



Chapter 1

Africa's macroeconomic prospects

Africa's economic growth should strengthen to 4.5% in 2015 and 5% in 2016 close to levels seen before the 2008/09 global crisis. This chapter looks at the challenges Africa's governments face as they take differing paths to recovery. It also highlights how lower oil and commodity prices, uncertain global conditions, the Ebola outbreak in West Africa and domestic political uncertainties could still block the return to the strong pre-crisis growth levels. There is also a special look at Africa's energy sector.



In brief

Africa's gross domestic product (GDP) growth is expected to strengthen to 4.5% in 2015 and 5% in 2016 after subdued expansion in 2013 (3.5%) and 2014 (3.9%). The 2014 growth was about one percentage point lower than expected, as the global economy remained weaker and some African countries saw severe domestic problems. But the world economy is improving and if the AEO 2015 predictions are right, Africa will soon be closing in on the impressive growth levels seen before the 2008-09 global economic crisis.

There are surprising regional differences. West Africa achieved relatively high growth of 6% in 2014 despite its battle with the Ebola virus. Nigeria's growth of 6.3% came mainly from non-oil sectors showing that the economy is diversifying. But Southern Africa's growth fell below 3% as the key South African economy only grew by 1.5%.

On the supply side Africa's growth has been mainly driven by agriculture, extractive industries, construction and services. On the demand side, the boost has come from private consumption and infrastructure investment.

So far African economies have been relatively resilient to the sharp fall of international commodity prices. Production has often increased despite the lower prices, and growth has also been boosted by other sectors. But if commodity prices remain low or decline further, growth shortfalls in resource-rich countries would increase as governments need to cut spending. Governments will be keeping a close watch on conditions in key markets, especially Europe and China.

In countries where inflationary pressures have eased, policy interest rates have been reduced to stimulate growth. Yet in several countries exchange rates came under pressure and central banks responded by tightening policies to stabilise exchange rates and contain inflation. Most African countries continued their prudent fiscal policies to keep budget deficits at sustainable levels. But in several countries, including oil exporters, fiscal positions weakened despite efforts to limit spending and to improve tax revenues.

Africa's growth is on target to strengthen

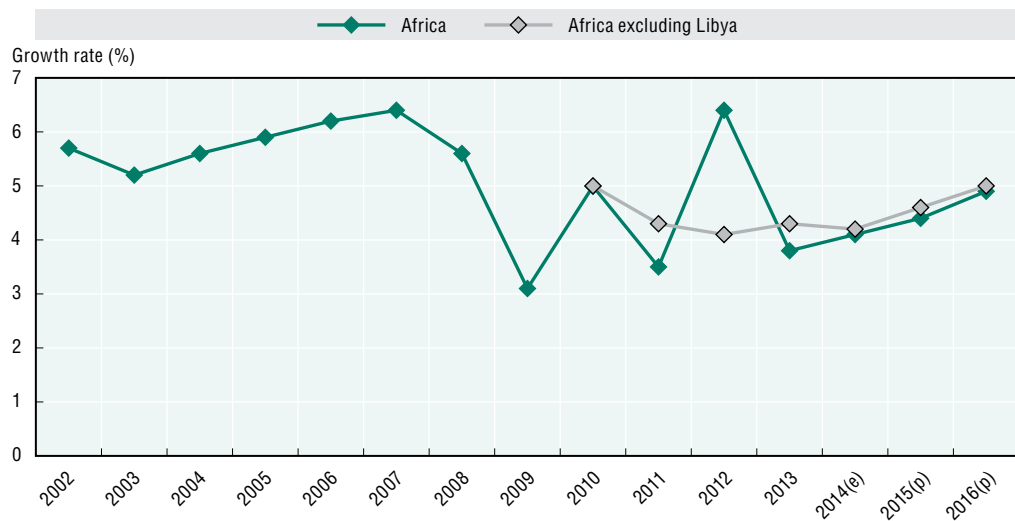
Africa's impressive economic turnaround during the 2000s saw average gross domestic product (GDP) growth more than double from just above 2% during the 1980s and 1990s to above 5% between 2001 and 2014. It was higher than general world growth, just above 4%, and higher than Latin America and the Caribbean, just above 3%. But it was lower than for emerging and developing Asia at about 8% (See Box 1.1). Africa's growth has been held back by the hesitant global economy and political and social conflicts. Export markets, notably in Europe but also in China, remained weaker than expected in 2014. The unforeseen drop of oil and other commodity prices reduced revenues for Africa's commodity exporters. An outbreak of the Ebola virus, with Guinea, Liberia and Sierra Leone at the epicentre, killed thousands at a high economic cost. In a few countries political and security uncertainty continued while in some others it stabilised. Furthermore, in some countries, improvements in the business environment have stalled or even reversed while in many others framework conditions for doing business made new progress (see Chapter 5).

As a result of these opposing factors, growth has remained strong in some countries and moderate in others. Africa's overall GDP grew 3.9% in 2014, up from 3.5% the previous year. It should accelerate to 4.5% in 2015 and 5% in 2016, approaching levels seen before




the 2008/09 global financial crisis. In sub-Saharan Africa growth was 5.2% in 2014. It is projected to weaken to 4.6% in 2015 and to strengthen again to 5.4% in 2016. Relatively low growth in South Africa is reducing overall growth in sub-Saharan Africa by about three-quarters of a percentage point. Excluding South Africa, sub-Saharan Africa's economy will grow by 5.2% in 2015 and 6.2% in 2016. This projection depends on the world economy improving, oil prices gradually recovering and the Ebola epidemic in West Africa being contained. If the virus spreads, if commodity prices fall further or if political and security conflicts become more serious, Africa's growth would be lower than projected. The fragility of export markets, notably in Europe, and of global financial markets also remains a risk.

Figure 1.1. Africa's economic growth, 2002-16



Note: (e) estimates; (p) projections.

Source: Statistics Department, African Development Bank.

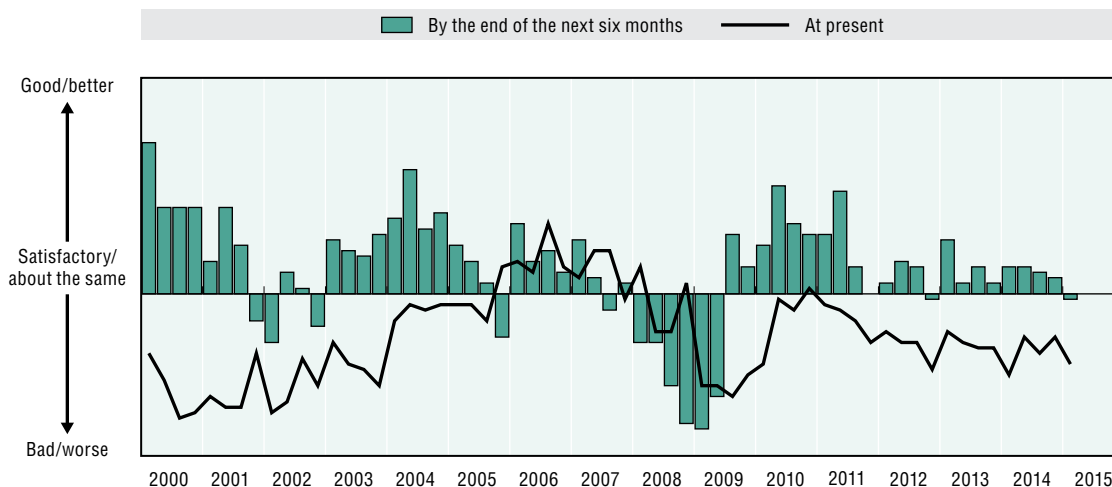
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Subdued global growth is expected to gradually strengthen, supported by increased export demand. It is projected to accelerate to 3.5% in 2015 and 3.7% in 2016 from 3.3% in 2014, mainly driven by the United States and a gradual recovery in Europe and Japan. Among emerging markets, China and India should remain the fastest growing economies but at a slower pace than in the past decade. World trade volume growth should recover from 3.1% in 2014 to 3.8% and 5.3% in 2015 and 2016 respectively (IMF 2015). The lower oil price is boosting growth in oil-importing countries but several, notably in the euro area, still struggle with high debt levels and weak demand. Strengthened global growth will support Africa's exports but this will be more subdued than during earlier recoveries when global growth was stronger and commodity prices were higher.

