



Sustaining Growth amid Global Uncertainty:

Regional Economic Outlook for Sub-Saharan Africa

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June 1, 2012



Outline

- 1. Global backdrop**
- 2. Outlook for sub-Saharan Africa**
 - Growth: momentum continuing into 2012
 - Inflation: a selective problem?
 - Government finances: weakened fiscal buffers
- 3. Risks**
 - European crisis spillovers
 - Oil price shock
- 4. Policy choices in an uncertain world**

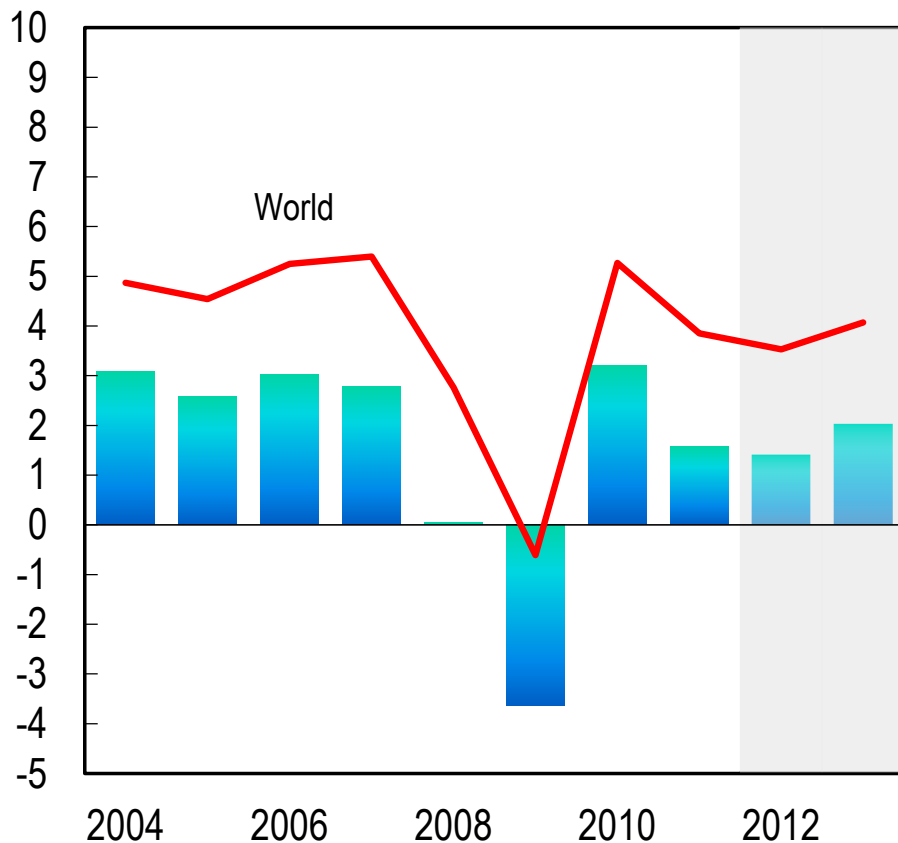
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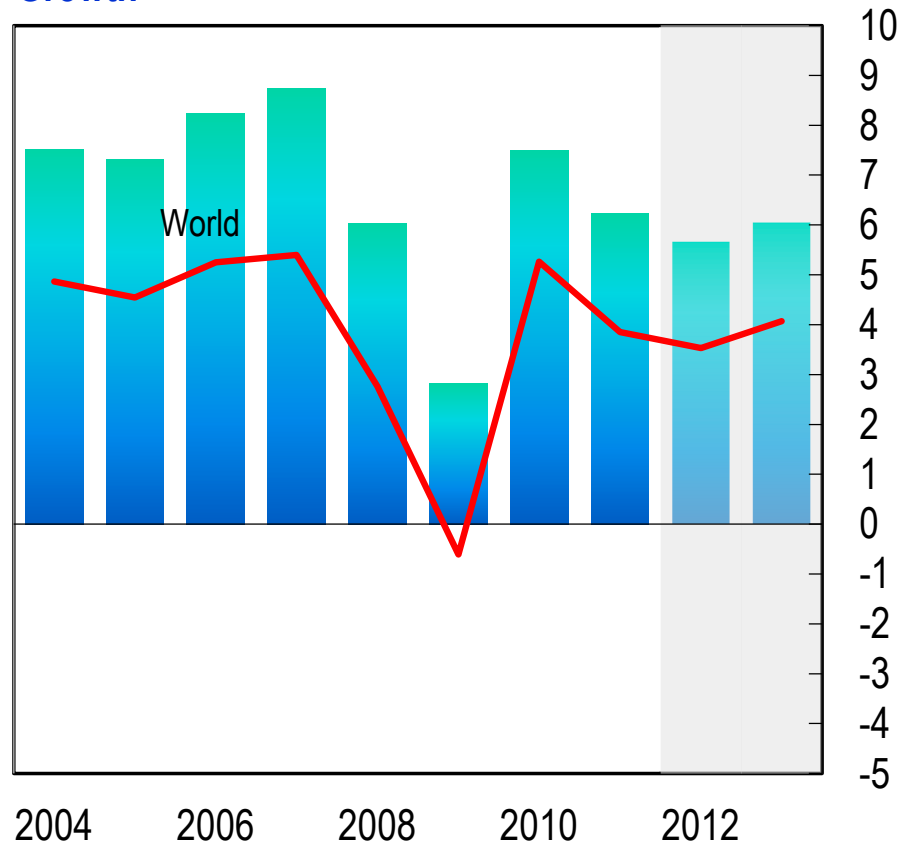
Global economy: sluggish growth, unevenly distributed



Advanced Economies: Real GDP Growth

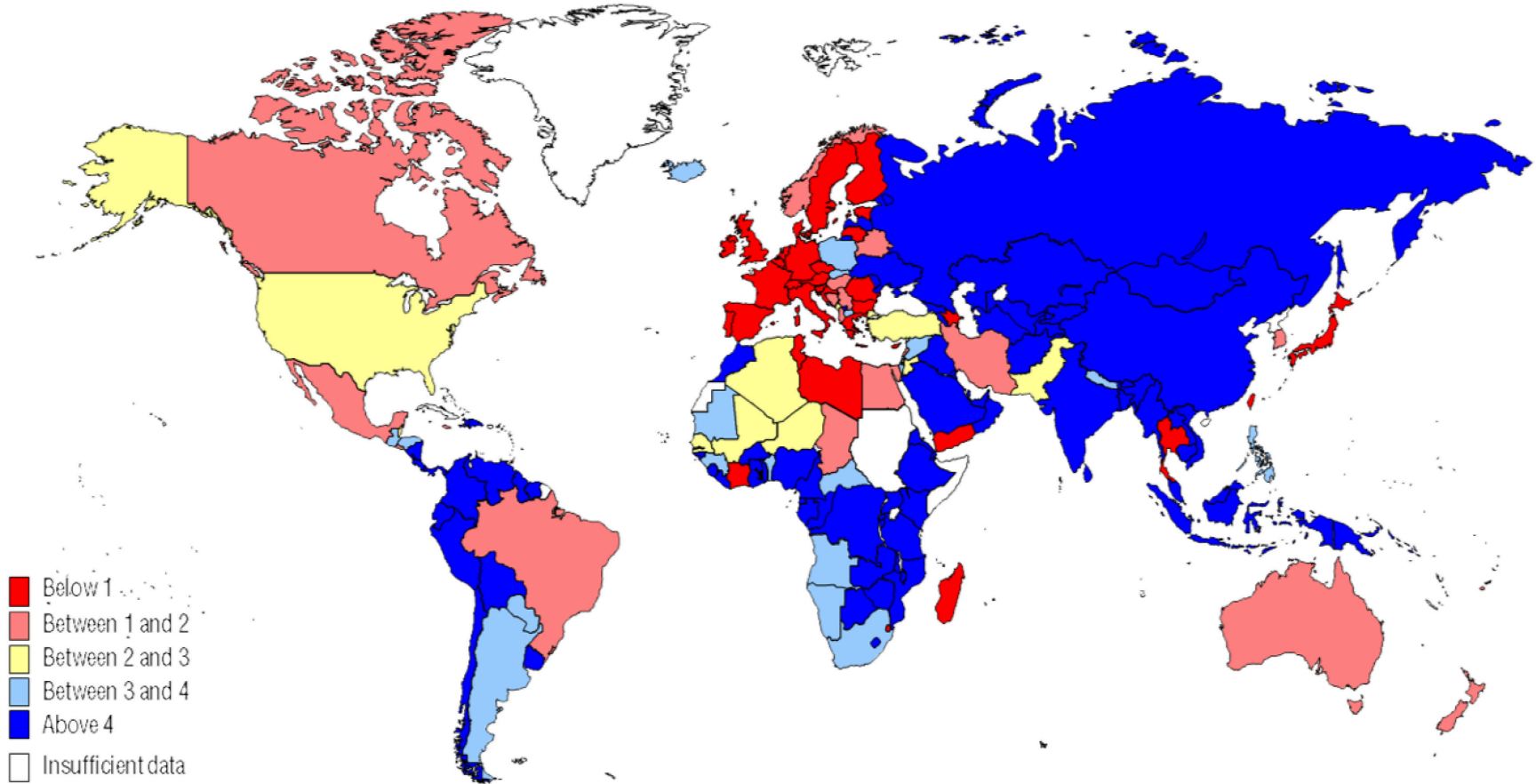


Emerging/Developing Countries : Real GDP Growth



Where are we now?

Output Growth, 2011Q4



Global outlook: sluggish growth, clear dangers



Three brakes on advanced economies:

- Public debt and fiscal consolidation
- Bank deleveraging and credit supply
- Housing bust and household debt

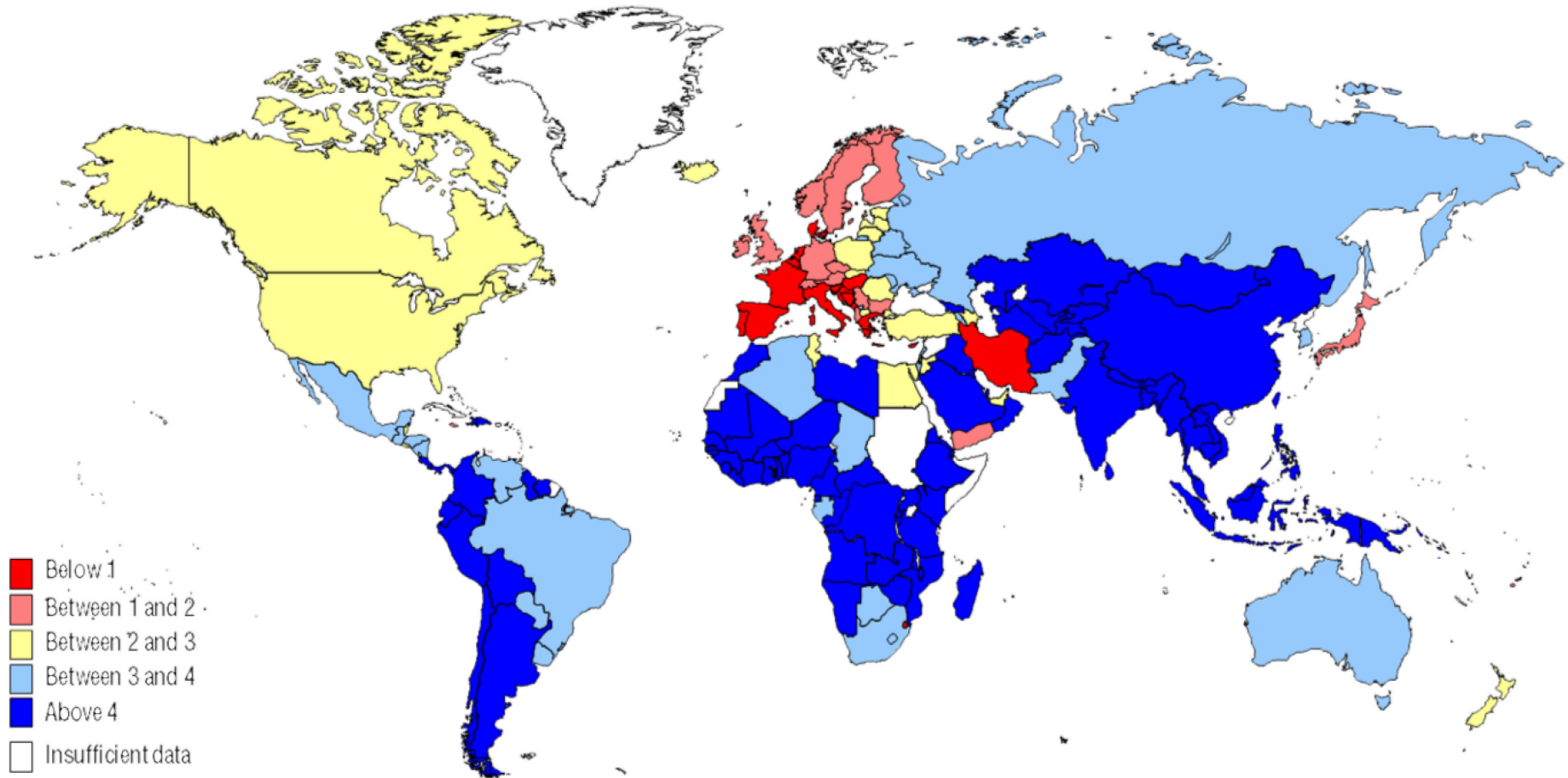
Two immediate risks to global economy :

- Euro area crisis
- Oil price shock

Sub-Saharan Africa will remain among the fastest-growing regions.



