

Overview

ALMOST TWO YEARS AFTER PROBLEMS in the U.S. mortgage market set in motion the biggest financial crisis since the Great Depression, global financial markets remain unsettled, and prospects for capital flows to the developing world are dim. The intensification of the financial crisis in September 2008 dramatically altered the world economic outlook. Global output is now expected to shrink by 2.9 percent in 2009, the first contraction since World War II. International trade is likely to experience the sharpest drop since that time. Unemployment, already soaring in industrial countries, will follow a similar path in the export-dependent economies of East Asia, as high-income countries reel from an unprecedented asset-market bust, and global investors retreat from emerging markets.

The implications of these unfolding events for investment flows to developing countries have already been dramatic: total private capital flows in 2008 dropped to \$707 billion (4.4 percent of total developing-country GDP), reversing the strong upward surge that began in 2003 and reached a pinnacle of \$1.2 trillion in 2007 (8.6 percent of GDP). For 2009 the most likely scenario is that as global equity markets regain momentum and credit markets heal, net private flows to developing countries will remain positive—barely. But they will drop to \$363 billion, approximately the level of 2004 and a decline of 5 percentage points of GDP from 2007. The magnitude of the decline is troubling for its macroeconomic consequences and for vulnerability to further shocks, particularly in countries in which banks and firms have high levels of external debt. Much of the \$1.2 trillion external debt raised by emerging market banks and firms between 2003 and 2007 is now maturing, putting pressure on the borrowers' finances

at the time when the average cost of external borrowing has increased to 11.7 percent, compared with 6.4 percent in the pre-crisis years when the debt was contracted.

Although extraordinary policy responses by governments around the world have helped save the global financial system from systemic collapse, they have not, thus far, closed the negative feedback loop between financial instability and economic recession. Fragile consumer confidence and a much-diminished appetite for risk among investors in developed countries have all contributed to a plunge in global aggregate demand. Simultaneously, the deepening economic downturn has caused major global banks to scale back domestic and international lending, thereby exacerbating the credit crunch. Actual bank lending in the United States and Europe, as well as surveys of bank intentions and credit terms, point to a slowing in the supply of bank credit to the corporate and household sectors. In recent months, that slowdown has become a decline. Likewise, foreign claims on developing-country residents held by major international banks reporting to the Bank for International Settlements declined by \$200 billion between December 2007 and December 2008 (from \$4.3 to \$4.1 trillion).

To break the cycle and revive lending and growth, bold policy measures, along with substantial international coordination, are needed. In this regard, the joint announcement by the Group of 20 (G-20) leaders at their London summit in April 2009 was encouraging. The leaders vowed to strengthen the capacity of multilateral financial institutions to lend to emerging economies facing traditional balance-of-payments shortfalls or elevated risks from debt rollover and refinancing.

Addressing the various regulatory failures, bank governance shortcomings, and macroeconomic imbalances that contributed to the crisis has been another focus of the international policy response. Bad lending and poor investment decisions stemmed from lax regulation as well as from overconfidence and euphoria associated with low real interest rates and ample liquidity. Therefore, new measures that embrace all systemically important financial institutions (including hedge funds), that strengthen international accounting standards to improve transparency and asset valuation, and that bolster the Financial Stability Board are desirable and timely, even if their immediate success cannot be guaranteed.

In charting the course ahead, policy makers in developed and developing countries should give priority to four tasks: following up on the G-20's promise to restore domestic lending and the international flow of capital, addressing the external financing needs of emerging-market sovereign and corporate borrowers, reaffirming preexisting commitments to the aid agenda and the Millennium Development Goals (MDGs), and, eventually, unwinding governments' high ownership stake in the banking system and reestablishing fiscal sustainability.

Rapid progress on these fronts will make it easier for low-income countries to cope with the crisis. Already under severe strain, low-income countries face increasingly grave economic prospects if the dramatic deterioration in their capital inflows from exports, remittances, and foreign direct investment (FDI) is not reversed in 2010. As it stands, the amount of development assistance available to low-income countries will not fully cover their external financing needs in 2009, while the outlook for donor countries to increase aid significantly is bleak, given the intense fiscal pressures they face because of the crisis.

The global recession has deepened

The tight links between global trade in durable, capital, and high-tech goods, and the closely entwined investment spending that supports economic activity in both high-income and developing countries, can be detected in the vicious circle that now operates between the financial and real sectors of the global economy. The difficulty of obtaining capital,

together with uncertainty about future demand, has delayed investments and caused a collapse in demand for durable goods, resulting in a sharp contraction in the production of and global trade in manufactured goods. World industrial production declined by an unprecedented 5 percent in the fourth quarter of 2008 (or 21 percent at an annualized rate). Output continued to decline in the first quarter of 2009, reducing the level of industrial production in high-income countries by 17.3 percent in March 2009, relative to its level a year before, and in developing countries by 2.3 percent relative to March 2008. The collapse in industrial production is truly global, with major producers of advanced capital goods particularly hard-hit—Japan (34 percent, year-on-year) as of March 2009, Germany (22 percent), and the Republic of Korea (12 percent).

GDP growth in developing countries is projected to slow sharply but remain positive in 2009, moving from 5.9 percent in 2008 to 1.2 percent. Nevertheless, developing countries as a whole will outperform by a sizeable margin high-income countries, whose aggregate GDP is projected to fall 4.5 percent in 2009. Two developing regions, Europe and Central Asia and Latin America and the Caribbean, are likely to end 2009 with negative growth. Moreover, when China and India are excluded, GDP in the remaining developing countries is projected to fall 1.6 percent or 0.6 percent in per capita terms, a real setback for poverty reduction. The simultaneous collapse in growth across high-income and developing countries cannot be explained solely by trade links, for the domestic economies of a large number of developing countries have been directly affected by the financial crisis. The reversal of capital flows, the collapse in stock markets, and the general deterioration in financing conditions have brought investment growth in the developing countries to a halt. In many developing countries, investment is falling sharply.

For developing countries that are significant commodity importers, one of the few silver linings of the financial crisis is that commodity prices are down some 35 percent from their record levels of mid-2008, limiting current-account deficits and helping to quell the inflation produced by high food and fuel prices during the years leading up to the financial crisis. Lower commodity prices have also had the salutary effect of mitigating the impact

of the current crisis on the poor. Commodity markets seem to have found a bottom, one that is still nearly 60 percent above the price levels of the late 1990s. In several markets, commodity production is being reduced because the marginal costs of exploiting the least resource-rich or most difficult-to-reach sites now exceed current prices.

While the global economy is projected to begin expanding once again in the second half of 2009, the recovery is expected to be much more subdued than might normally be the case. Global GDP is forecast to increase a modest 2.0 percent in 2010 and 3.2 percent by 2011, as banking sector consolidation, negative wealth effects, and risk aversion continue to weigh on demand throughout the forecast period. Among developing countries, expected growth rates should be higher (given stronger underlying productivity and population growth) but remain similarly subdued at 4.4 percent and 5.7 percent, respectively, in 2010 and 2011. Given the output losses already absorbed and because GDP only reaches its potential growth rate by 2011, the output gap (the difference between actual GDP and its potential) and unemployment are expected to remain high and recession-like conditions will continue to prevail.

Private capital flows are shrinking at an unprecedented rate

While the global economic cycle has always colored the emerging-market asset class, the current downturn has been especially noteworthy in its impact on asset valuation in equity markets and liquidity conditions in primary bond markets. Relative to their peers in mature markets, corporate and sovereign bond issuers in emerging markets have been particularly affected by liquidity concerns and risk aversion among investors. There was virtually no issuance between mid-September and mid-December 2008, in the wake of the collapse of Lehman Brothers. Local stock markets, meanwhile, experienced the worst yearly decline in recent history, as the MSCI Emerging Market Index sank 55 percent during the year, erasing some \$17 trillion in market valuation. Investors' flight from perceived danger contributed to the sharp drop in capital flows to the developing countries, a trend that is very likely to persist through the end of 2009.

