



Dealing with the Gathering Clouds

Regional Economic Outlook for sub-Saharan Africa

International Monetary Fund

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Outline



- Section I: Overall outlook and external headwinds
 - Illustration with the case of Nigeria
- Section II: Impact on the region and policy implications
 - Illustration with the case of Mozambique
- Section III: Developments and outlook in Uganda



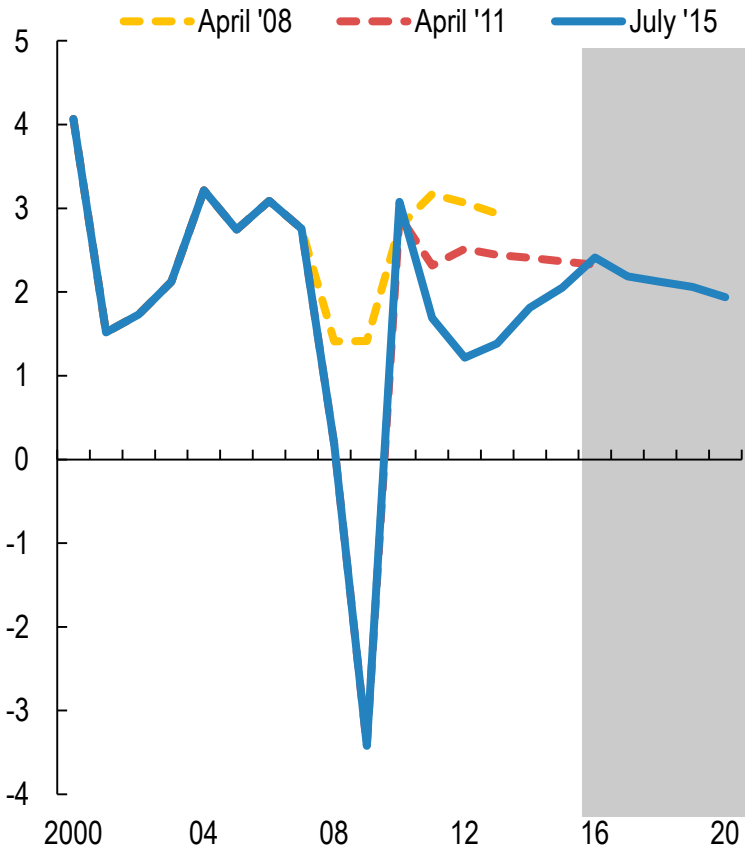
Section I

Overall Outlook and External Headwinds



Global growth moderate and uneven

Advanced Economies: Real GDP Growth
(percent; various WEO forecast vintages)



Sources: IMF Staff estimates.

Advanced economies: Modest expansion

- **United States:** strong rebound to above-trend growth after 2015Q1 setback
- **Euro area:** stronger domestic demand offsets weaker net exports
- **Japan:** Asia factor; wage growth remains modest
- **United Kingdom:** robust domestic demand growth



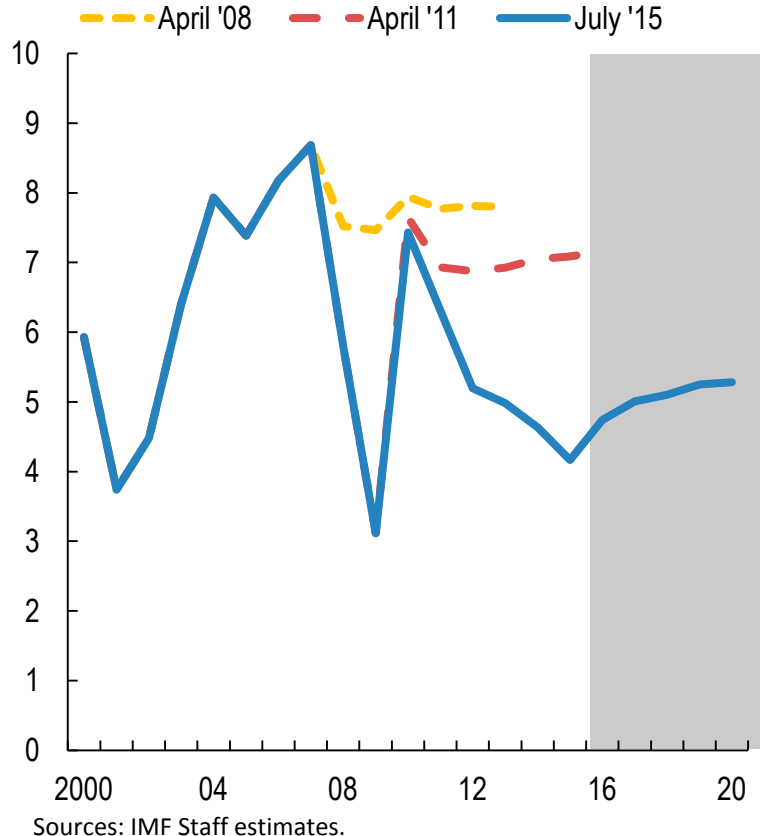
Global growth moderate and uneven

Emerging markets and developing economies: Slowing growth and multiple challenges

Three powerful forces:

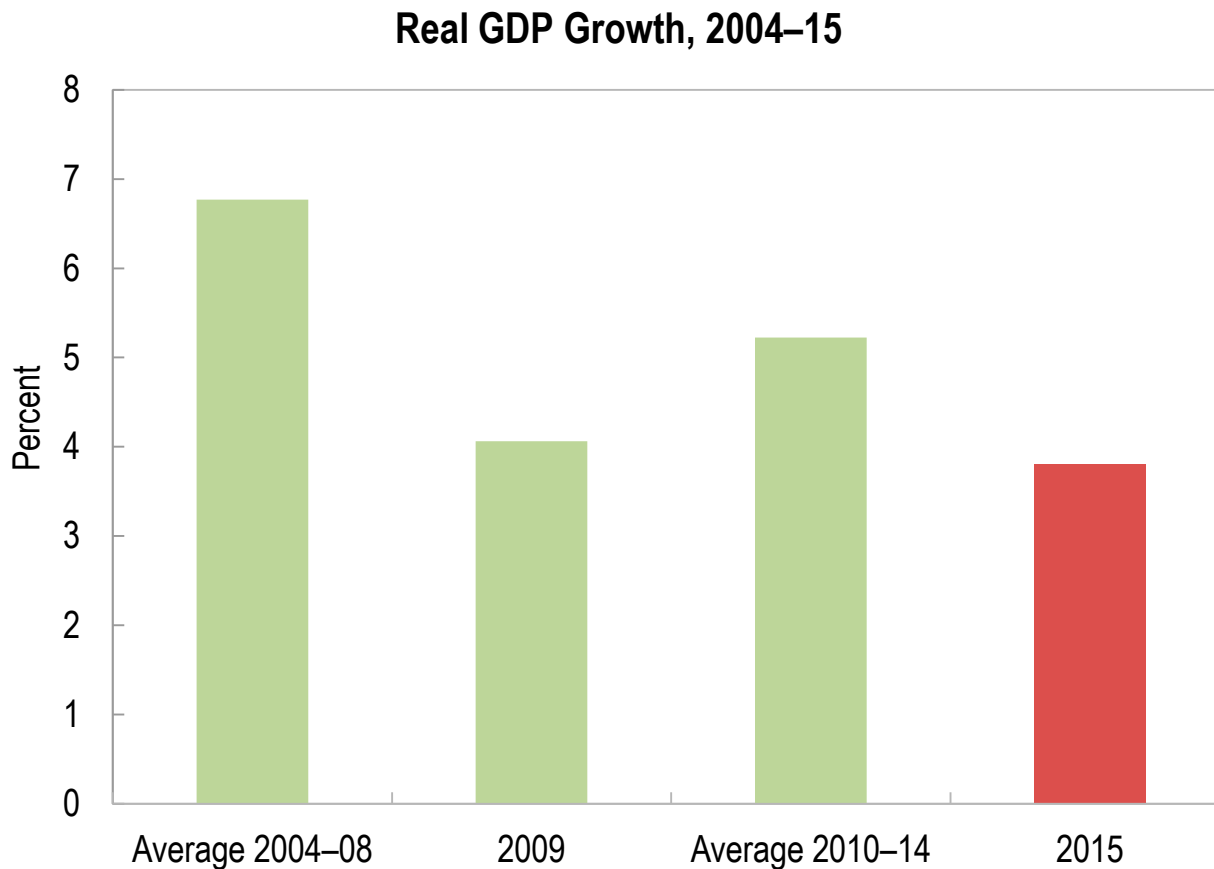
- China's economic transformation
- Decline in commodity prices
- Monetary policy normalization in the U.S.

Emerging Markets and Developing Economies: Real GDP Growth
(percent,; various WEO forecast vintages)

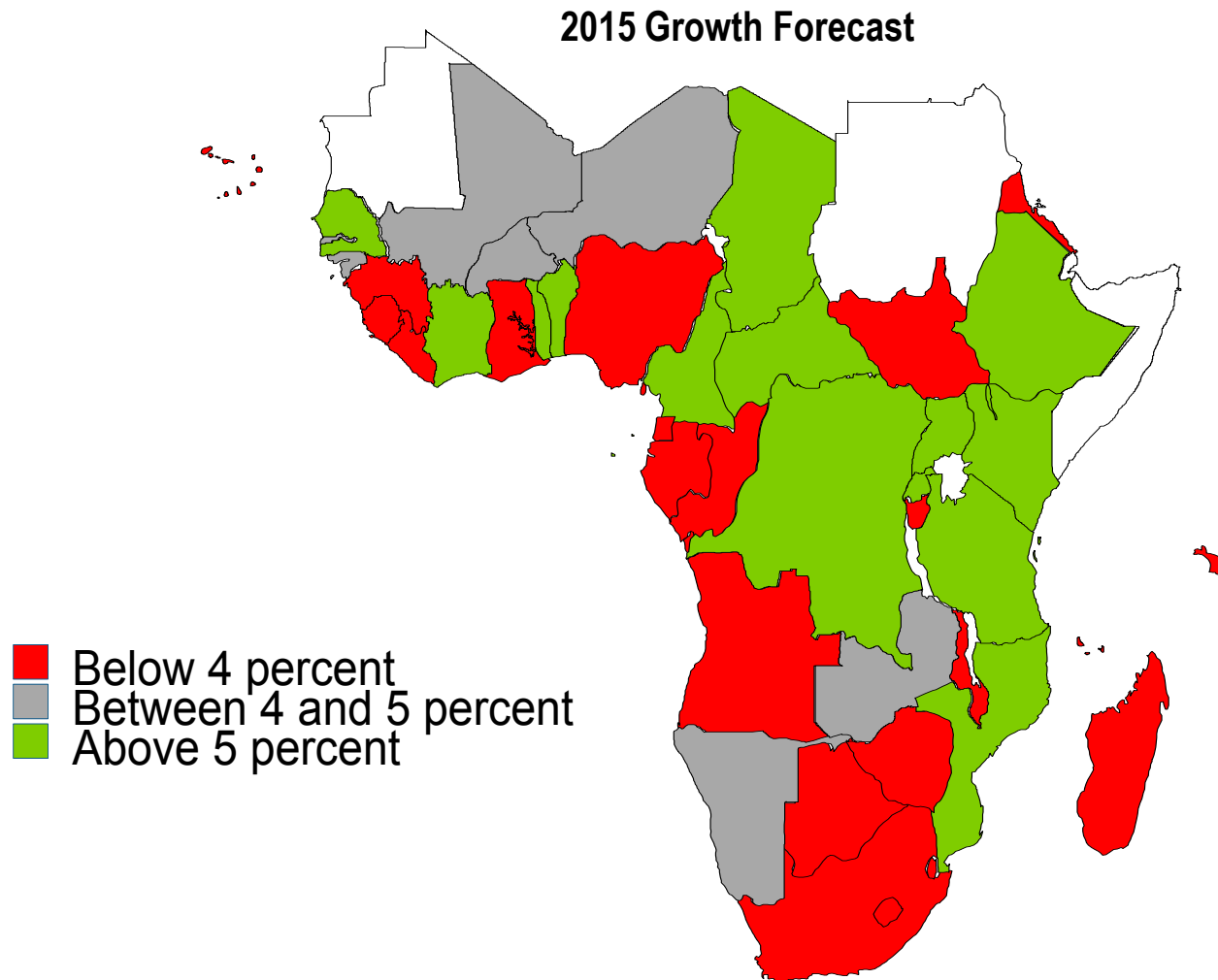


Sources: IMF Staff estimates.

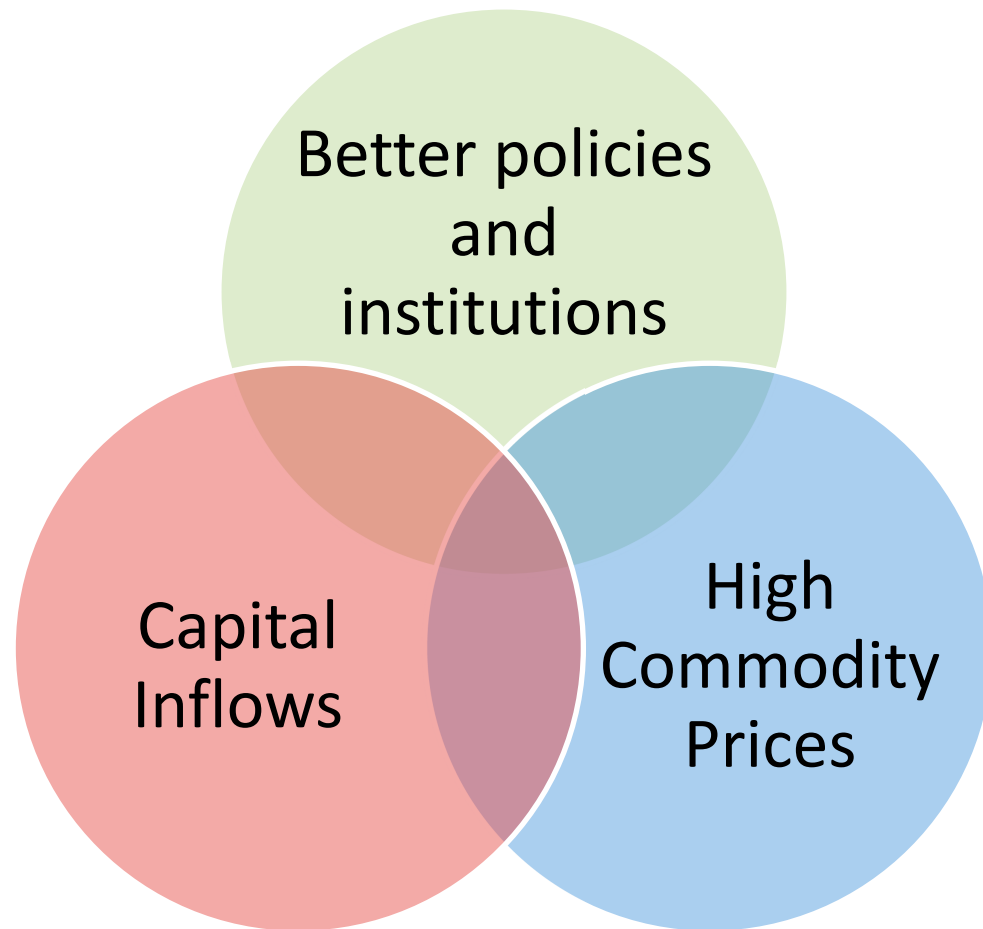
Growth in sub-Saharan Africa has weakened markedly...



