

International Monetary Fund

African Department



Importance of Competition on Growth in sub-Saharan Africa

Patrick Imam

International Monetary Fund

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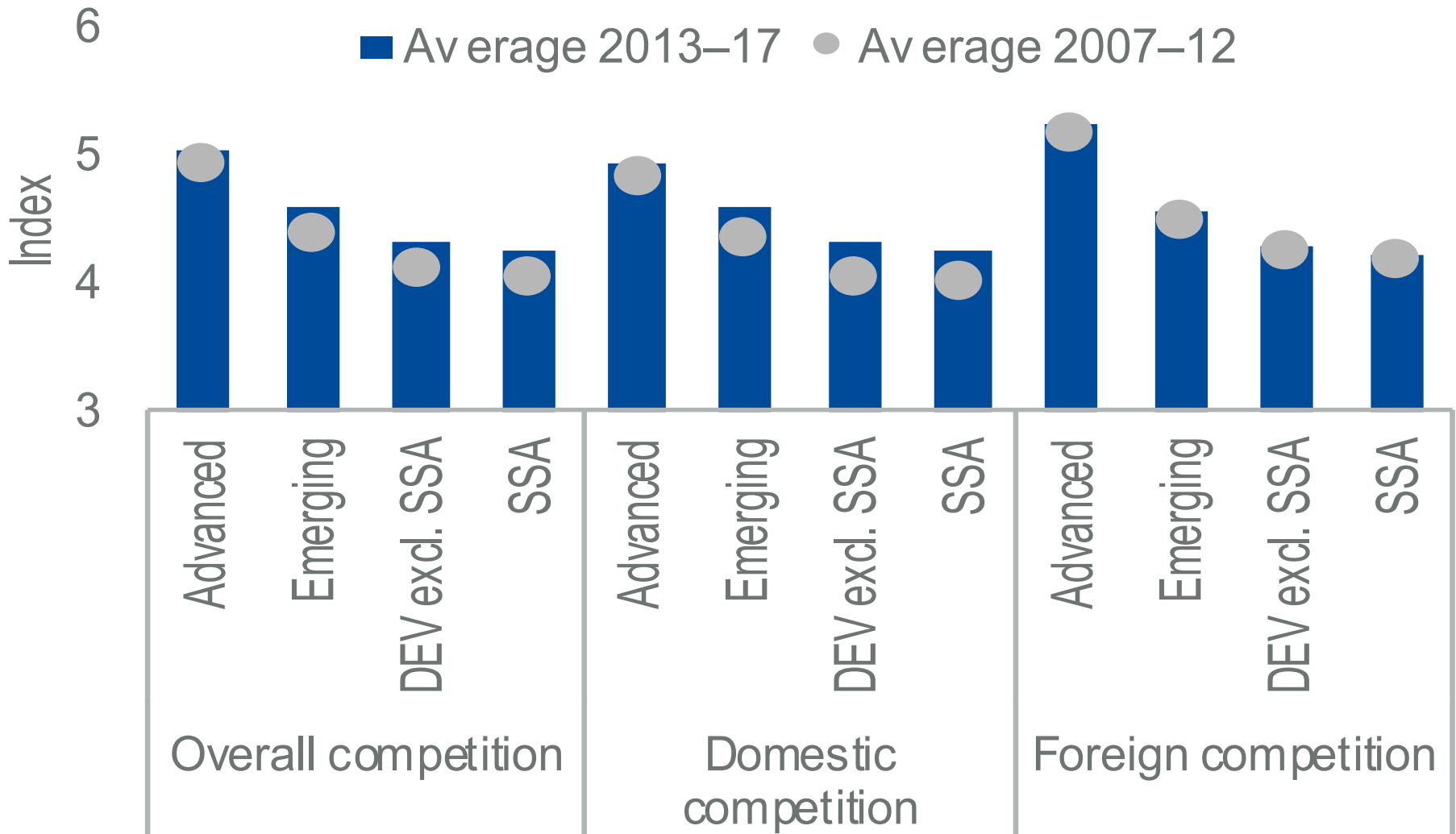
Roadmap

