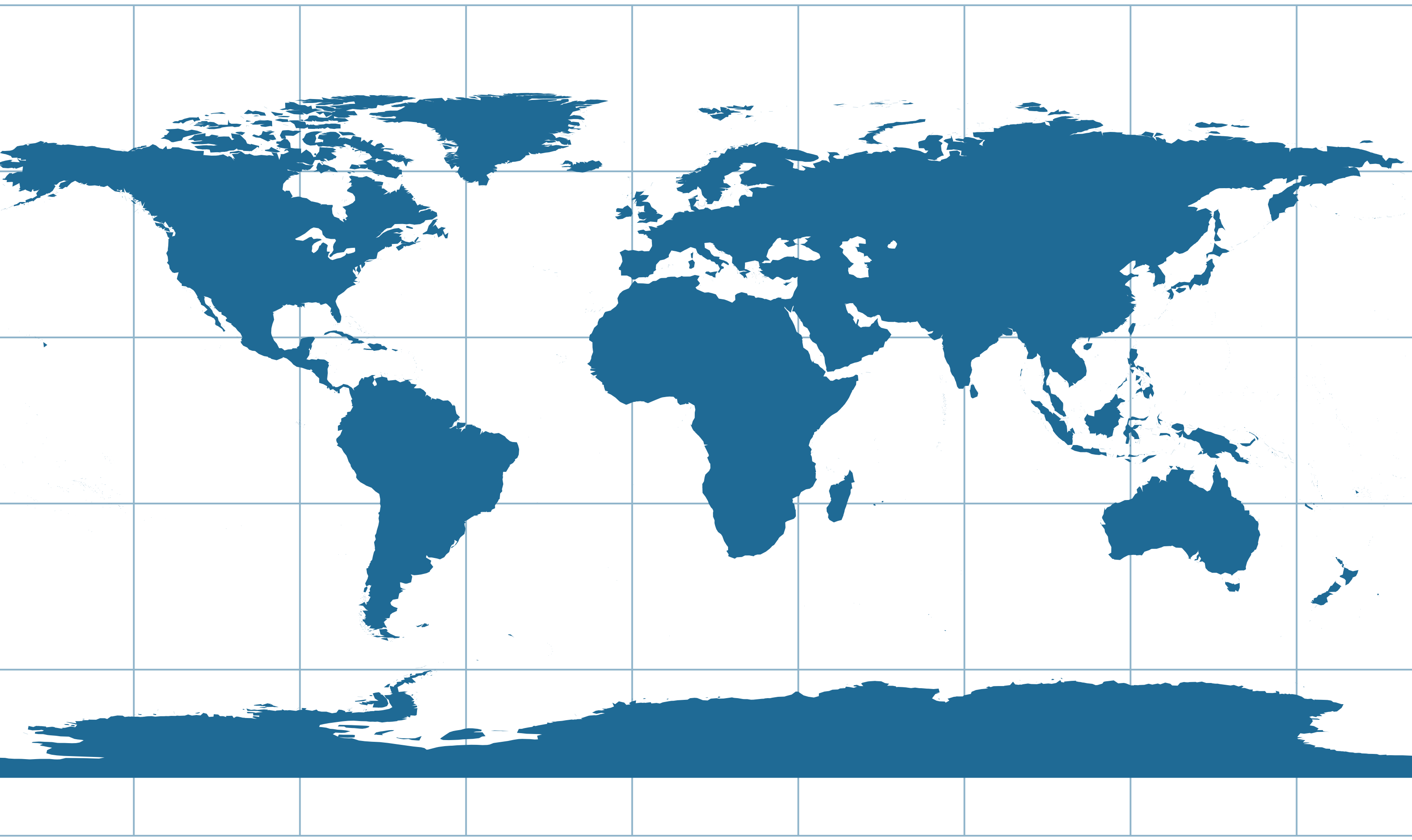
World Economic Situation and Prospects

2019

United Nations

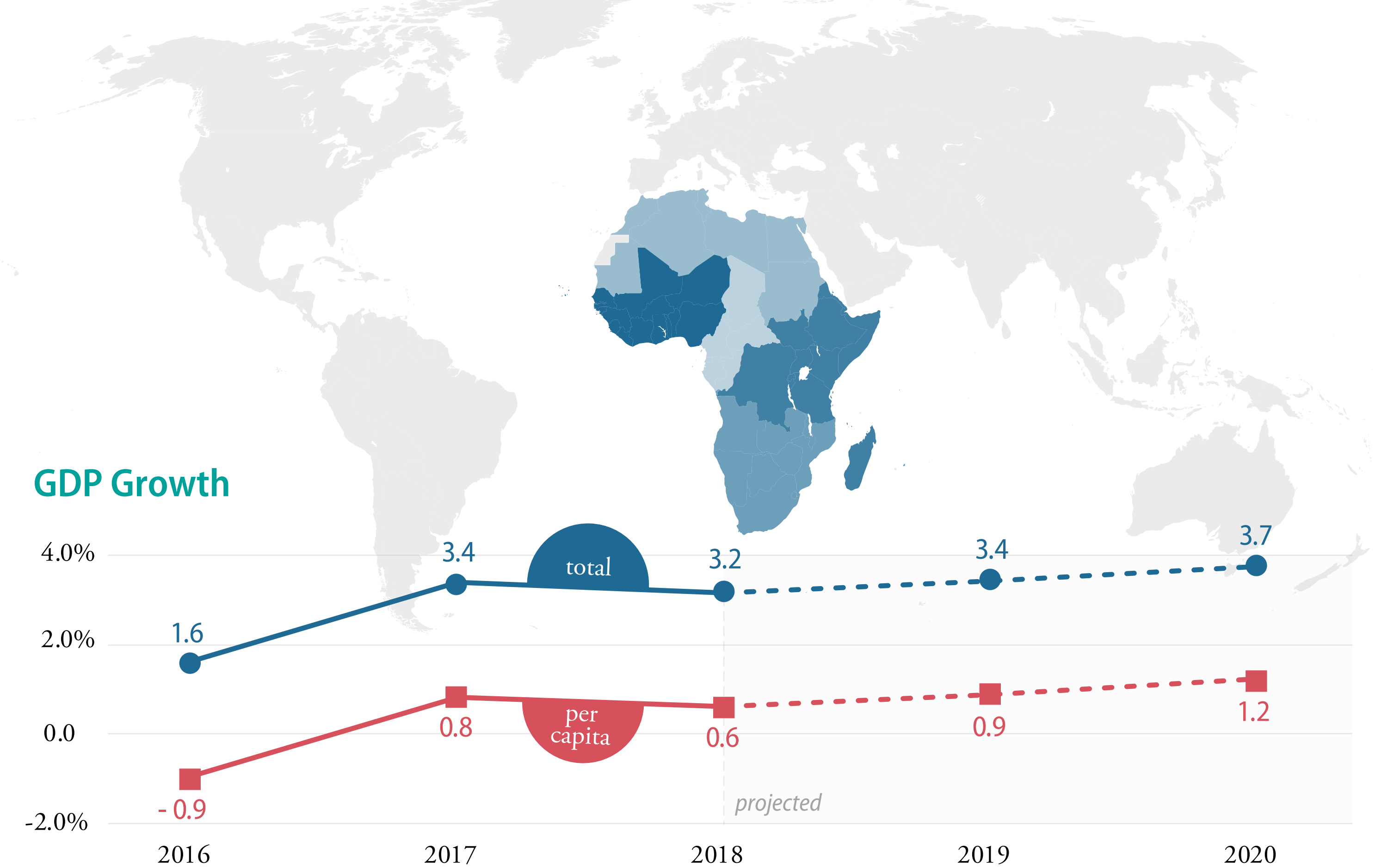
World Economic Situation and Prospects 2019



