HOW TO RESTART AFRICA'S GROWTH ENGINE

Restarting the Growth Engine

Regional Economic Outlook for Sub-Saharan Africa

African Department
International Monetary Fund
June 2017

Outline

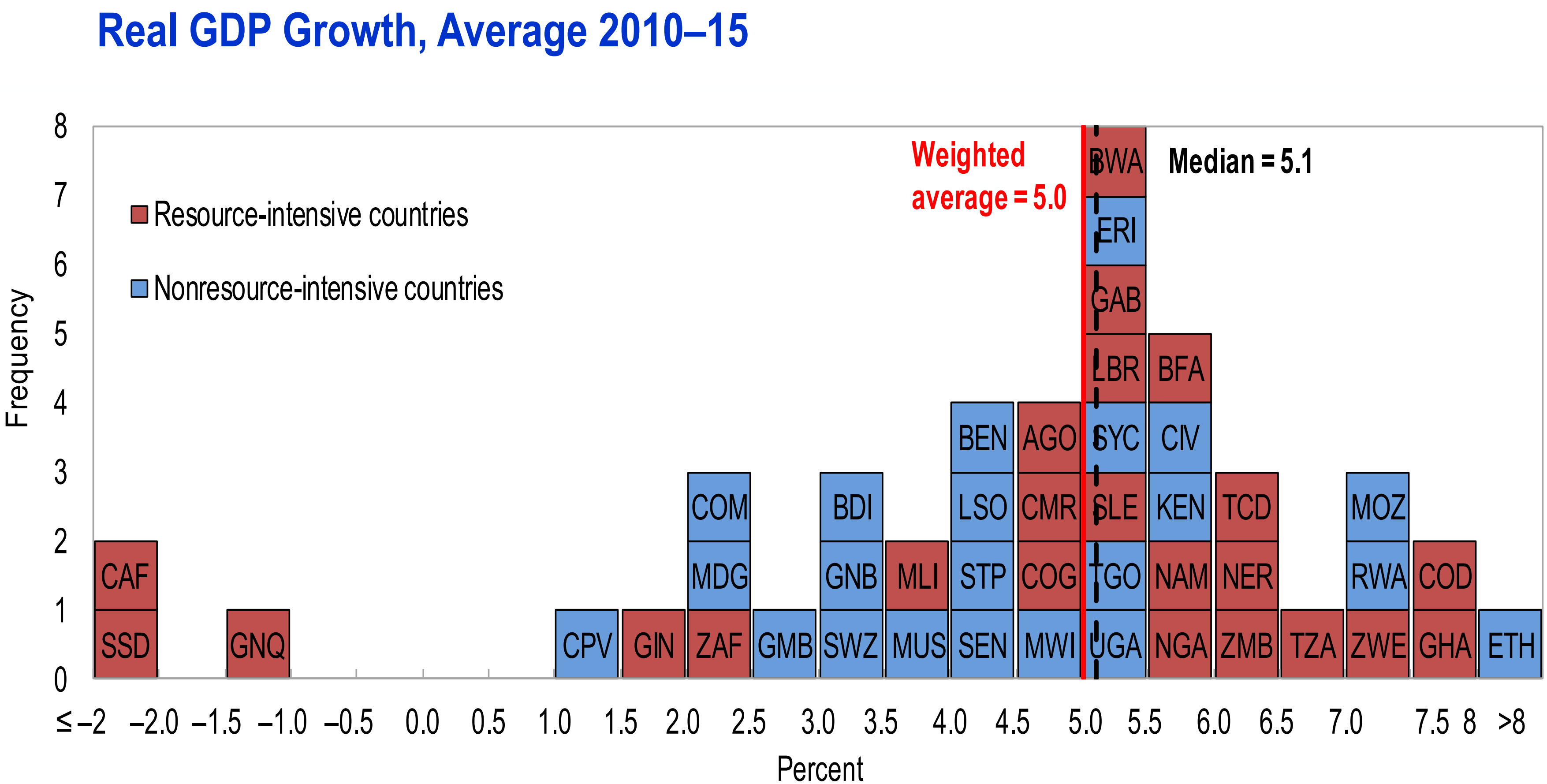
A Broad-based Slowdown

Insufficient Adjustment

Increasing Vulnerabilities

Recalibrating the Policy Response

2016 saw a broad-based slowdown, with commodity exporters being particularly hit…



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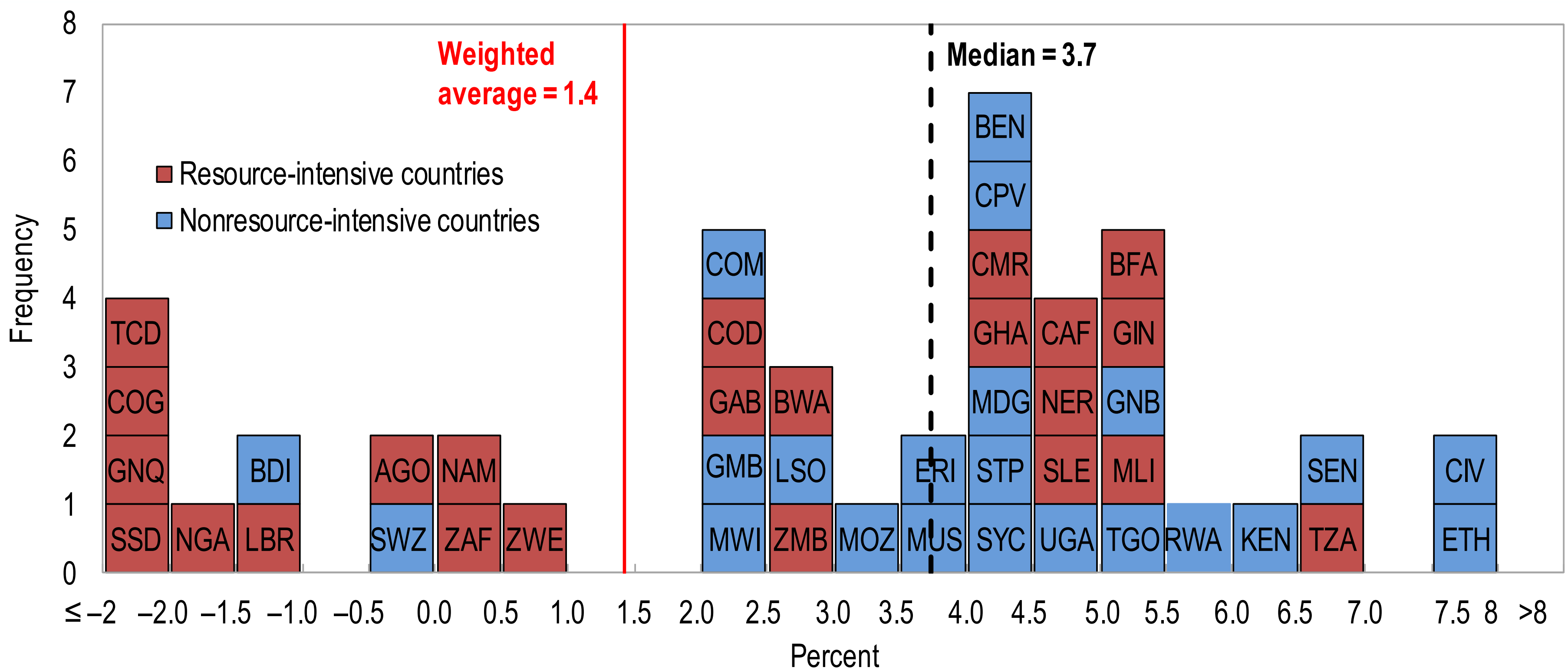
Real GDP Growth, 2016



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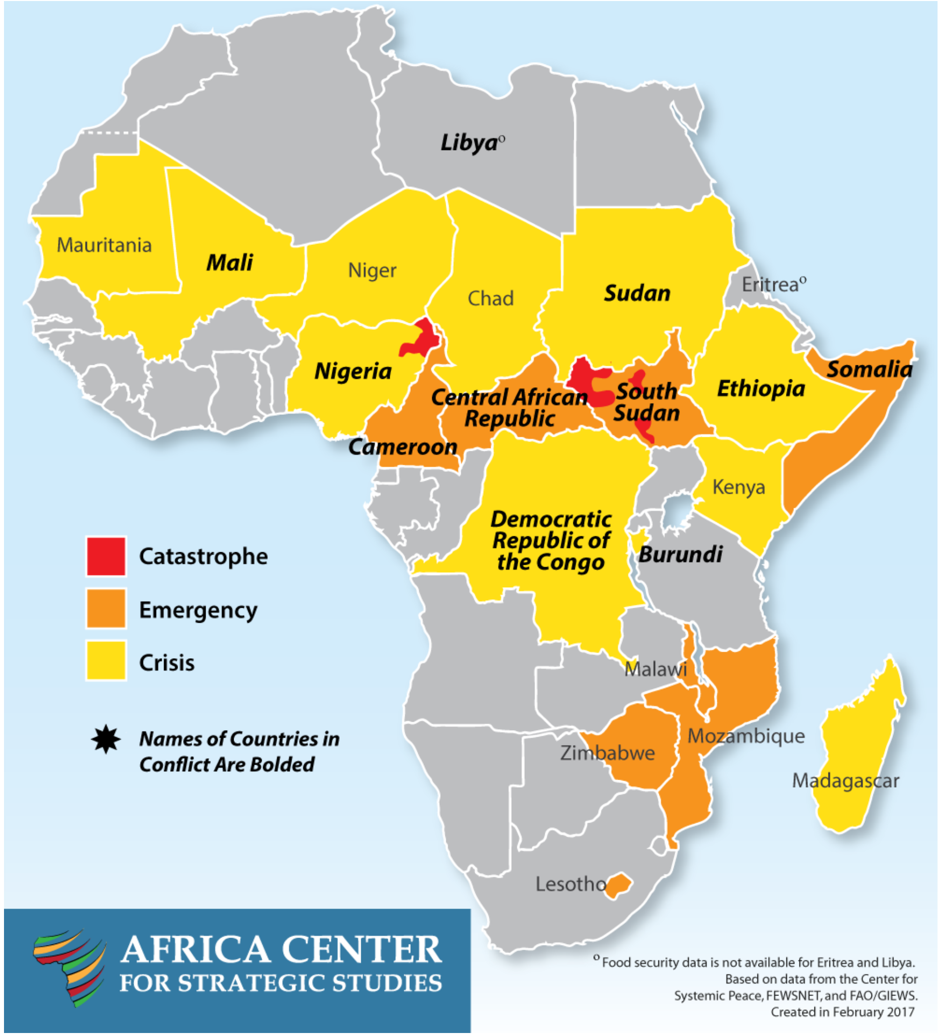
…and in some cases, compounded by rising food insecurity.



