

Weathering the Commodity Price Slump

Regional Economic Outlook for Sub-Saharan Africa

African Department
International Monetary Fund
May 3, 2016



Outline

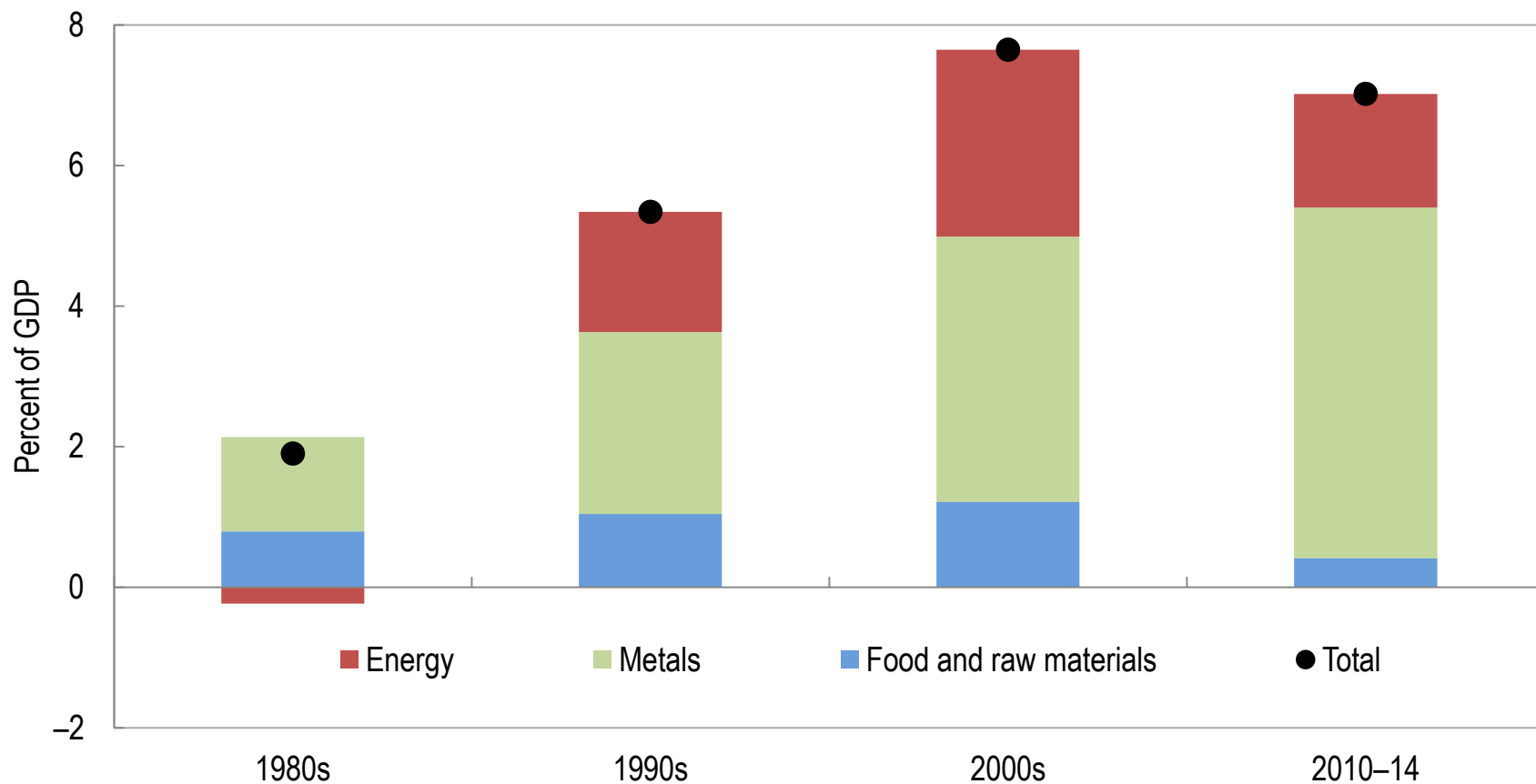


- **Commodity Terms of Trade Cycles in SSA**
- **Commodity Price Swings and Macroeconomic Performance**
- **Policies to Enhance Resilience to Shocks**