United Nations
New York, 2019

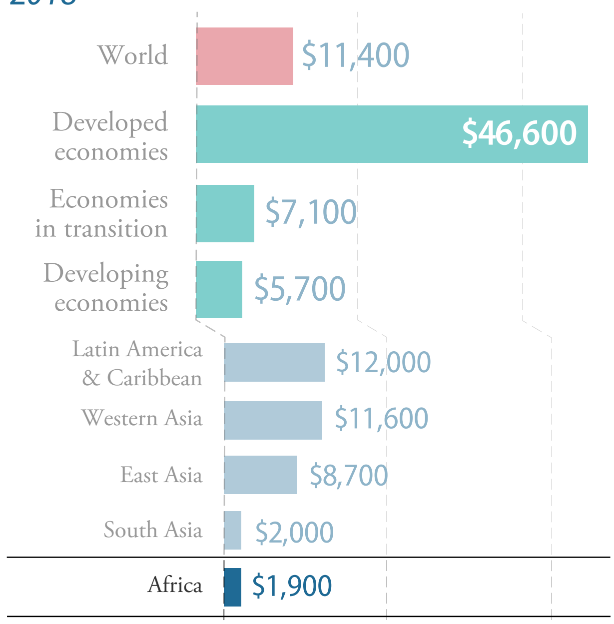
Africa

GDP Growth



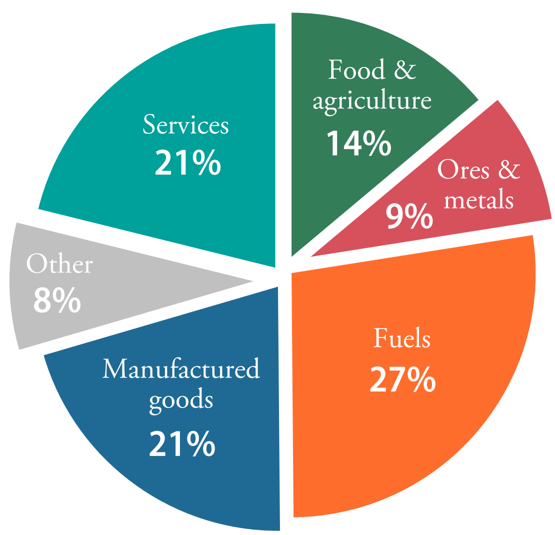
GDP per capita

2018



Exports structure

2016



The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. Final boundary between the Republic of Sudan and the Republic of South Sudan has not yet been determined.

The map represents countries and/or territories or parts thereof for which data is available and/or analysed in *World Economic Situation and Prospects 2019*. The shaded areas therefore do not necessarily overlap entirely with the delimitation of their frontiers or boundaries.

Developing economies

Africa: improving short-term outlook but with significant medium-term vulnerabilities

- Growth in Africa is expected to strenghten
- The outlook is clouded by downside risks, while substantial structural vulnerabilities remain unresolved
- Medium-term prospects remain too weak to reach many targets of the Sustainable Development Goals

Growth is modestly improving and inflationary pressures have eased

Africa's economic growth is projected to increase slightly from 3.2 per cent in 2018 to 3.4 per cent in 2019 and 3.7 per cent in 2020 (figure III.7). This moderate acceleration is expected to be supported by external factors, including a strengthening of global demand for Africa's products, and domestic factors, such as robust private consumption, sustained investments in infrastructure, and rising oil production, particularly due to new field development. Inflation is estimated to have declined in 2018 and should fall further in 2019 due to improving agricultural and food production as well as stable exchange rates in most countries.

Despite a robust investment-to-GDP ratio of about 25 per cent, GDP growth in Africa remains well below what is needed to reach many Sustainable Development Goals (SDGs) targets and keep pace with rapid population growth. Per capita income growth for the continent has modestly improved from the contraction in 2016; however, at only 0.6 per cent in 2018 and 0.9 per cent projected in 2019, it remains insufficient to significantly improve living standards of large segments of the population. Overall, Africa needs to at least double the current growth rate in order to make significant progress towards achieving the SDGs. Furthermore, inequality levels in the continent remain high and slow moving. Only a few African economies have achieved significant improvements in income distribution between 2000–2004 and 2012–2016. Out of 25 economies for which data is available, only 4 countries (located in West Africa) have seen the share of those in the bottom 20 per cent of income distribution increase by 2 percentage points or more (figure III.8.A). By contrast, over the same period, the income share held by those in the top 20 per cent of income distribution has risen by at least 2 percentage points in 7 economies (figure III.8.B). In Zambia, this share jumped by almost 9 percentage points. This implies that the gains from GDP growth will likely remain very unequally distributed in many countries.

There is some progress in fiscal consolidation…

The overall fiscal position continued to improve, with the fiscal deficit narrowing slightly in 2018, mainly due to ongoing fiscal consolidation efforts in many countries. The fiscal position is forecast to remain stable in 2019, supported by rising export revenues, particularly from natural resources.

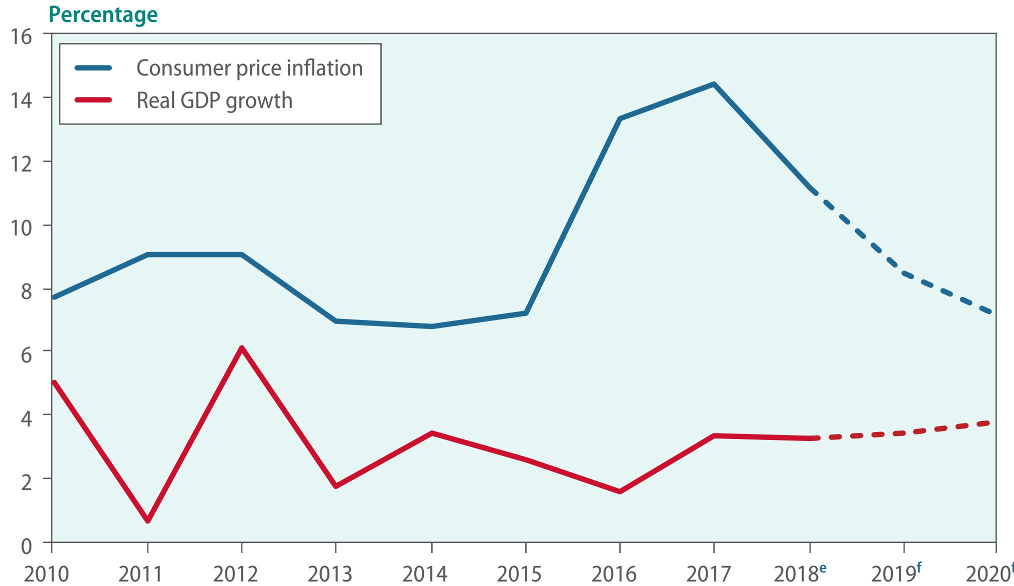
…while the current account strengthens

Africa's overall current account deficit narrowed in 2018. The improvement was underpinned by several factors, such as improvements in commodity prices and production, but counterbalanced by, inter alia, capital and food imports.

Gradually rising economic growth is seen in all subregions

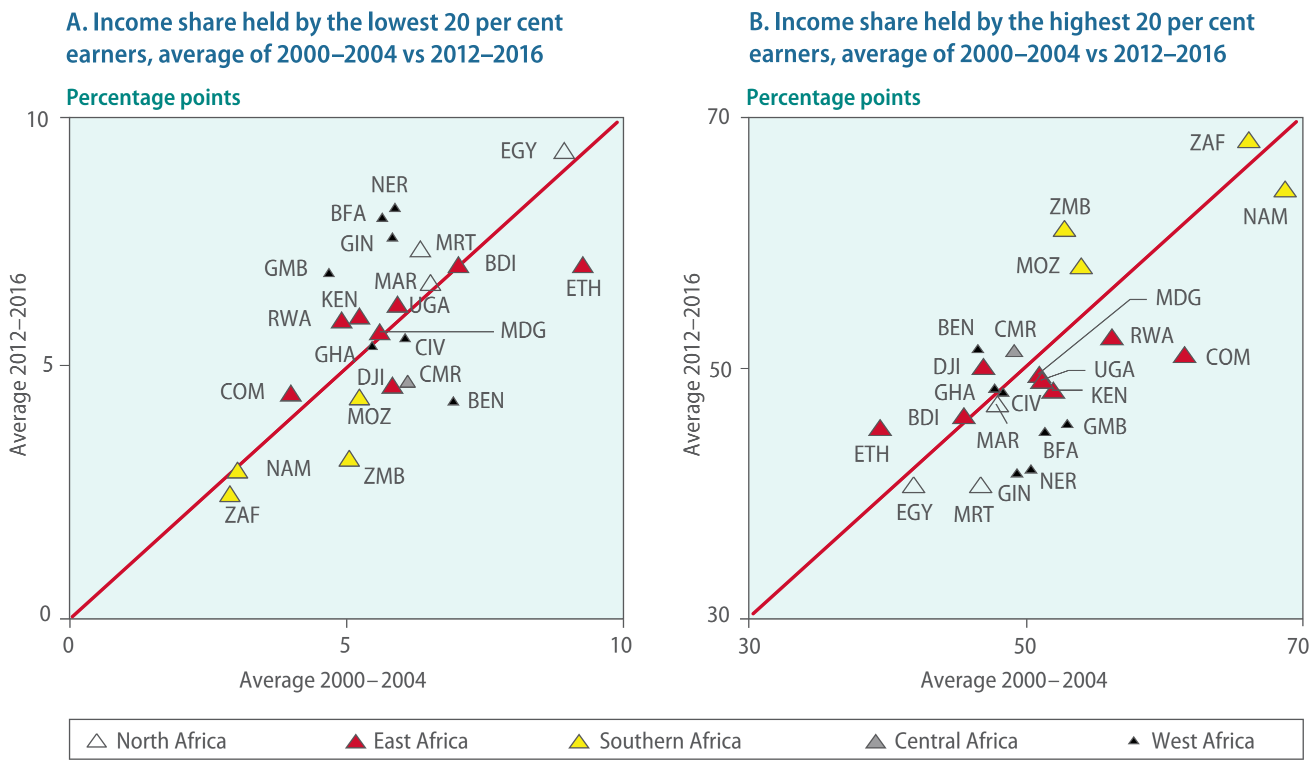
The economic performance varied significantly across the five subregions in 2018 (figure III.9). East Africa continues to be the fastest-growing subregion in Africa with a 6.2 per cent growth rate driven by government spending on infrastructure and domes-

