

Multi-Speed Growth

Regional Economic Outlook for Sub-Saharan Africa

**African Department
International Monetary Fund
January 24, 2017**

Outline



The Slowdown



Where are the bright spots?



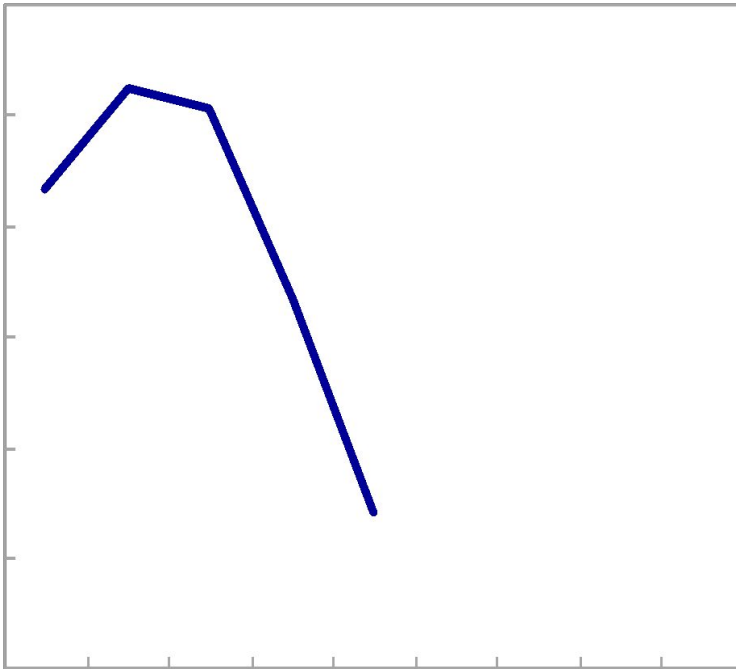
Causes and consequences



How can growth be revived?

The deceleration in growth is acute,

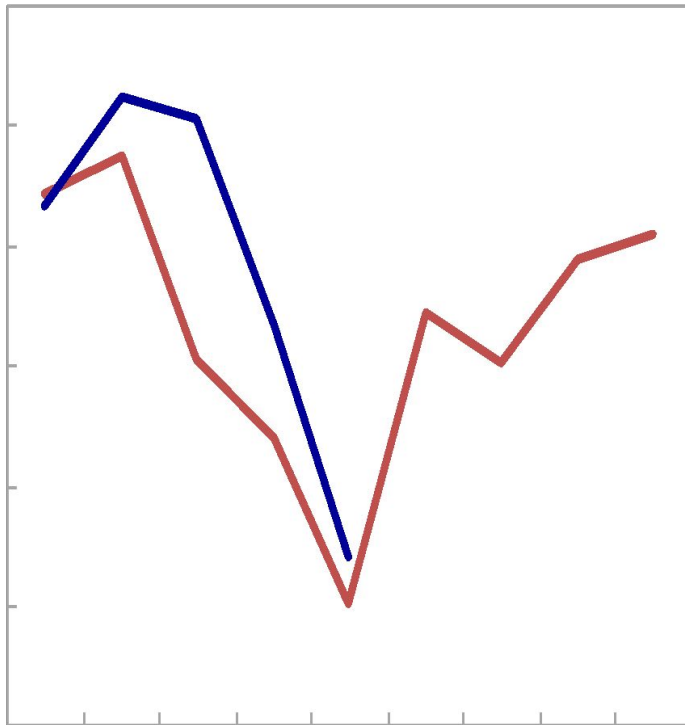
Real GDP Growth: 2016



- 2010 – 14 : **5.3 %**
- 2015 : **3.4 %**
- 2016 : **1.6 %**

reminiscent of past sharp slowdowns,

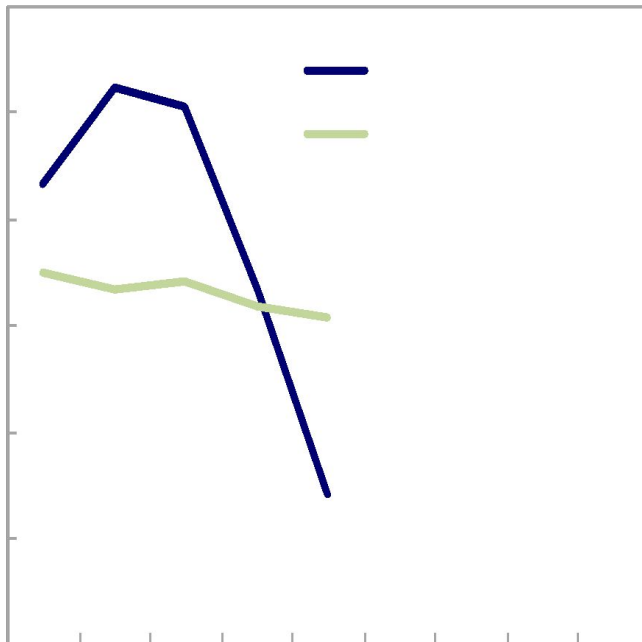
**Real GDP Growth:
2016 vs Past Slowdowns**



