West Africa

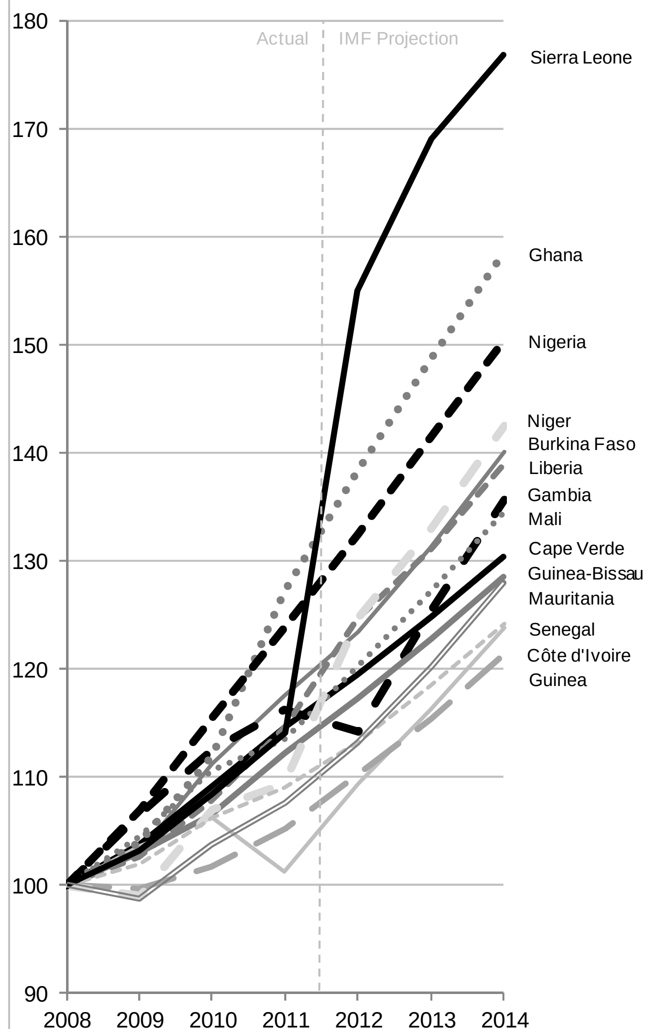
Economic Overview

Economic growth rates in West Africa remain very favorable, even as euro zone tribulations, fiscal consolidation, and commodity price increases cool the expansion in many countries. Compared with the rest of Sub-Saharan Africa in 2012, West Africa's real GDP growth is the fastest, its inflation is the lowest, and its investment ratio is the highest.

New Oil and Mining Sectors Spur Rapid Growth

New mining operations are rapidly transforming Sierra Leone's economy. In recent years, the economy has been boosted by strong performances in agriculture, construction, and services in recent years while the government has been addressing needs for public infrastructure. In 2012, real GDP is projected by the IMF to surge by more than 30 percent. This one-time hyper-boost to the economy reflects exports of goods approximately quadrupling based on new production from the Tonkolili iron-ore mine. Future economic growth is also likely to be affected by oil production. Reserves were first discovered in 2009 and three companies are currently engaged in exploratory operations.

Real GDP (2008=100)



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

For Sierra Leone's government, the immediate impact on revenues from expanded iron mining will be modest as royalties are relatively small. However, the government has been able to transition to a goods and services tax with some success. Eventually, revenue gains from better tax administration and from oil production will lessen Sierra Leone's dependency on donors.

Niger's economic growth rates are among the fastest in the region after the country successfully overcame serious food shortages in 2009 and returned to democracy after a military coup in 2010. Favorable harvests since 2010 have been raising the agricultural sector's growth rate while a new oil project beginning operations in 2012 has been spurring growth throughout the economy. A new uranium mine, expected to begin production in 2014, keeps the economic outlook strong for Niger. Revenues from oil and mining will enable the government to maintain a strong fiscal position and expand public infrastructure. The Libyan crisis prompted workers from Niger to return home, but the fall off in remittances has been barely noticeable as the economy surges forward.

