IMF OFFICE IN ZAMBIA

Multi-Speed Growth in SSA and Challenges for Zambia

Regional Economic Outlook for Sub-Saharan Africa

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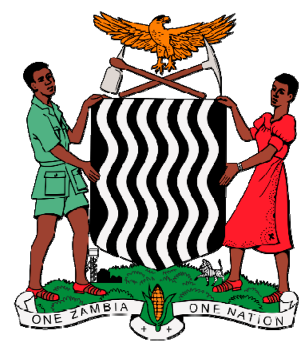
International Monetary Fund, Regional Economic Outlook for Sub-Saharan Africa, October 2016

Outline

The Slowdown

Causes and consequences

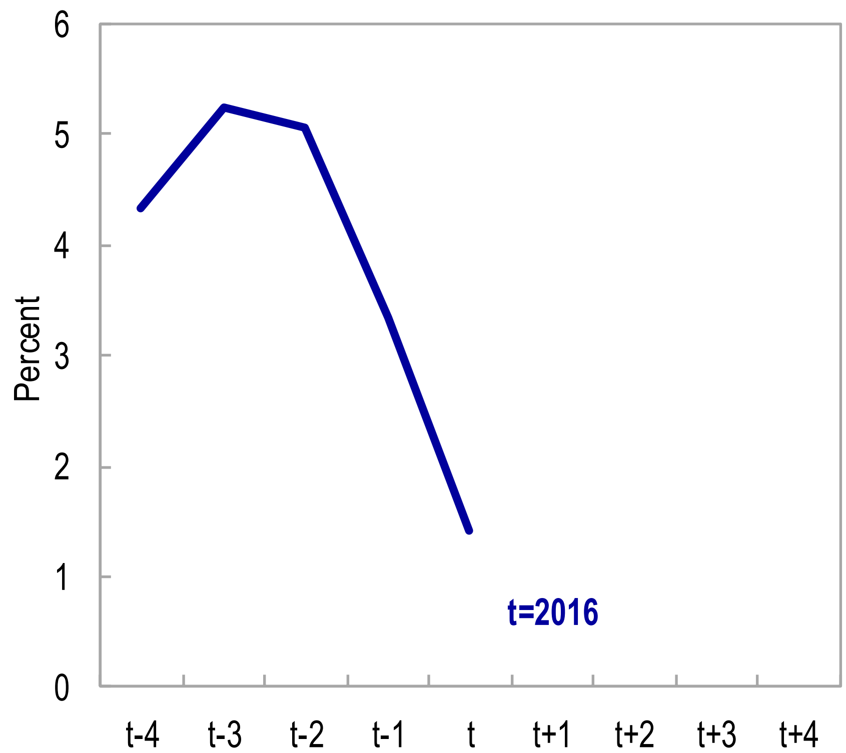
How can growth be revived?



Focus on Zambia

The deceleration in growth in SSA is acute,

SSA Real GDP Growth: 2016



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

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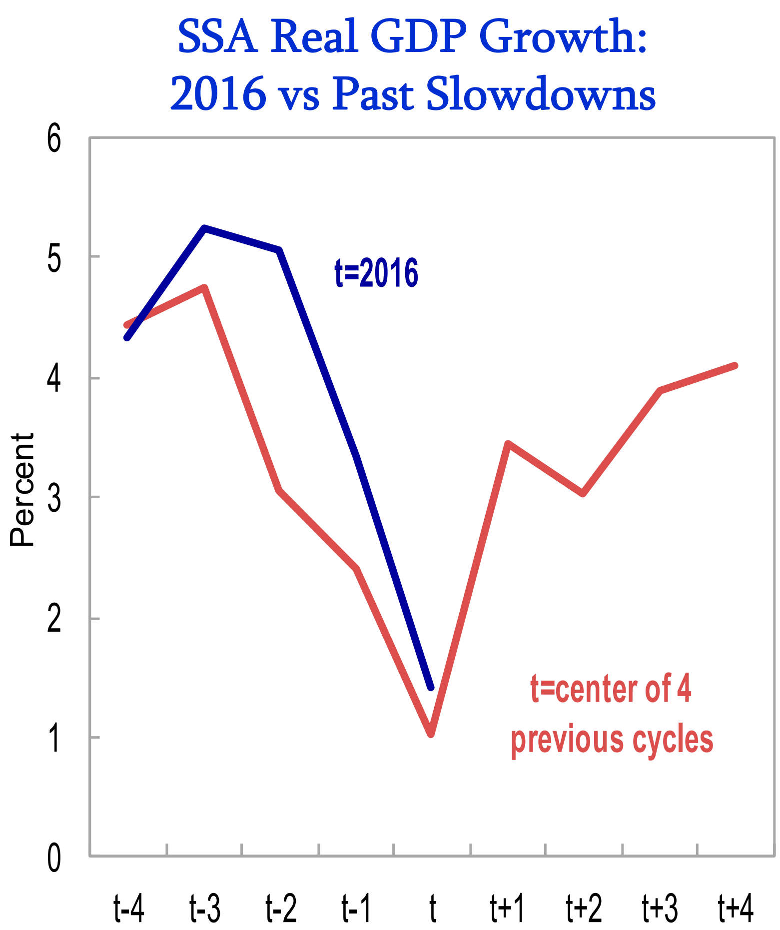
reminiscent of past sharp slowdowns,

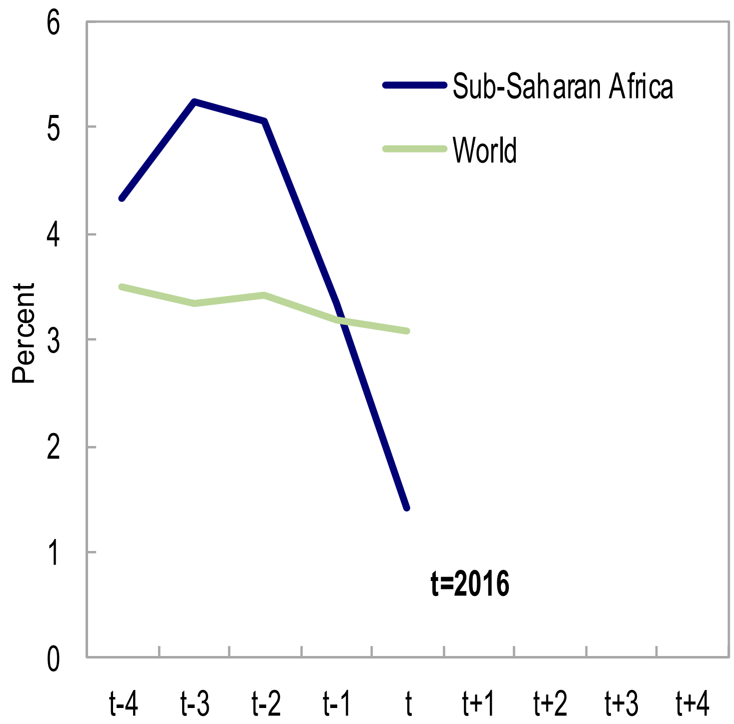


Previous episodes:

1977, 1983, 1992, 2009

asynchronous with global growth,

Real GDP Growth: Current Slowdown



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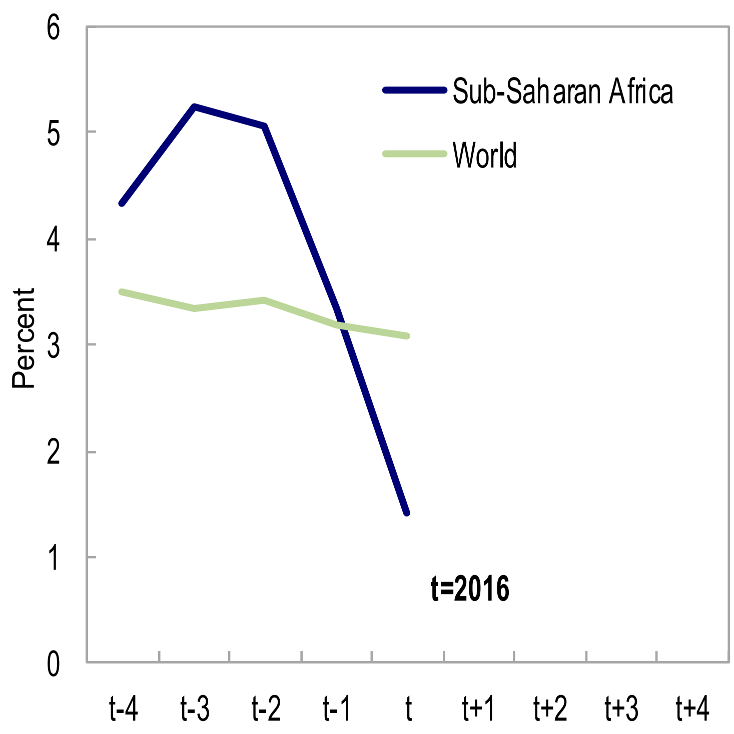
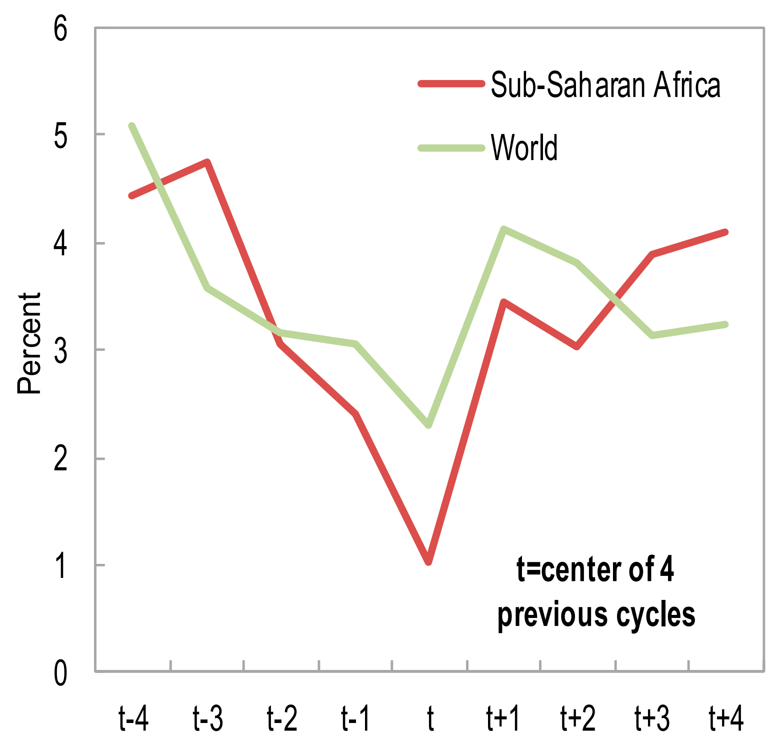
asynchronous with global growth,

