



AFRICAN DEPARTMENT

PRESENTATION OF THE SSA REO

MALAWI, LILONGWE

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BINGU INTERNATIONAL CONFERENCE
CENTRE



Navigating Uncertainty



IMF SSA October Regional Economic Outlook Launch, 18 November 2019 @ the Bingu International Conference Centre



IMF Resident Representative to Malawi
Dr. Farayi Gwenhamo



Governor, Reserve Bank of Malawi, Dr Dalitso Kabambe and IMF Res Rep
Dr. Farayi Gwenhamo



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Navigating Uncertainty

OCTOBER 2019

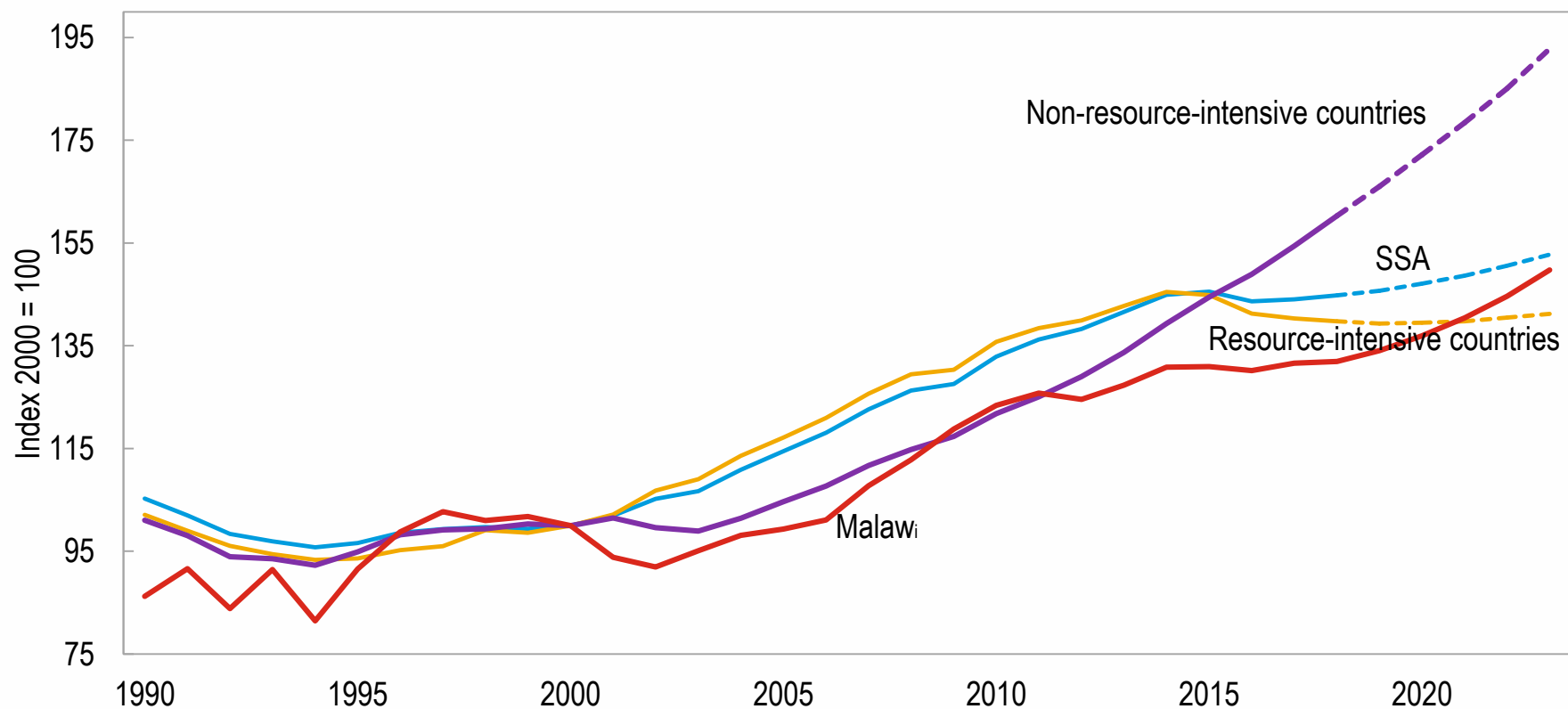
Regional Economic Outlook

Roadmap

- **Recent Developments and Outlook**
- Macro Policies and Structural Reforms
- Response to Downside Risks

SSA growth remains bifurcated, with non-resource intensive countries outpacing resource-rich ones

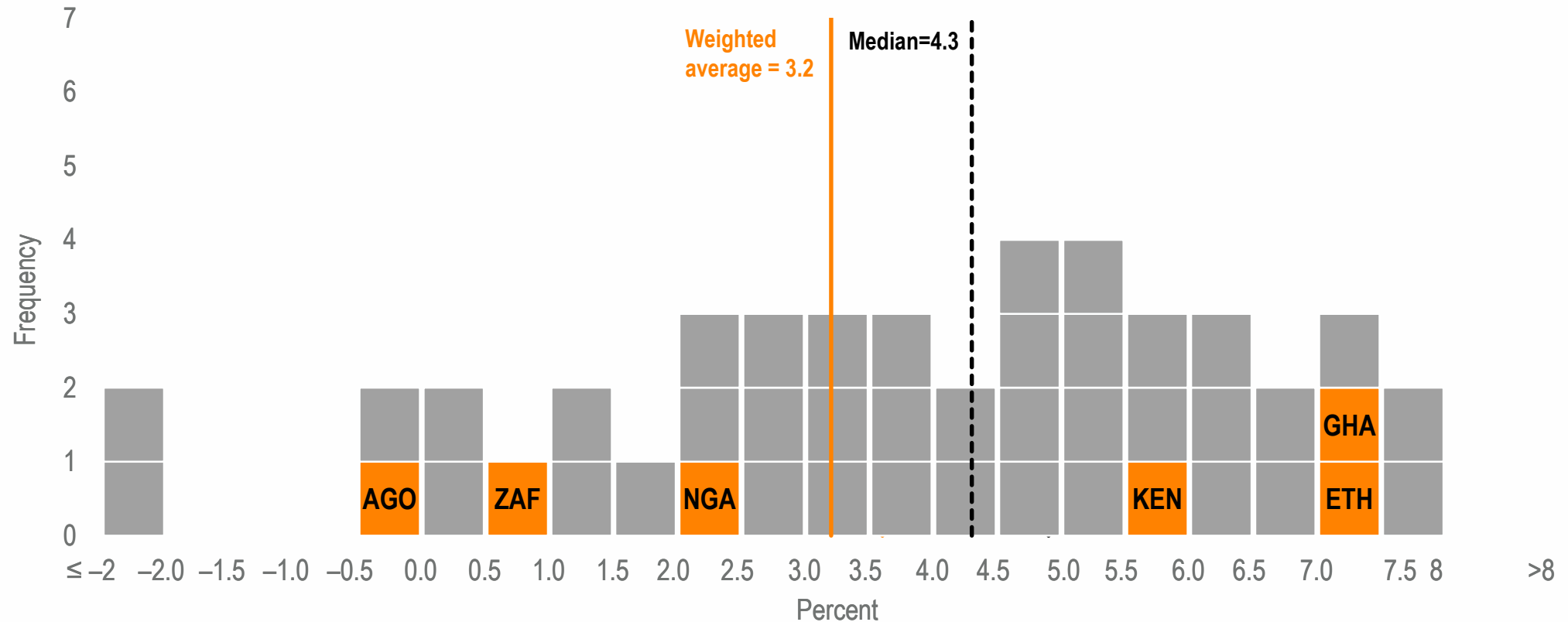
Real GDP per Capita, 1990–2024



Source: IMF World Economic Outlook database.

Wide heterogeneity in growth outlook will persist in 2020, including among the largest economies

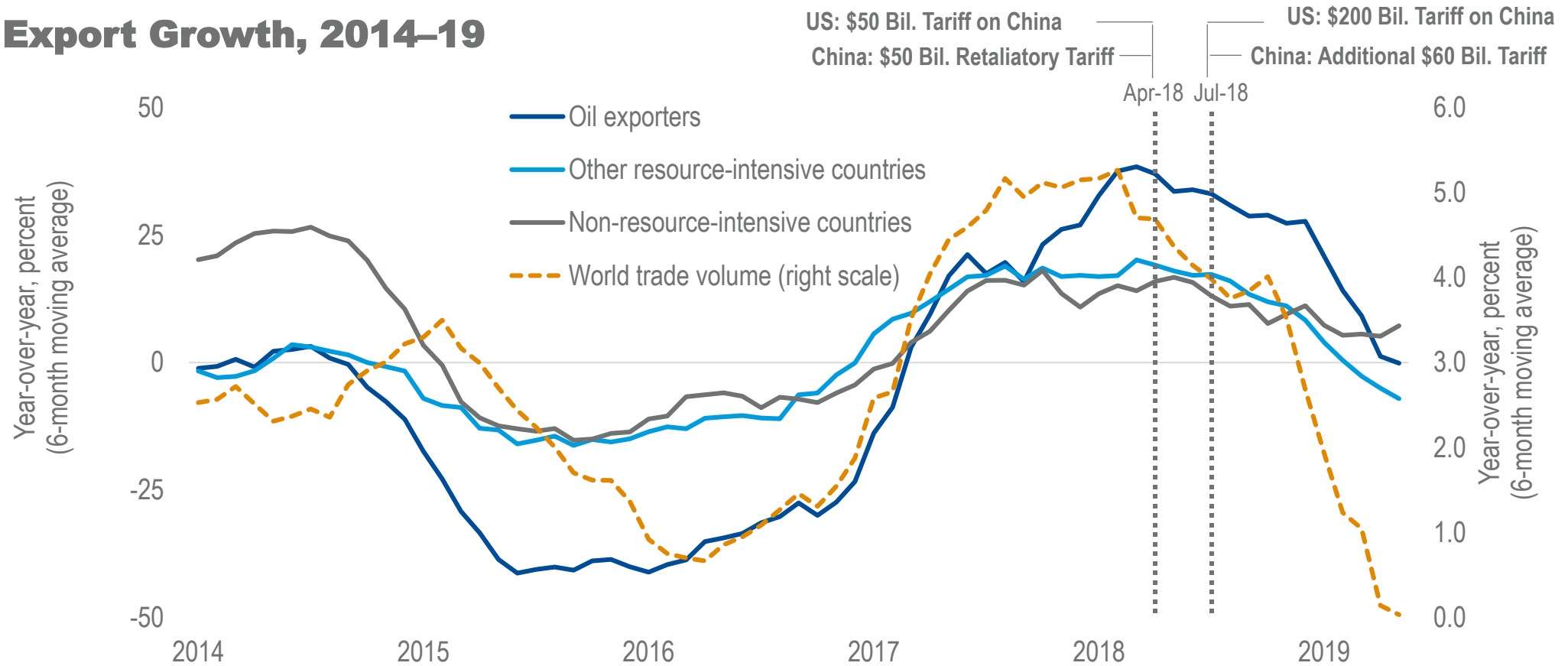
Real GDP Growth Distribution, 2020



Source: IMF World Economic Outlook database.

Global developments pose significant downside risks to growth

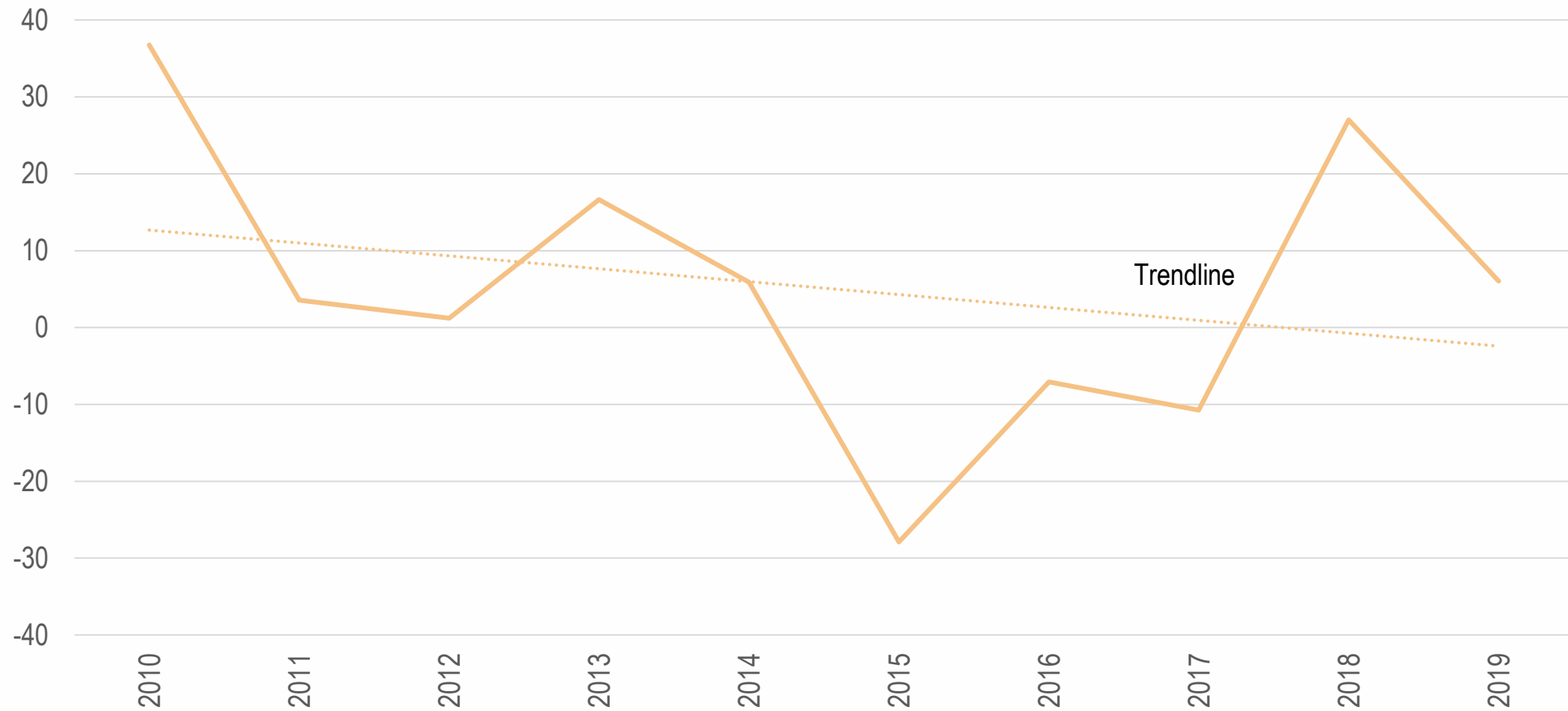
Export Growth, 2014–19



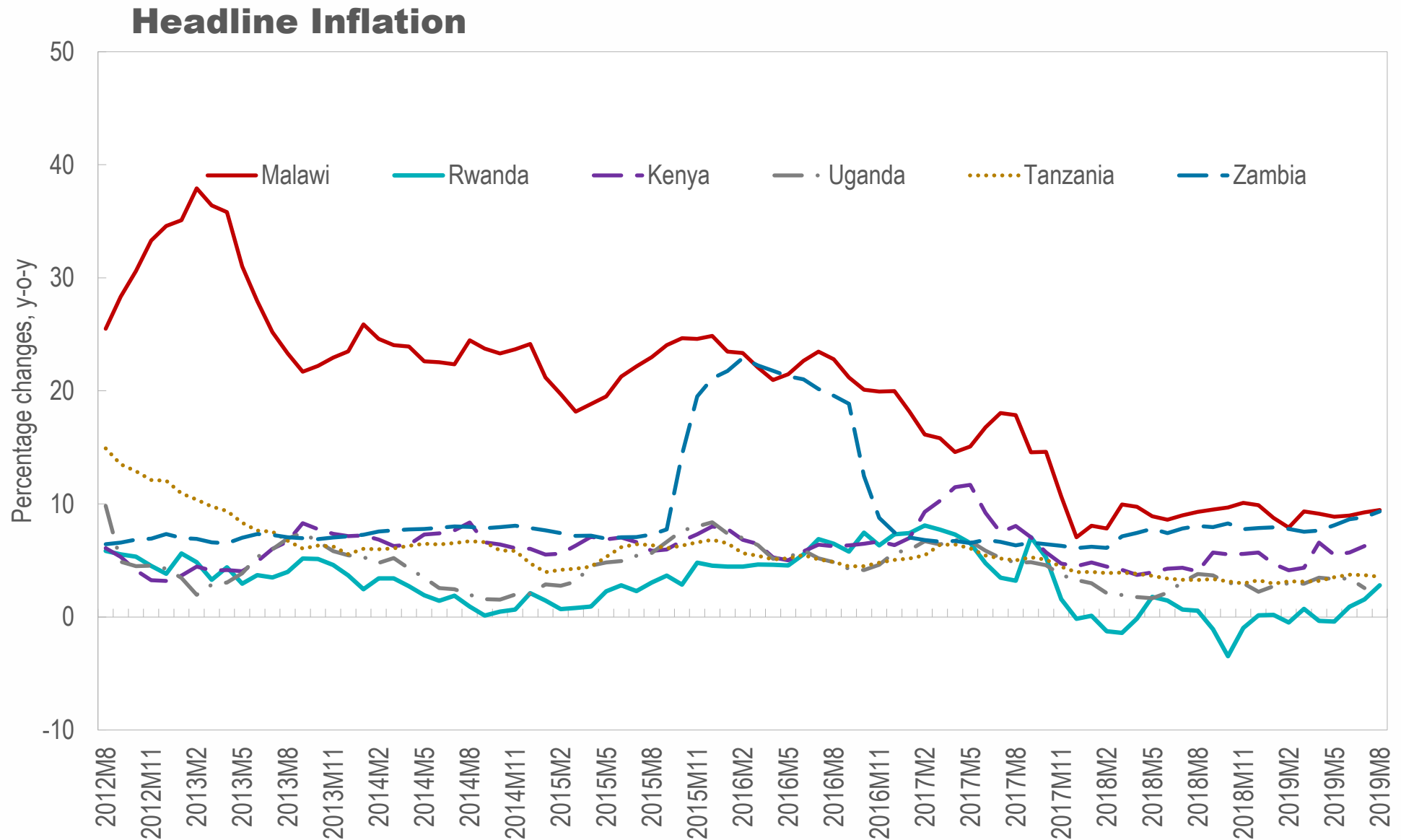
Source: IMF, Direction of Trade Statistics.

