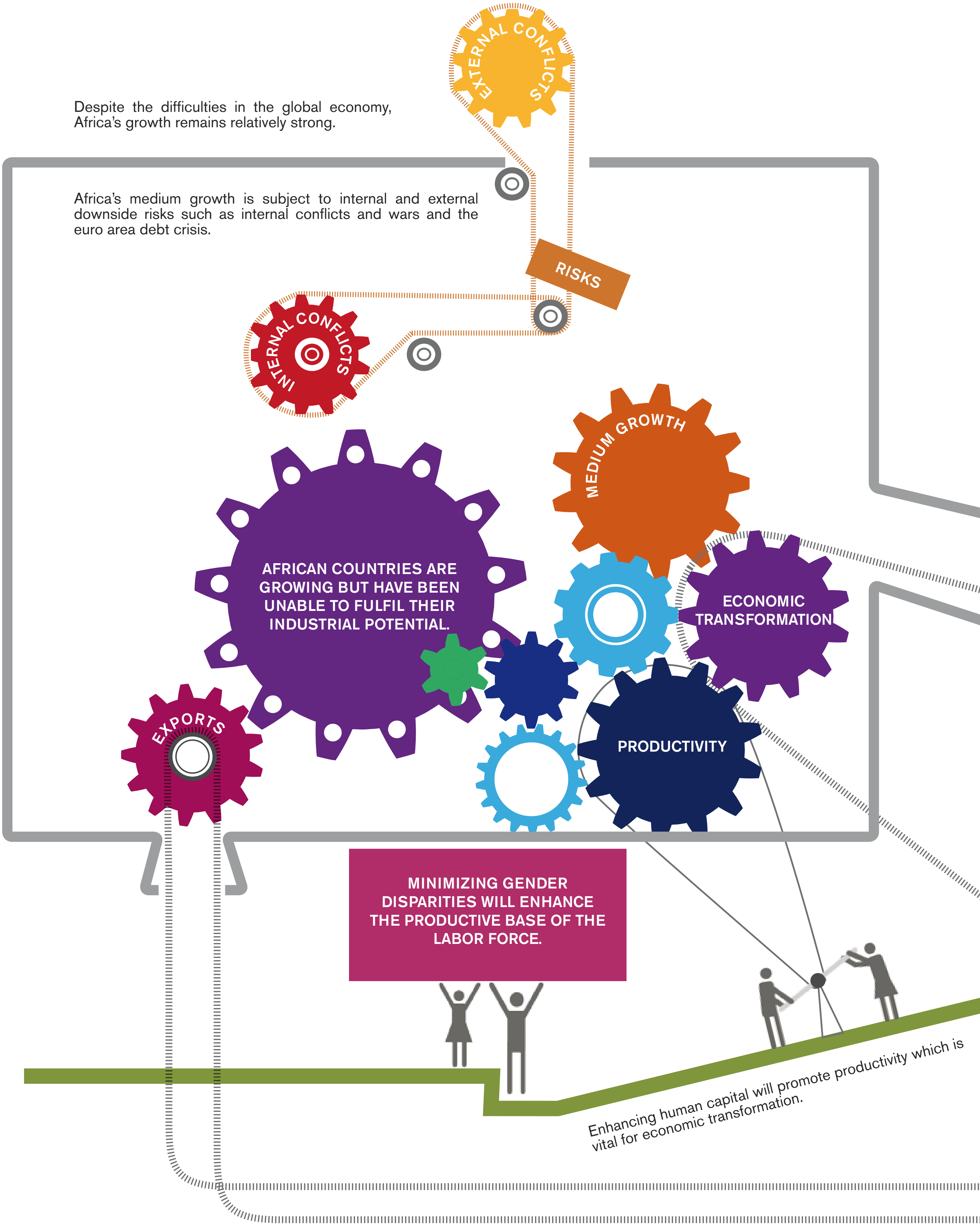
Economic and Social Developments in Africa and Medium-term Prospects

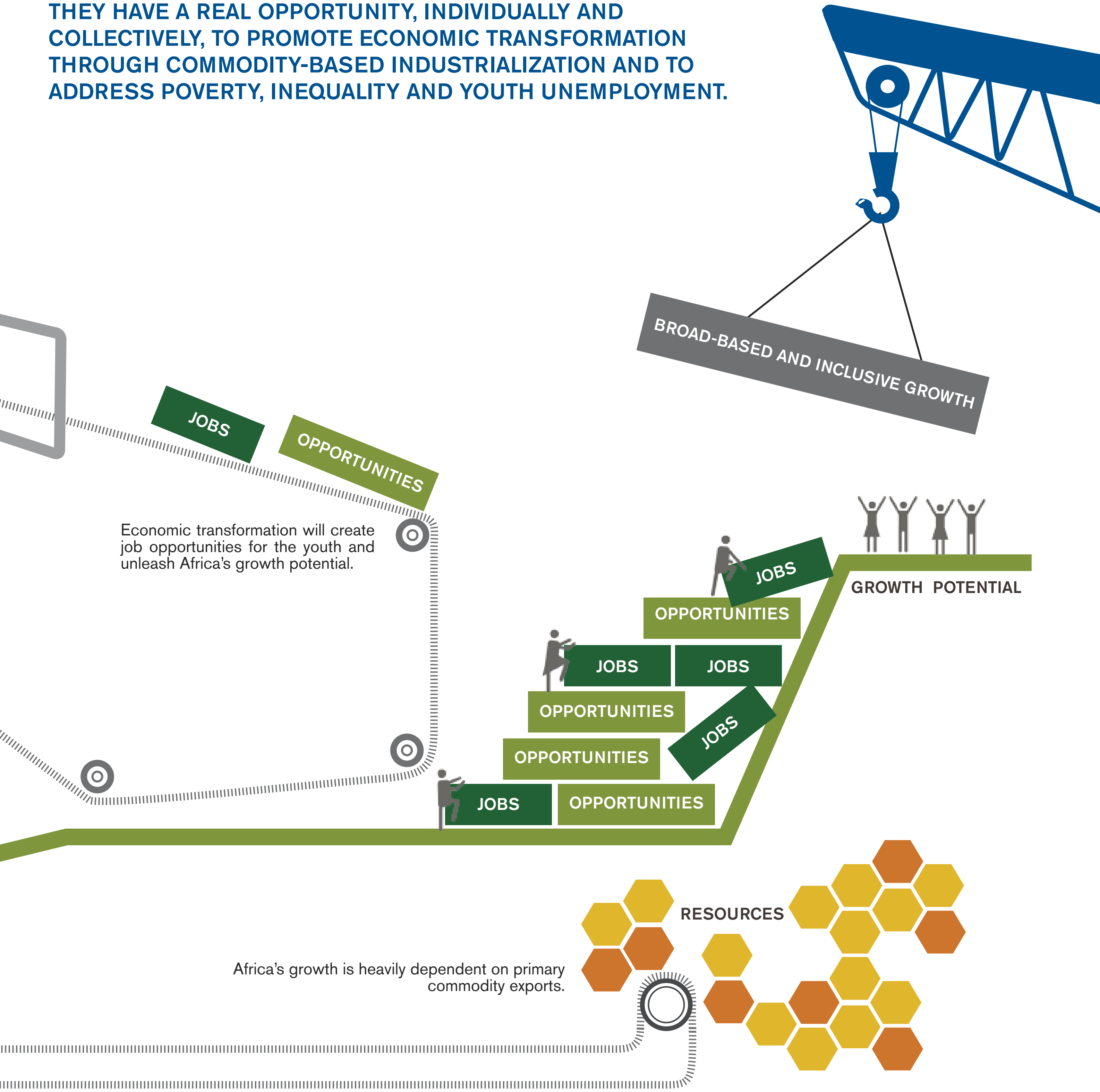
Despite the difficulties in the global economy, Africa's growth remains relatively strong.

Africa's medium growth is subject to internal and external downside risks such as internal conflicts and wars and the euro area debt crisis.



AFRICAN COUNTRIES REQUIRE ROBUST, BROAD-BASED AND INCLUSIVE ECONOMIC GROWTH FOR A LONG PERIOD.

THEY HAVE A REAL OPPORTUNITY, INDIVIDUALLY AND COLLECTIVELY, TO PROMOTE ECONOMIC TRANSFORMATION THROUGH COMMODITY-BASED INDUSTRIALIZATION AND TO ADDRESS POVERTY, INEQUALITY AND YOUTH UNEMPLOYMENT.



The world economy showed signs of decelerating in 2012, threatening the pace of the recovery from the global financial and economic crisis of 2008–2009. The euro area, Africa's biggest economic partner, headed for another recession with lingering worries over mounting sovereign debts and fiscal sustainability. Emerging economies, such as China and India, saw notably slower activity. Prospects of an early exit from the turmoil are clouded by uncertainty over the euro area sovereign debt crisis, fiscal consolidation in major world regions and the brinksmanship of negotiations over the "fiscal cliff" and debt ceiling in the United States (US). They have induced downside risks in an already fragile global economy.

Africa's economic growth picked up in 2012 to well above the worldwide average, despite these global headwinds. The recovery in many African countries was underpinned by a variety of factors, including high demand and prices for commodities on international markets, strengthening domestic demand associated with rising incomes and urbanization, increasing public spending (especially on infrastructure), bumper harvests in some regions (due to favourable weather), tightening trade and investment ties with emerging economies (linked to their investment in Africa's natural-resource and extractive industries), and post-conflict economic recovery in some conflict countries.

The continent's medium-term growth prospects are positive, although it faces risks such as reliance on traditional rain-fed agriculture, political instability and social unrest in some of its countries and uncertainty due to the global economic outlook.

Yet most African economies still depend heavily on commodity production and exports—despite diversifying into non-primary commodity sectors such as manufacturing and services—with limited value addition and few forward and backward linkages to other sectors of the economy. This structural weakness has prevented them from transforming growth into commensurate jobs and faster social development. Indeed, the pattern of social development trends in Africa has been mixed over recent years: positive changes continue to be recorded in most areas but the pace of progress is slow and insufficient for African countries to achieve their social development goals—especially the Millennium Development Goals (MDGs) by the original date of 2015.

Value addition and structural transformation are, though, essential for these countries' economies to accelerate and then sustain broad growth; to improve social conditions by creating jobs, lowering inequality and cutting poverty; and to reduce their vulnerability to external shocks.

