Sub-Saharan Africa: Recent Trends and Prospects

Findings from *Africa’s Pulse*, April 2018

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Outline

- Rebound in growth in SSA
- Challenges facing the region: Emerging debt risks
- Leveraging technology for growth: Accelerating electricity access
Favorable global conditions

Global GDP Growth

Commodity prices

Capital flows to EMDEs

Source: Africa's Pulse
Recovery in growth in SSA, but the pace is moderate

Source: Africa's Pulse.
GDP growth has not kept pace with population growth

Real GDP Per Capita Growth

Source: Africa’s Pulse.
Economic resilience varies across countries

Growth performance by country groups

Source: Africa’s Pulse
Exports of many African countries are highly concentrated in few commodities, leaving the region vulnerable to terms-of-trade shocks.

Export Concentration Ratio, 2014

Note: Export concentration is measured by the Herfindahl index; the range of the index is 0 – 100, with higher values indicating higher extent of concentration.
Bond and equity flows are rising, attracted by yields

**Capital flows to SSA**

**Sovereign Bond Spreads**

Source: Africa’s Pulse
Price pressures have eased

Inflation

Real Effective Exchange Rates

Source: Africa’s Pulse
Fiscal deficits are narrowing, but remain elevated

Source: Africa’s Pulse
Tax revenues lag expenditures, and are procyclical

Composition of tax revenues in SSA

Composition of noninterest government expenditure in SSA

Source: Africa’s Pulse.
Challenges facing the region: Emerging debt risks
Public debt is rising; the increase is most pronounced in oil exporters

Trends in public debt

Public debt by resource abundance

Source: Africa’s Pulse.
Composition of public debt is changing; the share of domestic currency debt is growing

Domestic currency public debt

Foreign currency public debt

Source: Africa’s Pulse.
Composition of public debt is changing, reflecting more market-based sources of financing

Concessional Debt in SSA as percentage of PPG External Debt

Composition of PPG external debt over time

Source: Africa’s Pulse.
African countries are tapping international bond markets, raising countries' exposure to market risks

Selected international bond issuances of LICs and MICS in SSA

Maturing international bonds in SSA (US$, billions)

Source: Africa’s Pulse.
Emerging debt risks underscore the need for prudent debt management

Evolution of debt risk: LIC DSF Countries in SSA

Source: Africa’s Pulse.
Leveraging technology for growth: Accelerating electricity access
Electricity access in SSA is the lowest of any developing region

Fossil fuels are the main source of electricity generation in SSA

Sources of electricity generation

Prevailing tariff structures do not cover costs

Net revenue per unit (2014, US$ per kilowatt hours)

Boosting electrification in SSA by leveraging technology

Technical innovations, especially in solar power, provide the possibility for faster progress in electricity provision by complementing grid expansion with mini-grids and home-scale systems.

Solar home systems
- Substantial cost reductions from rapid technological improvements in home-scale solar power production offer opportunities to improve the lives of people without access to electricity in more lightly populated rural and remote areas of Sub-Saharan Africa.
- But home systems in themselves cannot do much to increase incomes and employment, given the limited quantities of electricity they provide compared with the electricity needed for most productive uses.

Mini-grids
- Mini-grids using solar power also have benefited from the rapid and substantial advances in solar power technology. Accordingly, mini-grids are a very interesting possibility for scaling up electricity availability in areas where grid extension is costly or can only be accomplished some ways into the future.
- Although there has been limited investment in mini-grids so far in Sub-Saharan Africa outside Tanzania, several other countries, including Nigeria and Rwanda, have been undertaking significant regulatory reforms to lower barriers to mini-grid investment. A major challenge for inducing private sector mini-grid investment is confidence with respect to cost recovery, and what happens to mini-grid assets when the grid begins to penetrate its service territory.
Improved governance of the electricity sector is a prerequisite, regardless of the technical configurations used to expanding access to electricity in Sub-Saharan Africa. This includes,

• rationalizing electricity pricing
• reducing regulatory barriers that limit private sector investment in grid or off-grid power production
• making utility operations more efficient transparent
• fostering more independent sector regulation
THANK YOU