Africa's Regional Economic Outlook: Building Momentum in a Multi-Speed World
By Pierre Tantchou

Africa's recent robust economic growth performance has generated interest from global investors and policymakers alike. However, there remains debate over how real or sustainable Africa's rise is and whether African governments can seize upon and manage this opportunity.

These issues were explored in detail when CSIS hosted the launch of the International Monetary Fund's (IMF) latest Regional Economic Outlook report for Sub-Saharan Africa on May 24, 2013. The event featured Antoinette Sayeh, director of the African department at the IMF; Stephen Cashin, founder and CEO of Pan African Capital Group; and Sean Nolan, deputy director of the African department at the IMF.

The speakers presented a positive economic picture of Sub-Saharan Africa that compares favorably with the broader global economy. The region's near term outlook continues to look bright, with the output growth rate predicted to accelerate from 5.1 percent in 2012 to 5.4 percent in 2013 and 5.7 percent in 2014. Since 1995, Sub-Saharan Africa has experienced an average economic growth rate of 5 percent and a dramatic improvement in living standards, although 48 percent of the sub-region's population continues to live in poverty. Among the factors that have contributed to this growth are improved macroeconomic policies, trade and regulatory reforms, a reduction in armed conflicts, high commodity prices, new discoveries of oil and natural resources, and international debt relief initiatives. Improvements in governance, including African governments' willingness to work with the IMF toward greater financial data transparency and debt reduction, have facilitated the opening up of markets. Many countries also have greater capacity to finance larger deficits, enhancing economic resilience during the global economic slowdown. Low interest rates in advanced countries and manageable levels of political risk have enabled six countries to issue sovereign bonds since 2011 alone.

However, against this positive backdrop, many Sub-Saharan countries face serious challenges. The threat of oil supply shocks, adverse weather patterns, and political and social instability pose uncertainties for African economies and worry potential investors. Rule of law remains among the biggest challenges for African governments. Judicial systems throughout the continent are fairly weak and will need greater attention from governments. Similarly, the financial sector could play a big role in Africa's rise, but has traditionally been neglected.

Many middle income countries (MICs) in Sub-Saharan Africa have and will continue to see slow growth, despite their demonstrated ability to finance deficits. In Ghana, for example, budget deficits reached 12 percent due to heavy spending in advance of the 2012 elections. In South Africa, deficits were due to a sluggish economy and adjustment policies taken to boost weak domestic demand.

The quality of governance will largely determine whether Africa's economic progress can be fully taken advantage of. Two areas that merit particular attention are energy subsidy allocation and the expansion of energy capacity. African governments must develop comprehensive energy reform plans to improve the efficiency of state-owned enterprises, install and depoliticize the price setting process, and protect the poor. Furthermore, African economies will also need to create incentive packages to attract investors and promote regional integration to increase the size of potential markets.

Africa's economic growth has attracted interest beyond the United States. Many other countries are looking at the opportunities Africa's surge has created. The U.S. has invested in capacity building in Africa, but will need to work with the African Development Bank and others to improve African economic returns on a regional basis.

Pierre Tantchou is a research intern in the Africa Program at the Center for Strategic and International Studies (CSIS) in Washington, DC.