

# Executive Summary

## NAVIGATING HEADWINDS

**Sub-Saharan Africa's economy is set to register another year of solid economic performance, expanding at 4½ percent in 2015.** This said, the expansion will be at the lower end of the range registered in recent years, mainly reflecting the adverse impact of the sharp decline in oil and other commodity prices. The effect of this shock will be quite heterogeneous across the region. The region's eight oil exporters will be hit hard and, with limited buffers, are expected to effect significant fiscal adjustment, with adverse implications for growth. For much of the rest of the region, near-term prospects remain quite favorable, with many countries benefiting from lower oil prices—although, for a number of them, this positive effect will be partly offset by the decline in the prices of other exported commodities. Notable exceptions are South Africa, where growth is expected to remain lackluster, held back by continuing problems in the electricity sector, and Guinea, Liberia, and Sierra Leone, where the Ebola outbreak continues to exact a heavy economic and social toll.

**This outlook for solid growth in the face of significant headwinds is, however, subject to a number of risks.**

- *Large fiscal deficits in some countries amid tighter global financial conditions.* External financing conditions have tightened, and could tighten further still in the period ahead, especially as monetary policy normalization proceeds in the United States. In that context, the large fiscal and current account deficits that prevail in some countries, especially among frontier market economies, leave them vulnerable to a potential reduction in external financing. Implementation of tighter-than-planned fiscal policies under these circumstances, with cuts to capital spending, would have a negative impact on near- and medium-term growth. But postponing policy adjustments would give rise to macroeconomic imbalances and policy uncertainty, and exacerbate the risk of disorderly capital flows.
- *Uneven global recovery.* Growth could further disappoint, notably in Europe and China, which are among sub-Saharan Africa's main trade partners. Meanwhile, further dollar appreciation, reflecting variations in growth rates and expected monetary policies across major economies, would make imports more expensive in the region, lower investment and growth, and fuel inflationary pressures. It would also increase the debt service burden and could adversely impact balance sheets of banks and private entities.
- *Domestic security-related risks.* Security risks have recently come to the forefront in a number of countries, especially in the Sahel. Should these conflicts escalate, it would not only pose serious fiscal and near-term growth-related risks, but also, to the extent that they cloud the political and business climate, deter domestic and foreign investors. Elections in 2015 in a number of countries could also complicate the implementation of politically difficult policies.

**Beyond the current shock, sustaining strong, diversified, and durable growth remains the key policy priority.** In the short term, faced with a massive shock and limited buffers, oil exporters will have no choice but to undertake fiscal adjustment. Where feasible, exchange rate flexibility will be important to help preserve scarce external reserves. The current shock is also a unique opportunity for countries to introduce politically difficult energy subsidy reforms, and a reminder of the need to make more rapid progress toward diversification. To that end, addressing the infrastructure gap remains critical to allow new higher-productivity sectors to develop, generate jobs for the rapidly growing young population, and foster integration into global value chains. In scaling up investment to address infrastructure bottlenecks, though, countries will have to remain mindful of the need to preserve debt sustainability.

## HOW CAN SUB-SAHARAN AFRICA HARNESS THE DEMOGRAPHIC DIVIDEND?

**The second chapter of this report considers the implications of the ongoing demographic transition for sub-Saharan Africa.** Over the next 20 years, as both infant mortality and fertility rates decline, sub-Saharan Africa will become the main source of new entrants into the global labor force. In fact, by 2035, the number of Africans joining the working age population (ages 15–64) will exceed that from the rest of the world combined. This is a trend with significant ramifications for both the region and the global economy.

**Under the right policies, the region could indeed benefit from a substantial demographic dividend,** but the magnitude of that dividend will depend critically on the speed of decline in fertility rates and on the strength of accompanying policies. The chapter shows that, for the majority of the countries in sub-Saharan Africa, the demographic transition still has to run its course, and that the region will need to create jobs at an extremely rapid rate for an extended period of time—about 18 million per year until 2035—to absorb a growing labor force. Building on the experience of east Asia and Latin America, it finds that the largest dividend will be gained if policies are focused on a set of interlinked actions, including fostering private sector development to increase the number of non-agricultural jobs, bridging the infrastructure and human capital gaps, tackling labor market rigidities, and supporting stronger trade ties. Mobilizing the increase in domestic savings arising from the transition could also spur higher investment and growth. Implementation of these policies could lift sub-Saharan Africa’s GDP per capita by up to 50 percent by 2050.

## GLOBAL VALUE CHAINS: WHERE ARE YOU? THE MISSING LINK IN SUB-SAHARAN AFRICA’S TRADE INTEGRATION

**The third chapter reviews the extent and strength of trade integration of sub-Saharan Africa in the global economy.** The mid-1990s ushered in two decades of strong and sustained growth in the region, with both sound macroeconomic policies and favorable external conditions playing a role. Indeed, trade has been a powerful engine for growth, but far less for labor productivity gains. With the global environment turning less supportive, it will be key for the region to build on the growing trade ties of the past 20 years to better leverage its comparative advantages, participate in global value chains, and in the process, support structural transformation.

**Substantial opportunities for further regional and global trade integration still remain untapped.**

The chapter finds that, even after accounting for lower levels of income and economic size, generally longer distances and a larger number of landlocked countries, trade flows emanating from sub-Saharan Africa are still significantly smaller than in the rest of the world. Likewise, the region still has some way to go to better integrate into global value chains—a process that has been associated in other regions with higher growth over time—although there is substantial heterogeneity across countries. Where progress was registered, manufacturing, agriculture and agro-business, tourism, and transport showed the largest potential for deeper integration. To leverage this potential, findings emphasize the need to fill the infrastructure gap, lower tariff and nontariff barriers, and improve the business climate and access to credit.