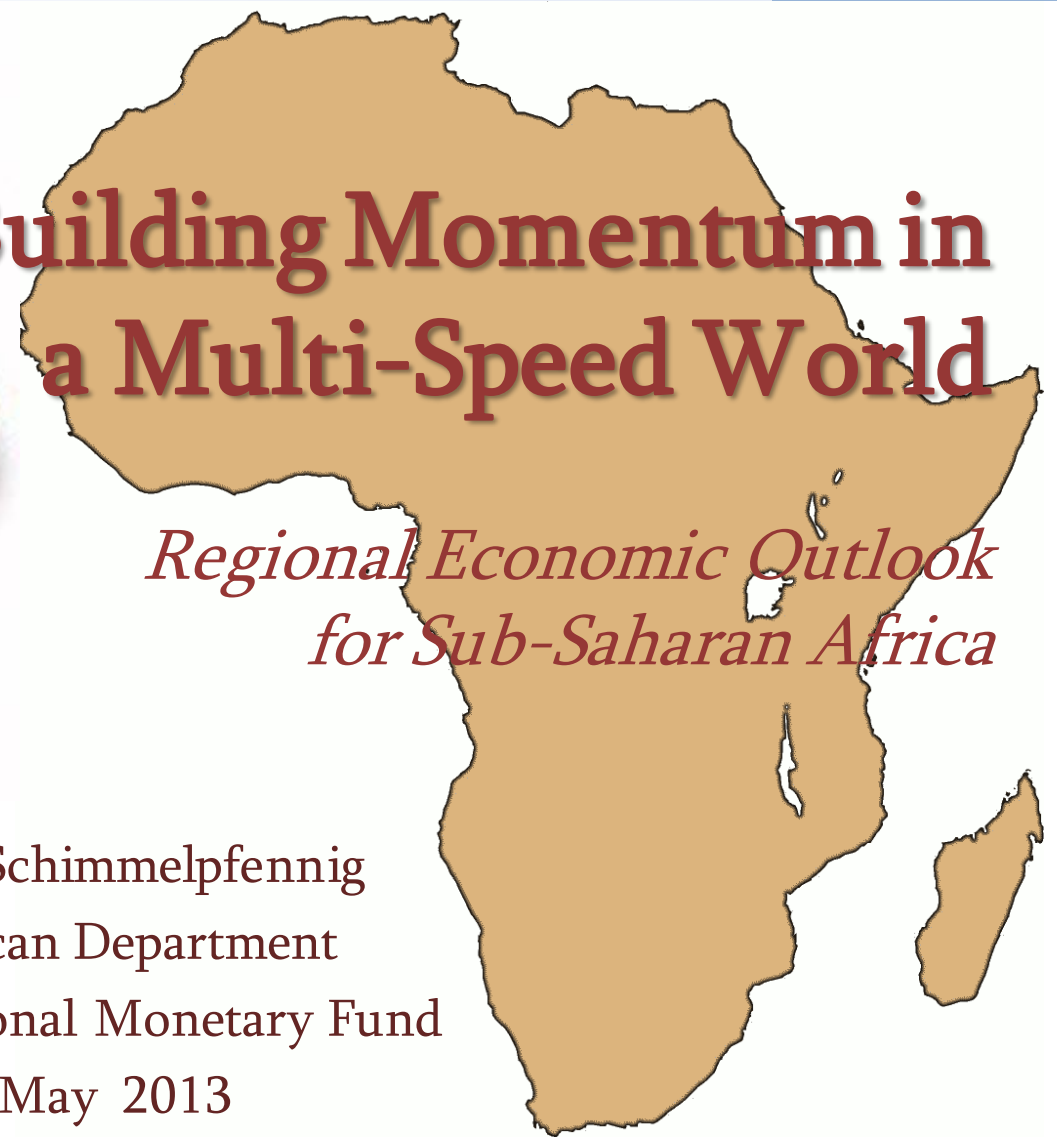




Building Momentum in a Multi-Speed World

*Regional Economic Outlook
for Sub-Saharan Africa*

Axel Schimmelpfennig
African Department
International Monetary Fund
May 2013



Outline



Recent Developments and Near-term Outlook

The Global Picture

The Region

Risks to the Outlook

Policy Challenges in the Region

In Conclusion

Outline



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The Global Picture

The Region

Risks to the Outlook

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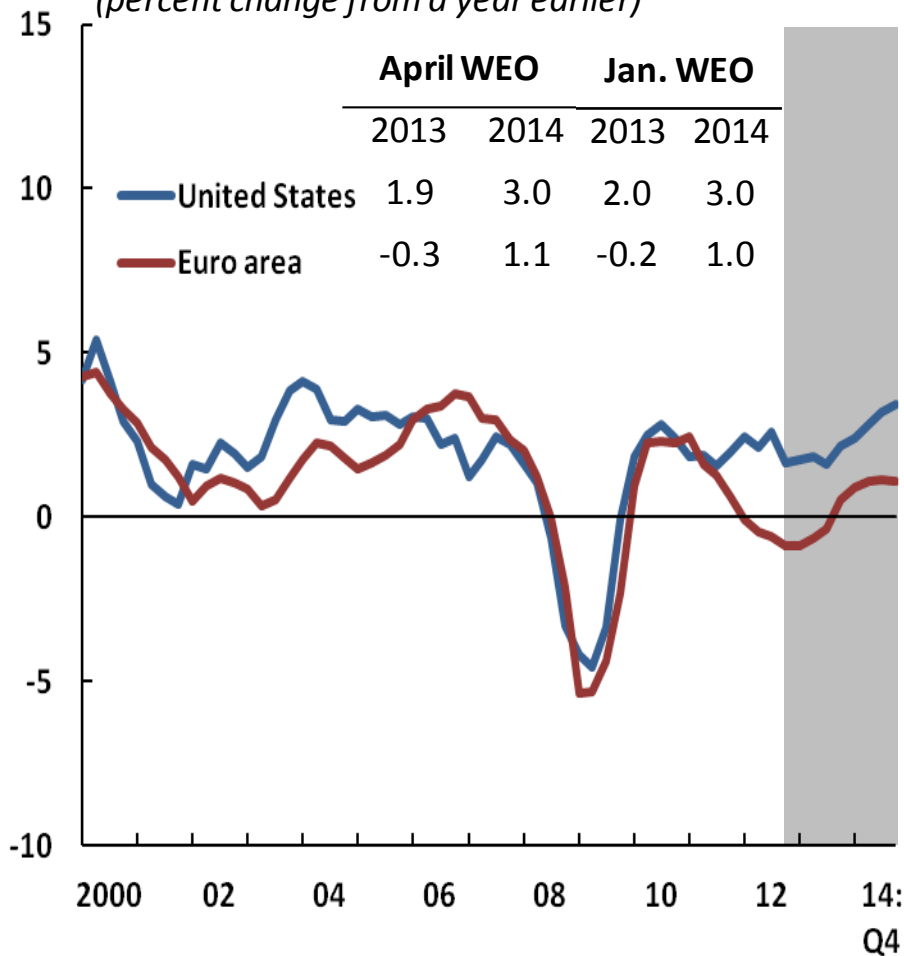
In Conclusion

Three-speed global economy: rebound in the US, slow recovery in the euro area, and strong growth in EMs



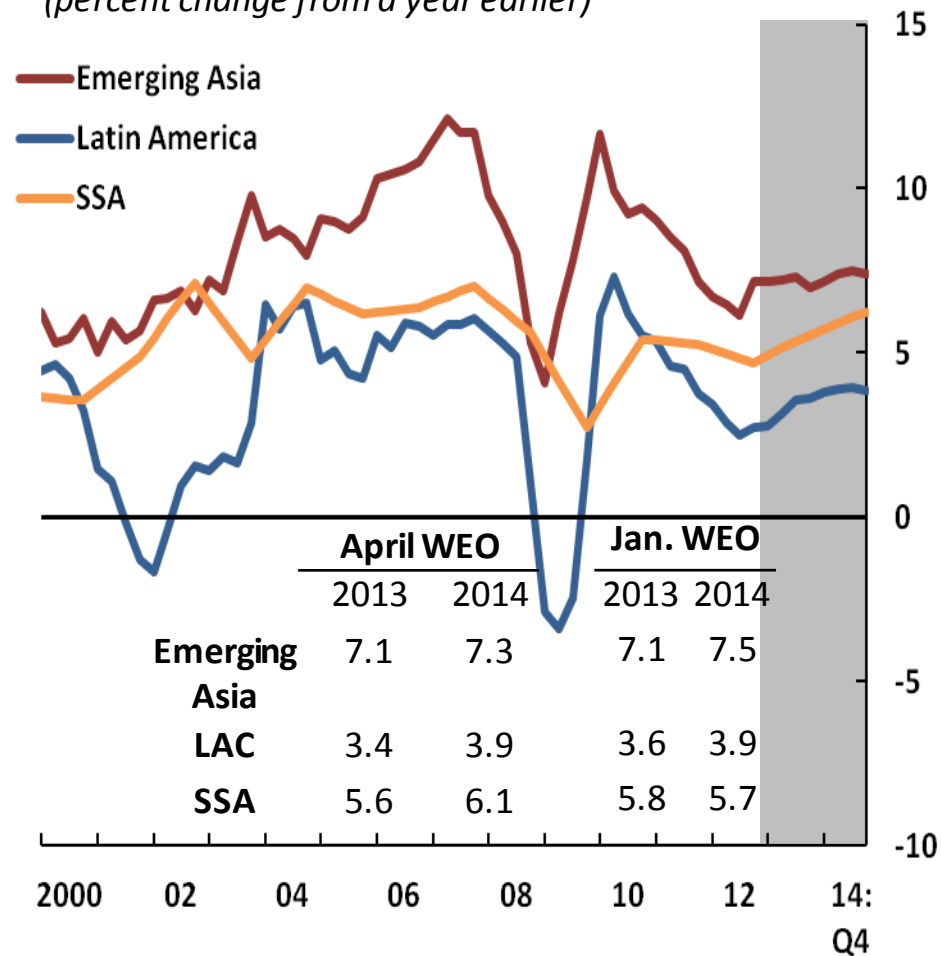
Advanced Economies

(percent change from a year earlier)



Emerging Economies

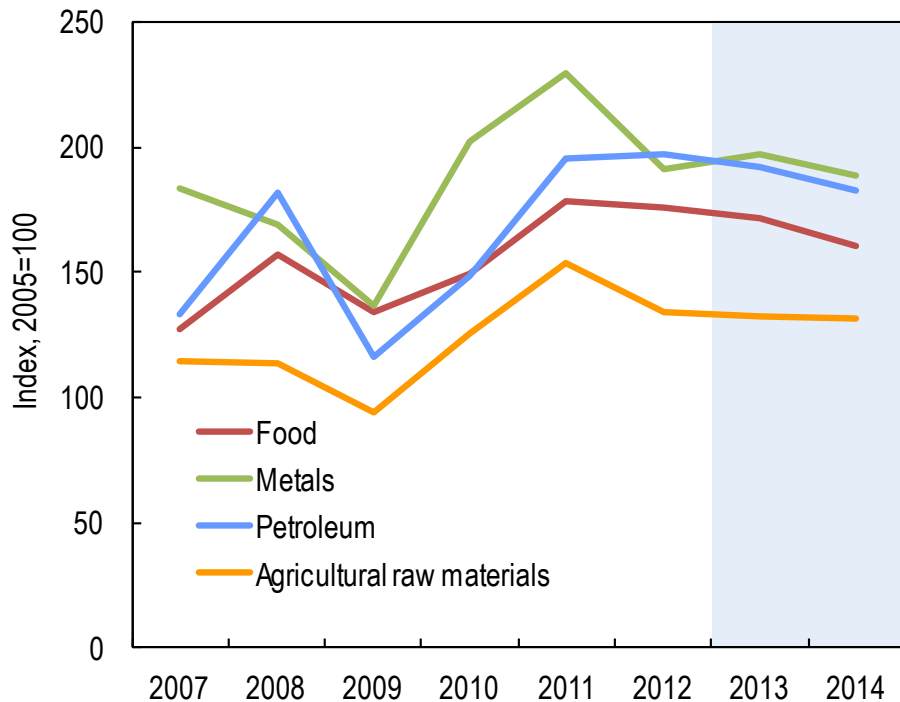
(percent change from a year earlier)



