Regional Economic Outlook

Sub-Saharan Africa
Recovery Amid Elevated Uncertainty

INTERNATIONAL MONETARY FUND

APR 19
Cataloging-in-Publication Data

Names: International Monetary Fund, publisher.
Title: Regional economic outlook. Sub-Saharan Africa : recovery amid elevated uncertainty.
Other titles: Sub-Saharan Africa : recovery amid elevated uncertainty. | World economic and financial surveys.
Identifiers: ISBN 9781484396865 (paper)
ISBN: 9781498304139 (Web PDF)
Classification: LCC HC800 .S83 2019

The Regional Economic Outlook: Sub-Saharan Africa is published twice a year, in the spring and fall, to review developments in sub-Saharan Africa. Both projections and policy considerations are those of the IMF staff and do not necessarily represent the views of the IMF, its Executive Board, or IMF Management.
Contents

Abbreviations ............................................................................................................................vi
Acknowledgments ................................................................................................................... vii
Executive Summary ................................................................................................................ix
1. Two-Track Recovery Amid Elevated Uncertainty .................................................................1
   Macroeconomic Developments and Prospects ................................................................. 2
   Risks to the Outlook ............................................................................................................ 8
   Policies .................................................................................................................................11
   References .........................................................................................................................23

2. The Economic Consequences of Conflicts ......................................................................25
   Prevalence and Intensity of Conflicts ...............................................................................26
   Conflict and Economic Growth .......................................................................................30
   Spatial Impact of Conflict ...............................................................................................34
   Fiscal Implications of Conflict .......................................................................................35
   Conclusion .........................................................................................................................36
   References .........................................................................................................................38

3. Is the African Continental Free Trade Area a Game Changer for the Continent? ............39
   Regional Trade Integration in Africa: Key Patterns .........................................................41
   How Can the AfCFTA Support Regional Trade Integration in Africa? .........................44
   Implications of the AfCFTA for African Countries: Welfare, Income Distribution, and Fiscal Revenue ........................................................................................................................................................................49
   Summary and Policy Implications ....................................................................................52
   References .........................................................................................................................53

Statistical Appendix ..............................................................................................................55

Background Paper and Expanded Statistical Appendix .................................................... Online.
   https://www.imf.org/~/media/Files/Publications/REO/AFR/2019/April/English/backgroundpapers.ashx?la=en
   Online Expanded Statistical Appendix Tables; Online Annex for Chapter 2—The Economic Consequences of Conflicts; Online Annexes for Chapter 3—Opportunities and Challenges of the AfCFTA; Publications of the IMF African Department 2013–19

Boxes
1.1. Transitioning to International Financial Reporting Standard 9 ........................................19
1.2. Financial Development and Mobile Money Growth in Sub-Saharan Africa ..................20
1.3. Sub-Saharan African Demographic Trend and Gender Gaps in Education ................22
2.1. The Impact of Conflict on Women and Children ............................................................37

Table
2.1. Sub-Saharan Africa: Share of Countries in Conflict by Geographic Region and Economic Classification ........................................................................................................................28

Figures
Chapter 1
1.1. Sub-Saharan Africa: Real GDP per Capita, 1990–23 .....................................................1
1.2. Global Growth Projections: Current versus October 2018 .............................................2
1.4. Sub-Saharan Africa: Goods Terms of Trade Growth, 2013–21 ................................................................. 3
1.6. Sub-Saharan Africa: Real GDP Growth, 2013–23 ................................................................................................................................. 3
1.7. Sub-Saharan Africa: CPI Inflation ................................................................................................................................. 4
1.9. Sub-Saharan Africa: Reserve Buffers ................................................................................................................................. 5
1.10. Sub-Saharan Africa: Overall Fiscal Balance, 2018–19  ................................................................................................................................. 5
1.11. Cyclicality of Fiscal and Terms of Trade Cycles, 2000–17 ................................................................................................................................. 6
1.13. Sub-Saharan Africa: Debt Risk Status for PRGT Eligible Low-Income Developing Countries, 2008–17 ................................................................................................................................. 7
1.15. Sub-Saharan Africa: Nonperforming Loan Ratio ................................................................................................................................. 8
1.16. Sub-Saharan Africa: Nonperforming Loan Ratio and Real Nonfinancial Private Credit Growth ................................................................................................................................. 8
1.17. Sub-Saharan Africa: Regulatory Capital Ratio ................................................................................................................................. 8
1.18. Trade Tensions, China Slowdown, and Global Financial Conditions ................................................................................................................................. 9
1.22. Impact of Droughts on GDP ................................................................................................................................................................. 11
1.23. Sub-Saharan Africa: Cumulative Impact of Intense Conflicts on GDP ................................................................................................................................. 11
1.24. Sub-Saharan Africa: Interest Payments ................................................................................................................................................................. 12
1.27. Real GDP Growth Decomposition ................................................................................................................................................................. 17
1.28. Selected Emerging Market and Developing Regions: Major Constraints to Business Operations ................................................................................................................................................................. 17
1.29. Sub-Saharan Africa: Labor Productivity and Earnings Relative to Government Sector ................................................................................................................................................................. 18

