

World Economic and Financial Surveys

Regional Economic Outlook

Sub-Saharan Africa

Capital Flows and The Future of Work

.....

Oct 18

©2018 International Monetary Fund

Cataloging-in-Publication Data

Names: International Monetary Fund.

Title: Regional economic outlook. Sub-Saharan Africa : capital flows and the future of work.

Other titles: Sub-Saharan Africa : capital flows and the future of work. | World economic and financial surveys.

Description: Washington, DC : International Monetary Fund, 2018 | Oct. 18. | Includes bibliographical references.

Identifiers: ISBN 978-1-48437-539-6 (paper)

ISBN: 978-1-48437-776-5 (Web PDF)

Subjects: LCSH: Africa, Sub-Saharan—Economic conditions. | Economic development—Africa, Sub-Saharan. | Capital movements—Africa, Sub-Saharan.

Classification: LCC HC800 .R4 2018



The *Regional Economic Outlook: Sub-Saharan Africa* is published twice a year, in the spring and fall, to review developments in sub-Saharan Africa. Both projections and policy considerations are those of the IMF staff and do not necessarily represent the views of the IMF, its Executive Board, or IMF Management.

Publication orders may be placed online, by fax, or through the mail:

International Monetary Fund, Publication Services
P.O. Box 92780, Washington, DC 20090 (U.S.A.)

Tel.: (202) 623-7430 Fax: (202) 623-7201

E-mail : publications@imf.org

www.imf.org

www.elibrary.imf.org

Contents

Abbreviations	vi
Acknowledgments	vii
Executive Summary	ix
1. Recovery and Rising Risks	1
Macroeconomic Developments and Prospects	2
Balance Sheet Vulnerabilities Remain Elevated	6
Risks to the Outlook	9
Policies	11
References	21
2. Capital Flows to Sub-Saharan Africa: Causes and Consequences	23
Evolution of Capital Flows	25
Drivers of Capital Flows	28
Macroeconomic Consequences of Capital Inflows	30
Conclusion	33
References	35
3. The Future of Work in Sub-Saharan Africa	37
The Impact of Technological Change: Will Machines Replace Workers?	38
Scenario Analysis: Exploring the Future of Work in Sub-Saharan Africa	41
What Policies are Needed to Create Future-Proof Jobs?	43
Conclusion	48
References	49
Statistical Appendix	51
Boxes	
1.1. The Re-Emergence of Fuel (Energy) Subsidies in Sub-Saharan Africa	18
1.2. Market Developments in Sub-Saharan African Frontier Economies in Periods of Financial Volatility	19
1.3. Progress Toward the Sustainable Development Goals	20
3.1. Scenario 1: Africa Arisen	44
3.2. Scenario 2: Africa for Africa	45
3.3. Scenario 3: Africa Adrift	46
Table	
2.1. Volatility of Financial Flows	27

Figures**Chapter 1**

1.1. Global Growth Projections: Current versus April 2018	3
1.2. Selected Commodity Prices: Expected Changes Average 2019–20 versus 2017	3
1.3. Sub-Saharan African Frontier Market Economies: International Sovereign Bond Issuances, 2011–18	3
1.4. Sub-Saharan Africa: Real GDP Growth, 2013–22	4
1.5. Sub-Saharan Africa: Change in Employment	4
1.6. Sub-Saharan Africa: Reserve Buffers	5
1.7. Sub-Saharan Africa: Overall Fiscal Balance, 2017–18	5
1.8. Sub-Saharan Africa: Medium-Term Fiscal Plans, 2018–23	6
1.9. Sub-Saharan Africa: Gasoline Prices, April/May 2018	6
1.10. Sub-Saharan Africa: Debt Risk Status for PRGT Eligible Low-Income Developing Countries, 2008–17	7
1.11. Sub-Saharan African Countries at High Risk or in Debt Distress: Cumulative Contribution from Debt Decomposition, 2013–17	7
1.12. Sub-Saharan Africa: Average Fiscal Balance and Public Sector Debt, 2013–18	7
1.13. Sub-Saharan Africa: Public Sector Debt by Currency, 2011–17	7
1.14. Sub-Saharan Africa: Bank Nonperforming Loans to Total Loans	8
1.15. Sub-Saharan Africa: Private Sector Credit Growth	8
1.16. Sub-Saharan Africa: Banks' Holdings of Government Debt	9
1.17. Sub-Saharan Africa: Average Potential Impact on GDP of Trade Measures	9
1.18. Sub-Saharan African Frontier and Emerging Market Spreads, 2014–18	10
1.19. Sub-Saharan African Frontier Markets: Maturity of International Sovereign Bonds	10
1.20. Sub-Saharan Africa: Public Sector Debt to GDP, 2011–23	11
1.21. Sub-Saharan Africa: Internally Displaced Persons, 2010–17	11
1.22. Sub-Saharan Africa: Contribution to Current Account Adjustment, 2014–17	13
1.23. Deviation from Current Account Norm, 2018	13
1.24. Contribution of Oil Price Shock to Output Volatility by Economic Classification	15
1.25. Contribution of Oil Price Shock to Output Volatility by Degree of Diversification	15
1.26. Sub-Saharan Africa: Cyclicity of Fiscal Policy and Commodity Price Cycle	15
1.27. Selected Regions: Real GDP per Capita Growth, 2010–22	16
1.28. Expected Average GDP per Capita Growth and Initial Levels of GDP per Capita, 2018–22	16
1.29. Real GDP Growth Decomposition	16
1.30. Decomposition of Labor Productivity Growth: Between (Reallocation) and Within (Labor Productivity Gain in Each Sector) Components	17

