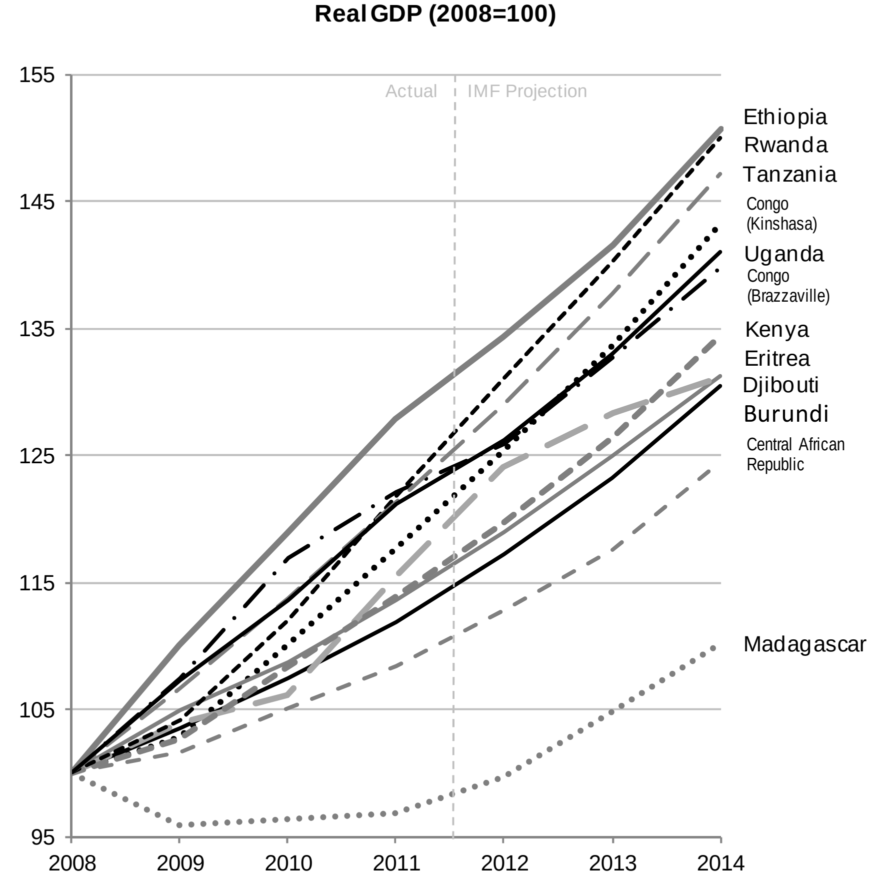
USAID
Economic Analysis
and Data Services

EADS Economic Trends Report
East and Central Africa

May 2012

Economic Overview

The East and Central African region continues to achieve steady economic growth with only slight downward revisions to projections from last year's *World Economic Outlook* (WEO) report as a result of spillovers from the euro area crisis. Higher prices for commodity exports, reductions in debt burdens, greater inflows of private capital, new discoveries of mineral and oil resources, and improved macroeconomic management are among the positive trends contributing to growth in the region. On the other hand, several challenges to sustainable economic growth remain including volatile inflation, food insecurity, and the impacts of climate change.



SOURCE: IMF, *World Economic Outlook*, April 2012.

Ethiopia, Rwanda, Tanzania, and Congo (Kinshasa) are among the strongest economic performers in the region. Ethiopia's economy has been growing robustly supported by strong coffee and gold production and increased investment; however, inflation and restricted domestic food supplies due to droughts have contributed to a moderation of the growth rate from 7.5 percent in 2011 to a predicted 5.0 percent in 2012 according to WEO estimates. Rwanda, Congo (Kinshasa), and Tanzania are predicted to maintain strong growth rates of over 6.0 percent in 2012.

