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Assessing Macroeconomic Impacts and Development Prospects

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—Impact on and Development Prospects for Africa—

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The Global Financial Crisis and Recession: Impact on and Development Prospects for Africa

Jean-Claude Maswana[*]

Abstract

This article analyzes how the global financial crisis is affecting African economies and identifies risks ahead with respect to prospects for development. Preliminary assessment shows that the aftershocks of the global meltdown have affected African economies through declines in exports of primary commodities and the relative price of exports, capital inflows, and investment in the infrastructure on which future growth depends. In addition, government revenues are dwindling. Combined with rapidly rising unemployment, the decline has weakened the fragile safety net and caused living standards in most countries to deteriorate. The global recession has served as a reminder that African success stories are still very fragile. The ongoing global rebalancing may negatively affect economic growth prospects in Africa. Short-term policy should therefore focus on expanding fiscal space, rehabilitating physical infrastructure using labor-intensive techniques, and providing social safety nets, such as employment protection. The challenge for Africa should not consist simply of ensuring that national economies return to the precrisis commodity export–led type of growth but that the drivers of growth switch to a more value chain–based and intra-African trade–driven pattern. Addressing the challenges of African postcrisis development requires policies that strengthen the resilience of African economies to external shocks, by investing massively in infrastructure.

Keywords: Global financial crisis, recession, development, Africa, current account adjustment

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Introduction

What began as subprime mortgage turbulence in the United States in 2007 turned into a world financial crisis and economic recession in developed economies in 2008 before unfolding as a development crisis in Africa in 2009.[1] These three facets of the current global financial and economic turmoil are symptomatic of certain underlying globoeconomic imbalances that have marked the world economy in recent years.[2] These imbalances were manifested during a period of high world demand for African commodity exports. That demand drove annual economic growth in Africa to 5.7% in 2000–08, well above the world average. When the global financial system collapsed, however, Africa's economic growth declined with it.

These events have raised many questions for African policymakers and development practitioners. What have been the economic consequences of the crisis on Africa? Where does Africa now stand? Given the weaknesses highlighted by the crisis, what countermeasures should be adopted to mitigate the impact of the recession while bolstering the deep-rooted structural fragilities of African economies? How will deeper global rebalancing and corrections affect African development prospects?

With regard to both the immediate impacts and the long-term risks of the world financial crisis, the case of Africa deserves particular attention, for three reasons. First, the high level of poverty at the start of the crisis made it difficult for governments to weather the shocks. Second, Africa depends more heavily on foreign assistance than other regions (Naude 2009), which makes African countries—regardless of their income levels—inherently fragile in the face of a global recession. Third, unlike in many other regions that have also been adversely affected, in Africa the shocks of the crisis may imply longer-term difficulties, because Africa is not only unusually exposed to external shocks, it is also unusually bad at coping with them (Collier 2002).

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[1] Unless otherwise indicated, "Africa" refers to Sub-Saharan Africa.

[2] *Globoeconomics* is the study of macroeconomic variables and policies of a nation, a region, or the world as a whole as they influence or are influenced by macroeconomic variables and policies of other nations or regions as a result of globalization (Griffin and Khan 1992).

The growing preliminary assessment of the impact of the global crisis on Africa (see, for example, AfDB 2009a, 2009b; IMF 2009b, 2009d) ignores or pays insufficient attention to the downside risks. Historically, African growth projections after major crises have tended to be overly optimistic, based on the belief that once the external root causes of a crisis have disappeared, Africa's economic growth will return to business as usual (Naude 2009). Based on such false premises, ill-conceived policies have often been implemented in Africa (Easterly 2001; Rosnick and Weisbrot 2007).

The purpose of this article is to focus attention on the insufficiently explored aspects of the global financial crisis and recession. It assesses the losses suffered with respect to the financial sector, economic growth, the current account, fiscal positions, capital flows, and the social sector in a sample of African countries, paying particular attention to downside risks and mitigation policies. The sample of countries studied comprises three middle-income countries (Botswana, Mauritius, and South Africa) and nine low-income countries (Cameroon, Côte d'Ivoire, the Democratic Republic of Congo, Ghana, Kenya, Nigeria, Senegal, Tanzania, and Zambia). It includes both oil and nonoil exporters. The study provides diverse policy options suitable for countries with different income levels and natural resource endowments.

The rest of the article is structured as follows. Section 2 provides an overview of the effects of the global financial storm on African financial markets and capital inflows. Section 3 assesses the impact of the crisis on African economic growth. Section 4 looks at the trend in external accounts and associated downside risks. Section 5 covers the government sector and fiscal positions. Section 6 discusses the impact of the crisis on the social sector. Section 7 summarizes the study's major findings and presents recommendations on the general direction of policies that African governments and key international partners may want to adopt.

1. The global crisis and African financial markets

1.1 Financial markets

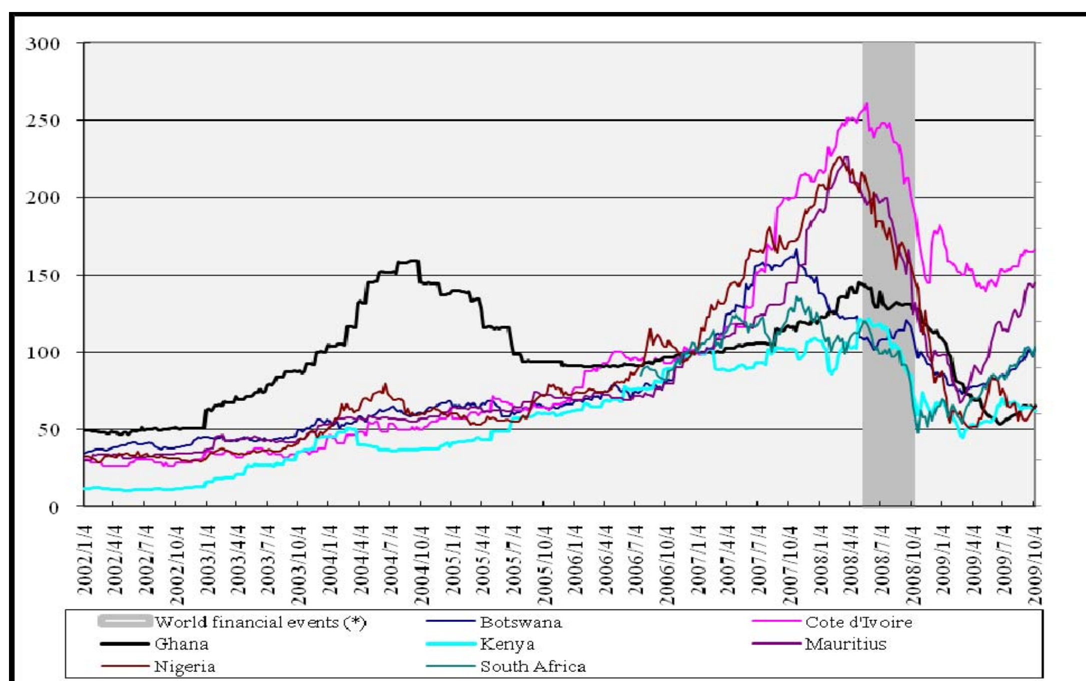
Africa represents only a small share of global financial markets, with just 1.3% of world stock market capitalization, 0.8% of bank assets, and 0.2% of debt securities, (AfDB 2009). In terms of financial indicators, the effects of the global crisis may seem rather small compared with those in developed countries.

