Recovery and Rising Risks

October 2018
Roadmap

I. A Less Supportive External Environment
II. Outlook and Risks
III. Policy Challenges
   - Reducing Debt Vulnerabilities
   - Dealing with Capital Flows
   - Lifting Incomes Faster
I. A Less Supportive External Environment
Let’s Recap --- Last April we reported that many of SSA’s frontier markets had benefited from improved market access...

Source: Bloomberg, L.P.
...and that the region had attracted significant foreign capital.

![Frontier Markets: International Sovereign Bond Issuance](chart)

Source: Haver Analytics.
Now, financing conditions have tightened, since mid-April, with higher bond spreads and portfolio outflows.
Higher prices will facilitate recovery in oil exporting countries, but could dampen growth in non-oil producers

Source: IMF, World Economic Outlook database.
II. Outlook and Risks
Downside risks to the economic outlook stem from both domestic and external sources:

- Rising global trade tensions
- Tightening global financial conditions
- Regional security threats
Risk: Rising Trade Tensions

Externally, a further escalation of trade tensions would likely threaten the global recovery.

Source: IMF Research Department staff calculations.

Potential Impact of Trade Tensions on GDP

- Euro area
- China
- Sub-Saharan Africa

2018 2019 2020 2021
In The Gambia, global threats could play out through the following transmission channels:

- **Weaker tourism demand and reduced remittances** following a global slowdown.
- **Pressure on the exchange rate** due to reduced FX inflows, a strong US dollar and higher global interest rates.
- **Increased debt service burden** and higher borrowing costs with the rise in global interest rates and exchange rate depreciation.
- **Higher fuel import bill** following the rise in international commodity prices and exchange rate depreciation.
Risk: Tightening Global Financial Conditions
Many SSA Frontier Economies face an increased exposure to an unexpected tightening of global financial conditions.

Sub-Saharan African Frontier Markets International Sovereign Bond Issuances

Sub-Saharan African Frontier Markets Maturing International Sovereign Bonds

Source: Bloomberg Finance, L.P.
Risk: Rising Security Threat

Security threats are exacting a significant human toll in a number of SSA countries

Source: Uppsala Conflict Data Program.

Source: United Nations High Commissioner for Refugees.
IV. Policy Challenges

a. Reducing Debt Vulnerabilities will boost resilience
Rising Debt Vulnerabilities: Public debt is diverting more resources towards interest payments...

Source: IMF, World Economic Outlook database.
Heightened debt vulnerabilities are posing a challenge for countries to service their commitments.

Debt Risk Status for Low-Income Countries

<table>
<thead>
<tr>
<th>Year</th>
<th>Low</th>
<th>Moderate</th>
<th>High</th>
<th>Distress</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>11</td>
<td>17</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>2015</td>
<td>6</td>
<td>21</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>2016</td>
<td>6</td>
<td>19</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>2017</td>
<td>5</td>
<td>15</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>2018</td>
<td>5</td>
<td>15</td>
<td>8</td>
<td>7</td>
</tr>
</tbody>
</table>

Includes The Gambia

Source: IMF, Debt Sustainability Analysis Low-Income Developing Countries database.
Progress on improving debt dynamics remains mixed.

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Fiscal Balance</th>
<th>Total Public Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>-12.0</td>
<td>-6.0</td>
</tr>
<tr>
<td>2018</td>
<td>-10.0</td>
<td>-4.0</td>
</tr>
</tbody>
</table>

Source: IMF, World Economic Outlook database.
But, the quality of the adjustment is an issue, as oil exporters have relied on investment spending compression rather than revenue mobilization.

Research shows that SSA countries can raise 3–5 percent of GDP more in revenue over the next 5 years.

Source: IMF, World Economic Outlook database.
IV. Policy Challenges

b. Dealing with Capital Flows
Financial integration with the rest of the world has deepened, marked by rising net non-official capital flows...

Source: IMF staff estimates.
Capital flows to SSA were proportionally larger than those to EMEs during 2015-17

Source: IMF, World Economic Outlook database.
These trends have given rise to concerns about SSA’s vulnerability to a sudden stop.

Recent News Headlines

- Africa’s Eurobond Love Fest Set to Continue as Issuers Line Up
- IMF warns of fresh shocks to global financial stability
- World Bank raises concerns over Africa’s rising debt distress risk
Capital flows to SSA are highly sensitive to global factors and domestic fundamentals

- **Push factors**: US interest rate and commodity prices
  - A 100 bps decline in the US government bond yield ⇒ ↑ liability flows by 0.3-0.4 percent of GDP
- **Pull factors**: Institutional quality, real GDP growth, trade openness, external debt ratio

Importance of factors, however, tends to differ by the type of flow

- US interest rates/commodity prices have a stronger effect on FDI
- Global market volatility strongly affects foreign portfolio flows, but not FDI

Careful management of capital flows is needed to mitigate the inherent risks

- **Be Prudent**: Sovereigns need to ensure that the borrowed resources are utilized effectively, enhance productivity, and promote sustainable economic growth
- **Be Vigilant and strengthen Resilience**: Vigilance is warranted against the buildup of macroeconomic and financial imbalances. Countercyclical macroeconomic and prudential policies should be adopted to limit vulnerabilities, build adequate buffers, and preserve debt sustainability. All of this is with a view to improving the business climate.