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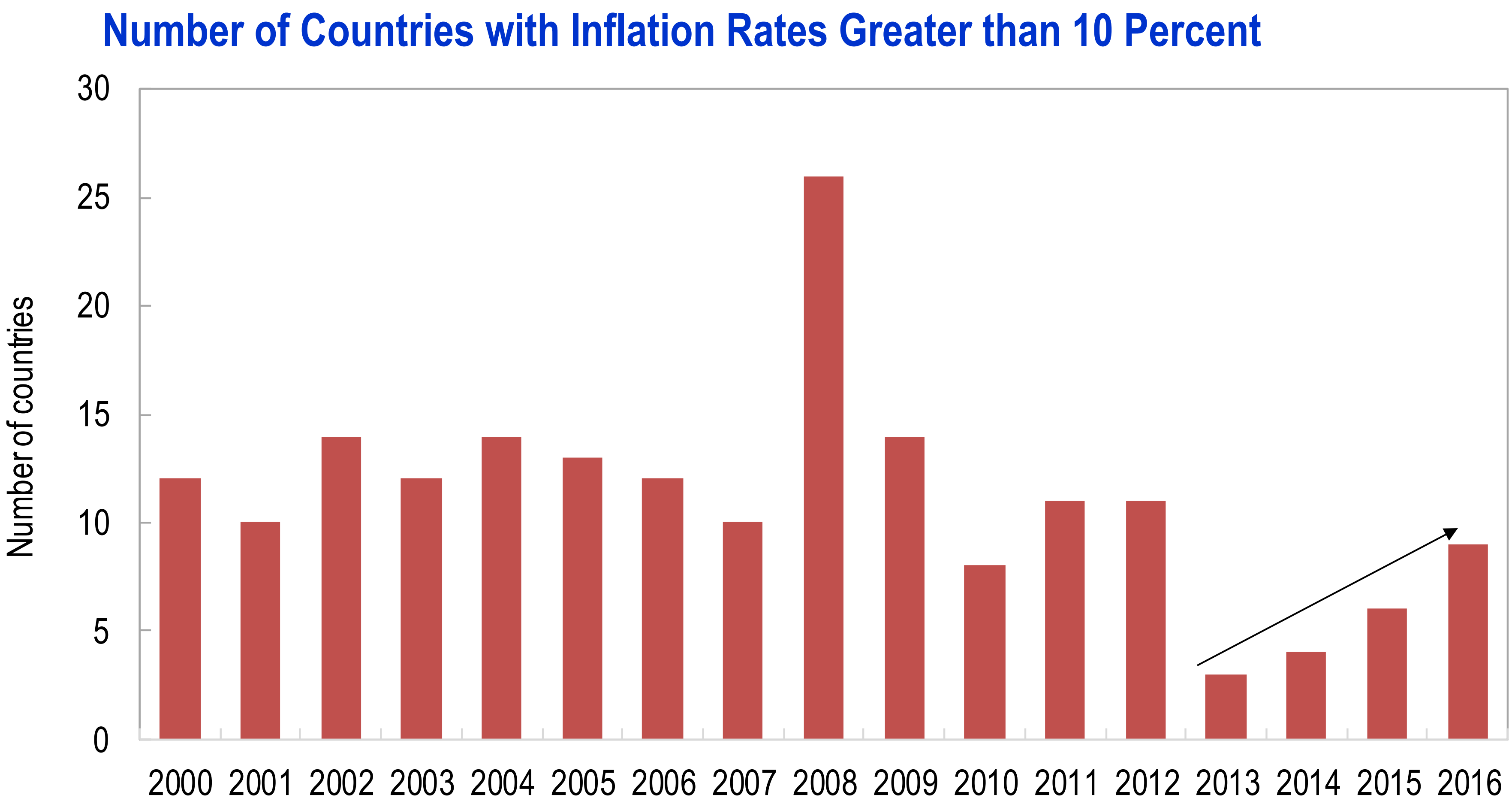
Inflation is ticking up in many countries in the region.



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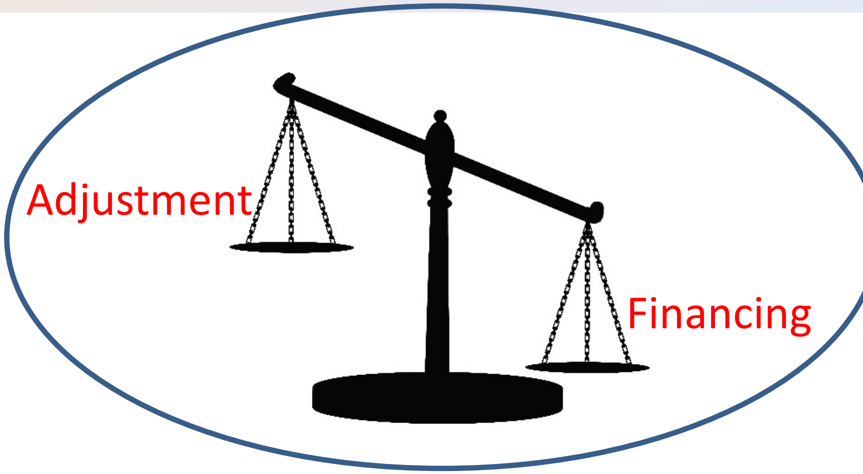

Insufficient Adjustment

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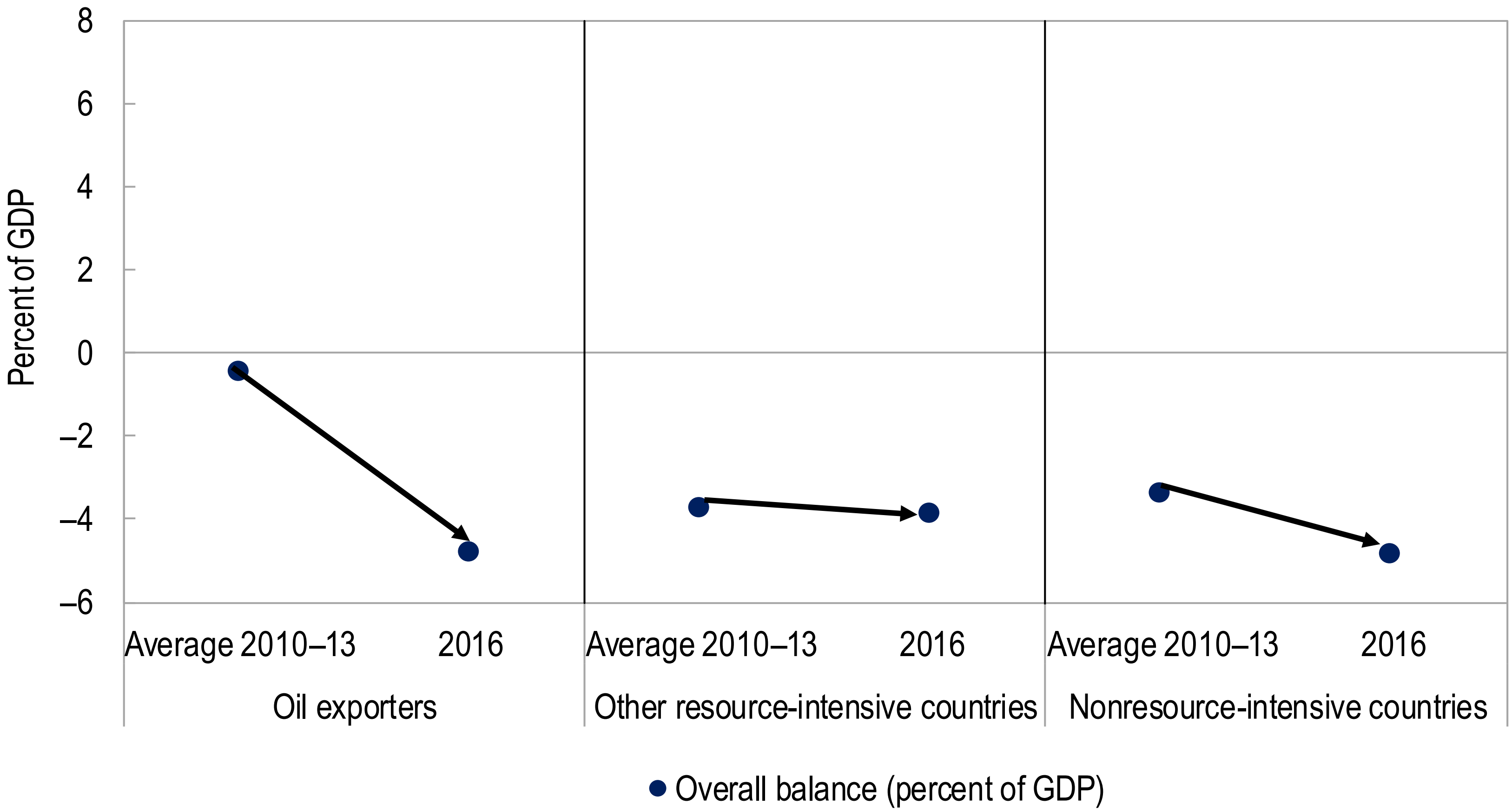
Fiscal deficits have widened among hardest-hit countries and remain elevated elsewhere.

Fiscal Balance, 2010–16



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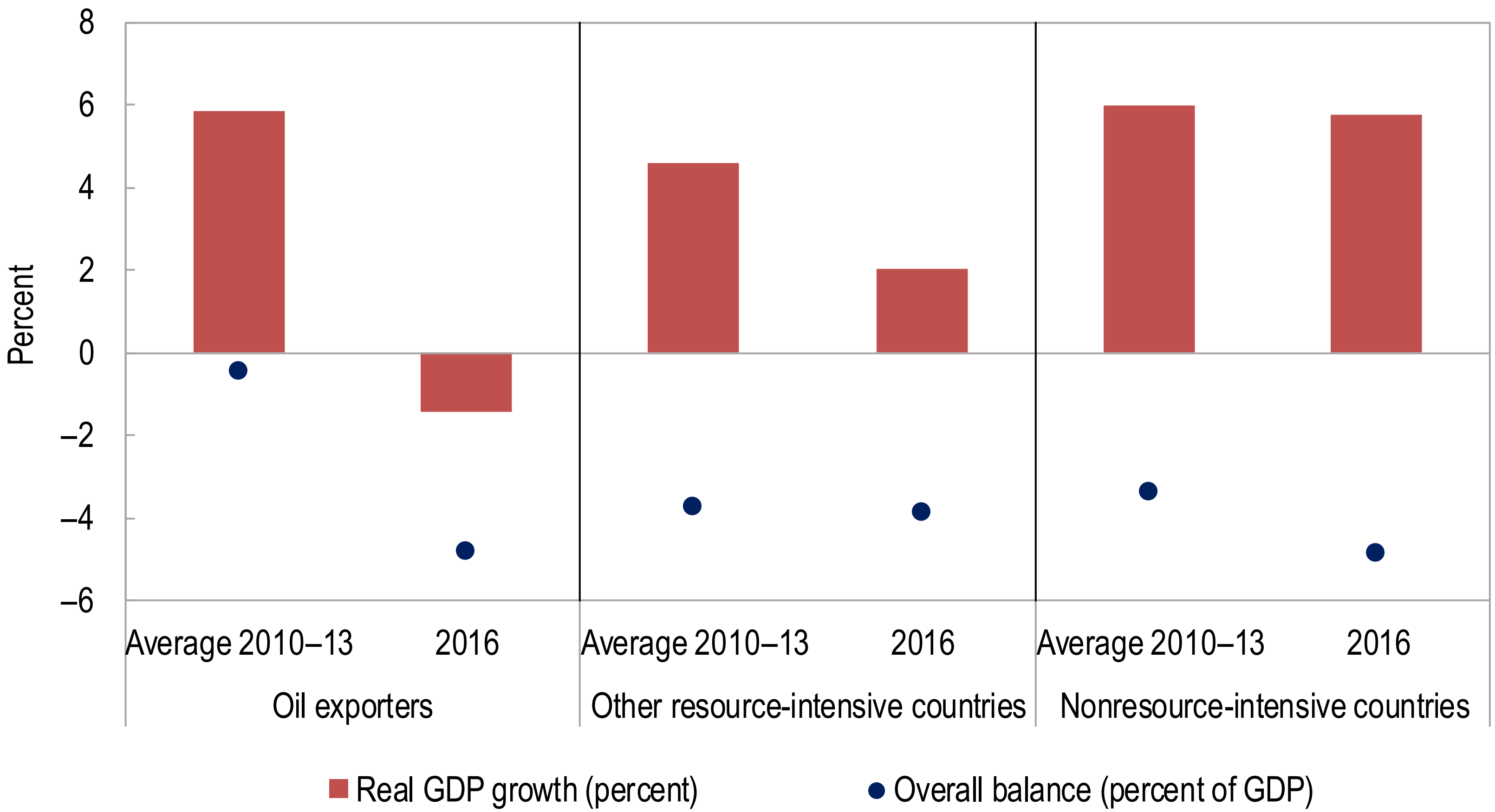
Fiscal Balance and Real GDP Growth, 2010–16



