Multi-Speed Growth

Regional Economic Outlook for Sub-Saharan Africa

Clara Mira
International Monetary Fund
Kampala, December 2016

Outline

The world

Sub-Saharan Africa

Uganda

Outline

The world

Sub-Saharan Africa

Uganda

Global activity remains sluggish, broad-based policy response needed

- Global growth: remain modest, and uneven
  - Advanced Economies: sluggish performance
  - Emerging Market and Developing Economies: activity in stressed economies bottoming out, heterogeneous performance among others.

Growth projections:
Advanced economies

	World	Advanced Economies	U.S.	U.K.	Japan	Euro Area	Germany	Canada	Advanced Asia
2015	**3.2**	**2.1**	**2.6**	**2.2**	**0.5**	**2.0**	**1.5**	**1.1**	**2.1**
2016	**3.1**	**1.6**	**1.6**	**1.8**	**0.5**	**1.7**	**1.7**	**1.2**	**2.2**
Revision from Jul. 2016	0.0	-0.2	-0.6	0.1	0.2	0.1	0.1	-0.2	0.0
2017	**3.4**	**1.8**	**2.2**	**1.1**	**0.6**	**1.5**	**1.4**	**1.9**	**2.5**
Revision from Jul. 2016	0.0	0.0	-0.3	-0.2	0.5	0.1	0.2	-0.2	-0.1

Sources: IMF, *World Economic Outlook* July 2016 Update; and IMF, *World Economic Outlook* October 2016.

Growth projections:
Emerging markets and LIDCs

	World	Emerging Market and Developing Economies	China	India	Brazil	Russia	Commodity Exporting Economies	Low Income Developing Countries
2015	**3.2**	**4.0**	**6.9**	**7.6**	**-3.8**	**-3.7**	**0.8**	**4.6**
2016	**3.1**	**4.2**	**6.6**	**7.6**	**-3.3**	**-0.8**	**0.9**	**3.7**
Revision from Jul. 2016	0.0	0.1	0.0	0.2	0.0	0.4	0.0	-0.1
2017	**3.4**	**4.6**	**6.2**	**7.6**	**0.5**	**1.1**	**2.5**	**4.9**
Revision from Jul. 2016	0.0	0.0	0.0	0.2	0.0	0.1	0.0	-0.2

Sources: IMF, *World Economic Outlook* July 2016 Update; and IMF, *World Economic Outlook* October 2016.

Outline

The world

Sub-Saharan Africa

Uganda

REO Outline

The Slowdown

Causes and consequences

Where are the bright spots?

How can growth be revived?

The deceleration in growth is acute,

- 2010 – 14 : **5.3 %**
- 2015 : **3.4 %**
- 2016 : **1.4 %**

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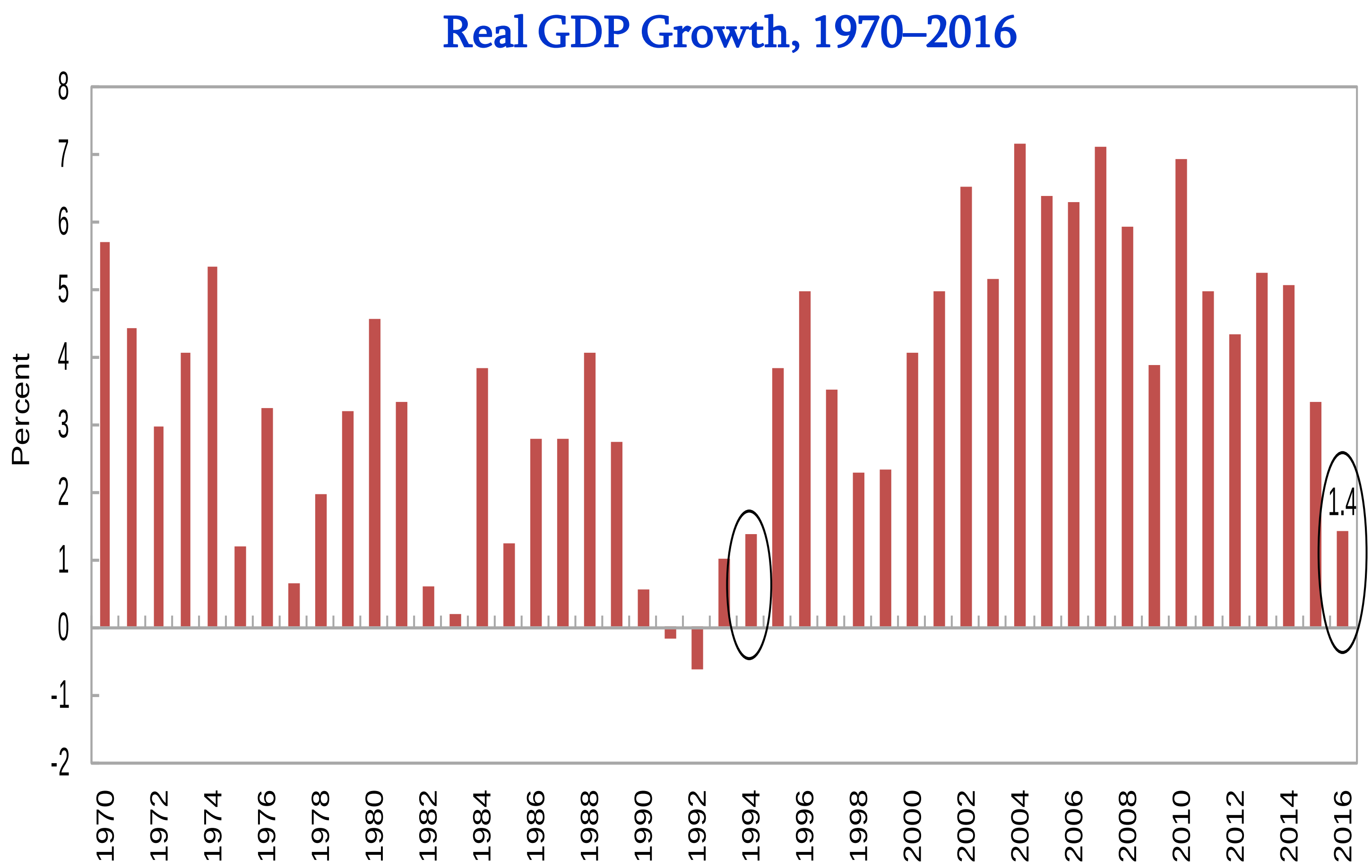
and implies the lowest expansion since 1994.



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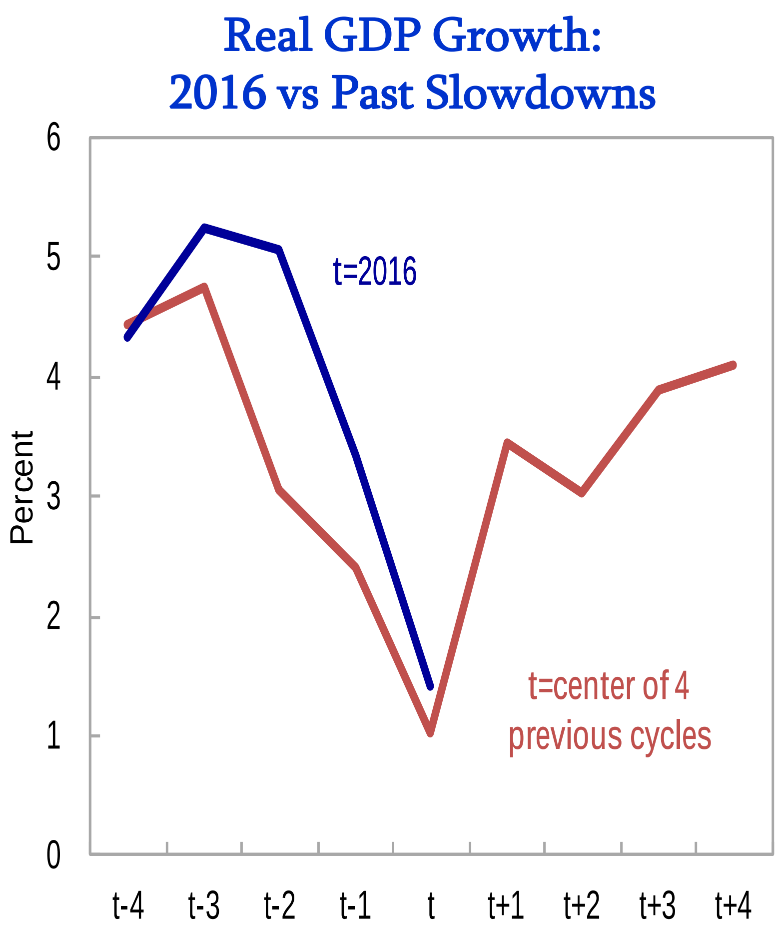
reminiscent of past sharp slowdowns,



Previous episodes:

1977, 1983, 1992, 2009

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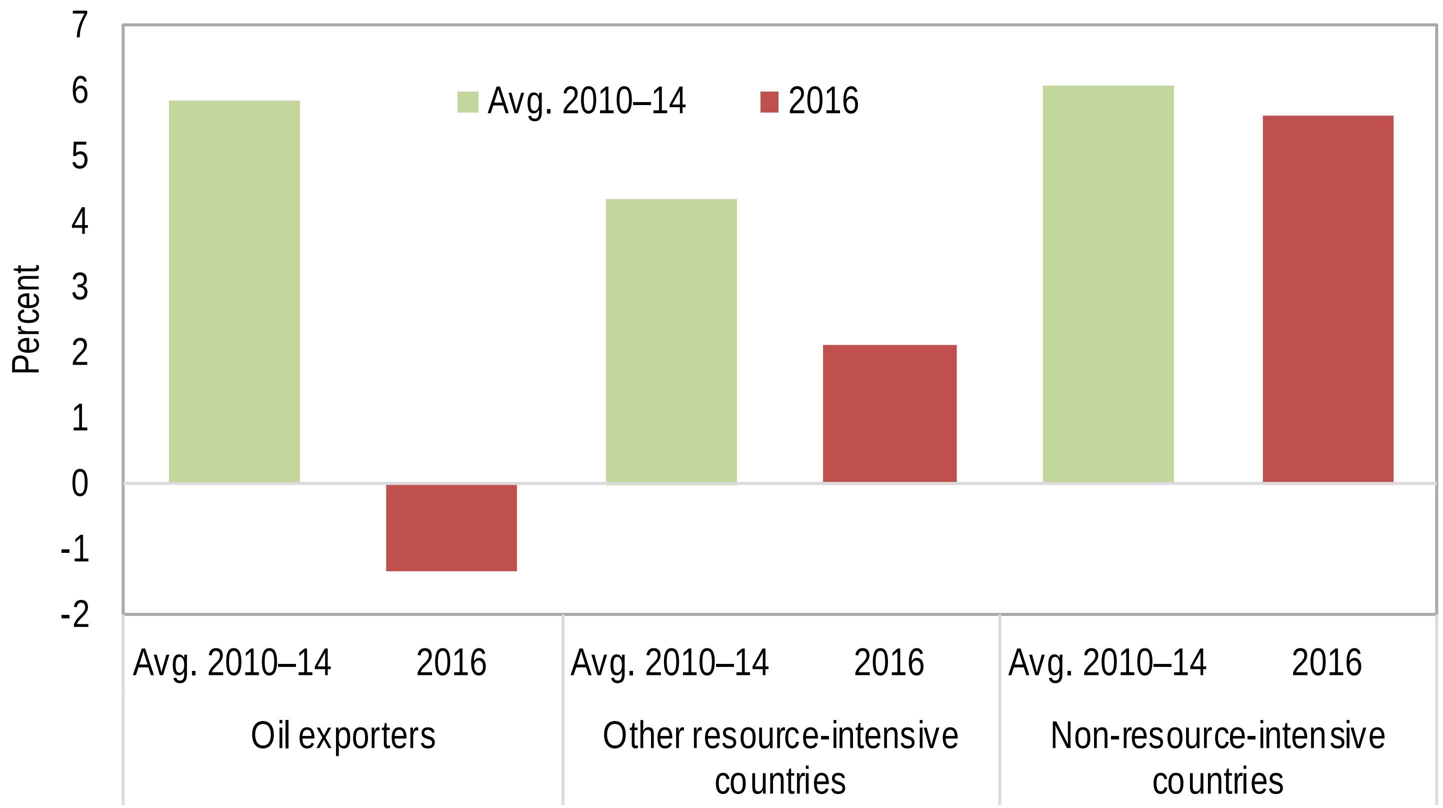
But, more than ever, the heterogeneity of growth outcomes is quite striking,

Real GDP Growth, 2010-16



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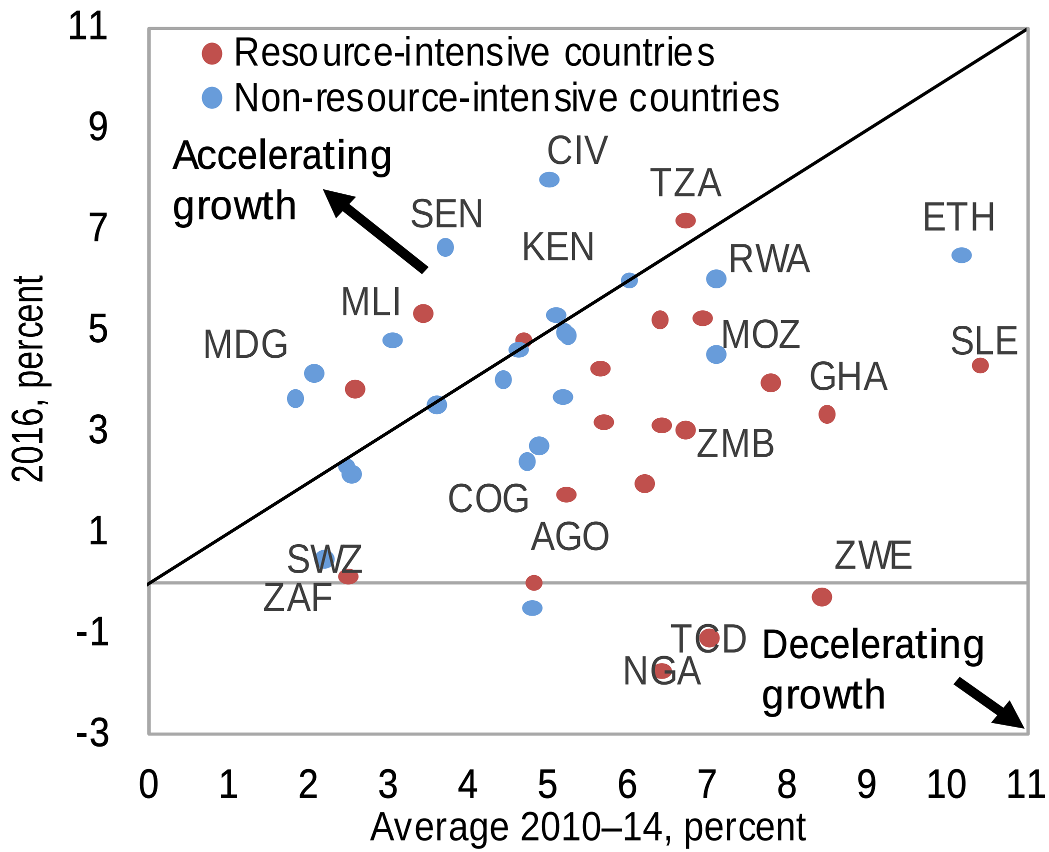
with the aggregate slowdown heavily influenced by the deceleration in activity in resource-intensive countries,