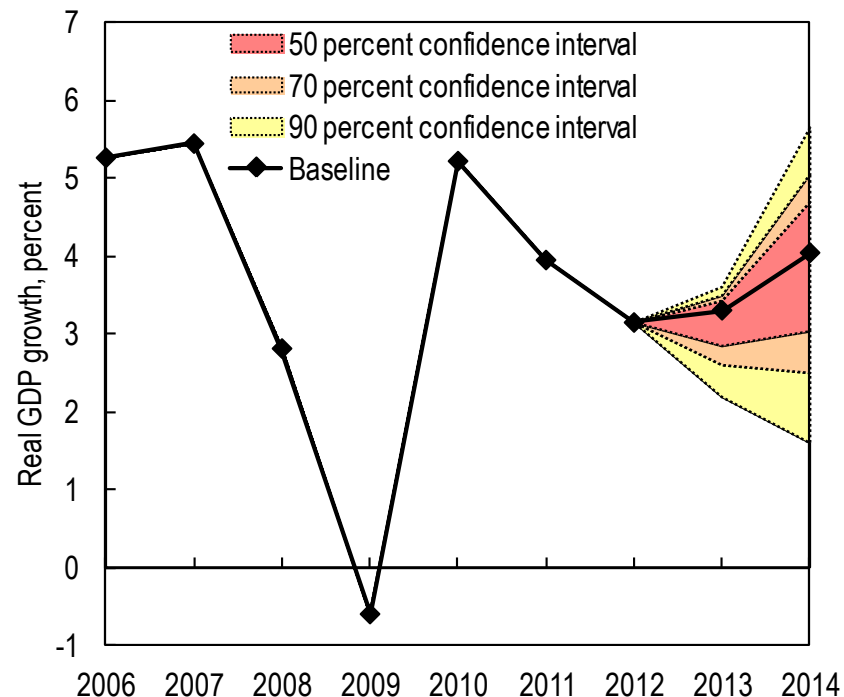
While broadly improving, the road ahead remains bumpy for the global economy



World Commodity Prices, 2007–14



World: Growth Prospects, 2006–14



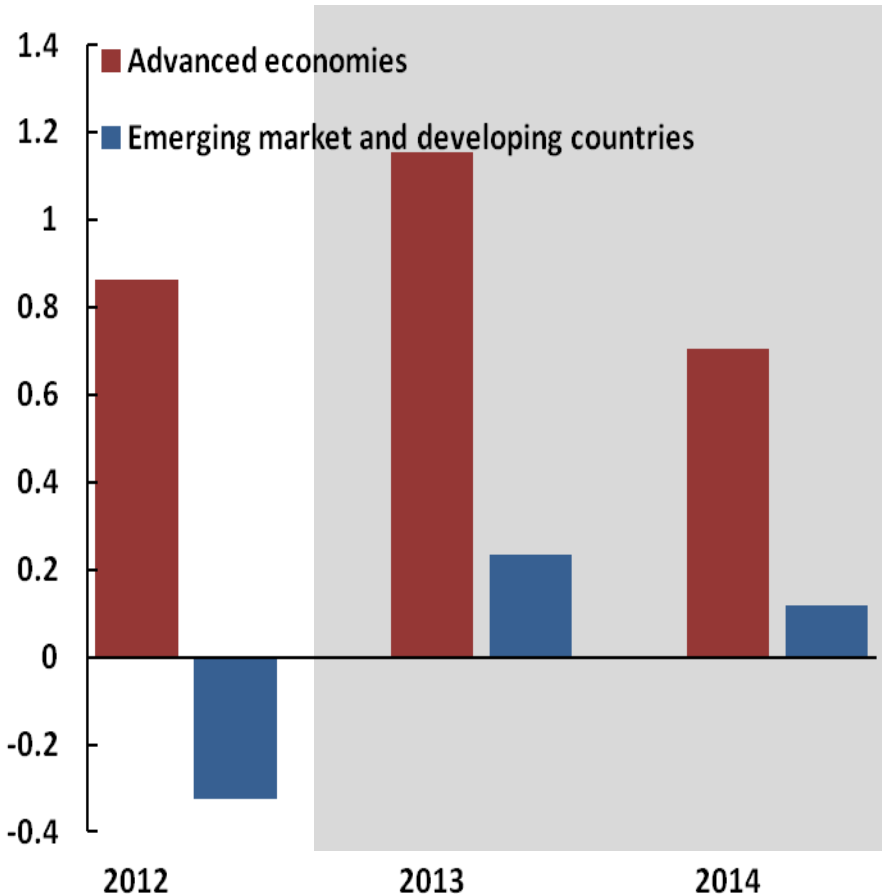
- Commodity prices projected to ease somewhat
- Short-term risks, especially “tail risks,” are receding; medium-term risks persist
- Monetary stimulus in advanced economies—liquidity for frontier countries?

AE fiscal policy will remain tight in 2013, and monetary policy will be supportive, while EM fiscal and monetary policy will be close to neutral.



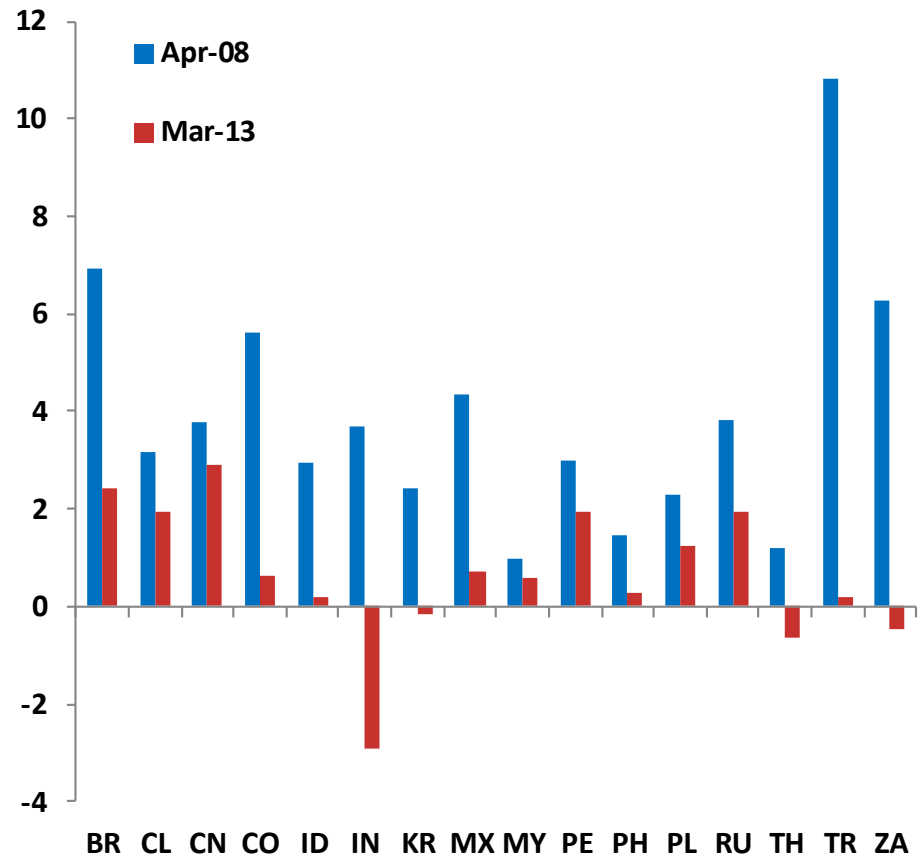
Fiscal Impulse

(Change in structural balance as percent of GDP)



EM Real Policy Rates

(percent; deflated by two-year-ahead inflation projections)



Source: IMF staff estimates.

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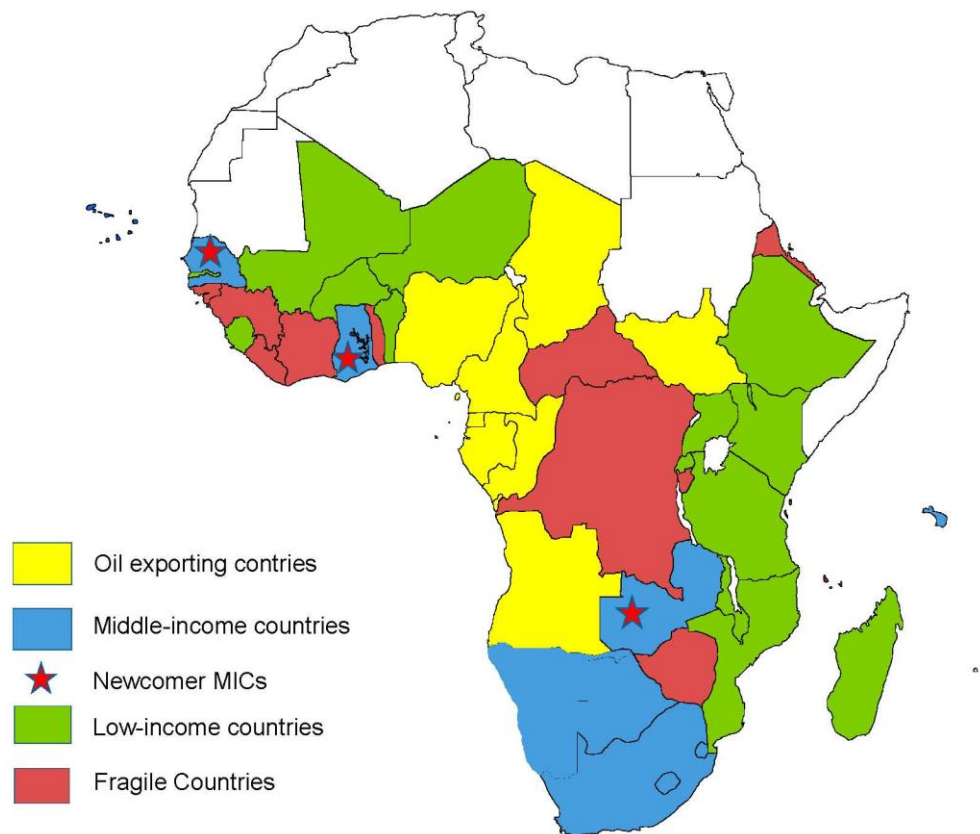
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Policy Challenges in the Region

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Sub-Saharan Africa

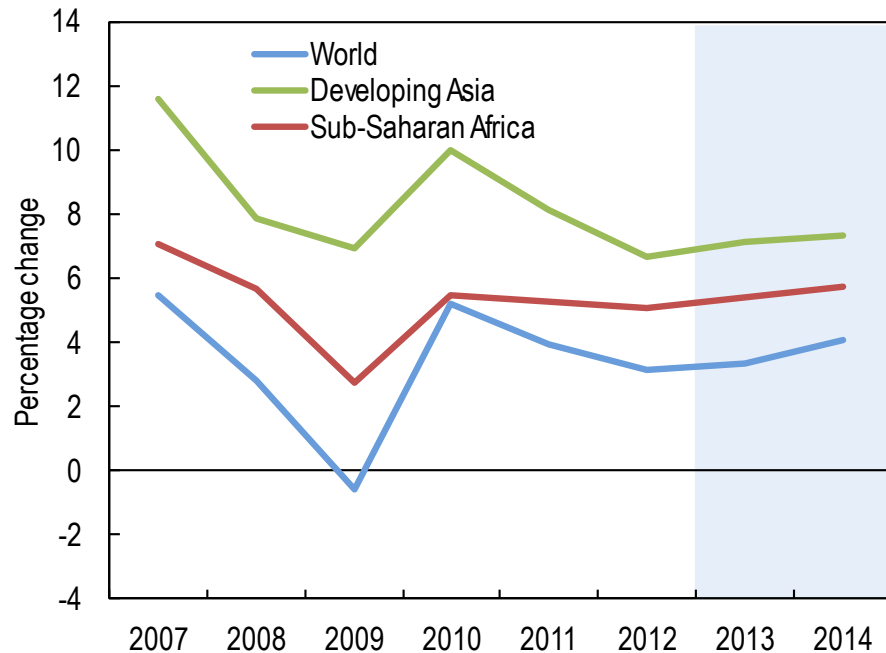
Before we start: country groupings



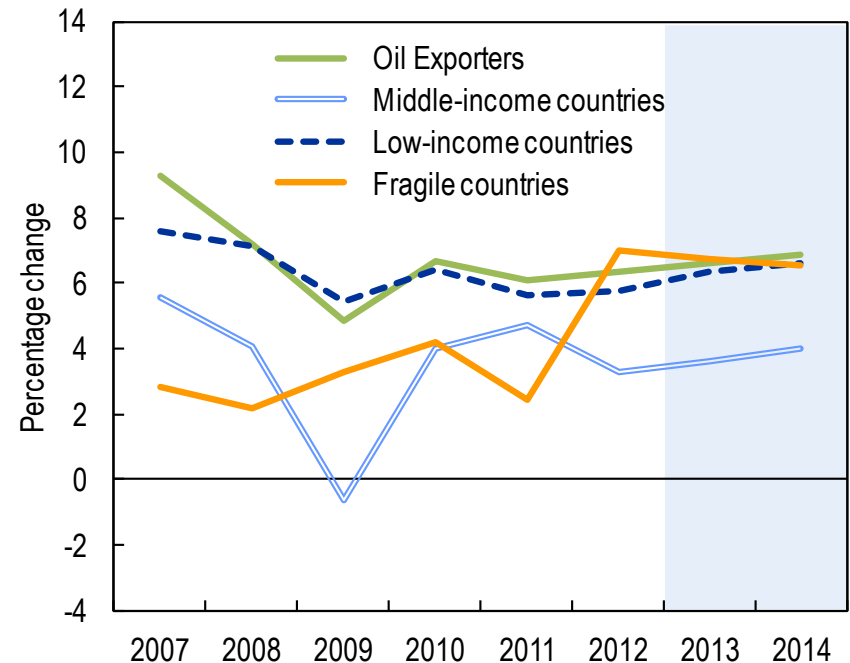
Growth in SSA generally strong, with small acceleration projected in 2013/14



