Sub-Saharan Africa Region

Overview: GDP growth in Sub-Saharan African remained robust at 4.6% in 2012, notwithstanding the slowdown in the global economy. Indeed, excluding the region's largest and most globally integrated economy, South Africa, GDP growth in the region was at strong 5.8% in 2012, with a third of countries in the region growing by at least 6%. Robust domestic demand, steady remittance flows, still high commodity prices, and increased export volumes (thanks to increased investment flows to the natural resource sector in recent years) were supportive of the region's growth in 2012. Nonetheless, besides the drag from a weaker global economy, domestic factors, including earlier monetary policy tightening (Kenya and Uganda), protracted labor disputes (South Africa), and political unrests (Mali and Guinea Bissau) weakened growth in a number of countries in the region.

Economic activity was similarly diverse in the region. Reflecting still high commodity prices and relatively robust growth prospects in the region, net private capital flows to the region increased by 3.3 percent to a record high $54.5 billion in 2012. Much of the increase in net capital flows came in the form of increased foreign direct investment flows to the region, which increased to $37.7 billion in 2012 from $35.7 billion in 2011, notwithstanding the 6.6 percent decline in foreign direct investment flows to developing countries in 2012. Exports grew strongly in the first half of the year; however, a sharp deceleration of industrial commodities and oil exports occurred in the third quarter. Tourism, an important driver of growth in the region, remained robust, with strong tourist arrivals in many of the popular destinations, including South Africa, Mauritius, Sierra Leone, Madagascar and Cape Verde.

Outlook: Medium-term growth prospects remain strong and should be supported by a pick -up in the global economy, still high commodity prices, and increased investment. Since 2000, investment in the region has increased steadily from 15.9 percent of GDP to over 22 percent of GDP in 2012. This is expected to continue, particularly so as an increasing number of the region's economies are able to tap into international capital markets to help address binding infrastructural constraints (in 2012 Zambia issued its debut international bond, a $750 million Euro bond, which was oversubscribed by 15 times). Further, the ongoing increase in export volumes from several countries that have discovered mineral deposits in recent years (Ghana, Kenya, Mozambique, Niger, Sierra Leone, Tanzania, and Uganda) should boost growth prospects. Overall, the region is projected to grow at its pre-crisis average rate of 5 percent over the 2013-15 period (4.9 percent in 2013, gradually strengthening to 5.2 percent in 2015). Excluding, South Africa, the region's growth will average 6% over the 2013-15 period.

Risks and vulnerabilities: Risks to the outlook remain tilted to the downside, as weaker growth in China, ongoing fiscal consolidation in the Euro Area and the United States could potentially derail the region's growth prospects. Further, a number of domestic concerns could be a drag on growth in the region.

Euro Area debt crisis. Although the worst appears to be over, should a credit crunch hit some of the larger troubled Euro Area economies, GDP growth in the region could decline by one percentage point.

Weak US economy. Fiscal policy paralysis in the US could curtail growth in the region by at least 0.9 percentage points in the 2013.

China investment. With Chinese demand accounting for some 50 percent of many industrial metals exported from Africa, a disorderly unwinding of China's high investment rate could lead to deteriorating current account and fiscal balances, and cut into the region's growth prospects.

Domestic factors. Political instability, protracted industrial disputes and adverse weather conditions could also undermine growth in a few countries in the region.

Introduction

Despite the global economic slowdown in 2012, growth in Sub-Saharan Africa has remained robust, supported by resilient domestic demand and still relatively high commodity prices. In 2012 the region's growth is estimated at 4.6 percent (figure SSA.1). About a third of countries in the region grew by at least 6% (figure SSA.2). Excluding South Africa, the region's largest economy, the remaining economies grew at a robust 5.8 percent – higher than the developing country average of 5.1 percent. Medium-term growth prospects remain strong and should be supported by a pick-up in the global economy, still high commodity prices, and investment in the productive capacity of the region's economies. The ongoing increase in export volumes from several countries in the region (Mozambique, Niger, Sierra Leone, etc.) that have discovered mineral deposits in recent years should boost growth prospects.

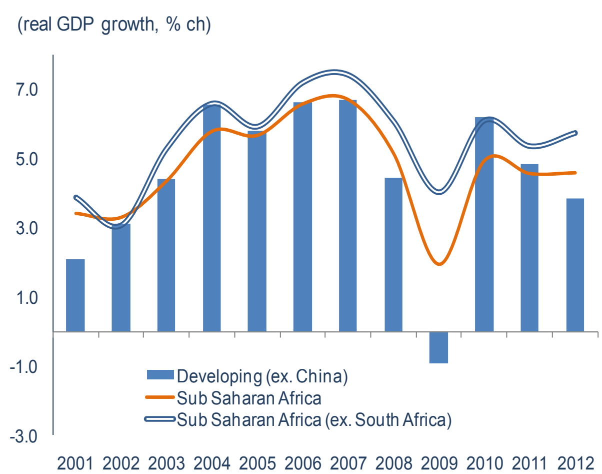
Overall, the region is projected to grow at it's pre-crisis average rate of 5.0 percent over the 2013-15 period: 4.9 percent in 2013, and gradually strengthening to 5.2 percent by 2015. Risks to the outlook remain tilted to the downside, as the global economy remains fragile, and weaker growth in China, ongoing fiscal consolidation in the Euro Area and the United States could potentially derail the region's growth prospects. Besides external risks, domestic concerns such as political instability, protracted industrial disputes and adverse weather conditions could undermine growth in a few countries in the region.

Recent developments

Capital flows to Sub Saharan Africa held up in 2012, despite slowdown in global economy. Uncertainty in financial markets, banking sector deleveraging in the Euro Area and a subdued global economy weakened capital flows to developing countries by an estimated 8.6 percent in 2012. Reflecting still high commodity prices and relatively robust growth prospects in the region, net private capital flows to the region increased by 3.3 percent to a record high $54.5 billion in 2012 (table SSA.1). Much of the increase in net capital flows came in the form of increased foreign direct investment, however, the de-escalation of market tensions following policy interventions by European authorities and ultra-loose monetary policy in other high-income countries also supported an increase in bond flows to the region with the bulk of the increase coming from two new international sovereign bond issuers – Angola and Zambia.