In Malawi, however, export growth is volatile

Export growth for Malawi, 2010-2019

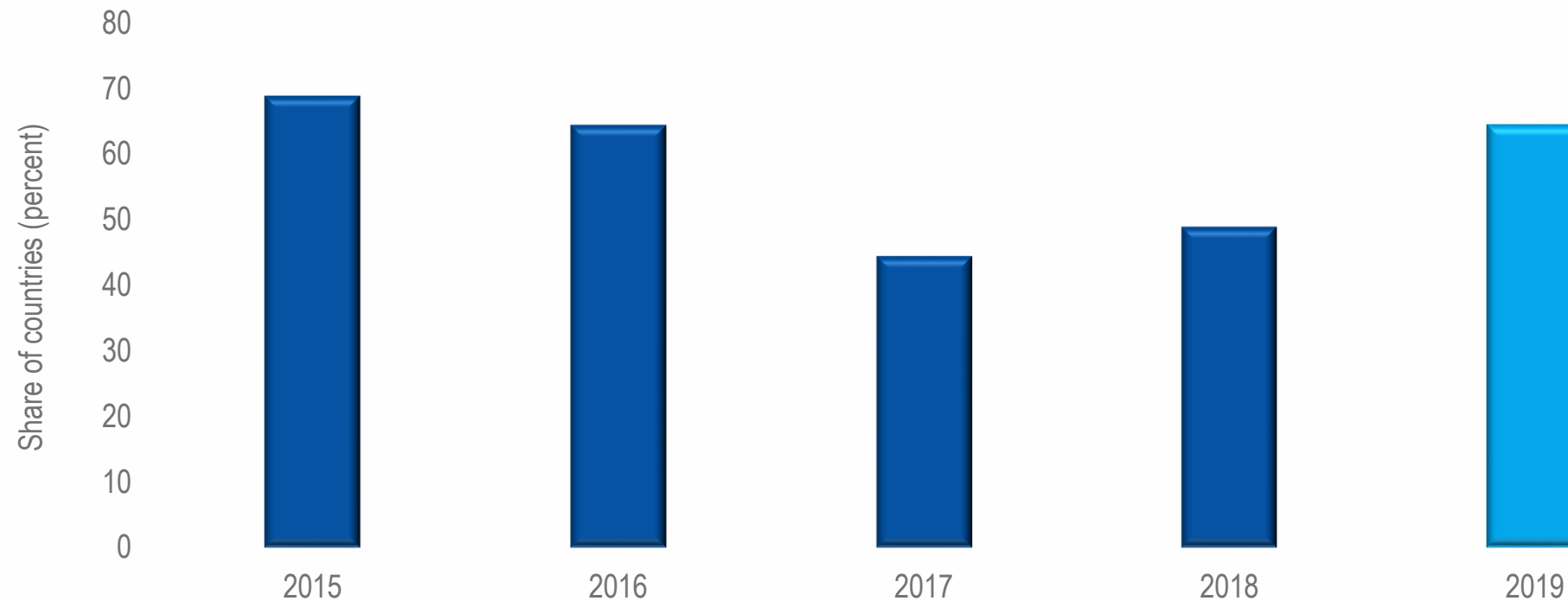


Inflation has stabilized, converging to regional averages



Relative to April, growth was revised down in about 2/3 of SSA countries

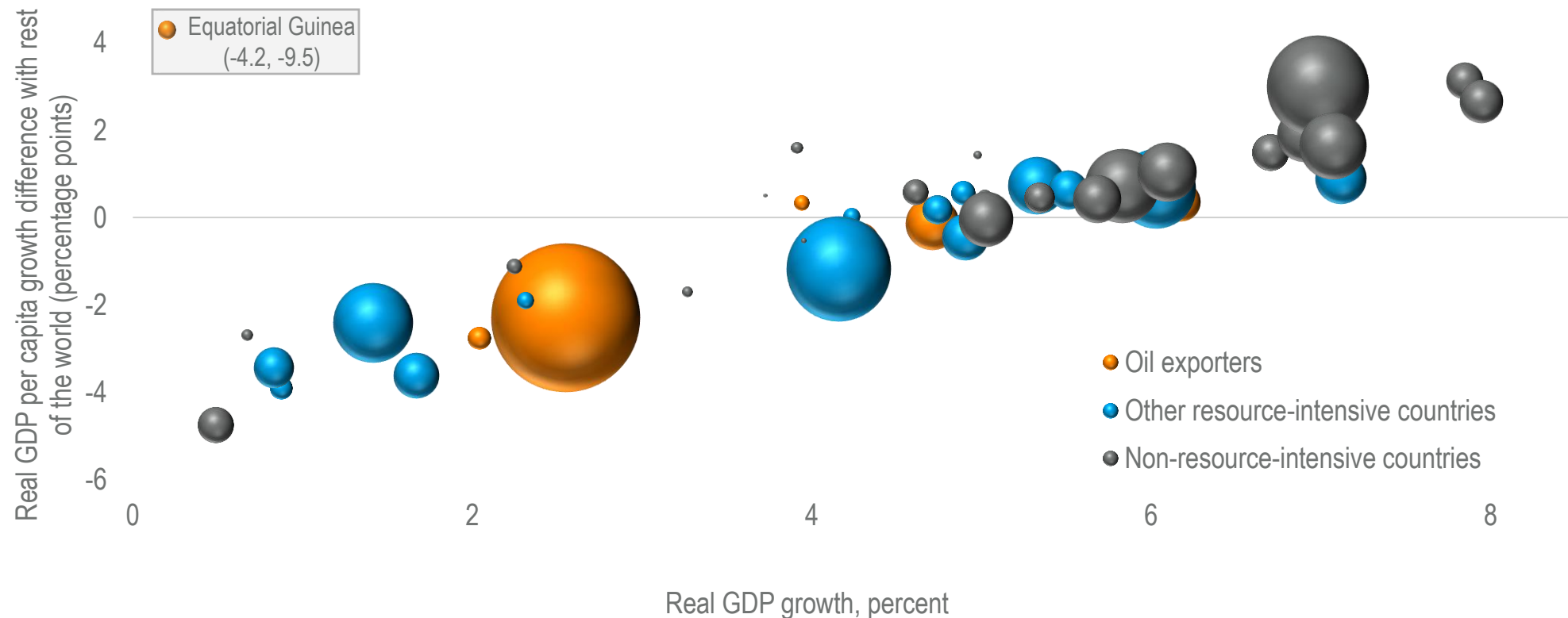
Downward Revision of WEO Projections for Current Year (Oct. vs Apr.)



Source: IMF World Economic Outlook database.

In per capita terms, some 25 countries will continue to converge, but another 20 countries lag behind

Sub-Saharan Africa: Real GDP and Real GDP per Capita Growth, Average 2019–24 (size of the bubble reflects population)



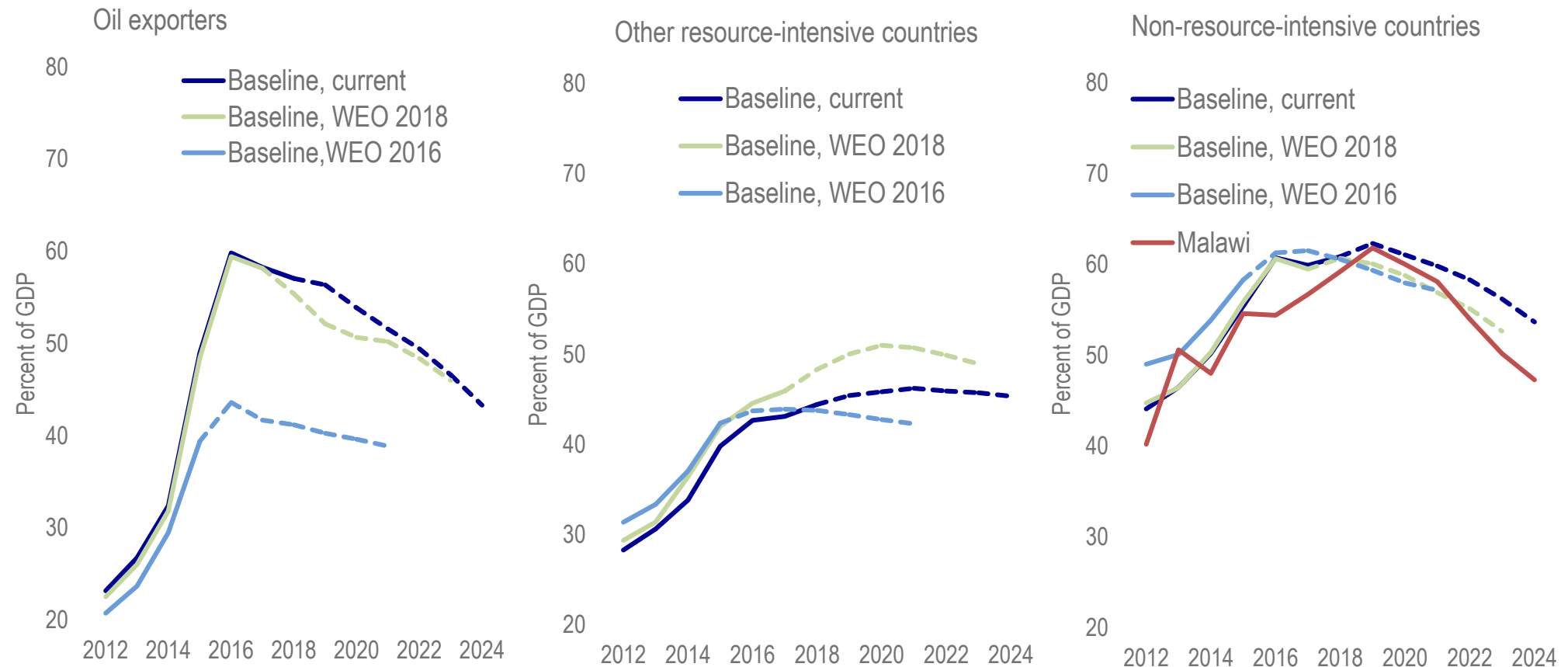
Source: IMF, World Economic Outlook.

Roadmap

- Recent Developments and Outlook
- **Macro Policies and Structural Reforms**
- Response to Downside Risks

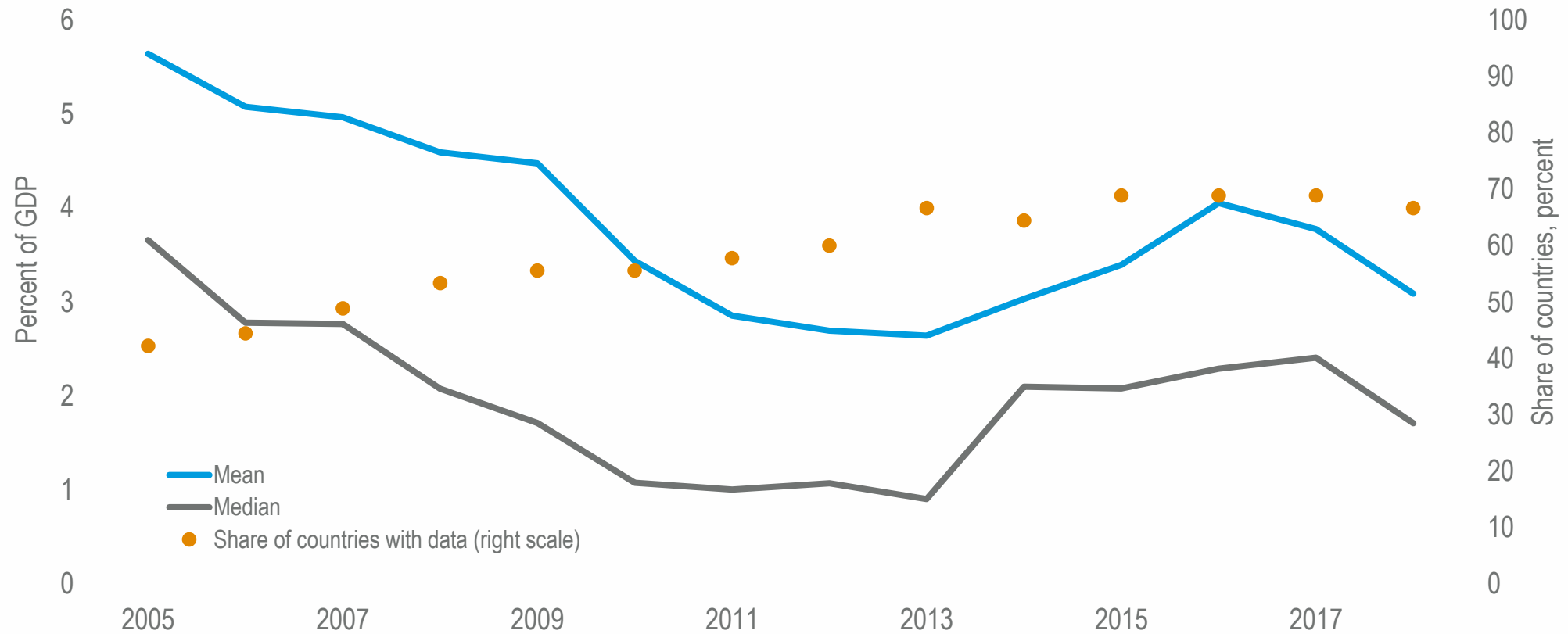
Implementing fiscal consolidation plans should stabilize or lower debt ratios

Public Debt to GDP, 2012-2024



Efforts to enhance fiscal data provide better assessment of arrears

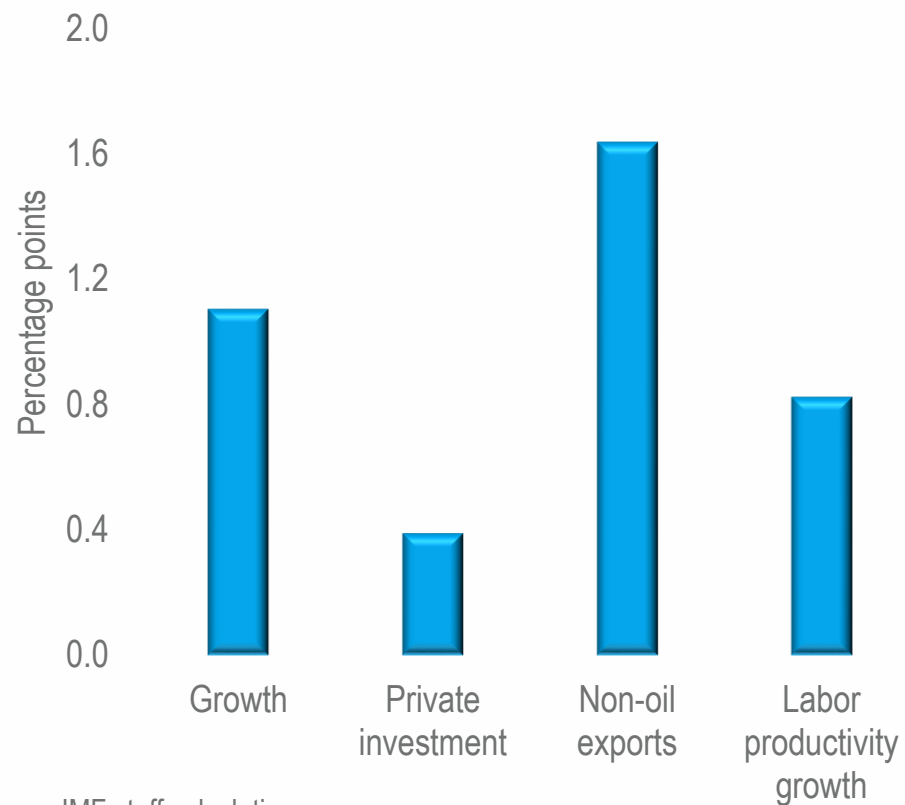
Stock of Domestic Arrears in SSA Countries, 2005–18



Sources: IMF staff estimates.

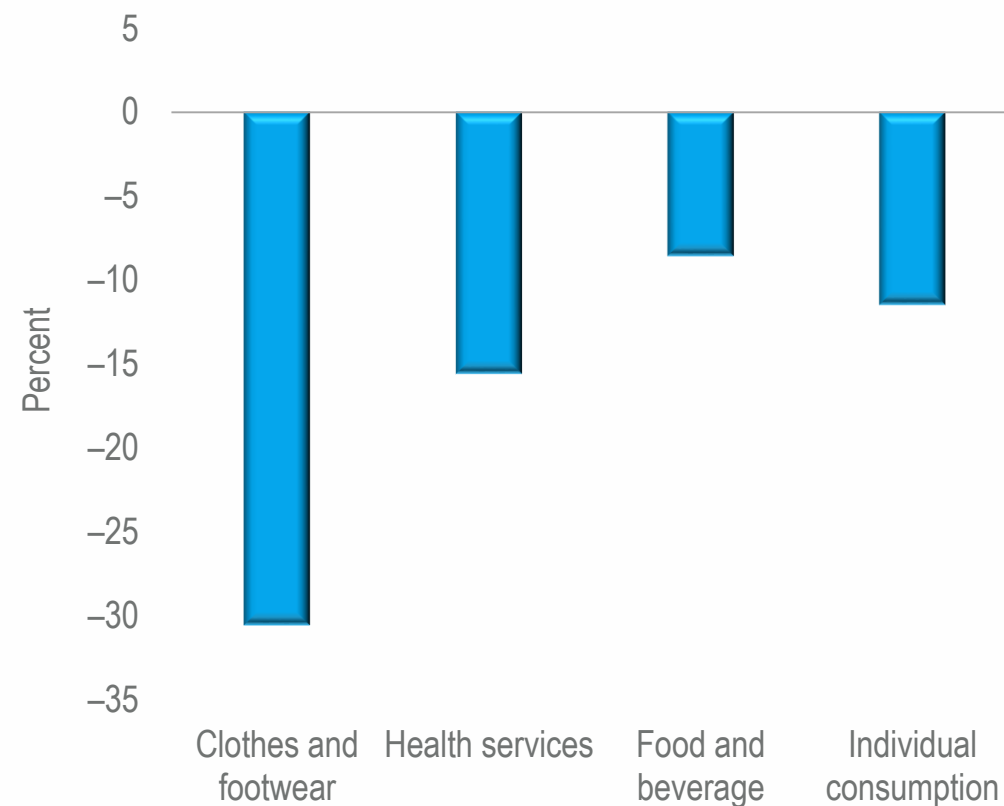
Promoting competition can lift medium-term growth and improve welfare

Competition and Macroeconomic Performance



Sources: IMF staff calculations.

