Sub-Sahara Africa Economic Outlook

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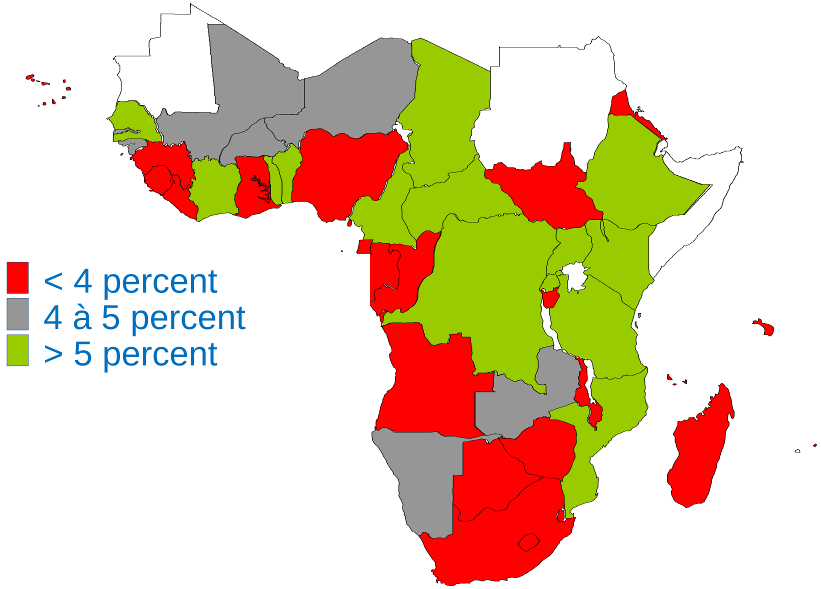
Regional growth weakens to a lower trajectory

- ❑Growth in sub-Saharan Africa (SSA) has weakened significantly in 2015. But this hides considerable variations across the region.
- ❑Growth will rest on a much weaker path than previously envisaged.
- ❑Oil and raw material exporters are the most affected: South Africa, Angola, Nigeria, Sierra Leone, Zambia. And DRC?
- ❑Growth in other countries has been maintained: Congo DRC, Cote d'Ivoire, Ethiopia, Kenya, Mozambique, Tanzania.

Real GDP growth (2015)



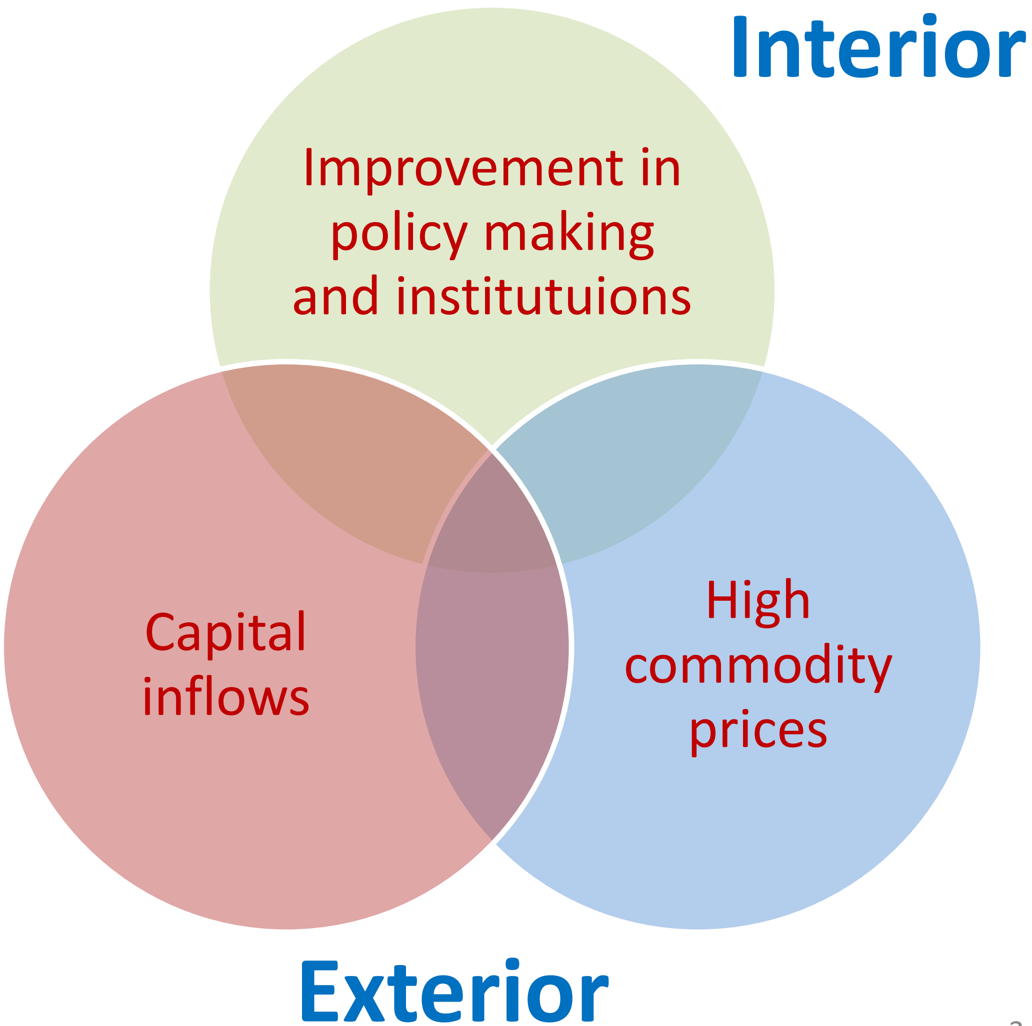
Sub-Saharan Africa, October 2015

Real GDP growth, percent

	2014	2015	2016
Sub-Saharan Africa	5.0	3.8	4.3
Oil exporters	5.9	3.6	4.2
Middle-income	2.7	2.6	2.9
Low-income, ex. fragile	7.4	6.2	6.8
Low-income, fragile	5.8	5.2	5.9

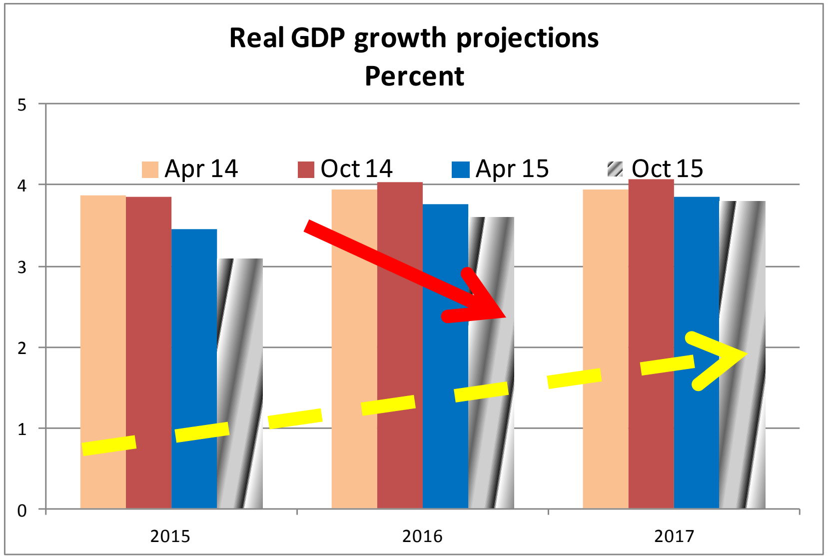
Three pillars of regional growth

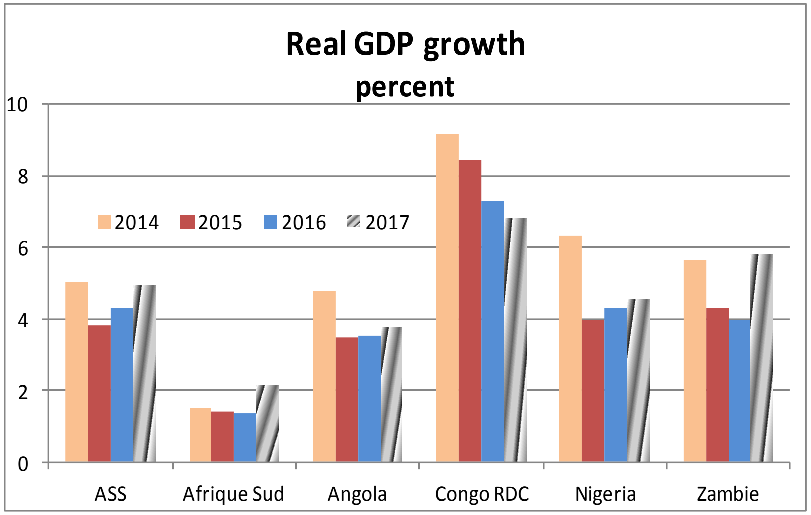
- Three main factors have underpinned the strong performance of the last decade, of which two are external.
- But these two external factors have recently weakened.