Real GDP Growth: Current Slowdown

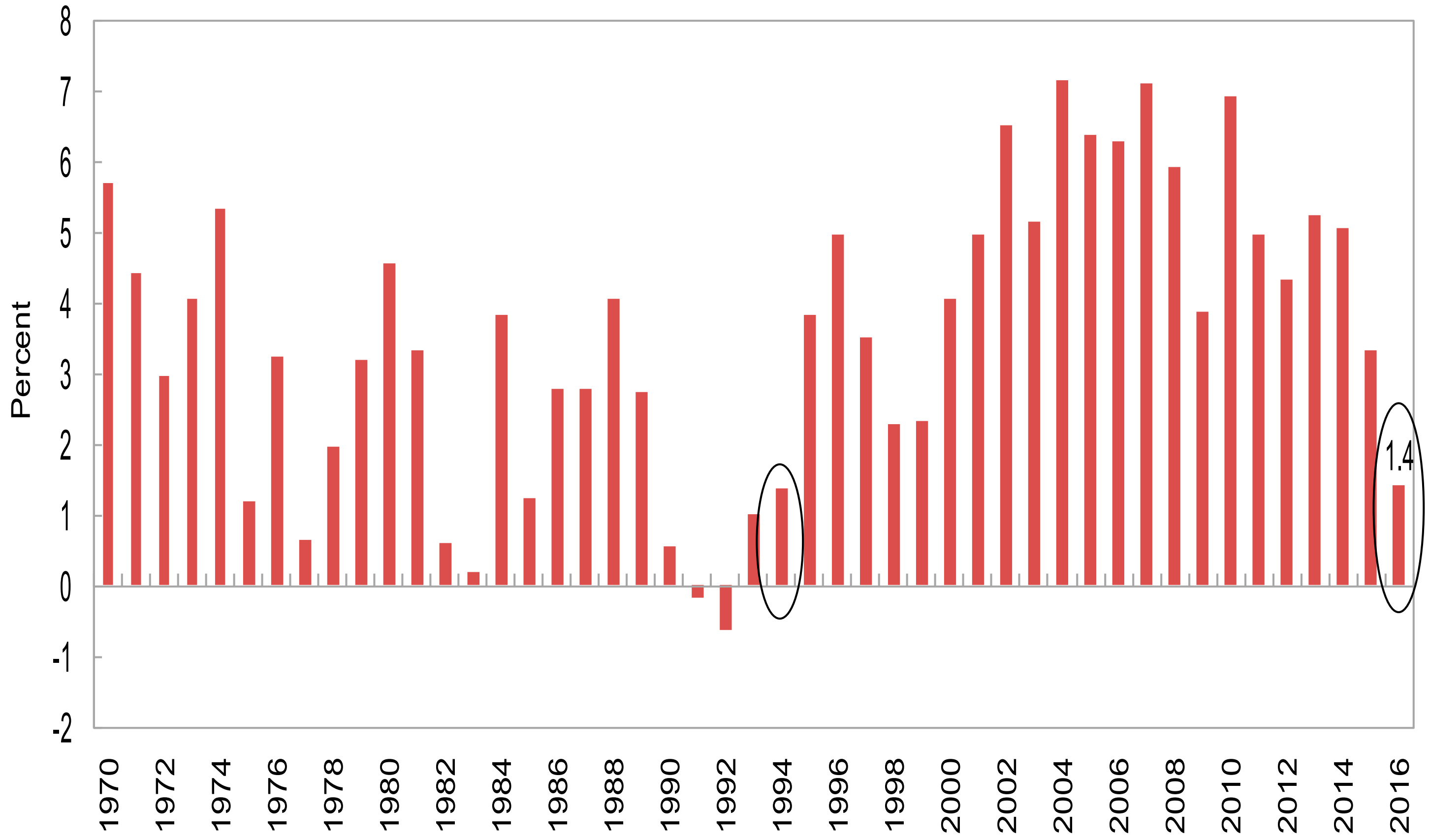


Real GDP Growth: Past Slowdowns



and implies the lowest expansion since 1994.

SSA Real GDP Growth, 1970–2016



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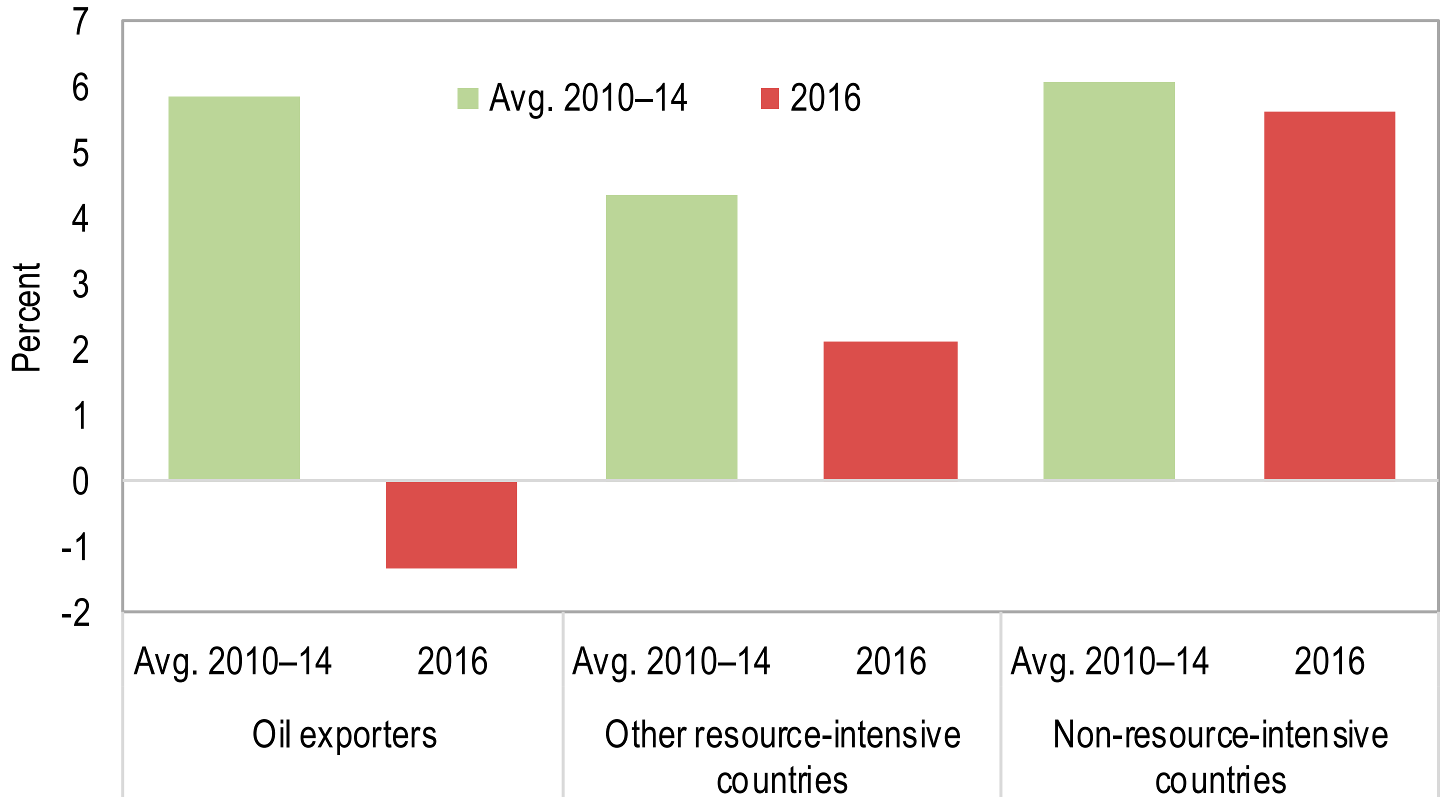
But, more than ever, the heterogeneity of growth outcomes is quite striking,

Real GDP Growth, 2010-16



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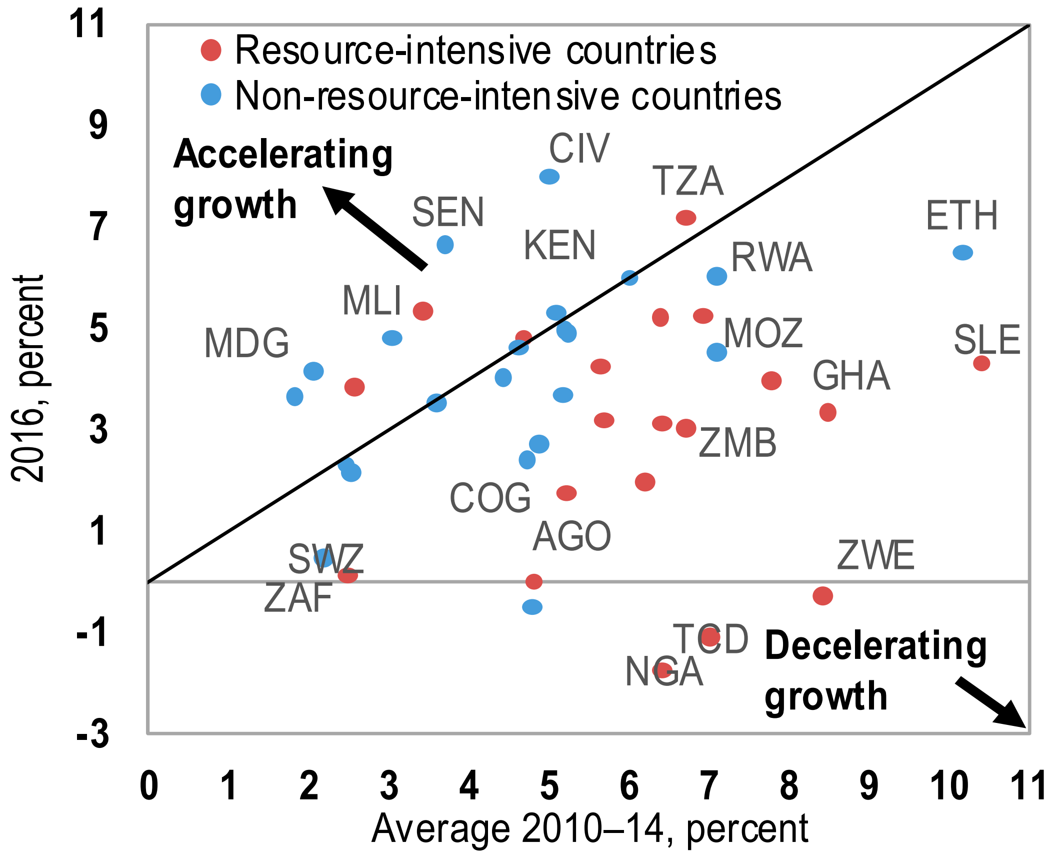
with the aggregate slowdown heavily influenced by the deceleration in activity in resource-intensive countries,