Chapter 2

2.1. Selected Regions: Share of Countries in Conflict ................................................................................................................................................................. 26
2.2. Number of Countries in Conflict, 1989–2017 ................................................................................................................................................................. 27
2.3. Total Conflict-Related Deaths, 1989–2017 ................................................................................................................................................................. 27
2.4. Sub-Saharan Africa: Countries in High-Intensity Conflict, 1989–2017 ................................................................................................................................................................. 27
2.5. Number of Conflict-Related Deaths in Sahel Region, 1989–2017 ................................................................................................................................................................. 28
2.6. Distribution of Conflict-Related Deaths in Sahel Region, 2011–17 ................................................................................................................................................................. 28
2.7. Sub-Saharan Africa: Nature of Conflict ................................................................................................................................................................. 29
2.8. Sub-Saharan Africa: Conflict Exit Probabilities ................................................................................................................................................................. 29
2.10. Destination of Sub-Saharan African Refugees, 2017 ................................................................................................................................................................. 30
2.11. Sub-Saharan Africa: Average Growth Rate by Country Type ................................................................................................................................................................. 30
<table>
<thead>
<tr>
<th>Chapter</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.12</td>
<td>Sub-Saharan Africa: Conflict Episodes: Growth Rates and Cumulative GDP per Capita Losses</td>
</tr>
<tr>
<td>2.13</td>
<td>Emerging Market and Developing Economies: Impact on Growth of Increase in Conflict Intensity</td>
</tr>
<tr>
<td>2.14</td>
<td>Sub-Saharan Africa: Effect on Growth of Different Conflict Intensity Levels</td>
</tr>
<tr>
<td>2.15</td>
<td>Impact on Growth of Increase in Conflict Intensity, Role of Institutions and Fiscal Fundamentals</td>
</tr>
<tr>
<td>2.16</td>
<td>Impulse Response of per Capita GDP in Response to Shock to Conflict Intensity</td>
</tr>
<tr>
<td>2.17</td>
<td>Sub-Saharan Africa: Impact of Conflict on Investment, Exports, and Productivity Growth</td>
</tr>
<tr>
<td>2.18</td>
<td>Sub-Saharan Africa: Impact of Conflict on Social Indicators</td>
</tr>
<tr>
<td>2.19</td>
<td>Sub-Saharan Africa: Index of Real GDP per Capita, Actual versus Forecast</td>
</tr>
<tr>
<td>2.20</td>
<td>Sub-Saharan Africa: Index of Real GDP per Capita, Actual versus Synthetic Control</td>
</tr>
<tr>
<td>2.21</td>
<td>Nigeria: Change in Conflict and Night-Light Growth, 2008–10 versus 2011–13</td>
</tr>
<tr>
<td>2.22</td>
<td>Sub-Saharan Africa: Impact of Conflict on Economic Activity at State Level Using Night-Light, Direct and Spillover Effects</td>
</tr>
<tr>
<td>2.23</td>
<td>Sub-Saharan Africa: Impact of Increase in Conflict on Real Growth of Fiscal Variables</td>
</tr>
<tr>
<td>2.24</td>
<td>Sub-Saharan Africa: Effect of Different Conflict Intensity Levels on Real Growth of Selected Fiscal Variables</td>
</tr>
<tr>
<td>2.25</td>
<td>Sub-Saharan Africa: Impact on Debt-to-GDP Ratio of Increase in Conflict Intensity</td>
</tr>
<tr>
<td>2.26</td>
<td>Sub-Saharan Africa: Cumulative Change in Debt-to-GDP Ratio during Conflict Episodes</td>
</tr>
<tr>
<td>Chapter 3</td>
<td></td>
</tr>
<tr>
<td>3.1</td>
<td>Africa: Trade Openness, 1990–2017</td>
</tr>
<tr>
<td>3.2</td>
<td>Intra-African and Trade Partners’ Trade Shares, 1990–2017</td>
</tr>
<tr>
<td>3.3</td>
<td>Intraregional Trade in Selected Regions, 2007–17</td>
</tr>
<tr>
<td>3.4</td>
<td>Trade Integration, 2015</td>
</tr>
<tr>
<td>3.5</td>
<td>Intra-African Trade versus Trade with the Rest of the World, 1990–2017</td>
</tr>
<tr>
<td>3.6</td>
<td>Regional Trade Integration and Export Sophistication, 2015</td>
</tr>
<tr>
<td>3.7</td>
<td>Grubel-Lloyd Intra-Industry Index across Regions, 2015</td>
</tr>
<tr>
<td>3.8</td>
<td>Africa: Average Tariff Rates by Regional Economic Community, 2010–17</td>
</tr>
<tr>
<td>3.9</td>
<td>Africa: Trade Integration in RECs</td>
</tr>
<tr>
<td>3.10</td>
<td>Role of Country Features in Regions’ Trade</td>
</tr>
<tr>
<td>3.11</td>
<td>Trade Gaps in African Subregional Economic Communities</td>
</tr>
<tr>
<td>3.12</td>
<td>Africa: Intraregional Trade Gap by Industry</td>
</tr>
<tr>
<td>3.13</td>
<td>Elasticity of Intraregional Trade to Tariffs by Industry</td>
</tr>
<tr>
<td>3.14</td>
<td>Nontariff Trade Costs, 2015</td>
</tr>
<tr>
<td>3.15</td>
<td>Elasticity of Intraregional Trade</td>
</tr>
<tr>
<td>3.16</td>
<td>Importance of Nontariff Bottlenecks</td>
</tr>
<tr>
<td>3.17</td>
<td>Africa: Potential Increase in Regional Trade</td>
</tr>
<tr>
<td>3.18</td>
<td>Infrastructure and Trade Logistics Gaps in Africa</td>
</tr>
<tr>
<td>3.19</td>
<td>Additional GDP Impact of Trade Expansion under Structural Reform Scenarios, Agricultural Exporter</td>
</tr>
<tr>
<td>3.20</td>
<td>Change in Gini Coefficients and Income Shares</td>
</tr>
<tr>
<td>3.21</td>
<td>Customs Revenue in African Countries, 2010–15</td>
</tr>
<tr>
<td>3.22</td>
<td>Estimated Static and Dynamic Revenue Losses from Tariff Reductions</td>
</tr>
</tbody>
</table>
Abbreviations