Previous episodes:
1977, 1983, 1992,
2009

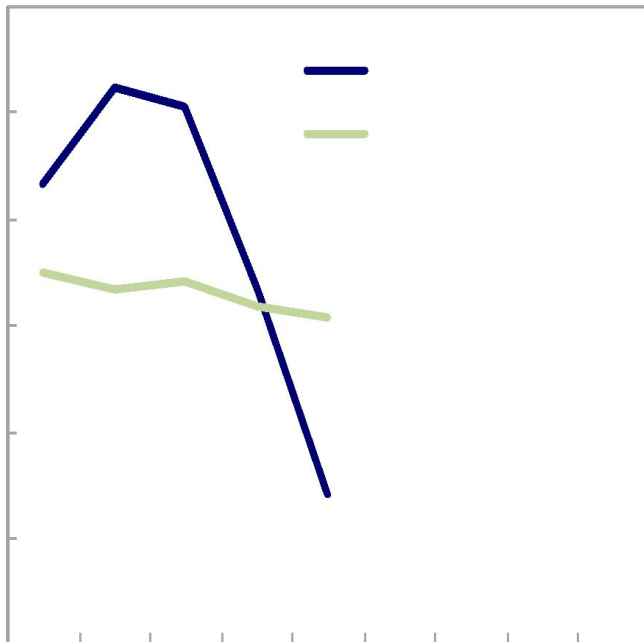
asynchronous with global growth,

Real GDP Growth: Current Slowdown

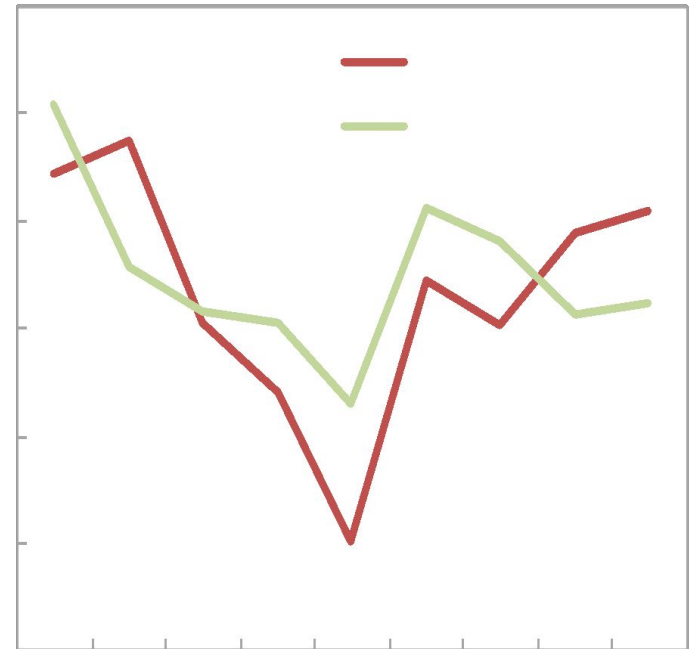


asynchronous with global growth,

Real GDP Growth: Current Slowdown

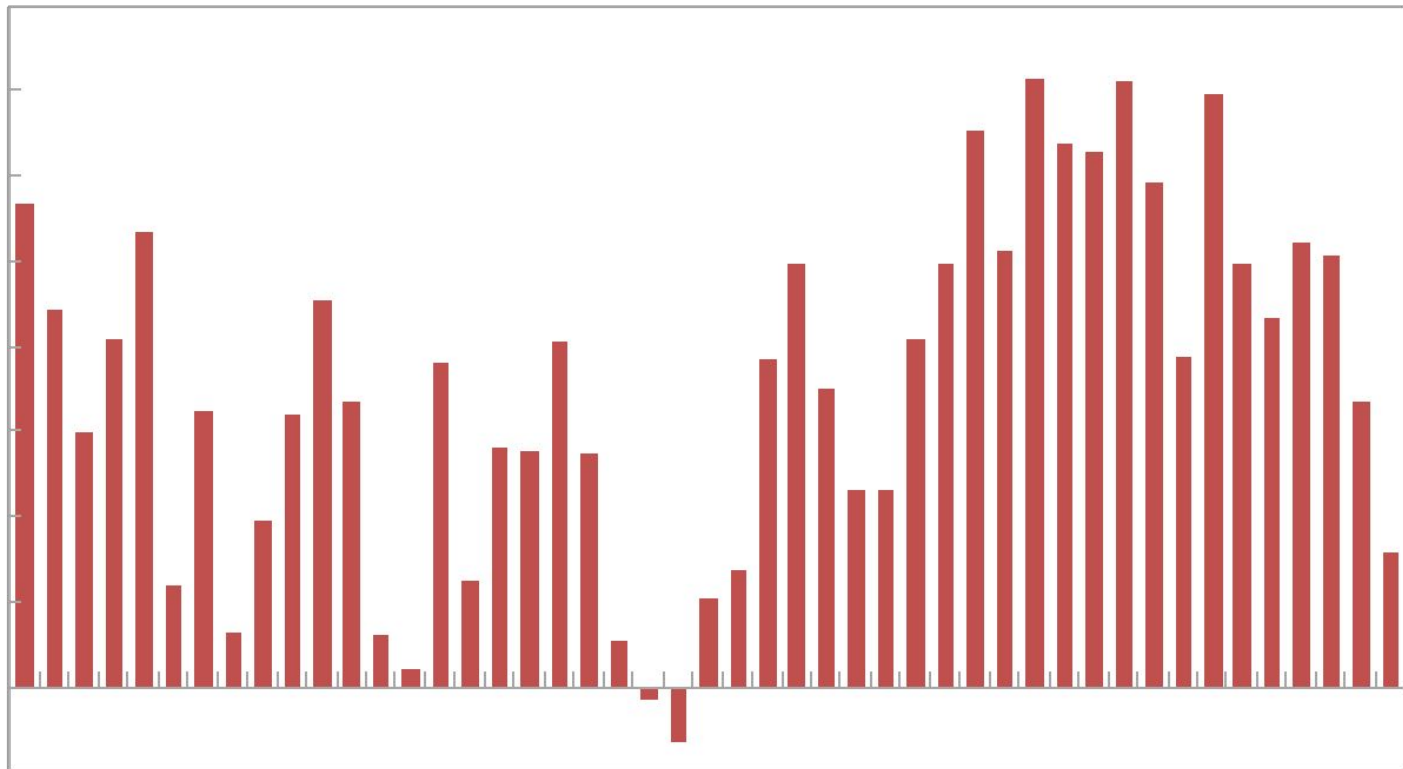


Real GDP Growth: Past Slowdowns



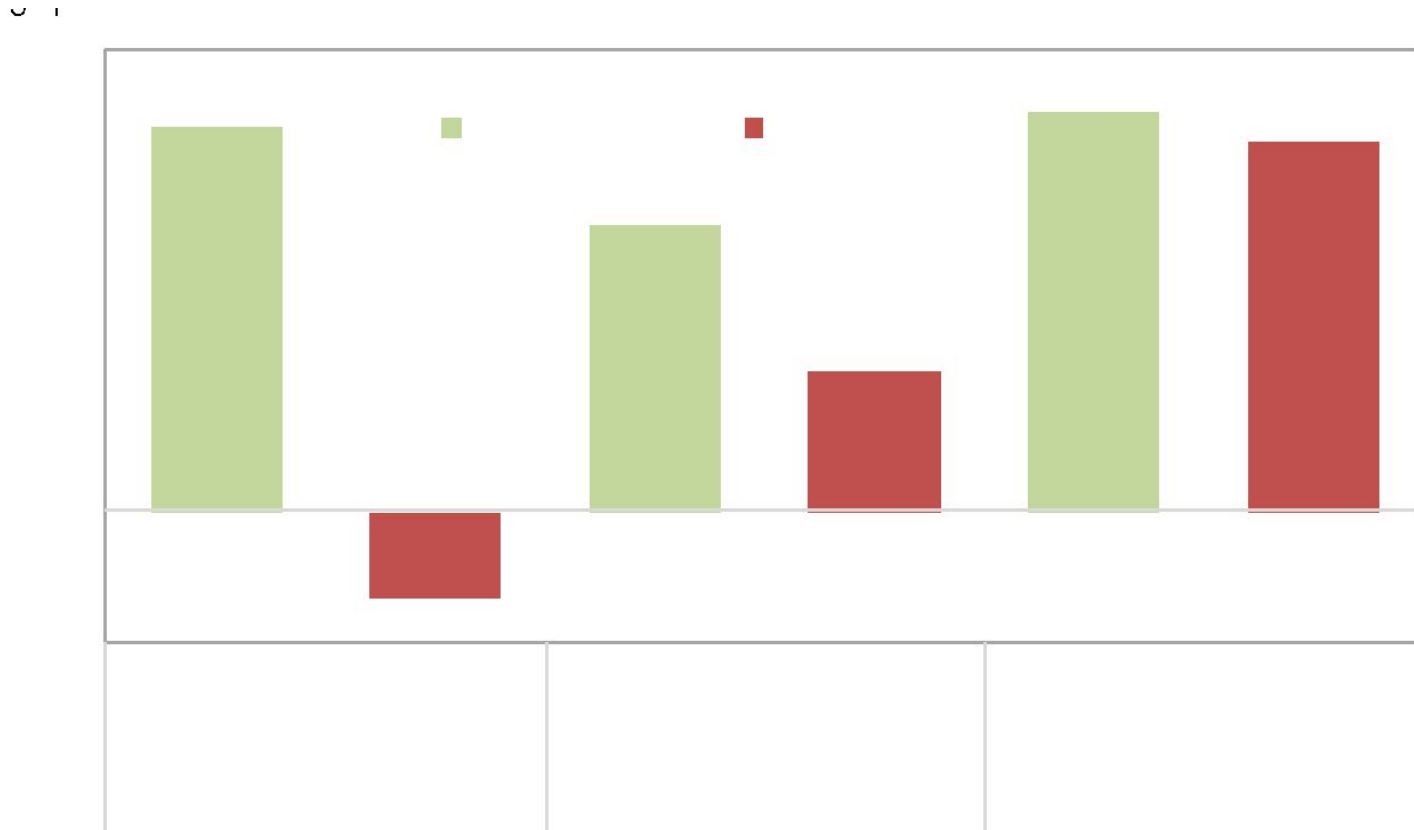
and implies the lowest expansion since 1994.

Real GDP Growth, 1970–2016



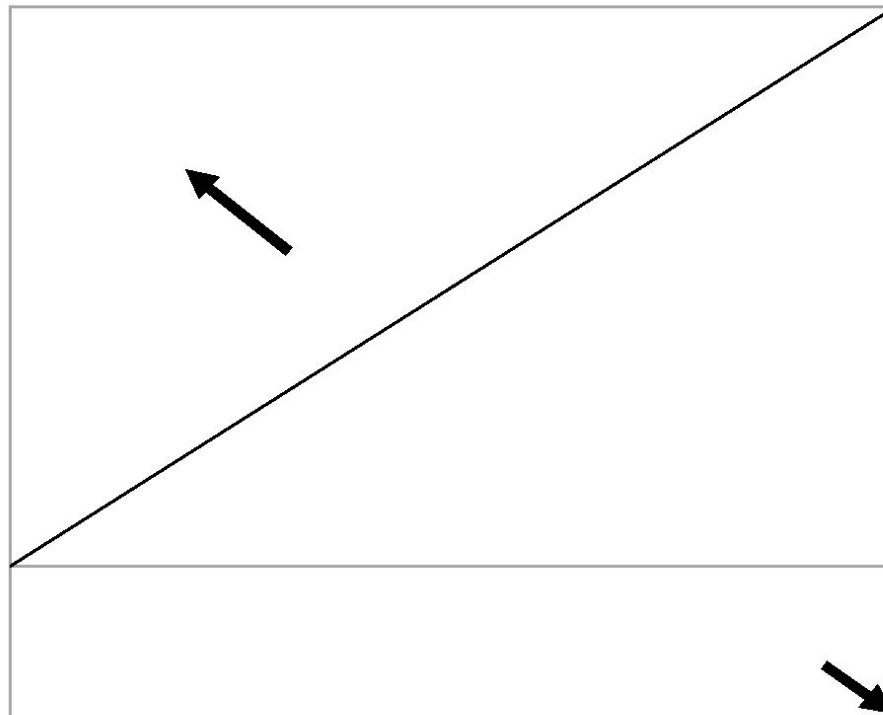
But, more than ever, the heterogeneity of growth outcomes is quite striking,

Real GDP Growth, 2010-16



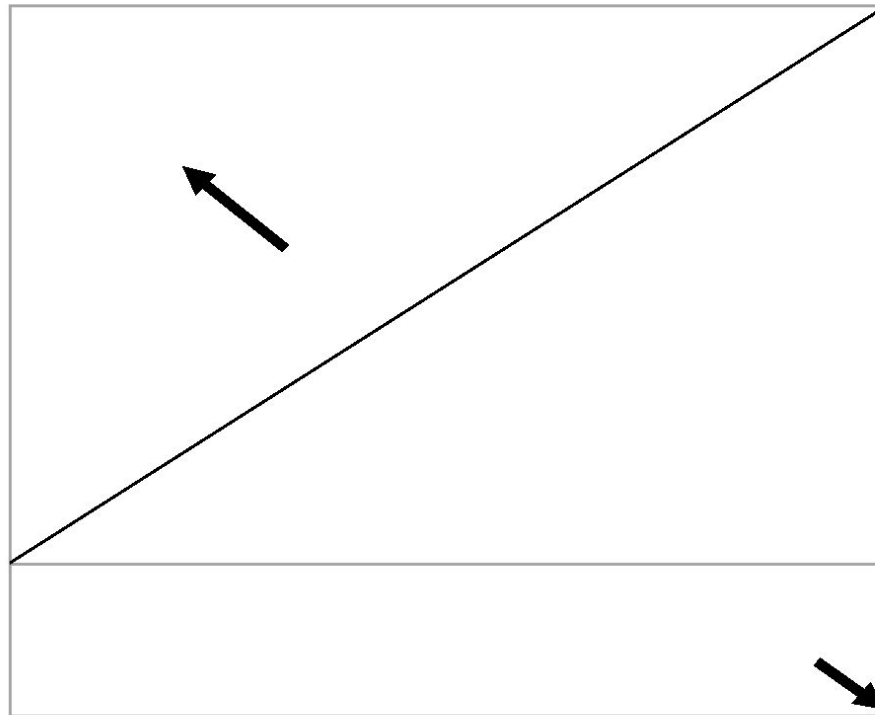
with the aggregate slowdown heavily influenced by the deceleration in activity in resource-intensive countries,

Real GDP Growth, 2010-16



given their large share in the regional output.

