



AFR

Regional Economic
Outlook

Recovery and Rising Risks

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October 2018

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



Key Messages

- **The recovery is expected to continue amidst rising risks.**
 - Muted recovery in oil exporting countries, while most other countries continue to sustain high growth.
- **Fiscal deficits in SSA are narrowing, but the quality of adjustment needs to be strengthened.**
 - Further revenue-based adjustment needed to reduce debt vulnerabilities and create space for development spending.
- **Enhancing resilience and raising growth potential is essential; policies vary across countries.**
 - Improve policy frameworks
 - Promote diversification
 - Deepen trade and financial integration
 - Promote flexible education systems and digital connectivity
 - Promote private investment

Roadmap

I. A Less Supportive External Environment

II. Outlook and Risks

III. Policy Challenges

Reducing Debt Vulnerabilities

Dealing with Capital Flows

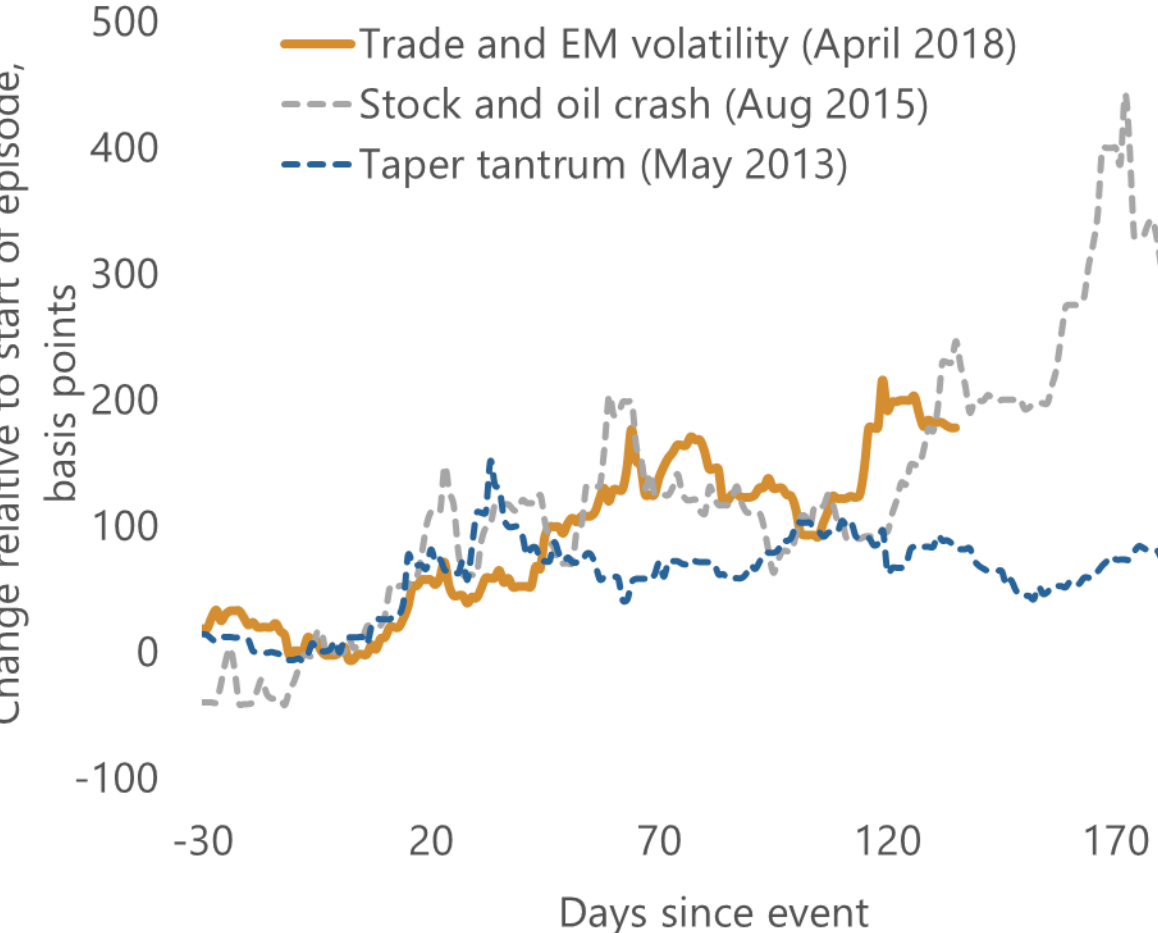
Lifting Incomes Faster

IV. Zimbabwe's Economic Situation

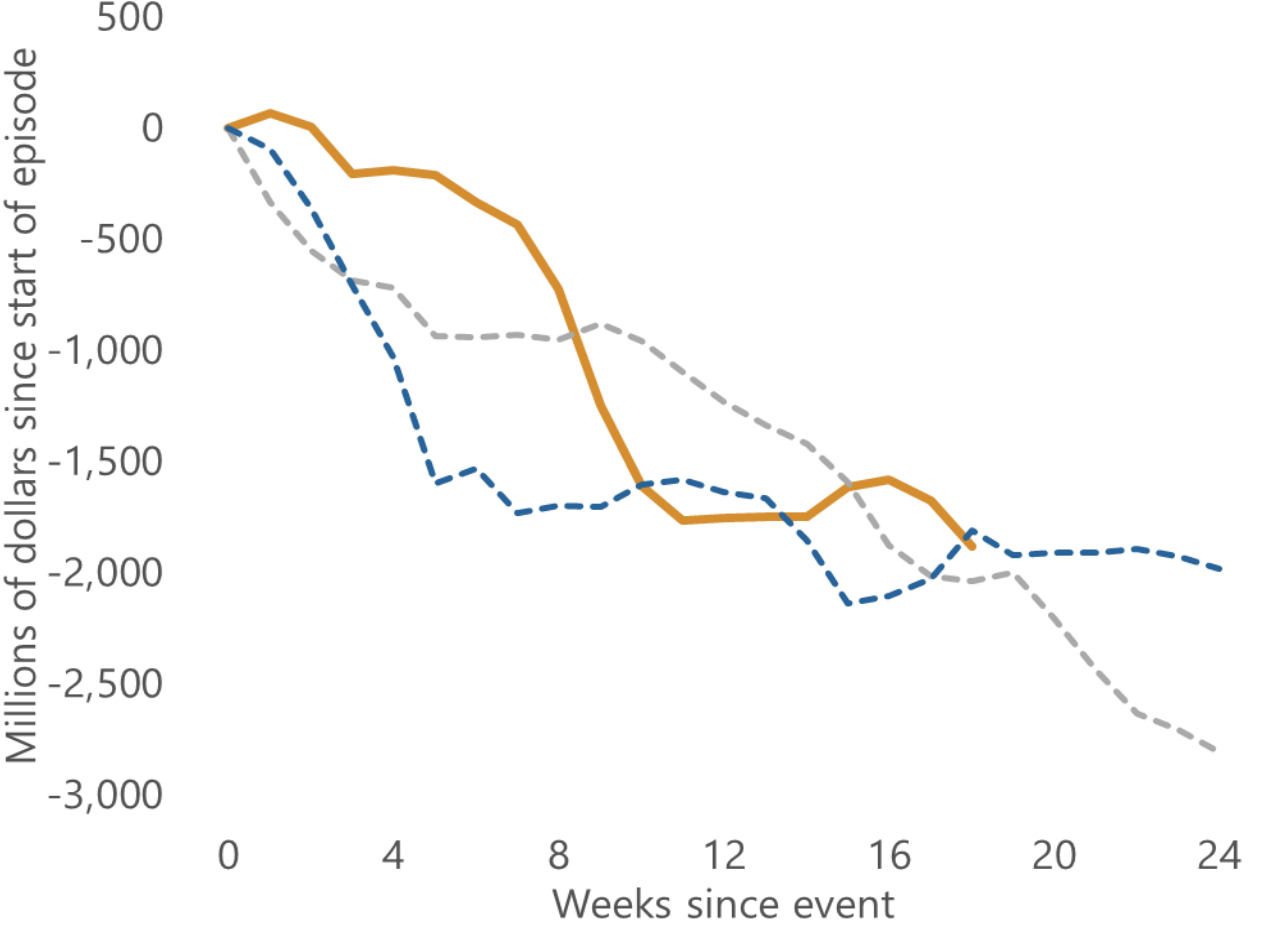
I. A Less Supportive External Environment

Financing conditions have tightened, with higher bond spreads and portfolio outflows.

Sub-Saharan African Selected Frontier Markets: Sovereign Bond Spreads



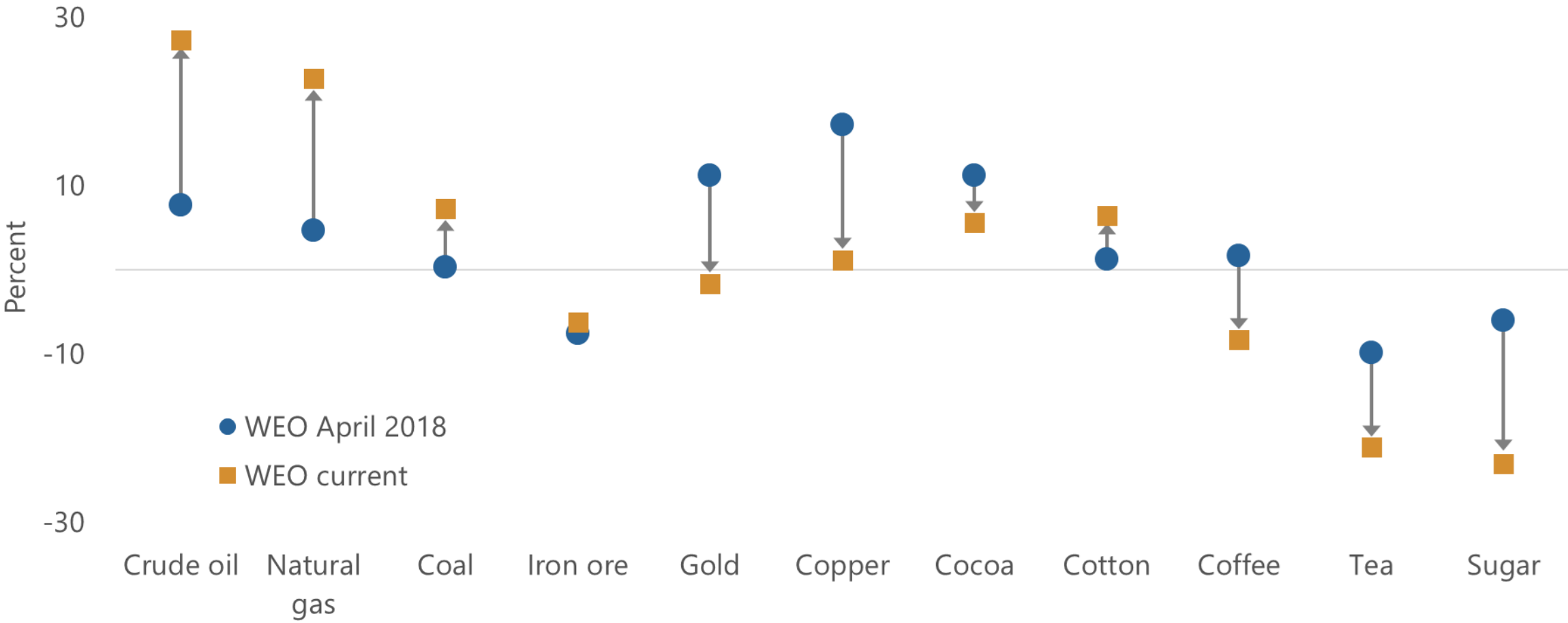
Sub-Saharan African Frontier Markets: Cumulative Portfolio Flows



