



# Tackling multifold macroeconomic challenges in West Africa: Why isn't West Africa Rising?

**Theo Thomas**

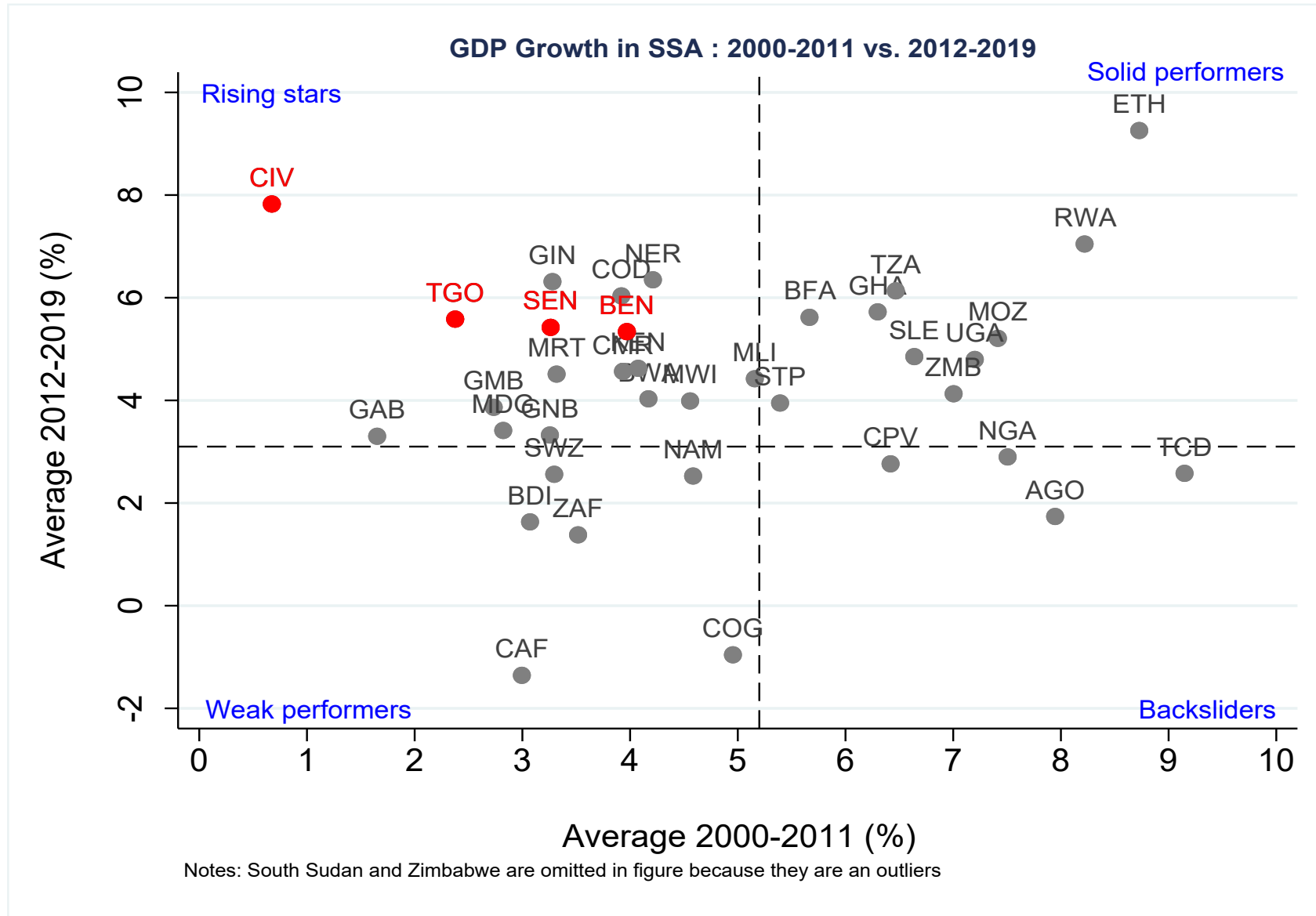
9<sup>th</sup> Economic Development Days – May 2023  
Vienna University of Economics and Business (WUWien)

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# KEY MESSAGES

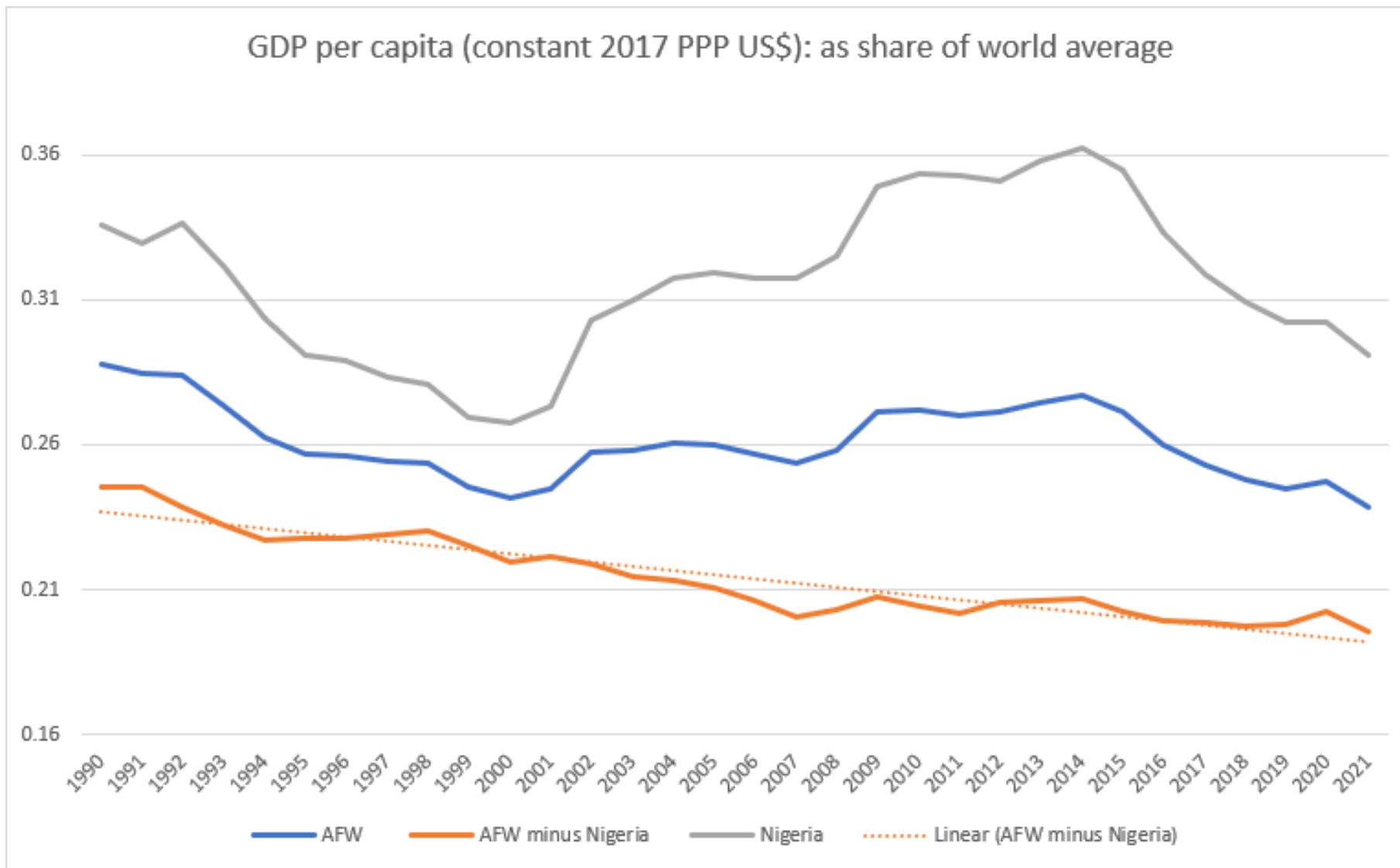
1. THE **MACROECONOMIC ENVIRONMENT HAS WORSENE**D SIGNIFICANTLY ACROSS ALMOST ALL AFW COUNTRIES
2. THE REGION'S **SOCIO-ECONOMIC FABRIC WEAKENED**
3. THESE DYNAMICS REFLECT MORE THAN A TEMPORARY SETBACK, AND **SUSTAINABILITY REQUIRES STRUCTURAL SOLUTIONS**
  - PROGRESSIVE and GROWTH-FRIENDLY **CONSOLIDATION**
  - PRUDENT **DEBT MANAGEMENT**
  - BOOST IN **PRIVATE CONTRIBUTIONS TO GROWTH**
  - INVEST TO ADAPT TO **CLIMATE CHANGE**

# DESPITE HAVING SEEN A DECADE OF RELATIVELY RAPID GROWTH.....



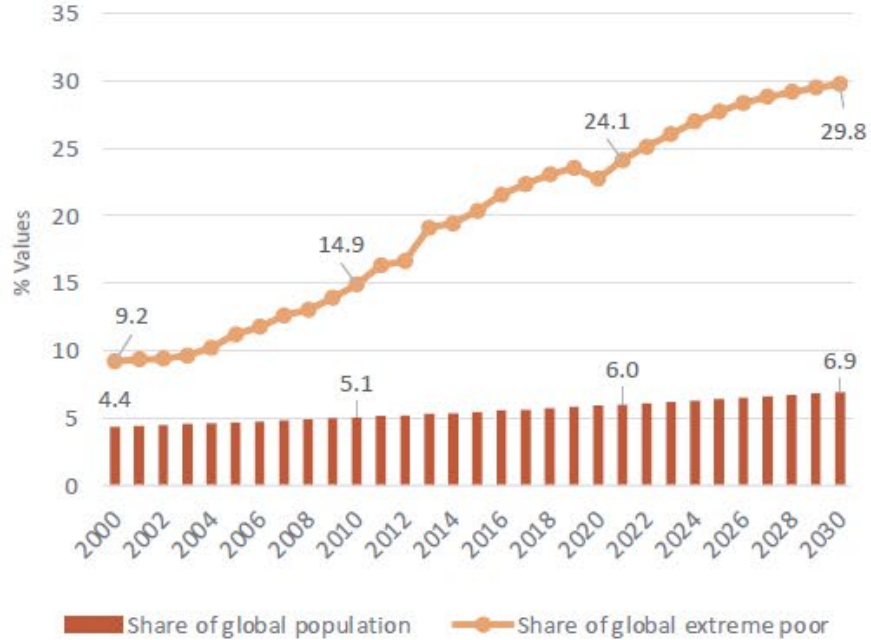
Source: WDI and Bank calculations. Dotted lines indicate SSA average (excl. high income).

