tensions remain, and the possibility of a deterioration in relations continues to present downside risks to growth outcomes and poverty reduction.

Sub-Saharan Africa

GDP in Sub-Saharan Africa grew by an estimated 3.2 percent in 2004, much faster than in the 1990s, but slower than almost everywhere else in the world. As a result, per capita incomes increased by only 1.1 percent in real terms, and rather than catching up, the region fell further behind both developed and other developing economies (table A6). Performance within the region was varied. Growth in oil-exporting countries was strong at 4.4 percent but was down substantially from the 7.9 percent pace recorded in 2003 as spare oilproduction capacity dried up. Nevertheless, high oil revenues helped fuel a 6 percent increase in personal consumption and investment demand in oil-exporting countries, factors that contributed to strong import demand and an overall negative contribution to growth from the external sector.

In South Africa, which accounts for almost 50 percent of area GDP, but only 11 percent of the population, growth continued to be dampened by the 40 percent effective appreciation of the rand (since 2002). As a result, exports were weak and imports strong so that despite robust domestic demand (up some 5 percent), GDP increased by only an estimated 2.7 percent. Most of the remaining countries in the region are oil-importers and are impoverished. These poor countries represent more than two-thirds of the population of the subcontinent but less than one-third of GDP; their output rose by an estimated 3 percent, up sharply from 1.7 percent in 2003. Strong agricultural and metal prices helped boost incomes in several countries and are reflected in a surge in consumption, investment activity, and imports. Overall, however, oil-importing Sub-Saharan countries suffered a 0.5 percent of

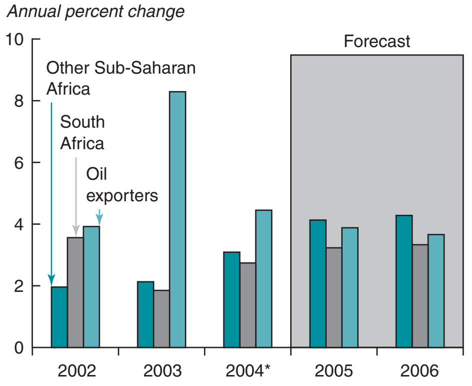
Table A6 Sub-Saharan Africa forecast summary

Annual percent change unless indicated otherwise

	1990–2000[a]	2002	Est. 2003	Forecast 2004	2005	2006	2006–15[a]
GDP at market prices (1995 dollars)[b]	2.3	3.1	3.0	3.2	3.6	3.7	3.5
GDP per capita (dollars)	−0.4	0.9	0.9	1.1	1.6	1.7	1.6
PPP GDP[c]	2.6	3.6	3.9	3.6	3.8	3.7	. . .
Private consumption	2.1	2.6	3.3	4.0	3.8	4.0	. . .
Public consumption	3.5	4.6	3.5	4.1	2.9	2.9	. . .
Fixed investment	3.4	5.3	7.3	7.2	5.0	5.0	. . .
Exports, GNFS[d]	5.1	0.0	2.3	2.0	6.5	6.4	. . .
Imports, GNFS[d]	5.8	3.5	5.3	6.9	6.6	6.4	. . .
Net exports, contribution to growth	−0.3	−1.3	−1.2	−1.9	−0.4	−0.4	. . .
Current account balance (% of GDP)	−1.6	0.4	−0.2	1.3	0.9	−0.3	. . .
GDP deflator (median)	12.8	5.9	4.2	4.1	4.0	4.0	. . .
Fiscal balance (% of GDP)	−4.4	−2.6	−2.7	−3.0	−2.9	−2.7	. . .
Memo items: GDP							
SSA excluding South Africa	2.9	2.7	4.3	3.6	4.0	4.0	. . .
Oil exporters	2.6	4.2	7.9	4.4	3.9	3.7	. . .
CFA countries	2.2	1.4	1.8	2.7	3.2	3.5	. . .

a. Growth rates over intervals are compound average; growth contributions, ratios, and the GDP deflator are averages.
b. GDP measured in constant 1995 dollars.
c. GDP measured at PPP exchange rates.
d. Exports and imports of goods and nonfactor services.
Source: World Bank.

Figure A11 Sub–Saharan Africa real GDP growth



Note: 2004 data is an estimate; 2005–2006 are forecasts.
Source: World Bank.