Output Growth, 2012-13



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Grouping countries in sub-Saharan Africa by income and exports



	Number of Countries	Share of Population (percent)	PPPGDP Weights (percent)	GDP per capita (U.S. dollars)
Oil-exporters	7	29	34	3,008
Middle-income countries	11	15	39	6,945
Low-income countries ¹	26	56	27	624

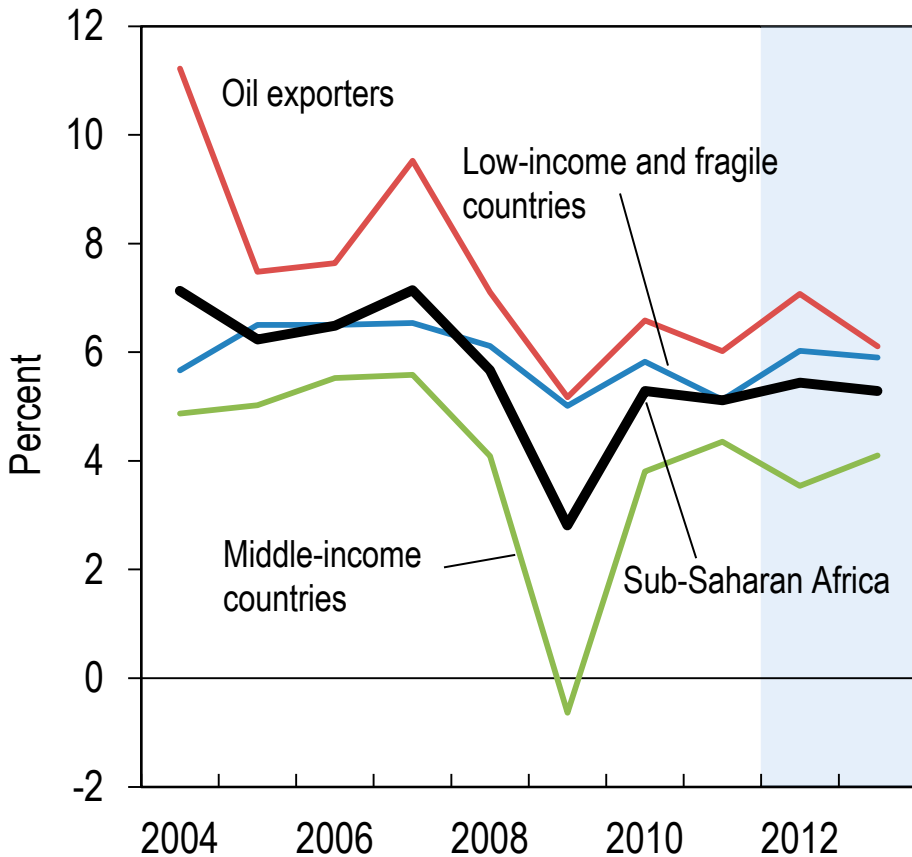
Note: Data is for 2011. South Sudan is not included due to data availability.

¹ Including all fragile oil-importing countries.

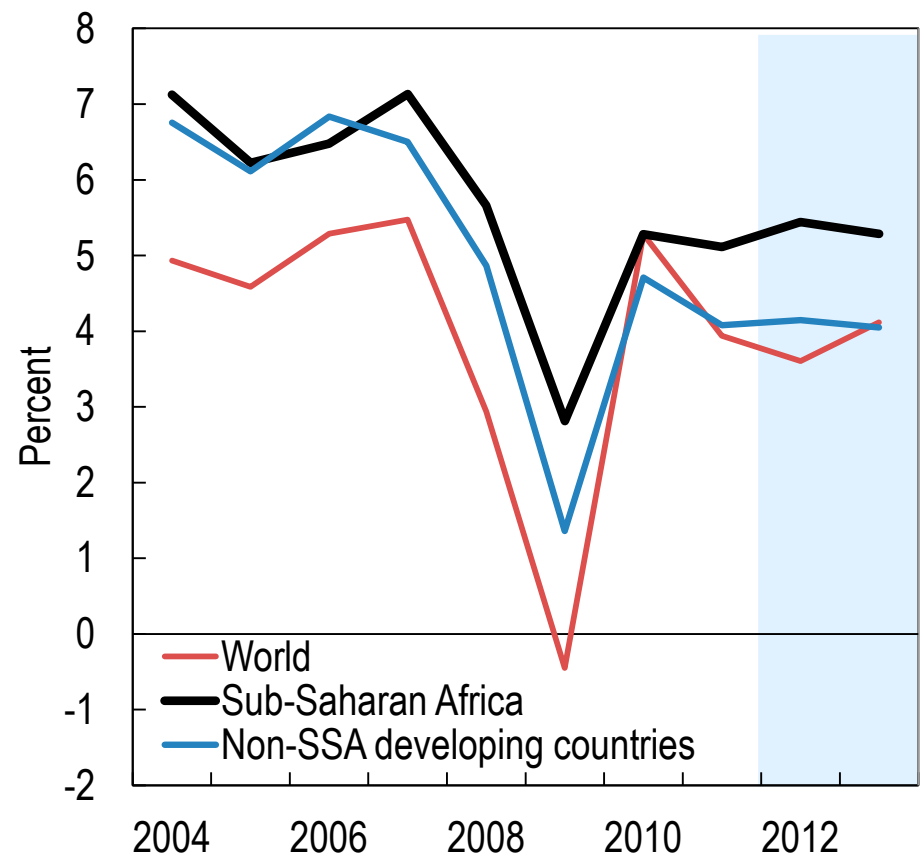
Output growth in SSA is expected to stay strong.



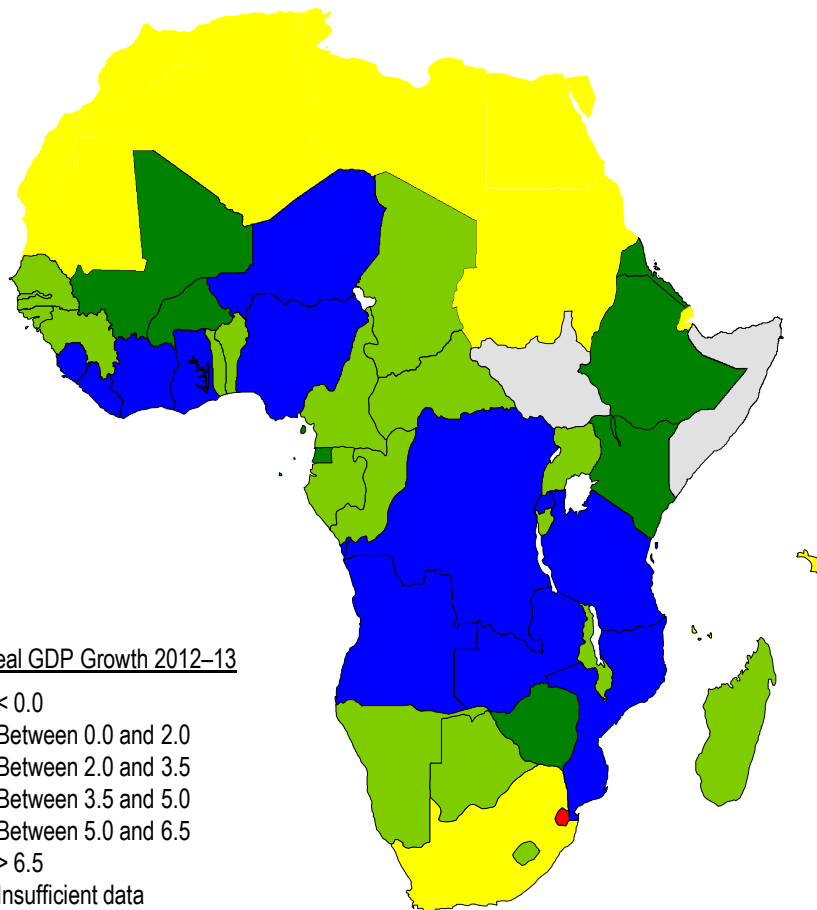
Sub-Saharan Africa: Real GDP Growth



World: Real GDP Growth



Growth is expected to stay strongest in oil exporters, low-income countries, in 2012-13.



Note: Data for North African countries represent the regional weighted average excluding Libya due to erratic data.

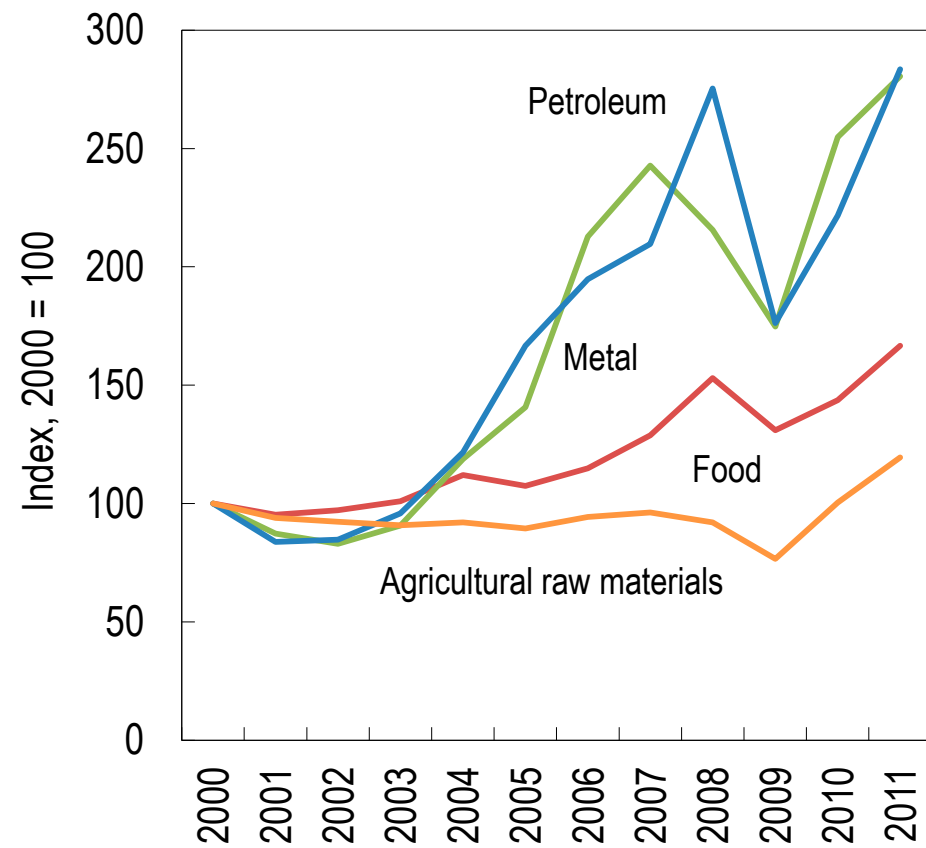
Africa: Real GDP Growth

	2011	2012	2013
	(percentage change)		
Africa	3.8	4.1	4.5
North Africa	1.6	1.7	3.2
Sub-Saharan Africa	5.1	5.4	5.3
Oil exporting countries	6.0	7.1	6.1
Middle-income countries	4.3	3.5	4.1
Low-income countries ¹	5.1	6.0	5.9

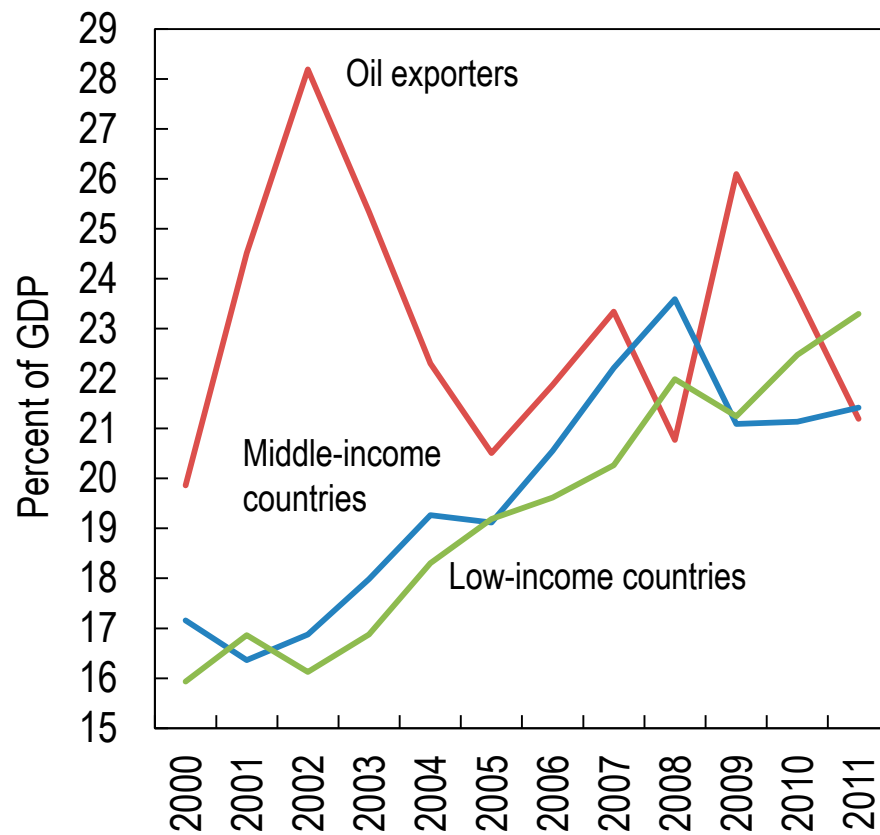
¹ Including all fragile oil-importing countries.

