



## Executive summary

The *African Economic Outlook 2014* announces steadily progressing economic and social conditions that bide well for the immediate future. The report analyses Africa's participation in global value chains and shows how the continent is adapting to today's dynamically changing markets.

Africa's **macroeconomic prospects** remain favourable. In 2013, Africa maintained an average growth rate of about 4%. This compares to 3% for the global economy and underscores again the continent's resilience to global and regional headwinds. However, growth performance varied widely across country classifications and regions. Growth in sub-Saharan Africa was 5% in 2013 and is projected to be 5.8% in 2014. Excluding South Africa, the figures are 6.1% and 6.8%, respectively. East and West Africa recorded the fastest growth in 2013, above 6%. It is projected that growth for the continent as a whole could return in 2015 to 5%-6%, a level last seen before the onset of the 2009 global recession. With stabilising energy costs and retreating food prices, the continent's inflation rate decelerated in 2013. Nonetheless, in some countries inflation remained relatively high, due to a weakening of currencies. Monetary policy has eased in many countries in response to lower inflation. However, in some countries where currencies have weakened monetary policy has tightened to stem inflationary pressures. Fiscal policy stances also differed between countries. While many countries pursued prudent fiscal policies in order to reduce budget deficits, in others, fiscal policy remained expansionary to boost growth. Current account deficits have remained elevated in oil-importing countries.

**External financial flows** and tax revenues continue to be an important contributor to Africa's development. If the current pace of growth is sustained, foreign direct investment and portfolio investment could soon constitute Africa's main source of financial flows. Foreign direct investment continues to primarily benefit resource-rich countries. However, overall, anaemic economic growth in advanced countries has continued to affect the flow of direct investment and remittances to Africa, with the share from OECD countries sharply reduced against rising contribution from non-OECD countries. Official development assistance (ODA) has continued to increase despite the reduced fiscal space in advanced countries. But its share in total inflows has significantly declined since 2000 as other financial inflows have increased more. Nonetheless, ODA remains the largest external financial flow to the continent's low-income countries. Tax revenues in Africa continue to increase, yet challenges for tax authorities remain. Tax revenues are a component of government revenues that grow as the country develops.

Africa's **trade** performance has improved in recent years. However, Africa's exports remained dominated by primary commodities, and the observed strong performance was fuelled by rising commodity prices. In particular, trade in agriculture goods and, trade in services have remained below their potential. Progress has been made towards **regional integration** with intra-African trade growing especially in the manufactures goods.

**Human development** conditions in Africa are improving overall. However, a number of countries continue to lag behind. Poverty is gradually decreasing, while education and health care are advancing. Regrettably, exclusion persists, resulting in unequal access to social and economic opportunities which undermines efforts to improve livelihoods and



interferes with human rights. Focusing on equitable economic and social transformation, gender equality, youth empowerment, and environmentally sustainable development can help to address people's vulnerability to economic, social and environmental risks.

Strengthening **political and economic governance in Africa** could significantly contribute to narrowing economic and social inequalities. Since 2010, Africa has witnessed an increasing number of free and fair elections, and the trend is expected to continue. About 600 million Africans are expected to elect their leaders in 2014-15. Despite a bumpy start, Tunisia appears poised to consolidate democratic gains with the enactment of the national constitution in early 2014. However, progress in other North African countries affected by the Arab Spring uprising has been slow. Relative peace in the Horn of Africa has been blighted by reports of civil conflict in South Sudan while the crisis in the Central Africa Republic risks deepening fragility of the region. Tackling these contradictions requires stellar resolve by emphasising deeper public sector reforms to improve the management of national resources, especially in resource-rich countries. Furthermore, there is need for scaling up policies to improve the business environment for accelerated private sector investment.

**This edition is devoted to a special theme on global value chains and Africa's industrialisation.** Production processes have become increasingly fragmented across the globe as companies seek out competitive locations for their various production tasks. In this new trade reality, developing countries are no longer obliged to create entire industries to participate in competitive markets. They can now access global value chains directly by providing specific skills or products to international production networks. This opens up new and quicker routes for development. Currently, Africa captures a small but growing share of trade in global value chains, with sectors integrating differently. Its share in global trade in value added grew from 1.4% in 1995 to 2.2% in 2011.

The challenge for African economies is to ensure that global value chains have a positive impact on socially inclusive development. Africa's participation in global value chains is currently limited to lower value activities although opportunities exist for upgrading to higher ones. African countries can further integrate into global value chains by opening to trade, targeting regional and emerging markets, modernising infrastructure, promoting local entrepreneurship, and investing in education. Global value chains require additional considerations: each value chain has unique requirements; policies may be suited for integrating into global value chains but not conducive to upgrading; and unnecessary tax incentive systems can result in a loss of revenue. Equitable economic and social transformations and environmental sustainability remain core concerns for Africa to maximise the gains that global value chains can offer.

**Country notes** present the findings and projections for each of Africa's 54 countries, and the **statistical annex** compares key indicators.



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