

SUB-SAHARAN AFRICA



Economic activity in Sub-Saharan Africa slowed to 3.4 percent in 2015 from 4.6 percent the previous year. A combination of external and domestic factors was responsible for the slowdown. External factors included lower commodity prices, a slowdown in major trading partners, and tightening borrowing conditions. Domestic factors included political instability and conflict, and electricity shortages. In 2016, GDP growth is projected to pick up to 4.2 percent, as commodity prices stabilize and supply constraints ease. Nonetheless, risks remain tilted to the downside. Domestic risks include political uncertainty associated with upcoming elections and the Boko Haram insurgency. In addition, power shortages might not ease as the forecast assumes. External risks include the possibilities of a further drop in commodity prices, a faster than expected slowdown in China, and a decline in capital flows as the United States normalizes monetary policy. Rising fiscal and external vulnerabilities, and domestic constraints to growth, pose challenges for policy, particularly among commodity exporters, where extreme poverty rates remain very high.

Recent developments

Economic activity in Sub-Saharan Africa (SSA) decelerated from 4.6 percent in 2014 to 3.4 percent in 2015, the weakest performance since 2009, due to a combination of external shocks and domestic constraints (Table 2.6.1). The slowdown was most pronounced among oil exporters. In Nigeria, the region's largest economy and oil exporter, growth slowed to 3.3 percent, down from 6.3 percent in 2014. Growth moderated in several mineral and metal exporters – including Mauritania, South Africa, and Zambia (Table 2.6.2). In South Africa, the economy expanded by 1.3 percent, compared with 1.5 percent in 2014. With the Ebola crisis receding, activity rebounded somewhat in Liberia, but remained weak in the other affected countries (Guinea, Sierra Leone) with GDP falling sharply in Sierra Leone as mining production contracted. Activity weakened substantially in Burundi and South Sudan amid political instability and civil strife. However, in other countries, including low-income ones and some fragile states—Côte d'Ivoire, Rwanda, and Tanzania—growth remained robust,

reflecting lower exposure to the commodity slowdown, and tailwinds from large-scale infrastructure investment.

Following their sharp decline in 2014, commodity prices weakened further in 2015 (Figure 2.6.1A). The prices of oil and metals, such as iron ore, copper, and platinum, declined substantially. Those of some agricultural commodities, such as coffee, fell moderately, although the prices of cocoa and tea showed small gains. The region's pattern of exports makes it particularly vulnerable to commodity price shocks. Fuels, ores, and metals accounted for more than 60 percent of the region's total exports in 2010-14 compared with 16 percent for manufactured goods (Figure 2.6.1B).

Lower commodity prices obliged a fiscal tightening in several commodity exporters, which caused a sharp slowdown. Angola and Nigeria are heavily dependent on oil for fiscal revenues and reserves—oil accounts for more than 60 percent of their fiscal revenues and more than 80 percent of exports. Governments in the two countries reduced expenditures sharply, which adversely impacted other areas of their economies. The decline in metal prices hit Mauritania and Zambia

Note: The author of this section is Gerard Kambou. Research assistance was provided by Xinghao Gong.

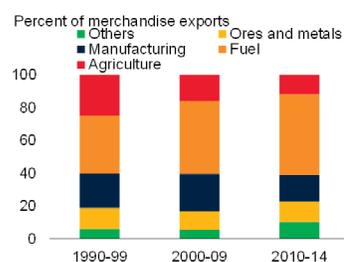
FIGURE 2.6.1 Commodity market developments

Following sharp declines in 2014, commodity prices weakened further in 2015. Expectations of slower global growth and abundant supplies led to a renewed plunge in the price of oil. The prices of ores and metals, such as iron ore, copper, and platinum, also declined substantially. With fuels, ores, and metals accounting for more than 60 percent of its exports, the region is particularly vulnerable to commodity price shocks.

A. Commodity prices



B. Share of commodities in SSA exports



Source: World Bank, World Integrated Trade Solutions database, 2015.

hard, as low prices of copper and iron ore prompted mining companies to reduce production and to delay planned investments; exports, employment, and domestic spending fell. Exporters of agricultural commodities, which include many of the region's low-income countries, experienced a less pronounced slowdown in activity as a result of the relatively moderate decline in the price of their exports.

Low commodity prices reflected weak global demand for raw materials, including from large developing countries where growth has continued to slow. Most importantly, the region has had to deal with a pronounced slowdown in major trading partners. SSA's external trade has undergone a shift in direction towards China and away from traditional advanced country trading partners, driven by China's demand for primary commodities (Box 2.6.1). As SSA's largest national trading partner, China's rebalancing away from raw material-intensive sectors has direct implications for the region. In addition, foreign direct investment flows from China have grown rapidly in recent years and are important for several countries (e.g., Zambia and South Africa), although the United States and the Euro Area still remain the largest sources of FDI in the region. Spillovers from China's slowdown are likely to be transmitted to countries in SSA through trade and financial channels. World Bank estimates suggest

that these effects could be sizeable and have likely contributed to the ongoing slowdown in the region.¹

Capital flows to the region slowed in 2015, as cross-border bank lending declined (Figure 2.6.2A). Many countries tapped the international bond market to finance their investment programs, taking advantage of the global low-interest-rate environment, and investors' search for yield. Côte d'Ivoire's sovereign bond issuance in February was followed by five other countries – Gabon, Zambia, Ghana, Angola, and Cameroon – with Angola and Cameroon issuing maiden 10-year bonds. Yields were higher than in previous issuances, however. They exceeded 9 percent in several countries and 10 percent in Ghana. Sovereign spreads rose across the region (Figure 2.6.2B). This indicates a re-assessment of risk among sovereign-debt investors as global headwinds, and the expectation of a rate hike by the U.S. Federal Reserve that materialized in December, weigh on the region. Increased foreign exchange liabilities, which leave many countries vulnerable to the risk that future currency depreciation could pressure debt servicing costs, would be a factor in this re-assessment.

The external headwinds of low commodity prices, of a slowdown in major emerging markets, and rising borrowing costs were compounded by domestic problems. These included severe infrastructure constraints, especially power supply, in several countries. The slowdown in Nigeria was accounted for by non-oil sectors (Figure 2.6.3A). A large part of the slowdown in manufacturing was oil-related as oil refining recorded a steep decline. However, the pronounced contraction of manufacturing in the first half of 2015 also reflected Nigeria's huge infrastructure and electricity deficits, which are impairing factory operations. In South Africa, power supply bottlenecks, compounded by a severe drought and difficult labor relations, weighed heavily on growth (Figure 2.6.3B). Insufficient power supply

¹A recent World Bank study (Lakatos et al. 2015) finds that a slowdown in China's GDP growth to an average of 6 percent per year over 2016-30 and to 4.6 percent in 2030 could result in a GDP loss in Sub-Saharan Africa of 1.1 percent compared with the baseline by 2030.

emerged as a leading constraint to activity in a number of frontier markets, including Botswana, Ghana, and Zambia. In some countries (Botswana, Zambia), shortages of hydroelectric power were due to drought; in others, they were driven by underinvestment in new capacity (South Africa), and lack of reforms to encourage private investment (Ghana, Nigeria).

The growth slowdown was associated with mounting fiscal vulnerabilities in a number of countries. Fiscal deficits widened in oil exporters (Republic of Congo, Gabon, Nigeria) due to falling revenues. In other countries, the widening deficits reflected increased government spending, including on arrears (Zambia), infrastructure projects (Kenya), and subsidies (Malawi). Some countries (Angola, Ghana) implemented expenditure measures – including removing fuel subsidies and freezing public sector hiring – that reduced the deficits. In many countries, fiscal deficits are larger relative to GDP than they were at the onset of the global financial crisis (Figure 2.6.4A). As a result, government debt ratios have continued to rise (Figure 2.6.4B). While debt-to-GDP ratios remain manageable in most low-income countries, they rose rapidly in several frontier markets, led by non-concessional borrowing. By contrast, Nigeria's sovereign debt has remained low, at less than 15 percent of GDP.

