



AFRICAN DEPARTMENT

THE BIG FUNDING SQUEEZE

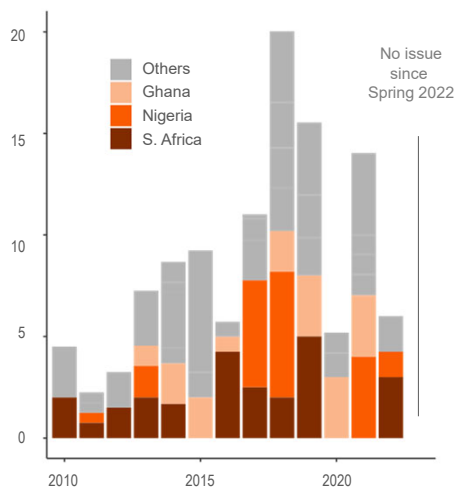
APRIL 2023 REGIONAL ECONOMIC OUTLOOK

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AFRICAN DEPARTMENT, IMF

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The recent funding squeeze...

Eurobond Issues, 2010-23
(USD billions)



Source: Bloomberg, IMF staff calculations.

Eurobond Spreads, 2021-23
(Bps over US Treasuries)



SSA Exchange Rate vs US Dollar, 2021-23
(Index, Sep 1 2021 = 100, trade weighted mean)



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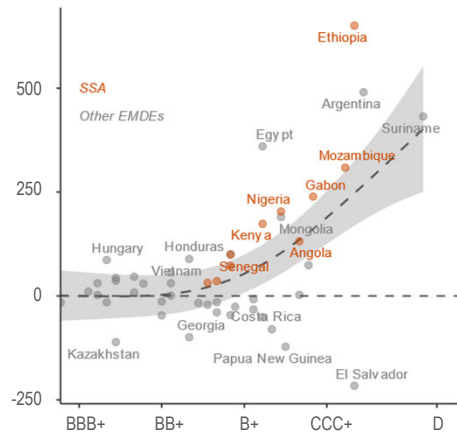
...reflects mostly global factors

US 10-Year Treasury Yield, 2015-25
(Percent)



Sources: Bloomberg, IMF WEO Database, IMF staff calculations. 10-year bond.

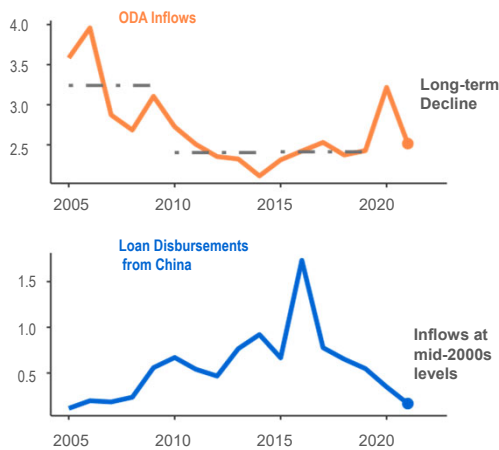
Sovereign Spread Increase vs Credit Ratings
(Bps change between Sep 1, 2021 and March 31, 2023)



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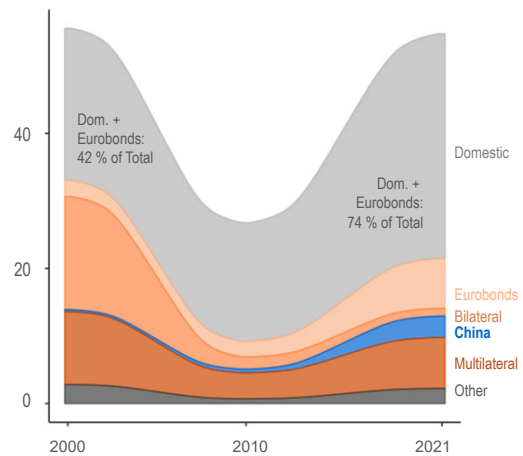
The funding squeeze aggravates preexisting trends

Key Funding Inflows, 2005-21
(percent of GDP in sub-Saharan Africa)



Source: Bloomberg, OECD, World Bank International Debt Statistics.

