Outlook 2013: Sub-Sahara Africa

Regional outlook

Growth Outlook

Sub-Saharan Africa has grown rapidly over the past decade. Despite the global financial crisis of 2008-09, Sub-Saharan Africa has grown at an average of 4.7% between 2000 and 2010. The region's growth has largely followed commodity price fluctuations, and African exports are highly concentrated in primary commodities. Against the backdrop of a weak global economy, Sub-saharan Africa might be the only region poised to experience accelerated growth relative to the past few years. For the region as a whole, GDP is projected to grow at over 5% in 2012-13. Excluding South Africa, which is the region's largest economy and accounts for over one-third of Sub-Saharan Africa's GDP, the region's average growth rate will be over 6%. Due to South Africa's strong interlinks with global markets, growth will be sluggish and average around 2.5% - 3% in 2012-13. According to the World Bank, in Nigeria and Angola—the region's second- and third-largest economies—real GDP growth in 2013 is expected to average 6.7% and 7%, respectively, driven largely by oil prices averaging around USD 103 per barrel, increased oil production, and accelerated infrastructure development. Most low-income countries will continue to expand significantly, while middle-income countries that are tracking the global economy will lag behind or see

Table 1: Economic growth (Real GDP % change pa)

	2007		2009	2010	2011	2012e	2013f
Middle-income countries							
Ghana	6.5	8.4	4.0	8.0	14.4	7.3	7.6
Lesotho	4.8	5.4	2.9	5.6	5.8	4.3	5.9
Mauritius	5.9	5.5	3.1	4.2	3.9	2.9	3.3
Namibia	5.4	3.4	-1.1	6.6	4.9	4.0	4.6
Senegal	4.9	3.7	2.1	4.1	2.6	3.9	4.6
Seychelles	9.6	-1.0	0.5	6.7	5.0	3.6	3.7
Swaziland	3.5	2.3	1.2	2.0	-0.2	1.7	0.5
Zambia	6.2	5.7	6.4	7.6	6.6	5.8	6.6
Low-income countries							
Ethiopia	11.5	10.8	8.8	10.1	7.5	8.0	7.5
Kenya	7.0	1.5	2.7	5.8	4.4	4.7	4.8
Liberia	11.4	6.1	3.8	5.6	6.7	9.0	7.5
Mali	4.3	4.9	4.3	5.8	5.4	0.0	6.0
Mozambique	7.3	6.8	6.3	6.8	7.1	7.4	8.2
Rwanda	5.5	11.2	4.1	7.5	8.6	6.5	7.8
Sierra Leone	6.4	5.5	3.2	4.9	5.3	26.5	7.4
Tanzania	7.1	7.4	6.0	7.0	6.4	6.9	7.1
Uganda	8.1	10.4	4.1	6.2	5.9	5.3	6.3
Oil-exporting countries							
Angola	21.1	12.5	0.8	3.4	3.4	8.0	7.0
Cameroon	3.5	2.9	2.0	3.2	4.1	4.5	4.7
Chad	0.2	-0.4	-1.6	13.0	3.1	6.2	4.0
Congo	-1.6	5.6	7.5	8.8	4.5	3.7	5.4
Equatorial Guinea	21.4	10.7	5.3	0.9	4.6	6.3	5.8
Gabon	5.6	2.3	-1.4	5.7	5.7	4.7	3.5
Nigeria	6.5	6.0	7.0	7.9	7.5	6.4	6.7

Source: EIU

a decline in output growth. Growth will be supported by rising external inflows (capital and investment, particularly from Asian sources) and high commodity prices. Continued economic reform programs will enable structural improvements while boosting the role of the private sector in the economy.

Challenges to growth

Downside risks to the region’s growth momentum come from both domestic and external factors.
On the domestic front, adverse weather conditions could have implications for the agricultural sector which accounts for over 20% - 40% of GDP in most countries and for an even larger share of employment. Much of the sector depends on good rains and therefore the impact of poor rainfall on GDP growth in the region can be significant. Already in 2012, poor rains are forecast for the eastern Horn of Africa as well as the Sahel region, affecting parts of Mauritania, Mali and Niger. The ongoing conflicts in the Sahel region of West Africa further undermines the region’s food security. Bad weather conditions also have implycations for the services and industrial sectors, as these sectors depend on the generation of power from hydroelectric sources.

