

Regional Economic Outlook for Sub-Saharan Africa

Recovery and New Risks

John Wakeman-Linn
IMF Senior Representative
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The Global Backdrop

key messages from the

World Economic Outlook

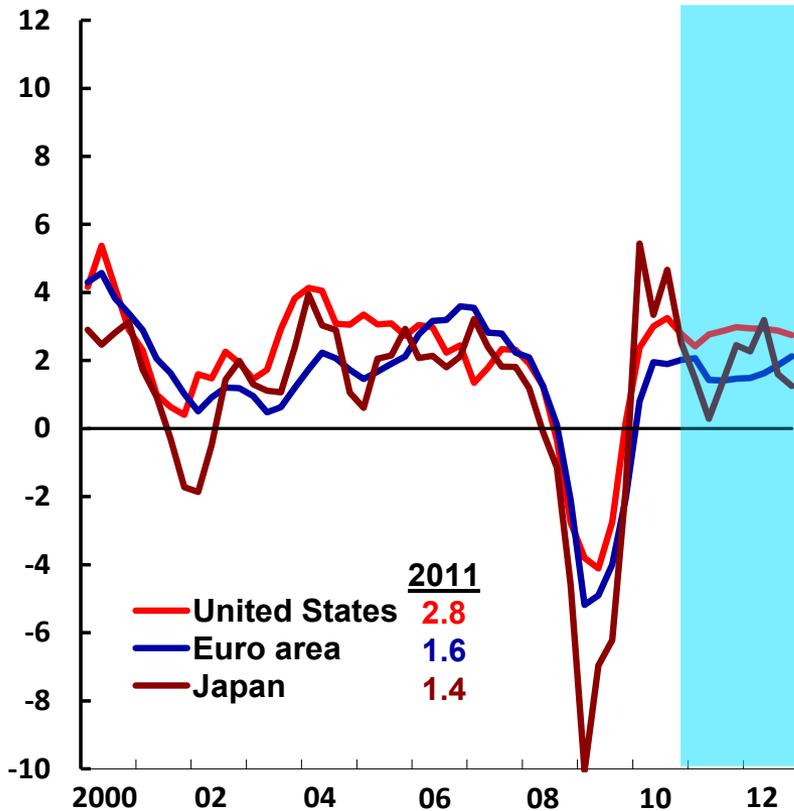
Three broad themes

- 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**.

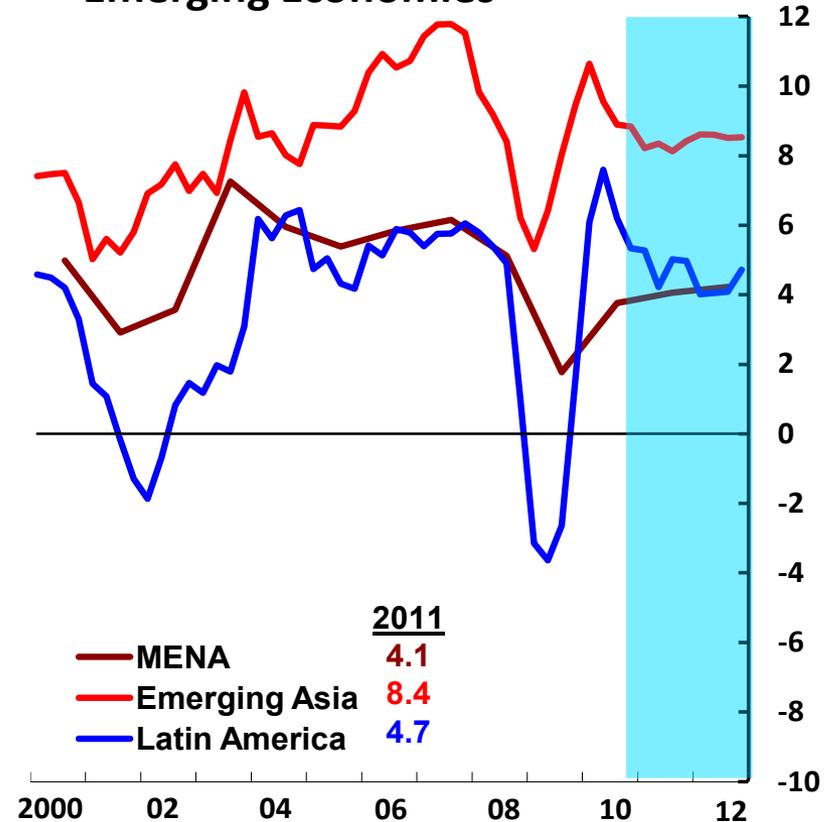
The recovery remains “multispeed” : 6½ percent growth in emerging markets; and 2½ percent growth in AE → 4½ percent global growth

(percent change from a year earlier)

Advanced Economies



Emerging Economies



Recovery is solidifying

Fiscal adjustment

Financial repair

Rebalancing

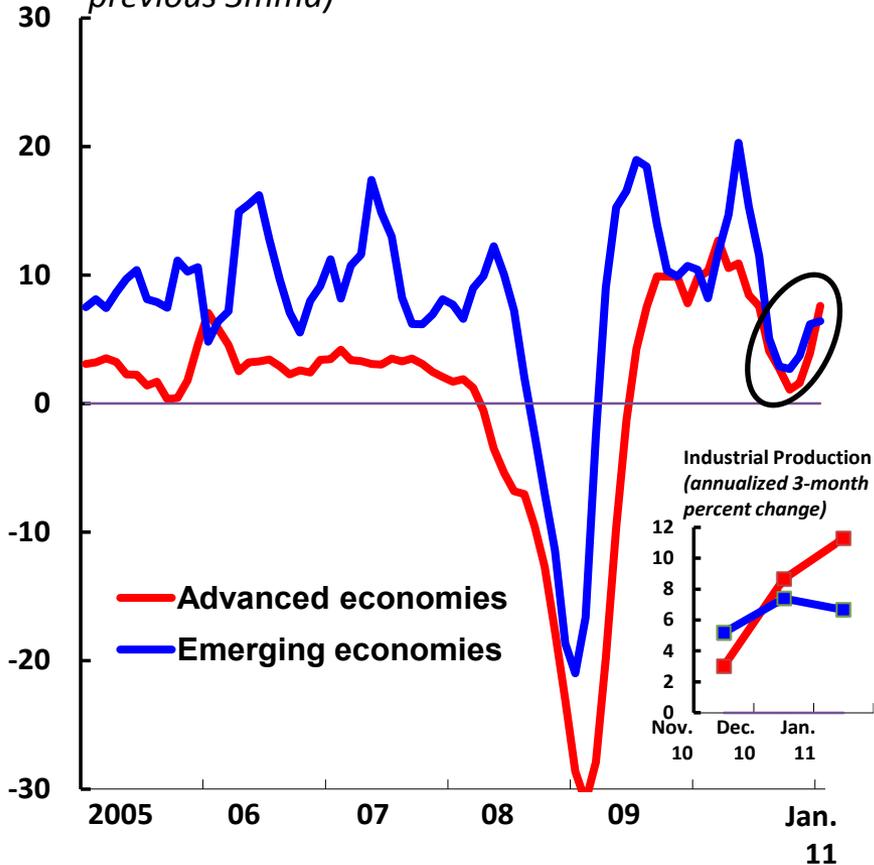
Overheating

Commodity

Evidence of the recovery is borne out by high frequency data. After an inventory acceleration-slowdown cycle, activity seems poised to reaccelerate in 2011.

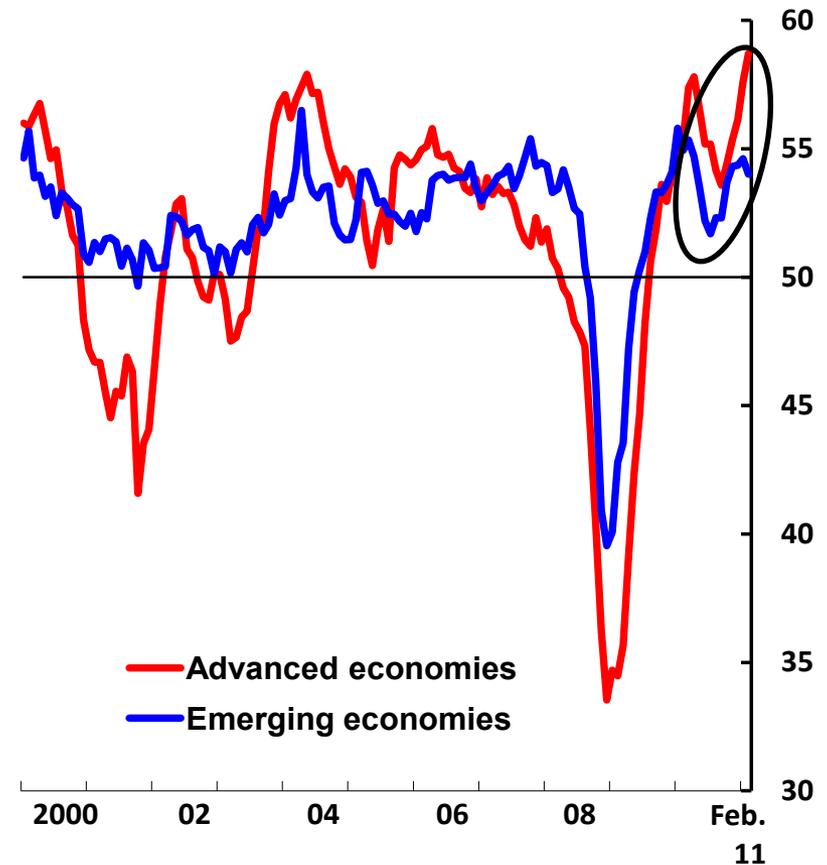
Industrial Production

(annualized percent change of 3mma over previous 3mma)



Manufacturing PMI

(index)



Recovery is solidifying

Fiscal adjustment

Financial repair

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Overheating

Commodity

Overall, downside risks, while they have diminished, remain nontrivial

Prospects for World GDP Growth

(percent change)

90% Confidence interval

50% Confidence interval

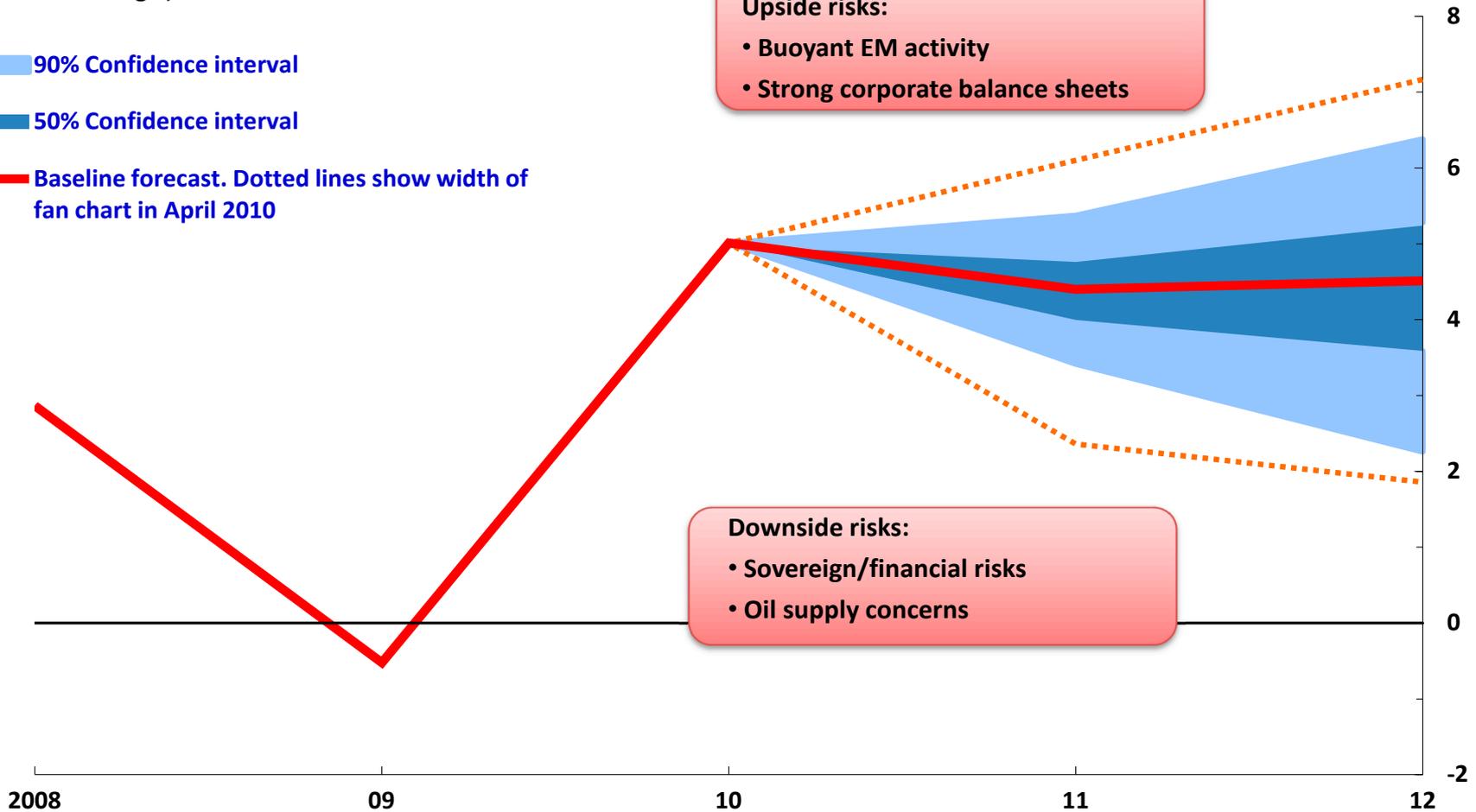
Baseline forecast. Dotted lines show width of fan chart in April 2010

Upside risks:

- Buoyant EM activity
- Strong corporate balance sheets

Downside risks:

- Sovereign/financial risks
- Oil supply concerns



Recovery is solidifying

Fiscal adjustment

Financial repair

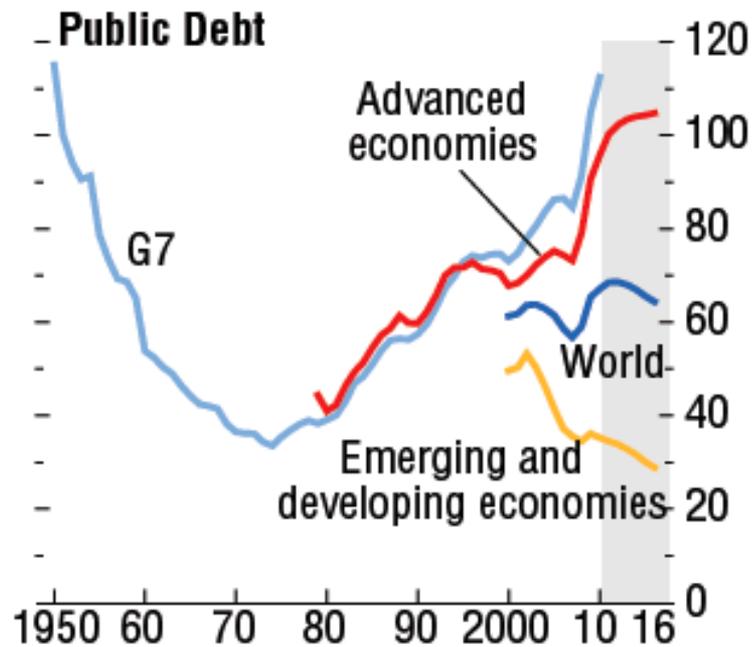
Rebalancing

Overheating

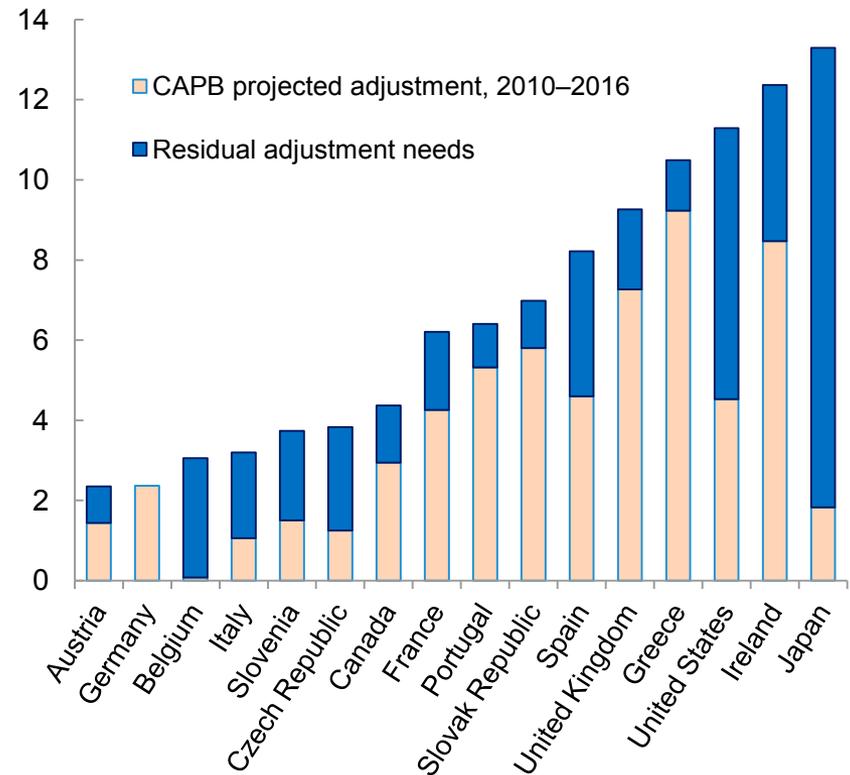
Commodity

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

Public debt levels
(percent of GDP)



