The Global Financial Crisis: will successful African countries be affected?

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8 December 2008
Background Note

Abstract:

The effects of the global financial crisis on developing countries will be as high as on developed countries. IMF forecasts for sub-Saharan African growth for 2008 and 2009 have recently been downgraded by between 1-2 percentage points to 5.5% in 2008 and 5.1% in 2009. The revision represents a reduction of up to USD 20 per head in sub-Saharan Africa due to the financial crisis.

The channels through which the global financial turmoil affects developing countries include financial channels and real channels. Financial channels include effects through: stock markets, banking sector (borrowing from advanced economies, foreign ownership of banks, exposure to sub-prime market), and foreign direct investment. Real channels include effects through remittances, exports, imports, terms of trade, and aid. Our previous research based on current updates and forecasts as well as on evidence on what happened in previous slowdowns and in the absence of policy responses, suggested that net financial flows to developing countries may fall by as much as $300 billion in two years, equivalent to a 25% drop.

This paper examines whether Ghana, Kenya, Mali, Mozambique, Rwanda, Senegal, Tanzania, and Uganda, which represent successful countries in Africa recently, are at risk of back sliding on their recent successes. It does this by first painting the picture on how Africa might be affected using the channels mentioned and then by discussing each country in detail, as much as possible taking into account of what has already happened. It is clear that some countries are seriously at risk of being affected by the current global financial crisis either through real contagion or financial contagion. Ghana, Mali, Mozambique and Tanzania are more at risk than the other countries considered since they have a significant share of foreign owned banks and their economies strongly rely on foreign direct investment. Uganda has a high remittances dependency that makes it exposed to the current crisis; the turnover at its nascent stockmarket has already been more than halved. Kenya's indicators (remittances down by 40%, tourism by 30%, stock prices down by 40%) suggest it has already been affected in a major way.

The policy space for responding to the impact of the financial turmoil varies across SSA countries. In particular, the effects might be stronger in Ghana as it has both a large current account and a large fiscal deficit, and the level of its reserves was below 3 months of imports of goods and services. In other countries this crisis is yet another set back. Kenya was already under political pressures and the current bad news will make the situation only more precarious.

We suggest that while some evidence has emerged, individual developing countries need urgent access to updated research on country-specific economic, social and political consequences of the financial crisis. Each developing country needs to set up a crisis task force to consider the best possible policy responses – short term and long term economic and social policy responses.

1. Introduction[1]

The global financial crisis is bound to have a major impact on developing countries including Africa. The International Monetary Fund (IMF) downgraded its growth forecasts for 2009 by nearly two percentage points over the last two months for both developed and developing countries. World growth is expected to be only 2.7% in 2009 (compared to 5% in 2007) and world trade is likely to stagnate. Many suggest it will be a deep and long recession. While African countries are expected to grow, this is hardly enough to keep up with population growth. IMF forecasts for African growth for 2008 and 2009 have been downgraded by between 1-2 percentage points to 5.5% in 2008 and 5.1% in 2009. The revision represents a reduction in GDP per capita of up to USD 20 for every person in sub-Saharan Africa due to the financial crisis. Some countries will be at serious risk of back sliding.

The channels through which the global financial turmoil affects developing countries may be classified into financial channels and real channels.

Financial channels (direct effects) include effects through:

- stock markets;
- banking sector (borrowing from advanced economies, foreign ownership of banks, exposure to sub-prime market); and
- foreign direct investment.

Real channels (indirect effects) include effects through:

- remittances;
- exports, imports, terms of trade; and
- aid.

This briefing note discusses the effects on Africa generally (Section 2) and then discusses country case studies in more detail (Section 3 and appendix B). These are initial views based on a desk review and further in-country work is necessary. Successful countries for the purposes of this briefing have been defined as Ghana, Kenya, Mali, Mozambique, Rwanda, Senegal, Tanzania, and Uganda. Section 4 discusses policy challenges and opportunities. Section 5 concludes.

[1] All opinions and potential errors are the responsibility of the authors.

2. Sub-Saharan Africa and the global financial crisis: challenges and opportunities

Sub-Saharan Africa has been growing strongly since the mid-1990s and some suggested it would not be affected by the global financial crisis. However, according to the most recent estimates released by the IMF on 6 November, the growth rate of sub-Saharan Africa (SSA) is expected to slow down from 6.8% in 2007 to 5.5% in 2008 and to 5.1% in 2009, after a period of remarkable expansion. The revision represents a reduction in GDP per capita of up to USD 20 for every person in sub-Saharan Africa due to the financial crisis.

The financial crisis has become widespread and there is no doubt that SSA will suffer the (indirect) real effects of the crisis, and the direct financial effects to a smaller extent since most of the countries in the region do not have or have a small derivatives market, a small interbank market, have not relied heavily on international private lending, and have used strict controls of banking regulations and foreign exchange.

There are a number of important channels through which the global financial crisis might affect SSA countries. In particular, there are three direct financial channels through which the crisis might spread to SSA.

Portfolio inflows

The number of stock markets in sub-Saharan Africa has significantly increased over time though is still small. While there were five stock exchanges in 1989, there are 16 currently including those recently established in Ghana, Malawi, Swaziland, Uganda and Zambia. Some stock markets in SSA such as those in Ghana, Uganda, Kenya, Nigeria and Mauritius have experienced an extraordinary performance over the past few years, thus attracting an increasing share of portfolio inflows.

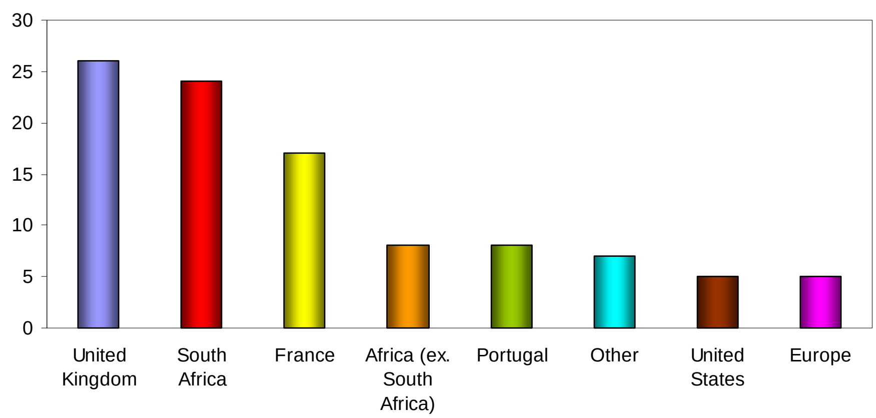
The current financial crisis has put these financial flows at risk. Indeed, the enhanced risk aversion of investors joint with the tightening of global credit conditions, the deterioration of the macroeconomic and political environment of some countries in the region, as well as the increased volatility of capital markets and exchange rates have led to a reduction of portfolio inflows in SSA. The countries in the region mostly affected by this phenomenon have been South Africa, Nigeria and Kenya. For example, in South Africa portfolio flows reversed in late 2007 while in Kenya they fell at the beginning of 2008 due mainly to the political issues. Moreover, foreign-currency-denominated bonds issuances by SSA countries ceased in the first half of 2008, after having reach a value of US $6.5 billion in 2007. However, lower portfolio inflows may result in only a limited number of countries with developed stock markets.

Banking system

International private banking activity through both cross-border lending and local market activity (i.e. lending through local affiliates) is relatively limited in sub-Saharan African countries. Indeed, in the third quarter of 2007, international claims (i.e. claims denominated in foreign currency) to sub-Saharan Africa accounted for only 6% of their total amount, while in Europe and Central Asia, and in Latin America and East Asia they accounted for 43% and 20% respectively. Thanks to this, sub-Saharan Africa is less vulnerable to shocks in global interbank rates caused by the financial turmoil.

However, the current financial crisis might affect sub-Saharan Africa by deteriorating its domestic banks. Indeed, foreign ownership of the banking sector in sub-Saharan Africa has increased over the last decades and overall it is currently comparable to that in Europe, Central Asia and Latin America and higher than that in East Asia, South Asia and the Middle East and North Africa. As shown in Chart 1, foreign banks in SSA are mainly from the region — 24% of foreign banks are from South Africa — as well as from the United Kingdom (26%) and France (17%). In principle, this implies that parent banks located in these countries might start to withdraw funds from their African subsidiaries in order to offset losses in home countries, thus increasing African banks' chances for bankruptcy and financial collapse. Even if there is still no evidence that this has happened, foreign ownership of the African banking system represents an important potential channel through which the current financial crisis might affect sub-Saharan Africa.

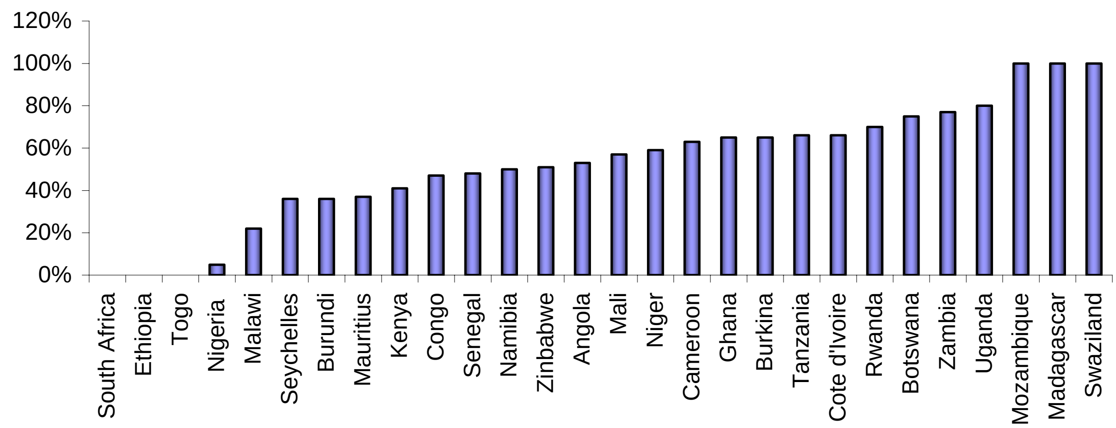
Chart 1 Home countries of foreign banks in SSA, 2000-06



Source: World Bank's Global Development Finance, 2008.

