Africa Economy

Sub-Saharan Africa grows at modest 2.5%

IMF warns that continent's slight rebound is driven by one-off factors

Ethiopia is expected to be the continent's star performer in 2017, growing at 7.5 per cent

MAY 9, 2017 by: **David Pilling** in Nairobi and **Maggie Fick** in Lagos

Several sub-Saharan African economies will grow at more than 6 per cent this year but the rest of the continent will drag growth back to 2.5 per cent, highlighting the emergence of a "two-speed Africa (https://www.ft.com/stream/regionsId/TnN0ZWluX0dMX0FmcmljYQ==-R0w=)".

In its annual economic outlook for the continent, the International Monetary Fund warned that the modest rebound, from a dismal 1.5 per cent last year — Africa's worst performance in two decades — is driven largely by one-off factors in the continent's largest economies.

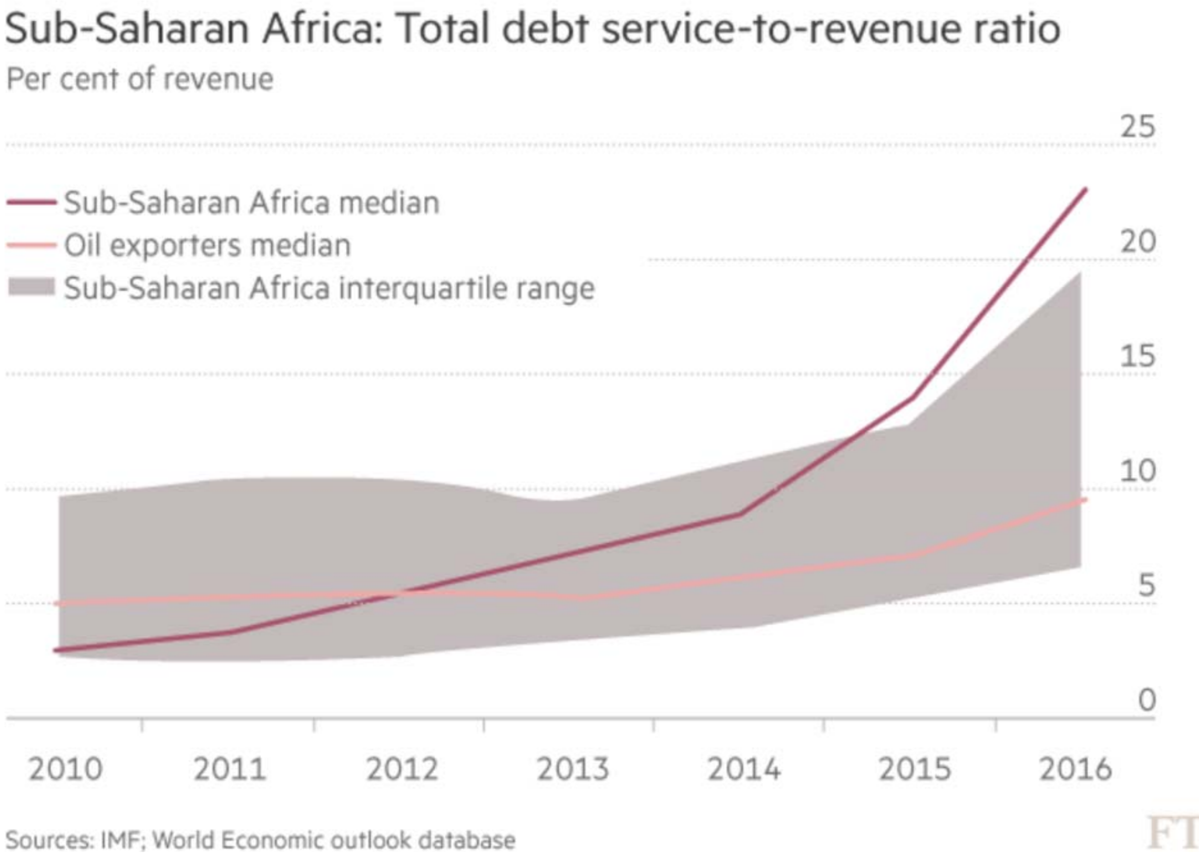
These include a pick-up of oil production in Nigeria, sub-Saharan Africa's largest oil producer and its biggest economy measured in purchasing power parity terms, as well as slightly stronger oil prices, which helps Angola, the second-largest oil producer.

Even so, Nigeria (https://www.ft.com/content/b22d1c2c-2fd8-11e7-9555-23ef563ecf9a) and Angola are projected to grow in 2017 at only 0.8 and 1.3 per cent respectively. South Africa, the continent's other big economy, is also forecast to grow at just 0.8 per cent.

The fund projects that six economies — Burkina Faso, Ivory Coast, Senegal, Tanzania, Rwanda and Ethiopia — will grow at above 6 per cent. Several others should grow at above 5 per cent. Ethiopia (https://www.ft.com/content/31ffc7aa-e9fd-11e6-967b-c88452263daf), which is recovering from last year's drought and is a potentially large market with 100m people, is expected to be the continent's star performer in 2017, growing at 7.5 per cent.

The fund warned, however, that some economies, including those with higher growth rates, risked edging towards debt-financing problems. Mozambique, which is developing large gasfields, borrowed heavily on the strength of future cash flows and has effectively defaulted after the bulk of loans worth $2.2bn disappeared.

Several other countries, including Angola, Ghana, Kenya and Zambia, have either tapped international capital markets or borrowed heavily from China — often on opaque terms — resulting in a steep rise in debt burdens.



Abebe Selassie, the IMF's Africa director, said he was also worried about expansionary fiscal policy in a number of countries. "With high growth, we shouldn't see wider deficits. This is a time from a position of strength to do more to grow domestic revenues and arrest debt levels," he said.

Dambisa Moyo, a Zambian economist, said: "I'm definitely worried about rising debt levels. There are major issues coming down the pipe. There's a lot of dollar debt, interest rates are rising in the US and there's a squeeze on revenue."

David Cowan, Africa economist at Citibank, said Mozambique's default could encourage others to seek debt restructuring as a less-painful option than politically unpopular belt-tightening. He highlighted Angola as one country that had seen a sharp rise in debt and a fall in revenue.

However, he added there was a good chance that China would roll over loan maturities rather than forcing a default.

The IMF said commodity exporters had mostly ducked urgent reforms, such as cutting costly subsidies and liberalising exchange rates. Delaying reforms, it said, had prolonged the downturn. Mr Selassie added that failure to grasp the nettle was "increasingly holding back investment".

Mr Selassie also said that governments were showing "greater recognition of the need to address the big revenue gaps". Still, the IMF concluded that the African growth story had lost much of its momentum.

Ms Moyo pointed out that, in much of the continent, growth was lagging behind the rise in population, and was failing to translate into jobs.

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