



# **Regional Economic Outlook for Sub-Saharan Africa & Macroeconomic Issues for Ethiopia**

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# Outline



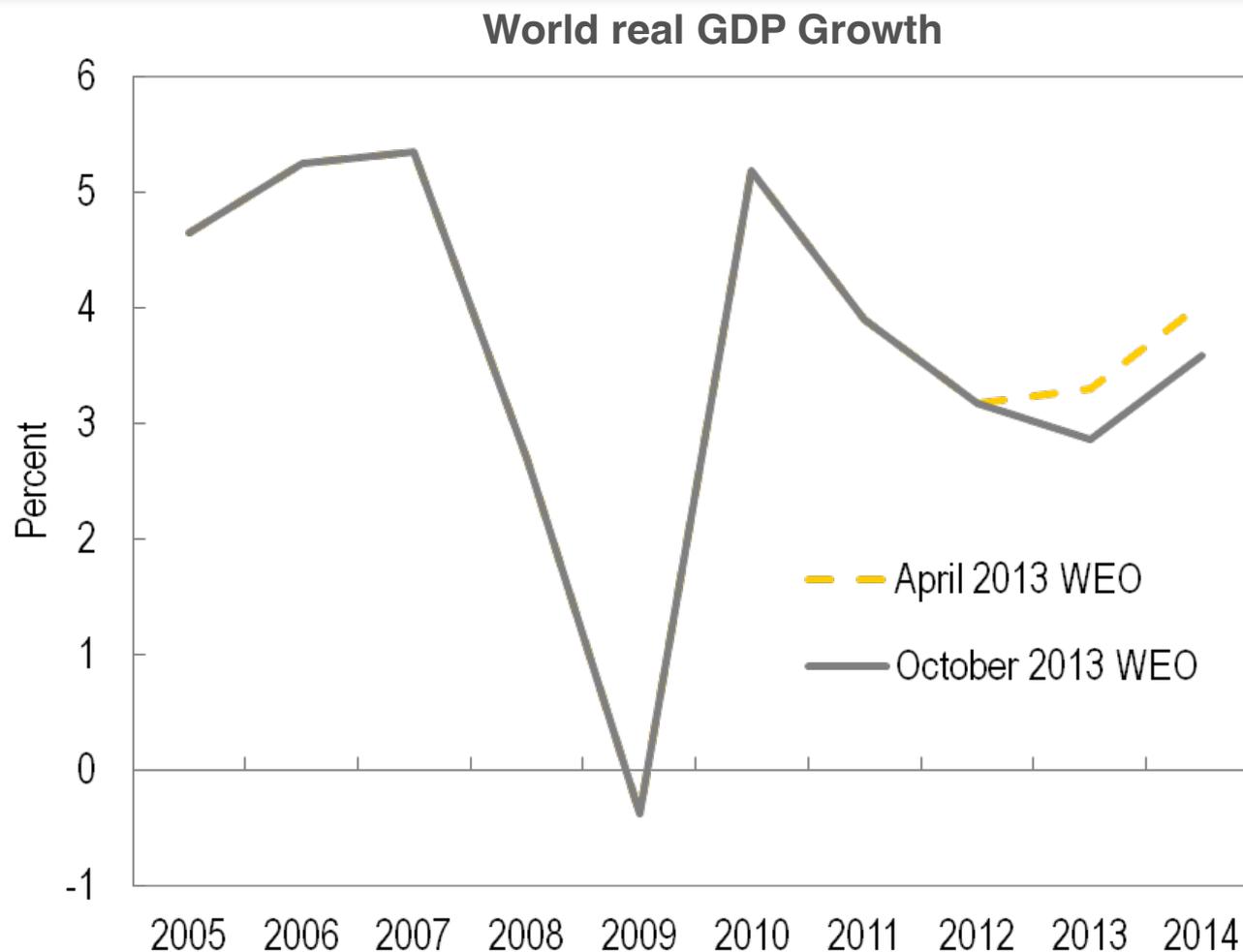
- Global context
- SSA - Recent developments and outlook
- Conclusions
- Ethiopia
  - Macro developments
  - Risks to growth
  - Policy recommendations

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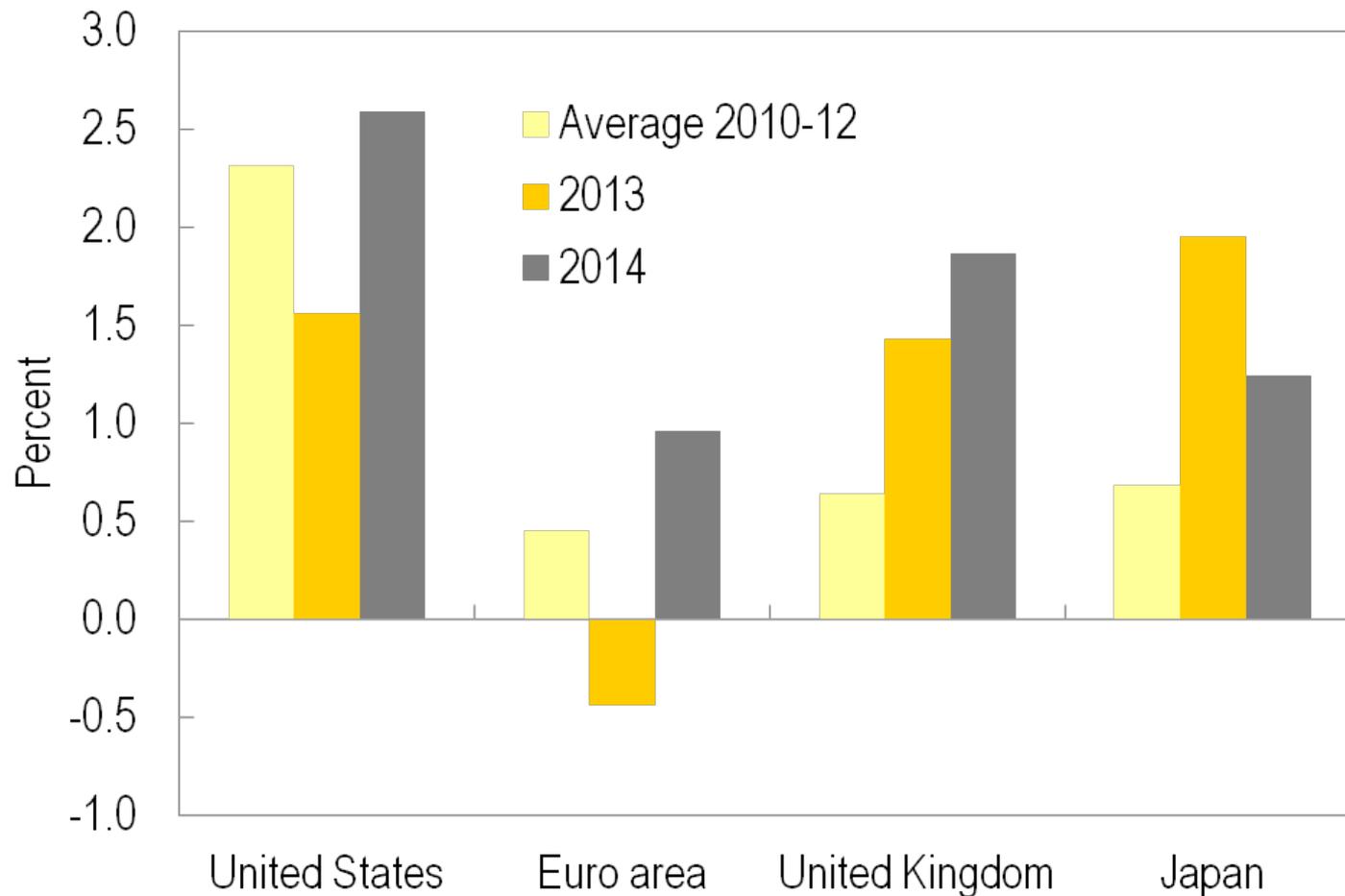
# World growth projected to pick up...



