



Building Momentum in a Multi-Speed World

Regional Economic Outlook for Sub-Saharan Africa

African Department
International Monetary Fund
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1. Recent Developments and Near-term Outlook

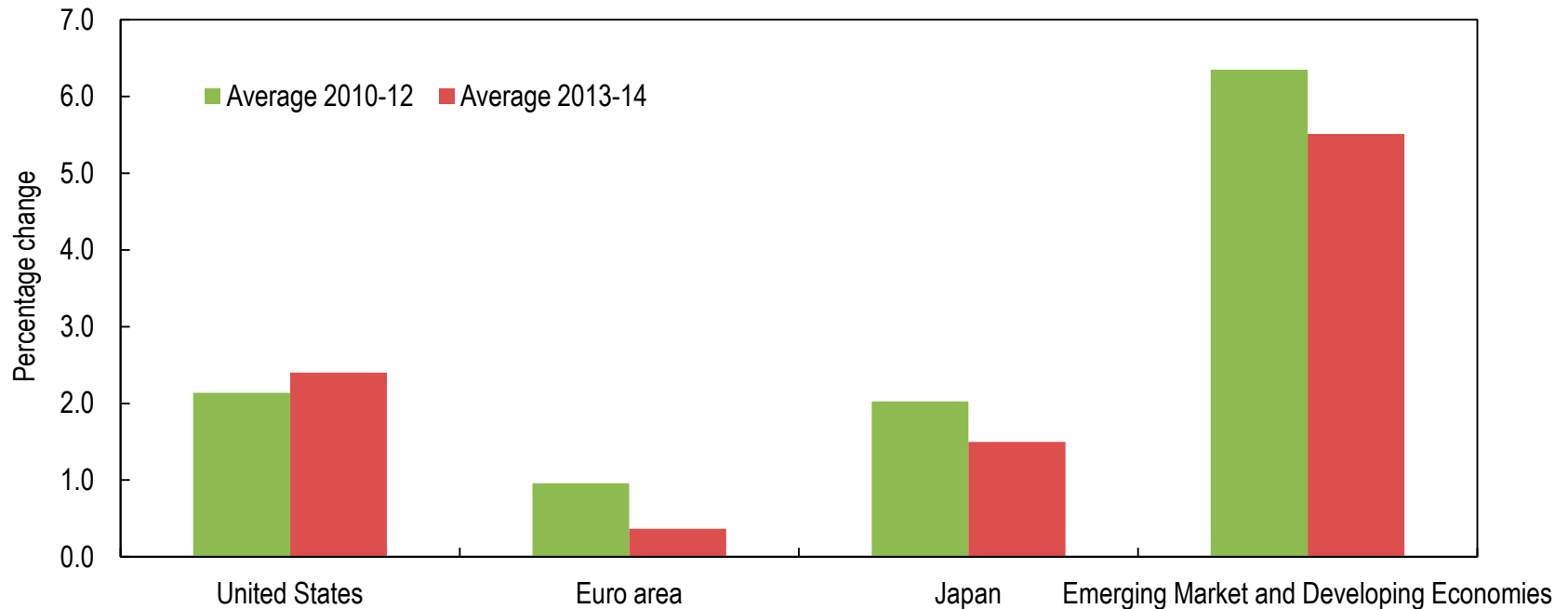
- a) The global context
- b) The region

2. Risks to the Outlook

3. Policy Challenges in the Region

Global growth to be highly differentiated

Real GDP Growth, selected countries/groups

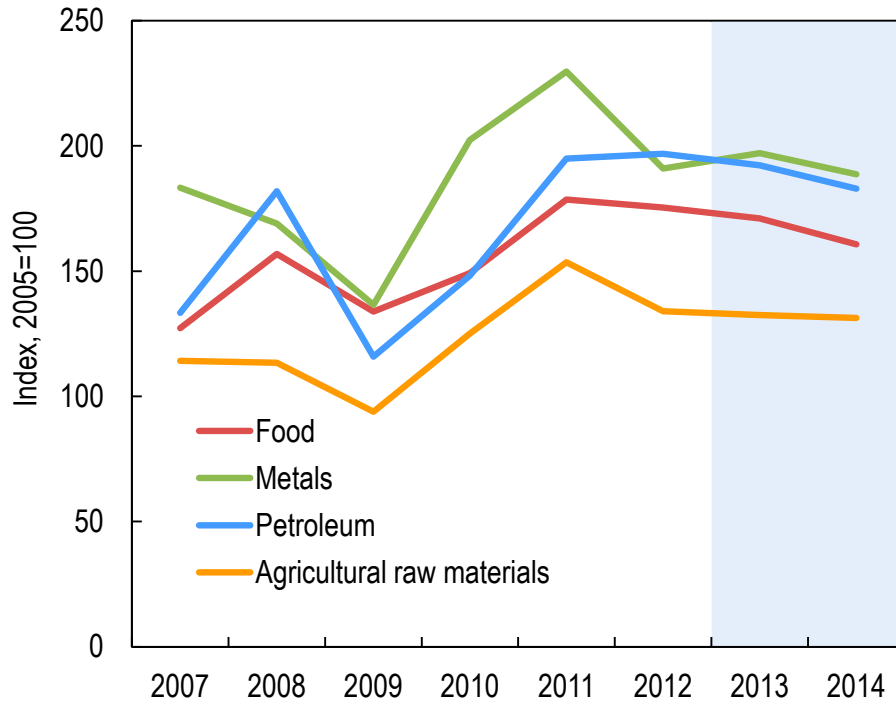


- A multi-speed economy:
 - Emerging economies and developing countries to grow fast, even if not at peak speed
 - The United States is gaining momentum *despite significant fiscal adjustment*
 - Growth in euro area economies set to remain sluggish
 - Japan's growth largely dependent on new round of policy stimulus