Not all countries are exposed to this risk. Indeed, foreign ownership of banks varies in the sub-Saharan African region. Countries such as Mali, Tanzania, Rwanda, Uganda and Mozambique have high shares of foreign owned banks, while in countries like Malawi and South Africa there is a minimal or no share of banking assets held by foreign banks with majority ownership (see Chart 2). Those countries with a high share of foreign owned banks might be more at risk to the financial crisis than those with few foreign owned banks.

Chart 2 Share of banking assets held by foreign banks with majority ownership in SSA, 2006



Source: World Bank's Global Development Finance, 2008; Note: A bank is said to be foreign owned if 50% or more of its shares in a given year are held directly by foreign nationals.

Foreign direct investment

In 2007 net foreign direct investment (FDI) inflows to SSA amounted to about US $25 billion and, according to the IMF, they have continued to grow during 2008. [2] This has been mainly due to the fact that investments in the region have offered diversification opportunities as well as return rates higher than those in mature economies. FDI flows have been directed mainly to services sectors like telecommunication and have benefited a selected number of sub-Saharan African countries. Recent key investors in the region have been China and the Gulf states. However, the current financial crisis and the consequent draining of liquidity in the global market are likely to make foreign investors reducing their investments in the region. Indeed, we hear of many reports of mining investments (e.g. in Zambia and South Africa) being reviewed or on hold.

Besides financial channels, there are five real channels through which the crisis might spread to SSA.

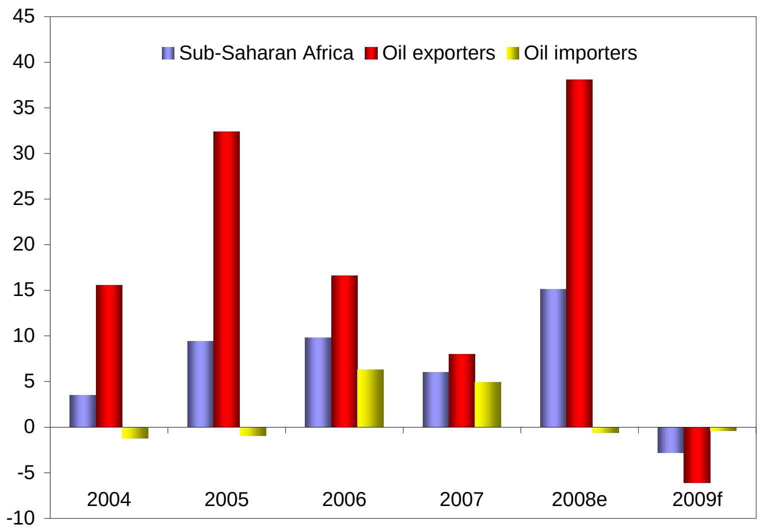
Trade in goods and terms of trade

Before the outbreak of the financial crisis, SSA countries benefited from increases in commodities prices but also suffered from it, especially from oil and primary grains. The continuous demand for natural resources (e.g. by China and India) played in favour of oil rich countries and agriculture net exporters. Thanks to these, terms of trade improve steadily throughout the region since 2003. However, the global financial crisis and lower global growth started to dampen demand for SSA's exports with the consequent slump in prices.[3] Terms of trade are expected to adjust sharply by the end of 2009. The magnitude of the adjustment is evident in Chart 3. It suggests

[2] See the IMF's Regional Economic Outlook (REO) on Sub-Saharan Africa, October 2008.
[3] According to the IMF's Regional Economic Outlook on sub-Sahara Africa (October, 2008), SSA exports are projected to grow by only 3% in 2008 and 2% in 2009, against a value of 4% in 2007.

that oil exporters may suffer the most from these sharp declines. On the other hand, Table 1 shows that Rwanda, Ghana and Kenya were amongst the most vulnerable to price hikes, so that they may actually gain from oil price declines.

Chart 3: Terms of trade percent change in SSA (%GDP), 2004-09



Source: IMF's Regional Economic Outlook on sub-Saharan Africa, October 2008; Note: e=expected, f=forecast.

Table 1 Oil vulnerability index (2006)

(oil imports / total oil use)*(total oil use / total energy use) * (total energy use / GDP)

From least vulnerable to most vulnerable to oil price changes

Countries	*Oil imports / total oil use (is negative for net oil exporters)*	*Oil use / energy use*	*Energy use (volume)/ GDP*	*Oil vulnerability index (2006)*
Mali	1.0	0.7	1704	1148
Uganda	1.0	0.5	3991	1822
Mozambique	1.0	0.1	20092	2413
Tanzania	1.0	0.5	5132	2696
Rwanda	1.0	0.8	4623	3898
Ghana	0.8	0.5	9938	3906
Kenya	1.0	0.6	6994	3955

Source: World Bank's World Development Indicators, 2007.

Table 2 shows to what extent recent commodity price declines (see Table A1 in the Appendix A) may affect exports and growth in selected African countries. It is likely that Ghana will be affected substantially because commodity exports constitute a significant part of GDP and the commodities are facing declines.

Table 2 Will commodity prices affect growth in countries?

Country	*Commodity exports as % of GDP (WEO 2006)*	*Key commodity exports (2000)*	*Commodities experiencing price declines (Oct over July)*	*Possible overall growth effect (own judgement)*
Ghana	10 – 20%	Cocoa, wood, fuels, aluminium	-24% (Cocoa), -31% (aluminium)	Large
Kenya	5 – 10%	Coffee, tea, green beans	-24% (Coffee)	Medium
Mali	5 – 10%	Cotton, groundnuts, animals, wood	-19% (cotton)	Medium
Mozambique	5 – 10%	Fisheries, nuts, fuels	-10% (fish and nuts)	Medium
Rwanda	2.5 – 5%	Tea, coffee, hides	-2% (tea)	Small
Senegal	5 – 10%	Fisheries, cotton, palm oil	-19% (cotton)	Medium
Tanzania	5 – 10%	Coffee, tobacco, fisheries	-24% (Coffee)	Medium
Uganda	5 – 10%	Coffee, fisheries	-24% (Coffee)	Medium

Source IMF and own judgement

Services

Commodities are important for sub-Saharan Africa economic growth. However, African growth clearly shows that there was a growth turn-around in the mid 1990s, long before commodity prices began to rise and that growth rates were roughly constant over the past five years when commodity prices increased rapidly. Indeed, there is a more complex picture of African growth as improved services (e.g. financial, tourism and real estate services) have contributed more than half of African growth in the last decade (and perhaps surprisingly a 60% contribution in the case of Zambia), with the share of services in incomes increasing by 5 percentage points over the last 15 years.

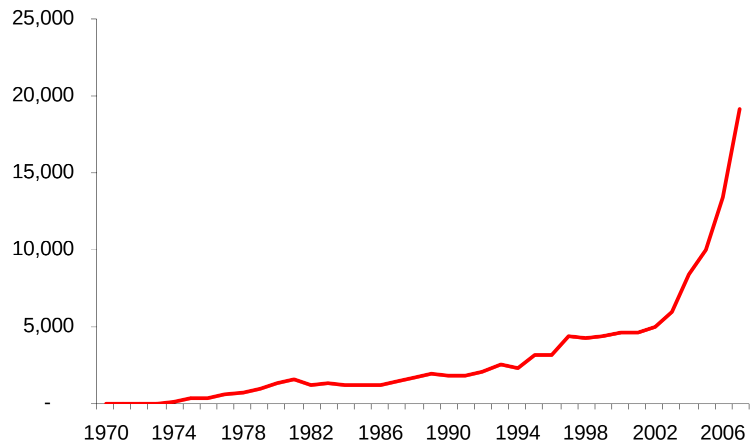
So, while Africa is expected to feel the fall out of the global financial crisis, this may go beyond the effects through lower commodity prices. There are several other channels such as the effects on recent drivers of growth including tourism and other services with equally dampened prospects for receiving investment and remittances.

The UNWTO suggests that after a normal start to the year (growth in international tourist arrivals worldwide averaged 5.7 percent from January-April), growth fell below 2 percent in June, July, and August as the high price of oil and rising inflation took their toll, and together with recession fears, squeezed travel budgets. For the first eight months of 2008, growth averaged 3.7 percent compared with the same period in 2007. It is projected to be around 2 percent globally. Africa's growth is currently less than half the level achieved in 2007, and this is still largely thanks to North Africa while sub-Saharan Africa’s average growth may decline markedly compared to the 2007 growth rate.

Workers' remittances

Remittance flows to sub-Saharan Africa have experienced a significant growth recently, increasing from a value of US $1.17 billion in 1995 to a value of US $19 billion in 2007 (see Chart 4), and they have been a powerful poverty reduction mechanism in the region. But news suggests that remittances to Kenya (which depend on the US economy) have been hit hard, with the Central Bank estimating a 38 percent year-to-year drop in August.[4]

Chart 4 Remittance flows to SSA, 1995-2007 (US$ million)



Source: World Bank (2008).

Sub-Saharan Africa is dependent on remittances (see Table 3), and there are some countries like Lesotho, Sierra Leone, Cape Verde, Senegal, Togo, Guinea-Bissau, and Uganda that have a high dependency on them (see Chart 5).