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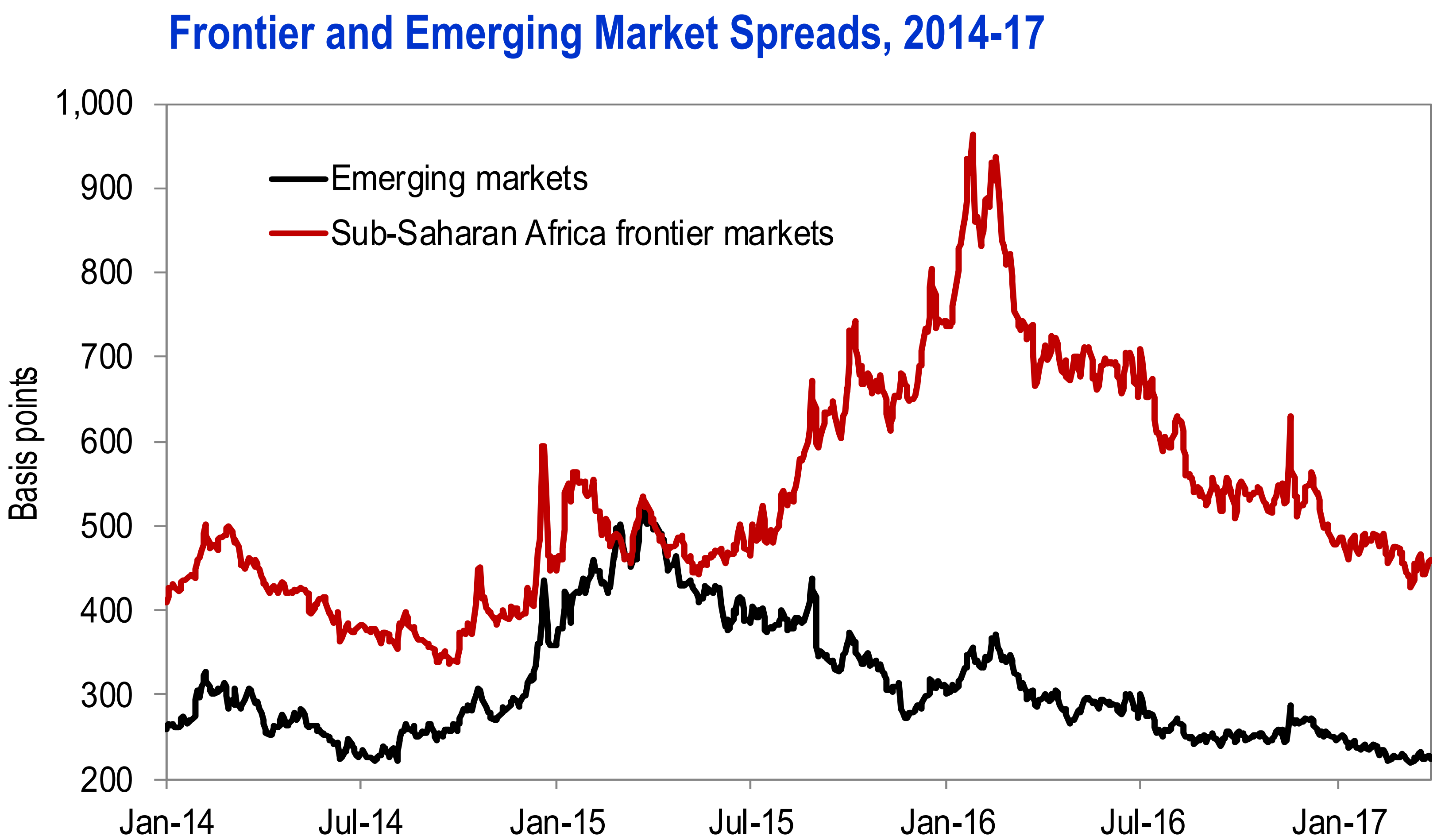
Higher borrowing costs have made recourse to external market financing less attractive…



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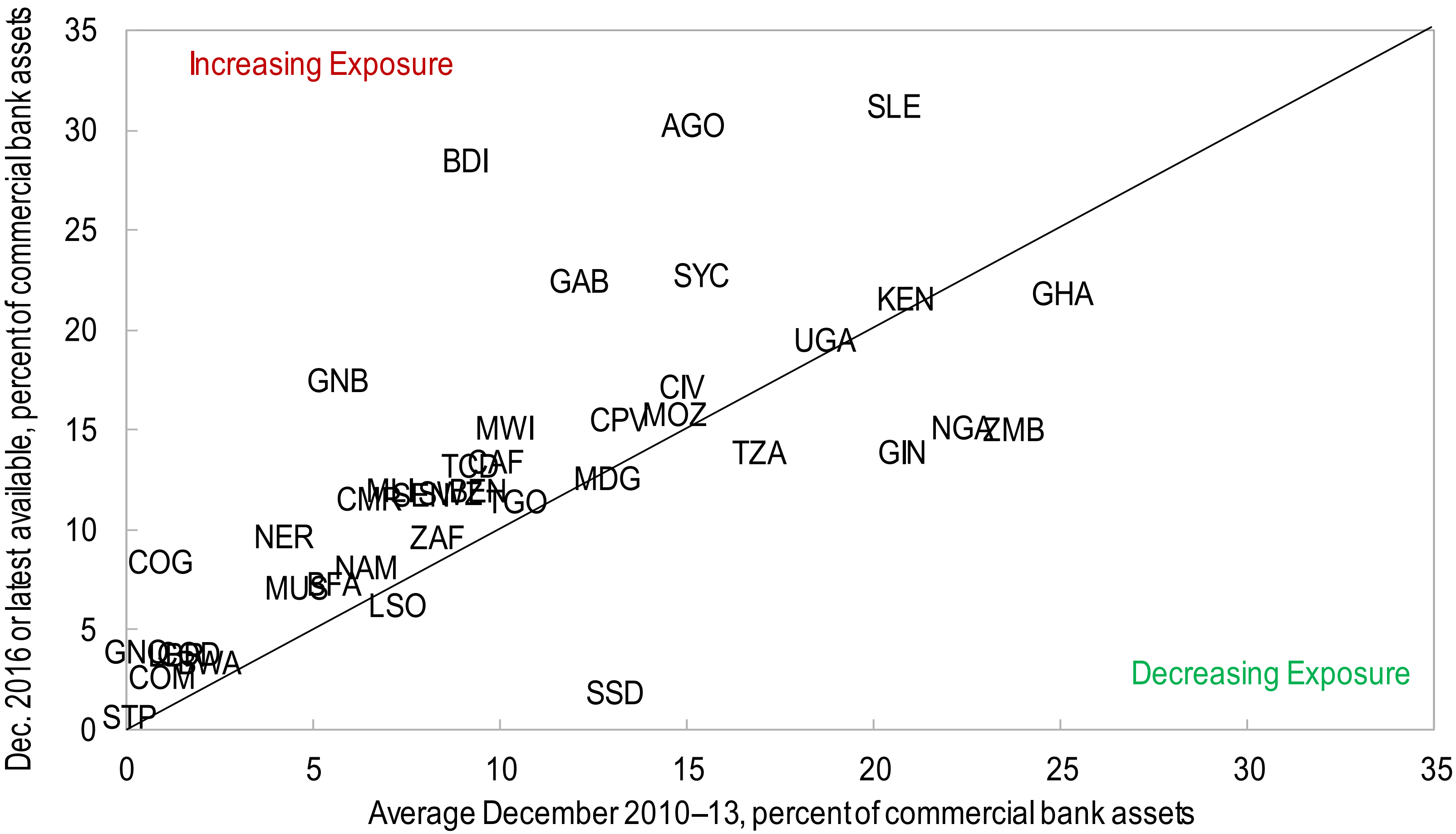
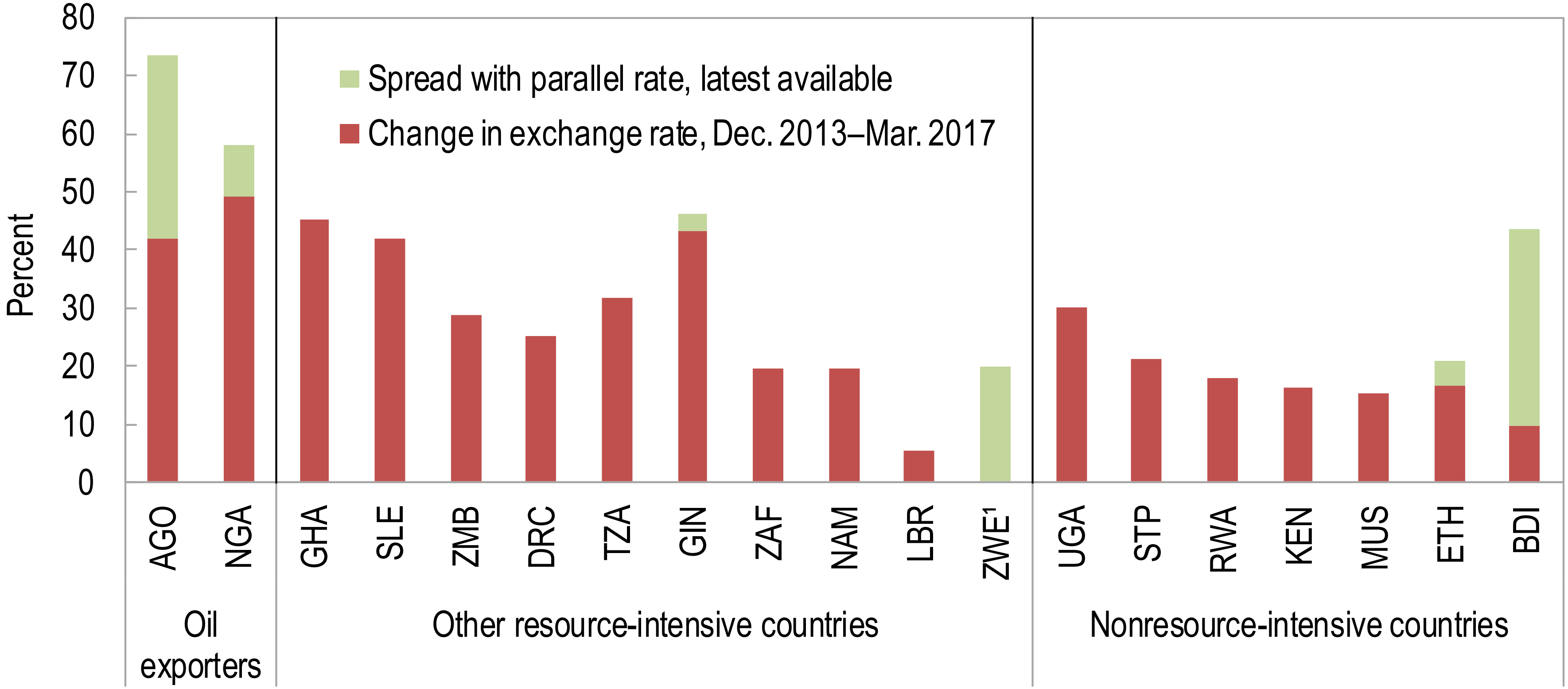
…leading to greater recourse to domestic financing,…

Exposure of Commercial Banks to the Government



Exchange rates have depreciated, but not sufficiently in some cases with parallel markets spreads emerging…

Depreciation of National Currencies Against the U.S. Dollar since December 2013 (+ indicates depreciation)



[1]Unofficial estimates report the spread to be around 20 percent between cash U.S. dollars and domestic bank deposits and bond notes.

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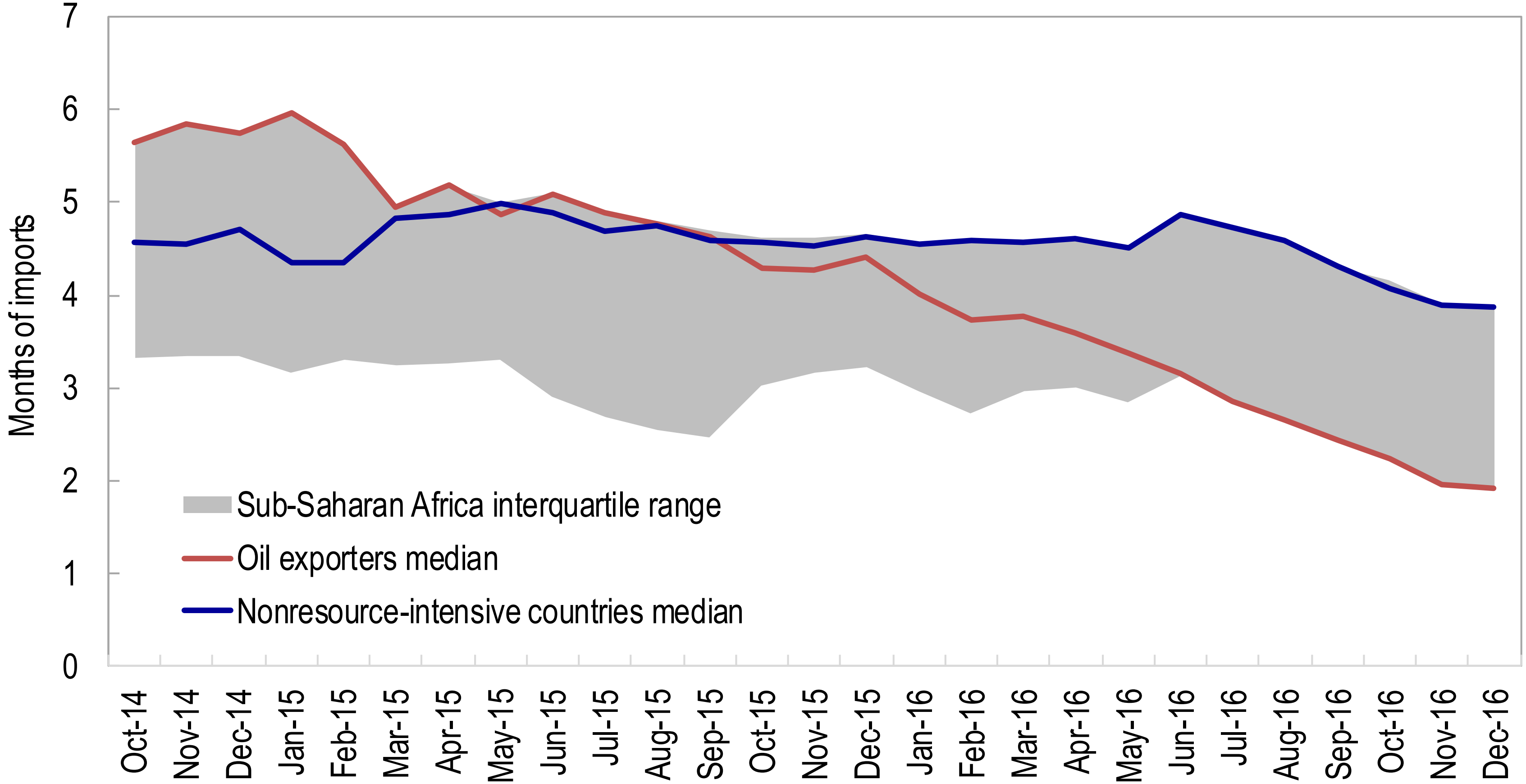
… and reserves are trending lower for the region, and acutely so in oil exporters

