



IUMI 2018

Sub-Saharan Africa:

Medium term opportunities and risks

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17 September 2018

Introduction

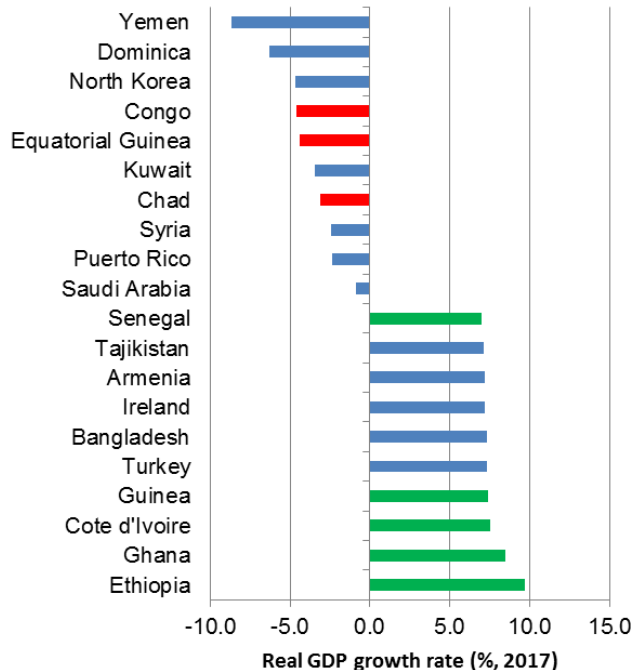
- Some Sub-Saharan African economies continue to record strong growth. Progress has been made in business policy reforms, fixed investment and human development. The Big-3 economies (South Africa, Nigeria and Angola) continue to be a drag on SSA growth.
- Export concentration remains high, leaving the current account and fiscal finances vulnerable.
- **Opportunities:** The Africa Continental Free Trade Agreement (AfCFTA) could boost growth over the longer-term. Challenges remain nonetheless.
- **Challenges:** The region is vulnerable to a rising debt burden and United States protectionism.

Sub-Saharan Africa: Moving forward



Sub-Saharan African countries rank among the fastest growing economies in the world during 2017

Top 10 best and worst performing economies during 2017

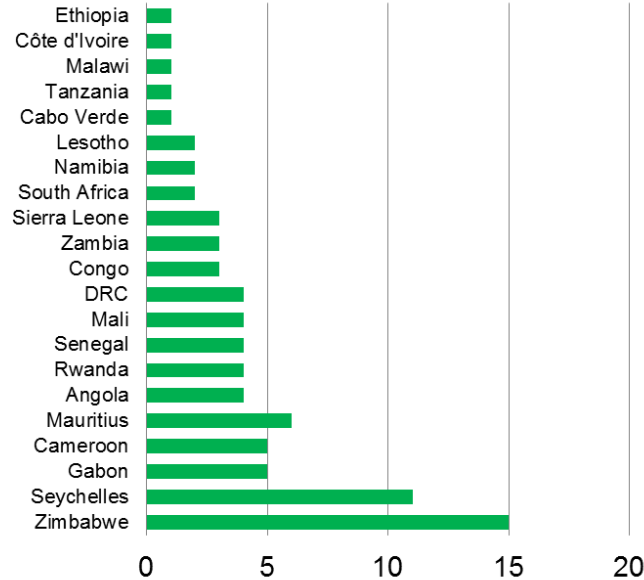


Source: IHSM

- Strong recovery in agricultural production, FDI inflows and diversification of the economy support **Ethiopia's** GDP growth.
- **Ghana's** economy sustains robust growth, mainly boosted by dynamism in key services sector, continued investment in the crude oil and gas sector and business policy reforms.
- Growth in **Cote d'Ivoire** finds support from strong public sector investment and business policy reforms.
- Strong mining sector investment leaves **Guinea's** growth elevated. A low base in the aftermath of the Ebola crisis adds to the growth momentum
- Improved business confidence, increased investment, and broad-based contributions from sectors including agriculture and services underscores **Senegal's** growth.