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

A rapid expansion of oil production has boosted real GDP growth rates in Ghana to among the fastest in the region: 13.6 percent in 2011 and a projected 8.8 percent this year. Non-oil sectors are also growing rapidly, with rising incomes fostering a strong appetite for imports.

Improved Governance and Higher Commodity Prices Also Produce Expansions

The economy of Burkina Faso has been in a strong expansion since recovering from external shocks in 2008. Led by the agricultural and mining sectors, particularly gold exports, the economy has been growing at annual rates in the 5–8 percent range and is projected to continue on that track. Growth is projected to accelerate in 2013 as public spending on infrastructure and private investment in mining operations both increase.

Cape Verde's recent record of strong growth has shifted into a continued, but more modest, expansion. Annual real GDP growth will be around 4 percent this year and next as euro zone problems negatively impact Cape Verdean exports and tourism loses steam. Commodity price shocks have widened the current account deficit and are undermining domestic purchasing power. Unemployment rates persistently in double-digits also act as a drag on the economy.

World Bank Income Groups

Just over half the West African countries covered in this report are in the World Bank's Low Income group. The rest are in the Lower Middle Income category. Two countries (Ghana and Mauritania) moved up to the Lower Middle Income category last year.

Nigeria's oil sector expanded production in 2010 just as world prices were rising, enabling the economy to get a strong boost from that sector. The government effectively overcame a banking crisis, which peaked in 2009. The recapitalization process is now nearly complete and steps are being taken to improve the regulatory and supervisory framework. Annual real GDP growth rates in the past three years have exceeded 7 percent, with similar growth expected this year and next. As the IMF notes, this period of rapid expansion provides the opportunity for Nigeria to address two key areas of vulnerability: infrastructure bottlenecks and inadequate fiscal reserves to cushion a downturn in oil prices.

Lifted by rising commodity prices, Mauritania's economy rebounded sharply, growing by more than 5 percent in 2010 after a small contraction in 2009. Growth was trimmed in 2011 by the drought in the Sahel and slack European demand for its exports. The IMF is projecting growth rates in the 5–6 percent range for 2012 and 2013, despite persistently high unemployment and inadequate private sector development.

Guinea-Bissau's economy accelerated sharply in 2011 and will slow down only modestly this year and next. The main export crop is cashews and world prices are up while harvests in Guinea-Bissau are abundant. The IMF also credits continued political stability and improved governance as factors behind a sustained economic expansion.

Liberia's economic growth sped up to more than a 6 percent pace in 2011 and is projected to hit a nearly 9 percent pace this year. Higher prices for rubber and the restart of production in the iron ore sector have boosted the economy.

Cote d'Ivoire is still recovering from a decade of social and political turmoil. Economic growth has been modest, at best, in recent years and real GDP fell by nearly 5 percent in 2011. This latest political crisis caused many banks to remain closed for several months at the start of 2011. The IMF projects a rapid turnaround in 2012 and continued rapid growth rates. Some of the fast growth this year is due to an expected bounce in production from last year's depressed levels. Overall, the IMF credits the current government with implementing an effective economic recovery plan.

Guinea is another country with a recent record of political instability and weak governance. Conditions appeared to have improved significantly in last year, paving the way for real GDP annual growth rates of nearly 5 percent this year and next. After elections in 2010, the new government worked to settle a longstanding dispute with a foreign mining company. The resolution in 2011 generated a large one-time payment to the government, allowing a start on addressing public sector infrastructure needs. Large new private investments in the mining sector have started to move the economy forward. Guinea's transition to a rule of law economy and good governance is not complete, but the first steps are promising.