The external environment

World growth recovery





The recovery of global growth is milder than expected.

Growth in the advanced countries is weak:

❑Weak productivity growth is linked to low investment,

❑The recovery in the USA is strong.

❑In the Euro area, the gains in domestic demand are higher than the fall in exports.

Emerging and developing countries face three very strong influences:

❑China's economic slowdown and transformation.

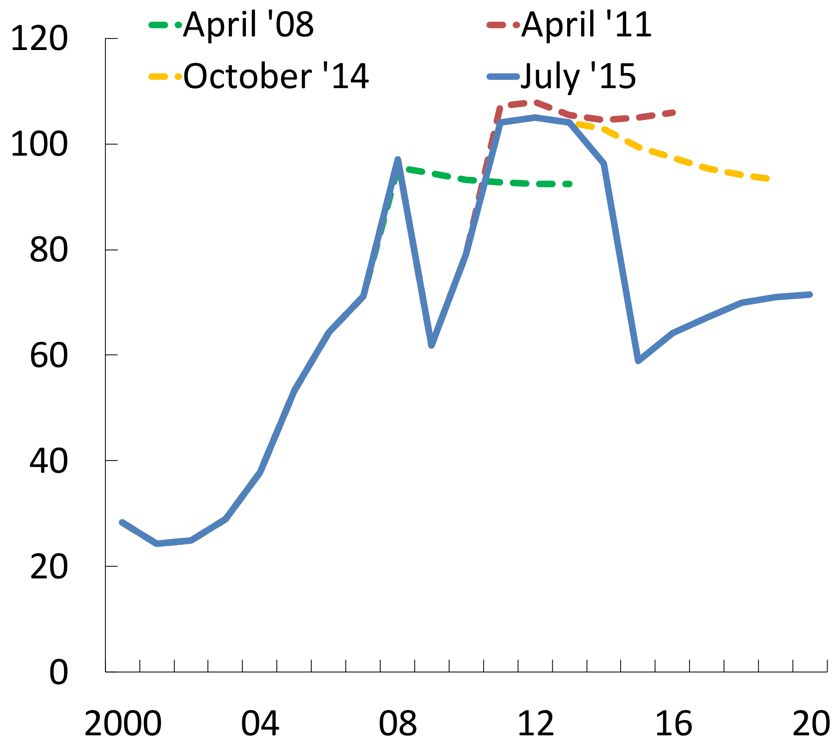
❑The drop in commodity prices.

❑The anticipated normalisation of monetary policy in the USA.

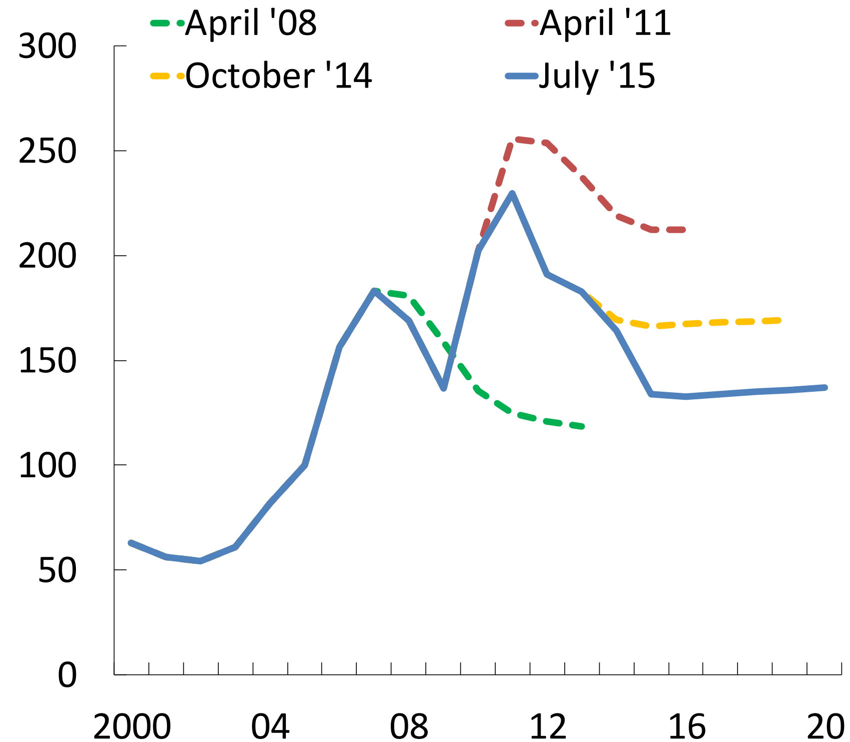
The end of the 'super-cycle'

Prices for primary materials peaked in 2011. The price of oil stayed high for longer. Their decline signals the end of the 'super cycle'.

Oil price, average spot price
(US dollars per barrel)

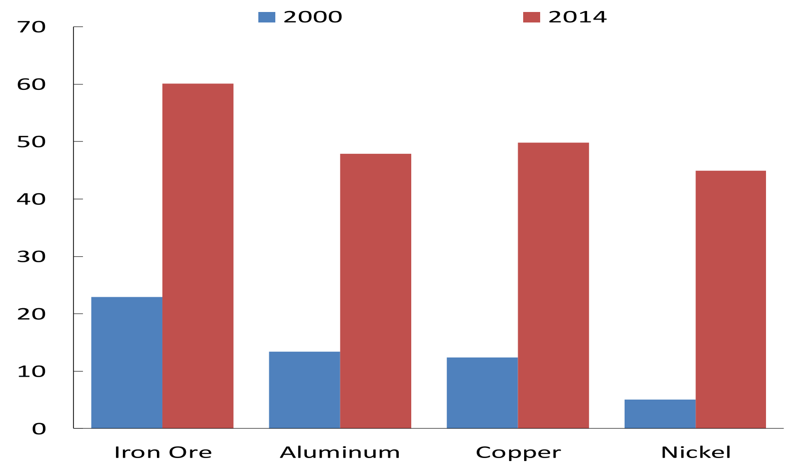


Metal price index
(2005 = 100)

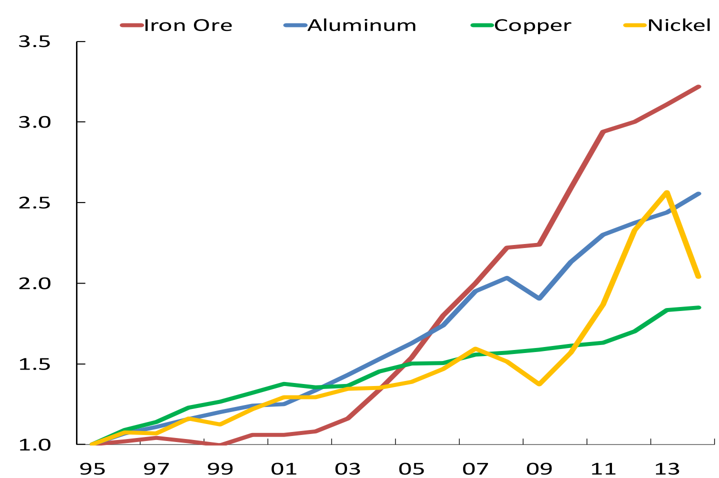


Price dynamices

China's share of global consumption
(percent)



Global production of metals
(*index; 1995=1)*



The price dynamics for metals and oil are similar.

