CHAPTER 1

RECENT ECONOMIC AND SOCIAL DEVELOPMENTS

Africa grew by 3.2 per cent in 2018, down slightly from 3.4 per cent in 2017, buoyed by improved global growth that is increasing demand for Africa's exports and by rising commodity prices, higher investment in infrastructure, strong private consumption and favourable weather. Growth is forecast to pick up to 3.4 per cent in 2019. However, Africa needs to to triple this growth if countries are to achieve the Sustainable Development Goals (SDGs). Countries need to use new technology to improve productivity and to increase investment to 30–35 per cent of GDP by becoming more business friendly and using fiscal policy to encourage private investment. Africa's growth prospects remain positive in the medium term, despite risks and uncertainties.

In terms of social development, Africa has made notable progress in education, health and other social outcomes, but inclusive growth remains elusive. Africa's social gains could be greater if countries mobilized fiscal revenue in innovative ways and deployed it effectively to finance sustainable development.

GLOBAL ECONOMIC PERFORMANCE AND ITS IMPLICATIONS FOR AFRICA

Global GDP growth rose slightly, from 3.1 per cent in 2017 to 3.2 per cent in 2018, and is projected to remain stable in 2019 (figure 1.1). Strong global growth, driven by investment and trade in developed and emerging market economies and higher commodity prices, is expected to boost demand for African exports, especially from commodity-exporting countries. Clouding the growth picture are US protectionist policies towards China, which could mute medium-term growth, and a modest rise in global commodity prices, which could benefit commodity-exporting countries but exert inflationary pressures on oil-importing countries in Africa.

Rising commodity prices, higher yields on US bonds, escalating trade tensions, and domestic political and policy uncertainty have reduced capital inflows and driven up financing costs, exchange rates and inflationary pressures in some African countries, especially those with weak economic fundamentals. All this has adversely affected African economies.

Growth in emerging and developing economies stabilized during 2015–2017, at around 4.4 per cent. Emerging Asia continued to register robust growth, supported by strong demand in India, while China's growth eased downward, from

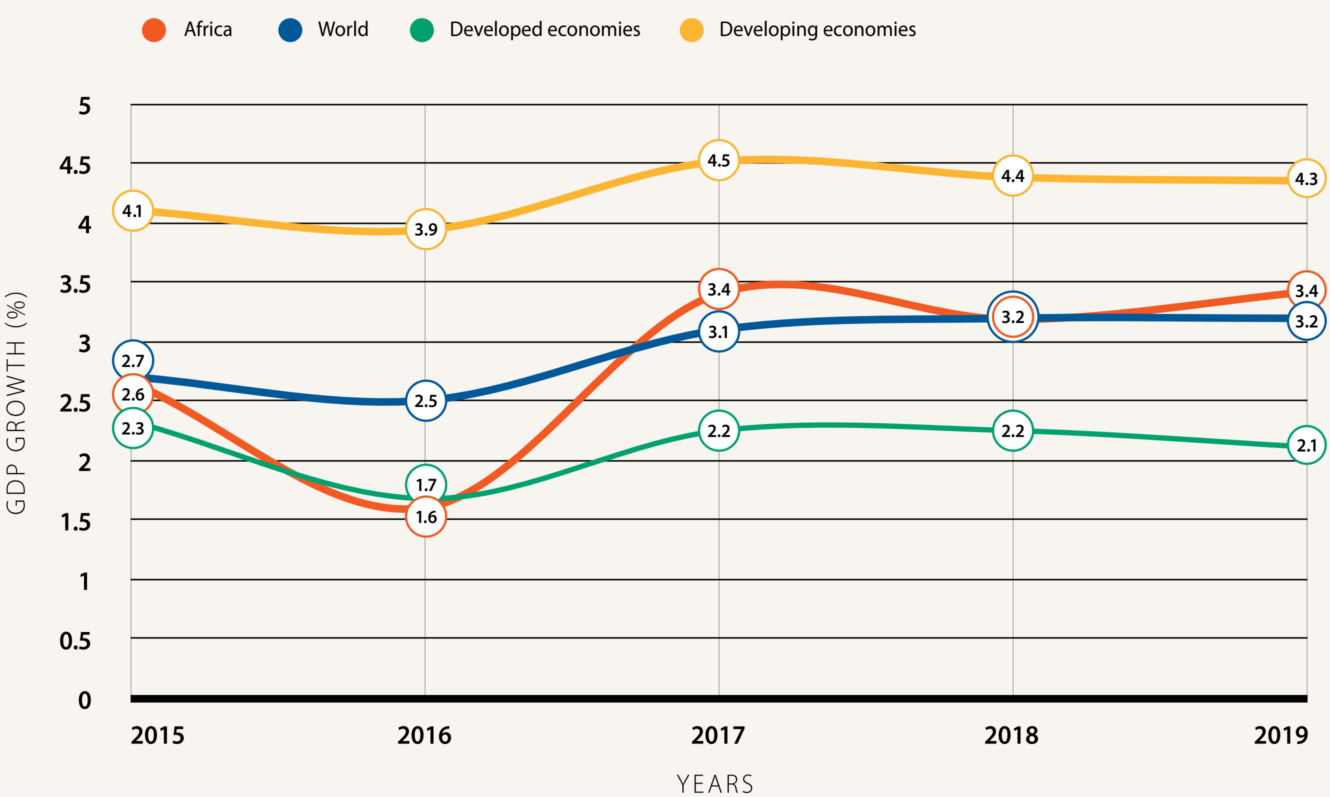
Africa's social gains could be greater if countries mobilized fiscal revenues in innovative ways and deployed them effectively to finance sustainable development.

6.9 per cent in 2017 to 6.6 per cent in 2018, as export growth moderated. Growth in global trade declined to 4.3 per cent in 2018, from a six-year high of 4.8 per cent in 2017, due to decelerating global investment as financing conditions tightened. Consequently, capital flows to African and other developing economies are expected to slow. More generally, a projected deceleration in capital spending in China and most advanced economies will see growth in global trade moderate between 2018 and 2019 (EIU, 2018b; IMF, 2018b). On the positive side China's trade is forecast to remain strong, underpinned by an uptick in growth in emerging economies (including Argentina, Brazil and the Russian Federation), though at a subdued pace.

Higher energy prices fuelled rising inflation in advanced, emerging and some developing economies over 2018, despite declining domestic demand in China (IMF, 2018b). With increasing inflation and strong job creation, the US Federal Reserve raised the policy interest rate by 25 basis points in June 2018, while the European Central Bank maintained its policy rate. Most emerging market economies have raised their policy rates to curb inflationary and exchange rate pressures, which were coupled with capital flow reversals in some countries (IMF, 2018b).

At the global level, countries tightened their monetary policy stance in response to a stronger US dollar after February 2018, while the euro, Japanese yen and British pound remained unchanged. Currencies depreciated sharply in some emerging market economies (such as Argentina, Brazil, South Africa and Turkey), reflecting signs of financial stress in some countries and growing trade tensions

FIGURE 1.1. GLOBAL ECONOMIC GROWTH, 2015–2019



Note: Data are estimated for 2018 and projected for 2019.

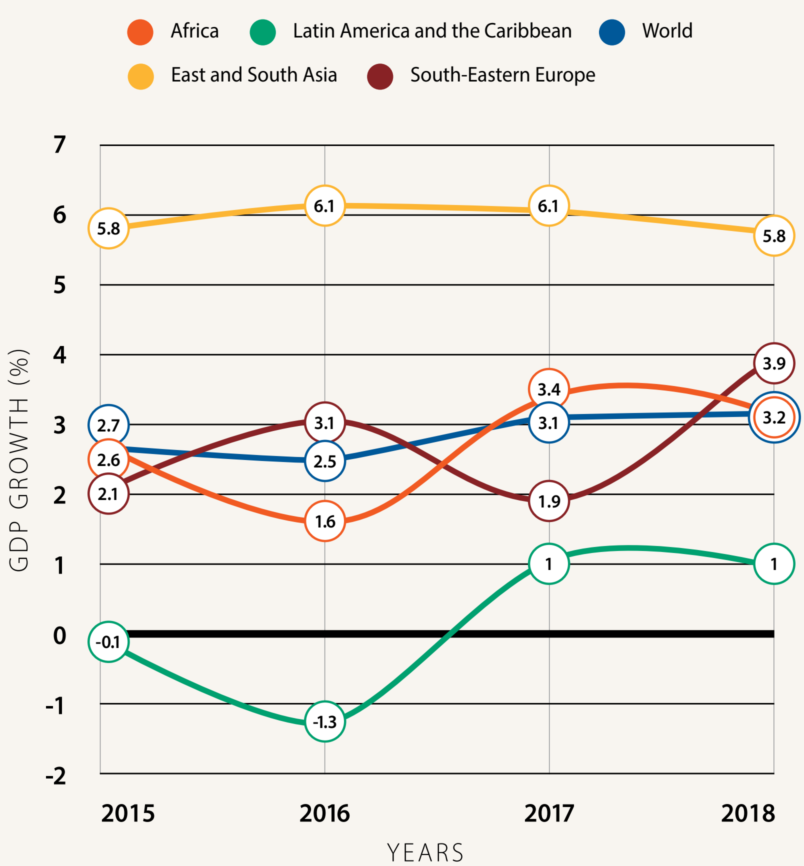
Source: Based on data from UNDESA (2019).

and capital flight. Argentina, India, Indonesia, the Russian Federation and Turkey intervened in foreign exchange markets or raised interest rates to contain exchange rate and inflation rate pressures.

As the dollar's supremacy as a means of exchange and a store of value remains unchallenged, the rising dollar would lead to an equal rise in the local currency cost of servicing dollar-denominated debt by African countries. Hence, as the dollar rises, so does the cost of servicing those debts. Currency depreciation due to the strengthening of the dollar, especially in emerging market economies, would lead to a decline in Africa's exports as imports become more expensive in Africa's trading partners, especially those in the euro zone. The rising interest rates would also lead to a reversal of capital flows, as many developing countries rely heavily on capital inflows to fund their fiscal or current account deficits.

An expected decline in capital flows presents challenges for African economies, as the cost of debt and debt service are expected to rise. African countries need to enhance their resilience through an appropriate mix of fiscal, monetary and structural policies that reduce vulnerability to tightening global financial conditions, currency fluctuations and capital outflows. And they need to closely monitor the negative effects of external conditions on public and private sector balance sheets and domestic inflation.

FIGURE 1.2. ECONOMIC GROWTH IN AFRICA AND DEVELOPING ECONOMIES, 2015–2018



Note: Data are estimated for 2018 and projected for 2019.
Source: Based on data from UNDESA (2019).