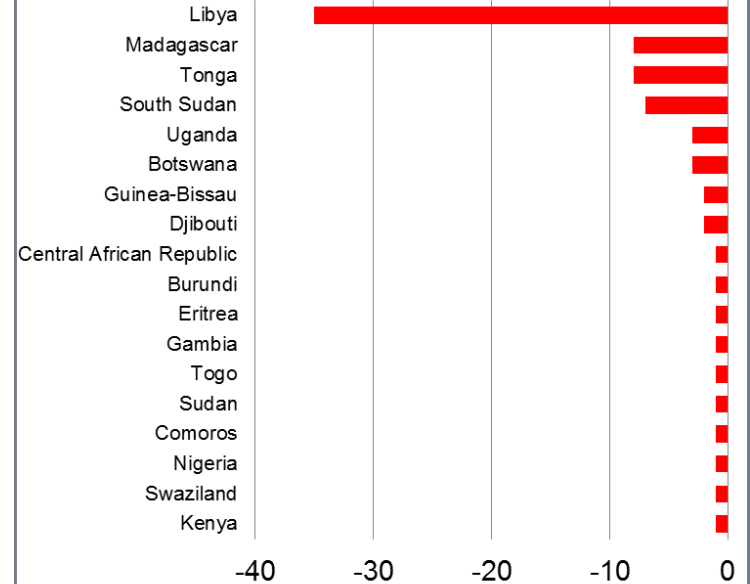
Sub-Saharan Africa makes progress in human development

Change in Human Development Index (2015 vs 2010)



Source: UNDP

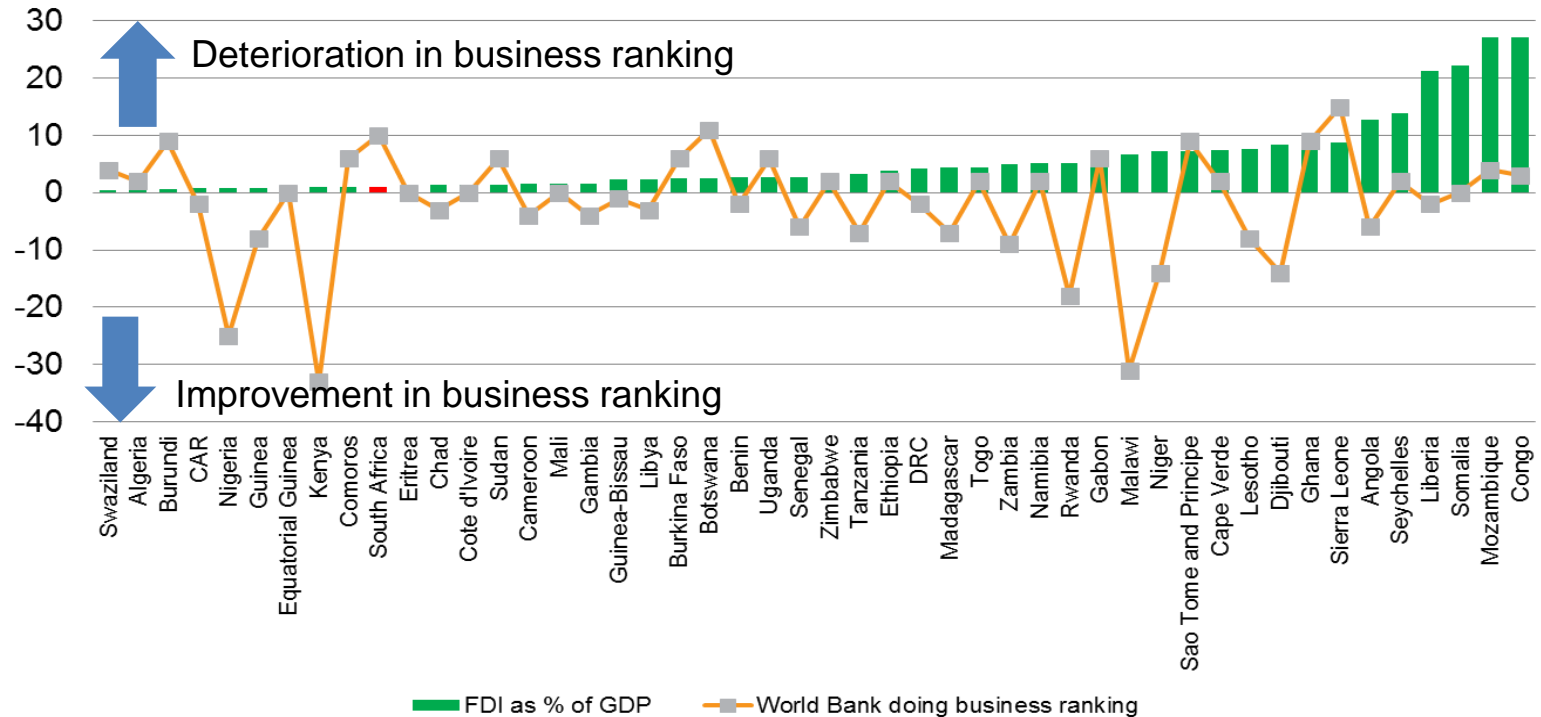
Change in Human Development Index (2015 vs 2010)



