Macro Dev

Macroeconomics and development
JANUARY 2023 I N° 46

SEMESTRIAL PANORAMA 2023 #1

Emerging and Developing Countries: The Noose is Tightening

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ÉDITIONS AFD
AGENCE FRANÇAISE DE DÉVELOPPEMENT

MacroDev - Semestrial Panorama

Semestrial Panoramas are special issues of the **MacroDev** series written by analysts from the Agence Française de Développement (AFD) (French Development Agency). They present a synthesis of macroeconomic and socioeconomic analyses of emerging and developing countries (EDCs). One feature of these short, country-focused articles is a thematic section that sheds light on the short-term and structural issues and major challenges affecting these countries.

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Editorial:

Rates are on the rise… See you next June!

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The dual shock of the health crisis and the war in Ukraine has pushed up inflation to an extent not seen in developed countries since the 1979 oil shock and the Iran-Iraq war. This shock has put an end to two decades of disinflation imported from China and other emerging and developing countries (EDCs) and over a decade of ultra-accommodative monetary policies. Indeed, Central Banks have since implemented more restrictive monetary policies, firstly in developed countries and Latin America, then in the other EDCs.

Coupled with fluctuations in the prices of agricultural commodities and energy, and the ups and downs of the Chinese economy, slowed down by the "Zero Covid" policy and the vulnerabilities of its real estate sector, inflation and monetary tightening profoundly changed the paradigm of the global economy in 2022. The International Monetary Fund (IMF) revised down its economic growth forecast in July, then in October, for virtually all geographical areas for 2022 and 2023. Global growth could even fall below 2% (with a probability of 25% according to the IMF, but this is also the main scenario for a number of private institutions). This would place the level of real GDP growth in the lowest decile since 1970.

After 6.6% in 2021, EDCs are expected to see real GDP growth of 3.7% in 2022 and in 2023, it should fall somewhat short of the average of 5.5% recorded over the first 20 years of the century. Inflation, which was estimated at 9.9% in 2022 on average in EDCs, has probably passed a peak. But in 2023, there will continue to be strong pressure and volatility in international prices, on both the agricultural and energy markets. Any spark is likely to trigger a further inflationary surge.

As the new year begins, one of the major uncertainties is the strength of the Chinese economy in 2023. In reality, the end of the "Zero Covid" policy, which initially gave hope of a rapid recovery after a disappointing growth rate of 3% in 2022 (the lowest level for at least three decades), brings a number of health, social and economic risks that could cast a shadow over the short-term prospects. Will China drive or hold back the global economy in 2023? In any case, the consequences will differ depending on whether we look at raw material and energy prices, which will rise in the event of a Chinese recovery, or tensions on supply chains, which will be lower in the event of economic recoveries, thereby easing inflation on processed goods.

At the intersection of these questions and in order to come up with some answers, a summit aimed at a "new financial pact" with vulnerable countries will be held in June 2023. On the heels of the G20 summit in Indonesia and COP27 in Egypt, it will invite all the international actors to come up with new tools to allow EDCs to return to a sustainable debt trajectory, beyond the Common Framework for Debt Treatments.

Indeed, while 2022 saw a rise in interest rates and the appreciation of the dollar, the past decade has also seen the emergence of unsustainable debt strategies. The structure of the public debt of EDCs has become more complex. For example, about 30 countries have conducted a first Eurobond issuance since 2011, while the share of public debt held by domestic banking systems has on average almost doubled (as a percentage of GDP) over the period. The level of debt and public debt burden are now returning to levels comparable to the early 2000s, but its composition will complicate any restructuring due to the heterogeneity and atomicity of the creditors.

Will inflation have slowed sufficiently mid-year for the Fed to end its series of rate hikes? Will the Ukrainian conflict have led to developments by the spring that destabilize international trade? Will China have turned the page on Covid-19? Will the international community have reached agreement on the financial tools required to finance EDCs? Set the date for June for an analysis of the first signals!

Through an analysis of the effects of the tightening international financial conditions and the impact of a strong dollar, the first part of this latest semi-annual MacroDev Panorama more generally takes a look at the debt trajectory of EDCs. Nine country focuses subsequently outline the different effects of a deteriorated international context on their macroeconomic path: South Africa, Morocco, Mauritius, Mauritania, Bangladesh, India, the Philippines, Turkey and Colombia.

Thematic section

Monetary tightening in developed countries: sovereign debts of emerging and developing countries on a tigthrope

Faced with rising inflation, the main central banks in developed countries (DCs), first and foremost the US Federal Reserve (Fed), have significantly tightened their monetary policy in recent months. This sudden cycle of increases in key interest rates triggered in late 2021 brings back bad memories for a number of emerging and developing countries (EDCs)[1]. Indeed, for these countries, the rate hikes in developed countries have led to some of the most severe crises seen over the last 50 years: the Volcker Shock (1979-1982), the "Tequila Effect" (1994) and the "taper tantrum" (2013). During these various episodes, the rise in US rates, or simply the prospect of monetary tightening, resulted in considerable capital flight, turbulence on the foreign exchange market and, more generally, a loss of confidence among international investors. It is therefore with good reason that a number of EDCs are concerned about this new cycle of monetary tightening.

The sovereign debts of emerging and developing countries are particularly vulnerable to this wave of rate hikes. After rising sharply over the last decade, the public debts of EDCs are today faced with a dry-up of global liquidity and an appreciation of the US dollar (USD). For many countries, the cycle of rate hikes in DCs results in a sharp increase in borrowing costs and debt levels. The public finances of EDCs have already been severely impacted by the consequences of the Covid-19 pandemic and the Russia-Ukraine conflict over the last two years and must now cope with this new external constraint.

But history does not seem to be repeating itself. A number of emerging countries caught up in the turbulence of the "taper tantrum" of 2013 (such as Brazil, India and Indonesia) appear to have largely learned the lessons of this episode and have reduced their budgetary and external vulnerabilities by developing domestic capital markets, rebalancing their balance of payments, making their foreign exchange regime more flexible, and reforming their monetary policy framework (inflation targeting). Just like the countries in default at the end of 2022, such as Ghana, Lebanon, Sri Lanka and Zambia, the most fragile economies today are mainly small emerging and developing countries.

Anticipating a period of turbulence, for several months now, the International Monetary Fund (IMF) has been warning about the consequences of monetary tightening in developing countries, citing in particular the adverse effects it can have on the sovereign debts of EDCs. The United Nations Conference on Trade and Development (UNCTAD) goes further and questions the relevance of "excessive monetary tightening"[2]. The United Nations states that a "widespread debt crisis in developing countries is a real risk" and calls for a change in the course of monetary policy. For now, while inflation has been slowing for several months, the main central banks seem determined to continue their rate hike cycle until inflation has fallen significantly.

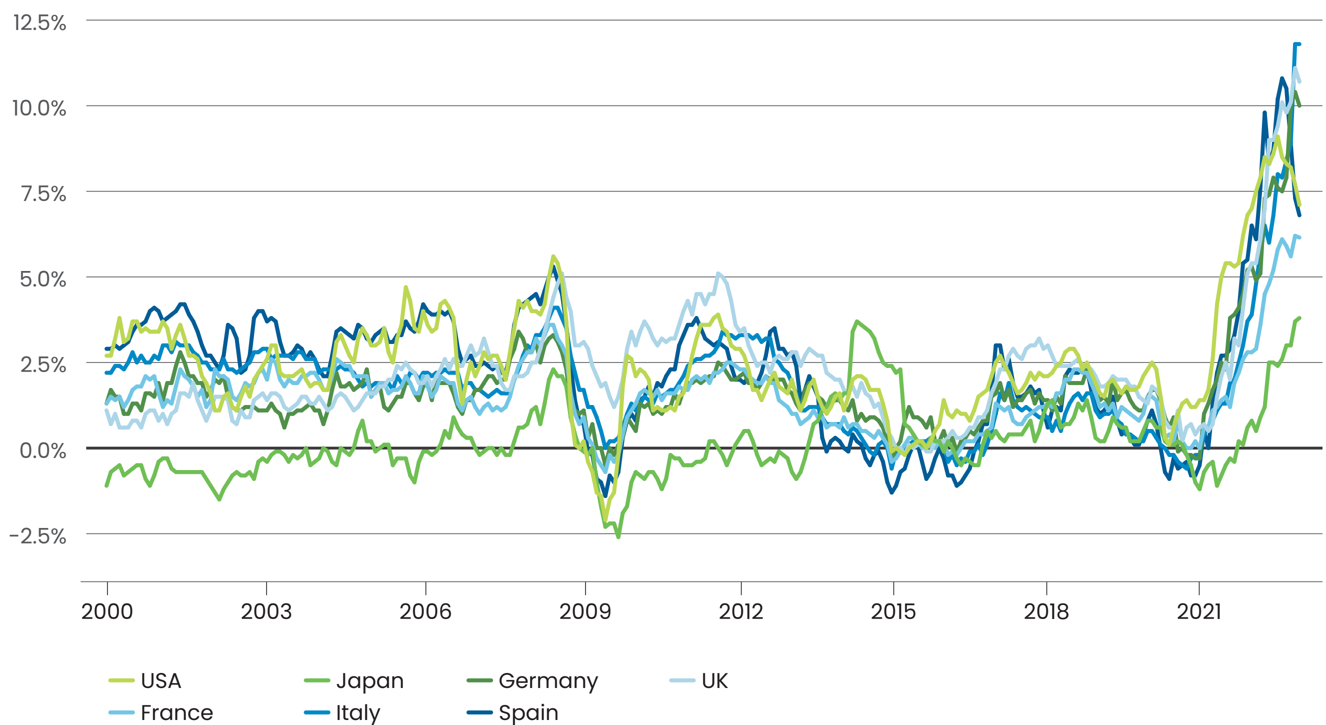
Faced with a rise in inflation, developed countries significantly tightened their monetary policies in 2022

Following years of sluggishness, inflation suddenly accelerated starting in mid-2021 and reached record levels in the USA, Europe and Japan (see Graph 1). The causes of this inflationary surge are diverse, but closely related to the post-pandemic economic recovery. After a marked slowdown in 2020-2021, the global economy recovered and demand quickly picked up, fueled and boosted by the various government recovery plans and the use of the additional savings built up during the months of health restrictions and lockdown. At the same time, global supply did not manage to keep up with demand due to the continued restrictions and disruptions in supply chains. The imbalance between global supply and demand led to an acceleration in inflation, while shortages and soaring transport costs were observed. This trend subsequently became even more marked, due, on the one hand, to the Russia-Ukraine conflict which came as an additional supply shock on commodities (contributing to exacerbating the imbalance between supply and demand) and, on the other, to the appreciation of the US dollar (see below), causing imported inflation to rise in a number of countries.

1 The sample of countries analyzed corresponds to the 121 low-and middle-income countries of the World Bank Debtor Reporting System (DRS) whose data are published annually in the International Debt Report (IDR).

2 The United Nations Conference on Trade and Development (2022, 3 October), UNCTAD warns of policy-induced global recession; inadequate financial support leaves developing countries exposed to cascading crises of debt, health and climate.

Graph 1 – Inflation rate (CPI) in developed countries, year-on-year



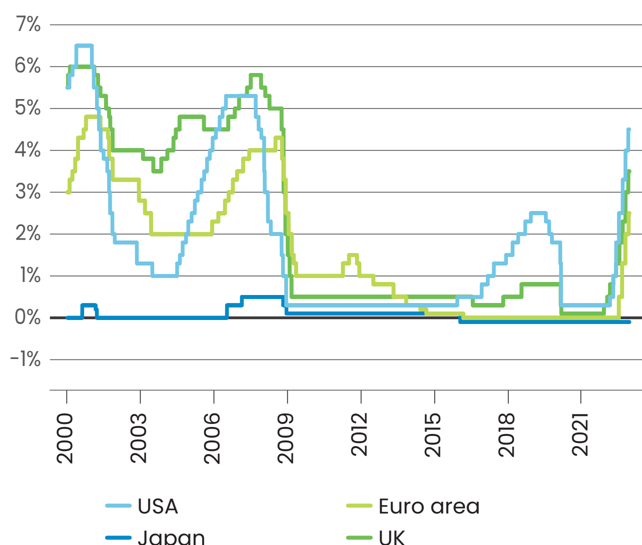
Source: National data, author's calculations

As price stability is the main mandate of central banks in developed countries, they have responded to the acceleration in inflation in recent months by tightening their monetary policies. Consequently, there has been a sharp rise in key interest rates to control inflation: in theory, the increase in the "cost of money" generated by these rate hikes lowers demand and therefore reduces the imbalance with supply[3]. In December 2021, the Bank of England (BoE) started the movement among the major developed countries and increased its key interest rate. By late 2022, it had raised rates nine times in total (+340 basis points), against seven increases for the US Federal Reserve (+425 points) and four for the European Central Bank (ECB, +250 points). Only the Bank of Japan (BoJ) has maintained its key interest rate at a negative level, which has been stable since 2016 (see Graph 2).