Source: Bloomberg Finance L.P.

Higher prices will facilitate recovery in oil exporting countries.

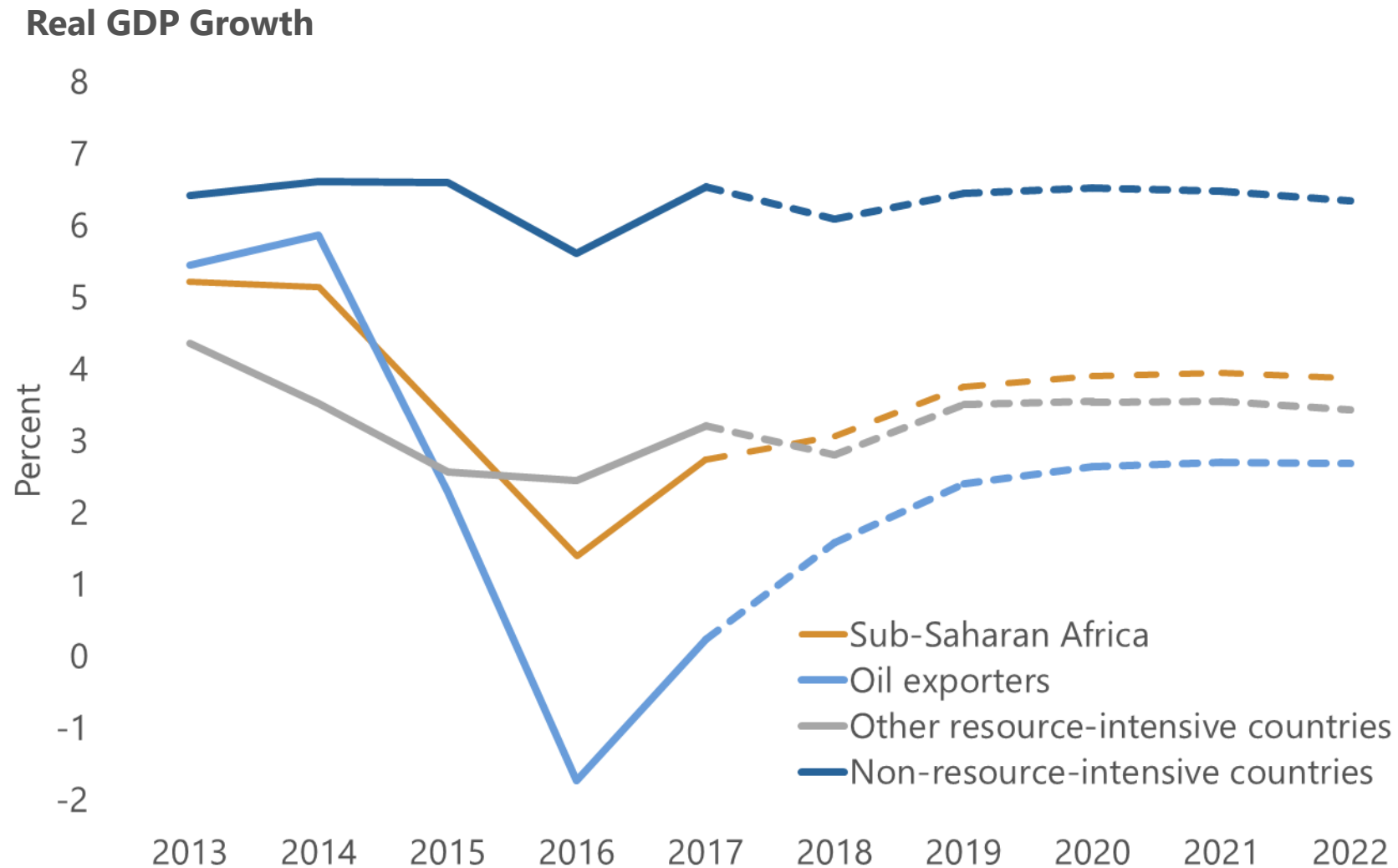
Selected Commodity Prices Expected Changes (Average 2019–20 vs 2017)



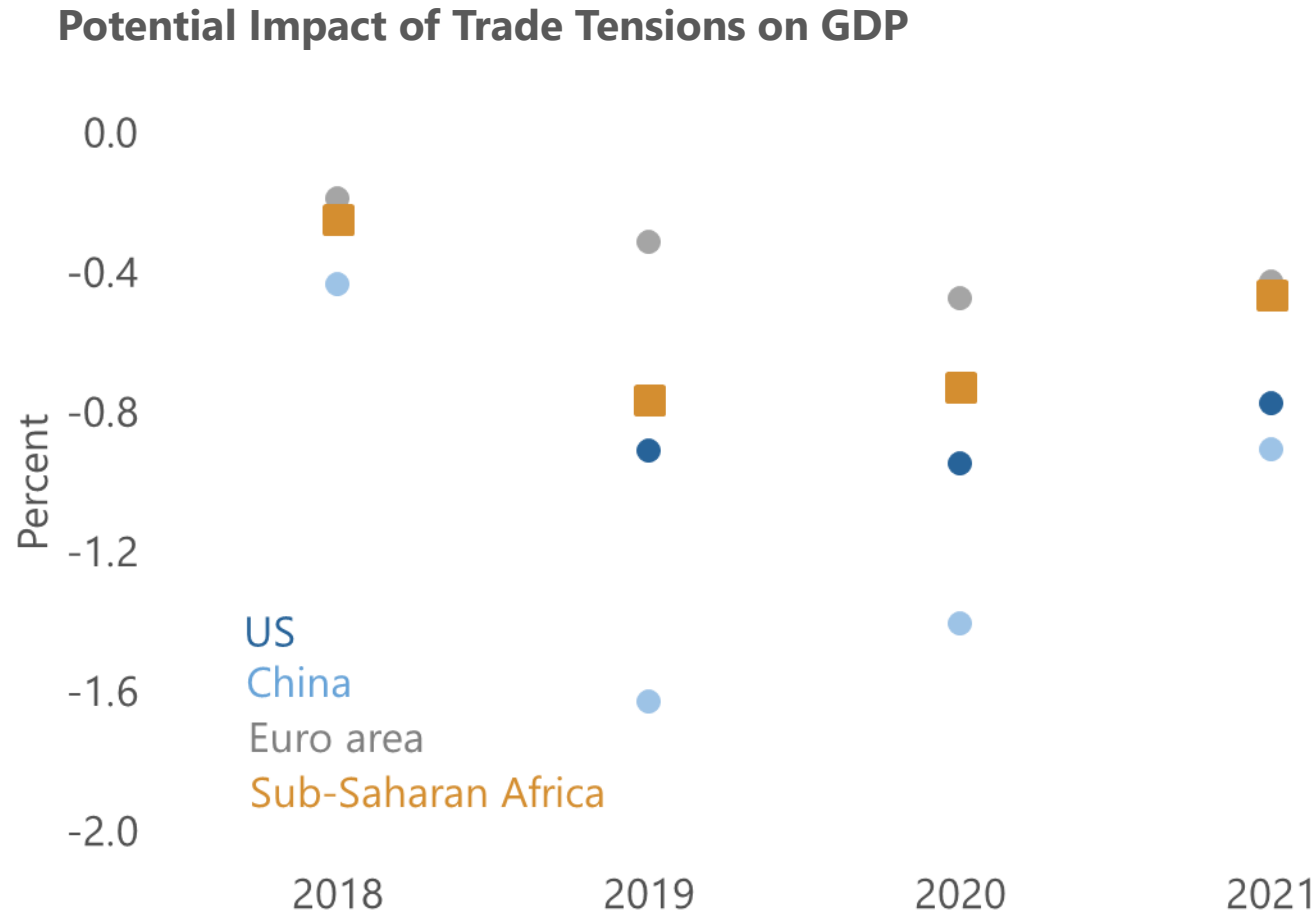
Source: IMF, World Economic Outlook database.

II. Outlook and Risks

Sustained growth in non-resource-intensive countries, and muted recovery elsewhere.