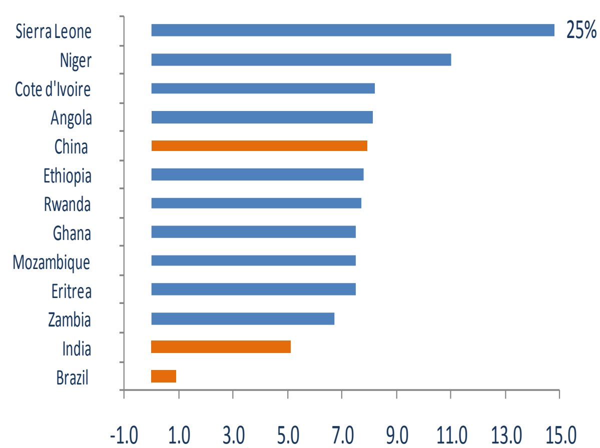
Aggregate foreign direct investment inflows increased by 5.5 percent in 2012, although for developing countries as an aggregate it fell by

Figure SSA.1 Sub-Saharan Africa continues robust growth



Source: World Bank

Figure SSA.2 Fastest growing Sub-Saharan Africa economies in 2012



Source: World Bank

6.6 percent. Foreign direct investment flows to the region increased to $37.7 billion in 2012 from $35.7 billion in 2011 (figure SSA.3). The resilience of foreign direct investment flows in the region in 2012 reflects, inter alia, the longer time horizon of investment decisions in the extractive industries sector (which in value terms accounts for the bulk of investment to the region), and is therefore less sensitive to short-term shifts in market sentiment. Investment incentives remain elevated due to still high level of commodity prices in 2012 (even if lower than 2011), the wealth of natural resources across the region, and the relatively high rates of returns on investment in sub Saharan Africa.[FN1] In 2012, several mines were expanded or new ones built across countries in the region, prospecting yielded major gas discoveries along the east coast of Africa, new commercially viable oil wells were drilled in West Africa and East Africa and a number of countries across West, Central and Southern Africa found new mineral deposits.[FN2]

While the extractive industry sector dominates in terms of the value of overall foreign direct investment flows, the relative importance of the primary sector in greenfield investments is declining (although project numbers are stable), reflecting increasing investments in the services sector, notably among infrastructure related projects in construction, transportation, electricity, telecommunication and water.[FN3] This should help alleviate some of the binding constraints to growth that many countries in the region face. In addition, some of the larger economies with a growing middle-class such as Nigeria, South Africa, Angola, Kenya, and Ghana, are increasingly attracting investment flows to their rapidly expanding consumer sector (e.g. retail, consumer banking etc).

Consumer spending most likely held up in 2012. Consumer spending accounting for over 60 percent of GDP in the region and is, therefore, an important determinant of overall growth. Consumer demand has grown relatively rapidly in recent years, supported by solid real incomes growth. Indeed, over the past decade real per capita incomes rose by an average of 2.3 percent annually. As a result, as of 2012 some 21 Sub Saharan African countries (almost half) are classified as middle-income economies compared to only nine a decade ago.

Unfortunately comprehensive data on retail spending, consumer demand and sentiment is unavailable in most countries in the region. Where data do exist, they suggest that consumer demand was robust in 2012. In South Africa,

Table SSA.1 Net capital flows to Sub-Saharan Africa ($ billions)

	2008	2009	2010	2011	2012e	2013f	2014f	2015f
Capital Inflows	43.4	47.0	61.1	64.2	65.0	68.3	76.2	86.1
Private inflows, net	38.4	37.1	47.8	52.7	54.5	58.8	68.9	81.0
Equity Inflows, net	33.4	43.2	42.7	44.1	47.4	53.7	61.3	69.0
Net FDI inflows	39.1	32.5	26.7	35.7	37.7	42.4	48.7	55.6
Net portfolio equity inflows	-5.7	10.7	16.0	8.4	9.7	11.3	12.6	13.4
Private creditors. Net	5.0	-6.2	5.1	8.6	7.1	5.1	7.6	12.0
Bonds	-1.6	2.0	1.4	6.0	7.0	5.0	5.0	7.0
Banks	2.3	0.5	0.5	3.1	0.9	1.2	1.8	2.9
Short-term debt flows	4.4	-9.5	2.8	-0.5	-0.9	-1.2	0.6	1.2
Other private	-0.1	0.8	0.5	-0.05	0.1	0.1	0.2	0.9
Official inflows, net	5.0	9.9	13.3	11.4	10.5	9.5	7.3	5.1
World Bank	1.9	3.1	4.0	3.2	3.3			
IMF	0.7	2.2	1.2	1.4	1.3			
Other official	2.4	4.6	8.2	6.8	5.9			

Note: e = estimate, f = forecast

e = estimate, f = forecast

/a Combination of errors and omissions, unidentifed capital inflows to and outflows from developing countries.

Source: World Bank

record low interest rates and solid wage hikes contributed to a 4.9 percent (y/y) increase in retail sales volumes during the first eight months of 2012. Similarly, in the region's second largest economy, Nigeria, wholesale and retail sales volume were up 8.5 percent for the first half of 2012.

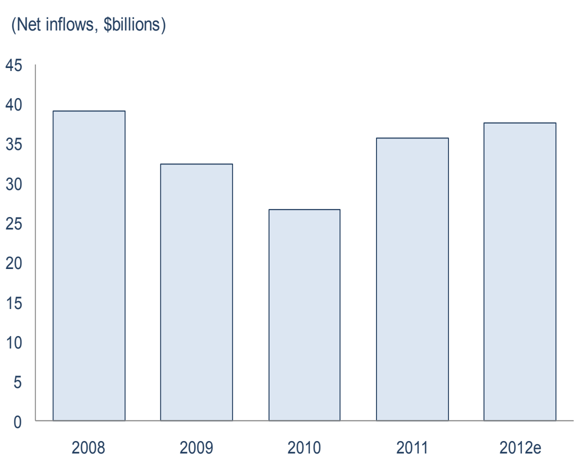
For countries where high-frequency retail sales data does not exist, data on specific products can be used to gauge the strength of consumer spending. In Kenya, a 14 percent decline in motor vehicle registration in the first eight months of 2012 suggests that consumer spending on durables was weak. However, passenger car imports for the broader region suggest some strength, with car imports up 6.1 percent (y/y, values) for H1 2012 compared with a 1.2 percent rise globally (figure SSA.4).

Stronger consumer spending was supported by improved access to credit (e.g. South Africa, Angola, Ghana, Mozambique, and Zambia), declining inflation rates and lower interest rates, a rebound in agricultural sector incomes thanks to more favorable weather conditions (Niger, Guinea and Mauritania all experienced better rains compared with the 2010/2011 crop year), and the steadiness of remittance flows (estimated at $31bn in 2012 and 2011). In contrast, higher interest rates earlier in the year for Uganda and Kenya and political unrest in Guinea Bissau contributed to the decline in passenger car imports there.

Overall, although data are sparse available indicators suggest that consumer strength held up in most countries, except where monetary stance was tight, political instability disrupted economic activity and adverse weather cut into agricultural sector incomes.