SSA: increasing dependence on commodities



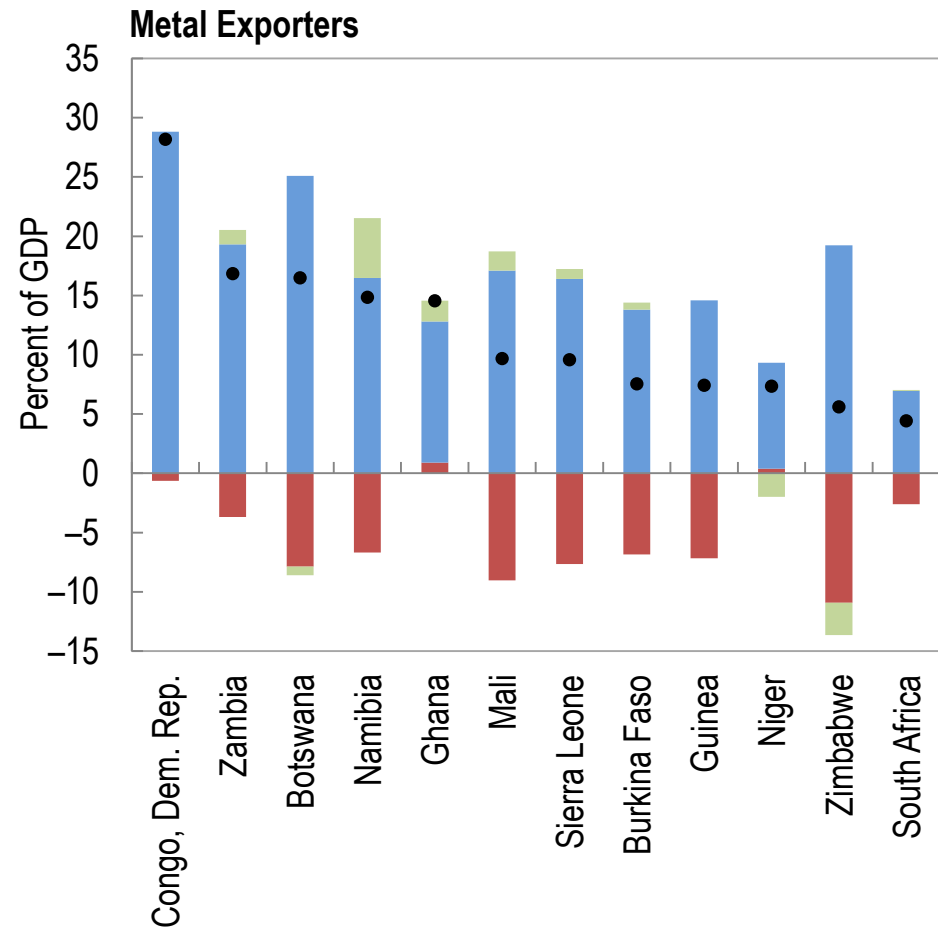
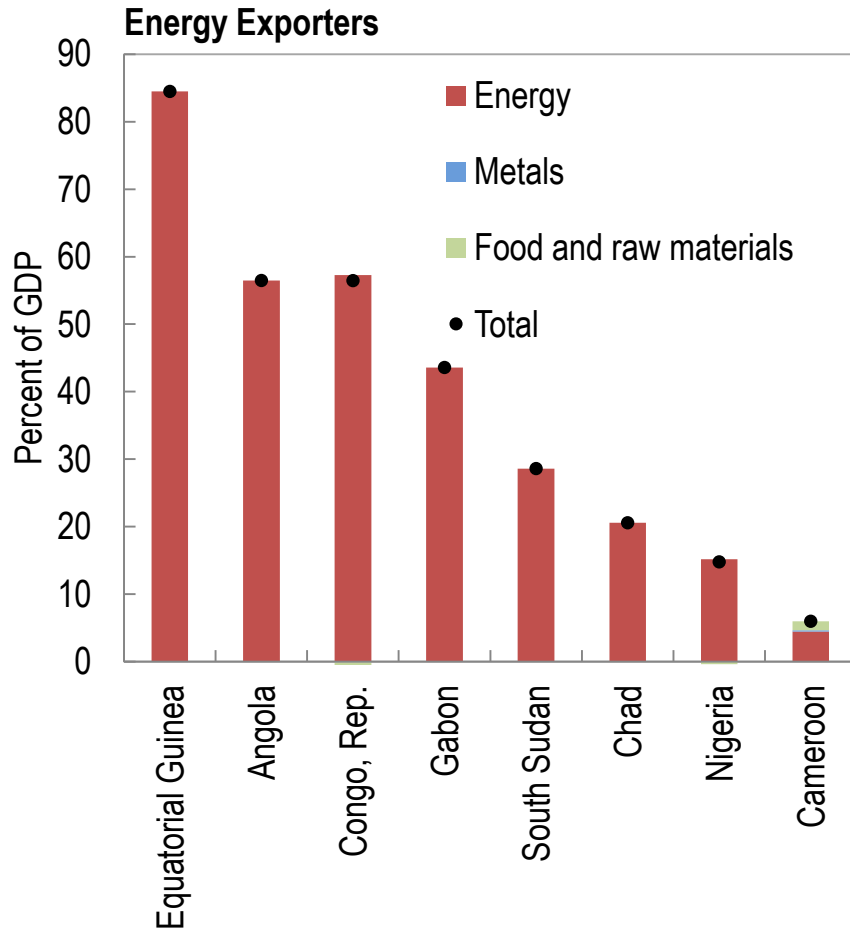
Sub-Saharan Africa: Net Commodity Exports to GDP