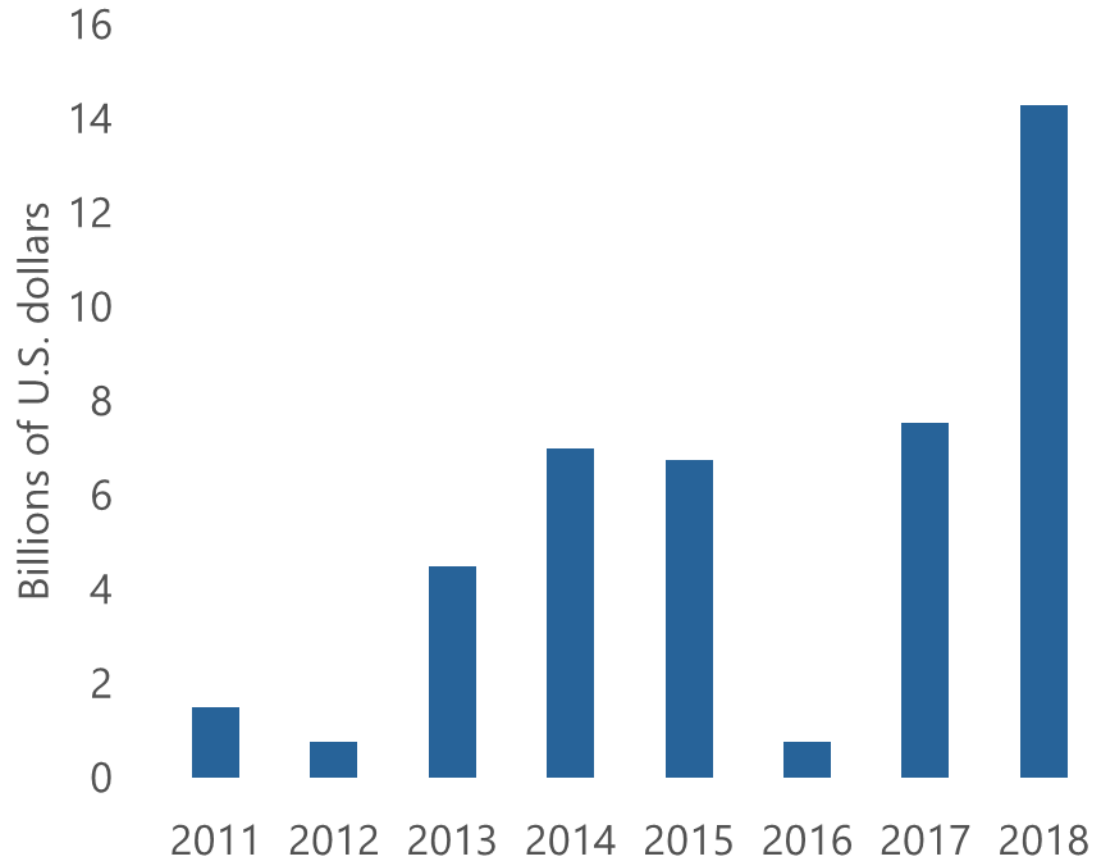


Further escalation of trade tensions would threaten the recovery.

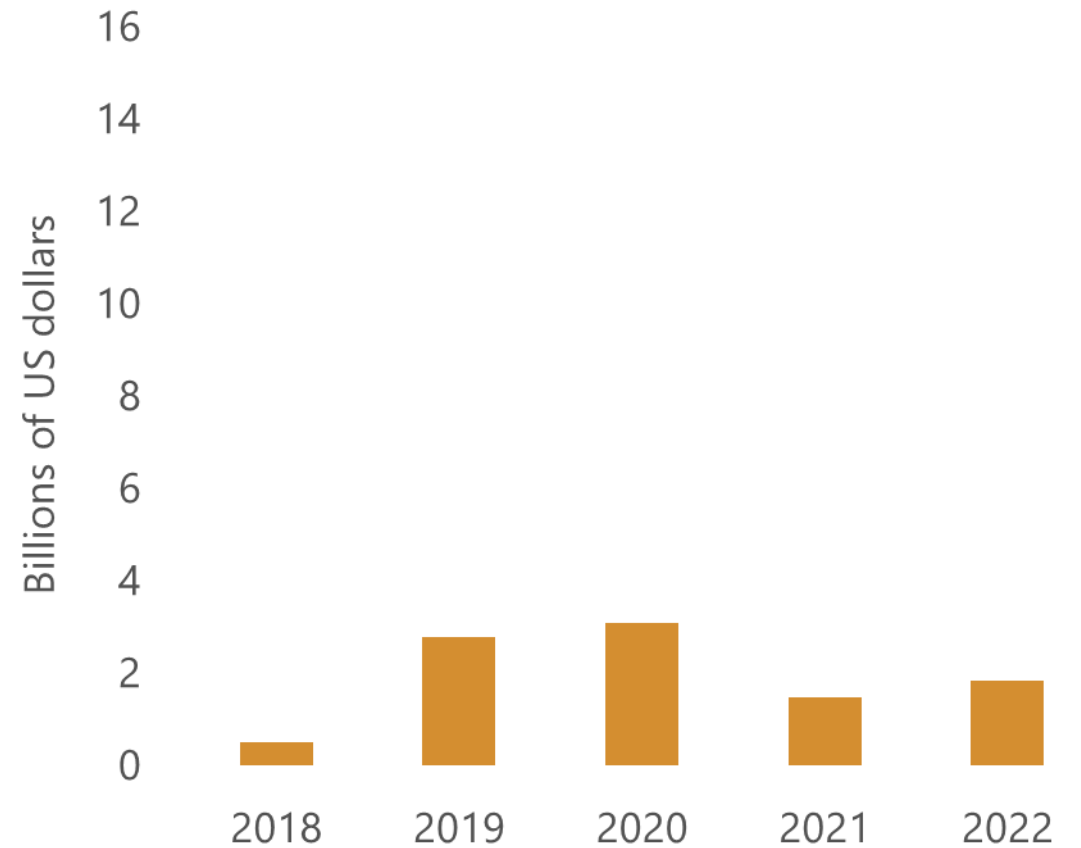


Increased exposure to an unexpected tightening of global financial conditions.

