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Overview of the economic and social conditions in Africa 2008

Summary

The recent sub-prime mortgage crisis in the United States and the resulting global financial market turmoil, along with the depreciation of the dollar, present serious challenges to world growth in 2008. The credit crunch is now projected to have greater impact than was expected in 2007 on growth in the United States and other developed economies. This will slow down demand for exports from developing and transition economies, which will in turn result in lower growth in these economies. Despite the slowdown, growth in developing and transition economies is expected to remain robust, but it is likely to be insufficient to counter the effect of lower growth in developed economies on world growth.

The slowdown in world growth and the high oil prices are expected to have an adverse impact on growth in many African countries, especially oil-importing and landlocked countries. However, Africa as a whole is projected to sustain high growth in 2008. To sustain high growth in the face of global challenges, Africa needs effective strategies to manage commodity export revenues to hedge against future shocks, increase domestic investment and promote diversification, and to mobilize internal and external resources to confront development financing challenges.

This survey considers major developments in the world economy in 2007 with their likely implications for African countries. It proceeds with a review of the performance of African economies at the macroeconomic and sectoral level, including prospects for 2008. The survey further examines key trends in social development with an emphasis on education, health, youth unemployment, gender equality and ageing. It concludes by highlighting a number of important economic and social challenges that deserve urgent attention from African policymakers and the development community at large.

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I. The global economy

1. World economic growth slowed to 3.7 per cent in 2007, from 3.9 per cent in 2006.[1] High prices for oil and other inputs combined with some turbulence in financial markets have contributed to this slowdown. The recent sub-prime mortgage crisis in the United States of America resulted in lower than expected growth rates and slowdown in demand for imports in that country, exerting some negative effects on growth in other industrial countries. But these effects have been balanced by domestic demand-led growth in other regions.

2. Globally, growth rates were highest in the member countries of the Commonwealth of Independent States and in East Asia, with rates above 8 per cent. Growth in developing countries declined only slightly from 7.0 per cent in 2006 to 6.9 per cent in 2007. For 2008 world growth is projected to be around 3.4 per cent.

3. Global current account imbalances are large but have stabilized in 2007. Among developed countries the deficit remained constant in 2007 at around $600 billion, despite sizable surpluses in Germany and Japan. The United States trade deficit declined from a record high of $844 billion in 2006 to $780 billion in 2007, due to higher exports. Oil-exporting countries have a combined surplus of $500 billion and most developing regions are running surpluses. The surplus of developing countries in Asia totalled more than $200 billion, with China being the largest contributor. The current trends are expected to continue in 2008.

4. Despite continued high oil prices, global average inflation remained low in 2007 (2.8 per cent compared to 2.9 per cent in 2006), partly owing to restrictions on wage increases, a tight macroeconomic policy stance in both advanced and developing countries and the supply of cheap manufactures from China. However, inflation risks have increased due to falling unemployment, especially in Europe, and high commodity prices.

5. Prices of major African export commodities such as coffee, cocoa, cotton and tropical logs have remained stable, while the recent promotion of the use of biofuels has led to notable increases in the prices for agricultural commodities such as wheat, maize and sugar. Another important development of high relevance for Africa is the rapid increase in South-South trade and capital flows. Foreign direct investment (FDI) from the South increased from just 5 per cent of world outward flows in 1990 to 17 per cent in 2005. FDI to Africa is increasingly coming from Asia, especially China, India and the Gulf States. At the same time FDI flows within Africa increased substantially in 2006, mainly originating in South Africa and northern Africa. These FDI flows are concentrated in the natural resource and services sectors.

6. The intensification of ties with Asia in terms of aid, trade and FDI holds both benefits and challenges for Africa. African exports to China more than quadrupled between 2000 and 2005, reaching $19.5 billion. Asian growth expands export markets for Africa and creates new opportunities for employment creation in local and foreign firms. However, African manufacturing firms confront the risk of losing local markets if they are not able to compete with imports from Asia.

[1] All the growth and price data used in the present survey are from the Department of Economic and Social Affairs, October 2007 (see list of references at end of text), except for Swaziland and the Seychelles, for which the data are from the Economist Intelligence Unit online database.

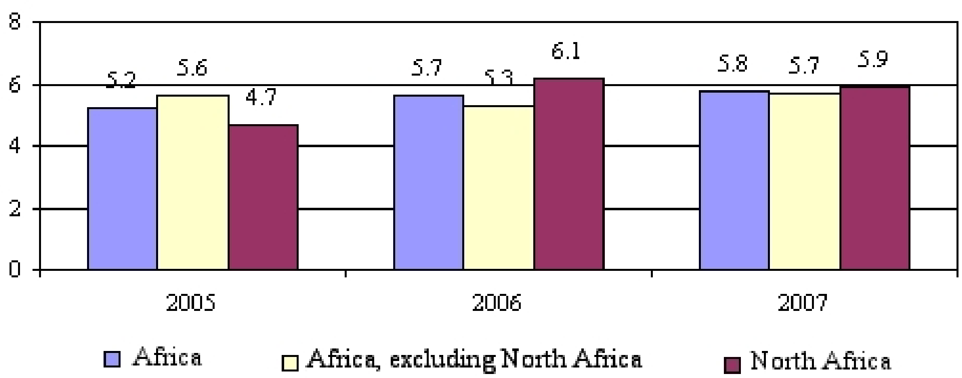
II. Overall growth performance in Africa

A. Africa's economic growth rate slightly up in 2007

7. Africa has maintained the strong growth momentum of the last few years and achieved a 5.8 per cent growth rate in 2007, up from 5.7 per cent in 2006 and 5.2 per cent in 2005 (figure 1). As in previous years, this growth performance was driven mainly by robust global demand and high commodity prices. Other factors underpinning sustained growth momentum in Africa include continued consolidation of macroeconomic stability and improving macroeconomic management, greater commitment to economic reforms, rising oil production in a number of countries, increased private capital flows, debt relief and increasing non-fuel exports. Africa has also witnessed a decline in political conflicts and wars, especially in West and Central Africa, though peace remains fragile in some parts of the continent.

8. African exports of goods and services recorded a 15.2 per cent increase in value in 2007 compared with a 13.2 per cent increase in imports (Department of Economic and Social Affairs, October 2007a). Many African countries have implemented macroeconomic as well as microeconomic reforms that have resulted in a generally improved business environment and investment climate. Increased aid and debt relief have helped the continent to attract high net private capital inflows, although the volume has declined over the past three years ($29 billion in 2005, $25 billion in 2006 and $22 billion in 2007). Also macroeconomic stability, among other factors, has contributed to an increase in the domestic savings rate, from 25.3 per cent in 2006 to 26.3 per cent in 2007 (see IMF 2007a).

Figure 1
Growth of real gross domestic product in Africa, 2005-2007 (percentage)



Source: Department of Economic and Social Affairs, October 2007.

