SUB-SAHARAN AFRICA

Growth in Sub-Saharan Africa is projected to recover to 2.6 percent in 2017 from the sharp deceleration to 1.3 percent in 2016, and to strengthen somewhat in 2018. The upturn reflects recovering global commodity prices and improvements in domestic conditions. Most of the rebound will come from Angola and Nigeria—the largest oil exporters. However, investment is expected to recover only very gradually, reflecting still tight foreign exchange liquidity conditions in oil exporters and low investor confidence in South Africa. Fiscal consolidation will slow the pace of recovery in metal exporters. Growth is expected to remain solid among non-resource intensive countries. External downside risks to the outlook include stronger-than-expected tightening of global financing conditions, weaker-than-envisioned improvements in commodity prices, and the threat of protectionism. A key domestic risk is the lack of implementation of reforms that are needed to maintain durable macroeconomic stability and sustain growth.

Recent developments

After slowing sharply in 2016, growth in Sub-Saharan Africa (SSA) is recovering, supported by modestly rising commodity prices, strengthening external demand, and the end of drought in several countries. Despite recent declines, oil prices are 10 percent higher than their average levels in 2016. Metals prices have strengthened more than expected. Meanwhile, above-average rainfalls are boosting agricultural production and electricity generation in countries that were hit earlier by El Niño-related droughts (e.g., South Africa, Zambia). Security threats subsided in several countries. In Nigeria, militants' attacks on oil pipelines decreased. The economic recession in Nigeria is receding. In the first quarter of 2017, GDP fell by 0.5 percent (y/y), compared with a 1.7 percent contraction in the fourth quarter of 2016. The Purchasing Managers' Index for manufacturers returned to expansionary territory in April (Figure 2.6.1), indicating growth in the sector after contraction in the first quarter. Non-resource intensive countries, including those in the West African Economic and Monetary Union (WAEMU), have been expanding at a solid pace.

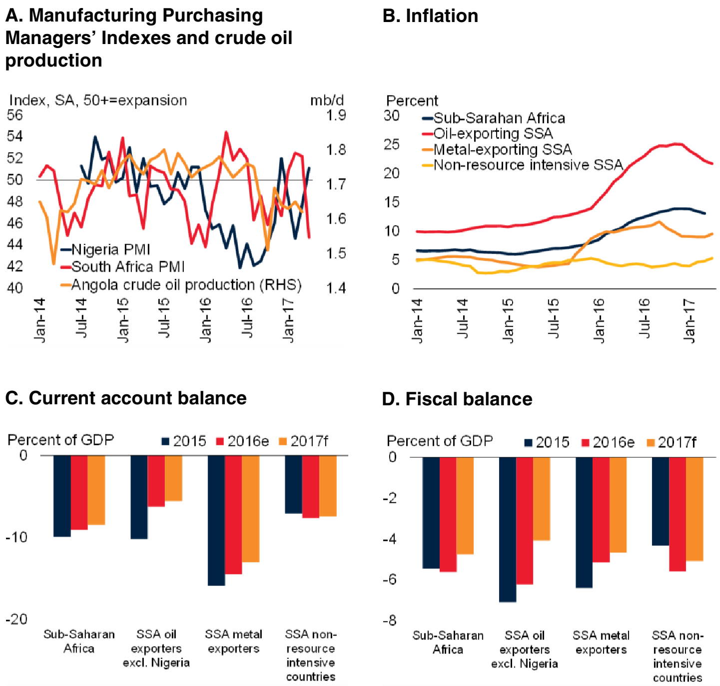
Several factors are preventing a more vigorous recovery. In Angola and Nigeria, foreign exchange controls are distorting the foreign exchange market, thereby constraining activity in the non-oil sector. In South Africa, political uncertainty and low business confidence are weighing on investment. The previously delayed fiscal adjustment to lower oil revenues in the Central African Economic and Monetary Community (CEMAC) has started, restraining domestic demand. In Mozambique, the government's default in January and heavy debt burden are deterring investment. In contrast to oil and metals prices, world cocoa prices dropped, reducing exports and fiscal revenues in cocoa producers (e.g., Cote d'Ivoire, Ghana). In many countries, banks are seeking to limit credit risk by tightening lending standards and reducing credit to the private sector. Lastly, the drought in East Africa, which reduced agricultural production at the end of 2016, continued into 2017, adversely affecting activity in some countries (e.g., Kenya, Uganda), and contributing to famine in others (e.g., Somalia, South Sudan).

