Africa's prospects improve, but MDGs remain out of reach

"Real GDP growth in sub-Saharan Africa rose in 2004 to an eight-year high of 5 percent, while average inflation fell to below 10 percent for the first time in almost 25 years," Abdoulaye Bio-Tchané, IMF African Department Director, told reporters on April 14 in Washington, D.C. Commenting on the findings of the Spring 2005 issue of the *Africa Regional Economic Outlook*, he also noted that growth continued to be particularly strong in African oil-producing countries last year, averaging 6.9 percent. Despite global oil price hikes, many oil-importing countries also performed well, with more than one-third of them growing at rates exceeding 5 percent. For much of the region, however, growth still fell short of the rate needed to reach the Millennium Development Goal of halving income poverty by 2015 relative to 1990.

Macroeconomic policies contributed significantly to the region's overall robust growth performance, according to the report. In oil-importing countries, the governments took appropriate steps such as tightening fiscal policies in response to the oil price shock. At the same time, these countries benefited from strong increases in prices of metals, diamonds, and food, combined with higher import demand in advanced economies.

For the region as a whole, the report projects continued strong growth this year, averaging 5 percent, and subdued inflation overall (see table). Among the downside risks to growth in 2005, however, are lingering conflicts in Côte d'Ivoire and the Great Lakes region, record low world cotton prices, the recent removal of the remaining textile quotas in industrial countries, and the vulnerability of many countries to drought and other natural disasters.

The 30 percent drop in the world cotton price over the past year could cause considerable declines in export earnings in a number of countries, including Benin, Burkina Faso, Mali, and Togo, where cotton production employs as much as one-third of the population. With cotton prices unlikely to rebound strongly any time soon, the worst-affected countries need more donor support to avert worsening poverty and cushion the impact while they implement critical structural reforms to improve the cotton sector's efficiency and competitiveness. At least five countries—Cape Verde, Lesotho, Madagascar, Mauritius, and Swaziland—will need to respond to the immediate impact of abolished textile quotas by adopting an appropriate mix of macroeconomic policies to improve export competitiveness while rigorously pursuing structural reforms to remove impediments to trade expansion.

Good prospects for sub-Saharan Africa

Strong economic performance is expected to continue.

	2002	2003	2004	2005[1]
		(annual increase, in percent)		
Real GDP	3.5	4.1	5.0	5.0
Oil producers	4.1	8.0	6.9	6.8
Non-oil real GDP	4.1	3.3	4.4	4.6
Consumer prices (average)	12.5	13.7	9.1	9.2
Oil producers	18.6	17.0	12.9	11.1
Per capita GDP	1.1	1.6	2.7	2.7

[1]Figures for 2005 are projections.
Data: IMF, *Africa Regional Economic Outlook*, April 2005.

Improved investment climate is key

In the coming years, the region's most critical challenge, the report said, will be to sustain and accelerate economic growth. Real per capita income, which increased by a modest 2.7 percent last year, remains little changed from the mid-1970s. Growth is more likely to be sustained if it is driven by higher productivity and investment rather than by temporary employment increases. While total investment has not increased significantly in the region's fast-growing economies (excluding Equatorial Guinea), it is encouraging that total factor productivity growth has improved strongly for the first time since the 1960s. A number of countries have succeeded in sustaining higher growth rates over the past decade through policy improvements. African countries must now implement further macroeconomic and structural reforms to boost investment and trade. Improving the investment climate is a key priority.

Trade within Africa remains low, and the region is falling further behind the rest of the world in terms of its share of both overall trade and foreign direct investment. Bio-Tchané emphasized that "strong trade expansion must be an integral part of sustainable growth." Sub-Saharan Africa countries need to reduce trade barriers on a broad, nondiscriminatory basis—including through strong commitments to trade liberalization in the Doha Round of multilateral trade negotiations. This should be complemented by reductions in transport and border-crossing costs, improvements in infrastructure, and upgraded workers' skills. Countries can take early action to compensate for potential revenue losses from trade liberalization by strengthening their capacity to mobilize domestic tax revenue. And, as African authorities have themselves recommended, greater effort must be made to streamline the existing 30 regional trade organizations. ■

The full text of the *Africa Regional Economic Outlook* is available on the IMF website (*www.imf.org*).