In fact, the impact of the global financial turmoil on mostly infant African financial markets was immediate. For example, the S&P Broad Market Index (BMI)—a market capitalization-weighted index that measures publicly traded companies—crashed in major African markets beginning in July 2008 and plunged further two months later (Figure 1).

According to the Bank of Ghana (2009a), market capitalization in Ghana dipped just 2% between December 2008 and June 2009. By the end of the third quarter of 2009, the Ghana Stock Exchange All-Share Index had fallen by 49%, down from a 56% gain over the same period in 2008. By the end of the first quarter of 2009, the largest declines recorded in African markets were in Nigeria (62%), Kenya (51%), and South Africa (47%) (Table 1). By early October 2009, equity index losses (with respect to July 2008 levels) remained deep on the Ghanaian, Nigerian, and Kenyan markets; other markets regained significant momentum since the record lows of March 2009.

The bond markets in some African countries were also affected by the crisis, because of adverse changes in spreads. Foreign investors reduced their bond holdings and shifted toward shorter maturities. The fall in the South African bond market—by far the most highly developed bond market on the African continent—was minor, however; by October 2009 the South African bond index had almost recovered from its recent low level reached in October 2008.

Figure 1. S&P Broad Market Index in Selected Africa Countries 2002–09



Source: Thomson Reuters 2009.
(*) Bailout of Fannie Mae and Freddie Mac (July) and Collapse of Lehman Brothers (September).

Table 1. Changes in equity prices in selected African countries, 2008–09

Country	*Equity index*	*Price July 31, 2008 (US$)*	*Price March 16, 2009 (US$)*	*Percentage change between July 31, 2008 and March 16,, 2009 prices*	*Price October 12, 2009 (US$)*	*Percentage change between July 31, 2008 and October 12, 20009 prices*
Botswana	S&P Botswana BMI	391.6	260.0	–33.6	351.1	–10.3
Ghana	S&P Ghana BMI	384.8	219.0	–42.9	193.5	–49.7
Côte d'Ivoire	S&P Côte d'Ivoire BMI	1.39	0.85	–38.8	0.93	–33.0
Kenya	S&P Kenya BMI	8.47	4.1	–51.1	4.91	–42.0
Mauritius	S&P Mauritius BMI	21.7	8.1	–62.7	16.7	–23.1
Nigeria	Nigeria All Share	450.9	140.9	–68.7	156.0	–65.4
South Africa	FTSE/JSE South Africa All Share	3795.2	2001.2	–47.2	3,508.5	–7.5

Source: Authors' calculations based on data from Thomson Reuters 2009.

African banks have been spared the direct and dire effects of the global financial crisis, thanks not only to their degree of leverage but also to their off-balance-sheet risk exposures, which

were much lower than those of failed banks in other countries. Unlike in Europe and the United States, in African countries such as South Africa the interbank market has worked normally, capital adequacy ratios have remained strong, and no bank has had to approach the central bank for extraordinary assistance (Mboweni, 2009).

Yet, banks have felt the impact of the global financial crisis indirectly, through higher funding costs. These costs, however, are also attributable to the negative impact of lower real economic activity on borrowers following years of high credit growth. Nigeria's banking sector, in particular, was affected by a drop in confidence as oil revenues fell, reducing commercial bank deposits (Mhango 2009). The banking sector has been exposed to a rising default risk from clients operating in export-oriented sectors. The resulting slowdown in bank lending has further amplified the effects of the export sector's weak contribution to economic growth.

1.2. Capital inflows

The contraction of capital inflows to Africa has been severe in both magnitude and impact. In many African countries, the ongoing financial meltdown has altered the investment climate and forced governments to suspend vital infrastructure projects. Ghana, Kenya, Senegal, and Tanzania put on hold plans to access international capital markets, and Ghana and Kenya postponed sovereign bond issues worth about US$800 million (AfDB 2009a). Even Botswana's Morupule B coal-fired power plant was delayed. Meanwhile, spending on infrastructure upgrades and maintenance were falling off, increasing the infrastructure deficit throughout the region.

African countries suffered from low capital inflows from private sources as a result of the deleveraging process taking place at major international financial institutions. Deleveraging destroys existing debt while limiting the capacity for further credit creation on the part of financial institutions. During the first quarter of 2009, foreign direct investment (FDI) inflows were very low in Ghana and Mauritius but had rebounded in South Africa (Table 2).

Table 2. Quarterly FDI Inflows and Outflows in Ghana, Mauritius, and South Africa, First Quarter 2008–First Quarter 2009 (millions of US dollars)

	FDI inflows					FDI outflows				
	2008:Q1	2008:Q2	2008:Q3	2008:Q4	2009:Q1	2008:Q1	2008:Q2	2008:Q3	2008:Q4	2009:Q1
Ghana	132	205	1361	422	372	2	1	1	1	8
Mauritius	60	70	122	126	39	19	15	7	12	6
South Africa	5642	793	2879	328	1175	940	360	1496	–5113	439

Source: UNCTAD 2009b.

In line with general trends in private capital flows to Africa, preliminary data indicate that official development assistance (ODA) flows into Africa were negatively affected by the global financial storm in 2009, and may continue to be negatively impacted in 2010. Prospects for higher aid –even under the Gleneagles commitment for Africa– remain uncertain insofar as donor countries continue to face fiscal constraints and are preoccupied with domestic concerns. Yet, most major donor nations, including China and Japan, have pledged to maintain their precrisis aid commitments to Africa. Only a handful of donors, including France, Iceland, and Italy, have reduced bilateral foreign assistance because of the crisis. The global flow of foreign aid may nevertheless drop in 2011 and 2012, as developed countries experience continued fiscal strains and political pressures to balance budgets (Arieff et al. 2009).

Overall, thanks to conservative banking practices and the limited exposures to the toxic assets that drove the crisis, Africa has weathered the financial meltdown without massive bank runs or stock collapses and without significant capital flight. Yet, although some African financial markets had recovered slightly by the end of the second quarter of 2009, falling equity prices, the drying up of capital inflows (both FDI and official development assistance), credit tightening, and disruptions in financing of trade are all negatively affecting the real sector and aggregate output.

2. Aggregate output

Real per capita annual GDP growth in Africa averaged 4.8% in 2007 and 3.1% in 2008

before contracting 0.9% in 2009, as a result of the global financial crisis and recession (Table 3). The impact of the global recession on African economies deepened in the last quarter of 2008 and the first quarter of 2009, with output contracting sharply.

