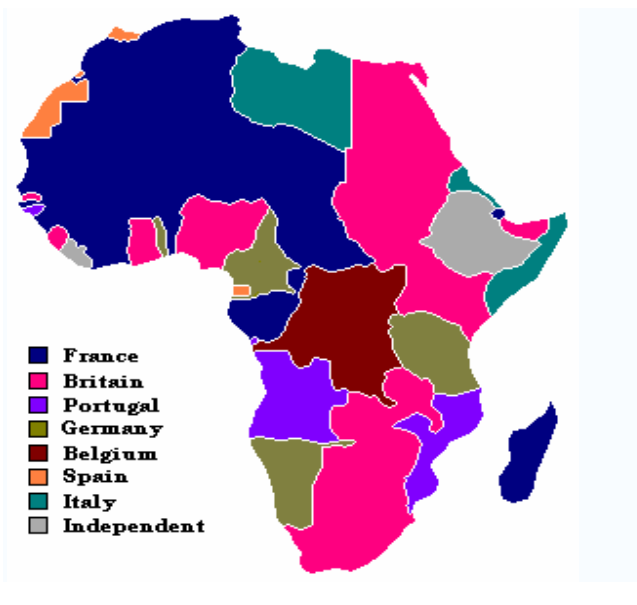


At a time when Africa is so "high" on the policy agenda of many nations and corporations, the BMBA's vision for African Economic Review is – to be a medium of excellence for information on African economy and financial markets for the Smith MBA Community. Our first review seeks to familiarize the Smith community with some key African economy and their well-being. Our choice of focus countries for the maiden edition was based purely on ease and availability of up to date information. Achieving our objective is critical for keeping people engaged in Africa and encouraging foreign investment. Nevertheless, African leaders must support any private initiative with appropriate government capital spending in key vital sectors, such as health, education, infrastructures and governmental institutions.

**Africa** is the world's second-largest and second most-populous continent, after Asia. At about 11,668,545 mi<sup>2</sup> including adjacent islands, it covers 6.0% of the Earth's total surface area, and 20.4% of the total land area. With more than 900,000,000 people (as of 2005) in 61 territories, it accounts for about 14% of the world's human population. The continent is surrounded by the Mediterranean Sea to the north, the Suez Canal and the Red Sea to the northeast, the Indian Ocean to the southeast, and the Atlantic Ocean to the west. There are 46 countries including Madagascar, and 53 including all the island groups<sup>1</sup>

In the late nineteenth century, the European imperial powers engaged in a major territorial scramble and occupied most of the continent, creating many colonial nation states, and leaving only two independent nations: Liberia, an independent state partly settled by African Americans; and Orthodox Christian Ethiopia (see fig 1). Colonial rule by Europeans would continue until after the conclusion of World War II, when all colonial states gradually obtained formal independence.



<sup>1</sup> <http://en.wikipedia.org/wiki/Africa>, accessed on 05/21/2007 at 12:19am



Fig.1. Map showing European territorial claims on the African continent in 1914

Africa's most valuable exports are minerals and petroleum. A few countries possess and export the vast majority of these resources. The southern nations have large reserves of gold, diamonds, and copper. Petroleum is concentrated in Nigeria, its neighbours, Angola and Libya While mining and drilling produce most of Africa's revenues each year, these industries only employ about two million people, a tiny fraction of the continent's population<sup>2</sup>.

In some cases, Africa's resources have turned out to be a curse. Although Congo is rich in minerals, the country remains one of the poorest countries in the world. This is historically due to corruption and ownership fights over these minerals, tracing back to the early 1900s. After Congo's independence from Belgium, the colonial government hesitated to leave behind these resources. Congo solicited UN help against Belgium, but that turned out to be a bad idea. In an attempt to get out of the quagmire, Congo sought Soviet assistance. This led the country into deeper trouble, as the country separated into two and a long proxy war between the West and East began. It is also found that Africa's natural resources abundance has resulted in: lax macroeconomic policies; a lack of pressure to develop human resources; the rent on natural resources diverting attention from the process of wealth creation to rent-seeking activities, and slow and erratic growth.

