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Macroeconomic
Developments and
Prospects

Development Research
Department
African Development
Bank



African Economic Outlook 2016

SPECIAL THEME:
Sustainable Cities and Structural Transformation

Algeria
Angola
Benin
Botswana
Burkina Faso
Burundi
Cabo Verde
Cameroon
Central African Republic
Chad
Comoros
Congo
Congo, Dem. Rep.
Côte d'Ivoire
Djibouti
Egypt
Equatorial Guinea
Eritrea
Ethiopia
Gabon
Gambia
Ghana
Guinea
Guinea-Bissau
Kenya
Lesotho
Liberia
Libya
Madagascar
Malawi
Mali
Mauritania
Mauritius
Morocco
Mozambique
Namibia
Niger
Nigeria
Rwanda
Sao Tome and Principe
Senegal
Seychelles
Sierra Leone
Somalia
South Africa
South Sudan
Sudan
Swaziland
Tanzania
Togo
Tunisia
Uganda
Zambia
Zimbabwe



Key Messages



- Africa 'Rising' narrative under scrutiny as low commodity price environment persists, shrinking revenues
- Slowdown in average Africa GDP growth but still above global average
- Growth expected to rebound in 2017 as current adjustment measures take effect; weather patterns improve
- Growth resilience also underpinned by strong domestic consumption, public infrastructure investment
- Policy response: Strengthen policy buffers to external shocks; explore new drivers of growth – diversification; structural measures



Africa's projected real GDP growth rates

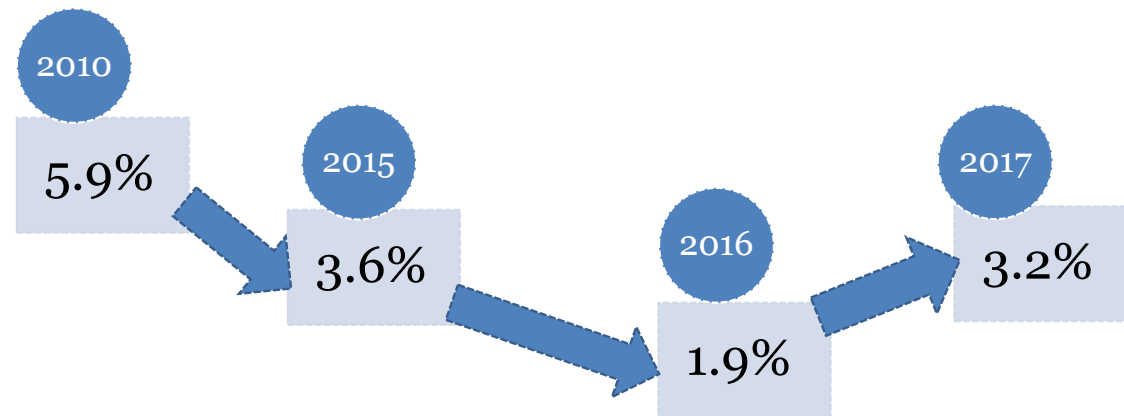
Growth will be subdued in 2016; expected to recover in 2017, underpinned by:

Adjustment measures

Relatively strong domestic consumer demand

Robust public investment in infrastructure

Africa's medium term projected real GDP growth rates

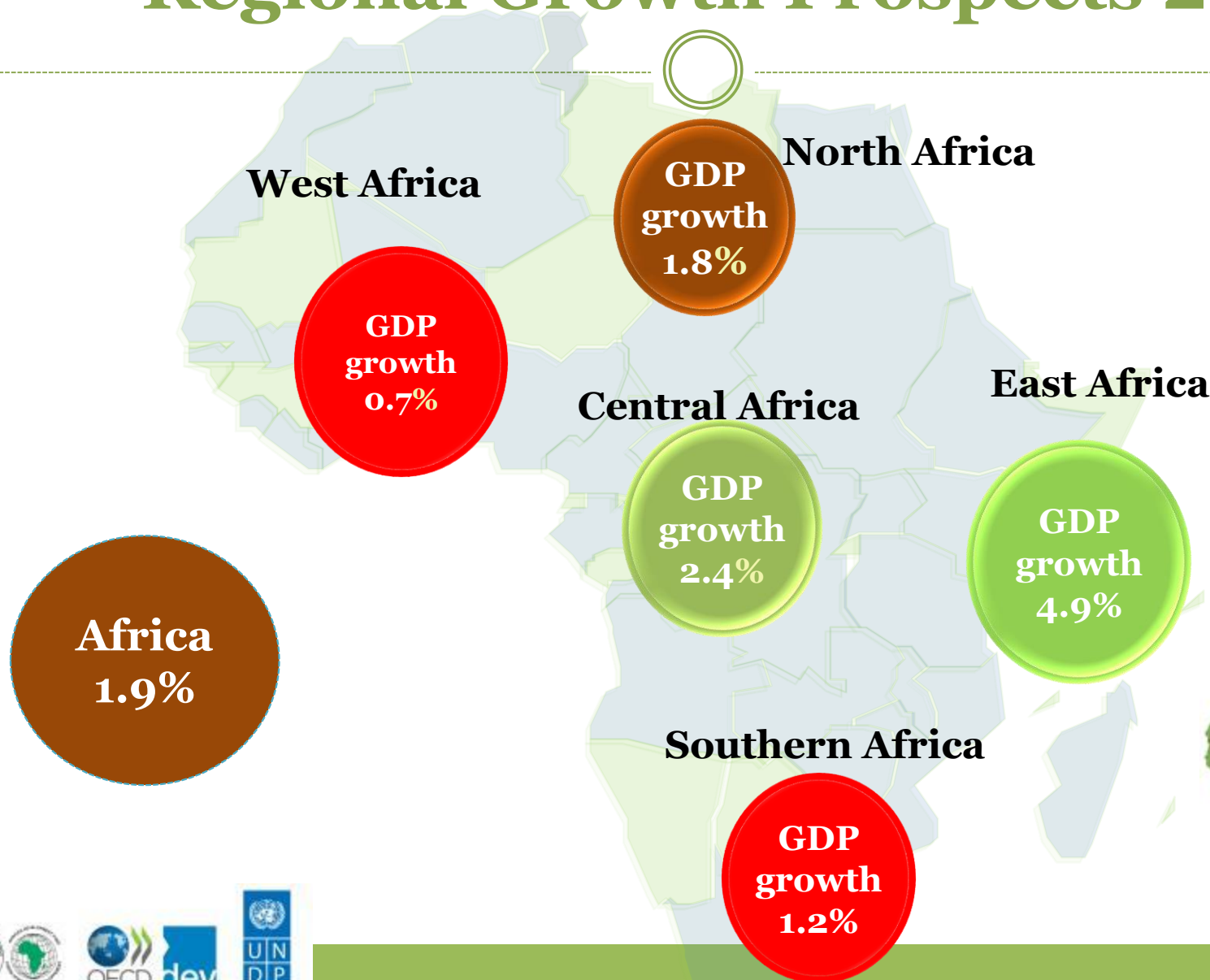


Underlying downside risks to growth: **Protracted low commodity price environment, persistent power shortages, adverse weather (drought), pockets of civil conflict and political instability**

But Africa remains resilient despite adverse internal and external conditions; strong policy buffers needed to sustain growth