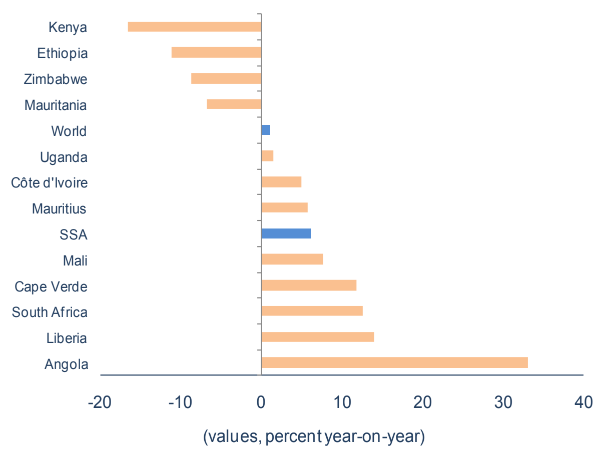
With a few notable exceptions, central banks in the region reacted to weakening inflation pressures and slower growth by easing monetary policy. Inflation rates declined in the region, from a GDP-weighted average of 9.5 percent in January to 7.7 percent in September. This in addition to the weak global environment sparked many central banks in the region to cut policy rates, supporting credit flow to the real economy (particularly business spending as firms account for a higher share of private credit demand in most Sub Saharan African countries). Interest rate cuts outnumbered hikes by 3:1 in in 2012 (figure SSA.5). Kenya and Uganda were among the most aggressive to cut policy rates. However credit growth in these two economies remained constrained for the greater part of 2012 – partly because of lags in the transmission of monetary policy and because interest rates though declining remained high (between 11-23 percentage points). Interest rates were however hiked in economies where inflation was creeping

Figure SSA.3 Foreign direct investment flows to Sub Saharan Africa held-up in 2012, despite weaker global economic environment



Source: World Bank.

Figure SSA.4 Growth in passenger car imports in selected Sub-Saharan Africa economies (1st half 2012)



Sources: UNITC , Comtrade and World Bank.

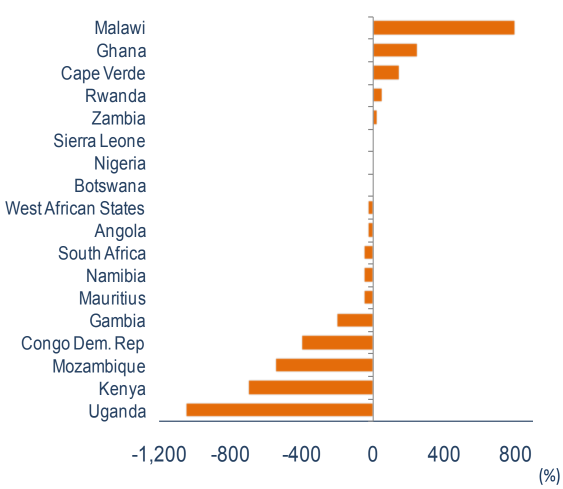
up (Ghana) and or faced some current account challenges (Cape-Verde).

Fiscal balances deteriorated in 2012. Although very difficult to evaluate with precision, World Bank estimates of the level of potential output in Sub-Saharan economies suggests that demand levels in more than half were close to or above potential in 2012 – despite the slowing of growth (figure SSA.6). In other countries, estimated output gaps (the difference between demand levels and actual output) are relatively small – exceeding 2 percent in only 9 countries in the region (figure).

Overall real government spending is projected to grow about 0.6 percentage points higher than GDP in 2012 and the region's general government balance is projected to deteriorate in 2012. Debt-to-GDP ratios in the region are relatively low in historical comparisons or as compared with high-income countries, nonetheless they have increased from 28.9 percent in 2008 to 33.1 percent in 2012.

While government spending has been appropriately prioritizing infrastructure projects that are likely to contribute to the countries future growth potential, care must be exercised to ensure the long-term sustainability of spending programs. In particular, in so far as high commodity prices have boosted

Figure SSA.5 Year-to-date changes to policy rates in Sub-Saharan Africa countries



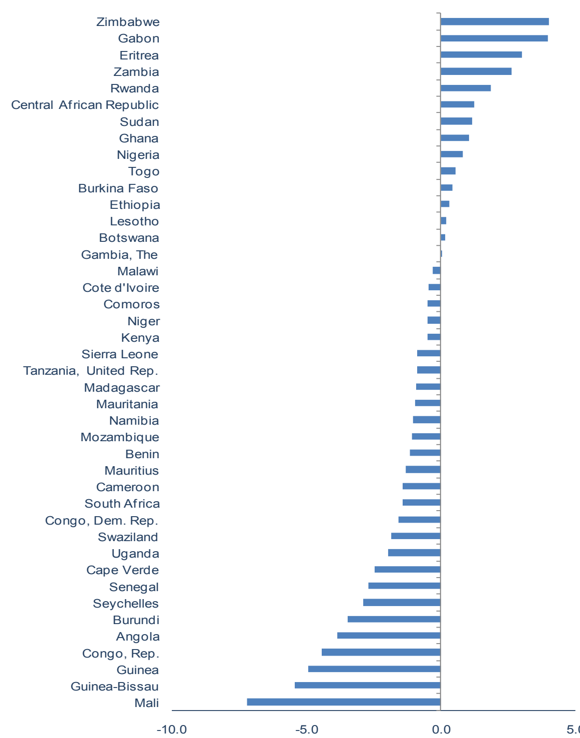
Source: World Bank and Central Bank news info

government revenues in many Sub-Saharan African countries, spending needs to be sufficiently flexible as to be able to absorb what could be a significant revenue loss if commodity prices were to fall. World Bank simulations suggest a 20 percent fall in industrial commodity prices would lead to a further 1.6 percentage point decline in government balances over a three year period.

That said, markets appear to be confident in the ability of countries and of firms operating in the region to repay loans. Increasingly, countries in the region are issuing longer-term bonds (both domestic and foreign) and attracting financing from larger developing countries, notably China. And this borrowing is helping to bridge what the World Bank estimates to be a $31 billion annual infrastructure financing deficit. For the more fragile economies in the region, public capital investments rely heavily on official development assistance (ODA)

While only a few countries are active in international bond markets, more are gaining

Figure SSA.6 Estimated output GAP for 2012



Source: World Bank.

access. For example Zambia issued a maiden 10-year $750 million Euro bond at a 5,625 percent yield - - lower than yields in some high-spread Euro Area economies at the time - that was oversubscribed. As such it joined Ghana, Senegal, Nigeria, Namibia -- all of which accessed global bond markets for the first time in recent years. Further, the inclusion of South Africa to the Citi World Government Bond Index (WGBI) and Nigeria to the JP Morgan Emerging Market Global Bond Index is supporting an increase in foreign investor participation in their domestic bond markets.

