

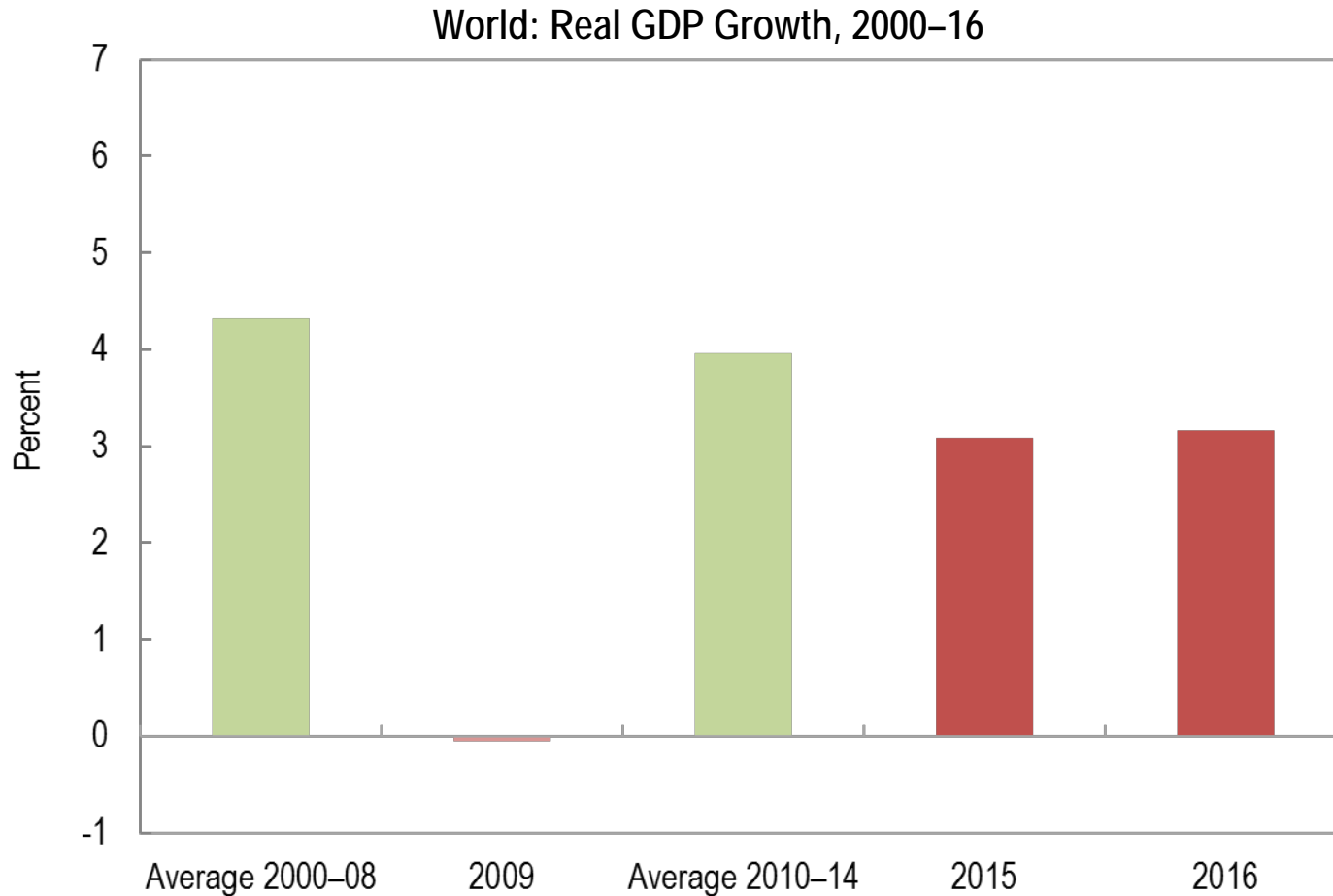


Time for a Policy Reset

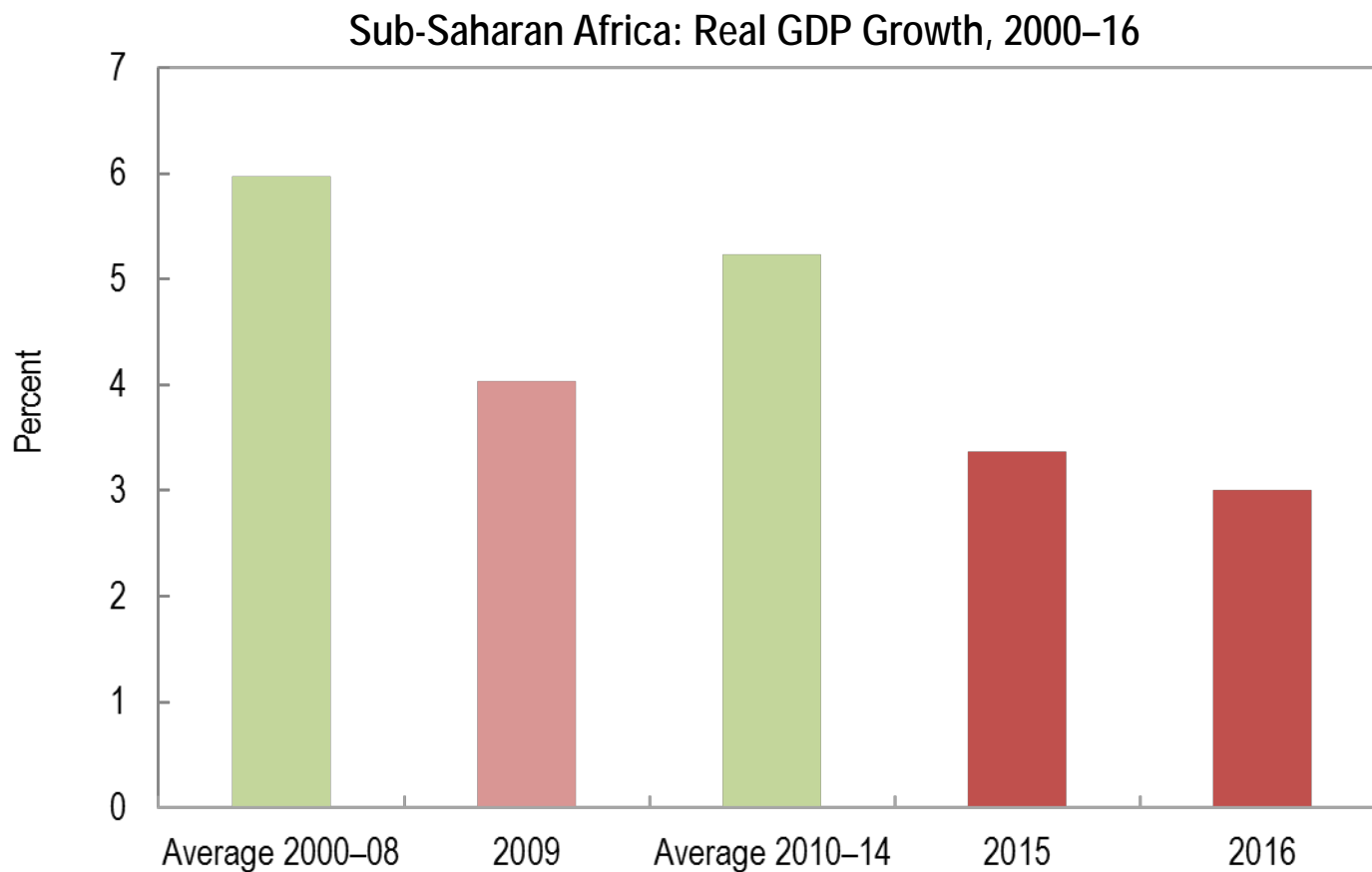
Regional Economic Outlook for Sub-Saharan Africa