Figure III.7
GDP growth and inflation in Africa, 2010–2020



Source: UN/DESA.
Note: e = estimate, f = forecast.

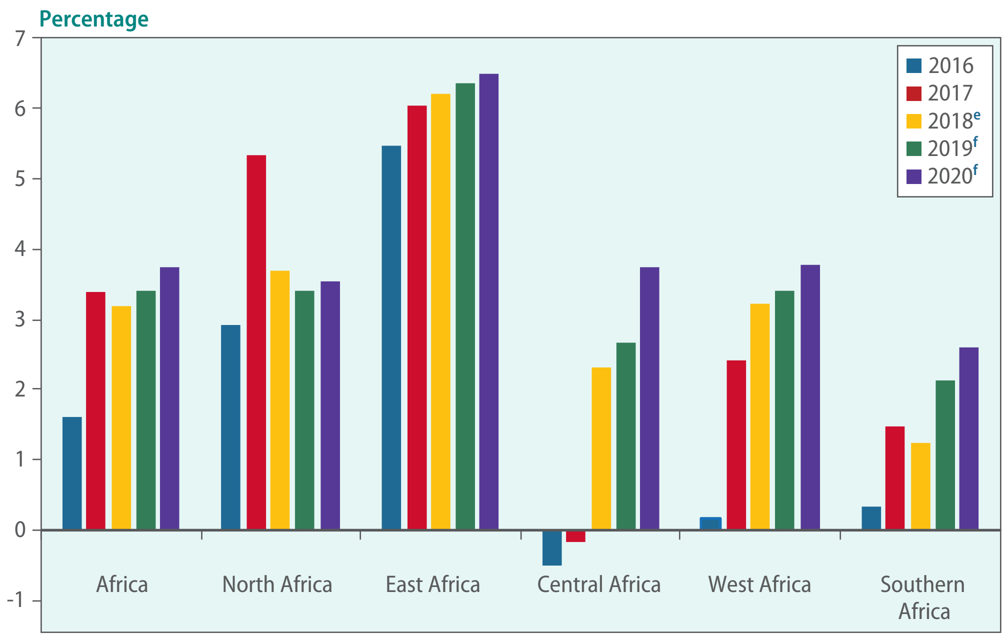
Figure III.8
Income distribution by population quintiles, Africa



Source: UN/DESA, based on data from World Bank's World Development Indicators database.

tic demand. North Africa expanded by 3.7 per cent, with economic activity driven by improvements in tourism revenues and rising agriculture production. West Africa, led by the Nigerian economy, grew by 3.2 per cent due to the increase in oil revenue. Meanwhile, economic growth of the Southern African subregion deteriorated slightly from 1.5 per cent in 2017 to 1.2 per cent in 2018, and remains adversely affected by the economic performance of South Africa. After two challenging years, Central Africa achieved a 2.2 per cent growth rate in 2018, exiting recession of -0.2 per cent in 2017.

Figure III.9
GDP growth rates by African subregions, 2016–2020



Source: UN/DESA.
Note: **e** = estimate, **f** = forecast.

North Africa: growth supported by favourable external conditions

North Africa is estimated to have grown by 3.7 per cent per cent in 2018. The recent economic expansion reflects improving external conditions with higher commodity prices and strong growth in European economies, the largest export destination. The economic growth of North Africa is forecast to moderate slightly to 3.4 per cent in 2019 and 3.5 per cent in 2020 (figure III.10). While external conditions are forecast to stay mostly favourable, structural vulnerabilities, including weak fiscal and balance of payment positions, are projected to weigh on growth prospects, particularly in Egypt, Sudan and Tunisia. Political instability and social unrest also remain a downside risk factor in North Africa.

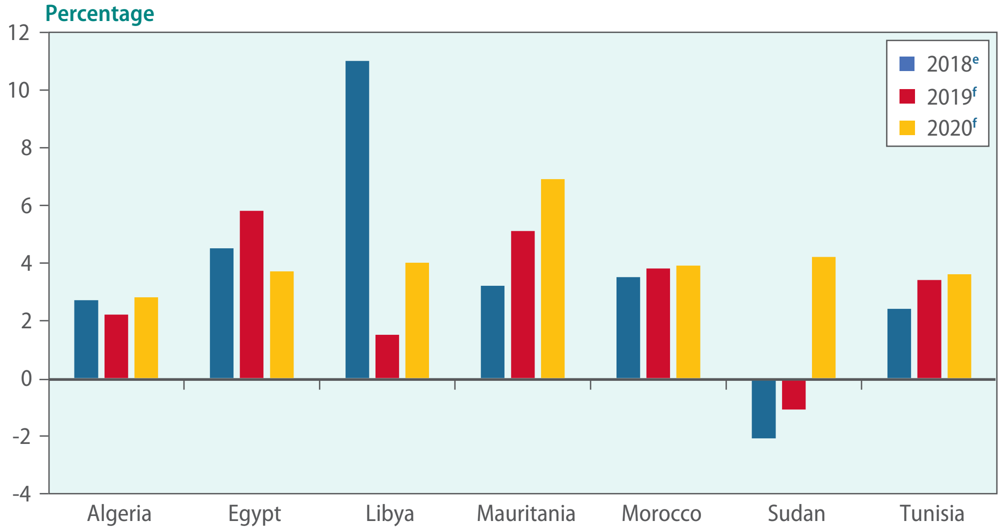
Balance of payment conditions contribute to different economic performances

In 2018, balance of payment constraints on Egypt and Libya eased, which resulted in declining inflation rates and policy space to support domestic demand. Meanwhile, Tunisia and Sudan remain under severe balance of payment constraints, resulting in rapid inflation with limited space for domestic demand expansion.

Egypt eased its monetary stance for the first time since 2015

These balance of payment constraints dictate monetary policy stances. While the Central Bank of Egypt eased its stance for the first time since 2015, the Central Bank of Tunisia further tightened its stance by raising its policy interest rate. The Central Bank of Sudan took a tightening measure through a series of drastic devaluations of the national

Figure III.10
GDP growth in North Africa, 2018–2020



Source: UN/DESA.
Note: **e** = estimate, **f** = forecast.

currency. The monetary stance has remained stable in other countries. For 2019, the monetary policy stances are expected to be neutral to tightening in North Africa, including Egypt, following the trend of the United States and the euro area.

Fiscal consolidation remains challenging

Fiscal consolidation remains the major policy challenge in North Africa. Fiscal deficits on average saw a mild decline in 2018, owing to higher commodity prices and ongoing fiscal reform measures. However, government revenues still need to be increased in Egypt, Morocco, Sudan and Tunisia. Moreover, shifts in the composition of fiscal spending are needed to address social issues and poverty alleviation. As it was shown in the past in North Africa, a simple austerity measure could trigger social unrest.