3 The refinancing rate (key interest rate) is the rate at which commercial banks finance themselves in the short term from the central bank. Consequently, when central banks raise this rate, they increase the cost of borrowing for banks. In theory, banks pass on the increase to their clients, which ultimately affects the cost of credit and therefore the level of demand and liquidity in circulation in an economy.

These rate hikes constitute a sudden paradigm shift for central banks in developed countries: they put an end to over ten years of ultra-accommodative monetary policies which aimed to boost economic growth and address the risk of deflation after the financial crisis of 2007-2008. In addition to key interest rates lowered to historically low levels, this period also saw central banks in developed countries step up "unconventional measures", in particular asset purchase programs on secondary markets ("quantitative easing"). These exceptional measures have also gradually been withdrawn.

Graph 2 – Key interest rates of Central Banks in developed countries



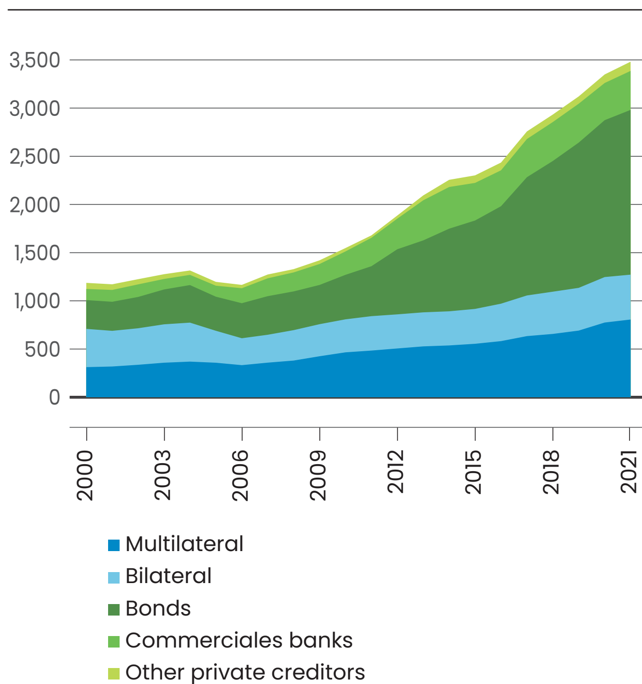
Source: Macrobond, author's calculations

With the rate hikes, the (re) financing of public debt becomes more difficult for a number of EDCs

During this decade of historically low interest rates in developed countries, international investors have largely directed their capital towards emerging and developing countries, attracted by more favorable real interest rates and economic prospects ("search for yield" and pro-cyclical nature of international investments). Sovereign debts were no exception. Indeed, the external public debt of EDCs, denominated in both local and foreign currency[4], more than doubled between 2011 and 2021 (from $1.679 trillion to $3.482 trillion), and the appetite of private creditors (banks, insurance companies, investment funds, companies, etc.) was one of the main drivers of this increase (see Graph 3). While certain countries have largely borrowed through bank loans (including from commodity traders, such as Chad and Congo), it is primarily international bond issues that have increased. Indeed, 71 of the 121 EDCs issued bonds to international subscribers between 2011 and 2021. A total of 28 countries, which had previously been "excluded" from financial markets as they were considered too risky, even made their first such bond issuance during the period (first-time issuer countries). Emblematic cases include Zambia in 2012, Ethiopia in 2014 and Laos in 2015, with 10-year Eurobonds issued at the unprecedented rates of 5.6%, 6.6% and 5.4%, respectively, and the issuance by Ghana of a $525 million zero-coupon Eurobond with a 4-year maturity in March 2021.

4 External and long-term public debt guaranteed by the State. This study looks at the official distinction between external debt (i.e. owed to non-resident creditors) and domestic debt (owed to resident creditors). It also makes a distinction between debt in foreign currency and debt in local currency. Consequently, external debt is not necessarily in foreign currency and domestic debt is not necessarily in local currency.

Graph 3 – External public debt of emerging and developing countries



Source: World Bank (IDS), author's calculations

At the end of 2021, private creditors held 63% of the external public debt of EDCs, *i.e.* almost three times more than multilateral donors and five times more than bilateral donors. In addition, private creditors were the most important external creditors of 27 EDCs in 2021, against only 15 in 2011. This development is not neutral for the finances of the countries concerned, as market conditions remain much less favorable than those of official donors. However, it should be noted that the increase in external debt towards private creditors has not replaced official sources of financing: between 2011 and 2021, bilateral and multilateral financing rose by 59% and 26% on average, respectively (+164% for private creditors).

There has been a marked decline in the appetite of international investors for the sovereign debt of emerging and developing countries due to the monetary developments in recent months. Indeed, the monetary tightening of the Fed, ECB and BoE result in a rise in the bond yield curve in developed countries, reducing the rate differential between DCs and EDCs. This loss of appetite is also exacerbated by geopolitical tensions and the increase in global uncertainty in 2022, prompting investors to move their capital towards investments considered safer and more liquid ("flight to quality"). Measuring the appetite of international investors for government debt securities, the sovereign spreads[5] of emerging and developing countries tightened significantly in 2022. For many of them, recourse to this method of financing has been largely compromised because the costs have become prohibitive[6].

At the end of 2022, the sovereign spreads of 13 EDCs exceeded 1,000 basis points, de facto excluding them from financial markets (only 4 EDCs exceeded this threshold at the end of 2019). In addition, 11 countries saw their sovereign spreads surpass their "peak" of spring 2020, at the beginning of the Covid crisis. Overall, the countries hardest hit are mainly in Sub-Saharan Africa, Middle East & North Africa and Latin America, while East Asian countries appear to be less concerned. In addition to the countries in default, cases with the most impressive increases include Pakistan, Ethiopia and Tunisia, whose sovereign spreads rose by 2,177, 928 and 667 basis points, respectively, in 2022 (see Graph 4).

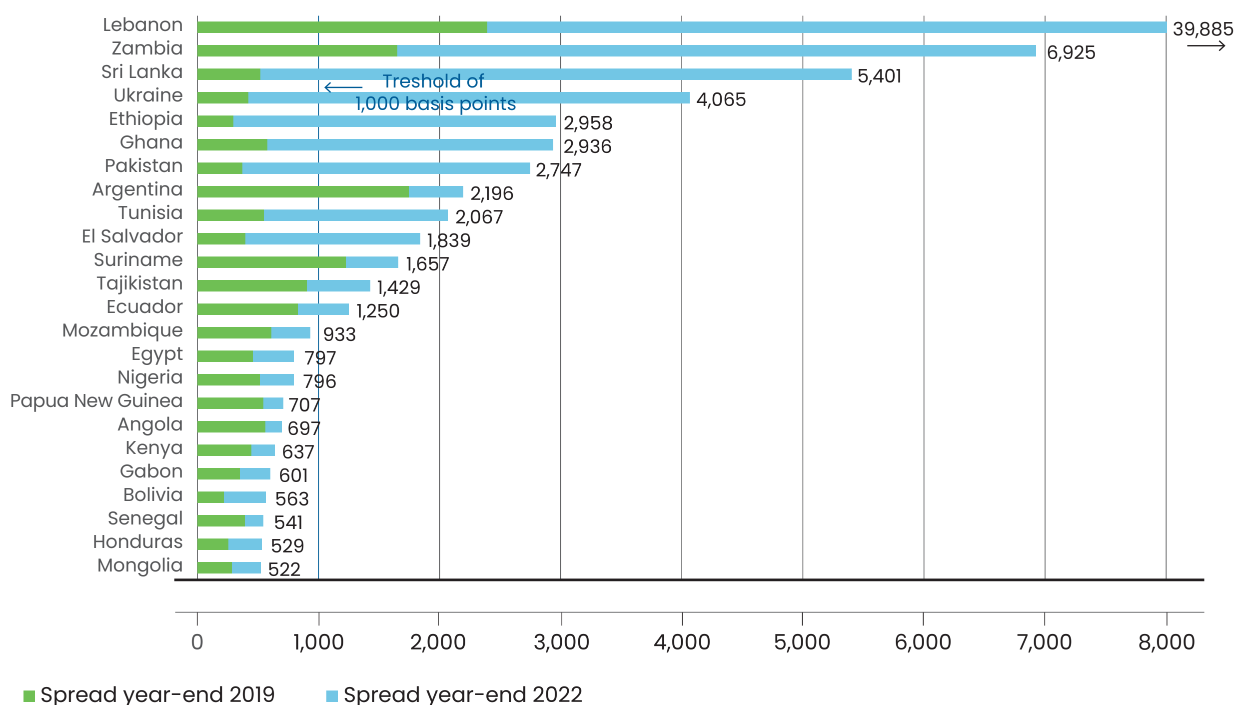
The most fragile countries are those combining a significant widening of their sovereign spread and short-term debt repayments (risk of rollover). Between 2023 and 2025, the amortization of public debt owed to external private creditors will reach $519 billion in EDCs (bonds reaching maturity in particular), and these debts will need to be largely renewed, with the countries concerned having no control over market conditions at the time. Consequently, the refinancing risk is high for a number of countries, such as Angola (amortization equivalent to 23% of its GDP in 2023-2025), North Macedonia (11% of GDP), El Salvador (10%), Montenegro (10%), Mongolia (8%), Tunisia (7%) and Mozambique (6%). Countries having a quasi-permanent rollover, due to the relatively low maturities and/or significant recourse to short-term debt, are also under pressure. More generally, the strategies of countries that have had significant recourse to external private financing in recent years, and wanted to potentially maintain this method of financing in the medium/long term, have been

5 The sovereign spread corresponds to the difference, in basis points, between the weighted average yield of the external debt securities of a given country and the yield of benchmark securities (US Treasury securities in this case) over the same maturity. The J.P. Morgan EMBI Global is used for this study.

6 The cost of borrowing on international markets corresponds to the sum of the "safe" rate (US Treasury securities) and the sovereign spread, yet both these components grew in 2022.

disrupted. This is in particular the case of Benin, Bolivia and Kenya, which all issued on international markets in 2021 and are now seeing a tightening of international financial conditions, or Nigeria whose authorities have repeatedly cited the increase in rates to justify postponements of international bond issuances.

Graph 4 – Sovereign bond spreads (basis points)



Source: J.P. Morgan, author's calculations

Appreciation of dollar increases the sovereign debt burden of EDCs

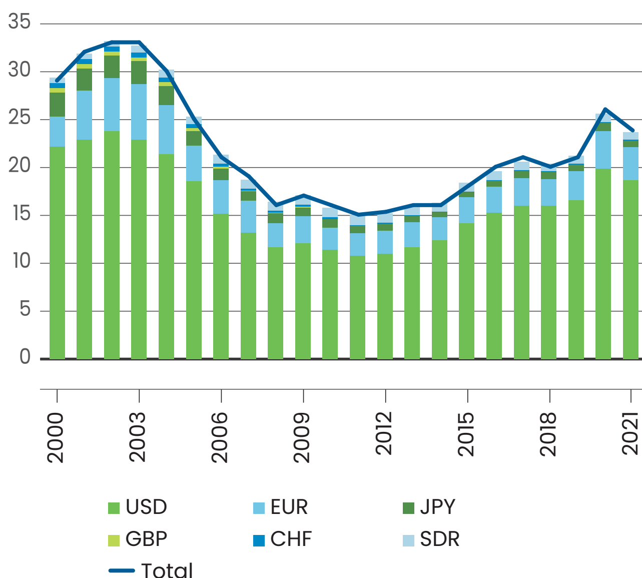
The monetary tightening cycle in developed countries also affects the sovereign debt of emerging and developing countries through the depreciation of their currencies. Indeed, the renewed interest of international investors in developed countries increases demand for the "hard currencies" of these countries. The US dollar has in particular appreciated significantly in recent months, and the US Dollar Index, which measures the value of the dollar relative to a basket of international currencies, reached in 2022 its highest level since 2002 (peak in October). In 2022, the dollar appreciated by 7% against the euro (EUR), 13% against the British pound (GBP), 15% against the yen (JPY) and 2% against the Swiss franc (CHF). This significant appreciation of the dollar, including against other hard currencies, is due to a more marked monetary tightening in the USA, more favorable economic growth prospects, and lower dependence on energy imports compared to Europe and Asia, as well as the safe haven role of the dollar in a period of high volatility and geopolitical instability.

On average (unweighted), the currencies of emerging and developing countries depreciated by over 6% against the USD in 2022. In addition to the countries in crisis, the countries hardest hit are those with fragile macroeconomic fundamentals (such

as imbalances in the balance of payments) and/or those whose monetary policy has maintained a highly accommodative orientation. A total of 22 countries have experienced a depreciation of at least 10% of their national currency against the USD. The depreciation even exceeds 30% for six currencies: the Sri Lankan rupee (-45%), the Argentine peso (-42%), the Sierra Leonean leone (-40%), the Ghanaian cedi (-37%), the Lao kip (-35%) and the Haitian gourde (-31%).