Real GDP Growth, 2010-16



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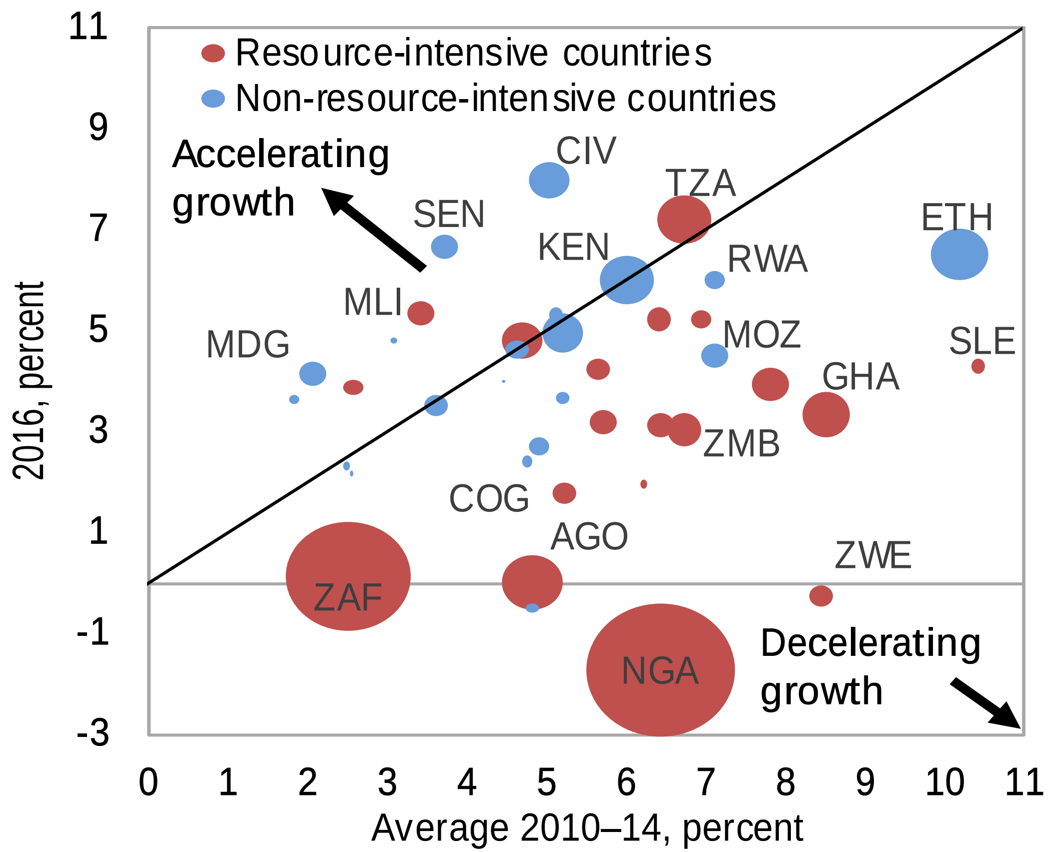
given their large share in the regional output.

Real GDP Growth, 2010-16



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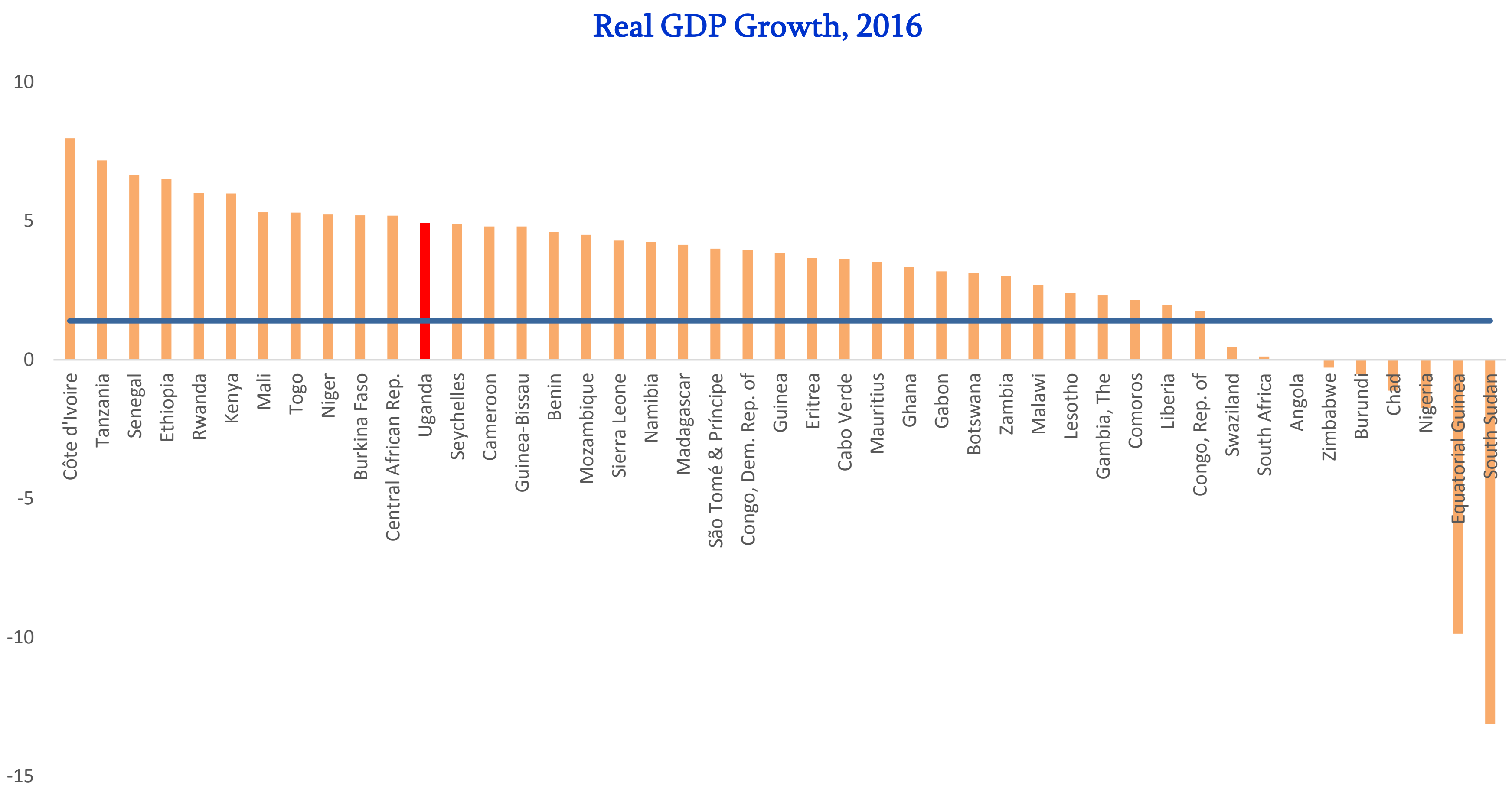
But, more than ever, the heterogeneity of growth outcomes is quite striking



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REO Outline

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Causes and consequences

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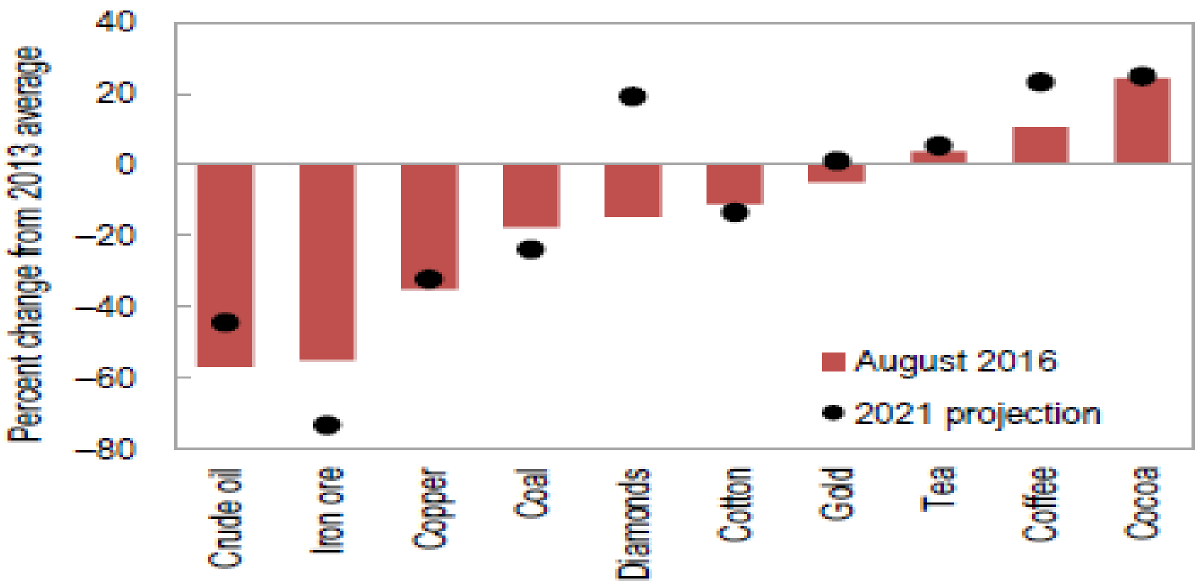
Four reasons underpin this sharp slowdown:

- Continued drag from depressed commodity prices
- Tighter financing conditions
- Compounded by the delayed policy response
- Other country specific factors also, including drought and political unrest

Depressed commodity prices

(Change since 2013)



Sources: IMF Commodity Price System; IMF Global Assumptions.

Note: Besides oil, some of the main commodities exported by the region are copper (Democratic Republic of Congo and Zambia), iron ore (Liberia, Sierra Leone, and South Africa), coal (Mozambique and South Africa), gold (Burkina Faso, Ghana, Mali, South Africa, and Tanzania), and platinum (South Africa).

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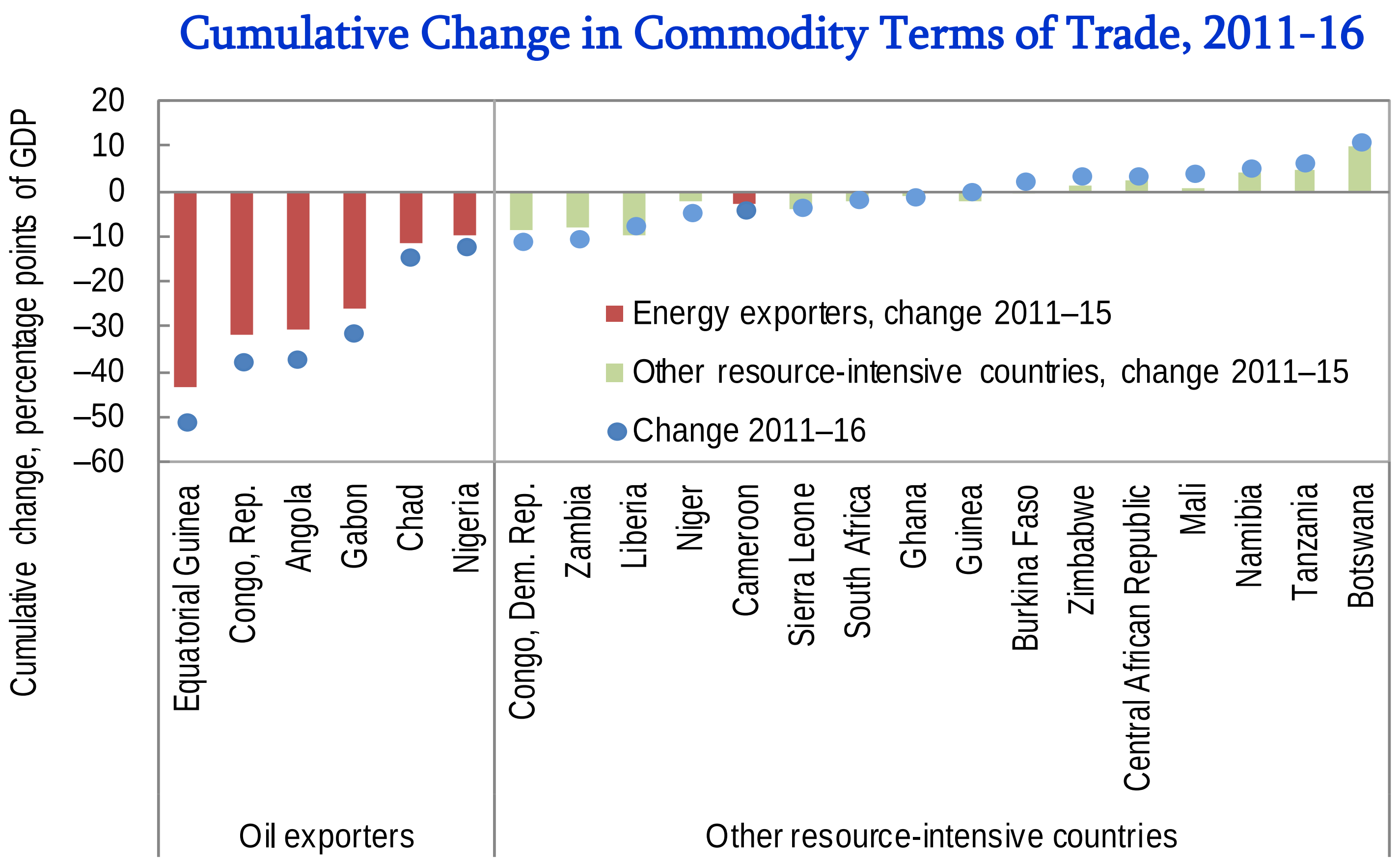
The terms-of-trade shock has been of historical magnitude for oil exporters,