African Department
International Monetary Fund
June 9, 2016
Harare

Global growth will remain subdued



Sub-Saharan Africa is experiencing a sharp slowdown in growth since mid-2014

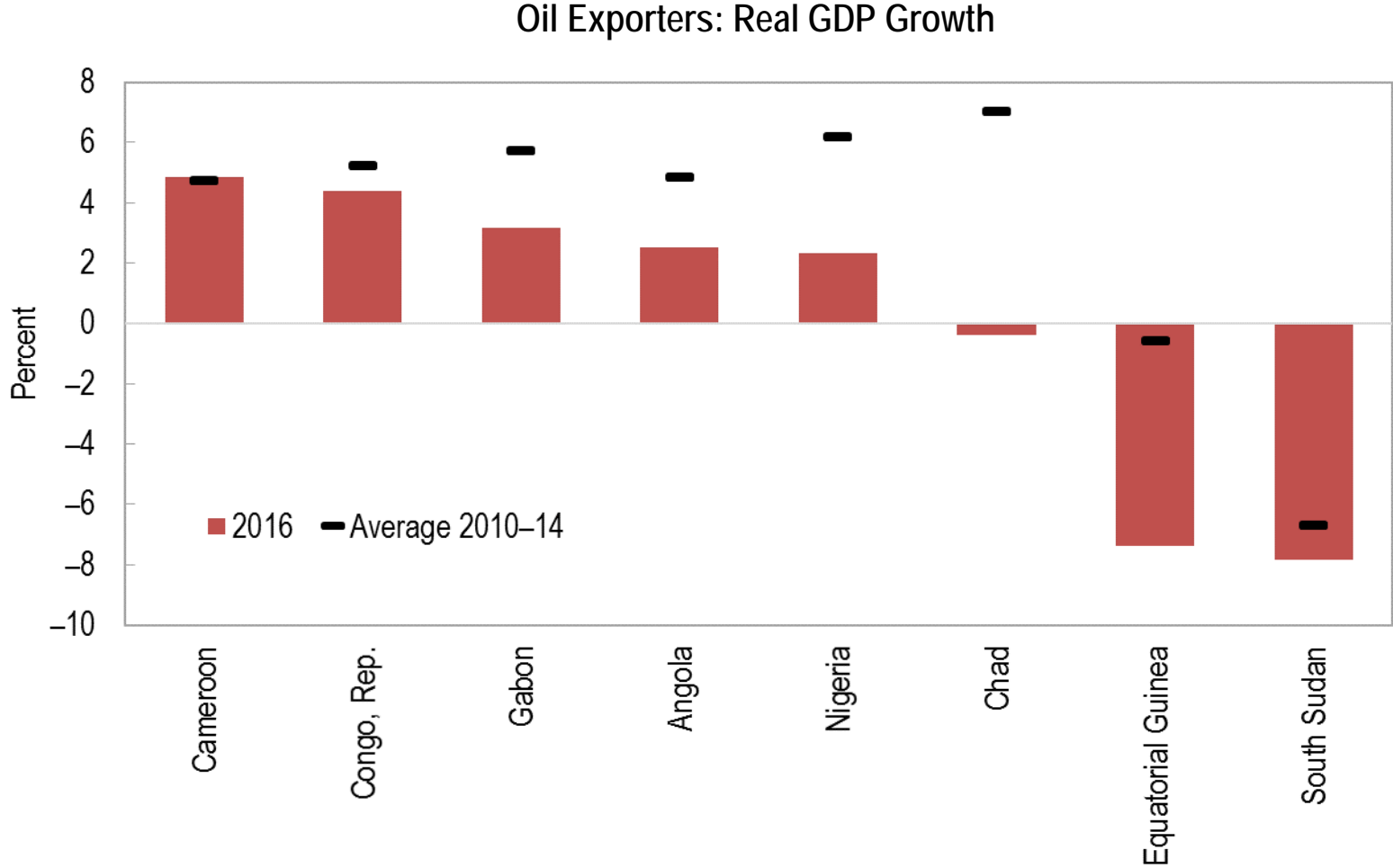


Outline



- Anatomy of a slowdown
- Policy reaction so far
- Time for a policy reset

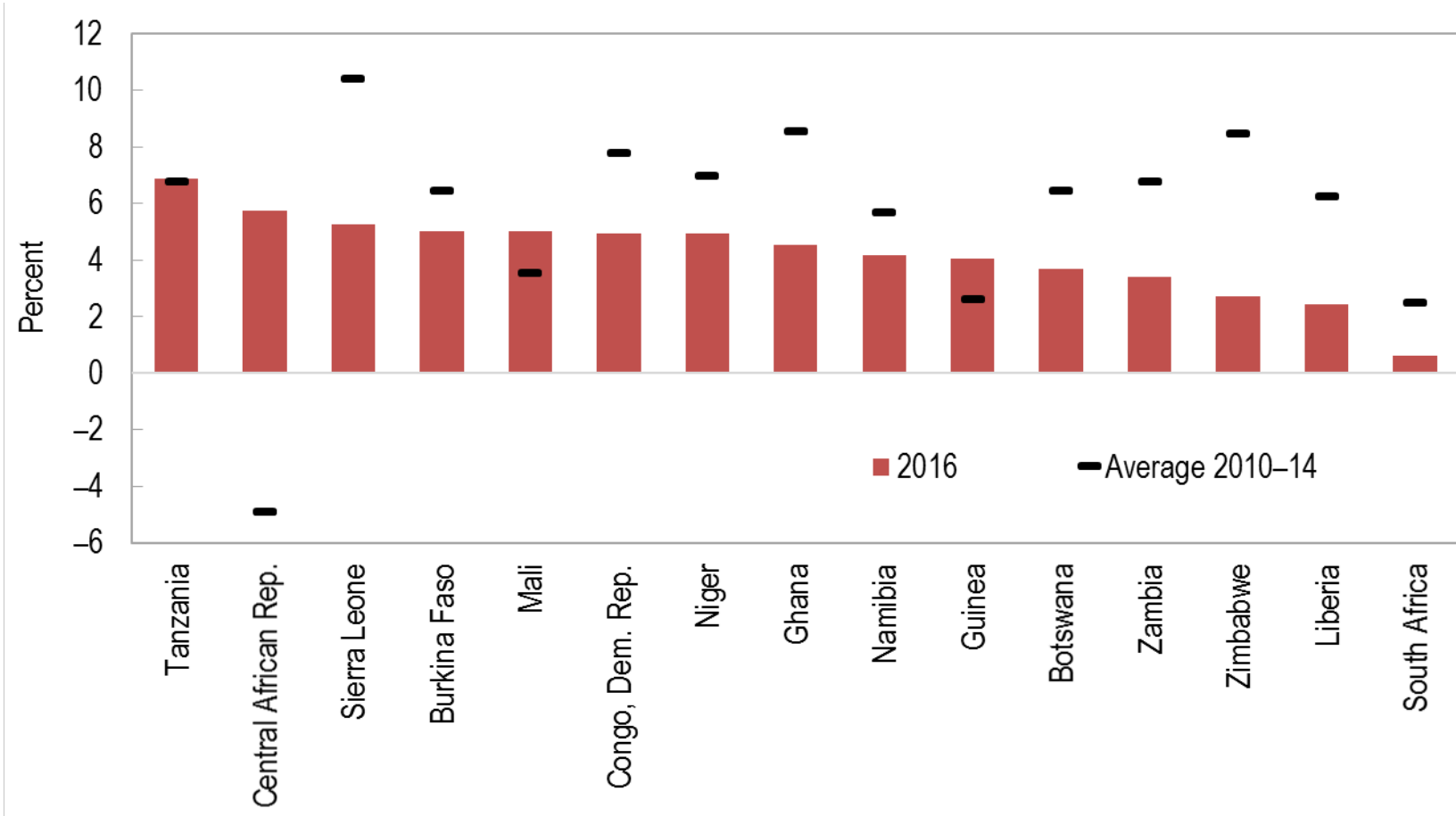
Oil exporters are experiencing a significant slowdown...



... as do most other commodity exporters



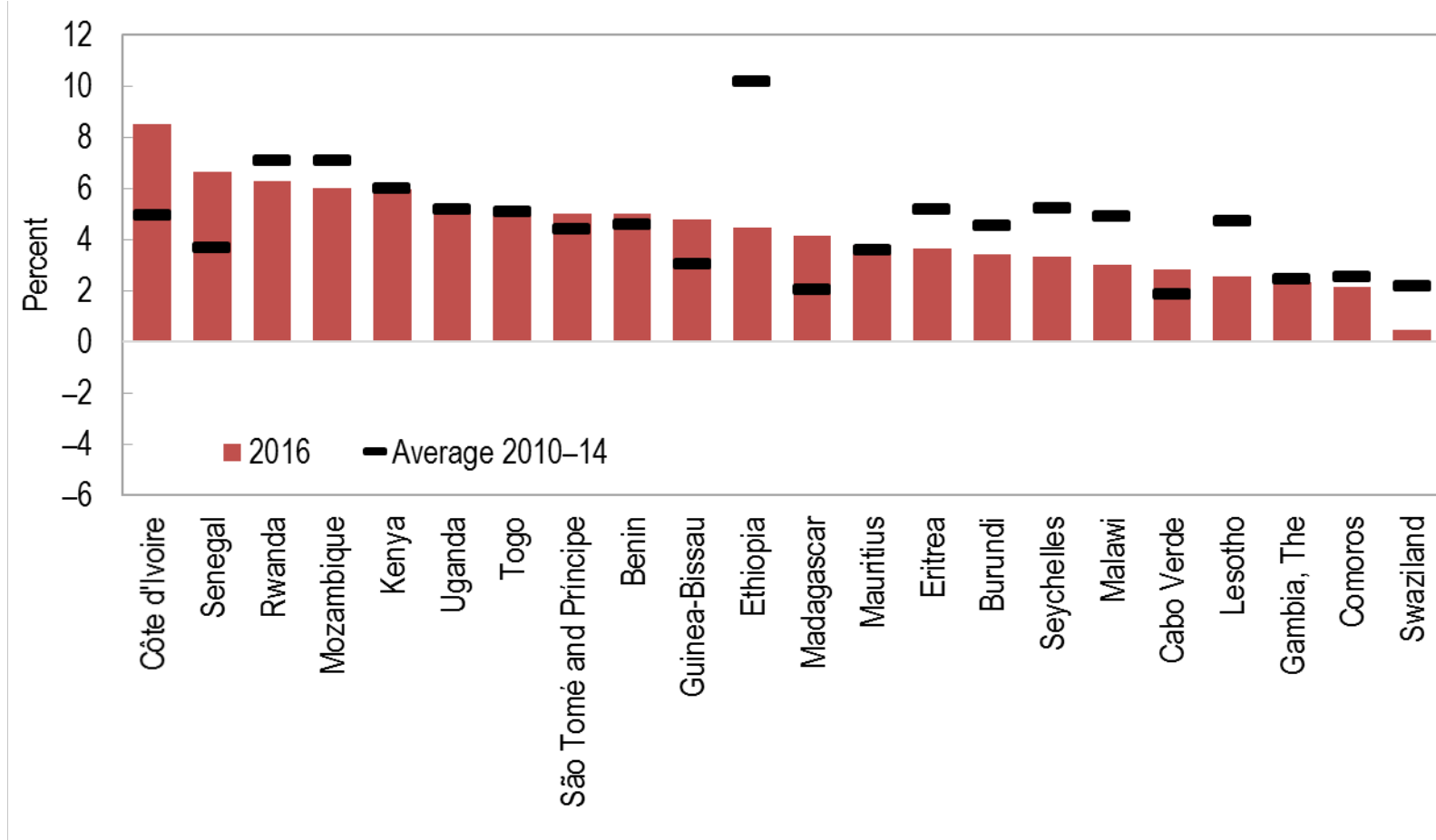
Other Resource-Intensive Countries: Real GDP Growth