...but there is significant heterogeneity within the region



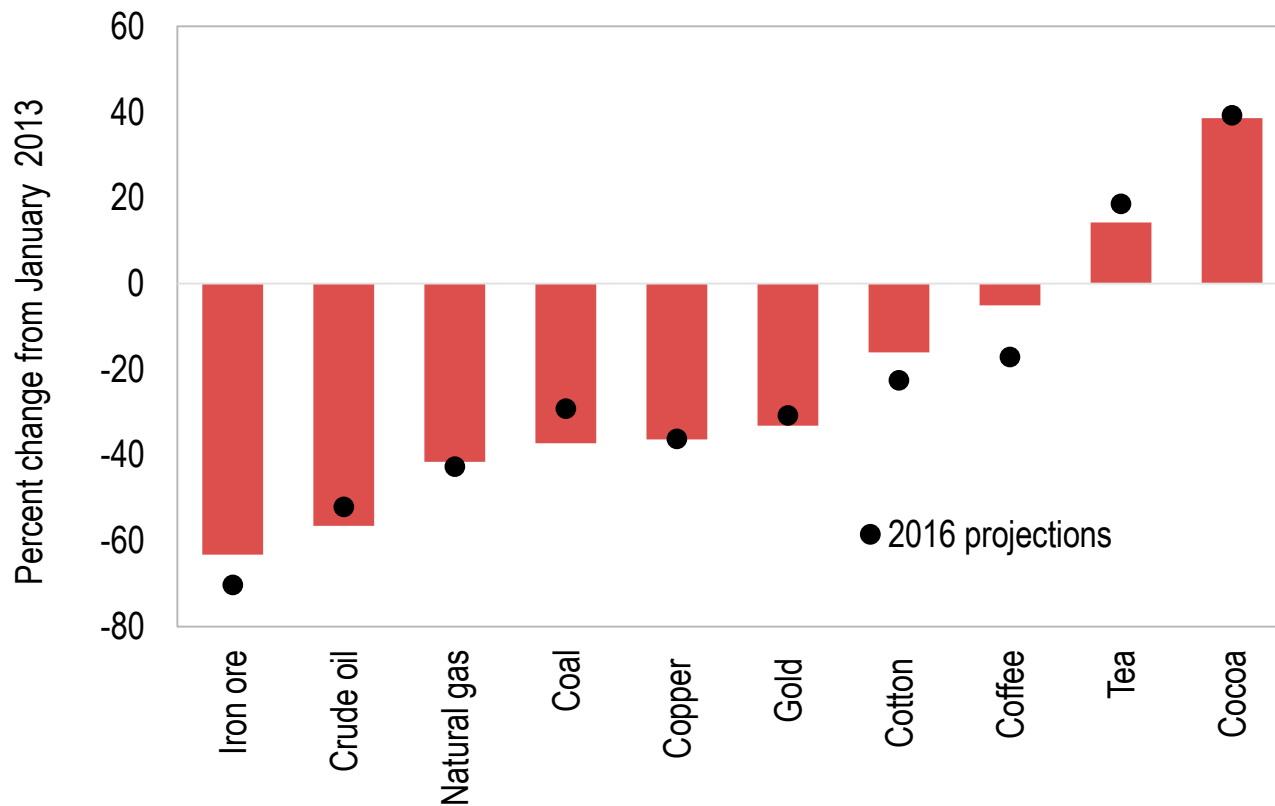
Three key factors have underpinned the solid performance of the last decade



Of late, two of these factors have become less supportive. Commodity prices have weakened...



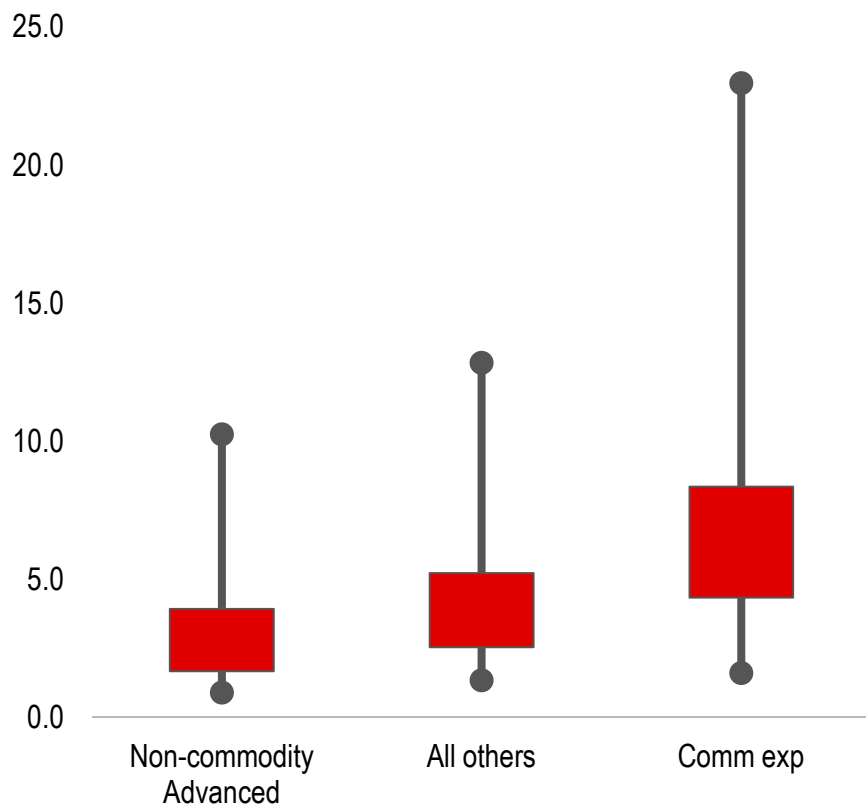
Selected Commodity Prices, Jan 2013–Aug 2015





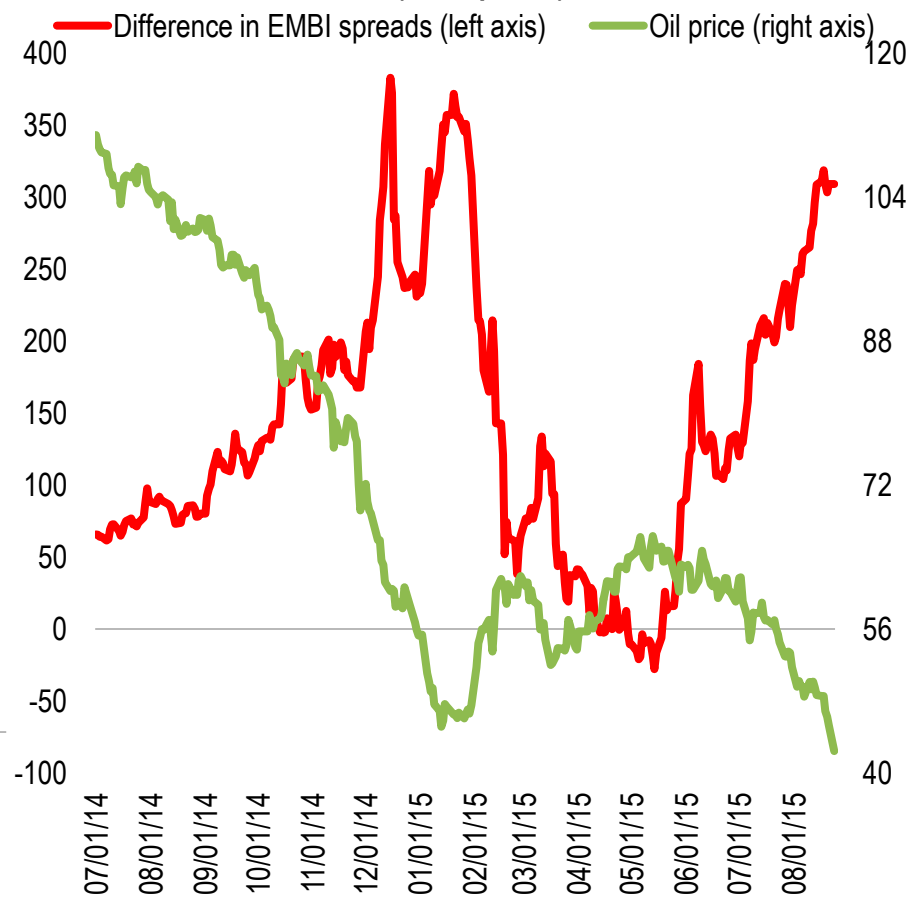
...higher uncertainty and risks for commodity exporters...

**Standard deviation of revenue to GDP, 1980-2014
(min, 25-75 percentile band, and max)**



Sources: Bloomberg and IMF staff estimates

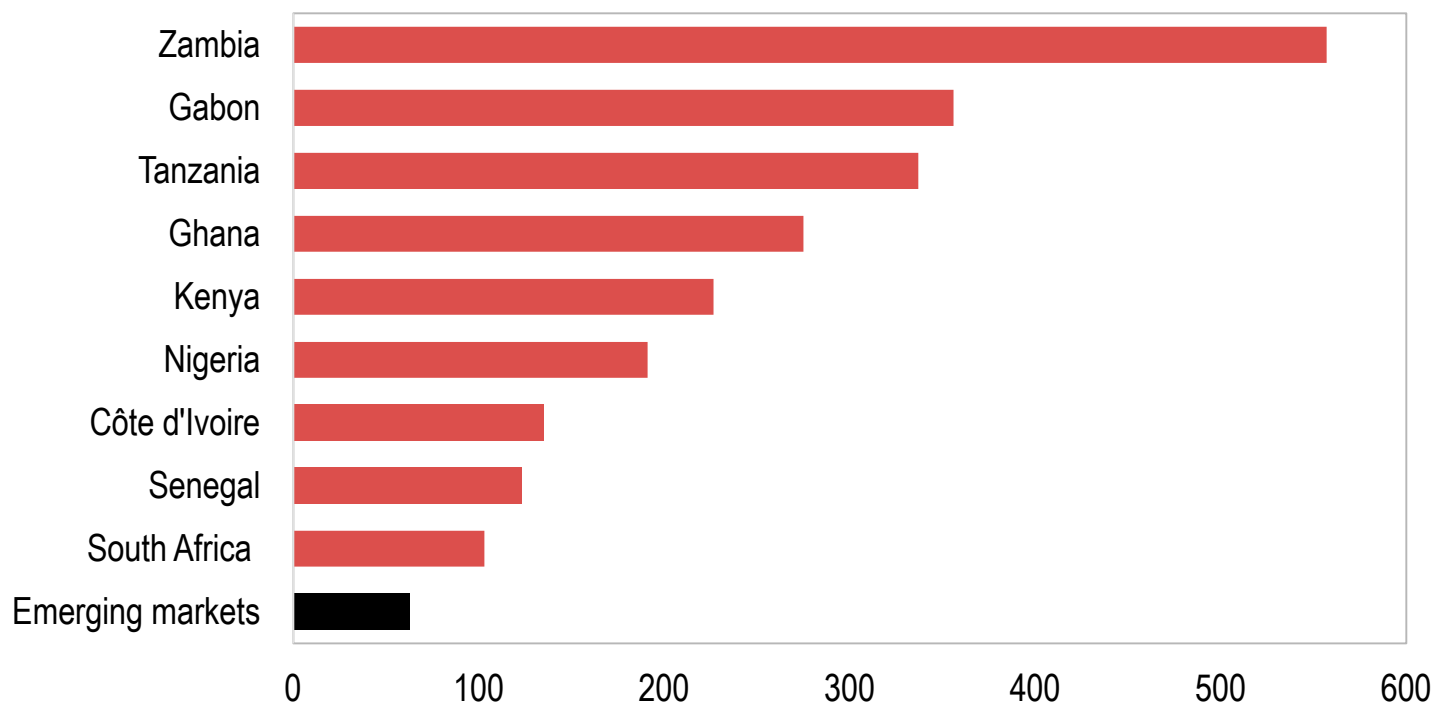
Oil Prices and Difference in EMBI spreads between commodity exporters and non-commodity exporters (basis points)



...financing conditions are tightening



Sovereign Bond Spreads
(EMBIG spreads, basis point change since October 2014)



Note: Data as of October 23, 2015.

Global risks tilted to the downside...



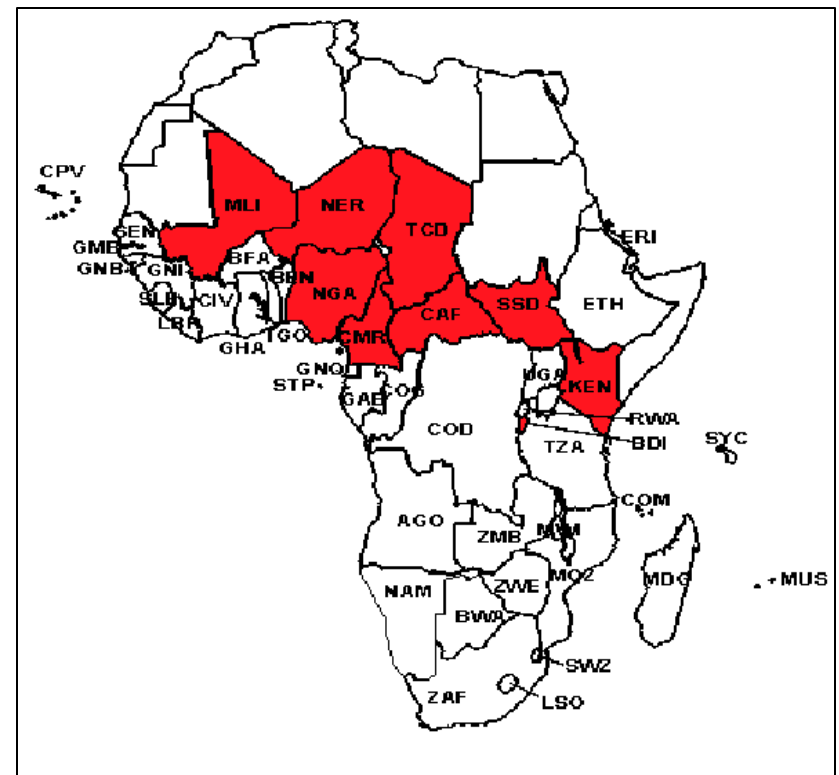
Risks:

- Financial conditions are tightening
- Exacerbating impact of weak commodity prices on exporters
- Risk of sudden stop in financial flows to emerging markets
- Slower growth in China
- Lower potential output growth in emerging markets
- Risks of stagnation in advanced economies

...and similarly for the region



- Security-related risks still prevail in a number of countries
- Commodity prices could fall further, especially in the event of a more rapid slowdown in China
- A sharp global reallocation of financial assets could lead to rapid capital outflows from the region's frontier markets



The Case of Nigeria



Large external shock and
worsening
macroeconomic
conditions



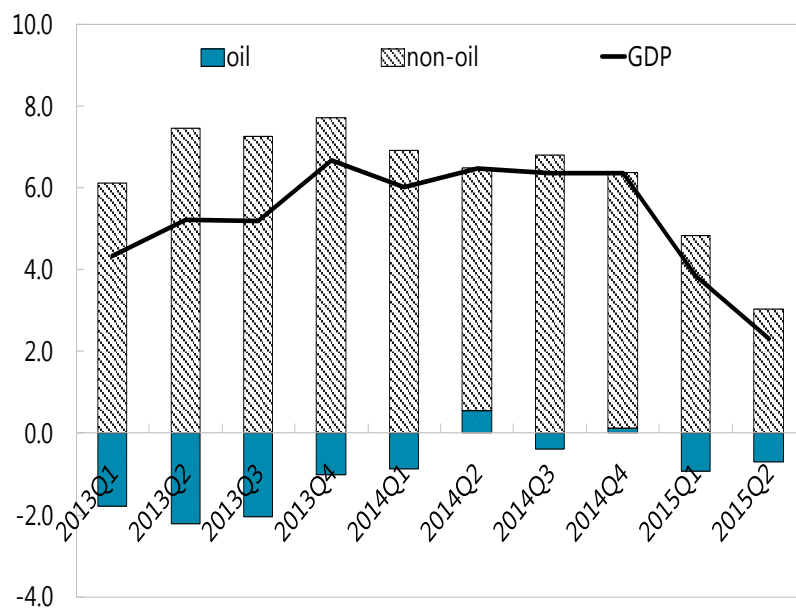
Macroeconomic conditions worsened...



Growth declined...