RECENT ECONOMIC DEVELOPMENTS IN AFRICA

ECONOMIC GROWTH

Africa's economic growth slowed slightly, from 3.4 per cent in 2017 to 3.2 per cent in 2018 (figure 1.2). Growth was driven by external factors, including strengthening global demand and a moderate increase in commodity prices. The domestic drivers include sustained investment in infrastructure and strong private consumption (figure 1.3), along with higher oil production (from new fields) and favourable weather.

Some of Africa's largest economies—Angola, Nigeria and South Africa—are rebounding, due to a rise in private consumption, but growth remains low. Growth in non-resource-rich countries such as Côte d'Ivoire, Ethiopia, Kenya and Senegal remains strong, driven by heavy public investments in infrastructure.

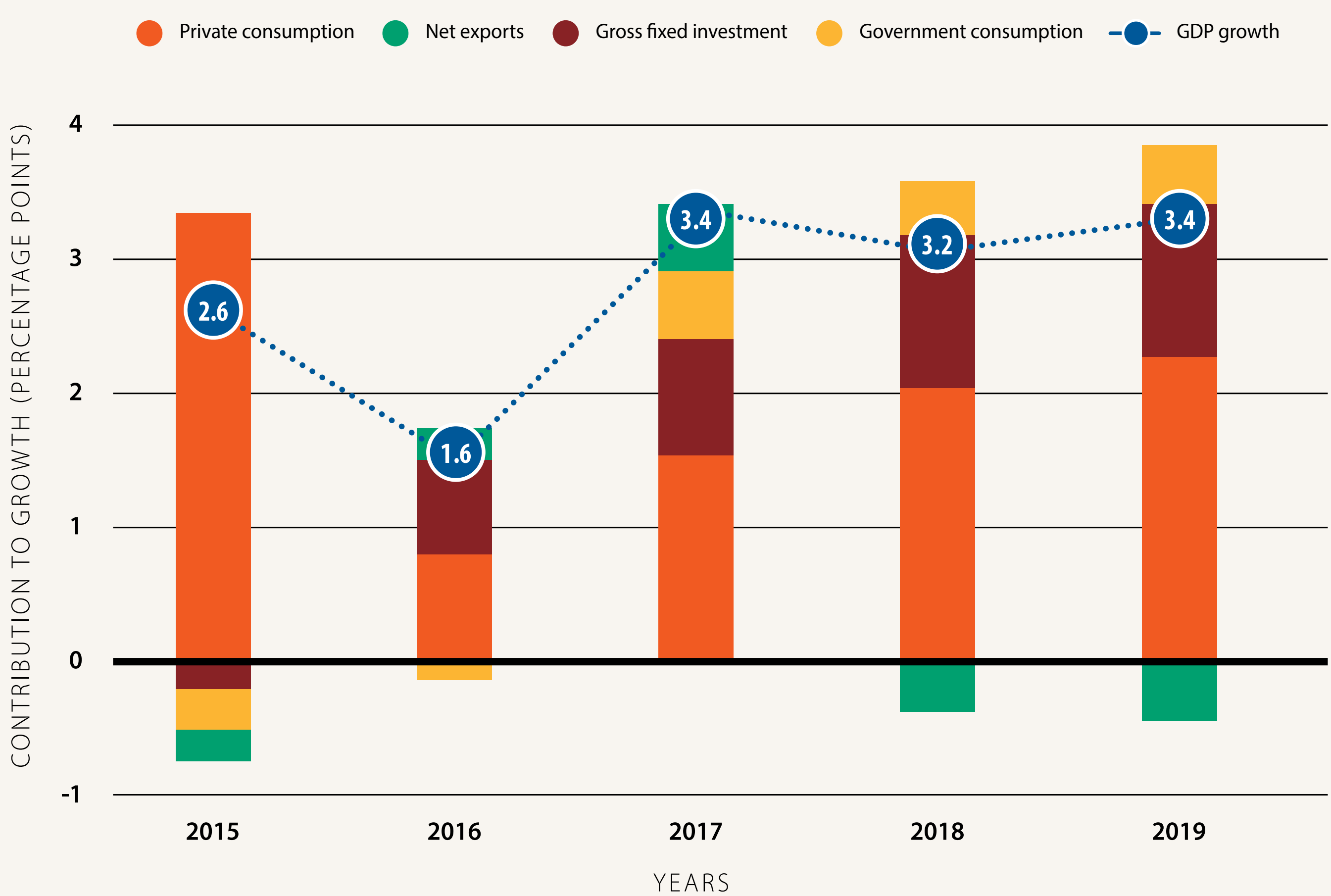
Africa's growth rate of 3.2 per cent in 2018 is not sufficient to eradicate poverty.

However, Africa's growth rate of 3.2 per cent is not sufficient to eradicate poverty or achieve the other SDGs by 2030. To accelerate growth to double digits by 2030, Africa needs to boost investment from its current 25 per cent of GDP—much lower than the 32 per cent in East Asia and the Pacific—to 30–35 per cent and substantially improve productivity (World Bank, 2018b). Productivity growth in Africa slipped from an average of 2.4 per cent over 2000–2008 to 0.3 per cent over 2009–2018, well below the global average of 1.9 per cent over 2011–2017. African countries need to implement reforms that build resilience and raise potential growth and inclusiveness.

STEADY GROWTH ACROSS SUBREGIONS

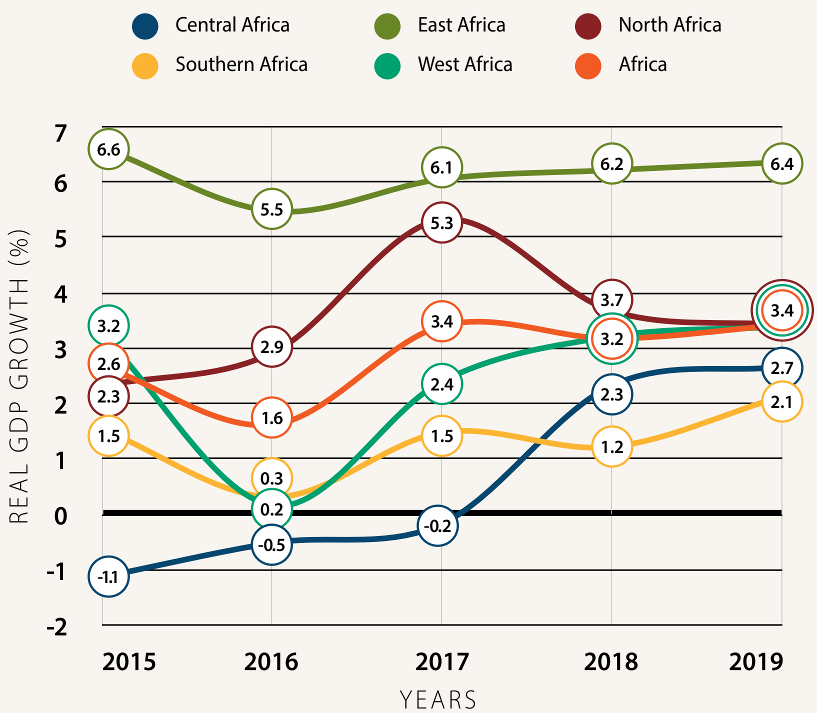
All subregions recorded growth in 2018. East Africa remains the fastest growing subregion in Africa, with growth rising from 6.1 per cent in

FIGURE 1.3. COMPONENTS OF ECONOMIC GROWTH IN AFRICA, 2015–2019



Note: Data are estimated for 2018 and projected for 2019.
Source: Based on data from EIU (2018a) and UNDESA (2019).

FIGURE 1.4. ECONOMIC GROWTH IN AFRICA, BY REGIONAL GROUPING, 2015-2019



Note: Data are estimated for 2018 and projected for 2019.
Source: Based on data from UNDESA (2019).

2017 to 6.2 per cent in 2018, driven by strong public spending on infrastructure and rising domestic demand (figure 1.4). Growth in the subregion reflected strong growth in Djibouti, Ethiopia, Kenya, Rwanda, Tanzania and Uganda, with only Burundi growing at below 3.0 per cent. While agriculture remains the dominant economic activity in East Africa and the key driver of growth, industry and services have been expanding in Ethiopia, Kenya, Rwanda and Tanzania, and the mining sector has been strong in Democratic Republic of the Congo, Madagascar, Rwanda and Uganda. Rising government spending on infrastructure and the fast-growing construction, real estate and retail sectors in Ethiopia and Kenya will continue to boost growth in the subregion. At the same time oil and gas explorations, favourable weather and enhanced regional integration through the regional economic communities and the African Continental Free Trade Area (AfCFTA) offer huge potential for growth across East Africa.

Growth in West Africa climbed from 2.4 per cent in 2017 to 3.2 per cent in 2018, reflecting higher growth in all countries in the subregion except Burkina Faso, Guinea and Guinea-Bissau. Ghana and Nigeria benefited from recovering oil prices and higher oil production, while services sector activities grew in all countries except Liberia and Sierra Leone. Benin, Côte d'Ivoire, Ghana, Niger and Senegal benefited from buoyant markets for mineral and agricultural commodities and higher private consumption and public investment.

Central Africa recovered from an economic slump of –0.2 per cent in 2017 to grow by 2.3 per cent in 2018. Growth is projected to reach 2.7 per cent in 2019. While the key drivers of this positive trend vary across countries, they include recovering oil prices; new oil and gas production (Cameroon, Congo and Equatorial Guinea); strong performance in agribusiness, manufacturing and services (Cameroon, Congo and Gabon); tourism and construction (São Tomé and Príncipe); resumption of diamond exports (Central African Republic); and spillovers of Nigeria's recovery into Cameroon and Chad. However, inadequate economic diversification (Congo, Gabon and Equatorial Guinea) and adverse weather remain key risks that could derail economic growth in the subregion.

Growth in North Africa fell from 5.3 per cent in 2017 to 3.7 per cent in 2018, underpinned mainly by growth in Libya (11.0 per cent), Egypt (5.8 per cent) and Morocco (3.5 per cent). The decline was due to lower private consumption as a result of rising inflation in some countries, including Algeria, Egypt and Sudan, and political instability in Libya.