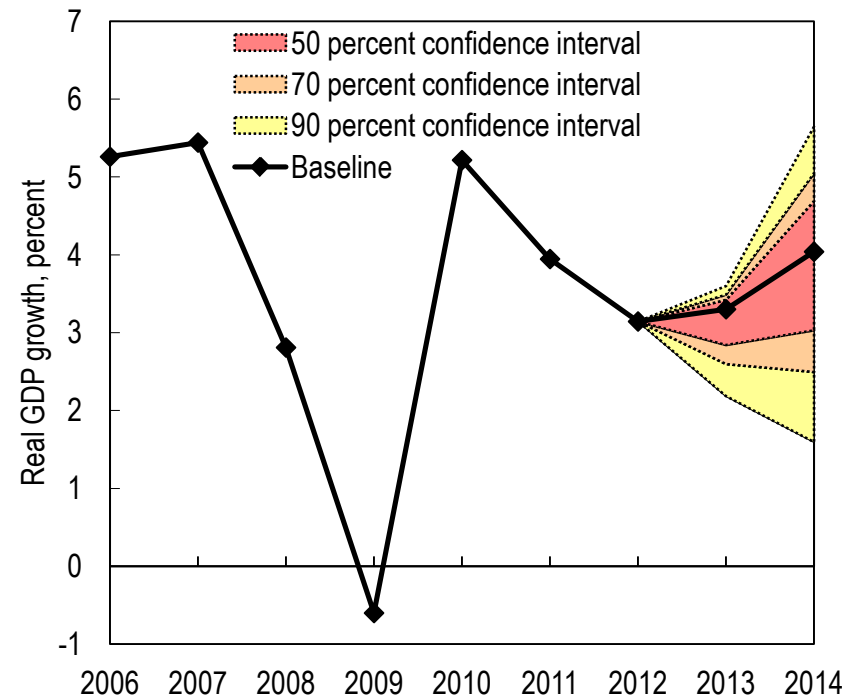
While broadly improving, the road ahead remains bumpy for the global economy



World Commodity Prices, 2007–14



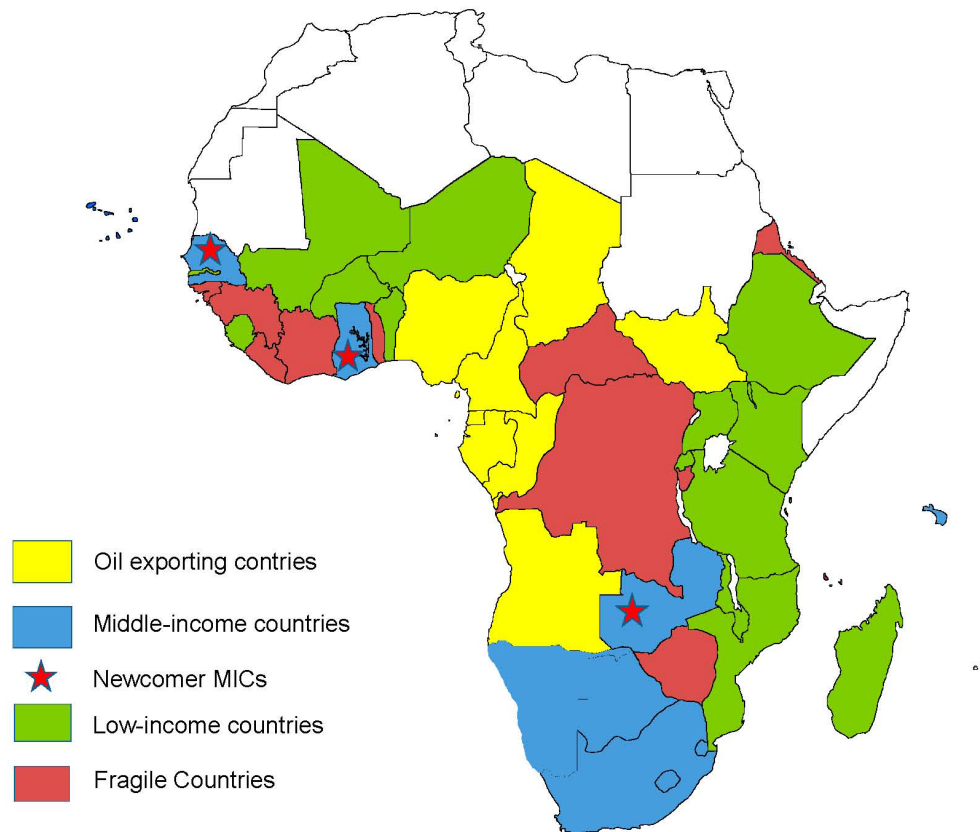
World: Growth Prospects, 2006–14



- Commodity prices projected to ease somewhat
- Short-term risks, especially “tail risks,” are receding; medium-term risks persist
- Monetary stimulus in advanced economies—liquidity for frontier countries?

The Region.

