



**AFR**

Regional Economic  
Outlook

# Recovery and Rising Risks

**October 2018**



# Roadmap

**I. A Less Supportive External Environment**

**II. Outlook and Risks**

**III. Policy Challenges**

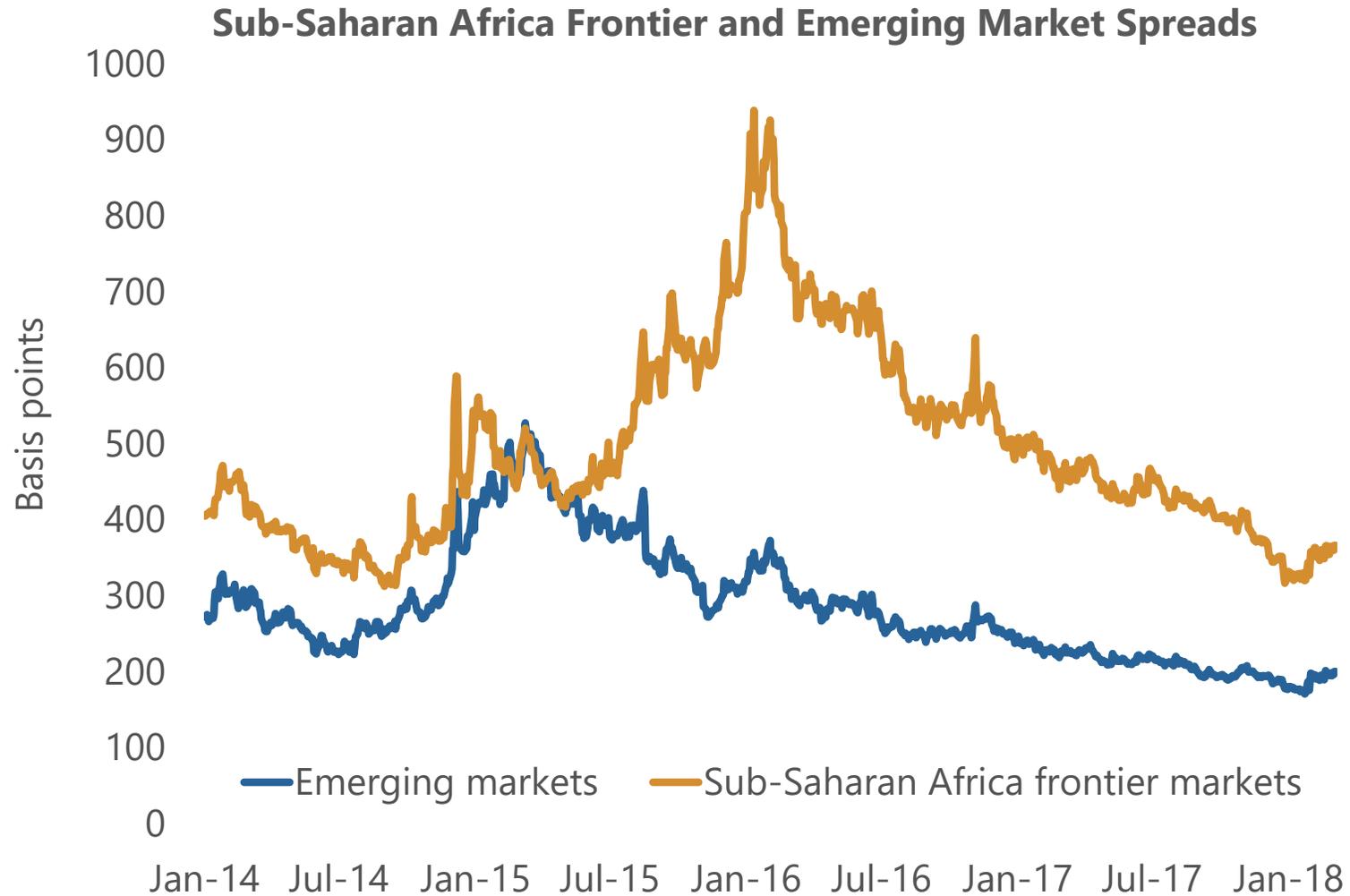
**Reducing Debt Vulnerabilities**

**Dealing with Capital Flows**

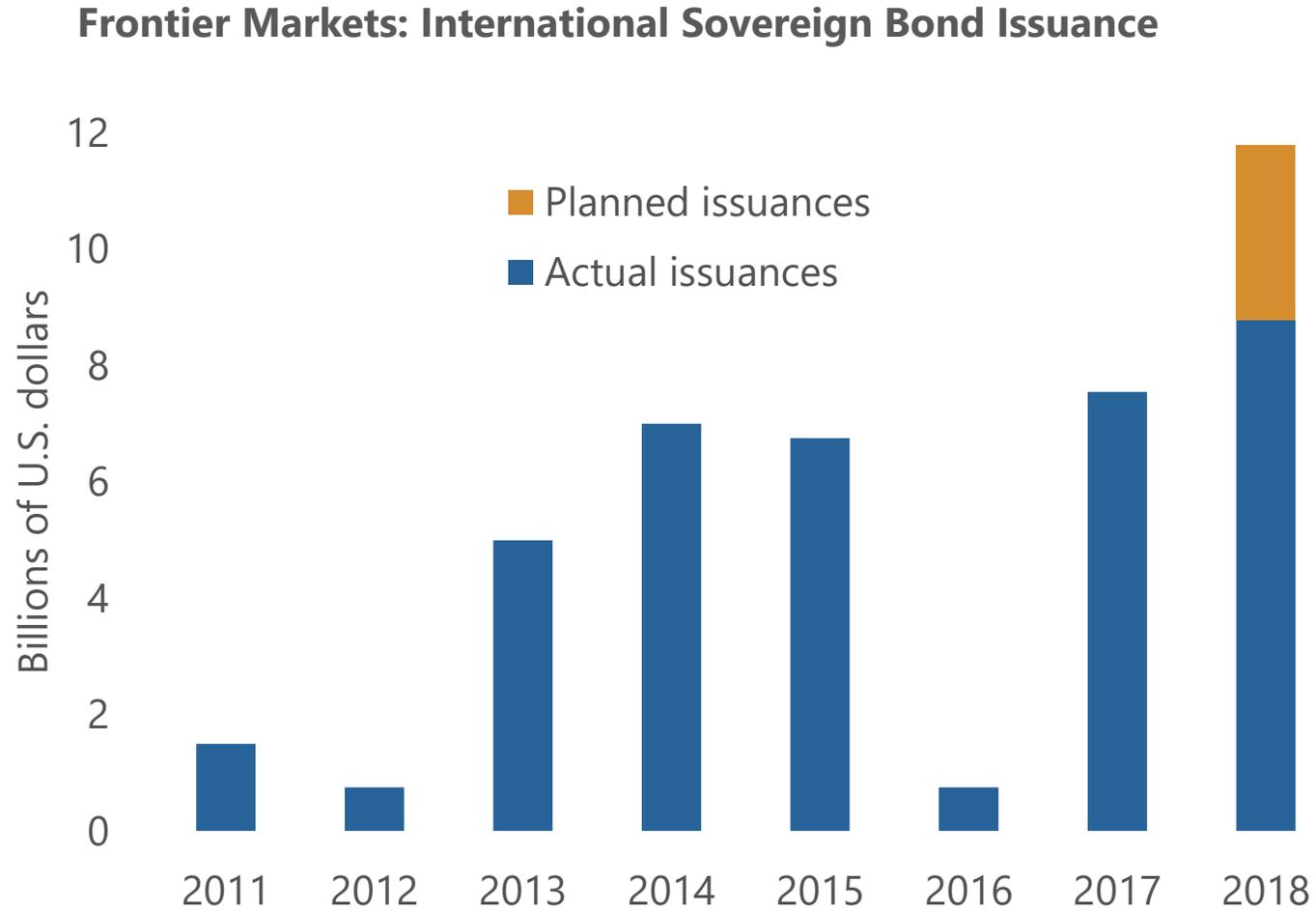
**Lifting Incomes Faster**

# **I. A Less Supportive External Environment**

# Let's Recap --- Last April we reported that many of SSA's frontier markets had benefited from improved market access...

