



Macroeconomic Impact of the Crisis in Africa

Louis A. Kasekende
Chief Economist
African Development Bank

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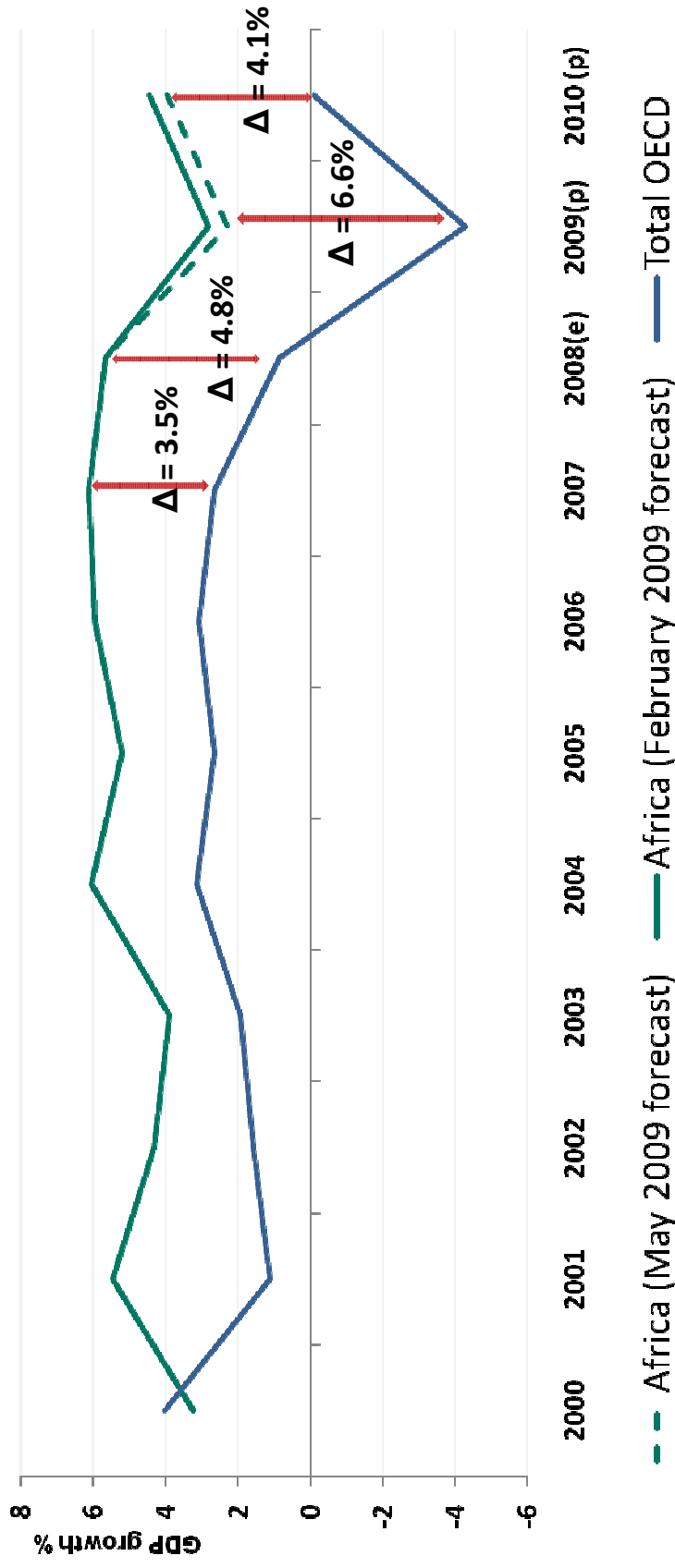
Main Messages

- Africa has been affected by the global financial crisis, which threatens to turn into a development crisis
- But all is not doom and gloom. African countries have been affected differently by the crisis, depending on the structure of exports, degree of dependence on capital inflows and capacity of policy space to respond
- We should not draw the wrong lessons from the crisis. We should continue to implement market friendly policies including: (i) predictable macroeconomic policies; (ii) eschew protectionism in favour of trade liberalisation and sequenced openness of the capital account; and (iii) financial liberalisation
- Beyond the crisis, invest in improving the business climate: infrastructure, skills, and ICT.