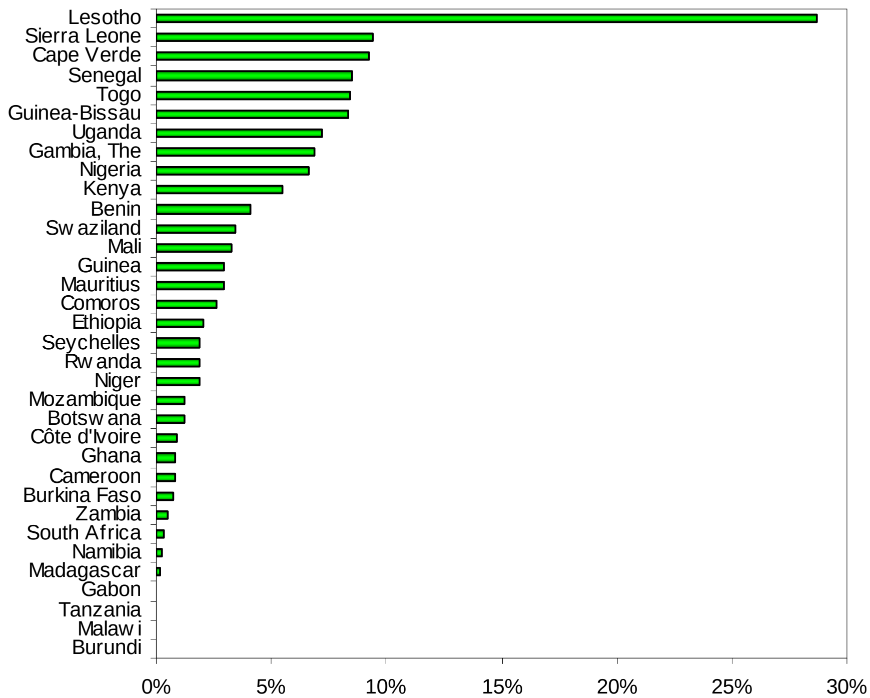
Table 3 Workers' remittances as a share of GDP by region, 2007

Region	Remittances
East Asia and Pacific	*1.4%*
Latin America and Caribbean	*1.7%*
Europe and Central Asia	*1.8%*
Middle-East and North Africa	*4.6%*
South Asia	*3.1%*
Sub-Saharan Africa	*2.6%*

Source: World Bank (2008).

[4] See http://www.ft.com/cms/s/0/620fc278-a164-11dd-82fd-000077b07658.html

Chart 5 Remittances in Selected SSA Countries: (%GDP), 2007



Source: World Bank (2008).

According to the last outlook for remittance flows released by the World Bank, the global financial crisis is expected to reduce remittances sent to sub-Saharan Africa. Indeed, even if remittances are less volatile than official development assistance (ODA) and foreign direct investment (FDI), the significant slow down in global growth is expected to reduce the growth rate of remittance flows to sub-Saharan Africa from 42% in 2007 to just 6% in 2008.[5] This forecast seems too positive given past experience of drops in remittances of 20% in times of crises. The prospects for 2009 and 2010 depend on how fast sub-Saharan Africa's remittance-source countries will recover from the financial crisis. In 2008, 44% of remittances to sub-Saharan Africa have been sent from Western Europe, 31% from the United States, 8% from the Gulf states and the rest from other developed and developing countries. This implies that if Europe and the United States will go into a deep recession, remittance flows to sub-Saharan Africa will be strongly affected. A rise in anti-immigrant hostility during the economic downturn might worsen the situation.

The effects of China and India

China and India have played an important role in sub-Saharan Africa over the last years in terms of aid, trade and investment. China has offered loans and grants to several oil and mineral countries like Angola, Gabon, Republic of Congo, Equatorial Guinea and Nigeria, and has planned to double aid to Africa by 2009. In the same way, India has offered aid to the region especially in the IT and health sector. China and India are also among the largest trading partners and foreign investors in SSA:

[5] The value in 2007 includes the revision to Nigeria data. Excluding that, the growth rate of remittance flows to sub-Saharan Africa would have been equal to 14.4%.

13% of African exports (86% of which oil) go to China and India, and Asian FDI inflows account for about 10% of FDI in Africa. As a consequence, the negative impact of the financial crisis on China and India will have a consequent detrimental effect also on SSA. A first source of concern is that China is expected to slow down from 12% growth in 2007 to 7.5% in 2009 (World Bank, China office). India might grow at only 5% next year.

Official development assistance

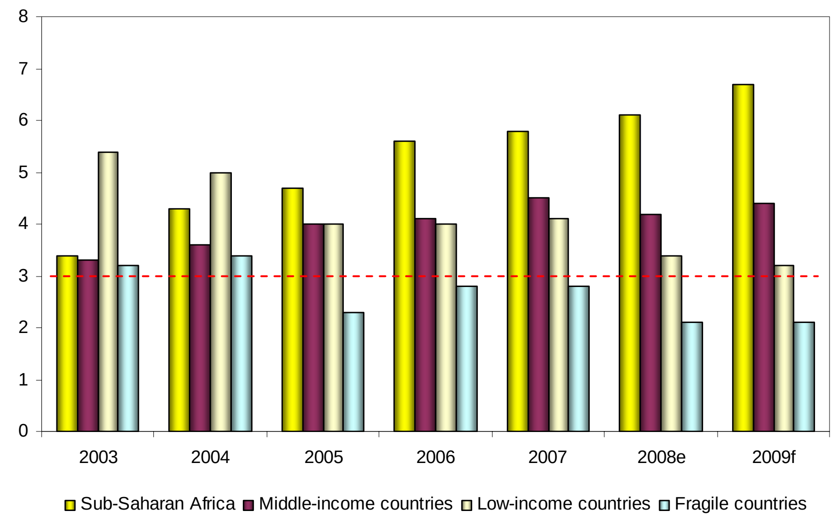
Official development assistance (ODA) flows to sub-Saharan Africa have increased since 2000 reaching a net value of US $40 billion in 2006. Some of the countries that rely on aid the most are Tanzania and Rwanda. Indeed, foreign aid made up 30% of Tanzania's budget and more than 50% of the Rwanda's national budget. Although it is very difficult to predict the effects of the financial crisis on ODA, it is likely that the fall into recession of donor countries will lead to a reduction in aid flows to sub-Saharan Africa and to the impossibility to honour the G8 commitment to double ODA to Africa by 2010, but the case for aid is as strong (if not stronger) as before.

The magnitude of the impact of all the effects previously described varies dramatically among sub-Saharan African countries, depending on a series of factors: the amount held of reserves, the external current account balance, the fiscal balance, and the level of external debt.

Chart 6 suggests that reserves in the region as a whole seem to be healthy (3 months of imports of goods and services is usually considered the minimum acceptable threshold). However, if we divide the sample into middle-income, low-income and fragile countries the scenario differs significantly.[6] Middle-income countries are projected to come dangerously close to the 3 months of imports of goods and services threshold by 2009, while fragile countries, which were closing the gap until late 2007, will retreat and stay around 2 months of imports of goods and services for most of 2009.

[6] Middle-income countries: Botswana, Cape Verde, Lesotho, Mauritius, Namibia, Seychelles, South Africa, Swaziland. Low-income countries: Benin, Burkina Faso, Ethiopia, Ghana, Kenya, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, Senegal, Tanzania, Uganda, Zambia. Fragile countries: Burundi, Central Africa Republic, Comoros, Congo, Dem. Rep. of, Cote d' Ivoire, Eritrea, Gambia, Guinea, Guinea-Bissau, Liberia, Sao Tomé and Principe, Sierra Leone, Togo, Zimbabwe.

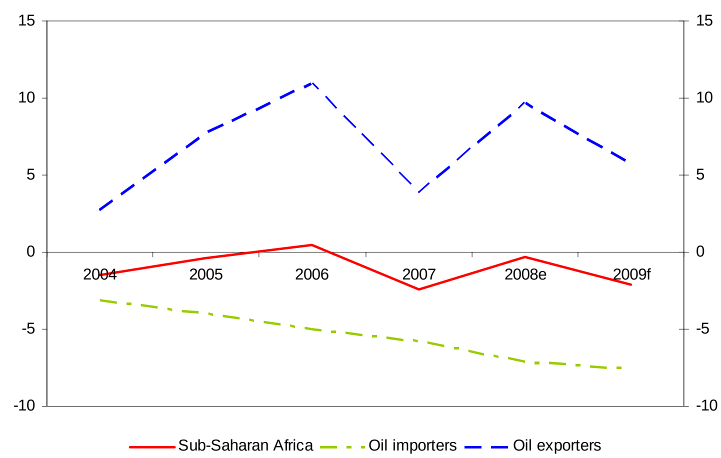
Chart 6 Reserves (months of imports of goods and services), 2003-09



Sources: IMF and African Department database, October 3, 2008, and World Economic Outlook (WEO) database, October 3, 2008; Notes: e = expected, f = forecast.

The regional external current account also shows a bleak picture. Indeed, while in 2006 SSA had a small external current account surplus, the region overall is progressively moving again towards a large (i.e. closer to the threshold level of 3% of GDP) current account deficit (see Chart 7). By distinguishing between oil and non-oil countries, it becomes clear that countries endowed with vast natural resources, which have benefited from previous high oil and commodities prices, are certainly better prepared and may resist a little longer to the financial crisis shocks. However, the sharp correction in oil prices (on November 20, oil was trading at US $49 barrel, while just a few months earlier on July 3 it reached a value of US $145) is expected to dramatically cut back current account surpluses of oil exporters thus reducing their ability to face the global financial crisis. Chart 7 illustrates the steepness of the correction that we might expect to see during the incoming year.

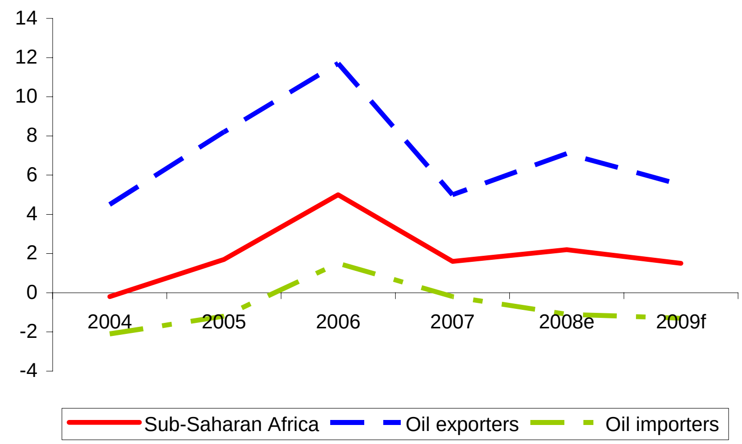
Chart 7 External current account (%GDP), 2004-09



Source: IMF's Regional Economic Outlook on sub-Saharan Africa, October 2008, Notes: Measures in percentage of GDP. The amounts include grants. e = expected, f = forecast.