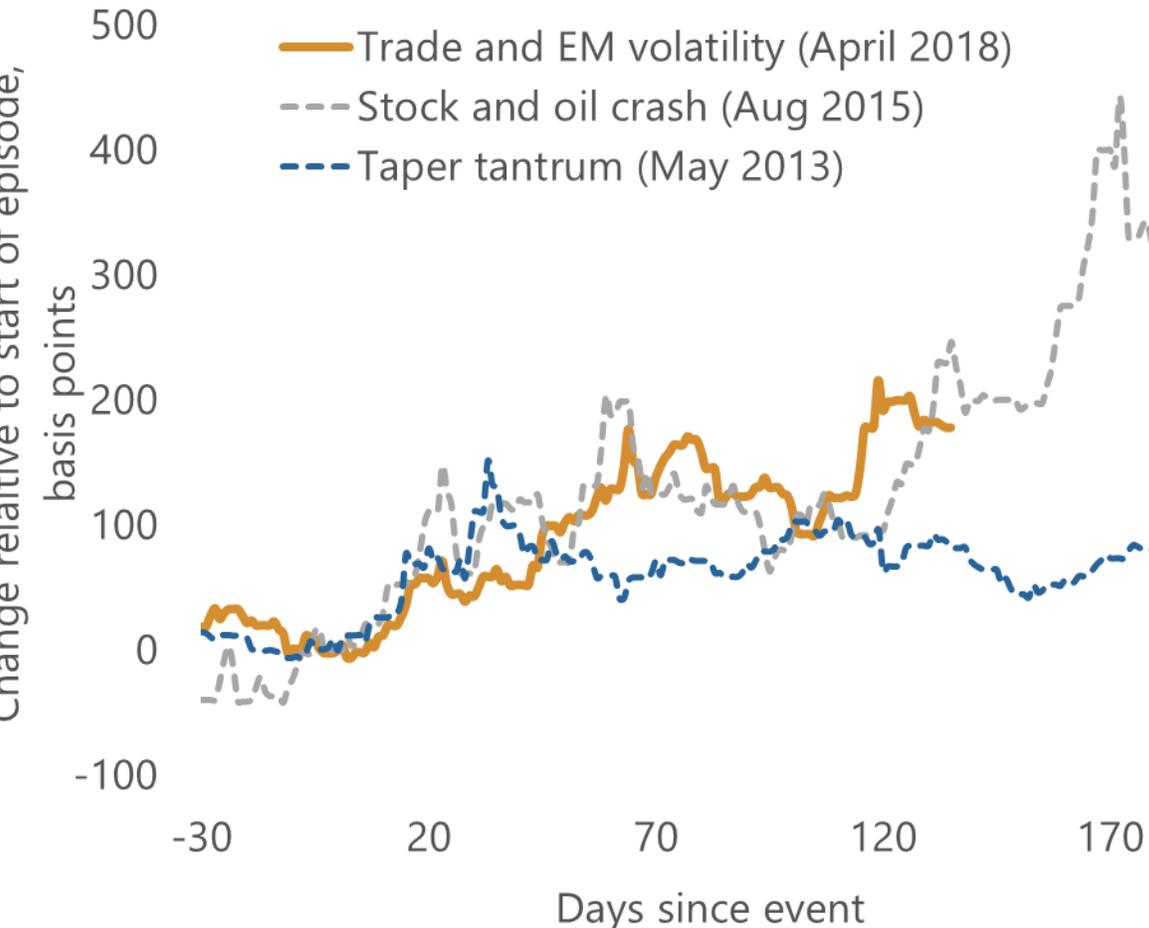


# ...and that the region had attracted significant foreign capital.

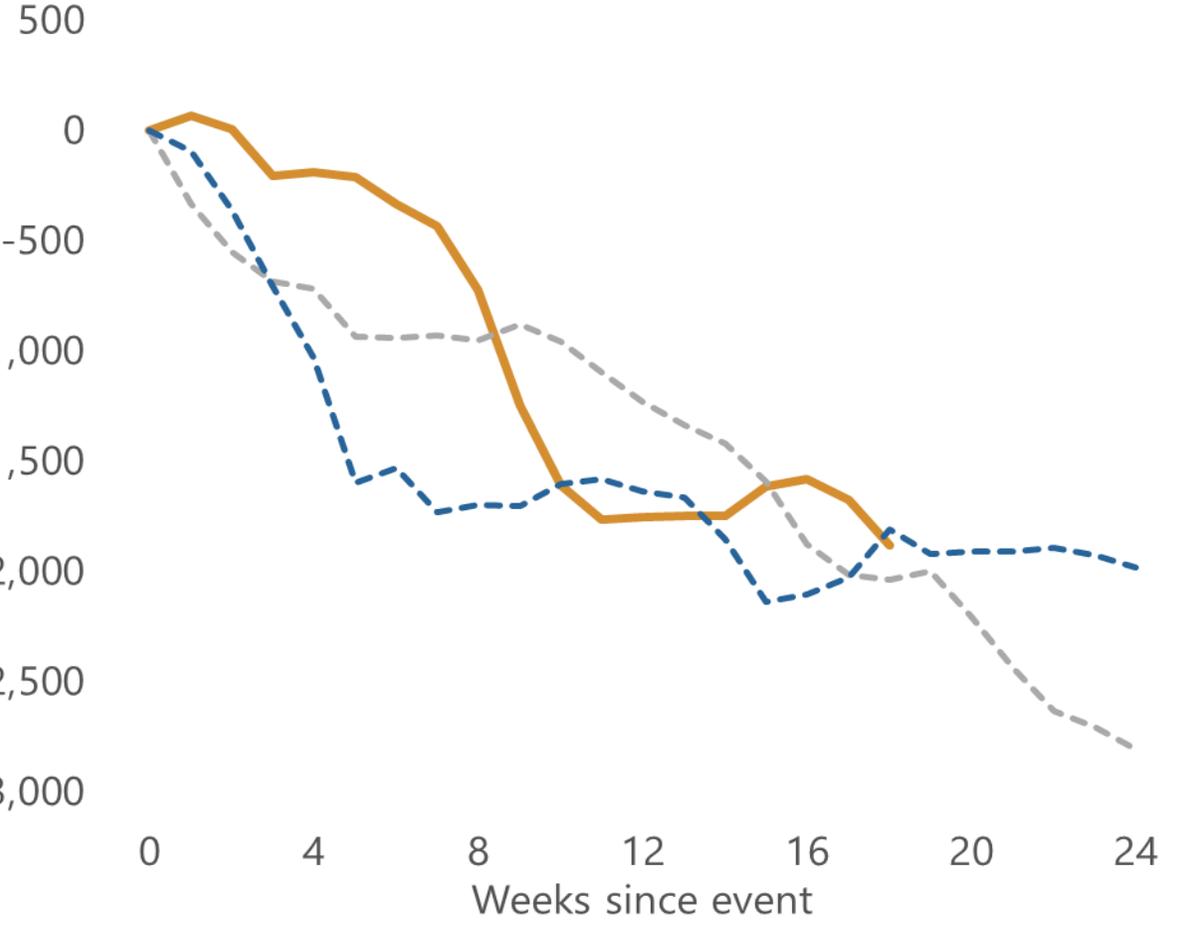


# Now, financing conditions have tightened, since mid-April, with higher bond spreads and portfolio outflows.

### Sub-Saharan African Selected Frontier Markets: Sovereign Bond Spreads



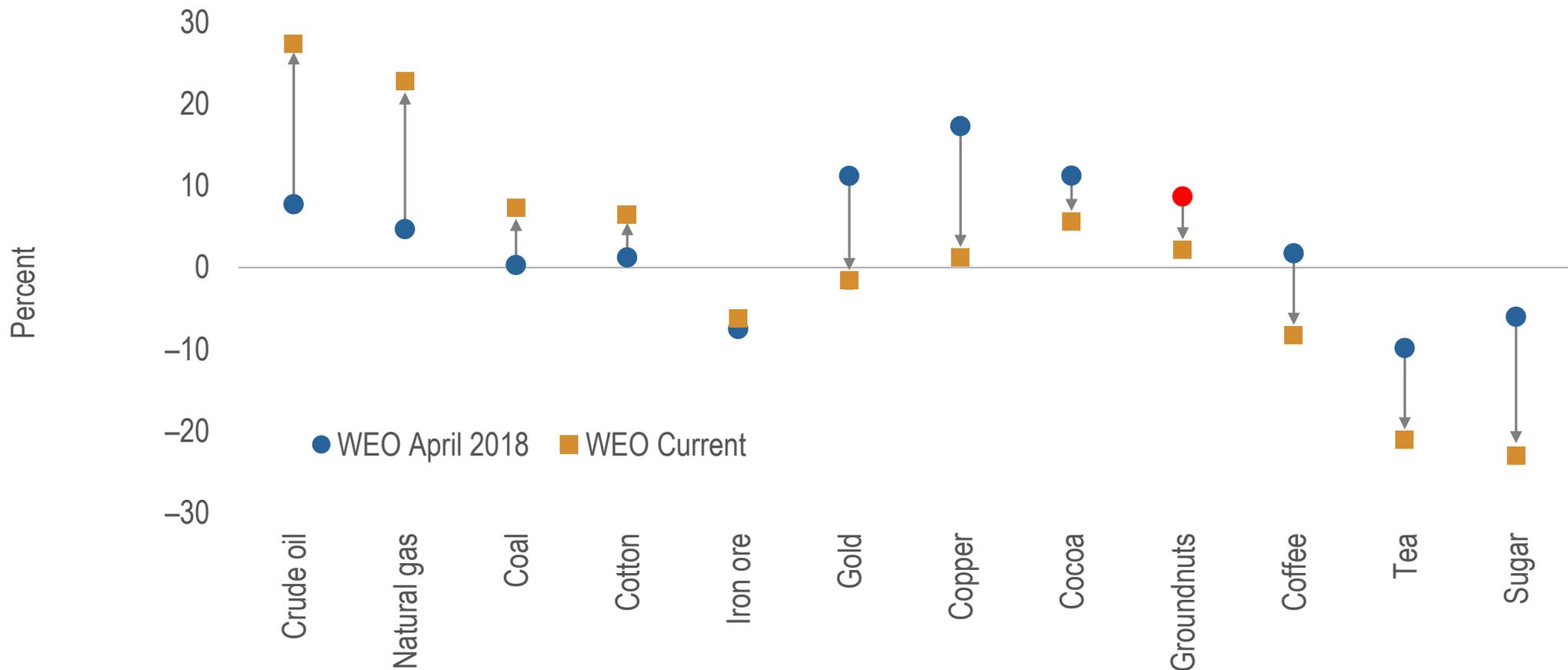
### Sub-Saharan African Frontier Markets: Cumulative Portfolio Flows



Source: Bloomberg Finance L.P.

# Higher prices will facilitate recovery in oil exporting countries, but could dampen growth in non-oil producers

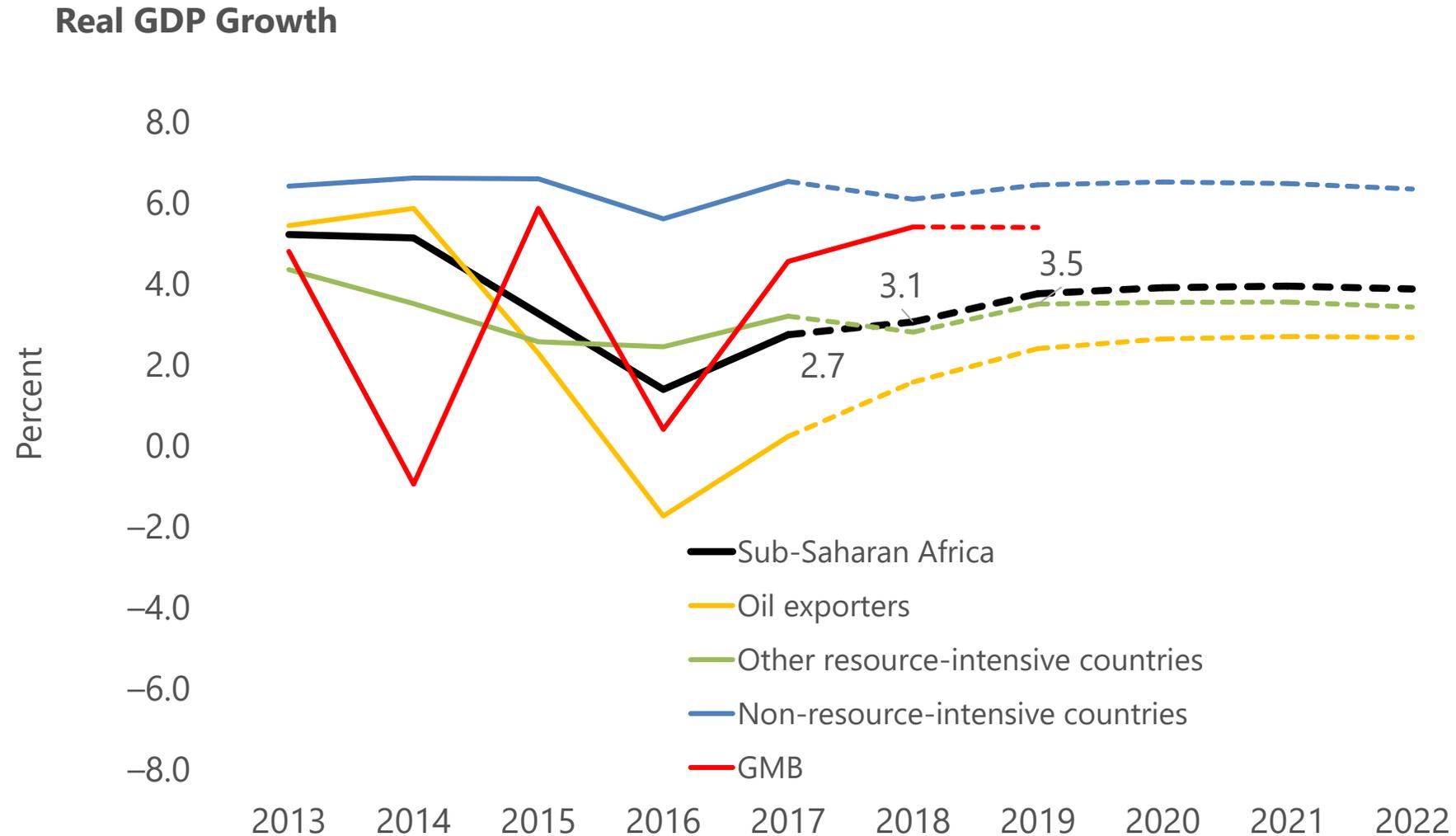
Selected Commodity Prices Expected Changes (Average 2019–20 vs 2017)



