Transcript of podcast with Papa N'Diaye: "Sub-Saharan Africa's Economic Outlook: Growth on the Rise"

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Hello, I'm Bruce Edwards and welcome to this podcast produced by the International Monetary Fund. Today, the IMF's latest *Regional Economic Outlook for Sub-Saharan Africa* shows a modest uptick in growth largely driven by stronger global growth and higher commodity prices, but the IMF's Papa N'Diaye says there's no time to waste in implementing reforms.

MR. N'DIAYE [soundbite]: *These conditions are not expected to last very long, so there is an opportunity here to firm up the recovery.*

MR. EDWARDS: The study shows growth in sub-Saharan Africa picking up from 2⅔ percent in 2017 to 3½ percent in 2018. Papa N'Diaye heads the team of IMF economists who wrote the report. He says the uptick is good news for the region which has been experiencing a slowdown in economic growth over the last few years.

So, in this report there are many things, but one striking thing is that there are several countries that are still showing that they have fairly strong growth. What's behind that—what's driving the strong growth in that group of countries?

MR. N'DIAYE: Well, in those countries that are growing about six percent, growth is basically driven by public infrastructure, and the governments there have engaged in large infrastructure projects that have helped support growth—these are countries like Ivory Coast, Ethiopia, Ghana, Senegal, and Rwanda.

MR. EDWARDS: So, they're reaping the benefits of investment in infrastructure?

MR. N'DIAYE: That's right; they're investing in infrastructure, and we see the benefits in terms of growth. Now, going forward, the challenge in these countries is mainly to hand over the reins of growth to the private sector because the counter-policy implication of this spending on infrastructure has been an increase in public debt, and as the debt liabilities increase, there is a need to boost the private sector and allow it to take over the reins of growth.

MR. EDWARDS: So, there are two things on that, and one is: when you mentioned debt, there are more vulnerabilities. The report shows that several countries are having increasing debt problems. Why are so many countries struggling with debt, and are we on the verge of a debt crisis in Africa?

MR. N'DIAYE: Well, the direct answer to that is no; but our debt vulnerabilities are rising. There is a handful of countries that are in debt distress and have been assessed as being at high risk of debt distress.

MR. EDWARDS: How many of those countries?

MR. N'DIAYE: We have six countries that are in debt distress right now, and nine countries that are assessed to be at high risk of debt distress. Now, being at high risk of debt distress doesn't mean that you *will* be in debt distress. The important thing is for many of the countries in this region to implement the consolidation plans that they have already committed to, and, basically, our forecast shows that if those consolidation plans move ahead, the debt vulnerabilities will decline and debt is going to stabilize or even go down in some cases.

So, that's what the focus should be. Now, coming back to your question about what causes debt. There are several reasons for it. The first one is the public infrastructure that we talked about, and in those countries, there was space to ramp up this infrastructure by the governments. But there is also the fact that many of these countries have been hit by a large commodity shortage. There was a large decline in oil prices in 2014, and if you go back and look at it historically, this is one of the largest in real terms since 1970.

And, typically, countries don't get out of that without increasing debt. It's a large shortage that they had to adjust to. Some have delayed the adjustment, and you've seen the consequences in some of them, but they are making headways through all that. They still have more progress to make, but if those plans are implemented that should stabilize debt.

And you have a handful of countries or so that have been in conflict and have longstanding issues that they had to deal with, and very difficult economic situations with a lot of people being displaced internally.

MR. EDWARDS: So, I'm going to get to that in a second; but I'd like to ask you about the private investment thing you mentioned earlier.

MR. N'DIAYE: Okay.

MR. EDWARDS: So, countries that have invested in their infrastructure are seeing more private investment and, ideally, we'd like to see private companies jumping in rather than public investment. How do you go about encouraging more private investment when the business environment is quite difficult in some countries?

MR. N'DIAYE: We have two analytical chapters in this regional economic outlook. One is on the need to raise the domestic revenues, and just to allow countries to be able to pay for all these development needs that they have—infrastructure; investment in human and physical capital …

MR. EDWARDS: But when you say domestic revenues, what do you mean?

MR. N'DIAYE: It's tax revenue, because tax revenues are very low across sub-Saharan Africa. This does not necessarily mean increasing tax rates themselves. There is room for increasing the efficiency in the VAT frameworks, streamlining exemptions, and things like that, which could give more revenues to governments without really hurting growth.