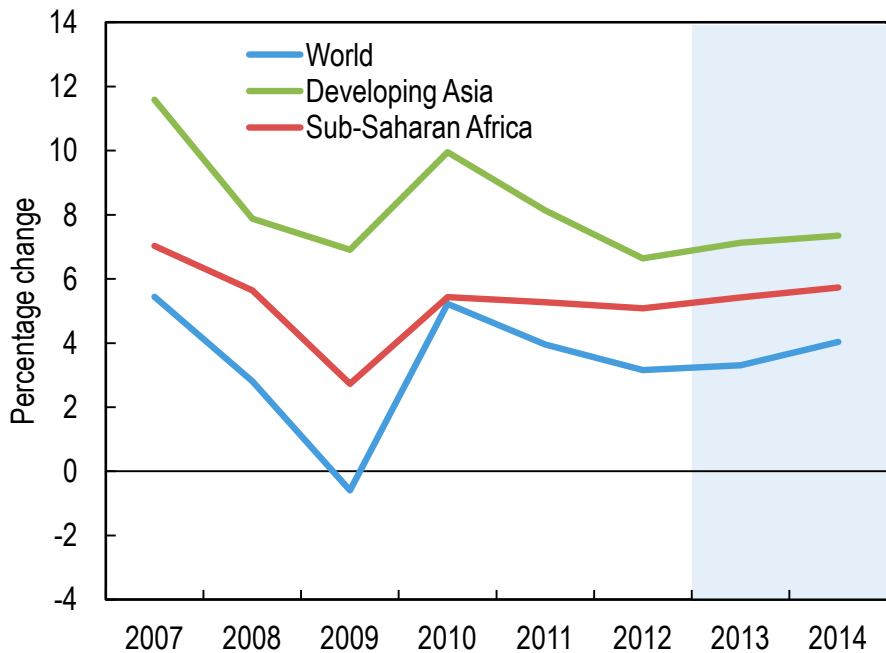
Before we start: country groupings



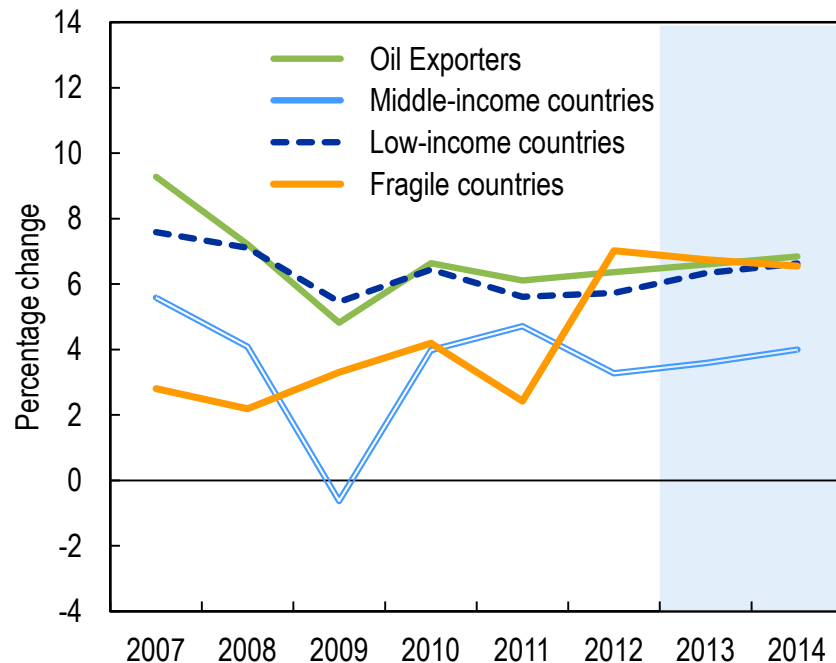
Growth in SSA generally strong, with small acceleration projected in 2013/14



Selected Regions: Real GDP Growth, 2007–14



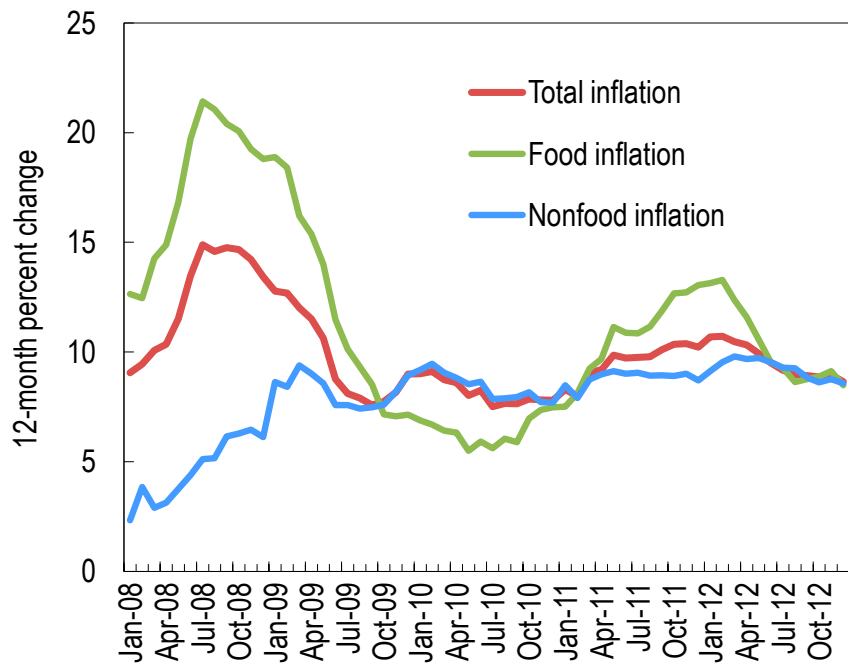
Sub-Saharan Africa: Real GDP Growth, 2007–14



