

AFRICAN ECONOMIC OUTLOOK & DEBT SUSTAINABILITY

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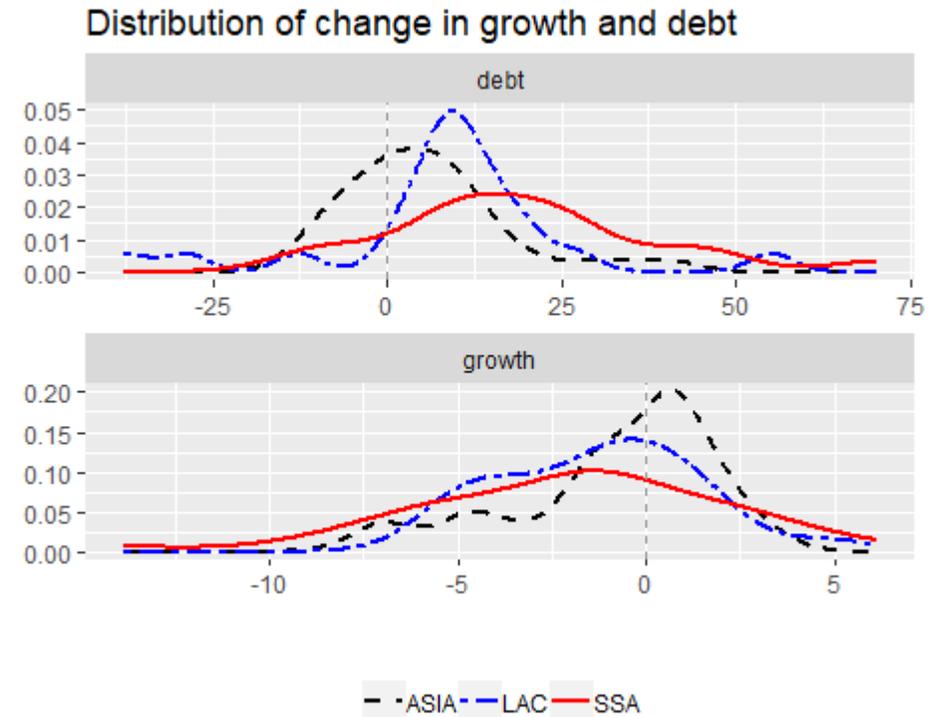
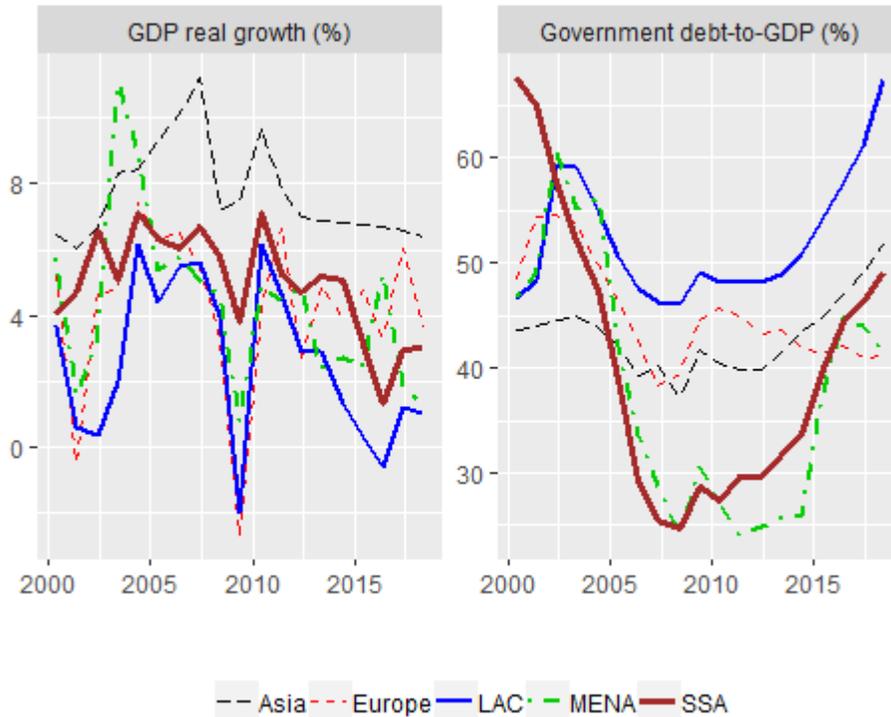
Japan International Cooperation Agency

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GDP growth and debt level by regions