African participants in the Ifo Institute's World Economic Survey¹ predicted an improvement in 2014 amid positive expectations. But in early 2015 both the assessment of the current situation and expectations for the first half of 2015 deteriorated, which shows that prospects are uncertain.



Figure 1.2. Africa's economic situation and six-month projections, 2000 Q1-2015 Q1



Source: Ifo Institute World Economic Survey (2015).

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Box 1.1. Africa seeks path to sustain improved growth

Political stability, better economic policies and high demand for commodities have all helped Africa's economic revival in past decades. It is now looking for a path to make it sustainable and help those countries that have not vaulted the barriers to growth. A comparison of today's conditions and the 1980s and 1990s, Africa's so-called "lost decades" helps understand what is needed.

Africa's economy is not homogenous and the performance of individual countries should be studied before aggregate growth. A comparison of growth performances for 1986-2000 and 2001-14 reveal the following: In the first period, in more than a third of African countries average GDP growth remained below 2% and in 44% of countries below 3%. As population growth was mostly between 2% and 3%, per capita GDP declined or stagnated in most of these countries. But in the second period the number of countries with growth below 3% declined to 17% and only in Central African Republic and Zimbabwe was growth below 2%.

In the second period the number of countries with growth above 4% was much higher than in the first period (Figure 1.3). When looking at the growth performance of individual countries during these two periods three main factors appear to have accelerated growth:

Political stability: Many countries which recorded growth below 2% during the first period suffered from civil wars, military coups or social unrest (Algeria, Angola, Burundi, Central African Republic, Democratic Republic of the Congo (DRC), Djibouti, Guinea-Bissau, Niger, Rwanda and Sierra Leone). Political stability improved between 2001 and 2014 although several economies suffered again, at least temporarily, from political unrest (Central African Republic, Côte d'Ivoire, Egypt, Libya, Guinea, Guinea-Bissau, Madagascar, Mali and Tunisia). In some of them (Central African Republic, Côte d'Ivoire, Guinea, Guinea-Bissau and Madagascar) average growth remained below 3%.

High commodity demand and soaring prices: World output growth accelerated during the 2000s, mainly driven by China and other emerging nations. This boosted demand for oil and minerals and increased commodity prices, which benefited Africa's resource-rich countries. Average annual growth in several of these countries (Angola,



Box 1.1. Africa seeks path to sustain improved growth (cont.)

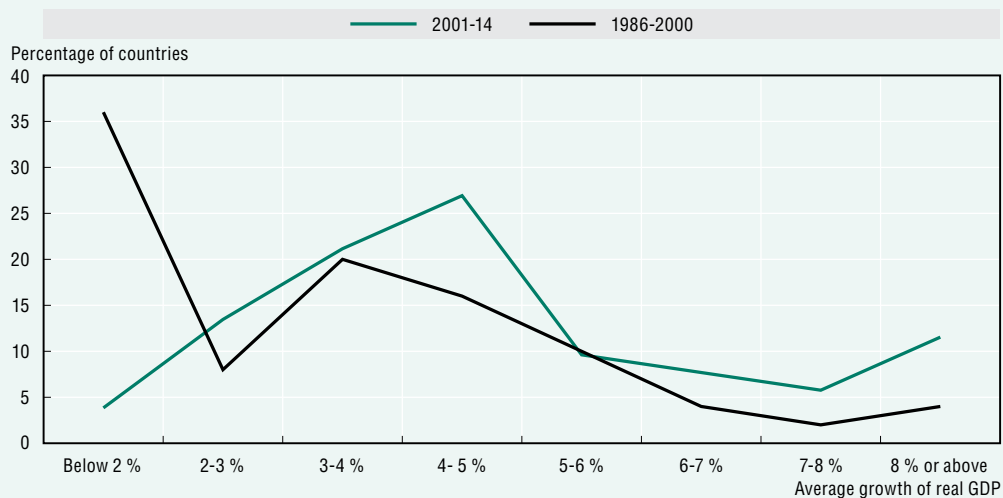
Chad, Equatorial Guinea, Nigeria and Sierra Leone) rose to 8% and more between 2001 and 2014. High commodity prices also boosted other resource-rich economies such as Zambia where average growth accelerated from half a percentage point in 1996-2000 to almost 6% in 2001-14. Mozambique and Ghana, which are not classified as resource-rich, but where extractive industries have become more important, also attained high growth of almost 8% and close to 7% respectively.

Improved economic policies: Lower inflation and stronger budgets due to more prudent fiscal policies, also helped by debt relief, have improved macroeconomic stability and supported growth in many countries. States are promoting structural transformation from traditional towards more productive activities. This has helped some countries without resources, such as Ethiopia and Rwanda, to attain high annual growth of 8% or above. But structural transformation has remained limited in most countries and productivity growth is too slow and has not created enough jobs to lower poverty (AfDB et al., 2013).

These findings tell us that political and social stability are clearly prerequisites for economic growth. But political and social stability also depend on how the fruits of growth are shared. In this respect many African countries rank poorly (Ncube, Shimeles and Younger, 2013). Among countries with average growth above 6% from 2001 to 2014, Ethiopia had the highest ranking with respect to inclusive growth. Other countries with similarly high or even higher GDP growth ranked much lower. So there is an urgent need to make growth more inclusive.

Second, if the fall in oil and mineral prices is not reversed, growth could suffer in Africa's resource-rich countries. Resource-rich and resource-poor countries need to maintain macroeconomic stability and speed up diversification by improving economic and social infrastructure and governmental institutions. This will broaden the economic base and help to better meet social development needs. Growth will then become more inclusive and more sustainable as countries become less vulnerable to economic shocks.

Figure 1.3. Growth in Africa: Distribution of countries by average annual rates of growth



Source: Authors' calculations.

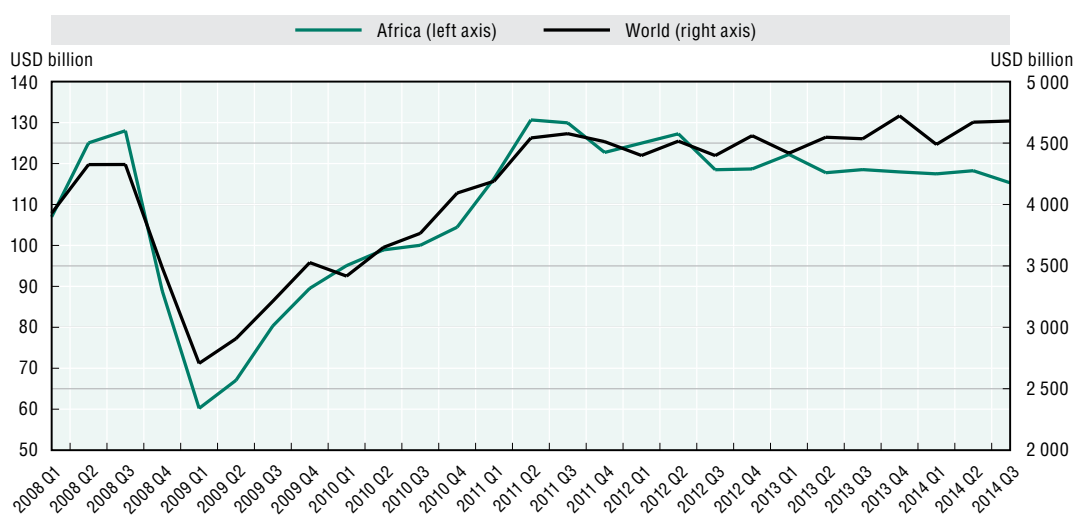
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Domestic demand plays an important role in Africa's 2014 growth

Africa's growth is driven by changes on the demand side and the supply side. Domestic demand has continued to boost growth in many African countries while external demand has remained mostly subdued because of flagging export markets, notably in advanced countries and to a lesser extent in emerging countries. Export values of goods were also depressed by lower export prices (Figure 1.4). African exports are expected to strengthen in 2015 and 2016 as the world economy improves. In 2014, domestic demand was in most African countries boosted by private consumption and public infrastructure investment with the latter also increasingly financed by issuing international sovereign bonds (see Chapter 2).

