Abbreviations

AfCFTA	African Continental Free Trade Area
AMU	Arab Maghreb Union
BEAC	Bank of Central African States
BOAD	West African Development Bank
CAPB	cyclically adjusted primary balance
CBRs	correspondent banking relationships
CEMAC	Economic and Monetary Community of Central Africa
CEN-SAD	Community of Sahel-Saharan States
CIT	corporate income tax
COBAC	Central African Banking Commission
COMESA	Common Market for Eastern and Southern Africa
DIGNAR	debt, investment, growth, and natural resources
EAC	East African Community
ECCAS	Economic Community of Central African States
EMDEs	emerging market and developing economies
EMEDEV	all emerging market economies
FC	financially constrained
FDI	foreign direct investment
FOCAC	Forum on China-Africa Cooperation
GDP	gross domestic product
GMM	generalized method of moments
IAD	intergovernmental authority on development
ICRG	*International Country Risk Guide*
ICT	information and communication technology
ICTSD	International Centre for Trade and Sustainable Development
IEFX	Investor and Exporter Foreign Exchange
IOC	Indian Ocean Commission
LPM	local projections method
MENA	Middle East and North Africa
NFC	non–financially constrained
ODA	official development aid
PIT	personal income tax
PPP	public-private partnerships
P-FRAM	PPP Fiscal Risk Assessment Model
PRGT	Poverty Reduction and Growth Trust
REC	regional economic communities
REO	*Regional Economic Outlook* (IMF)
ROA	return on assets
SACU	Southern African Customs Union
SADC	Southern African Development Community
SANRAL	South African National Roads Agency Limited
SARB	South Africa Reserve Bank
SDGs	Sustainable Development Goals
SEZS	special economic zones
SSA	Sub-Saharan Africa
TFTA	Tripartite Free Trade Area
VAT	value-added tax
WAEMU	West African Economic and Monetary Union
WEO	*World Economic Outlook* (IMF)

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The following conventions are used in this publication:

- In tables, a blank cell indicates "not applicable," ellipsis points (. . .) indicate "not available," and 0 or 0.0 indicates "zero" or "negligible." Minor discrepancies between sums of constituent figures and totals are due to rounding.
- An en dash (–) between years or months (for example, 2009–10 or January–June) indicates the years or months covered, including the beginning and ending years or months; a slash or virgule (/) between years or months (for example, 2005/06) indicates a fiscal or financial year, as does the abbreviation FY (for example, FY2006).
- "Billion" means a thousand million; "trillion" means a thousand billion.
- "Basis points" refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to ¼ of 1 percentage point).

Editor's Note

April 30, 2018

Table SA24. External Debt, Official Debt, Debtor Based table on page 116 has been replaced; the new version includes revised figures for Senegal.

Executive Summary

SLOW RECOVERY AMID GROWING CHALLENGES

Sub-Saharan Africa is set to enjoy a modest growth uptick, but vulnerabilities have risen and action is needed to raise medium-term growth potential. Average growth in the region is projected to rise from 2.8 percent in 2017 to 3.4 percent in 2018, with growth accelerating in about two-thirds of the countries in the region aided by stronger global growth, higher commodity prices, and improved market access. External imbalances have narrowed, but progress with fiscal consolidation has been mixed and vulnerabilities are rising: about 40 percent of low-income countries in the region are now in debt distress or assessed as being at high risk of debt distress. On current policies, average growth in the region is expected to plateau below 4 percent—barely 1 percent in per capita terms—over the medium term.

Across countries, economic outcomes are far from uniform. Oil exporters are still dealing with the legacy of the largest real oil price decline since 1970, with growth well below past trends and rising debt levels; several other economies, both resource intensive and nonresource intensive and some fragile states, continue to grow at 6 percent or more, while a number of countries are suffering from internal conflicts, with record numbers of refugees and internally displaced people. The two largest economies in the region, Nigeria and South Africa, remain below trend growth, weighing heavily on prospects for the region.

Looking forward, the impetus from the favorable external environment is likely to fade. The current growth spurt in advanced economies is expected to taper off, and the borrowing terms for the region's frontier markets will likely become less favorable, in step with the normalization of US monetary policy, which could coincide with higher refinancing needs for many countries across the region.

