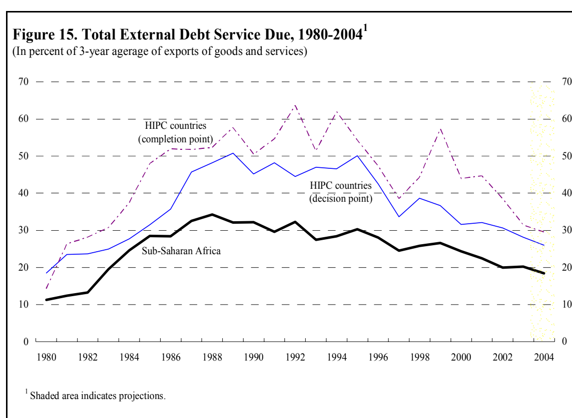

Figure 15. Total External Debt Service Due, 1980-2004[1]
(In percent of 3-year average of exports of goods and services)

[1] Shaded area indicates projections.

III. Economic Prospects and Outlook for 2004

The outlook for 2004 is relatively upbeat. Economic growth rates will rise, inflation rates is expected to fall, investment and savings rates are projected to increase, external current account balances will be largely unchanged, and net international reserves coverage will stabilize. This improvement will be supported by a general reduction in fiscal deficits and a further tightening of monetary policy.

Sub-Saharan Africa: Real GDP, Consumer Prices, and Fiscal Balance excluding Grants
(In annual percent change, unless otherwise indicated)

	Real GDP		Consumer Prices		Fiscal Balance Excluding Grants[1]	
	2004	1980-2003	2004	1980-2003	2004	1981-2003
Sub-Saharan Africa	4.2	2.4	10.5	23.0	-3.1	-5.9
Oil-producing countries	7.3	3.2	15.0	31.2	2.2	-5.0
Non-oil-producing countries	3.5	2.3	9.5	21.7	-4.8	-6.2

[1] In percent of GDP.

The outlook for 2004 is based on a number of important assumptions. First, it assumes an increase in economic growth in the rest of the world, and in import demand of the advanced economies in particular. Second, the projections are based on the authorities' objectives and policies that emerged during program negotiations, Article IV consultation discussions, and the governments' PRSPs. More specifically, the outlook assumes that all Fund-supported economic programs either remain on track (or get back on track where policy slippages have emerged). Third, it assumes that progress is made in ameliorating, if not fully resolving, the various conflicts in the region that have been inhibiting economic growth. Fourth, it is hoped that the region as a whole will not suffer from drought,

Economic growth

The expectations of the staff and the authorities are that 2004 will be an exceptional year for economic growth in SSA. Real GDP growth is projected to average 4.2 percent, a rate that has not been achieved since 1996. Real GDP growth of 5 percent or higher is anticipated in 21 of the region's countries, which would also be an eight-year high. Two countries, Seychelles and Zimbabwe, are expected to be in recession next year.

Real growth among oil exporting nations will rise to an average of 7.3 percent next year. This increase reflects the surge in output in Chad, where GDP is projected to increase by more than 42 percent and, to a lesser extent, Angola, where growth is projected to increase by about 13 percent. The rate of growth in Nigeria is expected to fall moderately to just under 3 percent on the assumption that no further increases in OPEC quotas are in the offing and that Nigeria adheres to its own.

Economic growth in the non-oil countries is expected to rise to 3.5 percent in 2004. This would be the highest rate of growth since 1996.

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Excluding South Africa, real growth among the non-oil exporters is projected to be about 4.4 percent, a rate of growth experienced only four times in the past 24 years.

Four countries are expected to experience real growth of 7 percent or higher. Three are oil producers (Angola, Chad, and Equatorial Guinea). The other is Mozambique, where real GDP growth has average about 8 percent since 1998.

Notable increases in economic growth rates will be realized in a number of countries. To a large extent, this expectation hinges on some of the key assumptions regarding conflict and drought. Chad and Angola were noted above. Growth in Ethiopia is expected to be just shy of 7 percent as its agricultural sector recovers from the recent drought. Growth is also expected to rebound strongly in Burundi, Congo, the C.A.R., and Côte d'Ivoire on the assumption that their conflicts subside or at least are contained. The traditional high performers (Benin, Mozambique, Tanzania, and Uganda) are expected to continue to do well, with growth rates exceeding 5 percent.

Net exports will be the principal source of growth in the oil economies, whereas domestic absorption will drive demand in the others. For the oil producers, demand impulse created by higher levels of public investment will be offset by reductions in public consumption. In the non-oil economies, private consumption and public investment will be the major sources of expenditure growth. From the production side, most of the increase in growth rates among the non-oil economies will come from higher growth rates in agriculture and services.

Overall, investment rates are projected to rise moderately in most countries to a regional average of 18.3 percent of GDP. The overall investment rate in the oil economies is projected to rise only slightly too about 22 percent of GDP, with small increases in both public and private investment rates. Investment in the non-oil economies is forecast to rise by about ½ of 1 percentage point to 17 percent of GDP, with all of the increase coming from the public sector. Gross national savings rates in the oil economies could rise to about 19½ percent on the basis of improved fiscal balances. Savings rates in non-oil economies will be unchanged in the aggregate at about 14 percent of GDP.