A consistent economic expansion in Algeria continued at 2.7 per cent in 2018, driven mainly by higher oil and gas production. As private consumption remains subdued, however, the growth rate is forecast to decline to 2.2 per cent in 2019. In Egypt, external demand drove the growth rate to 5.8 per cent in 2018. A recovery in domestic demand, particularly private consumption, is forecast to sustain economic growth at 5.2 per cent in 2019. The Libyan economy continues to expand rapidly, by 11.0 per cent in 2018, as the crude oil production has recovered to reach 1.2 million barrels per day. However, domestic demand remains weak as a result of the unstable security situation. As the impact of increasing crude oil production tapers off, the Libyan economy is forecast to grow at 1.5 per cent in 2019.

Healthy expansion continues in Morocco while a challenging situation remains in Tunisia

Morocco's healthy economic expansion continues, albeit at a slightly reduced pace, estimated at 3.5 per cent in 2018. While a slower phosphate production and modest agricultural production contributed to the slowdown, the domestic demand expansion remains robust. The Moroccan economy is forecast to expand by 3.8 per cent in 2019. In Tunisia, the growth in tourism and industrial production has contributed to a mild acceleration in GDP growth to 2.4 per cent in 2018. However, the Tunisian economy is constrained by balance of payment difficulties, witnessing insufficient foreign capital inflows to finance the current account deficits. The central bank's reserves continue to decline while the national currency, the Tunisian dinar, depreciates. However, the ongoing reform measures, particularly on the fiscal side, are expected to bring stabilization. The Tunisian economy is forecast to grow by 3.4 per cent in 2019.

Mauritania accelerates while Sudan suffers from high inflation

The mineral and fishery sectors, as well as foreign capital inflows to mining projects, continue to support a positive expansion of the Mauritanian economy. GDP has grown by 3.2 per cent in 2018 and is forecast to grow by 5.1 per cent in 2019. However, this rate of economic expansion is still insufficient to eradicate poverty, which is exacerbated by rapid desertification and the resulting urbanization. The Sudanese economy is under serious balance of payment constraints. The central bank's foreign reserves have been depleted, while the central bank actively purchases domestic government debt. The combination of a rapid expansion of the central bank's balance sheet and a rapid devaluation of the national currency resulted in an exceptionally high inflation rate, estimated to be 64.1 per cent in 2018. The severe price shock is expected to have caused a real contraction in 2018 of 2.0 per cent. The Sudanese economy is forecast to contract further in 2019 before resuming positive growth in 2020.

East Africa: growth remains robust although not inclusive

Stable and robust growth in East Africa

East Africa remains the fastest growing subregion of Africa, with 6.2 per cent GDP growth in 2018 and a minor further acceleration anticipated in 2019–2020. GDP per capita for the region expands at about half that rate, with growth of 3.3 per cent in 2018. With a population of over 100 million—one fourth of the entire region—Ethiopia is the largest economy in East Africa. Nevertheless, in GDP per capita terms, the country stands in sixth place after Dijbouti, Kenya, Comoros, Eritrea and the United Republic of Tanzania. Regarding GDP per capita growth, Dijbouti and Ethiopia both recorded growth in excess of 5 per cent in 2018. Kenya and the United Republic of Tanzania expanded by about 3.5 per cent in per capita terms in 2018. In contrast, after years of conflict and still submerged in sociopolitical crisis, Burundi recorded another year of decline in GDP per capita of 3.0 per cent in 2018. Since the progress towards stability remains sluggish, the economic outlook for Burundi remains negative until 2020. Similarly, growth prospects remain bleak in conflict-torn Democratic Republic of the Congo.

Growth does not close income inequalities

East African economies have observed a prolonged period of robust growth, outperforming their peers in the continent. The region benefits from improvements in stability, new investment opportunities, and incentives for development of new industries. Nevertheless, the situation remains almost unchanged regarding income distribution. In 2000, the estimates suggest that the bottom 20 per cent of earners received 6.5 per cent of the total income, while the top 20 per cent of earners received 48.0 per cent. In 2015, there was no statistically significant change to this picture, with shares at 6.3 and 48.0 per cent, respectively (figure III.11).

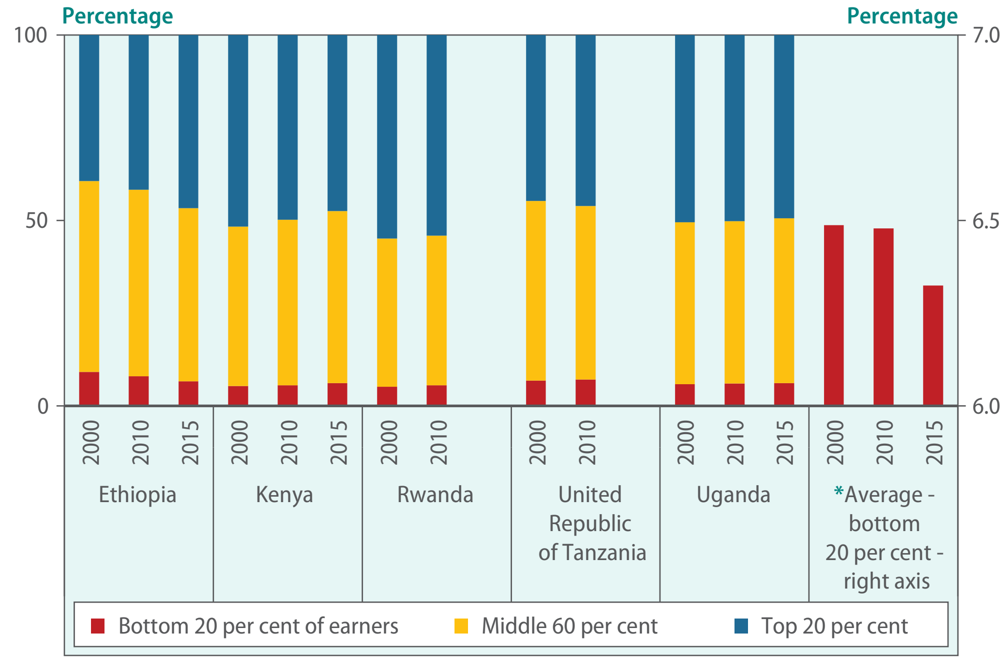
East African economies slowly diversifying towards services

Agriculture remains the dominant economic sector in terms of employment in the region, but many countries are increasing their economic diversification. The industrial sector is expanding in major economies, although the largest increase is observed in the services sector (figure III.12). The increased government expenditure on infrastructure and rapid expansion of the construction, real estate and retail sectors in Ethiopia and Kenya will continue to boost regional growth. Still, a large share of employment in agriculture remains one of the reasons for a low share of income at the bottom of the income distribution.

Fiscal deficits broaden amid insufficient savings and increasing external debt

All East African countries continue to experience relatively high fiscal deficits. Recent deteriorations generally reflect high infrastructure investment alongside weak domestic resource mobilization (figure III.13). The resulting savings gap is filled by external financing (e.g., the shift towards increased borrowing from China and the international bond

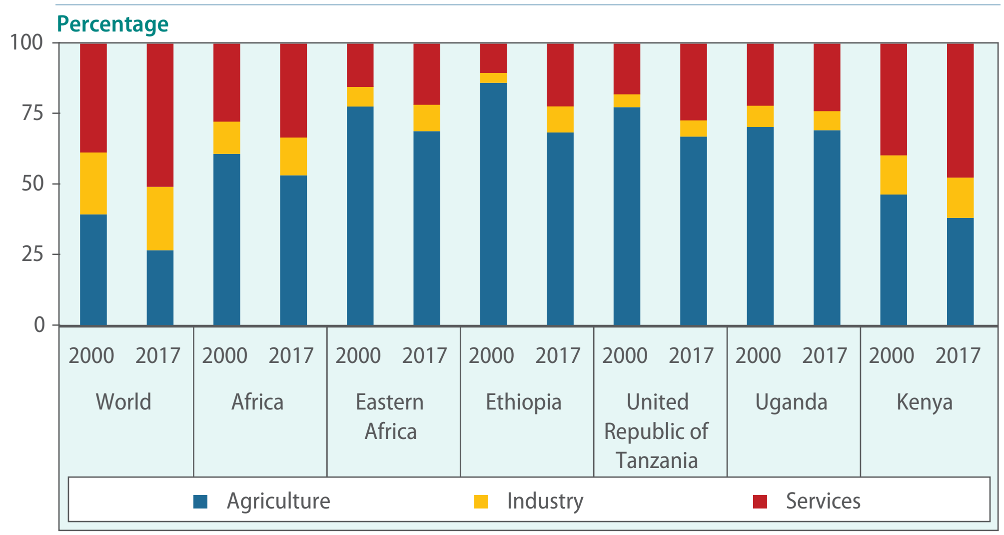
Figure III.11
Changes in income distribution, by income group, selected East African countries



Source: UN/DESA, based on data from World Bank's World Development Indicators database.

