Part 1: Economic Growth, Structural Change and Social Development

CHAPTER

RECENT ECONOMIC AND SOCIAL DEVELOPMENTS IN AFRICA AND MEDIUM-TERM PROSPECTS
Global growth of gross domestic product (GDP) increased marginally from 2.4 per cent in 2013 to 2.6 per cent in 2014, thanks to the positive growth registered in most developed economies for the first time since 2011. Yet the worldwide expansion remains at risk, mainly owing to (a) virtual stagnation in the euro area, (b) slowing growth in the major emerging economies (notably China, Russia and the large emerging economies in Latin America) and (c) Japan’s stumble into recession in the second half of 2014. Growth in the United States (US) has continued to recover since 2012, reaching 5 per cent in the last quarter of 2014, although US economic growth is vulnerable to contagion from elsewhere (box 1.1).

Africa’s growth accelerated from 3.7 per cent in 2013 to 3.9 per cent in 2014, which was slower than had been forecasted in the 2014 edition of this report. East and South Asia is the only region that grew faster than Africa, at 5.9 per cent (figure 1.1). The growth was underpinned by private consumption and gross capital formation, supported by improved governance and macroeconomic management;

**BOX 1.1: THE WORLD ECONOMY IN 2014 AND IMPACTS ON AFRICA**

**Moderate recovery is occurring in global growth, but recovery in key emerging economies is subdued**

Global GDP growth edged up from 2.4 per cent in 2013 to 2.6 per cent in 2014 (UN-DESA, 2014b), supported by the prolonged recovery from the global financial crisis but dampened by emerging geopolitical tensions in West Asia and the Crimea. The outlook is slightly more positive, with growth projected to accelerate to 3.1 per cent in 2015.

In developed economies, growth picked up from 1.2 per cent in 2013 to 1.7 per cent in 2014, driven by stronger performance in the major European economies. The European Union recorded growth of 1.3 per cent, up from 0 per cent in 2013, and its recovery is expected to continue, although slower than the October 2014 forecasts, with annual growth projected at 1.2 per cent in 2015 and 1.4 per cent in 2016.

The US economy grew by 2.3 per cent in 2014, a marginal lift from 2.2 per cent in 2013, and should climb a little higher to 2.8 per cent in 2015. That change resulted from faster business investment and higher consumer confidence, which is largely driven by improved job figures: the unemployment rate declined by 0.2 percentage point to 5.6 per cent in December 2014 and 1.1 percentage point from 6.7 per cent in December 2013. In Japan, growth slid to 0.8 per cent from 1.5 per cent in 2013 as a result of the imposition of a higher consumption tax in April 2014, which caused a surge in growth in the early months of the year but subsequently put downward pressure on private consumption. Growth is expected to pick up a shade, to 1.2 per cent, in 2015.

GDP growth in emerging and developing countries slowed to 4.4 per cent in 2014 from 4.7 per cent in 2013, and it is expected to remain stable at 4.3 per cent in 2015. That stabilization is mainly the result of lower growth in China and its implications for other developing countries, geopolitical tensions in Russia, and continued decline of oil and other commodities. Regionally, growth was strongest in South Asia, where it edged up to 5.9 per cent from 5.8 per cent in 2013, and is expected to nudge further up to 6.0 per cent in 2015, largely mirroring stronger investment and economic activity.

Economies in transition also witnessed a slowdown, with real GDP growth of 0.7 per cent, hurt by dampened growth in Russia resulting from the Crimean crisis (and associated sanctions imposed by the US and European Union) and the tumbling oil price since midyear. Growth in Russia reached only 0.5 per cent in 2014 compared to 1.2 per cent in 2013, and it is expected to remain unchanged in 2015. The aftermath of that crisis poses a threat to the economic performance of Russia’s trading partners, too, including large European economies such as Germany. China’s growth is expected to have decelerated to 7.3 per cent in 2014 from 7.7 per cent in 2013, as the government holds its course towards a more service- and consumption-oriented economy.

**Labour market performance does not reflect economic recovery**

Despite the marginal pickup in global growth, global unemployment marginally declined, from 6.0 per cent in 2013 to 5.9 per cent in 2014. Unemployment remained high at 7.8 per cent in developed economies, despite slightly improved economic conditions in the euro area. Unemployment also stayed high in Africa and in Latin America and the Caribbean, with average rates of 10.1 and 6.6 per cent, respectively, in 2014. Youth are particularly affected, with their global unemployment rate reaching 13.0 per cent in 2014 and expected to increase to 13.1 per cent in 2015. The unemployment rate in all regions is expected to remain largely unchanged in 2015 and 2016.

**Inflation is declining in developing countries, but deflation is a risk in some developed economies**

World inflation in 2014 was unchanged at 3.1 per cent versus 3.0 per cent in
continued urbanization; a still-rising middle class that is driving aggregate demand; diversified trade and investment ties with emerging economies; and tighter regional integration and trade partnerships in the region.

Inflation for the region slipped in 2014 and is expected to continue declining as a result of prudent monetary policies, decreasing global prices for oil and other commodities, and recent good harvests. Over the medium term, oil-importing countries will be the major beneficiaries of reduced inflation.

Africa’s fiscal deficit continued widening in 2014, owing both to expansionary fiscal policies, as countries continued to spend on infrastructure, and to lower revenues from oil and other commodities. Several countries—notably Nigeria, Senegal and South Africa—took measures to curb public waste, minimize corruption and inefficiencies, and cut

2013 and is forecast to be 2.9 per cent in 2015. Inflation remains low in developed countries, particularly in the euro area, where it declined to 0.7 per cent from 1.5 per cent in 2013. Low inflation was driven mostly by a weak economic recovery but also by shocks, such as falls in food and energy prices, particularly oil. Low inflation in the euro area, alongside persistently high unemployment, presents a risk of deflation. In developing economies, inflation fell to 5.7 per cent in 2014 from 5.8 per cent in 2013 with, in South Asia, a steep fall to 9.2 per cent from 14.7 per cent. Inflation in developing countries is expected to fall further to 5.4 per cent in 2015 due to declining global commodity prices and tightening monetary policies in developed economies.

Commodity prices are subdued

Despite the decline in commodity prices in 2014, most of them are still relatively high, which benefits the resource-rich countries in Africa. The index for all commodities stayed at 180–185 until August, when it started to fall, reaching 130 in 2014 (IMF, 2015). The world crude oil price index rose from 193 in January 2014 to a peak of 204 in June before starting to fall steeply and reaching 114 in December 2014, largely reflecting the shale supply boom in the US and slowing demand in, primarily, China. The price of food and agricultural raw materials did not greatly change from 2013, although the price index for beverages rose steeply from 151 in January 2014 to 185 in April (due to strong global demand for cocoa, low production of cocoa in the Côte d’Ivoire and Ghana, and the impact of droughts on coffee prices in Brazil) before declining sharply and reaching 160 in December. Metal prices decreased continuously in 2014, reaching 149 in December, despite a slight increase prompted by reduced supply in July and August.

Trade growth is sluggish

Growth in world trade stayed unimpressive in 2014, as export growth fell to 3.3 per cent from 3.8 per cent in 2013, despite improved export growth in developed economies. Export growth is expected to rise to 6.8 per cent in 2015 on a rebound in developing regions, particularly in South Asia and in Latin America and the Caribbean. Current account balances remained quite stable in the major economies in 2014 relative to 2013. In 2015, surpluses are expected to strengthen in the euro area, whereas the US account deficit is set to widen, driven by a strong US dollar (IMF, 2014). Growth in global foreign direct investment (FDI) was unchanged at 2.7 per cent of GDP (EIU, 2015), although FDI inflows to emerging economies have been on a slide, owing to improved business confidence and recovery in advanced economies.

The medium term carries risks and uncertainties

The outlook for 2015 is generally positive, with growth accelerating globally and recovering in Latin America and Europe to 2013’s rates. Whereas recovery in the major export markets of the European Union and the US is moderate, it is positive for African countries. Yet the outlook is uncertain, given the fragility of recovery in the euro area, declining growth in China and Russia, and weakening commodity prices. The political tensions in the Crimea and Western Asia present a risk to the world economy and may have indirect consequences for Africa through reduced demand from trading partners. The consequences of the “tapering” of quantitative easing measures in developed countries also remain uncertain. For example, mooted increases in interest rates in the US recently have led to capital outflows from and currency depreciation in developing countries, as investors returned to safer assets (UN-DESA, 2014b).
allocations to non-essential expenditure. Revenue mobilization is expected to improve as some countries, including Ethiopia and Rwanda, continue to improve tax policy and collection. Africa’s fiscal deficit is likely to improve in 2015 and 2016 (UN‐DESA, 2015).

The continent’s current account deficit widened in 2014 because of declining export earnings and rising imports of capital goods; the latter usually is a marker of increased industrial activities. Global demand for agricultural and mineral commodities weakened over the period, as supply rose. That trend is expected to persist in the medium term. With continued strong growth in infrastructure investment and increasing private consumption, imports are set to keep rising, with a slight offsetting effect from weakening currencies in most African countries.

Private capital inflows are expected to remain strong—and even increase—in 2015 resulting from enhanced investor confidence combined with an improved business climate and better economic management. FDI and remittances are expected to remain the dominant sources of private capital inflows, although they are outweighed by huge illicit financial outflows.

Despite the continent’s medium-term risks—lower oil and commodity prices, slow recovery or decelerating growth, tighter global monetary policy, the Ebola outbreak (box 1.5), weather-related shocks and, in some countries, political instability—its prospects are strong. Africa has enhanced productivity through structural transformation (see box 1.2), associated with its strong growth performance (ECA and AUC, 2013). Expanded intra-African trade; increased export diversification from agricultural commodities, minerals and oil through value addition; and steps to promote industrialization and structural change should help consolidate its growth.