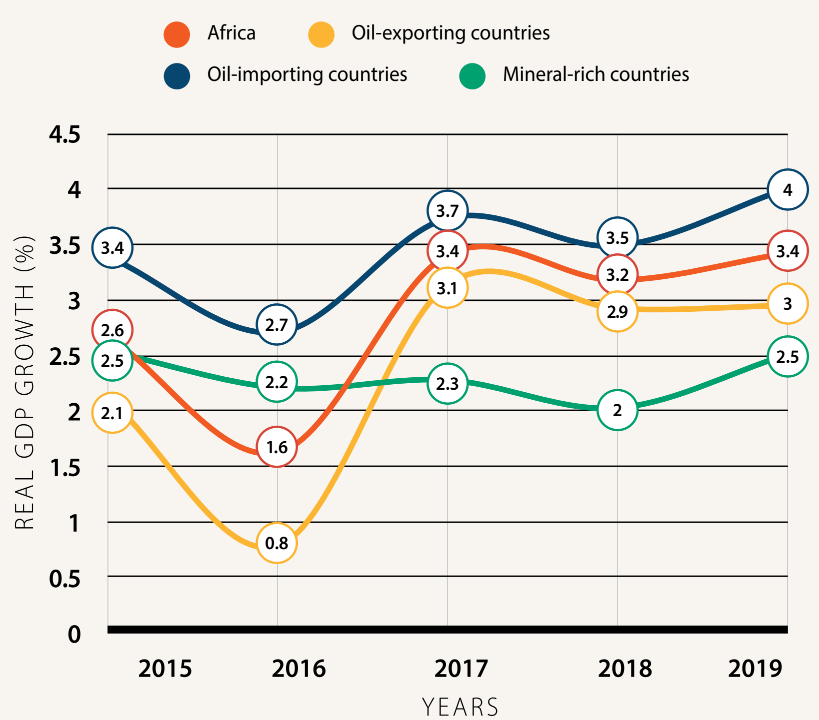
Growth improved in Tunisia, from 1.9 per cent in 2017 to 2.4 per cent in 2018, due to a resurgence in tourism, manufacturing and industry.

Growth also slowed in Southern Africa, dipping from an already low 1.5 per cent in 2017 to 1.2 per cent in 2018. The economy was supported by a moderate increase in commodity prices (copper and diamonds) and positive spillovers of an improved energy supply. In 2018 Southern Africa's performance was driven by growth in Botswana (4.4 per cent), Malawi (4.4 per cent), Zambia (4.1 per cent) and Mauritius (3.7 per cent). In South Africa growth was driven by an uptick in retail trade, manufacturing and mining. Angola, the only oil producer, saw the growth rate increase to 1.0 per cent in 2018 from 0.7 per cent in 2017. After the economy suffered a prolonged recession in 2016–2017 due to the slump in world oil prices, which led to a slowdown in the extractive and manufacturing industries. The economy picked up marginally in 2018 as global commodity prices began to recover. The Angolan government introduced a macroeconomic stabilization programme to improve the business environment through deficit reduction, debt consolidation and greater exchange rate flexibility. Growth in the subregion is projected to reach 2.1 per cent in 2019, underpinned by an expected rise in global prices and increased agricultural output due to improving weather conditions (UNDESA, 2018b).

Per capita growth rates in all subregions continued to trail population growth rates since the commodity price slump in mid-2014. Although in 2017 the population growth rate in North Africa (1.8 per cent) was lower than the per capita economic growth rate (4.8 per cent), once Libya, with its 70 per cent growth rate in 2017, is excluded, per capita GDP growth in North Africa falls below the population growth rate. Growth in oil-importing countries declined from 3.7 per cent in 2017 to 3.5 per cent in 2018 (figure 1.5), supported by agricultural production and services sector activities, as well as by strong private consumption and public investment. Most oil-exporting countries saw an uptick in growth, helped by higher prices and expanded production.

All subregions recorded growth in 2018. East Africa remains the fastest growing subregion in Africa.

FIGURE 1.5. ECONOMIC GROWTH IN AFRICA, BY ECONOMIC GROUPING , 2015–2019



Note: Data are estimated for 2018 and projected for 2019.

Source: Based on data from UNDESA (2019) and EIU (2018a).

TIGHT GLOBAL MONETARY POLICY KEPT INFLATION IN CHECK

Inflation remained on a downward trend, declining from a weighted average of 14.4 per cent in 2017 to 11.1 per cent in 2018, reflecting mainly stable exchange rates and falling food prices, which countered the inflationary pressures of rising global oil prices.

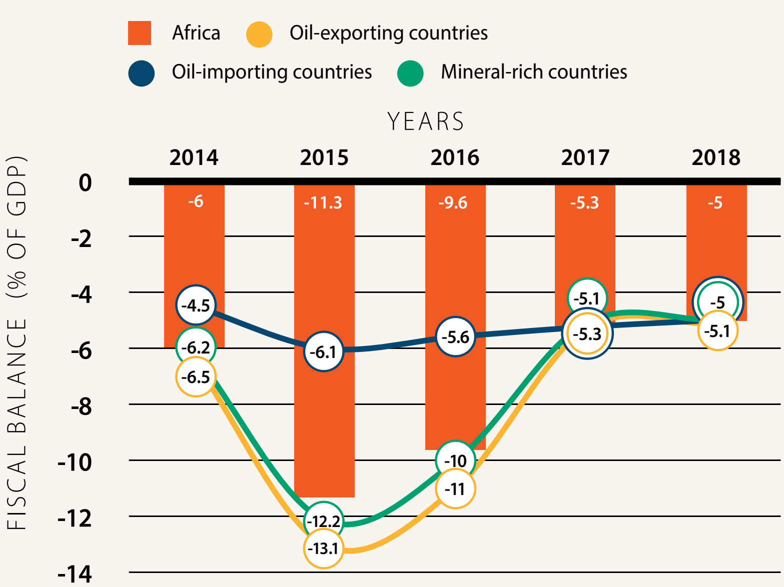
Inflation dropped in oil-exporting countries, from an average of 20.7 per cent in 2017 to 15.4 per cent in 2018, and declined moderately in oil-importing countries, from 5.7 per cent to 5.2 per cent. However, inflation rose in some countries for reasons ranging from higher oil prices in Egypt to currency devaluation in Ethiopia and subsidy elimination in Sudan. However, West Africa is the only subregion where inflation rose substantially in 2018, due mainly to inflationary pressures in Nigeria (16.2 per cent), Sierra Leone (11.7 per cent), Liberia (11.2 per cent), Guinea (9.2 per cent) and Ghana (8.3 per cent). Inflation was driven by rising global demand, poor harvests in the Sahel region leading to higher food prices, and higher import prices leading to increased production costs.

A NARROWING FISCAL DEFICIT WITH RISING EXTERNAL DEBT

Africa's fiscal deficit narrowed from 5.3 per cent of GDP in 2017 to 5.0 per cent in 2018 (figure 1.6). This improvement was supported by fiscal consolidation efforts (such as reductions in subsidies) in many countries, recovering oil prices and increased oil production (Angola, Chad, Ghana and Nigeria), widening tax bases and automation of tax administration (Congo, Lesotho, Malawi and Nigeria). Fiscal deficits narrowed in all country groups—oil importing, oil exporting and mineral rich. Africa's fiscal deficit is projected to remain stable at 5.0 per cent of GDP in 2019, supported by improving global economic conditions, particularly among commodity exporters. However, widespread commitments to investment in infrastructure will make it difficult to narrow fiscal deficits.

Even as Africa's fiscal deficit narrowed, debt as a share of GDP (weighted) increased marginally from 2017 to 2018, from 48.4 per cent to 50.5 per cent for domestic debt and from 35.5 per cent to 37.6 per cent for external debt[1]. Both types of debt stabilized significantly in oil-importing countries but remain high in oil-importing and mineral-rich countries. In 2018, external debt (weighted) stood at 44.8 per cent of GDP in oil-importing countries and 44.3 per cent in mineral-rich countries, while public debt was 63.0 per cent of GDP in oil-importing countries and 47.5 per cent in mineral-rich countries.

FIGURE 1.6. AFRICA'S FISCAL BALANCE, BY ECONOMIC GROUPING, 2014-2018

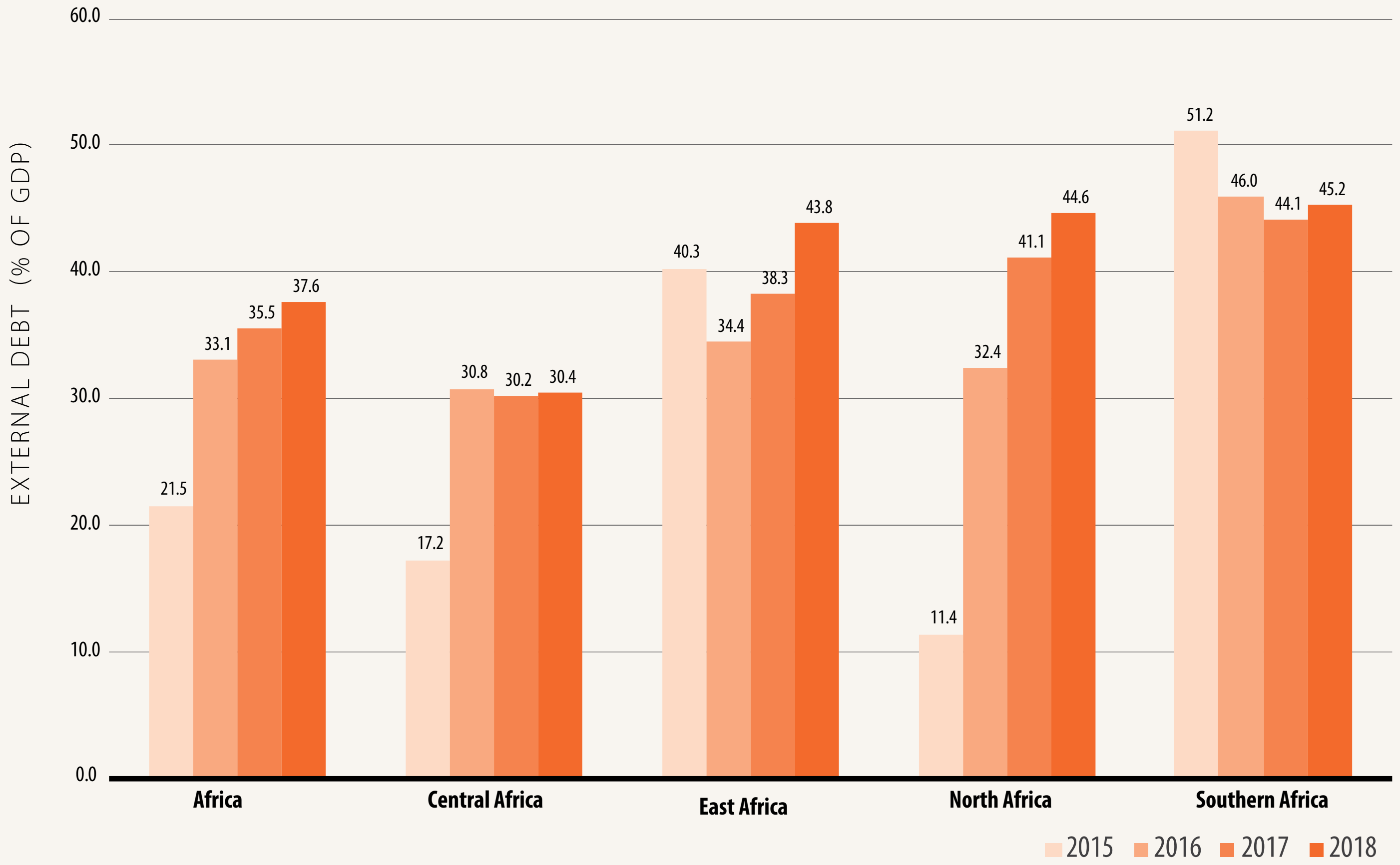


Note: Data are estimated for 2018
Source: Based on data from EIU (2018a).