Sectoral Contributions to Overall GDP Growth

(Percent)

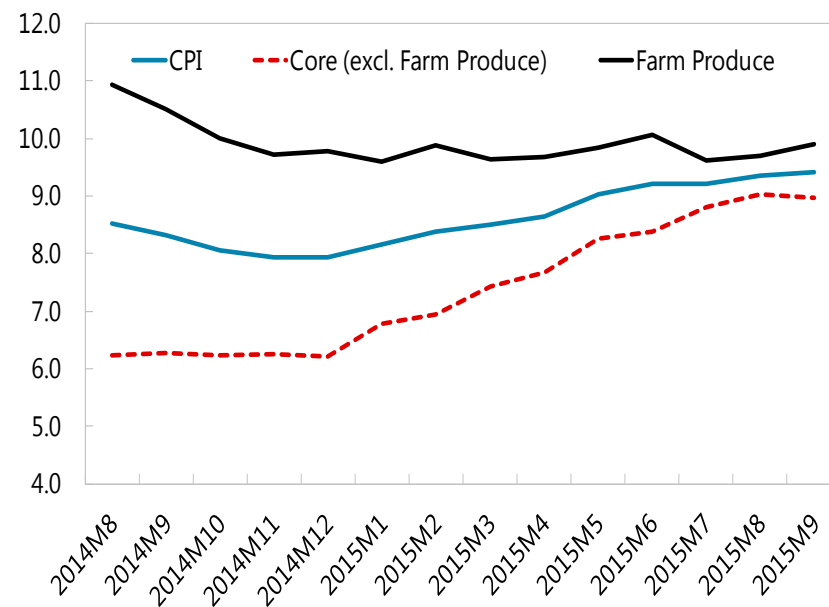


Source: National Bureau of Statistics.

...and inflation rose further

CPI Inflation

(Percent, y-o-y)



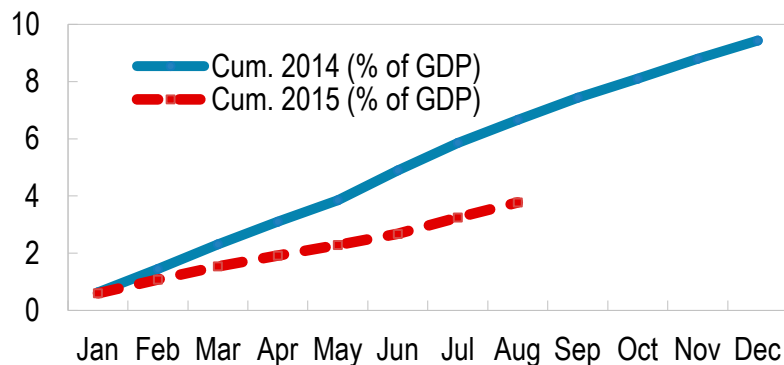
Sources: NBS; and Staff estimates.

...the fiscal deficit has widened...



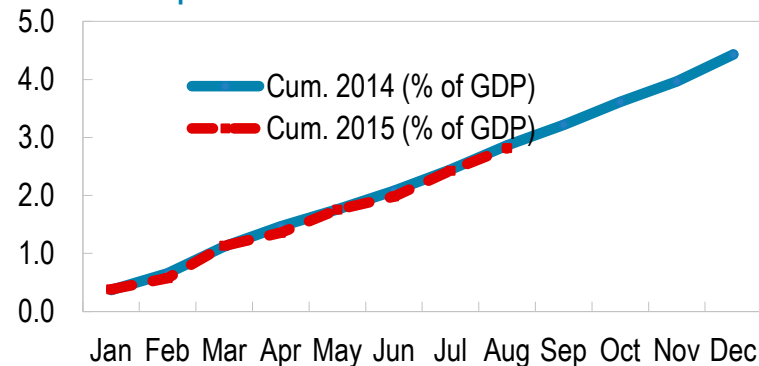
Oil and non-oil revenue are lower than last year

FGN Gross revenue



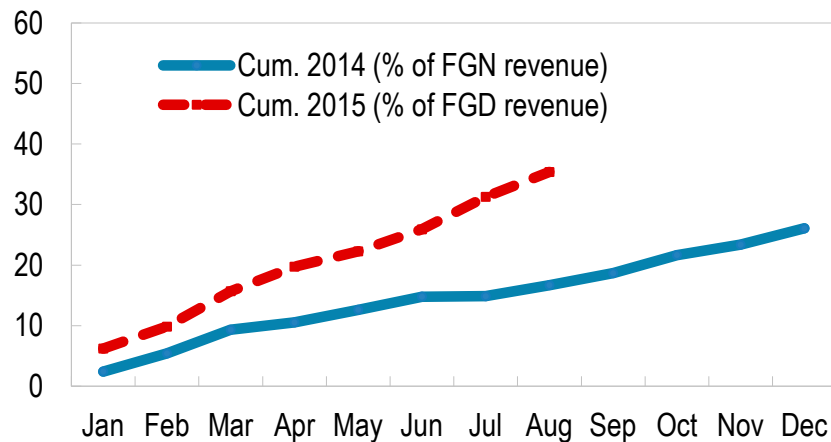
But spending mirrors that of 2014 ,despite a tighter 2015 budget

FGN Total Expenditure



...and cost of servicing the debt is rising

FGN debt service



...spreads have widened and naira depreciation is expected...

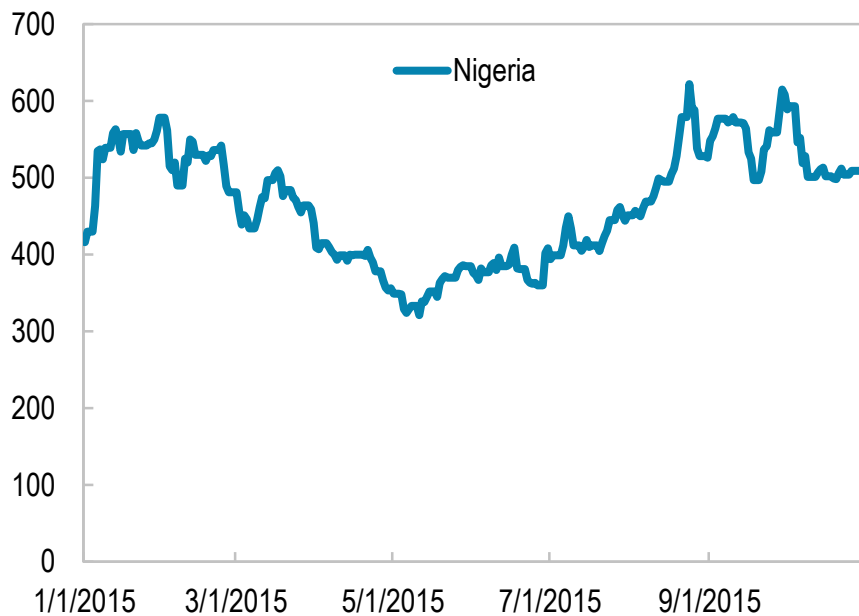


Spread have risen by 175 bps since May

6-month NDF rates at N228/N

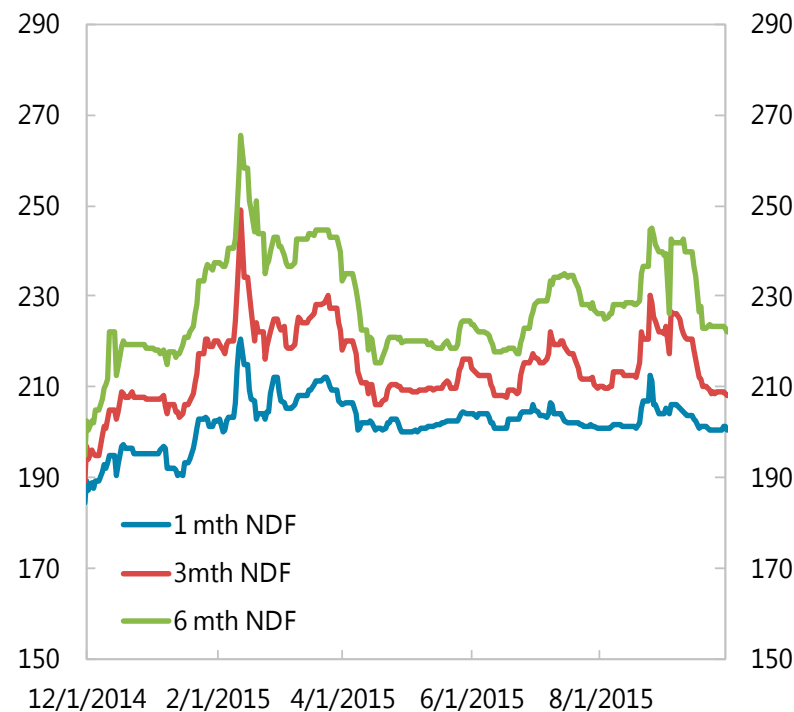
JP Morgan EMBIG Sovereign Spread

(Basis points)



Source: Bloomberg.

FX NDFs

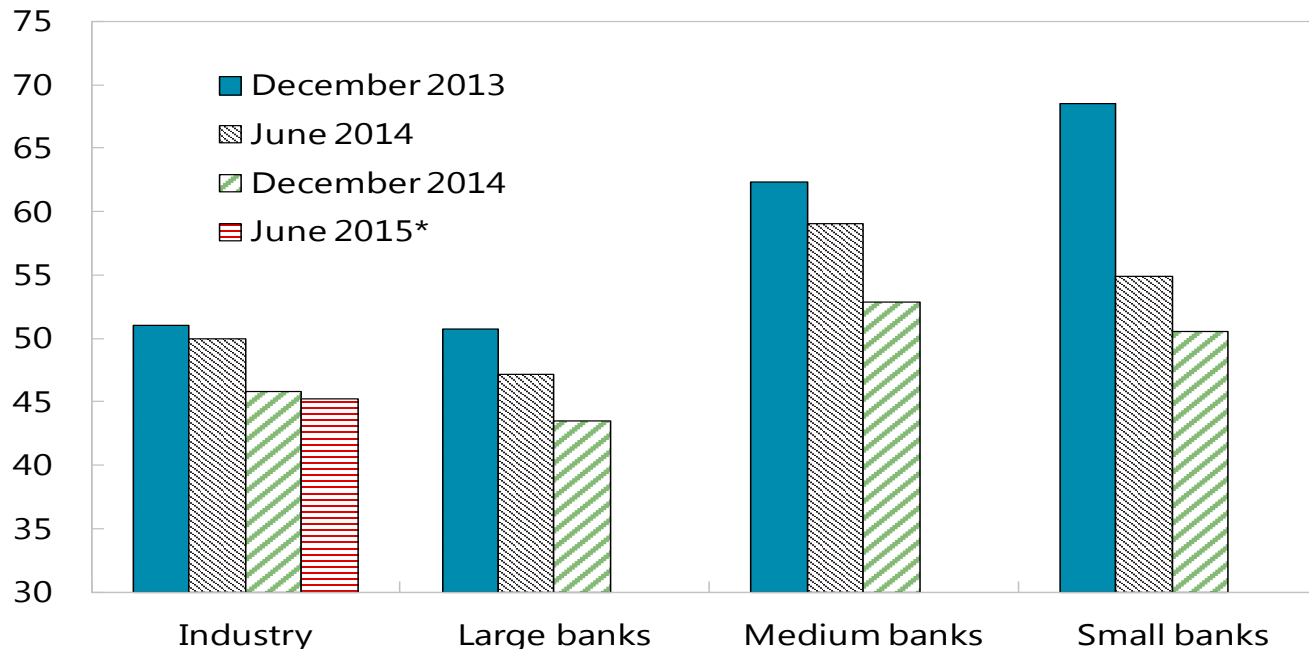


...and pressures are emerging in banks



...especially in small- and medium-sized banks.

Liquidity Ratio (%)



Note the minimum prudential ratio is 30 percent.

* Preliminary data for June 2015.

Source: CBN



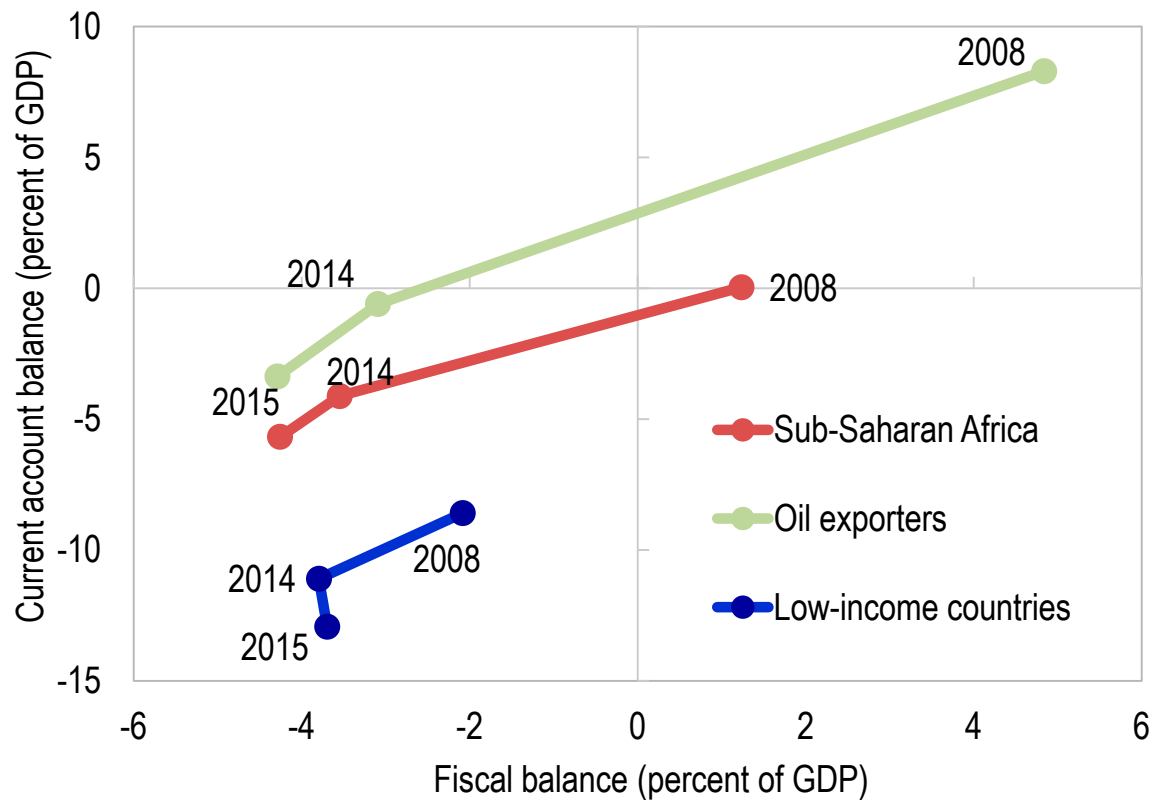
Section II

Impact on the Region and Policy Implications

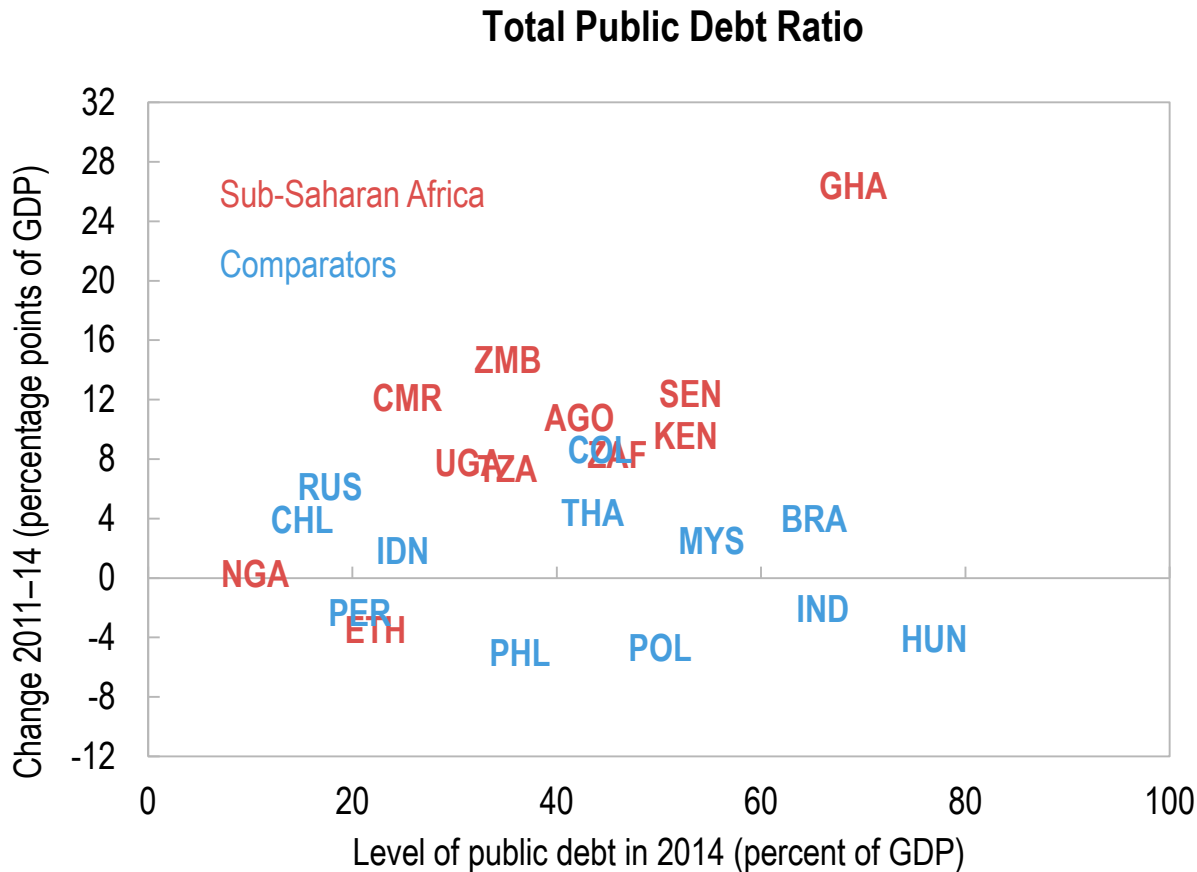
External and fiscal positions are weaker than in 2008...



