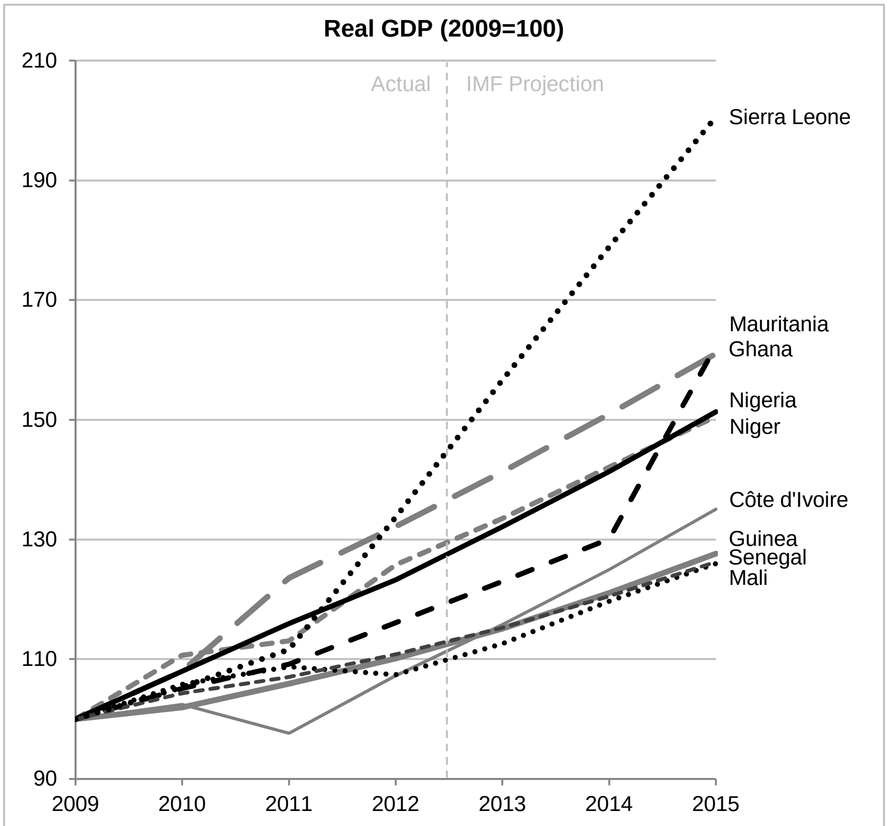
USAID
Economic Analysis
and Data Services

EADS Economic Trends Report
West Africa

May 2013

Economic Overview



SOURCE: IMF, *World Economic Outlook*, April 2013.

Despite the global economic slowdown in 2012, growth in West Africa has remained robust, supported by strong domestic demand and high commodity prices. However political unrest weakened growth in some countries (Mali and Guinea-Bissau). In 2012, the region's growth was 6.4 percent with two-thirds of countries in the region growing by at least 6.0 percent. Average growth is predicted at 6.8 percent for 2013 with all countries in the region expected to grow at a rate of at least 4.0 percent.

Real income growth has driven an increase in consumer demand in the region over the past few years. Income growth has been underpinned by improved access to credit, declining inflation rates, lower interest rates, and a rebound in the agricultural sector. Niger, Guinea, and Mauritania all experienced better rains compared with the 2010/2011 crop year.

Potential disruptions from unrest (political, civil, and labor) remain an important downside risk, as investment trade and tourism activity are likely to suffer. Indeed, terrorist activity in parts of Nigeria, coup d'états in both Mali and Guinea Bissau, and a political stalemate in Guinea slowed down growth to varying degrees in these economies.

In 2012, the fastest growing economies were Sierra Leone at 19.8 percent followed by Niger and Côte d'Ivoire with growth rates of 11.2 and 9.8 percent, respectively. The mining sector, particularly iron ore production, continues to the main driver of economic growth in Sierra Leone in 2013–2014, with oil-exploration activities expected to pick up following the announcement of offshore discoveries. Activity in the services sector is expected to pick up as the government attempts to improve the business climate through investments in basic infrastructure, health, and education. However, power shortages continue to constrain local output. After a rise in Niger's real GDP in 2012, driven by the start of oil production in 2011, economic growth is expected to slow down to 6.2 percent in 2013 and 6.4 percent in 2014, supported by investment in the country's oil and mining sectors.

Countries covered in this report include Burkina Faso, Cape Verde, Côte d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, and Sierra Leone. Due to data limitations and space constraints, not all countries are represented in every graph or analytical section.