Growth

Africa still growing despite the crisis

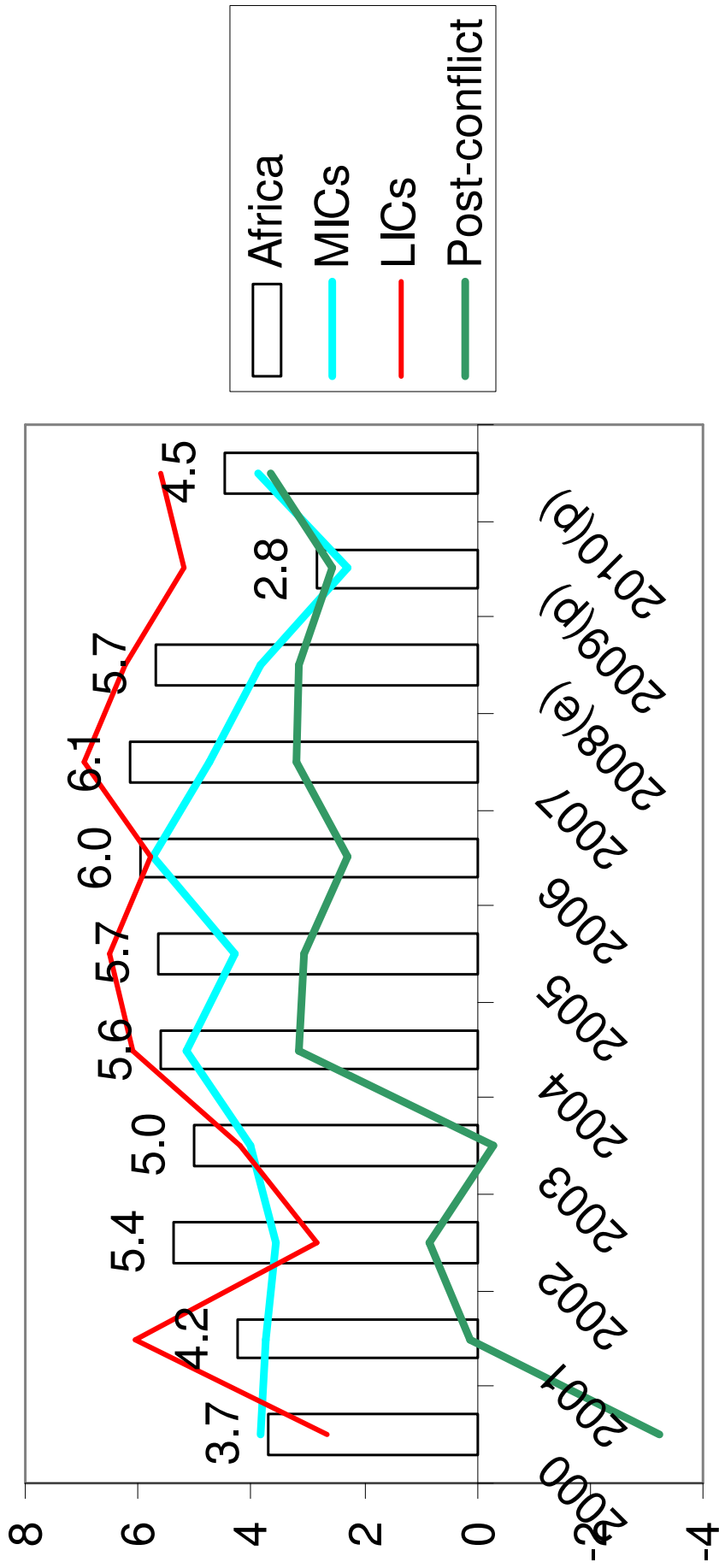
Real GDP Growth (%)



