

Regional Economic Outlook

Sub-Saharan Africa

Fostering Durable and Inclusive Growth

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APR **14**

Presentation by
Abebe Aemro Selassie

Outline for Part I

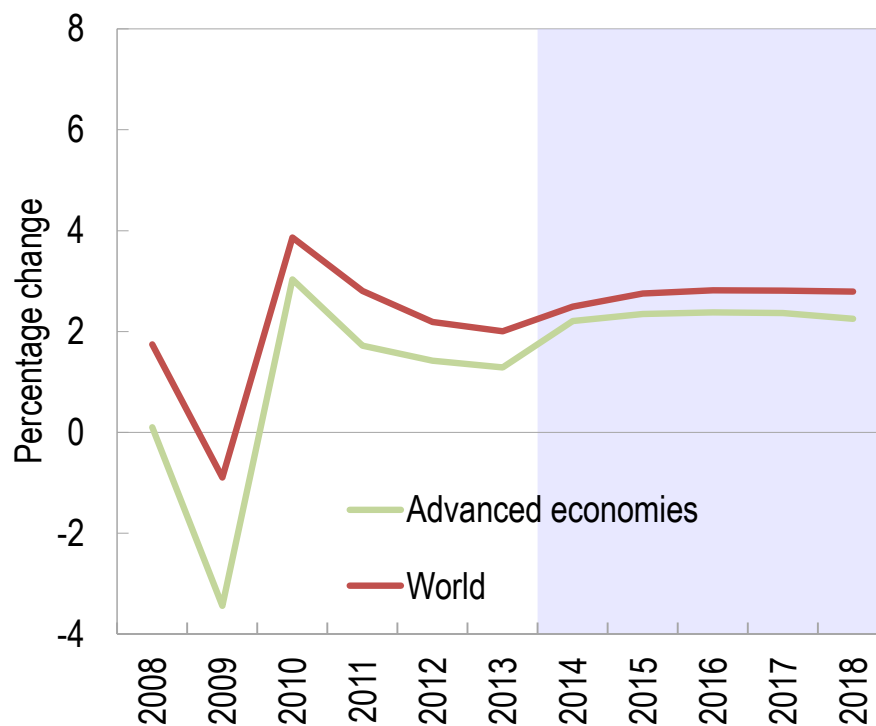


- Global Context
- Outlook for sub-Saharan Africa
- Risks to the outlook

Global growth is projected to improve, driven by advanced economies (most notably the United States)...



Selected Regions: Projected Real GDP Growth, 2008–18



Source: IMF, World Economic Outlook database.

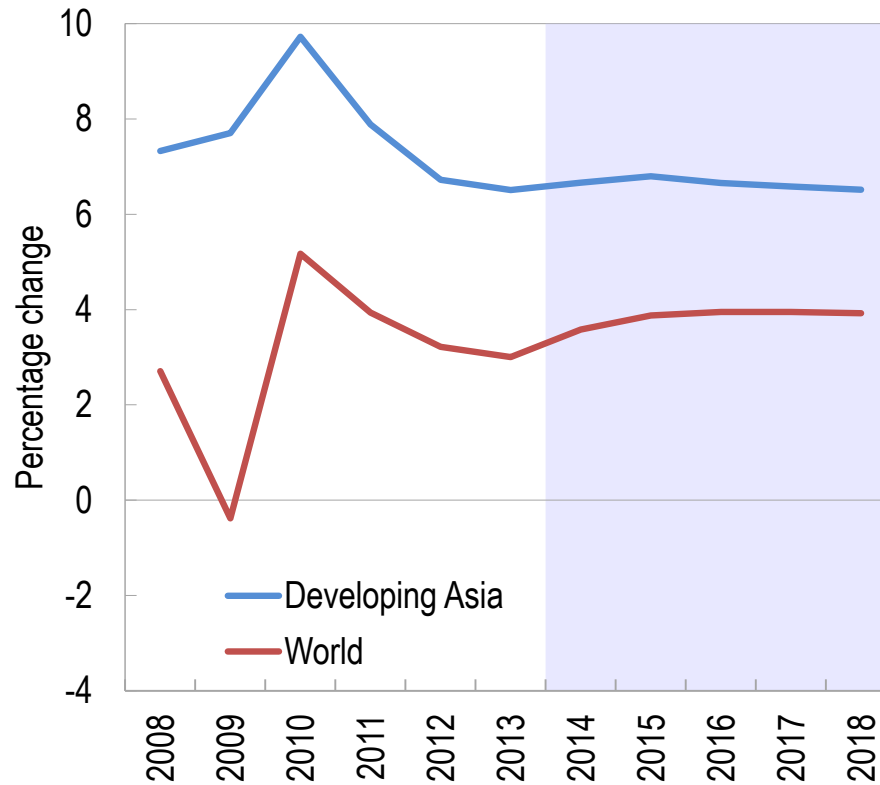
... but some factors favorable for the region during the past are fading:



- (1) Slower growth in major emerging-market trading partners
- (2) Lower prices of key commodities for the region
- (3) Tightening global financial conditions

(1) Slower growth in major emerging-market trading partners

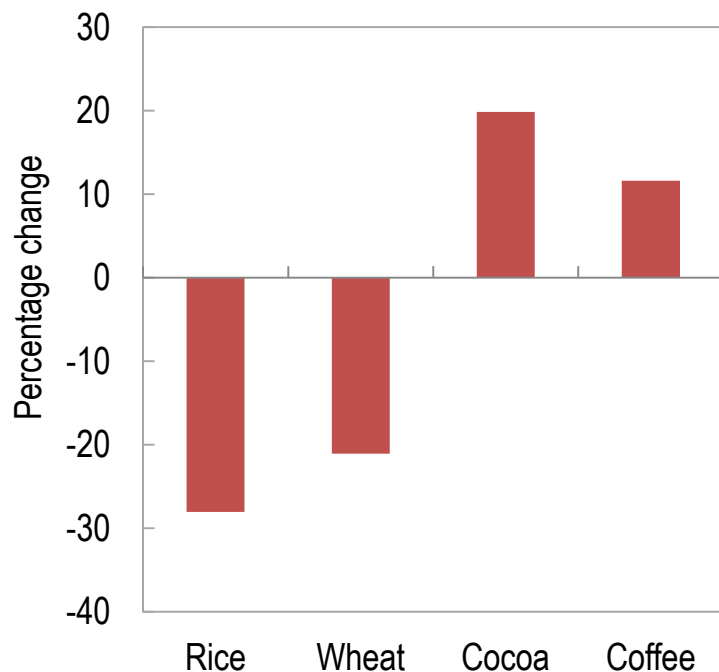
Selected Regions: Projected Real GDP Growth, 2008–18



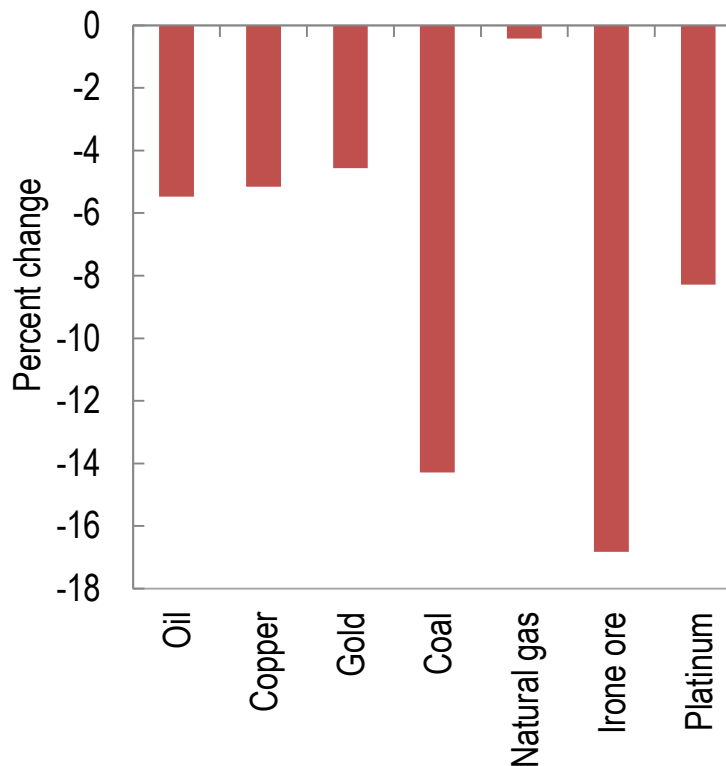
Source: IMF, World Economic Outlook database.

(2) Lower prices of key commodities for the region

Agricultural Products, 2014–16 vs. 2013

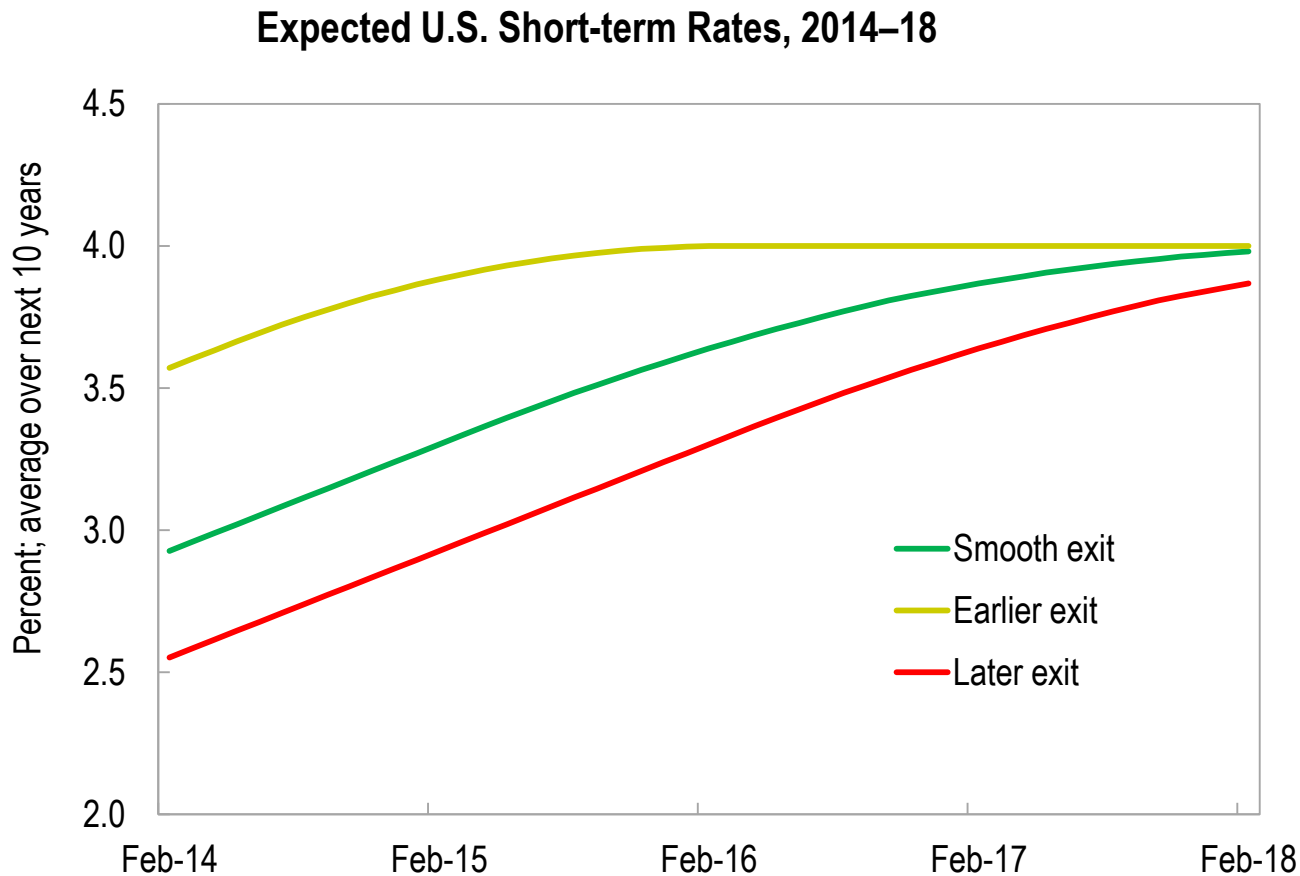


Fuels and Metals, 2014–16 vs. 2013



Source: IMF, World Economic Outlook database.