International Reserves, 2014–16



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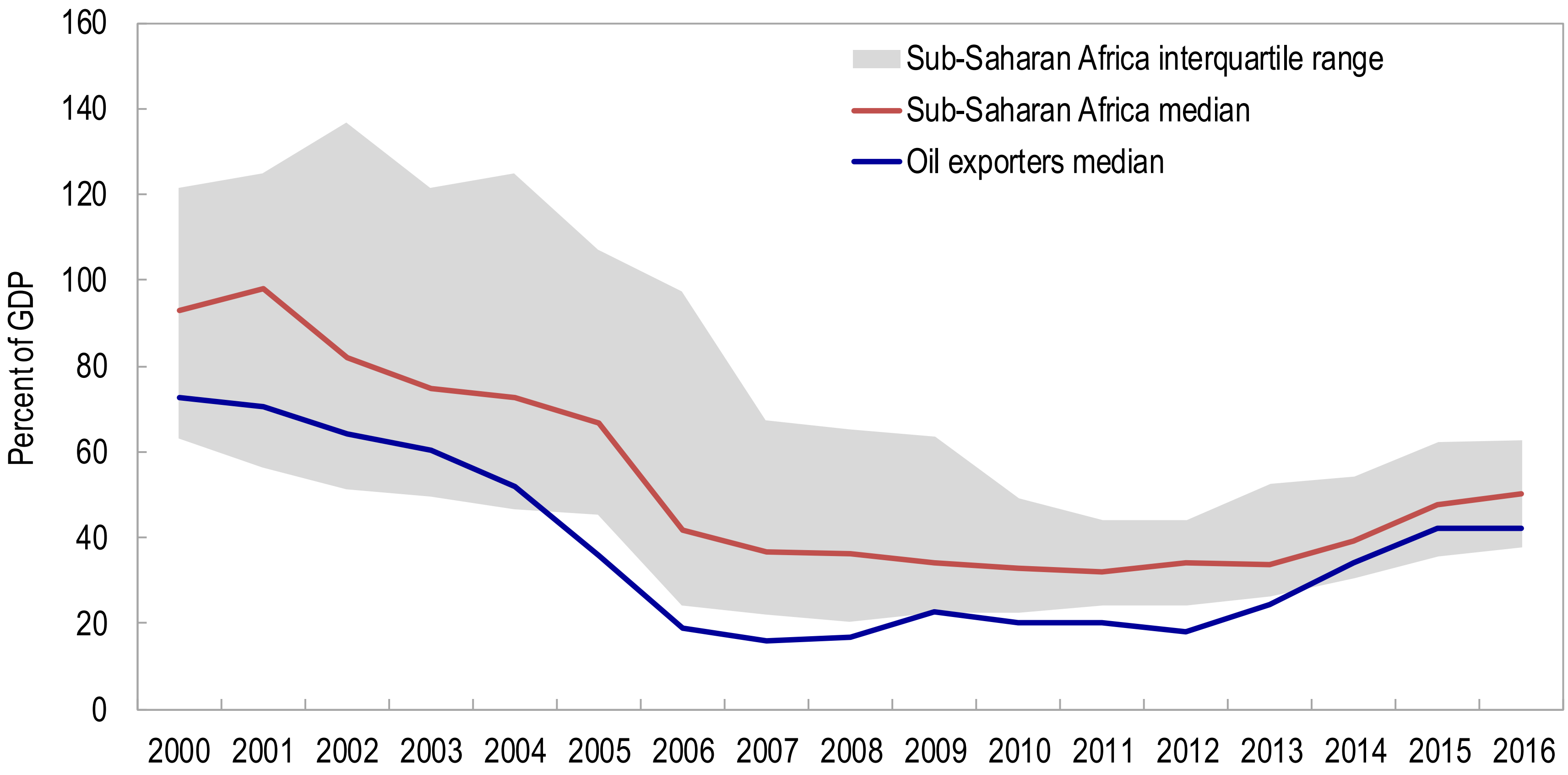
Debt levels are on the rise across the region…

Public Debt, 2000–16



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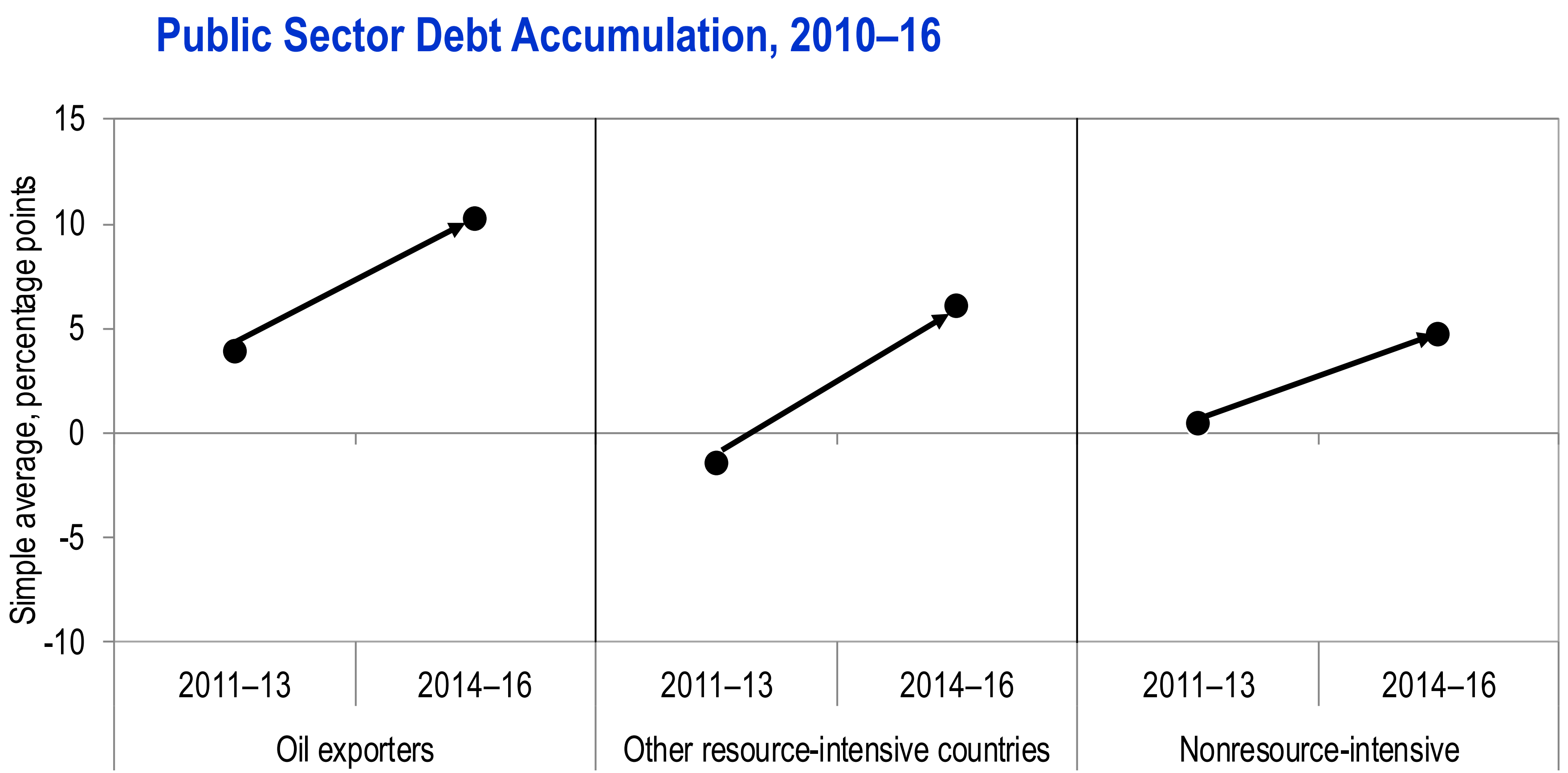
…and public debt is on the rise, increasing the pressure on debt sustainability...



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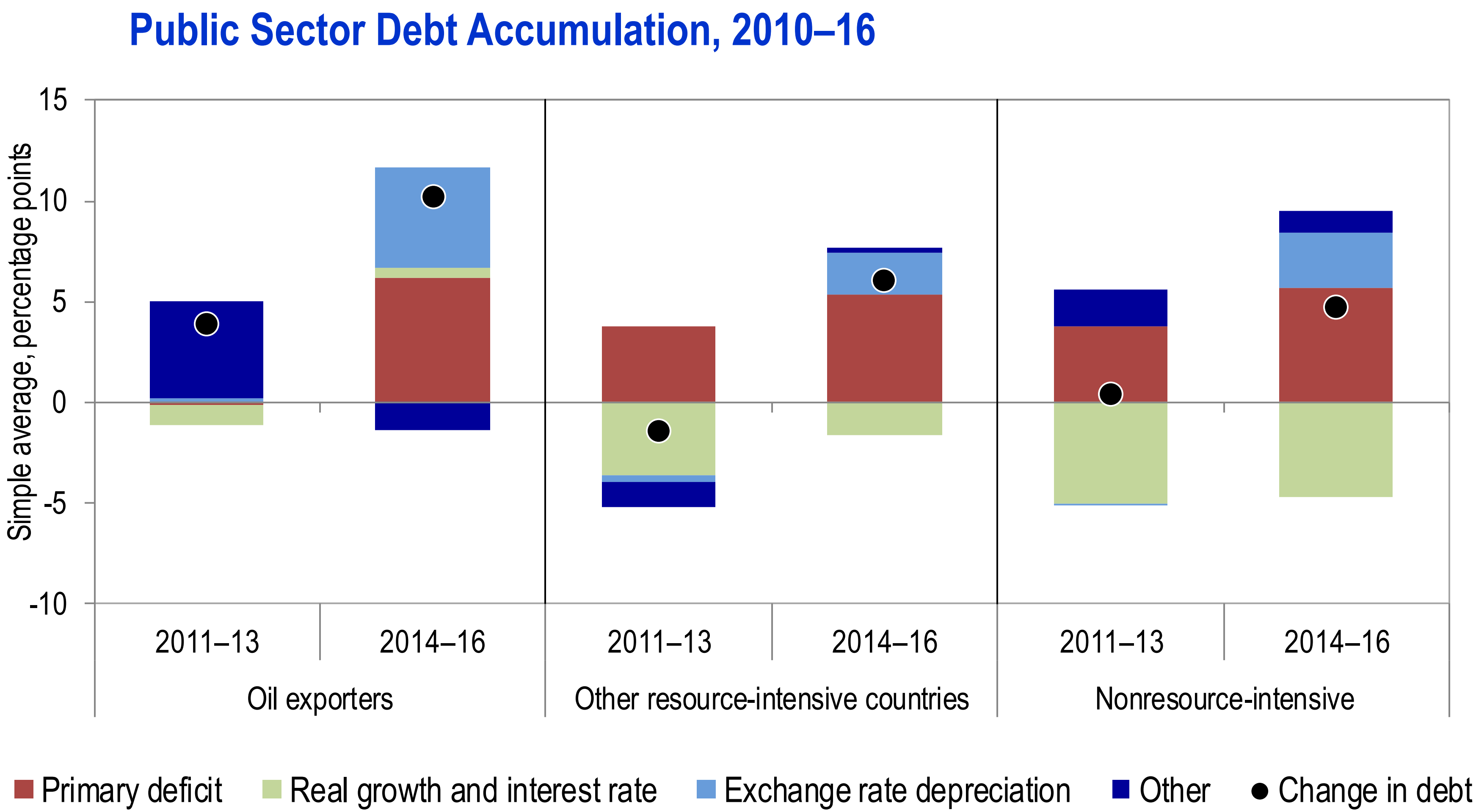