Figure 1.4. Development of African and world exports of goods, 2008-14



Source: IMF Direction of Trade Statistics (n.d.).
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On the supply side, many African countries have improved conditions for doing business, which enhance long-term growth prospects. Benin, Côte d'Ivoire, Democratic Republic of the Congo, Senegal and Togo are even in the top ten countries worldwide with the most reforms making it easier to do business. Africa's supply side growth in 2014 was mainly driven by agriculture, extractive industries, construction and services, and to a lesser extent by manufacturing. But sectoral growth should not be seen in isolation, as there are important spillovers between sectors. Furthermore, modernisation and structural transformation is also happening within some sectors.

Agriculture is Africa's largest economic sector and accounts for around 60% of Africa's employment and about one quarter of its GDP. In recent years agriculture's GDP share has declined significantly in some countries, such as in Ethiopia, Ghana and Nigeria. It has however increased in others, such as in Angola and Kenya. The sector remains vulnerable to erratic weather and to international farm prices. In 2014, weather conditions were quite good in most African countries although there were exceptions such as Angola, Gambia and Mauritania. This, together with higher investment, contributed to good harvests. The increased supply and lower import prices for food also reduced prices for consumers. At the same time farmers' export revenues were depressed by lower international prices for products, notably cotton.

Resource-rich countries continue to depend on extractive industries although their GDP share has declined in recent years. In 2014, these sectors were important drivers of



growth in Algeria (oil), Botswana (diamonds), Democratic Republic of the Congo (copper, gold, diamonds, oil), Republic of the Congo (Congo) (oil), Namibia (mining), Sudan (gold and oil) and Tunisia (phosphate). In Ghana, oil production continued to increase but gold production declined in response to the lower gold price. In Nigeria, the largest oil producer in sub-Saharan Africa, oil production remained below target. In Zambia, a key copper exporter, production stagnated. But Nigeria and Zambia achieved relatively high growth due to buoyant non-extractive sectors. In Equatorial Guinea, which depends heavily on extractive industries, the decline of oil and gas production and of GDP continued for a second year. With the expected moderate recovery of the global economy and some increase in international commodity prices, extractive sectors will continue to support growth in 2015 and 2016 in most of Africa's resource-rich countries even if its GDP share may continue to decline.

Construction is an important driver of growth. Its share in GDP has increased in recent years in most countries and is in some countries as large or even larger than the manufacturing sector. This is due to booming infrastructure and housing investment.

The services sector is a principal engine of growth in most African countries. New information and telecommunication technologies are boosting growth and productivity. With more people in remote regions becoming connected and able to use mobile banking, the technology also supports economic and social inclusion. Traditional services, such as transport, trade, real estate, and public and financial services also continue to grow and provide new jobs although often in the informal economy. In recent years in many countries the shares of services in GDP has increased and in Nigeria it has doubled since 2008.

Manufacturing remains relatively small in most African countries although this varies. It tends to be smallest in less developed countries and where natural resources are abundant. Although there is large potential to develop labour intensive manufacturing in Africa, the sector is hampered in many countries by a lack of skilled labour, poor transport infrastructure and unreliable and expensive energy (see Annex 1.A1. Energy sectors in Africa: Problems and opportunities). In recent years, the share of manufacturing in GDP has increased in several oil-rich countries, such as Angola, Chad, Gabon and Nigeria, although from low levels. In some countries with above-average manufacturing, such as in Morocco, the sector has expanded, while in others, notably South Africa, Lesotho and Mozambique its share in GDP declined. In 2014 growth in several countries – such as Kenya, Malawi, Morocco, Nigeria, United Republic of Tanzania and Tunisia – was boosted by increased manufacturing production. But in other countries, such as Mauritania, South Africa and Zambia, manufacturing's performance cut growth. In Ghana the sector suffered from extensive power outages.

Tourism is an important industry and it has been affected by economic weakness in key markets, notably Europe, the Ebola outbreak and security problems in some African countries. According to preliminary data, international tourist arrivals in Africa increased in 2014 by around 2%, down from 4.8% in 2013 and less than half of the 2005-08 average of 5.8%. The 2014 increase was due to higher arrivals in sub-Saharan Africa (around 3%). In North Africa tourist arrivals stagnated. In the Ebola affected region of West Africa, tourist arrivals declined sharply, and almost halved in Sierra Leone after years of double-digit growth, although from a low base. In North Africa, arrivals increased 2% in Morocco but decreased again in Tunisia, by 3%.

In other countries tourism was adversely affected by domestic problems, such as political uncertainty and security problems in Egypt and security concerns after militant attacks in Kenya. The Ebola outbreak also reduced in tourism countries such as Burkina Faso, Côte d'Ivoire, Gambia and Senegal which are around the epicentre of



the epidemic. Sluggish growth in Europe and other key origin markets affected tourism in Mauritius, Namibia and Seychelles. But tourism remained strong in countries such as Benin and Tanzania and boosted growth. The projected gradual improvement of the global economy should help Africa's tourism recover in the near future. For 2015, the United Nations' World Tourism Organization expects international tourist arrivals in Africa to increase between 3% and 5% (UNWTO, 2015).

Figure 1.5. International tourist arrivals and receipts in Africa, 1980-2014



Source: UNWTO (2015).

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Regional economic growth remains uneven

Economic growth varies across Africa reflecting many factors such as differences in income levels, availability of natural resources, macroeconomic policies, and political and social stability. Growth remains highest in East, West and Central Africa, respectively and lowest in North and Southern Africa. The main challenges in all regions are to diversify and make growth more inclusive.

Central Africa's growth accelerated in 2014 to 5.6% from 4.1% in 2013. Economic conditions are, however, quite different between countries. The Central African Republic is affected by a political and security crisis. Despite some moderate growth, GDP will remain much lower than before the conflict broke out at the end of 2012. In Equatorial Guinea, GDP continues to fall due to lower oil production. All other countries in the region should remain on a relatively high growth path. Despite some damage from lower commodity prices, the mining sector and related investment remain the main engines of growth in the region. But in some of the countries, such as in Cameroon, Democratic Republic of the Congo, Gabon, and Sao Tome and Principe, growth is broader based.

East Africa's growth accelerated in 2014 to more than 7%, from below 5% in 2013. It is projected to decelerate to 5.6% in 2015 and accelerate again to 6.7% in 2016. East Africa will then again become the continent's fastest growing region. East Africa recorded the highest increase in foreign direct investment in 2014 (see Chapter 2). Fluctuations in East African average growth are due to volatile development in South Sudan, where armed conflict cut oil production and GDP in 2013. It recovered in 2014 but is projected to decline again in 2015, although forecasts for this country are highly uncertain and depend on the evolution of the peace process. Ethiopia, Kenya, Rwanda, Tanzania and Uganda kept up their relatively high growth. As these countries have small mining sectors and their



manufacturing is also not very large, or has declined as a percentage of GDP, their growth is more driven by services and construction. But countries are achieving growth with different degrees of sectoral transformation. In Ethiopia structural changes are most pronounced with the share of agriculture in GDP shrinking (although remaining higher than in the other countries) and services expanding more than in the other countries. In Sudan, growth remains weaker as the economy is still coping with the shock of South Sudan's secession in 2011 and the loss of oil revenues.

North Africa's growth remains uneven as fallout from the uprisings of 2011 is still affecting countries. Libya is highly unstable with power struggles between different groups and a collapse of political and economic governance. Its oil production declined again in the first half of 2014. Despite some recovery in the second half, growth was again negative in 2014 and prospects are highly uncertain. By contrast, in Egypt and Tunisia greater political and economic stability is helping to improve business confidence. The gradual recovery of export markets and improved security should support growth, including in tourism, although in Tunisia terrorist attacks in March have created new concerns. Algeria's oil production increased for the first time in eight years and is boosting growth together with the non-oil sector. In Morocco, agricultural production declined in 2014 from its exceptionally high level in 2013 and reduced GDP growth. But assuming normal harvests and better export markets, growth is expected to accelerate. Mauritania continues to achieve the highest and steadiest growth in the region, supported by favourable macroeconomic and structural policies. This was mainly boosted in 2014 by parts of the mining sector (iron ore) and construction and on the demand side by private consumption and private investment. The exceptionally high total investment of around 45% bodes well for future growth.

