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Chapter one Overview of the Economic Situation and the Role of the Bank

Overview of the Economic Situation and Outlook
The Role of the Bank

This chapter provides an economic overview of Africa during 2010 and the short-term outlook. It outlines progress on the implementation of the Medium-Term Strategy (2008–2012) and highlights some of the Bank’s major achievements to date. These include: its swiftness and flexibility in responding to the fuel, food, and financial crises; the institution’s role in representing a unified voice for Africa in G-20 deliberations; and the new resources mobilized under the GCI-VI and the ADF-12 for the continent’s growth and development. The chapter also highlights some of the emerging socioeconomic and political risks and their potential impacts for the future.

OVERVIEW OF THE ECONOMIC SITUATION AND OUTLOOK

Africa’s recovery from the global economic and financial crisis is now well underway. Real GDP growth rose from 3.1 percent in 2009 at the height of the financial crisis, to a level of 4.9 percent in 2010. It is projected to fall to 3.7 percent in 2011 as a result of the emerging sociopolitical unrest in some RMCs, before recovering to 5.8 percent in 2012 (see Table 1.1).

The observed GDP growth in 2010 has been driven by higher domestic demand, stronger export revenues, and increased inflows of foreign direct investment,

remittances, and aid. The growth performance is most pronounced in resource-rich countries that can benefit from the revival in commodity demand, oil and non-oil commodity prices, and trade. Oil-exporting countries, such as Nigeria, are expected to experience economic expansion with GDP growth of around 6.9 percent in 2011, but with a moderate decline to 6.7 percent in 2012. Some non-oil commodity exporters, such as Zambia and Botswana, are also likely to show strong growth of about 6.5 and up to 7.0 percent in 2011 and 2012 respectively, as gains from high export prices and volumes offset losses from higher oil and food import bills.

Inflation in Africa reduced from 10 percent in 2009 to an estimated 7.7 percent in 2010. Forecasts indicate a rise to 8.4 percent in 2011 before improving to 7.4 percent in 2012. Inflation may, however, worsen if food and fuel prices continue their recent hikes.

As a result of the economic recovery and prudent fiscal policies, Africa’s fiscal deficit of 5.2 percent of GDP in 2009 narrowed to 3.3 percent in 2010. This is expected to widen to 3.9 percent in 2011 as a result of the sociopolitical environment, before improving to 3.2 percent in 2012. However, several oil-importing countries, such as Kenya and Senegal, will continue to record

Table 1.1
Africa: Macroeconomic Indicators, 1990–2012

Indicators	1990	2000	2007	2008	2009	2010	2011	2012
Real GDP Growth Rate (%)	3.1	4.3	6.5	5.5	3.1	4.9	3.7	5.8
GDP Per Capita (US\$)	746	726	1,379	1,573	1,452	1,668	1,748	1,871
Inflation (%)	14.4	9.1	6.8	10.4	10.0	7.7	8.4	7.4
Fiscal Balance (% of GDP)	-5.4	0.2	1.9	2.8	-5.2	-3.3	-3.9	-3.2
Gross Domestic Investment (% of GDP)	20.6	18.8	23.8	25.2	25.7	24.6	24.7	24.8
Gross National Savings (% of GDP)	20.7	22.2	28.6	29.4	24.5	25.4	24.6	24.7
Real Export Growth (%)	10.1	7.9	6.6	0.9	-5.6	1.6	5.4	5.1
Trade Balance (% of GDP)	1.5	5.5	6.5	7.4	0.3	2.8	2.6	2.6
Current Account (% of GDP)	-1.0	3.2	4.4	4.1	-1.6	0.4	-0.2	0.2
Terms of Trade (%)	7.8	16.3	1.4	10.8	-15.0	11.3	1.2	1.3
Total External Debt (% of GDP)	56.5	54.4	23.8	21.1	23.6	20.2	20.3	20.2
Debt Service (% of Exports)	34.9	25.8	12.8	11.0	14.7	12.6	10.5	11.7
Net total ODA (US\$ Billion)	25.0	15.3	38.9	43.4	47.0
Foreign Direct Investment Inflows (US\$ Billion)	2.8	9.8	63.1	72.2	58.6

Source: AfDB Statistics Department, UNCTAD and IMF.

