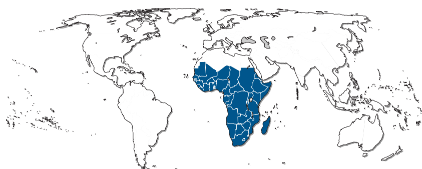
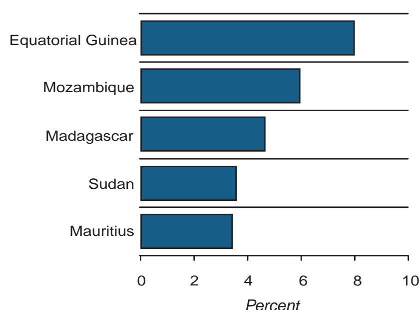
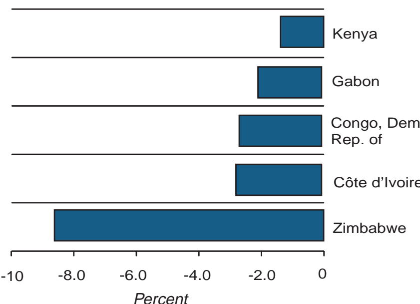
Sub-Saharan Africa



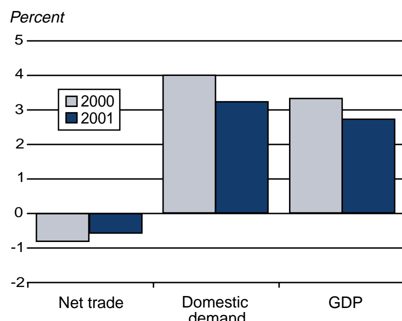
GNI per capita, 2000: $470



Source: World Bank.



Source: World Bank.



Source: Datastream and DECPG staff estimates.

Recent developments

Growth slowed across much of Sub-Saharan Africa in 2001, reaching only 2.6 percent for the year, down from 3.1 percent in 2000. The slowdown was not evenly distributed. In a number of countries performance even improved while in others poor outcomes were attributable to a variety of factors, not least of which were civil strife and poor governance. Nevertheless, a common factor across the region was a marked deterioration in external sector performance. The global slowdown depressed import demand in Sub-Saharan Africa's main trading partners and held real merchandise export growth to just 2.1 percent compared to 7.5 percent in 2000. At the same time, export prices denominated in dollars fell by an average of 6.3 percent and the dollar value of export earnings fell 4.3 percent. The terms of trade deteriorated by 2.9 percent, which was equivalent to a further reduction in real income of 0.8 percent of gross domestic product (GDP).

Despite an increase in debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative, official aid flows declined slightly while at the same time commercial flows remained limited. As a result the weak export performance served to compress imports. This compression was achieved with the help of weak income growth and currency depreciation and was reflected in a narrowing of the real trade deficit.

September 11 reinforced global and domestic factors that triggered the slowdown. Commodity prices fell sharply in the immediate aftermath, though except for oil, they largely reverted to trend over the next two months. Security concerns and the disruption to international air travel compounded local factors (crime and political instability in southern Africa) contributing to a disappointing year-end tourist season. But a weak performance in 2001 was already in the cards by the time of the attacks: 50 to 90 percent of the drop in commodity prices for the year had already occurred by August, as had much of the exchange rate depreciation.

In South Africa, quarterly national accounts data showed a clear weakening in the first three quarters of the year after a strong finish to 2000.

Several positive factors helped to mitigate the impact of the trade slowdown. First, generally better weather conditions led to a substantial recovery of agricultural production throughout the Horn of Africa, eastern and southern Africa, the great lakes region, and the Sahel. Though scattered drought conditions persisted in these regions, major failures of food and export crop production were largely avoided (Somalia was an exception). Meanwhile, in West Africa and the Sahel good rains contributed to bumper harvests.[1]

Second, there was a major expansion of debt relief under the HIPC Initiative. Ten Sub-Saharan African countries reached decision points in December 2000 and two more during the course of 2001, which more than doubled the number of countries in the region receiving debt service reduction, while two more countries reached completion points.[2] The timing was fortuitous insofar as it helped to relieve some of the pressure on current accounts.