1 ECA calculations based on data from EIU (2018a) and UNDESA (2019).

Africa's fiscal deficit is projected to remain stable at 5.0 per cent of GDP in 2019, supported by improving global economic conditions, particularly among commodity exporters.

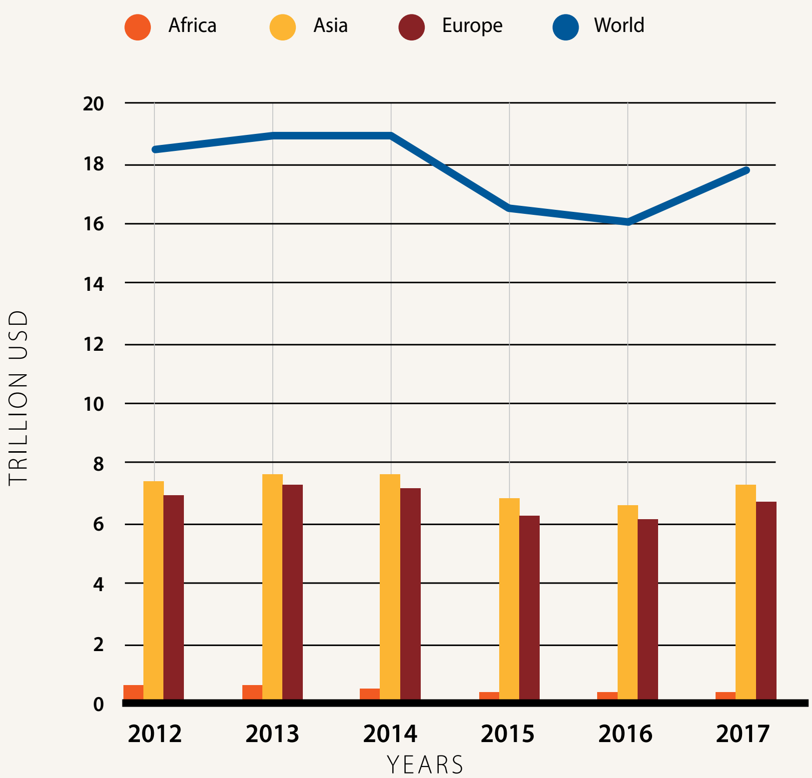
FIGURE 1.7. AFRICA'S EXTERNAL DEBT POSITION, BY SUBREGION AND ECONOMIC GROUPING, 2015-2018



Note: Data are estimated for 2018 and projected for 2019

Source: Based on data from EIU (2018a).

FIGURE 1.8. AFRICA'S MERCHANDISE EXPORTS, 2012-2017



Source: Based on data from UNCTAD (2018b).

CURRENT ACCOUNT DEFICITS NARROWED AS EXPORTS PICKED UP

Current account deficits narrowed from 3.9 per cent of GDP in 2017 to 3.1 per cent in 2018, underpinned by rising commodity prices. However, current account deficits widened in some countries, including Seychelles (to 25.5 per cent of GDP), Mauritania (24.3 per cent), Mozambique (21.7 per cent) and Niger (15.3 per cent), due to increased demand for capital imports, high fuel prices in oil-importing countries, high food imports and higher interest payments on government debt.

Merchandise exports picked up in 2017 after four years of slowdown (figure 1.8). World exports increased by 10.6 per cent, the largest export growth spurt since 2012. All regions expanded their exports in 2017, with Africa registering the largest increase (18.3 per cent), followed distantly by Asia (11.3 per cent) and Europe (10.3 per cent). Africa's share in world exports rose from 2.2 per cent in 2016 to 2.4 per cent in 2017.

Africa's merchandise imports also increased in 2017, following two years of lower performance, rising from $495 billion in 2016 to $534 billion in 2017, a nearly 8 per cent increase. As exports increased more than imports, the trade deficit was reduced from $142.7 billion in 2016 to $116.9 billion in 2017.

Most African governments have taken steps to strengthen their debt management procedures. However, this has not been very effective, as debt remains high in Angola, Mozambique and Zambia. High debt levels, coupled with monetary tightening in most developed economies and the associated rise in interest rates (making external debt more expensive), raise doubts about the sustainability of debt dynamics in some countries (UNDESA, 2018a). More than a quarter of African countries had a debt-to-GDP ratio of more than 50 per cent in 2018, and some (Mauritania, Mauritius, Seychelles and Sudan) had a ratio of more than 100 per cent. Debt management needs attention, particularly with respect to conditions and sources of financing.

AFRICA EXPORTS MAINLY PRIMARY COMMODITIES AND IMPORTS MANUFACTURES

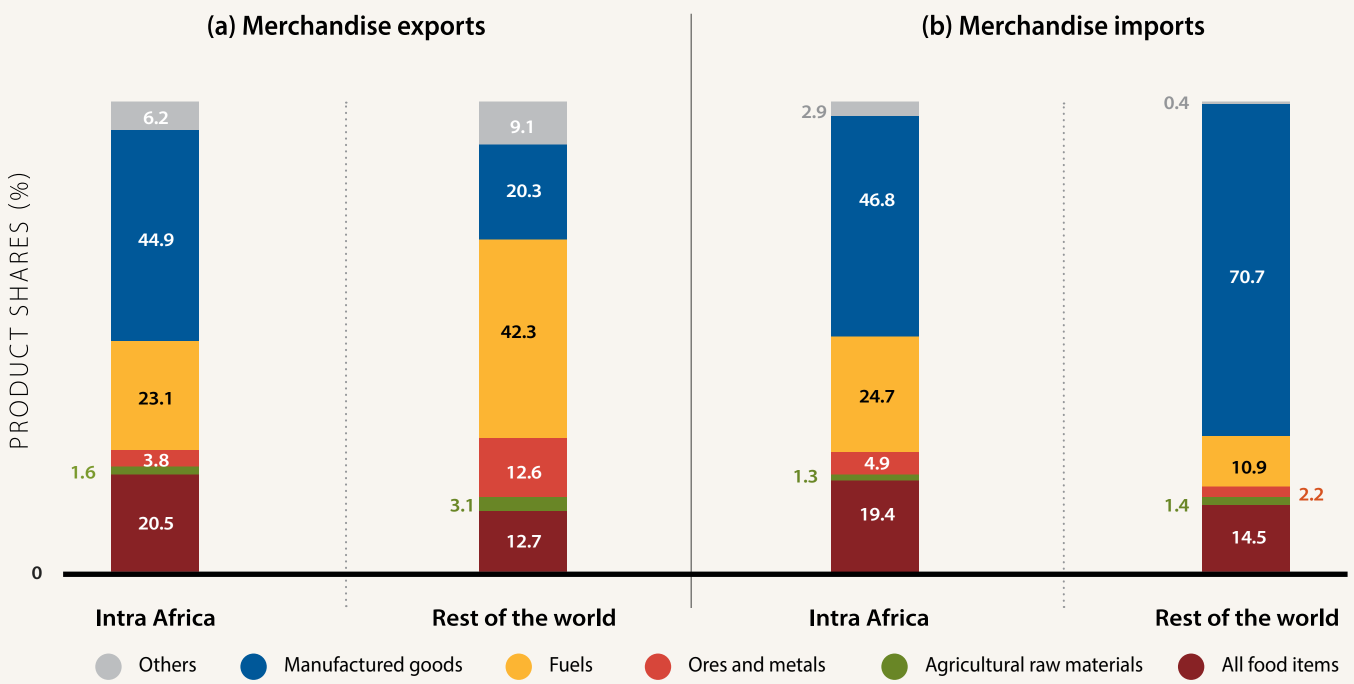
Primary commodities and raw materials (fuels, ores and metals, and agricultural raw materials) constituted the largest share of Africa's merchandise exports in 2017. Fuels alone accounted for 39.4 per cent of the value of Africa's exports, a 4.6 percentage point increase over 2016. Manufactures grew little as a share of Africa's exports, from 24.3 per cent in 1996 to 26.2 per cent in 2016, with a slight decrease to 23.9 per cent in 2017 (see figure 1.9a for the breakdowns for intra-African trade and for trade with the rest of the world in 2015-2017).

South Africa was Africa's top exporter to the rest of the world over 2015–2017 (18.2 per cent share), followed by Nigeria (12.0 per cent) and Algeria (10.0 per cent). Côte d'Ivoire was the top exporter of food items, accounting for 14.3 per cent of African food exports to the rest of the world, followed by South Africa (12.5 per cent) and Morocco (11.0 per cent). South Africa ranked first in Africa's agricultural exports to the rest of the world (18.1 per cent share), followed by Côte d'Ivoire (10.1 per cent) and Cameroon (7.7 per cent). South Africa (45.7 per cent), Zambia (12.1 per cent) and Democratic Republic of the Congo (10.7 per cent) dominated exports of ores and metals to the rest of the world, while Nigeria (26.1 per cent), Algeria (22.9 per cent) and Angola (22.3 per cent) were the main exporters of fuels. South Africa also dominated machinery and transport equipment[2] exports (42.7 per cent share), followed by Morocco (24.6 per cent) and Tunisia (18.3 per cent).