Half of the countries export extractive commodities



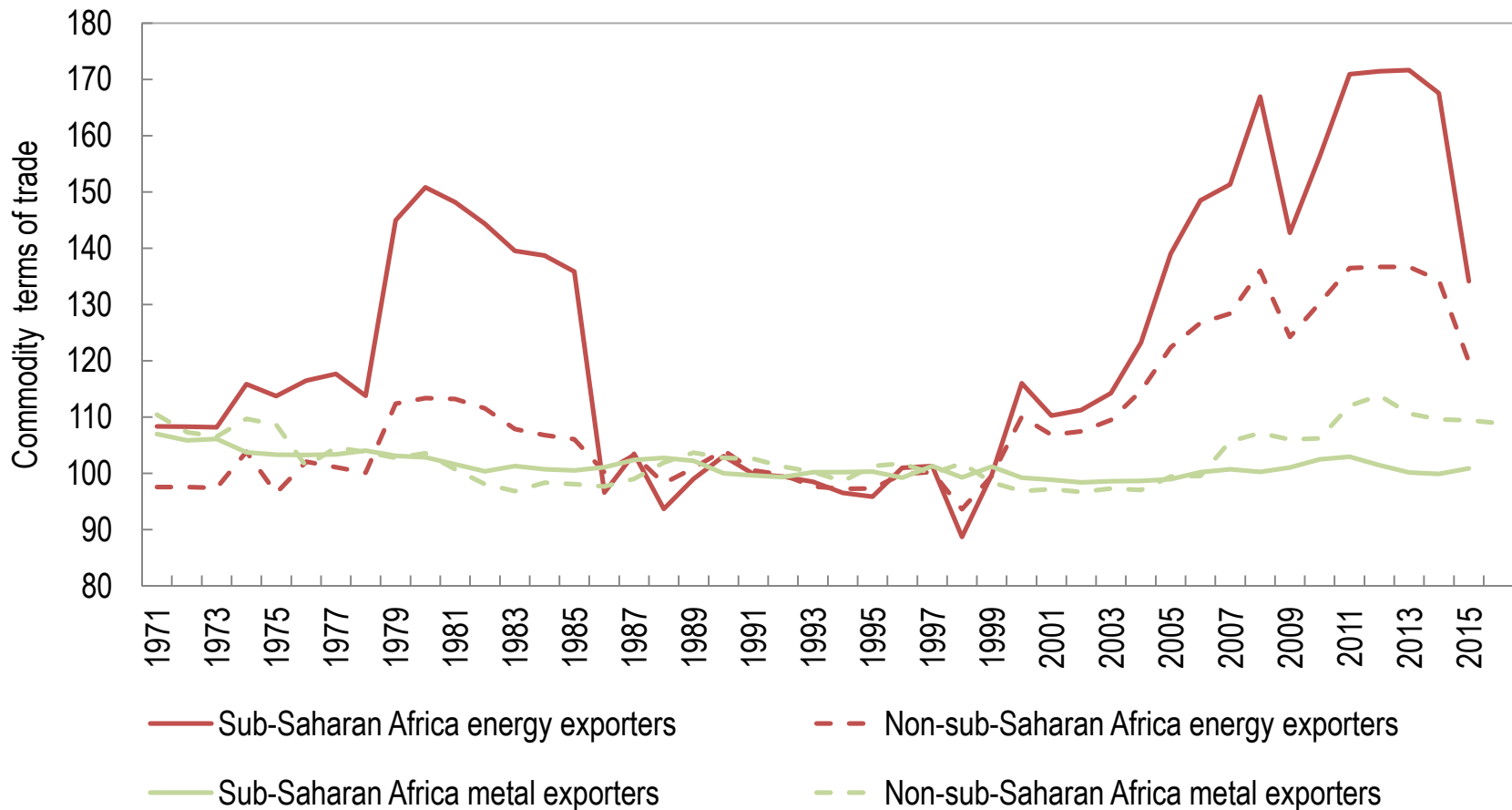
Sub-Saharan Africa: Net Commodity Exports to GDP, 2010–14 Average



Large price swings, large impact



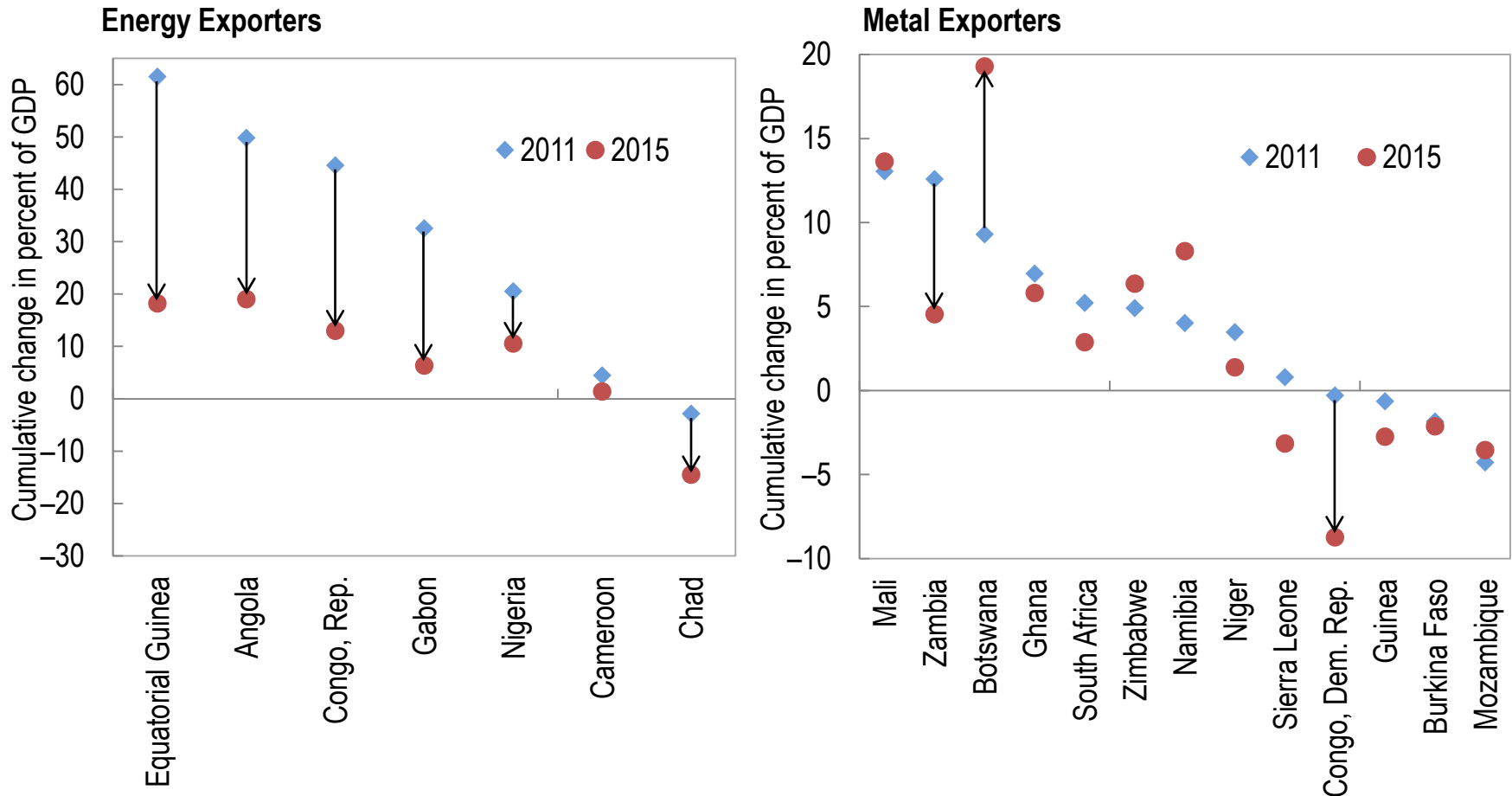
Commodity Terms of Trade
(Index, 100 = 1990–2000 average, median)