9. These improvements need to be widened, deepened and sustained if Africa is to accelerate and sustain growth beyond the ongoing commodity boom. The continent also needs to promote high-quality growth that is broadly shared in terms of generating decent employment, helping to reduce poverty and achieving the Millennium Development Goals. The recorded real per capita income growth rate (0.3 per cent during 1990-2002 and 3.0 per cent in 2003-2007) is insufficient for

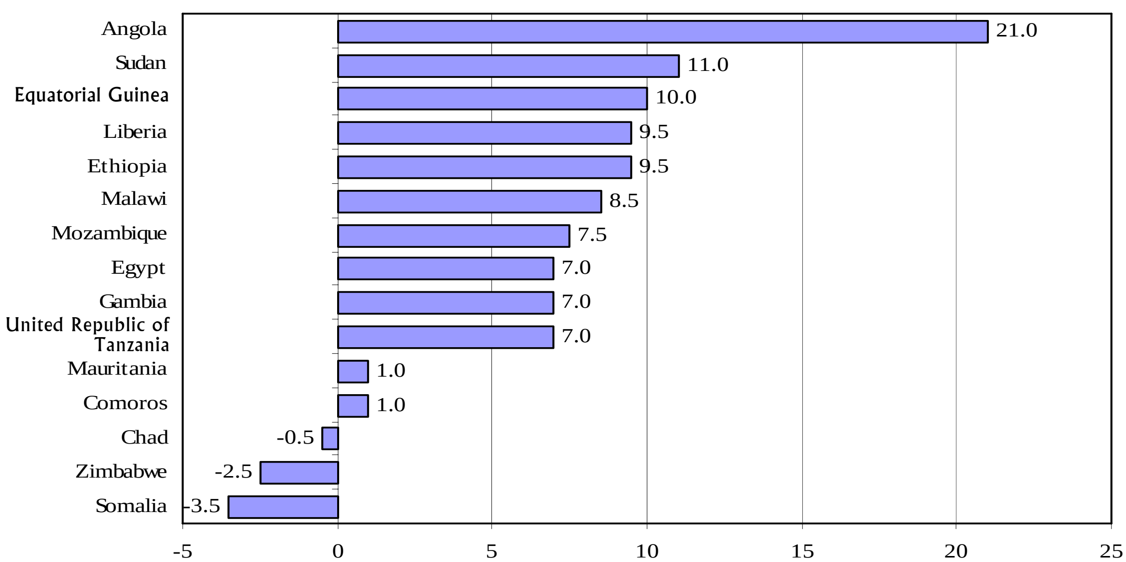
Africa to make any significant progress towards achieving the Millennium Development Goals. Africa's ability to accelerate and sustain growth hinges crucially on its progress towards diversification of the sources of growth and success in mobilizing domestic and external financial resources to increase domestic demand in general and investment demand in particular.

B. High growth variability across countries

10. The vulnerability of Africa's growth to developments in commodity markets and political instability can be easily seen from a cursory look at the list of strongest and weakest performers in 2007 (figure 2). Six of the top performers are oil- or mineral-rich economies (Angola, Sudan, Egypt, Equatorial Guinea, Mozambique and the United Republic of Tanzania), while one country (Liberia) is a post-conflict recovery case. The structure of the remaining top-performing economies is heavily dominated by agriculture (Ethiopia and Malawi) or services (Gambia).

11. Aside from Egypt, the top-performing economies are characterized by extremely limited diversification in terms of manufactured output and exports and lack the requirements for sustaining growth. It is interesting to note that the five worst-performing economies share similar characteristics to the top performers. Mauritania and Chad are oil-rich countries while Zimbabwe is a mineral-rich country. However, Somalia and Zimbabwe suffered from political instability that had adverse consequences for economic performance. Chad, Mauritania and the Comoros are confronted with declining commodity output and exports, a situation that illustrates the urgent need for economic diversification on the continent.

Figure 2
Top 10 and bottom 5 performers in Africa in 2007 (percentage annual growth)

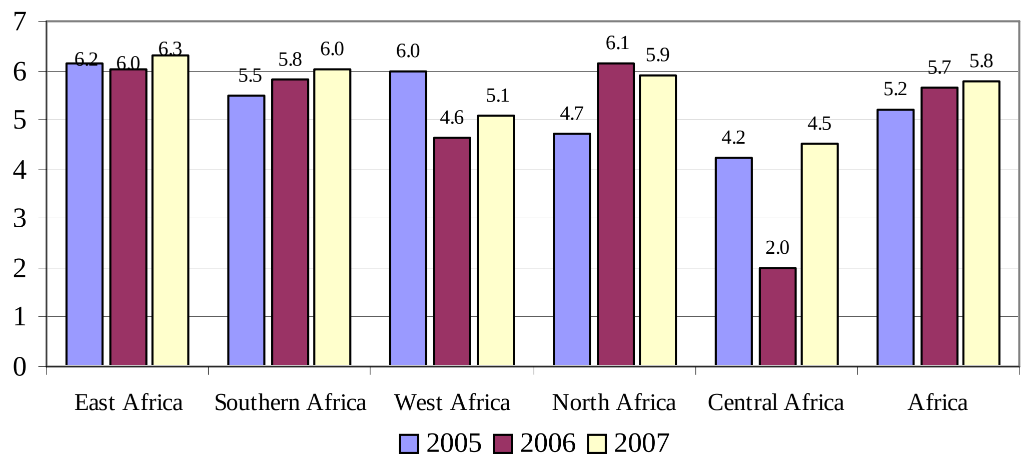


Source: Department of Economic and Social Affairs, October 2007a.

C. Subregional growth performance also varied substantially

12. Whereas growth performance slightly decelerated in North Africa, all other regions experienced higher growth in 2007 compared with 2006 (figure 3). This indicates that growth in Africa is widely shared across regions. East Africa, a non-oil region with limited mineral exports, continued to lead economic performance in Africa, whereas Central Africa lagged behind all other regions in 2007.

Figure 3
Subregional growth performance 2005-2007 (per cent)



Source: Department of Economic and Social Affairs, October 2007a.

13. Strong commodity demand and continued high prices, combined with favourable rainfall and accelerated growth in agriculture, boosted economic activity in the industrial and services sectors as well as overall growth in most of the countries of East Africa. Ethiopia led the region with a 9.5 per cent growth rate of real gross domestic product (GDP) in 2007, followed by the United Republic of Tanzania (7.0 per cent), the Democratic Republic of the Congo (DRC) (6.5 per cent), Madagascar (6.4 per cent), Kenya (6.1 per cent), Uganda (6.0 per cent) and the Seychelles (5.8 per cent). Other growth factors in the region include increased government investment in infrastructure; policies to encourage private sector development and investment in manufacturing; and rising FDI and tourism receipts.