Madagascar's growth has been severely hindered by political instability and international isolation since the 2009 military coup that brought Mr. Rajoelina to power. According to the World Bank *Doing Business Survey* 2012, Madagascar ranks 137th out of 183 economies for ease of doing business, scoring near last in the world (179th) for access to electricity which highlights the severe underdevelopment and

World Bank Income Groups

Out of the 12 East and Central African countries covered in this report, only two are classified as lower-middle income—Djibouti and the Congo (Brazzaville). The rest of the countries are classified as low income countries.

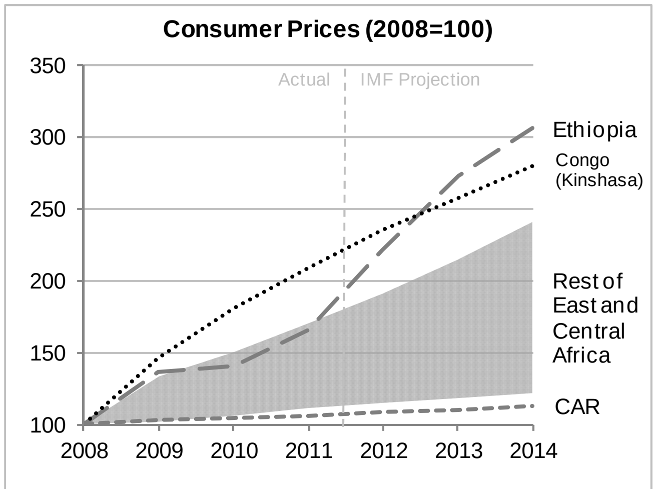
Countries covered in this report: Burundi, Central African Republic (CAR), Democratic Republic of Congo (DRC), Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Republic of Congo (ROC), Rwanda, Tanzania, and Uganda. Due to data and space limits, not all countries are represented in every graph or analytical section.

lack of infrastructure in the country. While growth has been relatively steady in the Central African Republic (CAR), it remains one of the poorest countries in the world in large part as a result of a legacy of political instability, violence, and corruption. In the World Bank *Doing Business Survey* 2012 CAR moved up one spot from the bottom rank of 183 to 182 for overall ease of doing business.

Real GDP Growth, 2012 (IMF Projections)	West Africa 8.2%	East and Central Africa 5.2%	Southern Africa 4.6%

Inflation

Despite overall strong economic performances in East and Central Africa, inflation is a growing concern. Inflation is expected to be in double digits for 2012 for the following countries; Ethiopia, Congo (Kinshasa), Uganda, Tanzania, Eritrea, Burundi, and Kenya. According to an African Development Bank (AfDB) report, the main drivers of inflation in Ethiopia and Uganda are rapidly expanding money supplies and rising food prices, while rising oil prices are driving inflation in Tanzania and Kenya. The AfDB report finds that credit to the public sector in Ethiopia grew by more than 45 percent in 2011 mainly due to the monetization of the fiscal deficit. In addition, increased purchases of gold by the Ethiopian Central Bank contributed to increasing the overall money supply. The authors recommend that the Government of Ethiopia balance the fiscal deficit and control the money supply in order to stabilize inflationary pressures.



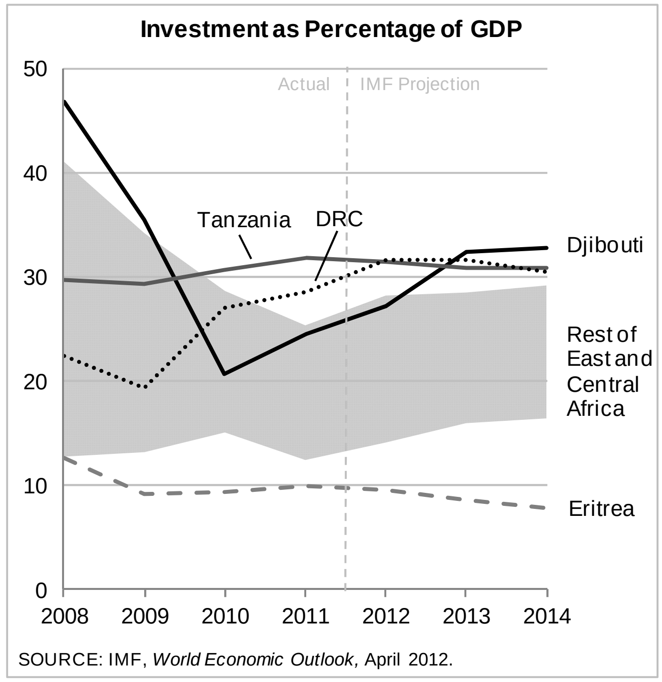
SOURCE: IMF, *World Economic Outlook*, April 2012.