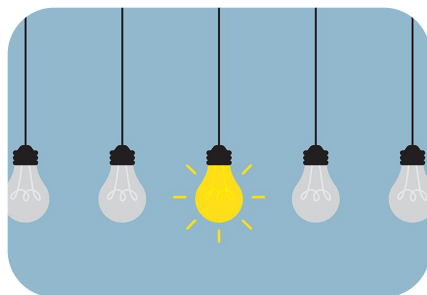
Real GDP Growth, 2010-16



Outline



The
Slowdown



Where are the
bright spots?



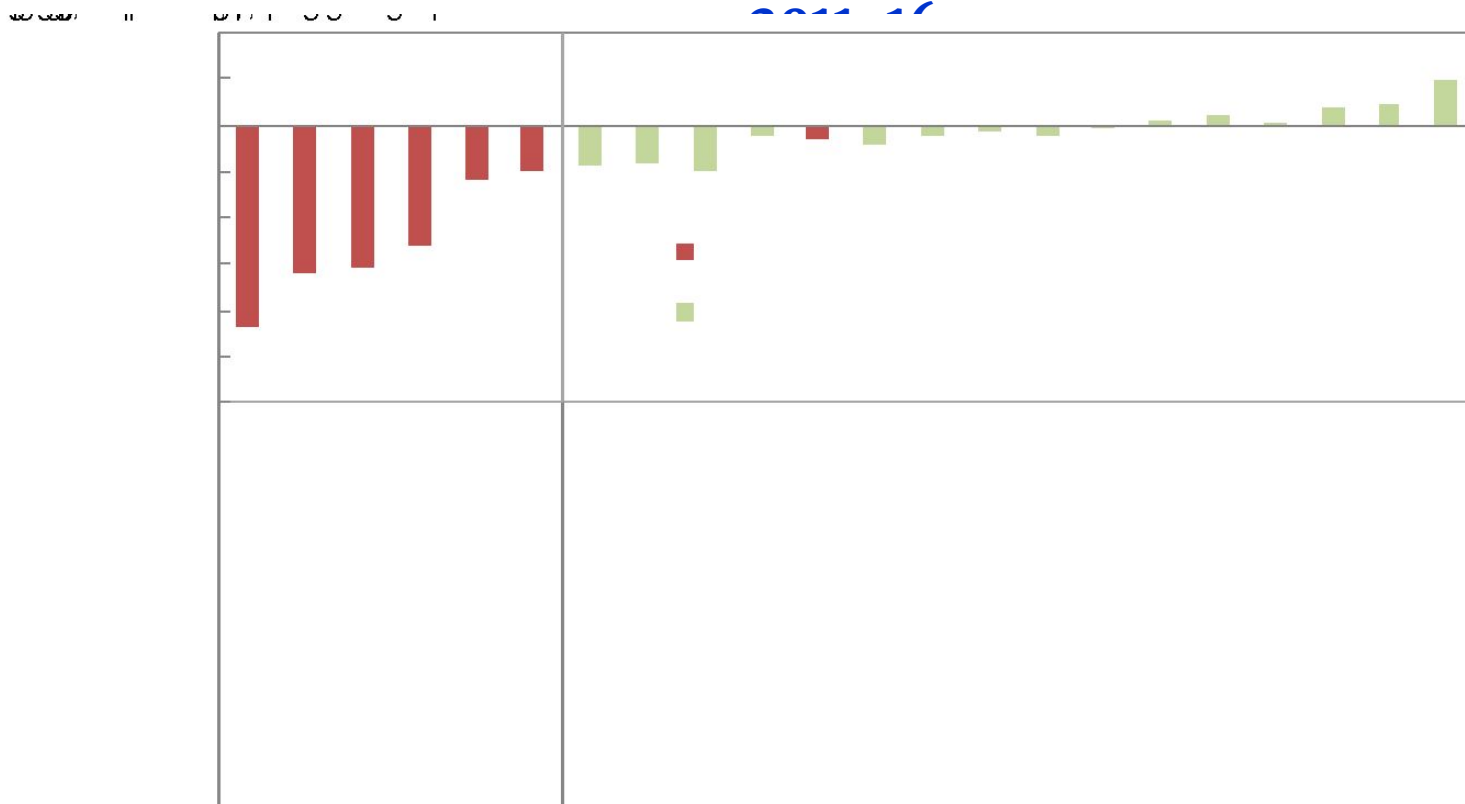
How can
growth be
revived?

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

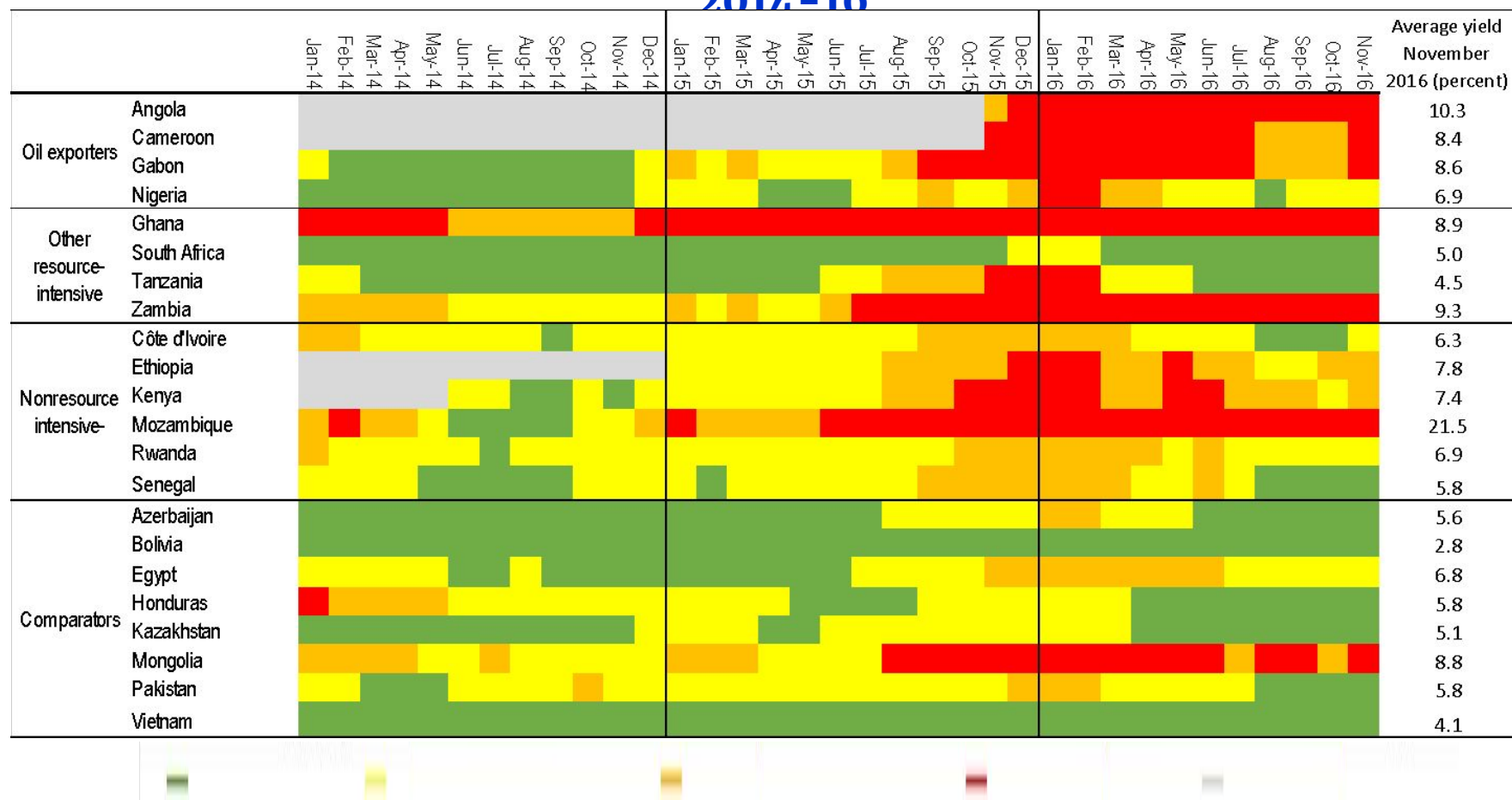
The terms-of-trade shock has been of historical magnitude for oil exporters,

