015).

associated with a decline in the value-added and employment shares in agriculture, though the speed of the process was more pronounced in the relationship between employment and GDP per capita, indicating the movement of a significant proportion of labour out of agriculture (see figure 1.5 panels a and b).

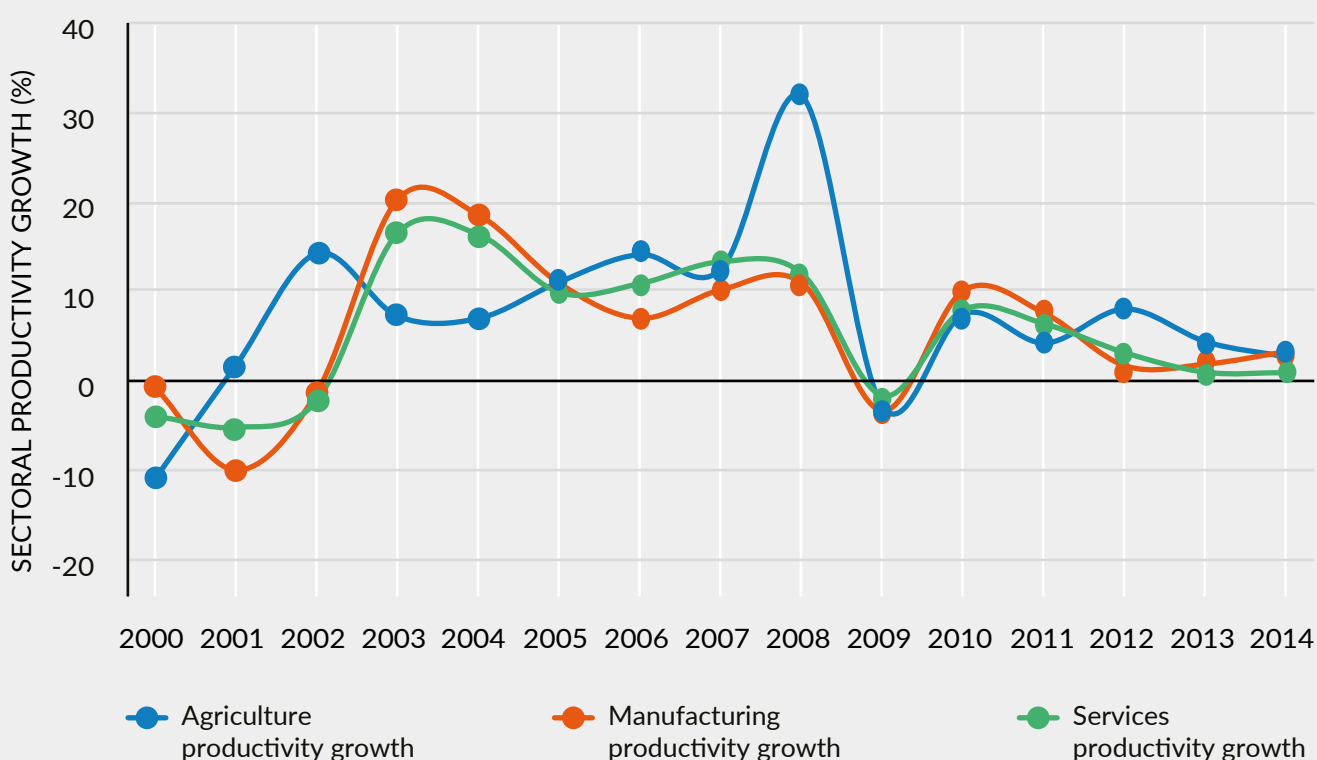
Worryingly, the structural transformation has also been associated with a decline in agricultural productivity growth from 9.9 per cent in 2000–2008 to 4.0 per cent in 2009–2014 (figure 1.6).

Manufacturing value added gradually increased as GDP per capita rose in the early 2000s, but declined at the higher stages of development, indicating the failure of African countries to maintain the sector’s growth momentum (figure 1.5 c and d). This decline in later years of development could be attributed to the slowdown in the global economy and decline in commodity and oil prices as countries struggled to fully recover from the global financial crisis. It could also be attributed to the drop in manufacturing productivity growth from an average of 7.3 per cent in 2000–2008 to an average of 3.5 per cent in 2009–2014. Service sector value added growth

During 2000–2014, increases in GDP per capita were associated with a decline in value-added and employment shares in agriculture.

climbed in the earlier years of the 2000s as GDP per capita increased, before decreasing in the later stages of development (see figure 1.5). However, the share of employment in services continued to rise steadily over the period 2000–2008, a trend that could support the narrative that a greater proportion of labour has reallocated from agriculture to services with lower productivity (McMillan et al., 2014 for more details). Service sector productivity growth declined from an average of 7.5 per cent in 2000–2008 to an average of 3.0 per cent over 2009–2014—the lowest among the three sectors.

FIGURE 1.6 Trends in sectoral productivity growth in Africa, (%), 2000–2014



Source: Based on World Bank (2016a) and ILO (2015).

TABLE 1.1 Labour market outlook for Africa, (%), 2000–2016

	2000–2007	2008–2013	2014E	2015P	2016P
Employment growth	3.0	2.8	2.9	2.9	2.9
Labour force participation rate	68.8	69.4	69.6	69.7	69.7
Unemployment rate	9.9	9.4	9.2	9.2	9.2
Labour productivity growth	2.7	0.9	4.0	1.2	2.3
Global labour productivity growth	2.6	1.9	1.8	2.5	2.7

Source: Based on ILO (2015).
Note: e=estimates; p=projections.

SUBDUED LABOUR PRODUCTIVITY

Labour productivity is one of the key features underlying structural transformation, yet Africa has recorded subdued labour productivity growth, mainly due to lack of diversification in its economic activities. Growth in output per worker declined from 4.0 per cent in 2014 to 1.2 per cent in 2015 and is projected to have grown at 2.3 per cent in 2016, which will be below the global average of 2.7 per cent (table 1.1), and below the estimate for South-East Asia and the Pacific (3.8 per cent). It is, though higher than the projection for Latin America and the Caribbean (1.4 per cent) in 2016.

Still, some African countries registered productivity growth ranging between 4 and 4.7 per cent in 2016, including Côte d'Ivoire, Democratic Republic of Congo (DRC), Ethiopia, Ghana, Nigeria, Rwanda, Liberia, Sierra Leone and Zambia. Although slower than China's figure (6.6 per cent), these rates are in line with India (4.7 per cent) and faster than Argentina (1.1 per cent) and Brazil (0.8 per cent). A gradual diversification of economies from commodities has helped to expand new sectors in manufacturing and services, albeit with slower productivity growth (ILO, 2015a).

The productivity in Africa is projected to grow at an average of 2.8 per cent in 2016, mirroring recovery in global commodity prices, increased investment in non-oil sectors by most economies and their economic diversification (figure 1.7). However, oil-importing and agricultural commodity exporting countries, growing at an average of 2.4 per cent, are projected to lead the groupings' output growth per worker over 2014–2016. These two groupings' 2016 figures are much higher than the average

growth in 2000–2008, of 1.8 per cent and 1.6 per cent, respectively. This could point to their resilience to the impact of the low global commodity prices and growth that have affected oil-exporting and mineral-rich countries.

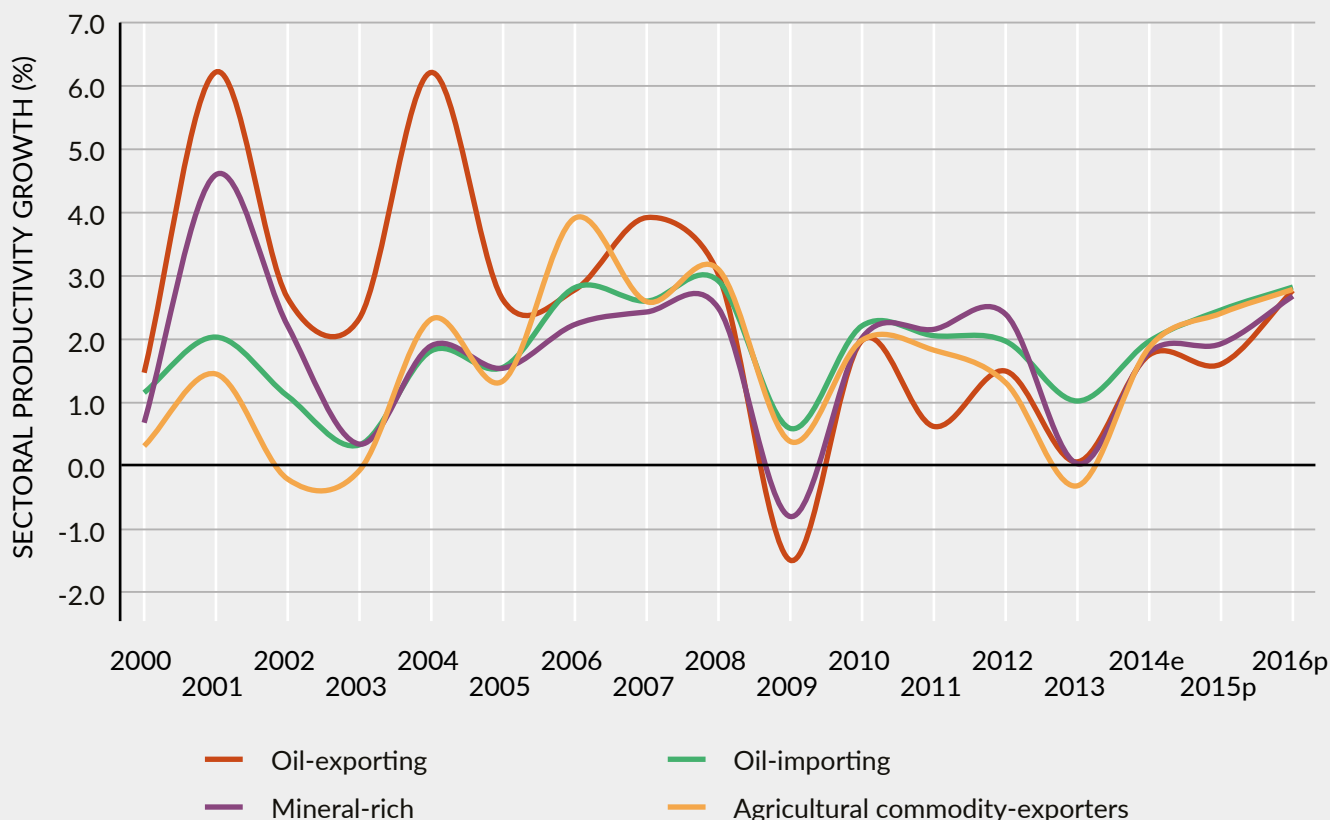
Africa's labour force participation and unemployment rates have moderated around 69.7 per cent and 9.2 per cent since 2014 (see table 1.1), while male and female unemployment has stabilized around 8.0 per cent and 11.1 per cent respectively since 2014. Women suffer from higher unemployment rates across all subregions, but they are worse in North Africa. Youth have an average unemployment rate across Africa of 16.8 per cent over 2014–2016 (ILO, 2015a).

