

**International Monetary Fund**  
African Department

# **Navigating Uncertainty in sub-Saharan Africa**



Patrick Imam  
International Monetary Fund  
November, 2019

The views expressed do not necessarily reflect the views of the IMF or the Executive Board of the IMF.

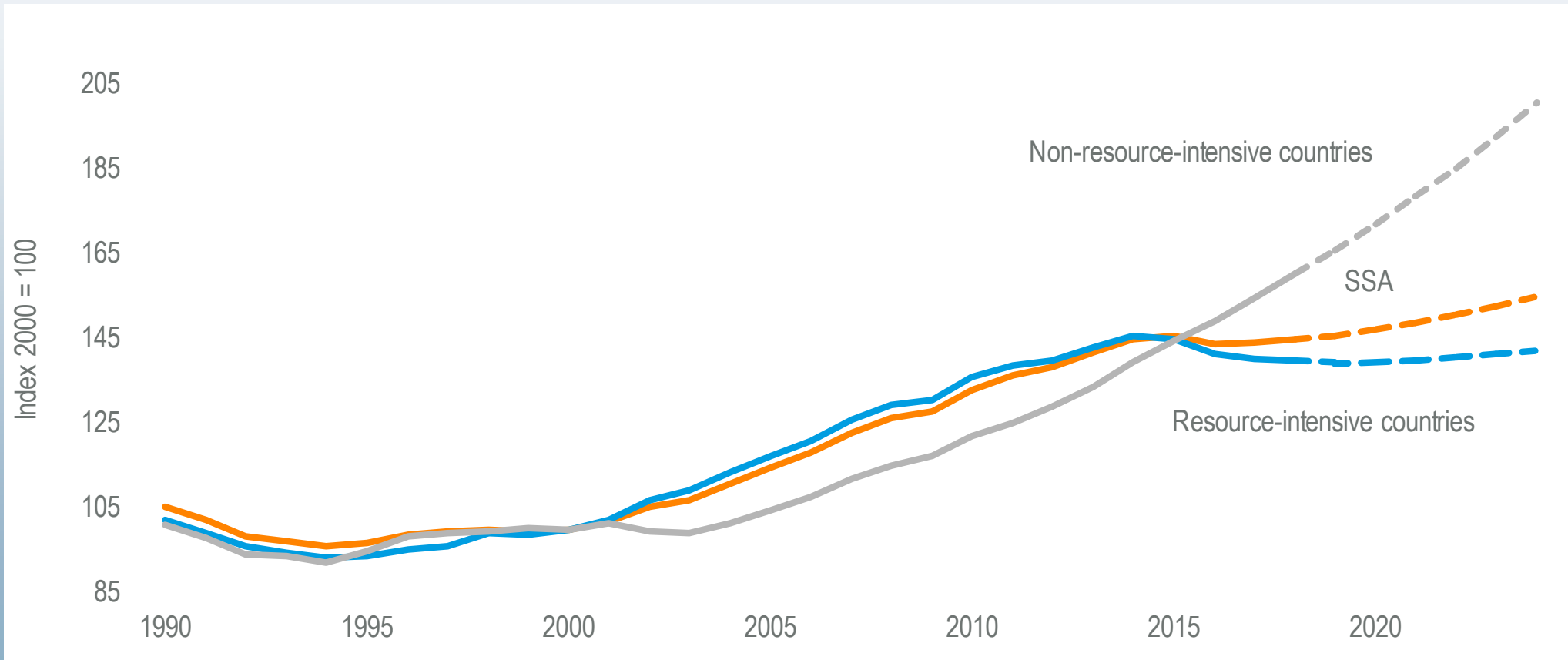
# Roadmap

- **Recent Developments and Outlook**
  - ◆ Macro Policies and Structural Reforms
  - ◆ Response to Downside Risks
  - ◆ Zimbabwe's economic outlook



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

## Real GDP per Capita, 1990–2024

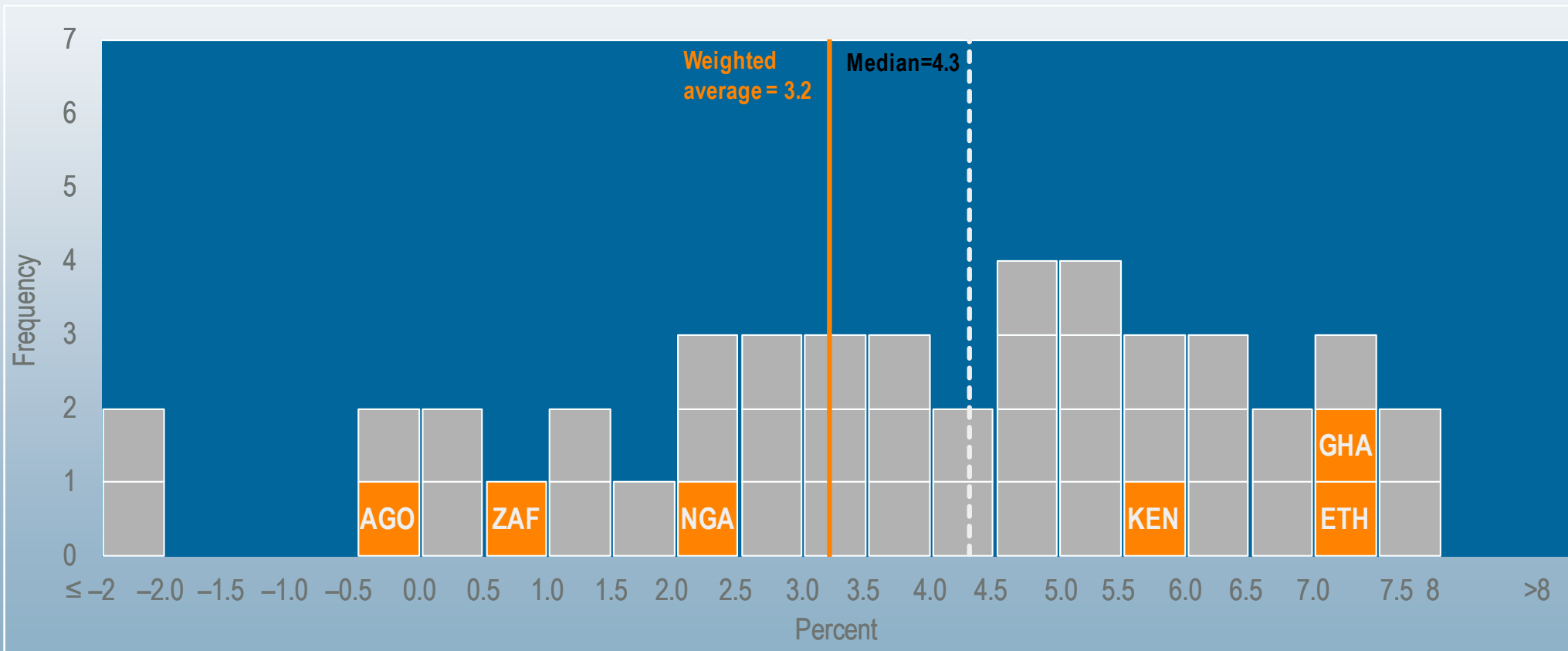


Source: IMF World Economic Outlook database.