Required Adjustment¹
(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 2030 and 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

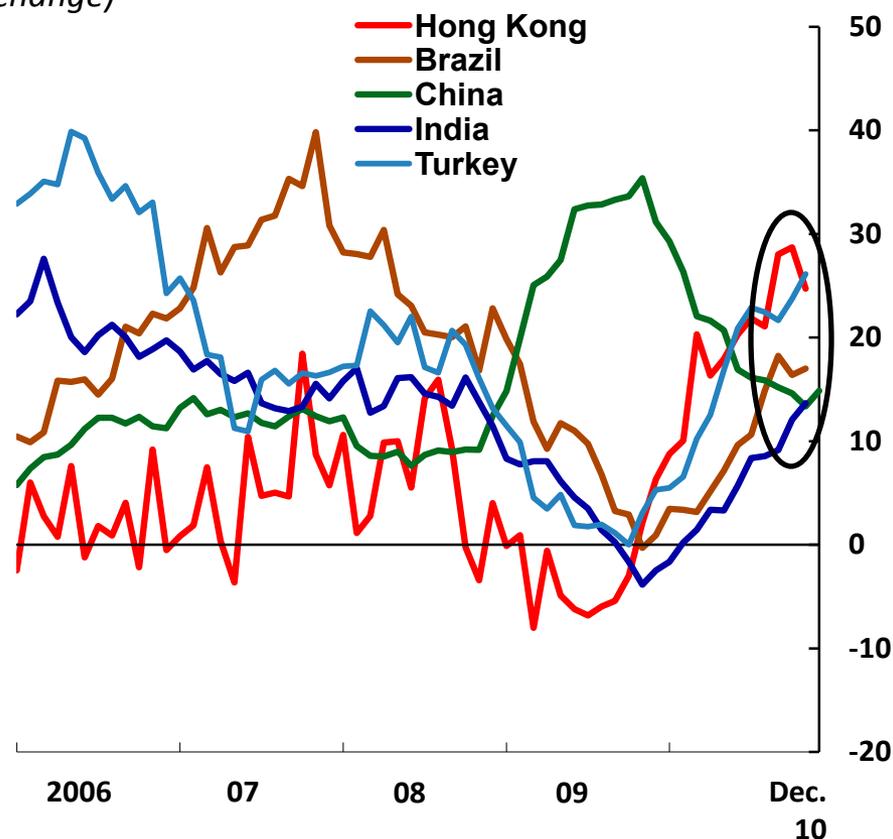
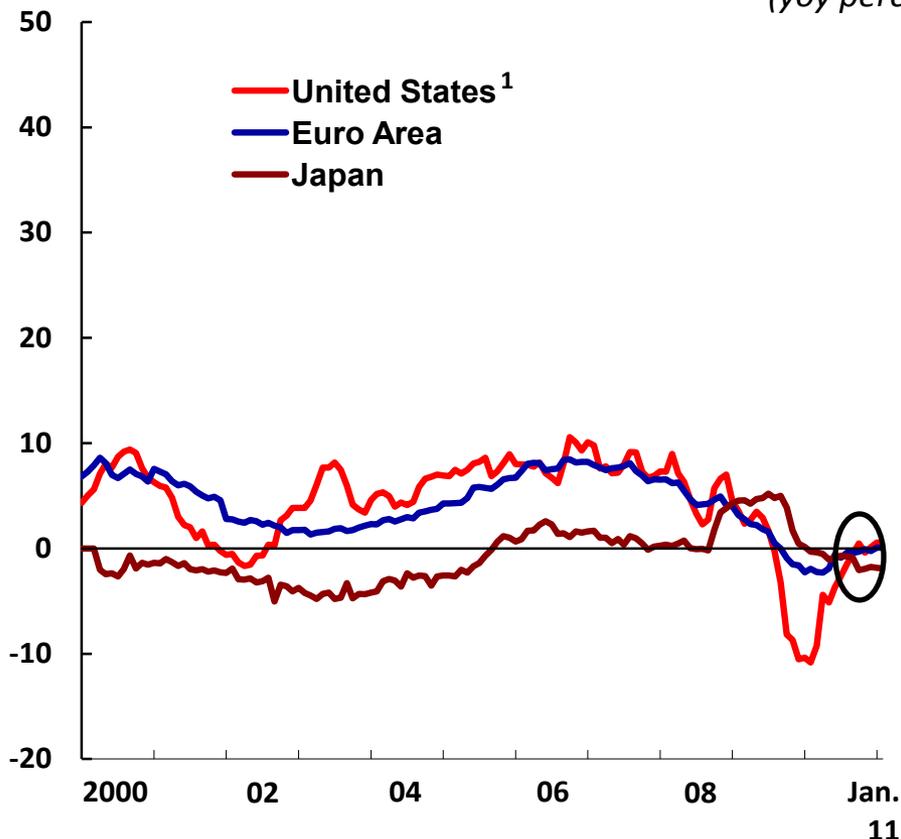
Rebalancing

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)



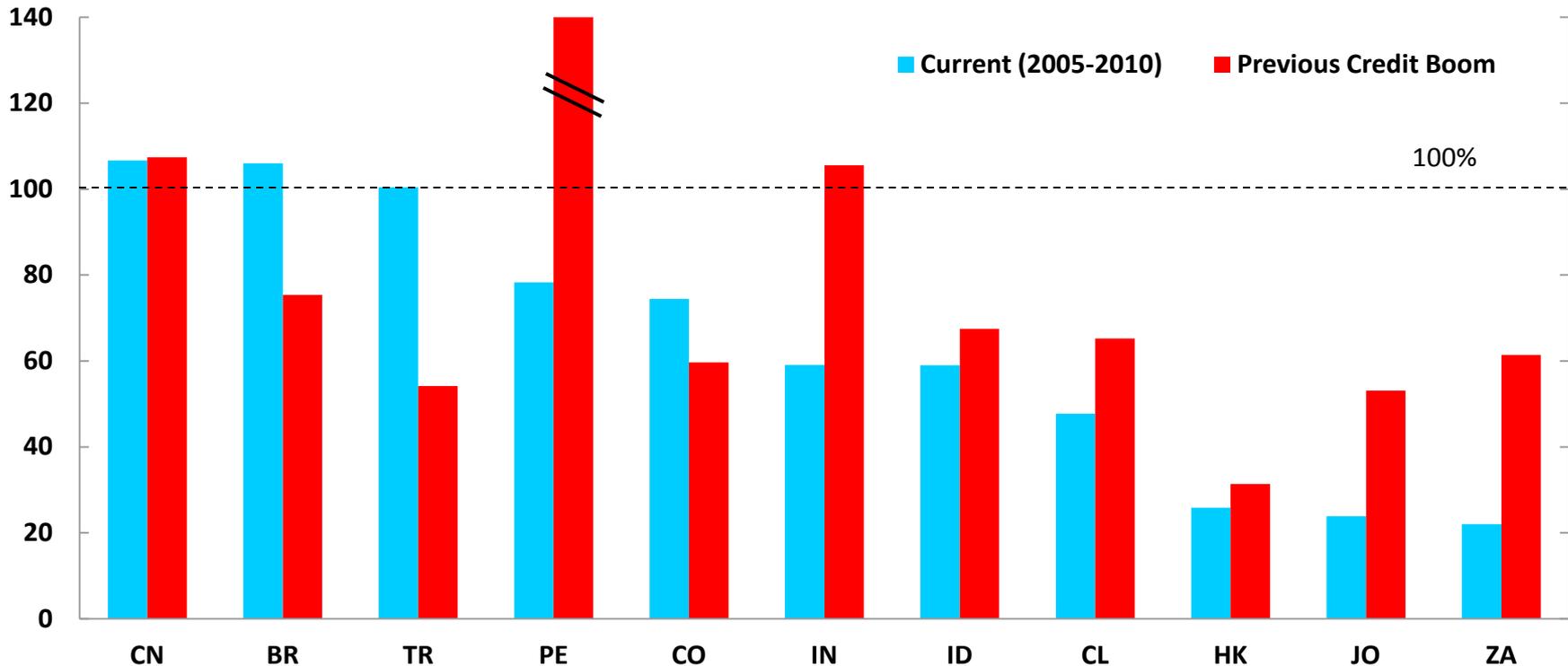
Source: Bank of Japan, European Central Bank, and the Federal Reserve Board.

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



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)



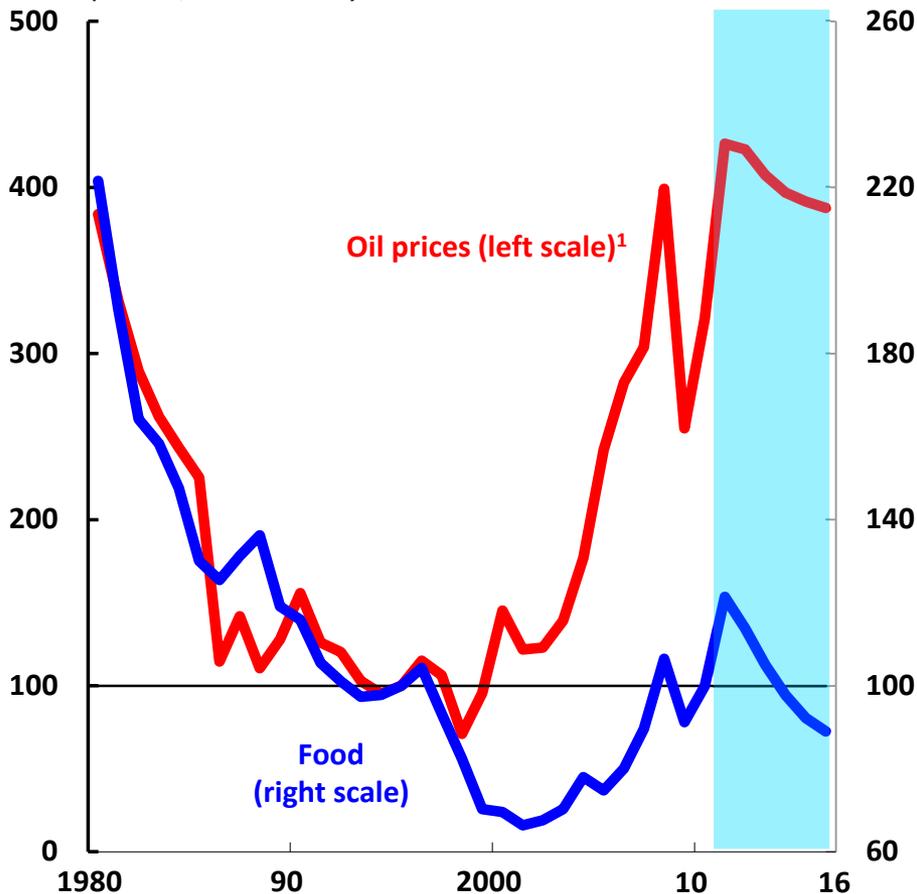
BR: Brazil, CL: Chile, CN: China, CO: Colombia, HK: Hong Kong SAR, IN: India, ID: Indonesia, JO: Jordan, PE: Peru, ZA: South Africa, TR: Turkey.



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

Real Commodity Prices

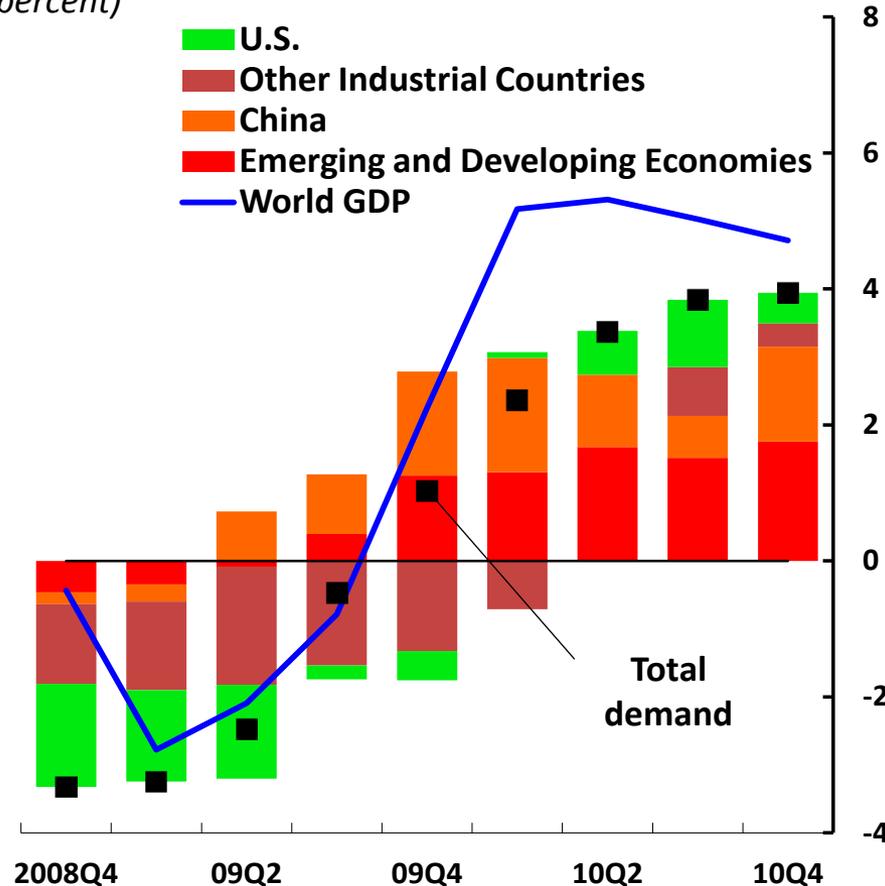
(index; 1995=100)



¹Simple 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

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Summing up

- The global economy is expected to continue recovering.
- Following the global crisis, emerging market economies are the main drivers of global growth.
- Risks to the recovery are tilted toward the downside.
- In particular, following the recent sharp increase, commodity prices—and particularly oil prices—are expected to remain high.

