



**AFRICAN
DEPARTMENT**

THE BIG FUNDING SQUEEZE

REGIONAL ECONOMIC OUTLOOK

VICTORIA

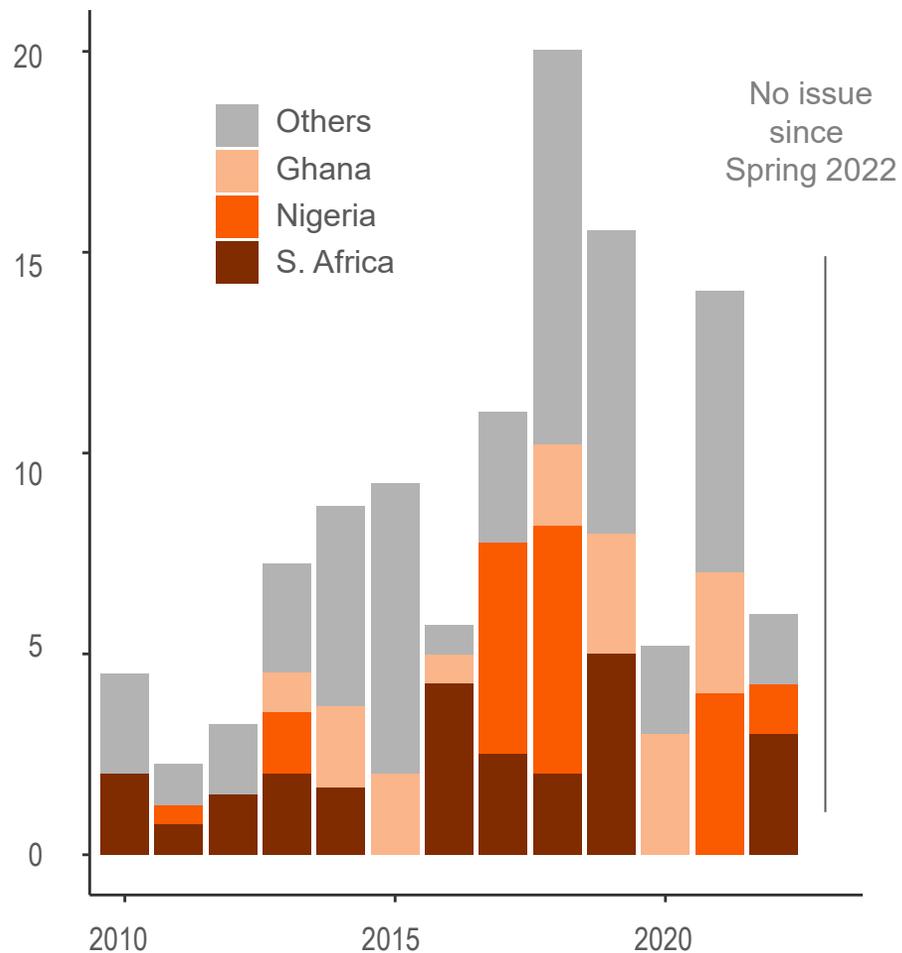
JUNE 21ST 2023

The making of a funding crisis

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)

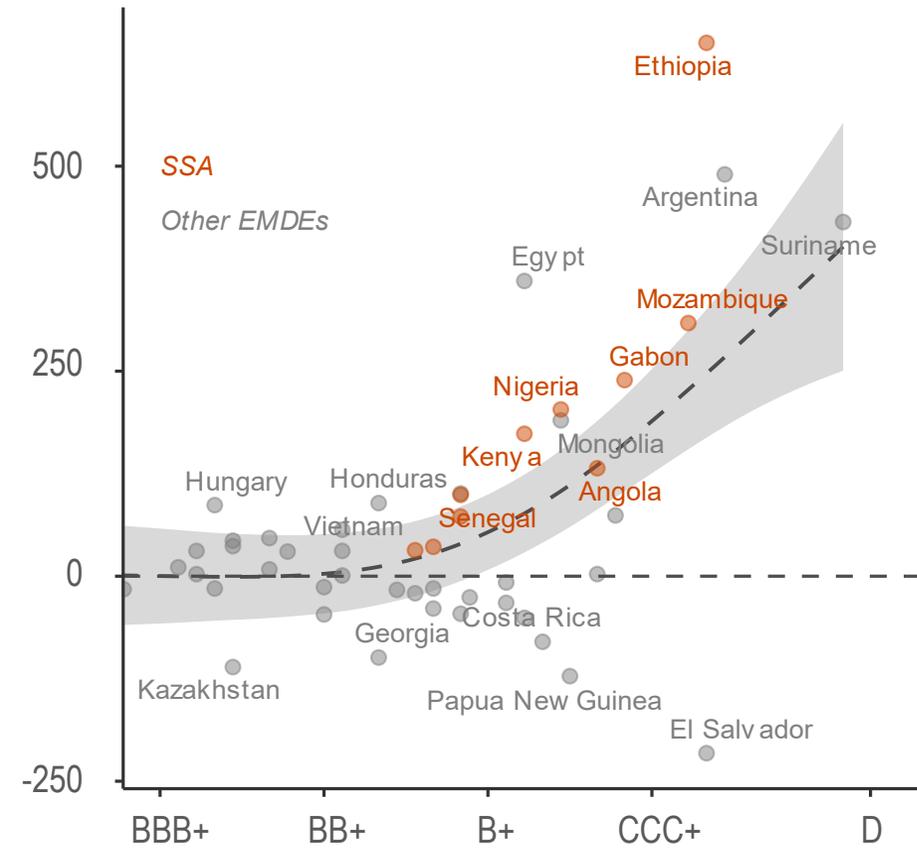


...reflects mostly global factors

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



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

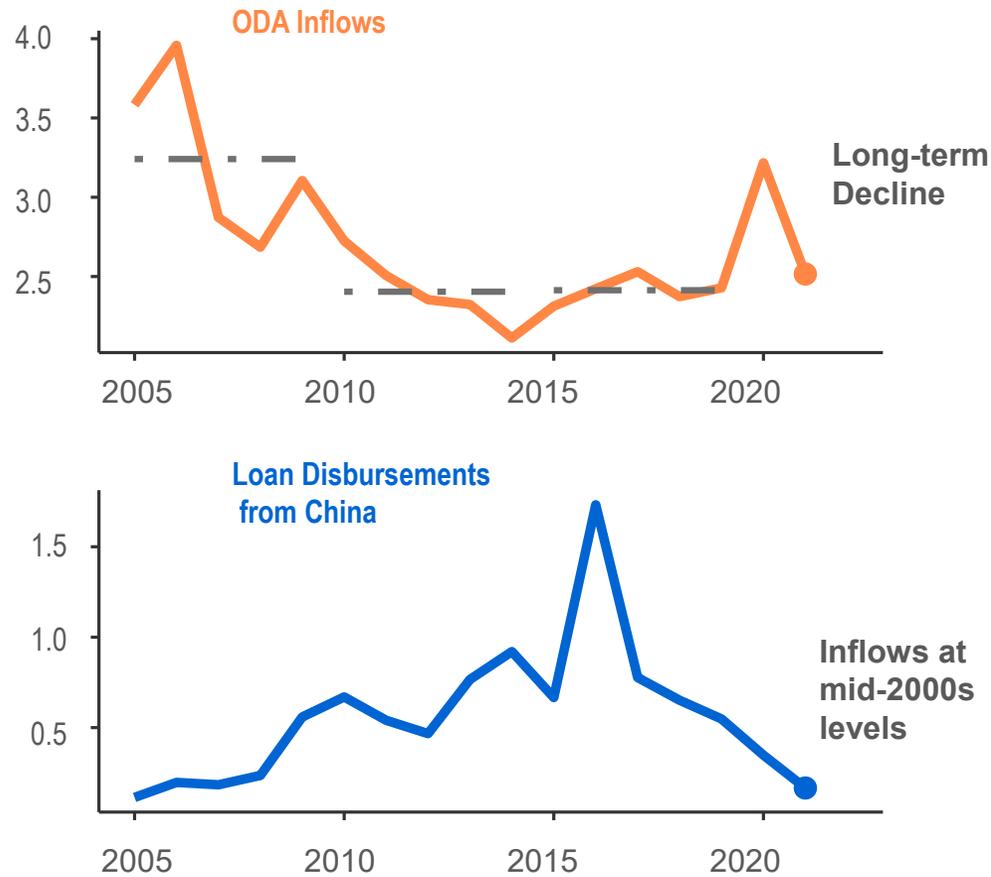


Sources: Bloomberg, IMF WEO Database, IMF staff calculations. 10-year bond.