# ..... AFW HAS NOT BEEN CONVERGING WITH THE REST OF THE WORLD

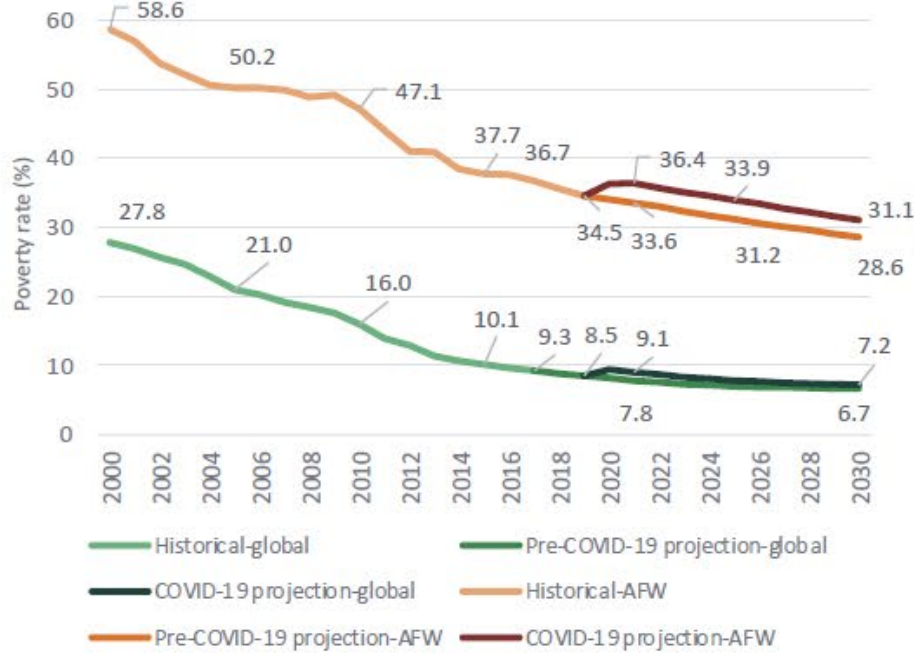


# A SIMILAR PICTURE ON POVERTY, DECLINING BUT NOT CONVERGING

Share of AFW in global poor vs population (%)

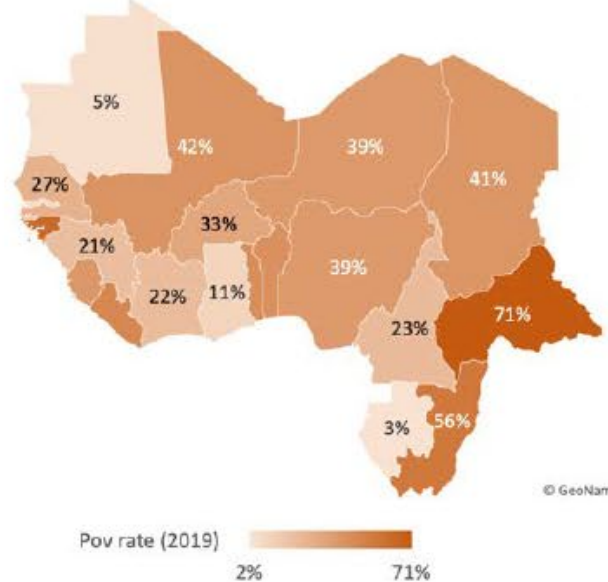


Extreme poverty rate in AFW compared to global (%)



Poverty rates (%): AFW

Extreme poverty rate (International PL \$1.90/day)




## **MESSAGE #1**

**THE MACROECONOMIC ENVIRONMENT IN AFW COUNTRIES  
HAS WORSENERD**

# MULTIPLE SHOCKS HAVE AGGRAVATED PRE-EXISTING STRUCTURAL MACROECONOMIC VULNERABILITIES

Almost all AFW countries became more vulnerable with a **worsening of their macroeconomic framework in 2022-2023**.

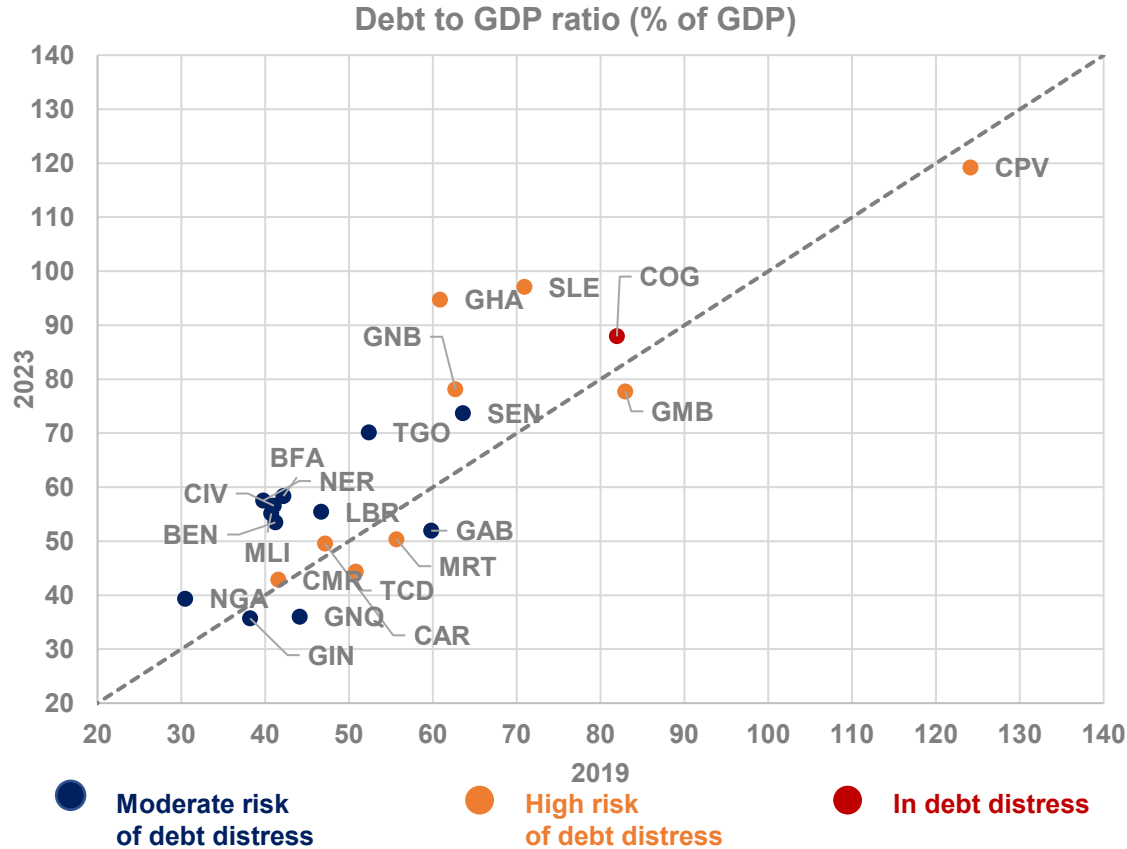
	PERIOD OF HOPE				MISSED OPPORTUNITIES				MULTIPLE SHOCKS 				
Country	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023p
Sierra Leone	34.2	48.8	57.7	52.3	34.7	47.8	39.3	41.7	42.3	42.2	43.6	37.2	36.4
Ghana	55.6	52.5	48.4	44.8	43.0	43.5	49.2	49.9	51.0	46.3	48.5	35.4	37.9
Liberia	49.0	54.8	52.0	43.8	46.1	45.5	42.4	35.3	31.2	37.5	46.4	46.6	44.5
Gambia, The	45.6	52.1	49.6	47.1	48.9	47.7	48.0	49.4	49.6	48.5	47.8	44.2	44.8
Guinea	37.9	46.7	46.2	48.2	47.9	45.3	52.4	46.4	49.4	46.7	49.9	48.4	46.1
Nigeria	59.0	56.1	59.7	59.9	56.2	49.3	49.6	51.0	49.6	45.7	46.7	46.1	46.5
Mauritania	52.5	48.7	49.4	57.7	50.2	49.8	53.8	50.3	51.9	50.1	50.8	46.5	47.0
Senegal	51.9	54.1	53.7	56.2	55.7	55.5	53.5	53.5	52.6	49.3	50.7	46.1	47.0
Niger	55.9	60.8	56.5	58.3	53.3	55.1	54.2	53.2	55.6	50.7	48.8	48.6	47.6
Cabo Verde	47.6	48.3	51.1	50.1	51.8	54.0	51.1	51.8	54.2	40.9	50.7	45.3	48.0
Burkina Faso	58.5	57.7	56.5	57.3	55.2	60.5	56.3	55.9	58.4	54.2	53.8	45.7	48.0
Central African Republic	58.4	53.2	35.0	39.1	52.1	51.6	51.4	52.7	52.7	52.2	49.2	47.1	48.6
Guinea-Bissau	54.3	49.6	53.3	54.7	56.2	54.7	56.6	54.0	52.9	52.1	52.4	48.2	48.6
Mali	60.9	53.3	57.7	58.3	56.6	56.7	54.7	55.0	56.6	52.9	50.2	47.6	49.5
Togo	54.5	55.2	53.6	55.1	53.2	53.5	55.5	54.7	55.9	53.3	52.8	44.8	49.5
Côte d'Ivoire	51.9	62.5	60.3	62.6	60.9	60.9	58.1	57.0	56.8	53.0	53.6	51.6	50.6
Benin	57.9	59.0	61.9	61.6	55.2	56.1	55.3	56.1	57.6	53.9	55.1	52.5	50.7
Gabon	68.4	64.2	61.7	58.5	55.6	49.6	51.8	49.7	54.6	49.6	51.9	53.2	51.3
Chad	57.8	50.8	58.0	54.3	50.1	49.4	51.5	51.6	54.8	49.2	51.3	53.0	51.6
Cameroon	60.8	61.0	60.2	58.9	54.6	56.6	55.8	55.3	53.6	52.2	53.4	52.6	52.1
Equatorial Guinea	72.1	75.2	72.9	60.4	47.1	46.7	50.0	50.5	50.8	45.3	52.0	54.6	52.9
Congo, Rep.	59.4	62.1	55.7	58.4	36.0	31.5	51.4	53.0	51.4	49.2	53.6	56.8	54.3