Source: UNDP

Sub-Saharan Africa makes progress in business policy reforms

FDI inflows as % of GDP (2014-2016) vs Change in World Bank Doing Business Ranking (2017-2015)



Sub-Saharan Africa: Opportunities



Current trade channels in SSA dominated by sub-regional trading channels



Most likely to generate spillovers

More likely to generate spillovers and suffer from spill overs

Most likely to suffer from spillovers

Source: IMF

- Intra-Africa trade remains low, at 15% of total trade.
- Regional trade is concentrated at sub-regional levels, suggesting that member states of trade blocs trade amongst themselves, while trading with the rest of SSA remains limited.
- The high level of sub-regional trade leaves countries vulnerable to spillover effects of dominant economies.
- Geographical proximity, infrastructure constraints, regional trade agreements and lower non-tariff barriers within sub-regions.
- South Africa remains the Intra-Africa trade leader, accounting for 24% of Intra-Africa trade. Namibia and Nigeria take second and third place.
- Food, fuel, manufactured goods (primarily textiles) trade across borders.

The Africa Continental Free Trade Area (AfCFTA)

Phase 1

Protocol on Trade in Goods

- Tariff liberalization
- Non-tariff barriers
- Rules of Origin
- Customs Cooperation
- Trade Facilitation and Transit
- Trade remedies
- Product standards
- Technical regulations
- Technical assistance, capacity building and cooperation

Protocol on Trade in Services

- Transparency of service regulations
- Mutual recognition of standards, licensing and certification of suppliers
- Progressive liberalization of services
- Treatment of foreign service suppliers in liberalized sectors
- Provision of security exceptions

Protocol on Dispute Settlement (to be agreed)

Source: AU, Afreximbank

Phase 2

Protocol on intellectual Property Rights (to be agreed)

Protocol on investment (to be agreed)

Protocol on Competition Policies (to be agreed)

Next steps.....

- Members must submit schedule of concession for products on which 90% of their tariff lines will be eliminated.
- Members must identify nine priority services sectors that could be liberalized
- AfCFTA will enter into force once 22 Member States have submitted their instruments of ratification
- Phase 2 of the AfCFTA to commence before end-2018