By subregion, despite the sharp downturn in West Africa, the subregion's positive growth trend in labour force participation is expected to continue. Southern Africa is also continuing to enlarge its labour force. Labour force participation rates are likely to change little in other regions over the coming years (ILO, 2015b).

However, large gender gaps in these rates are

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FIGURE 1.7 Productivity growth by African economic grouping, (%), 2000–2016



Source: Based on ILO (2015a).

Note: e=estimates; p=projections. Mineral-rich countries and agricultural exporters are on the right axis.

seen staying in North Africa, both with the largest subregional gender gap and a gap of more than 50 percentage points in most of its countries. This is in sharp contrast to some countries in East and Southern Africa, where women have higher labour participation rates than men: Burundi, Malawi, Mozambique and Rwanda notch up 83.4, 84.3, 84.7 and 85.8 per cent, respectively, with their male counterparts having 82.2, 82.0, 82.4 and 84.9 per cent, respectively (ILO, 2015a).

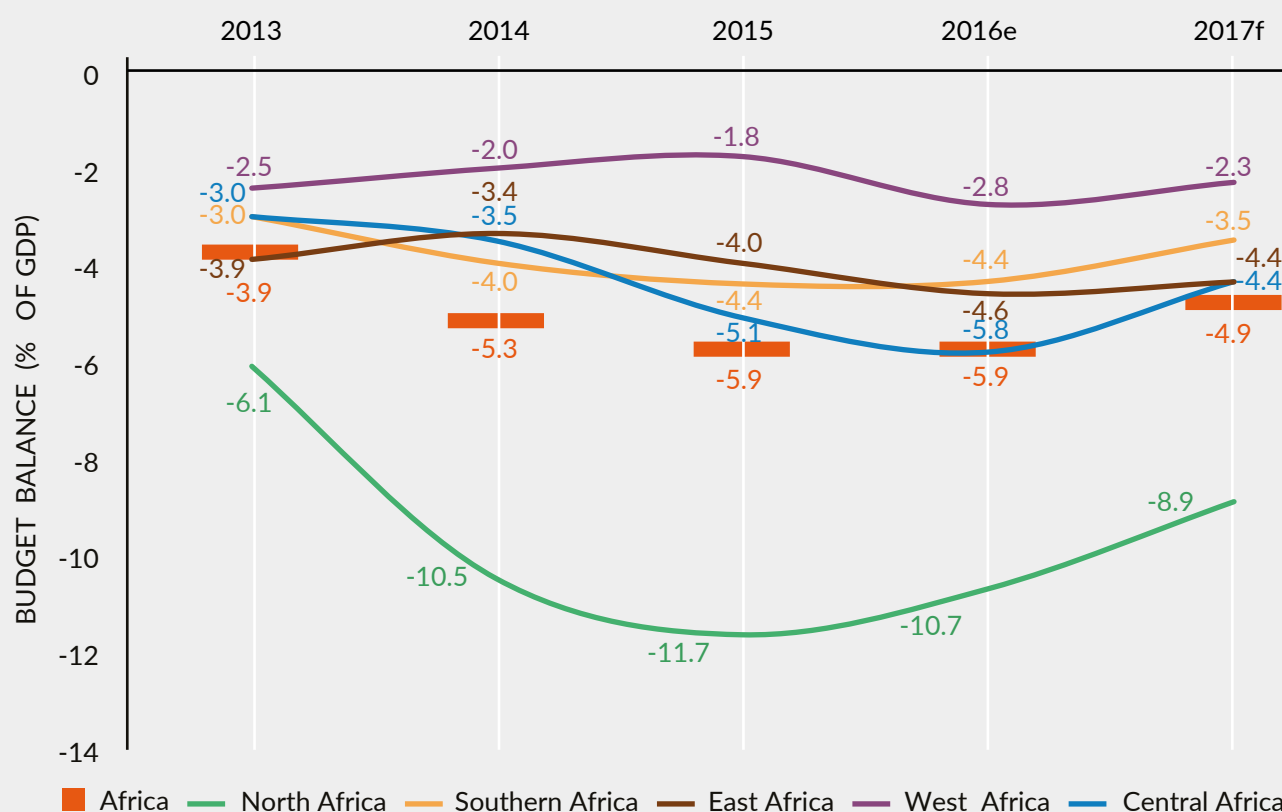
AFRICA'S FISCAL DEFICIT REMAINED STABLE IN 2016

Africa's overall fiscal deficit in 2016 remained unchanged from 2015 at 5.9 per cent (figure 1.8). North Africa continues to have the largest fiscal deficit in the continent despite a slight decline due to a stable fiscal deficit in Algeria and a narrowing one in Egypt. Spending cuts on large infrastructure projects in Algeria were offset by a further rise

Africa's overall fiscal deficit in 2016 remained unchanged from 2015, as a result of spending cuts and increased utilization of external reserves to fund development projects in a number of countries.

in social spending, while the phasing out of fuel subsidies helped to reduce Egypt's fiscal deficit.

The fiscal deficit in Southern Africa remained unchanged at 4.4 per cent of GDP. Although South Africa's increased because of slow growth in revenue and heavier spending, this was counterbalanced by declining deficits elsewhere—in Mozambique (capital spending cuts), Namibia (fiscal consolidation) and Zambia (a rise in government revenue on improved tax enforcement and cuts in spending due to postponement of large investment projects).

FIGURE 1.8 Average budget balance by subregion, (% of GDP), 2013–2017

Source: Based on EIU (2016).
Note: e=estimates; f=forecasts.

East Africa's fiscal deficit widened somewhat from 4.0 to 4.6 per cent in 2016, reflecting expansionary fiscal policies, mainly in Ethiopia (notably spending on infrastructure), in Kenya (a new railway line, sharply increased government salaries and transfers to new counties) and Uganda (hydropower projects).

The fiscal deficit widened in West Africa in 2016, from 1.8 to 2.8 per cent of GDP, largely reflecting in Nigeria an increase in public spending, especially on security; in Côte d'Ivoire an increase in the minimum wage, higher security spending and heavier public investment on infrastructure; and in Ghana, election-related expenses and greater spending on public sector wages.

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In Central Africa the fiscal deficit widened from 5.1 percent in 2015 to 5.8 per cent of GDP in 2016, mainly owing to expansionary fiscal policies in Cameroon arising from public expenditure on transport and power infrastructure and lower oil revenue; in Equatorial Guinea occasioned by increased public investment in infrastructure and lower oil revenue, and in Congo due to government spending on public sector wages and lower oil revenue.

Largely driven by low oil prices, as a group the oil-exporting countries' fiscal deficit widened further from 6.2 to 6.5 per cent of GDP in 2016. In contrast oil-importing countries' fiscal deficit improved marginally from 5.6 to 5.5 per cent. The mineral-rich countries' fiscal deficit was the second highest in the continent, though it slightly declined from 6.5 per cent of GDP in 2015 to 6.1 per cent in 2016.

AFRICA'S CURRENT ACCOUNT DEFICIT REMAINED STABLE

The continent wide current account deficit stayed at 7.0 per cent of GDP in 2016 (figure 1.9), reflecting no or little change in North, Southern and West Africa. The current account deficit widened among oil-exporting countries from 7.7 per cent of GDP in 2015 to 8.2 per cent in 2016, offset by a narrowing from 6.3 per cent to 6.1 per cent among oil importers, and from 8.8 per cent to 8.3 per cent in 2016 among mineral-rich countries.

The decline in oil and commodity prices cut into export earnings, especially in emerging economies, as Africa experienced a sharp decline in trade (see section 1.2). The current account deficits to some extent have depleted international reserves and increased dependence on external debt and investment.

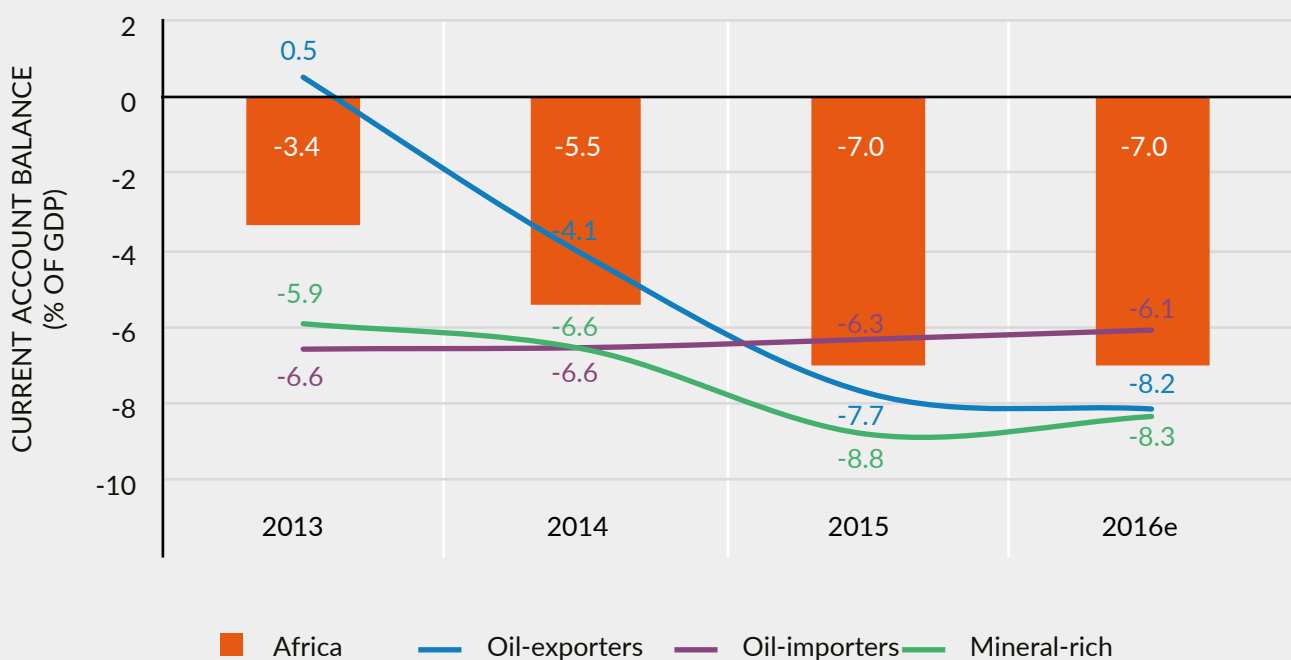
The decline in oil and commodity prices cut into export earnings, as Africa experienced a sharp decline in trade.

MOST COUNTRIES EXERCISED TIGHT MONETARY POLICY

Most countries, including some larger economies, followed a tight monetary stance to limit the impact of inflation from a weakening currency and/or increases in regulated electricity prices, as central banks raised policy rates in, for example, Angola, Nigeria and Egypt.

However, Algeria, Côte d'Ivoire, Cameroon, Kenya and Morocco among others pursued a loose stance. Kenya and Morocco cut their policy interest rates to 2.25 per cent and 10 per cent, taking advantage of subdued inflationary pressures, and Algeria reduced its discount rate for the first time in almost a decade from 4 per cent to 3.5 per cent, largely because of declining liquidity due to low oil prices. Most countries in Central and West Africa also adopted loose policies, as their common currency (the CFA franc) is pegged to the euro, forcing them to stay in line with the ultra-loose monetary policy of the European Central Bank.

FIGURE 1.9 Current account deficit, (% of GDP), 2013–2016



Source: Based on EIU (2016).
Note: e=estimates.

