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### **IMF Outlook for Sub-Saharan Africa Highlights Impact of Global Financial Crisis**

The International Monetary Fund (IMF) today released the April 2009 *Regional Economic Outlook: Sub-Saharan Africa*. Ms. Antoinette Monsio Sayeh, Director of the IMF's African Department, commented on the report's main findings:

“The global crisis is having a significant impact in the region, through several channels. Demand for African exports has fallen and prices for most commodities have declined. Tighter global credit and investor risk aversion have led portfolio flows to reverse, deterred foreign investment, and made trade finance more costly. Remittance flows may be weakening. The impact on the region’s financial systems has been limited so far, but the economic slowdown is likely to increase credit risk and nonperforming assets and weaken the balance sheets of financial institutions and corporations.

“Prospects for Africa deteriorated markedly as a result of the global financial crisis. Sub-Saharan African growth is projected at 1½ percent in 2009 before recovering to just under 4 percent in 2010, which is still below its pre-crisis level. These projections imply a sharp slowdown in growth compared to 2008, and a significant downward revision from the projections published last October. Fiscal and external positions are now expected to weaken substantially through 2010. Oil and other commodity exporters will be particularly hard hit. Risks remain mostly on the downside as long as the global outlook remains uncertain.

“The priority for all sub-Saharan African countries must be to contain the adverse impact of the crisis on growth and poverty, while preserving the hard-won gains of recent years, including macroeconomic stability and debt sustainability. The appropriate policy response depends on country specific circumstances. However, pressures to respond to weakening balance of payments positions with protectionist measures or by reverting to administrative controls need to be resisted. Economic policy through these difficult times should therefore be guided by the following principles:

- Use available fiscal space. The global financial crisis will reduce government revenues. If the increase in the fiscal deficit can be financed, countries that have achieved macroeconomic stability and sustainable debt levels should maintain planned spending. A few countries also have scope for discretionary fiscal stimulus, such as additional social measures to protect the poor. Commodity exporters that accumulated savings during the boom may be able to adjust gradually by drawing down reserves. In countries with limited or no fiscal space, however, there may be no alternative to tightening fiscal policies in the near term. Additional donor support would ease the adjustment.
- Ease monetary policies where possible and let exchange rates adjust to the external environment. The plunge in commodity prices should provide a disinflationary impulse which might allow some countries to ease monetary policy. Where the terms of trade have deteriorated or capital flows are drying up, real exchange rates will have to depreciate.
- Closely monitor financial vulnerabilities and be prepared to act promptly. Priorities may at times have to be reordered to emphasize short-term measures, such as intensified surveillance to facilitate early detection of risks. The short-term priorities, however, should not distract governments from recognizing and responding to the need for longer-term reforms to reinforce and diversify their financial systems.

“To carry forward the reform momentum of the past decade in the current adverse environment, Africa will need additional aid resources, at least the doubling of aid promised by the G-8 Heads of State at the Gleneagles Summit in 2005. Although donor countries are also under pressure, aid commitments should still be honored. Without additional donor support, poverty reduction and economic development in Africa could be set back by several years and political stability might even be endangered in some countries.

“The IMF is doing its part to support Africa. It is revising its lending instruments to make them more flexible and working to double concessional lending to low income countries. The Fund will also continue to provide policy advice and extensive technical assistance to strengthen economic policymaking in African countries,” Ms. Sayeh said.

The full text of the April 2009 *Regional Economic Outlook: Sub-Saharan Africa* can be found on the IMF's website, [www.imf.org](http://www.imf.org).