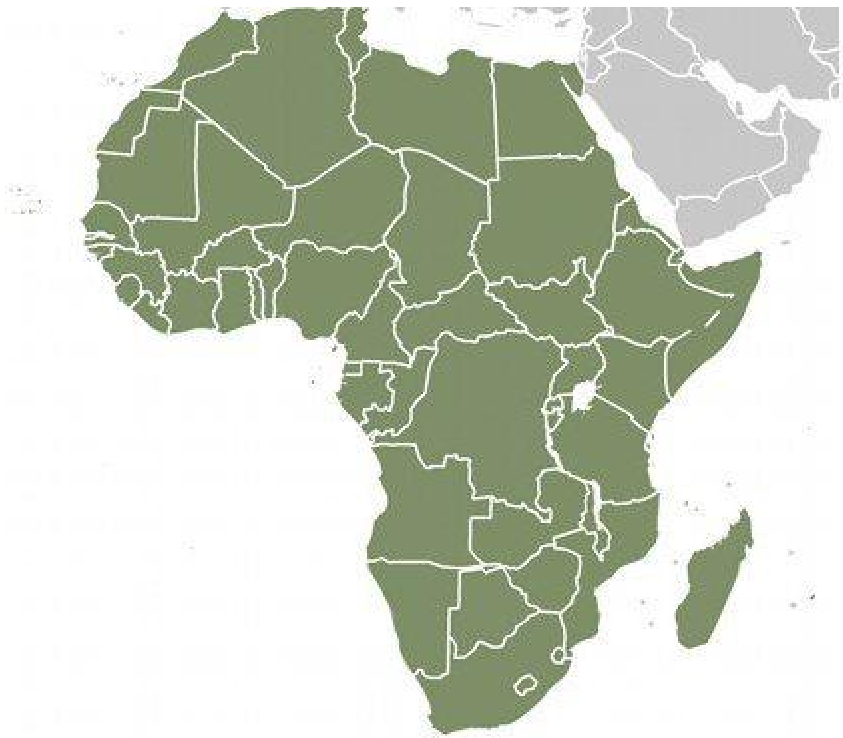

Africa

1, ANALYSIS, BUSINESS, EURASIA REVIEW TERRORISM PORTAL, HEALTH

TOP RISKS FOR AFRICAN ECONOMIES IN 2015 – ANALYSIS

JANUARY 2, 2015 | EURASIA REVIEW | LEAVE A COMMENT

By Perry Munzwembiri

In May 2000, The Economist ran with a cover titled, "The hopeless continent", painting stark gloomy picture for Africa. Fast forward just over a decade later, and the narrative had changed. In its 2011 December issue, the cover of The Economist read, “Africa rising.” True to form, Africa had transformed from a warring, stagnant and object of disdain to a fast growing economic region alive with possibility.

Africa continues to impress, and its development over the years has seen many lives transformed on the continent. For instance, between 1981 and 2005, Africa`s poverty headcount ratio rose at each three year interval from 205 million in 1981 to 395 million in 2005, statistics reveal. And in 2008, the ratio fell by 12 million to around 47%. The trend has been continuing since then. This data shows and several other indicators reflect the extent of the progress that has been made on the continent.

But there are key downside risks that could potentially thwart this sustained growth and development in Africa going into 2015. Below are some of these critical risks Africa faces going into the New Year. The risks are in no particular order of importance.

Ebola Health Threat

First discovered in the Democratic Republic of Congo in 1976, the current Ebola outbreak first reported in March 2014 and has been declared an international public health emergency by the United Nations is the deadliest outbreak to date. Ravaging countries in West Africa, the disease has claimed the lives of over 7,388 lives in Guinea, Liberia, Sierra Leone, Nigeria and Mali, among these, Liberia has been the hardest hit, with 3,346 deaths reported.

As the disease continues to leave untold destruction in its path, the economic and social cost on the affected economies is big. The International Monetary Fund at the start of the year forecasted a GDP growth rate of 11, 3 percent for Sierra Leone, 5,9 percent for Liberia and 4,5 percent for Guinea in 2014. However, following the outbreak as well as some of its associated costs on these economies, the IMF revised the earlier growth forecast downwards to 8 percent, 2, 5 percent and 2, 4 percent for Sierra Leone, Liberia and Guinea respectively.

Going into 2015, the threat of Ebola may become more pronounced on the affected economies as their already stretched revenues are directed towards fighting the disease, instead of developmental expenditure. Furthermore, crucial economic activity is halted as small and large businesses alike are sometimes forced to shut down to contain the spread of the disease. Though the World Health Organisation has declared outbreaks in Nigeria and Senegal as officially over, the Ebola virus still poses a great deal of a challenge for Africa as a whole. For instance, Mali is presently battling a second wave of the outbreak, illustrating that concerted and co-ordinated international and local responses ought to be implemented to decisively deal with this disease.