*Unweighted average of the income share of the bottom 20 per cent among 5 presented countries.

Figure III.12
Labour market structure of selected East African countries, by sector

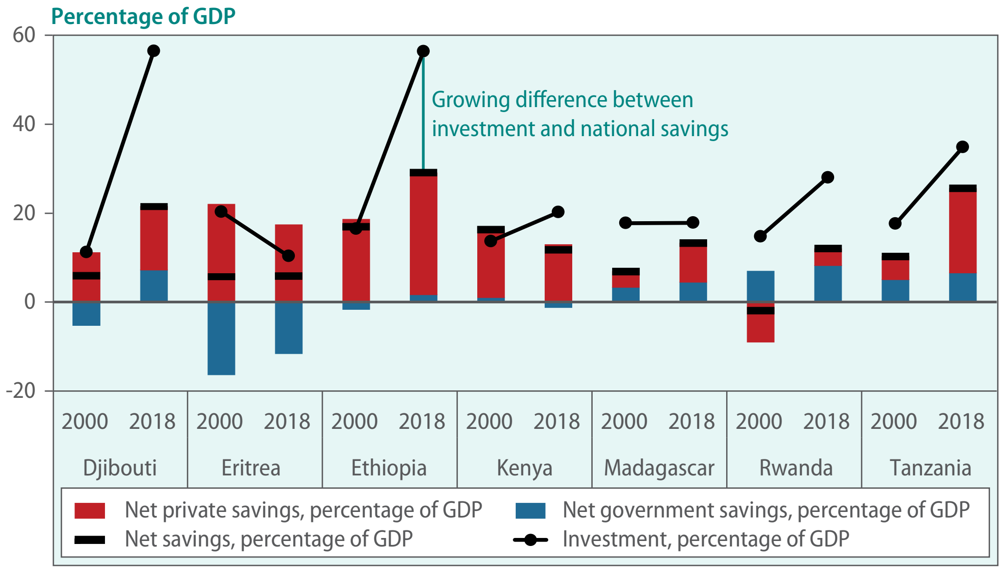


Source: World Bank's World Development Indicators database.

market). The debt position in the region is expected to deteriorate in the next few years, increasing the risk of external debt distress in a number of countries (Djibouti, Ethiopia, Kenya, Somalia and South Sudan) (IMF, 2018b). Furthermore, more pressure on debt-servicing is expected, due to tightening of the United States monetary policy and a stronger US dollar.

Figure III.13

Changes in savings and investment as ratios of GDP, 2000 and 2018



Sources: UN/DESA and IMF World Economic Outlook October 2018 database.

The macroeconomic environment is stable but under pressure

Inflation is expected to remain moderate in most countries in 2018, and decelerate further in 2019. South Sudan recorded inflation in excess of 100 per cent in 2018, but inflation should decelerate towards 20 per cent in 2019. Stability in the regional macroeconomic environment, driven by appropriate policy frameworks, should support stabilization of exchange rates, which depreciated only by about 2–3 per cent in 2018. The currencies of South Sudan, Ethiopia and Eritrea, might record stronger depreciations due to larger macroeconomic imbalances. External factors, in particular strengthening of the US dollar, might lead to cross-regional depreciations, especially between commodity exporters and other countries. Burundi, Djibouti, Ethiopia and Somalia are expected to have large deficits.

The outlook is positive but dependent on external factors

The outlook for the region remains largely dependent on external factors. Low coffee prices will weigh on the Ethiopian economy, while moderate tea prices will be beneficial for the Kenyan economy. Except for South Sudan, low oil prices would be a tailwind. Diaspora remittances will remain a supportive and stabilizing factor. The diminishing political uncertainties both in Ethiopia and Kenya are likely to boost investment and foreign capital inflows. At the same time, oil and gas explorations, favourable weather, and enhanced integration in regional economic communities and the African Continental Free Trade Area present substantial growth opportunities beyond the 2019–2020 outlook (box III.3).

Conflict leaves countries behind

The region faces considerable downside risks. These risks include conflicts, insecurity and rising political tension in Burundi, Democratic Republic of the Congo (with elections scheduled towards the end of 2018), Somalia and South Sudan. As witnessed throughout 2018, conflict does not only deter investment, thereby preventing growth in some regional economies, but also hinders international development assistance efforts. For example, conflict has been listed as one of the main factors undermining ongoing World Health Organization (2018) efforts in addressing the Ebola outbreak in the Democratic Republic of the Congo—efforts that would have had more impact on both the disease and the economy in a non-conflict environment.

Box III.3

African Continental Free Trade Area: opportunities and challenges for achieving sustainable development

The African Continental Free Trade Area (AfCFTA) declaration, signed by 49 African Union Members in 2018, is believed to have the capability of boosting intra-African trade and producing the kind of growth that can support economic diversification, industrialization and development of the continent. An additional six Member States signed the Kigali Declaration, committing to signing the AfCFTA after finalizing domestic review processes. Among other goals, the AfCFTA is envisaged to facilitate, harmonize and better coordinate trade regimes, and eliminate the challenges associated with multiple and overlapping trade regimes across countries as well as across regional economic communities (RECs).

The AfCFTA is likely to support the continent's industrialization and structural transformation agenda, as manufactured products make up 46 per cent of intra-African trade and only 22 per cent of Africa's trade with the rest of the world, leaving significant scope for African countries to industrialize. According to United Nations Economic Commission for Africa (ECA) estimates, the AfCFTA is expected to increase Africa's industrial exports by more than 50 per cent over a period of 12 years. This could promote the type of trade that would potentially create jobs for Africa's growing youth population and establish opportunities for nurturing Africa's businesses and entrepreneurs. All countries and regions are expected to increase their exports, regardless of the approach to liberalization, supporting the continent's industrialization and structural transformation agenda. Intra-African trade is projected to rise by between 15 and 25 per cent. The more ambitious the liberalization approach, the higher the potential trade creation and revenue gains within Africa. Estimates reveal the largest potential increases of over 40 per cent in textile, wood and paper, vehicle and transport equipment, other manufactures and wearing apparel industries (ECA, 2018).

The implementation of the AfCFTA has some fiscal policy implications through marginal losses in tariff revenue (ibid.). The small scale of the losses is mainly due to intra-African trade being a small share of Africa's total trade (only 18 per cent of total exports in 2016), and most intra-African trade is already liberalized under RECs. The AfCFTA is estimated to affect only about 7 per cent of Africa's total imports under current trade patterns. Nonetheless, there is widespread fear within participating countries that the revenue losses will prove significantly larger, which could delay implementation of the AfCFTA.

The resulting tariff cuts would lead to a redistribution of income from Governments to consumers and producers. Moreover, the AfCFTA is expected to produce additional welfare gains that surpass tariff losses significantly due to better allocation of resources (Saygili et al., 2018). Furthermore, countries will be allowed to exclude a certain number of tariff lines (e.g., tariff lines that are important for raising tariff revenues) from the liberalization process. Conveying these messages clearly to participating countries is crucial to accelerating the implementation of AfCFTA.

These tariff revenue losses may also be outweighed by the additional revenues from growth to be generated by the AfCFTA, which would broaden the tax base and boost revenue collection from other sources. Growth in Africa is expected to accelerate by 0.3–0.6 percentage points by 2040 (depending on the liberalization approach or scenario adopted), when compared to the baseline scenario. All African countries would experience an increase in their GDP with the AfCFTA reforms, whatever the scenario. Countries such as Zimbabwe are expected to increase by between 3.6 and 31.9 per cent, depending on the scenario.[a] However, these forecasts are likely to substantially underestimate the economic benefits of the AfCFTA, as they do not take into account the impact of liberalization in other areas such as services and investment (ECA, 2018).