Source: MFMOD and WB staff calculations. Note: The Macroeconomic vulnerability index is an average of the normalized values of debt to GDP ratio, inflation, GDP growth, and the current account balance. The minimum value is 0 and the maximum value is 100. The heatmap can be interpreted as follows: Red means the macroeconomic environment is worsening, while green means the macroeconomic environment in the country is improving.

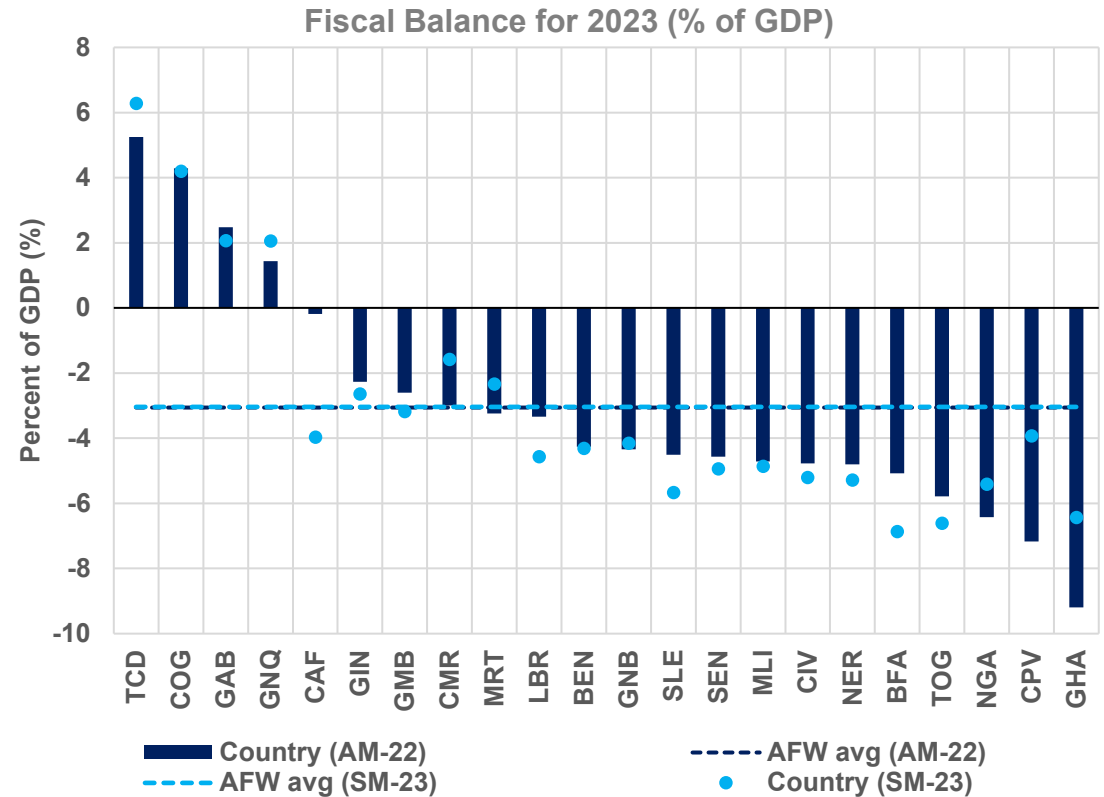
# DEBT VULNERABILITY AND DEFICITS HAVE WORSENERD ACROSS AFW

Many AFW countries experienced an **increase in public debt** between 2019 and 2023, while **half of region is at high risk of – or in – debt distress end 2022** (10 of 20 countries with LIC DSAs, up from 8 in 2019).

**Fiscal deficits continue to deteriorate in 2023**, except for commodity exporters.



Source: National authorities and World Bank staff calculations



Source: World Bank/IMF DSAs

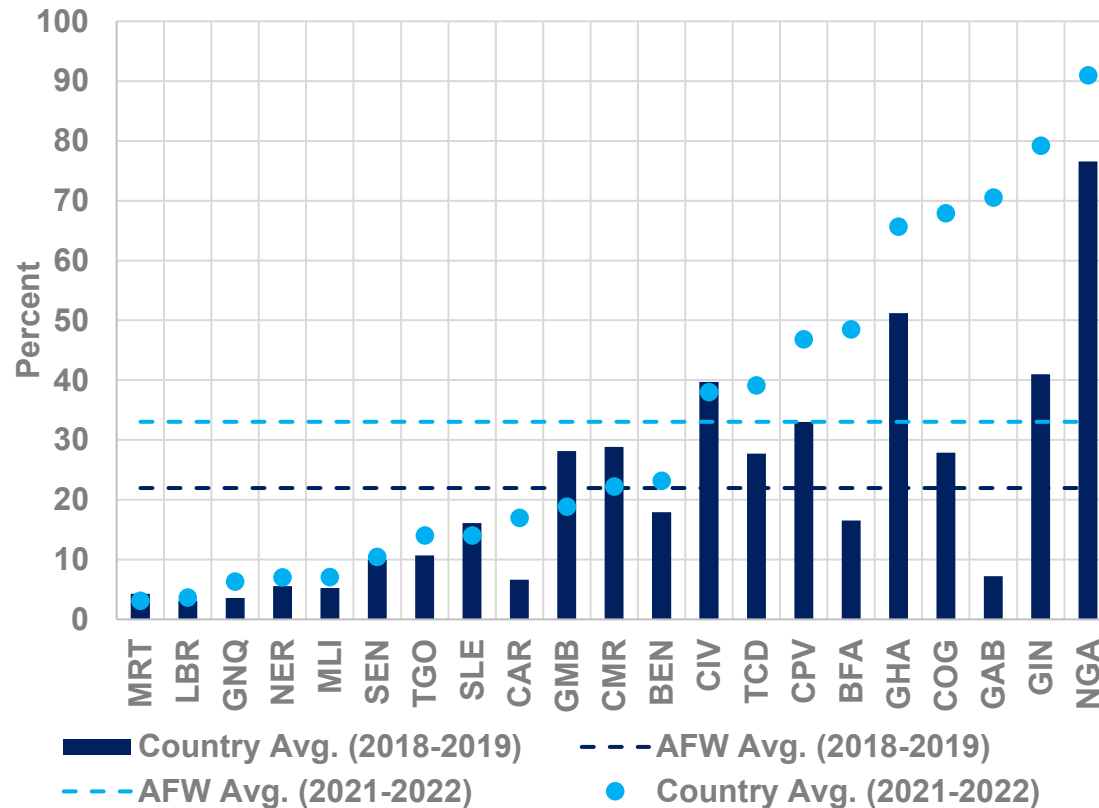


# FISCAL SPACE DEPLETED AS DEBT SERVICE COSTS INCREASED AND ENERGY SUBSIDIES SURGED

Most AFW countries saw a decrease in liquidity, with one third spending >50% or their revenues on debt service.

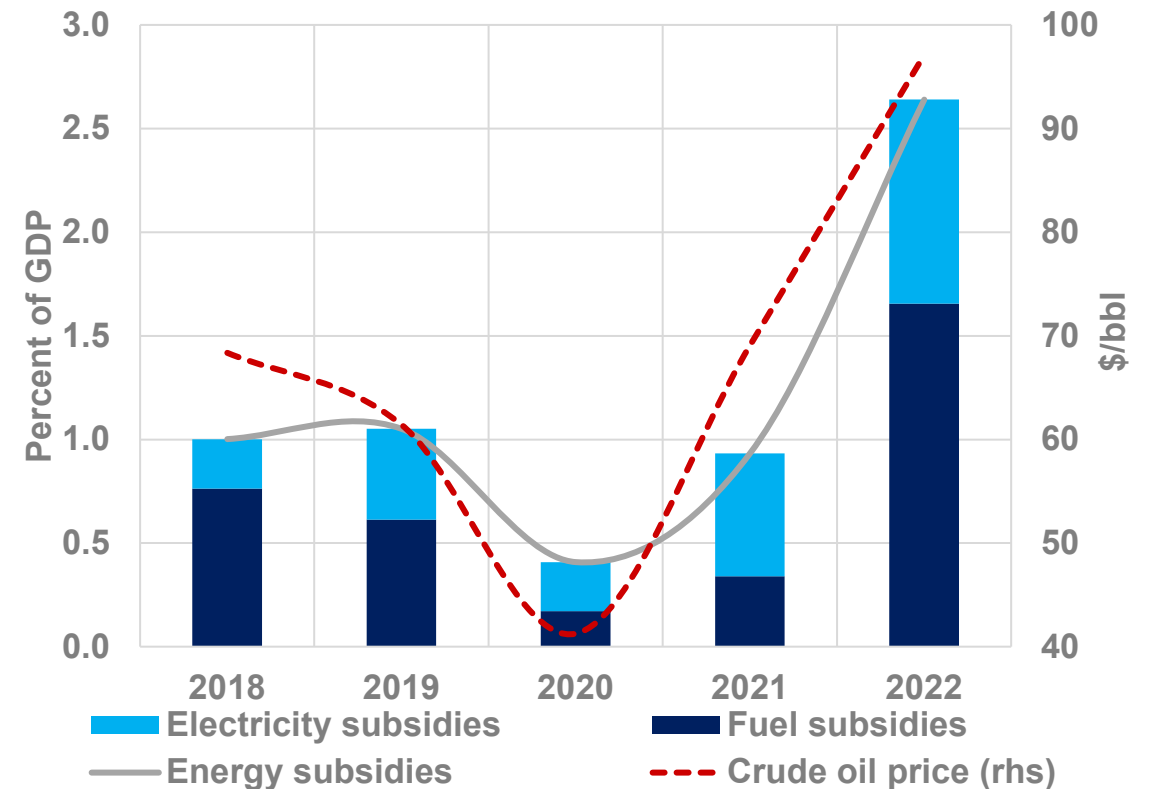
As oil prices soared in 2022, the fiscal cost of energy subsidies more than doubled compared to pre-covid levels

