OCCASIONAL PAPER SERIES

WHO HAS BEEN AFFECTED, HOW AND WHY?

THE SPILLOVER OF THE GLOBAL FINANCIAL CRISIS TO SUB-SAHARAN AFRICA AND WAYS TO RECOVERY[1]

BY SOPHIE CHAUVIN[2] AND ANDRÉ GEIS[3]

1 The views expressed in this paper do not necessarily represent those of the European Central Bank (ECB), the Banque de France or the Eurosystem. The authors would like to thank Bruno Cabrillac and Emmanuel Rocher (Banque de France) and Michael Sturm (European Central Bank) for helpful comments and suggestions.

2 Banque de France, Service de la Zone franc et du financement du développement, Direction Générale des Etudes et des Relations Internationales.

3 European Central Bank, Directorate General International and European Relations.

ABSTRACT

This paper first presents a comprehensive analysis of the significance of different transmission channels of the global economic and financial crisis to Sub-Saharan African countries. Subsequently, it investigates the crisis' repercussions on the growth of GDP and its components, complemented by selected case studies differentiating among economies according to the degree to which they have felt the downturn, highlighting possible reasons underlying the observed developments and outlining their policy reactions. Finally, the paper stresses medium- to long-term challenges for ensuring a sustainable recovery and for fostering resilience against potential future shocks.

We find that the intensity of the crisis' impact varies widely across countries, with a lack of export diversification apparently having been particularly conducive for its transmission. However, our analysis of the magnitude of the observed swings in macroeconomic variables also reveals that these, albeit large, were not exceptional and are comparable to fluctuations Sub-Saharan Africa witnessed in the recent past. Furthermore, the extent of the slowdown seems also to have been determined by domestic factors in a non-negligible number of instances. Particularly, policies and conditions prior to the global recession, rather than crisis contagion *per se,* appear to have decisively shaped the scope of possible responses in many cases.

As a result, many policy lessons for Sub-Saharan Africa from the crisis do not radically deviate from those in place before. Efforts aimed at improving the management of resource revenue for commodity-dependent countries, necessary reforms of the economic and business environment to enable a diversification of the export base and further regional integration might contribute to alleviate possible future external shocks. Additionally, the crisis re-emphasises the necessity to back growth prospects by redefining sectoral priorities, for example by concentrating on infrastructure and agricultural supply. Lastly, new challenges in the wake of the crisis may call for a re-focusing of policy initiatives, e.g. to address an emergence of potential financing constraints for aid-dependent economies or the exposure of domestic financial sectors to systemic shocks.

JEL code: R11, E60, F30, O10

Keywords: Regional growth, Sub-Saharan Africa, Balance of payments, Global economic crisis, international spillovers

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LIST OF COUNTRY ABBREVIATIONS

AO	Angola	KE	Kenya
BJ	Benin	LS	Lesotho
BW	Botswana	MG	Madagascar
BF	Burkina Faso	MW	Malawi
BI	Burundi	ML	Mali
CM	Cameroon	MR	Mauritania
CV	Cape Verde	MU	Mauritius
CF	Central African Republic	MZ	Mozambique
TD	Chad	NA	Namibia
KM	Comoros	NE	Niger
CG	Congo	NG	Nigeria
CD	Congo, Democratic Republic	RW	Rwanda
CI	Cote d'Ivoire	SN	Senegal
DJ	Djibouti	SC	Seychelles
GQ	Equatorial Guinea	SL	Sierra Leone
ET	Ethiopia	ZA	South Africa
GA	Gabon	SZ	Swaziland
GM	Gambia	TZ	Tanzania
GH	Ghana	TG	Togo
GN	Guinea	UG	Uganda
GW	Guinea-Bissau	ZM	Zambia

1 INTRODUCTION

With the start of the new millennium, the integration of Sub-Saharan Africa into the world economy has increased considerably, driven by substantial surges in the demand and prices for its main export commodities, which coincided with an extended period of enhanced macroeconomic and political stability in a wide range of countries. While this ongoing process has to a large extent been driven by emerging economic powers such as China or India, its largest trading partner has remained the EU, accounting for about a quarter of its merchandise trade, although with a declining role. In turn, however, less than five percent of goods traded between the EU and non-EU Member States originated in Sub-Saharan Africa. Nevertheless, for individual EU Member States, particularly for those with former colonial ties, Sub-Saharan Africa's share in their trade with countries outside the EU is ranging from about five percent in Belgium, the Netherlands and the United Kingdom, to seven percent in France, eight percent in Spain and up to almost 21 percent in Portugal.[4]

Imports of primary goods[5], particularly energy-related products, accounted for around two thirds of total EU trade with Sub-Saharan Africa in 2008, with South Africa (33%), Nigeria (23%), and Angola (11%) constituting the most important counterparts. Thus, despite only five percent of the EU's oil imports currently sourced from Sub-Saharan Africa[6] and Nigeria as the largest importer of gas to the EU from the region displaying a mere 5.1% market share[7], economic and political events on the continent are of non-negligible importance for the EU and the euro area. Both energy security and development assistance feature as issues of long-term relevance, for example to achieve a diversified supply of oil and gas or to alleviate migration flows by ensuring sustained development in Sub-Saharan Africa. Additionally, more immediate incidents may also have repercussions on macroeconomic developments in the EU, such as unrest in Nigeria's Niger delta in 2008 putting additional pressure on oil prices at a time when supply concerns characterised a wide range of commodity markets. Acknowledging these trends, since the start of the new millennium the EU has ramped up its efforts to engage with Sub-Saharan Africa in parallel with similar activities of other advanced and emerging economies, as

4 The large share of Portugal's trade with Sub-Saharan Africa is mainly owing to a brisk expansion of its trade relations with Angola and Nigeria since the early 2000s. Between 2000 and 2008, imports from Nigeria tripled to USD 2.5 billion in 2008, whereas exports to Angola (USD 3.3 billion) rose ten-fold and corresponding imports (USD 0.6 billion) expanded twelve-fold during the same period.

5 The classification of primary goods follows Lall (2000).

6 See Youngs (2009), p. 5.

evidenced by the adoption of an EU strategy for Africa[8] in 2005, the signature of an Africa-EU partnership on energy[9] at the EU-Africa summit in 2007 or the ongoing negotiations of Economic Partnership Agreements with African states. Additionally, on the side of Sub-Saharan African countries, the EU and the euro area's experience with progressively closer economic and monetary integration frequently serves as a blue print for similar regional integration schemes on the continent.

The rising integration of long-neglected Sub-Saharan Africa into the world economy also made its countries potentially more vulnerable to the spillover effects from the "Great Recession". Against this background, the paper will first present a comprehensive analysis of the transmission channels of the crisis to Sub-Saharan Africa. It will do so by investigating the relevance of different transmission channels for the continent, such as trade, aid, migrant transfers and foreign direct investment, next to gauging their significance on a country-by-country basis. After briefly presenting an overview of the crisis' impact on some key macroeconomic variables, the study will subsequently turn towards its repercussions on the growth of GDP and its components in individual countries. Following this analysis, the paper will focus on a variety of sample economies, differentiating among them according to the degree to which they have felt the downturn, highlighting possible reasons underlying the observed developments and outlining their policy reactions, Lastly, the study presents a short-term outlook for Sub-Saharan Africa, before emphasising medium- to long-term challenges that need to be addressed in order to ensure sustainable recovery and foster the continent's resilience against potential future crises.

2 THE TRANSMISSION CHANNELS OF THE CRISIS

While the repercussions of the global financial and economic crisis were undeniably felt on a considerable scale in Sub-Saharan Africa, its impact appears to have been distinctively different from that being experienced by advanced and many other emerging or developing countries and regions. Indeed, the first wave of the crisis, characterised by the rapid spread of financial turmoil in the United States to other developed economies and some emerging markets via their closely interconnected financial systems, left Sub-Saharan Africa, with the exception of South Africa, comparatively unscathed due to the very weak cross-border integration of its often little developed financial markets, an

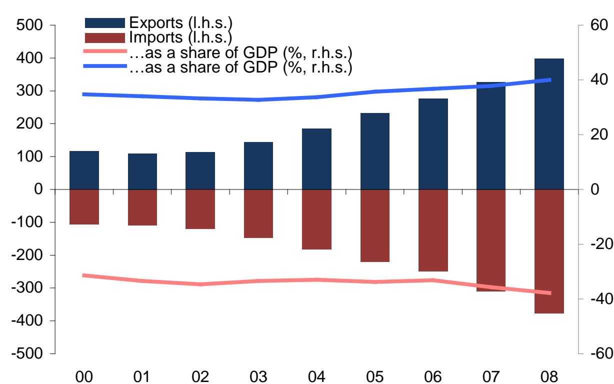
7 See Commission of the European Communities (2010), p. 31.
8 See Commission of the European Communities (2005).

almost non-existent exposure of its banking sectors to assets immediately affected by the fallout and the only limited dependency of its private and public sectors on obtaining financial market-based funding abroad.

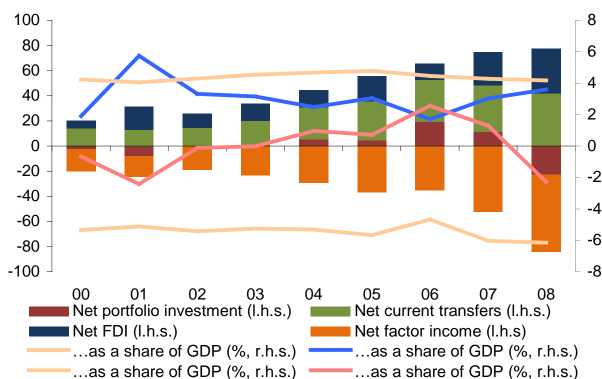
Chart 1: Sub-Saharan Africa, trade and net financial flows*

(USD billions)

Panel A: trade flows



Panel B: net financial flows*



Sources: IMF and own calculations.
**excluding the capital account balance and net other investment which were subject to significant distortions due to debt restructuring and debt cancellation operations.*

However, the second wave of the turmoil, when the disorder in the financial sector began to impact the real economy, had profound consequences for the continent[10], which since the start of the new millennium had become increasingly integrated into the world economy (see Chart 1). A large part of this closer integration was triggered by a significant increase in the demand for commodities and their prices since the late 1990s and an extended period of enhanced macroeconomic and political stability in a wide range of countries, making them viable business partners, often for the first time.

Against this background, the main channels through which the global recession affected Sub-Saharan Africa are likely to have been those that were always of importance to the continent, namely trade and aid, as well as those that had increasingly become so in recent years, such as migrant transfers or foreign direct investment.[11]

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9 See Council of the European Union (2007).
10 For an overview, see also Chauvin and Lantéri (2009).
11 Over the last decade, net other investment flows and transactions recorded in the capital account were considerably influenced by international efforts to alleviate Sub-Saharan Africa's sizeable debt burden. Countries achieving a cancellation of their debt recorded positive capital account balances offset by corresponding negative net other investment flows, representing the erasing of the respective debt stocks. Being mere accounting identities and being difficult to disentangle from any "real" flows owing to their often disparate accounting treatment, net other investment and the balance of the capital account are not considered in this paper.

Consequently, the next three sections will make an attempt at assessing the transmission of the global economic slowdown to Sub-Saharan Africa, differentiating between its impact on exports and capital flows. They will do so on a country-by-country basis, thereby shunning a grouping of countries in relation to for example their income levels or resource endowments beforehand, consequently following an approach different from that being frequently used when studying the continent.[12] This method should guarantee that similarities among economies with regard to the consequences they experienced from the crisis, which may potentially be owed to similar country characteristics, are not blurred by any predetermined country classifications. In order to ensure comparability across countries, the IMF's World Economic Outlook database is used for the analysis, which provides adequate information for 42 of the 48 economies under consideration.[13]

2.1 THE RELEVANCE OF DIFFERENT TRANSMISSION CHANNELS

Before assessing any potential impact of the crisis on Sub-Saharan Africa's trade and capital flows, it seems warranted to consider their importance for the continent from the perspective of individual countries. Indeed, classifying economies according to the share of different items of the balance of payments in their respective GDP reveals a rather heterogeneous picture (see Table 1).[14]

12 See Dorsey and al. (2008) or IMF (2009) for two recent examples.

13 Data supplied by the *World Economic Outlook* database for Eritrea, Liberia, Sao Tome and Principe, Somalia, Sudan, and Zimbabwe are not sufficient for the analysis conducted in this paper.

14 The classification in Table 1 takes the average share of the respective balance of payments item over GDP for the period 2000 to 2009 into consideration. This timeframe was chosen as it coincides with a range of structural changes directly affecting Sub-Saharan Africa, such as a prolonged rise in the demand and the prices for its main export commodities, the ascent of China and potentially other emerging economies as major trading partners of and investors in Africa, efforts aiming at the restructuring and cancellation of a substantial part of the continent's debt and non-negligible improvements in the business climate and the governance structure of a variety of countries.