Source: OECD Development Centre / African Development Bank, 2009

Growth

Regional disparities



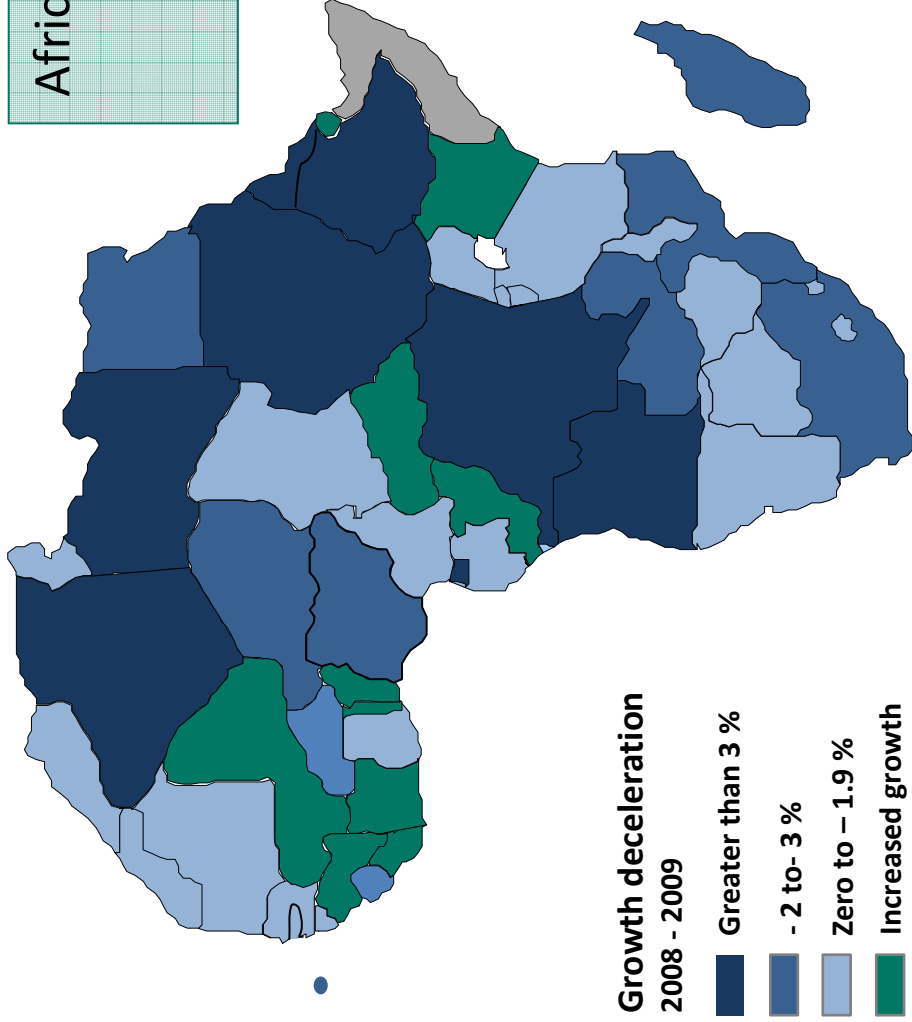
Growth

Regional disparities (May forecasts)

	2007	2008(e)	2009(p)		2010(p)	
			February	May	February	May
GDP Growth Rate in percentage						
Central Africa	4.0	5.0	2.8	2.0	3.6	3.2
Eastern Africa	8.8	7.3	5.5	5.1	5.7	5.5
Northern Africa	5.3	5.8	3.3	3.5	4.1	4.1
Southern Africa	7.0	5.2	0.2	-1.0	4.6	3.6
Western Africa	5.4	5.4	4.2	3.3	4.6	3.4
AFRICA	6.1	5.7	2.8	2.3	4.5	4.0
<i>Memorandum items</i>						
Sub-Saharan Africa	6.4	5.5	2.4	1.4	4.7	3.8
Oil-exporting countries	6.8	6.6	2.4	2.5	4.5	4.1
Oil importing countries	5.4	4.6	3.3	2.1	4.5	3.8

Southern Africa hit severely: Oil (Angola)

Minerals (Botswana)