To translate that growth into sustainable, inclusive development, Africa has to keep improving its business environment, political and economic governance, and economic management to enhance productivity in sectors where it has a comparative advantage. That improvement entails addressing deficits in infrastructure, technology and human capital by mobilizing domestic resources innovatively. Such a feat can be accomplished by, for example, improving public sector management, combating tax evasion and illicit financial flows, deepening financial systems, issuing infrastructure bonds, and developing sovereign wealth funds. Finally, Africa should accelerate regional integration and adopt the Continental Free Trade Area to boost its internal trade in manufactured goods (which are more important for intra-African than for external trade; see chapters 4 and 5).

---

**BOX 1.2: DEFINING STRUCTURAL TRANSFORMATION**

Structural transformation is the defining characteristic of the development process. It entails the allocation of resources—especially new investments—from low- to high-productivity activities within and across sectors, especially the agriculture, industry and services sectors. Timmer et al. (2012) stress that it is both the cause and the effect of economic growth, and they outline four quite relentless and interrelated processes that define the structural transformation process: (a) a declining share of agriculture in gross domestic product (GDP) and employment, (b) the rapid process of urbanization as people migrate from rural to urban areas, (c) the rise of a modern industrial and service economy, and (d) a demographic transition from high to low rates of births and deaths. The final outcome of structural transformation is an economy and society in which agriculture as an economic activity has no distinguishing characteristics from other sectors, at least in terms of the productivity of labour and capital or the location of poverty.
AFRICA’S GROWTH PERFORMANCE

EXPANSION IS SET TO CONTINUE

Africa's growth edged up from 3.7 per cent in 2013 to 3.9 per cent in 2014, which was slower than had been previously estimated in the 2014 edition of this report. Only the East and South Asia region grew faster, at 5.9 per cent (figure 1.1). Africa’s GDP growth rate is expected to increase to 4.5 per cent and 4.8 per cent in 2015 and 2016, respectively. That growth is expected to be only slightly lower than that of the East and South Asia region, whose growth is expected to moderate to approximately 6.0 per cent over 2014–2016 (figure 1.1). Despite uncertainty in the global economy and weakening commodity prices, growth momentum is set to continue—underpinned by increasing domestic demand, coupled with improving regional business environment and macroeconomic management, increasing public investment—especially in infrastructure, a buoyant services sector and increasing trade and investment ties with emerging economies.

At 3.9 per cent growth in 2014, East and South Asia are the only region that grew faster than Africa, at 5.9 per cent

FIGURE 1.1: GROWTH IN EMERGING AND DEVELOPING REGIONS, 2010–2016

Source: Calculations based on UN-DESA (2014b); data for Africa exclude Libya.
Note: e = estimate; f = forecast; GDP = gross domestic product.

Source: Calculations based on UN-DESA, 2014b, and EIU, 2014.
Note: e = estimate; f = forecast.

FIGURE 1.3: GROWTH PERFORMANCE AND COMPONENTS OF GDP GROWTH BY AFRICAN ECONOMIC GROUP, 2013–2015

Source: Calculations based on UN-DESA, 2014b, and EIU, 2014.
Note: e = estimate; f = forecast. Oil importers and exporters are net importers and net exporters as defined in the Statistical Note. Data on growth for oil-exporting countries exclude Libya.
PRIVATE CONSUMPTION AND INVESTMENT ARE THE KEY GROWTH DRIVERS

African growth had a moderate contribution from private consumption and investment, which grew at 3.3 per cent and 1.6 per cent, respectively, in 2014, down from 3.4 per cent and 1.8 per cent in 2013. Growth in private consumption and investment (gross fixed capital formation) is expected to continue to drive growth, increasing from 3.3 per cent and 1.6 per cent in 2014 respectively, to 3.8 per cent and 2.6 per cent in 2015, respectively (figure 1.2). Growth in the former is underpinned by greater domestic demand due to increased consumer confidence and an expanding middle class. Investment is driven mainly by an improved business environment and lower costs of doing business in, for example, Burkina Faso, Burundi, Côte d’Ivoire, Ghana, Kenya, Mauritius, Rwanda, and the United Republic of Tanzania (Tanzania).

Government consumption (expenditure on infrastructure and wages) also was an important driver in 2014, at 1.4 percentage points, up from 0.5 percentage points in 2013 (see figure 1.2). Its contribution is expected to decline to 0.9 percentage points in 2015 resulting from fiscal consolidation measures, mostly in Central, Southern and West Africa. Net exports will continue their negative contribution, despite a slight improvement in 2014, because the value of the region’s exports—mainly commodities—is outweighed by industrial imports, with governments increasing infrastructure investments and private consumption staying strong. The contraction in net exports of oil-importing countries is expected to accelerate from 2.0 per cent in 2014 to 2.4 per cent in 2015 (figure 1.3). The continued decline in oil prices and the expected depreciation of Africa’s currencies are expected to underpin that decline, underlining the need to add value to exports and diversify them.

FIGURE 1.4: AFRICA’S GROWTH PERFORMANCE AND COMPONENTS OF GROWTH BY SUBREGION, 2013–2015

Source: Calculations based on UN-DESA, 2014b, and EIU, 2014.
Note: e = estimate; f = forecast. Data on growth for North Africa exclude Libya.
BOX 1.3: THE IMPACT OF OIL PRICE DECLINE ON AFRICA

Since January 2000, world prices for crude oil have generally risen steeply, despite a sharp decline between July and December 2008, caused by the global economic slowdown (box figure).

**BOX 1.3 FIGURE 1: CRUDE OIL PRICE, JANUARY 2000–DECEMBER 2014 (US$/BARREL)**

![Graph showing crude oil prices from January 2000 to December 2014.](http://www.imf.org/external/np/res/commod/index.aspx)


Note: GDP = gross domestic product.

This oil-price decline had only a marginal positive impact on GDP in Africa’s oil-importing and mineral-rich countries—0.01 per cent and 0.02 per cent—and a marginal negative impact on its oil-exporting countries—0.17 per cent, emphasizing that the continent’s current growth comes from non-oil sectors due to improved macroeconomic management and effective fiscal policies. The economic recovery (in western countries, China and India since 2009), the decline in production of crude oil resulting from conflict in the Middle East and Africa, and production cuts by the Organization of the Petroleum Exporting Countries (OPEC) in response to the Organization of the Petroleum Exporting Countries (OPEC) in response to the recession pushed up crude oil prices up until mid-2014. Then prices declined by 29 per cent between June and December 2014 as a result of weak global economic activity, a growing use of other fuels, and the US shale-energy boom coupled with the decision by OPEC to not reduce production.

The impact of the recent decline on Africa’s growth is found to be marginal (contributing 0.03 per cent to GDP), although local currencies in, for example, Angola, Ghana and Nigeria will depreciate. Growth will not be significantly affected if the price continues declining at an average of 8.0 per cent a month (the rate of decline from June to December) or less. A significant impact is likely only if oil prices sink to $33.75/barrel, which might happen in July–through August 2015 if the price continues tumbling at the current rate.

The marginal effect on Africa may be attributed to growth in the non-oil sectors of the African economy and also the ability of African countries, especially oil-exporting countries, to minimize shocks because they hedge themselves against the volatility of the crude oil price. They save more when the prices are higher and use their savings to attenuate the impact of a decline in crude oil prices on their economies.

Source: Analysis based on ECA calculations, based on IMF 2015 and EIU 2015 data.
GROWTH IS EXPECTED TO INCREASE ACROSS ALL ECONOMIC GROUPS

Moderate growth is expected in all the economic groups in 2015. Oil-exporting countries (excluding Libya) grew fastest, by 4.7 per cent, in 2014, from 4.4 per cent in 2013 (figure 1.3). Despite falling oil prices, growth in those economies as a group is expected to rise to 5.2 per cent in 2015. The recovery of growth in consumption and investment in 2015 will counter any further potential slowdown in growth in oil-exporting countries.

Growth of oil-importing countries is expected to move up a little to 3.8 per cent in 2015, after stagnating at 3.3 per cent in 2013 and 2014. Growth will be supported by low oil prices and continued consumer and business confidence. Growth in private consumption and investment is expected to increase to 4.1 per cent and 2.8 per cent, respectively, in 2015 in those economies.

Despite the steep drop in global oil prices, the overall impact on Africa has been very small, unlike the oil price shock felt in 2008 (box 1.3).

Mineral-rich countries are expected to build on their growth momentum and accelerate from 3.3 per cent in 2014 to 3.9 per cent in 2015, mainly because of increased investments and new mineral discoveries in Angola (coal), Botswana (copper, coal and diamonds), Ghana and Liberia (gold), Namibia (uranium and diamonds), Sierra Leone (iron ore and diamonds), and Zambia (copper). Growth across all economic groups will be supported by an increase in private consumption and investments (see figure 1.3), but growth in net exports and government consumption will continue slowing.

GROWTH VARIES BETWEEN SUBREGIONS

Subregional growth variations are expected to continue in 2015 (figure 1.4). GDP growth in Central Africa is expected to rise from 4.3 per cent in 2014 to 4.8 per cent in 2015. Strong public spending on capital intensive infrastructure in Cameroon and the Congo and new oil and gas developments in Cameroon and Chad are expected to drive growth. However, political instability in the Central African Republic and labour unrest and worsening problems with the sole refinery in Gabon are challenges.

Growth in East Africa is expected to increase from 6.5 per cent in 2014 to 6.8 per cent in 2015, driven by Djibouti, Kenya and Uganda. Growth in Kenya, the subregion’s biggest economy, will benefit from rapid expansion of banking, telecommunications, urbanization, and investment in infrastructure, particularly rail. Uganda’s growth will be supported by increasing activity in construction, financial services, transport and telecommunications.

Growth in North Africa (excluding Libya) is expected to climb to 3.6 per cent in 2015 from 2.7 per cent in 2014, as stability consolidates in the subregion’s largest economy, Egypt. Growth is also expected to be supported by government spending on infrastructure, underpinned by improving political stability in Egypt and Tunisia, and strong growth in private consumption and investment. Weak commodity prices; tight monetary policies in Algeria, Egypt, Morocco and Sudan; and political instability in Libya may upset those forecasts.