Cumulative Change in Commodity Terms of Trade,



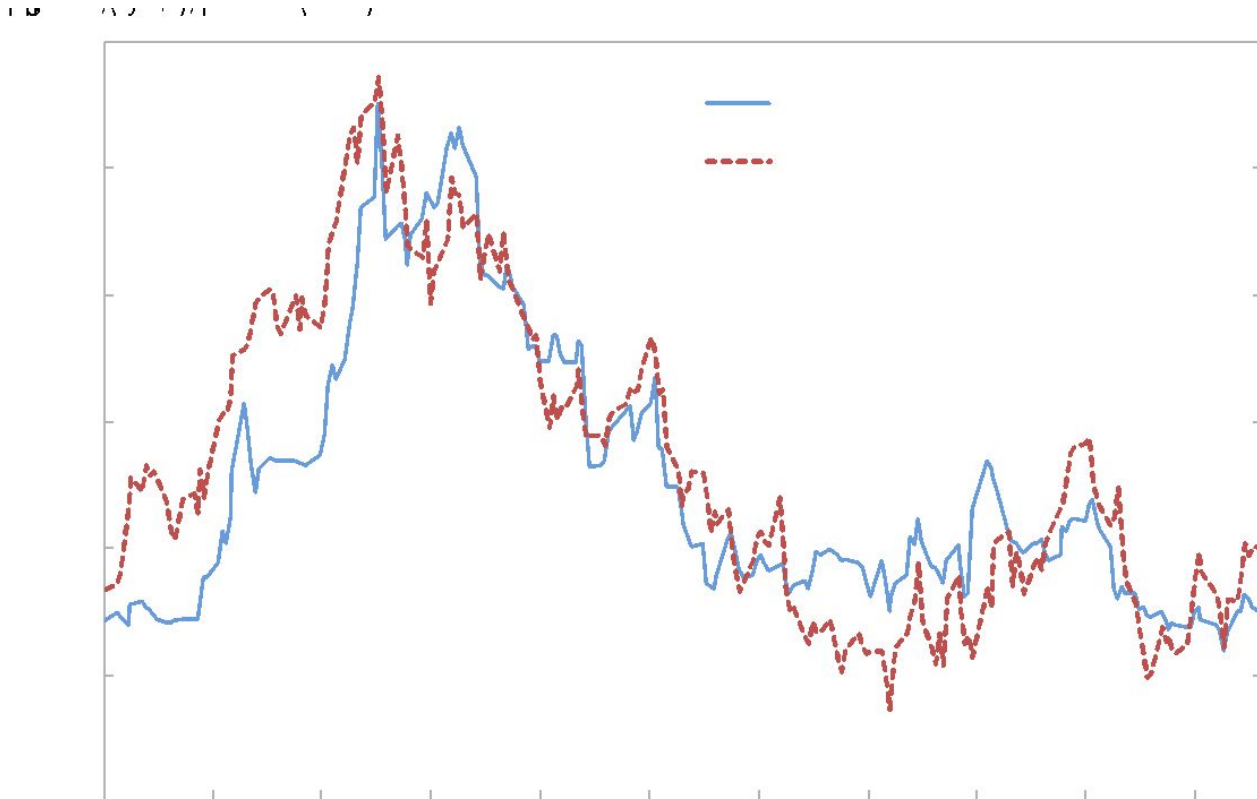
financing conditions have tightened,

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



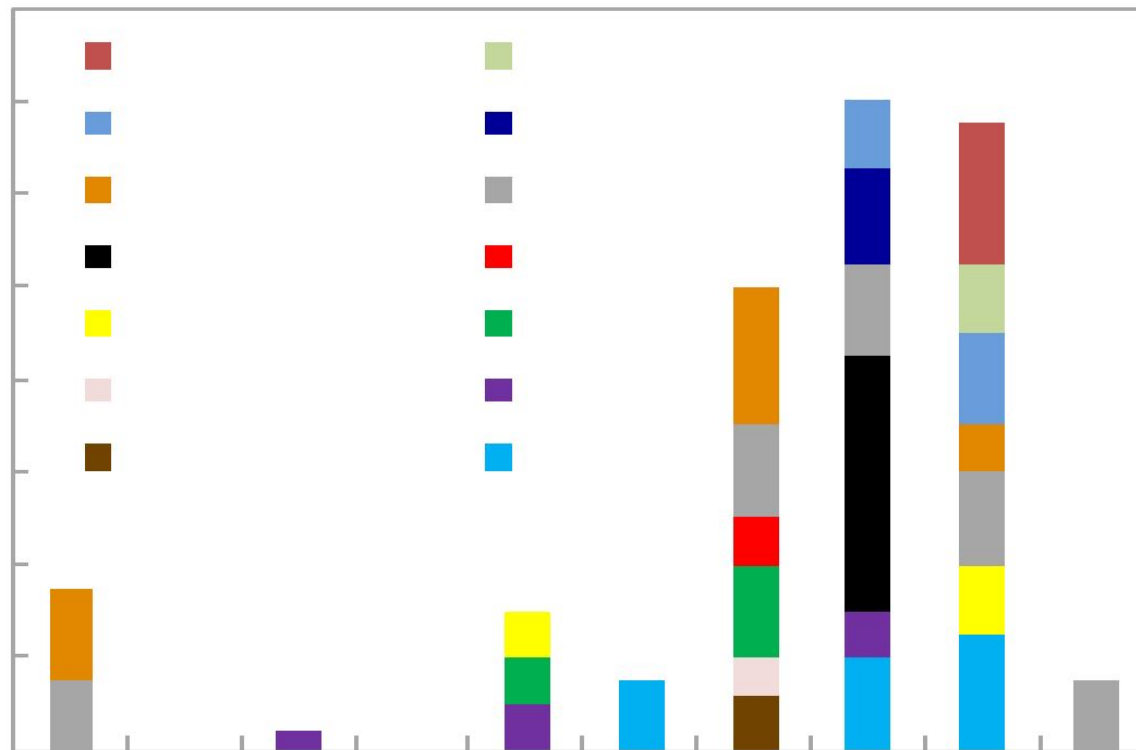
especially for oil exporters,

Angola: Eurobond Yield and Oil Price



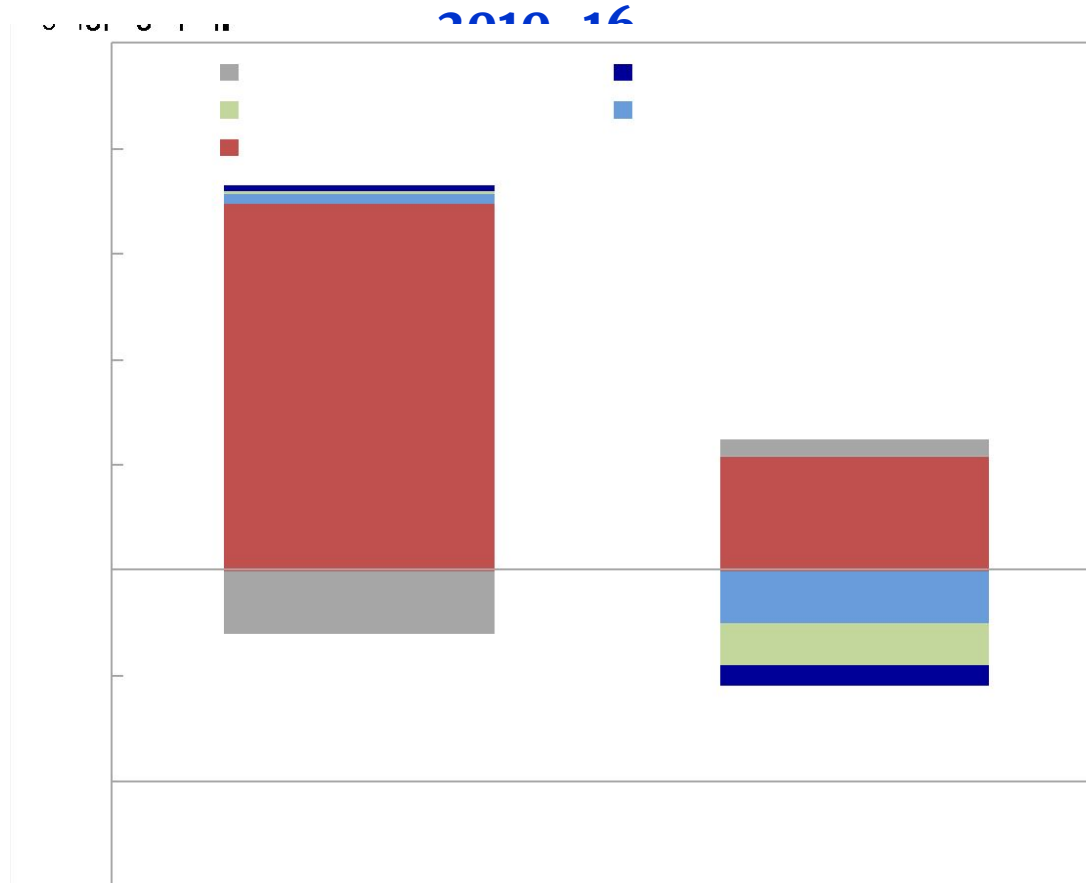
resulting in reduced market access for the region.

International Sovereign Bond Issuances



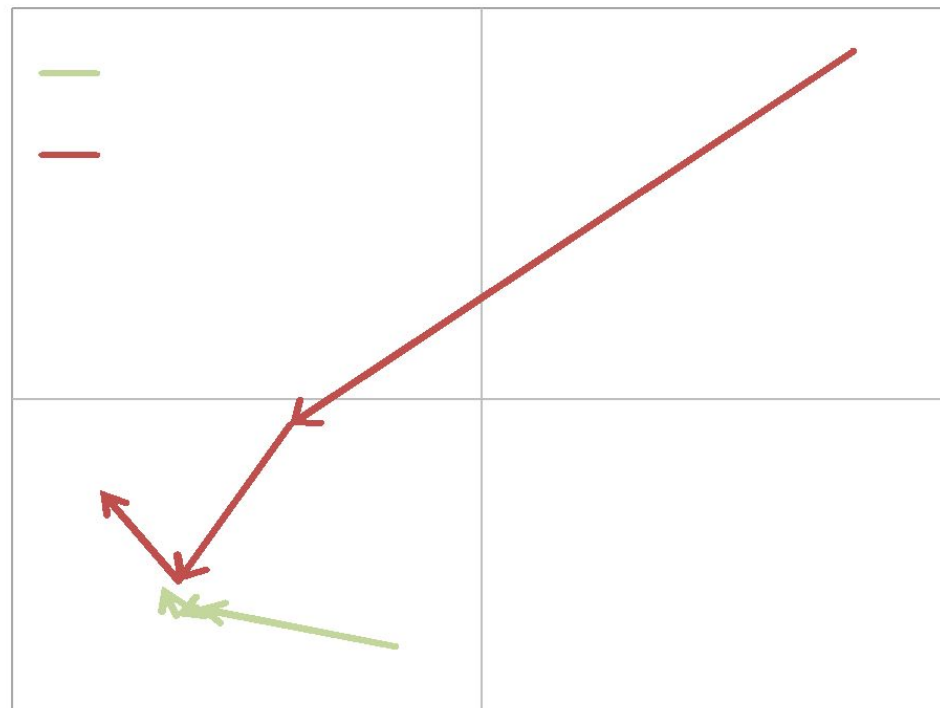
The pain from the collapse in commodity earnings is spreading,