Note:

.. Data not available

high budget deficits in the short term. For example, forecasts for Kenya's fiscal balance indicate deficits of 6.8 and 7.1 percent in 2011 and 2012 respectively, while Senegal's deficit is also projected to widen to 6.9 percent in 2011, before narrowing to 6.3 percent in 2012. These deficits could deteriorate further where governments are responding to higher food and oil prices by increasing subsidies. Overall, Africa's current account balance improved from a deficit of 1.6 percent of GDP in 2009 to a surplus of 0.4 percent in 2010. However, this surplus is projected to turn to a deficit of 0.2 percent in 2011, before improving to a surplus of 0.2 percent in 2012.

Trade and current accounts have improved in resource-rich countries due to the rebound in commodity prices and rising export volumes. At the same time, higher oil and food import bills are contributing to a worsening of external balances in resource-poor countries, and food security in these countries could become a major problem. While oil-exporting countries tend to run current account surpluses, oil-importers tend to post deficits.

Table 1.1 provides a summary of the macroeconomic indicators and outlook for the continent over the period 1990–2012. A more detailed analysis of the macroeconomic situation and prospects for Africa is presented in the Bank's *African Economic Outlook 2011*.

Subregional Macroeconomic Indicators, 2010

All the five subregions in Africa achieved higher growth in 2010, averaging 4.9 percent, compared to 3.1 percent in 2009. Nonetheless, the recession has undoubtedly left its mark and for most African economies, growth has yet to return to pre-crisis levels. The economies that are most open to trade (e.g., commodity exporters), which slowed markedly in 2009, benefited from revived commodity prices and trade in 2010, and recorded a relatively sharp V-shaped recovery. The rebound in several low-income countries and fragile states was more muted. Overall, more than half the African economies grew at a lower rate in 2010 than during the period 2001–2008.

Over the course of the year, Africa's economic performance varied considerably across subregions and countries (see Table 1.2). The West Africa and East Africa subregions recorded the highest real GDP growth rates of 6.7 and 6.2 percent respectively in 2010. This mirrored a similar growth performance to 2009, when East Africa's GDP growth was 5.7 percent, and West Africa's was 5.6 percent. These two subregions represent the fastest-growing groupings of countries on the continent. North Africa and Central Africa posted real GDP growth rates of 4.6 and 4.7 percent respectively. The lowest real GDP growth in 2010 was recorded for the Southern Africa subregion, at 3.3 percent. However, this masks the fact that the subregion experienced the strongest rebound of 3.8 percent in its real GDP growth rate between 2009 and 2010 (from a negative growth rate of 0.5 percent in 2009).

Consumer price inflation remained in single digits in four of the five subregions for the year under review. The exception was West Africa, where it increased marginally from 10.3 percent in 2009 to 10.4 percent in 2010. Significant decreases were

Table 1.2
Subregional Macroeconomic Indicators, 2010

Indicators	East Africa	North Africa	Southern Africa	West Africa	Central Africa	Africa
Real GDP Growth Rate (%)	6.2	4.6	3.3	6.7	4.7	4.9
GDP Per Capita (US\$)	657	3,421	3,314	1,049	777	1,668
Inflation (%)	9.3	7.1	6.4	10.4	5.5	7.7
Fiscal Balance (% of GDP)	-3.3	-2.4	-3.3	-6.1	0.5	-3.3
Gross Domestic Investment (% of GDP)	22.6	31.2	18.2	23.6	27.6	24.6
Gross National Savings (% of GDP)	16.3	31.8	17.8	32.9	19.8	25.4
Real Export Growth (%)	1.4	0.2	5.1	-1.9	2.1	1.6
Trade Balance (% of GDP)	-10.8	-2.5	4.5	13.5	17.8	2.8
Current Account (% of GDP)	-8.3	3.2	-3.1	7.0	-3.1	0.4
Terms of Trade (%)	14.5	13.2	6.7	11.6	16.4	11.3
Total External Debt (% of GDP)	35.1	14.6	24.9	15.4	15.3	20.2
Debt Service (% of Exports)	4.9	9.7	25.1	4.3	5.1	12.6

Source: AfDB Statistics Department, UNCTAD and IMF.

recorded over the same timeframe in East Africa (from 16.7 percent to 9.3 percent) and in Central Africa (from 10.0 percent to 5.5 percent). In terms of fiscal balance, Central Africa was the only subregion that achieved a surplus (0.5 percent) in 2010, while the others recorded deficits.