Export growth in Sub Saharan Africa was relatively robust in 2012. Export volumes in the region increased by 4.5 percent between January and July 2012, versus a global average of 3.6 percent during that period. Excluding South Africa, the region's largest economy, exports from the rest of the region were up 6.0 percent (figure SSA.7). The good performance was supported by earlier investments in the export sector, and a diversification of trading partners (particularly to Asia). The region's oil exporters increased their exports by some 5 percent (mostly due to increased output from Angola, as output in Nigeria declined slightly). Metal and other industrial raw material producers (excluding South Africa), several of whom have benefited from the coming onstream of new mineral exports (Sierra Leone, Mozambique, Niger etc.) increased their export volumes by 13.9 percent (y/y) during the first seven months of 2012. Export volume growth was strongest for the predominantly agricultural exporters (17.1 percent, y/y), in part due to weaker base effects but also due to the lower cyclical sensitivity of agricultural commodities.

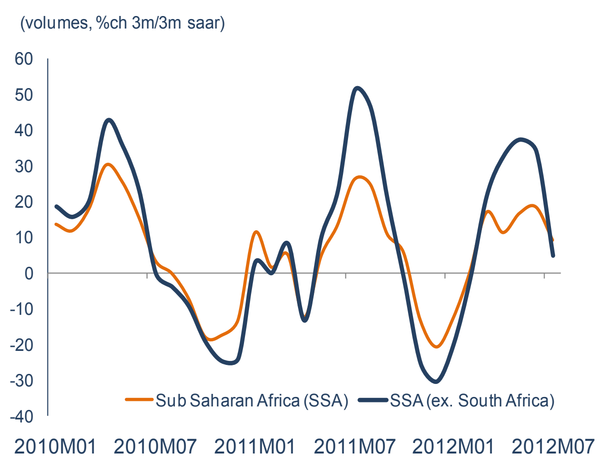
Overall, however, regional exports were sensitive to the slowdown of the global economy in the second quarter of 2012. As with other developing economies, following a strong rebound in the first half of the year, exports slowed in the third quarter. The sharpest deceleration occurred among the industrial commodity exporters, whose exports had been growing at a 52.1 percent annualized pace in the three months ending in June, but who saw export volumes decline at a 2.1 percent pace in July (42.1 and 5.9 percent for oil exporters).

Reflecting the preponderance of commodities in their export baskets and the decline in commodity prices, the deceleration in exports values was even steeper. Indeed, excluding South Africa export values contracted at a -30.5 percent pace (3m/3m) in July; with sharpest declines occurring among oil (-39.4 percent) and industrial raw material exporters (-10.3 percent) reflecting the greater sensitivity of their export prices to global demand changes compared to agricultural commodities.

While the global cycle was an important factor here, local disruptions to production from labor unrest (South Africa) and military confrontations (Guinea Bissau) were also at play.

Trends in services trade, particularly tourism, are increasingly becoming an important driver of growth in several Sub Saharan African countries (including traditional destinations such as Cape-Verde, Kenya, Mauritius, Seychelles and newer destinations such as Rwanda. Data from the UN World Tourism Organization shows that the growth in tourist arrivals to the region picked up by some 5.7 percent in the first half of 2012, compared with a global average of 4.9 percent during the same period (figure SSA.8). Sub Saharan African countries that recorded strong

Figure SSA.7 Growth in Sub-Saharan Africa exports were impacted by developments in the global economy



Source: World Bank and Datastream.

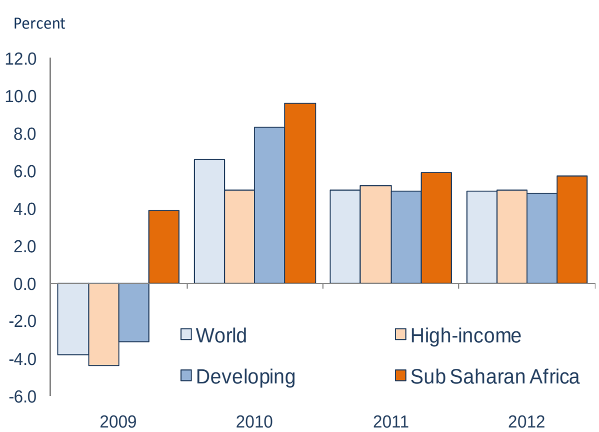
growth in tourist arrivals included South Africa (11 percent), Sierra Leone (17 percent), Madagascar (13 percent) and Cape Verde where tourist arrivals jumped 15 percent, supported in part by a diversion of tourists from troubled North African countries.

The growth of tourist arrivals to destinations in the region notwithstanding the economic weakness in Europe is encouraging and reflects a diversification of source countries. For instance, in Mauritius, arrivals from Europe (largest source market) fell by 7.7 percent for the January – September period, but arrivals from China rose 38.3 percent, and those from Russia by 91.2 percent. Further arrivals were up from elsewhere in Africa (13.2 percent), Australia (13.5 percent), Canada (18 percent) and South America (55.3 percent). Other countries have fared much less well, for instance the cancellation of major charter flights to Mombasa following terrorism and piracy concerns there contributed to the 2 percent (y/y) fall in tourist arrivals to Kenya between January and August 2012. Similarly the conflict in Mali led to a sharp decline in tourist arrivals there.

Medium-term outlook

Medium term GDP growth prospects for Sub Saharan Africa remain strong with the same driving forces that have underpinned the region's robust performance in recent years expected to be sustained over the projection horizon (table SSA.2). On aggregate the region's GDP growth is expected to average 5 percent over 2013-2015 (4.9, 5.1, and 5.2 percent for 2013, 2014 and 2015 respectively). Excluding, the region's largest economy, South Africa, GDP growth for the rest of the region is expected to pick-up to about 6.1 percent in 2013 and maintain that growth through 2015 (6.0 percent and 6.1 percent in 2014 and 2015 respectively).

Figure SSA.8 Growth in tourist arrivals in Sub-Saharan Africa has been above average in recent years, albeit from a low base



Sources: UN World Tourism Organization

Increased investment will be a major driving force of growth over the medium term. Increased investment is to be a main driving force in the region. Since 2000, investment in Sub-Saharan Africa has steadily increased from 15.9 percent of GDP to over 22 percent of GDP in 2012. In addition to growing foreign sources of investment finance, domestic investment is also expected to benefit from the ongoing financial sector deepening in the region, albeit from a very weak base. Over the past decade, bank deposits as a share of GDP have increased by some eight percentage points, supporting a ten percentage point increase in the private sector credit to GDP ratio during this period (figure SSA.9). With the lag in monetary policy transmission, the widespread cuts in policy rates in 2012, is expected to provide some stimulus to economic activity through 2014.

