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Africa in 2008: Breaking Down the Growth

(based on the *African Economic Outlook 2008**)

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- Growth will accelerate for net oil exporters and weaken slightly for oil importers.
- Inflation is rising due to increases in the price of food imports and rising oil prices.
- The current-account deficits of oil-importing countries are increasing.

For four consecutive years, Africa has experienced record economic growth. Overall in 2007 the continent registered 5.7 per cent GDP growth and a per capita increase of 3.7 per cent. Indications are that growth will only accelerate in 2008 and remain buoyant in 2009.

This trend, however, hides multiple realities that call for varied policy prescriptions. Oil exporters, need to capitalise on windfall profits by investing in education and training, while extending infrastructure and improving the business environment. The objective is economic diversification that will support growth when the oil runs out or receipts from it decline. Current high profits from the petroleum industry will not last forever and governments need to anticipate the declining and post-oil phase with appropriate polices. Such measures will have to include improving transparency and combating corruption.

Oil importers are grappling with the challenges posed by the increasing prices of fuel imports exacerbated by the rising international prices of food. These phenomena will lead to worsening current-account deficits and terms of trade losses. A further threat to oil-importers is the likelihood of weaker non-oil export prices. That could threaten to dampen domestic demand and slow growth through reduced export revenues.

The oil exporters are by no means immune from international food-price rises. Recent increases in the import prices of food have affected both oil exporters and importers, at the same time as both groups are struggling to control inflation. Strong growth in domestic demand has pushed prices higher in oil-exporting countries, while the increases in the prices of fuel and food imports are causing inflation to accelerate among oil importers.

For the oil importers (excluding Zimbabwe which is in the grip of hyperinflation and is not specifically covered by the 2008 *African Economic Outlook*) inflation was held at only 5.5 per cent in 2005, but increased to 6.7 per cent by 2007. For oil exporters, the rise was slightly more significant: inflation increased from 5.4 per cent in 2006 to 7.5 per cent in 2007.

An additional reality masked by the growth figures is that net oil exporters continue to outpace oil importers by far. In 2008, the average real GDP growth rate for the former collection of countries is expected to be 6.8 per cent, but it will only be 4.9 per cent for the latter; and these are only averages – the gap between individual countries is even wider. Oil and gas producers as a group are benefiting not only from the higher prices but from increased production in countries such as Angola, Equatorial Guinea and Libya.

Within the group, however, are producers whose stocks are already starting to decline or whose large-scale investments in the industry and related infrastructures are all but over and whose corresponding growth figures are much less impressive. This factor, combined with the expected continued prudence and good governance of a significant number of non-oil exporters, will lead to a narrowing of growth rates between the two groups in 2009.

Among oil importers, there was good news from countries that export metals and agricultural products and thus benefited from higher international prices in 2007. Mozambique, Namibia, South Africa, Tanzania and Zambia all exhibited strong growth due to their aluminum, iron, copper, gold and platinum exports. Rubber, coffee, cocoa

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and even cotton – which has experienced low prices for several years – all showed large price increases. Twelve of the 35 countries reviewed in the AEO 2008 succeeded in increasing their export volumes by more than 5 per cent. Tourism figured prominently in the economies of Cape Verde, Egypt, Kenya, Mauritius and Tanzania, while agricultural and forest products were important in Benin, Cameroon, Ethiopia, Kenya and Liberia.

High oil prices will continue to pose a challenge to the macroeconomic stability of net oil importers until they increase exports and restore their current account balances to more sustainable levels. This means, particularly in a period of high food prices, improving agricultural productivity both to supply the home market and for export. It also means reducing losses due to corruption and mismanagement, and reinforcing the business environment to attract local and overseas investment.

Merely financing deficits through loans could lead once again to the creation of unsustainable debt levels. That is to be avoided at all costs.

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