Sub-Saharan Africa

Following the Crisis, in Sub-Saharan Africa

Four themes set to dominate the policy agenda:

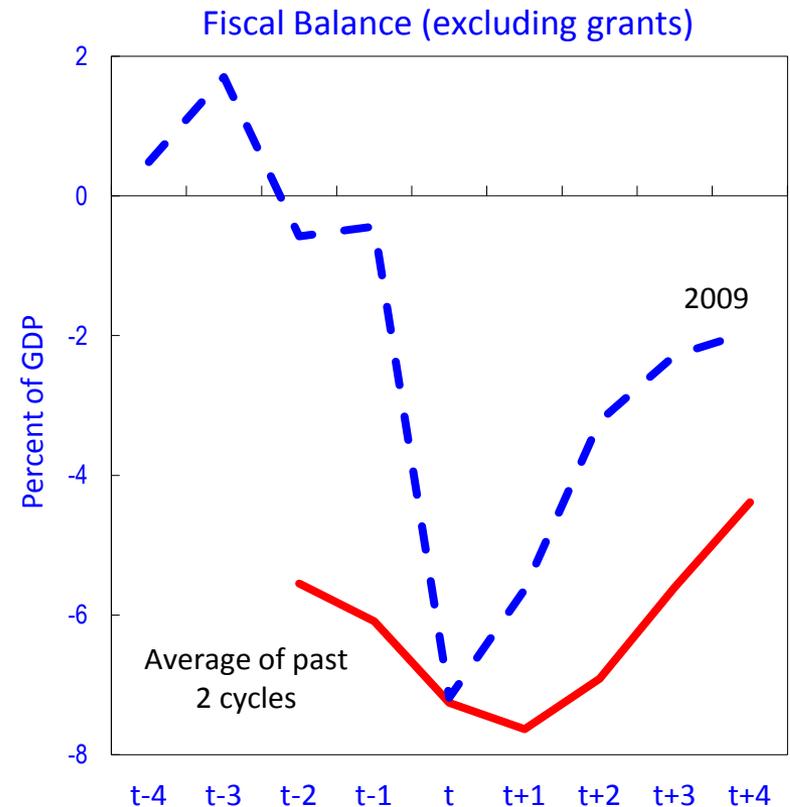
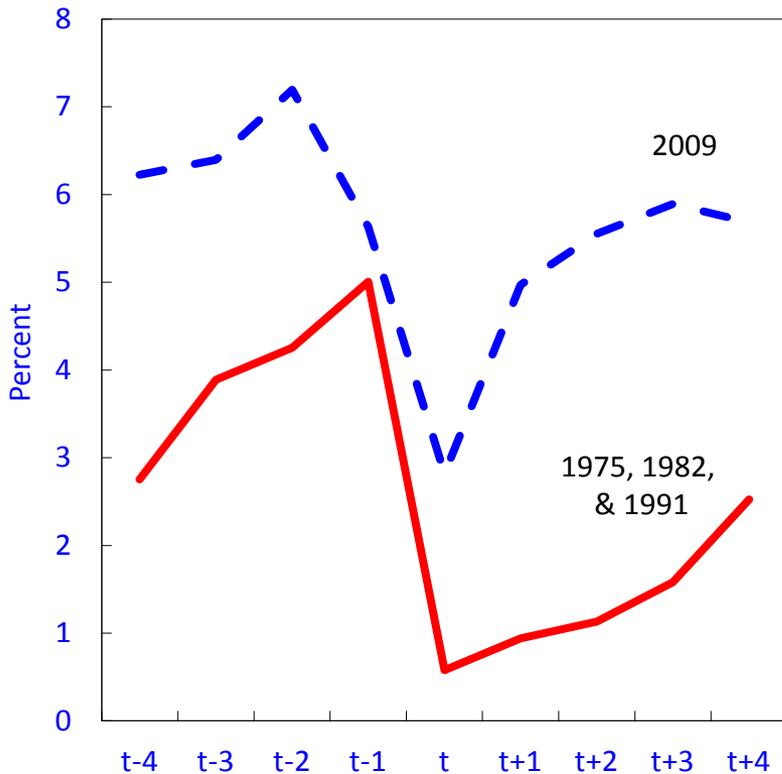
1. **Recovery** to pre-crisis growth rates is underway in most countries
2. The crisis has nonetheless caused considerable **dislocation**
3. **Tension** between the need to rebuild policy buffers and the longer-term spending needs
4. And now countries need to deal with another **food and fuel price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

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

This time was **different** . . .

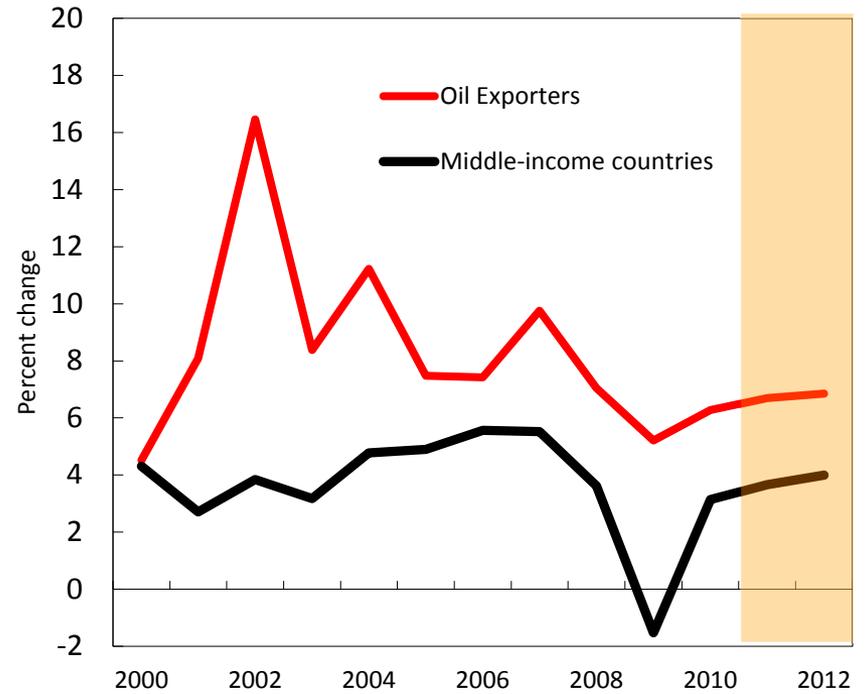
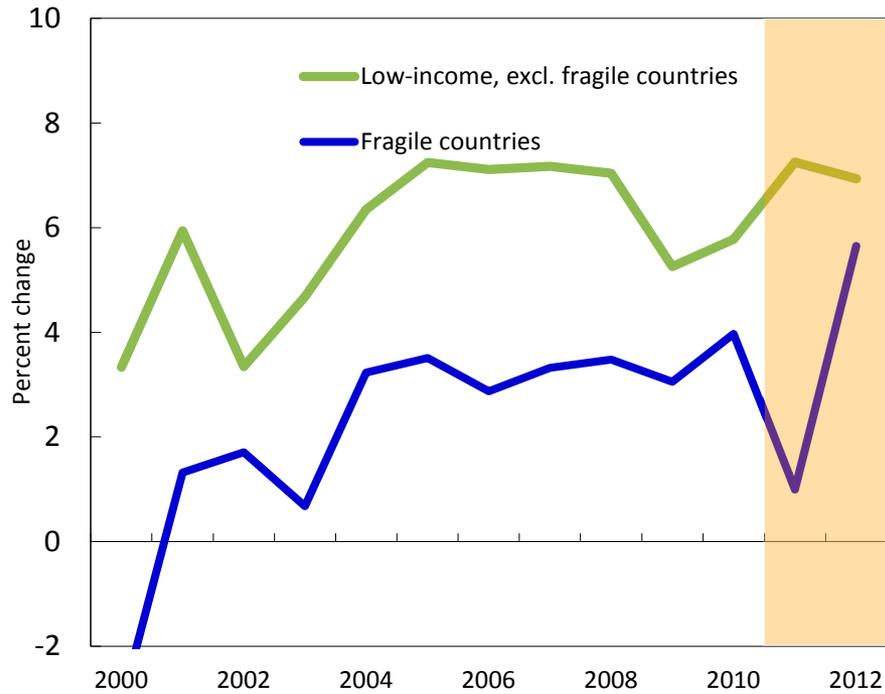
partly due to **better** initial conditions

Real GDP Growth in SSA During Global Downturns

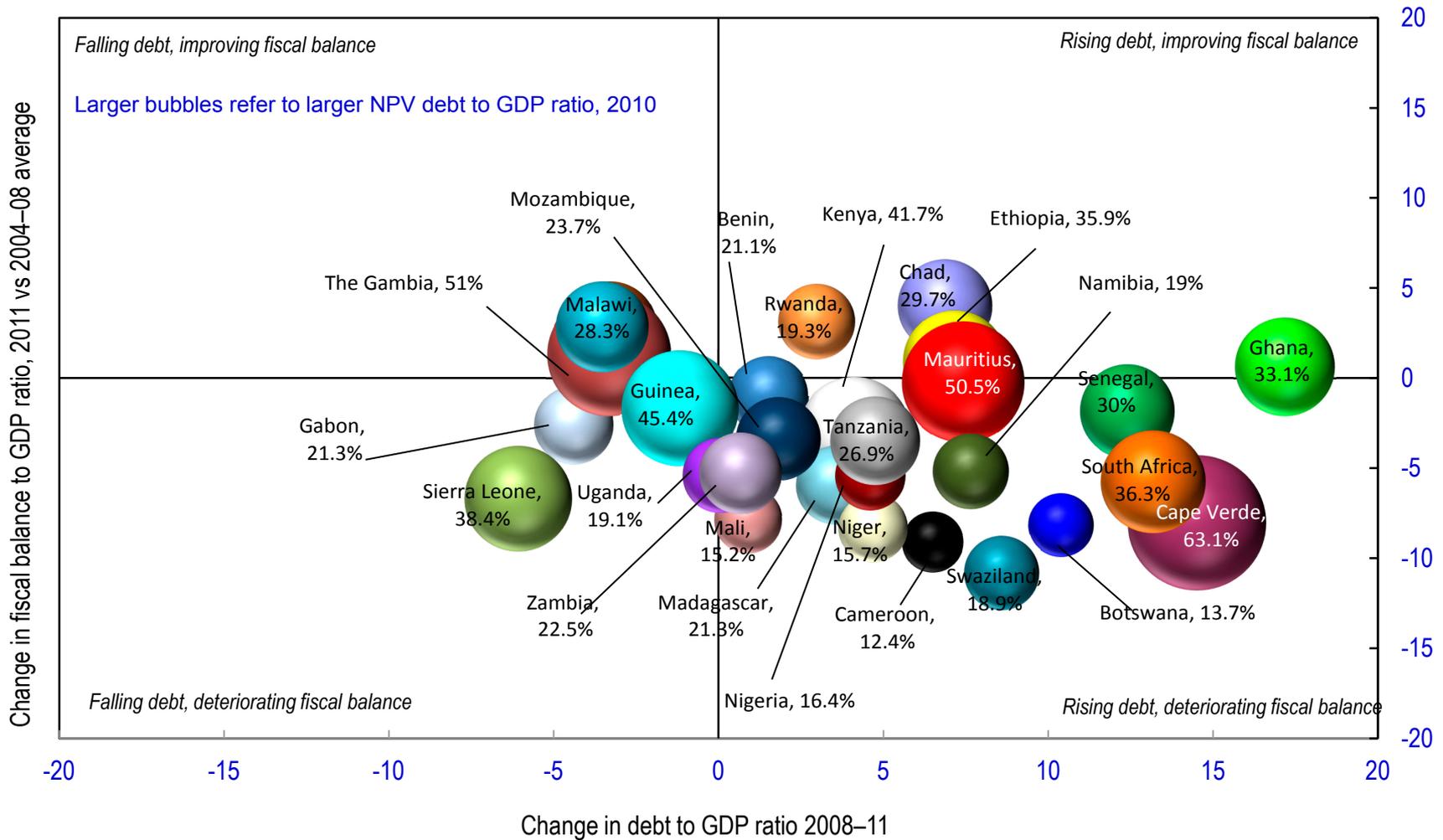


But the region-wide numbers masks a diverse set of outcomes

Real GDP Growth

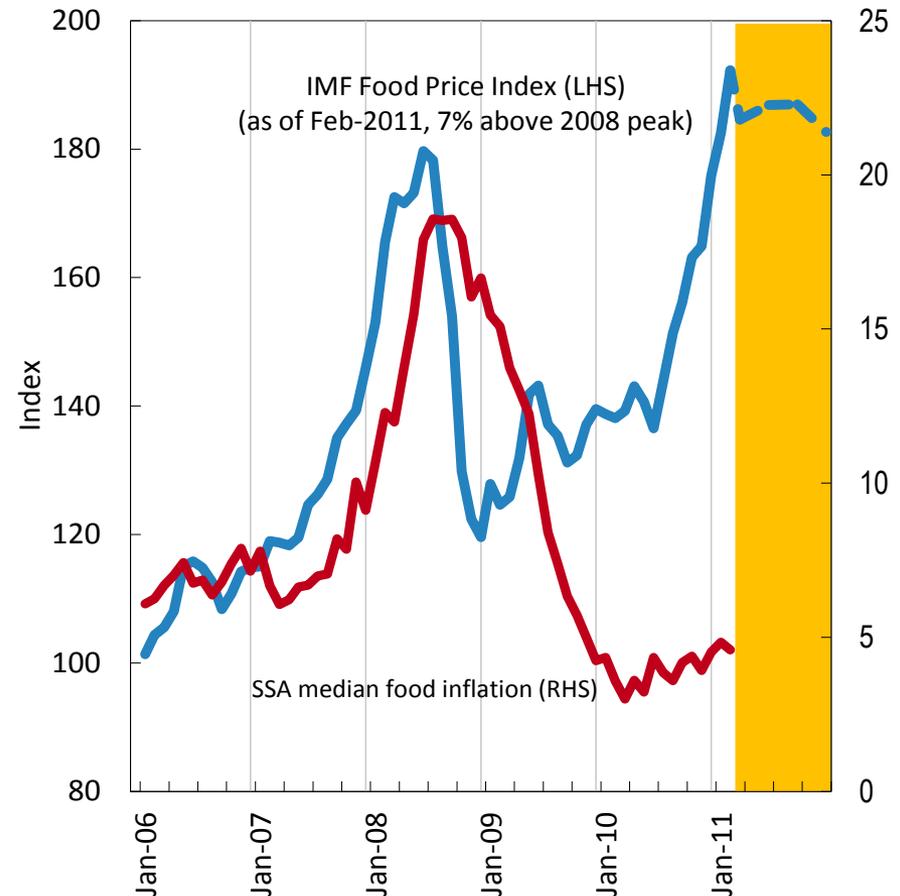


With the return to high growth, the emphasis of fiscal policy needs to shift in most countries. Striking the right balance between rebuilding policy buffers and addressing infrastructure, health, and education needs will dominate policy agenda in many countries.



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.



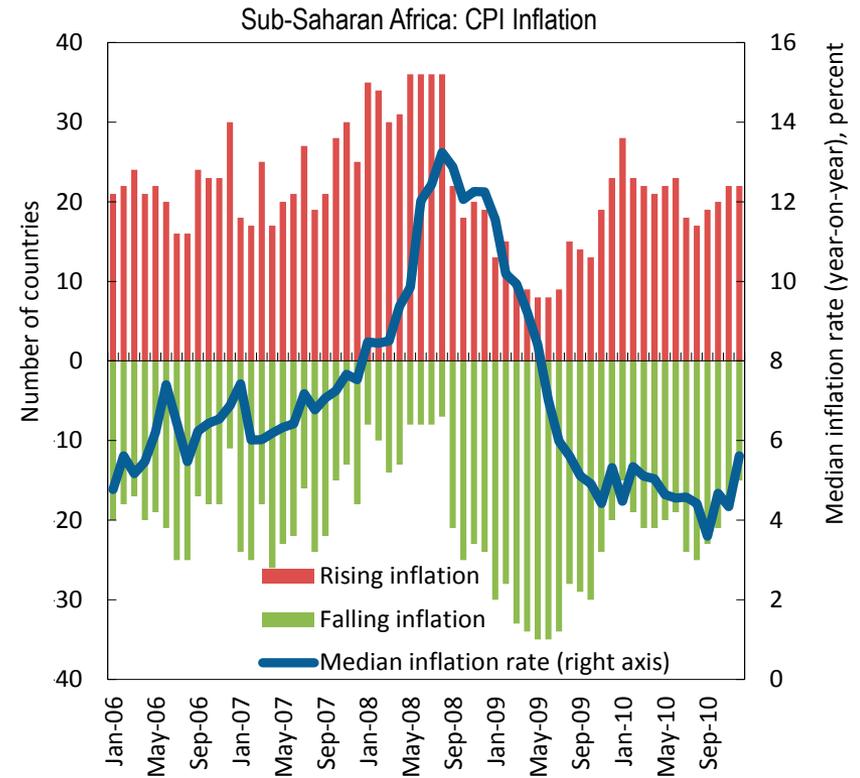
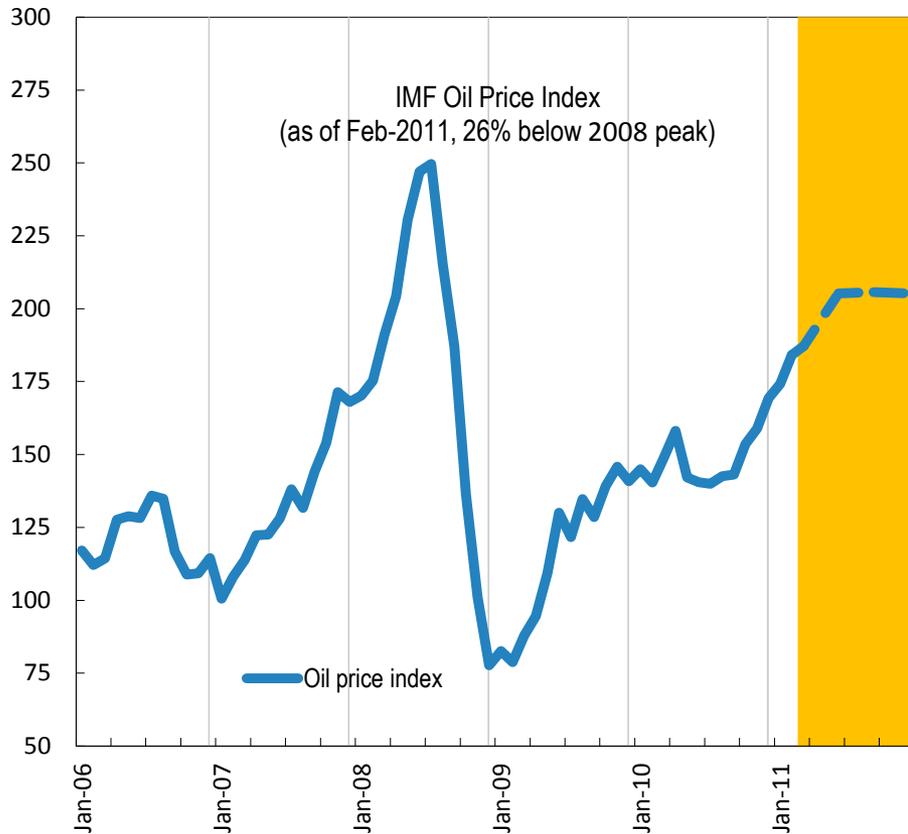
Recovery