Table 3. Real per Capita GDP Growth in Selected African Countries and Country Groups, 2007–10 (percentage change)

Country/country group	*2007*	*2008*	*2009**	*2010***
Botswana	3.5	1.8	–11.4	2.9
Cameroon	0.4	0.1	–1.2	0.2
Congo, Dem. Rep. of	3.2	3.1	–0.3	2.3
Ghana	3	4.6	1.9	2.4
Côte d'Ivoire	–1.4	–0.7	0.7	1
Kenya	5.2	–0.1	0.7	2.2
Mauritius	3.6	5.7	1.3	1.2
Nigeria	4.1	3.1	0.2	2.2
Senegal	2.3	0.1	–0.8	1
South Africa	4.1	1.3	–3.2	0.6
Tanzania	5	5.3	2.9	3.6
Zambia	9.5	3.8	2.6	3.1
Africa	4.8	3.1	–0.9	1.9
CFA Franc Zone	1.8	1.4	–0.8	1.0
Common Market for Eastern and Southern Africa (COMESA)	8.6	6.0	0.7	3.5
East African Community	5.0	3.4	2.2	2.7
Economic Community of Central African States (CEMAC)	3.1	1.6	–1.8	0.8
Southern African Development Community (SADC)	5.8	3.1	–2.4	1.8
West African Economic and Monetary Union (WAEMU)	0.6	1.2	0.3	1.1
Low-income countries	4.9	4.4	2.0	2.5
Middle-income countries	4.0	1.4	–3.4	0.8
Coastal countries	4.1	1.8	–1.8	1.1
Landlocked countries	5.0	5.9	2.6	2.9
Fragile countries	0.4	0.9	–0.1	1.1

Source: IMF 2009b.
(*) Estimates
(**) Projections

Regardless of their past economic performance, all African countries have been affected by the global economic crisis. For instance, Botswana, one of the region's best performers, saw its GDP shrink 20% in the first quarter of 2009. Compared with the last quarter of 2008, real GDP fell 22%. The decline was attributed to decreases in the mining and quarrying industry, as well declines

in trade and hotels. Despite its sound and prudent macroeconomic management, Botswana experienced sharp drops in industrial production and a dramatic 11.4% decline in GDP growth in 2009. Even in South Africa—the regional powerhouse, where annual GDP growth averaged about 5% between 2004 and 2007 —the growth rate declined to 1.3% in 2008, with a contraction of 3.2% projected for 2009. The Democratic Republic of Congo suffered a sharp fall in output in the second half of 2008, with GDP shrinking 1.8% in the third quarter and 1.4% in the fourth quarter. The change in output was even worse in the first quarter of 2009 (–4.6%); in the second quarter, output fell 1.3% (Central Bank of the Congo 2009).

Economic growth in Africa was initially projected to plunge to 3% in 2009, down from 6% in 2008 (IMF 2008). The April 2009 projections by the International Monetary Fund (IMF) suggested that growth would dip to 2.8% in 2009, for the first time since 2002 (IMF 2009c). Its May projections indicated a 2009 growth rate for Africa of just 1.5%—less than the rate of population growth—because of the slump in commodity prices and the credit squeeze. The September forecast by the United Nations Conference on Trade and Development (UNCTAD) projected a 1.8% decline in output in Africa in 2009 (UNCTAD 2009a). Once again departing from its own overly optimistic projections, on October 1, 2009, the IMF finally admitted that the global economic crisis was hitting low-income countries harder than anticipated.

The impacts of the crisis have varied widely across income levels and subregions. Middle-income countries have faced the largest GDP declines, mainly as a result of their exposure to international trade. Low-income and landlocked countries have also been severely affected, albeit less than their middle-income counterparts (see Table 3). Fragile countries have recorded a moderate yet significant decline in per capita GDP growth.

The decline in per capita GDP growth has been larger in the Southern African Development Community (SADC) and the Economic Community of Central African States (CEMAC) than in the Common Market for Eastern and Southern Africa (COMESA) and the East African Community. In fact, as Table 3 shows, the East African Community has shown some resilience, probably as a result

of the only moderate decline in commodity prices of primary exports (agricultural products, coffee, tea etc.) of its member countries. The largest declines in per capita GDP growth were experienced in nonoil countries, which contracted by 2.7%, and resource-intensive countries, which contracted by 1.1%, in 2009 (Table 4).

Table 4. Growth in Real per Capita GDP in Africa, by Country Type
(annual percentage change)

Country type	*2007*	*2008*	*2009**	*2010***
Non-oil exporting	2.4	1.3	-2.7	1.7
Oil-exporting	6.2	4.1	-0.8	2.7
Oil-importing	4.1	2.6	-1.0	1.5
Non-resource-intensive	4.3	2.7	-0.8	1.5
Resource-intensive	5.6	3.7	-1.1	2.5

Source: IMF 2009b.
(*) Estimates
(**) Projections

To provide at least a rough estimate of the cost of the crisis on selected African economies' aggregate output, the authors compared actual changes in GDP against projections. Although subject to the accuracy of the IMF's economic projections, which were made before the onset of the global financial crisis, these estimates provide a rough indication of how much the crisis has affected economic growth performance in Africa. As illustrated by differences in growth projections for 2009 compared with those for earlier years, Africa as a whole has seen a projected decline in output of 5.1 percentage points, with the largest losses recorded by oil- and extractive sector–dependent economies such as Botswana (–14.9 percentage points), the Democratic Republic of Congo (–7.6 points), South Africa (–5.5 points), and Nigeria (–5.2 points) (Table 5). Although these calculations are mere indications, they illustrate the possible magnitude of the effects of the crisis on African economies.[3]

[3] Perhaps most important, they project that the cost of the reduction in output will translate into a decline of about 20% in per capita income, the equivalent of US$46 per person per year (UNESCO 2009).

Although firm data are still not available, one cannot help but relate this sudden and brutal fall in output to some of Africa's structural problems, such as the region's inability to cope with external shocks (see Collier 2002). Theoretically, regional markets provide alternative sources of demand, but the high transport costs caused by infrastructure problems render the continent's exports less competitive, even in neighboring countries' markets (Fleshman 2009).

Table 5. Differences between Projected and Actual Real GDP Growth in Selected African Countries, 2008 and 2009 (percent)

	2008			*2009*		
Region/country	*Projected GDP*	*Actual GDP*	*Difference between actual and projected GDP*	*Projected GDP*	*Actual GDP*	*Difference between actual and projected GDP*
Africa	6.9	5.5	–1.4	6.2	1.1	–5.1
Botswana	5.2	2.9	–2.3	4.6	–10.3	–14.9
Cameroon	5.3	2.9	–2.4	4.6	1.6	–3.0
Congo, Dem. Rep. of	8.4	6.2	–2.2	10.3	2.7	–7.6
Ghana	6.9	7.3	0.4	5.8	4.5	–1.3
Côte d'Ivoire	3.8	2.3	–1.5	4.7	3.7	–1.0
Kenya	6.5	1.7	–4.8	6.4	2.5	–3.9
Mauritius	4.7	6.6	1.9	6.2	2.1	–4.1
Nigeria	8.0	6.0	–2.0	8.1	2.9	–5.2
Senegal	5.7	2.5	–3.2	5.8	1.5	–4.3
South Africa	4.2	3.1	–1.1	3.3	–2.2	–5.5
Tanzania	7.5	7.4	–0.1	8.0	5.0	–3.0
Zambia	6.2	5.8	–0.4	6.4	4.5	–1.9

Source: Authors' calculations based on data from IMF 2007, 2008, and 2009b.

In sum, external shocks rapidly affected aggregate output. The shocks appear to have disproportionately affected particular countries and subregions, depending on their income levels and resource endowments.