Source: IMF, World Economic Outlook database.

## **II. Outlook and Risks**

# Growth Outlook: Sustained growth in non-resource-intensive countries, and muted recovery elsewhere.



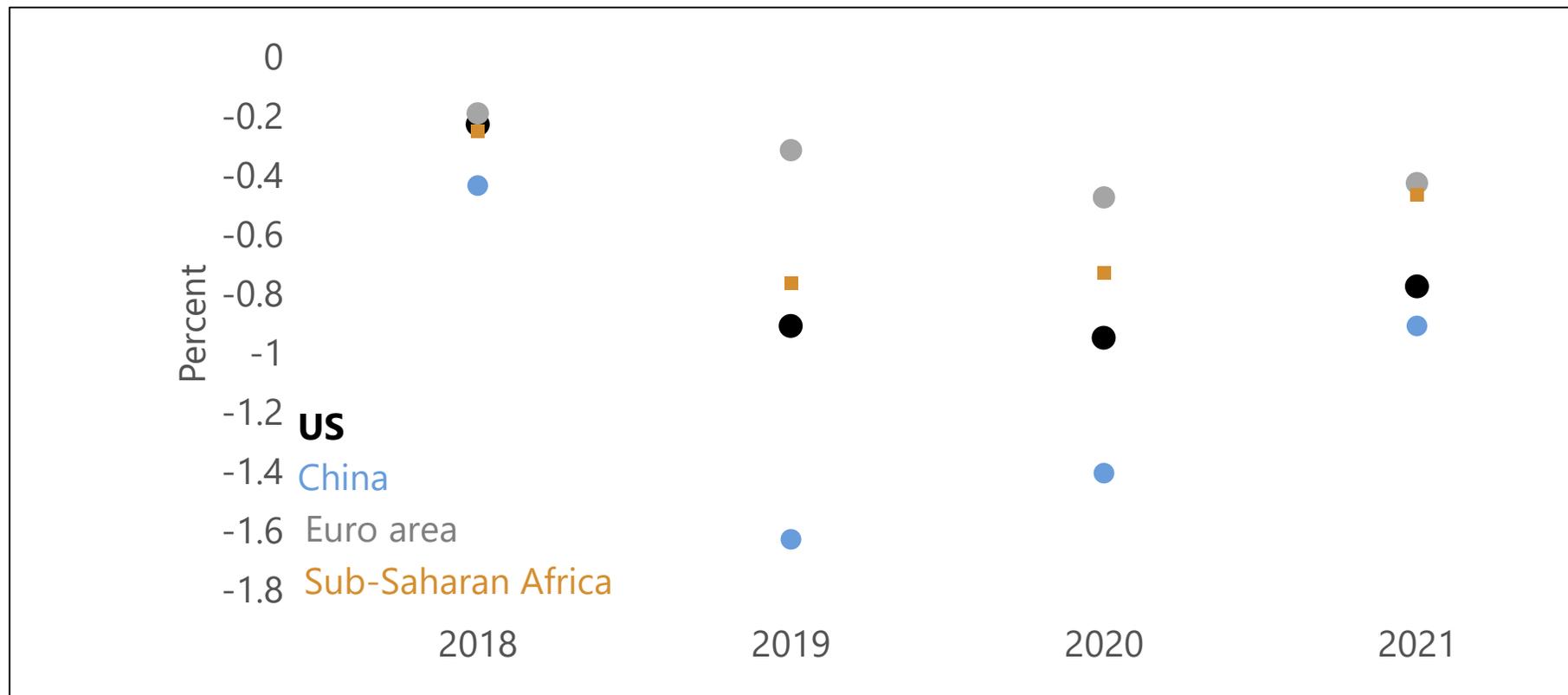
# **Downside risks to the economic outlook stem from both from domestic and external sources:**

- **Rising global trade tensions**
- **Tightening global financial conditions**
- **Regional security threats**

# Risk: Rising Trade Tensions

*Externally, a further escalation of trade tensions would likely threaten the global recovery.*

Potential Impact of Trade Tensions on GDP



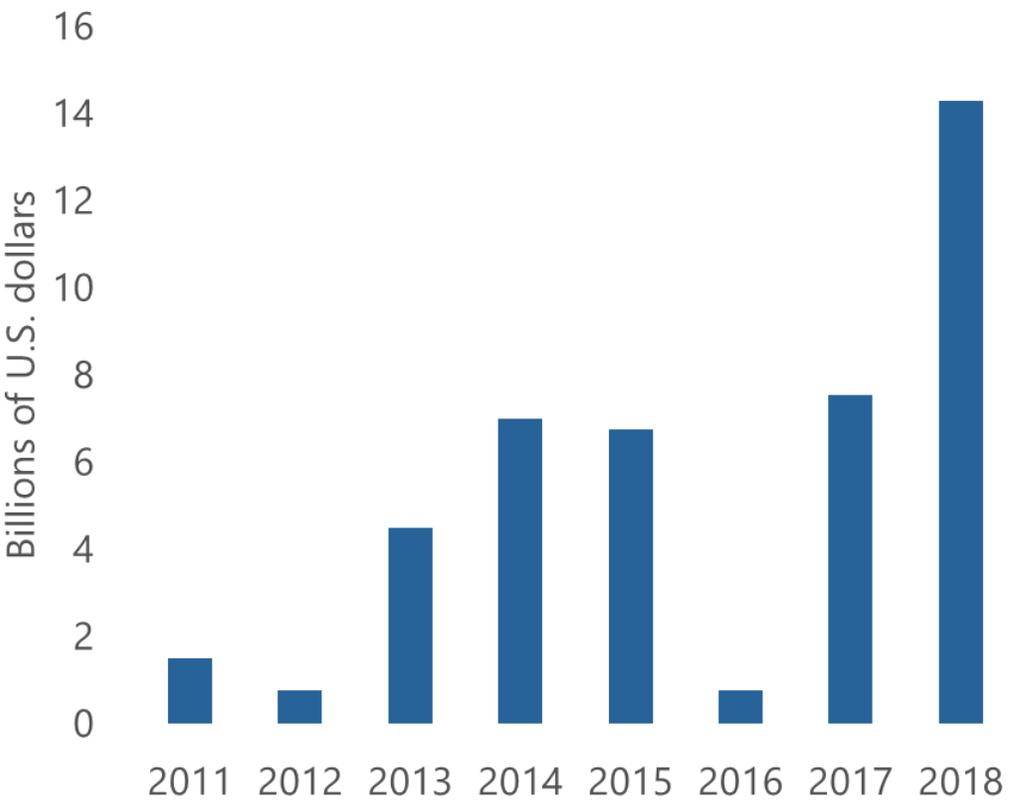
# In The Gambia, global threats could play out through the following transmission channels

- ***Weaker tourism demand and reduced remittances*** following a global slowdown.
- ***Pressure on the exchange rate*** due to reduced FX inflows, a strong US dollar and higher global interest rates.
- ***Increased debt service burden*** and higher borrowing costs with the rise in global interest rates and exchange rate depreciation.
- ***Higher fuel import bill*** following the rise in international commodity prices and exchange rate depreciation.

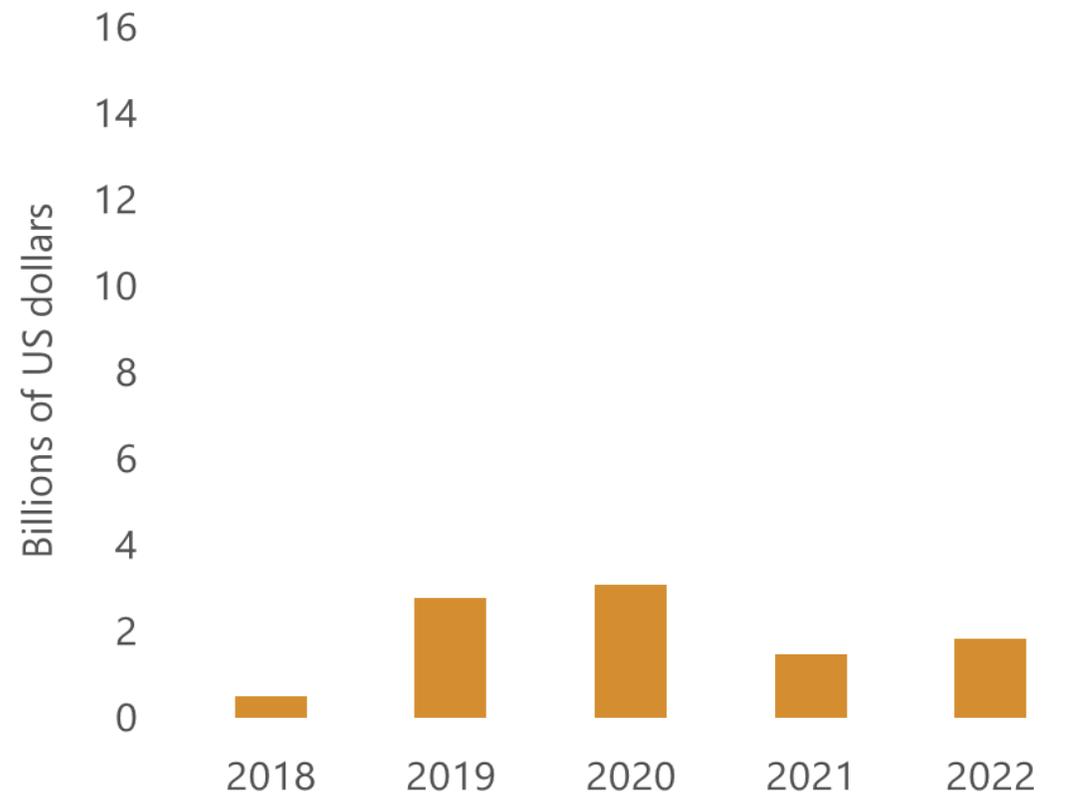
# Risk: Tightening Global Financial Conditions