Regional Growth Prospects 2016

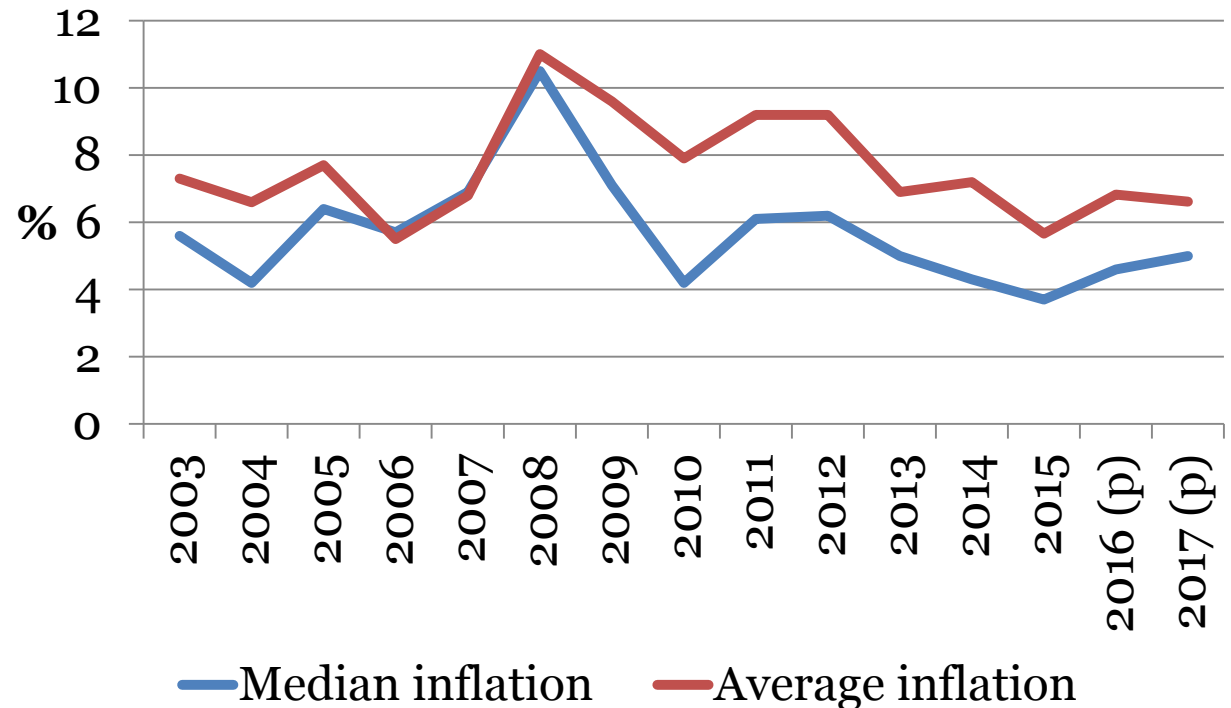


Build up of inflationary pressures



Average inflation in 2016 likely to be more elevated than median inflation.

High inflation countries
Angola (29.1), Zambia (20.7%), Malawi (19.7%), Sudan (17.9%), Ghana (17.8%), Mozambique (16.6%), and Nigeria (15.3%)



Global Oil Price Effect (1)

Oil-exporting versus importing countries

Growth to be sharply lower in exporting countries

**Recession in Nigeria;
Political paralysis
Libya and South
Sudan**

Expected recovery in 2017 but uncertainty on commodity price movements; global growth

Growth in real GDP (Percent)

	2014	2015	2016	2017
Africa	3.7	3.3	1.9	3.2
Oil exporting countries	3.7	3.1	1.1	2.6
Oil importing countries	3.8	3.6	3.0	4.0

Strong domestic policy buffers required to protect growth from further decline

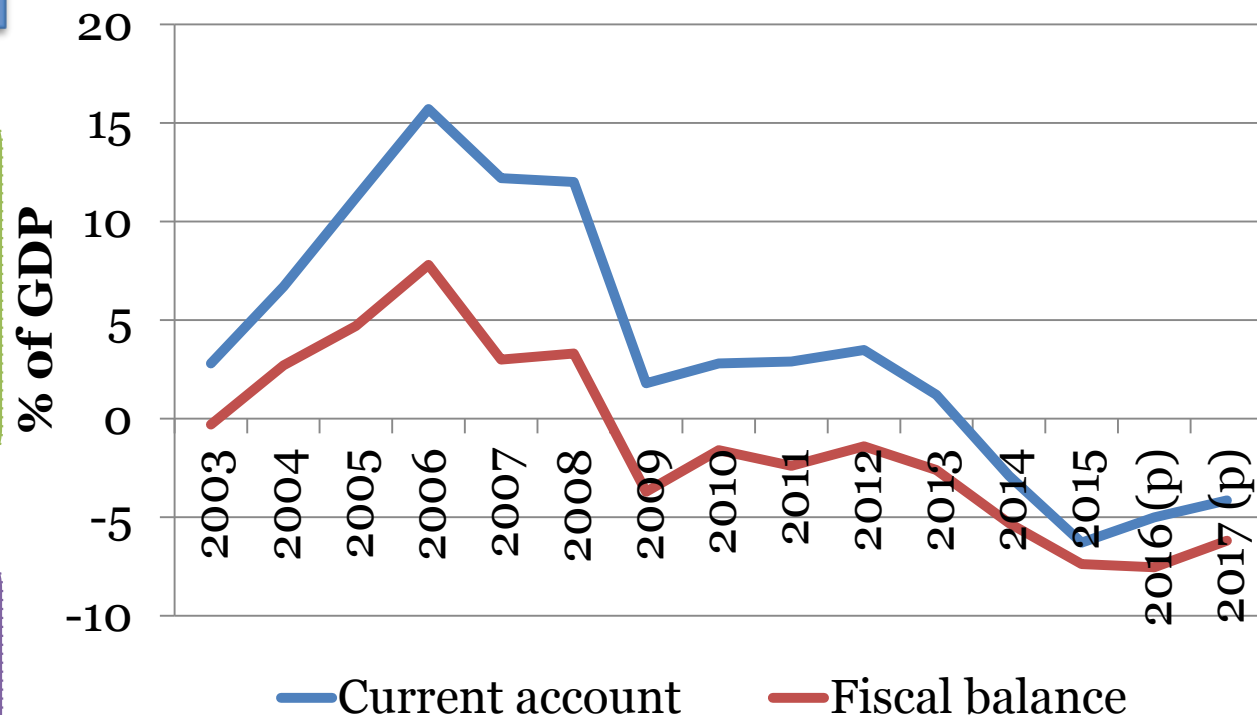


Low Global Oil Price Effect (2)

Oil exporting countries

First round effects shown in continued weakness in fiscal and external positions

Moderate improvements expected in 2016/2017



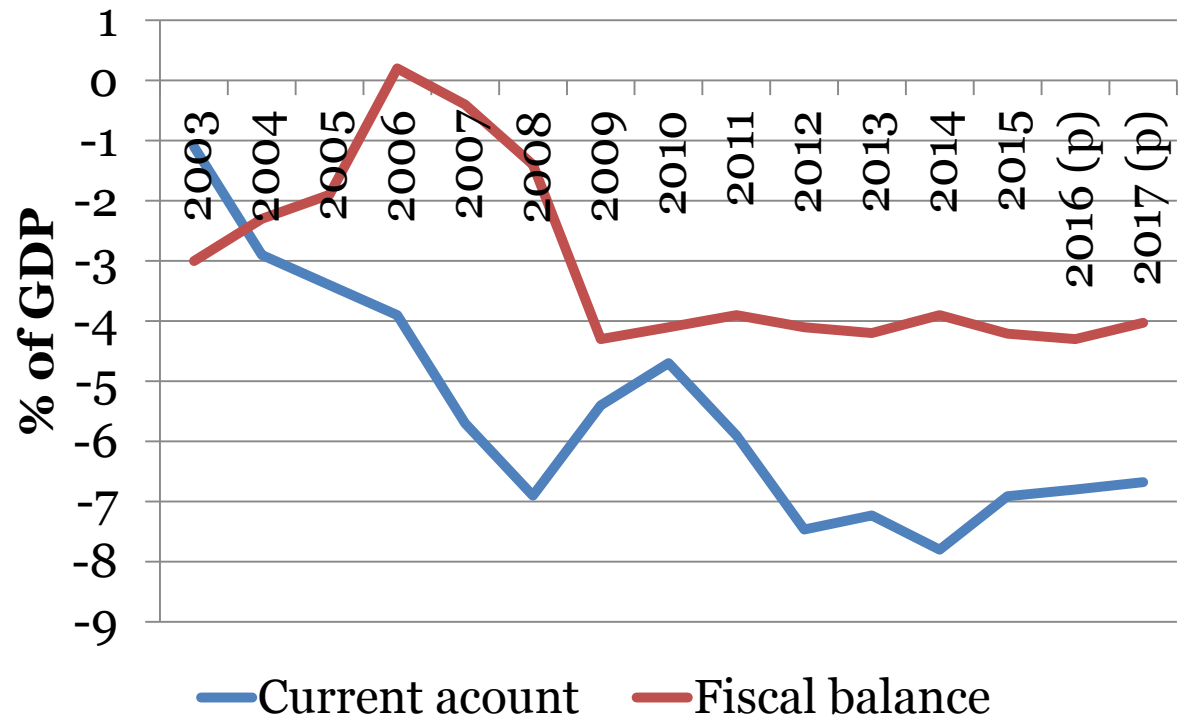
Global Oil Price Effect (3)