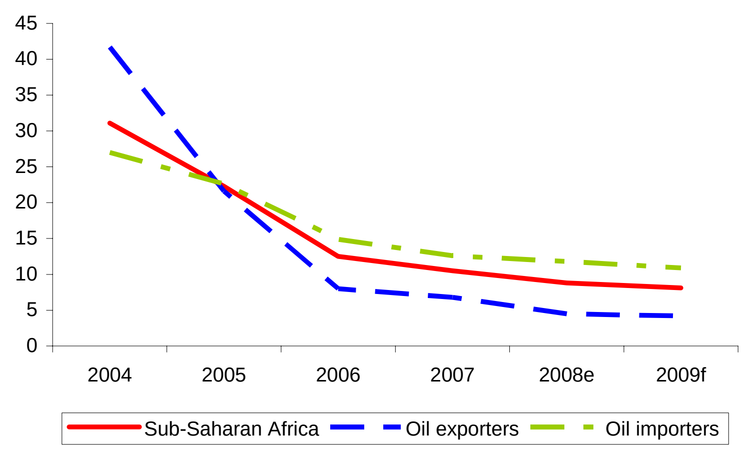
Apart from low reserves and external current account deficits, fiscal deficits and high external debts may also limit the ability of local governments to implement correcting measures to reduce the impact of the financial crisis on the economy. Indeed, governments that gained from the previous prices boom have enough reserves and fiscal surpluses to enable a series of contingent measures to foster economic growth through public spending and to protect the poorest segments of society by means of a series of safety nets funded by their savings and surpluses. On the other hand, governments with huge external debts and fiscal deficits are unable to cope with the needs of their people and, even worse, the tightened liquidity limits their ability to obtain cash in order to face their obligations. Chart 8 and 9 show that SSA oil importing countries are more at risk than oil exporters to the financial crisis since they are close to having a large fiscal deficit (i.e. fiscal deficit over 2% of GDP) and they also still have a much higher external debt.

Chart 8: Fiscal balance (%GDP), 2004-09



Source: IMF's Regional Economic Outlook on sub-Saharan Africa, October 2008; Notes: Measures in percentage of GDP. The amounts include grants. e = expected, f = forecast.

Chart 9 SSA: External debt to official creditors (%GDP), 2004-09



Source: IMF's Regional Economic Outlook on sub-Saharan Africa, October 2008; Notes: e = expected, f = forecast.

The global financial crisis may also bring a few positive opportunities to SSA. First, the current reduction in food and oil prices due to a decline in demand might benefit oil importing countries and positively contribute to alleviate poverty in poorest countries. Second, prolonged low interest rates in developed countries might lead to debt relief in many SSA countries.

3. Selected Country Case Studies: Summary

We discuss the possible impacts and vulnerabilities in 8 African countries in appendix B. Table 4 summarises which countries discussed in this paper are relatively more at risk to shocks in real and financial flows due to the global economic and financial crisis. Ghana, Mali, Mozambique and Tanzania seems to be more at risk than the other considered countries since they have a significant share of foreign owned banks and their economies strongly rely on foreign direct investment. On the other hand, Uganda has a high remittances dependency that makes it exposed to the current crisis.

Table 4 Selected SSA countries' vulnerability to the financial crisis

Country	Remittances Dependency	Vulnerability to Domestic Banking System Stress	Vulnerability to Stops in FDIs
Ghana	low	***high***	***high***
Kenya	***high***	low	low
Mali	low	***high***	***high***
Mozambique	low	***high***	***high***
Rwanda	low	***high***	low
Senegal	***high***	low	low
Tanzania	low	***high***	***high***
Uganda	***high***	***high***	*borderline*

Sources: World Bank's Global Development Finance, 2008; World Bank's remittances database, 2008; UNCTAD's Foreign Direct Investment database, 2008; and authors' calculations; Notes: remittances dependency is defined high if remittance flows as a percentage of GDP are higher than the average value of 3.5%; vulnerability to domestic banking system stress is defined high if the share of foreign owned banks is greater than 50%; vulnerability to stops in FDI is defined high if FDI inflows as a share of GDP are higher than the average value of 3.6%. The thresholds are based on judgments.

Table 5 highlights how the policy space for responding to the impact of the financial turmoil might be quite heterogeneous in the considered sample of selected SSA countries. In particular, the crisis effects are likely to be stronger in Ghana than in the other SSA countries of interest. Indeed, in 2007, Ghana had both large current account and fiscal deficits, and the level of its reserves was dangerously low at the level of 3 months of imports of goods and services. This implies that, if the global economic and financial crisis is going to adversely affect the availability of external finance flows to the country, the Ghanaian government is likely to be put under significant pressure.

Table 5 Current account deficit, fiscal deficit and reserves in selected SSA countries, 2007

Country	Current Account Deficit	Fiscal Deficit	Reserves
Ghana	***high***	***high***	*borderline*
Kenya	***high***	***high***	high
Mali	***high***	***high***	high
Mozambique	***high***	*borderline*	high
Rwanda	***high***	low	high
Senegal	***high***	***high***	high
Tanzania	***high***	***high***	high
Uganda	*borderline*	low	high

Sources: IMF's Regional Economic Outlook on Sub-Saharan Africa, 2008; and authors' calculations; Notes: current account is defined high if it is greater than 3% of GDP, fiscal deficit is defined high if it is greater than 2% of GDP, and reserves are defined high if they are greater than 3 months of imports of goods and services. The thresholds are based on judgments.

We now discuss some recent examples on what effects are already occurring by country.

Kenya

The Central Bank of Kenya says Kenyans abroad sent $36.5 million in August compared to $44 million in July, 38 percent less than they sent during the same period last year. Tourism bookings and revenues are down by 30 per cent in the first 9 months of 2008 compared to last year.The Nairobi stock exchange prices have declined by nearly 40% since April 2008, and 20% in October alone.

Uganda

The market turnover on Uganda's bourse dropped by 60 per cent during the third quarter with a sharp decline in demand registered across major counters. The total turnover fell from Ush15.9 billion ($9.1 million) at the end of July to Ush6.3 billion ($3.6 million) at the end of September while the All Share Index dropped by 11 per cent to 923.60 points by the end of September.

Ghana

The NPP set up an expert panel to liaise with the Ghana Stock Exchange, the financial services and other institutions representing the business community and to monitor the emerging global financial challenges. The Ghanaian banking sector has relatively little exposure to external markets; and banks rely on domestic deposits for funding requirements.

Rwanda

A Committee appointed to monitor the ongoing crisis. Comprised of finance ministry officials, central bank, representatives of insurance and banking institutions, capital markets, and microfinance institutions

South Africa

Sharply falling share prices and an abrupt economic slowdown are undermining the viability of what has been one of the central pillars of South African policy since the end of apartheid - black economic empowerment aimed at redressing past financial injustices. Kingston estimates the total value of transactions concluded in recent years at about 500 billion rand, while falls in share prices and asset values could mean that banks and vending companies might eventually need to write off half of that. Johannesburg (Bloom-berg) South Africa, the biggest producer of precious metals, cancelled a plan to build a nuclear plant for about 120 billion rand ($12 billion) as the credit freeze cuts financing amid a power crisis that has caused rationing at mines and smelters.

Zambia

Canada's First Quantum Minerals suspended copper output at its Bwana Mkubwa processing plant in November has laid off 286 workers at the facility. Other mines followed.

4. Policy challenges and opportunities

A crisis of this proportion inevitably opens a window of opportunity to revisit all development models and policies. We discuss economic policies in developing countries.

Short-term management of economic shocks

One danger is that countries which are already affected, cannot or do not want to recognise they are affected. Developing countries are now in a better fiscal position to react and smoothen the impact than a decade ago. However, while many have built up external assets, there are concerns for those countries whose current account deficits have recently ballooned due to the food and fuel crisis (the other two F’s of the triple F crisis). Moreover there will also be questions marks about the flexibility of the fiscal and monetary institutions in some countries. Yet countries need to be prepared as they will be hit – e.g. South Africa’s and Kenya’s growth forecasts are down significantly.

Short-term policy fixes to the financial system.

Few African countries have such a leveraged financial system as in developed countries, and many do not have a short-term foreign debt which needs financing (such as Pakistan, Iceland and Hungary). But some might. Further, trade finance has become a particular challenge as 90% of trade is financed on short-term credit.

Short-term management of social shocks.

The social effects are already visible in developing countries. The key export for Zambia is mining and the industry has seen the copper price reduce by 40% in a few months due to slower demand (even China is now entering a period of “low” growth rates not seen for decades, e.g. 7.5% projected growth in 2009). A result has been a lay-off of workers. How would the social consequences be addressed by economic and social policies, e.g. by promoting short term productive activities or investing in tailored social protection?

Medium to long-term development policies.

An obvious response would be to accelerate reforms and introduce policies to attract investment and promote growth. We know a lot about what policies and factors promote growth (see the Growth Commission report), but less so on what are the most binding constraints in a given country setting. Growth diagnostics aim to examine binding constraints and are underway in several countries. Now that reduced international capital flows and the global recession bite, binding constraints to growth over the medium term may shift (i.e. move to another branch in the diagnostic tree). For instance, it is likely that the binding constraints in Zambia in a situation of high copper prices and mining investment differ from those in a situation of low copper prices, weak investment and falling exports.

The challenges faced by poor countries include:

- While openness to trade makes countries more vulnerable to downturns elsewhere, openness has frequently increased growth and productivity in developing countries. No country has become rich behind protected borders.
- Openness to financial markets increases the risks of financial contagion, yet openness to foreign banks has over the longer term increases productivity and innovation in the financial sector.
- Some groups will be affected heavily by the current crisis, and helping them may prevent protests, but skewing economic policy responses towards these groups may sacrifice country-wide efficiency over the longer-run.
- It is easier to cut spending on infrastructure and long-run capital intensive projects in the light of the current crisis, but these projects are needed for growth and human development in the long-run.

