Abbreviations

CEMAC	Economic and Monetary Community of Central Africa
BCEAO	Central Bank of West African States
BEAC	Bank of Central African States
CEMAC	Central African Economic and Monetary Community
EAC	East African Community
GDP	gross domestic product
HPIC	Heavily Indebted Poor Countries
IMF	International Monetary Fund
ILO	International Labour Organization
MIMIC	Multiple Indicator-Multiple Cause
OECD	Organisation for Economic Co-operation Development
PMM	Predictive Mean Matching
PPP	purchasing power parity
REO	*Regional Economic Outlook* (IMF)
SDGs	Sustainable Development Goals
SMEs	small and medium-sized enterprises
SSA	Sub-Saharan Africa
VAT	value-added tax
WAEMU	West African Economic and Monetary Union
WEO	*World Economic Outlook* (IMF)

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The following conventions are used in this publication:

- In tables, a blank cell indicates "not applicable," ellipsis points (. . .) indicate "not available," and 0 or 0.0 indicates "zero" or "negligible." Minor discrepancies between sums of constituent figures and totals are due to rounding.
- An en dash (–) between years or months (for example, 2009–10 or January–June) indicates the years or months covered, including the beginning and ending years or months; a slash or virgule (/) between years or months (for example, 2005/06) indicates a fiscal or financial year, as does the abbreviation FY (for example, FY2006).
- "Billion" means a thousand million; "trillion" means a thousand billion.
- "Basis points" refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to ¼ of 1 percentage point).

Executive Summary

RESTORING THE CONDITIONS FOR STRONG AND SUSTAINABLE GROWTH

Growth momentum in sub-Saharan Africa remains fragile. In 2016, growth slowed in about two-thirds of the countries in the region—accounting for 83 percent of regional GDP—and is estimated to have reached just 1½ percent. This marked the region's worst performance in more than two decades. Even the modest rebound to 2½ percent expected in 2017 will be to a large extent driven by one-off factors in the three largest countries—a recovery in oil production in Nigeria, higher public spending ahead of elections in Angola, and the fading of drought effects in South Africa—combined with modest improvements in their terms of trade. This aggregate number masks considerable heterogeneity across the region, with some of the largest western and eastern African countries still expected to grow at 5 percent to 7½ percent. Nonetheless, the underlying regional momentum remains weak, and, at this rate, sub-Saharan African growth will continue to fall well short of past trends and barely exceed population growth.

The deterioration in the overall outlook partly reflects insufficient policy adjustments.

- The countries hardest hit by the new environment of low oil prices (Angola, Nigeria, and the Central African Economic and Monetary Community, CEMAC) are still struggling to deal with the resulting budgetary revenue losses and balance of payments pressures. With policy adjustments delayed and still limited in those countries, spillovers from lower oil prices to the non-oil sectors continue to damage their economies, and could generate even deeper difficulties if left unaddressed. Other commodity exporters, such as Ghana, Zambia, and Zimbabwe, are also grappling with larger fiscal deficits.

- In nonresource-intensive countries, such as Côte d'Ivoire, Kenya, and Senegal, fiscal deficits have remained high for a number of years, as governments rightly sought to address social and infrastructure gaps. While growth remains robust, vulnerabilities are starting to emerge—public debt is on the rise, borrowing costs have increased, and, in some cases, arrears are emerging and nonperforming loans in the banking sector are increasing, even in a context of strong growth.

The outlook is also clouded by the incidence of drought, pests, and security issues that have contributed to about half of sub-Saharan African countries reporting food insecurity. The impact of the drought that hit most southern African countries in 2016 is fading, but a new bout of drought is affecting parts of eastern Africa, pest infestations are impacting agriculture in a number of southern African countries, and famine has been declared in South Sudan and is looming in northeastern Nigeria as a result of past and ongoing conflicts.

Meanwhile, the external environment is expected to offer only limited support. Recent improvements in commodity prices, while providing welcome breathing space, will not be sufficient to address the existing imbalances in resource-intensive countries. The prospect of monetary policy normalization in the United States could further tighten external financing conditions, which places even greater emphasis on appropriate national policy frameworks.

In that context, policy actions are urgently needed to address macroeconomic imbalances in resource-intensive countries and to preserve the existing momentum elsewhere.

- For the hardest-hit resource-intensive countries, fiscal consolidation remains urgently needed to halt the decline in international reserves and to offset permanent revenue losses. This is especially the case in the CEMAC countries, where fiscal measures should support binding limits on central bank financing to governments and help contain external pressures. In countries where the exchange rate tool is available

(Angola, Nigeria), greater exchange rate flexibility and the elimination of exchange restrictions that are inflicting serious harm on the real economy should be part of a coherent policy package.

- For other countries, addressing emerging vulnerabilities should become a priority, lest the current growth momentum comes under threat. While the expansionary fiscal stance has so far been appropriate, with debt and borrowing costs having risen, now is the time to shift the fiscal stance toward gradual fiscal consolidation.

RESTARTING SUB-SAHARAN AFRICA'S GROWTH ENGINE

The second chapter sheds light on how to revive economic activity by examining the region's experience with growth turning points and the extent to which they have led to episodes of sustained growth since 1950.

Growth turning points—defined as growth accelerations (up-breaks), and decelerations (down-breaks)—are common in sub-Saharan Africa, but with substantial variation across time. In particular, the region has experienced relatively fewer down-breaks since 2000. Likewise, there is no shortage of growth spells (that is, periods of sustained growth) in the region, both among resource-intensive and nonresource-intensive countries. In fact, growth spells have become more frequent over the last 15 years. However, compared to other regions, they tend to be shorter, exhibit larger swings, and more often end in "hard landings."

The chapter finds that sustained periods of growth are fostered by sound domestic policies, including fiscal policy that prevents excessive public debt accumulation, monetary policy geared toward low inflation, outward-oriented trade policies, and structural policies that reduce market distortions. In light of the less supportive external environment, these findings reinforce the call made in the first chapter for a strong domestic policy response to revive growth where it has faltered, and to sustain growth where it remains relatively strong.

THE INFORMAL ECONOMY IN SUB-SAHARAN AFRICA

The third chapter explores the role of the informal economy in sub-Saharan Africa. The informal economy is an important component of most economies in the region, contributing between 25 and 65 percent of GDP and between 30 and 90 percent of total nonagricultural employment. International experience suggests that the informal economy in sub-Saharan Africa is likely to remain large for many years to come, presenting both opportunities and challenges for policymakers.

On the positive side, informal activity acts as a safety net, providing employment and income to a large and growing working-age population that may otherwise be unemployed in the absence of sufficient opportunities in the formal sector. At the same time, productivity in the informal sector tends to be much lower than in the formal sector: the productivity of informal firms is only one-fifth to one-quarter that of formal firms. The authorities thus need to adopt a balanced approach to policies to formalize the informal sector, by focusing on increasing the productivity of the sector, while working on supporting the expansion of formal firms.

Fortunately, policies designed to create an economic environment that supports the growth of the formal sector also raise the productivity of the informal sector, hence facilitating the transition of resources from the informal to the formal sector and helping sustain growth accelerations. In particular, improving access to finance is found to be a key contributor to expanding the scope of the formal sector. Fostering product-market efficiency can also play a role. In that respect, product-market regulations related to the legal system and trade liberalization appear to be particularly important, as is access to electricity.