The Covid-19 pandemic has wreaked havoc globally, resulting in losses of more than 1.4 million lives worldwide and has crippled economies. The African continent has not been spared from the impact of the scourge. Group deputy business editor Kudzai Kuwaza (KK) this week caught up with the International Monetary Fund (IMF) representative to Zimbabwe Patrick Imam (PI), pictured, to discuss the challenges facing Africa as a result of the pandemic, their response and what the Bretton Woods Institution is doing to assist them. Below are excerpts.

KK: The IMF recently issued the October 2020 Sub-Saharan African (SSA) Regional Economic Outlook (REO): What is the main message?
PI: The current outlook is that activity in SSA in 2020 will be 3.5 percentage points for sub-Saharan Africa, which is the worst outcome so far. This represents a drop in real per capita income of over five percentage points, as the population is yet to fully emerge from this shock. This brings per capita incomes back to 2011 levels. In other regions, the pandemic has jeopardised years of development and the gains made against poverty.

If we look by countries, tourism-dependent economies such as Mauritius are expected to hit growth in oil exporting countries, and other commodity exporters’ growth will also suffer disproportionately. However, some more diversified economies such as Côte d’Ivoire and Uganda are forecast to be doing relatively better, with growth still expected to remain positive in 2020.

For 2021, regional growth should recover modestly, by 2.6 percentage points. This is lower than the recovery we are expecting to see in the rest of the world. This is in line with the Service Department’s report that the fact that the envisaged contraction in 2020 is smaller than in other parts of the world and policy packages deployed by sub-Saharan African countries are facilitating the recovery are considerably smaller than those implemented in advanced and emerging market economies. This outlook is subjective to some downside risks, especially if there is a second Covid-19 wave in the region. Other risks include the resilience of the region’s health systems, which are still under strain on a number of fronts. However, these forecasts were made before the recent announcements by countries of some of their most effective vaccines, which provides an important silver lining.

KK: How have policymakers reacted? How would you judge the monetary response across the region?
PI: I think it’s clear that policymakers in the region have moved quickly and in a very responsible way. What the last few months have illustrated is that it’s illusory to think that there is a trade-off between economic activity and protecting the population. Protecting the population is a prerequisite to protect livelihoods and revive the economy.

But to answer your question, the authorities’ economic response, in particular monetary and financial policies have been very supportive. In countries with policy space, authorities have cut policy rates aggressively for example 275 basis points in South Africa, 200 basis points in Uganda, and 150 basis points in Ghana.

Some have injected liquidity into the banking system ranging from 0.5% of GDP in Angola, to 2.4% of GDP in Nigeria, and 1.3% of GDP in South Africa. In a few countries, the authorities have also announced measures to increase the availability to cushion the terms of trade and financial shock such as Angola, Ethiopia, and Nige- ria. In addition, Ghana has introduced relaxed macro prudential norms such as Cabies Financial Institutions, introduced pro- vided regulatory forbearance, including for loan restructuring operations such as Caire.

KK: How would you judge the fiscal policy response?
PI: The first point to make is that countries have managed to increase their financial space with significantly less fiscal space than they had prior to the global financial crisis of 2008–2009. Given the much tighter outlook on the funding side, many countries were limited in their ability to mitigate the impact of the crisis and support the economy. Nonetheless, Sub-Saharan African au- thorities have announced Covid-19 related fiscal packages averaging about three per cent of GDP, with a greater direct benefit- ing health sector. But this is significantly less than what other countries have been able to afford.

Hailing said that, countries have com- mitted to increase health spending and announced income support measures and increased social transfers. For many, this effort is expected to come at the expense of other priorities, such as capital spend- ing. Some, like the West African Economic and Monetary Union have also temporar- ily suspended their convergence criteria to allow greater fiscal flexibility for member countries.

Going forward, with the arrival of the vaccine and given limited resources, coun- tries should shift from broad fiscal support to more affordable and targeted policies. These policies should be targeted to the poorest households and sectors most hit by the health crisis.

KK: How have countries in SSA assisted their vulnerable communities?
PI: You are right to highlight the social consequences of the pandemic. The good news is that countries in our region have, on the whole, acted speedily to protect their people from the worst of the crisis. You can see this in the incidence of new Covid-19 cases, which have been quite modest com- pared to other regions, though we must re- main vigilant of the risk of a second wave.

Now to mitigate the economic and social impact of the crisis, countries have been doing their best to do more with less and ensure that social safety nets are the most vul- nerable. But some features compared to say advanced economies, such as greater levels of informality, have affected the ability of the state to provide transfers to all seg- ments of the population.

