Regional Economic Outlook for Sub-Saharan Africa & Macroeconomic Issues for Ethiopia

November 2013

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Ethiopia
Outline

- Global context
- SSA - Recent developments and outlook
- Conclusions
- Ethiopia
  - Macro developments
  - Risks to growth
  - Policy recommendations
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World growth projected to pick up...
...but the drivers of growth are shifting to advanced economies...

Selected Regions: Real GDP Growth, 2010–14

International Monetary Fund, Regional Economic Outlook for sub-Saharan Africa, October 2013
...from emerging markets.

Selected Countries: Real GDP Growth, 2011–14

- Brazil
- China
- India
- Russia
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Sub-Saharan Africa set to sustain recent high growth relative to other developing regions

Real GDP Growth, 2013–14 average

<table>
<thead>
<tr>
<th>Region</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa</td>
<td>5.8</td>
</tr>
<tr>
<td>Developing Asia excl. China and India</td>
<td>5.5</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>2.9</td>
</tr>
<tr>
<td>Central and Eastern Europe</td>
<td>2.2</td>
</tr>
</tbody>
</table>
Near term growth for SSA remains solid

SSA: Real GDP Growth, 2003–14

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average 2003–08</td>
<td>6.2</td>
</tr>
<tr>
<td>Average 2009–10</td>
<td>4.1</td>
</tr>
<tr>
<td>Average 2011–12</td>
<td>5.2</td>
</tr>
<tr>
<td>2013</td>
<td>5.0</td>
</tr>
<tr>
<td>2014</td>
<td>6.0</td>
</tr>
</tbody>
</table>
Inflation continues to moderate
Elevated fiscal deficits in the region have not yet given rise to debt distress.
Widening current account deficits source of concern

SSA: Number of Countries with External Account Deficits above 5% of GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average 2003-08</td>
<td>23</td>
</tr>
<tr>
<td>2009</td>
<td>32</td>
</tr>
<tr>
<td>2010</td>
<td>30</td>
</tr>
<tr>
<td>2011</td>
<td>29</td>
</tr>
<tr>
<td>2012</td>
<td>30</td>
</tr>
<tr>
<td>2013</td>
<td>33</td>
</tr>
</tbody>
</table>
FDI inflows picking up

SSA: FDI Flows (percent of GDP)

- Low income countries
- Ethiopia
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International Monetary Fund, Regional Economic Outlook for sub-Saharan Africa, October 2013
Conclusion on SSA Outlook

- Near term outlook positive, but with risks: (i) further global slowdown; and (ii) capital flow reversal.
- Maintaining macro stability.
- Rebuilding depleted buffers.
- Encouraging productive private investments (business climate).
- Continuing to address infrastructure bottlenecks (energy/roads).
- Making growth more inclusive.
- Improving quality of data for better policy assessment.
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Ethiopia - Macro developments

- Economic growth remains solid
- Price stabilization
- Large overall fiscal deficit
- Appreciating real exchange rate, declining competitiveness, and increasing trade deficit
Sustained high economic growth

1/ Source for historical data is MoFED, GoE. Ethiopian GDP statistics are subject to significant weaknesses. Alternative methodologies suggest that the historical annual growth rates could be overestimated by as much as 3 percentage point in recent years. The methodology improved considerably in 2011/12.

2/ Reflects a downward adjustment of annual GDP growth by 3 percentage points for 2006/07-2010/11.
Inflation decline reflects tighter monetary policy & food shock reversal.
While federal government deficit remains low...
...the consolidated deficit is high
Competitiveness deteriorating
Parallel market spread narrowing
Trade balance deteriorating

Trade deficit 2012/13: 17.3% of GDP
Export growth 2012/13: -2.6%
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Risks to sustaining growth?

- Large fiscal deficit without appropriate financing options. This leads to:
  - Large domestic borrowing
  - Crowding out of credit to private sector
  - Risk of debt distress
  - Large exposure of banking system to public enterprises
  - Inflation concerns
- Non-functioning FX market, FX shortage, and competitiveness.
- Failure to develop financial sector and markets
- Missing out on private sector dynamics - opening up! Tap into FDI flows!
Large consolidated fiscal deficit

**GTP Financing 2009/10-2014/15**

<table>
<thead>
<tr>
<th></th>
<th>GTP 5 years</th>
<th>o/w identified projects</th>
<th>First 3 years Actual</th>
<th>Last 2 years Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public sector financing, $b</strong></td>
<td>36.0</td>
<td>33.2</td>
<td>11.2</td>
<td>22.0</td>
</tr>
<tr>
<td>(% of GDP)</td>
<td>15.3%</td>
<td>14.2%</td>
<td>9.1%</td>
<td>19.7%</td>
</tr>
<tr>
<td><strong>Net domestic financing</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>7.4%</td>
<td></td>
<td>5.1%</td>
<td>9.9%</td>
</tr>
<tr>
<td><strong>Net external financing</strong></td>
<td></td>
<td></td>
<td>6.8%</td>
<td>4.0%</td>
</tr>
</tbody>
</table>
Large public deficit crowds out domestic financing for private sector

Credit to nongovernment from banks

<table>
<thead>
<tr>
<th></th>
<th>2011/12</th>
<th>2012/13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit growth to nongovernment</td>
<td>57%</td>
<td>26%</td>
</tr>
<tr>
<td>Of which share to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SOE's</td>
<td>68%</td>
<td>83%</td>
</tr>
<tr>
<td>Private sector</td>
<td>32%</td>
<td>17%</td>
</tr>
</tbody>
</table>
Large public deficit crowds out domestic financing for private sector
Total public debt burden is rising
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Sustaining robust and inclusive growth: Policy recommendations

- Adjusting overall fiscal stance
- Maintaining tight monetary policy
- Enhancing competitiveness via exchange rate flexibility & lowering trade logistic costs
- Phasing out the forced 27% NBE bill holding
- Developing securities *market* with flexible nominal interest rates
- Putting private sector in the driver's seat: only way forward to creating sustainable employment opportunities
Thank You

Q & A

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