Impact of Competition on Prices



Roadmap

- Recent Developments and Outlook
- Macro Policies and Structural Reforms
- **Response to Downside Risks**

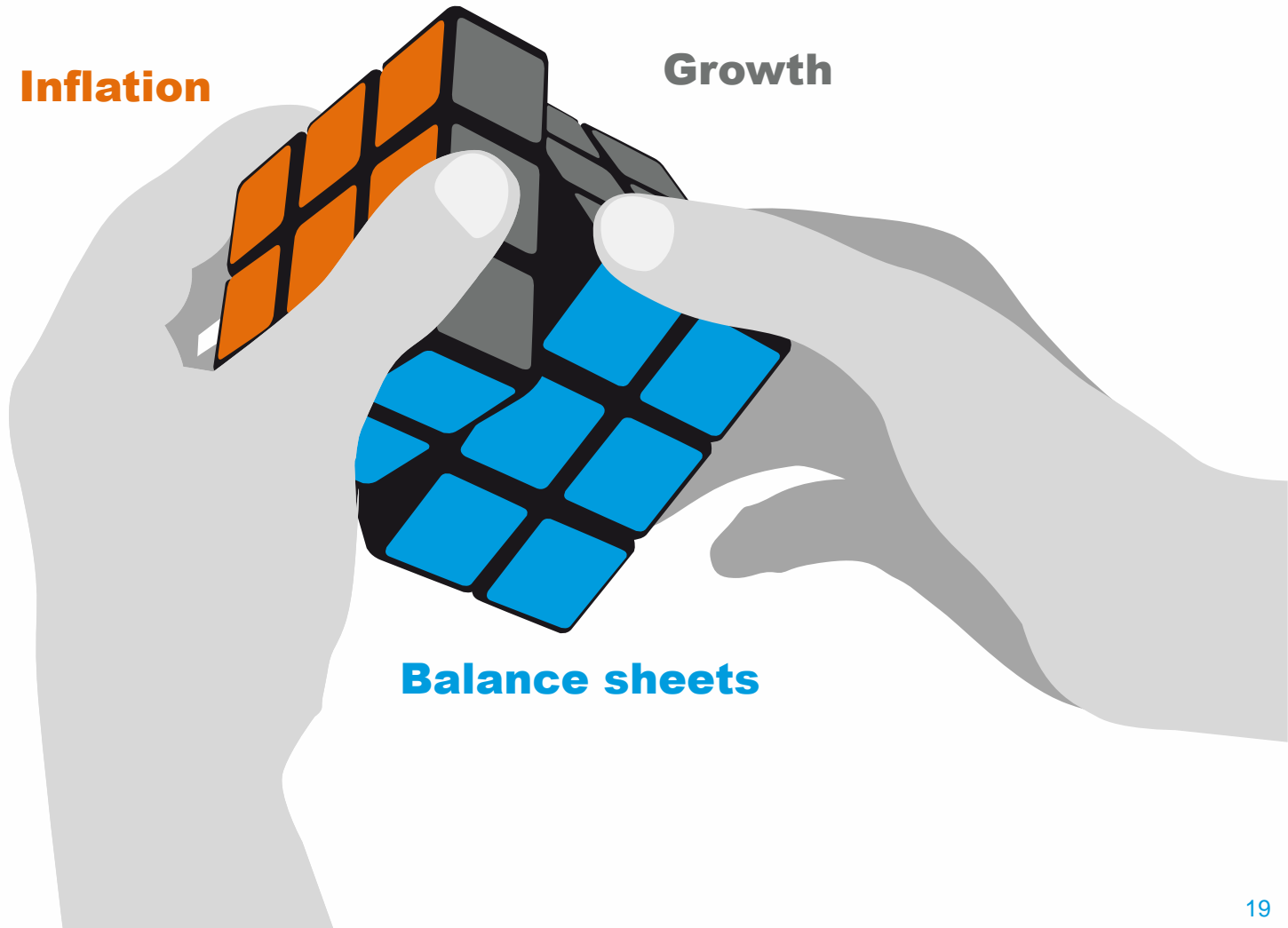
Response to shocks depends on their nature and strength of balance sheets and fundamentals

Baseline

- ❑ Implement planned fiscal consolidation
- ❑ Room to ease monetary policy where inflation is running low

Shocks

- ❑ Fast growing countries with elevated debt vulnerabilities should focus on rebuilding buffers
- ❑ Slow growing countries should seek more gradual adjustment, if financing is available, and fine-tune its composition to minimize impact on growth



Thank You



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Competition, Competitiveness and Growth

OCTOBER 2019

Regional Economic Outlook

Key messages

Product market competition in sub-Saharan Africa is low

- ▶ More than 70 percent of SSA countries are below the world's median competition indicator
- ▶ Firm markups are 11 percent higher than in other emerging markets and developing countries

Enhancing competition can help improve economic performance

- ▶ It is associated with an increase in the rate of growth of real GDP per capita by about 1 percentage point, driven by a boost to productivity growth and export competitiveness
- ▶ Helps to significantly lower product prices, improving welfare and competitiveness
- ▶ At the firm level, it is associated with an increase in investment, exports, productivity growth, and the labor's share in output

Improving competition requires a holistic approach that encompasses...

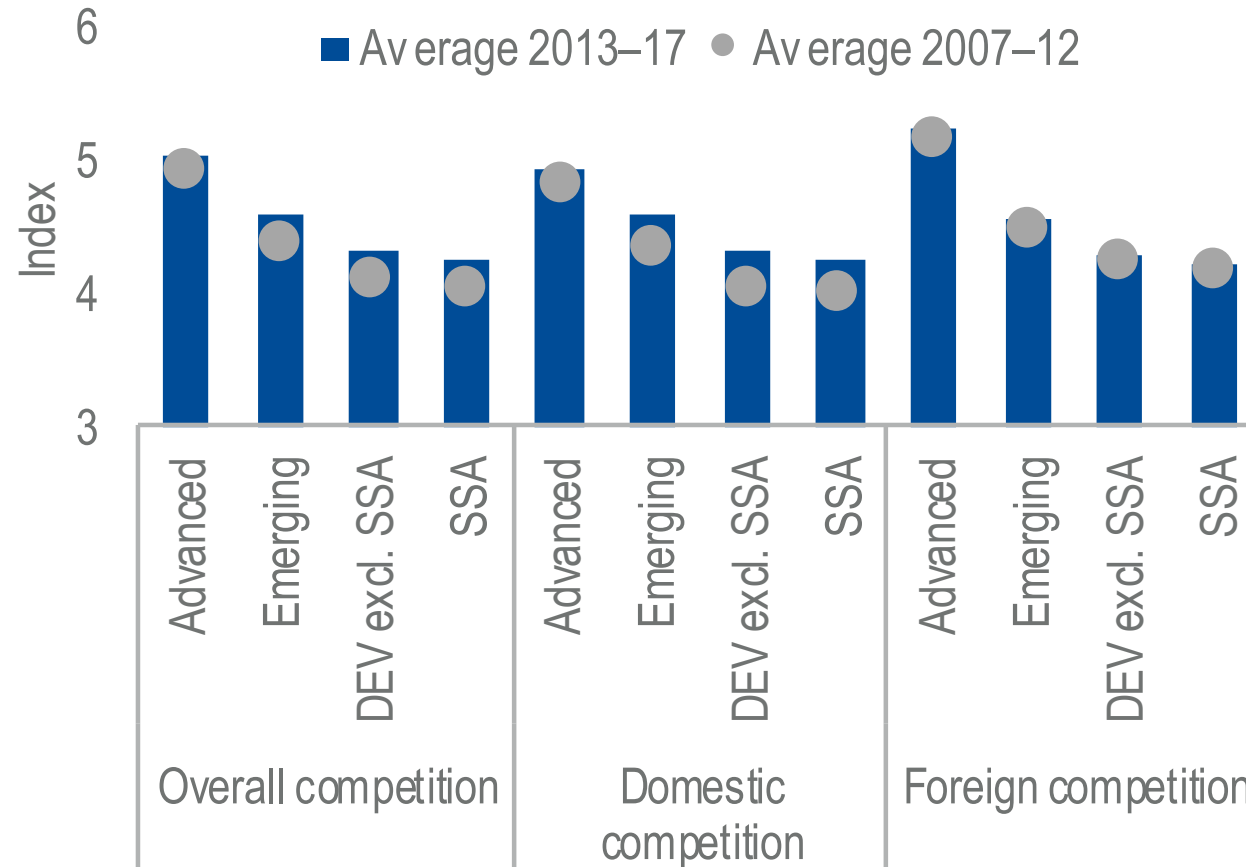
- ▶ An effective competition policy framework
- ▶ Trade and investment liberalization
- ▶ Reduction in regulatory and structural barriers, including trade and investment liberalization
- ▶ Complementary fiscal and other macroeconomic policies

Roadmap

- **Product market competition in SSA**
- Gains from increased competition
 - Growth and welfare
 - Firm performance
- How to improve competition
 - Competition framework
 - Complementary policies

Product market competition in sub-Saharan Africa is low

Product Market Competition, 2007-17

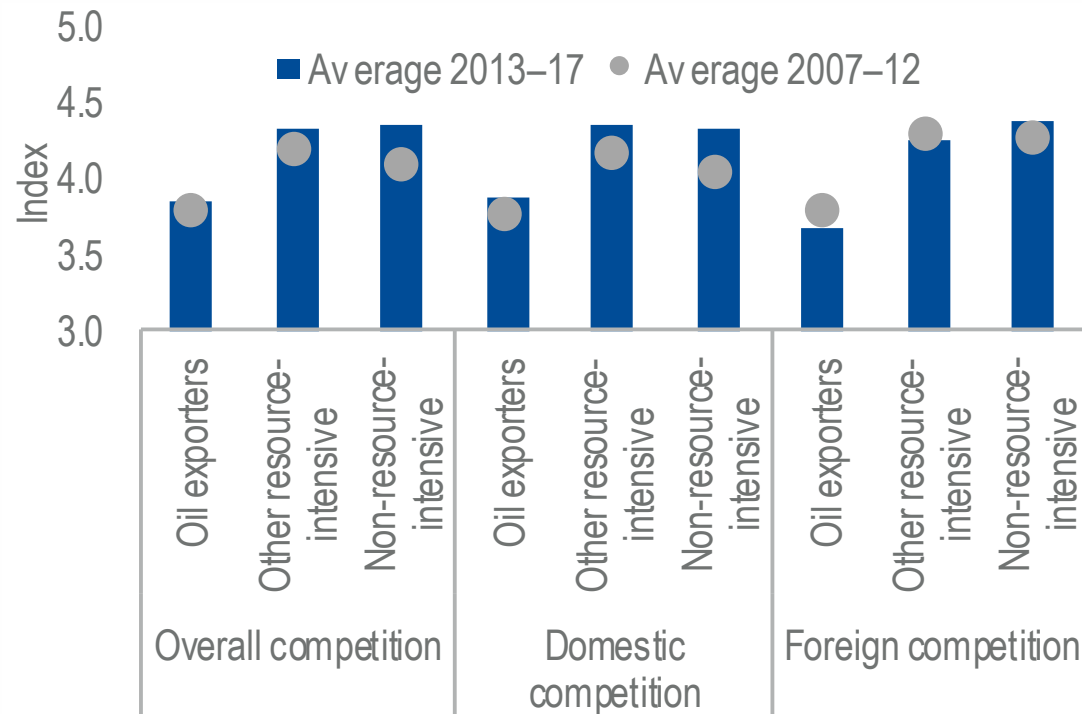


Source: World Economic Forum, Global Competitiveness Index.

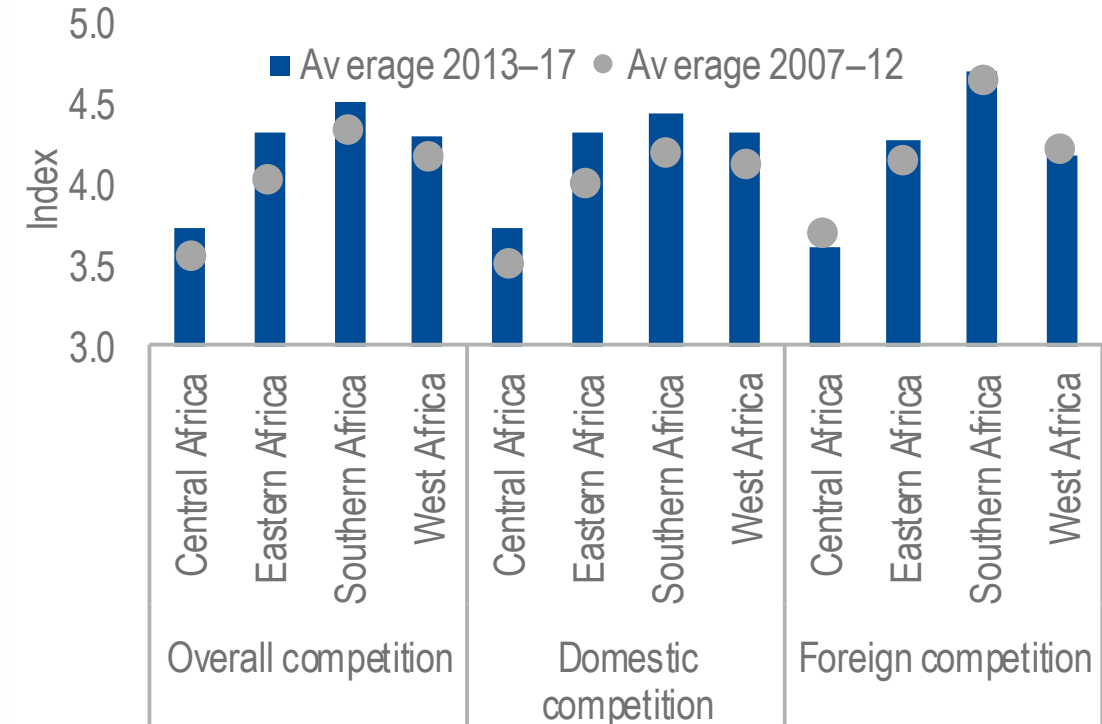
But there is considerable heterogeneity across countries

Product Market Competition in sub-Saharan Africa, 2007-17

By resource intensity



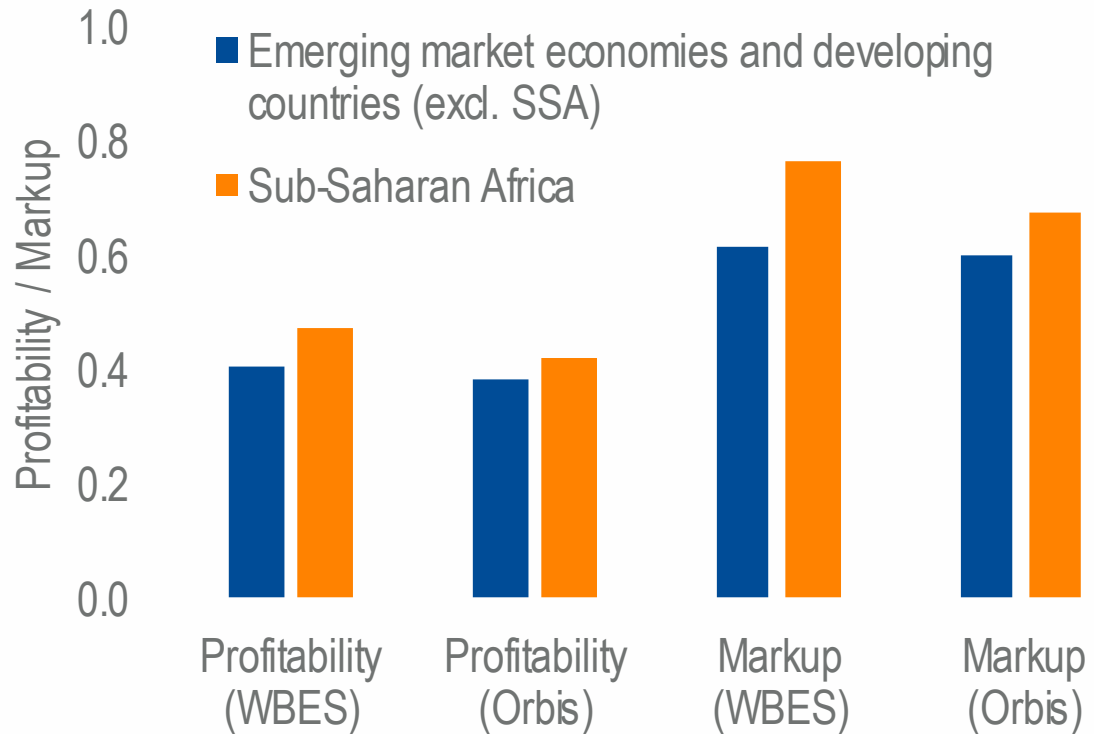
By region



Source: World Economic Forum, Global Competitiveness Index.