Sub-Saharan African Frontier Markets International Sovereign Bond Issuances

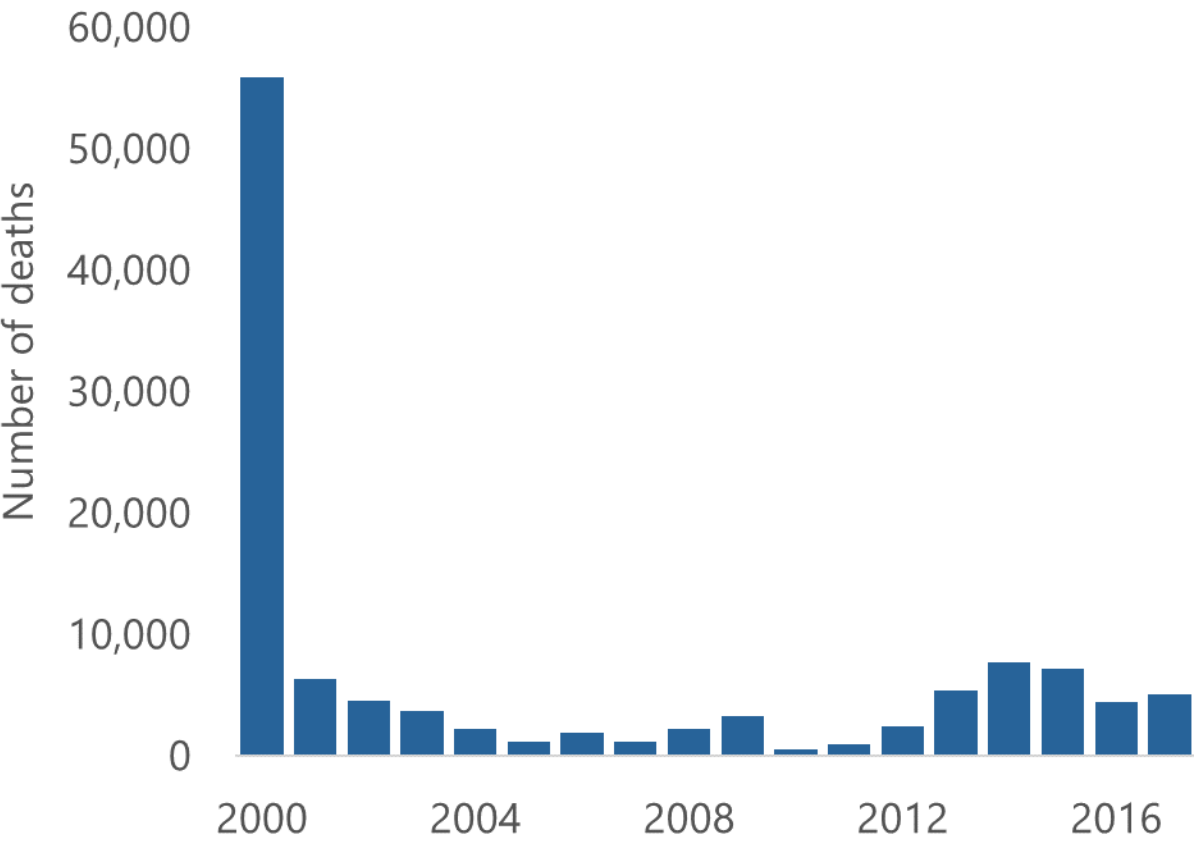


Sub-Saharan African Frontier Markets Maturing International Sovereign Bonds

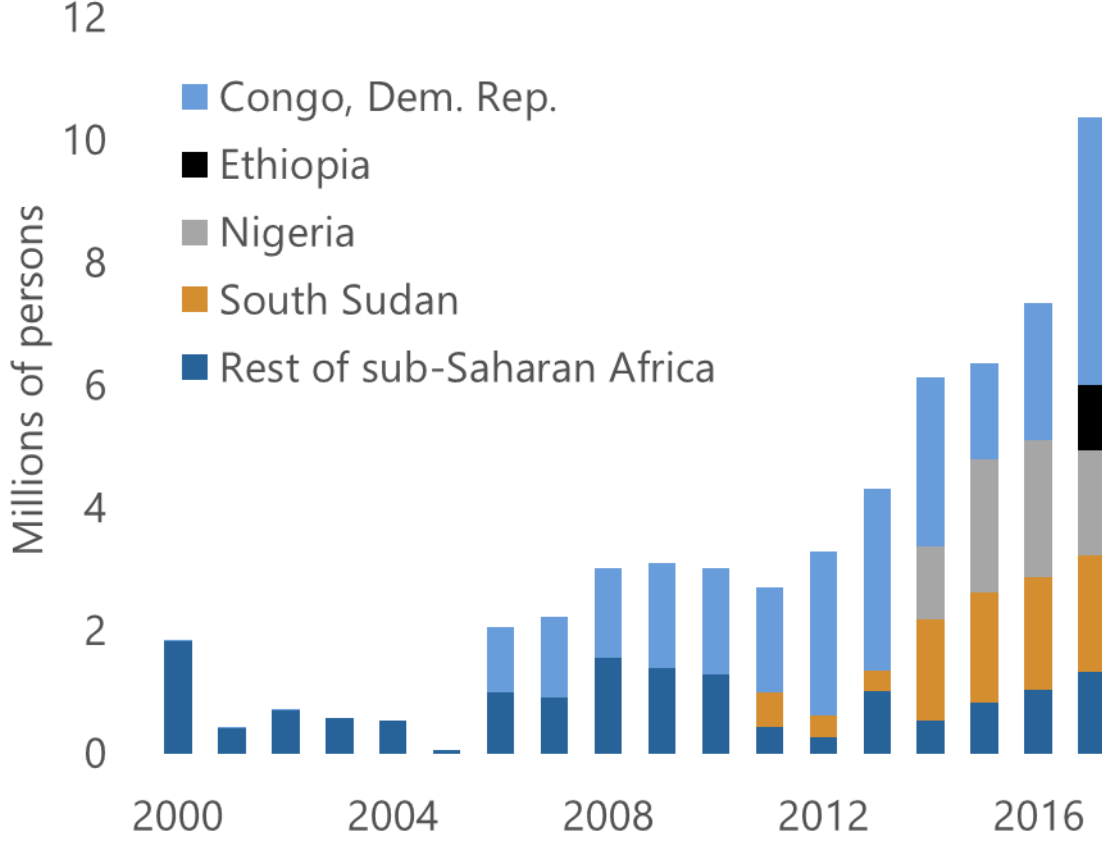


Security issues are exacting a significant human toll in a number of countries.

Sub-Saharan Africa: Conflict Related Deaths



Sub-Saharan Africa: Internally Displaced Persons



Source: Uppsala Conflict Data Program.

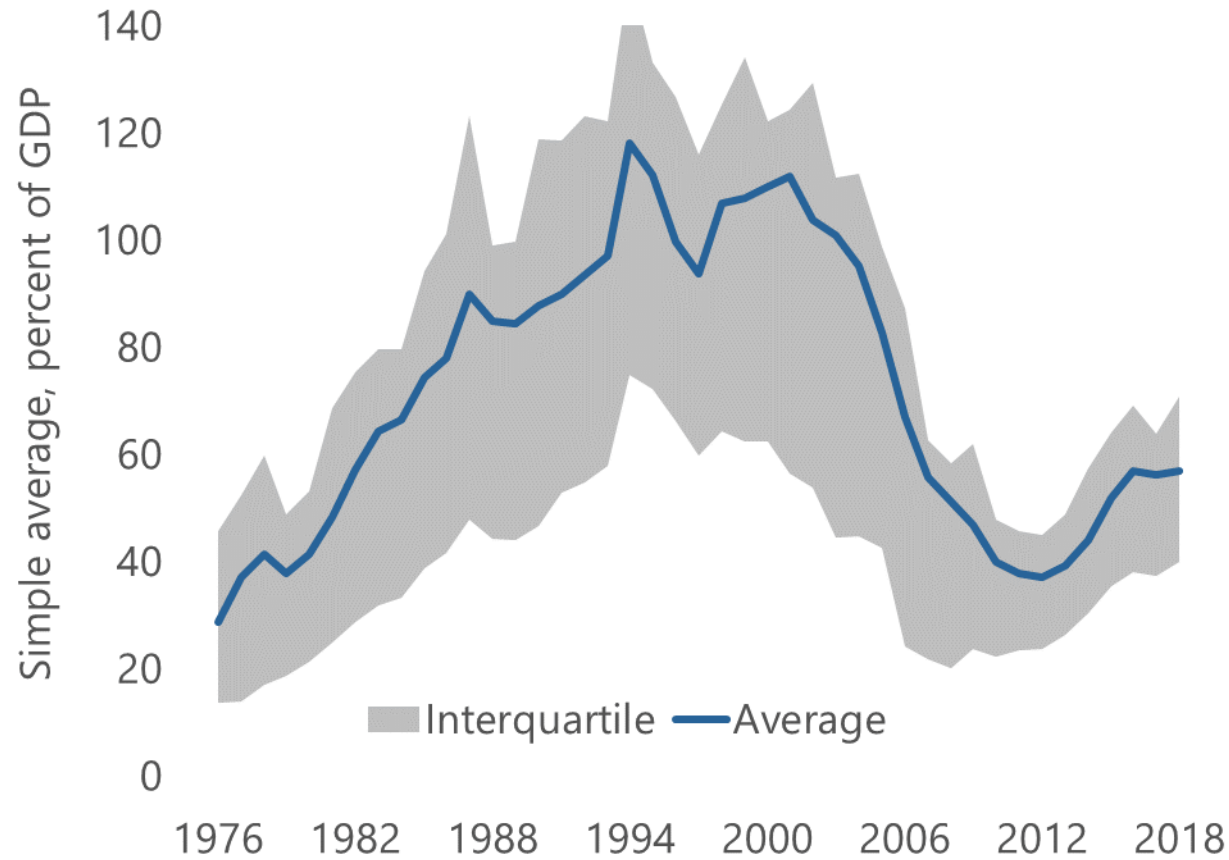
Source: United Nations High Commissioner for Refugees.

IV. Policy Challenges

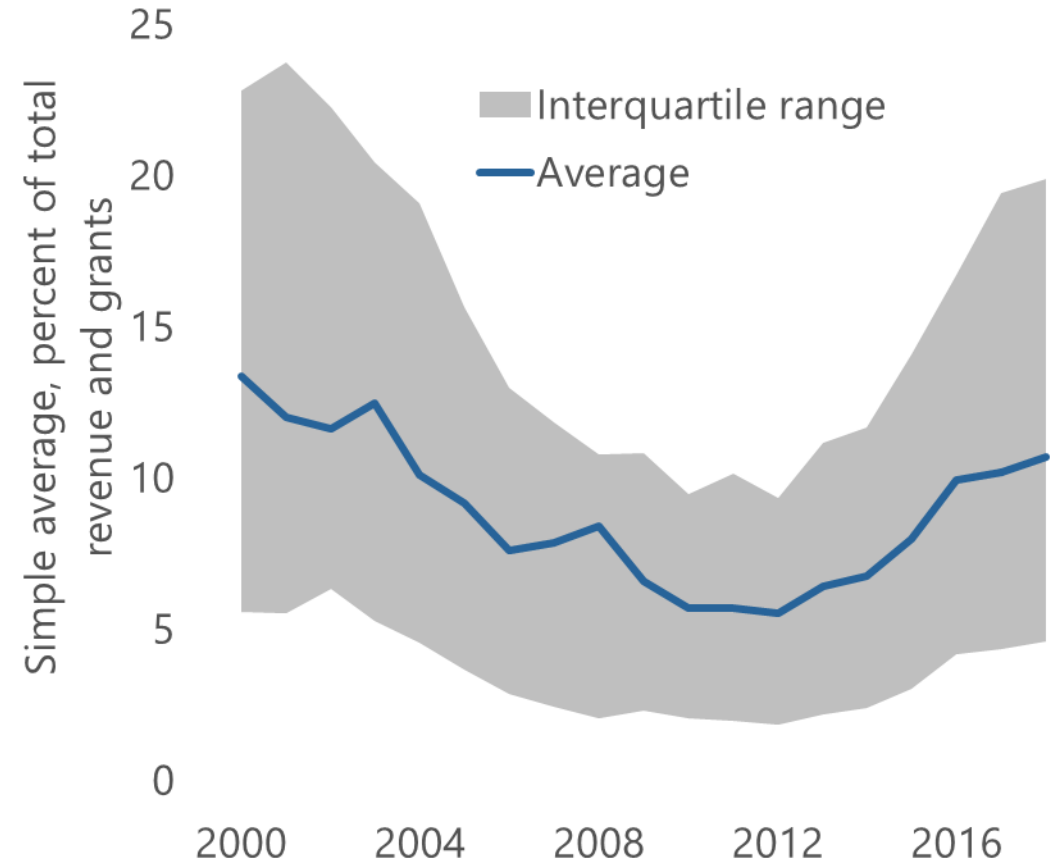
a. Reducing Debt Vulnerabilities

Public debt is diverting more resources towards interest payments...

