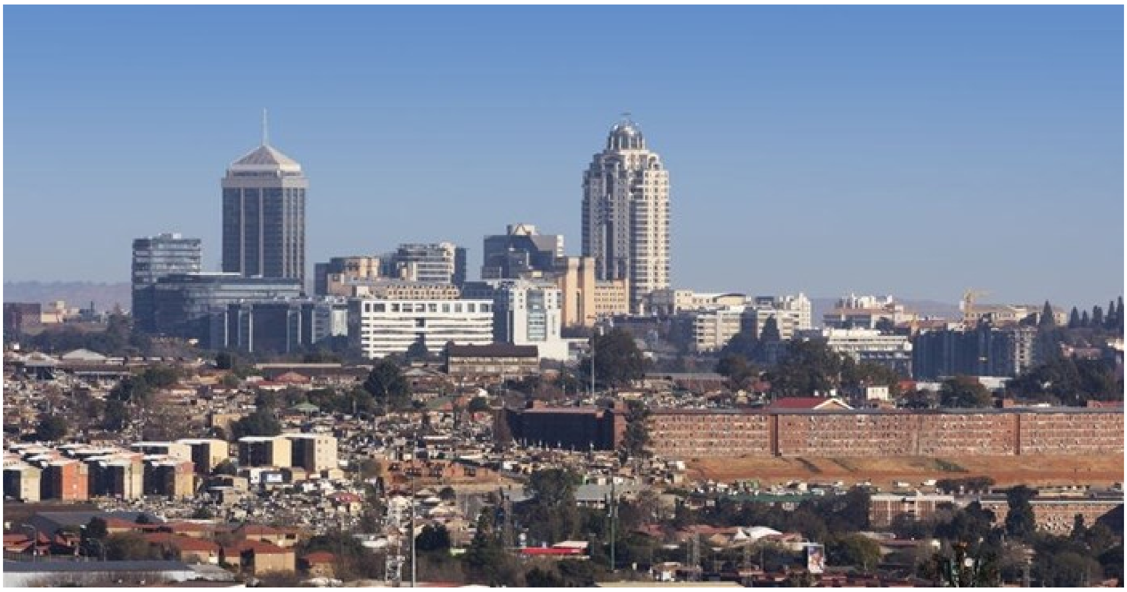
Africa's growth: Meltdown or slowdown?

Economic growth across Africa is likely to remain slower than it has been over the past 10 to 15 years, with the International Monetary Fund's (IMF) baseline projection for 2016 now down to 3%, from 6,1% in April 2015.



South Africa tops the list for investment opportunities in Africa. © Mark Atkins 123RF.com

Second fastest growth region

The main reasons for a relative slowdown are not unique to the continent and are the same as those weighing down the global economy: a general slowdown in emerging market economies, and in particular the rebalancing of China's economy; ongoing stagnation in most developed economies; lower commodity prices; and higher borrowing costs.

However, although growth has slowed, two-thirds of sub-Saharan African economies are still growing at rates above the global average, and will remain the second fastest-growing region in the world for the foreseeable future, after Emerging Asia.

Opportunities more uneven

This is further supported by the year-on-year increase in foreign direct investment (FDI) project numbers in Africa in 2015 when seen in the context of a global drop in the total number of FDI projects by 5%. In fact, Africa was one of only two regions in the world in which there was growth in the number of FDI projects over the past year.

Sugan Palanee, Africa markets leader at EY says:"From an investment perspective, the next few years may be challenging – this is not because the opportunities are no longer there, but rather because these opportunities are likely to be more uneven than they have been."

"It is now more important than ever for organisations and investors, who sometimes place too great an emphasis on shorter term economic growth trends, to adopt a granular, fact-based approach to assessing investment and business opportunities for the long-term."

Measuring potential and progress

To support investors in adapting to a more uncertain environment and to assess variable opportunities and risks across the continent, the *EY Africa Attractiveness Index* (AAI) provides a balanced set of shorter and longer term focused metrics.

The index helps to measure both likely resilience in the face of current macroeconomic pressures, as well as progress being made in critical areas of longer-term development, namely governance, diversification, infrastructure, business enablement and human development.

No definitive assessment

Michael Lalor, EY's lead partner, Africa business centre, comments, "It is important to recognise that this kind of indexed ranking does not provide a definitive assessment of any of these markets; there are obviously no absolute answers in searching for market potential.

The index illustrates that:

- Despite macroeconomic challenges (and a low-growth environment): South Africa still outperforms most other African economies due to relatively high scores across every other dimension (partly a reflection of the fact that the South African economy is more developed than any other African economy).
- Kenya and Cote d'Ivoire benefit from strong economic growth performance and prospects, with both performing moderately well in terms of infrastructure and business enablement.
- Botswana, Mauritius and Rwanda, although small markets, have all got a strong track record in areas of business enablement, social development and economic management, and so perform relatively well.
- Egypt, Morocco, Tunisia, as well as Ghana, remain under some pressure economically, but have the advantage of a relatively business-friendly environment, good infrastructure and, in the case of Ghana, a strong governance track record.
- Nigeria's relative "underperformance" on the AAI (ranked at number 15 overall) is perhaps somewhat surprising; while the Nigerian economy ranks as one of the most resilient in Africa, lower scores on the business enablement, governance and human development pillars are reflected in the overall ranking.
- Similarly, other high-growth economies like Tanzania, Uganda and Ethiopia are all ranked in the top 10 in terms of macroeconomic resilience (with Ethiopia at number one), but are also relative underperformers on other longer-term focused dimensions.

This clearly indicates that there will be different answers for different organisations and investors with different priorities; and as priorities change over time, so will the answers.