Real GDP Growth, 2010-16



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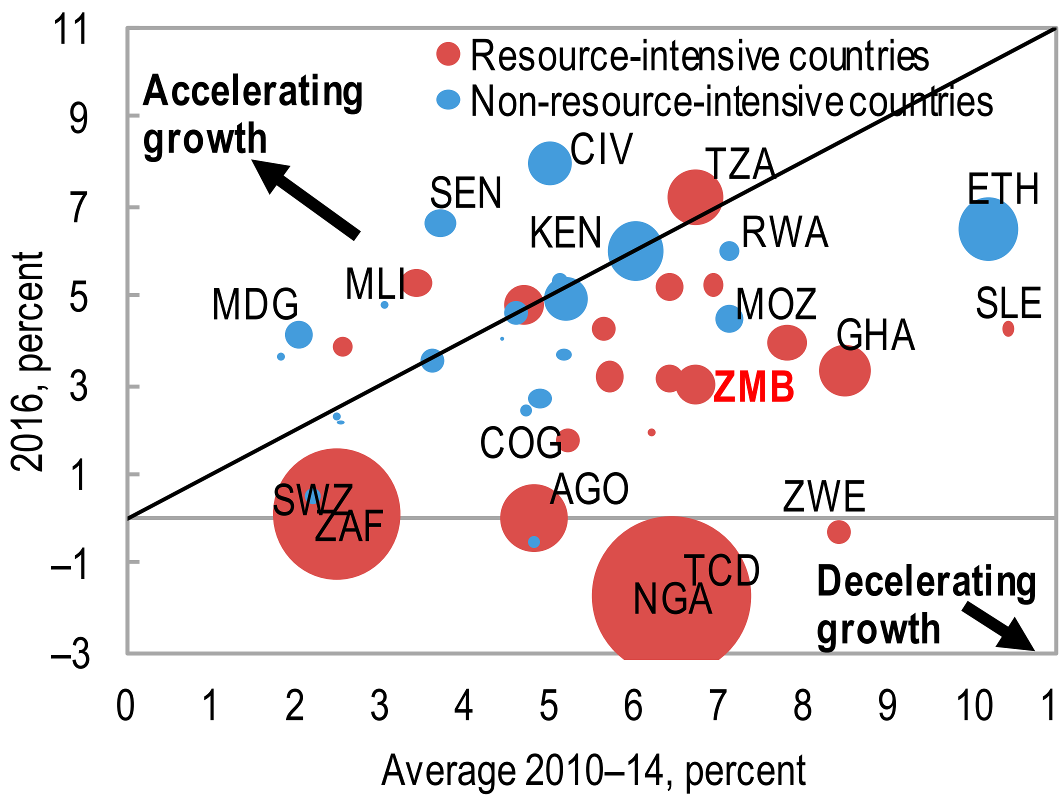
given their large share in the regional output.

Real GDP Growth, 2010-16



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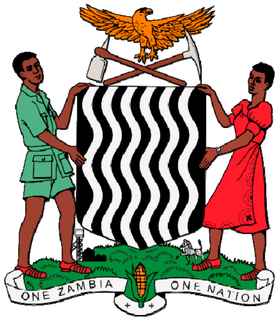


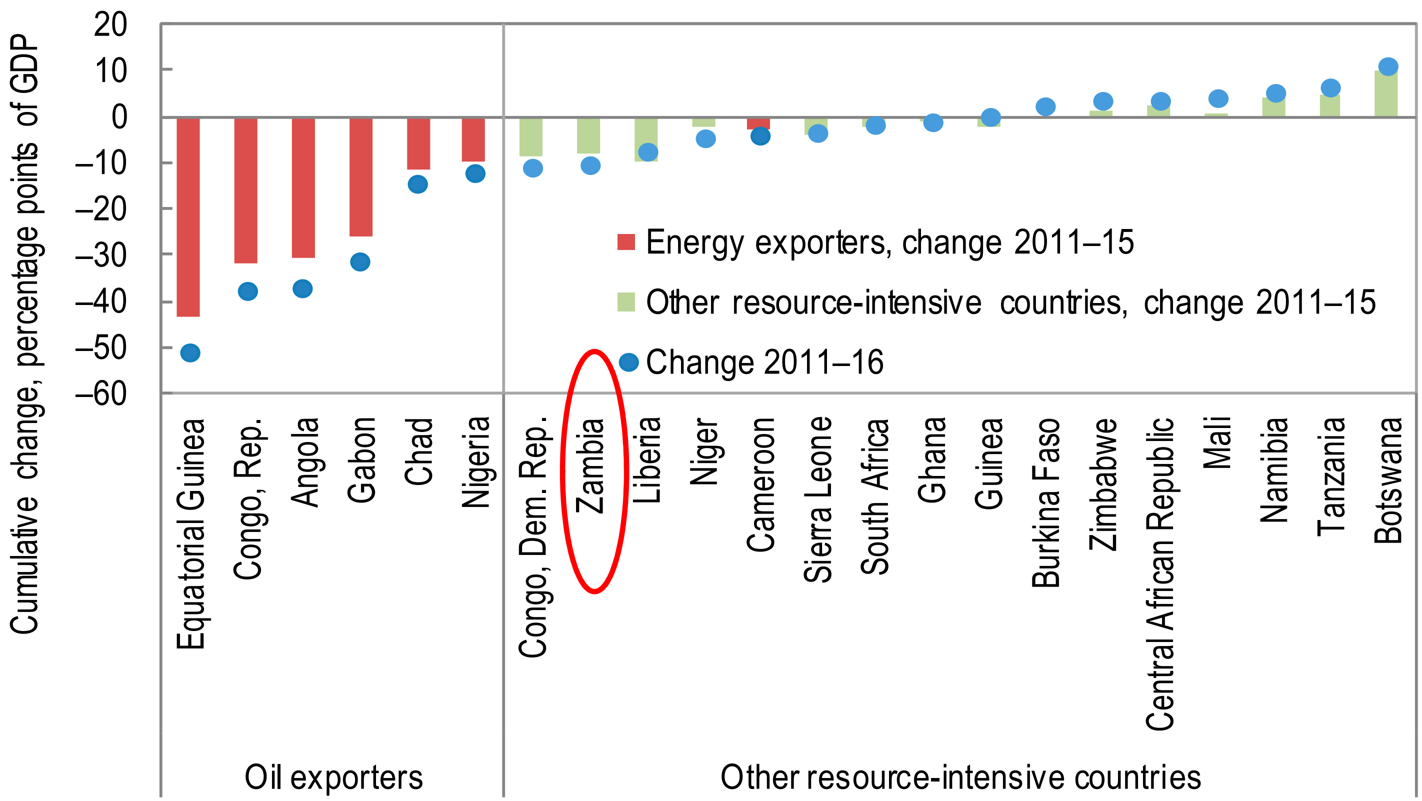
Focus on Zambia

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

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

Cumulative Change in Commodity Terms of Trade, 2011-16



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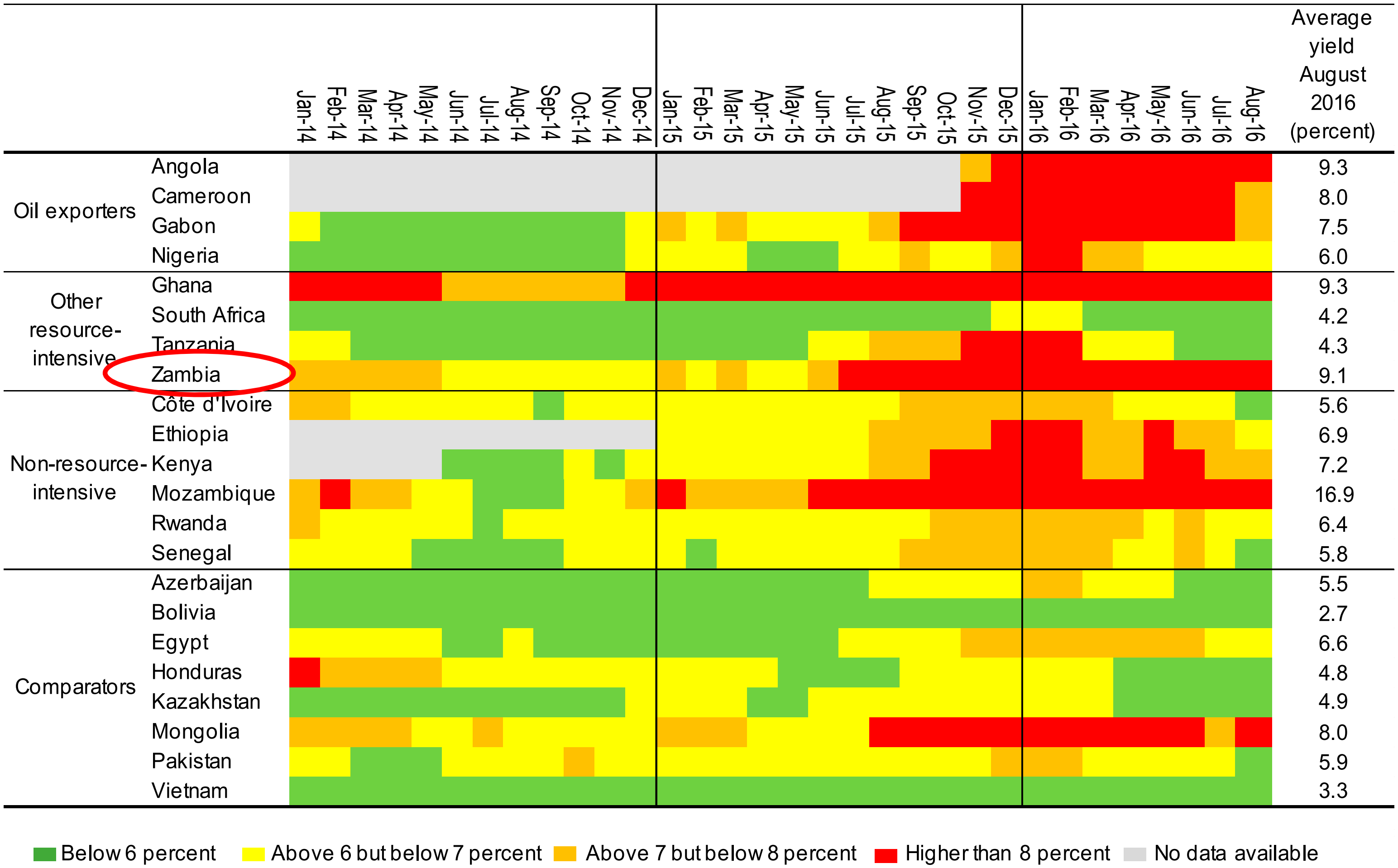
financing conditions have tightened,