Mali's economy has been growing rapidly despite sluggish gold production. Cotton production has been on a sharp upswing, along with other agricultural sectors, which helped push real GDP growth in 2011 to over 5 percent. As measured by capital adequacy ratios, the banking system is in good shape. However, the share of nonperforming loans to total loans is relatively high. The biggest risks to the economic outlook are a deteriorating security situation in northern Mali and uncertainties associated with national elections in mid-2012.

Senegal's economy has been among the slowest growing in the region. In 2011, recurring electricity power cuts held back the real GDP growth rate. The outlook for power reliability is more favorable in 2012, and spending on energy infrastructure and road construction is expected to help raise the growth rate to over 4 percent.

The Gambia has been mostly achieving moderate growth rates since 2007, but is the only West African economy projected to be in recession for 2012. Real GDP, according to IMF projections, will be down nearly 2 percent as the government implements fiscal consolidation, but a return to rapid growth is projected for 2013. The motivation for fiscal consolidation now is the large increases in fiscal deficits during 2008–2010. Tax collections were falling just as the government ramped up spending. The Gambia had received external debt relief under HIPC in 2007, but fiscal deficits since then have been rapidly adding new debt. Realizing that the country was at a high risk of debt distress, the government began to impose fiscal discipline in 2010. In the financial sector, the government has helped establish a strong foundation for future growth. The number of banks has doubled in recent years and financial intermediation is more widespread.

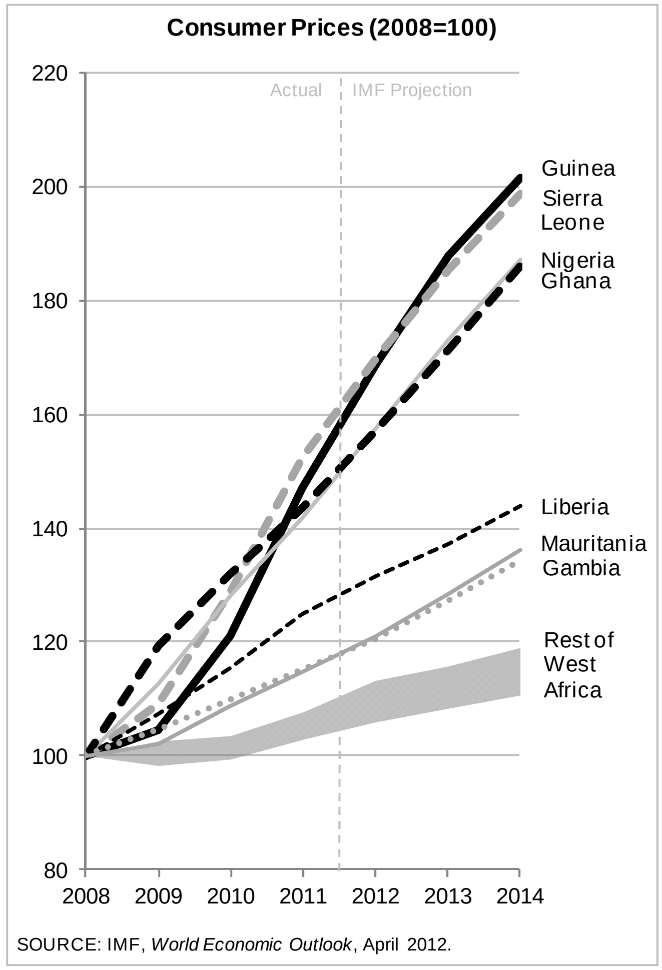
Real GDP Growth, 2012 (IMF Projections)	West Africa 8.2%	East and Central Africa 5.2%	Southern Africa 4.6%

Inflation

For most of West Africa, inflation is well in check. Many of the region's countries are members of the West African Economic and Monetary Union (WAEMU). Having a common currency and monetary policy, as well as creating a single market among its members, has been the key to a long period of modest inflation. Events which might normally spark inflationary pressures, such as the political crisis in Cote d'Ivoire or the drought in the Sahel, have less impact on WAEMU countries.