3. External accounts and downside risks

3.1. Trade account trends

The most important impact of the global crisis on Africa stems in large part from the current account implications of the drop in commodity prices and the reduction in global demand. Export levels fell sharply toward the end of 2008 and into 2009. Monthly trade flows between September 2008 and February 2009 were even smaller, with many countries showing year-on-year declines of 20%–30% or more. The shortfall in export revenues in Africa was projected at US$250 billion for 2009 (AfDB 2009a). Over the 2010–12 period, African economies will probably suffer about US$578 billion in lost export earnings, equal to 18.4% of GDP or five times the projected volume of foreign aid to the region over this period (Ali 2009).

Export losses vary widely from one country to another. For the most part, oil exporters are expected to suffer the largest losses, with a shortfall of US$420 billion over 2010-2011. Mineral exporters such as the Democratic Republic of Congo and Zambia could experience combined losses of about US$6 billion in 2009 (AfDB 2009b). Indeed, rough estimations indicate that relative to peak export revenues in 2008, exports in 2009 fell as much as 8.3% in Zambia, 7.6% in the Democratic Republic of Congo, 6.6% in Mauritius, and 5.2% in Ghana (Table 6). Export losses represented 3.9% of 2007 GDP in Côte d'Ivoire and 3.5% in Nigeria.[4]

As the fall in trade volumes has been the major channel through which the global recession spread into Africa (WTO 2009), it is useful to examine trade trends between Africa and its global trading partners. Data covering African exports to its most important non-African trade partners—the United States, the EU27, Japan, China, Turkey, and Australia, which together accounted for more than 85% of its trade in 2008—reveal that the largest export contractions in the first two quarters of 2009 relative to the same period a year earlier were in mineral- and oil-exporting

[4] The decline in exports in Nigeria resulted partly from the decline in oil production levels in 2009 because of attacks on oil facilities by Niger Delta militant groups.

countries, including Nigeria (–59.4%), the Democratic Republic of Congo (–57.4%), and Cameroon (–49.2%) (Table 7).

Table 6. Peak and Trough Export Revenues in Selected African Countries

Region/country	*Peak month (2008)*	*Peak value (US$ million)*	*Trough month (2009)*	*Trough value (US$ million)*	*Peak – trough (US$ million)*	*(Peak – trough) /2007 GDP (%)*	*(Peak – trough) /2007 export revenue (%)*
Africa	July	44,955.6	February	20,522.4	24,433.2	1.8	—
Cameroon	October	551.2	April	212.4	338.8	1.6	—
Congo, Dem. Rep. of	July	385.1	February	95.4	289.8	1.4	7.6
Ghana	May	449.8	January	247.2	202.6	1.3	5.2
Côte d'Ivoire	May	1,043.7	April	661.0	382.7	3.8	—
Kenya	July	448.9	February	354.6	94.4	0.3	1.8
Mauritius	November	208.2	March	113.6	94.6	1.4	6.6
Nigeria	July	8,738.4	January	2,888.5	5,849.9	3.5	—
Senegal	July	182.4	January	123.5	58.9	0.5	—
South Africa	August	7,454.5	December 2008	3,898.1	3,556.5	1.2	3.9
Tanzania	December	184.5	March	132.1	52.3	0.3	—
Zambia	September	355.3	January	189.6	165.7	1.4	8.2

Source: Authors' calculations based on data from IMF 2009a, IMF 2009c, and World Bank 2009.
(—) Not available.

Table 7. Changes in Exports to Major Non-African Trading Partners by Selected African Countries, First Half of 2008–First Half of 2009

Country	*Change in US$*	*Percentage change*
Botswana	–273,736	–41.6
Cameroon	–1,321,692	–49.2
Congo, Dem. Rep. of	–884,913	–57.4
Côte d'Ivoire	–863,178	–26.9
Ghana	–238,873	–20.0
Kenya	–173,499	–15.4
Mauritius	–156,946	–18.6
Nigeria	–20,282,450	–59.4
Senegal	–60,226	–21.9
South Africa	–12,576,384	–38.2
Tanzania	21,564	5.1
Zambia	–114,571	–15.2

Source: ITC 2009.

The largest drop in African exports was in trade with the United States, which fell 73% between July 2008 and February 2009. For Africa as a whole, exports to the United States declined 58% in 2009—far more than exports to any other region (Collier and Whitaker 2009).[5]

The 33.9% decline in U.S. imports between October 2007 and February 2009 (Ferrantino and Larsen 2009) occurred in concert with diverse movements in African exports to the United States (Table 8). Severe contractions were recorded mainly by African mineral and oil exporters (Cameroon, Ghana, Nigeria, South Africa, and Zambia); changes in exports from Mauritius and Kenya to the United States were proportional to the decline in U.S. imports. Nonmineral exporters (Côte d'Ivoire, Senegal, and Tanzania) expanded their exports to the United States, thanks to the performance of coffee, cocoa, textile fibers, and fish items. The U.S. trade upturn between January and March 2009 lifted exports from Cameroon, Nigeria, Senegal, and Zambia.

Table 8. Percentage Changes in Exports to the United States by Selected African Countries, 2007–09

Country	*October 2007– February 2009*	*January 2009–March 2009*
Cameroon	–88.3	114.3
Ghana	–66.9	–7.0
Côte d'Ivoire	77.6	–34.5
Kenya	–35.7	–4.5
Mauritius	–33.3	–4.5
Nigeria	–76.4	92.5
Senegal	72.7	100.0
South Africa	–47.6	–15.7
Tanzania	300.0	–23.3
Zambia	–58.8	254.5

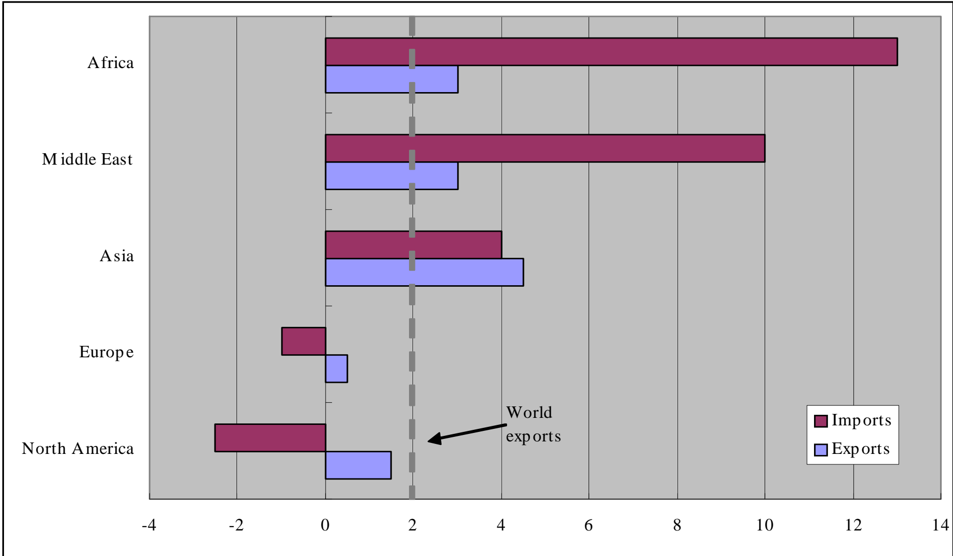
Source: Authors' calculations based on data from IMF 2009a.

