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IMF Outlook for Sub-Saharan Africa Highlights Impact of Global Financial Turmoil and Fuel and Food Price Shocks

The International Monetary Fund (IMF) today released the October 2008 *Regional Economic Outlook: Sub-Saharan Africa.* Ms. Antoinette Sayeh, Director of the IMF's African Department outlined the report's main findings:

“In an increasingly adverse global environment, sub-Saharan African growth is expected to slow to about 6 percent in 2008 and 2009, down from 6½ percent in 2007. Meanwhile, inflation is projected to increase to 12 percent in 2008 and 10 percent in 2009. The growth projections are somewhat lower and the inflation projections markedly higher than in the April 2008 Regional Economic Outlook: Sub-Saharan Africa, especially for 2008.

“The worsening macroeconomic situation reflects headwinds from strong increases in food and fuel prices, slower world growth, and global financial turmoil. So far, the main effects of the global financial turmoil appear to be indirect, in the form of slower global growth and volatile commodity prices. Recent heightened turbulence raises the risks, including of a decline in resource flows to Africa in the form of private capital, remittances, and even aid.

“The food and fuel price shock has put upward pressure on inflation and current account deficits. Further, donor support has not risen to cover the larger import bills caused by the price shock, leaving the adjustment to domestic resources. Foreign exchange reserves have held up fairly well so far but cannot be expected to absorb the long-term consequences of the food and fuel price shock. High volatility means that the situation is changing rapidly, but these concerns remain valid for many countries in spite of the recent easing of oil and food prices. In a number of countries, adjustment to higher price levels is not yet complete, and inflationary pressures may still be present.

“The challenge for policymakers is to adjust to the food and fuel price shock, preserve economic stability in the face of global financial turbulence, and shield the poor. With food and fuel prices substantially off recent peaks, it should be easier to fully pass through higher prices to the economy to encourage adjustment. With food accounting for a major part of household expenditure, the resulting loss in the purchasing power of the poor is a serious concern. Measures to cushion the impact of higher food and fuel prices on the poor therefore need to be well targeted—and also supported by donors. For oil exporters a particular challenge is to preserve a medium-term perspective; caution use of oil revenue windfalls permits smoothing of fiscal spending in the face of price declines as well.

"There are unprecedented risks to the global economic outlook, and the resilience of growth and macroeconomic stability in the continent is being put to a test. Countries need—more than ever—to be able to respond quickly to unexpected exogenous shocks. Those countries facing inflationary import price shocks, declines in their terms of trade, and lower remittances and private capital inflows face an especially acute challenge. In these circumstances, maintaining, if not increasing, aid remains of paramount importance," Ms. Sayeh said.

The full text of the October 2008 *Regional Economic Outlook: Sub-Saharan Africa* can be found on the IMF's website, www.imf.org.