Debt-service-to-revenue ratio in AFW



Source: National authorities and World Bank staff calculations

Fiscal cost of energy subsidies in AFW

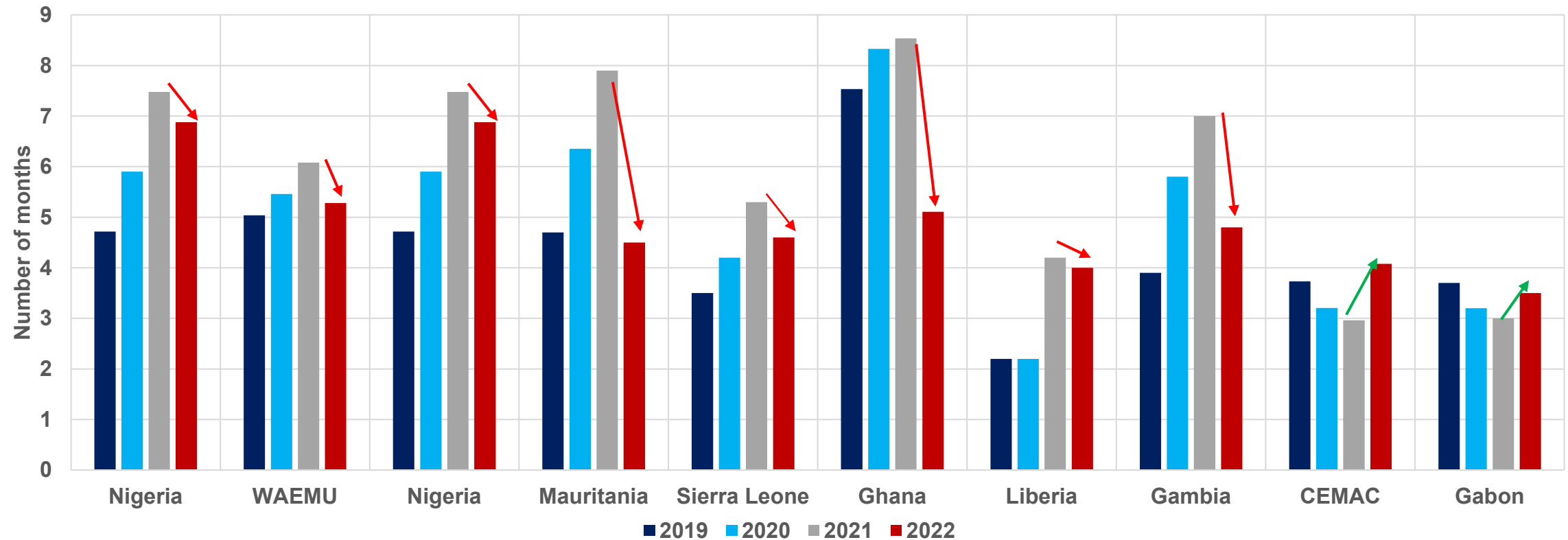


Source: National authorities and World Bank staff calculations

# EXTERNAL BUFFERS HAVE ALSO SHRUNK

After rising in 2021 partly due to the IMF increased SDR allocation, **FX reserves in most AFW countries** (except CEMAC and Gabon) **experienced a drop in 2022**

Gross reserves as months of imports



Source: National authorities and World Bank staff calculations

## **MESSAGE #2**

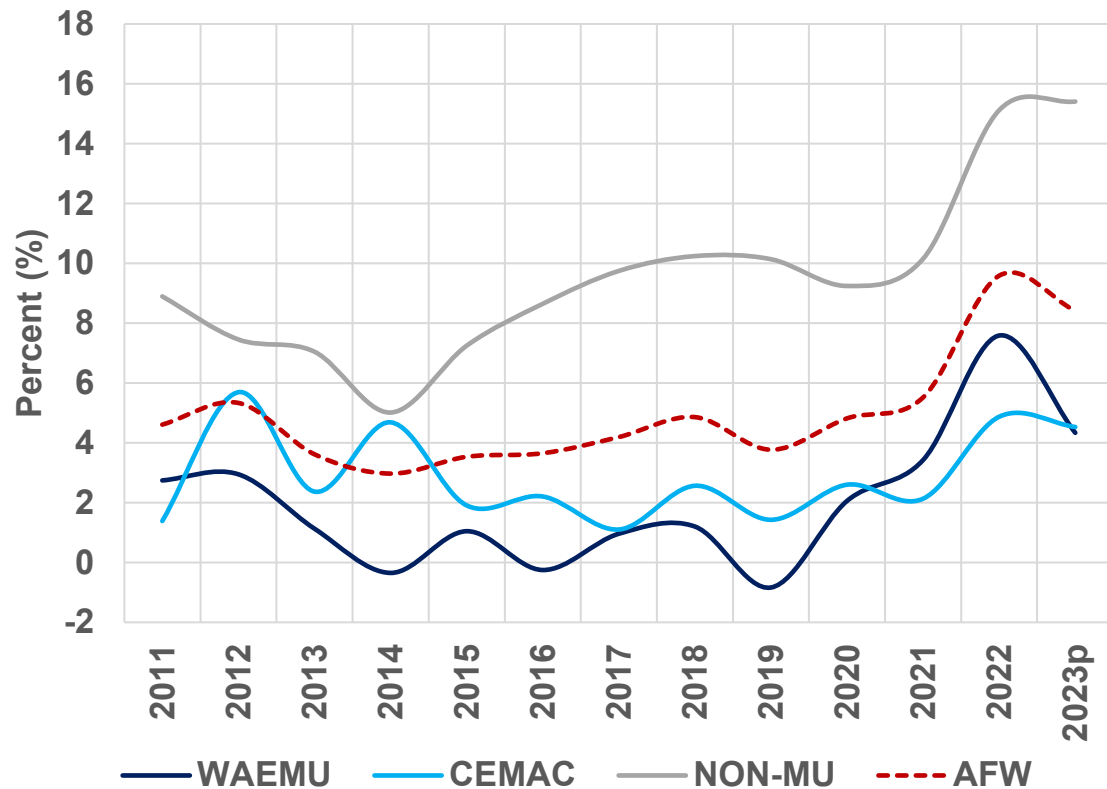
**THE REGION'S SOCIO-ECONOMIC FABRIC HAS WEAKENED**

# ECONOMIC PRESSURES ARE NOT SHOWING SIGNS OF ABATING QUICKLY

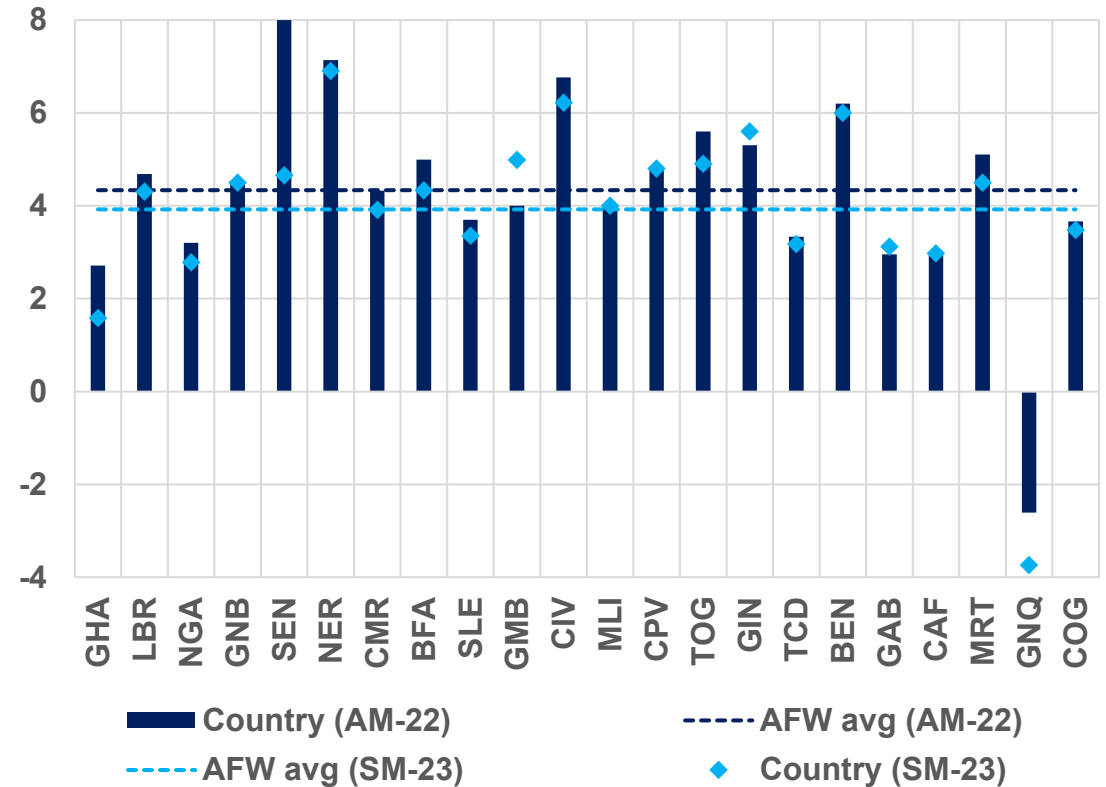
Although inflation is expected to slightly drop in 2023, it will **remain much higher than pre-2021**

