Africa's economic prospects in 2017 - 10 countries to watch

By J. Peter Pham

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The continued failure of commodity prices to recover significantly and the global slowdown of economic growth, especially in China and other emerging markets, made 2016 a tumultuous year for many African economies, indeed, "the worst year for average economic growth" in the region in over 20 years, according to a report from Ernst & Young.

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Compounding these trends, varying dynamics within the continent's biggest economies meant that Nigeria slipped into recession, while South Africa barely lurched forward with anemic 0.2% growth in the third quarter. Looking ahead, those countries which have diversified their economies, focused on energy infrastructure, and promoted industrialisation, will be best poised to overcome the current challenges and succeed in 2017.

As Aubrey Hruby and I documented in a report last year, those countries that rely heavily on the export of one or two resources to drive their economic growth have suffered as a result of the emerging market downturn and its knock-on effects, both in terms of demand for their commodities and in availability of financing for their major infrastructure and other development projects.

Nigeria

Nigeria, Africa's most populous country and one which only emerged as the continent's biggest economy three years ago, is bedeviled not only by low petroleum prices, but decreased production due to attacks by the militants in the oil-producing Niger Delta region - at one point last year, the amount of crude being pumped nearly reached the lowest point in three decades.

The rest of the economy in the West African giant essentially stagnated, hammered both by the government's maladroit management of the currency float and by the failure of President Muhammadu Buhari's administration to make much headway in improving the country's overall business climate, as witnessed by Nigeria's abysmal 169th place ranking among 190 countries analysed in the World Bank's Doing Business 2017 report.

Angola

Angola nudged ahead of Nigeria early last year to become Africa's biggest oil producer, thanks in part to the latter country's problems with its militants, but the distinction means less in a world of depressed hydrocarbon prices. With inflation projected to have been around 45% in 2016, while the country's currency, the kwanza, lost nearly 20% of its value during the same period, the country's grim prospects heading into the new year add to the uncertainty with the announced plans of longtime President José Eduardo dos Santos to retire later this year (elections are scheduled for August).

Algeria

Similarly, Algeria's heavy dependence on energy exports caused the growth to slow down to an estimated 3.6% in 2016 with the World Bank estimating it will plunge further in the coming year. Low oil prices will continue to weigh on government finances as inflation and unemployment both increase; the dinar has nominally depreciated 20% over the last two years.

The 2017 budget signed by the country's octogenarian President Abdelaziz Bouteflika in late December raises taxes to compensate for declining revenues from hydrocarbons, signaling that the heavy public spending that enabled the regime to weather the so-called Arab Spring is no longer an option.

South Africa

While South Africa was spared an end-of-the-year downgrade by Standard & Poor's of its sovereign credit - it remains at BBB-, one notch above "junk" status - Moody's opened 2017 by placing the country on a downgrade review, a step which serves notice to investors, some of whom have fiduciary obligations barring them from doing business in places branded with "junk" status. Moreover, the numerous corruption scandals surrounding President Jacob Zuma have divided the ruling African National Congress, already reeling from unprecedented rebuff in the August 2016 local government and municipal elections, adding to the political volatility that undermines investor confidence just as the country regained its title as Africa's largest economy.

DRC

Despite its wealth of natural resources, both in terms of extractives and in potential for renewable energy, to say nothing of the extraordinary human capital in its people, the Democratic Republic of the Congo will struggle economically in the coming year. Notwithstanding a rickety last-minute political deal pushed by the country's influential Roman Catholic bishops that is supposed to lead to presidential elections before the end of 2017, President Joseph Kabila's decision to violate the constitution and hold on to power despite the December 19, 2016, expiration of his final term, casts a long shadow over the fourth most-populous country on the African continent and the largest country by area in Sub-Saharan Africa.

As Sasha Lezhnev of the Enough Project pointed out recently, the political crisis is not without its connection to economic woes, past and present: "Corruption has increased and prices for the key commodities that Congo produces have plummeted in recent years, e.g. with the price of copper going down by nearly half over the past five years. Average Congolese people are bearing the brunt of this. The price of some foodstuffs is up as high as 80%; the Congolese Franc has lost 27% of its value in 2016; inflation has increased to nearly 6%; Central Bank foreign exchange reserves have decreased by nearly half (45%) over the past two years. The Congolese government is also slashing state services, with budget cuts of 22% and a further 14%, including a 90% cut in spending on healthcare equipment."

If some of the bigger and resource-dependent economies in Africa are in the doldrums, some of the continent's medium-sized and more diversified economies will make interesting watching in the new year.

Côte d'Ivoire

Côte d'Ivoire may well be Africa's new economic powerhouse, with a diversified economy and growth in 2016 expected to hit 8.5%, the second-highest in the world. While there are occasional hiccups like the mutiny this past weekend by some soldiers left over from the country's civil war a decade ago, by and large President Alassane Ouattara, an economist and former International Monetary Fund (IMF) director, is widely credited with sound macroeconomic management. Overwhelmingly reelected to a second and final four-year term in 2015, he has laid out an ambitious National Development Plan with major structural reforms to consolidate the private sector as well as to achieve inclusive growth.

The IMF's most recent regional economic outlook projects Côte d'Ivoire's real gross domestic product (GDP) to continue growing at roughly 8% annually over the next few years, while the median for Sub-Saharan Africa will be just shy of 4.5v. According to data from the Ivorian government's Center for the Promotion of Investments in Côte d'Ivoire (CEPICI), through in the first nine months of 2016, some 5,720 new enterprises were started in the country, many drawn by the business-friendly regulatory environment.