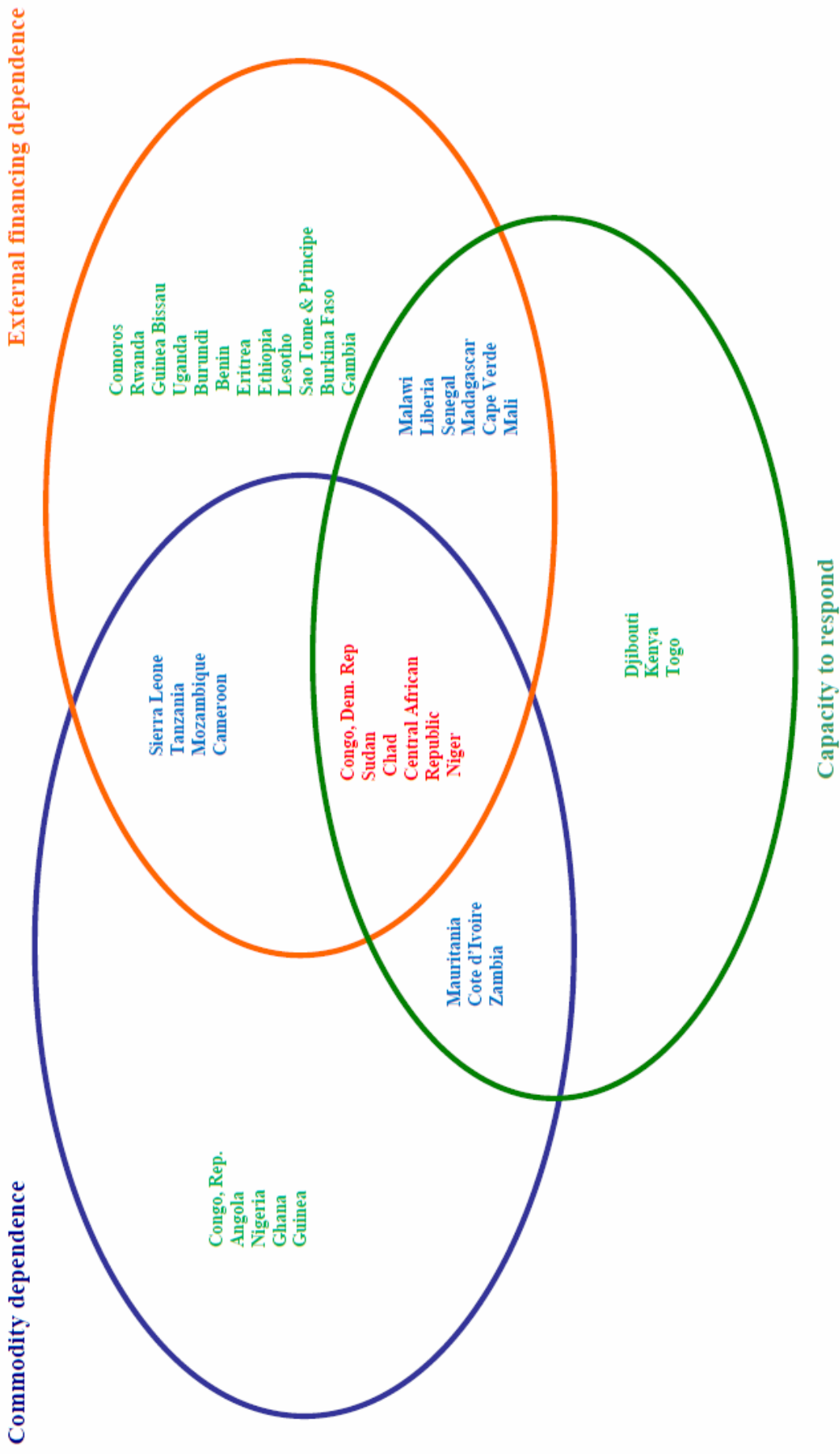
African growth has taken a serious hit:

2008: near 6%
2009: below 3%

- Oil exporters are taking the most severe hit
- More globally integrated economies, such as South Africa and Egypt, are strongly affected
- Low-income / non-oil exporting countries are less affected, because:
 1. decrease in energy bill
 2. less integration to the world economy