Southern Africa’s growth is expected to accelerate from 2.9 per cent in 2014 to 3.6 per cent in 2015. Angola, Mozambique and Zambia will stay the fastest-growing economies. Growth will be driven mainly by investment in the non-diamond sector in Botswana, recovery in private consumption in South Africa, increased investment in mining and natural gas exploration in Mozambique, and generally by private consumption. A continued slowdown in oil and mineral prices may derail those forecasts, as two thirds of those countries are mineral rich or oil-exporting.

West Africa’s growth is expected to increase from 5.9 per cent in 2014 to 6.2 per cent in 2015, although forecasters are wary of political instability in Mali and Nigeria—whose economy was recently rebased (in the process of replacing present price structure (base year) to compile volume measures
**BOX 1.4: GDP REBASING AND ANALYSIS OF STRUCTURAL CHANGE**

Africa’s GDP growth increase reflected GDP rebasing primarily in Nigeria but also in Ghana, Kenya, Tanzania, Uganda and Zambia. Rebasing also reduced their debt-to-GDP ratios, which improved their capacity to borrow on domestic and international markets and helped to lift investment in their productive sectors. And as rebasing also helps to better assess economic sectors with potential to grow, resources targeted to those sectors could boost productivity in those countries.

Regular GDP rebasing is central to evaluating an economy’s growth and its share in world GDP. In Africa, the number of countries with outdated base years outnumber those with updated base years, so rebasing GDP figures is long overdue for many countries. The six countries mentioned at the beginning of this box have rebased their GDP in recent years. Identifying previously unregistered activities through rebasing of the countries’ GDP in the informal sector and the telecommunications and entertainment subsectors provides a better idea of their relative importance in the economy. Changes after rebasing are illustrated in the table below for Ghana.

**BOX 1.4 TABLE 1: SHARE OF GDP (AT BASIC PRICES) BY SECTOR, GHANA, 2006–2010 (%)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Old series</th>
<th>New series (rebased)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Agriculture</td>
<td>Industry</td>
</tr>
<tr>
<td>2006</td>
<td>38.8</td>
<td>28.3</td>
</tr>
<tr>
<td>2007</td>
<td>37.6</td>
<td>28.2</td>
</tr>
<tr>
<td>2008</td>
<td>37.0</td>
<td>28.3</td>
</tr>
<tr>
<td>2009</td>
<td>37.7</td>
<td>27.2</td>
</tr>
<tr>
<td>2010</td>
<td>35.6</td>
<td>28.3</td>
</tr>
</tbody>
</table>


Rebasing in Ghana leads not only to an overall expansion but to a structural shift towards services, as the shares of agriculture and industry decline. The growing evidence of structural change in Africa indicates the need for African countries to rebase their GDP to better understand that change. Other important effects of rebasing include a decline in tax- and debt-to-GDP ratios, and growth in Africa's share in world GDP. Overall however the impact of rebasing on growth generally is small and depends on the number of years between revisions.

Source: ECA analysis and calculations based on specific country reports.

**BOX 1.5: EBOLA’S NEGLIGIBLE ECONOMIC EFFECTS ON AFRICA**

The three EBOLA-affected countries of Guinea, Liberia and Sierra Leone will suffer GDP loss, but because in 2013 the three countries accounted for 2.4 per cent of West Africa’s GDP and only 0.7 per cent of Africa’s GDP, the economic effects on West Africa will be minimal; on the continent, miniscule.

Under the LINK/WEFM (World Economy Forecasting Model), EBOLA in both 2014 and 2015 will for West Africa take off 0.1 percentage point from GDP growth and for the entire continent a mere 0.02 percentage point (for West Africa, the forecasts are nudged down from 5.9 per cent in 2014 and 6.2 per cent in 2015; for Africa as a whole, from 3.37 per cent and 4.61 per cent).

An alternative simple projection forecasts less optimistic but broadly similar figures. ECA (2014a) assumes a benchmark scenario in which all three countries register growth of 0 per cent in 2014 and 2015, whereas projected growth rates for the other African countries remain unchanged. The model finds that growth projected for West Africa decreases by 0.19 percentage point in 2014 and by 0.15 percentage point in 2015; for Africa as a whole, the loss will be 0.05 percentage points in 2014 and 0.04 percentage points in 2015.

Source: ECA 2014a.
of GDP with a new or more recent base year (box 1.4)—and, to a small degree, the outbreak of Ebola virus disease (EVD) (box 1.5).

**EMPLOYMENT IS YET TO PICK UP**

Africa’s high growth during the past decade has not created the many jobs needed for its growing working-age population. Its limited ability to generate well-paying jobs in the formal sector and its low labour productivity have made Africa less competitive because of the weight of informal employment. Structural change (the shift of resources from low- to high-productivity sectors of the economy, i.e. productivity resulting from cross-sectoral rather than within-sector resource allocation) is believed to be the key to moving African economies towards higher productive sectors, thereby boosting job creation and reducing the informal sector. The bulk of the labour force has moved from agriculture to industry and services over the past decade, but that change has not occurred quickly enough to reduce youth unemployment (which most of South-East Asia accomplished). Still, the labour market shows some progress: Africa’s employment-to-population ratio is among the highest globally, second only to East and South Asia (chapter 2).

Employment in Africa grew at an annual average of 2.9 per cent from 1991 to 2012, higher than in other emerging and developing regions, such as Latin America and the Caribbean (2.5 per cent); East and South Asia (1.4 per cent); and South-Eastern Europe (0.9 per cent). Moreover, the employment-to-population ratio rose from 61.3 per cent in 1991–1995 to 62.6 per cent in 2006–2012 in Africa, the biggest increase among the regions except Latin America and the Caribbean (figure 1.5).

**FIGURE 1.5: EMPLOYMENT-TO-POPULATION RATIOS IN EMERGING AND DEVELOPING REGIONS, 1991–2012**

![Graph showing employment-to-population ratios](image)

Source: Calculations based on ILO, 2014.
INFLATIONARY PRESSURE STAYS SUBDUED

Inflation in Africa is expected to continue on its downward trend since 2012, stabilizing at 6.9 per cent between 2014 and 2015 and decelerating to 6.7 per cent in 2016 (figure 1.6).

Oil-exporting countries are expected to experience an increase in inflation in 2015 before the rate tips down a little in 2016. Exchange rate depreciation is observed to be the main driver of rising inflation among oil-exporting countries with marginal effects on oil-importing and mineral-rich countries (figure 1.7), which could be attributed to the effects of the deteriorating oil and commodity prices on the global market. However, the effect is more pronounced in oil-exporting than mineral rich countries with a mild impact on oil-importing countries.

At the subregional level, Central Africa is expected to experience the lowest inflation, mainly because of the common monetary policy in most of its countries (their common currency, the CFA franc, is pegged to the euro) (figure 1.8). In Southern Africa, inflation is projected to edge down from 6.2 per cent in 2014 to 6.0 per cent in 2015, mainly as a result of lower oil and global food prices, as well as the improved domestic food supply in Malawi and Zambia, a tight monetary policy in Lesotho and South Africa, and appreciation of local currencies in Botswana and Zambia.

In East and West Africa, inflation is forecast to increase from 5.9 per cent and 7.6 per cent, respectively, in 2014 to 6.1 per cent and 8.8 per cent in 2015. In Kenya—East Africa’s largest economy—inflation will be driven by the outcome of the rainy season, and in Tanzania by a weakening shilling and rising electricity prices. Kenya’s central bank has kept rates unchanged since 2012 but is expected to raise...
FIGURE 1.7: INFLATION RATE AND REAL EFFECTIVE EXCHANGE RATE BY RESOURCES ENDOWMENT, 2000–2014

Source: Calculations based on EIU 2014 and UN-DESA 2014b.
them by 50 basis points by mid-2015 to counter the inflationary effects of the tighter monetary policy in developed economies, such as the US.

Nigeria—Africa’s largest economy after rebasing the country’s GDP—is expected to be the key driver of West African inflation, with fiscal expansion in the run-up to the 2015 elections, growing consumer demand and exchange rate depreciation. In Ghana, increases in water and power tariffs, sanctioned by the government in July 2014, and the effects of the depreciating Ghanaian cedi will be sources of inflationary pressure in the first quarter of 2015.

North African inflation is expected to decline a shade further, from 7.2 per cent in 2014 to 7.1 per cent in 2015 (see figure 1.8). Egypt is expected to be the most inflationary, with a rate of 10.1 per cent in 2015, fed by disruptions in the supply chain due to political challenges, raised minimum wages for government employees and currency instability. The central bank raised its policy rate by 100 basis points in July 2014 to counter pressures. In Algeria and Mauritania, where food and commodity prices constitute the largest proportion of the countries’ inflation basket, inflation will be subdued. Morocco is expected to have very low inflation because of moderating domestic demand and mild currency appreciation against the US dollar. In Libya, disruptions in supply chains resulting from political challenges and increased housing prices are concerns. Inflation in Sudan is expected to continue to slow down, reflecting a weak currency and decreasing oil prices. Further, the Central Bank of Sudan has also pledged to limit its credit to the government and slow down the purchase of gold, in line with its agreement with the IMF (EIU, 2014b).

Inflation in Africa is expected to continue on its downward trend thanks to prudent monetary policies and recent good harvests
MOST AFRICAN CURRENCIES WILL CONTINUE TO DEPRECIATE

Declining oil and commodity prices, tightening of monetary policies in developed countries, and large trade and fiscal deficits will continue to drive exchange rate depreciation in most African countries.