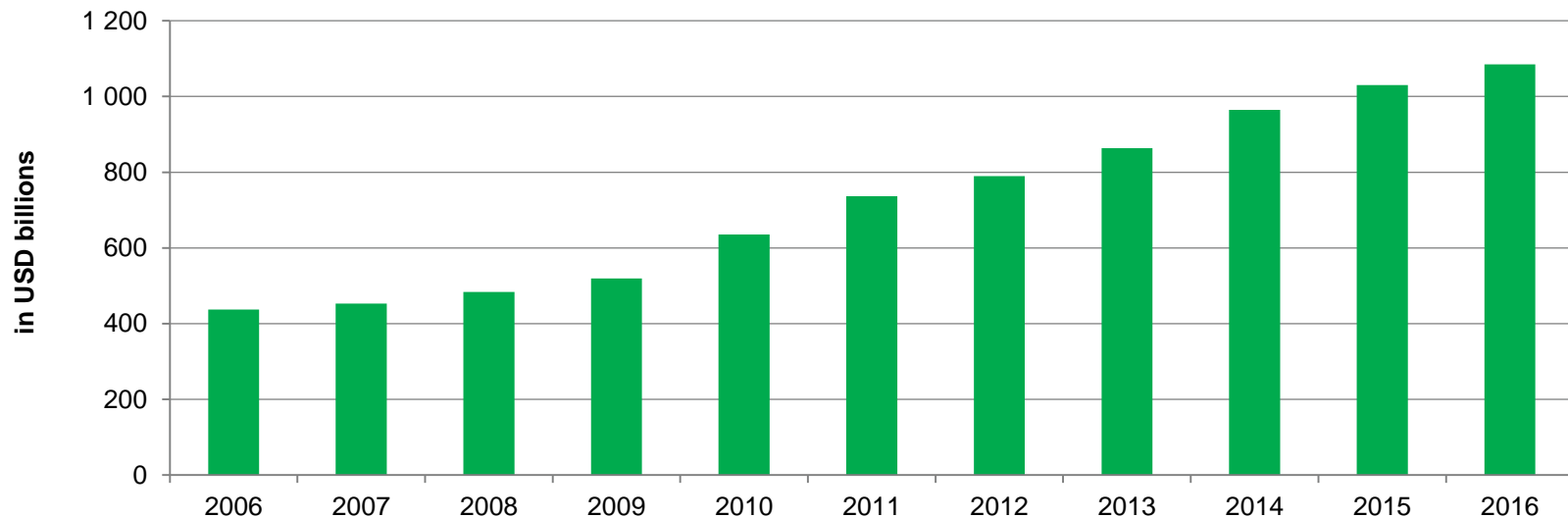


Sub-Saharan Africa: Challenges



Africa's total public sector debt nearly trippled between 2006 and 2016

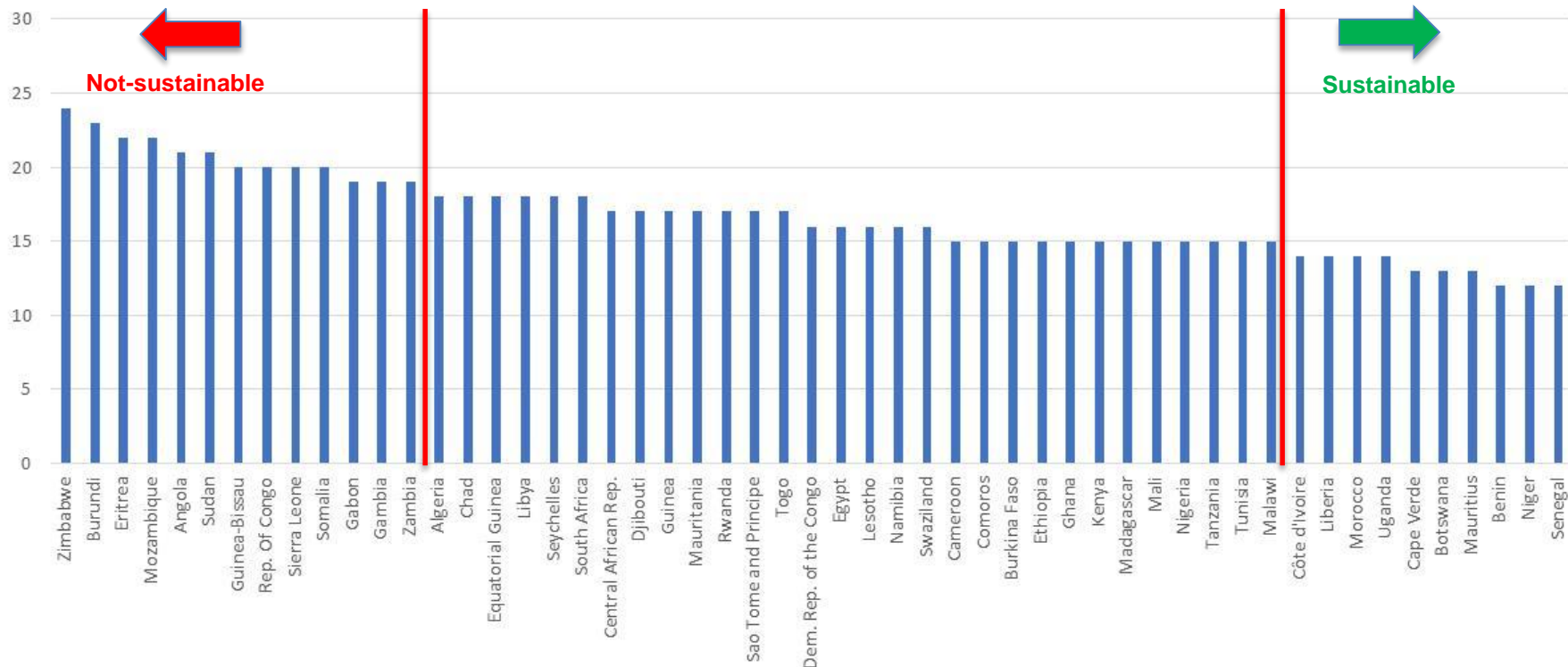
Total Public debt in USD billions (domestic + external)



Source: IHS Markit, IMF

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IHSM's comprehensive debt analysis reveals material risk for certain countries in the region



Sustainability ranking based on weighted real GDP growth expectations, debt holdings, CA (plus net FDI), commodity price dependency, debt roll-over, political governance, readiness to engage with creditors, special qualifiers. Analysis done in March 2018 .