Financial innovation, including mobile banking and use of e-money, is another factor contributing to inflationary pressures in several East African countries. According to the IMF, the M-PESA system of mobile banking in Kenya processed more transactions domestically in Kenya than Western Union did globally in 2011. These types of innovations greatly increase the velocity of money which contributes to inflationary pressure and complicates the implementation of monetary policy to control inflation.

While many countries in the region are struggling with rising inflation, the Central African Republic (CAR) stands out for its relatively low interest rates. Since a peak in 2008, CAR has steadily decreased inflation rates, reaching a yearly average of 1.2 percent in 2011.

CPI Inflation, 2012 (IMF Projections)	East and Central Africa 12.2%	Southern Africa 7.4%	West Africa 5.9%

Investment



New prospecting and discoveries of mineral and oil resources in several East and Central African countries are attracting increased international investment, particularly from China. According to the Business Monitor International (BMI) second quarter of 2012 *Mining Report for the Congo (Kinshasa)*, the mining sector is expected to grow rapidly as several projects come online, including Rangold Resources' gold mine in 2013 as well as several large, high grade copper projects. In 2011, China Minmetals acquired Anvil Mining, the leading copper miner in Congo (Kinshasa). China is expected to pursue more joint ventures and acquisitions of mining companies in Congo (Kinshasa) and other African countries. Despite the attraction of large, untapped deposits in Congo (Kinshasa), there are many risks to investing in Congo (Kinshasa) related to poor governance, corruption, lack of infrastructure, and violent conflict which continues mainly in the east of the country where most of the mines are located. The Congo (Kinshasa) ranks 178 out of 183 countries for overall ease of doing business in the World Bank's 2012 Doing Business Report.

Tanzania also has large, underdeveloped natural mineral resources, including gold, diamonds, gemstones, and coal. In addition to expected increases in investment in the mining sector, the Tanzanian government is also increasing investment in expanding the national power grid and developing thermal energy resources. According to the second quarter 2012 *Business Outlook* report by BMI, most of the planned government investments in infrastructure will be financed by loans from Chinese state-owned banks as the Tanzanian government's current account deficit has deteriorated in 2011 and is expected to widen further in 2012. Offshore natural gas discoveries fuel optimism that Tanzania will be able to decrease its dependence on energy imports; however, production is not expected to come online until at least 2020.

While investment rates as a percentage of GDP are expected to increase in most of the region's countries from 2012 to 2014, Eritrea is an exception with downward expectations for future investment. The Eritrean economy is suffering from the impacts of a tightening of UN sanctions in December 2011 following a UN report that found that Eritrea is continuing to support al-Shabab and other armed groups in Somalia.

While the discovery of greater natural resources is a potential opportunity for growth in many East and Central African countries, realizing the full benefits will depend on improving governance and transparency in the management and distribution of the new wealth. During the Intergovernmental Committee of Experts Meeting in Dar es Salaam, Tanzania in February 2012 many panelists stressed the need for African-led anti-corruption initiatives perhaps utilizing the African Peer Review Mechanism (APRM). The UK-led Extractive Industries Transparency Initiative (EITI) and the Publish What You Pay coalition were highlighted in discussions as successful initiatives to improve natural resource governance and transparency; however, it was argued that there still remains a need for initiatives instigated and led by African countries. In addition to corruption, other issues discussed included the need for improved bargaining capacities to negotiate fair contracts and concerns related to environmental degradation and resource depletion.