The benefits of the AfCFTA would be further enhanced by maximizing the potential that comes with a fast-growing young population and the associated fast urbanization process occurring on the continent. This would be conducive for agglomeration economies providing major opportunities for industrialization through rising demand and shifting patterns of consumption (ECA, 2017). Through the AfCFTA, the growing middle class can be leveraged to stimulate industrial development to meet the rising demand domestically and regionally, leading to broader integration through value chains. However, for this to be achieved, Africa needs to take proactive steps to curb the associated risks that come with a rising and urbanizing population (ibid.).

a The wide difference tries to reveal the observed effects of the differences between approaches, which are more pronounced at country level (see ECA, 2018 for more details).

(*continued*)

Box III.3 (*continued*)

Implementation of the AfCTA may be delayed by the following circumstances: the multiple and overlapping trade agreements in Africa; fear of significant tariff revenue losses by countries; possible uneven distribution of other costs and benefits among member countries; and poor and inadequate domestic infrastructure. The role of payment systems in facilitating cross-border trade and the associated challenges and constraints of various payment arrangements, both at national and regional levels, need to be examined. There is a need, therefore, for policies to mitigate these challenges and help enhance the redistribution of potential benefits and costs of the AfCFTA.

The importance of infrastructure in enhancing regional integration cannot be emphasized enough. Recognizing the importance of efficient transport, communications, energy infrastructure and related services for trade and the pursuit of the continent's development goals, the African Union Heads of State and Governments, among others, reaffirmed the high priority accorded to infrastructure and launched the Plan for Infrastructure Development in Africa (PIDA) for its accelerated development (ECA, 2010). The objective of the PIDA is to help African leaders establish a strategic framework for creating regional and continental infrastructure based on a development vision, strategic objectives and sector policies. Accelerating this process is now all the more imperative for taking full advantage of the opportunities offered by the AfCFTA.

Authors: Hopestone Kayiska Chavula and Nadia S. Ouedraogo (UN/ECA).

Southern Africa: growth potential remains underutilized and hampered by lack of stability

Lack of stability curbs growth

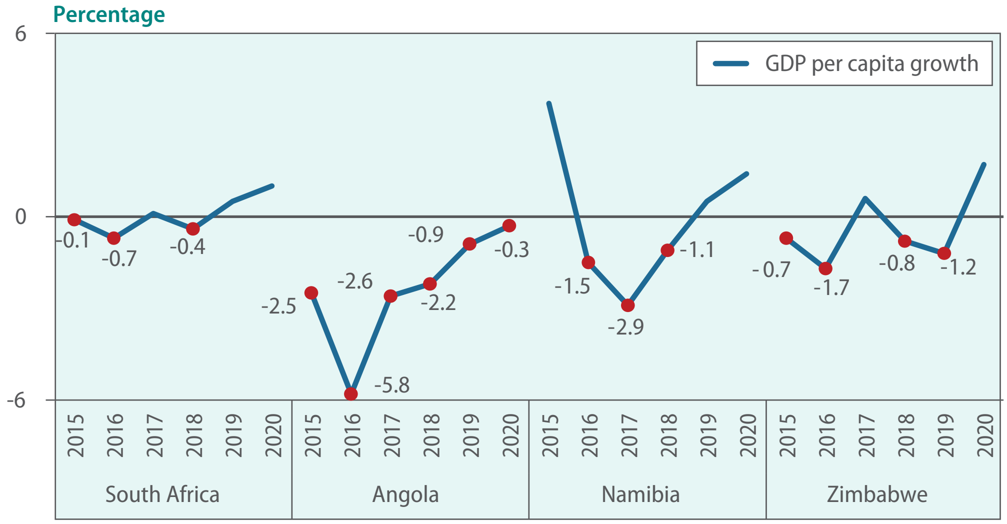
Growth in Southern Africa decreased from 1.5 per cent in 2017 to 1.2 per cent in 2018. The outlook for 2019–2020 depends on developments in South Africa's economy, which contributes about 60 per cent to the economic output of the region. Despite some reported improvement, the outlook remains neutral to negative. South Africa fell into technical recession after two quarters of negative growth in the first half of 2018, with a widespread deterioration across sectors. The growth figures have been largely distorted by agriculture and forestry due to volatile weather in the last year. The second quarter recorded only a minor rebound in mining and quarrying, after a sharp decline in the previous two quarters. The economic situation is improving in Angola, the second largest economy of the region. GDP of Angola is estimated to have grown by 1.0 per cent in 2018. However, if the sharp decline in the oil price recorded at the end of 2018 persists, it will weigh down substantially on GDP forecasts for Angola. In aggregate, Southern Africa is forecast to grow by 2.1 per cent in 2019 and 2.6 per cent in 2020.

No improvement is seen in per capita growth in the largest economies amid deepening inequalities

Moving away from aggregates towards per capita numbers, the developments of Southern African economies present an even more alarming picture (figure III.14). In 2018, GDP per capita in South Africa declined to 2012 levels. Zimbabwe will also record a decline in GDP per capita, with a 3 per cent cumulative fall since 2013. The recent government change in Zimbabwe has so far not delivered. The GDP per capita is estimated to have grown by 3.5 per cent in Mauritius, driven largely by offshore financial services.

The inequalities in Southern Africa remain deep and are increasing. In the largest economy of the region, South Africa, the top 20 per cent of earners receives about two thirds of total income, while the bottom 20 per cent receives only 2–3 per cent. Although not as polarized, a similar scenario exists in other Southern African economies. Notably, the income of the bottom 20 per cent is on a long-term downward trend, and recent GDP per capita growth does not suggest short-term improvement in this area (figure III.15).

Figure III.14
GDP per capita growth in selected Southern African countries, 2015–2020



Source: UN/DESA.
Note: 2018 is estimated; 2019 and 2020 are forecasts.

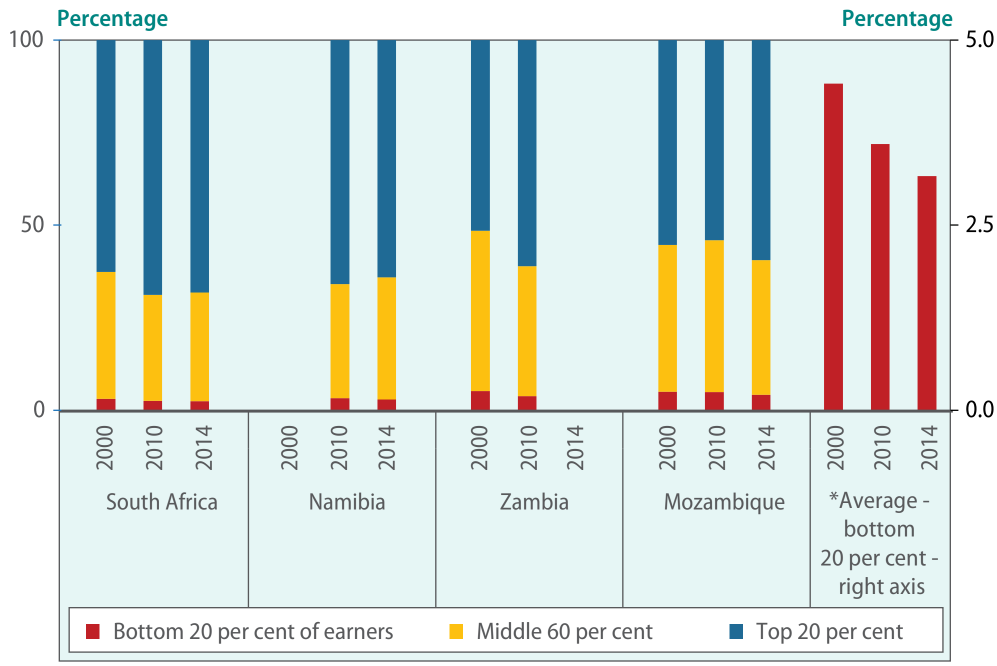
Growth is dependent on commodity prices amid insufficient employment diversification

Growth in the subregion has been underpinned by increased commodity prices, leading to a strong mining sector, and improved energy supply, which have spillover effects to other sectors in the economies of the subregion. Efforts towards diversification are not substantial across the region, held back by lack of long-term government strategies, lack of local capital mobilization, narrow tax bases, and low levels of foreign investment. Since the agricultural sector contributes largely to the GDP of the region, bad weather conditions might significantly affect agricultural production and pose a serious risk for the 2019–2020 outlook (figure III.16).