#### Economic and Markets Monitor - selected countries



**Population:** 12.13 million  
**Average Annual Inflation:** 13.4%  
**Angola GDP:** \$28.37 billion  
**Interest rate:** 95%  
**GDP/Capita:** \$2339  
**Equity Market Return:** N/A

• Angola became the 12th member of OPEC on 1 January 2007. Membership of the exclusive producers' club brings with it significant prestige and political clout and may boost Angola's international standing. Angola will be subject to the organization's production quotas. Angola is expected to increase production to 2 million b/d by the end of 2007<sup>3</sup>.

• Angola's healthy economic growth bodes well for the sustainability of the country's post-conflict recovery. If high oil and diamond proceeds continue in 2007, it will allow the government to make sizeable investment in public works

<sup>2</sup> [http://en.wikipedia.org/wiki/Economy\\_of\\_Africa](http://en.wikipedia.org/wiki/Economy_of_Africa), accessed on 05/21/2007 at 12:35pm

<sup>3</sup> <http://www.standardbank.co.za/> accessed on 05/19/2007 at 12:35pm

and social improvement programs focusing on the fight against endemic diseases, education, the rehabilitation of its basic economic infrastructure, and the next general election, which was initially scheduled for 2007 but has now been postponed until 2008. Angola is one of 191 countries that adopted the Millennium Declaration in 2000, in which signatories aim to cut poverty by half, and provide food to all families and education for all children by 2015.

- Nevertheless, the productive base remains highly undiversified. The economy remains heavily dependent on oil and diamond mining and is therefore vulnerable to commodity price developments. GDP growth in 2006 was 15.3%; expected GDP for 2007 is 35.3%



**Population:** 62.66 million

**Average Annual Inflation:** 13.2%

**Democratic Rep. of Congo (DRC) GDP:** \$7.1 billion

**Interest rate:** 31%

**GNI/Capita:** \$120

**Equity Market Return:** N/A

- The overall political and economic outlook has improved since presidential and parliamentary elections were held in 2006, ending a period of political transition to democracy that began in 2002. During the five-year civil war at least 3.5 million people were killed and four million others have been displaced. However, the DRC now has a new constitution. Also, a mining code (in 2003) and a forestry code (in 2002) have been implemented.

- Up to the 2006 elections, the government was committed to improving fiscal responsibility by implementing measures to reduce revenue leakages and restrain spending. This has reduced inflationary pressures in the economy. Inflation fell to single digits in 2004. Thus, the fiscal slippages in 2006 were a setback for the macroeconomic gains achieved over the past few years. The economic recovery is largely dependent on foreign donor support, adherence by the authorities to the IMF's economic restructuring programs, reducing corruption, normalizing security threats and controlling ongoing social conflict.

- The DRC has, however, signed the Extractive Industries Transparency Initiative (EITI) in 2005. This UK initiative was announced by Prime Minister Tony Blair in 2002 and "aims to increase transparency over payments by companies to governments and government-linked entities, as well as transparency over revenues by those host country governments" GDP growth in 2006 was 5.1%; expected GDP for 2007 is 6.5%



**Population:** 78.9 million

**Average Annual Inflation:** 4.2%

**Egypt GDP:** \$84.5 billion

**Interest rate:**

**GDP/Capita:** \$1071

**Egypt CASE 30 Index (12 Month):** 22.96%<sup>4</sup>

- The recovery in economic growth in FY2004/05 (4.9% from 4.1% FY2003/04) has become more pronounced, with GDP growth estimated at 6.9% in 2005/06. Domestic spending and exports are driving growth, and the broad base of the recovery is mainly attributed to the emergence of a large balance of payments surplus; and the revival in confidence that the government has created through its commitment to economic reform.