DOMESTIC CURRENCIES CONTINUED TO DEPRECIATE AMID LOW COMMODITY PRICES

Low commodity prices and large fiscal and current account deficits exerted continued downward pressure on domestic currencies, leading to further depreciation in most of Africa's big economies. Angola and Nigeria devalued their currencies, and Egypt floated its exchange rate in return for IMF funding of \$12 billion over three years. The CFA franc is likely to depreciate gradually on expected faster growth in the US than the EU, and on the gradual rise in US interest rates.

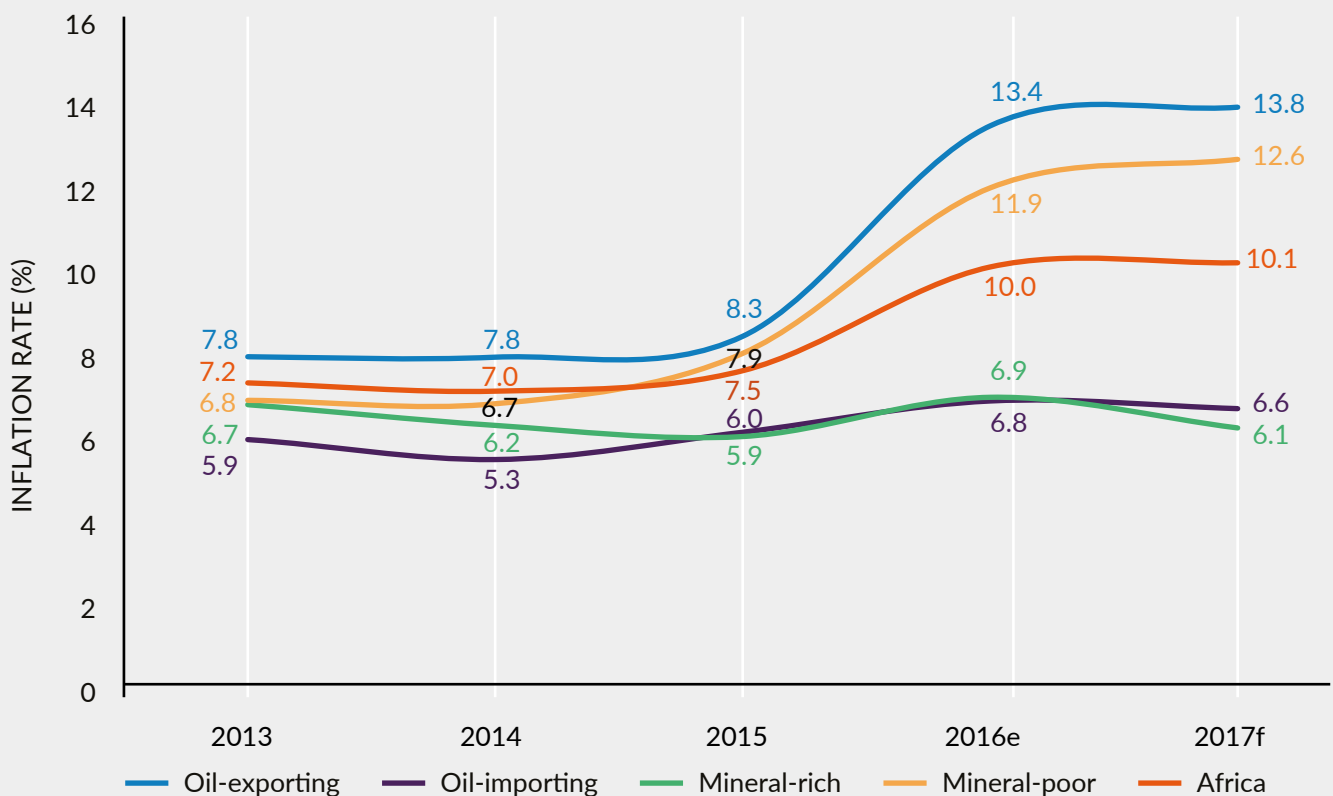
South Africa's rand was volatile in 2016, reflecting domestic policy uncertainty and a tightening monetary policy bias in the United States. In contrast countries such as Ethiopia and Ghana managed slight or stable depreciation, while Kenya saw its currency appreciate from 2015 owing to reduced dependence of the economy on some commodity exports. Ethiopia continued to manage the exchange rate with price-setting mechanisms in a gradual devaluation policy to mitigate imported

inflation while improving export competitiveness. The Ghanaian cedi was stable in 2016, though gradual depreciation is expected due to a delay in issuing eurobonds, which could put pressure on external reserves.

INFLATION INCREASED

African inflation climbed to 10 per cent from 7.5 per cent and is expected to remain at about that rate in 2017 (figure 1.10). Domestic supply-side factors (drought), rising electricity prices and falling currencies were factors. Inflation picked up in all subregions except Central Africa and East Africa, where, respectively, it declined to 2.3 per cent in 2016 from 2.8 per cent and to 5.3 per cent from 5.9 per cent, the latter largely on downward trends in Ethiopia, Kenya and Tanzania. In Ethiopia despite the 2015/16 drought's impact on local food prices, inflation fell owing partly to the decline in prices of imported food, fuel and industrial raw materials. Further declines are less likely given fiscal deficits and a depreciating local currency. In Kenya inflation was moderated by lower oil prices and slower growth in food prices. Tanzania's decline reflected

FIGURE 1.10 Inflation by economic grouping, (%), 2013–2017



Source: Based on UNDESA (2016a).
Note: e=estimates; f=forecasts.

lower global prices of oil and food, offsetting the effects of currency depreciation, though inflation is still a risk due to potential weather-related shocks to domestic food production.

Inflation in North Africa picked up from 8.3 per cent in 2015 to 8.7 per cent in 2016, heavily influenced by Algeria and Egypt, which saw currency depreciation and increases in regulated prices of electricity.

In West Africa inflation surged from 8.6 per cent to 13.0 per cent, the highest on the continent, marking the net effect of upward and downward inflation in countries. Inflation in Nigeria rose from 9.6 per cent to 15.2 per cent on currency depreciation, in Ghana from 13 per cent to 18.1 per cent on increased utility and fuel prices, in Côte d'Ivoire from 1.2 per cent to 1.7 per cent owing to the currency peg to the euro (largely stifling imported inflation), in Guinea from 8.2 per cent to 8.2 per cent due to lower global food and oil prices, and in Mali from 1.4 per cent to deflation of 1.3 per cent on lower oil prices and increased local cereal production.

African inflation climbed to 10 per cent from 7.5 per cent, due to supply-side factors, rising electricity prices and falling currencies.

Inflation in Southern Africa climbed sharply from 6.6 per cent in 2015 to 11.4 per cent in 2016 owing mainly to a steep rise in food prices, currency depreciation and a hike in energy prices. Lower oil prices provided some relief, and monetary tightening may also have constrained demand-side pressures in most countries. But in South Africa the drought's impact kept inflation at 6.6 per cent above the central bank's target ceiling 3.6 per cent in 2016, with spillover effects to other countries in the subregion given the country's position as a major trading partner and source of most imports.

1.2 AFRICA'S TRADE PERFORMANCE

CONTINUED DECLINE IN AFRICA'S MERCHANDISE TRADE

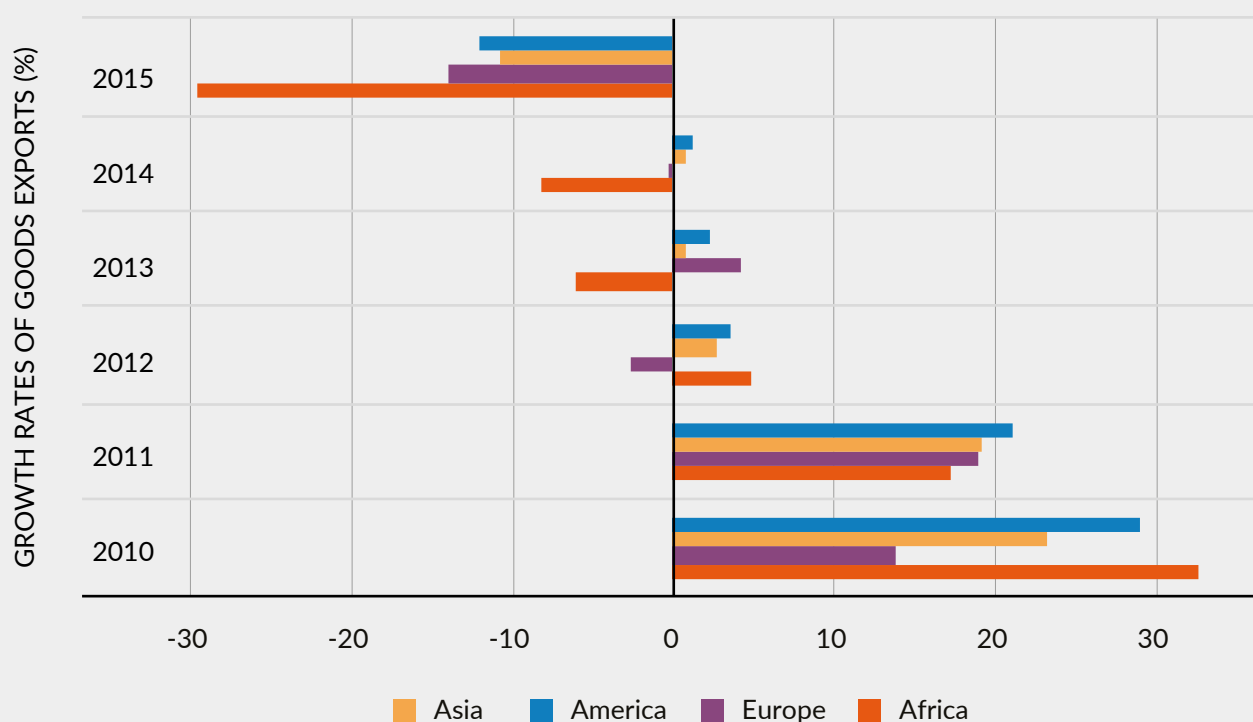
After the global financial crisis, Africa's goods exports rebounded to pre-crisis levels by 2010, reflecting higher agricultural output in most of East and Southern Africa, greater investment in mining in Mozambique, Niger, Sierra Leone and Zambia,¹ and China's still-rising demand for primary commodities,

Europe remained the main destination for the continent's exports over the period, but its role in African trade has declined as Asia has become a bigger trading partner for many African countries.