Global Crisis

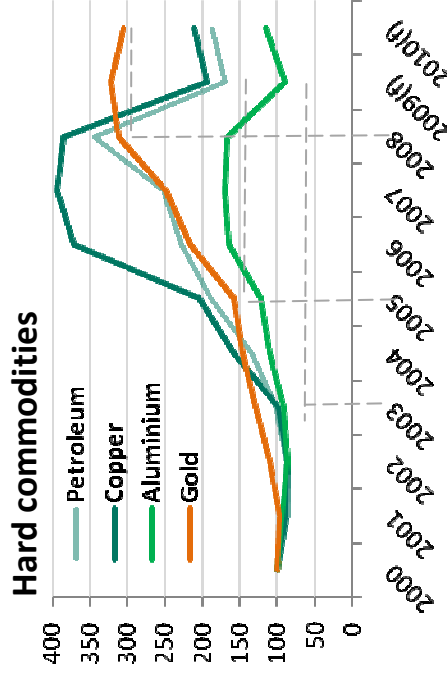
Exposure to the crisis for LICs



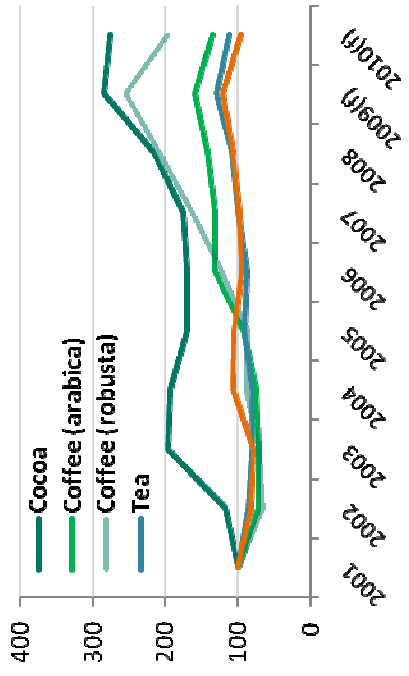
Trade

The global trade collapse is now hitting Africa

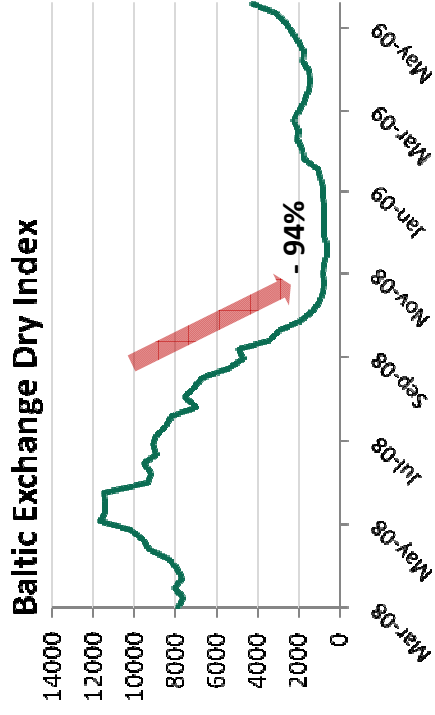
- A cold shower for hard commodity exporters
- Soft commodity exports prove more resilient
- After years of boom, World Trade is expected to contract by 13% in 2009