The funding squeeze aggravates preexisting trends

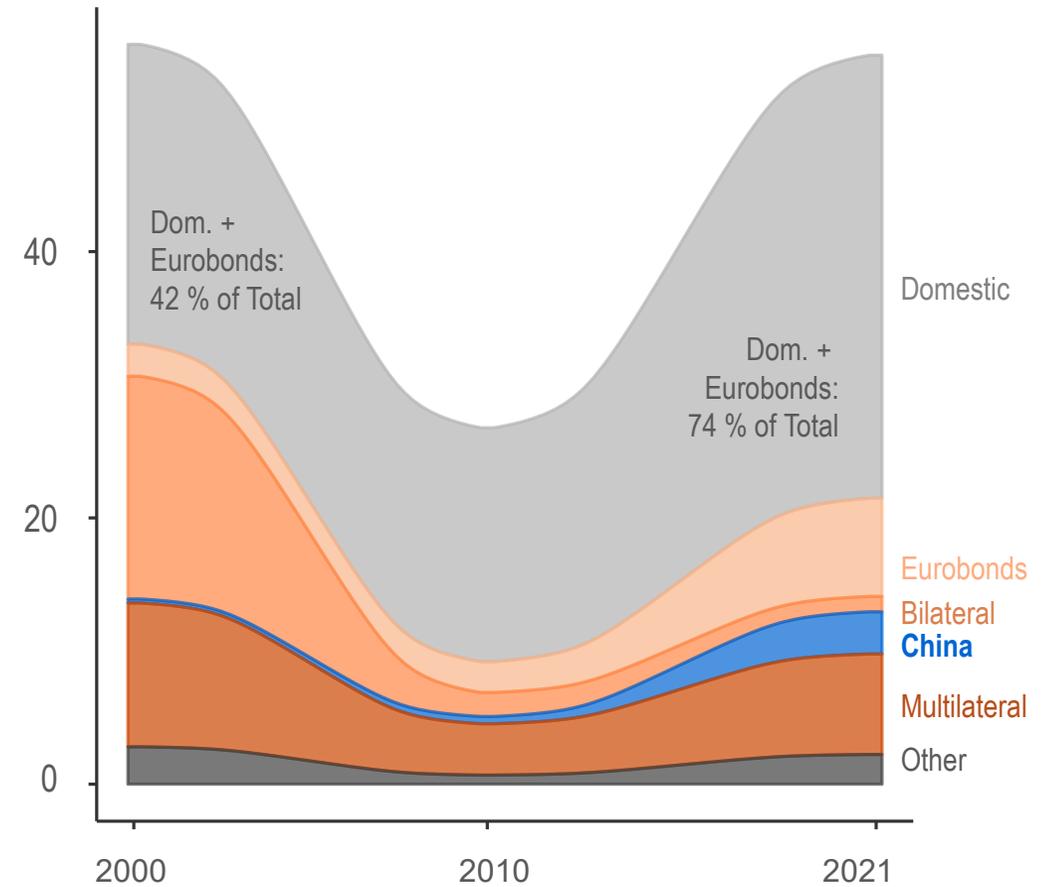
Key Funding Inflows, 2005-21

(percent of GDP in sub-Saharan Africa)



Composition of General Govt Debt, 2000-21

(percent of GDP in sub-Saharan Africa)



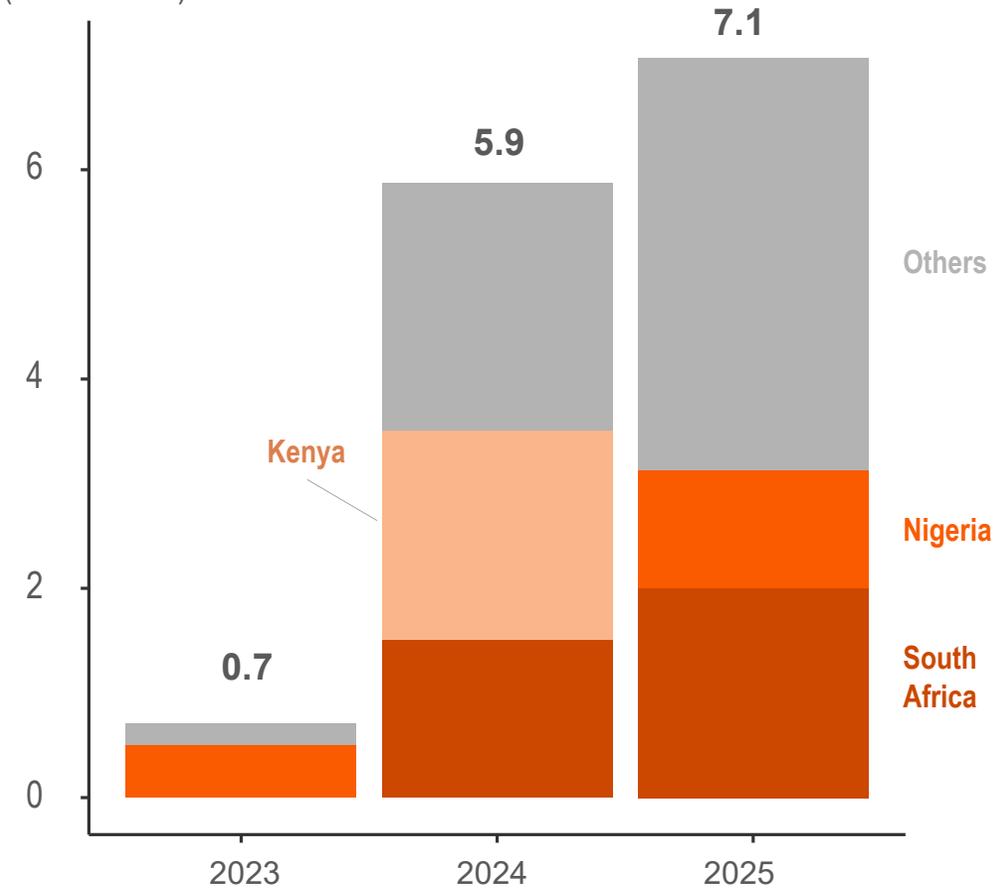
Source: Bloomberg, OECD, World Bank International Debt Statistics.

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)



Consequences of the funding squeeze

Immediate Concerns

Lives under threat

Interrupted recovery

Worsening debt vulnerabilities

Longer-term Concerns

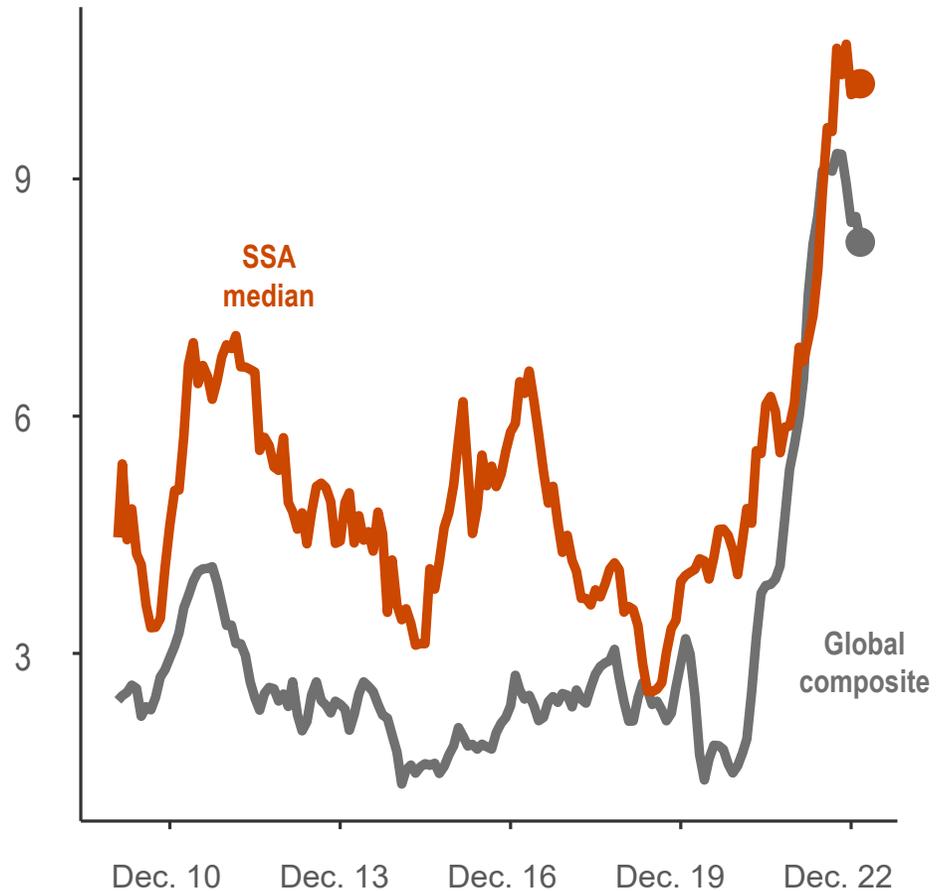
Reduced development progress

Immediate concerns: lives and livelihoods under threat

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.

Risks to food security

International Food Prices, 2000-23

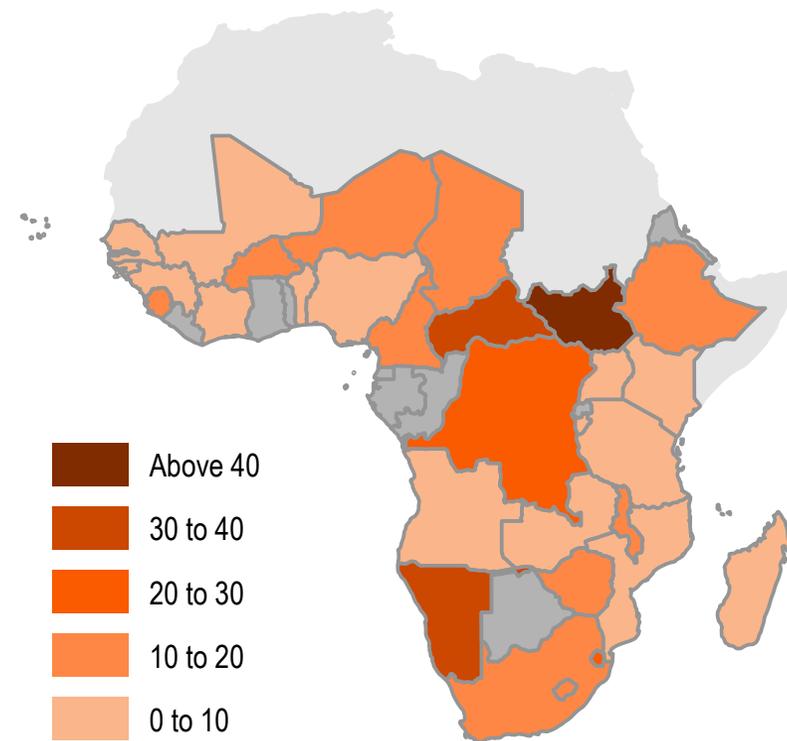
(Nominal Price Index, 2014 – 16 = 100)