Selected Regions: Real GDP Growth, 2007–14



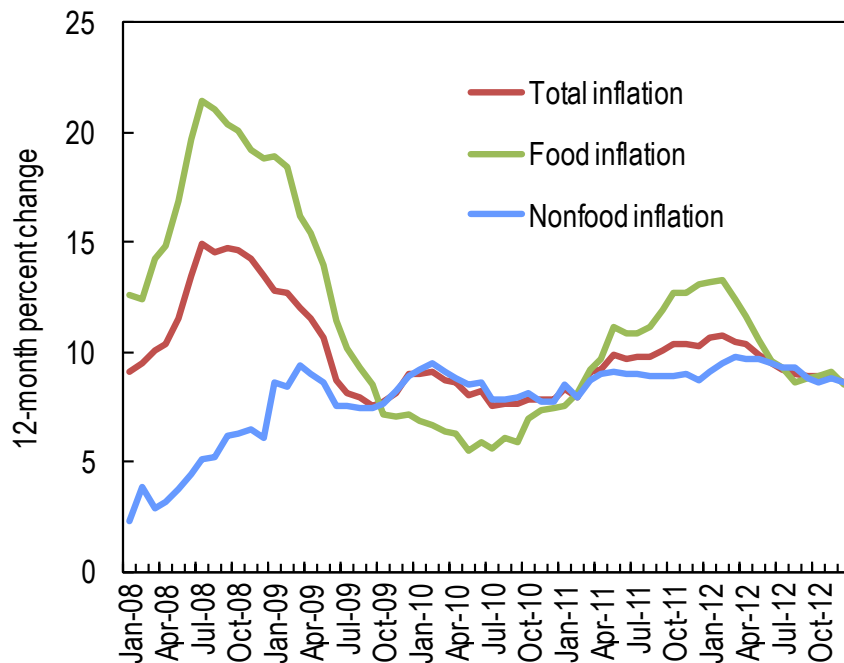
Sub-Saharan Africa: Real GDP Growth, 2007–14



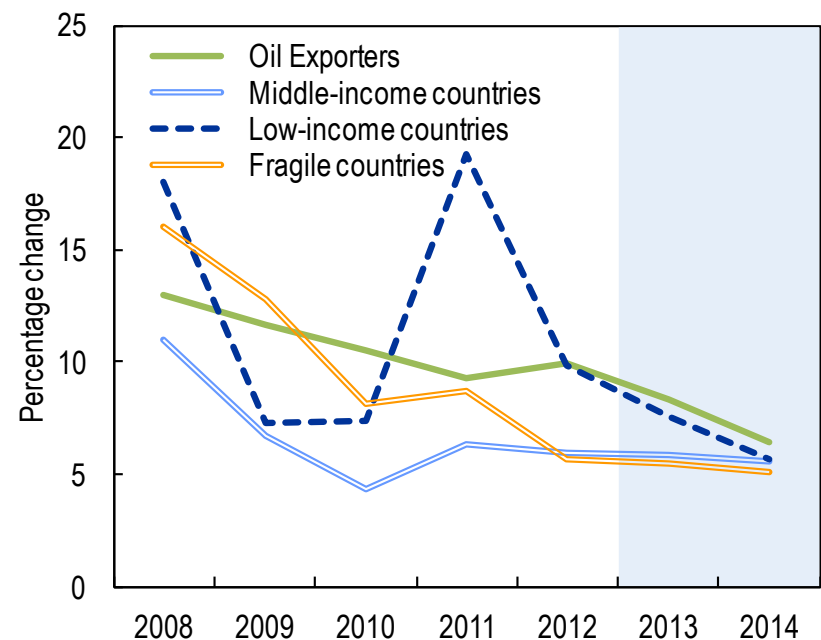
- LICs: robust growth, with strong investment and exports (including owing to new capacity to produce minerals)
- MICs: mixed bag, with South African growth sagging
- Fragile countries: peace dividend in CIV

Inflation continues to subside, notably in eastern Africa

Sub-Saharan Africa: Food and Nonfood inflation, 2008–Nov. 2012



Sub-Saharan Africa: End-of-period CPI Inflation, 2008–14



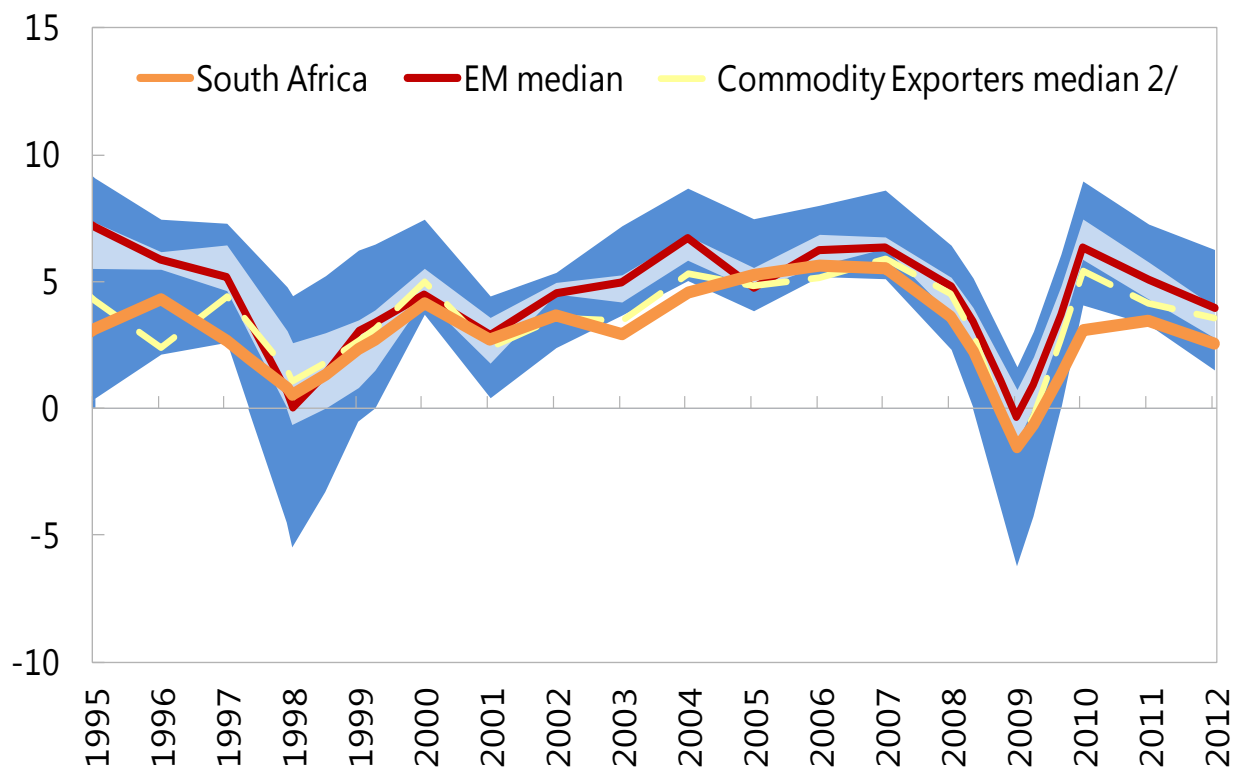
- Stable or slightly declining commodity prices
- Tight monetary policy in several high inflation economies
- Local climatic conditions have been supportive

SA growth has been disappointing vs peer EMs and commodity exporters



Growth post-GFC has been Disappointing 1/

(Real GDP growth in percent)



1/ The light blue area represents the center quintile of the distribution of peer EMs, while the dark blue area represent the other two center quintiles.

2/ Commodity exporters include Australia, Canada, Brazil, Chile, Peru, and Russia.

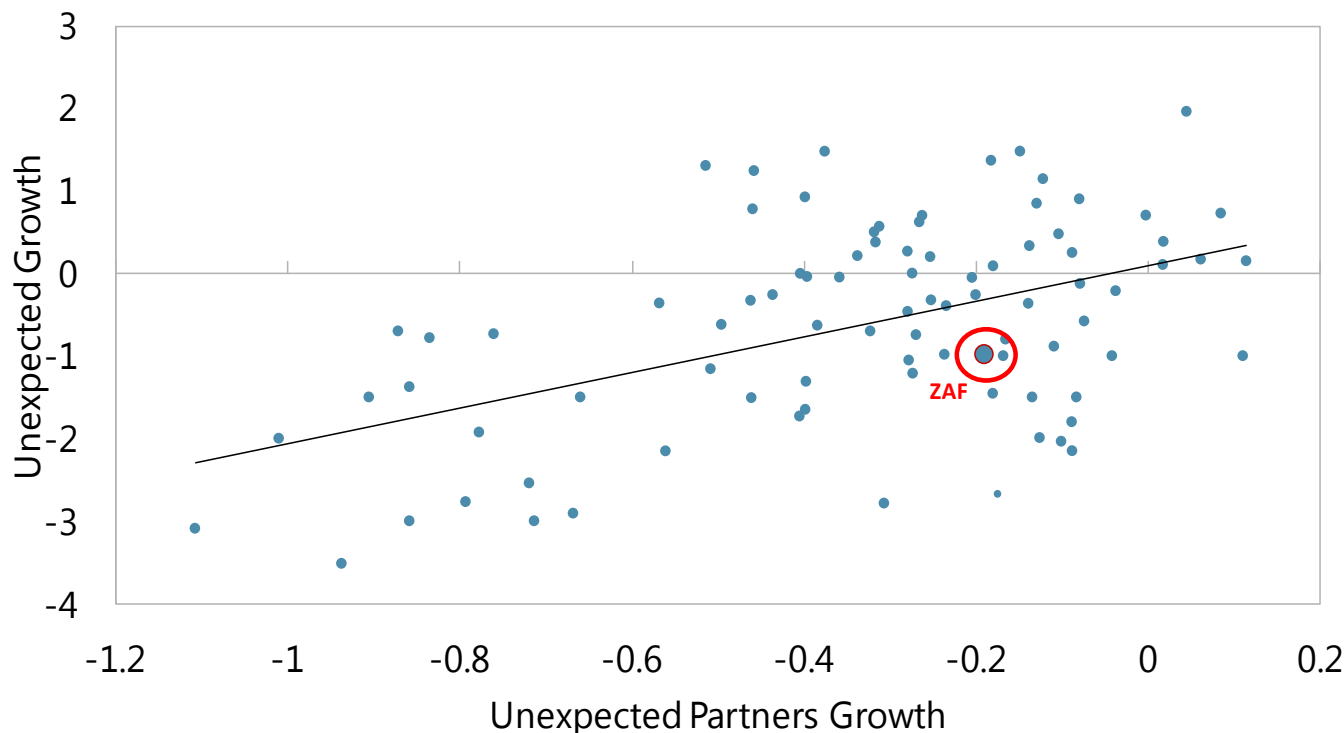
1. The peer group of commodity exporters include Australia, Brazil, Canada, Chile, Peru, and Russia.

Domestic factors also played a role in South Africa's 2012 growth slowdown



The 2012 Slowdown: More than External Spillover

(In percent)



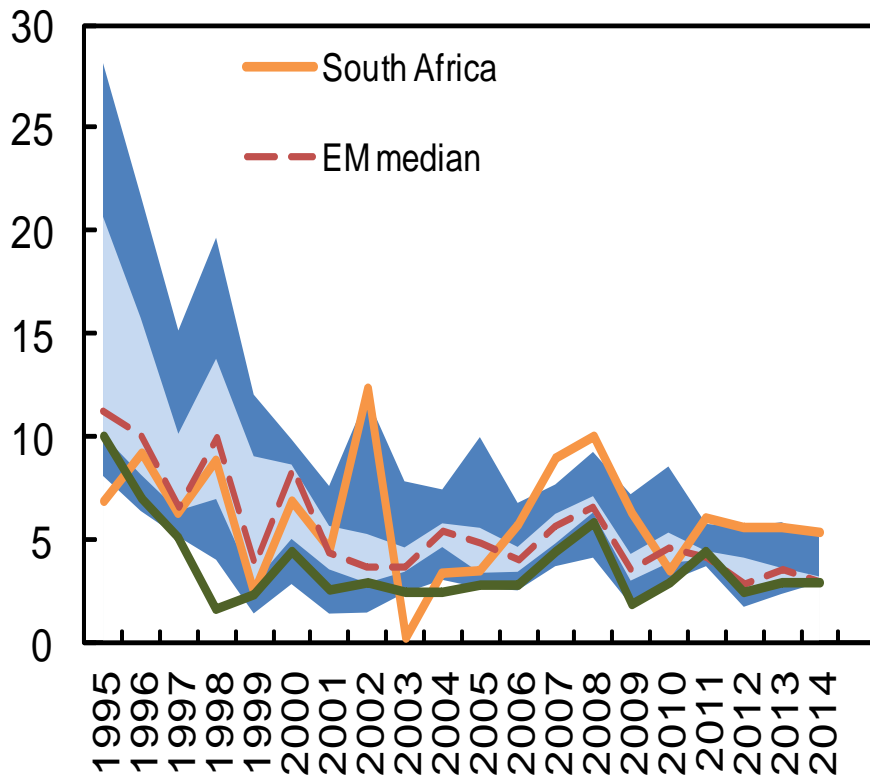
Sources: IMF, World Economic Outlook; and IMF staff calculations.