❑**Demand:** China's econmic expansion and slowdown in China had a big impact. It's share of global demand is higher for metals than for oil. SSA is very dependent on China.

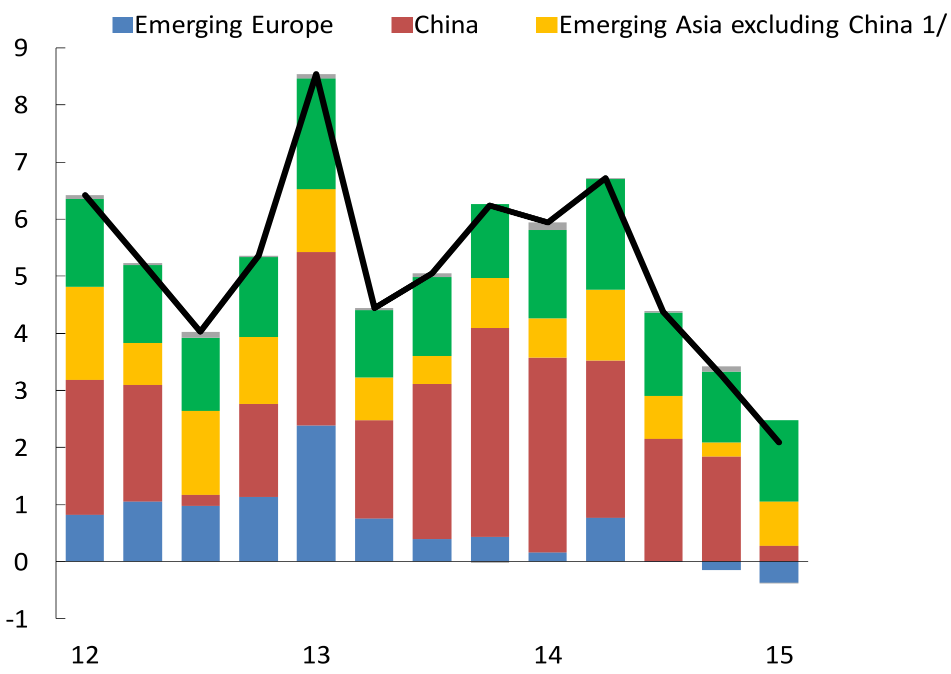
❑**Offre**: Grande Big expansion of supply for metals and oil. Oil is more contestable because of fracking in the US (marginal entry and exit is easier). The metal price adjustment is not finished. **90 percent of copper producers are profitable at current prices.**

❑**Impact**: La The drop in prices wil reduce the growth of mineral exporters by 1% and of oil exporters by 2.5%.

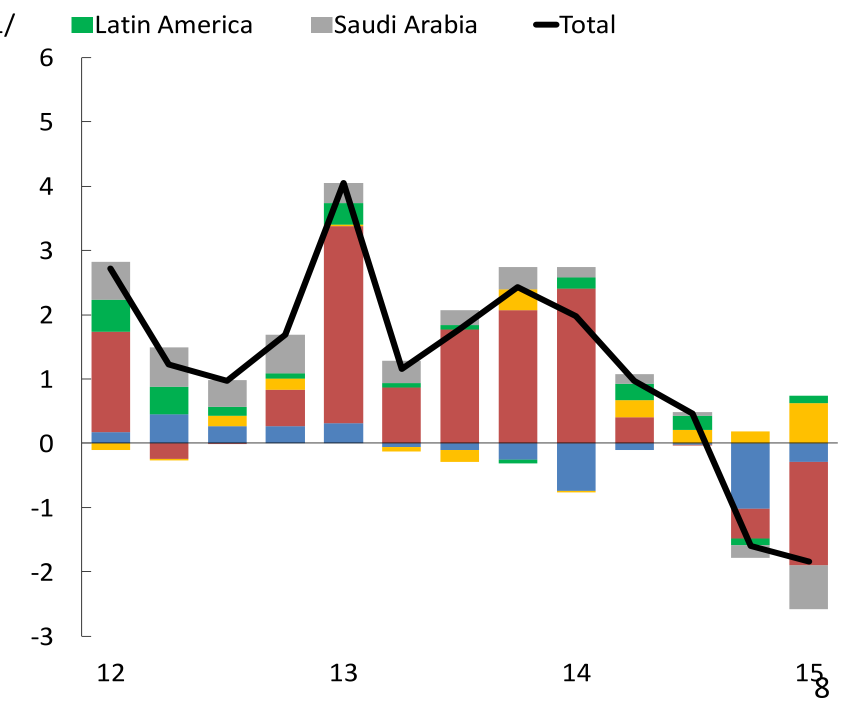
Decline in capital inflows and foreign reserves

Emerging countries are receiving lower capital inflows and their foreign exchange reserves are declining..

Capital inflows
(percent of GDP)



Change in foreign exchange reserves
(percent of GDP)



Africa’s policy response

Policy implications in the short term

There is limited room for manœuvre to offset the impact on growth

Fiscal policy

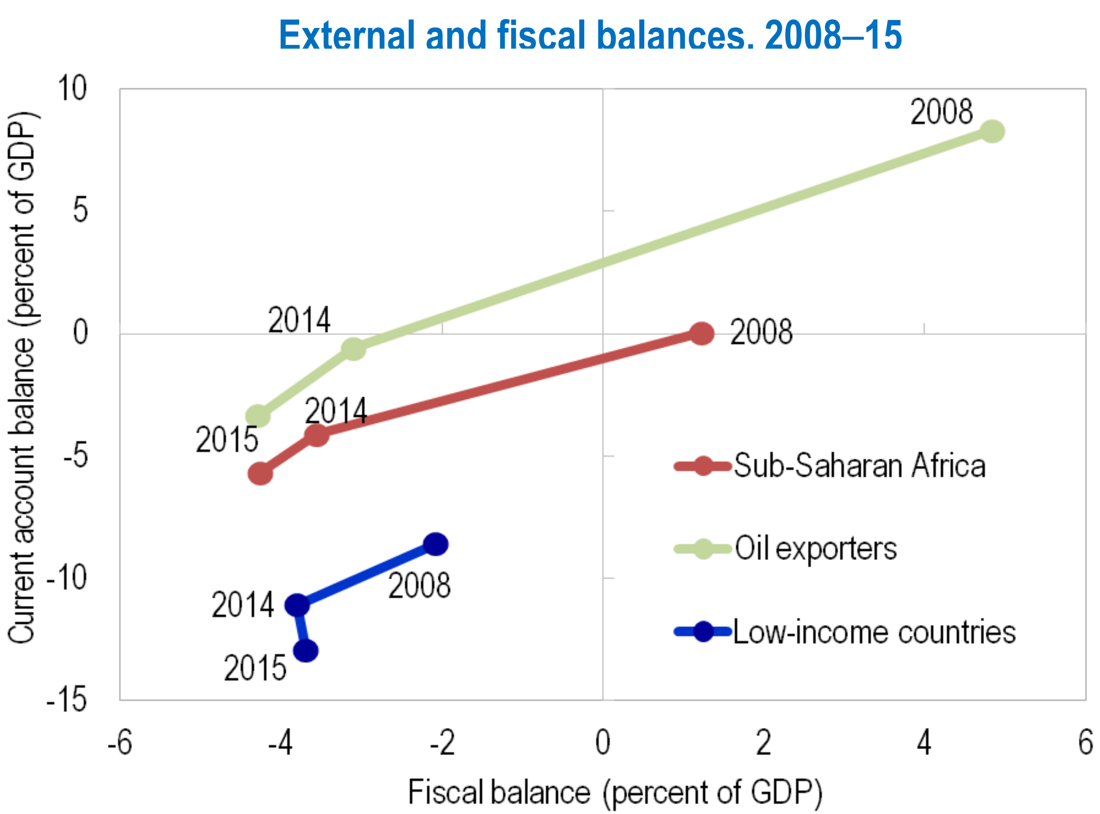
- ❑ For the big exporters of oil and minerals, adjustment is unavoidable.
- ❑ Most countries have to take into account the sustainability of their debt and the high development needs.