- **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



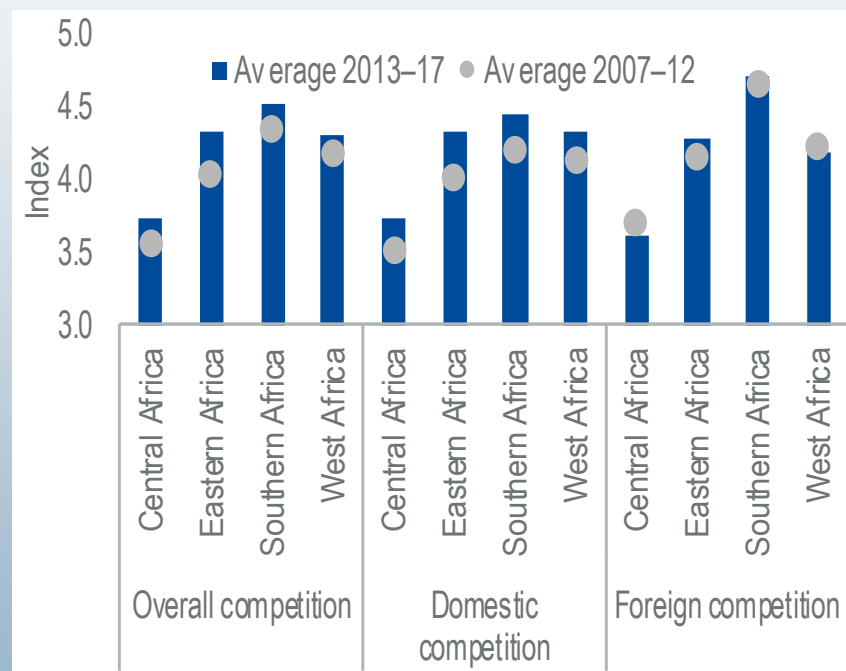
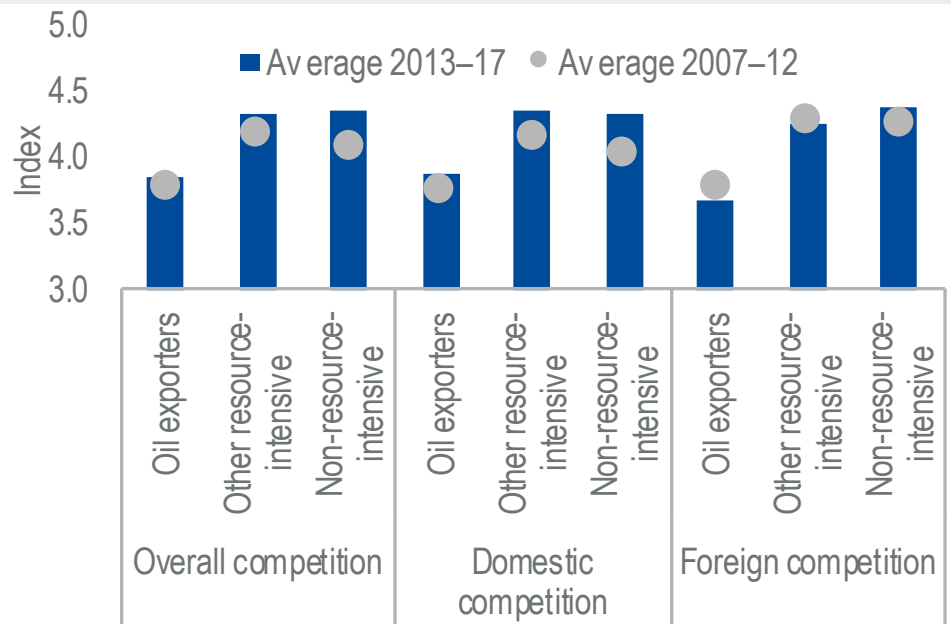