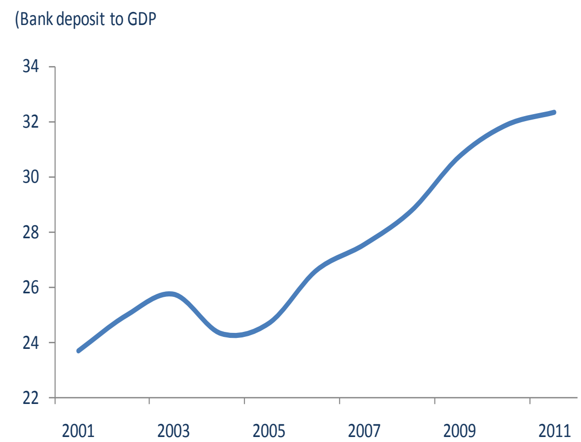
Foreign direct investment to the region is expected to remain strong over the medium term. The World Bank projects FDI to the region to increase to new record levels each year reaching $55.6 billion in 2015. FDI inflows to the extractive industries sector and to the agriculture sector (to a lesser extent) should be supported by persistently high (if somewhat softening) commodity prices over the next 2-3 years (see commodity annex). Strong exploration efforts in East Africa during recent years have led to the striking of several oil and gas wells and further exploration and discoveries are expected over the forecast horizon. In Southern Africa, Mozambique expects to attract some $50bn in foreign investment over the next decade thanks to its huge coal deposits and offshore gas discoveries. Similar investments in the minerals sector in West Africa (Ghana, Liberia, Sierra Leone, Guinea, Niger etc.) are also expected.

Sixty percent of firms not currently present in the region, indicated in a recent survey their intention to expand into the region over the next 3-5 years (EIU, 2012). For instance, the Carlyle group and two other partners recently announced plans to invest some $210 million in a Tanzanian agribusiness entity (the private-equity group's first foray into Sub-Saharan Africa).

Continued investment in infrastructure will be critical to maintaining and strengthening growth over the medium term– potentially boosting growth rates in the region by 2 percentage points. Indeed, infrastructural shortcomings may be depressing firm-level productivity by as much as 40 percent in some countries in the region (Escribano, Guasch, and Pena, 2008).

As discussed above, countries will need to continue giving priority to such investments, while at the same time taking care to safeguard fiscal flexibility should commodity prices and government revenues decline. If appears likely, official development assistance continues to come under budgetary pressure in high-income countries, poor and more fragile economies that depend on aid for infrastructure spending may find themselves falling behind. Other countries

Figure SSA.9 Financial deepening across Sub-Saharan Africa, 2001-2011



Source: World Bank, Datastream.

Table SSA.2 Sub-Saharan Africa forecast summary

(annual percent change unless indicated otherwise)	00-09[a]	2010	2011	Est. 2012	Forecast 2013	2014	2015
GDP at market prices [b]	4.3	5.0	4.5	4.6	4.9	5.1	5.2
(Sub-region totals-- countries with full NIA + BOP data) [c]							
GDP at market prices [c]	4.3	4.9	4.5	4.6	4.9	5.1	5.2
GDP per capita (units in US$)	2.0	2.4	2.0	2.1	2.4	2.5	2.7
PPP GDP [c]	4.5	5.2	4.7	4.6	5.4	5.4	5.5
Private consumption	4.7	5.6	5.5	5.2	4.8	4.4	4.4
Public consumption	5.6	13.6	3.3	5.3	4.9	4.1	2.8
Fixed investment	8.9	-0.1	14.7	3.2	8.6	6.4	6.3
Exports, GNFS [d]	4.5	6.4	2.9	4.5	6.4	8.1	9.0
Imports, GNFS [d]	5.3	2.5	11.2	6.6	6.9	7.3	7.1
Net exports, contribution to growth	-0.3	1.3	-2.9	-0.9	-0.4	0.0	0.4
Current account bal/GDP (%)	0.1	-1.2	-1.2	-2.9	-3.1	-3.3	-3.0
GDP deflator (median, LCU)	6.7	6.1	8.0	4.1	6.7	5.9	6.0
Fiscal balance/GDP (%)	-0.4	-3.9	-1.0	-2.8	-2.4	-2.1	-1.7
Memo items: GDP							
SSA excluding South Africa	4.9	6.2	5.3	5.8	6.1	6.0	6.1
Oil exporters [e]	5.5	6.1	4.9	6.0	6.2	6.0	6.2
CFA countries [f]	3.8	4.5	2.7	5.2	5.2	4.7	4.3
South Africa	3.2	2.9	3.1	2.4	2.7	3.2	3.3
Nigeria	5.6	7.8	6.7	6.5	6.6	6.4	6.3
Angola	10.7	3.4	3.4	8.1	7.2	7.5	7.8

a. Growth rates over intervals are compound weighted averages; average growth contributions, ratios and deflators are calculated as simple averages of the annual weighted averages for the region.
b. GDP at market prices and expenditure components are measured in constant 2005 U.S. dollars.
c. Sub-region aggregate excludes Liberia, Chad, Somalia and São Tomé and Principe. Data limitations prevent the forecasting of GDP components or Balance of Payments details for these countries.
d. Exports and imports of goods and non-factor services (GNFS).
e. Oil Exporters: Angola, Cote d Ivoire, Cameroon, Congo, Rep., Gabon, Nigeria, Sudan, Chad, Congo, Dem. Rep.
f. CFA Countries: Benin, Burkina Faso, Central African Republic, Cote d Ivoire, Cameroon, Congo, Rep., Gabon, Equatorial Guinea, Mali, Niger, Senegal, Chad, Togo.

Source: World Bank.

in the region are likely to tap into international capital markets to support their infrastructural programs, including perhaps first-time entries by countries like Rwanda, Uganda, Kenya, and Mozambique. Bilateral funding sources, particularly from other developing countries will also be critical for some countries. Indeed, the Forum on China-Africa Cooperation (FOCAC) recently announced that China will provide $20bn of credit lines to African countries to assist in developing infrastructure, agriculture, manufacturing and small and medium-sized enterprises (figure SSA.10).

The modest pick-up in the global economy projected in 2013 and beyond should provide some support to Sub-Saharan African export growth. Sub-Saharan Africa exports are projected to continue increasing rapidly over the forecast horizon, partly due to an expected strengthening of global demand, but mainly reflecting further increases in the region's share of global markets – itself partly a reflection of productivity growth, but also the coming on stream of new mineral exports in several countries (e.g. Burkina Faso, Mozambique, Niger, Cameroon, Gabon, Sierra Leone etc.). A stronger global economy should also see a further strengthening of the region's tourism sector.

The increased demand for capital goods to meet infrastructure and other investment needs, growing demand for oil among oil importers, and rising per capita incomes, should boost demand for consumer durables and other imports. As a result, the regional current account deficit is projected to about 2.8 percent of regional GDP in 2014 from 2.4 percent in 2012 before improving to 2.5 percent in 2015, and net exports are expected to be a modest drag (figure SSA.11). However, for some of the less diversified oil exporters (Angola, Congo), net exports will be positive.

