# Six pillars of African growth

Tracking openness and market depth across the region

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In the light of the post-2014 commodity cycle downturn, many African countries have prioritised initiatives to improve their economic governance, increase the sustainability of their fiscal positions, and diversify their economies. One essential consideration for the next stage of Africa's development is the expansion of its financial markets, which will provide additional growth and funding opportunities to local businesses.

That is the conclusion of the [Barclays Africa Group Financial Markets Index ] launched at the World Bank Group-International Monetary Fund annual meetings in Washington D.C. The index, jointly produced with OMFIF, ranks the maturity, openness and accessibility of 17 financial markets in Africa. It is based on both in-depth quantitative data and a new survey of 60 top executives from financial institutions operating across the 17 countries, including banks, investors, securities exchanges, regulators, audit and accounting firms, and international financial and development institutions.

Development of local investor capacity and ability to attract foreign capital are key points of focus. 'Through expert analysis of the African financial markets, the Africa Financial Markets Index draws global attention to the considerable investment opportunities and uncovers the untapped market potential,' says Akinwumi Adesina, President of the African Development Bank.

The Index focuses on six fundamental pillars for financial market performance: market depth; access to foreign exchange; market transparency and regulation; capacity of local investors; macroeconomic opportunity, and; enforceability of international financial agreements.

The markets surveyed are; Botswana, Egypt, Ethiopia, Ghana, Ivory Coast, Kenya, Mauritius, Morocco, Mozambique, Namibia, Nigeria, Rwanda, Seychelles, South Africa, Tanzania, Uganda and Zambia.

The countries tracked by the index have performed better than the African average, with GDP growth of 3.8% in 2016 against 2.4% for the continent as a whole. They have, however, experienced a larger absolute fall since 2013, when growth was 6% overall, against the African average of 4.2%.

Financial market development offers opportunities for international investors to access fast-growing countries. Some, like Ethiopia, are growing from a low base. Others, particularly oil-exporting economies, are already relatively large and have limited ability for rapid expansion. However, these countries' focus on developing new industry sectors means some sections of the economy still offer robust growth prospects.

South Africa achieves the highest overall score in the index. It has deep and liquid financial markets and, with low restrictions on capital movement, it attracts investors from throughout the region whose own markets are smaller and offer less diversity of products. However, many of South Africa's indicators, including GDP growth and export competitiveness, have deteriorated in recent years.

Others are closing the gap. Mauritius and Botswana have strengths in tax and regulation and access to foreign exchange. Kenya and Ghana provide signs of progress. Ivory Coast, with a low overall score, is home to a growing regional bourse, pointing to future improvement. Ethiopia shows the highest GDP growth prospects of the 17 countries – even though it comes bottom of the list in terms of financial market prowess. Conversely, a deteriorating regulatory environment in Namibia, and restrictive rules on foreign exchange in Egypt and Morocco among other countries, are hampering financial markets' progression.

Investors' ability to deploy and repatriate their funds easily is essential for the development of deep and liquid capital markets. As the Index makes clear, several countries across the continent are already steering their economies towards greater transparency and stronger regulatory frameworks to improve investor confidence in their financial markets.

As the population of the continent continues to grow at a fast pace, private consumption is contributing an ever greater share of GDP. Combined with public investment, this made the biggest contribution to GDP growth across Africa in 2016. This could provide significant opportunities for attracting foreign investment if financial markets are sufficiently developed. Economic diversification between countries remains uneven, however. Total final consumption grew by 11.5% in Ethiopia and 8.2% in Ivory Coast in 2016, against a decline of 6% in Nigeria.

‘The Index provides countries with valuable insights and tools to improve the state of their financial markets,’ says Maria Ramos, Chief Executive of Barclays Africa Group. ‘By broadening and deepening their understanding of the requirements of local and international investors, Africa’s leaders can develop robust markets – a prime condition for sustainable, inclusive growth.’

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