Source: FAO

Sub-Saharan Africa: Food Insecurity 2022

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



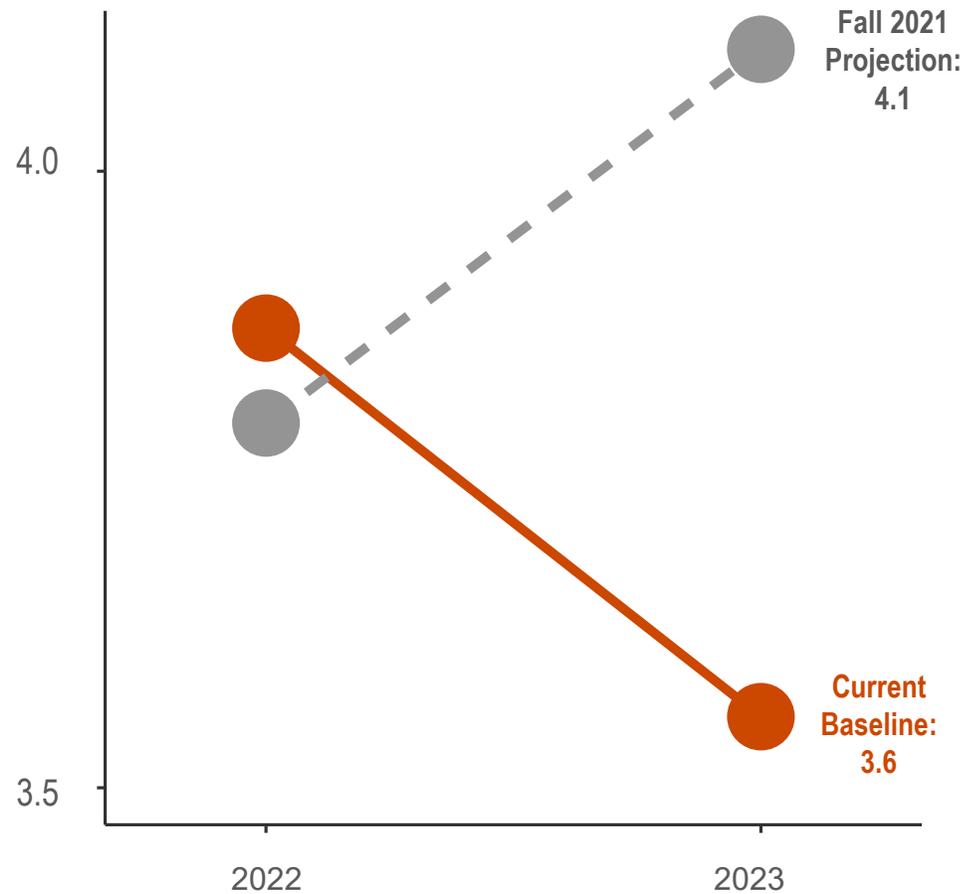
Source: Global Network Against Food Crises, and IMF staff calculations.

Note: gray = non-available data.

Interrupted economic recovery

Real GDP Growth, 2022-23

(Percent)



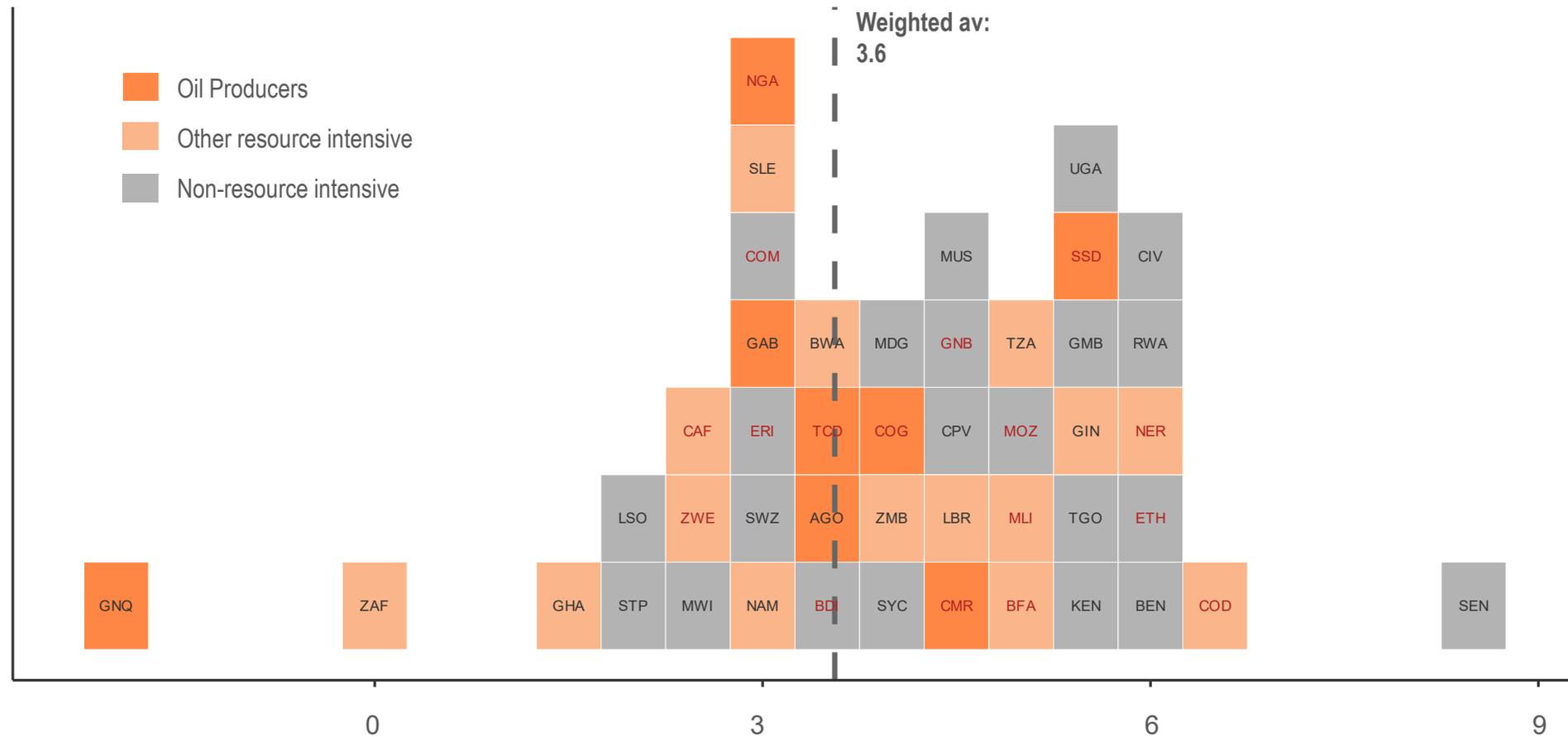
Source: WEO database.

- 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

Heterogeneous situation across countries in 2023

Real GDP Growth, 2023

(Percent, fragile countries in red)

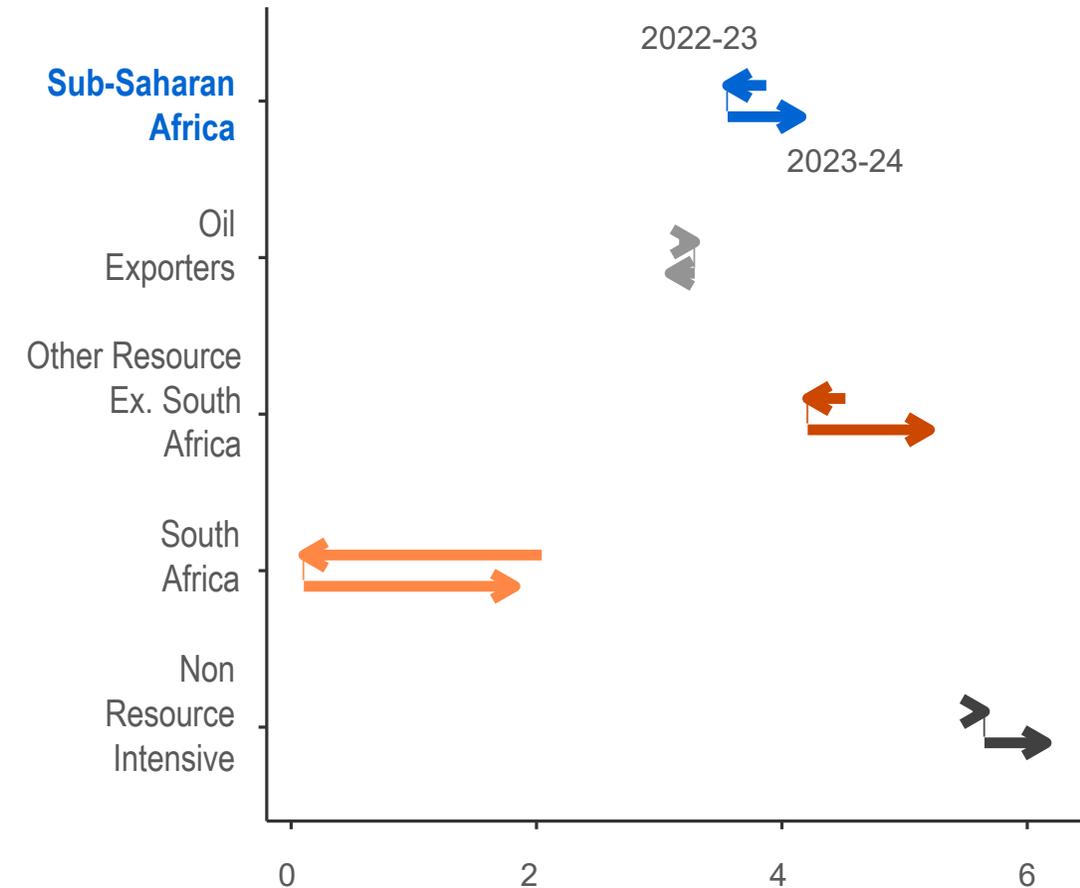


Source: WEO database.