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



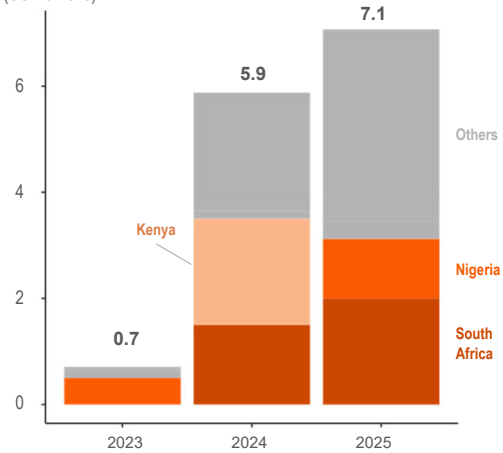
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The new normal will be less forgiving

Tight financing conditions likely to persist:

- Elevated global inflation, hence higher rates for longer
- Geo-political fragmentation impacting aid flows
- China's more prudent lending policy
- Continued shift towards market financing
- Climate change needs

Maturing Eurobonds
(USD billions)



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Consequences of the funding squeeze

Immediate Concerns

Lives under threat

Interrupted recovery

Worsening debt vulnerabilities

Longer-term Concerns

Reduced development progress

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Risks to food security

International Food Prices, 2000-23

(Nominal Price Index, 2014 – 16 = 100)

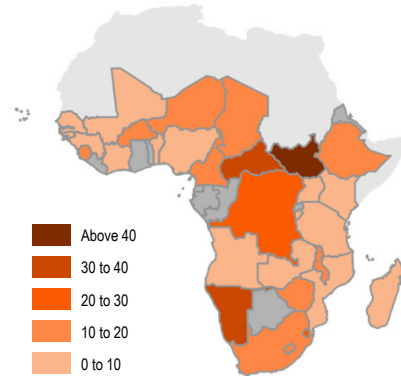


Source: FAO

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Sub-Saharan Africa: Food Insecurity 2022

(Share of Acutely Food Insecure People in Country Total Population)



Source: Global Network Against Food Crises, and IMF staff calculations.
Note: gray = non-available data.

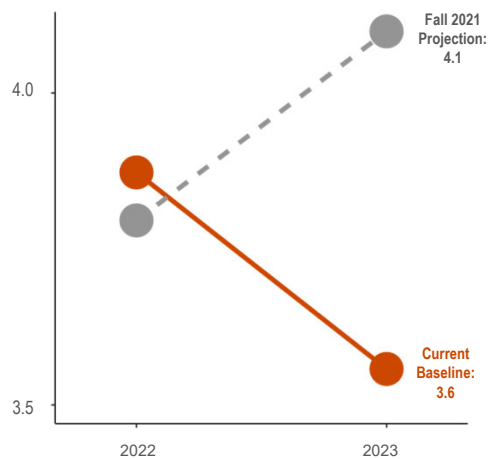
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Interrupted economic recovery

Real GDP Growth, 2022-23

(Percent)



Source: WEO database.

- SSA GDP growth will **ease further to 3.6 percent** in 2023
- Small improvement for many countries, but outweighed by **slowdown in key economies** like South Africa

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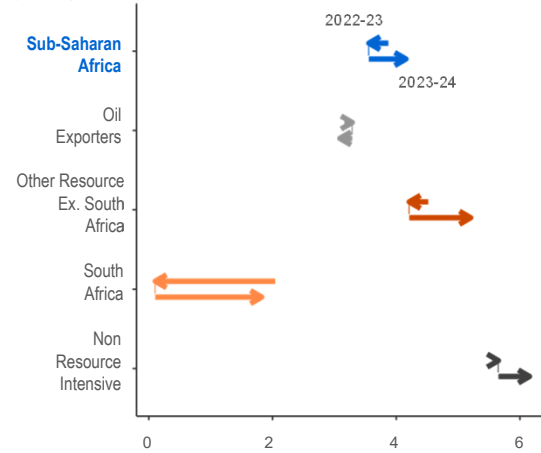
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2024: Two speed recovery

- SSA GDP expected to rebound by **4.2 percent** in 2024
- Assumes global recovery, lower energy prices, and lower inflation (hence lower interest rates)
- Primarily driven by the **non-resource-intensive and other (non-oil) resource-intensive countries**

Real GDP Growth, 2022-24
(Percent)