Looking at the continent’s largest economies, South Africa’s currency is expected to pick up by 1.2 per cent to 10.66 rand per US dollar in 2015, although perhaps staying volatile (the rand is the most heavily traded African currency). The Central Bank of Nigeria, despite being under political pressure to maintain the naira at an overvalued rate in 2014, devalued it in November to minimize erosion of foreign currency reserves and raised the monetary policy rate by 100 basis points to 13 per cent. The Kenyan shilling depreciated in 2013 and 2014 because of weak tea prices and low tourist inflows resulting from security concerns. The shilling is expected to slide further in 2015 as global monetary policies tighten. In the West African Economic and Monetary Union (UEMOA) region (of which most West and Central African countries are members), where the CFA is pegged to the euro, the CFA appreciated against the dollar in 2014 but is expected to depreciate in 2015.

As noted by Rodrik and McMillan (2011) that an overvalued exchange rate can impede the development of tradable sectors, particularly modern manufacturing. Using the real effective exchange rate compiled by EIU (an increase denotes appreciation of the currency), Figure 1.9 shows that appreciation of the currency is associated with an increase in manufacturing value added and a decrease in agriculture and services value added in the oil-exporting countries. While currency appreciation leads to a decline in manufacturing value added and an increase in services value added in oil importing countries. However, real exchange rate appreciation is associated with a significant decrease in the services sector in the mineral-rich countries.
FIGURE 1.9: REAL EFFECTIVE EXCHANGE RATE AND SECTORAL SHARE IN VALUE ADDED, 2000–2012

(a) All African countries

(b) Oil exporting countries

Real effective Exchange rate (CPI based)
FIGURE 1.9: REAL EFFECTIVE EXCHANGE RATE AND SECTORAL SHARE IN VALUE ADDED

(c) Oil importing countries

(d) Mineral rich countries
FISCAL DEFICITS ARE NARROWING

Subregional fiscal balances are set to remain negative but are generally improving (figure 1.10).

The region’s average fiscal deficit widened from 3.6 per cent of GDP in 2013 to 4.6 per cent in 2014, but the deficit should narrow to 4.2 per cent in 2015, tracking decreases in North Africa (from 6.6 to 5.8 per cent), Southern Africa (4.2 to 3.7 per cent) and West Africa (5.2 to 4.3 per cent).

In South Africa, the fiscal deficit is expected to narrow from 4.4 per cent of GDP in 2014 to 3.7 per cent in 2015, as fiscal authorities take steps to address corruption and inefficiencies and cut allocations on non-essential expenditures. In Botswana, buoyant revenue from mineral taxes, income and value-added taxes, and the Southern African Customs Union (SACU) revenue-sharing scheme will improve the fiscal surplus from 1.2 per cent of GDP in 2014 to 1.5 per cent in 2015. Nigeria’s fiscal deficit is expected to widen by 0.1 percentage point to 2.1 per cent of GDP in 2015, mainly because of low oil revenues, instability in its oil-producing region, and increased expenditure in the lead-up to 2015’s elections. In Senegal, the fiscal deficit is expected to improve from 5.1 per cent of GDP in 2014 to 4.1 per cent of GDP, as authorities minimize non-productive spending. Egypt, Ghana and Tanzania however could face sustainability issues, as their deficits are expected to average 8 per cent, 10.7 per cent, and 7 per cent, respectively, of GDP over 2014 through 2016.

In East and Central Africa, the deficit is expected to slightly widen to 3.7 per cent of GDP and 3.9 per cent, respectively. Burundi, Tanzania and Uganda will be the drivers of the deficit increase for East Africa, Burundi’s underpinned by high spending on military and civil servant salaries and public spending on imported goods. In Tanzania,
expansionary policy before the 2015 elections and weak fiscal management are behind the increase, whereas in Uganda the deficit will be driven by infrastructure investment, weak public spending controls and deteriorating relations with foreign donors. In Kenya, the fiscal deficit is expected to decrease mainly due to revenue and fiscal reforms. The key driver of fiscal deficit increase in Central Africa—where large economies are major oil exporters—is deteriorating oil prices, as well as fuel subsidies and infrastructure spending in many countries.

Oil-importing, mineral-rich and non-oil and non-mineral countries are expected to experience the largest gains of 0.5, 0.6 and 0.9 percentage points, respectively, in 2015 as a result of lower oil prices (oil-importing countries include some mineral-rich and non-oil and non-mineral countries) (figure 1.11).

Although real exchange rate depreciation is associated with an increase in fiscal deficits in oil-exporting and oil-importing countries, the opposite is true in mineral-rich countries (figure 1.12). However, the relationship is more pronounced in oil-exporting than oil-importing countries. Other factors contributing to better fiscal balances include fiscal consolidation, the emergence of new sources of revenue, and innovative resource mobilization in, for example, Botswana, Cameroon, Republic of Congo, Ethiopia and South Africa (box 1.).

Africa’s overall current account deficit will continue because of trade deficits and increased demand for capital goods

FIGURE 1.11: AVERAGE BUDGET BALANCE BY ECONOMIC GROUP, 2010–2015 (% OF GDP)

Source: Calculations based on EIU (2014) database.
Note: e = ECA estimate; f = forecast.
THE FALLING OIL PRICE WILL AFFECT CURRENT ACCOUNTS

Africa’s overall current account deficit will continue because of trade deficits and increased demand for capital goods. Oil-exporting countries will keep their current account surpluses, but they will be much lower in 2015 than they were in 2013 and 2014, whereas current account deficits will persist in other economic groups (figure 1.13).

More specifically, in 2014 the current account deficit of oil-importing countries deteriorated by 0.2 percentage point to 8.7 per cent of GDP, a deficit expected to improve in 2015 to 8.6 per cent. Mineral-rich countries will maintain large current account deficits because of their reliance on imported services and their structural deficits on the income account, as multinational companies (which dominate their mining sectors) continue paying external debts and repatriating profits (EIU, 2014). After improving by about 0.5 percentage point in 2014, the current account deficits of those economies are expected to deteriorate by 0.04 percentage point to 8.5 per cent of GDP in 2015. Non-oil-exporting and non-mineral-rich countries will have the largest current account deficits, mainly because they have limited access to foreign currency reserves.

FIGURE 1.13: CURRENT ACCOUNT BALANCE BY ECONOMIC GROUP, 2010–2015 (% OF GDP)

Source: Estimations based on EIU 2014 data.
INTERNATIONAL RESERVES AMONG OIL EXPORTERS REMAIN HIGH BUT ARE DETERIORATING

Africa’s total international reserves decreased by 3.9 per cent, from $561.4 billion in 2013 to $539.6 billion in 2014, and are expected to decrease further to $533.5 billion in 2015, mainly as a result of weakening reserves among oil-exporting countries (figure 1.14). Oil-exporting countries have the largest external reserves, despite falling from 57 per cent of GDP in 2013 to 50 per cent in 2014. They are expected to fall further to 45.8 per cent in 2015. International reserves as a share of GDP for countries in three of the four economic groups averaged just above 14 per cent during 2012–2014.

At the subregional level, North Africa has the largest international reserves, driven mainly by oil-exporting economies, notably Algeria and Libya. East Africa has the second-largest reserves, mainly because of high reserves in Burundi, the Comoros and Tanzania (figure 1.15). However, they are expected to decrease slightly in 2015, as countries such as Ethiopia prefer to spend resources on development rather than build up more reserves.

In West Africa reserves are expected to fall to 12.6 per cent of GDP in 2015, while reserves for Central Africa are expected to increase to 10.9 per cent of GDP in 2015, Gabon driven mainly by the oil-exporting economy, Gabon. Reserves for Southern Africa are expected to be flat. Despite the decrease in Angola, and an increase in all the major economies in the subregion mainly influenced by the decreasing oil-prices.

Africa’s total international reserves decreased by 3.9 per cent, in 2014, and are expected to decrease further as a result of weakening reserves among oil-exporting countries.

FIGURE 1.14: INTERNATIONAL RESERVES BY ECONOMIC GROUP, 2010–2015 (% OF GDP)

Source: Calculations based on EIU (2014) database.
Note: e = ECA estimate; f = forecast.
FIGURE 1.15: INTERNATIONAL RESERVES BY SUBREGION, 2010–2015 (% OF GDP)

Source: Calculations based on EIU (2014) database.
Note: e=estimate; f=forecast.
PRIVATE INFLOWS ARE RISING

Africa continues to attract private capital because of its improved business environment and increasing positive corporate sentiment ratings such as the “Doing Business” regulatory improvements observed in Mauritius and Rwanda. FDI is a large external source of finance but was surpassed in 2010 by remittances (figure 1.16), which also are the most stable source of external financing. Remittances nudged up from 4.4 per cent of GDP in 2013 to 4.5 per cent of GDP in 2014, and they are expected to further increase to 4.6 per cent of GDP in 2015, as more African expatriates seek to invest in their home countries. In absolute terms, remittances for 2013, 2014, and 2015 translate to $62.9 billion, $67.1 billion and $71.8 billion, respectively. To leverage increasing remittances, the continent must decrease the cost of sending them back and develop financial instruments to channel them towards developmental programmes.

FDI is the second largest source of external private equity inflows. FDI increased from $56.6 billion in 2013 to $61.1 billion in 2014 and is projected to increase to $66.9 billion in 2015, equivalent to 3.9 per cent, 4.1 per cent and 4.2 per cent, respectively, of GDP. Portfolio flows averaged about 1.6 per cent of GDP over 2010–2015, and they remain volatile because they often are influenced by global monetary policy stances and the political outlooks of developing and emerging countries. Portfolio flows decreased from $31.6 billion in 2013 to $24.1 billion

---

**FIGURE 1.16: INFLOWS OF EXTERNAL FINANCE, 2010–2015 ($ BILLION)**

Source: Calculations based on UNCTADstat (2014).