Boosting value addition appears to be an area of priority both in the development discourse and for stakeholders involved in consultations on the post-2015 development agenda organized by pan-African bodies, including the United Nations Economic Commission for Africa (ECA) and the African Union Commission (AUC). The preliminary findings of their consultations indicate a preference for an agenda that prioritizes structural transformation and inclusive growth, with a focus on promoting agriculture, manufacturing, technology and innovation, and human development.

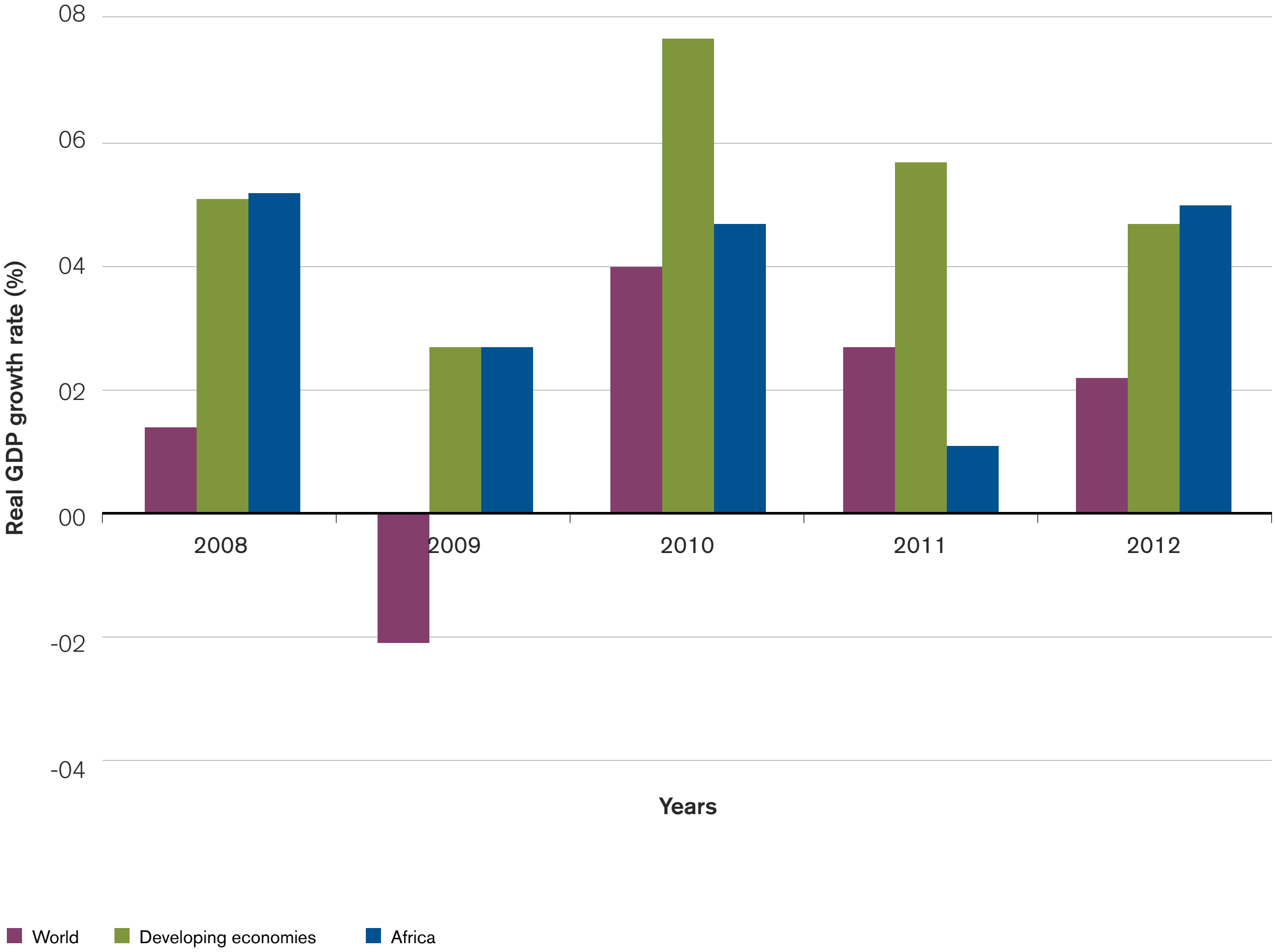
1.1 AFRICA'S ECONOMIC PERFORMANCE IN 2012

The recovery strengthened as political tensions eased in North Africa

The economic recovery in Africa strengthened in 2012[1] to 5 per cent (figure 1.1), despite a slowing world economy. Political turmoil and tensions in North Africa began to ease—democratic elections were held and new leaders inaugurated in Egypt and Libya—and normal economic activity began to return. Africa's medium-term growth prospects remain strong at, for example, 4.8 per cent in 2013 and 5.1 per cent in 2014.

Commodity production and exports stayed essential for growth on the continent, although many countries are diversifying their economies and sources of growth. Thus in 2012 growth was

FIGURE 1.1: GDP GROWTH, 2008–2012



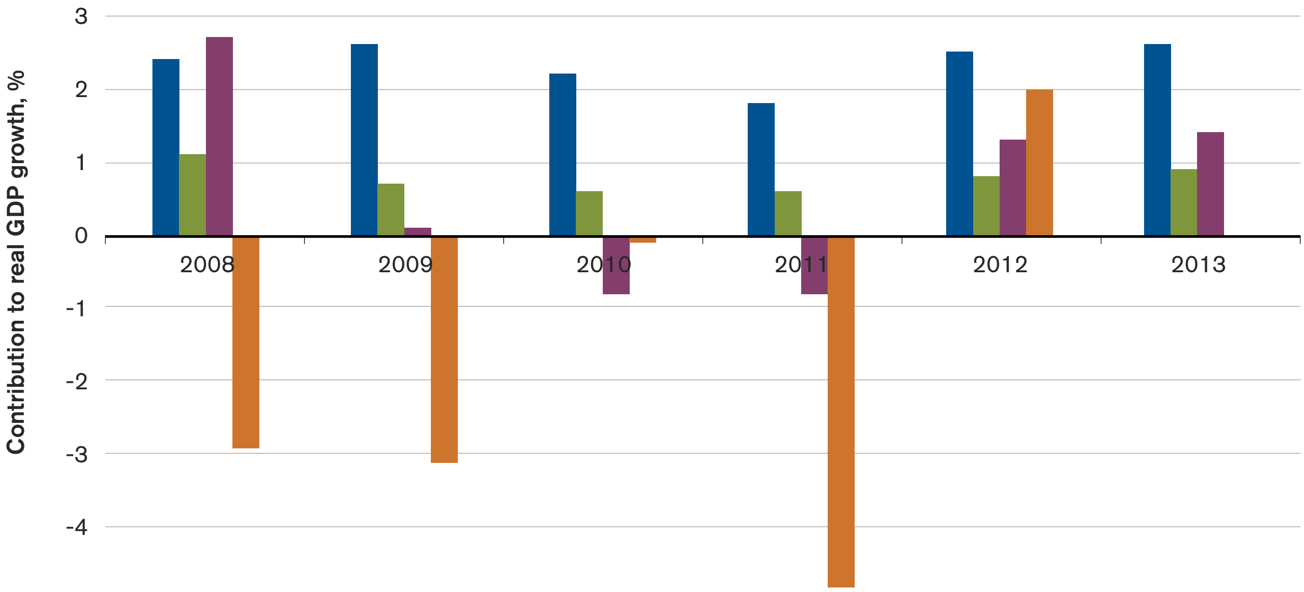
Source: Calculations based on UN-DESA (2012).

strong in both commodity-rich and resource-poor countries, although of the two sets the oil-exporters saw growth rising slightly faster, thanks to increased oil production and high prices.

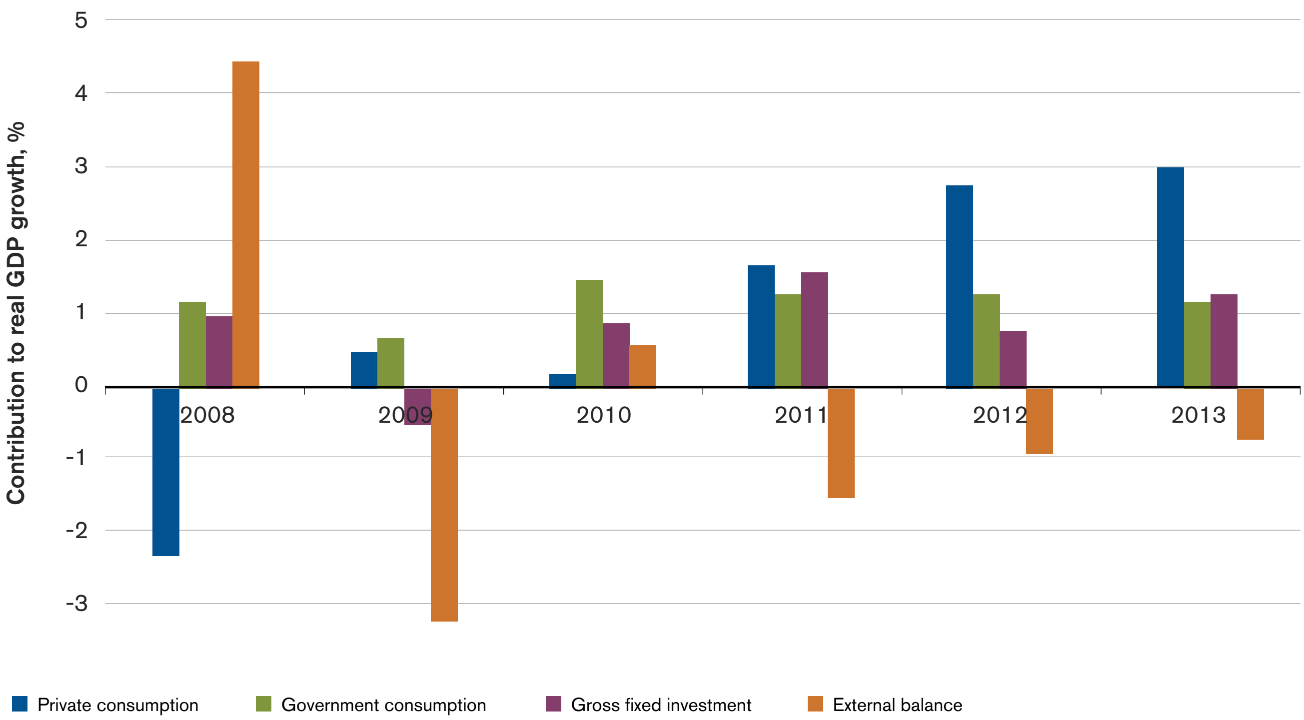
African growth also continued to benefit from improved macroeconomic management and prudential macroeconomic policies that underpinned strong public spending, especially on infrastructure and public services. Rising domestic consumption and investment demand, fuelled by rising incomes and urbanization, accounted for more than half the growth in many African countries in 2012. Indeed, disaggregating the components of real gross domestic product (GDP) growth, private consumption was the key growth driver in Africa in 2012, followed by gross fixed investment and government consumption (figure 1.2). Gross fixed investment and exports recovered strongly in North Africa in 2012, but the contribution of gross fixed investment to real GDP growth declined in the rest of Africa as the external balance narrowed.

