Recovery and New Risks

Sub-Saharan Africa Regional Economic Outlook

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Outline of the Presentation

- Global Situation: Recovery and New Risks
- Sub-Saharan Africa: Recovery and New Risks
- Mozambique: Successes, Risks and Challenges

The Global Situation

Three broad themes

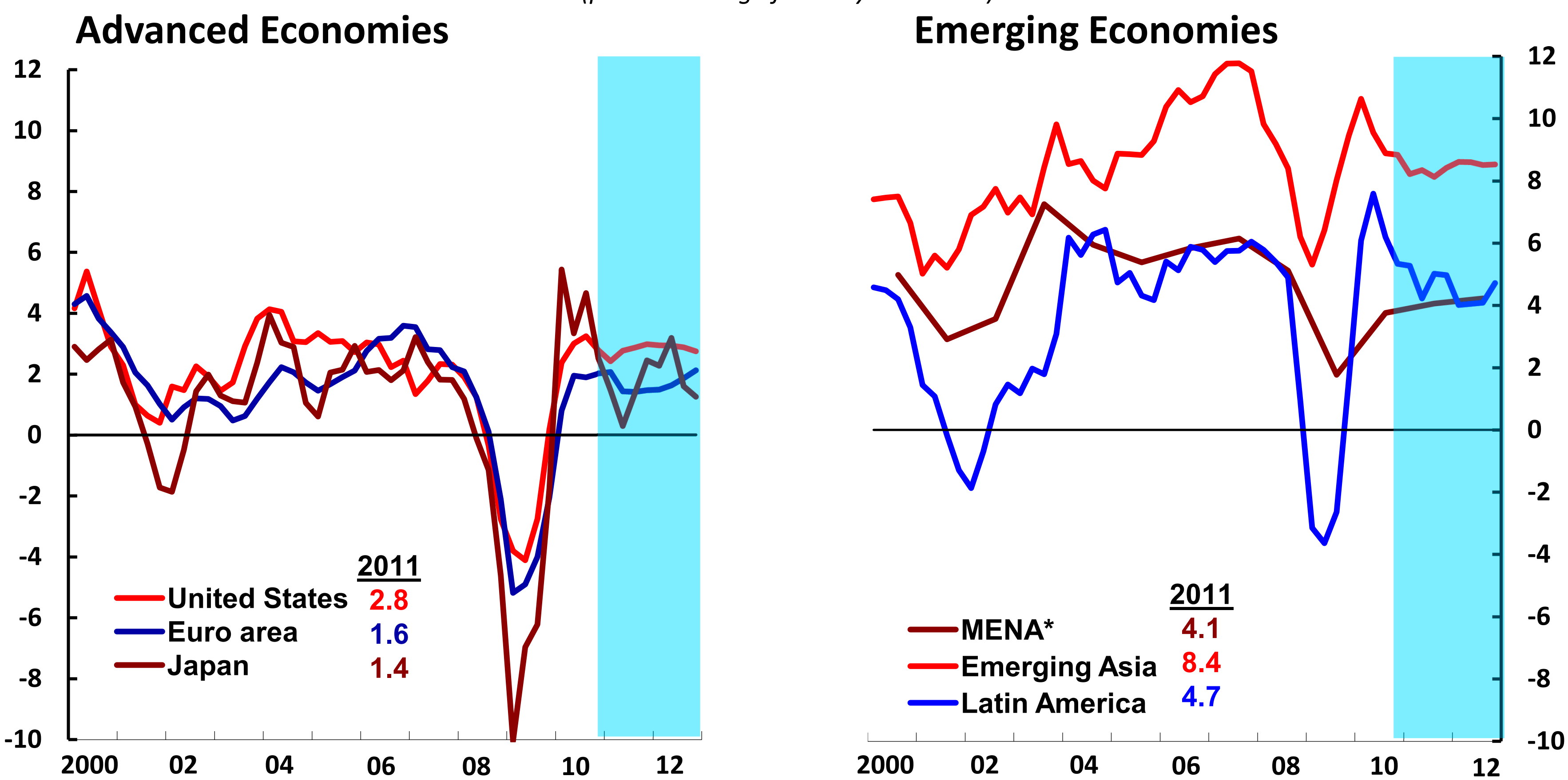
- The global **recovery is solidifying.**
- Old policy issues still need to be addressed :
  - insufficient **fiscal adjustment** and **repair of financial systems** in advanced economies;
  - insufficient **rebalancing** of demand in key Asian surplus economies.
- New policy issues are arising**:**
  - **overheating** in emerging markets;
  - **high commodity prices**.

International Monetary Fund, Sub-Saharan Africa Regional Economic Outlook.

The recovery remains "multispeed" : 6½ percent growth in emerging markets; and 2½ percent growth in Advanced Economies ➔ 4½ percent global growth

Real GDP Growth

(percent change from a year earlier)



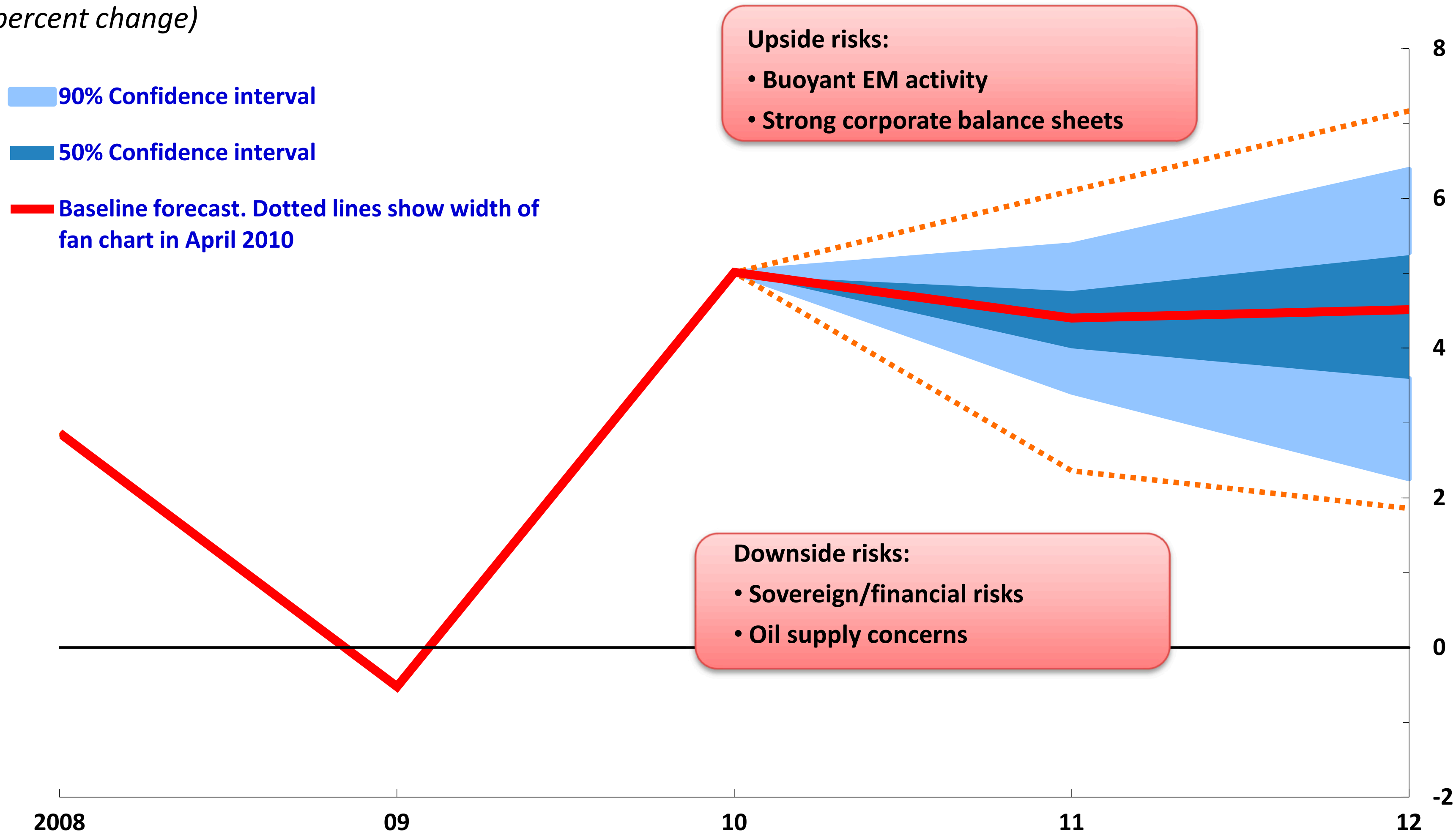
*Middle East and Northern Africa.

Recovery is solidifying | Fiscal adjustment | Financial repair | Rebalancing | Overheating | Commodity

International Monetary Fund, Regional Economic Outlook for sub-Saharan Africa, April 2011.

Overall, downside risks, albeit diminished, remain nontrivial

Prospects for World GDP Growth
(percent change)

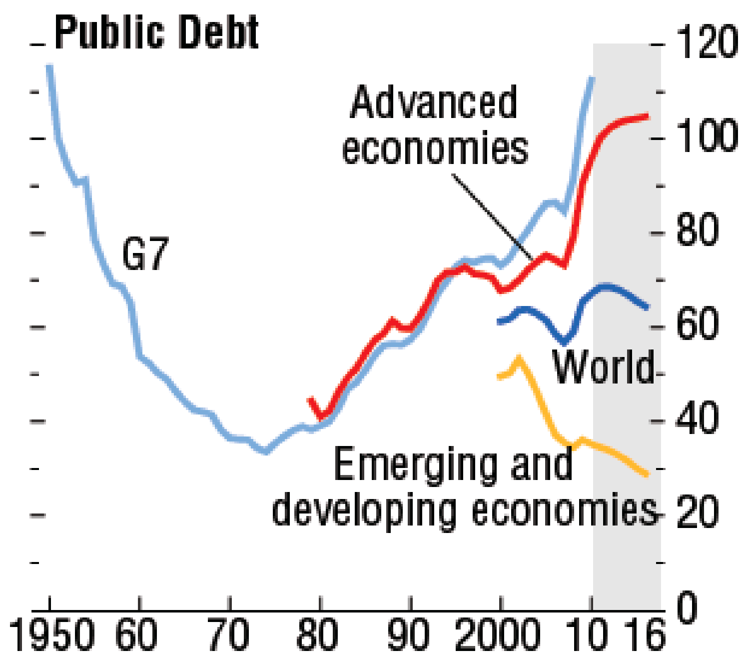


Recovery is solidifying | Fiscal adjustment | Financial repair | Rebalancing | Overheating | Commodity