Another major domestic risk stems from political unrest. Africa’s civil wars may have ended, but political instability is widespread. In 2012, the region saw diminished growth prospects in Mali and Guinea-Bissau due to political instability, violence on the border between South Sudan and Sudan, as well as in eastern Congo. In 2013, important elections are due to take place in Mali, Ghana, Guinea, and Kenya. There is potential for significant political upheaval in these countries in the months leading up to the elections. Worker strikes such as are currently happening in the gold and platinum sectors in South Africa have wide-ranging economic, political and social implications as well. Key issues include the impact on mining, labor relations, the political scene, the police force and wider investor confidence. The ongoing strikes will be detrimental to South Africa's already sluggish economy in the short term, but the longer-term implications such as the prospect of stricter labor laws, may pose a threat to the country's growth potential. Higher wages would translate into a higher cost of doing business in South Africa reducing its competitive position.

Furthermore, soaring inflation, particularly in East-Africa has been a major hindrance to growth-accommodative policies. With global commodity prices projected to stabilize, inflation is expected to decline from 10% in 2011 to around 8% in 2012, and about 7% in 2013. The recent surge in international cereal prices, however, is likely to exacerbate food insecurity in some places, and could be a threat to inflation if it intensifies. Finally, the general operating environment remains difficult in a large number of Sub-Saharan states. Government bureaucracy, corruption, infrastructure bottlenecks, skills shortages and structural difficulties will continue to present major challenges to growth.

Table 2: Sub-Saharan Africa: Annual Economic Indicators

	2010	2011	2012	2013	2014
(Percent change from a year earlier, unless otherwise specified)					
Real GDP (%)	4.9	5	4.9	5.1	5.2
Nominal Per-Capita GDP (USD)	2.3	2.5	2.4	2.5	2.7
Industrial Production	4.6	3.2	2.9	3.1	3.3
Merchandise Exports (bn USD)	25.8	19.3	6.6	6.0	5.9
Merchandise Imports (bn USD)	28.5	13.4	4	5.6	9.7
Consumer Price Index	7.1	8.5	7.8	6.7	6.6
Money Supply, M1, Year-end	17.9	11.2	4.5	4.7	13.8
Broad Money Supply, Year-end	19.3	7.7	0.0	2.5	15.0
Policy Interest Rate (%)	8.6	8.8	8.8	8.9	8.9
Short-Term Interest Rate (%)	8.6	8.3	8.5	8.7	8.9
Long-Term Interest Rate (%)	11.9	11.7	11.7	12.2	12.4

Source: IHS Global Insight

On the external front, trade and investment flows will be the main channels through which the weaker global economy will impact Sub-Saharan Africa. Specific risk factors include a reduction of trade credit, declining commodity prices and contracting demand for the region's exports, in addition to falling remittances, aid, foreign direct investment (FDI) and tourism receipts. A strong slowdown of the pace of expansion in China—a crucial economic partner for Sub-Saharan Africa in terms of trade, aid and investment flows—would be of particular concern. Western donor countries are under domestic political pressure to scale back official development assistance and trade preferences for Africa. This will pose fiscal and balance of payment challenges for a number of countries, including some relatively dynamic frontier states such as Mozambique, Senegal, Cote d'Ivoire, and Uganda.

The trajectory of the euro zone crisis will have an impact on the region's export growth prospects since nearly 40% of the region's non-oil exports are destined for Europe, and the EU is still Africa's largest aggregate source of foreign aid, remittances, and FDI. That said, sub-Saharan Africa is still increasingly safeguarded against the spill-over effect of a full-blown global financial crisis. European banks and multinationals have a prominent presence in many African economies, yet their market share has been shrinking; so much so that investment pullback or even bank collapses in Europe would not pose systemic risks to Africa any longer, but rather fresh opportunities for competitors. Many of Africa's most resource-rich countries are tilting trade and investment ties to Asia and other emerging markets . Therefore, these countries will weather the Eurozone turmoil fairly well as long as it does not catalyze a global crisis that reduces overall commodity demand. Recent new resource discoveries such as

Mozambique's world-class coal and gas finds, Congolese copper exports and Ugandan oil seem destined for Asian markets. However, South Africa, being the largest economy of Sub-Saharan Africa, has extensive trade and financial linkages with the eurozone. Therefore, the medium term growth prospects for South Africa remain subdued. The direct impact of sluggish growth in South Africa on the region as a whole should be modest, given that South Africa is not a significant export destination for most sub-Saharan African countries.

