USAID
Economic Analysis
and Data Services

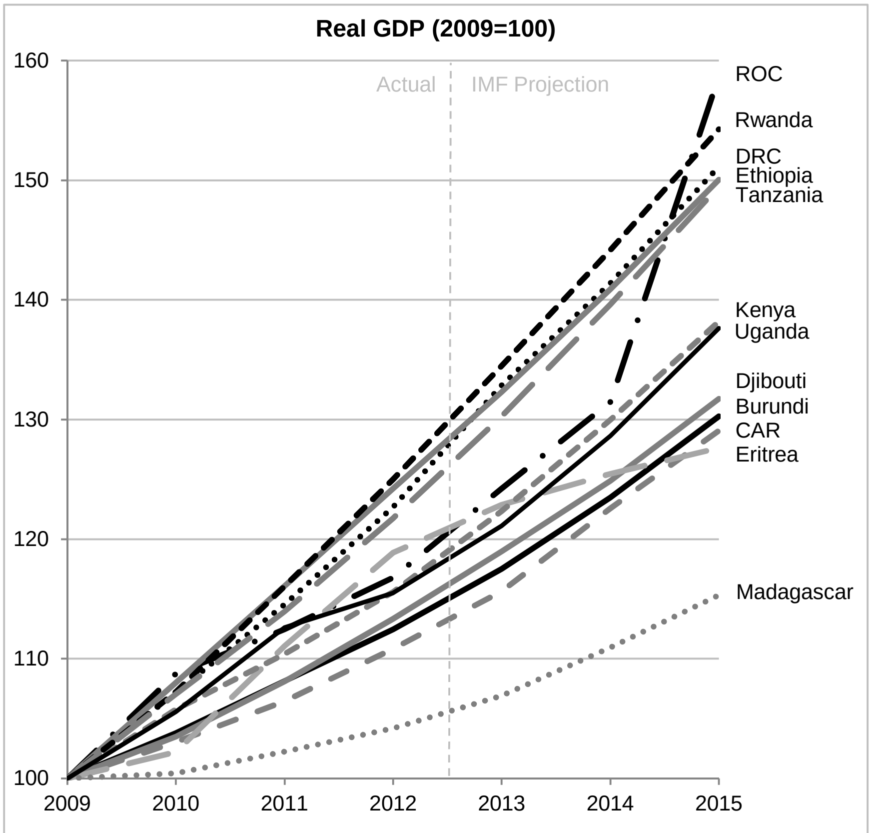
EADS Economic Trends Report

East and Central Africa

May 2013

Economic Overview

The East and Central African region continues to grow at a steady pace. Lower inflation and interest rates, infrastructure projects, and increased activity in the telecommunications and transportation sectors are among the positive trends contributing to growth in the region. On the other hand, several challenges to sustainable economic growth remain including infrastructure constraints and the impacts of climate change on agriculture.



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

Congo (Kinshasa), Rwanda, Tanzania, and Ethiopia are among the strongest economic performers in the region. Congo (Kinshasa)'s growth is driven by the expansion of mining with new mines coming into production—including the resumption of activities in mid-2013 at the Frontier mine operated by the Eurasian Natural Resources Corporation (ENRC). Large infrastructure projects financed by the Export-Import Bank of China, the World Bank, and the European Union will also contribute to strong growth.

Rwanda's growth has been adjusted slightly downward owing to the suspension of aid by donors. As a result, the government is expected to spend less than is budgeted, which will hurt economic activity. On the other hand, growth will be strengthened by robust performance in the agricultural sector. Electricity generation from methane gas in Lake Kivu is expected to add significantly to the national electricity supply. However, poor infrastructure will remain the highest barrier to the expansion of manufacturing.

World Bank Income Groups

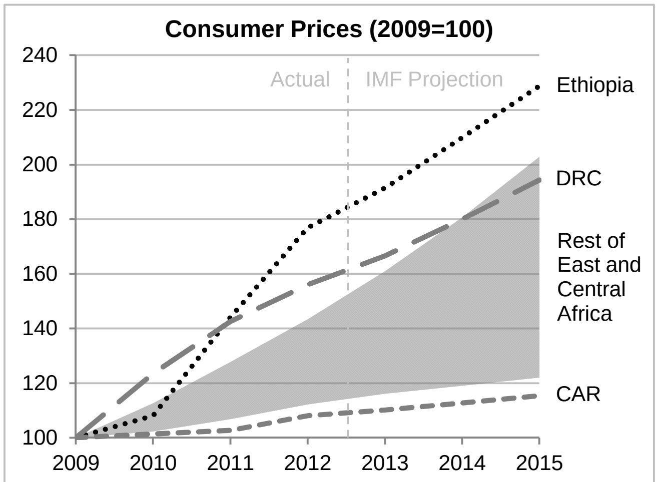
Out of the twelve East and Central African countries covered in this report, only two are classified as lower-middle income—Djibouti and Congo (Brazzaville). The rest of the countries are classified as low income countries.