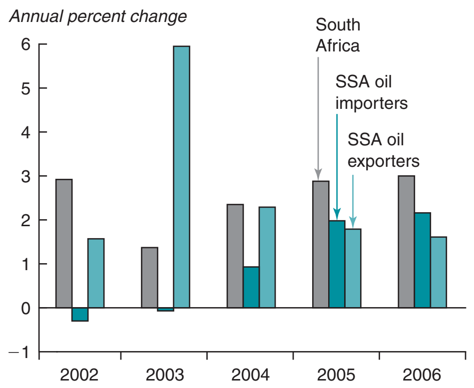
GDP terms of trade loss, as the negative income effect of elevated oil prices more than offset the positive effect of higher agricultural and metal prices (figure A11).

Political and natural developments continue to play a large role in the region. The strong increase in growth in Ethiopia (to 6.2 percent in 2004) owes much to improved weather conditions, although structural reforms have also played a role. Similarly, an end to the drought reinforced the upswing in Malawi and Rwanda. More stable political conditions in Burundi, the Central African Republic, and Madagascar have improved investment prospects and consumer confidence, allowing normal economic activity and growth to resume. Reduced tensions in the Democratic Republic of Congo have contributed to a better economic performance there, although in some parts of the country, insecurity continues to prevent economic development. Insecurity and political uncertainty are also impeding economic progress in Côte d'Ivoire and Zimbabwe.

Sub-Saharan Africa GDP growth is projected to accelerate in 2005 and 2006, rising to 3.7 percent by 2006. The easing of oil prices and tight capacity constraints are expected to force a slowing in the pace of output among oil exporters. Nevertheless, given still high incomes and robust domestic demand, their annual growth should exceed 3.5 percent. As the effects of the depreciation wane, growth in South Africa should accelerate, reaching 3.3 percent in 2006. Partly in response to stronger South African growth, activity in other oil-importing countries is also projected to accelerate somewhat, reaching 4.3 percent in 2006. While the difference in growth rates from 2004 is small (1.3 percentage points), it represents a doubling in the rate of increase of real per capita incomes, or a doubling in the speed of poverty reduction (figure A12). Overall inflation is expected to remain broadly stable. The easing of oil prices should improve the current account position of oil importers and reduce the surplus among exporters.

The pace and fragility of growth in the region remains a serious challenge. While potential growth rates in the Sub-Saharan Region have increased markedly since the 1980s and 1990s, the economies of the region remain vulnerable to bad weather, disease, and political turmoil. Such disruptions form an important and regular feature in the economic life of countries in the region. In such an environment, especially given the highly indebted nature of some of these countries, budgetary

Figure A12 Per capita GDP growth



Source: World Bank.

policy should be based on prudent macroeconomic assumptions. Allowing for such contingencies in budgetary plans would not only help prevent disruptive swings in program spending, it would also help prevent spending from following a pro-cyclical path.

In the long run, per capita GDP is projected to grow by about 1.6 percent per annum, in contrast to the falling incomes that characterized the 1980s and 1990s. Sadly, even such sustained and historically strong growth represents barely half of what is needed to meet the region's Millennium Development Goals by 2015. Moreover, the rest of the developing world is projected to grow more quickly. As a result, notwithstanding an expectation of significant improvements in living standards, Sub-Saharan Africa can be expected to continue falling behind rather than catching up.

Recent improvements in economic performance reflect significant progress in terms of macroeconomic management and development of social and physical infrastructure within the region. In this regard, the highly indebted poor country initiative should help free up resources, which, if directed toward such policies, could help improve prospects for these countries. However, further progress in implementing reforms will be essential if the region is to reach or exceed this projected growth performance, especially given the formidable obstacles faced by the region: a pattern of disruptive civil strife, repeated natural disasters, the limited quantity and quality of infrastructure and human capital, and especially the HIV/AIDS epidemic. In the past, these have been major factors underlying poor performance. Per capita income levels fell substantially in conflict zones during the 1980s and 1990s, while HIV/AIDS has ravaged the population of many African countries. And high mortality and invalidity rates among working-age adults are important factors holding back growth.

Notes

1. A $10/bbl rise in crude oil price is estimated to increase net oil revenues in the geographic region by $60 billion. For oil exporters this amounts to 8.7 percent of 2004 GDP; for the region's net oil importers, the same price hike increases their oil import bill by $1.1 billion or 1.2 percent of GDP.

2. This price refers to an unweighted average of the prices of West Texas Intermediate, Brent, and Dubai crude oils.

3. See the MENA Development Report series, which examines topics of importance to the region: trade and investment, governance, gender, and employment (World Bank 2003).