Improved economic policies and rising commodity prices have boosted investment and growth.

Real International Commodity Prices

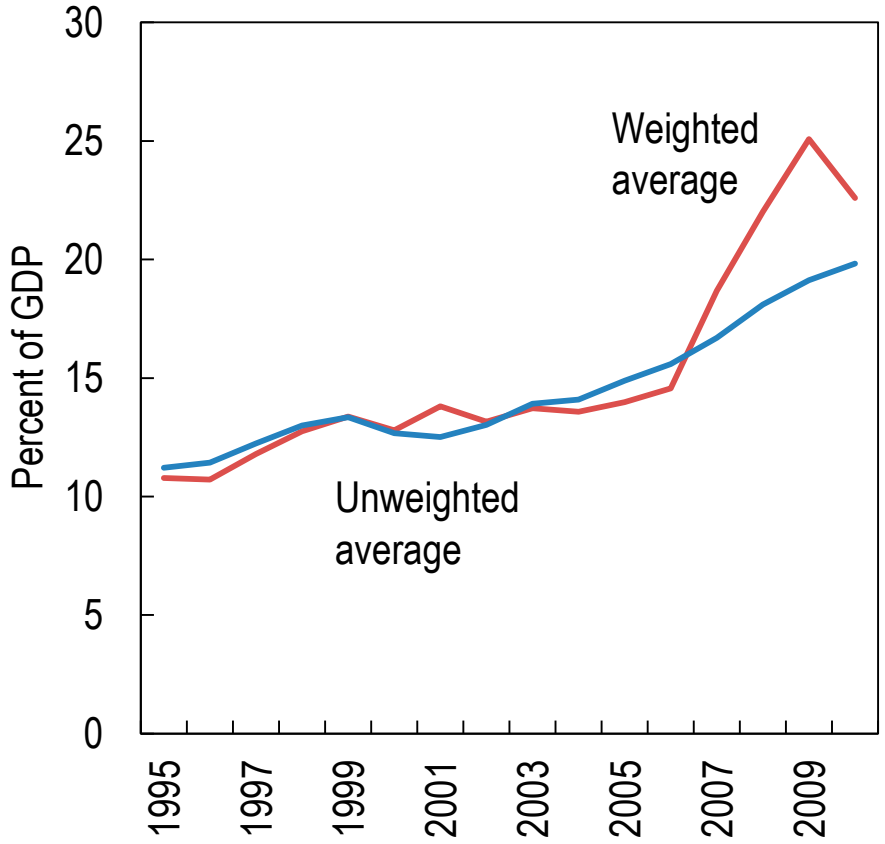


Capital Investment

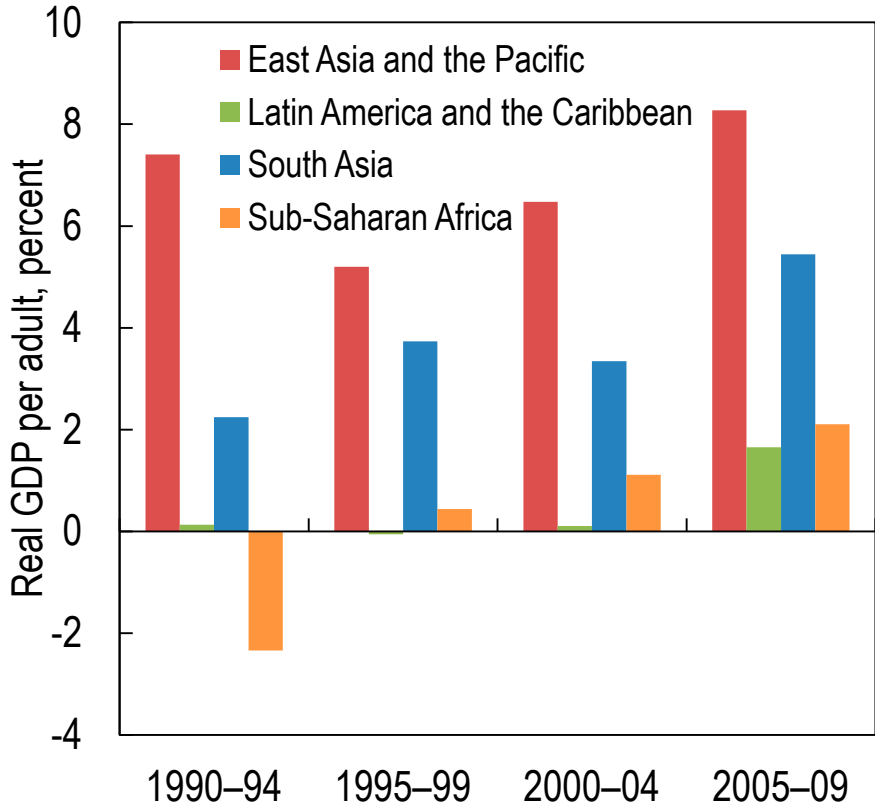


Economic reforms have underpinned rising growth in labor productivity.

Credit to the Private Sector¹

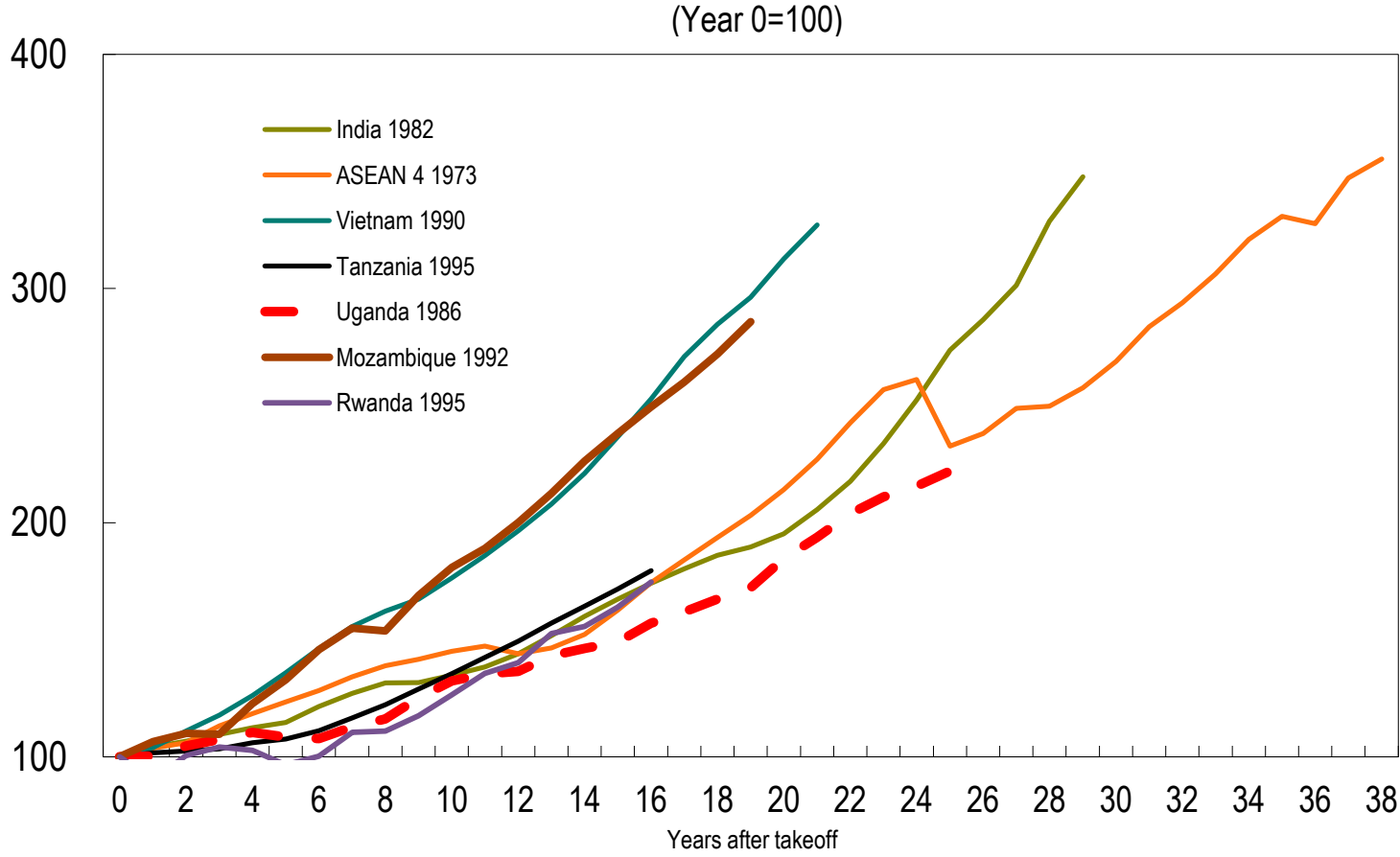


Average Labor Productivity Growth



¹ Excludes South Africa

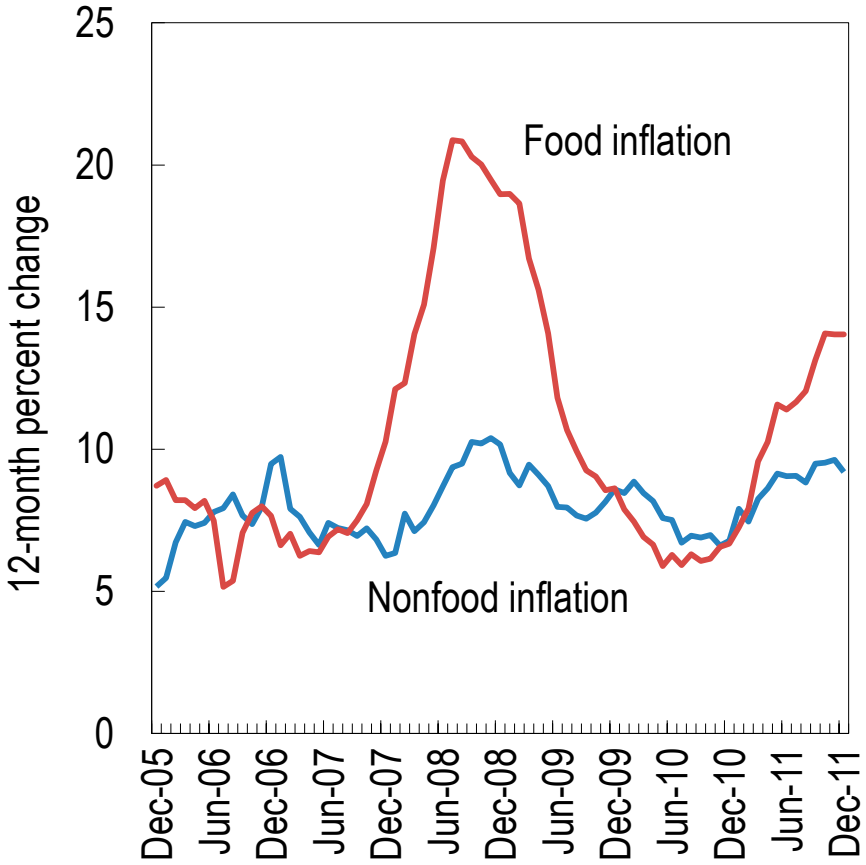
Per capita growth has been taking off.