Some policy choices are urgent. There are already protests in Turkey and Iceland. Would this happen in low-income countries in 2009 when the impact will be felt? There are also some serious governance issues at stake. The ANC treasurer Mathews Phosa suggested that the "outlook for black economic empowerment [BEE] deals and black-empowered companies is bad." Some share prices have collapsed, and these companies are in real trouble." (*Financial Times*, 3 December 2008). More generally, the foundations of state-business relations in each country will be shaken and only those that are most institutionalised (in the formal or informal sense) may continue to act in an effective way.[7]

In order to understand the challenges of the current financial crisis and be able to make the right policy decisions in the short and medium term, it is important to set up country specific task forces to deal with the fall out of the crisis. President Kgalema

[7] K. Sen and D.W. te Velde, State-Business Relations and Economic Growth in sub-Saharan Africa, *Journal of Development Studies*, forthcoming.

Motlanthe decided to set up a special task team to look at how best to cope with the knock-on effects of job losses in South Africa as a result of the global financial crisis.

5. Conclusions

IMF forecasts for African growth for 2008 and 2009 have been downgraded by between 1-2 percentage points to 5.5% in 2008 and 5.1% in 2009. Some countries will be at serious risk of back sliding. This paper discusses Ghana, Kenya, Mali, Mozambique, Rwanda, Senegal, Tanzania, and Uganda.

The channels through which the global financial turmoil affects developing countries may be classified into financial channels and real channels. Financial channels (direct effects) include effects through: stock markets, banking sector (borrowing from advanced economies, foreign ownership of banks, exposure to sub-prime market), and foreign direct investment. Real channels (indirect effects) include effects through remittances, exports, imports, terms of trade, and aid.

Some key points for the 8 countries of interest.

<u>Real flows</u>

- Recent commodity price declines may affect exports and growth in selected African countries. The table below shows to what extent recent commodity prices declines may affect exports and growth in selected African countries. It is likely that Ghana will be affected substantially because commodity exports constitute a significant part of GDP and the commodities are facing declines. Zambia (not discussed here) will be affected because copper prices fell dramatically (around 45% since July 2008, see appendix) and copper exports are a major part of GDP.

- Services has contributed more than half to recent African growth (including Kenya and Rwanda), and real estate and tourism are under pressure.

<u>Financial flows</u>

- Our previous research (Cali, Massa and te Velde, 2008), based on current updates and forecasts as well as on evidence on what happened in previous slowdowns and in the absence of policy responses, suggested that net financial flows to developing countries may fall by as much as $300 billion over 2007-2009, equivalent to a 25% drop. Some countries are more vulnerable than others.
- Sub-Saharan Africa is dependent on remittances with Lesotho, Sierra Leone, Cape Verde, Senegal, Togo, Guinea-Bissau, and Uganda that have a high dependency on them (more than 7% of GDP). Remittances to Kenya (which depend on the US economy) have been hit hard, with the Central Bank estimating a 38 percent year-to-year drop in August. Our forecasts based on previous recessions suggest that remittances may well fall by a quarter (more negative than WB forecasts).

- Some countries have very few reserves such as Ghana, Malawi, Ethiopia, and Zambia and as these countries also have a high dependence on commodity exports, they might be vulnerable in the crisis.

- Countries such as Mali, Tanzania, Rwanda, Uganda and Mozambique have high shares of foreign owned banks, while in countries like Malawi and South Africa there is a minimal or no share of banking assets held by foreign banks with majority ownership.

- The number of stock markets in sub-Saharan Africa has significantly increased over time though is still small. While there were five stock exchanges in 1989, there are close to 20 currently including those recently established in Ghana, Malawi, Swaziland, Uganda and Zambia. Some stock markets in SSA such as those in Ghana, Uganda, Kenya, Nigeria and Mauritius have experienced an extraordinary performance over the past few years. This is now at risk.

- Tanzania's reserves have been declining and tourism revenues may decline; Rwanda also depends on tourism, key commodities facing price declines (appendix) and foreign owned banks; Kenya's horticulture is under pressure, as are remittances to Kenya (mostly from UK and US); Kenya's tourism revenues were already down by 30% in the 9 months to September 2008; Ghana has low reserves; Rwanda, Ghana and Kenya amongst the most vulnerable to oil price changes (imports).

- In 2007 net foreign direct investment (FDI) inflows to SSA amounted to about US $25 billion. The current financial crisis and the consequent draining of liquidity in the global market are likely to make foreign investors reducing their investments in the region. Indeed, we hear of many reports of mining investments (Zambia, South Africa) being reviewed or on hold. Initial Public Offerings (IPOs) and privatisation are coming to a standstill.

Concluding, it is clear that some countries are seriously at risk of being affected by the current global financial crisis either through real contagion or financial contagion. Ghana, Mali, Mozambique and Tanzania are more at risk than the other countries considered since they have a significant share of foreign owned banks and their economies strongly rely on foreign direct investment. On the other hand, Uganda has a high remittances dependency that makes it exposed to the current crisis. Kenya's indicators (remittances, tourism, horticulture trade) suggest it has already been affected in a major way.

The policy space for responding to the impact of the financial turmoil might be heterogeneous in the considered sample of selected SSA countries. In particular, the crisis effects are likely to be stronger in Ghana than in the other SSA countries of interest. Indeed, in 2007, Ghana had both large current account and fiscal deficits, and the level of its reserves was dangerously low at the level of 3 months of imports of goods and services. This implies that, if the global economic and financial crisis is going to adversely affect the availability of external finance flows to the country, the Ghanaian government is likely to be put under significant pressure. In other countries this crisis is yet another set back. Kenya was already under political pressures and the current bad news will make the situation only more precarious.

We suggest that while some evidence has emerged, individual developing countries need urgent access to updated research on country-specific economic, social and political consequences of the financial crisis. Each developing country needs to set up a crisis task force to consider the best possible policy responses – short term and long term economic and social policy responses.

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Appendix A: Table A1 Recent commodity price changes

Commodity	Change in price Oct 08 over Jul 08	Change in price 2000-Juky 2008
Commodity Price Index, 2005 = 100, includes both Fuel and Non-Fuel Price Indices	-36%	267%
Commodity Non-Fuel Price Index, 2005 = 100, includes Food and Beverages and Industrial Inputs Price Indices	-26%	110%
Commodity Food and Beverage Price Index, 2005 = 100, includes Food and Beverage Price Indices	-26%	115%
Commodity Food Price Index, 2005 = 100, includes Cereal, Vegetable Oils, Meat, Seafood, Sugar, Bananas, and Oranges Price Indices	-27%	117%
Commodity Beverage Price Index, 2005 = 100, includes Coffee, Tea, and Cocoa	-19%	98%
Commodity Industrial Inputs Price Index, 2005 = 100, includes Agricultural Raw Materials and Metals Price Indices	-26%	104%
Commodity Agricultural Raw Materials Index, 2005 = 100, includes Timber, Cotton, Wool, Rubber, and Hides Price Indices	-18%	27%
Commodity Metals Price Index, 2005 = 100, includes Copper, Aluminum, Iron Ore, Tin, Nickel, Zinc, Lead, and Uranium Price Indices	-30%	186%
Commodity Fuel (energy) Index, 2005 = 100, includes Crude oil (petroleum), Natural Gas, and Coal Price Indices	-40%	423%
Crude Oil (petroleum), Price index, 2005 = 100, simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh	-45%	426%
Aluminum, 99.5% minimum purity, LME spot price, CIF UK ports, US$ per metric tonne	-31%	83%
Bananas, Central American and Ecuador, FOB U.S. Ports, US$ per metric tonne	11%	50%
Barley, Canadian no.1 Western Barley, spot price, US$ per metric tonne	-42%	240%
Beef, Australian and New Zealand 85% lean fores, FOB U.S. import price, US cents per pound	-13%	51%
Cocoa beans, International Cocoa Organization cash price, CIF US and European ports, US$ per metric tonne	-24%	222%
Coffee, Robusta, International Coffee Organization New York cash price, ex-dock New York, US cents per pound	-23%	115%
Rapeseed Oil; Crude, fob Rotterdam	-34%	374%
Copper, grade A cathode, LME spot price, CIF European ports, US$ per metric tonne	-42%	356%
Cotton, Cotton Outlook 'A Index', Middling 1-3/32 inch staple, CIF Liverpool, US cents per pound	-19%	63%
Fishmeal, Peru Fish meal/pellets 65% protein, CIF, US$ per metric tonne	-13%	180%
Groundnuts (peanuts), 40/50 (40 to 50 count per ounce), cif Argentina, US$ per metric tonne	-9%	107%
Hides, Heavy native steers, over 53 pounds, wholesale dealer's price, US cents per pound	0%	-11%
Iron Ore, 67.55% iron content, fine, contract price to Europe, FOB Ponta da Madeira, US cents per dry metric tonne unit	0%	388%
Lamb, frozen carcass Smithfield London, US cents per pound	-12%	44%
Lead, 99.97% pure, LME spot price, CIF European Ports, US$ per metric tonne	-24%	315%
Soft Logs, Average Export price from the U.S. for Douglas Fir, US$ per cubic meter	-32%	-19%
Hard Logs, Best quality Malaysian meranti, import price Japan, US$ per cubic meter	10%	42%
Maize (corn), U.S. No.2 Yellow, FOB Gulf of Mexico, U.S. price, US$ per metric tonne	-31%	187%
Nickel, melting grade, LME spot price, CIF European ports, US$ per metric tonne	-40%	142%
Olive Oil, extra virgin less than 1% free fatty acid, ex-tanker price U.K., US$ per metric tonne	-15%	22%
Oranges, miscellaneous oranges French import price, US$ per metric tonne	-35%	310%
Palm oil, Malaysia Palm Oil Futures (first contract forward) 4-5 percent FFA, US$ per metric tonne	-53%	240%
Swine (pork), 51-52% lean Hogs, U.S. price, US cents per pound.	-16%	47%
Poultry (chicken), Whole bird spot price, Georgia docks, US cents per pound	-1%	52%
Rice, 5 percent broken milled white rice, Thailand nominal price quote, US$ per metric tonne	-22%	223%
Rubber, No.1 Rubber Smoked Sheet, FOB Maylaysian/Singapore, US cents per pound	-40%	400%
Fish (salmon), Farm Bred Norwegian Salmon, export price, US$ per kilogram	-22%	45%
Hard Sawnwood, Dark Red Meranti, select and better quality, C&F U.K port, US$ per cubic meter	-7%	45%
Soft Sawnwood, average export price of Douglas Fir, U.S. Price, US$ per cubic meter	-37%	13%
Shrimp, Frozen shell-on headless, block 16/20 count, Indian origin, C&F Japan, US$ per kilogram	6%	-51%
Soybeans, U.S. soybeans, Chicago Soybean futures contract (first contract forward) No. 2 yellow and par, US$ per metric tonne	-39%	207%
Sugar, European import price, CIF Europe, US cents per pound	-15%	21%
Sunflower oil, Sunflower Oil, US export price from Gulf of Mexico, US$ per metric tonne	-24%	429%
Tea, Mombasa, Kenya, Auction Price, US cents per kilogram	-2%	26%
Tin, standard grade, LME spot price, US$ per metric tonne	-37%	287%
Uranium, u3o8 restricted price, Nuexco exchange spot, US$ per pound	-21%	548%
Wheat, No.1 Hard Red Winter, ordinary protein, FOB Gulf of Mexico, US$ per metric tonne	-28%	210%
Wool, coarse, 23 micron, Australian Wool Exchange spot quote, US cents per kilogram	-36%	187%
Wool, fine, 19 micron, Australian Wool Exchange spot quote, US cents per kilogram	-30%	45%
Zinc, high grade 98% pure, US$ per metric tonne	-30%	58%