US protectionism scenario: Impact of a trade war between the US and countries with which the US has a merchandise trade deficit

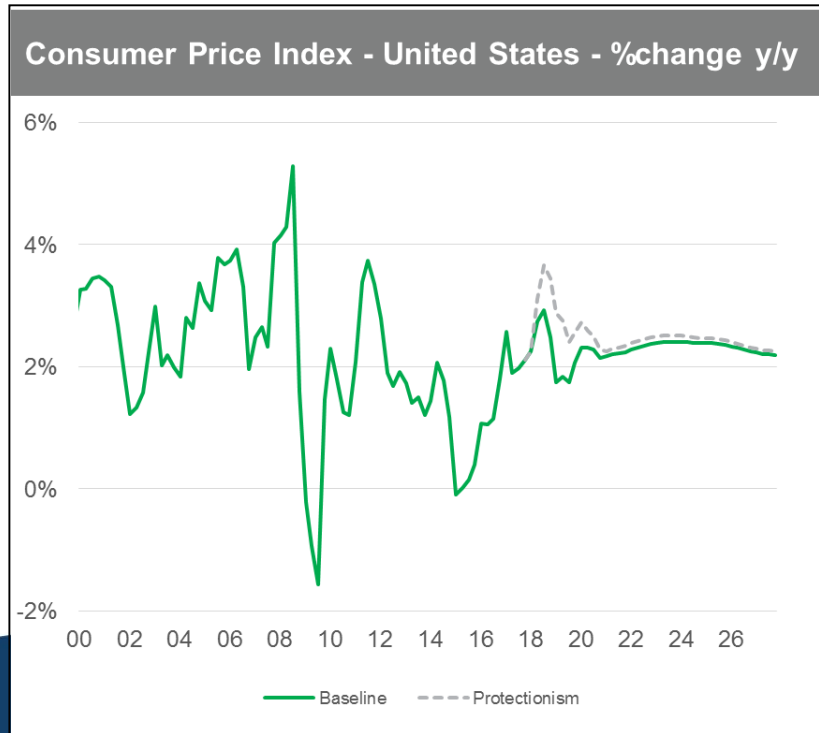
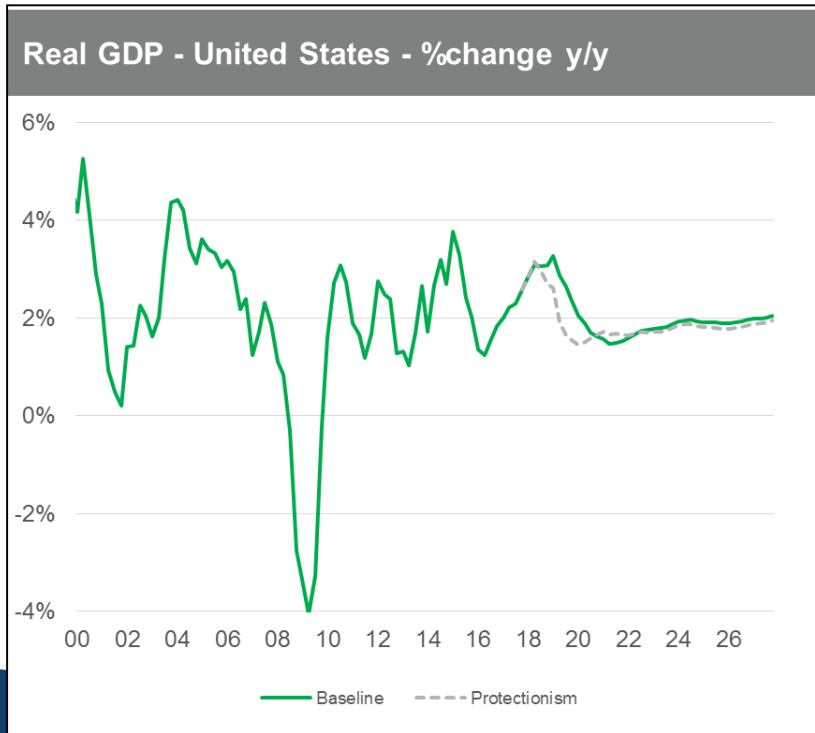
- Starting in 2018-Q3, the US imposes tariffs on a variety of products from all countries with which the US runs a merchandise trade deficit.
- The countries retaliate by imposing a similar tariff on imports from the US.
- The Federal Reserve (Fed) responds to the higher domestic inflation in the US by stepping up monetary policy tightening.
- Foreign investment in emerging markets targeted by the US slows, as these become less attractive outsourcing locations under restricted access to the US market.
- China chooses not to devalue the renminbi, but rather tightens capital controls to avoid massive capital outflows.
- There is no currency war in Asia, but financial stress increases and equity prices fall globally, adversely affecting investment and wealth.