FIGURE 1.2: COMPONENTS OF REAL GDP GROWTH, 2008–2013

North Africa



Africa, excluding North Africa



Source: Calculations based on EIU (2012).

Growing importance of emerging economies

Although Africa's traditional partners from the "Global North" remain important, its increasing trade and investment ties with emerging economies have helped many of its countries not just to mitigate the impact of the recession in Europe but also to diversify exports by destination and composition. These ties are also helping African countries to diversify their sources of capital and to attract increased foreign direct investment (FDI) and official development assistance (ODA) for infrastructure and other non-commodity sectors. As political tensions declined, tourism receipts also rose in Africa, supporting growth in 2012.

Despite the slowdown in the global economy (box 1.1), many African countries benefited from foreign capital. ODA was almost unchanged despite the fiscal difficulties faced by major donor countries. Further, while overall FDI inflows declined, those originating from emerging economies actually increased and remittances remained high, supporting investment and demand in several African countries. Both FDI and remittances are projected to rise as the global economy recovers (see chapter 2).

BOX 1.1: KEY DEVELOPMENTS IN THE WORLD ECONOMY, 2012

The world economy grew by 2.2 per cent in 2012, slowing from 2.7 per cent in 2011, mainly owing to a decline in global demand, the euro area debt crisis and uncertainty over the fiscal cliff and debt ceiling in the US. The global recovery from the "triple crisis"—food, fuel and finance—is, however, expected to strengthen over the medium term.

Regional growth

Economic activity in the European Union (EU) contracted by 0.3 per cent in 2012 from 1.5 per cent in 2011 (UN-DESA, 2012). Germany's real GDP growth rate is expected to have contracted to 0.8 per cent in 2012 after 3.0 per cent growth in 2011, while France is estimated to have grown by only 0.1 per cent, down from 1.7 per cent. The US managed growth of 2.1 per cent in 2012, reflecting stronger private consumption and investment as well as a better credit environment. Japan's economy improved, largely on increased construction expenditure.

Economic growth decelerated in emerging economies owing to weak export demand and reduced investment growth, especially in China and India. Western Asia's economic growth rate fell to 3.3 per cent in 2012, from 6.7 per cent the previous year, owing to sluggish external demand and public spending cuts. The Latin America and the Caribbean region grew by 3.1 per cent in 2012, down from 4.3 per cent a year earlier, as export demand tailed off and commodity prices for non-food exports fell (UN-DESA, 2012).

The global job crisis persisted in 2012 despite governments' efforts to create employment and stimulate economic growth. World unemployment stood at 6 per cent in 2011 with joblessness at more than 8 per cent in developed economies as a group, down from 8.3 per cent the previous year. In 2012, unemployment reached over 25 per cent in countries such as Spain and Greece as austerity measures continued to take effect.

Prospects for the global economy hinge on an early exit from the euro area debt crisis, the success of bailout packages and the non-conventional monetary policies initiated to address fiscal and monetary integrity in major industrialized economies. Restoring fiscal integrity, coupled with measures aimed at reducing public indebtedness across the globe, still requires sound policy interventions.

With the global economy forecast to grow at 2.4 per cent in 2013 and 3.2 per cent in 2014, the worst of the sovereign debt crisis might be over, and most developed and emerging countries are expected to return to their growth trajectories in the medium term.

Inflation

World inflation declined from 3.6 per cent in 2011 to 2.8 per cent in 2012, and is expected to steadily decline to 2.6 per cent in 2013, mainly on sluggish aggregate demand, quantitative easing in the US, and ultra-low interest rates and extremely accommodative monetary policy stances in most countries. The combination of a weakened economic environment and falling inflation will enable governments in the US and euro area to allow further monetary easing, supporting the repair of private sector and bank balance sheets.

Fiscal trends

Fiscal balances improved in almost all major economies and regions, reflecting fiscal consolidation and austerity measures, although the pace may be derailed by economic and social pressures in many developed countries. Advanced economies cut their overall deficit from 6.5 per cent of GDP in 2011 to 5.9 per cent in 2012, with the US at 8.6 per cent and Japan at more than 10 per cent of GDP that year.

Fiscal positions for some developing regions such as the Latin America and the Caribbean strengthened as most countries continued their cautious fiscal policies while rebuilding fiscal buffers, aided by favourable export revenues.

Countries in the euro area are expected to reduce their overall fiscal deficit by only 0.8 per cent of GDP in 2013. In developing countries, fiscal deficits in 2013 are forecast to decrease, except in the Middle East and North Africa owing to reduced oil revenues caused by supply-side disruptions to oil production.

Commodities

The all-commodity price index increased in the first quarter of 2012, reaching a year-high of 202 in March 2012 as demand from developing countries rose. The world crude oil price remained high at around US$109.9 per barrel in 2012 compared to US$107.5 in 2011. The food price index surged after July as severe weather hit crops, especially in the US. Prices of sugar, cereals and rice rose the sharpest, while meat and dairy prices remained fairly flat. The index for agricultural raw materials and products such as coffee, rubber, cotton and beverages declined in 2012.

Most global commodity prices are expected to stay high in 2013, despite global economic growth below potential, owing to limited supply and weather risks stemming from global climate change.

External balances

World exports grew by only 5.0 per cent by value in 2012, much less than previous year's 17.3 per cent, as import demand from major developed countries sharply contracted. Current account balances for major economies and regions narrowed slightly in 2012, reflecting a decline in international trade and decelerating global demand, rather than any improvement in structural imbalances (UN-DESA, 2012).

The US dollar and Japanese yen appreciated in the first half of the year, as the euro area debt crisis drove up global investors' risk aversion and induced an appetite for safe-haven currencies. Global FDI moderated in 2012, while global remittance flows rose by 6.4 per cent (chapter 2).

Medium-term risks for the global economy

The greatest risks are difficulties in the euro area, uncertainty over tax reforms, spending cuts, the debt ceiling and high household indebtedness in the US, fiscal consolidation in most industrialized countries, economic slowdown in emerging countries and political instability, especially in the Middle East.

Policies to rectify global imbalances and ensure sound fiscal and monetary health in the global financial infrastructure remain crucial to restoring global health. The European Central Bank, for instance, has launched major policy interventions to calm the escalating crisis. These policies will, however, need to be accompanied by long-term structural reform to restore confidence in the financial sector and steer the global economy to long-term growth.

Such trade and investment ties and sources of growth will undoubtedly assist the continent to reduce vulnerability to external shocks and to expand opportunities for faster, sustainable and more equitable growth.

Largely stable, shared and robust growth

Growth has been widely shared and remained strong across the majority of African countries, despite the disruptive impact of the global economic and financial crisis, and the political turmoil in North Africa. More than a third of African countries grew at 5 per cent or more in 2012, with a large proportion achieving this rate over 2010–2012 (table 1.1). This underscores the growing potential of African countries to accelerate and then sustain growth in the foreseeable future.

TABLE 1.1: DISTRIBUTION OF GROWTH PERFORMANCE IN AFRICA, 2010–2012

Real GDP growth		**2010**		**2011**		**2012**
	Oil exporters	*Oil importers*	*Oil exporters*	*Oil importers*	*Oil exporters*	*Oil importers*
Less than 3%	1	9	6	7	4	9
3–5%	7	8	4	16	3	17
5–7%	2	13	1	10	3	6
More than 7%	3	10	2	7	3	8
Total	**13**	**40**	**13**	**40**	**13**	**40**

Source: Calculations based on UN-DESA (2012).

Per capita GDP growth

Africa's population growth is estimated at above 2 per cent a year, but with projected increases in economic growth, per capita GDP is likely to rise over the medium term (AfDB et al., 2012). Indeed, in 2012 the continent's per capita GDP was estimated at around 3 per cent. However, while this suggests that the standard of living in African countries has on average been improving, the pace is very slow—gains in social conditions are failing to match the continent's robust economic performance.

Subregionally, West Africa and East Africa continued to register real per capita GDP growth of more than 3 per cent, followed by Central Africa and Southern Africa. North Africa (excluding Libya) was the only subregion experiencing a contraction because of the overall slow recovery from the civil war in Libya and political turmoil in other countries such as Egypt and Tunisia. Still, average per capita GDP has continued to grow in resource-exporting countries over the last decade. With the right policy framework, this progress, if sustained, has the potential to reverse the "resource curse" that has blighted many African countries. Governments need to pursue policies that reduce inequality, promote job creation and increase social protection in order to make growth more conducive to social development (chapter 2).