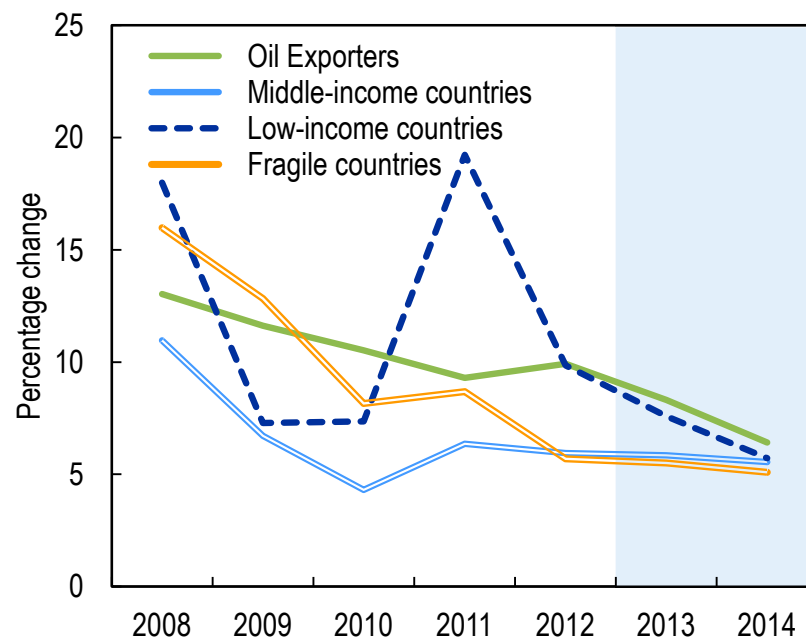
- LICs: robust growth, with strong investment and exports (including owing to new capacity to produce minerals)
- MICs: mixed bag, with South African growth sagging
- Fragile countries: peace dividend in CIV

Inflation continues to subside, notably in eastern Africa

Sub-Saharan Africa: Food and Nonfood inflation, 2008–Nov. 2012



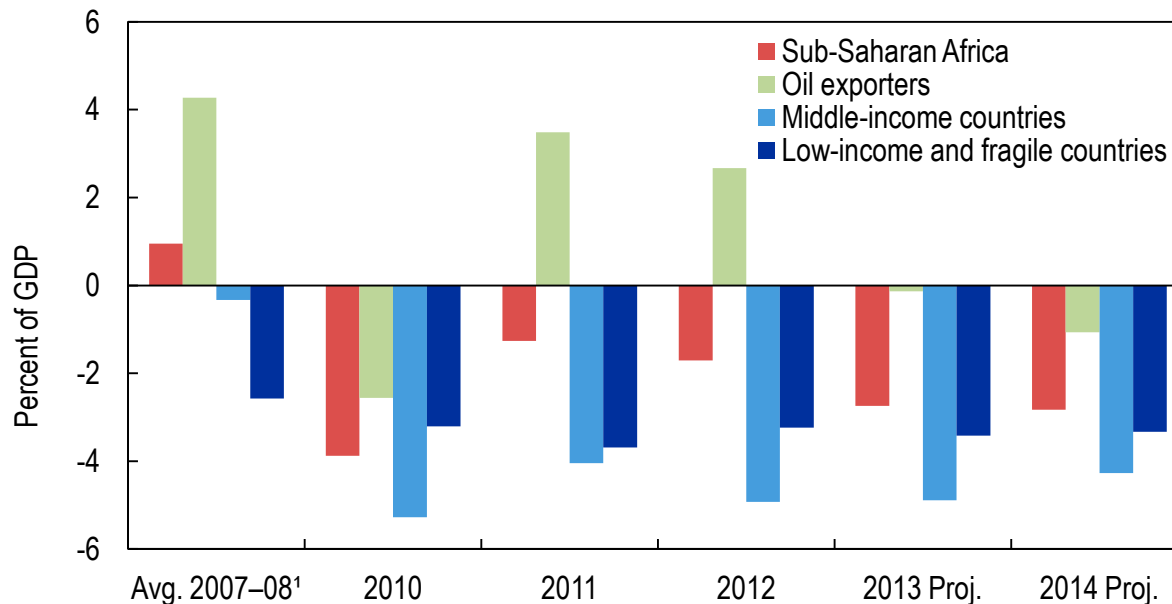
Sub-Saharan Africa: End-of-period CPI Inflation, 2008–14



- Stable or slightly declining commodity prices
- Tight monetary policy in several high inflation economies
- Local climatic conditions have been supportive

Fiscal balances: a mixed picture

Sub-Saharan Africa: Overall Fiscal Balance, 2007–14



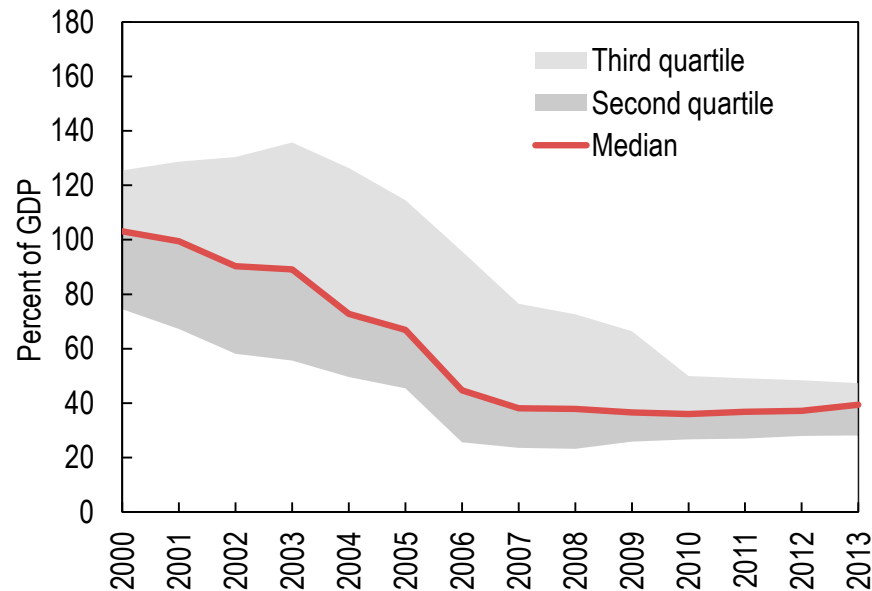
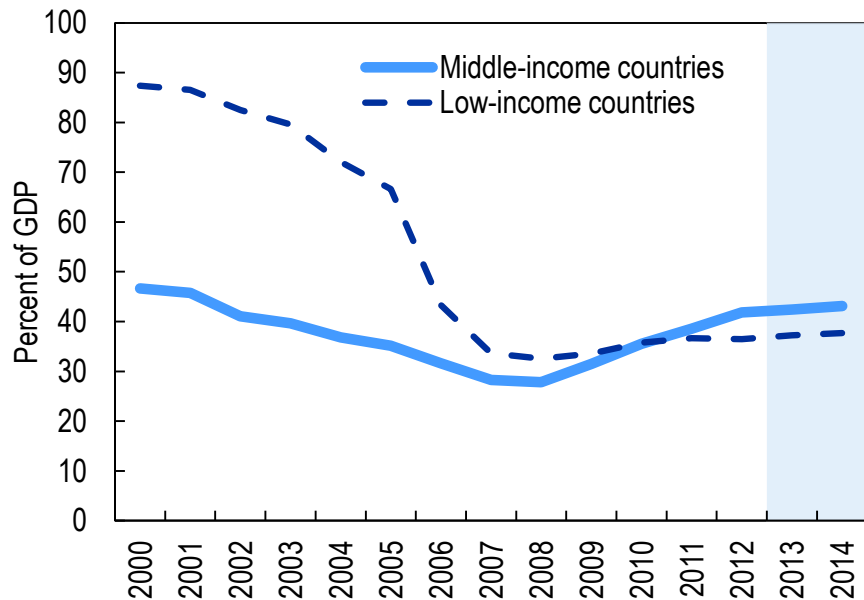
¹ Excludes São Tomé and Príncipe and Sierra Leone as they received debt relief in 2007.