Côte d'Ivoire's economy bounced back to 9.8 percent growth in 2012 as security and government operations were restored and further economic growth will be supported by increased government spending and improved investor confidence. Reconstruction and the subsequent expansion will be funded by cocoa and oil revenue, in addition to major aid and debt-relief efforts. The weak global outlook for 2013 will be offset by domestic factors with economic growth expected to remain high in 2013–2018 with an average annual growth rate of 6.8 percent, supported by a construction boom as well as higher cocoa production. However, continued economic expansion is contingent on political stability.

World Bank Income Groups

The majority (9 out of 15) of West African countries covered in this report are in the World Bank's low income group. With the exception of Gabon, the rest are in the lower-middle income group. Mauritania moved back to the low income group in 2012.

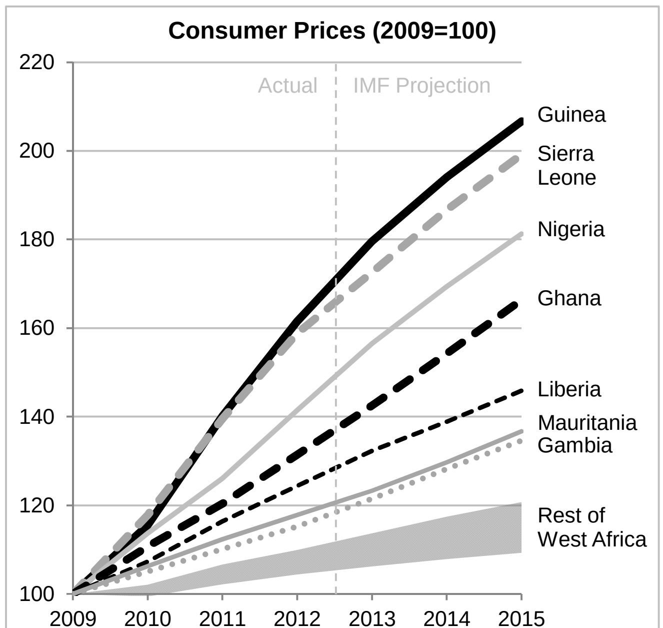
Economic growth is expected to remain robust in Ghana, at 6.9 percent in 2013, with the government attempting to extend its success in increasing cocoa production to the rest of the agricultural sector. The industry sector is expected to experience strong growth, driven by the expansion of gold mines and the development of the oil and gas subsectors. The services sector is also expected to perform well, particularly in telecommunications and construction.

Growth in Senegal was below the regional average at 3.5 percent in 2012 after an agricultural decline in 2011. In addition, private consumption decreased by 2.1 percent in 2011 due to increased inflation and reduced remittances. However, growth is expected to accelerate to 4.0 and 4.6 percent in 2013 and 2014 respectively, with the onboarding of new infrastructure projects. However, the country's heavy reliance on food and fuel imports as well as remittances makes its economy particularly vulnerable to external shocks.

Real GDP Growth, 2013 (IMF Projections)	West Africa 6.8%	East and Central Africa 5.5%	Southern Africa 4.8%

Inflation

Inflation rates declined in the region. Low inflation since the end of Côte d'Ivoire's 2010–2011 political crisis has protected the population's purchasing power. The IMF predicts that consumer price inflation will average 3.1 percent year-on-year over the course of 2013, an increase partially due to momentum.



SOURCE: IMF, *World Economic Outlook*, April 2013.

Although remaining high at 13.8 percent in 2012, inflation in Sierra Leone has been trending down since 2011, due to a more stable currency, a freeze in retail fuel prices, and lower international food prices. Imported inflation remains a major factor in price movements for the country, which is estimated by the Economist Intelligence Unit (EIU) to import nearly 40 percent of its food needs. While moderation in global food prices along with some improvements in local rice production and a stable currency are expected to lower inflationary pressure in 2013–2014, prices will remain high due to the expected implementation of an automatic fuel-pricing mechanism in 2013 and stricter implementation of the good and services tax regime. Overall, inflation is expected to drop to 8.7 percent in 2013 and 8.2 percent in 2014 as global food prices fall.