14. The end of fighting boosted agriculture and growth in the Democratic Republic of the Congo, while Kenya recorded broad-based growth involving most economic sectors. The three worst-performing countries in the region continue to suffer from the same factors that constrained growth in previous years: civil conflict in Somalia (-3.5 per cent), political instability and excessive economic controls by the central Government in Eritrea (2.0 per cent growth) and low vanilla export prices and tourism receipts in the Comoros (1.0 per cent). Despite progress, East Africa's growth remains constrained by inadequate infrastructure, especially roads and power supply, which raises production costs and undermines international competitiveness.

15. With increasing oil production, Angola continued to lead Southern Africa in terms of real GDP growth (21.0 per cent in 2007). The factors driving growth in other countries of the region include the improved performance of the agricultural, mining and tourism sectors and expansion in manufacturing and construction. Malawi sustained high growth, recording a rate of 8.5 per cent in 2007, owing to continuing agricultural recovery, while macroeconomic stability and continued donor support assisted Mozambique in maintaining high growth (7.5 per cent in 2007). Economic performance in South Africa remains robust (4.8 per cent), thanks to expansion in construction and mining and increased investment in the corporate sector. Zimbabwe and Swaziland continue to be the worst-performing countries in Southern Africa owing to political instability in Zimbabwe and the impact of drought and the decline of production in the textile industry in Swaziland.

16. As in previous years, North Africa's growth remained high (5.9 per cent in 2007) with increased oil and gas production and high oil prices. Additional growth factors include increased FDI flows (to the Sudan for example) and increased public investment (Algeria and the Libyan Arab Jamahiriya). The Sudan recorded the highest growth rate (11.0 per cent) in 2007 followed by Egypt (7.0 per cent) and Tunisia (6.0 per cent). Economic reforms that stimulated domestic investment and a rebounding tourism sector underpinned growth in Egypt, while growth in Tunisia benefited from expansion in industry and the services sectors, which contributed to faster economic diversification. The real GDP growth rate declined sharply in Morocco (from 7.9 per cent in 2006 to 3.0 per cent in 2007) owing to adverse weather conditions and a decline in agricultural output and in Mauritania (from 11.4 per cent in 2006 to 1.0 per cent in 2007) because of a contraction in oil production caused by technical problems at the Chinguetti field.

17. Accelerated growth in Senegal and Guinea-Bissau in 2007 relative to 2006 and sustained recovery in Liberia and Sierra Leone underpinned the rise in GDP growth in West Africa this year (5.1 per cent, up from 4.6 per cent in 2006). The region as a whole benefited from good rainfall and strong agricultural performance as well as high commodity prices, despite the negative effect of energy cost on oil-importing countries. Côte d'Ivoire and Guinea had the lowest growth rates in the region in 2007, at 2.0 per cent and 1.5 per cent, respectively. Political instability, depleted infrastructure and weak economic institutions adversely affected investment and production in Côte d'Ivoire, especially in the cocoa and petroleum sectors. Growth in Guinea remains weak due to poor performance of agriculture, weak infrastructure and the burden of high oil prices, in addition to political instability.

18. Although still lagging behind other regions, real GDP growth in Central Africa jumped from 2.0 per cent in 2006 to 4.5 per cent in 2007. Increased oil and gas production and revenue stimulated non-oil activity and pushed growth to 10.0 per cent in Equatorial Guinea and 4.9 per cent in Gabon in 2007. However, owing to lower oil production, growth decelerated from 6.1 per cent in 2006 to 4.0 per cent in 2007 in the Congo and from 0.5 per cent to -0.5 per cent in Chad. This underscores the need for these countries to diversify their economies away from the resource sector to accelerate and sustain growth.

19. The expansion of oil-related services and a continued construction and tourism boom underpinned strong economic performance in Sao Tome and Principe (6.5 per cent), while a weak business environment inhibited growth in Cameroon. Political instability continued to discourage investment and constrain the provision of

essential public services in the Central African Republic. Achieving high and sustained growth in Central Africa will require substantial investment in infrastructure to induce private sector activity and economic diversification, in addition to measures to address security problems.

III. Widening macroeconomic imbalances in resource-poor African countries

A. Fiscal sustainability remains a challenge for oil-importing countries

20. On average, Africa maintained an overall budget surplus, though slightly lower in 2007 (2.4 per cent of GDP) compared to 2006 (2.8 per cent). Only 15 of the 42 African countries with available data had a budget surplus in 2007. While over 60 per cent of oil-exporting countries had fiscal surpluses, 76 per cent of oil importers had deficits. Indeed, high oil prices put pressure on the fiscal balances of oil-importing African economies, with 93 per cent of them having a deficit over the period 1998-2007 (table 1).

Table 1
Distribution of fiscal deficits in Africa by resource group, 1998-2007 (number of countries)

	Oil-producing countries	*Non-oil-producing countries*	*Mineral-rich countries*	*Non-mineral-rich countries*
Countries with surpluses	7	2	1	1
Less than 5 per cent	2	2	1	1
5 per cent to 10 per cent	3	0	0	0
More than 10 per cent	2	0	0	0
Countries with deficits	6	27	9	18
Less than 5 per cent	5	18	6	12
5 per cent to 10 per cent	1	7	2	5
More than 10 per cent	0	2	1	1
Total number of countries	**13**	**29**	**10**	**19**

Source: Economist Intelligence Unit, October 2007.
Notes: Owing to data limitations only 42 countries are covered. The 11 excluded countries are Central African Republic, Comoros, the Democratic Republic of the Congo, Djibouti, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Sierra Leone and Somalia.

21. In 2007, all of the 10 highest-surplus African countries are oil-rich, mineral-rich or both. The countries with the largest budget deficits are mostly countries that are exposed to recurrent internal shocks (e.g. rainfall irregularities and political conflicts) and external shocks (e.g. agricultural commodity markets). These countries (including Eritrea, Ghana, Guinea, Malawi, Sao Tome and Principe and

Zimbabwe) lack adequate economic diversification to absorb the impact of shocks on their fiscal performance.

22. It is worth noting that although most oil-importing African countries had to live with budget deficits over the last decade, the average deficit has been small relative to GDP owing to cautious fiscal policy. Fiscal management involved removal or reduction of fuel subsidies, wide-scale privatization of public enterprises and rationalization of government oil consumption. At the same time, many countries were able to increase tax revenue thanks to GDP growth and tax reforms, including the introduction of a value added tax and other strategies that enhance efficiency in tax administration. However, tight fiscal policy often meant less spending on basic public services and slow progress towards achieving the Millennium Development Goals. Most African countries allocate only 3 to 4 per cent of GDP to health and education and fall short of the benchmark of 20 per cent of government budget earmarked for education and 15 per cent for health (World Bank/IMF, 2005; Economic Commission for Africa, 2007a). In some countries, budget cuts also target capital expenditure, resulting in slower growth of public infrastructure and poor maintenance of existing infrastructure. This in turn undermines private investment and productive capacity utilization.