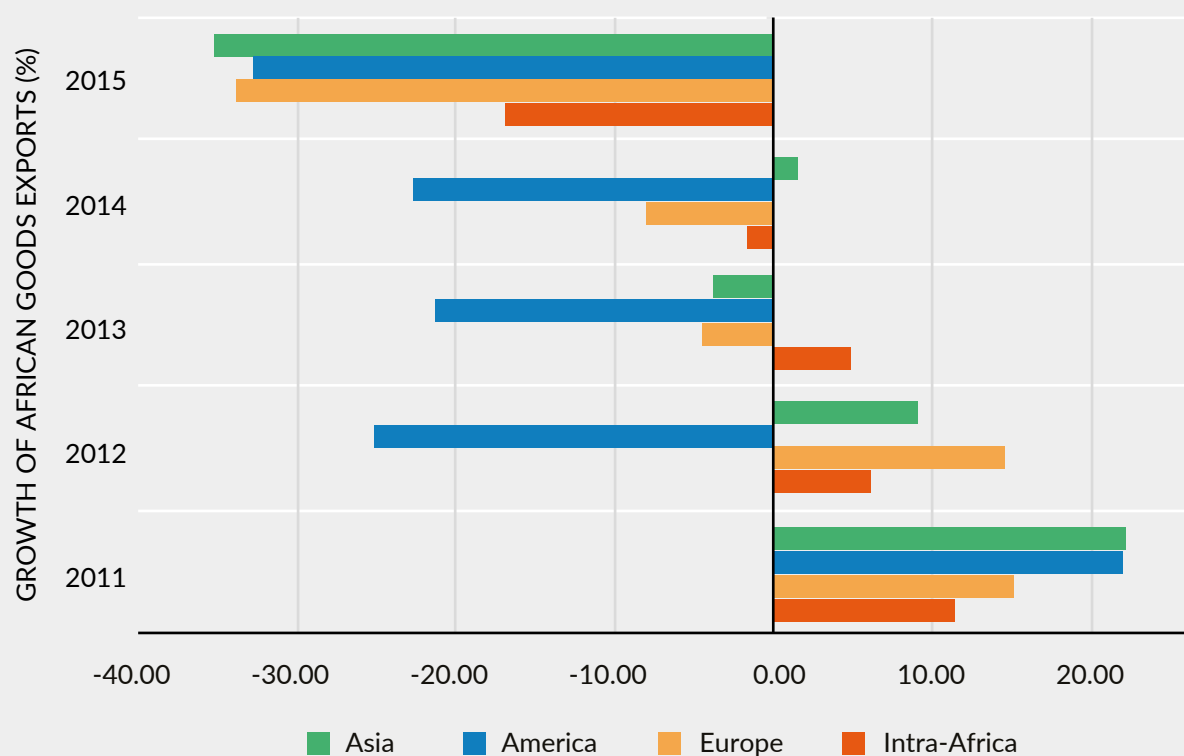
especially base metals.² They grew by a further 17.1 per cent in 2011, and by 4.5 per cent in 2012. Growth then went into a sharp reversal, and exports declined by 29.6 per cent in 2015, the sharpest drop among all global regions (figure 1.11).

This reversal was grounded in the 57 per cent collapse in oil prices between mid-2014 and early-2015, amid a general decline in commodity prices (World Bank, 2015a), both tied to China's slowdown and increased fuel production in the US³(reducing fuel imports from Africa). Demand for African goods plunged in all regions, though intra-African trade fell less steeply (figure 1.12).

Africa's share in global merchandise exports—already very low⁴—fell further, to 2.4 per cent in 2015. Europe remained the main destination for the continent's exports, but its role in African trade has declined as Asia has become a bigger trading partner, lifting its share in Africa's exports and imports by

FIGURE 1.11 Growth rates of goods exports (%), main global regions, 2010–2015

Source: Based on UNCTAD (2016b).

FIGURE 1.12 Growth of African goods exports (%), by main global region of destination, 2011–2015

Source: UNECA calculations based on UNCTAD (2016b).

about 4 and 5.5 percentage points, respectively, in 2010–2015. In the same period the proportion of Africa’s exports going to America fell by half from 21.5 per cent in 2010 to about 11 per cent in 2015.

AFRICA'S EXPORTS ARE STILL DOMINATED BY PRIMARY COMMODITIES

Africa’s exports to the world are poorly diversified and dominated by primary commodities, mainly hydrocarbons: 55 per cent of exports were fuels over 2010–2015, with manufactured goods accounting for only 18 per cent (figure 1.13). Manufactured goods dominate Africa’s imports (mainly heavy machinery, automobiles and chemicals); they are also the largest share of intra-African trade, averaging 43 per cent in the period, though intra-African trade share is only 16 per cent.⁵

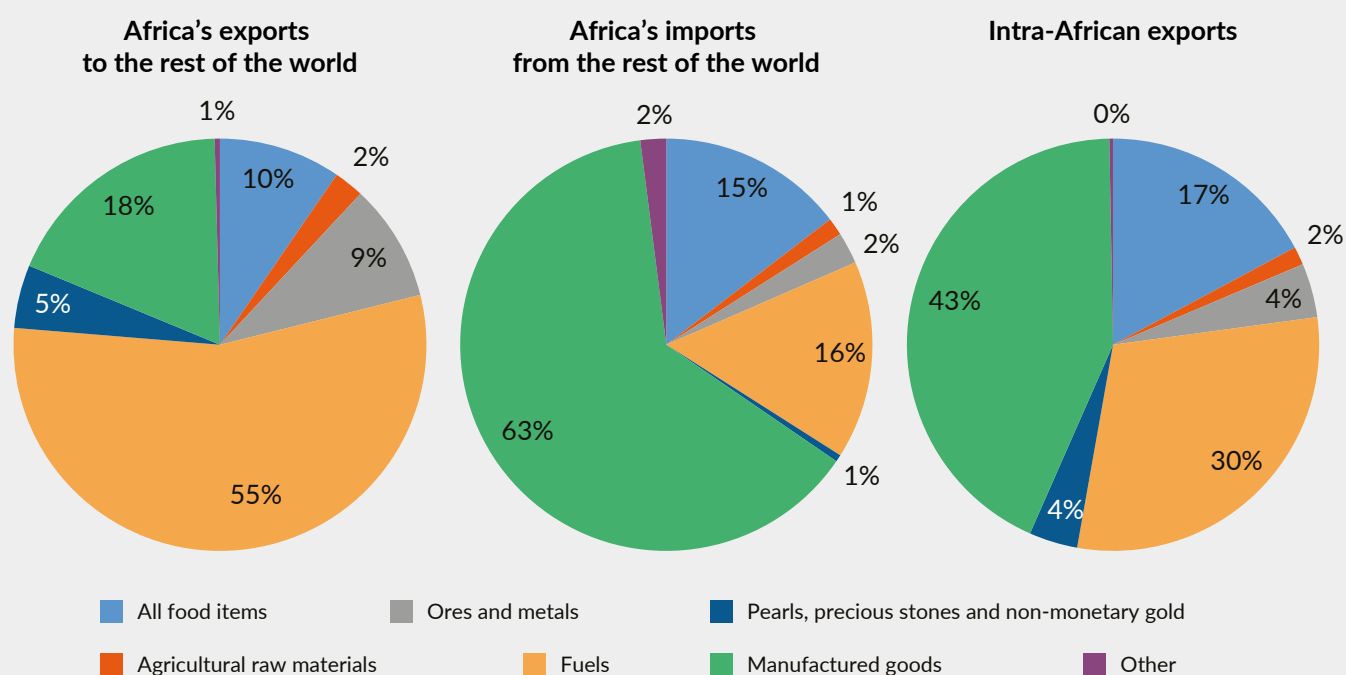
Despite efforts to industrialize, Africa’s share in world manufacturing exports is still less than 1 per cent, as its exports to the world are poorly diversified and dominated by primary commodities.

MANUFACTURING OUTPUT HAS INCREASED ABSOLUTELY, BUT NOT AS A SHARE OF CONTINENTAL GDP

African manufacturing’s share in Africa’s GDP has also slipped since 2010, despite absolute increases in output. And despite efforts to industrialize, the sector’s share in world manufacturing exports is still less than 1 per cent—a share that has even declined since 2010.

This calls for efforts to diversify the region’s export base with increased value added to benefit more from Africa’s closer engagement with emerging markets in Asia, and to expand intra-regional trade.

FIGURE 1.13 Composition of Africa’s trade by main sector, 2010–2015 average



Source: UNECA calculations based on UNCTAD (2016b).

These shifts will require imports to have a bigger share of capital-intensive intermediate goods and the embedded technology in these goods to be fully exploited.⁶ And, while taking full advantage of its abundant natural resource base, Africa should strengthen its value chains, particularly in manufacturing.

TRAVEL DOMINATES AFRICA'S SERVICE EXPORTS

Africa's share in global trade in services, standing at just 2.2 per cent over the period 2010–2015, is even lower than its share in global merchandise trade of 3.1 per cent. At 42 per cent in 2010–2015, travel dominated Africa's exports of services. In the other direction 47 per cent of its service imports were "other services," such as insurance, pensions, financial services and charges on the use of intellectual property (figure 1.14).

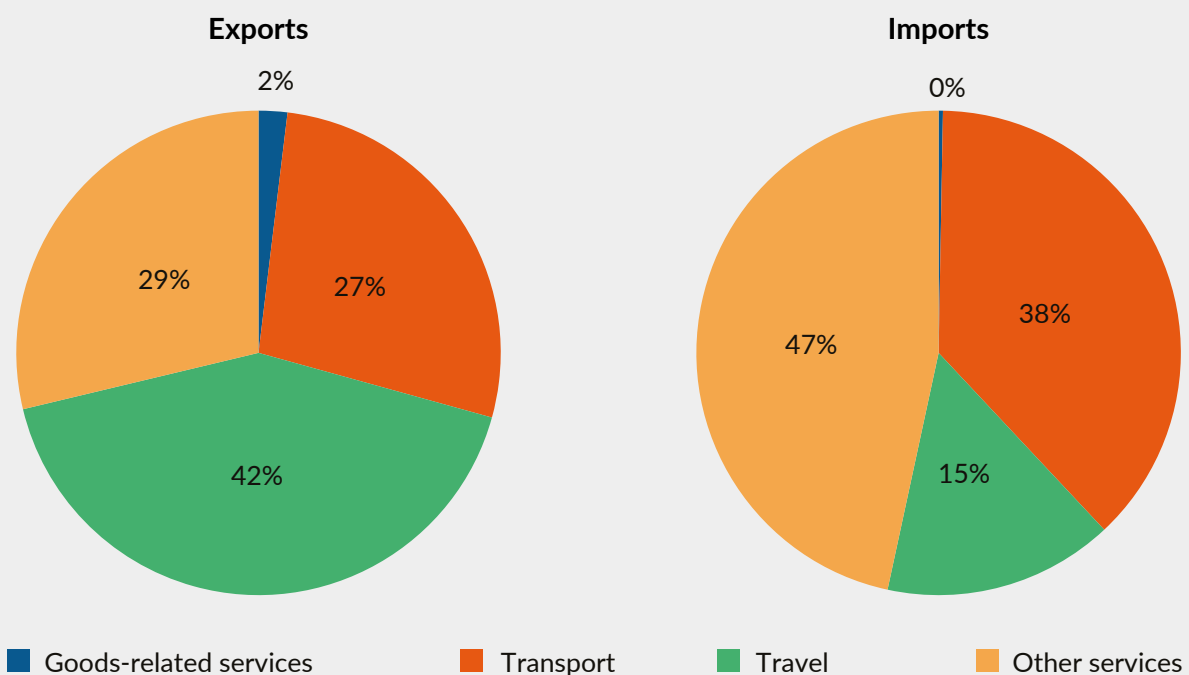
REGIONAL INTEGRATION MAKES SOME PROGRESS

The Abuja Treaty—signed in Abuja, Nigeria in 1991, and which entered into force in 1994—provides a

Africa's share in global trade in services remain low, standing at an average of just 2.2 per cent over the period 2010–2015, lower than its share in global merchandise trade.

clear roadmap for successive regional integration steps in Africa. The third stage of Africa's integration, as per the Treaty, specifies that all regional economic communities (RECs) are expected to have established a free trade area (FTA) and a customs union by the end of 2017. Currently only the Economic Community of West African States (ECOWAS) and East African Community (EAC) have an FTA and a customs union, while the Common Market for Eastern and Southern Africa (COMESA), Southern African Development Community (SADC), ECOWAS and Economic Community of Central African States (ECCAS) have only an FTA. For COMESA a customs union was launched in June 2009 but fell far short of full implementation, as with the ECCAS FTA (UNECA–AUC--AfDB, 2016). Member states of the COMESA, SADC, EAC and ECOWAS FTAs have all committed to eliminating all tariffs on intra-regional imports.

