



GRUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT  
AFRICAN DEVELOPMENT BANK GROUP

## Press Release

### Comparing the Real Size of African Economies

#### *Launching the International Comparison Program for Africa Results*

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The African Development Bank is proud to announce the successful completion of the 2011 International Comparison Program for Africa. The AfDB will shortly publish a full report with detailed Purchasing Power Parities (PPPs), volume indices and price level indices for the 50 Regional Member Countries that took part in the Program. This PRESS RELEASE is the first official release of data from the 2011 round of ICP Africa.

The 2011 round is the third large-scale international price and volume comparison for Africa executed under the leadership of the AfDB. The first was the 2005 round of the ICP and this was followed by an interim comparison of Household Consumption Expenditure in 2009. In carrying out these rounds, the AfDB worked closely with National Statistical Offices in its Regional Member Countries and with the subregional organizations AFRISTAT, COMESA, ECOWAS, and SADC who coordinated efforts in their member countries.

The ICP is a global program and the 2011 round is expected to cover about 190 countries from all regions of the world. The program aims to provide a reliable basis for comparing GDP across countries using PPPs. It allows comparisons of the real value of production for each country, using a standardized benchmark free of price and exchange rate distortion. This latest comparison covers 50 African countries and the African region makes up the largest component of the Global Program.

Before Purchasing Power Parities (PPPs) became widely available, the GDPs of different countries were often converted to a common currency using market exchange rates. This resulted in misleading comparisons because although the GDPs were all in the same currency, no account was taken of different price levels across different countries and this led to distortions. A true comparison of different countries' GDPs relies on establishing Purchasing Power Parities (PPPs) and this is the core rationale behind the global and regional ICP Programs.

#### ***Some Highlights of ICP-Africa 2011***

***Dynamic Africa.*** The 2005 ICP found that South Africa was the largest economy on the continent, accounting for 22% of Africa's total Real GDP, with Egypt ranked second at 20%. However, in the period after 2005, Egypt's real GDP grew faster than South Africa's and by 2011 the positions were reversed, with Egypt accounting for 23% of Africa's GDP compared with 17% for South Africa. Nigeria remains Africa's third largest economy – 13% in 2005 and 14% in 2011.

***Four Giants.*** Africa's economy is dominated by four countries, each with real GDP over two thousand trillion ZAR in real terms – Egypt, South Africa, Nigeria and Algeria. Together these four giants accounted for nearly 60% of African GDP in 2011. They are the locomotives of growth in the



continent. As these countries' economies continue to expand, it is expected that they will lift the economic performance of their regional trading partners.

**Richer and poorer countries.** "Rich" and "poor" are here taken to mean high and low real per capita GDP. Africa is characterized by extreme differences in per capita real GDP. In 2011 these ranged from 210,405 ZAR in Equatorial Guinea to 2,562 ZAR in Liberia. Three other small countries also had high real per capita GDP, namely Seychelles, Gabon, and Mauritius. Poorest countries (in descending order) were Burundi, Democratic Republic of the Congo, and Comoros.

**Price levels in Africa.** The Price Level Index is the ratio of the PPP to the exchange rate. In 2011 the overall price levels were more than 40% above the African average in Angola, South Africa, Namibia, and Gabon but less than 70% of the African average in Ethiopia and Egypt.

**Household welfare.** A good measure of material well-being is provided by per capita Actual Individual Consumption (AIC). AIC includes all goods and services consumed by households regardless of whether households make the purchases themselves or receive them free from Non-Profit Institutions Serving Households (NPISHs) or from government. Mauritius, Seychelles, and Egypt all had per capita AIC in 2011, more than 30% above the African average. At the other extreme, per capita AIC in Niger, Comoros, Liberia, Burundi, and the Democratic Republic of the Congo was less than 30% of the African average.

**Investing for the future.** Per capita Gross Fixed Capital Formation (GFCF) measures the amount of domestic investment per capita in a country. The ICP data reveals that GFCF is high in the richer countries (e.g. Seychelles and Botswana) and low in the poorer countries (e.g. Burundi, Comoros, and Liberia). Investment is the key to future growth but the challenge for poor countries is that they cannot generate the savings needed to invest. They cannot invest because they are poor and they are poor because they cannot invest.

## **Conclusions**

The ICP data collected in the 2011 round represent a rich information source providing an opportunity for further analysis at national, regional and international levels. Some of the principal users are international bodies such as the UN and its affiliates, the IMF, World Bank, EC and the OECD who all demand timely and reliable data on Africa to inform the process of transformative development and inclusive growth

The ICP information collected in this 2011 round sheds light on the top-performing African economies compared to those countries for whom progress is proving slower. Not only do the data identify the drivers of economic growth across the region but they also provide measures of household welfare through Actual Individual Consumption rankings. Such data will assist governments in the formulation of evidence-based policies and the allocation of resources where they are most needed. At the regional level, PPPs that eradicate price differences among nations will also help to boost trade between African countries and to leverage economies of scale that will foster regional integration and foreign investment.

The African Development Bank, through its leadership role in ICP-Africa and particularly the launch of its Africa Information Highway, will provide international and regional development organizations, policy makers, researchers/scholars and the general public alike, ready access to a wealth of critical information for future analysis.

### ***Reliability of PPPs and Real expenditures***

PPPs are point estimates and like all such estimates are subject to errors. The error margins surrounding PPPs depend on the reliability of the expenditure weights and the price data reported by participating countries as well as the extent to which the goods and services priced reflect the consumption patterns and price levels of each participating country. As with national accounts generally, it is difficult to calculate precise error margins for PPPs or for the real expenditures derived from them

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#### **About the African Development Bank:**

*The African Development Bank (AfDB) is a multilateral development finance institution established to contribute to the economic development and the social progress of African countries. The African Development Bank Group comprises three entities: the African Development Bank (AfDB), the African Development Fund (ADF) and the Nigeria Trust Fund (NTF). As the premier development finance institution on the continent, the AfDB's mission is to help reduce poverty, and improve the living conditions of Africans. For more information, please visit: [www.afdb.org](http://www.afdb.org)*