Oil exporters' average TOT shock: 20 percent of GDP



Sub-Saharan Africa: Commodity Terms of trade, 2000–15 (Cumulative from 2000; percentage points of GDP)



Outline

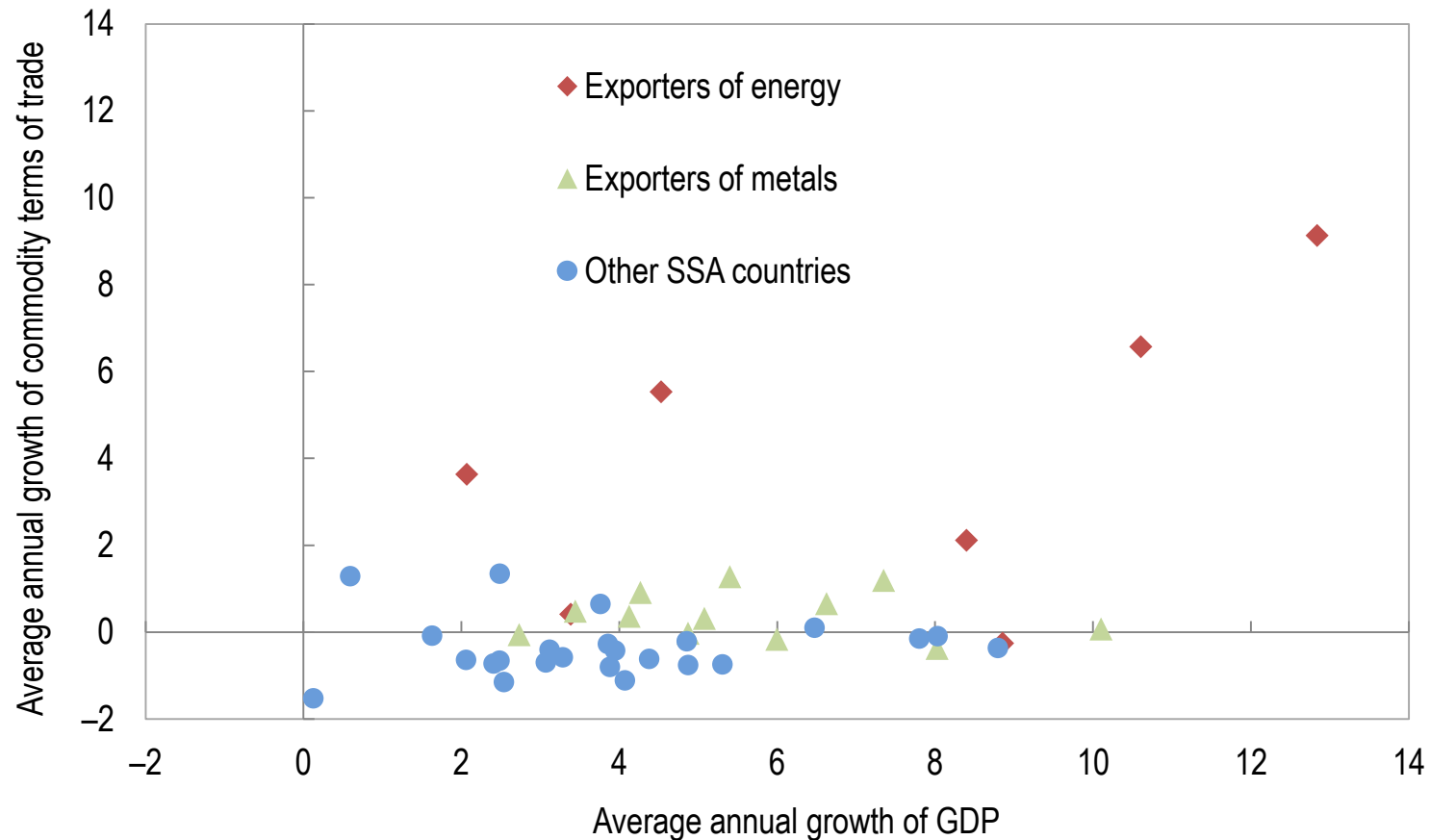


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Strong correlation between activity and oil prices