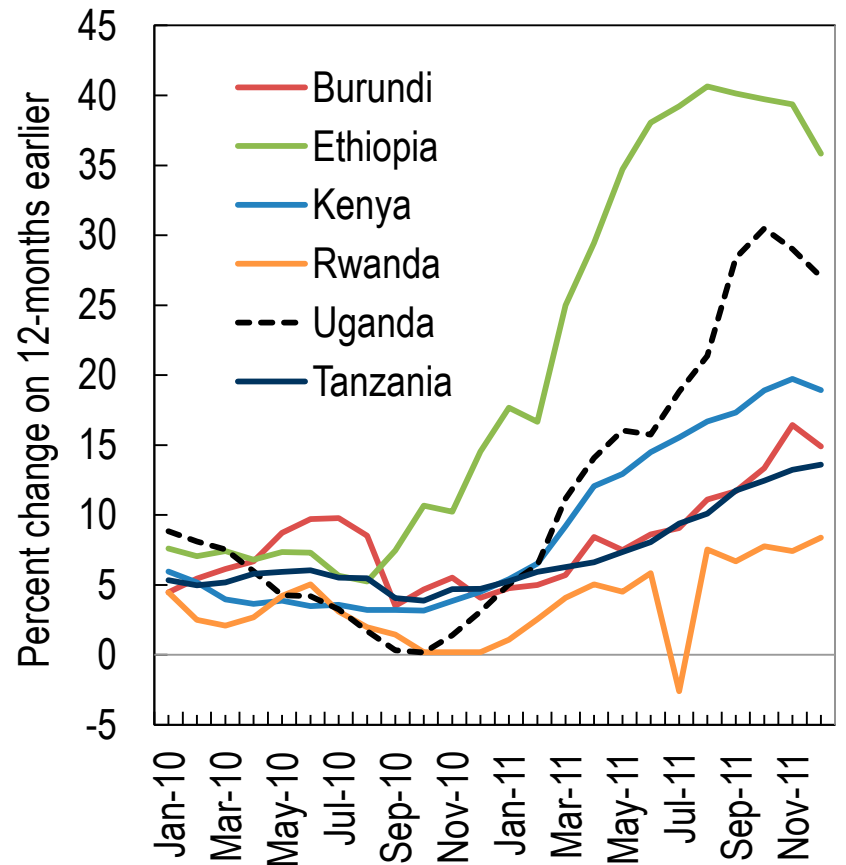
Source: IMF, *World Economic Outlook*.
 Note: Excludes China for presentation purposes, as China's growth is much higher than that for the other countries. ASEAN 4 = Indonesia, Malaysia, the Philippines, and Thailand.

Surging global food and fuel prices in 2011 helped to spark higher inflation, particularly in eastern Africa.

CPI Food and Nonfood Inflation

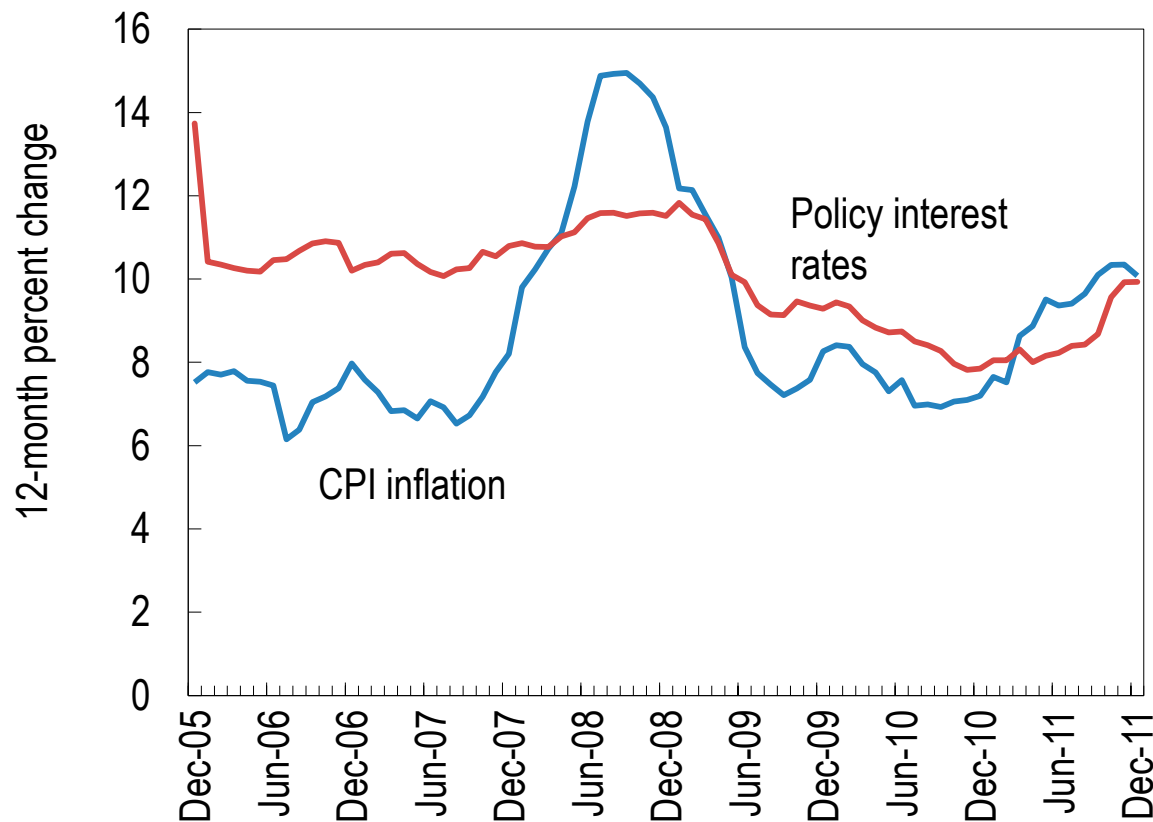


Eastern Africa: CPI Inflation



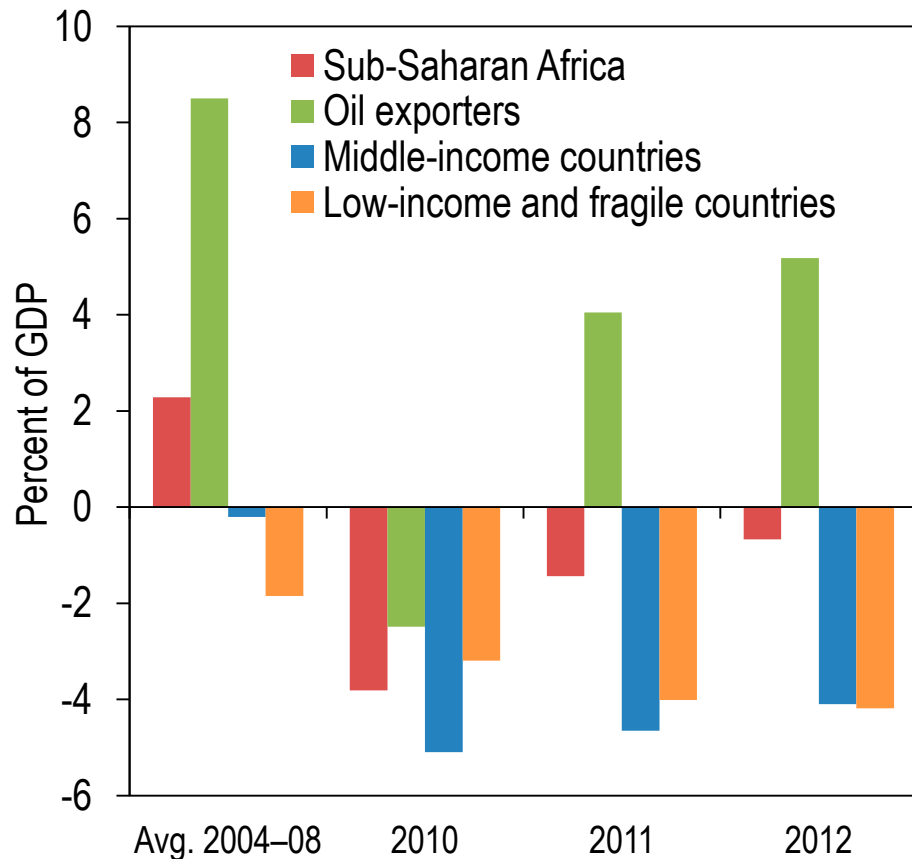
Monetary policy was tightened in 2011 in some countries following the inflation spike.

CPI Inflation and Policy Interest Rate

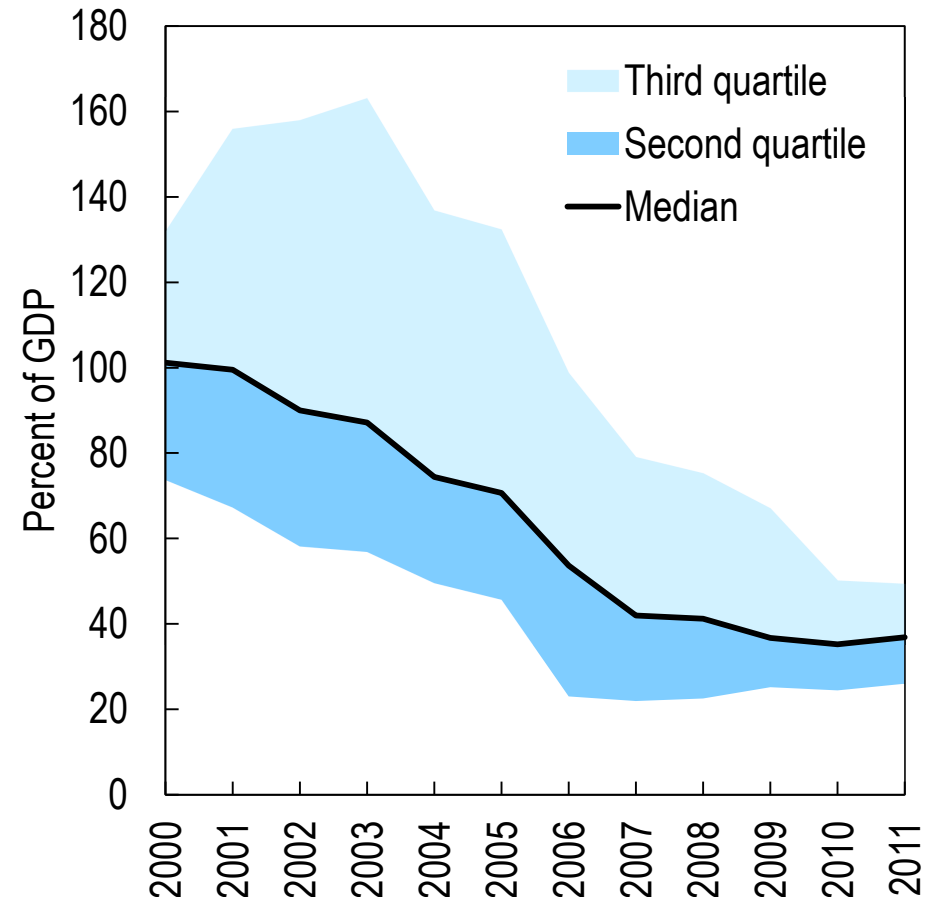


Fiscal deficits remain elevated, but debt levels are generally manageable.

