Multi-Speed Growth

Regional Economic Outlook for Sub-Saharan Africa

African Department
International Monetary Fund
January 24, 2017
Outline

The Slowdown

Causes and consequences

Where are the bright spots?

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

asynchronous with global growth,
asynchronous with global growth,
and implies the lowest expansion since 1994.
But, more than ever, the heterogeneity of growth outcomes is quite striking,
with the aggregate slowdown heavily influenced by the deceleration in activity in resource-intensive countries,
given their large share in the regional output.

Real GDP Growth, 2010-16
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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,
financing conditions have tightened,

<table>
<thead>
<tr>
<th>SSA Frontier Markets in Context: Eurobond Yields, 2014-16</th>
<th>Average yield November 2016 (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Oil exporters</strong></td>
<td></td>
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<tr>
<td>Angola</td>
<td>10.3</td>
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<tr>
<td>Cameroon</td>
<td>8.4</td>
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<tr>
<td>Gabon</td>
<td>8.6</td>
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<tr>
<td>Nigeria</td>
<td>6.9</td>
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<tr>
<td><strong>Other resource-intensive</strong></td>
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<tr>
<td>Ghana</td>
<td>5.0</td>
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<tr>
<td>South Africa</td>
<td>4.5</td>
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<tr>
<td>Tanzania</td>
<td>9.3</td>
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<td>Zambia</td>
<td></td>
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<tr>
<td><strong>Nonresource intensive</strong></td>
<td></td>
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<tr>
<td>Côte d’Ivoire</td>
<td>7.8</td>
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<tr>
<td>Ethiopia</td>
<td>7.4</td>
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<td>Kenya</td>
<td>21.5</td>
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<td>Mozambique</td>
<td>6.9</td>
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<td>Rwanda</td>
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<td>Senegal</td>
<td>5.8</td>
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<tr>
<td><strong>Comparators</strong></td>
<td></td>
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<tr>
<td>Azerbaijan</td>
<td>2.8</td>
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<tr>
<td>Bolivia</td>
<td>6.8</td>
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<tr>
<td>Egypt</td>
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<td>Honduras</td>
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<td>Kazakhstan</td>
<td>8.8</td>
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<tr>
<td>Mongolia</td>
<td>5.8</td>
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<tr>
<td>Pakistan</td>
<td></td>
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<tr>
<td>Vietnam</td>
<td>4.1</td>
</tr>
</tbody>
</table>

International Monetary Fund, Regional Economic Outlook for Sub-Saharan Africa, January 2017
especially for oil exporters,

Angola: Eurobond Yield and Oil Price
resulting in reduced market access for the region.
The pain from the collapse in commodity earnings is spreading,

Oil Exporters: Contribution to Growth by Sources of Demand, 2010-16
resulting in elevated macroeconomic imbalances.

Change in Fiscal and Current Account Balances, 2008–16
Inflation has accelerated sharply in some cases,
reflecting exchange rate depreciations,

Change in Commodity Terms of Trade and Nominal Effective Exchange Rate, 2016 versus 2013

Depreciation Against U.S. Dollar Since Dec. 2013 (+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,*
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,

- 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, 

so as to contain debt accumulation.
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For 2017, only a modest rebound for the region is expected, predicated on prompt policy actions.

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
Thank You!

The online edition of the **Regional Economic Outlook** for sub-Saharan Africa is now available at [www.imf.org](http://www.imf.org)