Oil importing countries

Fiscal and current
account deficits
broadly weaker

Impacted by falling
non-oil commodity
prices

*Improvement
expected in 2016/2017*



Summary and Policy Recommendations



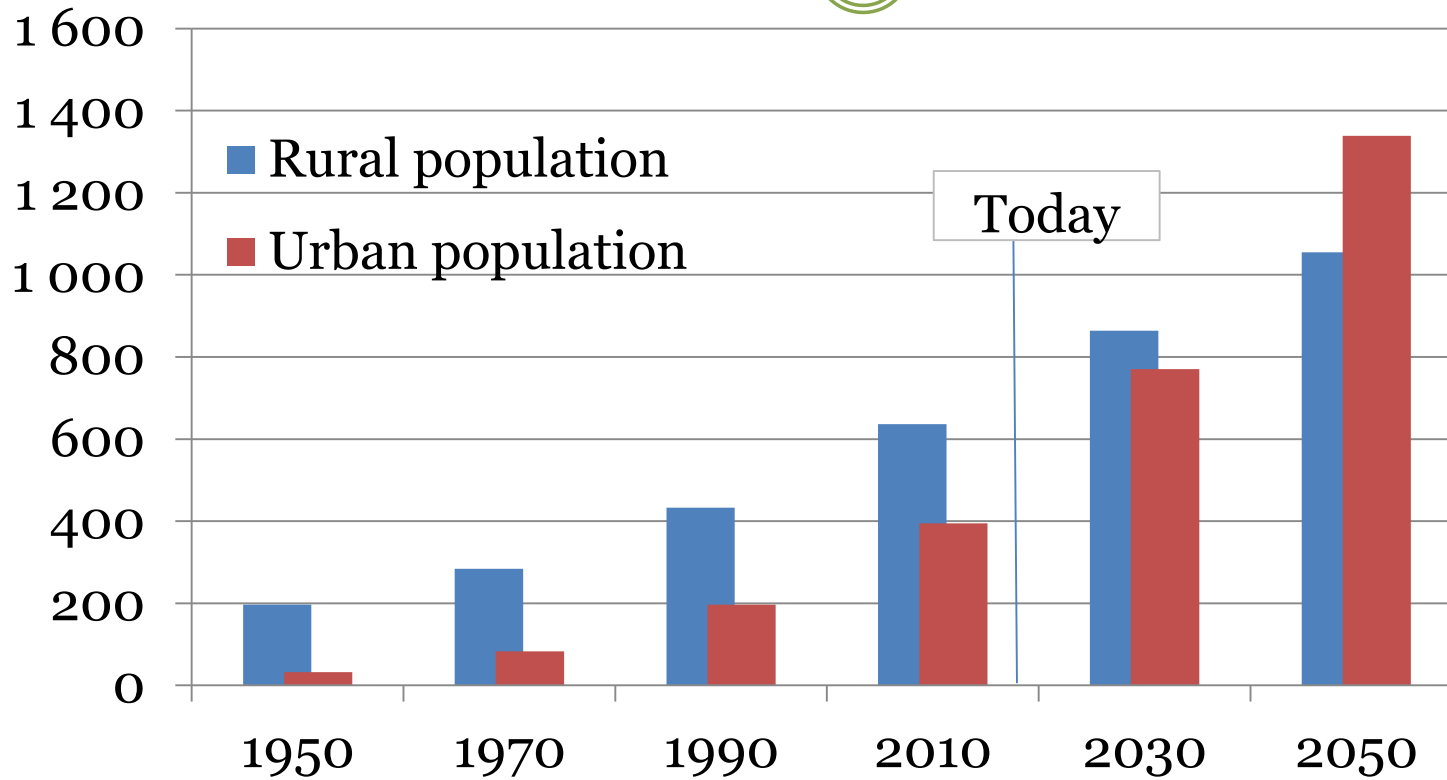
- Economic growth in commodity dependent countries still vulnerable to swings in commodity prices
 - Fall in commodity revenues reduced fiscal space, threatening gains made in past years
 - Broad based macroeconomic imbalances observed in few countries
 - Delayed adjustment to shocks address the imbalances
- Africa's non-commodity dependent countries among fastest growing economies in the world
 - Solid macroeconomic environment and public infrastructure investment
 - Benefitted from low oil prices, lowering average inflation
- Need to strengthen resilience to external shocks through counter-cyclical fiscal policies to build buffers
- Addressing inequality and poverty will require bold policy decisions and investment in critical infrastructure to engender diversification and industrialization.
- AfDB is taking leadership in this regard through the High 5s transformative agenda



Special Theme: Sustainable cities and structural transformation in Africa



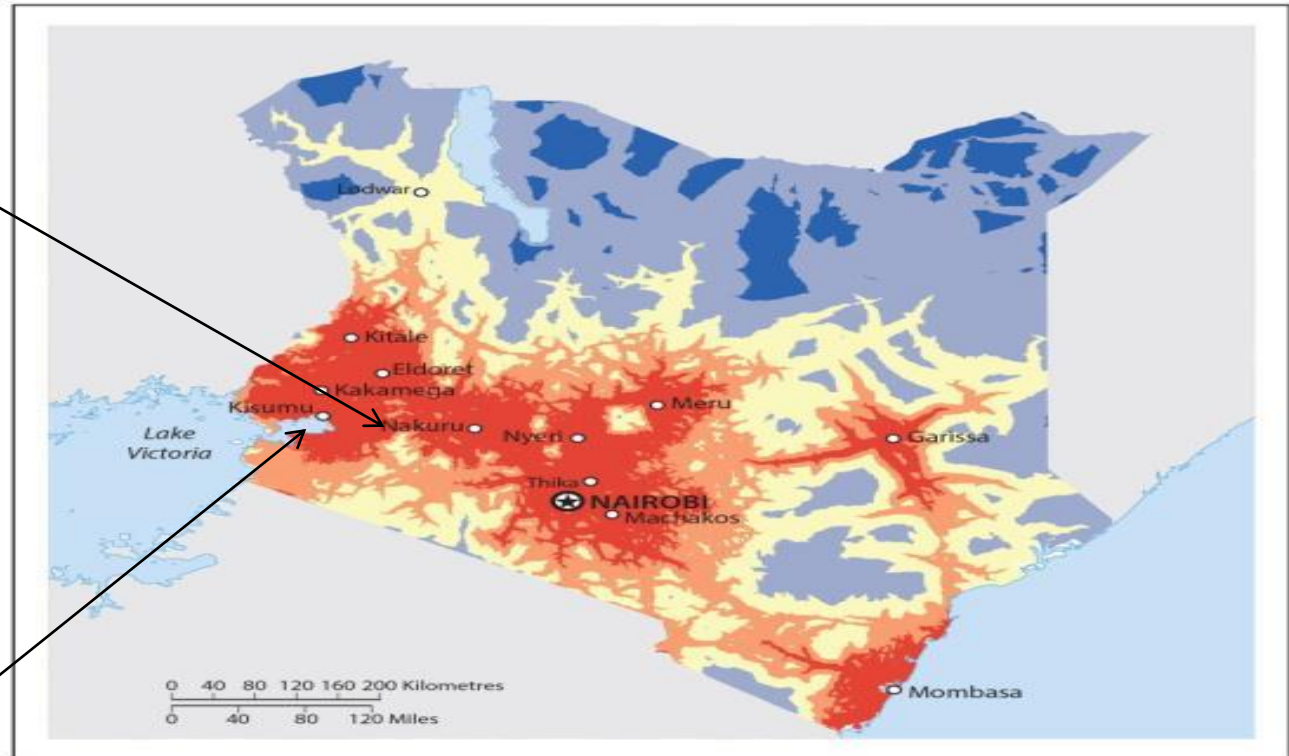
Africa's rural and urban boom



Urbanisation does not reduce poverty by itself

Nakuru
North median
income =
\$PP1,077

Nyando
median income
= \$PP 259



Travel time to the nearest city
> 50 000 people (in hours)

