

Why KPMG doubts that SA has overtaken Nigeria again

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KPMG disagrees with reports that SA has overtaken Nigeria as Africa's largest economy in dollar terms, saying the calculations behind this assertion are methodologically incorrect.



Image by 123RF

This is because the reported dollar estimates are based on gross domestic product (GDP) data from the end of 2015 while the exchange rate readings are from August 2016, KPMG senior economist Christie Viljoen says.

"The time difference between the two data points makes these calculations spurious at best and not really a reliable indicator of recent developments," he says.

The assumption that SA had overtaken Nigeria as Africa's biggest economy in dollar terms emerged following the recent rand rally and the devaluation of the *naira* in June 2016.

In order to reflect the impact of the naira devaluation and the rand's recovery on comparable GDP estimates, a calculation would need to be made based on GDP data for the second quarter of 2016, which are yet to be released.

The 2016 second-quarter GDP reports from SA and Nigeria would reflect stagnant economies and revisions to historical data, Viljoen says. "From an exchange rate perspective, the naira ended the period (second quarter) notably weaker while

the rand was quite stronger."

Viljoen said he would be able to calculate the top three largest economies in Africa once second-quarter GDP data were made available by countries over the next few weeks. Countries have always battled for the top spot, particularly as this implies they are more attractive to foreign investors.

Investors mostly prioritise investing in countries with a higher economic growth potential, Investment Solutions chief economist Lesiba Mothata says. On this measure, Nigeria fares better than SA as it has the ability to grow faster than SA, he says.

The Reserve Bank has successively lowered its potential output estimates for SA from about 3.5% in 2010 to current levels of around 1.4%.

Nigeria overtook SA as the continent's biggest economy in 2014 after rebasing its GDP. SA then lost out the second position to Egypt after the rand weakened significantly in 2015.

Source: [*Business Day*](#).

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