FIGURE 1.14 Composition of Africa's services trade, 2010–2015 average



Source: ECA calculations based on UNCTAD (2016b).

BOX 1.3 THE CONTINENTAL FREE TRADE AREA

Negotiations for the Continental Free Trade Area (CFTA) were launched on 15 June 2015. At the same time the African Union (AU) Assembly adopted a set of Objectives and Guiding Principles for negotiating it. It also adopted the indicative roadmap for the CFTA negotiations, including the indicative finalization by the end of 2017 as reaffirmed at the January 2017 AU Summit. The objectives and timelines of the CFTA project are ambitious, particularly as 54 member states are participating.

The CFTA aims to create a single African market of over a billion people and a GDP of over \$3 trillion. This market promises to enable economies of scale and attract investment into African cities. It also augurs well for boosting incentives to source inputs and intermediates from within the continent, supporting the expansion of manufacturing and enhancing the competitiveness and productivity of Africa's industrial goods producers. Collaboration among RECs through the CFTA should help to accelerate progress in regional projects aimed at unlocking the binding constraints to trade and industrial development, such as cross-border infrastructure, helping to connect Africa's urban centres and to lower the costs of intra-African trade.

ECA modelling exercises indicate that a CFTA established in 2017 has the potential to lift intra-African trade by 52.3 per cent from 2010 to 2022, relative to a baseline without it. Trade in industrial products is expected to receive the largest boost, with an additional increase of 53.3 per cent over the period. The estimates also find that supportive trade facilitation measures could more than double intra-African trade, stimulating industrial products the most (UNECA, 2012).

The CFTA is more than a trade liberalization project, but also a tool for structurally transforming African economies and urban cities, boosting value addition and driving industrial competitiveness (and see the three thematic chapters, 3, 4 and 5 in this report). Although urbanization is crucial for facilitating agglomeration economies, enhanced cooperation at the continental level is also needed to provide the economies of scale needed to make Africa's industrial products globally competitive.

Urbanization is part of a chain of events for Africa to compete on world markets. Urban centres and agglomeration economies encourage productive local value chains, which are important for boosting national competitiveness. Competitive national industries are in turn important for developing efficient regional value chains, needed for Africa's integration into global value chains. The economies of scale provided by urban agglomerations should not be seen as an end in themselves, however, but as a means to achieve further integration, economies of scale and competitiveness gains, all of which are needed for large-scale industrialization. The CFTA will help to maximize the gains from urban agglomerations and to stimulate further integration among African cities.

Still, progress has been made on laying the groundwork for negotiating a Continental Free Trade Area (CFTA) (box 1.3).⁷ The CFTA negotiating forum adopted its rules of procedures⁸ in February 2016, and in May 2016 the definitions of the negotiations' guiding principles and the technical working groups' terms of reference.⁹ The African Union Commission

(AUC), with UNECA and UNCTAD, prepared a draft CFTA framework agreement on trade in goods and services.

The CFTA is being negotiated against a backdrop of negotiations for mega-regional trade agreements (MRTAs) such as the Trans-Pacific Partnership (TPP), the Transatlantic Trade and Investment Partnership (TTIP) and the Regional Comprehensive Economic Partnership (RCEP). Although there is much uncertainties surrounding the possible realization of both the TPP and TTIP following the recent US decision to withdraw from the TPP and growing unpopularity of TTIP, MRTAs and particularly the RCEP may have adverse effects on intra-African trade unless the CFTA is established soon (Mevel, 2016). This provides greater impetus for a rapid and effective realization of the CFTA.

CFTA is not only a trade liberalization project, but is also a tool for structurally transforming African economies and urban cities, boosting value addition and driving industrial competitiveness.

1.3 AFRICA'S PERFORMANCE IN DEVELOPMENT FINANCING

The financing needs for Africa's transformation agenda are substantial, at roughly \$94 billion in infrastructure investments annually over 10 years to close the financing gap in infrastructure alone (World Economic Forum, 2015). But this goal is far from being met: only \$74 billion was invested in infrastructure in 2014—\$25 billion less than in 2013.¹⁰

But what about the funding for such investments? After improving in 2012, Africa's domestic tax revenue declined to \$465 billion in 2015 and is expected to have declined further in 2016 (table 1.2).

Average gross domestic savings increased to 16.1 per cent of GDP in 2016 from 15.0 per cent in 2015, with variations among economic groupings (figure 1.15). Of 50 African countries with data for 2016, countries varied even more, as expected, from Morocco's 34.8 per cent of GDP to Mozambique's negative 4.2 per cent. (Angola and Zimbabwe were the other two countries that reported negative savings.)

Average investments among African countries increased from 22 per cent of GDP in 1997–2006 to

25 per cent in 2007–2015, and are estimated to have averaged 26 per cent in 2016 (IMF, 2016c). In 2016 an average of 26.8 per cent of GDP went to mineral-rich countries as investments, while the mineral-poor countries received the equivalent of 24.3 per cent. In the same year North Africa received 26.6

The financing needs for Africa's transformation agenda are substantial, as \$94 billion is needed annually over a period of 10 years to close the financing gap in infrastructure investments alone.

per cent, while the rest of Africa received 25.0 per cent of GDP in total investments, averaging 22.2 per cent of its GDP in investments over 2011–2015. As seen in table 1.2, however, investments sharply declined from 2014 to 2016.

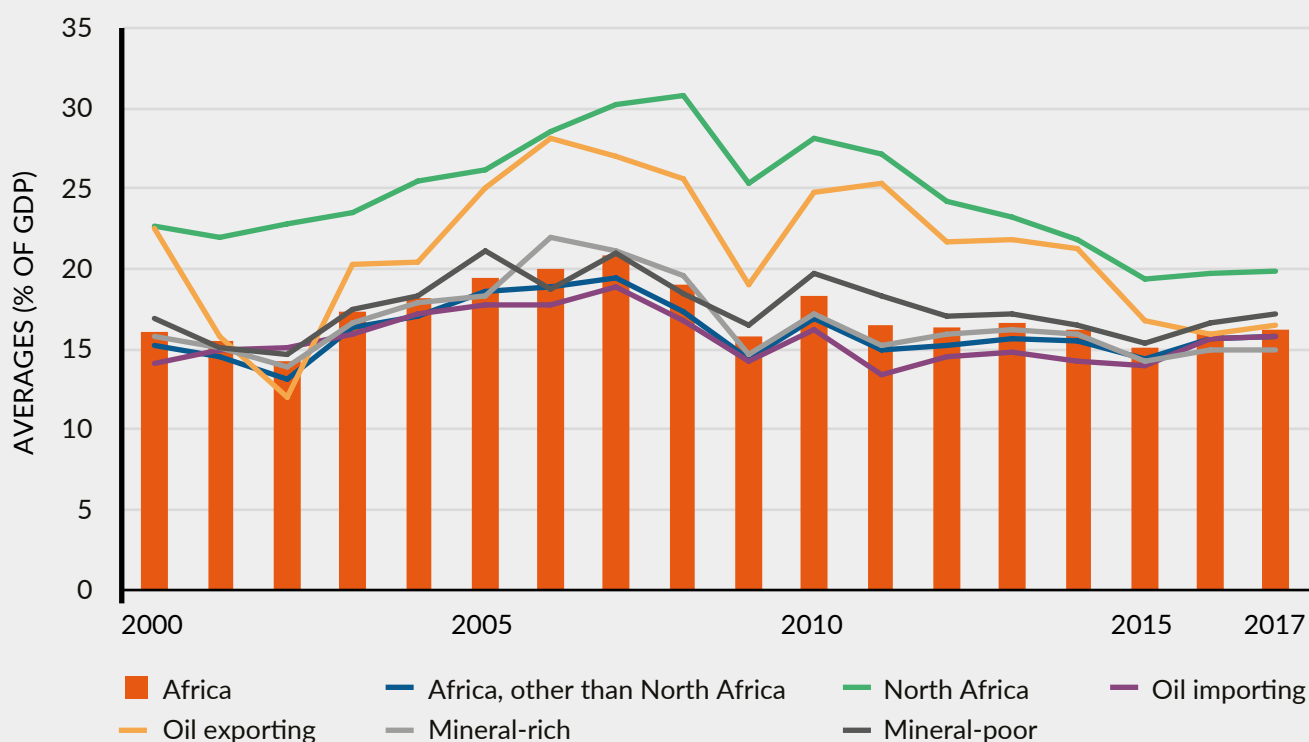
Africa's official reserve assets stood at \$262 billion in 2014, equivalent to only about \$250 per capita

TABLE 1.2 Selected financial indicators for Africa, (current \$ billions), 2011–2016

	2011	2012	2013	2014	2015E	2016P
Tax revenue	494	514	497	499	465	444
Investments	475	516	540	566	498	497
Portfolio investments	21	32	23	23	13	15
Official reserve assets	243	262	266	262	na	na
FDI	48	56	54	58	54	66
Remittances	57	62	61	64	65	66
Official development assistance	52	51	57	54	56	59

Source: IMF (2016d), AfDB (2016), UNCTAD (2016c), IMF (2016e) and World Bank (2016b).
Note: na=not available data.

FIGURE 1.15 Gross domestic savings, averages (% of GDP), 2000–2017



Source: IMF (2016c).

against a global average of more than \$1,000. Roughly 80 per cent of Africa's assets are held by North Africa.