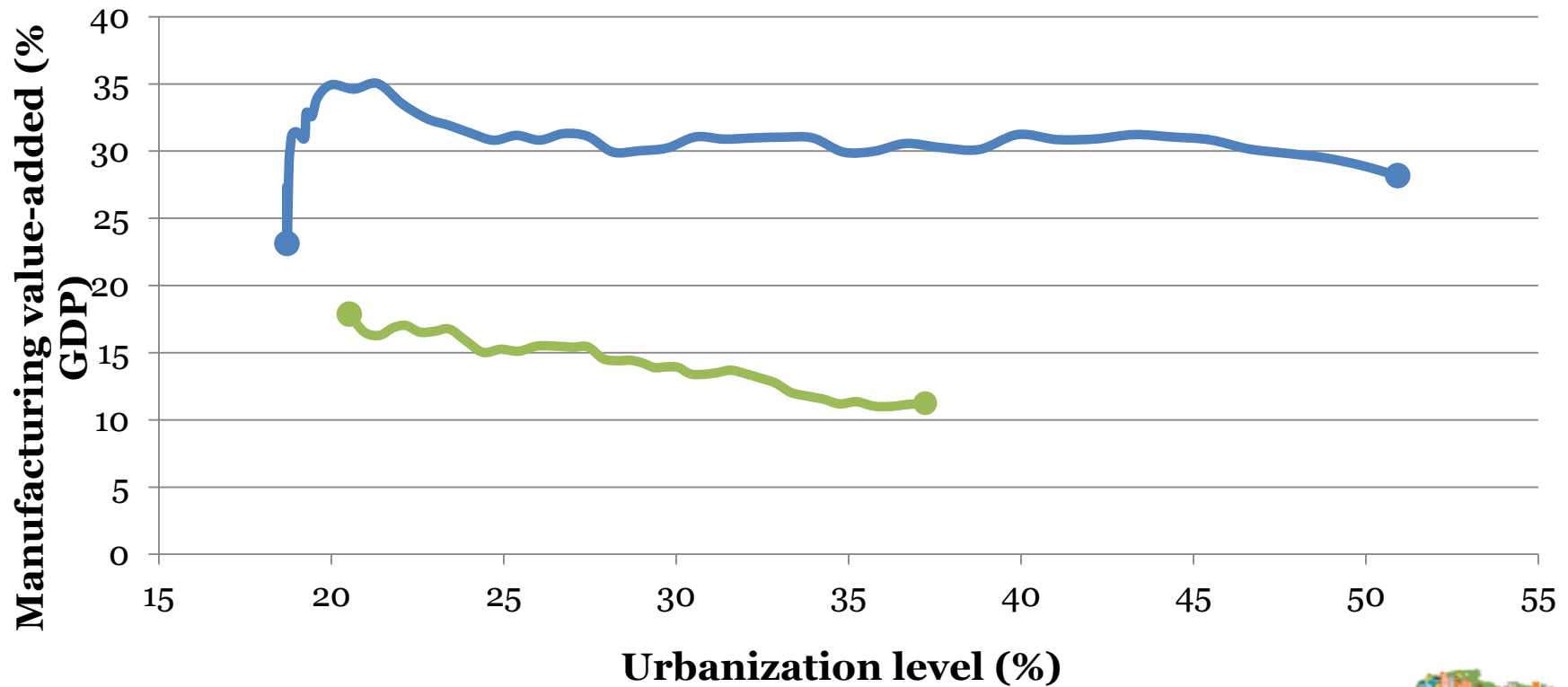


Note: Results of a survey of
285-299 households in the 3 regions

Source: Losch, Fréguin-Gresh and White, 2012



Urbanisation does not bring about industrialization by itself



— East Asia & Pacific (developing only) — Sub-Saharan Africa (all income levels)



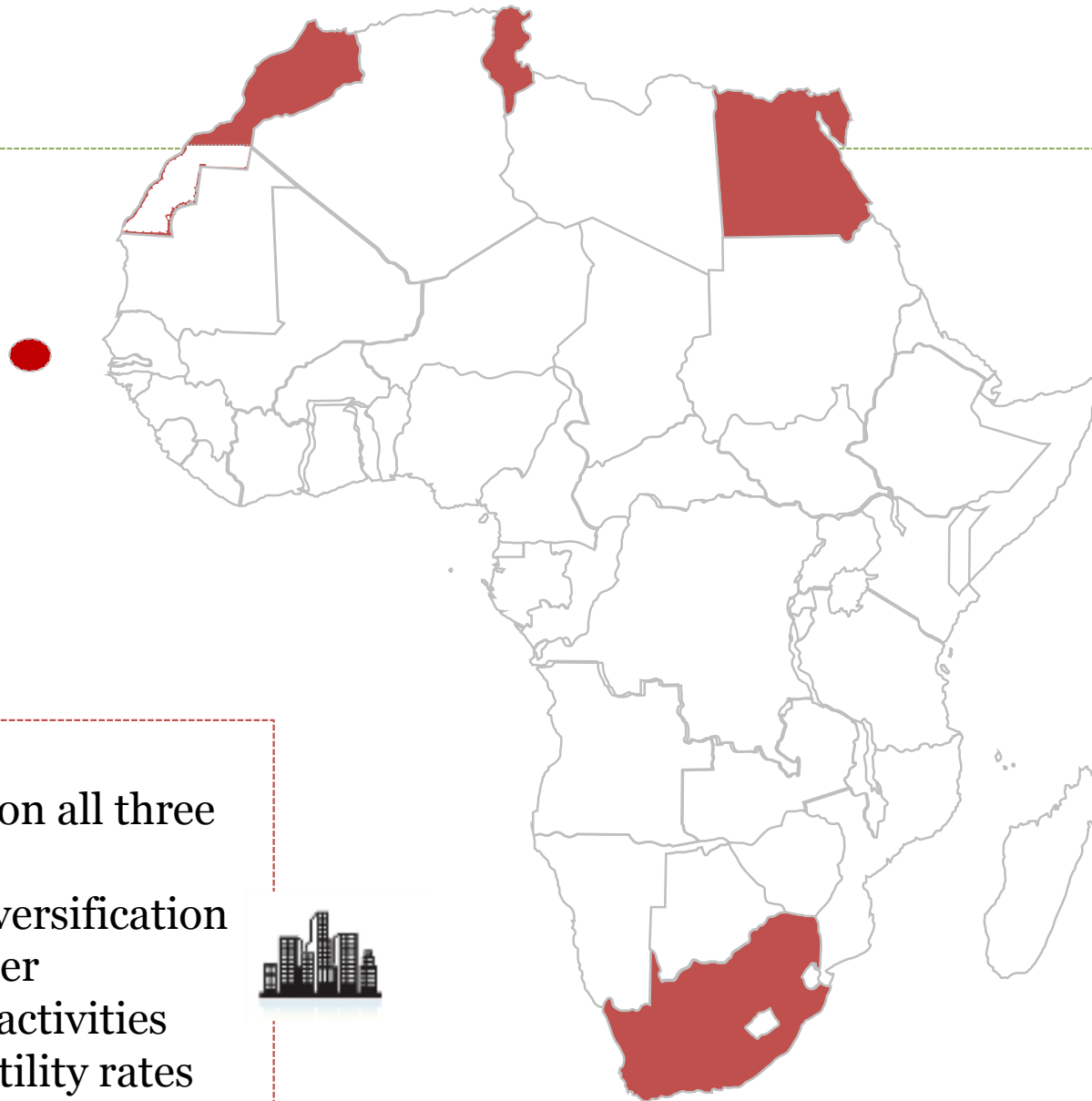
Urbanization = the spatial component of structural transformation



1. **Economic** = sectoral re-allocation of factors of production towards higher-productivity activities
2. **Demographic** = decline in fertility rates
3. **Spatial** = urbanisation

→ different patterns
of structural transformation in Africa





6 Diversifiers

Most advanced on all three dimensions:

- Economic diversification towards higher productivity activities
- Declining fertility rates
- High urbanisation rates