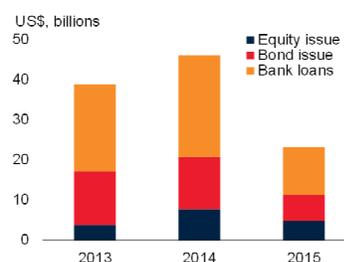
External imbalances widened across the region. Current account balances turned sharply negative in Angola and Nigeria due to lower oil prices. Deficits remained large among oil importers because of low commodity prices and rising non-oil imports. In Kenya, the current account deficit remained high as security concerns weighed on tourism earnings. In South Africa, in contrast, the current account deficit narrowed on the back of export growth. In addition, the depreciation of the rand partly offset the decline in commodity prices. In Ghana, Kenya, and Namibia, the twin fiscal and current account deficits have remained large.

High fiscal and current account deficits, combined with strong demand for the U.S. dollar, kept currencies under pressure. Currencies of commodity exporters and frontier-market economies saw sharp depreciations against the U.S. dollar. However, because of inflation, the

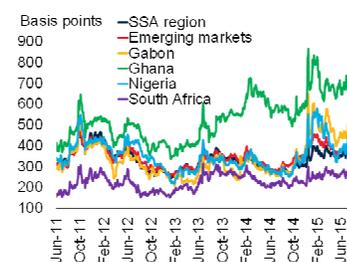
FIGURE 2.6.2 Capital market developments

Capital flows to the region slowed in 2015, led by reduced cross-border bank lending. Several countries tapped the international bond market, taking advantage of the global low-interest rate environment and investors' search for yield. However, yields were higher, as sovereign spreads rose, reflecting a re-assessment of risk by investors as headwinds, and expectations of interest rate increases in the U.S., weighed on the region.

A. Capital flows



B. Sovereign bond spreads



Source: Dealogic, Bloomberg.

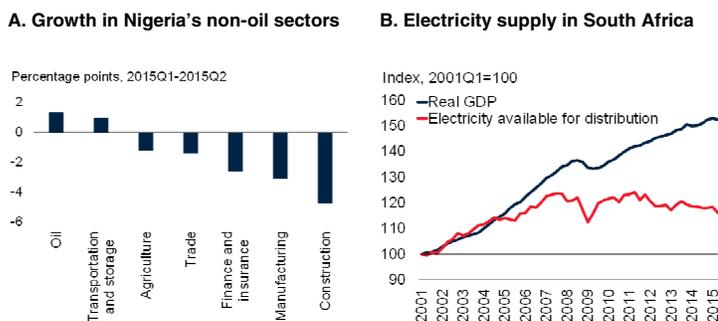
A. Data for 2015 are from January to September.

average movement in real effective exchange rates across the entire region was relatively small (Figure 2.6.5A). The Ghanaian cedi weakened the most, by more than 30 percent, in large part because of loose monetary and fiscal policies, followed by the South African rand. The Nigerian naira was about 5 percent stronger than its 2014 average. Early in 2015, the Central Bank of Nigeria introduced a range of administrative measures to stem the demand for foreign currencies. These measures have hampered private sector activities. A severe liquidity squeeze emerged in the interbank market in the second half of 2015, prompting the central bank to reduce the cash reserve ratio.

Consumer price inflation remained moderate across the region, except in Ghana, Angola, and Zambia, where it was in the double digits (Figure 2.6.5B). Low fuel prices helped keep inflation down. However, currency weaknesses contributed to higher inflation in many countries. In Angola and Nigeria, inflation exceeded the central bank's target. Concerns about inflation led central banks in several countries to hike interest rates (Angola, Ghana, Kenya, Mozambique, South Africa, Uganda, Zambia). The Central Bank of Nigeria, in contrast, cut the benchmark interest rate in an attempt to stimulate growth. In CFA franc countries, the peg to the euro kept inflation low, and underpinned greater economic stability.

FIGURE 2.6.3 Domestic constraints

The headwinds of low commodity prices and higher borrowing costs were compounded by severe infrastructure constraints in many countries. In Nigeria, the pronounced contraction of the manufacturing sector reflected huge electricity deficits. In South Africa, power supply bottlenecks, compounded by difficult labor relations, weighed heavily on growth.



Source: Nigeria National Bureau of Statistics, Statistics South Africa.

Outlook

Sub-Saharan Africa faces a challenging near-term outlook. Commodity prices are expected to stabilize but remain low through 2017 (Figure 2.6.6A). The normalization of U.S. monetary policy is expected to tighten global financial conditions. Although governments are taking steps to resolve power issues, electricity supply bottlenecks are expected to persist. These factors point to a somewhat weaker recovery in 2016 than previously anticipated. After slowing to 3.4 percent in 2015, activity is expected to pick up to 4.2 percent in 2016 and to 4.7 percent in 2017-18 (Figure 2.6.6B). This projection assumes that commodity prices stabilize and electricity constraints ease (Table 2.6.1). There are, however, considerable variations within the region.

Consumption dynamics will continue to differ for oil exporters and importers. Private consumption growth is expected to remain weak in oil exporters as the removal of subsidies to alleviate pressure on budgets results in higher fuel costs, and as currency depreciation weigh on consumers' purchasing power. By contrast, lower inflation in oil importers, owing in part to lower fuel prices, should help boost consumer spending. The price level impact of currency depreciation combined with interest rate increases could, however, moderate these effects.

Investment dynamics will also differ among SSA commodity exporters. The slowdown in major emerging markets, low commodity prices, and deteriorating growth prospects in many commodity exporters, are expected to result in lower FDI flows. Exploration and development activity is expected to be curtailed in oil and gas. Continuing fiscal consolidation in oil-exporting countries is expected to result in further capital expenditure cuts, as governments seek to limit cuts in public-sector wages and protect social spending. However, in a number of low-income, non-oil commodity exporters, governments are expected to continue to invest heavily in energy and transport infrastructure in a bid to improve the operational environment for growth, drawing in part on the proceeds from previous bond issuances (Ethiopia), public-private partnerships (Mozambique, Rwanda, Tanzania), donor aid (Rwanda) and, in some cases, financing from Chinese entities (Ethiopia, Tanzania). Although debt levels may rise, they remain manageable in most low-income countries as growth has been robust.

The fiscal policy stance in commodity exporters is expected to ease gradually as commodity prices stabilize. In Nigeria, ongoing efforts to rationalize the management and operation of the Nigeria National Petroleum Corporation should also help enhance revenue mobilization. However, with oil prices projected to remain below their recent peaks, fiscal revenues are expected to remain low in Angola and Nigeria. As a result, fiscal deficits are likely to increase in these countries, despite efforts to restrain spending. Fiscal deficits are also expected to remain elevated in oil importers, as spending on goods and services, wages, and physical infrastructure continues to expand.

Net exports are expected to make a negative contribution to real GDP growth in the near term, despite currency depreciations. Still-low commodity prices will depress export receipts, especially among oil exporters, even as export volumes rise. The pull from advanced economies is expected to stay modest, given their moderate prospects for medium-term growth. Among oil importers, current account balances are expected to deteriorate in many countries on account of strong import growth, driven by capital goods imports for infrastructure projects.

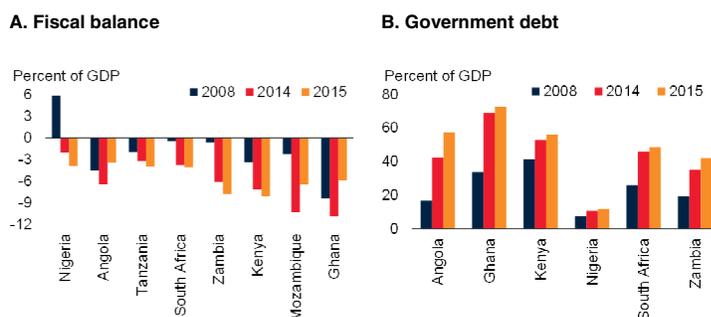
In this context:

- Activity is expected to remain subdued in the region's three largest economies (Table 2.6.2). In Nigeria, power and fuel shortages, and fiscal consolidation, which weighed on activity in 2015, are expected to diminish gradually. Growth is expected to remain weak in South Africa, as inadequate power supply, weak business confidence, difficult labor relations, and policy tightening slow activity. In Angola, government spending remains constrained, and elevated inflation has weakened consumer spending.
- Among the region's frontier markets, rising oil production and diminishing fiscal and current account imbalances are expected to help lift growth in Ghana. However, in Zambia, low copper prices, compounded by regulatory uncertainty and electricity shortages, will curtail copper production, export, and investment. Meanwhile, despite pressure on the shilling, Kenya is expected to grow at a robust pace, supported by large-scale infrastructure projects, including the expansion of the railway system, which should help boost domestic trade, and a new port.
- The region's low-income countries are expected to continue to sustain high GDP growth. Many of these countries have limited exposure to the commodities that are experiencing the most severe decline in prices. Meanwhile, large-scale investment projects in energy and transport are ongoing, consumer spending remains robust, boosted by lower fuel prices, and despite low minerals prices, mining output is set to rise in several countries. Public investment, consumer spending, and mining production will help Côte d'Ivoire, Ethiopia, Mozambique, Rwanda, and Tanzania sustain rapid growth in 2016 and beyond. Several low-income countries in the West African Economic and Monetary Union (WAEMU)² region are

²WAEMU countries are Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal, and Togo. They share the same currency, the CFA franc, which is pegged to the euro.