Note: e = ECA estimate; f = forecast.
in 2014 but are projected to increase to $25.5 billion in 2015. Despite the slow recovery in developed and emerging economies, both FDI and portfolio equity flows are expected to continue increasing, underscoring the global private sector’s appetite for the continent’s opportunities. Frontier markets are key in attracting foreign private capital, bringing in 25.1 per cent and 26.3 per cent, respectively, of Africa’s total FDI inflows in 2013 and 2014, and 90 per cent and 63.2 per cent of its portfolio flows during those years. In 2015, frontier markets are expected to attract 27 per cent and 59 per cent, respectively, of total FDI and portfolio flows.12

Since 2010, mineral-rich countries have been by far the largest recipients of FDI inflows (figure 1.17) although those inflows gradually decreased from 24.7 per cent of GDP in 2013 to 23.4 per cent in 2014. Whereas FDI to resource-rich countries has the potential to improve efficiency by bringing technological and management spillovers, the resource-rich sector could develop at the expense of other sectors. Exports from the sector also could put pressure on the local currency, resulting in “Dutch disease”13 and limited economic diversification.

Illicit financial outflows through trade mispricing also are widespread in resource-rich economies, estimated at close to $60 billion a year and growing at 32.5 per cent over 2000–2009. Cumulatively, the outflows over that period were equivalent to nearly all the official development assistance (ODA)

---

**FIGURE 1.17: INFLOWS OF FDI AS A SHARE OF GDP, BY ECONOMIC GROUP, 2005–2015 (%)**

Source: Calculations based on EIU(2014).
Note: e = ECA estimate; f = forecast.
The importance of domestic ownership to successful development has led to an emphasis on domestic resource mobilization, as a complement to external resources, such as FDI and remittances. In the short term, the greatest potential resource is taxation, but that will require upgraded technology in national tax bureaus, improved tax collection (including faster collection time) and higher compliance rates, although some narrowly based progress has been made (almost all recent gains have come from taxes and other revenues collected from the natural resource sector).

Some governments have sought to tap into private finance for developmental projects. One example is the issuance of “diaspora bonds,” which if well structured can be a stable and cheap source of finance, as they have been for Ethiopia (2008 and 2011), Ghana (2008), Rwanda (2012) and Zimbabwe (2014). Such bonds are not, however, suitable for all countries; they are appropriate for high-income countries with large diasporas14. (Most African national diasporas remain on the continent.)

Africa’s resource-rich countries are setting up sovereign wealth funds. Botswana set up the Pula Fund as far back as 1994. Taking its income mainly from diamond exports, the Pula Fund is managed by the central bank, and had about $5.4 billion in August 201415. The fund invests only in foreign currency–denominated assets of developed countries. It runs a stabilization fund to finance fiscal deficits and a savings fund to help achieve intergenerational equity. The success in raising such an amount of funds by the Pula Fund is attributed to the government’s establishment and adherence to a sustainable fiscal policy backed by an oversight framework, underpinned by the strategic delinking of fiscal expenditure from natural, resource-driven revenues.

In the past two years, Angola, Ghana and Nigeria have also established that type of fund; Kenya, Liberia, Mauritius, Mozambique, Senegal, Zambia and Zimbabwe are expected to follow suit.

Governments in Africa will have to balance the goals of intergenerational equity and current economic priorities. For that reason, Angola’s new sovereign fund aims to support sectors that contribute to regional integration, such as infrastructure, agriculture, water, energy and transport, while also investing in emerging markets, commodity markets and priority investment sectors in Africa. Nigeria’s fund focuses on intergenerational equity, exogenous economic shocks and infrastructure. Senegal’s fund is intended as a “strategic co-investor in business capital” (particularly for small and medium enterprises), along the lines of a private equity fund. The key policy and institutional drivers are in government hands, but the private sector is of course more important in generating revenues.

**BOX 1.6: DOMESTIC FINANCING—DIASPORA BONDS AND SOVEREIGN WEALTH FUNDS**

The importance of domestic ownership to successful development has led to an emphasis on domestic resource mobilization, as a complement to external resources, such as FDI and remittances.

In the short term, the greatest potential resource is taxation, but that will require upgraded technology in national tax bureaus, improved tax collection (including faster collection time) and higher compliance rates, although some narrowly based progress has been made (almost all recent gains have come from taxes and other revenues collected from the natural resource sector).

Some governments have sought to tap into private finance for developmental projects. One example is the issuance of “diaspora bonds,” which if well structured can be a stable and cheap source of finance, as they have been for Ethiopia (2008 and 2011), Ghana (2008), Rwanda (2012) and Zimbabwe (2014). Such bonds are not, however, suitable for all countries; they are appropriate for high-income countries with large diasporas14. (Most African national diasporas remain on the continent.)

Africa’s resource-rich countries are setting up sovereign wealth funds. Botswana set up the Pula Fund as far back as 1994. Taking its income mainly from diamond exports, the Pula Fund is managed by the central bank, and had about $5.4 billion in August 201415. The fund invests only in foreign currency–denominated assets of developed countries. It runs a stabilization fund to finance fiscal deficits and a savings fund to help achieve intergenerational equity. The success in raising such an amount of funds by the Pula Fund is attributed to the government’s establishment and adherence to a sustainable fiscal policy backed by an oversight framework, underpinned by the strategic delinking of fiscal expenditure from natural, resource-driven revenues.

In the past two years, Angola, Ghana and Nigeria have also established that type of fund; Kenya, Liberia, Mauritius, Mozambique, Senegal, Zambia and Zimbabwe are expected to follow suit.

Governments in Africa will have to balance the goals of intergenerational equity and current economic priorities. For that reason, Angola’s new sovereign fund aims to support sectors that contribute to regional integration, such as infrastructure, agriculture, water, energy and transport, while also investing in emerging markets, commodity markets and priority investment sectors in Africa. Nigeria’s fund focuses on intergenerational equity, exogenous economic shocks and infrastructure. Senegal’s fund is intended as a “strategic co-investor in business capital” (particularly for small and medium enterprises), along the lines of a private equity fund. The key policy and institutional drivers are in government hands, but the private sector is of course more important in generating revenues.

Some governments have sought to tap into domestic financing such as diaspora bonds and sovereign wealth funds manly for developmental projects.
foreign debt as a share of GDP will be only 1 per cent of GDP (see figure 1.16), having been negative since 2006 because of high international reserves in oil-exporting economies (figure 1.18). Net foreign debt (total debt minus reserves) as a share of GDP in Algeria and Libya has averaged -82.3 per cent and -175 per cent since 2010. Mineral-rich and oil-importing countries have positive net foreign debt, and some extreme cases have very high ratios, raising issues of debt sustainability.

Africa continues to attract private capital because of its improved business environment and increasing positive corporate sentiment ratings

PRIVATE EQUITY IS AN OPPORTUNITY

Given precarious debt levels for many countries, slower economic growth, urbanization, population growth and rising demand for infrastructure, additional funds are needed. Private equity is one opportunity because countries that recorded more progress in terms of economic growth over the past decades are the ones that also attracted a greater share of private equity capital (ECA, 2014a). This source of funding is particularly promising for small and medium enterprises. Private equity could enhance domestic financing, given the high bank interest rates and weaknesses in financial intermediation in most of Africa.

Private equity investment has risen sharply in Africa over the past decade—albeit from a very low base—with average annual growth of 26 per cent, which reflects an improved business environment. During

**FIGURE 1.18: NET FOREIGN DEBT BY ECONOMIC GROUP, 2005–2015**

![Net Foreign Debt by Economic Group, 2005–2015](image)

Source: Calculations based on EIU(2014).
Note: e = estimate; f = forecast.
2006–2012, 28 per cent of private equity inflows into Africa were into consumer discretionary (an economic sector comprising businesses selling non-essential goods and services), 26 per cent industrials, 20 per cent materials, 12 per cent energy, 7 per cent financials, 3 per cent information technology, 3 per cent consumer staples, and 1 per cent healthcare (ECA, 2014a). However, the contribution of private equity inflows remains marginal in the cumulative global total (0.5 per cent over the period). Africa offers opportunities for private equity with its recent high growth, abundant natural resources, few private equity players, and growing market. African pension funds, currently estimated at $1 billion in Africa, could become a viable source of capital for private equity through investment in profitable assets, hence raising enough finances to tackle Africa’s financing gap.

Private equity investment has risen sharply in Africa over the past decade with average annual growth of 26 per cent, which reflects an improved business environment.

African countries with higher savings have higher savings–investment ratios, indicating that big savers invest little at home.

Source: Calculations based on World Development Indicators (World Bank (2014); database accessed December 2014).
AFRICAN COUNTRIES WITH HIGHER SAVINGS MAKE FEWER DOMESTIC INVESTMENTS

Relying on external sources only will not be enough for Africa to transform structurally. Evidence from East Asia shows that subregional economic growth was underpinned by high domestic savings and investment (NSI, 2010). In Africa during 2000–2010, at early stages of development, increases in savings led to a decline in investment until a level, after which savings enhanced investment as an economy grew (figure 1.19, left panel). However, African countries with higher savings tend to have higher savings–investment ratios, indicating that big savers invest little at home (figure 1.19, right panel). Those countries include Algeria, Angola, Republic of the Congo, Equatorial Guinea, Gabon and Côte d’Ivoire—notably, Africa’s main oil-exporters, suggesting that rather than investing, they are primarily building buffers against exogenous shocks (ECA and AUC, 2014).

Africa’s recent growth has not generated enough savings for investment, partly because of high levels of (mainly private) consumption, which has widened the continent’s financing gap, estimated at more than 5 per cent in 2011 and driven primarily by the resource gap in oil-importing and mineral-rich countries (figure 1.20). Indeed, during 2000–2011, the financing gap in oil-importing countries was higher than in mineral-rich countries and oil-exporting countries—the further proof that despite having relatively high savings, oil-exporting countries invest less because they hedge against revenue volatility.