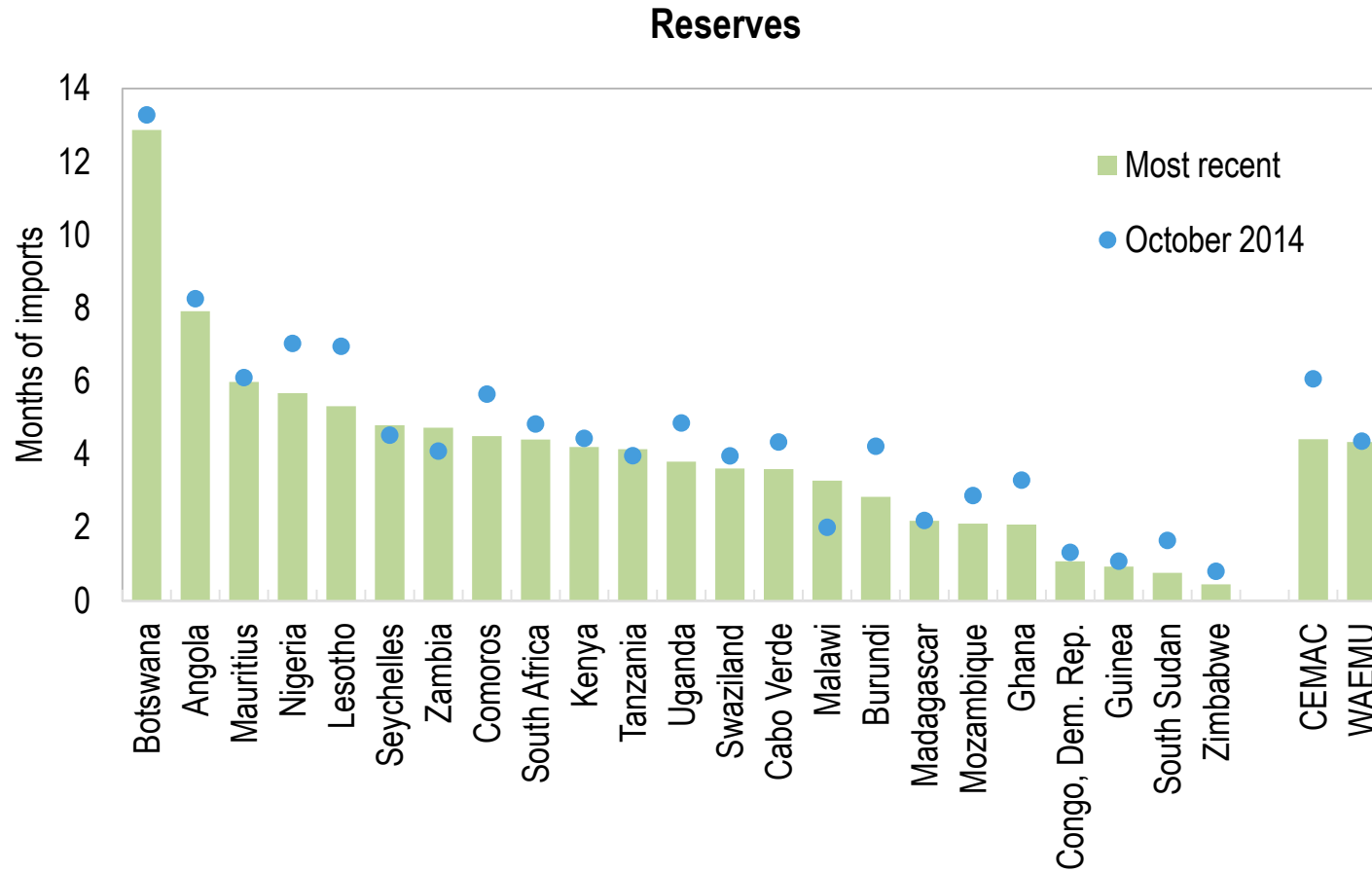
Current Account Balance and Fiscal Balance, 2008–15



...and in frontier economies public debt is increasing



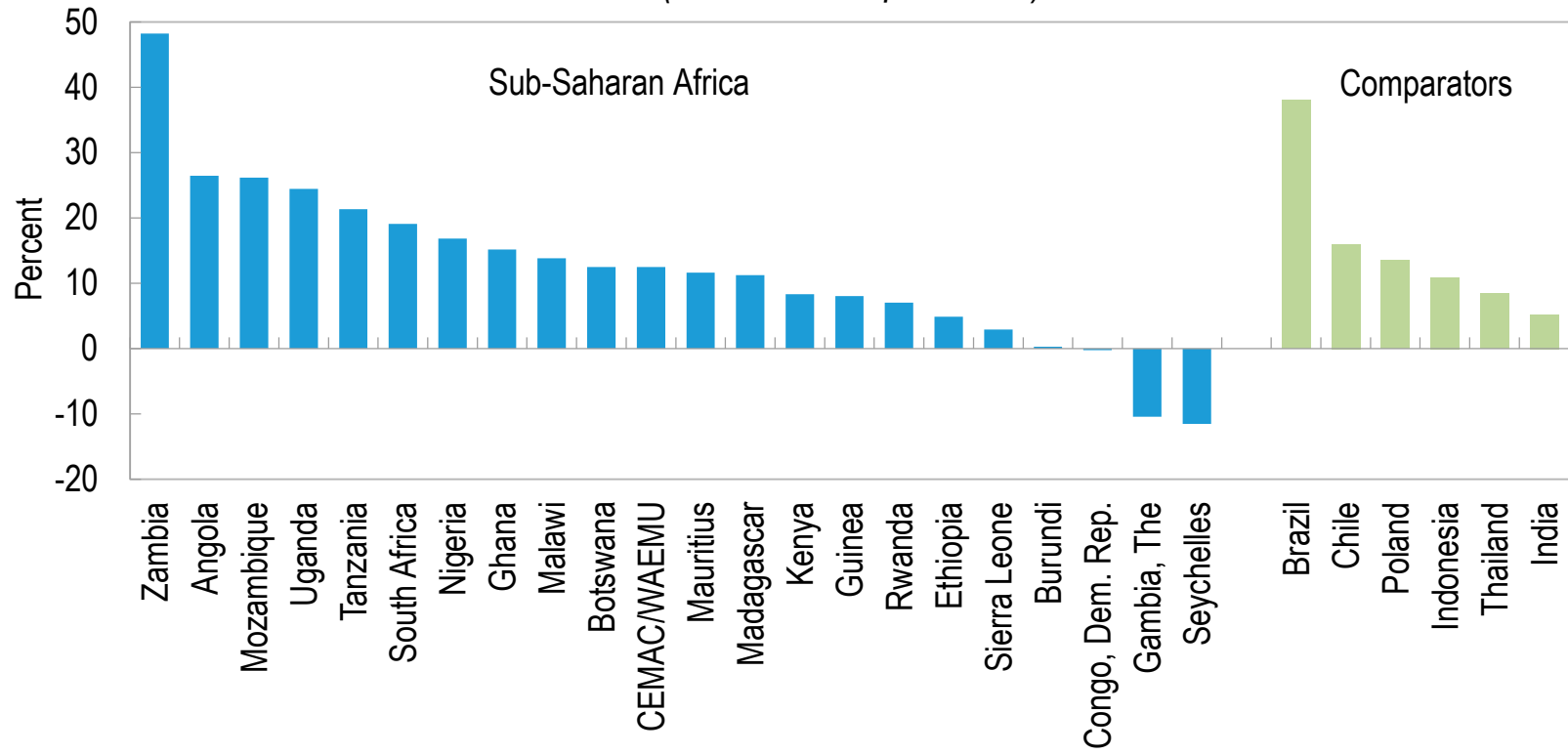
Some countries have drawn on their foreign exchange reserves...





...but most have also let their currencies depreciate

Depreciation of National Currency Against U.S. Dollar Since October 2014
(+ indicates depreciation)

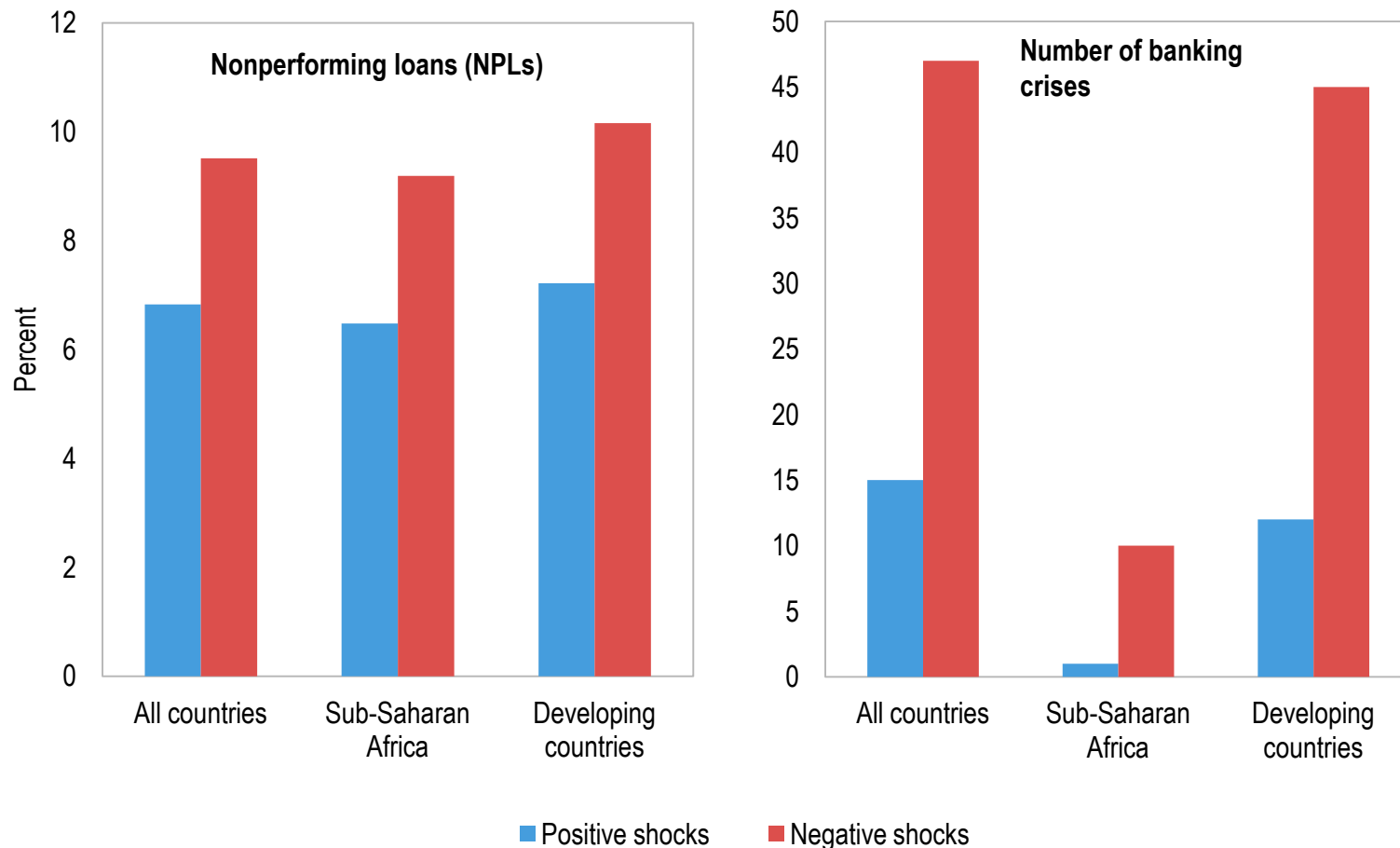


Note: Data as of October 23, 2015.

Financial stability will require close monitoring



Commodity Price Shocks and Indicators of Financial Sector Fragility



The Case of Mozambique



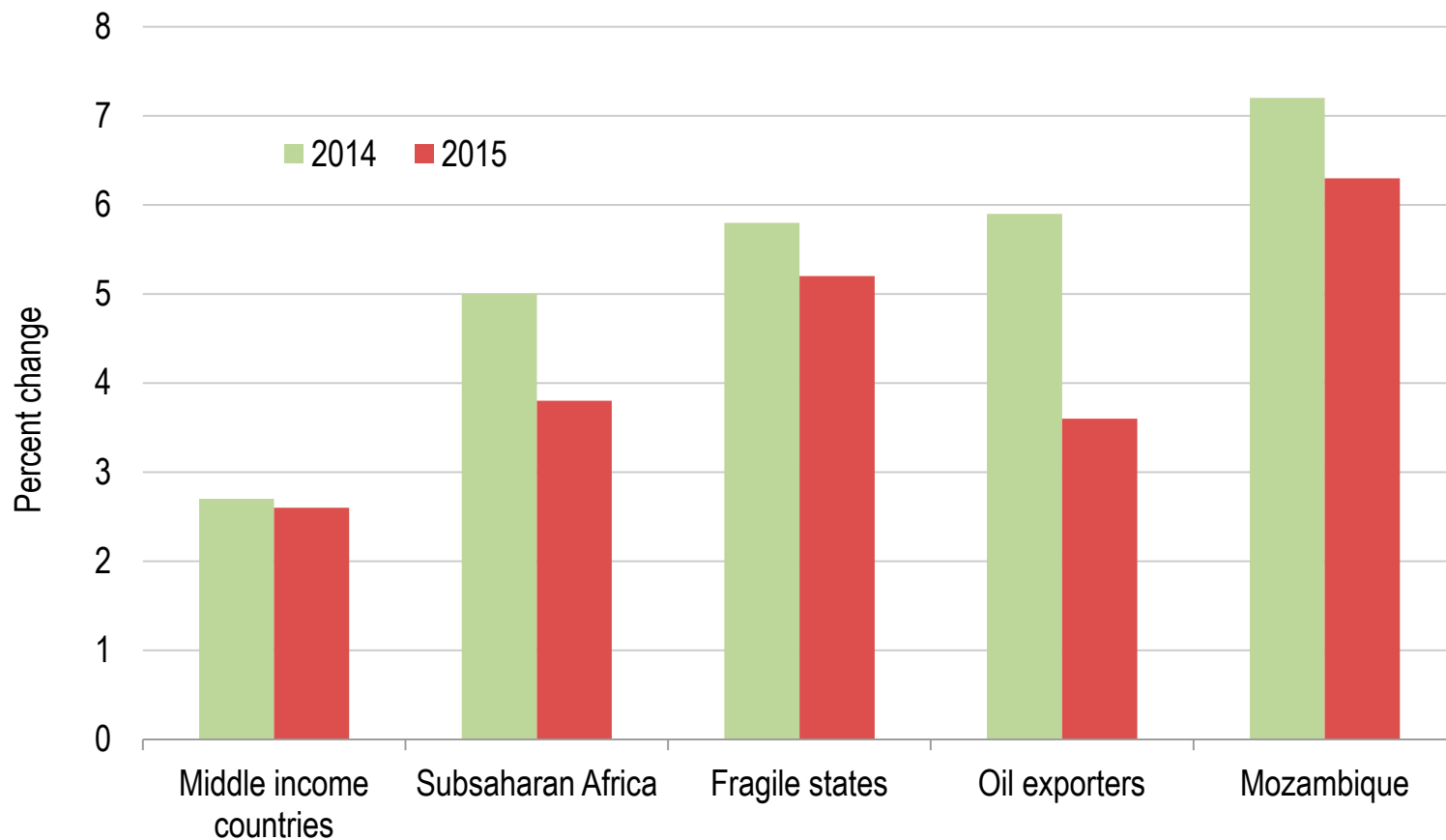
Robust growth
amid new
challenges



Mozambique remains a fast growing economy despite the deteriorating global environment...