US protectionism scenario: the US imposes tariffs on all countries with which it runs a merchandise trade deficit; targeted countries retaliate by imposing the same average tariff

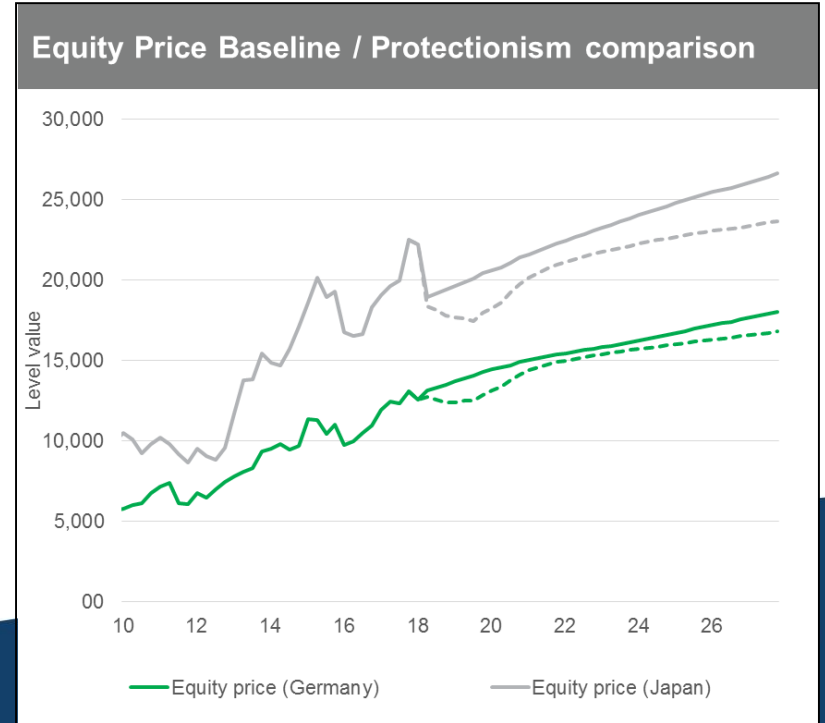
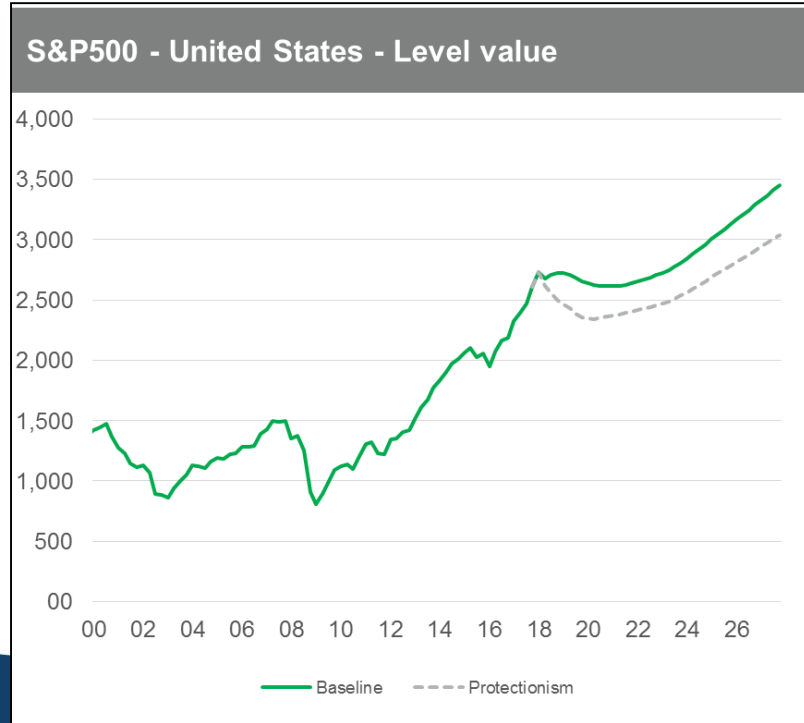
	Average tariff assumed
China	10.6%
Japan	7.2%
Canada	0.8%
Mexico	3.2%
Vietnam	11.7%
Malaysia	9.4%
India	6.7%
South Korea	4.6%
Thailand	9.3%
Taiwan	5.7%
Indonesia	9.4%
European Union	5.2%
Switzerland	6.3%
Russia	8.4%
Venezuela	9.4%
Nigeria	10.0%

- The US is assumed to impose tariffs on a variety of products imported from countries with which it runs a trade deficit (with the exception of Israel).
- On average, the new tariffs raise US goods import prices by 6%, before spillover effects.
- The tariff aims at reducing each bilateral trade deficit by 5%, before indirect effects are taken into account.