Southern Africa's growth slowed to below 3% in 2014 and only a moderate recovery is projected for 2015 and 2016. The subdued performance is due to the relatively poor growth in South Africa. The key economy's growth fell to 1.5% in 2014 from 2.2% the previous year. It suffered from weakened demand in trading partners and lower prices for its raw materials, while labour unrest and electricity shortages disrupted economic activity. South Africa's growth is projected to recover gradually on the back of more buoyant export markets and improved competitiveness due to the large depreciation of the rand. In Angola, growth also decelerated due to the oil price fall, a temporary reduction in oil production as well as a drought, which reduced agricultural production. Angola's growth is projected to remain lower than for most of the past decade as government expenditures are depressed due to lower oil revenues. Mozambique and Zambia are achieving the highest growth in the region. Mozambique is mainly driven by so-called mega projects and large infrastructure investment, financed by foreign direct investment and the government. In Zambia, good harvests boosted 2014 growth and mitigated the effect of lower growth in mining, manufacturing and services. Growth is expected to remain strong in both countries but more efforts are needed to broaden the economy and make growth more inclusive.

West Africa achieved relatively high GDP growth of 6% in 2014 despite the outbreak of Ebola in the region. The virus significantly reduced growth in the most affected countries, Guinea, Liberia and Sierra Leone (Box 1.2). In Nigeria, Africa's largest country, growth accelerated to 6.3%, from 5.4% in 2013. It was again driven by the non-oil sector, notably services, manufacturing and agriculture, which shows that Nigeria's economy is diversifying. Its oil and gas sector has declined to around 11% of GDP and is now a similar size to manufacturing at around 10% of the total. Benin, Côte d'Ivoire, Niger and Togo also remained on a relatively high growth path. But growth slowed in Ghana and Gambia's economy shrank slightly. West Africa's growth is projected to become more moderate in 2015 and to strengthen again in 2016, driven mainly by Nigeria.


Table 1.1. Africa's growth by region, 2013-16

(Real GDP growth in percent)

	2013	2014 (e)	2015 (p)	2016 (p)
Africa	3.5	3.9	4.5	5.0
Central Africa	4.1	5.6	5.5	5.8
East Africa	4.7	7.1	5.6	6.7
North Africa	1.6	1.7	4.5	4.4
Southern Africa	3.6	2.7	3.1	3.5
West Africa	5.7	6.0	5.0	6.1
Memorandum items:				
Africa excl. Libya	4.0	4.3	4.3	5.0
Sub-Saharan Africa (SSA)	4.7	5.2	4.6	5.4
SSA excl. South Africa	5.4	6.2	5.2	6.2

Note: (e) estimates; (p) projections.

Source: Statistics Department, African Development Bank.

Box 1.2. The economic impact of Ebola

The Ebola virus has particularly hit Guinea, Liberia and Sierra Leone and curtailed the immense strides they have made in macro and fiscal stability in recent years. The epidemic has caused tremendous human hardship and high economic costs in these countries and only a gradual recovery is expected in the near term (UNDP 2014a). By March 2015 there had been more than 25 000 reported cases of the virus and more than 10 000 reported deaths, according to World Health Organisation figures. But thanks to international support and national policies in the region there are signs of progress. The spread of the virus to neighbouring countries has been contained.

The Ebola shock has cut production in most sectors in the affected countries. Some firms have closed and construction has reduced, while agricultural production has experienced a modest decline. Rice production is estimated to see a decline from 2013 ranging from 8% in Sierra Leone, to 4% in Guinea and 3% in Liberia (FEWS NET, 2015). Hotel and restaurant services have been heavily affected as development workers and business people withdrew from the countries. This gap has since been partially filled by Ebola response workers, although they are expected to depart during 2015 as the outbreak is contained. International concerns about the epidemic have led to airlines cancelling services to affected countries. This has, in turn, increased the cost of medical evacuation insurance. While port activity has continued, ships have been re-routed, increasing shipping costs, and again insurance costs have increased. Government actions to contain the epidemic have increased the economic cost. Closing borders has reduced trade, while transport restrictions, quarantines and curfews have reduced commercial activity. Liberia lifted most restrictions by November 2014, opening borders and dropping a curfew in February 2015. In Sierra Leone restrictions have been eased a little but still slow economic activity. By contrast, Guinea did not implement curfews and movement restrictions.

Household welfare has deteriorated in the crisis, as employment and incomes have decreased. In Liberia, a study of businesses carried out by the US Agency for International Aid indicated permanent employment decreased by 19% between the baseline (2013 to July 2014) and October 2014. By December, the loss in permanent employees had reduced to just 14% below baseline. Temporary and permanent female employment was more significantly affected, falling 55% and 38% respectively, and neither category had seen a clear improvement by December. The construction and renovation sector saw the largest decline in temporary male employees (partly due to the rainy season), while hotels and restaurants saw the largest decline in temporary female employees (USAID, Building Markets and AfDB, 2015). Food insecurity was high before the crisis and is expected to rise slightly until mid-2015, as households become more reliant on market access for food.



Box 1.2. The economic impact of Ebola (cont.)

GDP growth in 2014 slowed considerably. Sierra Leone's growth fell from an estimated 13.8% in the AEO 2014 to 6%, in Liberia from 6.8% to 1.8%, and in Guinea from 4.2% to 0.6%. The 2014 GDP shortfall in the three countries together (compared with AEO 2014 projections) amounted to about USD 1.4 billion (in purchasing power parity), with Sierra Leone accounting for USD 775 million, Guinea USD 460 million and Liberia USD 165 million. This corresponds to a shortfall of per capita income of about USD 130 in Sierra Leone, and about USD 40 in Liberia and Guinea.

Besides this short-term damage there is also an adverse medium and longer-term impact as lower investment in the private sector and in public infrastructure reduces growth potential. As the Ebola outbreak is not yet contained it is difficult to make economic forecasts. Our scenario for growth in these three countries assumes that the Ebola crisis will be contained during 2015. But economic activity will remain depressed, notably in Sierra Leone where the economy is expected to contract. But by 2016 the economies are expected to recover again in all three countries.

Lower economic activity has kept government revenues stagnant while the need for additional social expenditure has increased (UNDP 2014b). In Liberia, tax revenues through end-February 2015 have been stable with the previous year and bolstered by substantial budget support, which has led to a 19% increase in total revenues over the previous year. However, much of the budget support has been frontloaded from future years, which could lead to financing gaps in the next two years. This means the government must carefully prioritise expenditure. Before the Ebola crisis Guinea and Sierra Leone were only at moderate risk of debt distress and Liberia at low risk. But with lower growth and weaker fiscal positions, the risks for macroeconomic and financial market instability are rising. The Ebola crisis also risks diverting government and donor spending to emergency health care services, at the cost of other infrastructure, which could reduce longer-term growth. The perception of a return to instability could take years to overcome. This could also reduce growth potential (Hettinger, 2014).

Although the spread of the virus to neighbouring countries has been contained, the region has been adversely affected through lower cross-border trade and fewer international tourists, notably Burkina Faso, Côte d'Ivoire, Gambia and Senegal (for more details see the respective countries in Part III).

International commodity prices have fallen

Commodity prices, which had started to edge down in 2013, fell sharply during the second half of 2014. Weak demand from industrialised countries and emerging countries such as China met with higher supply. Some commodity prices are now 40-50% down from their peak level but are still higher than before the commodity price boom started. Prices should gradually increase again during 2015/16 as the global economy strengthens but this assumption is surrounded by a relatively high risk.

Oil prices have lost more than half the price of over USD 100 a barrel in mid-2014 to go below USD 50 at the beginning of 2015. The international oil supply has increased significantly, notably due to higher US production of oil from shale, or "fracking", while traditional producers, notably Saudi Arabia, did not cut output in response to lower prices. The higher supply of oil with the appreciation of the US dollar met with lower demand due to subdued global growth. The AEO 2015 economic forecast for Africa is based on the assumption that the price of oil will remain on average slightly below USD 60 per barrel, around 40% lower than its 2014 average. For 2016 we assume a moderate increase to an average of around USD 65 a barrel.