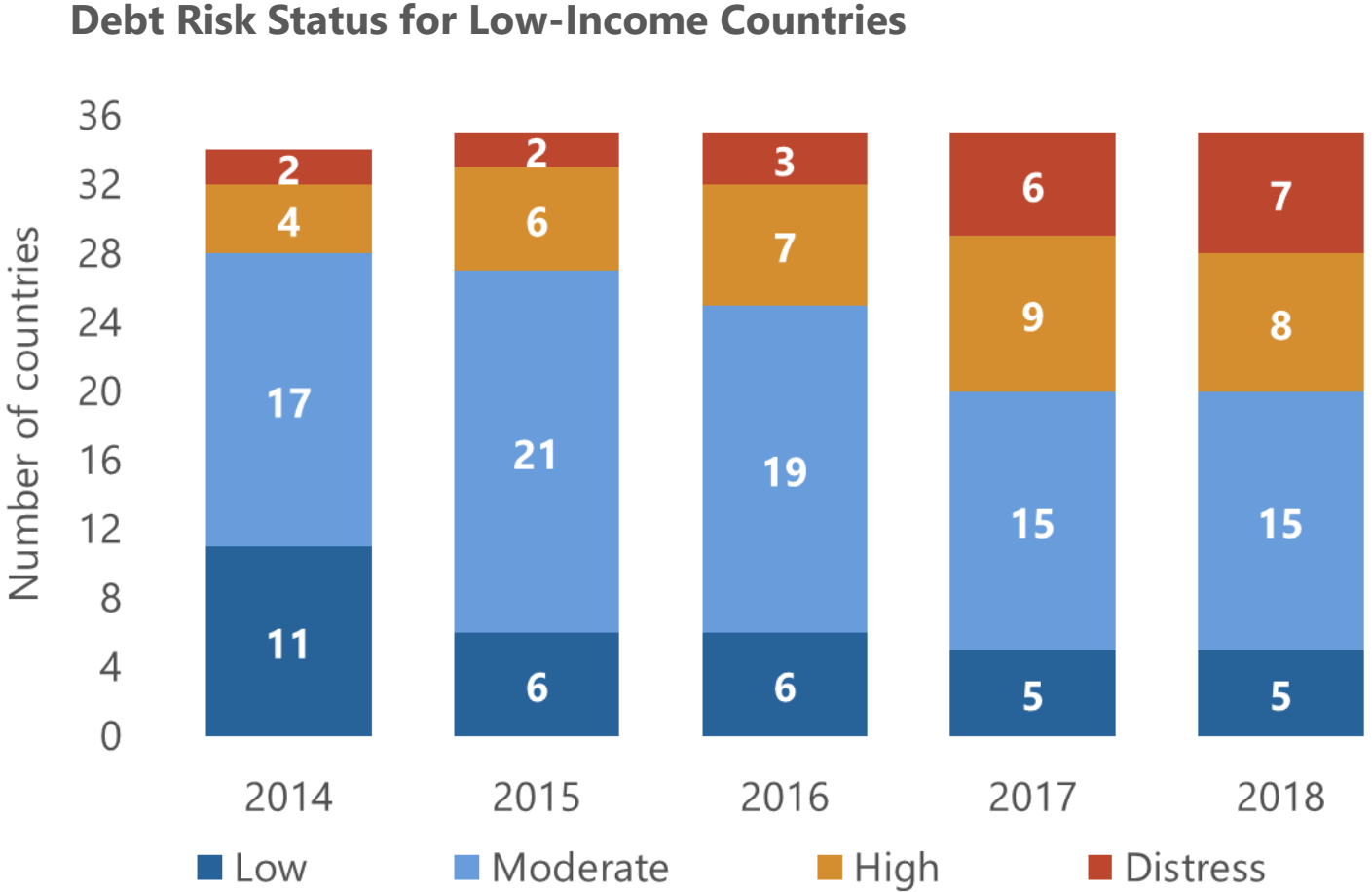
Sub-Saharan Africa: Total Public Sector Debt



Sub-Saharan Africa: Interest Payments

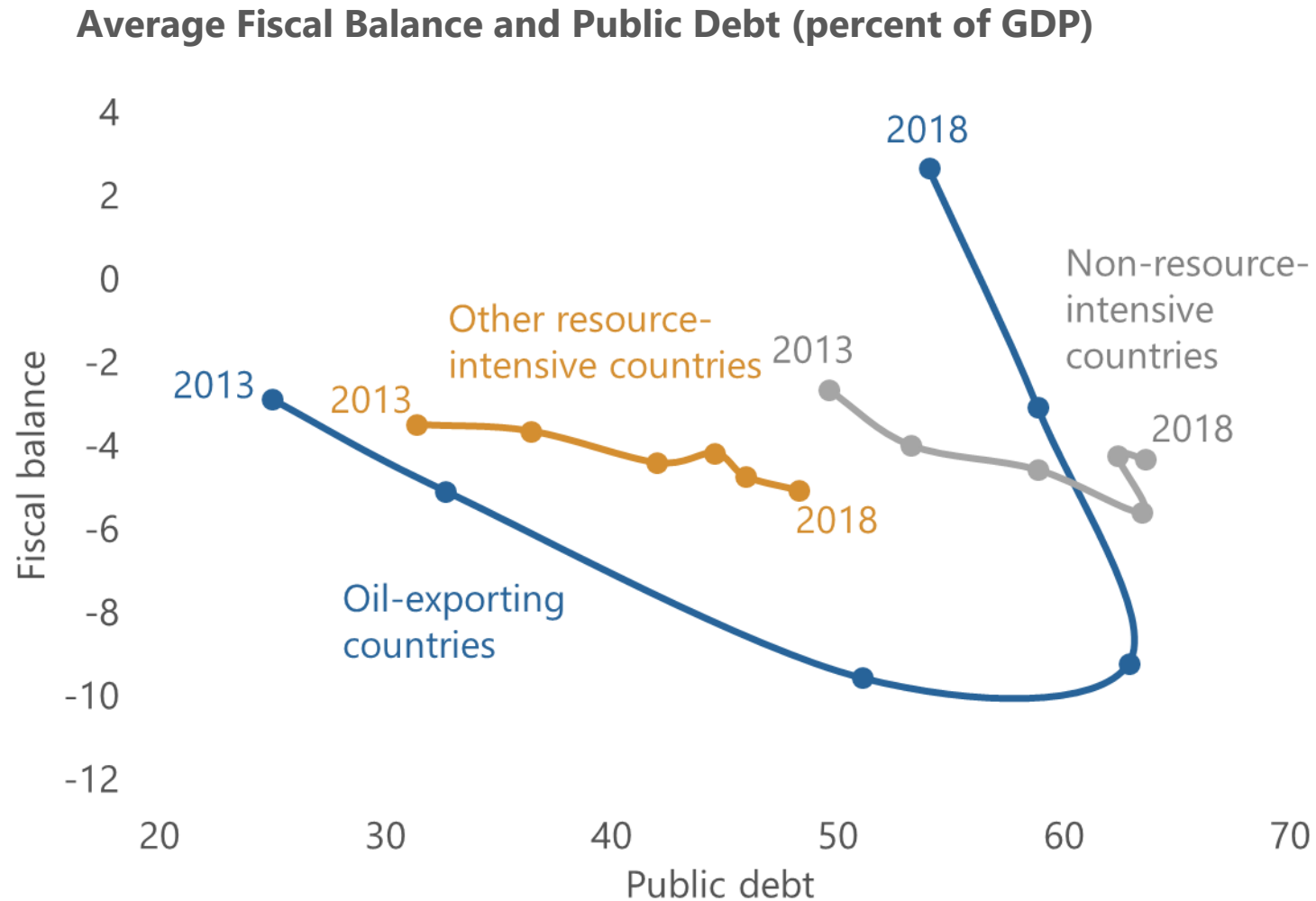


...and increasing difficulties for countries to service their commitments.

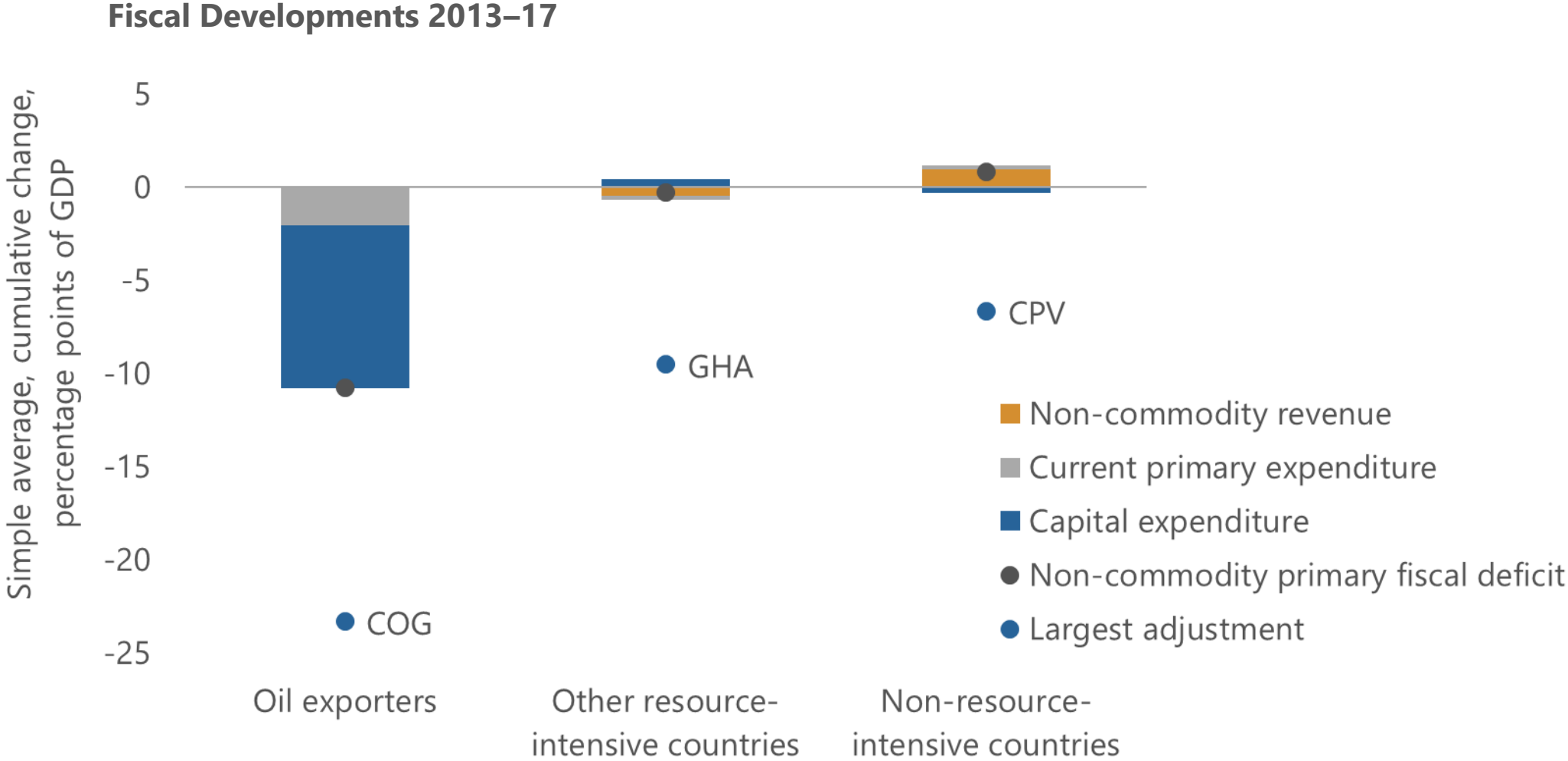


Source: IMF, Debt Sustainability Analysis Low-Income Developing Countries database.

Progress on improving debt dynamics remains mixed.