Although interest-rate spreads in developing countries have not widened by as much as in past crises, the decline in private capital flows to developing countries is expected to set a record. Net private debt and equity flows are projected to decline from a record high of 8.6 percent of GDP in 2007 to just over 2 percent in 2009, exceeding the peak-to-trough drop during the Latin American debt crisis in the early 1980s (3.3 percentage points) and the combined East Asian and Russian crises of the late 1990s (2.4 percentage points). Unlike in these past crises, however, the decline in inflows has hit every developing region. The most affected region is emerging Europe and Central Asia, which also experienced the largest expansion of inflows between 2002 and 2007. Net private inflows to the region were an estimated 6.4 percent of GDP in 2008, down from 15.1 percent in 2007.

Unlike portfolio equity and bond investments, FDI decisions are made with long-term horizons in view. They express the intention to build productive manufacturing facilities, exploit natural resources, or diversify export bases. Thus, FDI flows are less likely to be liquidated or reversed in times of crisis. Driven by the strong momentum of the first half of the year, FDI inflows to developing countries posted a slight increase in 2008, reaching \$583 billion, equivalent to 3.5 percent of the aggregate GDP of developing countries. Almost all the increase occurred in middle-income countries, notably the Russian Federation, India, Brazil, and China. In contrast, FDI inflows to high-income countries fell sharply—from \$1.3 trillion in 2007 to \$827 billion in 2008. Most of the decline was concentrated in Europe; flows to the United States were up slightly compared with previous years.

Financing conditions have deteriorated rapidly

Developing countries will most likely face a dismal external financing climate in 2009. With private capital flows expected to post a dramatic decline, many countries will have difficulty meeting their external financing needs, estimated at \$1 trillion, \$600 billion higher than in 2003 at constant 2009 prices. Private debt and equity flows will likely fall short of meeting

external financing needs by a wide margin, estimated at \$352 billion. Capital flows from official sources, along with drawdowns of foreign reserves, will help fill the gap in some countries. But where countries cannot secure adequate external financing, the external adjustment process will be abrupt—more so than projected for the developing world as a whole, requiring an even greater decline in domestic demand and putting additional pressure on the exchange rate. A number of countries (Belarus, Georgia, Hungary, Iceland, Latvia, Pakistan, Romania, Serbia, and Ukraine) already have received financial support from official sources, primarily the International Monetary Fund (IMF), with additional support from the World Bank, regional development banks, and the European Union (EU) to help alleviate balance-of-payments difficulties. The recent agreement by the G-20 to augment the lending capacity of the IMF and multilateral development banks will help high-income emerging-market and middle-income countries meet their external financing needs. However, little of such financing can be made available to low-income countries that have limited borrowing capacity.

The ability of countries to meet their external financing needs will depend largely on the extent to which firms can roll over their maturing debt. Some 700 corporations based in developing countries issued international bonds during the boom years of 2002–07, and almost 3,000 borrowed in the international syndicated bank loan market. Those corporations account for the bulk of outstanding short-term external debt and around three-quarters of the medium- and long-term private debt coming due in 2009. Two decades ago, corporations accounted for only about 20 percent of maturing medium- and long-term private debt.

Building confidence and strengthening policy coordination are critical to recovery and long-term growth

Among government officials, policy makers, and key market observers, calls to restore confidence in the global financial system have become an international mantra. A quick Web search

of major media, for example, shows that the number of occurrences of “restore confidence” in October 2008 was 624 percent higher than the average for the first six months of 2008.

Governments have, by and large, “walked their talk” through a furious combination of unilateral and multilateral actions, drawing on a broad range of conventional and unconventional monetary policy, fiscal stimulus, and government guarantee programs to shore up the banking industry. Such actions have achieved some easing of liquidity conditions in global interbank markets, have supported a narrowing of credit risk premiums, and have underpinned a tentative revival of equity markets. However, the policy agenda for stabilizing financial markets and for global economic recovery is broad and complex, and major challenges remain. Several overarching themes will remain salient for policy makers over the next few years:

The global nature of the financial crisis places a premium on policy coordination

The deep international economic linkages among countries that provide the channels for negative spillovers across borders also enhance the scope for beneficial policy coordination. Indeed, efforts to stimulate aggregate demand through expansionary monetary and fiscal policies, to recapitalize insolvent financial institutions, and to restore the functioning of credit markets through the provision of liquidity are more likely to be taken—and are more likely to be effective—if there is broad agreement among the major governments on policy direction.

Governments’ willingness to coordinate their policies can help reestablish confidence by ruling out beggar-thy-neighbor responses to the crisis. The danger of special interests using trade policy to protect particular industries is especially severe in a downturn. As for financial policies, measures taken to recapitalize commercial banks with public funds have introduced pressures for banks to concentrate lending activity on the domestic market (the so-called home bias in lending practices), at the expense of cross-border lending. In the years leading up to the crisis, a defining feature of global finance in developed countries was the escalating integration of the household sector into capital markets. Excessive credit creation, made possible through the technology of asset securitization, yoked

consumer spending to the expansion and profitability of the banking industry, with both serving as engines of economic growth. As household ownership of equities and bonds increased, households' wealth and income became more closely linked to capital markets, forging closer linkages between the real economy and financial markets—and increasing the likelihood of political intervention when trouble appears. In the United States, for instance, almost half of households currently own equities or bonds, up from 39 percent in 1989.

While the case for *fiscal policy coordination* is weak in normal times—because countries normally face very different challenges and priorities—it is called for today, as all countries are facing the same prospect of inadequate global demand. Stimulating aggregate demand through fiscal expansion is in everyone's interest at the moment, but each country will be reluctant to undertake it on the necessary scale because some of the expansionary effects will spill over to other countries, and because any country that acts alone—even the United States—may reasonably fear that increases in government debt will cause investors to lose confidence in its fiscal sustainability and so withdraw financing. Both of these constraints will be lessened by a commitment to coordinate a fiscal expansion globally. A joint international commitment to maintaining open markets for goods and services must be a central feature of governments' policy responses.

A balance must be struck between national and international mechanisms for improved regulation and crisis prevention

In designing and implementing reforms to strengthen financial markets and regulatory regimes, the first line of responsibility lies with national regulators, but greater international financial cooperation among regulators is an unavoidable imperative. Although changes in national regulations have begun to improve transparency and thwart excessive risk taking, today's highly integrated financial markets necessitate close coordination among authorities in order to bolster market confidence and avoid regulatory arbitrage. The international spillovers of the crisis in the financial area presently provide a powerful incentive for harmonization, because concerns over stability temporarily outweigh the urge to seek advantages for the "home team." It should be

remembered, however, that regulatory cooperation is often resisted in normal times by policy makers eager to protect or enhance the competitive advantage of financial firms based in their own country.

Analysis conducted for this report suggests that not only the incentive for coordination, but also the gains to be had from it, are largest when there is a large common shock to confidence. But coordination must be in addition to, rather than a substitute for, national action. Because national regulators have the best access to information on their domestic institutions, they must retain principal responsibility for ensuring the stability of their own financial systems—without angling for a competitive advantage for domestic firms.

Over the medium term, governments must reestablish fiscal sustainability

Recent measures by central banks in the Euro Zone, Japan, the United Kingdom, and the United States to purchase private and government debt as a way of unfreezing credit markets have led to a significant expansion of their balance sheets and rapid growth of the monetary base in these countries, a process that has replaced, to a large extent, the accumulation of foreign exchange reserves by other central banks as the main engine of global liquidity.

Rising public debt levels and the rampant expansion of central banks' balance sheets will pose considerable challenges to economic stability once the recovery gets under way. The major industrial countries began the crisis with moderate debt-to-GDP ratios. However, the unprecedented amounts spent to bail out financial firms have already substantially inflated those ratios, and governments have taken on contingent liabilities in connection with various financial guarantees, the potential effects of which on government debt are unknown. Discretionary fiscal stimulus, as well as the operation of automatic stabilizers, will further increase debt ratios, perhaps doubling them in some countries if the downturn turns out to be as severe as is now envisaged. Government commitments will have to be financed, if not through taxation, then through the issuance of debt obligations. As the fiscal implications of such commitments are factored in, interest-rate expectations will be adjusted upward, raising the cost of capital for all borrowers, including those in developing countries.