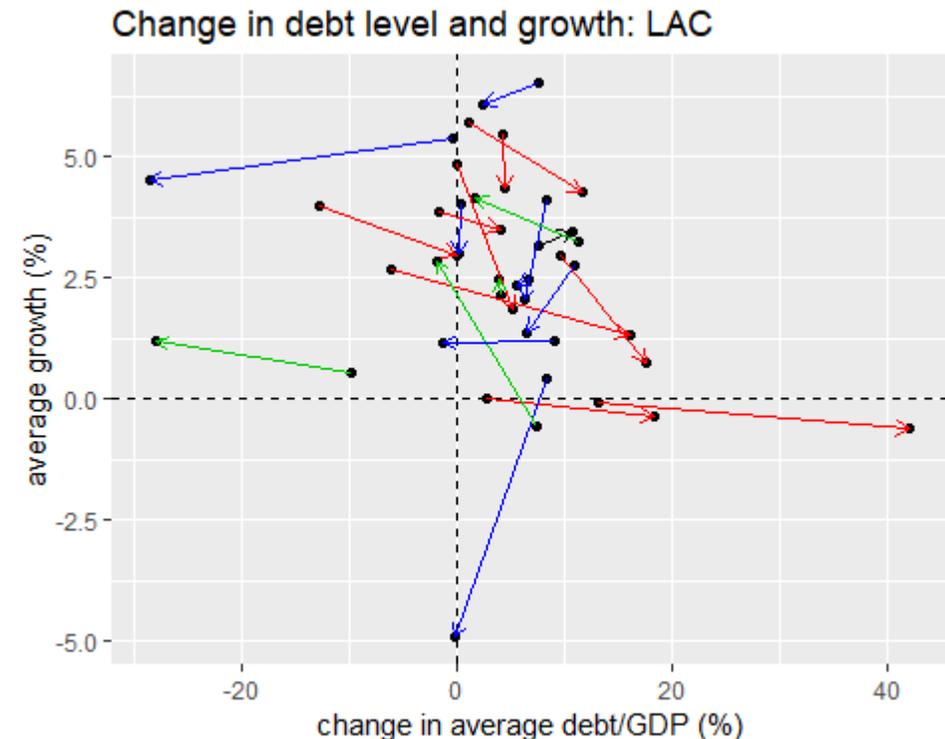
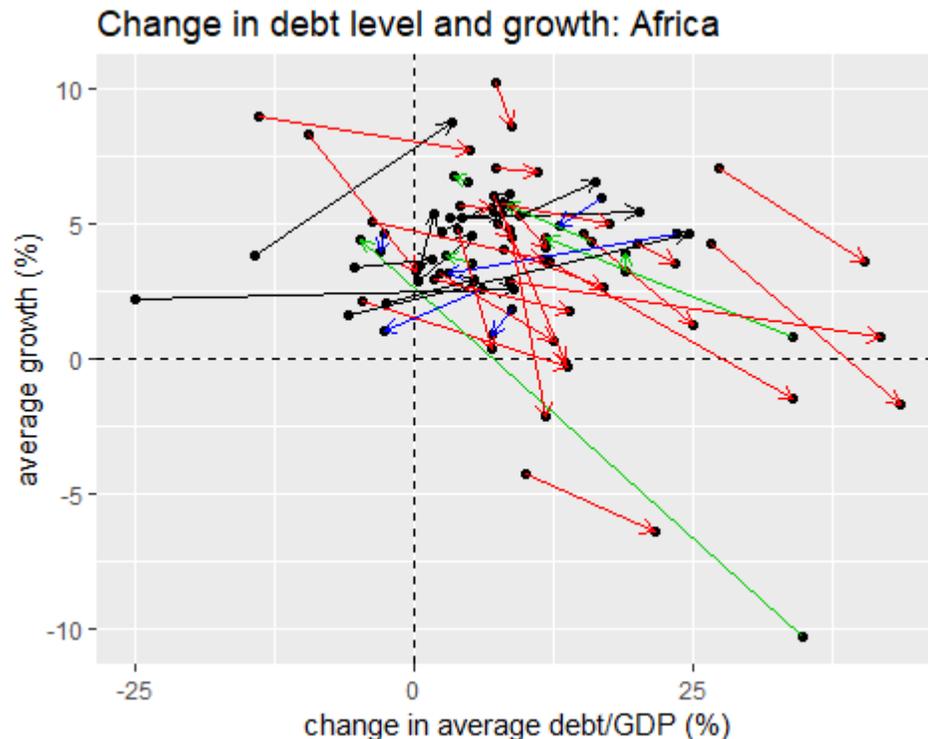
GDP growth rates declined while the debt level increased especially after mid-2010's amid the commodity price slump in Africa and Latin America .