But there is considerable heterogeneity across countries

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

By resource intensity

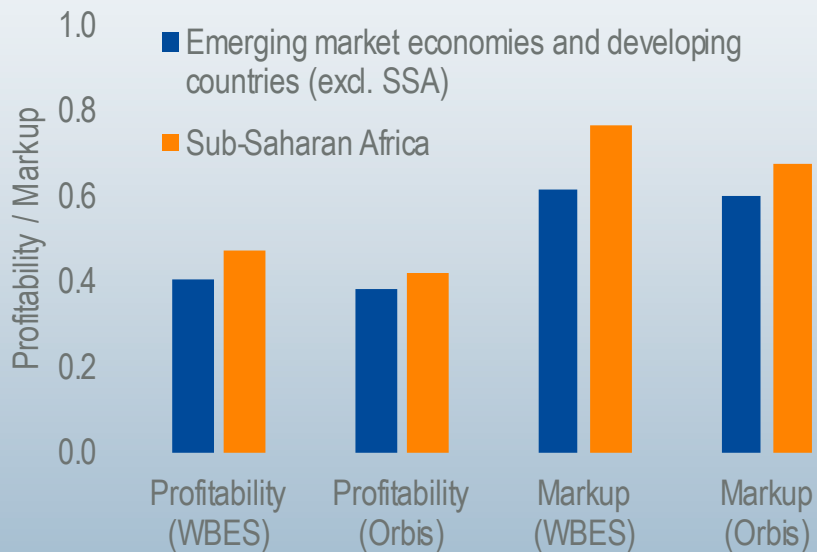
By region





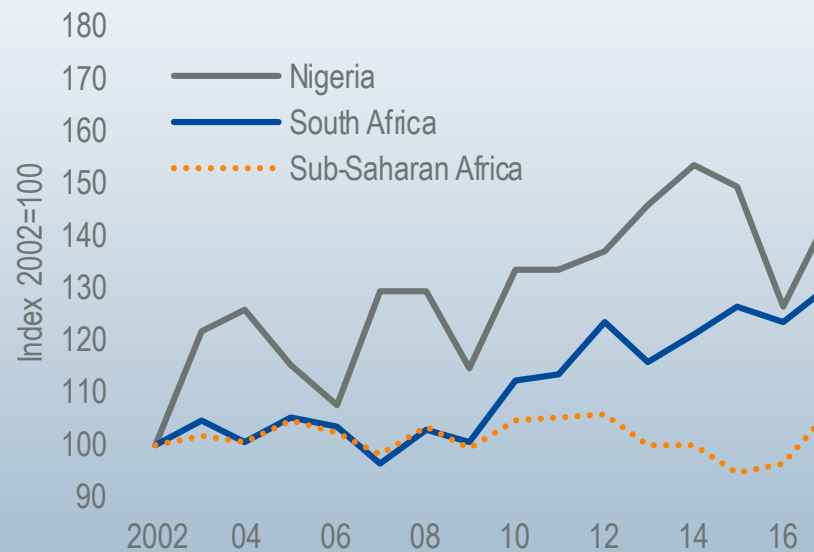
High profitability and markups, and rising in some major economies

Firm-level competition indicators



Sources: World Bank Enterprise Survey and Orbis.

Firm Markups



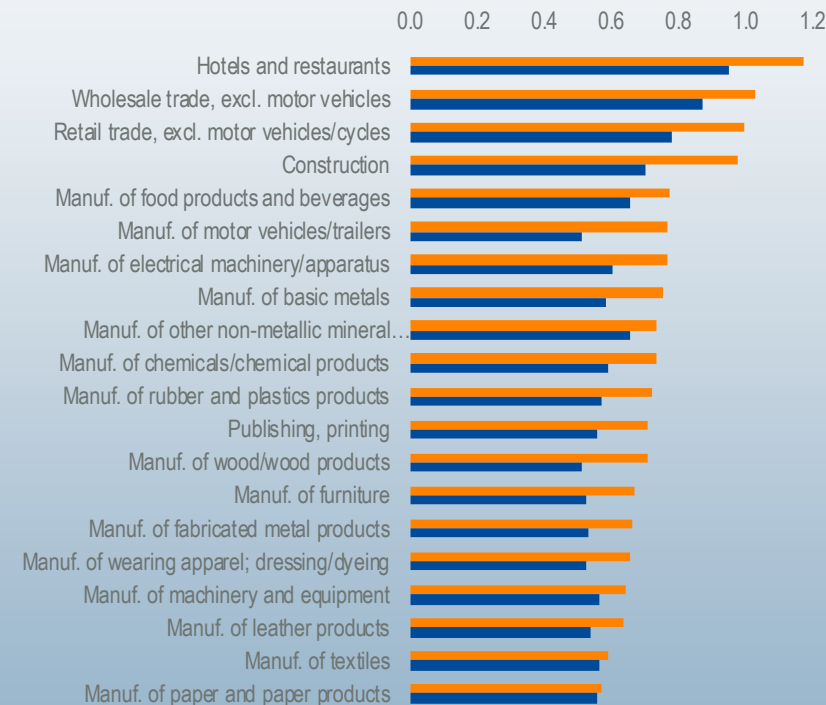
Sources: Orbis database.