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



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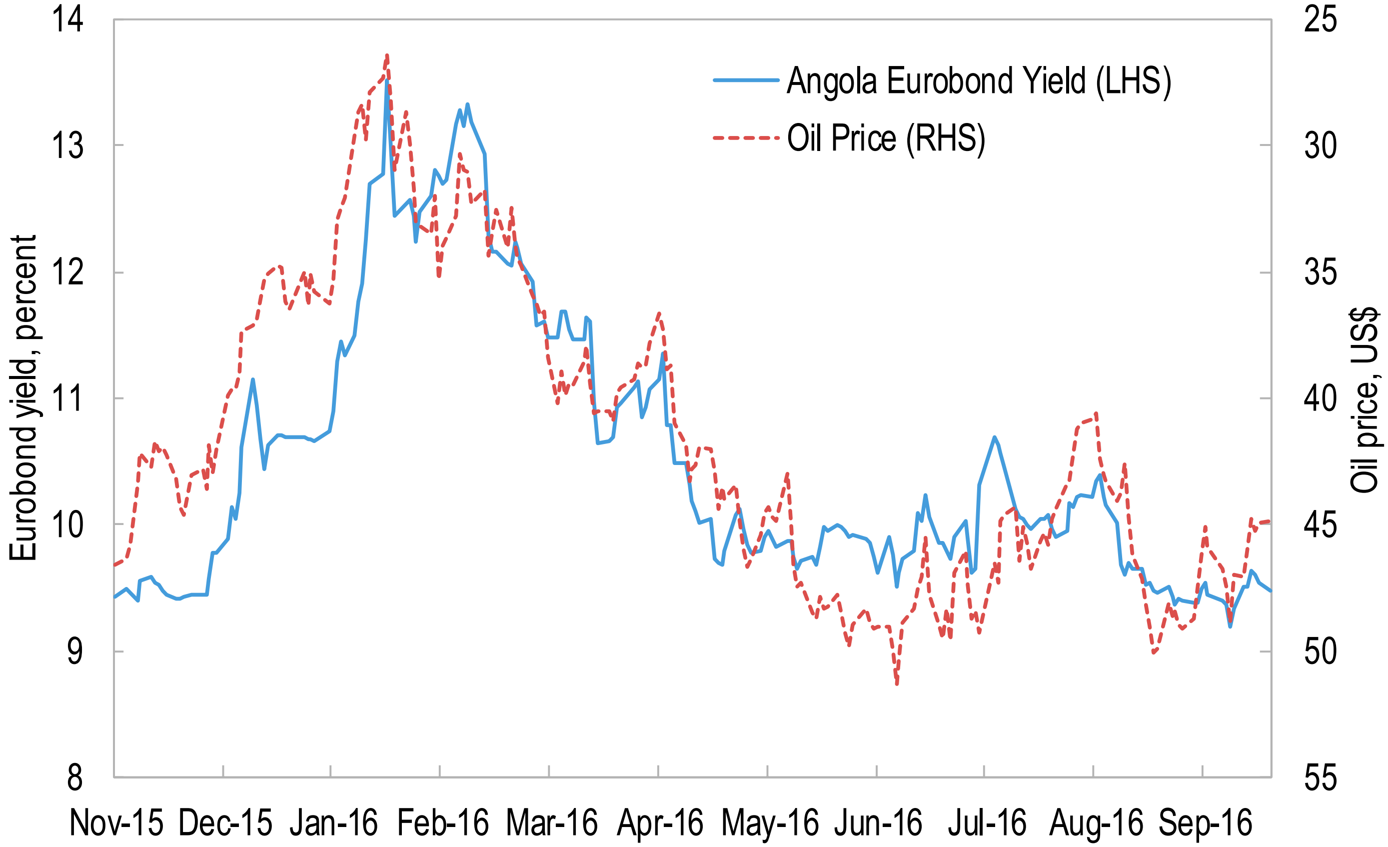
especially for oil exporters,

Angola: Eurobond Yield and Oil Price



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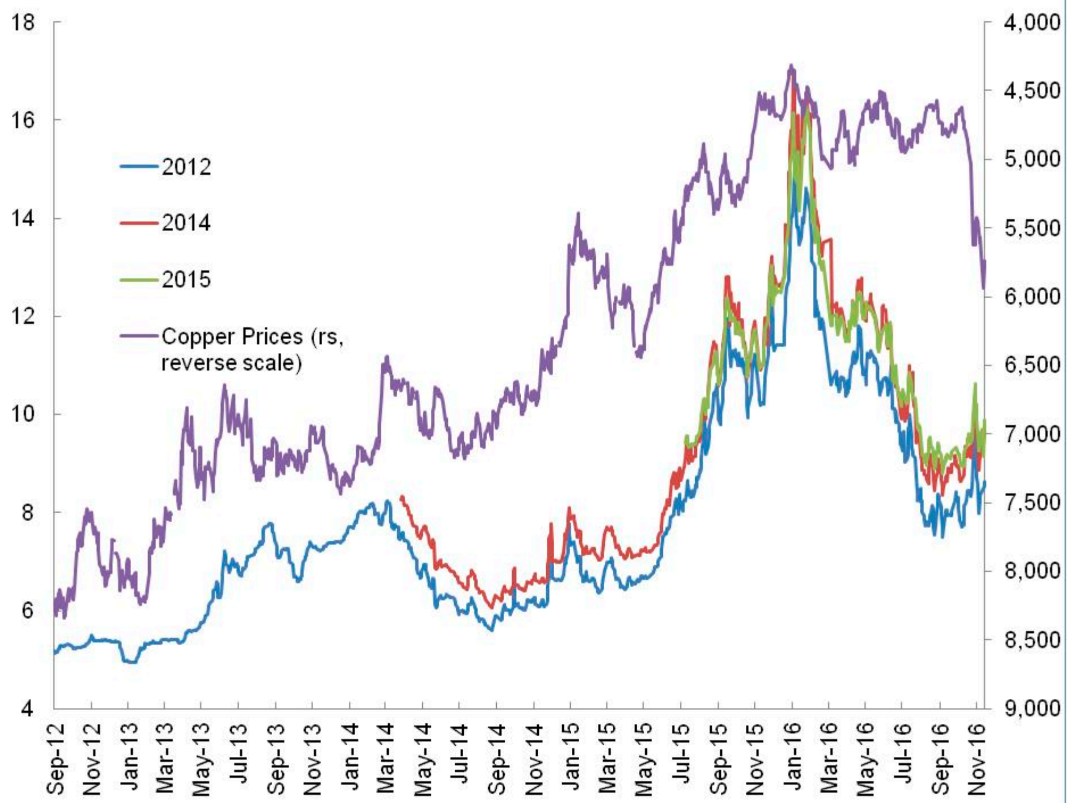
..also for copper exporters like Zambia

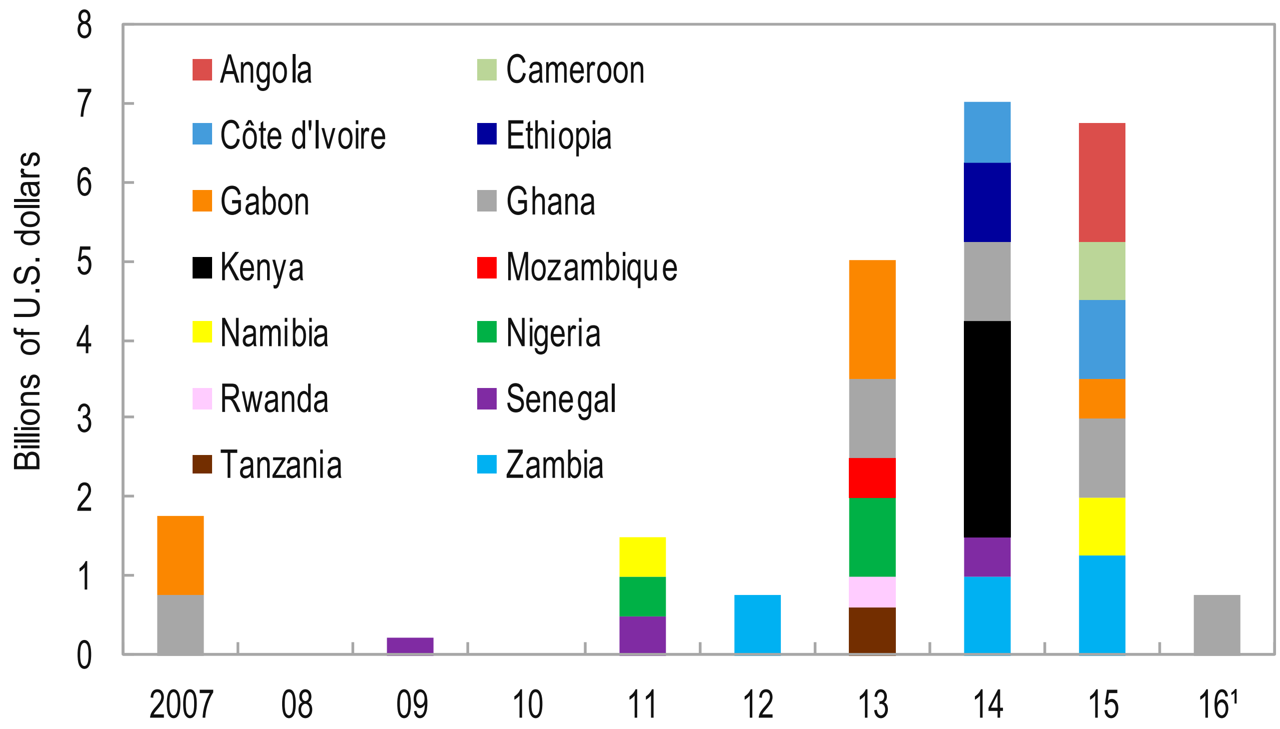
Zambia: Eurobond Yield and Copper Price



Source: Bloomberg.

resulting in reduced market access for the region.