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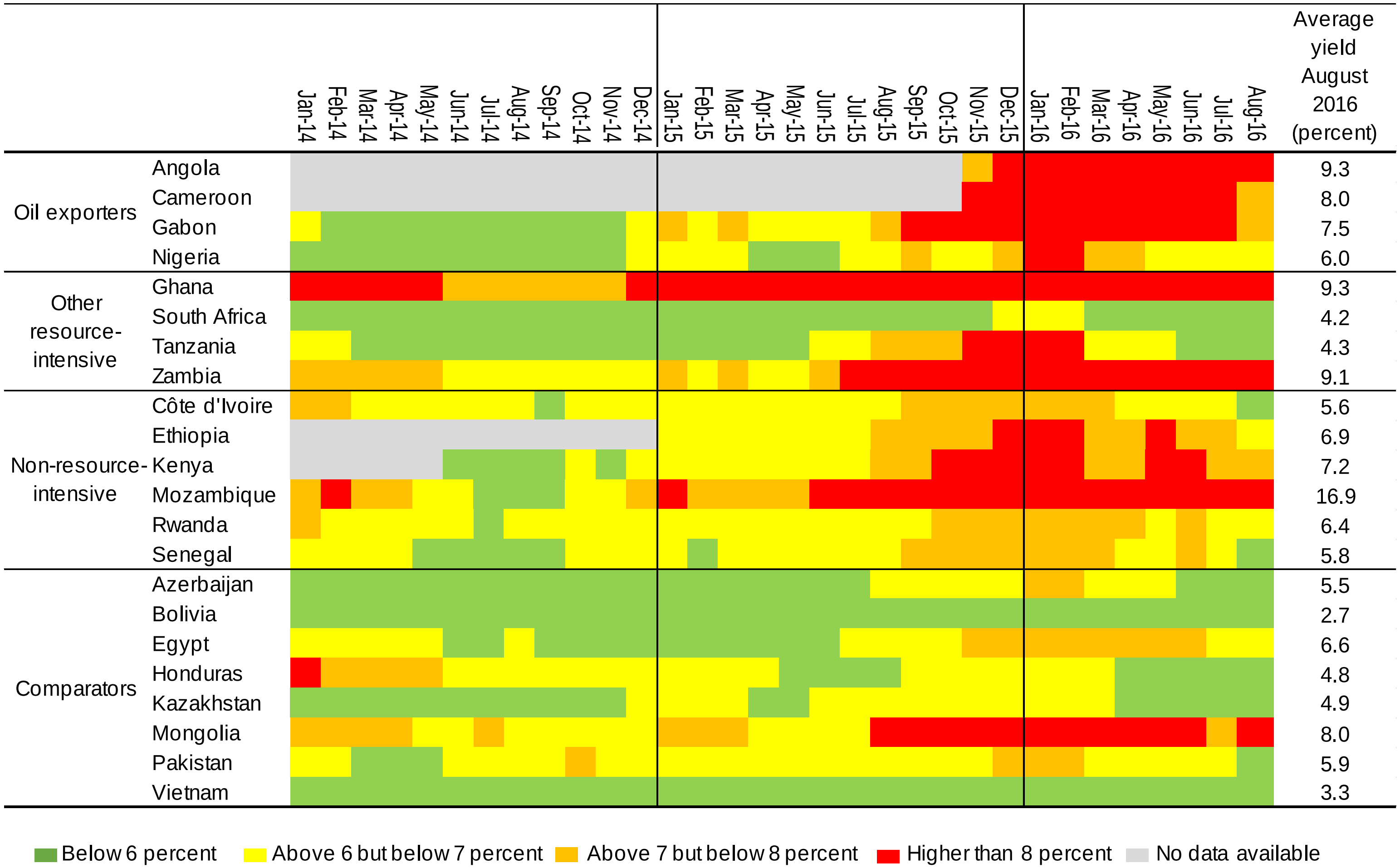
financing conditions have tightened,

SSA Frontier Markets in Context: Eurobond Yields, 2014-16



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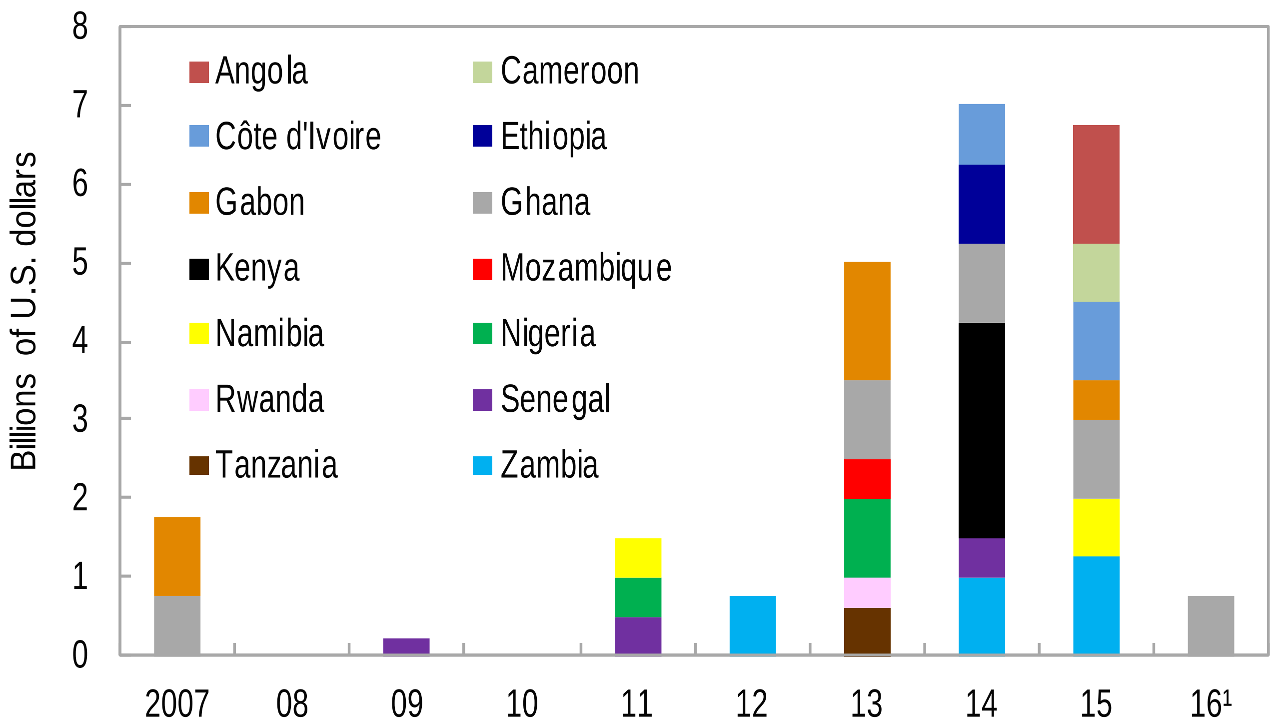
resulting in reduced market access for the region.

International Sovereign Bond Issuances



[1] Up to mid-September 2016.

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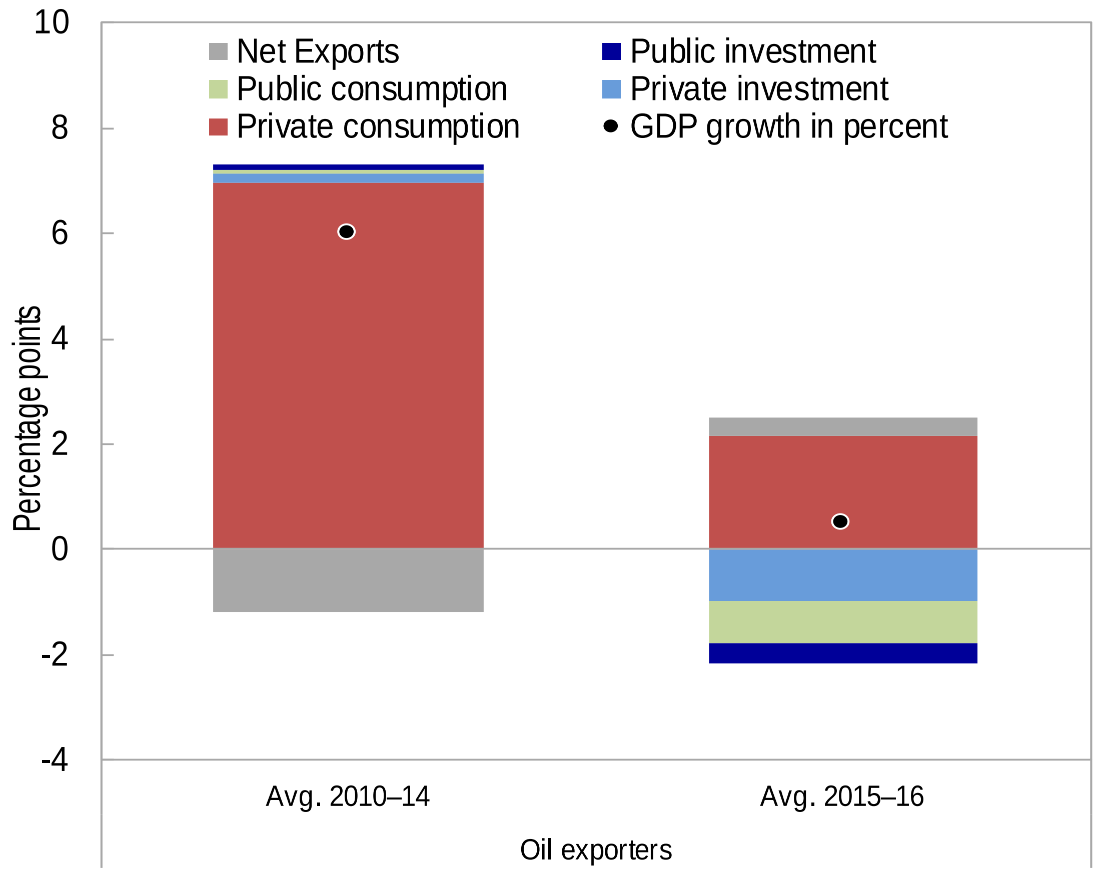
The pain from the collapse in commodity earnings is spreading,

Oil Exporters: Contribution to Growth by Sources of Demand, 2010-16



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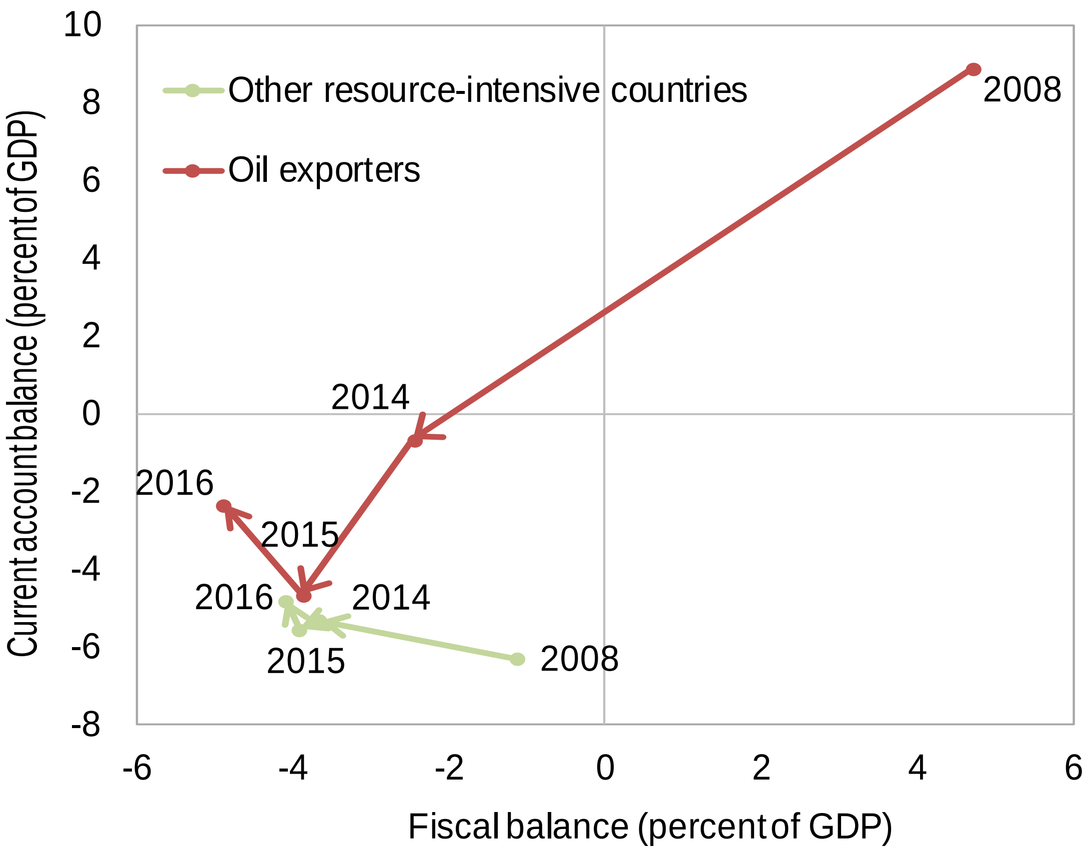
resulting in elevated macroeconomic imbalances.

