IN-DEPTH INTERVIEW

Covid-19 has compounded Africa's economic woes

THE Covid-19 pandemic has wreaked havoc globally resulting in the loss 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 faced by African countries as a result of the pandemic, their response and what the Bretton Woods Institution is doing to assist them. Below are excerpts

Fact file: Patrick Imam

- Imam has been with the IMF since 2005;
- He was the IMF representative in Madagascar between 2014-2018;
- Since joining the fund, he has worked on IMF programmes, carried out technical assistance, done surveillance in the Middle East and Central Asia department, the African department, the IMF institute and, more recently, in the Monetary and Capital Markets Department;
- His publications have focussed on issues related to financial stability, macro-prudential policies and financial sector development;
- Before joining IMF, he worked as an investment banker at Credit Suisse First Boston in London;
- Educated at University of Oxford, as well as University of Warwick; and
- Holds a PHD in Economics from Cambridge University.

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 2020 is projected to contract by three percentage points for sub-Saharan Africa, which is the worst outcome on record. This represents a drop in real per capita income of over five percentage points, as the population in Africa continues to grow. This brings per capita incomes back to 2013 levels. In other words, 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 especially badly hit. Growth for oil exporting countries, and other commodity exporters' more generally 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 about three percentage points. This is lower than the recovery we are expecting to see in the rest of the world.

The lower bounce-back reflects 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 to facilitate the recovery are considerably smaller than those implemented in advanced and emerging market economies. This outlook is subject 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, and the availability of external financing. However, these forecasts were made before the recent announcements of the finding of some potentially very effective vaccines, which provides an important upside to these forecasts.

KK: How have policymakers reacted? How would you judge the monetary response to the crisis across countries?

PI: I think it's clear that policymakers in the region have overall acted swiftly, and in a very responsible way. What the last few months have illustrated is that it's illusional 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 3% of GDP in Zambia.

In a few countries, the authorities have allowed greater exchange rate flexibility to cushion the terms of trade and financial shock such as Angola, Ethiopia, and Nigeria. Some, supervisors have temporarily relaxed macro-prudential norms such as Cabo Verde. Other supervisors have provided regulatory forbearance, including for loan restructuring operations such as Tanzania.

KK: How would you judge the fiscal policy performance in SSA?

PI: The first point to make is that countries in the region entered the crisis 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 authorities have announced Covid-19-related fiscal packages averaging about three percent of GDP, with a quarter directly benefiting health sectors. But this is significantly less than what other countries have been able to afford.

Having said that, countries have committed 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 spending. Some, like the West African Economic and Monetary Union have also temporarily suspended their convergence criteria to allow greater fiscal flexibility for member countries.

Going forward, with the arrival of the vaccine and given limited resources, countries 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 compared to other regions, though we must remain 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 support goes to the most vulnerable. But some features compared to say advanced economies, such as greater levels of informality, have affected the ability of governments to provide transfers to all segments of the population.

Despite the constraints, African countries have been developing innovative approaches to protect their most vulnerable. Some countries have used home-grown approaches to ensure transfers to reach as many in their population as possible. Many countries are using multiple approaches. For example, the leveraging of local authorities 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 disposal of the governments mean that many households were not helped and suffered throughout the pandemic.

KK: What are the main risks to the IMF forecasts?

PI: What is becoming clear is that policymakers aiming at rekindling their economies now have fewer resources at their disposal than they did at the beginning of the pandemic and will likely face some difficult choices going forward. A major worry we have is on the financing side.

Given the synchronised global downturn, coupled with domestic containment measures, economic activity is declining in an unprecedented way. The collapse in activity 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 administer taxes and collect revenues during shutdowns. As a result, government revenues will contract sharply, while spending needs are bound to increase, such as on healthcare or social spending to protect the vulnerable. The concern is that on current trends, we foresee significant financing gaps.

In other words, without significant additional financial assistance, many countries will struggle to simply maintain macroeconomic 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 Covid-19 pandemic?

PI: Like the rest of the world, the Africa region faces an unprecedented economic crisis. Debt vulnerabilities were already elevated before the Covid-19 crisis for many countries in the region. While debt was expected to gradually decline prior to the pandemic, the Covid-19 crisis is leading to a significant upward shift of the debt path.

This shock will push some countries beyond the limits of sustainability. To address the debt concerns will require the involvement of all main creditor groups.

KK: What are some of the long-term impacts of the Covid-19 pandemic that the IMF is worried about?

PI: In the absence of further international financial support, this crisis will wipe out almost 10 years of hard-won progress in development and the improvement of livelihoods in the region. This setback also means that reaching the authorities' long-er-term goals of eliminating poverty will be more difficult to achieve. Prior to the pandemic, meeting the Sustainable Development Goals was already deemed challenging for many countries. Those goals are now significantly harder, if not impossible, to achieve.

Eliminating extreme poverty by 2030, for example has been set back significantly. Covid-19 is likely to cause the first increase 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 expected to increase, as lockdowns have disproportionately affected informal sector workers and small- and medium-sized companies in the services sectors.

Another long-term impact of the pandemic is that as the health crisis recedes, governments will be faced with a new set of trade-offs given the damage to domestic revenue mobilisation and the overall uncertainty to the global outlook, which will likely drag on export revenues and investment. Eventually therefore, measures to raise revenue, and rationalise spending, will be required.

But overall, one can also make the case that once the crisis has waned, the development goals will likely remain the same as they were prior to the crisis. Countries will have to put their fiscal position on a path consistent with debt sustainability.

Moreover, authorities will have to refocus on a strategic reform agenda that promotes greater, sustainable, and inclusive growth.

KK: Given these very tight circumstances, what has the IMF done to assist countries?

PI: From the start of the pandemic, the IMF has taken swift action to cover a significant portion of the region's needs by providing about US$16 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 working with countries to put in place governance 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 Service Suspension Initiative.

But as our managing director has said, it's clear that more help is needed. Sub-Saharan Africa faces additional financing needs of about US$900 billion through 2023. Private financial flows are expected to fill less than half of that need, while current commitments from international financial institutions and bilateral donors will cover only one-quarter of the need. Under that scenario, the region still faces a projected financing gap of US$300 billion through 2023. Without significant additional financial assistance, many countries in the region will struggle to meet the basic needs of their populations.

But I also want to be clear that while the long climb out of this crisis won't come easy, the potential of sub-Saharan Africa and the resourcefulness of its people will ensure that the region will find its way back.