FIGURE 2.6.4 Fiscal deficits and government debt

Fiscal deficits widened across the region. In oil exporters, it was due to falling oil revenues. In other countries, the widening deficits reflected higher government spending, including on wages, infrastructure projects, and subsidies and transfers. In a few countries, measures were implemented that reduced the deficits. In many countries, fiscal deficits are now larger than at the onset of the financial crisis. As a result, government debt has continued to rise, especially in frontier markets.



Source: IMF Fiscal Monitor, IMF World Economic Outlook.

expected to see steady growth, helped in part by the stable currency peg to the euro.

Risks

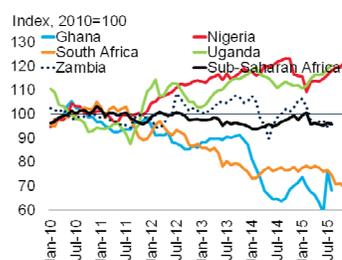
The balance of risks to the outlook remains tilted to the downside. On the domestic front, political upheavals and conflicts in Burundi, Burkina Faso, and South Sudan suggest that political risks associated with the electoral process will remain a key issue for the region in 2016. Security risks tied to Boko Haram insurgencies are significant for Cameroon, Chad, Niger, and Nigeria; while terrorist threats remain a concern for Kenya and Mali. These events could generate greater political instability for the region if they were to escalate, hurting growth. The assumption that electric power constraints will ease might prove too optimistic. The power supply crisis may worsen, as a result of a lack of reforms, which would hold economic activity back in many countries.

Many countries of the region have domestic macroeconomic weaknesses that leave them vulnerable to shocks. In these countries, fiscal and current account deficits are sizeable and debt levels are rising. If these conditions were to deteriorate significantly, shocks could manifest themselves in substantial currency pressures, higher inflation, and lower business confidence.

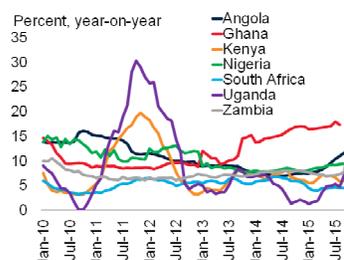
FIGURE 2.6.5 Exchange rates and inflation

High fiscal and current account deficits kept currencies under pressure, particularly against the U.S. dollar. However, in real effective terms, the average exchange rate movement for SSA as a whole has been relatively small. Inflation remained moderate for the most part in the region, helped by low commodity prices, although currency weaknesses contributed to higher inflation in many countries, including Angola, Ghana, and Zambia.

A. Real effective exchange rates



B. Consumer price inflation



Source: Haver Analytics, World Bank.
A. An increase denotes real appreciation.

On the external front, there are a number of major risks to the forecast. A further decline in oil prices would sharply reduce government spending in oil-producing countries. A sharper-than-expected slowdown in China could result in a renewed across-the-board weakening in commodity prices, which would delay further or lead to a cancellation of planned investments in resource sectors. A sudden deterioration in global liquidity conditions could push up financing costs and result in cut-offs of capital flows.

Policy challenges

The global economic environment will be less conducive to growth in Sub-Saharan Africa over the next several years than in the recent past. Lower commodity prices and tightening global financial conditions will hinder activity. In most commodity exporters, thin buffers limit the scope for counter-cyclical policies to support economic activity without exacerbating existing fiscal and external vulnerabilities. Policies are needed to respond to growing vulnerabilities, address domestic constraints to activity, and promote non-commodity sources of growth.

Oil, mineral, and metal exporters are the most exposed to the decline in commodity prices. In these countries, exchange rate flexibility could help an adjustment to a low commodity-price

environment. However, they may need to tighten their macroeconomic policy stances, and strengthen their monetary policy frameworks, to prevent inflation induced by currency depreciation from becoming a constant threat. It will also be critical for these countries to carefully manage sovereign borrowing on international capital markets.

In many countries, measures to strengthen domestic resource mobilization to reduce overdependence on revenue from the resource sector, and to raise the efficiency of public expenditures, are needed to rebuild fiscal space and resilience to shocks. Funding much-needed social programs and public infrastructure could help reduce the inequality of opportunity that is contributing to high poverty rates in the region (World Bank 2015r).

Resource-rich countries would benefit from improving their non-resource tax systems. Tax revenues in SSA, as a share of GDP, have increased since the 1980s. However, much of the improvement was driven by the growth in revenues from oil producers. Excluding resource-based revenues, there has been limited improvement in the domestic mobilization of tax revenues in the region. A number of studies (AfDB and OECD 2010) have identified broad areas in which tax systems in SSA could usefully strengthened. In the short run, policy makers need to concentrate on ways to broaden the tax base. Policy options include removing tax preferences, streamlining transfer pricing by multinational companies, and doing a better job of taxing extractive industries fairly and transparently. In the medium term, policy makers need to design strategies to bring small enterprises into the tax net and boost administrative capacity. Over the long run, instruments such as urban property taxes could help generate revenues from a more balanced tax mix.

The decline in commodity prices makes it important for resource-rich countries to improve their public investment management (PIM) system, which could help boost growth (Rajaram et al. 2014). SSA's oil-exporters, on average, have lower PIM scores than others, especially at the

project appraisal and evaluation stages of the PIM process (Dabla-Norris et al. 2011), reflecting weak administrative capacity and low transparency in the use of public resources. Upgrading the quality of infrastructure investment spending in these countries would require enhancing the planning, bidding, contracting, and evaluation process of quality projects, and improving the selection and implementation of these projects (Keefer and Knack 2007).

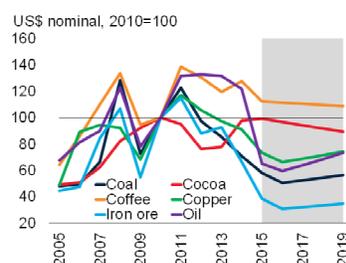
Structural reforms are needed to alleviate domestic impediments to growth and to accelerate economic diversification. Creating the conditions for a more competitive manufacturing sector would require, in particular, a major improvement in providing electricity. Addressing power sector problems should therefore be a priority. Investments in new energy capacity (South Africa), attention to drought and its effects on hydropower (Botswana, Zambia), and a new focus on encouraging private investment (Ghana, Nigeria) would help build resilience in the power sector.

An increasing share of the world’s poor resides in Sub-Saharan Africa (World Bank 2015j). Reviving growth and reducing vulnerabilities will be important for progress toward eradicating extreme poverty, and achieving the recently adopted Sustainable Development Goals. Policies to enhance domestic revenue mobilization, increase the efficiency of public spending, and boost growth and economic diversification will play a critical role in these efforts.

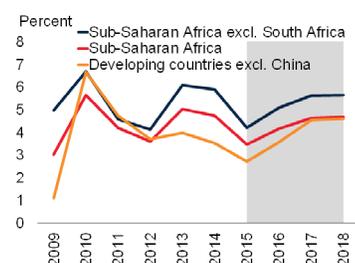
FIGURE 2.6.6 Outlook

Prices of SSA’s commodity exports are expected to stabilize but remain low throughout 2017, China is in the midst of rebalancing growth away from raw-material-intensive sectors, and the normalization of U.S. monetary policy is expected to tighten global financial conditions. Electricity supply bottlenecks are also expected to persist in many countries. These factors point to a weaker recovery in 2016 than previously anticipated.