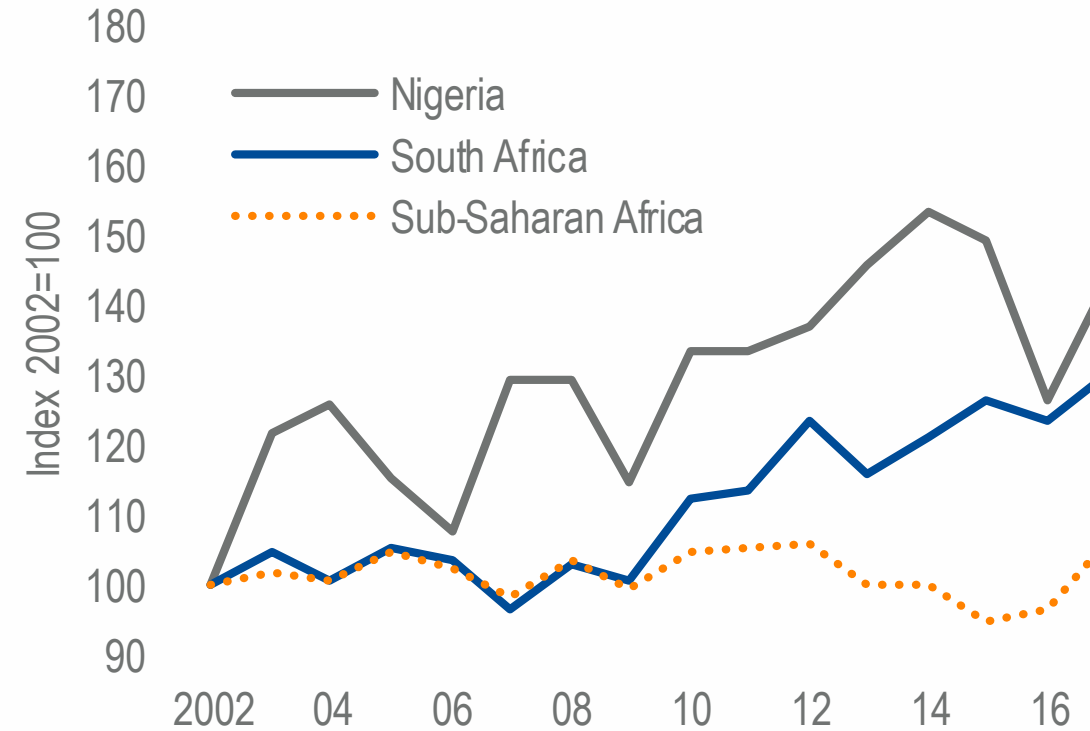
High profitability and markups, and rising in some major economies

Firm-level competition indicators



Sources: World Bank Enterprise Survey and Orbis.

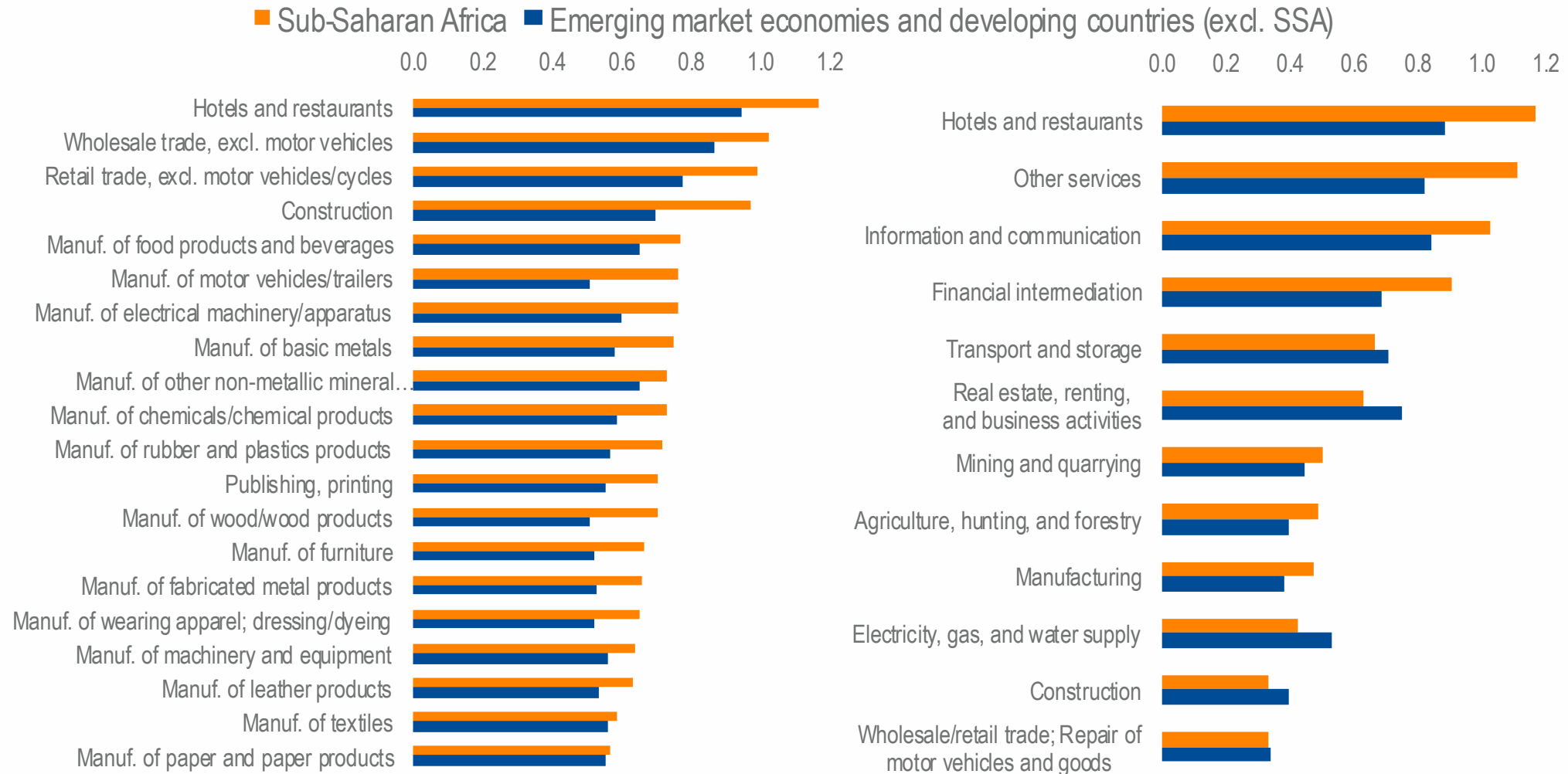
Firm Markups



Sources: Orbis database.

Competition is weaker across nearly all sectors, especially in non-tradables

Firm markups by sector



Source: World Bank Enterprise Survey.

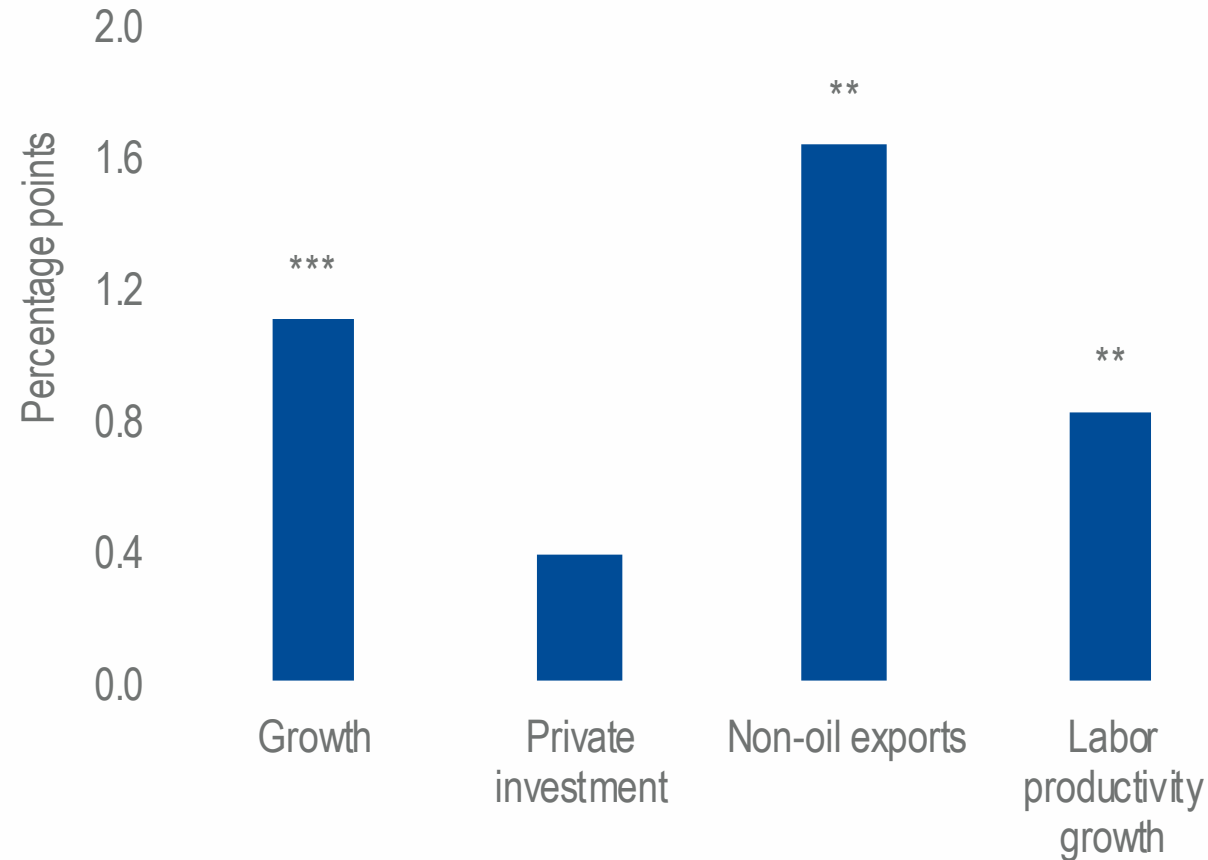
Source: Orbis database.

Roadmap

- Product market competition in SSA
- **Gains from increased competition**
 - Growth and welfare
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- How to improve competition
 - Competition framework
 - Complementary policies

Sub-Saharan Africa is likely to benefit significantly from enhanced competition

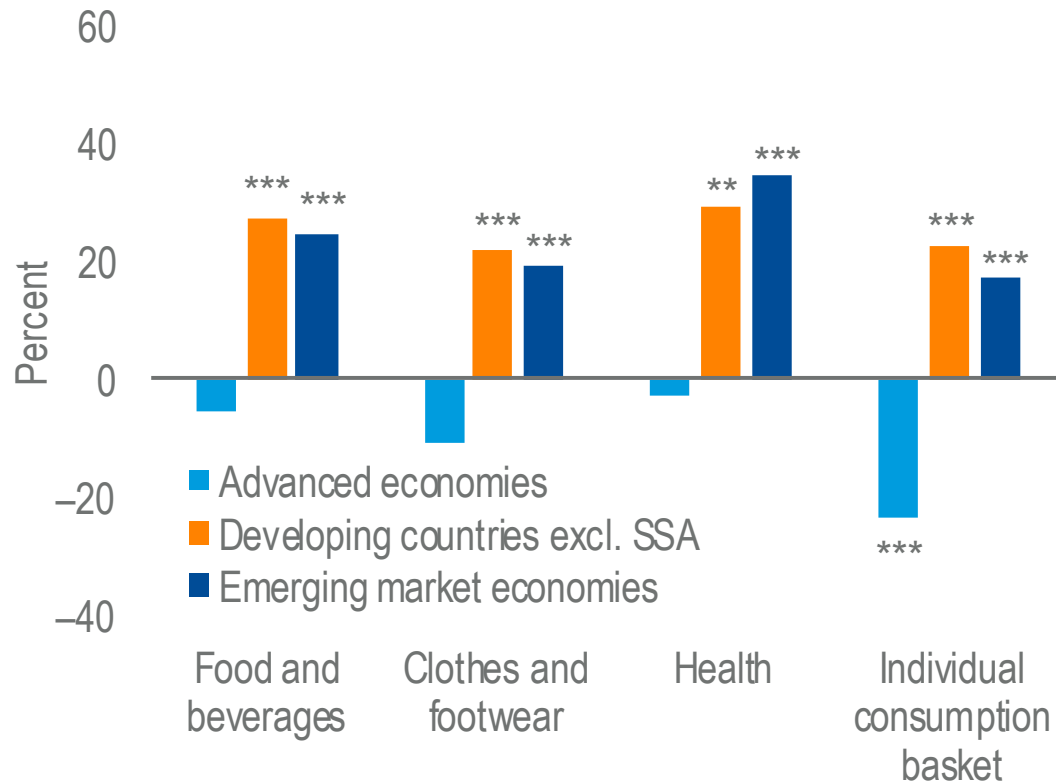
Effects on Macroeconomic Performance



Sources: IMF Staff calculations.

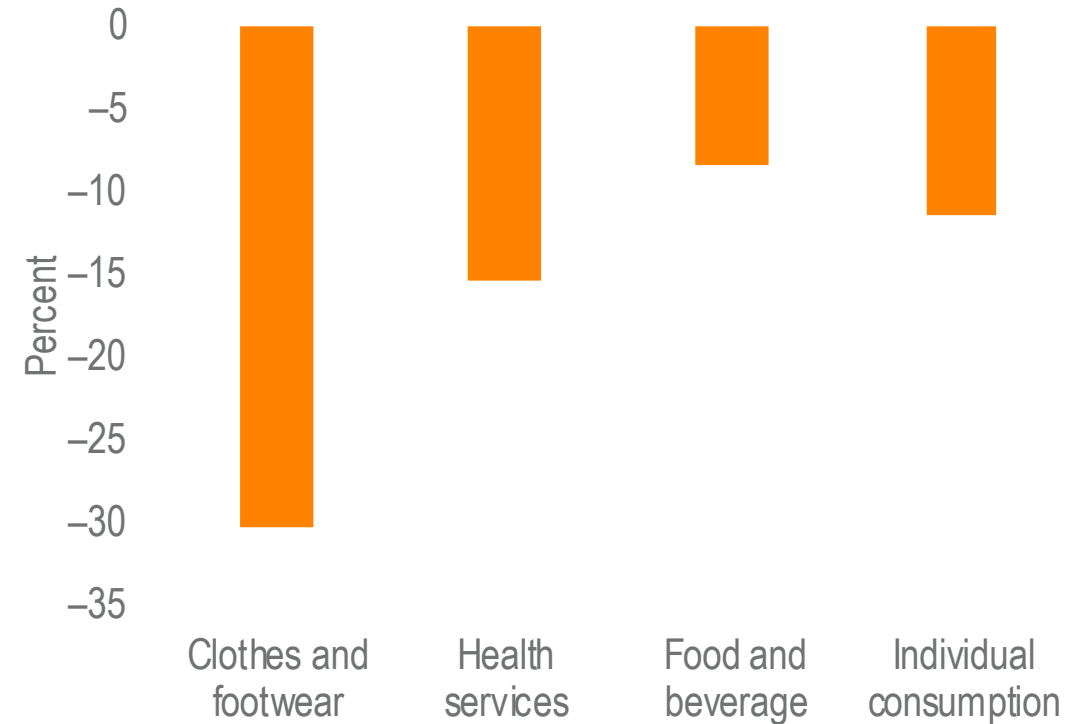
Increasing competition helps to lower prices, improving welfare and competitiveness

Price differentials with other countries



Sources: World Bank, International Comparison Program.

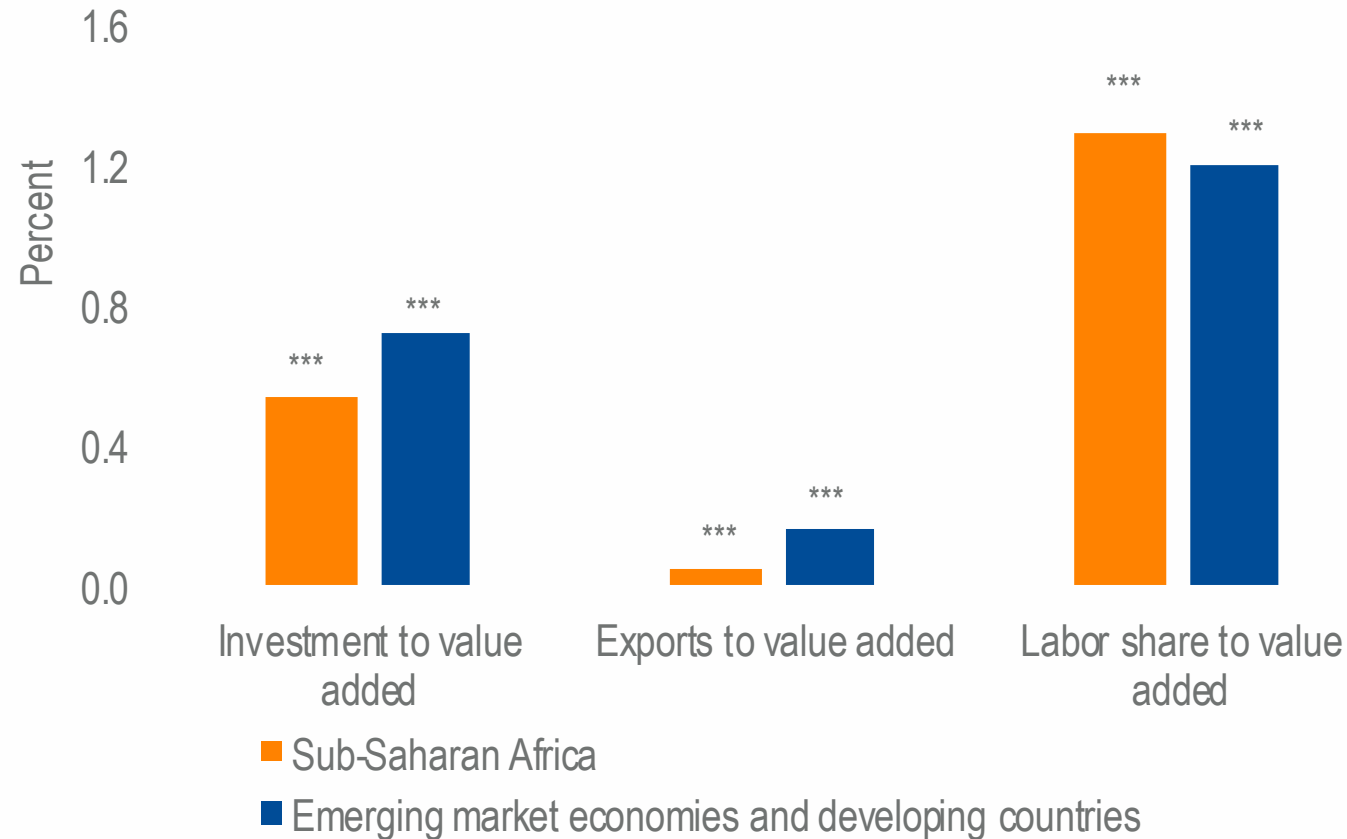
Effects of increased competition on prices



Sources: IMF Staff calculations.