In addition to the adverse effects of the crisis on Africa transmitted by its trading partners, a pattern of maladjustment was evident in African imports and exports in the face of the world trade

[5] The United States is Africa's largest single-country market, purchasing 29% of the region's exports in 2008. Exports to China, Africa's second-largest single-country trading partner, at 15%, fell by 44% over the same period. The European Union purchased 32% of Africa's exports, down from 60% in the early 1990s (UN COMTRADE database, 2009).

contraction. In 2008 world trade in merchandise grew only 2%, down from 6% the previous year. Africa's exports of merchandise increased 3%, and its imports rose 13% (Figure 2). The ratio of the change in Africa's exports to the change in its imports was 0.14 in 2008 (that is, imports grew six times faster than exports). The comparative ratio for Asia was 1.3 (meaning that exports grew faster than imports).

Figure 2. Real Growth in Merchandise Trade in 2008, by World Region (in %)



Source: WTO 2009.

Because of the time-asymmetric nature of import and export contractions, declining exports would imply that Africa's imports should drop more than its exports. Sales contracts for raw materials—Africa's main exports—tend to be long term, meaning that external trading firms cannot stop orders immediately. In contrast, African imports consist mainly of oil and finished goods. The sales contracts for finished goods are not only short term but also adjustable on short notice. So why have exports dropped more than imports in Africa?

Africa's inability to adjust its current account in a fashion similar to that of North America, Europe, or Asia could be explained by the greater dependence of its domestic aggregate demand on imports. This asymmetric import–export reaction may also reflect the inability of African

economies to move resources into the production of previously imported goods. In either case, efforts to substitute local demand for external demand still carry the risk of further draining foreign reserves while being ineffective in adjusting imports to export revenues.

3.2. Global rebalancing and risks ahead

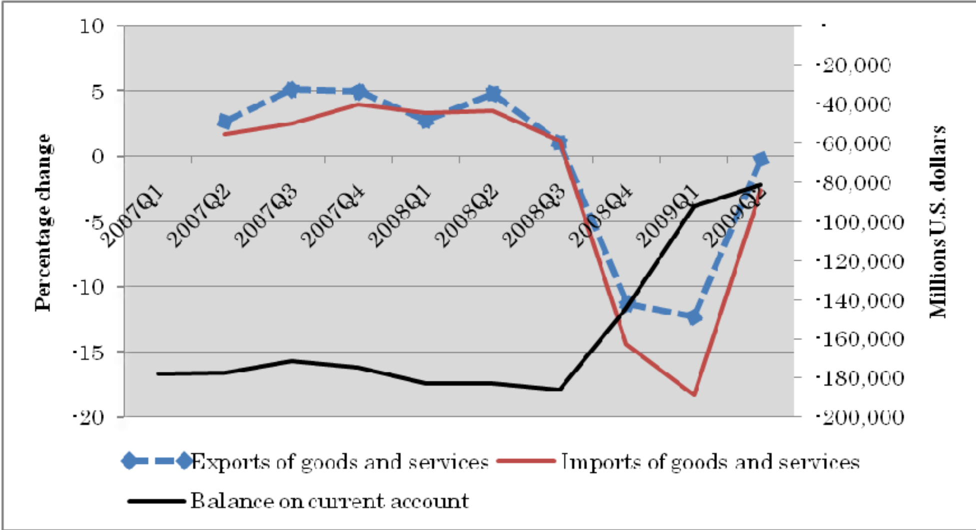
In addition to the immediate impacts of the current crisis on African trade performance and import-export adjustment, downside risks, which may pose a serious mid- or long-term problem, must be considered. Global rebalancing in the form of current account adjustments by major economies cannot but affect growth, productivity, and even the structure of the world economy in the long run. Theoretically, the current account adjustment of a large trading partner can affect domestic economies through changes in prices, terms of trade, volumes/quantities, income, exchange rates trade rules, and the efficiency of resource use (Faruqee et al. 2007; Obstfeld 2004; Obstfeld and Rogoff 2004, 2009). Because of the sheer magnitude of the reallocation of resources on a global scale, the macroeconomic consequences of external adjustment are likely to be pervasive (Corsetti, Martin, and Pesenti 2009) and the welfare costs huge (Milesi-Ferretti and Razin 2000).

The U.S. current account adjustment in particular must be seen as a warning sign of adverse effects to come in other countries (Cline 2006). Dean and Koromzay (1987) conclude that the costs of an external correction by the United States can be spread indiscriminately. The empirical literature (see, for example, Cline 2006) indicates that a 2.6 % reduction in the U.S. current account deficit ratio is associated with a 2.7 percentage point slowdown in the growth rate of the rest of the world.

The U.S. economy has already embarked on simultaneous processes of macroeconomic adjustment (in the sense of shifting to a different engine of growth, the export-led growth pattern) and current account correction. In a recent interview, Larry Summers, the top economic advisor to the president of the United States, describes the new U.S. economy as one that will be oriented more to civil than financial engineering, more to the environment than to energy production, and

more to exports than consumption (Freeland 2009). Indeed, trends in the U.S. current account since 2008 suggest that such a shift is already under way (see Figure 3). The U.S. current account deficit has been improving since the third quarter of 2008, with a 25% reduction in the third quarter and a 45% reduction in the fourth quarter. It narrowed further in the second quarter of 2009, to –$98.79 billion, which represented 2.8% of U.S. GDP and the lowest share since the first quarter of 1999 (when it was also at 2.8%).

Figure 3. Quarterly Changes in U.S. Imports, Exports, and Current Account Balance, 2007–09

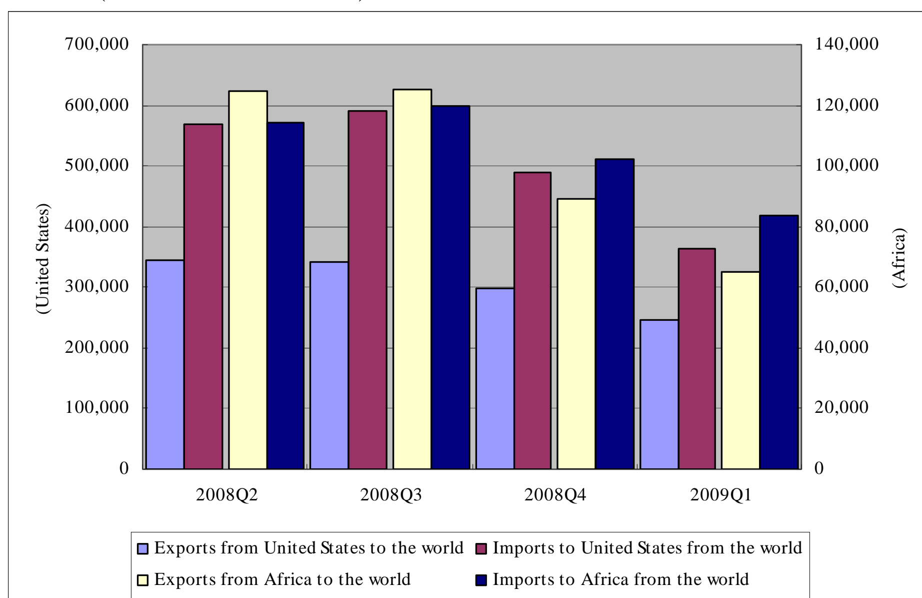


Source: U.S. Bureau of Economic Analysis 2009.