A. Commodity prices



B. SSA growth forecasts



Source: World Bank.
 Note: Shaded area denotes an estimated or forecast value.

TABLE 2.6.1 Sub-Saharan Africa forecast summary

(Annual percent change unless indicated otherwise)

	2013	2014	2015e	2016f	2017f	2018f	(Percentage point difference from June 2015 projections)		
							2015e	2016f	2017f
Developing SSA, GDP^a	4.9	4.6	3.4	4.2	4.7	4.7	-0.8	-0.3	-0.3
(Average including countries with full national accounts and balance of payments data only) ^b									
Developing SSA, GDP^b	4.8	4.6	3.5	4.2	4.7	4.7	-0.7	-0.4	-0.3
GDP per capita (U.S. dollars)	2.0	1.9	0.8	1.5	2.0	2.0	-0.9	-0.6	-0.5
PPP GDP	5.0	4.9	3.7	4.4	4.9	5.0	-0.7	-0.4	-0.3
Private consumption ^c	9.9	3.2	3.1	3.7	4.0	4.1	-0.9	-0.5	-0.5
Public consumption	1.9	3.9	3.2	3.5	3.7	3.8	-0.4	-0.2	-0.1
Fixed investment	9.6	8.7	6.2	6.6	7.1	7.2	-0.5	-0.7	-0.7
Exports, GNFS ^d	-2.2	5.0	2.1	2.6	2.9	2.9	-0.7	-0.5	-0.4
Imports, GNFS ^d	6.8	3.0	3.0	3.1	3.2	3.2	0.0	0.0	0.0
Net exports, contribution to growth	-2.8	0.5	-0.3	-0.2	-0.2	-0.2	-0.2	-0.1	-0.2
Memo items: GDP									
Broader geographic region ^e	4.8	4.5	3.3	4.2	4.6	4.7	-0.7	-0.3	-0.4
SSA excluding South Africa	5.8	5.7	4.1	5.1	5.7	5.7	-0.8	-0.3	-0.2
Oil exporters ^f	5.5	5.4	3.3	4.5	5.2	5.2	-0.8	-0.3	-0.3
CFA countries ^g	4.6	5.5	4.4	5.7	6.0	5.9	0.3	0.2	0.0
South Africa	2.2	1.5	1.3	1.4	1.6	1.6	-0.7	-0.7	-0.8
Nigeria	5.4	6.3	3.3	4.6	5.3	5.3	-1.2	-0.4	-0.2
Angola	6.8	3.9	3.0	3.3	3.8	3.8	-1.5	-0.6	-1.3

Source: World Bank.

World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not differ at any given moment in time.

a. GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars. Excludes Somalia, Central African Republic, and São Tomé and Príncipe.

b. Sub-region aggregate excludes Liberia, Somalia, Central African Republic, São Tomé and Príncipe, and South Sudan, for which data limitations prevent the forecasting of GDP components.

c. The sudden surge in private consumption in the region in 2013 is driven by the revised and rebased NIA data of Nigeria in 2014.

d. Exports and imports of goods and non-factor services (GNFS).

e. Includes developing SSA and the following high-income countries: Equatorial Guinea and Seychelles.

f. Includes Angola; Côte d'Ivoire; Cameroon; Congo, Rep.; Gabon; Nigeria; Sudan; Chad; and Congo, Dem. Rep.

g. Includes Benin; Burkina Faso; Central African Republic; Côte d'Ivoire; Cameroon, Congo, Rep.; Gabon; Equatorial Guinea; Mali; Niger; Senegal; Chad; and Togo.

TABLE 2.6.2 Sub-Saharan Africa country forecasts^a

(Real GDP growth at market prices in percent, unless indicated otherwise)

(Percentage point difference from June 2015 projections)

	2013	2014	2015e	2016f	2017f	2018f	2015e	2016f	2017f
Angola	6.8	3.9	3.0	3.3	3.8	3.8	-1.5	-0.6	-1.3
Benin	5.6	5.4	5.7	5.3	5.1	5.1	1.1	0.7	0.4
Botswana ^b	9.3	4.4	3.0	4.0	4.2	4.2	-1.3	-0.2	0.0
Burkina Faso	6.7	4.0	4.4	6.0	7.0	7.0	-0.6	-0.2	0.5
Burundi	4.6	4.7	-2.3	3.5	4.8	4.8	-7.1	-1.5	-0.4
Cabo Verde	1.0	1.8	2.9	3.5	4.1	4.1	-0.1	0.1	0.6
Cameroon	5.6	5.9	6.3	6.5	6.5	6.4	2.3	1.9	1.5
Chad	5.7	7.3	4.1	4.9	6.1	6.5	-4.9	0.2	0.5
Comoros	3.5	3.0	2.3	2.5	3.1	3.1	-1.1	-1.2	-0.7
Congo, Dem. Rep.	8.5	9.0	8.0	8.6	9.0	9.0	0.0	0.1	0.0
Côte d'Ivoire	9.2	8.5	8.4	8.3	8.0	8.0	0.4	0.6	0.5
Eritrea	1.3	1.7	0.9	2.0	2.2	2.2	-0.6	0.0	0.0
Ethiopia ^b	10.5	9.9	10.2	10.2	9.0	9.0	0.7	-0.3	0.5
Gabon	4.3	4.3	4.1	5.1	5.3	5.3	0.1	-0.1	-0.2
Gambia, The	4.8	-0.2	4.0	4.5	5.3	5.3	1.0	-0.6	-0.8
Ghana	7.3	4.0	3.4	5.9	8.2	8.2	-0.1	0.0	0.4
Guinea	2.3	-0.3	0.4	3.5	4.0	4.2	0.7	1.2	1.5
Guinea-Bissau	0.3	2.5	4.4	4.9	5.3	5.3	0.2	1.0	1.3
Kenya	5.7	5.3	5.4	5.7	6.1	6.1	-0.6	-0.9	-0.4
Lesotho	4.6	2.0	2.6	2.8	4.5	4.5	-1.4	-1.7	0.0
Liberia	8.7	1.0	3.0	5.7	6.8	6.8
Madagascar	2.4	3.0	3.2	3.4	3.6	3.6	-1.4	-1.4	-1.4
Malawi	5.2	5.7	2.8	5.0	5.8	5.8	-2.3	-0.6	-0.1
Mali	1.7	7.2	5.0	5.0	5.0	5.0	-0.6	-0.1	-0.2
Mauritania	5.5	6.9	3.2	4.0	4.0	4.0	-2.3	-1.7	-1.6
Mauritius	3.3	3.6	3.5	3.7	3.7	3.7	0.0	0.0	0.0
Mozambique	7.3	7.4	6.3	6.5	7.2	7.2	-0.9	-0.8	-0.1
Namibia	5.7	6.4	5.0	5.5	5.9	5.9	-0.5	0.2	0.8
Niger	4.6	6.9	4.4	5.3	9.3	5.7	-0.1	-0.2	1.6
Nigeria	5.4	6.3	3.3	4.6	5.3	5.3	-1.2	-0.4	-0.2
Rwanda	4.7	7.0	7.4	7.6	7.6	7.6	0.4	0.6	0.1
Senegal	3.5	3.9	5.0	5.3	5.3	5.3	0.2	0.3	0.1
Sierra Leone	20.1	7.0	-20.0	6.6	5.3	5.3	-7.2	-1.8	-3.6
South Africa	2.2	1.5	1.3	1.4	1.6	1.6	-0.7	-0.7	-0.8
South Sudan	13.1	3.4	-5.3	3.5	7.0	7.0
Sudan	3.3	3.1	3.5	3.4	3.9	3.9	0.9	-0.1	0.0
Swaziland	2.8	2.5	1.3	0.8	0.8	0.8	-0.7	-1.0	-0.8
Tanzania	7.3	7.0	7.2	7.2	7.1	7.1	0.0	0.1	0.0
Togo	5.1	5.7	5.1	4.9	4.7	4.7	0.0	0.0	0.0
Uganda ^b	3.6	4.0	5.0	5.0	5.8	5.8	-0.5	-0.7	0.0
Zambia	6.7	5.6	3.5	3.8	5.4	6.0	-2.1	-2.4	-1.5
Zimbabwe	4.5	3.2	1.0	2.8	3.0	3.0	0.0	0.3	-0.5
Recently transitioned to high-income countries^c									
Equatorial Guinea	-4.8	-3.1	-9.3	2.3	-0.4	-0.2	6.1	-1.3	-4.1
Seychelles	6.6	2.8	3.5	3.7	3.6	3.6	0.0	0.0	-0.1

Source: World Bank.