But countries not heavily reliant on commodity exports are generally faring well



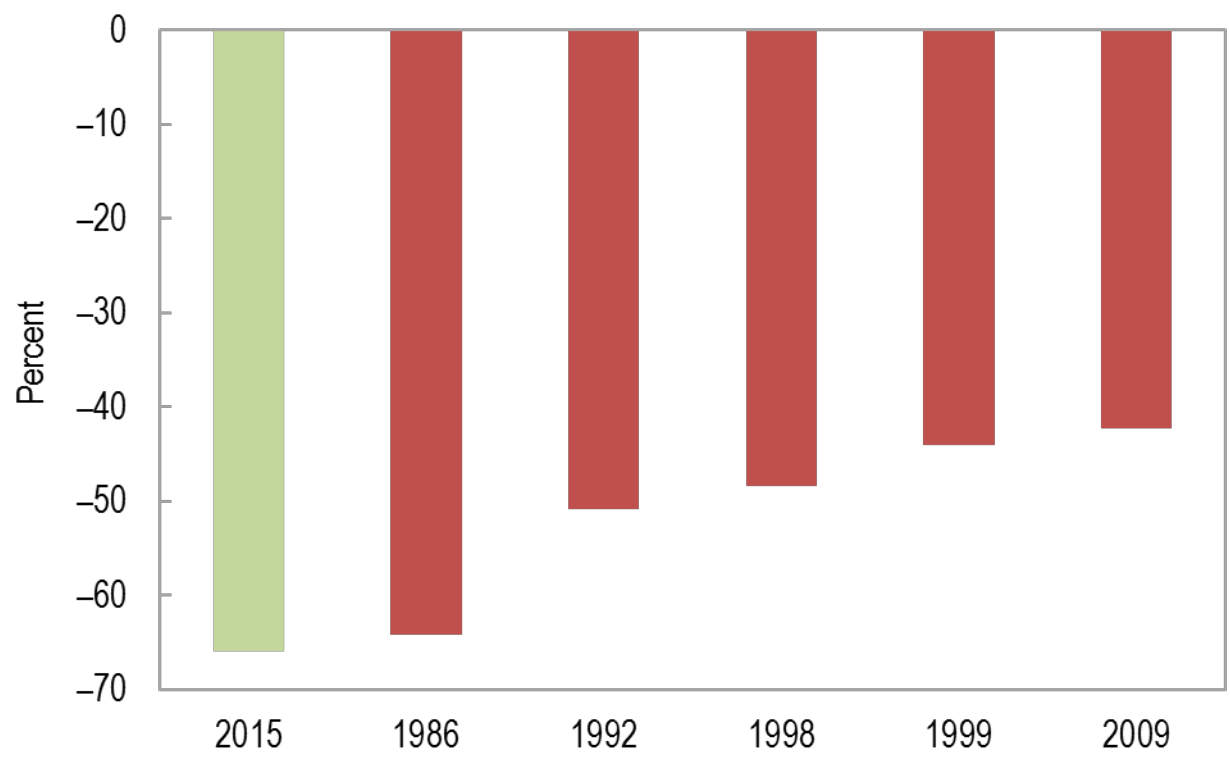
Non-Resource-Intensive Countries: Real GDP Growth





Commodity exporters, especially oil producers, face a historically large and likely long-lasting shock...

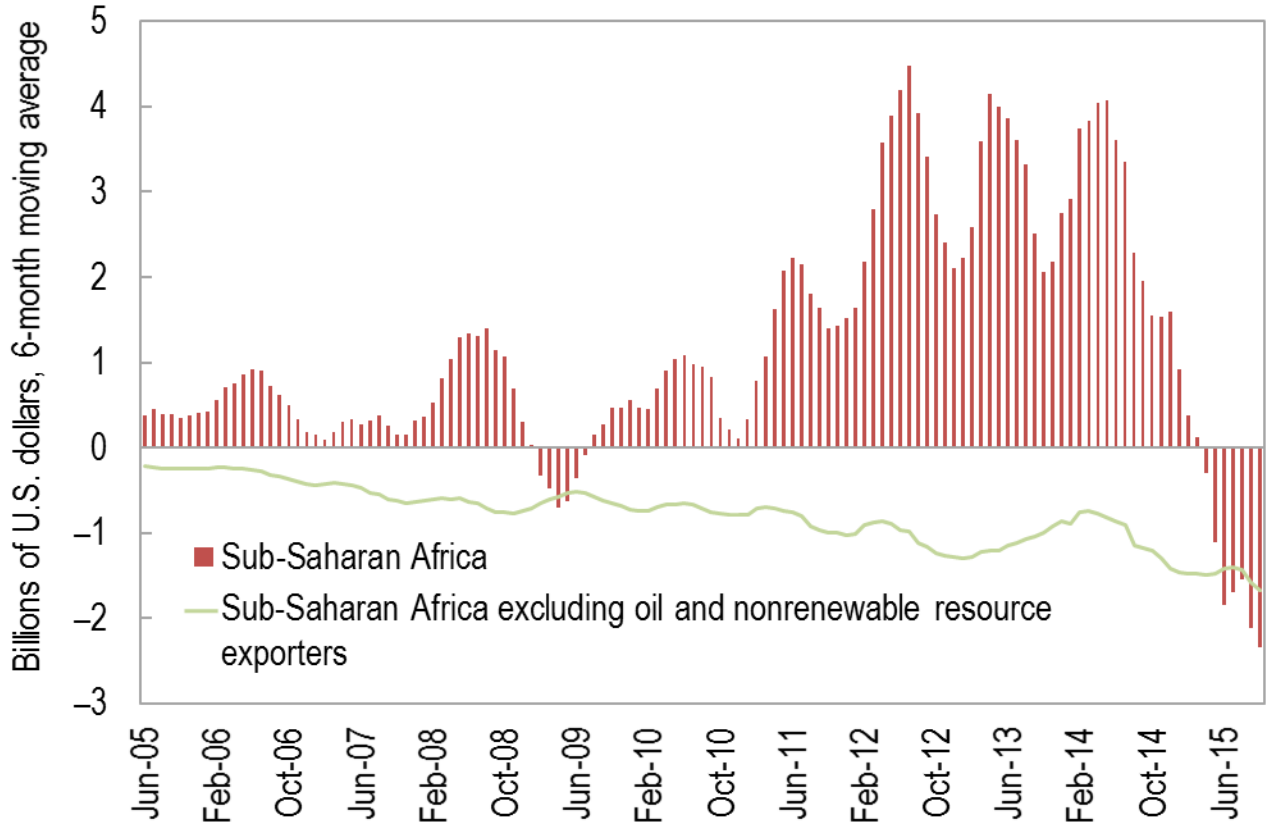
Largest Episodes of an 18-month Decline in Real Crude Oil Prices, 1970–2015