Government debt-to-GDP ratios are expected to increase, with the exception of Angola, which managed to reduce government debt from 75 per cent of GDP in 2016 to 48 per cent in 2018 and is heading towards 30 per cent in 2020. Government debt remains very high in Mozambique, at 95 per cent of GDP, falling only a few percentage points a year. Meanwhile, government debt to GDP in Zimbabwe may rise to 94 per cent of GDP in 2018, and further up to 117 per cent in 2020. Monetary tightening in most developed economies and the associated rise in interest rates create doubts on the sustainability of debt dynamics in some countries.

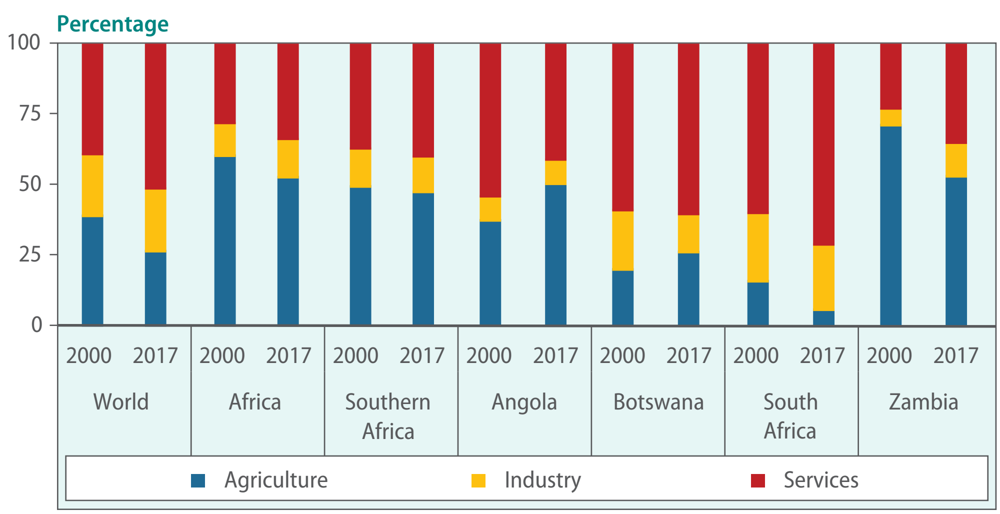
The outlook for fiscal balances remains mixed. Botswana and Namibia are forecast to record improvement up until 2020. The fiscal deficit in South Africa is expected to remain largely stable, but is at risk of deterioration due to a challenging economic situation. Heightened political pressures to increase public sector wages and protect subsidies persist in Botswana, Malawi, Mauritius and Mozambique. Fiscal policy in the subregion continues to be guided by a commitment to fiscal consolidation aimed at reducing public debt and consolidating and rebalancing expenditure between capital investment and high recurrent expenditures. Malawi and Lesotho are particularly notable for their efforts to widen the tax base, introducing new consumer tax measures and automation of tax administration to increase revenues. The countries in the subregion have continued to maintain a relatively tight monetary policy stance in order to curb inflationary pressures—pressures that mainly

Figure III.15
Changes in income distribution, by income group, in selected Southern African countries



Source: UN/DESA, based on data from World Bank's World Development Indicators database.

Figure III.16
Labour market in selected Southern African countries, by sector



Source: World Bank's World Development Indicators database.

emanate from poor harvests caused by poor weather conditions. The current account deficit is expected to widen in 2018. High current account deficits in most of these countries are a result of high demand for capital imports, high food imports (as local food supply has been affected by adverse weather) and sluggish growth in export earnings.

West Africa: persistent vulnerabilities may jeopardize growth momentum

Real GDP in West Africa is estimated to have grown by 3.2 per cent in 2018, up from 2.4 per cent in 2017 (figure III.17), as a result of increased oil prices and production for Nigeria and Ghana; a strong and increasing services sector in most countries; relatively buoyant markets for mineral and agricultural commodities; strong private consumption; and public investment on infrastructure.

The growth trend is highly influenced by the sluggish performance of the Nigerian economy, which accounts for 70 per cent of regional GDP. Growth in the eight-nation West African Economic and Monetary Union (WAEMU)[2] continues to register a healthy pace, remaining above 6.5 per cent in 2018–2020.

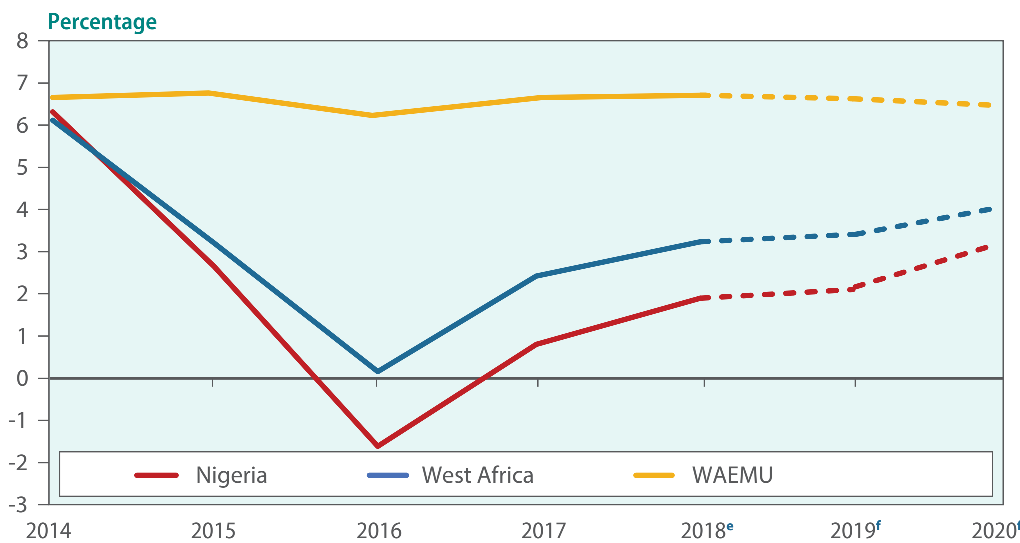
In 2019, growth is projected to accelerate slightly to 3.4 per cent, driven by domestic demand, improving terms of trade and capital inflows. Risks to the outlook are mainly on the downside. These include vulnerability to oil price movements; weather-related shocks affecting agricultural activities and food prices; complex and interrelated security threats, particularly in the Sahel region; political instability in some countries; and risk of debt distress in the Communauté financière africaine (CFA) franc zone.

However, in the medium term, upside risks are also relevant, notably from development of manufacturing and industrial sectors, and opportunities provided by rising manufacturing costs in China. Looking further ahead, the new Special Economic Zone across Burkina Faso, Côte d'Ivoire and Mali as well as the African Continental Free Trade Area have the potential to boost GDP growth and economic opportunities across the region in the long term.

Commodity exports support current account surplus

The overall current account surplus of West Africa improved in 2018. The main drivers include improvements in oil prices, rising global prices of non-mining export commodities and rising cotton exports. However, in 2019, the current account surplus will narrow, mainly as a result of lower world crude prices and thus higher imports spending.

Figure III.17
GDP growth in West Africa, Nigeria and WAEMU, 2014–2020



Source: UN/DESA.
Note: **e** = estimate, **f** = forecast.

2 Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo.

Tight monetary policy stances persist…

Monetary policy in the WAEMU has remained relatively tight since end-2016, reducing banks' appetite for government debt and contributing to Eurobond issuances. Further tightening is possible if pressures persist on the money market or foreign-exchange reserves. In Nigeria, monetary policy should remain tight to contain inflationary pressures and support the naira's exchange rate, while there is a slow move towards a uniform market-determined exchange rate. In Sierra Leone, monetary policy is tightening in order to curb rising domestic food prices, which have resulted from seasonal supply shocks, the depreciating leone, and rising international prices of fuel and rice. A more supportive situation exists in Ghana, where falling inflation allowed the Government to cut its benchmark interest rate in 2018. Interest rates are expected to decrease further in 2019.