*Many SSA Frontier Economies face an increased exposure to an unexpected tightening of global financial conditions.*

**Sub-Saharan African Frontier Markets International Sovereign Bond Issuances**

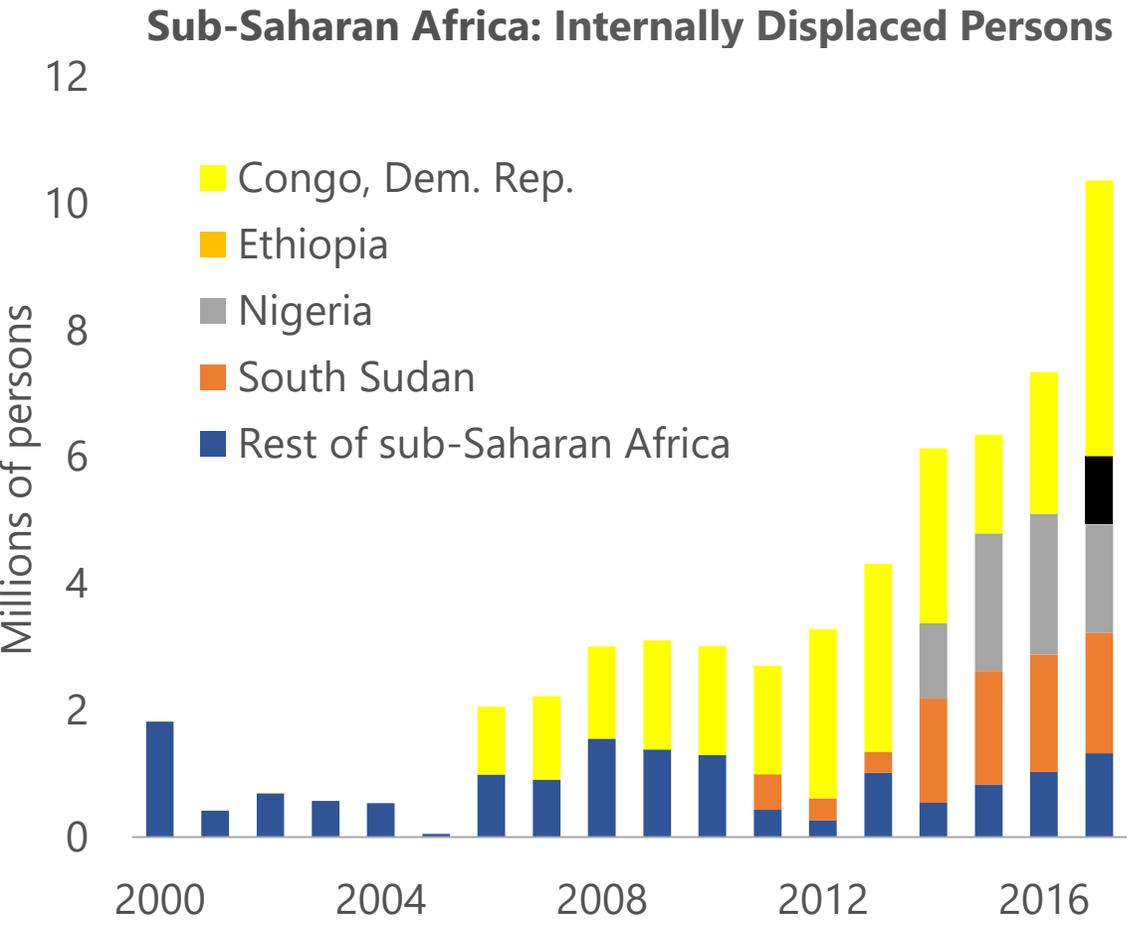


**Sub-Saharan African Frontier Markets Maturing International Sovereign Bonds**



# Risk: Rising Security Threat

Security threats are exacting a significant human toll in a number of SSA countries



Source: Uppsala Conflict Data Program.

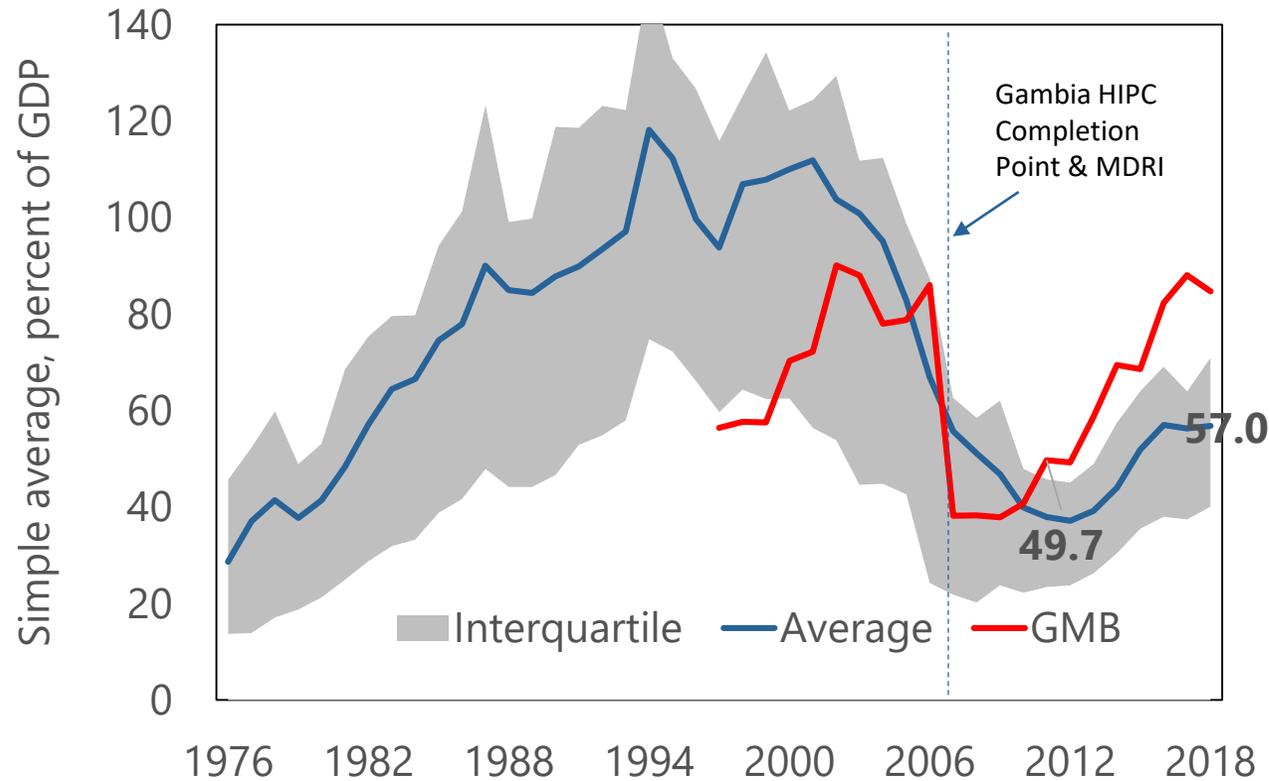
Source: United Nations High Commissioner for Refugees.

## **IV. Policy Challenges**

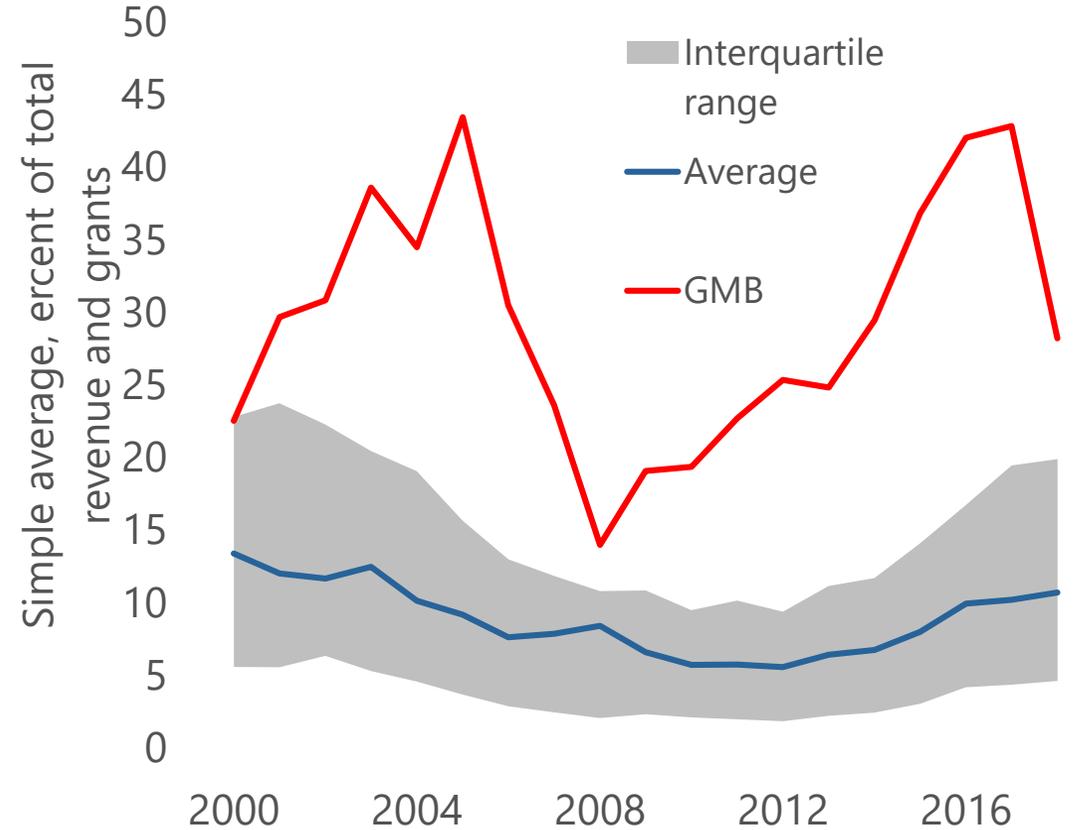
- a. Reducing Debt Vulnerabilities will boost resilience**

