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Navigating Uncertainty

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## Abbreviations

AfCFTA	African Continental Free Trade Area	MENAP	Middle East, North Africa, Afghanistan, and Pakistan
AfDB	African Development Bank	MFN	most-favored-nation
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism	NAFTA	North American Free Trade Agreement
ASEAN	Association of Southeast Asian Nations	NEER	nominal effective exchange rate
AFTA	ASEAN Free Trade Area	NPLs	nonperforming loans
CCSA	Competition Commission of South Africa	OECD	Organisation for Economic Co-operation and Development
CET	common external tariff	PEFA	public expenditure and financial accountability
CEMAC	Central African Economic and Monetary Community	PFM	public financial management
COMESA	Common Market for Eastern and Southern Africa	PRGT	Poverty Reduction and Growth Trust
CPI	consumer price index	RTAs	Regional Trade Agreements
DSA	Debt Sustainability Analysis	REO	Regional Economic Outlook (IMF)
DSGE	dynamic stochastic general equilibrium	SACU	Southern African Customs Union
GDP	gross domestic product	SDGs	Sustainable Development Goals
GVC	global value chain	SOEs	state-owned enterprises
EAC	East African Community	SSA	sub-Saharan Africa
ECOWAS	Economic Community of West African States	UNDP	United Nations Development Programme
EPU	economic policy uncertainty	VAT	value-added tax
FDI	foreign direct investment	WAEMU	West African Economic and Monetary Union
IMF	International Monetary Fund	WBES	World Bank Enterprise Survey
LAC	Latin America and the Caribbean	WEO	World Economic Outlook (IMF)
		WTO	World Trade Organization

### Sub-Saharan Africa: Country Abbreviations

AGO	Angola	CIV	Côte d'Ivoire	LSO	Lesotho	STP	São Tomé & Príncipe
BEN	Benin	GNQ	Equatorial Guinea	LBR	Liberia	SEN	Senegal
BWA	Botswana	ERI	Eritrea	MDG	Madagascar	SLE	Sierra Leone
BFA	Burkina Faso	SWZ	Eswatini	MWI	Malawi	ZAF	South Africa
BDI	Burundi	ETH	Ethiopia	MLI	Mali	SSD	South Sudan
CPV	Cabo Verde	GAB	Gabon	MUS	Mauritius	SYC	Seychelles
CMR	Cameroon	GMB	Gambia, The	MOZ	Mozambique	TZA	Tanzania
CAF	Central African Republic	GHA	Ghana	NAM	Namibia	TGO	Togo
TCD	Chad	GIN	Guinea	NER	Niger	UGA	Uganda
COM	Comoros	GNB	Guinea-Bissau	NGA	Nigeria	ZMB	Zambia
COD	Congo, Democratic Republic of	KEN	Kenya	RWA	Rwanda	ZWE	Zimbabwe
COG	Congo, Republic of						

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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

## 1. NAVIGATING UNCERTAINTY

Growth in sub-Saharan Africa is projected to remain at 3.2 percent in 2019 and rise to 3.6 percent in 2020. Growth is forecast to be slower than previously envisaged for about two-thirds of the countries in the region. The downward revision reflects a more challenging external environment, continued output disruptions in oil-exporting countries, and weaker-than-anticipated growth in South Africa.

Growth prospects vary considerably across countries in the region in 2019 and beyond. Growth is projected to remain strong in non-resource-intensive countries, averaging about 6 percent. As a result, 24 countries, home to about 500 million people, will see their per capita income rise faster than the rest of the world. In contrast, growth is expected to move in slow gear in resource-intensive countries (2½ percent). Hence, 21 countries are projected to have per capita growth lower than the world average.

Inflation is expected to ease going forward. While the average sub-Saharan African-wide debt burden is stabilizing, elevated public debt vulnerabilities and low external buffers will continue to limit policy space in several countries.