Chapter 2

2.1. Sub-Saharan Africa: Financial Flows, 1980–2017	25
2.2. Sub-Saharan Africa and Emerging Markets: Net Financial Flows, 1980–2017	25
2.3. Sub-Saharan Africa: Liability Flows Before and After the Global Financial Crisis, 2000–17	26
2.4. Sub-Saharan Africa: Composition of Liability and Asset Flows, 1980–2017	26
2.5. Sub-Saharan Africa: Liability Flows, 1980–2017	27
2.6. Sub-Saharan Africa: Surges in Net Financial Flows, 1980–2017	27
2.7. Sub-Saharan Africa: Impact of External Factors on Direct and Portfolio Investment Liability Flows	28
2.8. Sub-Saharan Africa: Predicted Probability of Surge and Reversal and US Interest Rate	29
2.9. Sub-Saharan Africa: Predicted Probability of Surge and Reversal and Institutional Quality	30
2.10. Sub-Saharan Africa and Emerging Markets: Impact of Global Factors, 2000M1–17M12	31
2.11. Sub-Saharan Africa: Pre and Post-Global Financial Crisis Impact of Global Factors, 2000M1–17M12.....	32
2.12. Sub-Saharan Africa: Macroeconomic Consequences of Portfolio Inflows	33
2.13. Sub-Saharan Africa: Impact of Liability Flows on Domestic Investment	33

Chapter 3

3.1. Sectoral Shares in Total Employment, 1995 and 2017.....	38
3.2. Sub-Saharan Africa: Adoption of Connectivity Technologies, 1970–2010	39
3.3. Model Estimates for GDP per Capita	40
3.4. Model Estimates for Labor Share	40
3.5. Frey-Osborne-Based Index of Countries' Export Vulnerability to Automation	41
3.6. Brynjolfsson, Mitchell, and Rock-Based Index of Countries' Export Vulnerability to Automation	41
3.7. Proportion of Individuals Using the Internet, 2016	47
3.8. Monthly Cost of Fixed- and Mobile-Broadband Internet Connection, 2016	47
3.9. Primary Net Enrollment Rate, 1999–2014	47
3.10. Secondary Net Enrollment Rate, 1999–2014.....	47
3.11. Exports of Goods to Different Regions, 2017	48

Abbreviations

CEMAC	Economic and Monetary Community of Central Africa
ELA	emergency liquidity assistance
EMs	emerging markets
EMEs	emerging market economies
FDI	foreign direct investment
GDP	gross domestic product
GPS	global positioning system
ICRG	<i>International Country Risk Guide</i>
MDGs	Millennium Development Goals
MFI	microfinance institutions
MSMEs	medium-sized enterprises
NPLs	nonperforming loans
ODA	official development aid
PFM	public financial management
REO	<i>Regional Economic Outlook</i> (IMF)
SDGs	Sustainable Development Goals
SOEs	state-owned enterprises
SSA	Sub-Saharan Africa
TFP	total factor productivity
UN	United Nations
UNHCR	United Nations High Commissioner for Refugees
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs
US	United States
VAR	vector autoregression
VAT	value-added tax
VIX	CBOE Volatility Index
WAEMU	West African Economic and Monetary Union
WEO	<i>World Economic Outlook</i> (IMF)

Acknowledgments

The October 2018 issue of the *Regional Economic Outlook: Sub-Saharan Africa* was prepared by a team led by Papa N'Diaye under the direction of David Robinson.

The team included Aidar Abdychev, Cristian Alonso, Emre Alper, Francisco Arizala, Romain Bouis, Reda Cherif, Dominique Desruelle, Xiangming Fang, Jesus Gonzalez-Garcia, Cleary Haines, Siddharth Kothari, Yun Liu, Miguel Pereira Mendes, Nkunde Mwase, Mathilde Perinet, Mahvash S. Qureshi, Sidra Rehman, Axel Schimmelpfennig, Preya Sharma, Torsten Wezel, Jaroslaw Wieczorek, and Mustafa Yenice.

Specific contributions were made by Alberto Behar, Paolo Cavallino, Shirin Elahi, Tunc Gursoy, and Mauricio Villafuerte.

Charlotte Vazquez was responsible for document production, with production assistance from Krisztina Fabo. 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 $\frac{1}{4}$ of 1 percentage point).