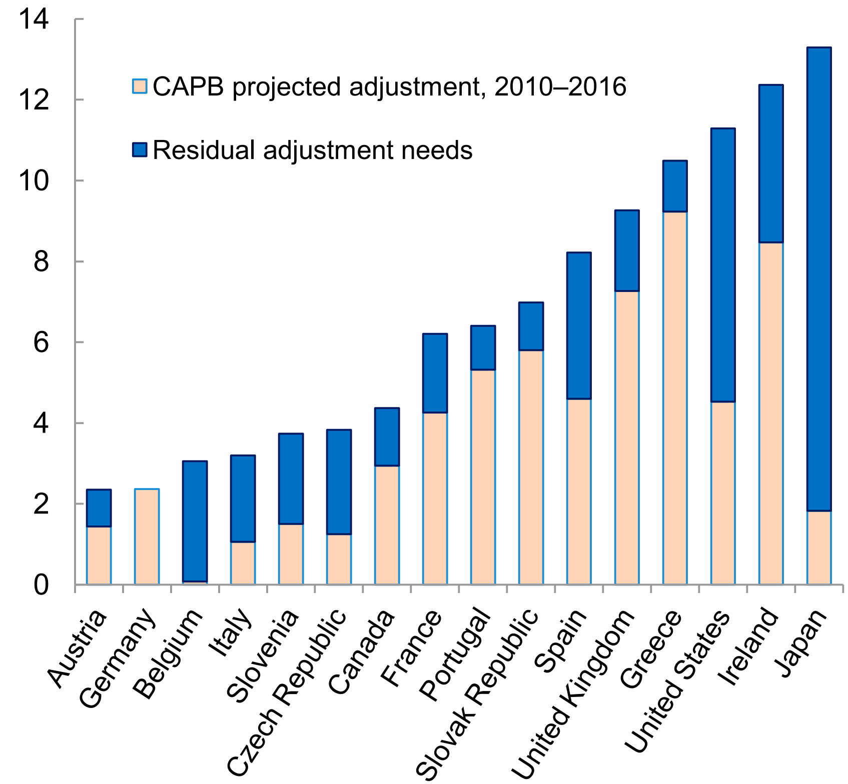
International Monetary Fund, Regional Economic Outlook for sub-Saharan Africa, April 2011.

In many advanced economies, much more adjustment is needed to achieve sound public finances.

Public debt levels
(percent of GDP)



Required Adjustment [1]
(percent of GDP)



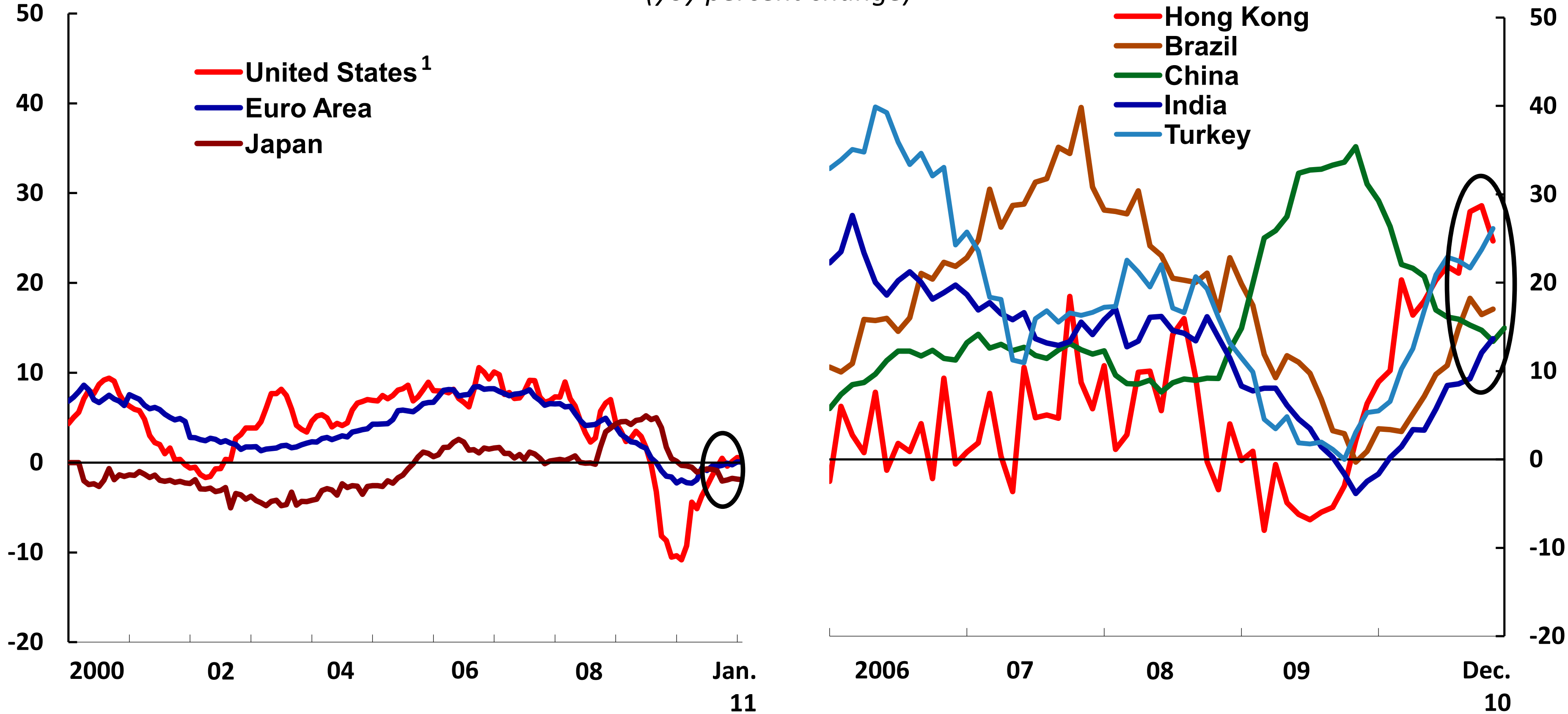
Sources: IMF, *Fiscal Monitor*; and IMF staff calculations.
[1] The figure compares the estimated adjustment needs between 2010 and 2020 to achieve debt targets in 2030and the projected change in the cyclically adjusted primary balance between 2010 and 2016 for the countries with positive residual adjustment needs beyond 2010.

Recovery is solidifying | **Fiscal adjustment** | Financial repair | Rebalancing | Overheating | Commodity

Low credit growth in the advanced economies indicates the need for further repair of the financial sector. Credit demand is also weak, of course.
In contrast, in many emerging markets, credit growth is buoyant.

Real Private Credit Growth

(yoy percent change)



Source: Bank of Japan, European Central Bank, and the Federal Reserve Board.

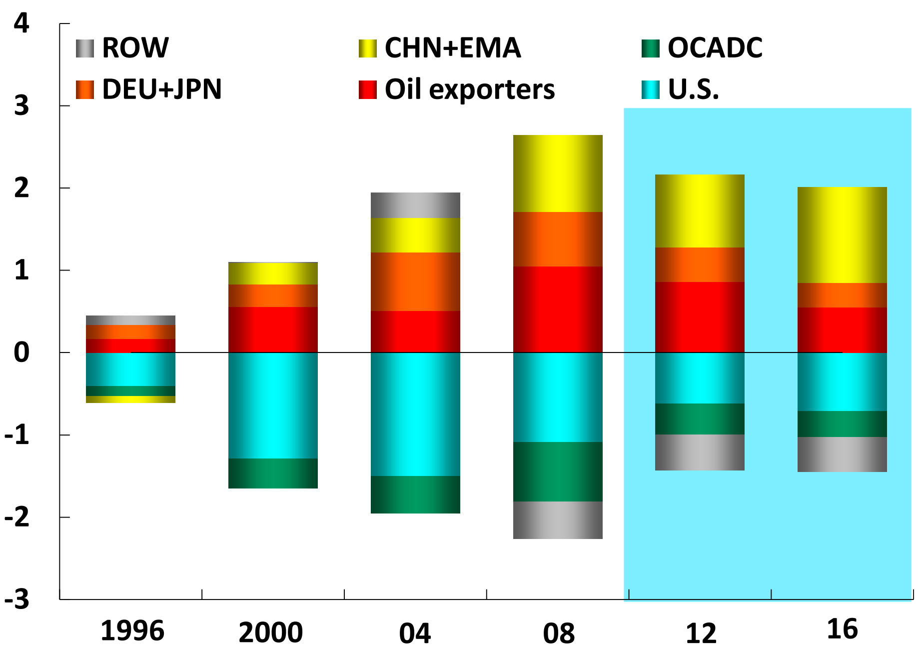
[1] Spike in late 2010 due to securitized credit card assets that banks owned and that were brought onto their balance sheets in 2010.

Recovery is solidifying | Fiscal adjustment | **Financial repair** | Rebalancing | Overheating | Commodity

Global demand rebalancing is incomplete

Global Imbalances[1]

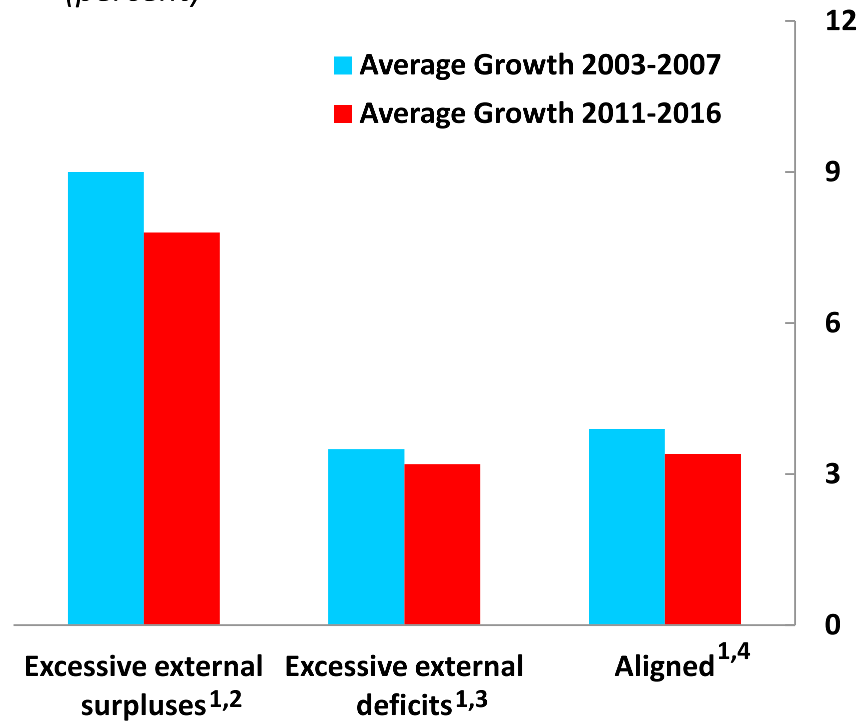
(percent of world GDP)



[1] CHN+EMA: China, Hong Kong SAR, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan Province of China, and Thailand; DEU+JPN: Germany and Japan; OCADC: Bulgaria, Croatia, Czech Republic, Estonia, Greece, Hungary, Ireland, Latvia, Lithuania, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Turkey, and United Kingdom; ROW: rest of the world; US: United States.