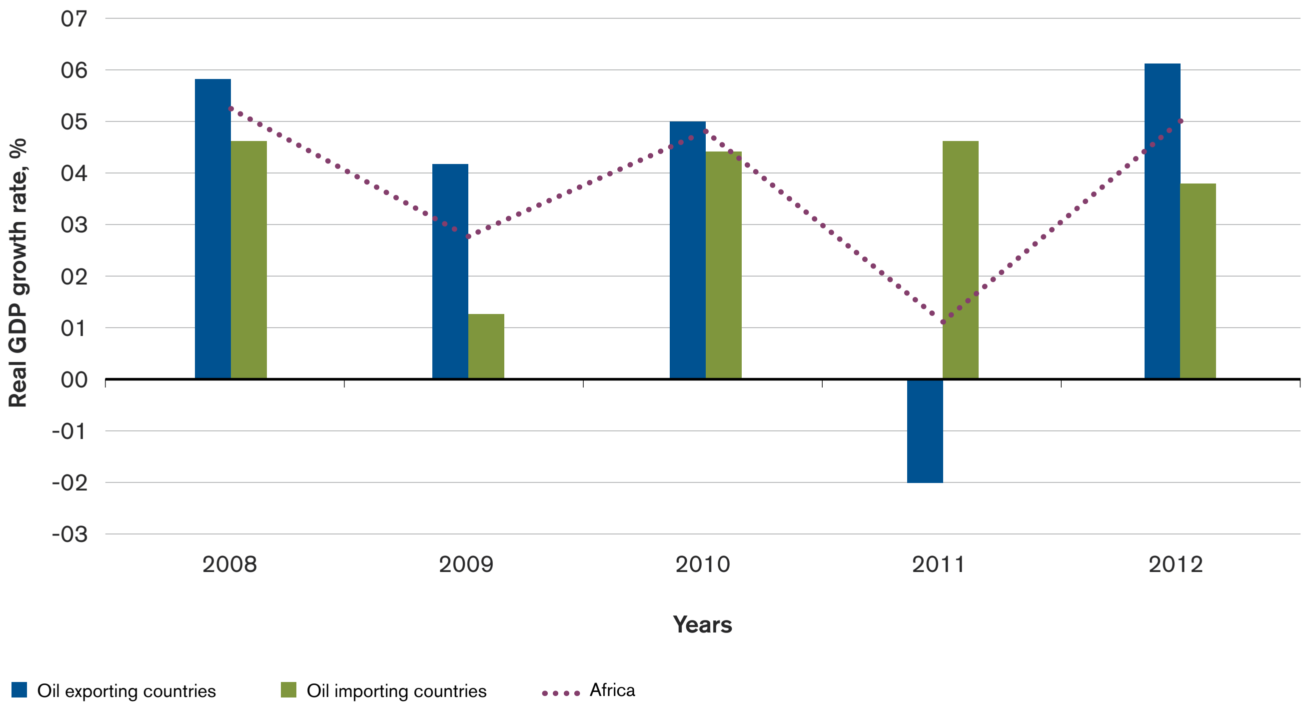
Growth showed geographical variations

Real GDP growth varied among groupings, subregions and countries, but remained fairly strong in both oil-exporting and oil-importing countries.

Oil exporters and importers

Oil-exporting countries as a group recovered strongly in 2012 (6.1 per cent) as some countries' political situation improved (especially in North Africa), oil production increased (in many countries) and oil prices stayed high on international markets (figure 1.3).

FIGURE 1.3: AFRICAN GROWTH BY OIL EXPORTERS AND IMPORTERS, 2008–2012



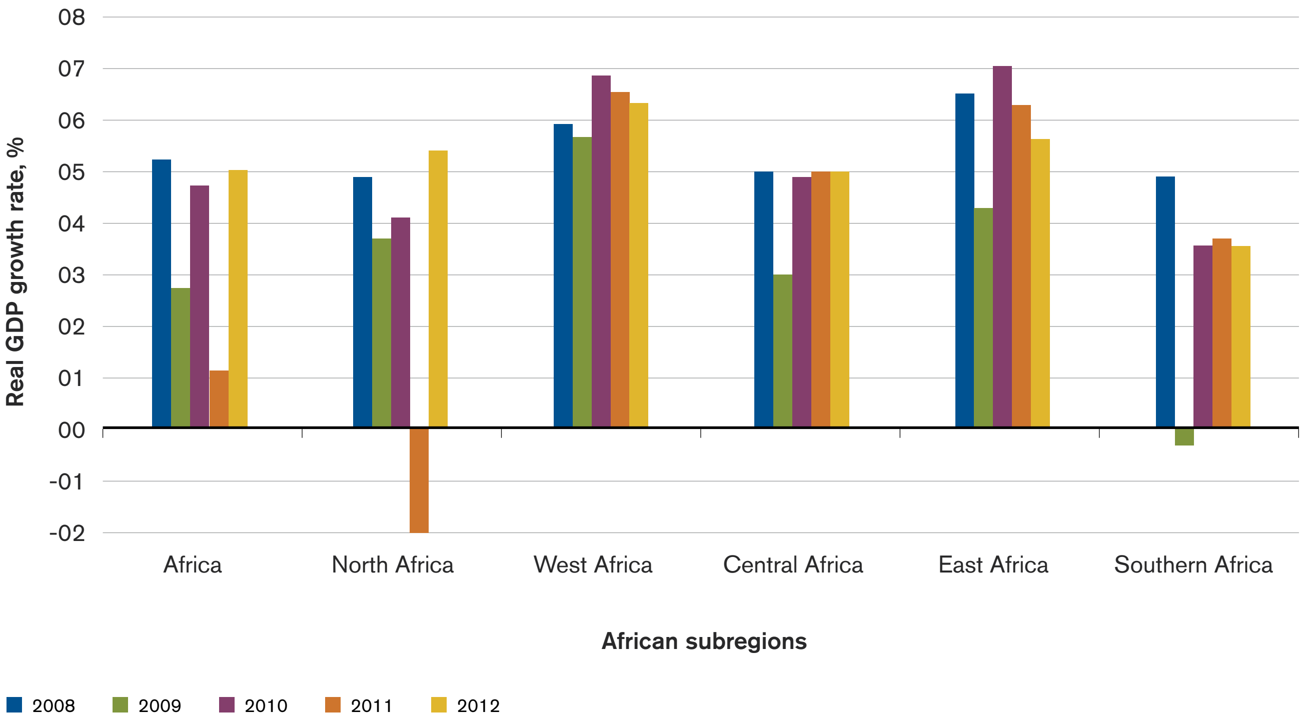
Source: Calculations based on UN-DESA (2012).

Oil-importing countries experienced a decline in growth to 3.7 per cent in 2012 from 4.5 per cent in 2011. Despite the reduction, the group maintained robust growth thanks to a variety of factors, including strong demand and high prices for non-oil commodities and improved performance in agriculture, services and other sectors. Strong non-oil based growth adds to the growing momentum of economic diversification in African countries. Countries like Kenya experienced strong recovery from the end of drought, and post-conflict recovery in other countries contributed to the impressive growth rates experienced in this group.

Subregional trends

Growth rates also varied in 2012 by subregion, but remained robust in all of them (figure 1.4). West Africa registered the highest growth, followed by East Africa, North Africa including Libya,[2] Central Africa and Southern Africa.

FIGURE 1.4: GROWTH BY SUBREGION, 2008–2012



Source: Calculations based on UN-DESA (2012).

Economic performance in West Africa moderated to 6.3 per cent in 2012 from 6.5 per cent in 2011. Nigeria, the continent's second-largest economy, slowed to 6.4 per cent from 7.4 per cent, reflecting receding fiscal stimulus and slowing oil investments on security concerns across the Niger Delta. Ghana's economy, after a sharp increase in 2011 when the country launched commercial oil production, slowed from 15.1 per cent in 2011 to a more realistic 7.4 per cent in 2012.

Political instability in Guinea-Bissau and Mali affected subregional growth, and both countries saw growth decline by more than 4.4 percentage points, but this was balanced by growth in Sierra Leone of 26.5 per cent owing to the discovery of new oil deposits. Côte d'Ivoire posted 7 per cent post-conflict growth with a return to normal harvests. A growing pace of the extractive industry in oil supported Niger's 9.1 per cent expansion.

In East Africa, growth slipped to 5.6 per cent in 2012 from 6.3 per cent in 2011, although most countries performed well in 2012, marking a recovery in agriculture, vibrant domestic demand and expansion in services. Kenya's growth rose to 4.8 per cent in 2012 from 4.4 per cent, aided by robust domestic demand, strong services, increased government expenditure and sound monetary policies (which in fact brought inflation down in most East African countries).

Tanzania maintained strong growth (6.8 per cent) owing to prudent fiscal and monetary policies, increased tax collection and reduced non-recurrent spending. Growth also remained strong in Rwanda (7.9 per cent), Ethiopia (7 per cent), Eritrea (6.5 per cent) and Seychelles (3.6 per cent). Performance was marked by high inflation in, for example, Ethiopia, fiscal consolidation and aid dependency in Rwanda, and food security concerns and a stagnant private sector in Eritrea. Tourism in Seychelles declined because of the euro area debt crisis.

Looking forward, rural poverty, income inequality, youth unemployment and uncertainty in the global outlook continue to raise questions for growth in this subregion.

Growth in Central Africa remained at 5.0 per cent in 2012. Nonetheless, Chad doubled its growth in 2012 (to 6.2 per cent) as non-oil sectors and energy-related industries expanded, oil prices rose and government expenditure stabilized. Growth also accelerated in Cameroon (to 4.5 per cent—reflecting increased oil and gas production) and the Central African Republic (to 3.8 per cent—better harvests and exports). Equatorial Guinea saw a decrease, to 6.3 per cent. Strikes and interruptions in oil production took down Gabon's growth to 4.7 per cent, from 5.8 per cent in 2011, and the country continues to face high unemployment and low human development.

This region still relies heavily on output of primary commodities and extractive industries, making inclusive growth and job creation a major challenge.

Southern Africa's output stayed almost the same for the third consecutive year, at 3.5 per cent. South Africa's close integration with the world economy translated into a notable slowdown in growth from 3.1 per cent in 2011 to 2.5 per cent in 2012, exacerbated by mining strikes. Several other countries saw growth moderate. Growth in Botswana, Lesotho, Namibia and Zambia declined by more than 0.8 per cent of GDP because of lower government revenue from mining and weak global demand for copper, diamond and gold. Namibia pegged its dollar to the South African rand, exposing it to contagion from South Africa.

Angola registered the most robust growth, which nearly doubled to 7.5 per cent, on increased oil production and investment in natural gas. Mozambique, having become a coal exporter in 2011, also showed robust growth in 2012, of 7.5 per cent, as greater FDI contributed to output. Mauritius maintained moderate growth (3.1 per cent) as it diversified into banking and manufacturing. Swaziland, one of slower economies in recent years, recovered from contraction to register 1.7 per cent growth in 2012, mainly owing to higher public spending supported by increased payments from the Southern African Customs Union.