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)



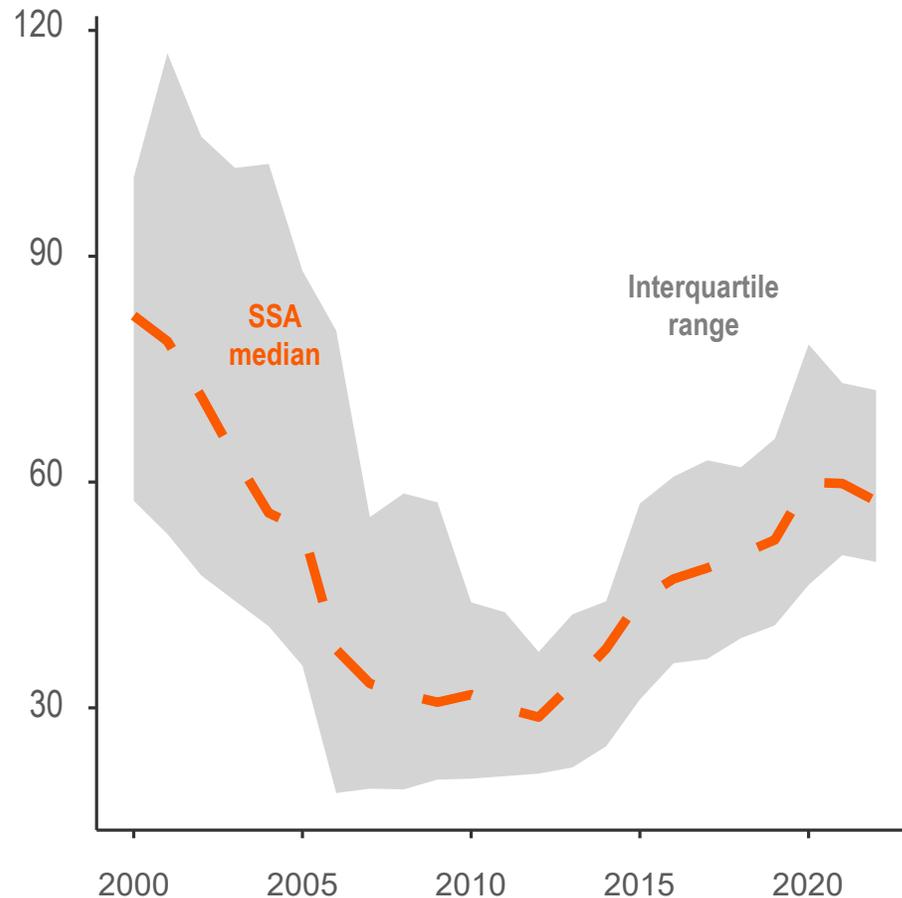
Source: IMF, WEO database.

**Longer term: aggravation of debt
vulnerabilities and fewer economic
opportunities**

Debt vulnerabilities are on the rise...

Public Debt, 2000-22

(Percent of GDP)



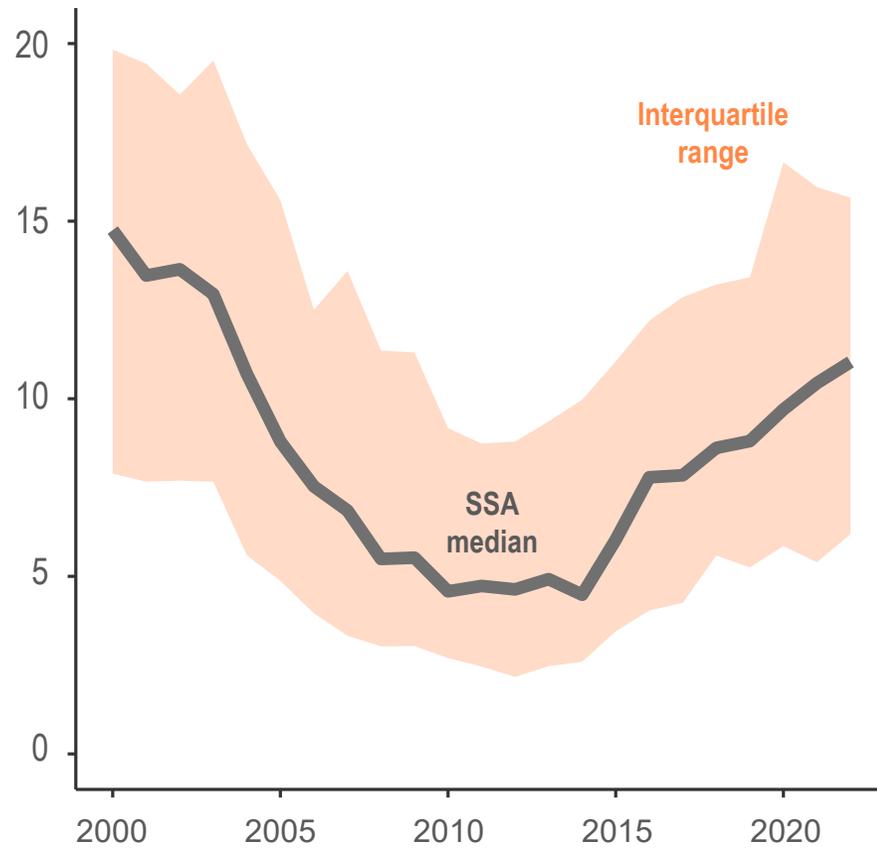
Source: IMF, WEO database.

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

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

Interest on Public Debt, 2000-22

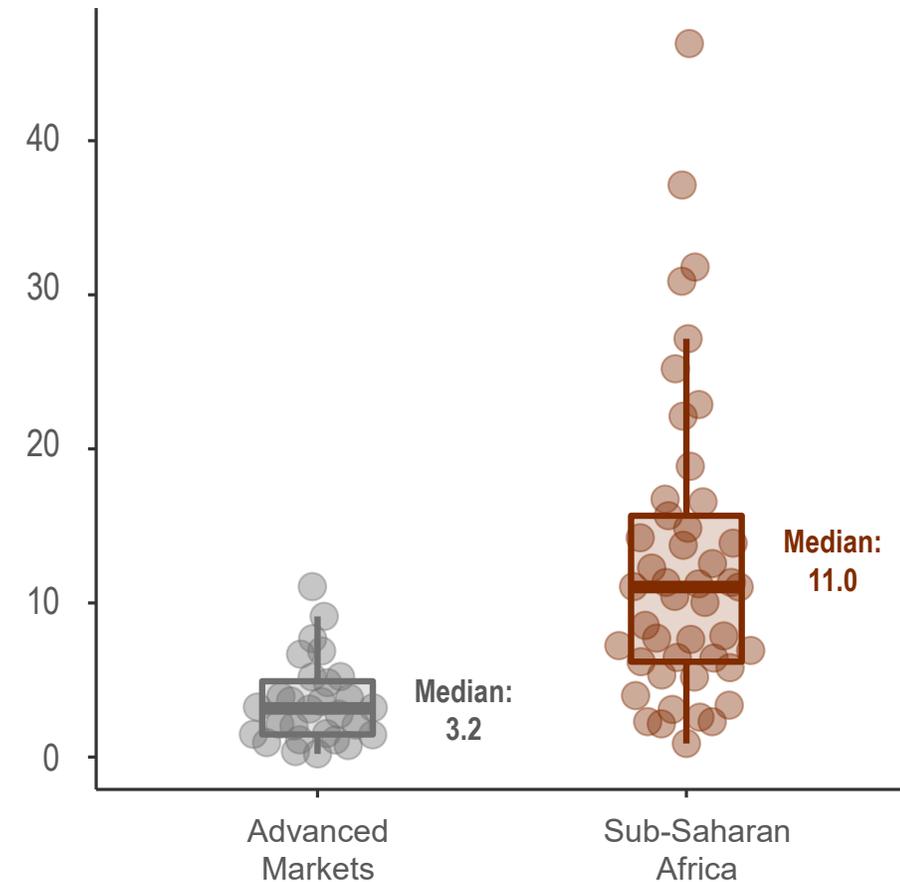
(Percent of revenue excluding grants)



Source: IMF, WEO database.

Interest on Public Debt, 2022

(Percent of revenue excluding grants)



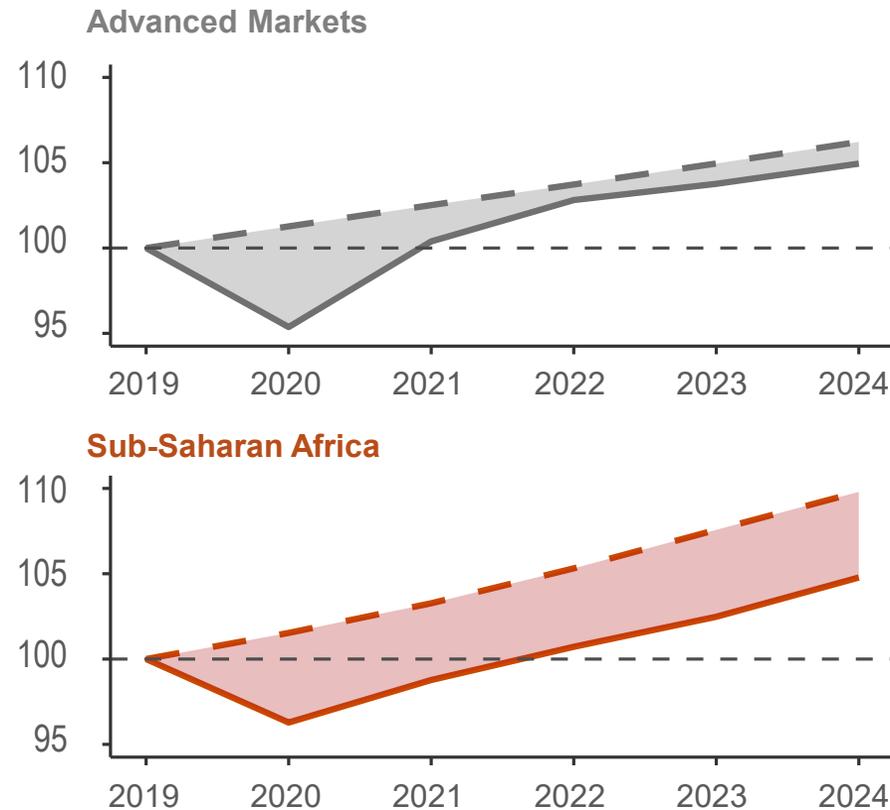
Debt vulnerabilities used to be high in Seychelles, but are now declining...