Oil Exporters: Contribution to Growth by Sources of Demand,



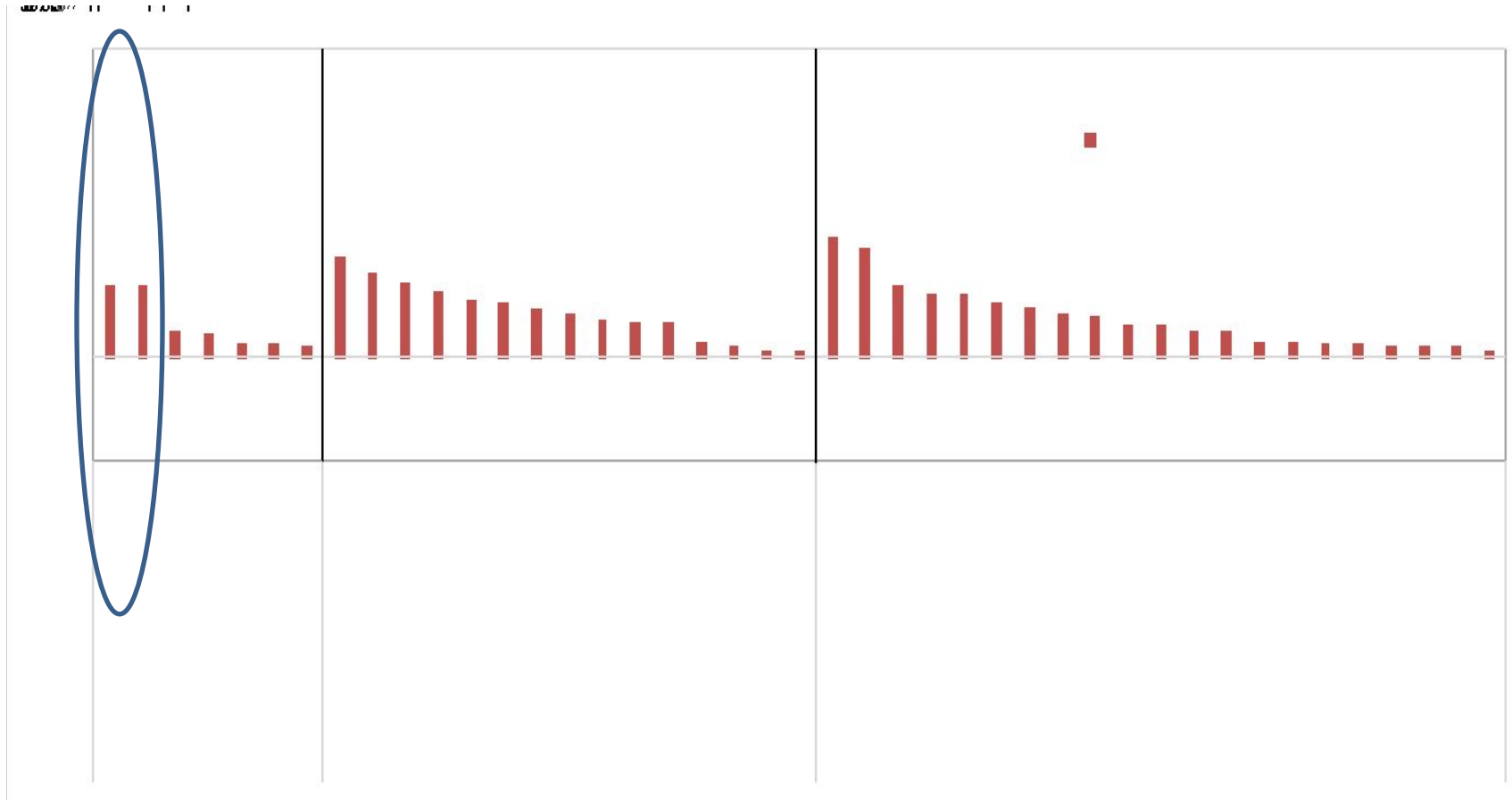
resulting in elevated macroeconomic imbalances.

Change in Fiscal and Current Account Balances, 2008-16



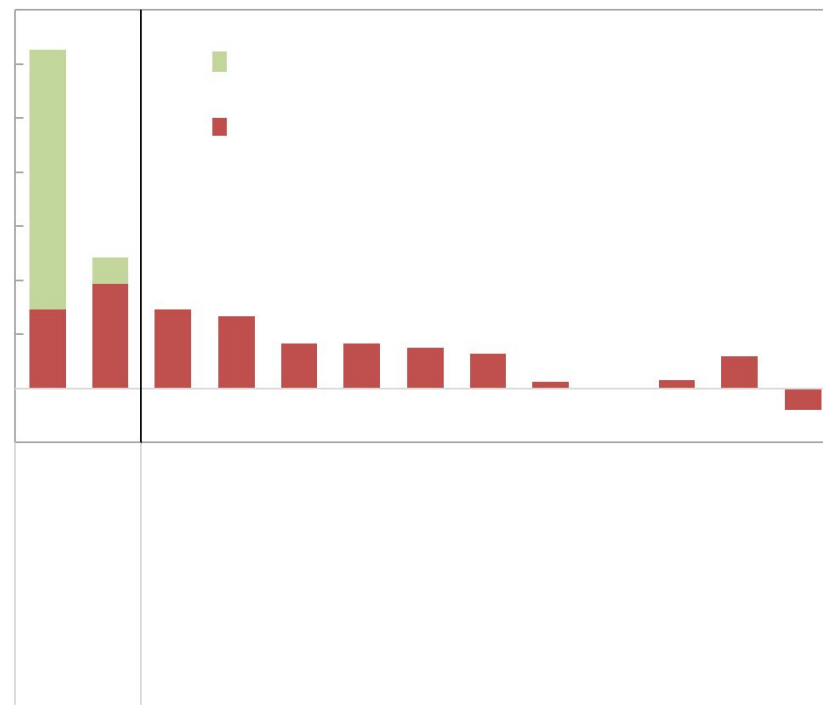
Inflation has accelerated sharply in some cases,

Inflation



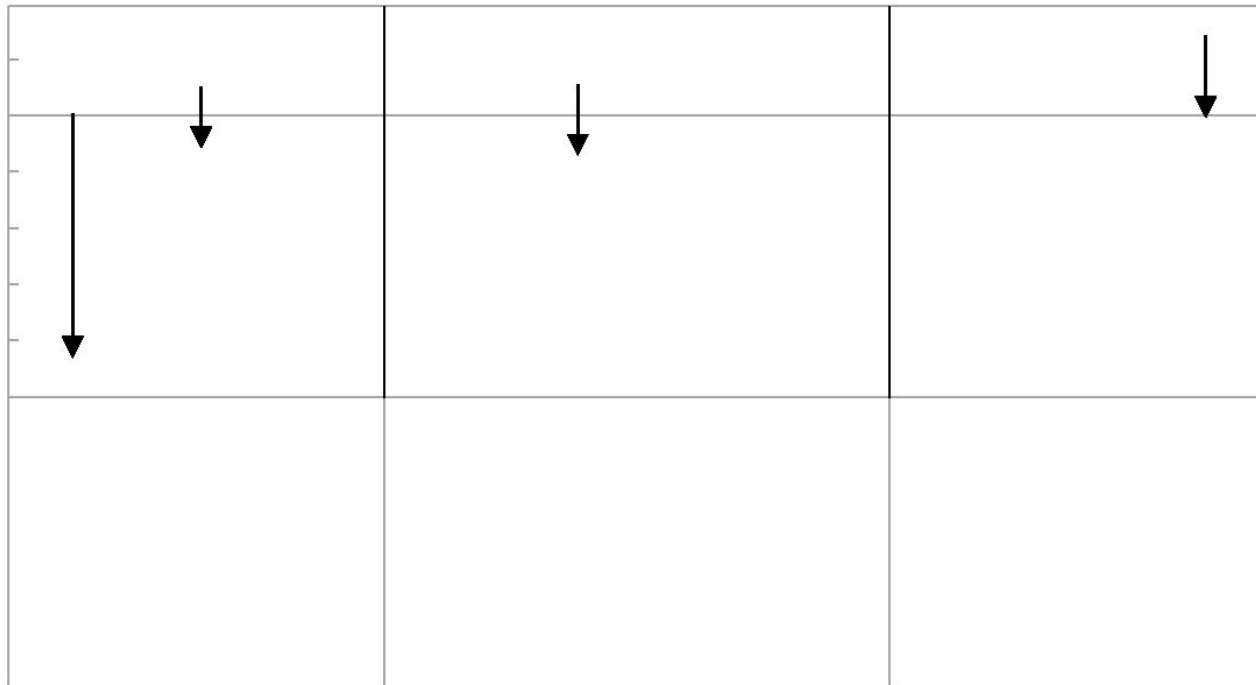
reflecting exchange rate depreciations,

Change in Commodity Terms of Trade and Depreciation Against U.S. Dollar Since Dec. 2013
Nominal Effective Exchange Rate, 2016
(+ indicates depreciation)