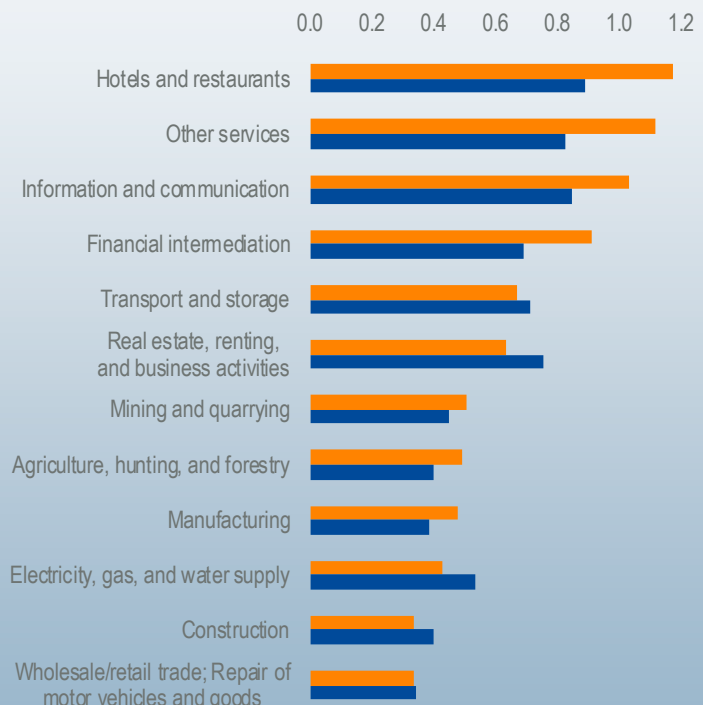
Competition is weaker across nearly all sectors, especially in non-tradables

Firm markups by sector

■ Sub-Saharan Africa ■ Emerging market economies and developing countries (excl. SSA)



Source: World Bank Enterprise Survey.



Source: Orbis database.

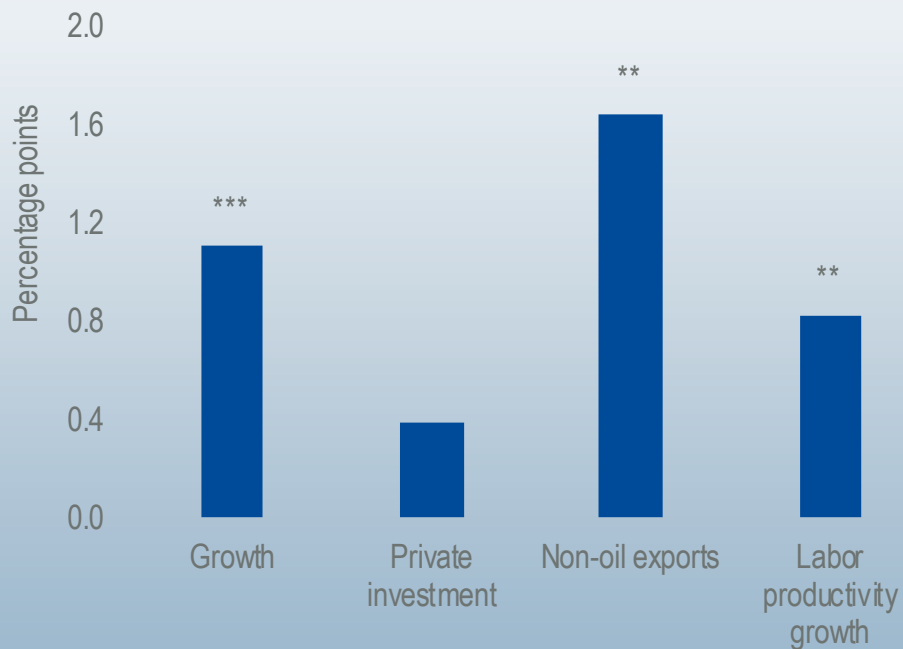
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Sub-Saharan Africa will benefit from enhanced competition