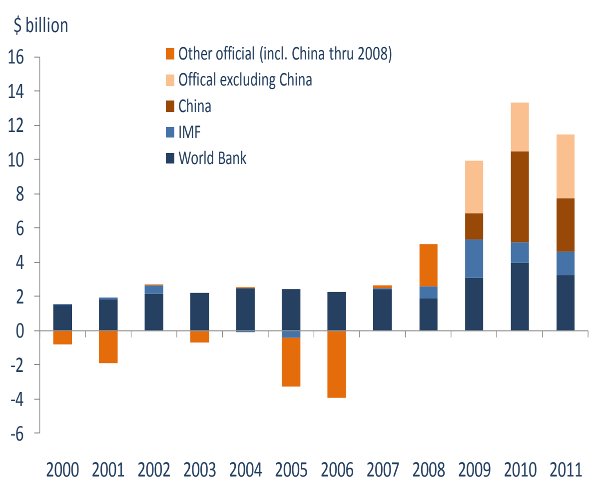
These expected medium term positive developments will however not be universal across the region. Indeed, labor market challenges (South Africa) and political instability (Mali) is expected to cut into economic activity in some countries in the region over the forecast horizon.

Risks

Notwithstanding the robust growth expected for the region over the forecast horizon, the risks remain tilted on the downside.

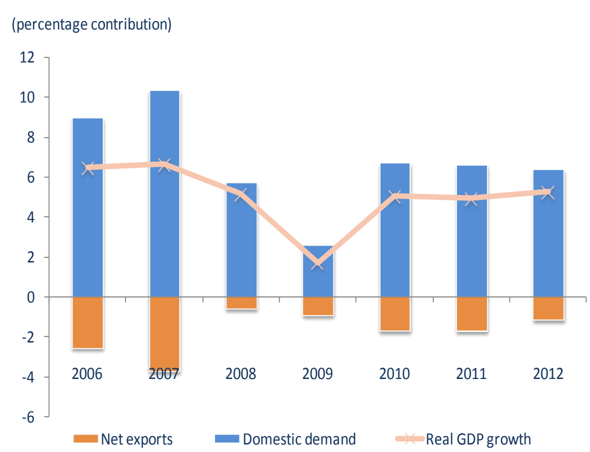
Fragile global recovery. While the tepid recovery of global economic activity is our baseline scenario, the many tension points in the global economy could result in a much weaker global outcome. Financial markets tensions in

Figure SSA.10 Net official flows to Sub-Saharan Africa



Source: World Bank.

Figure SSA.11 Domestic demand remains a robust pillar of growth in Sub-Saharan Africa

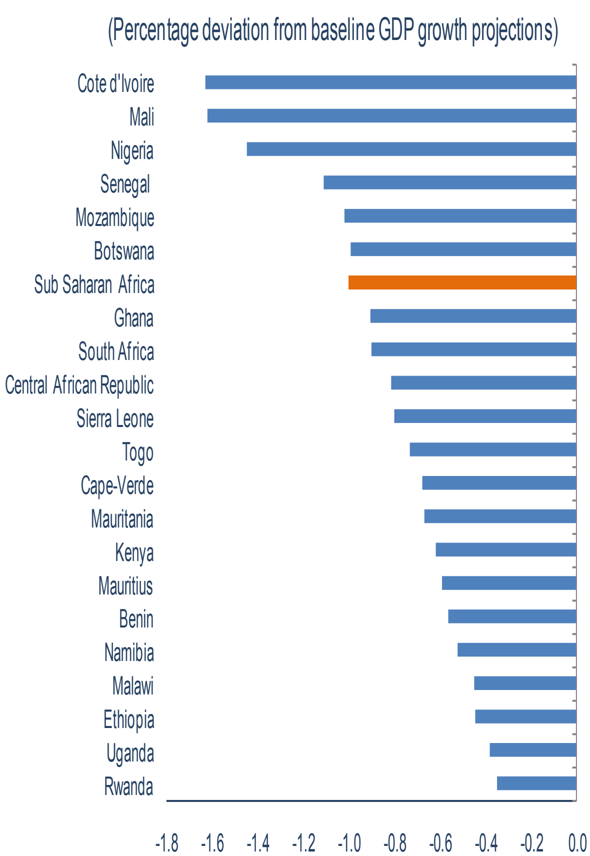


Source: World Bank.

the Euro Area have eased since 2012Q2 and the likelihood of a serious deterioration in conditions decreased, nonetheless conditions still remain fragile and sentiment is vulnerable to bad news. Should they deteriorate markedly, with a credit freeze to some of the larger high-spread troubled Euro Area economies, global economy activity could return to recession-like conditions and GDP in Sub-Saharan Africa could fall by up to 1.0 percentage points relative to the baseline forecasts, although results will differ by country (figure SSA.12).

The fiscal consolidation in the United States is already sapping growth there. In our baseline, a credible medium-term plan to restore fiscal sustainability is assumed to be arrived at by February 2013—implying a 1.6 percent of fiscal compression. However, were this not to occur

Figure SSA.12 Potential GDP impacts on selected Sub Saharan African economies from an escalation in Euro Area Crisis



Source: World Bank.

and a deeper fiscal contraction to take place, this would serve as a larger drag to US growth. In an alternate scenario we assume no such agreement is arrived at and that authorities agree on a partial deal that provides for \$110bn additional fiscal contraction but only short-term relief from debt ceiling legislation, creating further uncertainty on future tax and fiscal policy. Should that arise, the trade channel alone could cause Sub Saharan African GDP to decline by 0.9 percentage points relative to baseline. Further, current account and fiscal balances could deteriorate by 1.3 and 0.8 percentage points from their baseline projections. However, given the importance of the US economy in global markets, the indirect impacts through weaker confidence and the potential rattling of global financial and commodity markets would likely have a stronger impact on the region.

A third tension point surrounds the possibility of a disorderly unwinding of China's unusually high investment rate. With Chinese demand accounting for some 50 percent of many industrial metals exported from Africa, a sharper than envisaged down turn there could lead to a slump in commodity prices which would impact the non-diversified metal and mineral exporters in the region (e.g. Zambia, Botswana, Namibia, Democratic Republic of Congo) as well as oil exporters in the region that trade predominantly with China (e.g. Angola, Sudan etc.). Indeed, an abrupt slowing in Chinese investment would slow the regions GDP by 0.3 percent, with current account and fiscal balances deteriorating by 0.6 and 0.3 percentage points of GDP respectively.

