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IMF Lifts Africa Growth View

Trade With China, Other Developing Economies Provides a Sub-Saharan Boost

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NAIROBI, Kenya—Sub-Saharan Africa is expected to post better-than-expected growth this year and next, due in part to increased trade with China and other fast-growing economies in Asia and Latin America, according to a new report by the International Monetary Fund.

In a report released Monday, the International Monetary Fund said that growth for the sub-Saharan region—which typically counts 47 countries excluding North Africa—should reach 5% this year, up from an earlier prediction of 4.5%. The IMF predicted annual growth would rise to 5.5% next year. The organization attributed the increase mainly to strong economic fundamentals, such as high levels of reserves and low inflation. But it also noted a marked shift toward trade with resource-hungry China and developing countries in Asia and Latin America.

Africa's growth acceleration has stirred interest among investors, since it comes as the U.S. and Europe are struggling to recover from the global slump. After China and India, Africa is seen as the next emerging, billion-person market—one that boasts not just mineral wealth but increasingly large pockets of consumer spending power, too.

"There's a lot of money out there, and it's looking for places to go," said Roger Nord, senior advisor at the IMF's Africa department. Mr. Nord added that natural resources would continue to receive significant investment, but that investors were also looking at tourism and telecommunications.

Nadine Hutton/Bloomberg News

The Tata Steel KZN Pte. plant stands in Richards Bay, South Africa.

The European Union remains Africa's largest trading partner. The U.S. also is heavily invested in the continent, particularly in oil-producing countries—at a level that IMF officials say is on par with China.

Yet China has made broad gains in trading in the region in the past eight to 10 years, particularly in oil and minerals, and banking in South Africa, the continent's largest economy. China has also invested in infrastructure projects, such as roads, bridges and dams, which will be critical to Africa's growth and help it lure investors to other sectors, IMF officials say. China now has a greater share in sub-Saharan Africa's total exports and imports than it has shares in nearly every other region in the world, according to the IMF report.

China recently gave $13 billion in loans to Ghana, a stable, west African nation that recently discovered oil off its shores. The money will be used in part for Ghana's oil and gas, and agricultural sectors, and for infrastructure building. The IMF has said it approved of the deal. But the IMF was more critical about an earlier $9 billion agreement China made with the conflict-ridden Democratic Republic of Congo—a deal that would exchange infrastructure for minerals. After the price of commodities fell with the global downturn, the IMF argued that the deal would have increased Congo's debt.

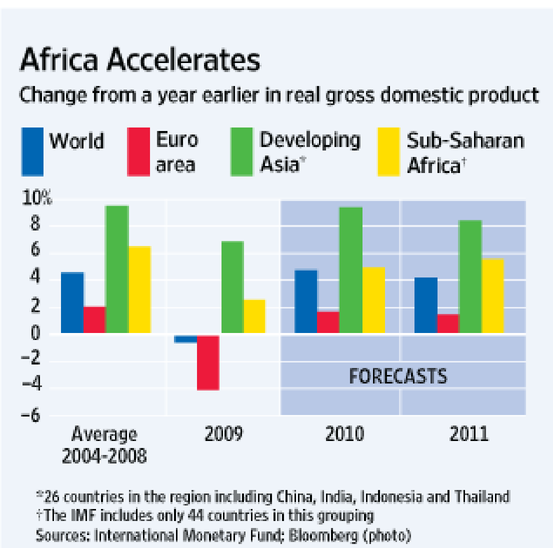
"You also have to look at the reason why China is interested in Africa," said Abebe Selassie, the IMF's regional studies division chief in the IMF's Africa department. "It's not just for the minerals and oil, but because of its high growth."

Meanwhile, sub-Saharan Africa fared much better than other regions during the economic crisis in part because its banks aren't as exposed to the global market. Their governments also imposed sound fiscal policies that helped to buffer the shock, continuing to spend on health and education, and managing inflation and private investment.

Most nations in sub-Saharan Africa were able to avoid slipping into a recession and have experienced "a fairly robust rebound" this year, the report said. And the growth trend favors Africa—the region is expected to post a moderate increase in growth while that of developing Asian countries is expected to decline again.

The only economy in the region expected to contract this year is that of Madagascar, the southern African island which remains fraught with political turmoil and has been subjected to sanctions from the African Union that were imposed after an opposition leader seized power in a coup in 2009.

Sub-Saharan Africa wasn't left unscathed by the global crisis. The slowdown lessened demand for African exports, which in turn curbed imports. This raised unemployment, sent incomes plummeting, and threatened progress towards achieving the United Nations' Millennium Development Goals, such as universal education and ending poverty and hunger.



The global downturn also drained the fiscal balances in middle-income and oil-exporting countries that had flourished during the boom in the mid-2000s, the IMF said. South Africa, the continent's economic engine, was hit particularly hard, slipping into a recession and shedding one million jobs.

The IMF report warned that Africa's continued recovery depends in part on the global recovery. It said that the global economy needs to grow by its projected rate of 4% to 4.5% for 2011 to continue the trade and aid needed to ensure the region's continued expansion.

There could also be domestic snags. Many African countries are vulnerable to economic shocks from political instability, and 2011 could see as many as 17 elections on the continent, the report said. "Overall, our projections show we're not expecting any countries to experience negative growth next year," said Mr. Abebe.

"But that doesn't always pan out."