Change in Fiscal and Current Account Balances, 2008-16



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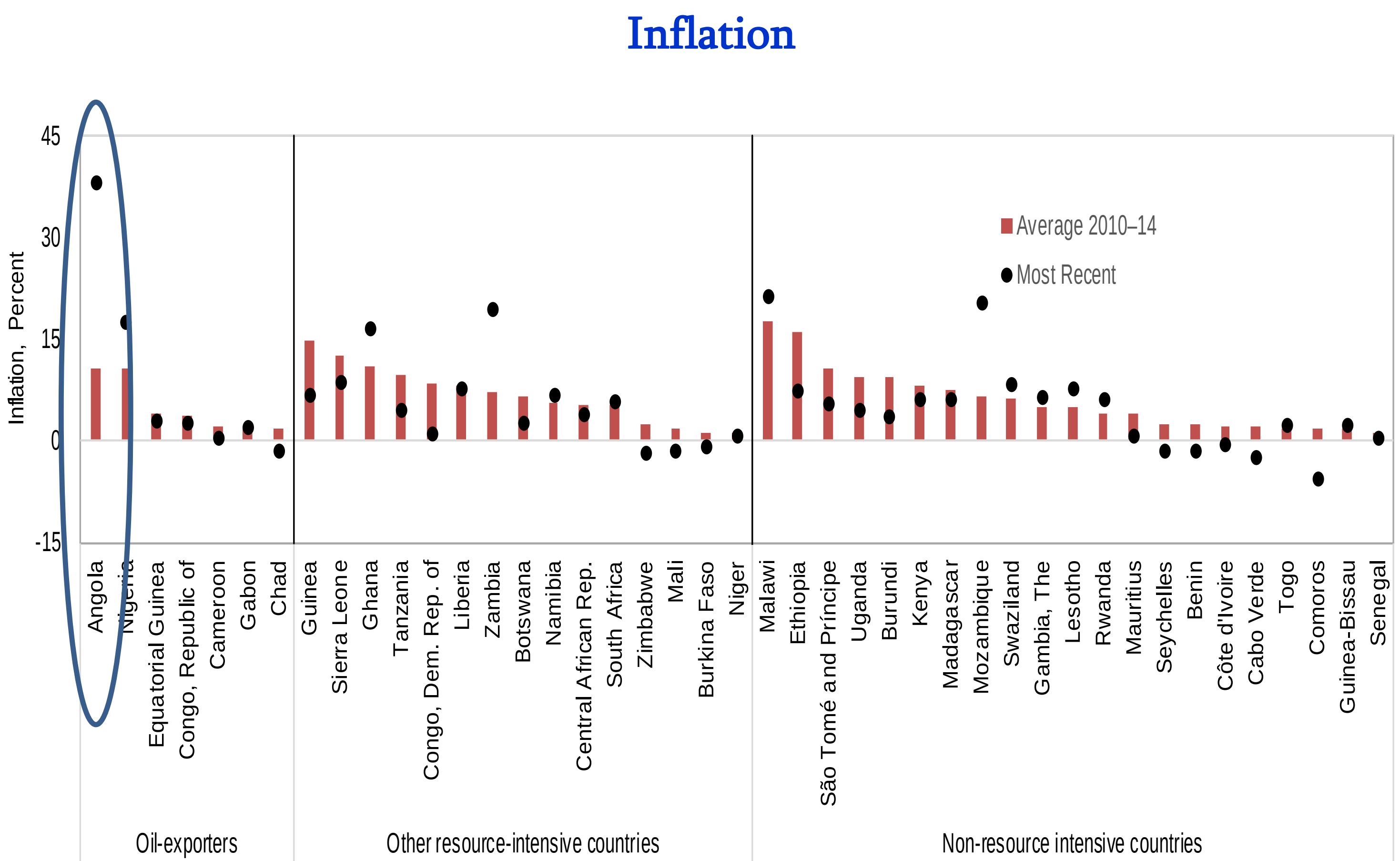
Inflation has accelerated sharply in some cases,



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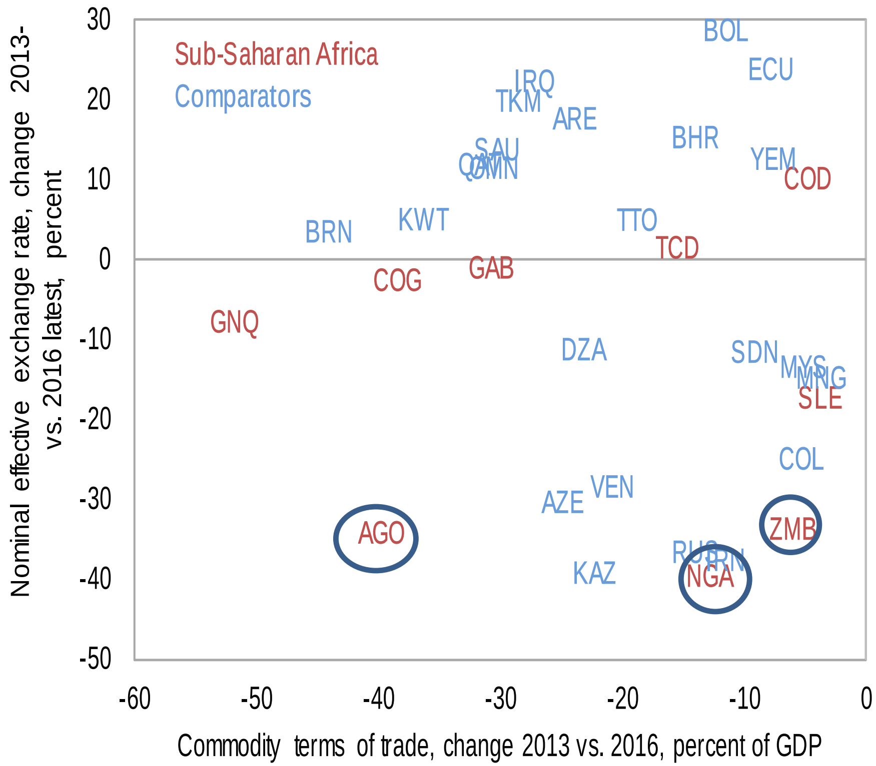
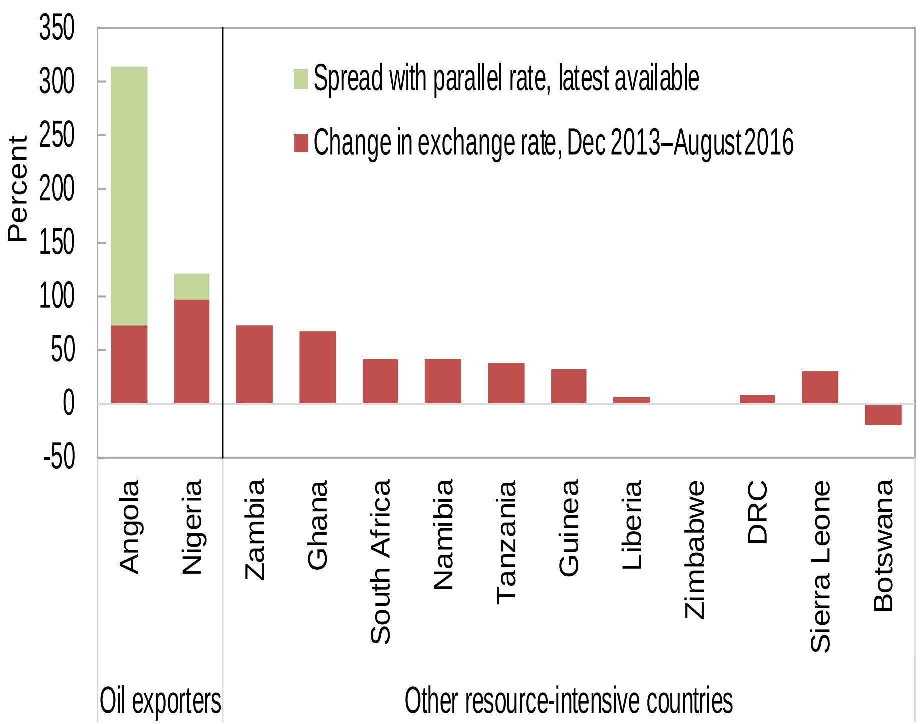
reflecting exchange rate depreciations,

Change in Commodity Terms of Trade and Nominal Effective Exchange Rate, 2016 versus 2013



Depreciation Against U.S. Dollar Since Dec. 2013 (+indicates depreciation)



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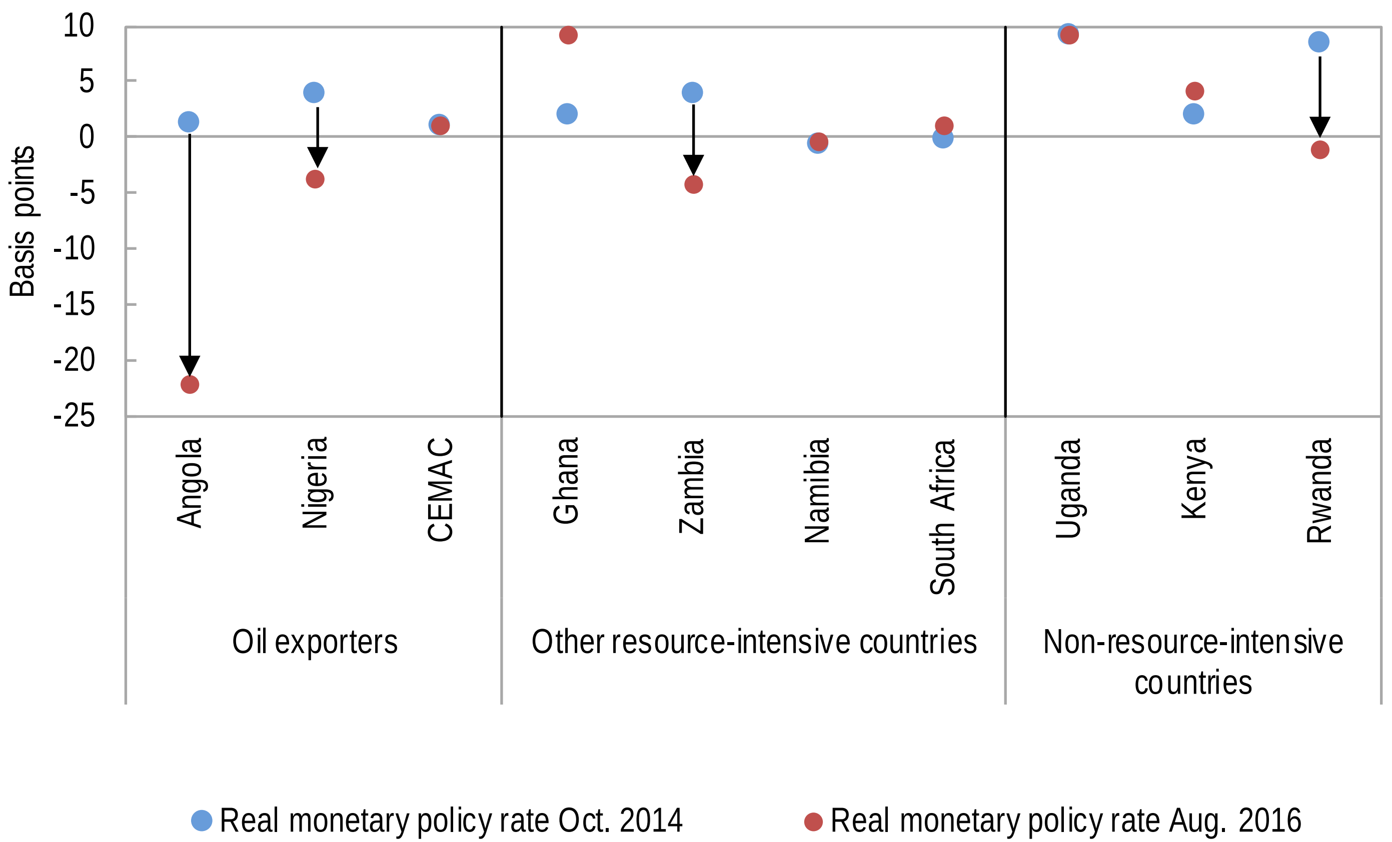
and a monetary stance that is quite accommodative in some cases.

Real Monetary Policy Rate, 2014-16



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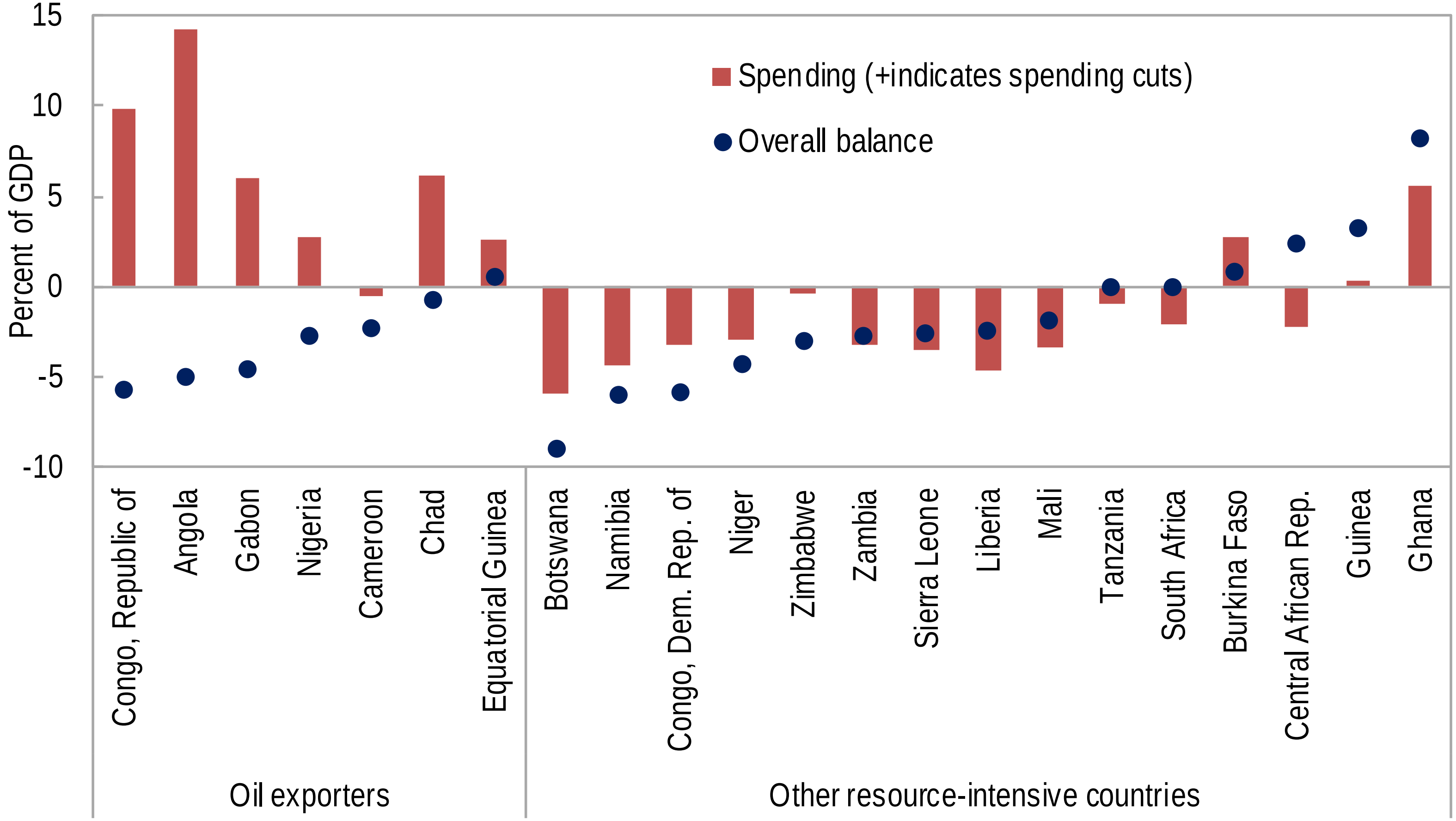
Fiscal adjustment has been limited, with deficits widening despite spending cuts in most cases.