Overall Fiscal Balance

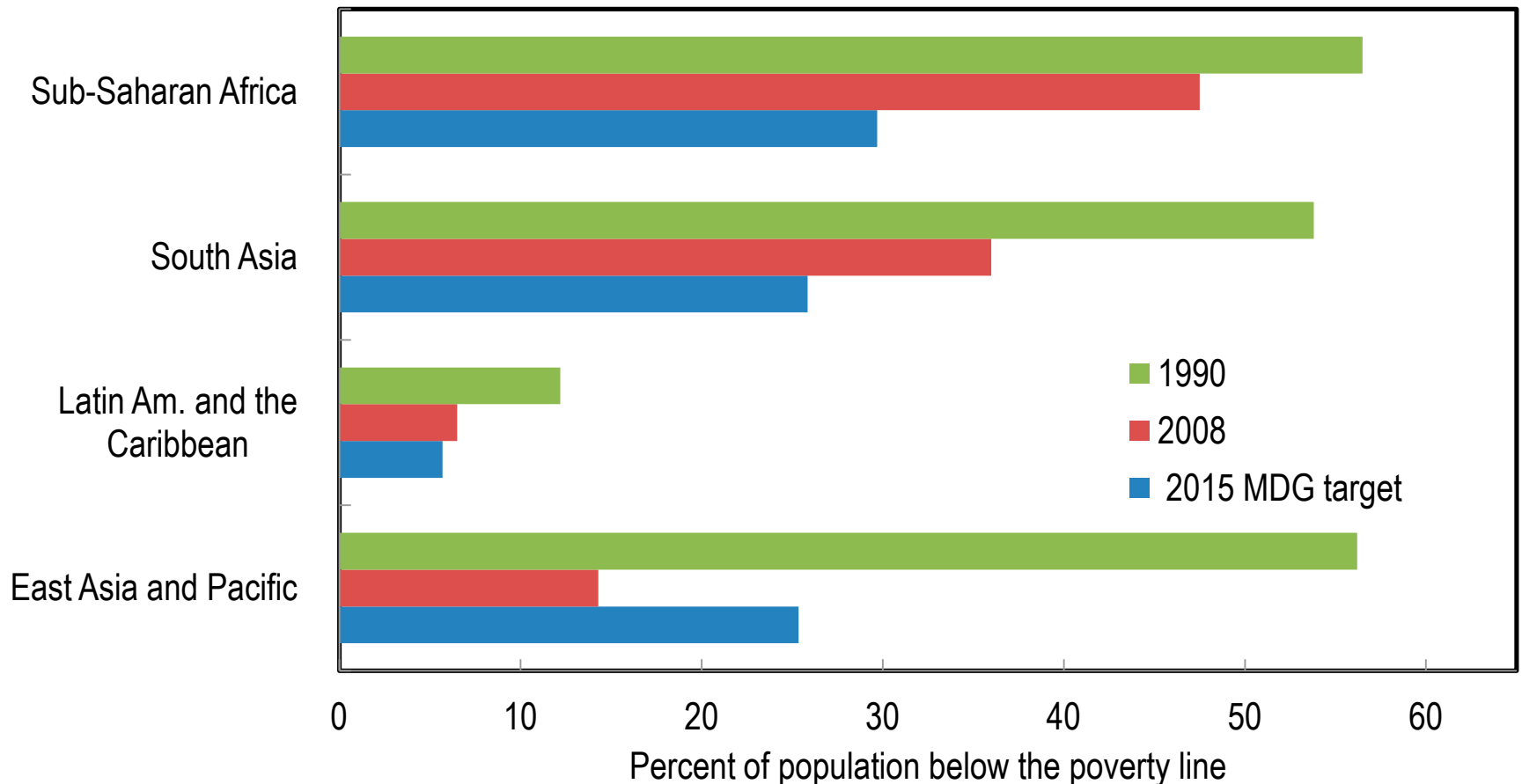


Government Debt Ratios




Poverty is falling, but SSA's millennium development goals will not be reached.

Headcount Poverty Index



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Risks to the Outlook



- **External:**
 - Renewed escalation of euro area crisis
 - Potential surge in oil prices from heightened geopolitical uncertainties
- **Domestic:**
 - Civil tensions
 - Climatic shocks

Effects of renewed escalation of euro area crisis



Intensified financial stresses in the euro area—rising sovereign bond yields, tightening bank credit—would lead to:

- Lower global output, most marked in Europe
- For SSA: lower exports, tourism, capital flows (including FDI), remittances, and, over time, aid flows
- Some relief for SSA oil importers from lower oil prices
- Slower output growth in SSA – perhaps by ½ percent per year
- Uneven impact in SSA: larger on South Africa; least on oil exporters

Effects of surge in oil prices

1. Moderate oil price shock:

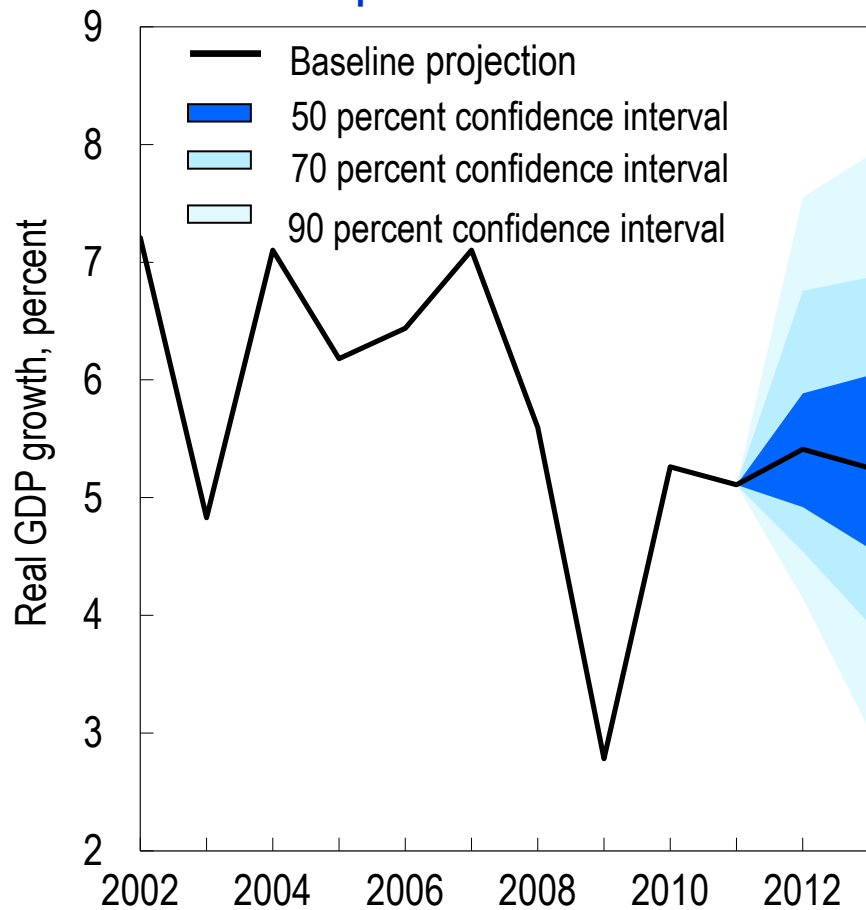
- **Further 20 percent increase in oil prices**
 - Sizeable windfall for oil exporters
 - Varied impact on oil importers
 - Outcomes dependent on fuel pricing policies and monetary and exchange rate reactions

2. Severe oil price shock

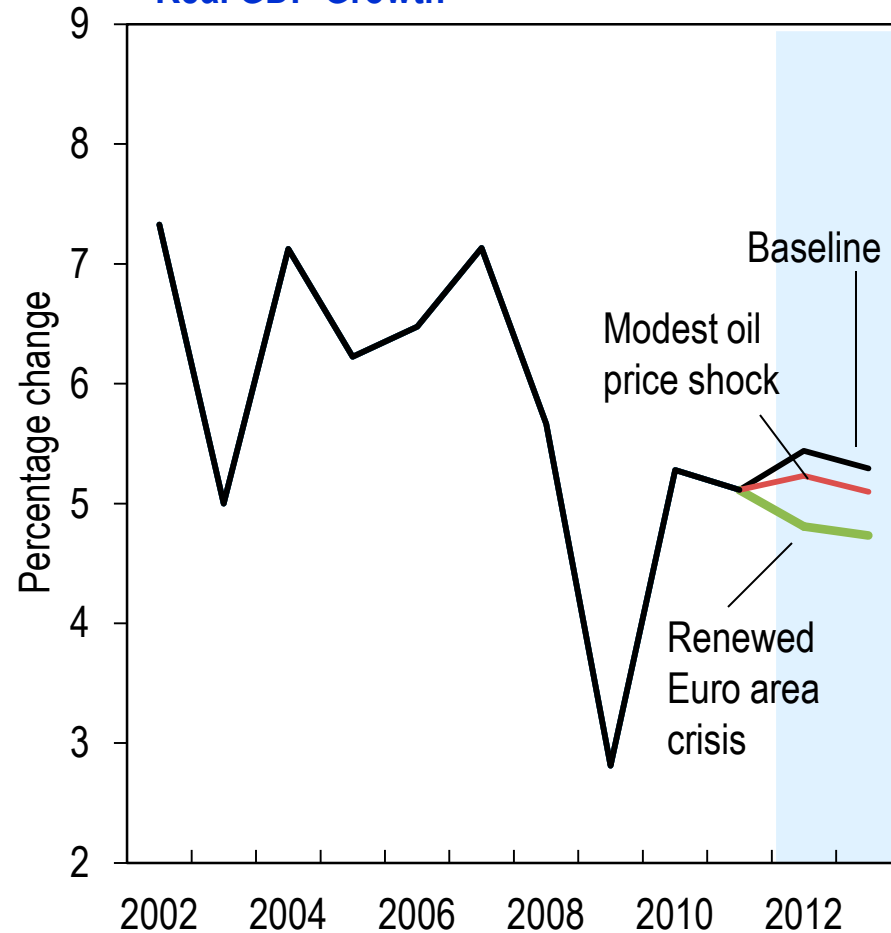
- **Further 50 percent increase in oil prices**
 - Global output drops substantially
 - Non-oil exports lower for all countries
 - Oil importers face large real income shock
 - Big fiscal costs if governments subsidize fuel prices

The impact on sub-Saharan Africa


Growth Prospects



Real GDP Growth



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Policy choices in an uncertain world

- Economic policy-makers face an **unusually uncertain external environment**.
- Given the heterogeneity of circumstances across countries in SSA, there are no “one-size-fits-all” policy prescriptions.
- Nevertheless, some general guidance can be proposed.



Economic Policies: Managing Risks

- Where growth is strong, but fiscal position has deteriorated, consider fiscal consolidation measures to strengthen resilience.
- Where output is below potential, or vulnerable to euro area developments, substantial fiscal tightening would be inappropriate at this juncture.
- Where inflation rates jumped sharply during 2011, priority is to keep monetary and fiscal policy tight until there is clear progress toward inflation objectives.



Contingency Plans

To prepare for further adverse shifts in the global economy:

- Create sufficient fiscal space.
- Develop fiscal contingency measures.
- Focus particularly on targeted social safety nets.
- Avoid blanket price subsidies.
- Allow monetary and exchange rate adjustments where possible.

Thank You

Want to know more?

- World Economic Outlook at www.imf.org/weo
- Regional Economic Outlook: www.imf.org/kampala
- Staff reports/documents on Uganda: www.imf.org/uganda



Additional Slides

Summary of Analytical Chapters

**Chapter 2: The Impact of Global Financial Stress on
SSA Banking/Financial Systems**

**Chapter 3: SSA Natural Resource Producers: Recent
Performance and Policy Challenges**

Chapter 2: The Impact of Global Financial Stress on Sub-Saharan African Banking/Financial Systems

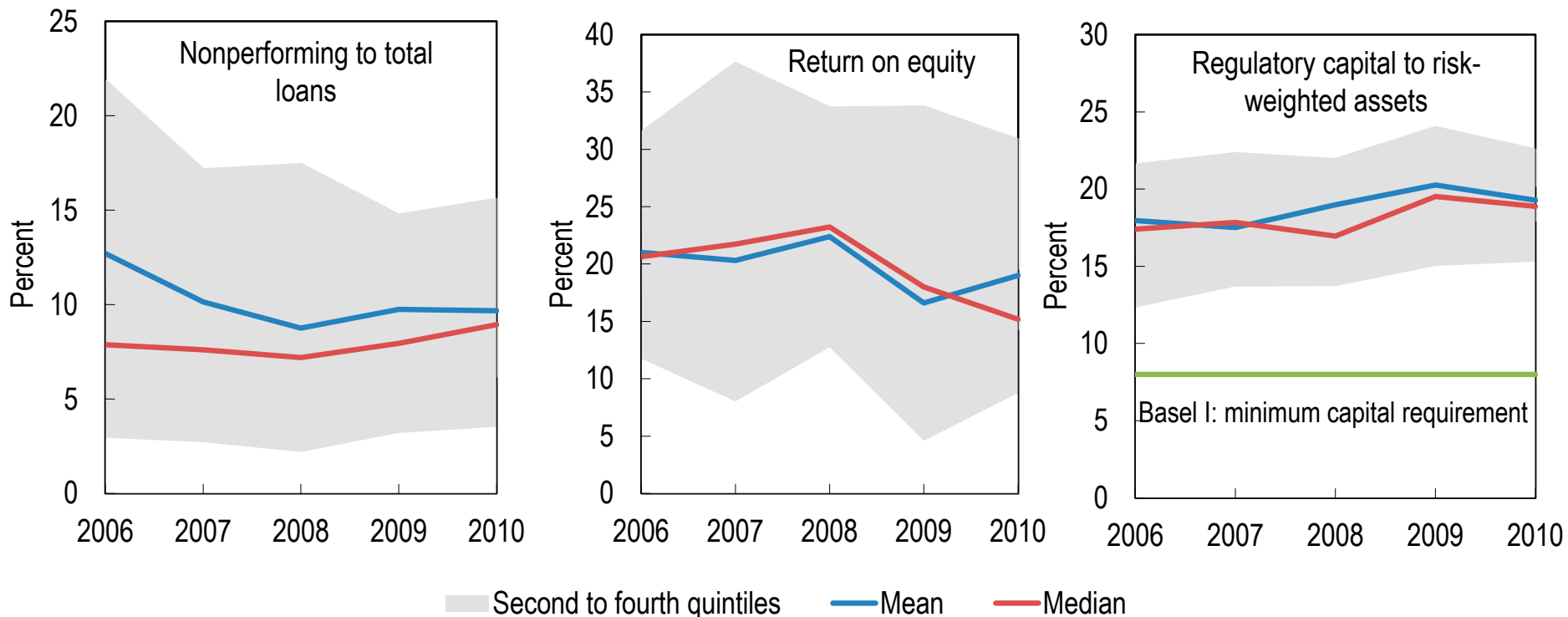


- SSA banking systems have been resilient to recent episodes of global turmoil:
 - Moderate increase in nonperforming loans, reduction in profitability, increased capital adequacy.
- Vulnerabilities to ongoing European financial stress are moderate and indirect (through global trade channel) in most SSA countries:
 - Low cross-border exposure
 - Stable domestic retail funding
 - Presence of capital controls in many SSA countries
- Nevertheless, there are risks to banking systems:
 - Many SSA countries (including central banks) have sizeable foreign assets deposited in Europe.
 - High credit growth in some countries, albeit often from low base.
 - Expansion of inadequately supervised Pan-African banking groups.