23. Maintaining fiscal stability in the face of high oil prices remains a major concern for many Governments that rely heavily on donor support (Economic Commission for Africa, 2007b). It is important that donors and the international development community at large scale up financial support, preferably through grants and debt relief, to enable oil-importing African countries to maintain fiscal stability. Recent increases in aid flows to Africa were largely due to the debt relief delivered to a select group of countries, while FDI inflows were concentrated in resource-rich countries. Therefore, donors have the responsibility not just to live up to their commitments to increase the quantity of aid but also to improve its quality.

B. Inflationary pressure is intensifying in many African countries

24. Inflation remains moderate for Africa as a whole (6.3 per cent in 2007), but inflationary pressure is intensifying, especially in oil-importing African countries, owing to high oil prices. About 60 per cent of African countries recorded inflation rates of 5 per cent or above in 2007, up from 52 per cent in 2006 (table 2). The respective percentages for oil-exporting and oil-importing economies are 54 and 65 per cent in 2007. Whereas high oil prices raise production costs for oil-importing countries, causing prices to increase, increased oil revenues fuel domestic demand and cause prices to rise in oil-exporting countries, for example Angola (12.6 per cent) and Sudan (9.0 per cent). Because of their stronger impact on the price of basic consumer goods, high inflation rates in countries like Zimbabwe (6,840 per cent), Guinea (24 per cent) and Eritrea (23.5 per cent) are a major concern for the poor who lack adequate safety nets.

25. At the same time, Governments rely on tighter fiscal and monetary policies, beside currency appreciation, to avoid acceleration of inflation at the cost of lower growth. The potential adverse growth impact of these policies makes macroeconomic management increasingly difficult and costly for oil-importing countries.

Table 2
Distribution of inflation rates in Africa by resource group 2007 (number of countries)

Range	*Africa*	*Oil-producing countries*	*Non-oil-producing countries*	*Mineral-rich countries*	*Non-mineral-rich countries*
Less than 5 per cent	21	7	14	3	18
Between 5 and 10 per cent (10 per cent excluded)	20	5	15	8	12
Between 10 and 20 per cent (20 per cent excluded)	9	1	8	3	6
20 per cent and higher	3	0	3	2	1
Total number of countries	**53**	**13**	**40**	**16**	**37**

Source: Department of Economic and Social Affairs, October 2007a.

26. Oil-exporting countries need appropriate policies to avoid economic overheating. For example, they should direct a sizeable proportion of oil revenues to finance real domestic investment. This will help them to build productive capacity instead of direct increases in government and private consumption that create excess demand when the economy does not have the capacity to respond. They must also consider saving an appropriate part of the revenues for stabilization purposes and for the benefit of future generations.

IV. External balances also a concern for oil-importing African countries

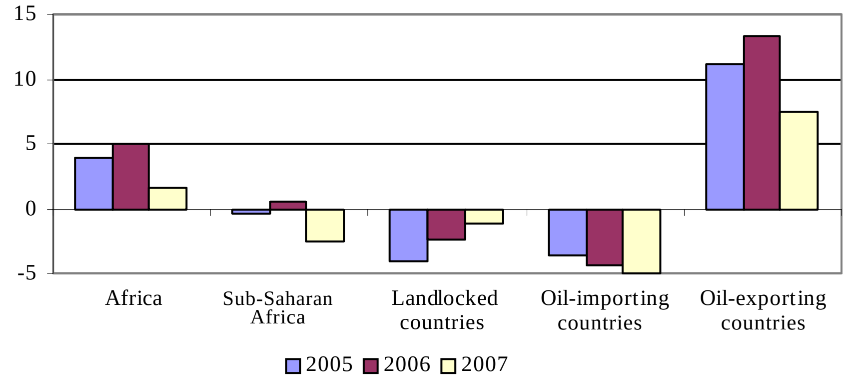
A. Developments in the balance of payments

27. Africa's current account surplus declined from 5.0 per cent of GDP in 2006 to 1.7 per cent in 2007 (figure 4). This decline was the result of widening current account deficits in oil-importing countries (from -4.4 per cent of GDP in 2006 to -5.0 per cent in 2007). At the same time, oil-exporting countries continued to enjoy a high current account surplus (7.5 per cent in 2007). This means that, in absolute terms, the trade surpluses of oil exporters outweigh the trade deficits of oil importers. Due to high transportation costs and weak international competitiveness, landlocked African countries tend to have larger current account deficits than other African countries. However, these deficits have declined in 2007 thanks to increased aid flows, mostly in the form of debt relief.

28. Current account sustainability in oil-importing African countries is a challenge that poses risks to macroeconomic stability and growth prospects, especially for landlocked economies. Rationalizing oil consumption and developing alternative sources of energy such as hydropower is one way that oil-importing African countries can reduce their import bill. In the short term, oil-importing countries need external support to meet their expenditure needs while minimizing macroeconomic instability. Medium- to long-term strategies must focus on increasing investment in

infrastructure, building productive capacity, diversifying exports and promoting international competitiveness.

Figure 4
Current account balance in Africa by category, 2005-2007
(percentage of gross domestic product)



Source: International Monetary Fund, World Economic Outlook Database, October 2007.
Note: Excludes Somalia owing to lack of data.

B. Currency appreciation threatens international competitiveness

29. In line with the Euro, the CFA franc appreciated substantially against the United States dollar in nominal terms. As a result, exports of the franc zone are losing competitiveness outside the Euro area. Most other African currencies have also continued to appreciate against the United States dollar in 2007. Since the bulk of African exports are valued in United States dollars and export prices have remained fairly stable, currency appreciation, in addition to discouraging imports from Africa, implies a decline in the profitability of African export-oriented activities. It makes imports cheaper in domestic markets and discourages exports, putting pressure on the current account balance. This has been the case in most commodity-rich countries, with negative effects on economic diversification and job creation.

30. On the basis of the real effective exchange rate, 23 of the 36 African countries with available data experienced currency appreciation between 2002 and 2007.[2] However, only three countries recorded more than a 10 per cent average annual currency appreciation rate, and none of the countries considered experienced a real effective exchange rate depreciation of more than 10 per cent per annum. Zimbabwe, Angola, Zambia, the Sudan and South Africa were the five African countries with the highest appreciation rates in 2002-2007, whereas the Seychelles, Malawi, the United Republic of Tanzania, Madagascar and the Libyan Arab

[2] The real effective exchange rate index is defined as [Pd/Pf*NER], where Pd is the domestic price level, Pf is the foreign (United States) price level and NER is the official exchange rate expressed in terms of the domestic currency price of the United States dollar (period average). Thus, the real effective exchange rate represents the quantity of foreign goods that can be purchased with one unit of domestic goods.

Jamahiriya were the five countries with the highest depreciation rates. Increasing domestic price levels have been the main source of real effective exchange rate appreciation in countries such as Zimbabwe where the nominal exchange rate depreciated substantially.[3] Conversely, in other countries such as the Libyan Arab Jamahiriya, the real effective exchange rate depreciated despite nominal appreciation. The Libyan Arab Jamahiriya maintained a low domestic price level relative to foreign price levels and experienced deflation between 2000 and 2004.