Table 1: The importance of trade and capital flows for Sub-Saharan Africa

	(number of countries)			
	larger than 40% of GDP	between 25% of GDP and 40% of GDP	between 10% of GDP and 25% of GDP	smaller than 10% of GDP
Trade flows (gross)				
Exports of goods	9	10	15	8
Exports of services	1	3	4	34

	(number of countries)			
	larger than 10% of GDP	between 5% of GDP and 10% of GDP	between 1% of GDP and 5% of GDP	smaller than 1% of GDP
Capital flows (net)				
Current account				
Net factor income	6	9	15	12
Net current transfers (private)	4	6	19	13
Net current transfers (official)	6	7	18	11
Financial account				
Net FDI	5	8	26	3
Net portfolio investment	1	0	8	33

Sources: IMF and own calculations.
Note: Countries are classified into the four groups according to the absolute value of the respective item's average annual share in a country's GDP between 2000 and 2009.

Exports of goods contributed significantly to the GDP of Sub-Saharan African economies, with their share remaining below 10% in only eight cases. Particularly the major oil producers and small land-locked Lesotho and Swaziland rank among those countries where merchandise exports account for the largest share of GDP. Conversely, exports of services, apart from a few exceptions[15], play a relatively minor role in the vast majority of Sub-Saharan African countries.

Turning to a comparison of net foreign direct investment with net portfolio investment flows yields results of analogous substance.[16] While the latter bear at best a marginal significance for Sub-Saharan Africa, the former are one of the key sources of external financing for the region, with oil- and mineral exporters generally constituting the main beneficiaries.

15 Services represent a noteworthy share of GDP in the Seychelles (43.7%), Djibouti (32.0%), Cape Verde (29.2%), Mauritius (25.3%) and the Gambia (19.8%) only, reflecting their comparatively high dependency on tourism or their role as trade hubs.

16 Our study considers exports as gross flows while all capital flows are measured at net levels, since the World Economic Outlook database does not offer a breakdown into gross amounts for all non-trade related items in the balance of payments. As an example, private and official current transfers are not obtainable on a gross basis. Nevertheless, as most Sub-Saharan African countries are more likely to be recipients of capital than its source, it is probable that net flows are a reasonable approximation for corresponding gross (in)flows in many instances. Net income flows which are persistently negative for almost all countries seem to be the only exception to this pattern (see also Chart 1, Panel B).

Next to foreign direct investment, aid and workers' remittances[17] are of a similarly vital nature to Sub-Saharan Africa, with their share of GDP surpassing 10% in six and four countries, respectively. Cape Verde, the Comoros, Nigeria and Ghana are the main recipients of migrant transfers, recording average annual net flows of 17.3%, 15.6%, 12.3% and 12.2% of GDP between 2000 and 2009, whereas in most of the remaining economies rich in oil and mineral resources remittances represent a much smaller share of GDP, with some oil producing countries, such as the Congo, Equatorial Guinea or Gabon, even displaying negative net flows over that period. Likewise, oil and mineral producers with their comparatively elevated income levels are not the primary targets of aid. Rather, these funds are directed at poorer countries (Ethiopia, Malawi) and those emerging or having emerged from political crises (the Democratic Republic of Congo, Mozambique, Sierra Leone). Additionally, some of Sub-Saharan Africa's smallest countries have received the highest aid in relation to their GDP, with ratios of 26.5% (Lesotho), 17.4% (Burundi), 13.0% (Swaziland), and 10.6% (Rwanda).

Lastly, net factor income which encompasses the compensation of employees working but not living abroad, as well as any income received from or paid on foreign direct, portfolio and other investment, is a sizeable component of the balance of payments in a wide range of Sub-Saharan African countries, predominantly bearing a negative sign. As a share of GDP, oil producing countries show the largest outflows of this type, at 42.4% (Equatorial Guinea), 29.9% (the Congo), 14.7% (Angola), 13.4% (Gabon), 13.8% (Chad), and 7.7% (Nigeria). In fact, Benin (2.1%), Djibouti (7.8%), and Lesotho (27.0%) are the only economies in the region displaying a steadily positive flow of net factor income at a significant level, potentially owing to parts of their populations commuting to work in third countries.

As the preceding analysis shows, exports of services and portfolio investment flows are only playing a marginal role in Sub-Saharan Africa and are therefore unlikely to have acted as an important channel of transmission for the crisis. Thus, a more detailed analysis of these balance of payments items is omitted in the following sections. Additionally, countries where the share of merchandise exports is below 10% of GDP or where the size of net factor income, net current transfers or net FDI in GDP does not exceed 1% are improbable candidates for having been substantially affected by fluctuations in any of these balance of payments flows. Nevertheless, even though the application of this

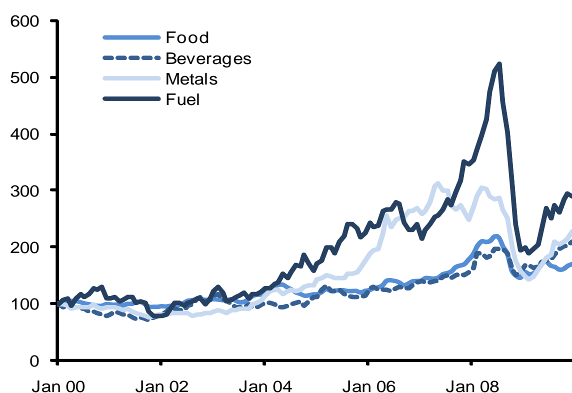
17 The *World Economic Outlook* database does not single out aid and workers' remittances as separate items, but reports net current transfers from private and official sources, respectively. While these categories are slightly broader, they are likely to provide a reasonable approximation of aid and remittances flows in the case of Africa.

methodology entails an ex ante reduction in the number of countries, it does not preclude the consideration of individual (out-of-sample) cases should this appear warranted.

2.2 TRANSMISSION VIA MERCHANDISE EXPORTS

Chart 2: Commodity price developments

(index, January 2000 = 100)

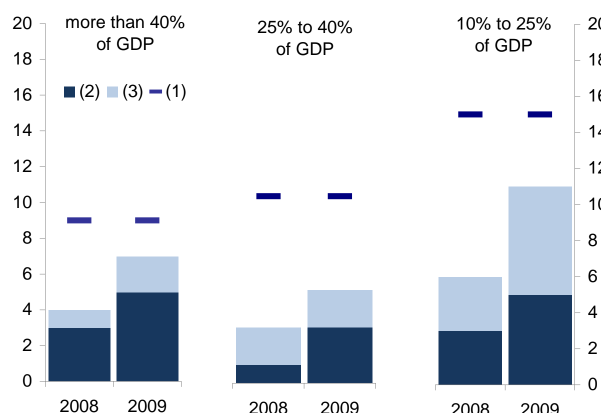


Sources: IMF and own calculations.

Although the first signs of the impending global financial market turmoil had already been felt in the summer of 2007, raw material prices initially continued their ascent until the summer of 2008, primarily driven by the presumed ability of emerging and developing countries to "decouple" from a progressively worsening outlook for advanced economies and the supposed diversification benefits of commodities as a separate asset class. However, after the scale of the downturn became increasingly evident and with the intensification of the crisis in September 2008, commodity prices experienced a precipitous fall until the end of 2008. A rebound since then notwithstanding, by the end of 2009 price levels remained considerably below their peaks witnessed in 2008 (see Chart 2).

Chart 3: Development of merchandise exports

(number of countries)



Sources: IMF and own calculations.
Note: The chart shows the total number of countries (1) in the respective category and those displaying a negative change of more (2) or less (3) than one standard deviation in merchandise exports as a share of GDP in 2008 and 2009 in comparison to the 2000-2007 average.

Thus, in sharp contrast to the global commodity price shock experienced in 2008 which had major immediate implications for Sub-Saharan Africa's net food and energy importers, many countries in Sub-Saharan Africa did feel little effect of the financial crisis at its beginning, its repercussions on their exports of goods only manifesting themselves when commodity prices started to drop. Consequently, in 2008 the ratio of merchandise exports as a share of GDP declined below its multiyear (2000-2007) average in only 13 of those 34 Sub-Saharan African countries for which they constitute an important component (i.e. more than 10%) of GDP, and significantly so in just seven cases (see Chart 3). In 2009, however, these figures increased to 23 and 13 instances, pointing towards a deteriorating situation in a sizeable number of countries, independent of the magnitude with which exports are represented in their GDP.

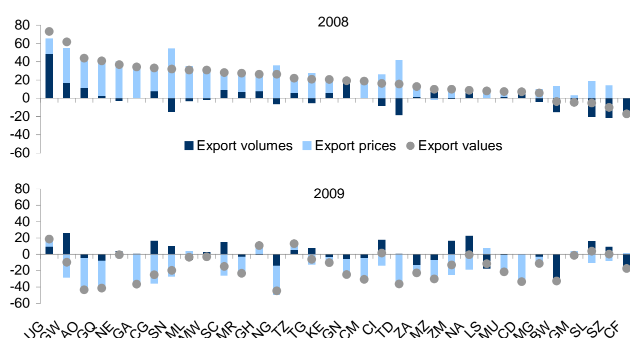
Among those economies gravely affected, most major oil producers feature prominently, next to Botswana, which derives a large part of its export revenues from the sale of diamonds. Furthermore, textile manufacturers (Lesotho, Madagascar and Mauritius) seem to have felt the consequences of the crisis to a considerable extent. Additionally, being located in South Africa's neighbourhood appears to have been detrimental for some countries, particularly for South African Customs Union (SACU) members Botswana, Lesotho, and Swaziland which are closely integrated with South Africa and have therefore suffered from the slowdown of its economy.[18]

Interestingly, however, not all economies recorded a fall in the share of merchandise exports in their GDP, with a non-negligible number (21 in 2008 and 11 in 2009) actually displaying rises, indicating a rather selective impact of the global contraction in trade volumes across Sub-Saharan Africa. This finding is also confirmed by differentiating between price and volume effects in the changes of export values which shows that seven

countries actually saw a rise in their export volumes in both 2008 and 2009, among them Congo, Gabon, Namibia, Tanzania and Uganda. Moreover, the export volumes of 20 economies were higher at the end of 2009, after the crisis had fully unfolded, than at the end of 2007.

Chart 4: Development of values, volumes and prices of merchandise exports

(annual percentage changes)



Sources: IMF and own calculations.

Additionally, it becomes evident that the massive fluctuations of Sub-Saharan Africa's export prices witnessed in 2008 and 2009 were the main driver of corresponding changes in export values in many instances (see Chart 4). As a result, the primary repercussion of the crisis on merchandise exports of Sub-Saharan Africa was frequently not so much a reduction in export volumes but rather its contribution to the collapse of the very high raw material price levels observed in the summer of 2008. Accordingly, the crisis' impact on the economic growth of a wide range of countries can be expected to be of a more indirect nature, namely via subdued commodity revenues depressing domestic demand, than via a direct export to GDP link (see also Section 4.2 for a more in-depth analysis).

2.3 TRANSMISSION VIA CAPITAL FLOWS

Next to its influence on trade, the crisis was also expected to forcefully affect global capital flows, particularly to emerging and developing countries. A reduction in profitable investment opportunities owing to a deteriorating economic outlook, coupled with scanter availability and augmented costs of financing and a rise in perceived risk premia, were anticipated to diminish cross-border investments on a significant scale. Workers' remittances and aid flows were presumed to experience negative developments by worsening labour market conditions in advanced economies, which were the first to be hit by the crisis and where the overwhelming share of migrants resides, and by constrained government budgets in the face of substantial domestic policy challenges. Lastly, flows of

18 For a complete overview of countries having been subject to a (significant) drop in their merchandise exports as a share of GDP in 2008 and 2009, see Annex A.

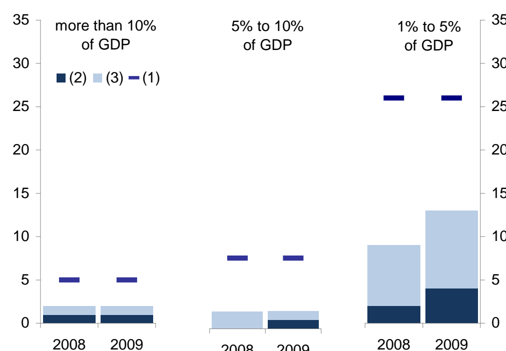
factor income, whether derived from the provision of labour or capital, were foreseen to be adversely impacted too.

In the case of Sub-Saharan Africa, capital flows showed indeed a development in the expected direction in a range of countries, even though its scope and size were probably less dramatic than initially estimated (see Chart 5). In fact, many economies recorded net flows of capital in 2008 and 2009 above their annual 2000-2007 average, tentatively indicating a continued engagement of foreign counterparts. Even for those economies registering a drop, it was often not considerably different from similar fluctuations experienced in the recent past, implying a rather subdued impact of the crisis in numerous instances.