(3) Tightening global financial conditions

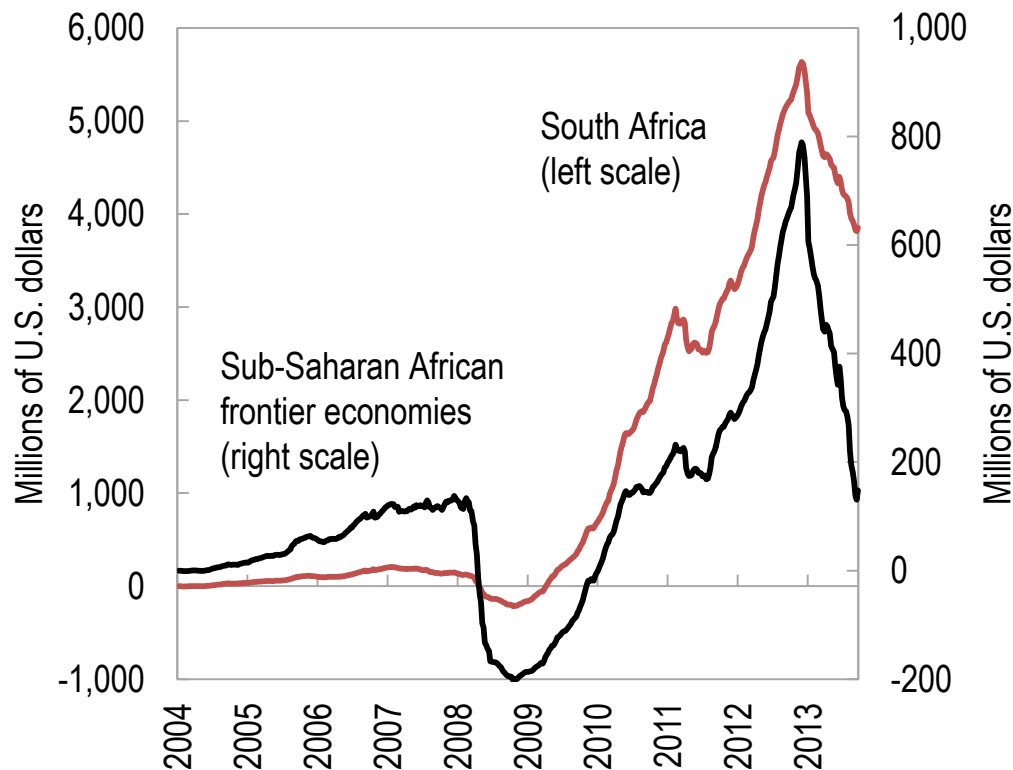


Source: IMF, *Global Financial Stability Report*, April 2014

Following the Fed's tapering announcement in May 2013, there have been some net capital outflows...

Sub-Saharan Africa: Bond Flows to Emerging and Frontier Economies

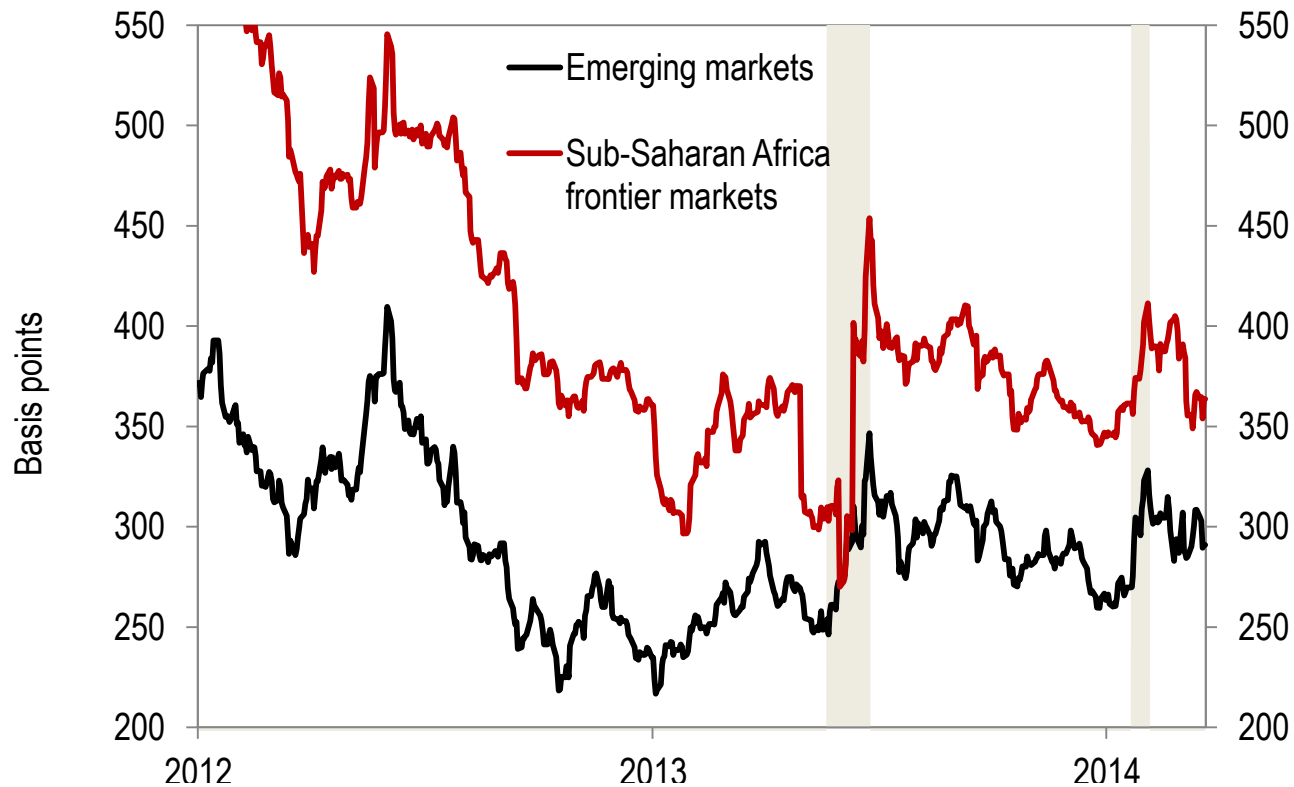
(Millions of U.S. dollars, cumulative since June 2004)



Source: EPFR Global database.

...an effective increase in borrowing costs...

Emerging and Frontier Market Spreads, 2012–14

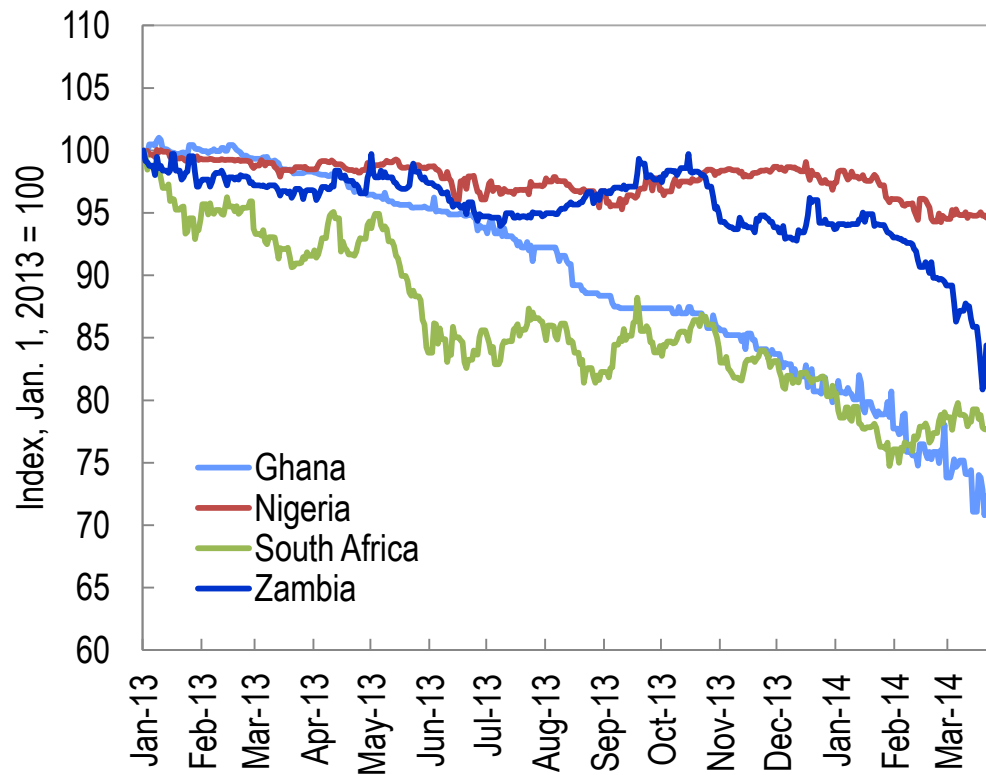


Source: Bloomberg

¹The emerging market average includes the EMBIG spreads of Argentina, Brazil, Bulgaria, Chile, Colombia, Hungary, Malaysia, Mexico, Peru, Philippines, Poland, Russia, South Africa, Turkey, and Ukraine. Sub-Saharan Africa frontier markets includes the spreads of Angola, Nigeria, Rwanda, Senegal, Tanzania, and Zambia.

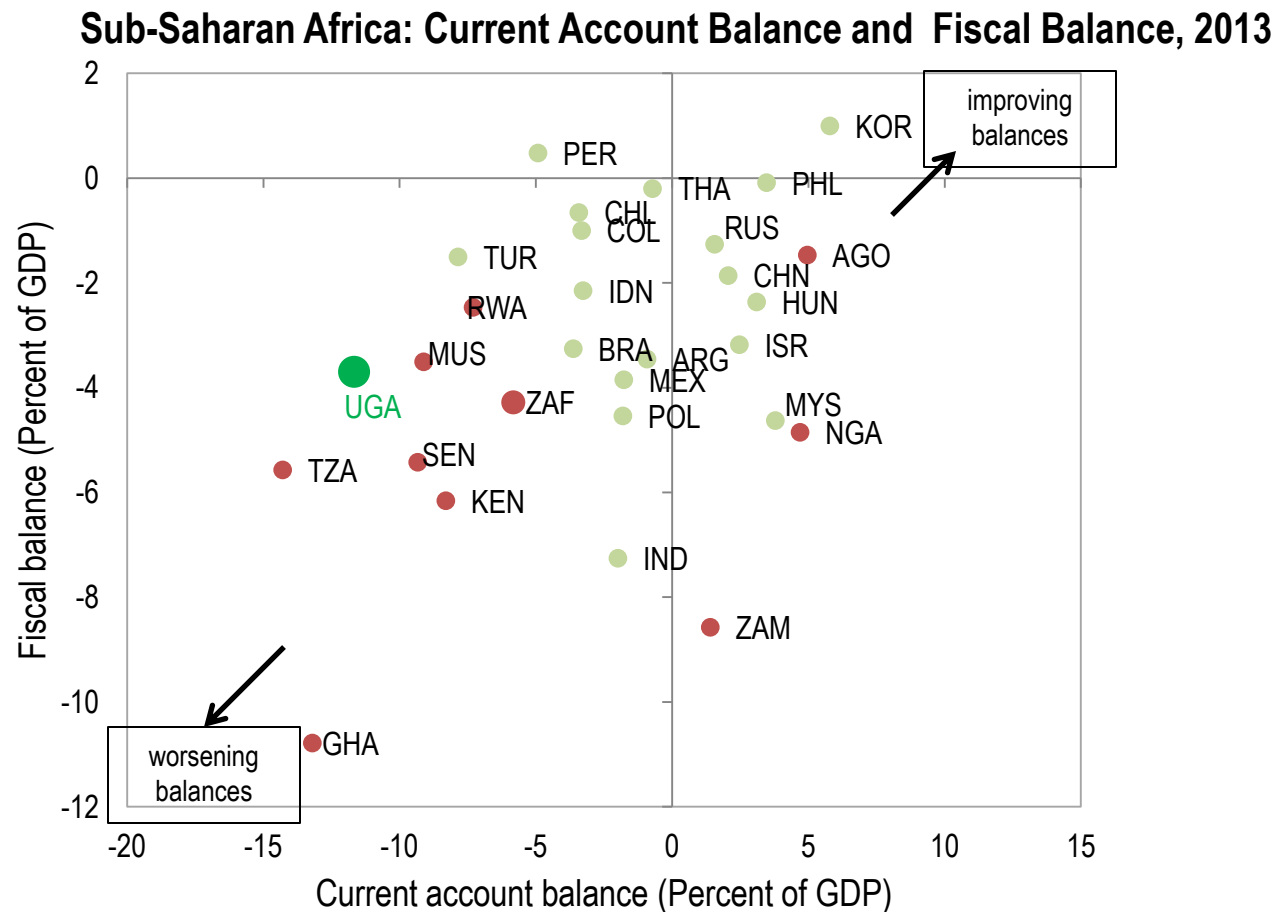
...and a depreciation of some currencies.

