A Muted Recovery
May 2018
The sustained period of rising incomes in SSA has stalled...

Source: IMF, World Economic Outlook database.
...following a significant external shock to commodity exporters

Real GDP (2012 vs. current forecast)

Oil exporters
- 8 countries
- 28% of the population

Other Resource-Intensive Countries
- 15 countries
- 36% of the population

Non-Resource-Intensive Countries
- 22 countries
- 36% of the population

Source: IMF, World Economic Outlook database.
Key Takeaways From April 2018 SSA REO

- Sub-Saharan Africa is seeing a modest growth uptick, with growth accelerating in two-thirds of countries

- Debt vulnerabilities are rising in many countries

- Policy focus:
  - Reduce macroeconomic vulnerabilities
  - And raise medium-term growth
Roadmap

I. The Outlook

II. Policy Focus:
   - Reduce Macroeconomic Vulnerabilities
   - Raise Medium-Term Growth
I. The Outlook
The near-term outlook is for a modest growth uptick...

Source: IMF, World Economic Outlook database.
....while some countries continue to grow rapidly

Source: IMF, World Economic Outlook database.
The outlook is supported by stronger global growth...

Real GDP Growth Forecast Revision (Current vs. Oct. 2017 WEO)

Source: IMF, World Economic Outlook database.
...better prospects for key commodity prices...

Medium-term Commodity Prices (Percent change from October 2017 WEO)

Source: IMF, World Economic Outlook database.
...and favorable global financing conditions
On current policies, the medium-term outlook remains subdued...

Source: IMF, World Economic Outlook database.
II. Policy Focus I: Reduce Macroeconomic Vulnerabilities
Public debt ratios are on the rise...

Source: IMF, World Economic Outlook database.
....leaving a rising number of countries at high risk of or in debt distress

Source: IMF, World Economic Outlook database.
More needs to be done to stabilize debt

Debt Ratios (Baseline vs. no adjustment)

Oil exporters

Other resource-intensive countries

Non-resource-intensive countries

Source: IMF, World Economic Outlook database and IMF staff calculations.
Domestic Revenue Mobilization (DRM)

Can more be done and how?
Motivation: Why more revenue in SSA countries?

- Revenue can potentially be larger than (declining) ODA
- Revenue will help fund SDGs and increasing social demands
- Debt costs are absorbing increasing share of revenue
- Increasing revenue can be less harmful to growth than cutting spending
Motivation: Why more revenue needed in Ghana?

**SSA: Interest Expenditure**

*Percent of Tax Revenue*

Source: IMF, World Economic Outlook database.
State of play: Some progress, despite commodity cycles

SSA: Total Revenue excluding Grants, Median Percent of GDP

Source: IMF, World Economic Outlook database.
...though SSA still has lowest revenue ratios globally

Total Revenue Excluding Grants and Tax Revenue, Median, 2016
Percent of GDP

<table>
<thead>
<tr>
<th>Region</th>
<th>Revenue Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>SSA</td>
<td>18.2</td>
</tr>
<tr>
<td>Ghana</td>
<td>16.6</td>
</tr>
<tr>
<td>EMEDEV Asia</td>
<td>22.5</td>
</tr>
<tr>
<td>MENA</td>
<td>23.9</td>
</tr>
<tr>
<td>LAC</td>
<td>24.1</td>
</tr>
<tr>
<td>Advanced economies</td>
<td>38.1</td>
</tr>
</tbody>
</table>

Source: IMF, World Economic Outlook database.
VAT productivity average lowest in SSA countries

VAT C-Efficiency, Average

- SSA: 34%
- LIDCs: 37%
- Emerging markets: 54%
- Advanced economies: 59%

Sources: World Revenue Longitudinal Database (WoRLD), IMF Fiscal Affairs Department Tax Rates Database, and World Economic Outlook database.
... with varying performance across countries

Sources: World Revenue Longitudinal Database (WoRLD), IMF Fiscal Affairs Department Tax Rates Database, and World Economic Outlook database.
Can more be done? Tax gaps suggest so (though tax frontiers are low)

**Tax Frontier and Tax Gap**

Percent of GDP

Sources: IMF, World Economic Outlook database and staff estimates.
... with substantial variations across SSA countries

Sub-Saharan Africa: Tax Ratio and Tax Frontier
Percentage of GDP

Sources: IMF, World Economic Outlook database and staff estimates.
What can we learn? Successful DRM episodes

SSA: Non-resource Revenue Mobilization Episodes
Percent of non-resource GDP

Sources: IMF, World Economic Outlook database and IMF Fiscal Affairs Department Sub-Saharan Africa Tax Revenue database.
Note: The current revenue ratio in Mozambique is as of 2015.
Building the foundations for enhanced DRM

- Basic institutions, e.g., revenue authority
- Key taxes, e.g., VAT
- IT system, identification of taxpayers & enforcement

- Stronger revenue administration (Large Taxpayer Office)
- Broader tax bases (reduced exemptions)
- Specialized taxes, e.g., property tax

- Modernization and innovation, e.g., e-tax
- Monitoring & reporting of tax expenditure
- Optimization of existing taxes (e.g. mining)

Sources: IMF staff.
Enabling conditions for successful DRM

- Stability
- Medium-Term Revenue Strategies
- Capacity development & peer learning
III. Policy Focus II: Lifting Medium-Term Growth
Raising growth is key to the challenges ahead...

Source: IMF, World Economic Outlook database.
...and important for meeting the SDGs

Source: World Bank, World Development Indicators database.
Private Investment to Rejuvenate Growth
Key Takeaways

- Private investment is too low
- Improving opportunities for profits
- Macroeconomic and institutional reforms
  - Better regulatory and supervisory frameworks
  - Trade liberalization
  - Deepening financial markets
  - Better infrastructure
- Additional ways to jump start private investment
  - PPPs, but the associated fiscal risks should be carefully managed
  - SEZs, successful under specific circumstances
  - International Initiatives (Compact with Africa and BRI).
Private investment is low

Note: EUR = Europe; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; SSA = sub-Saharan Africa.

Source: IMF, World Economic Outlook database.
Weak investment has weighed on growth

Investment Contribution to Real GDP Growth

Source: IMF, World Economic Outlook database.
Private investment depends on macroeconomic and structural factors...

Source: IMF staff calculations.
...reforms...

Selected Sub-Saharan African Countries: Real Private Investment Growth

Source: IMF, World Economic Outlook database.
...and resolution of conflicts

Selected Countries: Real Private Investment Growth Before and After Conflicts

Source: IMF, World Economic Outlook database.
Public investment can crowd in private investment, but this is not always the case.

- Compete for scarce physical and financial resources
- State enterprises compete with private sector
- Macroeconomic instability

Crowd out

Infrastructure spending raises productivity of private capital

Crowd in
Private investment is constrained by limited access to credit

Financing of Purchases of Fixed Assets

Access to Bank Financing

Note: EURCIS = Europe and Commonwealth of Independent States; MENA = Middle East and North Africa; SSA = sub-Saharan Africa.

PPPs can help jump start private investment, if risks are well managed

Additional ways to support private investment

- Attracting FDI
- Special Economic Zones
- International Initiatives:
  - Belt and Road Initiative
  - Compact with Africa
Recap: Key Takeaways From April 2018 SSA REO

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THANK YOU