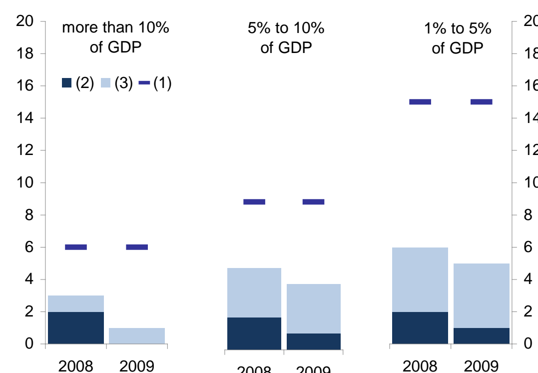
Chart 5: Developments of net capital flows

(number of countries)

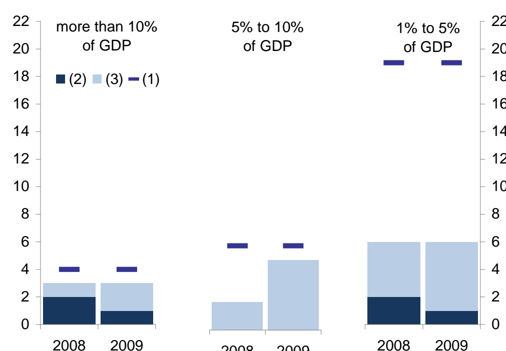
Panel A: net foreign direct investment



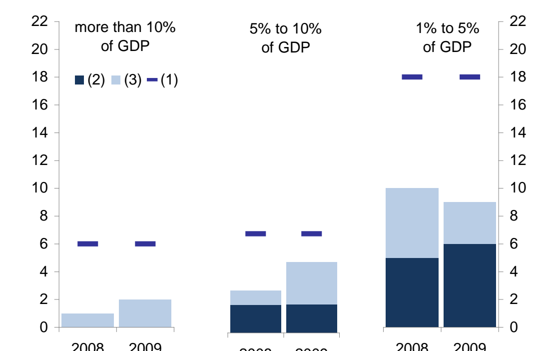
Panel B: net factor income



Panel C: net current transfers (private)



Panel D: net current transfers (official)



Sources: IMF and own calculations.

Note: The charts show the total number of countries (1) in the respective category and those displaying a negative change of more (2) or less (3) than one standard deviation in the respective net capital flow as a share of GDP in 2008 and 2009 in comparison to the 2000-2007 average.

Net foreign direct investment flows (see Chart 5, Panel A) as a share of GDP contracted most tangibly in some oil (Cameroon, Equatorial Guinea, Nigeria) and mineral producing

countries (Mauritania, Zambia)[19], with Tanzania and Togo also witnessing a decline in excess of one standard deviation around their respective 2000-2007 averages.

Turning to net current transfers of a private origin (see Chart 5, Panel C), which are primarily determined by remittances of migrants, partly substantial decreases are notable in three (Cape Verde, Ghana and Nigeria) of the four countries where their share of GDP is higher than 10%, while the groups where they feature less prominently appear to be affected to a smaller degree, with only Benin seeing a ratio of these transfers over GDP in 2009 of more than one standard deviation below its 2000-2007 average. This relatively benign picture of a rather subdued fall of this type of capital flow to Sub-Saharan Africa is also corroborated by World Bank estimates of the volume of remittances destined for developing countries. While their overall is expected to have declined by 6.0% in 2009, the fall in Sub-Saharan Africa is projected to be limited to 2.7%, among the lowest of the regions under surveyed by the World Bank.[20]

Aid, represented by net current transfers of an official nature, registered a sizeable reduction in a few countries by 2009, which tended to take place in those less reliant on official assistance such as Chad, Djibouti, Madagascar, Mauritania, and Senegal (see Chart 5, Panel D and Annex B), whereas a noticeable impact on economies highly dependent on this type of finance seemed to be all but absent. Thus, some isolated cases of tangible aid cuts notwithstanding, the pattern of its provision to Sub-Saharan Africa in 2008 and 2009 as compared to annual average (net) flows between 2000 and 2007 does not seem to support the notion of a broad retrenchment of official donors from the continent.

Finally and broadly in line with developments observed for the other kinds of capital flows, net factor income has not materially declined by the end of 2009. However, against the background that the vast majority of Sub-Saharan African economies are net payers of factor income, a failure of these outflows to become even larger must be interpreted positively, as it is an indication of diminished pressure on their current account positions from this side. Of the only noteworthy net recipients of factor income in the region, Djibouti and Lesotho continued to receive this form of income at close to pre-crisis levels, whereas Swaziland recorded a fall of more than one standard deviation in relation to the 2000-2007 average of its net factor income over GDP ratio.

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19 In the same group, Angola and Botswana were also negatively affected but with the fall limited to less than one standard deviation around their respective 2000-2007 averages. For a complete overview of countries having been subject to a (significant) drop in their net foreign direct investment (and other capital flows) as a share of GDP in 2008 and 2009, see Annex B.

20 See World Bank (2010), p. 18.

Considering developments in capital flows to Sub-Saharan Africa since the onset of the crisis in 2007, it becomes evident that, while some effects are visible, they are rather observable in selected countries than on a continent-wide scale. Moreover, the comparison of capital flows in 2008 and 2009 with their 2000-2007 averages raises the question whether the partly massive capital flows Sub-Saharan Africa (and other emerging and developing regions) had received in the years immediately before the crisis were sustainable over the longer term and whether the levels seen in 2008 and 2009 to a certain extent signify a "return to normal", since substantial deviations from multiyear averages have been absent in many instances so far. Nevertheless, a lack of a widespread impact of the crisis on capital flows to Sub-Saharan Africa to date does not preclude that further repercussions and effects of a longer-term nature might still be felt in the future, such as a permanently lower availability and/or higher cost of finance or an increased pressure on aid budgets triggered by a need for the consolidation of government finances in some donor nations.

3 THE IMPACT OF THE CRISIS ON KEY MACROECONOMIC INDICATORS

Before investigating the interaction of the transmission channels outlined in section 2 with Sub-Saharan Africa's GDP and its components, which is at the focus of this paper, it appears warranted to put this analysis in a wider context by briefly reviewing the developments of other important macroeconomic variables after the outbreak of the crisis in the summer of 2007.

Across the continent, current account and fiscal balances worsened by partly considerable margins between 2007 and 2009 in the vast majority of countries (see Chart 6).[21] The deterioration was especially pronounced on the left-hand side of the distribution where surpluses had been particularly high, with substantial convergence to region-wide averages by the end of 2009. At the centre of the distribution, current account balances (see Chart 6, Panel A) mainly declined in 2008, whereas 2009 displays a slight improvement, potentially related to opposing terms of trade shocks experienced by many economies during these two years.[22] By contrast, budget balances registered

21 It is important to note that the charts presented in this section only allow drawing conclusions about shifts in the distribution of the respective indicator across Sub-Saharan Africa as a whole, as the applied ranking of the variables from highest to lowest outcome might result in a different order of countries for each year.

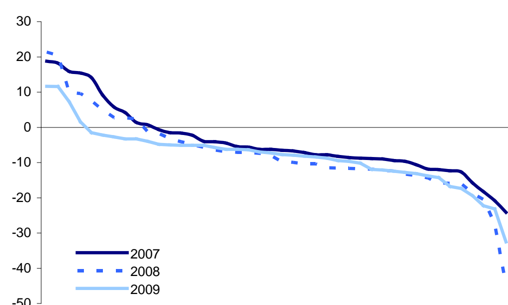
22 Indeed, many producers of agricultural commodities witnessed a substantial worsening of their terms of trade in 2008, as price increases affecting the value of their energy imports far outpaced corresponding price developments benefitting their main exports. To a certain extent, this effect materialised in the opposite direction after the precipitous fall in commodity prices seen after the summer of 2008, partly explaining current account fluctuations in 2009.

comparatively narrow drops in 2008, with a weakening largely visible in 2009 (see Chart 6, Panel B).

Chart 6: Distribution of changes in current account and budget balances across Sub-Saharan Africa

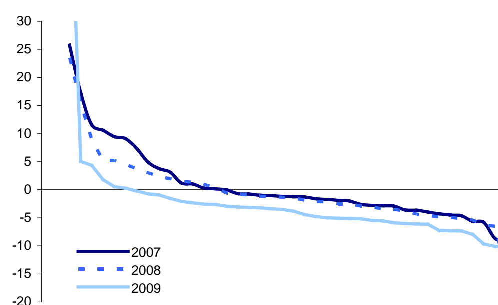
Panel A: current account balances

(as a percentage of GDP)



Panel B: budget balances

(as a percentage of GDP)

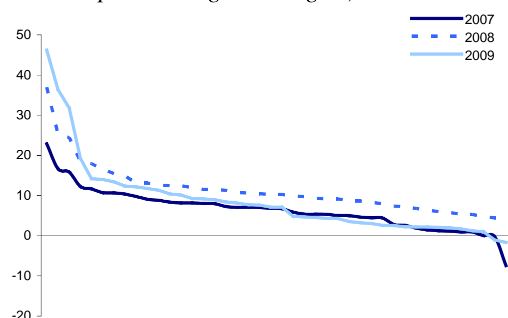


Sources: IMF and own calculations.
Note: Indicators are ranked from highest to lowest country observations along the x-axis, giving an indication of the distribution of the respective variable across Sub-Saharan Africa in each year.

Similar to current account balances, inflation rates also reflected fluctuations of raw material prices to a significant extent. In light of food and, to a lesser degree, energy representing the major items in the consumption baskets of many Sub-Saharan African countries, the commodity price shock of 2008 was rapidly transmitted to domestic prices in numerous instances, as evidenced by a pronounced upward shift of inflation rates across Sub-Saharan Africa in 2008 (see Chart 7). In 2009, inflation somewhat subsided, although its overall level is still higher than in 2007, potentially owing to pass-through effects from the large exchange rate depreciations witnessed in some countries in the wake of the crisis and the renewed upswing in raw material prices observed in the course of 2009. While a sizeable share of changes in inflation in 2008 and 2009 can be attributed to the pass-through of food and energy price volatility observed on world markets during this period, partly substantial exchange rate depreciations have potentially played a non-negligible role in some cases as well.

Chart 7: Distribution of inflation rates across Sub-Saharan Africa

(annual percentage changes)



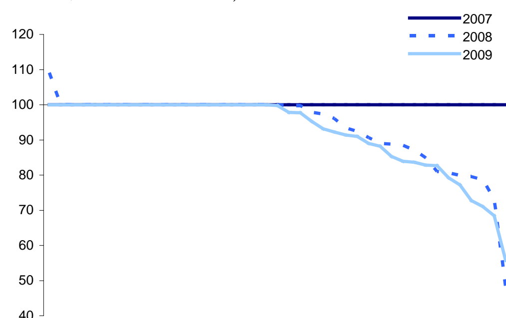
Sources: IMF and own calculations.
Note: Inflation rates are ranked from highest to lowest country observations along the x-axis, giving an indication of the distribution of inflation across Sub-Saharan Africa in each year.

However, most countries operating a pegged or closely managed exchange rate regime have managed to maintain these frameworks during the phase of turbulence (see Chart 8, Panel A).[23] Nevertheless, this stability came at the expense of considerable losses of foreign exchange reserves on some occasions (see Chart 8, Panel B). Consequently, depleted stocks of central banks' foreign currency holdings had to be replenished by bilateral or multilateral financing support (see also section 5.2 and Annex D), ultimately lifting reserves to more comfortable levels in 2009.

Chart 8: Distribution of changes in exchange rates and foreign exchange reserves across Sub-Saharan Africa

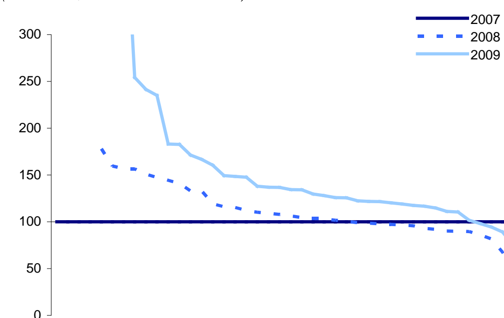
Panel A: exchange rates

(index, 2007 = 100)



Panel B: foreign exchange reserves

(index, 2007 = 100)



Sources: IMF and own calculations.
Note: Indicators are ranked from highest to lowest country observations along the x-axis, giving an indication of the distribution of the respective variable across Sub-Saharan Africa in each year.