**Key takeaways:**
Capital inflows offer potential benefits but also carry risks
IV. Policy Challenges

c. Lifting Incomes Faster
Raising growth is important for meeting the SDGs

Sub-Saharan Africa Development Indicators: Infant Mortality

Source: World Bank, World Development Indicators database.

Rapid per capita GDP growth promotes good social outcomes
Meeting the SDGs will require stronger growth and more financing.

Source: World Bank, World Development Indicators database.
On a per capita basis, projected growth over the medium term is too low.

Source: IMF, World Economic Outlook database.
Policies are needed today to create more jobs in coming years.

Change in Employment

- Long-term needed increase in employment
- Average increase in employment during 2013–17

There is a need to close the gap between actual and projected job growth and job growth needed to absorb new entrants.

The 4th Industrial Revolution: Job creation is complicated by uncertainty on extent to which technology replaces labor.

**Opportunities**
- Historically, technology has complemented labor
- Leapfrogging Opportunities (e.g. Mobile Money & Banking)
- Services as a source of growth

**Policies to Bridge the Gap, include:**
- Invest in traditional and digital infrastructure
- Invest in technical and vocational training and in an educational system that keeps pace with changing skill requirements
- Deepen regional trade integration, including within the context of the African Continental Free Trade Area
- Create an enabling environment for the private sector, including by improving regulatory frameworks and strengthening access to capital.

**Challenges**
- Periods of transition are often costly
- Technology may substitute labor & reshoring away from SSA
- Declining labor share
Recap Key Messages

- **The recovery is expected to continue amidst rising risks.**
  - Muted recovery in oil exporting countries, while most other countries continue to sustain high growth.
  - Achieving the Gambia’s promising growth potential requires adherence to the reform agenda, and vigilance is needed to mitigate downside domestic and global risks.

- **Fiscal deficits need to continue narrowing, but the quality of adjustment needs to be strengthened.**
  - Further revenue-based adjustment is needed to reduce debt vulnerabilities and create space for priority social and development spending.
  - In The Gambia, in addition to revenue mobilization, efforts are needed to improve efficiency and better prioritize and restrain recurrent spending pressures.

- **Enhancing resilience and raising growth potential is essential; policies vary across countries.**
  - Improve policy frameworks
  - Promote diversification
  - Deepen trade and financial integration
  - Promote flexible education systems to avoid skills mismatches, and digital connectivity
  - Promote private investment
IMF TA and CD is helping to strengthen policy frameworks in Core Areas of IMF Expertise

**Fiscal Policy and Management**

- Improving **tax systems** and effectively **managing public resources**, to improve services such as education, health and public infrastructure; and to ensure **public debt sustainability**

**Legislative Frameworks**

- Building **legal and governance frameworks** in line with international standards and anti-money laundering and combating the financing of terrorism (AML/CFT)

**Monetary Policy and Financial Systems**

- Controlling inflation, implementing **sound exchange rate policies**, and strengthening financial sector **supervision** and **regulation** in support of financial stability and **inclusion**

**Macroeconomic and Financial Statistics**

- Strengthening capabilities to **produce, compile and disseminate** reliable and consistent macroeconomic and financial statistics

**Macroeconomic Frameworks**

- **Formulating** and **implementing** sound macroeconomic and financial policies; deepening the dialogue on policy issues and sharing experiences through **peer learning and training**
IMF’s CD efforts are also helping member countries to tackle key development priorities

<table>
<thead>
<tr>
<th>Reducing Inequalities</th>
<th>Improving Gender Equality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training policymakers to implement inclusive policies such as expenditure and subsidy reform, progressive taxation and financial inclusion; providing analytical, operational, and monitoring tools that countries need to tackle inequality</td>
<td>Compiling gender-specific data on financial access so countries better understand the impact of policies on women; helping boost female labor participation; providing training on gender budgeting; empowering female government officials through training</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Taking Action on Climate Change</th>
<th>Improving Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working with countries on environmental tax reform and efficient energy pricing; helping create robust frameworks and public financial management plans to prepare countries for natural disasters and climate-related shocks</td>
<td>Promoting better management of public resources and public sector institutions; developing and maintaining a transparent and stable economic and regulatory environment; fighting corruption</td>
</tr>
</tbody>
</table>

Supporting Fragile States

Covering areas critical to restore economic stability and build core institutions, such as public finances, tax administration, public financial management, monetary policy, central bank monetary operations, banking supervision, currency reform, economic statistics
THANK YOU