The region still benefits strongly from a stabilizing international environment. However, high unemployment and inequalities remain downside risks.

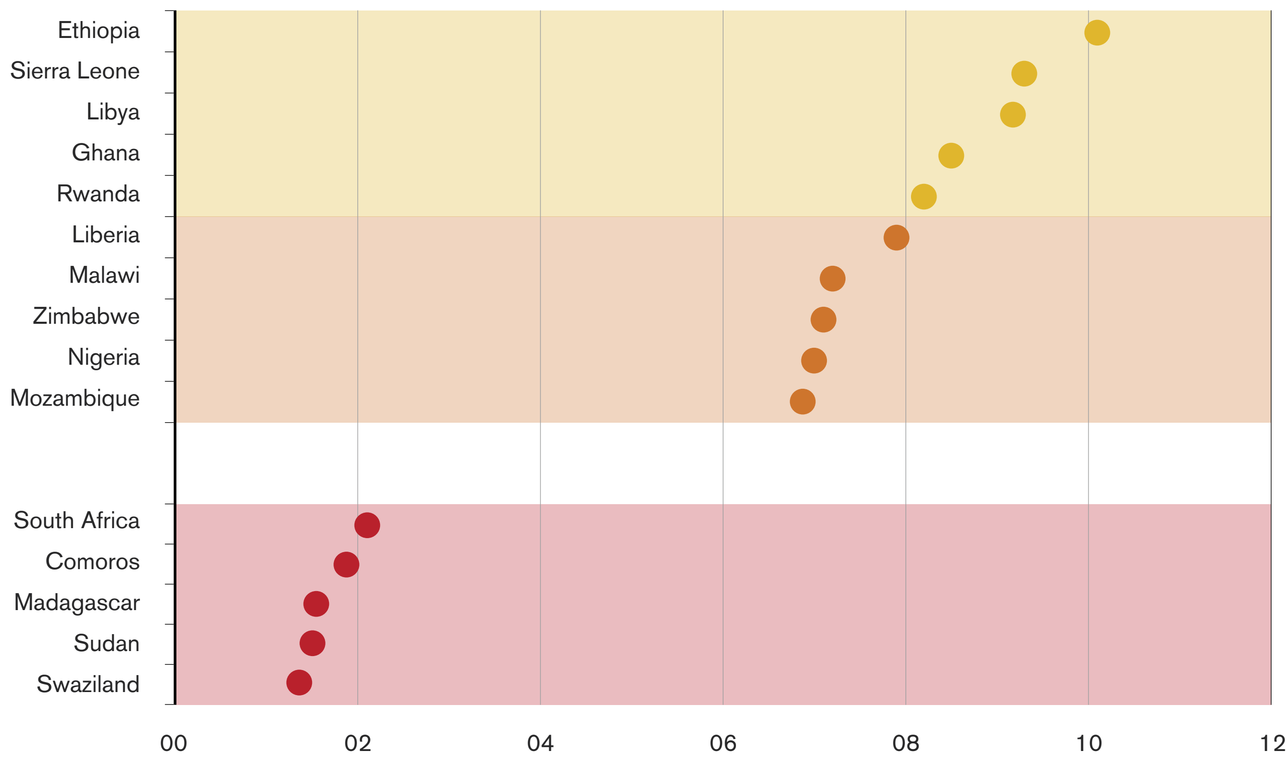
North Africa almost fully recovered from the 2011 contraction that stemmed from political and social unrest in Egypt, Libya and Tunisia, reaching growth of 5.4 per cent.[3] Although the subregion showed resilience to the global financial crisis, its recovery is plagued by continuing political uncertainty as well as slow activity in its key economic partners in the euro area. Egypt was particularly hit, as growth weakened to 1.1 per cent in 2012 from 1.8 per cent the previous year, mirroring uncertainty over parliamentary and presidential procedures as well as political tensions surrounding the country's new constitution, which hurt investment and services, notably tourism.

Morocco's GDP growth decelerated from 4.1 per cent to 2.8 per cent in 2012, also largely attributable to the European slowdown and its own poor performance in agriculture. In Libya, growth bounced back by 100.7 per cent as reconstruction investment stimulated the economy and oil production increased from 0.5 million barrels per day at end-2011 to 1.42 million by July 2012 (World Bank, 2012). Tunisia's economy switched from a 1.7 per cent contraction in 2011 to 2.6 per cent growth in 2012, reflecting a recovery in tourism, exports and FDI. Despite a partial shutdown of a key refinery, Algeria sustained its high level of oil production and expansionary fiscal policy, recording growth of 2.8 per cent. In Sudan, however, the economy contracted steeply by 11 per cent owing to the political environment, civil war, a sharp fall in oil production, exchange rate depreciation and escalating inflation. Mauritania saw growth slip to 4.8 per cent in 2012 from 5.1 per cent in 2011, though it was still robust thanks to investment in mining and strong public spending.

High youth unemployment remains an issue for the subregion. Reducing joblessness for all age groups requires structural labour market reforms, restoration of market confidence, inclusive growth, refurnished foreign exchange reserves and maintenance of political and social stability.

In 2008–2012, the top 11 growth performers in Africa reached the 7 per cent threshold estimated as a prerequisite for achieving the MDGs, with Ethiopia and Sierra Leone the top two (figure 1.5). Ethiopia's growth has been propelled by increased public and private investment, improved macroeconomic management and increasing role for manufacturing and services sectors among other factors, while growth in Sierra-Leone mainly reflects post–civil war recovery and natural resource discoveries and exploitation. The list of top performers underscores the centrality of commodity production and exports. The majority of these countries are heavily dependent on oil or minerals (or both).[4]

FIGURE 1.5: TOP 10 AND BOTTOM 5 PERFORMERS, 2008-2012 (AVERAGE % ANNUAL GROWTH)



Source: Calculations based on UN-DESA (2012).

Swaziland, Sudan, Madagascar, Comoros and South Africa had the weakest performance during 2008-2012. The economy of Swaziland slowed down owing to a sustained declined in textile and clothing industry among other factors. Sudan's low average growth rate is largely due to a contraction of 11 per cent in 2012, caused by the political environment, continued civil war and the secession of South Sudan and related border tensions are contributing to its low average growth rates. However, given intensifying national and regional peace efforts, growth in the country is expected to rebound over the medium-term. South Africa's exposure to the global financial markets has played a significant role in its growth performance over the last 5 years.

Employment generation is still a major challenge

Strong growth across the continent has not been translated into the broad-based economic and social development needed to lift millions of Africans out of poverty and reduce the wide inequalities seen in most countries. This is because Africa's recent growth, driven by primary commodities, has low employment intensity—that is, the ability to generate jobs (ECA and AUC, 2010).

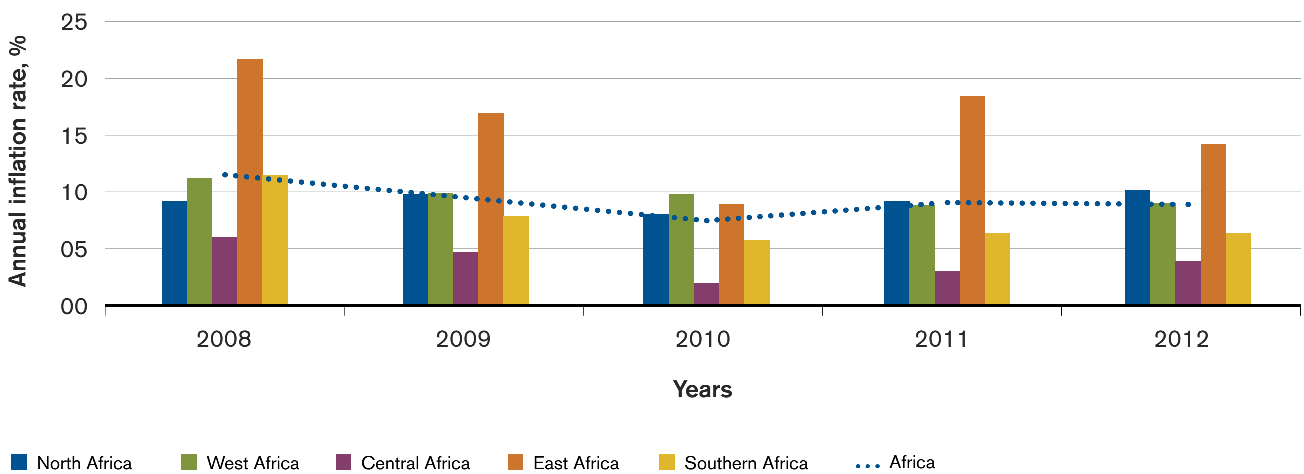
Thus the continent continues to suffer from high unemployment, particularly for youth and female populations, with too few opportunities to absorb new labour market entrants. North Africa is recovering from the Arab Spring of 2011 largely espoused by youth-led protests, but countries like South Africa are experiencing threats to political and economic stability, as seen in recent mining conflicts stemming from poor job quality in mining.

More than 70 per cent of Africans earn their living from vulnerable employment as economies continue to depend heavily on production and export of primary commodities. Investments remain concentrated in capital-intensive extractive industries, with few forward and backward linkages with the rest of the economy. Wider diversification from primary commodity production is therefore needed, as is intensified value addition in commodity sectors (discussed further in chapter 2).

Inflationary pressure waned in most countries

Average inflation for Africa, measured by the consumer price index, remained high at 9.2 per cent in 2012, a shade lower than the 9.3 per cent of the previous year (figure 1.6). Key factors included exchange rate devaluations, rising energy costs, unfavourable weather and poor harvests.

FIGURE 1.6: INFLATION BY SUBREGION, 2008–2012



Source: Calculations based on IMF (2012).

Inflation varied among African countries and subregions, and was 40 per cent in Sudan. Despite tightening its monetary policy, East Africa had the highest subregional rate (14.2 per cent) because of the effects of the previous year's severe drought on agricultural produce and uncertain weather. Ethiopia had the highest inflation (25 per cent) in the subregion. In Central and West Africa rates were mainly in single digits, apart from Sierra Leone (12.6 per cent) and Nigeria (12.5 per cent).