Third, exchange rates fell across the region by an average of 15 percent in nominal terms or 8 percent in real terms,[3] reinforcing the adverse terms-of-trade shock, but boosting export competitiveness and helping to offset some of the impacts of commodity price weakness on commodity exporters. The real devaluation also implied a redistribution of income from

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importers to exporters. In the medium term the devaluations may prove inflationary, but at least for the time being a combination of lower food prices, depressed economic conditions, and tighter monetary management helped to contain inflation. Indeed, the median inflation rate fell from 6.1 percent to 5.4 percent in the year.

Finally, it is worth noting that although the slowdown was widespread, nearly a third of Sub-Saharan African countries achieved stronger growth. The best performer by a wide margin was Mozambique, where growth picked up from 2.1 percent in 2000 to 8.3 percent in 2001 as a result of agriculture's recovery from devastating floods in 2000 and a sharp rise in aluminum and electricity exports. But a number of other countries also showed gains, including Ethiopia and Uganda, where weather improved; Angola, Chad, and Cameroon, where there were major investments in energy sectors; Madagascar, which achieved strong export performance in textiles and tourism; and Sierra Leone, which enjoyed a down payment on a peace dividend.

Savings behavior and adjustment to the commodity cycle

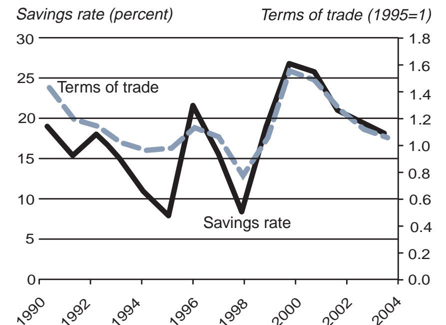
External developments negatively affected both oil and non-oil commodity exporters in 2001, though circumstances were very different for the two groups. For oil exporters, terms of trade deteriorated by 8.9 percent in 2001, but that gave back only a small portion of a massive 80 percent rise over the previous two years, and conditions remained relatively buoyant. Growth eased from 4.4 percent in 2000 to 4 percent in 2001 but remained strong, particularly in the nontraditional oil exporters, Equatorial Guinea and Sudan. Terms-of-trade gains of the magnitudes experienced over the past few years would be expected to give rise to substantial savings. This was the case as savings rates of the oil exporters tripled from 8.7 percent of GDP in 1998 to 27.2 percent in 2000 before falling marginally in 2001.[4] Roughly two-thirds of the savings increase took the form of a net accumulation of foreign assets, the rest took the form of a sharp rise in domestic investment, particularly in offshore oil and gas development. Oil rents accrued initially to the public sector before being transferred in large part to the private sector through subsidies and higher public spending.[5] Though data are not available to distinguish public and private savings, fiscal deficits narrowed from 8 percent of GDP in 1998 to 2.4 percent in 2000. Though oil prices remained relatively high in 2001, deficits again widened. Windfall savings, properly managed, afford a cushion against likely price reversals. But long experience and recent observation caution against fiscal expenditure booms followed by painful adjustment. The risk is particularly high for Nigeria in the run-up to elections in early 2003.

In contrast to oil producers, terms of trade for non-oil commodity exporters were little changed as falling oil prices on the import side offset some of the declines in export prices. Depressed commodity prices imposed severe hardship in many cases and pushed some countries to intervene by subsidizing farm prices, which had implications for budgetary spending. But overall macroeconomic adjustment was relatively limited. Terms of trade have fallen steadily since 1996, suggesting that there is little room for further dissaving.

Financial flows

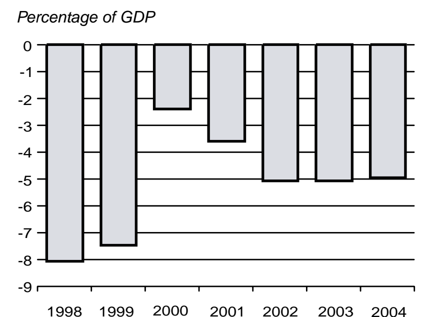
Official aid remained the main source of foreign resource inflows in 2001,

Terms of trade and savings rate in Sub-Saharan Africa oil exporters, 1990–2004



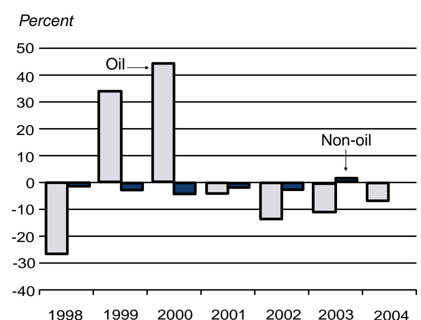
Source: World Bank Economic Policy and Prospects Group.