31. Real effective exchange rate appreciation in some African countries resulted from scaled-up expenditures, aid and other capital inflows, remittances and high earnings from tourism in addition to income from commodity exports. Seventy per cent of oil-exporting countries experienced real effective exchange rate appreciation. To address possible "Dutch disease" problems, commodity-rich countries in particular need to closely coordinate monetary and fiscal policies, increase productivity and strengthen the supply side of their economies by using the export earnings to finance public infrastructure, which will promote private sector development (IMF, 2007b).

32. The issue of management of oil revenue is critical in view of the fact that most resource-rich countries are accumulating large amounts of foreign exchange reserves, resulting from current account surpluses as well as FDI and official development assistance (ODA) inflows.[4] On average, foreign exchange reserves exceeded 29 per cent of Africa's GDP over 2006-2007. Most African countries maintained adequate reserves; only 6 of the 48 countries with available data had a reserve to short-term debt ratio of less than 1 in 1998-2005. The build-up of reserves may generate excess liquidity and require sterilization measures to avoid inflationary pressures or overheating. Close coordination of fiscal and monetary policy is therefore essential for Governments to manage reserves effectively and avoid disruptive volatility in exchange rates, inflation and output growth (Department of Economic and Social Affairs, 2007b).

C. Africa needs to reduce external debt and increase non-debt-generating resources

33. The analysis of the level and quality of Africa's growth and financing constraints points to the strong need for the continent to reduce external debt and mobilize more domestic and external resources. Despite debt relief initiatives, Africa's external debt remained high and unchanged at $255 billion in 2006 and 2007. Long-term debt accounted for about 94 per cent of the total debt in 2007. However, while official debt declined considerably with the debt relief initiative, from $205.7 billion in 1999 to $144.5 billion in 2007, the debt owed to banks and other private creditors rose from $92.4 billion in 1999 to $110.2 billion in 2007.

34. Improved economic performance in Africa over the last five years has been associated with notable increases in domestic savings and investment rates. For Africa as a whole, savings rose from 19 per cent of GDP in 1998-2001 to 22 per

[3] The Zimbabwean dollar, for example, depreciated from 162 to the United States dollar in 2006 to 250 in 2007.

[4] Ranking countries according to holdings of foreign exchange reserves as a ratio of GDP shows that high reserves originate mainly from commodity revenues and private capital flows and that none of the top 10 high-reserve countries is a high aid-recipient country.

cent in 2002-2005 and 26 per cent in 2007, while domestic investment increased from 19.7 per cent to 20.1 per cent and 22.1 per cent over the same period.

35. Nevertheless, domestic resource mobilization remains insufficient for Africa to finance the investment needed for achieving the Millennium Development Goals and African countries will continue to rely on external capital of inflows (mainly ODA, FDI and remittances) to fill the resource gap in the near future (Economic Commission for Africa, 2008). While FDI inflows go mainly to resource-rich countries to finance investment in extractive industry, more ODA flows are directed to non-oil economies (table 3). Workers remittances are almost of the same magnitude as FDI. The international community is urged to live up to its commitments to scale up aid to Africa under various initiatives such as the Multilateral Debt Relief Initiative. In the meantime African Governments should ensure that external assistance is used to build productive capacity and deliver public services so as to reduce poverty and accelerate progress towards meeting the Millennium Development Goals.

Table 3

External flows, domestic savings and investments, 1998-2005[a] (average)

Indicator	*Oil economies*	*Non-oil economies*	*Africa excluding North Africa*	*Africa*
ODA and official aid (billions of United States dollars)	6.9	16.0	19.4	22.9
FDI, net inflows (billions of United States dollars)[b]	11.1	5.5	9.2	16.7
Workers' remittances and compensation of employees, received (billions of United States dollars)[c]	8.4	6.0	4.7	14.4
Gross domestic investments (percentage of GDP)[d]	22.2	19.1	18.8	20.6
Gross domestic savings (percentage of GDP)[e]	26.7	15.6	19.2	20.9
External debt (percentage of GDP)[f]	53.2	45.7	51.0	49.3
External debt (percentage of total exports)[g]	150.2	162.5	153.8	155.8

Sources: World Development Indicators, 2007; IMF World Economic Outlook database, October 2007; OECD online database, October 2007 and February 2008.

[a] For FDI and ODA the data are for 1998-2006. The remaining indicators are for 1998-2005.

[b] Libyan Arab Jamahiriya and Namibia have been excluded owing to lack of data.

[c] Angola, Central African Republic, Chad, the Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Liberia, Seychelles, Somalia, Zambia and Zimbabwe have been excluded owing to lack of data.

[d] Central African Republic, Equatorial Guinea, Liberia, Libyan Arab Jamahiriya and Somalia have been excluded owing to lack of data.

[e] Central African Republic, Equatorial Guinea, Liberia, Libyan Arab Jamahiriya and Somalia have been excluded owing to lack of data.

[f] Libyan Arab Jamahiriya, Namibia and Somalia have been excluded owing to lack of data.

[g] Equatorial Guinea, Libyan Arab Jamahiriya, Namibia and Somalia have been excluded owing to lack of data.

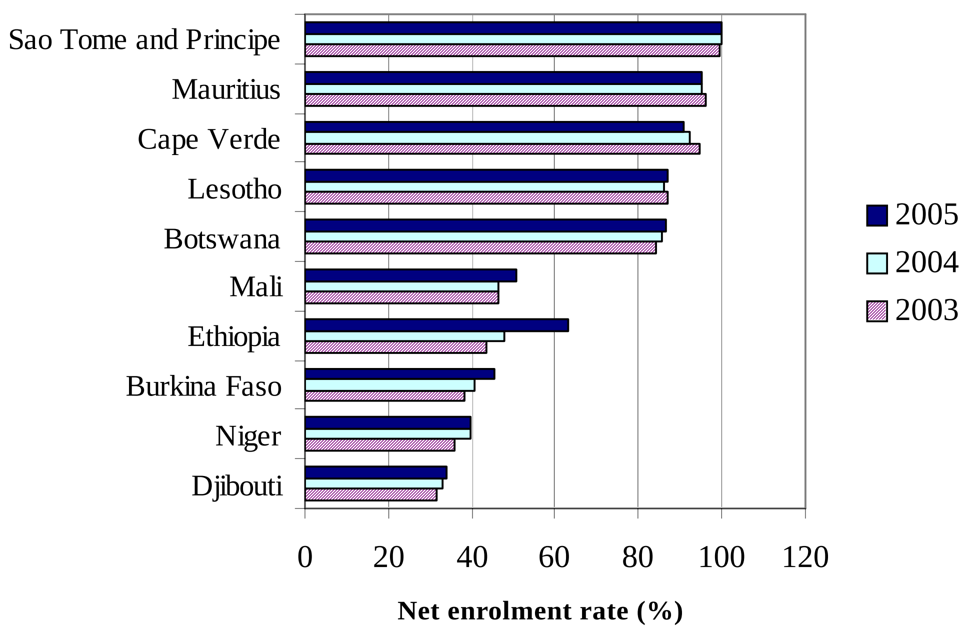
V. Trends in social development in Africa

36. In the context of slow social development despite relatively high growth on the continent, this section reports on a range of key social conditions in Africa in 2007. The discussion is based on the most recent data available and focuses on education, health, youth unemployment, gender equality and ageing.