Total Domestic Demand

(percent)



Sources: Federal Reserve Board; and IMF staff calculations.

[1]Based on the IMF staff's Consultative Group on Exchange Rate Issues (CGER). CGER countries include Argentina, Australia, Brazil, Canada, Chile, China, Colombia, Czech Republic, euro area, Hungary, India, Indonesia, Israel, Japan, Korea, Malaysia, Mexico, Pakistan, Poland, Russia, South Africa, Sweden, Switzerland, Thailand, Turkey, United Kingdom, and United States. For a detailed discussion of the methodology for the calculation of exchange rates' over- or undervaluation, see Lee and others (2008).

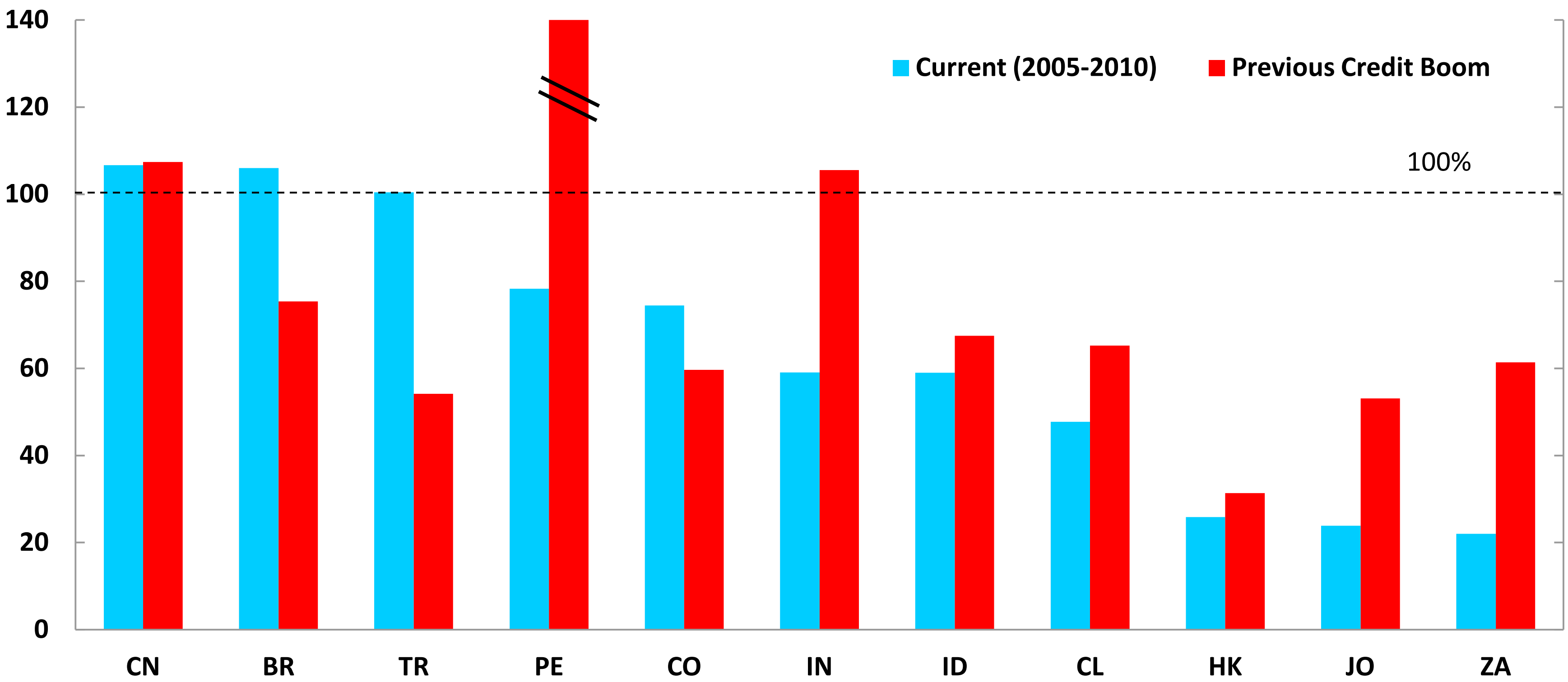
[2]These economies account for 18.5 percent of global GDP.

[3]These economies account for 27.4 percent of global GDP.

[4]These economies account for 39.2 percent of global GDP.

There is overheating in many EMs: credit over the past 5 years has been booming. Macroeconomic and prudential tightening appear essential to avoid boom-bust cycles.

Cumulative Per Capita Real Credit Growth
(percent change over 5 years)



BR: Brazil, CL: Chile, CN: China, CO: Colombia, HK: Hong Kong SAR, IN: India, ID: Indonesia, JO: Jordan, PE: Peru, ZA: South Africa, TR: Turkey.

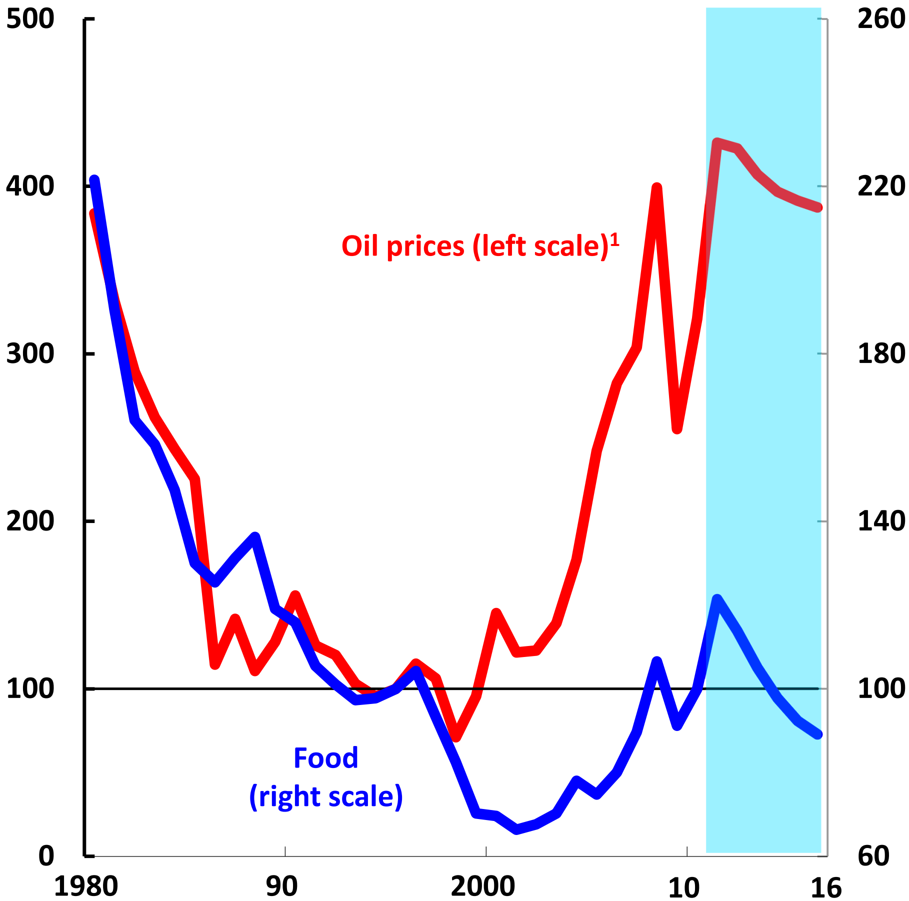
Recovery is solidifying | Fiscal adjustment | Financial repair | Rebalancing | Overheating | Commodity

International Monetary Fund, Regional Economic Outlook for sub-Saharan Africa, April 2011.

High commodity prices, due to structural, cyclical, and special factors.

Real Commodity Prices

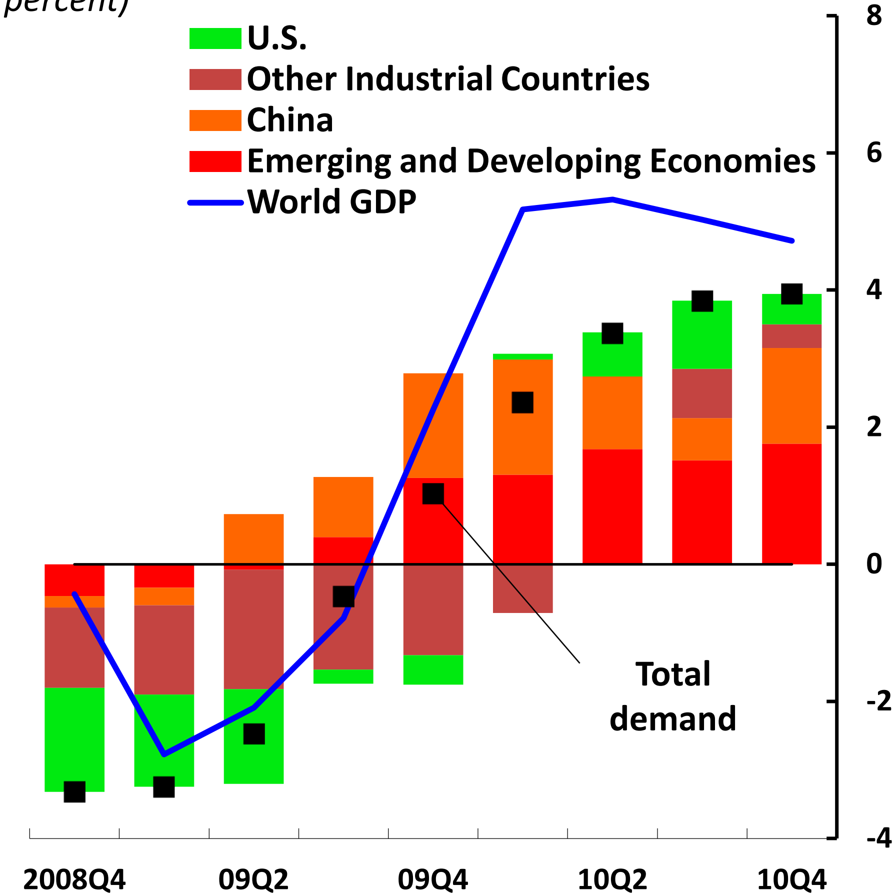
(index; 1995=100)



[1]Simple average of spot prices of U.K. Brent, Dubai Fateh, and West Texas Intermediate crude oil.

Contribution to Global Annual Growth of Oil Demand

(percent)



Recovery is solidifying | Fiscal adjustment | Financial repair | Rebalancing | Overheating | Commodity

International Monetary Fund, Regional Economic Outlook for sub-Saharan Africa, April 2011.

Summing up

- The global economy is expected to continue recovering.
- Following the global crisis, emerging market economies are the main drivers of global growth.
- However, the global backdrop is still exposed to previous policy risks, including:
  - Insufficient fiscal adjustment and reform of the financial sector in advanced economies;
  - Insufficient rebalancing of demand in Asian surplus economies.
- At the same time, new macroeconomic risks seem to be emerging, such as:
  - Overheating in emerging markets.
  - High commodity prices.

