

## **Exchange rate trends, rising *per capita* incomes & property market development in sub-Saharan Africa**

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### **Introduction – the property market as a fortuitous economic cycle**

The brief for this desk-top study on the role of key macroeconomic indicators in shaping the future of property markets in selected African countries was limited to an analysis of exchange rate movements, inflation and economic growth (in purchasing power parity -PPP terms).

A property market that expands and grows in sophistication is usually associated with various other indicators that are savoured by economic policy-makers. Firstly, it is a sign of faith in the general level of socio-economic stability, as it attracts investment by the private sector and individuals that could otherwise have been channelled to lower-risk alternatives (such as bonds or blue-chip equities).

Secondly, property market expansion is associated with the requisite development of basic infrastructure, such as roads, water and electricity. To the extent that government facilitates the expansion of such infrastructure, a range of economic activities underpinning residential construction activity complements increased output in economic sectors that collectively exhibit a low level of import propensity.

The result is economic growth without any significant balance of payments compromise – also referred to in economic literature as inward industrialisation – due to the secondary positive effect on domestic manufacturing sectors induced by increased private consumption expenditure (flowing from increased employment in construction and eventually augmented by job creation in other sectors).

Such a circular process of enhanced construction sector output filtering through to other secondary industries broadens a developing country's taxation base, relieving pressure on output and exports in agriculture and mining to secure fiscal and balance of payments stability.

Ideally, a government that wishes to enhance the welfare of its citizens will utilise this taxation windfall to continue stimulating the fortuitous economic cycle of increased output (in relatively labour-intensive industries); job creation; higher levels of household consumption; and rising tax revenues by the continued expansion and maintenance of infrastructure.

An added incentive for emphasis on a socio-economic strategy that seeks to accelerate property market development lies in the eventual further broadening of the taxation base through the introduction of property taxes or the generation of additional state revenues from higher property values.

### **Selection of countries that offer future investment potential**

The process of selecting a group of sub-Saharan African (SSA) countries that may offer scope for the development of a more sophisticated property market commenced with the 20 largest economies in the region, in terms of gross domestic product (GDP).

Three filters were subsequently applied to narrow down the selection to those countries that exhibit relatively low risk (from a property market investment perspective). The first of these

was based on political stability and involved the utilisation of the *Fragile States Index*, compiled annually by the *Fund for Peace*.

This composite index uses 12 factors to determine the rating for each nation, including security threats; human rights violations; non-provision of public services; widespread corruption and criminality; refugee flows; and sharp economic decline.

Countries are ranked in terms of their perceived fragility from very high alert to warnings, improving to being classified as stable and/or sustainable. SSA countries in the alert categories were eliminated, with the exception of Nigeria, due to its position as the largest economy in Africa.

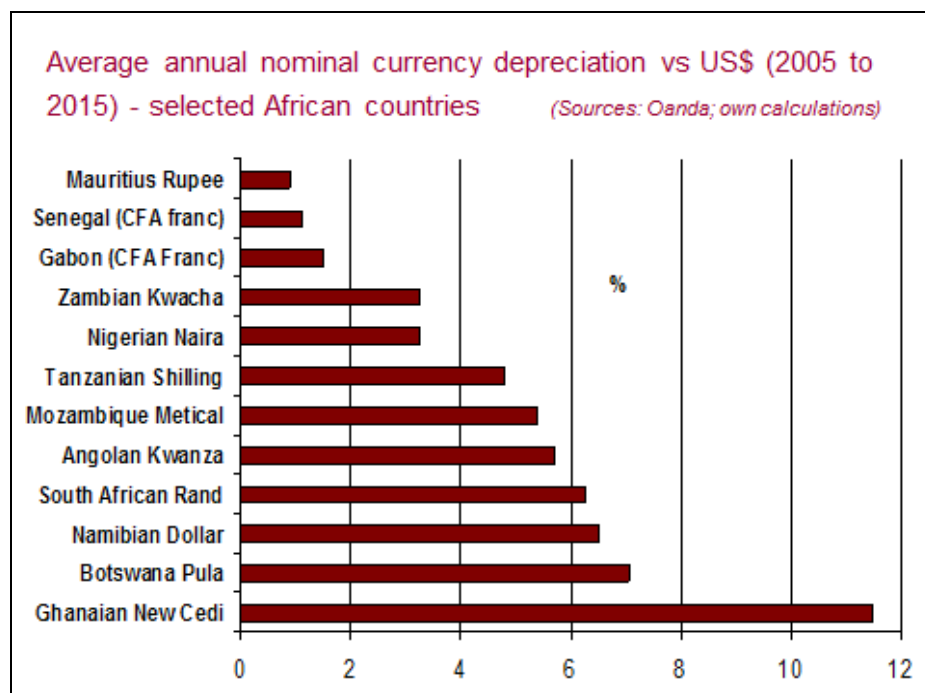
Mauritius represents the only African country amongst the stable & sustainable categories. The country is also the most competitive economy in Africa and it was decided to include Mauritius in the research selection.

The second filter was based on inclusion in the 2014/15 *Global Competitiveness Report*, published by the *World Economic Forum*. It is highly unlikely for any country that does not qualify for inclusion in this report to attract meaningful direct investment in fixed property as the dubious status of non-inclusion usually implies, *inter alia*, a lack of adequate market size, socio-political instability, weak institutions and over-regulation.