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

## Real GDP Growth Distribution, 2020

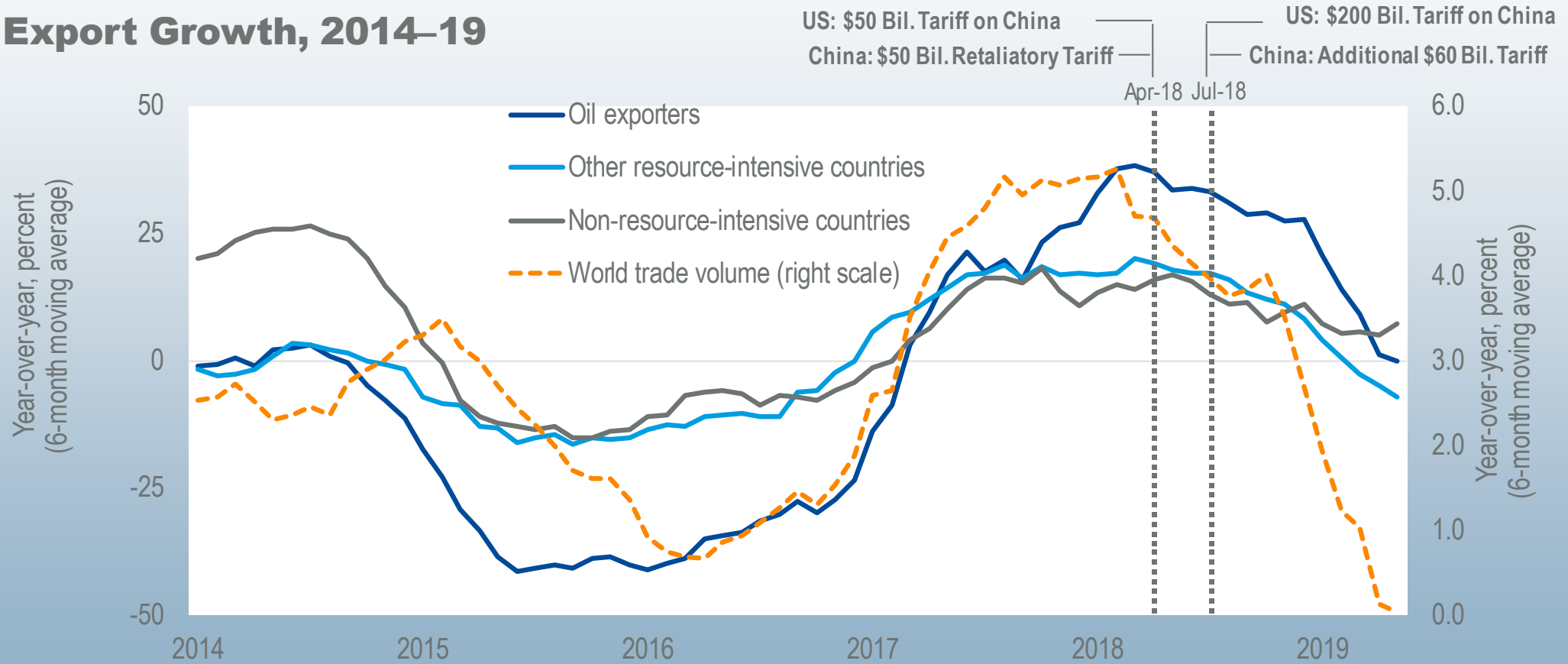


Source: IMF World Economic Outlook database.



# Global developments pose significant downside risks to growth

## Export Growth, 2014–19

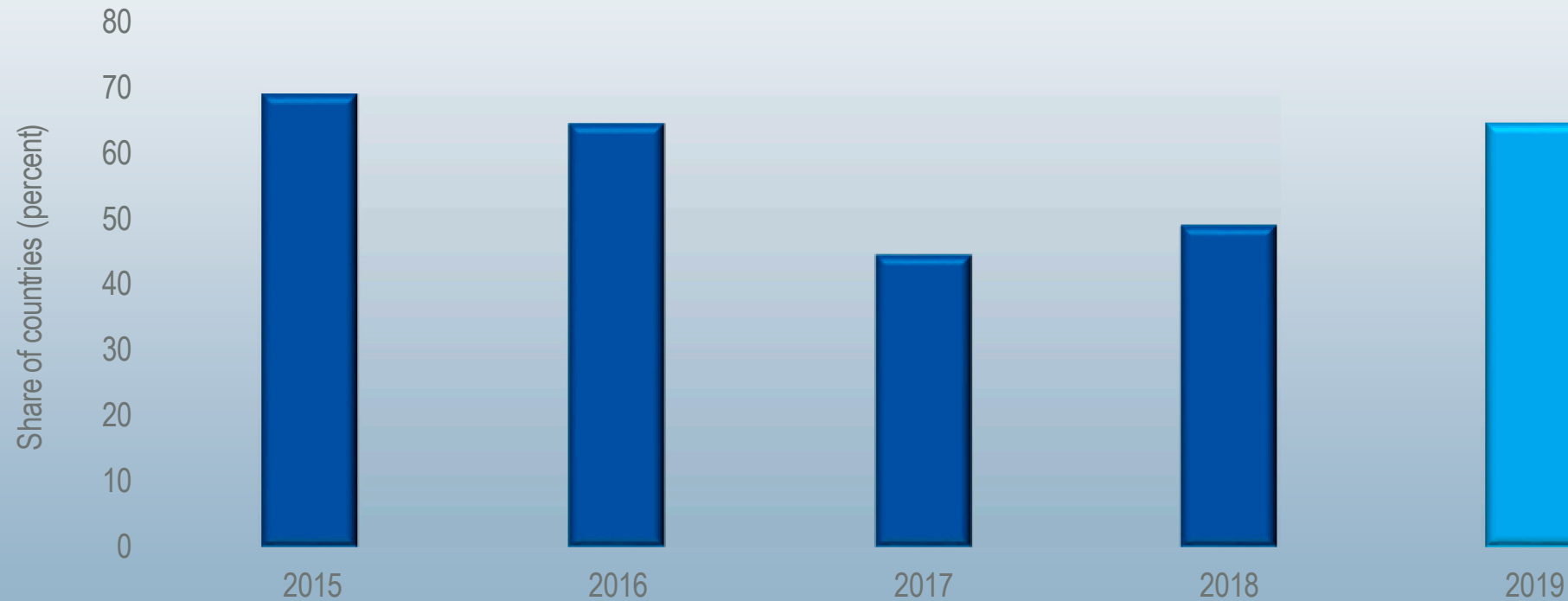


Source: IMF, Direction of Trade Statistics.