Resiliency

Moderate increase in nonperforming loans and reduction in profitability. Increased capital adequacy.

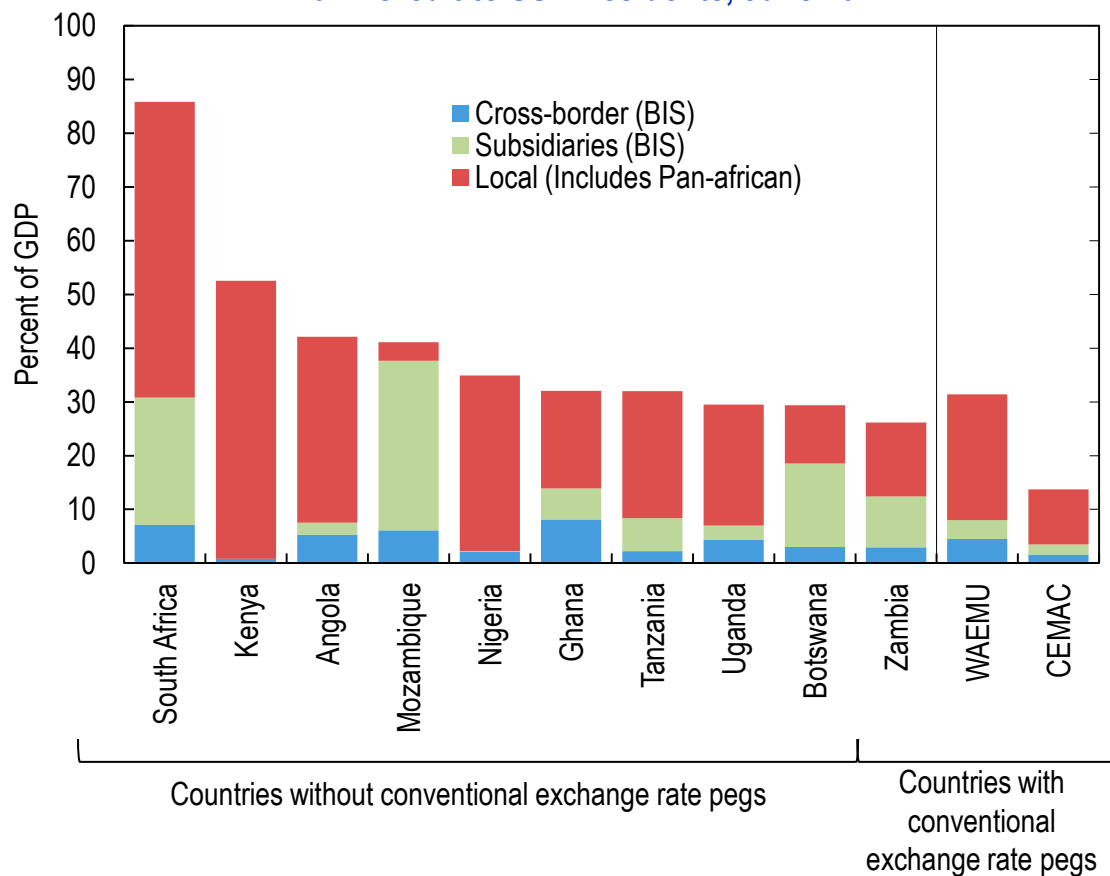
Sub-Saharan Africa: Financial Soundness Indicators



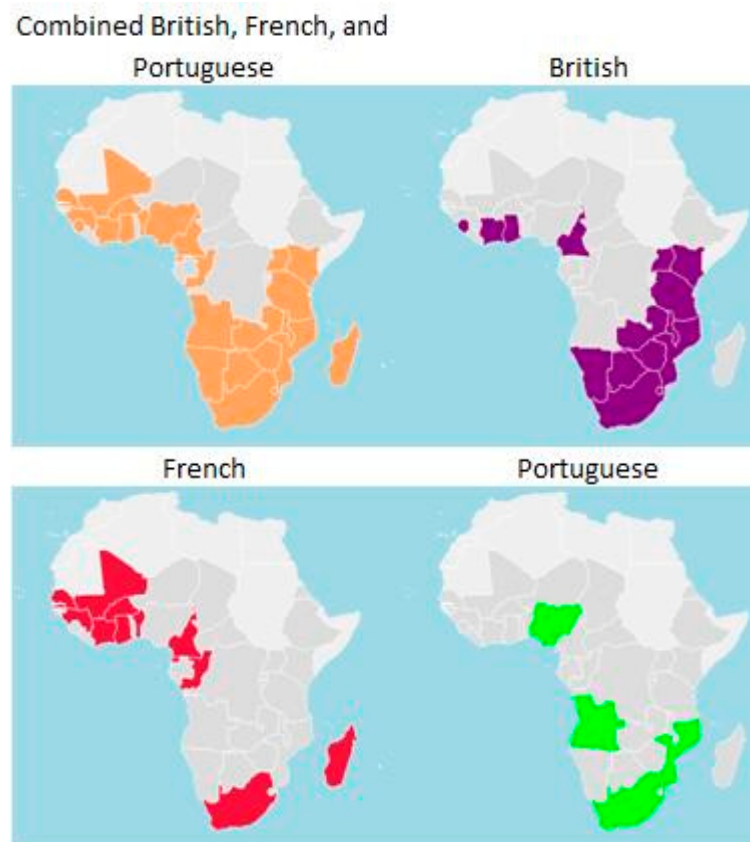
Moderate Vulnerabilities

Prevalent presence of European bank subsidiaries and moderate crossborder lending.

Bank Credit to SSA Residents, June 2011



Presence of European Banks, 2011

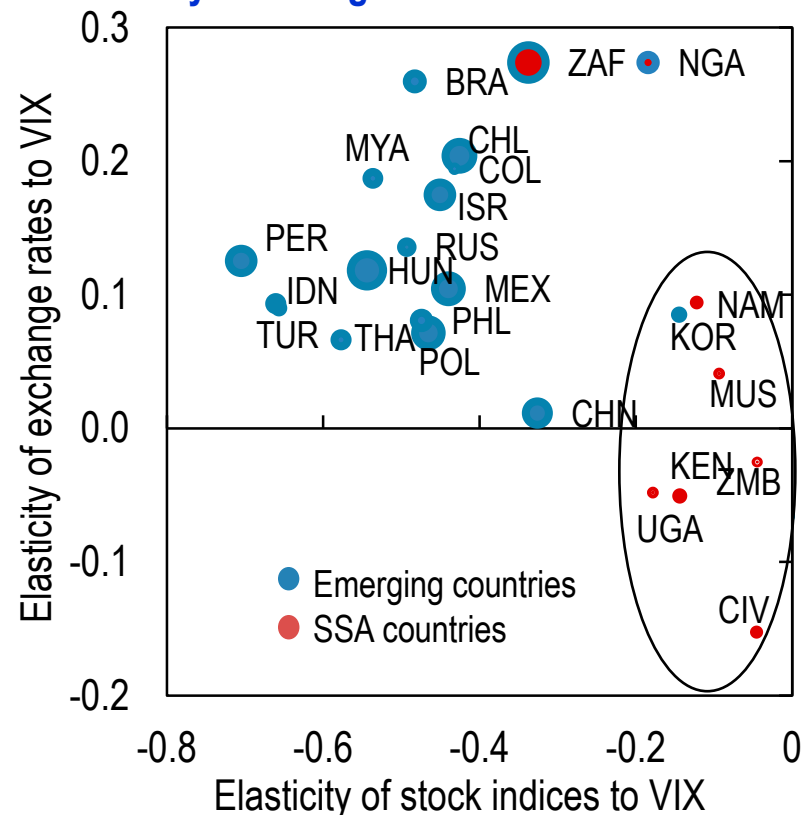


Moderate Vulnerabilities

Stock market and exchange rate vulnerability of SSA frontier markets is subdued, when compared to emerging markets.

(Note: VIX is an index of volatility of the S&P 500 stock index.)

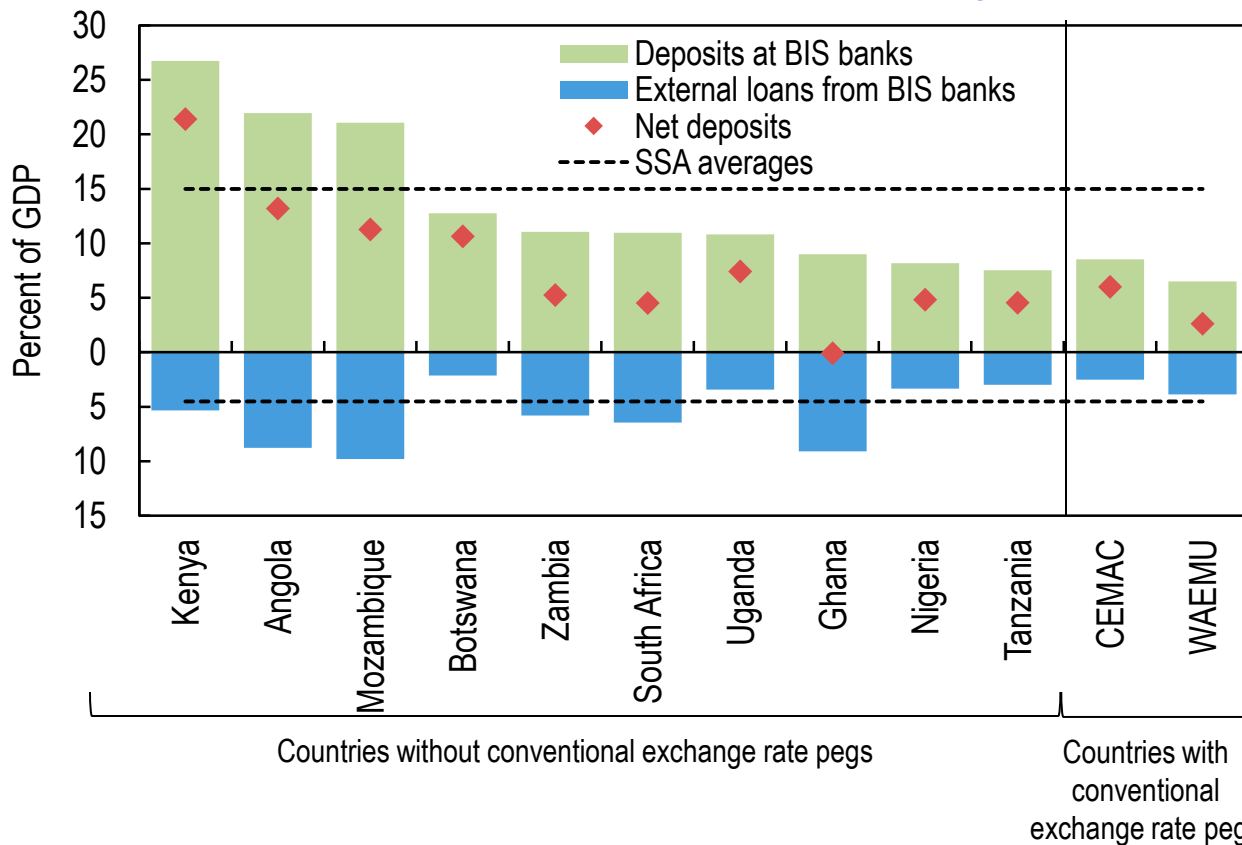
Exchange Rate Flexibility and Stock Market Sensitivity to Changes in Global Risk Aversion