The current account position improved in all subregions except East Africa, over the period 2009–2010; however, only two subregions recorded surpluses. West Africa's surplus improved from 6.4 percent to 7.0 percent, while North Africa's improved from 0.1 percent to 3.2 percent. Two subregions continued to record deficits but at a reduced level. In Central Africa the deficit narrowed from 6.0 percent to 3.1 percent, while in Southern Africa it reduced from 5.7 percent to 3.1 percent during the same timeframe. For East Africa, however, the deficit widened from 7.4 percent in 2009 to 8.3 percent in 2010.

Risks to the Socioeconomic Outlook

Major risks to the African economic outlook are emerging. These relate to the drivers of global recovery and to the demand for minerals and hydrocarbons, as well as the state of the world food market. While grain prices are still below their historic peaks, the recent rises in food and fuel prices give cause for concern. Furthermore, food price hikes and the economic slowdown in low-income countries could impose extreme hardship on already vulnerable populations, which could trigger or exacerbate sociopolitical unrest, thus further curtailing economic growth.

The recent political upheavals in the last quarter of 2010, which spilled over to 2011, in countries such as Côte d'Ivoire, Tunisia, Egypt, and Libya, are likely to slow the economic growth not only of these economies, but also of neighboring countries. In particular, if the crisis in Côte d'Ivoire deepens, it is likely to have regional repercussions, especially for countries like Burkina Faso, Mali, and Niger – through financial transfers, investment, trade, and foreign

exchange reserves of the Central Bank of West African States (BCEAO). Similarly, the emerging political changes in North Africa are generating the so-called “domino effect,” with the unrest spreading widely to engulf other states in the subregion.

These major events in West and North Africa may lead to production losses, the undermining of investor confidence, and a severe contraction in tourism, which is a major revenue earner for countries like Tunisia and Egypt. The severity and longevity of the resulting slowdown will, to a large extent, depend on how quickly the political situation stabilizes, and how long it takes for investor confidence to return, along with the inflow of tourists. These countries also face budgetary pressures and growing social demands, for example, to create employment opportunities for the youth and to improve living standards of the poor, all of which will require the Bank's targeted support.

There is, therefore, a need for the Bank and development partners to support the governments involved in these crises to accelerate the process of economic recovery and to create jobs and opportunities, particularly for the urban youth and college graduates. The priority areas for Bank support could include: fast-disbursing budget support programs to tackle the social problems related to youth unemployment; to assist the poorest population in the least favored regions of the country; as well as to support governance reforms in the form of increased transparency, democratic elections, and anticorruption policies. More importantly, greater attention should be paid to the issues of social inclusion, such as the establishment of social safety-nets for the most vulnerable segments of the population.

THE ROLE OF THE BANK

The Bank's Operational Core Areas. The Bank Group's operational focus is guided by its Medium-Term Strategy (MTS), 2008–2012. The launch of the MTS in

2008 coincided with the onset of the fuel, food, and financial crises. The Bank displayed swiftness and flexibility in responding to the evolving needs of its clients during this period. It frontloaded resources, restructured its loan portfolio, and offered fast-disbursing instruments to help RMCs cope with the short-term effects and to reduce the longer-term impacts. Total Bank Group lending amounted to UA 8.06 billion in 2009, an increase of 160.3 percent over that of 2007, and far higher than originally planned, prior to the onset of the crises.