4 THE IMPACT OF THE CRISIS ON GDP AND ITS COMPONENTS

While the relation between real GDP growth and export volumes is relatively straightforward, its link with fluctuations in export prices and capital flows is of a more indirect and subtle nature. Even though a fall in Sub-Saharan African raw material producers' export prices is per se a negative event, as it might weigh on expenditure and investment opportunities of the government and the private sector, a non-negligible number of countries on the continent are importers of the same commodities others are selling, with oil and its derivatives being the most notable example. For these economies, a fall in the prices of primary goods is actually beneficial, as they are augmenting the spending possibilities of households, corporations and the public sector, ultimately positively contributing to GDP growth.

23 Chart 8, Panel A is displaying exchange rate developments of Sub-Saharan African currencies against their respective anchor currencies. In case these anchor currencies are not clearly discernible or there exists no anchor currency, the exchange rate against the US dollar is shown. For an overview of monetary and exchange rate frameworks in Sub-Saharan Africa, see Annex C.

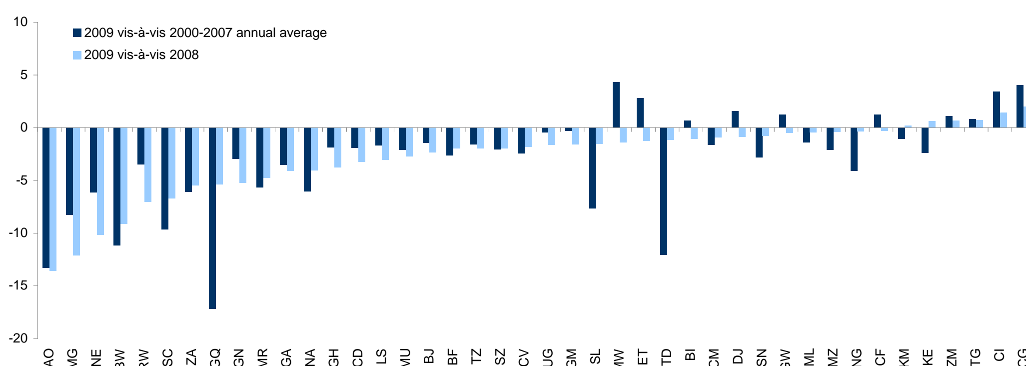
A contraction in inflows of foreign direct investment may diminish the pace of capital accumulation in an economy with this effect likely to feature most prominently in those cases where domestic saving rates are low, ultimately adversely affecting long-term potential GDP growth. Likewise, a retrenchment in migrant transfers could have a similar impact, to the extent that they are channelled to productive investment opportunities, but are more probable to depress private consumption. The primary ramifications of an easing of aid flows are likely to be constrained government budgets, in turn decreasing the public sector's space of manoeuvre for conducting investment projects or finance spending, in addition to potential further pressures on private consumption or investment when donor support is provided without direct government involvement. Lastly, in those instances where factor income flows are positive, a drop would possibly entail repercussions comparable to those of a fall in current transfers from private sources, namely a reduction in private consumption and investment.

4.1 THE EVOLUTION OF GDP IN SUB-SAHARAN AFRICA

Analysing the development of real GDP growth rates in Sub-Saharan Africa for the years 2008 and 2009 and contrasting them to their annual averages over the period 2000 to 2007 shows that most countries (32) witnessed a slowdown by 2009 (see Chart 9, dark blue bars). Notably, however, a deterioration of economic performance of more than one standard deviation is observable in 21 cases (see also Chart 11 further below), implying that the repercussions felt in half of the countries in our sample were not considerably different from fluctuations experienced in the recent past.

Chart 9: Changes in real GDP growth rates

(percentage points)



Sources: IMF and own calculations.

Taking a narrower focus and contrasting increases in output in 2009 to 2008 levels only, 28 countries of our sample have displayed a decline of their GDP growth above one

percentage point (see Chart 9, light blue bars). Among them, eight countries have recorded a deceleration of between two and five percentage points while in nine countries the drop was above five percentage points (Angola, Botswana, Equatorial Guinea, Guinea, Madagascar, Niger, Rwanda, the Seychelles, and South Africa).

Despite this general trend of partly significantly lower rates of GDP expansion, six countries have nevertheless recorded a rise in economic activity in 2009 (the Comoros, Congo, Cote d'Ivoire, Kenya, Togo, and Zambia). In particular, Congo was supported by an increase of oil production from new fields whereas Kenya recovered from the political crisis in early 2008 that followed its elections in late 2007. Similarly, Cote d'Ivoire continued to recuperate from protracted internal turmoil and benefited from improved terms of trade.

To what extent the downturn can be explained by spillover effects from the crisis is investigated by Drummond and Ramirez (2009) who show them to account for about 90% of the projected deceleration in growth in 2009 for the continent as whole, considerable differences between countries notwithstanding. In fact, a one percentage point decrease of world output is reducing growth in Sub-Saharan Africa by an estimated 0.4 to 0.5 percentage points in the following two years, with the impact partly being felt contemporaneously (0.2 percentage points) and partly in the following year (0.2 percentage points).

Surprisingly and somewhat contrary to intuition, domestic factors seemed to be the main determinants of the economic slowdown in Angola, Botswana and Equatorial Guinea, with only a small fraction being attributed to spillover effects, which to a certain extent stands in contrast to our findings above.[24] For another group including Benin, Burkina Faso, Cameroon, the Comoros, Cote d'Ivoire, Kenya, Mali, Nigeria, and Senegal, Drummond and Ramirez find the projected decline to be mostly consistent with spillover effects from the global contraction and lower commodity prices, with these two developments potentially being closely linked. Lastly, for the remaining countries, the variation in growth is generally explained by spillover effects even though some domestic factors or shocks, partially of an offsetting nature, appear to have been relevant too.

Taking a view by sub-region, SACU[25] registered the sharpest decline of GDP between 2008 and 2009, followed by CEMAC[26], with WAEMU[27] and EAC[28] seemingly less

24 Different from our far simpler approach, Drummond and Ramirez (2009) use a series of dynamic panel regressions, relating real growth in domestic output to growth in the rest of the world, weighted by exports to the respective economy's trading partners and adjusted for a range of control variables, such as oil prices and global financial conditions. Based on these regressions, the authors conduct country-specific simulations of the effect of changes in commodity prices and fluctuations of world output on domestic growth.

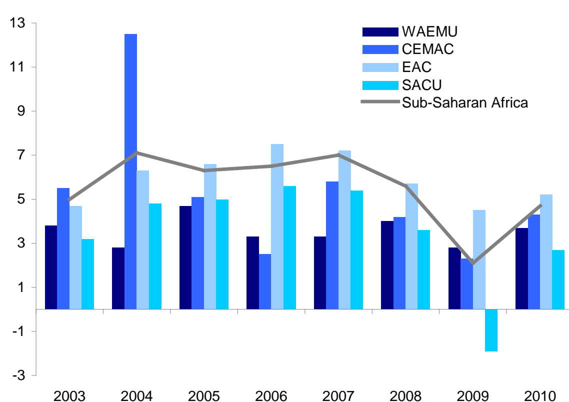
25 South African Customs Union (Botswana, Lesotho, Namibia, South Africa, Swaziland).

26 Central African Economic and Monetary Union (Cameroon, Central African Republic, Chad, the Republic of the Congo, Equatorial Guinea, Gabon).

affected (see Chart 10). For SACU members Botswana, Lesotho, Namibia, and Swaziland, the crisis transmitted mainly through trade channels, coupled with the reduction of output in mining (Botswana, Namibia) and textiles (Lesotho). Additionally, these countries rely heavily on receipts from their customs union with South Africa, which account for an average of 20% of their GDP and represent a large part of their government revenues.[29] As South Africa's share in SACU's revenue pool is high due to the large volume of its imports as compared to the other members, the contraction of its economic activity and thereby its imports considerably shrank the funds available to Botswana, Namibia, Lesotho and Swaziland.

Chart 10: Real GDP growth across sub-regions

(annual percentage changes)



Source: IMF.
WAEMU: West African Economic and Monetary Union.
CEMAC: Central African Economic and Monetary Union.
EAC: East African Community.
SACU: South African Customs Union.

Among CEMAC countries, Equatorial Guinea recorded the most significant slowdown, with its GDP expanding by 5.3% in 2009, after 10.7% in 2008. Likewise, region-wide growth weakened to 2.3% in 2009, compared to 4.2% in 2008, reflecting the repercussions of the crisis on the global demand for oil and hence its price. Even though the direct impact of fluctuations in commodity prices only materialises in nominal GDP, in CEMAC they indirectly affect also real GDP via their strong link to public expenditure, with oil revenues of the government on average comprising more than 22% of GDP (IMF, 2009).[30]

By contrast, WAEMU countries weathered the crisis comparatively well, supported by good harvests and improvements to their terms of trade, the latter triggered by declining energy prices coupled with a favourable performance of the prices for agricultural products. Similarly, EAC fared better than other regions, potentially due to its largely

27 East African Community (Burundi, Kenya, Rwanda, Tanzania, Uganda).

28 West African Economic and Monetary Union (Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, Togo).

29 Under the SACU agreement, all customs duties and excise taxes collected by the members of the union are paid into a common revenue pool (CRP) administered by South Africa which is subsequently distributed among members. Its allocation is based on several rules, integrating a customs component, an excise component and also a development component (for more details see Kirk and Stern (2003) and IMF (2009d)).

30 This average masks considerable differences between countries, however, with government revenue from oil as a share of GDP ranging from 44.1% in Congo and 34.4% in Equatorial Guinea to no receipts from this source of income in the Central African Republic.

prudent pre-crisis macroeconomic policies enabling it to enact timely and effective stimulus measures cushioning the downturn's impact (see AfDB, 2010). Additionally, EAC's level of trade integration, one of the deepest among Sub-Saharan Africa's regional arrangements (see Table 2), may have provided some shelter to its members from global economic developments.

Table 2: Intra-Sub-Saharan African trade patterns

	Trade volume		*of which:* Sub-Saharan Africa		*of which:* intra-regional trade	
	(USD bln)		(percent)		(percent)	
	(2000)	(2009)	(2000)	(2009)	(2000)	(2009)
CEMAC	13.1	40.1	6.7	6.3	23.7	24.8
WAEMU	13.4	39.7	26.2	24.2	40.6	41.4
EAC	9.2	31.3	22.4	20.2	58.4	52.0
SACU[1)]	62.7	163.4	15.7	15.8	49.4	41.0

Sources: IMF, United Nations and own calculations.
[1)] Data for Lesotho are unavailable; 2009 data refer to 2007.

As a result, membership in a regional arrangement appears to have been a mixed blessing, with negative ramifications for SACU members contrasting with a more positive assessment of EAC. However, the association with a regional arrangement is still clearly superseded by a country's affiliation with the production of a specific raw material or group of commodities, as evidenced by the differing GDP developments in CEMAC and WAEMU.

Although the rapid global economic slowdown resulted in a partly substantial deceleration of growth in many Sub-Saharan African countries, its effect has nevertheless materialised heterogeneously across the continent. While a dependency on commodity production, most notably on oil and minerals, seems to have been one of the key determinants of individual economies' susceptibility to the crisis, other factors, such as the macroeconomic policy conduct before the crisis as well as domestic political circumstances have apparently mattered to a non-negligible degree. This broad pattern is also confirmed by the subsequent analysis of the development of individual GDP components.

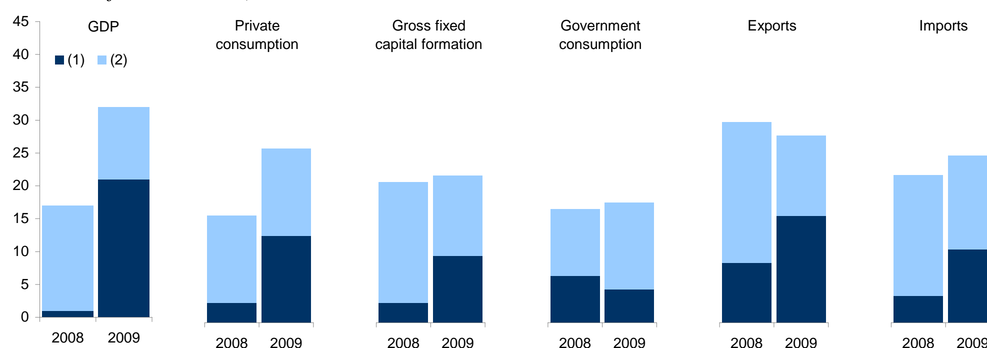
4.2 THE EVOLUTION OF INDIVIDUAL GDP COMPONENTS

Taking the contribution of individual GDP components to overall growth into account, it seems that exports were the most prominent underlying force for the deceleration of growth (see Chart 11). By contrast, domestic demand, particularly from the public sector, appears to have remained rather resilient, with substantial declines in private consumption, gross fixed capital formation, and government consumption only witnessed in a respective

13, ten and five instances by the end of 2009, which may also explain why imports reacted to the clouded economic outlook at a comparatively sluggish pace.

Chart 11: Development of real GDP growth and its components

(number of countries)



Sources: IMF and own calculations.

