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Regional Economic Outlook

**Sub-Saharan Africa**  
**Recovery Amid Elevated Uncertainty**

.....

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## Abbreviations

|        |   |        |  |
|--------|---|--------|--|
| AfCFTA | African Continental Free Trade Area             | MENA   | Middle East and North Africa                       |
| AfDB   | African Development Bank                        | NAFTA  | North American Free Trade Agreement                |
| AMU    | Arab Maghreb Union                              | NEER   | nominal effective exchange rate                    |
| ASEAN  | Association of Southeast Asian Nations          | NPLs   | nonperforming loans                                |
| CEMAC  | Central African Economic and Monetary Community | PAFTA  | Pan-Arab Free Trade Area                           |
| CBR    | correspondent banking relationship              | PRGT   | Poverty Reduction and Growth Trust                 |
| CGE    | computable general equilibrium                  | RECs   | Regional Economic Communities                      |
| COMESA | Common Market for Eastern and Southern Africa   | REO    | Regional Economic Outlook (IMF)                    |
| CPI    | consumer price index                            | SACU   | Southern African Customs Union                     |
| GDP    | gross domestic product                          | SADC   | Southern African Development Community             |
| ECOWAS | Economic Community of West African States       | SOEs   | state-owned enterprises                            |
| EPU    | economic policy uncertainty                     | SSA    | Sub-Saharan Africa                                 |
| HIPC   | Heavily Indebted Poor Country                   | UN     | United Nations                                     |
| ICRG   | International Country Risk Guide                | UNCTAD | United Nations Conference on Trade and Development |
| IDPs   | internally displaced persons                    | US     | United States                                      |
| IFRS 9 | International Financial Reporting Standard 9    | VAT    | value-added tax                                    |
| IMF    | International Monetary Fund                     | WAEMU  | West African Economic and Monetary Union           |
| LAIA   | Latin American Integration Association          | WEO    | World Economic Outlook (IMF)                       |
| MDRI   | Multilateral Debt Relief Initiative             | WTO    | World Trade Organization                           |

### List of Country Abbreviations:

|     |                         |     |                   |     |            |     |                     |
|-----|-------------------------|-----|-------------------|-----|------------|-----|---------------------|
| DZA | Algeria                 | DJI | Djibouti          | KEN | Kenya      | RWA | Rwanda              |
| AGO | Angola                  | EGY | Egypt             | LSO | Lesotho    | STP | São Tomé & Príncipe |
| BEN | Benin                   | GNQ | Equatorial Guinea | LBR | Liberia    | SEN | Senegal             |
| BWA | Botswana                | ERI | Eritrea           | LBY | Libya      | SLE | Sierra Leone        |
| BFA | Burkina Faso            | SWZ | Eswatini          | MDG | Madagascar | SOM | Somalia             |
| BDI | Burundi                 | ETH | Ethiopia          | MWI | Malawi     | ZAF | South Africa        |
| CPV | Cabo Verde              | FRA | France            | MLI | Mali       | SSD | South Sudan         |
| CMR | Cameroon                | GAB | Gabon             | MRT | Mauritania | SDN | Sudan               |
| CAF | Central African Rep.    | GMB | Gambia, The       | MUS | Mauritius  | TZA | Tanzania            |
| TCD | Chad                    | DEU | Germany           | MAR | Morocco    | TGO | Togo                |
| COM | Comoros                 | GHA | Ghana             | MOZ | Mozambique | TUN | Tunisia             |
| COD | Congo, Dem. Republic of | GIN | Guinea            | NAM | Namibia    | UGA | Uganda              |
| COG | Congo, Republic of      | GNB | Guinea-Bissau     | NER | Niger      | ZMB | Zambia              |
| CIV | Côte d'Ivoire           | ITA | Italy             | NGA | Nigeria    | ZWE | Zimbabwe            |

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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  $\frac{1}{4}$  of 1 percentage point).





# Executive Summary

## TWO-TRACK RECOVERY AMID ELEVATED UNCERTAINTY

The economic recovery in sub-Saharan Africa continues, but there is duality in growth performance and prospects within the region. Aggregate growth is set to pick up from 3 percent in 2018 to 3.5 percent in 2019 and stabilize at slightly below 4 percent over the medium term—or about 5 percent, excluding the two major economies, Nigeria and South Africa. These aggregate numbers mask considerable duality in growth prospects within the region. About half of the region's countries, mostly non-resource-intensive, are expected to grow at 5 percent or more, and see a faster rise in income per capita than the rest of the world on average over the medium term. However, the remaining countries, comprising mostly resource-intensive countries are expected to fall behind. And as these countries—including Nigeria and South Africa—are home to more than two-thirds of the region's total population, it is important for the policy uncertainties that are holding back growth to be addressed for the lion's share of sub-Saharan Africans to enjoy improved standards of living.

External and domestic headwinds are weighing on growth prospects.