US protectionism scenario: US real GDP growth slows significantly, while CPI inflation approaches 3%

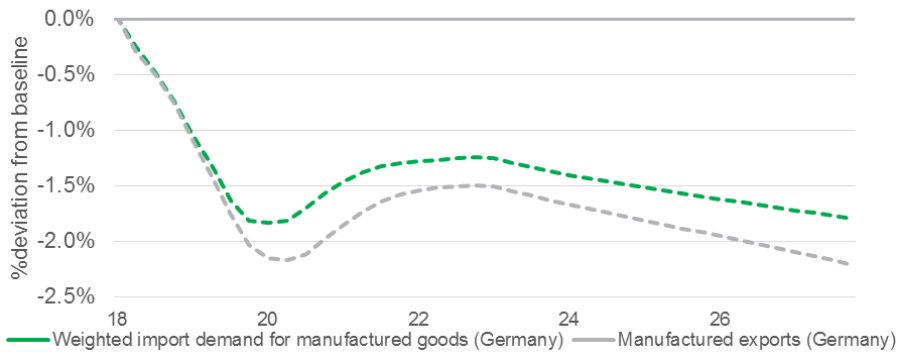


US protectionism scenario: as profits take a hit while interest rates rise, equity prices fall in the US, triggering a stock market correction globally

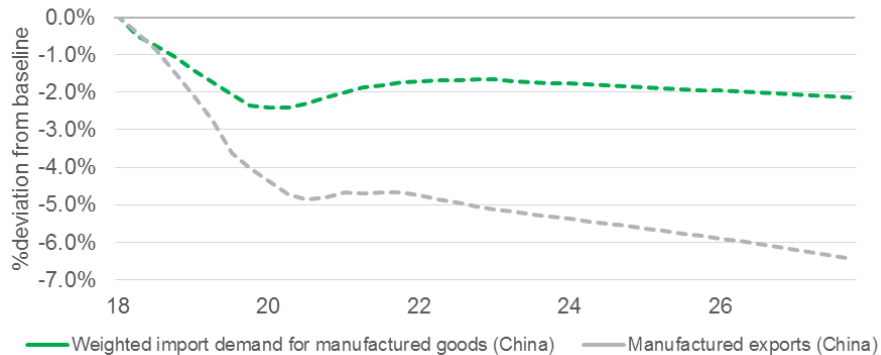


US protectionism scenario: the fall in imports resulting from US protectionism and retaliation leads to lower global import demand and thus lower exports