Lower firm markups are associated with higher firm investment, exports, and labor share in output...

Effects on Firms' Behavior (World Bank firms data)

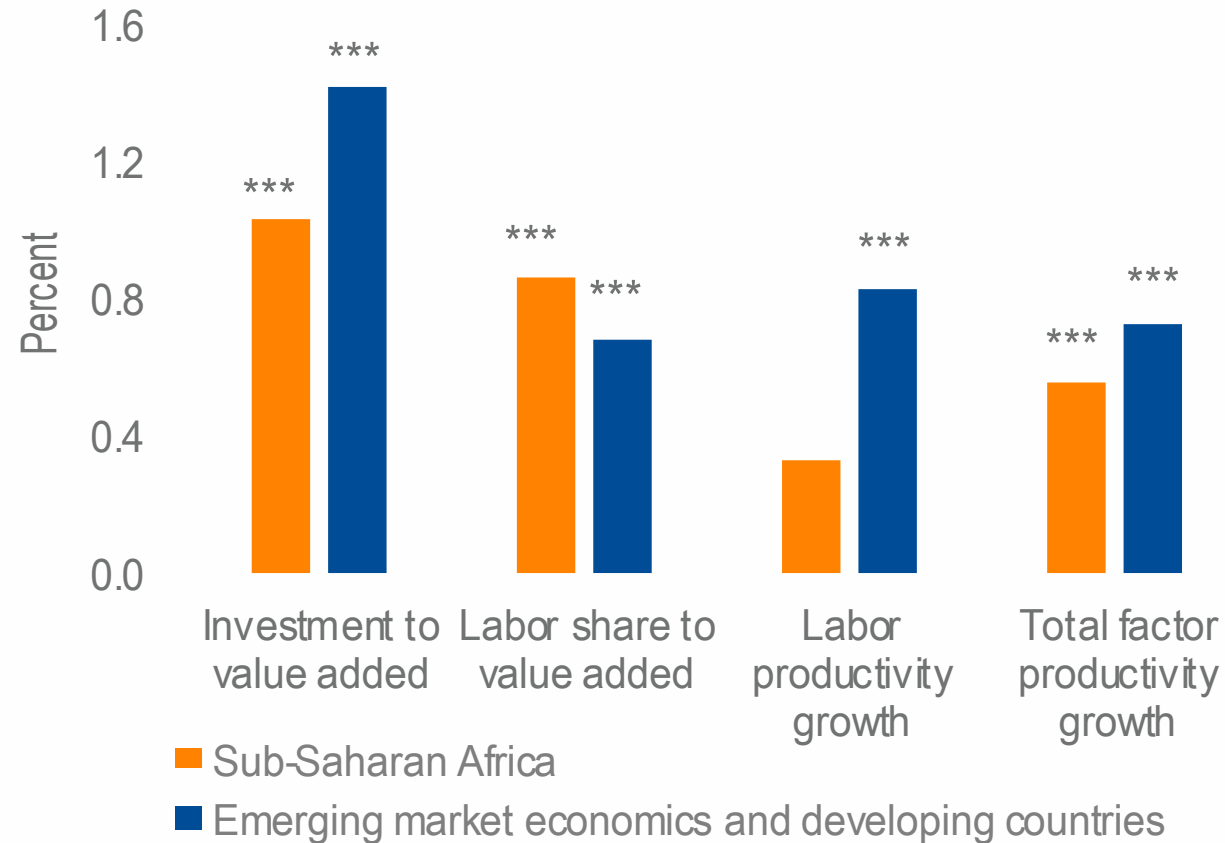


Sources: IMF Staff calculations.

And also with higher growth of labor productivity and total factor productivity

Effects on Firms' Behavior

(Orbis firms data)



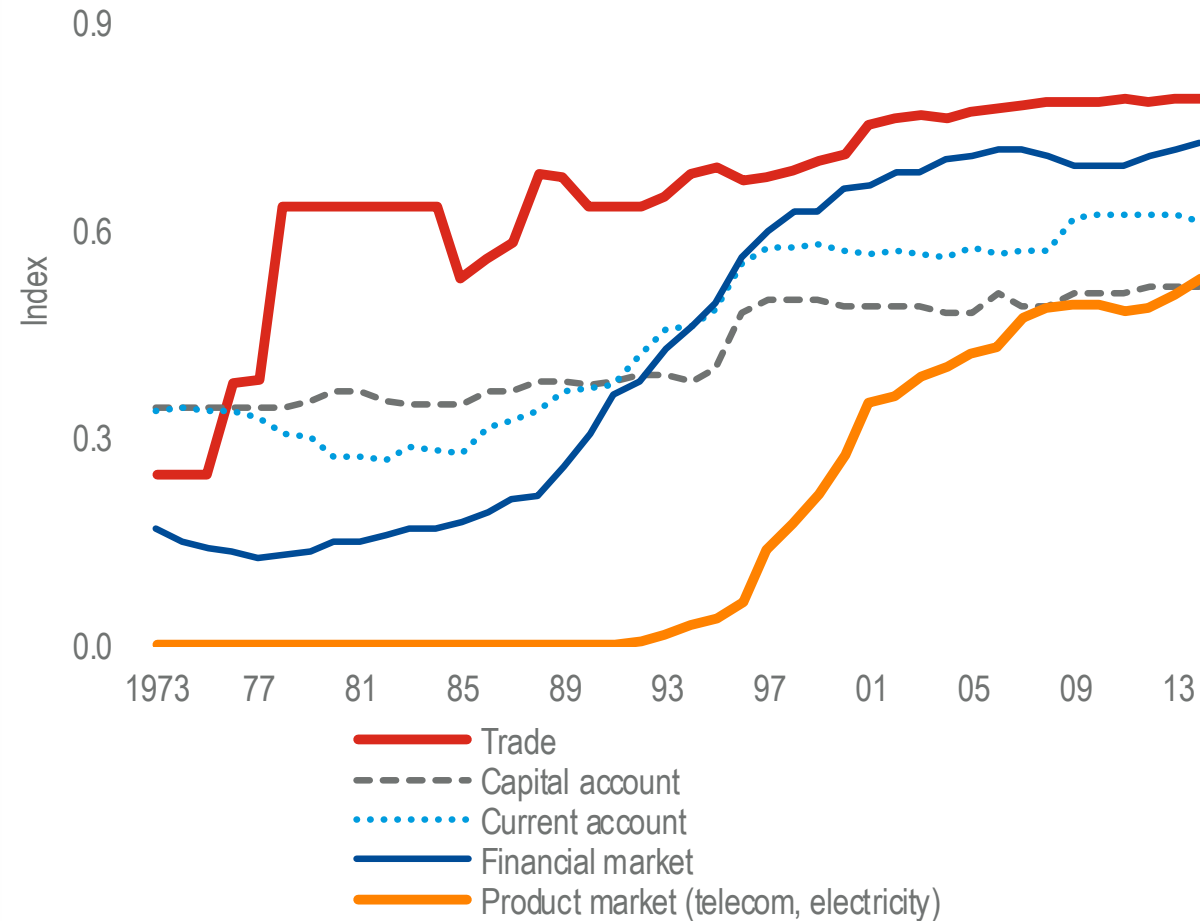
Sources: IMF Staff calculations.

Roadmap

- Product market competition in SSA
- Gains from increased competition
 - Growth and welfare
 - Firm performance
- **How to improve competition**
 - Competition framework
 - Complementary policies

The momentum of product market reforms appears to have slowed down in the last decade

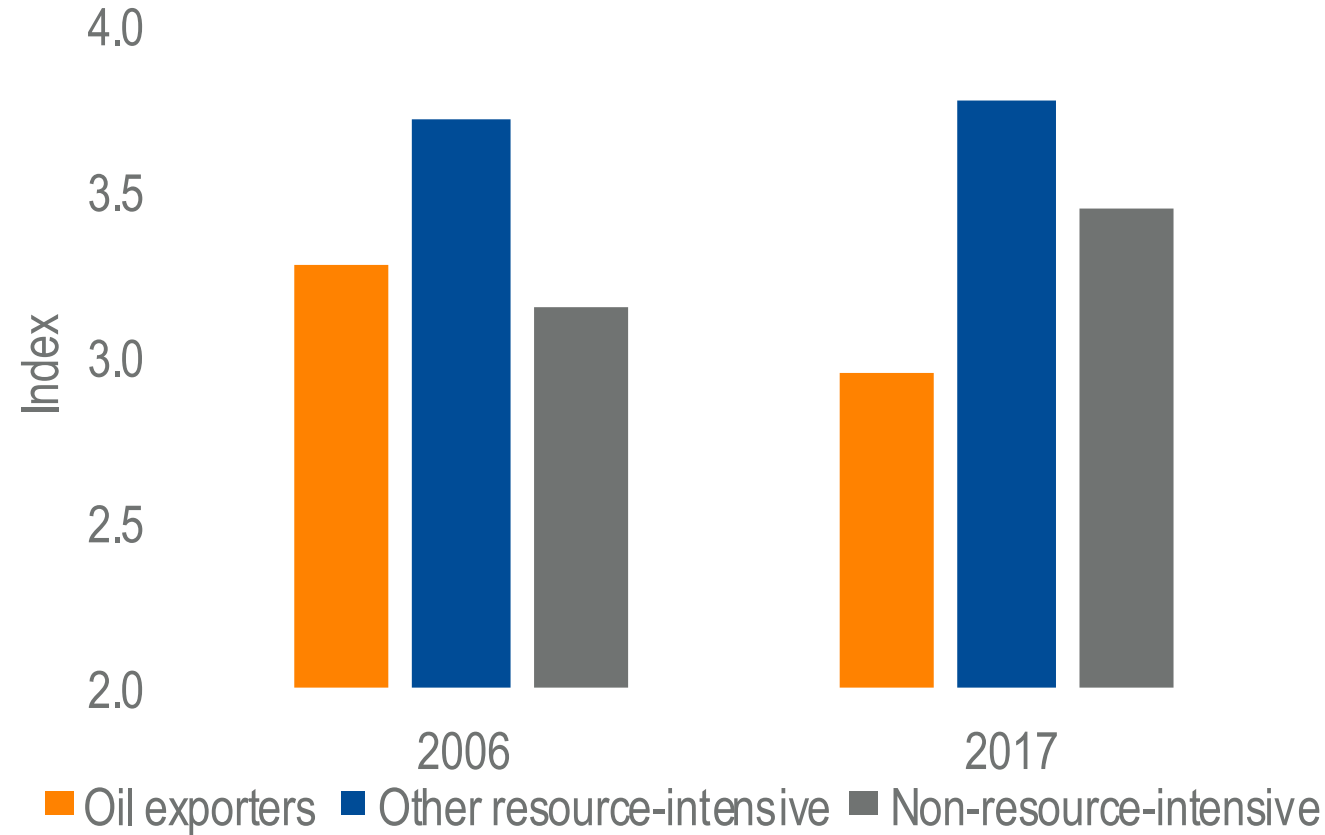
Structural Reforms, 1973-2014



Sources: IMF Staff calculations.

Despite competition laws and agencies, improvement in the state of competition has been limited

Anti-monopoly Enforcement



Sources: World Economic Forum, Global Competitiveness Index.

A holistic approach is needed to improve competition, encompassing

An effective competition policy framework including:

- ▶ An adequate competition law backed by an independent and well-resourced competition authority

Product market reforms to reduce structural and regulatory barriers to business activity

Trade and foreign investment liberalization policies

- ▶ To bolster foreign competition
- ▶ Improve access to intermediate inputs

Supportive fiscal policy framework

- ▶ Fiscal policies, tax administration and procurement systems should not benefit a few market players

Greater cooperation among national competition authorities in the region to tackle cross-border anti-competitive practices

Policies tend to be mutually reinforcing

- Trade and investment liberalization help to stimulate competition...
- But concerns about increased foreign competition hurting the domestic industry and creating dominant firms can be mitigated by implementing an appropriate competition policy framework
- Development policies to foster sectors deemed essential to boost productivity and growth should not lead to increased market power that would go against the goals of the original policies
- More generally, countries need to maintain a stable and sound macroeconomic and institutional environment to attract private investment and ensure that policies to stimulate competition have traction

Malawi Experiences: Institutional Arrangements are in place...

Competition and Fair Trading Commission (CFTC) legislated by the Competition and Fair Trading Act :

Anonymous agency of government with a mandate to regulate, monitor, control, and prevent anti-competitive practices

- Regulation of mergers and acquisitions of companies
- Monitoring monopolies and concentrations of market power and taking corrective action against abuse of dominance
- Prohibiting anti-competitive practices by enterprises against each other
- Protecting consumers from unfair trading practices

Malawi Experiences: Outcomes

- Is the institutional framework robust?
- Are the levels of competition in Malawi's key sectors/ markets (e.g. energy and agricultural sectors) conducive for:
 - Efficiency
 - Productivity
 - Entrepreneurship
 - Growth

Key messages

Product market competition in sub-Saharan Africa is low

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- ▶ Firm markups are 11 percent higher than in other emerging markets and developing countries

Enhancing competition can help improve economic performance

- ▶ It is associated with an increase in the rate of growth of real GDP per capita by about 1 percentage point, driven by a boost to productivity growth and export competitiveness
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- ▶ Trade and investment liberalization
- ▶ Reduction in regulatory and structural barriers, including trade and investment liberalization
- ▶ Complementary fiscal and other macroeconomic policies

Thank You



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Domestic Arrears in SSA: Size, Symptoms, and Cures

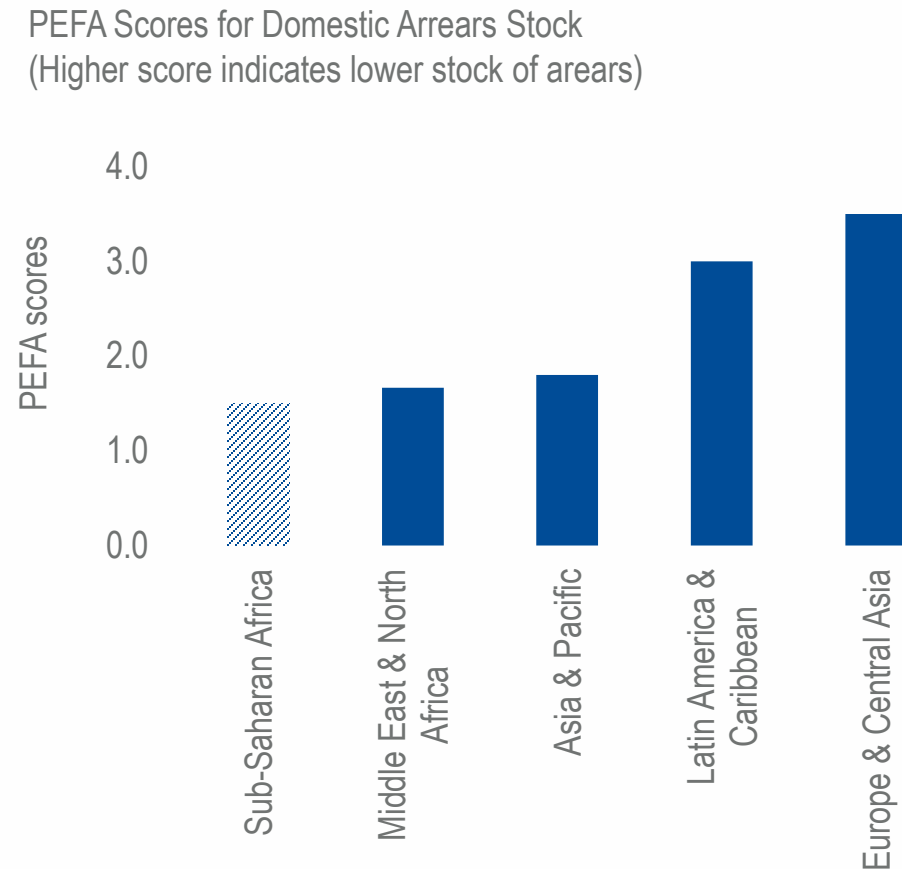
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Regional Economic Outlook

Why we should care (1)

Domestic arrears are significant in SSA

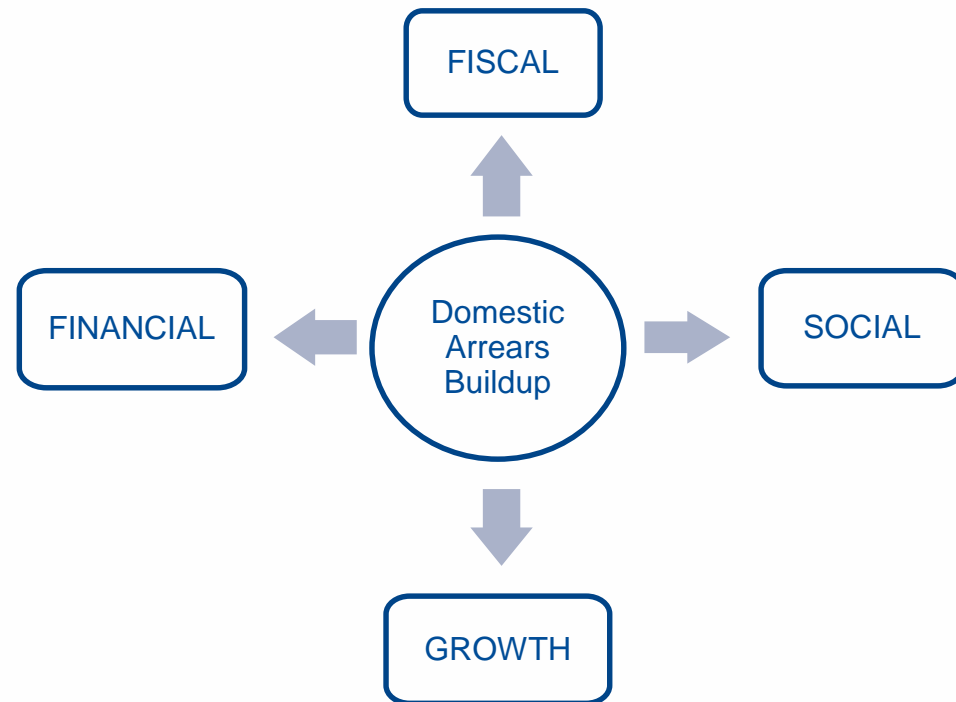
- ▶ 70 percent of sub-Saharan African countries report domestic arrears
- ▶ Sub-Saharan Africa has the lowest PEFA (Public Expenditure and Financial Accountability) score for the domestic arrears



Source: PEFA 2016 methodology; and IMF staff calculations.