Change in Fiscal Balance, 2016 versus 2013



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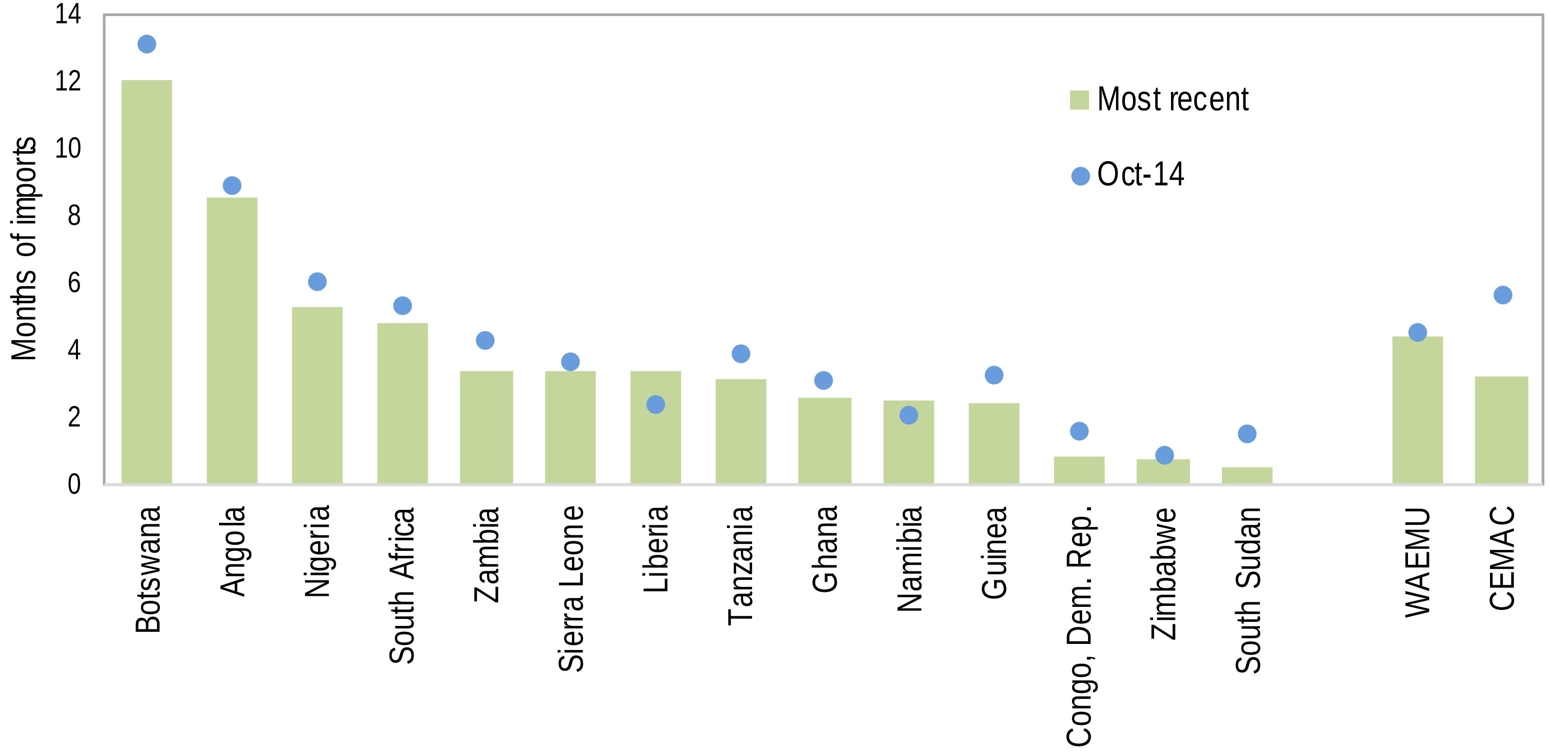
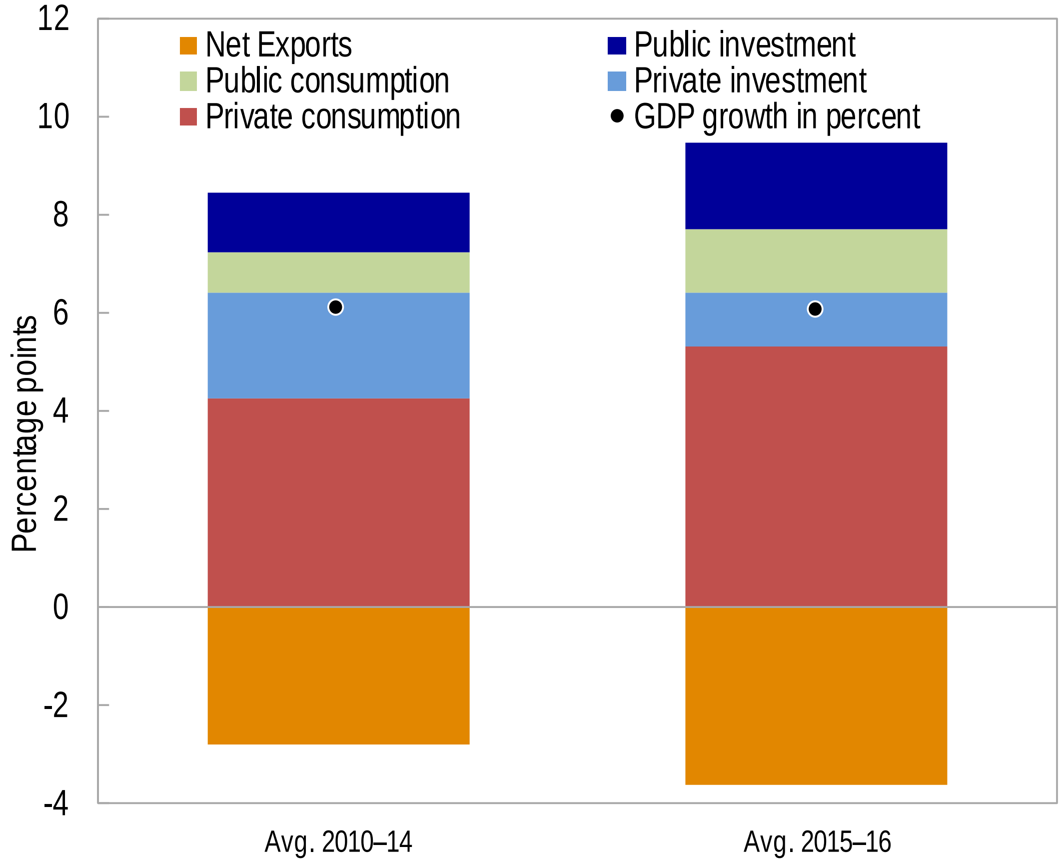
Foreign reserves are under pressure,

International Reserves in Months of Imports, 2014-16



Non-Resource Intensive Countries – broadly unchanged sources of demand

Non-Resource-Intensive Countries: Contribution to Growth by Sources of Demand, 2010-16

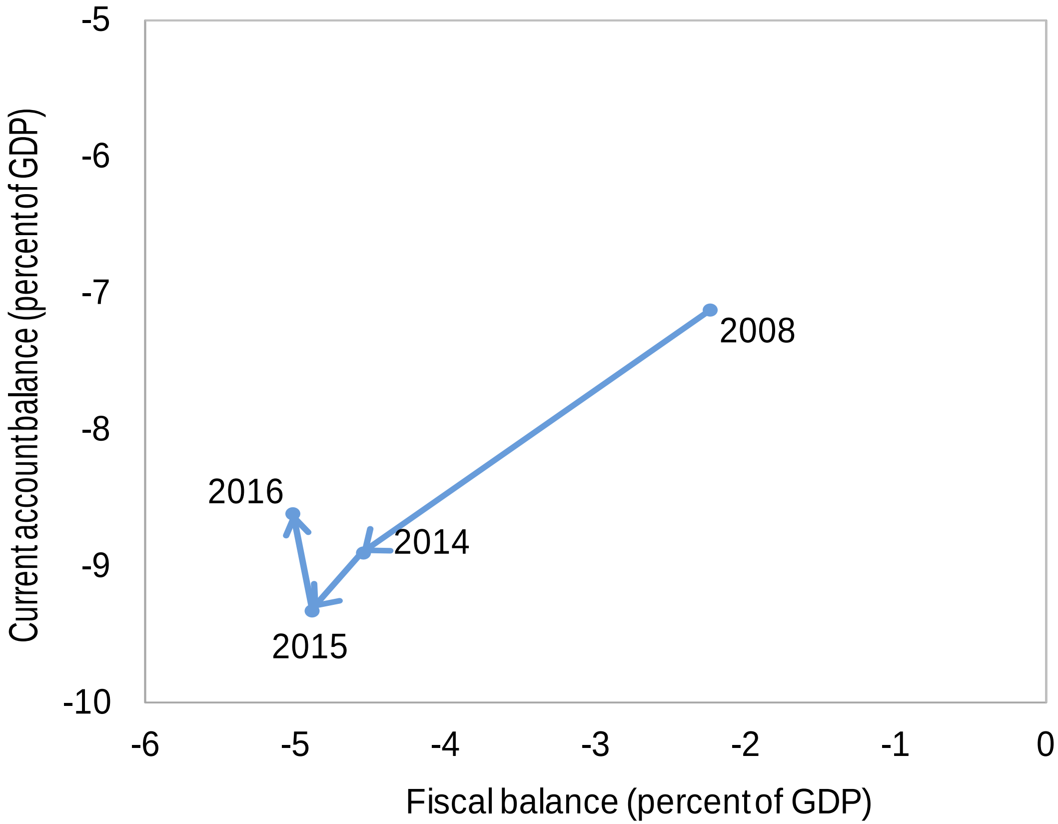


- 19/45 countries growing +/- 1 percentage point of 2010-14 average

- Cote d'Ivoire, Tanzania, Senegal, and Rwanda among countries registering 6 percent or more growth

but buffers have been eroded there too.

Non-Resource-Intensive Countries: Change in Fiscal and Current Account Balances, 2008-16



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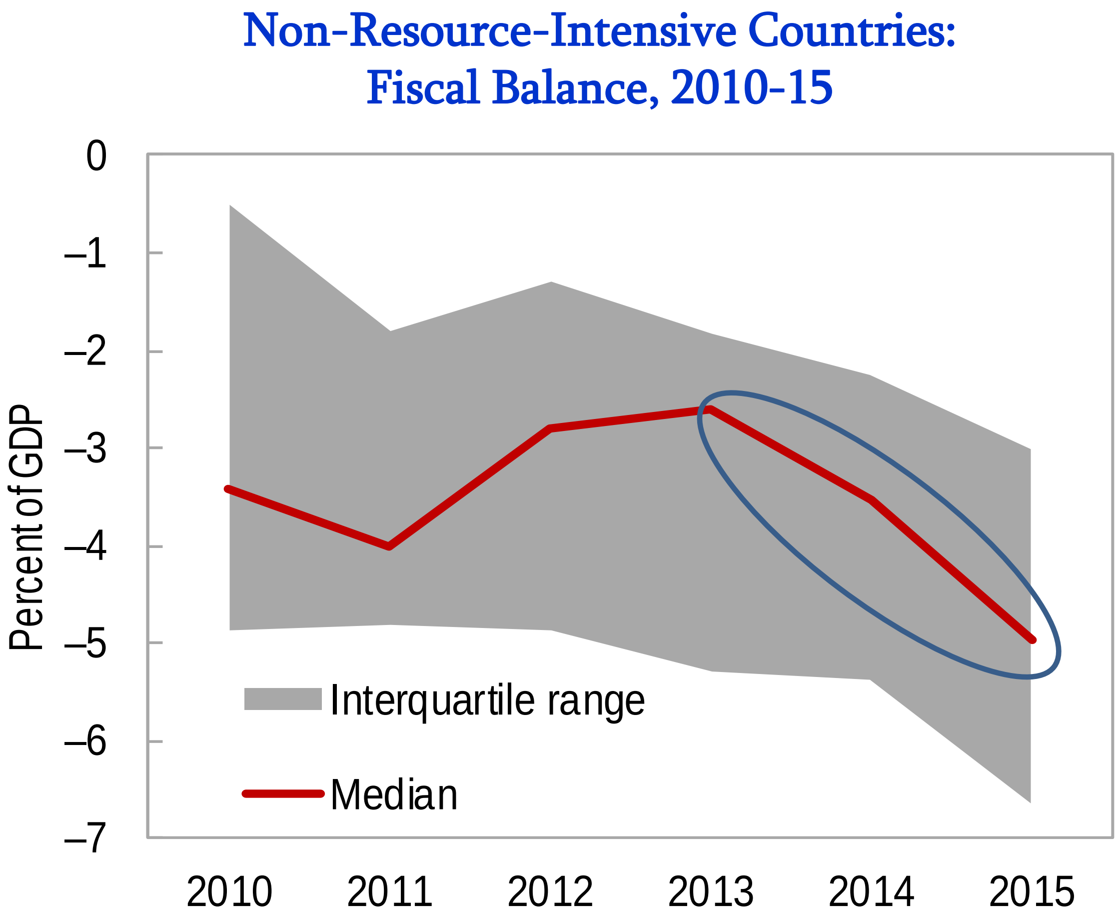
The challenge for them is to better modulate spending,