Average projected GDP growth for AFW in 2023 has **fallen from 4.3 to 3.9 percent** since the AM-22

### CPI inflation



### GDP growth projected in 2023

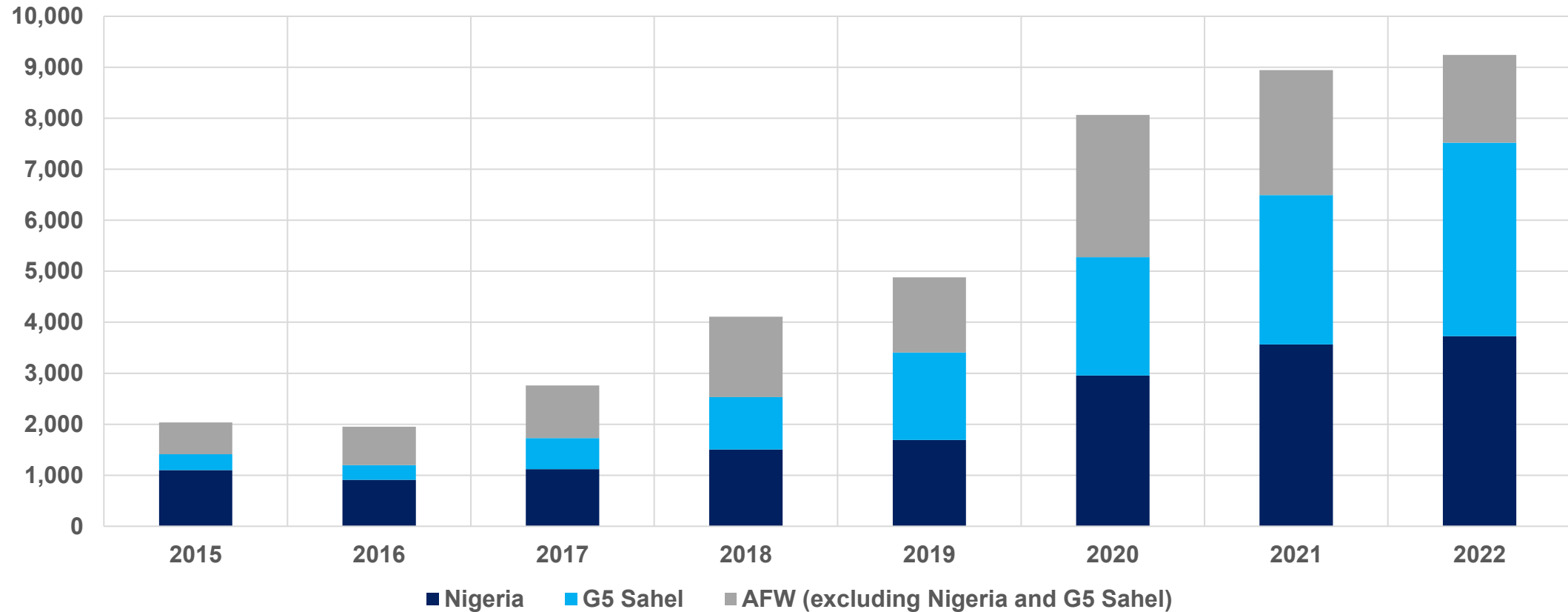


Source: MFMOD and World Bank staff calculations

# INSECURITY IS INCREASING ACROSS AFW

The number of **insecurity events** in AFW **more than doubled** in 2020-2022 compared to 2017-2019

Insecurity events in AFW

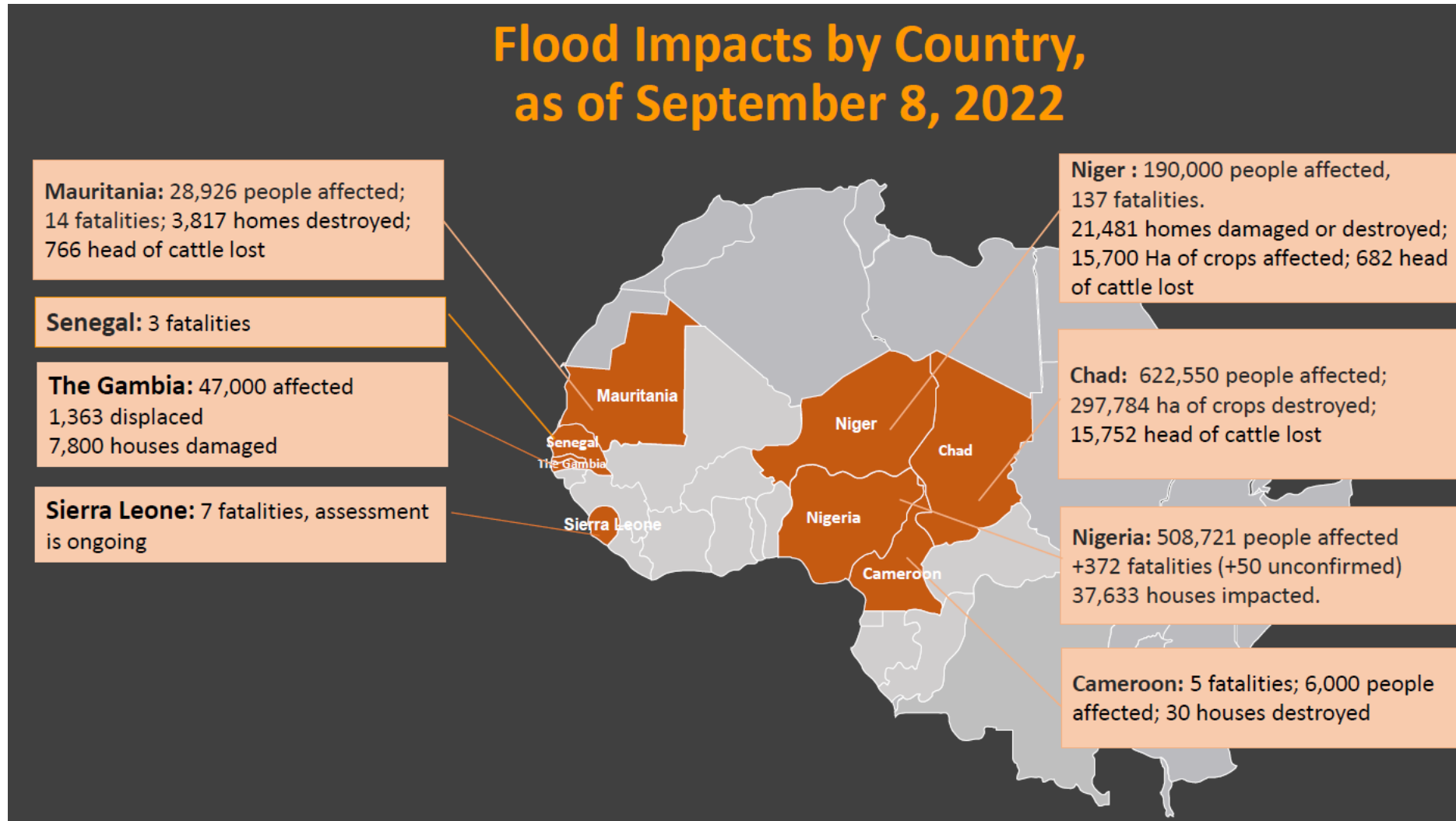


Source: ACLED and World Bank staff calculations.

Note: Insecurity events include: Battles, Violence against civilians, Explosions/Remote violence, and Riots. G5 Sahel countries are: Burkina Faso, Chad, Mali, Mauritania, and Nigeria

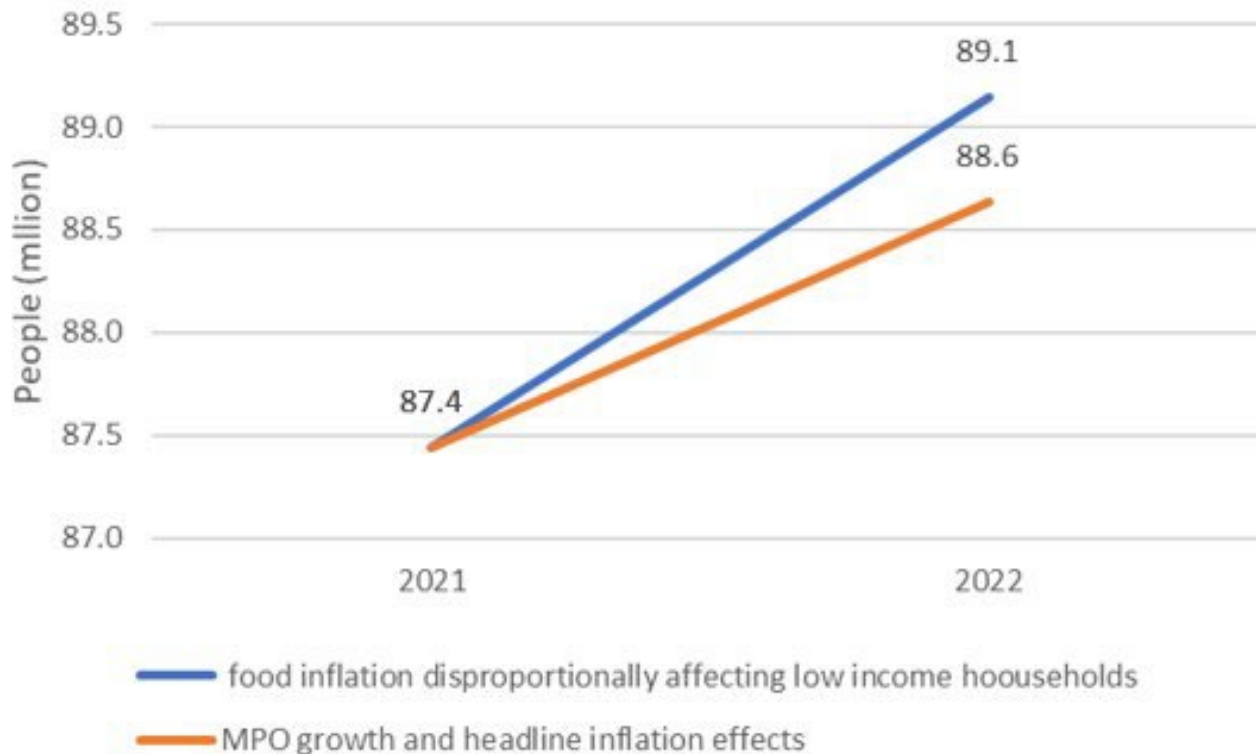
# CLIMATE CHANGES CREATING A NEW MORE VOLATILE NORMAL?

