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IMF Calls for Urgent Action as Third Wave of Global Crisis Hits Poorest Countries

The global financial crisis is hitting poor countries hard, including in Sub-Saharan Africa, Managing Director Dominique Strauss-Kahn of the International Monetary Fund (IMF) warned today, and called on the international community to act urgently and generously to avoid the potentially devastating effects of this crisis on the most vulnerable countries.

“After hitting first the advanced economies and then the emerging economies, a third wave from the global financial crisis is now hitting the world’s poorest and most vulnerable countries,” said Mr. Strauss-Kahn at the launch of a new IMF study, entitled *“The Impact of the Financial Crisis on Low-Income Countries.”* “This puts at risk the major achievements of higher growth, lower poverty, and greater political stability that many low-income countries have made over the past decade. I urge donors to rise to the challenge and provide the financing needed to preserve these hard-won gains and prevent a humanitarian crisis.”

The IMF study finds that more than 20 countries are particularly vulnerable to the unfolding crisis. At least US\$25 billion in urgent concessional financing will be needed this year in the most affected countries, but much more may be needed given the heavy downside risks to the global economic outlook, and the prospect of more countries being affected as the crisis deepens.

“Bilateral donors must ensure that aid flows are scaled up, not trimmed back,” Mr. Strauss-Kahn said. “At a time when the advanced economies are spending hundreds of billions of dollars on fiscal stimulus and financial sector restructuring, we must find room to help low-income countries.”

He warned that lower growth could have serious implications for poverty and potentially also for political stability, adding that spending on targeted social safety net programs should be ramped up to protect the poor. At the same time, it will be critical to protect spending on health, education, and vital infrastructure.

Mr. Strauss-Kahn emphasized his goal to double the IMF’s concessional lending capacity. He added that the IMF is also looking at ways to make its lending to low-income countries more flexible, reflecting their growing diversity and heightened exposure to global volatility. “The IMF is mounting an extraordinary response to what is an extraordinary crisis facing the world’s poorest economies,” he said.

Key Findings

- The economic outlook for low-income economies has deteriorated dramatically. According to the IMF's most recent forecast, low-income country growth in 2009 is projected at just over 4 percent—more than 2 percentage points lower than expected a year ago—with risks heavily on the downside. In per capita terms, this means that many of the world's poorest countries will at best see incomes stagnate this year, and possibly even contract.
- The study finds that the global crisis is squeezing exports of low-income countries severely, while also curtailing inflows of foreign direct investment and remittances, which had become important sources of financing in recent years. As a result, many countries will face sharply lower fiscal revenues and some may also experience pressure on their foreign exchange reserves.
- The IMF analysis identifies 22 low-income countries that face the most acute financing constraints. To keep their external reserves at safe levels (around 3–4 months of imports), at least US\$25 billion in additional concessional financing is needed in 2009. This represents about 80 percent of annual aid to all low-income countries in recent years. If global growth and financing conditions deteriorate further, the number of vulnerable countries could almost double, while additional financing needs could approach US\$140 billion.

IMF Responses

- **Financing.** The IMF has significantly stepped up its financial assistance to low-income countries. In response to last year's food and fuel price shock, new financing agreements for these countries jumped from 5 in 2007 to 23 in 2008, and resources available under 12 existing arrangements were increased. The IMF's concessional lending doubled to almost US\$1½ billion in 2008, with an additional US\$4 billion provided on non-concessional terms to low-income countries. The IMF stands ready to assist its low-income members through additional concessional financing this year to help address the fallout from the crisis.
- **Technical assistance and advice.** The IMF is working with low-income countries on crafting appropriate policy responses to the crisis, and is reinforcing its technical assistance to strengthen economic policymaking in developing countries. The IMF also aims to bolster the role and participation of developing countries in the ongoing policy debate in multilateral policy forums.
- **Collaboration.** Together with the government of Tanzania, the IMF is convening a major [international conference](#) in Dar es Salaam on March 10–11. The conference will bring together 300 participants—from government, the private sector, and civil society, from Africa and beyond—to learn from each other's successes, and discuss how best to respond to the challenges facing the region.