Inflation is expected to decline further, owing to tightening monetary policy and improving weather, especially in East Africa and the Horn of Africa.

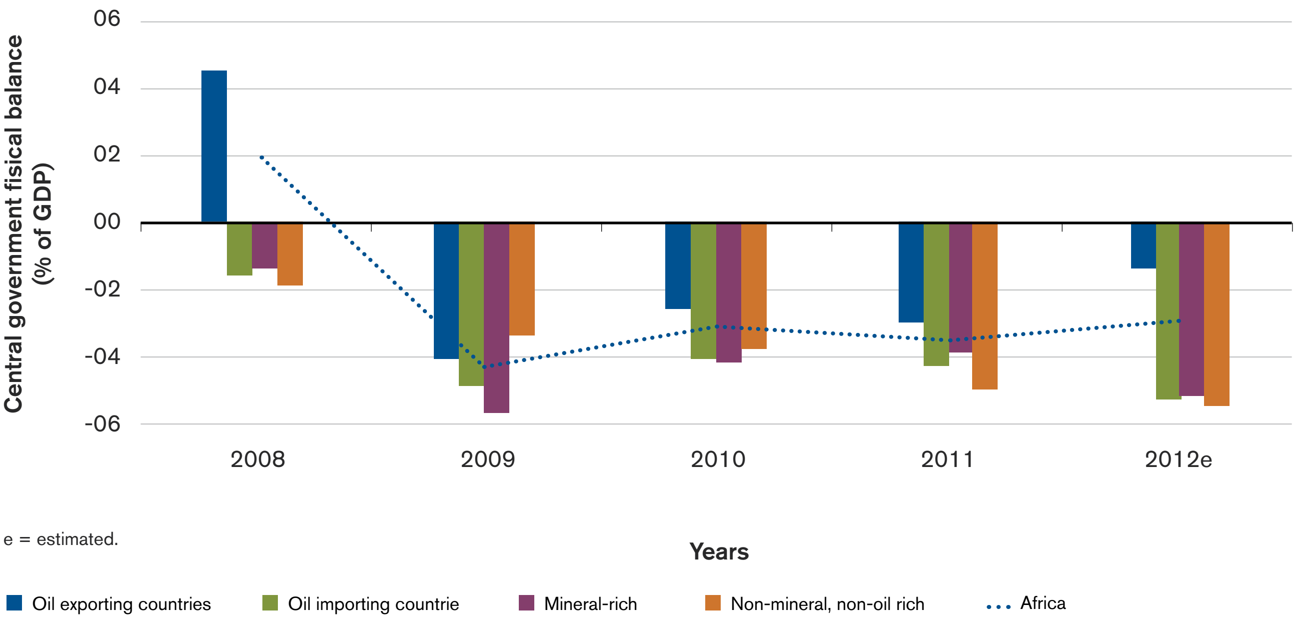
Prudence ruled the macroeconomic policy stance

Owing to the adverse global economic environment and narrower macroeconomic space compared with the pre-crisis era, many African countries followed cautious macroeconomic policies in 2012. In response to inflationary pressures, Ethiopia, Kenya, Nigeria, Tanzania and Uganda tightened monetary policy in 2012, but others such as the Franc Zone countries—where average inflation of 3.9 per cent in 2012 was Africa's lowest—eased theirs. The pressure on central banks to tighten monetary policy waned as non-oil commodity prices began to fall in some countries with improved rainfall and increased agricultural production. The central banks of South Africa and Morocco lowered interest rates to boost domestic demand and growth (EIU, 2012).

Most African countries continued their expansionary fiscal policies, supported by rising commodity revenue, with a strong focus on increasing public spending on infrastructure. As part of the drive to reduce dependence on external assistance and mobilize domestic resources, tax efforts picked up in many countries (see chapter 2). Supported by strong economic growth, many governments widened the tax base and improved tax collection and administration.

The average central government fiscal balance narrowed moderately from a deficit of 3.5 per cent of GDP in 2011 to a deficit of 3.0 per cent in 2012 (figure 1.7). It improved considerably for oil-exporting countries as a group, as oil production recovered with easing political tensions (and despite rising public spending on social security). The average worsened for oil-importing countries, however, as energy prices rose on the world market, demands for infrastructure investment increased and ODA declined or stagnated (on weak growth in developed economies).

FIGURE 1.7: AFRICAN CENTRAL GOVERNMENT FISCAL BALANCES BY COUNTRY GROUP, 2008–2012



e = estimated.

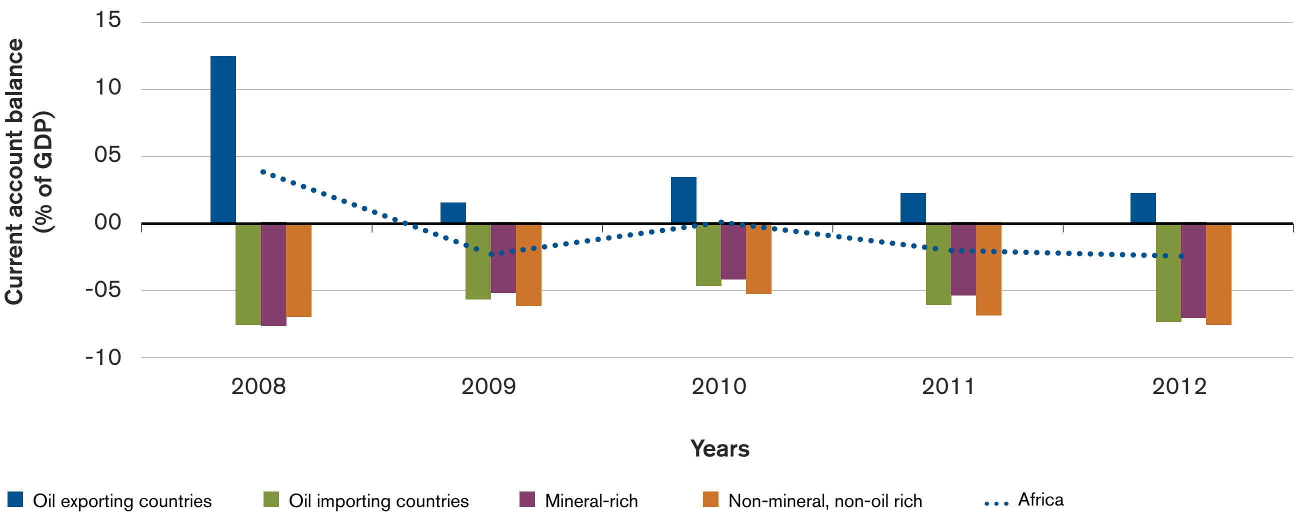
Source: Calculations based on EIU (2012).

Many governments maintained accommodative fiscal policies owing to the significant requirement of public investments in areas of infrastructure and employment creation. Recent discoveries of minerals in several African countries are expected to further expand fiscal space as well as public spending in countries such as Ghana, Kenya, Mauritania and Uganda.

External positions continued diverging between oil exporters and importers

Africa's current account deficit widened from 1.2 per cent of GDP in 2011 to 1.6 per cent in 2012 (figure 1.8) owing to sluggish external demand for exports. A notable variation was seen between oil-exporting and oil-importing countries. The former group's average current account surplus remained at 2.2 per cent, similar to 2011. Oil-importing countries, on the other hand, experienced expanding deficits (to 7.5 per cent) as world energy prices increased. For many oil-importers, the combination of rising and fairly inelastic import bills and declining export growth translated into higher current account deficits. Depreciation of domestic currencies against the US dollar and the effect of recession in Europe further contributed to wider deficits in this group. The socio-economic gap between these two groups may widen, as the oil-importing countries face the dual pressure of rising oil prices and falling external capital inflows (see chapter 2).

FIGURE 1.8: AFRICAN CURRENT ACCOUNT BALANCES BY COUNTRY GROUP, 2008–2012



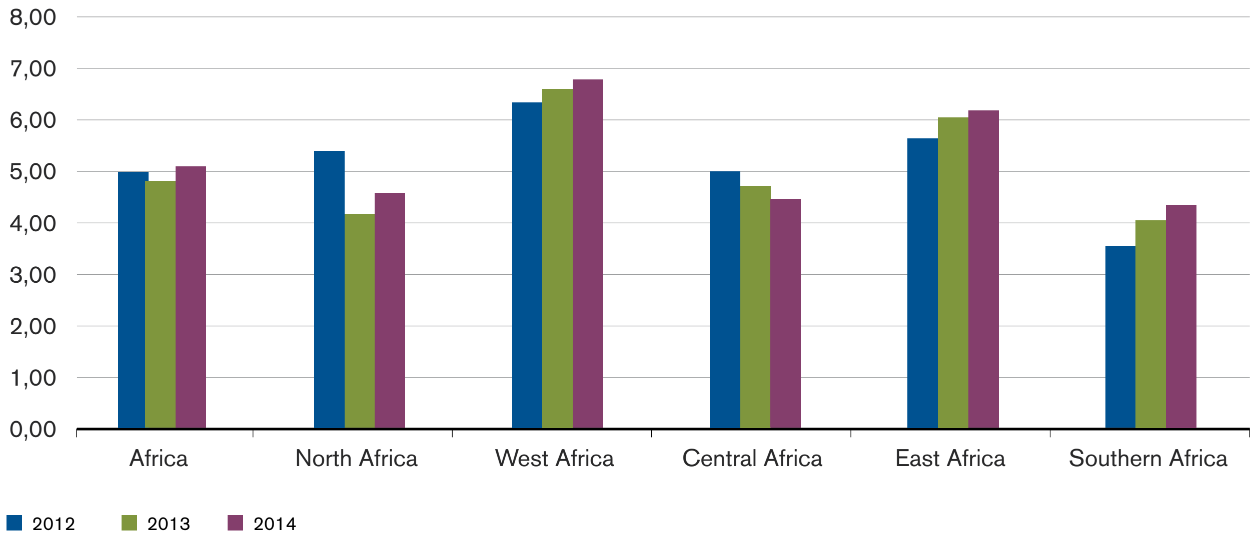
Source: Calculations based on IMF (2012).