Monetary policy

- ❑ The exchange rate must absorb the shok where possible.
- ❑ Interventions should be limited to episodes of very large exchange rate movements.

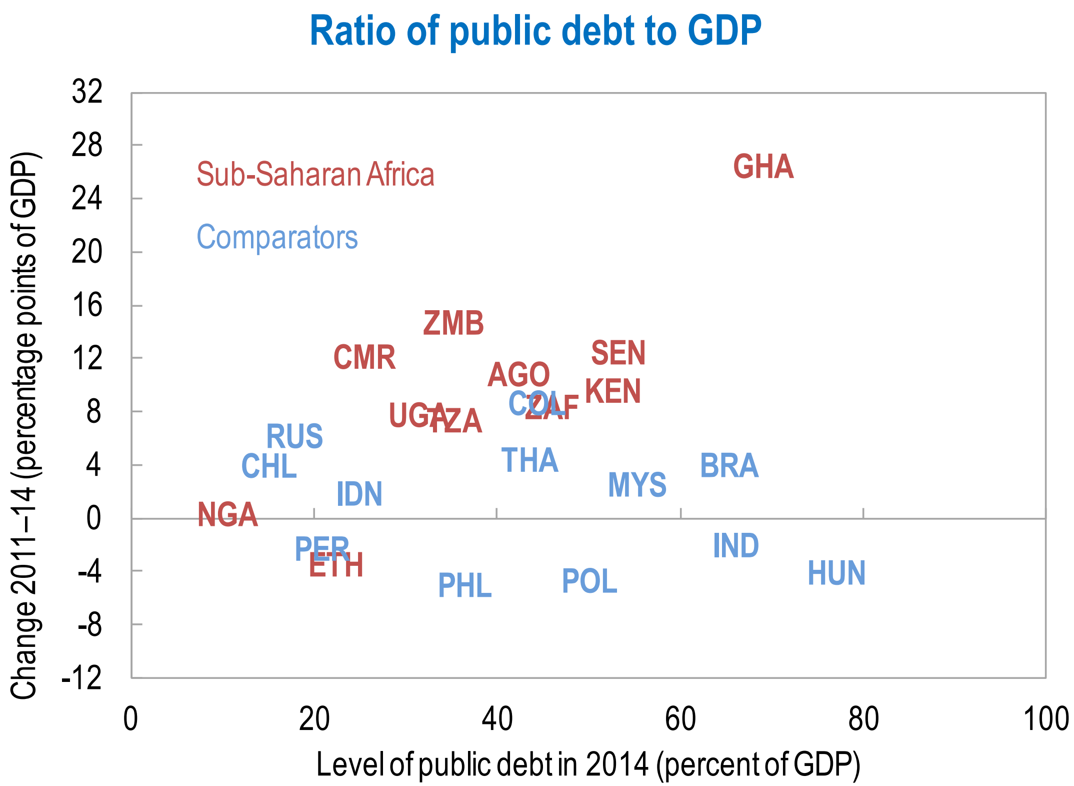
External and fiscal balances are weaker

- The challenges are aggravated by the fact that many countries are entering this period with weaker external and fiscal balances than in 2008.
- This reduces considerably the margin to counter the negative impact on growth.



Public debt increased in frontier countries

- Budget savings fell during the period of high growth and public debt rose in some countries. This in part reflected capital infrastructure investment.
- This means that the margin to finance development needs is shrinking rapidly.

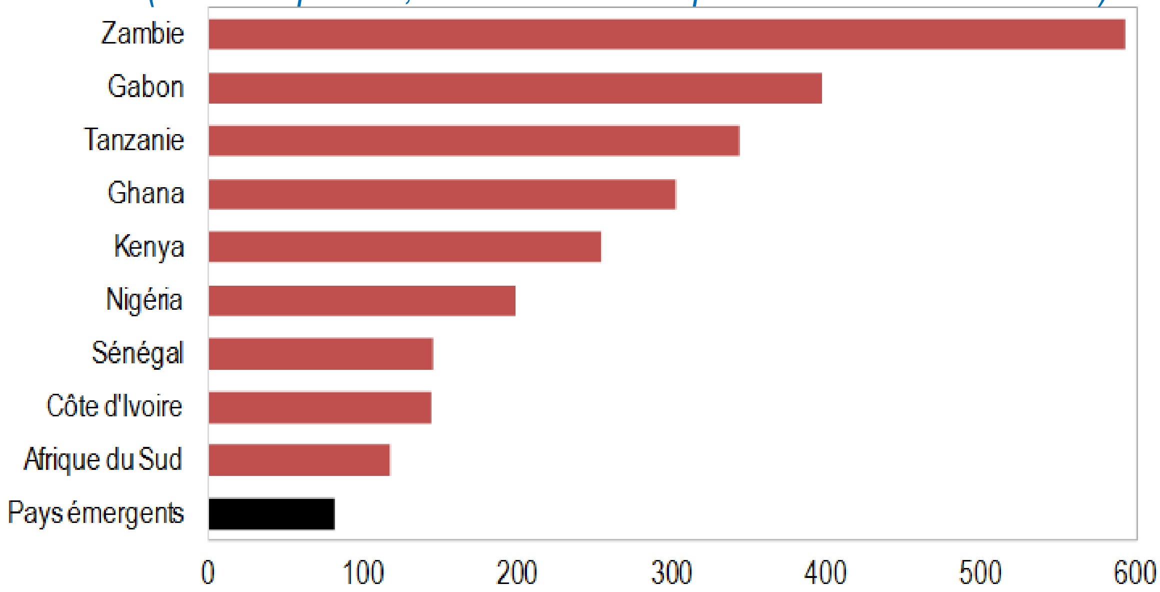


Financial conditions have tightened

- Until end-2014, capital was abundant and cheap. This has changed with the anticipated normalization of US monetary policy and the re-evaluation of global risks.
- Euro-bond debt issues, after two record years, declined in 2015 and are more costly.
- More generally, spreads for countries in SSA have increased considerably, moving far higher than those associated with emerging economies.

