

SECTION III: The Global Financial and Economic Crisis – a New Challenge to Meeting the MDGs in Africa

Economic shocks are powerful drivers of poverty and change in the human condition. Positive shocks are likely to reduce poverty and improve human development indicators, while adverse shocks have the opposite effect. The year 2008 was characterized by a number of adverse shocks – the food crisis, the fuel crisis, and the global financial and economic crisis. The environment in 2009 for achieving the MDGs in Africa has been made much more complex by the cumulative impact of these crises and, most notably, by the global financial crisis. Africa's real GDP growth rate registered an average of 5.7 percent in the six-year period 2003-2008, but this is expected to slow significantly in 2009.

The current global financial and economic crisis presents significant short-term risks to Africa's progress toward achieving the MDGs. The major contraction in the global demand for Africa's exports has led to a fall in commodity prices, with a significant adverse impact on African economies. Foreign exchange revenues have fallen, along with corporate tax revenues. As a result, it has become much more difficult for countries to finance imports and critical infrastructure development. In Ethiopia, Burundi, and Uganda the price of

coffee has plummeted and small-scale farmers and casual laborers have seen their incomes collapse. The same effect is observable in Zambia and the Democratic Republic of Congo, where mines have closed and small-scale artisanal miners are swelling the ranks of the unemployed. The number of the transitory poor has increased in a number of countries.

Although the financial sector of many African countries is not experiencing significant solvency problems, nonetheless, the impact of the financial crisis is being widely felt. There has been a significant deleveraging by foreign investors, which has resulted in loss of value in African stock markets. Consumer prices have risen significantly, notably because of the high weight of food in the consumption basket and inflationary expectations. Table 13 below presents some evidence on consumer prices in three countries – Nigeria, Kenya, and Rwanda. As the table shows, inflationary pressures are beginning to build in these countries on common staples consumed by the poor, and this has implications for attainment of the MDGs. Many countries (for example, Ethiopia and Nigeria) are now experiencing double-digit inflation.

Table 13: Consumer price index and inflation rates for selected African countries

			Change in CPI (Feb. 2009 - Nov. 2008)	% change in CPI (Nov. 2008 =100)
Nigeria	CPI	All items	4.0	2.1
		Food	4.6	2.4
Rwanda	CPI	All items	1.9	1.1
		Bread and cereals	7.7	3.5
		Meat	10.0	4.8
		Education	30.2	17.4
Kenya	CPI	Overall Kenya index	37.6	12.8
		Nairobi index	47.9	16.2

Source: The National Statistical Bureaux of Nigeria, Rwanda, and Kenya.

The expansive fiscal space that many African countries enjoyed for a number of years, which enabled them to scale up investments in public services and in development /infrastructure programs to accelerate progress toward the targets of the MDGs, is now beginning to contract. This could also threaten the sustainability of gains achieved to date. Table 14 shows a worsening current account position for a number of African countries. This could present a significant future debt burden, increasing the need for these governments to spend more servicing debt and therefore limiting their capacity to increase public spending in MDG-critical areas.

The deterioration in the current account balance of many African countries has put pressure on their domestic currencies. Since October 2008, most African currencies have lost value relative to the US dollar and other major currencies. This is raising the cost of production in domestic prices

and contributing to inflationary pressures. Given normal market conditions, depreciation should result in increased exports, as the price of goods becomes more attractive in the global marketplace. However, depressed global demand for Africa's exports limits the ability of African exporters to take advantage of the change in relative prices. The export of commodities such as coffee, tea, horticulture, and ores for example, has fallen significantly. According to estimates by the ECA and AUC,³¹ real GDP growth in the region is likely to decelerate to 2.0 percent in 2009, due to the global economic and financial crisis.

31 Economic Commission for Africa (ECA) and African Union Commission (AUC) (2009) *Economic Report on Africa 2008*, launched May 28, 2009 in Addis Ababa.