- In 2012, balances deteriorated in oil exporters and MICs, while they improved in LIC and fragile countries
- Looking ahead, continuing decline in oil exporters' fiscal balances (e.g., Angola Chad), reflecting expansionary plans

Debt ratios largely stable, but rising among middle-income countries.



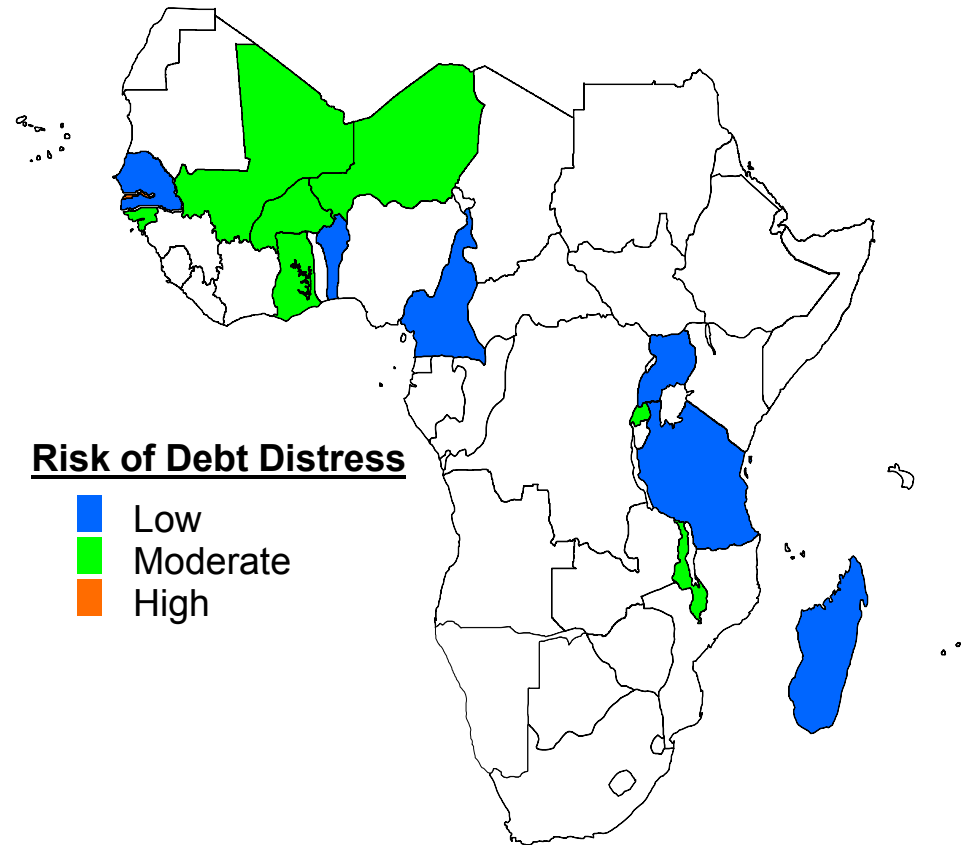
Sub-Saharan Africa: Government Debt Ratios



- Through the middle of the past decade a general trend toward debt reduction, spurred by debt relief, fast growth, prudent fiscal policies.
- The crisis (and near completion of HIPC) ended that. Debt has risen in many countries, especially MICs, and may stay at current levels for some time