**Very slow or no
diversification
towards higher
productivity
sectors**

Early urbanisers

- Started fertility transition
- Started urbanising



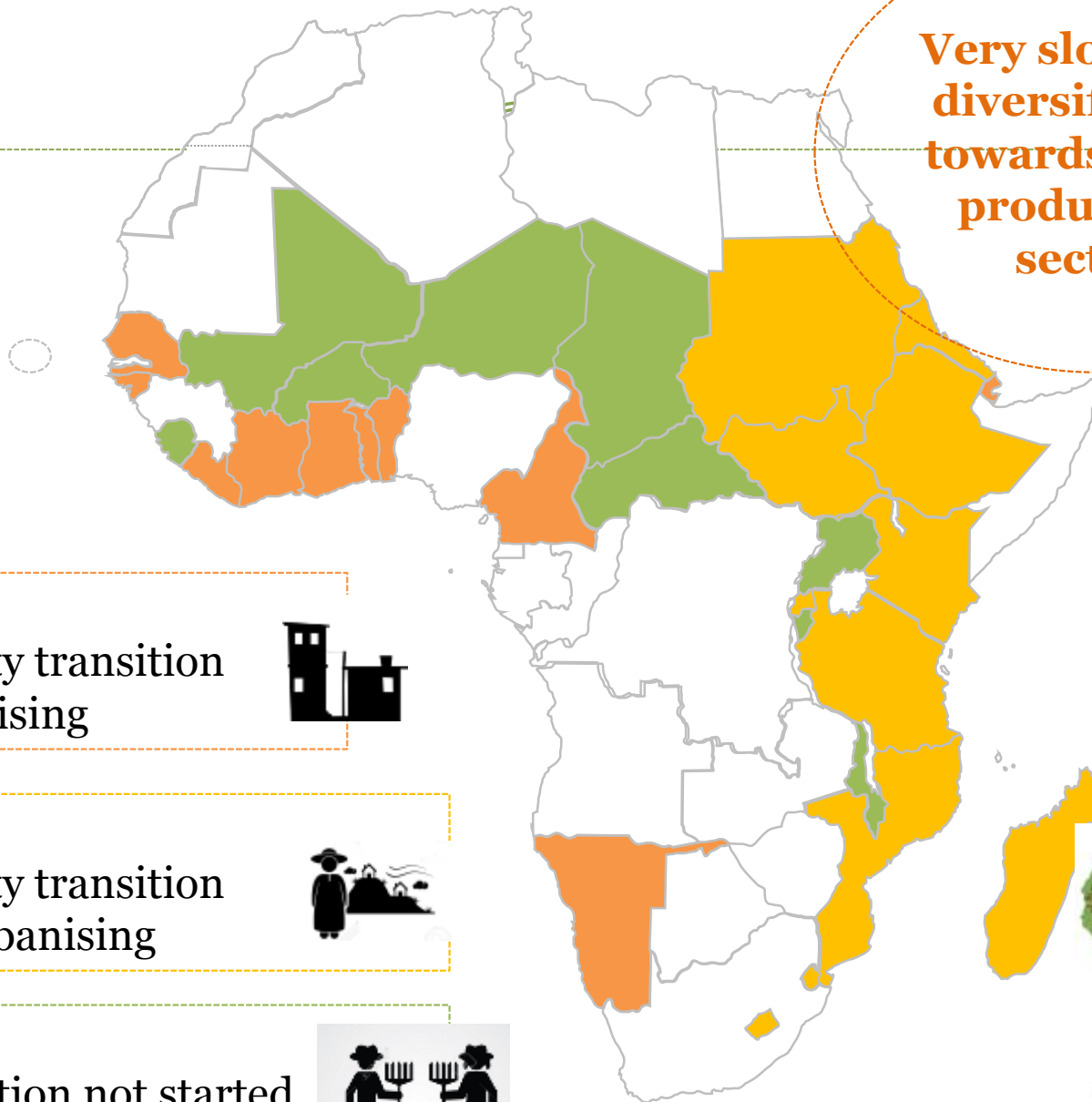
Late urbanisers

- Started fertility transition
- but not yet urbanising








Agrarians

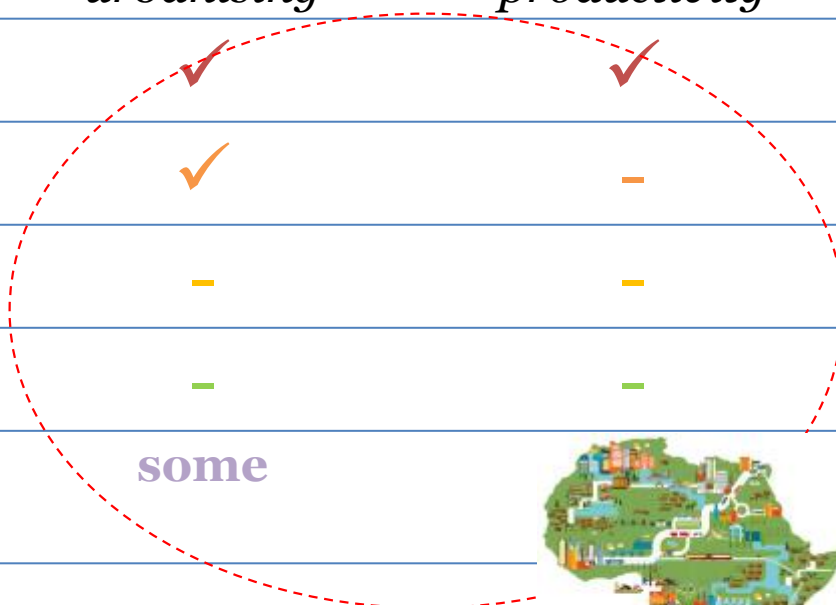
- fertility transition not started
- not yet urbanising



Very few African countries have urbanisation + diversification



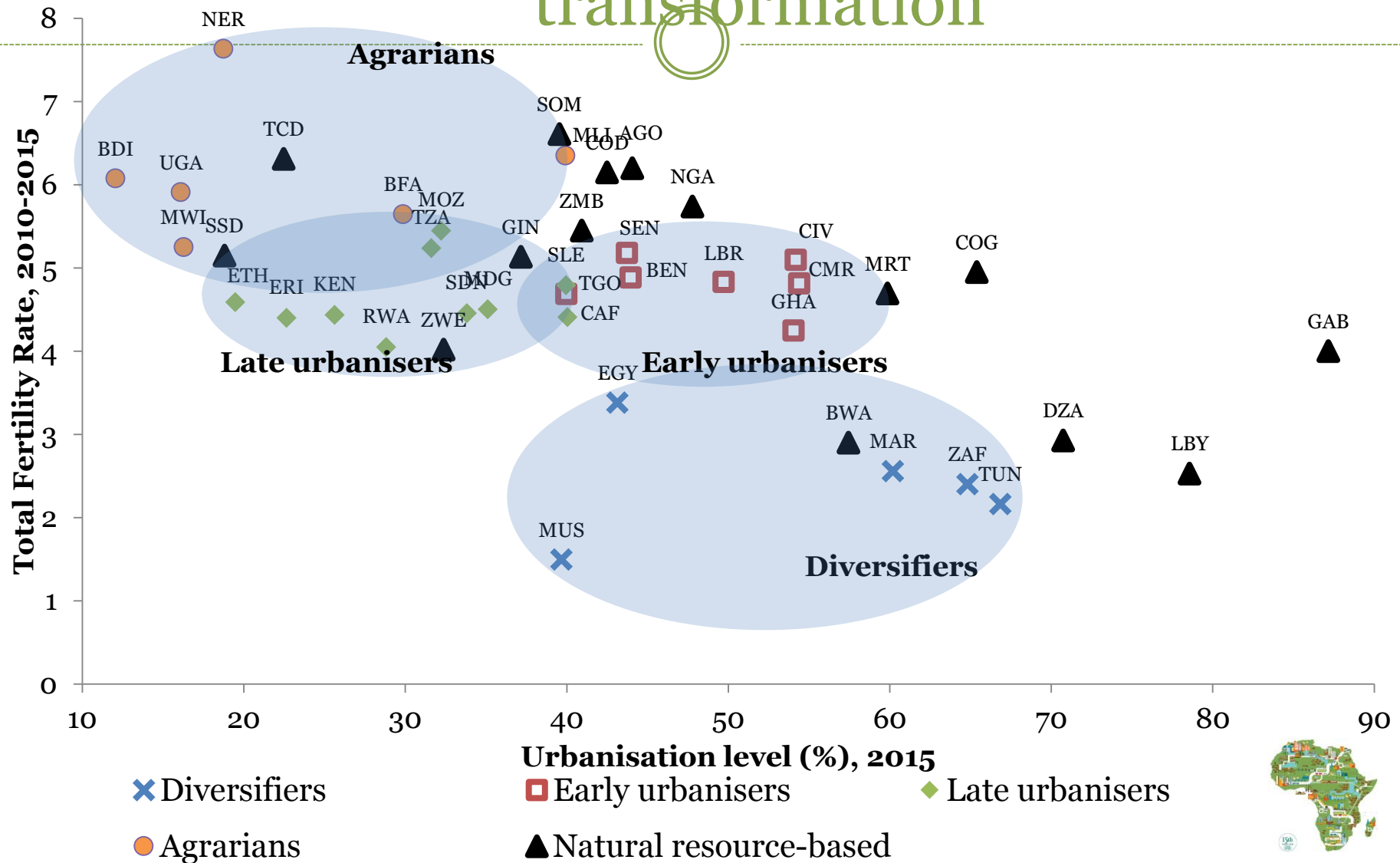
	Demographic	Spatial	Economic
Typology of African economies	<i>Started fertility transition</i>	<i>Started urbanising</i>	<i>Divers. / Higher productivity</i>
 Diversifiers	✓	✓	✓
 Early urbanisers	✓	✓	—
 Late urbanisers	✓	—	—
 Agrarians	—	—	—
 Resource dependent	some	some	



NO straight causality relationship between those three dimensions.