Change in debt/GDP (2016-18 over 2010-12) and growth rate (2016-18 over 2010-12) are distributed widely but tend to be tilted to worse in Africa.



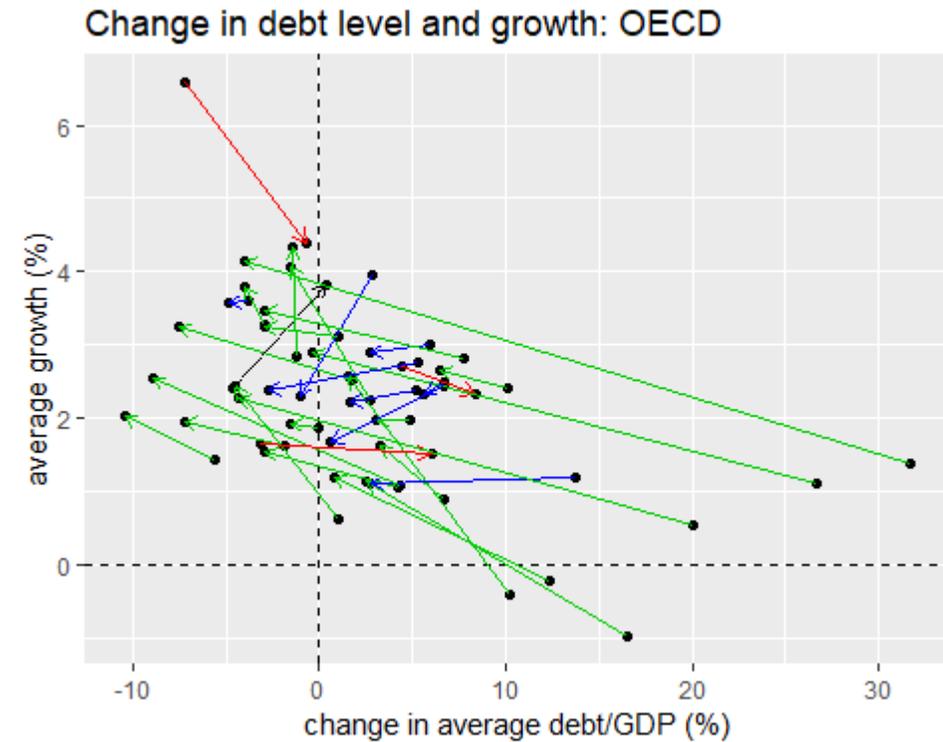
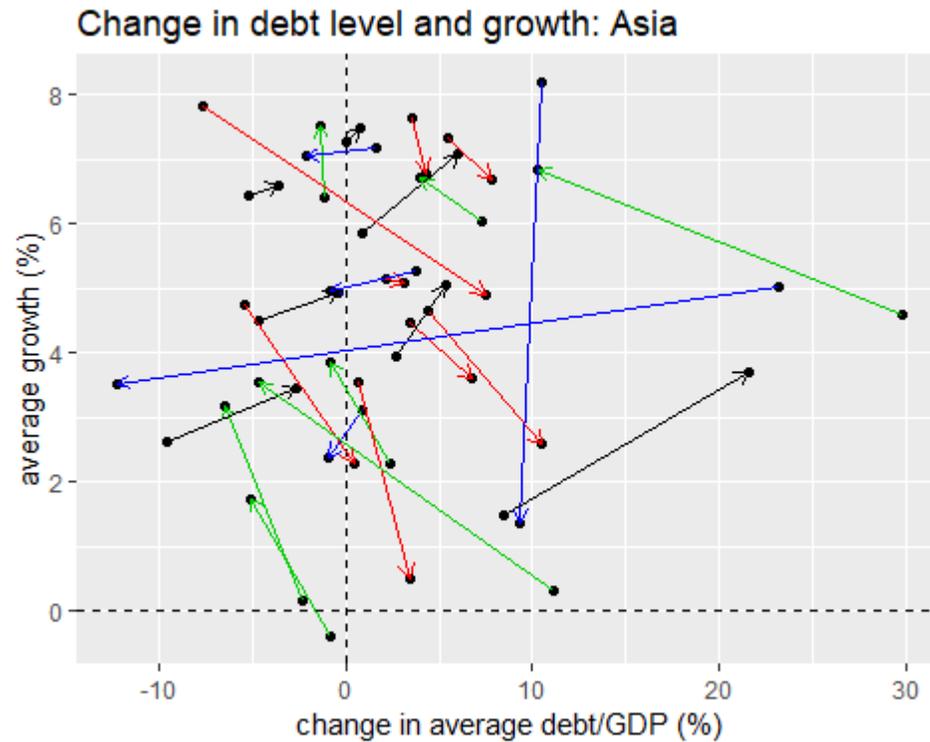
GDP growth (average 2016-18 over 2013-15) and change in debt/GDP ratio (2013-15/2016-18 over 2010-12/2013-15)