A. Education[5]

37. Education systems are important for expanding people's choices and enabling people to live healthier and longer lives. In this respect, it is encouraging that the average net primary enrolment rate in Africa, excluding North Africa, increased from 64 per cent in 2004 to 70 per cent in 2005. This trend indicates a more optimistic scenario for progress towards achieving universal primary education (Millennium Development Goal 2) (figure 5). A reflection of the increased primary school enrolment is the commensurate decrease in the number of out-of-school children, which fell from 43 million in 1999 to 30 million in 2005.

Figure 5
Progress in net primary school enrolment rates for selected African countries, 2003-2005



Source: United Nations Statistics Division.

[5] For education data, see the UNESCO Institute of Statistics online database, www.uis.unesco.org.

38. As a consequence of improved access to primary education, basic literacy rates among youth in Africa rose from an average of 64.8 per cent over the period 1985-1994 to 72.5 per cent over the period 1995-2005. Compared to other regions, the rise is more impressive in North Africa where the literacy rate increased from 66.7 to 84.3 per cent. It is even more encouraging that the largest gains are being witnessed among young females, closing the gender disparity in literacy. Young female literacy rates in Africa have increased from 58.0 to 66.9 per cent in comparison to a smaller increase (from 72.0 to 78.4 per cent) for young men. Again, the strongest gains are being achieved in North Africa where young female literacy rates have increased by over 20 percentage points from 1985-1994 to 1995-2005.

39. The significant increase in primary school enrolments in Africa, particularly in regions other than North Africa, is an important step, but completing the cycle of basic schooling remains a major challenge. In fact, only 60 per cent of children in Africa, excluding North Africa, complete the full cycle of primary education. Generally, children leave school for a variety of reasons including costs, income foregone, care activities within households (particularly for girls) and the poor quality of education. With respect to the last reason, high pupil-teacher ratios, resulting in large class sizes, seriously affect the quality of teaching and learning in many African countries.

40. Access to higher levels of education continues to be inadequate in Africa, particularly in regions other than North Africa. The gross enrolment rate in secondary education in these regions increased from only 25 per cent in 2000 to 32 per cent in 2005. A similar picture is evident in the tertiary gross enrolment rate for these regions, which lags behind other regions by a considerable margin and remains at around 5 per cent (as of 2005). In comparison, North Africa has significantly increased enrolment in secondary and tertiary education. For example, countries like Algeria and Morocco have increased secondary gross enrolment ratios from 75 to 83 per cent and from 41 to 49 per cent, respectively, between 2002 and 2005. Over the same period, the gross tertiary enrolment ratio in Tunisia increased from 23 to 30 per cent.

B. Health

41. Compared to countries in other parts of the world, African countries are characterized by poor health as evidenced by indicators on HIV/AIDS, tuberculosis and malaria and infant, child and maternal mortality. All regions except North Africa continue to be severely affected by HIV/AIDS. About 68 per cent of the 33.2 million people living with HIV/AIDS globally are in Africa outside of North Africa, though the adult HIV prevalence rate varies from less than 2 per cent in some countries of the Sahel to above 15 per cent in many of the countries of Southern Africa (UNAIDS, 2007). Although the adult HIV prevalence rate in Africa, excluding North Africa, has declined slightly from 5.8 per cent in 2001 to 5.0 per cent in 2007, HIV/AIDS remains the leading cause of adult morbidity and mortality on the continent (UNAIDS, 2007).

42. The proportion of women infected by HIV is high and increasing. In fact, women now constitute 61 per cent of infected people in Africa outside of North Africa. Young people, particularly young women, are more vulnerable to acquiring HIV than prime-age adults. About 4.3 per cent of young women aged 15-24 in

Africa, excluding North Africa, have the HIV virus compared to 1.5 per cent of young men (UNAIDS, 2006). The vulnerability of African women and girls to HIV infection is mostly linked to underlying gender inequalities, societal norms and discrimination, in addition to physiological reasons.

43. After HIV/AIDS, tuberculosis and malaria are the leading infectious diseases that cause morbidity and mortality on the continent. In this regard, while the situation is deteriorating in other regions, it is improving in North Africa (table 4).

Table 4
Trends in tuberculosis incidence, prevalence and deaths in Africa

	North Africa			*Africa excluding North Africa*		
	1990	*2000*	*2005*	*1990*	*2000*	*2005*
Incidence: number of new cases per 100,000 population (excluding HIV-infected)	54	50	44	148	253	281
Prevalence: number of existing cases per 100,000 population (excluding HIV-infected)	59	53	44	331	482	490
Deaths: number of deaths per 100,000 population (excluding HIV-infected)	5	4	3	37	54	55

Source: United Nations Statistics Division.

44. Malaria is the leading cause of child mortality in Africa and of anaemia in pregnant women. Although the use of insecticide-treated bednets by children under 5 in malaria-prone areas is reported to have improved from 2.1 per cent in 2001 to 5 per cent in 2005, the scale of the need is still large (WHO, 2006).

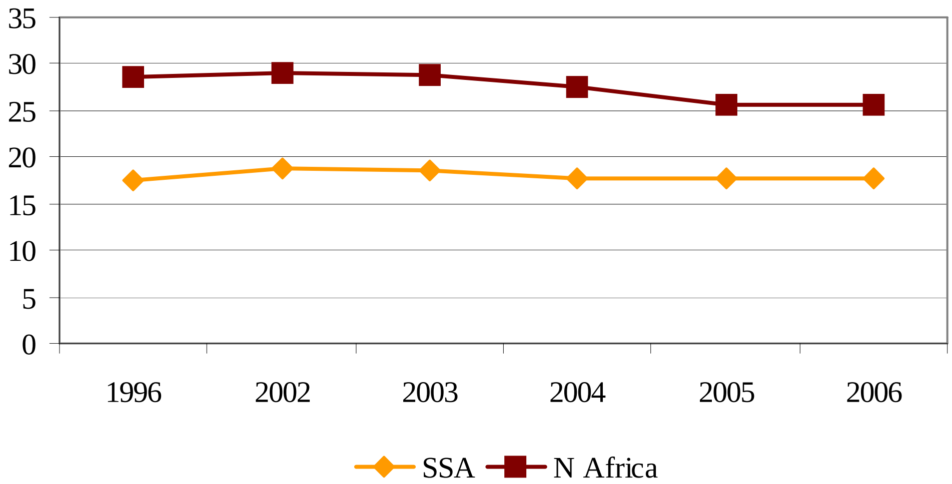
45. While Africa as a whole has made progress in improving infant and child mortality rates since 1990, there has been wide variation across the continent. Some countries especially in North Africa have achieved much more progress in tackling infant and child mortality than countries in other regions. Similarly, maternal mortality continues to be a major health challenge in all regions except North Africa, having only fallen from 920 deaths per 100,000 live births in 1990 to 900 in 2005. The mortality ratio for North Africa has decreased more substantially over the same period, from 250 to 160 deaths per 100,000 live births (WHO, 2007).