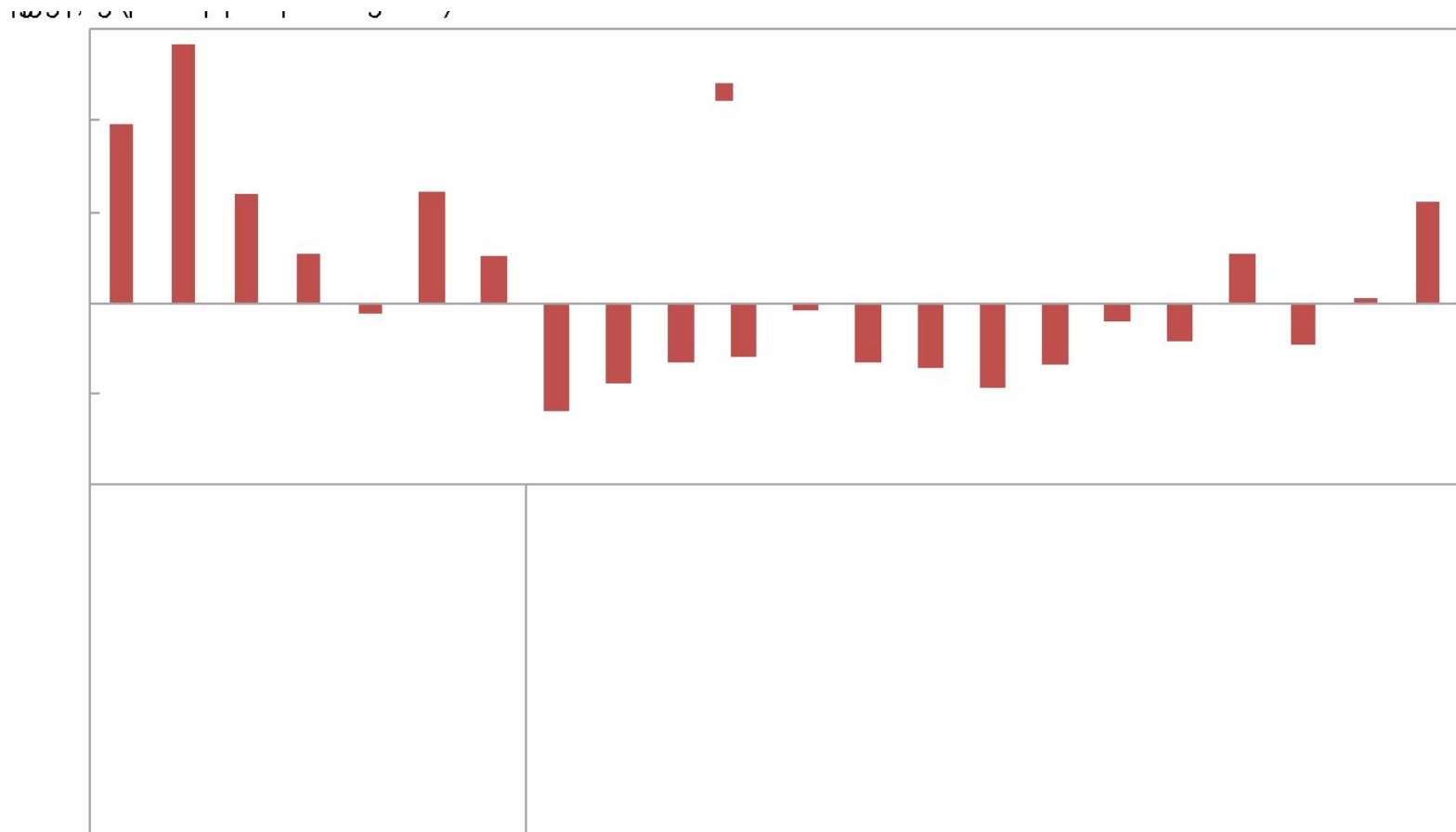
and a monetary stance that is quite accommodative in some cases.

Real Monetary Policy Rate, 2014-16



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

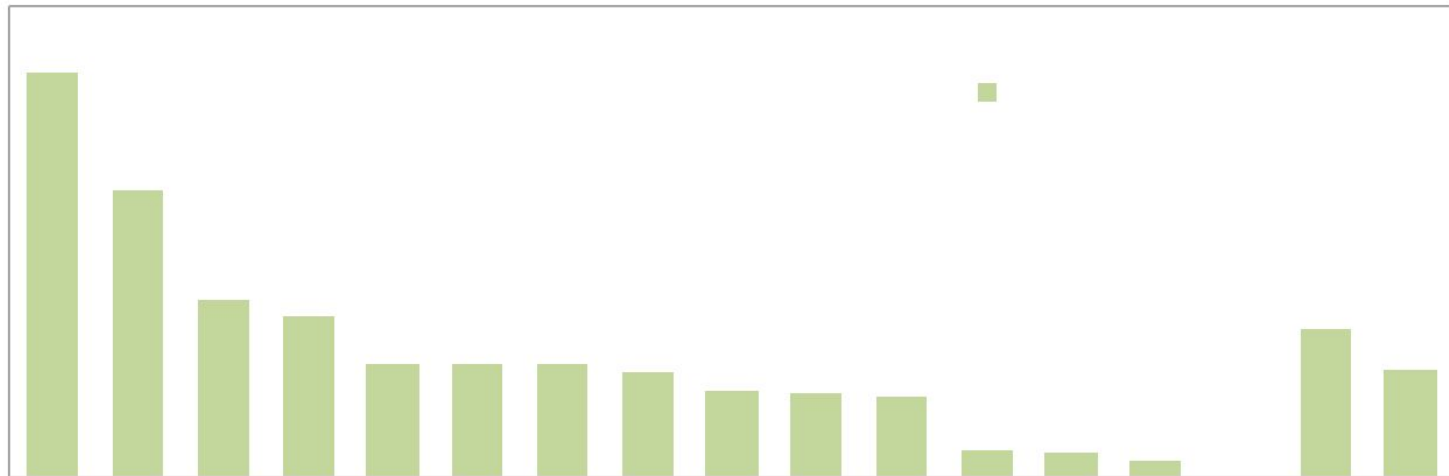
Change in Fiscal Balance, 2016 versus 2013



Foreign reserves are under pressure,

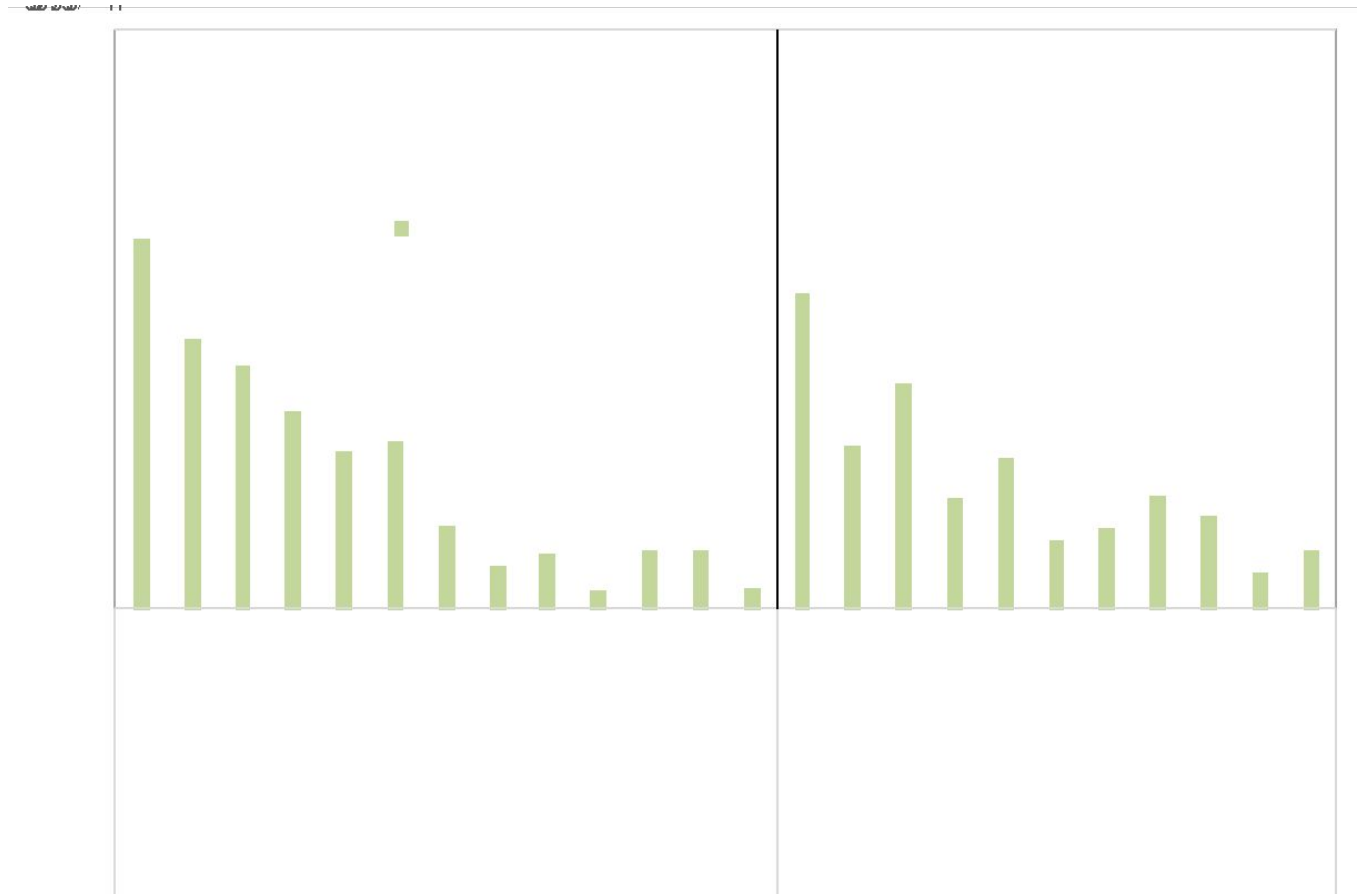
International Reserves in Months of Imports,

Source: IMF

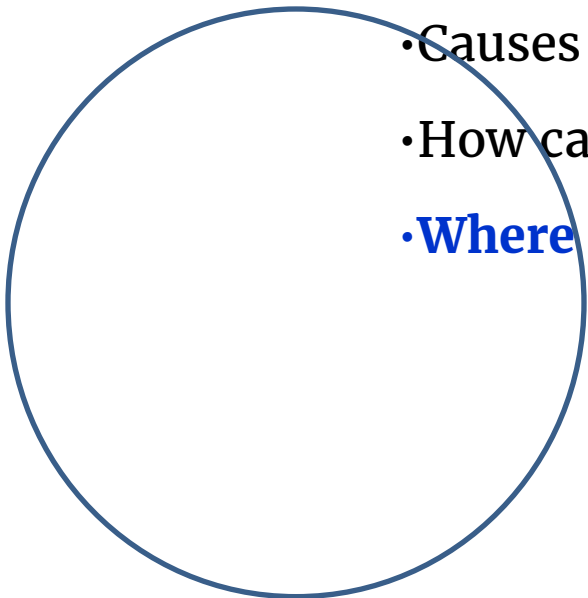


as are bank balance sheets.