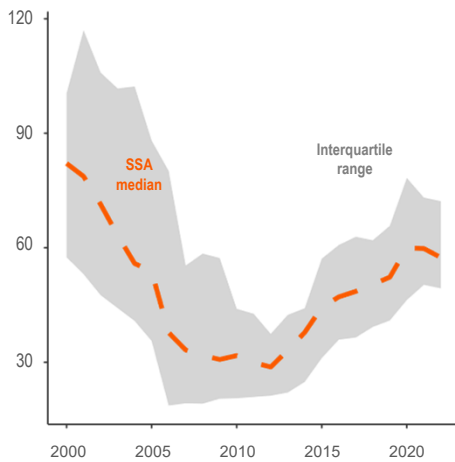


Source: IMF, WEO database.

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Debt vulnerabilities are on the rise

Public Debt, 2000-22
(Percent of GDP)



Source: IMF, WEO database.

- **Public debt ratio doubled in past decade**
- Debt vulnerabilities continue to increase
- Liquidity problems may, over time, raise solvency questions

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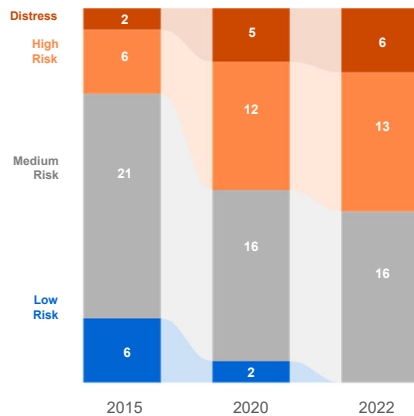
Four Key Policy priorities:



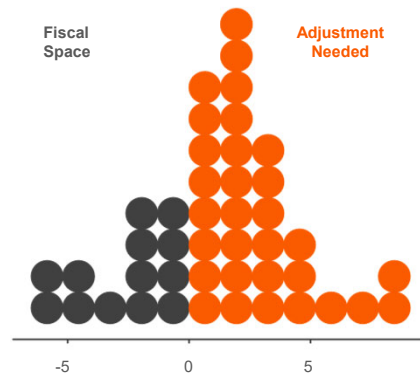
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1. Fiscal policy needs to reduce debt vulnerabilities...

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



Fiscal Adjustment Needed to Stabilize Public Debt Below 70 percent of GDP
(Percent of GDP, no. of countries)



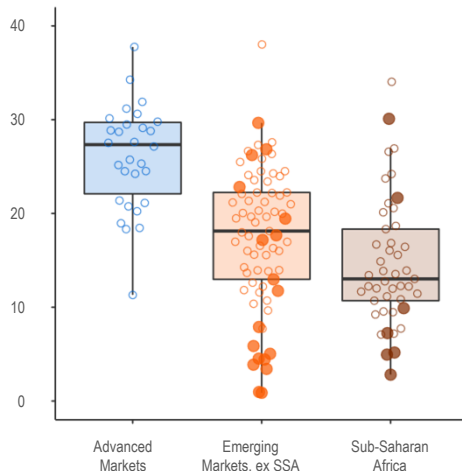
Sources: National authorities, IMF WEO database, IMF staff calculations.
 Note on right-hand side chart: 70-percent threshold represents top one-third of countries. For countries with debt below this threshold, adjustment stabilizes debt ratios at end-2022 levels. For those above, adjustment brings debt to 70 percent within 6 years.

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...and adapt to a tighter financing environment

Tax Revenues, select countries, 2022

(Percent of GDP, filled points = fuel exporters)



Sources: WEO database.

- **New emphasis** on addressing the current liquidity squeeze
 - Reduce **off-budget commitments** (extra-budgetary spending, arrears, guarantees, etc)
 - Enhance **debt management**
 - Increasingly important: **domestic revenue mobilization**
 - In some cases, engage in **debt restructuring**, where needed

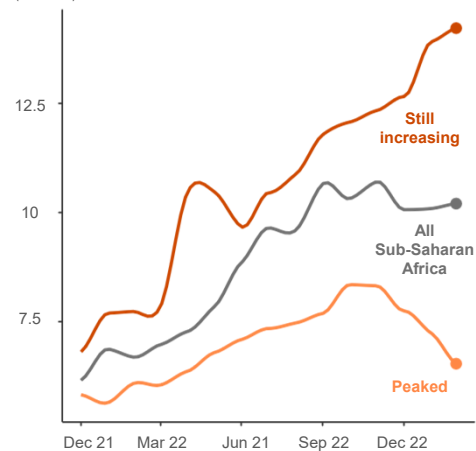
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2. Inflation has started to stabilize...

