Background Note on the Economic Situation in East Africa

Economic growth across East Africa has been relatively robust over the past decade. The five nations of the East African Community – Kenya, Tanzania, Uganda, Rwanda and Burundi – have an estimated gdp of $85 billion and had an average growth rate of over 6 per cent for the past decade. Growth in the region has been driven by a number of factors including improvements in the construction, communications, financial services sectors and investment in new oil and gas exploration projects. Oil is expected to begin commercial production in the next five years in Kenya and Uganda. Tanzania has significant offshore gas deposits that may be large enough to produce liquefied natural gas (LNG) for export.

East Africa is also part of a rising trend of middle class consumers across Africa, fueled by rising growth and increased investment. The rise of mobile banking has also helped to allow many previously unbanked people access to the financial system. An important issue here is that given significant interest rates rises in the wake of high inflation, high spreads between lending and borrowing rates are putting pressure on investment.

Inflation has come down in the past few years as the effects of the drought of 2011 have faded. The danger of food prices rising again owing to weak rains is still a possibility – bad weather has damaged agricultural output in Uganda in the fourth quarter of 2013. Rwanda also had a poor second harvest. Erratic rainfall has also had significant impacts on power generation in the region, which relies on hydropower for a significant portion of its electricity. There are a variety of plans in place across the region to bolster power generation such as increased geothermal power in both Kenya and Djibouti. As well there are large hydropower projects in the process of being constructed in Ethiopia. This includes, what will be the largest dam in Africa, the Grand Ethiopian Renaissance Dam (GERD), which is expected to export power to other countries in the region.

The region has taken a number of important steps to increase cooperation and coordination on a variety of fronts. New investments in railroads will help to reduce transport times and lower freight costs as well as connecting important intraregional markets. Discussions are also underway to link new oil discoveries by way of a new pipeline to the expanded port in Lamu, Kenya. The mapping stage has been announced for a new rail link between Kigali, the capital of Rwanda and Kampala, the capital of Uganda. This is part of a larger project, which is planned to link Kigali to Mombasa. Transport is estimated to account for a significant portion of import/export costs in some countries, though greater in Rwanda and Uganda than in Kenya.

A cross-border payments system that will help to boost intra-regional trade and reduce bottlenecks was launched in December. This is a step towards full monetary integration envisioned as part of a monetary union for the East African Community (EAC), which they hope to implement within the next 10 years. A single customs area was also launched between Kenya, Uganda, South Sudan and Rwanda to improve economic connections between the states and remove existing non-tariff barriers. Current account deficits remain high across the region with continuing pressure from weakening exchange rates in some countries. Investment in the oil sector is also contributing given the high levels of investment and equipment imports that are required. Budget deficits have been increasing over the past few years as well, although there are some prospects for decreases over the forecast period provided growth continues as expected. Further progress against deficits will require increases in revenue collection operations and a more developed tax infrastructure.

The region still struggles with considerable poverty and a large percentage of the population working in relatively unproductive agriculture. A high level of informality in the labour market is also an important issue. Countries like Burundi, Rwanda and Uganda also continue to rely on aid for considerable portions of their budget and for development projects.

A number of regional geopolitical factors also pose a risk, from the rebellion in South Sudan, Islamist activity in Somalia, inter-tribal conflicts in a number of countries, and continuing rebel activity in neighboring Democratic Republic of Congo.