Source: IMF

Appendix B Country case studies

TANZANIA

Tanzania is expected to keep growing well into 2009, reaching 8 percent in real GDP growth (IMF). Overall, Tanzanian macroeconomic management has been positive during the past decade.

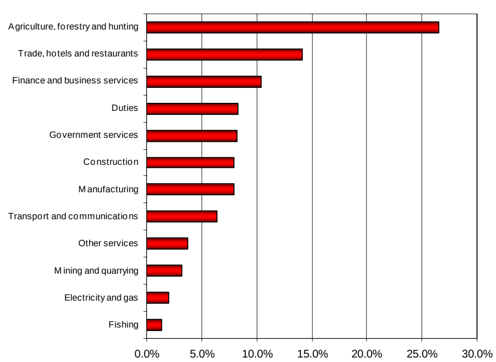
Table A2 Selected indicators for Tanzania

	2004	2005	2006	2007	2008e	2009f
Real GDP Growth	7.8	7.4	6.7	7.1	7.5	8.0
Debt (% GDP)	73.5	66.2	66.8	31.1	31.0	31.2
Fiscal Balance (%GDP)	-2.7	-2.8	-4.7	-3.7	0.1	-4.9
Total Investment (% GDP)	22.6	25.1	27.6	28.0	27.4	27.2
External Current Account (%GDP)	-3.6	-4.1	-7.7	-9.0	-9.8	-10.0
Consumer Prices (index 2000=100)	4.1	4.4	7.3	7.0	9.2	6.5
Remittances (USD $ Millions)	11.4	18.5	14.9	14.3	15.0	NA
Terms of Trade (index 2000=100)	60.0	53.9	47.1	51.3	50.3	54.0

Sources: IMF's Regional Economic Outlook on Sub-Saharan Africa, October 2008; AfDV/OECD 2008, African Economic Outlook; World Bank (2008). Notes: e = expected, f = forecast.

Although agriculture still accounts roughly for a quarter of the national GDP (Chart A1), tourism and financial services are catching up quickly and attracting investment.

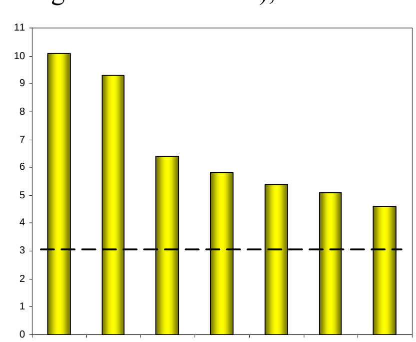
Chart A1 GDP by sector, 2006



Source: AfDB / OECD 2008, African Economic Outlook

National debt is 31 percent of GDP; it has been steady since 2007 and is expected to remain almost at the same level during 2009. The current account deficit is set to increase and reach double digits in the next year, while investment is forecast to maintain previous levels, albeit some minor corrections reflecting the global uneasy scenario. A moderate source of concern is the sharp increase of the county's fiscal balance deficit, which if not managed cautiously could generate some instability in the near future. Tanzania's reserves present a downward trend (see Chart A2), but they are still comfortably above the 3 months benchmark. Overall, Tanzania seems to be well endowed to weather successfully the initial stages of the global recession and the tightened liquidity. However, a prolonging of the crisis might change the situation. The service sector depends on credit and investment flows as well as on foreign and local tourists and enterprises to stay on business. If the crisis goes on for more than a year, these sectors will suffer, and since they represent an important part of the economy, real GDP growth could be revised substantially downwards. Moreover, given that it is one of Africa's top recipients of aid, Tanzania might suffer from a reversal in ODA.

Chart A2 Reserves (months of imports of goods and services), 2003-09



Source: IMF's REO on Sub-Saharan Africa, October 2008

RWANDA

According to the latest IMF projections, Rwanda is expected to contract from 6 to 5.6 percent by 2009.

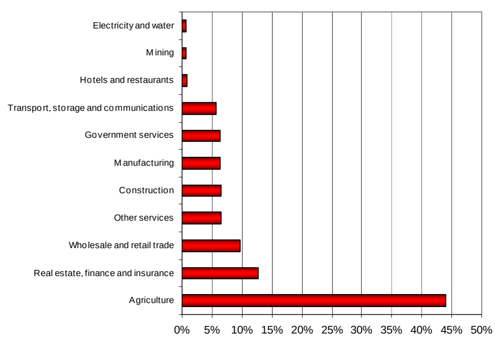
Table A3Selected indicators for Rwanda

	2004	2005	2006	2007	2008e	2009f
Real GDP Growth	5.3	7.1	5.5	6.0	6.0	5.6
Debt (% GDP)	91.7	70.1	14.6	14.7	15.7	16.1
Fiscal Balance (%GDP)	-0.2	0.6	-0.4	-1.5	-0.8	-4.4
Total Investment (% GDP)	20.4	21.6	20.3	21.2	24.4	23.0
External Current Account (%GDP)	-1.9	-1.1	-7.3	-5.0	-9.3	-12.4
Consumer Prices (index 2000=100)	12.0	9.0	8.9	9.1	12.0	8.0
Remittances (USD $ Millions)	9.8	20.9	21.2	51.3	51.3	NA
Terms of Trade (index 2000=100)	97.5	107.9	112.5	128.0	120.0	111.5

Sources: IMF's Regional Economic Outlook on Sub-Saharan Africa, October 2008; AfDV/OECD 2008, African Economic Outlook; World Bank (2008). Notes: e = expected, f = forecast.

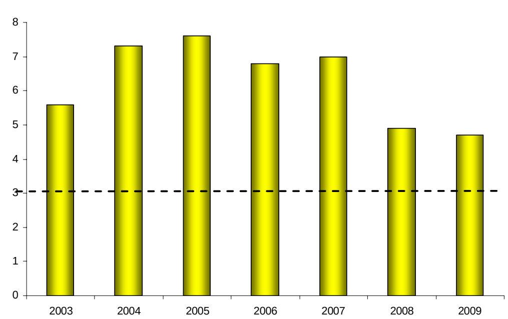
These forecasts reflects the composition of Rwanda's GDP (see Chart A3): with almost 44% of its GDP depending on the agriculture sector, and around 13% on real estate, finance and insurance, the country seems to be exposed to the ongoing economic and financial turmoil in the world. Less demand for commodities in general (e.g. coffee, tea, and minerals) by consumers in the developed world will reduce the amount of the country's exports and will push down the prices. For example, coffee prices fell by 23% (20% exported to the United States). The services sector, the recent engine of the economy, will also feel the slow down.

Figure A3 GDP by sector, 2006



The government embarked on policies aimed to keep the increasing inflation due to soaring prices. Now, the adverse global macroeconomic scenario is taking care of this. Consumer prices are believed to drop down in 2009, while the government would implement expansionary measures to push the economy through the initial stages of the global recession. Reflecting this, the fiscal deficit is set to increase from 0.8 in 2008 to 4.4 in 2009, a very sharp jump in just one year that could destabilise the Rwandan economy. The deceleration in exports demand and the consequent fall in commodities prices are mirrored by the continuous decrease in the terms of trade index, which will return to 2006 levels by the end of 2009. According to the latest AfDB/OECD African Economic Outlook, the tourism sector has grown steadily during the past years and has become the second source of export earnings just behind coffee and in front of tea. So, as the crisis spreads in the developed world, the tourism sector might start feeling the consequences of less people willing to spend their holidays abroad. The banking sector with 70% of foreign owned banks might also be a vulnerability source to financial crisis.

Chart A4 Reserves (months of imports of goods and services), 2003-09



Source: IMF's REO on Sub-Saharan Africa, October 2008

KENYA

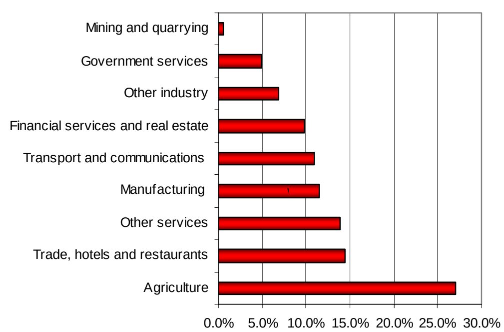
According to the latest IMF projections, the recent financial crisis has worsened growth prospects in Kenya. Indeed, after a period of sustained growth, Kenya is expected to experience a dramatic contraction in 2008 — real GDP growth is projected to slash almost by half in 2008 reaching a value of just 3.3% — but to recover rather swiftly by 2009. The fall in agricultural exports (in particular tea, coffee and horticultural products) and the reduced spending by western consumers on tourism are expected to be important determinants of the slowdown of the economy, given that trade and tourism sectors account for the second largest share of GDP. Recent evidence suggests that, due to a lower demand in Britain and Pakistan, tea prices fell by 43% from their peak value of US $2.92 in the first week of September thus reaching the lowest level since May 2007. Tourism arrivals and revenues were down by 30% over the first 9 months of 2008 compared to 2007.

