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This Issue…
Regional Economic Outlook for Sub-Saharan Africa

REGIONAL ECONOMIC OUTLOOK FOR SUB-SAHARAN AFRICA

RECOVERY AMID ELEVATED UNCERTAINTY

The economic recovery in the Sub-Saharan African (SSA) region is continuing but at a slower pace than anticipated due to duality in growth performance and prospects of the different countries. Aggregate growth is set to remain stable at 3.2 percent in 2019 as in 2018 and grow marginally by 3.7 percent in 2020. This marks a downward revision of 0.2 percentage points from the July 2019 IMF WEO update.

The growth prospects within the SSA region vary considerably across countries. About half of the region's countries, mostly **non-resource-intensive** countries, are expected to grow at 6.0 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, 21 **resource-intensive** countries are expected to move at a slower pace of an average of 2.5 percent. As **resource-intensive** 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 region's population to enjoy improved standards of living.

Table: GDP growth for Sub-Saharan Africa – percentage changes

Country	**Real GDP growth rate**				**Estimates**	**Projections**
	2010-2015	**2016**	**2017**	**2018**	**2019**	**2020**
Angola	4.6	-2.6	-0.2	-1.2	-0.3	1.2
Eswatini	3.1	1.3	2.0	2.4	1.3	0.5
Lesotho	4.2	2.7	0.5	2.8	2.8	-0.2
Namibia	5.7	1.1	-0.9	-0.1	-0.2	1.6
Nigeria	5.8	-1.6	0.8	1.9	2.3	2.5
South Africa	2.3	0.4	1.4	0.8	0.7	1.1
SSA	5.1	1.4	3.0	3.2	3.2	3.6

Source: IMF Regional Economic Outlook, Oct 2019

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

- Prudent **near-term policy mix**, amid limited shock buffers and elevated debt vulnerabilities in some countries, policymakers have limited room for maneuver to counter external headwinds. The monetary policy side is only space remaining to supporting growth and is only applicable 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 as a credible medium-term adjustment plan to support growth, in a manner consistent with debt sustainability and available financing. In slow growing economies, the pace of adjustment could be made more gradual, provided financing is available. In fast-growing economies that are facing elevated debt vulnerabilities, the priority remains rebuilding buffers.
- **Building resilience** would help the region to sustain longer episodes of strong growth. Building resilience, towards weather-related, health, and security challenges, would require mobilizing domestic revenue, streamlining inefficient subsidies, and improving public finance management to strengthen sovereignty and create fiscal space for development needs. Promoting economic diversification, improving macroeconomic policy frameworks, and reducing non-performing loans would also reduce economies' vulnerability to shocks.

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- Raising medium-term growth in the sense of 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 labor market entrants poised to join every year. Comprehensively tackling tariff and nontariff barriers in the context of the Africa Continental Free Trade Area, developing regional value chains, and implementing reforms to boost investment and competitiveness could lift the region's medium-term 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 manifested in their economic prospects, policy priorities, and the severity of their budgetary constraints, the countries also share the challenges of strengthening resilience and creating sustained high and inclusive growth.

SSA's competition, competitiveness, and growth in the product market competition remain a concern due to a large presence of state-owned. In addition firms have higher and persistent mark-ups of about 11.0 percent in SSA countries more than other emerging market economies and developing countries. Empirical analysis suggests that increased competition can boost real per capita GDP growth rate by about 1.0 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. 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.

Domestic arrears in SSA: 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. 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 weight of relying on arrears financing to avoid spending cuts. There are different approaches to clear arrears (verification, prioritization, liquidation) and to prevent their accumulation, including through public financial management reforms, building buffers, and timely external supports. Going forward, a concerted effort by country authorities, international organizations, and the wider public should focus on strengthening the monitoring and reporting of domestic arrears. Their macroeconomic impact is too important to be ignored.

<u>Source:</u> IMF Regional Economic Outlook for Sub-Saharan Africa, October 2019