The damage to low-income countries from the crisis must be mitigated

With so much at stake, there is an urgent need for the international financial community to take a hard look at recent developments, assess the vulnerabilities and risks that are the unintended products of current policy interventions and market changes, and evaluate the likely effects of those interventions and changes on development finance. Most of the available resources to be provided by the IMF and other international financial institutions are likely to be devoted to high-income emerging markets and middle-income countries that are likely to be able to repay the loans they receive.

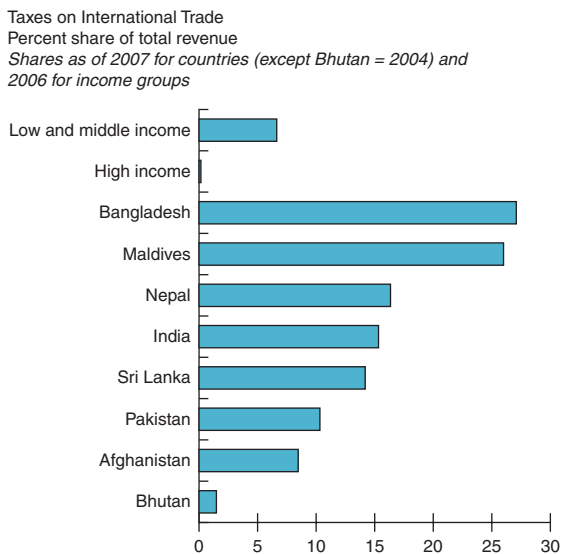
In this climate, low-income countries that are already under strain deserve special attention. They have had little or no access to private foreign capital even in good times. A combination of policy and market failures has restricted their participation to

occasional project finance deals, largely in extractive industries, and to the short-term loan market, mostly bank loans for trade financing.

That sobering fact should reinforce the importance of broad international agreement to mobilize the necessary resources to achieve the MDGs. After several decades of debt rescheduling through the mechanisms of the Paris Club, the sequence of official debt relief programs initiated under the Heavily Indebted Poor Countries measures of 1996 and culminating in the launch of the Multilateral Debt Relief Initiative in 2005 stand out as a remarkable exercise of multilateralism and sound economic sense. With fewer resources now available in low-income countries to service external debt, it is especially important that the world should build on—and certainly not back out of—those agreements.

These are the themes and concerns of this year's edition of *Global Development Finance*.

Figure A.18 Government revenue in South Asia is very dependent on trade



Source: World Bank.

ratios, raising the risk of default. Central government debt represents 85 percent of GDP in Sri Lanka, over 70 percent in Bhutan, and close to 55 percent in India, the Maldives, and Pakistan.

With slower growth outturns and rising unemployment, higher poverty is a significant political, humanitarian and economic risk. South Asia's social protection spending is less developed than in East Asia and the Pacific and the Middle East and North Africa where social insurance spending represents 2.9 percent and 3 percent of GDP, respectively. In South Asia it is less than half that amount at 1.4 percent.

Separately, security threats, civil strife, and political uncertainties remain of concern across much of the region.

Sub-Saharan Africa

Recent developments

Although many countries in Sub-Saharan Africa have only weak links to international financial markets and relatively small manufacturing sectors, the financial crisis had immediate consequences for countries in Sub-Saharan Africa. Output and incomes in the region have been negatively affected by falling commodity prices, falling volume demand for metal and

mineral exports, and declining remittances and tourism.

Partly because of increased uncertainty and the generalized flight to quality that immediately followed the outbreak of the crisis, but also because lower commodity prices have reduced the attractiveness of private investment in the region, capital flows to the region declined sharply (table A.16). Some \$5.7 billion in portfolio investment left South Africa during the fourth quarter of 2008, up from a \$1 billion outflow in the third quarter. In Uganda the outflow was much smaller—\$119 million—but contrasted even more sharply with a \$9 million inflow in the third quarter of 2008. In South Africa, foreign direct investment fell to 3.3 billion rand in the fourth quarter from 22.4 billion rand in the third quarter.

The same factors that precipitated the reversal in capital flows also saw borrowing costs rise sharply for those few countries in the region that have access to international bond markets. Initially, sovereign spreads jumped as high as 1,900 basis points in the case of Ghana, but have since declined (figure A.19). Nevertheless, sovereign spreads for Ghana and Gabon remain between 220 and 375 basis points above their pre-September 15th level. For South Africa, spreads remain 50 basis points higher. Partly as a result of sharp increases in external borrowing costs and unwillingness to lend, many countries and firms postponed issuing new bonds, with emerging frontier economies in the region being the most affected. While official assistance to the region has increased, the additional aid has not been sufficient to close the widening financing gap. For the region as a whole the financing gap is expected to lie between \$30 billion and \$45 billion in 2009 (see chapter 3).

Responding to the outflow of capital, currencies of countries in the region depreciated sharply against the dollar, as did those of virtually every other country in the world, with the average depreciation in countries in the region amounting to 25 percent. However, on a trade-weighted basis the depreciations were milder, precisely because all countries depreciated. Of the countries with available data only Lesotho, South Africa, and Zambia depreciated by 10 percent or more.

The rapid drop in global demand for industrial products accelerated the decline in global commodity prices (see chapter 1). For African

Table A.16 Net capital flows to Sub-Saharan Africa

\$ billions

| Indicator | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008p |
|-----------------------------------|------|------|-------|-------|-------|-------|-------|
| Current account balance | -6.2 | -9.2 | -1.0 | 6.4 | 6.9 | -23.2 | -18.7 |
| <i>as % of GDP</i> | -1.7 | -2.1 | -0.2 | 1.0 | 1.0 | -2.7 | -1.9 |
| Net private and official inflows | 9.6 | 15.0 | 23.2 | 31.8 | 38.0 | 60.4 | 38.7 |
| Net private inflows | 6.9 | 13.5 | 20.9 | 32.8 | 40.3 | 55.5 | 35.9 |
| Net equity inflows | 9.8 | 13.6 | 16.6 | 24.2 | 33.5 | 42.1 | 35.6 |
| Net FDI inflows | 10.2 | 12.9 | 9.9 | 16.8 | 18.5 | 28.6 | 32.4 |
| Net portfolio equity inflows | -0.4 | 0.7 | 6.7 | 7.4 | 15.0 | 13.5 | 3.2 |
| Net debt flows | -0.2 | 1.4 | 6.6 | 7.6 | 4.5 | 18.3 | 3.1 |
| Official creditors | 2.7 | 1.5 | 2.3 | -1.0 | -2.3 | 4.9 | 2.8 |
| World Bank | 2.2 | 2.2 | 2.5 | 2.4 | 2.0 | 2.4 | 1.7 |
| IMF | 0.5 | 0.0 | -0.1 | -0.4 | -0.1 | 0.1 | 0.7 |
| Other official | 0.0 | -0.7 | -0.1 | -3.0 | -4.2 | 2.4 | 0.4 |
| Private creditors | -2.9 | -0.1 | 4.3 | 8.6 | 6.8 | 13.4 | 0.3 |
| Net M-L term debt flows | -1.1 | 0.9 | 2.7 | 4.9 | -2.1 | 7.9 | 1.3 |
| Bonds | 1.5 | 0.4 | 0.6 | 1.3 | 0.3 | 6.6 | -1.0 |
| Banks | -1.9 | 1.2 | 2.4 | 3.8 | -1.7 | 1.9 | 2.7 |
| Other private | -0.7 | -0.7 | -0.3 | -0.2 | -0.7 | -0.6 | -0.4 |
| Net short-term debt flows | -1.8 | -1.0 | 1.6 | 3.7 | 8.9 | 5.5 | -1.0 |
| Balancing item ^a | -3.2 | -2.0 | -0.6 | -18.6 | -13.2 | -11.0 | -0.9 |
| Change in reserves (- = increase) | -0.2 | -3.8 | -21.7 | -19.5 | -31.7 | -26.1 | -19.0 |
| Workers' remittances | 5.0 | 6.0 | 8.0 | 9.4 | 12.9 | 18.6 | 19.8 |

Source: World Bank.