But Africa's merchandise imports reveal a different picture. Manufactured goods constituted 70.7 per cent of merchandise imports from the rest of the world in 2017 (figure 1.9b, reflecting

[2] Machinery and transport equipment includes power-generating machinery and equipment, specialized machinery, metal working machinery, other industrial machinery and parts, road vehicles, and other transport equipment; electronic machinery excluding their parts and components (SITC 751 and 752), television receivers, radio-broadcast receivers and sound recorders or reproducers (SITC 761, 762 and 763); and household equipment (SITC 775).

FIGURE 1.9. AFRICA'S MERCHANDISE EXPORTS AND IMPORTS, 2015–2017 AVERAGE



Source: Based on data from UNCTAD (2018b).

Three-quarters of intra-African exports were concentrated in just 13 countries, with South Africa alone capturing about 45 per cent of that share.

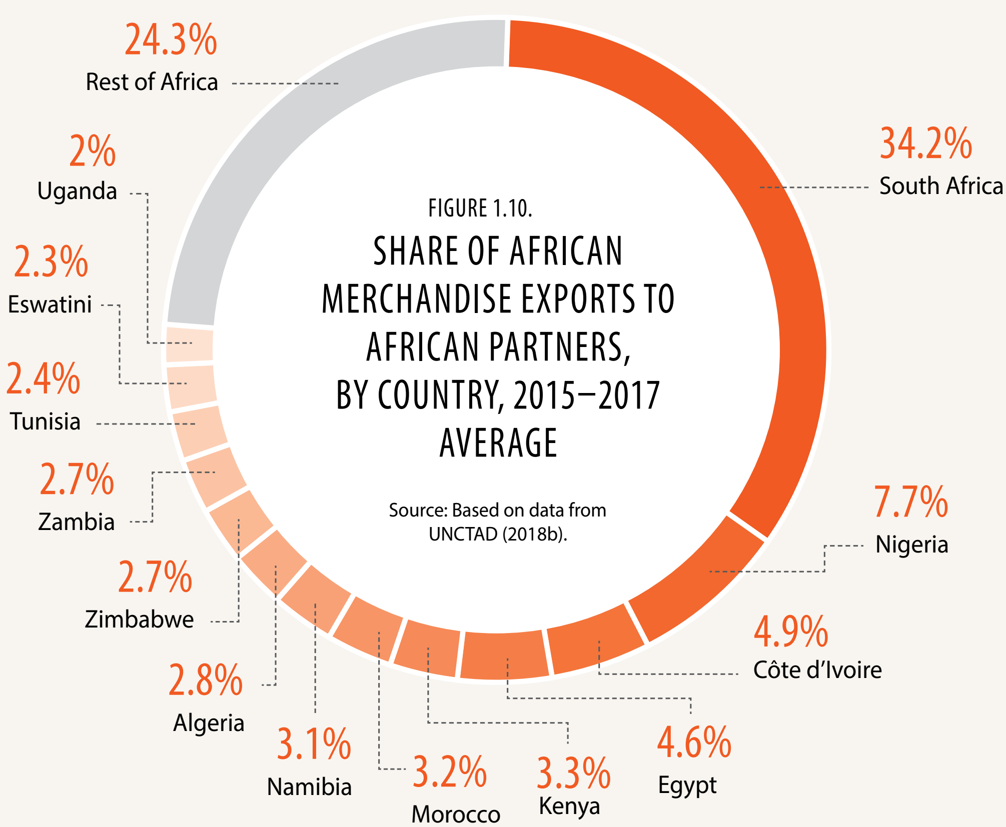
Africa's comparatively low technology base and productivity and its continuing dependence on external partners to satisfy its industrial needs.

Egypt accounted for the largest share of African food imports from outside the continent over 2015–2017 (17.6 per cent), followed by Algeria (14.4 per cent) and South Africa (8.3 per cent). Egypt also accounted for the largest share of African imports of ores and metals (19.8 per cent), followed by South Africa (18.0 per cent) and Morocco (16.6 per cent), while Egypt (16.5 per cent), South Africa (15.4 per cent) and Nigeria (14.7 per cent) were the top African importers of fuels. South Africa was the biggest importer of machinery and transport equipment (18.6 per cent share), followed by Algeria (11.9 per cent) and Egypt (10.3 per cent).

INTRA-AFRICAN TRADE IS MORE DIVERSIFIED AND INDUSTRIALIZED

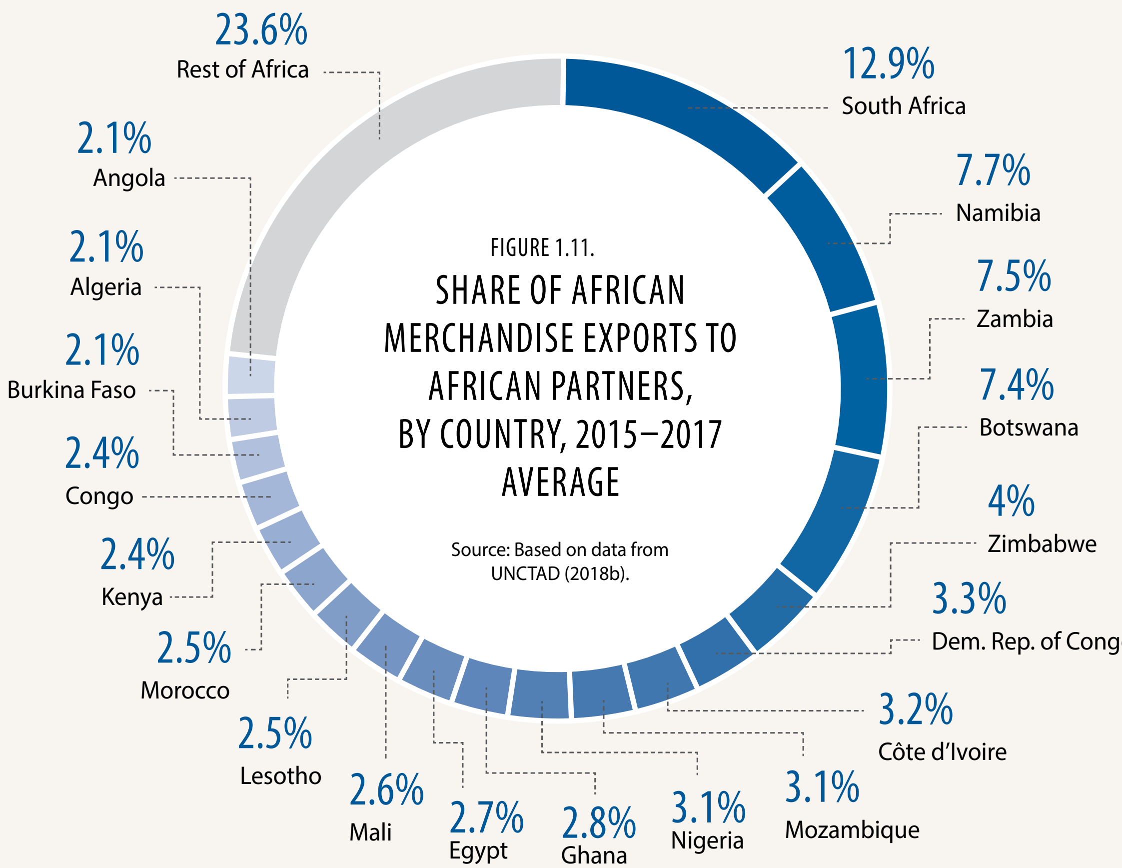
Three-quarters of intra-African exports were concentrated in just 13 countries, with South Africa alone capturing about 45 per cent of that share (figure 1.10). South Africa topped intra-African exports in three of the five main sectors over 2015–2017: machinery and transport equipment (60.2 per cent), food items (28.9 per cent), and ores and metals (25.4 per cent). Eswatini leads in raw agricultural materials with an average of 20.1 per cent of that sector's exports, and Nigeria leads in fuels with 30.7 per cent.

FIGURE 1.10.
SHARE OF AFRICAN MERCHANDISE EXPORTS TO AFRICAN PARTNERS, BY COUNTRY, 2015–2017 AVERAGE



Source: Based on data from UNCTAD (2018b).

FIGURE 1.11.
SHARE OF AFRICAN MERCHANDISE EXPORTS TO AFRICAN PARTNERS, BY COUNTRY, 2015–2017 AVERAGE



Source: Based on data from UNCTAD (2018b).

However, 19 African countries accounted for three-quarters of African imports from African partners (figure 1.11). South Africa again had the largest share, though smaller than for exports. Intra-African trade is composed mainly of machinery and transport equipment.

AFRICA'S TRADE IN SERVICES PICKS UP

Africa's exports of services increased from \$95.7 billion in 2016 to \$109.1 billion in 2017, driven by travel (44.4 per cent of Africa's services exports), transport (28.3 per cent) and other business services (14.4 per cent). Leveraging expertise on the continent by creating more value chains in modern services sector could maximize benefits to businesses. Modern services, unlike traditional services, have been proven to have a significant impact on developed and developing countries' productivity.

ESTABLISHMENT OF THE AFRICAN CONTINENTAL FREE TRADE AREA AND ITS IMPACT ON TARIFF REVENUE

The characteristics of Africa's trade and the current uncertain global context make deepening regional integration an imperative for Africa. The AfCFTA has the potential to contribute to growth and structural transformation in Africa.[3] In particular, all countries would benefit from trade expansion following removal of tariff and non-tariff barriers within Africa, and the least developed countries would gain more through expansion of industrial exports (ECA, 2018).

3 Nearly three years after the start of negotiations, 44 African countries signed the AfCFTA on 21 March 2018 and 8 more signed it by March 2019, bringing the total to 52 AU member States. Twenty-two countries must ratify the agreement for it to enter into force and by 5 March 2019, 19 countries did so and 15 of them have already deposited their ratification instruments with the AU.

The AfCFTA is expected to have a moderate and gradual effect on revenue from tariffs on intra-African trade for several reasons (ECA, 2018).[4] As of March 2019, the particular products to be excluded from liberalization under the AfCFTA have yet to be determined by each country.[5] Nevertheless, ECA calculations, using a number of informed scenarios to approximate the implications of the AfCFTA for tariff revenue, forecast that reducing and removing tariffs on African trade flows would result in a 6.5–9.9 percent decrease in tariff revenue for Africa in the long run.