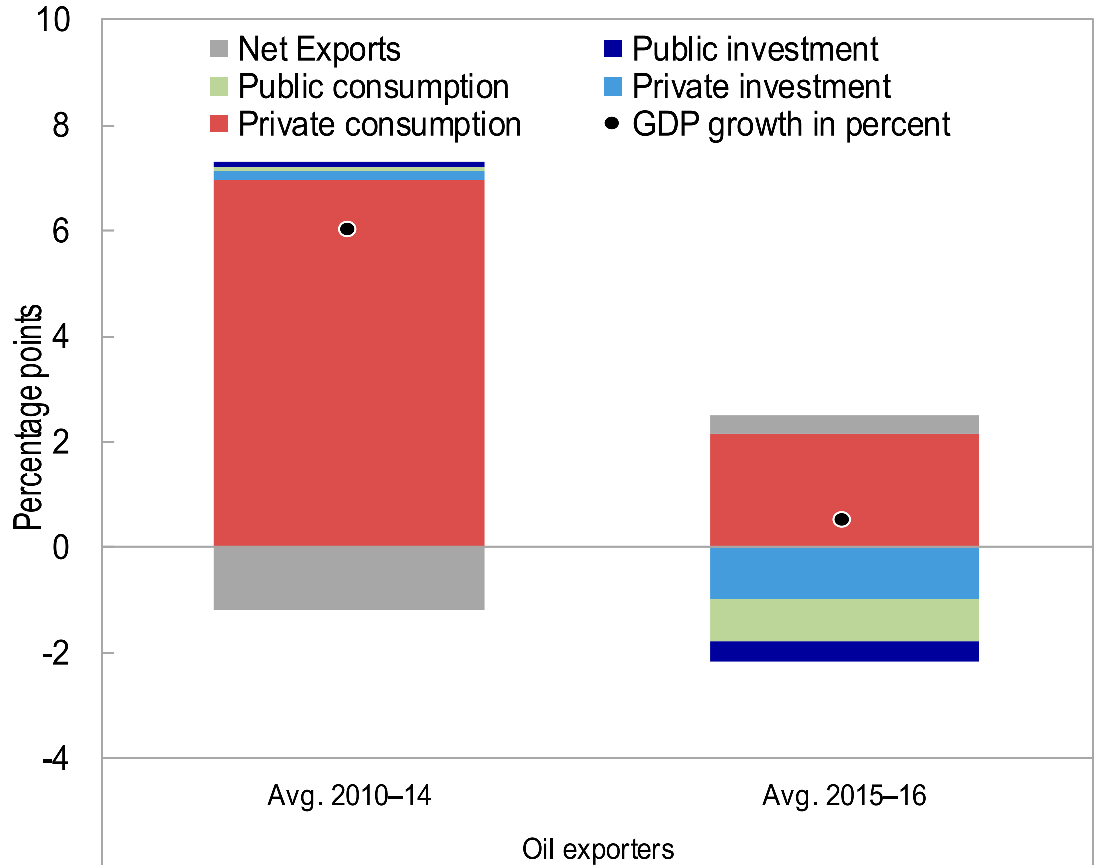
International Sovereign Bond Issuances



[1] Up to mid-September 2016.

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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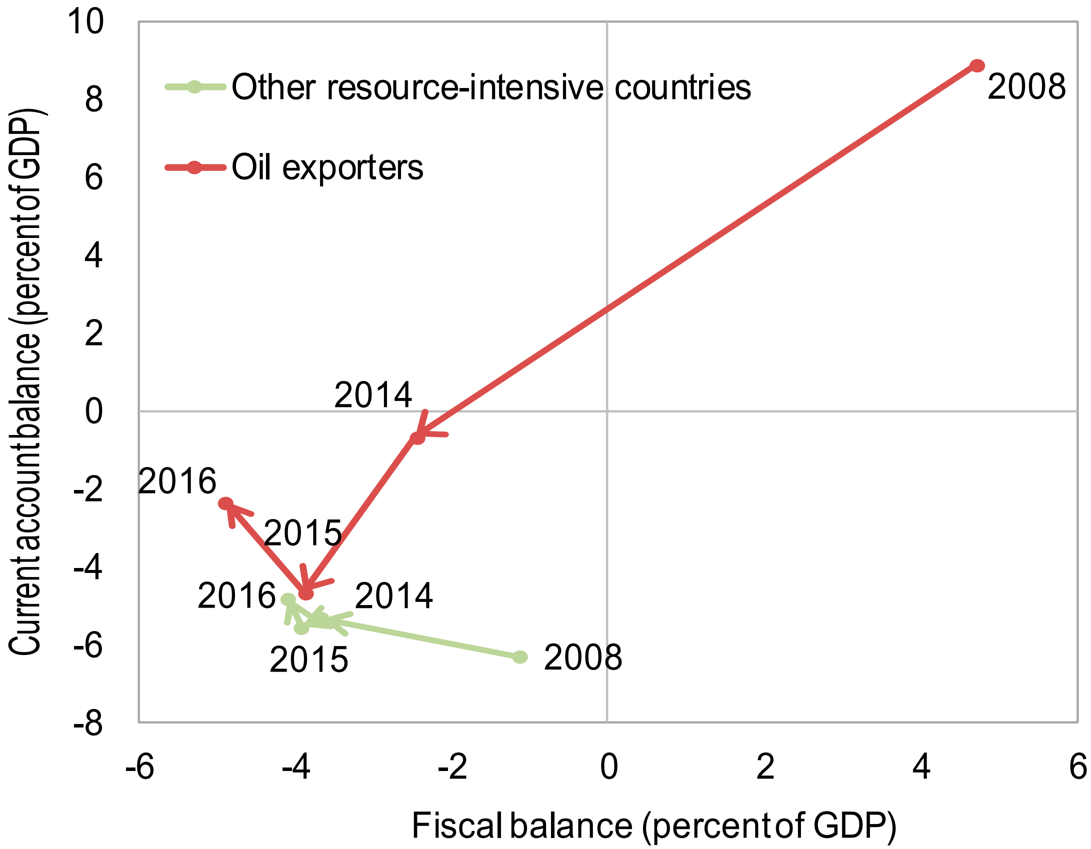
resulting in elevated macroeconomic imbalances.

Change in Fiscal and Current Account Balances, 2008-16



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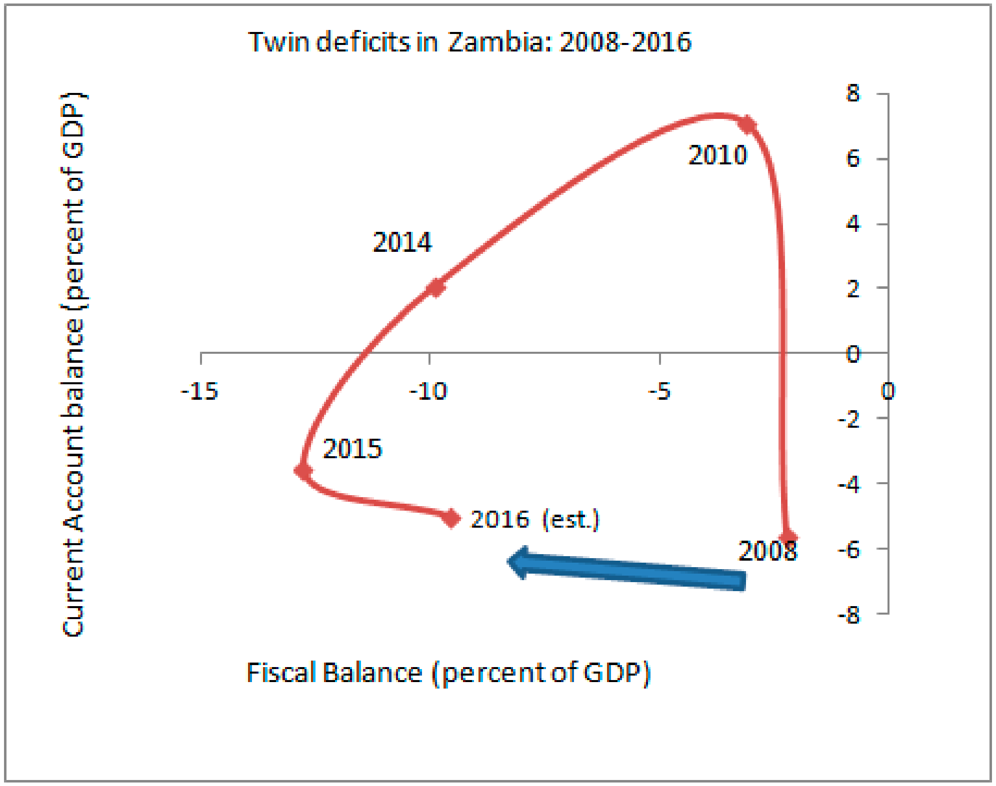
And Zambia is no different

Zambia: Change in Fiscal and Current Account Balances, 2008-16



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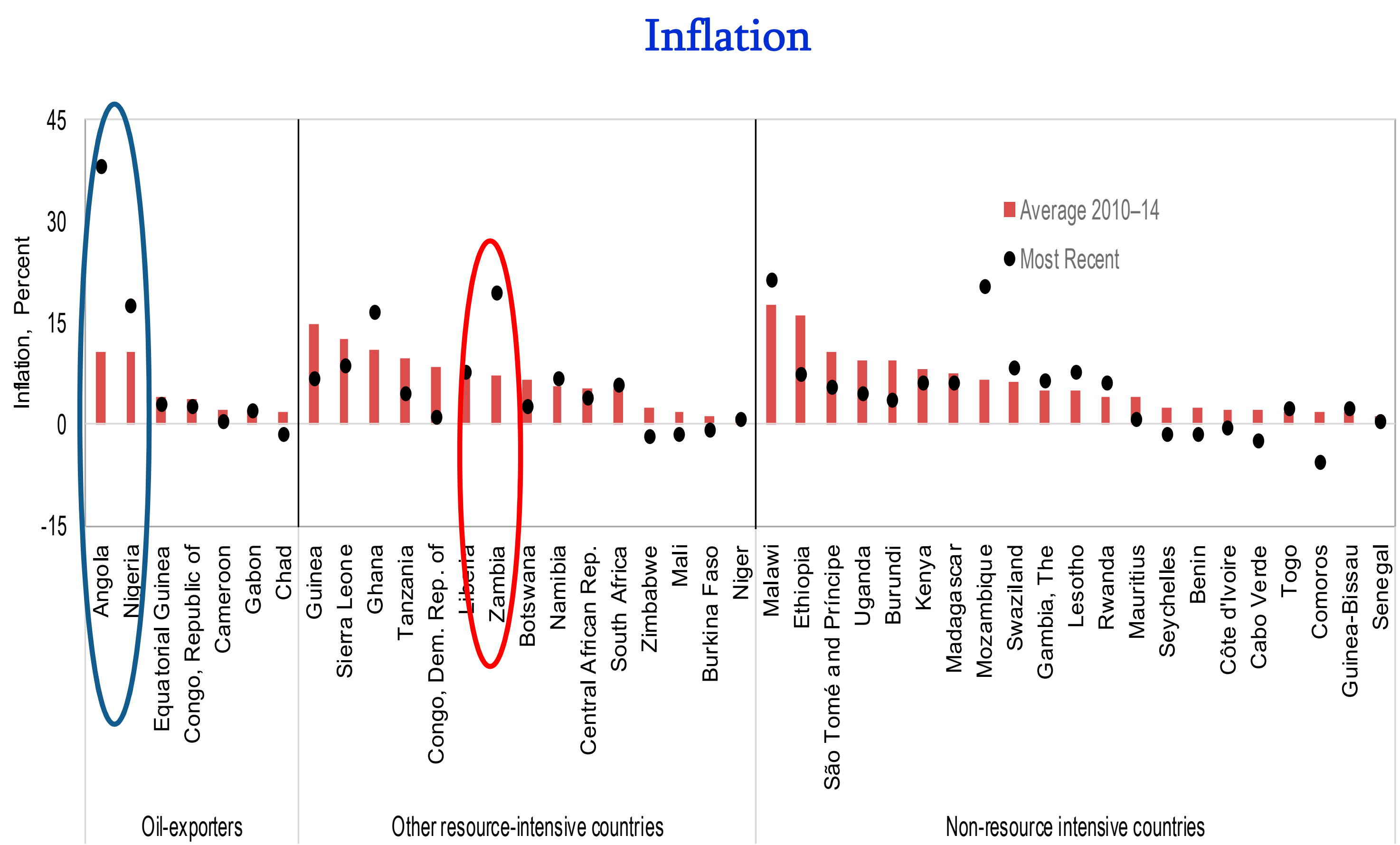
Inflation has accelerated sharply in some cases,