Sub-Saharan Africa: Nominal Exchange Rate Developments by Selected Countries, US dollar per national currency



Source: Bloomberg, L.P.

In general, capital flow reversals were more pronounced where macroeconomic imbalances were larger.



Sources: Bloomberg and IMF, World Economic Outlook Database

Outline

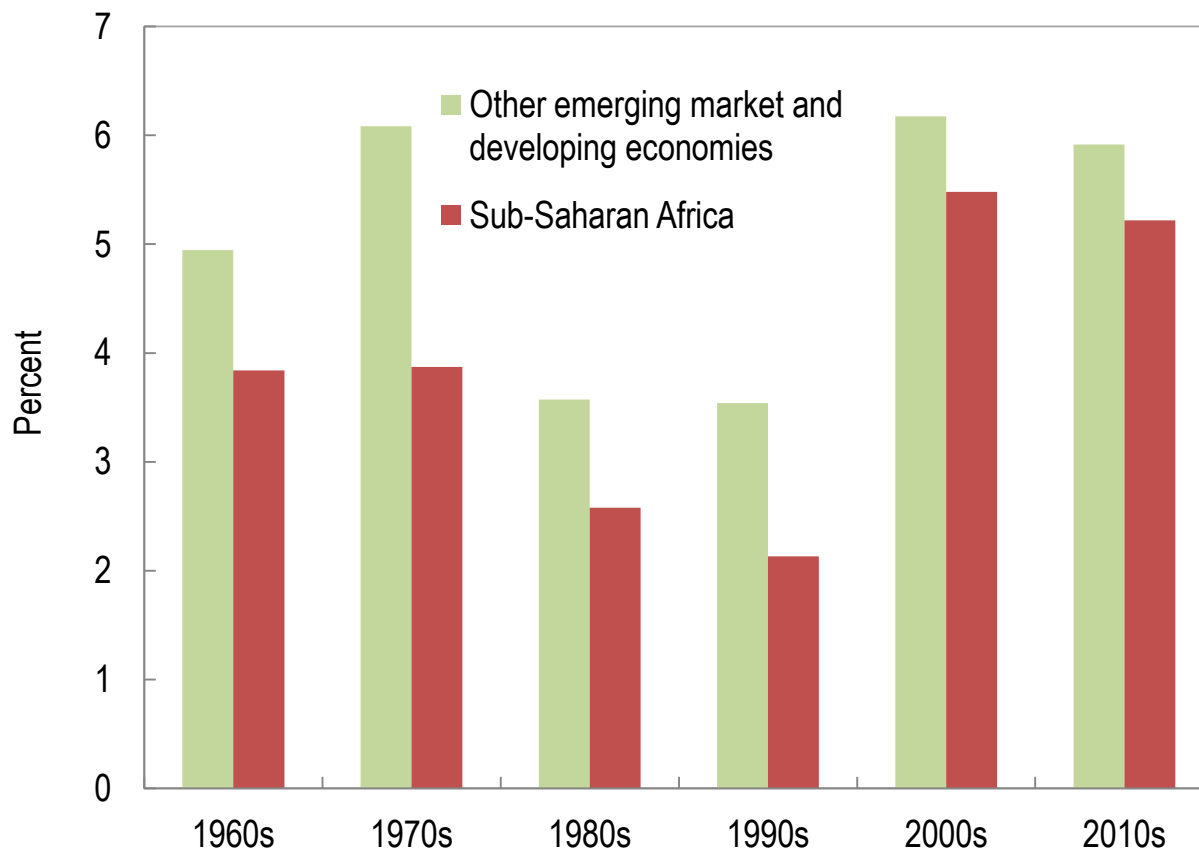


- Global Context
- Outlook for sub-Saharan Africa
- Risks to the outlook

Economic growth in sub-Saharan Africa over the last 15 years or so has been very good

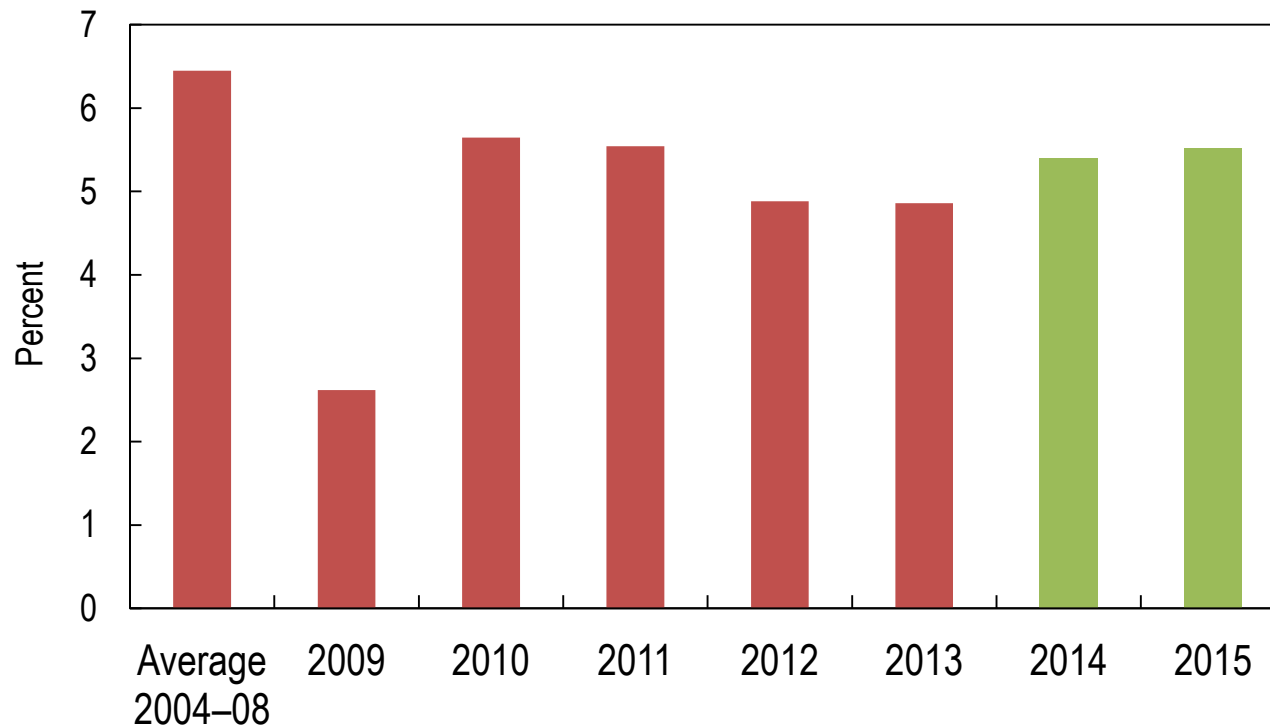


Average Real GDP Growth by Decade



Robust growth continues...

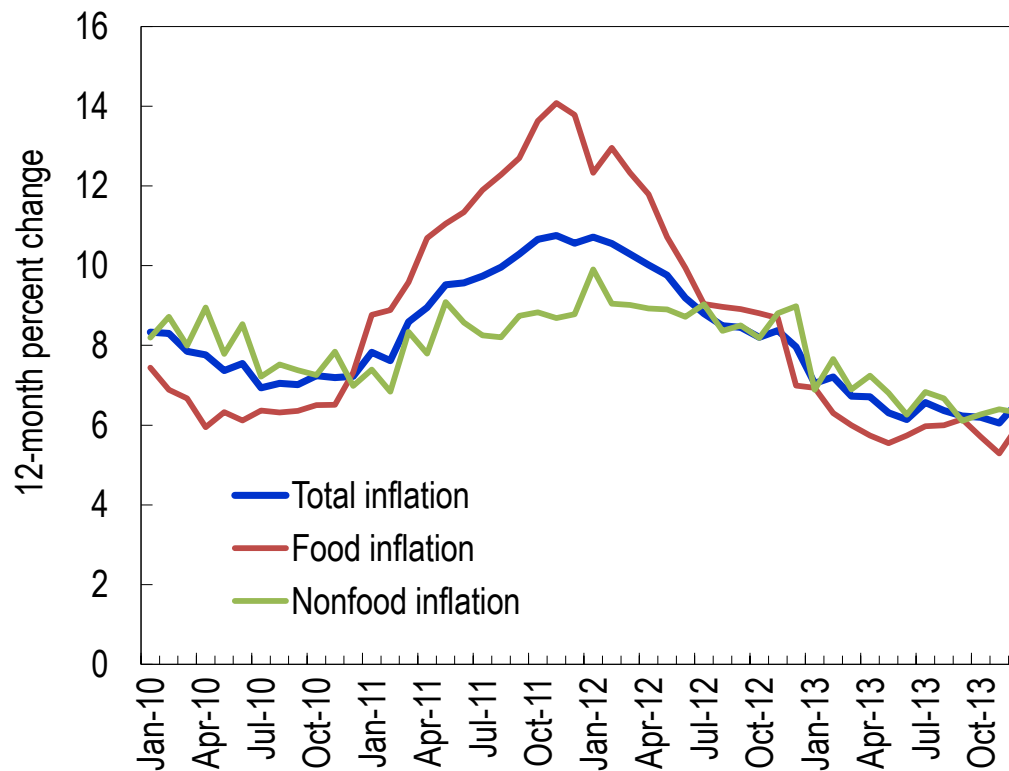
Sub-Saharan Africa: Real GDP Growth, 2004–15



Source: IMF, World Economic Outlook database.

...with inflation remaining subdued.