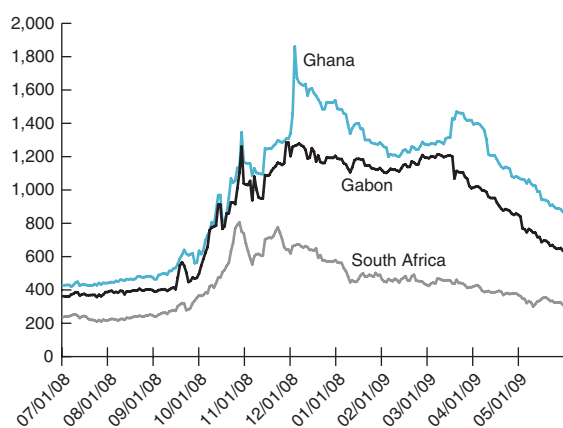
Note:

p = projected.

a. Combination of errors and omissions and net acquisition of foreign assets (including FDI) by developing countries.

Figure A.19 Bond spreads in Sub-Saharan Africa widened sharply in the wake of the global financial crisis

Basis points



Source: JP Morgan-Chase.

commodity exporters, these lower prices represented a significant loss in incomes and induced a sharp deterioration in their current account positions. For oil importers, however, lower fuel prices represented a favorable terms-of-trade development. Overall, the terms of trade deteriorated in

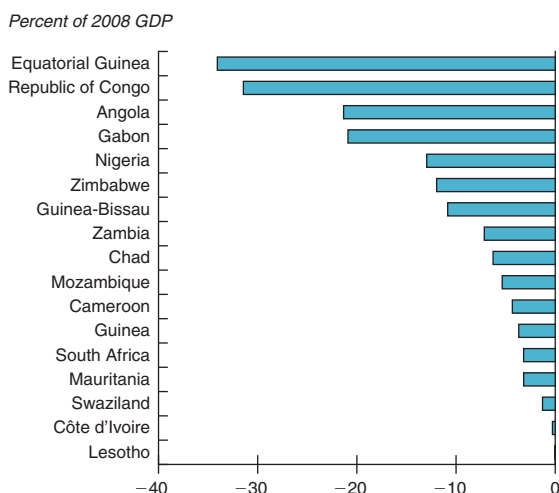
18 of 44 countries in the region between July 2008 and May 2009, with income losses in excess of 10 percent of GDP in 7 of them (figure A.20). Another 26 countries recorded improved terms of trade, largely because of lower fuel prices. Particularly strong gains came in countries such as Cape Verde, Eritrea, Seychelles, and Togo that rely heavily on oil imports to satisfy domestic demand.

Weaker economic conditions in high-income countries have also negatively affected remittances and tourism, two important sources of foreign currency for countries in Sub-Saharan Africa. Tourism revenues weakened in the final quarter of 2008 and in the first few months of 2009, and remittances are projected to decline by some 4.4 percent in 2009.

Despite currency depreciations (which tend to increase the price of imported goods), inflation in more than half of the countries in the region for which data are available decelerated by more than 2 percentage points between September 2008 and March 2009, mainly because of falling oil prices. Internationally traded food prices have also declined, but food prices in individual countries have responded with a lag, and year-over-year measures of food inflation remain high in many countries.

Figure A.20 Terms of trade losses since July have been significant in some countries as commodity prices plunged

Terms of trade impact of changes in international prices between July 2008 and May 2009



Source: World Bank.

For countries in west Africa, both overall inflation and food inflation came down sharply. For example in Côte d'Ivoire, consumer price inflation decelerated to below 4 percent in March (year-on-year) from almost 9.6 percent in September, as food inflation eased to 5.4 percent from close to 15 percent. Similarly in Mali, consumer price inflation diminished to 5.4 percent from 12.3 percent as food inflation eased to 6.4 percent from a peak of 17.5 percent in July.

Food price inflation accelerated or remained high in many east African countries, including Kenya, Rwanda, Tanzania, and Uganda. In Ethiopia, food price inflation slowed sharply to 26.5 percent in March from 80 percent in September, bringing overall inflation down to 23.7 percent from 60 percent.

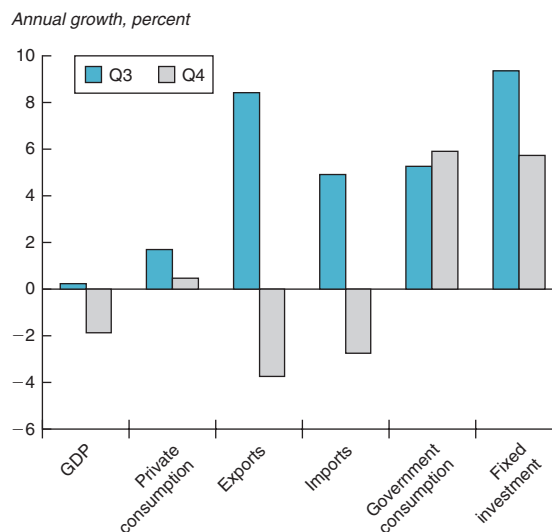
In southern Africa, food inflation remains above 20 percent in Botswana, keeping overall inflation high at 11.7 percent. In Zambia food inflation contributed 7.9 percentage points to the 14.7 percent inflation rate in May. In South Africa, overall inflation also remains high at more than 8 percent, pushed by a 15.7 percent surge in food and nonalcoholic beverage prices that contributed 2.4 percentage points to overall inflation in January 2009 and by rising housing

and utility costs that contributed a similar amount to headline inflation.

The credit squeeze, coupled with a rapid drop in consumer and investor confidence, was reflected in a quick decline both in world demand for the exports of African countries and in domestic demand for investment and for consumer durable goods. The fall in investment activity was especially pronounced in extractive industries, both because of reduced commodity prices and because of reliance on external financing sources. The sharpest decline was recorded in spending on durable goods (transport equipment in particular). In South Africa, growth in investment activity more than halved to 3 percent (on a seasonally adjusted annual rate) from 7.3 percent, mainly because of government restraint. Private sector investment (mainly reflecting mining sector activity) continued to expand at a brisk 2.9 percent pace, about the same rate as in the third quarter.

In South Africa, tighter credit conditions and rising interest rates coupled with increasing unemployment have been reflected in declining consumer confidence. This, together with cuts in consumer wealth due to falling house and equity prices yielded a 2.7 percent (saar) contraction in household consumption expenditure in the fourth quarter of 2008 (figure A.21). This followed a

Figure A.21 External trade and private consumption deteriorated markedly in the fourth quarter of 2008 in South Africa



Source: South Africa Reserve Bank.

0.9 percent contraction the previous quarter and marked the first time since 1992 that consumer spending contracted for two consecutive quarters.

The sharp decline in global trade during the fourth quarter of 2008 and into 2009 was reflected in much weaker export growth or outright contraction for Sub-Saharan African countries, in particular for countries with large mining operations like Botswana, Namibia, and Zambia. In South Africa, merchandise exports declined 6.3 percent in the fourth quarter (year-on-year).

Weak demand, especially for durables and cars, caused industrial output to fall in many countries. Industrial production fell by an annualized 22.1 percent in the first quarter in South Africa, while in Angola it fell by more than 10 percent between September 2008 and January 2009. Mining sectors also contracted markedly as external demand plunged. In South Africa the mining sector contracted at an annualized 32.8 percent pace in the first quarter. In Zambia weaker demand for copper led to mine closures. In Namibia and Botswana (long a star performer in the region), low demand for diamonds forced mine closures, leading to sharp declines in fourth-quarter output. In Lesotho, the contraction in the U.S. economy has badly affected the manufacturing sector, which benefited under the African Growth and Opportunity Act in previous years. Exports from Lesotho, Namibia, and Swaziland were also hit hard by the contraction in South Africa, which resulted in a reduction in workers' remittances that accounted for 30 percent of GDP in 2008 in the case of Lesotho.

In Mozambique, the rehabilitation of roads and bridges continues to be a major growth stimulus for the country's secondary sector; construction output accelerated to 20.1 percent, from 18.7 percent (year-on-year) in the second quarter of 2008. However, the sharp fall in aluminum prices and in demand from the auto sector is cutting into industrial output. Côte d'Ivoire continued its economic recovery in 2008, with growth accelerating to 2.5 percent from 1.5 percent previously, pushed by a strong rebound in the construction, food output, and telecommunications sectors. Other countries in the West Africa Economic and Monetary Union recorded an acceleration in growth, helped by improved weather conditions that bolstered output in the primary sectors, as well as by improvements in sociopolitical conditions in

Côte d'Ivoire. Some fragile countries are continuing to enjoy a peace dividend.