Indeed, the above discussed tension points in the global economy are not necessarily mutually exclusive as one event could trigger another event. Hence in this environment of increased fragility in the global economy, developing countries, including in Sub Saharan African countries will benefit from building the relevant short-term policy buffers and undertaking policies that will support the competitiveness of their economies in the long-run (including physical and human capital development, access to finance, and removing cumbersome regulatory requirements that impede investment activity). However, compared to the pre-crisis period policy buffers for most economies in the region remain weaker. For instance, while in 2007 fiscal balances were in a surplus of some 0.4 percent of GDP, in 2012 fiscal balances have deteriorated to above 2 percent of GDP for the region. And though in 2012, headline inflation has come down for the region, it still remains high in a number of countries, hence limiting options for monetary policy stimulus in these economies. Hence, were there to be another significant down turn in the global economy, unlike the recent episode where the fiscal policy space existed to embark on countercyclical policy, the capacity to do so now remains more limited, unless buffers are quickly rebuilt. The importance of having adequate buffers is observed in a simulation carried out of an arbitrary high-income country shock - equivalent to a 5% decline in GDP. The results of the simulation show that while GDP growth for Sub Saharan African countries with adequate policy buffers suffer a 0.3 percentage point decline in GDP, their counterparts without the policy buffers, and thus unable to engage in countercyclical fiscal policies, suffer a more marked decline of 0.8 percentage point reduction in their GDP growth relative to the baseline.

Domestic risks. Besides these external risks, downturns from domestic challenges are equally important. Disruptions to productive activity from unrest (political, civil and labor) are important potential downside risks, as investment, trade and tourism activity, all important growth drivers, are likely to suffer. Indeed, in 2012, labor unrest in South Africa, terrorists activity in parts of Nigeria, coup d'etats in both Mali and Guinea Bissau, and political stalemate in Guinea and Madagascar curtailed economic activity to varying degrees in these economies. Though most economies in the region remain stable, simmering concerns, particularly in the fragile economies continue to pose an important downside risk to economic activity there over the medium term.

With the agricultural sector being the largest employer for almost all economies in the region, and with much of activity in the sector being of a subsistence nature and dependent on good rain fall patterns, adverse weather conditions remain an important risk factor. Rain patterns in the latter half of 2012 in the Sahel region of West Africa and in East Africa suggest normal first harvests for 2013, however the situation thereafter remains unknown.

Notes:

1. The United Nations World Investment Report, 2012 reports that data on the profitability of United States FDI (FDI income as a share of FDI stock) show a 20 per cent return in Africa in 2010, compared with 14 per cent in Latin America and the Caribbean and 15 per cent in Asia (UNCTAD, 2012).

2. Until these recent findings East Africa was considered to be less endowed compared to the rest of the region

3. World Investment Report, 2012.

References:

Economist Intelligence Unit, 2012. Africa cities rising. EIU, London.

Escribano, Alvaro, J.Luis Guasch, Jorge Pena (2008). Impact of Infrastructure Constraints on Firm Productivity in Africa. Working Paper 9, Africa Infrastructure Sector Diagnostic, World Bank, Washington, DC.

Table SSA.3 Sub-Saharan Africa country forecasts

				Est.	Forecast		
	00-09[a]	2010	2011	2012	2013	2014	2015
Angola							
GDP at market prices (% annual growth) [b]	10.7	3.4	3.4	8.1	7.2	7.5	7.8
Current account bal/GDP (%)	4.9	9.1	13.0	8.5	5.9	4.7	4.8
Benin							
GDP at market prices (% annual growth) [b]	3.7	3.0	3.1	3.5	3.8	4.5	5.0
Current account bal/GDP (%)	-8.4	-9.4	-9.8	-9.8	-9.0	-7.6	-6.4
Botswana							
GDP at market prices (% annual growth) [b]	3.4	7.0	8.1	5.8	5.1	4.9	4.8
Current account bal/GDP (%)	8.3	0.5	8.7	8.9	8.7	8.9	8.6
Burkina Faso							
GDP at market prices (% annual growth) [b]	5.2	7.9	4.2	6.4	6.7	7.0	6.3
Current account bal/GDP (%)	-13.1	-7.0	-0.7	-8.9	-8.3	-7.7	-7.1
Burundi							
GDP at market prices (% annual growth) [b]	2.9	3.8	4.2	4.1	4.3	4.6	4.9
Current account bal/GDP (%)	-17.8	-15.9	-16.0	-18.2	-17.4	-16.6	-15.8
Cape Verde							
GDP at market prices (% annual growth) [b]	5.5	5.2	5.0	4.8	4.9	5.0	5.1
Current account bal/GDP (%)	-11.3	-12.8	-11.1	-9.9	-8.3	-6.4	-6.4
Cameroon							
GDP at market prices (% annual growth) [b]	3.0	3.2	3.8	4.6	4.8	5.0	5.1
Current account bal/GDP (%)	-2.4	-3.8	-6.6	-5.8	-4.3	-4.1	-3.7
Central African Republic							
GDP at market prices (% annual growth) [b]	0.6	3.3	3.1	3.8	4.0	4.1	4.2
Current account bal/GDP (%)	-8.5	-12.6	-7.2	-6.1	-5.4	-5.1	-4.9
Comoros							
GDP at market prices (% annual growth) [b]	1.8	2.1	2.2	2.5	3.5	4.0	4.0
Current account bal/GDP (%)	-12.2	-28.2	-9.6	-7.0	-6.1	-6.9	-7.6
Congo, Dem. Rep.							
GDP at market prices (% annual growth) [b]	4.2	7.2	6.9	6.6	8.2	6.4	7.5
Current account bal/GDP (%)	0.6	-16.6	-11.5	-12.7	-14.6	-15.1	-12.2
Congo, Rep.							
GDP at market prices (% annual growth) [b]	3.8	8.8	3.4	4.7	5.6	5.4	4.7
Current account bal/GDP (%)	-2.0	-21.4	5.4	0.5	2.6	1.4	0.5
Cote d Ivoire							
GDP at market prices (% annual growth) [b]	0.8	2.4	-4.7	8.2	7.0	6.0	5.5
Current account bal/GDP (%)	1.9	2.0	0.3	-3.7	-3.9	-4.5	-4.7
Equatorial Guinea							
GDP at market prices (% annual growth) [b]	17.0	-0.8	7.8	5.7	6.1	1.4	-1.3
Current account bal/GDP (%)	15.4	-32.3	-7.9	-14.1	-10.0	-11.8	-12.3
Eritrea							
GDP at market prices (% annual growth) [b]	1.8	2.2	8.7	7.5	6.0	3.5	3.0
Current account bal/GDP (%)	-21.5	-5.6	-0.9	-0.8	1.3	2.7	4.1
Ethiopia							
GDP at market prices (% annual growth) [b]	7.4	9.9	7.3	7.8	7.5	7.2	7.5
Current account bal/GDP (%)	-5.7	-1.4	-2.5	-6.3	-6.3	-6.7	-6.7
Gabon							
GDP at market prices (% annual growth) [b]	1.6	6.6	5.7	4.7	3.5	3.3	3.5
Current account bal/GDP (%)	14.9	7.2	23.8	22.0	16.5	12.2	7.3
Gambia, The							
GDP at market prices (% annual growth) [b]	3.8	6.1	-4.3	3.9	10.7	5.5	5.8
Current account bal/GDP (%)	-3.5	2.0	-16.8	-17.9	-17.1	-15.0	-13.2