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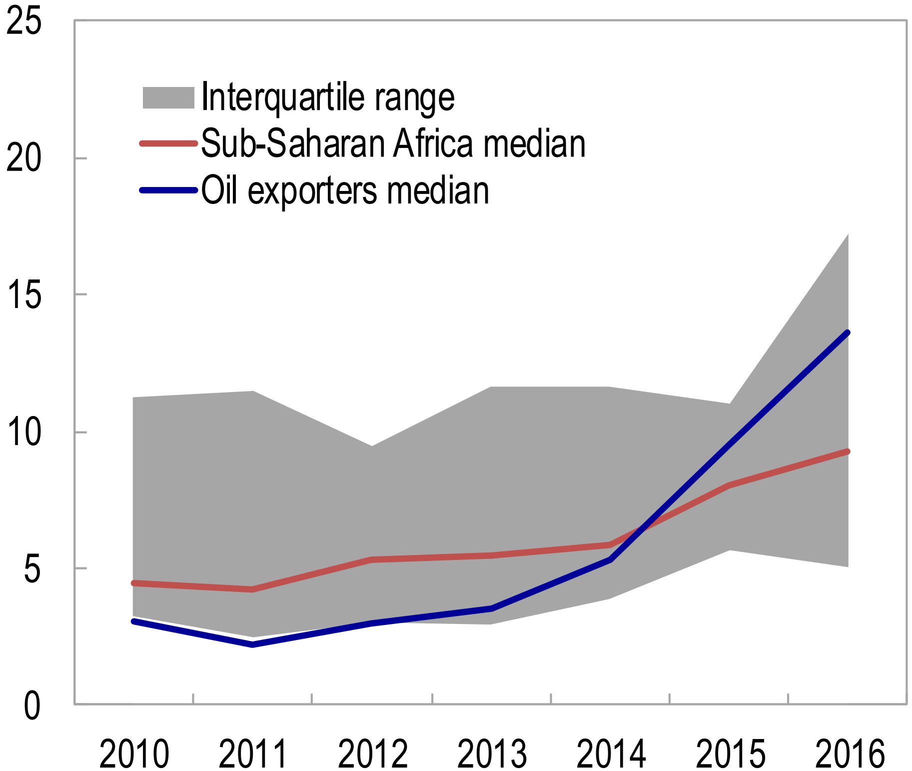
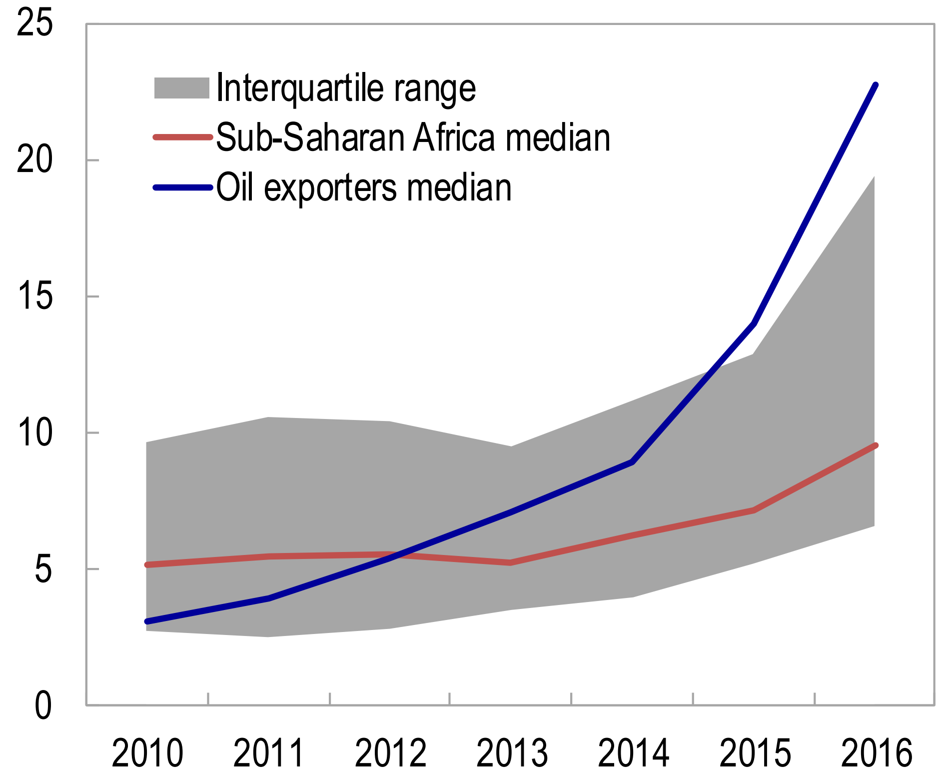
...especially in oil-exporting countries.

External Debt Service-to-Exports Ratio, 2010-16



Total Debt Service-to-Revenue Ratio, 2010-16



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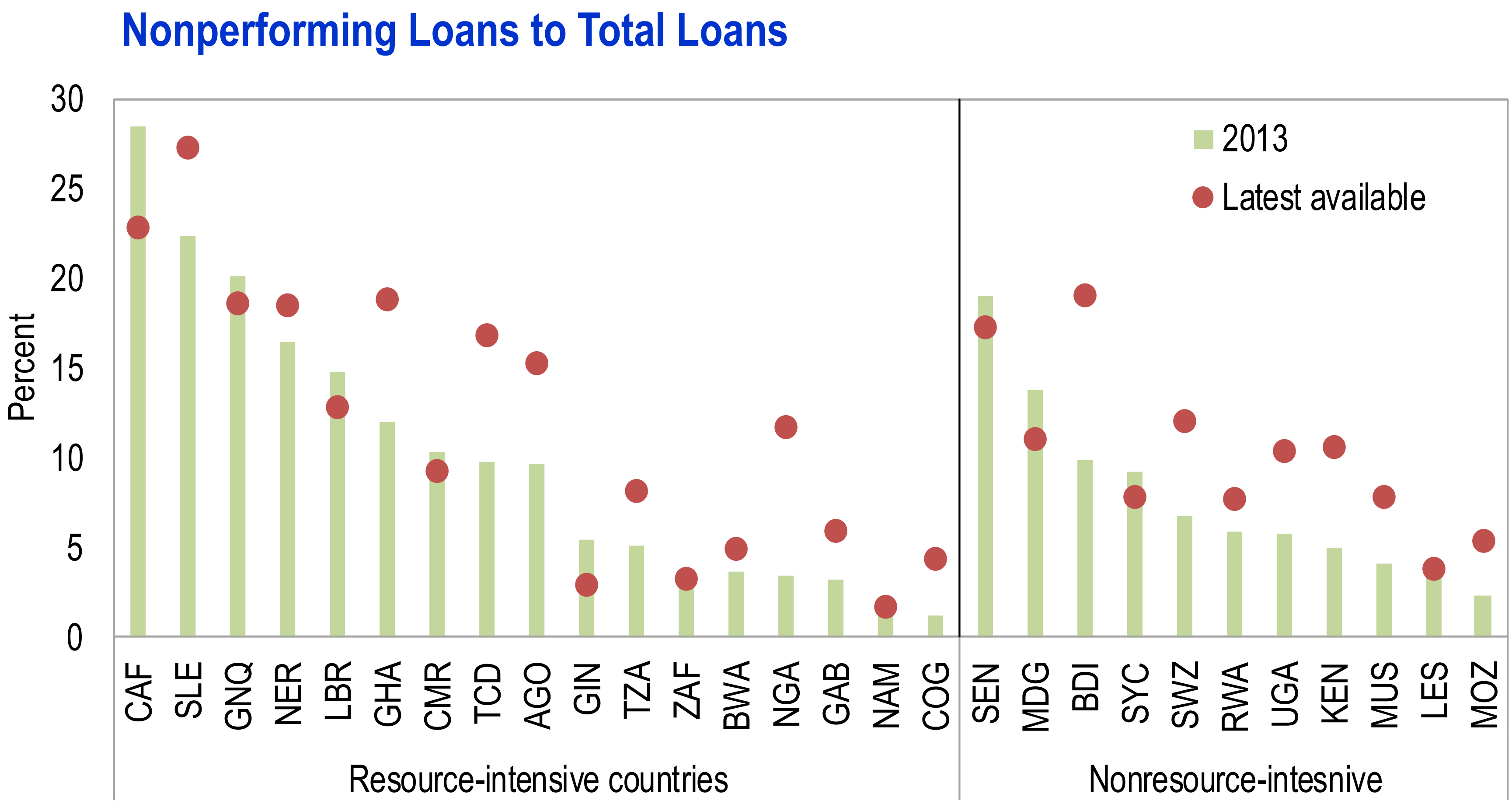
The financial sector is feeling the pinch, with asset quality declining,...



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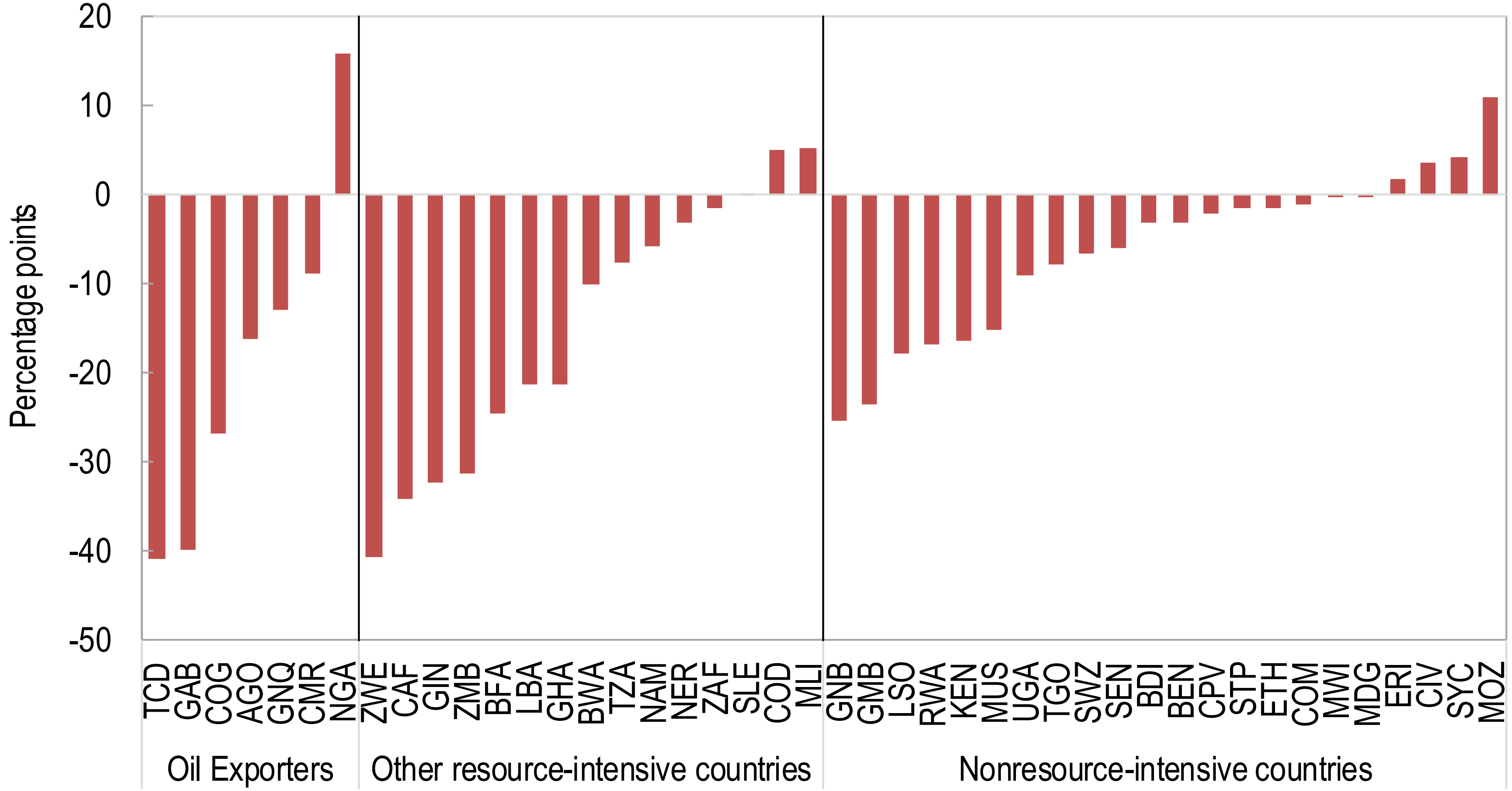
…and credit to private sector slowing sharply.