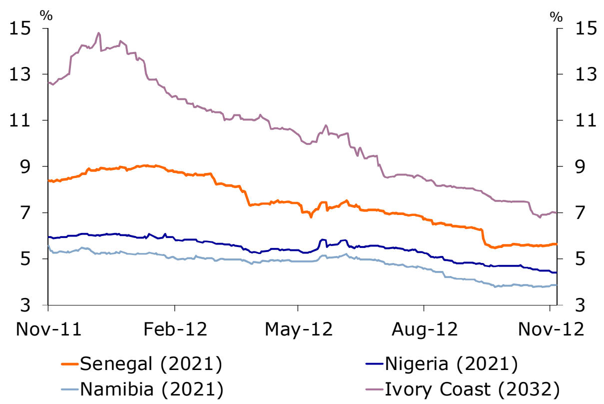
Potential drivers of Growth
Domestic demand, both for consumption and investment, will be a key driver of growth. Consumer spending accounts for about 60% of GDP in the region and remained resilient even during the recent escalation of financial market tensions, supported by wage increases, improved access to credit, steady remittance flows(projected to reach $24bln in 2012 from $22bln in 2011), falling inflation and interest rates in a number of countries (Kenya, Uganda, South Africa). Inflation has trended down as food and fuel price pressures have eased, providing scope for flexibility in monetary policy. Government spending is supportive of growth. Aided by relatively moderate debt-to-GDP ratios helped by a vast amount of debt relief averaging around 40 percent in the region, governments have been able to follow expansionary fiscal policies in recent years. A continuation of generally accommodative policies since the 2008-09 global crisis means that in many countries fiscal policy space to counter severe external shocks may be constrained today. Rising fiscal deficits in some countries could compromise future growth prospects due to the risk of macro instability. Some countries such as Botswana and Nigeria are moving to rebuild fiscal policy space.[1]

FDI inflows, mainly from China and India, are highly supportive of growth in the region and have been rising steadily over the last decade. Services, Agriculture, light manufacturing, and infrastructure are new drivers of FDI in many African countries. As long as the long-term outlook for commodity prices remains strong and growth in rising consumer countries such as India and China does not slow drastically, overall FDI flows should remain reasonably robust, with Europe's slowdown more than offset by the continent's new trade and investment partners. Countries such as Saudi Arabia, the UAE, South Korea, and Japan that rely heavily on food imports are looking to outsource farm production to African countries that need capital and have land to spare. Even light manufacturing may become a growth industry in Africa's more competitive economies as wage pressures and industrial policy in China (and elsewhere) create a window of opportunity.

[1] Africa Pulse – October 2012 issue, published by World Bank

Portfolio flows through foreign and domestic currency bonds are likely to remain buoyant, judging from recent trends. Countries that now have some form of market-based sovereign debt include Ghana, Gabon, Nigeria, Senegal, Republic of Congo, Namibia, Angola, and Zambia—with others likely to follow, including Kenya, Uganda, Cameroon, and Tanzania. In the African countries that have issued sovereign debt on international markets / denominated in foreign currency, the yields range from 3.7% for Gabon to 7.5% for Cote d'Ivoire, and have been trending downward throughout the euro zone crisis. Even relatively small countries with thin foreign exchange reserves and structural vulnerabilities such as Zambia and Senegal can tap international markets with 6%–8% yields on medium-term debt, a bargain by historical standards in Africa. Eurobond yields in African frontier states such as Ghana, Nigeria, Senegal, Gabon, and Zambia have remained remarkably stable, unlike in 2008–2009 when the euro zone crisis first hit.