These depreciations put pressure on countries with hard currency debt. Indeed, except for a few emerging countries (such as South Africa, Brazil, Mexico, Colombia, Indonesia or Thailand) which manage to attract foreign investors on their local currency bond market, EDCs are often forced to borrow in foreign currency (especially the USD). This is due to the lack of depth and liquidity on domestic capital markets and the aversion of external creditors, including multilateral and bilateral donors[7], to the foreign exchange risk. The external public debt of EDCs in hard currencies thereby rose on average from 15% to 24% of GDP between 2011 and 2021 (see Graph 5), increasing the foreign exchange risk. In the event of a strong depreciation of local currencies, this risk automatically increases debt ratios and repayments (expressed in local currency).

Graph 5 – External public debt in hard currency of EDCs, average, as a % of GDP



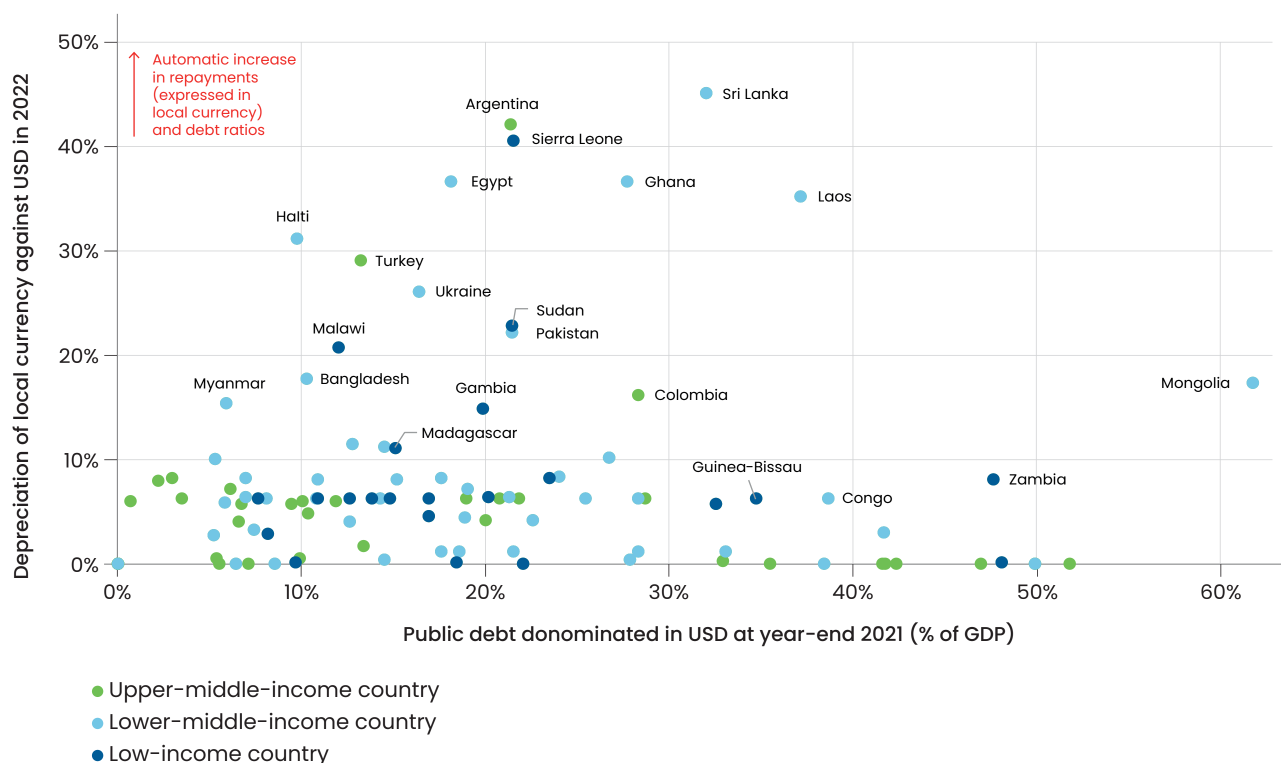
Source: World Bank (IDS), author's calculations

A number of EDCs already concerned by a problem of (re)financing sovereign debt (see above) are among the countries most affected by the materialization of a foreign exchange risk, such as Argentina, Egypt and Pakistan (as their debts are largely in hard currencies). Other countries that are poorer and first and foremost dependent on flows from multilateral and bilateral donors, are also seeing an increase in their public debt in dollars: Laos, Sierra Leone, Haiti, Sudan, Gambia, Malawi, Bangladesh and Mongolia (see Graph 6). There is also the case of countries whose currency is pegged to the euro, but whose public debt is largely denominated in dollars, which are suffering from the depreciation of the European currency (Congo and Guinea Bissau in particular).

Conversely, 17 EDCs, mainly commodity exporters and/or countries that have significantly tightened their monetary policy, saw their currencies appreciate against the dollar in 2022. Angola is the most notable example: with a public debt in dollars accounting for 56% of its GDP at year-end 2021, the country benefited from the appreciation of the kwanza by 10% against the USD in 2022. Similarly, countries with debt in euros (Georgia, Guinea, Albania, Jordan) or yen (Vietnam, Tunisia, Cape Verde) and whose national currency is appreciating against these currencies benefit from the international economic, geopolitical and financial situation.

7 For example, IMF loans are exclusively denominated in Special Drawing Rights (basket of currencies composed of USD, EUR, GBP, JPY and RMB).

Graph 6 – External public debt denominated in USD and changes in local currency against the USD



Source: World Bank (IDS), Macrobond, author's calculations

Note 1: This graph only takes into account external public debt denominated in USD. Domestic public debt denominated in foreign currency is nevertheless also exposed to foreign exchange risk. According to the IMF at the end of 2021, this debt accounted for 21% of GDP in Argentina, 9% of GDP in Egypt, 6% of GDP in Turkey, 5% of GDP in Peru and 4% of GDP in the Philippines (partial data).

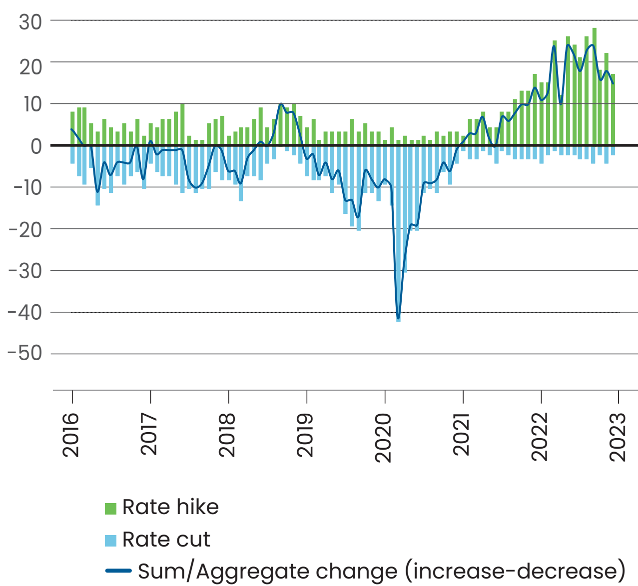
Note 2: Lebanon is off the graph (external public debt denominated in USD of 131% of GDP).

Note 3: The dots on the x-axis are countries whose local currency remained stable against the USD in 2022. They are mainly countries with fixed exchange rate regimes vis-à-vis the USD.

Interest rate hikes in DCs, an additional constraint for the economic policies of EDCs

Because it leads to an increase in borrowing costs and a rise in public debt levels, monetary policy tightening in developed countries acts as a real constraint for the most fragile emerging and developing countries. On the fiscal front, governments see a further reduction in their leeway, which is already severely tested by the global economic slowdown, an acceleration of inflation, and an increase in commodity prices. A number of countries, including Kenya, Mongolia and Tunisia, have thereby recently announced the implementation of austerity measures to rebalance their budgets. On the regulatory front, certain countries, such as Ethiopia, Pakistan and Turkey, have opted to introduce restrictions on capital transfers and/or strong incentives for conversion into local currency (strategies to de-dollarize the economy). As illustrated by the case of Colombia, which saw the peso depreciate in October 2022 after President Gustavo Petro referred to the possibility of introducing capital controls, such a strategy is not without risk. It can spark a wave of panic among international investors and deteriorate the business climate in the countries concerned.

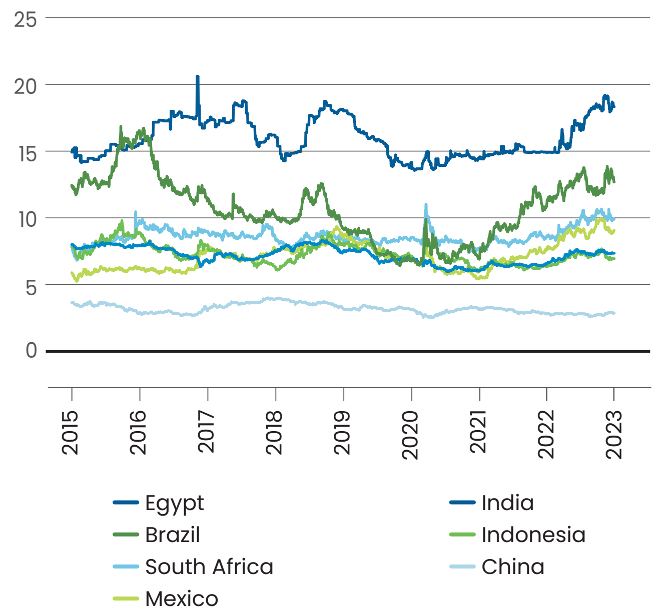
Graph 7 – Variations in key interest rates in EDCs



Source: Macrobond, author's calculations

However, the most impressive movement has been on the monetary side. To stem capital outflows, remain attractive to international investors and limit the depreciation of their currencies, almost all the central banks in EDCs were forced to raise their key interest rates in 2022, in the footsteps of developed countries (see Graph 7). While this monetary tightening has various objectives (fight against inflation, support external accounts, stability of financial sector, etc.), a number of EDCs take this action to reduce the pressure on their sovereign debt (concept of "fiscal dominance").[8] To protect themselves, certain countries have even conducted preventive rate increases (before the cycle of developed countries), in particular in Latin America (Brazil, Colombia, Mexico and Peru). This type of monetary stance has consequences: in addition to a recessive effect, these rate hikes lead to an increase in borrowing costs for governments on their domestic market (see Graph 8), as well as an increase on international markets. Similarly, a number of central banks in EDCs increase their direct interventions on the foreign exchange market in order to limit the depreciation of their national currencies, or support their exchange rate regime in the case of fixed exchange rate regimes, at the risk of depleting the reserves previously built up. The foreign exchange reserves of EDCs thereby fell by $512 billion in the first ten months of 2022, to $6.977 trillion at the end of October 2022. Only very few central banks are still reluctant to tighten their monetary policy despite external pressure, in particular China and Turkey.

Graph 8 – Yield of sovereign local currency bonds (10-year, %)



Source: Macrobond, author's calculations

8 Situation where the Central Bank is forced to change its monetary policy mainly based on budgetary considerations.

Towards an increased need for sovereign debt restructuring

In this context, there are several possible solutions for the most fragile countries facing an urgent need for refinancing: short-term loans, increased use of the domestic market (at the risk of a crowding-out effect on the private sector), aid from bilateral partners, or search for "alternative financing" (for example, announcements by the Egyptian State in 2022 of the issuances of a first Sukuk[9] and a bond in renminbi). While these methods of financing can help cope with short-term maturities and resolve a liquidity problem, they are first and foremost temporary and cyclically-adjusted solutions and are difficult to sustain in the medium/long term. Above all, these methods of financing do nothing to solve problems related to the sustainability of public finances in a number of countries. All they can potentially do is put off the problem, especially as the monetary tightening cycle in developed countries has not been completed. Indeed, it is likely that the global economy will operate in an environment of relatively high interest rates for several years to come. In 2022, a total of 35 countries thereby called on IMF financing with, in most cases, disbursements conditioned to the implementation of reforms aiming to restore the sustainability of public finances and their medium/long-term viability (see Table 1).

For an increasing number of emerging and developing countries, this objective cannot be achieved without a prior restructuring of their sovereign debt. To address this need, the G20 has established the "Common Debt Treatment Framework" to coordinate sovereign debt restructuring, by including a larger number of creditors in the negotiation process (i.e. beyond the 22 Member States of the Paris Club), notably China. However, debt treatments via the Common Framework are only open to the 73 poorest countries in the world. Middle-income countries, equally weakened by the current wave of monetary tightening, are thereby *de facto* excluded from it. While Sri Lanka – a middle-income country whose debt restructuring process is laborious, in particular due to the atomicity of its creditors – makes the case for an increase in the number of countries eligible for the Common Framework, the latter should not be seen as a panacea, as the negotiations have been tough and the progress slow for the four countries that have so far called on this mechanism, i.e. Ethiopia, Ghana, Chad and Zambia.