# ...but the drivers of growth are shifting to advanced economies...



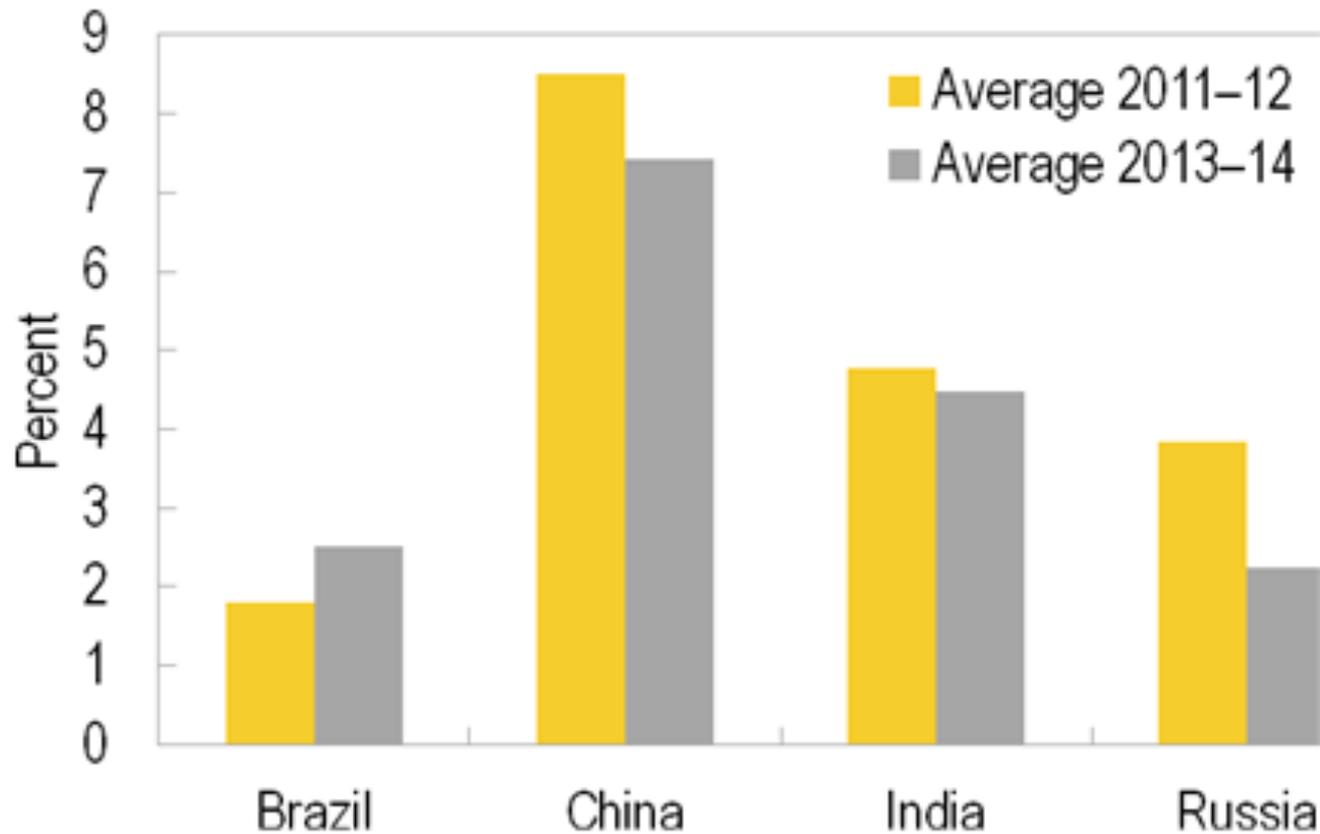
Selected Regions: Real GDP Growth, 2010–14



# ...from emerging markets.



Selected Countries: Real GDP Growth, 2011–14



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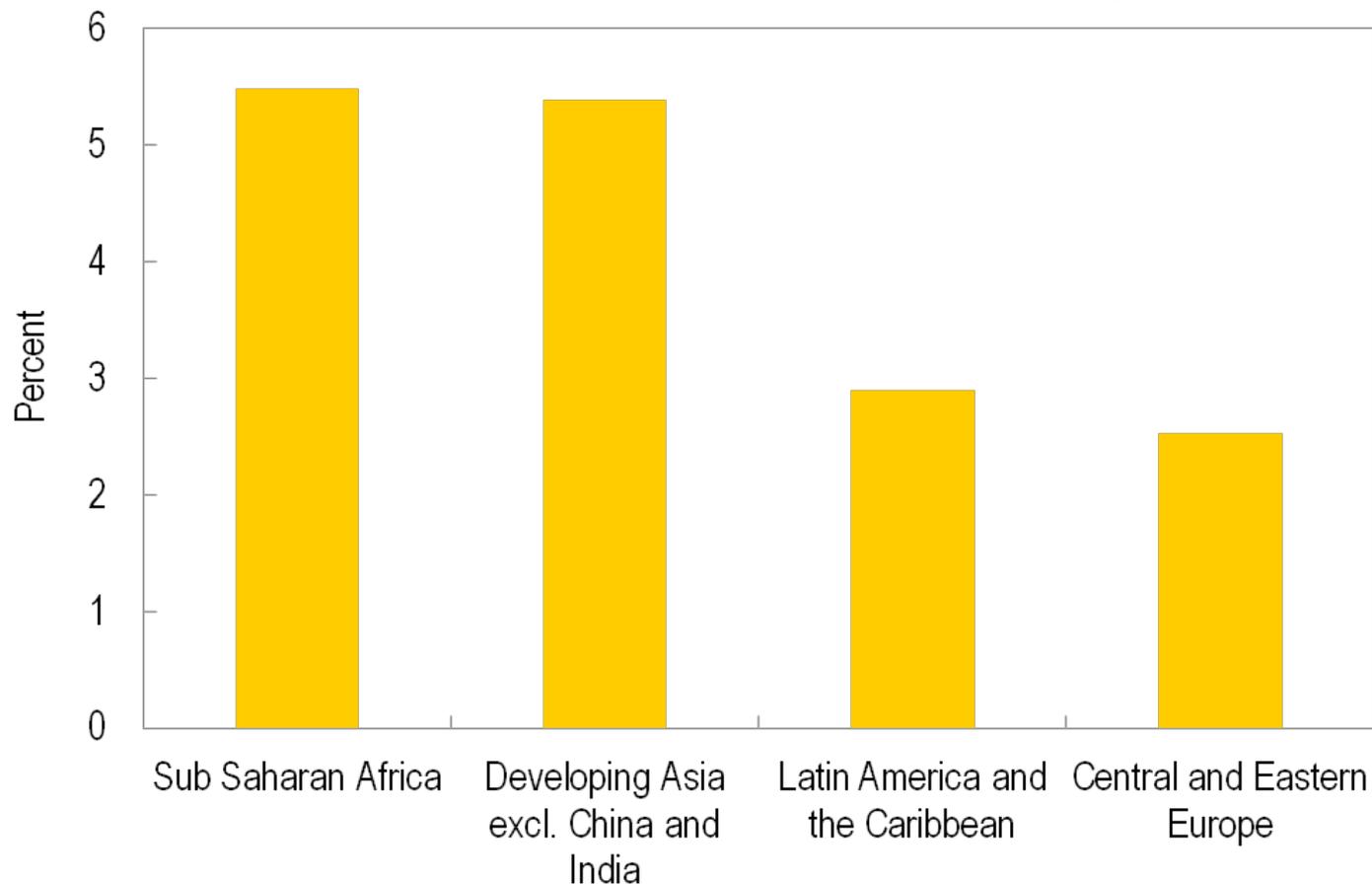


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# Sub-Saharan Africa set to sustain recent high growth relative to other developing regions