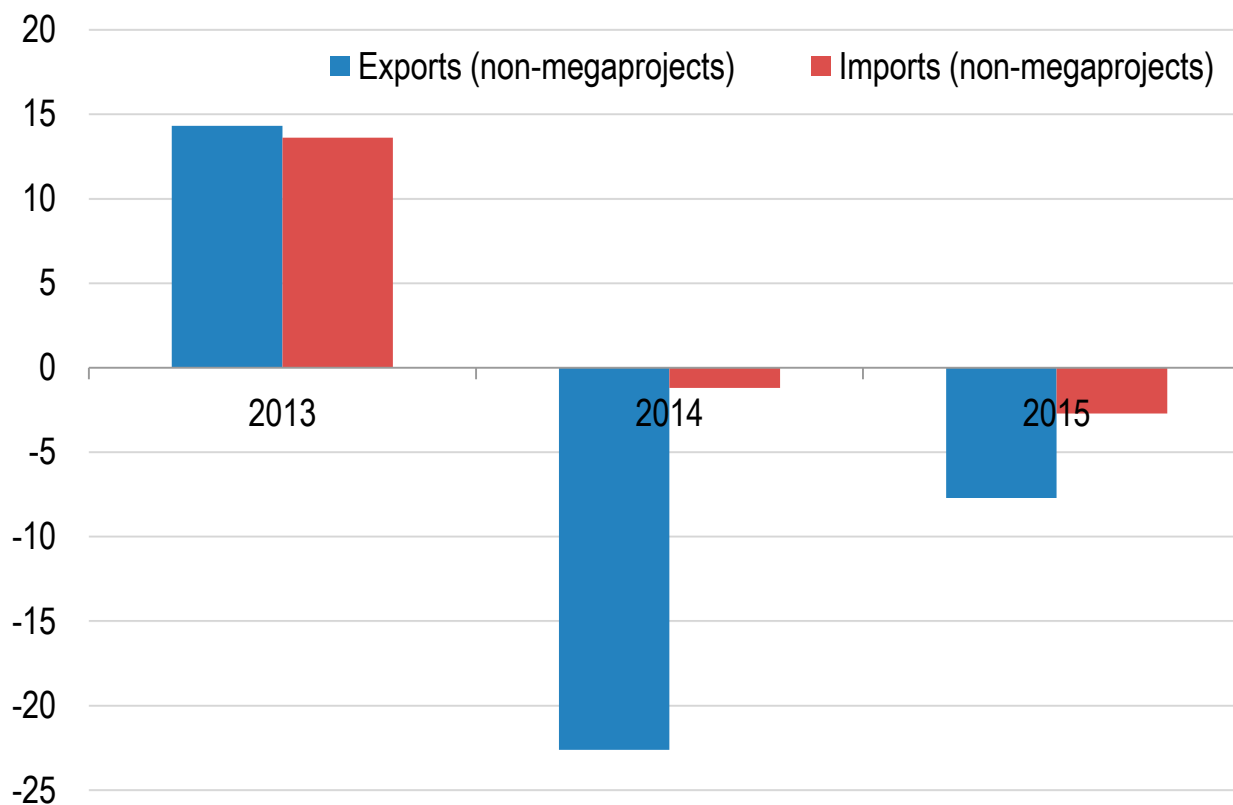
Real GDP Growth, 2014–15



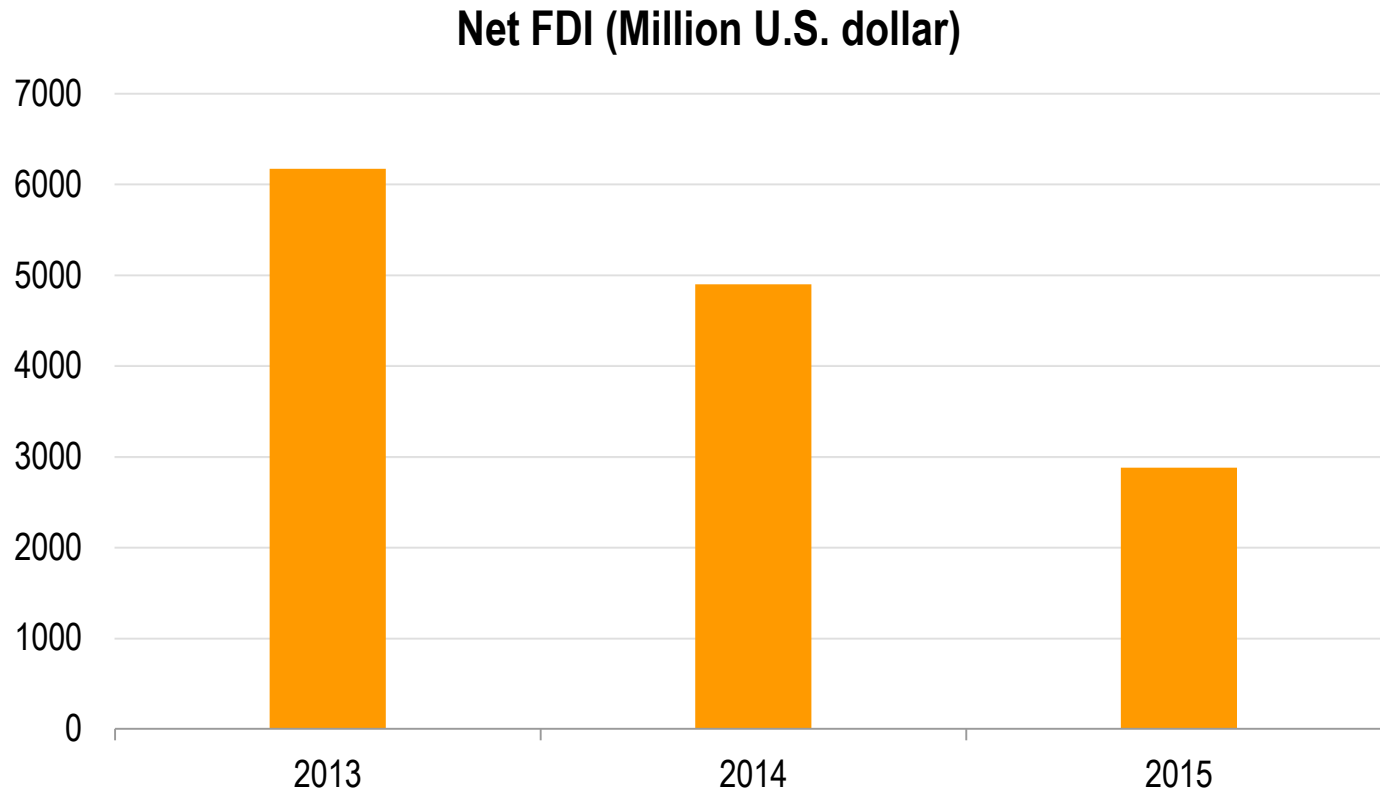
...but lower export prices have worsened the trade deficit...



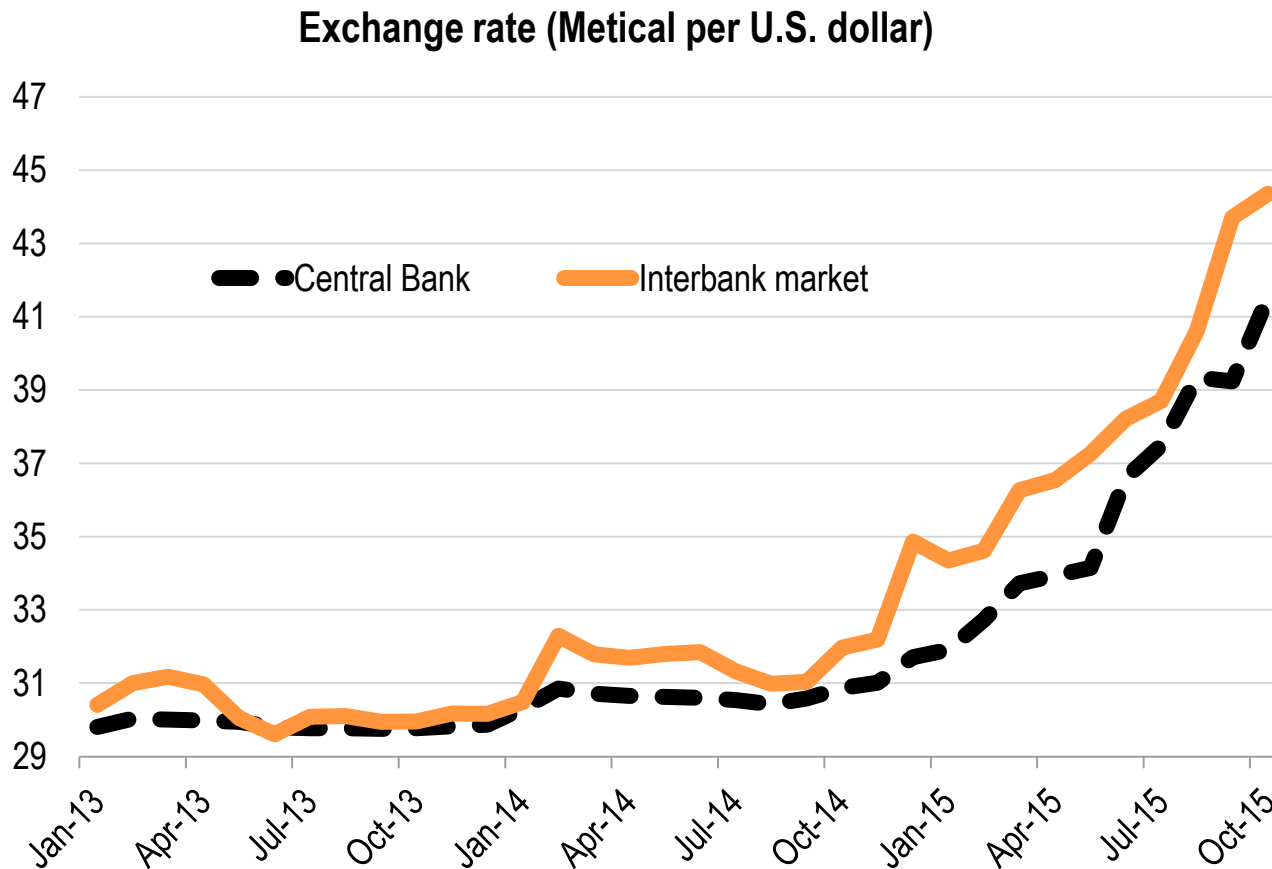
Exports and imports growth (percent change)



...and capital inflows have declined sharply...



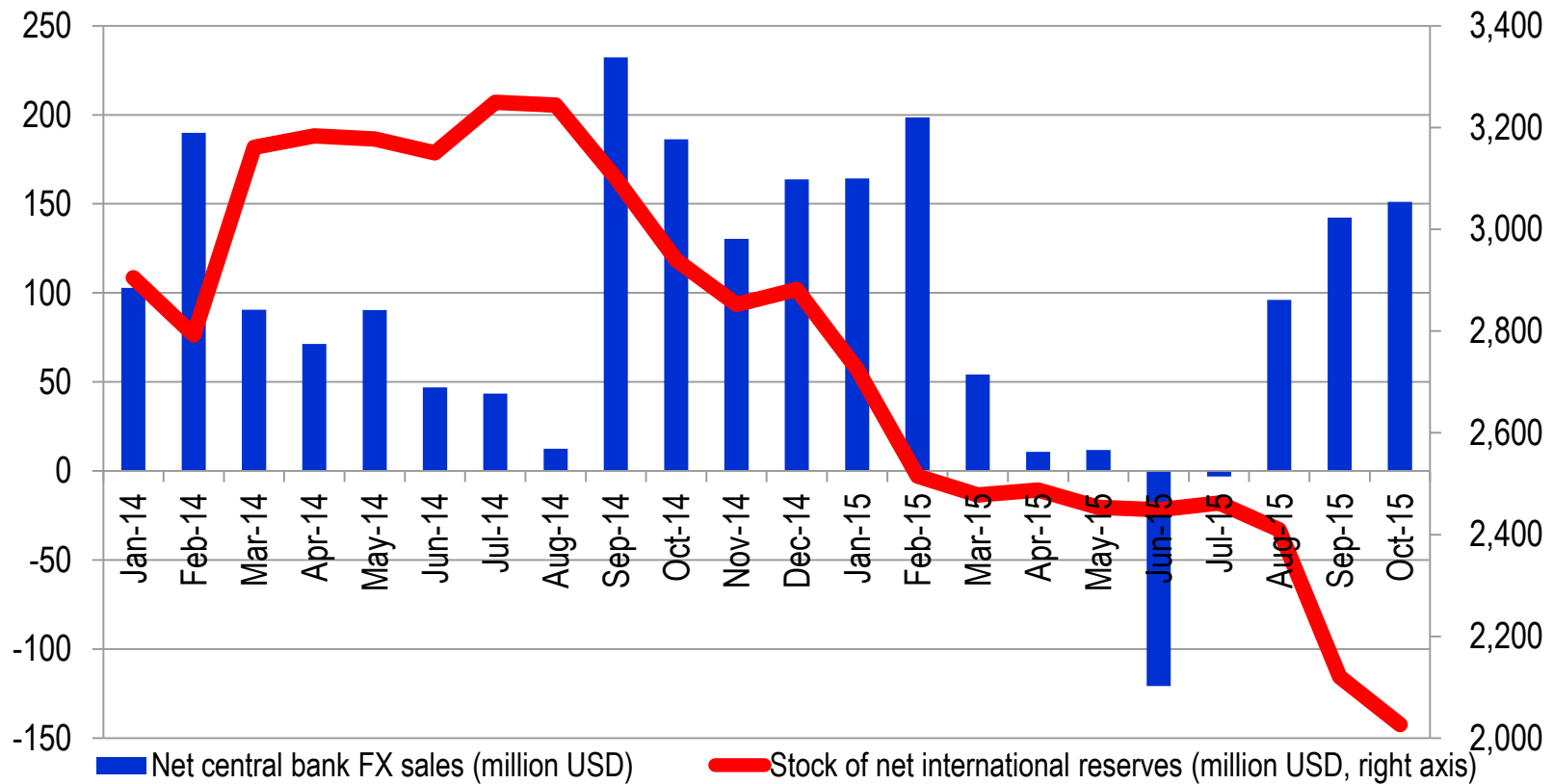
...generating a sharp exchange rate depreciation...