International Monetary Fund, Regional Economic Outlook for sub-Saharan Africa, April 2011.

Sub-Saharan Africa

A useful analytical grouping of countries in sub-Saharan Africa: oil exporters, middle and low-income countries

Sub-Saharan Africa: Selected Indicators, 2011

	Number of Countries	Share of Population	PPPGDP Weights	GDP per Capita
		(Percent)	*(Percent)*	*(U.S. dollars)*
Oil Exporters	7	27	**34**	2,130
Middle-income Countries	8	8	**33**	7,165
Low-income Countries[1]	**29**	**66**	**33**	574

Sources: IMF, *World Economic Outlook*; and IMF, African Department database.
1/ Non-oil LICs

International Monetary Fund, Regional Economic Outlook for sub-Saharan Africa, April 2011.

Following the Crisis, in Sub-Saharan Africa

Four themes set to dominate the policy agenda:

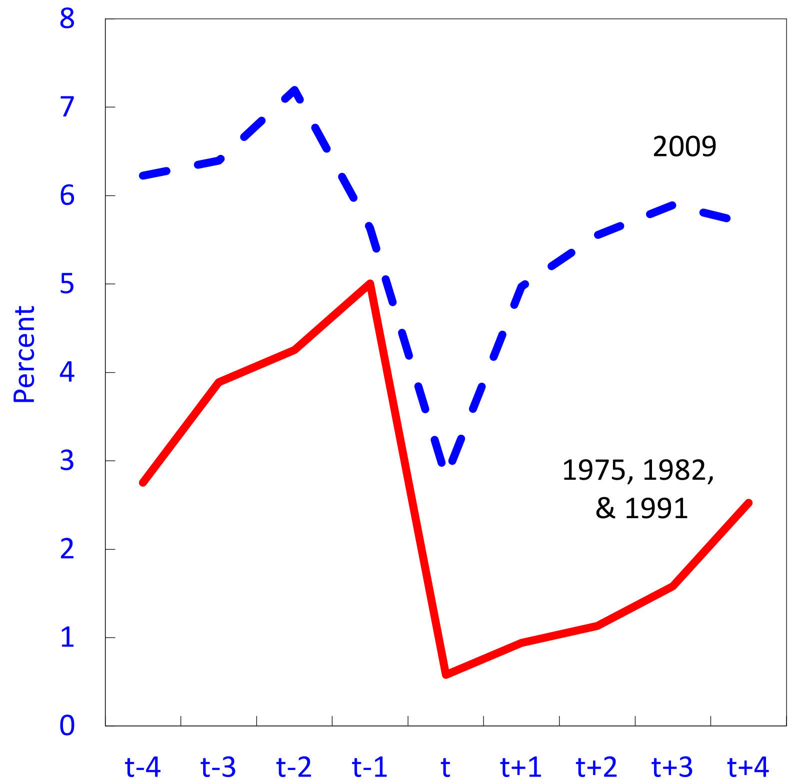
1. **Recovery** to pre-crisis growth rates is underway in most countries
2. The crisis has nonetheless caused considerable **dislocation**
3. **Tension** between the need to rebuild policy buffers and the longer-term spending needs
4. And now countries need to deal with another **food and fuel price shock**– one that may be more persistent than in 2007-08.

International Monetary Fund, Regional Economic Outlook for sub-Saharan Africa, April 2011.

Resilience in the face of the largest shock to hit the region since the 1970s

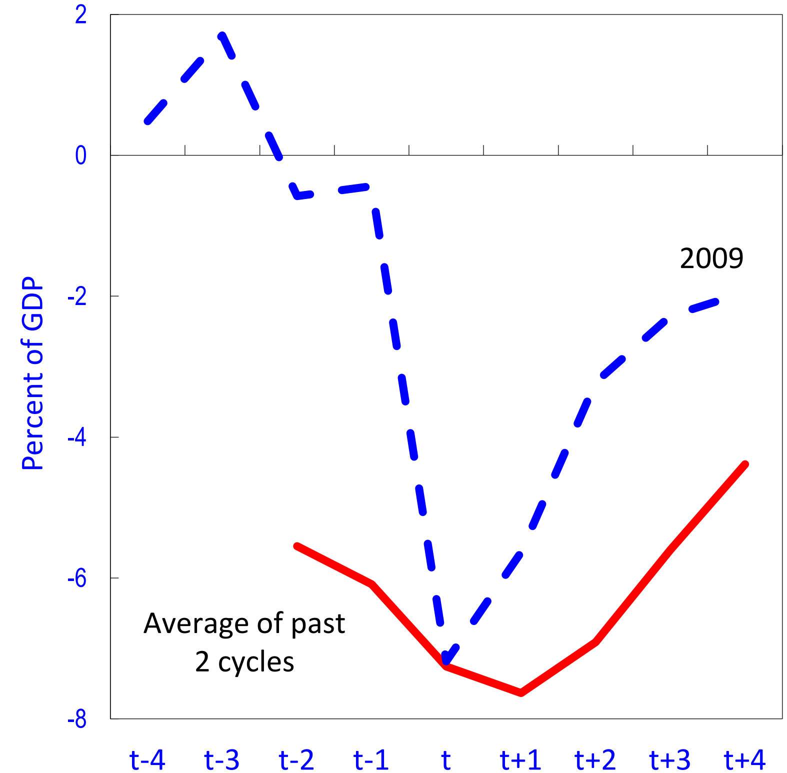
This time was **different** . . .

Real GDP Growth in SSA During Global Downturns



partly due to **better** initial conditions

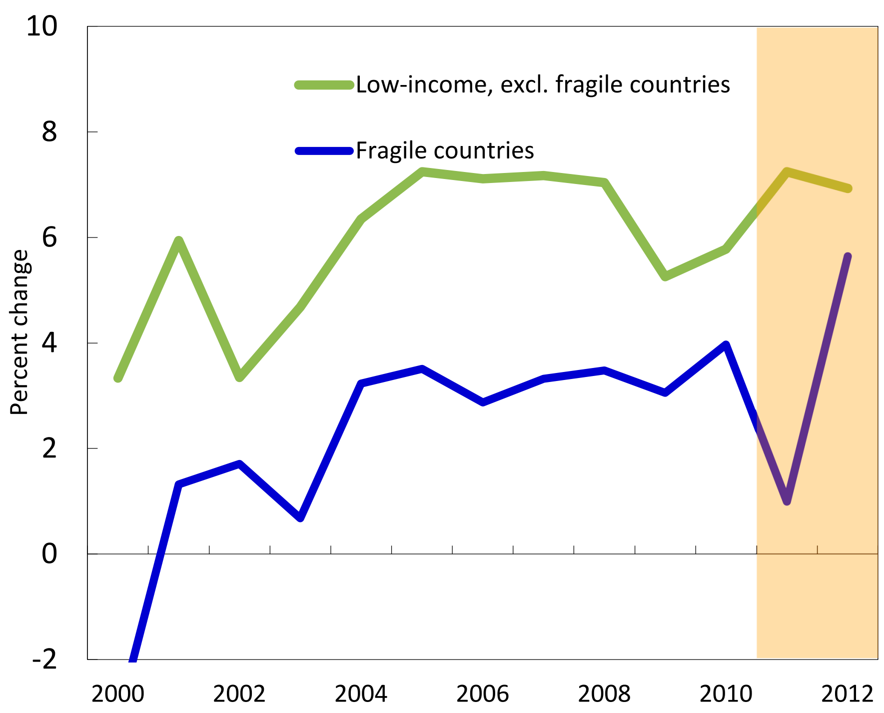
Fiscal Balance (excluding grants)

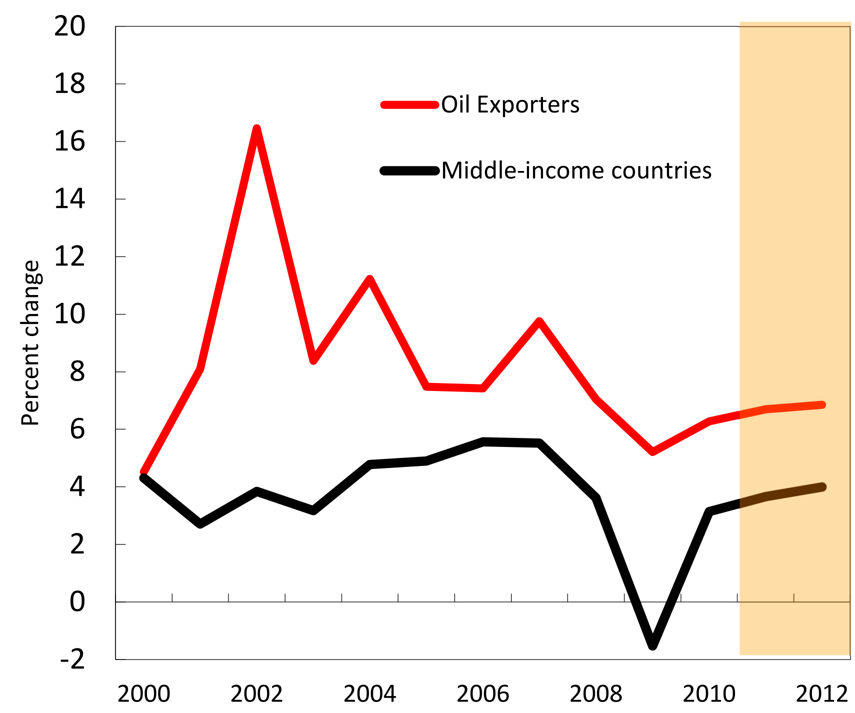


International Monetary Fund, Regional Economic Outlook for sub-Saharan Africa, April 2011.