Note: The charts show the number of countries experiencing a fall in the growth rates of GDP and its components in 2008 and 2009 of more (1) or less (2) than one standard deviation below their respective 2000-2007 averages.

A country-by-country analysis shows that among the 32 countries for which exports of goods on average did represent more than 10% of GDP during the period 2000-2007, nineteen recorded a negative contribution of exports to growth in 2009, particularly producers of oil and minerals, such as Angola, Botswana, and Sierra Leone where exports negatively contributed to GDP growth in a magnitude of more than 20% (see Table 3).

Table 3: Contribution of exports to real GDP growth

Most negative contributions of exports to real GDP growth (percentage points)			
…in 2008		**…in 2009**	
Gambia	-6.3	Angola	-22.8
Togo	-5.0	Sierra Leone	-21.5
Sierra Leone	-4.7	Botswana	-20.2
Cote d'Ivoire	-3.7	Guinea	-7.5
Zambia	-3.7	Togo	-6.5
Most positive contributions of exports to real GDP growth (percentage points)			
…in 2008		**…in 2009**	
Equatorial Guinea	5.3	Uganda	4.7
Lesotho	5.9	Guinea-Bissau	6.4
Angola	10.2	Zambia	6.4
Uganda	14.5	Congo	8.2
Seychelles	24.5	Cote d'Ivoire	11.5

Sources: IMF and own compilation.

On the domestic side, investment depressed GDP in 13 countries in 2009, potentially triggered by a scaling-down or cancellation of investment projects against the background of the observed decline in the demand and prices for commodities. In turn, this may also explain why imports had a positive impact in several countries. In fact, nine of the 13 countries who registered a negative contribution of investment to growth displayed a corresponding positive contribution of imports.[31] In some instances, this may potentially reflect a comparatively high level of imports needed to sustain these economies' exports, as also evidenced by the relatively large share of machinery, vehicles and electronic equipment in the imports of countries such as Ghana or Madagascar. Likewise, the Seychelles display a sizeable level of oil imports being destined for re-export (oil accounts for around one third of their total imports and half of their total exports) and of FDI-related imports.

On average over the period 2000-2007, private consumption had been a positive factor for growth in all countries across Sub-Saharan Africa, with the notable exception of Tanzania. However, 19 economies recorded an opposite development in 2009, the worst outcomes being felt in Cameroon, Kenya, Mauritania, the Seychelles, and Zambia. In several cases, a drop in remittance flows may have weighed down private consumption, such as in Lesotho, where workers' transfers, mainly from South Africa, form around 20% of GDP, or in Benin and the Comoros. On the positive side, private consumption accounted for

more than 10 percentage points of GDP growth in Angola, Equatorial Guinea, Ethiopia, and Malawi.

Finally, government spending backed economic activity in two thirds of the countries of Sub-Saharan Africa in 2009, with the magnitude of the public sector's stimulus varying though. In many instances, the leeway to support economic activity hinged on pre-crisis fiscal positions and the risk of debt distress. Even though benchmarks in this respect did improve in recent years, helped by a better conduct of macroeconomic policy, the favourable external environment, and debt relief obtained under the Highly Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI) programmes, a range of countries, particularly importers of oil, were subject to relatively hard budget constraints in light of the measures they had to take to mitigate the impact of the food and fuel price shock of 2008. Individually, Lesotho recorded the highest contribution of government expenditure to growth in 2009, while the fiscal stance in Chad, Malawi, Swaziland and Tanzania was also particularly expansionary, helping to cushion the impact of the crisis. By contrast, several countries tightened (Congo, Djibouti, Nigeria and Zambia) and/or contained (Senegal) expenditure in order to consolidate their budgets, thus being unable to rely on fiscal policies to sustain their economies. Additionally, underspending on budgeted investment outlays undermined the magnitude of desired public sector backing in certain cases, such as in Uganda.

Summing up, several conclusions can be drawn from our analysis in section 4:

- First, the impact of the crisis on the growth performance of Sub-Saharan Africa has varied considerably among countries, with the slowdown in real GDP mainly attributable to decelerating exports, whereas domestic demand components generally proved to be comparatively resilient. Particularly government spending has helped to alleviate the slowdown's repercussions in a range of economies.
- Second, the manifestation of the crisis in Sub-Saharan Africa was initially primarily felt by countries that are heavily relying on the production of (a single) raw material(s), specifically in those cases where prices for these commodities experienced a sharp drop after the summer of 2008, and by textile exporters. Coupled with sometimes deteriorating export volumes, the corollary of these developments were negative implications for domestic demand, often triggered by the sustainability of government budgets and investment plans being dependent on the production and profitable sale of a narrow range of goods.

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31 These countries were the Central African Republic, the Comoros, Djibouti, Ghana, Guinea, Kenya, Madagascar,

- Third, in many instances internal factors, such as political issues, macroeconomic policies conducted before the downturn or a dependency of budget on commodity revenues, have been at least as important in explaining GDP trends in 2008 and 2009 as the fallout from the crisis itself.
- Fourth, membership in regional arrangements had an at best ambiguous role in sheltering economies from the ramifications of the slowdown, potentially owing to their frequently still limited trade and financial integration, their sometimes rather weak institutional setup, and an occasional lack of political support.
- Lastly, whereas several Sub-Saharan African countries indeed registered a sharp drop of their output in 2009, growth rates as compared to historical trends have overall remained comparatively high. In fact, a significant set of economies has resisted the crisis relatively well, with some even recording an improved performance in 2009.

5 REACTIONS TO THE CRISIS – HETEROGENEOUS CHALLENGES CALLING FOR HETEROGENEOUS RESPONSES

The following case studies demonstrate how a range of Sub-Saharan African economies responded to the global crisis. Generally, the measures taken were primarily determined by the severity of the crisis' impact and the monetary and fiscal framework in place which is frequently linked to the type of commodities produced. More specifically, three broad groups can be identified, particularly countries that are characterised by a concentration of their production structures and faced a collapse in their export prices, countries whose room for manoeuvre was primarily determined by the way macroeconomic policy was conducted in the years leading up to the crisis or who suffered from regional, intra-Sub-Saharan African spillover effects, and lastly a non-negligible group of economies that weathered the crisis relatively well, be it because of country-specific factors, improving terms of trade, which is particularly observable in the case of many producers of agricultural goods, or resilient bilateral and multilateral support.

5.1 CONCENTRATION OF PRODUCTION STRUCTURES AND COLLAPSES IN EXPORT PRICES

Across Sub-Saharan Africa, producers of oil and minerals were exceptionally hard-hit by the crisis, as these commodities often represent a high share of their GDP, export and

Senegal, and the Seychelles.

government revenues. Consequently, countries such as Angola, Botswana, Equatorial Guinea, and - to a lesser extent - Nigeria experienced some of the most pronounced decelerations in GDP growth in 2009. As a response, some of these countries made use of their leeway for implementing countercyclical monetary and fiscal measures, even though others had to tighten their stance, in light of a sharply deteriorating economic environment limiting their policy options.

In Angola, the collapse of oil revenues led to a deterioration of the balance of payments and the fiscal situation, triggering a fast depreciation of the kwanza, especially between the first quarter of 2009 and the end of that year (see Table 4). Therefore, the central bank

Table 4: Economic indicators of selected Sub-Saharan African countries

	Main export commodities	Commodity price changes (percentages)		Exchange rate changes (percentages)			Change in foreign exchange reserves (percentages)		Change in the trade balance as a percentage of GDP (percentage points)		Change in the fiscal balance as a percentage of GDP (percentage points)	
		Jun 08 to Dec 08	Dec 08 to Dec 09	vis-à-vis	Jun 08 to Dec 08	Dec 08 to Dec 09*	Jun 08 to Dec 08	Dec 08 to Dec 09*	2007 to 2008	2008 to 2009	2007 to 2008	2008 to 2009
Angola[1)]	oil	-68.4	80.3	USD	-0.2	-15.9	13.6	-23.6	-1.3	-21.9	-2.7 (-13.3)**	-16.2 (17.4)**
Botswana[2)]	diamonds	-42.3	81.8	ZAR	3.9	-10.5	-8.8	1.3	-10.0	-9.2	-3.9	-8.3
Equatorial Guinea[1)]	oil	-68.4	80.3	EUR	0.0	0.0	1.8	-14.9	-6.2	-25.1	-1.9 (-14.3)**	-23.3 (-41.2)**
Nigeria[3)]	oil	-68.4	80.3	USD	-11.1	-10.9	-10.4	-13.7	1.0	-12.6	4.8 (-0.5)**	-13.8 (3.8)**
Zambia[4)]	copper	-62.6	124.7	USD	-34.1	4.1	-21.3	133.8	-5.0	4.2	-0.2	-1.5

Sources: IMF, Bloomberg and own calculations.
** or latest data available.*
*** non-oil fiscal balances.*
1) fixed peg.
2) crawling peg.
3) managed float.
4) independent float.

was forced to intervene to stabilize the exchange rate. At the same time, the government was obliged to draw on its foreign currency deposits in light of rising pressures to finance its deficit (IMF, 2009a). Additionally, a system of foreign exchange rationing was put in place between April and October 2009 and monetary policy was actively tightened via increases in the rediscount rate. Lastly, in November 2009, Angola concluded a USD 1.4 billion Stand-By Arrangement with the IMF to alleviate the adverse effects of the crisis.[32]

In Nigeria, lower oil revenues and capital outflows led to a 28% depreciation of the naira against the US dollar between June 2008 and June 2009. Partly as a result of exchange rate interventions, reserves fell to USD 43 billion by July 2009, a 30% reduction in comparison to September 2008. Among other measures, the authorities introduced a retail Dutch auction system and required oil companies and government agencies to sell foreign exchange directly to the central bank rather than in the interbank market. Moreover,

32 For a complete overview of all IMF programmes currently in place in Sub-Saharan Africa, see Annex D.

monetary policy was tightened by raising reserve requirements and redefining the policy rate as the mid-point between the central bank lending rate of 8% and a deposit rate of 4%. On the fiscal side, some oil producers (Angola, Equatorial Guinea) had followed pro-cyclical policies before the downturn, resulting in a deterioration of their non-oil budget balances (see Table 4, previous to last column), thereby limiting their scope to accommodate the crisis' repercussions. Consequently, Angola had to tighten its fiscal stance considerably with the adoption of a supplementary budget in July 2009. Similarly, the scope for public support in Nigeria was hampered by financing constraints (IMF, 2009e). Equatorial Guinea, however, increased its 2009 expenditures as a share of non-oil GDP beyond its pre-crisis plans, despite its already high non-oil deficit (IMF, 2009b). Likewise, in Botswana, a reliance on diamonds, accounting for about three quarters of its total exports and around half of its government revenues (Clausen, 2008), is likely to have substantially contributed to the sharp collapse of its GDP in 2009. As a reaction, the government increased its expenditures by 41% between fiscal year 2007/08 and 2008/09, even though corresponding revenues were improving by only 10%, resulting in a deficit of around 4% of GDP for 2008/09. In addition, monetary policy was eased in the first half of 2009, aiming at stimulating economic activity by several decreases in the bank rate between February and June (Bank of Botswana, 2009). These developments in Botswana, a country that is undeniably one of Africa's success stories, demonstrate that good levels of governance and prudent policy conduct cannot fully compensate for a high level of resource dependence, although they probably put Botswana in a superior position to implement counter-cyclical policies.

By contrast to the aforementioned cases, Zambia recorded an acceleration of growth in 2009 as compared to 2008, even though it was particularly strongly affected at the beginning of the crisis. The swift deterioration of copper prices after the summer of 2008 led to a substantial deterioration of Zambia's trade balance, causing a 36% drop of the kwacha against the US dollar between June 2008 and June 2009. In order to moderate this depreciation, the central bank intervened in the foreign exchange market, resulting in a 27% fall in reserves to USD 952 million between August 2008 and March 2009. At the same time, the government responded to the revenue shortfall and delays in the release of donor funds by restructuring public debt, substituting domestic borrowing by concessional external financing in order to create more leeway for credit extension to the private sector (IMF, 2010g). Nevertheless, a bumper harvests and higher economic activity in mining and construction, particularly the coming on-stream of a new copper mine (IMF, 2010h), helped to ensure the observed increase in output growth in 2009.

5.2 REGIONAL SPILLOVERS AND RELEVANCE OF PRE-CRISIS POLICIES

Several countries have felt the consequences of the crisis via their close regional ties to economies suffering from the downturn or were particularly vulnerable due to an already precarious economic environment before the crisis (see Table 5).