Note: Unexpected growth denotes real GDP growth in 2012 (Sept 2012 WEO) minus the forecast (Sept 2011 WEO). Partners growth is export weighted average.

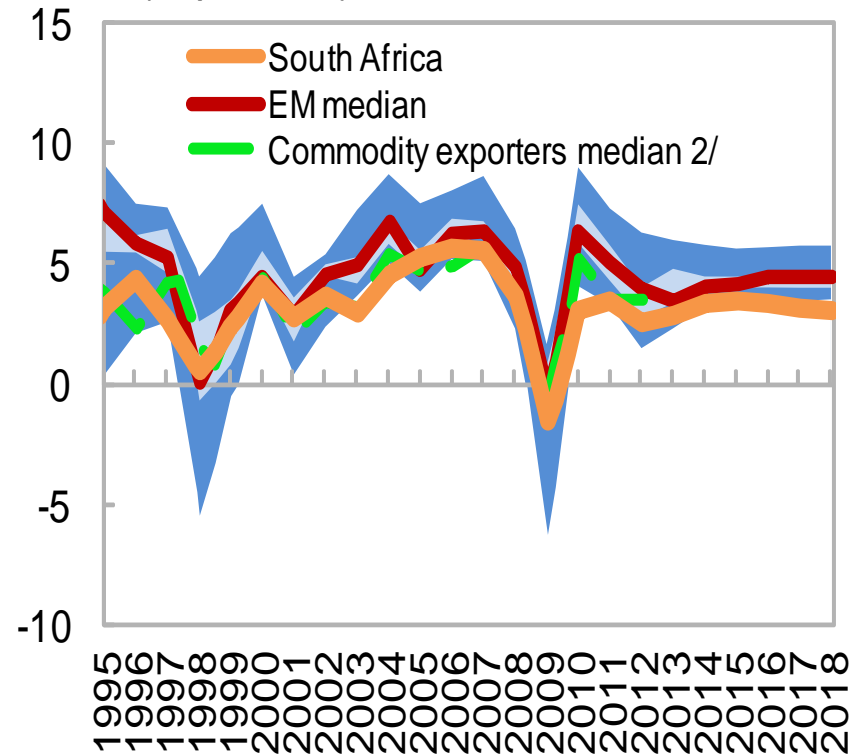
South Africa is expected to recover slightly and keep inflation within the band.



Inflation



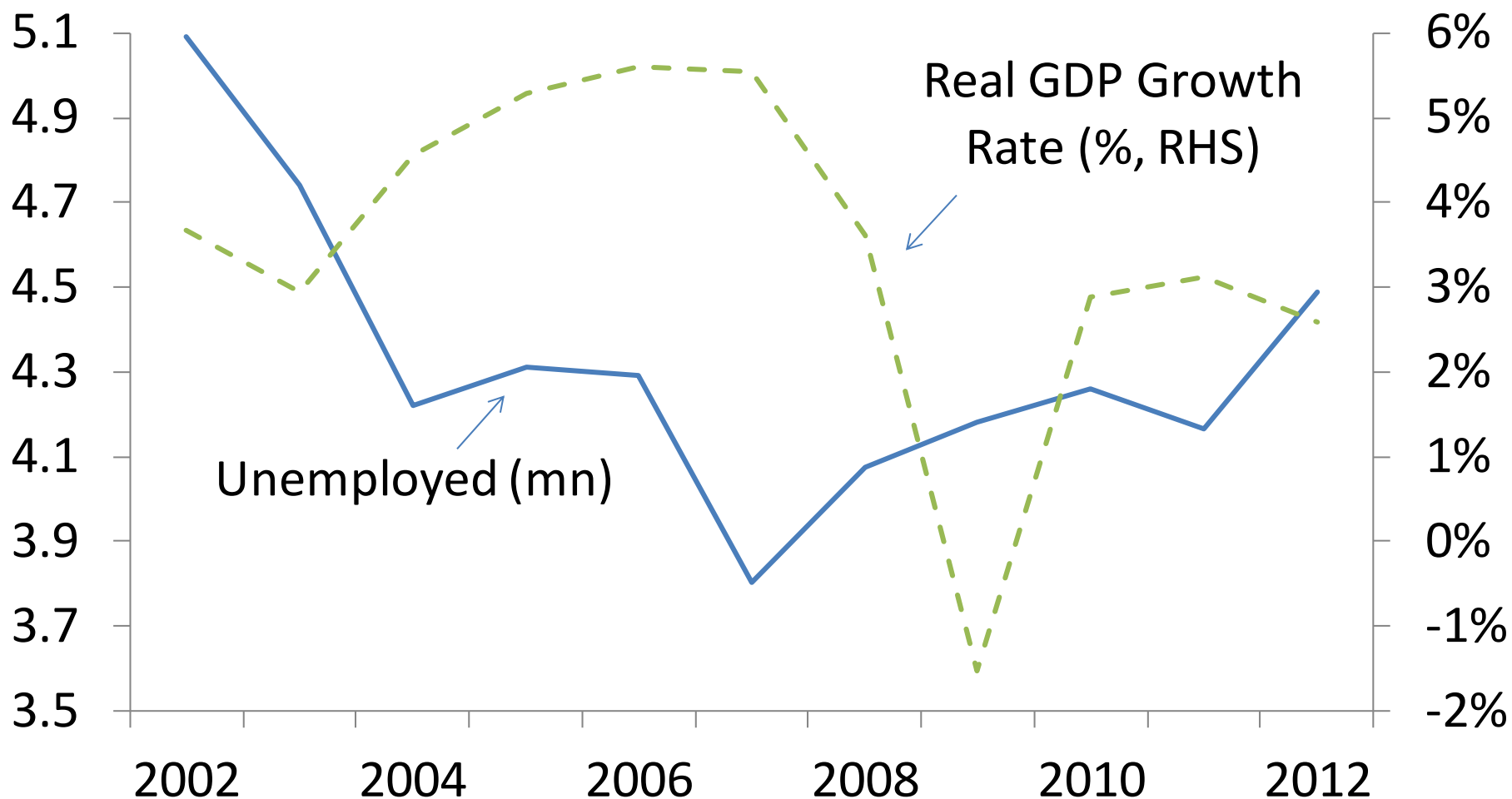
Real GDP Growth (in percent)



1/ Commodity exporters include Australia, Canada, Brazil, China, Chile, Peru, and Russia.

Sources: IMF's Annual Report on Exchange Arrangement and Exchange Restrictions; Staff estimates.

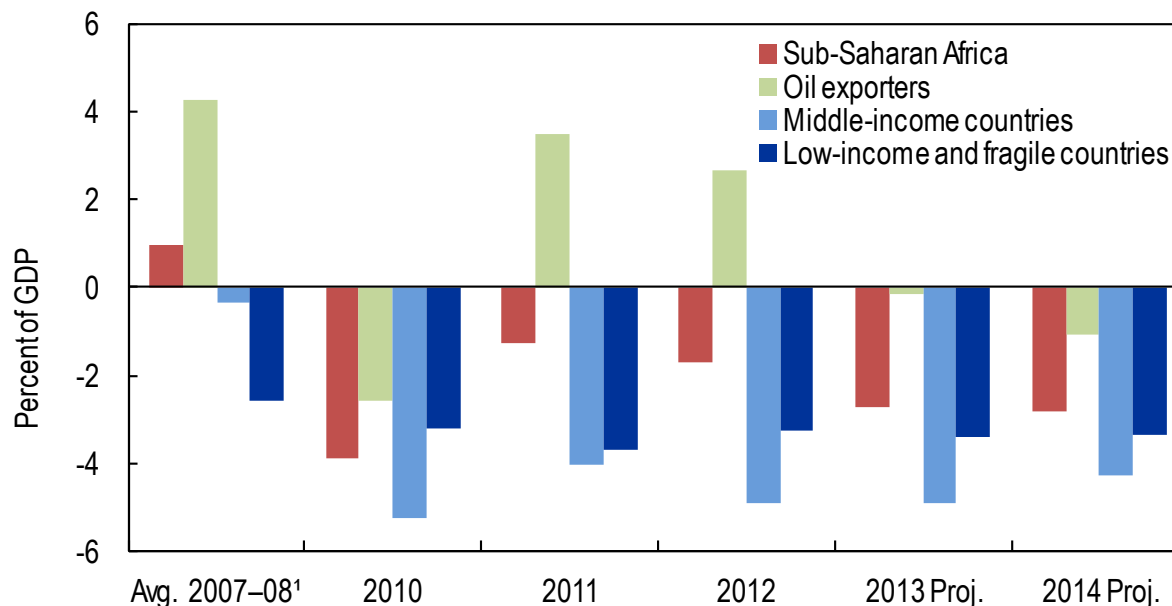
And unemployment continues to rise post GFC despite the (muted) growth recovery



Source: Stats SA, and IMF staff

SSA fiscal balances: a mixed picture

Sub-Saharan Africa: Overall Fiscal Balance, 2007–14

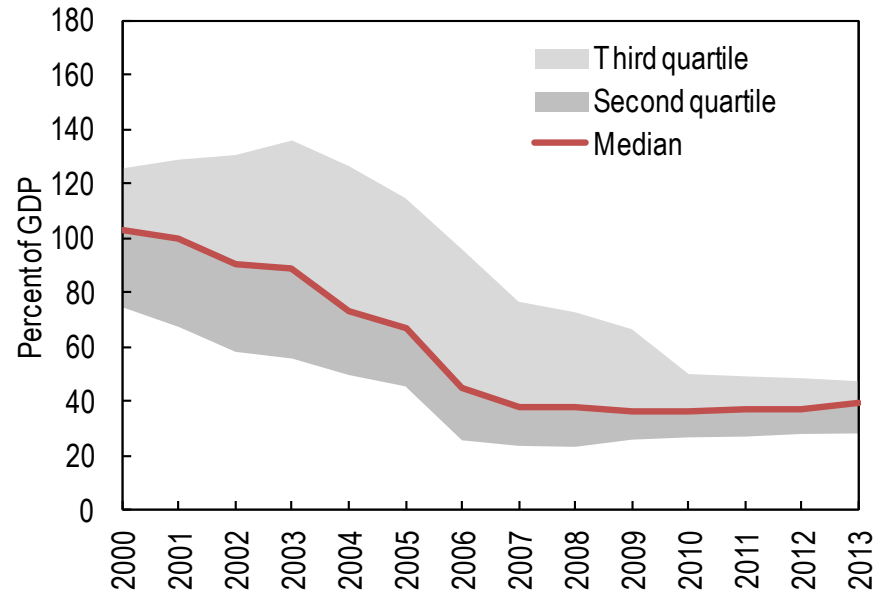
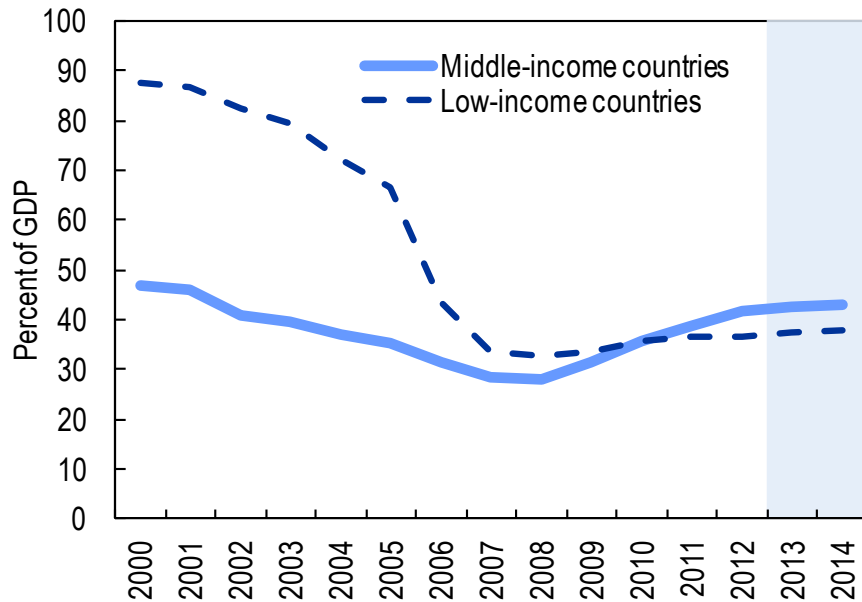


¹ Excludes São Tomé and Príncipe and Sierra Leone as they received debt relief in 2007.

- In 2012, balances deteriorated in oil exporters and MICs, while they improved in LIC and fragile countries
- Looking ahead, continuing decline in oil exporters' fiscal balances (e.g., Angola Chad), reflecting expansionary plans

Debt ratios largely stable, but rising among middle-income countries.