The unwinding of the U.S. current account deficit is occurring through an acceleration in import reductions rather than an adjustment in exports (Figure 3), which suggests an adverse shock on U.S. trading partners. Until the third quarter of 2008, Africa had a slight trade surplus, whereas the United States was running a huge deficit (Figure 4). The U.S. deficit has been narrowing since the fourth quarter of 2008, however, whereas Africa's trade surplus has turned into a deficit. This change is also illustrated by the ratio of exports to total trade (exports plus imports). Whereas the ratio of U.S. exports to total trade was 36% in the third quarter of 2008 and rose to 40% in the first quarter of 2009, the African export ratio declined from 51% to 43% of total trade over the same

period.

Figure 4. Exports and Imports by the United States and Africa, Second Quarter 2008–First Quarter 2009 (millions of US dollars)



Source: IMF 2009a.

Given the U.S. share in Africa's exports and the fact that in recent years Africa has experienced especially large increases in net demand as a result of the rising U.S. trade deficit, there is a definite risk that the burden of the U.S. current account adjustment will be disproportionately absorbed by countries with structural rigidities such as those in Africa. For developing countries with production capacity and a significant domestic market (for example, China), the U.S. external adjustment implies some shift from export-led growth to a domestic consumption–led model. Given their structural rigidities, African economies cannot proceed with significant economic restructuring similar to that underway in China. [6]

Given Africa's increasing reliance on China for trade and investment in infrastructure and the fact that China is the largest U.S. counterpart in global imbalances, China's economic structural

[6] Structural rigidities include the inability to adjust to a rebalancing world economy by reallocating productive resources between tradable and nontradable sectors, moving workers from declining to rising sectors, and expanding exports into new product lines compatible with new industrial/technological requirements.

changes in response to the U.S. external adjustment are likely to be the second channel through which the adverse effects of global rebalancing may affect African economic performance. A contracting U.S. trade deficit would certainly reduce China's demand for African commodities (assuming the massive investment, as part of China's stimulus plan, turns out to be unsustainable over the medium term). For this reason, Africa may be more vulnerable to external trade evolution than ever.

The global financial meltdown has led to a drastic decline in export demand, which has in turn translated into significant export revenue losses and deterioration in the balance of payments. In addition, there are mounting downside risks resulting from the state of the global recovery, with likely adverse effects of the global rebalancing ahead. All of these changes present serious challenges for African governments.

4. Government sector

Exports are the most heavily taxed sector in Africa. As a result, the drying up of export revenues in late 2008 and early 2009 caused government revenue collections to fall below the targeted amounts. Overall, Africa experienced shortfall in trade taxes of US$15 billion in 2009, representing 1.0% of GDP and 4.6% of government revenue (IMF, 2009b).The fiscal position of most countries worsened in 2008 (Table 9), and, with the exception of Ghana and Mauritius, their overall fiscal balances have been weakened in 2009. In Botswana, for instance, which enjoyed a budget surplus of 6.3% in 2007, the crisis resulted in a fiscal deficit of 2.8% of GDP in 2008 and a projected deficit of 10.6% in 2010.

Table 9. Fiscal Balances, Including Grants, in Selected African Countries and Country Groups, 2007–10 (percentage of GDP)

Country/country group	*2007*	*2008*	*2009*	*2010*
Botswana	6.3	–2.8	–10	–10.6
Cameroon	4.5	1.4	0.2	–0.2
Congo, Dem. Rep. of	–2.9	–2.9	–2.1	–10.7
Ghana	–8.5	–13.6	–6.7	–8.2
Côte d'Ivoire	–0.8	–0.6	–0.8	–2.6
Kenya	–3	–4.4	–5.7	–5.5
Mauritius	–4.2	–4.5	–3.5	–5.2
Nigeria	–1.1	3.7	–9	–0.1
Senegal	–3.7	–4.6	–4.8	–4
South Africa	0.8	–0.7	–4.9	–5.5
Tanzania	0	–5.4	–5.7	–5.1
Zambia	–1.3	–1.5	–2.6	–2.5
Africa	1.2	1.3	–4.8	–2.4
CFA franc zone	3.3	4.4	–1.2	1.6
Common Market for Eastern and Southern Africa (COMESA)	2.7	1.7	–3.4	–2.6
East African Community	–1.6	–3.9	–3.5	–4.7
Southern Africa Customs Union (SACU)	1.3	–0.7	–5	–5.6
Southern African Development Community (SADC)	2.2	0.6	–4.8	–4.4
West African Economic and Monetary Union (WAEMU)	–2.1	–2	–3.2	–3.4
Fixed exchange rate regime	3.8	3.6	–2	0.2
Floating exchange rate regime	0.6	0.8	–5.5	–3
Nonoil-exporting countries	2.5	–1.4	–3.2	–1.1
Oil-exporting countries	3.6	6.3	–5.9	1.5
Oil-importing countries	–0.2	–2	–4.2	–4.7
Resource-intensive countries	3.4	5.1	–5.5	1.1

Source: IMF 2009b.

(*) Estimates

(**) Projections

African oil-exporting countries witnessed their overall fiscal balance ratios deteriorate from a 6.3% surplus in 2008 to nearly –6.0% in 2009. Fiscal balances in oil-importing countries fell to 4.7% in 2009 and to remain there in 2010. That ratio was projected to be worse for countries under floating exchange regimes than those under fixed exchange regimes. This trend means that African countries cannot mitigate the effects of the global crisis without resorting to new borrowing.

External debt is estimated to have increased in all of the countries listed in Table 10, with

the largest increase—from 3.1% of GDP in 2008 to 14.3% in 2009—occurring in Botswana.

Table 10. Foreign Debt in Selected African Countries, 1990–2009 (percentage of GDP)

Region/country	1990	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
Africa	62.6	65.9	64.2	61.9	54.8	46.3	36.1	24.7	24.8	—	—
Botswana	13.6	8.0	6.6	8.0	6.3	5.1	4.6	3.6	3.2	3.1	14.3
Cameroon	52.1	110.1	97.9	89.6	79.8	65.7	44.3	18.7	15.3	12.8	13.2
Congo, Dem. Rep.	119.5	298.4	269.1	191.6	205.2	182.1	156.8	137.5	142.8	—	—
Côte d'Ivoire	159.8	116.5	110.1	102.6	88.7	85.4	73.0	73.8	70.4	58.5	51.5
Ghana	64.1	122.7	119.3	112.8	99.2	79.5	62.8	25.1	29.4	30.0	37.3
Kenya		48.3	42.5	46.6	45.8	42.5	33.6	28.7	26.6	22.9	20.8
Mauritius	37.1	37.4	37.9	37.9	45.1	35.8	49.7	40.3	56.5	54.5	51.1
Nigeria	103.1	68.2	64.6	51.5	51.3	43.1	19.7	5.3	5.4	5.0	6.1
Senegal	65.7	77.2	75.2	76.7	63.8	49.0	44.4	20.8	23.2	20.4	22.7
South Africa	17.3	18.7	20.3	22.6	16.4	12.5	12.8	13.7	15.3	16.6	14.8
Tanzania	151.5	76.3	66.1	70.1	67.9	68.7	55.1	29.9	30.9	30.7	33.0
Zambia	184.6	175.9	167.0	173.9	156.6	137.1	75.0	21.3	24.0	20.9	26.8