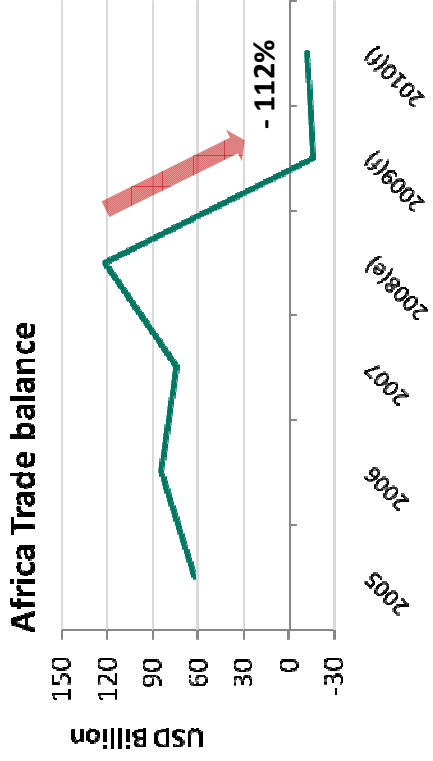
Soft Commodities



Source: African Economic Outlook, based on World Bank, 2009



Source: Datastream, 2009



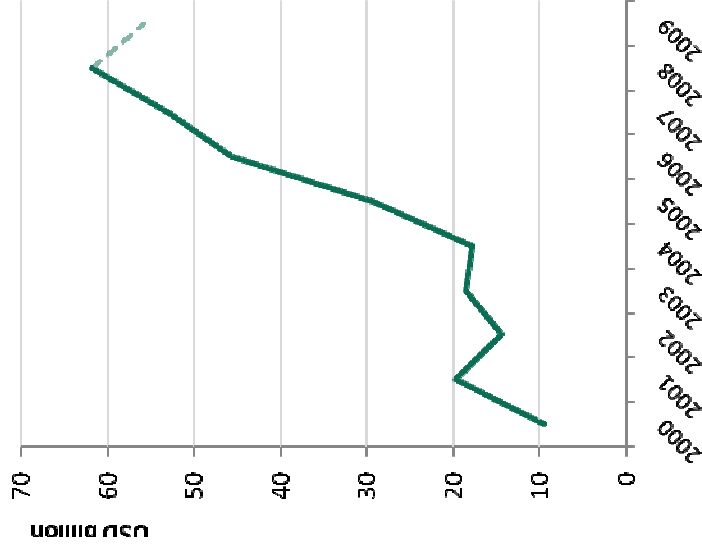
Source: African Economic Outlook, 2009

Private financial flows

A global retrenchment of capital

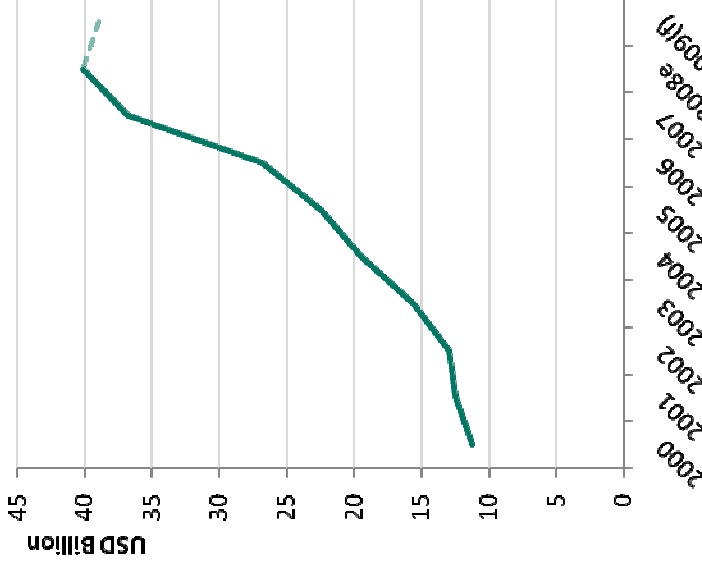
- Flows to Africa grew by 17% to over USD 60 billion in 2008, despite the global slowdown
- Remittances to Sub-Saharan Africa are set to decline from between 4.5% to 8% over 2009
- Stock markets have taken a severe hit