C. Africa's youth continue to face many challenges in the labour market

46. Most African youth entering the labour market continue to face bleak prospects, ending up unemployed, underemployed or stuck in poorly paid jobs in the informal economy. The youth unemployment rate remains at 18 per cent on average in the continent, excluding North Africa (ILO, 2006). In contrast, the unemployment rate in North Africa has been declining slightly, from 28.6 per cent in 1996 to 25.7 per cent in 2006 (figure 6). On the gender dimension, though young females in regions other than North Africa have lower unemployment rates than young males,

this does not imply that they have better access to the labour market. Rather, these young women do not have the opportunity to actively search for a formal job and hence have to take up employment in the informal sector, or remain outside the labour force. In North Africa, even more young women stay out of the job market for cultural reasons.

Figure 6
Youth unemployment rates in Africa



Source: ILO, Key Indicators of the Labour Market, version 5 (CD-ROM).

47. While the measured rate of unemployment does provide a partial insight into the difficulties African youth experience in finding a job, it does not reveal the full story, particularly in terms of access to decent employment. In this regard, the International Labour Organization (ILO) estimates that there were approximately 45 million youth in Africa, excluding North Africa, who were working in 2005 but nonetheless living below the poverty line of 1 United States dollar per day (ILO, 2006). The working poverty rate for youth in regions other than North Africa has only declined marginally over the last decade, from 59.0 per cent in 1995 to 57.7 per cent in 2005. In comparison, the average youth working poverty rate in North Africa has been below 4 per cent over the same period.

D. Gender equality

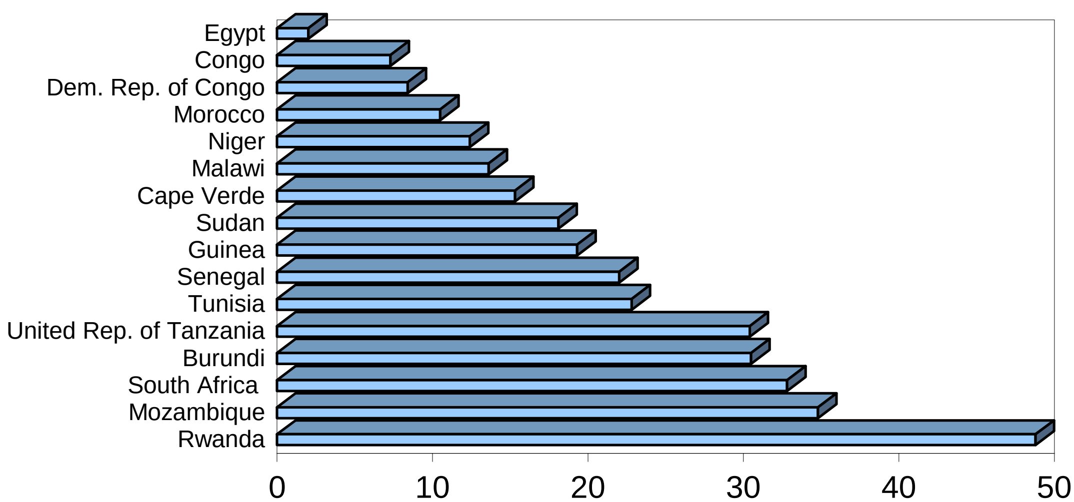
48. Efforts to promote gender equality, equity and women's empowerment in Africa have gained momentum on several fronts over recent years. For example, 51 African countries have ratified the Convention on the Elimination of All Forms of Discrimination Against Women and 17 have signed the Optional Protocol. Many countries have aligned their national legislation to the provisions of the Convention. Moreover, between 1995 and 2005, 48 African countries prepared national plans of action for poverty reduction that included strategies for increasing gender equity. Some African countries also have strategies for supporting women's entrepreneurship through micro-credit schemes and capacity-building in enterprise management.

Women's participation in governance

49. Although many countries have significantly increased the level of women's representation in parliament, gender equality and equity principles are not yet fully integrated into democratization processes, and women continue to be underrepresented in most structures of power and decision-making.

50. The number of women parliamentarians is still low on average (figure 7). The continental average for Africa stands at 15.5 per cent (10.6 per cent for North Africa and 17.1 per cent for other regions), which means that many countries still lag behind the 30 per cent landmark committed to in Beijing. Only five African countries have reached the target of 30 per cent or more women's representation in parliament (Rwanda, Mozambique, South Africa, Burundi and the United Republic of Tanzania), with Rwanda reaching the record level of 48.8 per cent, even surpassing the Scandinavian average of 40 per cent women representatives in parliament.

Figure 7
Percentage of women in national parliaments (lower or single house) for selected African countries as of 30 November 2007



Source: Inter-Parliamentary Union.

E. The elderly

51. Contrary to commonly held perceptions, the number of older persons (those aged 60 or more) in Africa is large and growing very rapidly. It is estimated that the population of older persons reached 50.5 million in 2007, representing over 5 per cent of the population. Moreover, the number of older persons in Africa will grow at an annual rate of 3.1 per cent between 2007 and 2015, and 3.3 per cent between 2015 and 2050, which is faster than the growth rate of the general population.

Consequently, by 2050, it is projected that the number of older persons will exceed 206 million and account for around 10.4 per cent of the population.[6]

52. North Africa and Southern Africa are the most rapidly ageing regions in the continent. In 2007 older people made up 7 per cent and 6.9 per cent of the population of these two regions, respectively. Projections indicate that the proportion of older people in North Africa will increase rapidly to 8.2 per cent by 2015. Southern Africa is also projected to experience a relatively rapid increase but at a slower rate. By 2015 older people will represent between 4.3 per cent and 5.1 per cent of the total population in Eastern Africa, Central Africa and West Africa.

53. The rapidly growing number of older persons in African countries poses an important challenge given the lack of adequate formal institutional support systems for the elderly. This adds pressure on family resources as the aged are cared for in the context of the extended family. The rise in the dependency ratio implied by the rapid increase of the number of older persons will reduce the gains to be derived from growth and public expenditure increases in terms of living standards in general and poverty reduction in particular.

