World Economic Situation and Prospects

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Africa to see robust growth in 2015 thanks to strong private consumption and investment – UN report

Report warns growth is subject to a number of downside risks

Addis Ababa/19 January — African economies will continue to grow in 2015 due to private investment and consumption which have been key drivers of gross domestic product (GDP) over the past years, states the United Nations *World Economic Situation and Prospects 2015 (WESP)* released today.

Africa's GDP is expected to accelerate from 3.5 per cent in 2014 to 4.6 per cent in 2015 and 4.9 per cent in 2016. Increasing consumer confidence, an expanding middle class, improvements in the business environment and a reduction in the costs of doing business have also contributed to the continent's economic growth.

Of the five sub-regions, East Africa is expected to experience the fastest growth, reaching 6.8 per cent in 2015 and 6.6 per cent in 2016. Kenya and Uganda will be key drivers of growth. Kenya will benefit from rapid expansion in banking and telecommunication services and investment in infrastructure, particularly railways. Uganda's growth will be supported by increasing activity in sectors such as construction, financial services, transport and telecommunications.

North and Southern Africa are expected to experience an acceleration in growth, from 1.6 per cent and 2.9 per cent in 2014 to 3.9 per cent and 3.6 per cent in 2015, respectively. The enhanced growth prospects for North Africa are underpinned by improving political stability in Egypt and Tunisia. In Southern Africa, although Angola, Mozambique and Zambia will continue to be the fastest-growing economies, the 2015 growth acceleration is expected to be mainly driven by more investment in the non-diamond sector in Botswana, a recovery in private consumption in South Africa, and increased investment in mining and natural gas exploration in Mozambique.

Central and West Africa are expected to experience a moderate increase in growth, from 4.3 per cent and 5.9 per cent in 2014 to 4.7 per cent and 6.2 per cent in 2015, respectively, with increased political instability and terrorism in some of the countries in this region such as Mali, Nigeria, and the Central African Republic preventing a stronger expansion. The Ebola outbreak and possible increased political instability in the run-up to elections in Nigeria constitute major downside risks for the outlook in West Africa.

Weakening trade, tighter financial conditions and the Ebola crisis could dampen growth

Despite ongoing growth across the region, a number of internal and external risks may derail Africa's economic performance. A prolonged period of lower oil prices, a weakening in the developed economies, or a further slowdown in China's demand for commodities would negatively affect the continent's trade earnings. Tighter global financial conditions in developed economies such as the US may also result in the outflow of private capital and increase currency volatility.

In addition, the Ebola outbreak has already had a significant human toll as well as a negative impact on trade in both goods and services in Guinea, Liberia and Sierra Leone, the three hardest-hit countries. If it is not contained, the outbreak would pose a major risk for the West African subregion's growth prospects.

Political instability and terrorism and civil and labour unrest in a number of African countries will continue to be a source of disruption and damage, and negatively weigh on investment, trade and tourism. However, the aggregate number of armed conflicts in Africa has decreased since 2000, and more initiatives are being undertaken at the continental level to address issues of peace and security. Weather-related shocks will also continue to be a source of downside risks, since most African economies still depend on agricultural production.

Inflation to decelerate

Inflation in Africa is expected to remain constant at an average of 6.9 per cent in 2015 and moderate slightly to 6.7 per cent in 2016. Inflation has come down since its peak in 2012 due to moderating global prices for commodities, food, oil and industrial imports, as well as prudent monetary policies across the region.

Oil-importing countries are expected to be the major beneficiaries of falling prices of oil and other commodities. Meanwhile, oil-exporting countries such as Nigeria continued to see high inflation in 2014 at an average of 8.1 per cent with a slight increase to 8.2 per cent expected in 2015.

Mineral-rich countries, such as Sierra Leone and Zambia are also expected to experience a slight decrease in inflation. The risk remains that declining commodity and oil prices and tighter monetary policies in the United States could negatively weigh on the currencies of both oil- and commodity-exporting countries.

Central Africa will register the lowest inflation rates, mainly because most countries in this region peg their currency to the euro. Inflation is also expected to decrease in Southern Africa from 6.2 per cent in 2014 to 6.0 per cent in 2015 due to lower oil and global food prices, and in North Africa from 7.5 per cent last year to 7.2 per cent in 2015.

However, inflation will slightly increase in East Africa from 5.9 per cent in 2014 to 6.2 per cent in 2015, and West Africa will remain the subregion with the highest inflation rate, which will reach 8.8 per cent in 2015. Nigeria is expected to be the key driver of this due to fiscal expansion in the run-up to the 2015 elections and growing consumer demand. In Ghana, increases in water and power tariffs, which caused inflation to peak at 17.5 per cent in 2014, will continue to be a source of inflationary pressures.

WESP is produced at the beginning of each year by the UN Department of Economic and Social Affairs (UN/DESA), the UN Conference on Trade and Development (UNCTAD), the five UN regional commissions and the World Tourism Organisation (UNWTO).

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