But the region-wide numbers masks a diverse set of outcomes

Real GDP Growth

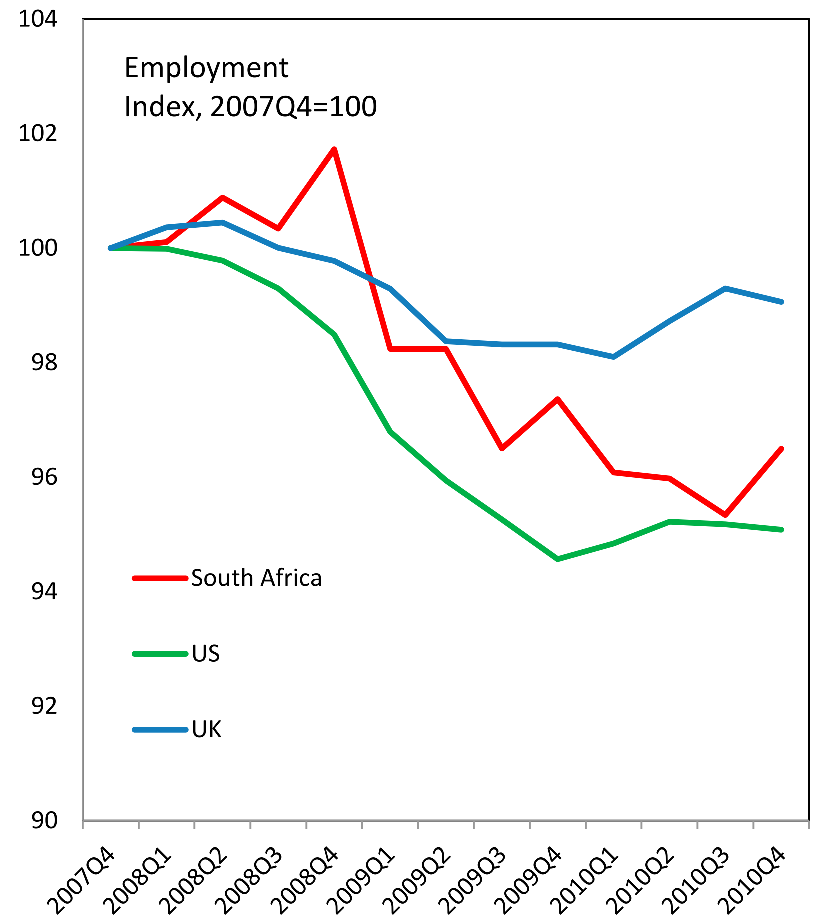




International Monetary Fund, Regional Economic Outlook for sub-Saharan Africa, April 2011.

Crisis has however also entailed considerable dislocation:

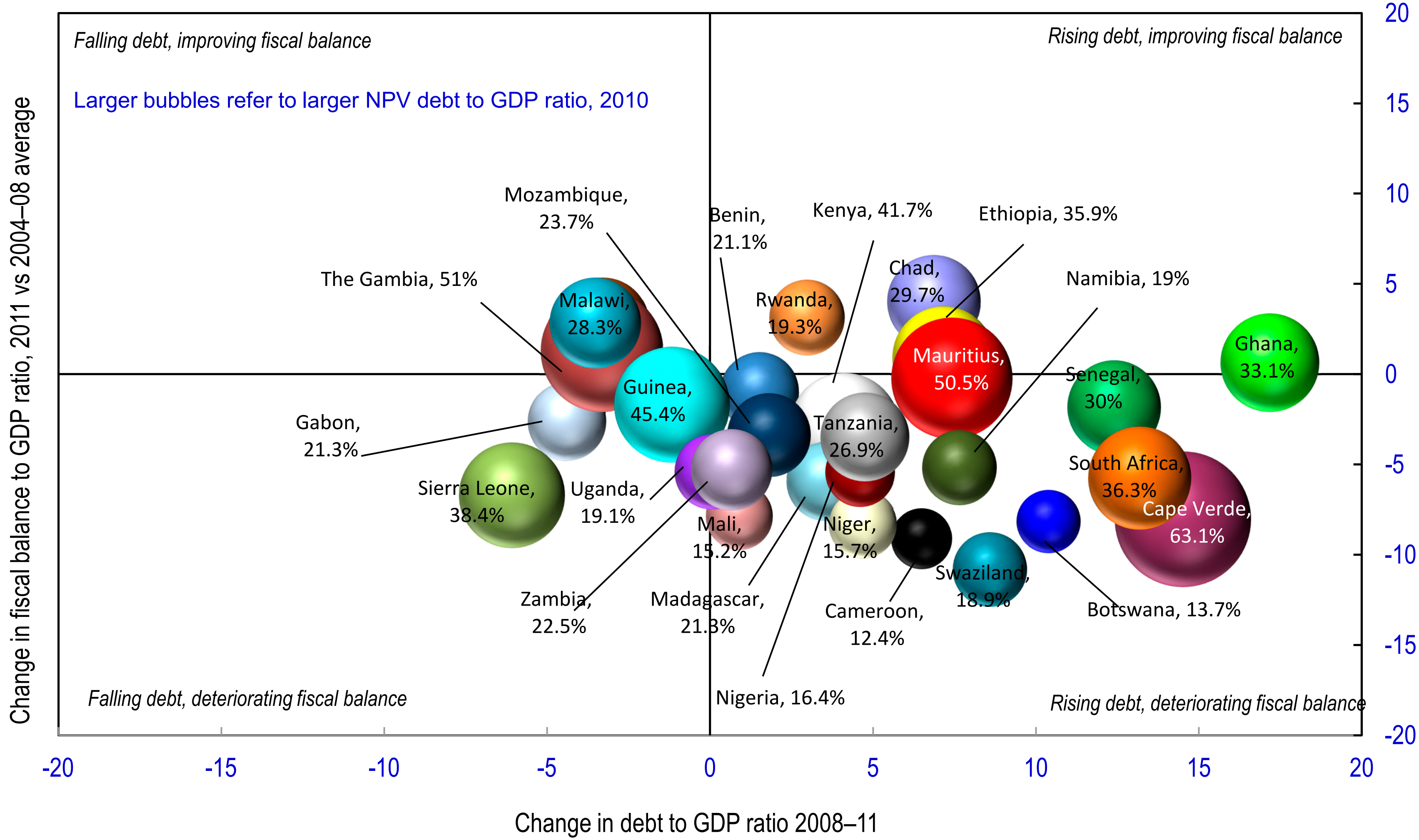
- Employment outcomes
  - an extreme case is South Africa
- Smaller members of the South Africa Customs Union hit badly too
  - exports of precious stones declined
  - revenues from import duties dropped
- Fiscal policy
  - In some countries, fiscal policy had to be tightened (e.g. Ghana and Angola)
- Elsewhere, including in the many LICs where growth decelerated only marginally, those at the margins of the labor market were likely also affected greatly.



Recovery | **Dislocation** | Tension | Shock

International Monetary Fund, Regional Economic Outlook for sub-Saharan Africa, April 2011.

With the return to high growth, the emphasis of fiscal policy needs to shift in most countries. Striking the right balance between rebuilding policy buffers and addressing infrastructure, health, and education needs will dominate policy agenda in many countries.

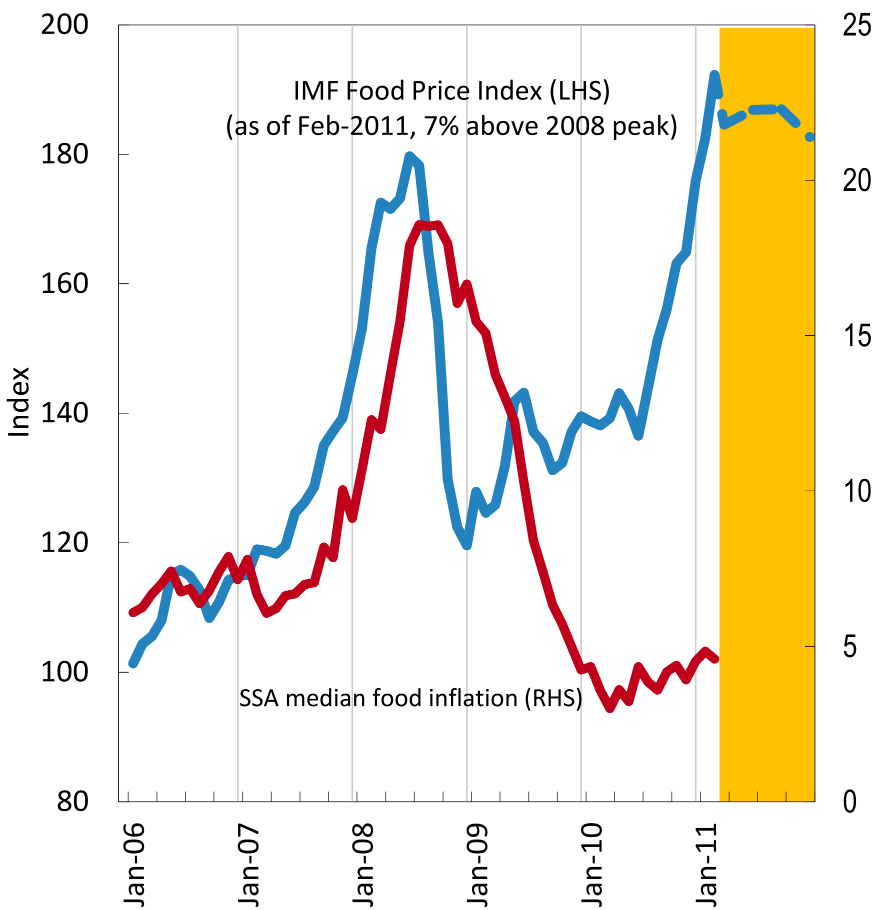


Recovery | Dislocation | Tension | Shock

International Monetary Fund, Regional Economic Outlook for sub-Saharan Africa, April 2011.

The recent surge in international food prices (unlike in 2008) is having a more varied impact on the region

- In a number of countries, the harvest has been strong keeping domestic prices contained
- The increase in world prices has also been less uniform across major crops than in 2008
- Nonetheless, domestic food prices have increased sharply in a number of countries. Factors at work include poor harvests (e.g. Kenya), net staple food importers being hit by higher international prices (Ethiopia), political crisis (Madagascar).
- To cushion the adverse effects, some countries have introduced price controls and subsidies.