Sub-Saharan Africa: Food and Nonfood Inflation

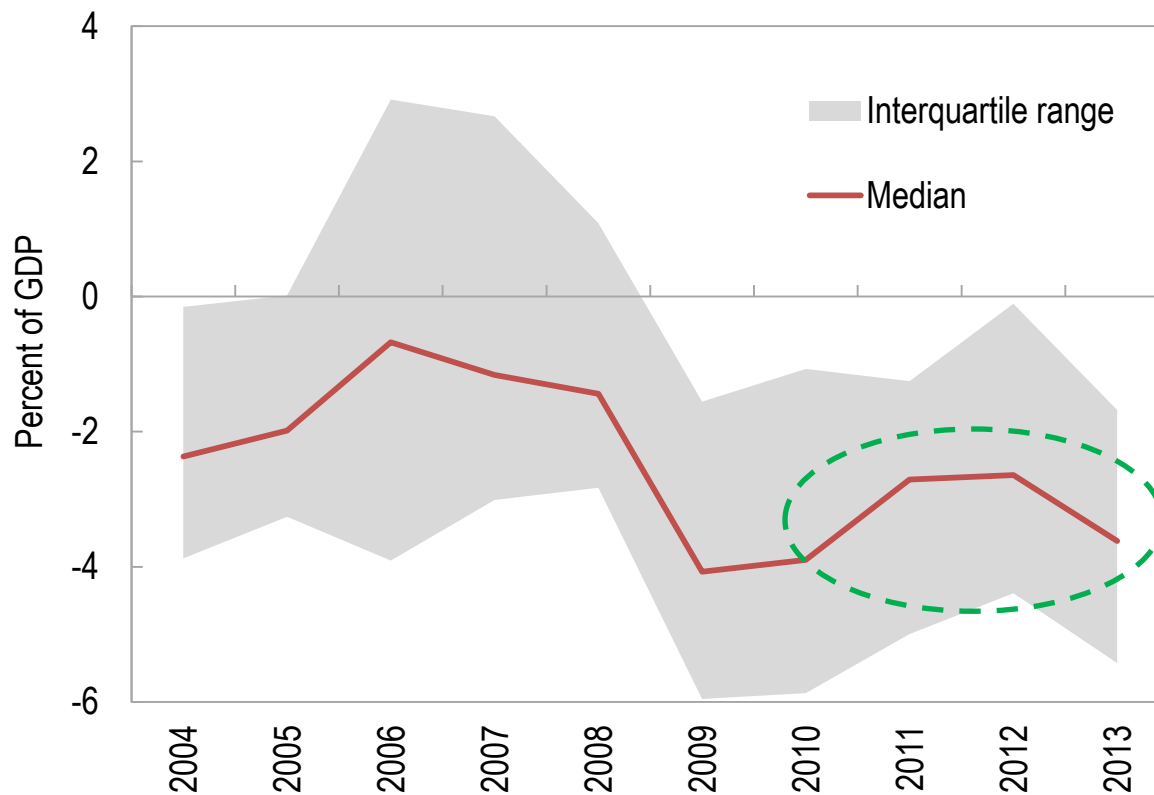


Sources: IMF, African Development database; and IMF, *International Financial Statistics*.

But fiscal deficits remain elevated...



Sub-Saharan Africa: Overall Fiscal Balance, 2004–13

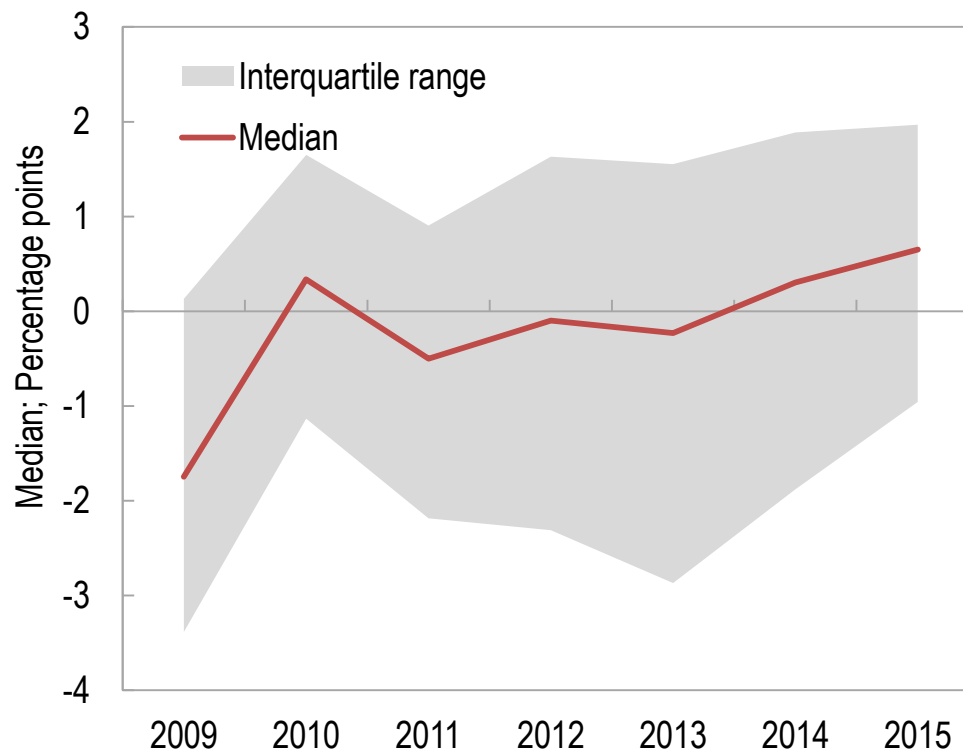


Source: IMF, World Economic Outlook database.

...in spite of the recovery since the crisis...



Sub-Saharan Africa: Real GDP Growth Gap, 2009–15



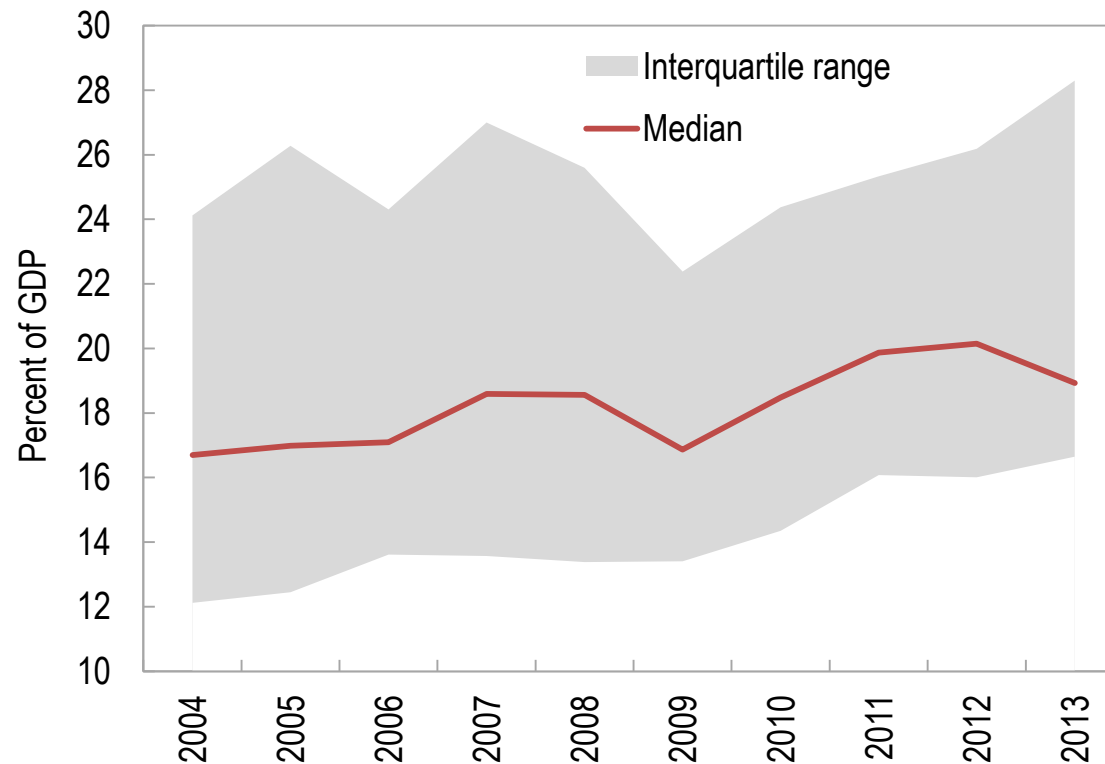
Source: IMF, World Economic Outlook database.

Note: Growth gap is defined as the difference between real GDP growth in a given year and 2004–08 average real GDP growth. Excludes South Sudan due to data availability.

...and a rebound in revenue.



**Sub-Saharan Africa: Revenue-to-GDP Ratio
(excluding grants), 2004–13**

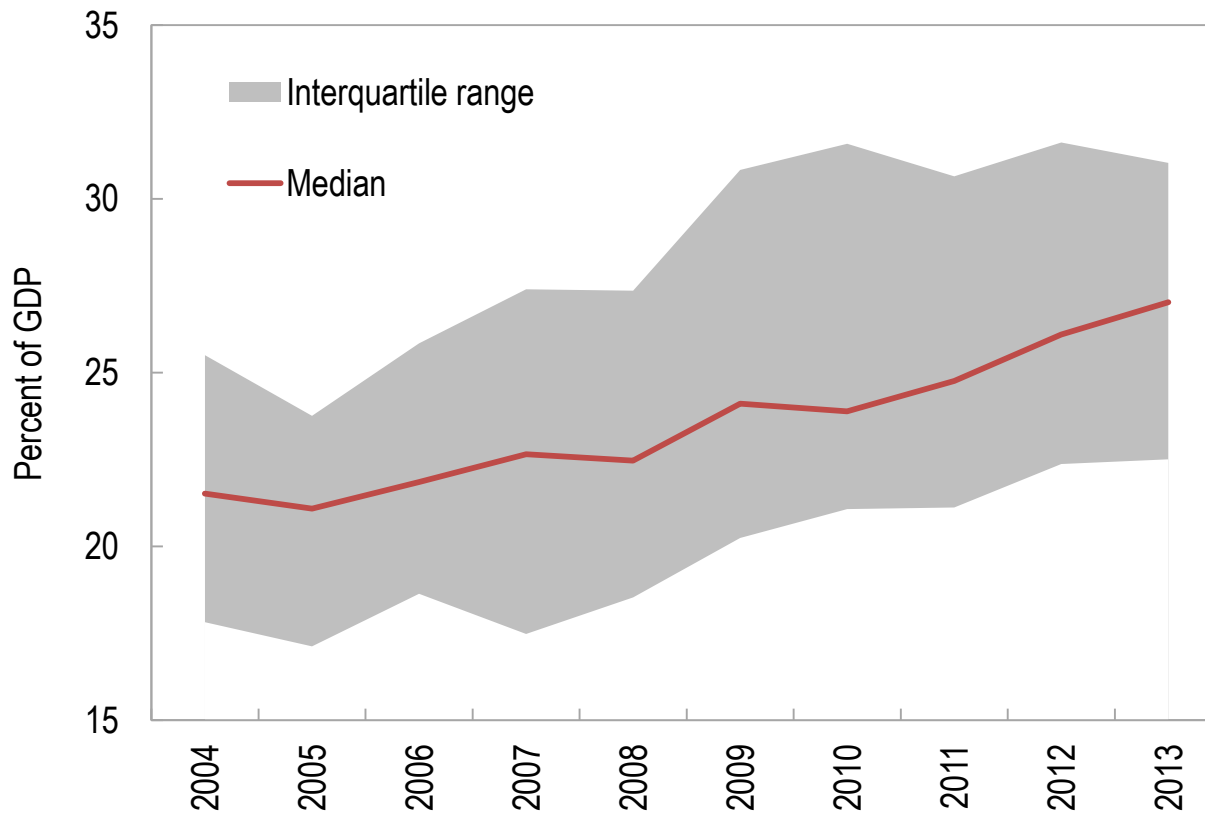


Source: IMF, World Economic Outlook database.

The main reason for the high fiscal deficits is rising public spending



Sub-Saharan Africa: Primary Expenditure, 2004–13



Source: IMF, World Economic Outlook database.

Outline



- Global Context
- Outlook for sub-Saharan Africa
- Risks to the outlook

Risks to the outlook stem from both domestic and external sources



Home grown:

- Rising fiscal imbalances
- Difficult security conditions

External risks:

- Larger than envisaged slowdown in emerging markets
- Rapid normalization of global financial conditions

Policies should aim at sustaining macroeconomic stability

- Fiscal policy needs to pay more heed to the business cycle in all cases:
 - ✓ rebuilding buffers where growth is at or above potential
 - ✓ ensuring that tax revenue collection keeps pace with or exceeds spending growth
 - ✓ where macroeconomic imbalances have emerged, there is urgent need for corrective policies

- In the event of a fall in external financing:
 - ✓ countries should be ready to adjust their fiscal plans...
 - ✓ ...while allowing the exchange rate to adjust as appropriate.