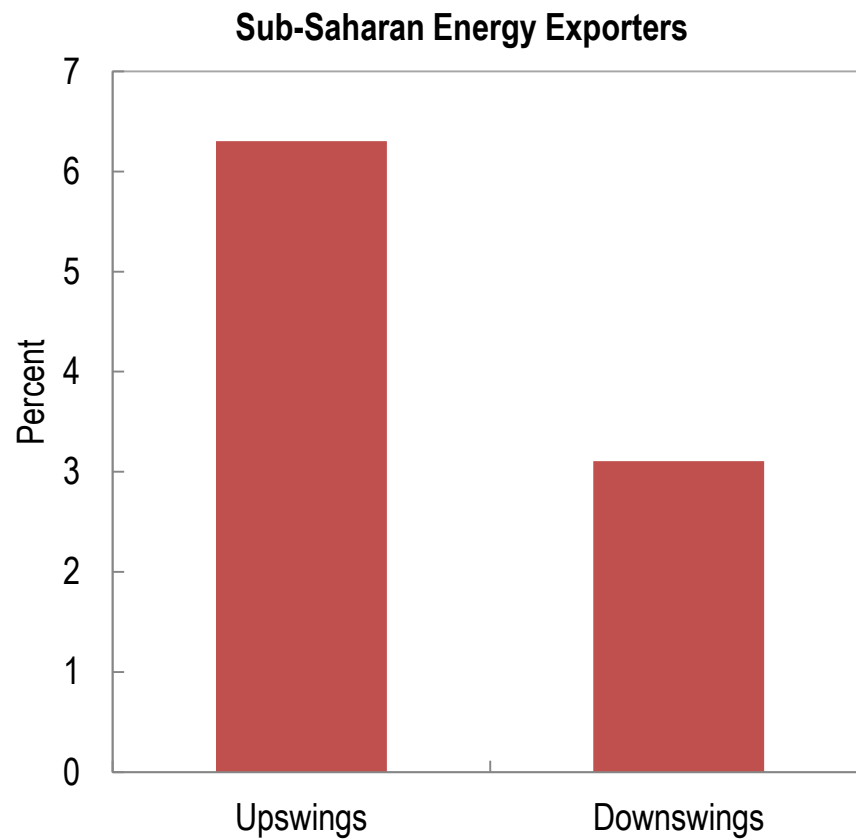
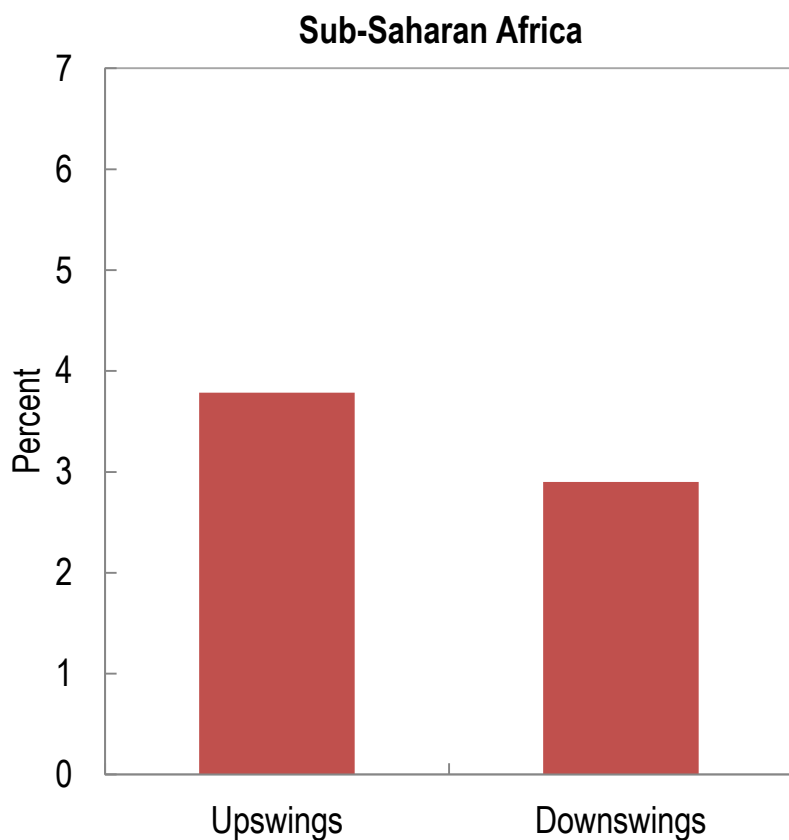
Sub-Saharan Africa: Commodity Terms of Trade and GDP Growth, 2000–11