Foreign Direct Investment



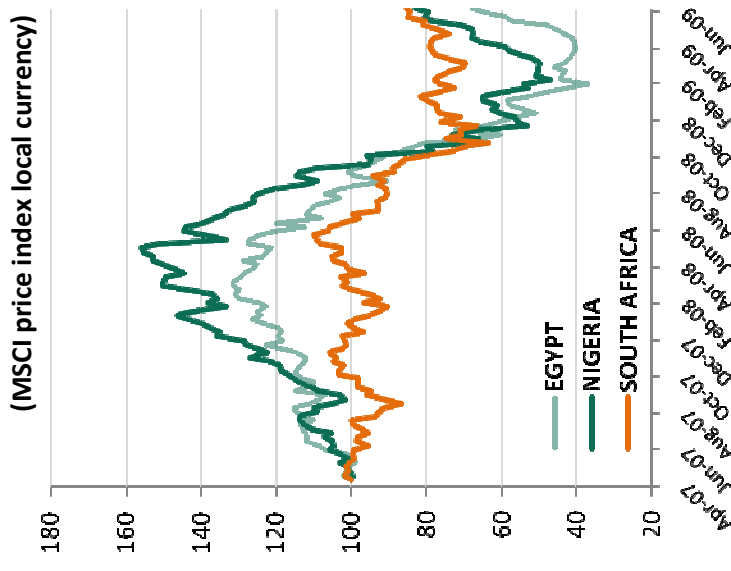
Source: OECD Development Centre , based on UNCTAD 2009

Remittances



Source: OECD Development Centre , based on World Bank, 2009

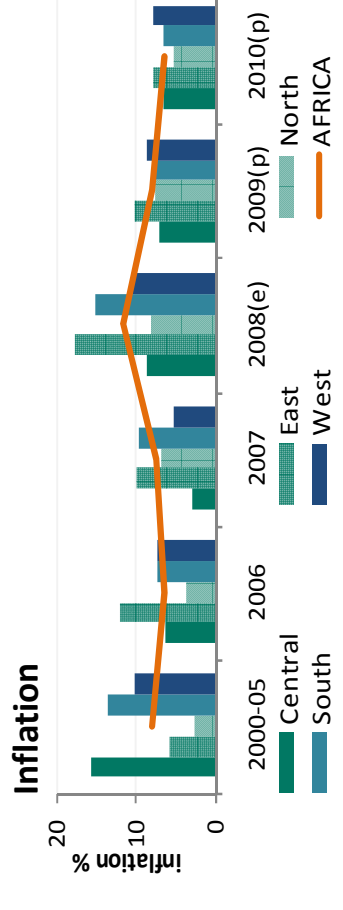
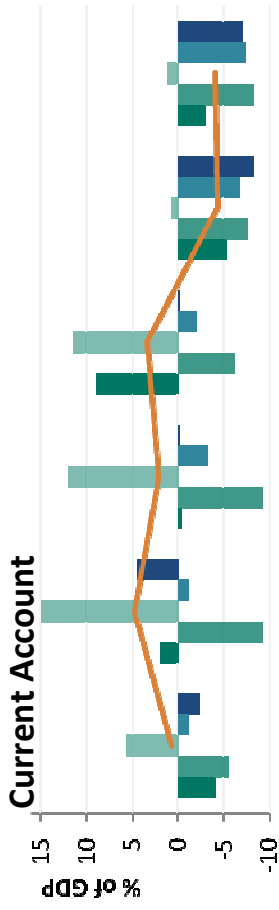
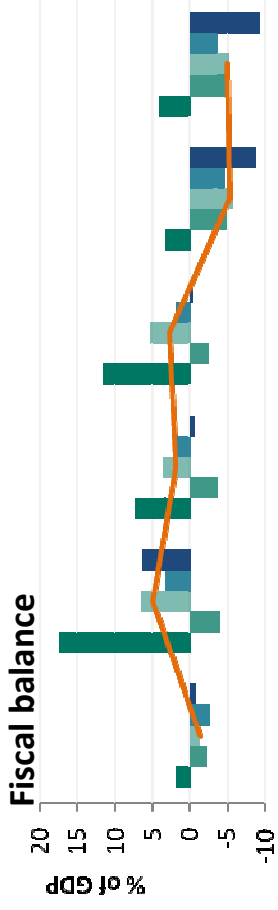
Stock Markets



Source: Thomson Datastream 2009

Global Crisis

Fiscal balances will deteriorate significantly



Source: OECD Development Centre, African Economic Outlook, 2009

	2008 (e)	2009 (p) February	2009 (p) May
Overall fiscal balance* (% GDP)	2.8	-5.4	-5.8