Adjustment has relied on spending compression rather than revenue mobilization.

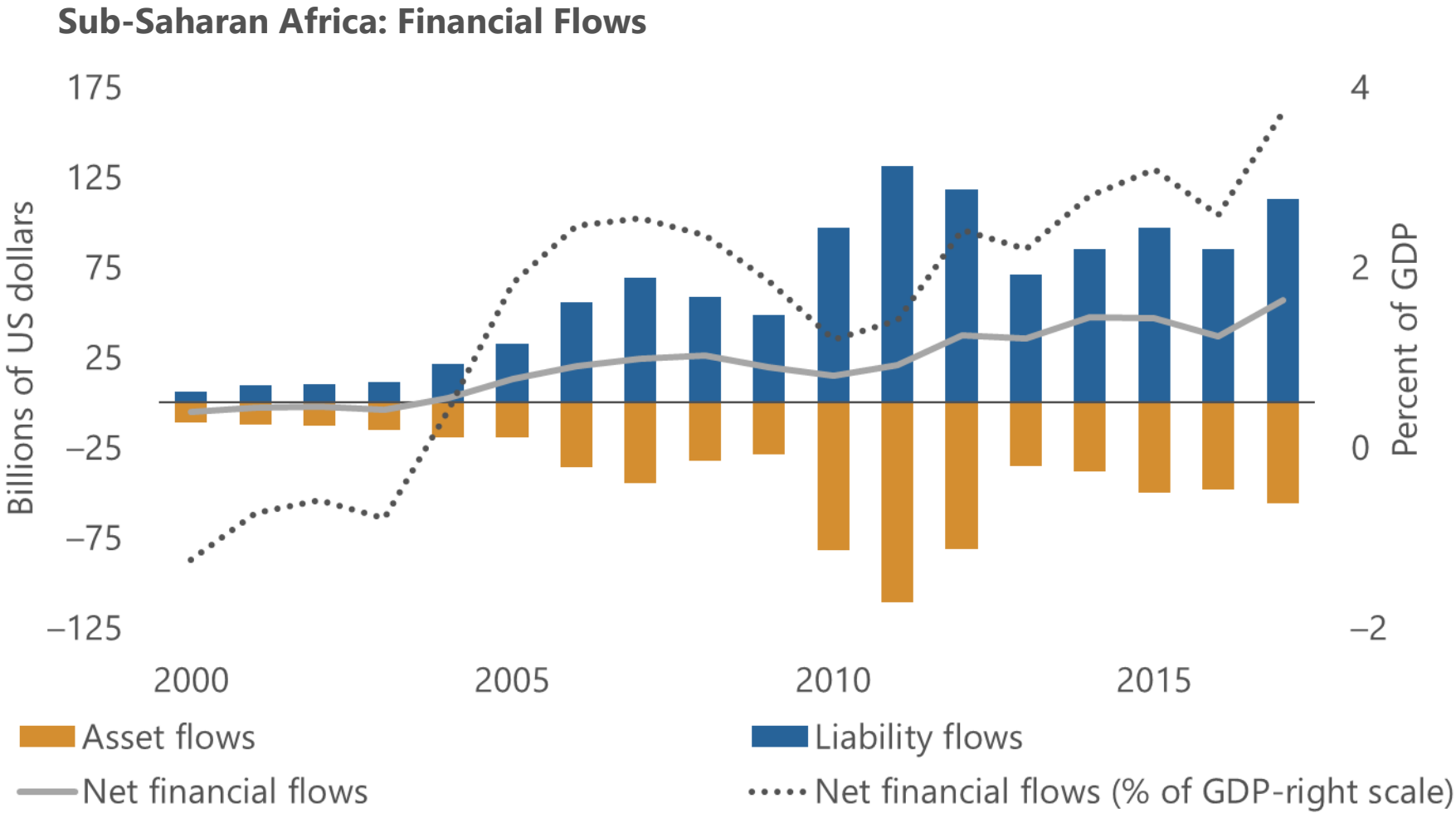


Source: IMF, World Economic Outlook database.

IV. Policy Challenges

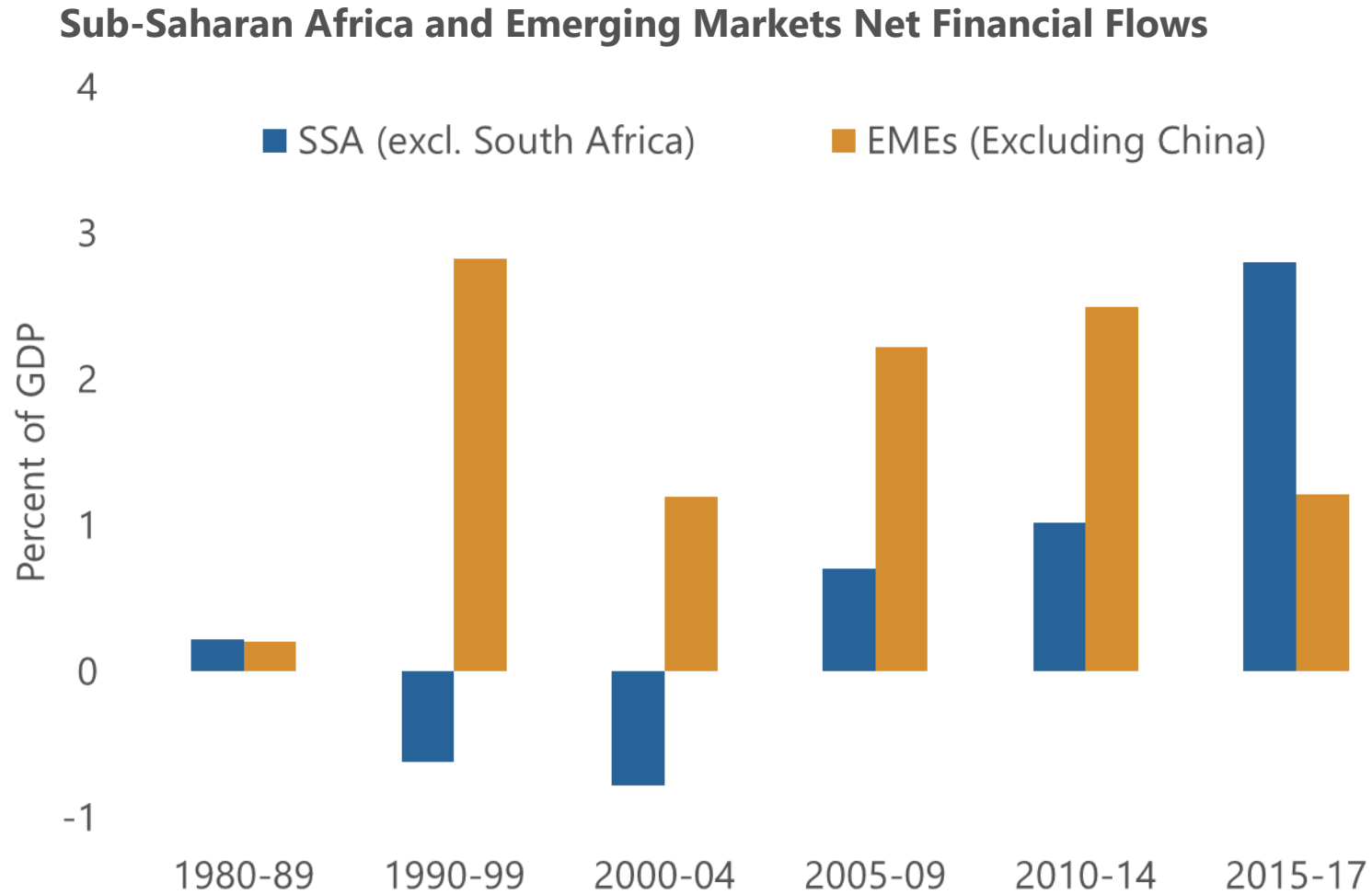
b. Dealing with Capital Flows

Financial integration with the rest of the world has deepened.



Source: IMF staff estimates.

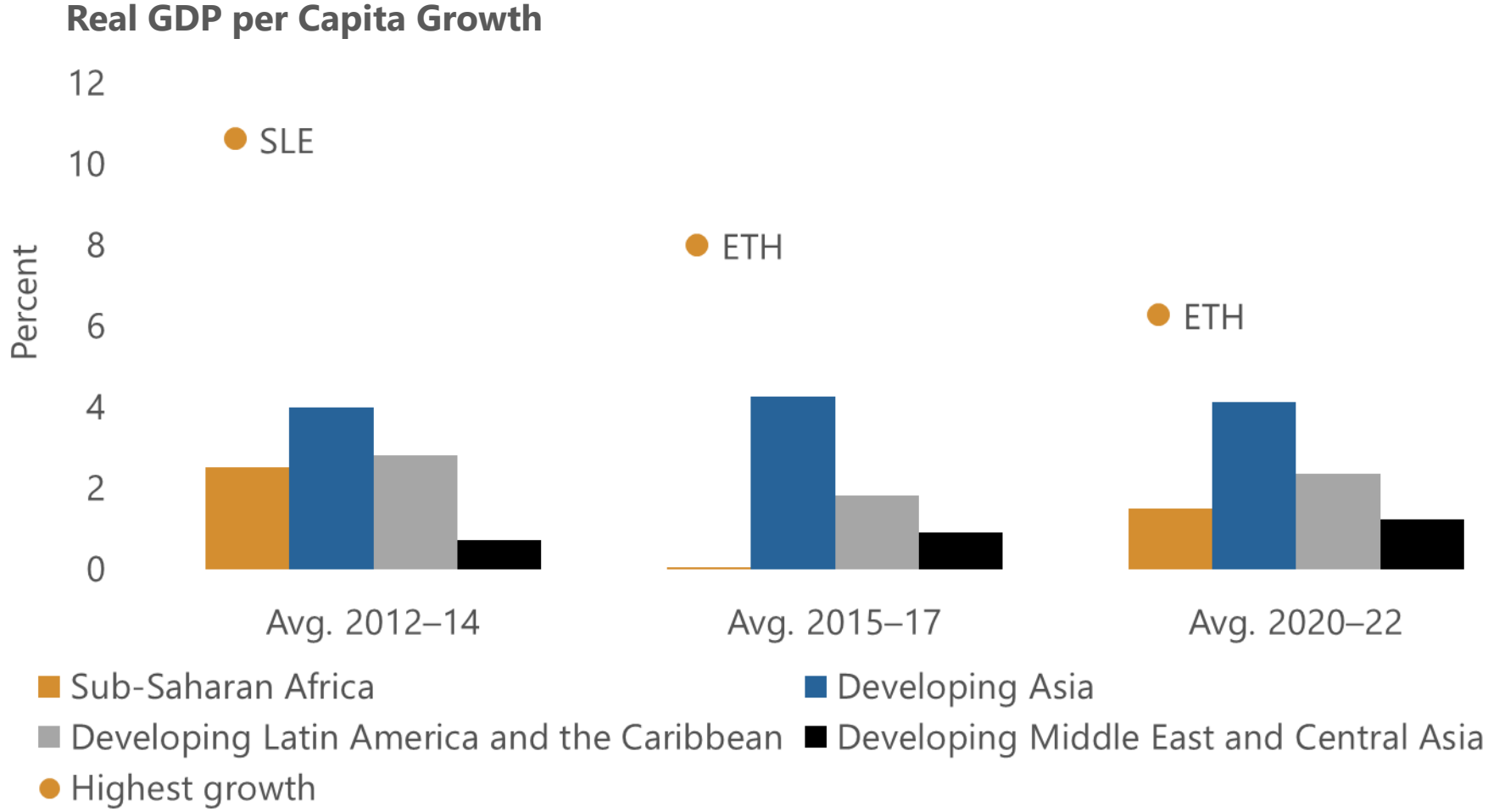
Capital flows have been larger than those to EMEs.