- On average, inflation seems to have reached a **plateau**
- But the inflation picture is **mixed**
 - Inflation is **declining** for half of the region
 - In the other half, it is still **increasing or very volatile**
 - But is still **too high**

Sub-Saharan Africa: Median Inflation, December 2021 – February 2023

(Percent)



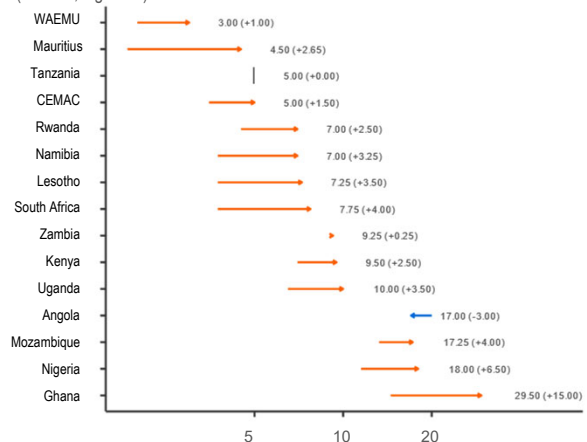
Sources: Haver Analytics, national authorities, and IMF staff calculations.

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....and central banks have to adjust the pace of tightening

- **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 maintaining adequate reserves

Policy Rates, December 2021 to March 2023
(Percent, log scale)



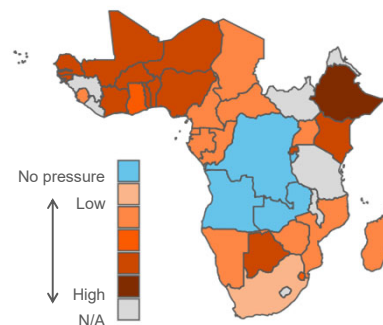
Source: Haver Analytics

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3. Countries are facing elevated exchange rate pressures....

- **Significant exchange-rate pressures** in the past year
- Largely reflects **global factors**: terms of trade changes, and monetary policy normalization
- Many countries have taken actions to **contain these pressures**

Sub-Saharan Africa: Exchange Rate Pressure Index, 2022



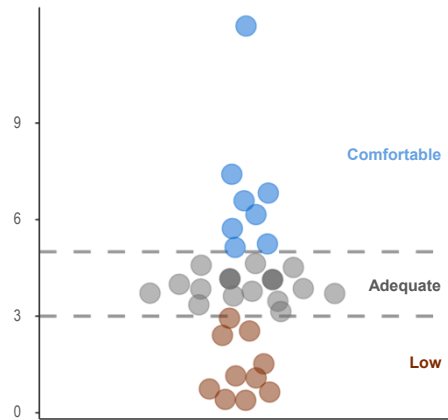
Sources: Bloomberg; and IMF staff calculations.

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....and need to mitigate their adverse economic impacts

Reserve Coverage, 2022

(Months of imports)



Sources: IMF WEO database, IMF staff calculations.

- But ultimately:
 - Countries need to **adjust to new fundamentals**
 - The scope for FX interventions is limited in many cases by **low reserves**
 - **Complementary policies** may be needed to ease pressures and mitigate their adverse economic impacts

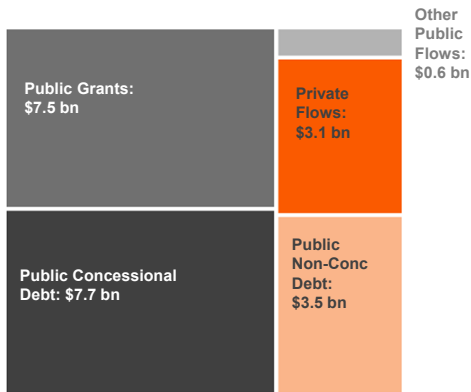
4. Structural reforms are more important than ever...