Commodity swings and real GDP growth

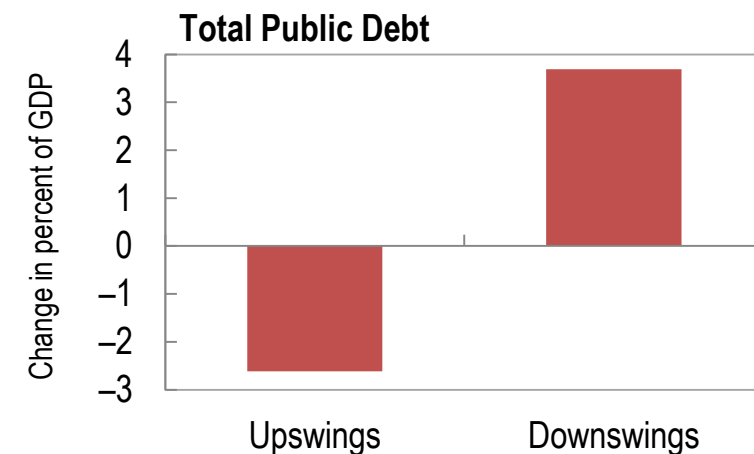
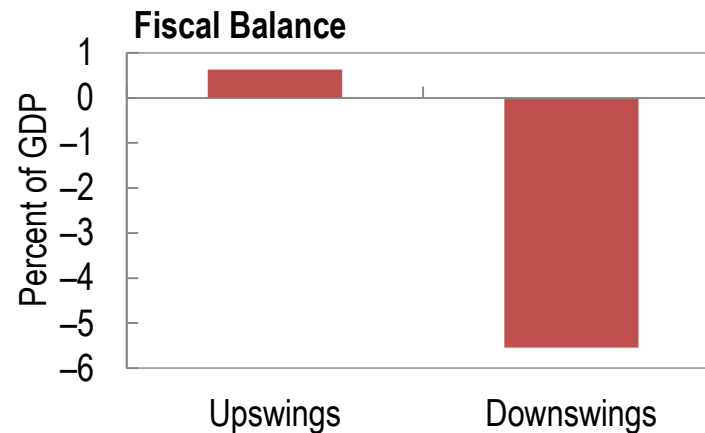
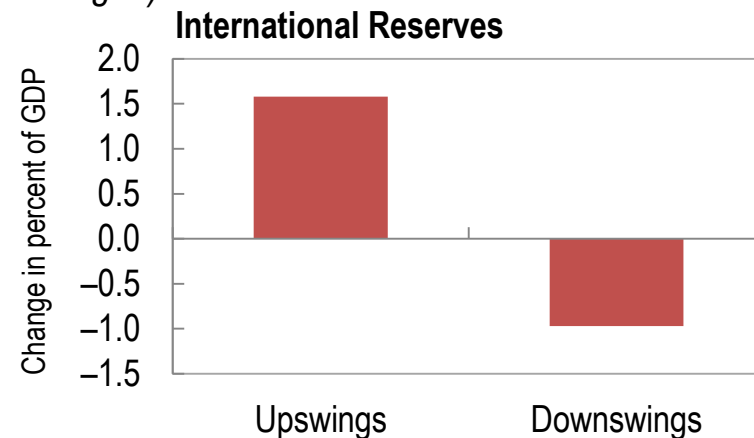
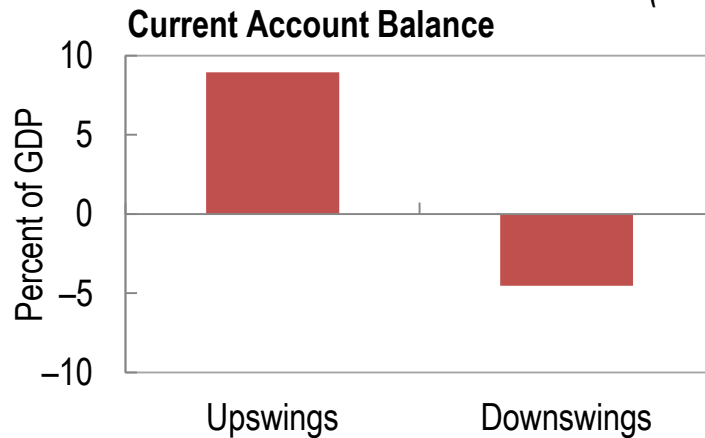
SSA: Real GDP Growth during Commodity Price Upswings and Downswings *(Three year averages)*



Other macroeconomic variables also react strongly



Energy Exporters: Macroeconomic Variables during Upswings and Downswings (Three-year averages)