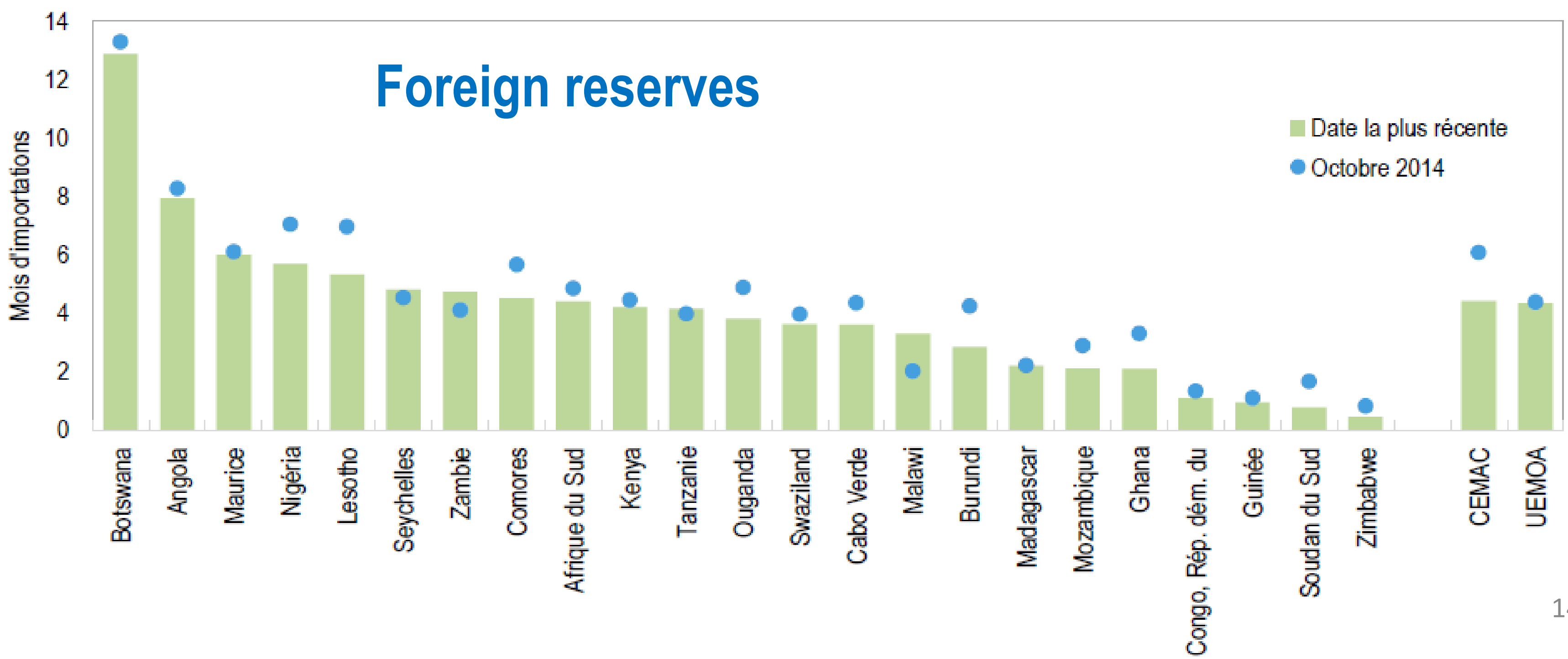
Sovereign bond spread: fronter over emerging economies

(EMBIG spreads, variation in basis points since October 2014)



Some countries have drawn on their reserves

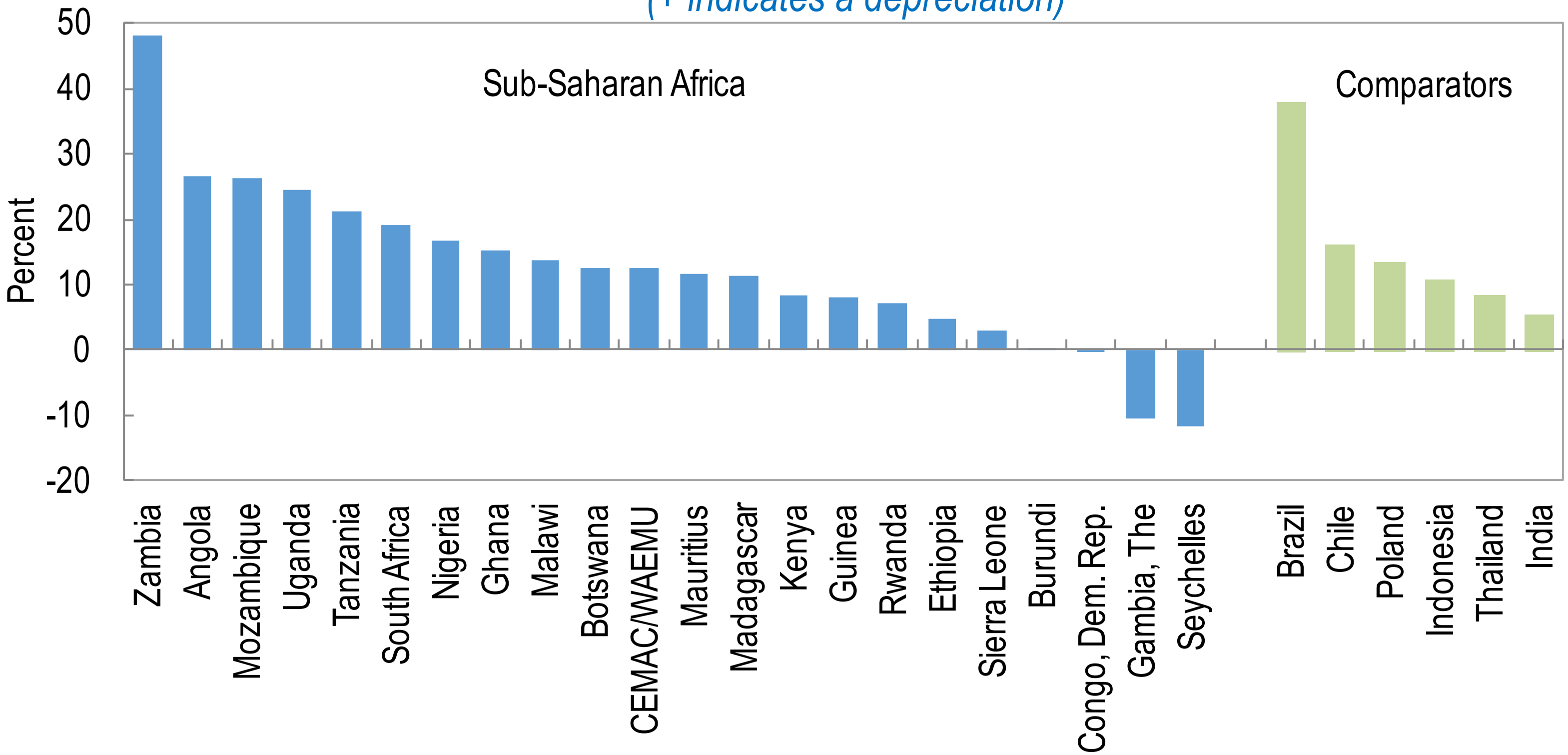
- Local currencies are under pressure in several countries, reflecting the stronger US dollar, th terms of trade shocks in some cases, and large internal imbalances in others.
- In some countries, central banks have drawn on their reserves to contain the volatility of the exchange rates or to smooth the commodity price adjustment, especially for oil exporters.



Most countries have allowed a currency depreciation

- An important number of countries have allowed their exchange rates to adjust.
- Since october 2014, national currencies have depreciated as much in mineral exporters (South Africa, Mozambique, Zambia), oil exporters (Angola, Nigeria) or those more diversified (Ghana, Uganda, Tanzania).