# 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.)

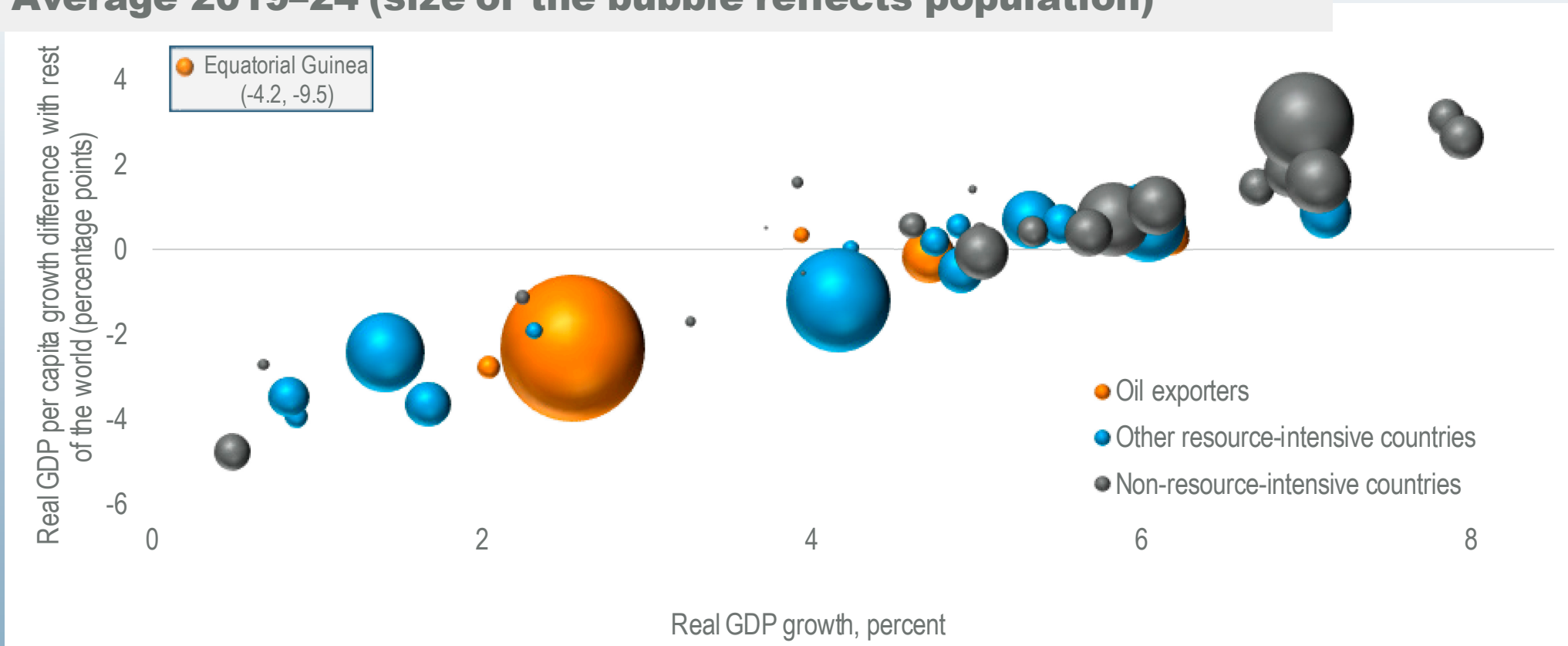


Source: IMF World Economic Outlook database.



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

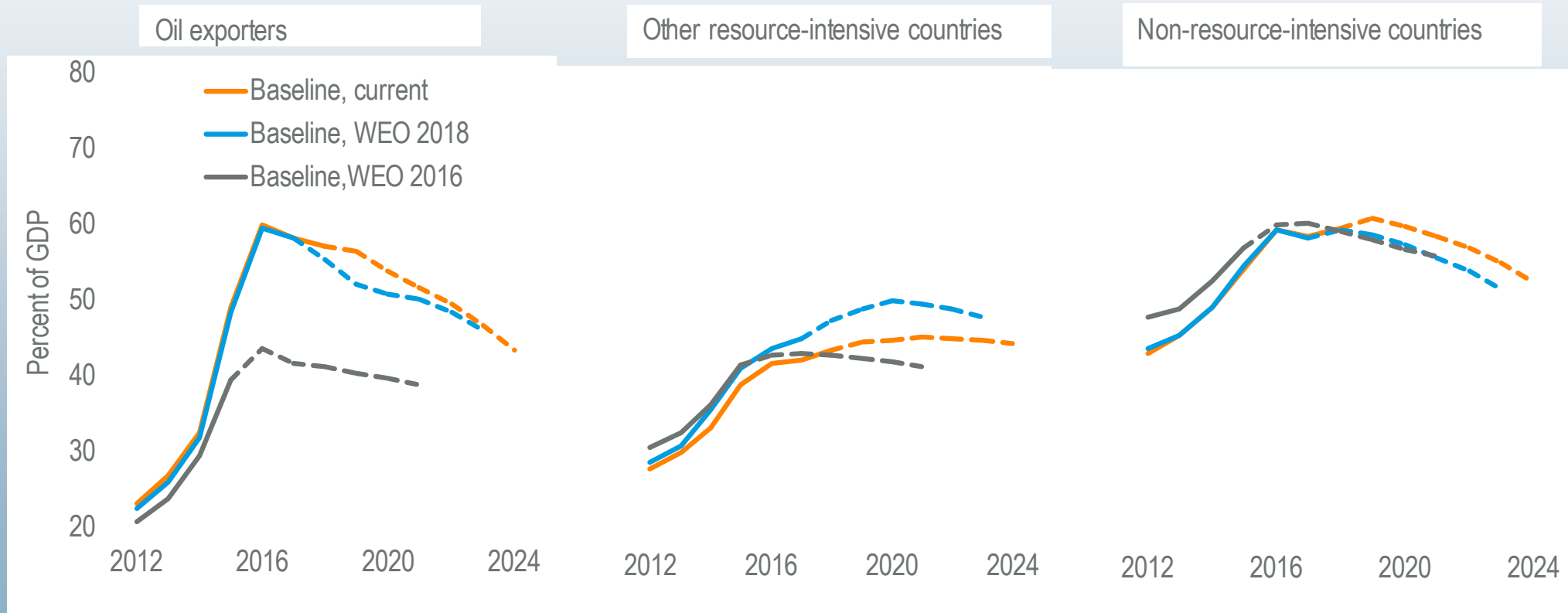
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# Implementing fiscal consolidation plans should stabilize or lower debt ratios

