QNB Economics
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# Sub-Saharan Africa's mixed growth picture

Activity in Sub-Saharan Africa (SSA) has strengthened and a 3.1% GDP growth is expected in 2018 from 2.7% in 2017. Given the large number of countries in SSA, we focus our analysis on the economies that are either outperformers or underperformers with regards to the regional macro-economic backdrop. The article will elaborate on the two largest SSA economies, Nigeria and South Africa, which have seen sluggish growth despite a recovery in commodity prices, and Ethopia and Ghana, which we consider regional growth champions.

Nigeria and South Africa account for almost 50% of the continent's GDP. Both countries are resource-intensive economies and have been struggling to deliver stronger growth since the commodity price shock in late 2014. At that time, Nigeria's nominal net oil exports collapsed and South Africa's external revenues from platinum, iron ore and coal dwindled.

After the first output contraction in more than two decades in 2016 and a very slow 0.8% growth in 2017, Nigeria is set to a 1.9% economic expansion in 2018. The main drivers for the recovery have been rising oil prices, more stable hydrocarbon output and the agricultural sector.

Higher oil prices have been supporting both current account surpluses and the narrowing of the fiscal deficit. Along with bond issuances and other portfolio inflows, this has contributed to ramp up the external reserves and sustain the new FX regime.

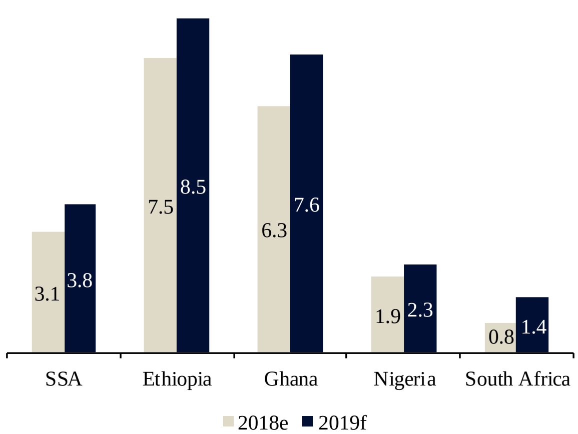
The outlook points to a better performance in 2019, but growth is forecast to remain subdued at 2.3%. Risks are tilted to the downside as oil prices are expected to slid and oil output disruptions form a potential threat to activity.

Despite higher commodity prices and a new leadership spurring reform optimism and a more business friendly agenda, South Africa's expansion has weakened in 2018. GDP growth is expected to slow to 0.8% this year from 1.3% in 2017. The weakness is spearheaded by the agricultural, transport and retail sectors, and recent quarterly contractions have even tipped the country into the first technical recession since the aftermath of the great financial crisis in 2009.

Running structural current account deficits, South Africa is vulnerable to foreign investor sentiment and has been hit by tightening global financial conditions and FX turbulence in other emerging markets (EM). Large portfolio outflows have prevailed and the South African rand is down 16.7% against the USD so far this year.

The scenario is more positive for 2019. A recovery in the agricultural sector and looser fiscal policy should lift growth to 1.4%. However, risks are also tilted to the downside as commodities prices are particularly sensitive to a weakening global growth and monetary policy normalization in key advanced economies may generate further pressures in EM currencies, forcing the central bank to tighten monetary policy.

**GDP Growth in Sub-Saharan Africa**
(%, year on year)




Sources: IMF, QNB Economics analysis

Ethiopia and Ghana are the most significant economic outperformers of the continent. Ethiopia is often referred to as 'Africa's China' and has been consistently performing as one of the fastest growing economies in the world since the early 2000s. With deep-rooted political stability and a diverse and rich natural resource base, including crude oil and gold, Ghana has also presented long-term growth rates well above the SSA average.

Ethiopia is set to present another year of strong growth, with activity expected to expand by 7.5% in 2018. Foreign direct investments (FDI) in infrastructure and manufacturing continue to lead the way to fast industrial expansion.

Robust domestic activity, spurred by large infrastructure and investment spending, are contributing to further internal and external imbalances. Export-oriented projects are taking longer to come on-stream while imports surge and the budget balance worsens. Ethiopia's trade and current account deficits are widening. But the government has been successful in financing part of the deficits with foreign capital, especially FDI associated with the new industrial parks and privatization programs.

The outlook for 2019 points to a very strong 8.5% real growth. With lower labour costs than most of its African peers, Ethiopia is expected to continue to attract foreign investments in key job generating sectors such as textiles and footwear, which should support a gradual move towards a more export-oriented economy.

The Ghanese economy has rebounded and growth is expected to moderate in 2018 to 6.35% from a rapid 8.4% in 2017. Major growth drivers include hydrocarbon production and the support from higher commodity prices, especially crude oil and cocoa.

Fiscal deficits widened but current account deficits narrowed on the back of stronger external revenues. Growth is expected to accelerate to 7.6% in 2019. Risks are tilted to the downside as commodity prices should soften a touch next year.

Despite the overall recovery in growth, a major common concern for most countries in SSA is the increase in foreign currency indebtedness, prompted by investor demand for higher yields and enormous investment needs for infrastructure and social development. US monetary policy tightening will heighten SSA's frontier markets refinancing and rollover risks. Portfolio inflows were strong in the first half of 2018 with record issuances of Eurobonds. This adds to last year's sovereign issuance boom in Africa. Over the medium to long-term, SSA sovereigns would need to rely more on domestic and tax revenues to address sustainable ecnomomic development at risk adjusted levels.

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