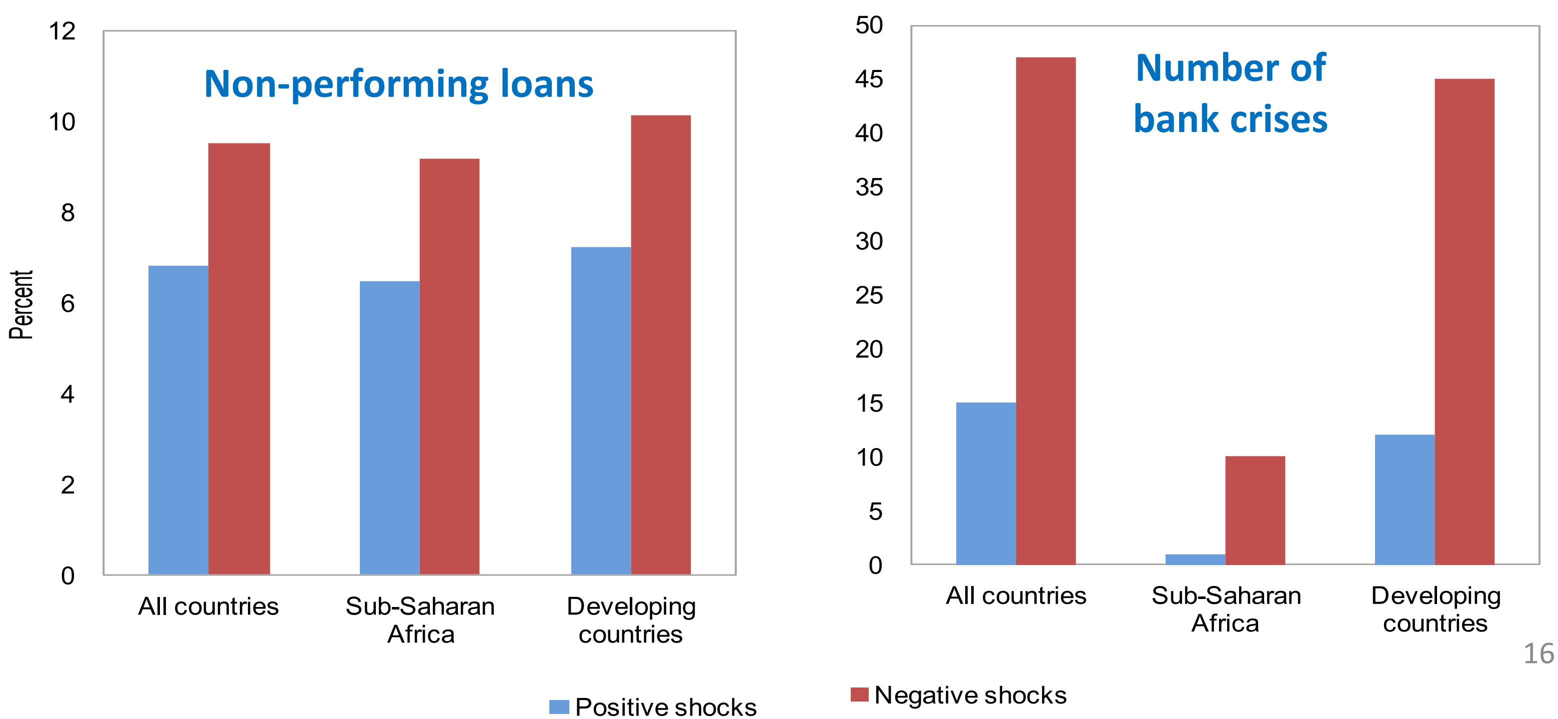
Depreciation of national currency versus the US dollar since Octobre 2014
(+ indicates a depreciation)



Financial stability needs to be monitored

- **The banking sector needs to be closely monitored** in countries touched by a large decline in export prices or in the exchange rate. The financial soundness indicators have a tendency to deteriorate following negative shocks.
- **Supervision needs to be reinforced** to contain the impact of a deterioration in asset quality and the exchange rate in bank balance sheets.

Shock on the commodity prices and the key indicators of financial soundness



Medium-term considerations
The challenge of competitiveness

Current context and the quest for competitiveness…

1 **Growth**

2 **Short and medium-term bottlenecks….**

External sector	**Trade balance., Reserves**
Real	**Growth, employment**
Monetary	**Exchange rate, stability**
Fiscal	**Decline of revenues and expenses**

3 **… fuel concerns over long-term development prospects**

2050:

- ❑ Africa : 2 billion inhabitants
- ❑ DRC: 9th most populated country worldwide (190 m)

#1

#2 Mobilizations of receipts → Investments

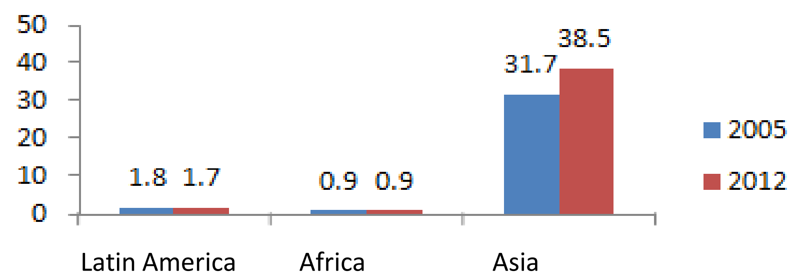
#3 Competitiveness → Diversification

Current context requires accelerating reforms focused on competitiveness

Growth acceleration focused on:

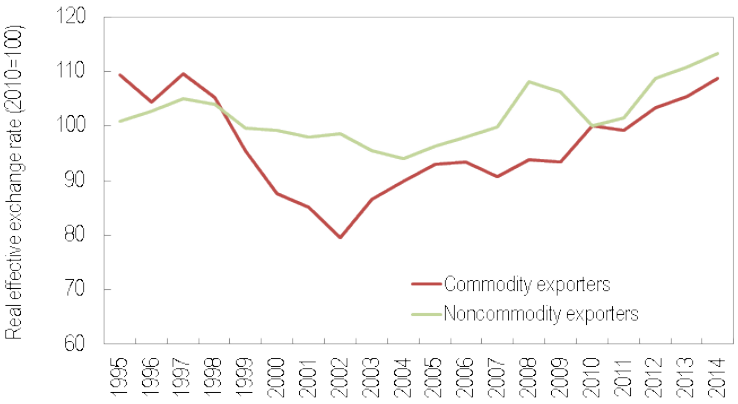
- ❑ Preserving and expanding market share
- ❑ Diversifying exports
- ❑ Import-substitution

Share in global manufacturing exports



...calls for more attention on its assessment in SSA

Change in Standard Real Effective Exchange Rate, Commodity Exporters versus Non-commodity Exporters, 1995–2014

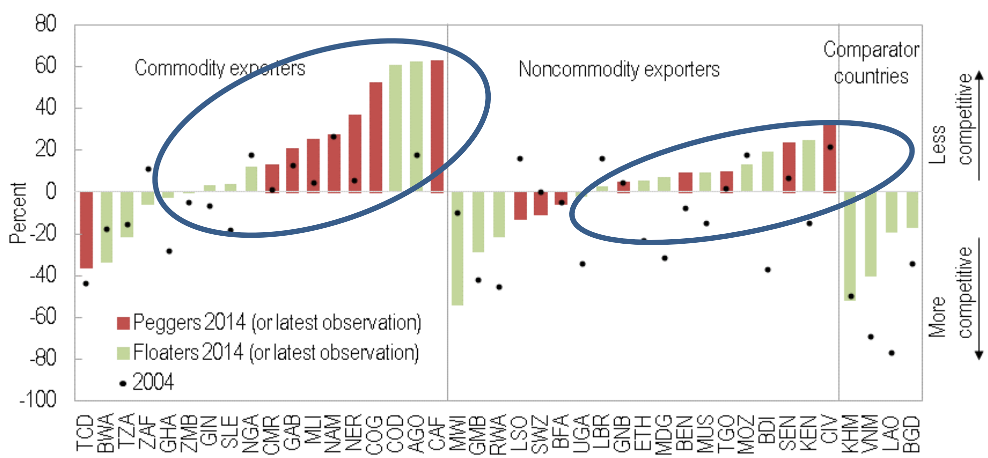


Observation #1: Deterioration of competitiveness measured by the Real Effective Exchange Rate (REER)