Change in Credit Growth to the Private Sector, Average 2011–13 vs. 2016



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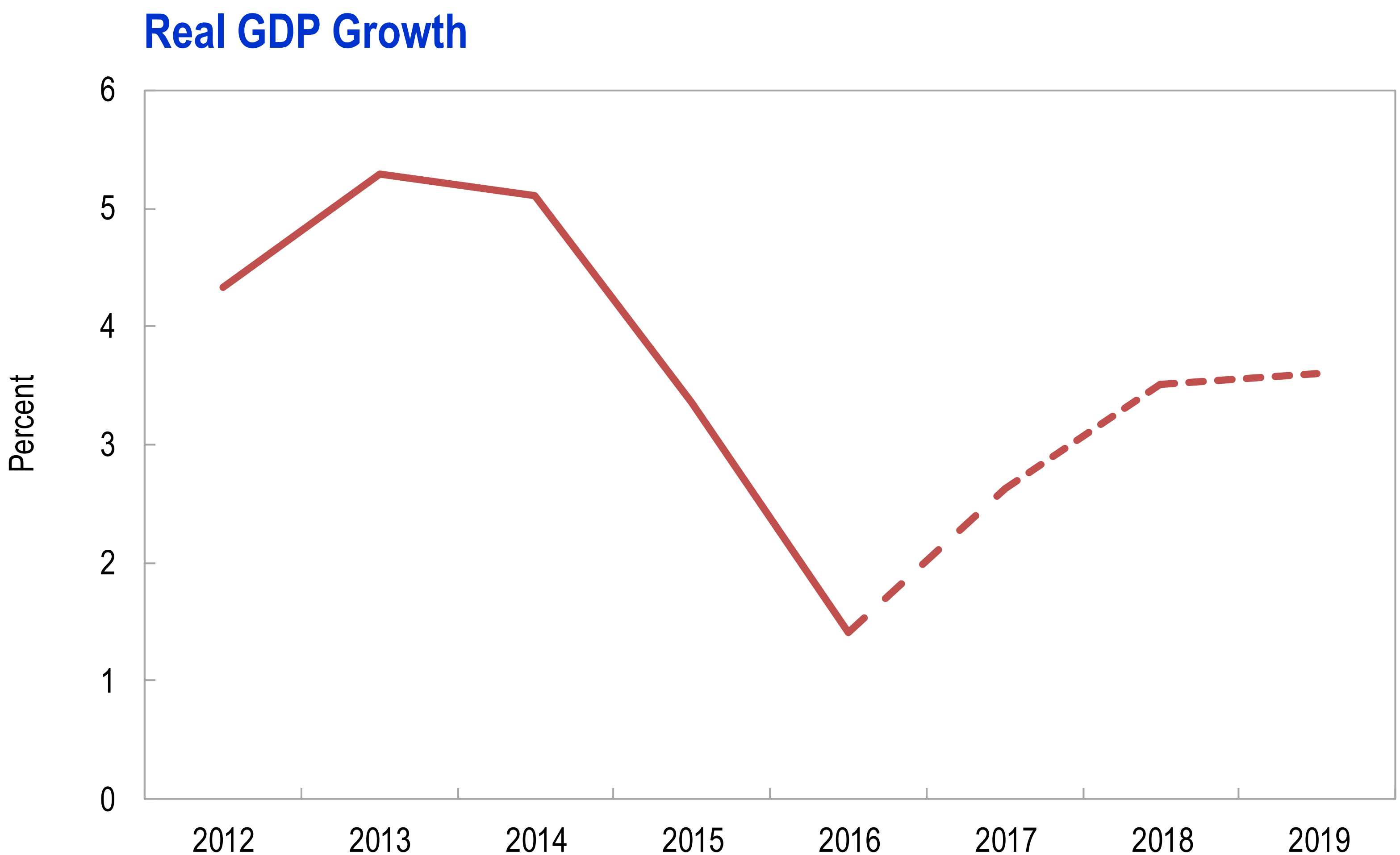
The outlook is still subdued with modest growth rebound, subject to downside risks,...



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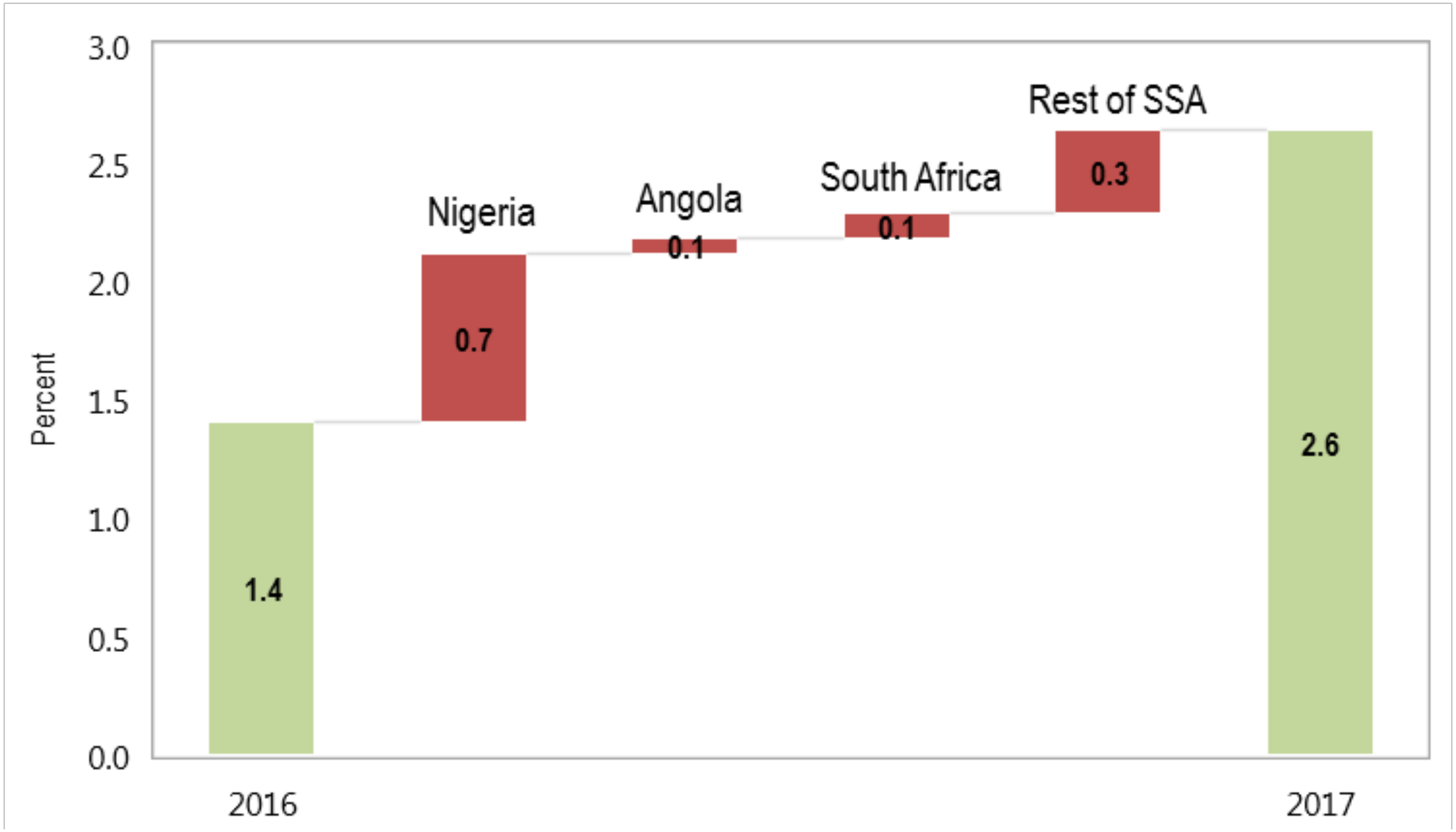
…and driven by the three largest economies.

Contributions to Regional Real GDP Growth, 2016—17



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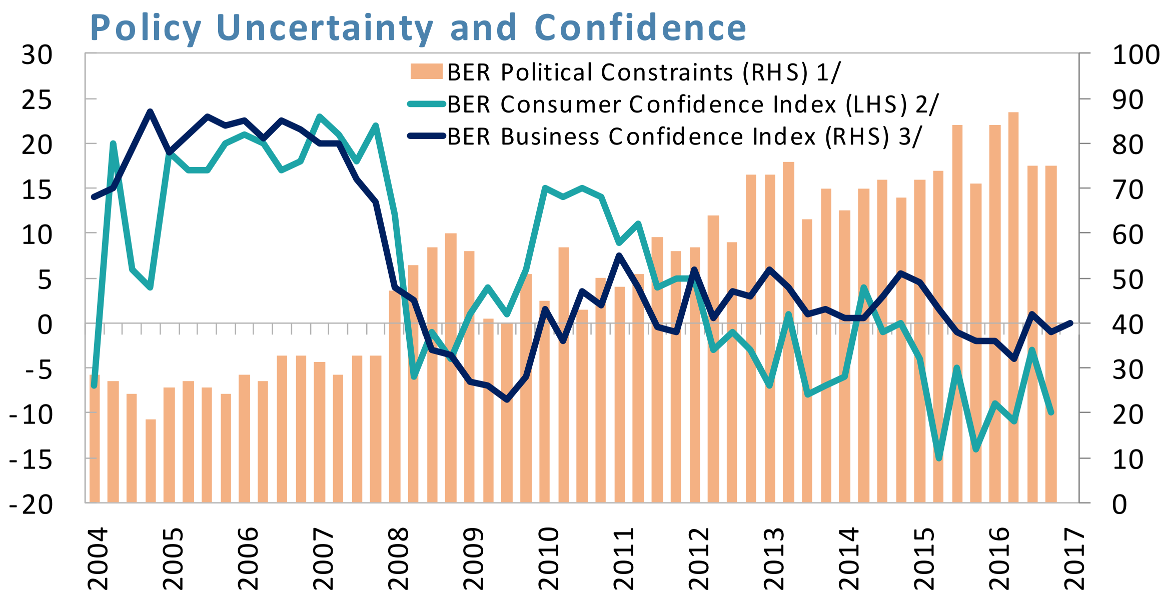
A Few Words on South Africa