...and a substantial decline in the stock of international reserves



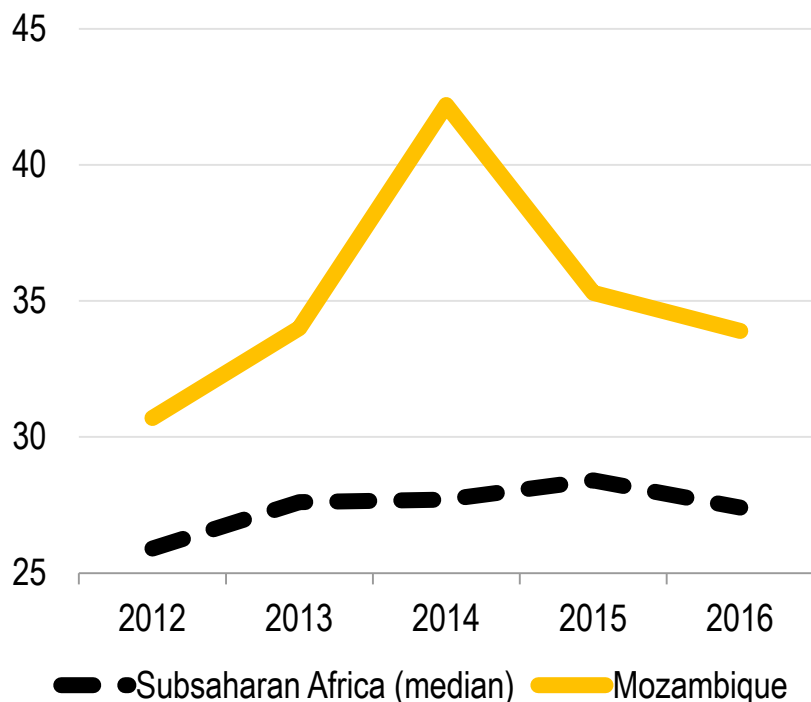
Net International Reserves and Central Bank Interventions



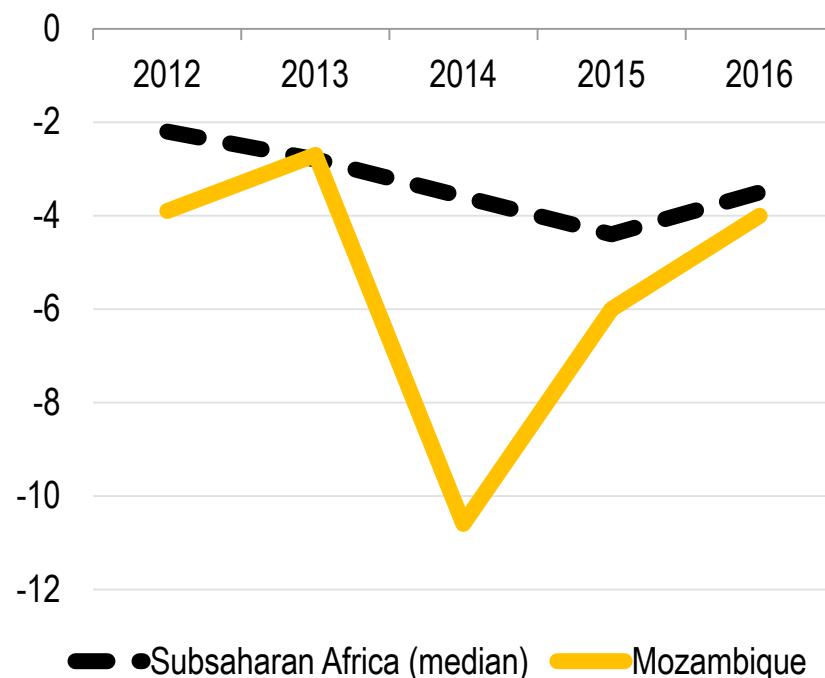
Fiscal consolidation should help moderate spending and bring the deficit to sustainable levels...



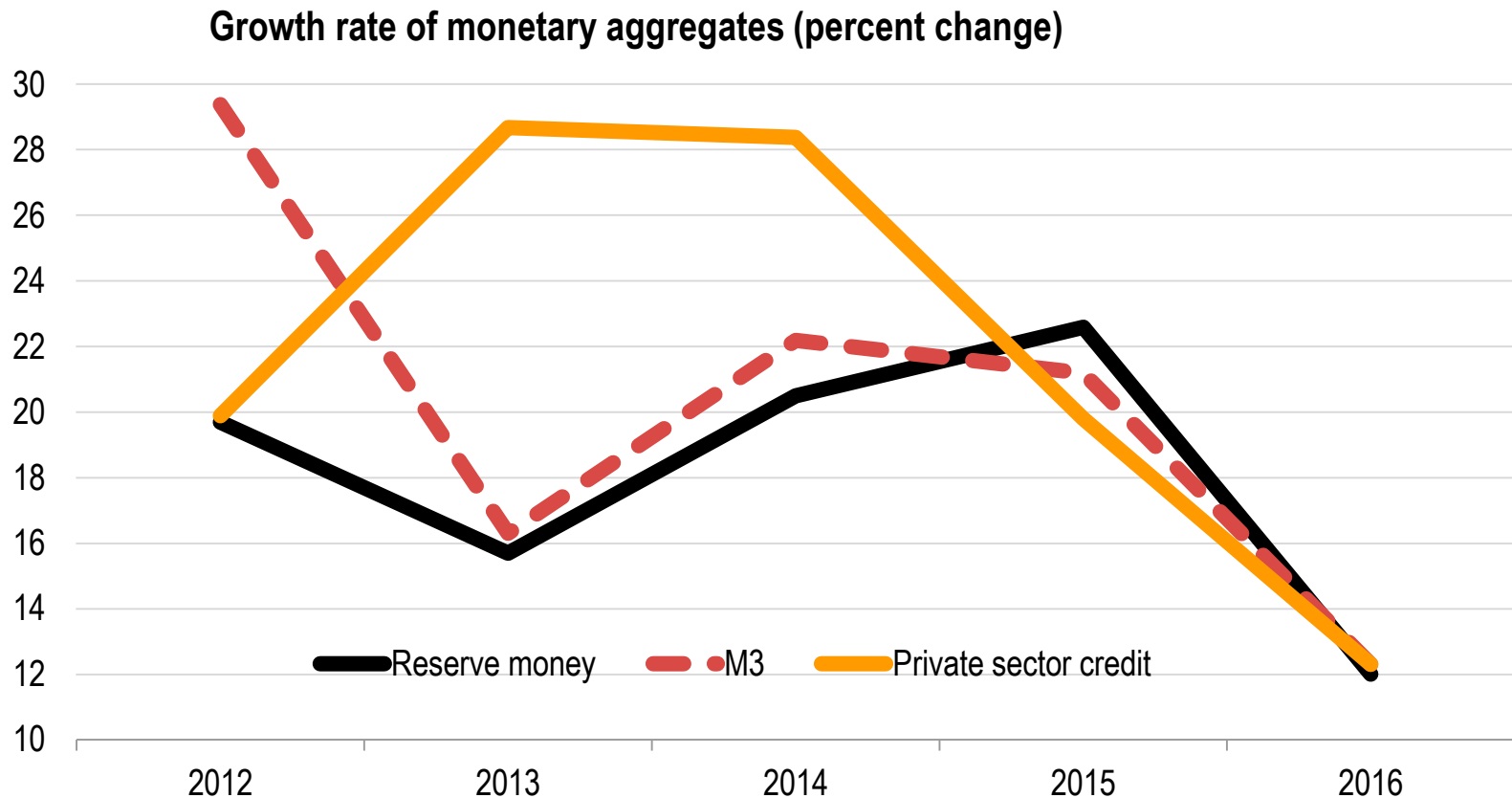
Government spending (percent of GDP)



Overall fiscal deficit after grants (percent of GDP)



...while monetary tightening is needed to decelerate credit growth, reduce imports, and rebuild buffers



Near-term policy implications: Limited scope to counter the drag on growth



Fiscal policy:

- For oil exporters, adjustment is unavoidable
- For most others, need to balance debt sustainability considerations and development spending

Monetary policy:

- Exchange rate should absorb the shock, wherever feasible
- Interventions should be limited to contain exchange rate excessive volatility

Medium-term policy considerations



- Policy actions need to be geared toward boosting the region's competitiveness
- Strengthening revenue mobilization will be the most durable way to create fiscal space



Section III

Developments and Outlook in Uganda

Uganda: Recent Developments and Outlook



A difficult external environment amid domestic nervousness

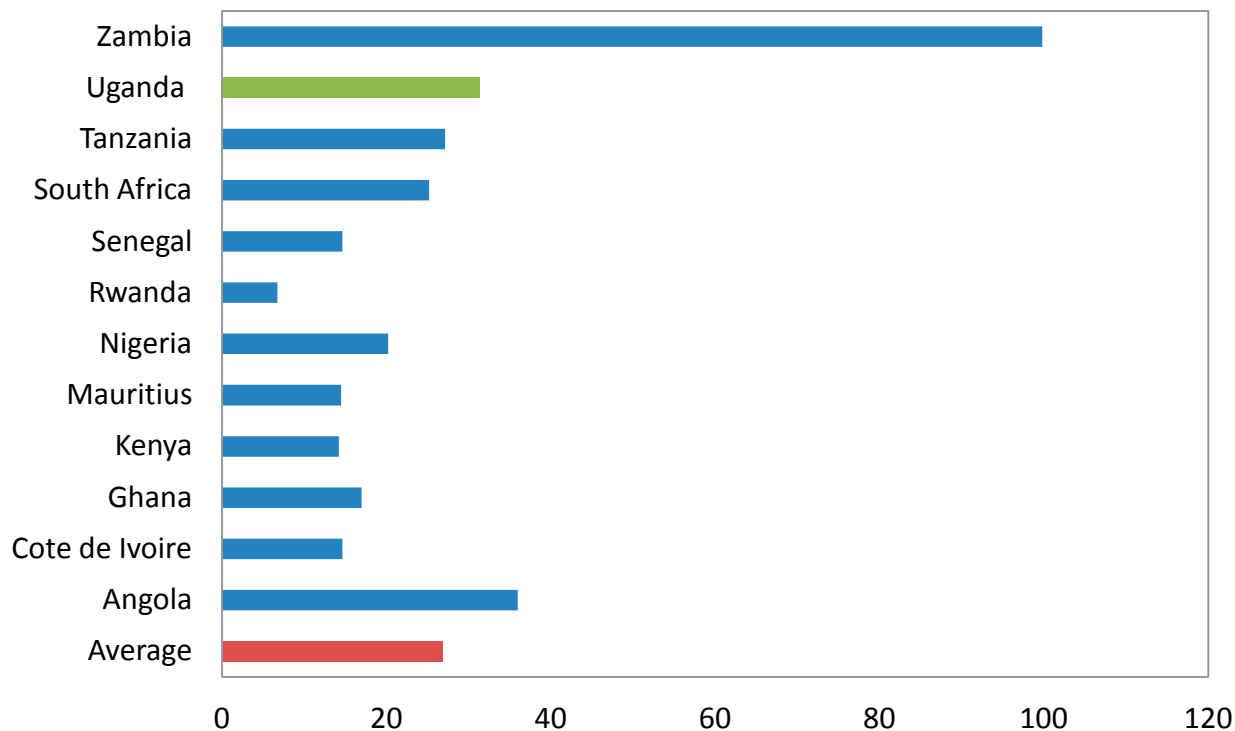


The Ugandan shilling depreciated more than other currencies in the region...



Change in exchange rate (vis-à-vis US\$) for selected SSA countries

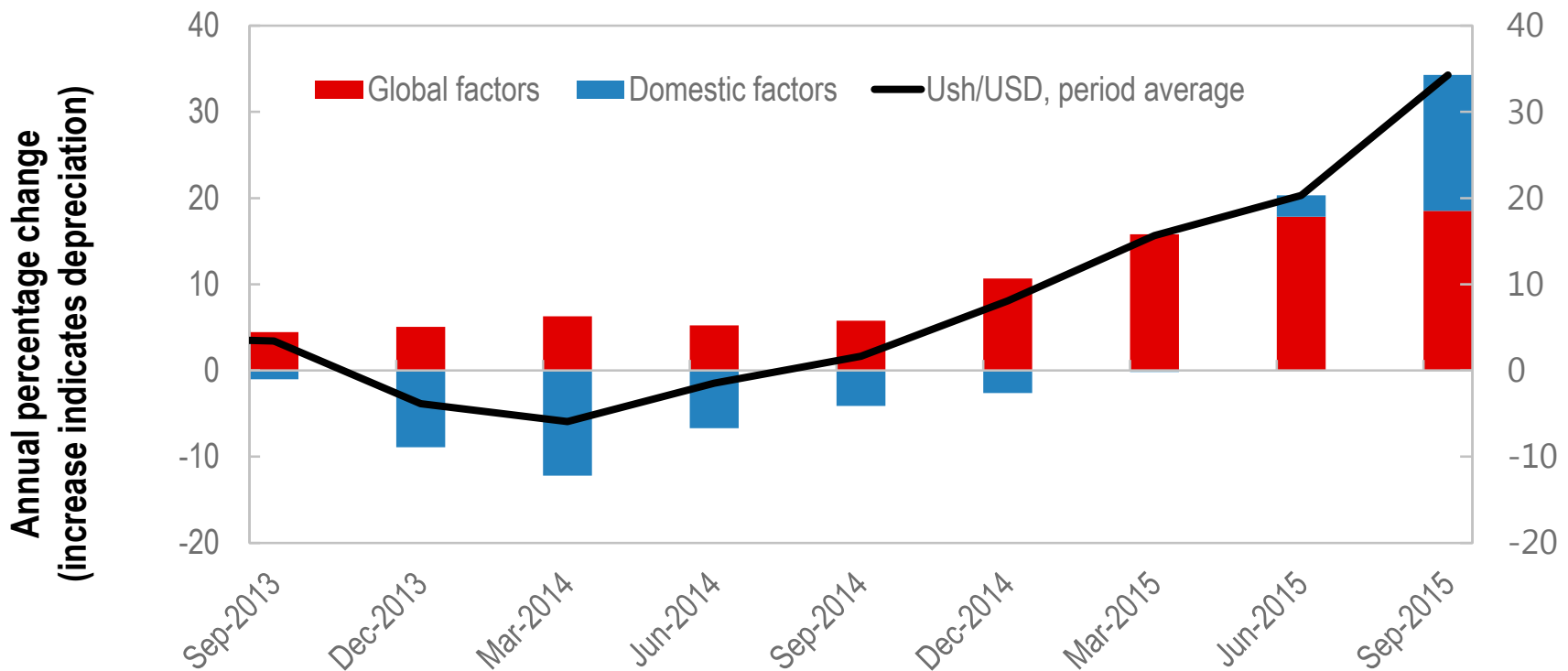
Annual variation as of October 30 2015



...because of both external and domestic factors...



Estimated impact of global and domestic factors on exchange rate movements

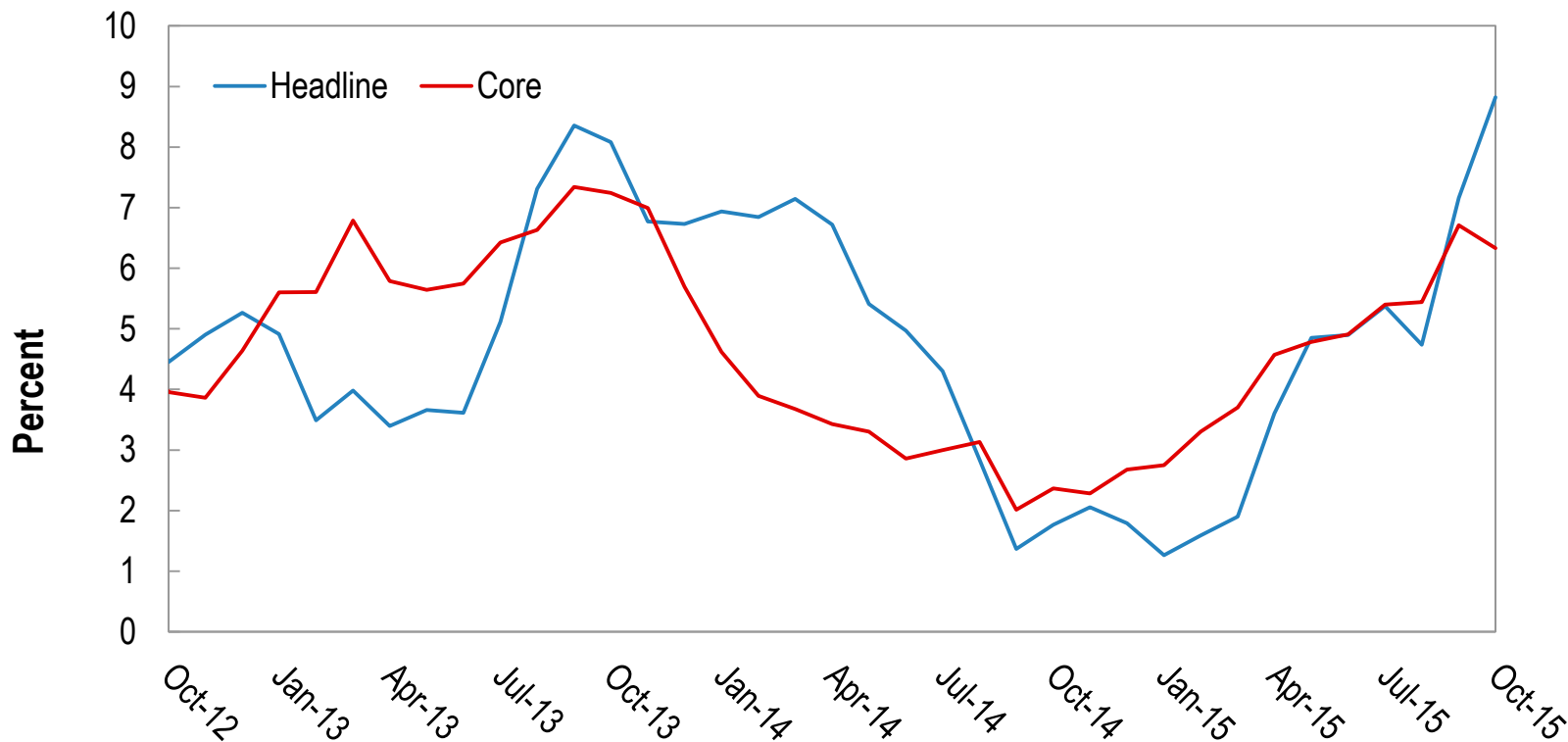


Sources: Country authorities, IFS, and IMF staff estimates.