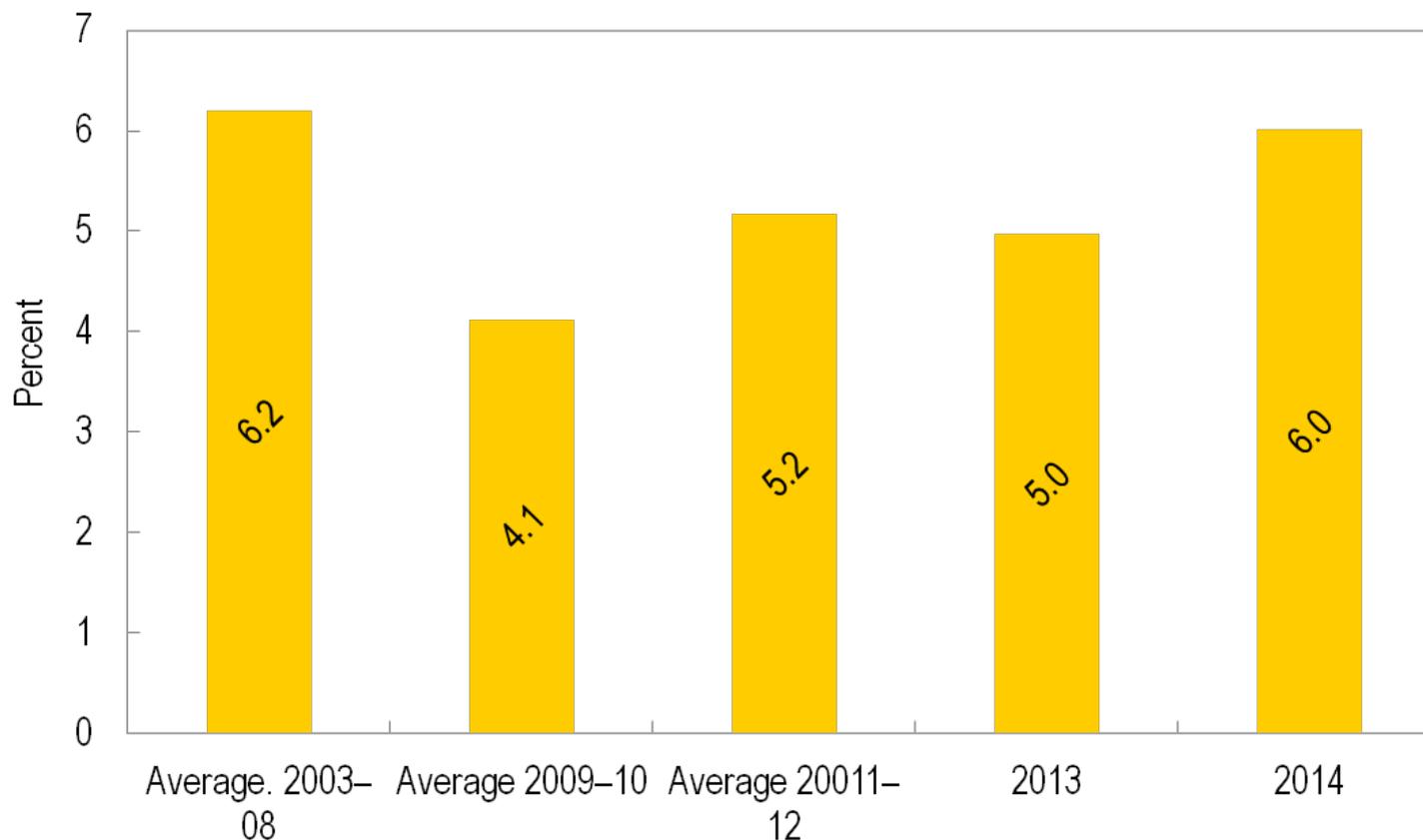
Real GDP Growth, 2013–14 average



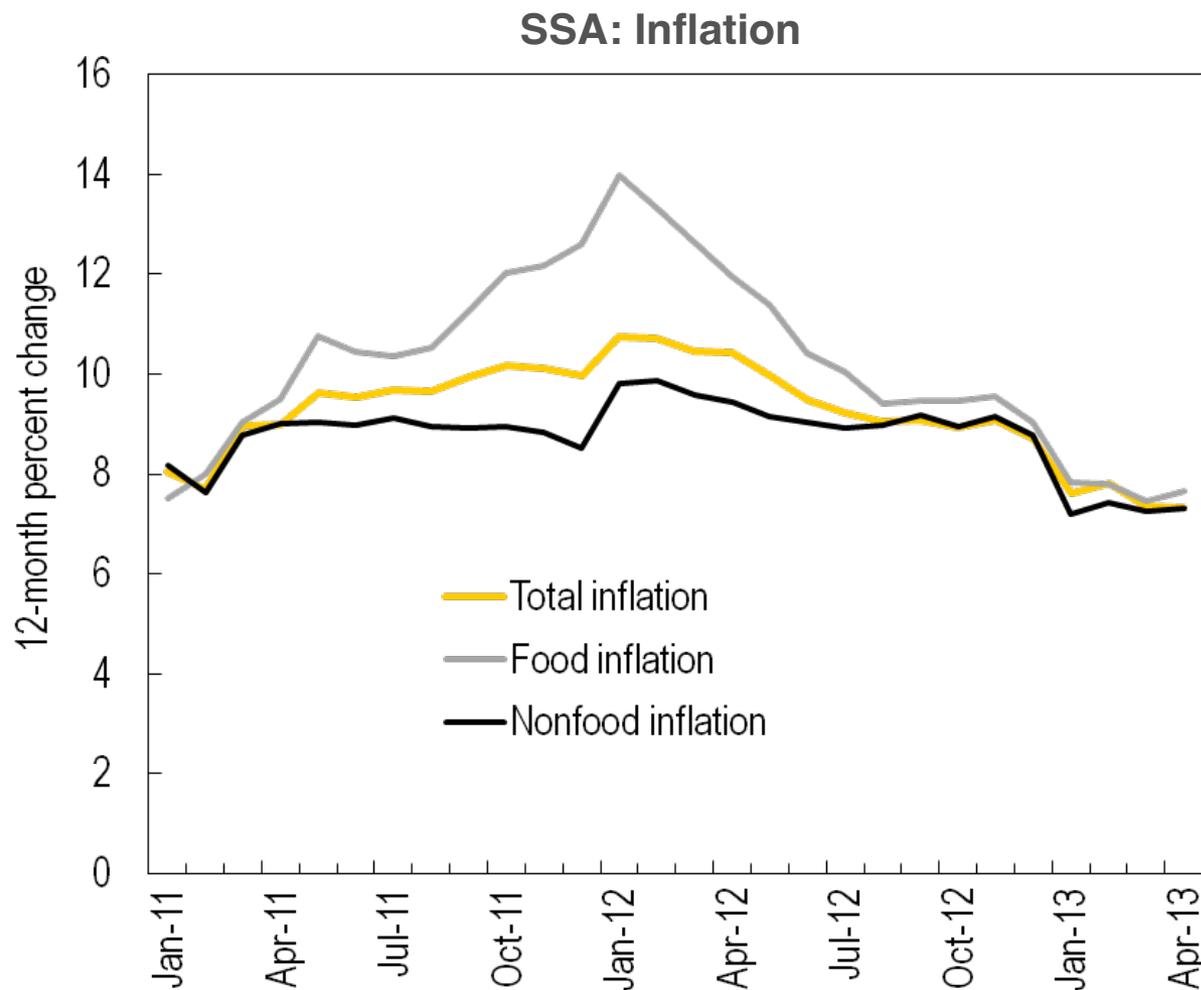
# Near term growth for SSA remains solid



