Executive Summary

The *African Economic Outlook 2008/09* comprises an Overview Chapter (synthesising the results of the country analyses), a chapter on the *AEO* special topic, *Innovation and Information and Communication Technologies in Africa,* a separate chapter on each of the 47 countries covered in the report[1], and a Statistical Annex. The Overview situates its analysis of the short term prospects of Africa's economies in a global context, which this year is dominated by the global financial crisis and widespread recession.

African Economic Outlook 2009: an Overview

The international environment facing Africa has turned decisively negative. GDP in the OECD countries is expected to contract by 4.3 per cent in 2009 and to be virtually flat in 2010. Growth in emerging economies is also expected to slow dramatically. In turn world trade is expected to contract by 13.1 per cent in 2009 – the first decline in world trade in 60 years. In 2010, growth in world trade is expected to exhibit positive growth of 1.5 per cent as recovery in economic activity gets underway in the countries of the OECD. A factor depressing trade beyond the impact of slowing demand has been the sharp contraction in trade credit in OECD countries, along with the freezing of bank lending in general. This situation is not expected to be alleviated much by the modest progress made in regional trade liberalisation, whether between African countries and the EU or among themselves. Most commodity prices have fallen back to their 2005 or 2006 levels, many of them registering declines of 40 per cent or more. As a result, prices of exports have fallen by more than prices of imports, inflicting a significant negative terms of trade shock on most countries. For many countries, the persistence of high prices for internationally trade of food continues to contribute to a food crisis situation, especially for the urban poor.

Official development assistance (ODA) to Africa, which was driven largely by debt relief and emergency assistance, fell by 18 per cent in real terms in 2007, mostly due to the end of exceptional debt relief operations, and, while growth was positive in 2008, ODA may well grow more slowly in 2009 and 2010. According to donor nations' pledges, aid levels are expected to increase further during the next two years and Africa is likely to benefit more than other regions. However, ballooning fiscal deficits and dwindling political support for greater aid levels in major donor countries could trigger a downward revision of aid levels. Moreover, less of it is likely to be in the form of debt relief or humanitarian assistance. Thus, the rate of increase is likely to slow, making it highly unlikely that the Gleneagles commitments to double aid to Africa by 2010 will be met. New estimates consider that the shortfall of Gleneagles aid commitments already amounts to USD 20 to 25 billion, a figure that will probably increase with reduced political support for aid policies.

Flows of foreign direct investment appear to have decreased by about 10 per cent in 2008. For 2009, they are likely to contract further as investment in extractive export industries is being postponed in many countries. Portfolio investment has also been affected by the global financial crisis, becoming negative in net terms and causing many countries to draw upon their international reserves.

1. Available on a CD-ROM for certain editions of this report. The 47 countries examined in this eighth edition of the *African Economic Outlook* account for some 97 per cent of Africa's population and 99 per cent of its economic output. The countries are classified by sub-region: in North Africa: Algeria, Egypt, Libya, Mauritania, Morocco, Sudan and Tunisia; in West Africa: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, the Gambia, Ghana, Guinea, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo; in Central Africa: Cameroon, Chad, Central African Republic, the Republic of Congo, the Democratic Republic of Congo, Equatorial Guinea, and Gabon; in East Africa: Burundi, Djibouti, Ethiopia, Kenya, Rwanda, Seychelles, Tanzania and Uganda; In Southern Africa: Angola, Botswana, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland and Zambia.

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Not surprisingly, the outlook for Africa has been adversely affected by the global recession. Economic growth in Africa is expected to be only 2.8 per cent in 2009, less than half of the 5.7 per cent estimated for 2008. It is then expected to rebound partially to 4.5 per cent 2010. Growth in oil-exporting countries, which continued to outpace that of oil importers by a substantial margin in 2008 (2 percentage points), is slowing as well and is expected to be 2.4 per cent in 2009 compared to 3.3 per cent for the net oil importers. Moreover, some countries continue to face particularly serious problems – including the humanitarian catastrophe in the Darfur region of Sudan, the economic collapse in Zimbabwe, conflicts and political unrest in Guinea, Guinea Bissau, Equatorial Guinea, Madagascar and Somalia, which are likely to further impede economic progress. The hard-won macroeconomic stability achieved recently in African countries was also affected by food price inflation in the first three quarters of 2008 and could be challenged further by the worsening of economic conditions. A slowdown of investment in oil and mineral production is also expected to be a drag on growth in 2009 and 2010.

Inflation has become a problem in many countries. It increased in net oil-importing countries (excluding Zimbabwe), to double-digit levels of 13.5 per cent in 2008, up from 7.9 per cent in 2007, mainly due to increasing oil, fertiliser and food prices. But it also increased in oil exporters, reaching 10 per cent in 2008 compared to 7.2 per cent in 2007, reflecting not only higher import prices but also supply constraints in the face of strong growth of domestic demand.

The windfall gains from commodity prices strengthened public finances for both oil exporting and net oil importers through 2007. However, for net oil importers as a group, the overall budget deficit deteriorated in 2008, to 1.8 per cent, and is projected to increase to 2.7 per cent in 2009. On the other hand, the public finances of oil exporters were supported by revenues from the high oil prices that prevailed through most of 2008. However, as a result of their subsequent collapse, they are expected to exhibit an overall deficit of 7.5 per cent in 2009.