Why we should care(2)

Domestic arrears have detrimental macroeconomic effects



- ▶ Despite the prevalence of arrears, their causes and effects are not well-understood
- ▶ The literature on domestic arrears is very limited
- ▶ Their true scale and cost may be hidden
- ▶ Little operational guidance exists as to the best practices on arrears clearance

Sources: IMF staff calculations..

Key messages

Domestic arrears are prevalent in sub-Saharan African countries and have increased in recent years

- ▶ Most SSA countries officially report expenditure arrears, but also have “unrecognized” arrears
- ▶ After declining steadily in the late 2000s, arrears have increased recently

They have widespread macroeconomic, financial and social consequences

- ▶ They negatively affect the private sector
- ▶ Arrears accumulation can lead to stress in the banking system
- ▶ They undermine trust in government and the effectiveness of fiscal policy

Country authorities should make every effort to clear existing arrears and prevent arrears accumulation

- ▶ A clearance strategy entails three main steps: verification, payment and prioritization strategy, and repayment
- ▶ Preventing the accumulation of arrears requires a combination of PFM reforms, sound fiscal policy, and political commitment

Roadmap

- **Stock taking of domestic arrears in SSA**
- Causes of domestic arrears accumulation
- Macroeconomic effects of domestic arrears
- Cures: clearance and prevention of domestic arrears

Dataset

Challenges

- ▶ No existing database on domestic arrears
- ▶ Absence of standardized definition and coverage of public sector

Staff approach to collect data

- ▶ Survey among IMF African Department desk economists (30 countries)
- ▶ Supplemented with information from IMF Staff Reports
- ▶ Cross-checked against data included in public expenditure and financial accountability assessments (PEFA)

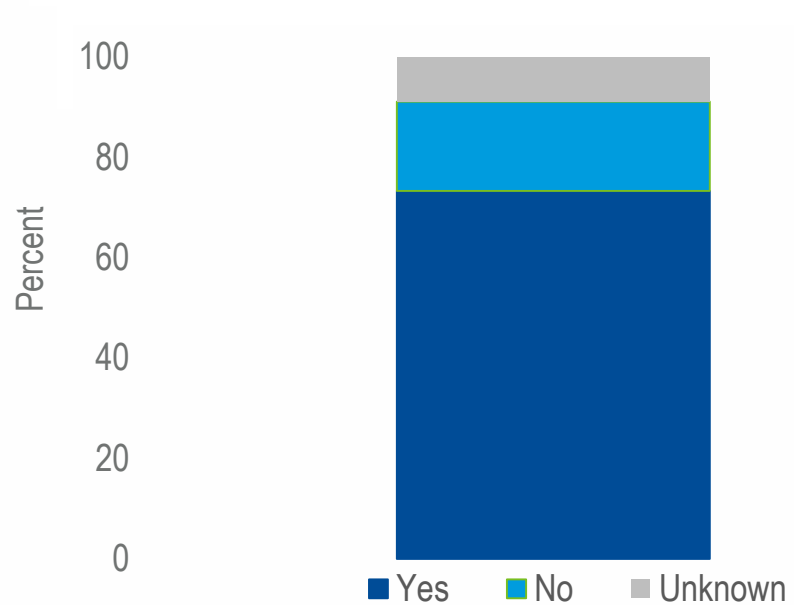
Looking ahead

- ▶ More work needed to build a comprehensive database, based on more regular and methodical reporting and better monitoring systems across the region

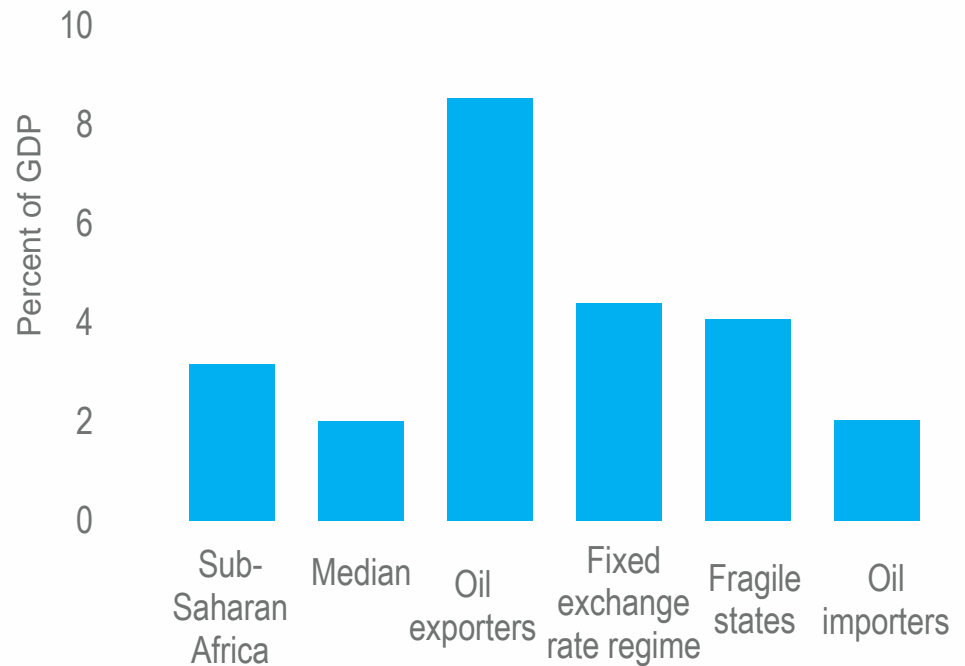
Stock taking of domestic arrears in SSA (1)

A majority of SSA countries report domestic arrears

Share of Countries with Recorded Domestic Arrears in Sub-Saharan Africa, 2018



Sub-Saharan Africa: Stock of Domestic Arrears by Country Group, 2018

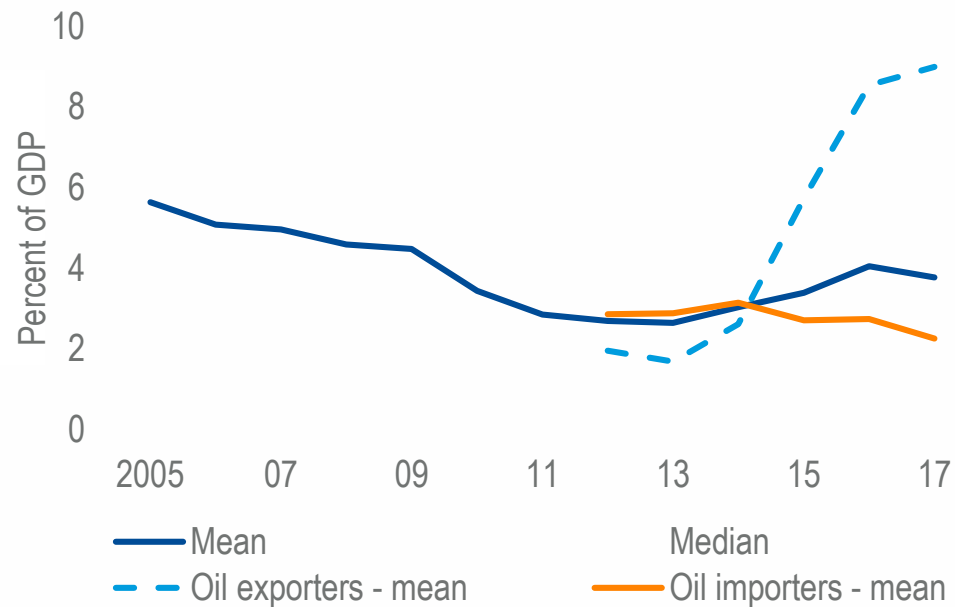


Sources: IMF staff calculations..

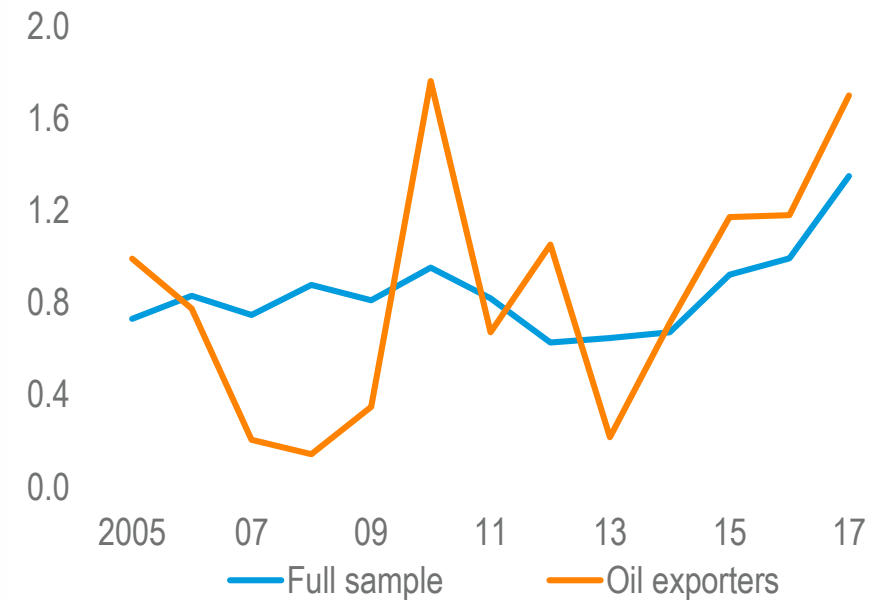
Stock taking of domestic arrears in SSA (2)

Domestic arrears have increased since 2013 in SSA, especially in oil-exporting countries

Stock of Domestic Arrears in Sub-Saharan Africa, 2005–17



Sub-Saharan Africa: Frequency of Domestic Arrears-Related Terms in IMF Staff Reports, 2005–17

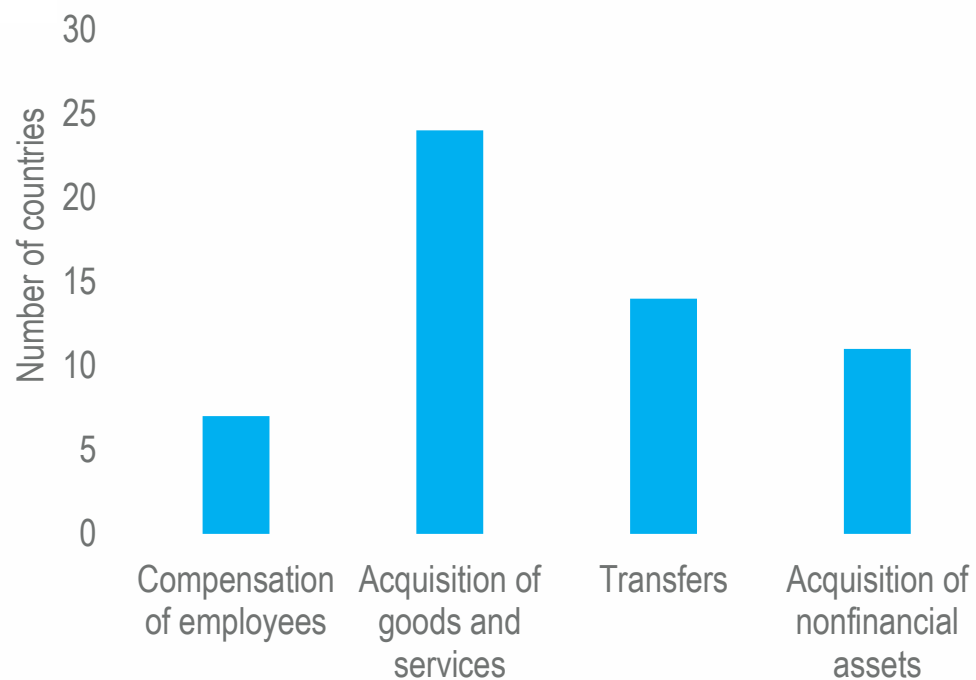


Sources: IMF staff calculations..

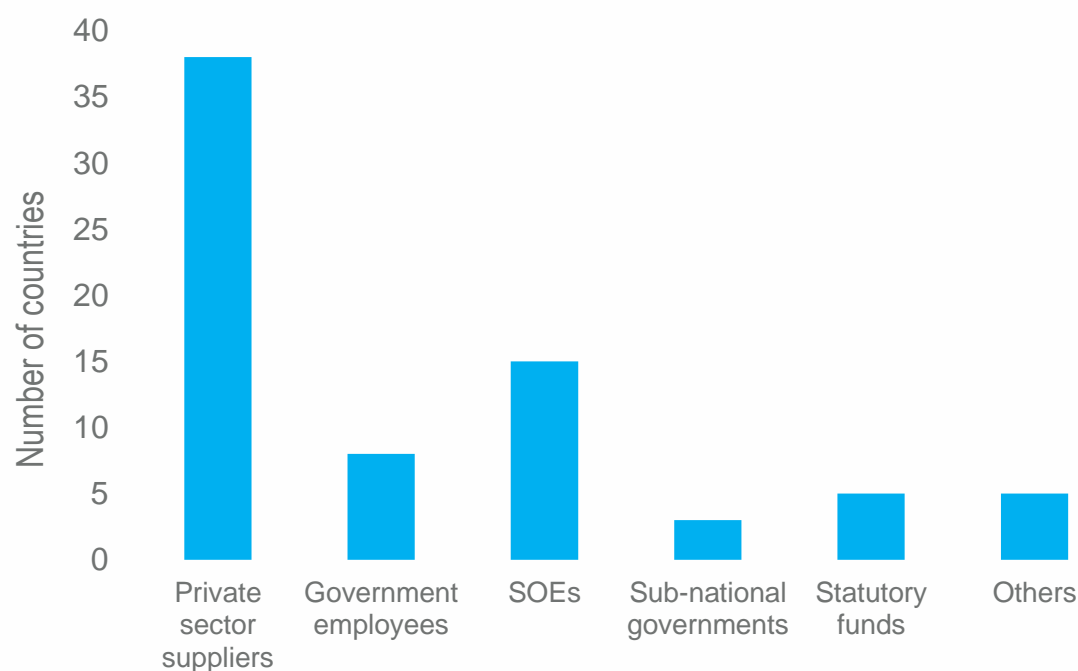
Stock taking of domestic arrears in SSA (3)

Arrears to private suppliers of goods and services are the most common

1. Domestic Arrears by Spending Category



2. Domestic Arrears by Economic Agent



Source: Survey of IMF African Department desk economists.

Roadmap

- Stock taking of domestic arrears in SSA
- **Causes of domestic arrears accumulation**
- Macroeconomic effects of domestic arrears
- Cures: clearance and prevention of domestic arrears

Causes of arrears accumulation (1)

Countries accumulate expenditure arrears due to both structural and cyclical factors

Structural causes include weak fiscal and PFM institutions, notably:

- ▶ The formulation of unrealistic budgets
- ▶ A lack of commitment controls
- ▶ Poor cash management
- ▶ Delays in processing payments

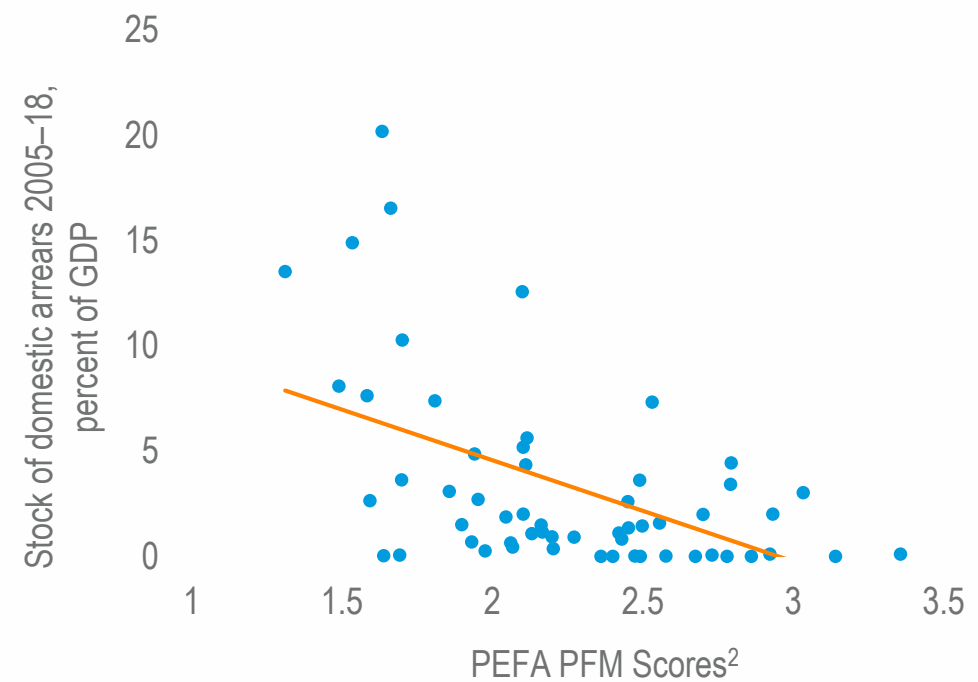
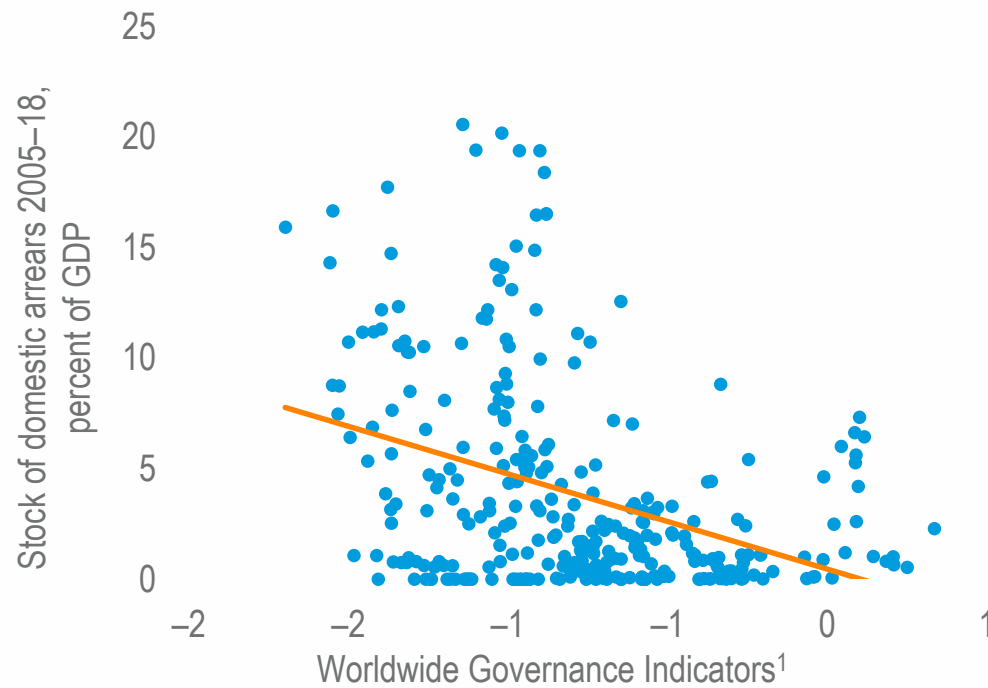
Cyclical factors are primarily those that adversely impact government resources like:

- ▶ Economic downturns
- ▶ Commodity price shocks
- ▶ Internal shocks such as conflict and political instability

Causes of arrears accumulation (2)

The stock of domestic arrears is negatively associated with governance indicators

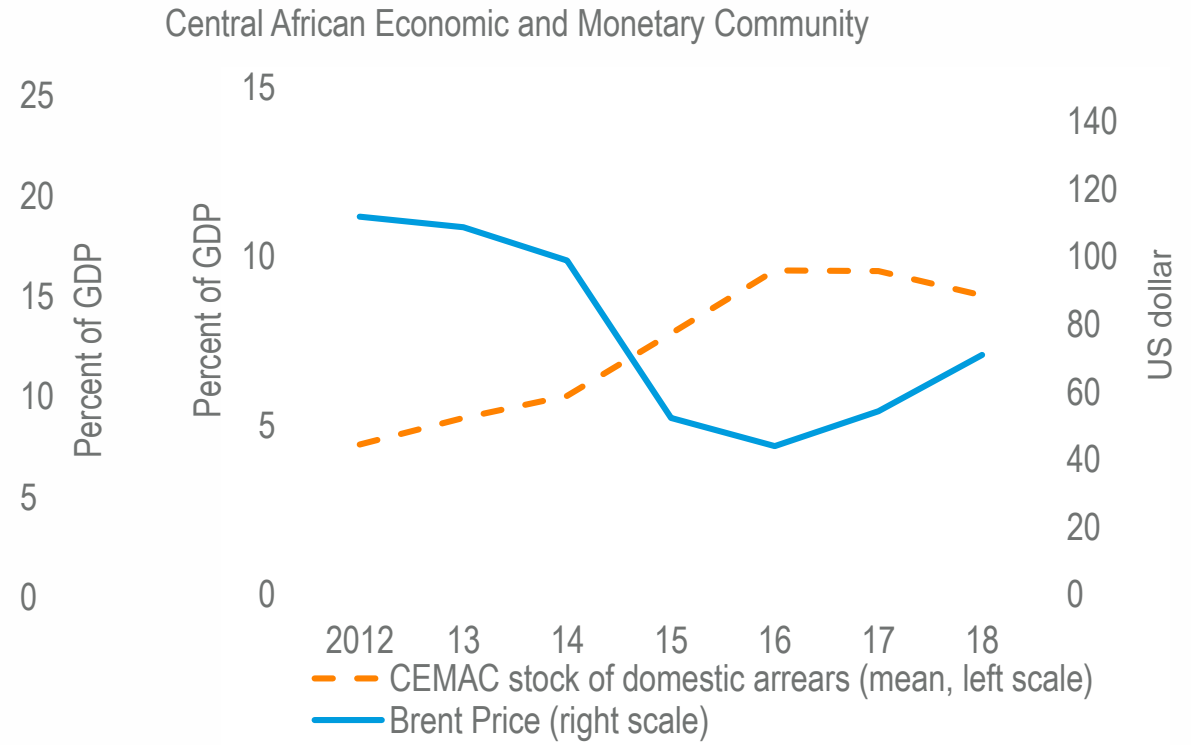
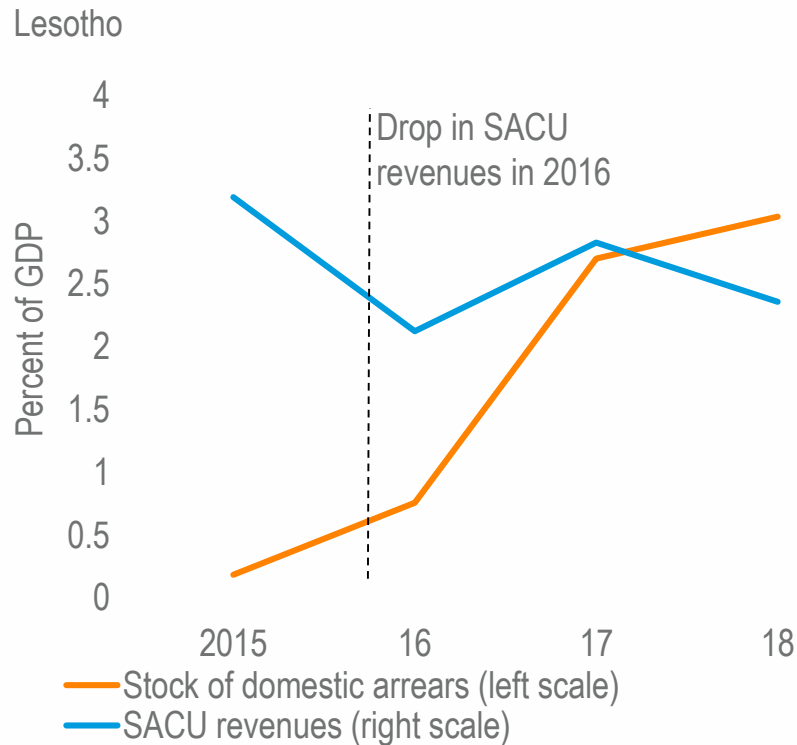
Sub-Saharan Africa: Selected Governance Indicators and Stock of Domestic Arrears, 2005–18



Sources: IMF staff calculations..

Causes of arrears accumulation (3)

Large domestic arrears accumulate following fiscal shocks

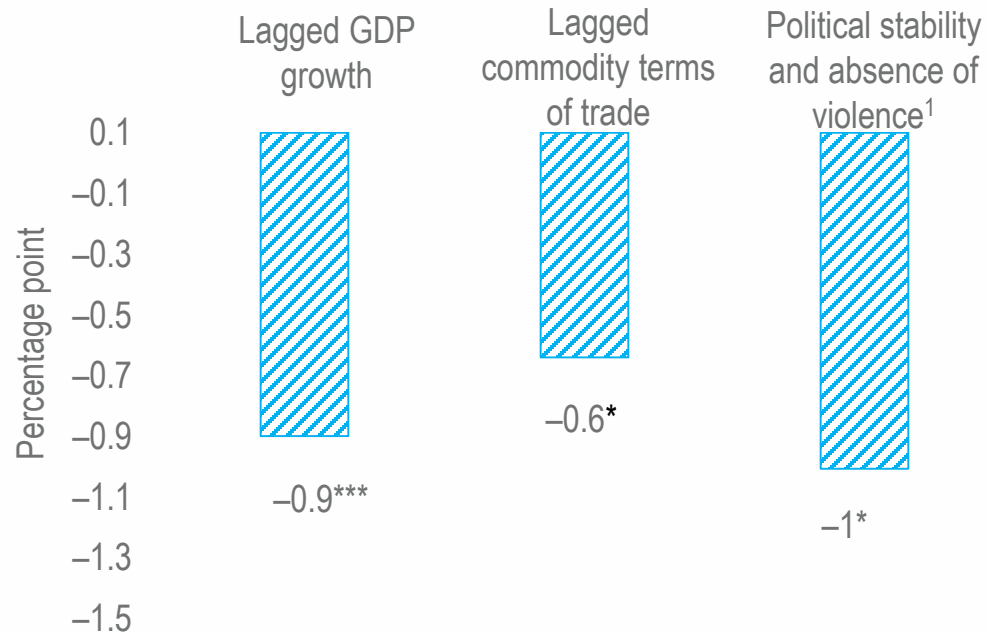


Sources: IMF staff calculations..

Causes of arrears accumulation (4)

Large domestic arrears accumulate following fiscal shocks

Causes of Domestic Arrears Accumulation: Regression Output

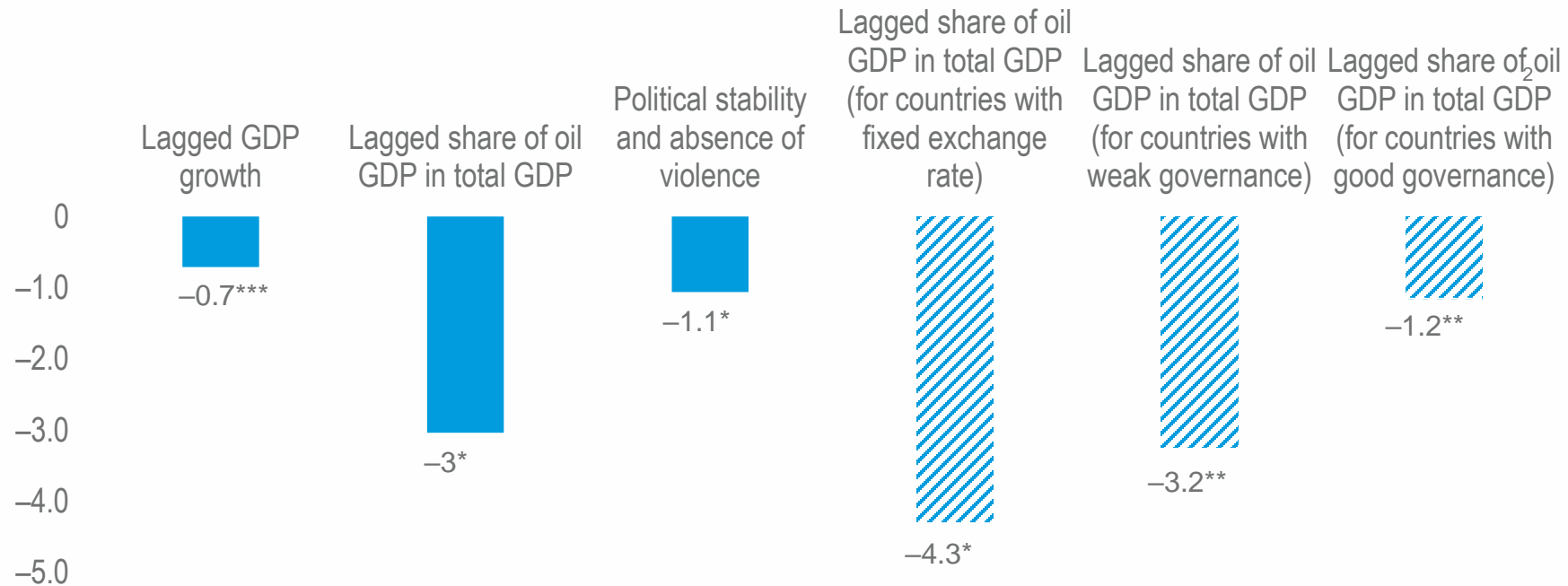


- ▶ Regression analysis indicates that lower growth, a decline in the commodity terms-of-trade, and political instability are associated with a larger stock of domestic arrears.

Sources: IMF staff calculations..

Causes of arrears accumulation (5)

Large domestic arrears accumulate following fiscal shocks



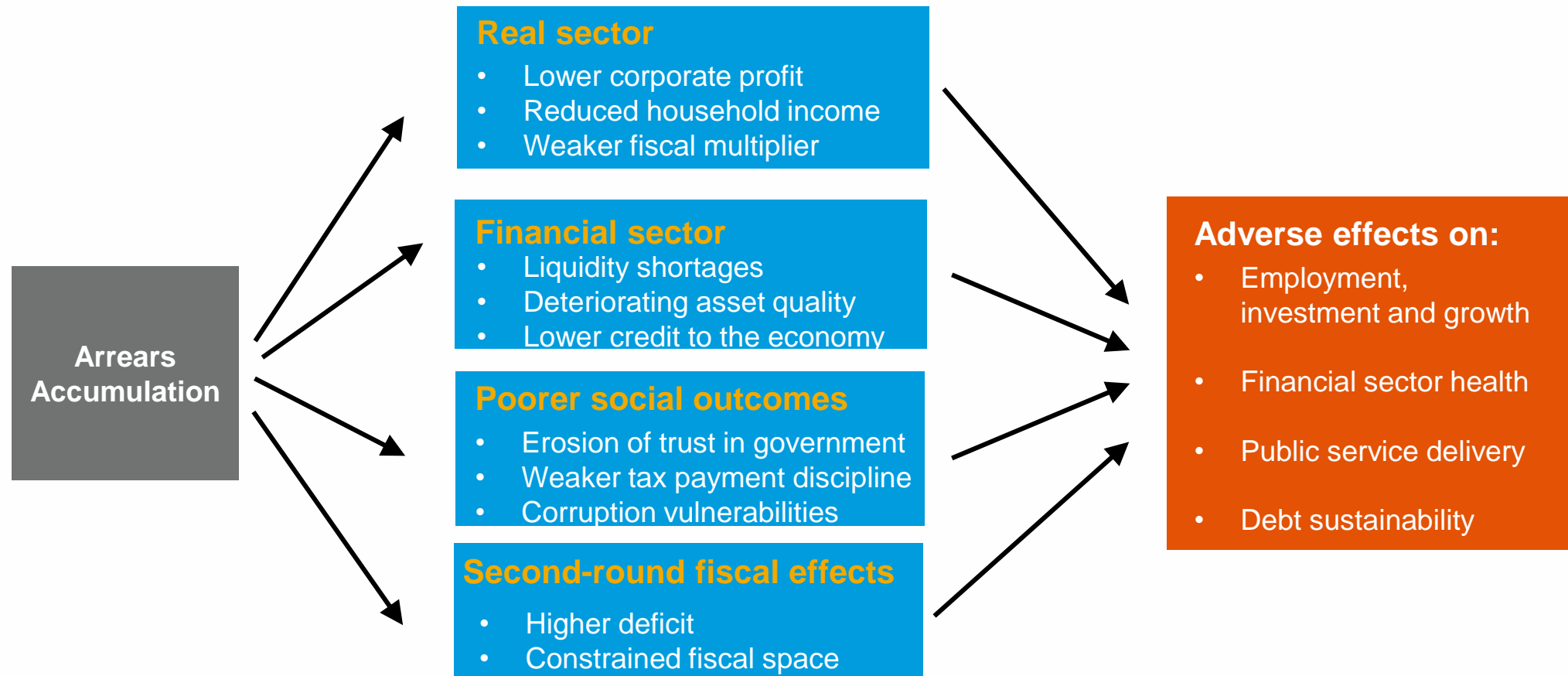
- ▶ Oil shocks seem to have a larger impact for:
 - ❖ countries under fixed exchange rate regimes
 - ❖ countries with weak indicators of governance

Sources: IMF staff calculations..