Debt trends in selected post-HIPC countries

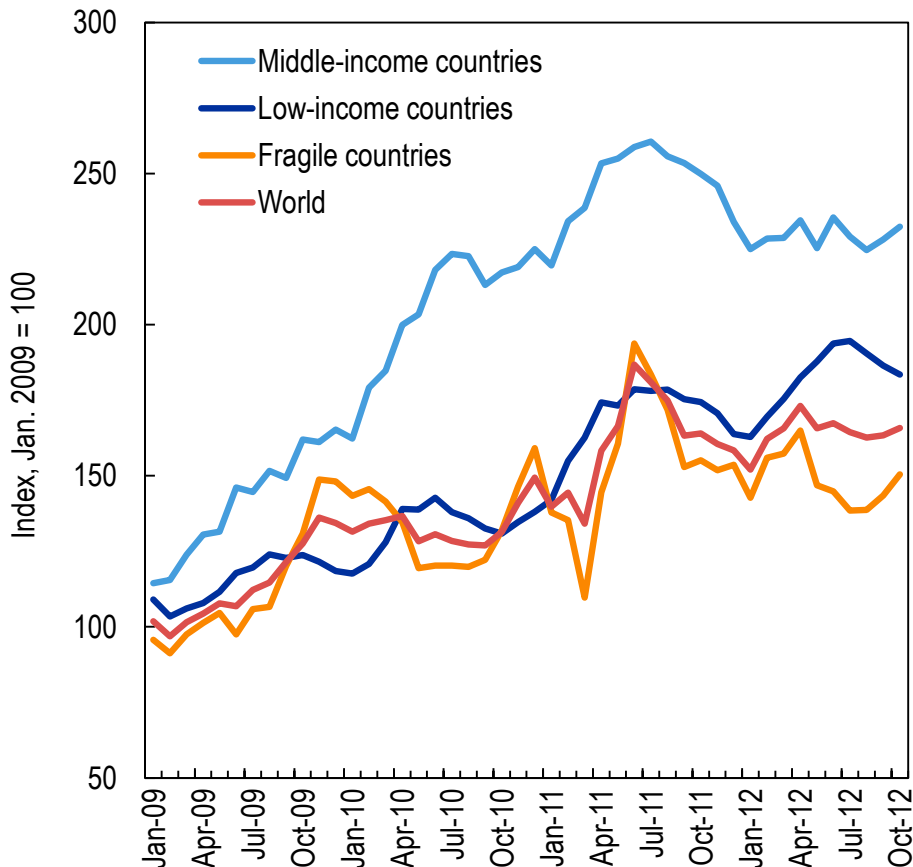
- The ratio of Public (and publicly guaranteed) Debt to GDP has risen by 5 points or more in 15 post-HIPC countries in the last few years.
- DSAs indicate that in almost all of these cases, the risk of debt distress is low or moderate.
- In some cases, the question may be one of “value for money”



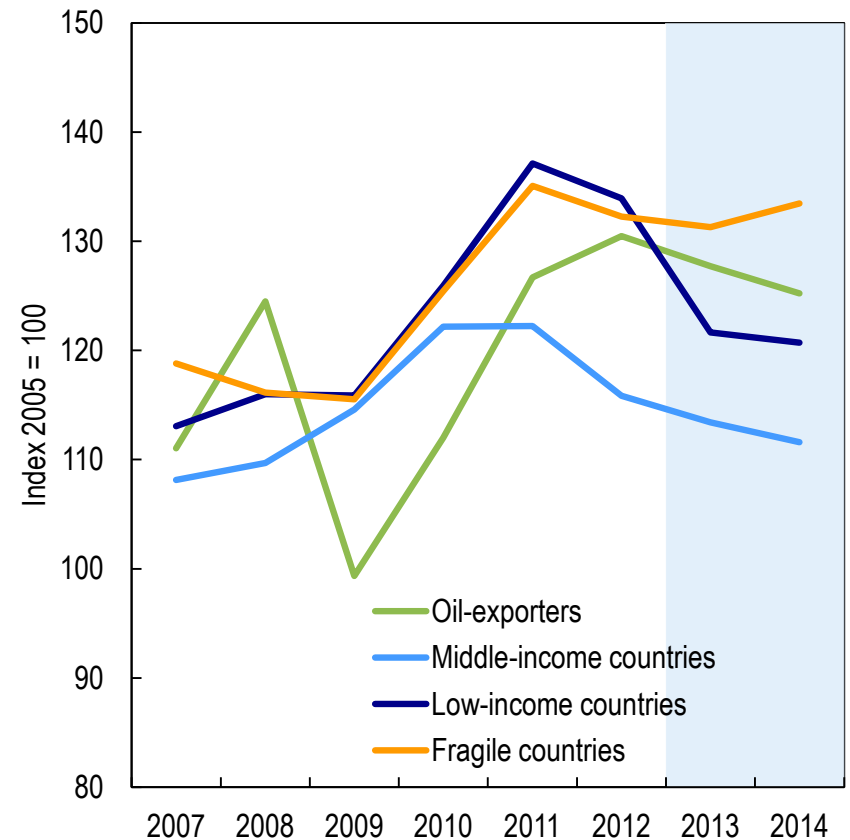
External sector developments: TOT shifting down; LICs' exports remain buoyant



Selected Groups: Exports, Three-month Moving Average



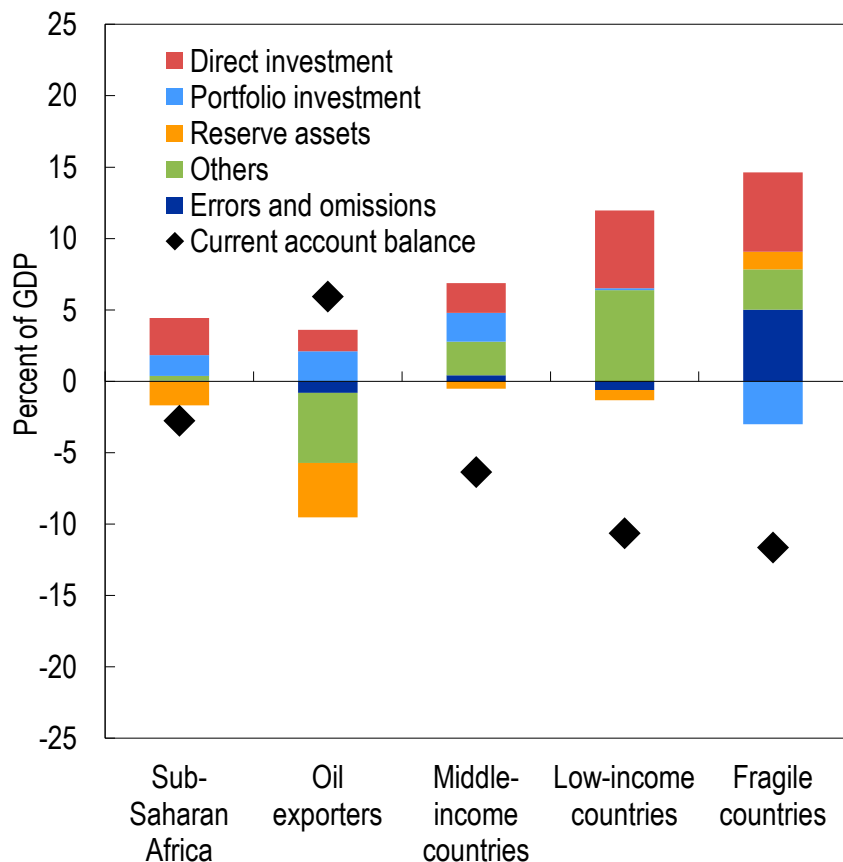
Selected Country Groups: Terms of Trade, 2007–14