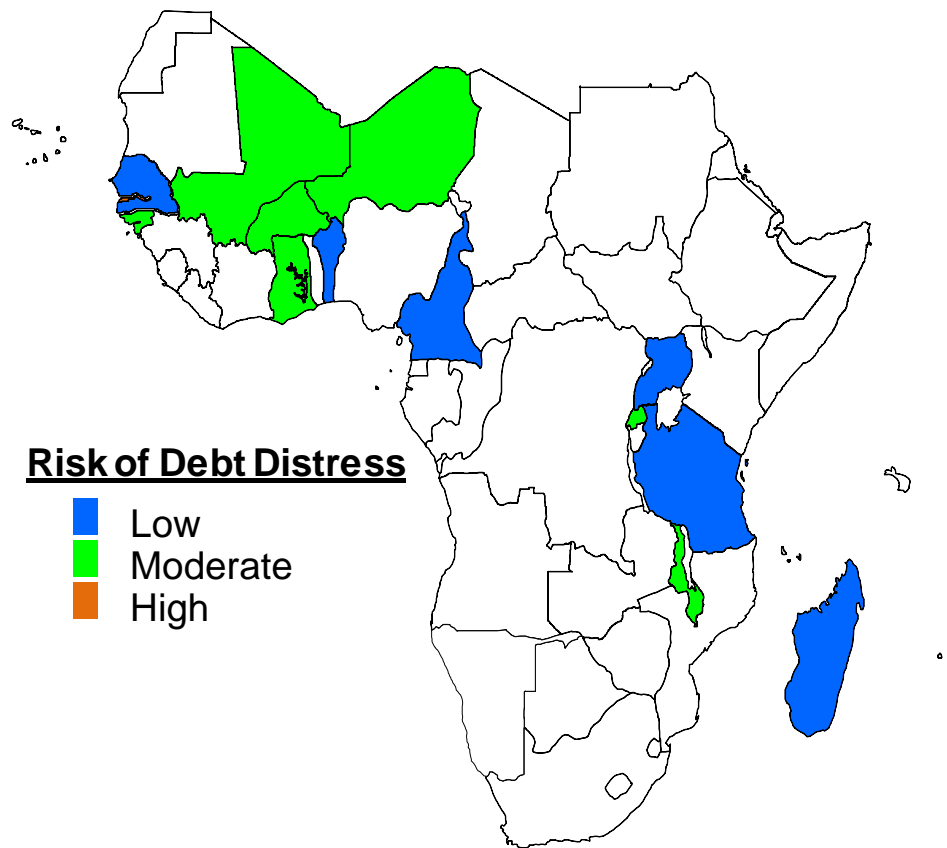
Sub-Saharan Africa: Government Debt Ratios



- Through the middle of the past decade a general trend toward debt reduction, spurred by debt relief, fast growth, prudent fiscal policies.
- The crisis (and near completion of HIPC) ended that. Debt has risen in many countries, especially MICs, and may stay at current levels for some time

Debt trends in selected post-HIPC countries

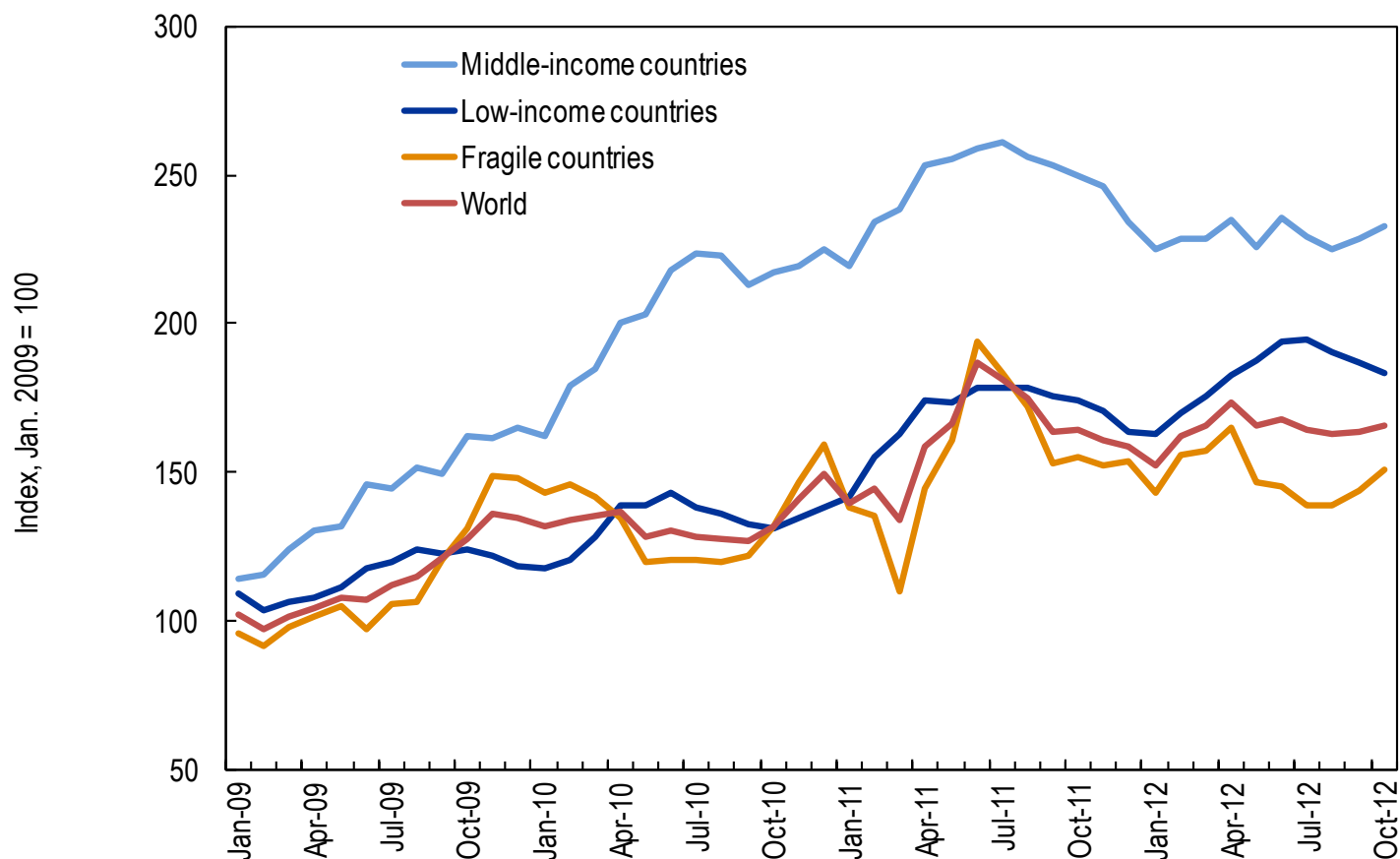
- The ratio of Public (and publicly guaranteed) Debt to GDP has risen by 5 points or more in 15 post-HIPC countries in the last few years.
- DSAs indicate that in almost all of these cases, the risk of debt distress is low or moderate.
- In some cases, the question may be one of “value for money”



Merchandise trade: export weakness in middle income countries, LIC exports remain buoyant



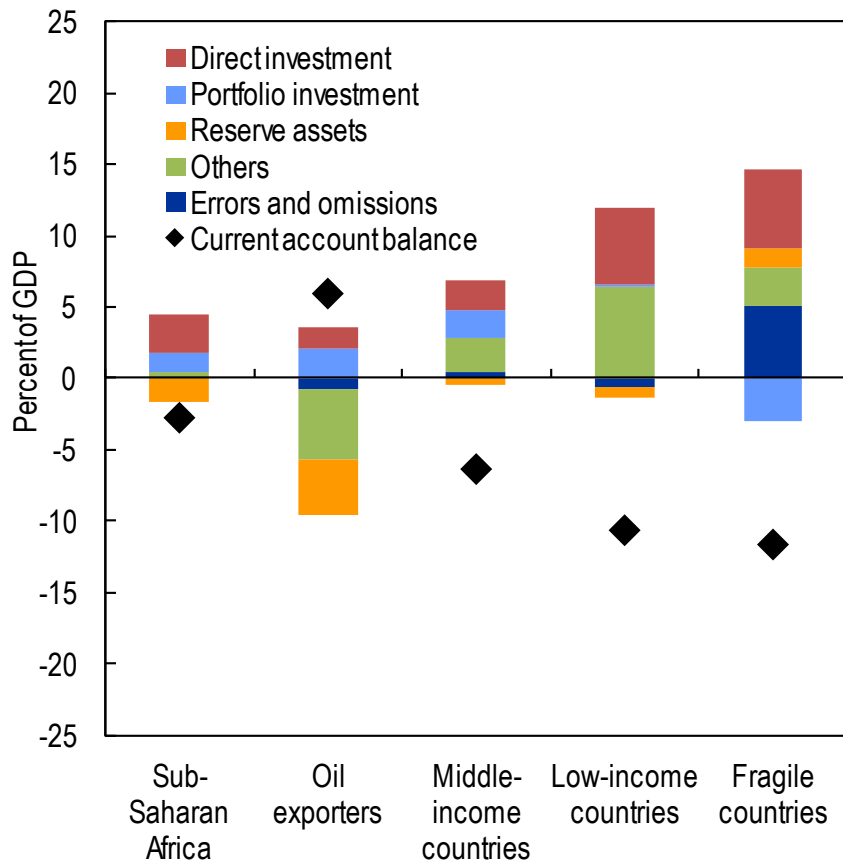
Selected Groups: Exports, Three-month Moving Average



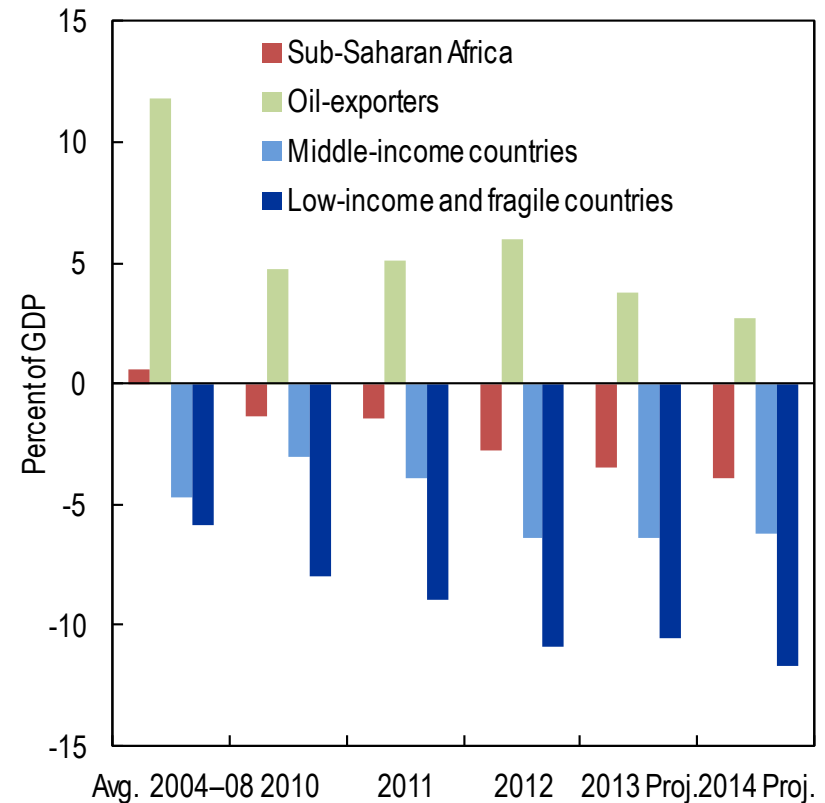
Financing the rising current account deficits: FDI (minerals) and portfolio flows (*frontier*)



Sub-Saharan Africa: Balance of Payments, 2012



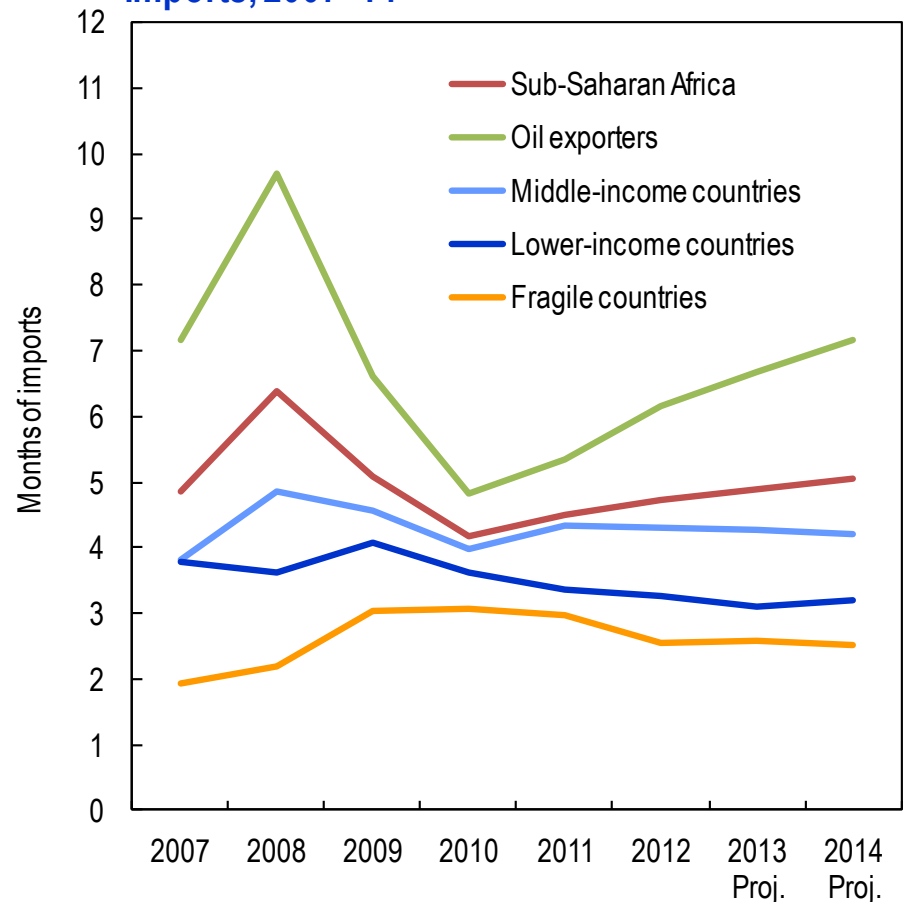
Selected Country Groups: External Current Account Balance, 2004–14



