Digging deeper

John O'Sullivan *JOHANNESBURG*

Some of the world's fastest-growing economies in 2014 will be in Africa

Not so long ago, slow-growing economies with high inflation were the norm in sub-Saharan Africa. Average GDP growth across the continent during the 1990s was only 2.2%, dismal for such a poor region. Average inflation was 27%. Now this has all changed. Since 2001 Africa's GDP has expanded more quickly each year than the global average. In the past decade, only the bloc of developing Asian economies, led by China, has grown faster than Africa. The region's average inflation rate has generally been in the high single digits or low double digits.

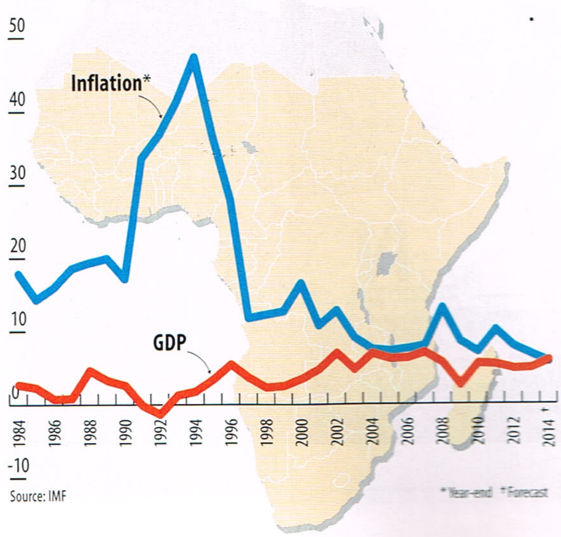
Africa's fortunes have been helped by increased trade with China, now the continent's main export market. As China's economy evolves so will Africa's. China's leaders want their economy to expand at a more moderate pace than in the past decade and for growth to be led by consumer spending rather than resource-intensive investment. Prices for many of the raw materials that Africa has in abundance have fallen.

Yet even as China slows there is enough momentum for Africa's GDP (adjusted for the purchasing power of its currencies) to grow by around 5.5% in 2014, the average rate over the past decade—faster than any other region in the world, according to the Economist Intelligence Unit. Indeed, slower growth in China and in satellite Asian economies sets up two intriguing prospects for Africa. First, with fewer challengers from Asia's tigers, the IMF predicts that four of the world's six fastest-growing economies in 2014 will be in sub-Saharan Africa. And for the first time in living memory inflation will dip below the GDP growth rate.

Start with the fast-growing economies. Africa has many poor or fragile countries. In such places a big new mining project or the resumption of exports after a civil war can deliver dramatic GDP growth. South Sudan's economic output fell by half after its secession from Sudan in 2011. But as oil exports continue to recover in 2014, GDP could grow by more than 35%. Greater output from a big new iron-ore development in Sierra Leone will mean GDP growth in the low teens. And Chad's economy is likely to surge ahead as production expands in its newest oilfields.

Continental shift

Sub-Saharan Africa, % change on previous year



Source: IMF *Year-end †Forecast

Around half of sub-Saharan Africa's 45 countries rely on oil or mining for much of their exports. But it would take a few years for lower commodity prices to have much of an impact on output or GDP. Mining projects have long lead times and, as in Chad and Sierra Leone, much capital spending is already committed to Africa in response to the high prices that raw materials have been commanding until recently. Once a mine or oil well is sunk, it makes sense to keep it working as long as output prices are above running costs, as they will often be in newer ventures.

For the first time in living memory inflation will drop below GDP growth

The impact of lower commodity prices on inflation will be more immediate. With decent harvests and stable oil prices, most African countries will see inflation fall to around 5% or even lower by the end of 2014. The delayed impact of tighter monetary policy in some countries that had experienced very high inflation will add to the downward pressure on prices. This means that inflation will drop below the rate of GDP growth by the end of 2014 (see chart). Such a milestone will further Africa's claim to be a favourable destination for investment.

Nigeria takes the lead

Two other developments will add to it. Nigeria is Africa's most populous country, with nearly 180m people. It will soon be established as the continent's biggest economic power. Nigeria's GDP is currently calculated on the basis of prices in 1990, which means that some fast-growing bits of the economy are not given their due weight. The figures will soon be overhauled. Ghana found the size of its economy had been understated by 60% when it rebased its GDP statistics in 2010. A similar boost would see Nigeria overtake South Africa as the continent's largest economy.

Nigeria is still a low-income country and has plenty of room for further growth. In this sense it mirrors the continent. Most of Africa is poor. Average GDP per person is $2,500 as measured at purchasing-power parity, the exchange rate that would equalise the price of goods and services across countries. That compares with $9,000 in China. With just a few sensible policies there is ample scope for catch-up growth in Africa to carry on in the years ahead.

A second trend to watch is the growing importance of services, agriculture and manufacturing to the economies of sub-Saharan Africa. The region already has a group of fast-growing export-oriented economies that do not rely heavily on the production of commodities. Some of the continent's biggest economies, such as Ethiopia, Kenya and Uganda, are in this category. With the wobbling of global commodity prices, such countries will command a bigger share of the growing interest in Africa's improving economic prospects. ■

2014 IN BRIEF

South Africa stages the football **African Nations Championship**. Like the 2013 Africa Cup of Nations, it was due to be held in **Libya,** which had to forgo hosting duties following its revolution in 2011

John O'Sullivan: Southern Africa correspondent, *The Economist*