Effects on Macroeconomic Performance

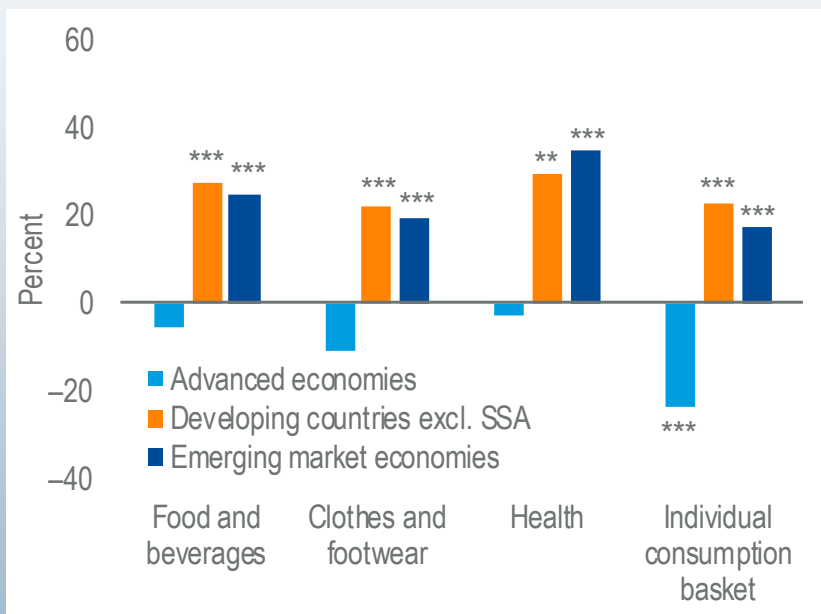


Sources: IMF Staff calculations.



Increasing competition helps lower prices, improving welfare and competitiveness

Price differentials with other countries



Sources: World Bank, International Comparison Program.

Effects of increased competition on prices



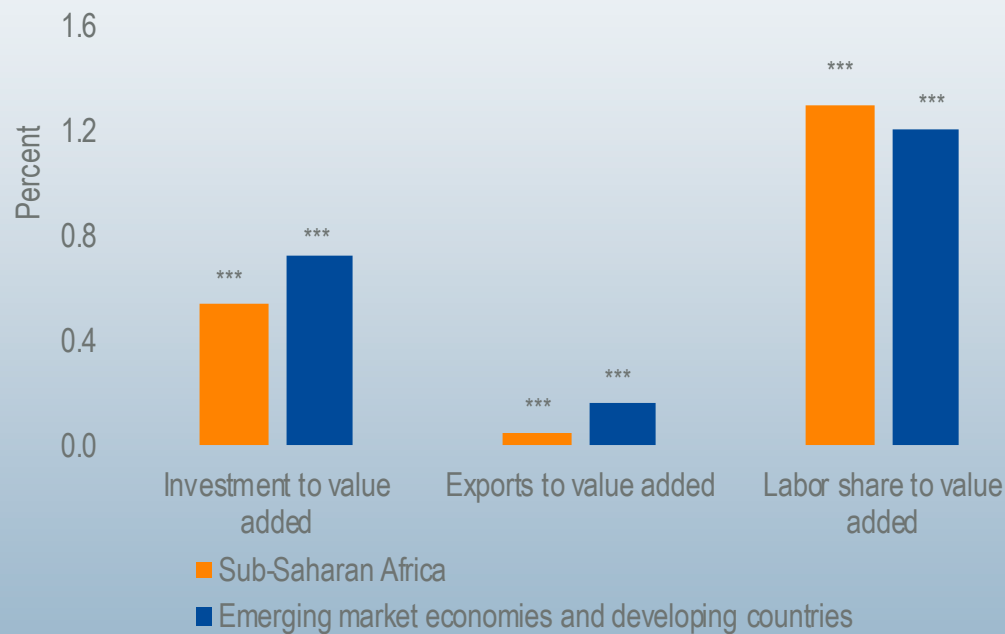
Sources: IMF Staff calculations.



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

Effects on Firms' Behavior

(World Bank firms data)