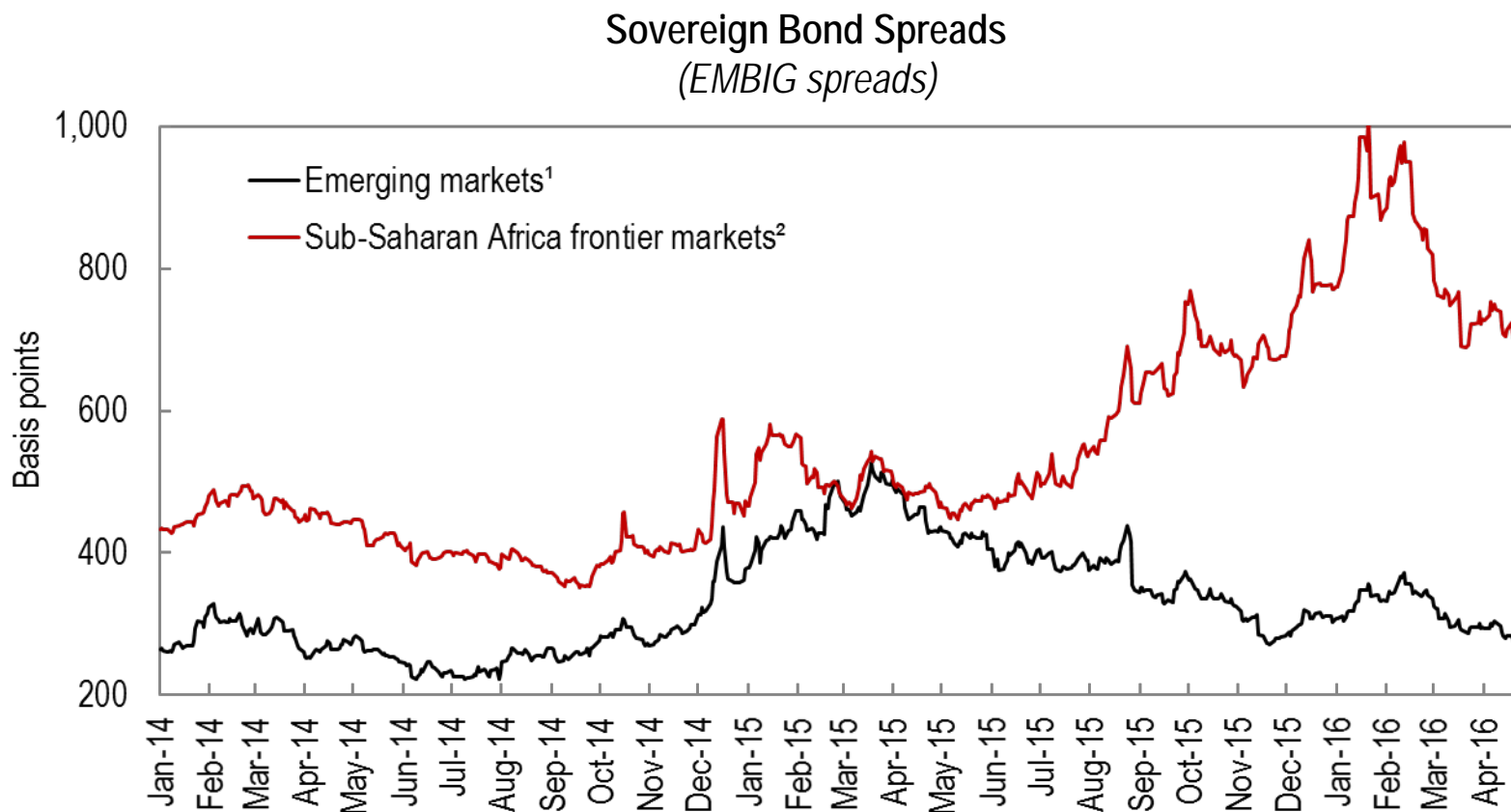


... with Sub-Saharan Africa's trade balance with China turning into a deficit

Sub-Saharan African: Trade Balance with China, 2005–15



At the same time, external financing costs have increased sharply for the region's frontier markets



Note: Data as of April 21, 2016.

¹The emerging market average includes the Emerging Market Bond Index Global (EMBIG) spreads of Argentina, Brazil, Bulgaria, Chile, Colombia, Hungary, Malaysia, Mexico, Peru, Philippines, Poland, Russia, South Africa, Turkey, and Ukraine.

²The frontier markets spread includes the spreads of Côte d'Ivoire, Gabon, Ghana, Kenya, Nigeria, Senegal, Tanzania, and Zambia.



Risks to the outlook are tilted to the downside

Global

- A renewed decline in oil and commodity prices
- Further volatility in global financial markets
- A further slowdown in Europe

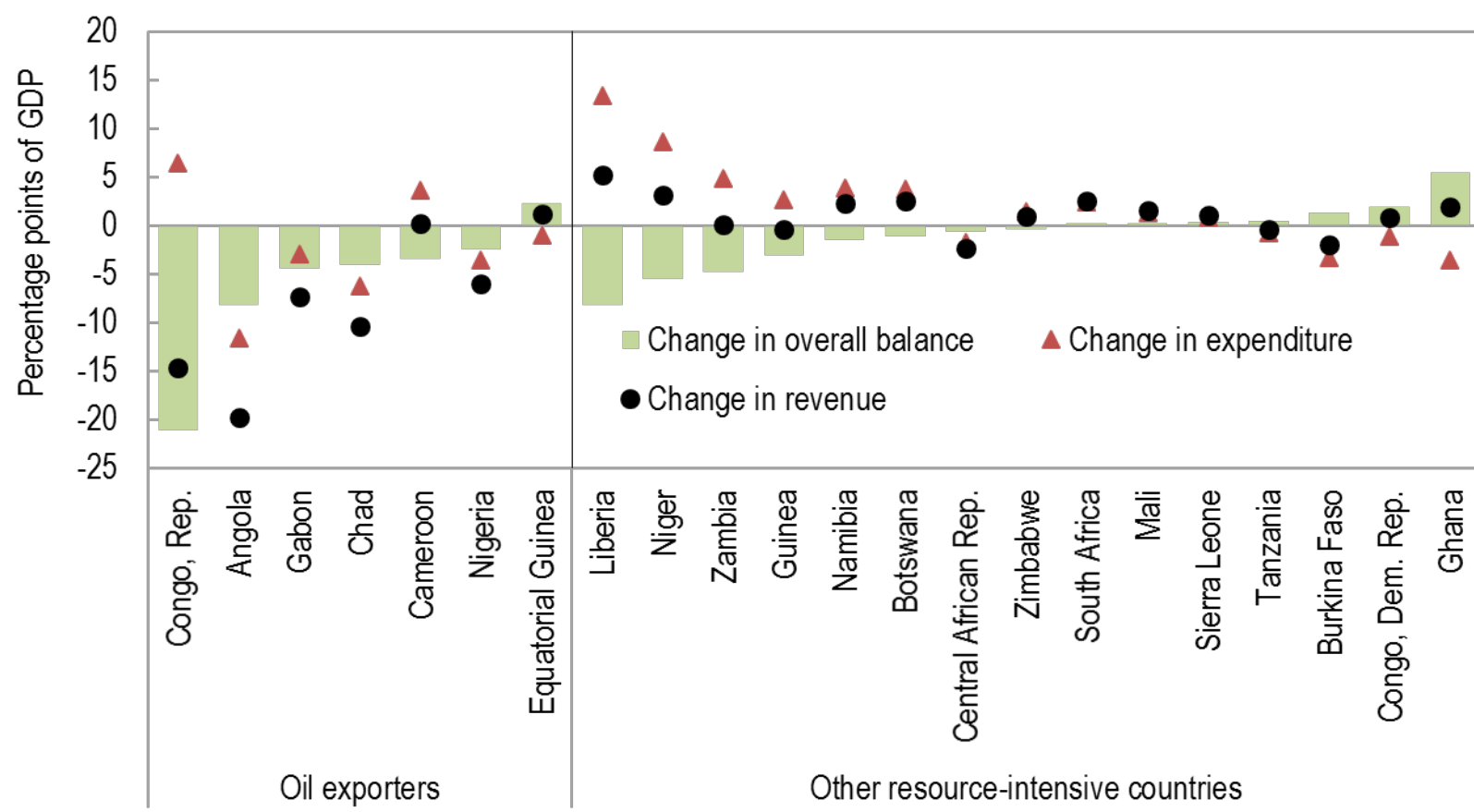
Domestic

- Protracted policy adjustment
- More prolonged drought in eastern and southern Africa
- Intensification of security challenges in the region



Fiscal policy has responded to the shock, but not yet sufficiently...