- Public debt declined by over 20 percent of GDP from 89.5 percent of GDP in 2020 to 69.2 percent in 2022, thanks to the stronger than-projected economic recovery and fiscal consolidation efforts vastly overperforming program targets.
- Medium-term liquidity risks as analyzed by the GFN Finance ability Module are moderate.
- Fund's support through RSF will help contain risks. Health spending needs will also rise, in part due to high percentage of population suffering from substance abuse.

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

GDP per capita, 2019-24

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

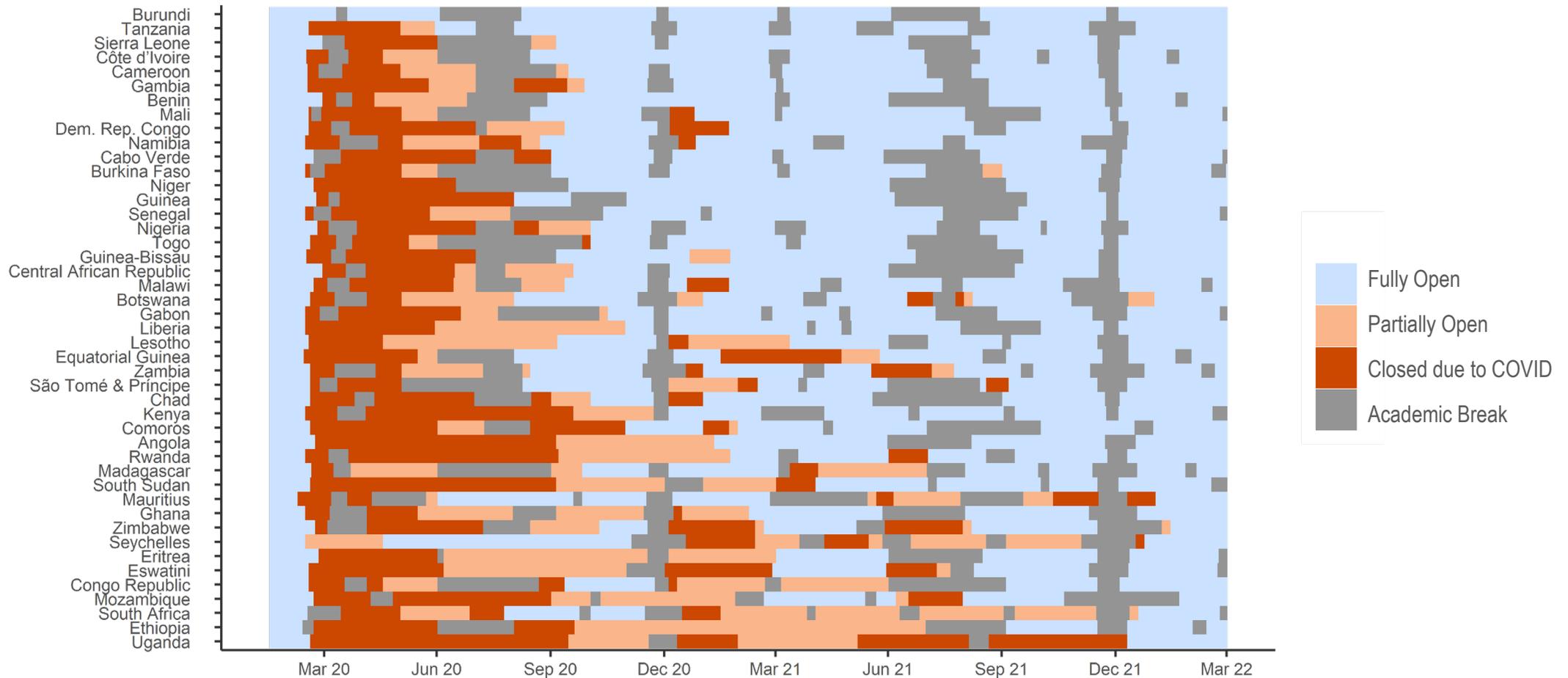


Source: IMF, WEO database.

- 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

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

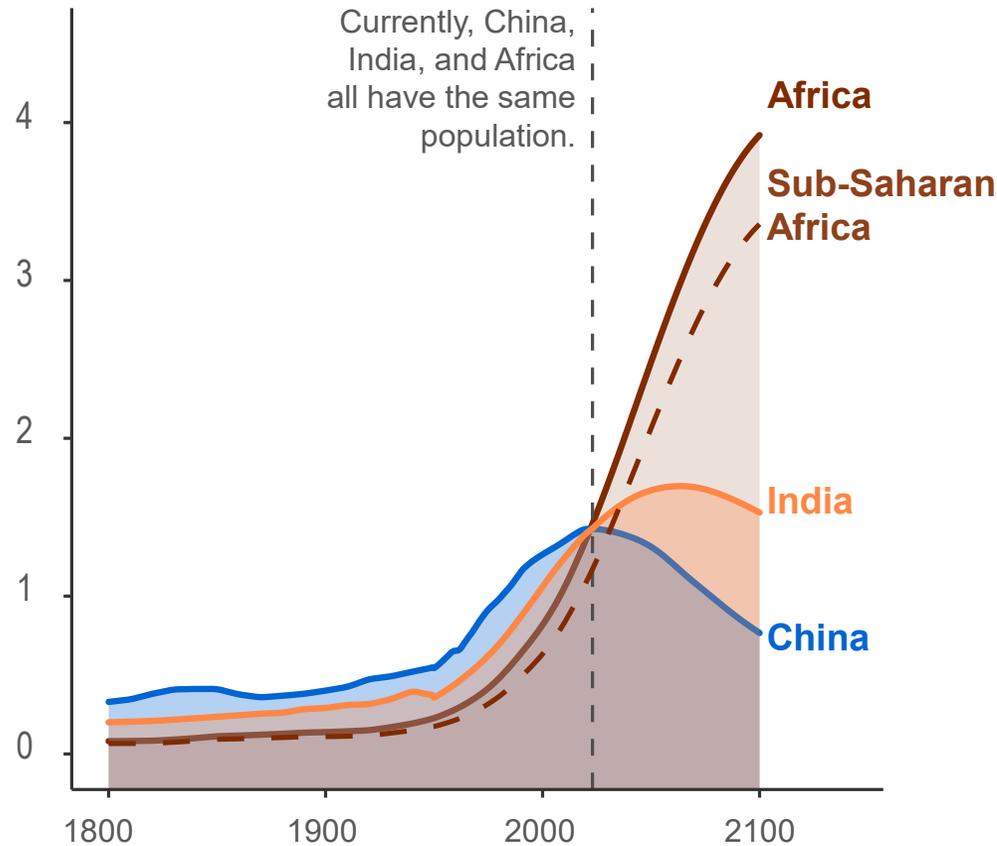
School Closures, February 2020 to March 2022



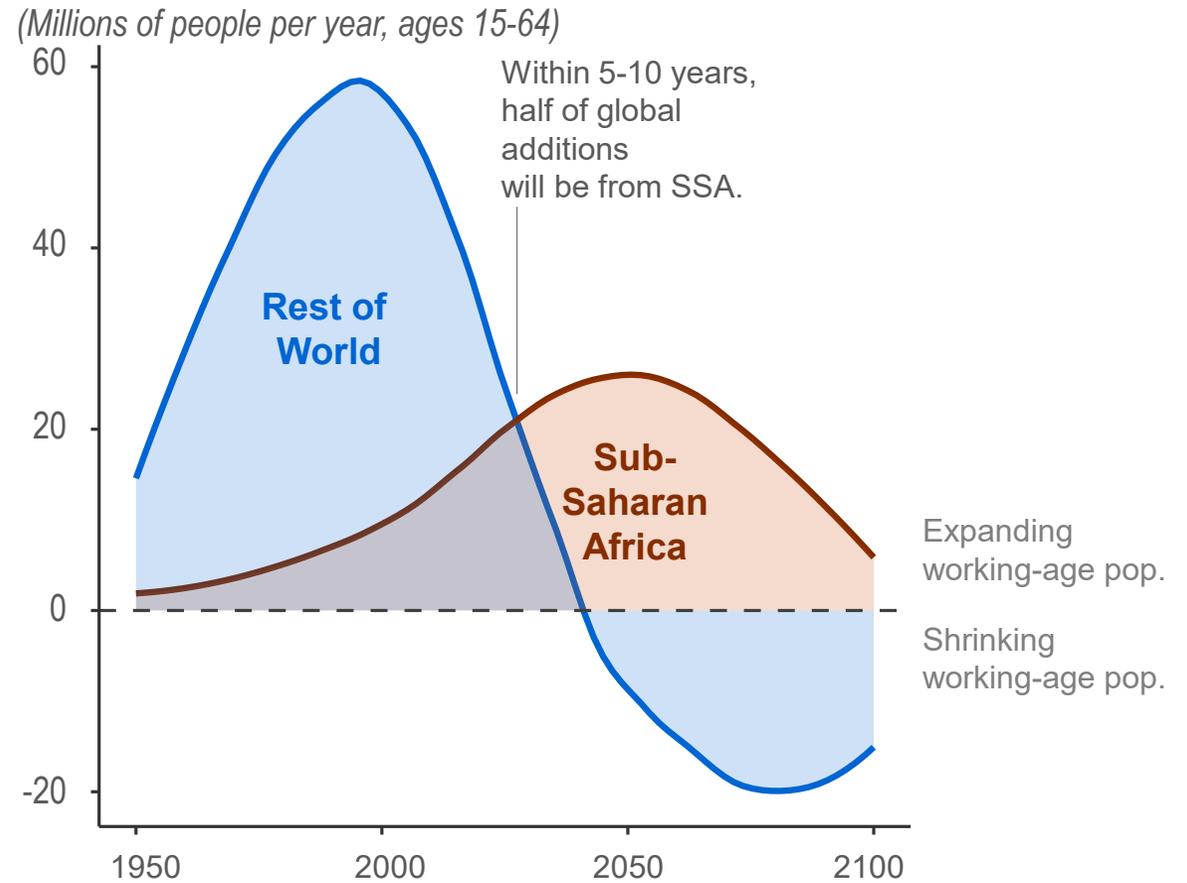
Source: UNESCO, IMF staff calculations.