1.2 MEDIUM-TERM OUTLOOK

The prognosis is good …

Africa's medium-term growth prospects remain robust with average GDP growth (including Libya) projected at 4.8 per cent for 2013 and 5.1 per cent for 2014 (figure 1.9).[5] On top of the key growth factors that underpinned Africa's economic performance in 2012, recent discoveries of natural resources will boost prospects.

FIGURE 1.9: GROWTH PROSPECTS BY SUBREGION, 2008–2013 (%)



Source: Calculations based on UN-DESA (2012).

Robust domestic demand, especially private consumption and buoyant fixed investment in infrastructure and extractive industries, as well as high government spending, remains a key driver of economic growth in Africa. Growth in many countries is expected to continue benefiting from expanding agricultural output and further moves to diversify into services—especially telecommunications, construction and banking—and manufacturing. Still, commodity production and exports are set to remain the key factors underpinning Africa's medium-term growth.

Among the five subregions, West and East Africa are still expected to be the fastest growing at 6.6 per cent and 6.0 per cent in 2013, followed by Central Africa, North Africa and Southern Africa.

West Africa will continue to gain from commodities—especially oil and minerals as Ghana, Niger and Sierra Leone exploit new discoveries—and from cemented peace and stability in Côte d'Ivoire.

Increasing economic diversity, rising agricultural output and exports, as well as new natural-resource discoveries are expected to boost growth in East Africa, which has remained one of the top performing subregions. Consolidating peace and ensuring political stability in the Democratic Republic of Congo and Somalia will help to improve prospects in the subregion.

Central Africa is forecast to sustain moderate growth of 4.7 per cent in 2013 and 4.4 per cent in 2014, with strong commodity production and export demand, but the subregion is likely to be hit by an unfolding civil war in the Central African Republic.

Growth in North Africa (including Libya) is expected to remain strong at 4.2 per cent in 2013 and pick up to 4.6 per cent in 2014 as the political environment normalizes and economic activity gains momentum. The economy of Libya will recover to pre-crisis levels and those of Algeria and Sudan should benefit from better agricultural harvests.

Southern Africa is projected to grow at 4.0 per cent in 2013 and 4.3 per cent in 2014. The economy of South Africa is forecast to grow at 3.1 per cent, reflecting a stabilizing international environment and manufacturing.

Growth prospects for oil-exporting countries will remain robust (5.1 per cent) from sustained strong demand for oil and high prices. Non-oil activities will contribute strongly to the economic outturn in several countries.

Africa's average inflation is expected to decline in 2013 as global food and energy prices decline or stabilize and the effect of the drought fades. Assuming continued gains in macroeconomic management, changes in the external environment will still have a strong influence on Africa's internal and external balances. Fiscal budgets are expected to remain under pressure, though, with revenue generation posing challenges for governments. Current account deficits are expected to continue widening. External capital inflows, including ODA, FDI and remittances, are expected to fall slightly unless the global economy recovers strongly in 2013.

… and would be better still if Africa made up its structural shortfalls

Africa's growth outlook for 2013 faces several internal and external risks. Those on the internal side stem mainly from weak institutional capacity and huge infrastructure deficits. Also, high income-inequality and poverty rates are creating political and social tensions in several countries, including South Africa, where labour unrest is on the rise. Internal risks also include political uncertainty associated with presidential and parliamentary elections, domestic policy challenges and changes in the business environment. Armed conflicts threaten people's safety as well as economic growth in countries like the Democratic Republic of Congo and Mali. Bad weather is another risk, as most countries remain heavily dependent on rain-fed agriculture.

External risks relate largely to slowing global growth (including major emerging countries) and the euro area debt crisis. A steep global slowdown will affect growth in Africa through commodity prices, demand and capital flows—a 1 per cent decline in growth in the euro area is associated with a 0.5 per cent fall in growth in Africa (AfDB et al., 2012). Slowing activity in emerging economies might deepen such effects, but their likely continued strong growth would help Africa to mitigate the effects of recession in Europe, given Africa's increasing trade and investment ties with them (box 1.2).

BOX 1.2: EMERGING MARKETS AND AFRICA'S MEDIUM-TERM ECONOMIC PROSPECTS

The role of South–South cooperation in Africa's development process, as outlined in the Accra Agenda for Action, is becoming more evident and taking centre stage as the euro area debt crisis looms and some major developed countries flirt with recession.

Although economic growth in the top five emerging countries—China, India, Brazil, Republic of Korea and Turkey—cooled owing to the euro area crisis, optimism has returned. Growth in these markets is likely to boost commodity demand, supporting a positive outlook for African economies in 2013 and 2014, reflecting the fact that Africa is highly commodity dependent: the share of commodities in its merchandise exports is estimated at more than 65 per cent (UNCTAD, 2012). China has overtaken the US as Africa's major trading partner.

The rebound of emerging countries is also likely to boost capital flows, especially FDI and ODA to Africa, supporting government budgets and boosting investment, technology transfer and economic diversification.

Africa should, though, consider emerging countries as complements to traditional partners and export markets, rather than substitutes (AfDB et al., 2011). The heterogeneity of goods and services traded with emerging economies presents an opportunity for Africa to add value to its traditional commodity exports. This will require policymakers to adopt better engagement strategies and incorporate them in their development agenda, synchronizing them at both the regional and continental level in order to attain lower production costs, better bargaining power, and stronger terms of trade with both traditional and emerging partners.

Notwithstanding the positive outlook, Africa's over-dependence on commodities makes it vulnerable to commodity price shocks. The continent therefore needs structural transformation (chapter 2) and diversified products with value addition as a means of mitigating the impact of volatility and fluctuations linked to unprocessed commodity exports (chapter 3). Industrialization in Africa can help to cushion against these effects, although trade barriers (chapter 2), unsound investment policies and technological challenges—beyond institutional and infrastructure issues—will have to be resolved.

1.3 RECENT SOCIAL DEVELOPMENTS IN AFRICA

Improving the social conditions of a society is vital for achieving economic transformation in Africa, yet the continent's social development pattern has not changed much over recent years: positive changes are still recorded in most areas—poverty, hunger, education, health and equality for minorities—but progress is slow and not commensurate with the strides made in economic growth.[6] The achievement of most of the MDGs (by 2015 as initially set) is also unlikely. Africa's labour productivity remains low owing in part to poor levels of education and high prevalence of diseases. Low human capital is undermining structural transformation, and thus critical to transformation is enhanced labour force productivity, for which good health and quality education are critical.

Economic advances are not reducing poverty as much as they should

Recent data show some slight improvement in poverty reduction, even though the region will not be able to achieve the related MDGs. The proportion of people living in extreme poverty (below $1.25 a day) in Africa (excluding North Africa) has been projected to reach 35.8 per cent in 2015 against the previous forecasts of 38 per cent (UN, 2011). This slight, albeit slow, improvement is partly attributable to high and sustained economic growth since 2000.

Ethiopia, for example, which saw growth considerably above the required rate for eight years between 2000 and 2010, experienced a dramatic reduction in poverty, and the proportion of the population living on less than $1.25 a day fell from 55.6 per cent in 2000 to 39 per cent in 2005 (World Bank, 2010).

Poverty in Africa is still spatial, and highly prevalent in rural areas. The non-inclusive nature of economic growth and the more specific sectoral challenges—of poor rural infrastructure, failure to modernize rural livelihoods, little jobs diversification (for rural youth especially), limited access to education and pervasive child labour—are key drivers of rural poverty (FAO et al., 2010).

High inequality weakens the impact of growth on poverty (Ravallion, 2001; Fosu, 2011). Further, the restricted range of drivers of growth exacerbates inequalities (ECA and AUC, 2012). The world's widest urban–rural gaps are in Africa: for example in some countries, women in urban areas are almost twice as likely as those in rural areas to deliver their babies with a skilled health attendant (ECA et al., 2012).

Social protection programmes can help to reduce inequality by providing transfers (including through conditional cash transfers) to vulnerable groups and enabling people to become productive members of society, but in Africa at least most of them have worked through identified groups, rather than offering more transformative system-wide interventions. They are also fragmented in most countries, often donor funded and outside government systems.

The battle against hunger needs a further, determined push

The food situation has generally improved considerably in North Africa in recent years. For the rest of the continent, the Global Hunger Index of the International Food Policy Research Institute[7] improved by 18 per cent in 1990–2011 (somewhat less than 25 per cent in Southeast Asia and 39 per cent in North Africa). As with other indicators, the regional aggregate masks wide country divergence, as the Global Hunger Index in some countries worsened while picking up strongly in others. Hunger remains linked to poverty, reflecting fewer opportunities in rural areas.

The proportion of malnourished people in Africa (excluding North Africa) has stabilized at 16 per cent, as gains in nutritional levels no longer pace poverty reduction, partly owing to food prices, which are still higher than before the crisis (FAO et al., 2010; UN, 2011). This has an effect on income and other poverty correlates. Price volatility makes smallholder farmers and poor consumers increasingly vulnerable to poverty, because food represents a large share of the budget of poor consumers and smallholder farmers' income. Thus even short periods of high prices for consumers or low prices for farmers can lead to poverty traps, and farmers are less likely to invest in measures to raise productivity when price changes are unpredictable. Price hikes can also prompt coping mechanisms that defer educational and health spending by households, affecting overall welfare and long-term development.

Educational quality is a major drawback

Africa continues to make sustained progress towards ensuring that all children can complete a full course of primary schooling: aggregate net primary school enrolment in Africa rose from 64 per cent in 2000 to 84 per cent in 2009. But 18 countries are still more than 10 percentage points from achieving universal primary enrolment by the MDG target date of 2015.

The MDGs emphasize primary enrolment, and most African countries have done well. The quality of education, however, manifested by completion rates and access to educational facilities has deteriorated. Primary completion rates in Africa are low: only six countries recorded primary completion rates of 90 per cent or more in 2009. Also, many African countries have very high drop-out rates.

In secondary and tertiary enrolment, most countries are making slow progress. Vocational and technical training—reflecting a country's employment needs—also need to be prioritized by governments.

Health gains have to pick up pace

Health indicators remain the area in which African countries are making the slowest progress. Maternal and child health are a special concern for most of Africa, as are communicable diseases such as HIV/AIDS, malaria and tuberculosis (TB). Whereas communicable diseases are a large share of Africa's disease burden, as countries develop and lifestyles change, communicable diseases such as cancer, heart disease and diabetes become more prevalent. Thus African countries must take pre-emptive measures to mitigate the "double burden of disease", that is, the simultaneous burden of communicable and non-communicable diseases.