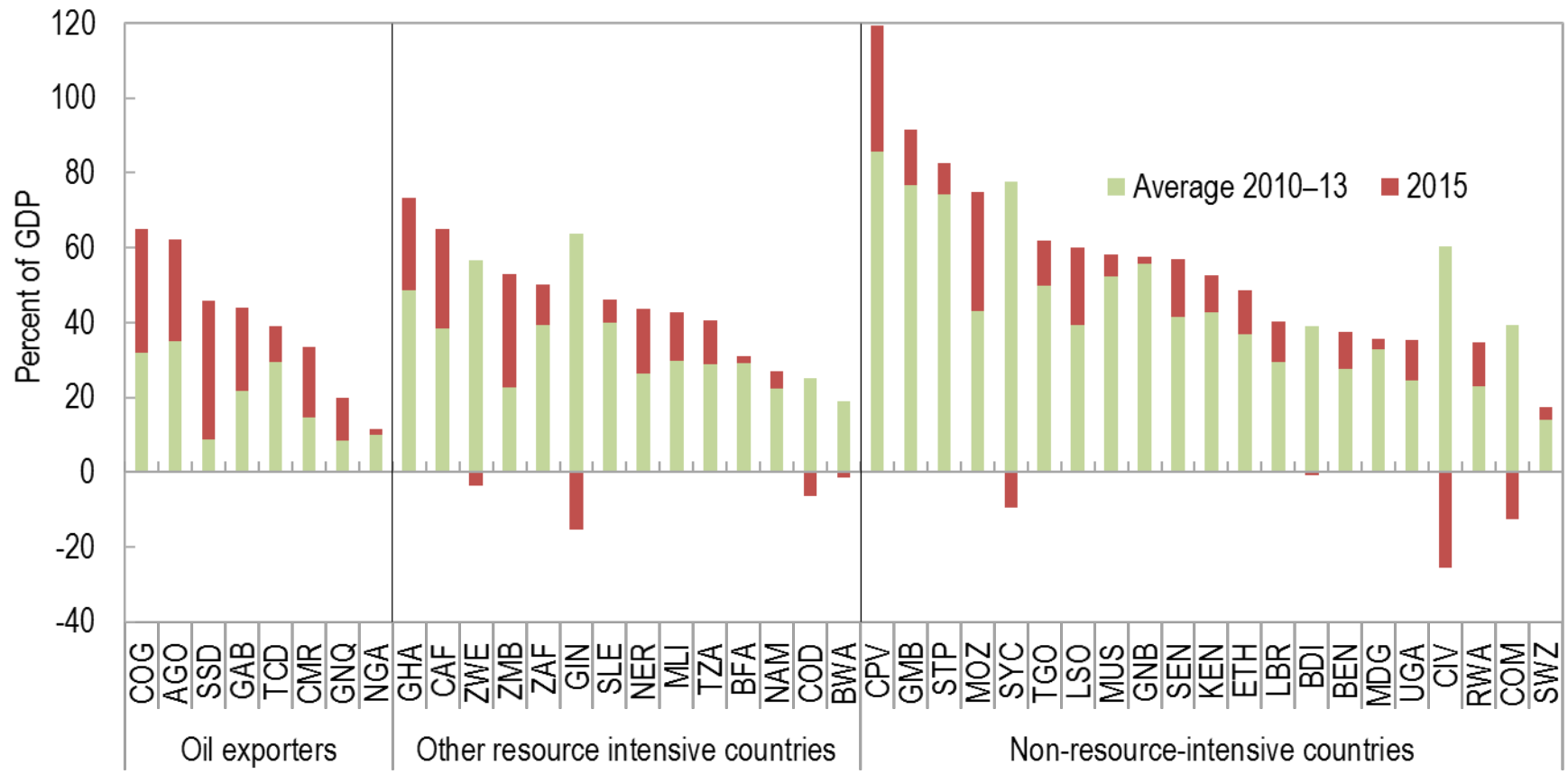
Change in Government Expenditure and Revenue, Average 2010–13 to 2015





... triggering increased debt financing...

Total Public Debt, 2010–15

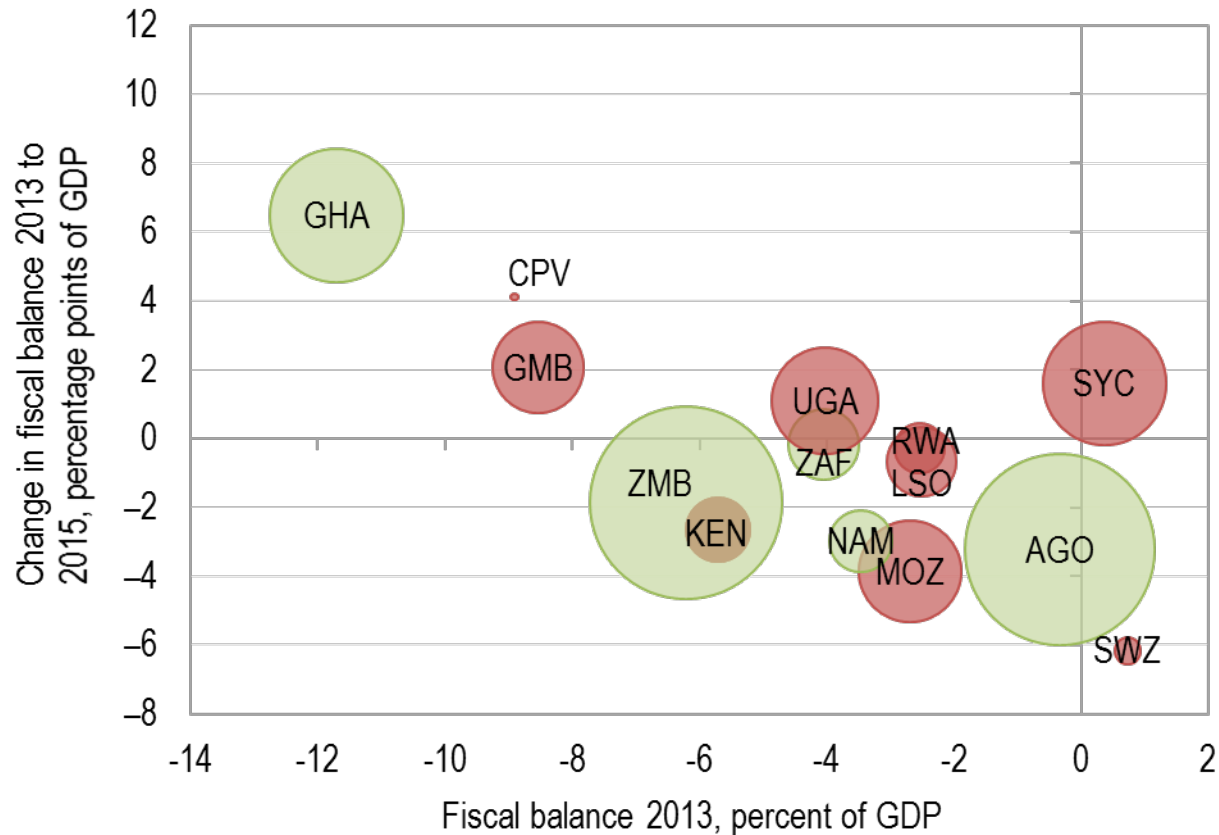


... rising domestic financing costs...



Fiscal Stance and Increase in Treasury Bill Rates

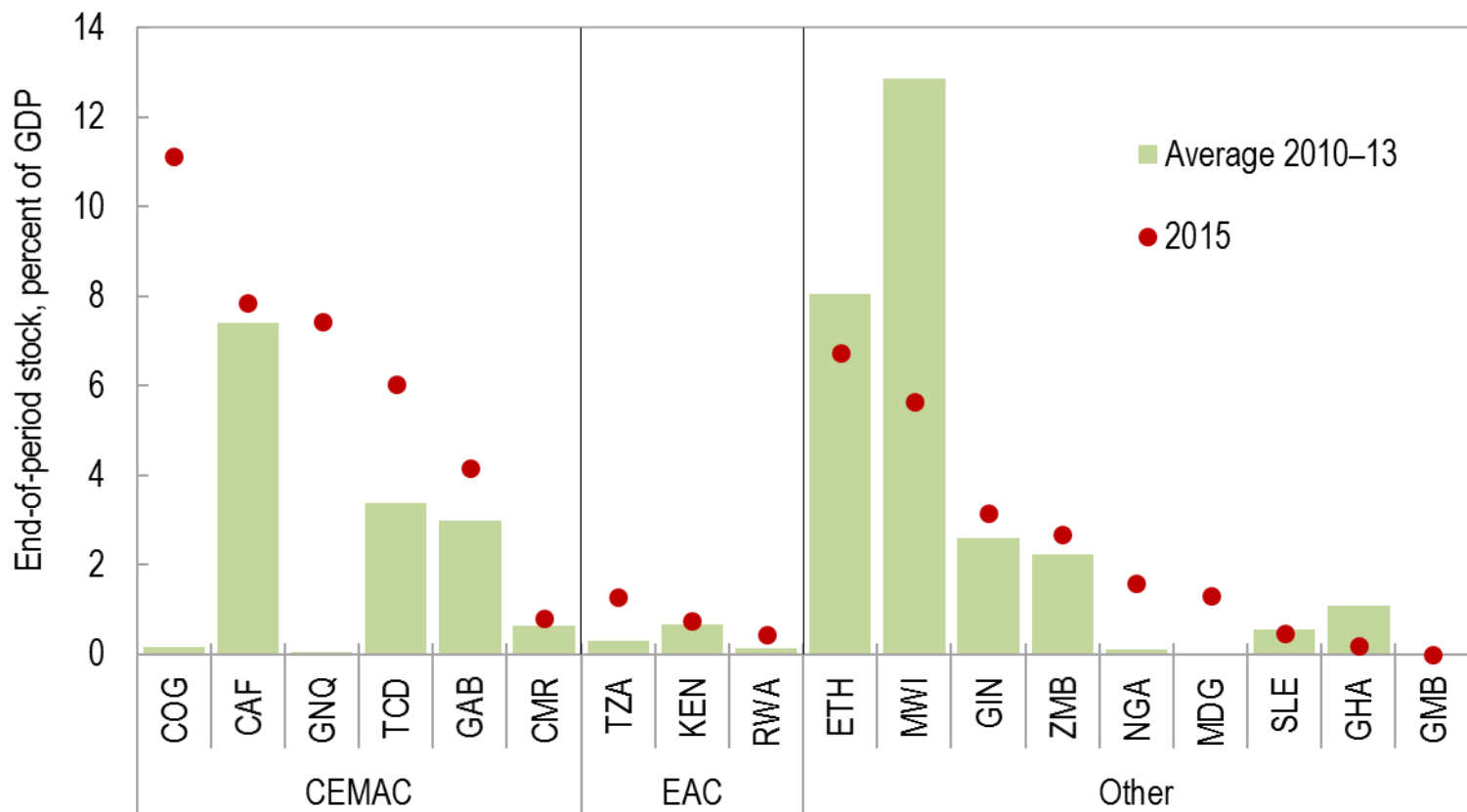
Size of bubbles proportional to increase in treasury bill rate, January 2014 to latest available