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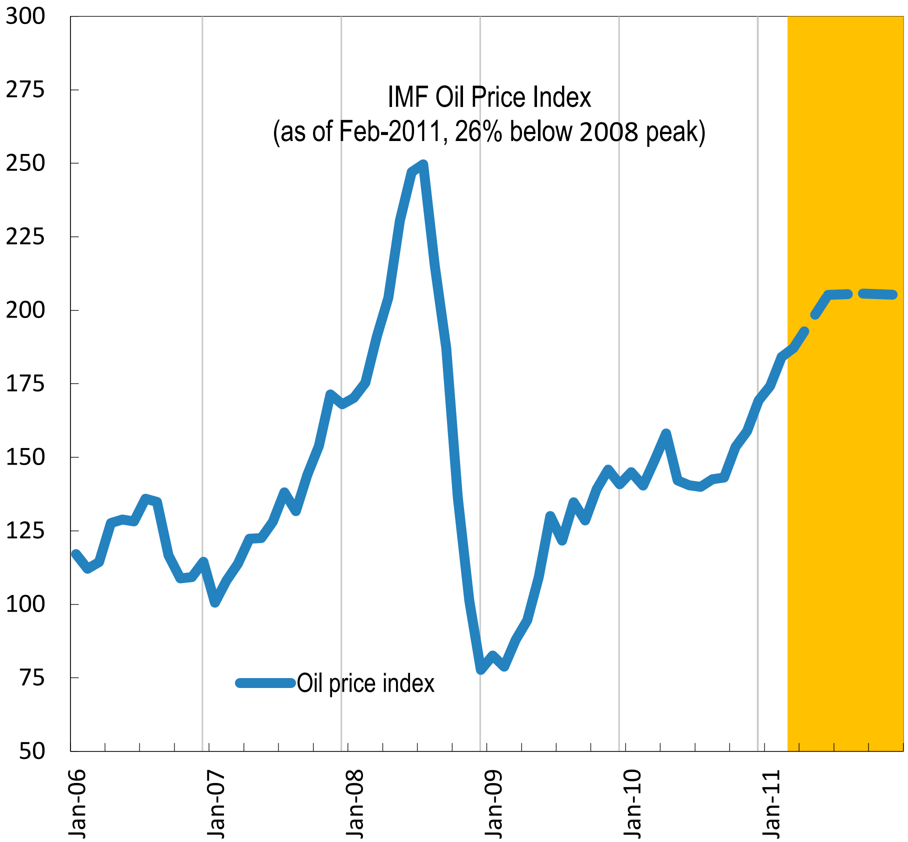
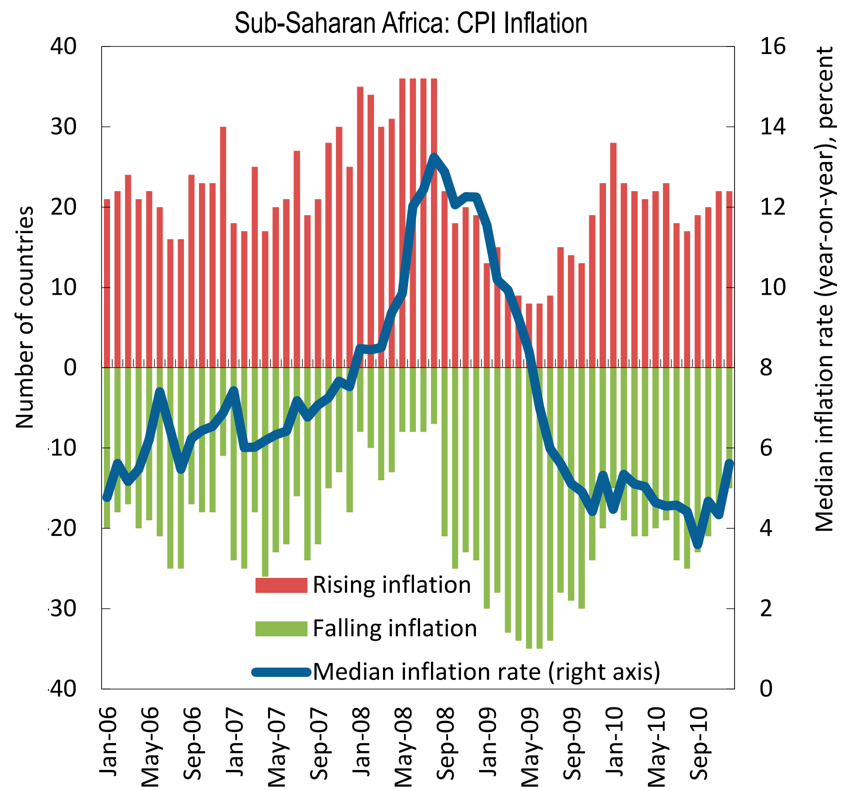
The still more potent threat to economic activity is likely to be the recent surge in oil prices

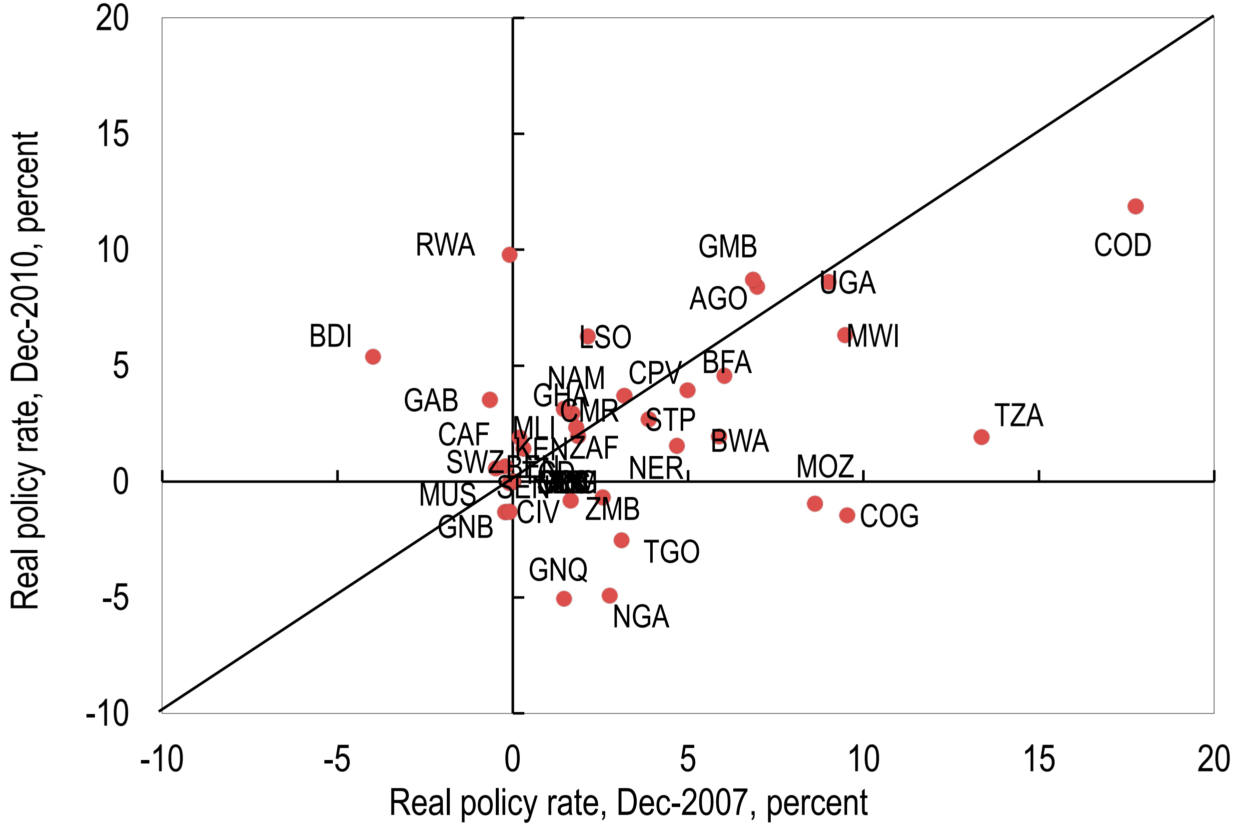




International Monetary Fund, Regional Economic Outlook for sub-Saharan Africa, April 2011.

The inflationary risk has also increased as even before latest uptick in inflation on account of higher international food and fuel prices, monetary policy conditions seemed (and continue to seem) loose in many countries.

Real Policy Interest Rate, December 2007 versus December 2010



International Monetary Fund, Regional Economic Outlook for sub-Saharan Africa, April 2011.

Direction for policies in the region: Fiscal Policy

- Fiscal policy should continue to move away from supportive stance of the last few years to a more neutral stance as soon as possible;

- Where output growth is close to trend, policy should focus on (i) medium-term development objectives and (ii) need to rebuild policy buffers

- Where food price increases have been pronounced, interventions targeted at the neediest groups should be adopted;

- Fuel price subsidies should be avoided because they are regressive and very costly.

International Monetary Fund, Regional Economic Outlook for sub-Saharan Africa, April 2011.

Direction for policies in the region: Monetary Policy

- Given the recent uptick in inflation, there is need for tightening bias in most countries;
- Where external factors mainly explain account for pick-up in inflation, monetary policy should accommodate first round effects and lean against any second round effects.

International Monetary Fund, Regional Economic Outlook for sub-Saharan Africa, April 2011.

In sum:

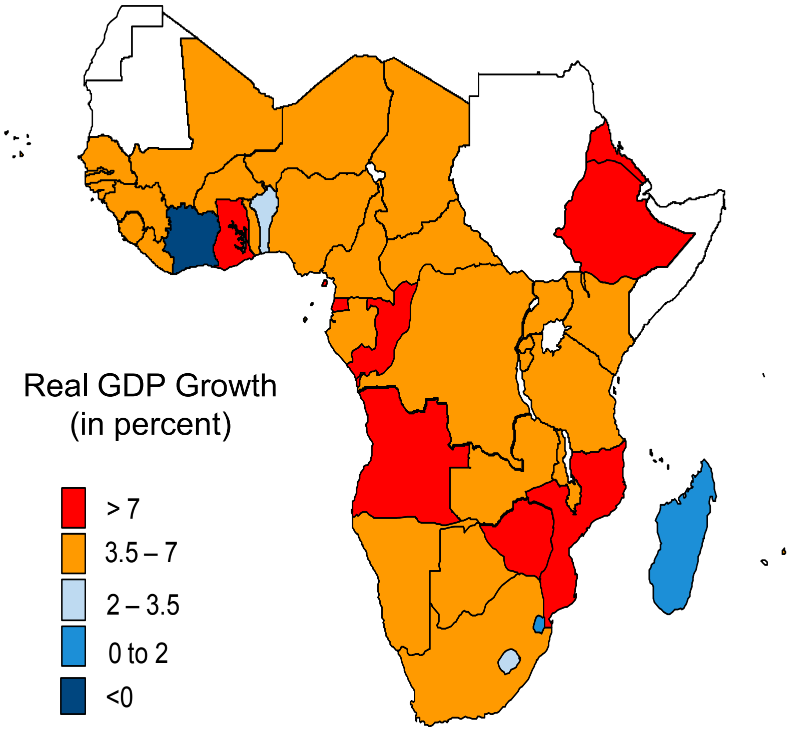
- Recovery is under way in the SSA, except in the middle-income countries, mainly in the southern Africa, where recovery to pre-crisis growth rates is likely to be beyond reach for some time

- Resilience evident throughout SSA, mainly because of much improved policies prior to global recession.

- New risks now come from rising government debt levels in some countries and the current food and fuel price shock, which will impact on poverty, fiscal and external balances and inflation.

- In most cases, policies should continue to move away from supportive stance of the last few years to a more neutral stance focused on medium-term development.

Sub-Saharan Africa: 2011 Growth Outlook



International Monetary Fund, Regional Economic Outlook for sub-Saharan Africa, April 2011.