SSA: Real GDP Growth, 2003–14



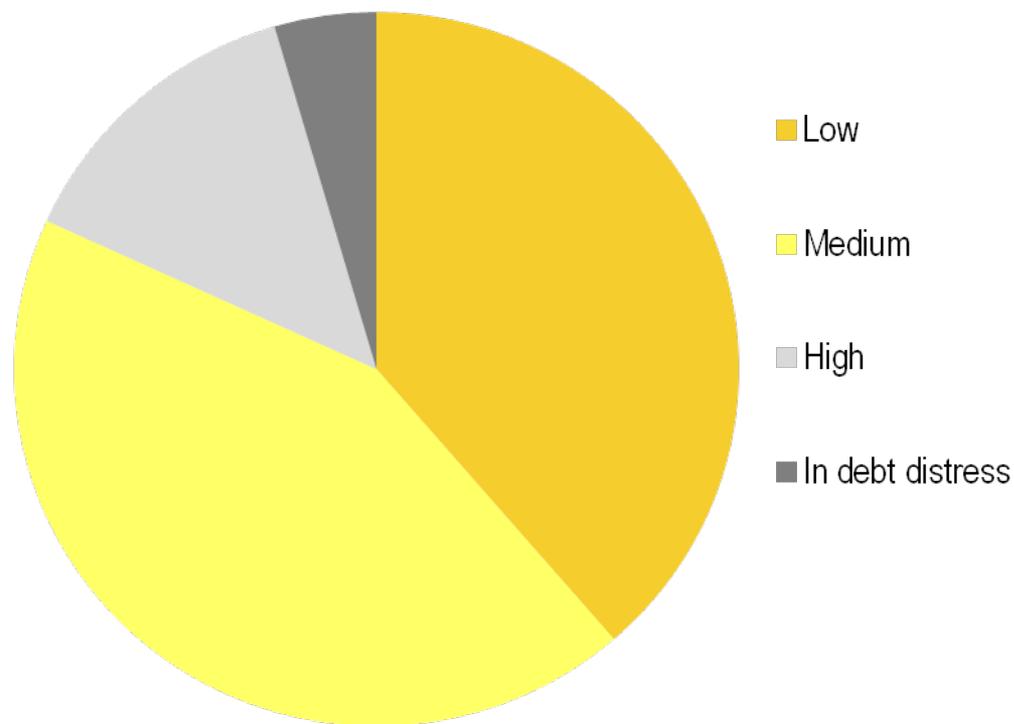
# Inflation continues to moderate



# Elevated fiscal deficits in the region have not yet given rise to debt distress



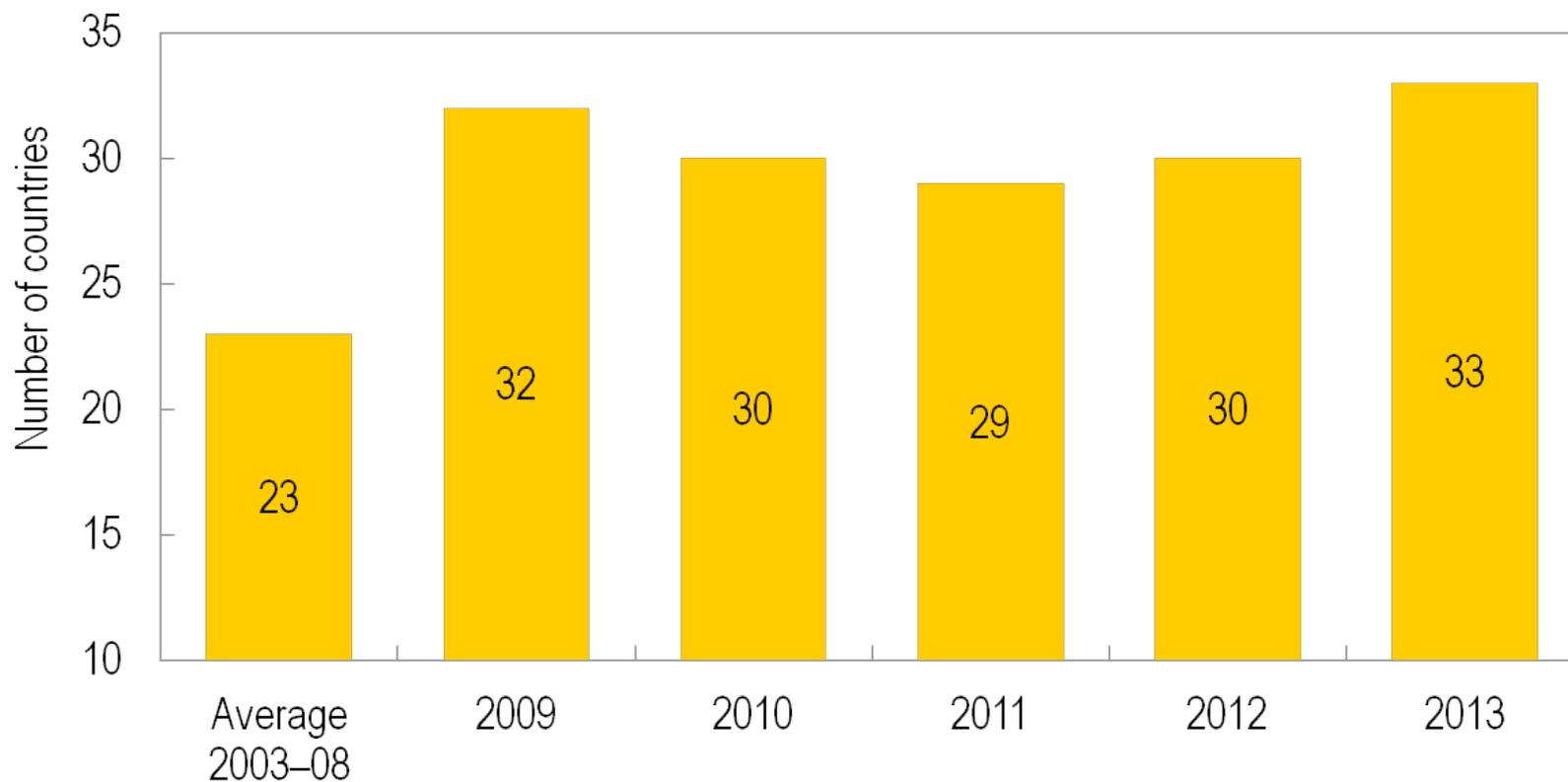
SSA: Risk of Debt Distress (percent of countries)



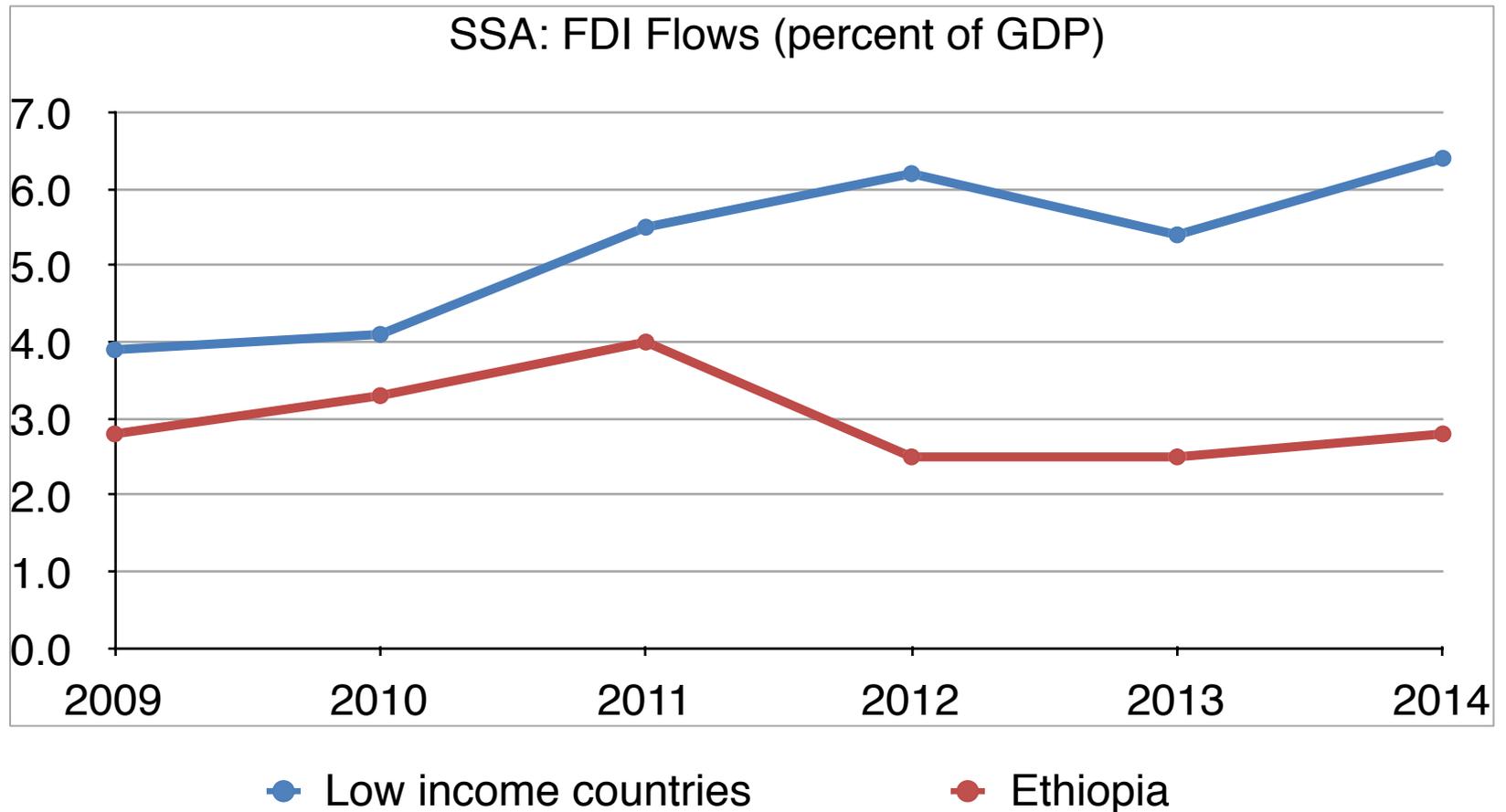
# Widening current account deficits source of concern



**SSA: Number of Countries with External Account  
Deficits above 5% of GDP**



# FDI inflows picking up



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# Conclusion on SSA Outlook

- Near term outlook positive, but with risks: (i) further global slowdown; and (ii) capital flow reversal.
- Maintaining macro stability.
- Rebuilding depleted buffers.
- Encouraging productive private investments (business climate).
- Continuing to address infrastructure bottlenecks (energy/ roads).
- Making growth more inclusive.
- Improving quality of data for better policy assessment.