In addition to the inflation taming disciple of the monetary union, country-specific conditions are keeping inflation low. Favorable harvests in 2011 helped to keep the overall inflation rate well below 2 percent in Burkina Faso and no higher than 3 percent in Mali. Mali's government, in addition, has been using subsidies to keep higher world energy prices from passing through to domestic consumers. In Niger, although fuel subsidies are currently offsetting higher world energy prices, the government is phasing out the subsidies.

Seven West African countries are typically more inflationary. Guinea and Sierra Leone, where consumer prices are projected to double in a six-year span, have the most chronic price pressures. The new government in Guinea adopted an economic plan in 2011 to bring both inflation and fiscal deficits under control. Results were mixed. Inflation remains close to 20 percent at an annual rate, but at least it has stopped rising. In Sierra Leone, price pressures appeared to fall off since mid-2011, but the inflation rate was still nearly 17 percent at the end of 2011. The government did tighten monetary policy, keeping non-food price inflation more under control.



Nigeria's inflationary pressures are relatively less than in Guinea and Sierra Leone. Monetary tightening and fewer pressures from food prices enabled Nigeria to get its year-on-year inflation rate in December 2011 down to 10.3 percent from 11.7 percent in December 2010. In Ghana, inflation for 2011 dropped to 8.7 percent, breaking a long run of double-digit annual inflation rates.

Liberia, Mauritania, and Gambia have inflation rates above those typically found in the region, but on a scale much lower than in the four countries (Guinea, Sierra Leone, Nigeria, and Ghana) above them in the Consumer Prices graph. In Liberia, higher food and energy prices caused its inflation rate in 2011 to rise by more than a percentage point and reach 8.5 percent. In Mauritania, inflation eased to below 6.0 percent in 2011 and the government is making progress on achieving more macroeconomic stability. In Gambia, the monetary authorities applied restraint and kept inflation (year-on-year) ranging from 2.5 to 7.0 percent in 2011. Minimal economic growth in Gambia is also easing inflationary pressure.

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

Investment

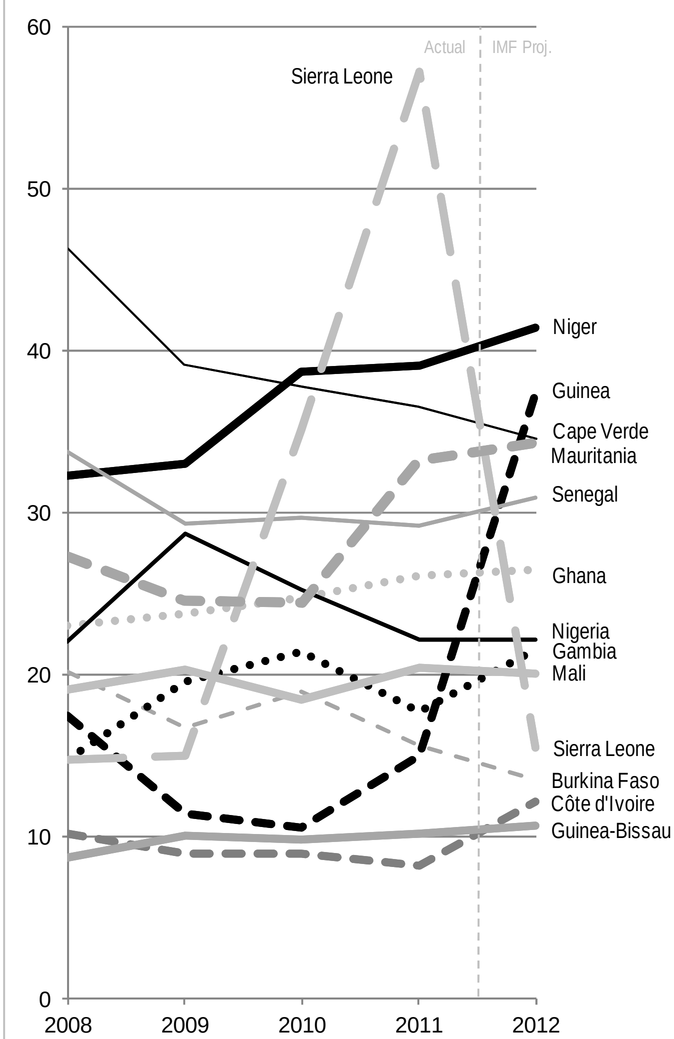
Investment remains strong in the region as countries expand their resource extraction sectors and address longstanding needs for more infrastructure. Despite legitimate concerns about the risks of commodity price volatility or demand for exports in the European market, very few West African countries (e.g., Cape Verde and Burkina Faso) are in a continued decline of their investment ratio.