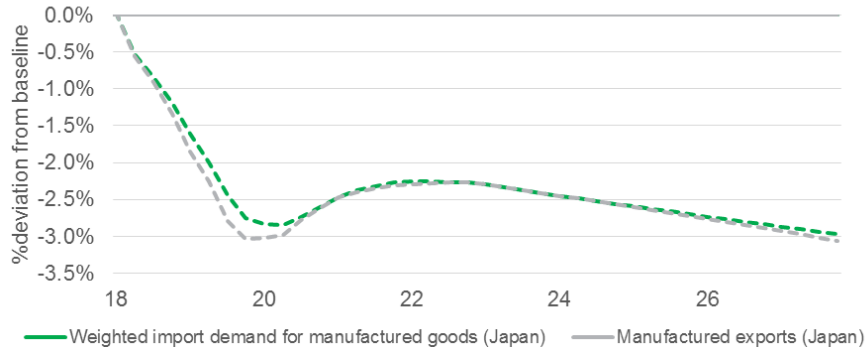
Germany



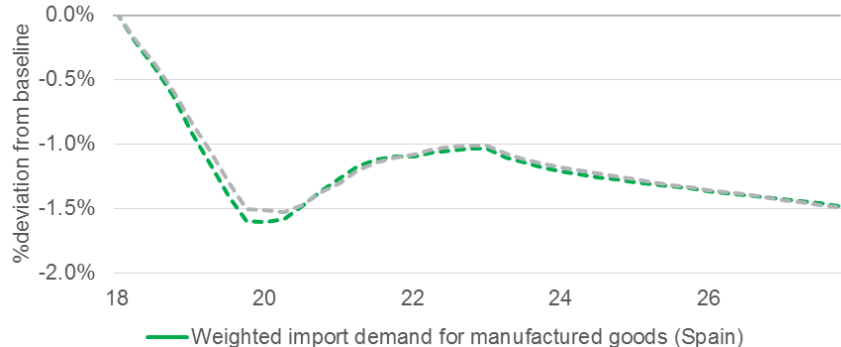
China



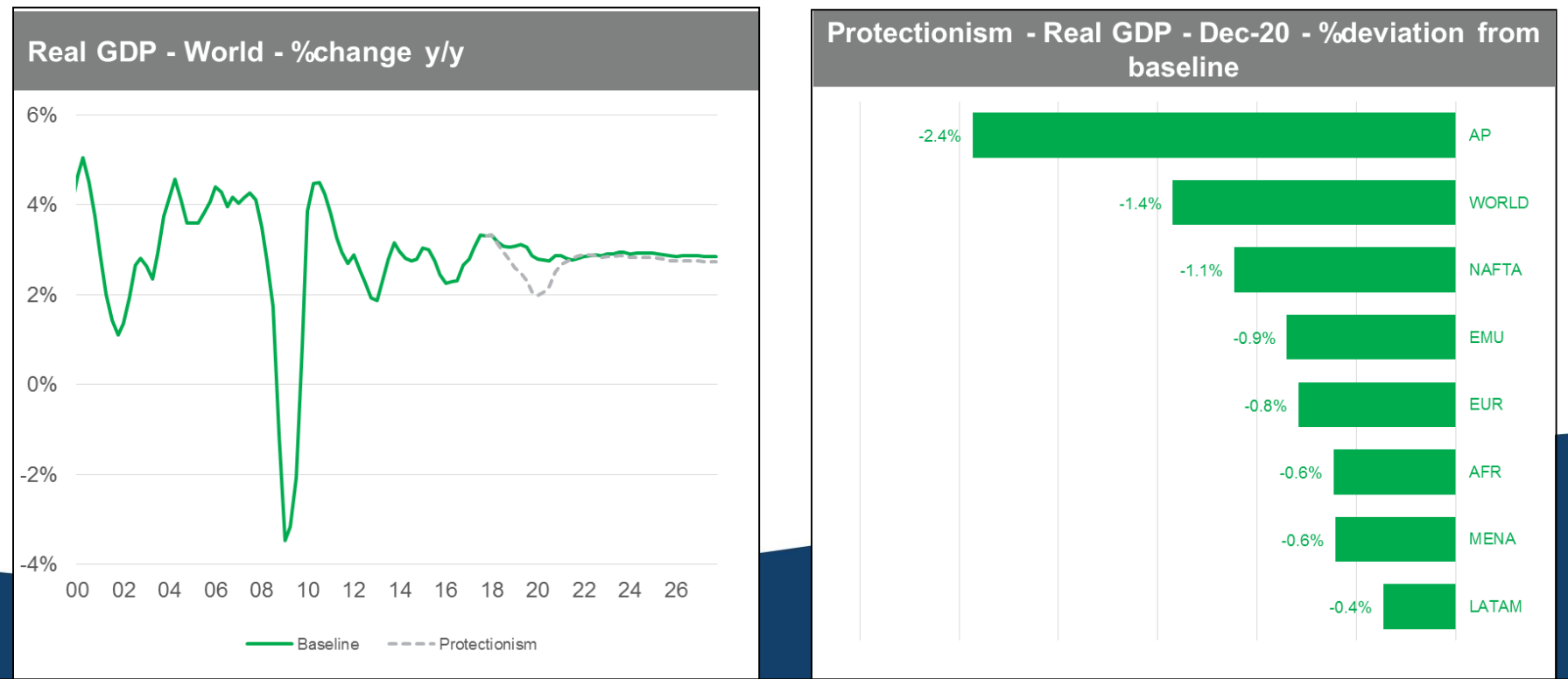
Japan



Spain



US protectionism scenario: world real GDP growth slows significantly in the early years of the protectionism scenario. Asia and NAFTA are the most affected regions.



CONCLUSION

- Business policy reforms, fixed investment and human development momentum boosted growth in Sub-Saharan African economies.
- The region could benefit from the Africa Continental Free Trade agreement assuming non-tariff barriers are lowered, infrastructure improves and actual implementation succeeds.
- Weaker currencies shielded external accounts but added to fiscal pressures due to the higher external debt burden. Debt sustainability has become a key issue for some countries in the region.
- Possible increased protectionism from the US could reduce Africa's growth by 0.6 percentage points over the medium term.

THANK YOU

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