Table 5: Economic indicators of selected Sub-Saharan African countries

	Main export commodities	Commodity price changes (percentages)		Exchange rate changes (percentages)			Change in foreign exchange reserves (percentages)		Change in the trade balance as a percentage of GDP (percentage points)		Change in the fiscal balance as a percentage of GDP (percentage points)	
		Jul 08 to Dec 08	Dec 08 to Dec 09	vis-à-vis	Jun 08 to Dec 08	Dec 08 to Dec 09*	Jun 08 to Dec 08	Dec 08 to Dec 09*	2007 to 2008	2008 to 2009	2007 to 2008	2008 to 2009
Ghana[1)]	cocoa	-19.9	45.4	USD	-15.0	-14.4	n.a.	n.a.	-4.1	15.8	-5.3	4.8
	gold	-7.3	36.4									
Kenya[1)]	coffee	-25.2	-10.9	USD	-16.8	2.5	-16.5	33.7	-2.6	3.0	-0.9	-1.0
	tea	-19.7	63.8									
Lesotho[2)]	n.a.			ZAR	0.0	0.0	n.a.	n.a.	-0.6	-6.7	-5.3	-5.0
Namibia[2)]	uranium	-7.9	-18.2	ZAR	0.0	0.0	5.6	67.4	-5.7	-4.7	-1.9	-6.8
South Africa[3)]	coal	-50.8	5.7	USD	-16.0	26.1	-1.7	15.2	0.5	1.7	-3.1	-4.2
	gold	-7.3	36.4									
	platinum	-59.2	67.3									
Swaziland[2)]	sugar	-6.2	120.0	ZAR	0.0	0.0	-2.8	21.0	3.0	-1.5	-6.0	-7.5

Sources: IMF, Bloomberg and own calculations.
** or latest data available.*
[1)] *managed float.*
[2)] *fixed peg.*
[3)] *independent float.*

Being the financially most globally integrated African economy, South Africa was rapidly affected at the onset of the financial market turmoil, even though its banking sector was hardly exposed to those assets at its core. Nevertheless, sizeable outflows of portfolio investment resulted in declining stock prices and, together with a substantial current account deficit and restrained inflows of other capital, led to a depreciation of the rand by the end of 2008. Following the intensification of the crisis in late 2008, the economy entered recession, triggered by a substantial decline in external demand and the slump in commodity prices, but also partly in reaction to a restrictive monetary policy up to this point. However, in light of South Africa's balanced budget and public debt standing at less than 30% of GDP, the government was able to implement counter-cyclical policies of a magnitude of 4.5% of GDP in fiscal year 2008/09, focusing on infrastructure spending and supporting demand in the short run. Additionally, monetary policy under the inflation targeting regime switched to an accommodating stance by easing key interest rates by 500 basis points between December 2008 and August 2009, thereby assisting an output recovery.

In South Africa's immediate neighbourhood, SACU countries (Botswana, Lesotho, Namibia, and Swaziland) were considerably affected by its downturn. With South

African's imports dropping sharply in the aftermath of the crisis, this affected SACU members via their strong trade links with the customs union's dominant economy[33] and via the loss of a large share of a major income source for their governments, namely the SACU revenue pool which is primarily fed by taxes on South African imports. Nonetheless, SACU authorities continued to raise expenditures, resulting in a sharp deterioration of their fiscal and external positions. In order to bring these back to long-term sustainability, at least Namibia, Lesotho, and Swaziland, being pegged to the rand in the Common Monetary Area, primarily need to rely on fiscal consolidation.

Exposed to several sizeable shocks, Kenya already suffered a downturn in 2008. Against the background of the economy being weakened by the country's political crisis at the beginning of 2008, the subsequent considerable surge in fuel and fertilizer prices further depressed growth. After that, the financial crisis manifested itself in an outflow of private capital and a slowdown of exports, giving rise to substantial exchange rate declines. As a result, official foreign exchange reserves fell by almost USD 800 million (20% of their stock) between mid-2008 and early 2009 (IMF, 2010f). In order to support economic activity, monetary policy was eased by reducing the policy and cash reserve requirement rates by a total of 125 and 150 basis points, respectively, over the course of 2008 and 2009 (IMF, 2010f). Likewise, fiscal policy was counter-cyclical and focused on a reprioritization of expenditure. In addition, Kenya received funds from the IMF's Exogenous Shocks Facility in June 2009, providing the country with a USD 200 million loan to alleviate balance of payment pressures (see Annex D).

Whereas South Africa and Kenya were able to implement expansionary policies, Ghana faced a different situation. Although the cedi depreciated by around 30% against the US dollar between mid-2008 and mid-2009, in line with trends observed for other currencies in Sub-Saharan Africa, this development can probably be explained as much by repercussions of the global economic contraction as by domestic macroeconomic imbalances having emerged prior to the crisis. In fact, Ghana's environment was characterized by major fiscal slippages due to election-related spending in 2008, resulting in a fiscal deficit of 14.5% of GDP, high inflation and a widening current account deficit. Consequently, neither the government nor the central bank could follow expansionary policies, as the latter was forced to tighten its monetary stance in light of second round effects from the commodity price shock in the first half of 2008 affecting the prices of other goods and services and given the pass through of the cedi's fall to domestic prices.

33 Indeed, around 80% of Swaziland's trade in 2007 was conducted with South Africa, with corresponding shares of more than 50% and 40% in Namibia and Botswana, respectively. Data for Lesotho are unavailable.

However, this lack of room for manoeuvre notwithstanding, the country was significantly helped to cushion the impact of the crisis by its improving terms of trade, stemming from consistently high prices for gold and cocoa, its main export products, accounting for a respective one third and one quarter of its total exports.

Box 1

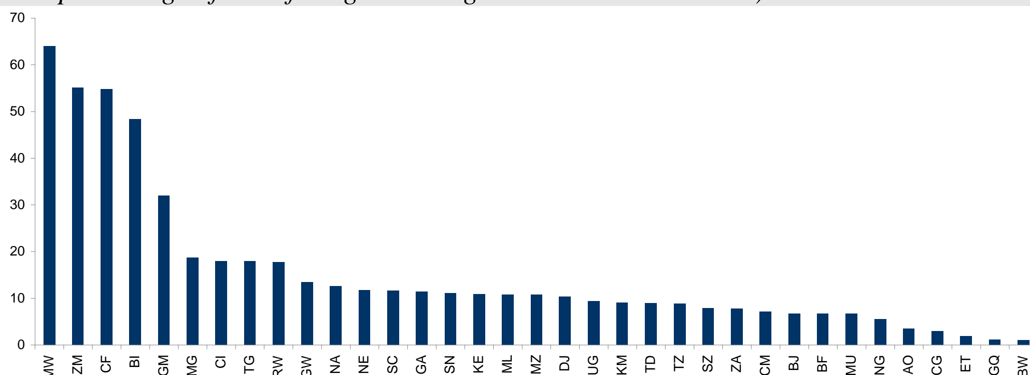
THE ROLE OF MULTILATERAL SUPPORT IN COPING WITH THE CRISIS – THE EXAMPLE OF THE IMF

Next to domestic policy reactions, Sub-Saharan Africa has also been considerably backed by the international community through increased commitments and/or front-loaded disbursements under existing loan agreements in order to help it to cope with the impact of the twin-shocks of briskly rising energy and food prices until the summer of 2008, which was rapidly followed by the global economic crisis thereafter. As an example, the IMF has put a total of USD 5.8 billion at the disposal of Sub-Saharan Africa since May 2008, of which USD 0.3 billion was targeted at alleviating the ramifications of the climb in commodity prices and USD 2.7 billion was meant for addressing challenges related to the deteriorating economic climate. The remainder (USD 2.8 billion) was intended for the implementation of governments' economic programmes, a more general form of support.[1]

Additionally, the IMF globally allocated USD 280 billion of SDRs as a response to the crisis in August 2009, allowing a wide range of Sub-Saharan African countries to substantially improve their reserve positions. Indeed, these payments augmented available foreign exchange reserves of Cote d'Ivoire, Malawi, and Zambia by more than half (see Chart A). For most of the rest of Sub-Saharan Africa, this ratio ranged between 10% and 20%, providing non-negligible assistance for dealing with potential balance of payments pressures.

Chart A: Global general and special SDR allocation by the IMF in August 2009 – impact on Sub-Saharan Africa

(as a percentage of total foreign exchange reserves in June 2009)



Sources: IMF and own calculations.

Lastly, the IMF also enhanced its concessional financing to low income countries. As of September 2009, new commitments to Sub-Saharan Africa reached USD 3 billion, compared with USD 1.1 billion in 2008 and USD 0.2 billion in 2007 (IMF, 2009).

1 See Annex D for a detailed overview of all IMF programmes currently in place in Sub-Saharan Africa.

5.3 IMPROVING TERMS OF TRADE AND COUNTRY-SPECIFIC FACTORS

Next to the countries having been discussed so far, which were affected by the crisis to a significant extent, producers of agricultural commodities appear to have been relatively more resilient to its repercussions, potentially due to a better price performance of their food-related exports in comparison with their energy and fuel-related imports. Moreover, a rather limited integration into the global economy seems to have played to the benefit of some Sub-Saharan African economies in this particular period (see Table 6).

Table 6: Economic indicators of selected Sub-Saharan African countries

	Main export commodities	Commodity price changes (percentages)		Exchange rate changes (percentages)			Change in foreign exchange reserves (percentages)		Change in the trade balance as a percentage of GDP (percentage points)		Change in the fiscal balance as a percentage of GDP (percentage points)	
		Jul 08 to Dec 08	Dec 08 to Dec 09	vis-à-vis	Jun 08 to Dec 08	Dec 08 to Dec 09*	Jun 08 to Dec 08	Dec 08 to Dec 09*	2007 to 2008	2008 to 2009	2007 to 2008	2008 to 2009
Cote d'Ivoire[1)]	cocoa	-19.9	45.4	EUR	0.0	0.0	-9.9	45.0	1.1	4.0	0.2	-1.0
	oil	-68.4	80.3									
Malawi[1)]	tobacco	n.a.	n.a.	USD	-0.1	0.0	17.5	22.3	-6.0	6.9	-0.7	-0.1
Mali[1)]	cotton	-28.0	38.4	EUR	0.0	0.0	-10.3	49.7	-1.8	-0.1	0.0	0.5
	gold	-7.3	36.4									
Togo[1)]	cocoa	-19.9	45.4	EUR	0.0	0.0	3.4	20.9	-1.8	-1.2	1.0	-1.6
	cotton	-68.4	80.3									
Uganda[2)]	coffee	-25.2	-10.9	USD	-16.9	1.3	-14.3	29.8	2.0	-0.9	-1.7	1.0
	gold	-7.3	36.4									
	tea	-19.7	63.8									

Sources: IMF, Bloomberg and own calculations.
** or latest data available.*
[1)] fixed peg.
[2)] managed float.

Indeed, as Cali and Kennan (2009) show, agricultural exporters apparently better resisted the ramifications of the crisis than mineral, fuel and textile exporters, since agricultural goods are generally income inelastic, all the more so because they satisfy primary needs. Additionally, international prices of commodities such as cocoa, tobacco or cotton performed rather well in 2009 (see Table 6). Nevertheless, the global economic downturn was also felt in these countries and often their ability to address its consequences was hampered by fiscal measures that had been implemented to alleviate the impact of the commodity price shock experienced in 2008 on their populations. For example, in WAEMU member states, policies that were taken in reaction to food and energy price increases in 2007-2008 have weakened governments' fiscal position in 2009. Measures resulting in revenue losses included value-added tax decreases or exemptions on several key staples (Burkina Faso, Mali, Senegal) and the suspension or ban of customs duties on certain consumer products (Burkina-Faso, Côte d'Ivoire, Niger, Senegal), next to subsidies on energy products in Senegal or the temporary suspension of the automatic oil price mechanism in Burkina-Faso. Thus, while the slowdown was generally less

pronounced in low-income and fragile economies, it still entailed the risk of being particularly harmful in these countries, against the background of widespread poverty and the potential for policy reversals (AfDB, 2010).