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

Total Population: Select Regions, 1800-2100
(Billions of people)



Annual Additions to the Working-Age Population, 1950-2100
(Millions of people per year, ages 15-64)



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

Four Key Policy priorities:



**Fiscal
Policy**



**Monetary
Policy**



**Exchange
Rate Policy**

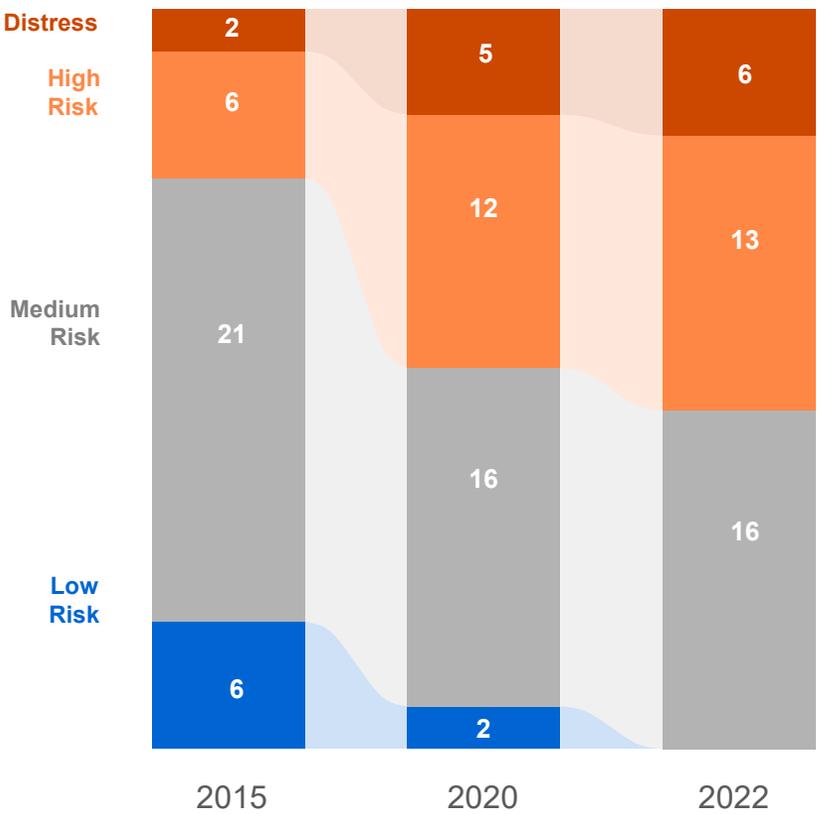


**Structural
Reforms**

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

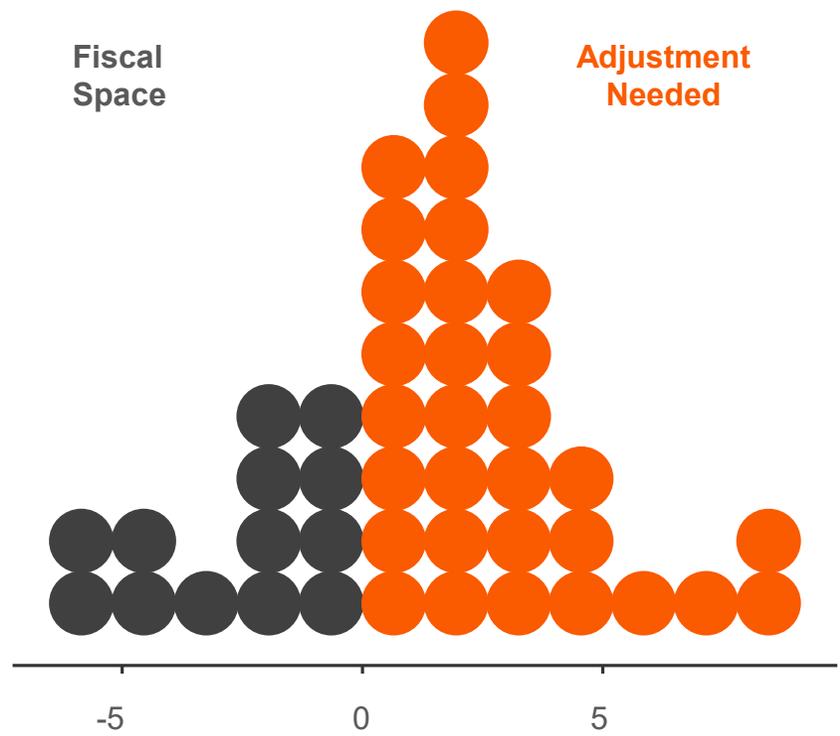
Risk of Debt Distress, 2015-22

(No of countries)



Fiscal Adjustment Needed to Stabilize Public Debt Below 70 percent of GDP

(Percent of GDP, no. of countries)



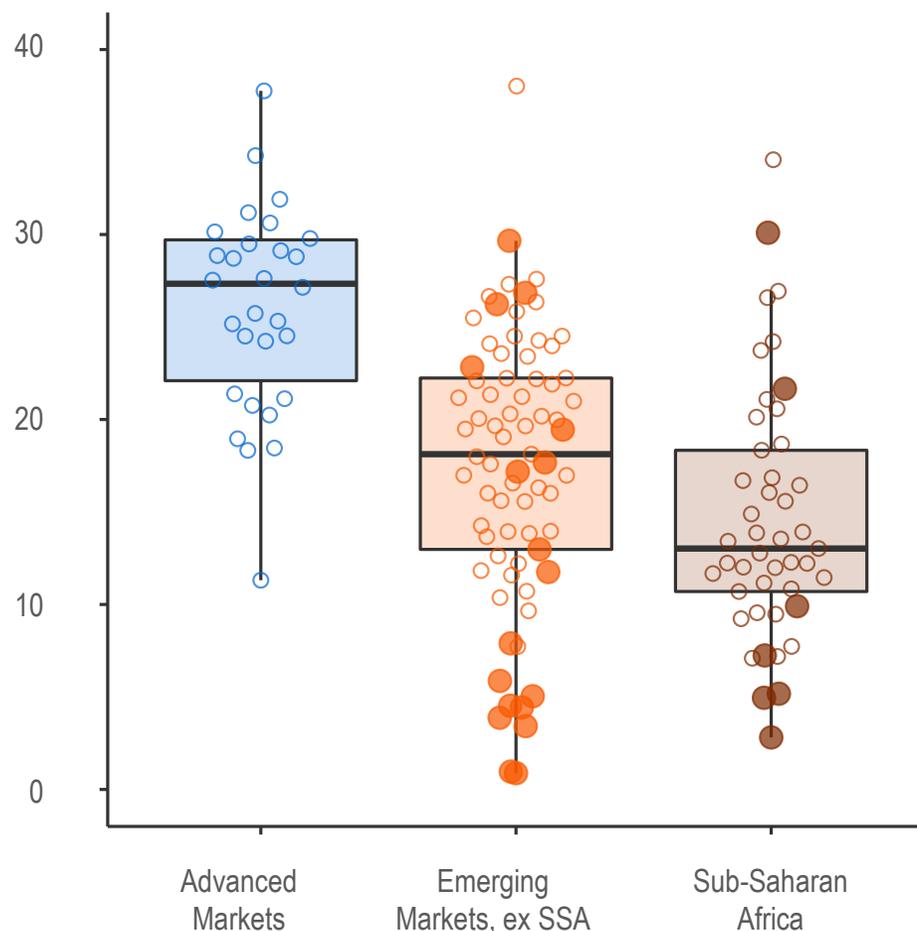
Sources: National authorities, IMF WEO database, IMF staff calculations.

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.

...and adapt to a tighter financing environment

Tax Revenues, select countries, 2022

(Percent of GDP, filled points = fuel exporters)



Sources: WEO database.

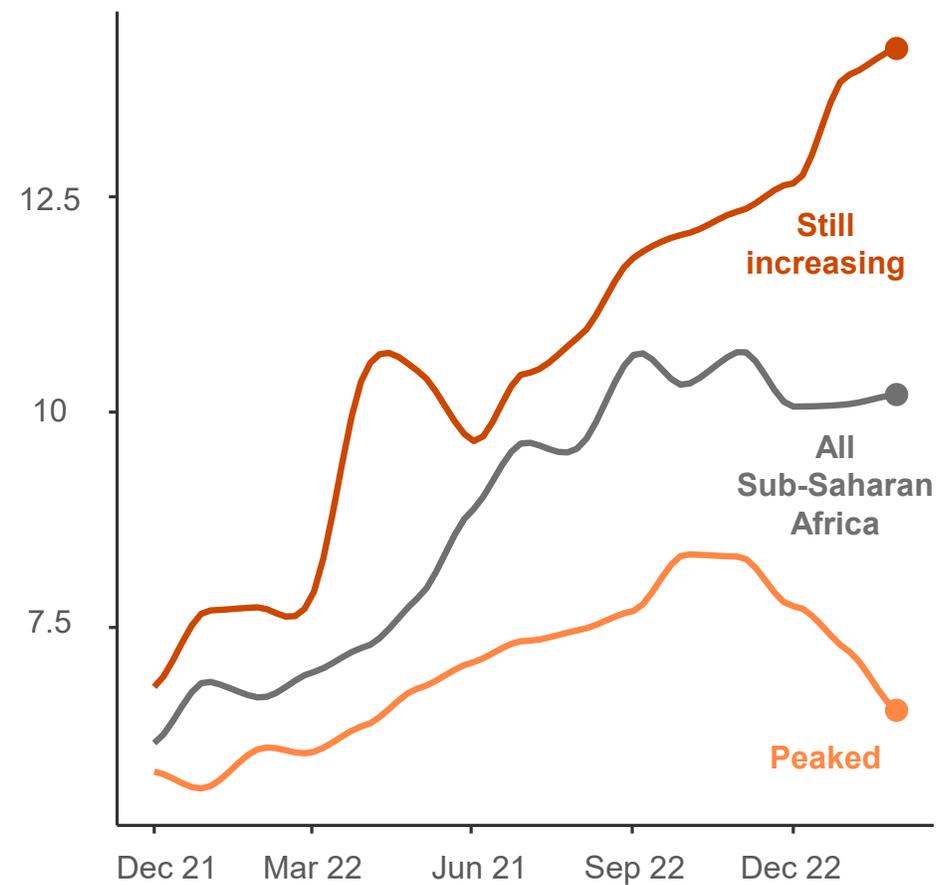
- **New emphasis** on addressing the current liquidity squeeze
 - Reduce **off-budget commitments** (extra-budgetary spending, arrears, guarantees, etc)
 - Enhance **debt management**
 - Increasingly important: **domestic revenue mobilization**
 - In some cases, engage in **debt restructuring**, where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