Dislocation

Tension

Shock

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



Recovery

Dislocation

Tension

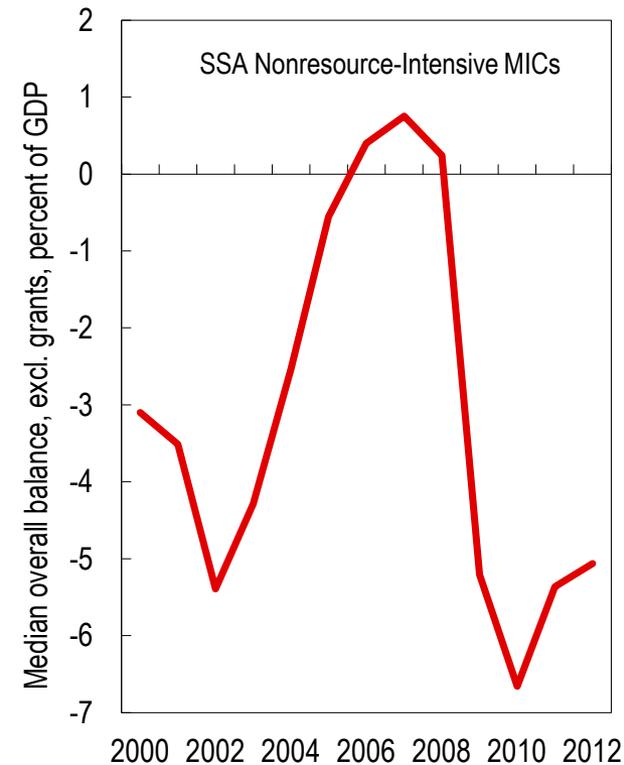
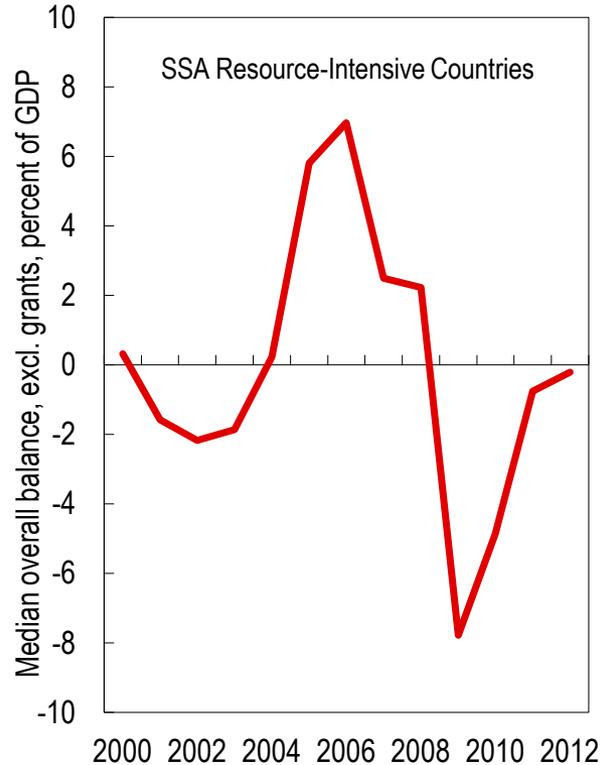
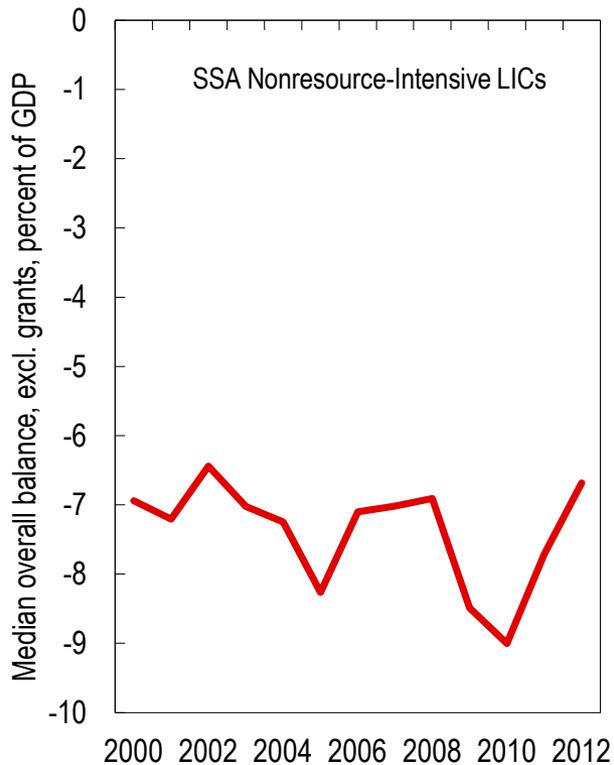
Shock

Direction for policies in the region

- **Fiscal policy**
 - Should continue to move away from supportive stance of the last few years to a more neutral stance as soon as feasible
 - Focus should be on rebuilding policy buffers
- **Monetary policy**
 - Given the recent uptick in inflation, there is need for tightening bias in most countries

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

Sub-Saharan Africa: Overall Balance Excluding Grants, 2000–12



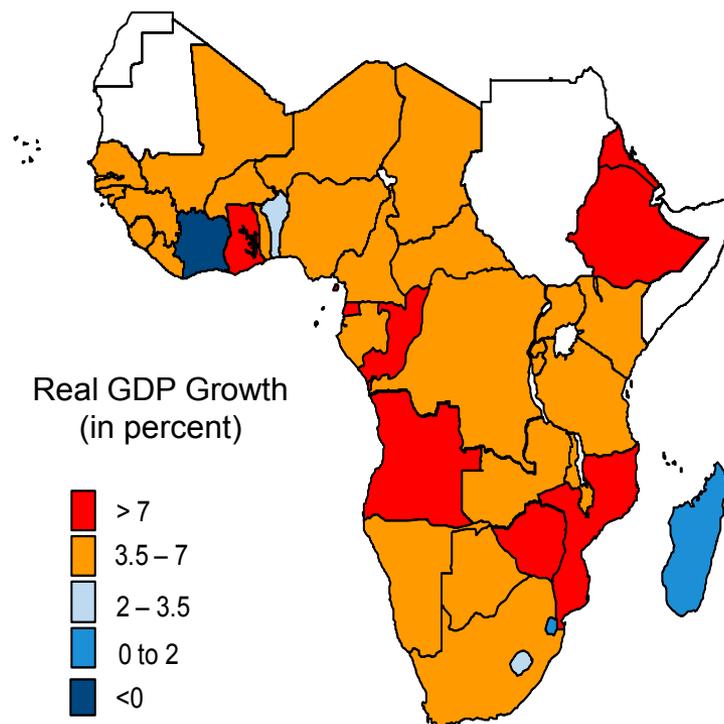
Where food price increases have been pronounced, interventions targeted at the neediest groups should be adopted

What of fuel price subsidies? In general, these should be avoided because they are regressive and very costly

In sum:

- Recovery is under way in most of the region's oil exporters and low-income countries; southern Africa is where recovery to pre-crisis growth rates is likely to be beyond reach for some time
- Growth in many low income countries barely slowed in the global recession and is again comfortably above 5 percent.
- Eastern Africa countries are faring particularly well: Mozambique, Tanzania, Uganda and Malawi and Zambia. Also some oil exporters: Nigeria, Republic of Congo.
- Resilience evident throughout SSA, mainly because of much improved policies prior to global recession.
- 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.

Sub-Saharan Africa: 2011 Growth Outlook



Tanzania

Tanzania

Economic Outlook

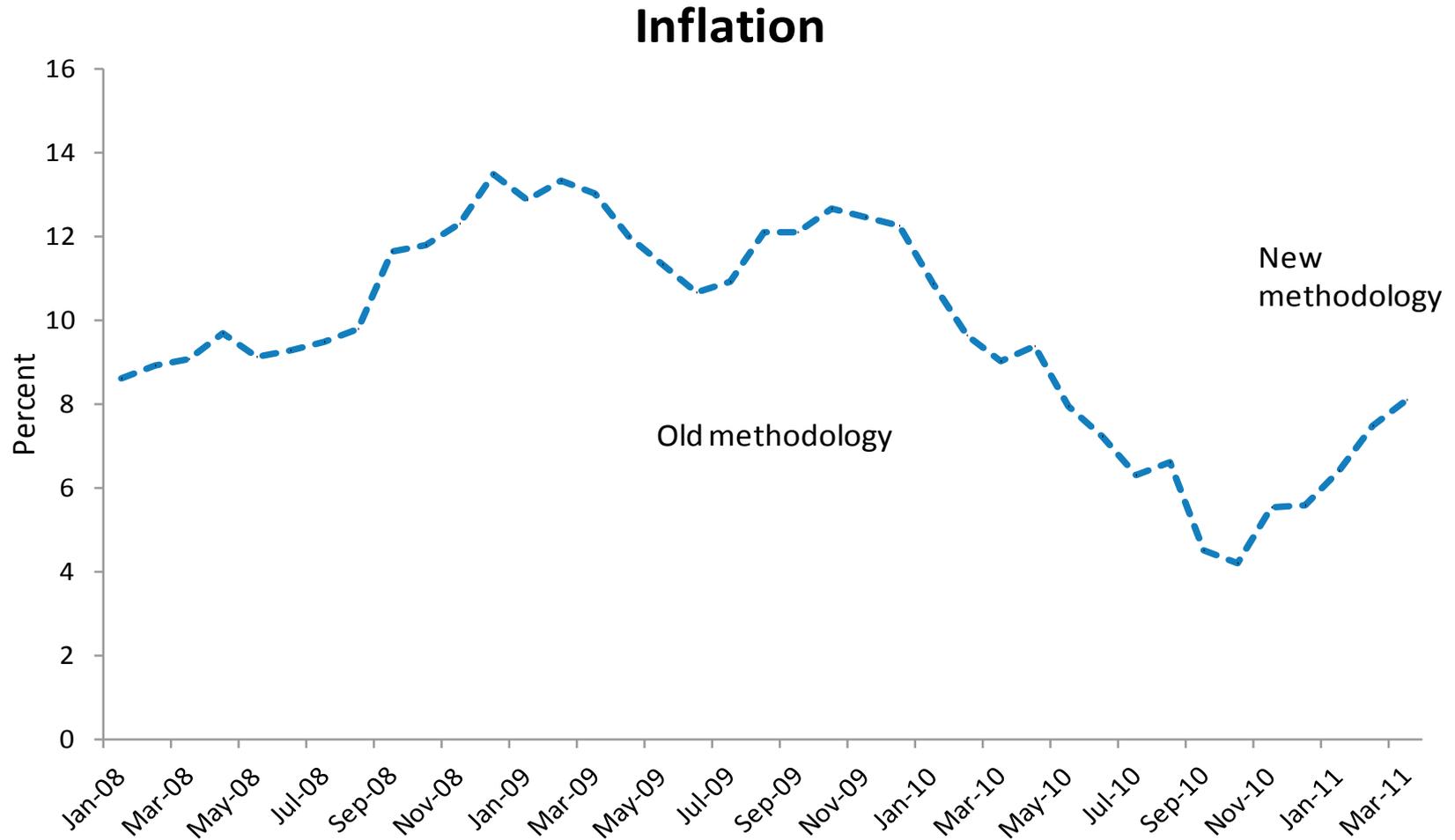
GDP Growth

- Growth prospects are good

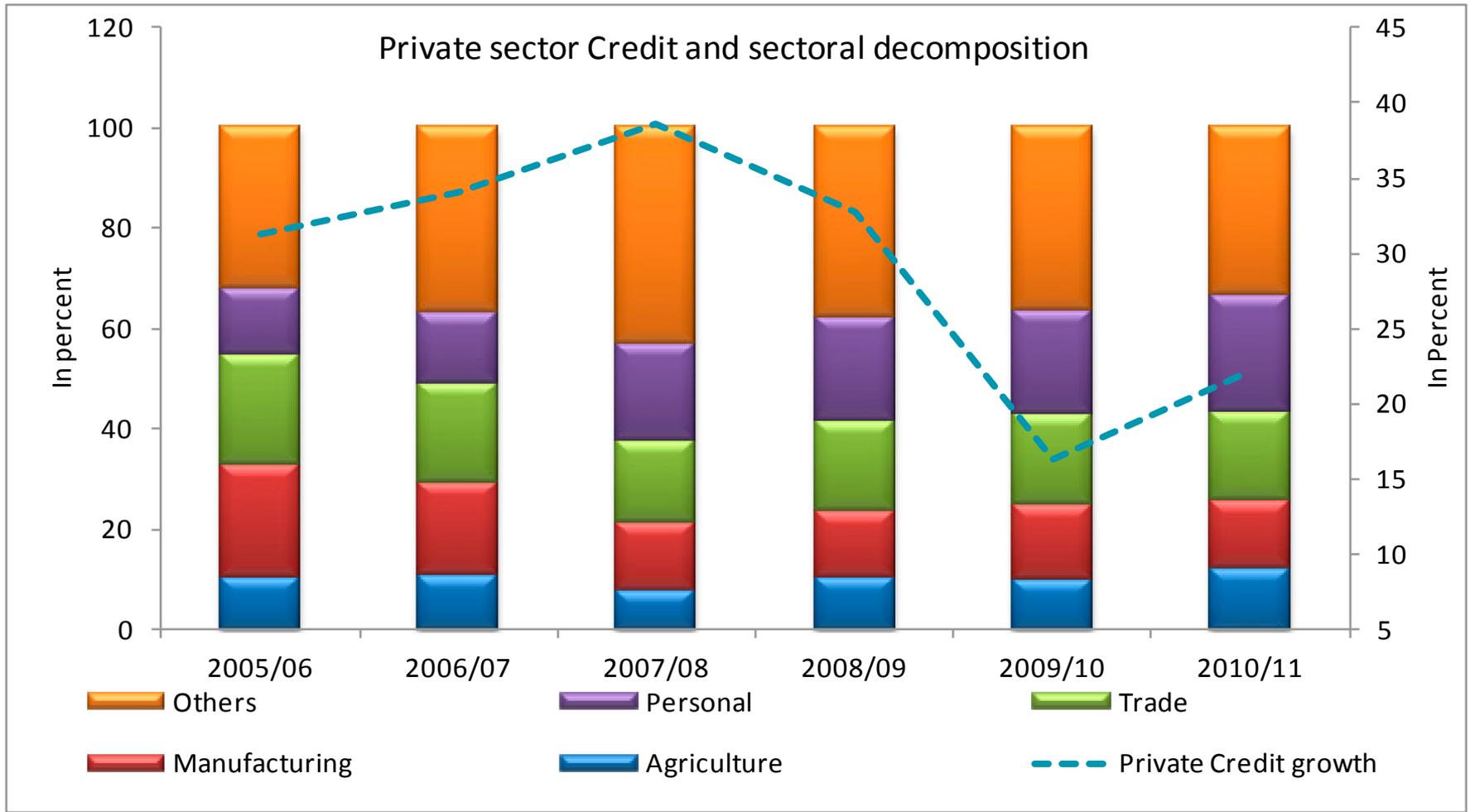


- For 2010 Growth was an estimated 7%
- 2011, we anticipate a fall in activity early in the year, due to challenges resulted from rising food and fuel prices and delays in rains which affected the electricity generation
- Solid growth prospects are projected for years ahead , with growth for 2011 projected to be 6%

