The recent funding squeeze...

**Eurobond Issues, 2010-23**

- Others
- Ghana
- Nigeria
- S. Africa

No issue since Spring 2022

**Eurobond Spreads, 2021-23**

- Russian invasion of Ukraine
- Failure of SVB
- SSA Excl. Zambia
- EMBIG

**SSA Exchange Rate vs US Dollar, 2021-23**

Index, Sep 1 2021 = 100, trade weighted mean

- Start of US tightening
- Russian invasion of Ukraine
- USD peak

Source: Bloomberg, IMF staff calculations.
...reflects mostly global factors

**US 10-Year Treasury Yield, 2015-25**

<table>
<thead>
<tr>
<th>Year</th>
<th>Q4 2015</th>
<th>Q4 2020</th>
<th>Q4 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yield</td>
<td>1.5%</td>
<td>2.0%</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

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

**Sovereign Spread Increase vs Credit Ratings**

<table>
<thead>
<tr>
<th>Credit Rating</th>
<th>B+</th>
<th>CCC+</th>
<th>BB+</th>
<th>BBB+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spread (Bps)</td>
<td>500</td>
<td>250</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**Key Funding Inflows, 2005-21**

- ODA Inflows: peak in 2005, decreasing trend
- Loan Disbursements from China: rapid increase in 2005, then decline
- Inflows at mid-2000s levels


**Composition of General Govt Debt, 2000-21**

- Domestic: 42% of total
- Eurobonds: 74% of total
- Bilateral: 12% of total
- Multilateral: 3% of total

The funding squeeze aggravates preexisting trends
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](chart)

<table>
<thead>
<tr>
<th>Country</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>0.7</td>
<td>5.9</td>
<td></td>
<td>6.6</td>
</tr>
<tr>
<td>Nigeria</td>
<td></td>
<td></td>
<td>7.1</td>
<td>7.1</td>
</tr>
<tr>
<td>South Africa</td>
<td></td>
<td></td>
<td></td>
<td>7.1</td>
</tr>
</tbody>
</table>

Consequences of the funding squeeze

Immediate Concerns
- Lives under threat
- Interrupted recovery

Longer-term Concerns
- Worsening debt vulnerabilities
- Reduced development progress
**Risks to food security**

**International Food Prices, 2000-23**
(Nominal Price Index, 2014 – 16 = 100)

- **2007-08 food crisis**
- **Russian invasion of Ukraine**

**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.

**International Food Prices, 2000-23**
(Nominal Price Index, 2014 – 16 = 100)

Source: FAO

**Interrupted economic recovery**

**Real GDP Growth, 2022-23**
(Percent)

- 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

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

Debt vulnerabilities are on the rise

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

- High Risk
  - 2015: 6
  - 2020: 12
  - 2022: 13
- Medium Risk
  - 2015: 21
  - 2020: 16
  - 2022: 16
- Low Risk
  - 2015: 6
  - 2020: 2
  - 2022: 6

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

- Fiscal Space
- Adjustment Needed

Sources: National authorities, IMF WEO database, IMF staff calculations.
Note on right-hand 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

- 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
....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

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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
...and need to mitigate their adverse economic impacts

- 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
At the context of increasingly urgent climate needs

**SSA. Climate Finance Flows, 2020**

- **Public Grants:** $7.5 bn
- **Public Concessional Debt:** $7.7 bn
- **Private Flows:** $3.1 bn
- **Public Non-Conc Debt:** $3.5 bn
- **Other Public Flows:** $0.6 bn

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)

**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

Extra Slides
The return of double-digit inflation

CPI Inflation, 2010-23
(Percent, y/y)


SSA median
Global composite

Source: Haver Analytics, IMF staff calculations

<table>
<thead>
<tr>
<th></th>
<th>Median (excl. Food and Energy) 1/</th>
<th>Headline 1/</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 2021</td>
<td>3.4</td>
<td>5.9</td>
</tr>
<tr>
<td>Feb 2023</td>
<td>5.8</td>
<td>9.2</td>
</tr>
</tbody>
</table>

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.

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

Interest on Public Debt, 2000-22
(Percent of revenue excluding grants)

Interest on Public Debt, 2022
(Percent of revenue excluding grants)

Source: IMF, WEO database.
The funding squeeze may also have scarring effects on the economy...

- 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

GDP per capita, 2019-24
(index, 2019=100. Dashed line = pre-crisis trend)

Source: IMF, WEO database.

...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)

Within 5-10 years, half of global additions will be from SSA.

Expanding working-age pop.
Shrinking working-age pop.

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

A global economic fragmentation could mean a loss of 4% GDP in SSA.

2. Managing exchange rate pressures

Most Sub-Saharan currencies are losing value against the US dollar.

- higher prices
- larger debt
- weaker trade balance in near term
3. Concessional climate finance

Africa needs $190 billion per year until 2030 for mitigation.

Africa needs $50 billion per year by 2050 for adaptation.

Sub-Saharan Africa received $15.7 billion in concessional climate finance in 2020.

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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