Countries covered in this report include Burundi, Central African Republic (CAR), Democratic Republic of Congo (DRC), Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Republic of Congo (ROC), Rwanda, Tanzania, and Uganda. Because South Sudan's independence affected the comparability of historical data on Sudan and South Sudan, these two countries were excluded from this analysis. Due to data limitations and space constraints, not all countries are represented in every graph or analytical section.

Madagascar's growth remains constricted by the political crisis resulting from the overthrow of Mr. Ravalomanana in 2009 and is expected to grow at a rate of 2.6 percent in 2013. Growth is expected to accelerate to 3.8 percent in 2014 owing to a slight recovery in Europe—a major source of tourists and investments. While growth is expected to accelerate 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* 2013 CAR ranked last for overall ease of doing business.

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

Inflation



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

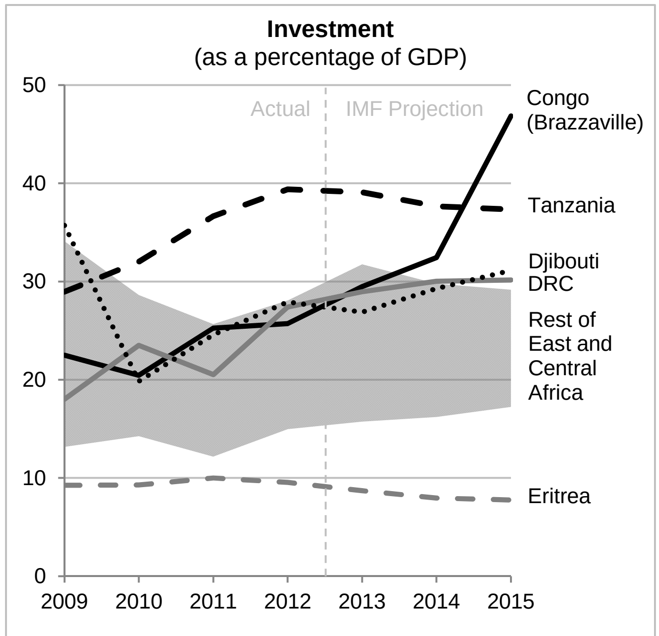
Inflation remains high in East and Central Africa in 2013. Inflation in Ethiopia has decelerated, underpinned by a moderation in international food and fuel prices and a good harvest, which put downward pressure on domestic prices. However, the Economist Intelligence Unit (EIU) predicts that weak monetary policy, fiscal deficits, and a depreciating exchange rate will keep inflationary pressure high. Of the countries with double-digit inflation in 2012 (Ethiopia, Uganda, Tanzania, Eritrea, and Burundi), only Eritrea is expected to have double-digit inflation in 2013. With the exception of 2007, Eritrea has had double-digit inflation for the past decade as the government has monetized its chronic fiscal deficits, leading to rapid growth in the money supply. Burundi and Tanzania, both at 9.0 percent, and Ethiopia at 8.3 percent are projected to have the next highest levels of inflation in 2013. The inflation drop in Tanzania was supported by higher food output, a fall in global oil prices and tight monetary policy. Inflation is expected to moderate further to 5.0 percent in 2015. Similarly in Burundi, inflation is expected to moderate to 5.9 percent in 2014, helped by easing food price imports. Inflation in Uganda is expected to fall from 14.1 percent in 2012 to 5.5 percent in 2013, owing to stable commodity prices and fiscal tightening.

While many countries in the region are struggling with rising inflation, CAR stands out for its low inflation. After an increase in inflation last year to 5.2 percent year on year owing to a drop in food production (due to erratic rains) and continued instability, CAR is expected to average 2.1 percent year on year inflation from 2013–2018 as food availability improves.