Executive Summary

RECOVERY AND RISING RISKS

The macroeconomic outlook for sub-Saharan Africa continues to strengthen. Growth is expected to increase from 2.7 percent in 2017 to 3.1 percent in 2018, reflecting domestic policy adjustments and a supportive external environment, including continued steady growth in the global economy, higher commodity prices, and accommodative external financing conditions. Inflation is abating; and fiscal imbalances are being contained in many countries. Over the medium term, and on current policies, growth is expected to accelerate to about 4 percent, too low to create the number of jobs needed to absorb anticipated new entrants into labor markets.

However, there are concerns on the quality of the fiscal adjustment, and underlying vulnerabilities have yet to be decisively addressed.

- More progress on domestic revenue mobilization is needed to ensure debt sustainability and create fiscal space for much needed investment and development spending. The fiscal adjustment thus far largely reflects the oil price rebound for oil exporters coupled with sharp cuts in capital spending in several countries. With few exceptions, there has been relatively little progress in strengthening domestic revenue mobilization; many countries have delayed adjusting domestic fuel prices in response to the recent oil price increase, resulting in the re-emergence of energy subsidies; domestic arrears remain large, contributing to a buildup in nonperforming loans (NPLs); and, beyond the central government, state-owned enterprises (SOEs) are becoming a major fiscal risk in some countries.
- Financial sector vulnerabilities remain elevated with high NPLs weighing on banks' balance sheets and constraining credit to the private sector.
- On the external side, financial inflows were strong in the first half of 2018 with record issuances of Eurobonds but the recent turbulence in emerging markets has led to some increase in spreads. Reserve buffers have though, generally not been rebuilt and, in half of the countries in the region, remain below levels considered adequate.

The outlook is surrounded by significant downside risks. The global economy is entering a period of unusually elevated policy uncertainty; growth is already slowing in most advanced economies and could slow more sharply in the event trade tensions escalate; while spikes in commodity prices and populist pressures in the run-up to elections in several countries could derail consolidation efforts.

Shielding the recovery and creating enough jobs for the region to harness fully its demographic dividend would require strong, sustainable, and inclusive growth. Achieving this in turn would require policies to strengthen resilience and facilitate the reallocation of labor and capital into more productive sectors to lift incomes faster. These policies include steady fiscal consolidation to reduce debt vulnerabilities; advancing revenue mobilization; enhancing the efficiency of expenditures, in particular to address the re-emergence of wasteful energy subsidies; allowing greater exchange rate flexibility where institutional setups permit and barring balance sheets vulnerabilities; addressing growing financial sector weaknesses in a timely manner; and pursuing policies to foster private investment and enhance potential growth.

CAPITAL FLOWS IN SUB-SAHARAN AFRICA: CAUSES AND CONSEQUENCES

Cross-border capital flows to sub-Saharan Africa from nonofficial sources have increased sharply since the global financial crisis. Scaled by economic size, net capital flows to sub-Saharan Africa were higher than those to emerging market economies in recent years. Much of this increase has been driven by nonresident inflows—particularly portfolio flows. Empirical analysis shows that global factors, notably, United States interest rates, global risk aversion, and commodity prices, are important drivers of capital flows to sub-Saharan Africa. However, strong domestic fundamentals can help to mitigate the risks associated with volatile capital flows. The analysis also suggests that the domestic impact of capital flows depends on the type of flow. In general, portfolio flows tend to be more prone to moving the real exchange rate and output above trend, and to fuel credit growth—vulnerabilities that tend to raise the likelihood of a financial crisis. While, at least historically, portfolio flows have not been strongly associated with either domestic investment or growth, they do seem to boost public consumption (including social spending). By contrast, inward foreign direct investment appears to directly spur domestic investment, and in turn support economic growth. These findings indicate a complex relationship between external finance, domestic macroeconomic stability, and investment and economic growth in the region. Policymakers need to be prudent and ensure that the borrowed resources are used effectively, enhance productivity, and promote sustainable economic growth. Vigilance is also warranted against the buildup of macroeconomic and financial imbalances.

FUTURE OF WORK IN SUB-SAHARAN AFRICA

The current wave of technological advances is set to shake up the landscape for jobs across the world. Against this backdrop, how can sub-Saharan Africa create the 20 million jobs per year needed over the next two decades to absorb its growing workforce? This chapter focuses on how the current wave of technological innovation—the Fourth Industrial Revolution—will impact sub-Saharan Africa’s comparative advantage and the nature of work within countries in the region. It draws on formal economic models but also on scenario analysis, which allow consideration of how the course of global economic integration and the impact of climate change could shape economic opportunities and thus the future of work in sub-Saharan Africa. The overarching policy challenge is to support the new and emerging sectors that drive growth. If successful, sub-Saharan Africa can create jobs for its young and growing population and make progress toward meeting the Sustainable Development Goals. Development strategies must adapt to the demands and prospects of the Fourth Industrial Revolution. Integration and connectivity are the key pillars of successful growth policies. This includes traditional and digital infrastructure, an education system that keeps pace with changing skill requirements, smart urbanization, safety nets for a volatile labor market, and trade integration.