Speech by Hon. Dr. Kwabena Duffuor, Minister of Finance and Economic Planning at the Stanchart Africa Summit in Accra on Thursday October 20, 2011

AFRICA IN THE SUPER-CYCLE

Introduction

The pronounced pick-up in Africa's economic growth in recent years has attracted the world's attention. Three recent studies using different approaches to identify groups of top performers in the world all reached the same conclusion, namely, significant parts of the African region is making decisive break with the past.

In 2008, the IMF *Regional Economic Outlook* identified a set of 17 ''Great sub-Saharan Africa Take-off'' economies which had achieved per capita growth of more than 2% since the mid-1990s. The group was diverse, but shared common features of macroeconomic stability, good institutions, and pro-growth structural reforms.

In his book, *Emerging Africa* (2010), Steven Radelet identified 17 non-oil emerging African economies based not only on growth, but other important economic, political, and social factors, including the rise of more democratic and accountable governments and implementation of better economic policies.

Recently, the *Economist* (January 6, 2011) reported that since 2001, sub-Saharan Africa had been home to six of the world's top ten fastest growing economies, which it dubbed, ''Sub-Saharan Africa's lion kings''. The gains were attributable not only to global demand for commodities, but also to structural reforms and better economic management.

Economic Performance

Africa is exhibiting a solid macroeconomic performance, with many economies already growing at rates close to their pre-crisis averages. Economic activity in the region expanded strongly in 2010 and in 2011. Robust private and public consumption underpinned this growth, as many countries used the available macroeconomic policy and fiscal space to help speed the recovery from the crisis-induced slowdown. Private capital flows, which have been an important source of external financing before the crisis, have resumed in a number of emerging and frontier economies in the region. Very low interest rates in the advanced countries and an attenuation of global risk aversion have once again prompted investors to turn to the region in search of attractive investment opportunities. Post crisis, evidence suggests that interest in Africa's frontier markets has also resumed.

Reflecting mainly strong domestic demand but also rising commodity prices, the region's economy is set to grow by more than 5% in 2011-2012. The African continent is second to Asia in its growth, which averaged 6% in 2004-2009. With three-fifths of the world's uncultivated arable land, a fifth of the world's copper, and half of the world's gold, the GDP is set to double between 2008 and 2020, and forecasts for the highest working age population in the world by 2040, Africa's huge potential is clear for all to see.

New Partners

During the past decade, SSA countries have increasingly been exploiting new markets, leading to what seems to be a reorientation of their trade and investment towards new partners, including those within the region. According to the IMF's World Economic Outlook, this has resulted in the non-traditional partners now accounting for about 50% of SSA's exports and almost 60% of its imports. This reorientation is driven mostly by large economies of Brazil, India and China (BIC), but also by a substantial increase in trade with partners within the region.

The trade reorientation towards new partners is taking place relatively fast, driven by increasing trade with a few large emerging market economies and interregional trade. Between 1990 and 2010, the share of SSA's exports to advanced economies declined from 78% to 52%, and the share of SSA's imports from those countries declined from 73% to 43%. In contrast, by 2010, the share of SSA trade with Brazil, India and China reached approximately 3%, 6% and 17%, respectively, rising from negligible shares in the 1990s.

A similar reorientation is also occurring in SSA's sources of capital, as emerging countries such as the BICs have rapidly increased their investments in the region. Chinese FDI to SSA, as a share of total FDI to the region jumped from less than 1% in 2003 to 16% in 2008. Investments from India are also significant; by 2006 India investment stocks in SSA were almost as large as Chinese FDI flows in the region.

Chinese FDI flows to sub-Saharan Africa increased from USD68 million in 2003 to USD5.5 billion in 2008. During the period 2005-2009, Chinese FDI flows to SSA amounted to some USD8.4 billion. These FDIs have come in various forms and through various financing mechanisms, ranging from individual private entrepreneurs to very large state-owned enterprises. The Export-Import Bank of China estimated that there were some 800 Chinese companies operating in Africa in 2006, of which approximately 85% were privately owned and were small or medium size enterprises. Most of these firms began their engagement with Africa by trading and later established distribution outlets in the local markets.

