Executive Summary

MULTISPEED GROWTH

Growth in sub-Saharan Africa looks set to slow to its lowest level in more than 20 years. With lower commodity prices and a generally less supportive global economic environment, average growth in the region is foreseen to decelerate sharply to 1½ percent this year—well below population growth, and in sharp contrast to the high growth rates of the past 15 years. While the projection is for a modest recovery for next year (to nearly 3 percent), this is predicated on prompt action to address the large macroeconomic imbalances and policy uncertainty in some of the region's largest economies.

This aggregate picture, however, belies considerable heterogeneity in economic paths across the region.

- Most of the non–resource-intensive countries—half of the countries in the region—continue to perform well, as they benefit from lower oil import prices, an improved business environment, and continuous strong infrastructure investment. Countries such as Côte d'Ivoire, Ethiopia, Kenya, and Senegal are foreseen to continue to grow at more than 6 percent.
- In contrast, commodity exporters are under severe economic strains, including the region's three largest countries, Angola, Nigeria, and South Africa. The near-term prospects of oil exporters in particular have worsened, notwithstanding the modest uptick in oil prices, as the slowdown is becoming entrenched—activity among these countries is expected to contract by 1¼ percent this year. Among other resource-intensive countries, growth in the Democratic Republic of Congo, Ghana, South Africa, Zambia, and Zimbabwe is decelerating sharply or stuck in low gear.

Policy adjustment among hard-hit countries needs to be enacted promptly to allow for a rebound in growth.

- Worryingly, in the face of strong financial and economic pressures, the policy response in many of the hardest-hit countries has been slow and piecemeal, often accompanied by stopgap measures such as central bank financing and the accumulation of arrears, and leading to rapidly rising public debt. In oil-exporting countries with flexible regimes, exchange rates have been allowed to adjust only with reluctance, resulting in strong pressures on deposits and foreign exchange reserves. As a result, the delayed adjustment and ensuing policy uncertainty have been deterring investment and stifling new sources of growth—making a return to strong growth rates more difficult.
- Instead, a sustained adjustment effort is needed, based on a comprehensive and internally consistent set of policies. This implies fully allowing the exchange rate to absorb external pressures for countries outside monetary unions, reestablishing macroeconomic stability—including by tightening monetary policy where needed to tackle sharp increases in inflation—and focusing as much as possible on growth-friendly elements of fiscal consolidation. With limited buffers, the scope to ease the adjustment path will depend critically on the availability of new financing, ideally on concessional terms.

Countries that are still growing rapidly should rebuild buffers in comparatively favorable times to stem the increase in public debt. In an environment of tighter and more volatile financial markets, striking the right balance between much-needed developmental spending and hard-won debt sustainability remains the main challenge. While policy action is not as urgent as for the hardest-hit countries, debt has nonetheless been on an upward trend in many of these countries despite robust growth, and, going forward, some fiscal consolidation appears warranted.

EXCHANGE RATE REGIMES IN SUB-SAHARAN AFRICA: EXPERIENCES AND LESSONS

The second chapter documents the evolution of exchange rate regimes in the region since 1980 and considers the bearing they have had on macroeconomic performance, including inflation, output growth, output volatility, and fiscal outcomes, relative to other emerging markets and developing countries.

As in other regions, there is considerable variation in regimes across sub-Saharan Africa, although the region distinguishes itself for its high prevalence of pegs, with nearly 60 percent of its countries operating under a peg in 2014. Over time, and as in other emerging markets and developing countries, some countries with more flexible regimes have tended to move toward less flexible arrangements, particularly after the 2008 global financial crisis. For sub-Saharan African countries, this appears to reflect the fact that many commodity exporters leaned against nominal appreciations in the face of significant foreign exchange inflows when commodity prices were high.

Consistent with the monetary discipline and policy credibility that pegs provide, sub-Saharan countries with fixed exchange rate regimes have enjoyed lower inflation outcomes than countries with more flexible regimes. Moreover, the pegged regimes have provided a disciplining device for fiscal policy. But their growth rates have also been 1 to 2 percentage points lower more recently relative to countries with more flexible regimes. Accompanying policies are therefore needed to maximize benefits for each regime. Those include structural reforms to strengthen growth and competitiveness in countries with pegged regimes, as well as growth-friendly fiscal adjustment in a number of countries with pegged regimes where, at this juncture, low commodity prices have sharply reduced export earnings and fiscal revenues. For the countries with more flexible regimes, putting in place monetary policy frameworks with a strong mandate on price stability can support the flexible regimes, along with appropriately tight fiscal and monetary policies to contain inflationary pressures associated with exchange rate depreciations.

ENHANCING RESILIENCE TO NATURAL DISASTERS IN SUB-SAHARAN AFRICA

The third chapter finds that sub-Saharan Africa is highly vulnerable to natural disasters—as evidenced by the severe drought that has recently affected most of eastern and southern Africa. Structural factors—such as a high reliance on rain-fed agriculture, capacity constraints for preparedness as well as post-disaster response, and limited access to insurance—contribute significantly to these vulnerabilities. In particular, natural disasters exert long-term economic damage to the region's economies, due to their adverse effects on human capital and infrastructure. With 40 percent of the world's poor living in sub-Saharan Africa, natural disasters also have a substantial social impact through increases in food insecurity, poverty, and inequality.

Going forward, climate change will increase these vulnerabilities as rising temperatures and rainfall volatility are expected to increase the impact of droughts and floods, particularly by impairing agricultural productivity, exacerbating water shortages, and disrupting hydropower generation. Rising sea levels will contribute to coastal flooding and generate significant relocation costs.

In that context, the chapter discusses a range of risk management policies that can help enhance resilience to natural disasters in the region, including implementing early warning systems, making the agricultural sector more resilient to droughts and climate change, promoting economic diversification, adapting physical infrastructure, and increasing access to cost-effective insurance. Where the scope for risk reduction and risk transfer is limited, countries may have to rely on buffers, social safety nets, and external assistance to cushion the impact of natural disasters. The international community can help by strengthening the coordination of disaster relief efforts to make them more rapid and better targeted. The IMF has been increasingly adapting its lending and advice to help respond to natural disasters.