Slumping Commodity Prices

The big talking point in the recent months has been that of the falling price of oil. Since June of this year, prices of the commodity have nearly halved, with Brent Crude trading at $60 per barrel for the first time in almost 5 years. Undoubtedly, oil exporting countries have been adversely affected, with some of them recording revenue shortfalls as a result. Nigeria an OPEC member, and hugely reliant on oil revenues which make up of over 75 percent of its total inflows was forced to restate its budget basing it on a lower oil price of $65 from $77,40. Other oil exporting countries like Angola (1,9 million barrels per day) and Equatorial Guinea (346,000 barrels per day) are likely going to be affected in the same manner too.

This is only one side of the falling commodity prices equation.

Moving away from oil, the Bloomberg Commodity Prices Index which tracks 20 commodity prices in September this year fell to a four year low, raising concerns of how a slowing Chinese(which recently surpassed the USA as the world`s largest economy according to the IMF) economy has meant weaker demand for most commodities. As Africa remains largely a commodity based economy-exporting raw materials, the impact of weakening commodity prices such as metals and agricultural products will likely weigh down on growth in the coming year as revenues will be constrained.

Military Extremism

Over the years, Africa has had to contend with a number of interstate as well as intrastate conflicts, caused in part by power struggles, fights over resources, and tribal disagreements. Recently, however, military extremism has been on the rise. In a space of over 10 days, Kenya recently experienced two terrorist attacks that killed civilians. First was the bus attack, where insurgents attackers non-Muslims off a Nairobi bound bus, and killed 28 people, mostly teachers returning home for the holidays. Then there was the attack at a quarry in Kormey, a town near the Somali border, where armed Islamist gunmen shot and beheaded 36 workers at the quarry. This came little over a year after the Westgate mall attacks of last year which killed at least 67 people. These events show how the Al Shabaab linked extremism has been gaining traction in the region.

Kenya is not alone in this ordeal. Nigeria too has been under the cosh, with Boko Haram causing havoc in the country. The wave of military extremism has been sweeping through parts of northern and sub-Saharan Africa at an alarming pace, with al Qaeda in the Maghreb focusing on North Africa and al Shabaab and Boko Haram more active in southern parts of the continent. If military extremism is unaddressed, it will destabilise governments and destroy the important social, economic and political gains Africans have made in recent years, says Fen Osler Hampson the director of global security at the Centre for International Governance Innovation.

Sustained Appreciation of the US Dollar

Africa too like most emerging market currencies faces significant threats from the continued firming of the dollar. Typically, a stronger dollar leads to weaker emerging market currencies as well as lower commodity prices. Earlier this year, the dollar strengthened from $1.40/€1 to lo below $1.30, paving way an 11th straight week of gains-its longest winning streak in 40 years. The appreciation of the dollar has been a result of higher Gross Domestic Product, and improved growth prospects in America. And as is the case with a stronger dollar, African currencies have taken a beating with some of them including the South African Rand hitting record lows against the dollar this year.

With increased expectation of normalisation of the US monetary policy in 2015, and a suppressed Eurozone, the dollar will likely keep appreciating in the new year, to the detriment of most emerging market currencies. Theoretically, a weaker currency would make a country`s products cheaper in the eyes of foreigners, implying an expansion of its exports. However, as has been seen in Africa, particularly South Africa, exports have not been able to pick up, owing in part to protracted strikes in the mining sector as well as other structural bottlenecks. Therefore, countries like Ghana, South Africa, and Kenya which have high ratios of imports to GDP will be the hardest hit by inflationary pressures due to weakening currencies. Furthermore, pressure will be felt on the current account deficits of the affected countries, which in turn will likely cause an increase in interest rates, further constraining economic growth in Africa.

These risks are likely going to pose significant challenges going for the continent going into 2015, and will likely stand in the way of Africa`s sustained development. It will be interesting to see how governments and policy makers choose to respond to these threats especially considering that the coming year will be a particularly important one for Africa as it takes stock on its progress in meeting the United Nations Millennium Development Goals, whose deadline is 2015. Whether Africa`s orchard remains green and colourful will therefore depend on a coherent and effective response to these challenges.

Eurasia Review

Eurasia Review is an independent Journal and Think Tank that provides a venue for analysts and experts to disseminate content on a wide-range of subjects that are often overlooked or under-represented by Western dominated media.

Despite the combined Eurasia and Afro-Asia areas containing over 70% of the world's population, analysis and news continues to be dominated by a U.S. slant, and that is where Eurasia Review enters the picture by providing alternative, in-depth perspectives on current events.

FEATURED