The lower oil price affects economies through a number of channels. First it puts downward pressure on other fuel prices, particularly natural gas. The lower prices reduce costs for heating, transport and energy intensive sectors including agriculture. As a result household purchasing power increases, and – if spent on domestic products – GDP increases. Model simulations indicate that the fall in oil prices – if sustained – could have a significant positive impact on world GDP.²

African countries benefit from lower oil prices, which eases inflation, increases real incomes and strengthens export markets. However, Africa's oil exporters have to cope with lower government revenues. As oil profits decline, investment and exploration could be cut which would reduce production in the longer-term. The oil price decline has also weakened the currencies of oil-exporting countries, putting upward pressure on inflation and reducing countries' capacity to borrow. Monetary authorities in countries with strong foreign reserves can mitigate currency depreciation by intervening in exchange markets, although there are limits as foreign reserves are depleted.

Given these various transmission channels from oil prices to economic activity it is difficult to quantify the overall impact of the lower oil price on economic growth in Africa's oil-exporting countries. Model scenarios produced by the African Development Bank suggest that a permanent oil price decline of 25% causes GDP growth shortfalls of between 0.6% and 2.7% for Africa's main oil exporters (Table 1.2). As the AEO 2015 projections are based on a larger oil price decline, the impact could be more significant. However, such simulations illustrate long-term effects on growth using general *ceteris paribus* assumptions. So far, most African oil-producing countries have been relatively resilient to the price decline and achieved relatively high growth in 2014. Oil production often increased and growth was also boosted by non-oil sectors. The main adverse effect has so far been on government revenues. If oil prices remain low this will reduce growth in coming years, as governments will have to cut spending.

Table 1.2. Impact of oil price decline on selected African oil exporters

Oil exporting countries*	% share of oil in GDP (2013)	Growth shortfall of a 25% oil price decline** in % (rounded)
Algeria	29.6	1
Angola	40.6	2.7
Cameroon	7.4	0.6
Chad	27.4	2.3
Congo	58.0	2.6
Equatorial Guinea	74.1	1.5
Gabon	40.0	1.3
Nigeria	32.4	1.4

Notes: *Excluding Libya, for reasons of data availability.

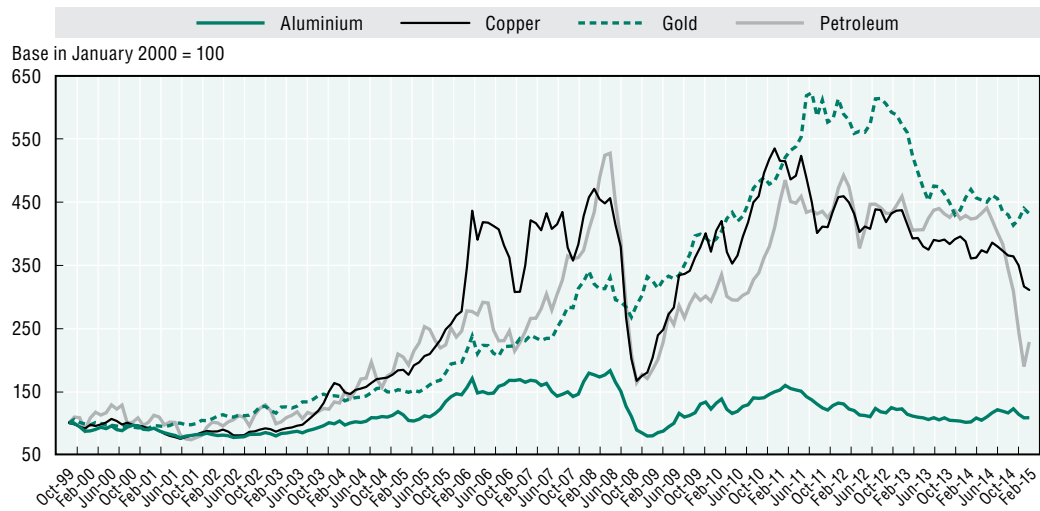
** From USD 100 to USD 75 a barrel.

Source: AfDB Staff Computations using the AfDB GVAR Model.

Prices of non-oil commodities such as copper and gold and the export prices of some agricultural products such as cotton also weakened (Figures 1.6 and 1.7). While lower prices are affecting revenues in the exporting countries, most of them recorded relatively high growth in 2014 and prospects for 2015 remain favourable. The reason for this resilience is that agriculture and mining production increased and that other sectors, notably services, boosted growth. As a result, in many countries growth remained relatively strong, such as in Benin, an exporter of cotton, in Burkina Faso, a producer of gold and cotton, and in Zambia, a main producer of copper.

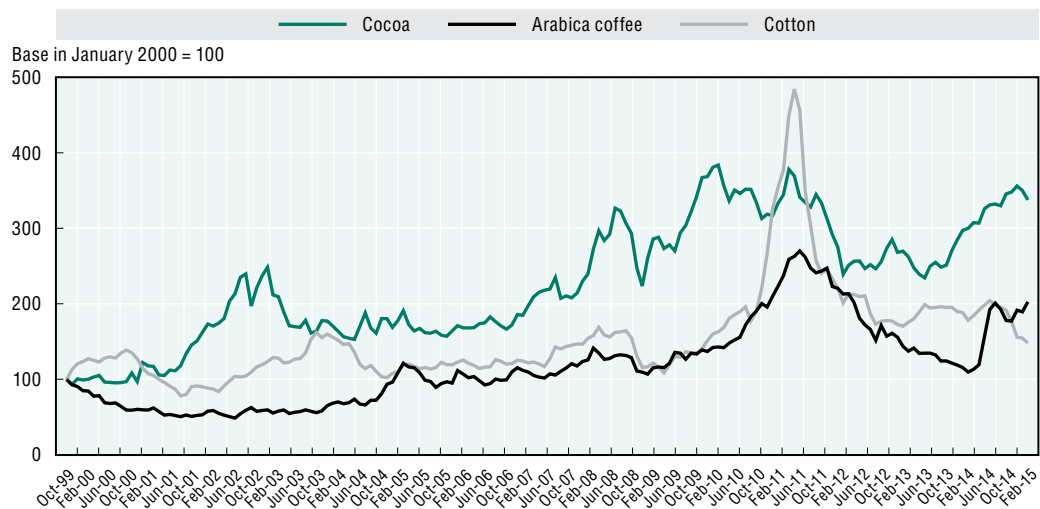


Figure 1.6. Commodity prices, October 1999-February 2015



Source: World Bank (2015a).
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Figure 1.7. Export prices of agricultural products, October 1999-February 2015

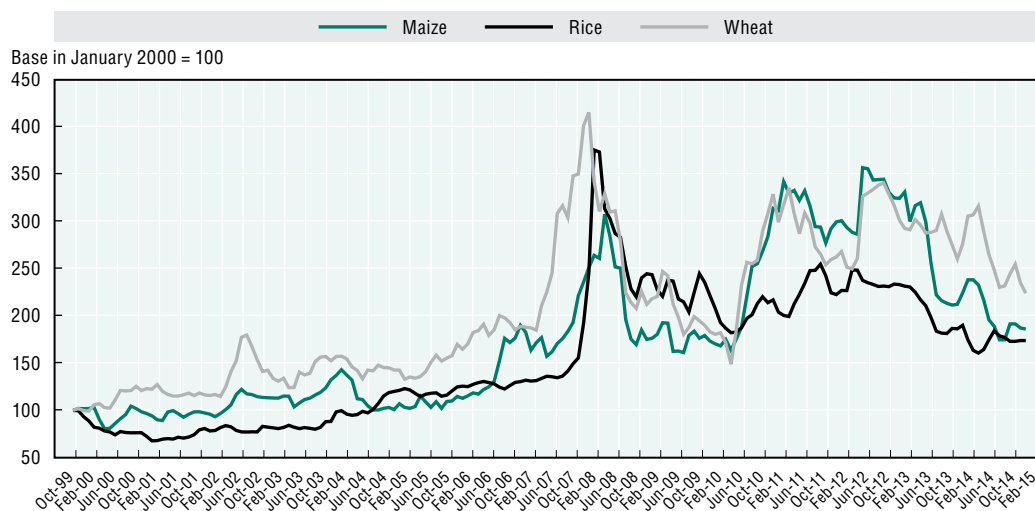


Source: World Bank (2015a).
 StatLink <http://dx.doi.org/10.1787/888933206535>

Import prices of basic foods continued to decline in 2014 as supply increased (Figure 1.8). This, together with good harvests, helped to moderate food prices in many African countries.