While tax collected on African trade flows will fall, the overall effect of the AfCFTA on total government revenue may be more balanced, especially over the medium term, because import duties are only a small component of government revenue, accounting on average for only 15 per cent of total tax revenue in Africa (ATAF, 2017). This means that reductions to tariff revenue, which are expected to be limited, will affect only a small share of tax generation for most countries. While the AfCFTA will reduce tariff revenue, it is expected to stimulate GDP growth by as much as 1–6 per cent, which would increase the broader tax base and boost revenue collection from other sources (UNCTAD, 2017). Moreover, the sectors that are expected to gain from the AfCFTA, such as manufacturing and processed agriculture (and to some extent services), are those that tend to have a larger multiplier effect, contributing to sustainable growth and fiscal sustainability.

The overall effect of the AfCFTA is estimated by ECA to be a slight increase in the economic welfare of Africa due largely to the expansion of intra-African exports.

FOREIGN INVESTMENT FLOWS INTO AFRICA CONTINUE TO DECLINE

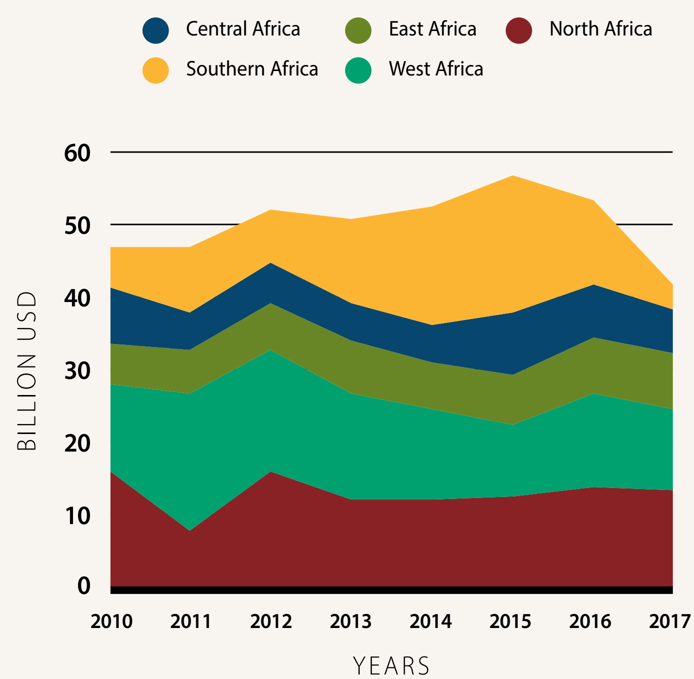
Mirroring global trends, foreign direct investment (FDI) inflows to Africa fell by 21.5 per cent in 2017, to $41.8 billion (figure 1.12), as global flows declined by 23.4 per cent to $1.43 trillion.[6] FDI flows into

4 In the short term these effects are estimated to be minimal for several reasons. First, intra-African imports currently account for only 14 per cent of total imports in Africa, and existing tariffs will be retained on the remaining 86 per cent of imports from non-African countries. Second, 56 per cent of these intra-African imports occur through pre-existing regional economic community free trade areas, in which most trade is already fully liberalized. Third, countries will be allowed to exclude a certain amount of sensitive tariff lines from liberalization. Finally, tariff reductions under the AfCFTA are to be phased in over 5 years for developing countries and 10 years for least developed countries. There is an even longer phase-in period for "sensitive" products of 10 years for developing countries and 13 years for least developed countries.

5 These products will be identified under Annex 1 Schedules of Concessions of the AfCFTA Agreement, which, at the time of writing, are expected to be concluded by July 2019.

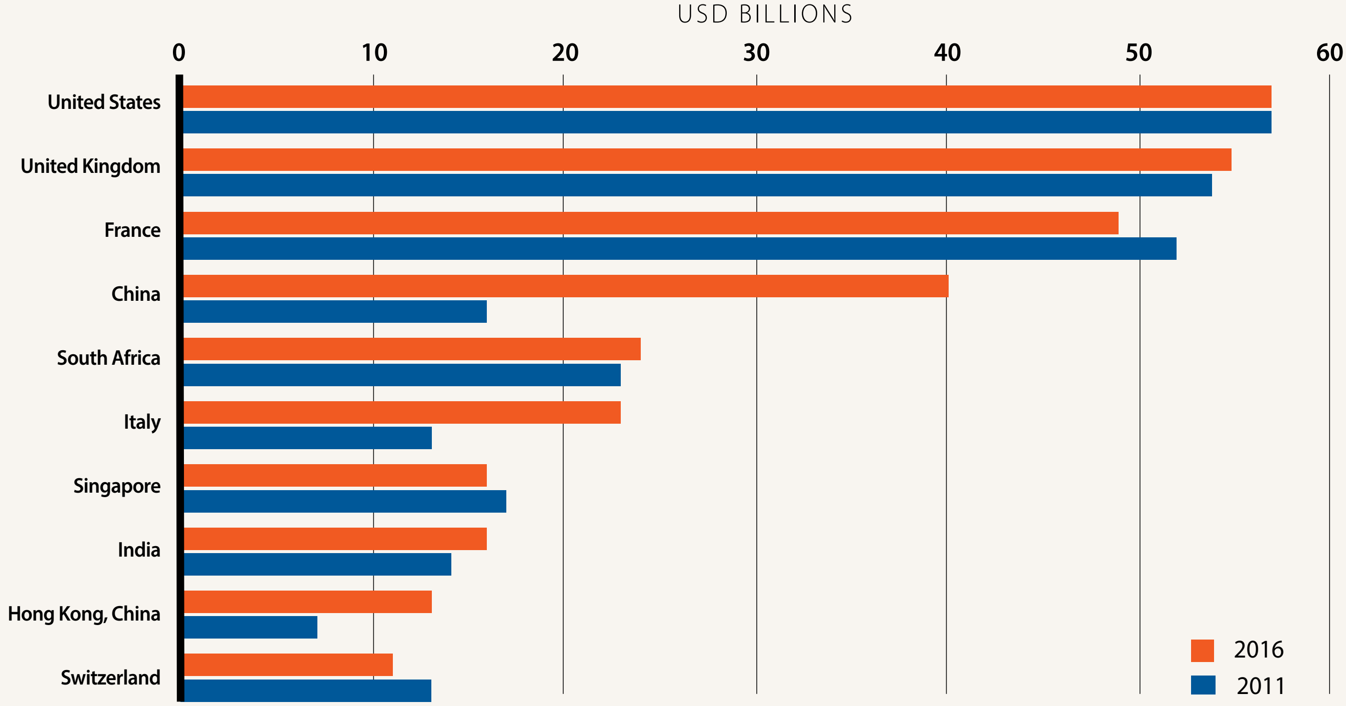
6 FDI data collected by the United Nations Conference on Trade and Development are periodically updated and revised and therefore may not be consistent over time.

FIGURE 1.12. INFLOWS OF FOREIGN DIRECT INVESTMENT INTO AFRICA, 2010-2017



Source: Based on data from UNCTAD (2018c).

FIGURE 1.13. TOP 10 ECONOMIES INVESTING IN AFRICA, BY STOCKS OF FOREIGN DIRECT INVESTMENT, 2011 AND 2016



Source: Based on data from UNCTAD (2018c).

Mirroring global trends, foreign direct investment (FDI) inflows to Africa fell by 21.5 per cent in 2017, to $41.8 billion.

developing countries stagnated in 2017, but flows into Africa are projected to strengthen by 20 per cent in 2018, to $50 billion, due mostly to a recovery in commodity prices, investments in infrastructure projects and accelerating regional integration efforts (UNCTAD, 2018a). North Africa and West Africa were the most sought after in 2017, registering $13.3 billion and $11.3 billion in FDI inflows, respectively, mainly targeting the technology, automotive, textiles and mining sectors.

FDI outflows from Africa to the rest of the world rose by 8 per cent, to $12.1 billion in 2016, with South Africa ($7.4 billion) leading the investment outflows, followed by Nigeria ($1.3 billion) and Morocco ($0.96 billion). The United States remains the top country in terms of investing in Africa, although Chinese companies more than doubled their investments on the continent over 2011–2016, increasing by $24 billion (figure 1.13).

GREENFIELD INVESTMENTS IN AFRICA DECLINED

The value of newly announced greenfield projects in Africa shrank 10 per cent in 2017, falling to

Africa's real GDP growth is projected to increase marginally, from 3.2 per cent in 2018 to 3.4 per cent in 2019.

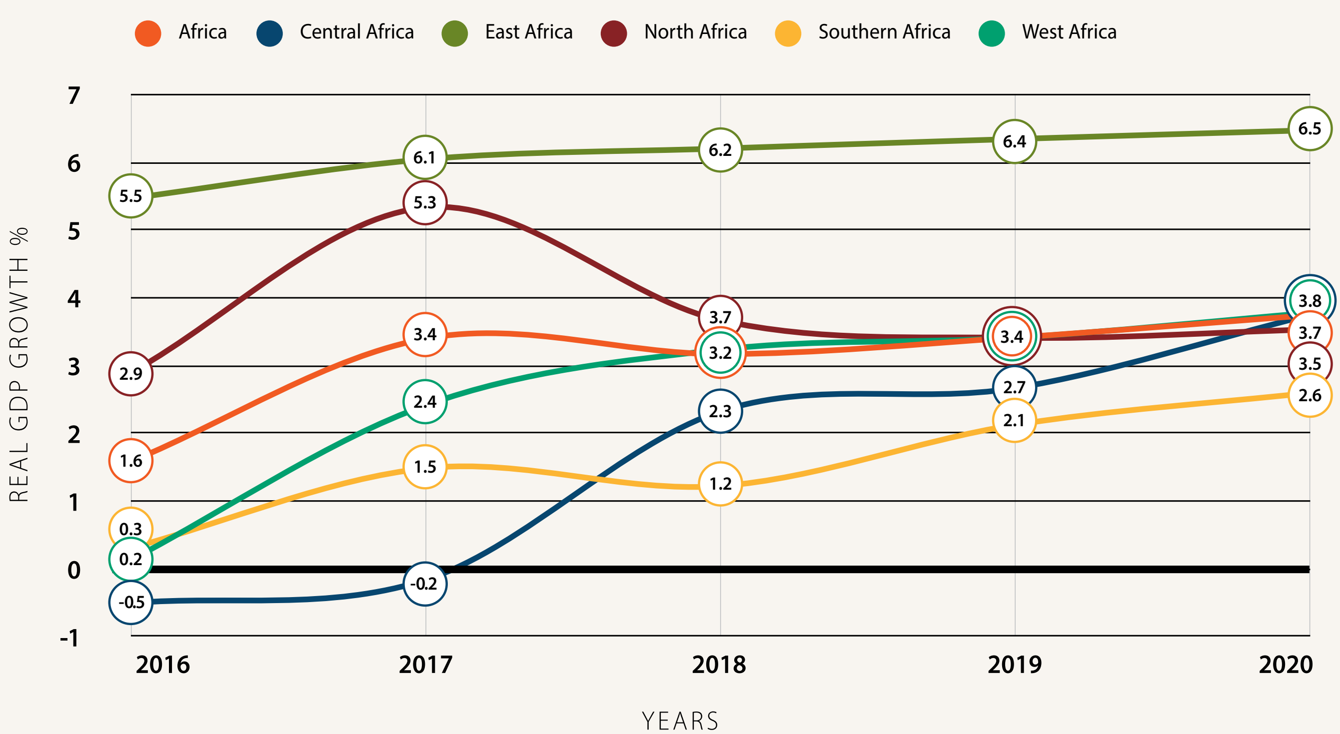
$85 billion. The value of projects in the primary and manufacturing sectors declined, while that in the services sector increased by $5 billion, to $64 billion, giving services a three-quarters share in greenfield projects. Greenfield projects tend to have a larger impact on economic development than do mergers and acquisitions (Neto, Brandão and Cerqueira, 2010).