# Rising Debt Vulnerabilities: Public debt is diverting more resources towards interest payments...

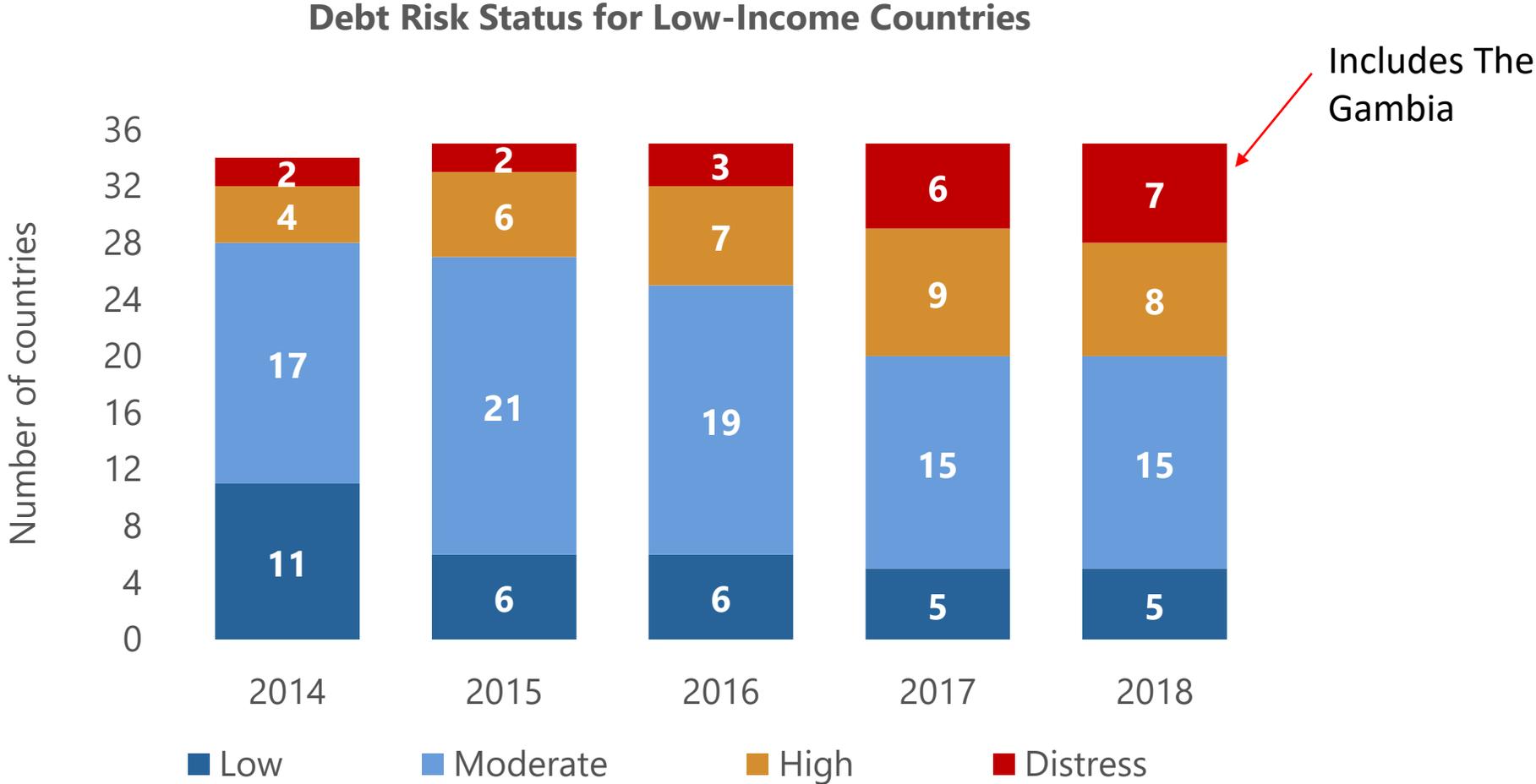
Sub-Saharan Africa: Total Public Sector Debt



Sub-Saharan Africa: Interest Payments



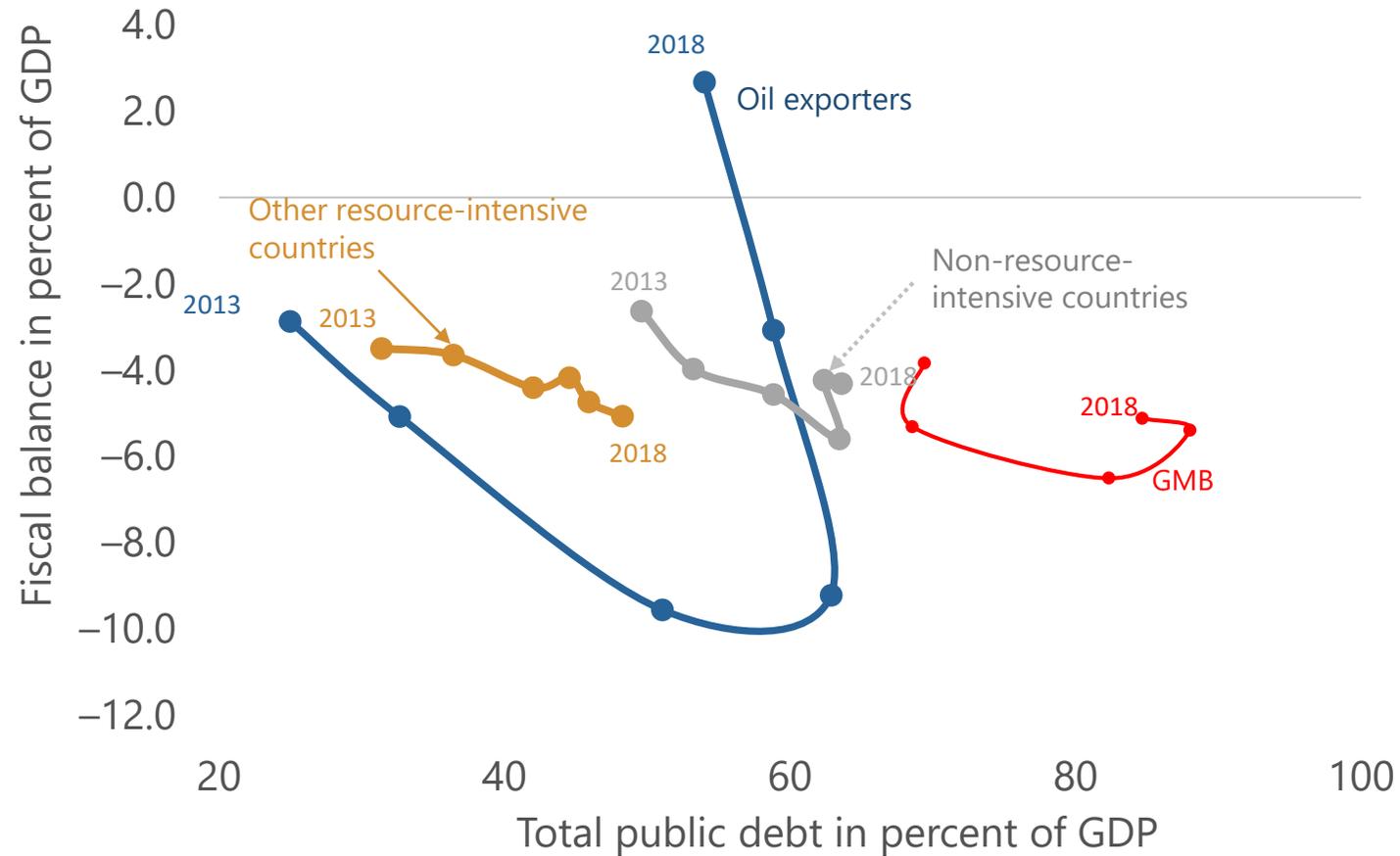
# Heightened debt vulnerabilities are posing a challenge for countries to service their commitments.



Source: IMF, Debt Sustainability Analysis Low-Income Developing Countries database.

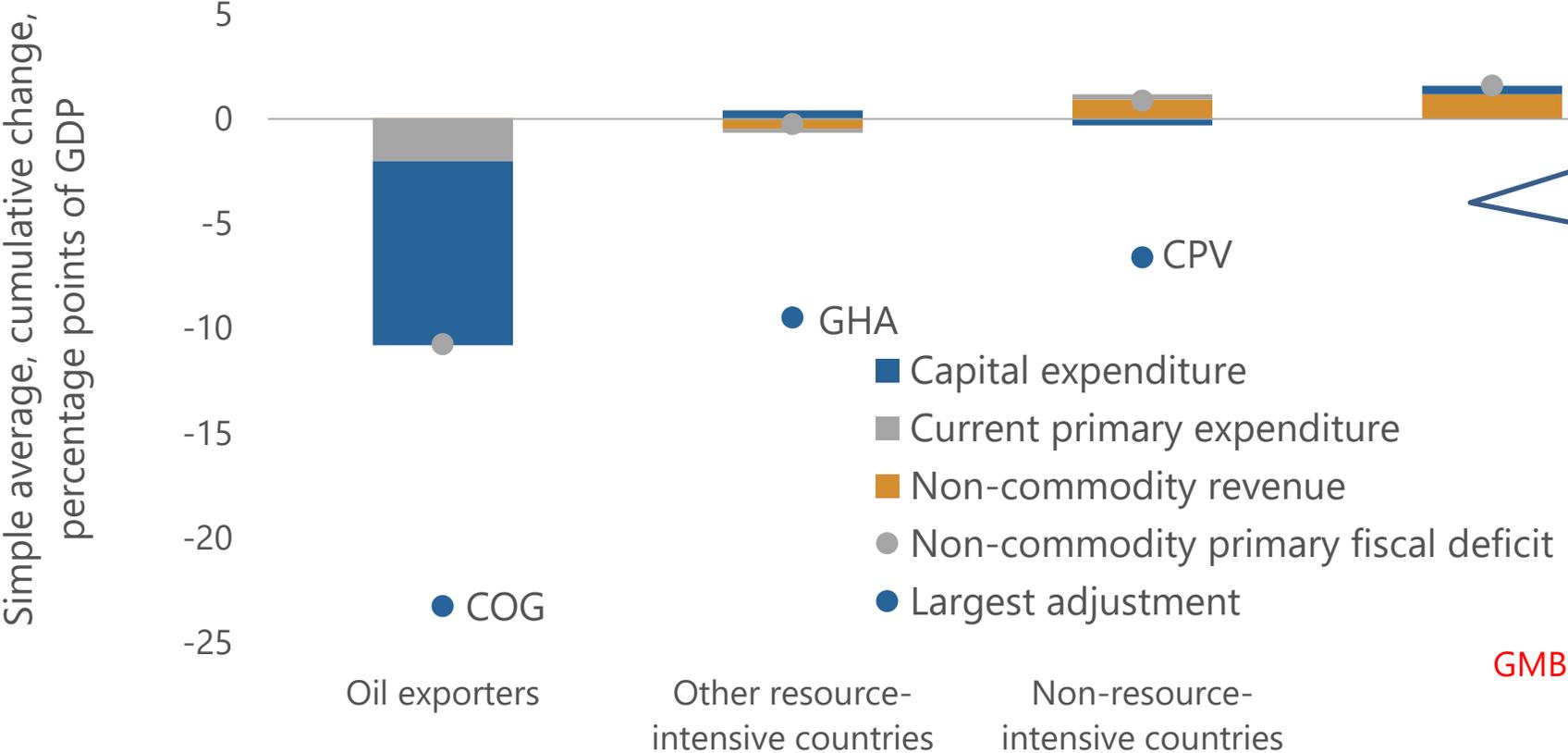
# Progress on improving debt dynamics remains mixed.