- Investment has picked up, the foreign exchange position has remained healthy and financial sector reforms are proceeding at a steady pace. A number of important privatization projects were concluded, FDI flows have exceeded expectations and Suez Canal receipts have reached new highs. The tourism sector also continues to perform well, notwithstanding several bomb attacks over the past two years.

- In the midst of pervasive political risks, low productivity and shortages of skilled labor, continued economic reform should maintain the confidence that is needed to prompt higher private investment and domestic demand. The economy grew 6.8% in 2006 and is expected to grow by more than 6% in 2007<sup>5</sup>.



**Population:** 22.41 million

**Average Annual Inflation:** 11%

**Ghana GDP:** \$10.18 billion

**Interest rate:** 14.5%

**GDP/Capita:** \$454

**Ghana All Share Index (12 Month):** 8.2%

- The economic outlook looks favorable, with GDP growth expected to come in at just above 6% on the back of good cocoa harvests, high gold prices and a dynamic mining sector.

- Strong growth in recent years has led to a decline in the poverty rate, the provision of social services has improved and reaching the HIPC completion point and receiving debt relief under the MDRI have enhanced external debt sustainability. However, the slow improvement, and even deterioration, in some indicators in particular the under-five and infant mortality rate, is an ongoing concern. The authorities are acutely aware of these problems.

- Inflation is currently subdued, hovering slightly above 10% for the past six months, and it is expected to stay low in the short term. The overall stance of the 2007 government budget, while geared to sustaining the current pace of GDP growth, envisages further reductions in the public domestic/GDP ratio thus maintaining the fiscal anchor for stability that would support continued progress towards low and stable inflation.

- The economy running along smoothly and there are indications that economic growth will continue at least in the medium term. GDP growth in 2006 was 6.3%, expected GDP for 2007 is 6.3%. Strong export earnings is expected.

- Ghana, however, remains vulnerable as characterized by

<sup>4</sup> In local currency -

<http://www.africanfinancialmarkets.com/macro.php?Section=Peform>, accessed on 05/21/2007 at 3:35pm

<sup>5</sup> IMF world economic outlook, April 2007

its narrow export base dominated by cocoa and gold and a government budget financed at 30% by foreign donors. In the medium term the government will have to address fiscal revenue shortfalls to lower its reliance on donor support.



**Population:** 34.7 million  
**Average Annual Inflation:** 14.5%  
**Kenya GDP:** \$23.6 billion  
**Interest rate:** 6.1%  
**GDP/Capita:** \$694.2  
**Kenya 20-Share Index (12 Month):** 16.34%

- Kenya expects another year of strong growth as the economy recovers from the retarding effects of the 2005/06 drought and as it continues to build on last year's economic gains. Improved weather conditions should stimulate a recovery in the agricultural sector. The sectors that are expected to drive economic growth are commerce, construction, telecommunications and tourism. Growth is also partially dependent on the establishment of peace in southern Sudan.

- After remaining in double digits for the whole of 2006, overall inflation was expected to ease in 2007 on the back of lower oil and food prices. But recent increase in oil price may slow down recovery. The sharp drop in January 2007's overall inflation rate to 9.7% y/y from 15.6% y/y in the previous month supports the expectation of a low inflationary environment in 2007.

- The market is expected to be very liquid in 2007 on account of capital inflows and upcoming IPOs. Interest rates are likely to remain broadly stable in cognizance of a lower inflationary environment, however, if high liquidity puts downward pressure on interest rates; the MPAC is likely to intervene by hiking rate (CBR).

- The economy is also supported by buoyant tourism receipts, remittances, capital inflows and a revival of exports. As almost 40% of export earnings are from tea, horticulture and coffee this year's agricultural recovery implies an improvement in the trade account. GDP growth in 2006 was 6%, expected GDP for 2007 is 6.2%



**Population:** 13 million  
**Average Annual Inflation:** 14.3%  
**Malawi GDP:** \$2.2 billion  
**Interest rate:** 24.2%  
**GDP/Capita:** \$169  
**Malawi Domestic Index (12 month):** 117.5%

- Clement weather conditions plus the fertilizer subsidy program could sustain the rebound in agricultural output and, with the help of a modest rise in world oil prices, push inflation to single digits in 2007. According to preliminary crop estimates, agricultural output should support a rebound in real GDP growth of more than 7%.