... and in some cases increased recourse to Central Bank financing



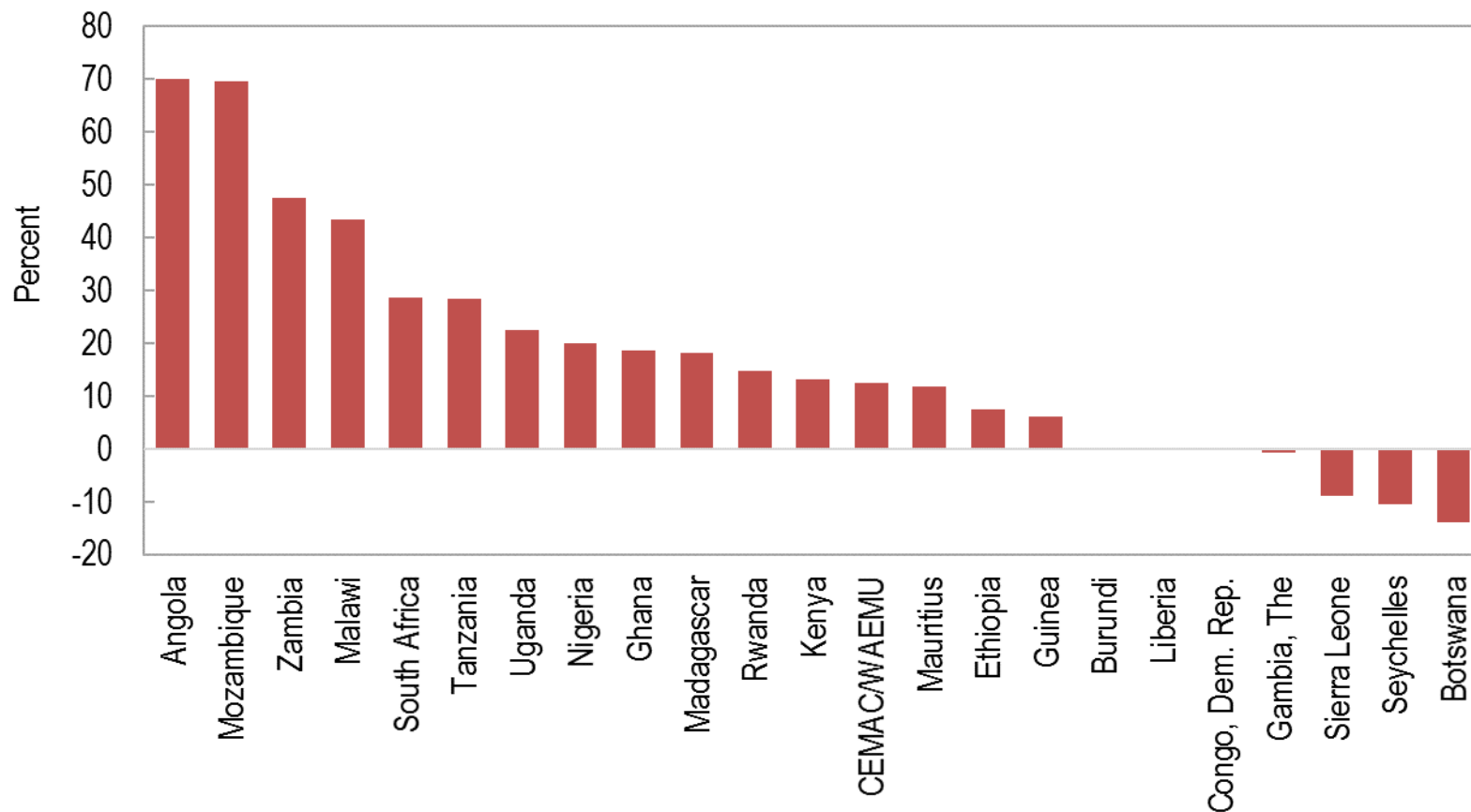
Advances from the Central Bank, 2010–13 and 2015



Many countries have allowed the exchange rate to absorb part of the shock...



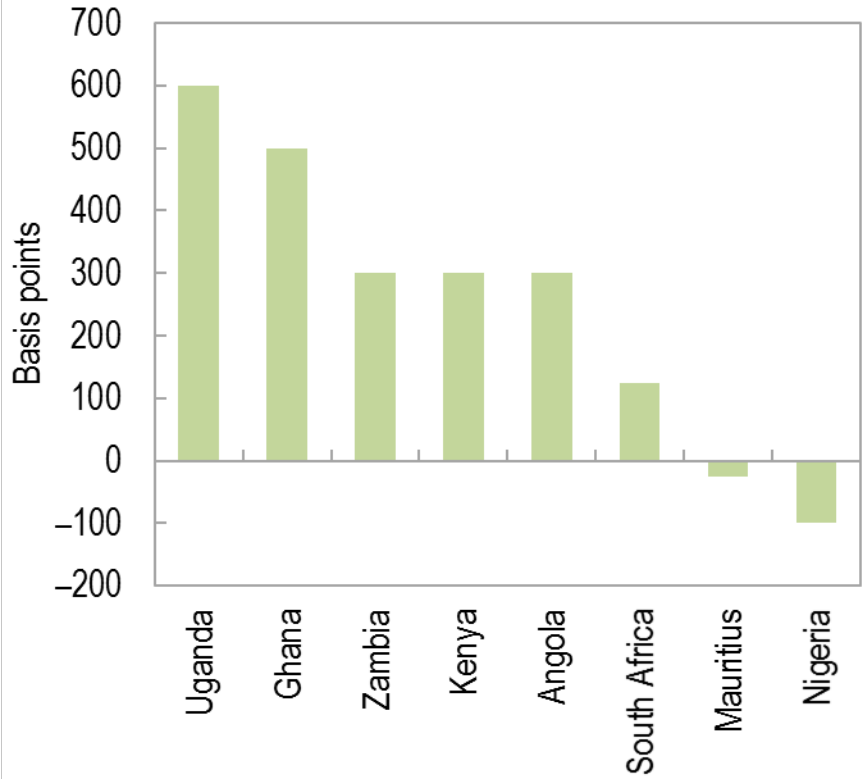
Sub-Saharan Africa: Depreciation of National Currency Against U.S. Dollar Since October 2014 (+ indicates depreciation)