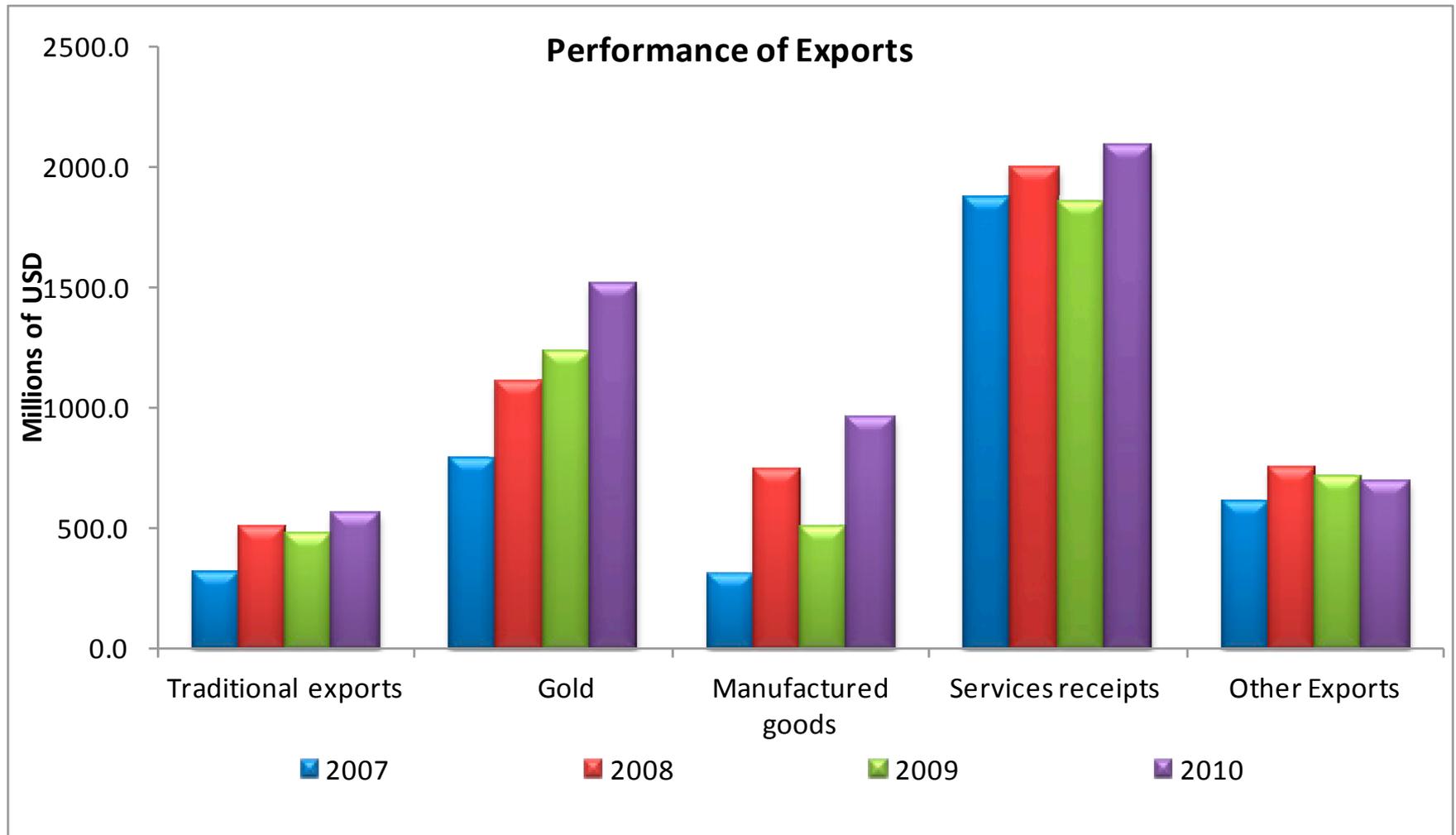
Inflation eased in 2010, however high food and fuel prices pushed up prices in early 2011



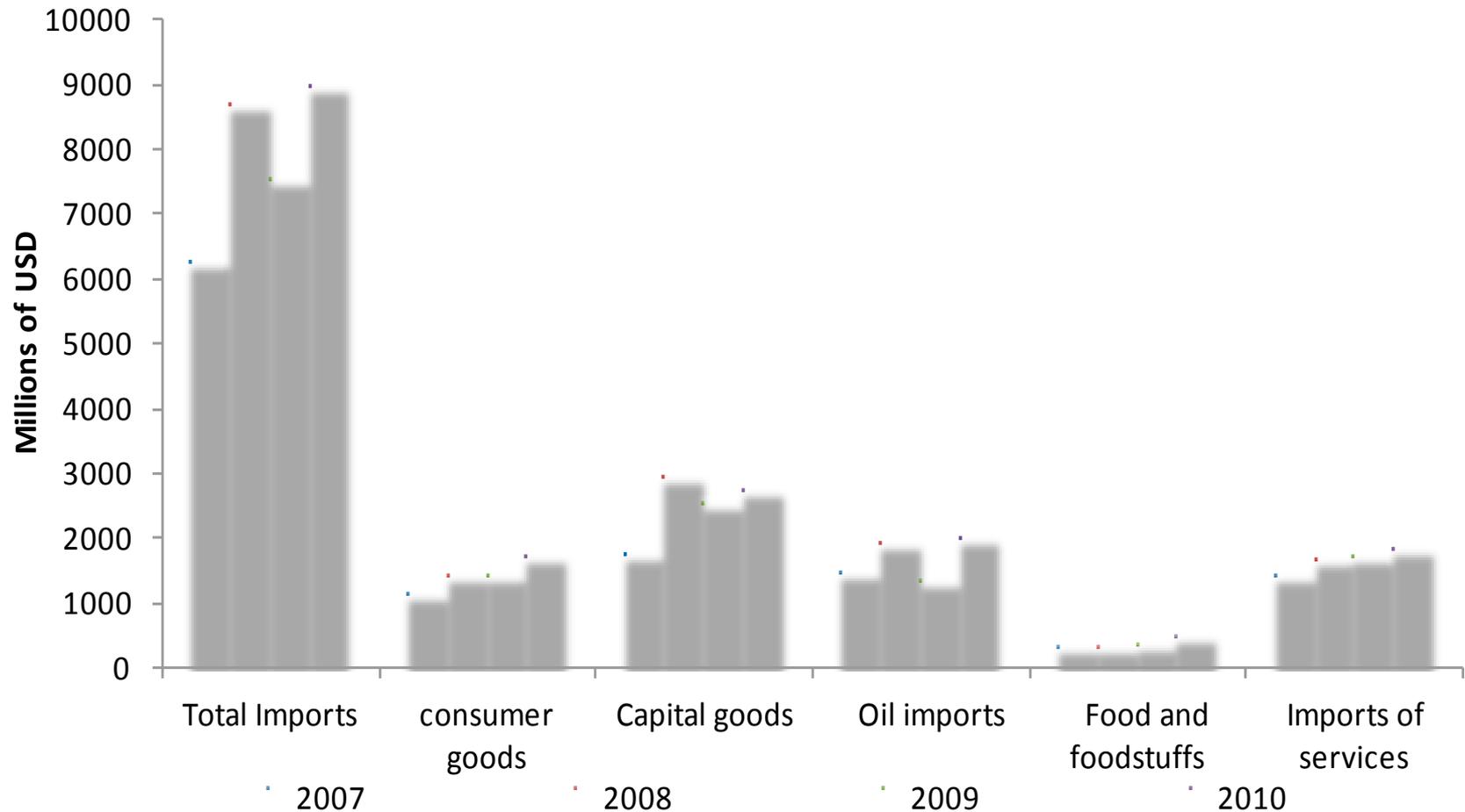
Private credit growth is picking up



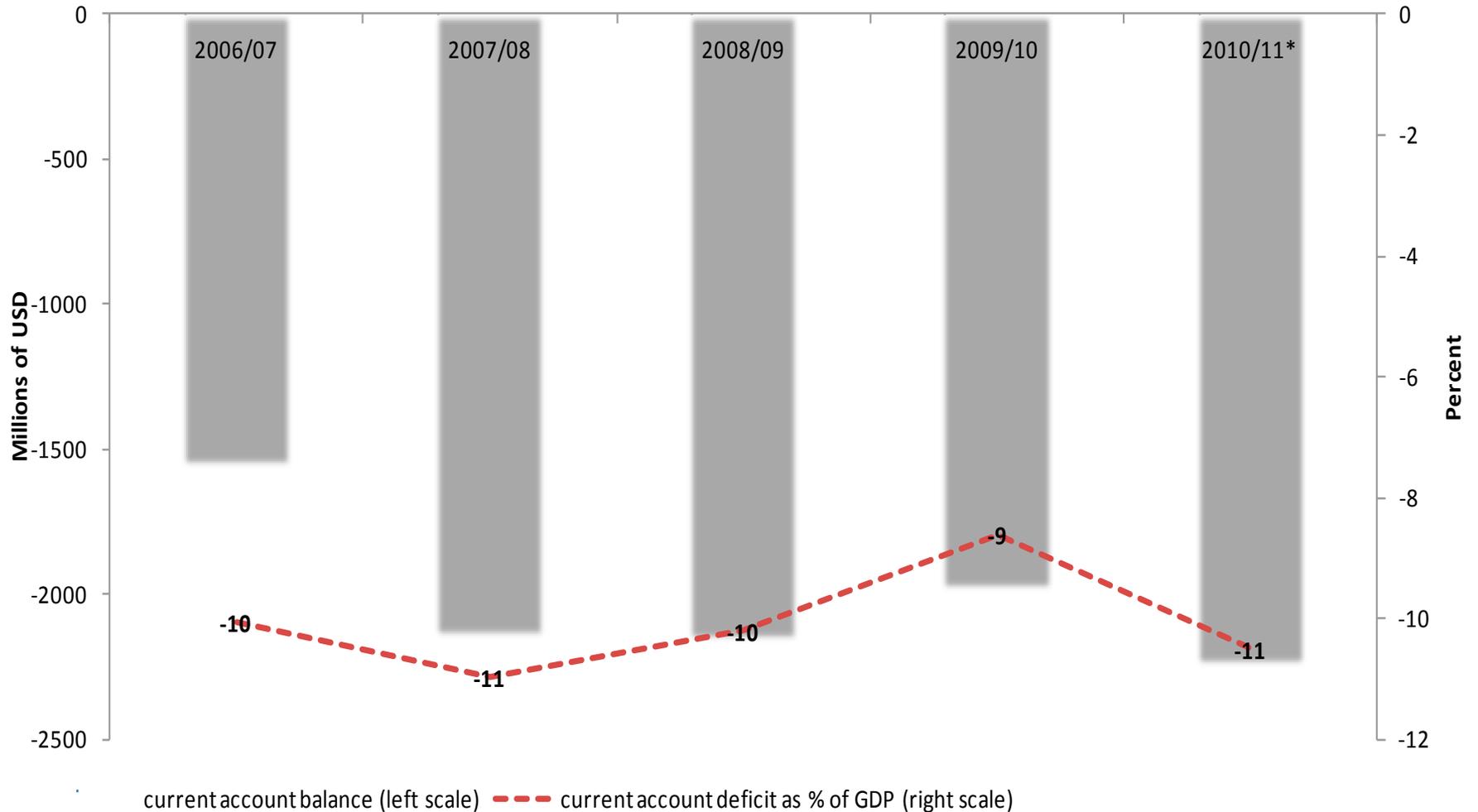
Exports are picking up



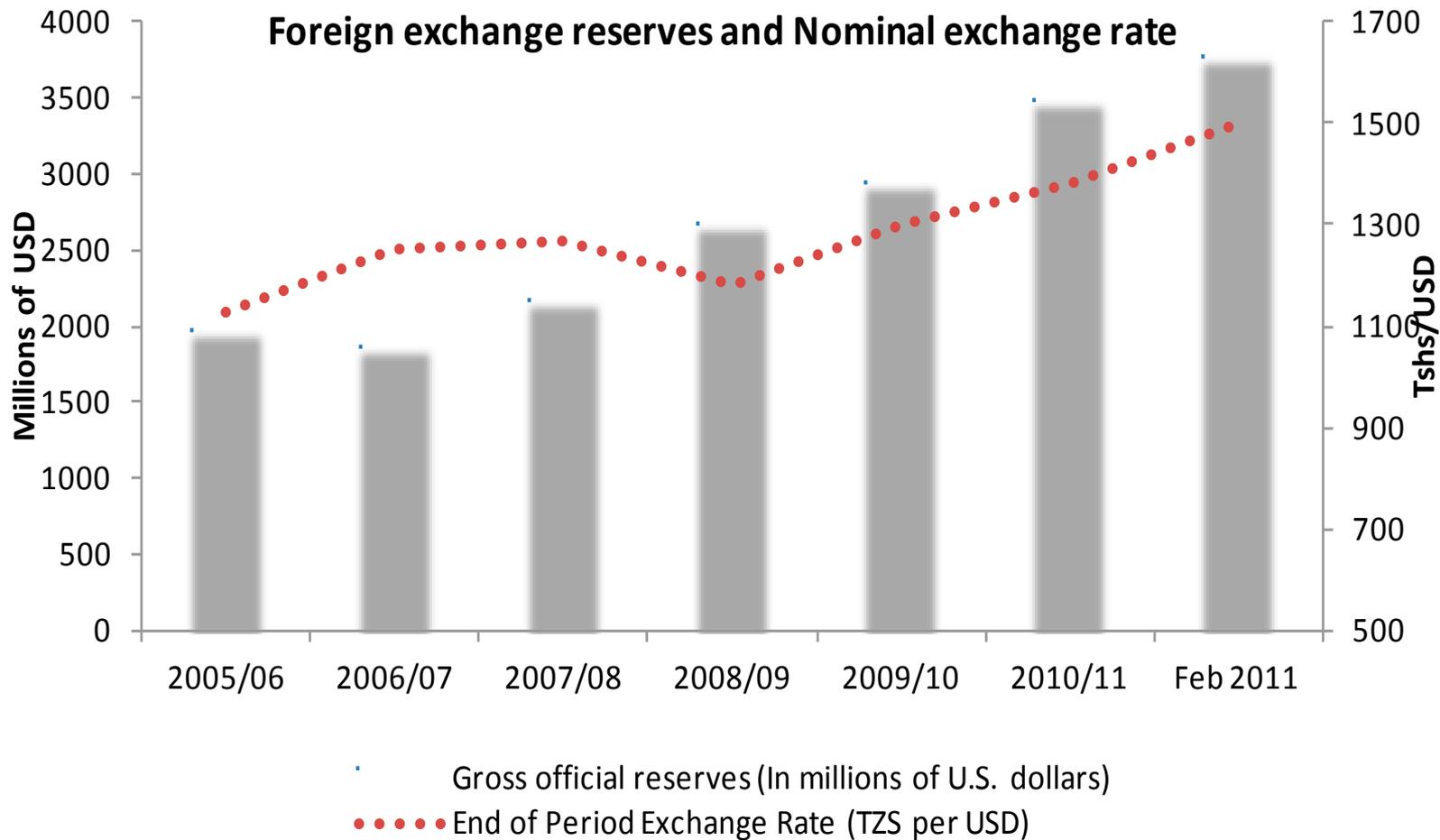
Imports have increased with oil and capital goods dominating