Moderate Vulnerabilities

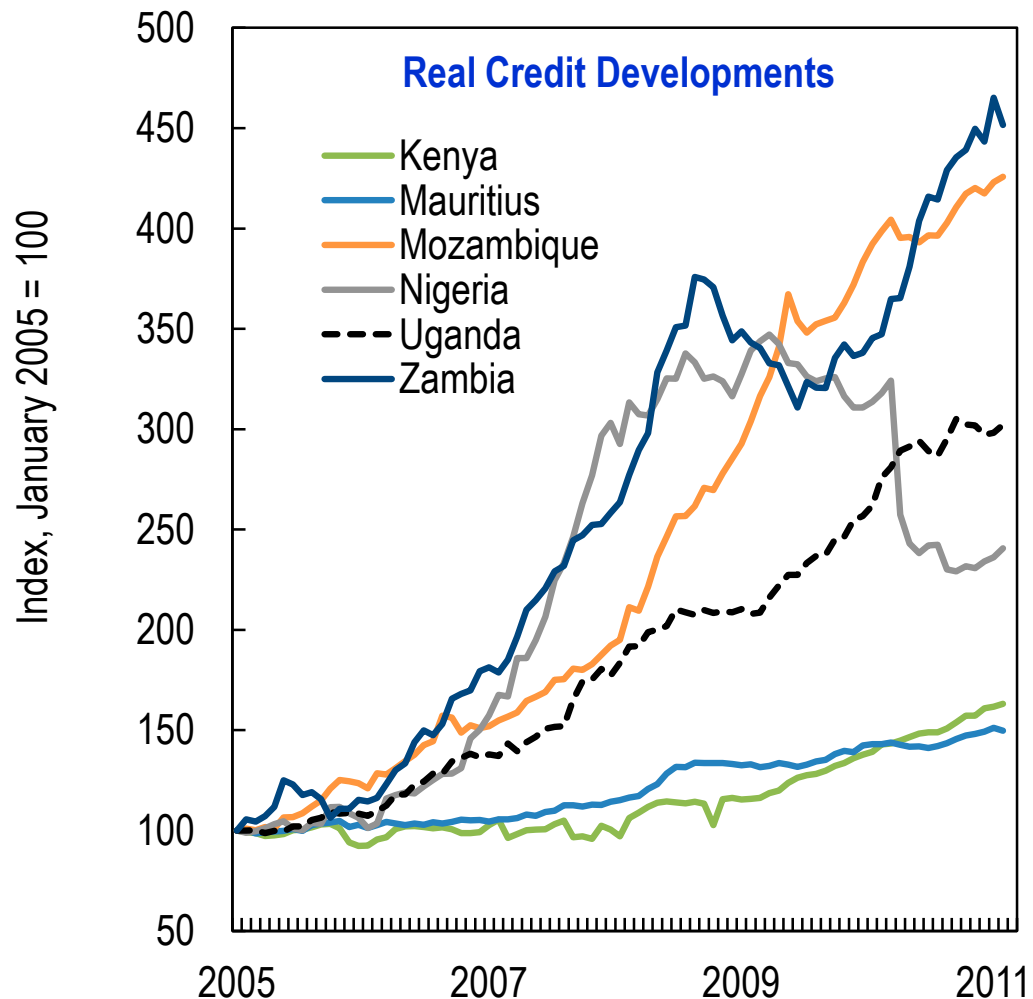
On the asset side more is at stake: many SSA countries (including central banks) have sizeable foreign assets and reserves deposited in Europe.

Total External Loans from and Deposits at BIS-Reporting Banks, June 2011



Banking System Risks

Credit growth has been strong in some countries, which needs close monitoring and managing of the risks involved.



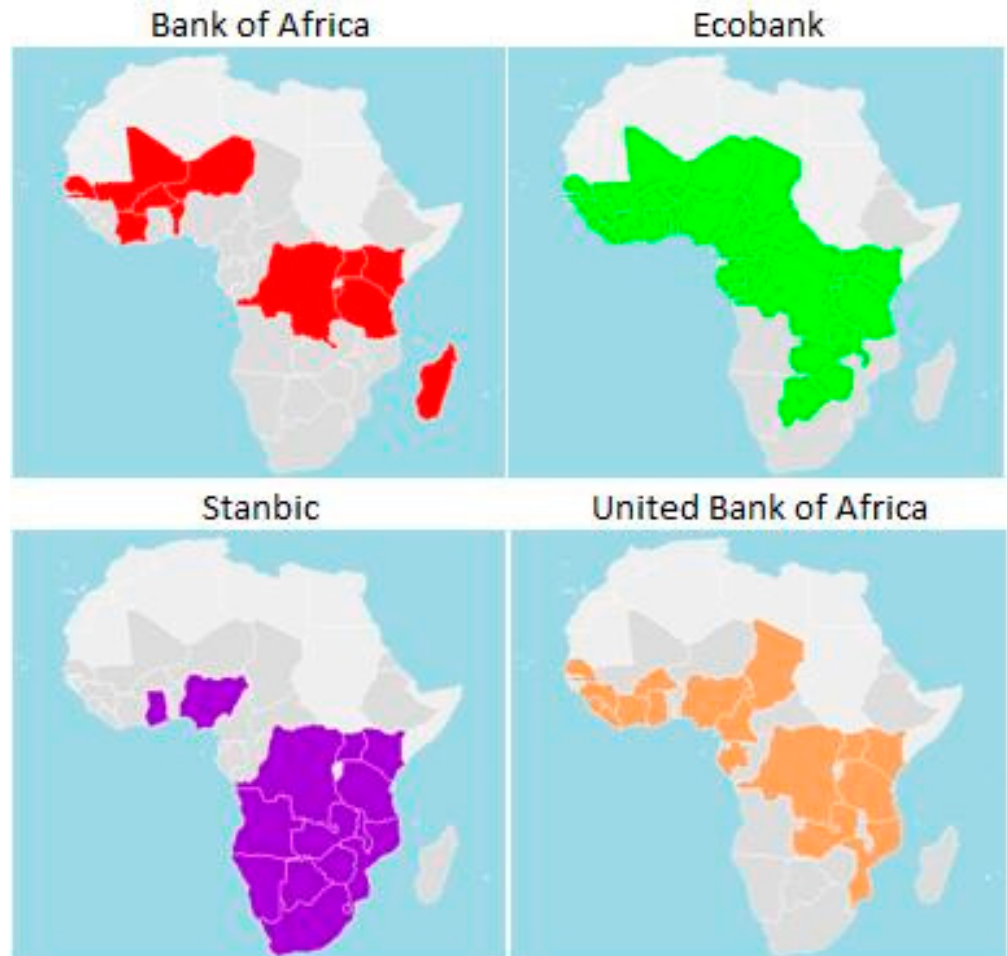
Channels of Potential Pan-African Contagion

Channels of Pan-African Contagion

Although most SSA banking systems are relatively insulated from external financial developments, problems in one of the Pan-African SSA banks could potentially spread throughout the region.

All four of these banks are present in East Africa.

Selected Pan-African Banking Groups, June 2011



Chapter 2: Policies to Enhance Financial System Resiliency in Sub-Saharan Africa



- Close supervision on banking systems experiencing high credit growth rates is a priority.
- Regional bank operations call for Pan-African prudential and supervisory arrangements.
- Put in place macro-prudential policy frameworks allowing interaction of monetary, fiscal, and financial sector authorities.
- Strengthen institutional setting, allocate appropriate funding and personnel, while granting supervisory authorities with adequate legal execution protection.
- Reinforce contingency and crisis management frameworks for resolution of systemically relevant institutions.

Chapter 3: Sub-Saharan Africa's Natural Resource Exporters: Recent Performance and Policy Challenges



- The chapter analyzes economic performance among SSA's countries where non-renewable natural resources are currently important, either by their share of total exports or of government revenues.
- Favorable international commodity-price developments and new resource discoveries have led resource exporters to higher per capita GDP growth.
- Some of the key policy challenges faced by resource-abundant countries include:
 - Managing resource revenues, which depend on highly volatile commodity prices.
 - Translating resource rents into higher growth and social welfare.
 - Insuring long-term sustainability.
 - Improving transparency in resources management.

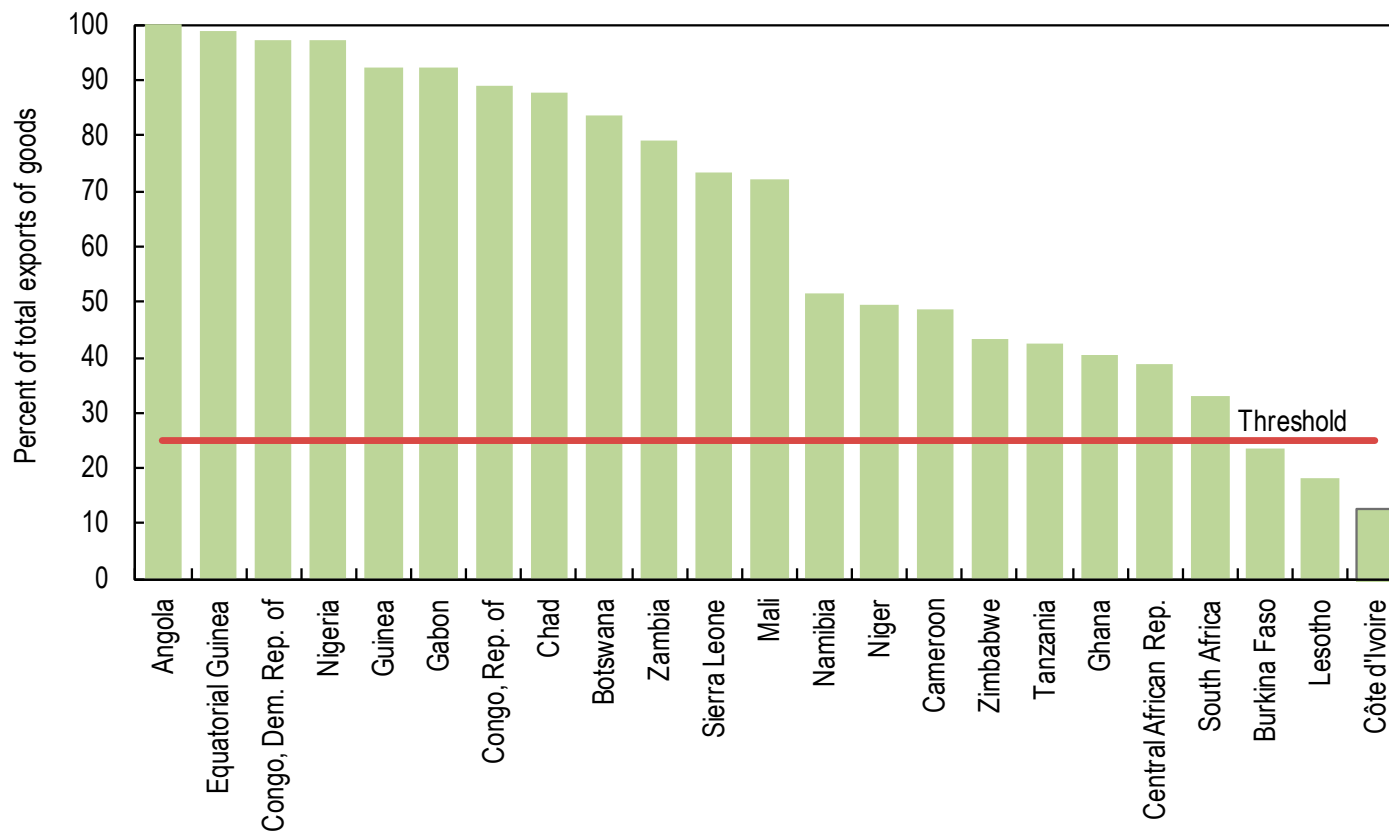
Significant exporters of natural resources in sub-Saharan Africa.

Sub-Saharan Africa: Major Nonrenewable Exports

✓ NB: Backward looking.