Figure 1: Sub-Saharan African Eurobond yields



Source: Capital Economics, Bloomberg

Commodity-price swings have always been a significant factor in the determination of economic growth in the region. Exports of primary commodities average more than 90% of total exports across the region. Nigeria, Ghana, Côte d'Ivoire, the Democratic Republic of Congo, Angola, and Zambia are examples. In South Africa, the region's largest economy, gold, metals and metal products, and other minerals account for 57% of export revenues. Projected commodity prices will also help growth in Sub-Saharan Africa in the medium-term as commodity prices are expected to remain at a high level. Although non-oil commodity prices are expected to weaken, they will remain well above historical levels. Even though the price of oil (Brent) is forecast to moderate to USD103/ barrel in 2013 (from US$110/b in 2012), this will still leave oil prices nearly two-thirds higher than in 2009. As a result, the region's oil producers—including Angola, Ghana, Equatorial Guinea and Nigeria—are likely to remain the fastest-growing Sub-Saharan economies.

Sources
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Lest we forget: Sub-Saharan Africa's socio-political threats
Apart from commodity price fluctuations, the local economic growth prospects in Sub-Saharan Africa are determined by the political and social climate. The development into more diversified economies partly depends also on whether or not the socio-political environment is stable. Moreover, in the short-run, social unrest may have devastating effects on an economy. In the aftermath of the Arab Spring, we have conducted a study into the causes of rebellion. Placing Sub-Saharan Africa in the context of this study "Why People Rebel, analyzing the risk of political instability", our finding are the following:

Economic triggers. As the economies have been growing at a rapid rate, the trigger "an economic decline" that might lead to rebellion is absent in many of these countries. However, GDP-per-capita is rather low on the continent, and unemployment, even in rapidly growing economies, can be very high. These can be triggers for social unrest. Furthermore, the dependency on a singly commodity can also be a trigger. The countries with the highest risk for a rebellion would typically have a medium-sized dependency (26% of all exports was the statistical outcome). In 18 of the Sub-Saharan African countries, the primary export product has a share of 20-40% of all exports. Other triggers such as a high GINI-coefficient (indicating large income disparities) and a rise in commodity prices resulting in food-price inflation have been omnipresent.

Political triggers. As mentioned, several countries in SSA are facing elections in late-2012 and 2013. In the past couple of years, a peaceful transition from one government to the next has not been guaranteed. With countries such as Kenya, Cameroon, Rwanda, and Ethiopia holding elections next year, a mindful eye has to be kept on the social struggles. We found that leadership and regime changes pose the highest threat to social stability. Also, recent conflict (in the past ten years) may bring out renewed conflict, with an additional risk posed by instability in neighboring countries. With especially DR Congo remaining a battleground, and continued unrest in Nigeria, Mali and other divided countries, almost every country on the continent borders another in which conflicts have become violent.
These possible triggers can be translated into economic and political grievances. These are important, as they provide the background for the organization of the revolt. Sufficient people with sufficiently similar grievances will make the creation of identity groups (us versus them) possible from which the final stages towards violent protest can emerge. Especially in countries where corruption is rife, and political and economic access to the many is denied. In many African democracies, this is still the case.

Conclusion: Although Africa is not on fire anymore, many countries are still bordering other countries that are in internal or external conflict. Furthermore, the socioeconomic development in most Sub-Saharan African countries do make these countries more vulnerable to social upheaval. Therefore, it is safe to conclude that although violent conflict has become far less likely in the past decade, predicting continued stability in any African country would be premature.

Data tables

Economic growth (Real GDP % change pa)							
	2007	2008	2009	2010	2011	2012e	2013f
Angola	21.1	12.5	0.8	3.4	3.4	8.0	7.0
Ghana	6.5	8.4	4.0	8.0	14.4	7.3	7.6
Ivory Coast	1.7	2.2	3.6	3.0	-4.7	7.0	6.1
Kenya	7.0	1.5	2.7	5.8	4.4	4.7	4.8
Mozambique	7.3	6.8	6.3	6.8	7.1	7.4	8.2
Nigeria	6.5	6.0	7.0	7.9	7.5	6.4	6.7
Rwanda	5.5	11.2	4.1	7.5	8.6	6.5	7.8
South Africa	5.5	3.6	-1.5	2.9	3.1	2.5	3.1
Tanzania	7.1	7.4	6.0	7.0	6.4	6.9	7.1
Zambia	6.2	5.7	6.4	7.6	6.6	5.8	6.6