High Current account deficit



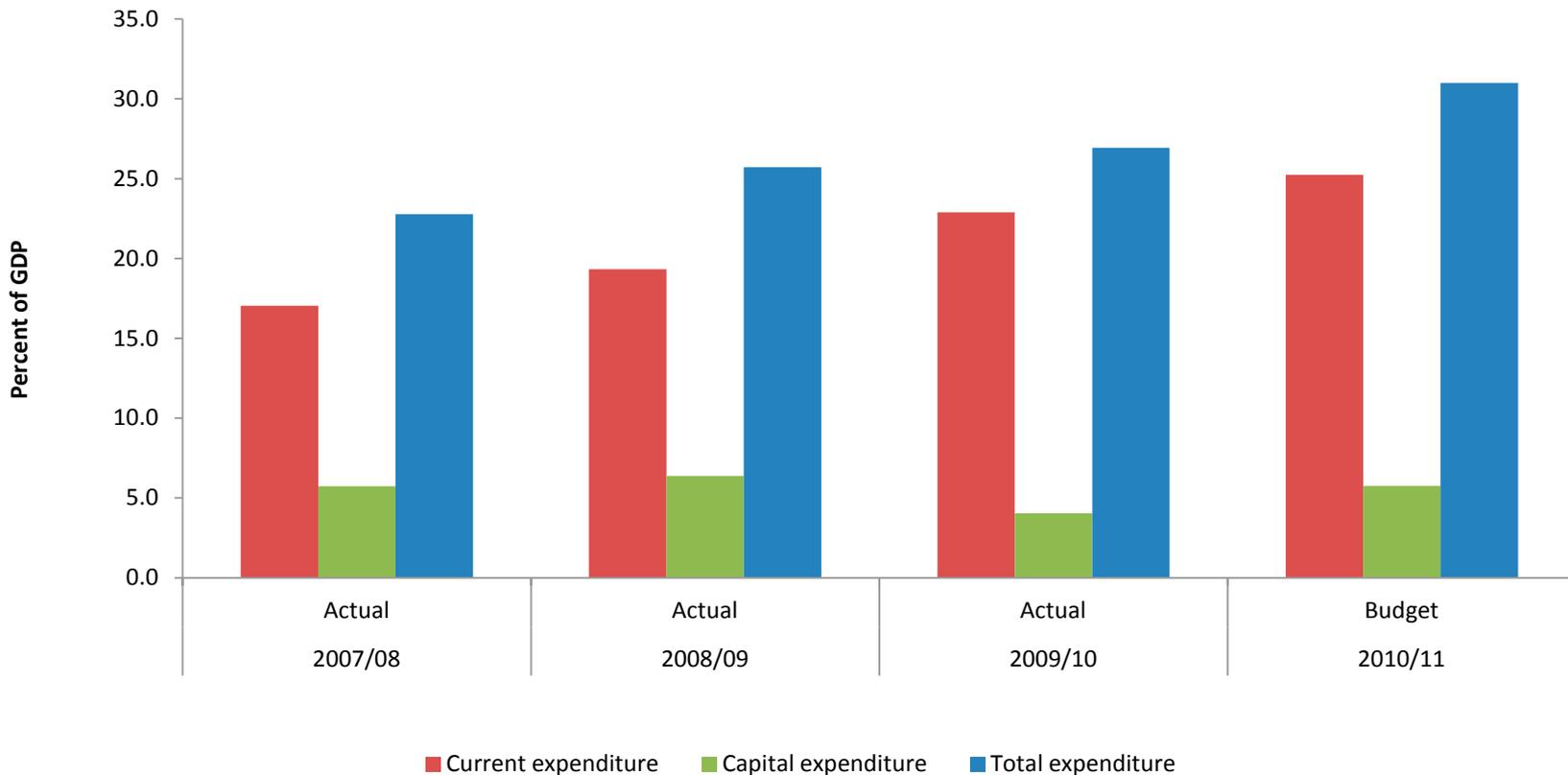
But reserve levels are high and increasing



Recent Fiscal Trends: Expenditures

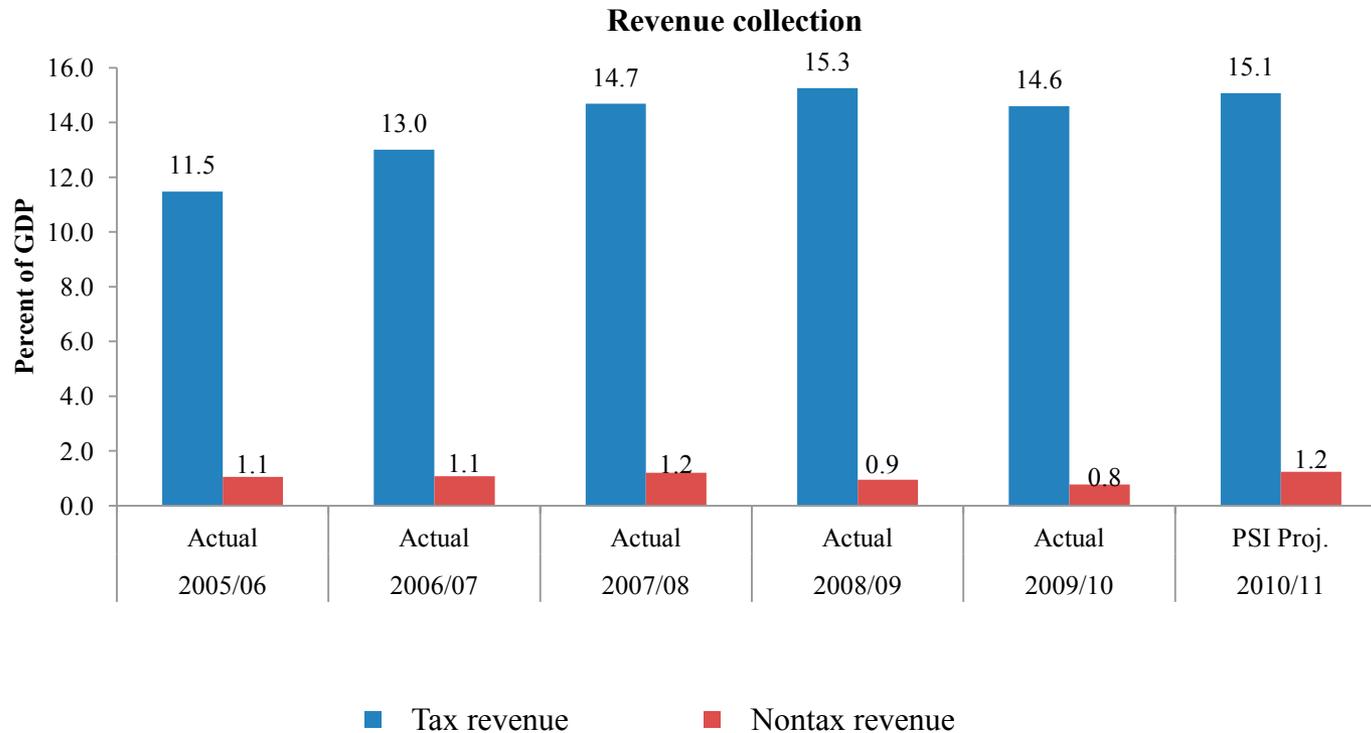
- Expenditure have been steadily rising, driven by current expenditures

Reclassification of expenditure by economic nature



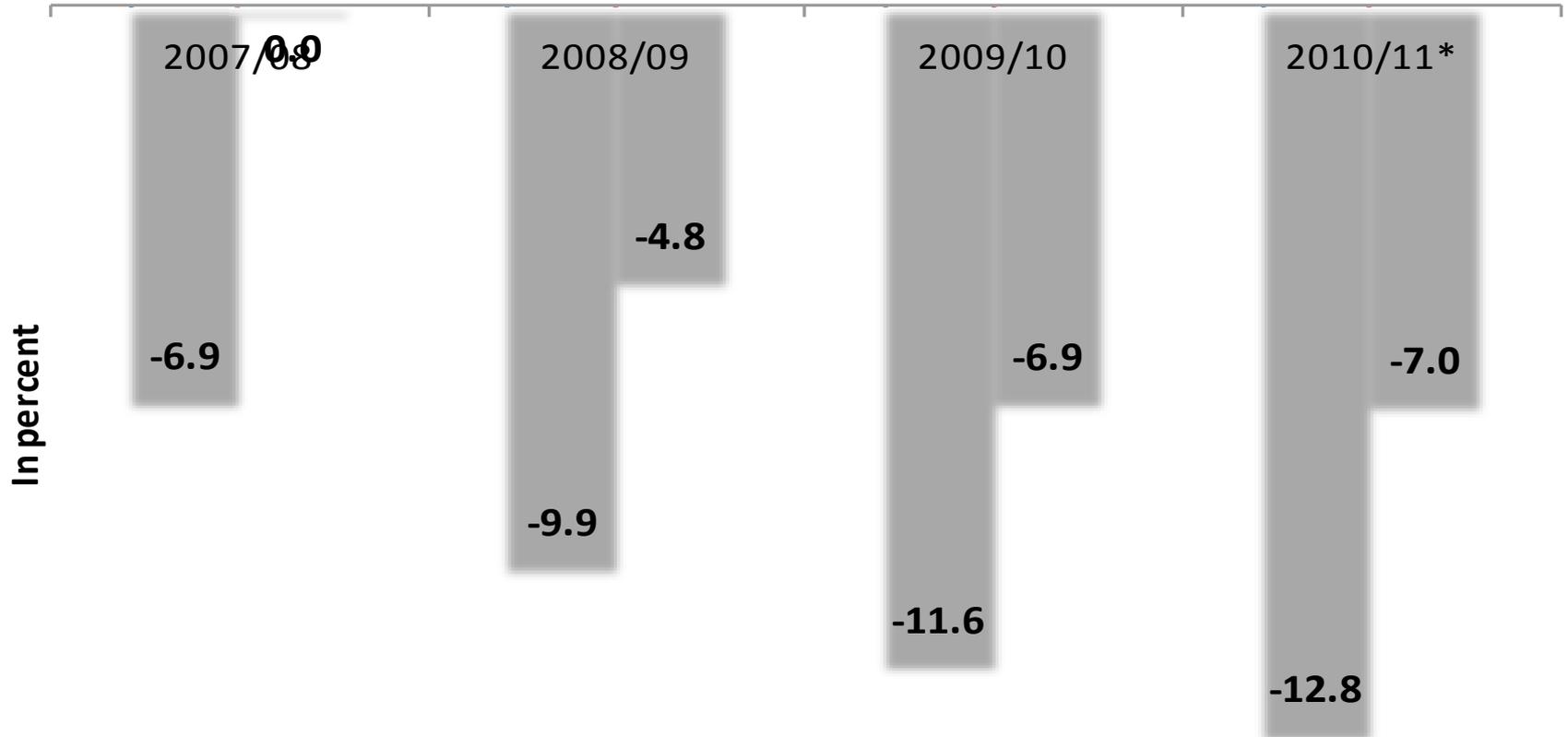
Recent Fiscal Trends: Revenue

- Meanwhile, tax revenues have stagnated



- And non-tax revenues have trended downward in the last two years

As the result fiscal deficit has widened



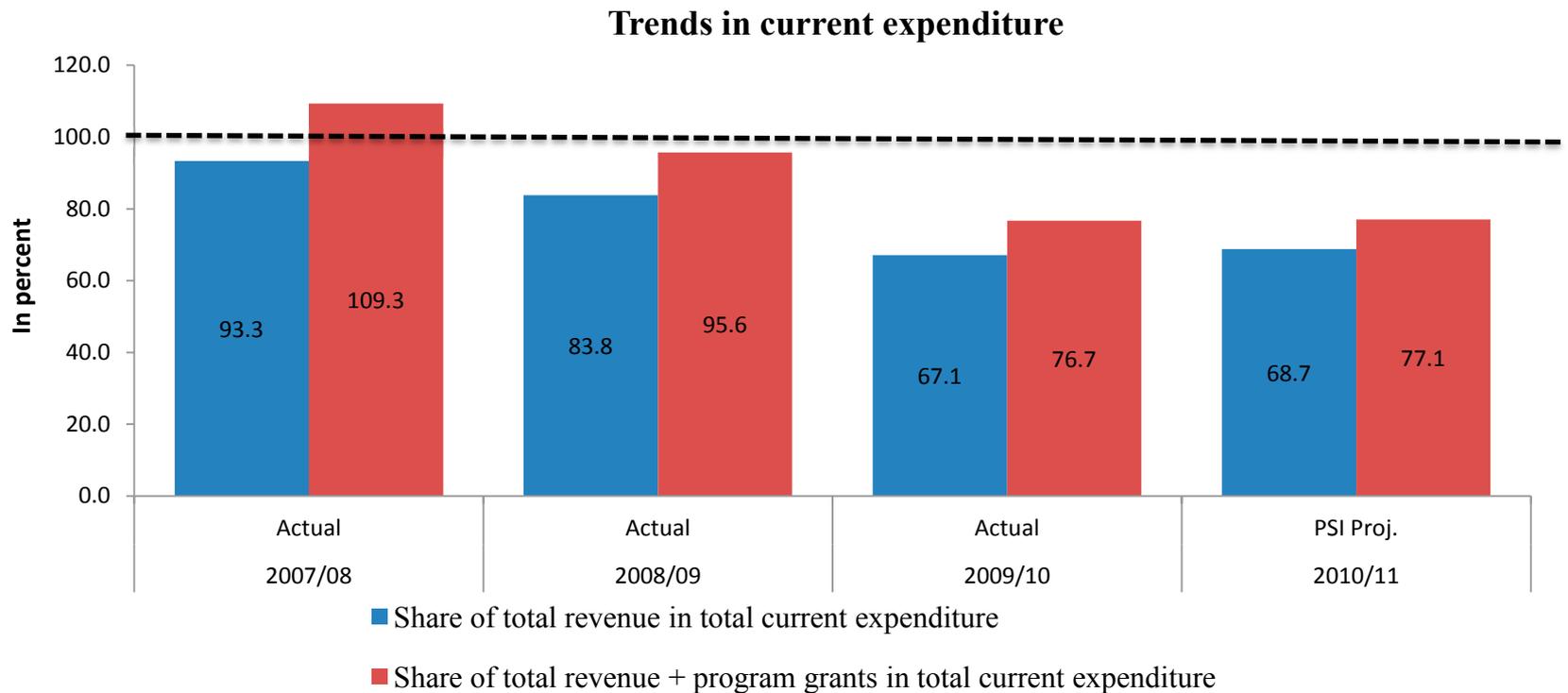
Fiscal Deficit

* PSI Program

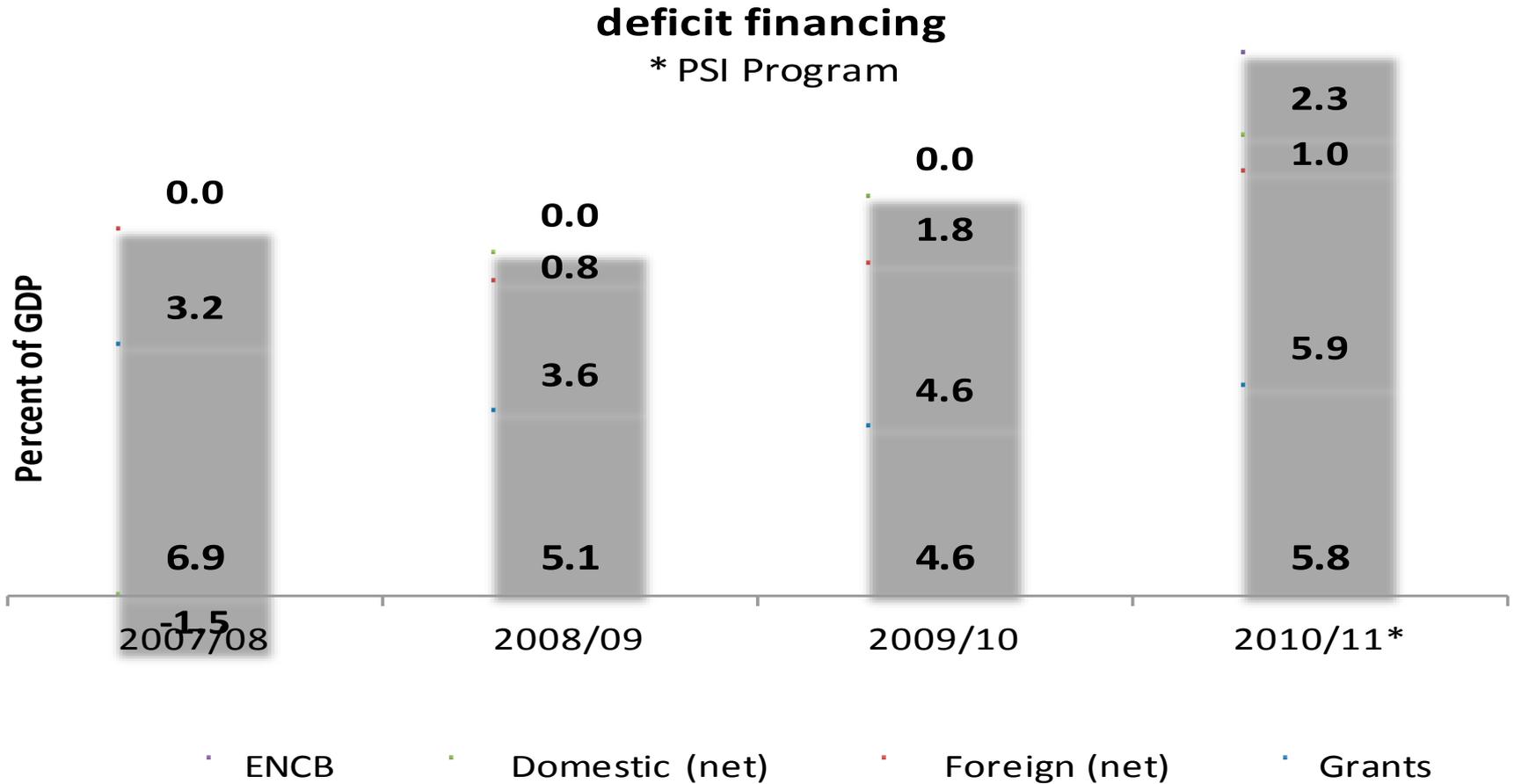
Overall balance before grants

Overall balance after grants

And Tanzania has increasingly borrowed to finance consumption



While the deficit is being financed increasingly on non-concessional terms



Risks to Economic Outlook: Outside Government's Control

- The near-term economic outlook is subject to uncertainty with :
 - higher international food and fuel prices
 - A risk of declining donor aid
- Weather conditions and power availability also bear significantly impact on growth projections,
 - through their effect on agriculture and other activities in general

