Cheap minerals, bad policies

The return of the resource curse

The worst growth figures for two decades fail to keep pace with a rising population

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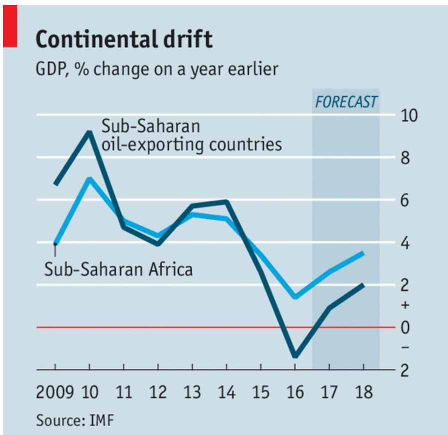
WEARING a cowboy hat and holding two scrawny goats at the end of a tether, the farmer scowls when asked how business is going at Nyamata Market, a patch of dusty earth about 25km south of Kigali, Rwanda's capital. "People have no money," he grumbles, pointing at his unsold animals. As if to underscore the point one of the goats jets a stream of urine at your correspondent's shoe. Rwanda's economy, like many across Africa, has been hit by the twin blows of drought and low prices for minerals.

Growth in sub-Saharan Africa slumped to 1.4% last year, its slowest pace in two decades, reckons the IMF. Since the region's population is growing at about twice that rate, this means that GDP per head fell for the first time in more than 20 years. Economies slowed in two-thirds of countries south of the Sahara.



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A year earlier, cheaper oil helped speed growth in some countries. Nigeria and Angola, where the black stuff used to account for as much as 90% of exports, were walloped. But countries that import most of their fuel, such as Kenya and Ethiopia, enjoyed a boomlet.

When the price of crude slumped further in the early months of last year, the big oil exporters fell into recession. This time there seemed to be no offsetting benefit for others. The misery was more widespread than in 2015, and more sustained than expected, for two main reasons. The first was a drought across much of east and southern Africa that shrivelled crops, driving up food prices and slashing farmers' incomes.

The second was that ill fortune was exacerbated by government policies that have hobbled growth in Africa's two biggest economies, Nigeria and South Africa. In Nigeria the government refused to let its currency float freely in response to the sharp drop in its export earnings from oil. Faced with an overpriced currency investors held back, waiting for the naira to fall. In South Africa, meanwhile, investment and growth dried up as news of government corruption and economic mismanagement spurred credit-rating agencies to downgrade the country's debt to junk.

Even many of the region's faster-growing countries have passed foolish economic policies. Kenya has capped the rate of interest banks can charge, prompting most of them to stop lending to businesses. Tanzania has barred its main gold producer from exporting gold concentrate. Cameroon's government, fearful of dissent, shut off the internet to English-speaking parts of the country, which is where technology startups cluster.

More worrying is that as economies slowed, the parlous state of public finances became clear. The ratio of public debt to GDP has jumped ten percentage points to 42% on average since 2014—the highest level for many countries since they had their debts written off a decade or so ago. The level may not look high by the standards of rich countries, but interest rates in Africa are much higher. The governments of Nigeria and Angola now spend more than half of all their revenue on servicing their debts. Countries such as Ghana, Zambia and Mozambique risk drowning in red ink, having ramped up government spending when GDP growth was stronger and global credit was easy.

Growth should pick up a little this year—the IMF hopes for about 2.6%—but its fragility highlights how the region has yet to kick its addiction to commodity exports, and how it can ill afford to keep piling on debt as it has in recent years.

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