World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.

a. Central African Republic, São Tomé and Príncipe, and Somalia are not forecast due to data limitations.

b. Fiscal-year based numbers.

c. Based on the World Bank's reclassification from 2004 to 2015.

BOX 2.6.1 Regional integration and spillovers: Sub-Saharan Africa

Over the past decade, regional integration in Sub-Saharan Africa (SSA) has expanded. Though still low, intraregional trade represents a growing share of the region's trade. Cross-border financing flows within Sub-Saharan Africa have increased rapidly. Nevertheless, shocks to growth in the two largest economies – Nigeria and South Africa – appear to have no measurable effects on other countries in the region.

Introduction

SSA is an open region, with diversified trade partners and sources of finance (Figure 2.6.1.1). Much of Sub-Saharan African trade takes place with countries outside the region. Advanced economies remain the largest destinations of Sub-Saharan Africa's exports. However, China and other developing countries in Asia are increasingly prominent. Intraregional trade and financial linkages within the region have expanded in recent years and look set to expand faster in the years ahead.

This box examines the extent of regional integration. In particular, it takes a closer look at linkages between SSA's two largest economies—Nigeria and South Africa—and the rest of the region to assess the potential significance of intra-regional growth spillovers. The box addresses the following questions:

- How open is Sub-Saharan Africa to global and regional trade and financial flows?
- How large are the potential intra-regional spillovers from the region's two largest economies, Nigeria and South Africa?

The region is highly open to the world economy, with a diverse group of trade and financial partners, and intra-regional ties have grown rapidly since the mid-2000s. Nevertheless, estimated growth spillovers from South Africa and Nigeria to the rest of SSA are statistically insignificant. This may reflect the globally diversified nature of SSA's global trade and financial partners. It may also reflect inadequate data for countries most closely integrated with South Africa and Nigeria.

How open is Sub-Saharan Africa to global and regional trade and financial flows?

SSA's integration into global trade networks has increased remarkably over the past three decades (UNCTAD 2013). Advanced economies remain the main trading partners for SSA. However, recent years have seen a fundamental shift in the direction of SSA trade towards China and away

from the traditional advanced country markets. The export exposure of SSA countries to advanced-economies has halved over the decade ending 2014. The fall in the share of the region's exports to the United States, to about 1 percent of GDP in 2014 from its peak of 8 percent in 2005, was particularly pronounced (Figure 2.6.1.2). This reflected in part a sharp decline in Nigeria's oil exports as U.S. oil shale production expanded. More broadly, the anemic recovery in Euro Area countries and other advanced economies following the global financial crisis underpinned the decline in the share of SSA's exports to advanced economies.

China's trade with Sub-Saharan Africa has been driven by China's fast growth of investment in capital goods that require intensive inputs of primary commodities, notably oil and metals (Drummond and Liu 2013). By 2012, China had become SSA's single largest national trading partner. Angola, Democratic Republic of Congo, Equatorial Guinea, Republic of Congo, and South Africa account for about 75 percent of SSA's exports to China (oil, metals, and mineral fuels). Similarly, Angola, Benin, Ghana, Liberia, Nigeria, and South Africa account for more than 80 percent of SSA's total imports from China (mainly machinery, chemicals, and manufactured goods).

Financial linkages between SSA and the rest of the world have grown considerably in the last decade, with some shift in composition towards flows into regional capital markets and direct investment.

- The stock of private external claims on SSA represented 40 percent of the region's GDP in 2013, slightly lower than its peak of 45 percent of GDP in 2010. Although most SSA countries have limited or no access to international capital markets, portfolio investment claims on the region—originating mostly from the U.S. and Euro Area—more than doubled between 2001 and 2010. South Africa, with its highly developed financial markets, has been the main recipient of portfolio investments. Cross-border banking claims on SSA, which before the global financial crisis had risen above portfolio claims, have since moderated. European banks have deleveraged and oriented their activities toward developing countries in Asia. Cross-border bank lending flows originate mainly from U.K. and Euro Area lenders,

Note: This box was prepared by Gerard Kambou and Jesper Hanson, with contributions from Raju Huidrom.

BOX 2.6.1 Regional integration and spillovers: Sub-Saharan Africa (continued)

with Angola, Botswana, Mozambique, Tanzania, and Zambia among the largest recipients. Foreign direct investments are the largest capital inflows to the region. FDI liabilities represented more than 15 percent of SSA’s GDP in 2013. While the Euro Area remains an important source of FDI in the region, FDI flows from China have grown rapidly in recent years, and are mostly allocated to the natural resource and infrastructure sectors (World Bank 2015a).

- Remittances and official development assistance amounted to 2 percent and 1.5 percent of GDP in 2014 and 2013, respectively, lower than their levels in 2010. Official development assistance and remittances from advanced economies have been on a declining trend in recent years, reflecting weak growth and austerity budgets in these economies.

While most economic ties of SSA are to non-SSA countries, intraregional trade, foreign direct investment, cross-border banking flows, and remittances have risen in recent years (Figure 2.6.1.3). The number of Pan-African banking groups has increased rapidly across the region, partly influenced by rising trade flows (IMF 2015l). Furthermore, trade linkages between the region’s largest economies (Nigeria and South Africa) and the rest of the region have been growing and look set to deepen.

Linkages between South Africa and the rest of the region

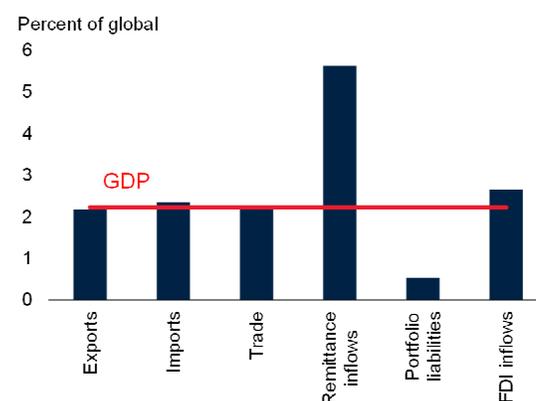
Trade linkages: South Africa, the region’s second largest economy, accounting for 21 percent of its GDP, is an important export market for its immediate neighbors (Figure 2.6.1.4). In 2011, exports to South Africa accounted for over 80 percent of trade within the South African Customs Union, or SACU (Canales-Kriljenko, Gwenhamo and Thomas et al. 2013).¹ Exports to South Africa are particularly large for Swaziland (25 percent of GDP) and Lesotho (10 percent of GDP). Exports from SACU countries consist mostly of agricultural goods; they also include some manufacturing products, chemicals and metals. South Africa is also an important export market for countries in the 15-member Southern African Development Community (SADC) region, especially Mozambique (10 percent of GDP) and Zimbabwe (5 percent of GDP). Fuels dominate Mozambique’s exports to South Africa, while Zimbabwe’s exports consist mainly of agricultural goods and metals. By contrast, exports to

¹SACU member countries are Botswana, Lesotho, Namibia, South Africa, and Swaziland.

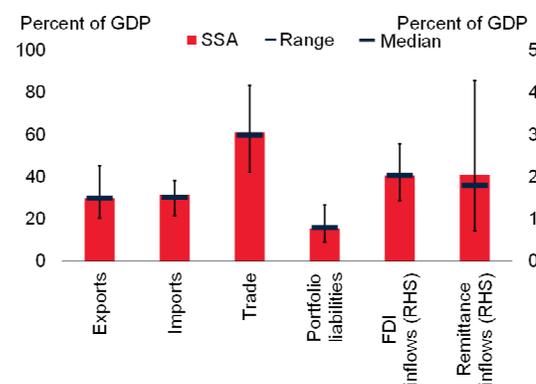
FIGURE 2.6.1.1 Cross-region comparison

The region is open to global trade and finance. It accounts for about 2 percent of global GDP and trade. In relation to GDP, the levels of external trade, investment, and remittances for the average SSA economy are similar to other developing regions.

