

Executive summary

The *African Economic Outlook 2016* shows that the continent is performing well in regard to economic, social and governance issues and has encouraging prospects for the near future. With its special theme on sustainable cities and structural transformation, this edition looks closely at Africa's distinctive pathways towards urbanisation and at how this is increasingly shifting economic resources towards more productive activities.

Africa's economic growth remained resilient in 2015 amid a weak global economy, lower commodity prices and adverse weather conditions in some parts of the continent. Real GDP grew by an average of 3.6% in 2015, higher than the global average growth of 3.1% and more than double that of the euro area. At this growth rate, Africa remained the second fastest growing economy in the world (after emerging Asia), and several African countries were among the world's fastest growing countries. We forecast that Africa's economic growth will gradually pick up during 2016/17, predicated on a recovery in the world economy and a gradual rise in commodity prices. However, given the vulnerable global economy and the high volatility of commodity prices, this forecast is uncertain.

Domestic factors have underpinned Africa's resilience, allowing countries to better cope with the global headwinds. On the supply side, in countries where weather conditions were favourable, agriculture boosted growth, but droughts or floods slowed down growth in countries in East and Southern Africa. In resource-rich countries, growth slowed down as lower commodity prices strained government budgets and affected investment. Manufacturing activity improved in a few countries but was limited by persistent power shortages. On the demand side, private consumption and construction investment remained the main drivers of growth, reflecting relative insulation from external shocks. However, weak global demand curtailed growth of Africa's exports, especially minerals and oil, and terrorist attacks and general security problems in some countries adversely affected tourism.

Given the increased budgetary pressures in most African countries, keeping debt at sustainable levels has become increasingly important. Governments generally continued to adhere to prudent fiscal policies, limiting spending and improving tax collection. The rapid depreciation in exchange rates and weakening current accounts fuelled a rise in imported inflation. This prompted affected countries to tighten monetary policy to cool down inflationary pressures. Some countries benefited from declining inflation due to lower energy prices. This created additional room for monetary easing through a reduction in interest rates to spur growth.

In 2015, net financial flows to Africa were estimated at USD 208 billion, 1.8% lower than in 2014. Official development assistance rose, but stability in remittances continued to be the main contributing source of Africa's net financial flows. Sovereign bond issuances rose despite higher interest rates, reflecting general resource starvation among issuing countries. However, direct foreign investment in the oil and metals sectors dropped, as the extractive sector was buffeted by falling commodity prices. Net portfolio equity and commercial bank credit flows dried up, reflecting tight global liquidity conditions and faltering market sentiment. In the wake of slowing growth in large emerging economies, bilateral trade credit suffered as well. Public policies should now aim to stabilise current financing sources and explore new ones, to support infrastructure, training and employment.

Africa's growth performance over the past 15 years has created new opportunities for trade. The European Union is likely to continue to be Africa's main trading partner; however the Tripartite Free Trade Agreement proposed between three of Africa's

largest trade blocs could increase market size, translating into economic benefits. The agreement could narrow income gaps in African countries and help regions integrate financially, provided that governments strengthen structural and regulatory reforms and foster macroeconomic stability. Governments will also need to give pan-African banks a larger role in financing trade, boost capital market liquidity and attract new financial sources to finance intra-regional trade.

African countries have steadily progressed in enlarging people's choices in education and health and in improving living standards, but the pace is insufficient. Progress is hampered by inequality between countries, within countries, and between women and men. It is held back by lack of opportunities for the youth, weak structural transformation, especially in sectors dominated by the marginalised groups (including agriculture and informal sectors), and weak investments in gender equality and women empowerment programmes beyond the political sphere. Human progress for rapidly expanding and increasingly mobile populations remains a considerable challenge as espoused in Agendas 2030 and 2063.

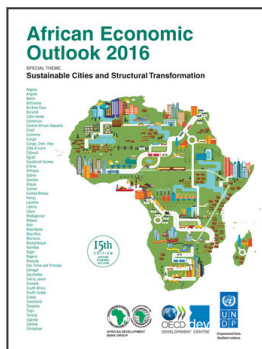
Africa's urbanisation contributes to human development gains but not for everyone. Thus, addressing growing urban poverty should be an integral part of new urbanisation strategies. Underlying tensions between social groups as a result of economic, political and social exclusion can be overcome by ensuring that citizens have secure livelihoods and access to quality services. It also depends on governments enhancing security, promoting human rights and protecting the most vulnerable in society. This will become paramount as African citizens strengthen their demands for better economic opportunities and for more accountable and credible institutions. These demands require an adequate response through sound regulatory policies and effective delivery of public services. Several countries have set good examples that are laying the foundation for reaching developmental goals, including a successful political transition in Burkina Faso in 2015, a Nobel Peace Prize for the Tunisian national dialogue quartet, and successful reforms to health systems in a few other countries.

Africa's rapid urbanisation represents an immense opportunity, not just for Africa's urban dwellers but also for rural development. As two-thirds of the investments in urban infrastructure to 2050 have yet to be made, the scope is large for new, wide-ranging urban policies to turn African cities and towns into engines of sustainable structural transformation. The creation of more productive jobs for the rapidly growing urban population is central to achieving this objective. Those new urban policies, at national and local levels, have a key role to play in i) economic development, through higher agricultural productivity, industrialisation and services; ii) social development, targeting safer and inclusive urban housing and robust social safety nets; and iii) sound environmental management, by addressing effects of climate change, scarcity of water and other natural resources, controlling air pollution, developing clean public transportation systems, improved waste collection and increased access to energy. They include stepping up investment in urban infrastructure; improving connectivity with rural areas; matching formal real estate markets better with the housing demand; managing urban land expansion; and developing public mass transport systems within and between cities. The new policies will have to be adapted to the specificities of Africa's urban realities, tap innovative ways of financing the development of sustainable cities and be implemented through effective multi-level governance systems. In 2016, the common African position on urban development and the emerging international New Urban Agenda offer opportunities to discuss options and start articulating those new urbanisation policies around strategies for Africa's structural transformation.

PART I

Africa's performance and prospects





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