Fostering Durable and Inclusive Growth

In the broadest of terms, there are three stages of economic growth

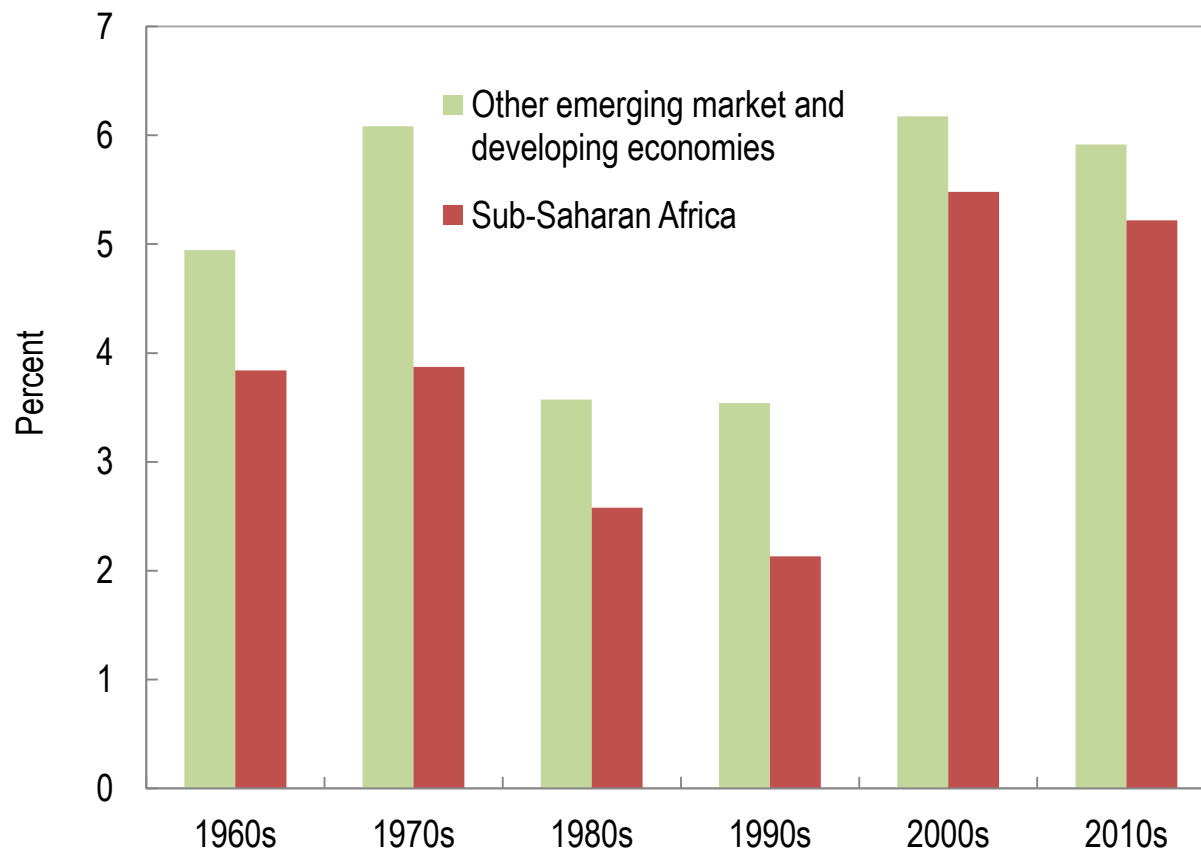


- Getting growth started
- Sustaining growth
- Quality of growth

Economic growth in sub-Saharan Africa over the last 15 years or so has been very good

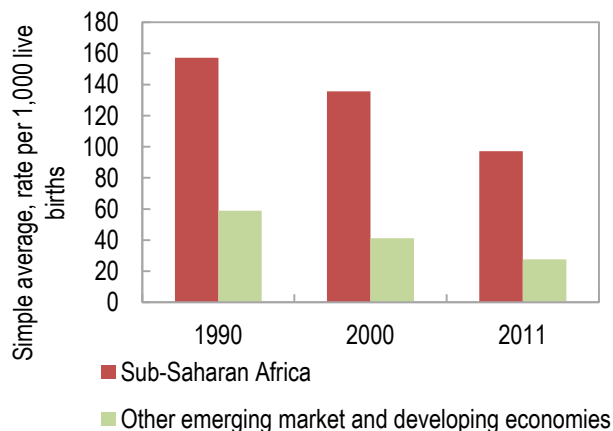


Average Real GDP Growth by Decade

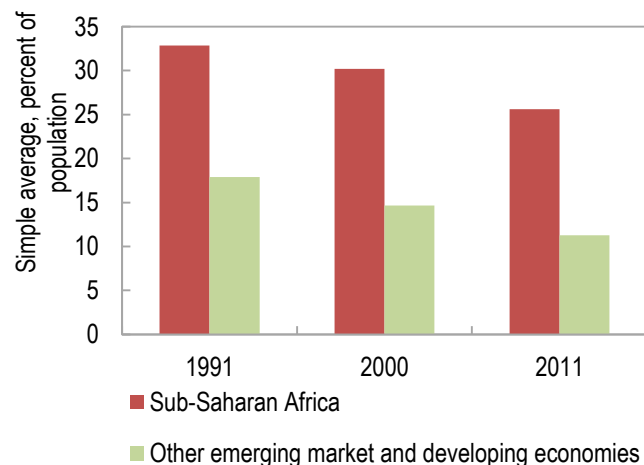


By and large, growth has also been accompanied by improvements in human development outcomes

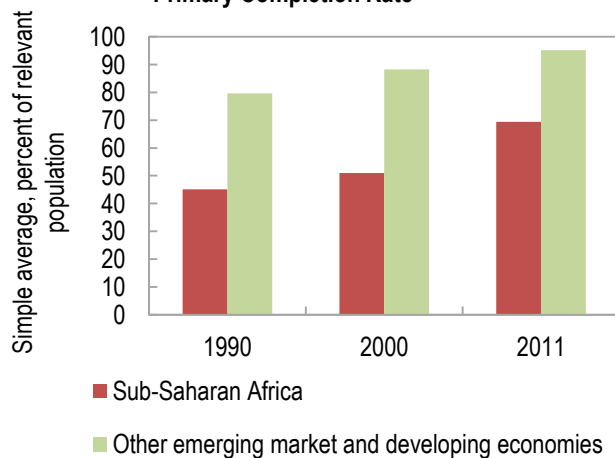
Under-Five Mortality Rate



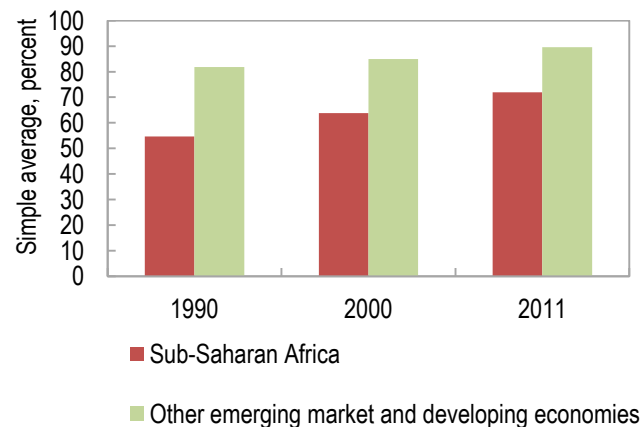
Prevalence of Undernourishment



Primary Completion Rate



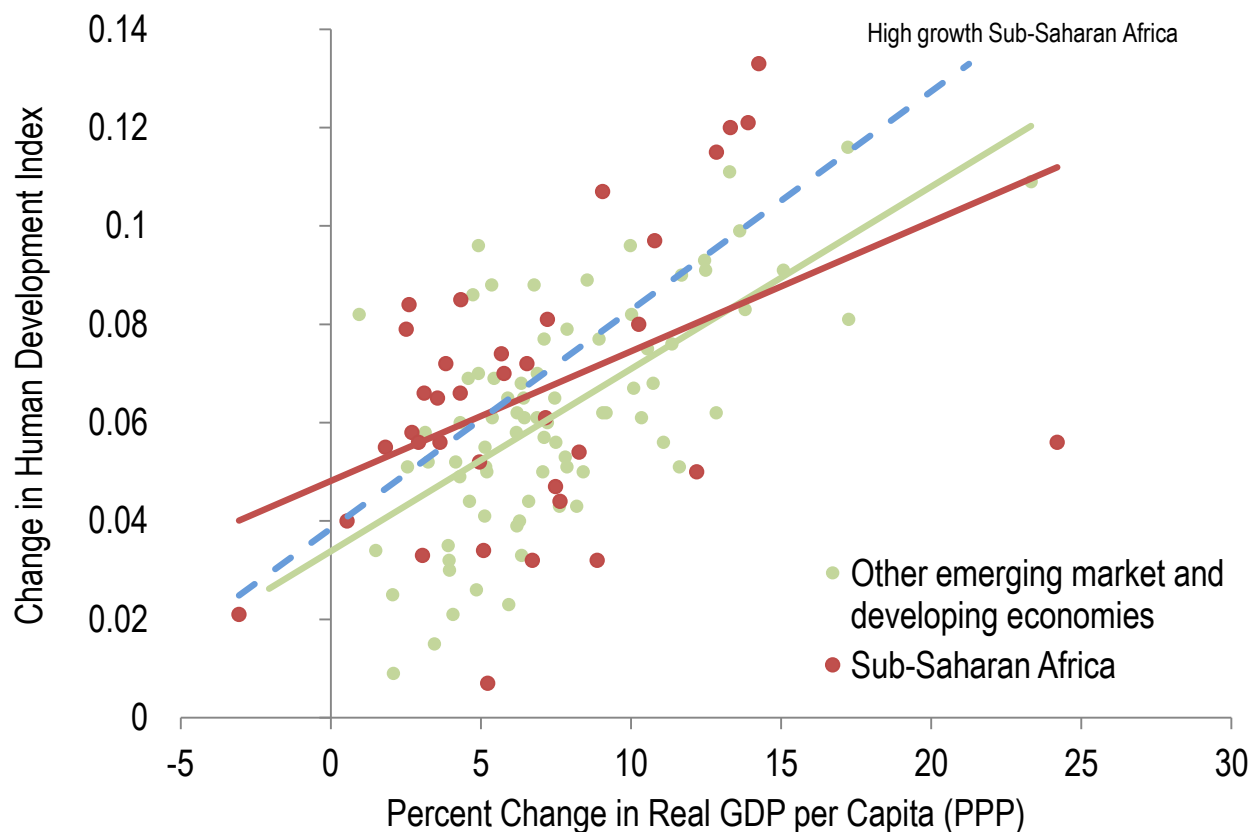
Population with Access to Improved Water Source



The relationship between economic growth and improvements in human development outcomes in SSA is similar to that in other developing economies