9 In Islamic finance, a *Sukuk* is a form of Sharia-compliant bond.

Table 1 – Countries that called on IMF financing in 2022

PROGRAM CONCLUDED	STAFF-LEVEL AGREEMENT	PROGRAM EXTENDED POST-2022	EMERGENCY FINANCING
Argentina Armenia Barbados Benin Cape Verde Chile Colombia Congo Costa Rica Egypt Georgia N. Macedonia Mozambique Nepal Peru Rwanda Serbia Tanzania Zambia	Bangladesh Ghana Guinea Bissau Jamaica Lebanon Mauritania Paraguay Sri Lanka Tunisia	Pakistan Senegal Sierra Leone	Malawi South Sudan (SLA) Tonga Ukraine

Source: IMF.

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Country Focus

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South Africa: Macroeconomic balances constrained by domestic and external factors

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The Covid-19 crisis, which has severely affected South Africa, has worsened a socioeconomic situation that was already particularly deteriorated. While the government is attempting to keep public finances afloat, the task is particularly difficult in a context of strong social tensions and inflation. In terms of the external accounts, the exceptional current account surplus seen during the pandemic is gradually being reduced. At the same time, the financial account is experiencing capital outflows related to the monetary tightening by the Fed and internal factors (power outages, social unrest, political instability), which is putting downward pressure on the rand.

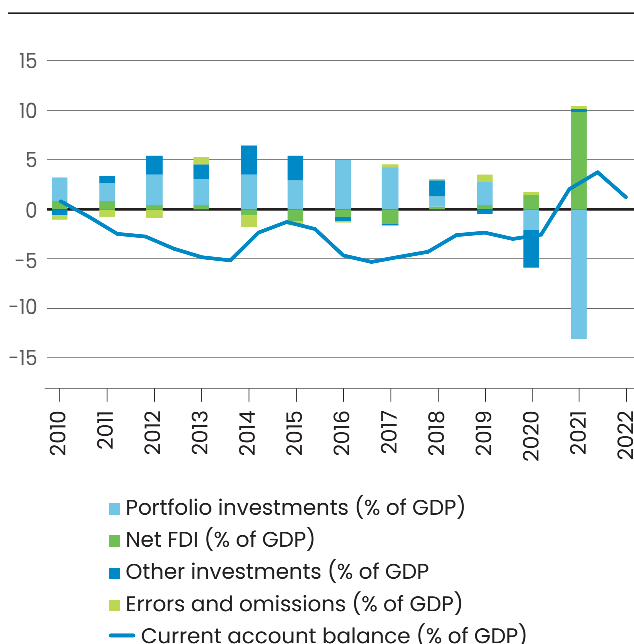
After being driven by the commodity boom in the 2000s, South Africa's economic growth slowed sharply starting in 2010. Indeed, investment remains constrained by major structural barriers (skills gap, lack of transport infrastructure, power outages related to the catastrophic financial situation of the state-owned company Eskom, unpredictability of public finances), while household consumption is held back by poverty, inequalities and endemic unemployment. It is therefore a weakened South African economy that has had to cope with the Covid-19 crisis and, more recently, the repercussions of the US monetary tightening.

Supported by the recovery in household consumption and exports, but undermined by the fourth wave of Covid-19, the riots in the summer and the power outages in late 2021, growth rebounded to 4.9% in 2021. However, according to the authorities, it fell to 1.9% in 2022 due to a combination of factors: devastating floods in KwaZulu-Natal in April 2022, consumption weighed down by inflation and unemployment, incessant strikes and the increasing number of power outages. It is expected to remain sluggish in the medium term with potential growth in the order of 1.4% according to the IMF, as it is impossible to rapidly remove the structural barriers.

The economy has been hard hit by the Covid-19 crisis

South Africa was rapidly and severly hit by the pandemic and was cut off from the rest of the world very early on. Consequently, the economy contracted by 6.3% in 2020, the worst recession in the country's contemporary history. Furthermore, the unemployment rate reached a record level in the fourth quarter of 2021 (35.3% of the working age population), double for young people, and remained at a very high level in 2022 (32.9% in the third quarter). Job losses mainly affected unskilled workers, contributing to increasing poverty (according to the World Bank, the poverty rate returned to a level equivalent to a decade ago, i.e. 63.1% under $5.5 a day) and inequalities.[10]

Graph 9 – Current account and net capital inflows (South Africa)



Source: IMF (WEO, IFS) and National Treasury

10 World Bank. Macro Poverty Outlook for Republic of South Africa: October 2022. Macro Poverty Outlook (MPO) Washington, D.C.: World Bank Group.

Ambitions for fiscal consolidation put to the test

The Covid-19 crisis has also deteriorated public finances, which were already under pressure due to sluggish growth, the support to state-owned companies in difficulty, and the weight of the wage bill in public expenditure (over 30%). Indeed, the budget deficit reached 9.8% of GDP in 2020 (after 4.7% in 2019), under the combined effect of the support measures during the pandemic and the decline in revenues related to the recession. At the same time, public debt, which had already been rising sharply since 2008 due to a growing public deficit, jumped to 69% of GDP in 2020 (against 56.3% of GDP in 2019), before levelling off in 2021-2022.

To create fiscal space and avoid compromising the sustainability of public debt, the authorities announced a fiscal consolidation policy, which was confirmed in the Medium-Term Budget Policy Statement (MTBPS) in October 2022. With better-than-expected revenues, supported notably by high commodity prices, the deficit is projected at 4.9% of GDP in the 2022/23 fiscal year (against 5.8% projected in February 2022). Furthermore, through expenditure control, the authorities aim to return to a primary surplus (0.7% of GDP) in FY 2023/24.

The increase in import prices in connection with the conflict in Ukraine and, especially, the pandemic's effects on supply chains, contributed to pushing inflation up to an average of 7% in 2022. The dramatic rise in unemployment and inflation has exacerbated social tensions, sparking a growing number of strikes and protests in recent months. In this context, it is possible that the authorities will give ground in response to the demand for higher pay in the public service, at the risk of derailing the budget projections.

While monetary tightening by the Fed affects the external accounts

South Africa's structural current account deficit is mainly financed by portfolio flows, which are particularly sensitive to variations in investor confidence. With favorable terms of trade, the current account showed an exceptional surplus during the Covid-19 crisis. However, the deterioration of the economic situation and the expectations of monetary tightening by the Fed prompted significant net portfolio outflows in 2021, all the more facilitated as the country places very few restrictions on financial flows. While the acquisition by Prosus of its South African parent company led to a boom in foreign direct investment (FDI) inflows, the financial account showed a deficit of about $14 billion in the same year. This put downward pressure on the rand which lost almost 20% of its value between May and December 2021.

There was a slowdown in net capital outflows in 2022, but the deterioration of terms of trade and the strike by the public carrier Transnet in the fall reduced the current account surplus in 2022. A return to deficit is therefore projected in 2023. Consequently, while the rand rebounded following the MTBPS announcements in October 2022, it lost about 6% against the dollar in 2022 and in the fall, came close to the record lows reached at the onset of the Covid-19 crisis. This trend is also due to the increasing number of power outages and, more recently, political uncertainty related to the suspicions of corruption hanging over President Cyril Ramaphosa (the "Phala Phala" scandal). A reassuring point is that public debt is not significantly affected by the appreciation of the dollar, as only a small proportion is foreign-currency denominated (7% of GDP).

In response to the interest rate hike by the Fed and the acceleration of inflationary pressures, the South African Reserve Bank (SARB) raised the key interest rate seven times since the end of 2021, from 3.75% to 7% in November 2022. As a result of the rise in import costs and depreciation of the rand, reserves dwindled to only 4.9 months of imports at the end of September 2022 (against 5.5 at the end of December 2021) and are judged insufficient by the IMF.

Morocco: An economy under pressure but still resilient to headwinds

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While economic growth was already experiencing a slowdown, the Covid-19 crisis, followed by the rise in commodity prices related to the war in Ukraine, have put the Moroccan economy under increased pressures. While the rise in inflation is weighing on external accounts and is fueling popular discontent, public finances remain resilient. However, prospects for an economic recovery in 2023 are hampered by the international monetary tightening, which will weigh on both domestic and global demand. This will require financial ingenuity to contain the trajectory of public debt, while maintaining the government's ambitious reform agenda. In the medium term, these reforms should improve Morocco's socioeconomic environment, accelerate economic growth and make it more inclusive.

Since the 2000s and the economic diversification introduced through the development of the industrial and service sectors, Moroccan real GDP has experienced sustained growth. The average annual growth rate reached 4.8% in 2000-2009, against 3.1% in the 1990s. However, from 2012 to 2019, economic growth slowed to an average of 3.2%. Indeed, Morocco's economic growth is highly dependent on its agriculture sector (highly volatile) and the international situation. In this context, the war in Ukraine and its impact on international prices have undermined the post-Covid-19 recovery, which was dynamic in 2021 (+7.9%), following a severe recession in 2020 (-7.2%).

Rise in commodity prices: one of the main causes of economic woes in 2022

Coupled with one of the worst droughts in the past 30 years, the rise in commodity prices has weighed on external accounts and public finances. The current account deficit is estimated at 4.3% of GDP in 2022 (against 2.3% of GDP in 2021), as the country is a net importer of hydrocarbons and wheat. There has been a marked increase in inflationary pressures, with inflation reaching 8.3% year-on-year in November 2022, its highest level since 1995, driven by the increase in food and fuel prices. This has fueled popular discontent and resulted in numerous strikes, in particular in the transport sector.

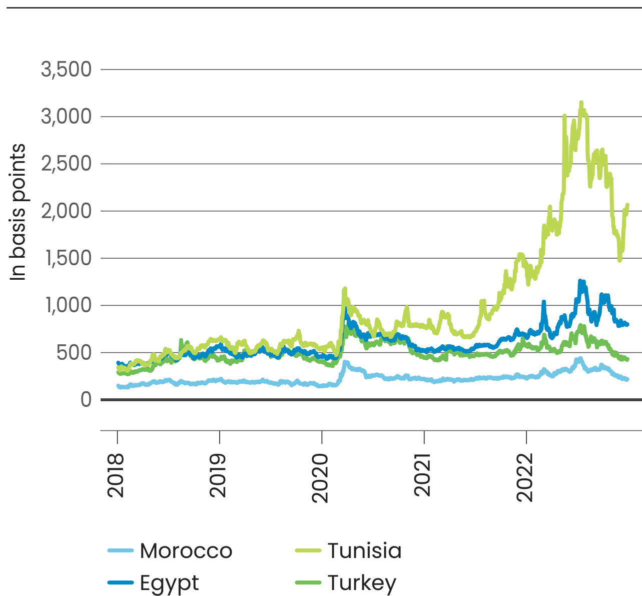
In this context, and given that some Moroccan prices are regulated (despite the removal of fuel subsidies in 2014-2016), the government has introduced several measures to ensure price stability and support household purchasing power: increase in subsidies (gas, electricity, wheat, fuel for transport operators), suspension of some customs duties, a 10% increase in the minimum wage over two years. While these measures limit the domestic social and economic impacts of the drought and the war in Ukraine, economic growth has been negatively impacted, reaching only 0.8% in 2022.

Public finances still relatively robust

Despite increases in public expenditure to cushion the impact of the war in Ukraine, fiscal consolidation resumed in 2022, supported by an increase in fiscal revenues (increase in tax revenues from income and corporate tax, good performance of state-owned companies), thereby reducing the public deficit to 5.3% of GDP in 2022. In this context, the public debt ratio (including government-guaranteed debt) is estimated to have leveled off at around 87% of GDP in 2022, following an increase of 12 pp during the Covid-19 crisis. The structure of public debt appears to be low-risk: it is mainly denominated in local currency, held by residents, and has a small average effective interest rate (about 2.5%). The domestic market would also appear to still have sufficient depth to absorb public debt. This has been illustrated by recent bond issuances by the government. In December

2020, the government was able to issue a Eurobond on favorable terms, following Fitch's downgrade. However, there has since been no further issuance and, in the meantime, the country has lost its investment grade status, with the three rating agencies positioning Morocco equivalent to BB+ since April 2021. Moody's has since changed its outlook from negative to stable, in July 2022, while risk premiums remain contained (spreads at 220 bp at the end of 2022), especially in comparison with its neighbors.

Graph 10 –Morocco's sovereign risk remains contained



Source: J.P. Morgan (EMBI Global)

The 2023 outlook is hampered by the rapid tightening of international monetary conditions

After maintaining an accommodative monetary policy since 2020 during the Covid-19 crisis, the Central Bank of Morocco (BAM) raised its key interest rate by 100 bp (50 in September and December 2022 respectively) to 2.5%. The Central Bank wants to ensure its interest rates remain relatively aligned with those of the US and the euro area, as the dirham is pegged to a basket of their currencies. The dirham is indeed under pressure: it depreciated by 11% against the dollar in 2022 (and by 6% against the euro), whereas Morocco has a fixed exchange rate regime with a +/- 5% fluctuation band (year-on-year). For now, there has been little intervention by the BAM on the foreign exchange market. Should it decide to accelerate its interventions, the country's external liquidity position wouldn't be put under pressure, as the foreign exchange reserves are still at a comfortable level. They represented six months of imports of goods and services in October 2022. They could also increase in 2023, supported by the negotiation of a new Precautionary and Liquidity Line (PLL) with the IMF. The BAM could proceed with further rate hikes in the coming months to support the exchange rate and maintain prices stability.