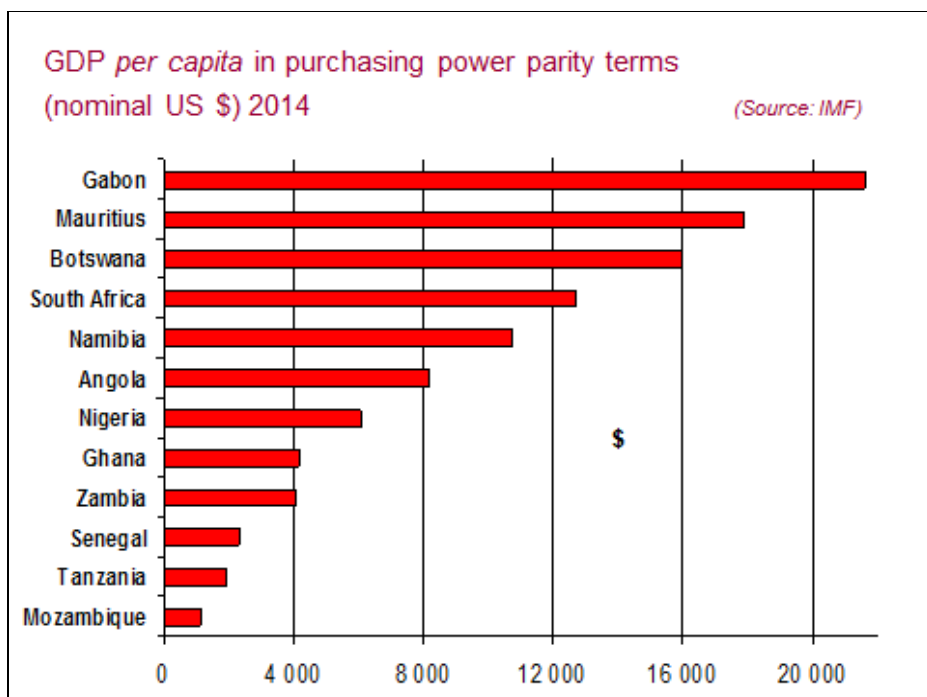
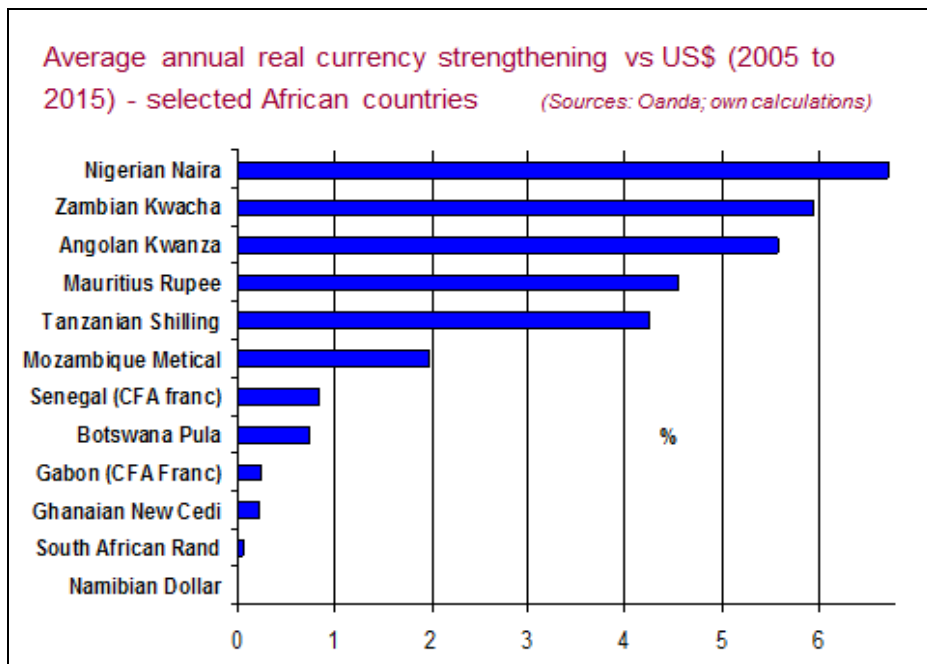
## Conclusions

Key conclusions drawn from the analysis and ranking of the selected group of countries (in terms of real and nominal exchange rate trends and growth of *per capita* income) are as follows:

- Over the past decade, the African countries included in the research selection recorded modest exchange rate depreciation in nominal terms. After adjustment for inflation, however, the currencies of half of these countries strengthened meaningfully, with the other half exhibiting a large degree of currency stability.



- This finding is supported by other scholarly research, including econometric modelling by Sylviane Jeanneney & Ping Hua of the University of Auvergne that confirms the existence of appreciating currencies, in real terms, in most African countries during the period 2000 to 2011. This phenomenon is largely explained by increased exports of raw materials to China, a measure of balance of payments stability and the effective pegging of a number of currencies to the Euro.
- Countries with relatively high inflation enjoyed significantly higher economic growth than those with low inflation



- A huge divergence in *per capita* GDP (at PPP) exists between the twelve selected countries, with Gabon boasting a figure that is almost 20 times higher than that of Mozambique
- Stable exchange rates (in nominal terms) were associated with price stability, but were inversely correlated to currency strength in real terms
- The two countries with the weakest improvement in *per capita* GDP (in PPP terms) do not possess floating exchange rates, but are both pegged to the CFA franc, confirming the negative impact of an over-valued currency on export-led economic growth.
- Over the past decade, most of the countries in the SSA region have enjoyed exceptionally high GDP growth rates, including nine of the countries selected for this analysis