A. SSA: Share of global activity, trade, and finance, 2014



B. SSA: Trade and finance in regional comparison, 2014



Sources: IMF October 2015 World Economic Outlook, IMF International Financial Statistics, IMF Direction of Trade Statistics, UNCTAD FDI/TNC database, World Bank Remittance and Migration Database, World Bank World Development Indicators.

B. The red bar denotes exports, imports, trade, remittance inflows, portfolio liabilities, and FDI inflows in percent of GDP on average across SSA countries. The vertical line denotes the range of averages for all six developing country regions.

South Africa account for less than 5 percent of GDP in West African countries such as Ghana and Nigeria.

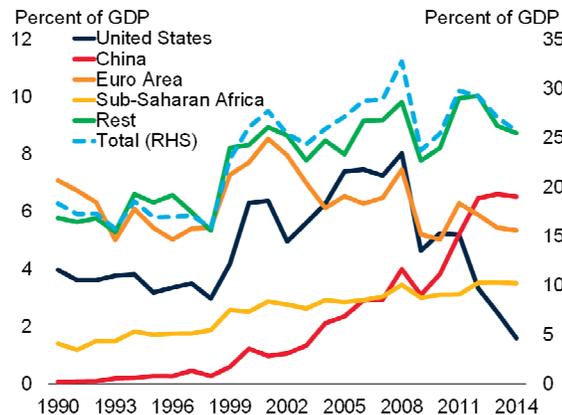
Financial linkages: South Africa is the largest source of foreign direct investment for Botswana, Lesotho, Namibia, and Swaziland (BLNS) (Figure 2.6.1.4), accounting for up to 80 percent of total inward FDI in these countries. South African firms (e.g. Massmart, Nampak, MTN Group) also have a strong presence in the SADC region

BOX 2.6.1 Regional integration and spillovers: Sub-Saharan Africa (continued)

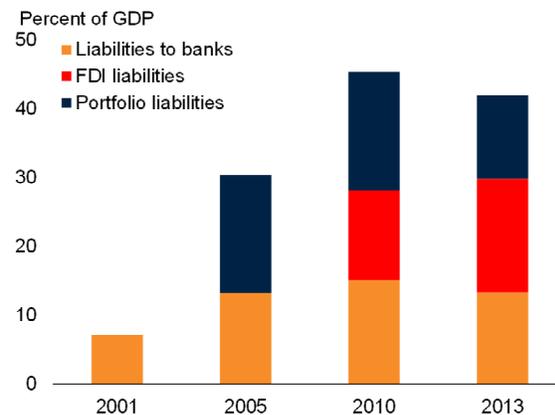
FIGURE 2.6.1.2 Linkages between Sub-Saharan Africa and the rest of the world

Countries in Sub-Saharan Africa increasingly participate in international trade. The region's trade has undergone a shift in direction towards China and away from traditional advanced country trading partners. Foreign direct investment liabilities have increased considerably, while remittances and official development assistance from advanced countries have declined. Relative to GDP, bilateral development assistance has halved over the last ten years to 1.5 percent of regional GDP.

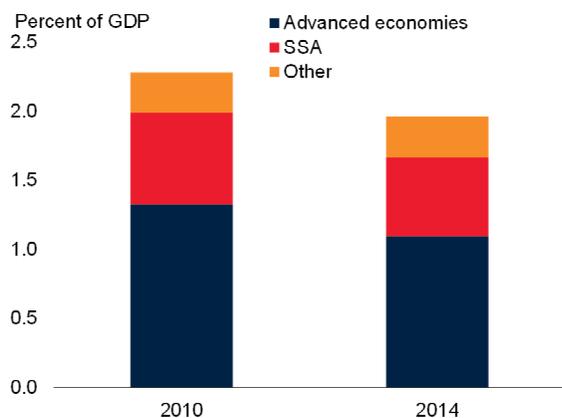
A. Exports



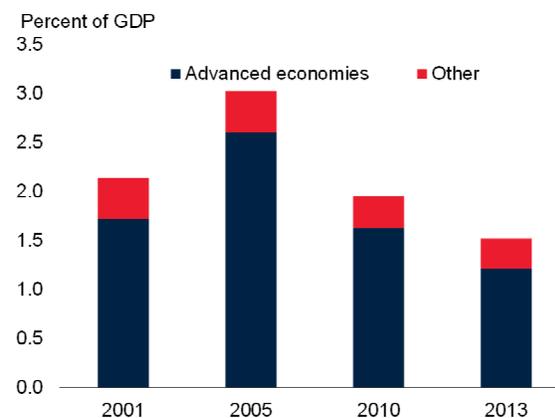
B. Financial liabilities



C. Remittances by source country



D. Bilateral official development assistance



Source: IMF Direction of Trade Statistics, Coordinated Portfolio Investment Survey, Coordinated Direct Investment Survey; Bank for International Settlements Consolidated Banking Statistics; World Bank Remittances and Migration database, OECD.
 B: Coordinated Direct Investment Survey (CDIS) is not available for 2001 and 2005; Coordinated Portfolio Investment Survey (CPIS) is not available for 2001. Liabilities to banks stand for claims of BIS-reporting banks on SSA countries. BIS stands for Bank for International Settlements.

(Mozambique, Zimbabwe), East African Community (Kenya, Uganda, and Tanzania) and countries in West Africa (Nigeria, Ghana). South Africa-based banks (Standard Bank, First Rand Bank, Nedbank) and other financial institutions are active across the continent, and are systemically important in neighboring countries, as gauged by deposit shares.² Remittances from South Africa to neighboring countries are also significant—for Lesotho,

²Operations are deemed systemically important if the share of their deposits in total banking system deposits exceeds 10 percent; or if their asset share exceeds 7 percent of GDP (IMF 2015).

they average more than 20 percent of GDP (2011-2014), reflecting the large number of migrant workers employed in South African mines.³

Institutional linkages: South Africa's monetary and exchange rate policies and the revenue sharing arrangements under SACU are significant sources of linkages.

³Though still sizeable, remittances to Lesotho have steadily declined in line with the long-term decline in South Africa's gold production.

BOX 2.6.1 Regional integration and spillovers: Sub-Saharan Africa (continued)

- South Africa’s currency, the rand, circulates freely in the Common Monetary Area (CMA) formed by South Africa, Lesotho, Namibia, and Swaziland whose currencies are pegged to the rand. Through interest rate and exchange rate movements, policy actions in South Africa immediately affect economic conditions in the CMA.
- The revenue sharing mechanism in SACU has created strong linkages between South African imports and budget revenue in BLNS. South African imports account for more than 90 percent of total SACU imports, the taxes on which are a major source of SACU customs revenue. Customs revenues across SACU are pooled and allocated to members. About 85 percent of forecast excise revenues are distributed based on the share of each country in total SACU GDP, and the remaining is distributed according to a formula that favors countries with lower per capita GDP, typically with a lag of two years. Since imports tend to be more volatile than overall economic activity, the revenue sharing mechanism contributes to significant volatility in budgetary revenue in BLNS.

Linkages between Nigeria and the rest of the region

Trade linkages: Following the data revision of 2013, Nigeria has become SSA’s largest economy, accounting for 31 percent of its GDP. It is also the region’s largest oil exporter. Official data suggest that trade links exist between Nigeria and a number of West African countries, but are modest (Figure 2.6.1.5). Nigeria’s share in exports to the Economic Community of West African States (ECOWAS)⁴ fell from an average of 7 percent in 2001-06 to 2.3 percent in 2010, but has been recovering (Chete and Adewuyi 2012). Nigeria is an important export market for agricultural or manufacturing goods from neighboring Guinea-Bissau (6 percent of exports), Côte d’Ivoire (3 percent of exports), and Niger (2.8 percent of exports). Implementation of the ECOWAS common external tariff, which became effective in January 2015, is expected to further boost sub-regional trade, including between Nigeria and the West African Economic and Monetary Union (WAEMU) member countries.⁵

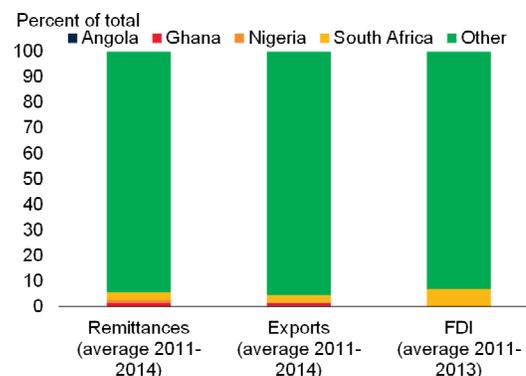
⁴The ECOWAS member states are Benin, Burkina Faso, Cape Verde, Côte d’Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Nigeria, Senegal, Sierra Leone and Togo.