Inflation has risen in the first quarter of 2013 in Ghana, reaching 10.4 percent in March, underpinned by last year's expansionary fiscal policy and a reduction in fuel subsidies, which led to higher transportation costs. Both of these issues are expected to remain for the rest of 2013, although tighter monetary policy might mitigate inflationary pressure. Inflation is forecast to average 8.5 percent in 2013 before declining to 8.2 percent in 2014 and 7.9 percent in 2015 as fiscal policy is gradually tightened and international commodity prices moderate. However, the decline will be limited by a weakening currency and strong consumption growth.

The government's reduced spending and the central bank's steps to reduce excess liquidity in the economy will lead to downward trending inflation in Guinea after peaking at 21.4 percent in 2011. Inflation averaged 15.2 percent in 2012 and is expected to decrease to 11.2 percent and 8.1 percent in 2013 and 2014 respectively. However, political unrest remains a risk to the economy.

Inflation in Nigeria is expected to come down this year to 10.7 percent after reaching 12.3 percent in 2012, driven by a reduction in fuel and electricity subsidies and a flood which contributed to a rise in prices while strong consumer demand is also expected to put pressure on prices. However, lower commodity prices and currency stability are expected to steady prices.

In 2012, Niger and Senegal were the countries with the lowest inflation in the region, at 0.5 and 1.1 percent respectively, down from 3.0 and 3.4 percent in 2011. Inflation in Senegal is expected to remain low throughout the forecast period of 2013–2018, averaging 1.6 percent while inflation in Niger is forecast to significantly increase from 0.5 percent in 2012 to 1.7 percent in 2013.

CPI Inflation, 2013 (IMF Projections)	West Africa 5.1%	East and Central Africa 6.4%	Southern Africa 7.8%

Investment

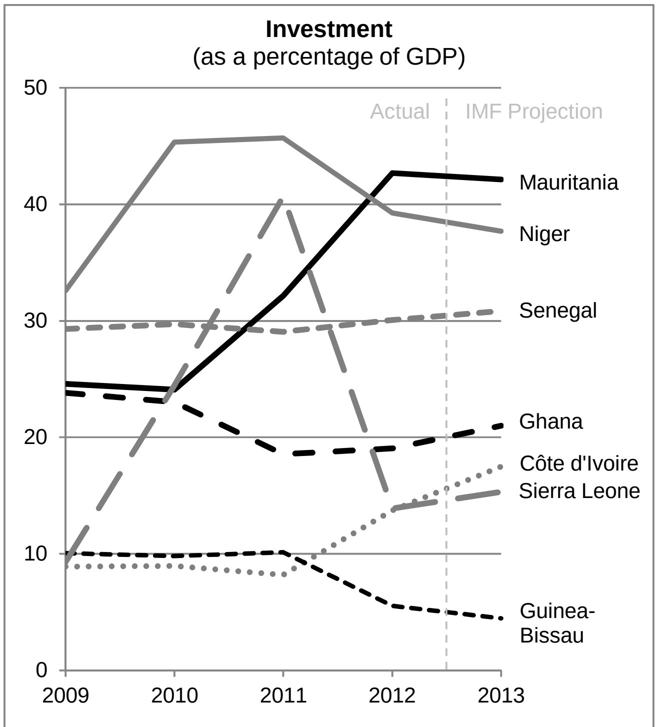
The extractive industry sector currently dominates in terms of the value of overall foreign direct investment flows; however it is falling in importance in favor of investments in infrastructure related projects in construction, transportation, electricity, and water. These investments will mitigate the binding constraints to growth that many countries in the region face. In addition, countries such as Nigeria and Ghana are beginning to attract investment flows to their fast growing consumer sector.

Liquid capital flows to Sierra Leone have been high over the last few years thanks to financing from abroad, investment firms in the mining and agriculture sectors and strong export performance. However, the government has absorbed much of this liquidity by borrowing from commercial banks to finance its expansionary fiscal policy. Now, in an attempt to reduce the debt-service burden and repay outstanding obligations, the government has increased revenue collection efforts in the first quarter of 2013. This has led to an overall budget surplus of US$43 million for this period. As banks are less able to buy government debt, they may drop their lending rates to the private sector, which are currently around 20 percent.

In Mauritania, exploration and investment for non-ferrous metals will be a major driver of growth with donor support and foreign investment interest in the mining and oil sectors expected to remain healthy in 2013–2014.

Investor interest in uranium mining is also expected to stay strong, sustained by a 13.5 percent annual average increase in prices in 2013–2014 and new investment by the national iron producer: "Société nationale industrielle et minière." The IMF recommends that Mauritania establish a separate mining fund to delink fiscal policy from the volatility of commodity prices.