Fiscal balances in oil-importing countries deteriorated during the course of 2008 as governments took a series of measures to delay the pass-through to domestic prices of higher prices for food and fuel imports in the first half of the year. The fiscal costs of these policies may have averaged 1 percent of GDP in 2008.¹² Sharply falling activity beginning in the fourth quarter of the year led to a further deterioration in fiscal balances, as falling industrial and trade activity and declining commodity prices disproportionately affect the formal sectors from which most tax revenues derive. The deterioration in fiscal positions in oil-importing countries averaged 1.1 percent of GDP and is now limiting the fiscal space for countercyclical policies. In Ghana, expansionary fiscal policy in an election year caused the budget deficit net of grants to almost double. Despite rising non-oil budget deficits, the fiscal positions of oil-exporting countries improved by about 3 percent of GDP in 2008, boosted by high oil prices. However, the sharp decline in oil prices is now undermining government revenues in oil-exporting countries. For example, tax revenues in Nigeria were well below the government's target in the first quarter of 2009, reducing the space for fiscal stimulus.

Current account positions in oil-importing countries other than South Africa deteriorated by 3.4 percent of their GDP in 2008 as a result of terms-of-trade losses, sharp drops in exports in the last quarter of 2008, lower remittances, declining tourism revenues, and lower aid inflows. Despite lower oil prices in the second half of 2008, oil exporters in the region saw their current account surpluses improve by 2.6 percentage points to 6.2 percent of their GDP. In South Africa, the current account deficit narrowed to 5.8 percent of GDP in the fourth quarter of 2008, from 7.8 percent of GDP in the previous quarter, as the trade deficit almost halved.

Outlook

Growth in Sub-Saharan Africa is expected to decelerate markedly in 2009, to 1.0 percent from an estimated 4.8 percent in 2008. GDP in South Africa will actually contract by 1.5 percent (table A.17). Growth in oil-importing countries other than South Africa is projected to decelerate to 2.7 percent from an estimated 5.3 percent in 2008, while

APPENDIX: REGIONAL OUTLOOKS

Table A.17 Sub-Saharan Africa forecast summary
annual percent change unless indicated otherwise

| Indicator | 1995–2005 ^a | 2006 | 2007 | 2008 | Forecast | | |
|---|------------------------|------|------|------|----------|------|------|
| | | | | | 2009 | 2010 | 2011 |
| GDP at market prices (2000 \$) ^b | 3.9 | 6.0 | 6.2 | 4.8 | 1.0 | 3.7 | 5.2 |
| GDP per capita (units in \$) | 1.3 | 3.5 | 3.8 | 2.8 | -0.9 | 1.8 | 3.2 |
| PPP GDP ^c | 3.9 | 6.3 | 6.6 | 5.1 | 1.1 | 3.9 | 5.4 |
| Private consumption | 2.7 | 6.5 | 7.1 | 3.3 | 0.8 | 3.5 | 4.7 |
| Public consumption | 5.3 | 6.0 | 6.2 | 5.8 | 5.5 | 6.1 | 5.8 |
| Fixed investment | 7.4 | 18.7 | 20.5 | 12.4 | -2.6 | 3.9 | 7.7 |
| Exports, GNFS ^d | 4.8 | 5.1 | 4.1 | 4.7 | -3.2 | 4.2 | 6.4 |
| Imports, GNFS ^d | 6.2 | 12.7 | 11.9 | 6.6 | -3.0 | 4.7 | 7.3 |
| Net exports, contribution to growth | -0.4 | -2.9 | -3.2 | -1.2 | 0.2 | -0.6 | -0.9 |
| Current account bal/GDP (%) | -1.8 | 1.0 | -2.7 | -1.9 | -8.1 | -7.0 | -6.2 |
| GDP deflator (median, LCU) | 7.3 | 7.7 | 7.3 | 10.2 | 5.5 | 5.0 | 4.5 |
| Fiscal balance/GDP (%) | -3.0 | 1.5 | -0.8 | 0.5 | -5.0 | -3.4 | -1.9 |
| Memo items: GDP | | | | | | | |
| SSA excluding South Africa | 4.5 | 6.2 | 7.0 | 5.9 | 2.4 | 4.3 | 5.7 |
| Oil exporters | 4.4 | 7.1 | 7.9 | 6.3 | 2.2 | 4.4 | 6.3 |
| CFA countries | 4.1 | 2.2 | 3.5 | 4.2 | 2.3 | 3.6 | 4.8 |
| South Africa | 3.3 | 5.3 | 5.1 | 3.1 | -1.5 | 2.6 | 4.1 |
| Nigeria | 4.6 | 6.2 | 6.3 | 5.3 | 2.9 | 3.6 | 5.6 |
| Kenya | 2.9 | 6.1 | 7.1 | 1.7 | 2.6 | 3.4 | 4.9 |

Source: World Bank.

Note:

a. Growth rates over intervals are compound average; growth contributions, ratios and the GDP deflator are averages.

b. GDP measured in constant 2000 U.S. dollars.

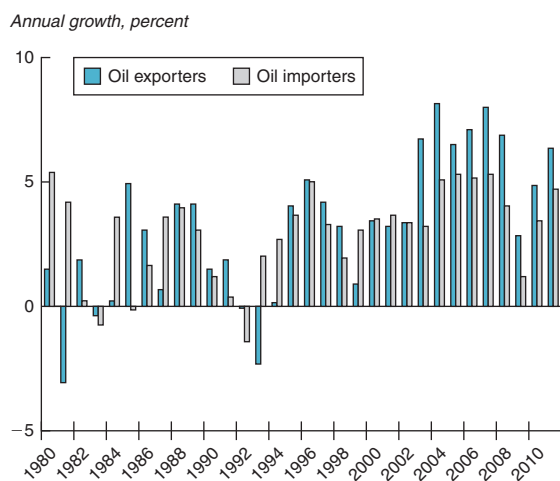
c. GDP measured at PPP exchange rates.

d. Exports and imports of goods and non-factor services.

for regional oil exporters growth is expected to ease to 2.2 percent, down sharply from the robust 6.3 percent pace in 2008 (figure A.22).

Much of the decline in growth for 2009 reflects the sharp deceleration in investment and

Figure A.22 Economic growth decelerated abruptly in 2009 to the lowest level in almost a decade in Sub-Saharan Africa



Source: World Bank.

consumption activity that has already occurred, and growth should strengthen in most countries during the second half of 2009. The projected recovery is expected to be relatively slow, partly because of a muted recovery in global export demand, but also because mounting unemployment, lower incomes, and continued financial sector weakness will prevent consumer and investment demand from rebounding quickly. Government spending, although projected to rise, is not expected to have a major offsetting influence on domestic demand, except perhaps in oil-exporting countries where fiscal surpluses provide additional scope for a more expansionary course. Indeed, in many oil-importing countries automatic stabilizers are small given the small share of government revenues in total GDP, and the fiscal space for discretionary spending is limited by tight financing conditions.

Some of the biggest slowdowns are projected to occur in smaller open economies like Botswana, Mauritius, and Seychelles. In Botswana, contraction in mining output is expected to cause an 8 percent decline in overall GDP, while Seychelles' economy will contract by more than 10 percent.

Côte d'Ivoire is expected to buck the trend toward growth deceleration, because growth is slowly returning after several years of conflict-induced slowdown. GDP is projected to accelerate slightly in 2009, as exports rise, and construction, food production, and government spending on basic infrastructure, poverty reduction, and other post-conflict needs will make significant contributions to growth.