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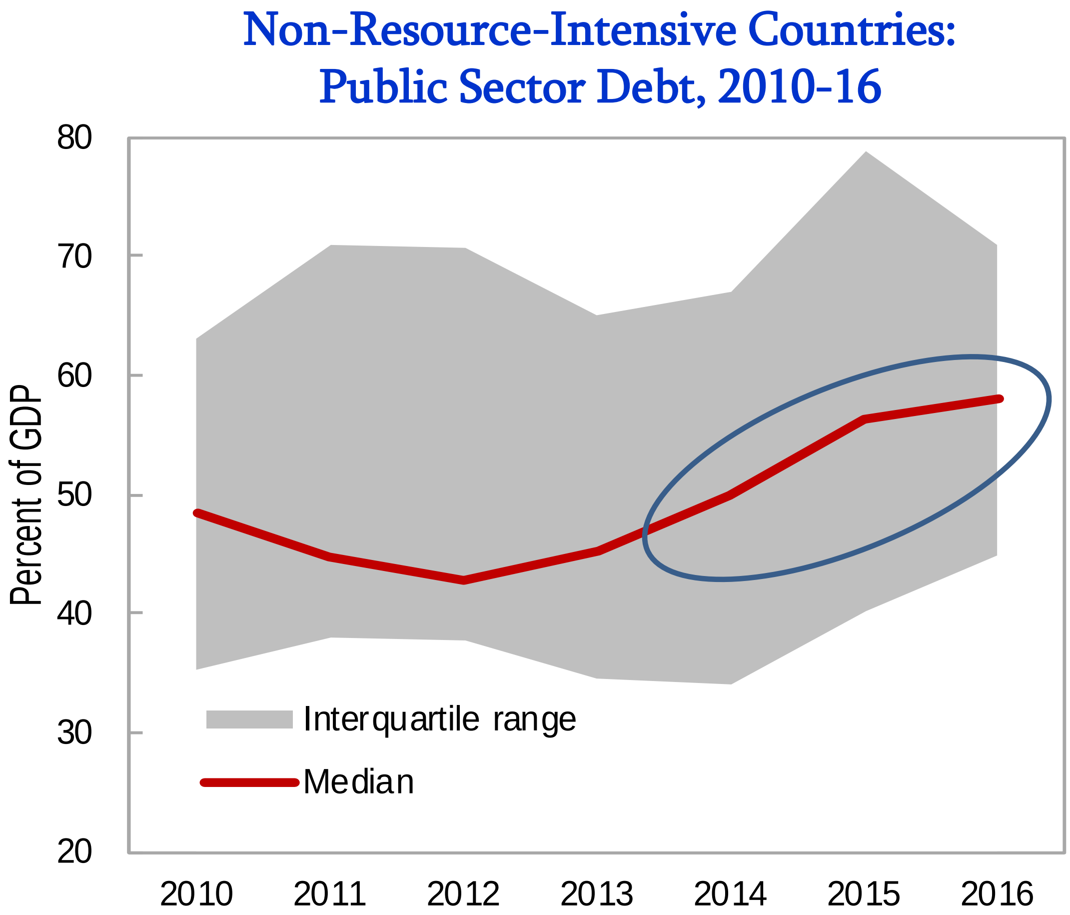
so as to contain debt accumulation.



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REO Outline

The Slowdown

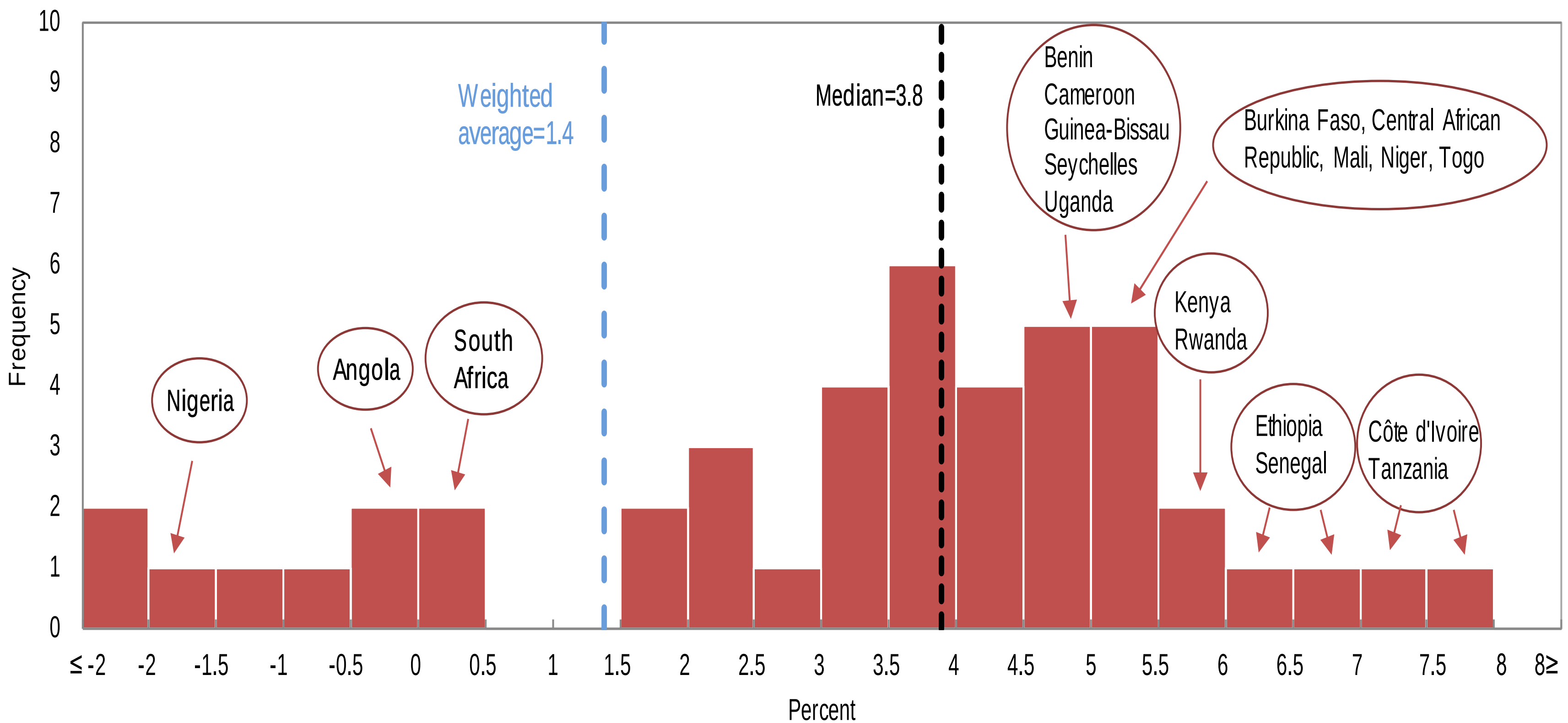
Causes and consequences

Where are the bright spots?

How can growth be revived?

Many countries in the region of course continue to sustain reasonably high growth

Distribution of Growth in Sub-Saharan Africa, 2016



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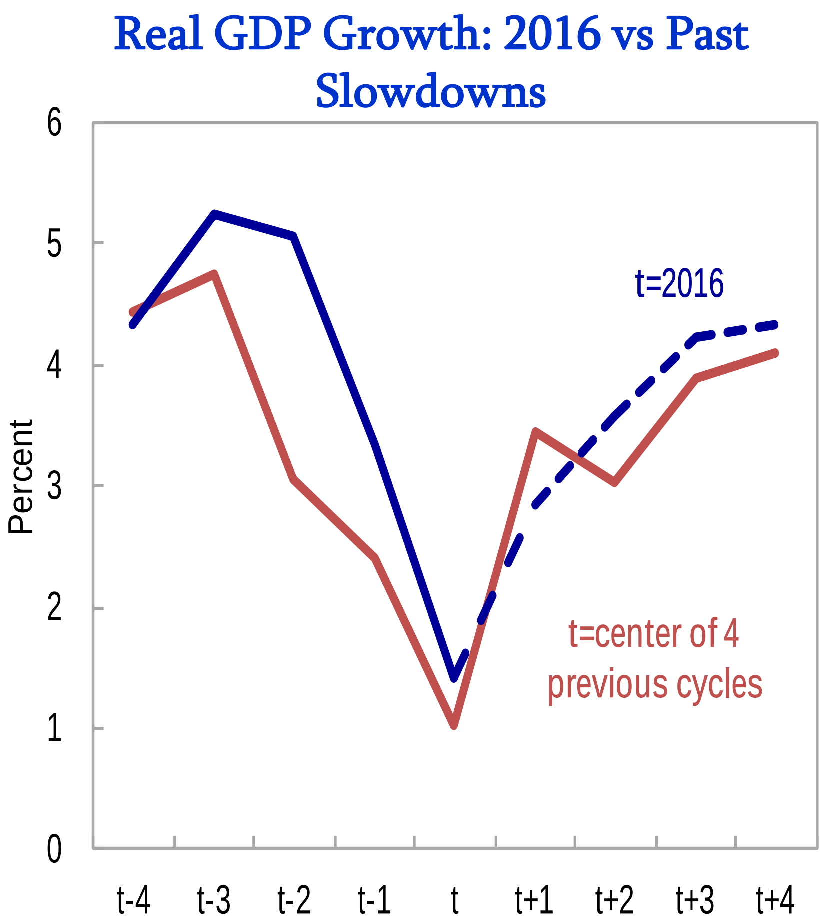
For 2017, only a modest rebound for the region is expected, predicated on prompt policy actions.



But risks are significant:

- Further delays in policy implementation
- Political risks in some cases
- Global environment risks (financial market turmoil, lower global growth, etc.)

Across the region, it is now all about the pace of adjustment:

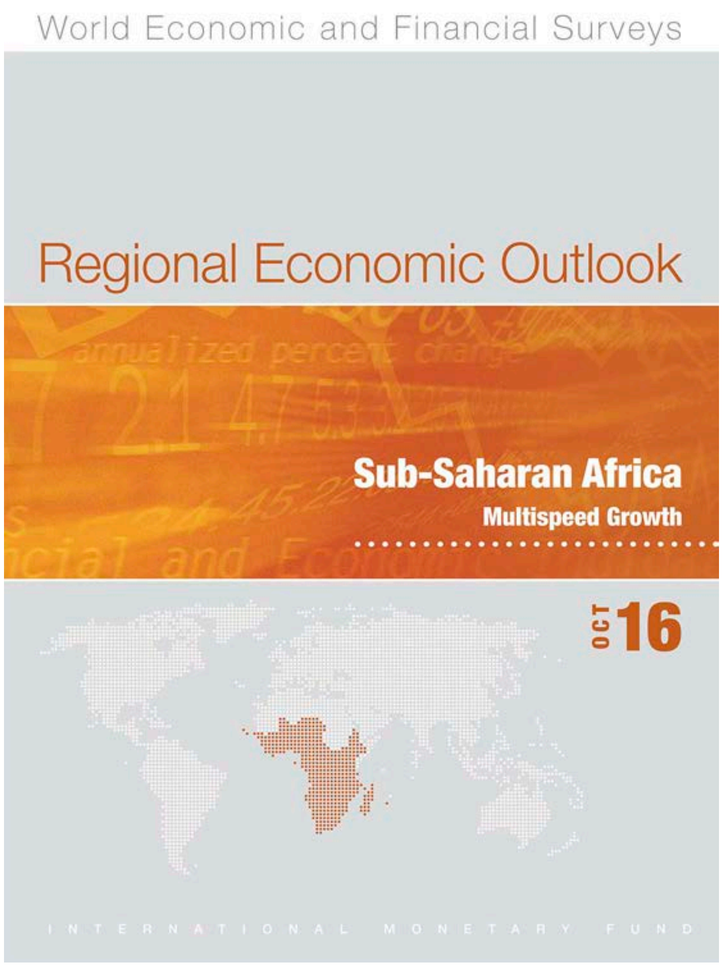
In commodity exporters given the limited buffers, financing constraints, and elevated macro imbalances significant and urgent adjustment needed:

- Fiscal tightening (to the extent feasible in a growth-friendly manner, e.g. subsidy reforms);
- Fiscal adjustment needs greater still in countries in monetary unions;
- Exchange rate should adjust to absorb external pressures where feasible, coupled with tighter monetary policy stance to contain inflation;
- *Only option to ease the pace of adjustment is if it can be embedded in a credible medium-term framework and is accompanied with sufficient concessional financing.*

In countries still enjoying high growth, focus has to be on rebuilding buffers by reducing deficits and addressing investment needs through greater revenue mobilization.