Turning the current recovery into sustained strong growth to improve living standards and meet social demands would require policies to both reduce vulnerabilities and raise medium-term growth prospects. Prudent fiscal policy is needed to rein in public debt, while monetary policy must be geared toward ensuring low inflation. And countries should also continue to advance structural reforms to reduce market distortions, shaping an environment that fosters private investment, and strengthen revenue mobilization to give governments the means to invest in physical and human capital, and protect social spending, even during fiscal consolidation. Reform priorities and sequencing vary with individual country characteristics and strength of fundamentals.

- Oil-exporting countries should continue to adjust their fiscal position and advance economic diversification, taking advantage of the respite provided by the uptick in commodity prices, while taking credible measures to boost non-oil revenues and enhance the efficiency of public spending. Countries that opted for exchange rate flexibility need to eliminate foreign exchange restrictions and multiple currency practices and allow their exchange rate to adjust to reflect economic fundamentals.

- Oil-importing countries, which have experienced rapid growth on the back of large public investment outlays but at the cost of rising debt, must aim to transfer the growth momentum from the public to the private sector and reduce fiscal imbalances to lower vulnerabilities that could threaten the achievement of sustainable growth over the medium term.

The risks to the outlook for the region depend on the decisiveness of policy actions. The uptick in oil prices, impending elections, and political transitions in many countries may reduce appetite for difficult reforms and could lead to further policy slippages. In addition, protracted internal conflicts continue to cloud the outlook in several countries. At the same time, the regional outlook could significantly strengthen on the back of an improved business environment and strengthened confidence. This will occur, if the uncertainties in countries undergoing political transition dissipate and countries that are still in need of adjustment make decisive progress toward macroeconomic stabilization.

DOMESTIC REVENUE MOBILIZATION IN SUB-SAHARAN AFRICA: WHAT ARE THE POSSIBILITIES?

Domestic revenue mobilization is one of the most pressing policy challenges facing sub-Saharan African countries. Nearly all countries are seeking to raise revenues to make progress toward their Sustainable Development Goals while preserving fiscal sustainability. Despite substantial progress in revenue mobilization over the past two decades, sub-Saharan Africa is still the region with the lowest revenue-to-GDP ratio. Examining structural factors that account for this underperformance, it is estimated that the region could, on average, mobilize between 3 and 5 percent of GDP in additional tax revenues—significantly more than what the region has received each year from international aid. Key steps would be to strengthen value-added tax systems; streamline exemptions; and expand coverage of income taxes. Case studies of successful revenue mobilization episodes in the region highlight the importance of medium-term revenue strategies to strengthen the basic building blocks of effective tax administration; emphasizing efforts to broaden the tax base; and modernizing institutional processes. Developing new sources of taxation, such as property taxes, and harnessing new technologies that could facilitate access to more reliable information are also key. Moreover, since revenue mobilization is a process that needs to be sustained for years to have a durable impact, countries need to build a constituency for reform, based on a credible commitment to improved governance and transparency.

PRIVATE INVESTMENT TO REJUVENATE GROWTH

Increasing private investment is critical for the region to achieve sustainable strong growth and improve social outcomes over the medium term. While public investment in the region is at a similar level to other regions of the world, private investment in sub-Saharan Africa lags well below all other regions. Empirical work suggests that the strength of current and prospective economic activity plays a dominant role in driving private firms' decisions to invest. Beyond that, strengthening the regulatory and insolvency frameworks, increased trade liberalization, and deeper financial markets could also help lift private investment. As such reforms take time, countries have pursued other avenues in an attempt to jump-start private investment, notably public-private partnerships (PPPs), special economic zones (SEZs), and mechanisms to attract foreign direct investment (FDI). PPPs have been widely used in the region, but these partnerships need to be considered carefully in view of the risks involved. Notably, proper management of PPPs requires the adoption of institutional and legal frameworks to assess and limit risks as such projects often entail sizable contingent liabilities. SEZs, while in some cases successful in attracting investors to the region, benefit their host economies more where they establish strong links with host country firms and become better integrated in the national and regional development strategies. Recent international initiatives (for example, the G20 Compact with Africa and the Belt and Road Initiative) potentially provide another opportunity to support private investment in sub-Saharan Africa, including by fostering the institutional reforms to encourage FDI and PPPs.