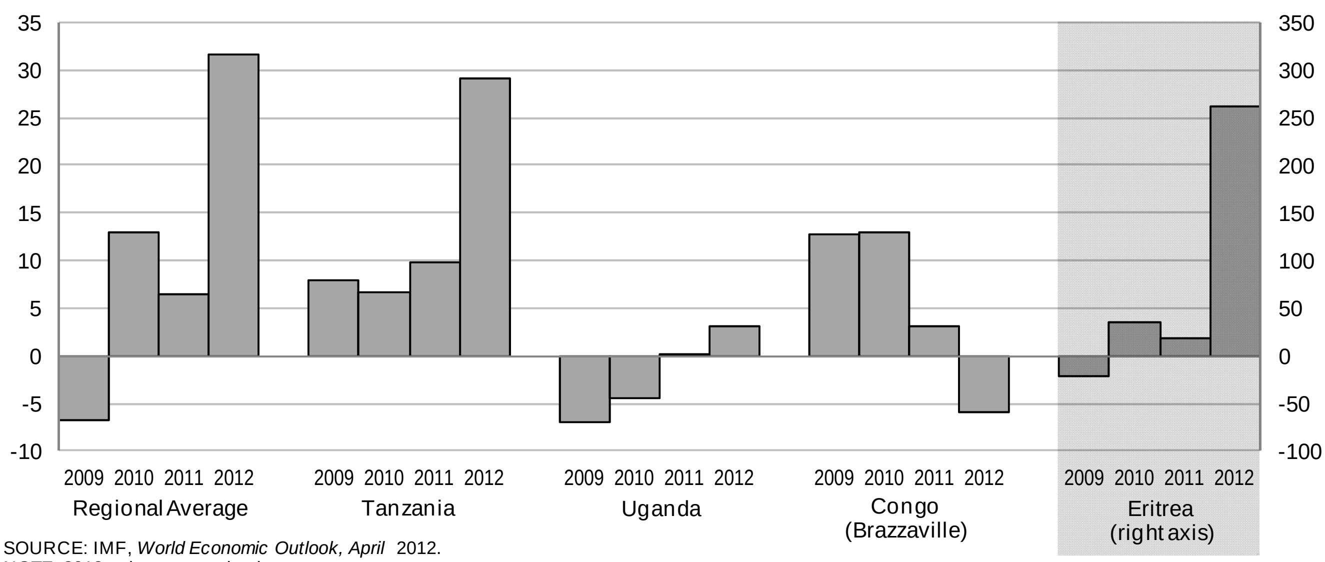
Total Investment, 2012 (as a % of GDP) (IMF Projections)	West Africa 24.1%	East and Central Africa 23.7%	Southern Africa 22.1%

Trade

While the crisis in the euro area has dampened export demand, the region has benefited from increased trade with developing countries, particularly China, and increased regional integration. Overall export volume growth for the region declined slightly in 2011 from 2010; however, it is expected to pick up speed in 2012, driven mainly by a huge increase in gold exports from Eritrea as a result of massive investments by Australian Chalice Gold Mines Ltd to develop the Koka mines. The new exports of gold will completely reshape Eritrea's trade balance as evidenced by the over 250 percent increase in export volume expected in 2012 (see chart). New development of gold deposits is also a major factor expected to drive increased exports from Tanzania. In addition, Tanzanian exports have benefited from government-led initiatives to liberalize the trade regime, such as by creating an Export Processing Zone (EPZ) business park and removing non-tariff barriers.