FIGURE 1.20: AFRICA’S DOMESTIC FINANCING GAP, BY ECONOMIC GROUP, 2000–2011

Source: Calculation based on World Development Indicators (World Bank, 2014).
RISKS AND UNCERTAINTIES

A number of internal and external risks determine Africa’s medium-term prospects. The continued decline in oil and commodity prices; slow recovery in the US, the euro zone and Japan; and the decline in demand for commodities in China will negatively weigh on Africa’s medium-term trade performance. Tighter global financial conditions in developed economies might lead to a rise in interest rates, resulting in the outflow of private capital and an increase in the volatility of currencies. Those occurrences may affect frontier market economies, such as Ghana, Nigeria, South Africa, and Zambia. Although controls on capital flows offer a temporary solution, more robust strategies, such as adjusting funding strategies and plans and improving the business environment to retain capital, would provide a longer term solution.

Political instability, terrorism and violence in a number of African countries—such as the Central African Republic, the Democratic Republic of the Congo, Kenya, Lesotho, Libya, Mali, Nigeria, Somalia, and South Sudan—as well as civil and labour unrests in South Africa will remain a source of pessimism. However, the number of armed conflicts in Africa has decreased since 2000, and more initiatives are being undertaken at the continental level to address issues of peace and security (ECA, 2014c).

Finally, weather-related shocks will remain a source of downside risks, given that most African economies still depend on rain-fed agricultural practice. Global cooperation in addressing issues of climate change will go a long way to arrest some of those risks.

Medium-term capital inflows to Africa (and other developing and emerging regions) may moderate owing to fiscal consolidation in major donor countries (reduction in fiscal deficits) and tighter monetary conditions (to constrict spending) in developed economies.

The whole approach to forecasting is itself fraught with risk: differences in models and assumptions produce widely spread forecasts (box 1.7).
Some forecasters seem to be better at forecasting than others. For Kenya, for example, Kenya’s National Treasury (box figure 1) had the lowest forecast errors (based on Theil’s decomposition of the root mean square error) for GDP growth (0.01), inflation rate (0.02), and current account balance (0.16), while AfDB and EIU had the lowest errors for internal balance (0.20) and exchange rate (0.05), respectively, over 2009-2013. For the same period, the Morocco High Commission for Planning (HCP), for Morocco itself, also had the lowest forecast errors for three out of the five variables (box figure 2) when set against four “non-national” bodies. HCP (0.22) gives the lowest forecast error for real GDP growth followed by AfDB (0.25), UN-DESA (0.27), IMF (0.33) and EIU (0.35), possibly because HCP is a “home” institution. It was also the best predictor for the fiscal balance, and, among two institutions only, the exchange rate. This suggests the need to support the statistical capacity and forecasting units of national institutions in Africa as sources of more accurate, timely and useful forecasts.

**BOX 1.7 FIGURE 1: ACCURACY OF AFRICA’S ECONOMIC FORECASTS-KENYA, 2009–2013**

Note: Forecast values unavailable for IMF and AfDB on exchange rate, UN-DESA on current account balance, internal balance and exchange rate.

**BOX 1.7 FIGURE 2: ACCURACY OF AFRICA’S ECONOMIC FORECASTS-MOROCCO, 2009–2013**

Note: Forecast values unavailable for IMF and AfDB on exchange rate, UN-DESA on current account balance, internal balance and exchange rate.

AFRICA’S TRADE PERFORMANCE

Trade is one of the measures of integration of economies with the rest of the world, and the structure of trade (imports and exports) is a summary of the production structure of the trading partners.

THE MERCHANDISE TRADE BOOM IS TAPERING OFF

Africa’s merchandise exports declined by 2.4 per cent in 2013 (the only regional contraction that year), after growth of 6.5 per cent in 2012 (the highest among world regions) (table 1.1).

Fuels and natural resource–based products—mainly in their raw form—accounted for close to two thirds of exports. Apart from South Africa, the top African exporters are its oil exporters. The decline in merchandise exports is attributed to the upward trend in the prices of commodities and the continued dominance of natural resource–based products. Such export swings underscore the need for Africa to diversify its production and export base by adding value to its commodity exports. (Imports continued growing, but more slowly—4.1 per cent in 2013, compared to 12.9 per cent in 2012.)

The share of Africa’s exports in global merchandise exports is still low, declining marginally from 3.5 per cent in 2012 to 3.3 per cent in 2013 (table 1.2)—a contrast with 4.9 per cent in the 1970s. Some Asian economies that were at par with African economies in the 1970s—such as Indonesia, Malaysia and Republic of South Korea—increased their shares of the world trade hugely. Indeed Africa’s share in global exports was higher than the East Asia region’s

| Table 1.1: Growth in world merchandise trade, by region, 2012 and 2013 (%) |
|----------------|---------|---------|---------|
|                | Exports |         | Imports |         |
|                | 2012    | 2013    | 2012    | 2013    |
| Africa         | 6.5     | -2.4    | 12.9    | 4.1     |
| Asia           | 2.8     | 4.7     | 3.7     | 4.5     |
| Commonwealth of Independent States | 0.9 | 0.8 | 6.8 | -1.3 |
| Europe         | 0.8     | 1.5     | -1.8    | -0.5    |
| Middle East    | 5.2     | 1.9     | 10.5    | 6.2     |
| North America  | 4.4     | 2.8     | 3.1     | 1.2     |
| South and Central America | 0.7 | 1.4 | 2.3 | 3.1 |
| World          | 2.4     | 2.5     | 2.1     | 1.9     |

### Table 1.2: World Trade and Africa’s Trade, by Region, 2013

<table>
<thead>
<tr>
<th>Region</th>
<th>World Trade, by Regions Value ($ billion)</th>
<th>%</th>
<th>Africa’s Exports, by Destination Value ($ billion)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>602</td>
<td>3.3</td>
<td>97</td>
<td>16.2</td>
</tr>
<tr>
<td>Asia</td>
<td>5,773</td>
<td>31.5</td>
<td>188</td>
<td>26.6</td>
</tr>
<tr>
<td>Commonwealth of Independent States</td>
<td>779</td>
<td>4.3</td>
<td>2</td>
<td>0.3</td>
</tr>
<tr>
<td>Europe</td>
<td>6,646</td>
<td>36.3</td>
<td>216</td>
<td>35.8</td>
</tr>
<tr>
<td>Middle East</td>
<td>1,347</td>
<td>7.4</td>
<td>38</td>
<td>3.0</td>
</tr>
<tr>
<td>North America</td>
<td>2,418</td>
<td>13.2</td>
<td>54</td>
<td>8.9</td>
</tr>
<tr>
<td>South and Central America</td>
<td>736</td>
<td>4.0</td>
<td>30</td>
<td>4.9</td>
</tr>
<tr>
<td>World</td>
<td>18,301</td>
<td>100</td>
<td>602</td>
<td>3.4</td>
</tr>
</tbody>
</table>

Note: The difference between the total for Africa and its breakdown may result from rounding up of errors.

### Table 1.3: Share of Manufactures in Total Merchandise Trade by Region, 2013, Percentage

<table>
<thead>
<tr>
<th>Region</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>18.5</td>
<td>62.0</td>
</tr>
<tr>
<td>Asia</td>
<td>79.1</td>
<td>59.3</td>
</tr>
<tr>
<td>Commonwealth of Independent States</td>
<td>22.3</td>
<td>76.5</td>
</tr>
<tr>
<td>Europe</td>
<td>73.9</td>
<td>66.3</td>
</tr>
<tr>
<td>Middle East</td>
<td>20.5</td>
<td>69.7</td>
</tr>
<tr>
<td>North America</td>
<td>66.8</td>
<td>73.5</td>
</tr>
<tr>
<td>South and Central America</td>
<td>26.4</td>
<td>66.3</td>
</tr>
<tr>
<td>World</td>
<td>64.7</td>
<td>64.7</td>
</tr>
</tbody>
</table>

Source: WTO 2014.
share in 1970 and 1980. The dramatic change started around 1990 and has continued. In 1970 and 1980, Africa’s share in global exports was 4.99 and 5.99 per cent, respectively. The corresponding figure for East Asia was 2.25 and 3.74 per cent, respectively. In 1990, 2000 and 2010, Africa’s share of global exports was 3.02, 2.31 and 3.33 per cent, respectively, compared with East Asia’s share of 8.06, 12.02 and 17.8 per cent19. About one-third20 of the world trade in 2013 was by Asian countries.

Africa’s traditional trading partners are being displaced by China and other Asian economies. Europe remains Africa’s main trading partner, even with a decreasing share over the years: from 52 per cent in 2005 to 36 per cent in 2013. However, the Asian region (mainly China) is Africa’s second largest trading partner. That region accounted for close to 27 per cent of total Africa’s trade in 2013 (see table 1.2).