Source: Data for all countries except the Democratic Republic of Congo are from Thomson Reuter 2009. Data for Africa and the Democratic Republic of Congo are from World Bank 2009.
(*) Projections
(—) Not available

Only a handful of African countries—including Kenya (US$11 billion), Mauritius (US$0.3 billion), Nigeria (US$4.1 billion), South Africa (US$81.2 billion), and Tanzania (US$1.3 billion) (Grail Research 2009)—were able to afford to implement a stimulus plan by mid-2009, with or without an IMF line of credit. In January 2009, the government of Mauritius announced a stimulus package worth US$0.3 billion, or about 3% of Mauritius' GDP, to boost domestic demand and increase job creation. In Nigeria the government used some of its US$52 billion external reserves to shore up the economy through a stimulus package. In South Africa the government proposed adjustments to personal income tax and increased funding for public investment projects. The multiplier effects of these stimuli may be limited because of high external income leakage.

Countries unable to implement stimulus plans have relied heavily on a combination of

monetary easing and limited fiscal interventions.[7] To a large extent, African countries have been advised to take countercyclical policies. It is hard to assess the effectiveness of such a policy for countries with limited fiscal space. Kasekende, Brixova, and Ndikumana (2010) note that in general, the scope for rule-based countercyclical fiscal policies in African countries is restricted; given the limited social safety nets, automatic stabilizers can play a role only on the revenue side. Such constraints have left the majority of African countries with limited options for adopting discretionary countercyclical fiscal measures. Responding to this constraint, the IMF has relaxed fiscal targets, scaling up its resources to help prevent drops in expenditures by allowing for greater flexibility in its Exogenous Shocks Facility (ESF) and by speeding up the extension of loans under the Poverty Reduction and Growth Facility (PRGF) framework, whose aims include the support of domestic revenues (Sayeh 2009).

IMF support for countercyclical policies has come under scrutiny. For example, a report by the Center for Economic and Policy Research (Weisbrot et al. 2009), finds that 31 of the 41 agreements signed in 2008 and early 2009 contain either procyclical fiscal or monetary policies that, in the face of a significant slowdown in growth or a recession, could exacerbate the downturn. In many cases, the IMF's procyclical policies were based on overoptimistic assumptions about economic growth. For example, of the 26 countries that had at least one review, the IMF had to lower previous forecasts of real GDP growth by at least 3 percentage points in 11 countries and to correct forecasts that had been overestimated by at least 7 percentage points in 3 countries.

Fiscal fragility is a recurrent problem in most African countries. Even before the global financial crisis, the public finances of most African countries were in bad shape and chronically disarrayed. This was especially true of fiscal balance weakening, which results in fragile socioeconomic conditions and leads countries to turn to external debt and assistance. Yet the latest survey of aid donors by the Organisation for Economic Co-operation and Development (OECD

[7] There have been some exceptions, notably in countries that faced inflationary pressures. For instance, as part of its antiinflationary measure, the monetary authorities in the Democratic Republic of Congo raised the discount rate four times between December 2008 and mid-2009.

2009) notes that there are no signs that major donors are ready to meet even their Gleneagles commitments, let alone increase them to compensate aid recipients for losses suffered during the crisis.

In sum, the crisis has made it all too clear that in Africa the government itself remains a vulnerable sector. Without external intervention and budget support, the crisis management capacity of African governments remains very much limited. Over the course of the crisis, African governments experienced severe shrinking of fiscal revenues and space. This limited their capacity to cushion external shocks, provide public goods or social safety nets.

5. The social sector

Although it is too early to assess the social impacts of the global financial crisis on Africa, preliminary indications point to rising unemployment and vulnerable employment, disruptions in remittance flows, severe risks of human capital depreciation, and the possibility of worsening poverty.

Formal employment has been severely hit. For instance, in South Africa the number of corporate liquidations recorded during the first seven months of 2009 increased by 35.8% (from 1,752 to 2,379) compared with the first seven months of 2008. The number of liquidations recorded for July 2009 increased by 33.8% (from 320 to 428) compared with July 2008 (Statistics South Africa 2009). The impact of these massive liquidations on employment has been tremendous. The International Labour Organization (2009) reports that between January and June 2009, the Tanzania Association of Tour Operators saw cancellations, mainly from American and European tourists, of 30%–50%. In Kenya the first two months of 2008 saw 80% hotel bed occupancy; during the same period in 2009, occupancy fell to 50%–60%, with bookings headed downward.

Because the extracted mineral outputs have no domestic markets, there is a direct link between employment in this sector and exports. Indeed, workers in Africa who had formal jobs in export-oriented sectors have been pushed into the informal economy, where they earn lower wages

(ILO 2009). In general, export-oriented sectors—which in many developing countries are major providers of formal jobs, especially for women—face the prospect of rapidly shrinking world markets (ILO 2009). Significant job losses have also been recorded in African countries that rely heavily on a narrow export base (ILO 2009).

In 2007 an estimated 77% of Africa's workers were in vulnerable employment (the ILO defines vulnerable employees as self-employed and contributing family workers). This figure rose to more than 82% in 2009. The number of workers in the region living in poverty (measured in terms of either the US$1.25 or US$2 a day threshold) was also projected to rise (ILO 2009). In fact, the United Nations' *Millennium Development Goals 2009 Report* notes that despite the unprecedented African growth rates in the first decade of the 21st century, per capita income failed to trigger significant progress toward the Millennium Development Goals (MDGs) or other antipoverty benchmarks. Progress toward meeting the MDGs has been slower in Africa than in other regions, with the share of people living on less than US$1.25 a day hovering around 50% since 1981. At the same time, the number of poor people nearly doubled in terms, from 200 million in 1981 to 380 million in 2005 (UN 2009).

African migrants have also felt the impact of the crisis. As rising unemployment in the European Union compresses the demand for migrant workers, remittances are declining rapidly. The World Bank (Ratha et al. 2009) projected a decline of 8.3% in remittance flows to Africa in 2009; UNCTAD (2009) projected a 4.4% drop (Table 11). In Kenya remittances were down 27% in January 2009 compared with January 2008 (ODI 2009). Such trends are a great source of worry to countries that rely heavily on remittances as a safety net.

Other unrecorded costs of the crisis will manifest themselves in the form of prolongation of another challenge facing Africa: food insecurity. Progress in eradicating hunger had already stalled or reversed in 2008, because of the global food crisis (UN 2009). The extent to which the credit crunch may have affected the financing of agriculture in Africa is still unclear.