- While doubts still linger on the performance of tobacco, continued donor interest in the country's development

initiatives could create confidence in the Kwacha during the year. And with government working hard to improve the macroeconomic environment through, among others, expenditure restraint, the coming year seems to have some room for even lower interest rates.

- The key macroeconomic objectives for 2007 remain largely consistent with the approved PRGF arrangement with the IMF as the government is well aware of its need for continued donor support. The program is strongly focused on improving expenditure control as the key to restoring macroeconomic stability and economic growth. The government is committed to program implementation; though it holds a minority position in parliament and faces intense political pressure.

- Spending priorities are expected to remain focused on improving food security, particularly through the development of agriculture-related infrastructure, such as dams, irrigation schemes and the rural road network. This is expected to tie in with schemes to encourage subsistence farmers to grow cash crops and diversify away from mainly maize.



**Population:** 19.7 million  
**Average Annual Inflation:** 13.8%  
**Mozambique GDP:** \$6.8 billion  
**Interest rate:** 17.5%  
**GDP/Capita:** \$337.7  
**Equity Market Return:** N/A

- Although the polarization between Frelimo and Renamo persists, the ruling party's control of the national assembly and President Guebuza's authoritarian leadership style provide comfort that tensions will not ignite.

- Economic growth is expected to wane in 2007 as the verve provided by the initial investment in the mega projects eases. Agriculture and services are expected to be the drivers of growth in 2007. The IMF projects a slowdown in economic growth in 2007 to 7%, from 7.9% last year.

- Following a year of runaway inflation on account of high food and fuel prices, inflation is expected to subdue in 2007 on the back of benign weather and moderate oil prices. After peaking at a record high of 17.07% y/y in April 2006, inflation took on a downward trend and ended the year at 9.4% y/y. We expect inflation to average 9.5% in 2007 especially as monetary policy is expected to largely remain restrictive.

- The exchange rate is expected to weaken moderately in 2007 reflecting the wide current account deficit. Substantial donor inflows are expected to ease pressure on the exchange rate and the current account deficit.



**Population:** 131.8 million  
**Average Annual Inflation:** 8.4%  
**Nigeria GDP:** \$99.0 billion  
**Interest rate:** 13.6%

**GNI/Capita:** \$560

**Nigeria All Share Index:** 94.1%

- The completion of the first phase of the banking sector recapitalization program that saw the number of licensed banks decline dramatically should result in increased financial deepening of the economy. Higher economic growth, particularly outside the oil sector, is still being constrained by electricity shortages and skills gaps. Nigeria's agricultural sector has good potential for export growth as arable land is abundant and the climate is favorable. This sector's export share has vanished over the past few decades, being crowded out by the oil sector, which is a typical Dutch disease symptom -(Dutch disease is an economic concept that tries to explain the seeming relationship between the exploitation of natural resources and a decline in the manufacturing sector)
- In an important development, Nigeria received its first ever sovereign country ratings from Fitch Ratings and Standard and Poor's (S&P) in 2006. Both agencies awarded Nigeria a BB- rating with stable outlook. According to S&P rating definitions, a BB rating implies "significant speculative characteristics" and although the country is less vulnerable than its other lower rated peers, it "faces major ongoing uncertainties and exposure to adverse business, financial or economic conditions, which could lead to the obligator's inadequate capacity to meet its financial commitments".
- Of immediate concern is the escalation of violent attacks on oil production facilities and personnel in the Niger Delta that could continue to undermine output growth. Stability in the area will help boost economic growth. The crude oil price in the medium term will also determine the viability of investment and infrastructure spending.
- The other main risk is how the controversy surrounding the April 2007 elections will be resolved. GDP growth in 2006 was 5.3%; expected GDP for 2007 is 8.2%