>145% above-average accumulation of rainfall compared with last 30 years causing intense floods in at least 7 countries



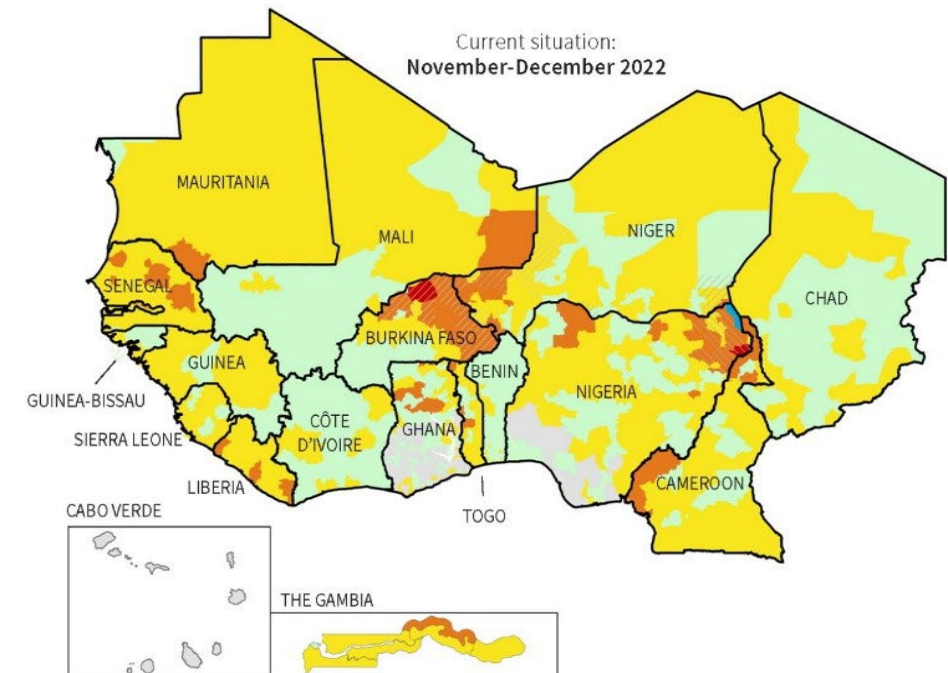
# AS A RESULT, POVERTY INCREASES AND FOOD INSECURITY PERSISTS

Number of poor individuals AFW  
(excluding Nigeria)



## SAHEL AND WEST AFRICA: FOOD AND NUTRITION SITUATION

28.9 million people in “Crisis” or worse (phases 3-5)



Phases of food insecurity

Partially inaccessible zones Not analysed

Phase 1: Minimal Phase 2: Stressed Phase 3: Crisis Phase 4: Emergency Phase 5: Famine

Source: Cadre harmonisé analyses, regional concertation, Cotonou, Benin, November 2022

[www.food-security.net](http://www.food-security.net)

© 2022. Food Crisis Prevention Network (RPCA), map produced by CILSS/AGRHYMET

## **MESSAGE #3**

**THESE DYNAMICS REFLECT MORE THAN A TEMPORARY SETBACK,  
AND SUSTAINABILITY REQUIRES STRUCTURAL SOLUTIONS**

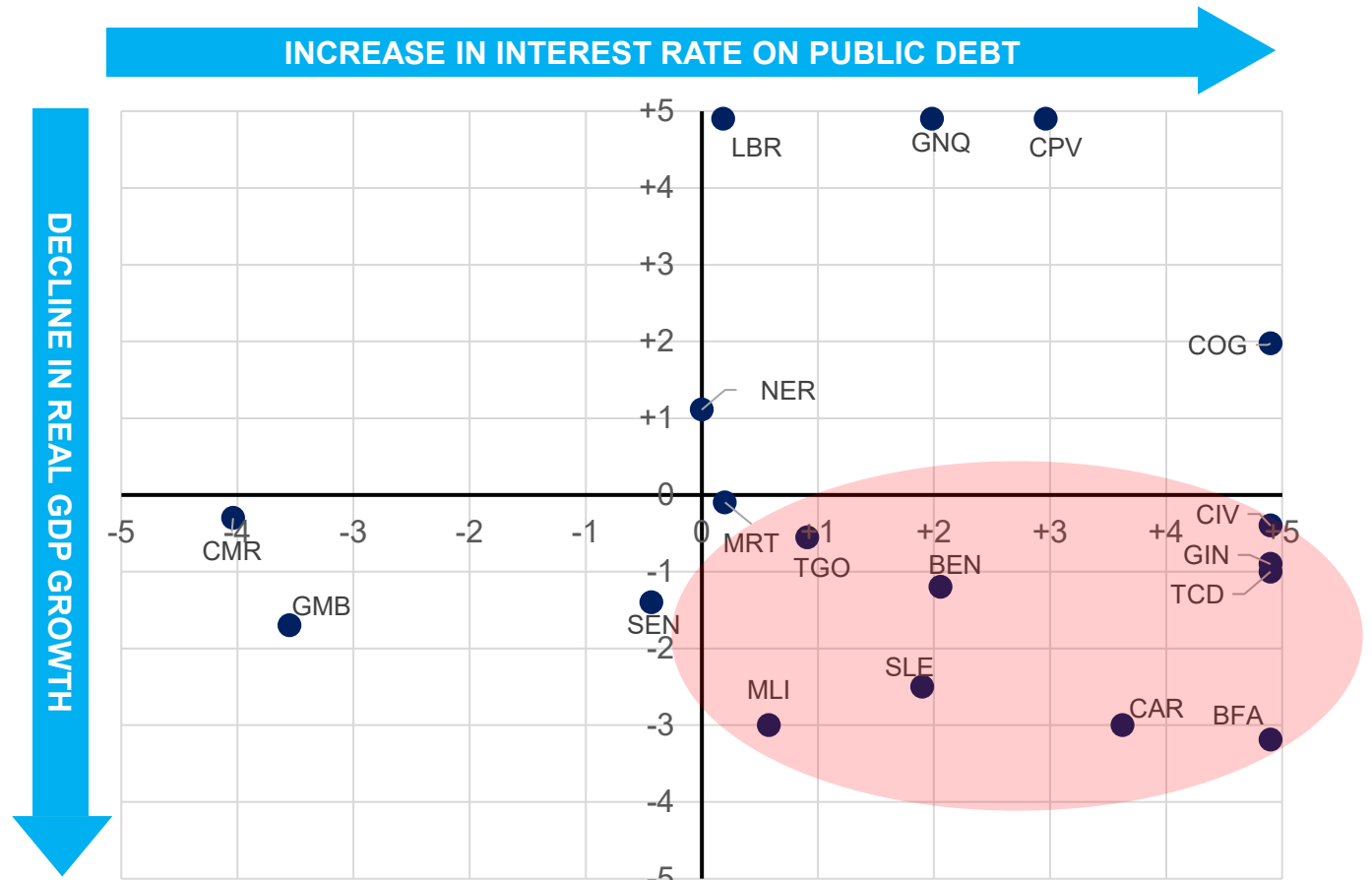


# GOING FORWARD, FISCAL AND DEBT SUSTAINABILITY ARE A NECESSARY CONDITION

Current financing squeeze reveals **unsustainable debt trajectory creating risks** with increased interest rates and declining growth prospects

**MACRO-FISCAL STABILIZATION**, through:

1. **Exit short-term crisis responses** (often regressive and non-targeted)
2. **Embrace growth-oriented fiscal consolidation** (stabilize debt dynamics, develop revenue mobilization strategies, prioritize expenditures)
3. **Debt sustainability** (diversify sources of funding, increasing transparency and capacity to boost domestic financing)



Source: MFMOD and WB staff calculations. Note: The x-axis shows change in implied interest rate on public debt between 2016-19 and 2022. The y-axis shows change in real GDP growth rate between 2016-19 and 2022. Values are winsorized at +5 (i.e. values above 5 are shown as 5), average 2016-19 may be based on selected years due to data availability.

