



Transcript of IMF podcast:

Sub-Saharan Africa Outlook: New Shock, Little Room to Maneuver

Papa N'Diaye:

We expect growth in Sub-Saharan Africa in 2022 to be 3.8%, and recover, accelerate a little bit to 4% in 2023 and beyond.

Bruce Edwards:

In this program, the latest regional economic outlook for Sub-Saharan Africa.

Papa N'Diaye:

I am Papa N'Diaye, head of the Regional Studies Division in the African department of the International Monetary Fund.

Bruce Edwards:

So as hard as it is to imagine, 2021 was, at one point anyway, actually showing some promise for Sub-Saharan Africa. What happened?

Papa N'Diaye:

Indeed, Bruce. Sub-Saharan African economies were growing very strongly in 2021. We were expecting the region's average growth to come out at around 3.7% for 2021. It turned out to be 4.5%. And most of that positive surprise, or that momentum, started in the second half of the year. But what the war in Ukraine has done, is to put a halt on that momentum. It led to a significant increase in commodity prices, more volatility in global financial markets. And it comes at a time when the policy makers in the region have little room for maneuver. So as a result, these types of growth that we are expecting are not enough to make up for the lost ground of the pandemic.

Bruce Edwards:

IMF Podcasts home: <http://www.imf.org/en/News/Podcasts>

Apple podcast page: <https://podcasts.apple.com/us/podcast/imf-podcasts/id1029134681?mt=2>

And so here we are with a long list of things that Africa has to contend with. Let's start with inflation. To what degree is this record-high inflation that we're seeing today, a risk to development?

Papa N'Diaye:

Yes. Inflation pressures have increased quite a lot. We are now seeing inflation in double digits for the region as a whole over, I think, 11.5% within 2021. We are expecting it, if you look at the period average, to go towards 12.25 percentage points. And this is the first time since 2009 that we have this double-digit projection for inflation. And it reflects mainly higher food prices and higher energy prices. And as you can imagine, this will have a big impact on the most vulnerable in the region, increase poverty and potentially could raise social tensions. So for the policy makers in the region, like central bankers in particular, dealing with this inflation and pressure won't be easy because of the... also the impact that the policies could have on growth.

Papa N'Diaye:

So the tradeoffs between inflation and the recovery will be a bit tougher. So our recommendation here is to monitor the price developments carefully, and stand ready to raise policy rates if inflation expectations drift up. Improving the policy frameworks could make this tradeoff a bit easier to manage, by just strengthening credibility of the central banks.

Bruce Edwards:

So commodities are also mixed up in all of this, with prices much higher than we've seen in many years. Do some countries actually stand to benefit from this?

Papa N'Diaye:

Yeah, so there's a lot of heterogeneity in the region, right? So in sub-Saharan Africa, we are covering about 45 countries, and eight of those countries are oil exporters. You also have several countries that export precious metals, for which the prices have increased markedly. So these countries will tend to benefit from the increase that we have seen in oil prices, for example, or metals. But for the majority of the countries in the region, the remaining 37 countries in the region, the increase in oil prices, energy prices and food prices will put them in a very difficult position, because it's a negative term of trade. In fact, it will also worsen their external balance and their fiscal position.

Papa N'Diaye:

And I must say that even the countries that will benefit from higher energy and metal prices may find themselves into difficulty because of the higher food prices that we have seen. And it will be very difficult for those countries to reach the most vulnerable, especially in the big urban cities. And another factor that maybe at play is that if those countries have not reformed their subsidies mechanism, it

might well be that the benefit that they get, on the one hand, from higher or energy prices, could just amount into higher subsidies.

Bruce Edwards:

And you mentioned food, of course, which is a huge issue. And with supply chain disruptions getting worse by the day, what will the shortages in fertilizer and wheat that has been... These imports have been affected by the war in Ukraine. What will that mean for agricultural production, which is so important to the region's economy?

Papa N'Diaye:

So, Russia is one of the world's top producers of fertilizers and all the key inputs for fertilizer productions, such as natural gas and potassium. So, with fertilizer prices almost tripling over the past year, prolonged war in Ukraine will just further constrained supply. And this, together with higher energy prices, would lead to increased cost of agricultural production, which would just reduce countries' ability to produce more agricultural product. And we will see it in more harvesting cost, higher transportation cost and higher cost of processing food. And for the region, this will mean lower yields, and in addition to this, higher agriculture cost, which again, is likely to hurt the most vulnerable population, which could add then to social tensions, particularly in countries in conflict or in fragile states.