Average Fiscal Balance and Public Debt (percent of GDP)



But, the quality of the adjustment is an issue, as oil exporters have relied on investment spending compression rather than revenue mobilization.

Fiscal Developments 2013–17

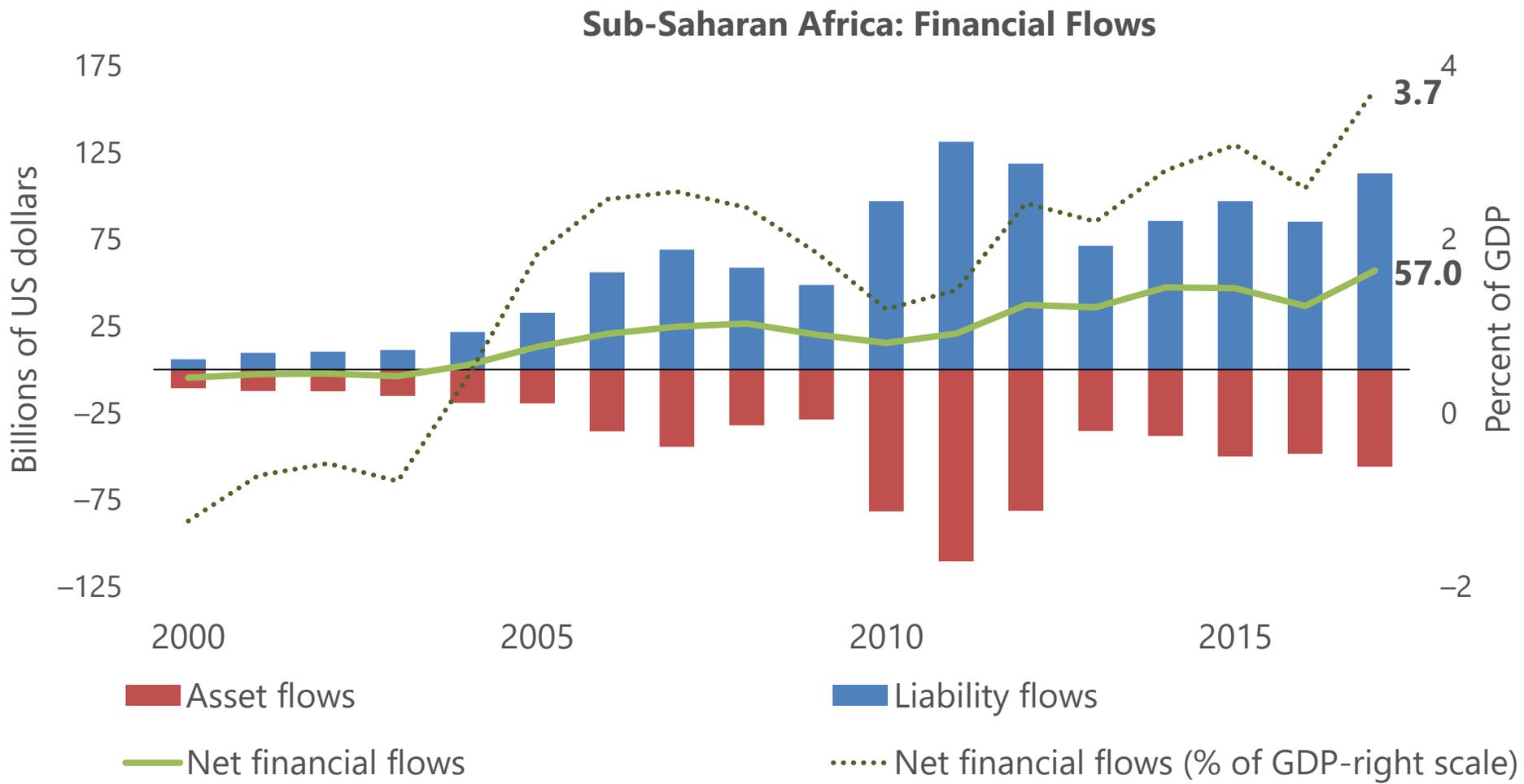


*Research shows that SSA countries can raise 3-5 percent of GDP more in revenue over the next 5 years*

## **IV. Policy Challenges**

### **b. Dealing with Capital Flows**

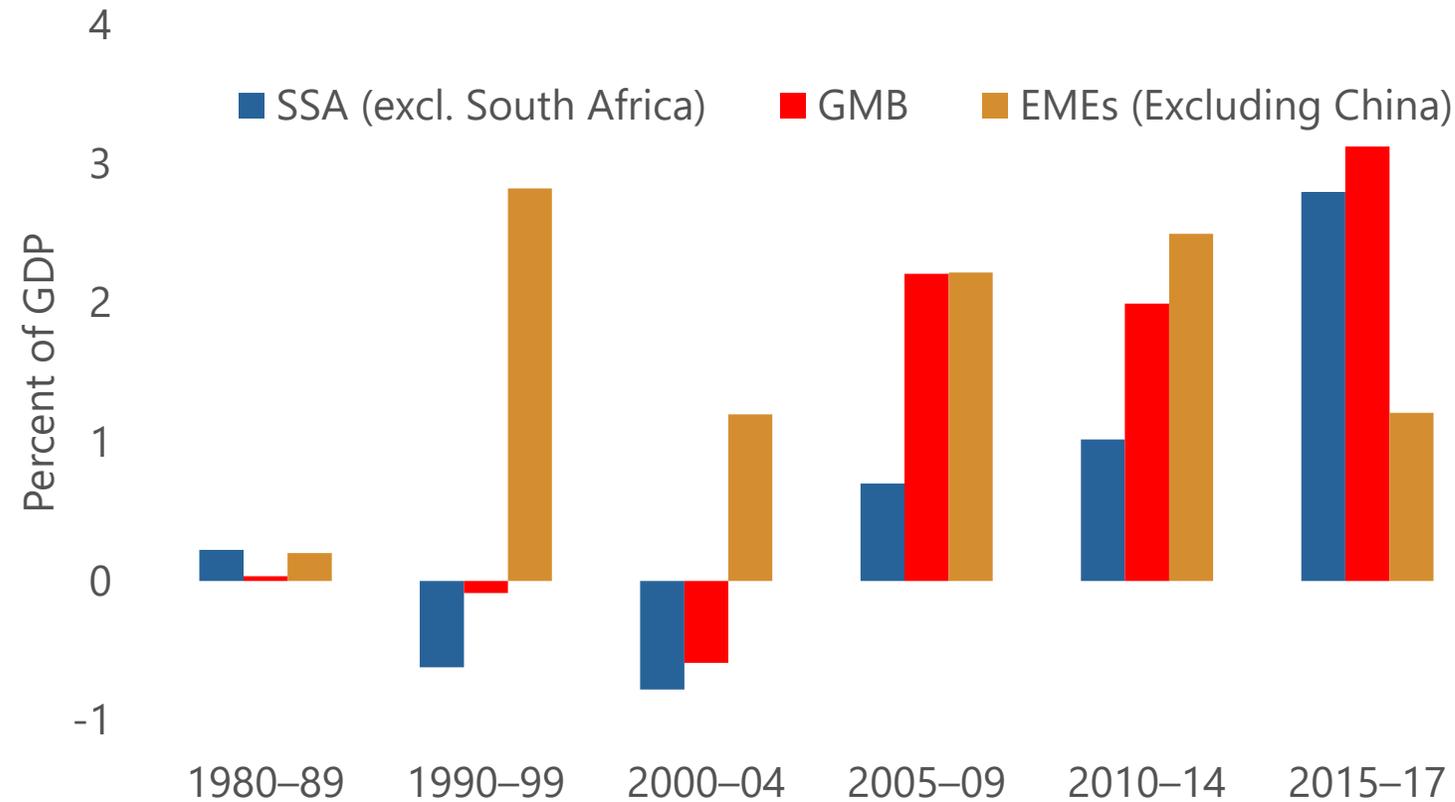
# Financial integration with the rest of the world has deepened, marked by rising net non-official capital flows...



Source: IMF staff estimates.

# Capital flows to SSA were proportionally larger than those to EMEs during 2015-17

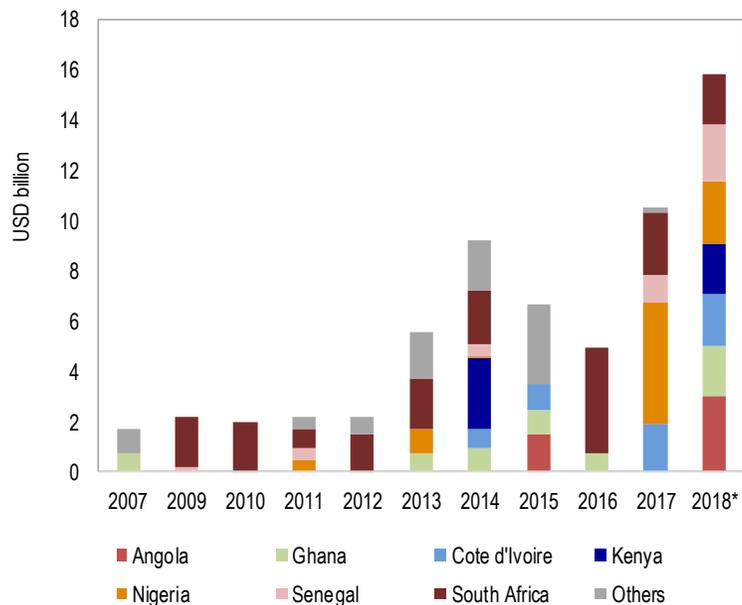
Sub-Saharan Africa and Emerging Markets Net Financial Flows



# These trends have given rise to concerns about SSA's vulnerability to a sudden stop.

*Recent News Headlines*

**Sub-Saharan Africa: Sovereign Bond Issuance, 2007–18**  
(in USD billion)



Source: Bloomberg LLP.  
\* Data as of June 2018.

