Regional Economic Outlook: Sub-Saharan Africa

Main Messages

The Great Recession and Sub-Saharan Africa

After nearly a decade of strong economic performance, growth in sub-Saharan Africa is expected to slow to a mere 1 percent in 2009. The great recession has slashed the exports of many sub-Saharan African countries and disrupted capital flows. Oil exporters and middle-income countries have been particularly hard hit; low-income countries somewhat less so. Nevertheless, relatively prudent policies during the upswing have provided space for domestic economies to absorb some of the shocks, supported on occasion by specific countercyclical measures.

Comparisons with previous global slowdowns provide some pointers to future developments and possible policy responses. While past global downturns have pulled down output growth fairly immediately in sub-Saharan Africa, global recoveries have often left the region behind. Harmful measures, such as trade restrictions, and limited room for maneuver on conventional fiscal and monetary policy seem partly to blame. This time, protectionist measures have been largely avoided and stronger initial positions are providing some scope for fiscal and monetary easing.

Looking ahead, the budding recovery in the global economy is expected to sustain a revival in sub-Saharan Africa's growth to 4 percent in 2010 and more than 5 percent in later years. Risks are still tilted to the downside, however, and policies should aim to support the recovery until it gains momentum. In countries where there are no financing constraints, and output is well below potential, fiscal deficits may need to remain high for some time, and any countercyclical fiscal measures should be kept in place. Interest rates could be reduced further in some countries. However, countries with financing constraints will need instead to contain macroeconomic imbalances.

As the recovery becomes established, fiscal policy will need to be refocused on its traditional objectives of growth and debt sustainability. Chapter 2, therefore, looks in turn at the role of fiscal policy in promoting sound economic performance in sub-Saharan Africa in three areas: (i) increasing the effectiveness of countercyclical fiscal support; (ii) safeguarding debt sustainability; and (iii) facilitating long-term growth and development.

Countercyclical fiscal policy in sub-Saharan Africa in the past has achieved mixed results. Increasing its effectiveness will depend on reinforcing automatic stabilizers, enhancing fiscal institutions, relaxing financing constraints, and improving data and analytical capacity. Special vehicles such as fiscal rules and commodity stabilization funds may be helpful, but should be underpinned by sound institutions and a commitment to good governance.

The direct impact of the crisis on debt sustainability has varied between countries, partly reflecting the scale of new borrowing. If growth recovers as anticipated, evidence compiled from a comparison between debt sustainability analyses completed before and those completed after the onset of the crisis, together with simulation results, suggests that the crisis will not significantly add to debt vulnerabilities in most countries. However, to minimize risks in the medium term, countries need to transition back to lower deficits when the recovery is gaining momentum.

In the medium term, fiscal policy should be directed firmly toward growth and development objectives. Adequate capital spending should be a top priority to address large deficits in infrastructure and human capital. But achieving favorable outcomes (as opposed to allocating budgetary resources) also depends on improving public sector efficiency and effectiveness. This will require institutional strengthening, capacity building for project appraisal and management, and raising standards of governance.