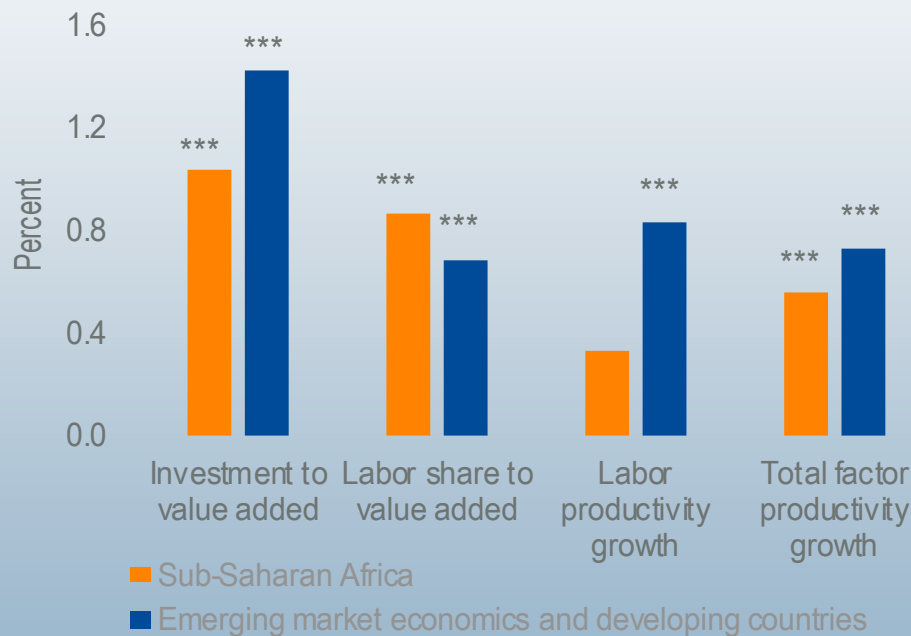
Sources: IMF Staff calculations.



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

Effects on Firms' Behavior

(Orbis firms data)



Sources: IMF Staff calculations.

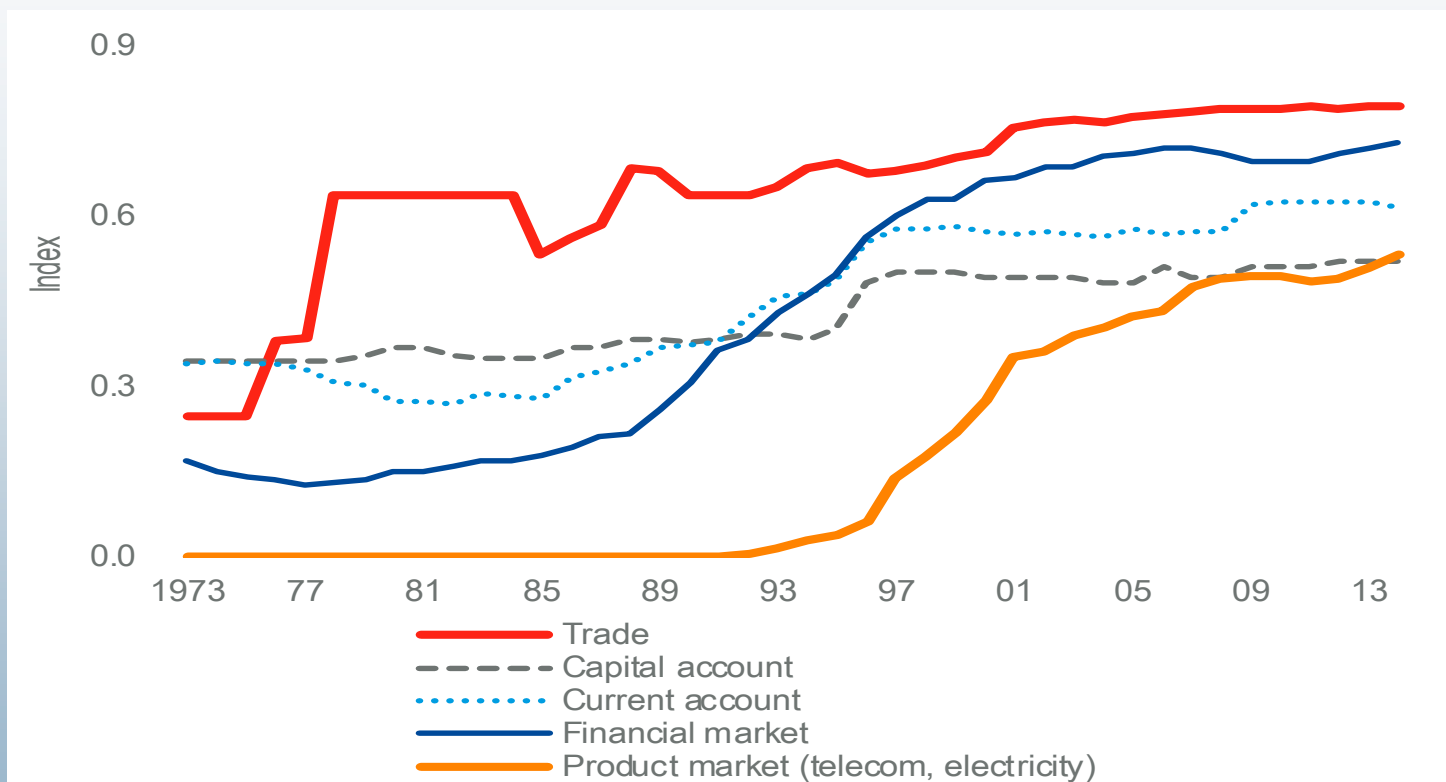
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Momentum of product market reforms appears to have slowed down in the last decade