Table A4 Selected indicators for Kenya

	2004	2005	2006	2007	2008e	2009f
Real GDP Growth	4.6	5.9	6.4	7.0	3.3	6.4
Debt (% GDP)	31.5	26.5	21.9	18.2	18.6	17.8
Fiscal Balance (%GDP)	-0.1	-1.8	-2.5	-3.5	-4.9	-4.4
Total Investment (% GDP)	14.4	16.4	19.0	18.6	21.6	21.7
External Current Account (%GDP)	0.1	-0.8	-2.3	-3.1	-6.1	-4.5
Consumer Prices (index 2000=100)	11.6	10.3	14.5	9.8	25.0	6.5
Remittances (USD $ Millions)	620.0	805.0	1128.0	1587.5	1672.8	NA
Terms of Trade (index 2000=100)	78.2	72.6	70.4	65.3	60.1	59.2

Sources: IMF's Regional Economic Outlook on Sub-Saharan Africa, October 2008; AfDV/OECD 2008, African Economic Outlook; World Bank (2008). Notes: e = expected, f = forecast.

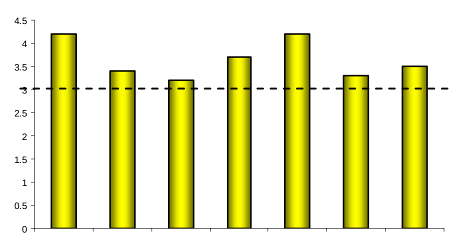
Chart A5 GDP by sector, 2006



Source: AfDB / OECD 2008, African Economic Outlook

The worsening of the political context after the presidential election on December 2007 as well as the fall in remittances might contribute to weaken further the economy (e.g. remittances have experienced a 38% year-to-year drop in August). In 2007, according to the latest World Bank's Doing Business Report, Kenya was among the top ten global reformers and this has contributed to enhance investors' confidence in its stock market. The Nairobi Stock Exchange has performed very well over the last years. However, the current financial turmoil has hit it, and stock markets have thus become another channel through which the crisis may spread to Kenya. Both the fiscal and current account deficit are expected to deteriorate in 2008, reaching dangerous levels far beyond the benchmarks of 2% and 3% respectively. A small recovery is projected in 2009. Another source of concern in 2008 is represented by the amount of reserves that is expected to reach a value of 3.3 months of imports of goods and services, which is very close to the benchmark level. So, reserves could not be used for a long time as a cushion against the crisis shocks.

Chart A6 Reserves (months of imports of goods and services), 2003-09



Source: IMF's REO on Sub-Saharan Africa, October 2008

UGANDA

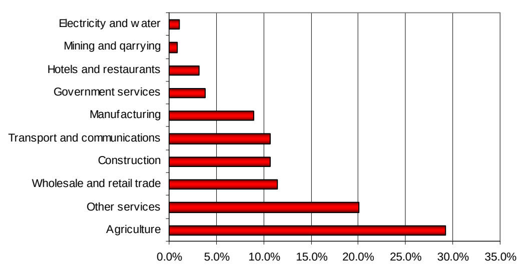
In October (see Table A5) economic growth in Uganda was expected to experience a decline from 9.8% in 2008 to 8.1% in 2009. More recently, the IMF has revised downward its projections pointing to a growth of 7.5 percent in the 2008-09 fiscal year. As most of Sub-Saharan African countries, Uganda economy relies mainly on agriculture but is more diversified than that of some of its peers such as Mali and Senegal. While agriculture accounts roughly for 30% of GDP, all services together account for 47% of GDP.

Table A5 Selected indicators for Uganda

	2004	2005	2006	2007	2008e	2009f
Real GDP Growth	6.8	6.3	10.8	7.9	9.8	8.1
Debt (% GDP)	63.5	44.6	41.5	14.0	15.6	16.5
Fiscal Balance (%GDP)	-1.6	-0.5	0.1	-1.0	-1.9	-3.7
Total Investment (% GDP)	22.2	22.4	21.2	22.3	24.1	25.8
External Current Account (%GDP)	-3.0	-4.5	-3.5	-2.8	-3.4	-5.8
Consumer Prices (index 2000=100)	5.0	8.0	6.6	6.8	7.3	7.8
Remittances (USD $ Millions)	310.5	323.4	665.2	848.6	875.0	NA
Terms of Trade (index 2000=100)	72.0	50.6	71.7	107.0	79.6	73.7

Nevertheless, the current financial turmoil and the consequent growth slowdown in the developed world have brought to a decline in crop prices, thus adversely affecting the agriculture sector of the country. This might have particularly strong negative consequences on poverty reduction since in Uganda more than 80% of households live in rural areas and their income is directly linked with agriculture developments.

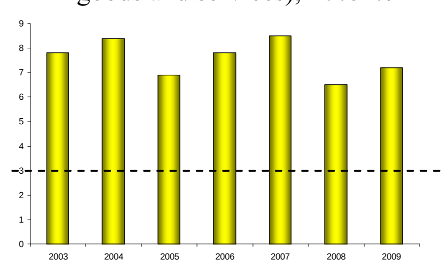
Chart A7 GDP by sector, 2006



Source: AfDB / OECD 2008, Uganda Economic Outlook

Uganda is one of the principal recipients of remittances in the SSA region. Therefore, a drastic drop in remittance flows could hit hard a significant part of the population, which relies entirely on them for primary needs. Another worrying aspect is the fiscal deficit, which has neared dangerously the 2% threshold and is expected to surpass it stabilising at almost 4% of GDP by the end of next year. Although part of this surge in the past has been due to government spending on infrastructure and development projects, such an increase during crisis times will certainly pose some problems in the short-run, given high liquidity constraints all over the world. Furthermore, the current account and the terms of trade hint at the serious reduction of flows in the region. And real estate services which have boomed might be under pressure.

Chart A8 Reserves (months of imports of goods and services), 2003-09



Source: IMF's REO on Sub-Saharan Africa, Oct. 2008

Given that 80% of banks in Uganda are owned by foreign nationals, the Ugandan banking system might also suffer from the losses faced by its parent banks abroad. However, the healthy banking soundness indicators as well as the fact that the country seems to be not involved in the subprime mortgages market suggest that the effect of the crisis through the banking sector will be rather limited.

SENEGAL

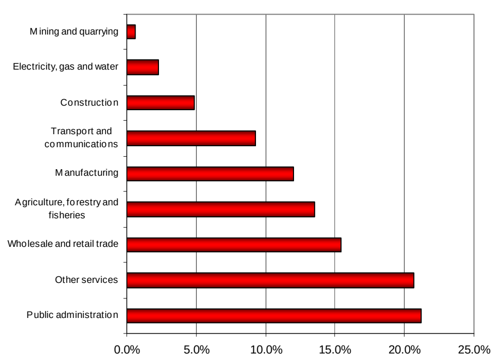
After a minor correction during 2008, Senegal is projected to regain momentum during 2009 with a GDP growth rate going from 4.3 percentage points to an 5.8 percent level. However, GDP in Senegal is driven mainly by government related activities (see Chart A9). So, it is not surprising that two governmental projects set to start in 2008 will lead to high growth rates, despite the current economic and financial turmoil.

Table A6 Selected indicators for Senegal

	2004	2005	2006	2007	2008e	2009f
Real GDP Growth	5.9	5.6	2.3	4.8	4.3	5.8
Debt (% GDP)	66.6	59.4	44.5	43.7	44.5	44.5
Fiscal Balance (%GDP)	-2.7	-3.5	-6.4	-4.1	-5.5	-4.2
Total Investment (% GDP)	26.0	29.5	29.7	31.3	30.0	31.4
External Current Account (%GDP)	-6.1	-7.8	-9.4	-10.4	-11.1	-11.4
Consumer Prices (index 2000=100)	0.5	1.7	2.1	5.9	5.4	2.8
Remittances (USD $ Millions)	632.9	788.8	925.2	925.2	1000.0	NA
Terms of Trade (index 2000=100)	98.0	96.3	106.6	99.0	107.3	108.1

Sources: IMF's Regional Economic Outlook on Sub-Saharan Africa, October 2008; AfDV/OECD 2008, African Economic Outlook; World Bank (2008). Notes: e = expected, f = forecast.

Chart A9 GDP by sector, 2006

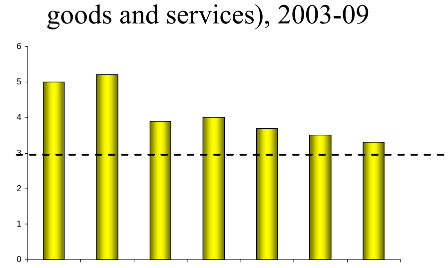


Source: AfDB / OECD 2008, African Economic Outlook

The government has committed to build a new airport with a total cost of approximately US $500 million and it is planning the creation of a new special economic zone. Both projects may improve growth in Senegal required to weather the storm of the current global crisis. Nevertheless, fiscal and current account deficits will need to be monitored. Fiscal deficits have been above 2% for the past four years. External current account deficits present a steady slightly upward trend, while terms of trade have improved marginally over the past couple of years.

An important source of vulnerability to the current financial crisis might originate from a sudden drop in remittance flows. Senegal together with Uganda is one of the biggest recipient countries in the SSA region. Therefore, a quick adverse adjustment of the amount of remittances sent to the country could take by surprise the economy, generating a not negligible effect on the real economy.

Chart A10Reserves (months of imports of goods and services), 2003-09



Source: IMF's REO on Sub-Saharan Africa, October 2008

GHANA

Ghana has been growing at more than 6% since 2006 and in 2008 it is expected to experience a slightly increase in its economic growth to 6.5%. This has been possible thanks to its strong macroeconomic fundamentals and to the consequent positive response from the private sector. Indeed, Table A7 shows that investment is expected to be strong in 2008, although growing at a lower rate. Moreover, the Ghanaian economy relies mainly on agriculture but there is also diversification into the industrial sector (see Chart 20, below). However, according to the IMF, growth is projected to slow down to 5.8% in 2009 with further downgrades.