Current account balances deteriorated in many countries in 2008, especially among net oil importers, whose aggregate deficit increased to 7.1 per cent of GDP, up sharply from 5.4 per cent in 2007. Many of them were adversely affected by higher import bills despite some improvement in the prices of agricultural export products, cocoa, coffee, and cotton in particular. As a result, many of them are facing severe pressure on the level of international reserves. Their deficits are expected to remain high in 2009 and 2010. Oil exporters continued to register a large current account surplus in 2008 but, as a group, the surplus is expected to give way to a deficit of 3.5 per cent in 2009. The emergency USD 1.5 billion "bailout facility" announced by the African Development Bank (AfDB) in March and the enlargement of resources for the International Monetary Fund (IMF) agreed on 2 April at the G20 in London will be especially important if these projected deficits are to be fully financed.

With public finances coming under pressure in 2009 and 2010, net oil exporters must take care to safeguard planned investment in infrastructure and human resource development to continue to diversify the sources of economic growth. Diversification is all the more important with the collapse of the boom in commodity prices. Most of them are in the fortunate position of having accumulated large reserves during the period of high oil prices.

Net oil-importing countries face a different set of challenges. GDP growth in many of them is expected to fall sharply in 2009 and 2010. Meanwhile, inflation has been rising, mainly due to a more complete pass-through to consumers of international oil price increases combined with increases in the international prices of grains and vegetable oils. Containing inflation to single-digit levels may preclude monetising their global budget deficits,

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and this may well further dampen growth. Moreover, the GDP growth forecasts in this edition of the *AEO* are associated with increasing current-account deficits that result from a weakening in demand for their exports, reflected in part by weakening non-oil commodity prices – only partially offset by declines in the prices of imported food and oil (assumed to be USD 50 per barrel in 2009 and USD 55 in 2010). Thus, another assumption underpinning the forecasts is that the additional funds required to finance the deficits will be forthcoming, despite the difficulties of raising finance on international capital markets at present.

Another major uncertainty is the extent and severity of the current recession in the OECD and slowdown in other major emerging countries. The importance of taking policy measures to bolster demand worldwide has somewhat over-shadowed concerns over a possible disorderly unwinding of the large current account imbalances in the global economy. In fact, the slowdown itself, and the collapse of oil prices have been contributing to their gradual unwinding.

The assessment of progress on the Millennium Development Goals (MDGs) in this year's *AEO* – based on an updated methodology - confirms the diagnosis of last year's *AEO*; on recent trends, only a handful are likely to meet the income poverty target of halving the share of the population living on less than one dollar a day by 2015.

The need to promote good governance is as important as ever. The AU/NEPAD African Peer Review Mechanism has begun to provide a candid assessment of African countries and, thus, to foster progress in governance. Algeria, Benin, Burkina Faso, Ghana, Kenya, Nigeria, Rwanda, South Africa and Uganda have already been reviewed, while Egypt, Gabon, Lesotho, Mauritius and Mozambique will launch reviews in 2009. The *Outlook* notes that progress towards democracy has stalled recently. Conflicts in some countries have started to subside, but they have flared up in others. Despite progress in macroeconomic management and the regulatory environment, more needs to be done to ensure an environment conducive to private-sector development especially in further reducing corruption. However, the deterioration of the economic environment could jeopardize some of the advances made in Africa toward greater democracy and better governance.

Innovation and Information and Communication Technologies (ICT) in Africa

Following the special focus on energy supply and poverty on 2004, transport infrastructure in 2006 and access to drinking water and sanitation in 2007, Chapter 2 of this edition of the *AEO* continues the analysis of network infrastructure by surveying the Information and Communication Technology (ICT) infrastructure sector and its related applications within the overall context of development in Africa.

Africa has the lowest internet penetration rate in the world. In Sub-Saharan African countries, for internet users the penetration rate is below 7; for broadband subscribers the penetration rate is below 1. North African countries are relatively better-off than their Sub-Saharan neighbours (and, indeed other developing regions) with an internet penetration rate of 40.4 per cent. However, even in North Africa the penetration rate for broadband subscribers is only 2 per cent. International backbone infrastructure to connect Africa to the world is being built and will soon be operational. Governments should play a more active role in attracting inland backbone investment and in regulating prices in order to reach more users and increase usage in Africa, since improved international connectivity will not be sufficient by itself.

Despite the low penetration rates, innovative applications of ICT have been proliferating: e-banking, e-payments, e-agriculture, e-trade, e-government, e-education, capacity building programmes for developing ICT

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skills and, more generically, for driving innovation. Innovative business models have also been gradually expanding the customer base to include significant numbers of low-income households.

Providing appropriate regulation is the most important function of government in the ICT sector since most of the investment required can be mobilised by the private sector. In spite of the financial crisis, telecommunications in Africa remains an attractive business. Governments should be more ambitious in their liberalisation strategies. Regulatory systems have been slowly evolving towards international good practice, but there is considerable need for further improvement.

Governments and regulators should do more to attract private capital to the fixed-line segment. Governments should privatise the remaining state-owned fixed-line incumbents since private investors can bring the technological know-how necessary to upgrade their networks, and more regulators should adopt convergent licensing regimes and symmetric regulation of termination charges to create favourable conditions for fixed-line investments.

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