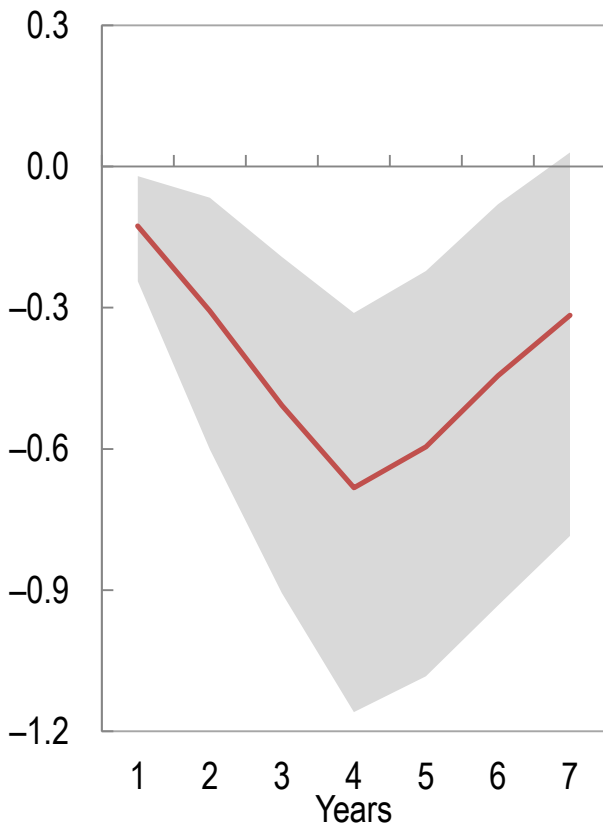


Weak outlook for energy prices: strong headwinds

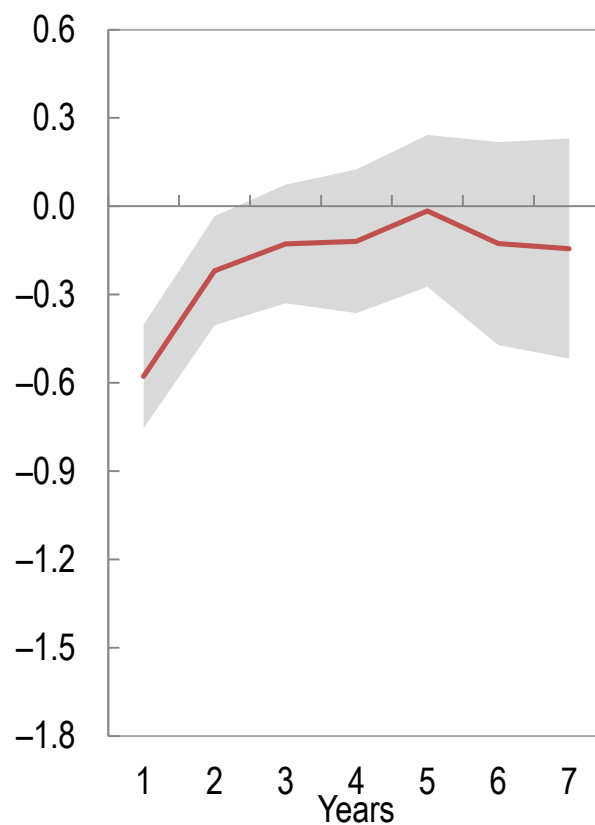


SSA: Effects on Energy and Metal Exporters of Commodity Terms-of-Trade Shock (Percentage points)

