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African Economic Outlook 2006 A Two-speed Continent?

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Africa's economic progress now seems on a firm footing after a third straight year of satisfactory performance in 2005, with overall growth of 5 per cent, average per capita income up 3 per cent and inflation steady at under 10 per cent. Two-thirds of the 30 countries surveyed in the *Africa Economic Outlook* report showed a net growth in investment that was by far the best in seven years. If the good weather of 2005 holds up, along with world commodity prices, the improvement could continue into 2006 and 2007. But if oil prices stay high, the threat to the continent's oil-importing countries should not be underestimated.

The continent's oil producers seem at first sight to have had the best year, largely due to the increase in oil production and prices. Some of them – new producers (such as Chad, Equatorial Guinea and Mauritania) and existing ones opening up new oilfields (such as Angola, which has more than doubled its production since 1990 to 1.2 million barrels a day in 2005) – raised their output and thus took advantage of the soaring world demand. This was more than a passing phenomenon, to judge by these countries' budget and trade balances since 2000. The combination of high prices and higher volume oil exports is a substantial windfall, and could even be the chance of a lifetime, to set these countries firmly on the road to development.

Growth in 2005 did not leave the oil-importing countries behind, however. Metal producers also profited from higher world prices and to a lesser extent higher export volumes. Mozambique, South Africa and Zambia all made up for the dearer oil with their aluminium, iron, copper and platinum exports.

Agricultural exporters did less well, since the price of their exports has fallen in recent years. But 2005 was far from all bad for them. Rubber, coffee and seafood exporters enjoyed good prices that helped trade balances. Some producers, despite weak world prices (of cotton, for example), managed to boost exports substantially thanks to good weather, and some in East Africa (Uganda, Ethiopia and Tanzania) and West Africa (Burkina Faso, Mali and Senegal) achieved high growth figures.

(%)	1997-2003	2004	2005(e)	2006(p)	2007(p)
Growth					
Africa	**3.7**	**5.3**	**4.9**	**5.8**	**5.5**
Oil-exporting countries	4.7	6.0	5.5	6.9	6.3
Non oil-exporting countries	2.9	4.7	4.4	4.9	4.8
Inflation					
Africa	**10.2**	**7.5**	**7.9**	**7.3**	**6.6**
Oil-exporting countries	7.8	8.1	8.8	6.7	6.0
Non oil-exporting countries	12.6	6.9	7.1	7.9	7.1
Budget balance					
Africa	**-2.2**	**-0.5**	**2.1**	**2.3**	**1.8**
Oil-exporting countries	-1.2	1.9	6.4	7.0	5.9
Non oil-exporting countries	-3.1	-2.6	-2.4	-2.7	-2.7
Trade balance					
Africa	**1.2**	**4.3**	**6.8**	**7.2**	**6.3**
Oil-exporting countries	4.4	14.2	19.8	20.1	18.1
Non oil-exporting countries	-1.8	-4.2	-5.6	-5.7	-5.8

Note: These aggregates do not include Liberia or Somalia, for lack of enough data.
Source: Africa Economic Outlook, 2005/06.

The resilience of oil-importing countries to the impact of high world oil prices – as seen in their control of inflation and overall improvement in public finances – meant a better macroeconomic situation for some of them. Southern African countries paid for the more expensive oil by drawing on exchange reserves built up in recent years. This ability to adapt was in some cases due to positive structural changes, with Ethiopia, Kenya, Morocco, Uganda and Tanzania healthily diversifying their exports in recent years.

How to combat the "oil curse" and take advantage of the oil windfall

Can we fight the "oil curse" that sends many oil and mineral producing countries into a debt and poverty trap? If used well, raw materials income could dramatically speed up progress towards achieving the MDGs. The *African Economic Outlook* describes recent efforts by several oil-exporting countries to ensure that a large amount of oil revenue is invested in infrastructure and human capital development.

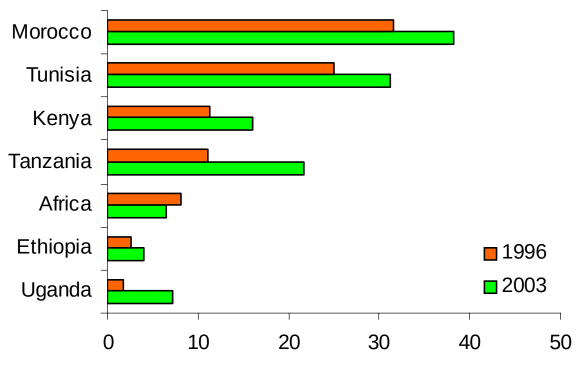
In Algeria, the budget is based on a very conservative estimate of oil prices and any surplus is deposited in a special fund. For the period 2005-09, about $10 billion (16 per cent of the total budget) will be allocated to transport infrastructure. In Nigeria, there is a special holding account for temporary increases in oil revenue to help government spending and allocate some of the windfall revenue for infrastructure development. In 2004, about $6 billion in oil revenue was earmarked. Management of oil revenue is also improving in Congo and Cameroon, which have joined the donor-supported Extractive Industries Transparency Initiative (EITI) and pledged to publish quarterly data on oil production, sale prices and revenue and update it regularly.

Maintaining such policies in the face of political pressures is difficult however, as shown by the recent controversy over the use of oil revenues in Chad. Donors can promote proper use of natural resources by encouraging accountability by domestic institutions (effective auditing, parliamentary scrutiny and media independence) and supporting the drafting and implementation of commodity revenue laws.

Countries	**Average growth 2003-05**
Zimbabwe, Seychelles, Central African Republic, Côte d'Ivoire	Very low (negative or zero)
Eritrea, Gabon, Swaziland, Comoros, Guinea, Lesotho, Guinea-Bissau, Niger, Burundi, Rwanda, Djibouti, Togo, Malawi, Cameroon, São Tomé and Principe, Benin, Mauritius, Morocco, Kenya, Egypt, Congo, South Africa, Namibia	Lower than average for Africa (between 1.9% and 4.3%)
Africa overall	**5%**
Zambia, Mali, Ethiopia, Tunisia, Cape Verde, Uganda, Gambia, Ghana, Botswana, Senegal, Algeria, Libya, Burkina Faso, Sudan, Democratic Rep. of Congo, Mauritania, Madagascar	High, but not enough to achieve the MDGs (less than 7%)
Tanzania, Nigeria, Mozambique, Sierra Leone, Angola, Chad, Equatorial Guinea	Very high

Source: African Economic Outlook, 2005/2006.

Diversification index



Source: African Economic Outlook, 2005/2006.

Looking at Africa based on its geological divisions greatly distorts the continent's economic performance, but higher oil prices have still been painful for net oil-importing countries. The *African Economic Outlook* puts their average trade deficit at more than 5.6 per cent of GDP. Continuing high oil prices – which seem increasingly likely – are a major medium-term risk for the continent's oil importers and seriously endangers their macroeconomic stability efforts through the key problem of the funding and sustainability of trade deficits. It also makes poverty-reduction even harder by reducing the government's financial room for manoeuvre and threatening a spread of poverty. Governments should make new efforts to streamline their spending and target sectors of the population.