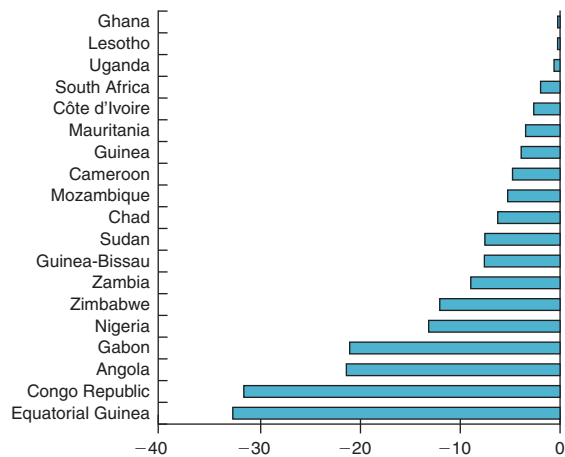
Current account positions in oil-exporting countries are expected to deteriorate sharply due to lower commodity prices in 2009. These will cause large swings in trade balances, only partially offset by profit repatriation by oil companies (figure A.23). Oil-importing countries in the region stand to gain from lower prices for imported fuel, although lower remittances, services revenues, and current transfer inflows will keep the current account balances at relatively high levels (figure A.24).

Current transfers to the region are projected to weaken further, as remittances and aid flows suffer. In Ghana, for example, net official transfers averaged \$17.6 million in the last two quarters compared to \$223.5 million in the first half of the year. In Uganda, current official transfers were down 7.8 percent year-on-year in the last quarter of 2008. Globally, remittances, which in Sub-Saharan

Figure A.23 Large terms of trade losses expected in countries exporting minerals and oil

Estimated terms of trade impact from changes in international prices between 2008 and 2009

Percent of 2008 GDP

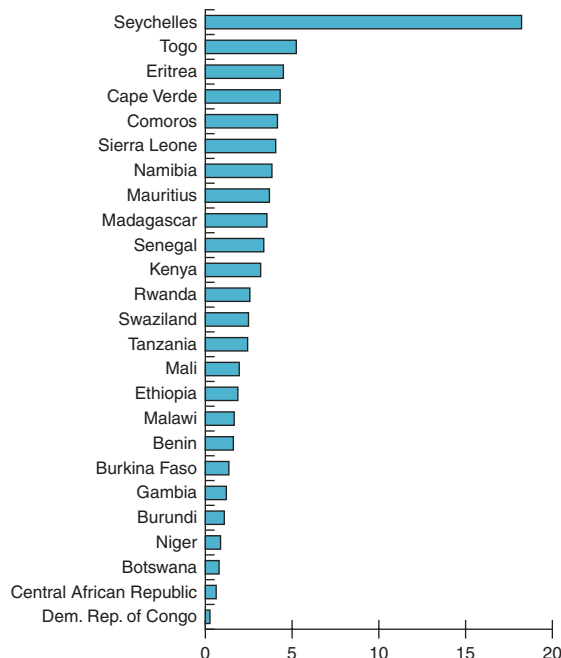


Source: World Bank.

Figure A.24 Terms of trade gains expected among oil-importing countries in 2009

Estimated terms of trade impact from changes in international prices between 2008 and 2009

Percent of 2008 GDP



Source: World Bank.

Africa were equal to about two-thirds of FDI and about half of ODA in 2008, are projected to decline by about 4.4 percent in 2009, before recovering in 2010. Countries like Lesotho, Sierra Leone, Cape Verde, Senegal, and Togo, where remittances account for more than 8 percent of GDP will suffer the most.

Fiscal balances throughout the region are projected to weaken further in 2009 due to low activity levels. While output growth will pick up in 2010 and 2011, the slow pace of the recovery will mean that spare capacity, heightened unemployment and weak government revenues will continue to characterize the economic situation throughout the projection period. Oil exporting countries will see their fiscal balances turn to deficits in 2009, to the tune of 4.0 percent of their GDP, as oil prices are markedly lower and as export volumes decline. Meanwhile in oil importing countries fiscal deficits will rise by 2.5 percentage points to close to 6 percent of GDP in 2009, before narrowing moderately over the next two years.

APPENDIX: REGIONAL OUTLOOKS

Prospects for 2010 and 2011 are for a slow recovery in Sub-Saharan Africa with growth picking up to about 3.7 percent in 2010 and 5.2 percent in 2011, as both domestic and external demand begin to recover. The overall pattern is similar for both oil-exporting and oil-importing countries (excluding South Africa), with growth in 2010 projected to reach 4.4 percent for each group, accelerating to 6.3 percent and 5.2 percent in 2011, respectively (table A.18).

The recovery in South Africa should follow a similar profile as for the rest of the continent, with output projected to increase by 2.6 percent in 2010 and by 4.1 percent in 2011, as weak financial conditions and excess capacity in many sectors mitigate against a sharp rebound in either investment or consumption. In Nigeria, one of the countries in Africa hit the hardest by the global financial crisis, the banking system is under stress, with some estimates suggesting as much as half of bank capital (\$10 billion) is tied up in questionable

assets.¹³ Credit conditions are therefore expected to be particularly tight there and will likely further undermine growth in the non-oil sector. Only higher government spending is projected to prevent the economy from sliding even further.

Risks and uncertainties

The risks for the Sub-Saharan Africa region are heavily tilted to the downside. A deeper and prolonged global recession would slow the recovery in external demand, prevent a recovery in commodity prices, and further depress tourism revenues, remittances, aid, and private capital flows. Such a scenario (described in chapter 1) would imply additional widening of the output gap in the region by about 3 percentage points and a continuation of recession-like conditions beyond the projection period.

Sharp contractions in remittances and official aid flows also represent a risk for the region because many Sub-Saharan countries depend heavily

Table A.18 Sub-Saharan Africa country forecasts
annual percent change unless indicated otherwise

| Country/indicator | 1995–2005 ^a | 2006 | 2007 | 2008 | Forecast | | |
|---|------------------------|-------|-------|-------|----------|-------|-------|
| | | | | | 2009 | 2010 | 2011 |
| Angola | | | | | | | |
| GDP at market prices (2000 \$) ^b | 8.3 | 18.6 | 23.4 | 14.3 | -1.9 | 6.5 | 10.7 |
| Current account bal/GDP (%) | -2.4 | 16.9 | 15.3 | 19.4 | -5.8 | -0.1 | 2.2 |
| Benin | | | | | | | |
| GDP at market prices (2000 \$) ^b | 4.6 | 3.8 | 4.6 | 4.9 | 2.9 | 3.7 | 5.5 |
| Current account bal/GDP (%) | -7.2 | -7.1 | -10.9 | -12.3 | -10.7 | -9.9 | -9.1 |
| Botswana | | | | | | | |
| GDP at market prices (2000 \$) ^b | 6.9 | 3.4 | 3.8 | 3.0 | -8.0 | 4.8 | 3.1 |
| Current account bal/GDP (%) | 8.1 | 18.0 | 18.0 | 5.2 | -7.7 | -2.5 | -2.2 |
| Burkina Faso | | | | | | | |
| GDP at market prices (2000 \$) ^b | 5.2 | 5.5 | 4.0 | 4.7 | 3.6 | 4.8 | 5.9 |
| Current account bal/GDP (%) | -10.1 | -13.1 | -13.6 | -14.5 | -13.9 | -13.4 | -13.8 |
| Burundi | | | | | | | |
| GDP at market prices (2000 \$) ^b | 1.0 | 5.1 | 3.6 | 4.4 | 2.6 | 3.7 | 5.1 |
| Current account bal/GDP (%) | -10.8 | -35.9 | -29.6 | -33.3 | -27.8 | -26.6 | -26.0 |
| Cape Verde | | | | | | | |
| GDP at market prices (2000 \$) ^b | 5.2 | 10.7 | 7.8 | 5.9 | 3.8 | 4.4 | 5.4 |
| Current account bal/GDP (%) | -10.0 | -3.4 | -13.4 | -17.8 | -19.2 | -17.9 | -18.4 |
| Cameroon | | | | | | | |
| GDP at market prices (2000 \$) ^b | 4.2 | 3.2 | 3.3 | 3.9 | 2.0 | 2.7 | 3.5 |
| Current account bal/GDP (%) | -3.5 | -0.8 | -5.0 | -1.2 | -6.1 | -5.6 | -5.1 |
| Central African Republic | | | | | | | |
| GDP at market prices (2000 \$) ^b | 0.7 | 4.0 | 4.2 | 3.4 | 2.7 | 3.4 | 4.3 |
| Current account bal/GDP (%) | -4.4 | -7.6 | -8.5 | -9.0 | -7.7 | -8.0 | -8.3 |
| Chad | | | | | | | |
| GDP at market prices (2000 \$) ^b | 8.6 | 0.2 | 0.2 | 0.2 | 0.4 | 2.1 | 3.0 |
| Current account bal/GDP (%) | -24.2 | -7.2 | -11.5 | -9.0 | -11.5 | -9.7 | -10.2 |