Current account deficits of oil and metals exporters are narrowing, helped by the pick-up in commodity prices. Oil exports are rebounding in Nigeria on the back of an uptick in oil production from fields previously damaged by militants'

Note: This section was prepared by Gerard Kambou. Research assistance was provided by Xinghao Gong.

FIGURE 2.6.1 SSA: Recent developments

At the start of 2017, a modest pick-up in activity was underway in the region's largest economies. Inflation began to ease, but was still high in oil-exporters. A drought in East Africa pushed up food prices in several countries. Current account and fiscal balances are improving somewhat among oil and metals exporters, helped by the pickup in commodity prices. However, they remain under pressure in non-resource intensive countries, reflecting the continued expansion in public investment.



Sources: Central Bank of Nigeria, Haver Analytics, International Monetary Fund, World Bank.
Notes: SSA stands for Sub-Saharan Africa. Oil-exporting SSA consists of Angola, Ghana, and Nigeria; metal-exporting SSA consists of Botswana, Mozambique, Namibia, South Africa, and Zambia. Non-resource intensive countries include agriculture-based economies and commodity importers.
A. SA stands for seasonally adjusted.
B.-.D. Unweighted average of available countries in the region.
C.D. e stands for estimate; f for forecast.

attacks. Mining companies across the region are resuming production and exports. In contrast, current account balances have remained under pressure in a number of non-resource intensive countries. In these countries, capital goods imports have been strong, reflecting ambitious public investment programs. Capital inflows in the region are rebounding from their low level in 2016. Nigeria tapped the Eurobond market twice in the first quarter of 2017, followed by Senegal in May. Sovereign spreads have declined across the region from their November 2016 peak, with the notable exception of Ghana where they rose due to concerns about fiscal policy slippages. This trend reflects low financial market volatility, and a broader rebound in investor risk appetite for emerging market and developing economies (EMDE) assets.

Regional inflation is gradually decelerating from its high level in 2016. Although a process of disinflation has started in Angola and Nigeria, inflation in both countries remains elevated, owing to a highly depreciated parallel market exchange rate. Inflation eased in metals exporters, reflecting stabilizing currencies after sharp depreciations, and lower food prices due to improved weather conditions (e.g., South Africa, Zambia). An exception is Mozambique, where inflation was still above 21 percent (y/y) in April, reflecting continued depreciation. Inflationary pressures increased in non-resource intensive countries. In East Africa, drought led to a spike in food prices, notably in Kenya. However, in countries where the drought has been less severe, inflation has remained within central banks' targets. Low inflation in Tanzania, Uganda, and Zambia, and steadily falling inflation in Ghana allowed central banks to cut interest rates in early 2017.

Fiscal deficits remain elevated across the region. Oil and metals exporters are still running sizable fiscal deficits. Fiscal balances have deteriorated in several non-resource intensive countries, reflecting a continued expansion in public infrastructure. Large fiscal deficits and, in some cases, steep exchange rate depreciations, have resulted in rising public debt ratios in the region (Box 2.6.1). A number of countries have embarked on fiscal consolidation to stabilize government debt (e.g., Chad, South Africa). In early April, S&P Global Ratings and Fitch downgraded South Africa's sovereign credit rating to sub-investment status on account of heightened political uncertainty.

Outlook

Growth in SSA is forecast to pick up to 2.6 percent in 2017, and average 3.4 percent in 2018-19, slightly above population growth (Figure 2.6.2). The recovery is predicated on moderately rising commodity prices and reforms to tackle macroeconomic imbalances. The forecasts are below those in January, reflecting a slower-than-anticipated recovery in several oil and metals exporters. Per capita output growth—which is

BOX 2.6.1 Deteriorating public finances in Sub-Saharan Africa

Public debt ratios have risen sharply, post-crisis. In several countries, government debt has increased by more than 10 percentage points of GDP between 2014 and 2016 and now exceeds 50 percent of GDP (World Bank 2017n). These include four commodity exporters (Angola, Mozambique, Republic of Congo, and Zambia) and two commodity importers (Burundi, Ethiopia).