- The global expansion is losing momentum, including in key trading partners such as China and the euro area; trade tensions remain elevated; global financial conditions are volatile and have tightened somewhat relative to October 2018; and commodity prices are expected to remain low. On the domestic front, climate shocks are likely to impact agricultural output in southern Africa, while policy uncertainty is weighing on growth prospects in several countries.
- Debt vulnerabilities remain elevated in some countries. Weaknesses in public balance sheets are also weighing on countries' external positions, with reserve buffers below levels typically considered adequate in more than half of the countries in the region.
- At the same time, high nonperforming loans continue to put a strain on financial systems, while weaknesses in public financial management systems are manifesting themselves in large domestic arrears with potential effects on growth and domestic financial systems.

The familiar challenge of finding ways to address human and physical capital investment needs is being complicated by declining fiscal space and a less supportive external environment. Central to resolving this challenge is building fiscal space, enhancing resilience to shocks, and fostering an environment conducive to sustained, high and inclusive growth. Meeting this challenge would be even more difficult if the downside risks to growth materialize (for example, if global growth is even weaker than envisioned in the current baseline). This underscores the need to accelerate reforms and calibrate the size and pace of policy adjustments to ensure that any shift in policies is consistent with credible medium-term macroeconomic objectives, available financing, and debt sustainability.

While the dualism between resource-intensive and non-resource-intensive countries is manifest in their economic prospects, policy priorities, and the severity of their budgetary constraints, these countries also share the challenges of strengthening resilience and creating sustained high and inclusive growth. Addressing these challenges would require:

- Stepping up revenue mobilization, ensuring efficient public investment, strengthening public financial management, containing fiscal risks from state-owned enterprises, improving debt management and resolution frameworks, and enhancing debt transparency. Enhancing exchange rate flexibility, in countries that are outside monetary unions, and strengthened monetary policy and financial systems are also key.

- Raising both productivity and private investment, while ensuring a more equitable sharing of the benefits of increased prosperity. Achieving this will require policies to enhance the contestability of markets and create an environment that fosters a dynamic private sector, such as addressing salient constraints to business operations and deeper trade integration (notably through the African Continental Free Trade Area, AfCFTA), and by improving access to and the provision of financial services and basic services (including health and education).

## THE ECONOMIC CONSEQUENCES OF CONFLICT

The second chapter explores the challenges faced by conflict-affected countries in sub-Saharan Africa, providing a comprehensive analysis of the trends and economic consequences of conflicts. Although the intensity of conflicts in recent years is lower than that observed in the 1990s, the region remains prone to conflicts, with around 30 percent of the countries affected in 2017. Moreover, the nature of conflicts has changed, with traditional civil wars being replaced by non-state-based conflicts, including the targeting of civilians through terrorist attacks.

Conflicts in the region are associated with a large and persistent decline in per capita GDP and have significant spillover effects on nearby regions and countries. They also pose significant strains on countries' public finances, lowering revenue, raising military spending, and shifting resources away from development and social spending, which further aggravates the conflicts' economic and social costs.

The findings highlight the significant costs and formidable challenges faced by countries suffering from conflict and underscores the need to prevent conflicts, including by promoting inclusive economic development, building institutional capacity, and social cohesion. For countries in conflict, efforts should focus on limiting the loss of human and physical capital by protecting social and development spending. While this may be especially daunting given fiscal pressures, well-targeted and coordinated humanitarian aid and concessional financial assistance can provide some relief.

## IS THE AFRICAN CONTINENTAL FREE TRADE AREA A GAME CHANGER FOR THE CONTINENT?

The third chapter takes stock of intraregional trade in Africa and examines the potential benefits and challenges of implementing the AfCFTA. The AfCFTA agreement envisions elimination of tariffs on most goods, liberalization of trade of key services, addressing nontariff obstacles that hamper intraregional trade, and eventually creating a continental single market with free movement of labor and capital.

The AfCFTA will likely have important macroeconomic and distributional effects. It can significantly boost intra-African trade, particularly if countries tackle nontariff bottlenecks to trade, including physical infrastructure, logistical costs, and other trade facilitation hurdles. The picture is not uniform. More diversified economies and those with better logistics and infrastructure will benefit relatively more from trade integration. Fiscal revenue losses from tariff reductions are likely to be limited on average, with a few exceptions. Moreover, deeper trade integration is associated with a temporary increase in income inequality.

The findings suggest that, in addition to tariff reductions, policy efforts to boost regional trade should focus on reforms to address country-specific nontariff bottlenecks. To ensure that the benefits of regional trade integration are shared by all, policymakers should be mindful of the adjustment costs that integration may entail. For less developed and agriculture-based economies, trade policies should be combined with structural reforms to improve agricultural productivity and competitiveness. Furthermore, governments should facilitate the reallocation of labor and capital across sectors (for example, active-labor market programs such as training and job-search assistance, and measures that enhance competitiveness and productivity) and bolster safety nets (income support and social insurance programs) to alleviate the temporary adverse effects on the most vulnerable.