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

Investment

Despite the mining-led boom which has contributed to rapid economic growth in Congo (Kinshasa), the Economist Intelligence Unit predicts that weak governance and the poor business climate will act as a drag on investment. Congo (Kinshasa) ranks 181 out of 185 countries for overall ease of doing business in the World Bank's 2013 *Doing Business* report. More recently, the Extractive Industries Transparency Initiative, an international body whose mission is to increase accountability in the oil and mining sectors, has temporarily suspended Congo (Kinshasa) over its failure to disclose mineral revenue. After another substantial gas discovery in Tanzania, Norway's Statoil and the UK's BG Group plan to invest in a US$14 billion liquefied natural gas processing plant, which could begin in 2016. In addition, China has recently signed a series of infra-structure deals including partial funding and development of a new port.



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

Djibouti is ranked 171st out of 185 countries on the World Bank's 2013 *Doing Business* index because of its onerous regulations, limited supply of skilled labor and inefficient judicial system. Despite these impediments, the country is expected to continue receiving foreign direct investment (FDI) because of its location and the generous incentives offered in the Djibouti Free Zone. The country's reliance on foreign workers is expected to continue as a result of the low domestic skills base, thus limiting the impact of FDI inflows on employment and the transfer of skills. The government is also planning to build and rehabilitate access roads and irrigation systems in order to address the severe food insecurity in the country.

The opening of several mines in Congo (Brazzaville) this year is expected to significantly increase the country's iron ore production. As a result, Chinese infrastructure investment in Congo (Brazzaville) is predicted to increase significantly and mining firms such as Sundance and Xstrata will most likely invest in the improvement of road and rail connections to their inland mines and boost the capacity of the port at Pointe Noire. However, this is offset by poor infrastructure and a difficult business environment, which Business Monitor International (BMI) predicts will harm investment in other sectors.

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. While the latest report of the UN Monitoring Group on Eritrea and Somalia, published mid-2012 has found that Eritrea has reduced direct support for al-Shabab, it continues to play a destabilizing role in the region by deploying Ethiopian rebel groups via Somalia and selling weapons to Sudanese-based smuggling operations. Therefore, sanctions are unlikely to be lifted in the near future.

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

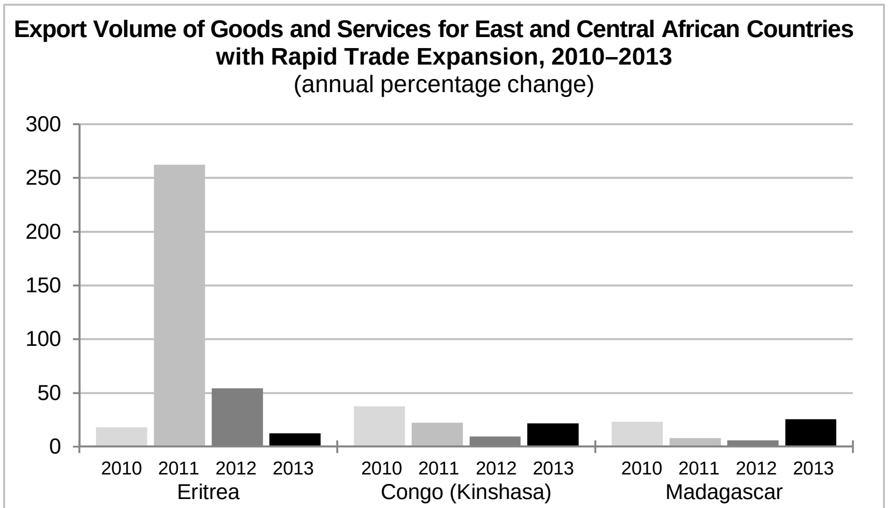
Trade

The East African Community (EAC) is the regional intergovernmental organization 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.