Bank Nonperforming Loans, 2013-15

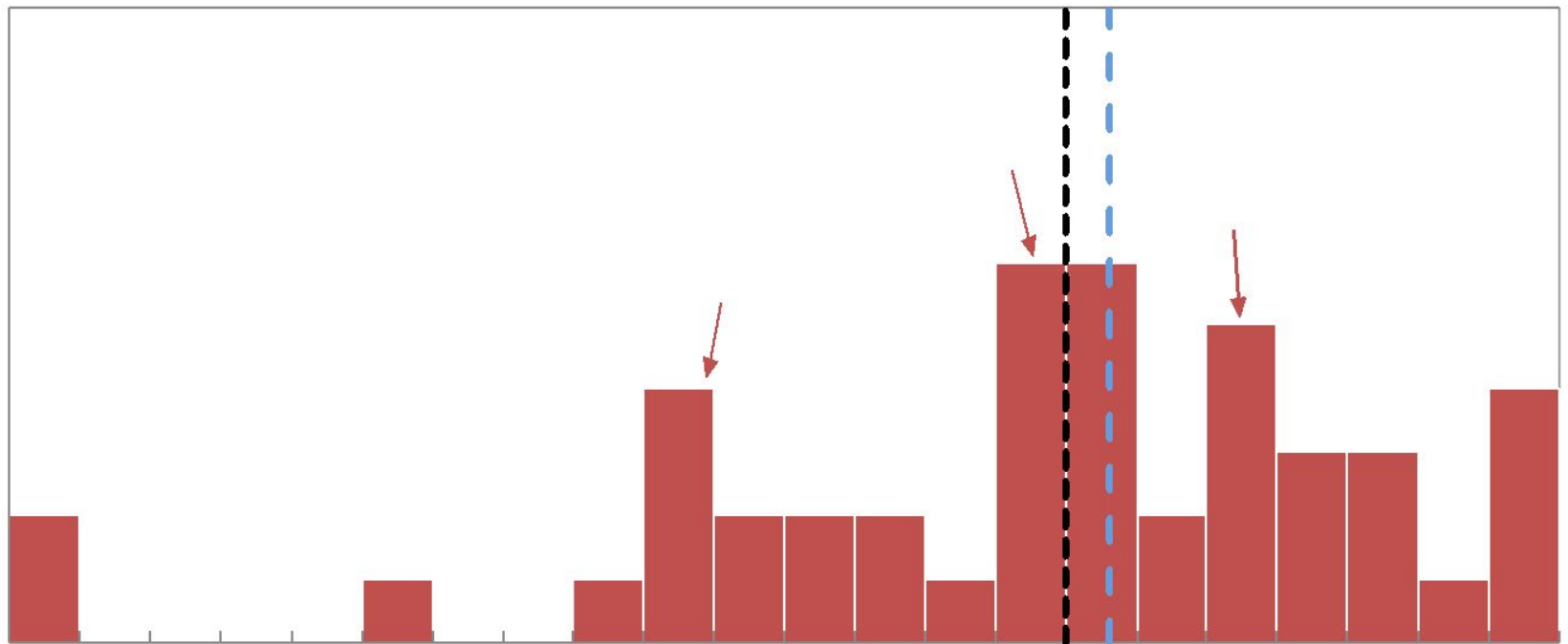


Outline

- 
- The Slowdown
 - Causes and consequences
 - How can growth be revived?
 - **Where are the bright spots?**

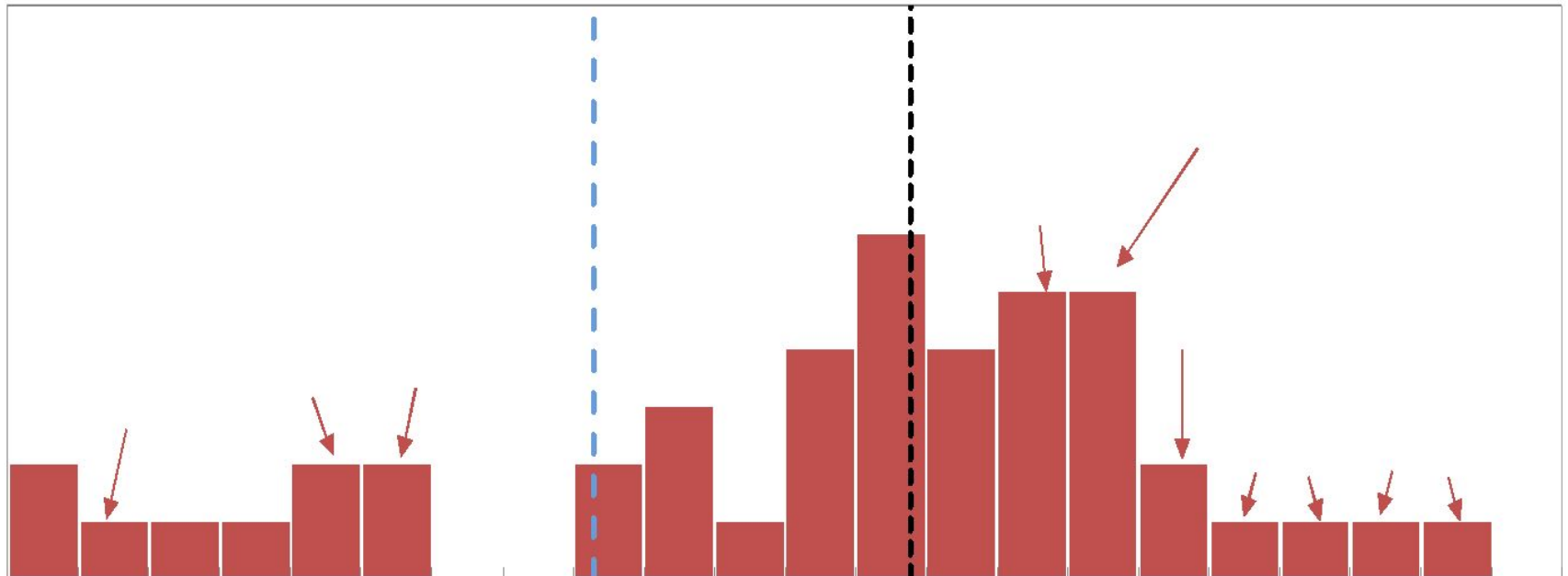
Economic growth was robust during the most recent cycle,

Distribution of Growth in Sub-Saharan Africa, 2010–14



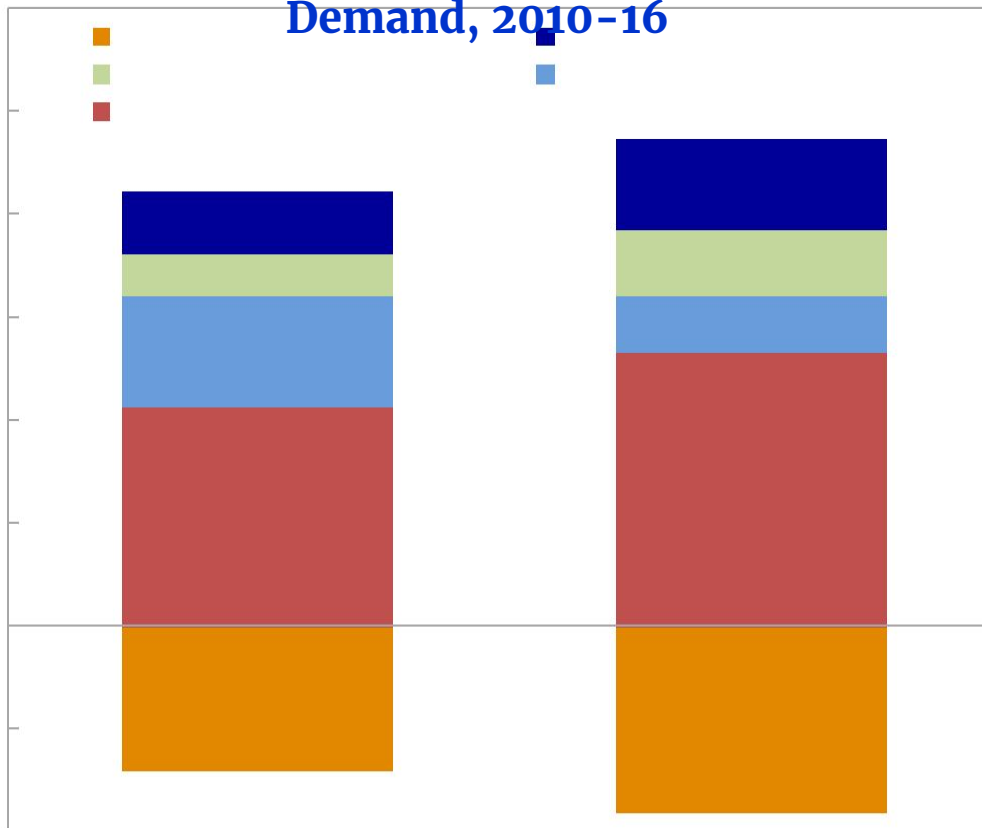
and many countries in the region of course continue to sustain reasonably high growth,

