MACRO-ECONOMIC POLICY CHALLENGES IN SUB-SAHARAN AFRICA

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A new funding squeeze...

**Sovereign Spreads, 2022-23**
(bps, spread over US Treasuries)

- Worldwide inflation is higher and more persistent than expected
- Prompting a sharp hike in global interest rates
- During times of uncertainty, riskier assets are hit the hardest
- SSA Spreads over other EMs have almost tripled
- Most SSA countries have lost market access.

Sources: Bloomberg.
...elevated prices of key essentials...

- Cost-of-living burden is still a concern, undermining **food security**
- Increased poverty, and ongoing uncertainty
- Security and **social tensions** persist
- Scaling up **targeted support** is difficult
...on top of a multi-year crisis...

The region is still struggling to emerge from the recent crisis.

Interrupted recovery

Fiscal Buffers depleted

SSA. GDP per capita, 2019-23
(index, 2019=100. Dashed line = pre-crisis trend)

Advanced Markets

Sub-Saharan Africa

Source: IMF, WEO database.
...together with a global slowdown...

- Impact of higher interest rates will be mostly felt this year
- Significant slowdown in key markets (US, Euro area), although (slightly) less dire than expected
- Main global engine in 2023 will be China and India

GDP Growth. Select Regions, 2022-23
(Percent)

Sources: WEO database.
...will keep growth subdued this year.

- SSA GDP growth will remain flat at 3.8 percent in 2023
- Small improvement for many countries, but outweighed by slowdown in key economies
- South African slowdown reflects the fading 2022 COVID recovery in services, along with persistent structural bottlenecks

Source: IMF, WEO database.
On funding, the new normal will be less forgiving

**SSA. Composition of General Govt Debt, 2000-21**
(percent of GDP in sub-Saharan Africa)

Sources: Bloomberg; World Bank, International Debt Statistics; and IMF, World Economic Outlook database

**SSA. ODA Flows, 1990-2021**
(percent of GDP)

Sources: OECD
...and the outlook is mixed.

- In line with a global rebound, SSA growth will pick up from 3.8 to 4.1 percent in 2024.
- Return to a two-speed growth path.
- Global risks remain tilted to the downside.
- Region-specific risks (conflict, climate shocks) remain relevant.
- Recovery conditional on:
  - Commodity prices
  - China
  - Global financial conditions

**SSA. GDP Growth, 2022-24**

(percent)

Sources: IMF, WEO database.
Dealing with the new funding squeeze

Where are we?
• For countries already on the edge, yet another constraint
• Current funding has evaporated, amplifying existing vulnerabilities
• Longer term, development finance will be less reliable

What to do?
• Current constraints will shape short-term policy options
• Ongoing premium on building resilience
• Added emphasis on unlocking new sources of funding
Four Key Policy priorities:

- Fiscal Policy
- Monetary Policy
- Exchange Rate Policy
- Climate Change
Fiscal policy amid tightening financial conditions

Interest Payments to Revenue, excl. grants
(percent, mean)

Source: WEO database

SSA. Risk of Debt Distress, 2015-22
(No. of countries)

Source: IMF Staff Calculations
Fiscal policy amid tight financial conditions

- Advice from last year is still relevant
- New emphasis on addressing the current liquidity squeeze
  - Reduce “below-the-line” spending (SOE transfers, etc)
  - Debt management and diversification of funding sources
  - Increasingly important: domestic revenue mobilization

Non-Resource Tax Revenue, Select Countries
(Percent of GDP. Filled points = Fuel Exporters)

Sources: ICTD Database and IMF staff calculations.
Notes: Data for 2021 or latest available. Data exclude social contributions.
Most countries are at a tipping point:
- Inflation has peaked
- But is still too high
- Delicate balance between fighting inflation and being mindful of the region’s fragile recovery

Source: Haver Analytics, National authorities and IMF calculations.
• **Cautious.** Continue tightening policy (gradually) until inflation is firmly on a downward path

• **But not complacent.** Inflation is a life-or-death issue for many and is much more costly to tackle once second-round effects become entrenched.

• **Pegged countries.** Face lower inflation but have the added constraint of maintain adequate reserves.
Exchange rate policy amid global uncertainty

- Recent exchange-rate pressure largely reflects **global fundamentals**
- Significant **complicating factors** in many SSA countries (shallow markets, foreign-currency debt, weakly-anchored inflation, etc)
- But ultimately:
  - Countries need to **adjust to new fundamentals**,
  - the scope for intervention is limited in many cases by **low reserves**, and
  - **complementary policies** may be needed to ease pressure and protect the vulnerable

Sources: Bloomberg; and IMF, World Economic Outlook database
Climate finance measures amid escalating needs

- Climate funding remains far short of climate needs.
- With limited room for more public debt, added concessional funding will remain a key priority.
- Concessional finance can help build local capacity.
- Local capacity is essential to unlocking private investment.
- New and evolving role for IFIs (recent RST, innovative use of MDB balance sheets)

**SSA. Climate Finance Flows, 2020**
(USD Billions)

- **Domestic** 2.4 bn
- **International** 20.1 bn
- **Climate Funds** 1.1 bn
- **Concessional Debt** 7.8 bn
- **Grants** 7.9 bn
- **Non-Conc. Debt** 4.2 bn
- **Other** 2.7 bn
- **Private** 3.1 bn
- **Other Public** 18.3 bn

Source: Climate Policy Initiative.
International solidarity remains essential

- Increased assistance is critical for green transition and development, as well as immediate crisis needs.
- The IMF has stepped up its emergency support dramatically.
- New facilities and a flexible toolkit
  - RSF
  - Food shock window

Sub-Saharan Africa: Total IMF Disbursements, 1990-22

(Billions of US dollars)

Sources: Haver Analytics; and IMF staff calculations.
Note: SDR = Special Drawing Rights, CCRT = Catastrophe Containment and Relief Trust.
Thank You