Risks to Economic Outlook: Within Government's Control

- Without a change in fiscal policy, debt levels will rise rapidly
 - There is a need to begin a sharp reduction in the fiscal deficit toward 4% of GDP
 - But at the same time, there is a need to increase spending in some areas

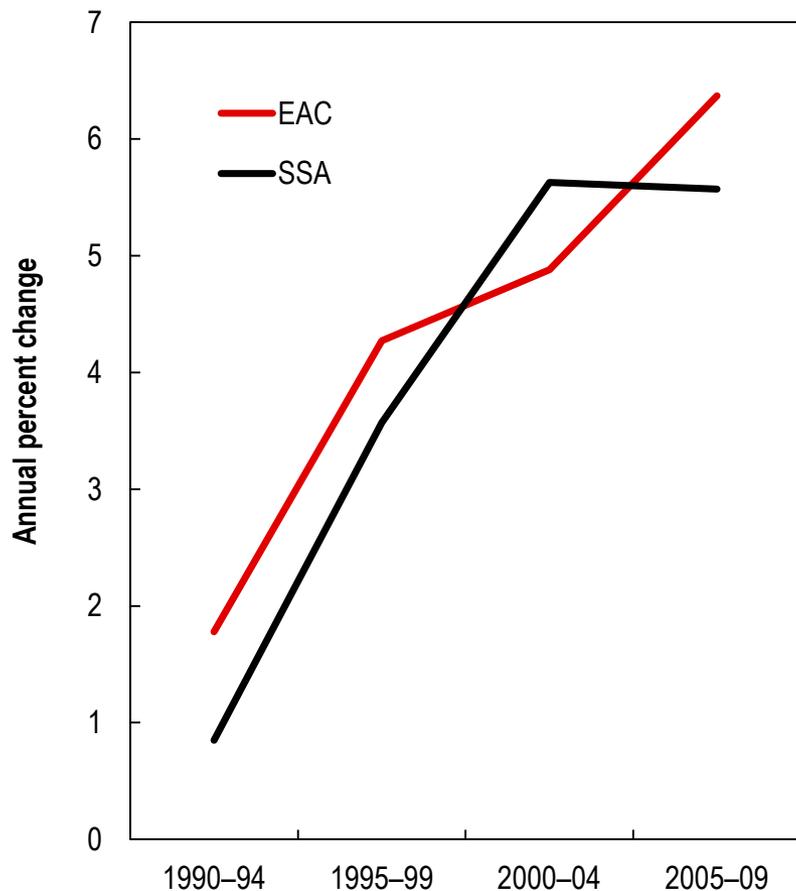
Policy Challenges

- Reduce the fiscal deficit while increasing the number of teachers, health care and agricultural workers
- Allow the 1st round effects of food and fuel prices , while using monetary policy reduce the 2nd round effects
- Stimulate poverty-reducing growth

The East Africa Community: Taking Off?

The EAC has achieved strong GDP growth over the last two decades

Real GDP Growth¹



¹ Weighted by purchasing power parity GDP.

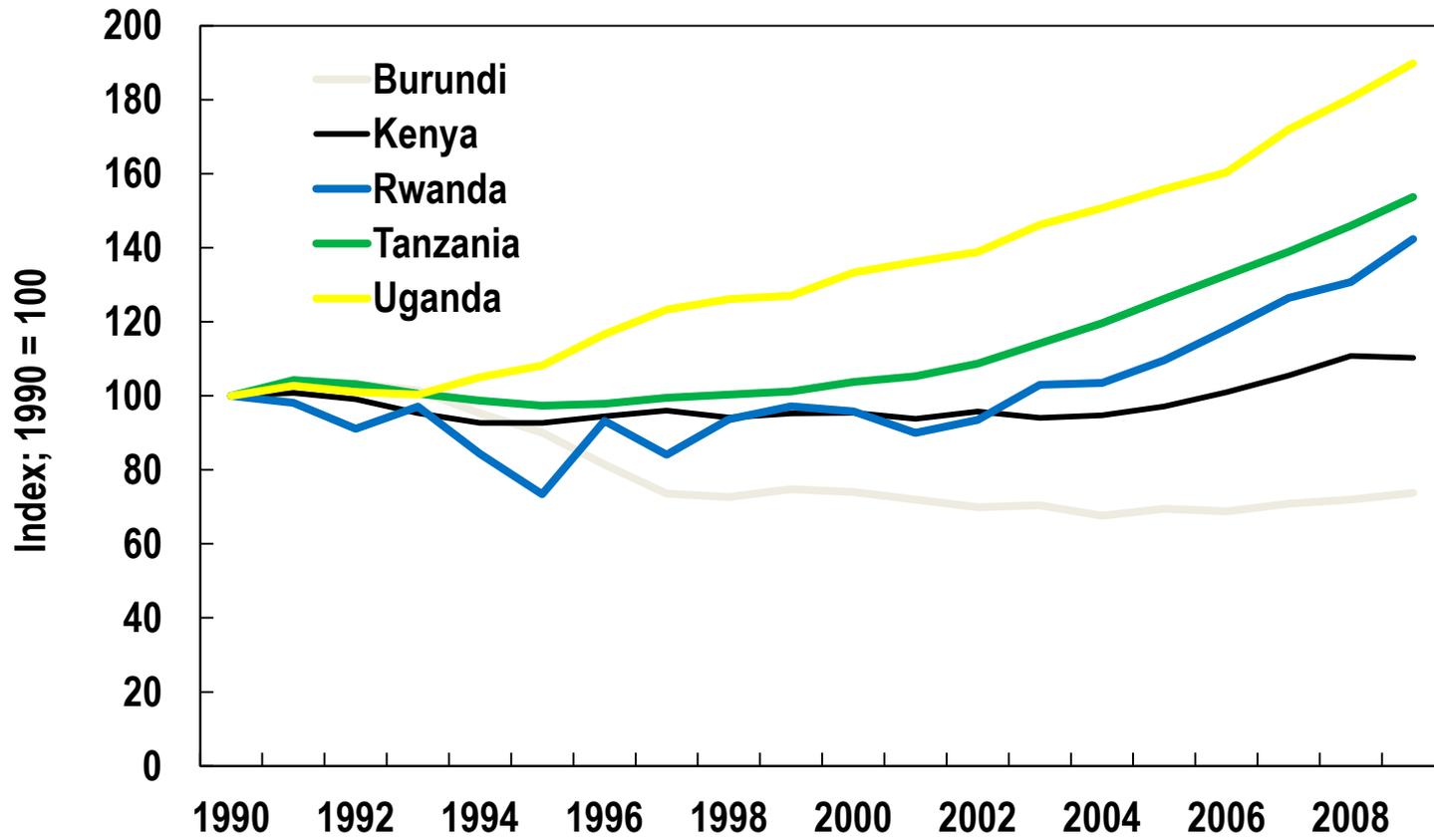
Top 20 Fastest-Growing Economies in 2005–09

Ranking	Country	Real GDP Growth (percent change)
1	Angola	14.7
2	Afghanistan, I.R. of	12.9
3	Ethiopia	11.4
4	China, People's Republic of	11.4
5	Myanmar	9.4
6	Uganda	8.3
7	Uzbekistan	8.2
8	India	8.2
9	Rwanda	7.9
10	Sudan	7.8
11	Cambodia	7.8
12	Belarus	7.7
13	Dominican Republic	7.4
14	Vietnam	7.4
15	Mozambique	7.1
16	Tanzania	6.9
17	Peru	6.8
18	Argentina	6.8
19	Kazakhstan	6.7
20	Malawi	6.5
EAC		6.4
SSA		5.6

Note: Excluding countries with population less than 9 million.

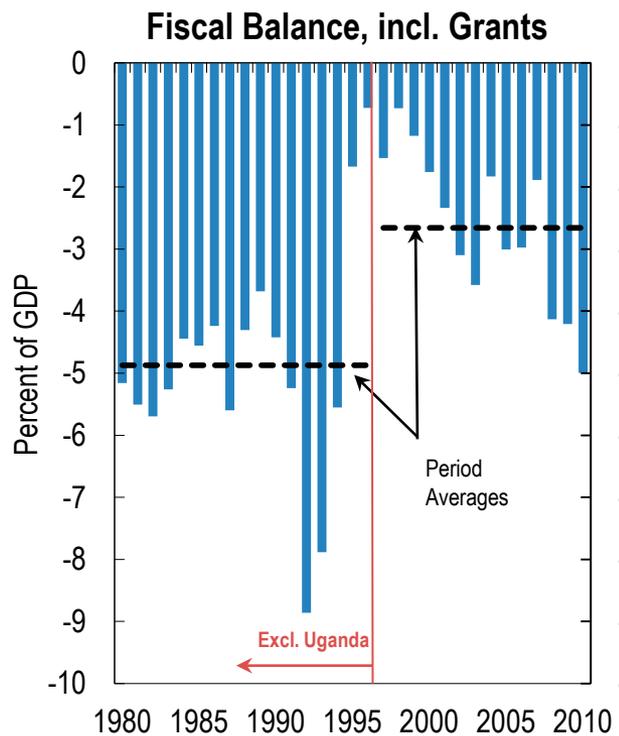
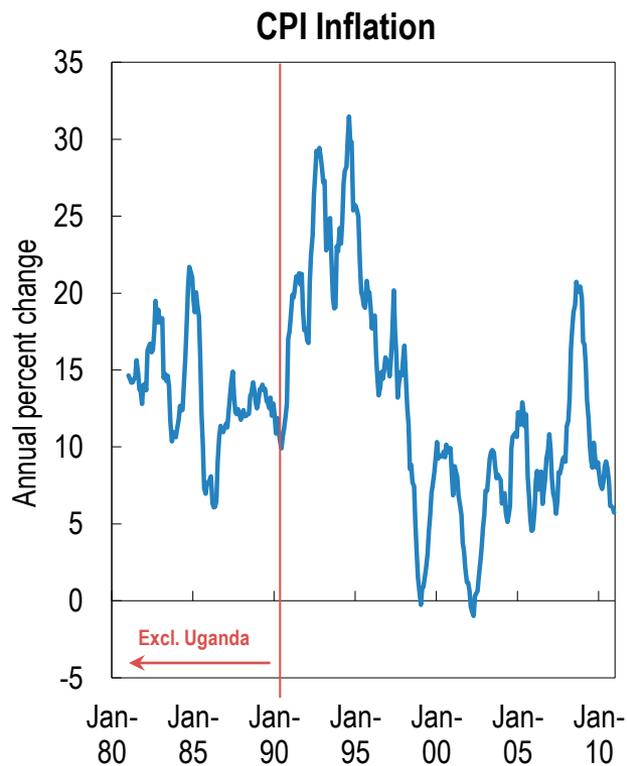
Significant diversity remains

Cumulative Growth in Real GDP per capita

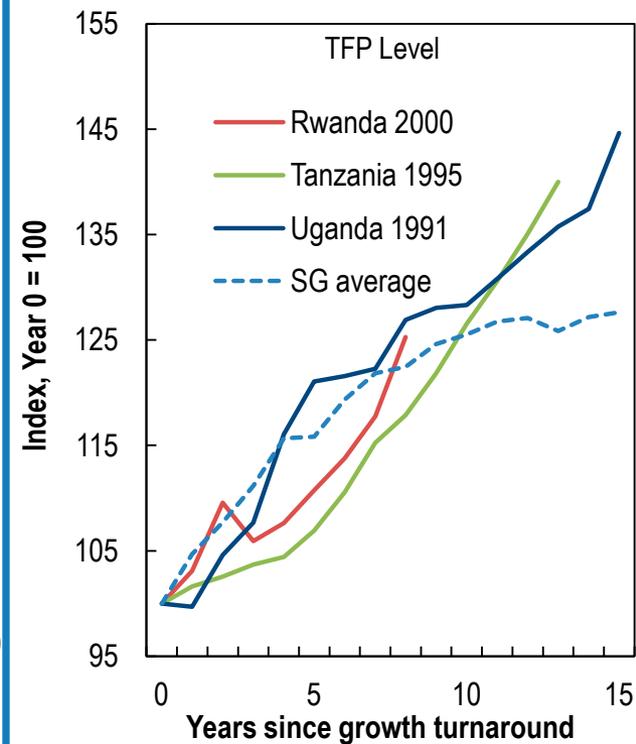


This outcome is due to a host of factors

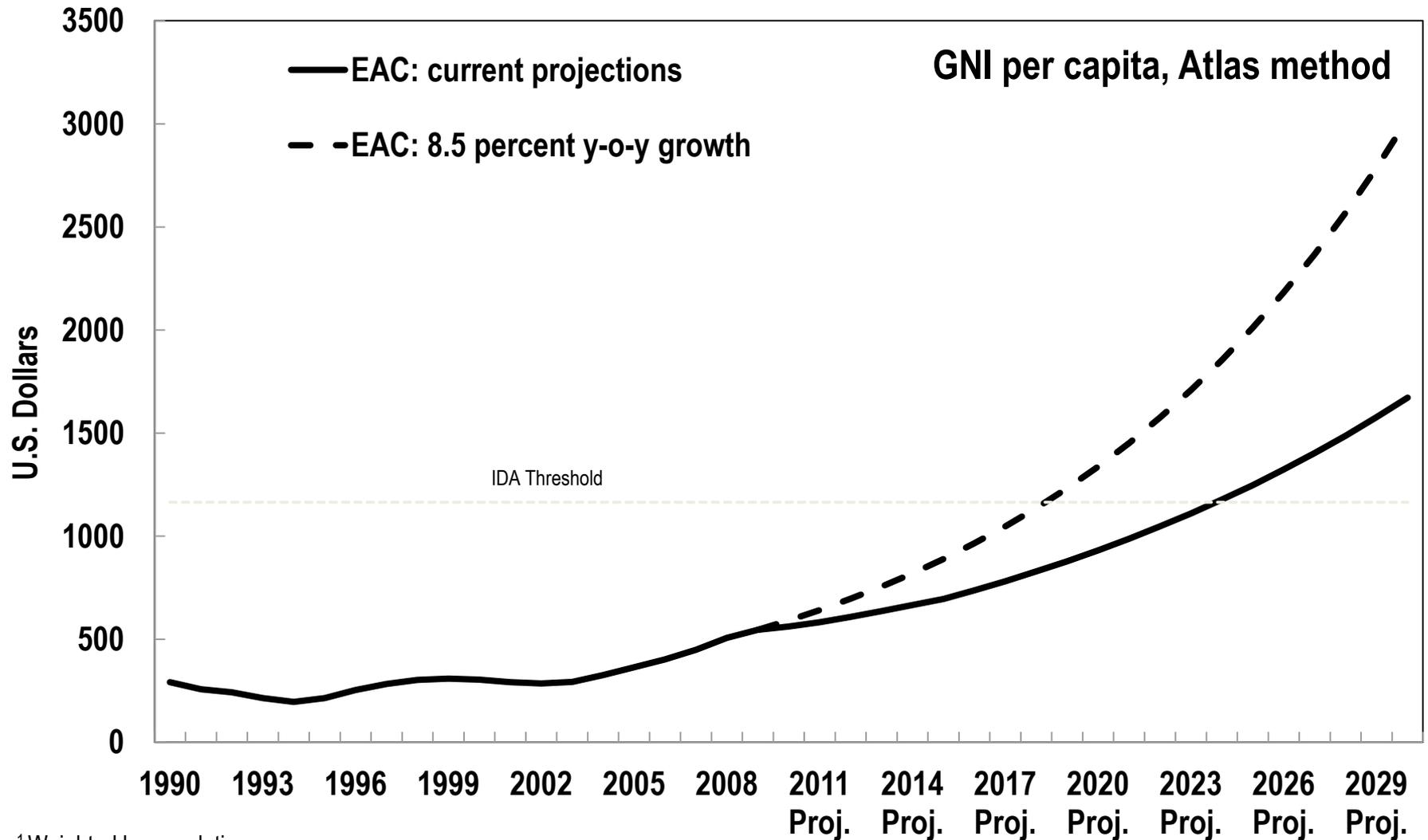
Improved macroeconomic policies



— Productivity (TFP) growth



Even faster growth is needed to “take off”