Structural reforms required across the region:

- Domestic revenue mobilization reforms to reduce overreliance on commodity-related revenue
- Expenditure rationalization efforts to avoid abrupt cuts in productive capital spending and support the diversification agenda
- Reforms to improve spending efficiency (strengthening public investment management) and trim down untargeted subsidies
- Preserve social safety nets targeted to the most vulnerable segments of the population



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Exchange Rate Regimes in Sub-Saharan Africa: Experiences and Lessons

Regional Economic Outlook for Sub-Saharan Africa

African Department
International Monetary Fund
October, 2016

Exchange Rate Regimes in Sub-Saharan Africa: Experiences and Lessons

- Key policy question: how can sub-Saharan African (SSA) countries improve their economic performance in the context of the exchange rate regime they have adopted?
- Key findings:
  - Fixed regimes have been associated with systemically better anchored inflation
  - More flexible exchange rates experienced higher growth over time

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Enhancing Resilience to Natural Disasters in Sub-Saharan Africa

Regional Economic Outlook for Sub-Saharan Africa

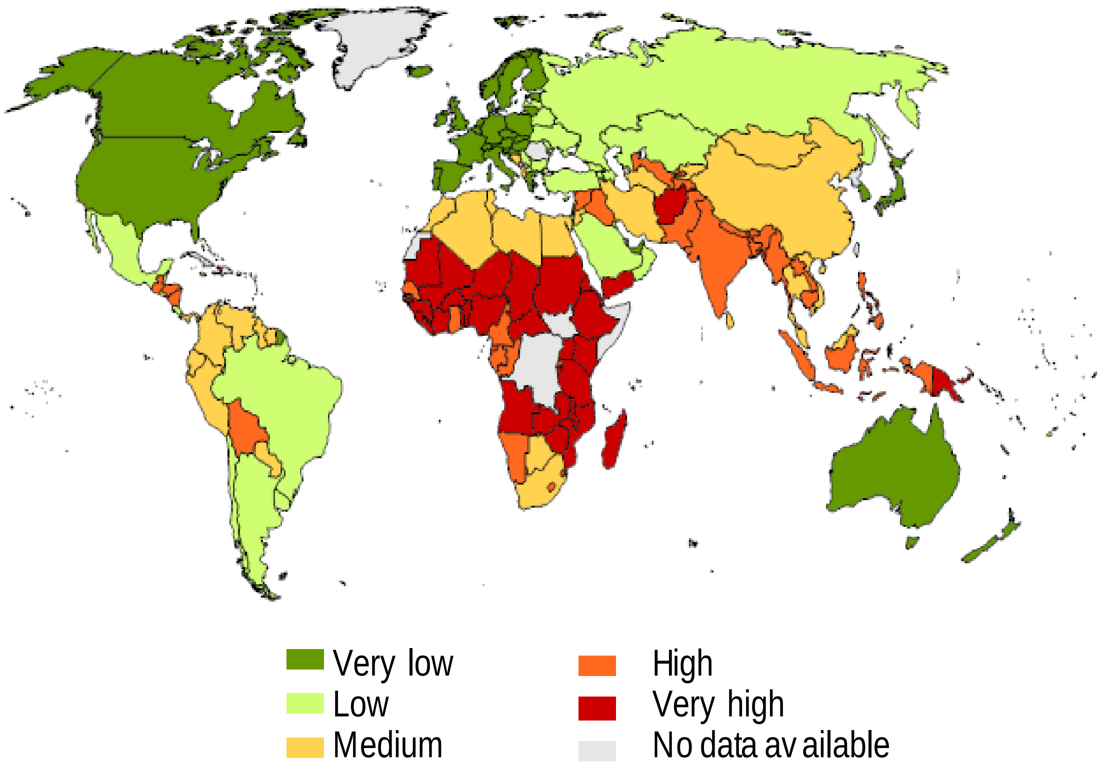
African Department
International Monetary Fund
October 2016

Enhancing Resilience to Natural Disasters in Sub-Saharan Africa

- Natural disasters in Sub-Saharan Africa
- Sources of vulnerabilities
- Macroeconomic and social impacts
- Risks posed by climate change
- Policies to enhance resilience

SSA is vulnerable, due to structural factors…

Sub-Saharan Africa: Vulnerability to Natural Disasters



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The world

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Uganda

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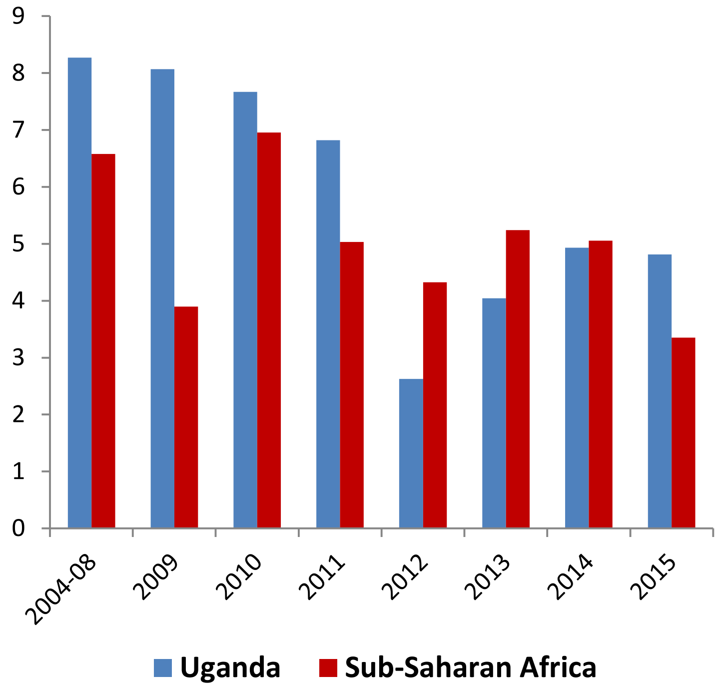
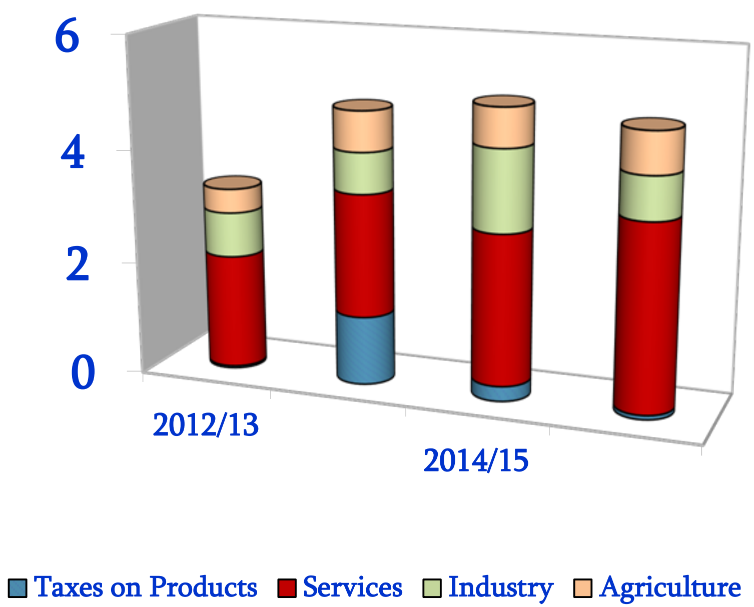
Uganda - Recent Growth dynamics

Real GDP growth



Contribution to GDP Growth by Sector (percent, y-o-y)



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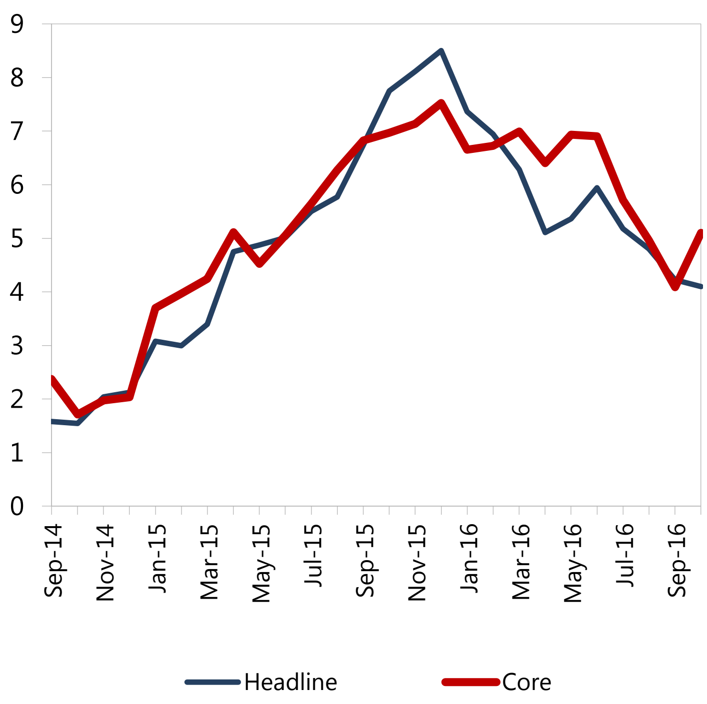
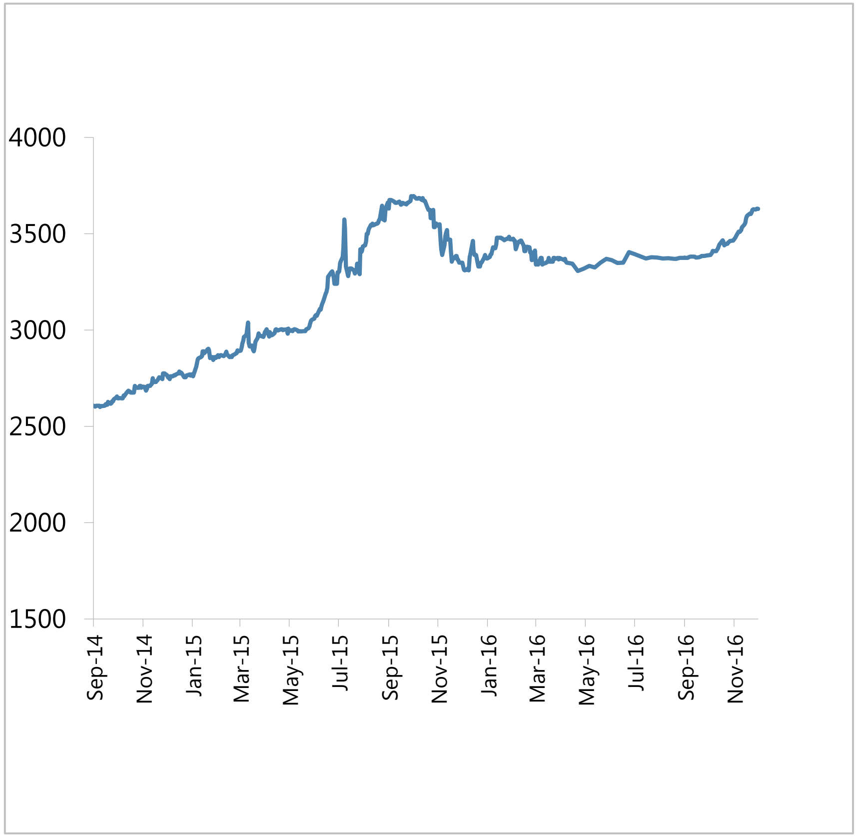
Inflation and exchange rate

Inflation Rates (percent, y-o-y)



Nominal Exchange Rate (Ugandan Shilling per USD



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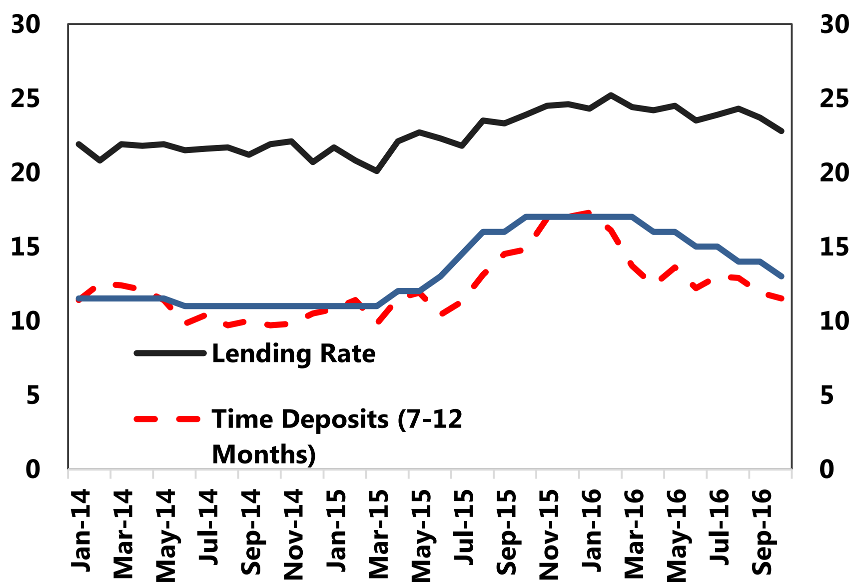
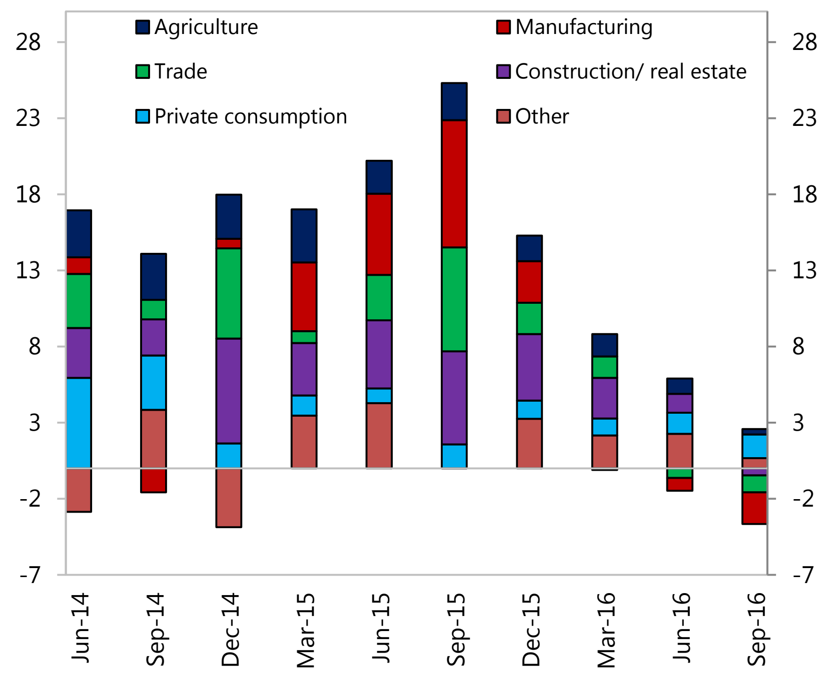
Monetary side

Interest Rate Structure (percent)



Contribution to Private Credit Growth (percent)