Rising fiscal deficits have been the key driver of debt accumulation in most countries. Angola and the Republic of Congo, hit by a large drop in oil revenues, delayed or slowed fiscal consolidation. Both countries have run large fiscal deficits, which reached 17 percent of GDP in the Republic of Congo in 2016. Among metals exporters, Mozambique undertook large external borrowing through state-owned enterprises. Zambia's large fiscal deficits have been driven by elevated expenditure overruns. In non-resource intensive countries, borrowing to finance large public investment projects underpinned the rise in public debt in Ethiopia.

Other contributory factors included exchange rate depreciation and civil conflict. Large exchange rate depreciations contributed to the increase in fiscal debt/GDP ratios in Mozambique and Zambia. Foreign currency debt accounted for 80 percent and 67 percent of total debt in Mozambique and Zambia, respectively, in 2016. Political instability and its adverse effects on growth have pushed up debt-to-GDP ratios in Burundi, where the government has continued to resort to central bank advances and the issuance of treasury bills to finance persistently high fiscal deficits.

Debt servicing costs have risen but remain sustainable for most countries. The rise in government debt, exchange rate depreciation, and increased recourse to non-concessional borrowing for infrastructure development have resulted in rising debt servicing costs. However, for most countries in the region, the interest-to-revenue ratio remains sustainable, helped by the high share of concessional borrowing. A notable exception is Nigeria, where the federal government's interest-to-revenue ratio rose from 33 percent in 2015 to 59 percent in 2016. In Mozambique, debt levels have increased sharply to an estimated 125 percent of GDP at end-2016, and the interest-to-revenue ratio has risen to above 15 percent, which is weighing on the ability of the government to meet debt service payments. As monetary policies in advanced economies continue to normalize, and global interest rates increase, pro-active public debt management will be needed to manage rollover risks in the region.

projected to increase from -0.1 percent in 2017 to 0.7 percent in 2018-19—will remain insufficient to achieve poverty reduction goals in the region if the constraints to more vigorous growth persist (Bhorat and Tarp 2016).

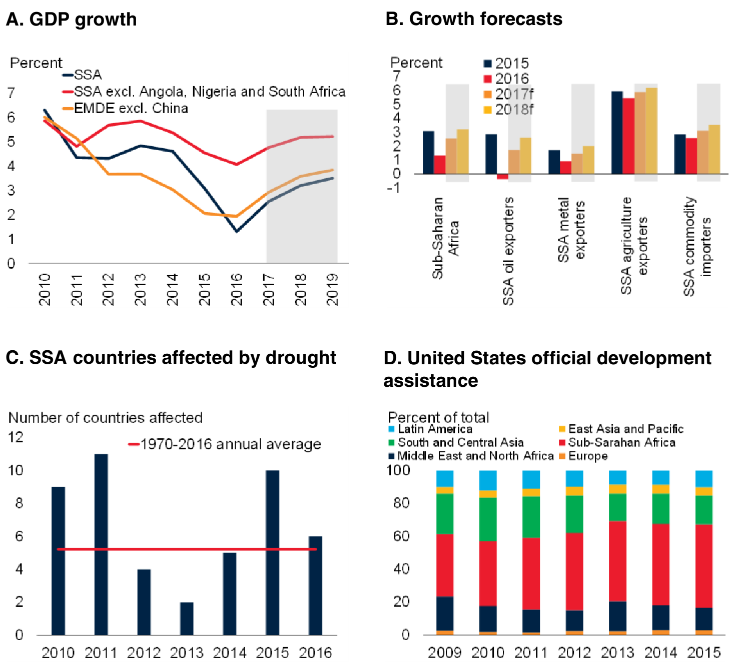
Growth in South Africa is projected to recover from 0.6 percent in 2017 to 1.5 percent in 2018-19. A rebound in net exports is expected to only partially offset weaker than previously forecast growth of private consumption and investment, as borrowing costs rise following the sovereign rating downgrade to sub-investment level. For Nigeria, growth is expected to rise from 1.2 percent in 2017 to 2.5 percent in 2018-19, helped by a rebound in oil production, as security in the oil-producing region improves, and by an increase in fiscal spending. In Angola, growth is projected to increase from 1.2 percent in 2017 to 1.5 percent in 2019, reflecting a slight pick-up of activity in the industrial sector as energy supplies improve. The subdued recovery in the region's largest economies reflects the slower-than-expected adjustment to low commodity prices in Angola and Nigeria, and higher-than-anticipated policy uncertainty in South Africa.