These rate hikes, coupled with continuing high inflation, are likely to weigh on domestic demand and ultimately on economic growth prospects. Pressure on public finance is also likely to increase with these rate hikes, coupled with an ambitious economic reform agenda in the context of the New Development Model (NDM). While public debt should stabilize in the medium term, these forecasts are based on GDP growth's trajectory and a reduction in the public deficit that are dependent on global developments and the authorities' capacity to achieve the NDM's objectives, which are potentially costly for public finances. Several reforms are in the process of being adopted (investment charter for private investment, introduction of a universal social protection scheme, economic development of high-value sectors – automotive, aeronautic, electronics, etc.). The objective is to improve the socioeconomic environment, accelerate economic growth and make it more inclusive. Yet the IMF currently forecasts economic growth at 3.1% in 2023, a long way off the expected 7% of average annual growth. These growth forecasts are based on a normalization of both agricultural production and external demand, the former being known to be volatile and the latter being quite uncertain in the context of a global economic slowdown.

Mauritius: Budgetary and monetary leeway reduced by soaring prices

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A small Island State open to the outside, Mauritius is very sensitive to changes in the international situation. The health crisis has therefore had a major and lasting impact on the economy. It is currently suffering the adverse consequences of the war in Ukraine on the global economy, the continued high freight costs, the surge in energy prices, and the restrictive monetary policies deployed in developed countries to counter inflation. This poses a direct threat to economic growth in the medium term and also to the competitiveness of export goods, with the prices of raw materials, which are mainly imported, reaching levels not seen for 15 years. With no possibility of influencing market prices, Mauritius will need to navigate the crisis by ensuring a monetary policy mix to prevent capital flight and control inflation, while stimulating growth in its economy without increasing its already high debt. A difficult challenge.

Over the long term, economic growth has been sustained, making Mauritius one of the most dynamic countries in Africa. There has been a fourfold increase in per capita GDP since 1980. On the eve of the health crisis, Mauritius briefly became a high-income country, before returning to the category of upper-middle-income countries. The Human Development Index ranks the country in the "high human development" category, at the top of the list of African countries.

A diversified economy but dependent on the outside

The success of the economic growth model of Mauritius is based on its diversification, which has allowed it to emerge from the mono-crop sugar economy established during the colonial period. Indeed, shortly after independence in 1968, the country wagered on the textile and tourism industries, then turned to the financial sector, by becoming an offshore center in the 1990s, and towards information and communication technologies in the 2000s. The economy is today predominantly tertiary, with the service sector accounting for an average 65% of value added for ten years now.

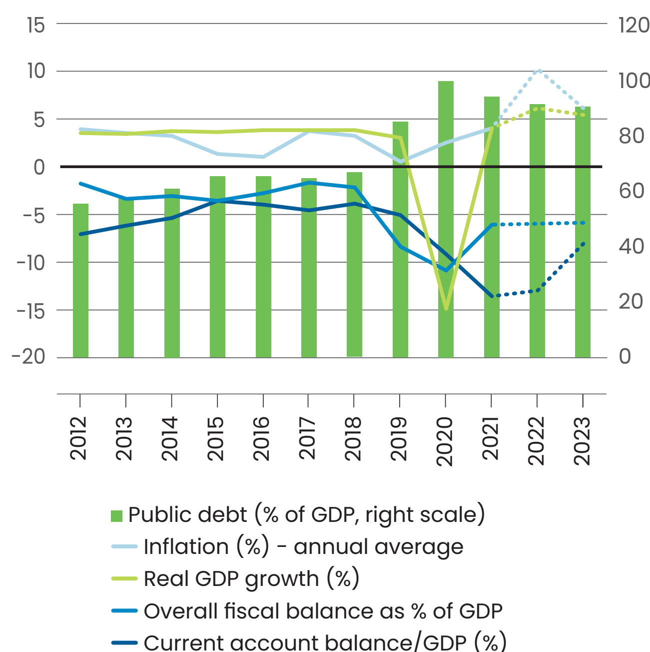
However, the strong economic growth has fallen off since the late 2000s (3.7% on average in 2010-2019), due to a succession of economic shocks in the wake of the sub-prime crisis and a decline in productivity in traditional sectors. The persistence of structural unemployment, especially among women, also highlights the mismatch between supply and demand on the labor market. In addition, the economic mix remains highly dependent on international trade. Like most small island States, the health crisis resulted in an unprecedented decline in the pace of growth of -14.9% in 2020, with no significant recovery in 2021 (+4%). According to the IMF, with the international situation in 2022, disrupted by the war in Ukraine, and a global recession on the horizon in 2023, Mauritius will not regain the pre-pandemic level of activity until 2024. However, due to the performance of tourism and the relatively good performance of the international economy in the first half of 2022, the IMF estimates that real economic growth reached 6.1% last year (7.2% according to the government). However, the IMF has revised the potential for medium-term growth from 4% pre-pandemic to about 3.3% now.

Fiscal consolidation can wait

Between 2012 and 2018, the budget deficit fluctuated between -1.7% of GDP and -3.6% of GDP with primary surpluses in 2017-2018. In 2019, the headline balance deteriorated in an alarming manner to -8.4% of GDP, as a result of a 25% increase in expenditure in one year brought about by election promises. The social measures and measures to support the economy introduced in 2020 to cushion the impact of the Covid-19 crisis and the decline in tax revenues have increased the deficit (-10.9% of GDP). It subsequently improved

in 2021 to -6.1% of GDP, a level that remains high and is expected to persist in 2023 before a gradual consolidation as of 2024.

Graph 11 – Main macroeconomic aggregates (Mauritius)



Source: IMF, AFD calculations

Consequently, the gross financing needs has increased considerably since 2019, forcing the government to resort to exceptional monetary financing from the central bank (BoM), estimated at 13% of GDP for the fiscal year 2020/21, and to increase its public debt. After coming close to 100% of GDP in 2020, the government debt ratio (70% domestic) fell due to the economic recovery, but according to the IMF, it will remain at around 90% of GDP in the medium term. Indeed, in the short term, fiscal consolidation is likely to be constrained by double-digit inflation, and in the medium term by the increasing weight of pensions and the country's limited capacity for tax mobilization.

External balances under pressure

Due to its isolated position, its small size and the absence of raw materials, Mauritius imports most of its inputs. This bears heavily on its trade balance, which explains the structural deficit of the current account balance. Since the sudden stop to tourist arrivals in 2020, the services balance has no longer had its offsetting effect and the current account deficit has deteriorated, rising to -13.6% of GDP in 2021. According to the IMF, it remained at this level in 2022, as tourist arrivals have not yet returned to the level seen in 2019, and are expected to decline in 2023-2024.

One of the distinctive aspects of the financing of this deficit is the position of Mauritius as an offshore financial center with an attractive tax system. The country hosts thousands of Global Business Companies, subsidiaries of multinational companies (insurance, financial services, trade…). Resident in Mauritius, they receive financial transfers from their parent companies, primarily recorded as FDI. Mauritius was removed from the FATF Grey List at the end of 2021, which it had been on since the start of 2020. This should allow this sector to continue to develop. The financing of the current account deficit will depend on the sensitivity of these flows to changes in financial conditions in foreign economies and the credibility of the Mauritian monetary policy.

BoM following in the footsteps of the Fed

Indeed, the central bank models its monetary policy on the Fed policy in order to reduce the interest rate differentials, while limiting the excessive volatility of the foreign exchange market. The repo rate was raised by 270 bp in 2022 to the same level as the Fed's key interest rates (4.5%). The BoM thereby hopes to encourage inflows in portfolio investments and FDI, restrict capital outflows and counter inflation, which reached almost 12% (year-on-year) in December 2022 and is likely to remain high in 2023. At the same time, it intervenes in foreign exchange by selling large quantities of dollars in order to curb the depreciation of the rupee, counter speculative behavior, and reduce pressure on the cost of imported goods. While the rupee stabilized in the 2nd half of 2022, inflation remains high. Foreign exchange reserves have fallen by $2 billion and reached $6.5 billion at the end of October 2022, a comfortable level which covers 13.5 months of imports and mitigates the refinancing risk on external public debt whose share in GDP is increasing (30% estimated in 2021/22, against 20% in 2019/20), due to new borrowings and the depreciation of the rupee.

Mauritania: An economy dependent on the mining sector and international situation

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The consequences of the war in Ukraine, especially the rise in energy and food prices, have increased Mauritania's economic challenges. The dependence on the mining of metal ores and fishing leads to economic growth that is volatile and vulnerable to the international situation. In the current context, the external and public accounts have been weakened, as the situation has got considerably worse since the Covid-19 pandemic. The IMF program, planned for 2023, should facilitate fiscal consolidation and enable more inclusive and sustainable growth. The medium-term economic outlook is positive as a result of the increase in metal production and the start of gas production announced for the end of 2023.

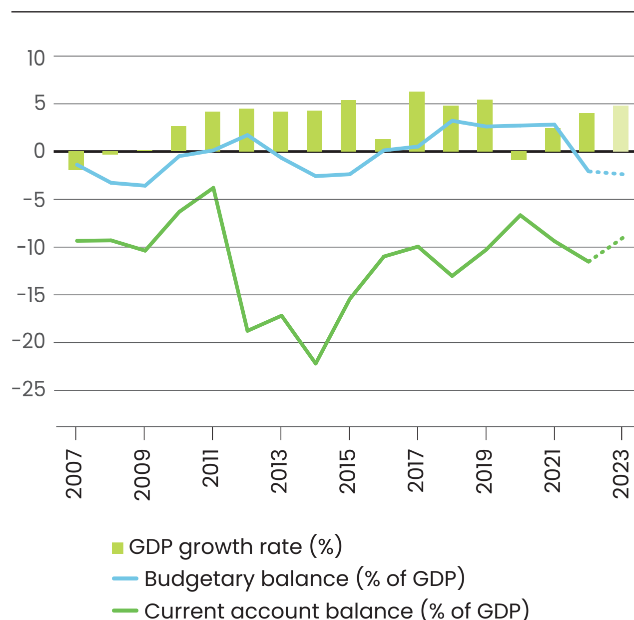
While Mauritania ranks 158th out of 191 countries in terms of human development (HDI, 2021), just above the limit of the "low human development" category, economic growth remains insufficient to significantly increase per capita income in a context of strong demographic pressure (+3.2% a year). The sociopolitical situation remains fragile, aggravated by regional tensions, in the Western Sahara and Sahel.

Fragile economic growth at a time of monetary tightening

With an economy lacking in diversification, Mauritania mainly depends on the extractive sector – copper, gold and iron – (30% of GDP and over 70% of exports) and the agriculture sector (20% of GDP and 31% of formal employment in 2020 according to the World Bank). Its vulnerability to changes in international mineral prices and climatic hazards leads to high volatility in economic growth. The average annual growth rate thereby stood at 1.5% over the period 2007-2012, against 4.3% between 2013 and 2018. While the health crisis brought economic activity to a halt in 2020 (-0.9%), real GDP growth finally reached 2.4% in 2021. It is estimated at 4% in 2022 according to the IMF, thanks to the dynamism of the mining, fisheries and agriculture sectors.

The war in Ukraine and the appreciation of the dollar have added to inflationary pressures. At national level, in November 2022, inflation has reached its highest level since 2004 at 12.2% year-on-year, driven by rising food prices (19.3% year-on-year in November 2022). The IMF estimates that it reached 7.1% on average in 2022, against 3.8% in 2021. In response, the Central Bank of Mauritania (BCM) has begun tightening its monetary policy by raising its key interest rate to 7% in August 2022 (+200 bp). The increase in prices and poor weather conditions could undermine the economic recovery and increase food insecurity, which is already a concern. Over 12 million people are threatened by famine in the Sahel region, including 900,000 in Mauritania, three times more than in 2019.

Graph 12 – Volatile growth, public accounts deteriorating and fragile external accounts (Mauritania)



Source: IMF (WEO)

Negative effect of rising world commodity prices on external and public accounts

In 2020, the structurally high current account deficit (12.8% of GDP on average over 2010-2019) was reduced to its lowest level since 2011, but still reached 6.7% of GDP. It has benefited from an increase in exports, driven by the rise in the prices of gold (+30%) and iron ore (+90%), and moderate imports as a result of the economic slowdown caused by the pandemic. In 2021, the current account deficit increased to 9.4% of GDP due to the rise in the trade deficit. Despite the rise in prices in 2022 and the increase in metal production, pressures on the current account balance remain significant and its deficit is estimated to have further increased to 11.6% of GDP in 2022, mainly reflecting the increase in food and oil prices (23% and 19% of imports in 2021, respectively). In the short term, imports of capital goods, in particular for gas projects, will contribute to a large trade deficit. The external financing requirement is thereby estimated at over 22% of GDP in 2022, covered by FDI ($950 million in 2022), budgetary aid (in particular from the World Bank) and loans from multilateral donors. Foreign exchange reserves are volatile, but have increased since 2019 and were at a comfortable level of 5 months of imports of goods and services at the end of 2021, supporting the country's external position.