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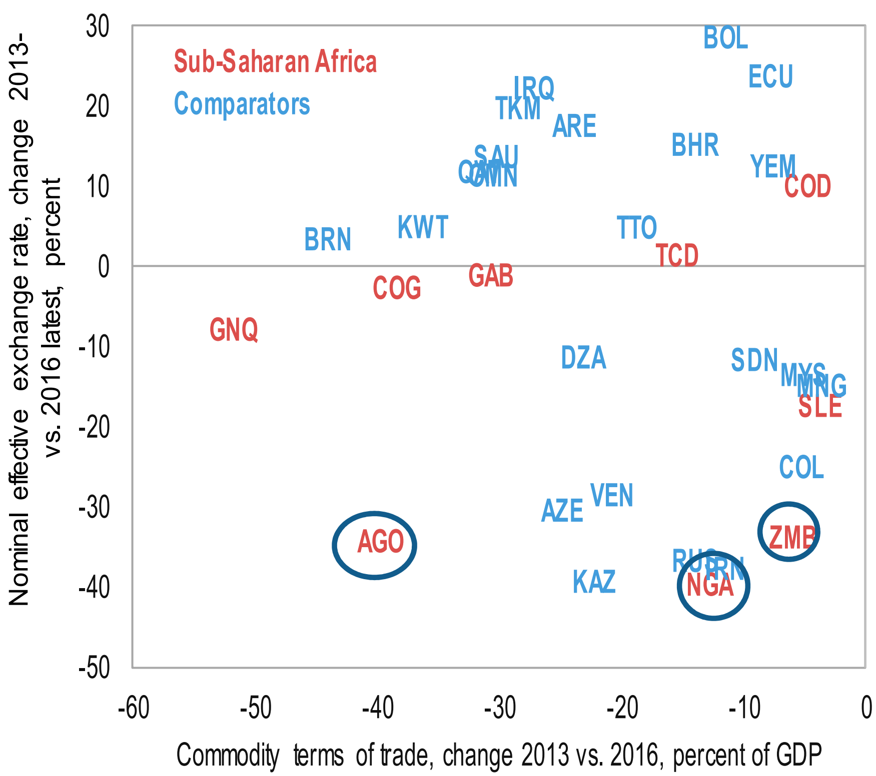
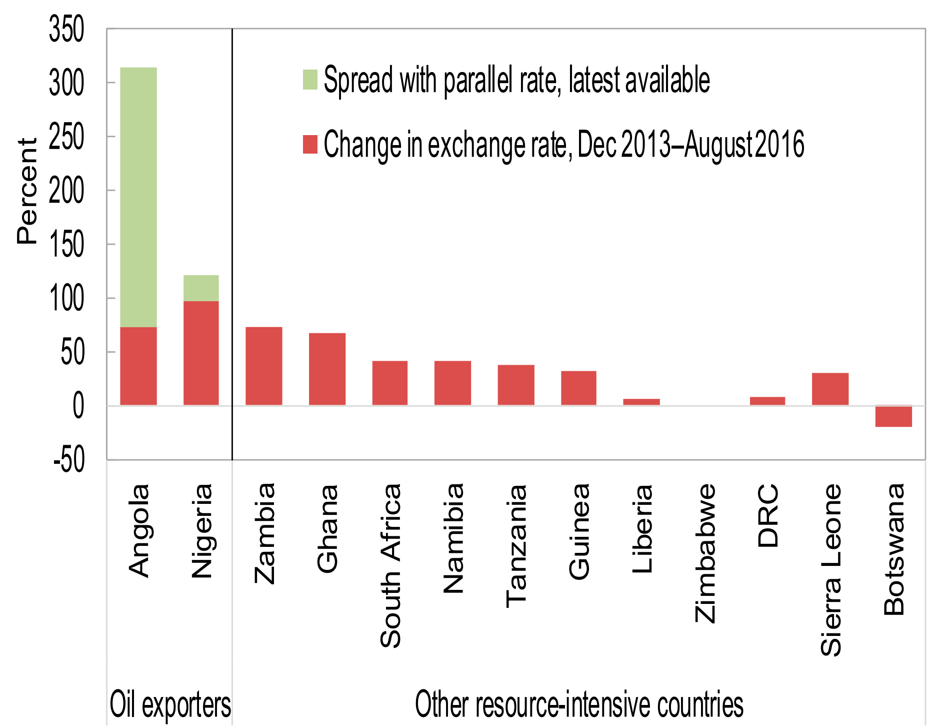
reflecting exchange rate depreciations,

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

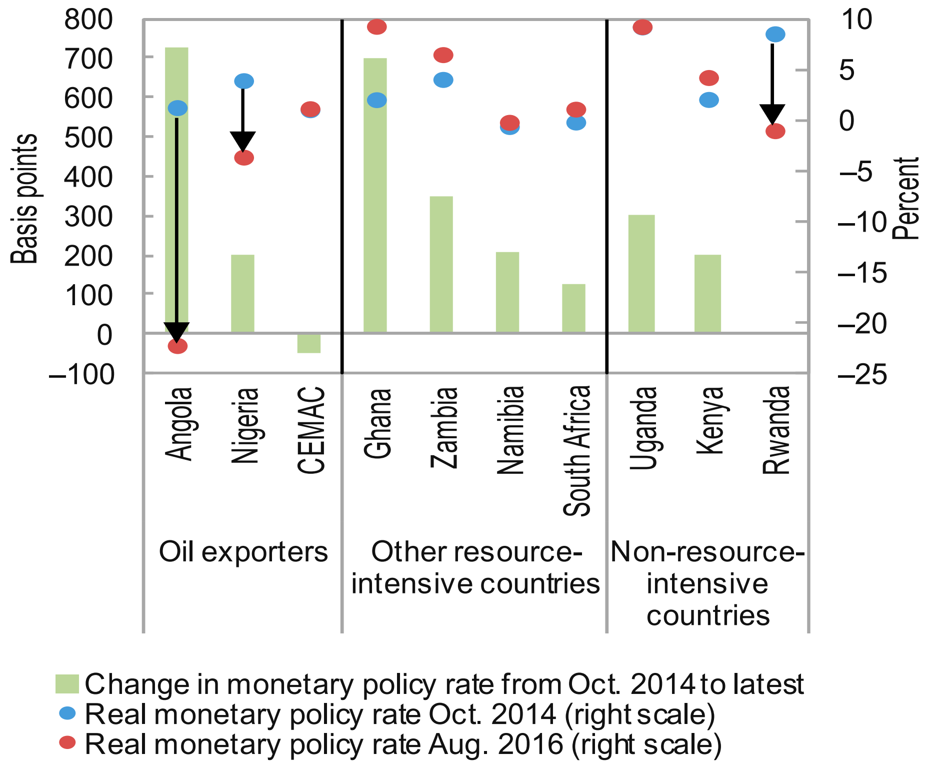


Depreciation Against U.S. Dollar Since Dec. 2013 (+indicates depreciation)



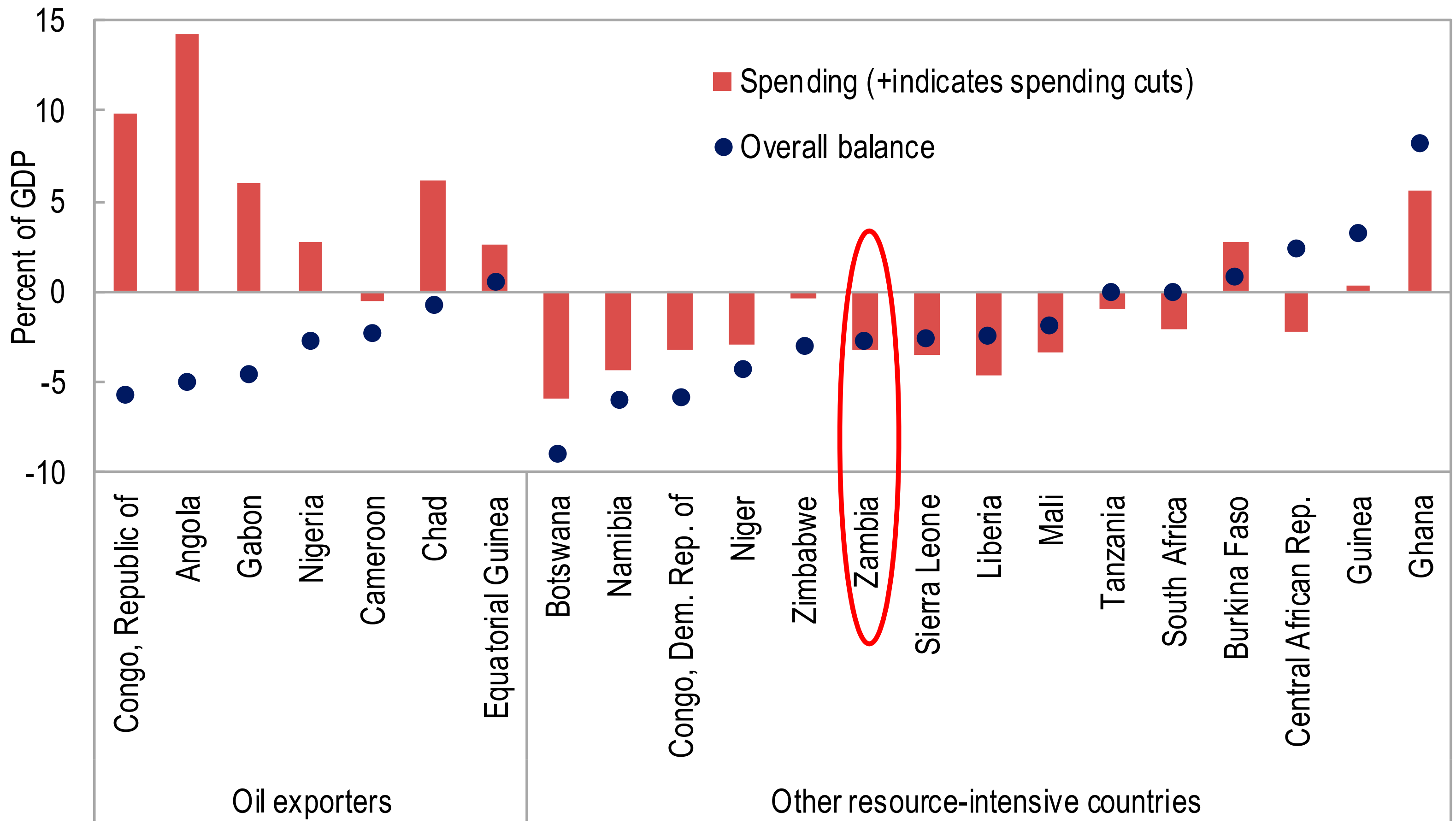
and a monetary stance that is quite accommodative in some cases.