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)



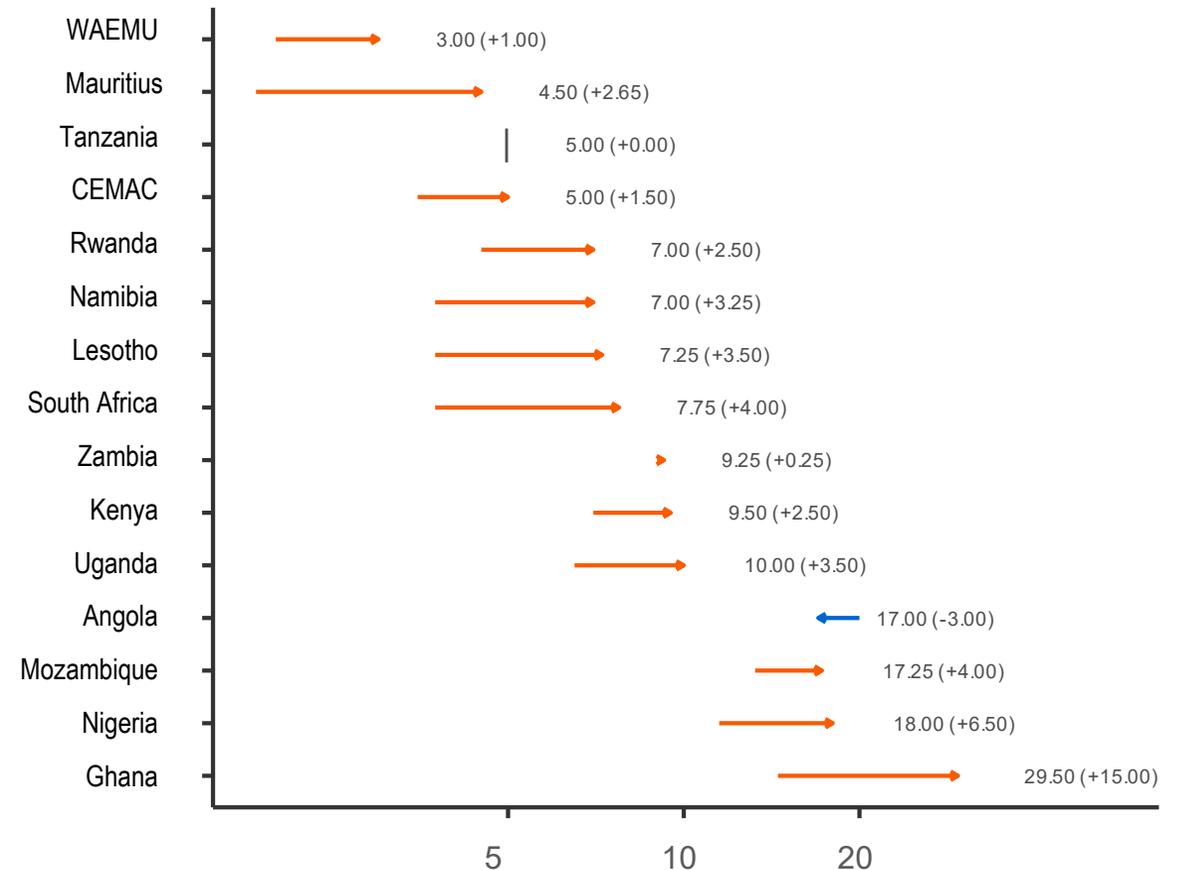
Sources: Haver Analytics, national authorities, and IMF staff calculations.

....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)

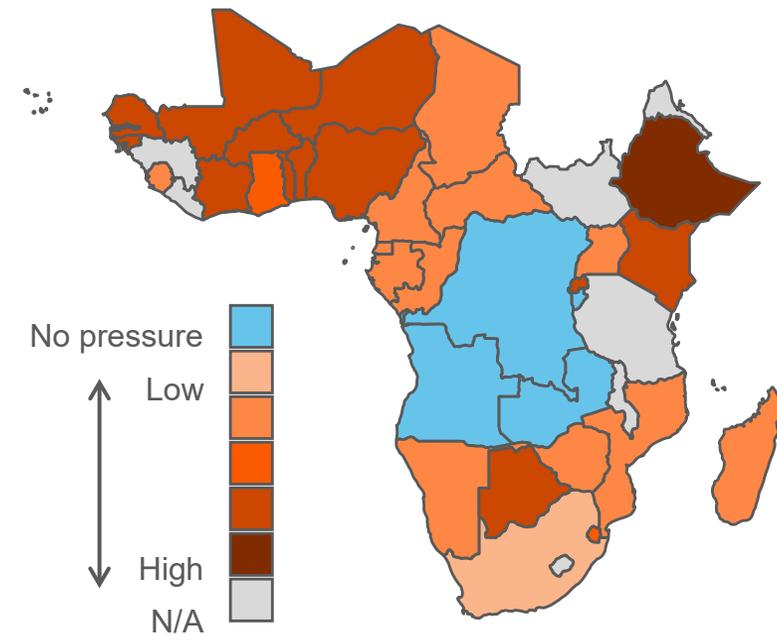


Source: Haver Analytics

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

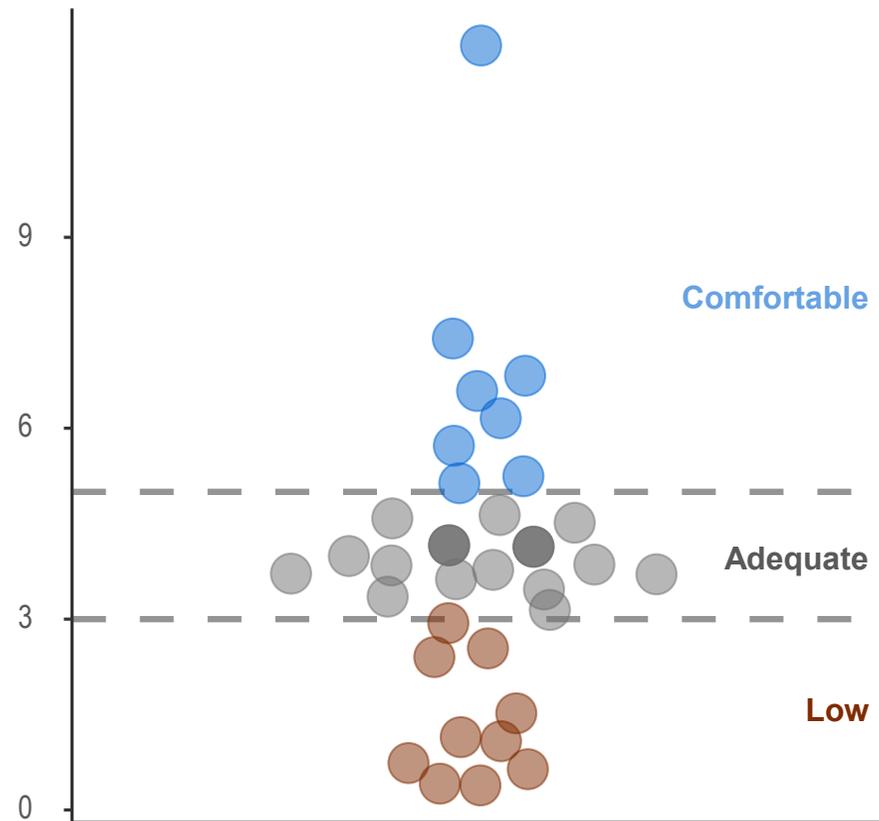
Sub-Saharan Africa: Exchange Rate Pressure Index, 2022



Sources: Bloomberg; and IMF staff calculations.