In terms of public finances, the government is attempting to lessen the impact on prices of the war in Ukraine. The IMF estimates that the fiscal surplus, which had been maintained despite the pandemic due to the increase in extractive industry revenues, gave way to a deficit of 2.1% of GDP in 2022. Government support to the economy has led to an increase in public spending (+11% in 2022), in particular through food and energy subsidies.

The commissioning of the gas field and new IMF program should improve macroeconomic stability

Despite the turmoil caused by the international situation, the economic and financial outlook is positive due to the Greater Tortue Ahmeyin (GTA) offshore gas project, jointly signed with Senegal in 2018. Production is expected to start in late 2023 and reach 2.5 Mt of liquefied natural gas a year in the first years of operation and 10 Mt by 2030. According to the IMF, this expansion in the gas sector, which targets both the domestic market and exports, could generate an acceleration of real GDP growth to 8% in 2024, after just under 5% in 2023. This would significantly reduce the current account deficit and attract FDI.

The IMF estimates the public debt ratio, which had been declining since 2020, at 51% of GDP in 2022 and that it will fall below 50% of GDP as of 2024, as a result of the good prospects for economic activity and a limited budget deficit. However, the risks lie in the debt profile, which is vulnerable to external shocks and dependent on donor financing. It is mainly external and held by multilateral and bilateral donors, as the domestic market lacks depth. Mauritania has also obtained the cancellation of 95% of the interest on its debt *to Kuwait*, which accounted for 13.5% of GDP in 2021. In 2021, the external public debt was mainly denominated in dollars (45%) and Kuwaiti dinar, meaning it is highly exposed to the foreign exchange exposure and the wave of monetary tightening in developed countries. While the ouguiya lost almost 2% of its value against the dollar in 2022, the country is therefore faced with the risk of an increase in repayments and government debt levels.

In this context, Mauritania has requested IMF financing. While the last IMF program reached completion in March 2021, a prior agreement for a new program was concluded in November 2022 for $82.8 million. The program aims to improve the budgetary framework and business climate, and reduce public debt.

Bangladesh: A call to the IMF to cope with external liquidity pressures

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The Bangladeshi economy, which was resilient to the Covid-19 crisis, has been badly affected by the consequences of the war in Ukraine. The rise in food and energy prices has resulted in an increase in the twin deficits (fiscal and current account deficits at 5.1 and 4.1% of GDP, respectively, in FY2022), which maintains pressure on the taka (-20% against the dollar in 2022). In this context, foreign exchange reserves are shrinking (-$11 billion in a year), to the extent that in July 2022, the country called on the IMF for a $4.5 billion program.

During the Covid-19 crisis, Bangladesh had one of the highest economic growth rates in the world (3.4% in FY2020, *i.e.* from July to June, and 6.9% in FY2021). This strong performance is mainly due to the recovery in textile exports in late 2020 and a sharp rise in remittances (+50% in two years). Economic growth was even higher in FY2022 (7.2%), but is expected to slow down in FY2023 (6.0%), while inflation weighs on private consumption and power cuts (rationing policy) affect the textile industry.

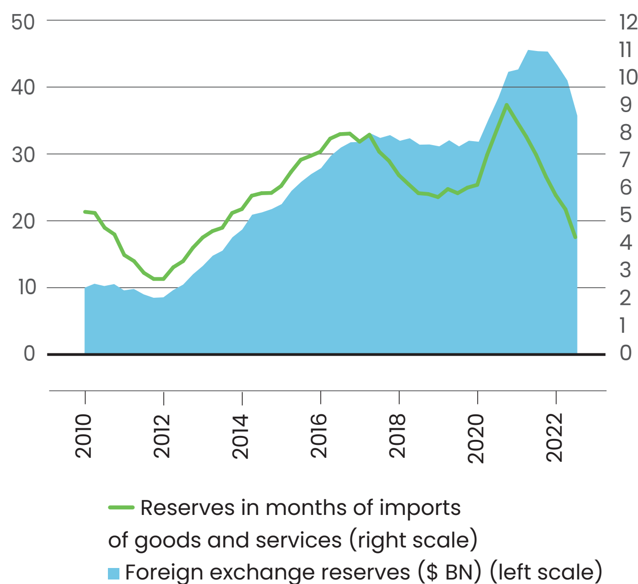
Inflation stood at 8.9% year-on-year in November 2022, a level that remains higher than the central bank's target (5.6%), but lower than the peak reached in August (9.5%). Food inflation reached 8.1% in November, following a peak level of 9.9% in August. In March 2022, the authorities responded by launching a food subsidy program (cooking oil, lentils, rice, etc.). The Central Bank has also raised its key interest rate by a total of 100 basis points since May 2022 (to 5.75%). The increase in inflation poses a threat to the social climate, while it is estimated that 15 to 25 million people plunged into poverty and at least 1.6 million into extreme poverty because of the pandemic. Several protests were held in Dhaka in December 2022, demanding the resignation of the Prime Minister, Sheikh Hasina, who is notably accused of failing to contain inflationary pressures.

External position rapidly deteriorating

Bangladesh's current account balance has been in deficit since 2017, reflecting the sharp rise in equipment imports for large-scale public infrastructure projects. During the Covid-19 crisis, the decline in textile exports was offset by the fall in domestic demand and a surge in migrant remittances, meaning that the current account deficit remained relatively stable in FY2020-FY2021 at just above 1% of GDP. However, it rose to 4.1% of GDP in FY2022 due to the increase in the energy bill. The deterioration in the current account deficit has increased pressure on the taka, which lost 18% against the dollar in 2022, after having remained relatively stable in 2021.

To defend the taka and meet a growing external financing requirement, the Central Bank has drawn on foreign exchange reserves, which lost $11 billion in 12 months and reached $30.1 billion in November 2022, excluding gold and Special Drawing Rights (SDR). However, the government has attempted to halt the fall in reserves by i) restricting imports of non-essential goods (by tightening rules on import letters of credit), ii) rationing energy (including through power cuts), and iii) devaluating the taka twice (in June and September). While the amount of dollar reserves remains relatively high, the amount of reserves expressed in months of imports has fallen significantly to 4.2 months of imports (against 6.4 months of imports at the end of 2021 and 9 months of imports at the end of 2020), a record low since 2013 and a level below the range recommended by the IMF (4.4 to 5.7 months).

Graph 13 - Foreign exchange reserves are plummeting since early 2021 (Bangladesh)



Source: IMF (IFS), author's calculations

In July 2022, external liquidity pressures prompted the Government of Bangladesh to make a precautionary call to the IMF. On 9 November, the authorities and the IMF staff reached an agreement for a program for a total of $4.5 billion, combining a $3.2 billion Extended Credit Facility and a $1.3 billion Resilience and Sustainability Facility, which should catalyze financing from the markets, other official lenders and donors.

External liquidity pressures add to the risk on public finances

With public revenues at only 8.6% of GDP on average for the period 2010-2019, Bangladesh's tax burden is the lowest in the world. This poor performance is due to the narrow tax base (5 million taxpayers), which mainly results from a very high level of informality (85%) and an extremely complex tax code offering numerous niches and facilitating tax evasion. Public expenditure started to increase in 2018, firstly to support large-scale public infrastructure projects, then to address the health crisis (stimulus of 6.2% of GDP spread over 2020-2022). The stagnation of revenues, coupled with an upward trend in expenditure, has led to a deterioration of the fiscal balance (-4.7% of GDP on average for FY2018-FY2021). The public deficit widened further in FY2022, as a result of an increase in the cost of subsidies (fuel, electricity, gas and food; +25% in the FY2022 budget). It thereby exceeded the informal threshold of 5% of GDP set by the authorities for FY2022 (-5.1% of GDP according to the IMF) and is likely to remain above this level in the medium term.

Public debt remains moderate at 37.5% of GDP. 60% is held by residents and largely in the form of national savings certificates (47%), investment products benefiting from regulated interest rates which consume over 20% of public revenues. However, a reform of these instruments is ongoing, with the aim of reducing their share in domestic public debt. Furthermore, the government is seeking to develop the domestic bond market, in particular through Islamic finance. Since the end of 2020, three Sukuks[11] have been launched (for the equivalent of $1.5 billion raised) on the local market and largely oversubscribed, a sign of abundant liquidity and of the market's interest in this type of instrument.

The entire external share of public debt is held by multilateral and bilateral institutions, which limits the external refinancing risk and maintains a high level of concessionality. However, the depreciation of the taka is likely to increase the debt burden in the short-medium term. The payment of debt interest could in particular consume up to 25% of public revenues in FY2023. While foreign exchange reserves are dwindling, the government's capacity to service its external debt is called into question. In December 2022, Moody's thereby placed Bangladesh's sovereign rating (Ba3) under review for a potential downgrade, given the increase in external vulnerabilities.

11 See footnote on page 8.

India: Battered by the global environment, the economy is holding up

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India's economy remains resilient, despite being affected by a series of exogenous shocks and being faced with major development challenges. Its performance is superior to the other significant emerging countries. Building on its own distinctive sovereign financing model (debt almost exclusively held by Indians, in rupees and at fixed rates), India's public finances have been relatively protected from the turmoil related to the monetary tightening in developed countries (tensions on sovereign spreads, appreciation of the dollar). However, and as shown by the depreciation of the rupee in 2022, the international context is less benign for the country's external accounts.

Hard hit by the Covid-19 pandemic, the Indian economy saw the worst recession in its modern history in 2020 (-6.6%), before strongly rebounding in 2021 (+8.7%). Economic growth is fragile and has since being slowing down as a result of the deterioration in the international context. It is in particular affected by the rise in commodity prices and inflation. To curb the rise in prices, the Reserve Bank of India (RBI) has raised its key interest rate five times since May 2022 (+225 basis points, to 6.25%), a monetary tightening which has in turn weighed on activity. India's economic growth has thereby been revised down several times and is estimated by the IMF at 6.8% in 2022, a level well below the forecasts made a year ago (8.2% in January 2022). Despite these factors, the Indian economy impresses by its resilience and its performance remained well above the other major emerging countries in 2022: South Africa (2.1%), Mexico (2.1%), Brazil (2.8%), China (3.2%), Turkey (5.0%) and Indonesia (5.3%)[12]. While Indian growth is expected to level off at 6.0% a year in the medium term, the country appears to be gradually confirming its status as one of the main engines of the global economy.

12 World Economic Outlook, IMF, October 2022.

Public finances relatively protected from monetary tightening in developed countries

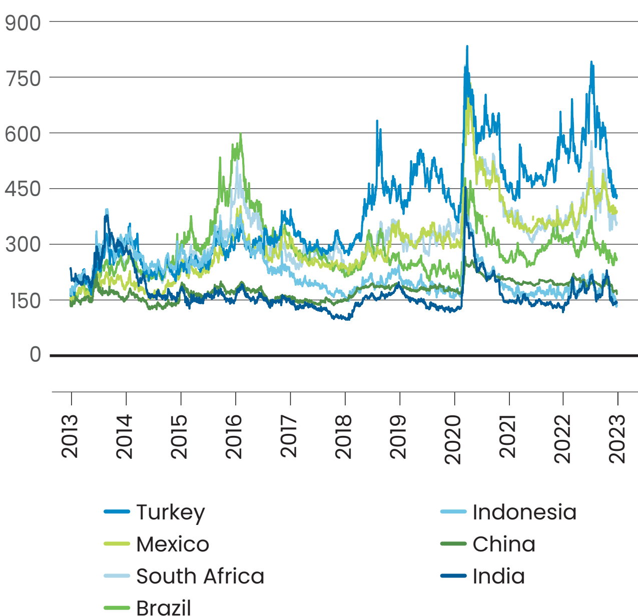
With a deficit of over 7% of GDP on average over the last decade, India's public accounts are structurally imbalanced. Revenues are insufficient to cover the level of expenditures, weighed down by the burden of the wage bill and the interest expense, a poorly calibrated subsidy system, unproductive state-owned companies, numerous tax exemptions and the deficiency of bidding mechanisms. Following a sharp rise due to the pandemic, public debt is estimated at 83% of GDP in 2022, a record high.

However, the risks associated with this high level of public debt are largely mitigated by the public debt profile. Indeed, the latter is mainly (about 95% of the stock) held by domestic investors (banks, insurance companies, RBI, etc.) and in rupees. It is therefore not very vulnerable to the adverse consequences of the current wave of monetary tightening in developed countries. While the appetite of foreign investors for Indian sovereign bonds only declined slightly in 2022 (spread at 141 basis points at the end of 2022, +10 points year-on-year), the country appears to be relatively protected from the turmoil, as international markets traditionally only play a marginal role in the financing of the State. Public finances are also not very vulnerable to the foreign exchange risk, with the appreciation of the dollar having little impact on public debt, which is to a very large extent denominated in local currency, and to the rate risk, as debt is mainly subscribed at fixed rates. However, it should be noted that the recent tightening of monetary

policy by the RBI leads to an increase in government borrowing costs on the domestic market, along with possible tensions on bank liquidity.