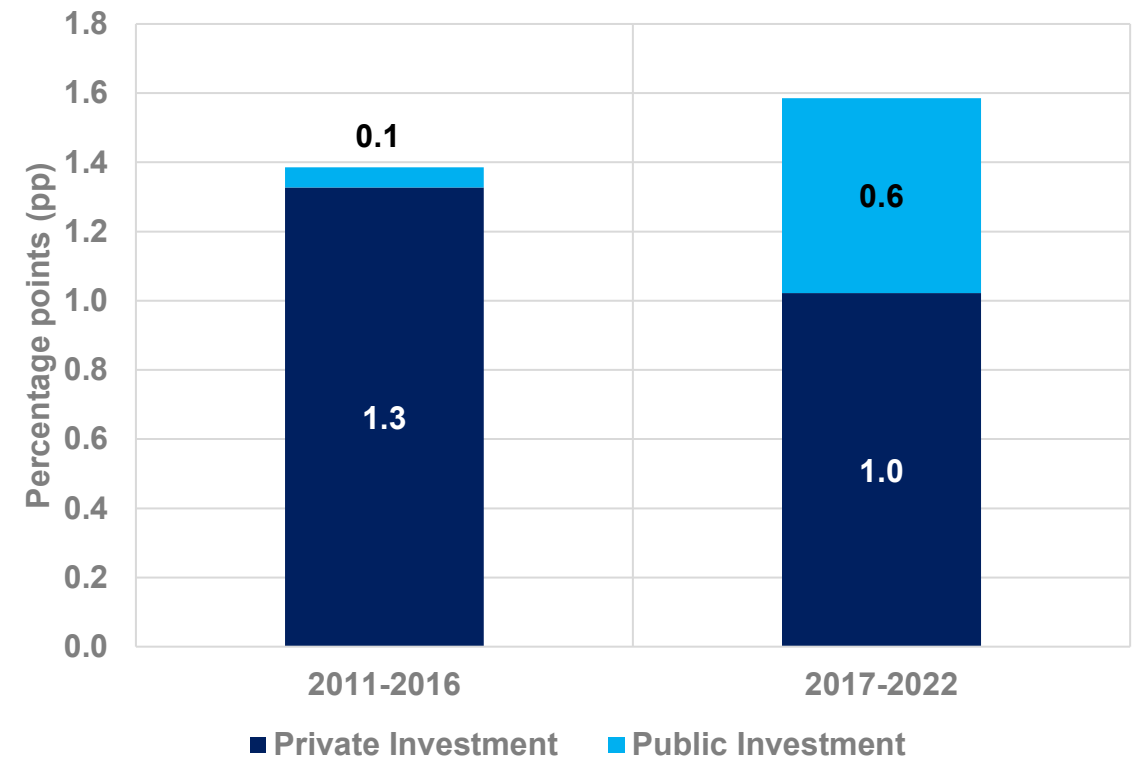
# TO INCREASE PRIVATE SECTOR CONTRIBUTIONS, THE CONSOLIDATION SHOULD BE GROWTH FRIENDLY AND EQUITABLE.....

On average, **private sector** contributions to growth in AFW has **dropped**, while that of **public investment** has **increased**

## IMPROVED BUSINESS ENVIRONMENT, through:

1. **Public investments crowding in private investments** (PPP, de-risking, creating new markets).
2. **Improved governance, more competition and transparency** (predictability, SOE management).
3. **Rationalized subsidies** (in key areas for growth e.g. climate, and partial to prevent moral hazard).

Average Contribution of private vs public investment to GDP growth in AFW

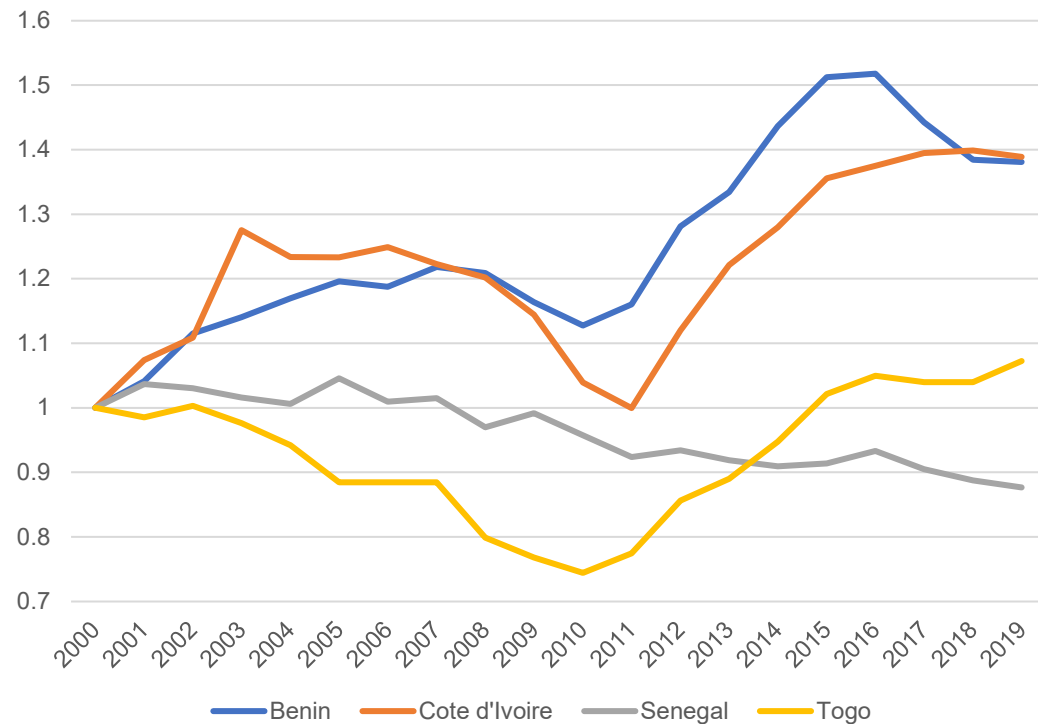


Source: MFMOD and WB staff calculations..

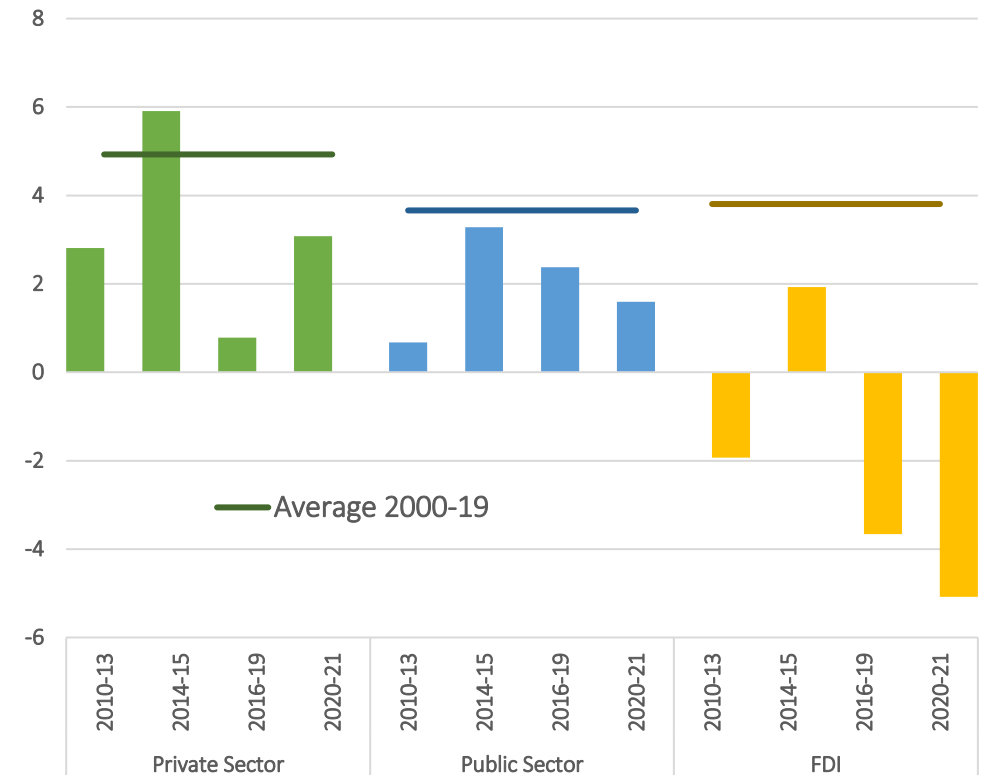
# .....BUT INVESTMENT HAS FALLEN AND NEEDS TO FOSTER ECONOMIC TRANSFORMATION

On average, **productivity's** contributions to growth in AFW has **been modest**, while there has been a **protracted slowdown of investment**

**Total Factor Productivity has remained subdued (Compared to 2000)**



**Declines across types of investments**

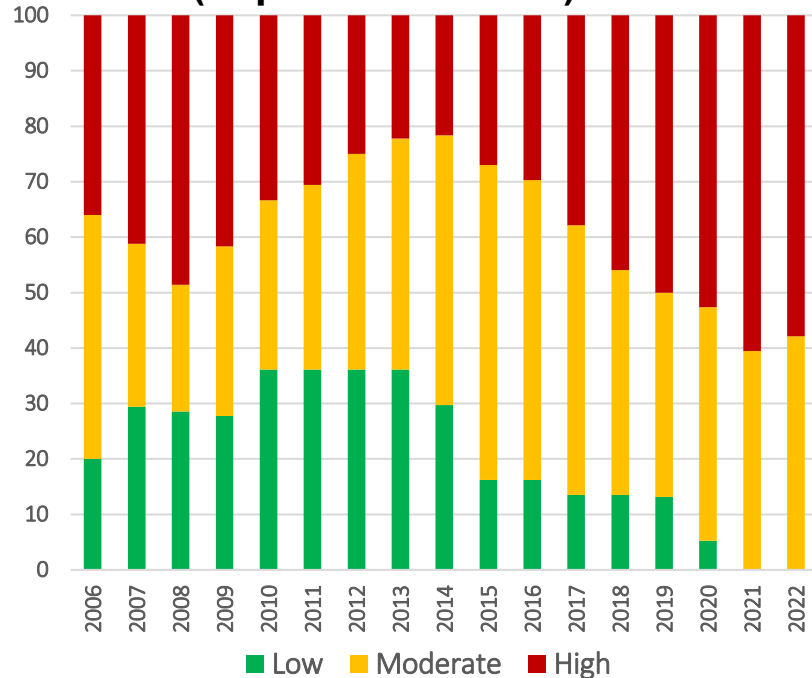


Source: MFMOD and WB staff calculations..