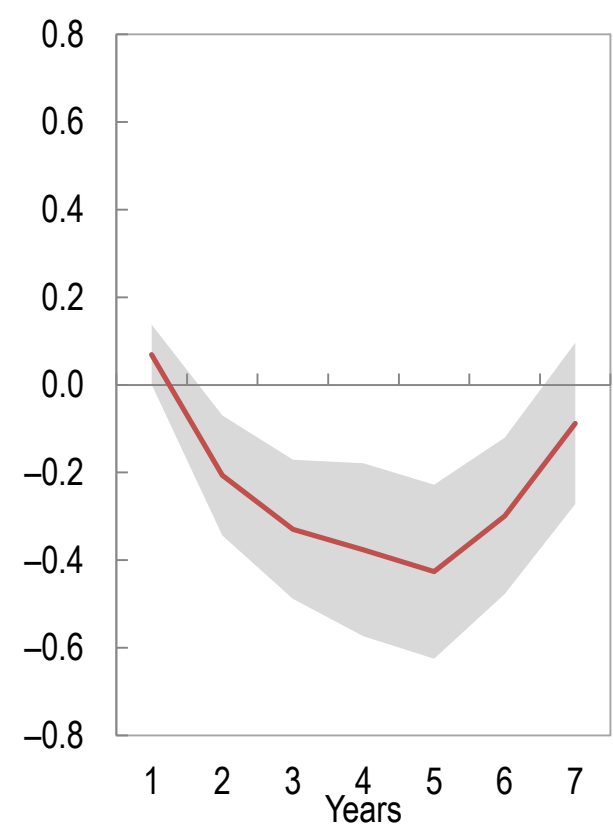
Effect on GDP



Effect on Trade-Balance-to-GDP Ratio



Effect on Fiscal-Revenue-to-GDP Ratio



Outline



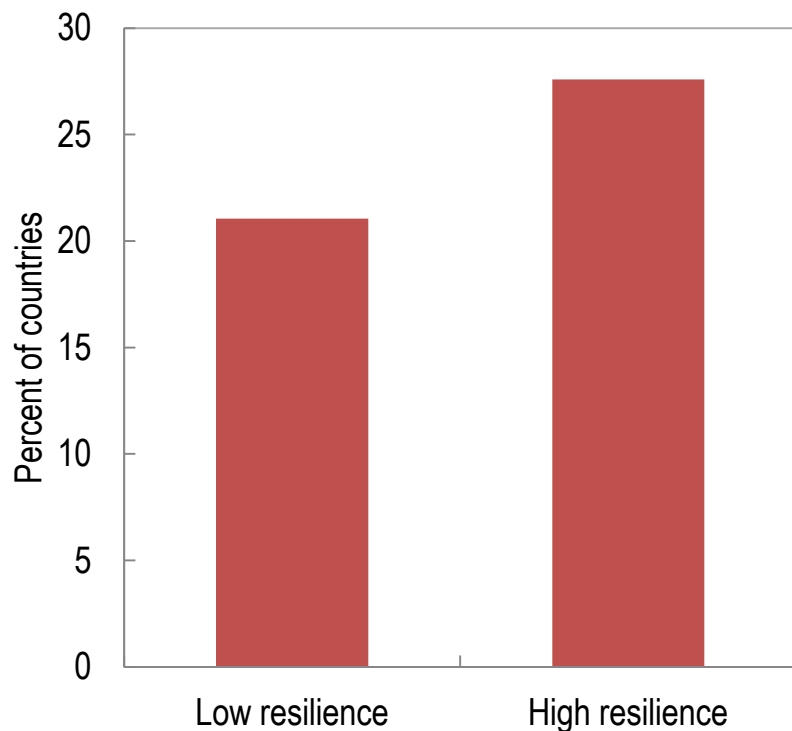
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- **Policies to Enhance Resilience to Shocks**

Exchange rate flexibility and low public debt have helped weather commodity price shocks

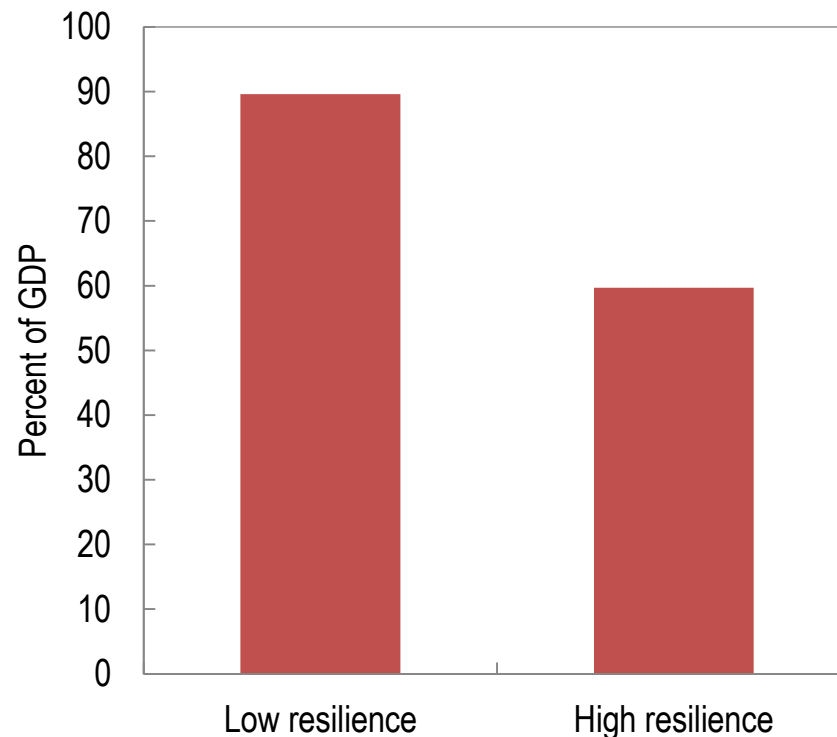


SSA: Exchange Rate Flexibility and Public Debt in Episodes of Low and High Resilience of Growth

Share of Countries with a Flexible Exchange Rate



Total Public Debt



Analysis of previous episodes of price downturns:



Dependent variable: Difference in real GDP growth (average) between the three years after the terms-of-trade shock and the three years prior to the shock.

Shock size and types

Size of terms-of-trade shock: three years (cumulative)

(1)

(2)

-0.270***

-0.228***

Shocks caused by decline in export prices (dummy)

-2.994**

-4.096***

Initial Conditions

International reserves above median at time t_0 (% of GDP)

0.335***

0.367***

High external debt before shock (40% of GDP or more)

1.150

0.381

Flexible exchange rate regime (de facto) at time t_0

3.215**

Policy Reactions

Growth of real government consumption during shock (average)

0.356***

0.279**

Growth of real government consumption x high external debt at time t_0

-0.283*

-0.245

Broad money growth during shock

0.057*

0.006

Depreciation of nominal exchange rate

0.138***

Exchange rate collapse: 45% or more depreciation

-0.097***

-0.161***

Observations (terms-of-trade shock events)

119

119

Countries

76

76

R-squared

0.50

0.51

Urgent need for policy response



- The exchange rate should be part of the policy response and should not be delayed

- With diminishing policy space, fiscal adjustment is called for, especially in countries in a currency union, such as the CEMAC:
 - Revenue mobilization
 - Spending streamlining

Apart from immediate policies, vision for the longer term should be maintained



- Beyond necessary short-term policy actions, the focus should turn squarely toward economic diversification
 - Efforts to upgrade infrastructure and skills should continue.
 - To unleash the potential of increased private sector economic activity, stronger efforts are needed to improve the business climate and efficiency of public spending



World Economic and Financial Surveys

Regional Economic Outlook

Sub-Saharan Africa

Time for a Policy Reset

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Thank You!

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