Policy uncertainty has increased and confidence remains very weak

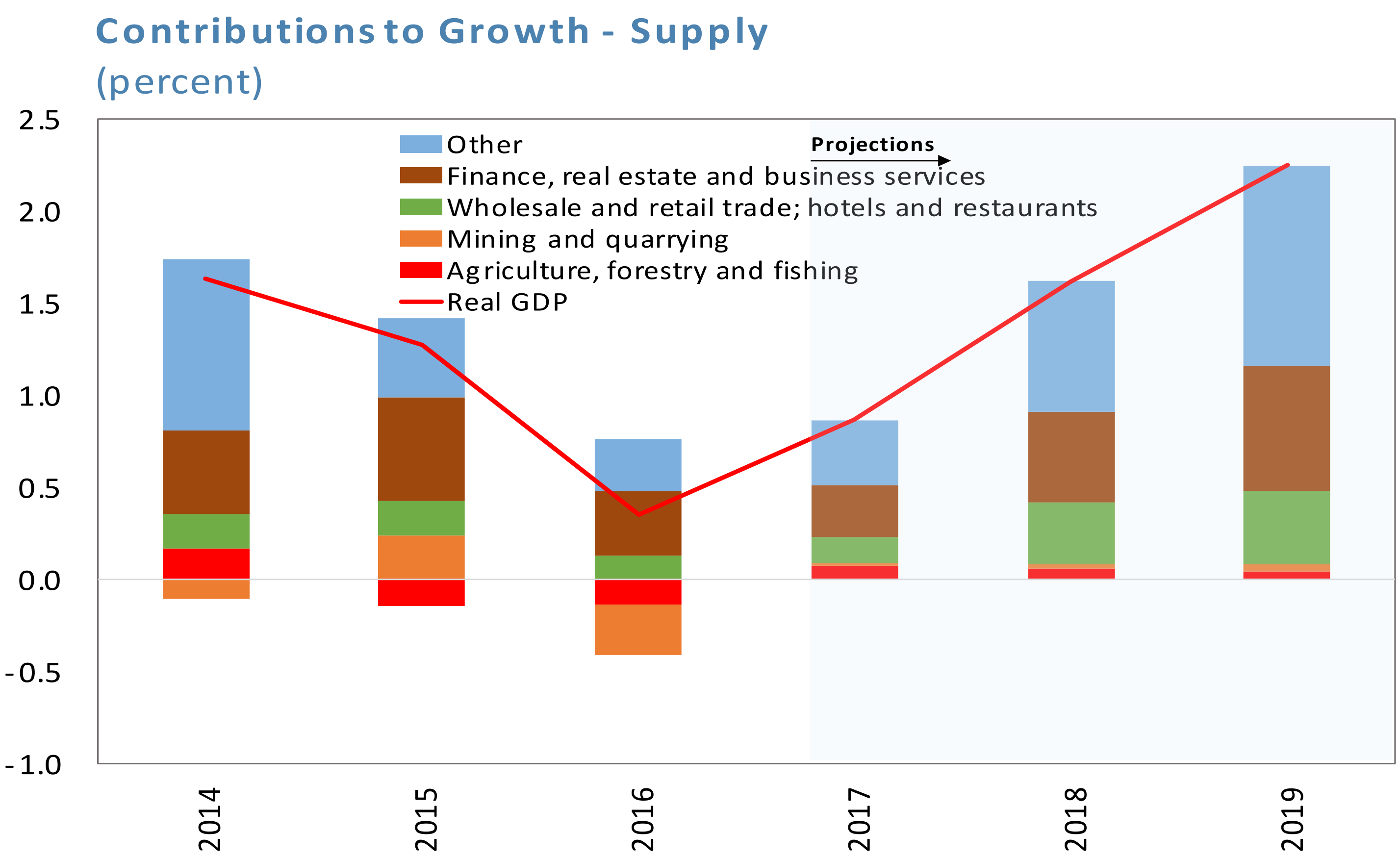


1/ BER Political Constraints shows the percentage of manufacturers who consider the political climate as a business constraint.

2/ BER Consumer Confidence Index is expressed as a net balance. The net balance is derived as the percentage of respondents expecting an improvement less the percentage expecting a deterioration.

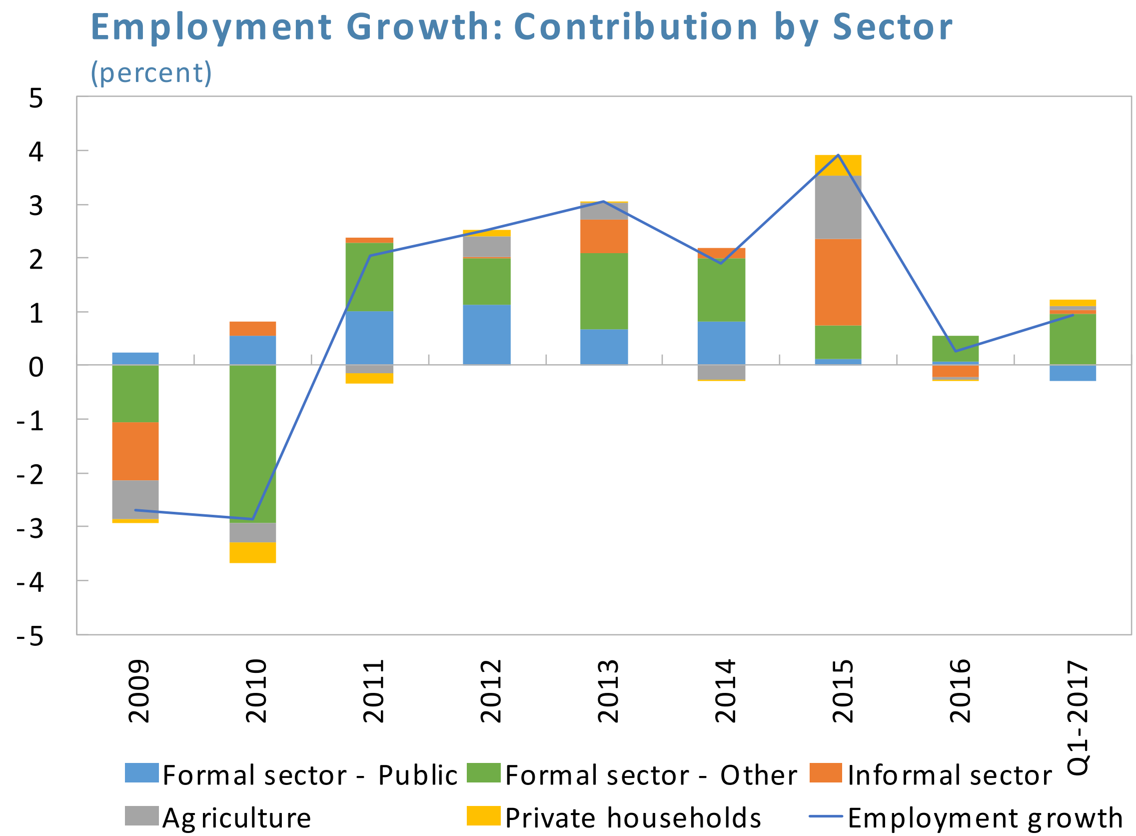
3/ BER Business Confidence Index shows the percentage of business respondents who consider current business conditions as "satisfactory" as opposed to "unsatisfactory".

Agriculture and mining stabilization drive the 2017 recovery with business cycle sensitive sectors taking over thereafter

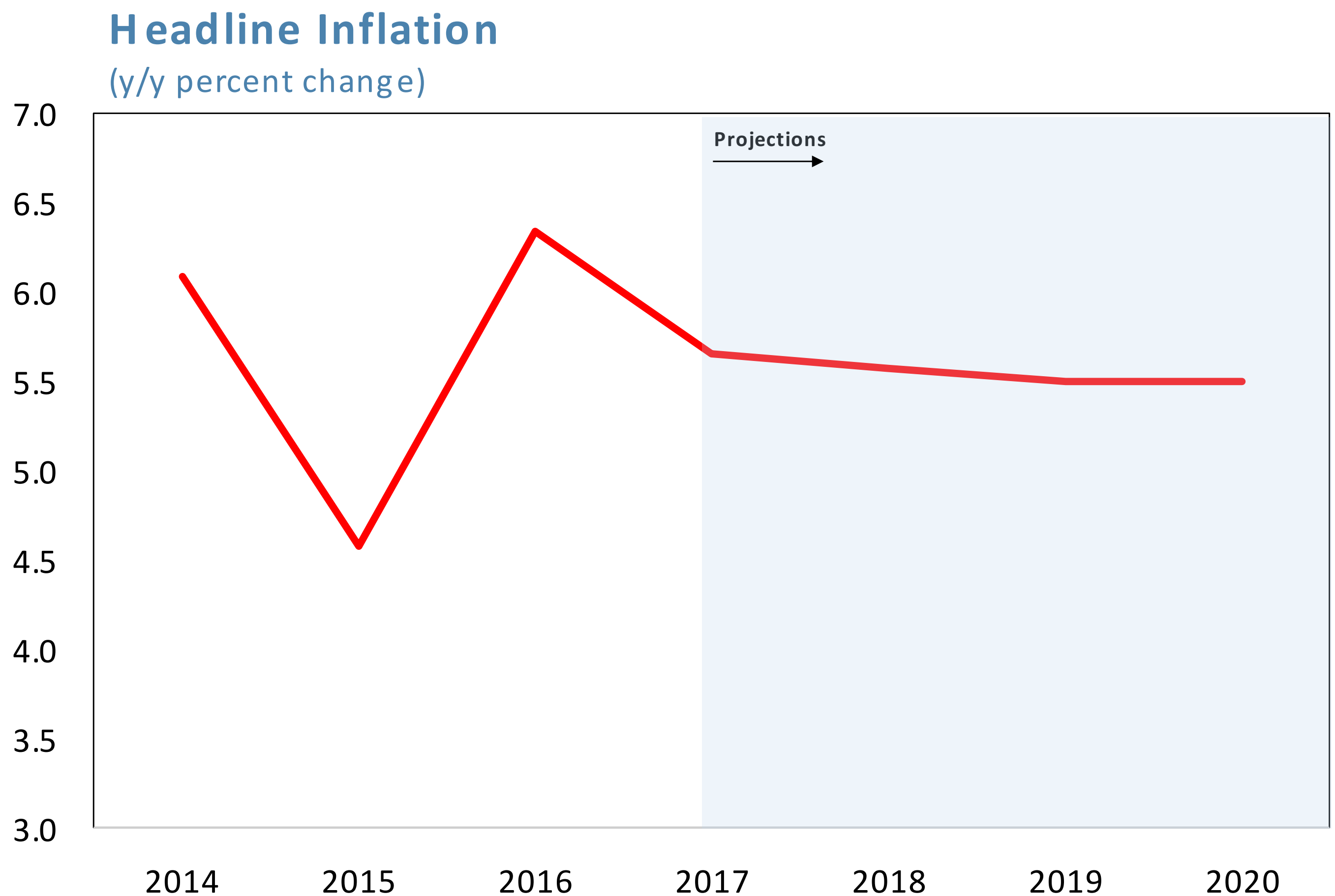


Sources: StatsSA and IMF staff calculations.

Slowing growth has been reflected in weak employment creation which ground to a halt in 2016

