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AFTER THE FEAST COMES THE RECKONING

Low Oil Prices and African Economies

Africa's oil exporters have enjoyed several fat years recently, with high crude prices bolstering budgets from Abuja to Cairo. One could be forgiven for thinking that all the extra money in the national coffers would cushion social unrest and bring greater political stability to Africa's oil producing countries. However, even a cursory glance shows this has not been the case. Unfortunately for the continent's oil exporters, while petrodollars have not been able to solve civil conflicts, removing money from national budgets may only make things worse.

In October of last year the International Monetary Fund predicted sub-Saharan Africa would see economic growth of 5.8% in 2015. By January the IMF had revised its growth estimate for the year downward to 4.9%. Quite a lot happened south of the Sahara in the time between the IMF's two forecasts. In Nigeria Boko Haram's five-year old insurgency against the Nigerian authorities spread into neighboring Niger and Cameroon. United Nations envoy on sexual violence Zainab Bangura went on record saying that the levels of rape in South Sudan's 13-month old civil war were the worst she had ever seen. Ebola continued to work its way through West Africa, spreading fear and reducing the movement of both people and goods.

However, none of these events played a major role in the IMF's correction. Instead, it was the precipitous decline of oil prices from over $100 a barrel in September to under $50 in January that caused the organization to downgrade prospects of African economic growth. Obviously, the continent's biggest oil producers played a major role in dragging down GDP forecasts. The growth forecast for Nigeria, the continent's largest economy since April of last year and among its largest oil exporters, was lowered to 4.8% from 7.3%. The growth forecast for Angola, which vies with Nigeria for the title of sub-Saharan Africa's largest oil producer, fared similarly.

The IMF has been monitoring the potential effects of lower oil prices on Africa's oil producers with some alarm, and has been urging the continent's major hydrocarbons exporters to take decisive actions to minimize the fiscal damage as revenues from crude dry up. Nigeria already introduced some belt tightening measures and let the value of its currency fall, but the IMF has made it clear Abuja may need to take further action. In a January interview IMF chief Christine Lagarde said that "shortly after the (federal) elections (scheduled for February, and postponed to March) the authorities will have to reassess the situation in view of the continued decline of oil prices to see if more needs to be done."

The "more" that Lagarde is referring to includes doing away with the costly fuel subsidies that are employed by so many African countries. In the same interview Lagarde went on to say governments "should think about reducing and phasing out the (energy) subsidies." Currently Nigeria's fuel subsidies cost Abuja as much as $7 billion a year according to *Bloomberg*. Lagarde's comments were echoed only a few days later by Nicholas Staines, the IMF's resident representative in Angola, who put it more succinctly. "Fuel subsidies: Get rid of them," he said. "They're regressive, they're costly and they benefit the rich." The IMF estimates that fuel subsidies cost all of sub-Saharan Africa 1.4% of the entire region's GDP in 2012.

Of course, a reduction in fuel subsidies is easier said than done. When Nigerian President Goodluck Jonathon last tried to cut the subsidy back in 2012, his move was greeted with widespread street protests and property destruction. While Angola's own small cuts to subsidies have been greeted with a more muted response, officials in Luanda have still only committed to further reduction rather than outright elimination of subsidies.

While Nigeria and Angola, as sub-Saharan Africa's largest oil exporters, will be forced into the biggest budget cuts as measured by dollar amount, they are hardly the only countries struggling with budget woes. Roughly one in five African nations is now a producer of hydrocarbons, meaning that the pain is spread far and wide. Angola has not asked for any financial assistance from the IMF, and the fund is waiting until after Nigeria's elections to determine if Abuja will need help to muddle through a period of low oil prices. However, countries like Ghana have budget woes so severe that they will need outside help to avoid a full blown fiscal crisis.

Back in November the Ghanaian government based its 2015 budget on a crude price of $99.736 per barrel, roughly twice the price of crude at the end of January. A relatively new oil exporter, only beginning to produce crude in 2010, Ghana's good governance over the use of oil revenues has been praised by many international watchdog groups. However, its good governance measures, which include contributing to a stabilization fund designed to protect against price shocks, have not been sufficient to parry the challenges posed by falling prices. The country's GDP growth is expected to slow to 3.9% this year, not only because of the fiscal problems associated with low oil prices, but also because of a currency that lost over 30% of its value last year compared to the US dollar. Ironically, Ghana's inability to contribute much to the stabilization fund because of falling oil revenues means the country's currency may fall even more.

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Ghana is currently in talks with the IMF to fund an assistance package that will stabilize the economy, and the Ghanaian central bank has already said it will aggressively defend the price of the Ghanaian cedi. However, to do that the central bank will have to rely on the IMF program and not on oil revenue. One reason the IMF is so keen to reach a deal to prop up Ghana's economy is to avoid protests by workers whose salaries and buying power are being eroded by the falling value of the cedi.

Uganda, Gabon, Chad, and South Sudan have also seen their national budgets come under pressure from the falling price of oil, and Uganda's shilling joined Ghana's cedi, the Nigerian naira, and the Angolan kwanza in losing a significant amount of its value in January. While the tough economic times have some observers worried about increasing labor discontent and possible civil unrest in the countries affected, the most serious concern is reserved for Nigeria. In a recent report RBC Capital Markets noted that "Nigeria has experienced *coups* in previous low (oil) price environments due in part to drying up patronage funds."

In a separate report RBC continued with the doom and gloom, claiming that "oil revenues are the only thing that keeps combustible groups in both the (Nigerian) government and the (Nigerian) military from descending into a much more chaotic, and violent, state of affairs."

The dire predictions about Nigeria notwithstanding, the falling oil price is far from a universal curse for sub-Saharan Africa. In oil-importing countries like South Africa, lower petrol prices are helping to put the damper on inflation. Across the continent, even in oil exporting nations, food prices have dropped, giving a boost to the personal budgets of ordinary citizens, especially the urban poor. In addition, lower oil prices give many countries a more realistic option to actually give in to the IMF's cajoling and reduce or eliminate fuel subsidies.

Still, for most African oil exporters these benefits are little more than the silver lining on an enormous cloud hanging over both their national economy and federal budget. As governments come under pressure from various sectors of society clamoring for their piece of a shrinking pie it seems almost inevitable conflict, violent or otherwise, will follow. While some countries are better equipped than others to tolerate a sustained run of low oil prices, every oil producing country will feel the pain in one way or another.