Although most of the emerging partners' investments are in mining, investments in other sectors are also significant. Besides oil and mining, Chinese investment is also directed toward manufacturing, construction, finance, agriculture and services, all sectors that have a high local labour input. India also has significant investment in manufacturing.

The emergence of new partners raises a number of opportunities and challenges. The most important opportunities are that engagement with emerging partners could foster higher-value added activities in SSA, lower the cost of inputs/capital and consumption goods, and transfer of technology. Intraregional integration could increase the economies of scale of the region, thus increasing its industrialization, competitiveness, and attractiveness of foreign direct investment. On the other hand, managing high concentration of SSA's exports to Brazil, India and China in raw commodities could be the most important challenges posed by this reorientation.

These opportunities and challenges emphasize the need for SSA countries to improve natural resource management, emphasize policies that are sector neutral, strengthen economic flexibility and safety nets, promote regional integration, negotiate better access, and assess carefully their involvement in the growing number of special economic zones financed by the emerging partners.

The main threat to economic growth in the SSA region is the strong possibility that global growth could decelerate further, particularly in 2012. The IMF estimates that a sustained reduction of 1.5 percentage points in global GDP growth in the United States and Europe could have one percentage point reduction in the growth of low income African countries. The expected slowdown of economic activities in China, India and other emerging markets resulting from adjustments to counter overheating will also have significant impact on Africa's economic growth.

Ghana's Recent Economic Performance

Ghana was not immune to the effects of the global financial crisis and the impact on commodity prices. As the crisis deepened, the flow of remittances, a significant source of foreign exchange resource for the country, slowed down. Private inward transfers through the banking system dropped significantly in the first half of 2009 from the level recorded for the same period in 2008. Foreign direct investment dropped significantly in 2009 while official access to global market financing also suffered a setback.

Economic growth picked up significantly in 2010, reaching 7.7% as the recovery in the global economy gathered momentum and the country looked forward to become an oil exporter. Growth is projected at 14.4% this year with the coming on stream of oil exports, making Ghana one of the fastest growing economies in the world.

Inflation which reached 20.7% in June 2009 on account of demand pressures arising from the fiscal expansion in 2008, rising oil prices, and weakened domestic currency has been on a steep decline, reaching 8.4% in September 2011. The sharp decline in inflation is attributed principally to prudent fiscal management, continued monetary restraint, and declining food prices supported by a good domestic food harvest. The appreciation of the domestic currency has also contributed significantly in lowering inflation in the country.

Over the past years, Ghana has established a strong regulatory and supervisory framework and a modern payments and settlements infrastructure in the country's financial sector. This has facilitated the development of a banking sector that is reasonably efficient, very competitive and profitable.

To insulate the economy against oil price volatility, Ghana recently implemented a Petroleum Price Risk Management Program. The program offers protection to the country against oil price shocks by purchasing a call option for imports and a put option for exports from first class international banks. Commonly known as hedging, the program is thus designed to contain crude oil price escalation, and in so doing establish price stability in the country.

Ghana's strong economic performance is a result of not only high commodity prices but also improved economic policy environment and investment climate, rising amounts of investments, and increased harmonization of aid. As a result, the Ghanaian economy is exhibiting a strong outlook, making the country to become one of the three strongest policy performers among African countries. The sharp decline in inflation in the country also provides concrete evidence of an economy that is recovering at a fast rate from the deep crisis it found itself in the pre-2009 period.

The Ghanaian economy has been put on a sustainable and high growth trajectory, reflecting both the strong economic fundamentals in place and a positive response from the private sector. Improved macroeconomic policies, in particular the fiscal consolidation stance of the Government supported by a tight monetary policy has contributed immensely to the growth upsurge.

Looking ahead, Ghana faces a favourable outlook. The economy will continue to grow strongly, led by the oil and gas sector and massive investment in infrastructure. The mixture of gold, cocoa, oil and gas will provide a modern and diversified economy that will make the country realize its vision of creating a Better Ghana for all.