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Sub-Saharan Africa: Regional Economic Outlook

Growth in sub-Saharan Africa should reach 6 percent in 2007 and $6\frac{3}{4}$ percent in 2008, both slightly lower than projected in the April Regional Economic Outlook but up from about $5\frac{1}{2}$ percent in 2006. And inflation (excluding Zimbabwe) should average $7\frac{1}{2}$ percent in 2007—with 32 out of 44 countries in single digits—and $6\frac{3}{4}$ percent in 2008. This would extend a period of very good performance. In recent years the region has seen its strongest growth and lowest inflation in more than three decades.

Internal and external factors are at work. Internally, domestic investment and productivity have risen as many sub-Saharan African countries have worked to stabilize their economies and to see reforms through. Externally, strong global demand for commodities, greater flows of capital to Africa, and debt relief have helped increase resources and lift growth across sub-Saharan Africa.

The region looks well-poised to sustain its growth momentum. Historically, because of commodity price swings and other shocks, as well as institutional weakness, growth episodes in sub-Saharan Africa have often ended with a dramatic collapse in output. This time, though, many oil exporters that have benefited from higher fuel prices have also saved more of the windfall and improved their policies, while many other countries have also continued to grow, even as their terms of trade have stagnated or deteriorated. The strong growth in the region reflects the institutional improvements, structural reforms, and more rigorous economic policies that have started to bear fruit in many countries. The number of armed conflicts and extent of political instability have also declined. Thanks to the region's better economic conditions and greater stability, investment is rising, economic growth is strengthening, and income volatility is falling. Sustaining the expansion will require renewed efforts to pursue structural and institutional reforms that create conditions for a more dynamic private sector and increase productivity.

Nevertheless, there are risks to the region's outlook, not the least of them the turbulent conditions in the financial markets, which have introduced greater uncertainty into the global

economy outlook. To date, however, IMF analysis suggests that the market turbulence will only moderately reduce global economic growth in 2008. As long as global growth remains robust, as expected in the baseline WEO scenario, the economic impact of the financial market turbulence on sub-Saharan Africa should be limited.

Having successfully stabilized their economies, many sub-Saharan African countries have been increasingly reorienting fiscal policies toward promoting economic growth and poverty reduction. Experience from five countries in sub-Saharan Africa in creating and using this so-called “fiscal space” to accelerate progress towards the Millennium Development Goals suggests some lessons: First, domestic revenue mobilization has clear advantages as a source of fiscal space for countries with a low revenue share in GDP, but the required institutional reforms take time to implement, and should, therefore, be given priority. Second, improving the efficiency of expenditures is key, but a large reform agenda remains for many countries. Third, frontloading productivity-enhancing expenditures can help mitigate the possible adverse impact of aid inflows on external competitiveness. Fourth, more needs to be done to anchor fiscal policy decisions in a medium-term framework; only a few countries have in place frameworks that provide a link to government objectives and include detailed costing of sector specific programs while accounting for recurrent cost implications. The Fund policy advice and capacity building is helping countries create and make effective use of fiscal space to promote growth and poverty reduction.