Sierra Leone's startling spike in its investment ratio (see graph) is a symptom of the enormous impact of new iron-ore mining operations. Large outlays for new mines in 2010 and 2011 caused investment as a percent of GDP to more than triple from 2009. As the economy responds with a large gain in GDP, the relative size of investment will fall sharply in 2012.

Niger and Guinea are both posting significant gains in their investment ratio. Niger's story is straightforward in that investment in oil and uranium mines has risen sharply. In Guinea's case, the improvement in governance and settlement of a mining dispute are paying large dividends in terms of much higher investment in 2012.

Some West African countries, such as Guinea-Bissau and Cote d'Ivoire, have a history of political instability and weak governance which discourages investment spending. Their investment ratios seem stuck at around 10 percent of GDP. But many other West African countries, even those riding a wave of mining investments, still have business environments which hamper investment spending. Continuing to improve their institutions and policies would likely raise investment ratios even higher.

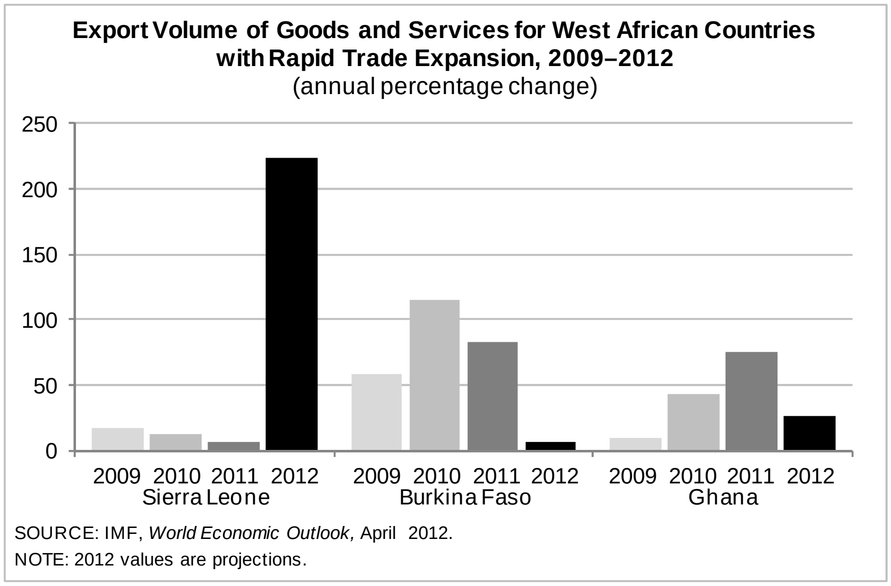
Investment as a Percentage of GDP



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

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

Trade

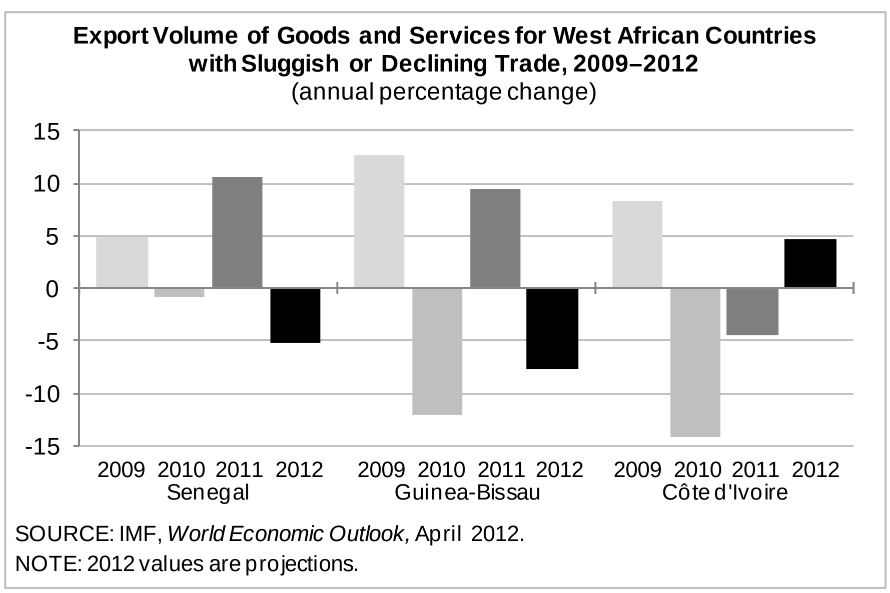


If IMF projections for the volume of exports of goods and services (a measure which excludes the impact of price changes) in 2012 pan out for Sierra Leone, the gain of more than 200 percent will be a rare occurrence. Since 2000, only one country in the world has posted a one-year gain of more than 200 percent in export volume: Chad in 2004 after an oil pipeline came into operation. In fact, the GDP and trade profile of Chad in 2004 (new oil sector) and Sierra Leone in 2012 (new mining sector) look very similar.

The 2012 upswing for Sierra Leone will be concentrated in iron ore, but recent discoveries of oil hint that another wave of export expansion is possible in 2014. Until recently, diamonds dominated Sierra Leone's exports, representing a third of export earnings in 2010. But diamond production has been on a declining trend since 2004 and will continue to be less important for Sierra Leone's trade.