Structural Reforms, 1973-2014

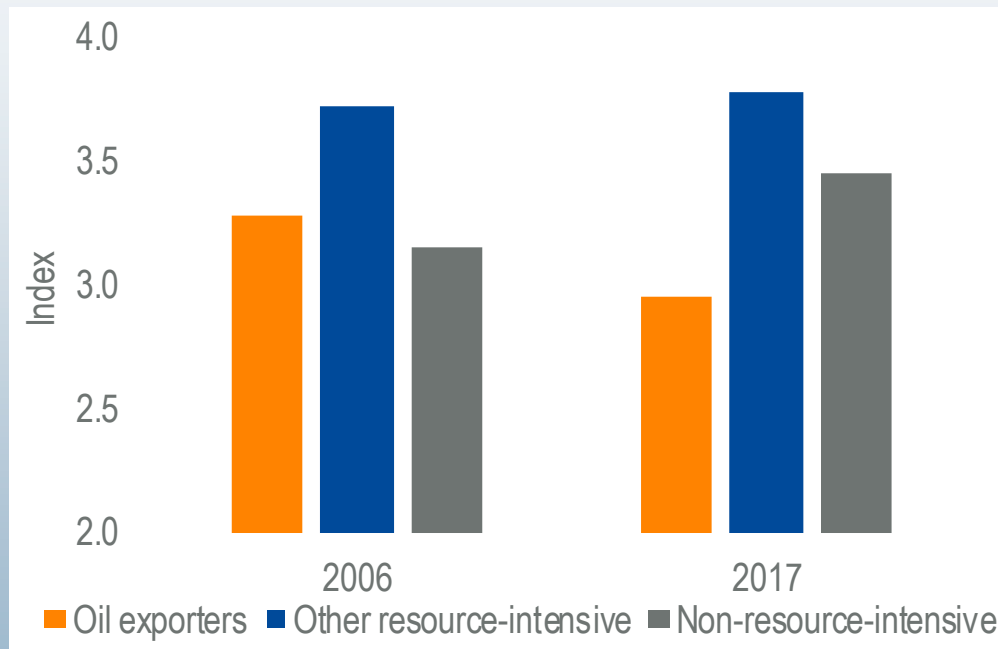


Sources: IMF Staff calculations.



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



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



How Zimbabwe can improve competition to enhance growth

- Competition policy is of secondary order in current economic context
- The unstable macro-economic environment hampers competition, by e.g. discouraging investment
- Key challenge is to contain fiscal spending consistent with non-inflationary financing and tighten monetary policy to stabilize the exchange rate and start rebuilding confidence.
- There are risks to budget execution that higher expenditures will need to be absorbed by the central government which doesn't have the means and could push the deficit back into an unsustainable stance.



Macro-economic reforms are key...

- **Stabilizing the economy through fiscal adjustment :** contain fiscal spending consistent with non-inflationary financing through e.g. eliminating inefficient spending such as fuel (and to some extent electricity) subsidies
- **Stabilize exchange rate:** Tighten monetary policy and improve foreign exchange market operations. Also improve the transparency on monetary statistics.
- **International re-engagement:** Accelerate the path of international reengagement, by accelerating the pace of political reforms
- The authorities have committed to move on all three fronts, but progress has been uneven, exacerbating economic instability



... as are structural reforms.

- Besides working on macroeconomic stability, the authorities have also starting to address structural impediments to competition
 - ◆ The authorities have undertaken steps to reform and privatize inefficient state-owned enterprises.
 - ◆ Work is ongoing on improving the ease of doing business (moved 15 places from 155 to 140 in latest ranking)
 - ◆ the authorities are also moving on addressing governance failures.



Thank you