# Outline



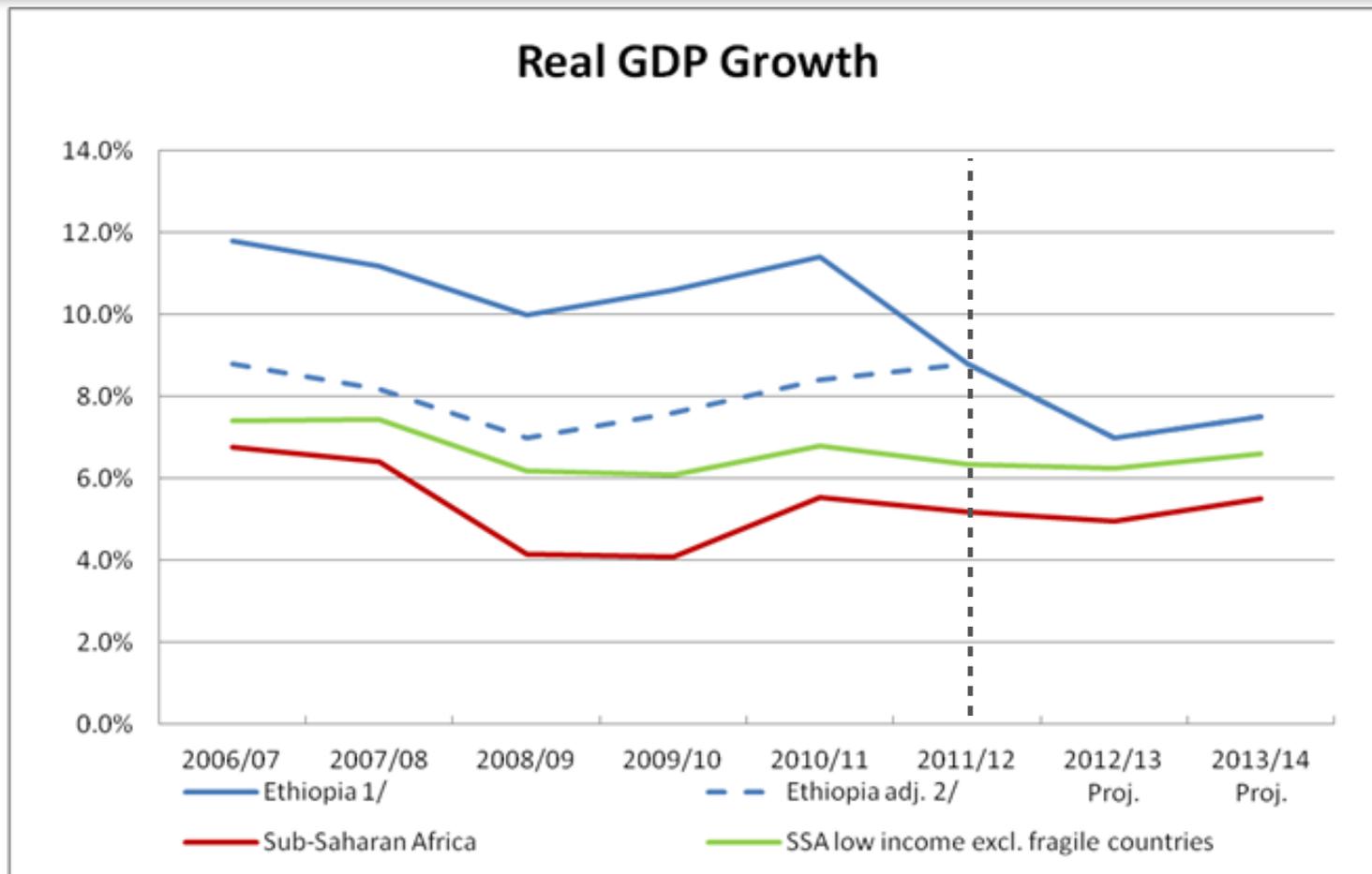
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# Ethiopia - Macro developments



- **Economic growth remains solid**
  - **Price stabilization**
  - **Large overall fiscal deficit**
  - **Appreciating real exchange rate, declining competitiveness, and increasing trade deficit**
-

# Sustained high economic growth



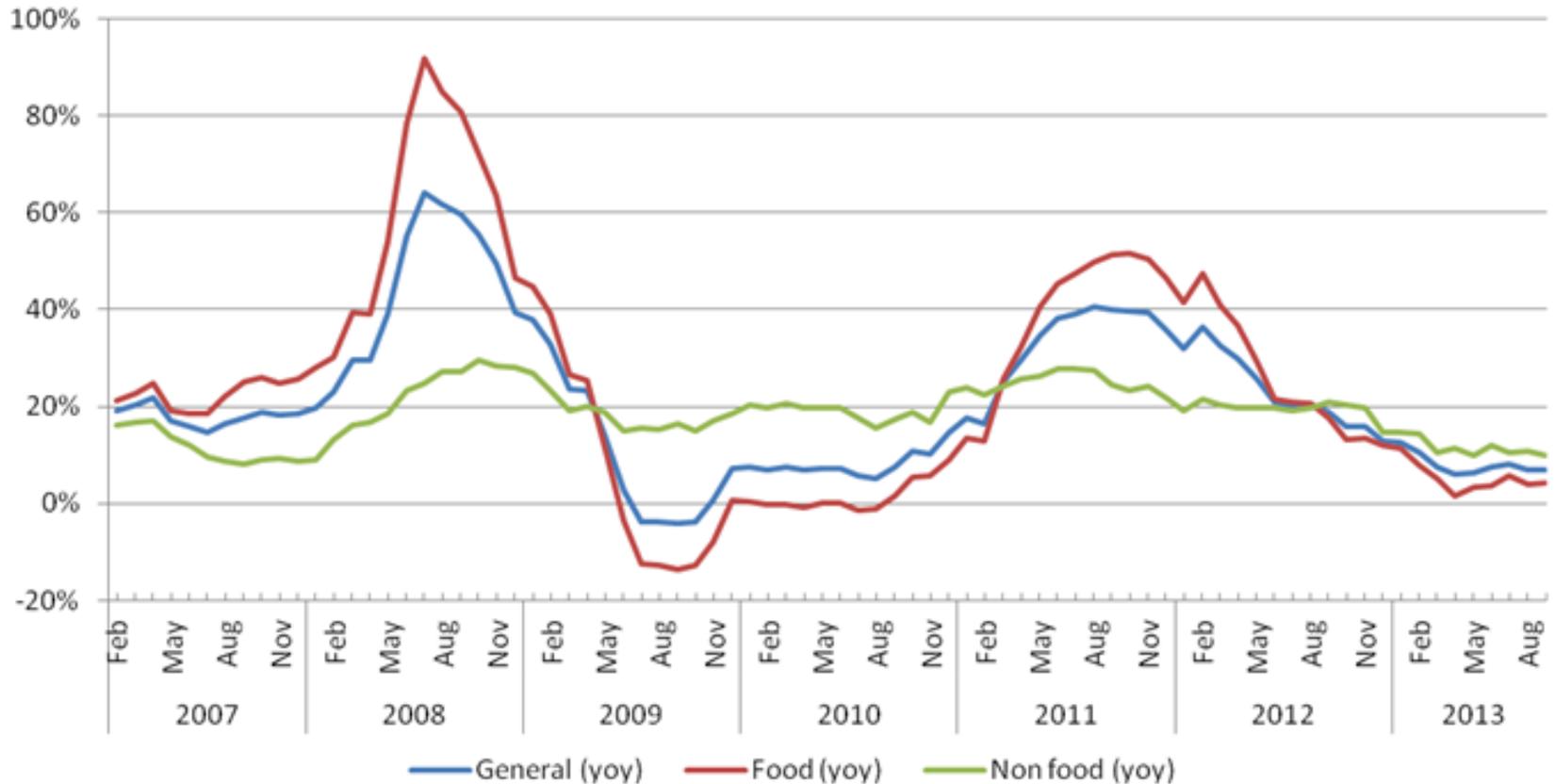
1/ Source for historical data is MoFED, GoE. Ethiopian GDP statistics are subject to significant weaknesses. Alternative methodologies suggest that the historical annual growth rates could be overestimated by as much as 3 percentage point in recent years. The methodology improved considerably in 2011/12.

2/ Reflects a downward adjustment of annual GDP growth by 3 percentage points for 2006/07-2010/11.

