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## NOTES

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### **REGIONAL SPILLOVERS IN SUB-SAHARAN AFRICA**

Exploring Different Channels

Francisco Arizala, Matthieu Bellon, Margaux MacDonald,  
Montfort Mlachila, and Mustafa Yenice

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Montfort Mlachila, and Mustafa Yenice**

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# REGIONAL SPILLOVERS IN SUB-SAHARAN AFRICA: EXPLORING DIFFERENT CHANNELS

## Abstract

After close to two decades of strong economic activity, overall growth in sub-Saharan Africa decelerated markedly in 2015–16 as the largest economies experienced negative or flat growth. Regional growth started recovering in 2017, but the question remains of how trends in the economies stuck in low gear will spill over to the countries that have maintained robust growth. This note illuminates the discussion by identifying growth spillover channels. The focus is on trade, banking, financial, remittance, investment, fiscal, and security channels, which are the most prominent and most likely to transmit growth trends across borders. In addition to bringing together findings from a broad array of existing research, the note identifies countries that are the most likely sources of regional spillovers and those that are most likely to be impacted, and provides estimates for the size of these channels. It finds that intraregional trade and remittance flows are an important channel for growth spillovers, while banking channels are less important but will remain a risk going forward. Finally, the note documents other important spillover channels through financial markets contagion, revenue-sharing arrangements in fiscal unions, commodity-pricing policies, corporate investment, and forced migration. The main takeaway is that the level of interdependence among sub-Saharan countries is higher than is generally assumed. Consequently, there is a need for additional emphasis on regional surveillance and spillover analysis, along with traditional bilateral surveillance.

## Introduction and Summary

After close to two decades of strong economic activity, overall growth in sub-Saharan Africa decelerated markedly in 2015–16, to its lowest level in more than 20 years at 1.4 percent. However, this average masked substantial heterogeneity across the region. While the largest economies (Nigeria and South Africa) experienced negative or flat growth, a third of the countries in the region continued to grow at 5 percent or more during the period. As growth has begun to recover since 2017 on the back of a more favorable external environment, the question remains: to what extent do growth trends in the largest economies spill over to the rest of sub-Saharan Africa? In particular, will trends in the economies stuck in low gear spill over to countries that have maintained robust growth?

This note focuses on identifying the channels and impacts of intraregional spillovers in sub-Saharan Africa. The note goes beyond existing studies that rely on aggregate growth data and that have typically

failed to show large spillovers across the region. It also assesses a variety of spillover channels, whose importance varies across countries, reflecting the heterogeneity of economic structures in sub-Saharan Africa.

The note covers well-known channels as well as those that have received less attention in the literature. It does this by using several methodologies and drawing on studies that have identified transmission channels and mechanisms, and by breaking new ground empirically in areas in which the existing literature is silent. In all cases, the note systematically updates previously known stylized facts and empirical estimates. It identifies countries that are likely to be the origin of economic spillovers and countries more likely to be at the receiving end, provides new empirical estimates of the size of various spillover channels, and documents new channels of transmission not previously identified in the literature (Figure 1).

Regional trade links are steadily gaining strength. Countries that absorb most intraregional exports and hence have the highest potential to generate regional spillovers are identified, as well as countries that are more exposed to spillovers from other countries in the region. The note also discusses the following findings:

- Intraregional trade has steadily increased in intensity over time. It represented 6 percent of total exports

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