### TABLE 1.4: AFRICA’S TOP 20 MERCHANDISE EXPORTS TO THE WORLD, 2011–2013 ($ BILLION)

<table>
<thead>
<tr>
<th>HS CODE</th>
<th>Product label</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>All products</td>
<td></td>
<td>607.4</td>
<td>653.3</td>
<td>581.8</td>
</tr>
<tr>
<td>27</td>
<td>Mineral fuels, oils, distillation products, etc.</td>
<td>346.8</td>
<td>392.6</td>
<td>340.9</td>
</tr>
<tr>
<td>71</td>
<td>Pearls, precious stones, metals, coins, etc.</td>
<td>44.8</td>
<td>46.4</td>
<td>32.4</td>
</tr>
<tr>
<td>26</td>
<td>Ores, slag and ash</td>
<td>23.3</td>
<td>20.1</td>
<td>24.2</td>
</tr>
<tr>
<td>85</td>
<td>Electrical, electronic equipment</td>
<td>11.7</td>
<td>10.6</td>
<td>11.5</td>
</tr>
<tr>
<td>87</td>
<td>Vehicles other than railway, tramway</td>
<td>9.1</td>
<td>9.8</td>
<td>11.4</td>
</tr>
<tr>
<td>74</td>
<td>Copper and articles thereof</td>
<td>11.8</td>
<td>11.8</td>
<td>11.2</td>
</tr>
<tr>
<td>84</td>
<td>Machinery, nuclear reactors, boilers, etc.</td>
<td>9.1</td>
<td>8.9</td>
<td>9.3</td>
</tr>
<tr>
<td>18</td>
<td>Cocoa and cocoa preparations</td>
<td>8.6</td>
<td>10.1</td>
<td>8.7</td>
</tr>
<tr>
<td>72</td>
<td>Iron and steel</td>
<td>10.8</td>
<td>8.9</td>
<td>8.6</td>
</tr>
<tr>
<td>89</td>
<td>Ships, boats and other floating structures</td>
<td>7.3</td>
<td>6.7</td>
<td>7.9</td>
</tr>
<tr>
<td>08</td>
<td>Edible fruit, nuts, peel of citrus fruit, melons</td>
<td>6.6</td>
<td>9.4</td>
<td>6.7</td>
</tr>
<tr>
<td>62</td>
<td>Articles of apparel, accessories, not knit or crochet</td>
<td>6.7</td>
<td>5.9</td>
<td>6.4</td>
</tr>
<tr>
<td>28</td>
<td>Inorganic chemicals, precious metal compound, isotopes</td>
<td>6.6</td>
<td>5.1</td>
<td>4.6</td>
</tr>
<tr>
<td>31</td>
<td>Fertilizers</td>
<td>5.0</td>
<td>5.1</td>
<td>4.5</td>
</tr>
<tr>
<td>76</td>
<td>Aluminium and articles thereof</td>
<td>5.3</td>
<td>4.2</td>
<td>4.4</td>
</tr>
<tr>
<td>39</td>
<td>Plastics and articles thereof</td>
<td>3.9</td>
<td>3.8</td>
<td>4.0</td>
</tr>
<tr>
<td>03</td>
<td>Fish, crustaceans, molluscs, aquatic invertebrates NES</td>
<td>3.9</td>
<td>4.2</td>
<td>4.0</td>
</tr>
<tr>
<td>25</td>
<td>Salt, sulphur, earth, stone, plaster, lime and cement</td>
<td>4.3</td>
<td>4.5</td>
<td>3.9</td>
</tr>
<tr>
<td>09</td>
<td>Coffee, tea, mate and spices</td>
<td>4.2</td>
<td>4.1</td>
<td>3.6</td>
</tr>
<tr>
<td>61</td>
<td>Articles of apparel, accessories, knit or crochet</td>
<td>3.7</td>
<td>3.3</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Source: WTO 2014.
Note: NES = not elsewhere stated.
Africa exported the lowest share of manufactures in the total merchandise exports—18.5 per cent—in 2013 (table 1.3). Asia had the highest share, followed by Europe. On the import side, the share was far less variable. Trade in intermediates and participation in the high end of global value chains accounted for the simultaneous high share of manufactures in total merchandise exports and imports of North America, Europe and Asia. Africa’s low export figure is a reflection of minimal participation in GVCs.

Africa’s exports are of course highly skewed towards unprocessed, resource-based commodities (table 1.4)—as with the first three Harmonized Commodity Description and Coding Systems (HS) 2 products, which accounted for 68 per cent of Africa’s total merchandise exports in 2013.

The structure of Africa’s imports from the world is fairly diversified, as the first 15 HS 2 items accounted for 64 per cent of its imports (table 1.5).

### TABLE 1.5: AFRICA’S TOP 20 IMPORTS FROM THE WORLD, 2011–2013, $ BILLION

<table>
<thead>
<tr>
<th>HS</th>
<th>Product label</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>27</td>
<td>Mineral fuels, oils, distillation products, etc.</td>
<td>85.3</td>
<td>95.9</td>
<td>94.3</td>
</tr>
<tr>
<td>84</td>
<td>Machinery, nuclear reactors, boilers, etc.</td>
<td>65.2</td>
<td>64.9</td>
<td>69.3</td>
</tr>
<tr>
<td>87</td>
<td>Vehicles other than railway, tramway</td>
<td>44.8</td>
<td>52.1</td>
<td>48.8</td>
</tr>
<tr>
<td>85</td>
<td>Electrical, electronic equipment</td>
<td>42.3</td>
<td>40.3</td>
<td>43.7</td>
</tr>
<tr>
<td>10</td>
<td>Cereals</td>
<td>27.3</td>
<td>25.9</td>
<td>22.7</td>
</tr>
<tr>
<td>39</td>
<td>Plastics and articles thereof</td>
<td>17.7</td>
<td>18.0</td>
<td>19.8</td>
</tr>
<tr>
<td>72</td>
<td>Iron and steel</td>
<td>17.1</td>
<td>18.9</td>
<td>19.1</td>
</tr>
<tr>
<td>89</td>
<td>Ships, boats and other floating structures</td>
<td>24.5</td>
<td>16.5</td>
<td>18.5</td>
</tr>
<tr>
<td>73</td>
<td>Articles of iron or steel</td>
<td>16.4</td>
<td>16.1</td>
<td>16.9</td>
</tr>
<tr>
<td>30</td>
<td>Pharmaceutical products</td>
<td>12.0</td>
<td>13.2</td>
<td>15.4</td>
</tr>
<tr>
<td>99</td>
<td>Commodities not elsewhere specified</td>
<td>6.5</td>
<td>11.1</td>
<td>11.7</td>
</tr>
<tr>
<td>90</td>
<td>Optical, photo, technical, medical, etc. apparatus</td>
<td>7.9</td>
<td>8.0</td>
<td>9.7</td>
</tr>
<tr>
<td>15</td>
<td>Animal, vegetable fats and oils, cleavage products, etc.</td>
<td>10.4</td>
<td>9.1</td>
<td>8.5</td>
</tr>
<tr>
<td>40</td>
<td>Rubber and articles thereof</td>
<td>8.0</td>
<td>7.5</td>
<td>7.8</td>
</tr>
<tr>
<td>48</td>
<td>Paper and paperboard, articles of pulp, paper and board</td>
<td>7.5</td>
<td>7.4</td>
<td>7.6</td>
</tr>
<tr>
<td>38</td>
<td>Miscellaneous chemical products</td>
<td>6.7</td>
<td>6.8</td>
<td>7.1</td>
</tr>
<tr>
<td>17</td>
<td>Sugars and sugar confectionery</td>
<td>7.8</td>
<td>7.0</td>
<td>6.8</td>
</tr>
<tr>
<td>71</td>
<td>Pearls, precious stones, metals, coins, etc.</td>
<td>2.5</td>
<td>4.1</td>
<td>6.0</td>
</tr>
<tr>
<td>29</td>
<td>Organic chemicals</td>
<td>5.9</td>
<td>6.1</td>
<td>6.0</td>
</tr>
<tr>
<td>94</td>
<td>Furniture, lighting, signs, prefabricated buildings</td>
<td>4.6</td>
<td>5.4</td>
<td>5.9</td>
</tr>
</tbody>
</table>

Source: WTO 2014.
Petroleum products well illustrate the need to join and develop regional and global value chains: in 2013, the continent exported products (mainly crude) worth $340.9 billion but imported (mainly refined) products worth $94.3 billion.

Intra-African trade, at 16.3 per cent of total trade in 2013, is still low when compared with other regions, so Africa’s policy response should be to consolidate that position and augment it via improved infrastructure, enhanced trade facilitation, reduced trade costs and greater efficiency generally (ECA and AUC, 2013). Its composition varies greatly from that for extra-African trade: about two-thirds of intra-African trade is manufactures (figure 1.21). Chapter 4 presents further analysis.

**SERVICES TRADE IS CHANGING ITS COMPOSITION**

Services accounted for 13 per cent of Africa’s total exports in 2013, far smaller than exports of raw commodities and natural resources (which accounted for about 83 per cent). The share of services in Africa’s exports was smaller than that of most other regions except for the Middle East (figure 1.22). (The potential of services is discussed more fully in section 4.4.)

The composition of Africa’s services exports changed over the past three decades, and over 2002–2012 the shares of computer and information services, financial services, insurance, royalties and license fees, transport, construction, and travel all rose; those of other business services and of personal, cultural and recreational services went down (figure 1.23). Rates of change are in table 1.6.

---

**FIGURE 1.21: MANUFACTURING INTENSITY, BY MAIN DESTINATION OF AFRICA’S EXPORTS, 2005–2010 (%)**

<table>
<thead>
<tr>
<th>Destination</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU25</td>
<td>32%</td>
</tr>
<tr>
<td>USA</td>
<td>18%</td>
</tr>
<tr>
<td>China</td>
<td>14%</td>
</tr>
<tr>
<td>Intra-African</td>
<td>67%</td>
</tr>
<tr>
<td>Other emerging partners</td>
<td>41%</td>
</tr>
<tr>
<td>Other traditional partners</td>
<td>38%</td>
</tr>
</tbody>
</table>

Source: AfDB et al. (2014).
FIGURE 1.22: SHARES OF GOODS AND SERVICES IN EXPORTS, BY COUNTRY AND REGION, 2013 (%)

- **US**: 63% Goods, 37% Services
- **India**: 69% Goods, 31% Services
- **Europe**: 76% Goods, 24% Services
- **China**: 83% Goods, 17% Services
- **Asia**: 84% Goods, 16% Services
- **Latin America and the Caribbean**: 87% Goods, 13% Services
- **Africa**: 87% Goods, 12% Services
- **Middle East**: 89% Goods, 11% Services


FIGURE 1.23: AFRICA’S EXPORTS OF COMMERCIAL SERVICES, BY CATEGORY, 1980–2012 ($ MILLION)

TABLE 1.6: AVERAGE ANNUAL GROWTH OF AFRICA’S SERVICES EXPORTS, 2000–2013

<table>
<thead>
<tr>
<th>Category</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer and information services</td>
<td>20.0</td>
</tr>
<tr>
<td>Financial services</td>
<td>11.6</td>
</tr>
<tr>
<td>Insurance services</td>
<td>11.6</td>
</tr>
<tr>
<td>Royalties and licence fees</td>
<td>10.6</td>
</tr>
<tr>
<td>Transport</td>
<td>10.0</td>
</tr>
<tr>
<td>Construction</td>
<td>10.0</td>
</tr>
<tr>
<td>Communication services</td>
<td>9.8</td>
</tr>
<tr>
<td>Travel</td>
<td>8.2</td>
</tr>
<tr>
<td>Personal, cultural and recreational services</td>
<td>6.9</td>
</tr>
<tr>
<td>Other business services</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Source: ECA calculations based on UNCTADstat 2014 data.