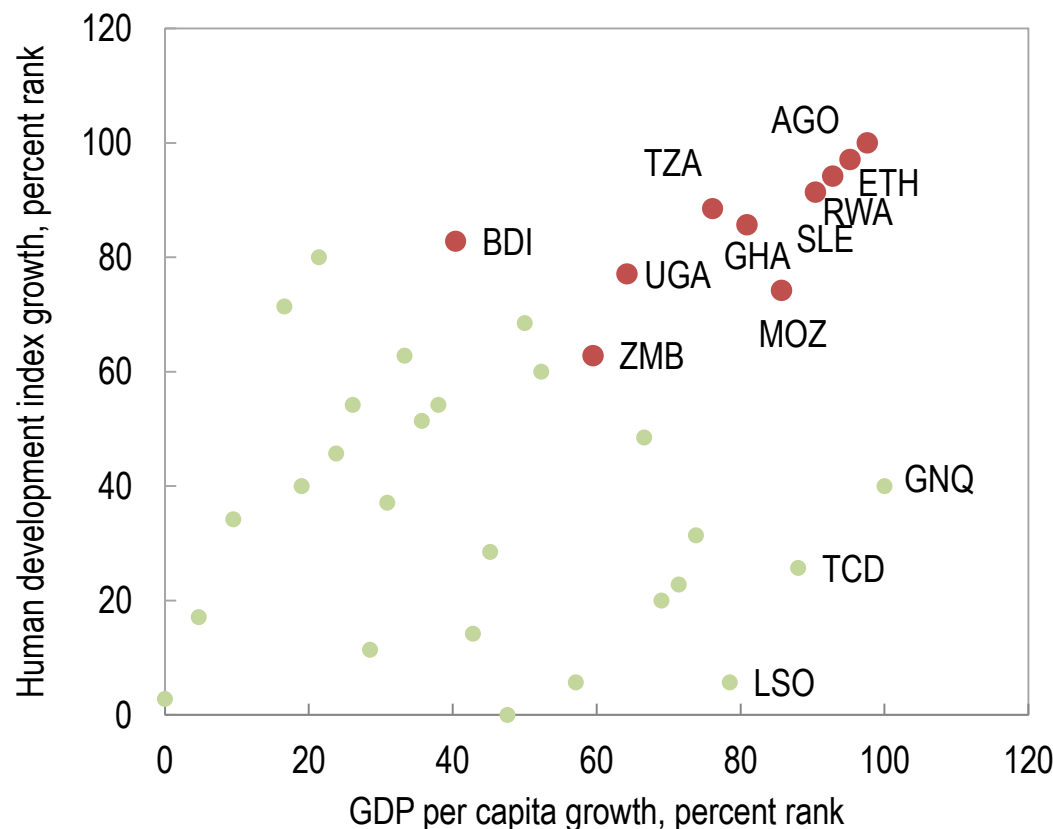
Real GDP per Capita (PPP) and Human Development Index Growth, 2000–12



Countries in sub-Saharan Africa differ in the efficiency with which economic growth translates into development outcomes



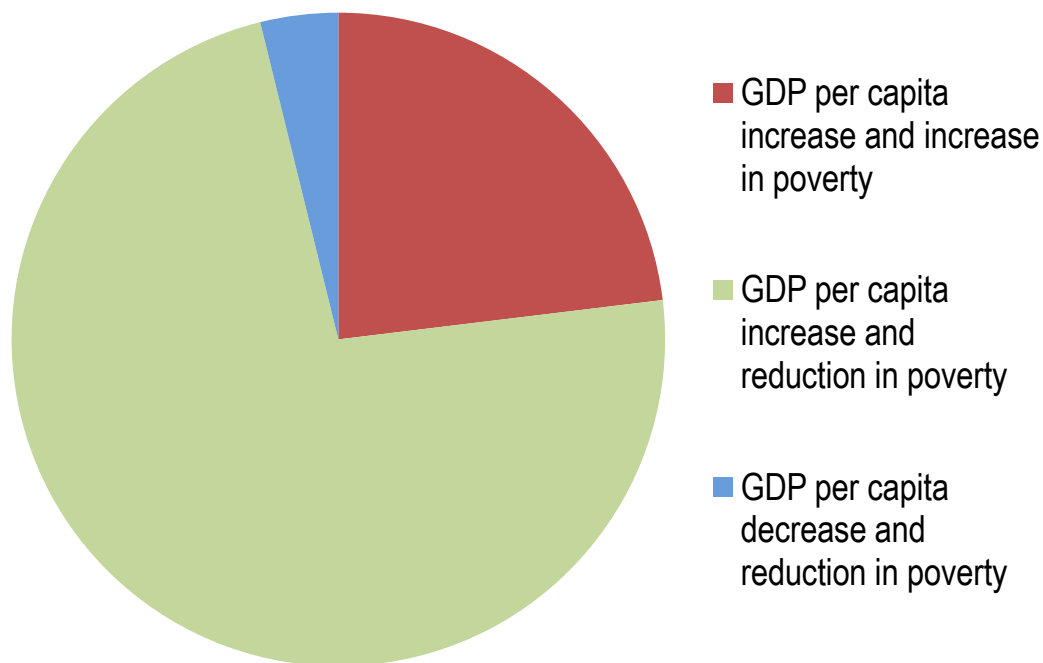
Sub-Saharan Africa: GDP per Capita (PPP) and Human Development Index Growth, 2000–12



Poverty declined in the majority of countries in sub-Saharan Africa, although it increased in some



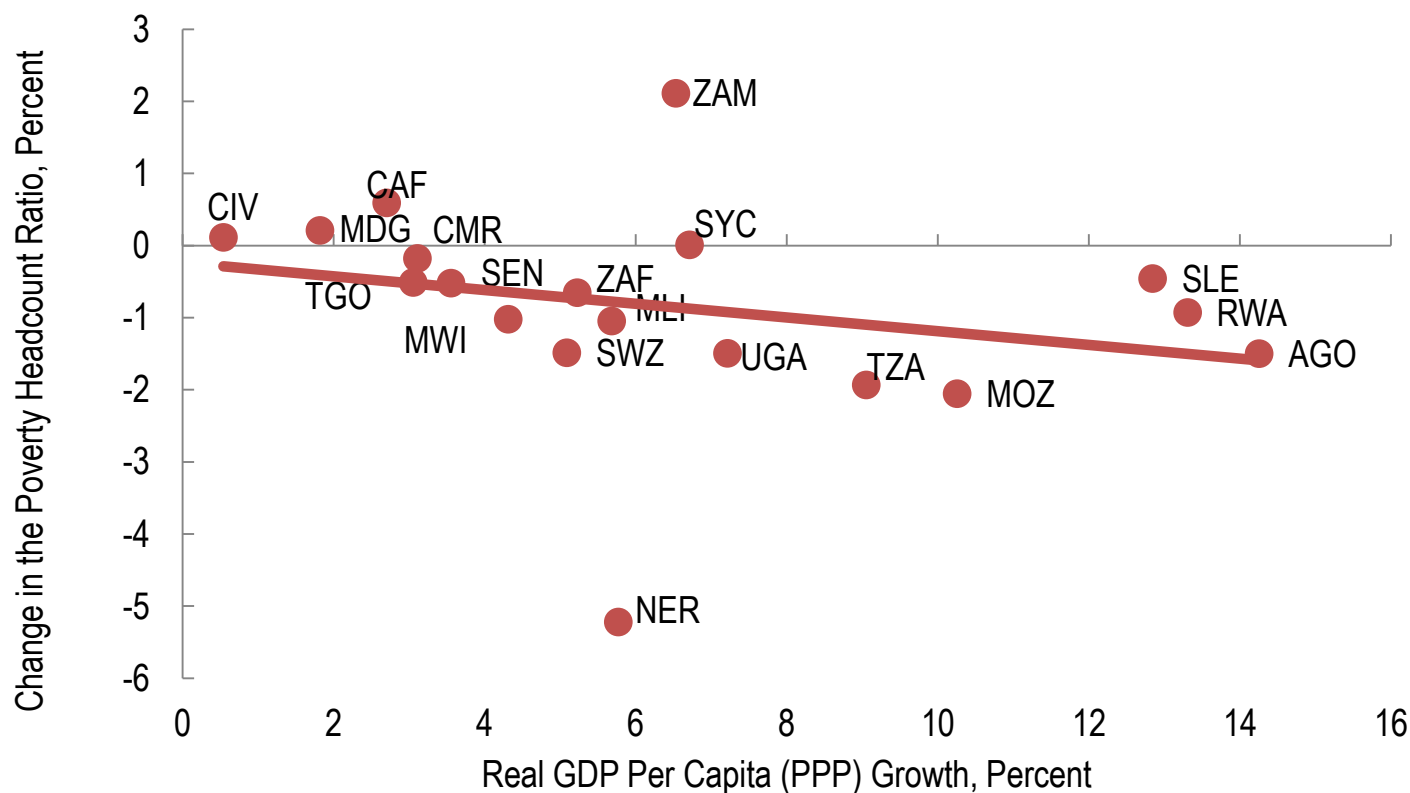
Sub-Saharan Africa: Changes in Poverty and GDP per Capita
(26 country sample)



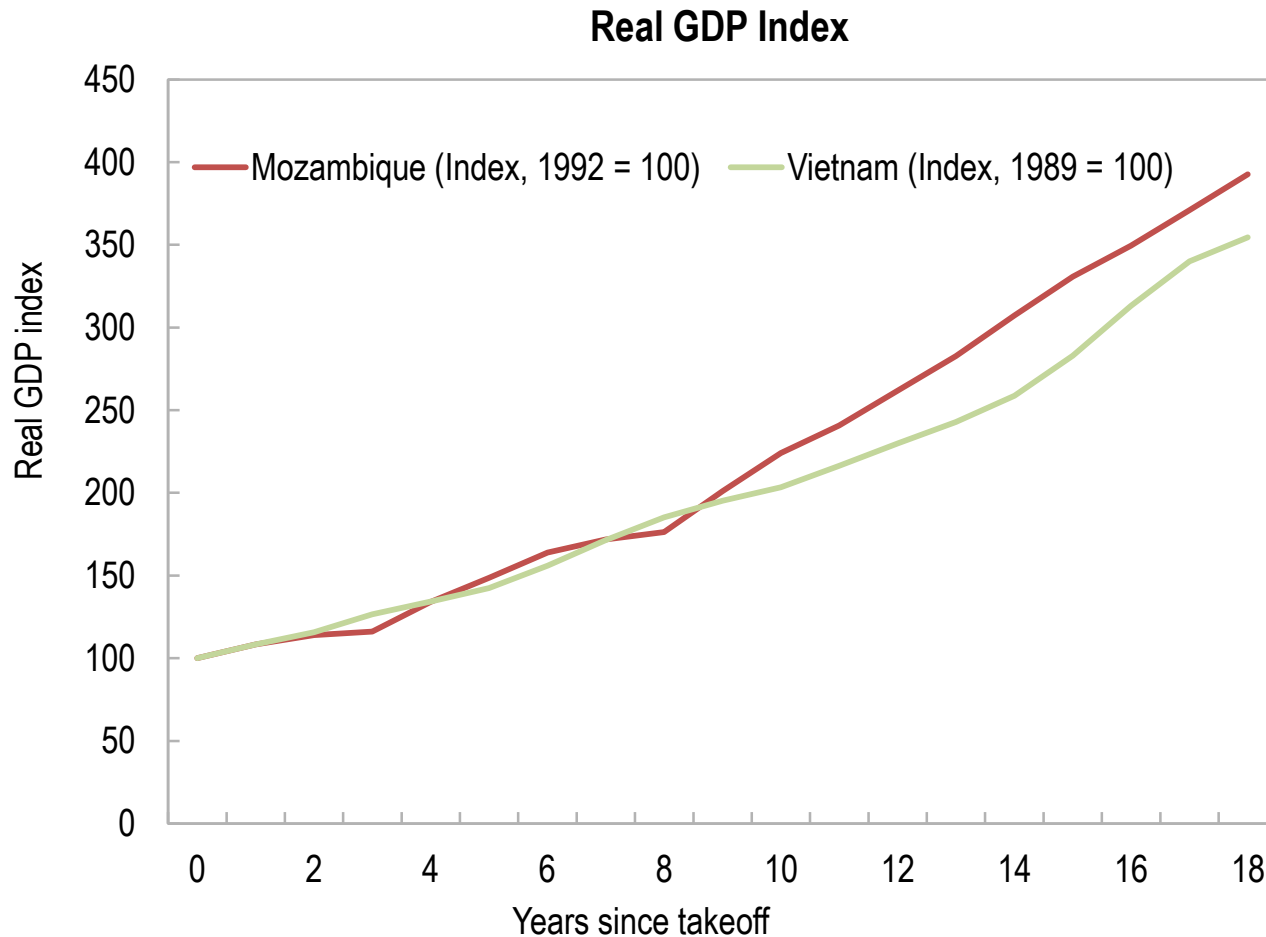
The relation between changes in poverty and growth in Mozambique is close to the average in sub-Saharan African countries