...driving an increase in inflation...



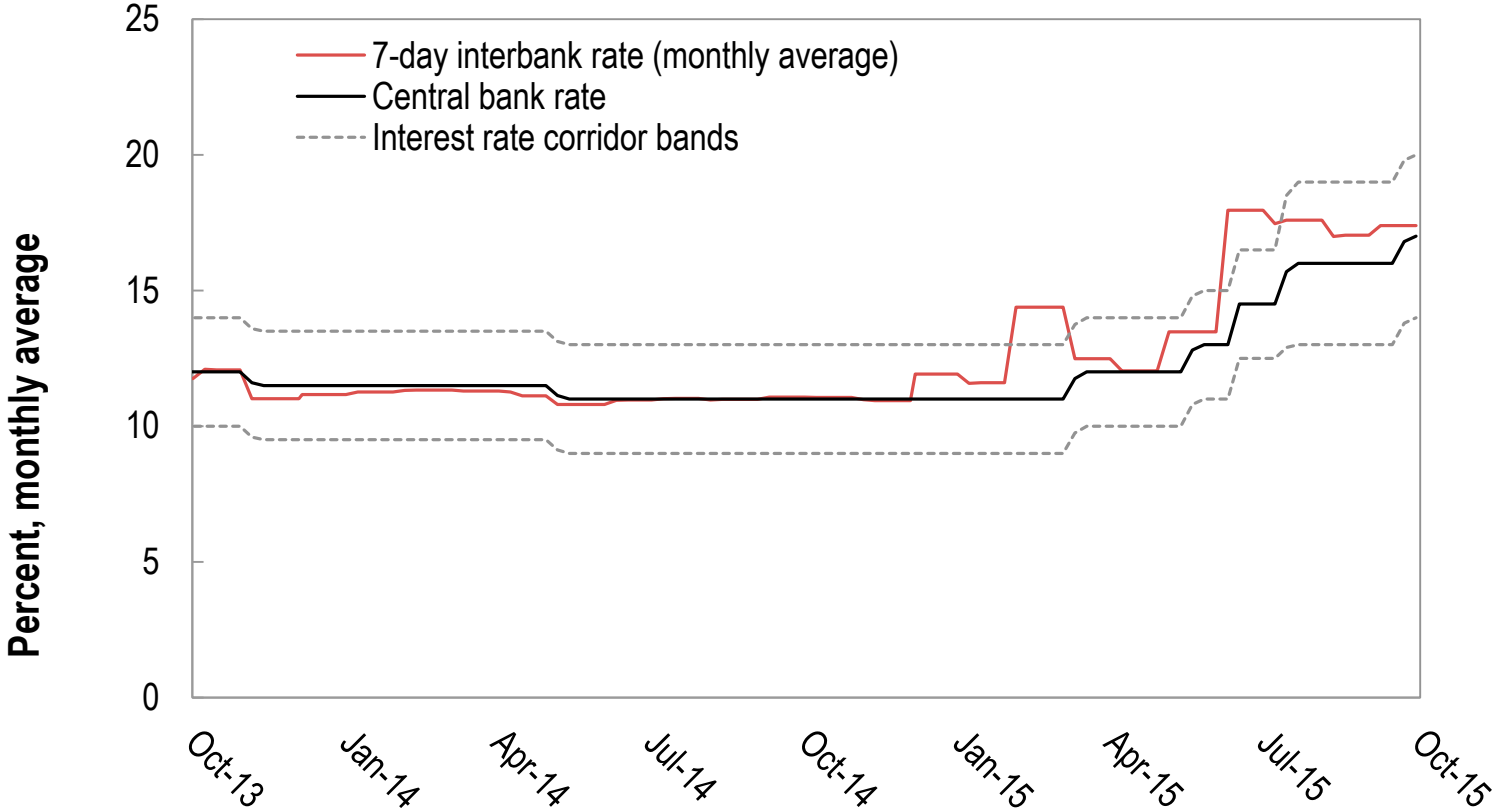
Annual Inflation Rates



Policy response: sharp monetary tightening...



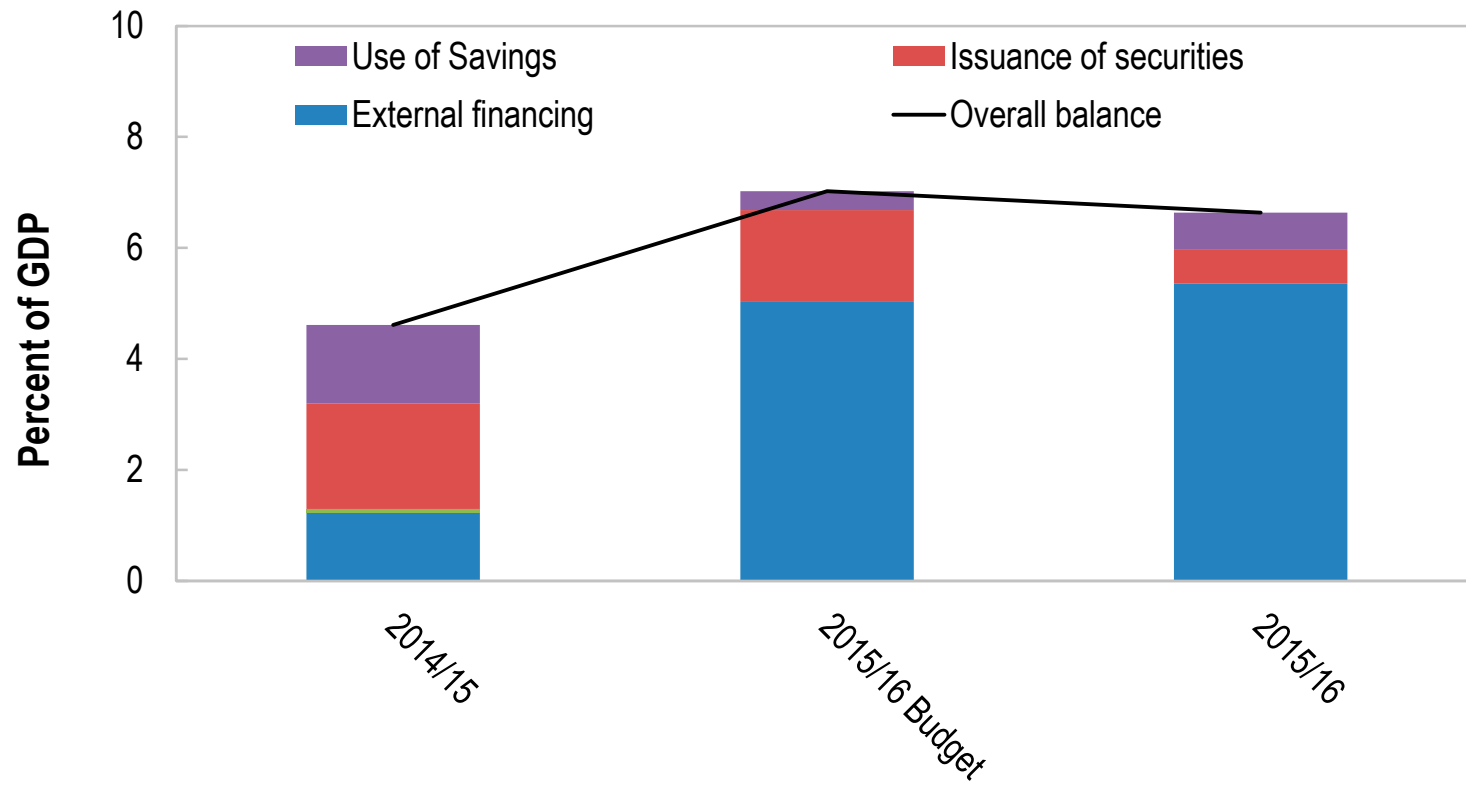
Central Bank and Interbank Rate





...and reduction of the size of fiscal expansion

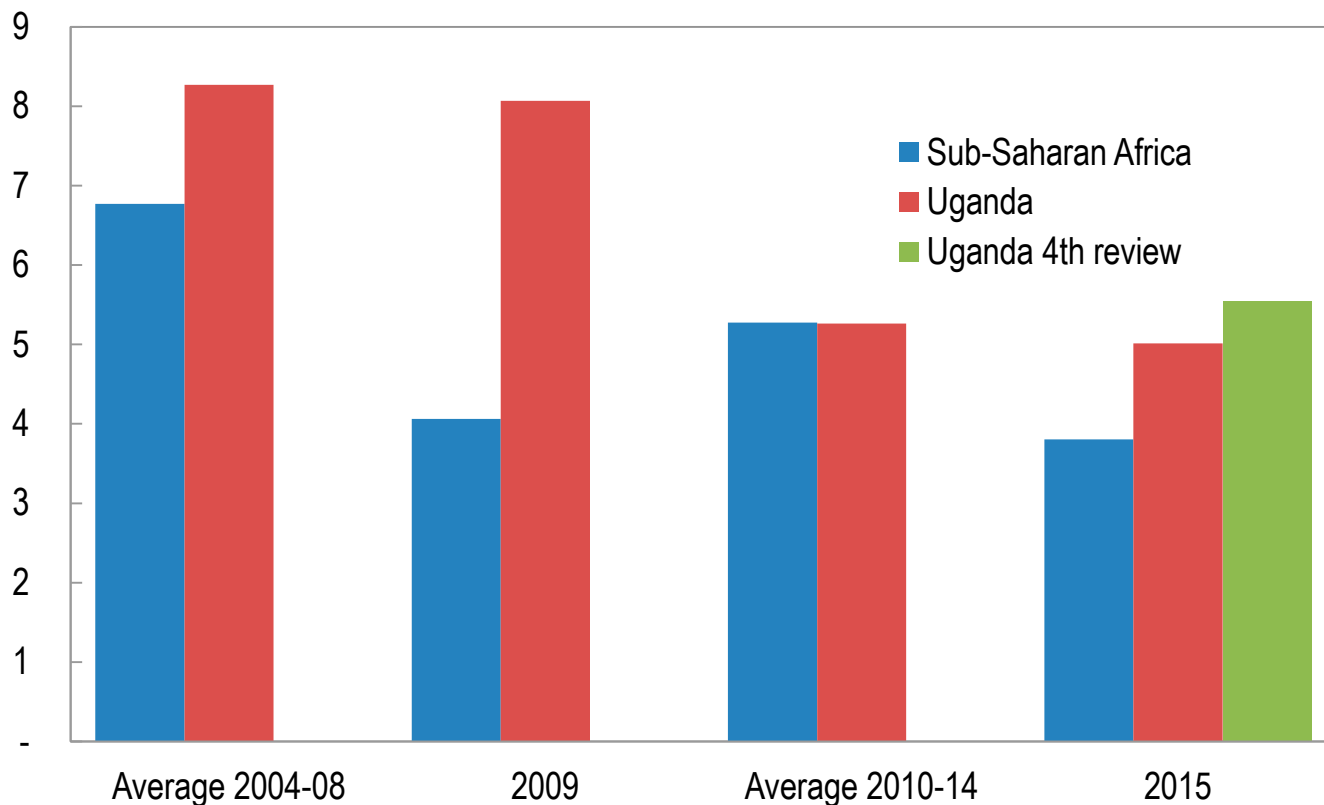
Overall Deficit



...resulting in lower-than-expected economic growth, but still above the region's average.



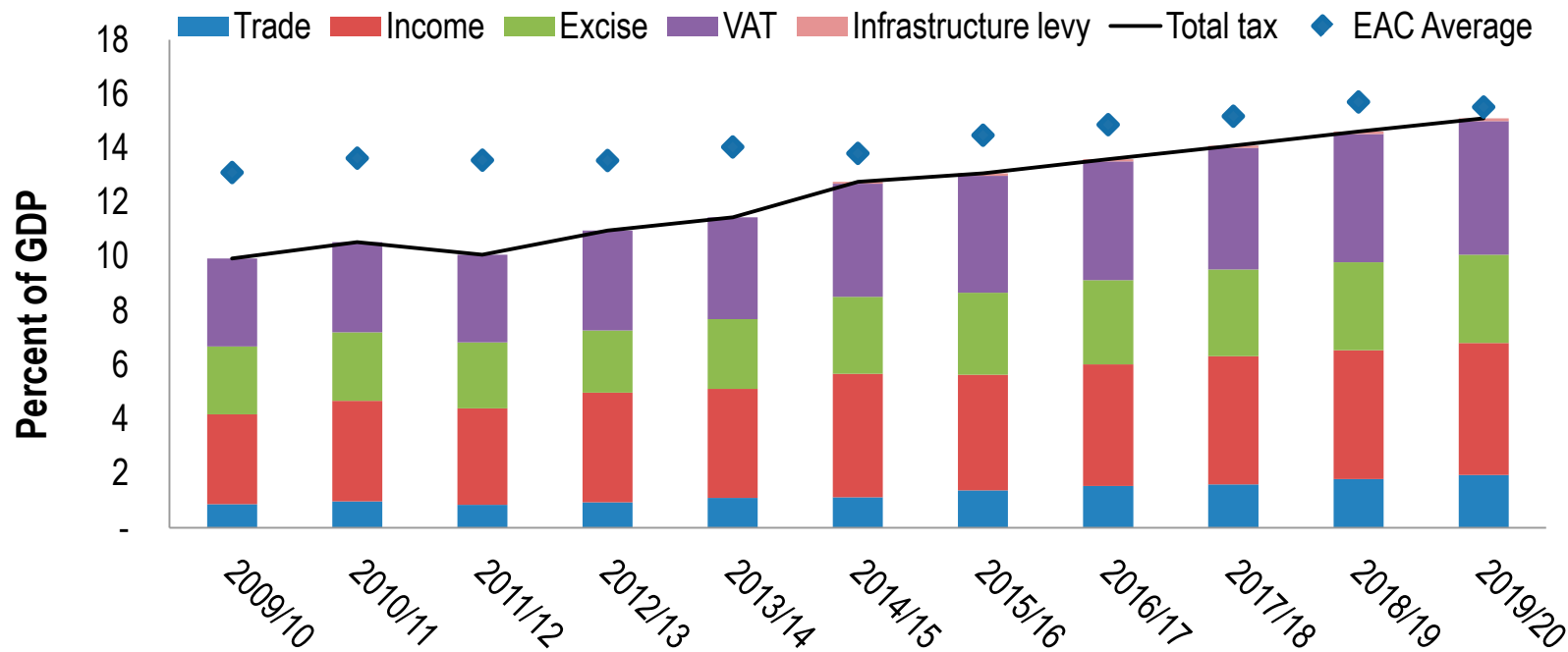
Real GDP Growth, 2004–15



Medium-term fiscal policies: enhancing tax revenue...