VI. Prospects for 2008: a brighter outlook despite risks

54. Despite risks, Africa’s medium-term outlook remains positive. Real economic growth in Africa is projected to slightly improve to 6.2 per cent in 2008 compared with 5.8 per cent in 2007 (figure 8). East Africa is expected to continue to lead the five regions with a growth rate of 6.6 per cent, followed by West Africa (6.4 per cent), Southern Africa (6.3 per cent), North Africa (6.1 per cent) and Central Africa (5.4 per cent). West Africa is projected to have the largest increase in GDP growth, owing to increased oil production and solid growth in Nigeria. However, it is worth noting that failure to manage post-election violence in Kenya could have adverse effects on growth in East Africa in 2008.

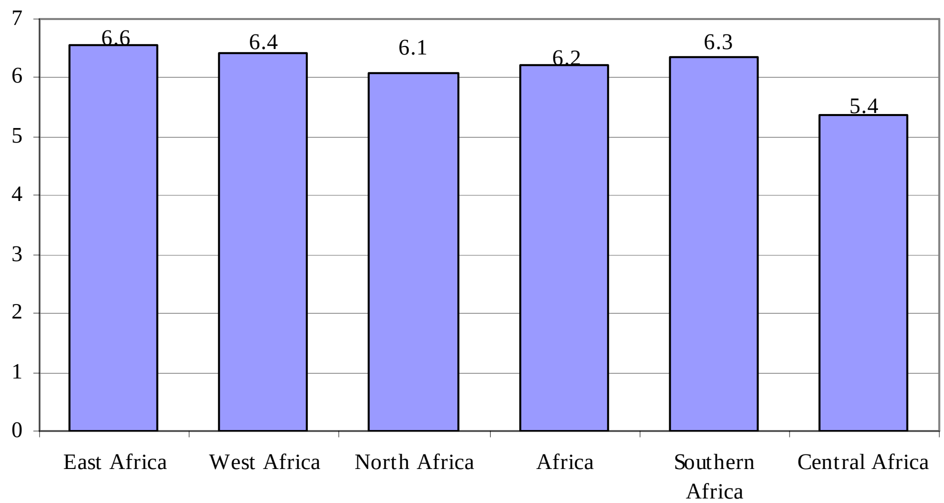
55. The realization of Africa’s projected growth rate will be influenced by the extent to which the slowdown in the United States economy will affect the global economy. It is assumed that robust demand and high prices for Africa’s commodity exports will continue with high growth in Asia and in the absence of a significant drop in growth in Europe. Continued effective macroeconomic management, improving governance and a more favourable security situation are other factors that contribute to this positive outlook, though many parts of Africa still suffer from conflicts and insecurity.

56. On the downside, there are many risks to Africa’s growth over the medium term. Any substantial slowdown or adverse adjustments in the global economy might cause demand for Africa’s exports to contract. A fall in demand and prices will have negative effects on Africa’s growth outlook. Fluctuations in oil prices will have adverse growth impacts on oil-importing countries. The continent also needs to manage risks to growth prospects emanating from unpredictable fluctuations in external capital, especially aid, and currency appreciation that can adversely affect international competitiveness. Unpredictable weather changes and conflicts are additional factors that can influence Africa’s growth prospects in 2008.

[6] See Population Division of the Department of Economic and Social Affairs, *World Population Prospects: The 2006 Revision*, http://esa.un.org/unpp.

57. Over the medium to long term Africa needs to diversify the sources of growth in order to reduce vulnerability to shocks, create decent jobs and accelerate progress towards meeting the Millennium Development Goals. It is also crucial that Africa introduce effective strategies to combat epidemics such as HIV/AIDS and malaria and to mitigate their economic and social impact.

Figure 8
Projected growth of real gross domestic product by region for 2008 (percentage)



Source: Department of Economic and Social Affairs, October 2007.

VII. Conclusion: key economic and social issues in Africa

58. The above discussion of recent economic and social developments in Africa highlights a number of important issues that deserve the urgent attention of policymakers and the development community at large.

A. Accelerating and sustaining growth

59. The analysis shows that African countries have recorded strong economic performance for the third consecutive year, with an average growth rate of 5.8 per cent. The strong performance is due to a range of factors, including high commodity demand and prices and increased output in key sectors such as agriculture and services. But growth in Africa remains volatile due to limited economic diversification and investment in social sectors remains low relative to Africa’s social development goals. Among other policy measures, Africa needs to increase investment in infrastructure and human capital development and promote private investment in order to diversify sources of growth and achieve high and stable growth rates.

B. Maximizing benefits and confronting the challenges of high oil prices

60. Persistent high oil prices will remain an important challenge to growth and macroeconomic stability in the medium term. Increased energy cost is constraining investment and growth in many oil-importing African countries that are also confronted with other challenges to macroeconomic stability, including intensifying inflationary pressures and increasing fiscal and current account deficits. In addition to good macroeconomic management, oil-importing countries will need increased external support to maintain growth and reduce growth volatility. Oil-exporting countries need to manage oil revenues to ensure diversification of the sources of growth and export base and avoid excessive currency appreciation and build up of reserves.

C. Translating development financing commitments into action

61. The evidence on the translation of donor commitments into action in the context of the Monterrey Consensus suggests that substantial progress has been made in the area of external debt relief. In contrast, very limited progress has been made in the other core areas of the Consensus. Monitoring of the commitments made by both African countries and their development partners is essential if the objectives of the Monterrey Consensus are to be realized. African leaders have recognized this and put in place a mechanism to monitor progress in the implementation of their commitments as well as those of their development partners. The recent institutionalization of an African Ministerial Conference on Financing for Development is a bold step by African leaders in this area. It is worth mentioning that at its session, held in Addis Ababa, in January 2008, the Assembly of Heads of State and Government of the African Union decided to request African countries to participate fully in the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus, to be held in Doha from 29 November to 2 December 2008.

62. The international community has also put in place mechanisms to monitor donor performance. The African Partnership Forum and Africa will both monitor progress in the implementation of key commitments on development finance. Ultimately, the effectiveness of these monitoring mechanisms will be assessed in terms of how they are able to turn promises made by development partners into deeds. For it is only through the implementation of these commitments that African countries can achieve meaningful results in poverty reduction and lay the foundation for a brighter future for their people.

D. Translating economic growth into social development

63. Strong economic performance in Africa in recent years has not translated into meaningful gains in terms of social development. African Governments need not only to increase investments in social sectors, especially education and health, but also to improve the efficiency of social sector expenditures. At the same time, there is a need to increase the gains from growth by better targeting employment creation

through broader and more flexible macroeconomic frameworks and sectoral policies.

E. Policies in favour of socially excluded groups

64. African Governments and partners need to establish strategies to ensure that economic growth benefits socially excluded groups, including women, youth, the aged and people living with HIV/AIDS. Besides increasing public investment in social services that target these groups, African Governments need to consider policies that promote their access to education, training and health facilities, their participation in the labour market and their human rights in general. At the same time, development partners need to use their assistance programmes to support these objectives. In the longer term, a more inclusive society will help countries to remain politically and socially stable and enhance their growth potential.

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