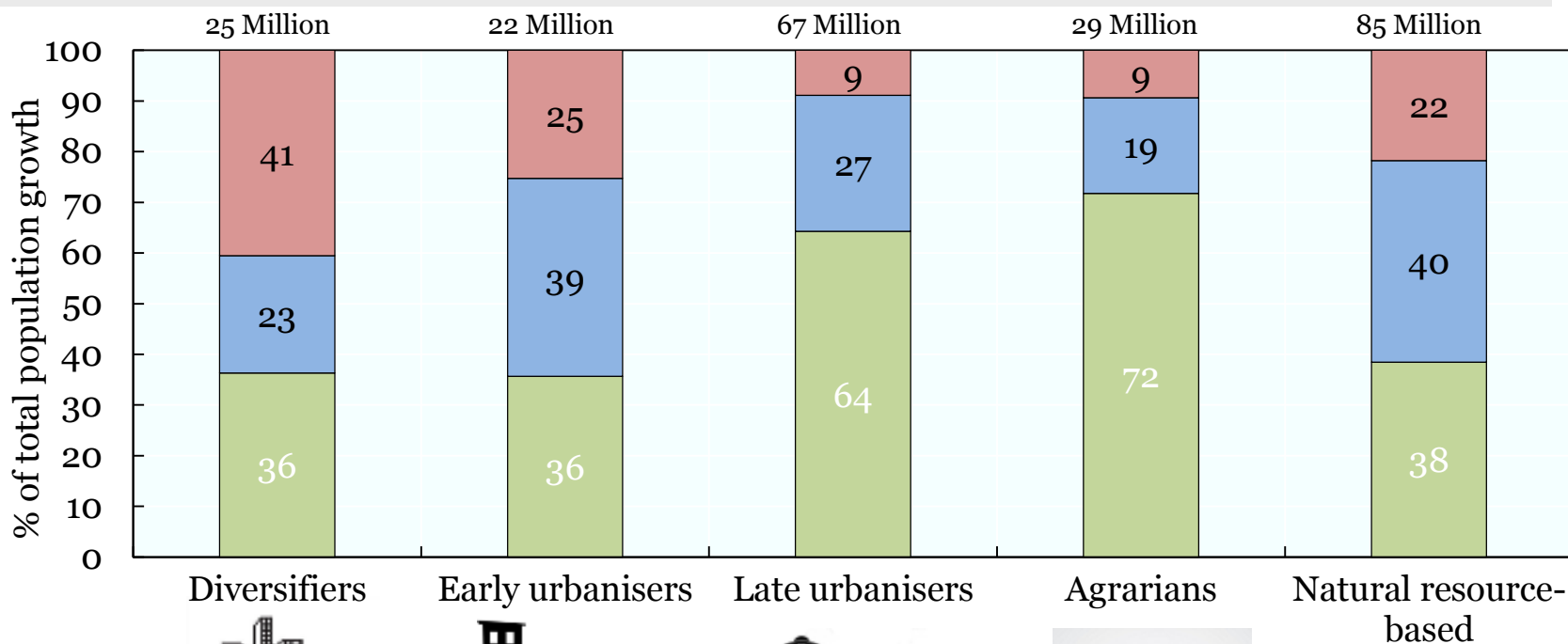
Diverse types of structural transformation



Smaller cities will drive urbanization

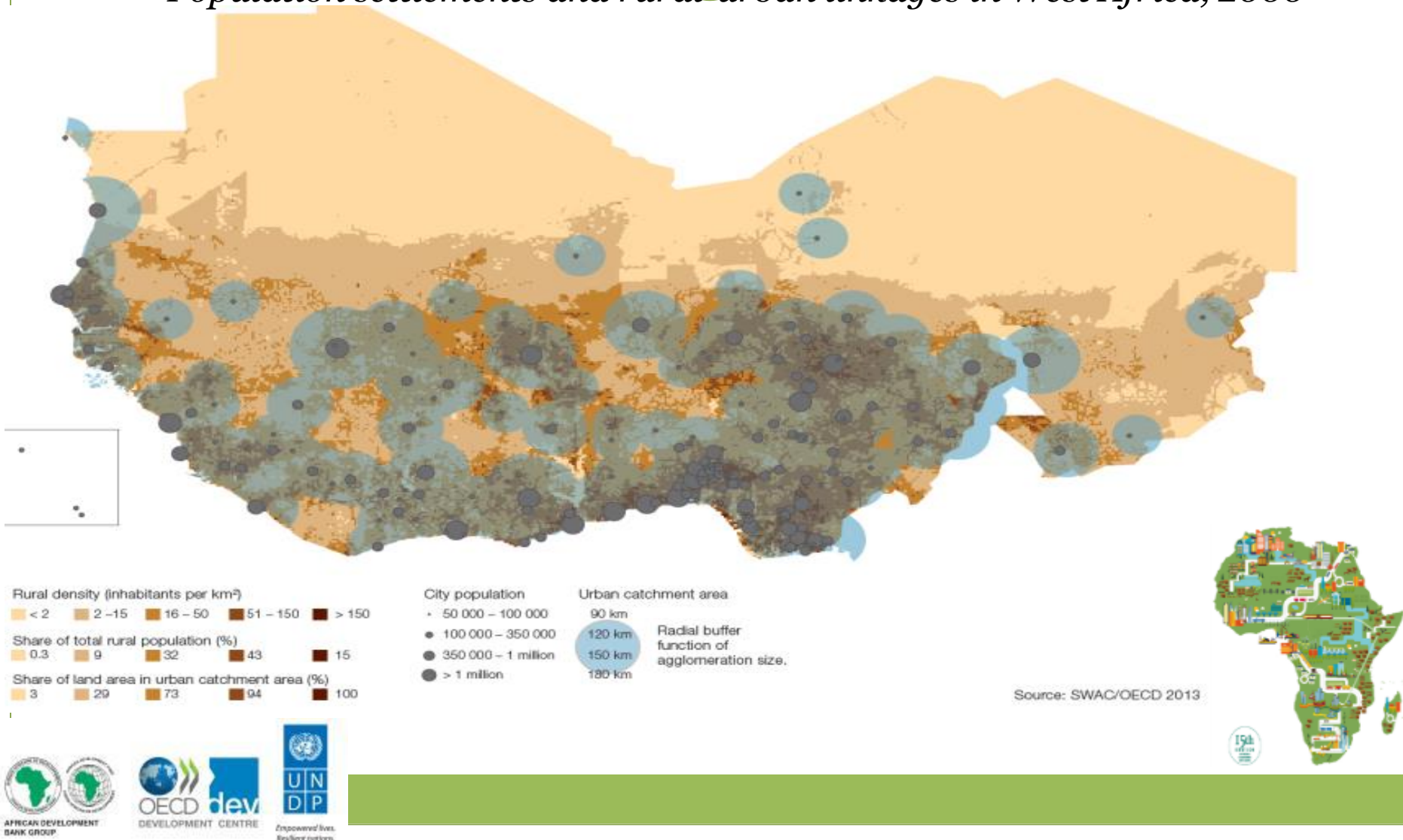
*Contribution to population growth by urban and rural areas,
by type of African country, 2000-10*

- Population growth from rural areas
- Growth from urban areas < 500 000 inhabitants in 2000
- Population growth from cities > 500 000 inhabitants in 2000