The second analytical focus of this regional outlook is in private investment, because this is critical for the region to be able to achieve sustainable and strong growth over the medium term. The levels of private investments in sub-Saharan Africa are low compared to what we see in comparable countries in other regions. And, we did some analytical work there to try to uncover the determinants of private investment and what it would need to take off. The findings are many, and I would invite our listeners to read the report, but in a nutshell, what we find is that one needs to strengthen the economic prospects first to provide these opportunities for investment in the countries, and then strengthen the business and regulatory environment in many of the countries.

MR. EDWARDS: But how would they do that? I mean, some of these countries have pretty high degree of instability and, as you mentioned earlier, conflict. If there's one thing that they can do to stabilize the business environment, what would it be?

MR. N'DIAYE: Yes, there's a lot in terms of improving governance and streamlining the various business processes, and so on, that they could do; but it's not only that. There is also the need to provide greater access to credit to people, and we found that this is a major constraint for private investment in the region. So, by deepening financial markets, that could provide some help.

Because all of these reforms in general take time, countries have pursued different avenues to boost private investment. Some have engaged into public-private partnerships to jumpstart this private investment, if you will. Others have tried to attract more FDI—foreign direct investment—into their countries. There are also global initiatives that have been in place for a few years—for example, the Belt and Road Initiative (under China's leadership); and the G20 initiative "Compact with Africa", which aim to spur directly private investment in the region.

Now, these are initiatives that still have to bear fruit; they're just at the beginning, but we are confident that they could help, and they would be beneficial.

MR. EDWARDS: You mentioned conflict. Unfortunately, there is a lot of conflict in sub-Saharan Africa and, especially in the Sahel region. To what extent is that disrupting economies, and what does the report say in terms of trying to deal with that issue?

MR. N'DIAYE: There are many countries that are dealing with very difficult situations. Some of them are dealing with increased terrorist activities and these are the Sahel countries you are referring to; and those situations have implied or caused a lot of displacement. Beyond the human toll there is also a financial toll to it, which puts a lot of strain on budget positions that are not very strong. So, it's a difficult situation.

Other countries have also been dealing with internal conflicts, and what we have seen in the past few years is a dramatic increase in the number of internally-displaced people—over 7 million or so—and that has created complications for neighboring countries as well, so, it is a very difficult situation.

MR. EDWARDS: Does the report look at what will happen once these countries come out of conflict? There tends to be boosts in growth, or at least there's evidence that shows that some countries that have exited conflict have very strong growth for the years following that. Does the report look at that at all?

MR. N'DIAYE: Yes; we looked at it in the context of the analytical chapter on private investment. We went through the experience of various countries in the region; and what you really see is a typical pattern where countries that manage to resolve their internal conflicts see a boost in private investment in the following few years. The challenge after that is just to transform that into sustained growth, which typically takes on additional reforms—reforms that I alluded to earlier in terms of governance, and reforms of products and labor market, and so on.

MR. EDWARDS: And so, you write this report every six months. What do you think—in six months from now, will we be having a conversation about sub-Saharan Africa where growth is strong?

MR. N'DIAYE: Well, we really hope so. We have a modest uptick in growth right now that's predicated on a strong global outlook; some recovery in commodity prices; and easy financial conditions. These conditions are not expected to last very long, so, there is an opportunity here to firm up the recovery by implementing the reforms that are needed to set themselves on a sustainable high growth. We are going to look at the issue of the future of work in sub-Saharan Africa in six months, hoping that the growth conditions will still be there.

The focus will be on the challenges and opportunities that these rapid advances in technology that we see in the world are going to pose for the region. So, for the next report, I invite all the listeners to not only read the current report, but also wait for a very exciting report in six months.

MR. EDWARDS: Great; I'm looking forward to it. Thank you so much.

MR. N'DIAYE: Thank you.

MR. EDWARDS: That was Papa N'Diaye, head of the Regional Studies Division in the IMF's African Department, talking about the latest regional economic outlook for sub-Saharan Africa. You can read the full report at imf.org. And if you like this podcast, subscribe on iTunes or on your favorite podcast app; just search for "IMF podcasts." You can now also follow us on Twitter: @imf_podcast.

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