“How has the Big Funding Squeeze changed the landscape for Policymakers?”

Reflections, Challenges and Emerging Themes

IMF African Training Institute 10th Anniversary Conference

Mauritius, 23 January 2024

Christopher Adam, University of Oxford
Reflections
Progress through early 2000s has stalled out

Over the last decade, average per capita growth in Sub-Saharan Africa has been zero. Over the same period, per capita GDP in India rose by 54%, in Cambodia by 55%, in Vietnam by 59% and in China by 76%.

Source: Nick Lea and Anna Rudge  “Africa’s Foreign Exchange Constraint” FCDO (March 2023)
...but many challenges were brewing before Covid-19 appeared...

April 2016

Christopher Adam, Professor of Development Economics, University of Oxford
Benno Ndulu, Governor, Bank of Tanzania

African governments must act decisively to restore macroeconomic balance
...but many challenges were brewing before Covid-19 appeared...

**Note**  
April 2016

“...African policymakers are having to play a hand over the coming months and years that will not only challenge their technical expertise but will place the institutions of economic policymaking under considerable stress...

....economic reforms over the last two decades mean policymakers currently have more effective macro policy instruments at their disposal than before, but in the end success will depend on how well they make difficult political choices on fiscal policy.”
Current challenges
2020 and the Covid-19 pandemic
what we thought we were dealing with...

Simulated Aggregate Private Sector Consumption

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Simulated Aggregate Private Sector Consumption

Central banks and finance ministries moved quickly to loosen fiscal and monetary stance.

C. Adam, E. Alberola and A. Pierres

“Covid-19 and the Monetary Fiscal Policy Nexus in Africa”

(BIS Working Paper 121, Feb 2022)
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**Monetary and exchange rate actions**

Initial optimism in 2021 but the shocks kept coming

IMF WEO Growth Projections for SSA Region

Projection dates
- Oct-22
- Jan-23
- Apr-23
- Jul-23
- Oct-23

2022
- 3.60%

2023
- 3.80%

2024
- 4.20%

24 January, 2024
...the region faces an already difficult public debt position, including on domestic debt, severely constraining fiscal space.
Priorities, challenges and implications for policy
Green financing instruments are growing world-wide but LIC share still very small.

Growth has been driven predominantly by issues in Asia-Pacific Region.

Source: IMF Global Financial Stability Report, 2022
Green financing instruments are growing world-wide but LIC share still very small.

Source: IMF Global Financial Stability Report, 2022
Supply-side shocks are not new for low-income countries

The ‘divine coincidence’ (➔ demand side shocks push output and inflation in same direction).

...but what do you do when output and inflation go in opposite directions?

HP-filtered variables. All countries with 17 or more yrs of data starting in 1990.
Source: Adam et al. (2010).