Net sales in cross-border mergers and acquisitions in Africa shrank by 64 per cent, to $3.5 billion. Driven by US purchases, the largest share of the value of transactions was in the services sector. Net purchases by African companies declined by 73 per cent, to $2 billion, $0.8 billion of which was in the services sector.

MEDIUM-TERM GROWTH FORECASTS AND PROSPECTS

Africa's real GDP growth is projected to increase marginally, from 3.2 per cent in 2018 to 3.4 per cent in 2019, before rising to 3.7 per cent in 2020. These forecasts are revised upwards from last year's to reflect rising private consumption, rising and sustained public investment, higher commodity prices, ongoing oil exploration and production and expected favourable weather. All subregions are projected to post real GDP growth in both 2019 and 2020 (figure 1.14).

FIGURE 1.14. AFRICA'S GROWTH AND GROWTH PROSPECTS, BY SUBREGION, 2016-2020



Note: Data are estimated for 2018 and projected for 2019 and 2020.
Source: Based on data from UNDESA (2019).

GDP growth is projected to be highest in East Africa, rising from 6.2 per cent in 2018 to 6.4 per cent in 2019 before reaching 6.5 per cent in 2020. Growth is likely to be boosted by increased private investment; growth in industry and services (especially in Ethiopia, Kenya, Rwanda and Tanzania); higher public investments in infrastructure; stronger private consumption; oil and gas explorations; more inflows of foreign direct investment; and larger diaspora remittances.

West Africa's growth is projected to be moderate in 2019, at 3.4 per cent, before rising to 3.8 per cent in 2020, lifted by good economic performance in Ghana and Nigeria. In general, growth in the subregion is expected to continue to benefit from fairly high oil prices and increases in oil production, expanding services sectors across the subregion, rising private consumption and public investment in infrastructure.

Growth in Central Africa is projected to pick up, from 2.3 per cent in 2018 to 2.7 per cent in 2019 and accelerating to 3.8 per cent in 2020, driven by a recovery in commodity prices, both new and increased production of oil and gas and strong performance in agribusiness, mining (in Central African Republic), manufacturing and services.

Growth in North Africa is projected to decline, from 3.7 per cent in 2018 to 3.4 per cent in 2019 before moderating to 3.5 per cent in 2020, driven by higher oil prices, gas production and continued investments in non-oil sectors (manufacturing and services).

Southern Africa is projected to remain the slowest growing subregion, with a growth rate of 2.1 per cent in 2019, up from 1.2 per cent in 2018. Growth will be driven by increasing agricultural production and rising global commodity prices.

However, most African economies face downside risks to growth from the tightening of monetary policy and new protectionist policies in advanced economies; weather-related shocks, especially in agriculture-dependent economies; threats of terrorism and conflict; political instability; and high chance of debt distress in some countries.

RECENT SOCIAL DEVELOPMENTS IN AFRICA

Africa has recorded notable gains in social development since 2000, although inclusive growth has remained elusive. Public expenditures on education and health have generally been on the rise.

Gains in social outcomes could be expanded and sustained if African countries mobilize fiscal revenue in innovative ways and deploy them more effectively. Countries need to explore how social development can contribute to fiscal policy effectiveness in financing sustainable development. And in formulating and implementing fiscal policies, countries should be mindful of the potential differential impacts of fiscal policies on men, women and children arising from their different roles in society.

...most African economies face downside risks to growth from the tightening of monetary policy and new protectionist policies in advanced economies; weather-related shocks, especially in agriculture-dependent economies; threats of terrorism and conflict; political instability; and high chance of debt distress .

SOCIOECONOMIC OUTCOMES ARE IMPROVING

Poverty and inequality

Africa's progress in poverty reduction remains steady, albeit slow. The poverty rate dropped from 54.3 per cent in 1990 to 36 per cent in 2016 (AUC and OECD, 2018; ECA, 2017a). However, poverty reduction has not kept up with population growth, so even as the poverty rate falls, the number of people in absolute poverty has remained around 390 million (ECA, 2017a). Especially concerning is the large size of the poverty gap (the depth of poverty),[7] which at 15.2 per cent is considerably higher than the global average of 8.8 per cent. The large gap partially explains the slow reduction in poverty and contributes to income-related inequities in access to public services, particularly health, where out-of-pocket costs are high.

Income inequality is high, with a Gini coefficient of 0.44, though it is declining. Inequality has been declining in 7 of 12 countries in West Africa (most of them agrarian) and in some countries in East Africa, though more slowly. However, inequality has been rising in nine African countries in the Southern Africa subregion (Cornia, 2016). Within-country inequality explains more than half of total inequality in Africa, which is in sharp contrast to the pattern of global inequality where across country differences contribute more to overall inequality (Lakner and Milanovic, 2015).

Unemployment and informal employment

Unemployment, at just above 7 per cent in 2017, is expected to remain at that rate until 2019, as countries intensify efforts to diversify their economies. Meanwhile, the share of workers who are extremely poor (earning less than $1.90 a day) has been falling in Central, East, Southern and West Africa, from 52.8 per cent in 2000 to 33.5 per cent in 2015 (ECA, 2017a) and is projected to continue falling from 31.9 per cent in 2017 to 30.4 per cent in 2019 (ILO, 2018). By gender, women represented 54.8 per cent of working poor compared with 51.3 per cent of men in 2000, representing a gender gap of 3.5 percent; the gap dropped slightly to 3 per cent in 2014 (ECA, 2017a).

Most of Africa's working poor are employed in the informal sector, where productivity and pay are low and workers have no access to social protection services. Informal activity may be, on average, as high as 42 per cent of non-agricultural employment in Africa , while constituting approximately 80 per cent of employment in Ghana, Kenya, Madagascar and Mali (Zulu, Assefa and Sinha, 2016). Nearly three-quarters of informal workers are women.

Health

Africa has lowered under-five mortality faster than other global regions, cutting it by 42 per cent from 1990 to 2017—from 165 deaths per 1,000 live births to 70—compared with a global average reduction of 44 per cent (UNIGME, 2018). Three of the six African countries that have achieved the SDG target of 25 deaths per 1,000 live births are in North Africa (Egypt, Libya and Tunisia), driving the reduction in under-five mortality in the subregion from 44.3 per 1,000 live births in 2000, to 24.1 in 2016, a 46 per cent reduction; the others are Cabo Verde, Mauritius and Seychelles (ECA, 2017b). Notwithstanding this

Poverty reduction has not kept up with population growth, so even as the poverty rate falls, the number of people in absolute poverty has remained around 390 million.

--The poverty gap provides a measure of how far below the poverty line the poor in a given country or region fall. This gap is expressed as a share of the poverty line and represents the average distance to the poverty line among all the poor.

notable progress, however, Africa has the highest proportion of deaths among children under age of five globally.

The maternal mortality ratio for Africa dropped by 36.5 per cent between 2000 and 2015. The maternal mortality ratio for Central, East, Southern and West Africa combined dropped by 35 percent, from 846 deaths per 100,000 live births to 546, while in North Africa maternal mortality dropped by 38 percent, from 113 deaths per 100,000 live births to 70 (ECA 2017a).

Primary school enrolment

Africa has achieved an impressive increase in primary school enrolment, with most countries more than doubling the number of primary school students since 1990. Since 2009, 15 countries have abolished school fees, enabling more children to attend primary school, though obstacles such as transport and learning material costs remain (UNESCO, 2015). Burundi, Ethiopia, Morocco, Mozambique and Tanzania have achieved good, albeit uneven, progress on several indicators of primary schooling, such as net enrolment ratios and primary school attainment rates, and reduced gender and income disparities in access to education (UNESCO, 2015). Indeed, Africa has nearly closed the gender gap in primary education, with the ratio of female to male primary enrolment rates reaching 92 per cent (ECA, 2017a). However, progress has been uneven. Eritrea enrolled fewer than 47.1 girls per 100 boys in primary school over 2010–2015, while Angola and South Sudan enrolled fewer than 70 girls per 100 boys, in large part because of political instability.

PUBLIC EXPENDITURE AND SOCIAL DEVELOPMENT

There is substantial variation across subregions and countries in terms of public expenditure on social development across Africa (IFPRI, 2015). For example, Nigeria spent an average of about 20 per cent of its consolidated government budget on health, education, skills training and social protection over 2006–2016 (Obona, 2018), while Kenya spent 25.2 per cent of its budget in 2016/17 on social development (Nafula, 2018).

> Increased spending on education since 2000 has contributed to improved education outcomes such as higher primary school enrollment and higher youth literacy rates.

Education spending

Increased spending on education since 2000 has contributed to improved education outcomes such as higher primary school enrolment and higher youth literacy rates. The allocation to primary schooling rose from 14.8 per cent of government spending in 1999 to 18.4 per cent in 2012 and from 3.9 per cent of GDP to 4.9 per cent (UNESCO, 2015). However, in 2012 per capita spending on primary education in North Africa ($136) was just half that in South East Asia and one-ninth of that in Latin America.[8] The steep increase in primary school enrolment between 1999 and 2012, combined with the abolition of primary school fees, kept per capita spending on education unchanged or even lowered it. For example, despite increased total public spending on education as a share of GDP, between 1990 and 2012, spending per primary school student fell from $207 to $130 in Nigeria and from $74 to $54 in Malawi as enrolment rose (UNECSO, 2015).