Observation #2: Potential gains in competitiveness

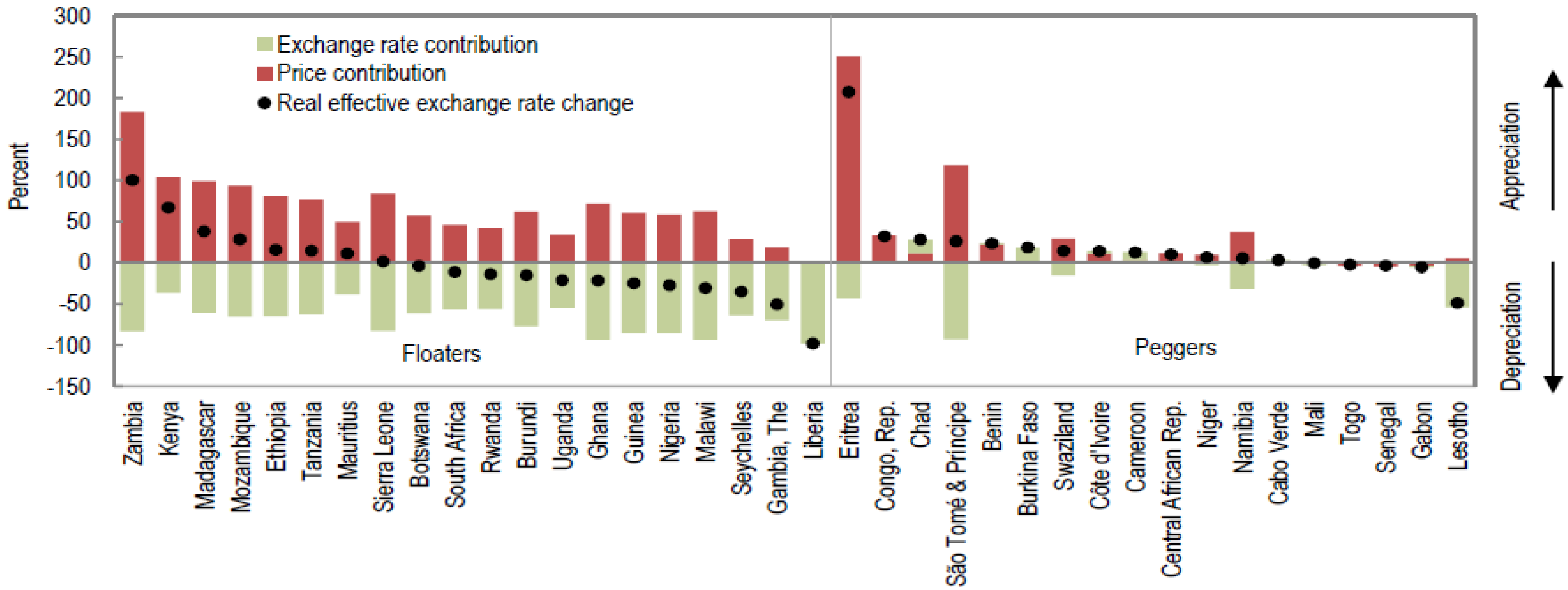
- ❑*Gap between theoretical and actual REER* →
- ❑*Deterioration of the REER in the medium term*
- ❑ *Convergence of performance with peer countries*

Balassa-Samuelson-Adjusted Real Exchange Rate



Increased real exchange rates driven by prices

Figure 2.10. Sub-Saharan Africa: Contribution to Change in Standard Real Effective Exchange Rate, 1995–2012 Cumulative



Economic policy recommendations

Actions on:

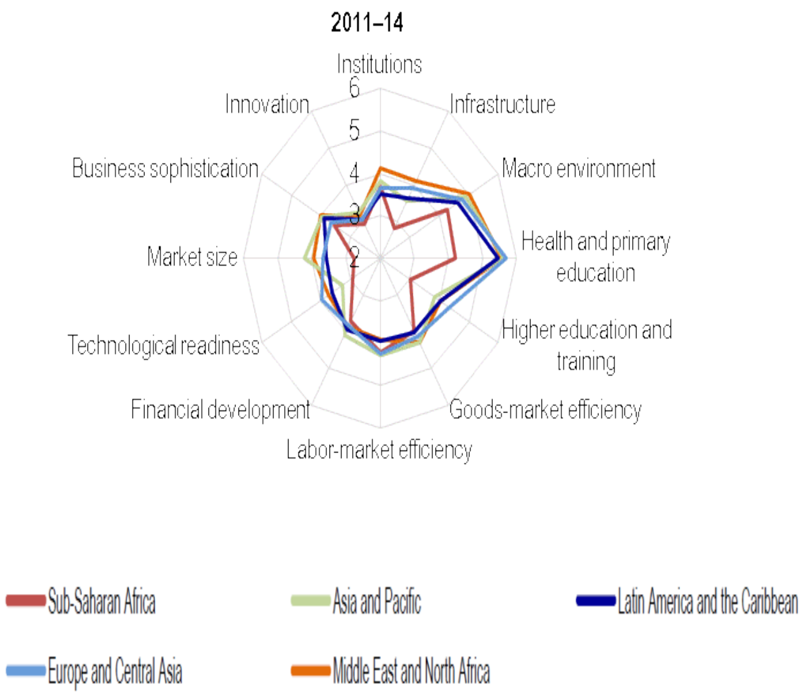
Inflation (macro stabilization)

Production function

Logistical chain

Reaping competitiveness through structural reforms…

Pillars of competitiviness

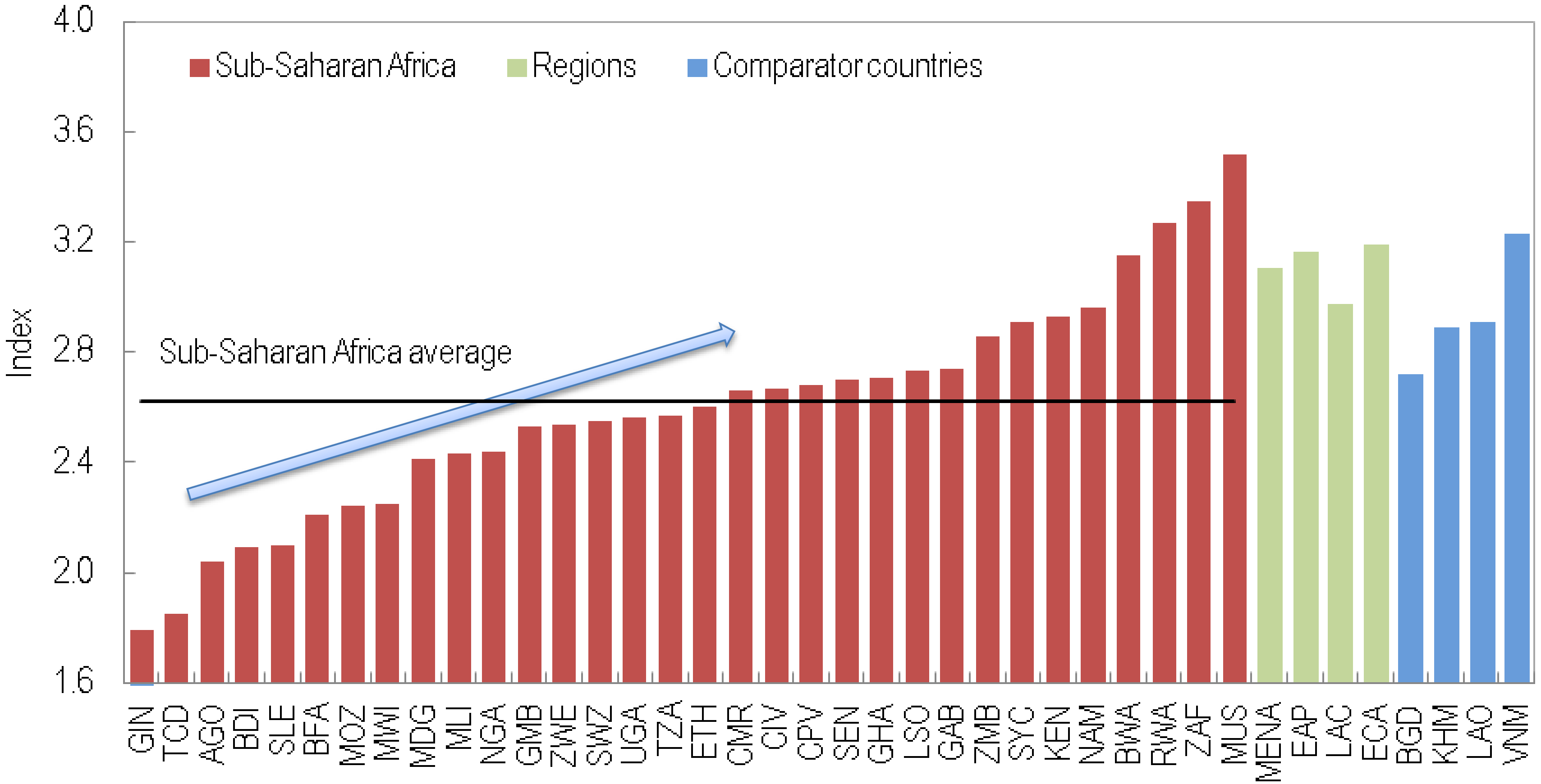


Enhancing competitiveness requires investments in:

- ❑ Institutions
- ❑ Accumulation of productive factors
- ❑ Infrastructure
- ❑ Modification of behavior
- ❑ and aligning with peer countries' performance

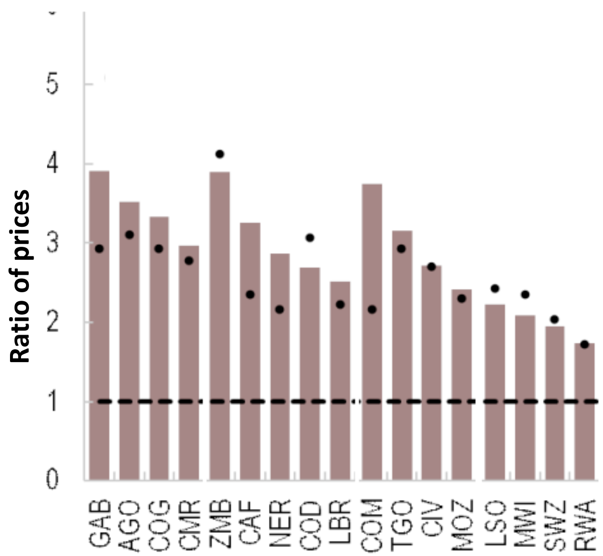
…to converge with peer countries

World competitiveness index, 2014

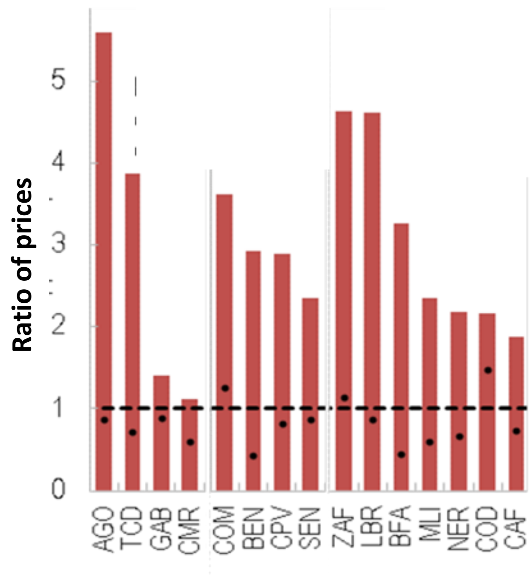


…while promoting faster reforms

Cost of Communications Relative to Average Comparator



Cost of Electricity Relative to Average Comparator

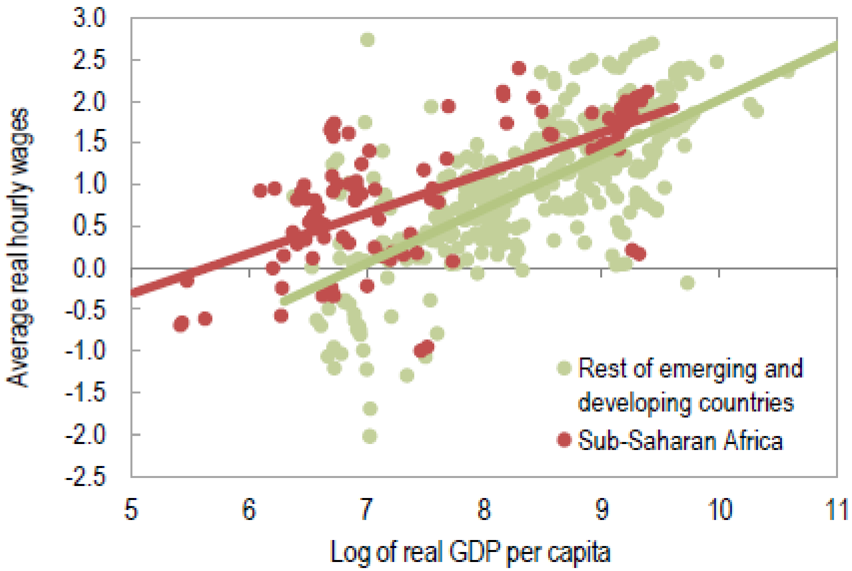


Benchmark results of reforms versus peer countries

- ❑ Significant progress in several sectors (communications, transports)
- ❑ Costs are higher than in peer countries
- ❑ Rapid decline of costs in peer countries versus a slower decline in Africa

…and addressing productivity

Real GDP per inhabitant and real wage, 1983–2008



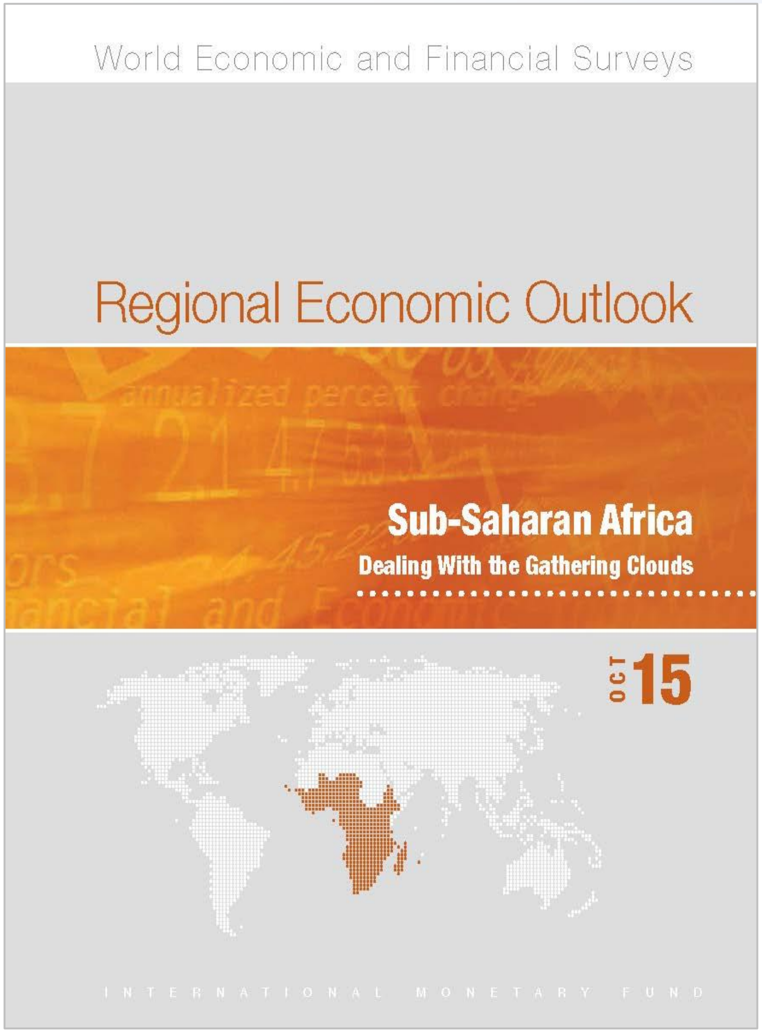
Wages = α Productivity + β

Solving the paradox around the labor factor

- ❑ Labor productivity in the region remains low
- ❑ But labor costs are higher than in peer countries

Solutions : reforms around price structures and labor supply

- ❑ …Hence, the need to invest in reforms to increase labor productivity
- ❑ Reforms to increase the volume and quality of labor



Thank you!

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