While the authorities have mainly focused on using domestic sources of financing since the 1990s, there are doubts as to the capacity of the Indian financial sector to singlehandedly cover all the needs of the State in the medium term. For several years, the implementation of reforms (especially tax reforms) aimed at including Indian securities in the main international bond indexes has been subject to much speculation, as they would allow a considerable influx of external financing[13], while they would, at the same time, expose the country to a risk of a reversal of the confidence of foreign investors (similar to what a number of countries are currently facing). In any case, the appetite of foreign investors for India and a further opening of its government bond market can be clearly seen: India's sovereign spread remains one of the lowest among the major emerging countries (see Graph 14) and the rating agencies continue to give the country an investment grade status.

Graph 14 - Indian sovereign spread remains relatively low (India)



Source: J.P. Morgan (EMBI Global)

13 According to the EIU, the inclusion of Indian sovereign debt securities in the JP Morgan GBI-EM Index and Bloomberg-Barclays Global Aggregate Index would allow an inflow of financing as of the year of inclusion of $15-30 billion and $8-20 billion, respectively.

The country's external accounts are, however, under pressure

As shown by the depreciation of the rupee in 2022 (-10% against the USD), India's external accounts are significantly affected by the international context. Indeed, the US monetary policy tightening and rise in geopolitical tensions have indirectly led to substantial capital outflows ($23 billion of net outflows in the first ten months of 2022), while the increase in the prices of commodities, which account for about 60% of the country's imports of goods, widened the current account balance in 2022 (at -3.5% of GDP according to the IMF).

Traumatized by the unprecedented turmoil caused by the "taper tantrum" episode in 2013, the authorities have stepped up measures to reduce pressure on the rupee. The country significantly strengthened its trade relations with Russia in order to benefit from hydrocarbons at reduced prices and rebalance its accounts: Russia's market share in Indian crude oil imports, which had previously been negligible (1 to 2%), reached almost 25% in the last months of 2022. In addition to significant monetary tightening since May 2022 (see above), in July, the RBI also announced a series of measures which include the convertibility of the rupee in international transactions in order to support its value and limit recourse to the dollar. Moreover the Central Bank has intervened heavily on the foreign exchange market, with net sales of foreign currencies of $54 billion between January and October 2022 (against a total of $14 billion sold during the "taper tantrum" in the summer of 2013). While India's external accounts remain robust (foreign exchange reserves still comfortable, external debt under control), the pressure is likely to continue in the short and medium term in an uncertain global economic environment.

Philippines: A model of recent stability put to the test by the international situation

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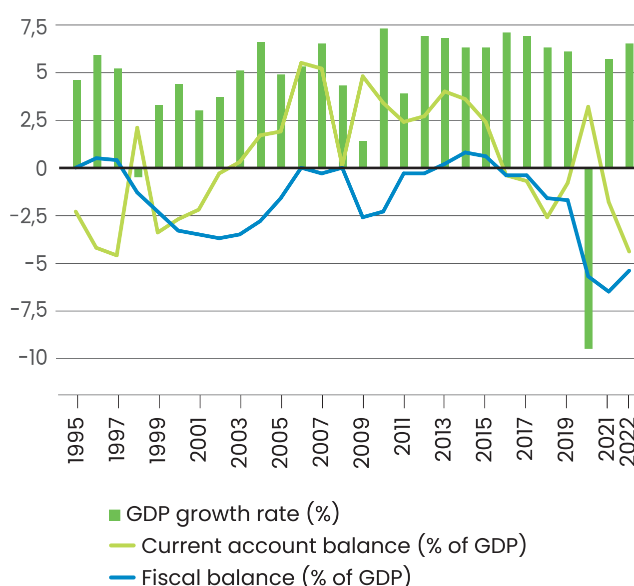
The economic and financial consequences of the successive exogenous shocks of 2020 and 2022 have put the Philippine model to the test. One of the most successful in Southeast Asia since the mid-2000s, it now faces growing imbalances: fiscal slippages and marked increase in public debt, rise in external deficits to the highest level since the Asian crisis of 1997, depreciation of the peso among the highest in the region in 2022. However, the country's fundamentals remain robust, in particular the very favorable composition of its public debt and the high level of foreign exchange reserves. Those are allowing the new President Ferdinand Marcos Jr. to approach the start of his mandate in an economic context that has indeed deteriorated, but is far from catastrophic. However, the authorities will need to consolidate the economic pillars which have supported the Philippine model over the last 20 years to be able to join the main emerging countries in the medium term.

Between Marcos and Marcos Jr., the emergence of one of the most virtuous model in Southeast Asia

The "sick man of Asia" under the presidency of Ferdinand Marcos (1965-1986), the Philippines bore the brunt of the Asian crisis of 1997 without having any real room for maneuver to tackle it. The country subsequently implemented a package of reforms which allowed it to achieve a high rate of economic growth (5.5% on average between 2000 and 2019), triple its per capita GDP over the period, and consolidate the external and fiscal balances, making the Philippines one Tiger Cub economies alongside Thailand, Malaysia and Indonesia. Growth was particularly dynamic under Benigno Aquino III (2010-2016), who implemented a number of reforms and achieved investment grade status for the country, which has not been challenged by the markets despite the less rigorous economic policies of his successor Rodrigo Duterte (2016-2022).

While the country suffered from the consequences of the Covid-19 pandemic with a record recession in 2020 (-9.5%), the economy rapidly recovered in 2021 and reverted to a growth rate of 5.7%. However, this recovery has been accompanied by costly measures to support economic activity, which increased the public deficit from 1.7% of GDP in 2019 to 5.7% of GDP in 2020 and 6.5% of GDP in 2021. Consequently, public debt, which had been reduced from 70% of GDP in the early 2000s to 37% of GDP in 2019, reached 57% of GDP at the end of 2021.

Graph 15 – Growth maintained at the expense of marked budget and external deficits (Philippines)



Source: IMF (WEO)

Ferdinand Marcos Jr., who was elected President on 9 May 2022, therefore came into office having to reconcile a budgetary adjustment path and the public infrastructure spending program ("Build, Build More") inherited from his predecessor. However, the economic policy options before his government will be heavily constrained by the multi-dimensional exogenous shock resulting from the rise in commodity prices, the appreciation of the US dollar and international monetary tightening.

Economic policy options constrained by exogenous shocks in 2022

The rise in commodity prices and appreciation of the US dollar weigh on the macroeconomic fundamentals of the Philippines. Inflation has reached a record level since the global financial crisis and stood at 8.1% year-on-year in December 2022. Similarly, the peso has seen one of the highest depreciations in South Asia and lost 8% of its value against the US dollar in 2022. Finally, the combination of the rise in commodity prices and the fall in global demand has increased the trade deficit. The current account balance is estimated to have recorded a deficit of around 5% of GDP in 2022, its highest level since the crisis of 1997. To address these imbalances, the Central Bank (SBP) tightened its monetary policy by 250 basis points between April and December 2022, raising its key interest rate to 5.50%.

The international situation is also likely to complicate the budgetary adjustment planned by the authorities. Indeed, when it took office, the government pledged to gradually reduce the public deficit by one GDP point a year to reach a deficit of 3% of GDP by 2028. The macroeconomic context and ambitions for public infrastructure could delay this adjustment. Yet it is essential to maintaining the confidence of creditors and foreign investors, while their risk appetite has started to decline. Finally, this less favorable macroeconomic context is likely to weigh on growth, which could slow from 6.5% in 2022 to 5% in 2023 according to the IMF (below its potential of 6.5%).

Sufficient leeway to face the successive headwinds

In terms of budget balances, the level and composition of public debt are sufficiently favorable to reassure the government's creditors and allow a phased budgetary adjustment. Public debt is expected to remain at around 60% of GDP in the short term. It is mainly denominated in peso, with foreign-currency denominated debt accounting for about 17% of GDP, which minimizes the impact of the depreciation on public finances. Furthermore, interest payments stand at less than 10% of public revenues and the debt is predominantly long-term. The country also benefits from support from both donors and international markets. Indeed, the Philippines continues to be one of the main recipients of Official Development Assistance in the region. It is one of the main clients of the World Bank and Asian Development Bank, while issuing on international markets. In 2022, the country continued to benefit from donor support and market confidence, with sovereign spreads below 170 basis points during the year, remaining at one of the lowest levels of the EMBI index. The domestic financial sector is well capitalized and the level of development of the capital markets should, where required, allow the government to call on Philippine banking institutions, whose level of sovereign exposure had already risen from 13% of GDP at the end of 2019 to 20% of GDP mid-2022.

In terms of external accounts, the authorities can benefit from a very comfortable level of foreign exchange reserves. They are structurally high (9.7 months of imports on average between 2012 and 2019) and increased further in 2020 as a result of a current account surplus and interventions by the SBP to moderate the appreciation of the peso. Consequently, while reserves have fallen since the end of 2021 (-10% between January and November 2022), at $95 billion, they remain higher than before the Covid-19 crisis ($88 billion) and still amount to 7.2 months of imports of goods and services.

The country therefore has comfortable margins to absorb the consequences of the shocks of 2020 and 2022. However, it is still necessary to reduce the budget and external deficits in order to consolidate the growth path and allow the country to aspire to join the major emerging countries.

Turkey: The risky gamble of economic heterodoxy

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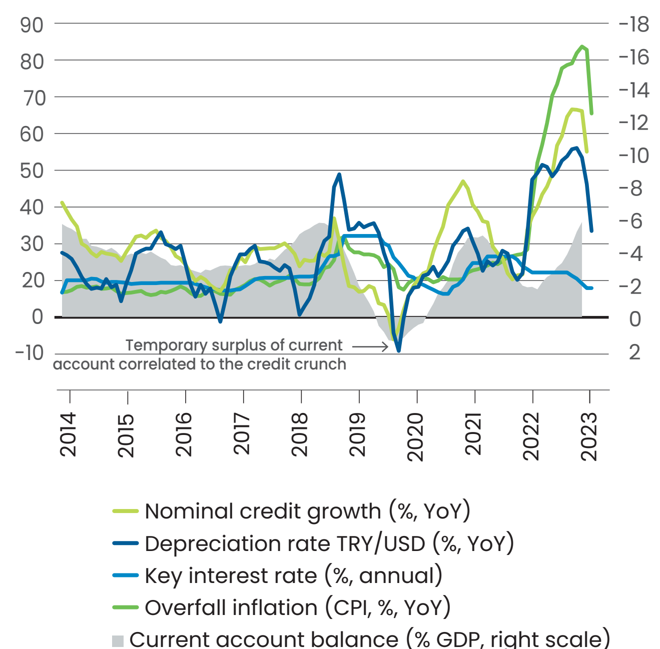
In the run up to the general elections in June 2023, Turkey's monetary policy remains on a heterodox and interventionist course in an international context that presents macro-financial and geopolitical risks. The deterioration of the business environment since the attempted coup of July 2016 and the currency crisis of August 2018 have eroded the economy's restoring force and resilience factors (sovereign and banking pillars). The imbalances (depreciation spiral of the lira, inflation, increase in the current account deficit) and the risks of drastic macroeconomic adjustments are exacerbated by a short-term strategy to stimulate economic activity via a non-independent and ultra-accommodative monetary policy.

A diversified and industrialized economy, Turkey enjoys an enviable geostrategic position. It also has satisfactory development and human capital indicators to the credit of the first decade (2002-2013) of prosperity under Erdoğan-AKP[14], following the financial crisis of 2001. Since then, the president has lost popularity as a result of the infringements of public freedoms, the sentiment of impoverishment among the population, whose purchasing power is eroded by galloping inflation, along with the high rates of underemployment and youth unemployment. In this difficult domestic context, foreign policy has been instrumentalized against the backdrop of economic interests. With the "variable geometry" of its relations with Russia, Turkey, a NATO member, has condemned the attack against Ukraine without backing the Western sanctions. This non-alignment positions Ankara as the main mediator between Kyiv et Moscow and maintains the complexity of relations with the USA and European Union (main destination for Turkish exports: 47% in 2021), which had been eased somewhat since 2021, as with the Gulf countries, Egypt and Israel.

Loss of monetary compass

Bank credit growth, a key driver of the expansionist policy mix, had previously made it possible to avoid, or at least postpone, a hard landing in the economy. After having confounded the forecasts of recession in 2020 (+1.9%), GDP growth raced ahead in 2021 (11.4%), driven by domestic demand and exports, and is estimated at 5% in 2022. But the slowdown in economic activity observed in the second half of 2022 is likely to continue in 2023 against the backdrop of persistent inflation, a pre-election wait-and-see attitude and global downturn. The structural reforms are in limbo and potential economic growth does not exceed 3% according to the IMF.

Graph 16 - Macro-financial variables go haywire (Turkey)



Source: CBRT, Turkstat, AFD calculations

14 *Adalet ve Kalkınma Partisi* (Justice and Development Party).