**QUARTZ Africa**  
**Africa is sitting on a ticking time bomb—\$35 billion worth of Eurobond debt**

**FINANCIAL TIMES**  
African nations turn to bond markets for finance needs  
Strong investor appetite despite some countries carrying heavy debt loads

**The East African**  
Africa: Experts Warn of Africa's New Debt Crisis

**Bloomberg**  
**Africa's Eurobond Love Fest Set to Continue as Issuers Line Up**  
March 7, 2018, 8:47 AM EST

**Investment in Africa: Change is afoot**

**FINANCIAL TIMES**  
IMF warns of fresh shocks to global financial stability

**World Bank raises concerns over Africa's rising debt distress risk**

# Key takeaways:

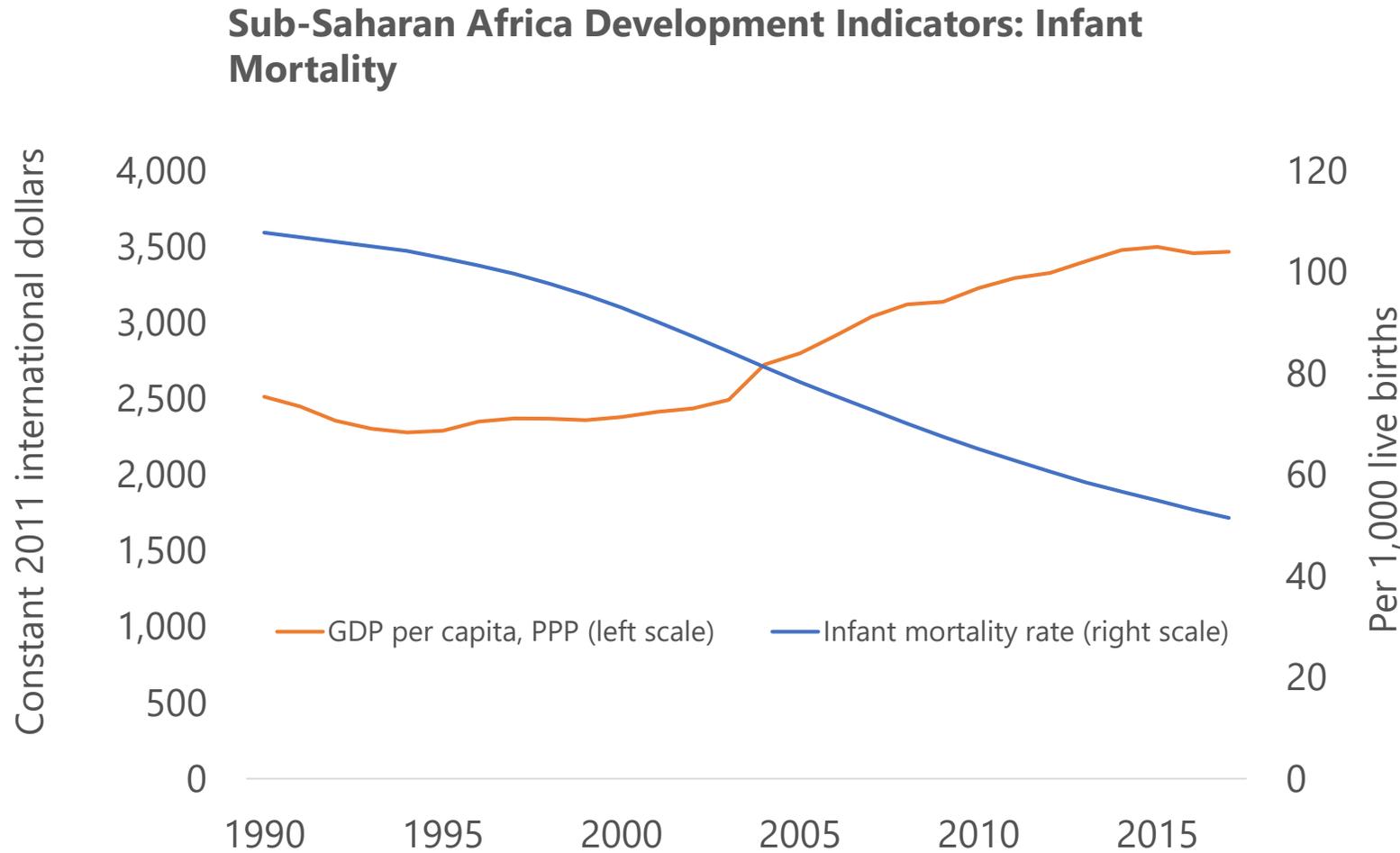
## Capital inflows offer potential benefits but also carry risks

- Capital flows to SSA are highly sensitive to global factors and domestic fundamentals
  - **Push factors:** US interest rate and commodity prices
    - A 100 bps decline in the US government bond yield  $\Rightarrow$   $\uparrow$  liability flows by 0.3-0.4 percent of GDP
  - **Pull factors:** Institutional quality, real GDP growth, trade openness, external debt ratio
- Importance of factors, however, tends to differ by the type of flow
  - US interest rates/commodity prices have a stronger effect on FDI
  - Global market volatility strongly affects foreign portfolio flows, but not FDI
- Careful management of capital flows is needed to mitigate the inherent risks
  - **Be Prudent:** Sovereigns need to ensure that the borrowed resources are utilized effectively, enhance productivity, and promote sustainable economic growth
  - **Be Vigilant and strengthen Resilience:** Vigilance is warranted against the buildup of macroeconomic and financial imbalances. Countercyclical macroeconomic and prudential policies should be adopted to limit vulnerabilities, build adequate buffers, and preserve debt sustainability. All of this is with a view to improving the business climate.

## **IV. Policy Challenges**

### **c. Lifting Incomes Faster**

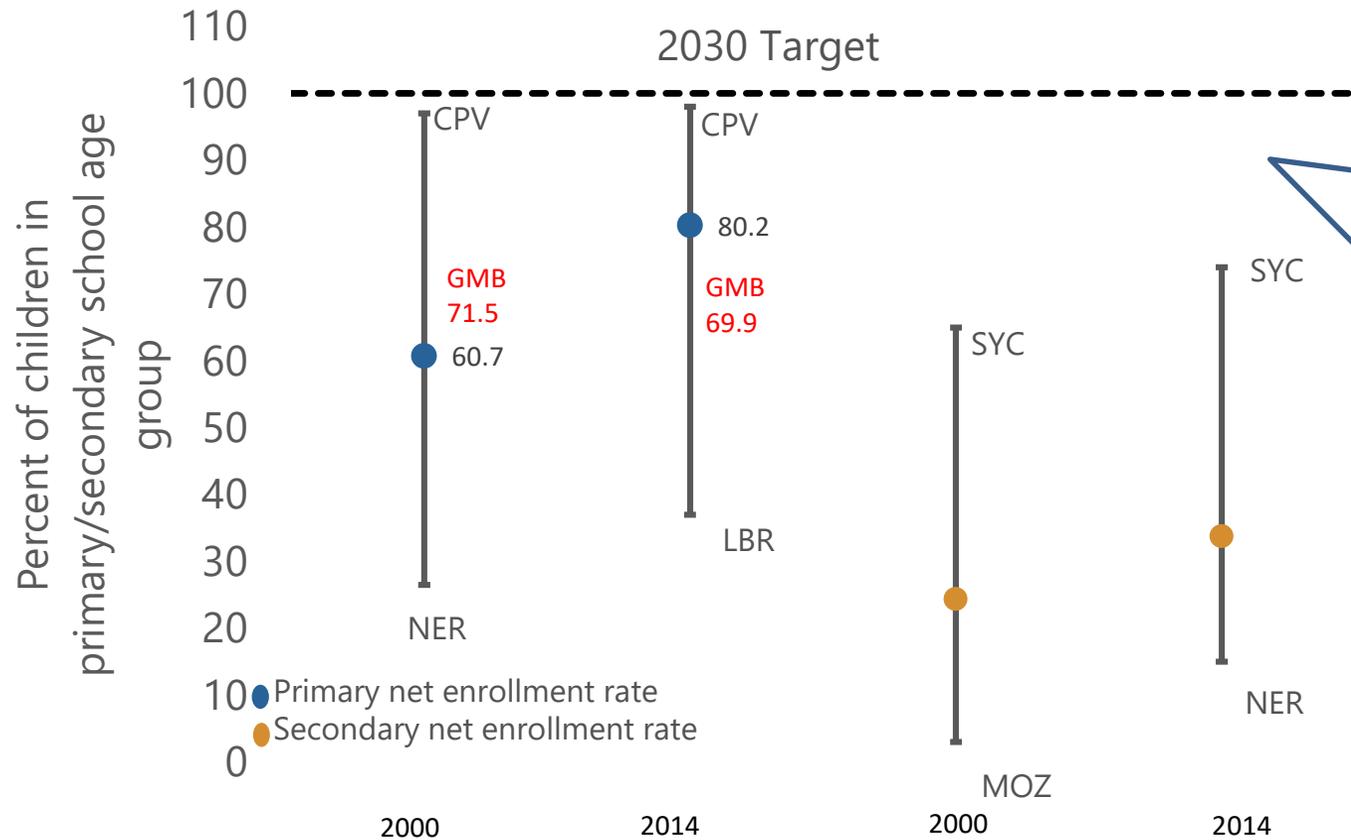
# Raising growth is important for meeting the SDGs