…amid double-digit inflation

In 2018, West Africa's inflation was the highest across all subregions of Africa, at 13.4 per cent. Inflation remained high in 2018 due to inflationary pressures in Nigeria (16.2 per cent), Sierra Leone (11.7 per cent), Liberia (11.2 per cent) and, to a lesser extent, Ghana (8.3 per cent). Inflation was driven by a poor harvest in the Sahel region that led to an increase in food prices, higher import prices and an increase in production costs. In 2019 and 2020, inflation is expected to decrease but stay in double digits.

Depreciation is likely in many currencies

Despite regional dependence on primary commodities, exchange rates remained fairly stable in several of the francophone countries, cushioned by an appreciating euro that will continue in 2019. In Nigeria, exchange rates remained stable in 2018, supported by stronger oil prices, but are sensitive to political events. In the Gambia, the currency has remained stable due to improved macroeconomic fundamentals, although depreciation is also likely in 2019 due to moderation of external capital inflows. Exchange rates are forecast to depreciate in Ghana in connection with the sell-off in emerging market currencies and turmoil in local banking sectors. Likewise, depreciation is expected in Sierra Leone due to liberalization of the currency, and in Liberia due to poor terms of trade and reduced foreign currency inflows.

Fiscal consolidation efforts remain on the agenda for most West African Governments

Most countries in the subregion continue to undergo fiscal consolidation. Improved control of public expenditure and efforts to increase revenue have already caused some fiscal deficits to narrow, marginally decreasing the regional average—a trend that is expected to continue in 2019. Over the short to medium term, however, the fiscal deficit of the subregion is expected to widen again due to increased government spending (in Ghana, Nigeria and some WAEMU countries) and weaker revenue collection.

Central Africa: growth boosted by energy prices, but structural challenges remain

A fragile economic recovery is underway in Central Africa. After recession in 2016–2017, growth in 2018 reached 2.2 per cent, driven by a recovery in commodity prices, increased production from new oil and gas fields, and stronger performance in the agriculture, manufacturing and services sectors in different countries.

Growth in the Central African subregion is estimated to pick up to 2.5 per cent in 2019 and 3.8 per cent in 2020, supported by firming oil prices, rising investment, new oil and gas fields and consolidation of diversification measures in many countries. The remaining key downside risks include reversal in oil prices; weak fiscal reforms; deterioration in already precarious security situations (Cameroon's Anglophone region; Central African Republic, the Republic of the Congo Pool region, Lake Chad region); escalation of social tensions amid elections; and lower-than-expected donor budget support.

Furthermore, structural challenges hamper several economies in the subregion, including political instability and insecurity, fiscal dependence on commodity revenues, delayed public investment, vulnerability to weather shocks, difficult business environments, fragile state institutions and weak democracy.

A low and fragile level of foreign reserves…

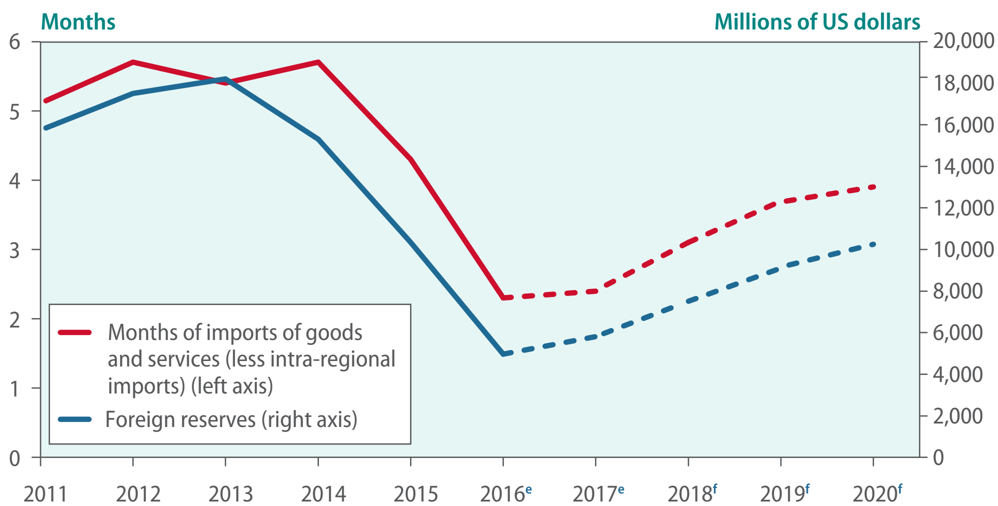
The overall external account balance is estimated to keep improving, buoyed by several factors, most notably the improvements in commodity prices and exports. Support also stems from the partial lifting of a ban on exports of diamonds in the Central African Republic and relatively faster growth of services exports (mainly tourism earnings) compared to merchandise imports in Sao Tome and Principe. However, external reserves in the Central African Economic and Monetary Community (CEMAC)[3] remain below pre-crisis levels and fell short of targets in 2018, despite higher oil prices (figure III.18). Fiscal slippages by a few countries partly explain the lower-than-expected international reserve accumulation in 2018. Current medium-term predictions point to moderate levels of reserves, after international reserves deteriorated markedly from the start of the oil price shock in mid-2014 to end-2016. A higher level of reserves would strengthen the peg of the Central African CFA to the euro and contribute to a more sustainable external position.

…might prompt further monetary policy tightening

Under the direction of the Bank of Central African States (BEAC), monetary policy has remained relatively tight since 2017, which has contributed to narrowing the current account deficit and rebuilding reserve coverage, among other factors. Further tightening of monetary policy is expected in response to the withdrawal of monetary stimulus by the ECB or if reserves fall short of targets again. For Sao Tome and Principe—the only country outside the purview of BEAC, but whose currency is also pegged to the euro—the policy rate is unchanged since June 2017. The central bank will be constrained in 2019 to maintain the peg to the euro.

Figure III.18

Gross official reserves, Central African Economic and Monetary Community, end of period, 2011–2020



Source: UN/DESA, based on IMF (2018d) and de Zamaróczy et al. (2018).

Note: e = estimate, f = forecast.

3 The *WESP* Central Africa region comprises the CEMAC members (Gabon, Cameroon, Chad, the Central African Republic, the Republic of the Congo and Equatorial Guinea) and Sao Tome and Principe.

Inflation is close to CEMAC convergence criteria…

Inflation is expected to remain contained amid mild growth and continued tight monetary policy. In 2019–2020, inflation is projected to remain broadly close to the 3 per cent convergence criteria set by the CEMAC, barring spikes in food and oil prices, disruptions in agricultural production and general supplies due to insecurity, and removal of fuel price subsidies.

…while depreciation is possible, in line with euro currency developments

Since the currencies of this region (the dobra in Sao Tome and Principe and the CFA franc in the CEMAC) are pegged to the euro, the exchange rate in the region will weaken against the dollar in line with developments in the euro area. Sao Tome and Principe revalued its currency (dividing the currency by 1,000) in January 2018 and maintained its peg to the euro, with replacement of the old currency expected by the end of 2019, ostensibly to facilitate transactions but also to fight counterfeiting. Domestic currencies are expected to further depreciate slightly in 2019 as the monetary tightening continues in the United States.

Doubts over the CFA peg to the euro have resurfaced

Importantly, anti-colonialist sentiments and the depletion of foreign-exchange reserves since the 2014 oil price crash have reignited the debate on the merits of maintaining the CFA peg to the euro in some countries. In particular, there is a growing concern regarding the constraints in monetary policy that the peg imposes when asymmetric shocks affect individual countries.

Limited progress in fiscal consolidation

In terms of fiscal policy, all Central African economies, except Cameroon, have been pursuing successful fiscal consolidation. In Cameroon, irregular expenditures on elections and construction related to the Africa Cup of Nations caused the deficit to widen in 2018. In Chad and the Republic of the Congo, the fiscal balance is expected to turn into a surplus, due to higher global oil prices throughout most of 2018, cracking down on tax avoidance, and improvement in tax administration. The improving fiscal position in the subregion has also been helped by engagement with the IMF. However, although the subregion's fiscal deficit narrowed marginally in 2018, it remained outside the CEMAC convergence criteria of 3 per cent of GDP and is forecast to widen in 2019.