Oil exporters' fiscal balance, 1998–2004



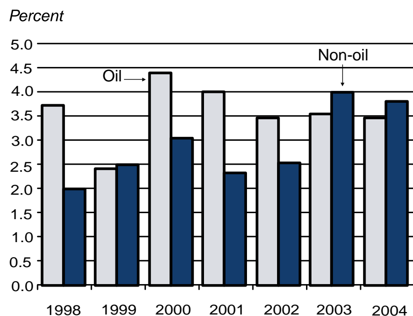
Source: World Bank Economic Policy and Prospects Group.

Rate of change in terms of trade for oil and non-oil exporters, 1998–2004



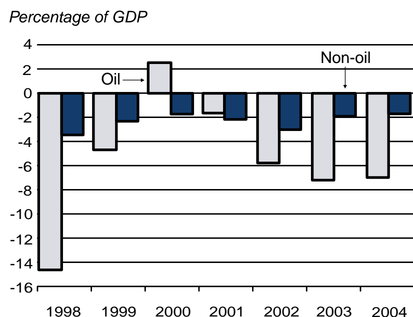
Source: World Bank Economic Policy and Prospects Group.

Gross domestic product growth of oil and non-oil exporters, 1998–2004



Source: World Bank Economic Policy and Prospects Group.

Current account balance of oil and non-oil exporters, 1998–2004



Source: World Bank Economic Policy and Prospects Group.

but worldwide, total official development assistance (ODA) declined from $39.5 billion to $37.5 billion and provisional estimates indicate that official flows to Sub-Saharan Africa declined proportionately. As noted, HIPC debt relief offered substantial benefits to some countries. For oil exporters, relatively strong current account positions helped to mitigate overall financing needs.

Foreign direct investment (FDI) appeared to jump sharply in 2001, nearly doubling to $13.7 billion from $6.8 billion in 2000. But almost all of the increase was to South Africa and reflected, in essence, a financial restructuring—the purchase of De Beers by Anglo-American—which shifted ownership of assets from South Africa to London without generating substantial new investment. Excluding the De Beers purchase, the figures show a decline from $6.6 billion in 2000 to $6.2 billion in 2001. Roughly 60 percent of this amount went to oil exporters, the largest recipient being Angola, which accounted for nearly 30 percent. Overall, a downward trend is evident, with energy-related FDI in particular expected to decline fairly sharply over the forecast period in light of lower prices.

Prospects and risks

The deep slowdown in the world economy and delayed recovery in industrial-country import demand will continue to depress commodity markets over the next 12 months. For Sub-Saharan Africa, the negative impact on exports and investment is expected to hold GDP growth to only 2.6 percent in 2002. In domestic economies, fixed capital formation will bear the brunt of the slow growth in expenditure—particularly in energy sectors, which will face weaker prices—while private and public consumption maintain a steadier pace. Near-term prospects are especially bleak in southern Africa because of political uncertainty in Zimbabwe, though it is hoped that the situation there will move toward resolution with the presidential election in March. In the outer years of the forecast, exports are expected to accelerate with the recovery in the world economy, raising GDP growth across the region to 3.6 percent.

External performance will be the prime driver of the regional economy over the forecast period. Overall, the forecast anticipates that merchandise exports will grow by just 2 percent in real terms in 2002. In value terms, large price declines are expected for oil exporters, more than offsetting small gains for the rest; as a result export earnings will fall by 2 percent. Demands for tourism and other services exports are also likely to remain subdued, reflecting security concerns and the weak outlook for the European economy. As the world recovery accelerates in the second half of 2002, exports should begin to pick up, setting the stage for more robust growth of around 6 percent in 2003–04. Though trade prices in general should strengthen as the world economy gains pace, the impact on commodity markets is likely to be more muted, which will keep Sub-Saharan Africa's terms of trade from recovering strongly before the end of the forecast period.