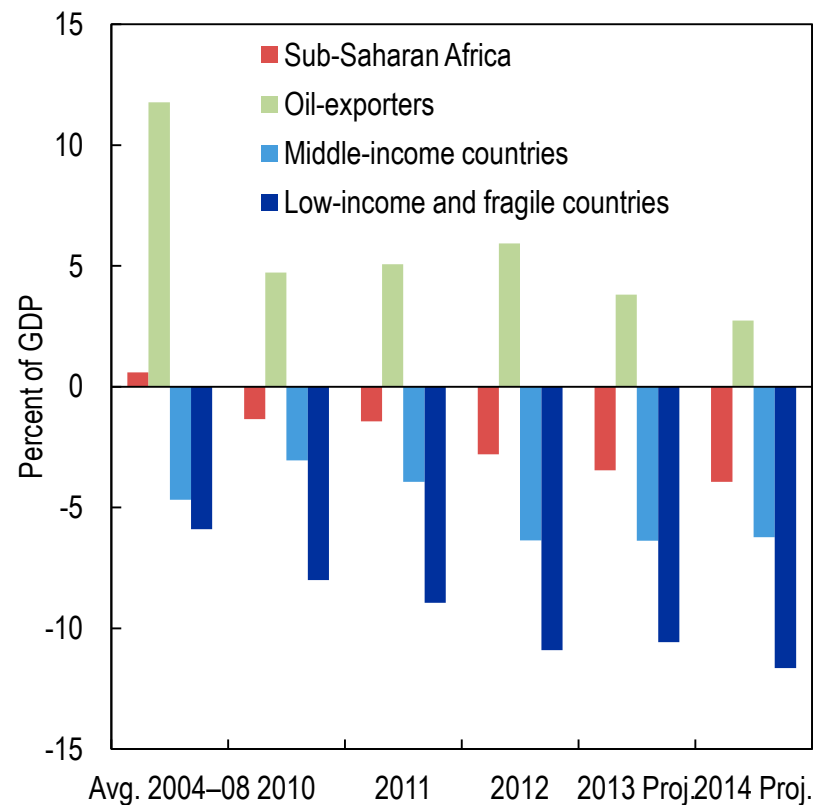
Financing the rising current account deficits: FDI (minerals) and portfolio flows (*frontier*)



Sub-Saharan Africa: Balance of Payments, 2012



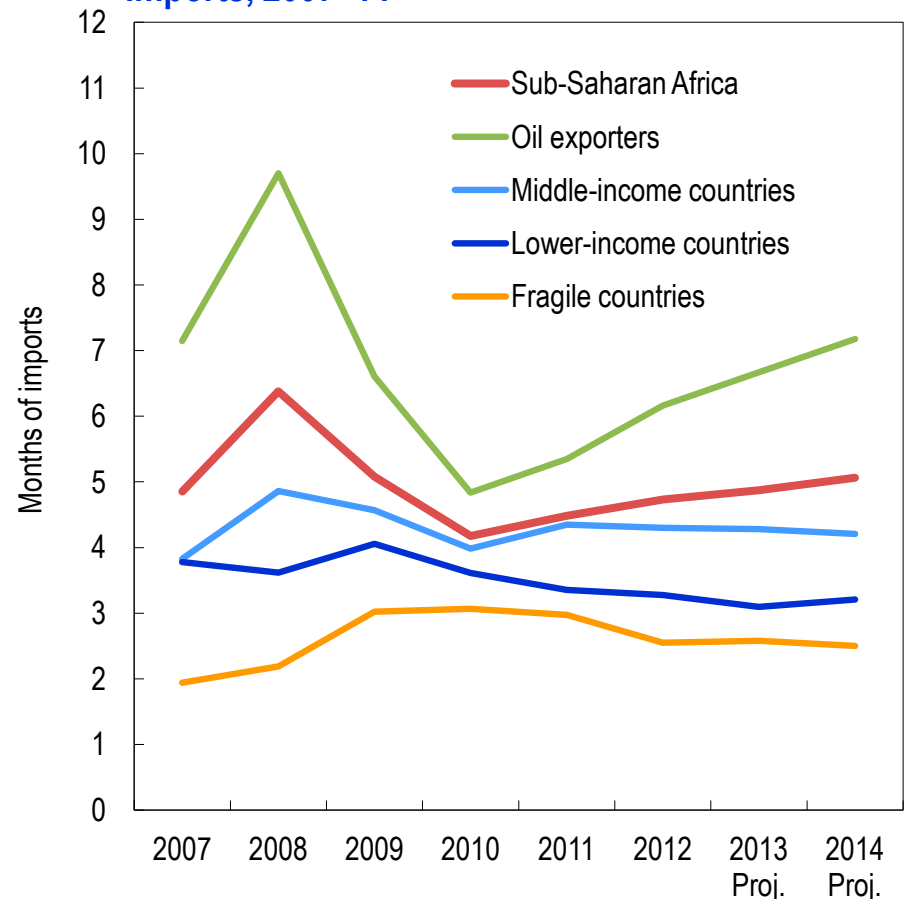
Selected Country Groups: External Current Account Balance, 2004–14