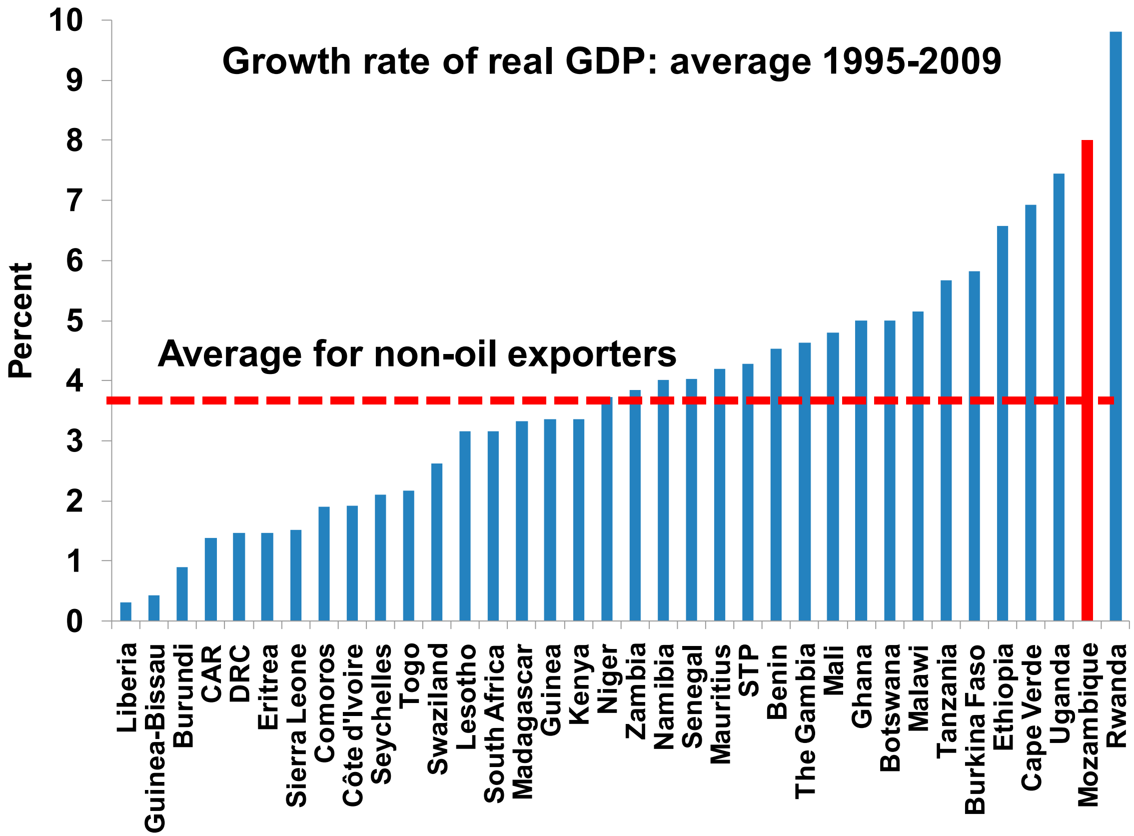
Mozambique

Outline of the chapter

- Successes : Growth, Resilience and Recovery
- Risks and Challenges
- IMF and Mozambique

Successes: High and Sustained Growth

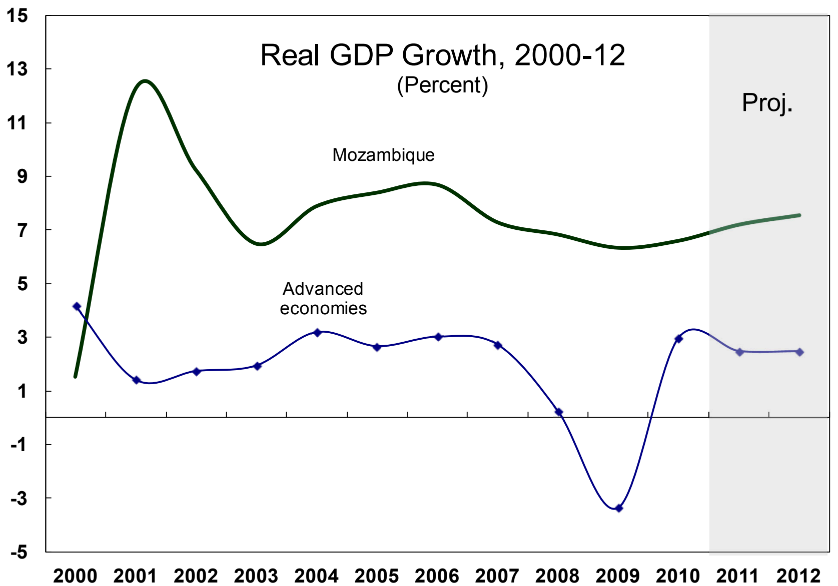
- Mozambique real GDP growth has been the second largest among SSA non-oil exporters.



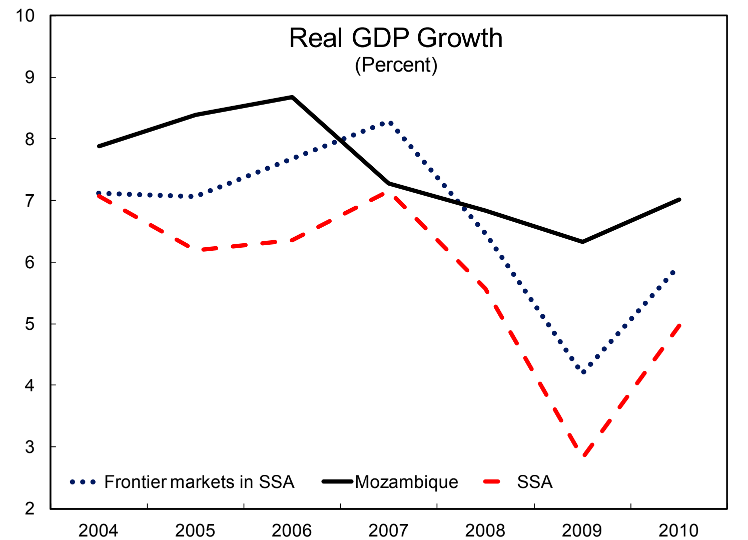
International Monetary Fund, Sub-Saharan Africa Regional Economic Outlook.

Successes: Resilience and Recovery

- The global economic crisis has had low impact in Mozambique.
- The real GDP growth rate has fared well compared to its SSA frontier markets peers, in particular, and to all SSA countries, in general.



Sources: Mozambique authorities and IMF staff estimates and projections.

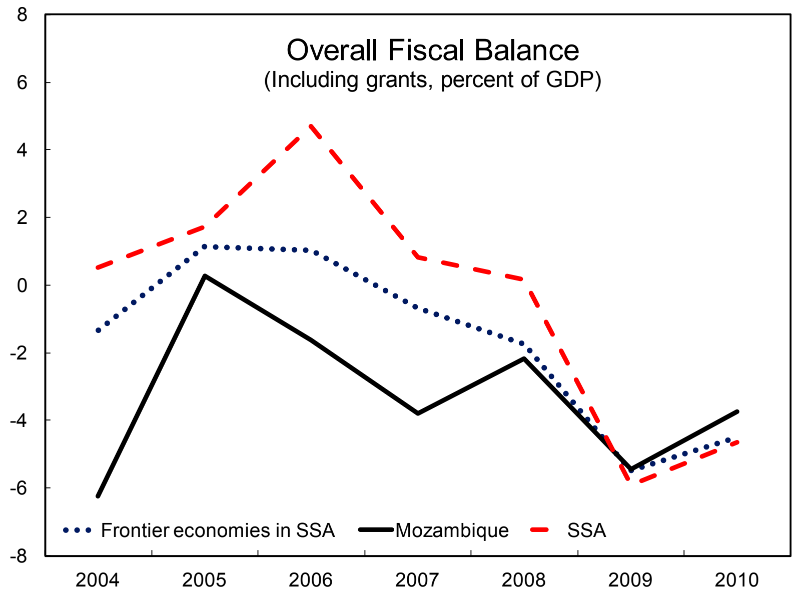


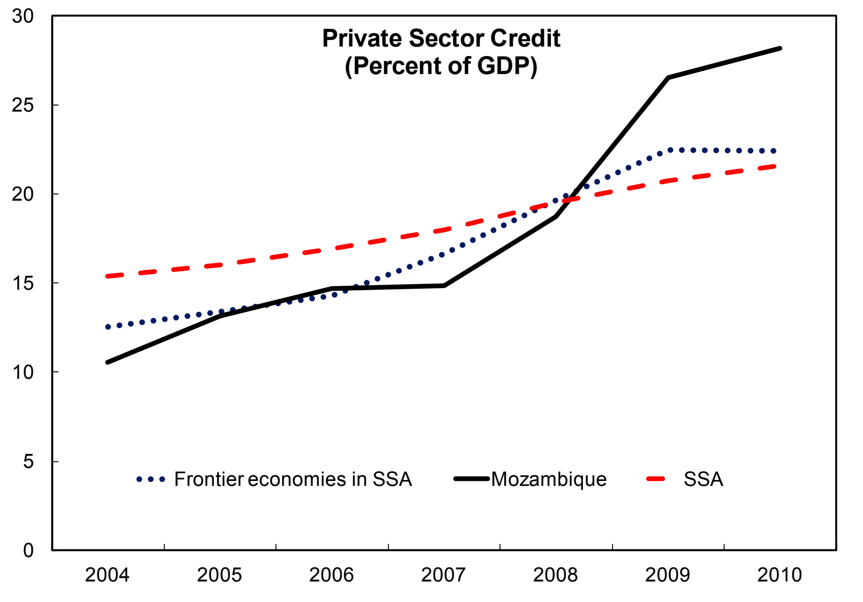
Sources: Mozambique authorities and IMF staff estimates and projections.

International Monetary Fund, Sub-Saharan Africa Regional Economic Outlook.

Successes: Timely Counter-Cyclical Policies

- The recovery in Mozambique was facilitated by the implementation of timely counter-cyclical fiscal and monetary policies.





Source: Mozambique authorities and IMF staff estimates and projections.
Frontier markets: Angola, Ghana, Kenya, Mauritius, Mozambique, Nigeria, Senegal, Tanzania, Uganda and Zambia.

International Monetary Fund, Sub-Saharan Africa Regional Economic Outlook.