	00-09[a]	2010	2011	Est. 2012	Forecast 2013	2014	2015
Ghana							
GDP at market prices (% annual growth) [b]	5.0	8.0	14.4	7.5	7.8	7.4	7.5
Current account bal/GDP (%)	-6.5	-7.5	-9.9	-11.8	-9.7	-9.7	-8.1
Guinea							
GDP at market prices (% annual growth) [b]	2.6	1.9	3.9	4.8	5.0	6.0	6.5
Current account bal/GDP (%)	-7.1	-7.0	-23.8	-39.6	-46.7	-52.5	-53.9
Guinea-Bissau							
GDP at market prices (% annual growth) [b]	0.9	3.5	5.3	-2.8	3.0	4.6	5.1
Current account bal/GDP (%)	-14.9	-23.8	-7.2	-6.5	-6.5	-6.7	-6.6
Kenya							
GDP at market prices (% annual growth) [b]	3.6	5.6	4.5	4.3	4.9	5.1	4.8
Current account bal/GDP (%)	-2.4	-7.4	-9.3	-8.9	-8.7	-8.2	-7.7
Lesotho							
GDP at market prices (% annual growth) [b]	3.2	5.6	5.8	4.3	5.2	5.3	5.0
Current account bal/GDP (%)	2.9	-20.2	-21.4	-23.6	-13.4	-9.2	-6.9
Madagascar							
GDP at market prices (% annual growth) [b]	2.5	1.6	1.0	2.2	4.5	4.8	5.4
Current account bal/GDP (%)	-12.3	-15.0	-7.6	-8.1	-7.9	-8.2	-7.6
Malawi							
GDP at market prices (% annual growth) [b]	4.0	6.5	4.3	4.1	5.4	5.6	6.0
Current account bal/GDP (%)	-10.9	-17.9	-12.2	-12.7	-12.9	-12.6	-12.0
Mali							
GDP at market prices (% annual growth) [b]	5.1	5.8	2.7	-1.5	3.5	5.9	6.0
Current account bal/GDP (%)	-8.1	-12.6	-4.9	-5.1	-4.8	-7.6	-7.2
Mauritania							
GDP at market prices (% annual growth) [b]	4.5	5.2	3.9	4.8	5.2	4.9	4.9
Current account bal/GDP (%)	-11.2	-2.9	2.9	-18.4	-15.4	-15.3	-13.2
Mauritius							
GDP at market prices (% annual growth) [b]	3.4	4.1	3.8	3.3	3.6	4.0	4.4
Current account bal/GDP (%)	-2.7	-10.4	-12.6	-10.8	-9.7	-8.8	-7.8
Mozambique							
GDP at market prices (% annual growth) [b]	7.1	6.8	7.3	7.5	8.0	8.2	8.0
Current account bal/GDP (%)	-14.0	-18.1	-25.7	-27.7	-27.0	-41.7	-41.6
Namibia							
GDP at market prices (% annual growth) [b]	4.0	6.6	3.8	4.2	4.3	4.4	5.0
Current account bal/GDP (%)	3.5	-2.1	-0.9	-0.3	-0.9	-1.3	-1.7
Niger							
GDP at market prices (% annual growth) [b]	3.7	8.0	2.3	12.0	6.8	6.1	5.0
Current account bal/GDP (%)	-9.7	-32.5	-21.6	-22.6	-18.9	-18.6	-19.1
Nigeria							
GDP at market prices (% annual growth) [b]	5.6	7.8	6.7	6.5	6.6	6.4	6.3
Current account bal/GDP (%)	14.4	6.8	3.6	3.5	2.0	1.2	0.4
Rwanda							
GDP at market prices (% annual growth) [b]	6.8	7.2	8.6	7.7	7.5	7.3	7.2
Current account bal/GDP (%)	-6.2	-7.7	-7.3	-9.9	-9.7	-9.8	-9.6
Senegal							
GDP at market prices (% annual growth) [b]	3.6	4.1	2.6	3.7	4.8	4.8	5.0
Current account bal/GDP (%)	-8.0	-4.7	-6.9	-8.6	-8.2	-7.8	-7.5

	00-09[a]	2010	2011	Est. 2012	Forecast 2013	2014	2015
Seychelles							
GDP at market prices (% annual growth) [b]	1.5	6.7	5.0	3.3	4.2	3.9	3.7
Current account bal/GDP (%)	-14.1	-19.7	-21.0	-19.5	-19.1	-15.4	-12.1
Sierra Leone							
GDP at market prices (% annual growth) [b]	9.0	4.9	6.0	25.0	11.1	7.6	7.6
Current account bal/GDP (%)	-14.1	-34.2	-55.4	-15.6	-8.8	-7.5	-6.3
South Africa							
GDP at market prices (% annual growth) [b]	3.2	2.9	3.1	2.4	2.7	3.2	3.3
Current account bal/GDP (%)	-3.0	-2.8	-3.4	-6.9	-6.4	-6.3	-5.9
Sudan							
GDP at market prices (% annual growth) [b]	5.9	4.5	5.0	3.0	3.2	3.3	5.0
Current account bal/GDP (%)	-6.3	-0.5	2.9	3.5	3.0	2.6	2.2
Swaziland							
GDP at market prices (% annual growth) [b]	2.1	2.0	1.3	-2.0	1.0	1.9	1.9
Current account bal/GDP (%)	-2.6	-10.4	-14.5	-14.2	-12.2	-14.1	-15.7
Tanzania							
GDP at market prices (% annual growth) [b]	6.2	7.0	6.3	6.5	6.8	7.0	7.0
Current account bal/GDP (%)	-9.2	-11.9	-12.9	-16.2	-14.3	-12.8	-11.9
Togo							
GDP at market prices (% annual growth) [b]	1.7	3.7	3.9	4.0	4.4	4.6	4.6
Current account bal/GDP (%)	-9.2	-6.3	-6.5	-8.9	-8.7	-8.8	-9.3
Uganda							
GDP at market prices (% annual growth) [b]	6.8	5.9	6.7	3.4	6.2	6.9	7.3
Current account bal/GDP (%)	-5.2	-10.8	-13.3	-11.5	-11.3	-11.4	-10.7
Zambia							
GDP at market prices (% annual growth) [b]	4.8	7.6	6.6	6.7	7.1	7.8	6.0
Current account bal/GDP (%)	-10.9	5.7	-1.2	-3.9	-2.4	-2.6	-1.8
Zimbabwe							
GDP at market prices (% annual growth) [b]	-5.9	9.0	9.3	5.0	6.0	5.5	5.0
Current account bal/GDP (%)	-11.4	-13.4	-20.7	-19.5	-20.3	-22.5	-24.0

World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.

Liberia, Somalia, Sao Tome and Principe are not forecast owing to data limitations.

a. GDP growth rates over intervals are compound average; current account balance shares are simple averages over the period.

b. GDP measured in constant 2005 U.S. dollars.

Source: World Bank.