International reserve coverage is anticipated to remain broadly stable in most of the region

- Reserves levels have improved most in oil exporters, but still projected to be below pre-crisis level in 2014
- Broadly flat in MICs
- Recent moderate declines observed among low-income and fragile economies
- LICs are anticipated to improve reserve coverage by the end of projection horizon

Sub-Saharan Africa: Reserves in Months of Imports, 2007–14



Outline



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2. Risks to the Outlook
3. Policy Challenges in the Region

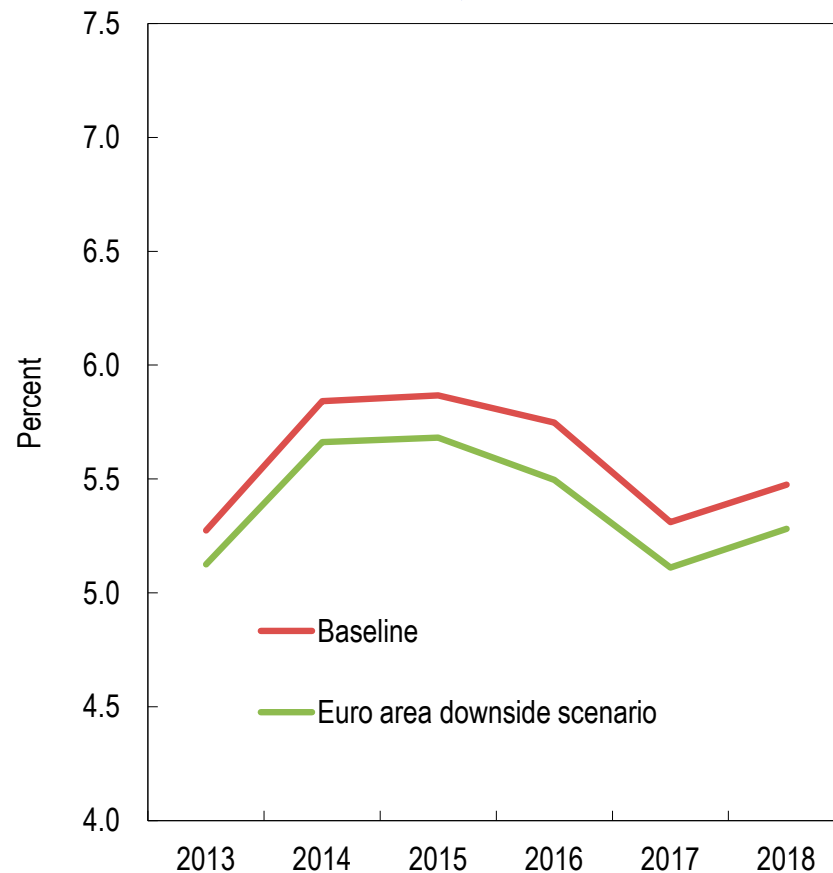
Risks to the Outlook

- **Outlook positive, but subject to downside risk**
- **External environment (some risks noted in April 2013 WEO)**
 - Prolonged near-stagnation in the euro area
 - Slowdown in emerging markets, especially BRICS
 - Oil supply shocks
 - Fiscal trouble in the U.S. or Japan (medium term)
 - Side effects of “Unconventional Monetary Policy”
- **Internal risks**
 - Adverse weather patterns
 - Political and social instability

Detailed risk scenario: continued euro area stagnation

- Lower investment in the euro-area periphery
- Global output and commodity prices *persistently* lower than the baseline
- SSA's growth persistently reduced by up to $\frac{1}{4}$ of a percentage point—broadly in line with effect of shock on global GDP growth

Sub-Saharan Africa: Real GDP growth in alternative scenarios, 2013–18



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Policy Issues and Recommendations (1)

- In a large number of countries in SSA, a favorable outlook—which depends on the continuation of sound policies
- In some cases, the outlook is more complicated
 - Upper-middle income bloc grapples with sluggish growth, but little room for stimulus
 - Inflation still in double-digit territory in a handful of countries
 - Large current account deficits in some LICs may raise vulnerabilities
 - International reserves need a boost in a few cases



Policy Issues and Recommendations (2)

- In a number of countries, a strong case for strengthening policies to reduce / prevent imbalances:
 - Ghana: Roll back spending overruns generated during the 2012 electoral cycle to help moderate the “twin deficits”
 - Angola, Chad: large fiscal expansion plans raise concerns over absorption capacity and cost effectiveness--Contain nonoil deficits and overall fiscal stimulus
 - Keep tight monetary policies where inflation remains high and / or largely volatile (Ethiopia, Malawi, Tanzania)



Policy Issues and Recommendations (3)

- As noted, in a number of post-HIPC countries, debt and debt service ratios have been increasing.
 - In nearly all cases, debt sustainability analysis still points to low or moderate risk of distress.
 - Still, the question remains: are these debts financing worthwhile spending? Anecdotal evidence is mixed—a systematic examination is needed



Policy-making with an eye on risks

- The “policy buffers” question
 - In most countries, debt levels do not constrain the government’s ability to respond to adverse shocks
 - But in many countries, the ability to mobilize resources to finance larger deficits is constrained by small local credit markets
- In the event of a downturn, the policy mix might include fiscal support, or easing monetary policies where fiscal space is constrained and inflation expectations well anchored.
 - South Africa—but rand weakness bears watching
 - Kenya—the exchange rate could act as a shock absorber



Thank You