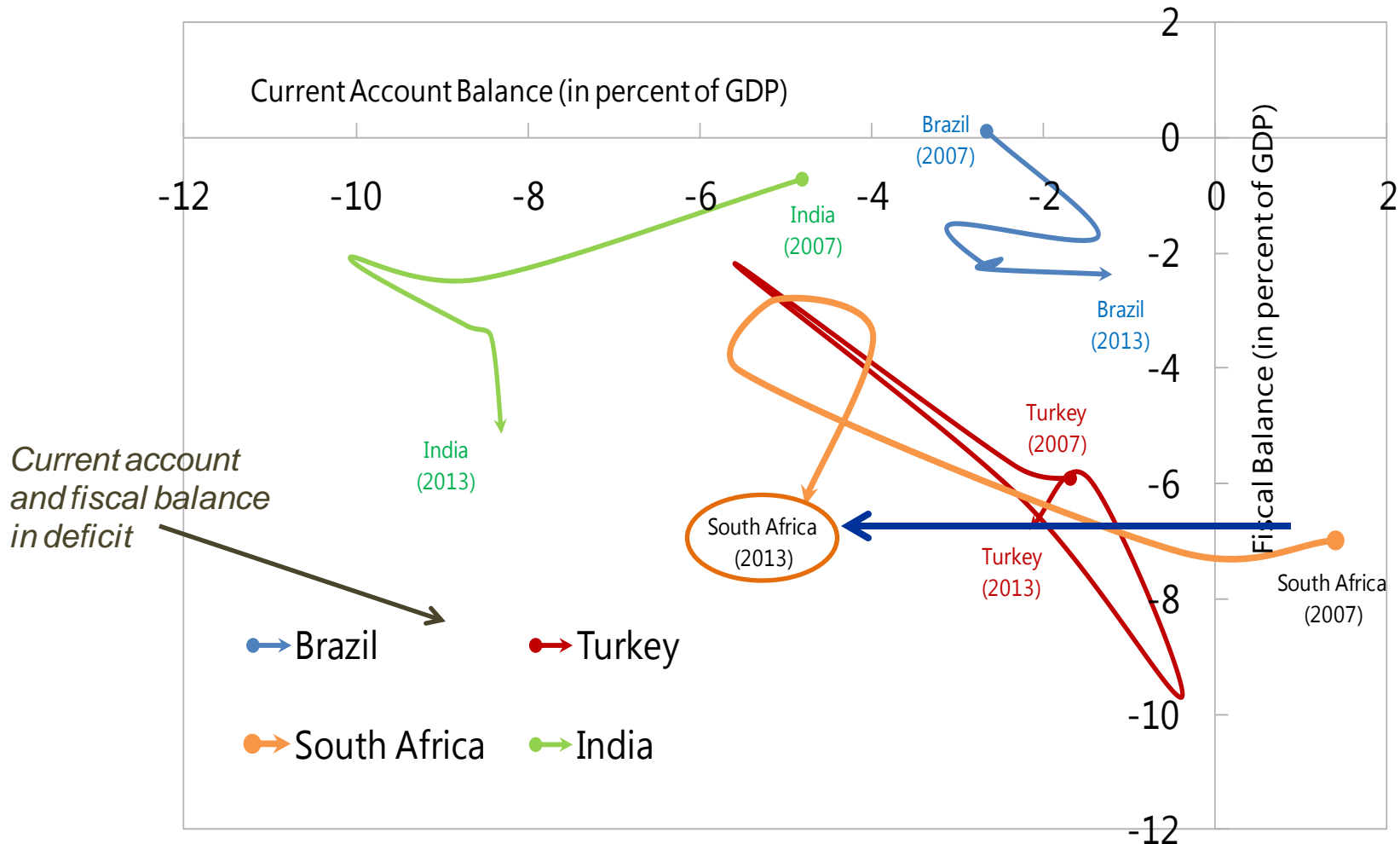
International reserve coverage is anticipated to remain broadly stable in most of the region

- Reserves levels have improved most in oil exporters, but still projected to be below pre-crisis level in 2014
- Broadly flat in MICs
- Recent moderate declines observed among low-income and fragile economies
- LICs are anticipated to improve reserve coverage by the end of projection horizon

Sub-Saharan Africa: Reserves in Months of Imports, 2007-14



South Africa has joined the group of countries with twin deficits.

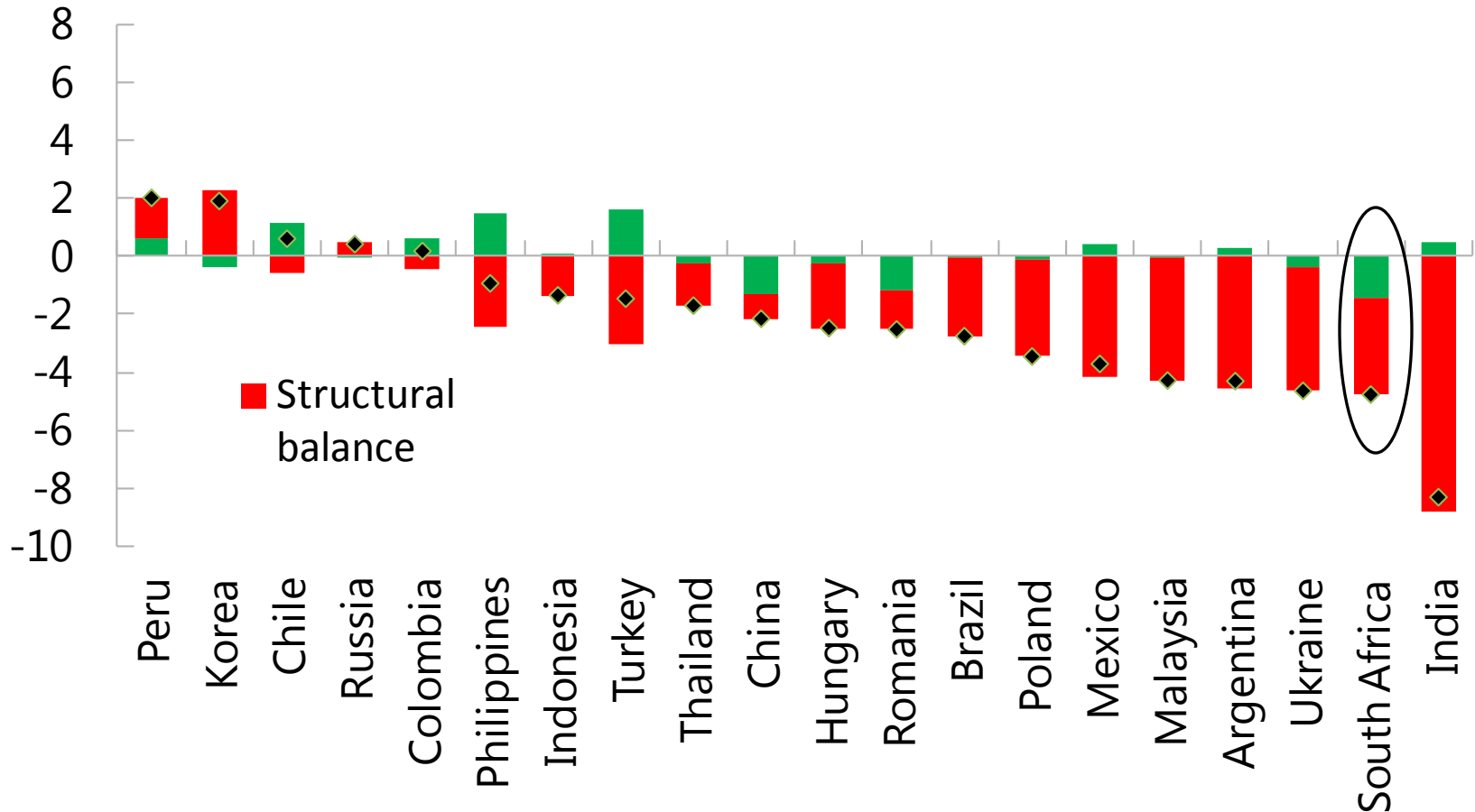


South Africa's fiscal deficit is high relative to EM peers...



EM-20 Government Balance

(in percent of GDP, 2012)

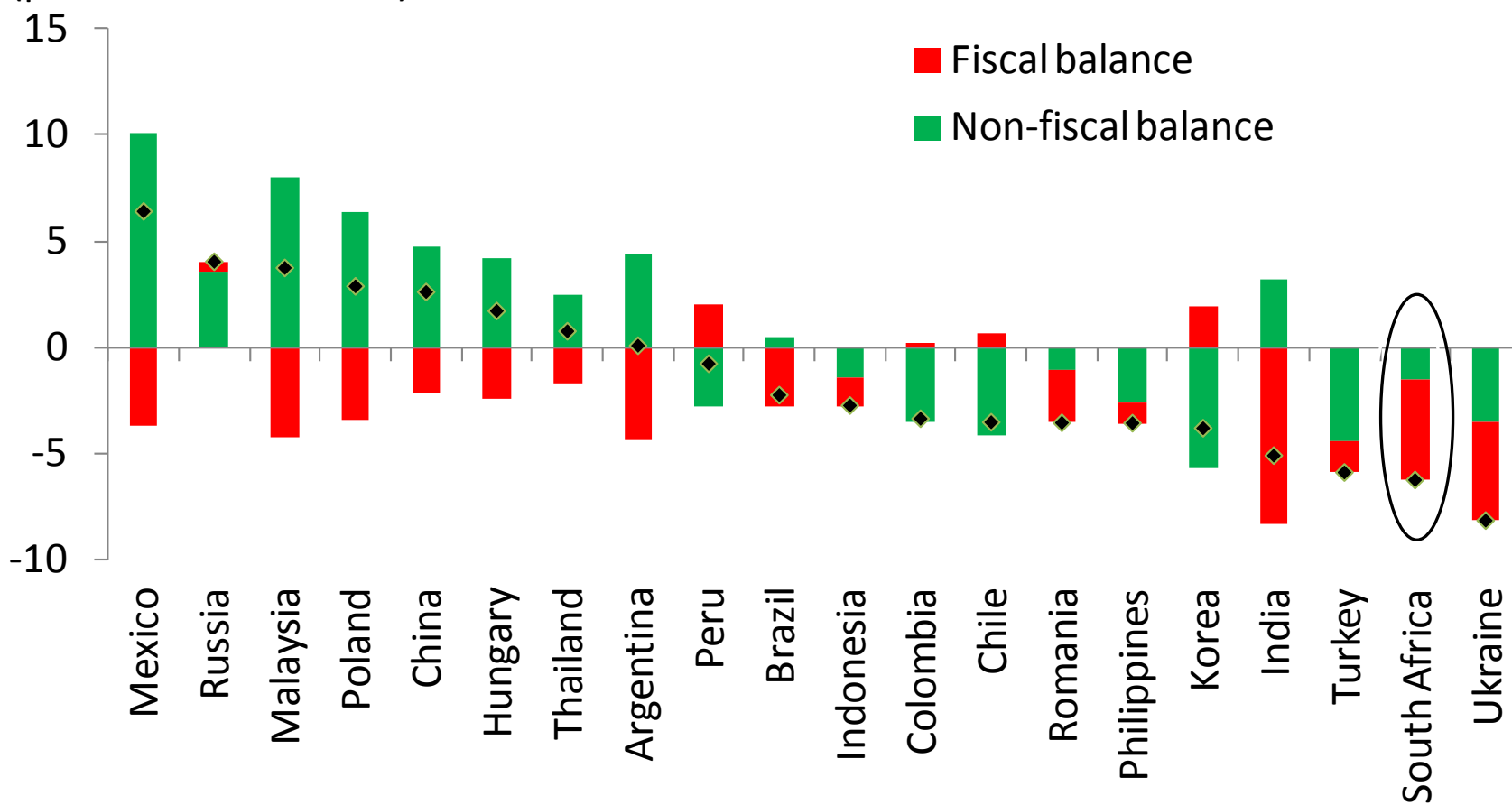


...and contributes to rising external vulnerabilities.