TOTAL AND NET DEBT INCREASED ON THE BACK OF LOW GOVERNMENT EXPORT REVENUE

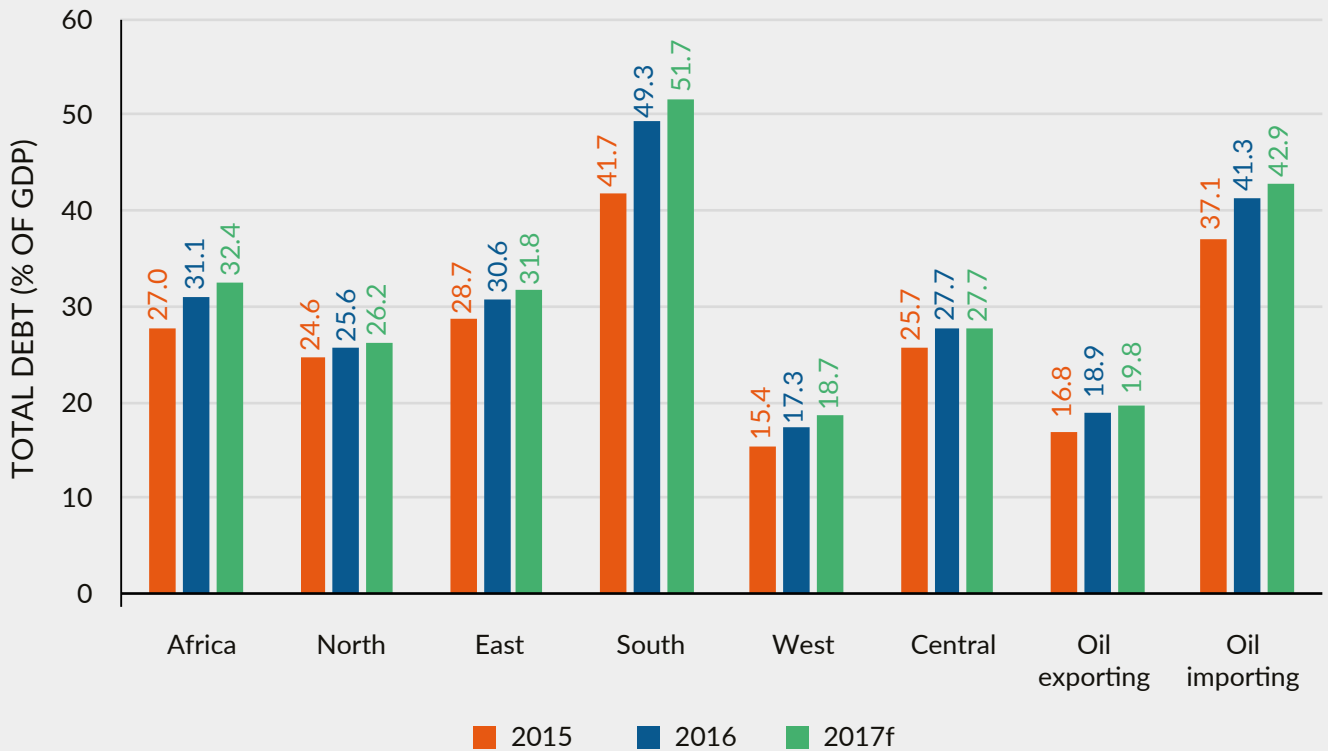
Total debt in Africa increased from 27.8 per cent of GDP in 2015 to 31.1 per cent in 2016, and is forecast to rise to 32.4 per cent in 2017 (figure 1.16). Debt increased faster in oil-importing than oil-exporting countries as the former had to run down reserves.

Total debt in Africa increased from 27.8 per cent of GDP in 2015 to 31.1 per cent in 2016, and is forecast to rise to 32.4 per cent in 2017, raising concerns for long-term debt sustainability.

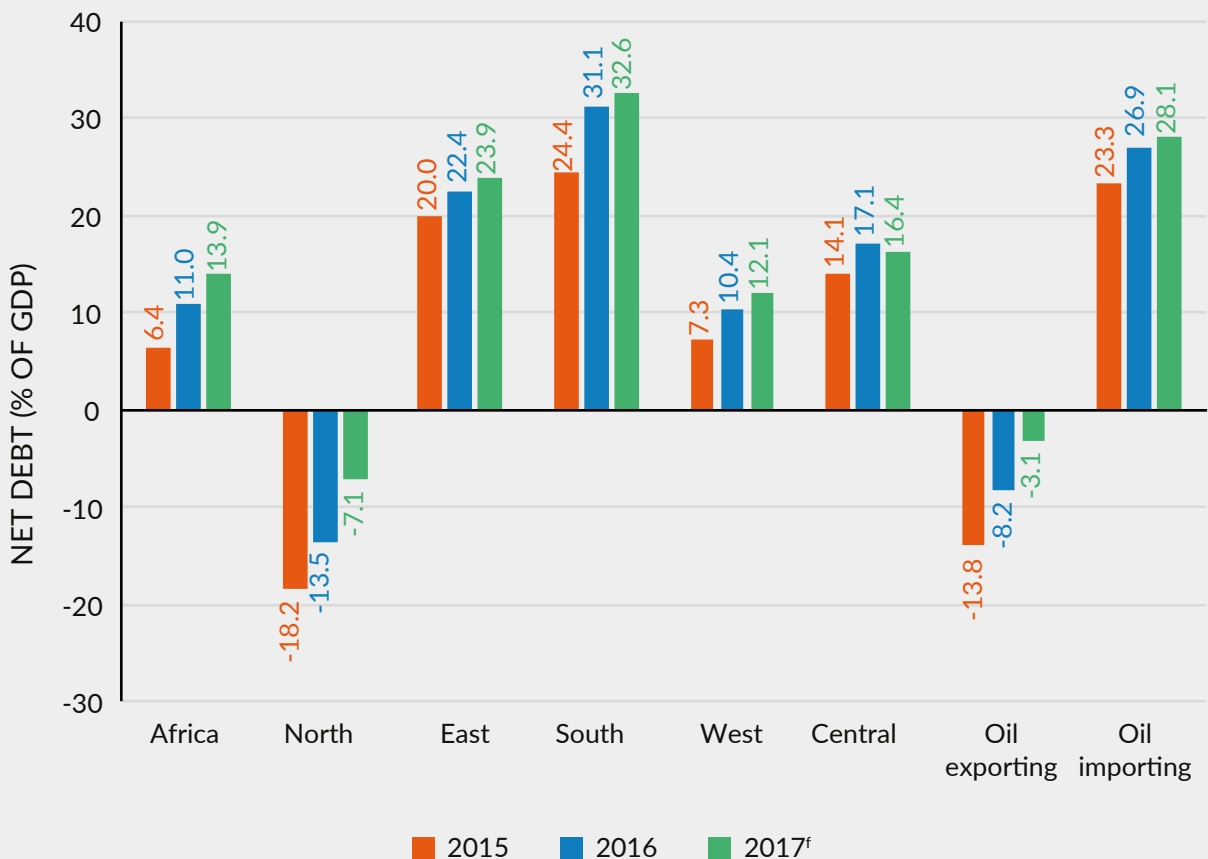
Net African debt surged from 6.4 per cent of GDP in 2015 to 11 per cent in 2016 (figure 1.17), partly due to a fall in international reserves from 33.2 per cent to 28.7 per cent, driven by North Africa and oil-exporting countries.

External debt is relatively low in most African countries owing to external debt relief (to some 30 African countries under the Heavily Indebted Poor Countries and Multilateral Debt Relief Initiative), the robust economic growth seen over the last decade or so and low global interest rates. Yet Africa's total debt increased to 42.8 per cent of GDP in 2010–2015 from 24 per cent in 2000–2005, which is a concern for long-term debt sustainability in several African economies at least, especially as global borrowing conditions start to tighten (IMF, 2015).

The weighted share of concessional debt in total external debt in Africa fell from 42.4 per cent in 2006–2009 to 36.8 per cent in 2011–2013.¹¹ However, a shift of most of Africa's debt from concessional to non-concessional sources, including bilateral and commercial creditors as well as international bond markets, is a concern for low-income countries. Still, many African countries

FIGURE 1.16 Total African debt, (% of GDP), 2015–2017

Source: Based on EIU (2016).
Note: e=estimates; f=forecasts.

FIGURE 1.17 Net debt in Africa, (% of GDP), 2015–2017

Note: f=forecasts.
Source: Based on EIU (2016).

are seeking to finance public investment and are increasingly relying on non-concessional borrowing (Prizzon and Mustapha, 2014). Most of them have entered the international capital markets, selling Eurobonds usually denominated in dollars or euros. Before 2006 only South Africa had issued a foreign currency-denominated sovereign bond in Africa, but in 2006–2014 at least 14 countries issued about \$15 billion in international sovereign bonds.¹²

Though the international bond market is an opportunity for new sources of external finance for African economies, often without the imposition of conditions, it is not without issues. Servicing such bonds can be problematic for prudent debt management, including interest rate and foreign exchange risks. With a rise in international interest rates, countries that have borrowed on international markets could see exchange rate changes raise their debt repayments in local currency terms. So although interest rates on domestic debt are much higher at, on average, 19–23 per cent (UNCTAD, 2016d), exchange rate devaluation or depreciation narrows the nominal difference between the two rates (te Velde, 2014). Similarly, unlike bank loans, international sovereign bonds may be more difficult

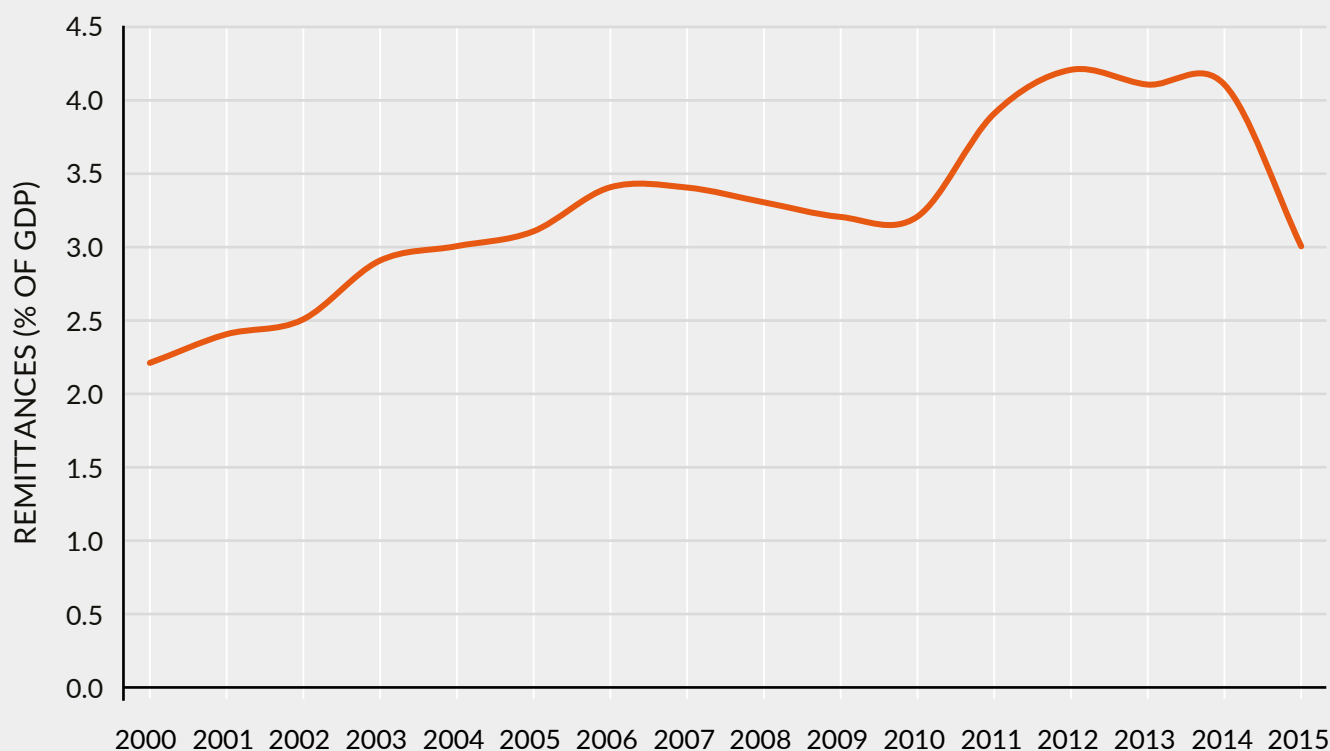
Net FDI to Africa remained stable at about 2 per cent of GDP in 2015 and 2016, but remittances fell from 4.4 per cent of GDP in 2014 to 3 per cent in 2015.

to restructure, because they may involve several creditors that must work together in the event of default.