*Rapid per capita GDP growth promotes good social outcomes*

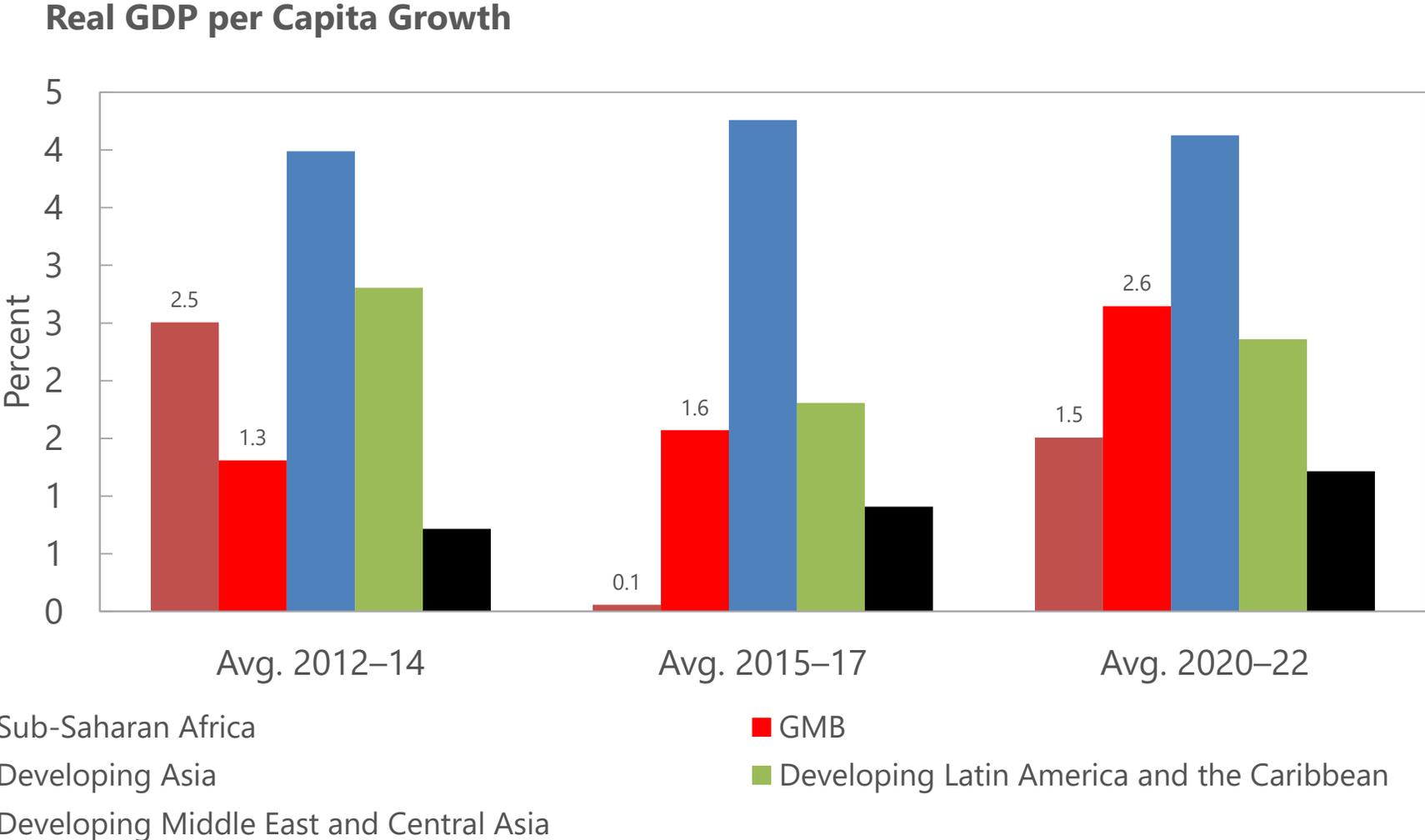
# Meeting the SDGs will require stronger growth and more financing.

Sub-Saharan Africa Development Indicators



*There is a need to boost educational and social spending to make further progress with the SDGs*

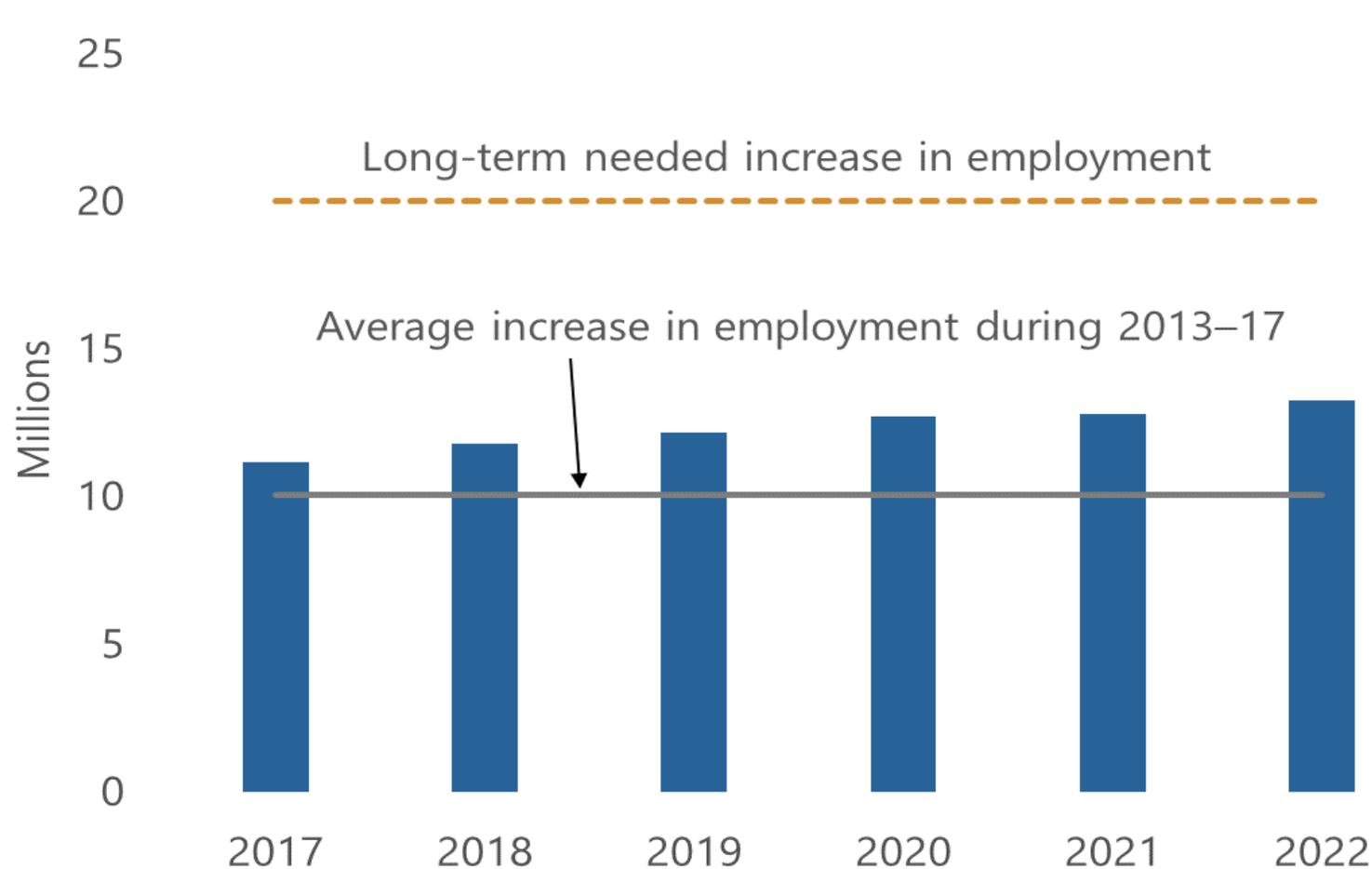
# On a per capita basis, projected growth over the medium term is too low.



Source: IMF, World Economic Outlook database.

# Policies are needed today to create more jobs in coming years.

Change in Employment



*There is a need to close the gap between actual and projected job growth and job growth needed to absorb new entrants*

# The 4th Industrial Revolution: Job creation is complicated by uncertainty on extent to which technology replaces labor.

## Opportunities

Historically, technology has complemented labor

Leapfrogging Opportunities (e.g. Mobile Money & Banking)

Services as a source of growth

## Policies to Bridge the Gap, include:

- Invest in traditional and digital infrastructure
- Invest in technical and vocational training and in an educational system that keeps pace with changing skill requirements
- Deepen regional trade integration, including within the context of the African Continental Free Trade Area
- Create an enabling environment for the private sector, including by improving regulatory frameworks and strengthening access to capital.

## Challenges

Periods of transition are often costly

Technology may substitute labor & reshoring away from SSA

Declining labor share

# Recap Key Messages

- **The recovery is expected to continue amidst rising risks.**
  - Muted recovery in oil exporting countries, while most other countries continue to sustain high growth.
  - Achieving the Gambia's promising growth potential requires adherence to the reform agenda, and vigilance is needed to mitigate downside domestic and global risks.
- **Fiscal deficits need to continue narrowing, but the quality of adjustment needs to be strengthened.**
  - Further revenue-based adjustment is needed to reduce debt vulnerabilities and create space for priority social and development spending.
  - In The Gambia, in addition to revenue mobilization, efforts are needed to improve efficiency and better prioritize and restrain recurrent spending pressures.
- **Enhancing resilience and raising growth potential is essential; policies vary across countries.**
  - Improve policy frameworks
  - Promote diversification
  - Deepen trade and financial integration
  - Promote flexible education systems to avoid skills mismatches, and digital connectivity
  - Promote private investment

# IMF TA and CD is helping to strengthen policy frameworks in Core Areas of IMF Expertise

## Fiscal Policy and Management

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Improving **tax systems** and effectively **managing public resources**, to improve services such as education, health and public infrastructure; and to ensure **public debt sustainability**

## Legislative Frameworks

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Building **legal and governance frameworks** in line with international standards and anti-money laundering and combating the financing of terrorism (**AML/CFT**)

## Monetary Policy and Financial Systems

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Controlling inflation, implementing **sound exchange rate policies**, and strengthening financial sector **supervision** and **regulation** in support of financial stability and **inclusion**

## Macroeconomic and Financial Statistics

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Strengthening capabilities to **produce, compile and disseminate** reliable and consistent macroeconomic and financial statistics

## Macroeconomic Frameworks

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**Formulating** and **implementing** sound macroeconomic and financial policies; deepening the dialogue on policy issues and sharing experiences through **peer learning and training**

# IMF's CD efforts are also helping member countries to tackle key development priorities

## Reducing Inequalities

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Training policymakers to implement inclusive policies such as **expenditure and subsidy reform**, **progressive taxation** and **financial inclusion**; providing **analytical**, **operational**, and **monitoring tools** that countries need to tackle inequality

## Taking Action on Climate Change

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Working with countries on **environmental tax reform** and **efficient energy pricing**; helping create **robust frameworks** and **public financial management plans** to prepare countries for natural disasters and climate-related shocks

## Improving Gender Equality

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Compiling **gender-specific data** on **financial access** so countries better understand the impact of policies on women; helping boost **female labor participation**; providing training on **gender budgeting**; empowering female government officials through training

## Improving Governance

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Promoting **better management of public resources** and **public sector institutions**; developing and maintaining a **transparent and stable economic and regulatory environment**; fighting **corruption**

## Supporting Fragile States

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Covering areas critical to **restore economic stability** and **build core institutions**, such as public finances, tax administration, public financial management, monetary policy, central bank monetary operations, banking supervision, currency reform, economic statistics

**THANK YOU**