(Continues)

Table A.18 (Continued)

annual percent change unless indicated otherwise

| Country/indicator | 1995–2005 ^a | 2006 | 2007 | 2008 | Forecast | | |
|---|------------------------|-------|-------|-------|----------|-------|-------|
| | | | | | 2009 | 2010 | 2011 |
| Comoros | | | | | | | |
| GDP at market prices (2000 \$) ^b | 2.1 | 1.2 | -1.0 | 0.6 | 0.2 | 2.1 | 2.5 |
| Current account bal/GDP (%) | -6.3 | -5.5 | -8.1 | -12.9 | -8.4 | -9.6 | -10.8 |
| Congo, Dem. Rep. | | | | | | | |
| GDP at market prices (2000 \$) ^b | -0.1 | 5.6 | 6.3 | 7.1 | 3.0 | 5.3 | 7.1 |
| Current account bal/GDP (%) | -1.3 | -9.8 | -12.2 | -19.8 | -27.9 | -27.9 | -27.3 |
| Congo, Rep. | | | | | | | |
| GDP at market prices (2000 \$) ^b | 3.4 | 6.2 | -1.6 | 6.1 | 7.4 | 9.7 | 10.7 |
| Current account bal/GDP (%) | -2.2 | 1.7 | -25.4 | -6.4 | -17.7 | -6.4 | -0.0 |
| Côte d'Ivoire | | | | | | | |
| GDP at market prices (2000 \$) ^b | 1.5 | -0.3 | 1.5 | 2.5 | 3.1 | 4.2 | 4.9 |
| Current account bal/GDP (%) | -0.2 | 2.8 | 1.0 | 0.9 | 0.7 | -1.6 | -3.2 |
| Eritrea | | | | | | | |
| GDP at market prices (2000 \$) ^b | 2.6 | -1.0 | 1.3 | 1.2 | 1.7 | 4.2 | 4.4 |
| Current account bal/GDP (%) | -14.7 | -24.1 | -17.8 | -18.2 | -9.3 | -8.6 | -8.2 |
| Ethiopia | | | | | | | |
| GDP at market prices (2000 \$) ^b | 5.5 | 10.9 | 11.5 | 11.1 | 6.0 | 7.0 | 7.3 |
| Current account bal/GDP (%) | -3.3 | -12.0 | -10.0 | -10.5 | -9.9 | -9.4 | -8.6 |
| Gabon | | | | | | | |
| GDP at market prices (2000 \$) ^b | 1.0 | 1.2 | 5.6 | 3.0 | 0.2 | 2.3 | 3.5 |
| Current account bal/GDP (%) | 10.6 | 15.6 | 16.2 | 16.8 | -2.4 | -1.6 | -0.2 |
| Gambia, The | | | | | | | |
| GDP at market prices (2000 \$) ^b | 4.2 | 6.5 | 7.0 | 5.3 | 4.5 | 5.1 | 5.4 |
| Current account bal/GDP (%) | -5.3 | -14.2 | -12.1 | -15.2 | -15.8 | -16.2 | -16.3 |
| Ghana | | | | | | | |
| GDP at market prices (2000 \$) ^b | 4.7 | 6.4 | 6.1 | 7.1 | 4.1 | 4.6 | 5.4 |
| Current account bal/GDP (%) | -5.4 | -8.1 | -14.3 | -20.5 | -14.1 | -13.7 | -14.5 |
| Guinea | | | | | | | |
| GDP at market prices (2000 \$) ^b | 3.7 | 2.2 | 1.8 | 3.0 | 2.0 | 2.6 | 4.8 |
| Current account bal/GDP (%) | -4.8 | -1.8 | -6.8 | -10.3 | -5.7 | -4.4 | -3.5 |
| Guinea-Bissau | | | | | | | |
| GDP at market prices (2000 \$) ^b | -0.3 | 1.8 | 2.7 | 2.9 | 2.1 | 3.4 | 3.4 |
| Current account bal/GDP (%) | -13.4 | -19.1 | -10.0 | -12.9 | -16.5 | -15.1 | -15.1 |
| Kenya | | | | | | | |
| GDP at market prices (2000 \$) ^b | 2.9 | 6.1 | 7.1 | 1.7 | 2.6 | 3.4 | 4.9 |
| Current account bal/GDP (%) | -7.5 | -2.0 | -4.7 | -6.8 | -4.8 | -5.0 | -4.5 |
| Lesotho | | | | | | | |
| GDP at market prices (2000 \$) ^b | 3.0 | 7.2 | 4.9 | 4.1 | 0.9 | 2.2 | 3.6 |
| Current account bal/GDP (%) | -20.6 | 4.4 | -8.4 | -17.0 | -16.4 | -16.9 | -16.7 |
| Madagascar | | | | | | | |
| GDP at market prices (2000 \$) ^b | 3.1 | 4.9 | 6.5 | 6.0 | 3.5 | 4.8 | 6.2 |
| Current account bal/GDP (%) | -8.6 | -9.6 | -14.0 | -20.6 | -13.8 | -13.0 | -11.4 |
| Malawi | | | | | | | |
| GDP at market prices (2000 \$) ^b | 2.4 | 7.9 | 7.4 | 6.9 | 6.6 | 5.6 | 4.6 |
| Current account bal/GDP (%) | -5.7 | -16.7 | -15.5 | -17.5 | -13.5 | -13.4 | -12.2 |
| Mali | | | | | | | |
| GDP at market prices (2000 \$) ^b | 5.8 | 5.3 | 4.3 | 5.0 | 3.7 | 5.1 | 5.3 |
| Current account bal/GDP (%) | -8.7 | -5.7 | -8.3 | -9.9 | -8.3 | -10.2 | -11.3 |
| Mauritania | | | | | | | |
| GDP at market prices (2000 \$) ^b | 4.3 | 11.7 | 1.0 | 2.2 | 2.7 | 4.1 | 5.0 |
| Current account bal/GDP (%) | -6.3 | 2.8 | -7.0 | -11.0 | -11.4 | -16.2 | -16.4 |
| Mauritius | | | | | | | |
| GDP at market prices (2000 \$) ^b | 4.8 | 3.5 | 4.2 | 5.8 | 2.4 | 2.8 | 3.7 |
| Current account bal/GDP (%) | 0.1 | -9.5 | -8.4 | -8.8 | -10.0 | -10.9 | -8.4 |
| Mozambique | | | | | | | |
| GDP at market prices (2000 \$) ^b | 8.0 | 8.0 | 7.0 | 6.4 | 4.5 | 4.9 | 5.9 |
| Current account bal/GDP (%) | -15.1 | -11.3 | -16.1 | -19.3 | -19.7 | -16.0 | -11.5 |
| Namibia | | | | | | | |

(Continues)

