Report Economic Insight: Africa Q1 2016 projects GDP growth in Africa

In its report 'Economic Insight: Africa Q1 2016', the Institute of Chartered Accountants in England and Wales (ICAEW) points to good news for African economies but warns that manufacturing still accounts for a small share of output and says the old model of exporting raw materials is becoming unsustainable.

Regional Director, ICAEW Middle East, Africa and South Asia Michael Armstrong

The report notes that GDP growth in Africa is projected to average 4.3% between 2015 and 2020. Nigeria, the largest economy on the continent, is expected to contribute significantly to Africa's economic expansion -at an average real rate of 4.8% p.a. between 2015 and 2020, contributing over 25% to the continent's forecast growth in this timeframe.

In the East Africa region, Kenya's economy should to expand by around 6% during the 2017 to 2020 period, thanks to its relatively diversified economy and comparatively low commodity dependence, bonding well with the country's economic growth outlook.

Regional director, ICAEW Middle East, Africa and South Asia Michael Armstrong said, “Africa is the most commodity-dependent continent on earth. Africa's economies increasingly need to create a hospitable environment for companies in the manufacturing and services sectors to drive growth, as the old models of growth driven by exports of raw materials are out-dated.

“The East African region is embracing the use of renewable energy to leapfrog older power generation technologies, while also reducing the need to extend the national energy grid to remote villages.”

The report notes that Kenya, for instance, is now ranked the seventh highest producer of geothermal power globally after it recently unveiled the second phase of the Olkaria geothermal plant. Olkaria is now the biggest single- turbine geothermal plant in the world.

However, Kenya continues to face its own unique challenges. The country's unwarrantable fiscal situation is the primary reason why both Standard & Poor's and Fitch Ratings downgraded the country's outlook from stable to negative last year.

However, the report also points out that the Kenyan government has taken important steps towards fiscal consolidation by preparing a supplementary budget that plans to reduce both development and recurrent public spending in the current fiscal year.

Tom Rogers, associate director, Macro Consulting at Oxford Economics, said, “A clear plan for preventing fiscal slippage will be needed to underpin confidence in public finances and economic stability. The government's recognition of these economic concerns will be needed to address these issues and instil some confidence in the country's economic outlook.”

Fintech markets grow with mobile

According to the report, innovation in financial services technology (fintech) has erupted, as a primary global investment opportunity and has recorded rapid growth over the past five years as technological innovation allowed digitally active consumers to streamline and improve on traditional banking services.

Rogers continued, “The online financial sector has taken off in Africa, answering a need for quality financial services and tailor-made solutions to structural challenges, including frequent power disruptions and poor rural infrastructure.”

Fintech significantly contributed to the ease of transferring money and remitting earnings, acquiring insurance and attaining credit. Mobile banking has enabled peer-to-peer lending on a larger scale.

Oxford Economics and NKC African Economics produced the Economic Insight: Africa Q1 2016 report. For more information, click here.