



Economic Outlook for Sub-Saharan Africa

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Sub-Saharan Africa growth remains strong, but challenges lie ahead

The global economy faces significant uncertainty and growth prospects remain weak. Yet, Sub-Saharan Africa continues to perform strongly, with economic growth expected to exceed 5 percent this year and next. This resilience was already in evidence 2008-09, when the global economy experienced its deepest recession since the 1930s, while notably low-income countries fared much better than they had during past global downturns. Ample policy space, resulting from prudent policies over the preceding decade as well as comprehensive debt relief, helped many countries to respond counter-cyclically by allowing fiscal deficits to widen. This helped protect critical spending: most countries were able to increase spending on infrastructure, health, and education. Strong growth in emerging markets, growing trading partners for many countries in Sub-Saharan Africa, also helped cushion the impact of the recession in traditional partner countries.

Will Africa prove to be as resilient now? Considerable challenges face the global economy. The euro zone is exposed to fiscal and financial stress, the United States contemplates the risk of a sharp fiscal tightening, and now even emerging countries like China face a growth slowdown. IMF estimates suggest that a sustained global slowdown of 2 percentage points of GDP would reduce growth in Sub-Saharan Africa by 1 percentage point per year. Moreover, many Sub-Saharan African countries continue to face local challenges. Droughts remain a risk for many countries, with potentially dire consequences for food prices. The recent surge in security tensions in West Africa also contributes to economic risks. Security risks are critical as they not only disrupt economic activity where they occur, but also spill over to neighboring countries.

The region will be able to manage these challenges with prudent policies

The successful management of the 2008–09 crisis came at a cost. Debt levels were low, but have increased since, albeit moderately. Deficits are also wider. Many countries retain some space to respond flexibly to shocks, and where such room remains, it should be used. But clearly the space has shrunk. And financing sources may also be less ample. Development assistance is at risk from tighter budgets in advanced economies. Market financing, increasingly available to African economies, may also dry up suddenly should the world truly face a sharp downturn.

Therefore, prudence suggests that where growth continues to hold up, fiscal space should be rebuilt, ahead of those new risks. Several options exist. For example, many countries maintain costly energy subsidies (averaging 4 percent of GDP in Sub-Saharan Africa). Such subsidies are not only costly, crowding out other public spending on infrastructure or health and education, they are also inefficient, stifling growth by providing a disincentive to maintenance and

investment in energy generation, which is vital for Africa's future growth performance. Many countries also have scope for raising additional revenue, notably from natural resources.

Africa's long term prospects remain strong

The world economy may face a prolonged period of uncertainty and weakness. But Africa's long-term prospects remain strong. Many countries are enjoying a prolonged period of robust growth, in some cases outpacing the Asian Tiger economies in their first two decades. Investment is increasing, raising future economic potential. And new discoveries of natural resources combined with still-high commodity prices bring new growth opportunities. The key will be to seize these opportunities. Recent IMF studies show that economic transformation, whereby rapidly rising agricultural productivity releases labor for a developing manufacturing sector, is much slower in Africa than it was in Asia. And the importance of extractive industries in many African countries, which often generate less employment than basic manufacturing, has meant that growth has been less inclusive than desirable. These are important challenges that need to be addressed. Infrastructure development will have important positive spill-overs, also for the agricultural sector; investments in education and health will build human capital to take advantage of Africa's young labor force; accelerated regional integration will create larger markets and offer economies of scale for investors; and improving the business environment will attract foreign investment and capital, progressively reducing aid dependency. None of these will happen automatically. But strong policy making, as we have increasingly seen across the African continent, will continue to be a powerful force for change.

Angola is better prepared but needs to go further

Angola experience of the global crisis differed from most of sub-Saharan Africa, mainly because of its reliance on oil revenues but also because of inadequate macroeconomic buffers that left little space to implement counter-cyclical policies. The country is now better prepared for another fall in oil prices: international reserves are higher, inflation is lower, and fiscal balances are much healthier. But, it still remains heavily exposed to international oil prices and prices are projected to fall below US\$90 per barrel over the next few years.

Looking ahead, Angola's key economic policy challenge is to maintain the macroeconomic stability essential for sustained growth, economic diversification, and poverty reduction. For this, Angola needs to sustain the prudent macroeconomic policies of the last few years and rebuild the buffers to help stabilize the economy. This means further building foreign reserves, pressing against inflation, and strengthening fiscal balances. But at the same time, there are also large development needs for spending on infrastructure and social priorities and meeting these needs in the context of weakening oil prices implies some difficult choices. To create fiscal space, the country could raise non-oil tax collections and restrain spending in non-priority areas. As in much of sub-Saharan Africa, energy and utility subsidies in Angola are costly and inefficient, consuming some 15 percent of non-oil GDP in 2011, and provide scope for savings.

Meeting these challenges with resilience will require sound macroeconomic policies. This rests on three key pillars. The first element is an institutional structure to support the formulation and implementation of sound policies and this entails the collection and dissemination of information, coordination and consultation with stakeholders, and regulation and supervision. The second element is a consistent and sustainable medium-term macroeconomic framework for fiscal, monetary and exchange rate policies geared towards maintaining stability. The third element is the preservation of adequate policy buffers to implement counter-cyclical policies in the event of another crisis. With these elements in place, Angola's long-term prospects also look strong.

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