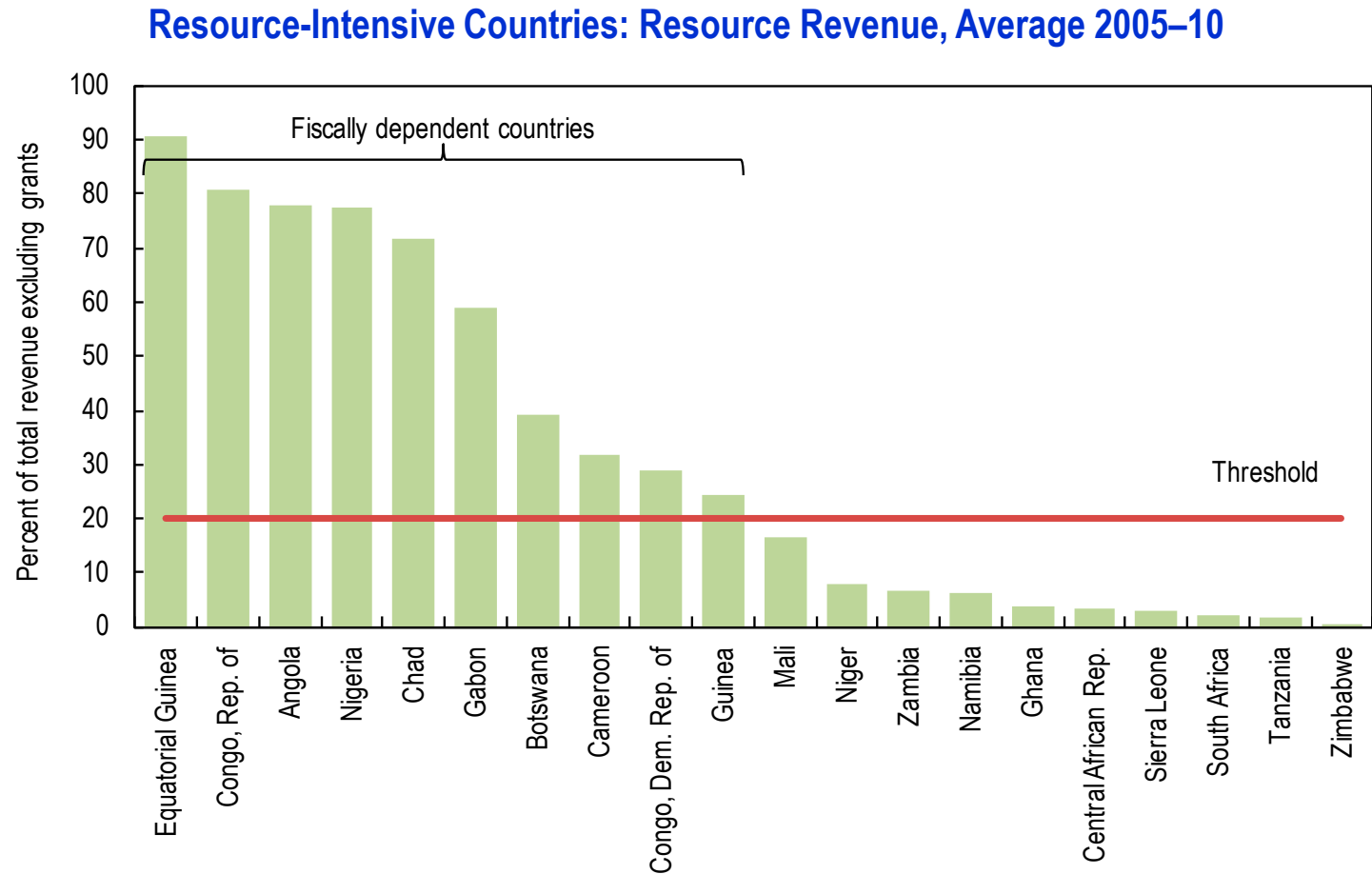
The varying importance of natural resource exports.

Resource Exports, Average 2005–10



✓ NB: Backward looking.

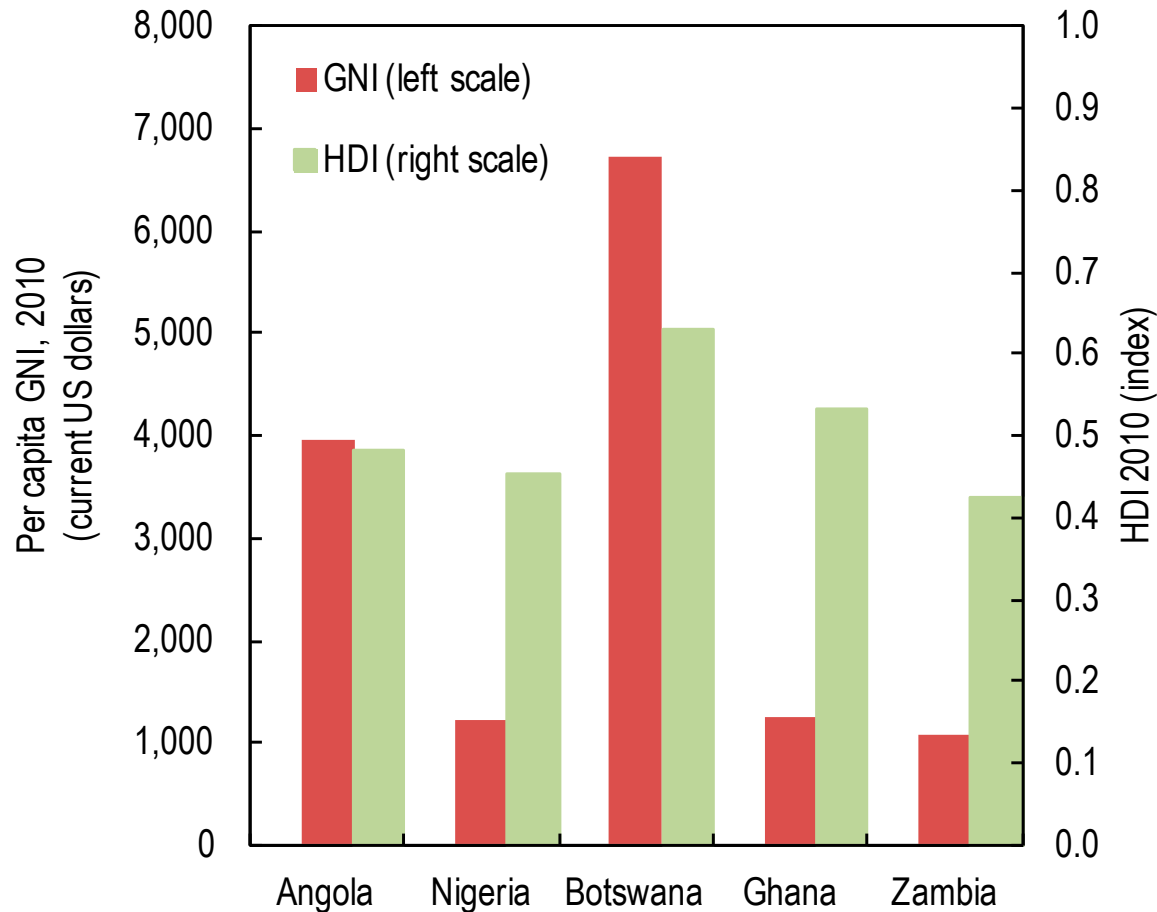
The budgetary contribution of natural resource sectors.



✓ NB: Backward looking.

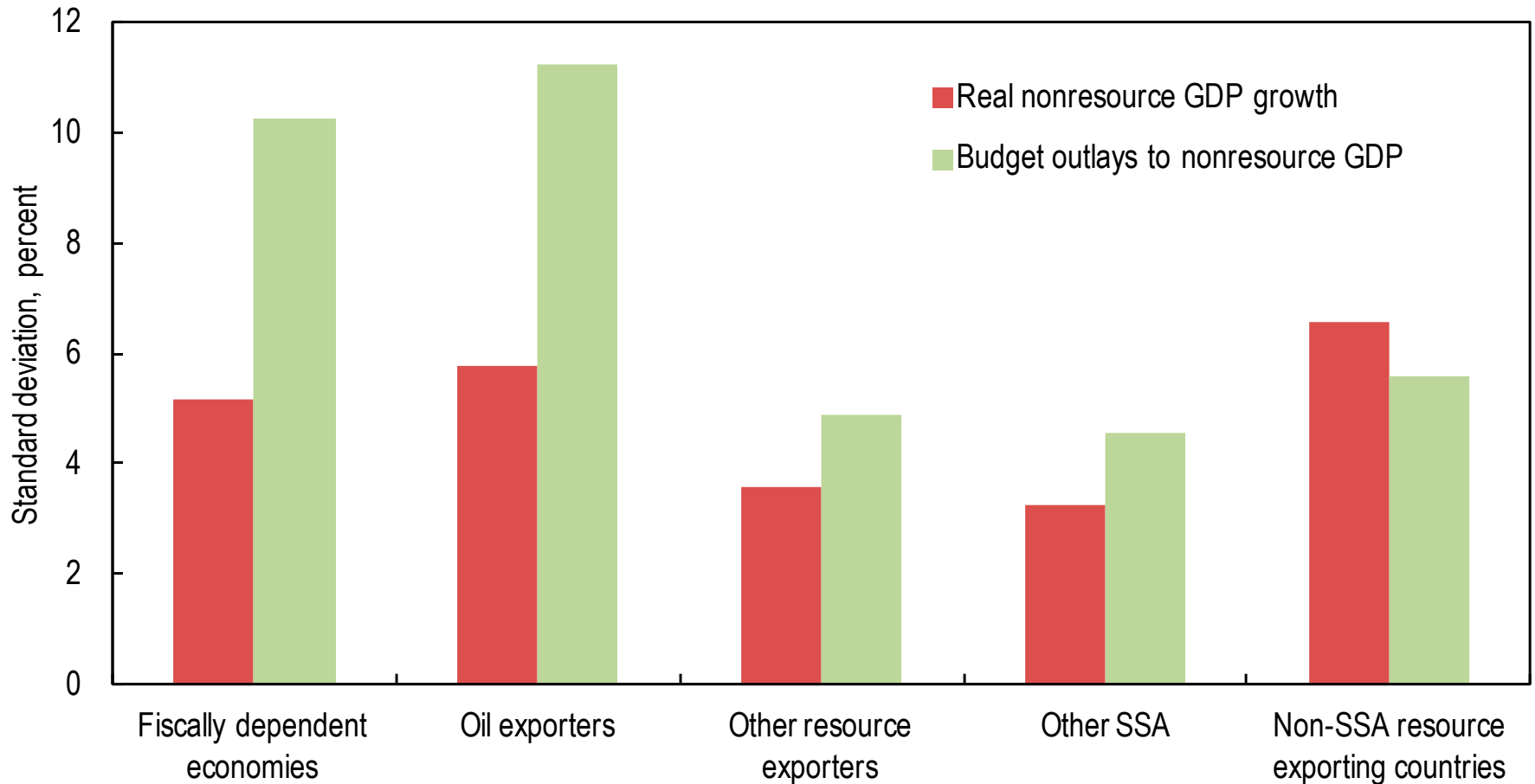
Income levels and human welfare.

Per capita gross national income and the Human Development Index



Macroeconomic volatility: elevated in many natural-resource exporters.

Volatility Indicators, 2000–10



Good progress in the area of transparency, on which countries must keep on building.

- Resource exporters are aware of the need to transparently manage natural resource revenue, and a majority of them have chosen to participate in the EITI.

Oil exporters	EITI Status*
Angola	
Cameroon	Candidate
Chad	Candidate
Congo, Republic of	Candidate
Equatorial Guinea	
Gabon	Candidate
Nigeria	Compliant
Other fiscally dependent countries	
Botswana	
Congo, Democratic Republic of	Candidate
Guinea	Candidate
Other countries	
Central African Republic	Compliant
Ghana	Compliant
Mali	Compliant
Namibia	
Niger	Compliant
Sierra Leone	Candidate
South Africa	
Tanzania	Candidate
Zambia	Candidate
Zimbabwe	

*Excluding Liberia

Chapter 3: Sub-Saharan Africa's Natural Resource Exporters: Recent Performance and Policy Challenges



Some of the main findings of the chapter are:

- The share of resource exports that accrues to national budgets varies widely, with oil exporters having highest shares.
- Resource exporters had faster growth than others since 2000, although social welfare indicators did not improve faster.
- Resource intensity is associated with higher macroeconomic volatility, but some countries have begun to develop policy frameworks to manage it.
- While fiscal policy is less procyclical than it used to be, “boom and bust” cycles have not been eliminated.
- Resource exporters need to keep higher reserves than others and ensuring sustainability by judicious saving and expenditure choices, concerning both level, composition, and quality.