Distribution of Growth in Sub-Saharan Africa, 2016



with broadly unchanged sources of demand,

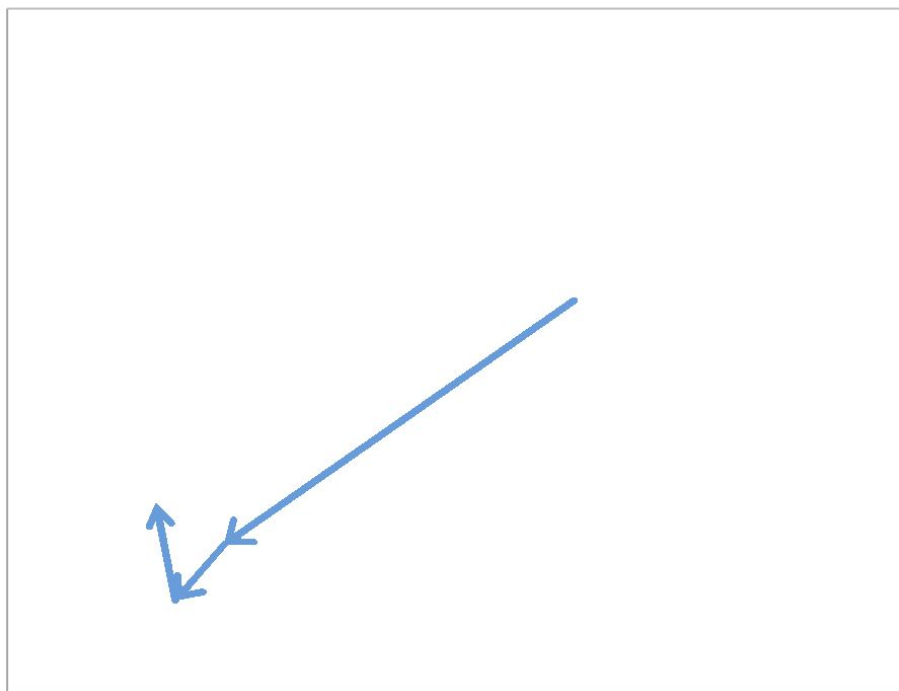
**Non-Resource-Intensive Countries:
Contribution to Growth by Sources of
Demand, 2010-16**



- 19/45 countries growing +/- 1 percentage point of 2010-14 average
- Cote d'Ivoire, Tanzania, Senegal, and Rwanda among countries registering 6 percent or more growth

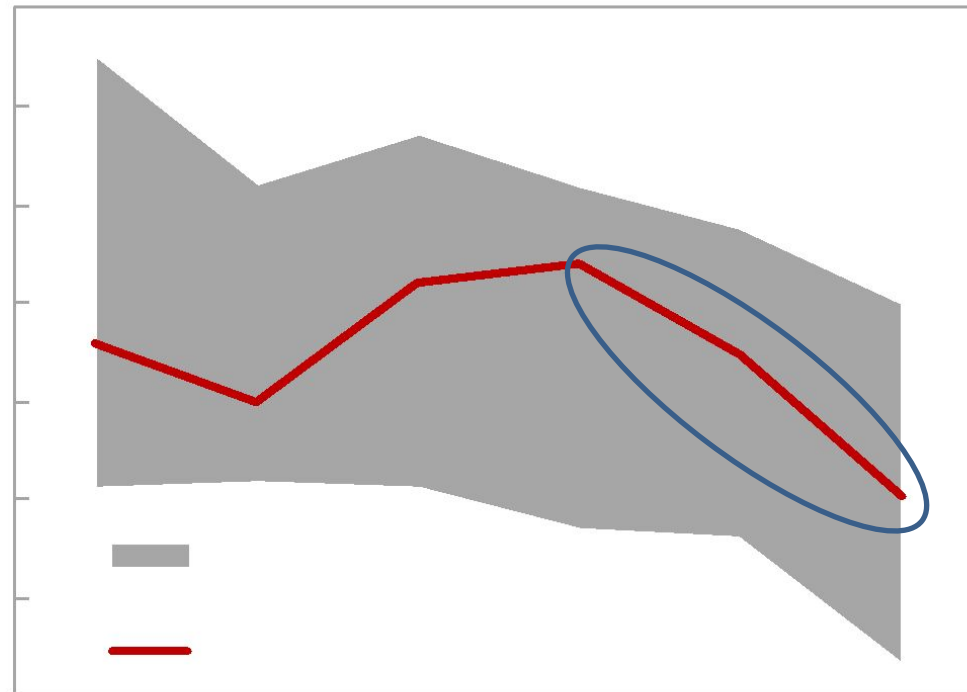
but buffers have been eroded there too.

**Non-Resource-Intensive Countries:
Change in Fiscal and Current Account Balances, 2008-16**



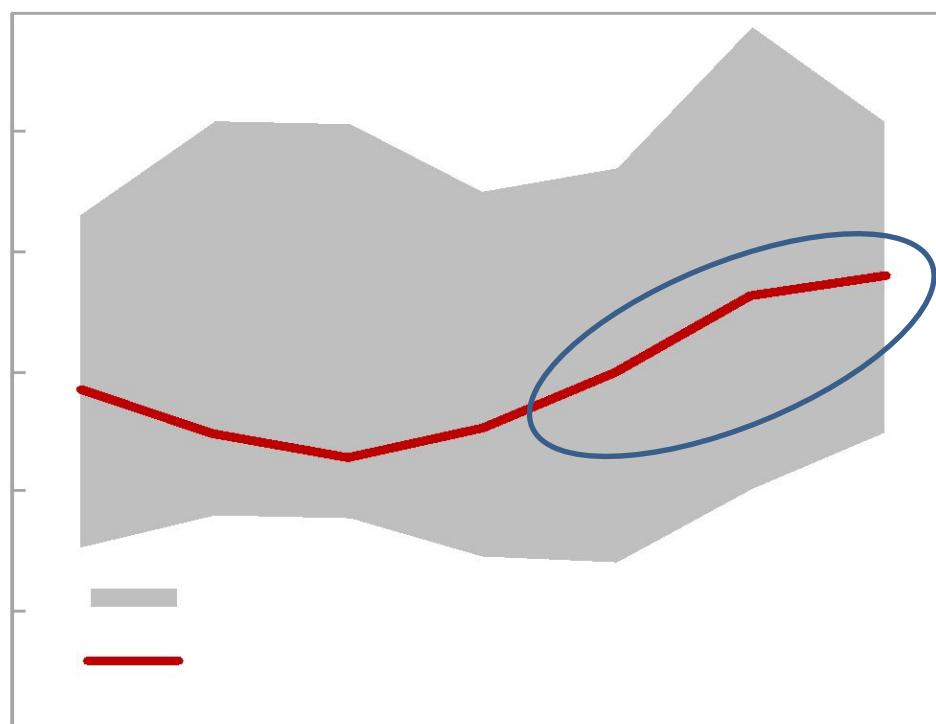
The challenge for them is to better modulate spending,

Non-Resource-Intensive Countries: Fiscal Balance, 2010-15




so as to contain debt accumulation.

**Non-Resource-Intensive Countries:
Public Sector Debt, 2010-16**

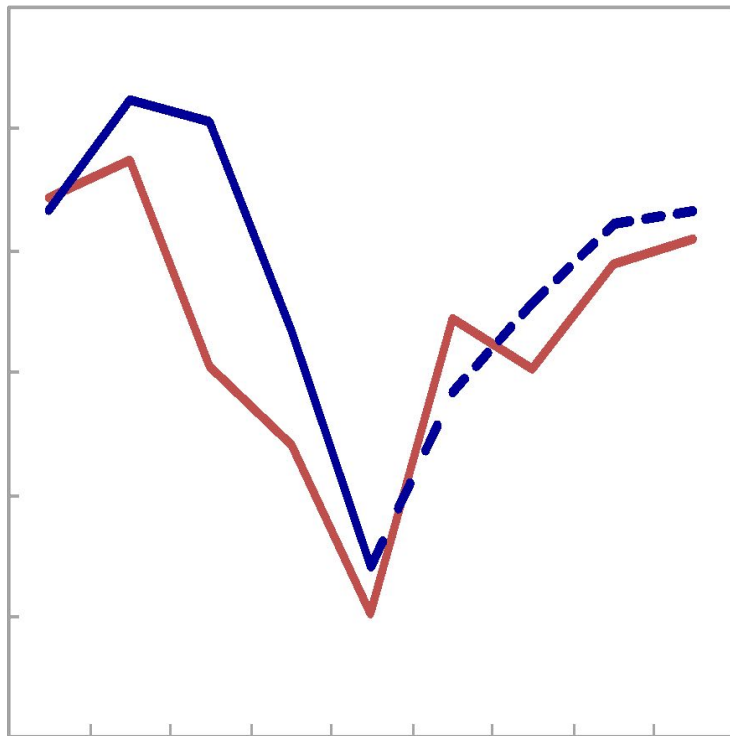


Outline

- The Slowdown
 - Causes and consequences
 - **How can growth be revived?**
 - Where are the bright spots?
- 

For 2017, only a modest rebound for the region is expected, predicated on prompt policy actions.

Real GDP Growth: 2016 vs Past Slowdowns



But risks are significant:

- Further delays in policy implementation
- Political risks in some cases
- Global environment risks (financial market turmoil, lower global growth, etc.)

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



World Economic and Financial Surveys

Regional Economic Outlook



Thank You!

The online edition of the
Regional Economic Outlook
for sub-Saharan Africa
is now available at
www.imf.org