Figure 1.8. Import prices of basic foodstuffs, October 1999-February 2015



Source: World Bank (2015a).

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Africa struggles for monetary policy to stimulate economy

Most African countries are labouring to improve monetary policy transmission mechanisms so that monetary policy can better combat inflation and stimulate their economies. To this end, countries such as Rwanda and Sudan have taken measures to improve links between monetary policy, financial markets and the real sectors.

Africa's monetary and exchange rate policies continued in 2014 to be geared toward maintaining or achieving price stability. In countries where inflationary pressures have eased and exchange rates have remained relatively stable, policy interest rates have been reduced to stimulate growth. This has been tried by Botswana, the Central African Economic and Monetary Community (CEMAC),³ Mozambique and Rwanda. Other monetary authorities – the West African Economic and Monetary Union (WAEMU),⁴ Kenya, Mauritius and Tanzania, did not ease, or only marginally eased policies. In Ethiopia, tight monetary conditions helped push inflation from a peak of almost 40% in November 2011 to around 7% in December 2014. According to AEO 2015 projections, inflation will remain at single-digit levels in 2015/16. But as deposit interest rates are lower than inflation, real interest rates are negative and provide little incentive to save.

Central banks in countries where exchange rates came under pressure responded by tightening policies. This was the case in Nigeria although inflationary pressures have been contained at single-digit levels due to lower fuel and food prices. In Ghana, inflation increased due to expansionary money supply growth and the depreciation of the currency. The central bank adopted a more restrictive policy stance, which should ease inflation in 2015/16. But risks remain if exchange rate pressures continue and fiscal deficits remain high.

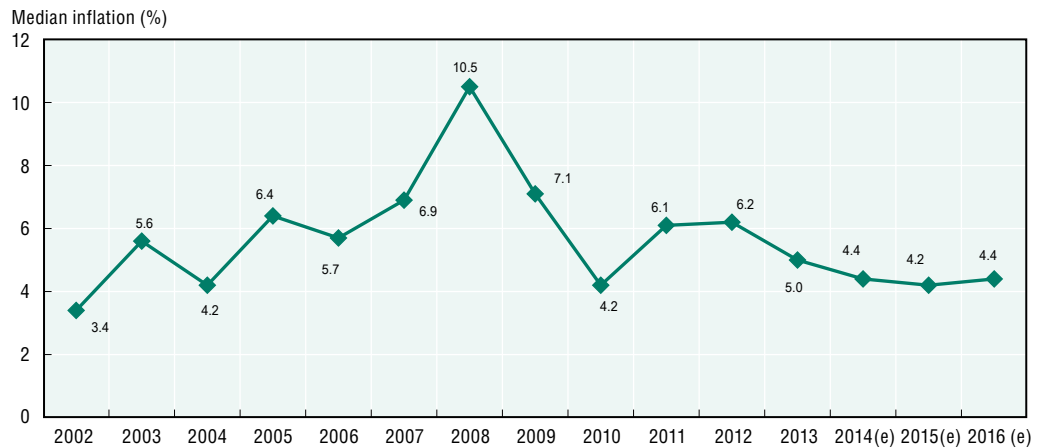
Inflation in South Africa remained relatively stable in 2014 at around the upper range of the inflation target (3-6%). When the rand currency depreciated, the central bank responded by raising policy interest rates to reduce inflation risks. Both external and domestic factors put pressures on the exchange rate, notably the quantitative easing by the US Federal Reserve, which could trigger capital outflows, weaker growth in China, and in South Africa continued labour unrest and a higher than expected current account deficit. South Africa's actions led to weaker real effective exchange rates and



tighter monetary policies in Lesotho, Namibia and Swaziland, which operate a common monetary union with South Africa.


Sudan and Malawi faced particularly high inflation in 2014, around 38% in Sudan and around 24% in Malawi. Their central banks have tightened policies and aim to stabilise their exchange rates and boost foreign exchange reserves.

Figure 1.9. Consumer price inflation in Africa, 2002-16



Note: (e) estimates; (p) projections.

Source: Statistics Department, African Development Bank.

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Fiscal positions and current accounts have weakened

Falling commodity prices have had a significant impact on government budgets in resource-rich countries. More solid public finances in recent years have helped many African countries to improve macroeconomic stability and make them more resilient to external shocks. But the commodity price decline has shown again how vulnerable budgets are in some countries to those shocks. The global recession in 2008/09 caused Africa's average fiscal balance to deteriorate from a surplus to a deficit of around 5% of GDP. The average deficit gradually declined to around 3%, helped by the economic recovery and prudent policies. But in 2014 deficits started to increase again to an average above 4% and they are expected to rise to the levels of the global recession.

The main reason is the deterioration of budget balances in oil-exporting countries. Lower oil prices have caused a sharp fall in government revenues in these countries. Despite efforts to limit spending and improve revenue collection several oil exporters, notably Algeria, Angola, Congo, Equatorial Guinea and Gabon, are expected to face relatively high fiscal deficits between 7% and 13% of GDP in 2015. In Libya the deficit could even reach 30% of GDP. Nigeria's government budget was broadly balanced in 2014. In 2015 the fiscal position will worsen but as collection of non-oil revenues improves, the budget deficit is expected to be limited to 4.5% of GDP. In Mozambique new consolidation measures will help to reduce the high deficit from 10% of GDP in 2014 to below 7% by 2016. In Ghana, despite new measures, the deficit will only decline from above 10% of GDP in 2014 to 9.5% in 2015. In Egypt, the deficit will remain at around 11% in 2015 due to an expansionary fiscal policy, which is, however, accompanied by efforts to improve the quality of spending. One important measure was the reduction of energy subsidies by 40%. Countries such as Ethiopia, South Africa, Sudan, Tanzania and Zimbabwe are following prudent fiscal policies to keep deficits within sustainable limits. Botswana is also continuing fiscal discipline and is expected to achieve sizable surpluses again in 2015 and 2016.



Given the increased budgetary pressures, keeping debt at sustainable levels remains a priority in many countries. According to a debt sustainability analysis by the World Bank and the International Monetary Fund, two-thirds of countries assessed since 2012 are at a low or moderate risk of debt distress and around a third are a low risk. Overall the assessment of debt in Africa changed little compared to the AEO 2014 with a few exceptions: The debt sustainability rating for the Democratic Republic of the Congo improved from high to moderate risk. By contrast the assessments for the Central African Republic moved from “moderate” to “high” and for Cabo Verde and Cameroon from “low” to “moderate” (Table 1.3).

Despite the debt risks, governments also face spending pressures, in particular to reduce the large bottlenecks in economic and social infrastructure. With the limited space to increase spending, it is vital to make spending more geared to boost growth and human development. This can be done by improving the composition of spending and by making individual spending programmes more effective. It has been shown that phasing out energy subsidies and shifting funds to more productive uses, notably infrastructure investment, is welfare improving (Glomm and Jung, 2015). As fuel prices have declined such restructuring of spending is now politically easier and several countries have already reduced energy subsidies. Egypt cut energy subsidies by around 40% in June 2014.

There is also large potential for improving tax collection. This must be done as foreign aid is expected to decline. Despite improvements in recent years, many African countries are still not fully reaching their revenue potential (see Chapter 2). The complexity of tax systems and inefficient tax administrations make it difficult for taxpayers to comply although there are large differences across the continent. Four countries stand out for ease of paying taxes and are in the 50 best-practice countries among the 189 covered in the World Bank's *Paying Taxes 2015* report. They are Mauritius (ranked 13), South Africa (19), Rwanda (27) and Seychelles (43). The next ten best African countries are Madagascar (65), Morocco (66), Botswana (67), Swaziland (74), Djibouti (75), Liberia (77), Zambia (78), Tunisia (82), Namibia (85) and Cabo Verde (91). But many African countries rank very poorly in this international comparison, which is largely due to their high administrative burden on firms and the complexity of their tax systems.