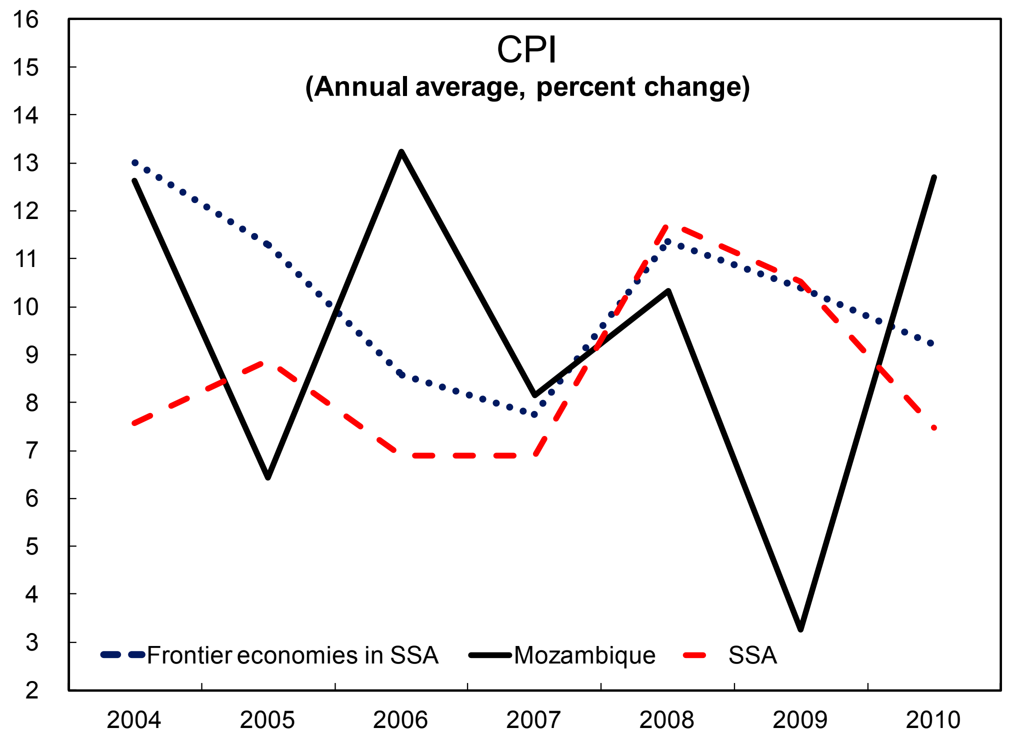
The outlook for 2011 and over the medium-term remain favorable

- Real GDP growth is projected to be at $7^{1/4}$ percent in 2011 and 8 percent over the medium-term.
- Average inflation is projected to be at 9.5 percent in 2011, standing at single digits over the medium-term.
- Current account external deficit is around 10 to 11 percent of GDP.
- Net international reserves are comfortable with 5 months import coverage.

International Monetary Fund, Sub-Saharan Africa Regional Economic Outlook.

However, this good outlook is subject to risks…

- Over the short-term, the main risk is that inflationary deceleration takes more time, thus bringing adverse implications to the private sector and to the fight against poverty.



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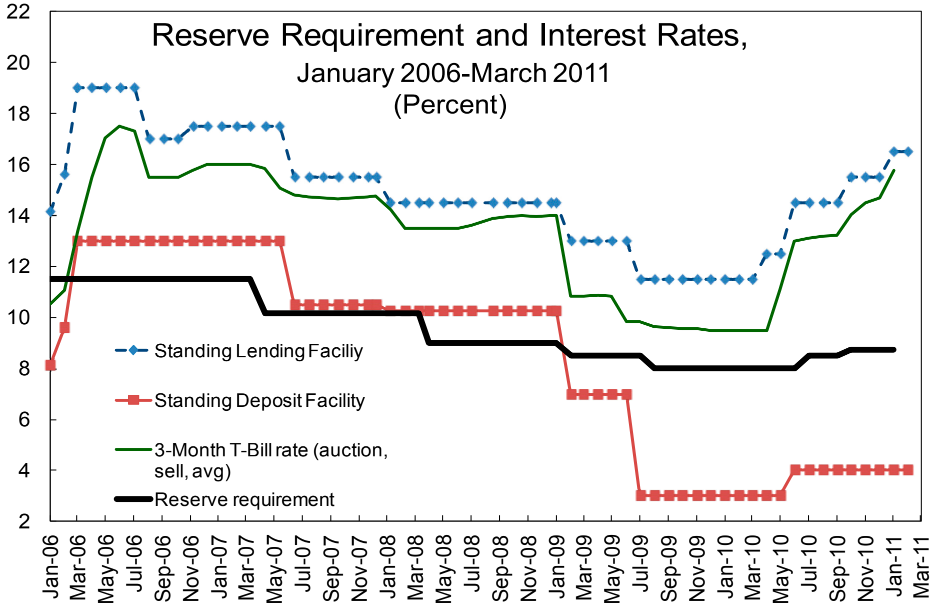
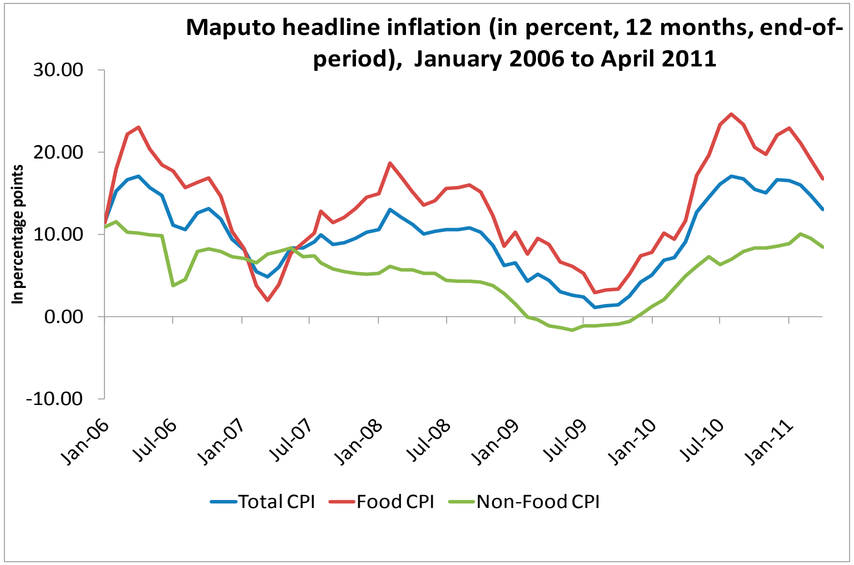
Short-term challenge: Fighting inflation should be the main immediate priority

- The Bank of Mozambique has started to reverse the easing of monetary conditions previously adopted, having decisively increased its policy rates and liquidity reserve ratio.



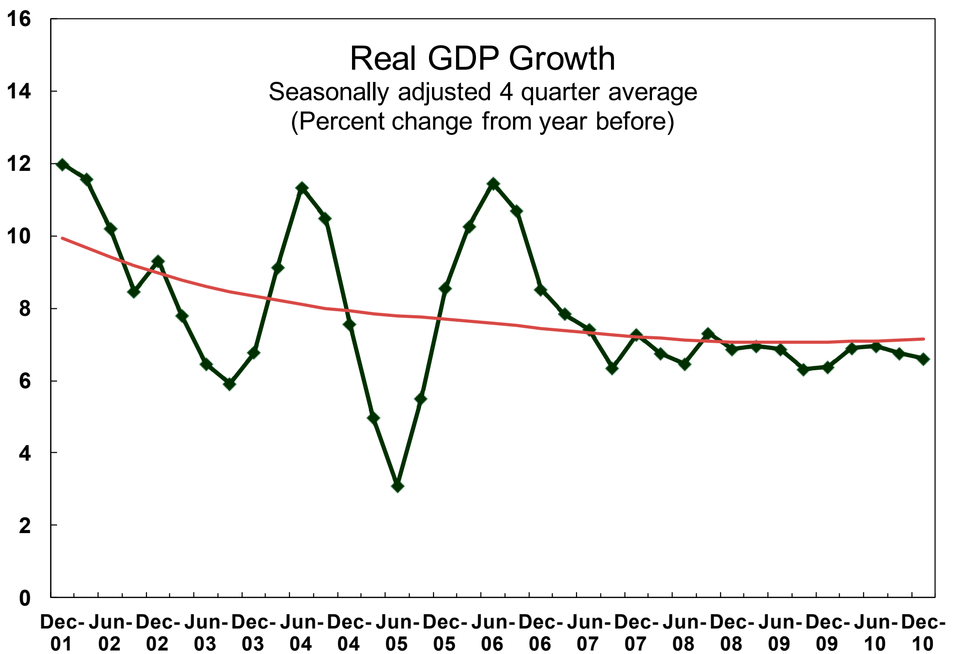
Sources: Mozambique authorities and IMF staff estimates and projections.



Source: National Statistics Office (INE).

Over the medium-term, the main risk is to achieve a decelerating and insufficient inclusive growth.

- Mozambique real GDP growth trend has been decelerating over the recent years.
- In addition, the pro-poor nature of economic growth for Mozambique appears to be loosing steam.



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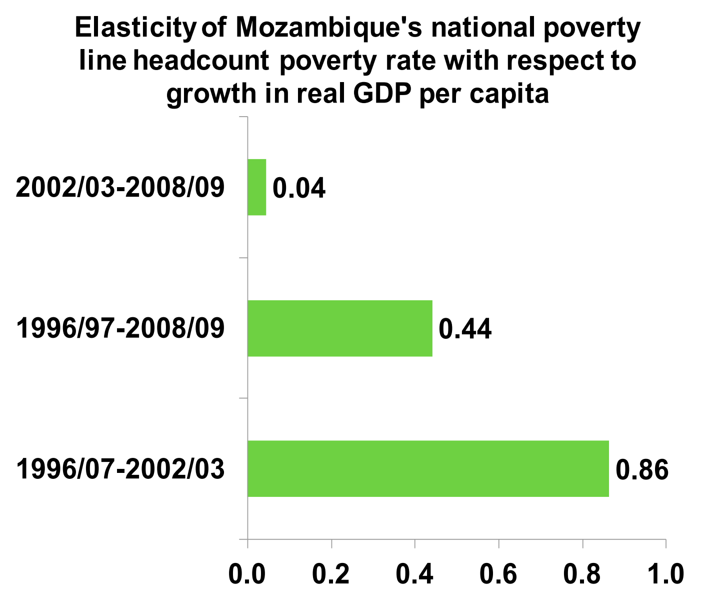

Sources: Mozambique authorities and IMF staff estimates and projections.

International Monetary Fund, Sub-Saharan Africa Regional Economic Outlook.

Medium-term Challenge: Accelerate and Sustain a More Inclusive Growth

- Implement the inclusive growth strategy articulated in the PARP and other sectoral Government strategies:

Key:

- Promote a competitive and diversified export base
- Stimulate production and productivity in the agriculture and other labor-intensive sectors.

Support:

- Improve the economic management of natural resources
- Strengthen social protection systems

- Create the fiscal space to finance the inclusive growth

  - Sustain the revenue mobilization effort including through the increase of the fiscal contribution of megaprojects;
  - Develop the absorption capacity and prudent management of non-concessional public borrowing;
  - Secure foreign aid;
  - Proceed with the improvements in the public finance management with a view to maximize the efficiency, transparency and targeting of public expenditure.

International Monetary Fund, Sub-Saharan Africa Regional Economic Outlook.

FMI e Moçambique

❖ PSI Program

- Advice on fiscal and monetary policies aimed at ensuring macroeconomic stability.
- Seal of approval of policies in order to secure foreign aid.
- Advice on tapping and managing non-concessional borrowing to finance infrastructure investment;
- Technical support in the creation of fiscal space for priority social areas, including the social protection system;

❖ Capacity Building

- Sustain the revenue mobilization effort through capacity building provided to the Revenue Authority
- Develop the capacity to manage non-concessional public borrowing prudently;
- Continue to improve the public finance management system with a view to maximize the efficiency, transparency and targeting of public expenditure;
- Improve the macroeconomic and fiscal management of natural resources: New “Topical Trust Fund”
- Revamp the monetary policy management.

International Monetary Fund, Sub-Saharan Africa Regional Economic Outlook.

Thank you!

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