The outlook faces further downside risks. External headwinds have intensified compared to April and include the threat of rising protectionism, a sharp increase in risk premiums or reversal in capital inflows owing to tightening global financial conditions, and a faster-than-anticipated slowdown in China and in the euro area. Regionally, near-term downside risks include climate shocks, intensification of security challenges, and the potential spread of the Ebola outbreak beyond the Democratic Republic of the Congo. In addition, fiscal slippages, including those ahead of elections in some countries, and a lack of reform in key countries could add to deficit and debt pressures. Over the medium term, a successful implementation of reforms, including in the context of the African Continental Free Trade Area (AfCFTA), could pose significant upside risks.

A three-pronged strategy that reduces risks and promotes sustained growth across all countries in the region requires:

- **Carefully calibrating the near-term policy mix:** Amid limited buffers and elevated debt vulnerabilities in some countries, policymakers have limited room for maneuver to counter external headwinds. The room for supporting growth remains mainly on the monetary policy side and is restricted to countries where inflation pressures are muted and growth is below potential. In the event downside risks materialize, fiscal and monetary policy could be carefully recalibrated to support growth, in a manner consistent with debt sustainability and available financing, and as part of a credible medium-term adjustment plan. In countries that are growing slowly, the pace of adjustment could be made more gradual, provided financing is available, or its composition fine-tuned to minimize the impact on growth. In fast-growing countries that are facing elevated debt vulnerabilities, the priority remains rebuilding buffers.

- **Building resilience:** This would help the region sustain longer episodes of strong growth. Building resilience, including to weather-related, health, and security challenges, would require mobilizing domestic revenue, streamlining inefficient subsidies, and improving public financial management (Chapter 3) to strengthen sovereign balance sheets and create fiscal space for development needs. Promoting economic diversification, improving macroeconomic policy frameworks, and reducing nonperforming loans (NPLs) would also reduce countries' vulnerability to shocks.
- **Raising medium-term growth:** Raising per capita growth rates, especially for resource-intensive countries, is essential to sustain improved social outcomes and create jobs for the 20 million (net) new entrants poised to join labor markets every year. Comprehensively tackling tariff and nontariff barriers in the context of the AfCFTA, developing regional value chains, and implementing reforms to boost investment and competitiveness (Chapter 2) could lift the region's medium-term growth.

## 2. COMPETITION, COMPETITIVENESS, AND GROWTH IN SUB-SAHARAN AFRICA

Chapter 2 studies the state of product market competition in sub-Saharan Africa. Although there is considerable heterogeneity across countries, more than 70 percent of the countries in the region are in the bottom half of countries globally in terms of competition indicators. Firm markups are about 11 percent higher in sub-Saharan African countries relative to other emerging market economies and developing countries and are more persistent. State-owned firms are also more prevalent. Empirical analysis suggests that increased competition can boost real per capita GDP growth rate by about 1 percentage point through improved export competitiveness, productivity growth, and investment. It can also substantially improve the purchasing power of consumers by lowering prices of goods and services, especially of food and other essential items. In addition, competition helps to increase labor's share in output, potentially having important distributional consequences as well. To improve product market competition, a holistic reform strategy would encompass steps to reduce structural and regulatory barriers; an effective competition policy framework that comprises a strong competition law backed by an independent and adequately resourced competition authority; trade and investment policies that encourage foreign competition; and supportive fiscal and procurement policies.

## 3. DOMESTIC ARREARS IN SUB-SAHARAN AFRICA: CAUSES, SYMPTOMS, AND CURES

Based on a database of domestic arrears in sub-Saharan African countries, Chapter 3 finds that domestic arrears have been pervasive in many countries, reflecting weak public financial management. Furthermore, arrears have increased in recent years (to about 3.3 percent of GDP in 2018), following the 2014 commodity price shock. However, despite the prevalence of arrears, their causes, effects, and consequences are not well understood. The chapter finds that domestic arrears negatively impact private sector activity and the delivery of social services while increasing banking sector vulnerabilities and undermining citizens' trust in the government. Arrears also weaken the ability of fiscal policy to support growth, casting doubt on the merit of relying on arrears financing to avoid spending cuts. The chapter then discusses approaches to clear arrears (verification, prioritization, liquidation) and to prevent their accumulation, including through public financial management reforms, building buffers, and timely external supports.