⁵WAEMU countries are Benin, Burkina Faso, Côte d’Ivoire, Guinea Bissau, Mali Niger, Senegal, and Togo. They share the same currency, the CFA franc, which is pegged to the euro.

FIGURE 2.6.1.3 Intra-regional linkages

Most of the region’s economic ties continue to be with non-SSA countries. The region’s largest economies are among its leading sources of intraregional trade.

A. Exports, FDI inflows, remittance inflows



B. Leading sources of intra-regional trade, 2014 (millions of US\$)

Exports to the Rest of Africa		Imports from the Rest of Africa	
Country	Value	Country	Value
South Africa	27,041	South Africa	12,504
Côte d’Ivoire	3,978	Botswana	5,985
Zimbabwe	2,782	Zambia	5,833
Zambia	2,170	Zimbabwe	3,388
Tanzania	2,161	Mozambique	3,121
Botswana	1,691	Côte d’Ivoire	2,954
Senegal	1,309	Cameroon	2,054
Congo, Rep.	1,247	Burkina Faso	1,873
Mozambique	1,198	Tanzania	1,496
Uganda	789	Malawi	1,153

Source: World Bank (remittances), IMF DOTS (exports), IMF CDIS (FDI), WITS. A. Data on FDI liabilities is not available for Angola, Ghana and Nigeria.

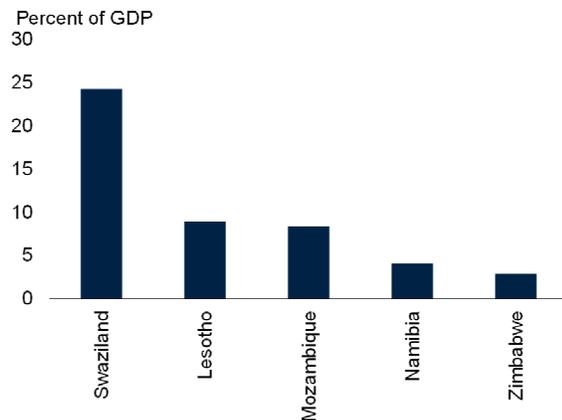
Financial sector linkages: Cross-border activity of Nigerian-based banks in SSA has expanded substantially, in part as Nigerian banks follow up on opportunities to finance trade between Nigeria and countries across SSA. The number of subsidiaries of Nigerian banks licensed in foreign jurisdictions increased from two in 2002 to 64 in 2013, operating in more than 20 countries across SSA. The United Bank for Africa, the largest pan-African bank from Nigeria, has a widespread presence in SSA, and is systematically important in several countries, with 19

BOX 2.6.1 Regional integration and spillovers: Sub-Saharan Africa (continued)

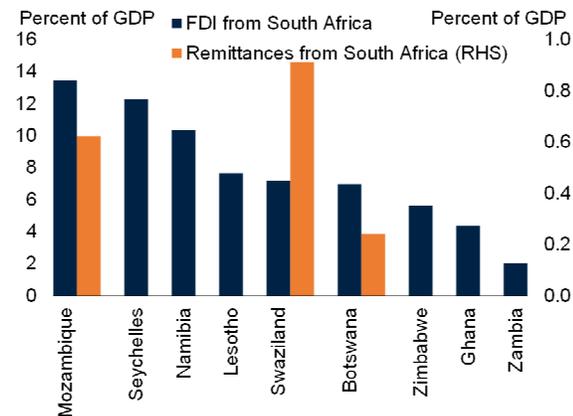
FIGURE 2.6.1.4 Linkages between South Africa and the rest of Sub-Saharan Africa

South Africa is an important market destination for immediate neighboring countries, as well as for countries in the broader Southern African Development Community region. South Africa is the largest source of FDI for Botswana, Namibia, Lesotho, and Swaziland. It remains an important source of remittances for many countries in the Southern Africa region. South Africa-based banks are active across SSA and systematically important in neighboring countries.

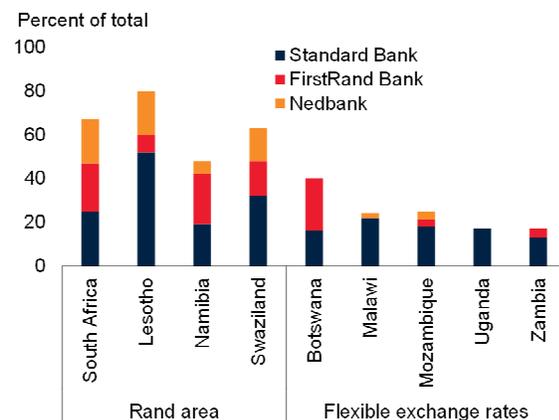
A. Exports to South Africa, 2011-14



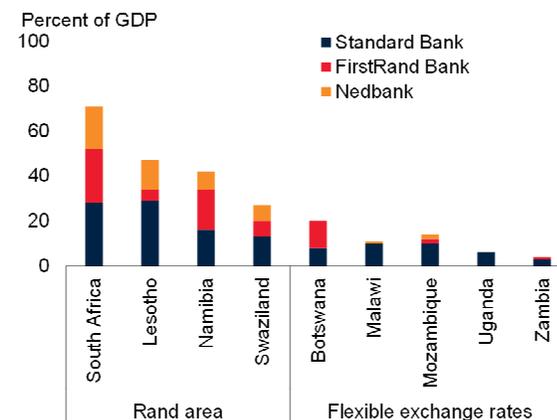
B. FDI inflows and remittances from South Africa, 2011-13



C. Selected South Africa banks: share of deposits by country, 2013



D. Selected South Africa banks: assets by country, 2013



Source: IMF Direction of Trade Statistics, Coordinated Direct Investment Survey, World Bank Migration and Remittances Database, IMF staff reports.

Note: BNLS denotes Botswana, Namibia, Lesotho, and Swaziland.

A: Chart shows countries with exports to South Africa higher than 2 percent of GDP.

B: Chart shows countries with FDI from South Africa higher than 2 percent of GDP.

subsidiaries contributing 15 percent to total assets⁶. This rapid cross-border expansion increases the potential for financial sector shocks in Nigeria to be transmitted across the region. Other potential spillover channels appear limited. In particular, remittances from Nigeria to

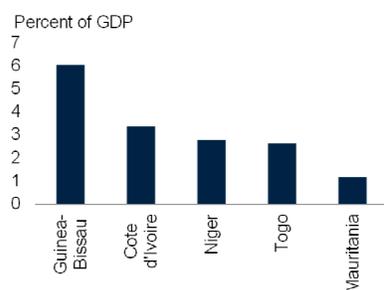
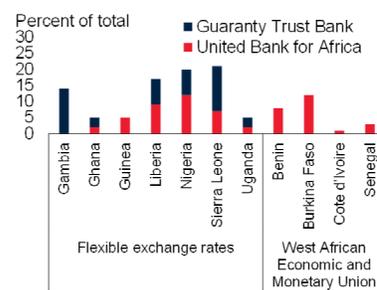
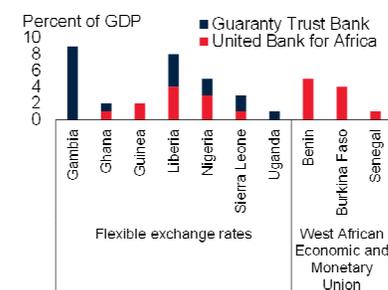
neighboring countries are small relative to GDP; and foreign direct investment from Nigeria in the region, outside the financial sector, is negligible.