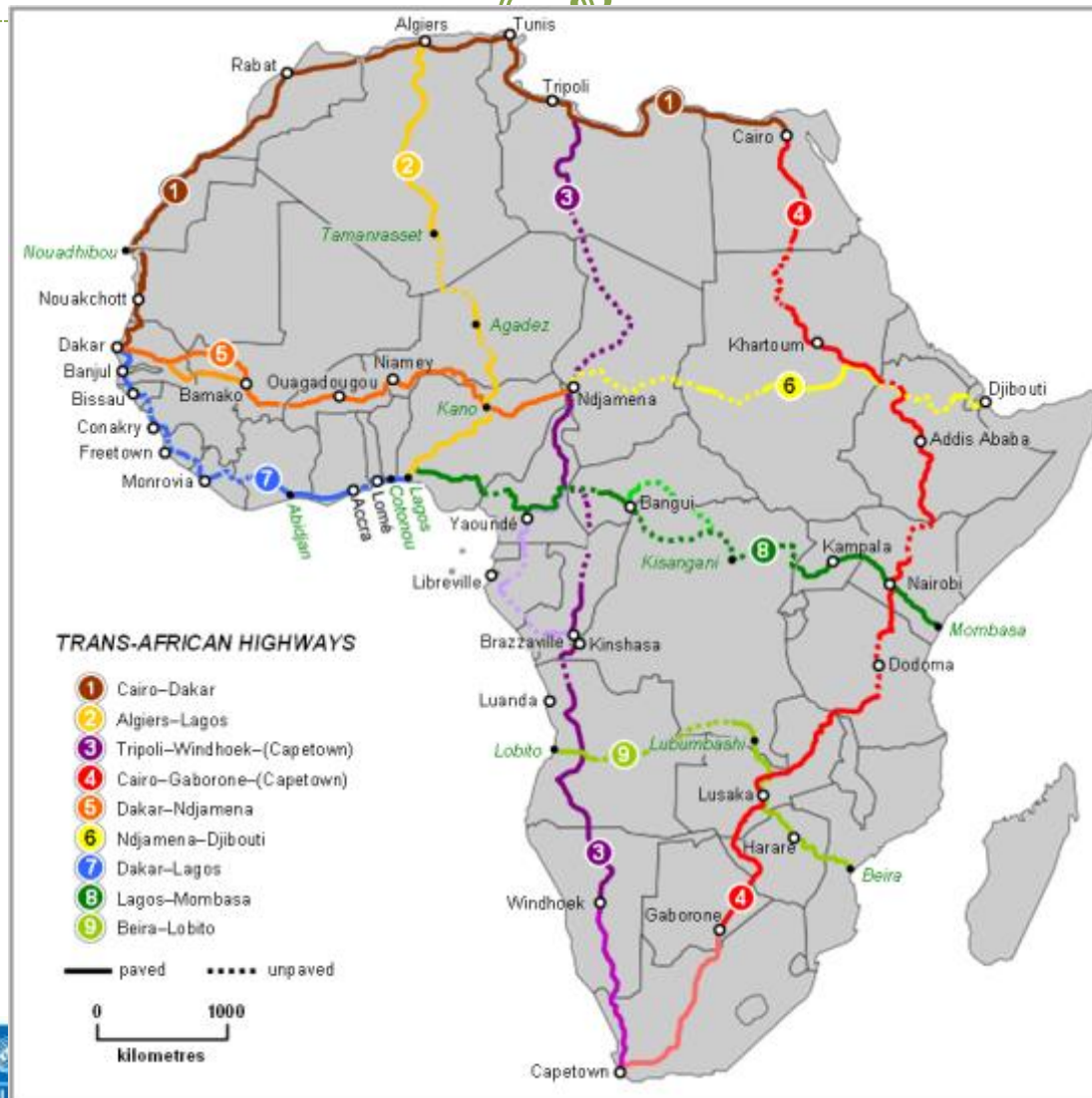


City networks improve the links between rural and urban economies

Population settlements and rural-urban linkages in West Africa, 2000



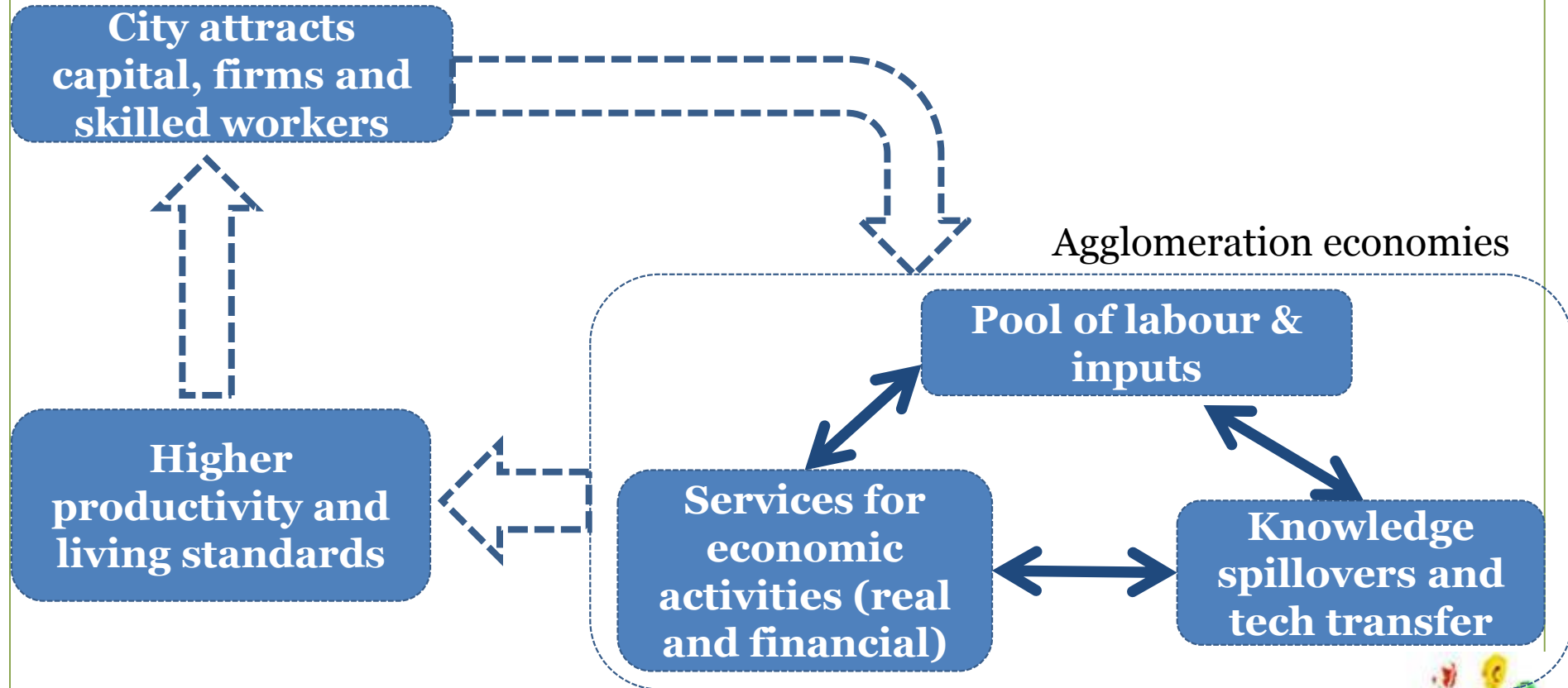
City networks can foster regional integration



**Integrate
Africa**



Cities can provide enabling conditions to host African productive sectors ...