- Critical role of **structural reforms** in the face of the funding squeeze to:
 - build resilience
 - broaden the revenue base
 - diversify funding sources
 - unlock private finance

...in the context of increasingly urgent climate needs

SSA. Climate Finance Flows, 2020



Source: Climate Policy Initiative

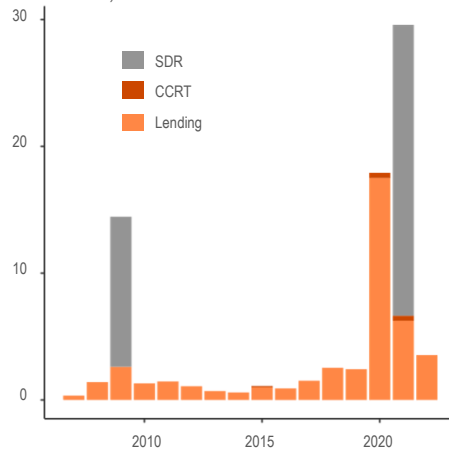
- Added urgency owing to mounting **climate adaptation and mitigation costs**
- Climate funding remains **far short of climate needs**
- More **international concessional funding** is a key priority
- Local capacity is essential to **unlocking additional financing**
- **New and evolving role for IFIs** (recent IMF Resilience and Sustainability Facility)

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International solidarity remains essential

Sub-Saharan Africa: Total IMF Disbursements, 2007-22

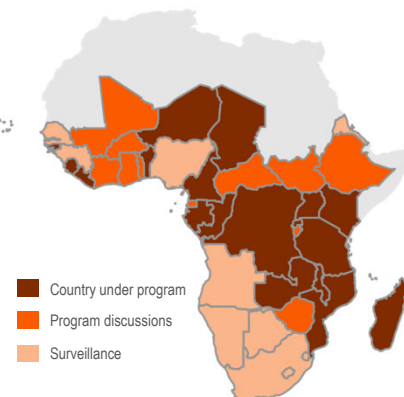
(Billions of US dollars)



Sources: Haver Analytics; IMF IFS database, IMF financial data, and IMF staff calculations.
Note: SDR = Special Drawing Rights, CCRT = Catastrophe Containment and Relief Trust.

IMF Relationships

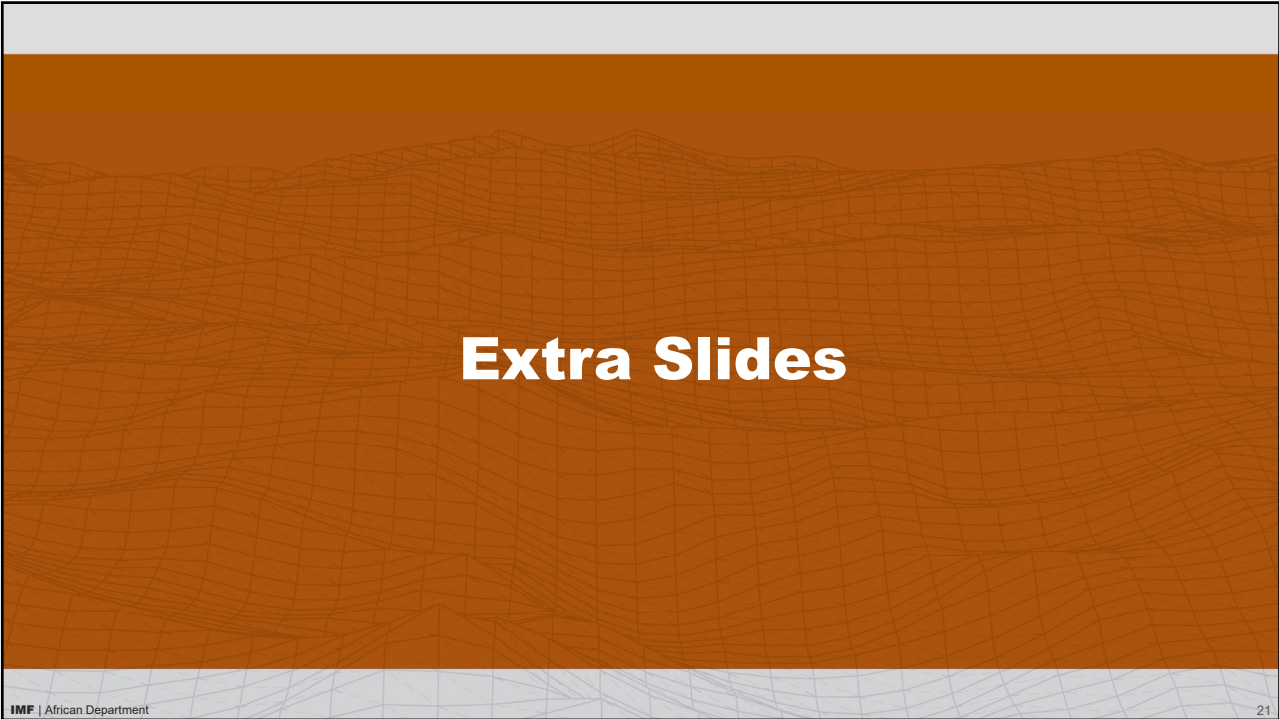
(As of April 13, 2023)