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

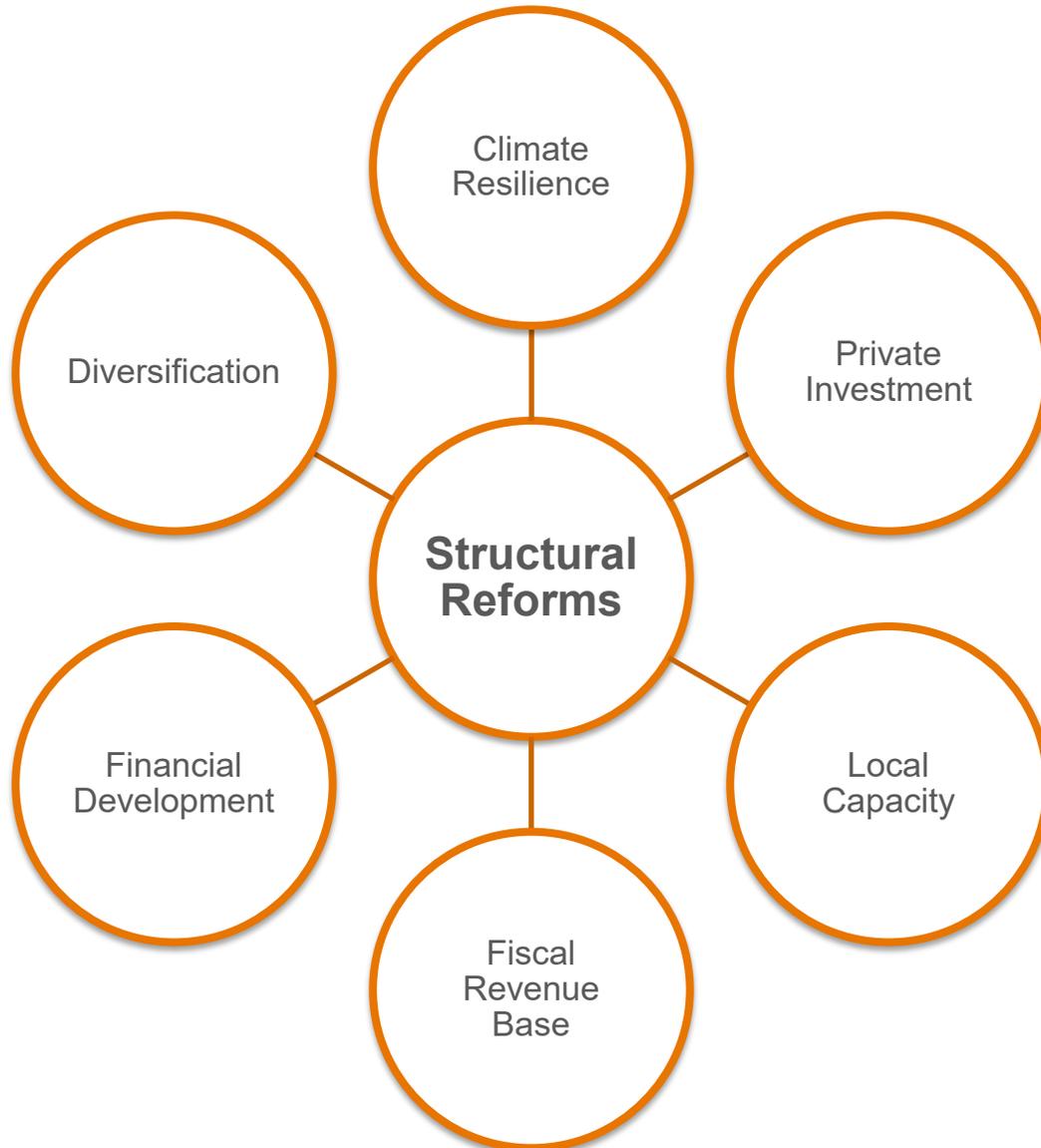
Reserve Coverage, 2022
(Months of imports)



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

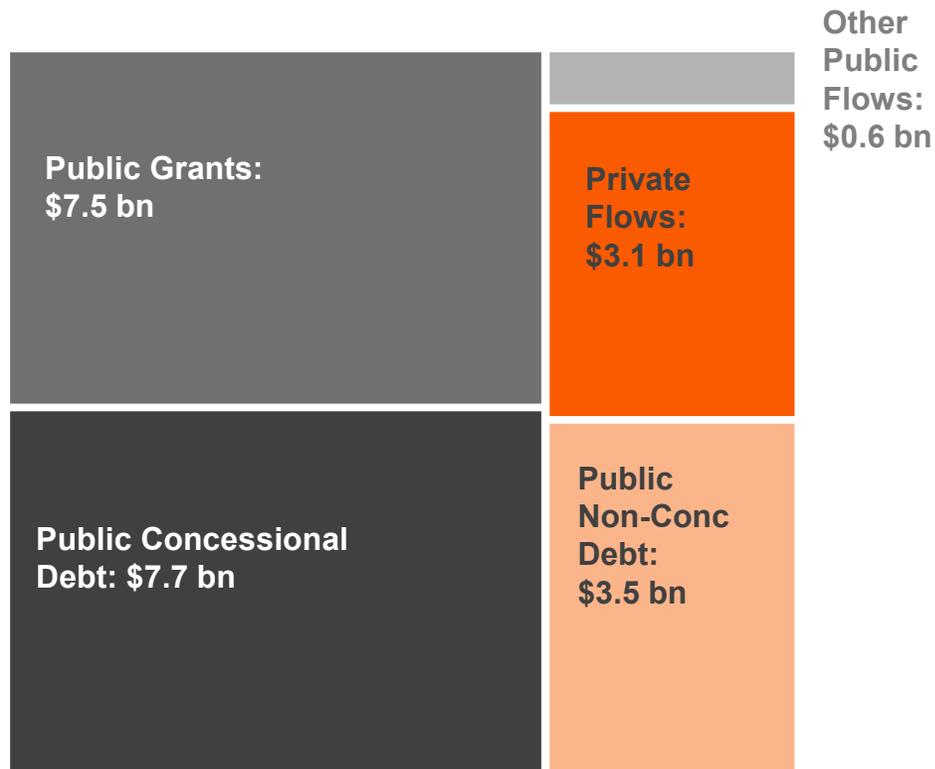
4. Structural reforms are more important than ever...



- 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)

... an RSF, in an amount equivalent to US\$46 million approved for Seychelles.

- The RSF will support the authorities' agenda to build resilience to climate change by lifting bottlenecks to climate-related investments and by facilitating the integration of climate-related considerations into macroeconomic policies and frameworks.
- The RSF arrangement for Seychelles, the second in Africa, will exploit synergies with other sources of public financing and help catalyze further private financing for climate-related investments.

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

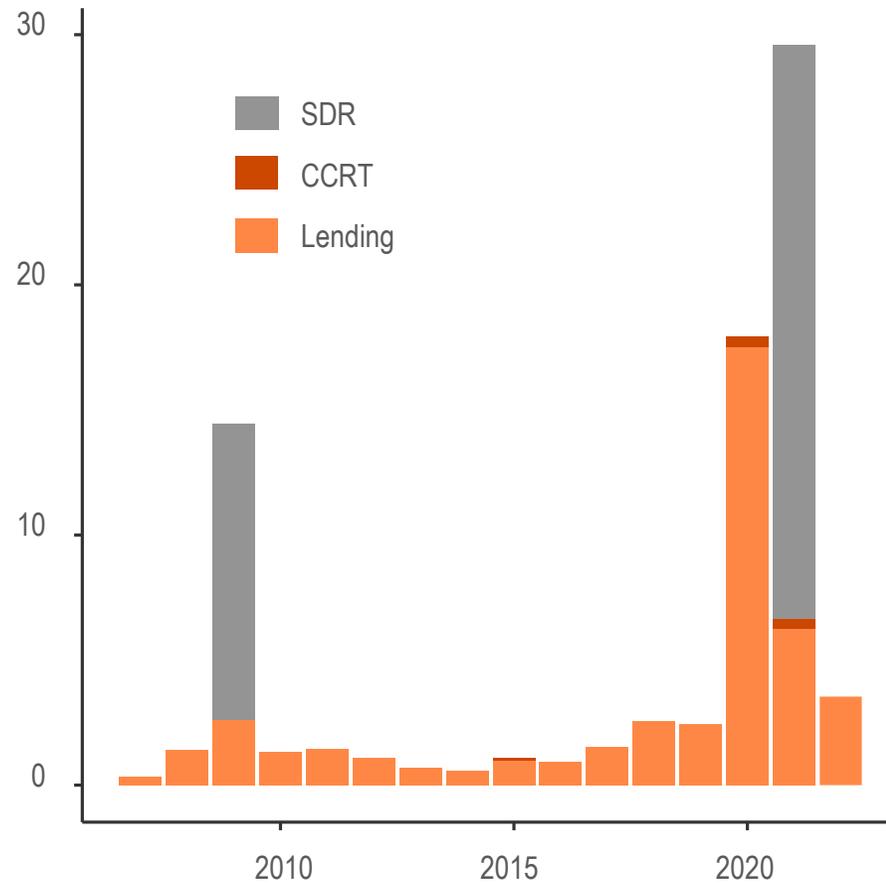
What to do?

- 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

International solidarity remains essential

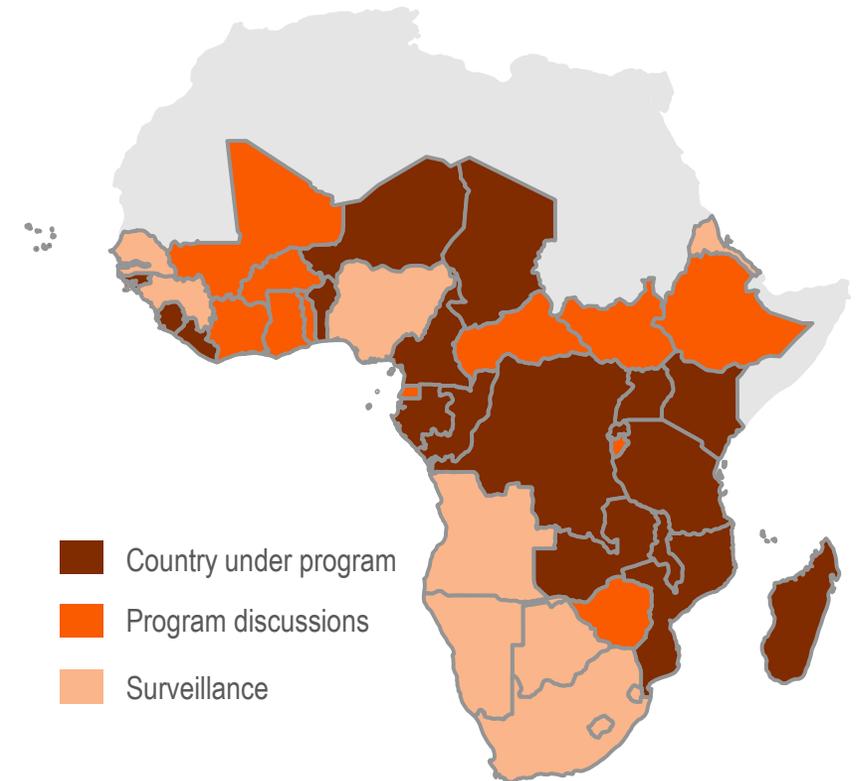
Sub-Saharan Africa: Total IMF Disbursements, 2007-22

(Billions of US dollars)



IMF Relationships

(As of April 13, 2023)



Sources: Haver Analytics; IMF IFS database, IMF financial data, and IMF staff calculations.

Note: SDR = Special Drawing Rights, CCRT = Catastrophe Containment and Relief Trust.

Thank You