World Economic Situation and Prospects

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African economy set to grow 4.4 per cent in 2016 and 2017 – UN

Domestic demand drives accelerated growth in Africa

Addis Ababa/Pretoria, 26 January – Economic growth in Africa will accelerate in 2016 to 4.4 per cent, from 3.7 per cent in 2015, underpinned by increasing domestic demand, coupled with an improving regional business environment and increasing public investment, especially in infrastructure, according to the United Nations World Economic Situation and Prospects 2016 report released today.

Growth on the continent will rely on improving macroeconomic management, a buoyant services sector, and increasing trade and investment ties with emerging economies. These factors also are expected to support regional growth in 2017, which is forecast to remain at 4.4 per cent.

East Africa

East Africa maintained the highest growth rate in the region, at 6.2 per cent in 2015, with a projected increase to 6.8 per cent in 2016. The increase in the growth rate is expected to be mainly driven by the increased inflow of foreign direct investment (FDI), increased public spending on infrastructure and growing domestic markets. However, the political uncertainties and instabilities in South Sudan and Burundi, and terrorism threats in Kenya and Somalia, have been weighing on the subregion's growth.

West Africa

Growth in West Africa decreased to 4.4 per cent in 2015, based on a considerably lower growth rate in Nigeria following a weaker oil sector and the uncertainty caused by the elections of March 2015. The consequences of the Ebola outbreak in the most affected countries, namely Guinea, Liberia and Sierra Leone, also impacted their growth potential, although Guinea and Liberia have returned to positive growth. West Africa's growth is projected to increase to 5.2 per cent and 5.3 per cent in 2016 and 2017, respectively, driven mainly by the improving economic performance of Nigeria, with its emphasis on the growing non-oil sectors.

Central Africa

Central Africa is forecast to see a rise in its average growth rate from 3.4 per cent in 2015 to 4.3 per cent in 2016, mainly driven by investment in energy and infrastructure, strong performance of the service sector (in Cameroon), an increase in oil production (in Chad and the Democratic Republic of the Congo), solid performance of the service sector and robust public investment (in Chad), and investment in infrastructure and manufacturing (in the Democratic Republic of the Congo).

North Africa

Growth in North Africa accelerated from 2.8 per cent to 3.6 per cent over the 2014-2015 period (excluding Libya), and is projected to increase further to 4.1 per cent in 2016. The positive developments have been helped by some improvements in political and economic stability in the subregion, and the subsequent increase in business confidence, especially in Egypt and Tunisia.

The gradual recovery of export markets and improved security should support growth, especially through tourism. Algeria's oil production increased for the first time in eight years and is boosting growth together with its non-oil sectors. Mauritania continues to achieve the highest and steadiest growth in the region, supported by favourable macroeconomic and structural policies.

Southern Africa

Southern Africa's growth increased from 2.4 per cent in 2014 to 2.5 per cent in 2015, and a further increase to 3.0 per cent and 3.3 per cent is forecast for 2016 and 2017, respectively. The subregion's low growth performance was driven by the relatively poor growth in its biggest economy, South Africa.

Weak export demand and low commodity prices for its key raw materials, as well as electricity shortages, contributed to the subdued performance, states the report. In Angola, Gross Domestic Product (GDP) growth remained strong despite low oil prices, as the government embarks on investing in strategic non-oil sectors such as electricity, construction and technology. Mozambique and Zambia recorded the highest growth in the region, driven by large infrastructure projects and FDI in the mining sector, respectively.

Inflation will decline due to lower food and energy prices

Regional inflation ticked up to 7.5 per cent in 2015, but is forecast to decrease to 6.7 per cent in 2016 and 6.3 per cent in 2017. A number of factors have created a mixed picture on inflation. Inflationary pressure was reduced by lower global oil prices and the continuing fall of food prices, while currency depreciations have increased the risk of imported inflation.

Prudent monetary policy in countries such as South Africa and Kenya has also had a moderating impact on inflation rates in the region. Inflation was highest in 2015 in West Africa, at 8.6 per cent, up from 7.5 per cent in the previous year. This was partly driven by the depreciation of the euro, leading to the depreciation of the CFA franc. Public spending in Nigeria in the lead-up to its elections also contributed to inflationary pressure in the subregion, together with the pressure on the naira caused by the lower oil prices. Inflation in West Africa is expected to remain at about 8.4 per cent in 2016 and 2017.

In other subregions, excluding North Africa, inflation rates increased in 2015 as well, driven by weather-related shocks, currency depreciations and the removal of subsidies. However, a moderating trend is expected for 2016 and 2017 in view of lower food and energy prices, improved security situations and diminishing impacts from subsidy cuts in 2014.

Weaker global growth and weakness in commodity price are major risks for Africa

The economic outlook for Africa remains subject to a number of risks and uncertainties. These include a weaker than expected performance of both the global economy and Africa's major trading and financing partners such as China and the euro area.

Further weakness in commodity prices could pose an additional risk for commodity-exporting countries, while a continued depreciation of African currencies would create further pressure on monetary stability through imported inflation. The likely interest rate increases by the United States Federal Reserve may divert investment flows from emerging markets back to developed countries, also negatively affecting the African economies. This presents a risk, particularly for those countries that have introduced sovereign bonds as an alternative source of finance.

Further risks in a number of African economies are tied to unexpected weather patterns and the prevailing security situation.

About the report: *The World Economic Situation and Prospects report is produced annually 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). The report is available from* http://bit.ly/WESP.

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