The East African Community (EAC) is the regional intergovernmental organizations of Kenya, Uganda, Tanzania, Rwanda and Burundi. It was established in 1999 and entered into force in 2000. The EAC established a Common Market in 2010, is in the process of establishing a Customs Union, and negotiations regarding the establishment of a Monetary Union commenced in 2011.

Export Volume of Goods and Services
(annual percentage change)



SOURCE: IMF, *World Economic Outlook, April* 2012.
NOTE: 2012 values are projections.

In 2011, Burundi and Kenya were the only countries in the region that experienced negative export growth. Coffee and tea, which are highly vulnerable to weather conditions and volatile global market prices, make up 85 percent of Burundi's exports. According to BMI reports Burundi posted a 52 percent year-on-year increase in the country's imports in 2011, mainly due to dependence on petroleum imports. The contraction of European economies, a major trade partner for Kenya's exports in horticultural and agricultural goods, put significant downward pressure on Kenyan export sales in 2011. On the positive side, regional trading partners, including Uganda, Tanzania, and Rwanda, which make up about 25 percent of Kenyan goods exports, are forecast to grow rapidly which should make up for weak demand from Europe. Both Burundi and Kenya are expected to have positive export growth in 2012 according to WEO estimates. The only country in the region that is expected to have negative export volume growth in 2012 is Congo (Brazzaville).

Export Volume of Goods and Services, 2011 (percentage change)	West Africa 17.4%	East and Central Africa 6.5%	Southern Africa 6.3%

Insights to the Newly Independent South Sudan

On July 9, 2011, South Sudan became an independent state by seceding from Sudan. South Sudan became the 188th member of the International Monetary Fund (IMF) and the 193rd member of the United Nations following independence. According to the IMF, the country has a population of about 8 million and a land area nearly as large as France. While the vote for independence occurred without a wide-scale eruption of violence, several unresolved issues between South Sudan and Sudan over borders, oil revenue-sharing, and currencies are continuing to cause tensions. Despite South Sudan's large oil wealth, the new country still ranks among the least developed in the world. According to the IMF, half of South Sudan's population is living below the poverty line. As the table below demonstrates, South Sudan performs poorly on Millennium Development Goal Indicators compared to Sudan and the average for Sub-Saharan Africa. For more social and economic data on South Sudan the World Bank suggests researchers visit The Republic of South Sudan National Bureau of Statistics website: http://ssnbs.org/.

South Sudan: Selected Millennium Development Goals Indicators

Indicator	South Sudan	Sudan	Sub-Saharan Africa
Malnutrition prevalence, weight for age (percent of children under 5)	48	32	25
Prevalence of undernourishment (percent of population)	47	28	26
Proportion of seats held by women in national parliaments (percent)	32	25	17
Infant mortality rate (per 1,000 live births)	131	71	84
Maternal mortality ratio (modeled estimate; per 100,000 live births)	1,989	638	650
Improved water source (percent of population with access)	48	59	60

Table extracted from http://www.imf.org/external/pubs/ft/survey/so/2011/car071811a.htm on April 30, 2012.

SOURCES: Sudan Millennium Development Goals Progress Report 2010, draft South Sudan Development Plan (2011); and World Bank Development Indicators.

NOTE: Data for South Sudan and Sudan are most recent available. Average for Sub-Saharan Africa (2006–2008).

Additional Information
For questions or more information, please contact statsunit@devtechsys.com. For country-specific data and additional information about the countries covered in this report, please visit the EADS Country Portal at http://esdb.eads.usaidallnet.gov/query/do?_program=/eads/esdb/countryPortal. Sources used in compiling this report include the semi-annual *World Economic Outlook* from the International Monetary Fund (http://www.imf.org/), the *Global Economic Prospects* and *Doing Business* reports from the World Bank (http://www.worldbank.org/), the African Development Bank (http://www.afdb.org/en/), and Business Monitor International Business Forecast Reports (http://www.businessmonitor.com/).