Real Monetary Policy Rate, 2014-16



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

Change in Fiscal Balance, 2016 versus 2013



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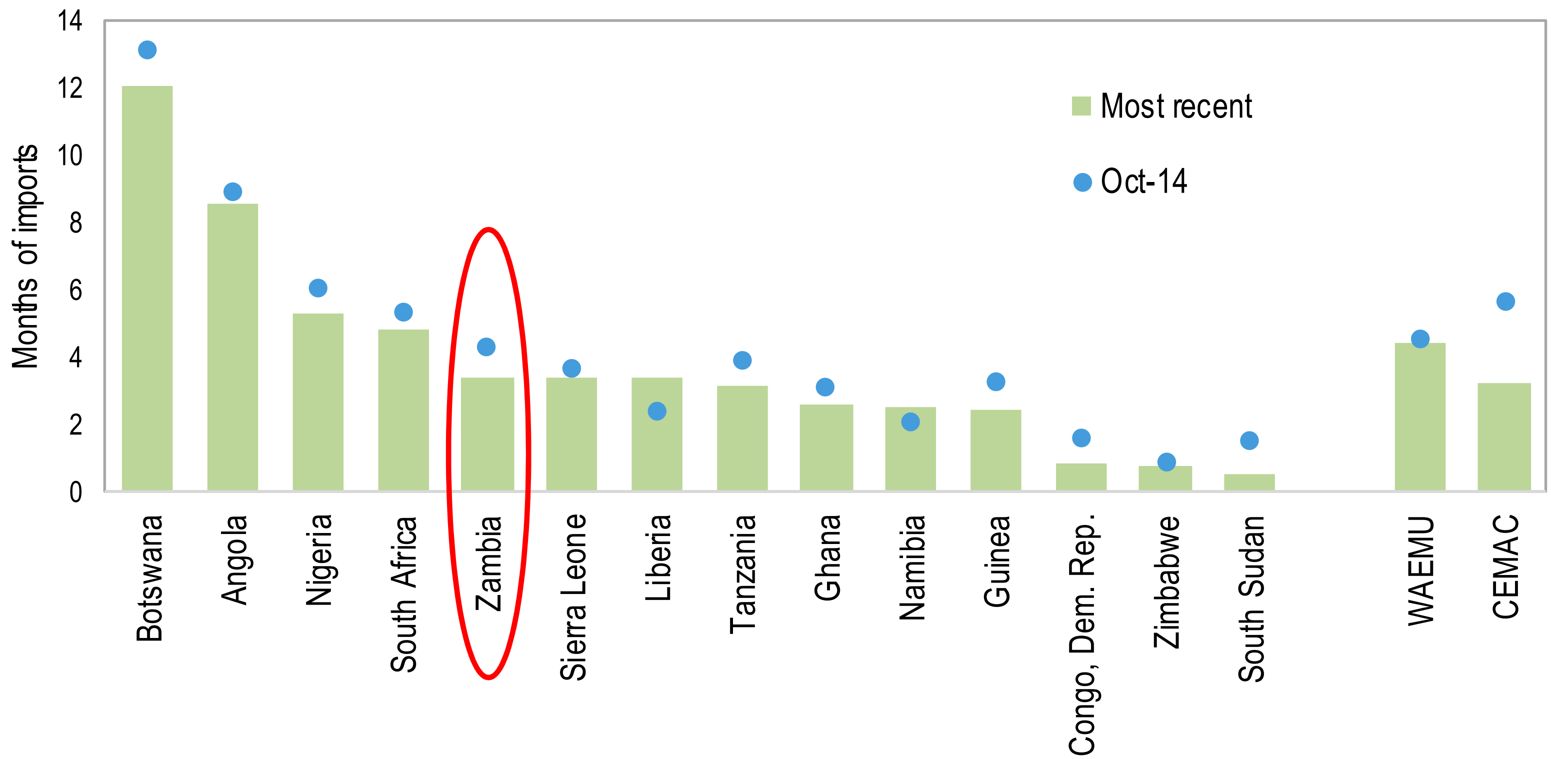
Foreign reserves are under pressure,

International Reserves in Months of Imports, 2014-16



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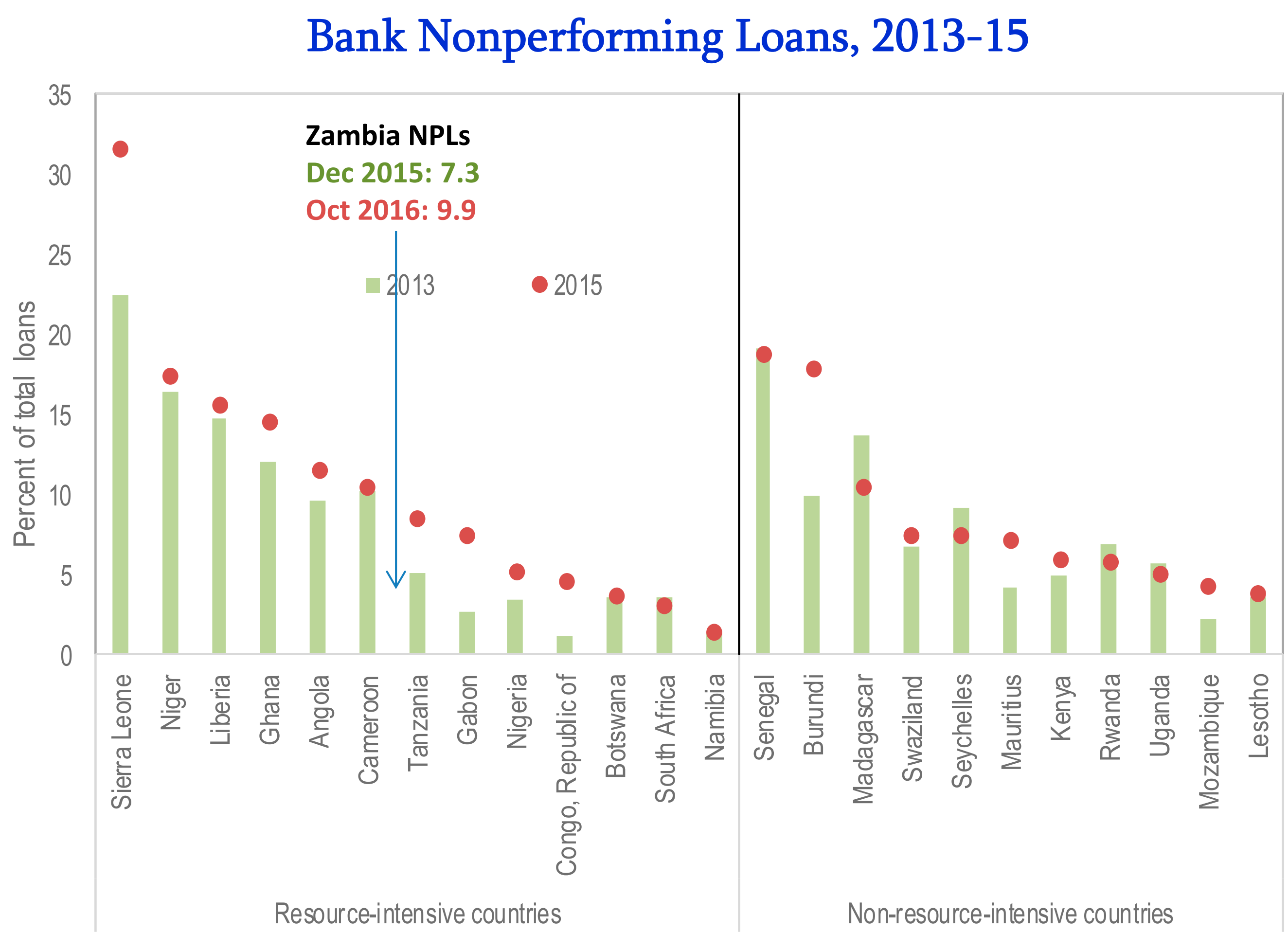
as are bank balance sheets.



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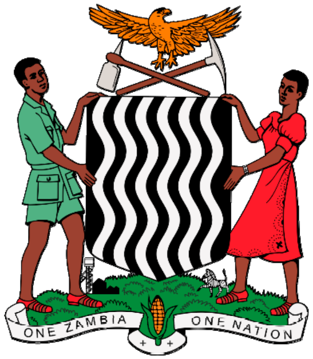
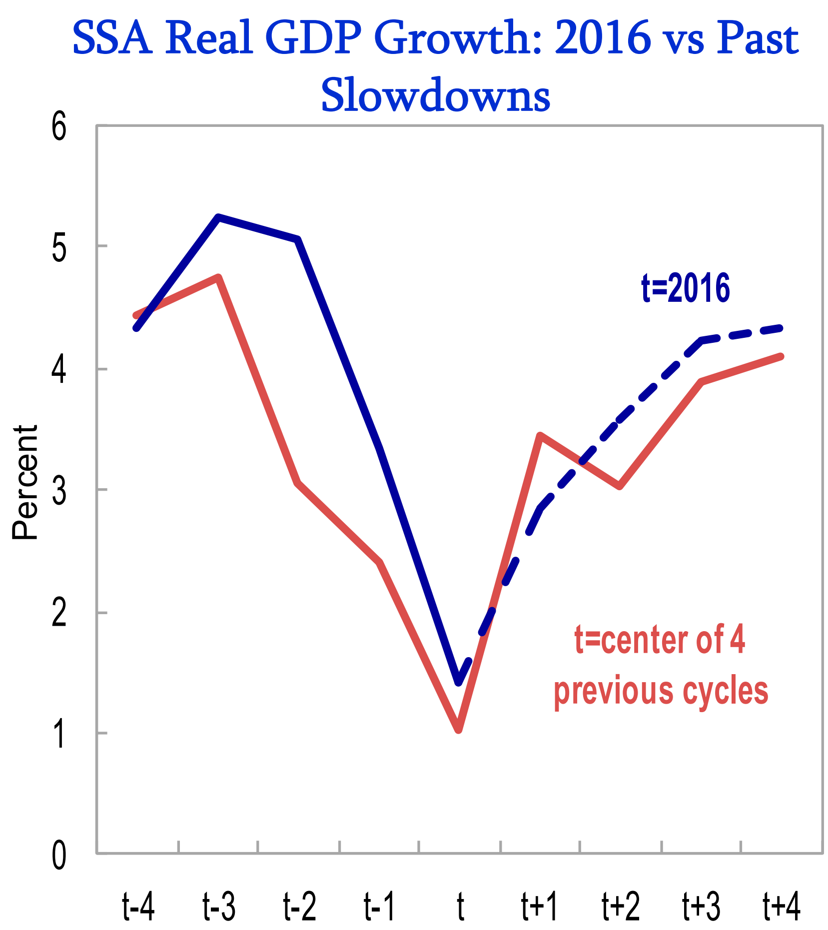


Focus on Zambia

For 2017, only a modest rebound for the SSA 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.)