8 These figures are expressed in purchasing power parity terms using 2011 constant prices.

Public spending on health needs to become more inclusive to achieve the goals of the 2030 Agenda for Sustainable Development and the AU Agenda 2063.

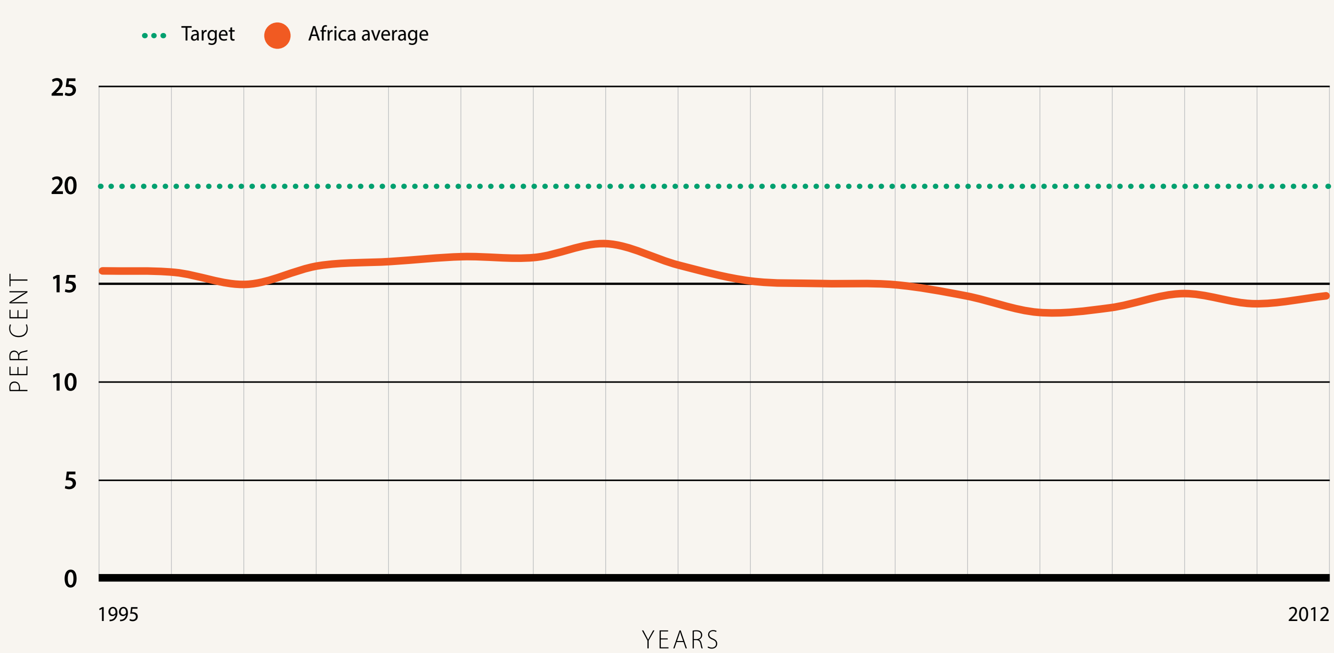
Under the Fast Track Initiative, a global partnership between developing and donor countries that emerged from the Education for All Conference in 2000, 43 countries signed up to meet public spending targets in education (FTI, 2009). Donors agreed to increase their aid commitments for education, and governments agreed to boost education spending to 20 per cent of government spending (FTI, 2009). On average, country spending on education has been close to the target over 1995–2016 (figure 1.15). Completion rates have remained low at 70 per cent of those enrolled, reflecting some loss in quality driven by large student inflows and diminishing per capita spending, demonstrating that demographic dynamics need to be factored into public finance.

Health spending

Health spending followed a similar pattern to that of education spending. On average, African governments spent 7.2 per cent of their budgets on health over 2000–2015, with wide variation across subregions (figure 1.16). Health spending shares have consistently been lower in Central Africa than in other subregions. All subregions increased their allocations to health over 2010–2015, with the increase particularly notable in North Africa.

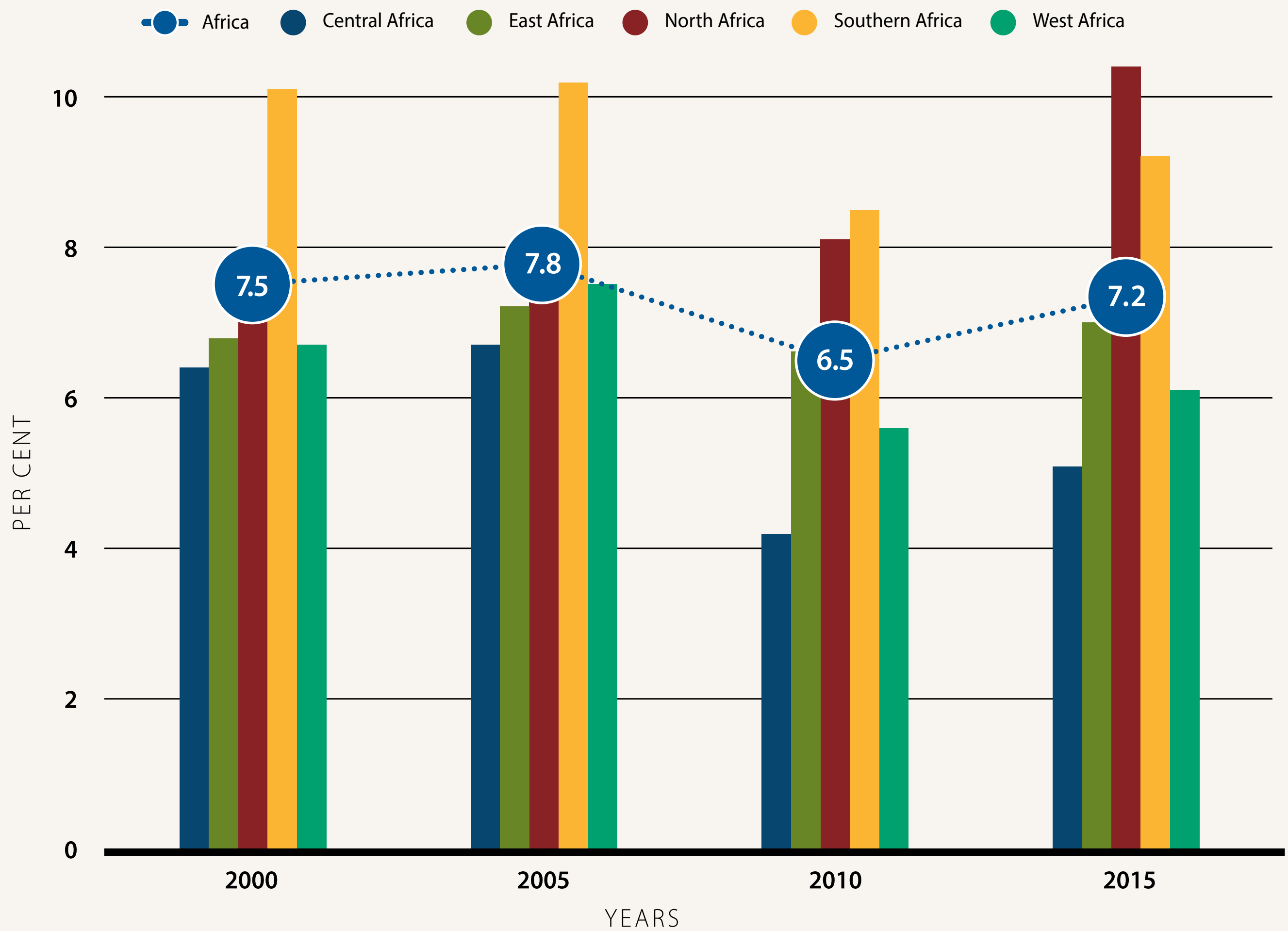
While overall per capita spending on health has increased, most of the increased burden fell on households rather than governments. That aggravated inequality by blocking access for people who cannot afford to pay for it. For example, average out-of-pocket spending on health increased in nearly all African countries,

FIGURE 1.15. PUBLIC EDUCATION SPENDING IN AFRICA AS A SHARE OF GOVERNMENT SPENDING, 1995-2012



Source: Based on data from World Bank (2018b).

FIGURE 1.16. PUBLIC HEALTH SPENDING IN AFRICA AS A SHARE OF GOVERNMENT SPENDING, 2000-2015



Source: Based on data from ECA (2018).

rising from $15 per capita in 1995 to $38 per capita in 2014. In Lesotho 1–3 per cent of households spent 40 per cent or more of their monthly income on health services in 2012, a catastrophic share for those households (Akinkugbe, Chama-Chiliba and Tlotlego, 2012). Public spending on health needs to become more inclusive to achieve the goals of the 2030 Agenda for Sustainable Development and the AU Agenda 2063.

Africa needs to accelerate economic growth from 3.2 per cent to double digits to achieve the SDGs.

CONCLUSIONS AND POLICY IMPLICATIONS

Africa needs to accelerate economic growth from 3.2 per cent to double digits to achieve the SDGs (see chapter 2). Doing that requires boosting investment to 30–35 per cent of GDP and greatly increasing productivity, growth of which fell to 0.3 per cent over 2009–2018, well below the global average of 1.9 per cent over 2011–2017. To achieve the SDGs, African countries should implement comprehensive macroeconomic reforms to build resilience, raise potential growth and improve inclusiveness.

With estimated annual population growth of 2.6 per cent over 2010–2015 and 2.5 per cent over 2015–2018, and GDP per capita growth averaging 1.9 per cent over 2010–2018, Africa needs targeted policies to enhance structural transformation and achieve the SDGs. These policies should be coupled with improved public financial management to enhance the efficiency of government spending. In addition, countries must build the fiscal space needed to finance development through effective tax policy and administration and a wider tax base.

To reduce vulnerabilities to global economic conditions, such as tighter global financial markets, currency fluctuations, capital outflows and volatile commodity prices, African countries need to enhance resilience through fiscal, monetary, exchange rate and prudential policies to maintain their growth momentum. Close monitoring of the negative effects of these policies on public and private sector balance sheets and domestic inflation would be key to achieving the intended objectives.

Most African countries rely heavily on imports of manufactured and agricultural products, while intra-African trade is concentrated in machinery and transport equipment. Countries need to diversify their production and accelerate their structural transformation to support their industrialization through trade. This would offer opportunities for industrial upgrading, increased exports and foreign reserves and lower debt-service obligations. Africa's high debt levels, which threaten long-term development, call for improved debt management to avoid the detrimental growth effects that arise from domestic currency and interest rate risks and uncertainties.

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