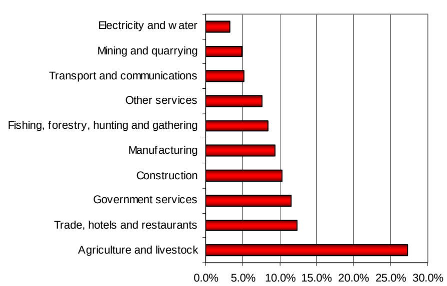
Table A7 Selected indicators for Ghana

	2004	2005	2006	2007	2008e	2009f
Real GDP Growth	5.6	5.9	6.4	6.3	6.5	5.8
Debt (% GDP)	105.8	72.6	37.0	37.7	39.3	39.6
Fiscal Balance (%GDP)	-4.6	-1.7	-7.0	-8.4	-10.2	-10.0
Total Investment (% GDP)	28.4	29.0	30.4	33.7	32.7	32.4
External Current Account (%GDP)	-2.8	-7.0	-9.0	-10.9	-13.1	-13.2
Consumer Prices (index 2000=100)	12.6	15.1	10.2	10.7	16.6	13.3
Remittances (USD $ Millions)	82.4	99.2	105.3	117.4	128.0	NA
Terms of Trade (index 2000=100)	107.9	100.5	105.2	116.9	122.2	118.2

Sources: IMF's Regional Economic Outlook on Sub-Saharan Africa, October 2008; AfDV/OECD 2008, African Economic Outlook; World Bank (2008). Notes: e = expected, f = forecast.

The energy crisis and strong domestic demand have led to more imports A fall in net exports is expected to deteriorate the terms of trade in 2009. Moreover, the current and fiscal deficits should be put under scrutiny. Indeed, the fiscal balance has increased in 2007 and is expected to sharply widen in 2008. In the same way, the external current account is expected to worsen in 2008 and 2009, thus making the country more vulnerable to the financial crisis shocks.

Chart A11 GDP by sector, 2006

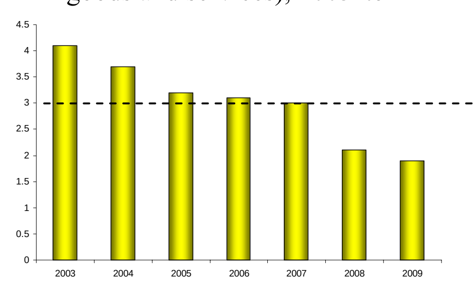


Source: AfDB / OECD 2008, African Economic Outlook

On one hand, 65% of Ghanaian banks are foreign owned and so exposed to sudden withdraws from their parent banks if the latter will experience deep losses in the home countries. On the other hand, in 2007 the government has put a lot of effort in fostering the local bond and stock market by launching a series of financial reforms. This could make Ghana more attractive to investors but also more exposed to financial contagion.

A source of concern in the presence of the current financial and economic slowdown is also represented by the level of reserves. Since 2007, the reserves held by Ghana are falling below the benchmark of 3 months of imports of goods and services (see chart A12). As a consequence, the country will not be able to rely on them as a cushion against the financial crisis shocks. Other important channels through which the crisis might propagate to the country are the banking system and stock market.

Chart A12 Reserves (months of imports of goods and services), 2003-09



Source: IMF's REO on Sub-Saharan Africa, October 2008

MALI

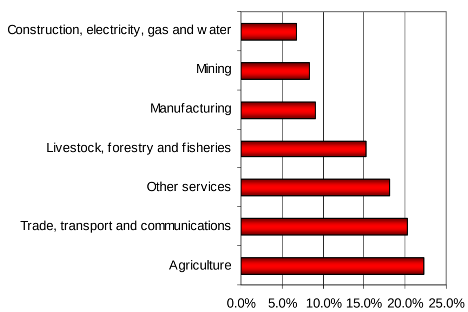
Despite the ongoing crisis, Mali is expected to continue its growth path in the next year. With a fairly diversified economy, agriculture accounts for approximately a quarter of GDP, while services, and transports and communications account for roughly 20% each. Nevertheless, if we take into account the general commodities sector, Mali markets concentrate on cotton and gold. Therefore, its economy will react to volatile prices during the ongoing economic and financial turbulence.

Table A8 Selected indicators for Mali

	2004	2005	2006	2007	2008e	2009f
Real GDP Growth	2.4	6.1	5.3	3.1	4.8	5.2
Debt (% GDP)	66.8	63.2	26.5	27.3	29.2	30.8
Fiscal Balance (%GDP)	-2.6	-3.2	32.0	-3.7	-3.6	-3.3
Total Investment (% GDP)	21.3	23.3	23.7	23.7	24.5	25.0
External Current Account (%GDP)	-8.4	-8.3	-3.7	-7.2	-6.6	-6.9
Consumer Prices (index 2000=100)	-3.1	6.4	1.9	2.5	2.5	2.5
Remittances (USD $ Millions)	155.5	177.2	211.8	211.8	211.8	NA
Terms of Trade (index 2000=100)	96.6	86.3	102.6	107.3	110.1	110.5

Sources: IMF's Regional Economic Outlook on Sub-Saharan Africa, October 2008; AfDV/OECD 2008, African Economic Outlook; World Bank (2008). Notes: e = expected, f = forecast.

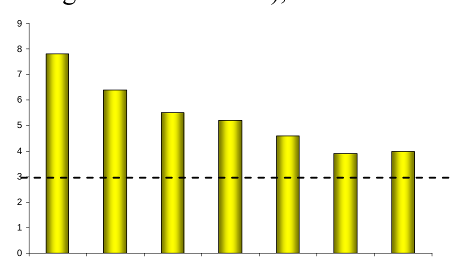
Chart A13 GDP by sector, 2006



Source: AfDB / OECD 2008, African Economic Outlook

Even tough the global slowdown might put some downward pressure on cotton prices with a detrimental effect on agriculture, the other sectors of the economy are still growing thus off-setting the negative impacts of commodities and metals decreasing prices. Fiscal deficits, although above 2% of GDP, seem under control and were forecast to improve during 2009. Investment flows, that in the past have been directed mainly to the telecommunication sector, are set to continue to nourish Mali economy. So, unless major corrections in the global scenario, Mali should keep growing at its current pace. Global demand contraction and decreasing prices have helped to contain inflationary forces. Moreover, the level of reserves is expected to sharply decrease in 2008 with a small recovery in 2009, but always remaining above the 3 months healthy threshold. Despite its fundamentals, Mali is not immune to the global financial crisis, and much still needs to be done. For example, Mali still ranks among the worst countries for doing business according to the last World Bank Doing Business Report. So, more efforts in this area would add flexibility and competitiveness to respond to the crisis.

Chart A14 Reserves (months of imports of goods and services), 2003-09



Source: IMF's REO on Sub-Saharan Africa, October 2008.

MOZAMBIQUE

The Mozambican growth rate is expected to slow to 6.5% in 2008 but to slightly increase to 6.7%, a two per cent decline since 2006. However, with almost one third of its GDP coming from the agriculture and fisheries sector, Mozambique is not immune to volatile commodities prices, and this is clearly mirrored on the terms of trade, which after a very robust and healthy performance during 2007 are expected to keep contracting until the end of 2009.

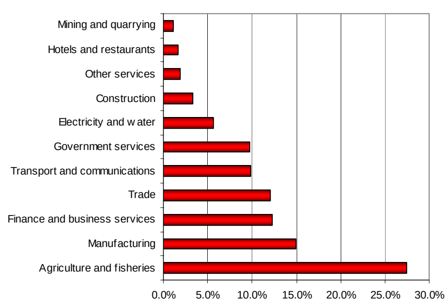
Table A9 Selected indicators for Mozambique

	2004	2005	2006	2007	2008e	2009f
Real GDP Growth	7.9	8.4	8.7	7.0	6.5	6.7
Debt (% GDP)	79.4	37.4	30.9	34.9	29.7	30.3
Fiscal Balance (%GDP)	-4.4	-2.8	-4.1	-3.0	-5.6	-3.8
Total Investment (% GDP)	18.6	18.7	17.7	18.0	22.5	22.5
External Current Account (%GDP)	-8.9	-11.4	-9.2	-9.5	-13.6	-13.3
Consumer Prices (index 2000=100)	12.6	6.4	13.2	8.2	10.1	8.4
Remittances (USD $ Millions)	57.5	56.6	80.0	99.4	99.4	NA
Terms of Trade (index 2000=100)	100.6	106.1	135.1	140.9	121.9	117.8

Sources: IMF's Regional Economic Outlook on Sub-Saharan Africa, October 2008; AfDV/OECD 2008, African Economic Outlook; World Bank (2008). Notes: e = expected, f = forecast.

On the other hand, investment is forecast to remain stable during the next year. It is also worthy to mention that the banking system in Mozambique is owned entirely by foreigners, and this could play a double role. On one hand, the perception of foreign ownership might signal stability and induce confidence in the local economy.

Chart A15 GDP by sector, 2006

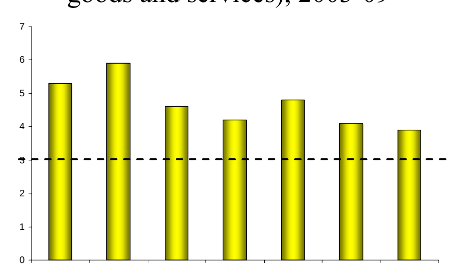


Source: AfDB / OECD 2008, African Economic Outlook

On the inflationary side, after a significant peak in 2008, consumer prices will decrease moderately coming back to 2007 levels. Furthermore, the South African Development Community's (SADC) Free Trade Protocol might stimulate competitiveness.

On the other hand, troubled parent banks in the developed world could decide that is time to retreat given the liquidity constraints. In this case, things could become problematic for Mozambique in a relatively short-period of time. Therefore, the need to contain the fiscal deficit as much as possible, a wise choice during a tightened liquidity period all over the world. International reserves are expected to be able to sustain the country in the next five months.

Chart A16 Reserves (months of imports of goods and services), 2003-09



Source: IMF's REO on Sub-Saharan Africa, October 2008.