Although less dramatic in scope, Burkina Faso has expanded its exports in recent years. The IMF projects only modest gains in 2012 after three consecutive years of surging exports. The IMF also projects that Burkina Faso's terms of trade will improve during this year and next, but that import demand will remain strong and widen the current account deficit to more than 10 percent of GDP.

Ghana's successful entry into oil production is reflected in its large gains in exports during 2010 and 2011, with further large gains seen for this year. Gold and cocoa remain key exports for Ghana as the country has yet to diversify its economy beyond commodities.



Most West African countries are increasing their exports, but a few are struggling. Senegal has had several years of losses cancelling out gains. Unreliable power supply in Senegal hurts the competitiveness of manufacturers in export markets.

Higher prices for cashews have been a boon to the economy in Guinea-Bissau, but consistently increasing the volume of exports will require economic diversification. In the case of Cote d'Ivoire, political instability in recent years and the associated temporary closing of banks had a chilling effect on exports. The IMF projects that Cote d'Ivoire will only partly make up for lost markets in 2012.

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

Additional Information

For questions or more information, please contact the author, Michael Shea, at mshea@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* (April 2012) from the International Monetary Fund (http://www.imf.org/), the *Global Economic Prospects* from the World Bank (www.worldbank.org), and specific country documents from the IMF (http://www.imf.org/). For Sierra Leone, a research report from Standard Chartered (*Sierra Leone—New opportunities, old challenges*, January 10, 2012) was consulted (http://www.sierraexpressmedia.com/wp-content/uploads/2012/01/New-Opportunities-Old-Challenges.pdf).