Informal sector linkages: Strong informal cross-border trade links exist between Nigeria and neighboring countries that are only partially captured in official statistics. Estimates of informal cross-border trade in West Africa show that it could represent 20 percent of GDP in

⁶Ecobank, a full service bank based in Togo, is one of the region's largest pan-Africa Banks with operations in 36 African countries.

BOX 2.6.1 Regional integration and spillovers: Sub-Saharan Africa (continued)**FIGURE 2.6.1.5 Linkages between Nigeria and the rest of Sub-Saharan Africa**

Trade links between Nigeria and neighboring countries remain modest. Strong informal cross-border trade links exist between Nigeria and its neighbors that are only partially reflected in official trade statistics. Cross-border activity of Nigeria-based banks has expanded in recent years. United Bank for Africa and Guaranty Trust Bank, two Pan-African banks from Nigeria, have widespread presence in Sub-Saharan Africa. United Bank for Africa is systematically important in several countries.

A. Exports to Nigeria, 2011-14**B. Selected Nigerian banks: Share of deposits by country, 2013****C. Selected Nigerian banks: Assets by country, 2013**

Source: IMF Direction of Trade Statistics (DOTS) database; IMF staff reports.

Nigeria (Afrika and Ajumbo 2012). In particular, a significant share of trade in agriculture goods and petroleum products is unrecorded.

- Cross-border trade in grain and livestock has helped improve food availability in Benin, Cameroon, Chad, Ghana, Mali, and Niger.⁷
- Nigerian subsidies have kept fuel prices much lower than in neighboring countries, generating strong informal trade in fuel. It is estimated that three-quarters of the fuel consumed in Benin is imported through informal channels from Nigeria (World Bank 2014c). Changes in Nigeria's pricing policies for fuel products could have significant spillovers for neighboring countries.

How large are the potential intra-regional spillovers from the region's two largest economies, Nigeria and South Africa?

A Bayesian vector autoregression model is used to estimate growth spillovers from Nigeria, South Africa, and the rest of the world. Sufficient data exists for Botswana, Ghana, and Uganda, but only from 2007 Q2 to 2015 Q2. For each of these countries, the variables in the model include

⁷Nigeria supplies about 60-70 percent of Niger's grain imports (mostly maize, millet, and sorghum), thereby contributing to food security in Niger.

own growth, South African growth, Nigerian growth, the real effective exchange rate, growth in the rest of the world (as exogenous variable), and a dummy that captures the global financial crisis of 2008-09.⁸ Figure 2.6.1.6 shows the estimated response of each destination country's output growth to a 1 percentage point decline in real GDP growth in Nigeria, South Africa, and the rest of the world.

The impulse responses suggest that global growth has a significant influence on growth in Sub-Saharan Africa. Growth in Nigeria or South Africa, in contrast, does not appear to have significant spillover effects on neighboring as well as geographically more distant countries. The two largest economies in SSA have insignificant spillovers to each other.⁹

These results are broadly in line with, and complement, those found by a number of previous authors. For example, using a global vector autoregression (GVAR) model, Gurara and Ncube (2013) found a significant growth spillover effect to African economies from both the Eurozone economies and BRICS. Kinfaek and Bonga-Bonga (2015) employ a GVAR model and find that Africa's real GDP has a positive response to increases in GDP in the Euro Area and in China. Spillovers of growth shocks from Nigeria and South Africa to the rest of Sub-Saharan Africa were the focus of the studies by IMF

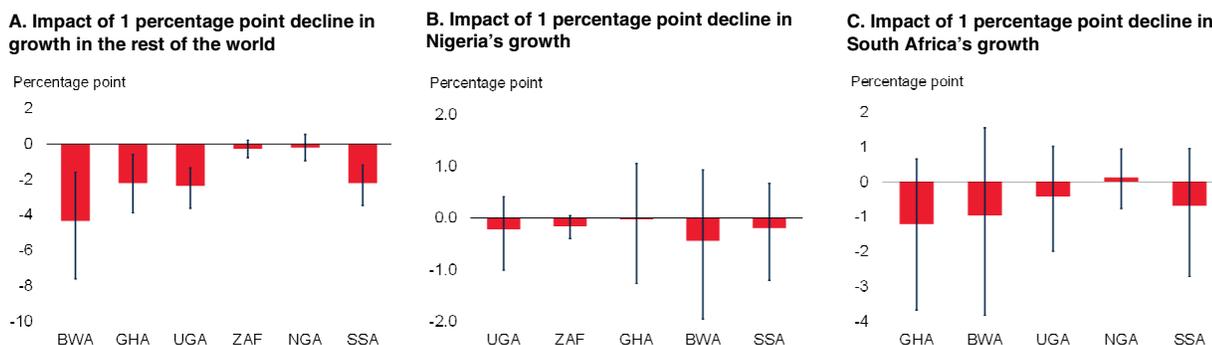
⁸Further details on the model, including the construction of the rest of the world growth variable, are provided in Annex 3.2.

⁹For a comparison of within-region spillovers across regions, see Box 3.4.

BOX 2.6.1 Regional integration and spillovers: Sub-Saharan Africa (continued)

FIGURE 2.6.1.6 Regional spillovers in SSA

Events that affect world growth spill over into SSA. Growth shocks in Nigeria and South Africa do not appear to have significant spillovers to neighboring countries.



Source: World Bank.

Note: The results show the cumulative change in growth after two years in response to 1 percentage point change in the rest of the world, Nigerian and South African growth based on Bayesian vector autoregression, using data for 2007Q2-2015Q2. Bars are the median estimates and the error bands represent the 33-66 percent confidence bands. SSA refers to the cross sectional median estimates across BWA, GHA, NGA, UGA, and ZAF. BWA = Botswana; GHA = Ghana; NGA = Nigeria; UGA = Uganda; ZAF = South Africa; SSA = Sub-Saharan Africa.

(2012b) and Canales-Kriljenko et al.(2013), with the latter focusing on the BLNS countries. Both studies used vector autoregression models. They find that shocks to South Africa's growth have no significant spillover effects on the BNLS countries, or the rest of the continent. Similarly, spillovers from Nigerian growth to neighboring countries were found to be insignificant, suggesting that Nigeria still has weak links with the rest of the region.

The finding that developments in Nigeria and South Africa have limited effects on growth in other countries in the region could be due to a number of factors. The first is the possibility that the economies of South Africa and those of the rest of SSA may have decoupled in the 1990s following the removal of international sanctions as apartheid ended and South Africa re-integrated into the world economy (Basdevant et al. 2014). As SSA countries integrated rapidly with the rest of the world during the 2000s, external shocks became the predominant cause of fluctuations in SSA activity (Kabundi and Loots 2007). Second, those countries that are most deeply integrated with Nigeria and South Africa—for example, Benin, Ghana, Lesotho, Namibia, Swaziland—do not have sufficiently long time series of data to estimate spillovers.

Conclusion and policy implications

While the region's main economic partners are outside the region, intraregional trade and financial links in Sub-Saharan Africa have expanded in recent years. Trade, financial, and institutional linkages between Nigeria and

South Africa, the region's two largest economies, and the rest of the region have been growing. Notwithstanding this development, the quantitative analysis suggests that growth in Nigeria and South Africa has negligible spillover effects on their neighbors as well as more distant countries.

While intra-African trade has increased in recent years, it remains low. Formal barriers to trade, including tariff and quotas, inefficient customs procedures, and the inadequate state of transport infrastructure within the region are among the major reasons for low trade flows between SSA countries (World Bank 2012b). These are several areas in which policy can make a difference. Reductions in tariff, streamlining customs procedures, and investments in infrastructure—especially for landlocked countries—would raise the prospects for mutually beneficial growth spillovers.

Policy actions are also needed to stem the rise of informality in the region by facilitating the transition of firms from the informal to the formal economy. This would require intensifying ongoing efforts to improve the business climate across the region, including simplified procedures for obtaining permits for business registration, simplified tax systems, and reduced compliance costs for laws and regulations. A strengthened capacity of government agencies to administer laws and to improve the quality and efficiency of regulations would help in making such reforms effective (World Bank 2015f).