Table 14: Current account balance as percentage of GDP for selected African countries

Countries	Current Account Balance (as % of GDP)			
	2006	2007	2008	2009*
Africa	4.8	2.2	3.2	-5.3
North Africa	14.9	12.1	11.6	1.2
Algeria	24.8	22.4	24.7	9.5
Morocco	2.1	-0.8	-3.7	-2.0
Sub-Saharan Africa	-0.4	-3.1	-1.4	-8.9
Ethiopia	-9.2	-3.0	-4.7	-5.0
Kenya	-2.1	-4.1	-4.2	-0.6
Uganda	-3.5	-2.8	-9.8	-7.5
Angola	25.8	11.5	13.6	-14.5
Ghana	-6.4	-12.4	-11.5	-14.1
Nigeria	8.8	3.5	2.0	-10.8
Côte d'Ivoire	-6.3	-7.3	-7.6	-7.9
South Africa	2.8	-0.7	2.2	-0.3
Oil-importing countries	-4.1	-5.4	-7.0	-6.7
Oil-exporting countries	13.1	8.8	10.5	-4.2

Source: African Economic Outlook 2008/09, African Development Bank.

* 2009 figures are estimates.

The African response to the global economic and financial crisis has been swift and proactive, and taken at the highest levels.³² The crisis was discussed at a meeting of African Ministers of Finance and Governors of Central Banks in Tunis

32 A number of conferences were organized in the region to share experiences and to formulate a common position on the global response to the crisis. Among these were: The Conference of African Ministers of Finance and Governors of Central Banks in Tunis in November 2008; the February 2009 African Union Summit; the Conference of African Ministers of Trade in March 2009; and the Conference of Ministers of Finance, jointly organized by the Government of Tanzania and the International Monetary Fund in April 2009.

in November 2008. Similarly, the African Union (AU) Summit in January 2009 discussed the crisis in-depth and adopted a number of resolutions, calling on Member States to deal proactively with the crisis and urging development partners not to renege on their aid commitments to the continent. The AU Summit also called for significant African representation in international organizations and for the G20 to extend stimulus packages to the continent.

There was also a response from continental institutions. The African Development Bank set up

an emergency USD 1.5 billion Liquidity Facility to provide bridge financing. It also set up a Trade Finance Facility of up to USD 1.0 billion to assist African countries in dealing with the crisis, USD 500 million of which is to be channeled into the IFC's Global Trade Liquidity Program (GTLP). The GTLP aims to mobilize a pool of USD 5 billion of resources from participants, that will catalyze a total of USD 50 billion from both African and international banks, of which up to USD 15 billion is expected to go to Africa to support trade finance.

Overall, due to the stimulus measures taken at the national, continental, and global levels, many analysts believe that Africa will weather the financial crisis better than many developed countries. As a result of macroeconomic policy and structural reforms undertaken previously, African economies are far more resilient now than they were in the past and economic management has significantly improved. Further, the crisis also offers opportunities for future growth and for stemming the brain-drain from the region. While the possible fall in migrant remittances has been highlighted as a major consequence of the crisis, it is also possible that the recession could spur a return migration of skilled Africans to the continent, as well as stem the outflow of scarce skills. The combined effect of this will be to increase the stock of human capital available to advance the MDGs agenda. Further, it is in hard times that innovative economic management skills are developed and honed. So, while the current crisis presents serious challenges to policymakers, it does give African governments the opportunity to strengthen fiscal management, including public finances, and to deepen their financial systems.

Lessons from the East Asian crisis may prove useful.³³ African policymakers should be conscious of the impossible trinity – independent monetary policy, stability of exchange rate, and free movement of capital. Only two of these can be attained simultaneously. The choice of exchange rate – and its trade-off with monetary policy – is tight. The introduction of prudent regulation in the financial sector benefits the whole system. The timing of capital account liberalization is important. Policymakers need to be aware of the potential risk of reversals and other problems that can occur in financial markets by opening up domestic finance markets to foreign investors.

African countries also need to develop effective early-warning systems, and to grow their internal markets through linking up enclave economies and through road and other infrastructure that help create an integrated domestic economy. They should also make their exports less dependent on demand in the developed countries and China and India by vigorously pursuing regional integration and developing regional markets. Finally, the crisis, which clearly will end at some point, should not be an excuse to divert attention from the core development challenges of the continent and the imperative of external assistance. Of the USD 28.3 billion pledged by rich nations to Africa at the G8 Summit in Gleneagles, only USD 9.4 billion has actually been delivered to date.

33 See in this regard, Pircher (2008).