Table 11. Average Annual Percentage Change in Worker Remittances, 2000–09, by Region

Region	*2000–06*	*2007*	*2008 (preliminary estimates)*	*2009 (projections)*
East Asia and Pacific	19.6	23.2	7.2	–4.2
Europe and Central Asia	19.6	31.5	5.4	–10.1
Latin America and the Caribbean	19	6.6	0.2	–4.4
Middle East and North Africa	10.9	21.6	7.6	–1.4
South Asia	15.2	31.5	26.7	–4.2
Africa	17.2	44.4	6.3	–4.4
All developing countries and transition economies	16.9	22.7	8.8	–5.0

Source: UNCTAD 2009a.

Yet other manifestations of the social impact of the crisis could come in the form of increases in violence, conflict, and social instability, which are more likely in countries with endemic conflicts and weak governments, such as the Democratic Republic of Congo, Côte d'Ivoire, and Kenya. As Desai (2009) points out, financial crises and recessions can also create conditions that lead to general strikes and political instability. Indeed, in fragile states the inability of governments to provide basic goods and services, coupled with increased unemployment, a rising cost of living, and increased poverty, is likely to exacerbate levels of violence, conflict, criminality, and public unrest.

The effects of the global downturn are not necessarily unique to Africa. What could be unique is the degree to which falling exports and remittances translate into deterioration of social and human conditions. Limited fiscal space and the absence of social safety nets mean that unemployment automatically translates into poverty. Shortages of funding in support of social programs for the needy, including orphans, people with HIV/AIDS, refugees, and displaced populations, quickly translate into a sizeable fall in life expectancy and an increase in human tragedy.

In short, while precise figures cannot yet be drawn from the data, rising unemployment, worsening social conditions, and rising poverty are likely impacts of the global crisis on Africa. The

crisis may escalate into a massive human catastrophe in Africa unless urgent and adequate measures are taken.

6. Policy recommendations and concluding remarks

In contrast to the financial sectors of most industrial economies, African financial sectors have not been directly or significantly affected by the global crisis. The effects of the crisis have nevertheless been severe:

- FDI, ODA, and remittance inflows have dried up or declined, shrinking trade financing and fiscal revenue/space.
- Export demand and aggregate output have fallen and the balance of payments deteriorated, especially in countries dependent on mineral exports.
- Unemployment and poverty are rising, and social conditions are worsening.
- As the recession bottoms out, the downside risks associated with the likely adverse effects of the global rebalancing are mounting.

To manage these challenges, policymakers may want to consider the following policy recommendations:

- To create additional fiscal space and compensate for the drying up of capital inflows, African countries should try to gain access to new financial facilities (from multilateral, bilateral, and private sources). They should also provide trade financing at preferential rates, offer guarantees of loan restructuring for affected exporters, and maintain or adopt countercyclical fiscal policies. Low-income African countries with limited fiscal space need flexible lines of credit and new loan facilities from international donors. African countries should maintain additional borrowings at the lowest level possible, however.
- The primary response to the sudden fall in exports and aggregate output should be to stimulate the real sector while reinforcing economic resilience to external demand shocks through industrial reconversion, promotion of intraregional value chains, and

enhancement of productivity. In particular, stakeholders may choose to scale up construction and rehabilitation of physical infrastructure through labor-intensive techniques, thereby eliminating constraints posed by the lack of basic infrastructure and boosting employment. In the long run, it is also crucial to ensure that African firms take advantage of economies of scope and scale. In this respect, policies should focus on expanding markets by, for instance, shifting from industry-based to cluster-based industrial policies and upgrading and promoting intraregional value chains.

- To manage the impact of the crisis on labor and social conditions, policy responses should include expansion of social safety nets (including, for example, food stamp and school meal programs); provision of incentives for employers to retain temporary workers; and training of recently laid-off workers to prevent rapid deterioration of their skills and protect their potential as future participants in the workforce. In the long run, it is important to ensure that education is relevant not only to current but also to future workforce requirements. For example, because information technology (IT) skills are a prerequisite for many jobs, African countries should be preparing their workforces with training in both IT skills and entrepreneurship.
- To manage downside risks, policy makers should consider maintaining a symmetric adjustment in import bills and exports revenues as well as flexible exchange rates to ensure both external and internal balance. To reduce overexposure to external shocks from industrial economies while benefiting from economies of scale, African countries need to shift toward a more intra-African trade–driven growth pattern. Although no one can know with certainty how the global rebalancing and other downside risks are going to affect Africa, policy makers need to take preemptive measures to ensure the region's resilience to external shocks.

Crisis mitigation policies should aim not only to restore social and macroeconomic stability in the short run but also to ensure that entrenched structural rigidities (most of which were

exacerbated by the crisis) are dealt with in order to strengthen the region's resilience to external shocks.

Recovery and sustainable development in Africa will be governed by the effectiveness and implementation of policies such as those outlined above as well as by the commitment of all stakeholders, including donors and African policymakers. In this respect, other things equal, African leaders should reaffirm a strong commitment to good governance by properly managing both foreign aid and local resources. If they continue to sanction the mismanagement of domestic resources, their countries will risk a return to the political instability of the 1990s, with all its deleterious socioeconomic consequences. Indeed, given that further deterioration of the living standards of many poor people in Africa could lead to a human disaster far worse than any Lehman Brothers–type fiasco, global coordination is essential when it comes to too-large-to-fail African countries.

The global crisis has shown that economic imbalances (whether excesses or deficits) are harmful to the global economy. Eventually, excess savings in some parts of the world (such as East Asia) could be reinvested in basic infrastructure projects in developing economies, including those in Africa, to unleash growth potential while providing attractive returns to investors and recycling excess foreign exchange reserves. Africa has the power to move beyond recovery from the current crisis toward sustainable development, provided that the industrial countries work together to create a new kind of global partnership.

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Abstract (in Japanese)

要約

本稿は、世界金融危機がアフリカの経済に与えている影響を分析し、アフリカの発展における将来のリスクを指摘する。まず明らかにされるのは、2000年代のアフリカの成長を牽引してきた重要な要素が、深刻な度合いで破壊されてしまったということである。世界的な金融崩壊の後遺症は、アフリカ産品の輸出の減少や、輸出価格の変動、資本流入の低下、将来の成長に必要なインフラへの投資の減少などを通じて、アフリカ経済に負の影響を与えた。また、政府歳入の落ち込みが、急速な失業率の上昇とも相まって、社会のセーフティーネットをより脆弱なものにし、多くの国で人々の生活水準を悪化させた。世界的な景気後退は、アフリカの近年のサクセスストーリーが、依然として非常にもろく危ういものであるということを、人々に再認識させたのである。本稿では、貿易相手国の経常収支の回復が、—恐らくは無意識的に—アフリカの経済成長に負の影響を与えている可能性を指摘する。重要なことは、今回のこうした経常収支の調整がおよぼすアフリカへの負荷をしっかりと認識した政策がとられることである。短期的には、財政スペースの確保、インフラのリハビリ、雇用保全のようなセーフティーネットの整備に重点がおかれるべきであるが、より長期的には、危機以前のような一次産品の輸出が牽引する経済への回帰を単純に目指すのではなく、その牽引役をより深いヴァリューチェーンに参加し、かつアフリカ域内での貿易に重きをおいたものに変えていく必要がある。金融危機後のアフリカの発展に必要なのは、外部ショックに対して強靭な経済構造を作り上げることなのである。

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