Navigating Uncertainty

OCTOBER 2019

Regional Economic Outlook
Roadmap

- Recent Developments and Outlook
  - Macro Policies and Response to Downside Risks
- Analytical Focus
  - Understanding domestic arrears
  - Boosting competition
SSA growth remains bifurcated, with non-resource intensive countries outpacing resource-rich ones

Real GDP per Capita, 1990–2024

Source: IMF World Economic Outlook database.
Wide heterogeneity in growth outlook will persist in 2020, including among the largest economies

Real GDP Growth Distribution, 2020

Source: IMF World Economic Outlook database.
There is also significant heterogeneity across resource-intensive countries

Real GDP Growth Distribution, 2020

Source: IMF World Economic Outlook database.
Global developments pose significant downside risks to growth

Export Growth, 2014–19

Source: IMF, Direction of Trade Statistics.
Relative to April, growth was revised down in about 2/3 of SSA countries

Downward Revision of WEO Projections for Current Year (Oct. vs Apr.)

Source: IMF World Economic Outlook database.
In per capita terms, some 25 countries will continue to converge, but another 20 countries lag behind.

Real GDP and Real GDP per Capita Growth, Average 2019–24 (size of the bubble reflects population)

Source: IMF, World Economic Outlook.
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Implementing fiscal consolidation plans should stabilize or lower debt ratios

Public Debt to GDP, 2012–24

Source: IMF World Economic Outlook database.
Higher revenues are needed to meet development spending pressures

- Debt pressures
- Development spending pressures
- Limited tax appetite
Response to shocks depends on their nature and strength of balance sheets and fundamentals

Baseline
- Implement planned fiscal consolidation
- Room to ease monetary policy where inflation is running low

Shocks
- Fast growing countries with elevated debt vulnerabilities should focus on rebuilding buffers
- Slow growing countries should seek more gradual adjustment, if financing is available, and fine-tune its composition to minimize impact on growth

Inflation
Growth
Balance sheets
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Efforts to enhance fiscal data provide better assessment of arrears

Stock of Domestic Arrears in SSA Countries, 2005–18

Source: IMF staff estimates.
Oil exporters have the largest stock of arrears, and arrears to private suppliers are the most common.

*Domestic Arrears by Country Group, 2018*

*Domestic Arrears by Economic Agent, 2018*

Source: IMF staff calculations.

Source: Survey of IMF African Department desk economists.
Causes of arrears accumulation

**Structural Causes**

- Stock of domestic arrears 2005-18, percent of GDP vs. Public Financial Management Scores

**Cyclical Causes**

- Political stability
- GDP growth
- Terms of trade

Source: IMF staff calculations.
Macroeconomic impact of domestic arrears

Source: IMF staff calculations.
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SSA countries introduced a set of reforms during the mid-1990s-early 2000s

Structural Reforms, 1973–2014

Source: Alesina and others, forthcoming.
Product market competition in sub-Saharan Africa is low

Product Market Competition, Average 2013–17

- Advanced economies
- Emerging market economies
- Developing economies excluding Sub-Saharan Africa
- Sub-Saharan Africa

Source: World Economic Forum, Global Competitiveness
But there is considerable heterogeneity across countries

Product Market Competition, Average 2013–17

- Oil exporters
- Other resource-intensive
- Non-resource-intensive
- Kenya

Source: World Economic Forum, Global Competitiveness
Firm profitability and markups are higher than in other emerging markets and developing countries

Firm-level Competition Indicators

Source: IMF staff estimates based on the World Bank Enterprise Survey (WBES) database.
Promoting competition can lift medium-term growth

Competition and Macroeconomic Performance

- Private investment: 0.0
- Labor productivity growth: 0.4
- Growth: 0.8
- Non-oil exports: 2.0

Source: IMF staff calculations.
Increasing competition helps to lower prices and improve welfare

Impact of Competition on Prices

Clothes and footwear: -35%
Health services: -20%
Individual consumption: -15%
Food and beverage: -10%

Source: IMF staff calculations.
NAIROBI, KENYA – October 2019

Regional Economic Outlook

Sub-Saharan Africa
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