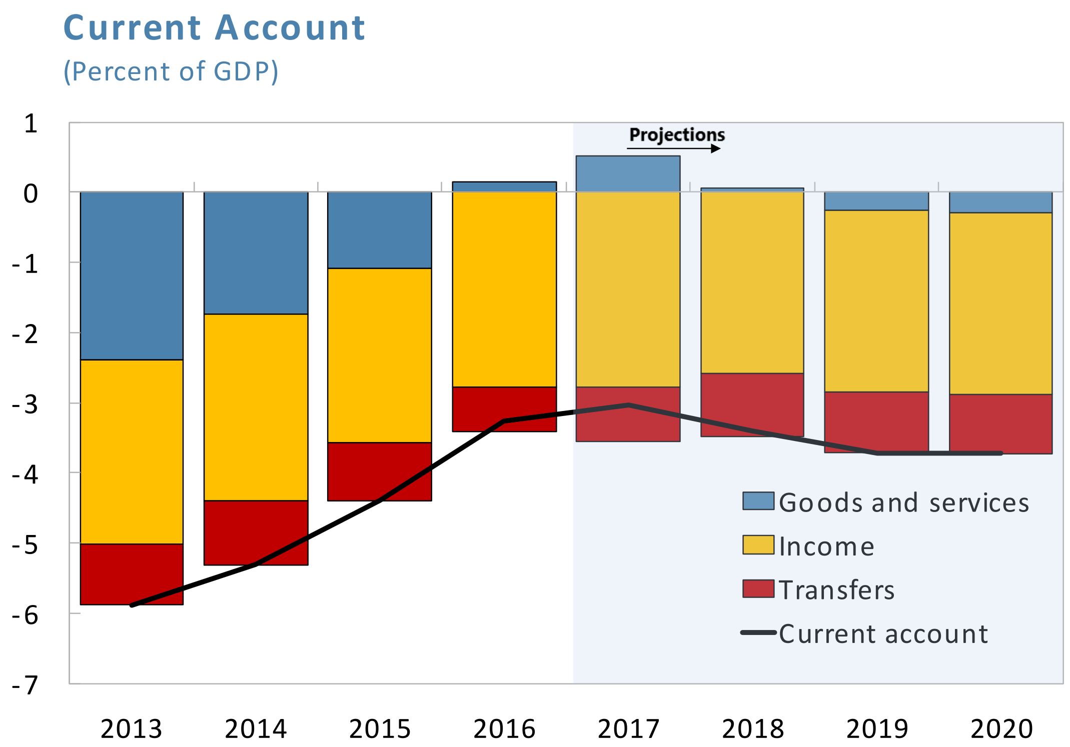


Headline inflation is expected to return with 3-6 band percent by end 2017



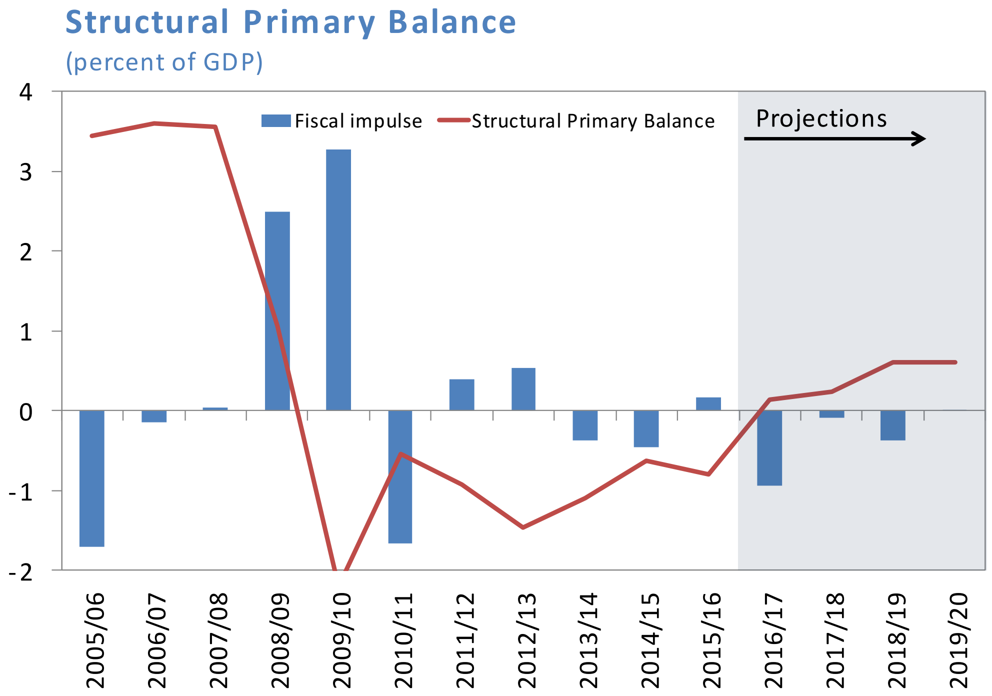
Source: IMF staff estimates.

After improving in 2016, current account balance is expected to gradually deteriorate as growth picks up



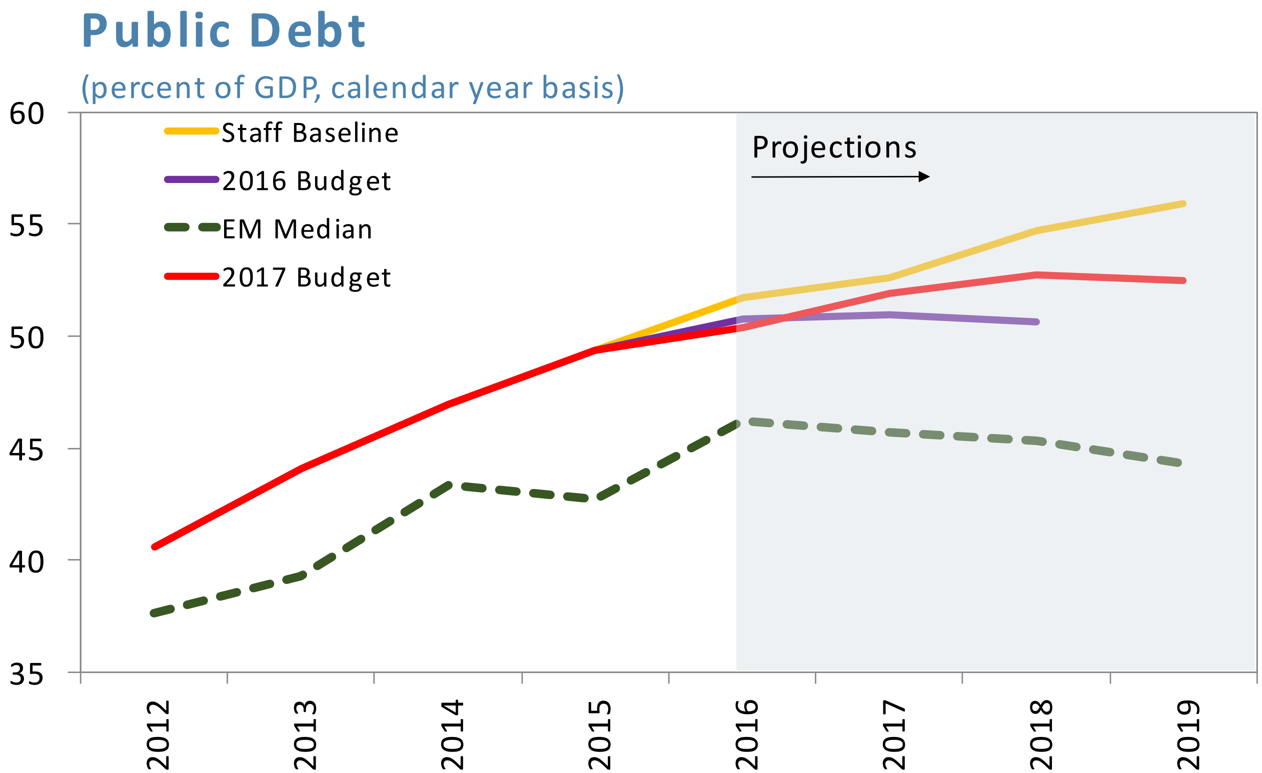
Sources: SARB and IMF staff calculations.

Fiscal consolidation is expected to continue



1/ Uniform increase in fiscal impluse necessary to reach authorities FY17/18 debt target.

…to stabilize public debt in the medium term



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Three priority areas to ensure a stronger and durable recovery:

- Reinforce emphasis on macroeconomic stability
- Structural reforms to support healthier macro balances
- Stronger emphasis on social protection

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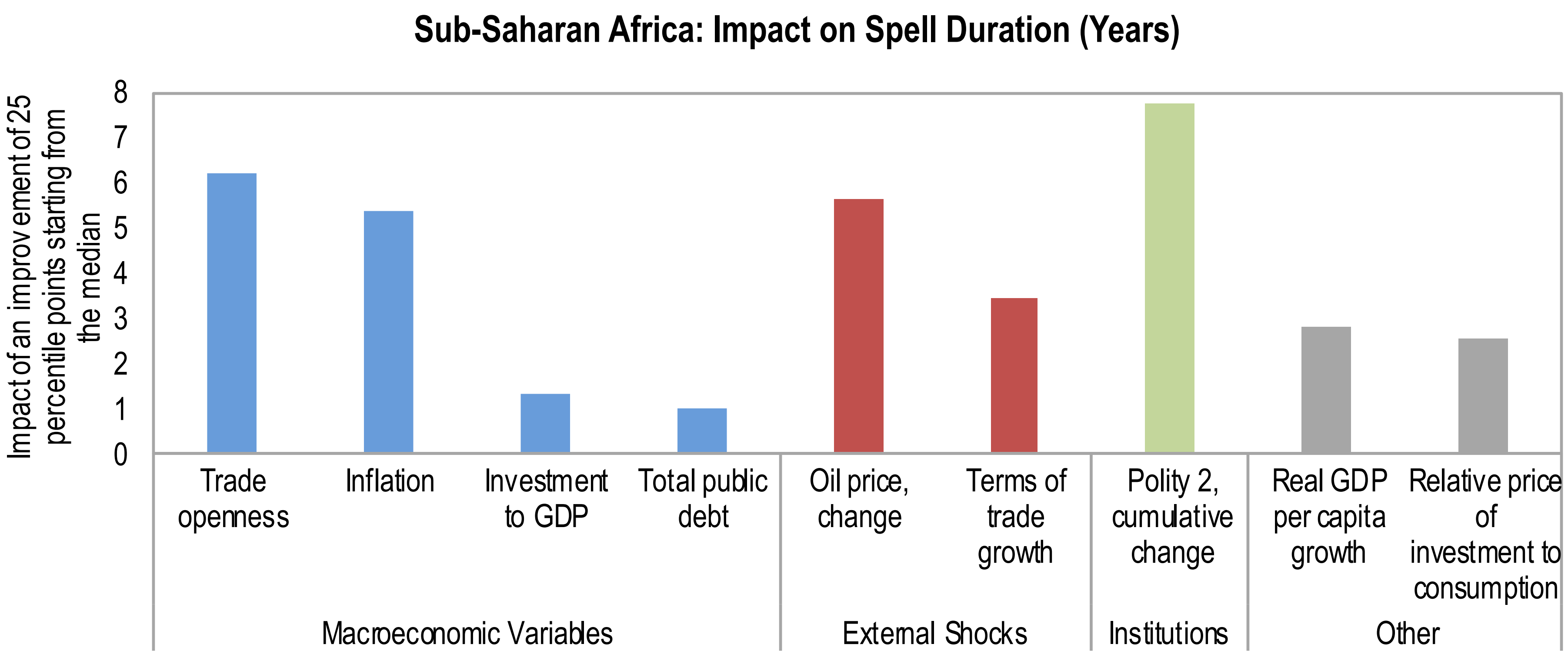
What supports growth spells: improved policies, better institutions, fewer market distortions, and a better external environment.



Note: Each bar shows the change in the expected duration of a growth spell (in numbers of years) if a variable improves by 25 percentile points from the median value in the sample of sub-Saharan African countries, while holding other variables constant.

More emphasis on adjustment needed in many cases

Hardest-hit resource-intensive countries:

- Strong fiscal consolidation required, with strong focus on revenue mobilization
- Where available, greater exchange rate flexibility/elimination of exchange restrictions important

Other countries:

- Where growth is still strong, emerging vulnerabilities need to be addressed from position of strength
- Infrastructure investment needs to be addressed through higher revenue mobilization to safeguard debt sustainability

Reforms needed to support macro objectives

- Domestic revenue mobilization
- Greater emphasis on safeguarding financial stability
- Fostering economic diversification
- State-owned enterprise reforms to limit contingent liabilities

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Stronger emphasis on social protection necessary

- Low growth and widening macroeconomic imbalances risk aggravating social dislocation and increasing poverty

- Social protection programs often fragmented, not well-targeted, and cover a small share of the population

- Need to better target these and also use savings from regressive expenditures such as fuel subsidies to help vulnerable groups

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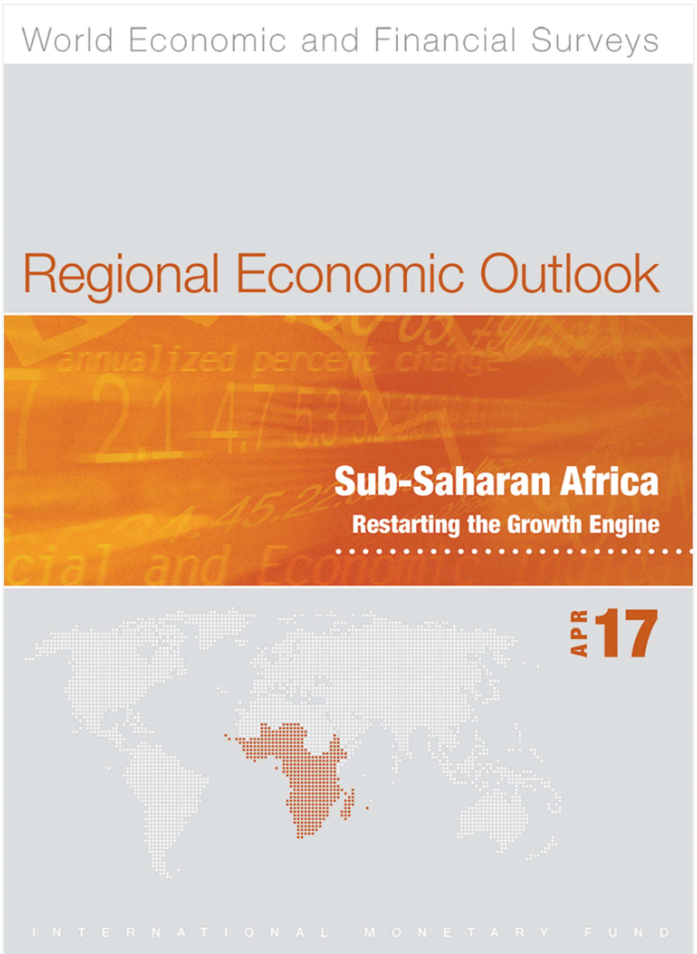
Conclusion

- Strong domestic policy response to revive growth
- Macroeconomic and structural policies
  - Countries where growth has slowed → focus on macroeconomic stability to set the stage for a growth turnaround that can be sustained
  - Countries enjoying a growth spell → address emerging vulnerabilities and focus on prolonging growth
  - All countries → complementing efforts to unlock growth potential



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