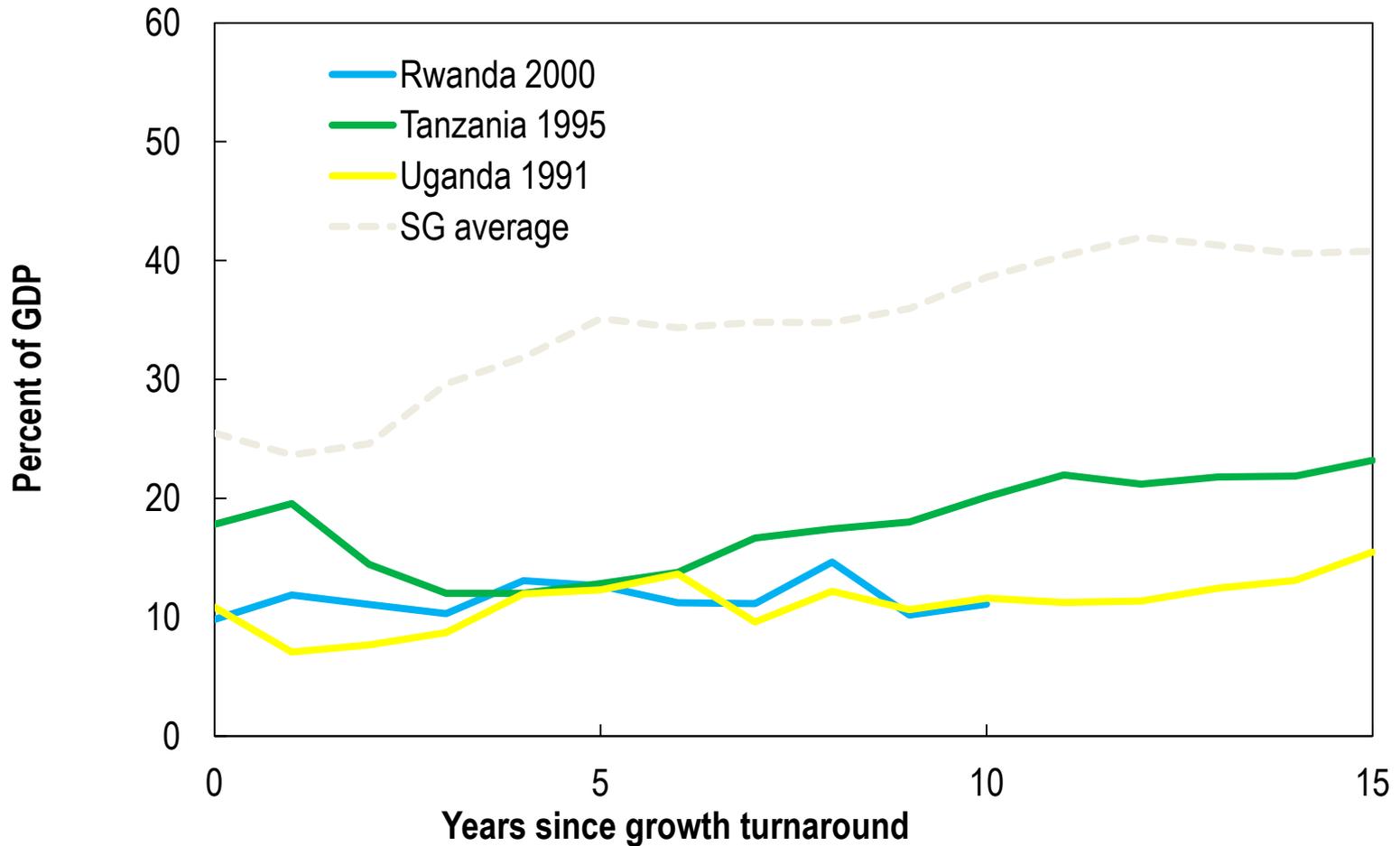


¹ Weighted by population

Source: World Bank, *World Development Indicators*; IMF, *World Economic Outlook* and IMF staff estimates.

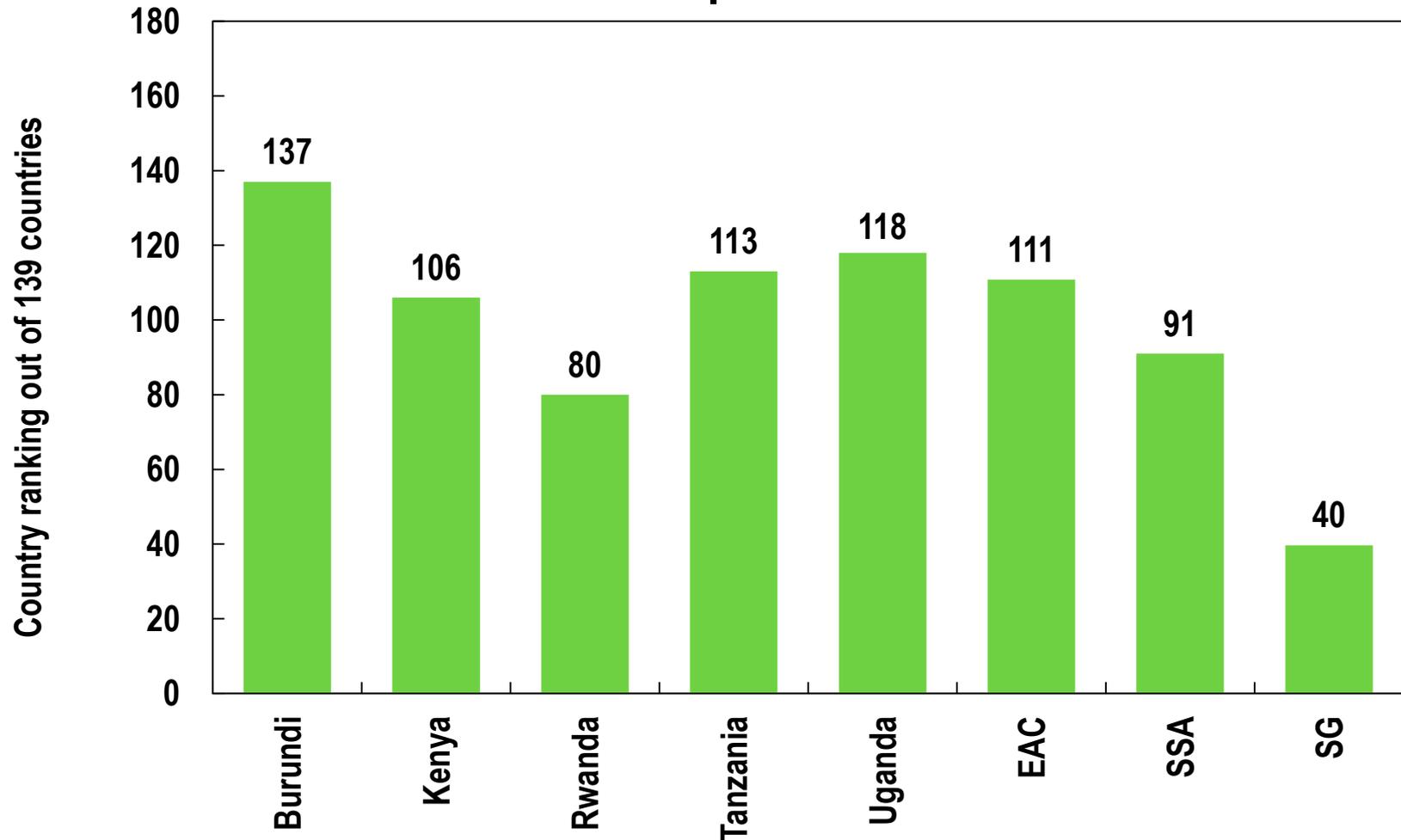
Modest export growth

Evolution of exports since growth turnaround



High business costs

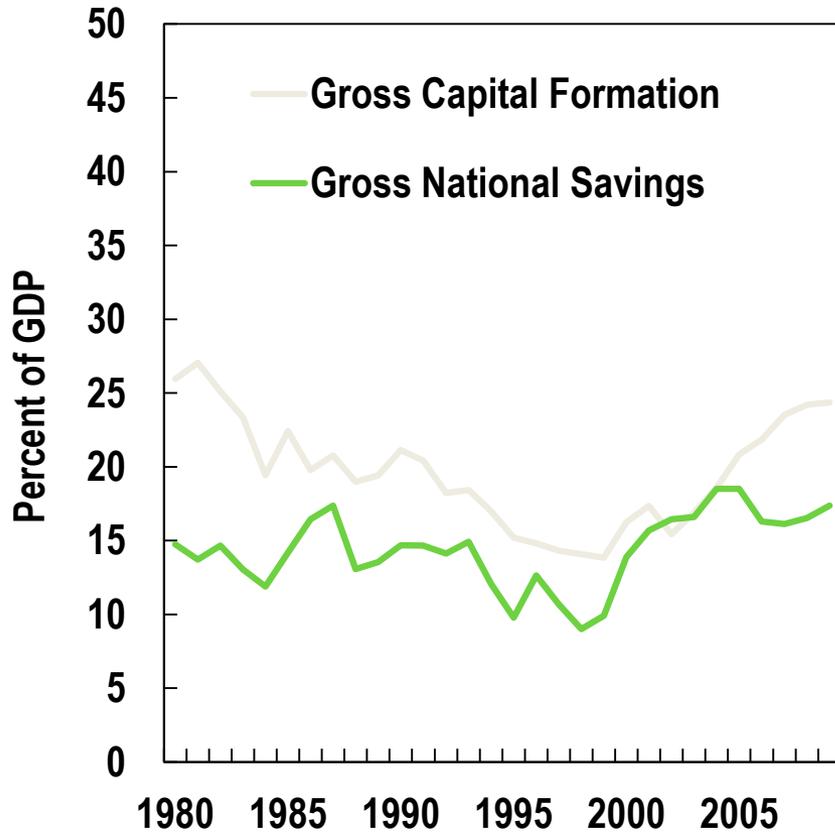
Global Competitiveness Index¹



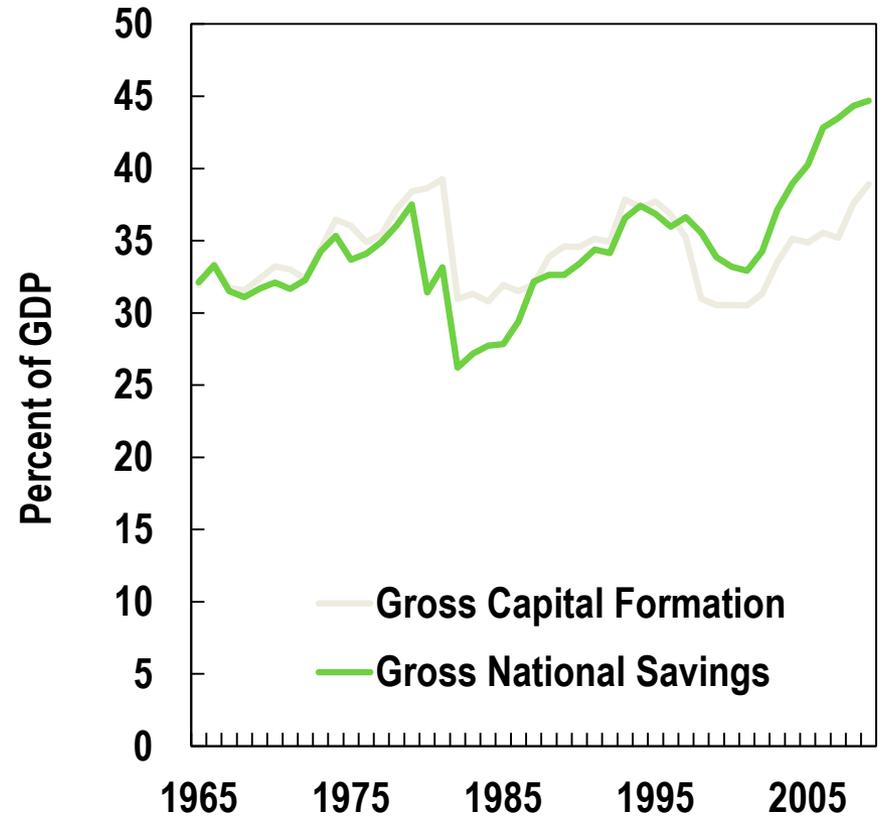
¹ A high ranking (i.e., a low number) indicates a favorable competitive environment.

Low domestic savings, high aid dependence

EAC: Investment and Savings

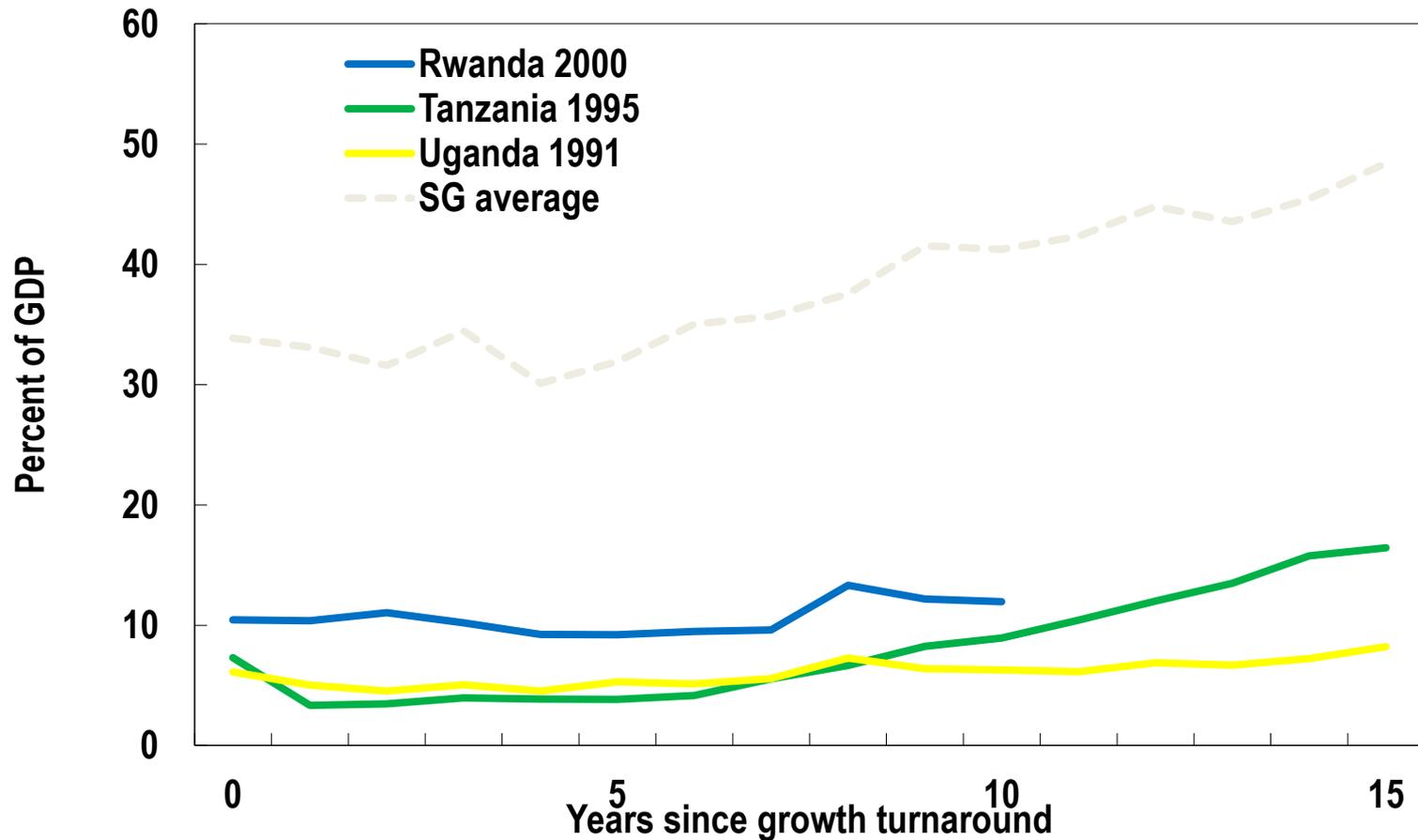


SGs: Investment and Savings



Limited access to financial services

Credit to private sector since growth turnaround



EAC Growth Challenges

- EAC Growth has been impressive
- But to meet the challenge of achieving middle-income status, even faster growth will be needed.
- Keys:
 - further integration, including of infrastructure
 - Strengthened and deepened financial systems
 - Improved business environments