Investment in Niger will be supported by growth of the country's oil and mining sector, including by the Chinese-owned Agadem oilfield in eastern Niger and a planned 600km pipeline connecting the field to the Chad-Cameroon oil pipeline. The EIU also predicts that Chinese investors will remain active in the upgrade of a uranium mine near Azelik, further driving growth in the mining sector.



SOURCE: IMF, *World Economic Outlook*, April 2013.

Investment is expected to remain steady in Senegal, averaging 30.7 percent for the forecast period of 2013–2018. The newly elected government in Senegal has made efforts to improve the business climate with an updated tax code taking effect in 2013 and a new customs code expected later this year. The new legal infrastructure combined with investments in the recent renovation of the port of Dakar and the Blaise Diagne International Airport, which is expected to open next year, should help attract investment to the service sector.

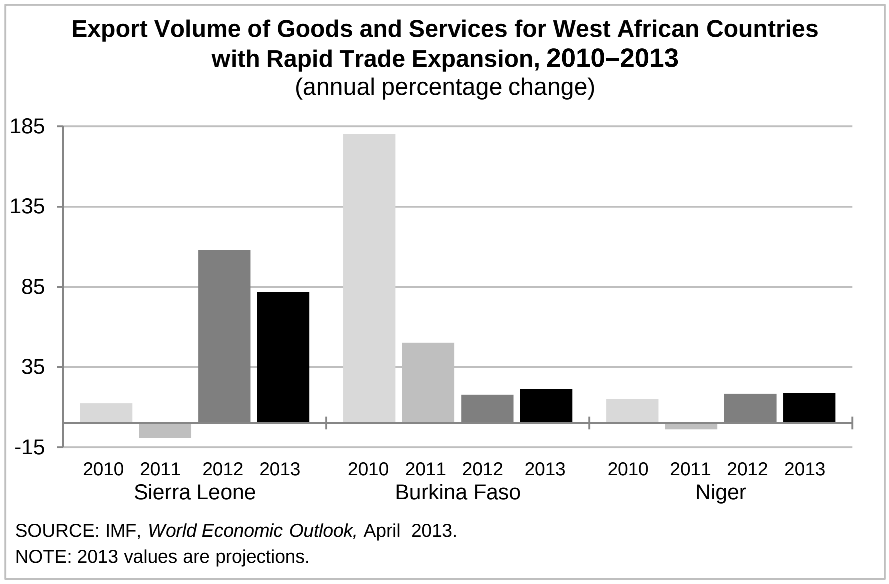
Investment, 2013 (as a percentage of GDP) (IMF Projections)	Southern Africa	West Africa	East and Central Africa
	24.8%	24.6%	24.2%

Trade

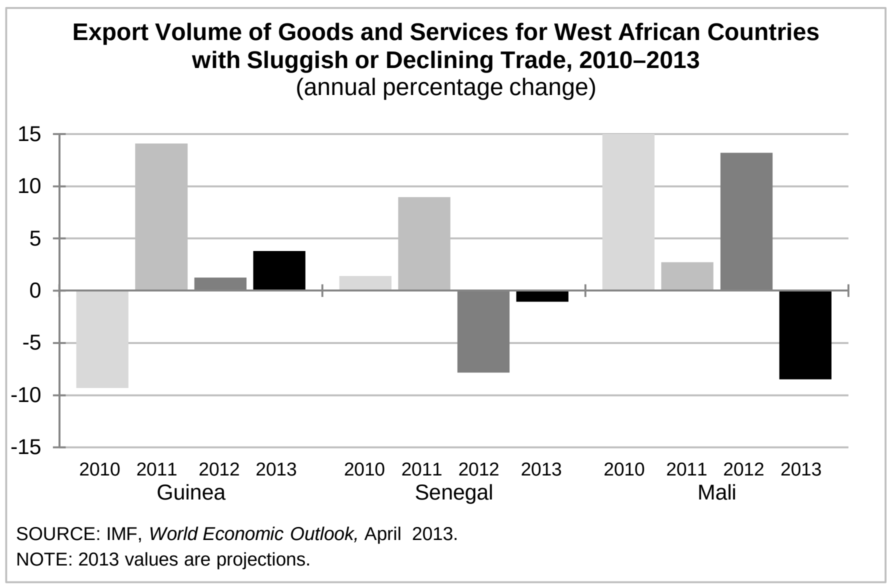
Export growth in the region was relatively robust in 2012. Export volumes in the region increased by 12.2 percent underpinned by Sierra Leone's strong growth of 107.8 percent. Ghana, Niger, Burkina Faso, and Mali's export volume all grew over 10 percent in the past year. The region is expected to see strong growth in trade in 2013 as well with an average growth rate of 13.7 percent. However, Senegal and Mali are both expected to see negative growth in trade in 2013.