Child mortality

Most worryingly, of the 26 countries worldwide with under-five mortality above 100 deaths per 1,000 live births, 24 are in Africa. Yet encouragingly, Africa has doubled its average rate of reduction in child mortality from 1.2 per cent a year in 1990–2000 to 2.4 per cent in 2000–2010. But to accelerate progress in child health, African countries should expand interventions that target the main causes of child mortality, and intensify efforts to reduce neonatal mortality (deaths in the first 28 days of life). The decline in neonatal mortality is much slower than that among older children, perhaps due to lack of cost-effective interventions such as early post-natal home visits, and can be tackled if governments and health practitioners link neonatal and maternal health.

Maternal mortality

Maternal health is still a grave concern for most of Africa, yet even here the most recent data from the World Health Organization (WHO) show one of the steepest ever declines in Africa's maternal mortality ratio: from 590 deaths per 100,000 live births in 2008 to 578 in 2010—a 2 per cent fall in two years and the endpoint of a 46 per cent drop since 1990 (WHO et al., 2012).

Still, the fact remains that that of the 40 countries classified as having a "high maternal mortality ratio" in 2010, 36 are in Africa. Some of these countries are either experiencing or recovering from conflict, highlighting such countries' vulnerability and the need for health infrastructure.

To fast-track progress towards maternal health, African countries must look at the links between maternal health outcomes and other social and economic indicators, such as education, women's economic empowerment, key infrastructure such as roads, telecommunications and transport, and health systems. It is also necessary to look at cultural practices to improve contraceptive prevalence rates, the proportion of women making the WHO-recommended four antenatal care visits, the share of women delivering with a skilled birth attendant, and birth rates among adolescents.

HIV/AIDS

Africa's progress in the fight against HIV/AIDS is noteworthy. Although Africa (excluding North Africa) remains the region most heavily affected by HIV, the number of new HIV infections has dropped by more than 21 per cent, down to 1.8 million people newly infected in 2011, from an estimated 2.6 million at the epidemic's peak in 1997. The number of people dying from AIDS-related causes fell to 1.2 million in 2010 from a high of 1.8 million in 2005 (UNAIDS, 2012). These falls show that prevention efforts have greatly improved, as has treatment for people living with HIV/AIDS.

That said, Africa still holds an unbalanced burden of the global population living with HIV/AIDS: with 12 per cent of the world's population, the continent accounted for about 68 per cent of people living with HIV/AIDS and 70 per cent of new HIV infections in 2010. Women in Africa are particularly at risk—60 per cent of Africa's HIV-positive population are women. To accelerate efforts, African countries must continue to focus on prevention, especially among women and youth, and invest more resources into treating people living with HIV/AIDS.

Malaria and tuberculosis

The fight against malaria in Africa is seeing major advances. Increases in funding and attention to malaria control have led to a 33 per cent fall in malaria mortality from 2000 to 2010—much faster than the global rate of 25 per cent. Yet although malaria is preventable and curable, most of the world's 200 million cases and 650,000 deaths in 2010 were in Africa. Control strategies such as spraying and proper use of insecticide-treated mosquito nets, as well as funding, are crucial.

> ***African countries must take pre-emptive measures to mitigate the "double burden of disease", that is, the simultaneous burden of communicable and non-communicable diseases.***

In 2010, 27 countries in Africa adopted the WHO recommendation to provide insecticide-treated nets for all people at risk for malaria, especially children and pregnant women. The number of Africans protected this way rose from 10 million in 2005 to 78 million in 2010. A continuing focus on prevention and expansion of treatment will have profound benefits, economic as well as health, given that malaria has an economic burden of about 1.3 per cent of GDP in countries with high disease rates.

Incidence, prevalence and death rates associated with TB remain high and unchanging in most of Africa. Southern Africa has the highest prevalence, at more than 500 per 100,000 people, and this rate has in fact increased since 1990 owing to continued chronic poverty and malnutrition alongside inadequate medical attention, especially in conflict and drought-afflicted countries. TB is closely linked to HIV, and so tackling HIV has a positive impact on lowering TB infections.

TB infection rates also depend on institutional and socio-economic factors, such as crowded living and working conditions and poor sanitation. They are also driven by inadequate health care access as well as by, for example, malnutrition, diabetes mellitus, tobacco smoking, and alcohol and drug abuse. Thus TB's high and unchanging impact reflects numerous social and economic issues that must be addressed in the fight against the disease.

Programmes such as DOTS (directly observed treatment, short course)—the basis of the global Stop TB Strategy—have proved successful in diagnosing and treating TB patients. Properly implemented, DOTS has a success rate exceeding 95 per cent, and prevents further multi-drug-resistant strains of TB from emerging.

Women's empowerment is generally moving ahead but more jobs are needed for youth

Female gains in education, the economy and politics

Progress continues, slowly, in empowering women. Girls' enrolment in school is one pathway, building human capital, strengthening capacities and increasing productivity. African countries are making good strides on that front, with the gender parity index improving at all levels of education. In primary school, for instance, the index was higher than 0.9 in more than 40 countries in 2009 (90 girls enrolled for every 100 boys). At the secondary level, girls' improved access to school is coupled with fairly good performance in class, as girls tend to perform better than boys (ECA et al., 2012). In tertiary education, even though the gender parity gap is high, female enrolment has grown twice as fast a men's in the recent past.

Opportunities are increasing and diversifying on job markets—more African women have access to wage employment outside agriculture, for example. In 2009, 19 per cent of that category of workers was female in North Africa, but over 33 per cent in the rest of the continent.

In the political arena, in contrast, North Africa has impressed: representation of women in parliament has improved in most countries in the subregion, and the proportion in 2011 was seven times as high as in 1990. Factors included positive discriminatory actions such as legal frameworks guaranteeing seats for women in political spheres.

But efforts must continue, as some countries are stagnating or even regressing in some areas. Gender parity is held back by low living standards, and the gender parity index tends to be higher among children from rich than poor households. Equally, drop-out rates remain higher for girls, and cultural impediments reduce women's access to the labour market.

Youth employment

Africa's population is growing fast, but the remarkable economic growth of the past decade has not been fully inclusive and has failed to provide enough decent jobs, contributing to the Arab Spring—hence the urgent need of attention to youth employment. The bulk of African young people are still in school, but decent job opportunities remain few for those on the labour market, especially in poor countries. Indeed, in low-income countries only 17 per cent of working youth have full-time wage employment, against 39 per cent in lower middle-income countries and 52 per cent in upper middle-income countries. Youth employment issues also differ across countries, being more about quality in low-income countries, where underemployment, part-time jobs and self-employment are high, and more about quantity in middle-income countries, which have higher unemployment (AfDB et al., 2012). These problems have generated a large group more problematic than the purely unemployed, namely the discouraged—people who have stopped looking for a job and for opportunities to improve their skills (chapter 2).

> ***Africa's youthful population provides potential for the continent to reap dividends, but this can only be achieved if the continent can create decent jobs, fast.***

Reasons for slow job growth are multifaceted: chronic, insufficient demand for labour; mismatches between training in schools and education centres and skills sought by employers; sources of growth primarily in capital-intensive industries such as minerals and oil and gas; and absence of backward and forward linkages between these productive sectors and other sectors. Recent work indicates that both the public and formal private sector will have to be supported substantively to be able to create decent jobs (chapter 2). The informal and rural sectors present the highest potential for job creation, and will require government support.

Africa's youthful population provides potential for the continent to reap dividends, but this can only be achieved if the continent can create decent jobs, fast.

1.4 CONCLUSIONS

Africa maintained well above global average growth in 2012, despite deceleration in the world economy. High commodity demand and prices, increased public spending and favourable weather conditions that led to good agricultural harvests are some of the factors that supported growth. Improved macroeconomic management and prudent macroeconomic policies also guided government expenditure across many countries. West Africa recorded the highest growth followed by East, North, Central and Southern Africa. Oil-importing countries saw their growth rate decline in 2012, while oil-exporting countries' growth improved significantly, largely due to political recovery of the North and increased oil production in many countries.

Medium-term prospects for the continent remain robust. Recent discoveries of natural resources offer the potential to boost economic growth, on top of the key growth factors of 2012. East and West Africa are expected to lead growth on the continent, followed by Central, North and Southern Africa. However, this positive growth outlook depends on the ability of the continent to mitigate several internal and external risks. Weak institutional capacities, huge infrastructure deficits, political uncertainties and high levels of poverty continue to pose internal threats. Externally, a major global slowdown will leave the continent exposed to volatility in commodity demand and prices and to uncertain capital flows.

Despite steady economic growth, African countries continue to make slow progress towards social development indicators, especially some MDG health indicators. And even though the continent has seen rapid enrolment in primary school, secondary and tertiary enrolment has been fairly slow. The quality of education also needs lifting, as the pace of enrolment has not been matched by investment in school infrastructure. In recent years, however, some countries have fast-tracked progress towards poverty, hunger, education, health and women's empowerment. Still, African countries need to do more to improve the quality of economic growth, and diversification into labour-intensive industries has the potential to induce inclusive growth, employment generation, poverty reduction and improved social conditions.

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NOTES

[1] Libya saw a strong rebound at 100.7 per cent growth in 2012, after contracting by 61 per cent in 2011 owing to civil war. Africa's growth without Libya was 3.3 per cent in 2012 and is forecast to increase to 4.5 per cent in 2013 and 4.9 per cent in 2014.

[2] Excluding Libya, North Africa had the slowest growth (0.6 per cent).

[3] The subregion grew by 0.6 per cent in 2012, excluding Libya.

[4] Angola, Côte d'Ivoire, Ghana, Liberia, Libya, Niger, Mozambique and Sierra Leone.

[5] Excluding Libya, Africa's overall growth is forecast to sustain an upward trend: 3.3 per cent in 2012, 4.5 per cent in 2013 and 4.9 per cent in 2014.

[6] Many of the data in this section are derived from ECA et al. (2012).

[7] The index is a multidimensional statistical tool to measure progress and failures in the global fight against hunger. It combines three equally weighted indicators: proportion of the undernourished as a percentage of the population; prevalence of underweight children under five; and mortality rate of children under five.