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The return of double-digit inflation

CPI Inflation, 2010-23

(Percent, y/y)



Source: Haver Analytics, IMF staff calculations

Median	Core (excl. Food and Energy) 1/	Headline 1/
Dec 2021	3.4	5.9
Feb 2023	5.8	9.2

1/ For a subsample of 11 countries for which core inflation data for February 2023 is available. For the full sample, headline inflation is 10.1 percent in February 2023.

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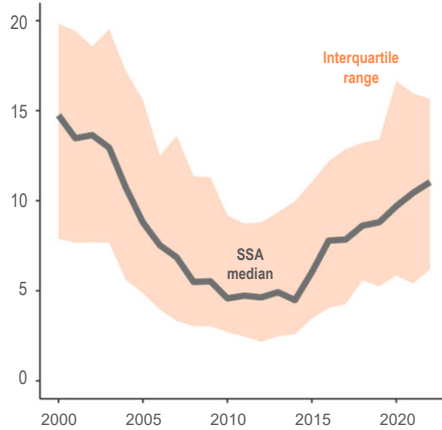
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...with the interest burden doubling in the past decade

Interest on Public Debt, 2000-22

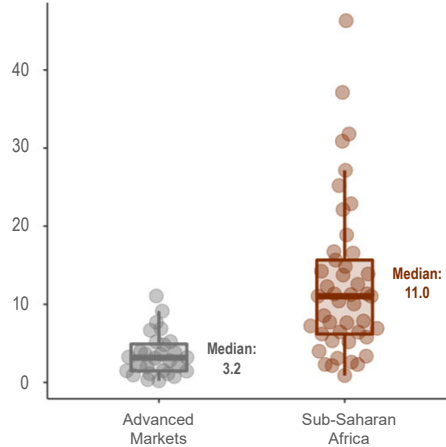
(Percent of revenue excluding grants)



Source: IMF, WEO database.

Interest on Public Debt, 2022

(Percent of revenue excluding grants)



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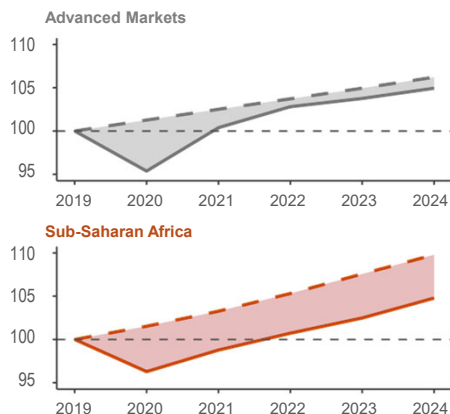
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The funding squeeze may also have scarring effects on the economy...

GDP per capita, 2019-24

(index, 2019=100. Dashed line = pre-crisis trend)