In other oil exporters, growth is expected to strengthen in Ghana as increased oil and gas production boosts exports and domestic electricity production. Growth will be weaker than previously projected in CEMAC, as larger-than-envisioned fiscal adjustment reduces public investment. In several metals exporters, high inflation and tight fiscal policy will be a greater drag on activity than previously expected.

Growth in non-resource intensive countries should remain solid, on the basis of infrastructure investment, resilient services sectors, and the recovery of agricultural production. Ethiopia and Tanzania in East Africa, and Cote d'Ivoire and

FIGURE 2.6.2 SSA: Outlook and risks

Regional growth is expected to rebound to 2.6 percent in 2017, and to reach 3.5 percent in 2019, reflecting a modest recovery in Angola, Nigeria, and South Africa. Growth in non-resource intensive countries is expected to remain solid, supported by domestic demand. Weaker-than-forecast commodity prices, worsening drought conditions, and cutbacks to U.S. official development assistance pose significant downside risks to the regional outlook.



Sources: EM-DAT, OECD Geographical Distribution of Financial Flows to Developing Countries, The International Disaster Database, World Bank.

Notes: SSA stands for Sub-Saharan Africa. Non-resource intensive countries include agricultural-based economies and commodity importers.

A. GDP-weighted averages.

C. Chart shows number of SSA countries experiencing at least one drought in any given year.

D. Regional assistance is not included.

Senegal in WAEMU will continue to expand at a robust pace on the back of public investment, although some countries (e.g., Ethiopia, Cote d'Ivoire) may not reach the high growth rates of the recent past. Many countries need to contain debt accumulation and rebuild policy buffers.

Risks

The regional outlook is subject to significant external risks. A sharp increase in global interest rates could discourage sovereign bond issuance, which has become a key financing strategy for governments in recent years, as they have increasingly looked to global markets for the funds to finance domestic investment (Papadavid 2016). If sustained, increases in global interest rates could further reduce the ability of governments in the region to access foreign bond markets. In addition, weaker-than-expected growth in advanced economies or in large emerging markets could reduce demand for exports, depress commodity prices, and curtail foreign direct investment in mining and infrastructure in the region (Chen and Nord 2017). Finally, the announcement of proposed cutbacks to U.S. official development assistance will be a source of concern for some of the region's smaller economies and fragile states.

On the domestic front, in countries where significant fiscal adjustments are needed, failure to implement appropriate policies could weaken macroeconomic stability and slow the recovery. This risk is particularly significant for Angola, CEMAC countries, Mozambique, and Nigeria. In addition, increased militants' activity (e.g., Nigeria), political uncertainty ahead of key elections (e.g., South Africa), and drought pose risks to the outlook. Weather-related risks are elevated in East Africa. Inadequate rainfalls have led to abnormal seasonal dryness in areas of Kenya, southern Ethiopia, South Sudan, and Uganda (Famine Early Warning Systems Network 2017). Worsening drought conditions will severely affect agricultural production, push food prices higher, and increase food insecurity.

TABLE 2.6.1 Sub-Saharan Africa forecast summary

(Real GDP growth at market prices in percent, unless indicated otherwise)