Between 2008 and 2010, the Bank's total investment in the MTS core priority areas of infrastructure, private sector development, governance, and higher education, technology, and vocational training, amounted to 88.4 percent of the Bank's total commitments. Of the total investments in the core areas, sovereign infrastructure operations accounted for 51.3 percent; private sector, 25.0 percent; and governance, about 22.0 percent. This broadly aligns to the operational selectivity outlined in the MTS. However, approvals for higher education, science and technology (HEST) were less than 2.0 percent of total lending. While this is a new area of intervention for the Bank, nonetheless this needs to be urgently addressed, given the importance of HEST to bolster Africa's competitiveness.

Bank resources leveraged additional funding with its strategic partners during 2008–2010. Cofinancing accelerated, reaching UA 19.16 billion in 2009, with the Bank contributing 20.3 percent. However, in 2010 total cofinancing decreased to UA 8.41 billion, with the Bank contributing 15.2 percent.

The rapid expansion of private sector operations, including in low-income countries, has been a significant characteristic of the Bank's activities since 2008. A review of the Bank's policy for Private Sector Development is underway, and will help fine-tune interventions for the short term. Work continues in fragile states,

with Bank Group support proving crucial to countries' economic and social stability. Investments in regional operations constituted 14.0 percent of total Bank Group lending during the 2008-2010 period, in accordance with the MTS.

A Voice for Africa. During 2008–2010, the Bank took the initiative of bringing together African Finance Ministers and Central Bank Governors to consider Africa's response to the crises, to provide advice to African Heads of State and Government, and to input African perspectives into the G-20 discussions. The resulting Committee of Ten (C10) continues to meet regularly to discuss economic priorities for Africa and strategies for the continent's engagement with the rest of the world.

Knowledge Development and Management. The Bank has stepped up its role in knowledge development and management, and in disseminating the results of its research as widely as possible. Its flagship publications rank among the leading sources of information on African development, eliciting broad collaboration from, among others, the OECD, the World Bank, and the World Economic Forum. The African Economic Conference, organized jointly by the Bank and ECA, is now a major international forum for African development.

The “One Bank” Framework and Institutional Reforms. As the global financial crisis emerged in late 2008, it soon became apparent that the demand for Bank resources exceeded available funds. Coincident with the increase in lending operations, negotiations for a General Capital Increase began, concluding in mid-2010 with a 200 percent increase in the GCI-VI. Concurrently, ADF-12 Replenishment consultations were taking place, which concluded in September 2010 with an agreement to increase the level by 10.6 percent over the ADF-11 level. The simultaneity of the two exercises, the GCI-VI and the ADF-12, highlights the interdependence of the Bank's two main windows and the importance of the “One Bank” concept.

Turning to its corporate agenda, during 2008–2010, the Bank Group implemented a number of institutional reforms and policies and undertook a fine-tuning of its management structure. More progress is now required, in particular, to deepen decentralization and to tailor it to particular country circumstances. The move toward a policy- and outcomes-based approach, rather than instrument-led, has important implications for Bank Group policies and operations, which will be addressed over the next few years. Country Strategy Papers (CSPs) are becoming more formalized, and will be adjusted further to ensure the main-

streaming of private sector operations. The introduction of the new Regional Integration Strategy Papers (RISPs) reinforce selectivity and prioritization.

The Way Ahead. Current events in some RMCs underline the challenges of development for Africa and the Bank. The process of adjustment to changing circumstances and to new demands will require the Bank to show the same flexibility and responsiveness going forward as it has done in the past. Now that the global financial crisis has receded, the Bank needs to refocus on its core business of addressing the structural bottlenecks to Africa's economic growth. These include: the massive infrastructure deficit; shallow and fragmented markets (due to limited integration); the paucity of skills needed to build a competitive economy; weak institutions and poor governance; building capable states; promoting private sector development; economic diversification; and the long-term challenges of climate change and energy generation. The Bank has a role to play in further integrating climate change mitigation measures into its interventions, and mainstreaming action, in collaboration with its development partners. In this respect, the Bank has been asked by African leaders to host a “Green Fund for Africa,” to mobilize resources for renewable energy projects across the continent.