IV. Policy Challenges

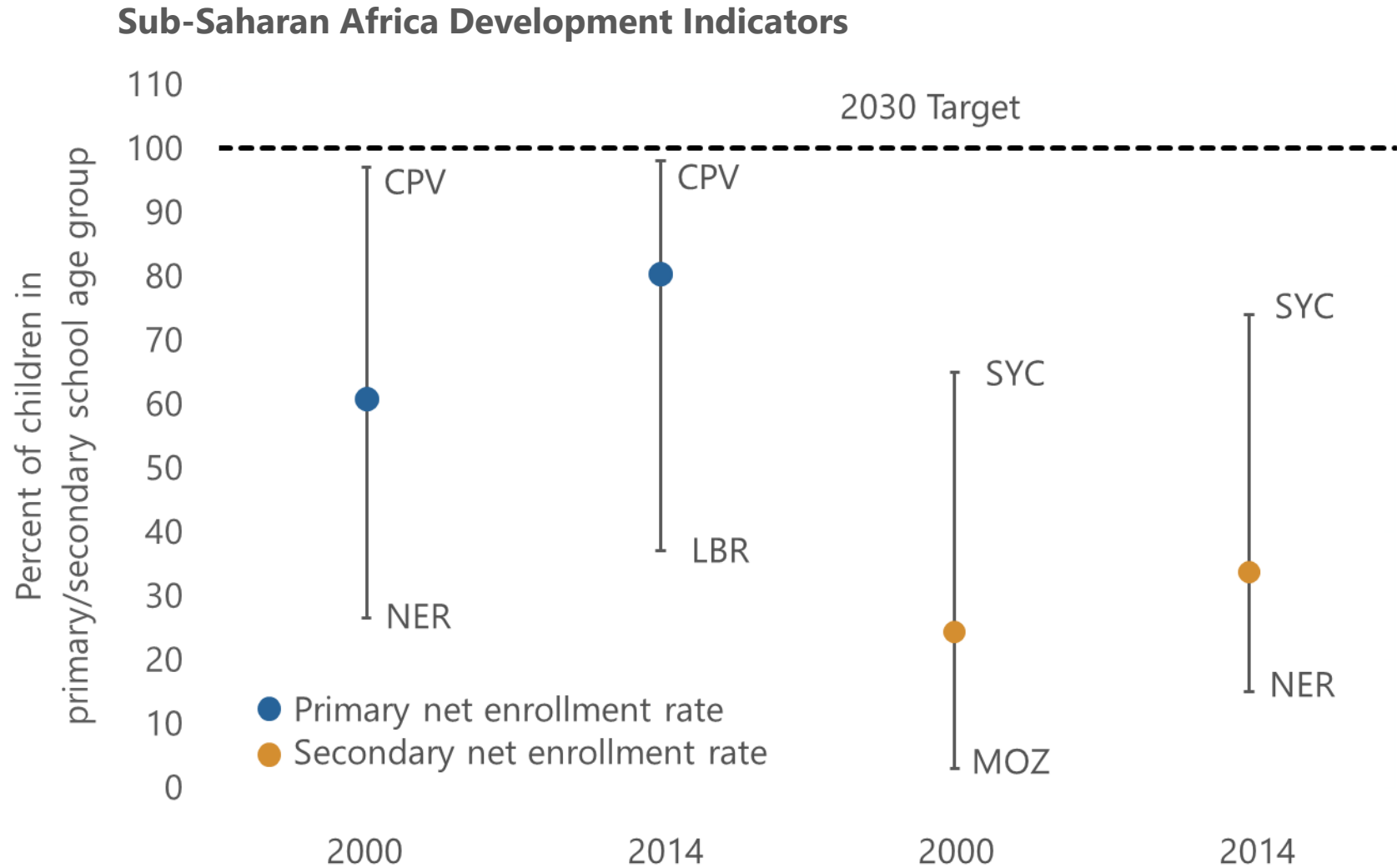
c. Lifting Incomes Faster

Medium-term per capita growth is too low.

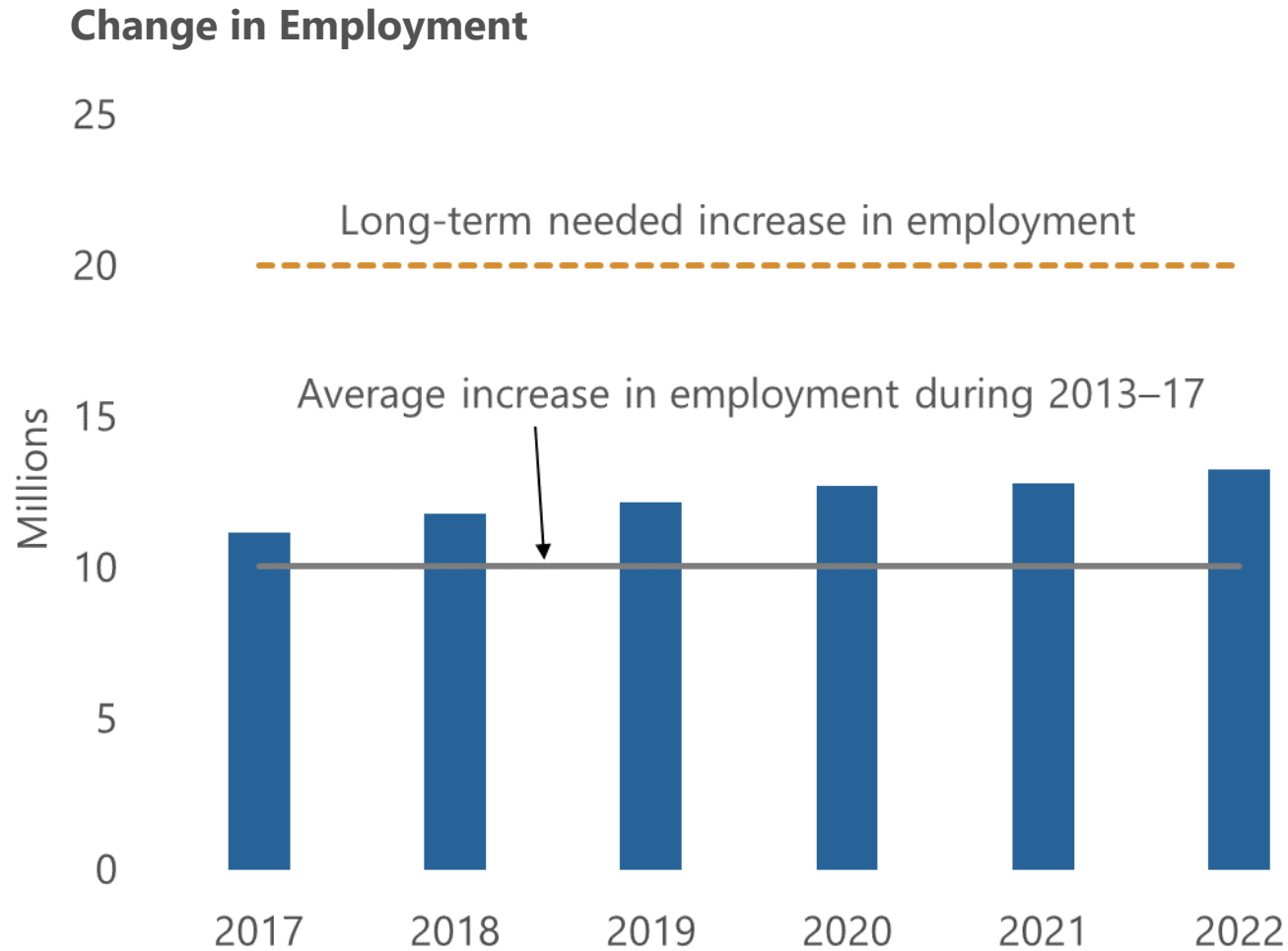


Source: IMF, World Economic Outlook database.

Meeting the SDGs will require stronger growth and more financing.



Policies are needed today to create more jobs in coming years.

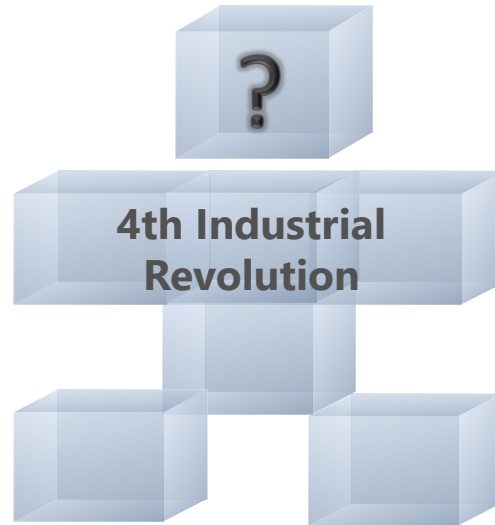


Job creation complicated by uncertainty on extent to which technology replaces labor.

