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**African Consultative Group Meeting: Statement by the Vice-Chairman of the African
Caucus and the Managing Director of the IMF**

Mr. David O. Carew, Minister of Finance of Sierra Leone, and Mr. Dominique Strauss-Kahn, Managing Director of the International Monetary Fund (IMF), co-chairs of the African Consultative Group, issued the following statement today after the conclusion of the Group's meeting, which was held at IMF headquarters:

“We met to discuss the policy responses to growing inflationary pressures in sub-Saharan Africa. These pressures risk reversing hard won gains of inflation stabilization, threaten to undermine the progress made in achieving the Millennium Development Goals, and pose an important challenge for macroeconomic policy.

“We also discussed the potential impact of the fallout from the current financial crisis on the region's growth prospects. The financial turmoil could reduce capital inflows to the region, slow global growth, and reduce commodity prices for Africa's exports. While the impact of higher food and oil prices, including through its effect on domestic inflation, remains the most important concern for African countries today, the challenge is multifaceted, and a comprehensive approach to the policy response is needed.

“We agreed that the buildup in inflation has been widespread, cutting across countries with different exchange rate regimes, different economic structures and different levels of economic development.

“We agreed that in some countries inflation may be starting to increase beyond what is justified from the increase in the relative price of food and oil alone. While at its onset the increase in inflation reflects the pass-through of high world food and fuel prices to their local counterparts, there is evidence that demand pressures are also building up, partly as a response to the increase in commodity prices, and of a de-anchoring of inflation expectations in some countries.

“The external environment could reduce inflationary pressures going forward, especially if the very recent decline in oil and food prices is sustained. High volatility in financial and

commodity markets means that the situation is changing rapidly, but concerns about inflation remain valid 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 thus persist for some time.

“Monetary policy responses in the region have been mixed so far. There have been efforts to accommodate the first round effects from the increase in commodity prices, and countries have begun tightening monetary policy to prevent second round effects from building up, but not sufficiently in some cases.

“The fiscal response has focused mostly on cushioning the impact of higher food and fuel prices on the population. When possible, fiscal policy can help support price stability, especially in countries where the fiscal stance has contributed to inflation, and in countries with fixed exchange rates where monetary policy options are limited.

“The Managing Director reiterated that the IMF stands ready to supplement its policy advice with financial support if exogenous price shocks significantly affect the balance of payments, as has already been the case for a number of countries in Africa. In this context, the African Governors welcomed the modifications to the Exogenous Shocks Facility, which have made it easier and quicker to use.”