## Public Debt to GDP, 2012–24

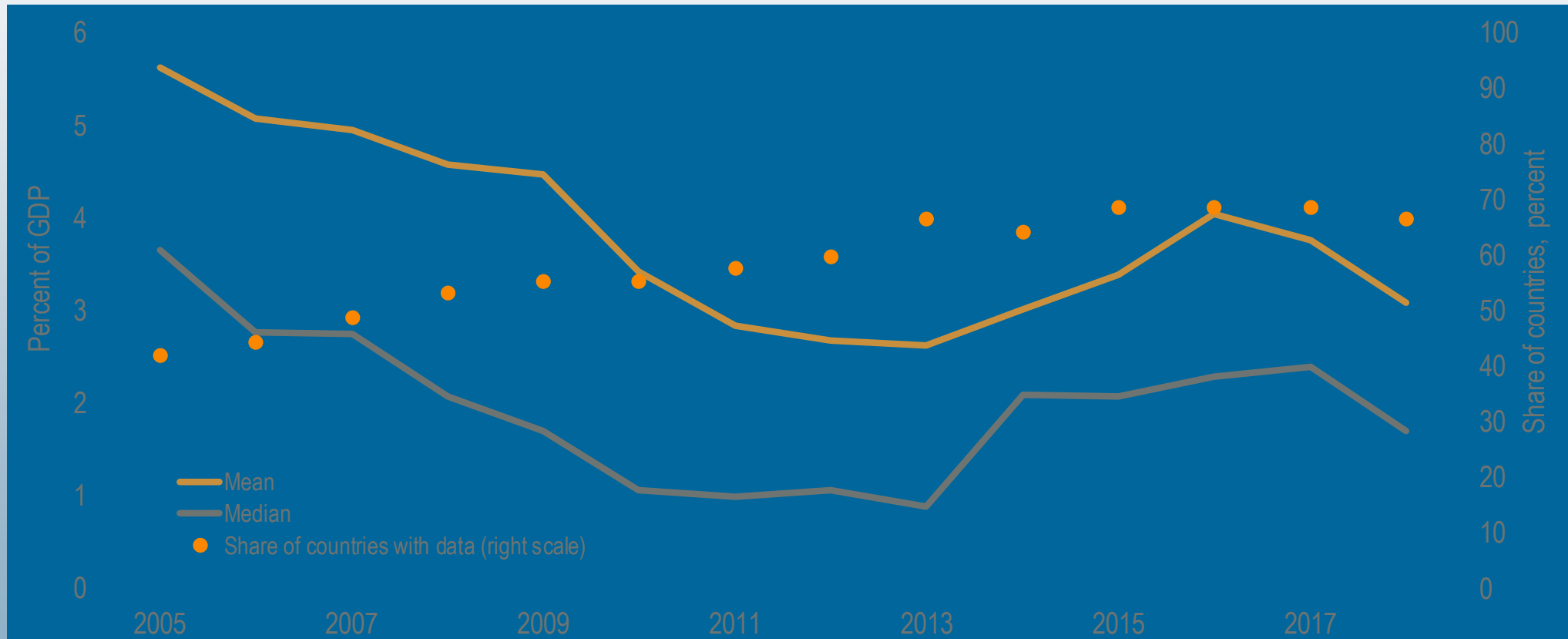


Source: IMF World Economic Outlook database.



# Efforts to enhance fiscal data provide better assessment of arrears

## Stock of Domestic Arrears in SSA Countries, 2005–18

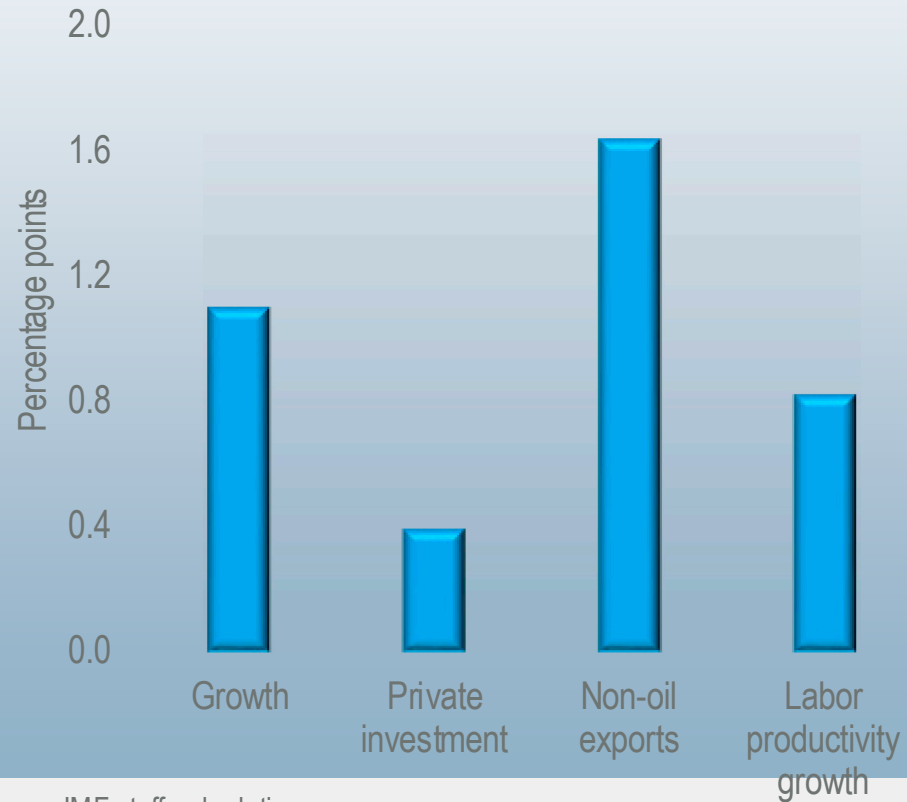


Sources: IMF staff estimates.

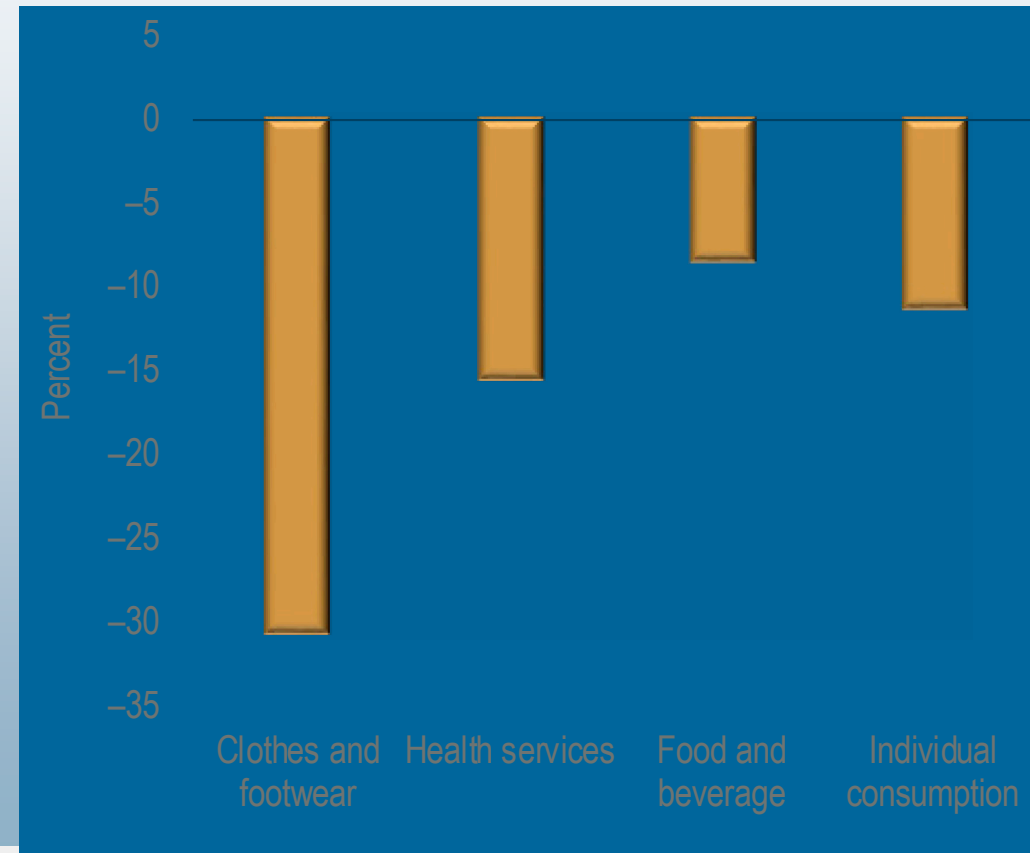


# Promoting competition can lift medium-term growth and improve welfare

### Competition and Macroeconomic Performance



### Impact of Competition on Prices



Sources: IMF staff calculations.