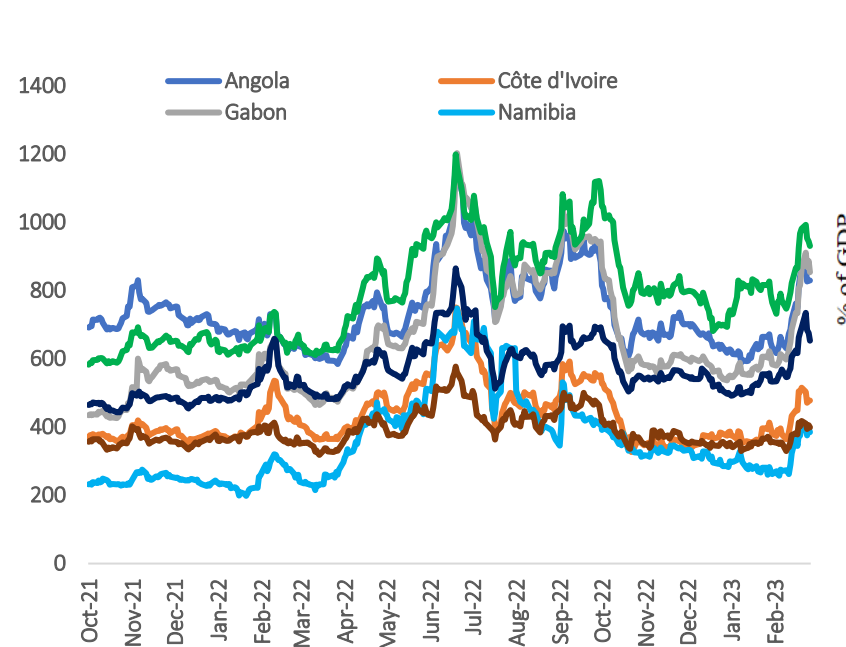
# CONCESSIONAL FINANCING AND COORDINATED DEBT MANAGEMENT SOLUTIONS CENTRAL IN THE SHORT and MEDIUM TERM

Despite diversification across external creditors, **concessional IDA financing remains critical** as **external and domestic/regional financial markets tighten**

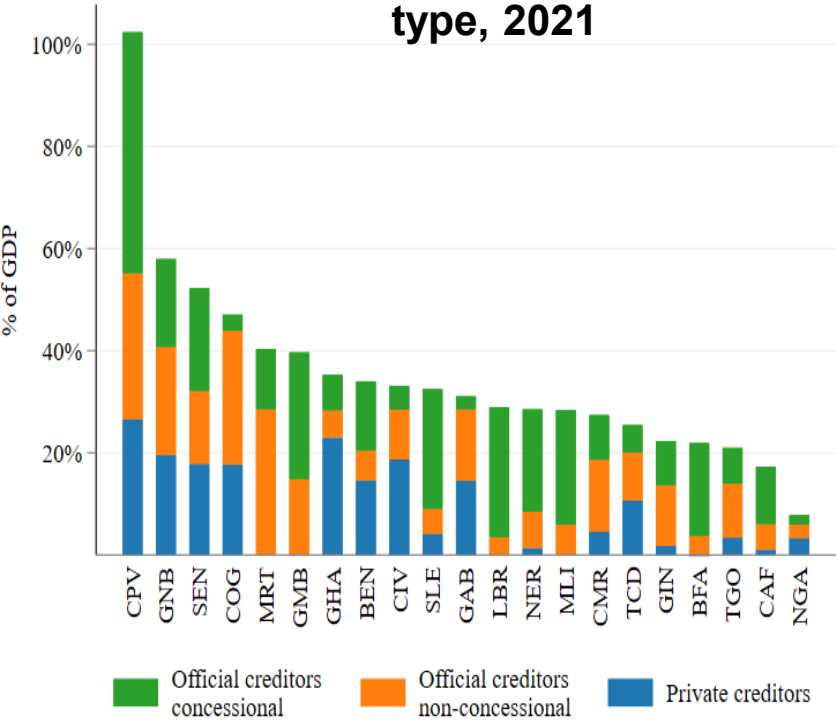
### External Debt Distress (in percent of total)



### Sovereign Spreads (in basis points)



### PPG external debt stock by creditor type, 2021

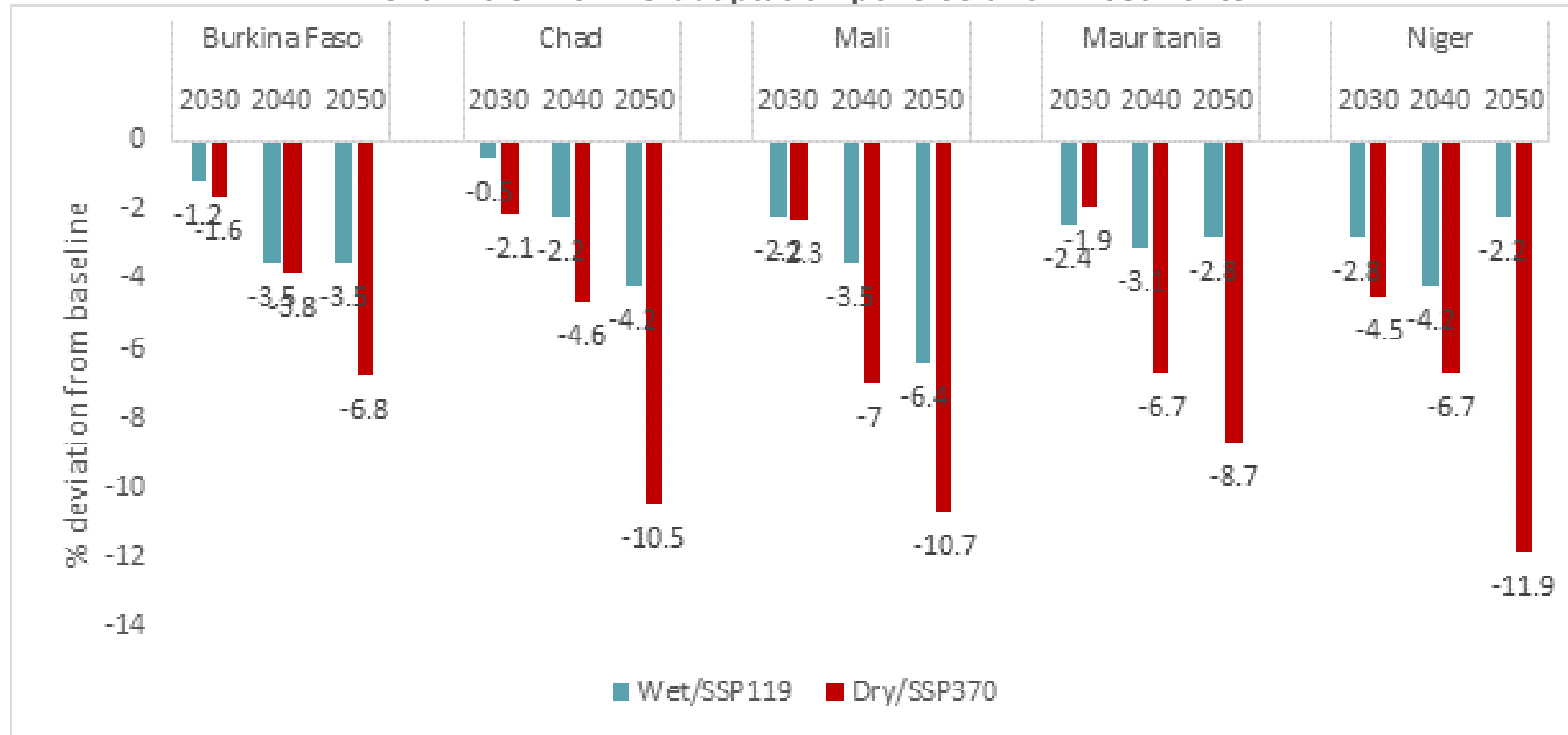


Source: World Bank staff calculations, Bloomberg

# LARGE ECONOMIC LOSSES ARE EXPECTED FROM CLIMATE CHANGE SHOCKS FOR THE G5 SAHEL

The number of **insecurity events** in AFW **more than doubled** in 2020-2022 compared to 2017-2019

Annual GDP loss (% deviation from the medium growth baseline) from the combined net impact of six channels with NO adaptation policies and investments



Source: World Bank staff calculations, Climate Change Development Report

# IN SUM, AFW's MACRO CLOCK IS TICKING

1. **MACROECONOMIC STABILITY AND SUSTAINABILITY ARE CHALLENGED**, AFTER YEARS OF LOST OPPORTUNITY AND RECENT SHOCKS.
2. THE **CURRENT CONTEXT** OF HIGH TWIN DEFICITS AND TIGHT FINANCIAL MARKETS **IS NOT A CYCLICAL PHENOMENON AND MAY PERSIST INTO THE MEDIUM TERM.**
3. THE GROWTH OUTLOOK IS MODERATING AND ANY **ROBUST ECONOMIC PERFORMANCE IN THE MEDIUM TERM REQUIRES INCREASING PRIVATE SECTOR CONTRIBUTIONS**

## PRIORITIES GOING FORWARD

1. TO MAINTAIN MACRO-STABILITY, **PRO-ACTIVE FISCAL POLICY** (DRM; EXPENDITURE EFFICIENCY) **AND DEBT MANAGEMENT ARE NECESSARY.**
2. TO STRENGTHEN THE REGION'S SOCIO-ECONOMIC FABRIC, **CONSOLIDATION NEEDS TO BE PROGRESSIVE AND GROWTH INCLUSIVE.**
3. **STRUCTURAL EFFORTS TO CROWD IN PRIVATE INVESTMENT** (INCL. For CC adaptation) **NEED TO ACCELERATE.**



Thank you

9<sup>th</sup> Economic Development Days – May 2023

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