Exports are expected to increase significantly in Sierra Leone in 2013–2014, underpinned by growth in the iron ore mines. However, the EIU predicts that infrastructure bottlenecks will continue to slow down export growth. Although import growth will slow in 2013, the import bill will remain high, mainly due to high capital imports for mining and infrastructure projects but also high oil prices. However, because of the rapid increase in exports, the trade deficit will narrow significantly.

Underpinned by rising production of gold and of cotton, exports in Burkina Faso are expected to continue growing through the forecast period of 2013–2018.



The economic rebound has led to a large increase in imported goods in Côte d'Ivoire, which will narrow the trade surplus and keep the current account in deficit. While lower global commodity prices will cut the cost of imports, strong growth will spur an increase in the volume of imports. Côte d'Ivoire's exports are forecast to grow robustly over the next few years thanks to diversification away from cocoa, which has traditionally been the country's key export. Cocoa's share of exports is expected to decrease as investment in the country's oil and mining sectors boost other exports.

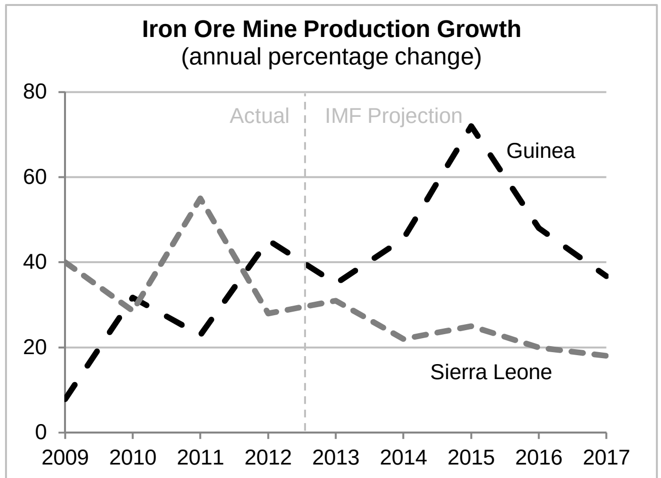


Rising local output in Senegal was counteracted by lower commodity prices. Exports are expected to resume growth in 2014 at 3.5 percent as the mining sector grows and commodity prices improve. Although Mali's economy contracted by 1.2 percent in 2012, the negative impact of the political situation on economic activity was mitigated by a strong rebound in agricultural production in 2012 as well as an increase in gold production: increases of 14.0 and 9.0 percent, respectively, by World Bank estimates. Mali was also re-admitted into the African Union in October 2012.

Export Volume of Goods and Services, 2013 (annual percentage change) (IMF Projections)	West Africa 12.2%	East and Central Africa 11.5%	Southern Africa 6.2%

Spotlight on Mining in West Africa

West Africa's mining sector is expected to grow rapidly as investment pours into the region's large mineral wealth. Much of this growth will be focused on iron ore and gold as the region has untapped and high-grade reserves of both metals. Since many of the projects are still in the early stages of development, BMI forecasts that growth will accelerate towards the end of the forecast period.



SOURCE: Business Monitor International, May 2013.

Sierra Leone and Guinea are expected to experience some of the fastest rates of growth in iron ore production over the next few years, which should make both countries major global exporters by 2017. In addition, Ghana, Côte d'Ivoire, Mali, and Burkina Faso will see strong gold production as rising prices and improved business climates attract investment.

However, political instability remains a downside risk to the region, as exemplified by the military coup in Mali. In addition, the region's infrastructure is weak and currently struggling to meet the demands for electricity and road and rail routes for the new mining sector. This is likely to worsen as the mining sector grows rapidly unless there is substantial investment in public infrastructure.

Additional Information

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For country-specific data and additional information about the countries covered in this report, please visit the ESDB 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*, *Doing Business*, and *Africa's Pulse* reports from the World Bank (http://www.worldbank.org/); the Economist Intelligence Unit Country Reports (http://eiu.com/uc/); and Business Monitor International Business Forecast Reports (http://www.businessmonitor.com/).