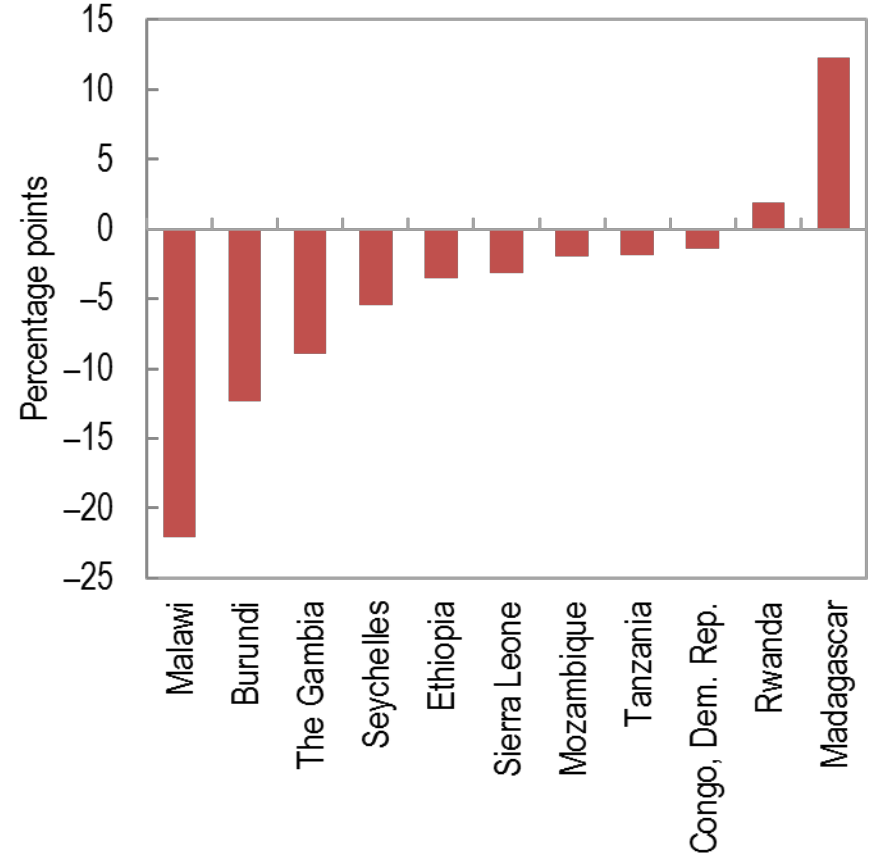


...while deploying monetary policy to mitigate inflationary pressures

Change in Monetary Policy Rate Since December 2014



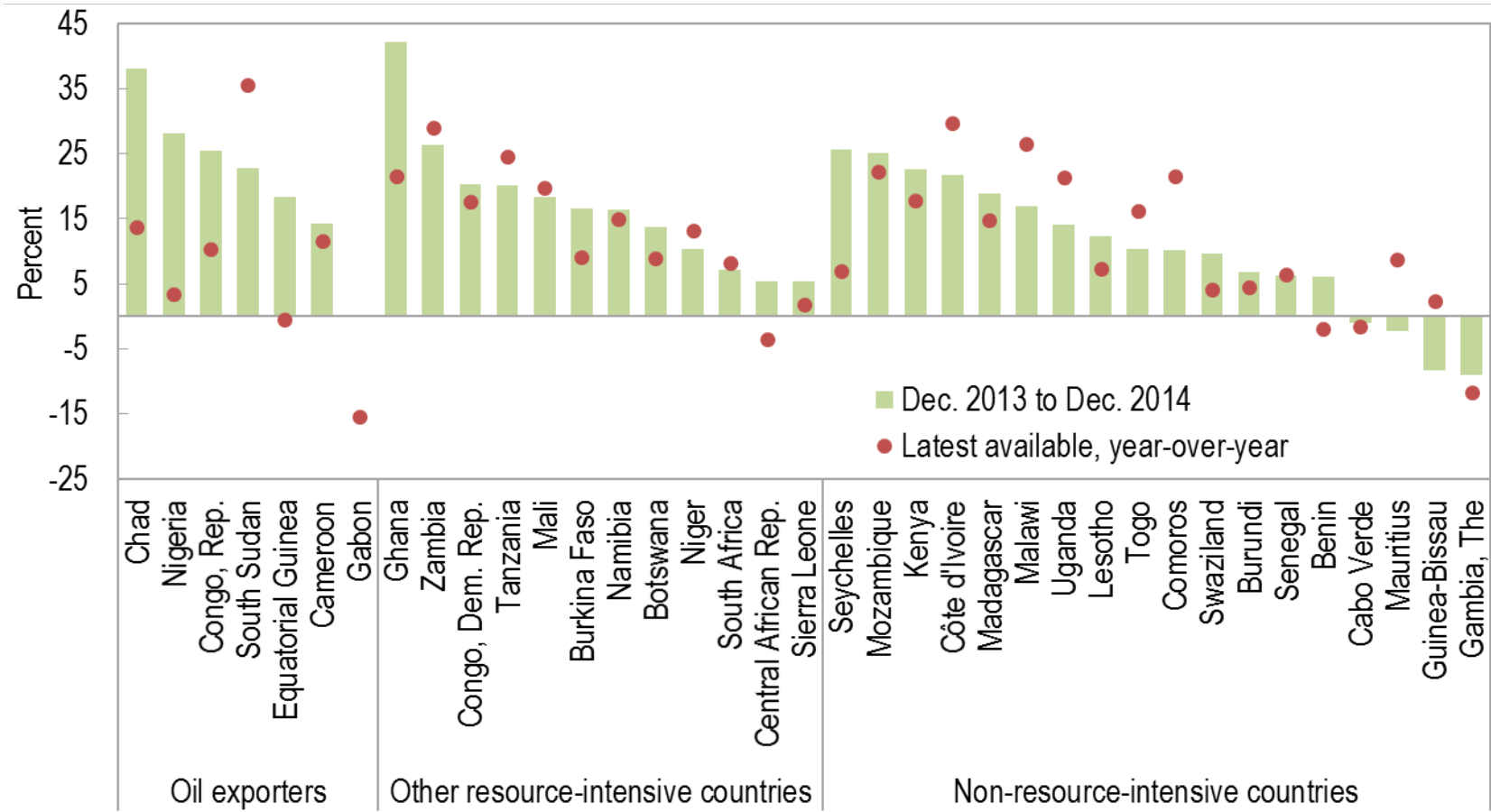
Change in Base Money Growth From 2014 to 2015





Meanwhile, private sector borrowing is decelerating...

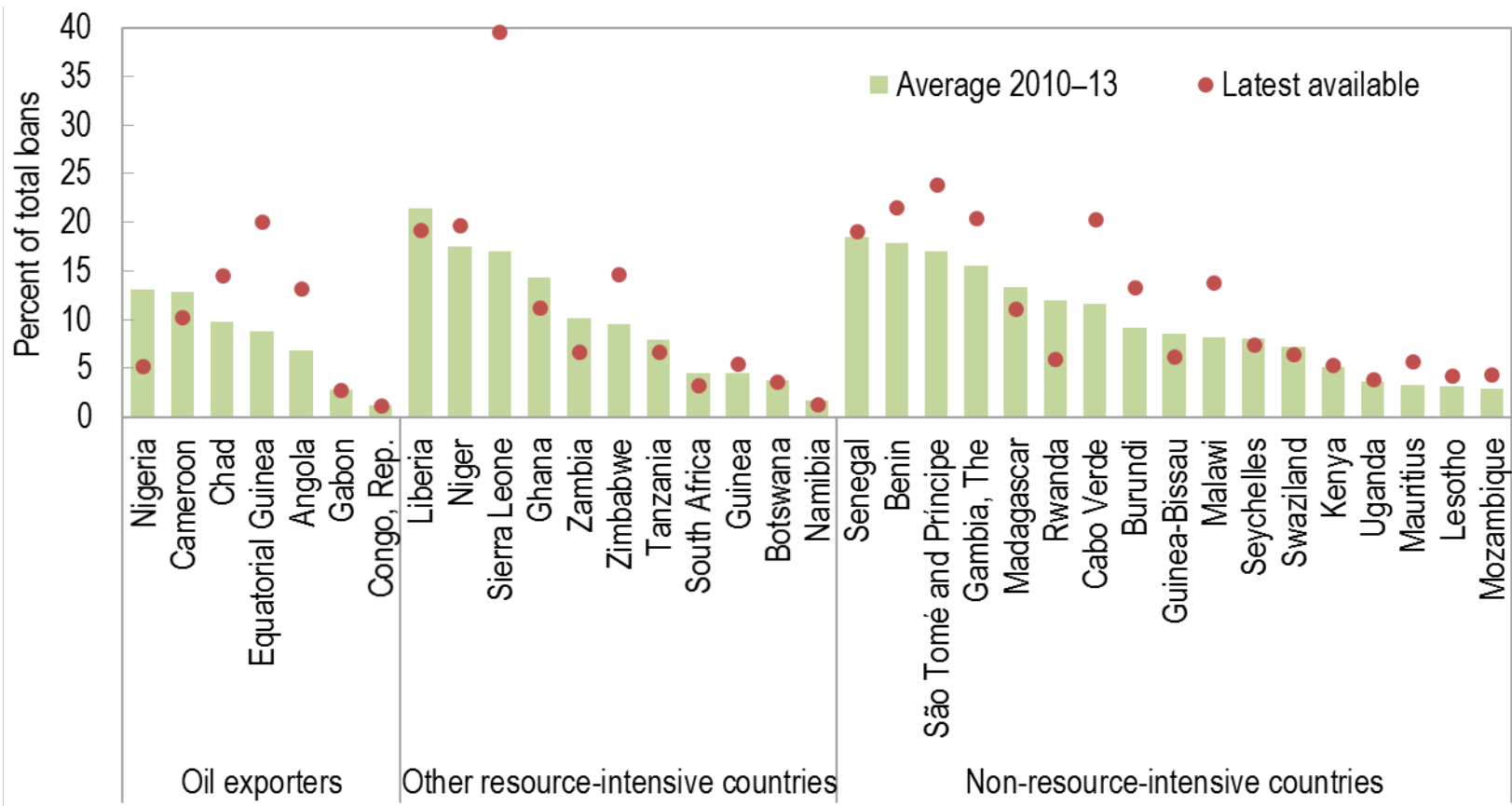
Private Sector Credit Growth





...with financial soundness indicators weakening

Nonperforming Loans, Average 2010–13 versus 2015



So, is Africa still Rising?



- The underlying drivers of strong medium-term growth prospects remain in place
 - A much improved business environment
 - Favorable demographics
- But a policy reset is required to realize the region's potential

A prompt and robust macroeconomic policy response is needed...



Fiscal Policy

- Fiscal adjustment is urgently needed in oil exporters, but also in hard-hit other commodity exporting countries.
- Oil importers, many of whom are enjoying robust growth, should use this opportunity to build buffers.