Fiscal and Current Account Balances

(percent of GDP, 2012)

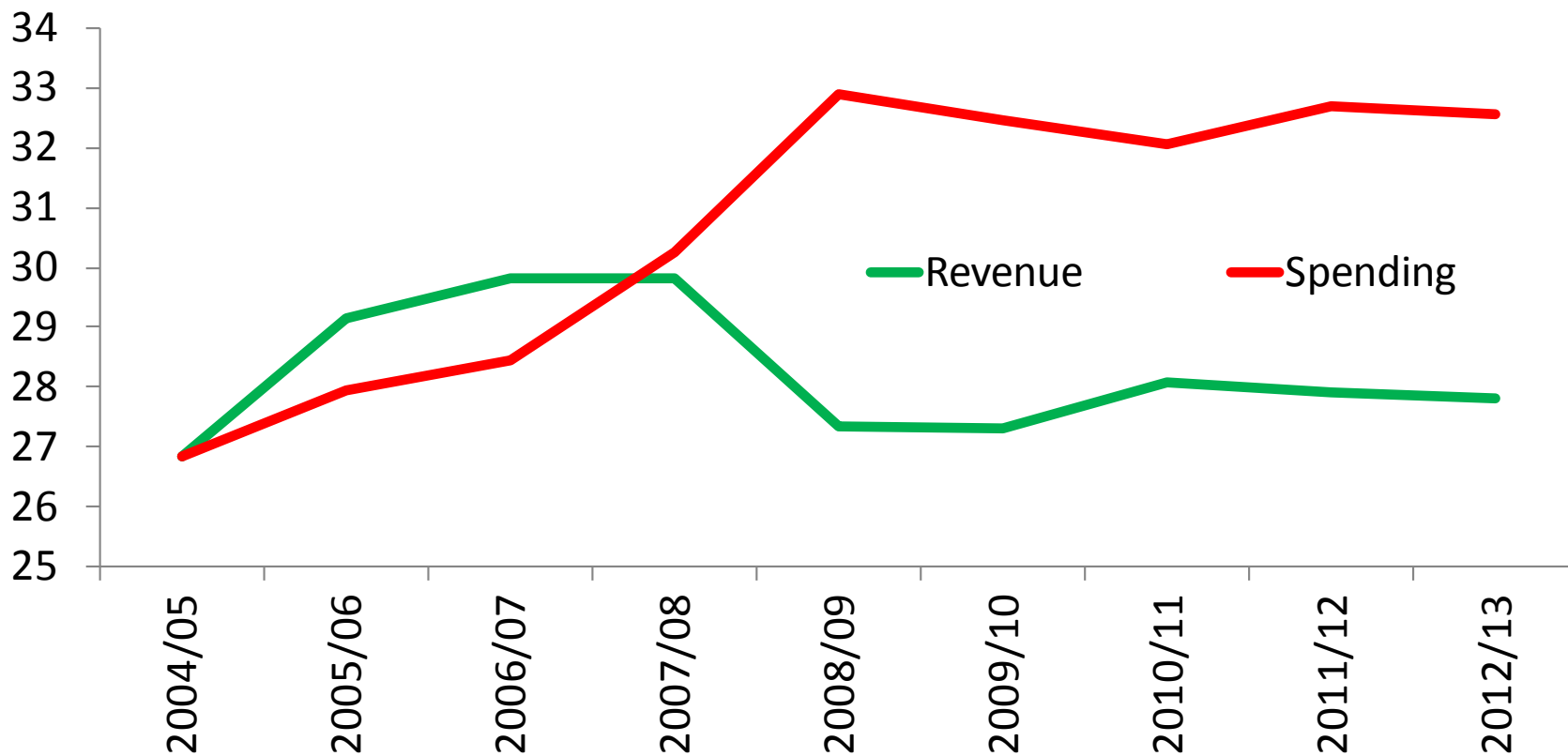


The deficit reflects a policy of maintaining spending despite lower revenues...



General Government Revenue and Spending

(in percent of GDP)

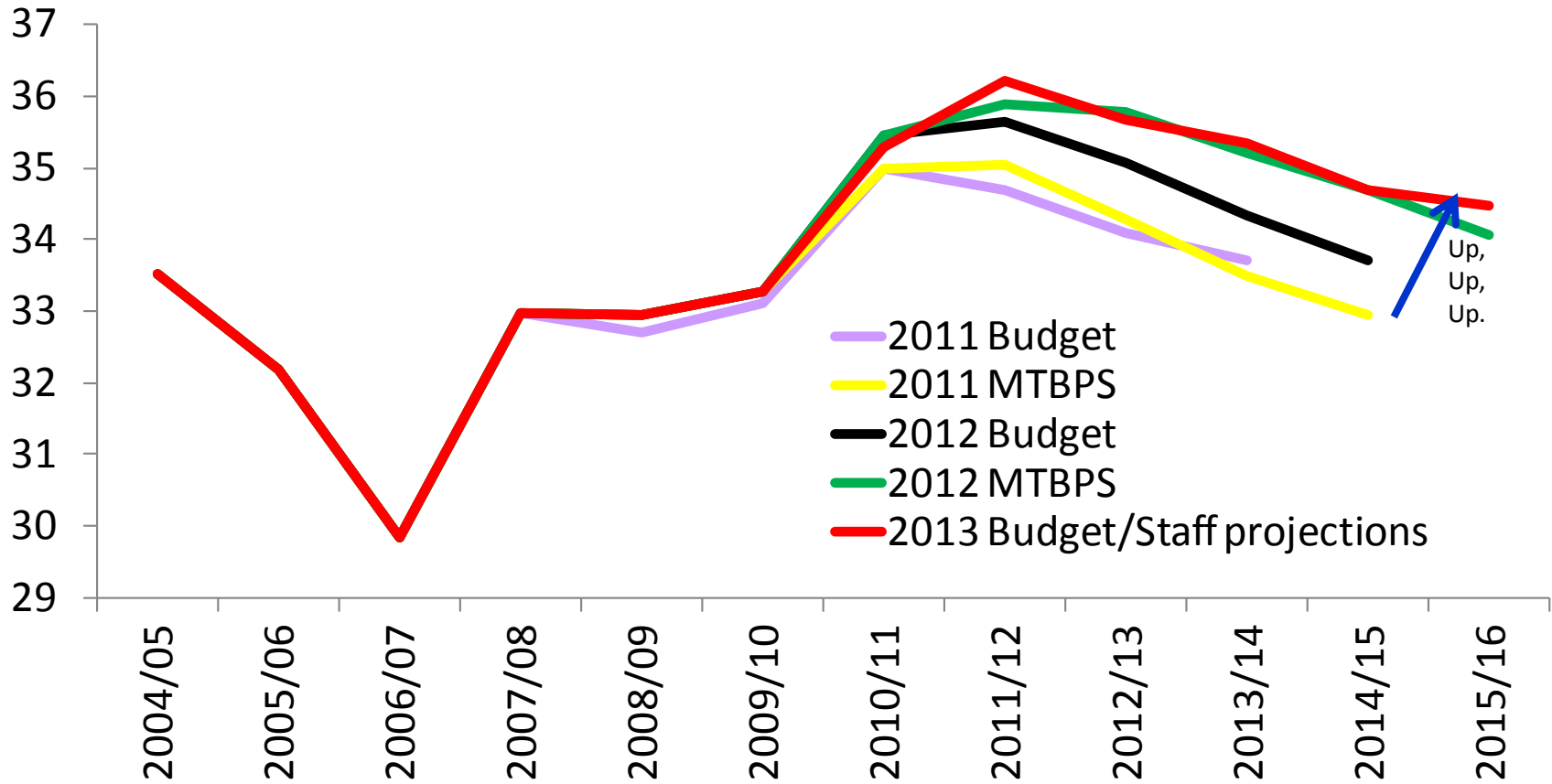


...driven by a rising wage bill, which now absorbs a third of government spending...



Government wage bill

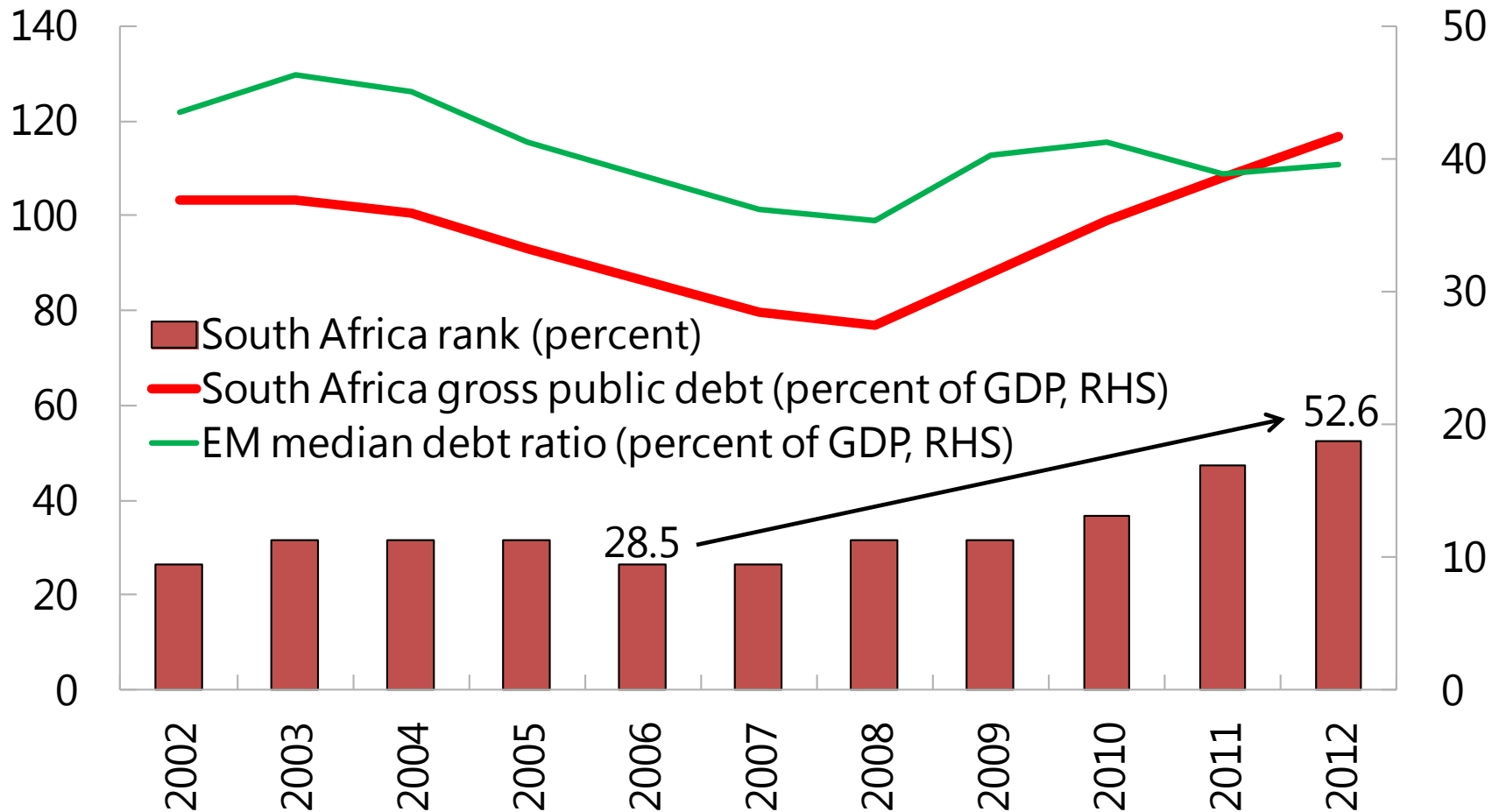
(in percent of total expenditure)