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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 and trim down untargeted subsidies

- Preserve social safety nets targeted to the most vulnerable segments of the population

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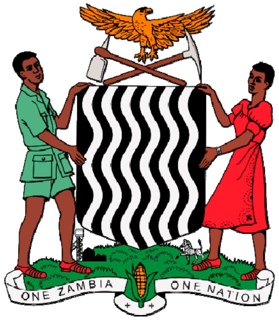
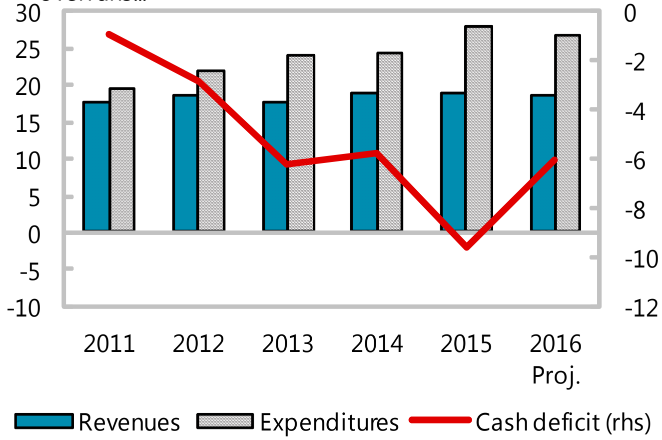


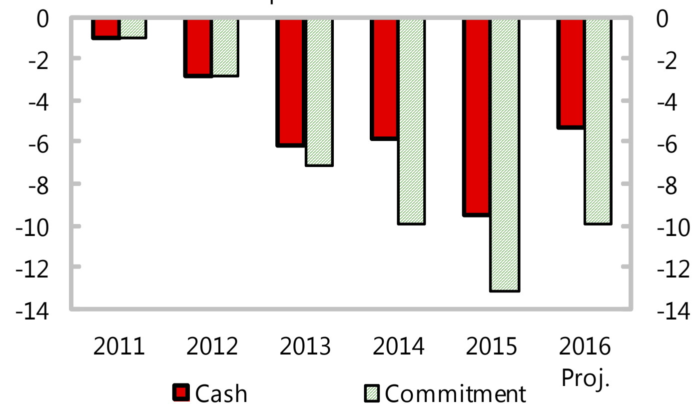
Focus on Zambia

Zambia Fiscal Imbalances

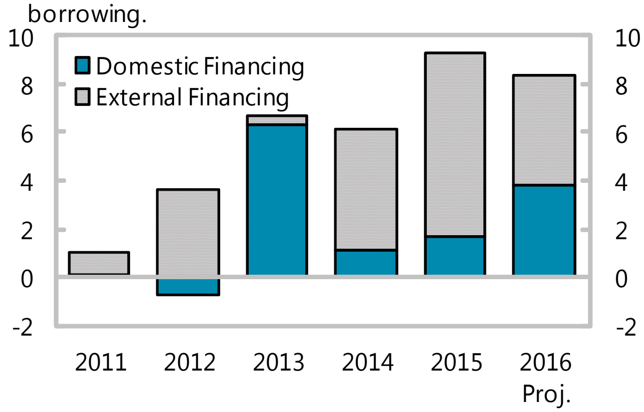
Fiscal imbalances are rising driven by huge spending overruns…



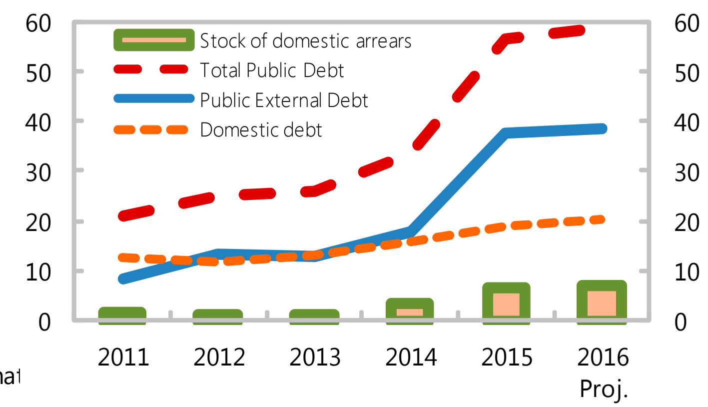
…and accumulation of domestic arrears and backlog of VAT refunds mask the fiscal performance.



The budget is increasingly dependent on external borrowing.



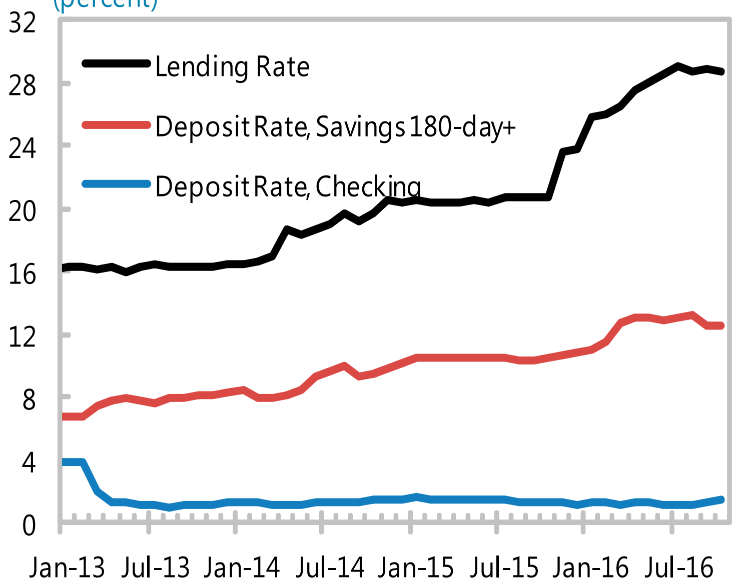
Public debt has risen rapidly pushed by external debt and the accumulation of domestic arrears.



Monetary restraint

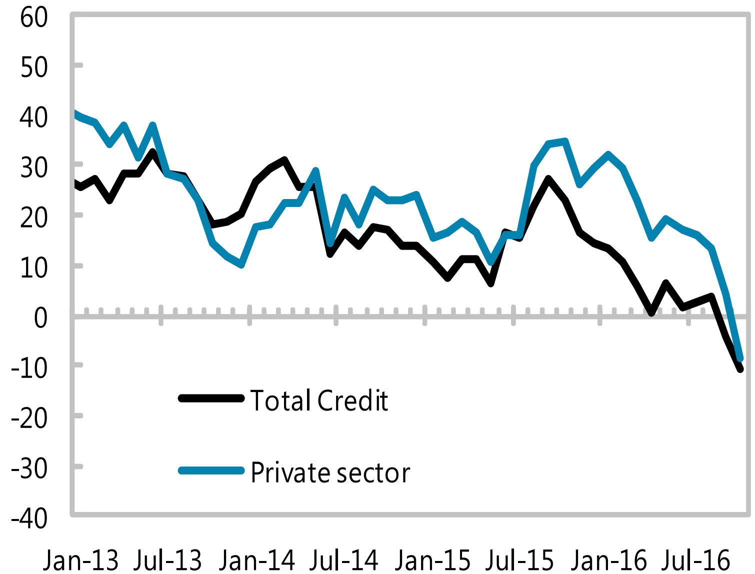
Inflation is trending down and exchange rate is more stable, but Interest rates remain high and credit to private sector crunched.

Zambia: Average Lending and Deposit Rates
(percent)



Source: Bank of Zambia, *Statistics Fortnightly.*

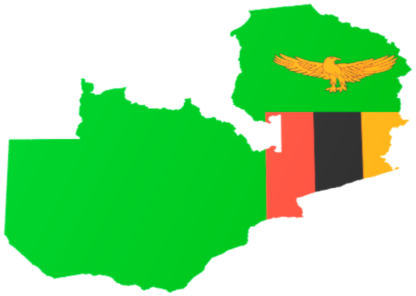
Zambia: Bank Credit
(year-on-year percent change)

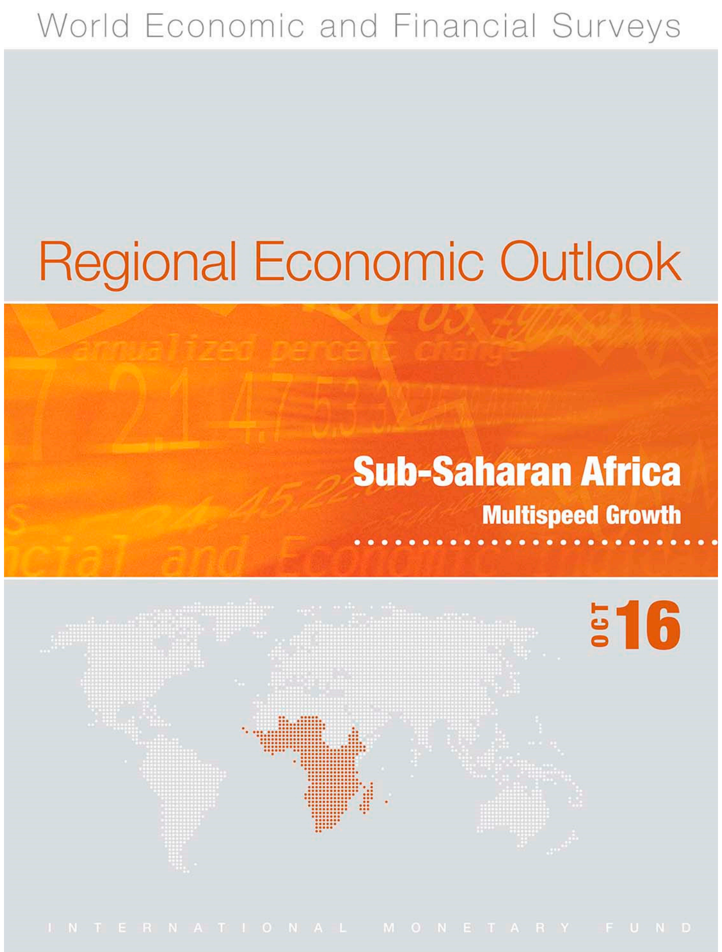


Source: Bank of Zambia, *Statistics Fortnightly.*

Policy Issues in Zambia

- Reset the Policy mix: credible fiscal consolidation to allow gradual unwinding of monetary policy
- Enact bold structural reforms:
  - Fuel and electricity markets
  - Agricultural support programs
  - Strengthen Social Safety Nets





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