Bruce Edwards:

And so agricultural productivity also suffers from the effects of climate change. Do you worry that the climate agenda will take a backseat to all the other challenges right now?

Papa N'Diaye:

Well, the climate agenda is as important as ever and it should remain so. It continues to pose major challenges for Sub-Saharan Africa. You have seen the devastating effects of the floodings in Durban, in KwaZulu-Natal, in South Africa. And this is just yet one more manifestation of the multiple climate shocks that have been hitting the region. And it's very vulnerable to those weather-related shocks because its large dependence on rain-fed agriculture. So our recommendation- and we go a bit at length in the Regional Economic Outlook, is that to accelerate the adaptation and make sure that as countries seize opportunities offered by the green transition, to make more progress in this area.

Papa N'Diaye:

There are some opportunities, of course, but this transition will be costly. And we have, my colleagues at the IMF have done some work on it and evaluate the cost between 30 and 50 billion in additional needs per year. So, there will be a need for international support and there's also a need for making sure that

this transition is just, in a sense, that countries receive the help that they need to facilitate this transition and make sure that the affordability challenges for most of the vulnerable segments of the population are fully considered.

Bruce Edwards:

And speaking of money and the required funds to stay on track with their climate agenda, debt continues to be a problem. I mean, it was a problem going into the pandemic more than two years ago now, and it's only gotten worse. Where do we stand now in terms of debt sustainability?

Papa N'Diaye:

Debt vulnerabilities remain elevated in the region, there are 20 countries that are either at high risk of debt distress or in debt distress. And the debt service as a ratio to revenue has been increasing. So the debt burden is very heavy at a time when the social and development needs are very large. So for countries in the region, the space to deal with the impact of the war in Ukraine is very limited. And there will be a need to make difficult choices. First, for us, the priority is really for countries to help the most vulnerable populations mainly through targeted transfers, if possible, especially those countries that have good social safety nets. Those that don't have those safety nets could resort to food subsidies and tax cuts. But these will definitely need to be contained both in scope and in time, given the limited fiscal space that countries have. And countries will need, of course, to try to create more room by improving Domestic Revenue Mobilization, and also making sure that they get the best bang for their bucks by increasing the efficiency of public spending.

Bruce Edwards:

So, one of the things that I thought was very interesting was how you look at the long-lasting effects of school closures during the pandemic, which were among the world's highest. How might these school closures affect the ability for the region to bounce back from all these multiple crises?

Papa N'Diaye:

Schools closed for about on average 128 days. And this was much more than we have seen in advanced economies. They were about 84 days between February 2020, and October 2021. These school closures risk harming the human capital accumulation, the learning capabilities of the region, and undermine essentially lifetime productivity. We had recently, by "we" I mean the Fund has put out a blog. My colleague, Ruchir Agarwal, has put out a blog recently discussing this particular issue. And the blog cites a report from the UN and the World Bank that clearly states that the pandemic's cost on students could sacrifice a huge amount in terms of lifetime earnings. I think the estimate was as large as 17 trillion globally. So just to tell you the impact of it. This is why it is very important for countries in the region to find resources, to scale up investment in education, human capital, and this would need to be done to help and offset- make sure that there are no scarring, what we call scarring, effects from the pandemic...

IMF Podcasts home: <http://www.imf.org/en/News/Podcasts>

Apple podcast page: <https://podcasts.apple.com/us/podcast/imf-podcasts/id1029134681?mt=2>

and countries in the region to renew the progress that they're making toward the sustainable development goals.

Bruce Edwards:

Papa N'Diaye, head of the regional studies division at the IMF. Thank you.

Papa N'Diaye:

Thank you, Bruce.

Bruce Edwards:

There's much more in this latest regional economic outlook for Sub-Saharan Africa. Check it out at imf.org. Look for other IMF podcasts, wherever you listen and follow us on Twitter at @IMF_podcast. I'm Bruce Edwards. Thanks for listening.