	2008 (e)	2009 (p) February	2009 (p) May
External Current Account* (% GDP)	3.3	-4.4	-5.3

	2008 (e)	2009 (p) February	2009 (p) May
Consumer prices	11.6	8.1	8.4

Source: OECD Development Centre / African Development Bank, 2008

* Including grants

** Excluding Zimbabwe, Estimations for 2007 and predictions for 2009/10

Beyond the crisis

Africa today is more resilient to exogenous shocks

- Over recent years, good macro management in many countries strengthened fiscal balances
 - HIPC initiative significantly reduced debt levels and composition in many countries
 - Politically more stable than in past decades
 - Africa has diversified some of its exports markets
 - Governments' efforts in nurturing private sector and enterprise resulted in steady improvements in business climate indicators
- ↑
- | | 2000-05 | 2008(e) |
|------------------------|---------|---------|
| Fiscal balance, % GDP | -1.4 | 2.8 |
| Current Account, % GDP | 0.6 | 3.3 |
- ↑
- | | 2005 | 2008 |
|----------------------------|-------|------|
| Total external Debt/GDP, % | 110.6 | 20.8 |
| Debt service / exports, % | 20.8 | 4.7 |
- ↑
- Total trade with **China** has moved from **USD 11 billion in 2001** to **USD 106 billion in 2008**

But Africa's development challenges fundamentally unchanged

Then: Growth good but not good enough

Now: a growth crisis, threat of a development crisis

- 1. How to raise growth**
 - Support engines of growth
 - Target growth
 - 2. How to sustain high growth**
 - Diversification
 - Moving up the value chain
 - 3. How to increase the developmental impact of growth**
 - Employment
 - Redistributive policies
- 1. How to avert a growth collapse**
 - Protect engines of growth
 - Maintain infrastructure investment
 - 2. How to position Africa to grow (faster) after the crisis**
 - Sustain infrastructure
 - Minimize macro imbalances (incl. debt)
 - 3. How to protect the poor**
 - Build social safety nets
 - Protect employment

Policy

Need to strike a policy balance ...

Policy balancing in a growth acceleration context

1. Balance between growth and distribution
2. Balance between growth stimulation and macroeconomic stability
3. Balance between domestic and external growth drivers

Policy balancing in a growth deceleration context

1. Balancing short-term crisis response and policies to alleviate structural constraints to long-term growth
2. Balance between emergency external financing and strengthening the base for domestic resource mobilization
3. Balance between strengthening relationships with traditional partners and building new economic and financial cooperation (China and other emerging countries)

Global responses

Actions needed to maximize Africa's gains from global pledged resources

- Need to channel resources through MDBs
 - WB and AfDB are enhancing their lending instruments to make them more flexible and expeditious
- Need to review the debt sustainability framework
- Need to align external financing with national development agenda
- A call for increased Africa's voice and representation to advance the continent's development interests and for greater aid effectiveness

- The Bank has established several initiatives:
 - The *Emergency Liquidity Facility* (ELF, USD 1.5 billion) to support eligible countries and non-sovereign operations in RMCs.
 - The *Trade Financing Facility* (TFF, USD 1 billion) for African commercial banks and DFIs to support trade finance operations.
 - The *Accelerated Resource Transfer to ADF Countries* to support low-income concessional borrowers through an accelerated use of currently available concessional resources.
 - *Enhanced Advisory and Advocacy role*: Knowledge generation (analytical support); crisis monitoring and policy advice; advocating for greater Africa's voice; use convening capacity in collaboration with other pan-African institutions (AUC, UNECA) (e.g. Committee of Ten).

- **Africa has been hit severely; the impact varies across countries and sectors**
- Changes in the direction of trade, prudent macroeconomic policies and debt restructuring make Africa better positioned to weather the current crisis.
- African governments have to preserve the gains obtained in the recent past, by pursuing structural reforms, infrastructure development and targeting poverty reduction.
- With the right combination of domestic policy reforms, Africa can continue to grow despite the crisis, while setting the stage to faster growth for the future.



Thank you