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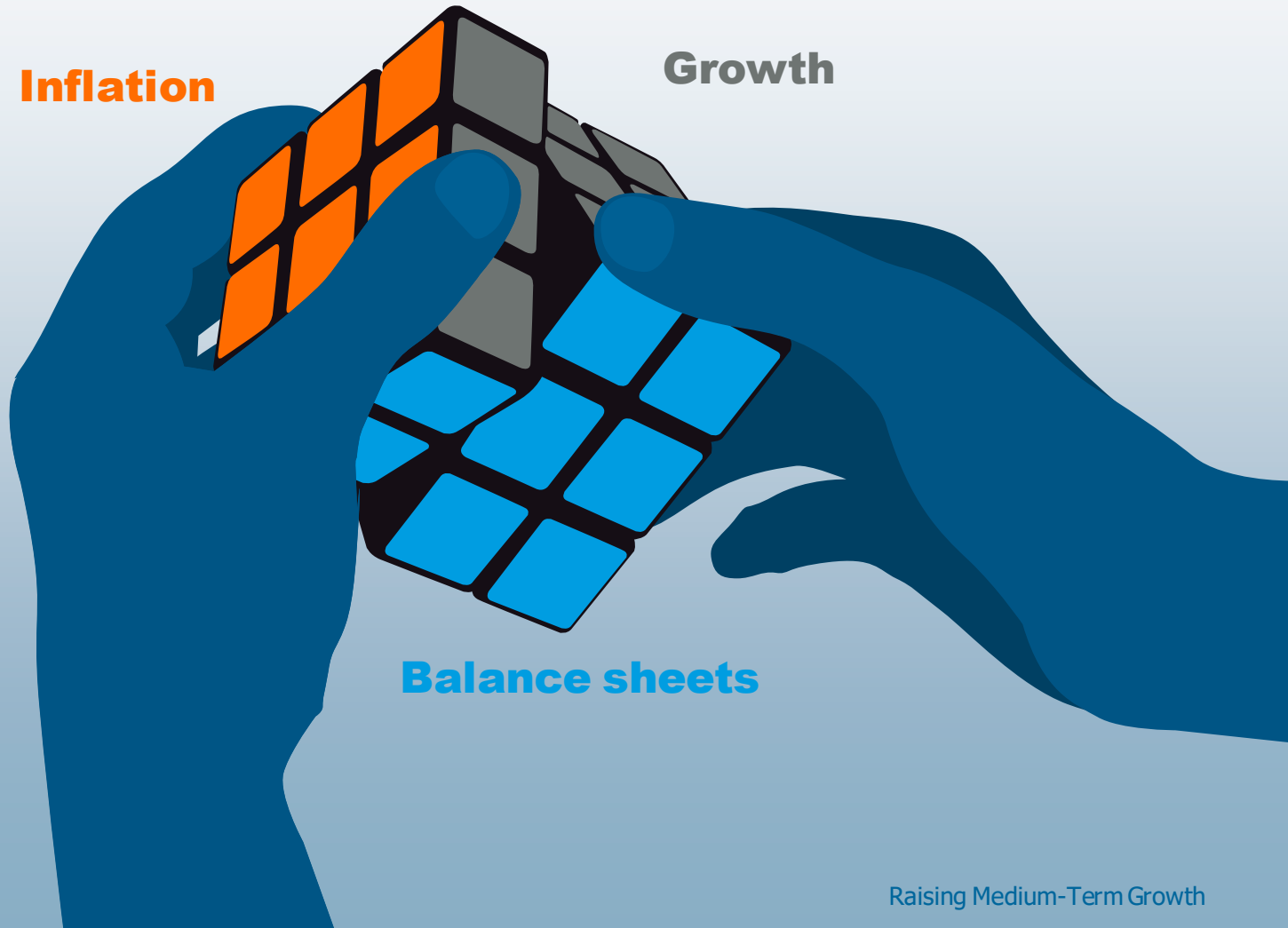
# Response to shocks depends on their nature and strength of balance sheets and fundamentals