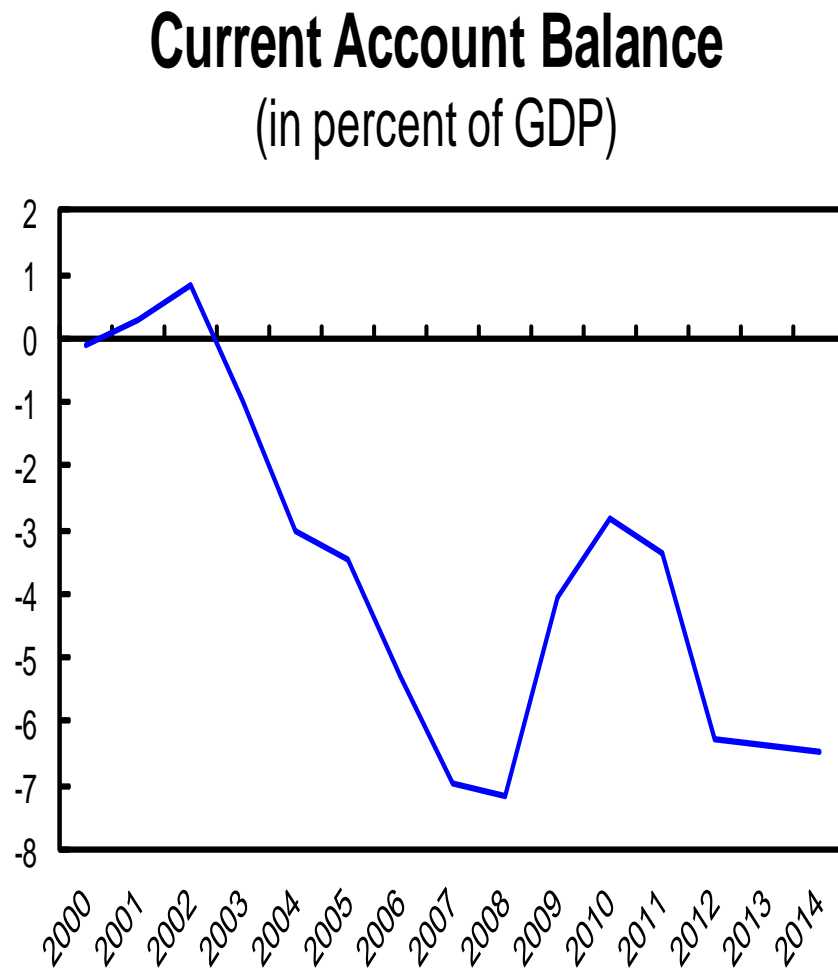
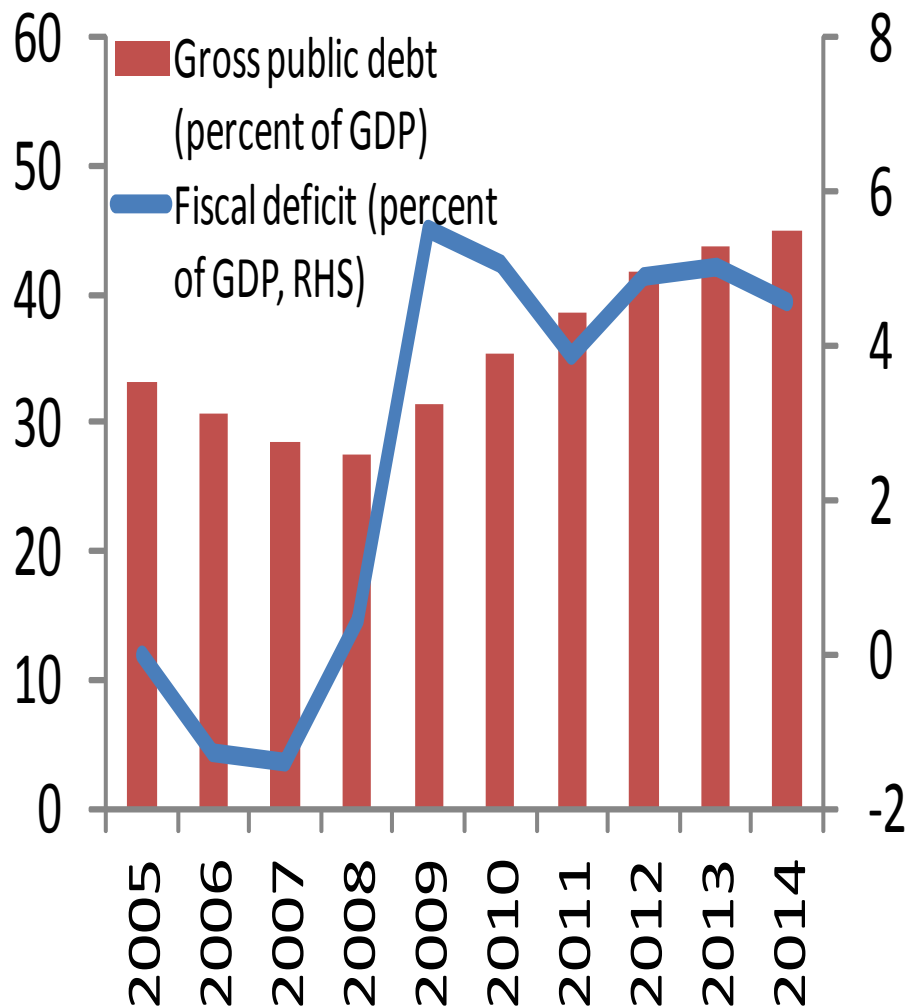
Debt has risen by 14 percent of GDP since 2007 but remains in line with other EMs...



Government Debt



The fiscal and current account deficits are projected to remain elevated.



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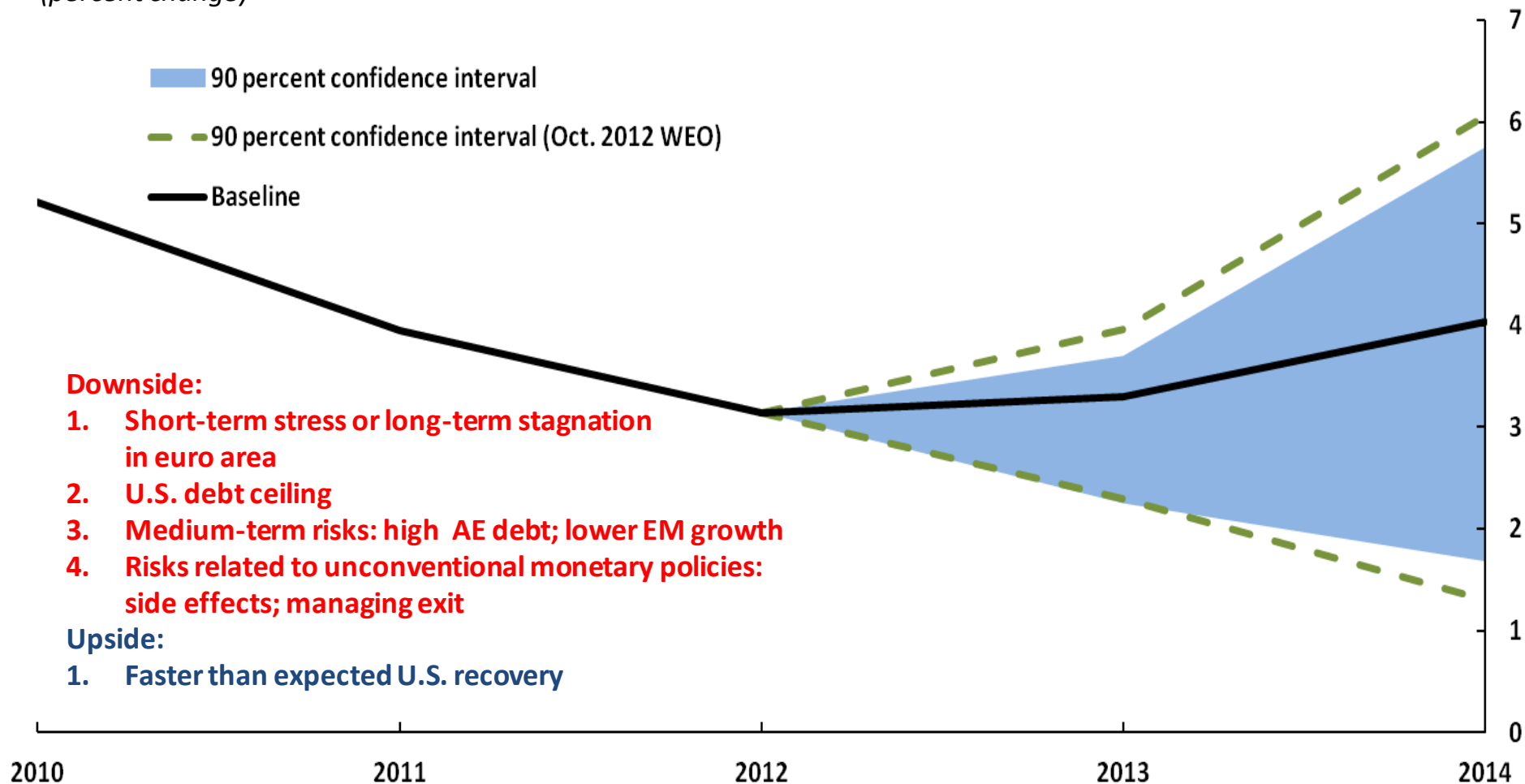
In Conclusion

Global economy is in a better place, but market indicators do not point to large decrease in risks



Prospects for World GDP Growth

(percent change)



Downside:

1. Short-term stress or long-term stagnation in euro area
2. U.S. debt ceiling
3. Medium-term risks: high AE debt; lower EM growth
4. Risks related to unconventional monetary policies: side effects; managing exit

Upside:

1. Faster than expected U.S. recovery

Risks to the Outlook for Sub-Saharan Africa

Positive Outlook,
but ...

External environment (April 2013 WEO)

- Prolonged near-stagnation in the euro area
- Slowdown in emerging markets, especially BRICS
- Oil supply shocks
- Fiscal trouble in the U.S. or Japan (medium term)
- Side effects of “Unconventional Monetary Policy”

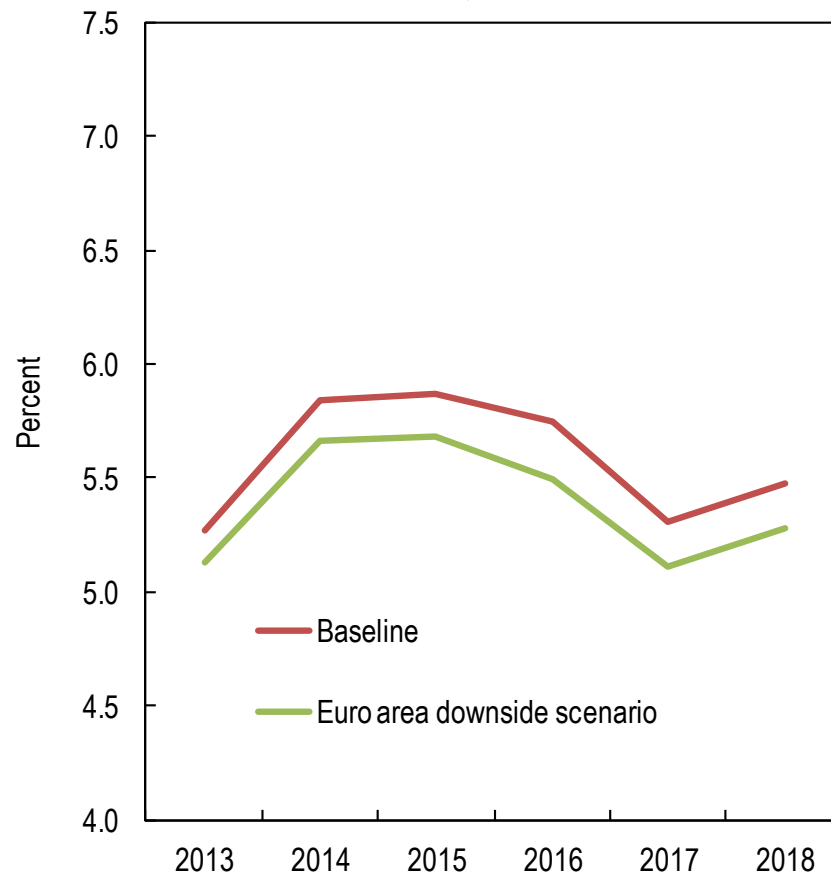
Internal risks

- Adverse weather patterns
- Political and social instability

Detailed risk scenario for SSA: Continued euro area stagnation

- Lower investment in the euro-area periphery
- Global output and commodity prices *persistently* lower than the baseline
- SSA's growth persistently reduced by up to $\frac{1}{4}$ of a percentage point—broadly in line with effect of shock on global GDP growth

Sub-Saharan Africa: Real GDP growth in alternative scenarios, 2013–18



Main risk scenarios for South Africa



Disorderly adjustment in twin deficits caused by a sudden stop or reversal in capital inflows; domestic or global triggers.

Sharp slowdown in advanced economies that leads to a 40 percent reduction in commodity prices and lower export demand

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Policy Issues in Focus

Favorable outlook in large number of SSA countries

- Depends on continuation of sound policies

In some cases, the outlook is more complicated

- Upper-middle income bloc grapples with sluggish growth, but little room for stimulus
- Inflation still in double-digit territory in a handful of countries
- Large current account deficits in some LICs may raise vulnerabilities
- International reserves need a boost in a few cases

Policy-making with an eye on risks

“Policy Buffers” Question

In most countries, debt levels do not constrain the government’s ability to respond to adverse shocks

But in many countries, the ability to mobilize resources to finance larger deficits is constrained by small local credit markets

In the event of a downturn,
the policy mix might include

- fiscal support,
- or easing monetary policies where fiscal space is constrained and inflation expectations well anchored.

For South Africa

Demand Management

- Macroeconomic policies can remain supportive.
- Backloaded fiscal adjustment is appropriate given sluggish activity.
- Manage external vulnerabilities

Potential Growth

- Structural reforms to raise growth, reduce unemployment, and promote inclusiveness
- Implementation of the National Development Plan
- Including ongoing infrastructure investments to address bottlenecks

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Analytical chapters of the Spring 2013 REO

Fiscal Space

- Ability to implement counter-cyclical stance
- Majority of SSA countries not constrained by debt levels
- Some may face difficulties accessing financing in a downturn

Sovereign Bond Issuance

- Opportunities: funding for large investment projects, improved debt profile with lower funding costs, benchmark, transparency and macroeconomic discipline
- Risks: Can lower fiscal discipline, carry costs, increased vulnerabilities
- Approach: Assess within medium-term budget framework with an eye on debt sustainability

Energy Subsidies

- Costly and poorly targeted, benefiting better off households disproportionately more
- Comprehensive reform plan, communication strategy, phasing and sequencing of price increases, strengthen SOEs, targeted mitigating measures, depoliticizing price setting

Thank you!



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