Prospects

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The point of view

Sub-Saharan Africa: the challenge of financing the recovery before the crisis is even over

The IMF recently released new global growth figures for 2021 including slightly upgraded forecasts for recovery in sub-Saharan Africa. The easing of lockdowns towards the end of 2020 helped cushion the shock, fuelling hopes of stronger momentum in 2021. And yet, while a number of economies proved buoyant on emerging from lockdown (e.g. Nigeria and South Africa), the coming recovery – which, moreover, will be weaker in Africa than elsewhere – is difficult to get excited about.

Juggling crisis and recovery

For starters, in the short term, governments that have already used up much of their fiscal capacity for economic stimulus are going to have to worry about coping with likely second or third waves. Public debt in the region (as % of GDP) increased by 6 percentage points in 2020 and a 17th country was added to the list of sub-Saharan sovereigns in or at high risk of debt distress. Government revenue also fell much faster than GDP and will struggle to recover in 2021. The IMF has therefore emphasised that lockdown measures adopted during the first wave will not be viable in these countries in 2021, but that the alternatives will still represent an additional cost to governments. These costs come on top of the costs of vaccination – another area in which the efficiency of the region's response has been hampered by fiscal constraints: vaccination rates are still low and, according to the IMF, it could be the end of 2023 before the region is properly protected against the epidemic. This means that, in the medium term, fiscally constrained governments are going to have to manage economic recovery at the same time as combating new waves of the virus.

Risk of a "long Covid" for external financing

A gap is beginning to open up between the uncertain public health situation in Africa, which could continue until 2023, and inflation expectations in developed countries experiencing economic recovery. This gap will act as a brake on the long-term return of portfolio investment and direct foreign investment. Outside extractive industries, it will be difficult to stabilise these flows, though they are crucial to financing a recovery which, more than elsewhere, will depend on governments' ability to attract private capital to finance substantial infrastructure needs. The IMF estimates that the region will need an additional $425 billion of external financing by 2025 to recover from the economic consequences of the crisis. Such a divergence also limits the region's economic policy options at a time when inflation issues mean countries are already facing tough choices.

Little monetary elbow room against a backdrop of inflation

With various inflationary factors affecting the region, governments are reaching the limits of their ability to finance their economies by easing monetary conditions. Some of these factors are directly related to the crisis – for example, the weakness of many of the region's currencies and logistical problems resulting from border closures. Other inflationary factors are linked to a recovery that is mainly happening elsewhere, supporting higher fuel and commodity prices, including energy prices. These uptrends are combining with multiple local determinants. For example, longstanding problems with energy pricing in the region are driving energy inflation, the main upshot of which is lower fuel subsidies and higher water and electricity prices. These actions are being taken to protect currency reserves (Nigeria) and the balance sheets of hard-hit public utilities (South Africa) or at the request of multilateral lenders (Nigeria, Sudan). Climate-related disaster (Sudan, South Sudan, Nigeria, Benin, etc.) and armed conflict (the Tigray region, Nigeria, Cameroon, etc.) are also powerful drivers of inflation, mainly affecting food prices, sometimes to the point of causing food insecurity. One last example: with international trade down, oligopolistic market structures have sometimes triggered acute inflationary pressures, hampering recovery (e.g. in Nigeria's cement sector).

With fewer tools and resources available to them, African governments are going to have to do more and, above all, manage crisis and recovery at the same time. Fiscal constraints provide the first explanation for this divergence from the rest of the world. The more the timing of recovery diverges, the harder it will be for the region to meet its need for additional financing, whatever the reality of the public health and vaccination situation.

While the recovery in developed countries and China is certainly positive in stimulating demand for African commodities, it could give rise to significant friction for some economies. This has prompted the IMF to warn about the risks an uneven global economy would pose to the long-term return of private capital to the region. The Fund is highlighting the risk of a vicious circle whereby tightening fiscal constraints stifle growth and make it difficult for sovereigns to secure financing. ■

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