AfCFTA  African Continental Free Trade Area
AfDB  African Development Bank
AMU  Arab Maghreb Union
ASEAN  Association of Southeast Asian Nations
CEMAC  Central African Economic and Monetary Community
CBR  correspondent banking relationship
CGE  computable general equilibrium
COMESA  Common Market for Eastern and Southern Africa
CPI  consumer price index
GDP  gross domestic product
ECOWAS  Economic Community of West African States
EPU  economic policy uncertainty
HIPC  Heavily Indebted Poor Country
ICRG  International Country Risk Guide
IDPs  internally displaced persons
IFRS 9  International Financial Reporting Standard 9
IMF  International Monetary Fund
LAIA  Latin American Integration Association
MDRI  Multilateral Debt Relief Initiative
MENA  Middle East and North Africa
NAFTA  North American Free Trade Agreement
NEER  nominal effective exchange rate
NPLs  nonperforming loans
PAFTA  Pan-Arab Free Trade Area
PRGT  Poverty Reduction and Growth Trust
RECs  Regional Economic Communities
REO  Regional Economic Outlook (IMF)
SACU  Southern African Customs Union
SADC  Southern African Development Community
SOEs  state-owned enterprises
SSA  Sub-Saharan Africa
UN  United Nations
UNCTAD  United Nations Conference on Trade and Development
US  United States
VAT  value-added tax
WAEMU  West African Economic and Monetary Union
WEO  World Economic Outlook (IMF)
WTO  World Trade Organization

List of Country Abbreviations:

DZA  Algeria  DJI  Djibouti  KEN  Kenya  RWA  Rwanda
AGO  Angola  EGY  Egypt  LSO  Lesotho  STP  São Tomé & Príncipe
BEN  Benin  GNQ  Equatorial Guinea  LBR  Liberia  SEN  Senegal
BWA  Botswana  ERI  Eritrea  LBY  Libya  SLE  Sierra Leone
BFA  Burkina Faso  SWZ  Eswatini  MDG  Madagascar  SOM  Somalia
BDI  Burundi  ETH  Ethiopia  MWI  Malawi  ZAF  South Africa
CPV  Cabo Verde  FRA  France  MLI  Mali  SSD  South Sudan
CMR  Cameroon  GAB  Gabon  MRT  Mauritania  SDN  Sudan
TCD  Chad  DEU  Germany  MAR  Morocco  TGO  Togo
COM  Comoros  GHA  Ghana  MOZ  Mozambique  TUN  Tunisia
COD  Congo, Dem. Republic of  GIN  Guinea  NAM  Namibia  UGA  Uganda
COG  Congo, Republic of  GNB  Guinea-Bissau  NER  Niger  ZMB  Zambia
CIV  Côte d'Ivoire  ITA  Italy  NGA  Nigeria  ZWE  Zimbabwe
Acknowledgments

The April 2019 issue of the *Regional Economic Outlook: Sub-Saharan Africa* (REO) was prepared by a team led by Papa N’Diaye under the direction of Anne-Marie Gulde-Wolf.

The team included Reda Cherif, Seung Mo Choi, Hilary Devine, Xiangming Fang, Jesus Gonzalez-Garcia, Cleary Haines, Salifou Issoufou, Lisa Kolovich, Siddharth Kothari, Russell Green, Andresa Lagerborg, Thomas McGregor, Cameron McLoughlin, Miguel Pereira Mendes, Nkunde Mwase, Monique Newiak, Rasmane Ouedraogo, Geremia Palomba, Adrian Peralta-Alva, Mahvash S. Qureshi, Amadou Sy, Brooke Tenison, Bruno Versailles, Jason Weiss, Torsten Wezel, Jiaxiong Yao, Mustafa Yenice, and Yunhui Zhao.

Charlotte Vazquez was responsible for document production, with assistance from Krisztina Fabo. The editing and production were overseen by Linda Long of the Communications Department.

The following conventions are used in this publication:

- In tables, a blank cell indicates “not applicable,” ellipsis points (…) indicate “not available,” and 0 or 0.0 indicates “zero” or “negligible.” Minor discrepancies between sums of constituent figures and totals are due to rounding.

- An en dash (–) between years or months (for example, 2009–10 or January–June) indicates the years or months covered, including the beginning and ending years or months; a slash or virgule (/) between years or months (for example, 2005/06) indicates a fiscal or financial year, as does the abbreviation FY (for example, FY2006).

- “Billion” means a thousand million; “trillion” means a thousand billion.

- “Basis points” refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to ¼ of 1 percentage point).
Executive Summary

TWO-TRACK RECOVERY AMID ELEVATED UNCERTAINTY

The economic recovery in sub-Saharan Africa continues, but there is duality in growth performance and prospects within the region. Aggregate growth is set to pick up from 3 percent in 2018 to 3.5 percent in 2019 and stabilize at slightly below 4 percent over the medium term—or about 5 percent, excluding the two major economies, Nigeria and South Africa. These aggregate numbers mask considerable duality in growth prospects within the region. About half of the region’s countries, mostly non-resource-intensive, are expected to grow at 5 percent or more, and see a faster rise in income per capita than the rest of the world on average over the medium term. However, the remaining countries, comprising mostly resource-intensive countries are expected to fall behind. And as these countries—including Nigeria and South Africa—are home to more than two-thirds of the region’s total population, it is important for the policy uncertainties that are holding back growth to be addressed for the lion’s share of sub-Saharan Africans to enjoy improved standards of living.

External and domestic headwinds are weighing on growth prospects.

- The global expansion is losing momentum, including in key trading partners such as China and the euro area; trade tensions remain elevated; global financial conditions are volatile and have tightened somewhat relative to October 2018; and commodity prices are expected to remain low. On the domestic front, climate shocks are likely to impact agricultural output in southern Africa, while policy uncertainty is weighing on growth prospects in several countries.

- Debt vulnerabilities remain elevated in some countries. Weaknesses in public balance sheets are also weighing on countries’ external positions, with reserve buffers below levels typically considered adequate in more than half of the countries in the region.