# Inflation decline reflects tighter monetary policy & food shock reversal



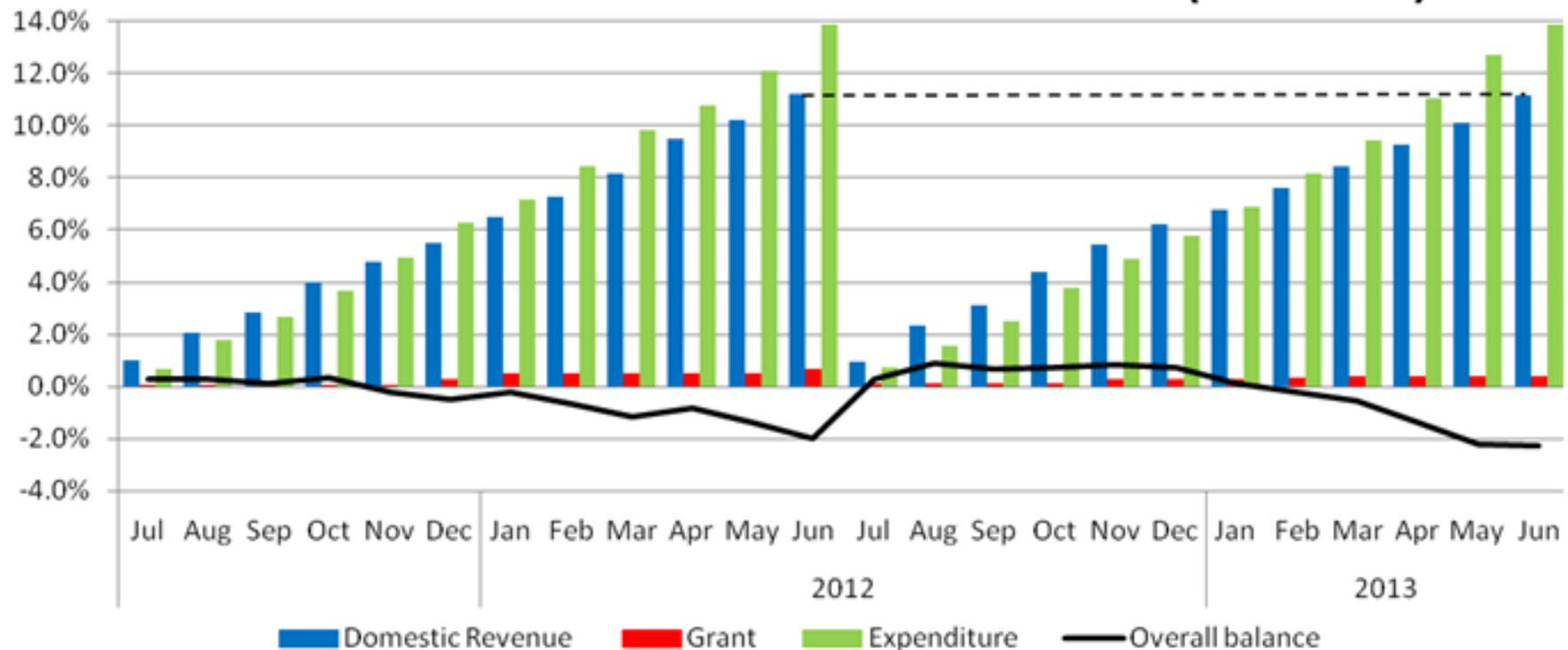
## Inflation 2007-13



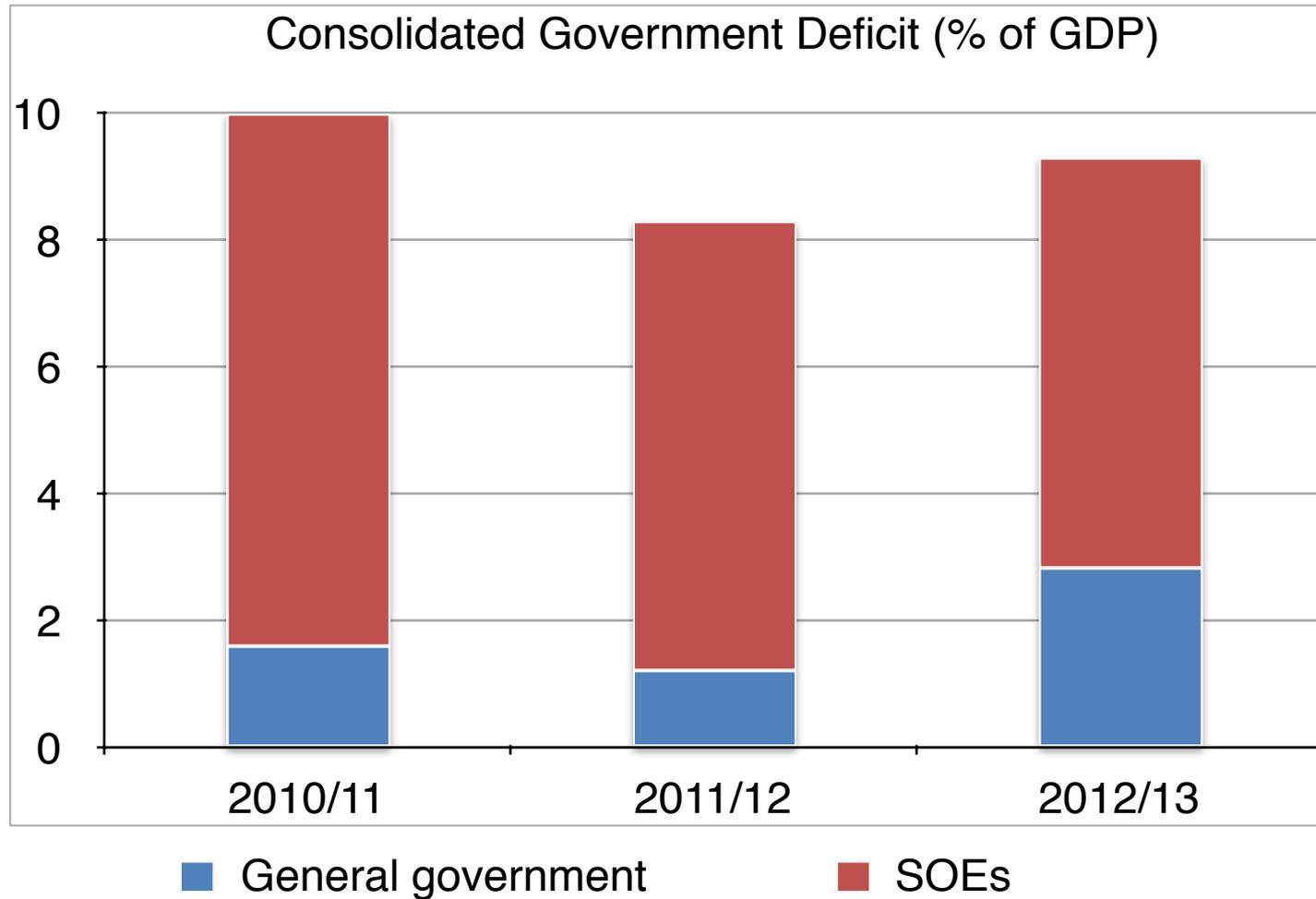
# While federal government deficit remains low...