NET FDI CHANGED LITTLE, BUT PORTFOLIO INVESTMENTS AND REMITTANCES FELL

Net FDI to Africa remained stable at about 2 per cent of GDP in 2015 and 2016. Its main destinations in 2016 were Central Africa (especially Gabon, Cameroon and Republic of Congo), Southern Africa

FIGURE 1.18 Remittances in Africa, averages, (% of GDP), 2000–2015



Source: World Bank (2016b).

Note: Lesotho is excluded as it is an extreme outlier (39.7%). Five countries have no data: CAR, Chad, Equatorial Guinea, Mauritania and Somalia.

(mainly Mauritius, Mozambique and Namibia) and East Africa (notably Djibouti, Seychelles and Uganda). Among the subregions FDI inflows were largest in Central Africa (3.7 per cent), Southern Africa (2.8 per cent), East Africa (2.3 per cent), North Africa (1.8 per cent) and West Africa (1.3 per cent).

Net portfolio investments fell to \$13 billion in 2015 from \$23 billion the year before. South Africa, however, one of the largest recipients of portfolio investments, saw a 70 per cent increase in 2015 from 2014. Nigeria has no data for 2015, but the Nigerian Stock Exchange (2016) reports that 2015

had a one-third reduction in portfolio investments from 2014.

Remittances also fell, from 4.4 per cent of GDP in 2014 to 3 per cent in 2015 (figure 1.18). Four countries excluding the extreme outlier Lesotho (Cabo Verde, Comoros, Gambia and Liberia) received more than 10 per cent of GDP in remittances over 2000–2015; 15 countries received less than 1 per cent over the period. Official development assistance to Africa has shown an increasing trend in recent years, to a projected \$59 billion in 2016 (see table 1.2).

1.4 MEDIUM-TERM OUTLOOK AND RISKS

STRONG DOMESTIC DEMAND IS EXPECTED TO SUPPORT MEDIUM-TERM PROSPECTS

Africa's real GDP growth is expected to increase to 3.2 per cent in 2017 and 3.8 per cent in 2018 (figure 1.19), led by strong domestic demand, particularly in infrastructure. The buoyant service sector, oil-price recovery and oil-exporting economies' focus on non-oil sectors could also contribute to better prospects. Increasing trade and investment ties in Africa and between Africa and emerging economies, alongside the recovery of traditional export markets, particularly the euro area, are also expected to strengthen Africa's outlook.

All the subregions are forecast to see real GDP growth in 2017 and 2018. West Africa's is projected to increase to about 3.1 per cent in 2017 and 4.1 per cent in 2018, boosted mainly by an improving economic performance in Nigeria, with its emphasis on diversifying investments into non-oil sectors through an expansionary fiscal policy. The floating exchange rate regime being implemented may encourage investment inflows in the medium term, and recovery in the oil price and increased oil production will raise public revenues. Ghana has a better growth outlook on improving macroeconomic conditions, increased energy supplies and lower inflation, and Côte d'Ivoire on increased public investment.

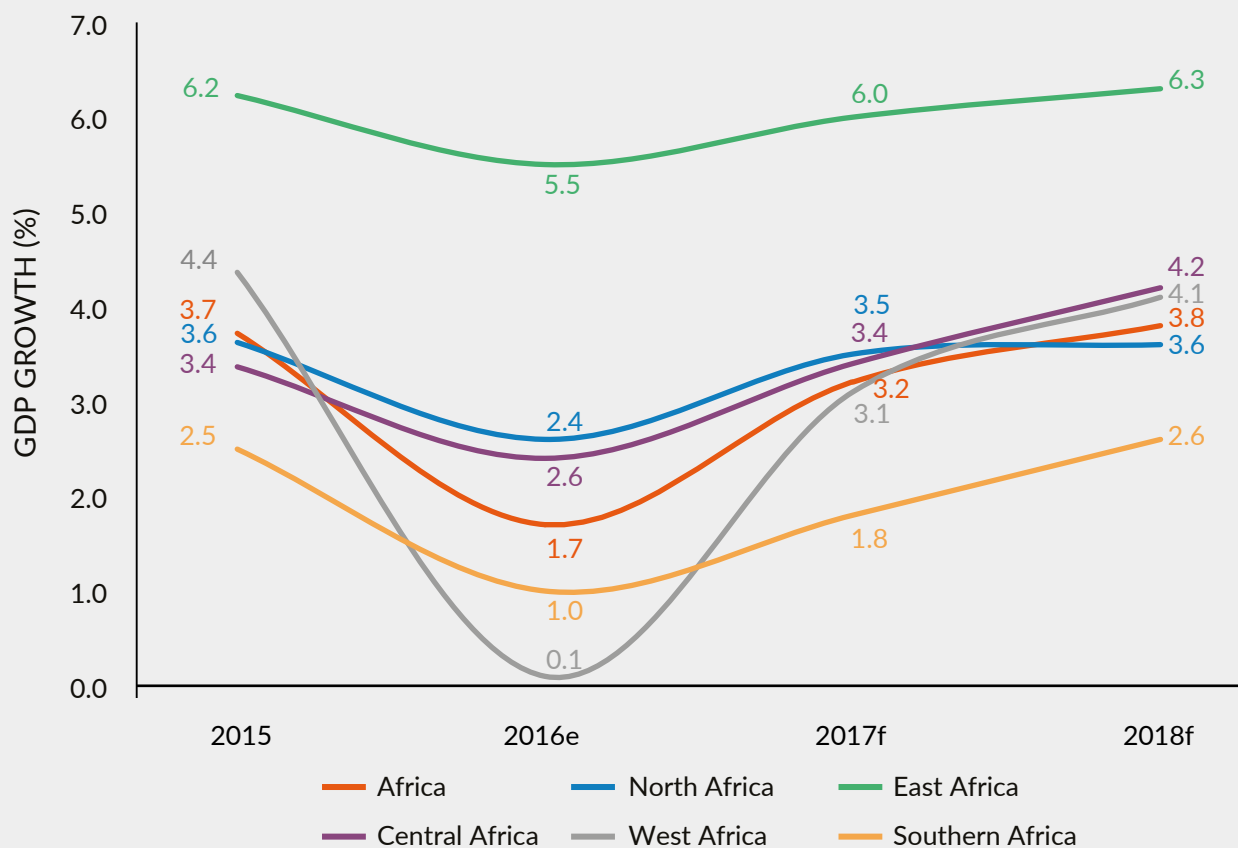
In Southern Africa growth is forecast to rise to 1.8 per cent in 2017 and 2.6 per cent in 2018, mainly because of the expected investment increase in non-oil sectors such as electricity, construction and technology; in large infrastructure projects; and in mining. On the downside are high unemployment in South Africa and the lower oil price (with high inflation) in Angola.

East Africa's growth is set to continue leading the subregions, at 6.0 per cent in 2017 and 6.3 per cent in 2018, backed by robust performance in Kenya, Rwanda and Tanzania as they benefit from low oil prices and expanding public investment. Central Africa is expected to see growth rise to 3.4 per cent and 4.2 per cent, driven by investment in energy and infrastructure, and by a strong service sector.

In North Africa growth is forecast to pick up to 3.5 per cent in 2017 and 3.6 per cent in 2018. Improved political and economic stability—and subsequent

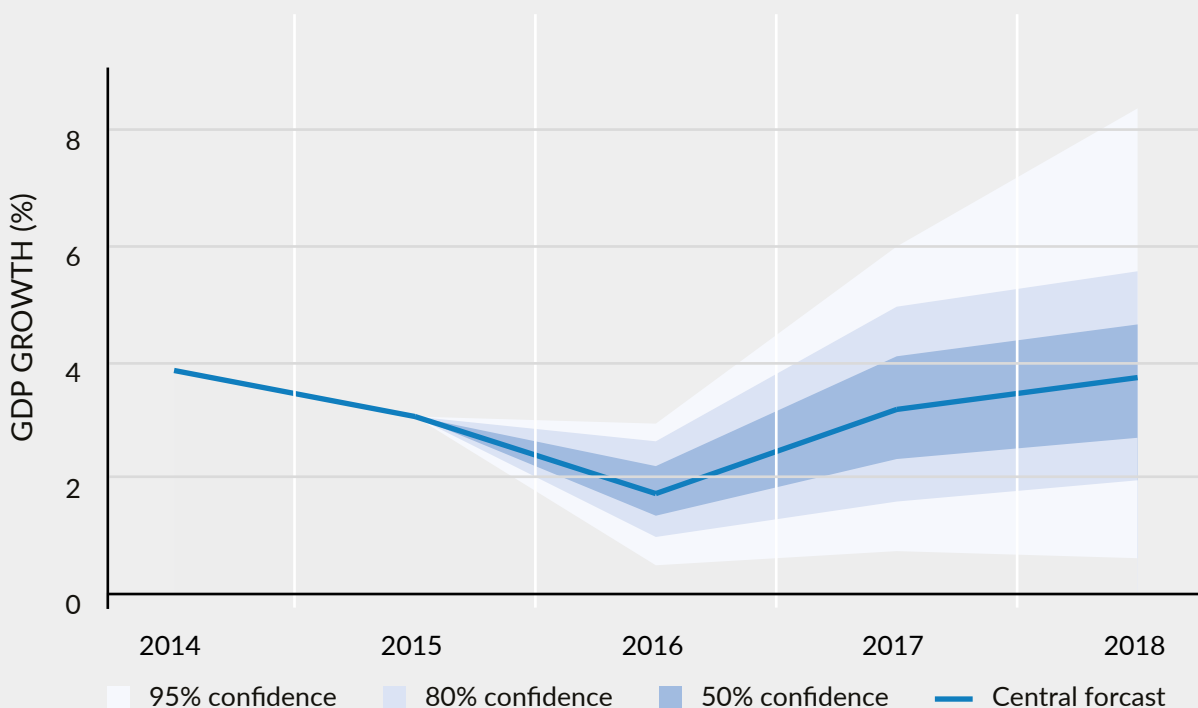
Africa's growth could hit 6 per cent in 2017 and 8 per cent in 2018 if global demand shows a descent recovery, major African countries policy reforms run well and the recovery continues in oil and other commodity prices.

FIGURE 1.19 Africa's growth prospects by subregion, (%), 2015–2018



Source: Based on UNDESA (2016a).
 Note: e=estimates; f=forecasts.

FIGURE 1.20 Africa's GDP growth prospects for Africa (%) with confidence intervals, 2014–2018



Source: UNDESA (2016a).

increases in business confidence (especially in Egypt and Tunisia), in inflows of external aid and in large infrastructure projects—will buttress growth. Continuing political challenges in Libya will continue to affect the subregion's political and economic governance, however.