APPENDIX: REGIONAL OUTLOOKS

Table A.18 Sub-Saharan Africa country forecasts (Continued)

annual percent change unless indicated otherwise

| Country/indicator | 1995–2005 ^a | 2006 | 2007 | 2008 | Forecast | | |
|---|------------------------|-------|-------|-------|----------|-------|-------|
| | | | | | 2009 | 2010 | 2011 |
| GDP at market prices (2000 \$) ^b | 4.1 | 2.9 | 5.9 | 2.7 | -1.7 | 2.1 | 3.3 |
| Current account bal/GDP (%) | 3.2 | 3.6 | -2.3 | -10.6 | -11.8 | -10.5 | -10.9 |
| Niger | | | | | | | |
| GDP at market prices (2000 \$) ^b | 3.5 | 5.2 | 3.2 | 6.9 | 3.6 | 4.9 | 5.3 |
| Current account bal/GDP (%) | -7.1 | -8.6 | -10.0 | -13.3 | -16.3 | -15.9 | -16.6 |
| Nigeria | | | | | | | |
| GDP at market prices (2000 \$) ^b | 4.6 | 6.2 | 6.3 | 5.3 | 2.9 | 3.6 | 5.6 |
| Current account bal/GDP (%) | 5.4 | 20.6 | 4.7 | 6.1 | -8.7 | -6.2 | -4.6 |
| Rwanda | | | | | | | |
| GDP at market prices (2000 \$) ^b | 8.3 | 7.2 | 7.9 | 8.4 | 5.1 | 5.5 | 5.8 |
| Current account bal/GDP (%) | -4.1 | -12.3 | -12.7 | -17.6 | -13.4 | -13.2 | -12.9 |
| Senegal | | | | | | | |
| GDP at market prices (2000 \$) ^b | 4.4 | 2.3 | 4.8 | 4.5 | 3.1 | 3.8 | 5.0 |
| Current account bal/GDP (%) | -5.7 | -9.4 | -10.0 | -12.2 | -13.6 | -13.8 | -14.3 |
| Seychelles | | | | | | | |
| GDP at market prices (2000 \$) ^b | 2.2 | 5.3 | 8.3 | 0.1 | -10.5 | 2.7 | 3.7 |
| Current account bal/GDP (%) | -13.8 | -18.7 | -22.2 | -32.0 | -29.7 | -24.0 | -20.4 |
| Sierra Leone | | | | | | | |
| GDP at market prices (2000 \$) ^b | 4.5 | 7.4 | 6.5 | 5.8 | 4.0 | 5.5 | 6.5 |
| Current account bal/GDP (%) | -12.4 | -9.5 | -8.0 | -11.2 | -6.6 | -6.9 | -7.6 |
| South Africa | | | | | | | |
| GDP at market prices (2000 \$) ^b | 3.3 | 5.3 | 5.1 | 3.1 | -1.5 | 2.6 | 4.1 |
| Current account bal/GDP (%) | -1.7 | -6.6 | -7.2 | -7.4 | -6.1 | -6.4 | -5.9 |
| Sudan | | | | | | | |
| GDP at market prices (2000 \$) ^b | 6.2 | 11.3 | 10.2 | 6.1 | 4.1 | 5.3 | 6.2 |
| Current account bal/GDP (%) | -6.6 | -14.3 | -5.9 | -4.4 | -7.5 | -6.6 | -5.7 |
| Swaziland | | | | | | | |
| GDP at market prices (2000 \$) ^b | 1.9 | 2.8 | 2.4 | 2.2 | 0.8 | 1.2 | 1.5 |
| Current account bal/GDP (%) | -1.0 | -14.0 | -21.3 | -27.4 | -23.2 | -22.7 | -22.3 |
| Tanzania | | | | | | | |
| GDP at market prices (2000 \$) ^b | 5.4 | 6.7 | 7.1 | 7.5 | 4.8 | 5.5 | 6.4 |
| Current account bal/GDP (%) | -6.3 | -8.3 | -11.1 | -12.0 | -10.0 | -10.3 | -10.9 |
| Togo | | | | | | | |
| GDP at market prices (2000 \$) ^b | 3.3 | 4.1 | 2.0 | 0.8 | 2.2 | 2.4 | 3.3 |
| Current account bal/GDP (%) | -10.7 | -9.9 | -7.5 | -9.6 | -9.3 | -9.8 | -9.5 |
| Uganda | | | | | | | |
| GDP at market prices (2000 \$) ^b | 6.1 | 10.8 | 8.6 | 9.5 | 5.0 | 5.6 | 6.6 |
| Current account bal/GDP (%) | -7.0 | -7.1 | -6.9 | -7.7 | -9.5 | -9.3 | -9.4 |
| Zambia | | | | | | | |
| GDP at market prices (2000 \$) ^b | 3.8 | 6.2 | 6.3 | 6.0 | 3.0 | 4.9 | 5.5 |
| Current account bal/GDP (%) | -12.8 | -0.7 | -6.1 | -9.8 | -11.5 | -12.5 | -12.0 |
| Zimbabwe | | | | | | | |
| GDP at market prices (2000 \$) ^b | -2.4 | -4.2 | -6.3 | -4.9 | -4.6 | -3.1 | -2.1 |
| Current account bal/GDP (%) | 0.5 | 30.7 | 42.1 | 28.3 | 16.3 | 13.5 | 15.6 |

Source: World Bank.

Note:

In the current very volatile global environment, World Bank forecasts are frequently updated based on new information and changing assumptions. Moreover, the confidence intervals around these point forecasts are larger than usual. As a result, the projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.

Liberia, Mayotte, Somalia, and São Tome and Príncipe are not forecast owing to data limitations.

a. Growth rates over intervals are compound average; growth contributions, ratios and the GDP deflator are averages.

b. GDP measured in constant 2000 U.S. dollars.

on aid flows for budget support and because remittances represent an important cushion against poverty. The shortfalls in aid would intensify the fiscal problems, limiting further the fiscal space for countercyclical policies at a time when they are especially needed.

An uncertainty clouding the medium term derives from the sharp increase in developed-country borrowing following the crisis and the possibility that such borrowing crowds frontier economies in the region out of international capital markets, leaving countries with the large external financing needs such as Ghana, Kenya, Mauritius, Nigeria, South Africa, and Tanzania vulnerable.

Among countries with relatively developed financial markets,¹⁴ the sharp slowdown (or even outright contraction in economic activity) could result in a big increase in the number of non-performing loans—especially in countries where credit to domestic commodity exporters represents a large share of total credit extended. This in turn may require government support to financial institutions and depositors adding further pressures on government finances.

Plummeting government revenues heighten the risk of large increases in public debt to unsustainable levels. This will have long-term consequences for growth, causing interest rates to rise, crowding out the private sector, and undermining long-term growth potential. This risk should be balanced against the acute need for fiscal stimulus in the short term to help boost domestic demand and safeguard growth at a time of extremely weak external demand. It is very important that at a time of scarce resources, spending undertaken by governments be the most efficient in terms of supporting growth, addressing bottle-necks, and increasing long-run productivity.

Notes

1. Migrant remittances are defined as the sum of workers' remittances, compensation of employees, and migrant transfers.

2. International Organization for Migration 2008 survey.

3. *Migrants return home to Tajikistan*, BBC, April 28, 2009.

4. Short-term debt due in 2009 is calculated based on the Bank of International Settlements reporting system and data released in May 2009.

5. In consistency with the methodology explained in chapter 3, the financing gap is defined as the difference between total external financing requirements (current-account deficit plus scheduled principal payments on both short-term and long-term private debt coming due in the year) and private capital flows (new loans on private debt, net equity flows, and net unidentified capital outflows).

6. Georgia, which signed a \$740 million stand-by agreement in September 2008, is excluded from this total because the package was mainly targeted at helping economic recovery after the Russian war.

7. The output gap is defined as the difference between the actual and potential GDP as a share of the potential GDP in a given year.

8. See GDF 2008, chapter 3.

9. The low- and middle income countries of the Middle East and North Africa region include Algeria, the Arab Republic of Egypt, the Islamic Republic of Iran, Jordan, Lebanon, Morocco, the Syrian Arab Republic, Tunisia, and the Republic of Yemen. Several developing economies are not covered in this report due to data insufficiencies, including Djibouti, Iraq, Libya and the West Bank and Gaza. High-income economies of the broader geographic region, including Gulf Cooperation Council (GCC) members Bahrain, Kuwait, Oman, and Saudi Arabia are covered in this report under the category of "other high-income countries," but the importance of GCC developments for the broader economic region should be underscored. Among the GCC, insufficient data exists for inclusion of Qatar and the United Arab Emirates.

10. Council on Foreign Relations (2009).

11. Wheat production in Afghanistan is projected to rise by 40–50 percent over 2008, given improved weather conditions, and the UN Food and Agriculture Organization has reported that the country is likely to be self-sufficient in wheat this year.

12. *International Monetary Fund*, Regional Economic Outlook Sub-Saharan Africa, April 2009.

13. Estimate of Eurasia Group. According to Bank of America Corp., banks have provided at least 1 trillion naira (\$6.8 billion) of margin loans.

14. African countries with more developed financial markets are Botswana, Cape Verde, Ghana, Kenya, Mauritius, Mozambique, Namibia, Nigeria, Seychelles, South Africa, Tanzania, Uganda.