	2014	2015	2016	2017	2018	2019	2016	2017	2018	2019
			Estimates	Projections			(percentage point difference from January 2017 projections)			
EMDE SSA, GDP[a]	**4.6**	**3.1**	**1.3**	**2.6**	**3.2**	**3.5**	**-0.2**	**-0.3**	**-0.4**	**-0.2**
(Average including countries with full national accounts and balance of payments data only)[b]										
EMDE SSA, GDP[b]	4.6	3.1	1.3	2.6	3.2	3.5	-0.2	-0.3	-0.4	-0.2
GDP per capita (U.S. dollars)	1.9	0.4	-1.3	-0.1	0.6	0.9	-0.2	-0.3	-0.4	-0.2
PPP GDP	4.9	3.3	1.6	2.8	3.5	3.7	-0.1	-0.3	-0.4	-0.3
Private consumption	2.9	5.7	1.2	2.2	2.6	2.8	-0.3	-0.7	-0.8	-0.6
Public consumption	1.6	-3.3	2.0	2.5	2.7	2.8	-0.1	-0.2	-0.3	-0.2
Fixed investment	9.6	0.7	3.4	5.1	7.0	7.2	0.1	-0.3	0.0	0.1
Exports, GNFS[c]	7.0	2.4	1.1	2.7	3.0	3.3	-0.4	0.7	0.4	0.7
Imports, GNFS[c]	3.7	0.5	1.9	2.9	3.5	3.7	-0.4	-0.2	-0.2	-0.1
Net exports, contribution to growth	0.9	0.6	-0.2	-0.1	-0.2	-0.1	0.1	0.3	0.2	0.3
Memo items: GDP										
SSA excluding South Africa and Nigeria	5.3	4.3	3.5	4.3	4.7	4.8	-0.4	-0.6	-0.4	-0.4
SSA excluding South Africa, Nigeria, and Angola	5.4	4.5	4.1	4.8	5.2	5.2	-0.4	-0.6	-0.5	-0.6
Oil exporters[d]	5.4	2.9	-0.4	1.7	2.6	2.7	-0.2	-0.2	-0.3	-0.3
CFA countries[e]	5.5	4.0	2.8	3.6	4.1	4.3	-1.5	-1.2	-1.2	-1.2
South Africa	1.6	1.3	0.3	0.6	1.1	2.0	-0.1	-0.5	-0.7	0.2
Nigeria	6.3	2.7	-1.6	1.2	2.4	2.5	0.1	0.2	-0.1	0.0
Angola	4.8	3.0	0.0	1.2	0.9	1.5	-0.4	0.0	0.0	0.6

Source: World Bank.

World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not differ at any given moment in time.

a. EMDE refers to emerging market and developing economies. GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars. Excludes Central African Republic, São Tomé and Príncipe, Somalia, and South Sudan.

b. Sub-regional aggregate excludes Central African Republic, São Tomé and Príncipe, Somalia, and South Sudan, for which data limitations prevent the forecasting of GDP components.

c. Exports and imports of goods and non-factor services (GNFS).

d. Includes Angola, Cameroon, Chad, Democratic Republic of Congo, Gabon, Ghana, Nigeria, Republic of Congo, and Sudan.

e. Includes Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Côte d'Ivoire, Equatorial Guinea, Gabon, Mali, Niger, Republic of Congo, Senegal, and Togo.

For additional information, please see www.worldbank.org/gep.

TABLE 2.6.2 Sub-Saharan Africa country forecasts[a]

(Real GDP growth at market prices in percent, unless indicated otherwise)