Sub-Saharan Africa: GDP Per Capita (PPP) Growth and Change in Poverty Headcount Ratio, 1990–2012

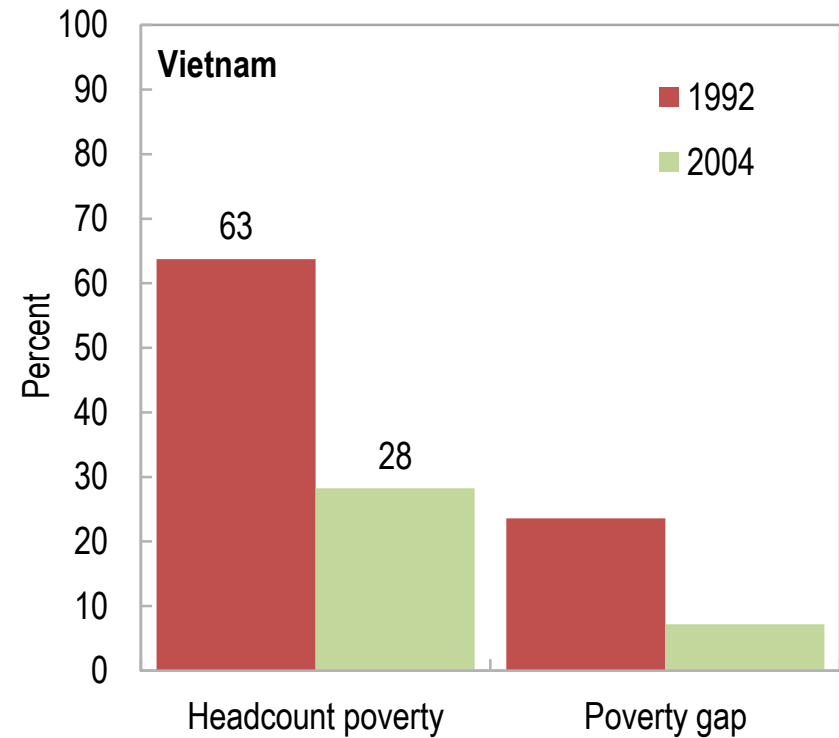
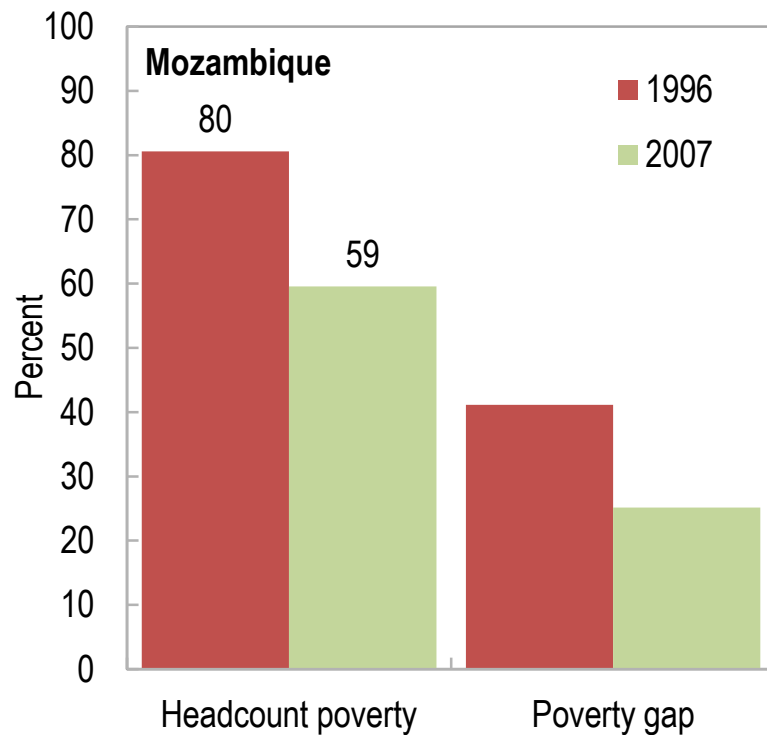


Mozambique and Vietnam experienced similar growth paths after their “growth takeoffs”



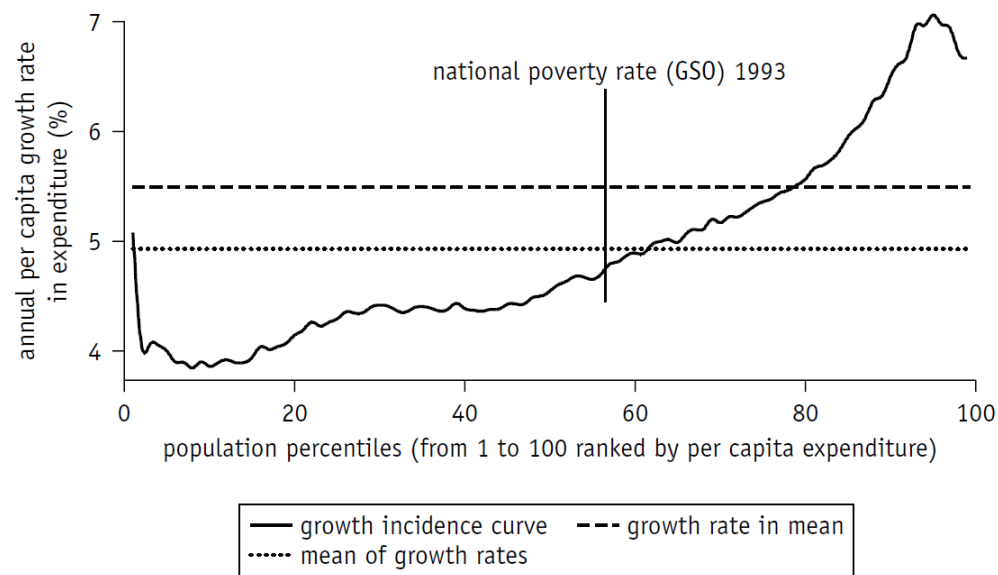
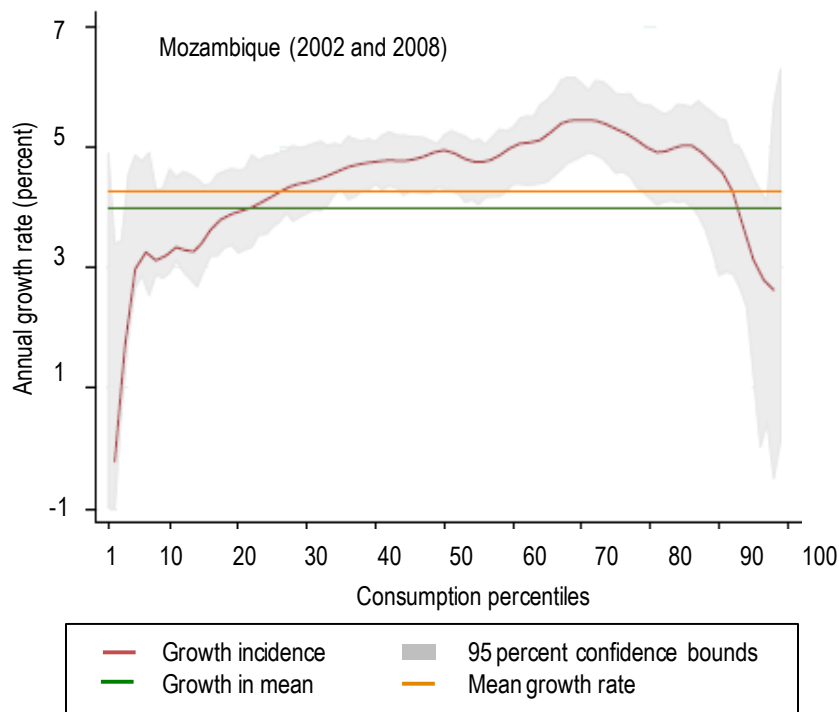
But Vietnam registered considerably more poverty reduction

Poverty Rates



Mozambique and Vietnam also had fairly different distributional outcomes

Growth Incidence Curves for Mozambique (2002-08) and Vietnam (1993-2002)



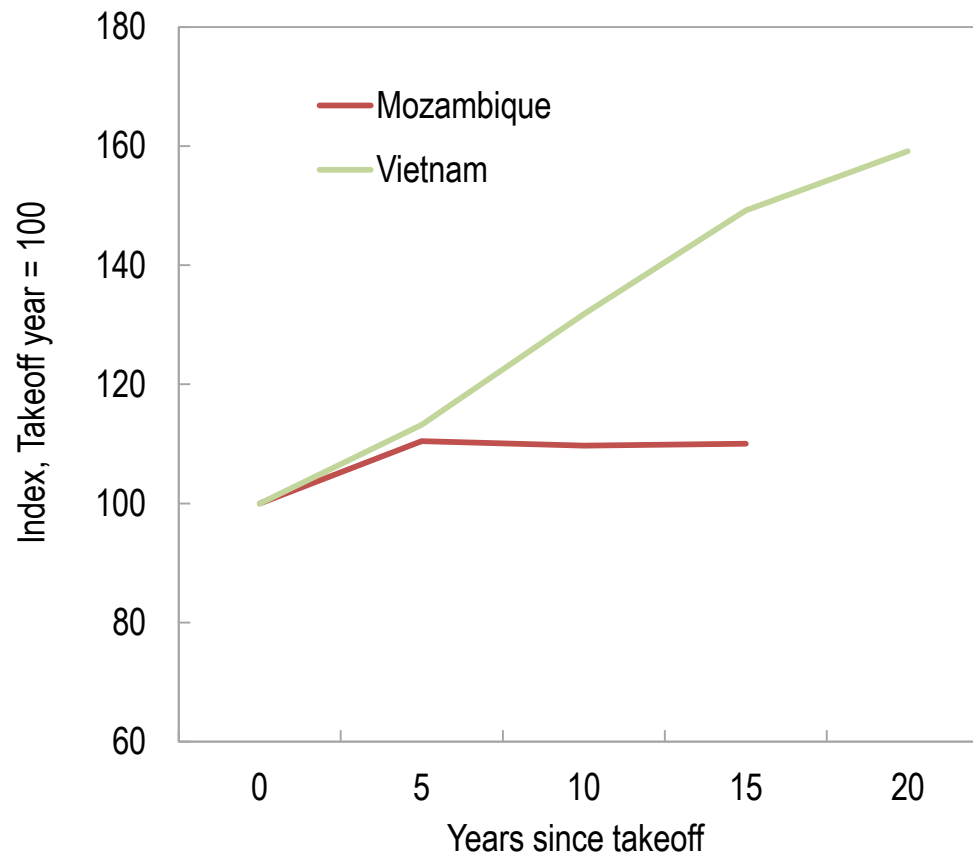
Source: Bonschab and Klump 2005.

Source: IMF Staff estimates based on Mozambique's household survey data.