## Federal Government Overall Balance (% of GDP)



# ...the consolidated deficit is high

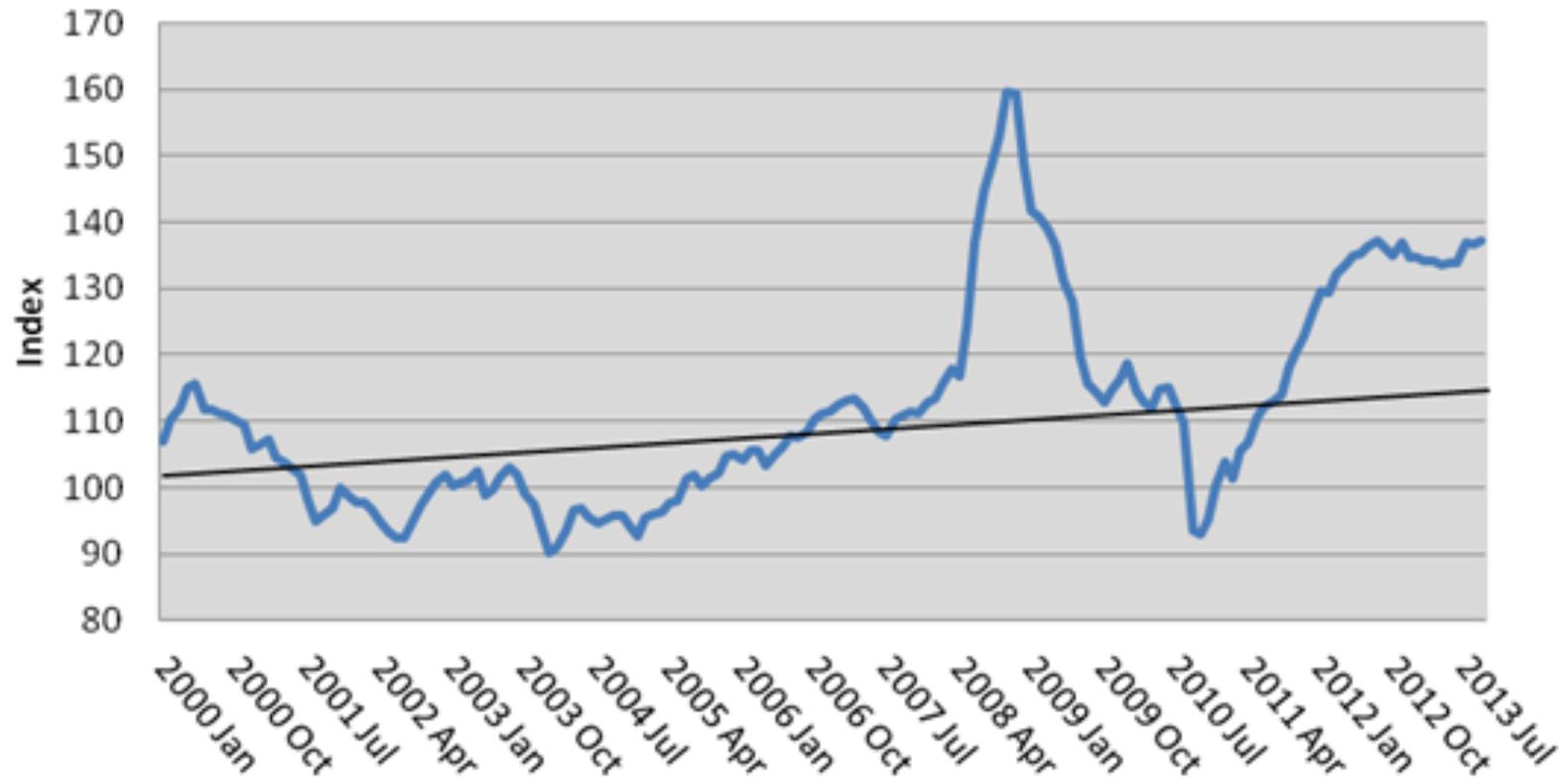


# Competitiveness deteriorating



## Real effective exchange rate

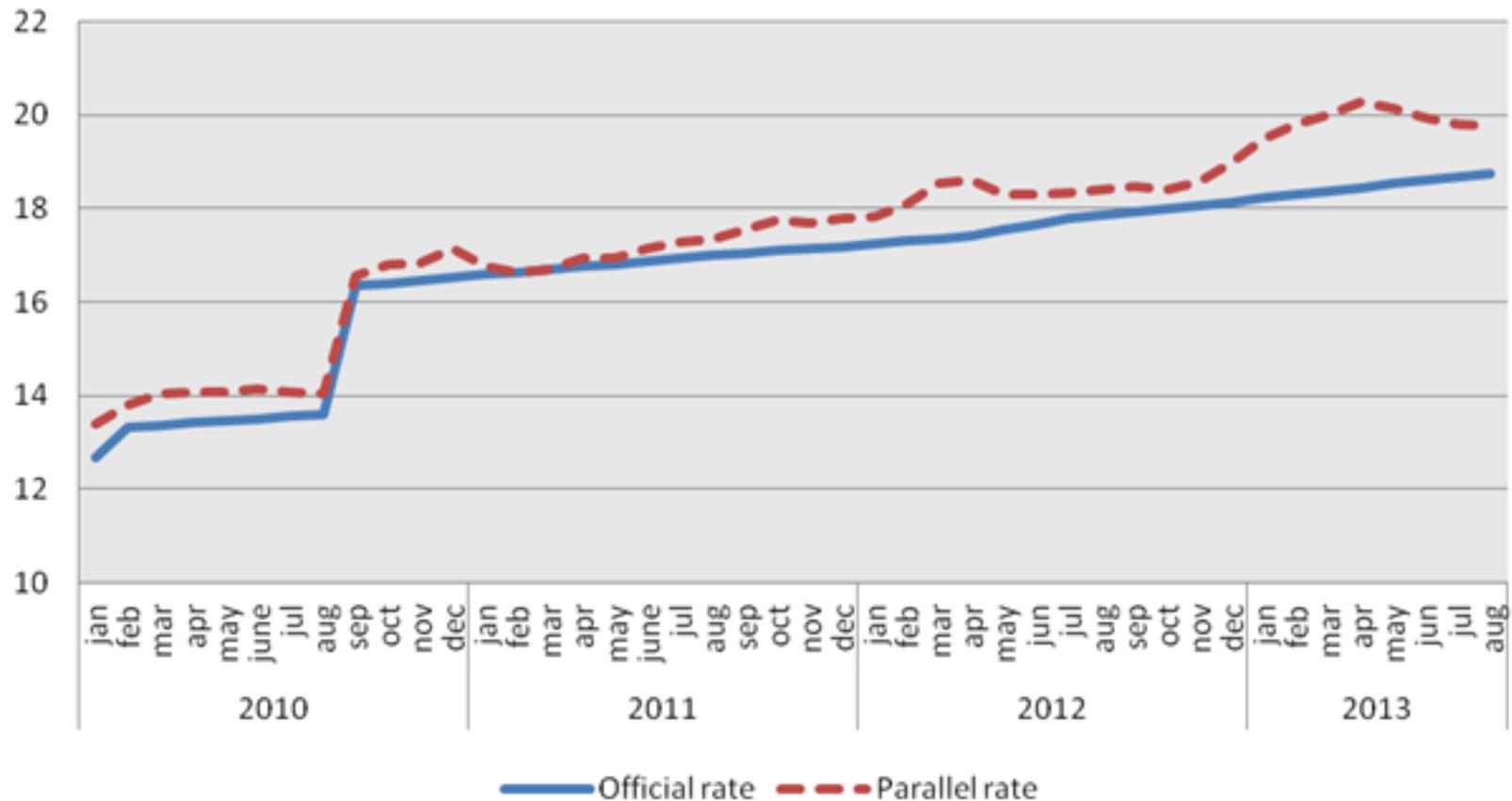
Jan 2000 - Sep 2013



# Parallel market spread narrowing



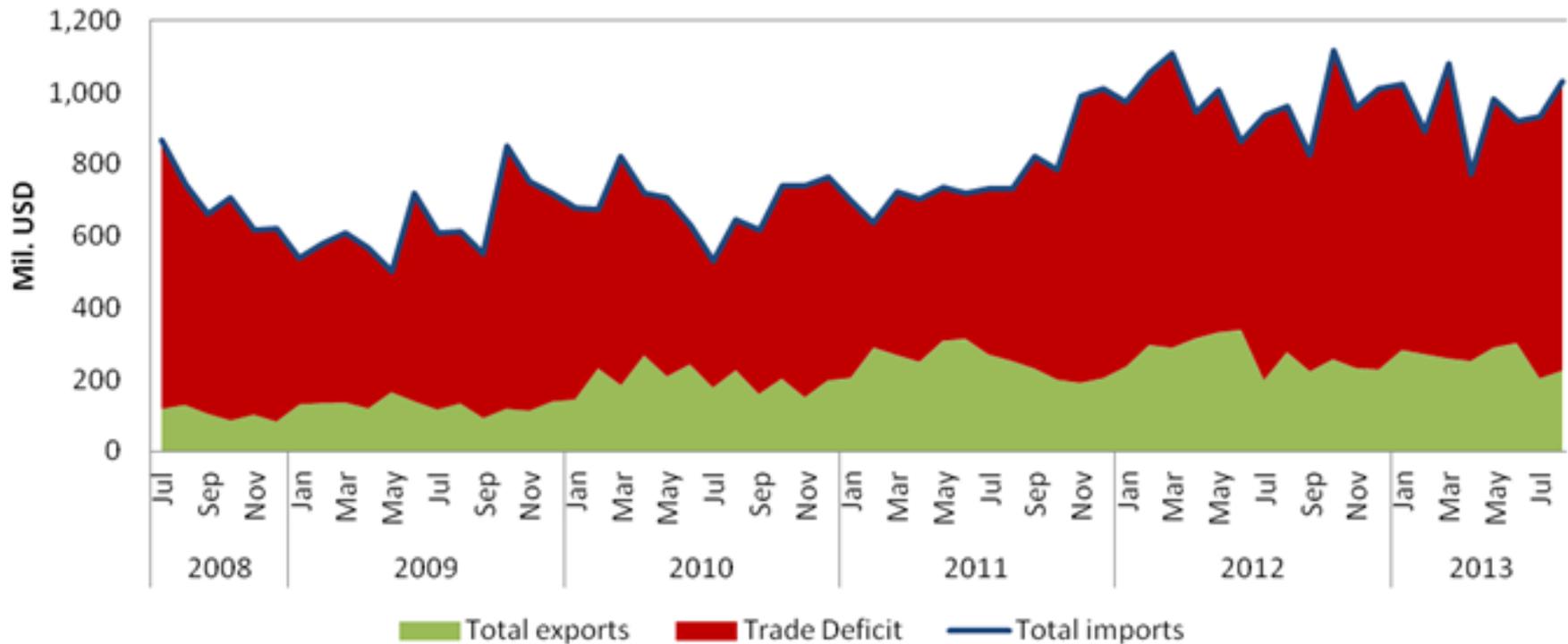
## Exchange rate (birr/US\$)



# Trade balance deteriorating



## Trade Deficit



Trade deficit 2012/13: 17.3% of GDP

Export growth 2012/13: -2.6%

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# Risks to sustaining growth?

- Large fiscal deficit without appropriate financing options.  
This leads to:
    - Large domestic borrowing
    - Crowding out of credit to private sector
    - Risk of debt distress
    - Large exposure of banking system to public enterprises
    - Inflation concerns
  - Non-functioning FX market, FX shortage, and competitiveness.
  - Failure to develop financial sector and markets
  - Missing out on private sector dynamics - opening up! Tap into FDI flows!
-

# Large consolidated fiscal deficit



## GTP Financing 2009/10-2014/15

	GTP 5 years	o/w identified projects	First 3 years Actual	Last 2 years Projected
Public sector financing, \$b	<b>36.0</b>	<b>33.2</b>	<b>11.2</b>	<b>22.0</b>
(% of GDP)	<b>15.3%</b>	<b>14.2%</b>	<b>9.1%</b>	<b>19.7%</b>
Net domestic financing		<b>7.4%</b>	<b>5.1%</b>	<b>9.9%</b>
Net external financing		<b>6.8%</b>	<b>4.0%</b>	<b>9.8%</b>