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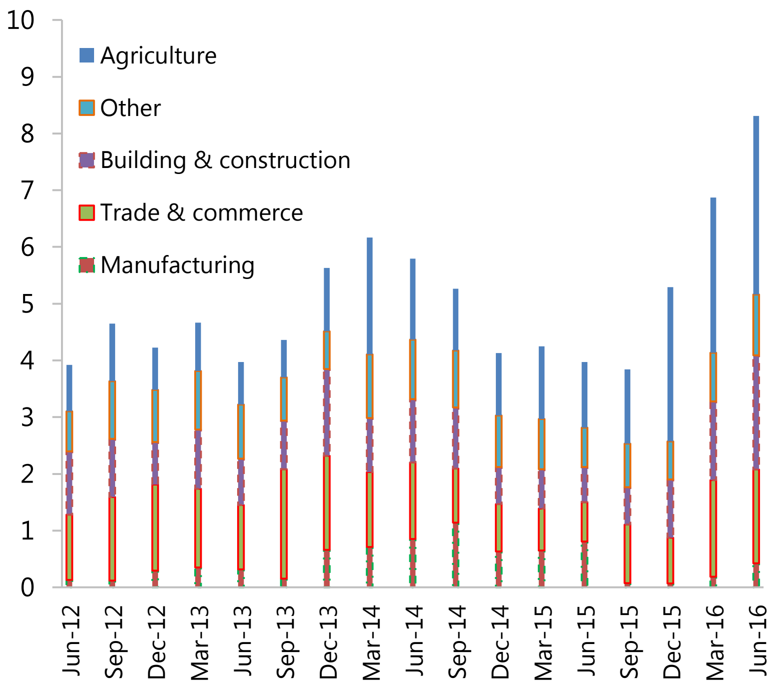
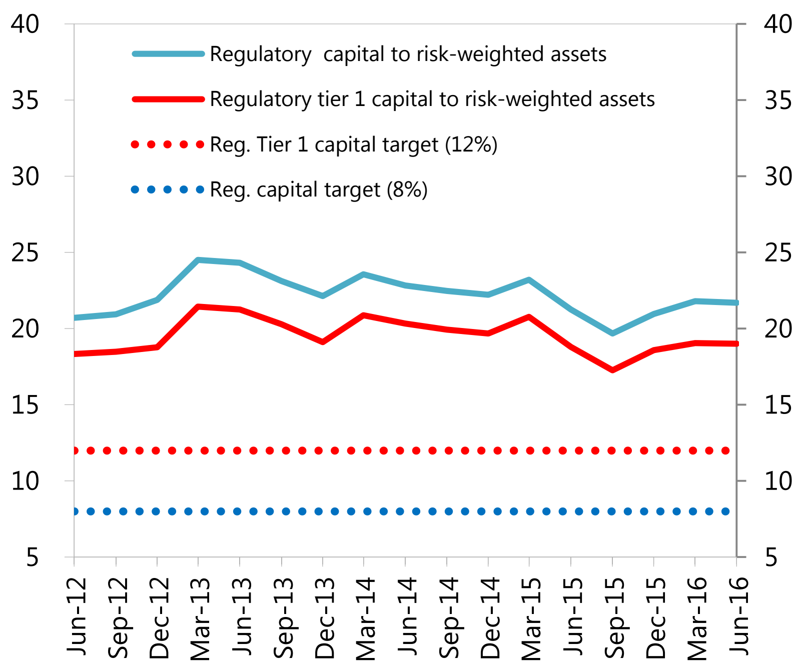
Financial sector

NPLs as a Share of Total Loans (percent)



Selected Financial Sector Indicators (percent)



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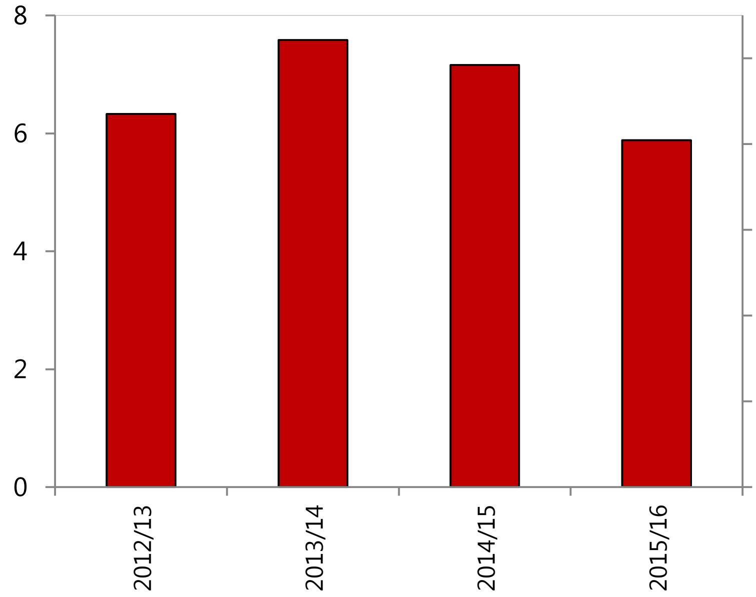
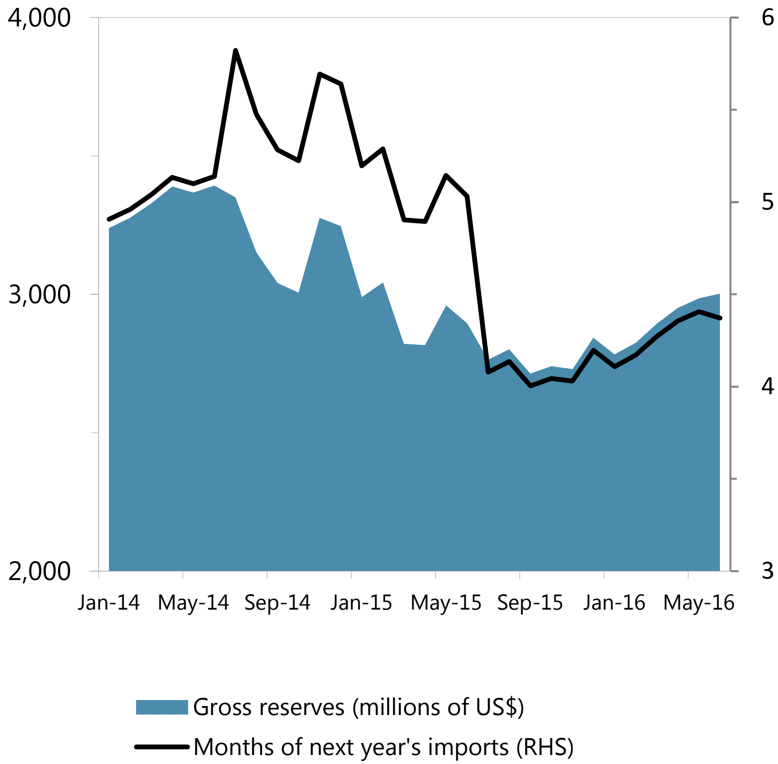
External sector – current account and NIR

Current Account Deficit (percent of GDP)



International Reserve Buffers



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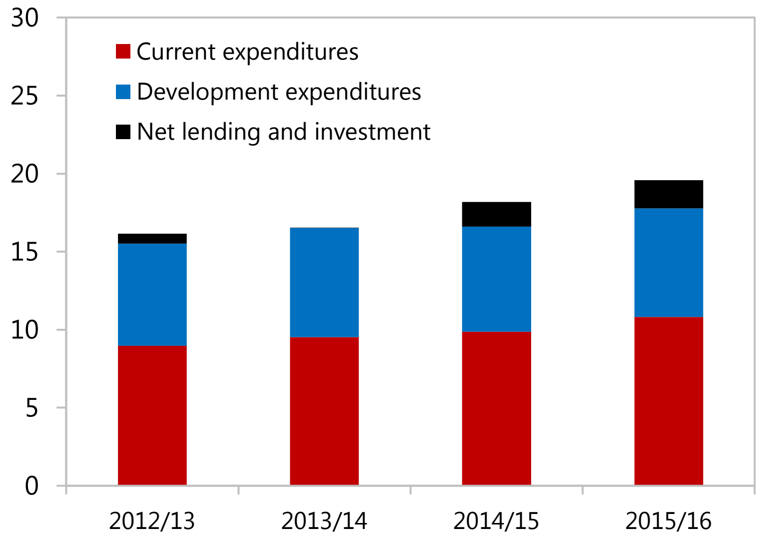
Fiscal developments

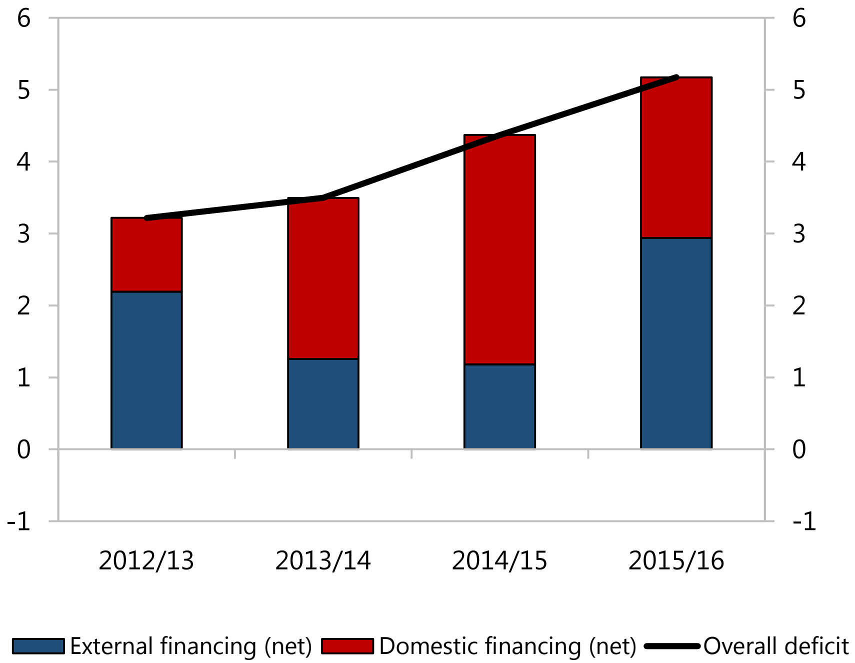
Tax Revenue (percent of GDP)

Total Expenditures (percent of GDP)

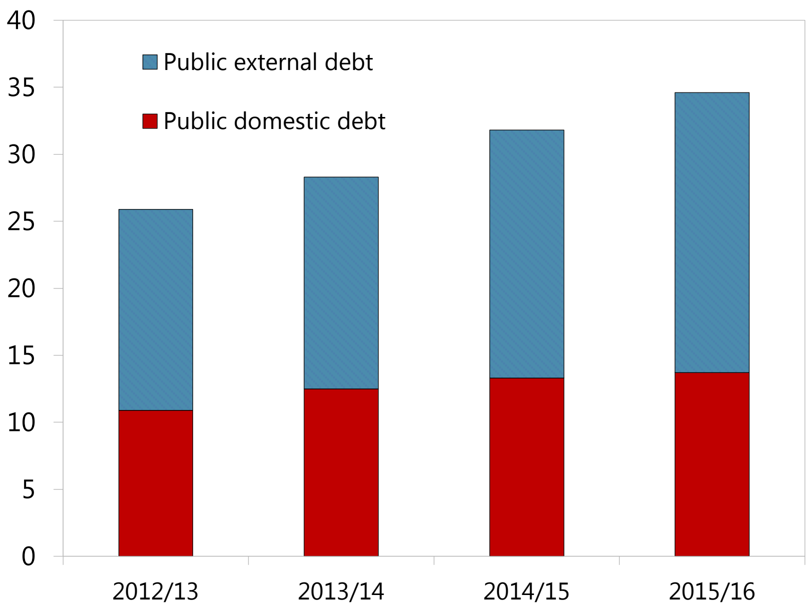


Fiscal developments

Overall Deficit



Public Debt



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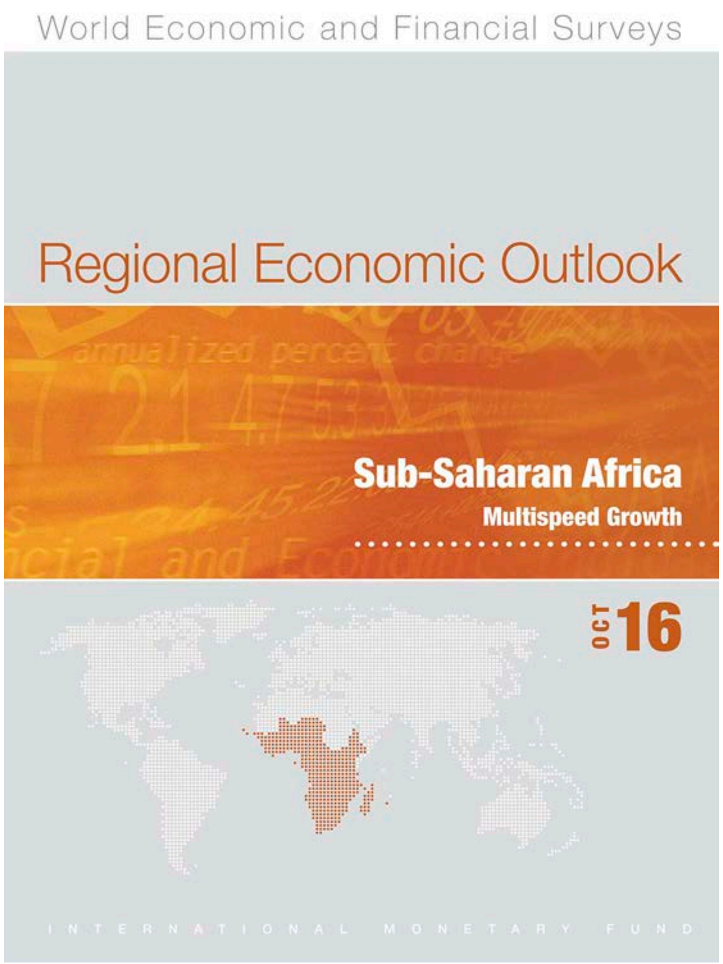
Outlook

- Growth estimated at 5 percent
- Inflation expected to remain within the 5 percent target
- Risks are to the downside:
  - Adverse weather developments
  - Complex global and regional context

Some policy messages

- – Enhance Public Investment Management
- – Continue increasing the tax-to-GDP ratio
- – Prioritize social and development spending
- – Continue strengthening PFM



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