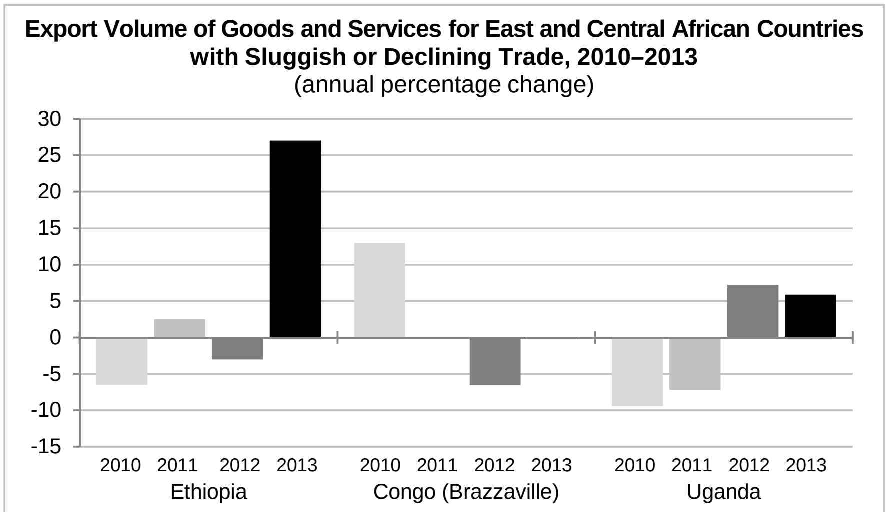
The African Development Bank has granted a US$233 million loan to the governments of Kenya and Tanzania to expand the road network that connects Arusha in northern Tanzania to Voi in southern Kenya.

Exports from Eritrea are forecast to grow steadily in 2013–2014, supported by the start of copper and gold production at the Bisha and Koka mines. However, these exports are expected to be offset by strong growth in imports as investment in mining boosts demand for capital goods.

Mining exports in Congo (Kinshasa) will be driven by increased production in Katanga, particularly at the Tenke Fungurume copper-cobalt mine, and an increase in copper prices. High gold prices and the start of production in late 2013 at the Kibali mine are expected to support increased gold exports. Unrecorded gold exports, estimated at thousands of troy ounces a year, will continue unabated. Although potentially supporting longer-term export growth, new legislation in the U.S. introducing onerous reporting standards for the purchase of "conflict minerals" by U.S.-registered firms could act as a drag on formal export growth in the short term. Import volumes are also expected to increase significantly, driven by a strong demand for intermediate and capital goods for foreign-financed mining and infrastructure projects.



SOURCE: IMF, *World Economic Outlook,* April 2013.
NOTE: 2013 values are projections.



SOURCE: IMF, *World Economic Outlook,* April 2013.
NOTE: 2013 values are projections.

Export growth in Madagascar will be driven by minerals, especially the QMM ilmenite mine and the late start of the US$6.3 billion Ambatovy mine project, which is expected to be one of the world's largest lateritic nickel mines when it becomes fully operational.

In 2012, Congo (Brazzaville) and Ethiopia were the only countries in the region that experienced negative export growth. Export growth in Ethiopia is expected to recuperate substantially with an estimated export growth rate of 27 percent in 2013, mainly driven by a rise in electricity exports to neighboring countries, increased domestic gold production and a recovery in global demand. Imports, however, are expected to grow more rapidly, fuelled by high demand for capital goods.

Congo (Brazzaville)'s export volume is expected to continue contracting for the third year in a row in 2013. This is due to contracting in oil output, coupled with lower international prices; this is in spite of rising but relatively minor non-oil exports. Non-oil exports, which stagnated for years owing to lack of competitiveness, have been driven by timber and forest products and non-oil minerals.

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%

Impact of the 2012 Oil Shutdown on South Sudan

According to the World Bank, South Sudan is the most oil dependent country in the world, with oil exports constituting almost all of exports and approximately 80 percent of gross domestic product (GDP), directly and indirectly. After the abrupt suspension of oil production in January 2012, GDP is estimated to have contracted by 53 percent in 2012. Growth for the next few years is skewed due to base effects averaging 40.7 percent for 2013–2014. GDP is not expected to reach its 2011 level until 2014. Over the past year, the border closure in the North, combined with a high reliance on imported foods has driven inflation. The government of South Sudan has adopted austerity measures as a result. These measures include a cut of approximately 30 percent to government consumption, transfers to the states, and the development budget and a 50 percent cut to housing allowance without affecting wages and salaries.

Hoping to avoid the brinkmanship with Sudan that characterized much of 2012, the government of South Sudan is looking at other means to convey its oil to international markets, including a pipeline through Kenya. In addition, South Sudan also launched the construction of two small refineries, which should have the capacity to refine 10,000 barrels per day, enough to provide for domestic consumption needs.

Additional Information

For questions or more information, please contact the author, Marie-Ellen Ehounou, at mehounou@devtechsys.com.

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/).