Source: EIU

Budget balance (% of GDP)							
	2007	2008	2009	2010	2011	2012e	2013f
Angola	11.3	8.9	-4.9	6.8	12.2	11.3	7.3
Ghana	-3.9	-6.1	-4.6	-2.8	-2.8	-4.9	-3.2
Ivory Coast	0.2	-0.6	-1.6	-2.0	-8.0	-7.3	-6.4
Kenya	-3.1	-4.4	-5.8	-4.6	-6.5	-6.5	-6.1
Mozambique	-2.9	-2.5	-5.5	-3.7	-5.2	-6.9	-6.7
Nigeria	-0.2	1.5	-5.3	-3.7	-3.3	-3.0	-2.0
Rwanda	-1.4	-0.2	-2.2	-0.1	-3.5	-1.8	-4.0
South Africa	-0.9	-3.1	-2.8	-4.3	-5.1	-3.2	-4.2
Tanzania	-6.1	0.0	-4.8	-7.0	-6.9	-6.2	-6.3
Zambia	-16.1	-14.3	-19.4	-4.8	-8.2	-15.5	-14.5

Source: EIU

Public debt (% of GDP)							
	2007	2008	2009	2010	2011	2012e	2013f
Angola	16.3	16.6	24.1	22.8	18.1	17.1	15.4
Ghana	30.4	32.1	36.1	37.6	38.2	47.4	53.3
Ivory Coast	75.6	73.5	66.2	63.1	65.0	60.8	57.5
Kenya	45.4	43.7	45.1	49.6	50.7	50.0	50.8
Mozambique	33.5	31.7	37.2	36.2	34.4	39.9	40.6
Nigeria	12.4	11.5	15.3	17.8	17.8	18.8	18.0
Rwanda	30.5	28.3	25.8	22.7	24.5	21.8	22.2
South Africa	28.3	27.2	31.0	35.3	38.6	43.3	46.1
Tanzania	28.1	26.2	32.2	35.1	37.6	34.4	35.4
Zambia	28.4	28.3	26.1	24.2	26.7	31.2	35.3

Source:EIU

Consumer prices (% change pa, average)							
	2007	2008	2009	2010	2011	2012e	2013f
Angola	12.2	12.5	13.9	14.5	13.5	10.3	8.6
Ghana	10.7	16.5	19.3	10.7	8.7	9.1	8.2
Ivory Coast	1.9	4.9	0.9	1.1	5.1	1.4	1.9
Kenya	9.8	16.3	9.2	4.0	14.0	10.1	5.6
Mozambique	8.2	10.3	3.0	13.0	10.4	3.5	6.3
Nigeria	5.4	11.6	11.5	13.7	10.8	12.1	10.5
Rwanda	9.1	15.4	10.4	2.3	4.9	8.5	6.7
South Africa	6.2	10.1	7.2	4.1	5.0	5.2	4.1
Tanzania	7.0	10.3	12.1	7.2	12.7	15.3	7.6
Zambia	10.7	12.4	13.4	8.5	8.7	6.5	6.2

Source: EIU

Current account balance (% of GDP)							
	2007	2008	2009	2010	2011	2012e	2013f
Angola	17.9	8.5	-10.0	9.0	15.2	14.0	11.3
Ghana	-9.6	-11.7	-6.5	-8.4	-9.4	-12.3	-12.5
Ivory Coast	-0.7	2.0	7.4	2.5	-1.1	-4.5	-7.0
Kenya	-3.8	-6.5	-5.5	-7.8	-10.2	-9.6	-8.4
Mozambique	-9.8	-11.9	-12.6	-13.6	-12.6	-17.6	-19.8
Nigeria	16.6	14.0	8.2	6.8	3.6	2.3	1.1
Rwanda	-3.9	-5.4	-7.3	-7.6	-11.5	-9.8	-6.7
South Africa	-7.0	-7.3	-4.0	-2.8	-3.4	-5.8	-4.8
Tanzania	-11.0	-12.9	-9.0	-8.3	-15.2	-12.6	-10.6
Zambia	-6.0	-7.1	4.0	6.8	1.1	-5.1	-4.7

Source: EIU