## ● **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



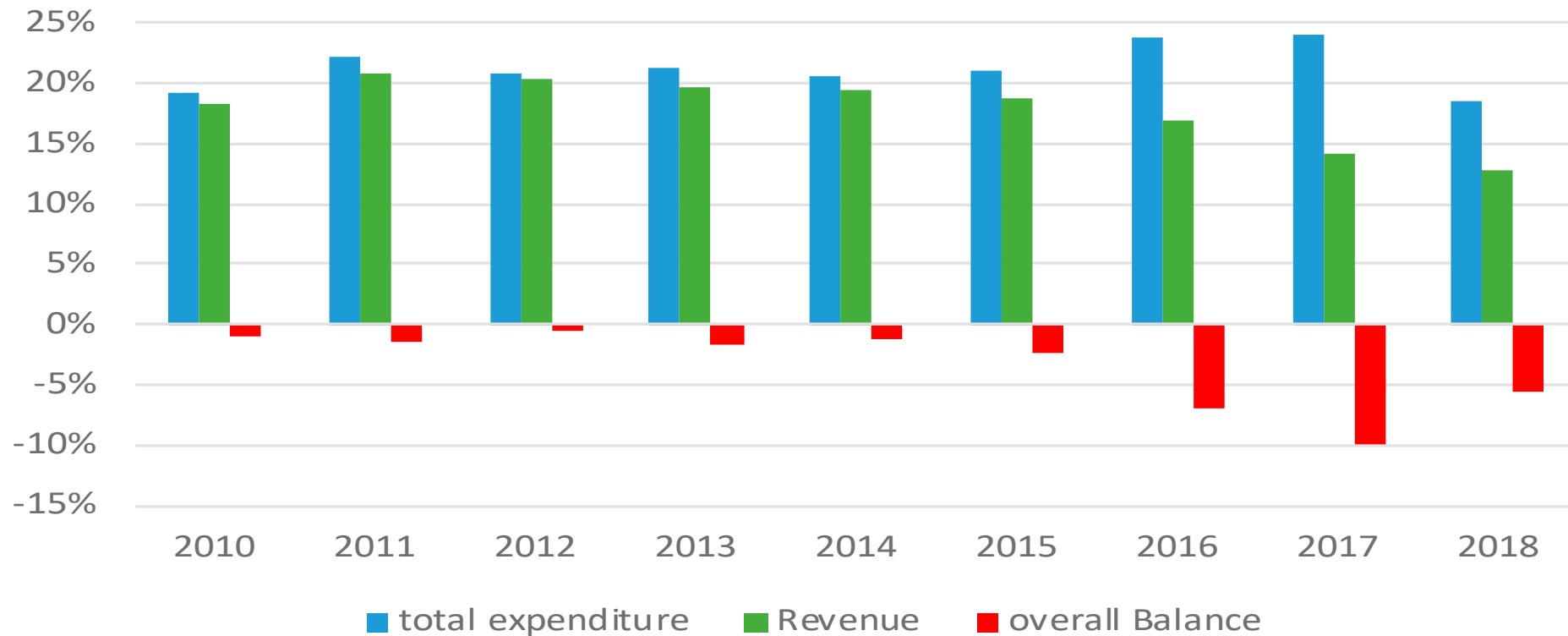
# Zimbabwe's economic outlook

- **Background and Recent Developments**
  - ◆ SMP: Objectives, Risks, and Performance
  - ◆ Adverse Shocks, Policy slippage, and Social Impact



# Large deficits returned, as revenues fell and spending increased...

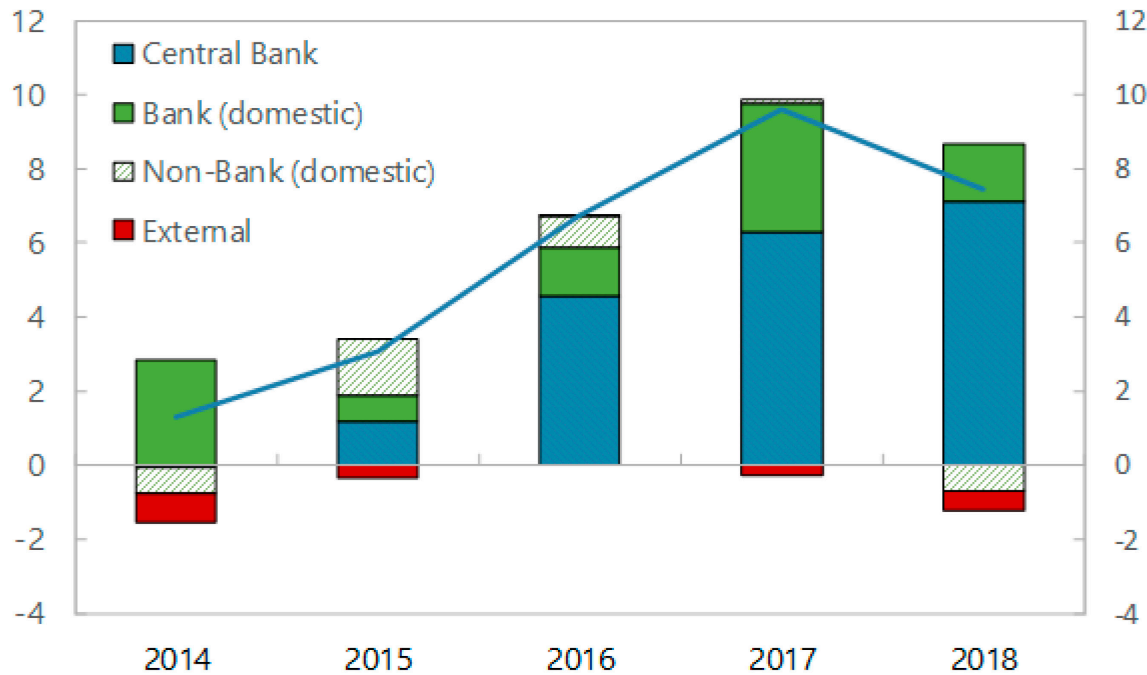
## Zimbabwe: Revenue, Expenditure, and Deficit (percent of GDP)



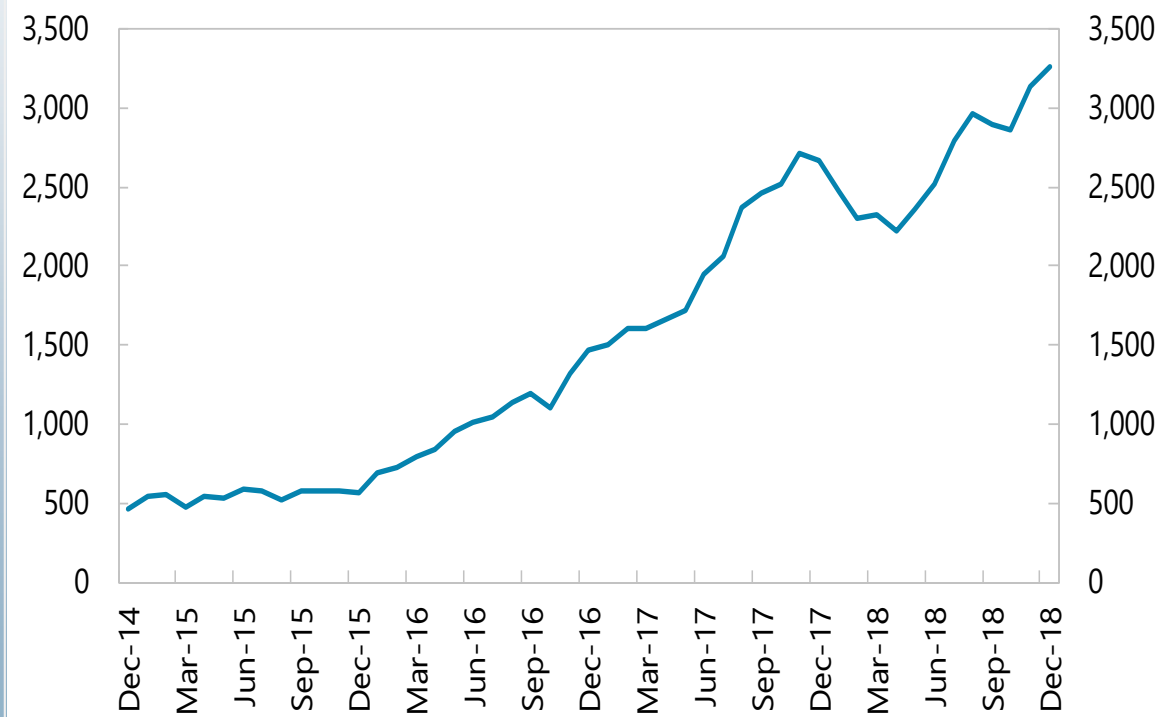


# Deficits were financed domestically, mostly by money creation

### Zimbabwe: Fiscal Deficit and its Financing (percent of GDP)



### Zimbabwe: Monetary Base (M0) (ZWE\$ million)



Creating a large overhang of domestic currency formally 1:1 with US\$, but in practice not convertible





# Zimbabwe remains in debt distress...

External arrears continue to mount:

- Substantial IFIs arrears, incl. \$1.3 billion to World Bank
- Bilateral arrears of \$3.7 billion

New external financing is limited to:

- Non-Paris Club creditors
- Commodity-backed loans

**Zimbabwe: Public and Publicly Guaranteed Debt**

	DOD	Arrears	Total	% of GDP*
<i>(USD millions; as of end-2018)</i>				
<b>External Debt<sup>1</sup></b>	<b>2,563</b>	<b>6,109</b>	<b>8,672</b>	<b>38%</b>
<i>Bilateral Creditors</i>	1,519	3,687	5,206	23%
Paris Club	210	3,258	3,469	15%
Non Paris Club	1,309	428	1,737	8%
<i>Multilateral Creditors</i>	899	2,359	3,258	14%
World Bank	219	1,270	1,489	6%
African Development Bank	35	657	692	3%
European Investment Bank	19	290	309	1%
Afreximbank	489	67	556	2%
Others	137	74	211	1%
<i>Commercial Creditors</i>	145	63	208	1%

Source: Zimbabwean authorities and IMF staff calculations.

# Zimbabwe's economic outlook

- Background and Recent Developments
- ◆ **SMP: Objectives, Risks, and Performance**
- ◆ Adverse Shocks, Policy Slippage, and Social Impact



# SMP (May 2019) objectives and risks ...

## ● **Objective – Address Macroeconomic Imbalances**

- ◆ Fiscal Consolidation and halt RBZ lending to government
- ◆ FX liberalization to achieve a market determined exchange rate
- ◆ Governance reforms

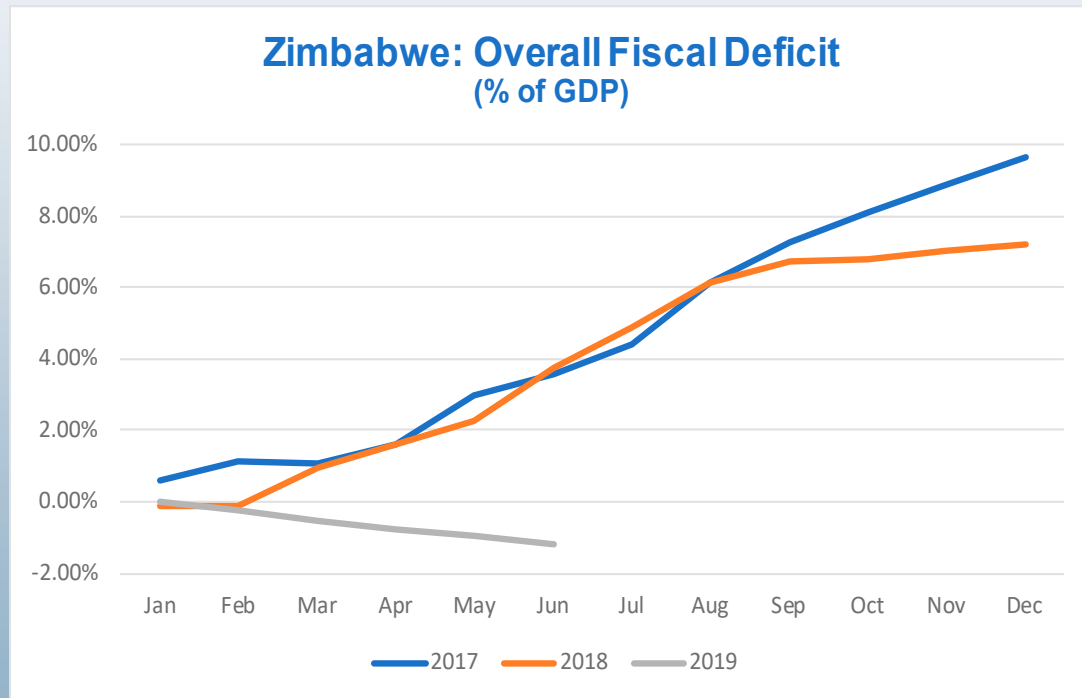
## ● **Risks**

- ◆ No fiscal/FX buffers or access to traditional external support
- ◆ Exchange rate and interest rate volatility as price discovery takes hold
- ◆ Large social impacts from huge depreciation and burst of inflation
- ◆ Climate shocks—Cyclone Idai, Drought



# Performance through June was mixed

## Significant fiscal adjustment since August 2018, a fiscal surplus in 2019H1



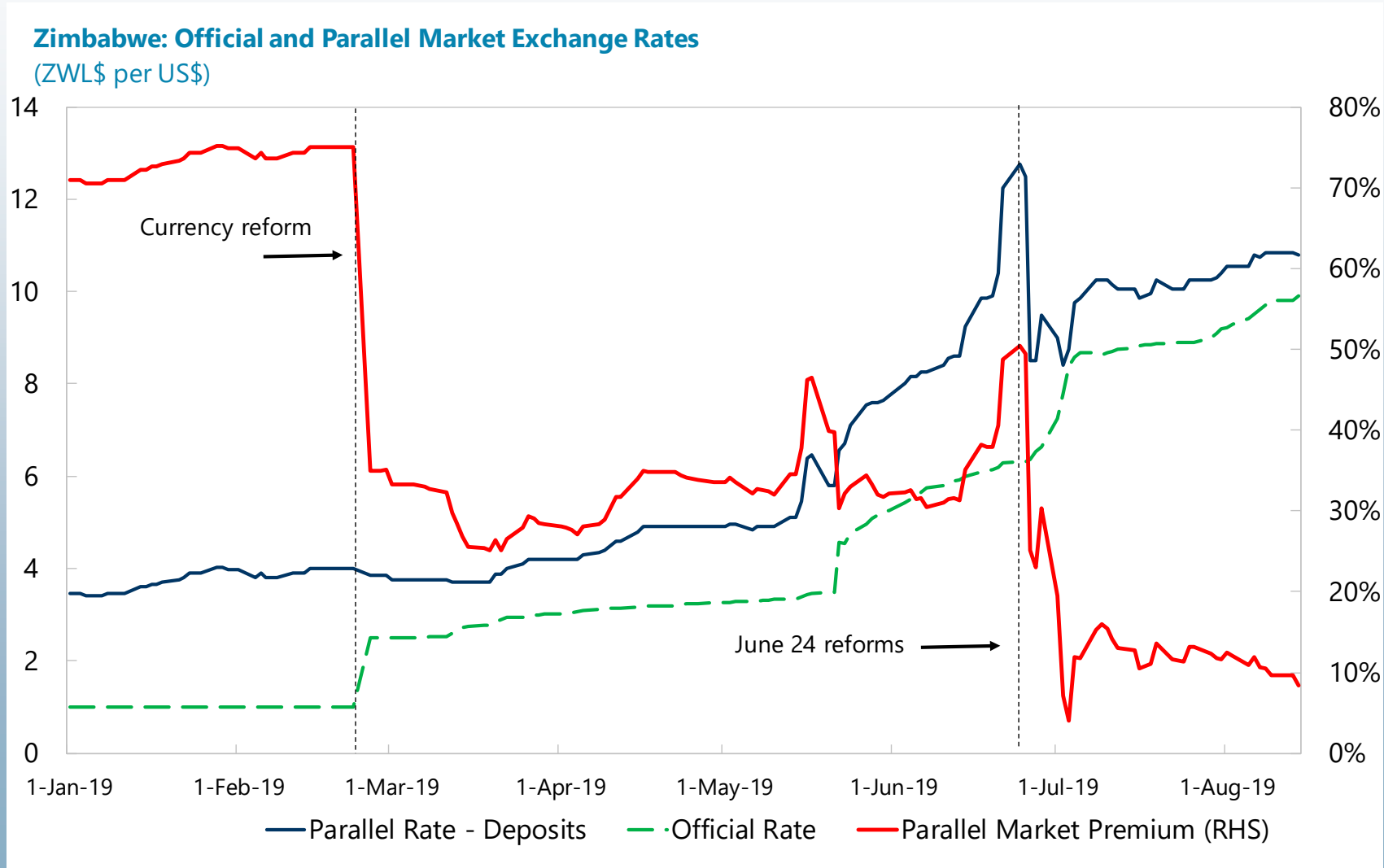
## Important fiscal policy measures:

- No RBZ financing
- Contain wage increases below the rate of inflation
- Introduction of tax on financial transactions
- Improvements in revenue mobilization (fuel tax) and capacity at ZIMRA



# Performance through June was mixed

A shift towards market-determined FX pricing and allocation brought, after June 24 measures, stability and narrowed the parallel market spread...





## Progress on tackling governance concerns, but issues remain

### **Successful reforms have helped.....but need to build on progress.**

- Moving to a market-based FX allocation system critical to reduce rent-seeking market distortions
- An IMF governance diagnostic mission visited Harare Sept. 18 to Oct. 4, 2019
- Authorities committed to publish Governance Vulnerability Report by end-December, 2019
- Diagnostic mission emphasized need to:
  - Reform Command Agriculture
  - Strengthen debt management (in particular borrowing/issuance authority)
  - Improve public financial management
  - Address RBZ governance, improve operations, and strengthen transparency

# Zimbabwe's economic outlook

- Background and Recent Developments
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- ◆ **Adverse Shocks, Policy slippage, and Social Impact**



# Climate shocks have had a devastating impact

- Cyclone Idai
  - Recovery cost \$1.2 billion (6 percent of GDP)
  - US\$600 million in infrastructure damage
  - 270,000 people in need of emergency assistance
- Drought impact more severe and pervasive than anticipated
  - Agriculture forecast to decline 20 percent
  - Mining forecast to decline 15-20 percent
  - Electricity (generation and distribution), blackouts up to 18 hrs/day
  - Growth downturn expected to be severe (-7.1 percent and likely worse)





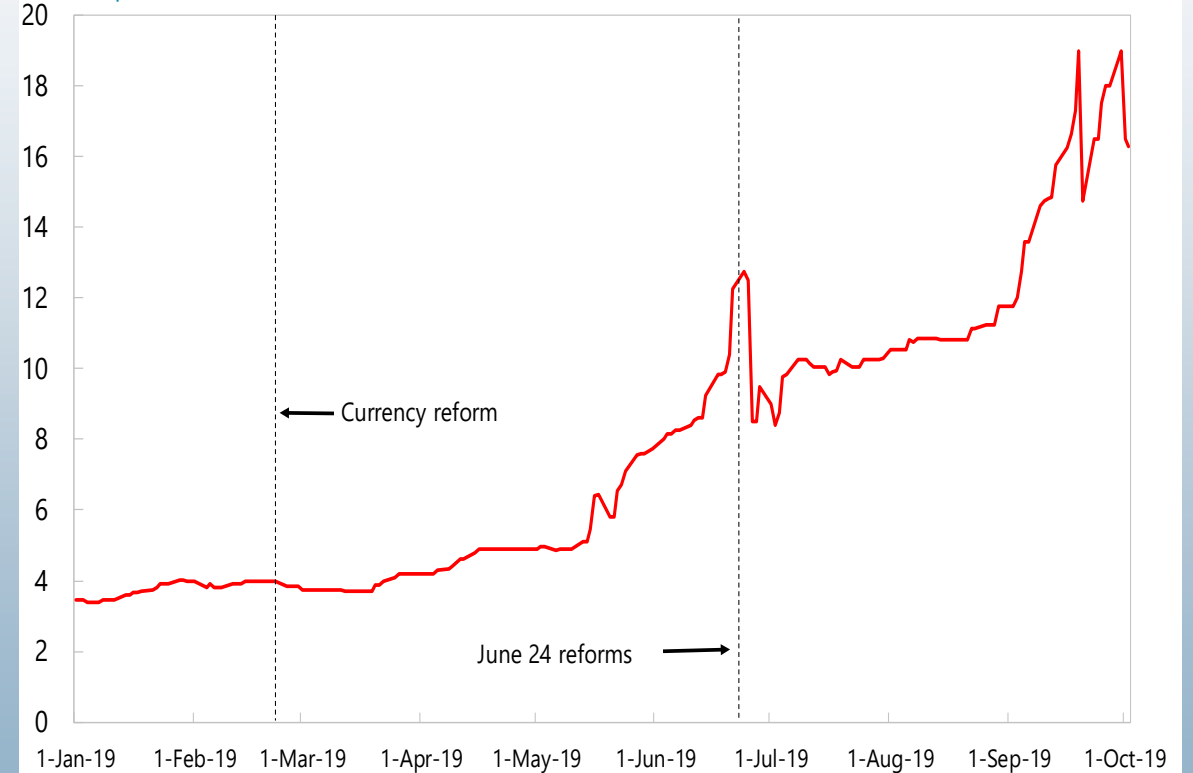
# Policy slippage since June: Resumption of monetary financing, destabilizing the FX market, and depreciating ZWL

## Zimbabwe: Reserve Money

	Jun-19	Jul-19	Aug-19
Stock (ZWL million)	3,576	4,057	6,450
Change (% , relative to Dec. 2018)	9.7	24.5	97.9

## Zimbabwe: Parallel Market Exchange Rates

(ZWL\$ per US\$)





# Summary

- Substantial macro reforms undertaken—10 percent of GDP fiscal adjustment over 2 years, introduction of market-determined, convertible currency
- But macro outcomes deteriorating. A combination of policy mis-steps/hesitancy, but also large exogenous shocks with no buffers and no options to borrow to cushion the adjustment

**Zimbabwe: Key Macroeconomic Figures, 2018, 2019**

	2018	2019
Real GDP growth (%)	3.5	-7.1
Inflation (% , eop)	42.1	289*
Overall Fiscal balance (% GDP)	-7.4	-1.0
Current account (% GDP)	-4.5	-2.6
Reserves (months of imports)	0.1	0.1

\*August 2019 y-o-y CPI inflation

- Humanitarian situation requires an urgent response
  - Currency conversion wiped out savings and inflation decimated purchasing power
  - WFP estimates 8.5 mn people (over half the population) food insecure

 **Thank You**