Morocco

Fresh off hosting the 22nd Conference of Parties (COP22) of the United Nations Framework Convention on Climate Change two months ago in Marrakech, Morocco continues to forge a role as an African - and, indeed, a global - leader on renewable energy. The kingdom, which is on track to meet more than 40% of its needs through renewable energy, primarily solar and wind, by 2020 - an extraordinary turnaround given that just a few years ago the country was, according to the World Bank, the Middle East's largest energy importer, depending on fossil fuels for over 97% of its energy.

Moreover, in pursuit of the goal of making Morocco the commercial gateway to Africa as well as Africa's bridge to Europe, King Mohammed VI has been busy implementing his strategy of making Africa the "top priority" of his foreign policy, with a string of official visits across Africa, including recent forays to Rwanda, Ethiopia, and Nigeria, that have resulted in agreements for multibillion-dollar cross-investments in the agriculture, energy, and financial sectors; as well as the historic announcement last month of a Moroccan-Nigerian joint venture to build a gas pipeline to connect the two countries that will eventually link up to Europe.

Senegal

Senegal has long been a bastion of political stability in West Africa, a reputation consolidated in 2016 when voters in a constitutional referendum not only reaffirmed the two-term limit on the presidency, but cut the term of office itself down to five years from the current seven years, as well as enacted a raft of other measures to further good governance.

President Macky Sall's Plan for an Emerging Senegal, crafted with help from McKinsey consultants, includes 27 flagship projects and 17 major reforms, encompassing diverse sectors ranging from agriculture to energy to education to health to financial services to tourism. The objective of all this is to increase the West African country's productivity in order to grow its GDP, create jobs, and facilitate industrialisation.

According to the year-end update to Ernst & Young's Africa Attractiveness Index, Senegal - along with Côte d'Ivoire, Ethiopia, Kenya, and Tanzania - is expected to continue growing in the high single digits in 2017.

One possible bump in Senegal's road to the future is that the country was counting on a second Millennium Challenge Compact from the United States to help address regional obstacles to economic growth.

The Millennium Challenge Corporation (MCC) board selected the country a year ago, but the Senegalese government's December 2016 decision to only vote for, but to actively co-sponsor, United Nations Security Council Resolution 2334 on Israeli settlements not only in Judea and Samaria (the West Bank), but also in the Jewish Quarter of Jerusalem, may cause Congress to closely scrutinise of a major appropriation for Senegal like an MCC compact, given the broad bipartisan support in the House of Representatives - by a margin of 342 to 80 votes - for a measure condemning the UN resolution and the Obama administration's abstention on it.

Kenya

A largely diversified economic base, Kenya has largely been resilient through the emerging markets downturn of the last year. While final numbers for 2016 are still being crunched, it looks like East Africa's largest economy grew by at least the 5.9% forecasted by the World Bank and that may even approach the 6.8% growth the revised IMF prediction estimated in October. One of Kenya's advantages has been its membership in the East African Community, which has evolved from a customs union to a common market and has long-term aspirations of a monetary union and a political federation.

On the other hand, the country faces not-insignificant political, security, and economic uncertainty in 2017 with presidential, parliamentary, and local government elections scheduled for August; the ongoing threat posed by al-Shabaab terrorists operating out of neighboring Somalia (recall that 2016 began with more than 100 Kenyan soldiers killed when the al-Qaeda-linked militants overran a peacekeeping base in El Adde, Somalia); and yet-to-be-determined impact on private-sector credit following the signing last year by President Uhuru Kenyatta of legislation capping interest rates at 4% above the benchmark central bank rate.

Ethiopia

If it can weather the political crises that have led to mass demonstrations and the declaration of a state of emergency in late 2016, Ethiopia will, according to IMF estimates, be positioned to overtake Kenya as East Africa's largest economy sometime in the coming year, having posted 10.8% average annual growth over the last decade, before drought hit the core agricultural sector this year (and anti-government protests erupted).

Nevertheless, investors continue to flock to there - some $500 million in new foreign direct investment entered in the last three months of 2016 and an additional $3.5 billion was being processed, according to one analysis - and its large internal market (Ethiopia is the 13th most populous country in the world) and low labour costs make it an attractive location to manufacture fast-moving consumer goods.

In addition, Ethiopia's investment in hydropower - last month authorities inaugurated Africa's tallest dam, the Gibe III dam on the Omo River, doubling the country's electrical output - will not only give it a reliable source of energy, but provide electricity to the region, including Kenya, which has signed up to buy some of the power produced.

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African countries face many challenges in 2017, but, alongside these, there are the fundamentally positive dynamics of many of their economies, including a growing labour force, increased urbanisation, and advances in technology, as I argued recently in a new Atlantic Council Strategy Paper, ‘A Measured US Strategy for the New Africa’.

The 2016 Republican Party Platform affirmed: "We recognise Africa's extraordinary potential. Both the United States and our many African allies will become stronger through investment, trade, and promotion of the democratic and free market principles that have brought prosperity around the world. We pledge to be the best partner of all African nations in their pursuit of economic freedom and human rights."

As a new US administration takes office in less than two weeks, it's time to look for ways to fulfill that pledge so that American citizens and business can join their African counterparts in grasping the continent's burgeoning opportunities.

Source: [Atlantic Council Africa Center (Washington, DC)](#) .

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