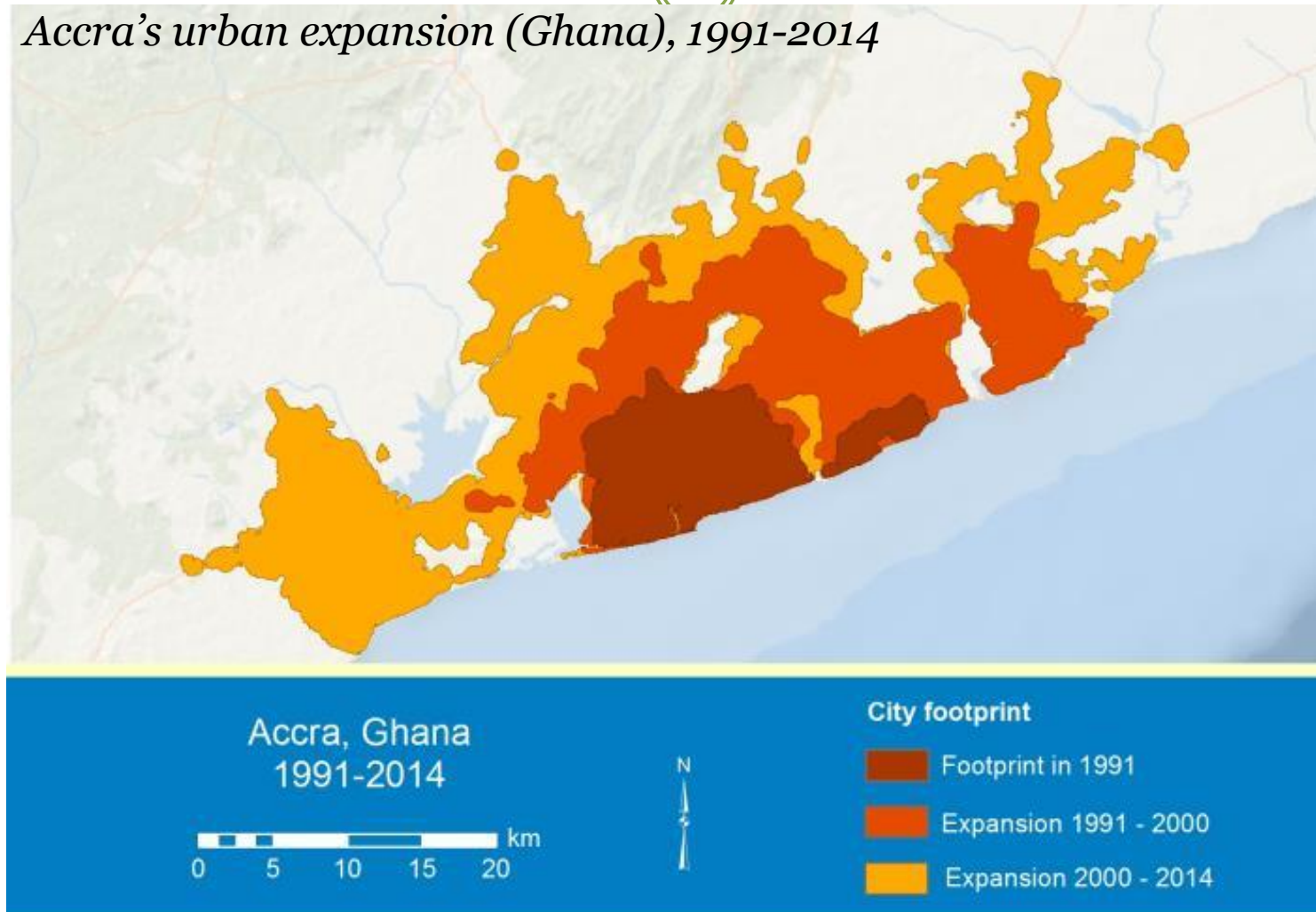


Industrialise Africa



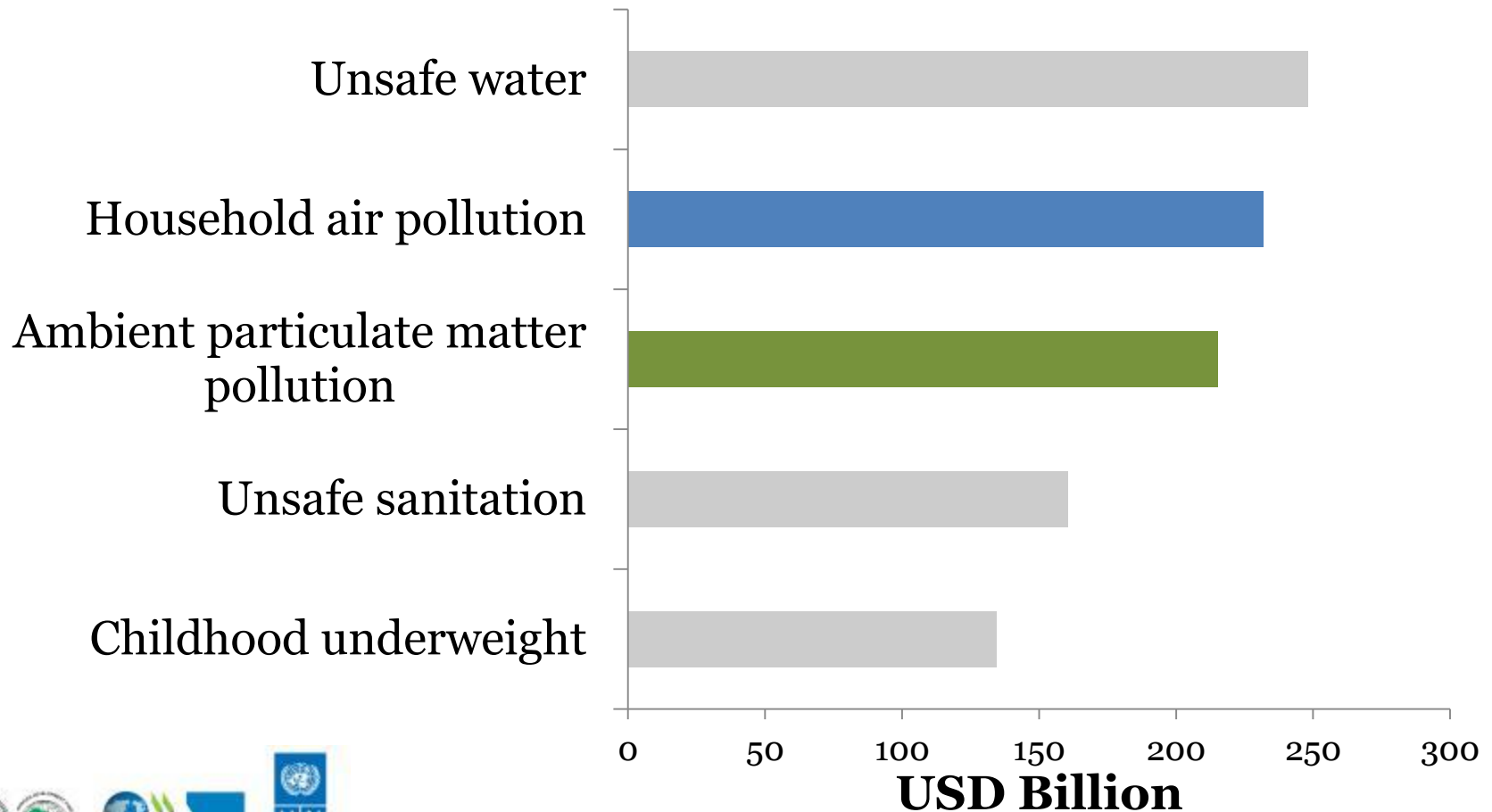
... but urban sprawling impedes agglomeration benefits

Accra's urban expansion (Ghana), 1991-2014



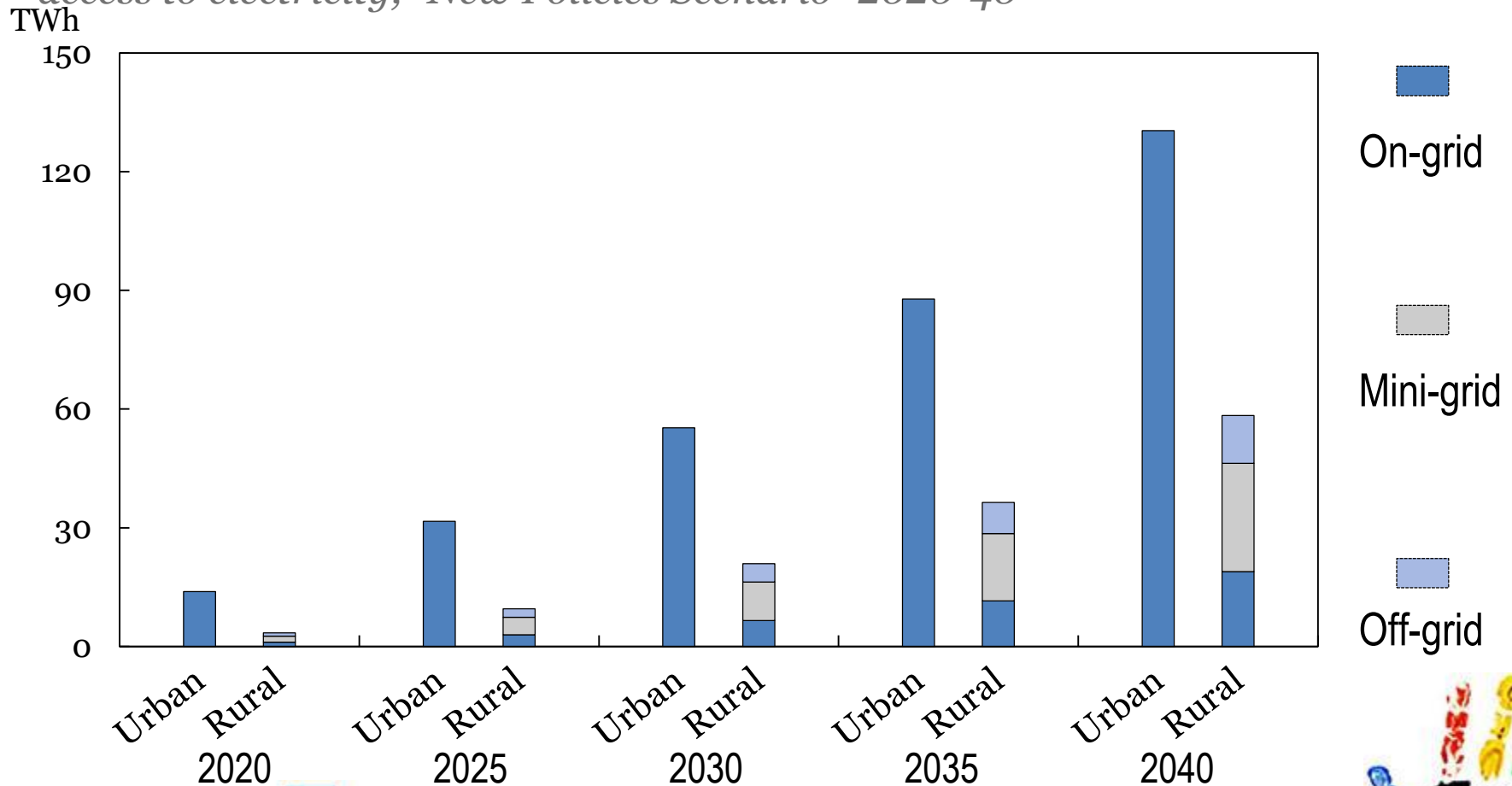
... and the cost of air pollution is already high despite slow industrialisation

Economic cost of selected risk factors in the African continent



Cities could “lighten up and power Africa”

Projected electricity demand from the sub-Saharan African population gaining access to electricity, “New Policies Scenario” 2020-40



**Light up and
power Africa**



Bridging the financing gap



Traditional finance

National transfers

Local revenues

Private finance

Innovative finance

Coproduction

Public Private
Partnerships

Ecological capital

Removing fossil fuel
subsidies

Green funds



*Empowered lives.
Resilient nations.*

Thank you



www.africaneconomicoutlook.org