Cote d'Ivoire, despite being a relatively open economy with exports accounting for around 40% of GDP, proved to be largely resilient to the global crisis. With cocoa accounting for about one third of its exports, Cote d'Ivoire benefited from buoyant cocoa prices and from the effect of good rains on agriculture and agro-processing. Moreover, growth also reflected strong activity in the mining, refining, and chemical industries. Being part of WAEMU, the country was additionally supported by the BCEAO's (Banque Centrale des Etats d'Afrique de l'Ouest) accommodative monetary policy stance, adopted in early 2009 with the aim of mitigating the regional-wide impact of the crisis. Nevertheless, tight domestic liquidity conditions made the financing of Cote d'Ivoire's fiscal deficit challenging, especially during the first quarter of 2009, notwithstanding its alignment with its target under the country's IMF programme. These constraints were eased, however, by World Bank and IMF disbursements in April 2009, followed by the Paris Club debt restructuring in May 2009. Finally, the authorities were assisted by supplementary BCEAO funding in the form of the general allocations of SDRs by the IMF amounting to 1.6 percent of GDP being passed on to local authorities which they used in part to substitute for more expensive forms of regional funding (IMF, 2009c).[34]

In Uganda, the slowdown of growth was relatively contained too. Total exports continued to perform strongly, buoyed by a large increase in non-traditional exports, notably agricultural products such as maize and beans, to neighbouring countries. Tentatively, this development might indicate that the country was able to reap some benefits from comparatively high levels of intra-regional integration in the EAC. Following portfolio investment outflows, the shilling fell 25% against the US dollar between mid 2008 and mid 2009 (IMF, 2010d), but later regained some of its losses, against the background of capital outflows tapering off and reversing, in combination with better-than-expected export earnings. Even though the central bank intervened punctually in the foreign exchange market to smooth the exchange rate fluctuations at the beginning of the crisis, it let the exchange rate largely reflect market forces. At the same time, it stepped up its provision of short-term liquidity to banks to mitigate the impact of the shortfall in external financing, temporarily loosening the monetary stance while allowing some drawdown in international reserves. On the fiscal side, a shortfall in fiscal spending due to weaknesses

34 Following a decision by the WAEMU Council of Ministers in September 2009, it was agreed that the BCEAO would lend to WAEMU countries an amount in domestic currency equivalent to the general portion of their SDR allocation, which they could use in turn to clear domestic arrears.

in investment planning limited the impact of the fiscal stimulus initially decided by the authorities (IMF, 2010e).

In Mali, the impact of the global recession has been limited, notwithstanding the economy's general vulnerability to external shocks. In particular, prices for gold, comprising 80% of Mali's exports, remained at elevated levels and the fall of food and oil prices in the second half of 2008 helped to soften the impact of the crisis (IMF, 2010b). Additionally, Mali's external accounts benefited from exceptional inflows of capital, namely USD 400 million from the privatization of the telecommunications parastatal SOTELMA, and USD 100 million from the IMF's allocation of SDRs.

Malawi also weathered the crisis better than expected due to good harvests and an improvement of its terms of trade in 2009. With tobacco accounting for 60% of total exports, high tobacco prices resulted in robust trade revenues. Furthermore, Malawi profited from the revised IMF's Exogenous Shocks Facility, aimed at mitigating the impact of the commodity price shock in 2008, in turn allowing it to follow a rather loose fiscal policy in the run-up to presidential elections in May 2009.

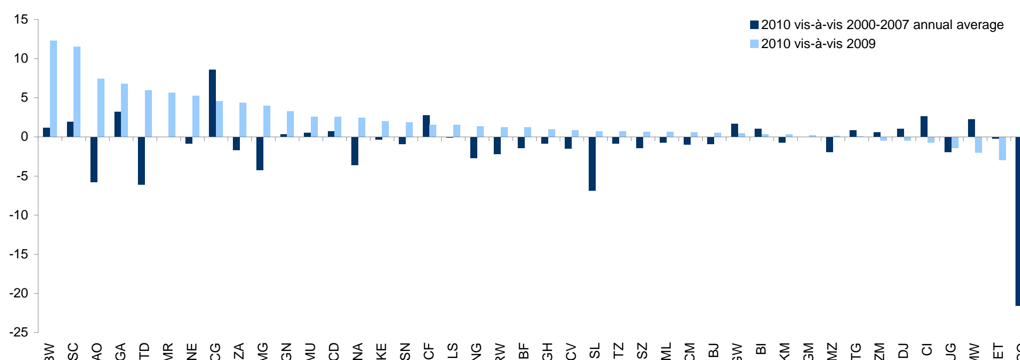
In Togo, growth remained low but did not experience a significant deceleration, although the global recession delayed the recovery from the flood damage and the food price shocks witnessed in 2008. Activity was supported by a counter-cyclical fiscal policy, stable remittances flows and good harvests.

6 SUB-SAHARAN AFRICA AFTER THE CRISIS – SHORT-TERM PERSPECTIVES AND LONG-TERM CHALLENGES

In July 2010, the IMF upwardly adjusted its 2010 growth forecast for Sub-Saharan Africa to 5.0 % from 4.5% before, expecting the continent to recover more quickly from the global crisis than initially estimated, on the back of an ongoing rebound in international trade and the renewed strength in commodity prices (see Chart 12).

Chart 12: Changes in real GDP growth rates

(percentage points)



Sources: IMF and own calculations.

Reflecting this assessment, exports are anticipated to drive this development in most of the region, together with private consumption which is foreseen to remain supportive too, and with investment negatively contributing to GDP in only nine countries. Lastly, government spending is projected to assist GDP growth in close to two thirds of Sub-Saharan African economies, but the necessity to consolidate budgets is likely to come to the fore in the course of 2010 in many instances.

Despite this comparatively positive view about Sub-Saharan Africa's economic outlook in the short-term, it is also evident that its pace of expansion is highly dependent on external factors, such as future trends in world demand and a sustained provision of aid and investment. As a result, the potential of a renewed slowdown and a protracted period of relatively low growth in advanced economies poses a considerable downside risk for Sub-Saharan Africa.

This leads to the question which policies countries in the region could implement in order to reduce their substantial reliance on variables largely beyond their control, particularly to what extent domestic demand may become a more important driver of growth in the future, taking into account that improvements in this respect depend to a large degree on supply side factors. Some of the answers to this question simultaneously highlight some of the key lessons that can be drawn from the impact of the global economic crisis, and the food and energy crisis before it, on Sub-Saharan Africa, as these events have frequently served to vividly accentuate the vulnerabilities the region has traditionally been confronted with, notwithstanding its partly significant progress recorded during the last decade.

6.1 FISCAL ISSUES

With a large share of export and government revenues substantially dependent on the prices and production volumes of a single commodity in many countries, the spike in raw material prices in 2008 and their subsequent collapse has put the need for a prudent management of this source of fiscal income into the spotlight. Additionally, it has also underlined budgetary challenges in economies not benefiting, but suffering from price rises in these goods because they comprise a large share of their imports and – in their processed forms – of their consumption baskets.

Commodity-related wealth raises issues of intergenerational equity and fiscal sustainability in the long run, particularly with regard to non-renewable resources, as well as of macroeconomic management and budget planning in the short to medium term.[35] Saving revenues derived from the exploitation of raw material deposits in the form of financial assets, for example in a sovereign wealth fund, is generally perceived as an effective way to preserve national wealth and to equally distribute it among present and future generations. Additionally, it is also perceived as an effective way to address potential Dutch disease effects that are frequently observed in countries relying on commodity-related exports[36]. However, this policy advocating an approach based on a permanent income rule is sometimes seen as sub-optimal for emerging or developing countries (Brahmbhatt and Canuto, 2010), where devoting a larger portion of resource revenues to high-return public projects, such as infrastructure, education or health, might be a more promising alternative (see also Collier and Venables, 2008). With the majority of the world's least developed economies located in Sub-Saharan Africa, the trade-off implied by this analysis is of paramount relevance, although it has to be emphasised that an economy's capacity to absorb such investments has to be taken into consideration.

In the shorter run, the unpredictability of commodity price fluctuations poses formidable challenges for the conduct of fiscal policy. Indeed, the transfer of cycles in raw material prices to government revenues may result in periods of elevated spending levels, potentially on investments of doubtful value with unsatisfactory returns, followed by phases of considerable fiscal retrenchment, also hampering the implementation of viable projects, overall leading to a lower level of potential growth than could be achieved in a less volatile environment. As a remedy, the establishment of fiscal rules, fiscal responsibility legislation, or the use of budgetary raw material prices is widely encouraged in order to smooth the impact of commodity price cyclicality on government spending

35 For an overview of fiscal challenges in oil-exporting countries, see Sturm et al. (2008).
36 See Das and alii (2009) for a detailed analysis of SWF policy and operational considerations.

(York and Zhan, 2009). In Sub-Saharan Africa, such policies are indeed in place in some economies[37], even though their strict implementation is often lacking and could be strengthened.

In spite of high commodity prices generally being a boon for the vast majority of countries in Sub-Saharan Africa, asynchronous changes in the terms of trade across the continent are common, since many exporters of raw materials are at the same time importers of other commodities. Particularly during the price boom in 2008, many producers of agricultural goods experienced a substantial worsening of their terms of trade, when the rising value of their exports was eclipsed by the cost of their energy imports. Next to worsening their balance of payments position, this development also put significant strains on government finances, insofar as several countries tried to offset potential negative repercussions for their consumers by implementing measures such as price controls, the elimination of import taxes, the lowering of value-added taxes, or the direct subsidisation of food and energy products. While these strategies in some instances appeared to be justified as a short-term solution to protect the most vulnerable parts of the population, in some cases they threatened to undermine fiscal and debt sustainability and subsequently limited the policy options to address the immediately following economic downturn. Consequently, the potential necessity of such measures in specific circumstances notwithstanding, rigorous means-testing is of the essence to determine whether their presumed benefits are not outweighed by their associated costs.

6.2 MONETARY AND FINANCIAL ISSUES

Despite the financial sector being at the core of the crisis in advanced economies, for Sub-Saharan Africa its development to a more advanced stage of intermediation may actually help to improve the capacity of policymakers to more flexibly react to domestic economic conditions and ultimately to achieve higher growth. Indeed, a more developed financial system should enhance the ability of central banks to perform a more sophisticated monetary policy strategy by means of a stronger transmission mechanism.

Furthermore, fostering the deepening of Sub-Saharan Africa's financial systems might also positively affect the capability of governments to rely on domestic sources to meet their funding requirements, considerably enhancing their range of options to react to changes in the economic environment, such as in the case of the recent crisis, when external sources of finance became unavailable at the very moment when they were most in demand. However, these beneficial aspects of increased levels of financial

37 For an overview, see Böwer et al. (2007).

intermediation notwithstanding, the ability of the public and private sector in Sub-Saharan Africa to cover their borrowing needs at home not only hinges on the sophistication of the financial system, but also crucially depends on the availability and mobilisation of domestic savings in many cases.

Next to underlining the importance of financial sector development, the experiences of some emerging and developing countries before and after the crisis have rekindled an interest in the role of capital restrictions as a potential tool to address the possibly destabilising effects of substantial in- and outflows of capital. Indeed, limitations on cross-border transactions and payments may have helped to ally currency volatility, either via outright constraints on foreign purchases of certain financial instruments or through price-based measures like taxes on selected inflows (Ltaifa, Kaendera and Dixit, 2009). Similarly, recent research[38] has explicitly singled out capital controls as a legitimate component of the policy response to surges in capital inflows, even though it should be considered as a temporary measure of last resort – in light of its potentially adverse repercussions - in cases of strong currency appreciation pressures or an inflationary environment impeding the ability of monetary policy to lower interest rates [39].

6.3 STRUCTURAL ISSUES

With the World Bank estimating that the global economic downturn and the preceding food and energy price shocks will have left an additional 90 million people in extreme poverty by the end of 2010 and will have resulted in 30,000 to 50,000 additional infant deaths in Sub-Saharan Africa in 2009 (Friedman and Schady, 2009), the crisis serves as a stark reminder that, next to monetary and fiscal issues, it also imposes extraordinary human costs in terms of lower income and consumption levels, higher unemployment, drops in investment in education, and a deterioration of health and nutrition. These developments also put Sub-Saharan Africa’s resilience during the crisis in comparison with other emerging economies and its relatively quick recovery when measured by standard macroeconomic indicators into perspective.

Indeed, while addressing the factors presented in the previous two sections may also contribute to alleviate some of the human costs of the crisis, most of these issues do additionally call for accelerated structural reform and a re-prioritisation of policies. First, a diversification of Sub-Saharan Africa’s economic base, away from an often exclusive reliance on commodity production and exports and towards output of a higher value-added

38 See Ostry et al. (2010).

appears to be key to make economic activity and fiscal and monetary policy more independent from the vagaries of the global demand for raw materials and fluctuations of their prices on international markets, ultimately guaranteeing a more stable pace of development. To achieve this goal, an important related issue to be addressed in this respect is whether Sub-Saharan Africa should rely on the development of a competitive export sector for its long-term progress, considering the potential difficulties with this approach in light of other emerging markets' comparative advantages and a non-negligible risk of an extended period of more subdued global demand, or whether the continent should rather focus on an import substitution strategy in a regional context at a first stage. However, independently of the answer to this question, a second prerequisite for Sub-Saharan Africa's advancement is further improvements to the business environment through better enforcement of property rights and good governance, thereby encouraging private sector activity and fostering investment. In fact, against the background of progress achieved so far, investments in Sub-Saharan Africa might have especially beneficial effects at the current point in time[40], since they would not only help to safeguard the advancements made to date, but may potentially lift the region to a higher level of development, lastly contributing to reaching the Millennium Development Goals. Third, as the energy and food price shocks in 2008 have demonstrated, there is an urgent need to address issues of food security and supply-side constraints in Sub-Saharan Africa. As a result, investment in agriculture and in infrastructure, particularly in energy and transport, is an indispensable precondition for attaining a permanently higher growth trajectory in the region. Finally, the crisis has shown some tentative signs that regional integration might actually reinforce the resilience of economies to external shocks, such as in the case of Uganda, although a lack of well-designed rules may also entail potentially harmful outcomes for member states of regional arrangements, as demonstrated by the SACU countries. Indeed, SACU's heads of state and government meeting in July 2010 agreed to review the revenue sharing arrangement, as the shortfall of income registered in the wake of the crisis highlighted several shortcomings of the current formula, most notably the high dependence on economic activity in South Africa.