The situation for oil exporters will be most challenging. Because oil prices will not return to the recent high levels, terms of trade are likely to trend lower and the opportunity to compensate by increasing real exports will be limited. Thus, major adjustments will be required to keep current account deficits at sustainable levels, and these adjustments will depress domestic demand, especially investment and public expenditure. Growth in oil exporters is expected to average around 3.2 percent over the forecast period. For non-oil producers, commodity export

EMBARGOED UNTIL WEDNESDAY, MARCH 13, 1 P.M., EDT

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prices are expected to stabilize or even become slightly firmer in the outer years of the forecast, though a return even to the levels of the mid-1990s, let alone earlier times, seems unlikely. As the terms of trade stabilize or recover modestly, GDP growth should accelerate to near 4 percent, while current account deficits narrow slightly. While lower world commodity prices can only strengthen the impetus to diversify exports, African commodity producers should be competitive at the new, lower level of prices, especially with cheaper oil as an offset.

For the region's largest economy, South Africa, the slowdown is compounding the frustration with the slow pace of results from the government's promarket policy stance, though there is no credible alternative. Nigeria faces more severe challenges because of upcoming elections (in early 2003), lower social cohesion, and a deteriorating external environment. Nevertheless, for Nigeria, as for the region as a whole, policymakers will likely continue to be constrained by a growing acceptance of the need to improve macroeconomic management and maintain better relations with the International Monetary Fund. In Nigeria's case, that is especially true as debt relief on nearly $30 billion of external debt hangs in the balance.

Notes

1. Food and Agriculture Organization. 2001. "Food supply situation and crop prospects in Sub-Saharan Africa.".

2. Prior to December 2000, eight countries were at decision points: Benin, Burkina Faso, Cameroon, Mali, Mauritania, Mozambique, Senegal, and Tanzania; and Uganda was at a completion point. By December 2001, 17 countries were at decision points: Benin, Burkina Faso, Cameroon, Chad, Ethiopia, the

Sub-Saharan Africa forecast summary
(percent per year)

Growth rates/ratios	1991–2000	1999	2000	Estimate 2001	Baseline forecast 2002	2003	2004
Real GDP growth	2.2	2.4	3.1	2.6	2.6	3.6	3.6
Consumption per capita	–0.2	0.1	0.6	0.3	0.5	1.4	1.2
GDP per capita	–0.4	0.0	0.6	0.1	0.2	1.3	1.3
Population	2.6	2.4	2.5	2.4	2.4	2.3	2.3
Gross domestic investment/GDP[a]	16.8	17.5	18.0	18.5	18.4	18.1	17.9
Inflation[b]	9.7	5.2	6.1	5.4	4.5	4.2	4.1
Central government budget balance/GDP	–5.0	–3.0	–3.1	–3.6	–3.7	–3.4	–3.2
Export market growth[c]	7.0	6.4	10.8	1.1	2.2	7.3	6.8
Export volume[d]	4.3	3.5	5.6	1.8	2.2	5.5	5.8
Terms of trade/GDP[e]	0.0	1.4	2.3	–1.0	–1.2	0.5	–0.7
Current account/GDP	–2.2	–2.2	–0.6	–1.8	–2.4	–1.4	–1.4
Memo items							
GDP growth: excluding							
South Africa	2.7	2.8	3.1	3.0	2.9	4.0	4.0
Oil exporters	2.8	2.4	4.4	4.0	3.1	3.3	3.2
CFA countries	2.5	2.1	2.7	2.4	2.5	4.0	3.7

a. Fixed investment, measured in real terms.
b. Local currency GDP deflator, median.
c. Weighted average growth of import demand in export markets.
d. Goods and nonfactor services.
e. Change in terms of trade, measured as a proportion of GDP (percent).
Source: World Bank baseline forecast, February 2002.

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Gambia, Guinea, Guinea-Bissau, Madagascar, Malawi, Mali, Mauritania, Niger, Rwanda, São Tomé and Principe, Senegal, and Zambia; and three were at completion points: Uganda, Mozambique, and Tanzania.

3. Averages described in the remainder of this paragraph are calculated using GDP weights for 43 countries with data available. Note that median inflation (6 percent in 2001, see table) is substantially below mean inflation (13.5 percent in 2001) because of a few countries with very high inflation.

4. A rational response is to save transitory income fluctuations, and it is hard to imagine such a windfall would not be recognized as transitory. Both cross-country and case studies find typically 50 to 80 percent or more of major commodity windfalls are saved, at least initially. See, for example, Deaton and Miller 1996 and Collier and Gunning 2000.

5. Such as the 25 percent pay raise for Nigerian civil servants, announced for 2001, then temporarily delayed until 2002.

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