Depending on the confidence interval (figure 1.20), Africa's growth could hit 6 per cent in 2017 and 8 per cent in 2018, if global demand shows a decent recovery, major African economies' policy reforms run well and the recovery continues in oil and other commodity prices. Yet growth could decelerate further to around 1 per cent in both 2017 and 2018, if the global economy does not recover, oil and commodity prices (and domestic production) decline again, 2015's climate shocks are repeated, and instability continues in some parts of the continent.

AFRICA'S LONG-TERM GROWTH OUTLOOK REMAINS PROMISING

The region's long-term fundamentals remain strong as the pace of growth could be boosted by demographic factors, especially given the ageing global population. Africa has a young population and a growing labour force, with its working-age population reaching 1.1 billion—bigger than China or India's—in the next 20 years. Coupled with the fast penetration of Internet and mobile phones, this will create huge opportunities for Africa, especially in lifting the contribution of modern services to growth.

Africa's resource endowments, if they are properly managed and used, notably via value added rather than export in raw form, would boost job creation

Despite the recent growth decline, Africa's long-term fundamentals remain strong as the pace of growth could be boosted by demographic factors, especially given the ageing global population.

and export earnings. Africa is still home to nearly 60 per cent of the world's unused but potentially available cropland, and has huge reserves of minerals such as vanadium, diamonds, manganese, phosphate, platinum-group metals, cobalt, aluminium, chromium and gold.

The continent is the world's fastest urbanizing region. Each year in the next 30, about 24 million people will move to live in its cities, compared with 11 million in India and 9 million in China. Increasing urbanization leads to better earnings and an expanding middle class that spur consumption growth. However, African countries should manage the process to harness its potential while minimizing associated challenges. This entails linking urbanization and industrialization in national development planning processes, while harmonizing economic and spatial planning priorities with national targets for growth and transformation (taken further in the three thematic chapters, 3, 4 and 5 of this report).

RISKS AND UNCERTAINTIES

The global economy's weak recovery affects Africa's performance through trade, investment and remittances, and so China's deceleration (box 1.4) and the euro area's subdued (though improving) performance remain concerns. Despite the recent increase, relatively low oil prices will continue hurting hydrocarbon-exporting countries, though the net effect may be positive for Africa as a whole. The depreciation of major African currencies, while possibly beneficial for exports, is likely to put pressure on monetary stability.

Brexit effects may slow African growth, mainly through trade and financial channels. Trade ties between the United Kingdom and Africa may weaken, because some of the current EU-Africa trade deals will need to be renegotiated in a lengthy process. Development assistance from the United Kingdom may also decline.

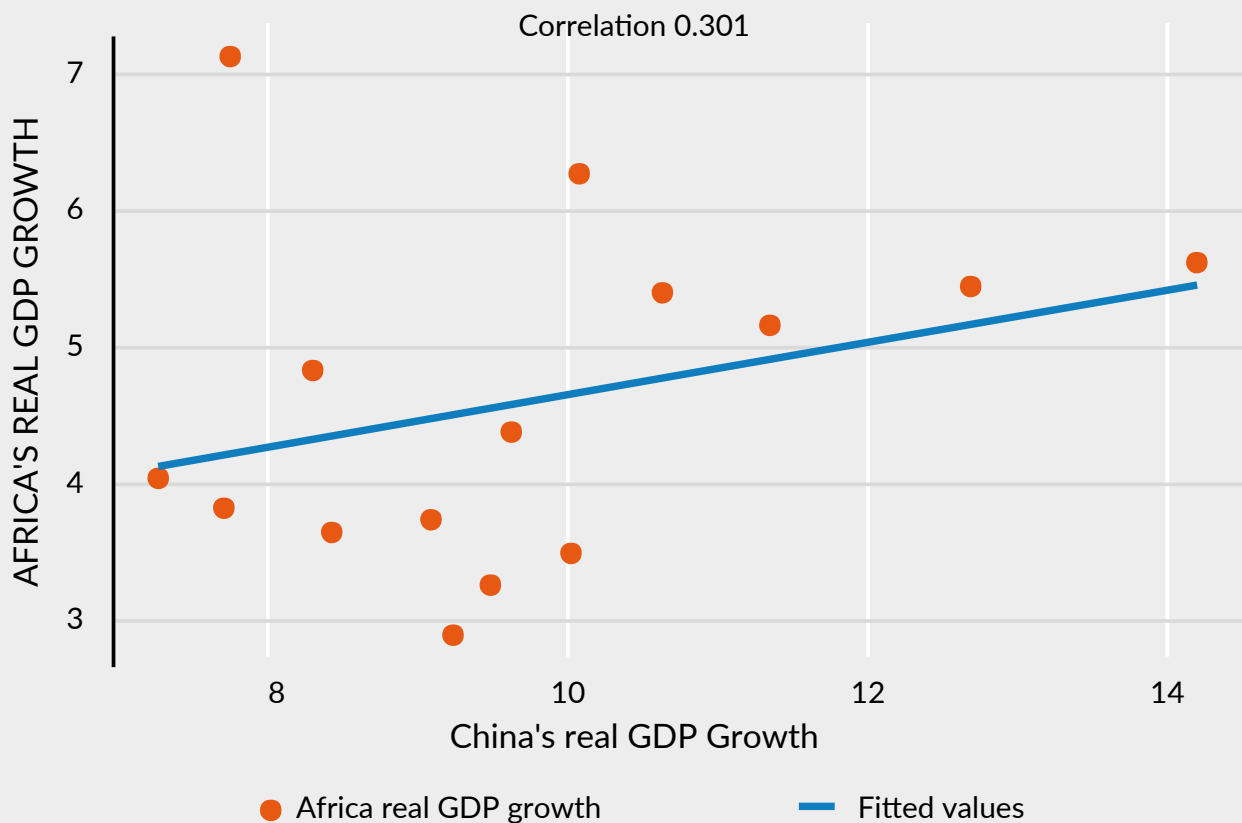
FDI flows are expected to remain steady at about 2 per cent of GDP, although the Federal Reserve's monetary policy presents a risk for the medium term. Low interest rates have increased speculative investors' appetite for emerging markets, and US policy rate rises may divert some flows back to mature markets.

BOX 1.4 CHINA'S ENGAGEMENT IN AFRICA: ANY IMPACT ON AFRICA'S GROWTH?

Africa's growth has shown a positive correlation coefficient of 0.3 with China's growth since 2000 (box figure 1.2). The decline in growth in China and

weak growth in many emerging economies have contributed to the slowdown in global growth, with effects on Africa.

BOX FIGURE 1.2 Correlation between real GDP growth in Africa and China, 2000–2014



Source: Based on data from World Bank (2016b).

The Chinese slowdown has affected African economies mainly through the trade and finance channels (the latter includes aid, grants, loans and investment). China's imports from Africa soared from \$5.5 billion in 2000 to about \$67 billion in 2010, and to \$116 billion in 2013, before falling sharply to \$68 billion in 2015. Similarly, Chinese loans to African countries surged from \$0.13 billion in 2000 to \$17 billion in 2013 before receding to \$13.6 billion in 2014. Investment from China in Africa jumped from almost zero in 2000 to \$3.1 billion in 2014.

Awel and Chavula (2016) estimated growth spillover effects from China to Africa for 1992–2014 and find a direct correlation between Chinese and African growth. They also highlighted that the strongest growth channels are Chinese imports from Africa and Chinese investment in Africa.

Falling demand from China as it rebalances from an investment-led to a consumption-based economy is taking a toll on African growth. For this among many other reasons, African economies need to diversify their trade, build capacity and integrate their economies into global value chains for value-added products.

In Africa risks include weather-related shocks, such as the drought that affected parts of East and Southern Africa in 2016. Beyond agricultural production, any reoccurrence would hurt hydropower generation, threatening Africa's efforts to green its industrialization. Poor harvests would also feed into inflation through higher food prices.

Security in some African countries remains an issue, especially in Egypt, Ethiopia, Kenya, Libya and Tunisia, where such concerns have hurt tourism receipts. Boko Haram and Al-Shabaab in West and East Africa, and political unrest in some other African countries, especially those heading for or having just held elections, may disrupt domestic economic activities and reduce foreign investment.

1.5 POLICY IMPLICATIONS TO REVITALIZE AFRICA'S GROWTH

With growth at only 1.7 per cent—the lowest since the start of the century—Africa needs policies to lift growth through increased consumption, investment and trade. Its dependence on commodity exports is unsustainable, and the volatility in commodity prices calls for counter-cyclical fiscal policies to foster its structural transformation. It also calls for steps to improve the enabling environment (regulatory and operational) for businesses and to attract foreign investment. The decline in global demand and commodity prices also suggests Africa's need to diversify economically and add value through commodity-based industrialization, raising productivity in agricultural and non-agricultural sectors.

Furthermore, much of the labour supplied to the industrial and service sectors involves the processing and trading of agricultural and other primary goods for consumers whose incomes are dominated by agricultural activities. These strong links highlight additional benefits to achieving and sustaining agricultural productivity growth as the countries' structurally transform, increasing the

supply of raw materials for manufacturing, and increasing the demand for non-tradeable goods. Raising overall productivity, which enhances the countries' competitiveness, people's living standards and overall economic growth, is vital for structural transformation and long-term growth.

Unreliable power supply and poor transport networks, as well as low investment in research and development, have had a heavy negative impact on productivity, competitiveness and long-term growth in many African countries. Building infrastructure, especially electricity supply and transport networks is necessary as it plays a very important role in facilitating and enhancing the productivity of factor inputs such as labour and capital, especially in African manufacturing firms. And there is need to strengthen support for industrialization and regional integration.

Beyond that, the weakening of domestic currencies, rising interest rate spreads on sovereign debt and volatility in capital inflows pose a challenge for tapping finance on the international capital markets. To finance the infrastructure deficit, African countries need to come up with innovative ways of financing. High debt, the global economic slowdown and the decline in government revenues all call for promoting ways to mobilize more domestic resources to finance long-term development plans.

Many of these policy implications are picked up in more detail in chapters 3, 4 and 5. But first, paralleling this chapter's recent economic developments, chapter 2 turns to recent social developments in Africa.

The decline in global demand and commodity prices suggests Africa's need to diversify economically and add value through commodity-based industrialization, raising productivity in agricultural and non-agricultural sectors.

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ENDNOTES

- 1 See World Bank (2015) and UNCTAD (2016b).
- 2 See IMF (2015).
- 3 See United Nations (2015) and Brown (2014).
- 4 These were the shares of intra-regional trade in each region's total merchandise exports in 2015: Asia (64%); the European Union (62%); North America (42%), South and Central America (17%); Africa (16%)(UNCTAD 2015).
- 5 Authors' computation based on UNCTAD (2016b).
- 6 See Chu (2001).
- 7 AUC (2016).
- 8 See <http://www.au.int/en/pressreleases/21051/1st-meeting-continental-free-trade-area-negotiating-forum-cfta-nf-kicks-addis> (consulted on the 28 July 2016).
- 9 See the website <http://www.au.int/en/pressreleases/30335/2nd-meeting-continental-free-trade-area-negotiating-forum-cfta-nf-kicks-addis> (consulted 28 July 2016).
- 10 The Infrastructure Consortium for Africa (2015).
- 11 UNCTAD (2016d).
- 12 These include Angola, Côte d'Ivoire, Egypt, Ethiopia, Gabon, Ghana, Kenya, Namibia, Nigeria, Rwanda, Senegal, Seychelles, Tanzania and Zambia.