



Africa in 2007 Multifaceted Growth

(based on the *African Economic Outlook 2007**)

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- ◆ Growth will accelerate for net oil exporters and weaken slightly for oil importers, strengthening the trends projected in *African Economic Outlook 2006*.
- ◆ For the oil importers, moreover, inflation is moving to double-digit levels.
- ◆ Budget deficits in oil-importing countries appear to have stabilised.
- ◆ The current account deficits of these same countries have increased from 2 per cent in 1998-2004, to about 4 per cent since 2005.

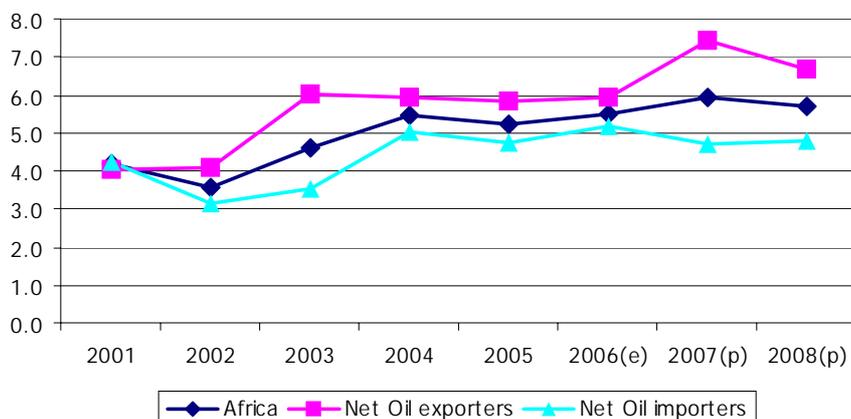
Africa grew by 5.5 per cent in 2006 – well above the long-term trend and for the fourth consecutive year. GDP per capita grew by about 3.5 per cent. Growth also appears set to accelerate somewhat on average in 2007, and to remain buoyant in 2008

The challenge is to ensure that a large proportion of the proceeds from the minerals sector are invested in infrastructure and human capital development to support medium- and long-term needs for diversification. Temporary windfall gains make the re-orientation of

government budgets urgent. Enhancing transparency and combating corruption is key to realising this transformation and maintaining growth. The continuation of sound macroeconomic policies in most countries on the continent, for example, has increased business confidence leading to a pickup in private investment generally.

Oil-importing countries will need to contain inflationary pressures now running into double-digits as a result of oil price increases, and to finance or contain increases in their current account deficits.

Figure 1. Growth differential between oil exporters and the rest is set to sharpen



Source: *African Economic Outlook 2006/2007*.

Meanwhile, contrasts between oil exporters and the rest are set to sharpen. In 2007 the average real GDP growth rate for the continent is expected to be 5.9 per cent, with the difference between the two groups of countries even more marked at 7.4 and 4.7 per cent, respectively. Projections for 2008 are for slightly lower growth for the oil exporters and about the same for the oil-importers as in 2007.

The economic gains of the oil producers are largely due to increasing in oil production and sustained high prices. New producers – Chad, Equatorial Guinea and Mauritania – and those opening up new fields – like Angola, which has more than doubled its production since 1990 to 1.4 million barrels a day in 2006 – were able

successfully to take advantage of the soaring world demand. The resulting windfall gains could set such countries firmly on the road to development.

The oil-importing countries have not been left behind. Metals producers also profited from higher world prices and to a lesser extent higher export volumes. Mozambique, Namibia, South Africa and Zambia all made up for the dearer oil with their aluminium, iron, copper and platinum exports.

The price of agricultural exports has been falling, hurting countries dependent on them, but 2006 turned out not to be too bad. 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 Central and East Africa (Madagascar, Rwanda and Tanzania) and West Africa (Benin, Burkina Faso, Ghana, and Mali) achieved high export growth as well. A number of diversified exporters also exhibited strong export volume growth (Egypt, Mauritius, Morocco).

High energy prices may be good for exporters of oil, but they can be bad for controlling inflation and the continent as a whole saw inflation increase to 9.1 in 2006. This continent-wide average masks important differences

between net oil-exporters and net oil-importers, whose figure rose from 8.4 per cent in 2005 to 12 per cent in 2006. Further increases, to 12.7 per cent in 2007 and to 12.9 per cent in 2008 are expected. That said, only four countries (Angola, DRC, Guinea-Bissau, and Zimbabwe) experienced inflation rates at or above 20 per cent in 2005, and the number remained the same in 2006 (DRC, Guinea-Bissau, São Tomé and Príncipe and Zimbabwe).

Continuing high oil prices – which seem likely – are a major medium-term risk for the continent's net oil importers and may endanger their efforts to maintain macroeconomic stability if the financing of the larger current account deficits leads to a build up of unsustainable debt levels once again. It also makes poverty reduction even harder by putting pressure on government budgets.

African countries need to husband their resources much more carefully to pay for the key goals of reducing poverty and raising the quality of life for their populations. This remains true for both oil-exporting and importing countries. The temptation for the former is to waste resources through inefficiency and corruption, while for the latter, the challenge is to implement policies to sustain and diversify the economy in the face of variable world prices.

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