Executive Summary

DEALING WITH THE GATHERING CLOUDS

Growth in Sub-Saharan Africa has weakened markedly, and is now expected at 3¾ percent this year and 4¼ percent in 2016, from 5 percent in 2014. Of the three factors that have underpinned the region's solid performance of the last decade or so—a much improved business and macroeconomic environment, high commodity prices, and highly accommodative global financial conditions—the latter two have become far less supportive. As a result, while activity remains more solid than in many other developing and emerging regions of the world, the strong growth momentum evident in the region in recent years has dissipated. And with the possibility that the external environment might turn even less favorable, risks to this outlook remain on the downside, especially because a number of countries are entering this new period with more limited external and fiscal buffers than they did at the time of the global financial crisis.

This overall difficult picture, however, masks, considerable variations across the region.

- In most of the region's low-income countries, growth is holding up, supported by ongoing infrastructure investment and solid private consumption. But even within this group, quite a few countries are being negatively affected by the sharp decline in the prices of their main commodity exports, even as lower oil prices ease their energy import bill.
- Even more hard hit are the region's eight oil exporters—which together account for about half of the region's GDP and include the largest producers, Nigeria and Angola—as falling export incomes and resulting sharp fiscal adjustments are taking their toll on activity.
- Several middle-income countries, such as Ghana, South Africa, and Zambia, are also facing unfavorable conditions, including weak commodity prices, difficult financing conditions in the context of large domestic imbalances, and electricity shortages.

Policies need to adjust to this new environment.

- On the fiscal policy front, for the vast majority of the countries in the region, there is only limited fiscal space to counter the drag on growth. Among oil exporters, the sharp and seemingly durable decline in oil prices makes adjustment unavoidable, and while some had space to draw on buffers or borrow to smooth the adjustment, that space is becoming increasingly limited. For most other countries, fiscal policies need to continue to be guided by medium-term spending frameworks, striking an appropriate balance between debt sustainability considerations, on the one hand, and addressing development needs, on the other.
- On the monetary policy front, wherever the terms-of-trade declines have been significant and the exchange rate is not pegged, it is important to allow for the exchange rate depreciation to absorb the shock. Even in those countries that are not heavily reliant on commodity exports and have seen their currency come under pressure, given the strong global forces behind these pressures, resisting them risks losing scarce reserves. Accordingly, interventions should be limited to disorderly movements of the exchange rate. Monetary policy should only respond to second-round effects, if any, of exchange rate pass-through and other upward shocks to inflation.
- Finally, risks to the financial sector from the commodity price declines, especially in oil-exporting countries, and from exchange rate depreciation require careful monitoring.

COMPETITIVENESS IN SUB-SAHARAN AFRICA: MARKING TIME OR MOVING AHEAD?

The second chapter of this report assesses how competitiveness in sub-Saharan Africa has evolved and how well placed the region is to diversify its export base and sustain growth. The region's recent period of high growth has benefited from a set of unique circumstances, and while it has been accompanied by substantial trade integration, it has also been accompanied by widening trade imbalances. With some of the forces driving recent growth having dissipated, to sustain growth, the region will need to be competitive to increase export sophistication and integrate into global value chains.

Most indicators point to deteriorating competitiveness in recent years, especially among commodity exporters. The region has experienced fewer episodes of sustained growth than other regions; about half of these growth spells occurred in the context of booming commodity exports and despite weak competitiveness. Conversely, in the other half, strong competitiveness supported sustained growth—a model that will have to prevail in the future.

Policy actions need to be geared toward nurturing new sources of growth. While specific recommendations depend on country circumstances, some broad principles for policy action are to pursue sound macroeconomic policies, including not resisting near-term depreciation pressures in the face of terms-of-trade shocks, undertaking productivity-enhancing infrastructure investments while maintaining debt sustainability, eliminating remaining trade barriers, and improving institutions to enhance the business climate.

INEQUALITY AND ECONOMIC OUTCOMES IN SUB-SAHARAN AFRICA

The third chapter considers the implications for sub-Saharan Africa of persistently high income and gender inequality. Sub-Saharan Africa has among the highest levels of inequality—both income and gender—in the world, even after accounting for the level of development. With growing international evidence that income and gender inequality can impede macroeconomic stability and growth, this chapter considers factors behind those high levels and how they differ from the experience in other parts of the world, and discusses policy options for reducing inequality and raising sustainable growth.

Reducing inequality could deliver significant growth payoffs for the region. Income inequality appears to be markedly higher at all levels of income in the region than elsewhere, with gender inequality being just one of the factors driving that result. Findings also suggest that progress toward reducing income and gender inequality could generate significant growth dividends, by close to one percentage point annually if inequality was reduced to levels observed in fast-growing Asian emerging countries. While the drag on growth from infrastructure and educational attainment gaps—on which polices should focus—remain stronger among low-income countries and fragile states, the evidence suggests that there could be a growth dividend among middle-income countries for policies directly aimed at reducing inequalities. While the high levels of inequality in the region appear to be partly driven by structural features, such as the dependence of some countries on oil exports, policies that influence the access of low-income households and women to opportunities such as education and health care are shown to matter too. In that context, carefully designed fiscal and financial sector policies and the removal of gender-based legal restrictions could reduce inequality.