Monetary policy and inflation

Inflationary pressures are expected to ease further in 2004, with inflation rates falling in most countries to an average of about 10 percent, which would be a 24-year low. Only seven countries would have inflation rates above 10 percent and, for four of these (Angola, The Gambia, Mozambique, and Zambia), inflation rates, while still high, are projected to decline. For the other three (Nigeria, São Tomé and Principe, and Zimbabwe) the intensification of inflationary pressures are arising from the recent loosening of monetary policy, linked to domestic bank financing of fiscal operations. Inflation in the CFA zone is projected to remain below 3 percent, while it should ease in countries with floating exchange rates to about 7 percent, assuming monetary restraint and no unfavorable supply shocks.

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The improved inflationary outlook reflects declining world inflation rates, the presumed return of more seasonable weather in most countries, and continued monetary restraint. For those economies with exchange rates pegged to the euro, nonfuel import prices will fall by nearly 4 percent, on the basis of the current outlook for the euro/dollar exchange rate and prices of non-oil exports from advanced economies and world oil prices. Monetary conditions are expected to tighten in over half of the countries in the region, and would, on average, be tighter than any time since 1980.[22] Broad money growth rates will generally decline throughout the region, reflecting both slower growth in credit to the private sector, as well as less domestic bank financing of fiscal deficits.

Fiscal policy

Fiscal policy will be mildly contractionary overall, with fiscal deficits (excluding grants) shrinking in most of the oil economies and expanding in most of the non-oil countries. The average deficit is forecast to shrink from 3.8 percent of GDP in 2003 to 3.1 percent this year, reflecting large improvements in some oil producing countries fiscal deficit in the non-oil exporting nations will rise moderately from 4.6 percent to 4.8 percent of GDP. Among the oil producers, fiscal balances will increase or remain the same in Angola, Cameroon, Chad, Equatorial Guinea and Nigeria. They will deteriorate in the Republic of Congo and Gabon as oil production levels decline. Revenues are expected to rise very moderately to about 22½ percent of GDP. Total expenditures should fall slightly relative to GDP, but will still rise when adjusted for inflation. Official grants are expected to rise very slightly to 1.4 percent of GDP, which would be a 20-year high. Against this background, the average fiscal deficit, including grants, would shrink to 1.7 percent of GDP in 2004 from 2.4 percent last year.

While fiscal adjustments will generally be small, eight countries are expected to see positive fiscal adjustments of 3 percent of GDP or more. For Angola, Nigeria, Equatorial Guinea, and São Tomé and Príncipe, the causes are either higher oil production levels or other oil related revenue sources. In Botswana, Seychelles, and Zambia, the adjustment will come primarily from expenditure cuts, though revenues are expected to improve as well. For Lesotho, new revenues are planned that would cut the deficit in half. In the seven countries where fiscal deficits are projected to increase by more than one percent of GDP, the reasons are mainly falling oil production (the Republic of Congo and Gabon), reconstruction (the DRC), a large increase in capital expenditures (Kenya, Guinea-Bissau, and Malawi), and increased nonwage priority recurrent outlays (Tanzania).

Generally smaller fiscal deficits (including grants) will enable governments to reduce domestic borrowing, thereby easing domestic debt burdens. The 2004 PRGF-supported economic programs for Ghana, Lesotho, and Malawi call for substantial reductions in the absolute level of government net domestic financial liabilities. This will be made possible by a combination of smaller

[22] Monetary conditions are projected to be tighter than at any time since 1980.

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fiscal deficits and additional donor support. In Seychelles, the government's economic reform program envisages a reduction in net domestic indebtedness amounting to more than 7 percent of GDP. These policies will be important first steps in tackling the spiraling domestic debt burdens of these countries. The governments of Mauritius, São Tomé and Príncipe, and Zimbabwe are expected to continue relying heavily on domestic financing of fiscal deficits in 2004, and their domestic debt burdens are likely to increase further.

External outlook

External current account deficits (excluding official transfers) are projected to widen for just over half the countries in the region in 2004. The oil producers will likely see further consolidation, with the average deficit shrinking to just over 1 percent of GDP, in line with the expected fiscal consolidation. Deficits in the non-oil economies are expected to increase to an average of 4.7 percent of GDP, financed by a higher level of donor assistance, as well as by an increase in private investment that is not expected to be accompanied by increases in private sector savings rates. The deficits among the HIPC Initiative completion point countries are forecast to remain constant at just under 12 percent of GDP. Real exports are forecast to increase by 5.9 percent overall, and by 4.3 percent for the non-oil economies, which would be moderately higher than the average during the previous five years. Real import growth is forecast to rise to 5.2 percent overall and to 5.4 percent for the non-oil economies. The overall external current account deficit, for the region as a whole, is projected to rise to about US$16 billion.

Net official flows are projected to fall to about US$10.9 billion.[23] With net private capital flows on the order of US$6.6 billion, net international reserves are projected to rise by another US$4.8 billion, keeping international reserve coverage broadly unchanged at an average of 3.7 months of imports of goods and services. Most countries are projected to see the level of international reserves rise relative to imports, and most of those that will see them fall have reserves to spare. The external debt burden is projected to continue to ease, with the debt- to-exports ratio falling to 150 percent (the lowest level since 1982). Debt ratios are expected to fall for all but nine countries.

IV. Lessons and the Challenges Ahead

The world economy in 2003 provided little support for economic growth in SSA countries. World economic growth increased, but it still remained sluggish in the advanced economies and declined in the euro area. The terms of trade were broadly unchanged, and key commodity prices remained depressed by historical standards, despite some rebound during the year. However, the external environment is projected to improve this year.

Thirteen countries saw their economies expand by 5 percent or more in 2003, compared with 11 countries in 2002.. As some countries in the region have now maintained this growth (on average) for five or more years, they appear to have

[23] Including official transfers and debt relief, but excluding potential debt reschedulings.

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