FIGURE 1.24: SHARES OF AFRICA’S EXPORTS BY TOP THREE EXPORTING COUNTRIES IN 2012, BY CATEGORY

In 2012, Egypt, South Africa and Morocco accounted for 52 per cent of Africa’s exports of services (figure 1.24); Egypt alone accounted for 22 per cent. Financial services, of which South Africa accounted for 42 per cent of Africa’s exports, were the most concentrated sector. The top three exporters accounted for 78 per cent of exports of computer and information services.

The services industry consists of large employers, employing 47 per cent of the population on average in the 12 African countries for which data are available over the period 2009–2013.

Over 2000–2013, Africa’s share of global services exports decreased slightly from 2.2 per cent to 2.0 per cent. (Not all categories were affected, though, as over the period Africa’s share of global exports of personal, cultural and recreational services increased by 94 per cent, construction by 74 per cent, and computer and information services by 72 per cent—see figure 1.25. Africa’s imports of services have jumped, from $36.9 billion in 2002 to more than $141 billion in 2013. Across the 48 African countries for which data were available, 37 had a services trade deficit in 2012: Morocco, Egypt, Tunisia and Kenya were notable exceptions.

As with services exports, the composition of services imports has changed greatly over the period (figure 1.26).

---

**FIGURE 1.25: AFRICA’S SHARE OF WORLD’S SERVICES EXPORTS, BY CATEGORY, 2000–2013**

Source: ECA analysis based on UNCTADStat 2014.
FIGURE 1.26: AFRICA’S IMPORTS OF SERVICES, BY CATEGORY, 1980–2012 ($ MILLION)


FIGURE 1.27: AFRICA IMPORTS AND EXPORTS OF GOODS AND SERVICES, 1980–2013 ($ MILLION)

Source: ECA analysis based on UNCTAD Stat 2014.
NET—AFRICA EXPORTS GOODS BUT INCREASINGLY IMPORTS SERVICES

To sum up both the goods and services sides, although Africa has been increasingly a net exporter of goods in recent years, it has become more and more a net importer of services (with a trade deficit of $48.4 billion in 2013 for commercial services) (figure 1.27).23

The category of services imports that saw the fastest growth in Africa during 2000–2013 was transport (345 per cent),24 although 35 of 39 African countries with available data had a trade deficit in transport services in 2012. Travel imports saw the smallest increase (39 countries), and only 11 had a trade deficit on that item in 2012, which may point to the need for further avenues to enhance the potential of African tourism.25

Table 1.7 shows Africa’s trade balance across the various categories of services exports in 2012, in decreasing order.

### TABLE 1.7: AFRICA’S TRADE BALANCE IN SERVICES, 2012

<table>
<thead>
<tr>
<th>Services category</th>
<th>Trade surplus/(deficit) (US$), 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel</td>
<td>18,264</td>
</tr>
<tr>
<td>Communications</td>
<td>1,565</td>
</tr>
<tr>
<td>Financial services</td>
<td>735</td>
</tr>
<tr>
<td>Computer and information services</td>
<td>271</td>
</tr>
<tr>
<td>Personal, cultural and recreational services</td>
<td>(82)</td>
</tr>
<tr>
<td>Royalties and licence fees</td>
<td>(2,852)</td>
</tr>
<tr>
<td>Government services NES</td>
<td>(4,036)</td>
</tr>
<tr>
<td>Insurance</td>
<td>(6,151)</td>
</tr>
<tr>
<td>Construction</td>
<td>(10,175)</td>
</tr>
<tr>
<td>Other business services</td>
<td>(20,495)</td>
</tr>
<tr>
<td>Transport</td>
<td>(32,961)</td>
</tr>
<tr>
<td>Other services</td>
<td>(41,226)</td>
</tr>
<tr>
<td>Total services</td>
<td>(71,315)</td>
</tr>
</tbody>
</table>

Source: ECA calculations based on UNCTADstat 2014 data.
Note: NES = Not elsewhere stated
CONCLUSIONS

African countries need to leverage the progress that has been made and continue building robust institutions that maintain and improve the business environment, economic governance and macroeconomic management. Strategies that (a) close the human capital gap, a move also vital for inclusive growth (chapter 2); (b) address the manufacturing deficit in Africa’s growth by maximizing the benefits of trade, including via a selective trade policy framework (chapter 3); (c) reposition Africa in global value chains and facilitate trade in intermediates and services via export diversification (chapter 4); and (d) get trade agreements to advance its industrialization via trade and complementary policies (chapter 5) will make Africa more able to steer its own direction rather than be buffeted by the fickle winds of the global economy.

Winds are shifting as the global commodity supercycle comes to a close. Declining capital inflows resulting from tighter monetary policies in developed economies; declining growth in emerging economies, such as China; and the economic fragility in the euro zone—still by far Africa’s largest trading partner—are having an impact on Africa. The continent must therefore keep improving its business environment, governance, and fiscal and monetary policies while safeguarding its economies from internal and external shocks.

Africa must of course overcome its physical infrastructure deficit. That effort calls for innovative financing, especially in today’s environment—particularly on the domestic front—to direct savings to industry (particularly manufacturing) and to mechanized agriculture. Remittances, the largest and most stable source of external financing, must be leveraged. A first step would be to lower the cost of sending money to Africa, which averages 11.9 per cent for sending $200.26 Governments also should make better use of pension funds and private equity, whereas those governments with large international reserves should not only save to build buffers against exogenous shocks but use them for development, especially in growth-enhancing sectors.
REFERENCES


1 Most data in this box are from UN-DESA 2014a and 2014b, unless otherwise stated.
5 Africa’s growth was previously estimated to grow at 4.0 per cent, 4.7 per cent, and 5.0 per cent in 2013, 2014 and 2015, respectively, but has been lowered because of instability in some oil-producing countries in Africa.
6 Assuming a low-case scenario that foresees continuing geopolitical tensions and declining business confidence in the euro area, Africa’s growth is projected at 4.3 per cent in 2015 and 4.5 per cent in 2016. Another low-case scenario that projects declining economic activities in the BRICS (given their close trade and investment ties to Africa) forecasts Africa’s growth at 4.2 per cent in 2015 and 4.3 per cent in 2016.
7 Most mineral-rich countries are oil-importers.
9 Simulating the impact of oil prices on African economies,

\[ g_G^t = \sum_{j=0}^{p} \delta_s g_{G, j}^t + \sum_{j=0}^{q} \gamma_j \Delta \log(oil\_price)_{i, t+j} + \beta_1 \Delta \log(oil\_price)_{i, t+j} \delta_{shock1} + \beta_2 \Delta \log(oil\_price)_{i, t+j} \delta_{shock2} + \eta \Delta \log(oil\_price)_{i, t+j} \delta_{shock1} \delta_{shock2} + \epsilon_t \]

where \( g \) is the GDP growth rate. The superscript \( G \) refers to a specific group of countries, which could be all of Africa, oil-exporting, oil-importing or mineral-rich countries; while the subscripts \( i \) and \( t \) refer to country and time, respectively. \( \delta \) is a dummy variable, which takes the value of 1 if country \( i \) belongs to group \( G \) and takes the value of 0 otherwise. \( \Delta \log(oil\_price) \) is the change in oil price.

\( \delta_{shock1} \) and \( \delta_{shock2} \) are two dummy variables, which take the value of 1 if the time period is between July–December 2008 and June–December 2014, respectively, and 0 otherwise. \( \delta_{shock1} \) and \( \delta_{shock2} \) capture the impact of oil shock——which happened in July–December 2008 and June–December 2014, respectively——on a specific group of countries. \( \epsilon \) is the stochastic component, which is assumed to follow an Autoregressive Moving Average (ARMA) process of order \( p \) and \( q \), where \( p \) and \( q \) are the optimal maximum lags of the ARMA process. \( \delta, \lambda, \beta \) and \( \eta \) are parameters estimated using the robust Ordinary Least Square (OLS) method.

Data used for this simulation cover the period January 2000 to December 2014 for 53 African countries, corresponding to a total of 9,450 observations.
10 Lesotho and Equatorial Guinea removed.
12 Frontier markets include Ghana, Kenya, Mauritius, Mozambique, Nigeria, Senegal, Tanzania, Uganda and Zambia (ECA, 2014c).
13 Dutch disease is the negative impact on an economy of anything that gives rise to a sharp inflow of foreign currency, such as the discovery of large oil reserves. The currency inflows lead to currency appreciation, making the country’s other products less price competitive on the export market.
15 Bank of Botswana Financial Statistics, September 2014
16 Such as Cabo Verde (59 per cent of GDP), Ghana (28 per cent of GDP), the Sudan (55 per cent of GDP), Mauritania (52 per cent of GDP), Mozambique (28 per cent of GDP), São Tomé and Príncipe (117 per cent of GDP), Senegal (25 per cent of GDP), Seychelles (90 per cent of GDP), Tunisia (50 per cent of GDP), and Zimbabwe (338 per cent of GDP).
17 Nigeria and Libya were not included owing to missing data.
18 The current decline in oil prices may lead to further fall in Africa exports in the coming years.
19 Figures based on ECA and AUC (2013).
20 Asia’s total trade was $5.64 billion in 2013, and the total world trade (according to WTO) was $17.93 billion. Thus the share of the region was 31.46 per cent.
21 World Bank data. Note that data for the 12 countries is available for different years within 2009–2013.
22 ECA analysis based on WDI data.
23 ECA calculation based on UNCTAD statistics, including non-government services not categorized.
24 ECA analysis based on WDI data.
25 ECA analysis based on UNCTAD data.