# Large public deficit crowds out domestic financing for private sector



## Credit to nongovernment from banks

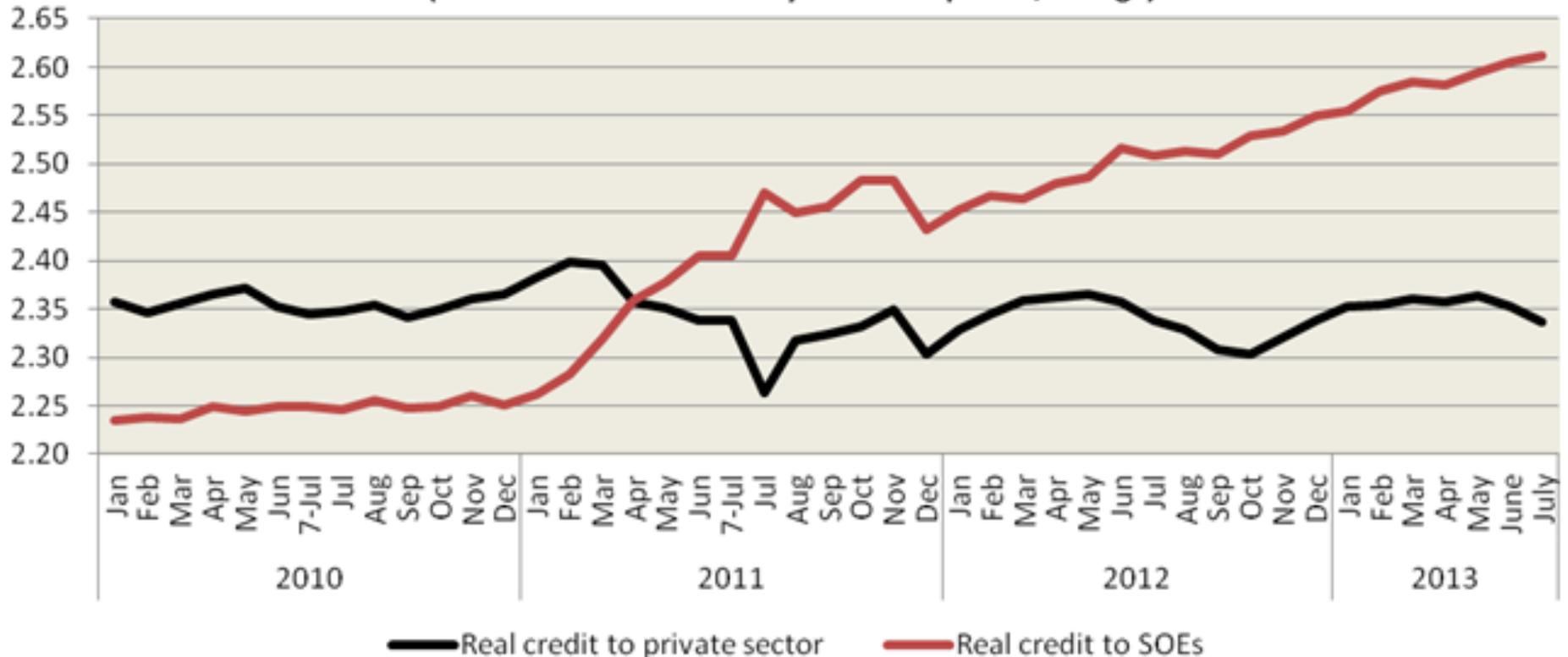
	2011/12	2012/13
Credit growth to nongovernment	57%	26%
Of which share to:		
SOE's	68%	83%
Private sector	32%	17%

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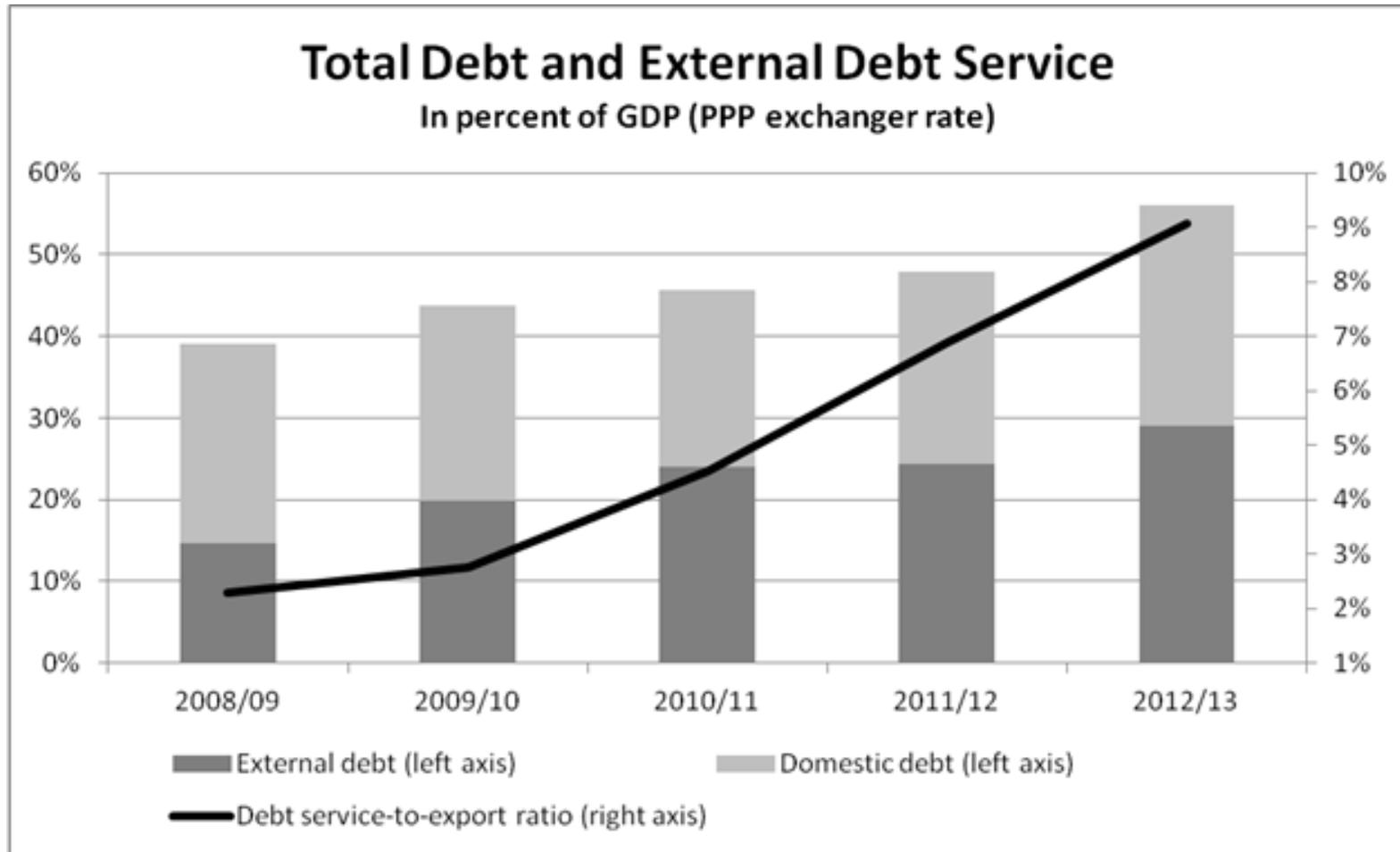


## Real Credit to Private Sector and SOEs

(Credit stocks deflated by nonfood prices; in logs)



# Total public debt burden is rising



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# Sustaining robust and inclusive growth: Policy recommendations

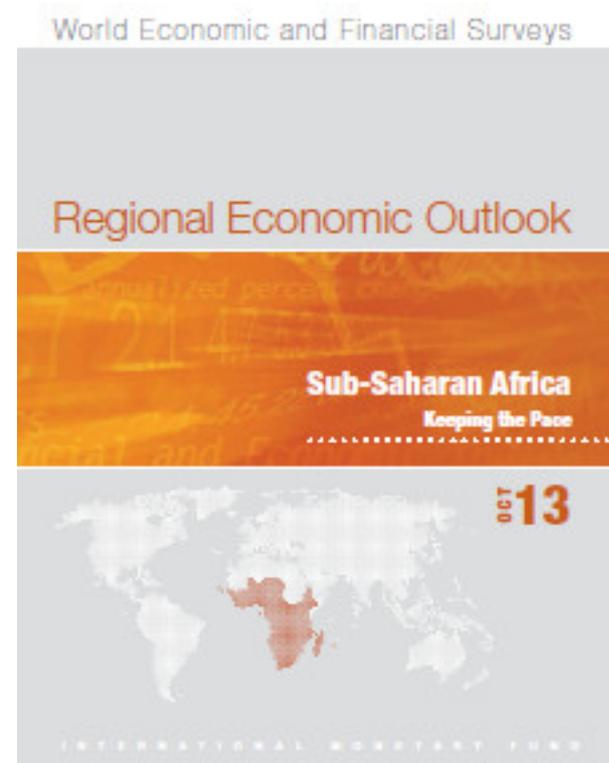


- Adjusting overall fiscal stance
  - Maintaining tight monetary policy
  - Enhancing competitiveness via exchange rate flexibility & lowering trade logistic costs
  - Phasing out the forced 27% NBE bill holding
  - Developing securities *market* with flexible nominal interest rates
  - Putting private sector in the driver's seat: only way forward to creating sustainable employment opportunities
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# Thank You

## Q & A



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