Historically, technology has complemented labor

Leapfrogging opportunities

Services as a source of growth



Periods of transition are often costly

Technology may substitute labor & reshoring away from SSA

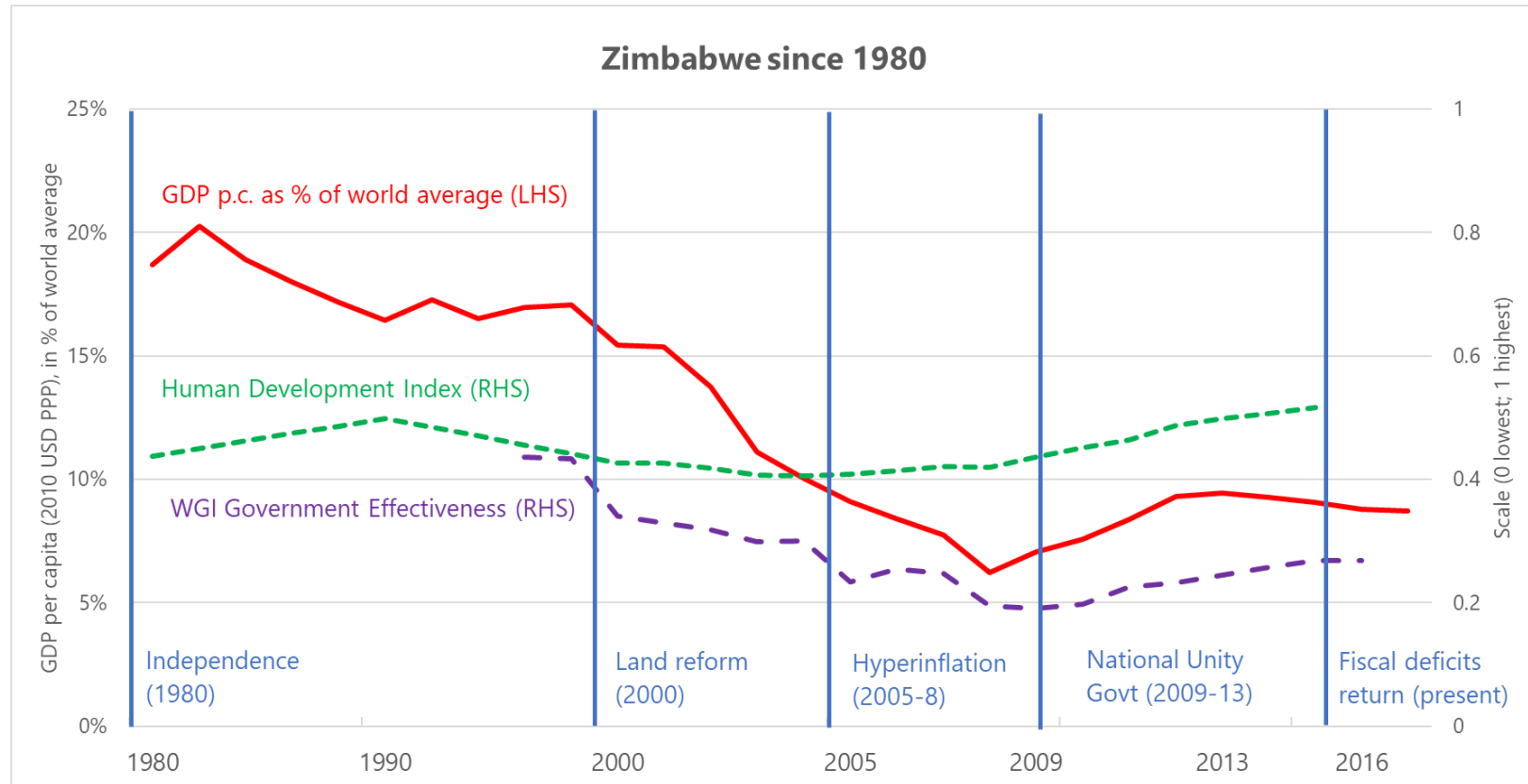
Declining labor share

Recap Key Messages

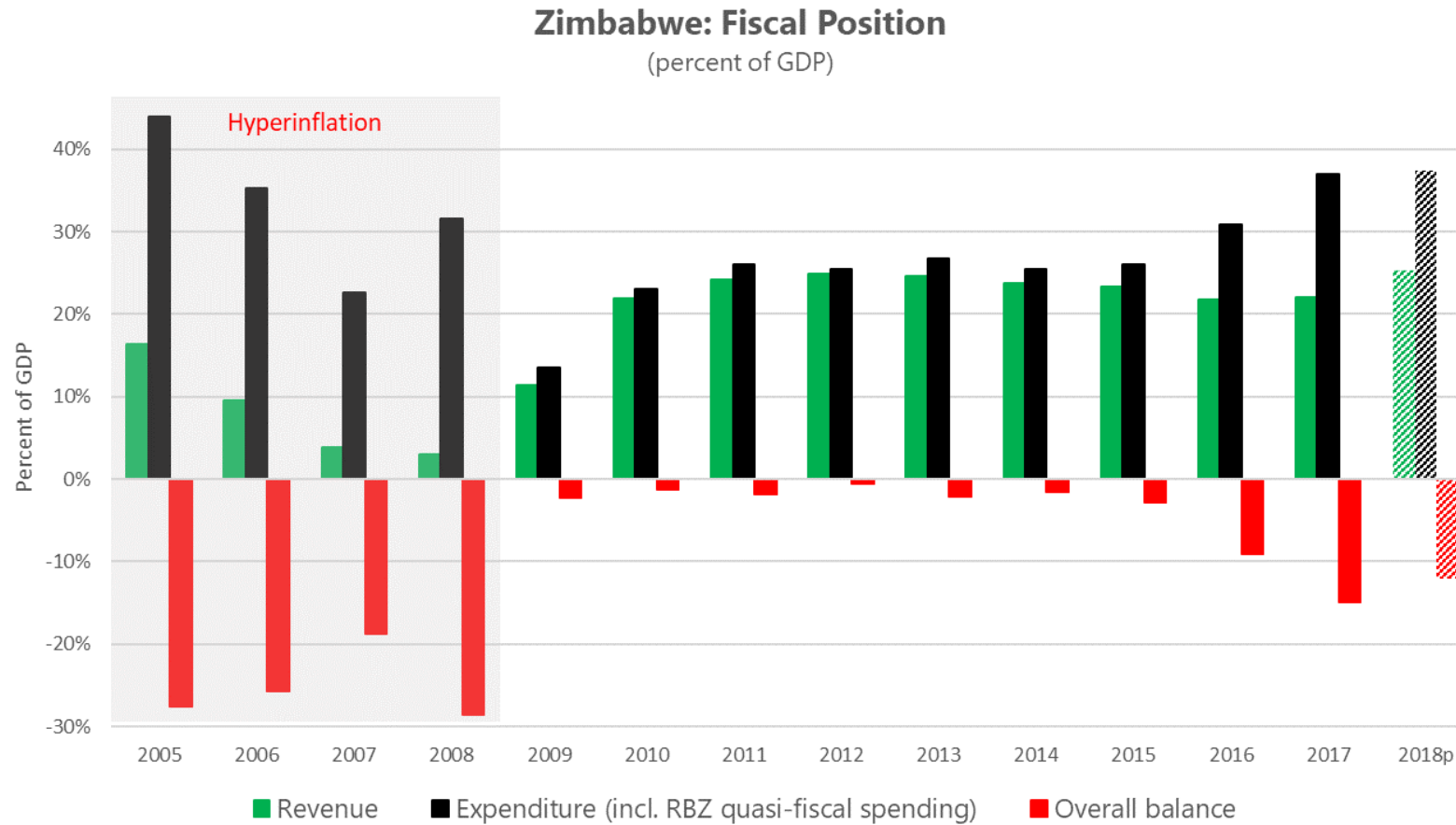
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IV. Zimbabwe's economic situation

Stagnation and missed opportunities...



Large deficits have returned...



Slowing growth and financial development

- Monetary financing has slowed down growth
 - Lowered private-sector credit (“crowding out”)
 - Increased informality
 - Lowered financial inclusion
 - People queue for long hours to withdraw money over the counter (daily withdrawals are capped at \$20-\$50, and banks often run out of physical cash)
 - Restricted supply of bond notes vs. electronic money hurts poor, rural households disproportionately

Fiscal consolidation: options

- Debt sustainability will depend on debt / arrears treatment
 - The required adjustment without debt relief will be onerous

- Focus on spending efficiency and equity:
 - Agricultural reform to foster private-sector led development
 - Increase social spending targeting poor, rural households

- Potential measures building on existing Fund TA

Zimbabwe: Potential Consolidation Measures (% GDP)

	Year 1	Year 4
Revenue	1.2	1.6
Tax allowances	1.0	1.0
CIT and VAT base broadening	0.2	0.6
Expenditure	3.1	7.7
Wage bill	1.8	3.7
Eliminate the 13th check	1.0	1.0
Index compensation to 2% below CPI inflation	0.3	1.0
2/1 replacement rule	0.5	1.7
Subsidies: freeze at 2018 levels	0.9	3.1
Goods & Services: freeze at 2018 levels	0.6	1.8
Social transfers: double to 2% GDP over 4 years	-0.2	-0.9
Total	4.3	9.3

Note: Estimates for tax and wage bill measures based on FAD TA (2017, 2018)

Monetary regime: issues

- Credible monetary regime is crucial for investment and financial resilience
- Success of any regime requires:
 - Fiscal discipline
 - RBZ independence and limited monetary financing
- Financial sector and distributional implications are important:
 - Balance sheet vulnerabilities depend on ER regime chosen
 - If a new, devalued currency is introduced, then asset / liabilities may need to be converted at different rates - Options being analyzed

THANK YOU