For Africa, the countries with rising debt and declining growth (red arrows) seem dominant, posing a question for stimulus effect of accumulating debt. In Latin America too, red arrow countries are the largest but blue countries (declining debt and growth) are large too.



Calculated from IMF WEO database

In Asia (East and South Asia), 4 types of countries are almost evenly distributed. In OECD, the green arrows are the largest group, seemingly supporting fiscal consolidation story.



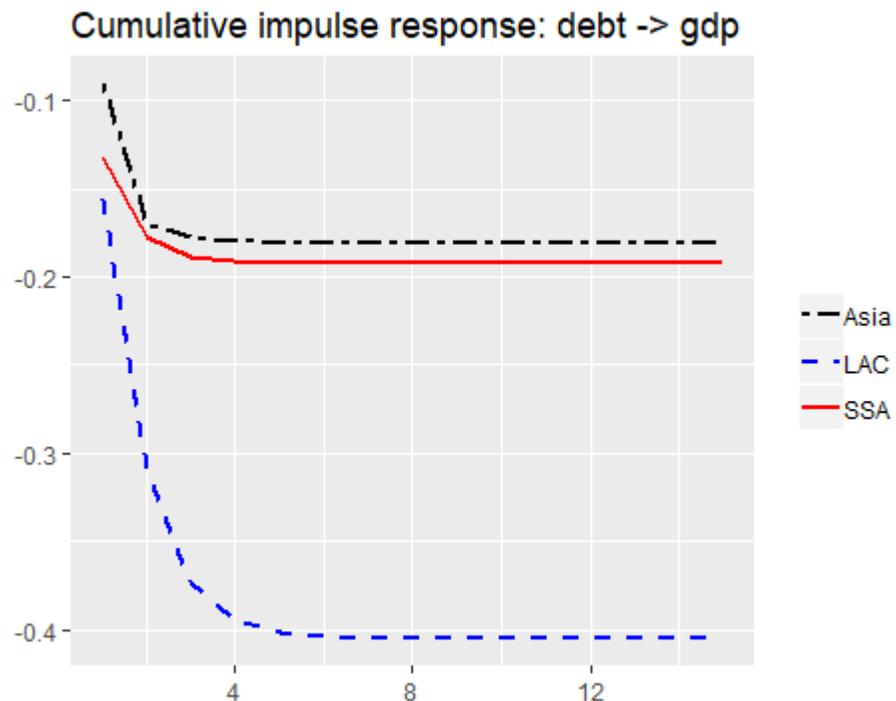
Calculated from IMF WEO database

Composition of groups

Africa has the largest share of countries which experienced the rising debt and declining growth. Stimulus stories are relatively weak than fiscal consolidation/debt overhang stories, but not so much as in OECD.

		SSA		LAC		Asia		OECD	
		Public debt-to-GDP							
		up	down	up	down	up	down	up	down
GDP growth	up	11 24%	6 13%	1 5%	4 18%	7 26%	7 26%	1 3%	21 64%
	down	23 51%	5 11%	9 41%	8 36%	8 30%	5 19%	3 9%	8 24%
		Rd/Gn	Bk/BI	Rd/Gn	Bk/BI	Rd/Gn	Bk/BI	Rd/Gn	Bk/BI
No.		29	16	13	9	15	12	24	9
		64%	36%	59%	41%	56%	44%	73%	27%

Impulse response by the panel VAR



- Is this due the positive debt->GDP effect being offset by the opposite GDP->debt effect?
- Impulse response of a simple panel VAR (against 1% shock of endog. vars) shows the rise in debt level drag down the GDP growth in all regions, but much less in Africa than Latin America.
 - Data period: 2010-18
 - Endog. Vars: GDP growth, debt level change
 - Exog. Vars: G7 growth, commodity price change
 - Lag order: 1
- Note that this is short-term effect (e.g., demand effect). Need more observations to see the long-term growth effect of debt accumulation.