**Population:** 44.2 million

**Average Annual Inflation:** 4.7%

**South Africa GDP:** \$242.0 billion

**Interest rate:** 11.2%

**GDP/Capita:** \$5111

**South Africa JSE All Share Index:** 39.1%

- The years 2005 and 2006 witnessed some remarkable changes in the economy. First, actual growth performance was strong, reaching rates not seen in more than two decades. Constraints, however, have appeared in recent months: infrastructure is creaking under the weight of growth, especially as far as electricity provision, harbor capacity and parts of the roads system are concerned. Furthermore, skills shortages are being experienced or are expected in many of the growth-enhancing sectors of the economy.
- The economy has undergone significant changes, some of them policy induced. Sound monetary policy saw inflation declining to historically low levels, while fiscal restructuring and prudent management has resulted in healthy government finances. These have enabled increased expenditure on social upliftment projects. The progress in sound monetary and fiscal management has

been acknowledged by investment upgrades from prominent international rating agencies.

- Recently, the economy has also successfully negotiated some potentially rocky patches. Inflation, though, is higher, driven by increases in food and oil prices. The current account deficit is of concern, but capital inflows are currently more than adequate to offset the deficit. Also of great importance is that consumer and business confidence remain at very high levels.
- Consumers' balance sheets, nonetheless, are relatively healthy and unlikely to cause major concerns in 2007. The above imply that the real economy's mix will change with investment expenditure, especially infrastructure, gaining ground as a driver of growth in the medium term.
- The government's Accelerated and Shared Growth Initiative for South Africa (Asgi-SA), which aims at eliminating or reducing growth constraints that are holding the economy back (such as a skills shortage, sub-optimal regulatory environment, a high cost and inefficient logistics system, deficiencies in the states' organization and capacity a volatile exchange rate and barriers to entry and competition), should play a more prominent role in 2007. Other general concerns that can be mentioned are the high crime rate and the prevalence of HIV/Aids.
- The government's black economic empowerment (BEE) policy has gain further traction in 2007. BEE is formalized in sector charters of which the financial sector charter is a leading example. The idea is that all sectors will eventually have such charters.
- GDP growth in 2006 was 5%, expected GDP for 2007 is 4.7%



**Population:** 36.4 million

**Average Annual Inflation:** 6%

**Tanzania GDP:** \$13.0 billion

**Interest rate:** 11.4%

**GDP/Capita:** \$339.2

**Equity Market Return:** -0.3%

- We expect an economic recovery in 2007 in the wake of the 2005/06 drought. According to a statement by the president, the recent rains have restored dam levels implying that energy shortages will recede and agricultural production will improve. The IMF forecasts a record high growth rate of 7.3%. Last year's large imports of machinery, and building and construction equipment suggest a pick up of economic activity in 2007. The other drivers of growth are tourism and mining.
- An agricultural recovery and a lower oil prices should support a lower inflation environment in 2007. Generous donor support and the recent debt forgiveness have eased the domestic borrowing requirement and ease debt servicing repayments. enabling a low interest rate environment in 2007.
- The shilling is expected to depreciate at a slower rate in 2007 following its loss of value on account of a large demand for foreign exchange to pay for imports related to the drought. The country's heavy dependence on commodities and the cyclical nature of its currency explains its tendency to weaken. The development and diversification of the export sector is required to provide support other than donor inflows to the currency. GDP growth in 2006 was 5.9%; expected GDP for 2007 is 7.3%



**Population:** 28.2 million  
**Average Annual Inflation:** 6.6%  
**Uganda GDP:** \$9.4 billion  
**Interest rate:** 8%  
**GDP/Capita:** \$315  
**Uganda All Share Index:** 34.4%