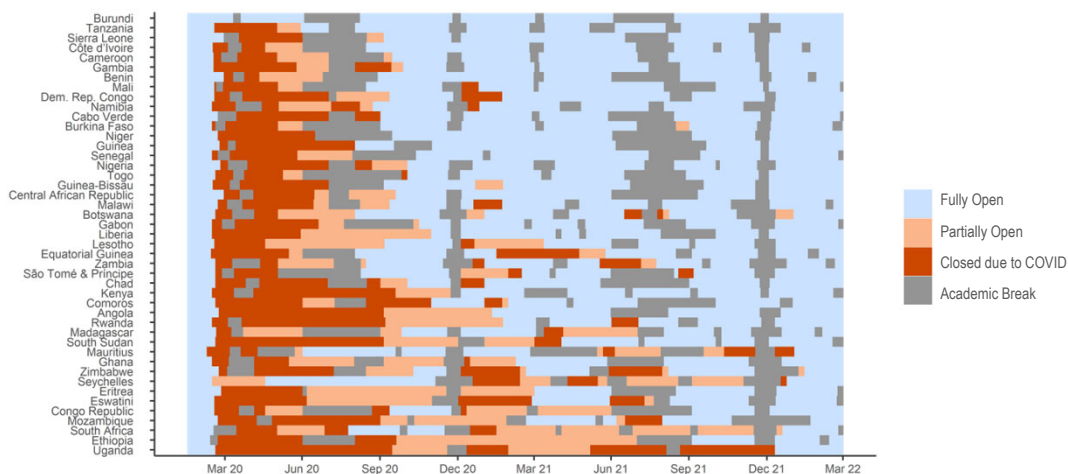
Source: IMF, WEO database.

- Forces countries to reduce resources for **critical development sectors like health, education, and infrastructure**
- This could **weaken the region's growth potential...**
- ...and undermine economic convergence

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...limiting the ability of countries to carry out post-Covid learning remediation and return-to-school efforts...

School Closures, February 2020 to March 2022



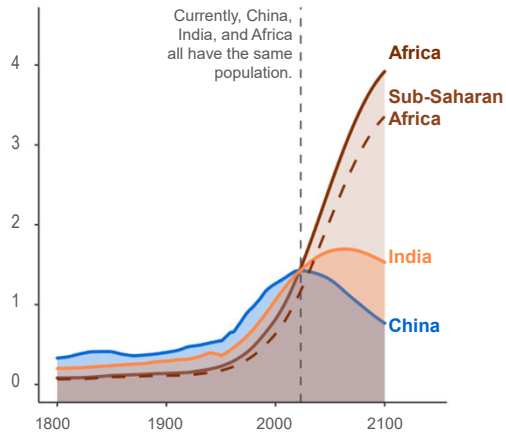
Source: UNESCO, IMF staff calculations.

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...which may impair the population's ability to integrate with the global economy tomorrow

Total Population: Select Regions, 1800-2100

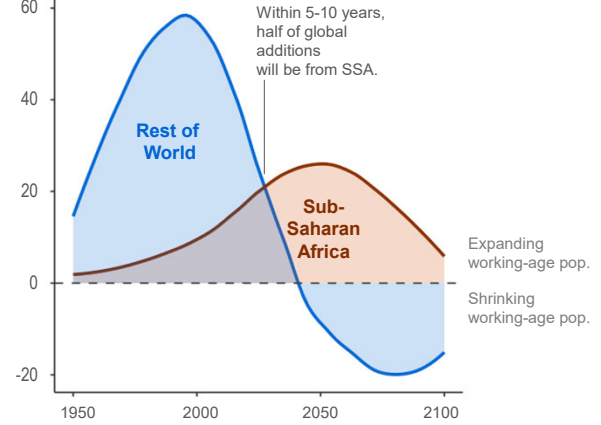
(Billions of people)



Sources: UN World Population Prospects 2022, medium variant; Gapminder historical data.

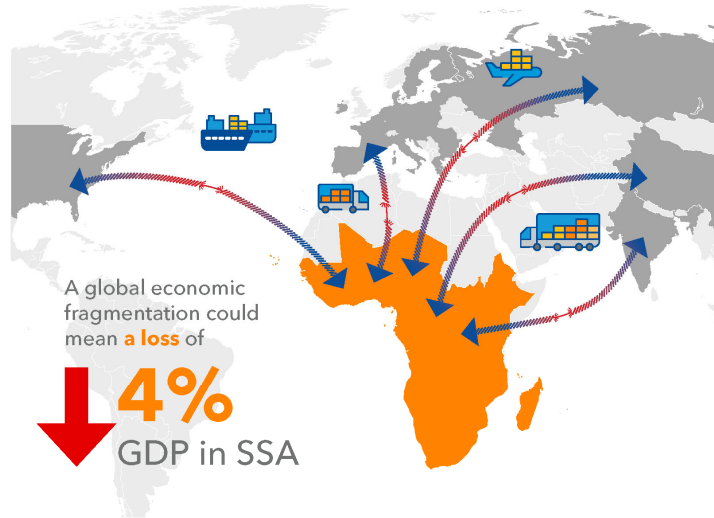
Annual Additions to the Working-Age Population, 1950-2100