Despite the constraints, African coun- tries have been developing innovative ap- proaches to protect their most vulnerable. Some countries have used home-grown policies to encourage social transfers to reach as many in their population as possible. Some countries are using multiple approaches. For example, the leveraging of local au- thorities to help identify households in need, such as in Rwanda and Madagascar, or tapping into non-traditional databases such as social tariffs for utilities.

But overall, the limited means at the dis- posal of the governments mean that many households were not helped and suffered through the pandemic.

KK: What are the main risks to the IMF forecasts?
PI: What is becoming clear is that poli- cymakers aiming at recodding their econ- omies now have fewer resources at their disposal than they did at the beginning of the pandemic and will likely face some diffi- cult choices going forward. A major worry we have is on the financing side.

Given the synchronised global down- turn, coupled with domestic containment measures, economic activity is declining in an unprecedented way. The collapse in ac- tivity has resulted in a large contraction of the tax base and a sharp drop in revenues. Not only has the tax base shrunk, but revenue administrations struggled to ad- minister taxes and collect revenues during shutdowns. As a result, government rev- enues will contract sharply, while spend- ing needs are bound to increase, such as on healthcare or social spending to protect the vulnerable. The concern is that on cur- rent trends, we foresee significant financi- ing gaps.

In other words, without significant addi- tional financial assistance, many countries will struggle to simply maintain macro- economic stability and debt sustainability while also meeting the basic needs of their populations.

KK: You mention the concern on debt sustainability. What are your expectations on debt evolution during and post the Cov- id-19 pandemic?
PI: Like the rest of the world, the Africa region faces an unprecedented economic crisis. Debt vulnerabilities were already eroded before the Covid-19 crisis for many countries in the region. This was expected to gradually decline prior to the pandemic. Covid-19 is expected to trigger a significant upward shift of the debt path.

This shock will push some countries be- yond the limits of sustainability. To address the debt concerns will require the involve- ment of all major creditor groups.

KK: What are some of the long-term im- pacts of the Covid-19 pandemic that the IMF is worried about?
PI: In the absence of further international financial support, countries will wipe out almost 10 years of hard won progress in debt sustainability, and the vulnerability of livelihoods in the region. This setback also means that reaching the authorities’ longer-term goals of debt sustainability will be more difficult to achieve. Prior to the pandemic, meeting the Sustainable Devel- opment Goals was already deemed chal- lenging for many countries. These goals are now significantly harder, if not impossible, to achieve.

Efforts like extreme poverty by 2030, for example, has been set back significantly. Covid-19 is expected to increase the poverty level in global poverty since the Asian Crisis of 1998. I saw that the World Bank recently estimated that in sub-Saharan Africa, the pandemic could push over 26 million more people into extreme poverty in 2020.

In addition, income inequality is expect- ed to rise. Those that have benefited prop- rionately affected informal sector work- ers and small- and medium-sized compa- nies will likely see the largest negative impacts.

Another long-term impact of the pan- demic could be a reduction in government spending. Governments will be faced with a new set of trade-offs. They will have to put their fiscal position on a path consistent with meeting the medium-term goals.

Moreover, authorities will have to refocus on a strategic reform agenda that promotes sustainability and resilience.

KK: Given these very tight circum- stances, how does the IMF plan to assist countries?
PI: From the start of the pandemic, the IMF has made swift action to cover a sig- nificant portion of the region’s needs by providing about US$36 billion financing this year alone to 33 countries.

In addition, immediate debt service relief has been given to 22 of the most vulnerable countries in sub-Saharan Africa. The Fund is also work- ing with countries to put in place govern- ance mechanisms to help ensure that the funds benefit their people as intended.

The IMF is also working with the G20 to suspend debt service payments to official bilateral creditors and extend the Debt Ser- vice Suspension Initiative.

But we have to be realistic, and the director has said, it’s clear that more help is needed. Sub Saharan Africa faces additional financing needs of about US$900 billion through 2021. Pri- vate sector involvement is expected to fill less than half of that need. The headline com- mitments from international financial institu- tions, which are, will make up only one-quarter of the need. Under that same scenario, we face a projected financing gap of US$100 billion through 2023. Without significant additional financi- al assistance, more countries in the region will struggle to meet the basic needs of their populations.

But I also want to be clear that while the challenges have been extremely difficult, the potential of sub-Saharan Africa and the resiliency of its people will ensure that the region will find its way back.