Abbreviations

BEAC	Bank of Central African States
CAPB	cyclically adjusted primary balance
CBRs	correspondent banking relationships
CEMAC	Economic and Monetary Community of Central Africa
EAC	East African Community
EMDEs	emerging market and developing economies
EMEDEV	all emerging market economies
GDP	gross domestic product
ICRG	International Country Risk Guide
LPM	local projections method
REO	Regional Economic Outlook (IMF)
SARB	South Africa Reserve Bank
SSA	Sub-Saharan Africa
SDGs	Sustainable Development Goals
WAEMU	West African Economic and Monetary Union
WEO	World Economic Outlook (IMF)

Acknowledgments

The October 2017 issue of the *Regional Economic Outlook: Sub-Saharan Africa* (REO) was prepared by a team led by Jaroslaw Wieczorek under the direction of David Robinson.

The team included Francisco Arizala, Romain Bouis, Paolo Cavallino, Wenjie Chen, Cristina Cheptea, Jesus Gonzalez-Garcia, Cleary Haines, Marwa Ibrahim, Lisa Kolovich, Yun Liu, Miguel Pereira Mendes, Nkunde Mwase, Monique Newiak, Friska Parulian, Axel Schimmelpfennig, Preya Sharma, Charalambos Tsangarides, Frank Wu, Keerthi Yellapragada, Mustafa Yenice, and Jiayi Zhang.

Specific contributions were made by Emre Alper, Karim Barhoumi, Lennart Erickson, Enrique Gelbard, Salifou Issoufou, Tunc Gursoy, Trevor Lessard, Daniela Marchettini, Edouard Martin, Cameron McLoughlin, Clara Mira, Koffie Nassar, Toomas Orav, Alun Thomas, Mauricio Villafuerte, and Aline Coudouel, and Emma Monsalve (both from the World Bank).

Natasha Minges was responsible for document production, with production assistance from Charlotte Vazquez. The editing and production were overseen by Linda Long of the Communications Department.

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 ¼ of 1 percentage point).

Executive Summary

THE QUEST FOR RECOVERY

The broad-based slowdown in sub-Saharan Africa is easing, but the underlying situation remains difficult. Growth is expected to reach 2.6 percent in 2017, but the pickup reflects mainly one-off factors, notably a recovery in oil production in Nigeria and the easing of drought conditions in eastern and southern Africa, and a somewhat improved external environment. Even with this uptick, growth will barely surpass the rate of population growth. While a third of the countries in the region continue to grow at 5 percent or more, in 12 countries, comprising over 40 percent of the region's population, income per capita is expected to decline. Growth in the region is expected to pick up further in 2018 and reach 3.4 percent, but ongoing policy uncertainty in Nigeria and South Africa hinders a stronger rebound, and growth is not expected to increase further in 2019. Many of the faster growing economies continue to be driven by public spending, with debt levels and debt service costs rising.

The external environment has improved, but the recovery remains modest and vulnerabilities are rising.

- Strengthening global growth, including in key trading partners such as China and the euro area, provides some positive tailwinds to growth in sub-Saharan Africa. In addition, increased appetite for yield has fostered a rebound in sovereign bond issuances by the region's frontier economies; however, low commodity prices continue to weigh on growth prospects for commodity exporters.

- Public debt as a share of GDP has increased since 2013 and is now above 50 percent of GDP in close to half of the region's economies. The number of low-income countries in debt distress or facing high risk of debt distress increased from 7 in 2013 to 12 in 2016, and all of the region's frontier markets or other countries with credit ratings, except Namibia, have been downgraded below investment grade. The debt increase has been driven by a widening in fiscal deficits, slow growth, the slump in commodity prices, and exchange rate depreciations in some countries. While current accounts have improved and exchange market pressures eased somewhat, international reserves are below adequacy levels in many countries.

Reflecting this buildup of vulnerabilities, downside risks dominate. Delays in implementing policy adjustments could reduce fiscal space for progrowth expenditures, crowd out private investment, and adversely impact the external sector. Elevated public debt levels raise concerns about debt sustainability in the region, while the spiraling banks-sovereign nexus could further strain the financial sector. Many countries also face risks stemming from the disruption in correspondent bank relationships.

In this context, implementing the fiscal consolidations planned in many countries, together with structural reforms to tackle constraints on growth, is the key policy priority.

Fiscal consolidation needs are largest and most pressing in the oil-exporting countries. In some cases (such as Angola) a considerable adjustment has already been made, mostly by cutting capital spending. Going forward, oil-exporting countries should focus on raising noncommodity revenues and targeted reductions in recurrent spending. Nevertheless, where consolidation is urgent, notably in oil-exporting countries, cuts in public investment may be unavoidable. Other countries also need to initiate fiscal consolidation, albeit to a smaller extent, focusing also on the composition and efficiency of spending.

Sub-Saharan African countries also need to implement structural reforms and seize opportunities to enhance growth above current projections through structural transformation and export diversification, including by improving access to credit, infrastructure, and the regulatory framework, and building a skilled workforce.

THE IMPACT OF FISCAL CONSOLIDATION ON GROWTH IN SUB-SAHARAN AFRICA

The second chapter examines the effects on output from changes in public expenditure and revenue in sub-Saharan African countries during 1990–2016. Past fiscal consolidations—defined as periods during which fiscal positions improved based on spending cuts or noncommodity revenue mobilization—have typically been associated with negative effects on output.

The estimated effects on output from changes in fiscal policy—fiscal multipliers—are generally smaller in sub-Saharan African economies than those identified in advanced or emerging market economies. On average in sub-Saharan Africa, fiscal consolidations based on reducing public investment have had the largest contractionary effect on output, those based on current spending cuts or on revenue mobilization, have smaller effects on output. However, the impact depends critically on country characteristics, the supporting policy environment, and the efficiency of spending and the strength of institutions.

These findings suggest that countries in the region should focus on revenue mobilization to mitigate the negative impact of fiscal consolidation on growth. However, as revenue mobilization takes time, cuts in expenditures may be unavoidable, particularly in countries facing an urgent need to undertake adjustment. In such cases, it is important to protect both key infrastructure spending, so as to not unduly constrain future growth prospects, and to place priority on social spending on health, education, and social safety nets in order to minimize impacts on lower-income households.

ECONOMIC DIVERSIFICATION IN SUB-SAHARAN AFRICA

The third chapter takes stock of progress with economic diversification in sub-Saharan Africa. The picture is not uniform. At the aggregate level, structural transformation has been slower than in other regions. Still, workers have moved from low-productivity agriculture into higher-productivity manufacturing and services jobs, contributing to overall productivity growth. Moreover, some of the region's other resource-intensive economies and non-resource-intensive economies have achieved export diversification at a similar pace as global peers. In contrast, the region's oil exporters have seen increased specialization, reflecting higher oil prices and new production.

Structural transformation and export diversification are positively associated with growth, in particular at early stages of development. Cross-country regressions suggest that macroeconomic stability, access to credit, good infrastructure, a conducive regulatory environment, a skilled workforce, and equality have been associated with higher economic diversification. Country case studies highlight the heterogeneity of growth experiences. A common element of successful policy interventions is that they build on a country's endowments and expand underlying capabilities. Addressing market failures can help, as can trade integration.