While the official average annual inflation rate reached 72% in 2022, the key interest rate was lowered to 9% in November and no longer acts as a steering instrument for inflation-targeting monetary policy (5%, +/-2 pp). For a year now, a wide range of palliative measures have taken the form of important financial and regulatory engineering, which is coercive for banks and companies. It is deployed to "re-liraize" the economy, rake foreign exchanges and support the lira (-46% against the dollar on average in 2022). The interventionism of the authorities (negative banking intermediation margins), the growing sovereign exposure of banks (especially public banks) and the corporate credit risk (60% of debt-to-GDP, at 57% in foreign currency, including 53% with local banks) weigh on the systemic banking risk.

Recurrent specter of a balance of payments crisis: the devil (or guardian angel) is in the details

External accounts, the Achilles Heel of the Turkish economy, are once again under pressure, in particular due to a heavy energy dependence. The dynamic of capital flows is complex and differs depending on their nature, while the external liquidity position is fragile faced with a structurally high external financing requirement (about 26% of GDP in 2022). Negotiations are ongoing between Turkey and Russia on a preferential tariff for gas, 44% of which was imported from Russia in 2021 according to the International Energy Agency (IEA), a deferral of payment to 2024, and the creation of a Turkish gas hub. The current account deficit is estimated to have reached close to 6% of GDP in 2022 and the IMF forecasts that it will fall slightly to less than 4% of GDP in 2023. The heavy burden of external debt largely rests with banks, which have always ensured 70-80% of the rollover of syndicated loans during the previous financial shocks, and liquid foreign currency assets cover twice the amount of their foreign currency commitments in the short term. Net portfolio flows were negative in 2022, as has been the case for five years, while FDI inflows remain disappointing (1.4% of GDP over five years). At the same time, there was a rebound in flows of trade credit and external long-term business credit in 2022.

Gross foreign reserves plummeted in the first half of 2022, before rebounding by $24 billion to $83 billion at the end of 2022 through the windfall from tourism and, especially, unrecorded flows ("errors and omissions" at record levels of +$21 billion for January-October): financing of the Russian company Rosatom, Russian "parallel imports", Russian private financial transfers and repatriation of the offshore assets of Turkish companies. However, the net international reserve assets of the Central Bank (CBRT) remain negative when deducting the currency swaps (-$47 billion) vis-à-vis Turkish public banks and other central banks (China, Qatar, United Arab Emirates, etc.) and the foreign currency deposits of commercial banks ($85 billion) on the liability side of the CBRT's balance sheet.

Public finances under enhanced surveillance

Budgetary discipline has been relaxed following the various shocks since 2016 (attempted coup, currency crisis, health crisis, soaring commodity prices). The IMF forecasts a public deficit at 5.6% of GDP in 2023 after an estimate at 4.2% of GDP in 2022. The new measures to support the economy (about 1.8% of GDP), with a 50% increase in the minimum wage, VAT reductions on basic products and the payment of gas and electricity bills, primarily target low-income households, the core constituency of the AKP, at the risk of an indexation of the economy.

The three rating agencies downgraded the foreign currency rating in the summer of 2022 to B/N for Fitch, B/S for S&P and B3/S for Moody's. The increase, which is difficult to quantify, in contingent liabilities, is a source of concern. However, the sustainability of public debt (estimated at 37% of GDP in 2022 by the IMF) is not jeopardized in the medium term. The interest burden is moderate at 1.7% of GDP and 6% of public revenues in 2022. The public financing requirement (PFR) appears to be manageable in 2022-2023 at 7-8% of GDP (reduced by a denominator effect with surging nominal GDP). The exchange rate effect automatically increases the share of the foreign currency debt (at 66%, including ¼ on the local market). But its moderate service (1.4% of GDP in 2023 and relatively smooth in 2024-2026) lowers the liquidity and refinancing risk, along with the strongly negative domestic real interest rates and the new regulatory framework which ensures a "captive" demand for government securities. In the context of global monetary tightening, the Turkish Treasury favors the use of the local market, which has been deserted by non-resident investors (1% of the domestic debt held, against 19% in 2017). But it did issue $1.5 billion of 5-year Eurobonds in November (UST +561 bp) and $2.75 billion of 10-years Eurobonds in January (UST +619bp). Furthermore, it has $15.5 billion of deposits with the CBRT.

Colombia: A political shift to address macro and socioeconomic challenges

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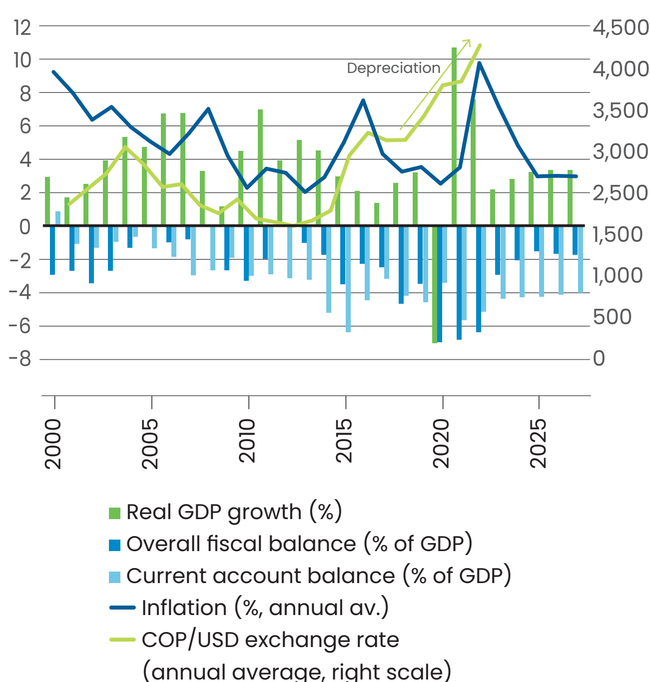
The commodity supercycle (oil and gas) of 2004-2014 and development of services have given Colombia the status of "upper-middle-income country" (UMIC) since 2008. But the primarization of the economy since the opening of the oil sector to foreign investors in 2007 and the relative decline of the manufacturing sector have weakened its economic model and macroeconomic fundamentals since the oil shock of 2014. Despite an orthodox economic policy framework, praised for a long time by the IMF, and a strong post-pandemic economic rebound, Colombia is faced with an erosion of investor confidence, illustrated by the loss of the investment grade status in 2021, and growing public discontent. A result of a historical political change in May 2022, the new left-wing government must thereby tackle major challenges for the country's economic and socio-political stability in a deteriorating international context.

The violent protests of May-June 2021 expressed a growing need for social justice among the population, which is calling for an improvement in living conditions and stronger action against police violence and corruption, while condemning the "disconnection" of the elites. Coupled with the increase in inflation since 2021, which undermines progress in the reduction of inequalities (Gini at 54.2), these social concerns were at the center of the presidential campaign of May 2022. This campaign resulted in the victory of Gustavo Petro from the radical left-wing *Pacto Histórico* coalition, an unprecedented situation in the history of Colombia. The main priorities of the administration, which aims to be more interventionist, are the consolidation of peace, social and environmental justice and the advancement of women's rights. The implementation of the peace agreement with FARC *(Fuerzas Armadas Revolucionarias de Colombia,* the main guerilla organization) and the integration of Venezuelan refugees are going relatively well, but are still sources of instability.

Dynamic rebound in activity in 2021-2022 masking a slowdown in trend for economic growth...

Colombia has traditionally been cautious in macroeconomic and budgetary management. An inflation-targeting regime, a flexible exchange rate and a fairly rigorous budgetary framework have allowed the economy to grow continuously since the recession of 1999, despite a slowdown in trend since the oil shock of 2014. In 2020, the economy recorded the worst recession in its contemporary history (-7%), in line with the average of the Latin America and Caribbean region. It rebounded strongly in 2021 (10.7%), supported by a post-pandemic recovery in consumption (household and government) and investment. Despite the riots, the IMF estimates growth at 7.6% in 2022 (down in the

Graph 17 – Main macroeconomic aggregates (Colombia)



Source : IMF (Article IV, April 2022)

third quarter due to inflation), above its potential (3.5%), through household consumption and hydrocarbon and mineral exports (+76% year-on-year in January-October 2022). However, these two years of recovery have not reduced poverty, with a downward trend in per capita GDP in current USD due to a currency effect that has persisted since 2014.

...now constrained by inflation and the depreciation of the peso...

The IMF forecasts a marked slowdown in growth at 2.2% in 2023. Inflation, brought about by supply constraints caused by the war in Ukraine, and upward pressure on commodity prices (food and energy), weigh on domestic demand. In the context of the monetary tightening policies in developed countries, first and foremost in the USA, capital flight (-$8 billion of portfolio investments and loans for January-October 2022) prompted the announcement by President Petro on 7 October 2022 of the possible introduction of a temporary tax on speculative income. This has raised concerns among international investors, maintaining the peso under pressure from the dollar (-16% year-on-year in December 2022). Inflation, which has been above the target of 3% (+/- 1pp) since mid-2021, reached 10% on average in 2022, prompting the Central Bank to sharply increase its key interest rate to 12% in December 2022 (+1,025 bp since September 2021).

...which hinders fiscal consolidation...

Since 2014, the almost systematic deviation from the budgetary rule of 2011 (public deficit at 1% of GDP by 2022), with an upward trend in the budget deficit, has undermined the credibility of the authorities in maintaining a prudent management of public finances. With the shelving of this rule during the Covid-19 pandemic, the deficit increased to a high level of 6.9% of GDP on average in 2020-2021. In an attempt to remedy this, the government had planned to resume fiscal consolidation, but the tax reform presented in April 2021 triggered a wave of social protest. On 3 November 2022, the government approved a watered-down version of the project, which is expected to generate 1.3% of GDP of additional budgetary revenues. A permanent surtax on income tax and the non-deductibility of royalties for hydrocarbon industries will finance increased social spending (subsidies, salaries, pension reform) rather than fiscal consolidation, which is likely to be put off until 2024. The beneficial effect of this reform will depend on whether the tax revenues generated will offset the loss of competitiveness resulting from the tax hike. The IMF currently forecasts a reduction in the budget deficit of 2.9% of GDP in 2023 (after 6.4% of GDP in 2022).

In the context of the twin deficits, the external accounts have partly benefited from the increase in oil and coal prices (50% of total exports), with a slight reduction in the current account deficit in 2022 (5.1% of GDP according to the IMF, after 5.7% of GDP in 2021). This trend could continue in 2023, despite uncertainty over commodity prices and the dynamics of imports. In the medium term, the current account deficit is likely to remain close to its average for the decade before the health crisis, i.e. at about 4% of GDP.

...and creates uncertainty over the debt trajectory

Despite the short-term headwinds, the IMF forecasts that the public debt-to-GDP ratio will fall from 61.1% of GDP in 2022 to 55.9% of GDP in 2027, in view of the budgetary rule which provides for a marked improvement in the primary balance of 1.1% of GDP on average as of 2023. Total public debt was considered sustainable in the medium term by the IMF in 2022, in particular due to its relatively long average maturity. The depreciation of the peso automatically increases the cost of foreign currency-denominated debt (50% of total public debt), with 30% held by multilateral donors, 5% by bilateral donors, and 65% by private creditors (mainly Eurobonds). Market confidence in the ability of the new government to meet its targets will be key. Sovereign spreads reached a reasonable level of 370 bp at the end of 2022, following a peak of 520 bp in October. The current account deficit continues to be covered by FDI ($9.5 billion at the end of October 2022, including 72% towards the oil and mining sector) and external debt. Foreign currency liquidity is dwindling, but remains at a comfortable level (8 months of imports). The renewal of the IMF Flexible Credit Line in April 2022, albeit reduced from $17.2 billion to $9.8 billion, provides an additional element of comfort, and the support of multilateral donors will be crucial.

List of Acronyms and abbreviations

AKP *Adalet ve Kalkınma Partisi* (Justice and Development Party, Turkey)

BN Billion

BoE Bank of England

BoJ Bank of Japan

CBRT Central Bank of the Republic of Turkey

CNY Chinese yuan or *renminbi* (RMB)

ECB European Central Bank

EDCs Emerging and developing countries

EMBI Emerging Market Bond Index of J.P. Morgan

EU European Union

EUR Euro

FDI Foreign direct investment

FY Fiscal year

G&S Goods and services

GBP Pound sterling

GDP Gross Domestic Product

IDS International Debt Statistics database of the World Bank

IEA International Energy Agency

IFS International Financial Statistics database of the IMF

IMF International Monetary Fund

JPY Japanese yen

PC Paris Club

PFR Public financing requirement

pp percentage point

SDR Special Drawing Right

UMIC Upper-middle-income country

UNCTAD United Nations Conference on Trade and Development

USD US dollar

WB World Bank

WEO World Economic Outlook report of the IMF

YoY Year-on-year

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Publication director Rémy Rioux
Editor-in-chief Thomas Mélonio
Graphic design MeMo, Juliegilles, D. Cazeils
Layout Luciole

Translated by Samantha O'Connell

Final date of writing : January 5th 2023

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Legal deposit 1th quarter 2023
ISSN 2666-8187
Printed by the AFD reprographics department

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