Monetary and exchange rate policy

- Outside currency unions, exchange rates, combined with supportive fiscal and monetary policies, should be the first line of defense.
- Monetary tightening should respond to inflationary pressures, if they arise from exchange rate depreciation.
- Central banks should limit government financing.



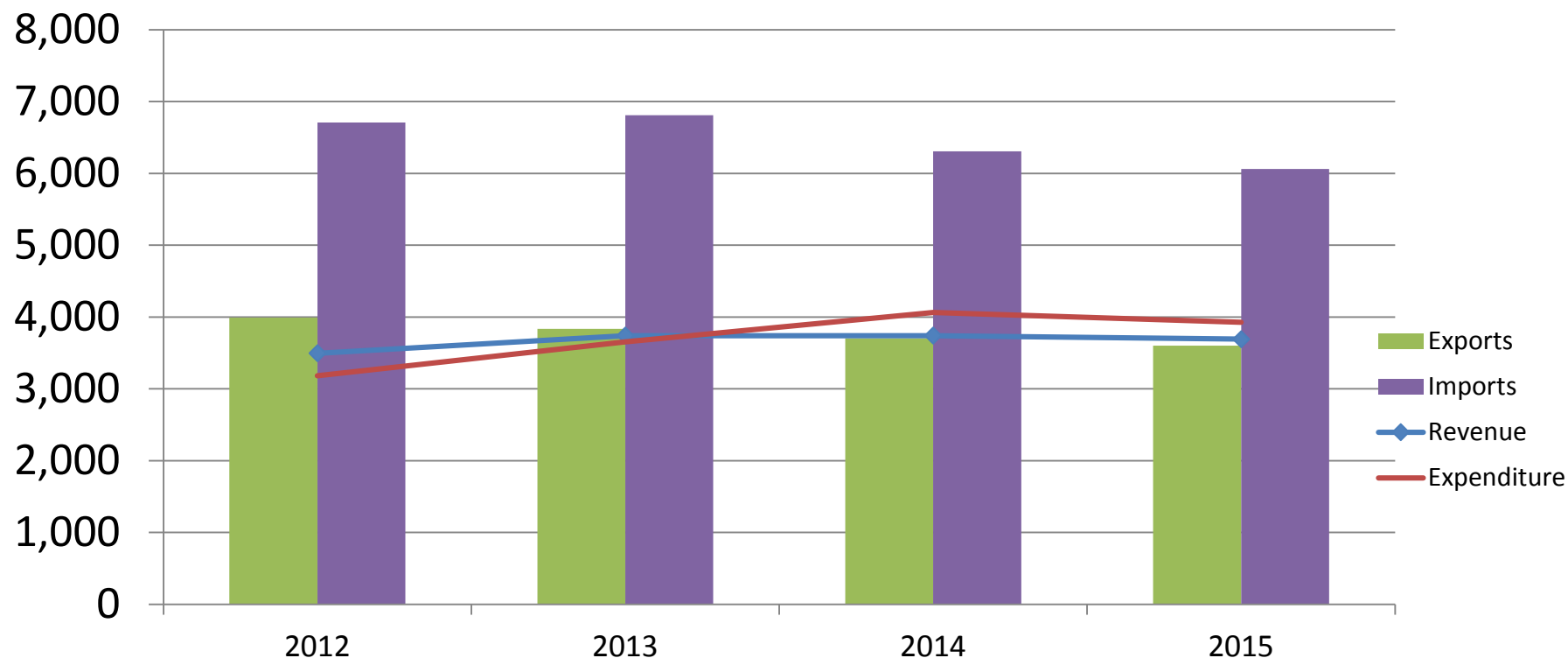
... including on the structural front

- Countries should strengthen revenue mobilization as it is the most durable way to create fiscal space
- The current juncture is also a reminder of the need for all countries in the region to advance the economic diversification agenda



Zimbabwe current situation...

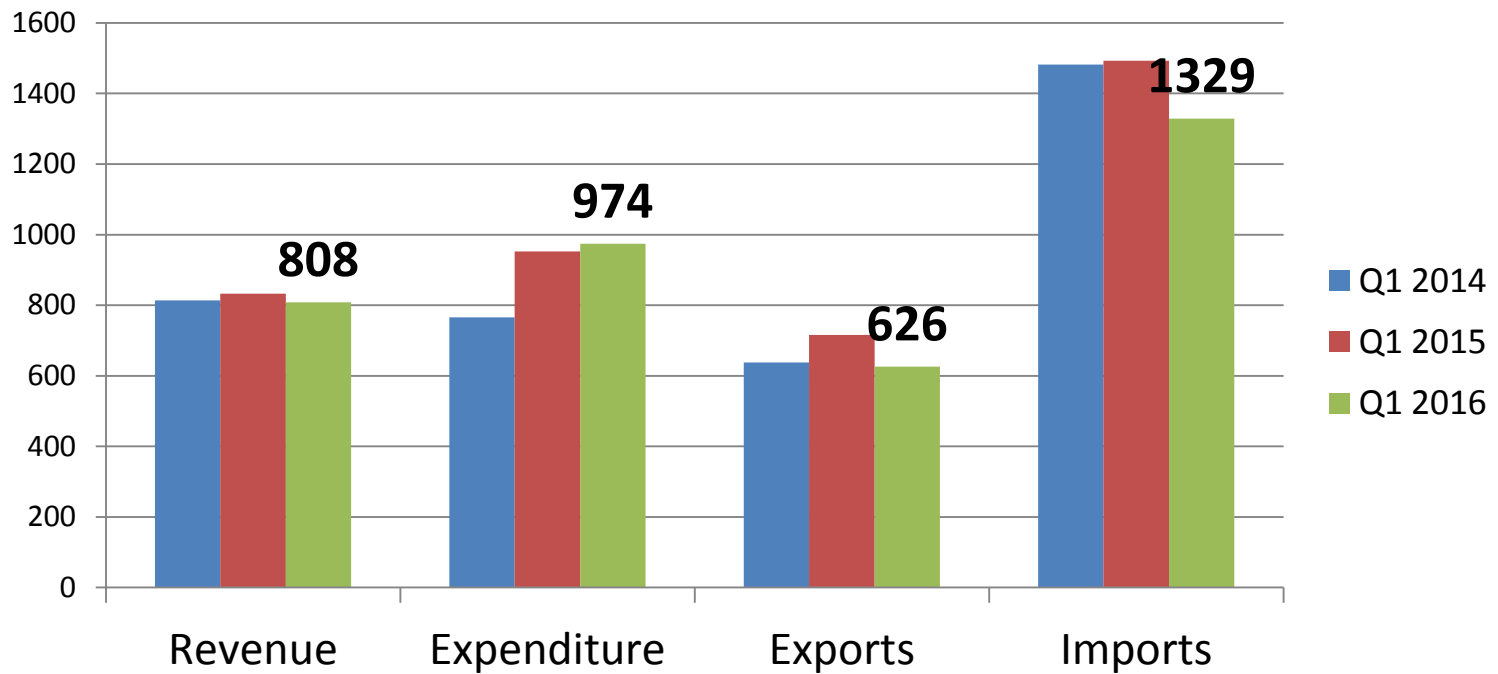
- The current cash and confidence crisis is a symptom of deeper structural challenges...



Zimbabwe current situation...



- Expenditure remains high...



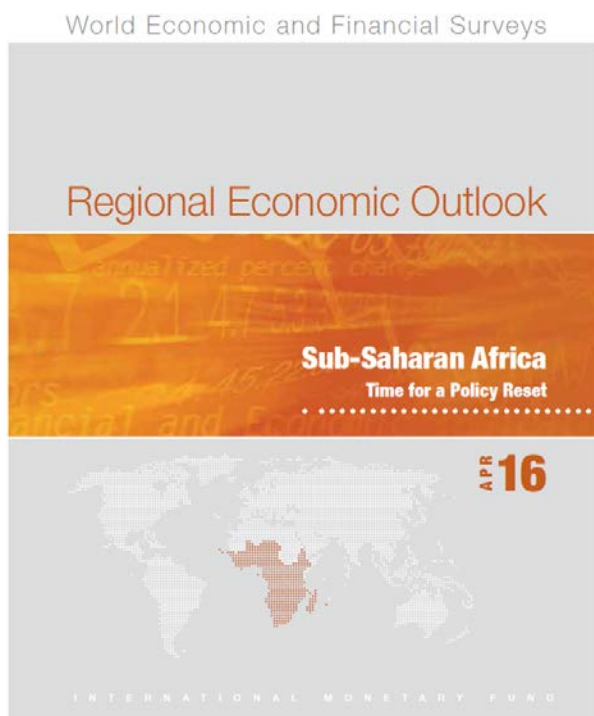
Adjustment



- Prompt policy response – Zimbabwe cannot wait
- Fiscal adjustment and confidence rebuilding
- Deepening the reform agenda
 - Initiate deeper policy reforms
 - Complete the re-engagement agenda
 - All this should be done in a way that instills confidence



Thank you!



The online edition of the
*Regional Economic Outlook
for sub-Saharan Africa*
is now available online at
www.imf.org