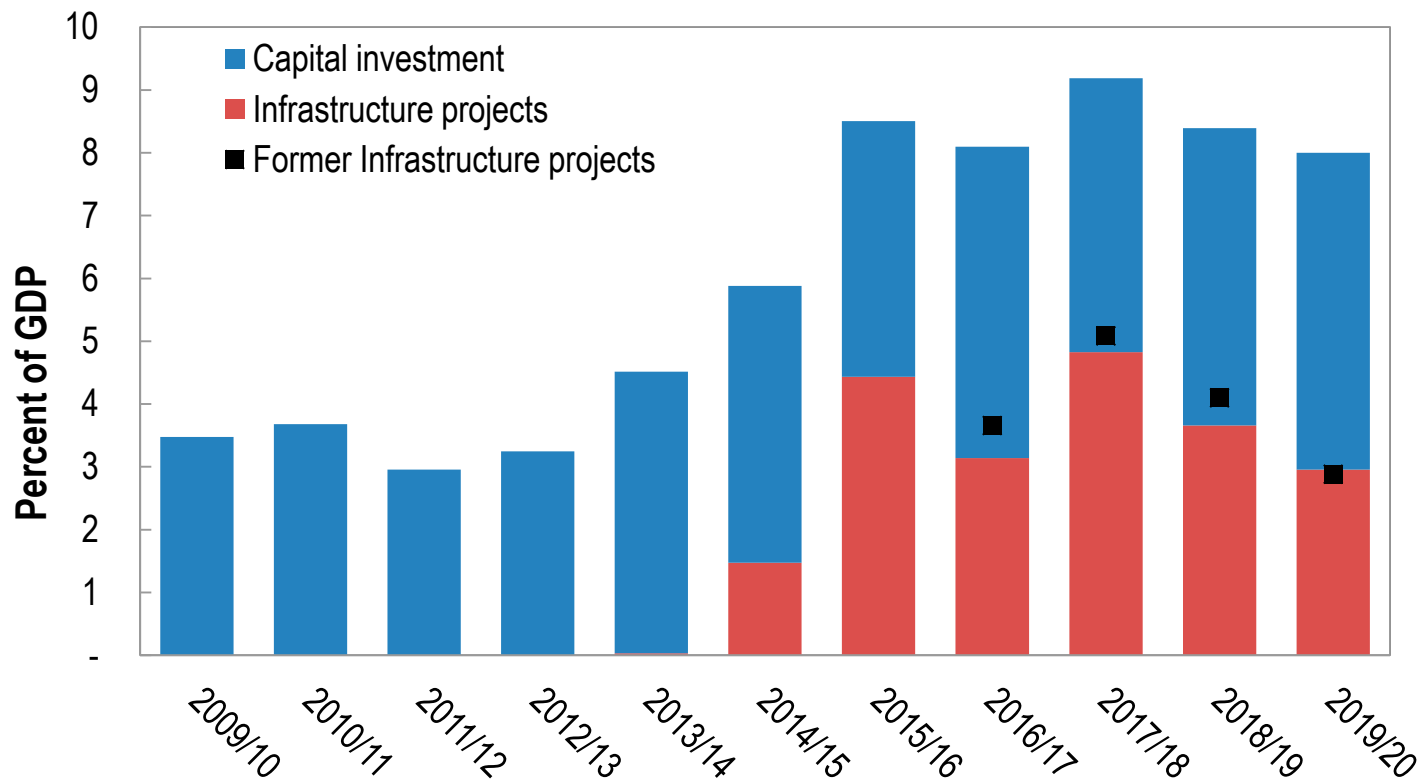
Tax Revenue



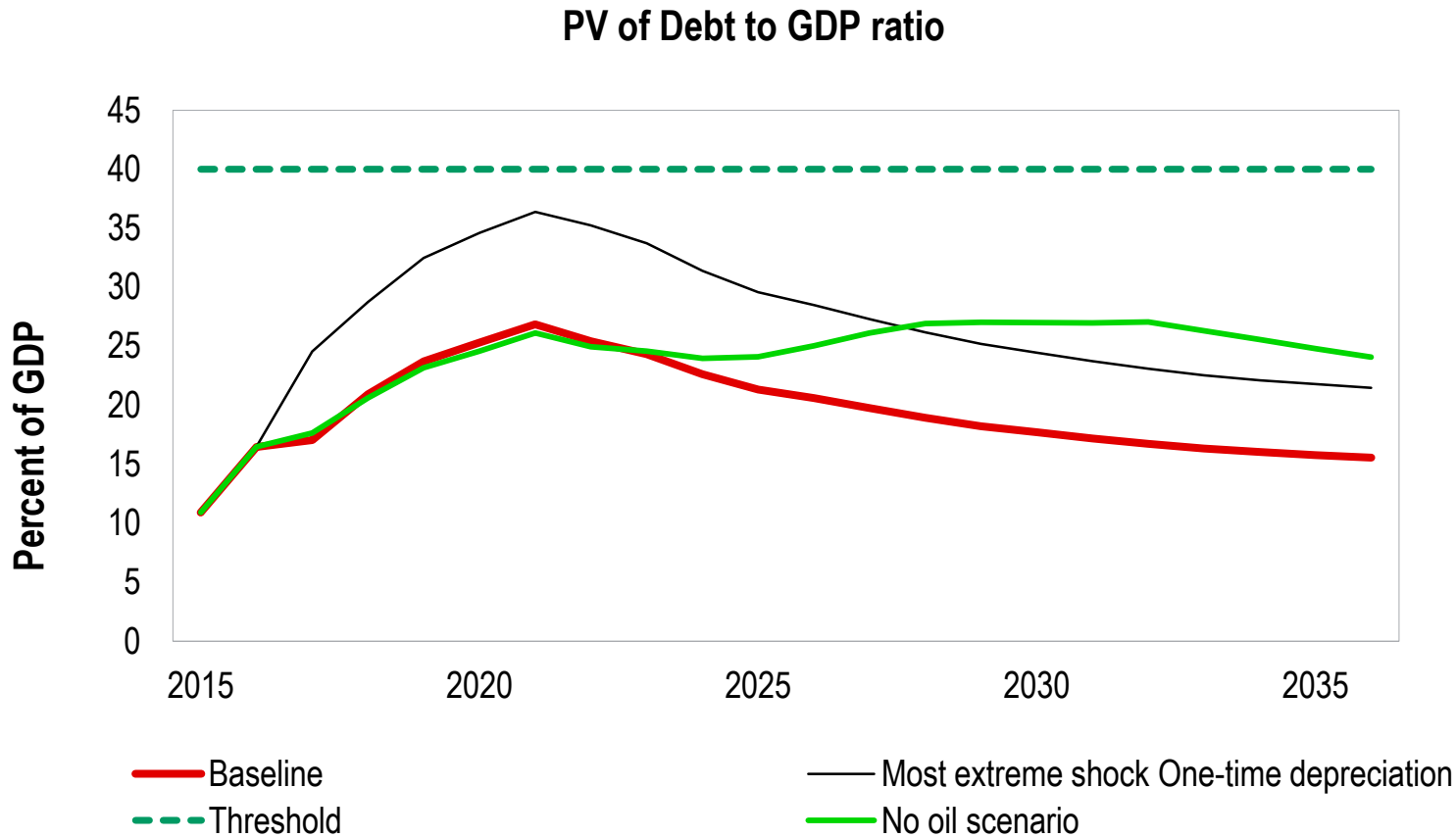
...and pursuing efficient spending with the right infrastructure component...



Capital and Infrastructure Investment



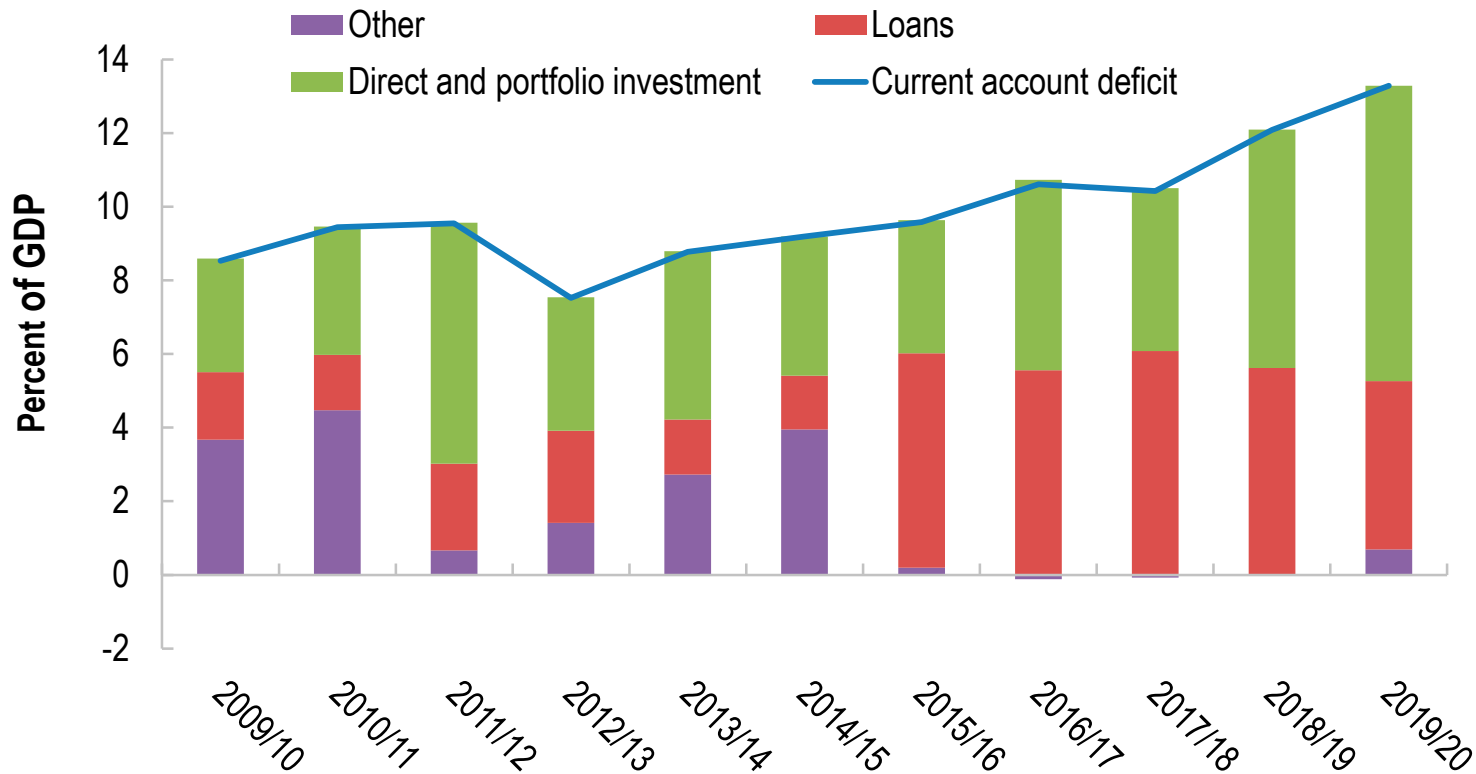
...to ensure debt sustainability...



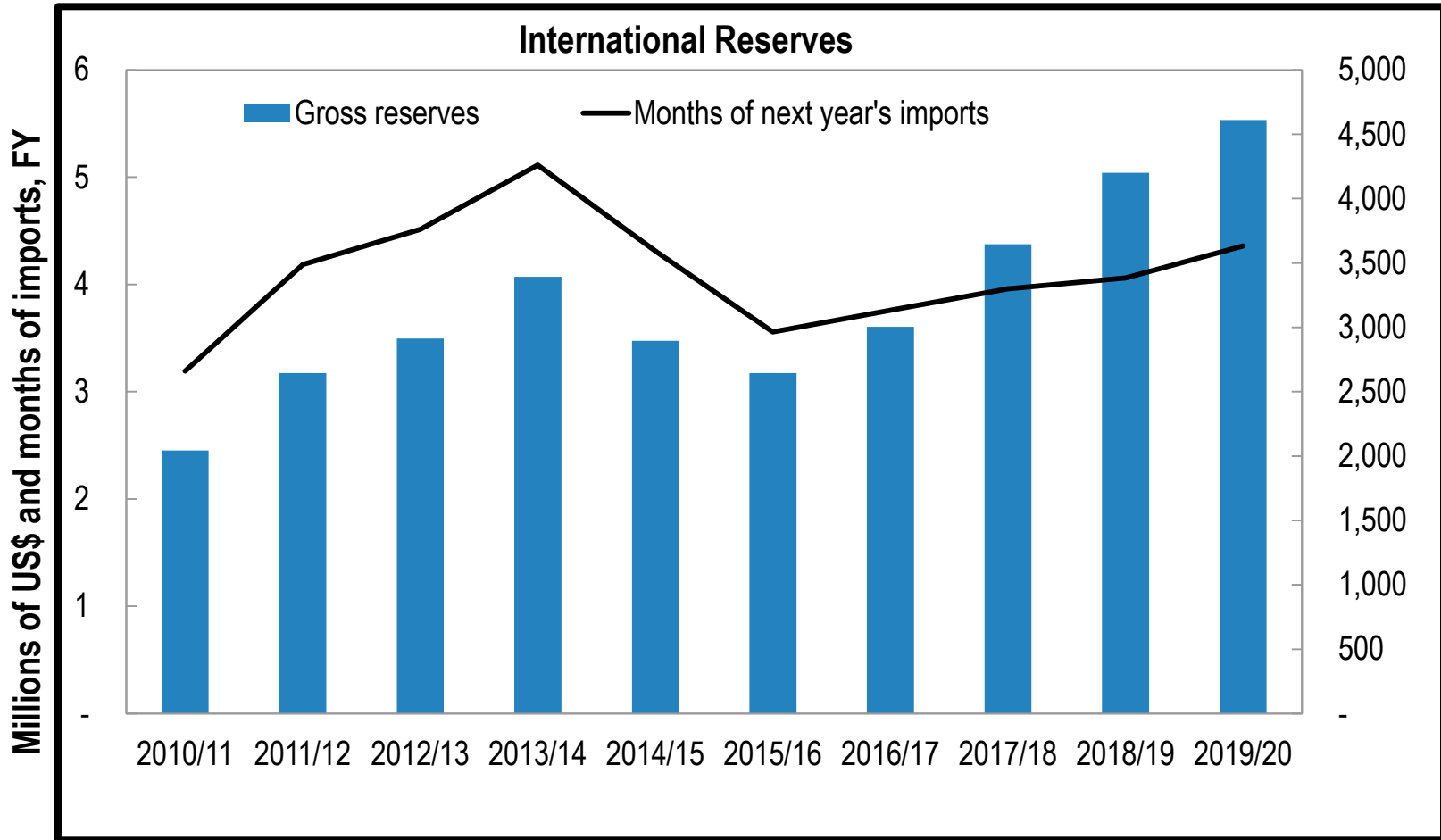
...and adequate financing of the wide current account deficit



Current account financing



...while gradually rebuilding the reserve buffer



Economic policies need to be accompanied by key structural reforms



Continue to promote inclusive growth

- Improve productivity and encourage economic diversification to foster exports
- Make proper use of the oil wealth
- Ensure growth benefits for the most vulnerable

Strengthen private savings

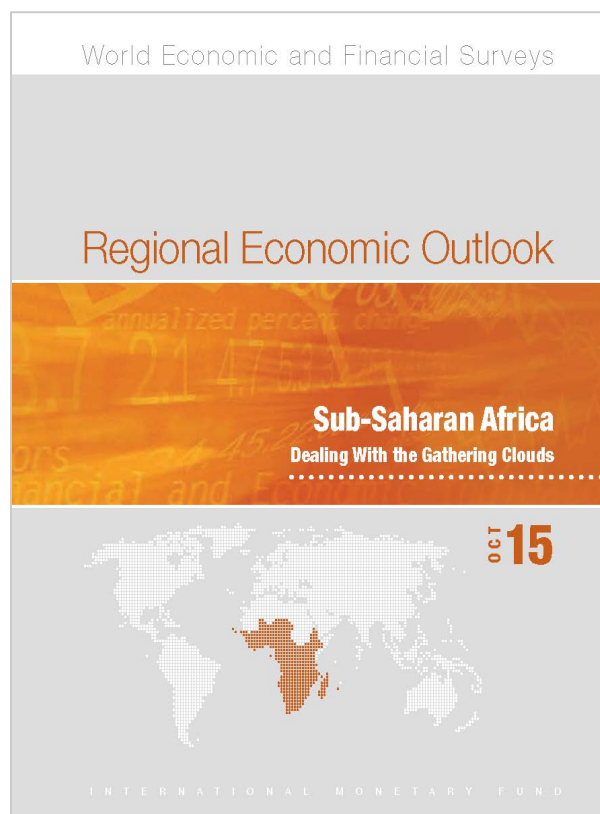
- Create conditions to deepen financial markets and ensure that increased savings finance productive investments

Institution-building and improved governance

- Complete the reforms to support inflation targeting and give more independence to the Bank of Uganda
- Continue to enhance Public Financial Management to have corrupt-free institutions and processes



Thank you!



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*Regional Economic Outlook
for sub-Saharan Africa*
is now available online at
www.imf.org