	2014	2015	2016	2017	2018	2019	2016	2017	2018	2019
			Estimates	Projections			(percentage point difference from January 2017 projections)			
Angola	4.8	3.0	0.0	1.2	0.9	1.5	-0.4	0.0	0.0	0.6
Benin	6.4	2.1	4.0	5.5	6.0	6.3	-0.6	0.3	0.7	1.0
Botswana[b]	4.1	-1.7	2.9	4.0	4.2	4.3	-0.2	0.0	-0.1	0.0
Burkina Faso	4.0	4.0	5.4	6.1	6.3	6.3	0.2	0.6	0.3	0.3
Burundi	4.7	-3.9	-0.6	1.5	2.0	2.6	-0.1	-1.0	-1.5	-0.9
Cabo Verde	0.6	1.5	3.9	3.3	3.7	3.7	0.9	0.0	0.2	0.2
Cameroon	5.9	5.8	4.5	3.9	4.4	4.6	-1.1	-1.8	-1.7	-1.5
Chad	6.9	1.8	-7.0	0.2	3.2	3.1	-3.5	0.5	-1.5	-3.2
Comoros	2.1	1.0	2.2	3.3	4.0	4.0	0.2	0.8	1.0	1.0
Congo, Dem. Rep.	9.0	6.9	2.2	4.7	4.9	4.9	-0.5	0.0	-0.1	-0.1
Congo, Rep.	6.8	2.6	-2.1	1.0	1.5	1.5	-6.7	-3.3	-2.2	-2.2
Côte d'Ivoire	8.5	9.2	7.8	6.8	6.5	6.3	0.0	-1.2	-1.6	-1.8
Equatorial Guinea	-0.7	-8.3	-7.3	-5.9	-7.0	-6.0	-1.6	-0.2	-0.4	0.6
Ethiopia[b]	10.3	9.6	7.5	8.3	8.0	7.9	-0.9	-0.6	-0.6	-0.7
Gabon	4.3	4.0	2.3	1.3	2.4	2.9	-0.9	-2.5	-2.2	-1.7
Gambia, The	0.9	4.1	2.1	2.5	3.8	4.0	1.6	1.7	1.2	1.4
Ghana	4.0	3.9	3.6	6.1	7.8	6.2	0.0	-1.4	-0.6	-2.2
Guinea	0.4	0.1	4.6	4.4	4.6	4.6	-0.6	-0.2	0.0	0.0
Guinea-Bissau	2.5	4.8	4.9	5.1	5.1	5.1	0.0	0.0	0.0	0.0
Kenya	5.3	5.7	5.8	5.5	5.8	6.1	-0.1	-0.5	-0.3	0.0
Lesotho	4.5	1.6	2.5	3.0	3.4	3.6	0.1	-0.7	-0.6	-0.4
Liberia	0.7	0.0	-1.2	3.0	5.3	5.7	-3.7	-2.8	0.0	0.4
Madagascar	3.3	3.8	4.4	3.5	6.4	4.7	0.3	-1.0	1.6	-0.1
Malawi	5.7	2.8	2.5	4.4	4.9	5.3	0.0	0.2	0.4	0.8
Mali	7.0	6.0	5.6	5.3	5.2	5.1	0.0	0.2	0.2	0.1
Mauritania	5.6	1.4	2.0	3.5	2.7	4.6	-2.0	-0.7	-1.1	0.8
Mauritius	3.7	3.5	3.5	3.4	3.5	3.3	0.3	-0.1	-0.3	-0.5
Mozambique	7.4	6.6	3.3	4.8	6.1	6.7	-0.3	-0.4	-0.5	0.1
Namibia	6.5	5.3	1.2	3.0	4.0	4.2	-0.4	-2.0	-1.4	-1.2
Niger	7.0	3.6	4.7	5.2	5.5	5.5	-0.3	-0.1	-0.5	-0.5
Nigeria	6.3	2.7	-1.6	1.2	2.4	2.5	0.1	0.2	-0.1	0.0
Rwanda	7.0	6.9	5.9	6.0	6.8	7.0	-0.1	0.0	-0.2	0.0
Senegal	4.3	6.5	6.6	6.7	6.9	7.0	0.0	-0.1	-0.1	0.0
Seychelles	3.3	3.5	4.4	4.2	3.8	3.5	0.6	0.7	0.3	0.0
Sierra Leone	4.6	-20.6	5.0	5.4	5.6	5.9	1.1	-1.5	-0.3	0.0
South Africa	1.6	1.3	0.3	0.6	1.1	2.0	-0.1	-0.5	-0.7	0.2
Sudan	2.7	4.9	4.7	4.1	3.9	3.9	1.2	0.4	0.2	0.2
Swaziland	2.7	1.9	-0.6	1.7	3.1	3.2	0.3	-0.2	0.0	0.1
Tanzania	7.0	7.0	6.9	7.2	7.2	7.4	0.0	0.1	0.1	0.3
Togo	5.9	5.4	5.0	4.6	5.5	5.5	-0.4	-0.4	0.0	0.0
Uganda[b]	5.6	5.6	4.8	4.6	5.2	5.6	0.2	-1.0	-0.8	-0.4
Zambia	5.0	2.9	3.3	4.1	4.5	4.7	0.4	0.1	0.3	0.5
Zimbabwe	3.8	0.5	0.7	2.3	1.8	1.7	0.3	-1.5	-1.6	-1.7

Source: World Bank.

World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.

a. GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars. Excludes Central African Republic, São Tomé and Príncipe, Somalia, and South Sudan.

b. Fiscal-year based figures.

For additional information, please see www.worldbank.org/gep.