- Economic recovery is expected in 2007, particularly from agriculture and industry. Normalization of rainfall patterns will boost production in agriculture and enable industry to operate unencumbered by energy shortages. The large investments in infrastructure are expected to reduce operational costs in the medium term and support growth of small and medium enterprises that depend on electricity. A shortage of infrastructure financing, particularly from the private sector, may delay the removal of bottlenecks in the economy. This year's moderation of commodity prices from 2006's may counter some gains in agriculture expansion.
- This year, although inflationary pressures from food are expected to ease, high utility and transportation costs are expected to dog underlying inflation in the medium term. GDP in 2006 was 5.4%; expected GDP for 2007 is 6.2%.
- The scaling up of infrastructure expenditure is expected to put some pressure on the government's domestic borrowing requirement, which may manifest in a moderate increase in interest rates in 2007. Capital imports related to infrastructure projects may also put some strain on the current account in the medium term. However, as a substantial share of infrastructure projects are expected to be externally financed, the demand for non-traded domestic goods and capital imports could strengthen the shilling.



**Population:** 11.5 million  
**Average Annual Inflation:** 9.1%  
**Zambia GDP:** \$12.1 billion  
**Interest rate:** 11.4%  
**GDP/Capita:** \$1019  
**Zambia All Share Index:** 76.58%

- President Mwanawasa's re-instatement for a second term restored confidence in investors and donors as his appointment signaled policy continuity, which is particularly significant in Zambia's case because of the economic turnaround it has experienced over the past two years.
- The medium-term economic prospects are positive in light of the huge investments in mining, the buoyant activity in residential construction and rapid growth in transport and communication. GDP growth in 2006 was 6%; expected GDP for 2007 is 6%. Tax relief in the form of this fiscal year's income tax cuts is also expected to spur consumption-led growth.
- The containment of government's domestic borrowing requirement supports a stable interest rate environment. However, comments from the authorities that commercial

banks' lending rates have not dropped in line with other short-term interest rates suggest that we may see a further easing of lending rates in 2007.

- The current account deficit is expected to deteriorate due to an increase in capital imports, mainly related to mining and a projected decline in export revenues given the fall of the copper price.
- Individual Zambians have been given tax relief, however, taxation on mining companies has increased after months of speculation. Generous budget support from donors implies that the government is able to contain its borrowing requirement despite the tax cuts. However, the IMF remains of the view that the authorities should mobilize tax revenue through higher income taxes and the imposition of value added tax (VAT) on currently exempt items. As taxes were a campaigning tool prior to the elections, decisions on tax measures are inevitably political. Ultimately, the tax measures in the 2007/08 budget showed a redistribution of income from mining companies to ordinary Zambians. This is exactly what the electorate asked for – inclusion in the country's economic gains.



**Population:** 12.2 million  
**Average Annual Inflation:** 1016%  
**Zimbabwe GDP:** \$8.2 billion  
**Interest rate:** 616%  
**GDP/Capita:** \$699.5  
**Zimbabwe Industrials Index:** 15,325.87%

- The postponement of the presidential elections to 2010 discounts any chance of a change in policy in the short to medium term. As such, we expect the economy to contract for the ninth consecutive year. The IMF projects a slight slowdown in the rate of contraction to 4.7% in 2007 from 5.1% in 2006. This projected retraction in the rate of contraction is most likely due to an expected improvement in the performance of the mining sector.
- Inflation is expected to continue escalating on the back of rapid monetary expansion severely depressed productive capacity, a weakening currency and commodity shortages. A serious effort to halt quasi-fiscal activities is necessary before a significant reversal of the inflation trend can occur. However, the intertwined relationship between the central bank and the government suggests a continuation of the status quo.
- Unsurprisingly, monetary policy will remain restrictive, however, the government is unlikely to allow real interest rates to venture into the positive realm as it has an enormous domestic debt to consider.
- The Zimbabwean dollar is expected to continue weakening in 2007 on account of the severe foreign exchange shortage and the high inflation differentials between Zimbabwe and its trading partners.
- The current account will continue to be dogged by poor export performance and the dearth of donor inflows. However, Zimbabwe's "Look East" strategy may bring in some much-needed FDI that would boost the capital account. GDP growth in 2006 was -4.8%, expected GDP for 2007 is -5.7%