An important reason for this difference seems to be the higher productivity growth in the agricultural sector in Vietnam compared to Mozambique



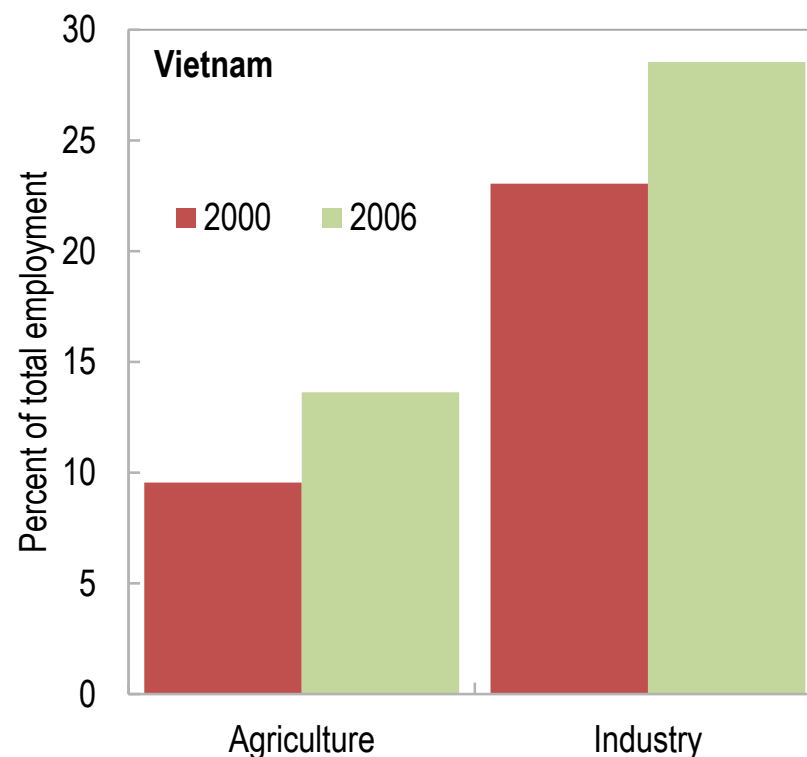
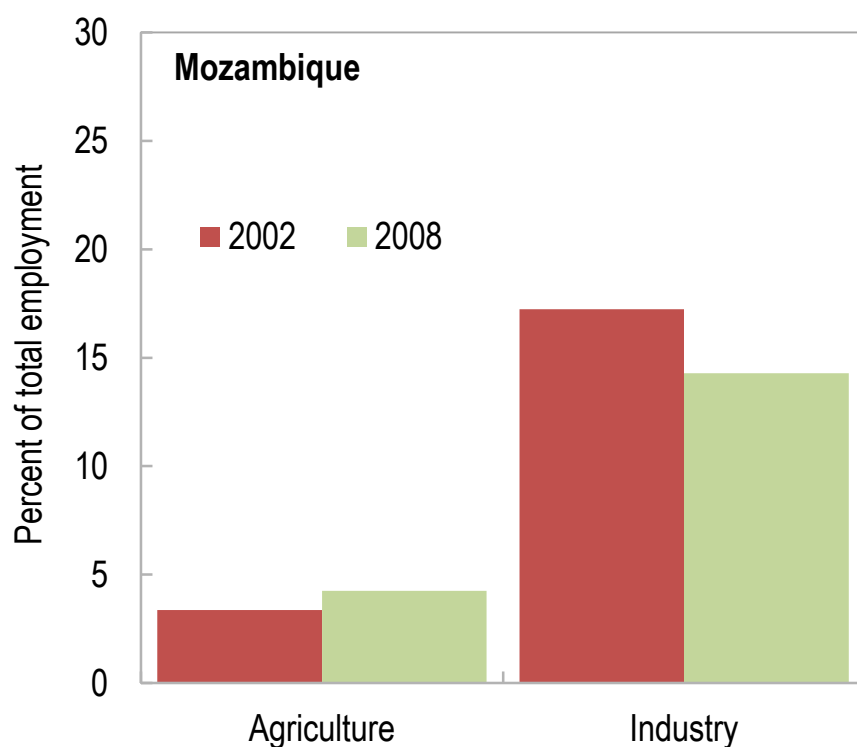
Total Factor Productivity in the Agricultural Sector



Vietnam also experienced much more rapid growth in manufacturing employment than Mozambique



Sectoral Employment

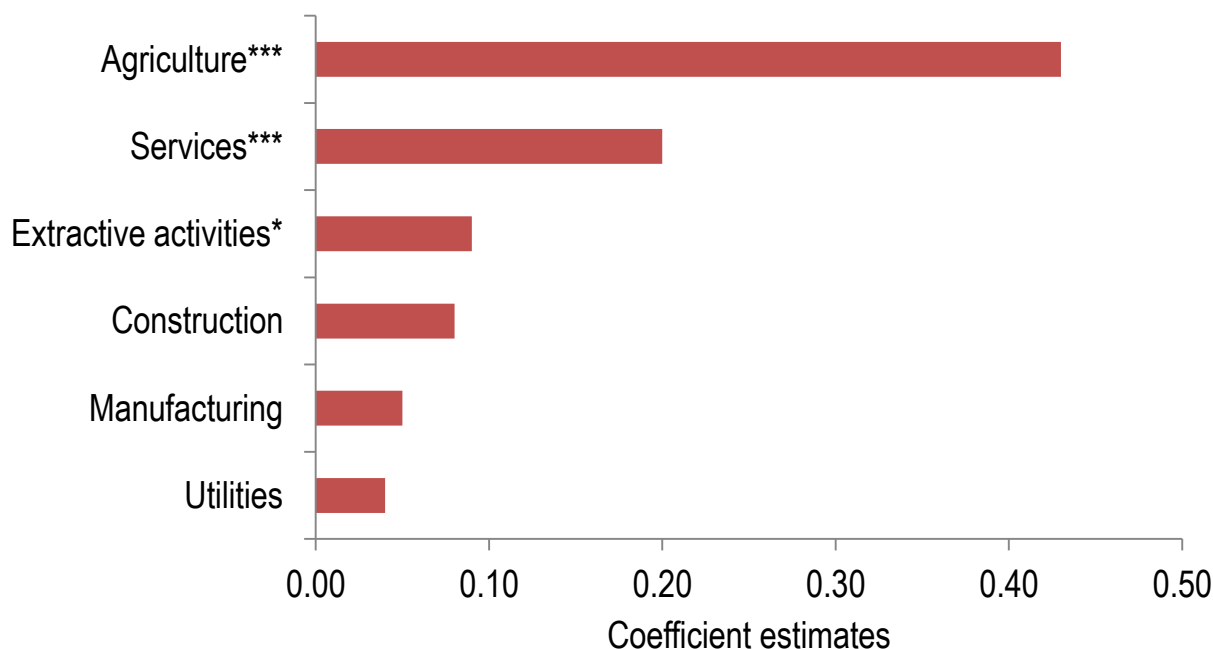


The importance of rapid growth in the agricultural and services sectors for poverty reduction is supported by the experience of other African countries



Sub-Saharan Africa: Relationship between Sectoral Growth and Poverty Reduction

(Percent reduction in the poverty headcount index associated with an increase of one percent in sectoral growth)



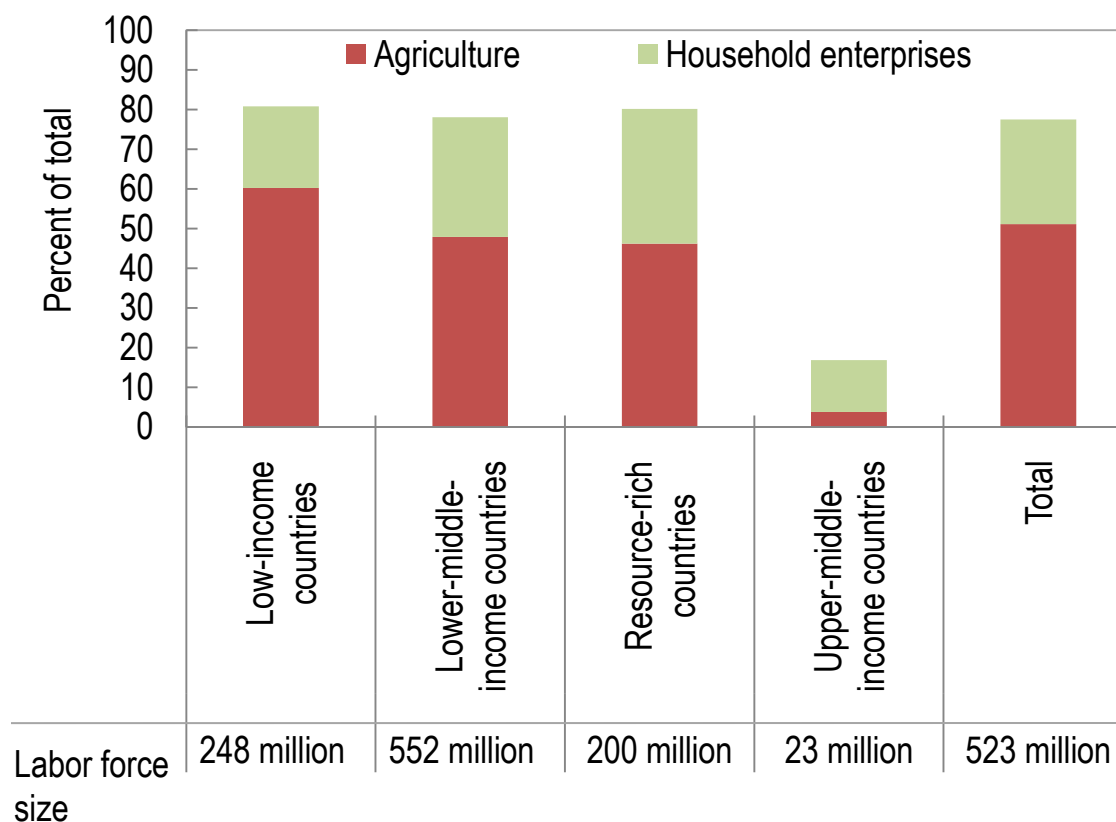
Source: IMF Staff estimates

Note: P-values reported in parentheses; and ***, **, and * indicate significance at the 1 percent, 5 percent, and 10 percent levels, respectively. Estimates were obtained using the generalized method of moments.

This seems to be because the lion's share of the workforce is in agriculture and household enterprises—this will remain the case for some time

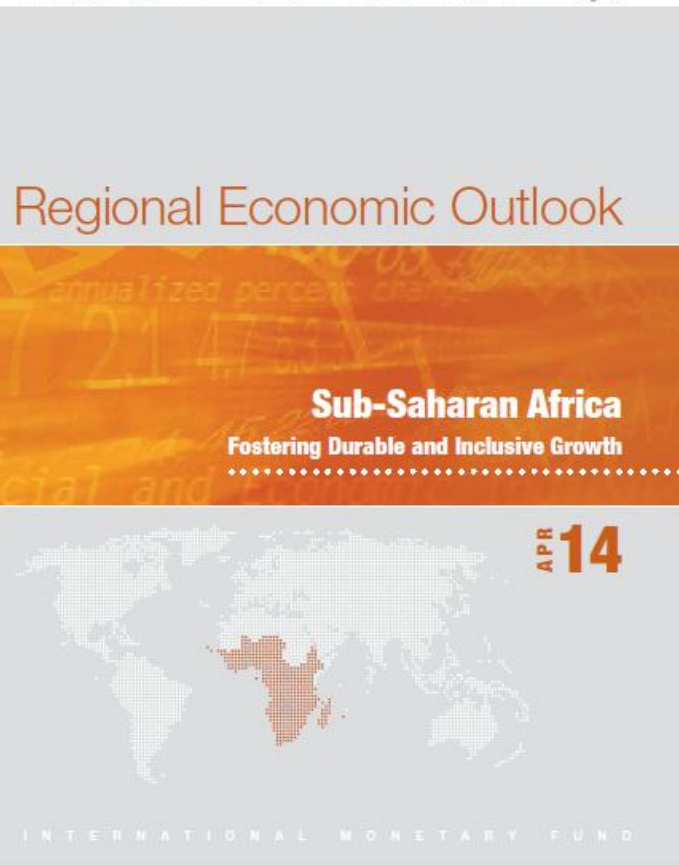


Sub-Saharan Africa: Projected Distribution of Employment by Country Classification and Sector, 2020



Thank You!

World Economic and Financial Surveys



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