(Millions of people per year, ages 15-64)



Analytical Notes

1. Geopolitical fragmentation

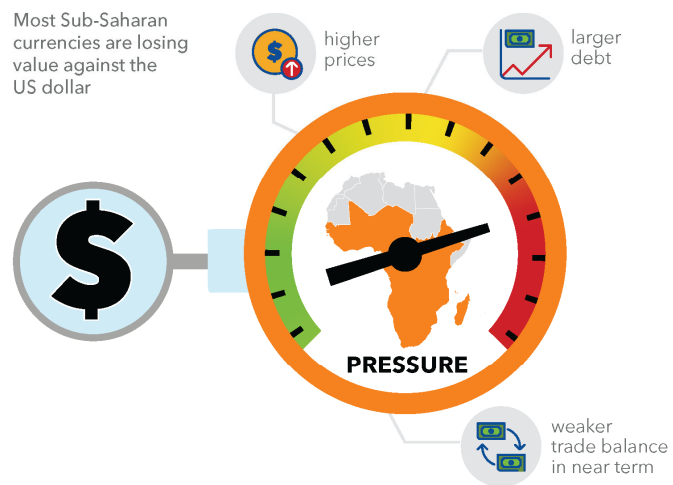


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2. Managing exchange rate pressures

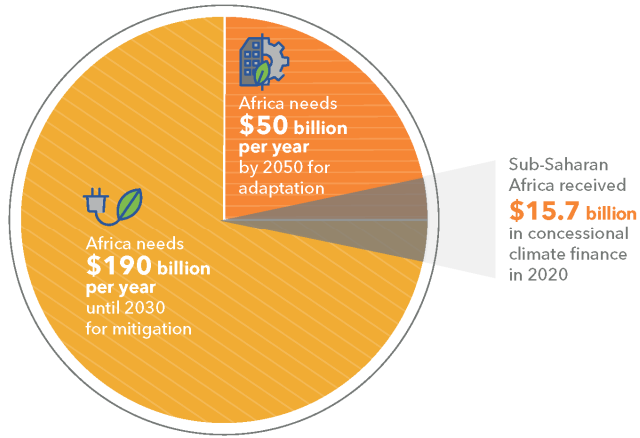


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3. Concessional climate finance



Conclusion

Dealing with the new funding squeeze



Where are we?

- For countries already on the edge, yet another constraint
- Funding has evaporated, amplifying existing vulnerabilities
- Traditional sources of finance for development will be less reliable

What to do?

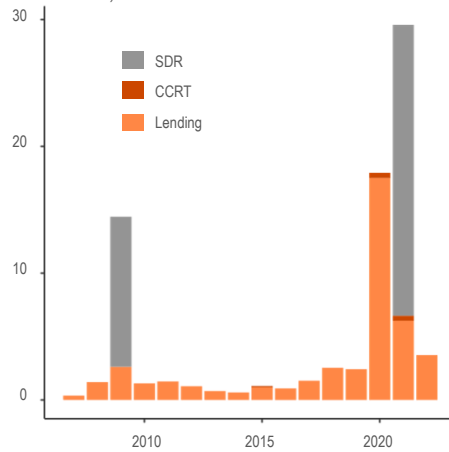
- The funding squeeze will shape short-term policy options (fiscal policy, exchange-rate, climate)
- Ongoing need to build resilience
- Added emphasis on unlocking new sources of funding

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International solidarity remains essential

Sub-Saharan Africa: Total IMF Disbursements, 2007-22

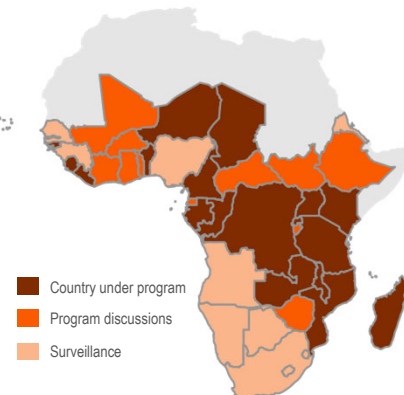
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(As of April 13, 2023)



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