Roadmap

- Stock taking of domestic arrears in SSA
- Causes of domestic arrears accumulation
- **Macroeconomic effects of domestic arrears**
- Cures: clearance and prevention of domestic arrears

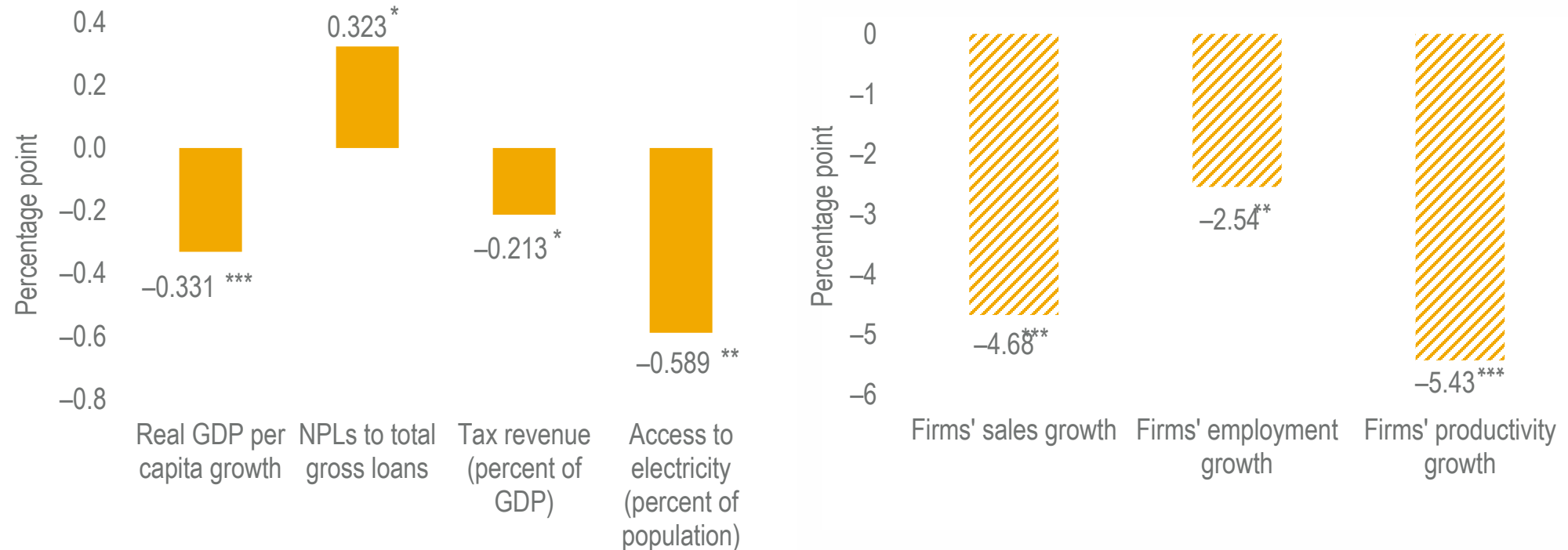
Macroeconomic impact of domestic arrears (1)



Macroeconomic impact of domestic arrears (2)

Domestic arrears undermine macro outcomes

Macroeconomic Impact of Domestic Payment Arrears: Regression Output

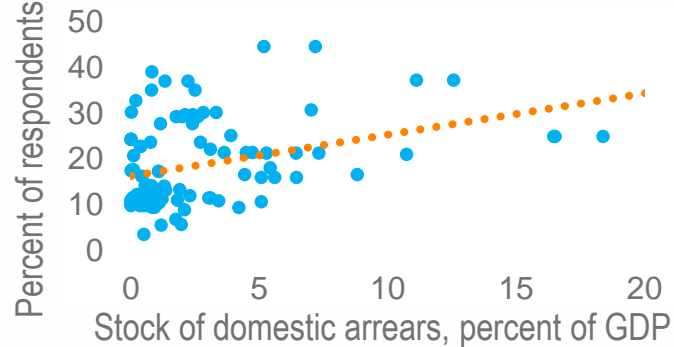


Sources: IMF African Department Desk Survey; Financial Soundness Indicators; World Bank Enterprise Surveys; World Development Indicators; World Economic Outlook database; and IMF staff calculations...

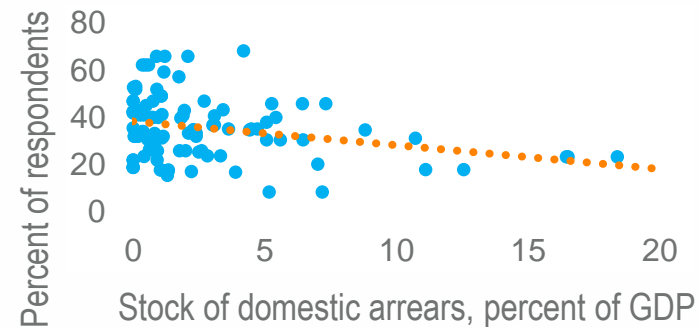
Macroeconomic impact of domestic arrears (3)

Higher levels of arrears are associated with lower citizens' trust

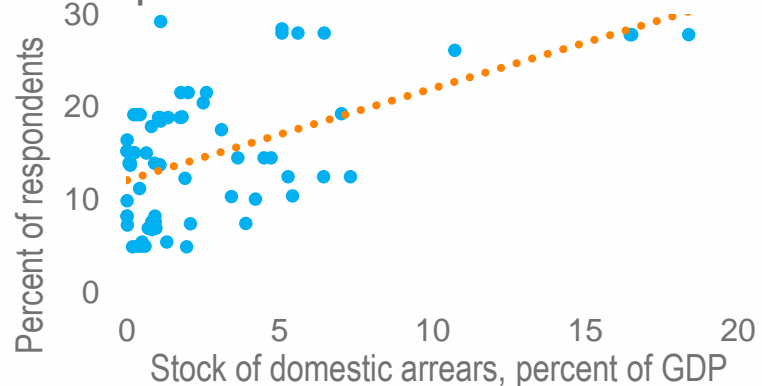
1. Trust in President/Prime Minister: Not at All



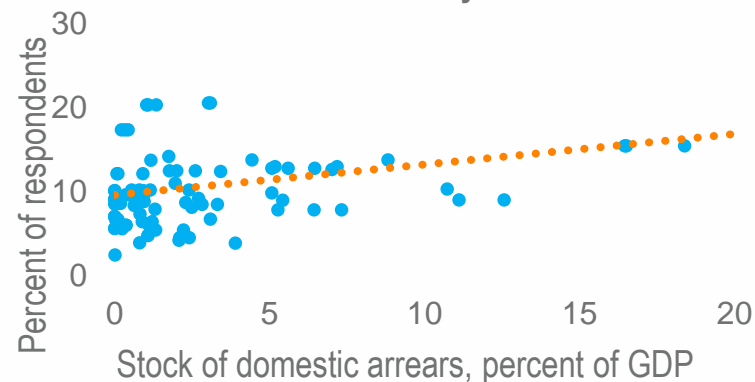
2. Governments' Management of the Economy: Very/Fairly Well



3. Corrupt Tax Officials: All of Them



4. Access to Medical Care: Very Difficult

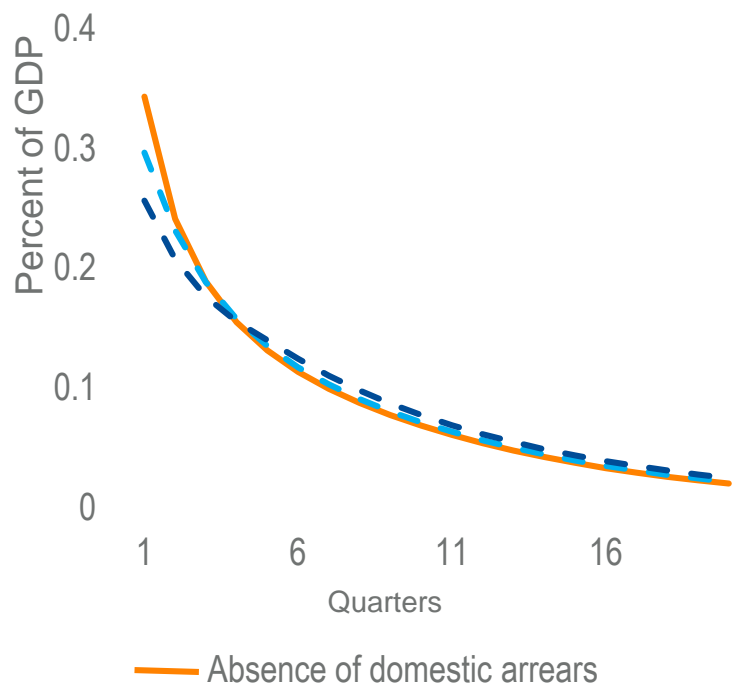


Sources: Afrobarometer; IMF African Department Desk Survey; and IMF staff calculations.

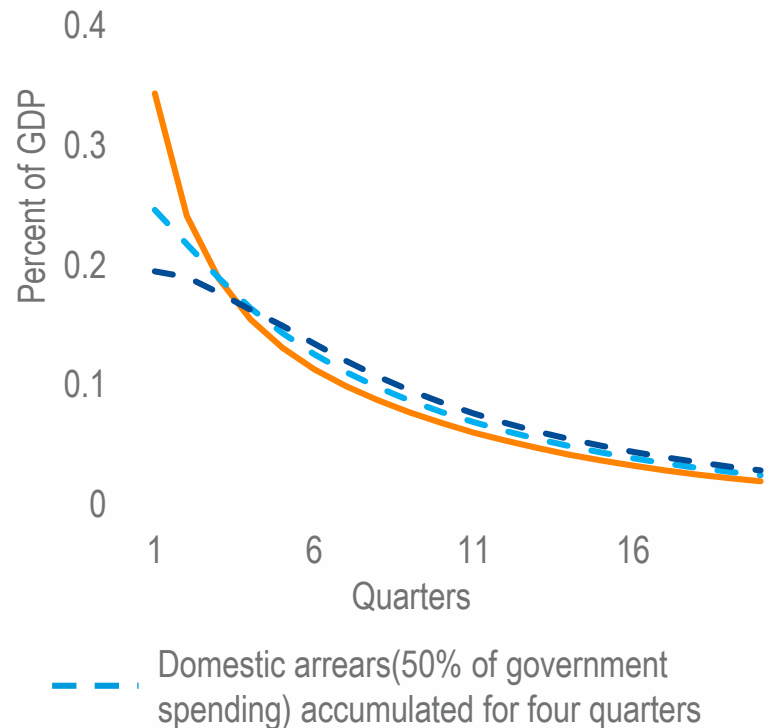
Macroeconomic impact of domestic arrears (4)

Domestic arrears reduce the fiscal multiplier

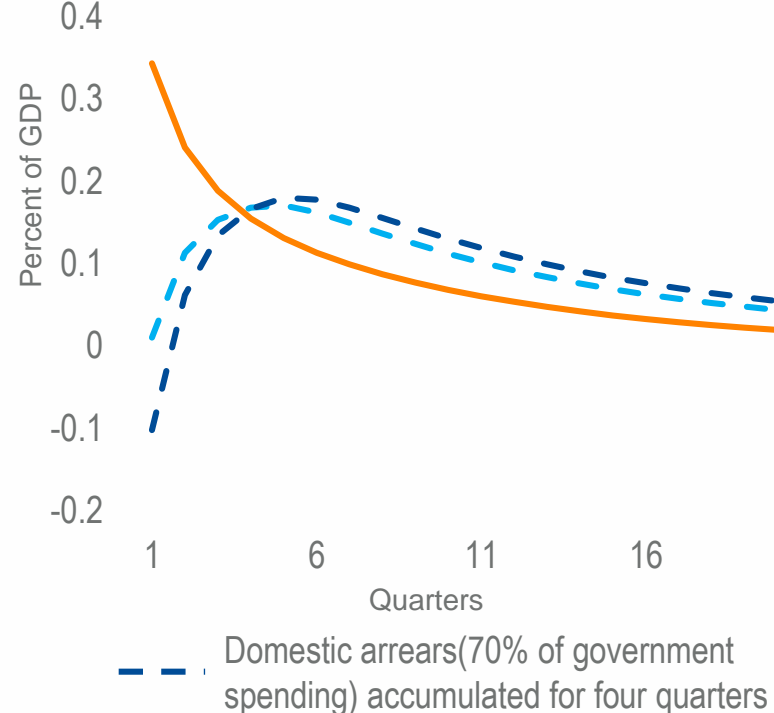
Fiscal multiplier in the presence of government domestic arrears



Fiscal multiplier in the presence of government domestic arrears and liquidity constrained private sector



Fiscal multiplier in the presence of large accumulation of domestic arrears and liquidity constrained private sector



Source: IMF staff calculations.

Roadmap

- Stock taking of domestic arrears in SSA
- Causes of domestic arrears accumulation
- Macroeconomic effects of domestic arrears
- **Cures: clearance and prevention of domestic arrears**

Cures : clearance and prevention of arrears (1)

Essential elements of a clearance strategy

Guiding Principles

Full transparency to address governance concerns.

Prioritization guided by the impact on macro stability and inclusive growth.

Prevention requires a combination of PFM reform, sound fiscal policy, and political commitment.

Steps

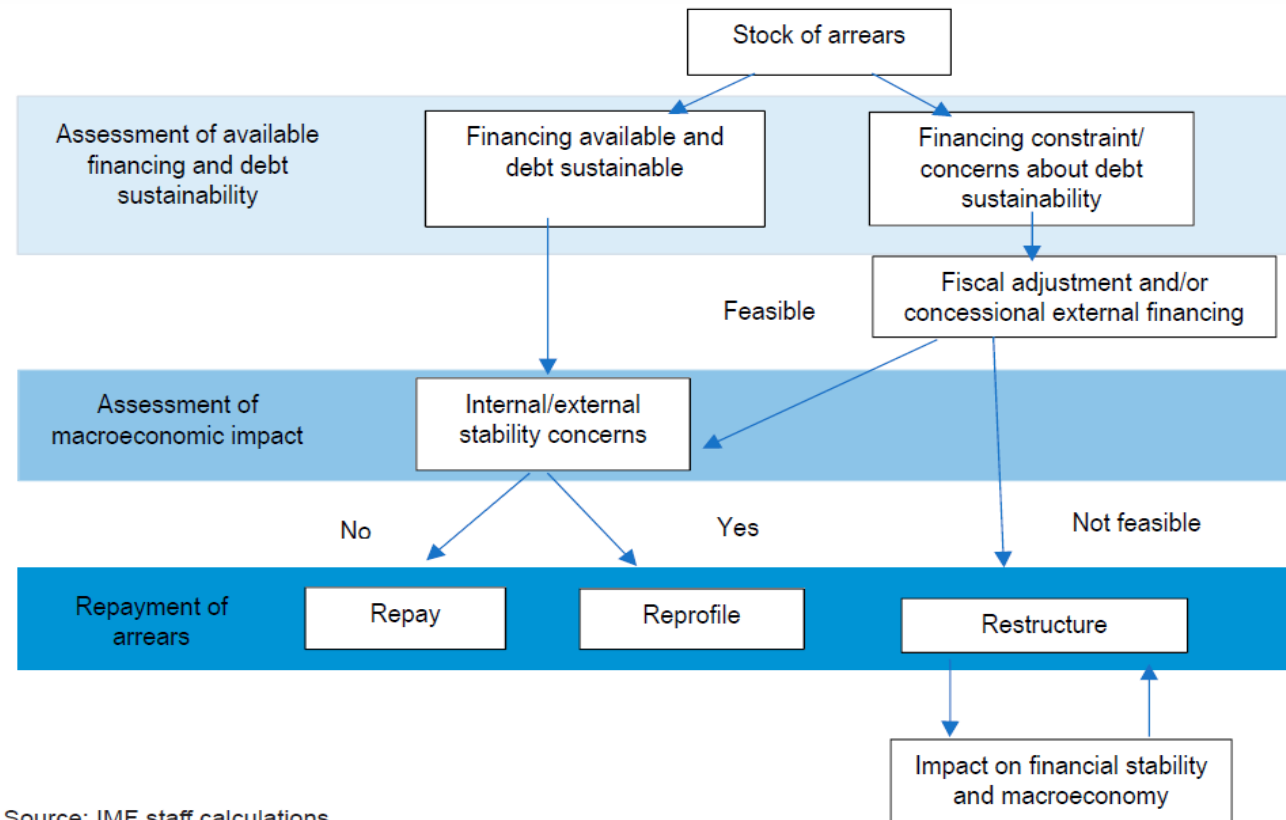
Stocktaking and auditing of arrears

Development of a repayment strategy

Repayment

Cures : clearance and prevention of arrears (2)

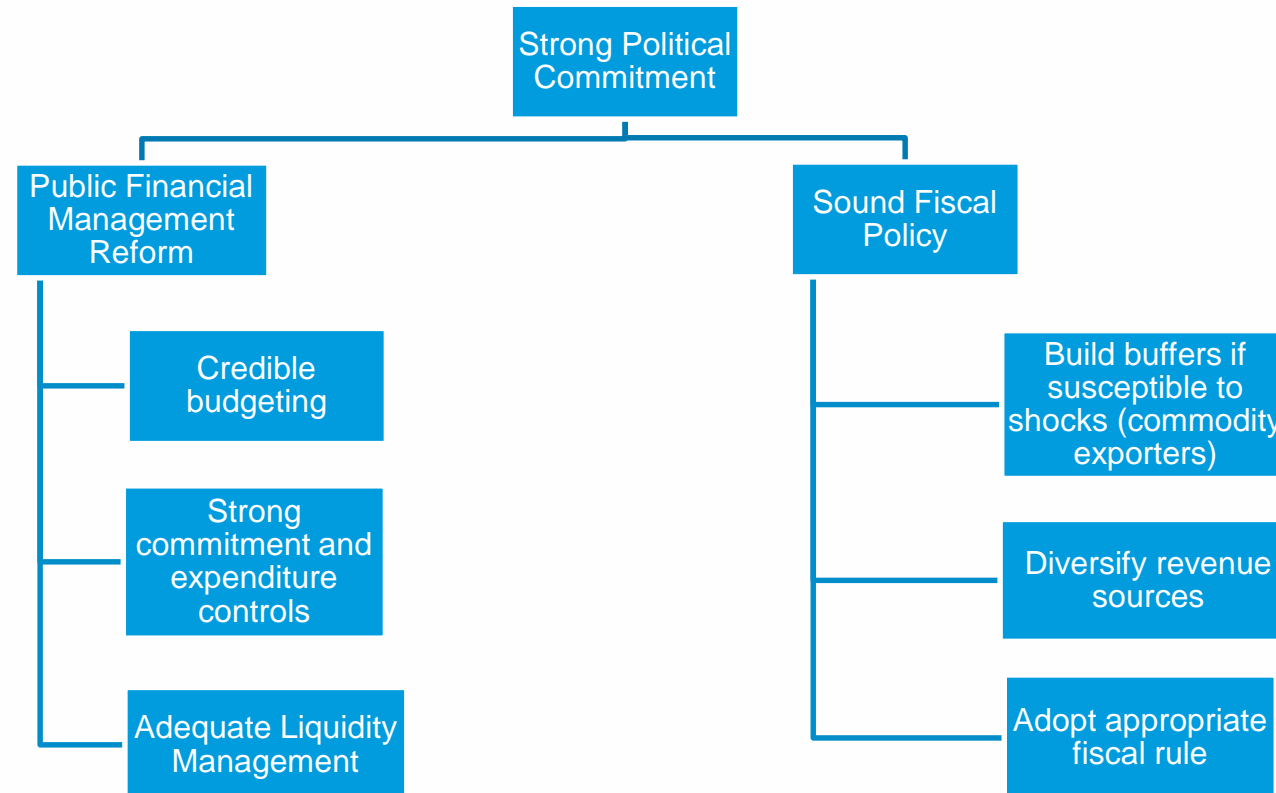
Repaying Arrears – Stylized Decision Tree



Source: IMF staff calculations.

Cures : clearance and prevention of arrears (3)

Preventing Arrears Accumulation



Thank You