- At the same time, high nonperforming loans continue to put a strain on financial systems, while weaknesses in public financial management systems are manifesting themselves in large domestic arrears with potential effects on growth and domestic financial systems.

The familiar challenge of finding ways to address human and physical capital investment needs is being complicated by declining fiscal space and a less supportive external environment. Central to resolving this challenge is building fiscal space, enhancing resilience to shocks, and fostering an environment conducive to sustained, high and inclusive growth. Meeting this challenge would be even more difficult if the downside risks to growth materialize (for example, if global growth is even weaker than envisioned in the current baseline). This underscores the need to accelerate reforms and calibrate the size and pace of policy adjustments to ensure that any shift in policies is consistent with credible medium-term macroeconomic objectives, available financing, and debt sustainability.

While the dualism between resource-intensive and non-resource-intensive countries is manifest in their economic prospects, policy priorities, and the severity of their budgetary constraints, these countries also share the challenges of strengthening resilience and creating sustained high and inclusive growth. Addressing these challenges would require:

- Stepping up revenue mobilization, ensuring efficient public investment, strengthening public financial management, containing fiscal risks from state-owned enterprises, improving debt management and resolution frameworks, and enhancing debt transparency. Enhancing exchange rate flexibility, in countries that are outside monetary unions, and strengthened monetary policy and financial systems are also key.
Raising both productivity and private investment, while ensuring a more equitable sharing of the benefits of increased prosperity. Achieving this will require policies to enhance the contestability of markets and create an environment that fosters a dynamic private sector, such as addressing salient constraints to business operations and deeper trade integration (notably through the African Continental Free Trade Area, AfCFTA), and by improving access to and the provision of financial services and basic services (including health and education).

THE ECONOMIC CONSEQUENCES OF CONFLICT

The second chapter explores the challenges faced by conflict-affected countries in sub-Saharan Africa, providing a comprehensive analysis of the trends and economic consequences of conflicts. Although the intensity of conflicts in recent years is lower than that observed in the 1990s, the region remains prone to conflicts, with around 30 percent of the countries affected in 2017. Moreover, the nature of conflicts has changed, with traditional civil wars being replaced by non-state-based conflicts, including the targeting of civilians through terrorist attacks.

Conflicts in the region are associated with a large and persistent decline in per capita GDP and have significant spillover effects on nearby regions and countries. They also pose significant strains on countries’ public finances, lowering revenue, raising military spending, and shifting resources away from development and social spending, which further aggravates the conflicts’ economic and social costs.

The findings highlight the significant costs and formidable challenges faced by countries suffering from conflict and underscores the need to prevent conflicts, including by promoting inclusive economic development, building institutional capacity, and social cohesion. For countries in conflict, efforts should focus on limiting the loss of human and physical capital by protecting social and development spending. While this may be especially daunting given fiscal pressures, well-targeted and coordinated humanitarian aid and concessional financial assistance can provide some relief.

IS THE AFRICAN CONTINENTAL FREE TRADE AREA A GAME CHANGER FOR THE CONTINENT?

The third chapter takes stock of intraregional trade in Africa and examines the potential benefits and challenges of implementing the AfCFTA. The AfCFTA agreement envisions elimination of tariffs on most goods, liberalization of trade of key services, addressing nontariff obstacles that hamper intraregional trade, and eventually creating a continental single market with free movement of labor and capital.

The AfCFTA will likely have important macroeconomic and distributional effects. It can significantly boost intra-African trade, particularly if countries tackle nontariff bottlenecks to trade, including physical infrastructure, logistical costs, and other trade facilitation hurdles. The picture is not uniform. More diversified economies and those with better logistics and infrastructure will benefit relatively more from trade integration. Fiscal revenue losses from tariff reductions are likely to be limited on average, with a few exceptions. Moreover, deeper trade integration is associated with a temporary increase in income inequality.

The findings suggest that, in addition to tariff reductions, policy efforts to boost regional trade should focus on reforms to address country-specific nontariff bottlenecks. To ensure that the benefits of regional trade integration are shared by all, policymakers should be mindful of the adjustment costs that integration may entail. For less developed and agriculture-based economies, trade policies should be combined with structural reforms to improve agricultural productivity and competitiveness. Furthermore, governments should facilitate the reallocation of labor and capital across sectors (for example, active-labor market programs such as training and job-search assistance, and measures that enhance competitiveness and productivity) and bolster safety nets (income support and social insurance programs) to alleviate the temporary adverse effects on the most vulnerable.