39 For a comprehensive overview of the policy dilemmas emerging economies are facing in this context, see also BIS (2010).

40 See for example Collier and Warnholz (2009).

7 CONCLUSIONS

Even though the consequences of the global downturn have been felt on a considerable scale in Sub-Saharan Africa, the scope and size of its impact has varied widely across the region. Next to country-by-country differences in economic structures, the circumstances under which individual countries entered the crisis, such as the difficult political environment, also played a non-negligible role.

Despite the widely-spread repercussions of the "*Great Recession*" in Sub-Saharan Africa, our analysis of the magnitude of the observed swings in macroeconomic variables reveals that, in contrast to advanced economies, comparable fluctuations in Sub-Saharan Africa, albeit large, are not exceptional and often in line with those witnessed in the recent past. Additionally, the present slowdown also reflects domestic factors to a certain extent, like pre-crisis political developments or macroeconomic policies, rather than contagion *per se*. In many instances, these have significantly shaped the scope of possible responses, both in a positive and negative manner.

As a result, many of the policy recommendations Sub-Saharan Africa can draw from the recent crisis do not radically deviate from those in place before. Particularly the management of commodity resources remains a challenge and a priority for countries relying on a single product. Moreover, efforts to diversify the economy, supported by the necessary reforms of the economic and business environment and further regional trade and financial integration, appear to be of the essence in order to alleviate possible future external shocks and preserve macroeconomic stability.

Nevertheless, similar to the food and energy crisis, the financial crisis also re-emphasises some new lessons, such as the necessity to back growth prospects by re-defining sectoral priorities, for example by focusing on infrastructure and agricultural supply. Lastly, new challenges might also emerge, such as the persistence of financing constraints for developing economies after the easing of the crisis, in particular in light of budget consolidation efforts in many donor countries, or the exposure of domestic financial sectors to systemic shocks, potentially requiring a re-focusing of policy priorities.

ANNEX A SUB-SAHARAN AFRICAN COUNTRIES SUBJECT TO A FALL IN MERCHANDISE EXPORTS

Countries are classified into three groups according to the average share of merchandise exports in a country's GDP between 2000 and 2009. A fall in merchandise exports is defined as a drop in the export to GDP ratio below its 2000-2007 average in either 2008 or 2009. In case this decline is larger than one standard deviation the country is highlighted in bold print.

larger than 40% of GDP		between 25% and 40% of GDP		between 10% and 25% of GDP	
(2008)	(2009)	(2008)	(2009)	(2008)	(2009)
	Angola	Botswana	**Botswana**		Cameroon
	Chad		Guinea	**Central African Republic**	**Central African Republic**
Congo	**Congo**	**Mauritius**	**Mauritius**	**Gambia**	**Gambia**
Cote d'Ivoire		Nigeria	**Nigeria**		Guinea-Bissau
Equatorial Guinea	**Equatorial Guinea**		South Africa		**Kenya**
	Gabon			**Madagascar**	**Madagascar**
	Lesotho				Mali
Swaziland	**Swaziland**				Mozambique
				Senegal	**Senegal**
				Sierra Leone	Sierra Leone
				Togo	Togo

Sources: IMF and own calculations.

ANNEX B: SUB-SAHARAN AFRICAN COUNTRIES SUBJECT TO A FALL IN CAPITAL FLOWS

Countries are classified into three groups according to the average share of the respective (net) capital flow in a country's GDP between 2000 and 2009. A fall in one of these variables is defined as a drop of this GDP ratio below its 2000-2007 average in either 2008 or 2009. In case this decline is larger than one standard deviation the country is highlighted in bold print.

Net foreign direct investment

larger than 10% of GDP		between 5% and 10% of GDP		between 1% and 5% of GDP	
(2008)	(2009)	(2008)	(2009)	(2008)	(2009)
Equatorial Guinea	Equatorial Guinea		Cape Verde	Angola	Angola
Mauritania	**Mauritania**	Gambia			Botswana
		Zambia	**Zambia**	Burkina Faso	Burkina Faso
				Cameroon	**Cameroon**
					Cote d'Ivoire
				Guinea-Bissau	Guinea-Bissau
					Kenya
					Lesotho
				Mali	
				Nigeria	**Nigeria**
				Sierra Leone	Sierra Leone
					Swaziland
				Tanzania	**Tanzania**
				Togo	**Togo**

Net factor income

larger than 10% of GDP		between 5% and 10% of GDP		between 1% and 5% of GDP	
(2008)	(2009)	(2008)	(2009)	(2008)	(2009)
Angola	Angola	**Congo, Democratic Rep.**	Congo, Democratic Rep.	Cape Verde	Cape Verde
Gabon		Guinea			Ghana
Chad		**Seychelles**	**Seychelles**		Malawi
		Zambia	Zambia	Sierra Leone	
				South Africa	
				Swaziland	**Swaziland**
				Togo	Togo

Net current transfers (private)

larger than 10% of GDP		between 5% and 10% of GDP		between 1% and 5% of GDP	
(2008)	(2009)	(2008)	(2009)	(2008)	(2009)
Cape Verde	**Cape Verde**	Togo	Togo	**Benin**	**Benin**
Ghana	Ghana		Guinea-Bissau	Chad	
Nigeria	Nigeria	Gambia	Gambia	Gabon	Gabon
			Guinea		Madagascar
			Kenya	**Mauritania**	Mauritania
				Rwanda	Rwanda
				Sierra Leone	Sierra Leone

Net current transfers (official)

larger than 10% of GDP		between 5% and 10% of GDP		between 1% and 5% of GDP	
(2008)	(2009)	(2008)	(2009)	(2008)	(2009)
	Burundi		**Cape Verde**	Central African Republic	Central African R
Rwanda	Rwanda	Ethiopia	Ethiopia	**Chad**	**Chad**
			Malawi	**Djibouti**	**Djibouti**
		Sierra Leone	Sierra Leone	Gambia	Gambia
		Uganda	**Uganda**	Madagascar	**Madagasca**
				Mali	
				Mauritania	**Mauritania**
				Niger	**Niger**
				Senegal	**Senegal**
				Tanzania	Tanzania

Sources: IMF and own calculations.

ANNEX C: MONETARY POLICY AND EXCHANGE RATE FRAMEWORKS IN SUB-SAHARAN AFRICA (AS AT 30 APRIL 2008)

	Monetary Policy framework						
	Exchange rate anchor				Monetary aggregate target	Inflation targeting framework	other
Exchange rate arrangement	U.S. dollar	Euro	Composite	Other			
Currency board arrangement	Djibouti						
Conventional fixed peg arrangement	Angola	Benin		Lesotho	Malawi		
	Malawi	Burkina Faso		Namibia	Rwanda		
	Rwanda	Cameroon		Swaziland	Sierra Leone		
	Seychelles	Cape Verde					
	Sierra Leone	Central African Rep.					
		Chad					
		Comoros					
		Congo					
		Cote d'Ivoire					
		Equatorial Guinea					
		Gabon					
		Guinea-Bissau					
		Mali					
		Niger					
		Senegal					
		Togo					
Crawling peg	Ethiopia		Botswana				
Managed floating with no pre-determined path for the exchange rate	Mauritania				Burundi	Ghana	
	Mauritius				Gambia		
					Guinea		
					Kenya		
					Madagascar		
					Mozambique		
					Nigeria		
					Tanzania		
					Uganda		
Independently floating					Zambia	South Africa	Congo, Democratic Rep.

Source: IMF.

ANNEX D: IMF PROGRAMMES IN SUB-SAHARAN AFRICA (AS AT AUGUST 2010)

	(1)	(2)	(3)	(4)	(USD million)	Date of approval	Date of expiration	Objective
Stand-By Arrangements (SBA)								
Angola				√	1400.0	Nov-09	Feb-12	to restore macroeconomic balances and rebuild international reserves
Gabon	√				117.3	May-07	May-10	to support the government's economic program
Seychelles		√			26.1	Nov-08	Dec-09	to support the government's economic reform
Extended Fund Facilities (EFF)								
Seychelles		√			31.1	Dec-09	Dec-12	to support the government's economic program
Exogenous Shocks Facility (ESF)								
Cameroon				√	144.1	Jul-09	ESF-RAC*	to cope with commodity price shocks
Congo, Democratic Republic				√	195.5	Mar-09	ESF-RAC*	to rebuild international reserves and to adjust for deteriorating terms of trade
Ethiopia			√		50	Jan-09	ESF-RAC*	to mitigate the impact of higher fuel, fuel and fertilizer prices on its balance of payments
				√	240.6	Aug-09	Oct-10	to cope with the effects of the global economic crisis on its balance of payments
Kenya			√	√	209.0	Jun-09	ESF-RAC*	to rebuild international reserves
Malawi			√		77.0	Sep-08	Dec-09	to adjust for the terms of trade shock owing to increases in fuel and fertilizer prices
Mozambique				√	176.0	Jun-09	Jun-10	to cushion the country from the effects of the global economic downturn
Senegal			√	√	186.0	Dec-08	Jun-10	to cope with the repercussions of the food crisis and to help finance the balance-of-payments impact of the global economic crisis
Tanzania				√	336.0	May-09	Jun-10	to rebuild international reserves and provide balance of payments support
Extented Credit Facility (ECF)								
Benin	√				9.1	Aug-05	Jun-09	to support the government's economic program
				√	109.0	Jun-10	Jun-13	to support the government's economic program
Burkina Faso	√				9.2	Apr-07	Apr-10	to support the government's economic program
				√	67.7	Jun-10	Jun-13	to support the government's economic program to enhance growth prospects and proverty reduction efforts
Burundi		√	√		75.6	Jul-08	Jul-11	to support the government's economic programme, to consolidate macroeconomic stability and to cope with commodity price shocks
Central African Republic	√				107.5	Dec-06	Dec-10	to support the government's economic program
Congo		√			12.5	Dec-08	Dec-11	to support the government's economic program
Cote d'Ivoire		√			565.7	Mar-09	Mar-12	to support the government's economic program
Djibouti		√			20.0	Sep-08	Sep-11	to support the government's economic program
Congo, Democratic Republic		√			551.5	Dec-09	Dec-12	to support the government's economic program
Gambia	√			√	37.3	Feb-07	Feb-11	to support the government 's economic program. extension for one year of the ECF arrangement in Feb-10
Ghana		√			602.6	Jul-09	Jul-12	to support the government's economic program and to address macroeconomic imbalances
Guinea	√		√		110.1	Dec-07	Dec-10	to support the government 's economic program. In 2008 augmentation in the arrangement to help to cope with rising food and fuel prices.
Guinea-Bissau		√			33.3	May-10	May-13	to support the government's economic program
Lesotho				√	61.4	Jun-10	Jun-13	to support authorities adjustment program and help reduce balance of payments risks
Liberia		√			391.0	Mar-08	Mar-11	to support the government's economic program
Madagascar	√		√		119.7	Jul-06	Jul-09	to support the government's economic program. Access augmented in 2008 to cope with rising food and oil prices.
Malawi		√			79.4	Feb-10	Feb-13	to support authorities economic program
Mali			√		45.7	May-08	May-11	to cope with commodity price shocks
Mauritania	√				24.2	Dec-06	Nov-09	to support authorities economic program
			√	√	118.1	Mar-10	Mar-13	to support economic growth and fiscal position that have been weakened by the global fuel & food crisis in 2007-08 and subsequent financial crisis in 2008-09
Niger		√			37.5	Jun-08	Jun-11	to support the government's economic program
Rwanda	√				12.0	Jun-06	Jun-09	to support the government's economic program
Sierra Leone	√			√	75.8	May-06	Jun-10	to support the government's economic program. Augmentation access under the arrangement approved in 2009 to help support international reserves
		√			45.4	Jul-10	Jun-13	to support the government's economic program
Togo		√	√		140.8	Apr-08	Apr-11	to support the government's economic program. Increase in financial support in sept-08 to cope withe global price shocks and flooding.
Zambia		√		√	329.7	Jun-08	Jun-11	to support the government's economic program. Increase in financial support in may-09 to cope with the effects of the global economic crisis

Source: IMF.

** Exogenous Shocks Facility-Rapid Access Component.*

IMF programmes that are (1) pre-crisis, (2) post-crisis, but not crisis-related, (3) post-crisis, related to the 2008 commodity price shock, (4) post-crisis, related to the global economic crisis.

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