Table 1.3. Debt sustainability analysis: Assessing risks of debt distress

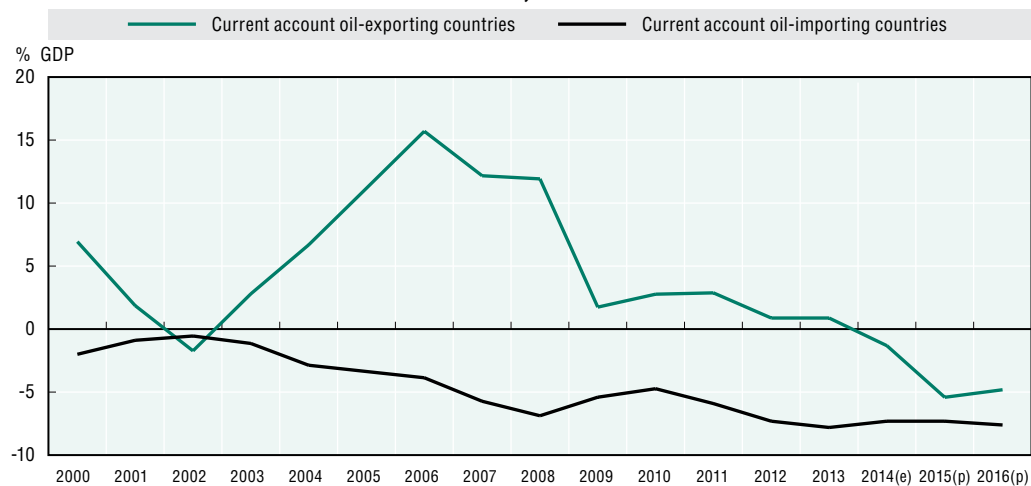
Low risk	Moderate risk	High risk
Benin (January 2013)	Burkina Faso (July 2014)	Burundi (March 2014)
Congo (September 2014)	Cabo Verde (May 2014)	Central African Republic (June 2014)
Ethiopia (September 2014)	Cameroon (July 2014)	Comoros (December 2013)
Kenya (September 2014)	Côte d'Ivoire (December 2013)	Chad (September 2014)
Liberia (June 2014)	Democratic Republic of the Congo (May 2014)	Djibouti (March 2013)
Madagascar (July 2014)	Ghana (May 2014)	Sao Tome and Principe (January 2014)
Nigeria (April 2014)	Gambia (May 2013)	Sudan (November 2013)
Rwanda (December 2013)	Guinea (September 2014)	Zimbabwe (July 2014)
Senegal (July 2014)	Guinea-Bissau (October 2014)	
Tanzania (May 2014)	Lesotho (July 2014)	
Uganda (December 2013)	Malawi (February 2014)	
Zambia (January 2014)	Mali (December 2013)	
	Mauritania (June 2012)	
	Mozambique (May 2014)	
	Niger (April 2013)	
	Sierra Leone (September 2014)	
	Togo (February 2014)	

Source: Joint World Bank-IMF Low Income Countries Debt Sustainability Analysis (LIC DSA). (Date of most recent analysis in brackets).




The fall in oil prices has also adversely affected current accounts for exporting countries. Most of them will record current account deficits in 2015 after having achieved surpluses in recent years. Among the large oil exporters, only Libya and Nigeria are expected to record current account surpluses. Botswana will continue to run significant current account surpluses. Oil-importing countries will on average register current account deficits of 7-8% of GDP, and this despite relief from lower international oil and food prices. Lower export prices and export volumes outweigh the effect of lower import prices on the current account. Some countries saw import prices pushed up through currency depreciation.

Figure 1.10. Current account in oil-exporting and oil-importing countries in Africa, 2000-16



Note: (e) estimates; (p) projections.

Source: Statistics Department, African Development Bank.

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African economies face risks and policy challenges

The gradual strengthening of African economies, as already described, is what the AEO 2015 sees as the most likely outcome. But if the global economy weakens and commodity prices fall further, Africa's growth would suffer. This could be through lower exports of goods and services, including tourism, and possibly also lower inflows of foreign direct investment, official development assistance and workers' remittances. Another external risk is financial market volatility and exchange rate pressures in some countries. This could also be caused by volatile capital movements if market expectations change about the likely evolution of monetary policies stance in key countries, notably the United States.

On top of global economic uncertainties, risks also exist within Africa. The Ebola epidemic has not yet been fully contained and could take a higher human toll and cause higher economic costs in the region. Furthermore, insecurity and political and social tensions in some countries, notably the Central African Republic, Libya, Somalia, and South Sudan continue to have adverse effects on their economies and make forecasts highly uncertain. Political and social tensions could also arise in countries with elections looming, although Africa's recent elections have been largely peaceful (see Chapter 5).

Political, macroeconomic and social stability are key requirements for economic and social development. Keeping economies on a high growth path and sharing growth more equally helps to reduce political and social tensions and to achieve development goals. Africa has made progress in this regard but more needs to be done to sustain growth, create more and better jobs for the growing labour force, and reduce poverty. The following chapters discuss in more detail how near Africa is to its development goals and what still needs to be done.


 Table 1.4. Macroeconomic developments in Africa, 2006-16
 (Summary table)

	2006-10	2011	2012	2013	2014 (e)	2015 (p)	2016(p)
Real GDP growth (%)							
Central Africa	4.1	4.7	5.5	4.1	5.6	5.5	5.8
East Africa	7.1	5.9	4.2	4.7	7.1	5.6	6.7
North Africa	4.7	-0.3	10.5	1.6	1.7	4.5	4.4
Southern Africa	4.2	3.9	3.4	3.6	2.7	3.1	3.5
West Africa	6.4	5.0	5.1	5.7	6.0	5.0	6.1
Africa	5.2	2.8	6.7	3.5	3.9	4.5	5.0
Africa (excluding Libya)	5.1	3.8	3.8	4.0	4.3	4.3	5.0
<i>Memorandum items</i>							
North Africa (including Sudan)	4.8	-0.2	9.8	1.8	1.8	4.4	4.4
Sub-Saharan Africa	5.6	5.0	4.6	4.7	5.2	4.6	5.4
Sub-Saharan Africa excluding South Africa	6.4	5.5	5.2	5.4	6.2	5.2	6.2
Oil-exporting countries	5.5	1.9	8.2	3.1	3.9	4.6	5.2
Oil-importing countries	4.7	4.5	4.2	4.2	3.8	4.3	4.8
Consumer prices (inflation in %)							
Central Africa	7.0	5.2	3.5	1.8	2.9	2.7	3.2
East Africa	11.0	18.4	22.9	15.7	13.1	10.1	10.4
North Africa	7.0	7.9	7.3	4.9	6.2	6.6	6.4
Southern Africa	8.1	6.8	6.5	6.3	6.2	5.6	5.9
West Africa	9.4	9.8	10.5	7.7	7.6	7.1	6.8
Africa	8.2	9.2	9.5	7.0	7.2	6.8	6.7
<i>Memorandum items</i>							
North Africa (including Sudan)	7.4	8.7	9.3	7.1	8.3	7.7	7.4
Sub-Saharan Africa	8.9	9.5	9.7	7.1	6.5	6.2	6.3
Oil-exporting countries	9.1	10.4	10.9	8.1	8.8	8.4	8.2
Oil-importing countries	6.9	7.6	7.6	5.7	5.1	4.6	4.8
Overall fiscal balance, including grants (% GDP)							
Central Africa	6.5	1.7	-0.6	-1.9	-5.3	-6.7	-6.0
East Africa	-2.6	-2.1	-3.1	-4.4	-3.9	-4.5	-3.7
North Africa	1.6	-6.3	-3.5	-7.2	-11.1	-9.8	-7.7
Southern Africa	-1.1	-1.5	-2.0	-2.7	-3.0	-4.8	-4.4
West Africa	-0.5	-2.4	-2.6	-0.5	-1.0	-4.6	-4.2
Africa	0.2	-3.0	-2.6	-3.5	-5.0	-6.3	-5.3
<i>Memorandum items</i>							
North Africa (including Sudan)	1.3	-5.6	-3.5	-6.8	-10.0	-8.8	-7.0
Sub-Saharan Africa	-0.4	-1.8	-2.2	-2.0	-2.6	-5.0	-4.5
Oil-exporting countries	1.6	-2.4	-1.9	-3.3	-5.7	-7.8	-6.3
Oil-importing countries	-1.8	-4.0	-3.9	-4.1	-4.0	-4.1	-4.0
External current account, including grants (% GDP)							
Central Africa	-0.3	-2.1	-4.3	-4.2	-5.2	-6.3	-5.6
East Africa	-6.7	-3.7	-7.1	-7.5	-7.7	-7.3	-7.9
North Africa	8.7	0.5	1.5	-1.2	-4.5	-6.1	-5.9
Southern Africa	-2.0	-0.7	-2.8	-3.6	-4.4	-6.4	-5.6
West Africa	4.7	0.7	1.0	0.5	-0.2	-5.2	-4.9
Africa	2.6	-0.4	-1.1	-2.2	-3.7	-6.1	-5.8
<i>Memorandum items</i>							
North Africa (including Sudan)	7.0	0.3	0.5	-1.9	-4.9	-6.2	-6.0
Sub-Saharan Africa	0.2	-0.7	-1.9	-2.4	-3.1	-6.0	-5.7
Oil-exporting countries	8.0	3.3	3.2	0.9	-1.3	-5.4	-4.8
Oil-importing countries	-4.5	-5.3	-7.5	-7.3	-7.8	-7.3	-7.6

Note: (e) estimates; (p) projections.

Source: Statistics Department, African Development Bank.



Annex 1.A1. Energy sectors in Africa: Problems and opportunities⁵

Infrastructure bottlenecks, including poor energy supply, are important barriers to the faster economic and social progress and economic diversification needed to maintain high and sustainable growth. New energy supply is not keeping up with new demand and this annex describes the state of Africa's energy sector and its policy challenges.

Energy supply has increased but remains scarce

An adequate energy supply is a prerequisite for economic development and at the same time, demand for energy rises with higher income. In sub-Saharan Africa, primary energy demand increased by around 45% from 2000 to 2012. This was about half of GDP growth so that on average a 1.0% increase in GDP was accompanied by a 0.5% increase in primary energy. In other developing and emerging countries the nexus between energy consumption and GDP growth has been much larger, which points to supply constraints in Africa.

Many African countries put in place policies to improve energy supply. As a result, installed grid-based power generation capacity has steadily increased. In sub-Saharan Africa in 2012, coal-fired generation capacity was 45% of the total (mainly South Africa), 22% hydropower, 17% oil-fired (both more evenly spread), 14% gas-fire (mainly in Nigeria), 2% nuclear, and less than 1% renewables. Until recently, energy policies have been primarily nationally independent, but regional co-operation is deepening and helps to serve larger markets. Industry, led by mining and refining activities, accounts for half of electricity consumption in sub-Saharan Africa, but much of it is concentrated in Ghana, Mozambique, Nigeria and South Africa. The residential sector represents only 27% of total electricity consumption, as there are relatively few electricity-consuming appliances per household and limited disposable income. A communications boom, particularly for mobile telephones, has driven up energy demand in recent years.

Electricity access differs widely between and within countries

Strong political commitment has helped to increase electricity access through grid and mini-grid systems in countries such as Ghana, Mali, Mozambique, Rwanda and Tanzania. In sub-Saharan Africa, the electricity access rate has increased from 23% in 2000 to 32% in 2012 and 145 million people have gained access to electricity since 2000. But in many African countries, rapid population growth is outpacing the extra electricity produced. As a result, 625 million people in sub-Saharan Africa – out of a population of 915 million – are living without access to electricity and the number without access continues to rise. Nearly 80% of people without access to electricity live in rural areas, which is also detrimental to spatial inclusion (see Part II: Regional development and spatial inclusion). Modern energy is also costly and too expensive for many people. African firms and households have often to cope with missing or unreliable power supplies and use private back up diesel or gasoline generators. Many households continue to cook traditionally with wood, agricultural waste and charcoal, which cause health problems from indoor smoke and also lead to forest degradation.

In seven African countries the share of population without electricity was in 2012 above 90% (Central African Republic, Chad, Democratic Republic of the Congo, Liberia, Malawi, Sierra Leone and South Sudan). In 13 countries it was between 75% and 90% (Burkina Faso, Burundi, Ethiopia, Guinea, Guinea-Bissau, Kenya, Madagascar, Mauritania, Niger, Rwanda, Somalia, Tanzania, Uganda). In 18 countries it was between 50% and 75% (Angola, Benin, Comoros, Congo, Côte d'Ivoire, Djibouti, Eritrea, Gambia, Lesotho, Mali, Mozambique, Namibia, Nigeria, Sudan, Swaziland, Togo, Zambia, Zimbabwe) and in six between 25% and 49% had not electricity (Botswana, Cameroon, Gabon, Ghana,



Sao Tome and Principe, Senegal). In South Africa, 85% of the population has access to electricity and in seven countries (Algeria, Egypt, Libya, Mauritius, Morocco, Seychelles, Tunisia) electricity supply is similar as in advanced countries with 100% or close to 100% of the population plugged in.

It has been projected that with new electrification programmes, the total number of people without access to electricity will start to decline in the 2020s and by 2040, 950 million people will have gained access. But as the population will have increased faster, more than half a billion people, mainly in rural areas, are forecast to remain without electricity in sub-Saharan Africa (OECD/IEA, 2014). While such long-term projections are highly uncertain they illustrate the magnitude of the challenge for policy makers. Indeed, without adequate energy provision long-term growth cannot be sustained.

Many African firms cite access to electricity among their biggest obstacles. In 12 countries, firms saw access to electricity in recent years as the most important obstacle (Burundi, Central African Republic, Congo, DRC, Djibouti, Gabon, Gambia, Guinea, Guinea-Bissau, Nigeria, Senegal, Uganda) (World Bank Group Enterprise Surveys). Reducing energy constraints for firms and households is thus of key importance to boosting economic and social development. An integrated policy approach is needed which considers economic, social and environmental objectives. Continued efforts are required, in particular:

- creating an appropriate energy investment climate across the whole range of recoverable (oil, gas, coal) and renewable (solar, hydro, wind) energy sources
- improving the management of natural resources and of resource revenues by improving the quality, transparency and accountability of institutions
- deepening regional integration and co-operation in energy policies
- addressing problems in remote rural areas with solutions such as solar photovoltaic and mini-hydropower projects
- promoting clean cooking fuels and stoves for households and helping to replace solid biomass fuels with liquefied petroleum gas.



Notes

1. The quarterly Ifo World Economic Survey (WES) attempts to draw an up-to-date picture of the current economic situation and the short-term outlook in about 120 industrial, emerging and developing economies. The 1 100 survey participants work for research institutes, universities, think tanks or financial institutions like banks or insurance companies. Some respondents are affiliated to companies or are representatives of associations or chambers of industry or trade. Unlike the official statistics, which are primarily constructed around quantitative information, WES consists of qualitative information: appraisals and expectations of economic experts. Whereas the official statistics on the international level often appear after considerable delays, the WES results are timely and internationally comparable. Especially in countries where the database of the official statistics is insecure, the appraisals and expectations expressed by on-site economic experts in the WES are of particular importance. In Africa, the survey covers 30 countries and receives on average 150 responses quarterly.
2. According to the OECD, a permanent USD 20 per barrel decline in crude oil prices could raise GDP growth in the OECD area by up to 0.4 percentage points over the first two years and decrease headline inflation by at least 0.5 percentage points (OECD, 2014). And according to the World Bank, a 30% oil price decline driven by a supply shock would be associated with an increase in world GDP of about 0.5% in the medium-term (World Bank, 2015b).
3. The CEMAC members are Cameroon, Central African Republic, Chad, Republic of the Congo, Equatorial Guinea and Gabon.
4. The WAEMU members are Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo.
5. This annex draws significantly on OECD/IEA, 2014.



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From:
African Economic Outlook 2015
Regional Development and Spatial Inclusion

Access the complete publication at:
<https://doi.org/10.1787/aeo-2015-en>

Please cite this chapter as:

African Development Bank/OECD/United Nations Development Programme (2015), "Africa's macroeconomic prospects", in *African Economic Outlook 2015: Regional Development and Spatial Inclusion*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/aeo-2015-5-en>

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