Overseas Development Institute

Economic Policies in G-20 and African Countries during the Global Financial Crisis

Who's the apprentice, who's the master?

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1 This paper has benefited greatly from AERC guidance and support. I also thank Jenny Hagan and Roo Griffith for assistance, and Isabella Massa, Jane Kennan and Massimiliano Calì for suggestions and data analysis. Contact: dw.tevelde@odi.org.uk. For further information on ODI's monitoring study of the crisis, see http://blogs.odi.org.uk/blogs/main/archive/2009/09/23/global_financial_crisis_monitoring.aspx.

Contents

Abstract

The global financial crisis has affected G-20, African and other countries. Effects have been widespread and have encompassed a wide range of transmission belts, albeit different ones in different countries, and with different levels of impact. When the crisis broke, several analyses at the time (in September 2008) suggested that sub-Saharan Africa (SSA) would not be affected as much because financial systems were not leveraged as much as in the UK and the US. By the end of 2008, however, it had become clear that SSA was feeling the effects of the crisis, probably mostly through real channels. Recently, it has become clear that SSA has been affected also by financial contagion. International bank lending increased at unsustainably fast rates until September 2008, but has since decreased significantly, by around 10% in the case of Africa. Based on actual evidence so far, and forecasts in some cases, we note a shortfall of some $134 billion for SSA countries (trade, bank lending, remittances, portfolio flows and foreign direct investment (FDI)). As a result of the crisis, 10 African countries are experiencing declines in real GDP (compared with forecasts made before the crisis) of more than 5% in 2009, 11 of between 3% and 5% and 19 of between 1% and 3%; others have been affected less.

This paper finds that G-20 countries have responded through fast and large bailouts, historically large fiscal stimuli and accommodative monetary policies. It seems that African countries could learn from this, and in part they should indeed do so in terms of the flexibility and responsiveness of policies and institutions common in G-20 countries. However, African countries have also put in place their own responses to the crisis – albeit with a time lag. Moreover, developed G-20 countries are currently not always regarded as the right master, and African countries may have outgrown apprentice status on some issues, so it may be inappropriate to think only in terms of lessons from G-20 countries for Africa.

We have examined the master–apprentice relationship with regard to several issues and conclude:

- It was poor regulation in G-20 countries that got us into the financial crisis, not African countries.
- Fiscal policy in African counties seems to have been tighter, sometimes against their own development interests (even though the international financial institutions (IFIs) allowed some extra budgetary space), compared with G-20 countries.
- Both G-20 and African countries have introduced accommodative monetary policies, but G-20 countries were much faster as they faced fewer inflationary pressures going into the crisis.
- Global imbalances and differences in reserves are affecting the G-20 more than African countries.
- If anything, G-20 countries, not African countries, are reversing a previous trend towards openness and have become more protectionist. African countries are now better reformers than Organisation for Economic Co-operation and Development (OECD) countries.
- G-20 countries are withdrawing international bank lending from African countries, and G-20 countries need to tighten up on regulation, while African countries have been prudent.
- G-20 countries are considering the use of industrial policies, yet the debate is much more active on this with respect to developing countries.
- A shift in state–business relations seems to be happening in G-20 countries more than in African countries.

We note, however, that there are still some useful messages for African countries:

- There needs to be more debate on the appropriateness of the fiscal stance in African countries in times of crisis.
- There needs to be more emphasis on building flexible institutions to ensure that taskforces work.
- There needs to be a more active approach to openness and trade and finance diversification, not only because of general development concerns but also to make growth more crisis resilient and to reduce exposure to the shock (e.g. regional exports in Uganda and information and communication technology (ICT) exports on Mauritius; and foreign vs. local sources of lending) and promote domestic resource mobilisation.

1. Introduction

The global financial crisis, which started in the financial markets of developed countries, has had major effects on the world economy. Developed countries responded quickly through financial, fiscal and monetary policies and, by means of the G-20 and the international financial institutions (IFIs), pressed for global solutions. African countries were affected in differing ways and also acted in a countercyclical manner. This is discussed in IMF, 2009; Massa and te Velde, 2008; te Velde. 2009; te Velde et al., 2009a; World Bank, 2009; and others).

The severity and effects of the crisis and policy responses have led to new insights and called into question existing practices. Vulnerability depends on exposure less resilience (e.g. Briguglio et al, 2006; Guillaumont, 2008). We first examine transmission mechanisms and exposure of G-20 and African countries to the global financial crisis. The paper then examines and compares elements of resilience such as policy responses in G-20 countries (mostly the European Union (EU), US and China) and African countries in key areas such as monetary, fiscal, financial, industrial and institutional policy responses, and formulates possible lessons. The potential lessons are by no means unidirectional.

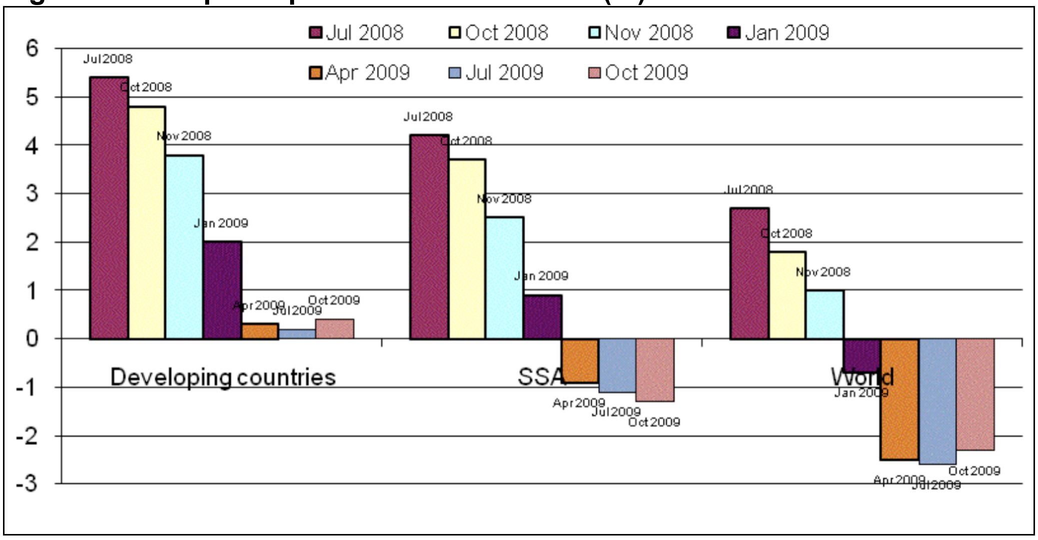
Section 2 examines the effects of the crisis in G-20 and African countries. The broad effects are similar (some 5% change in aggregate gross domestic product (GDP) in developing and developed countries), although this of course masks differences among different types of countries. Section 3 introduces the key policies to be examined whilst Section 4 discusses policy and institutional responses in G-20 countries and Section 5 policy responses in African countries. Section 6 considers who can learn from whom. Section 7 concludes.

2. Economic effects of the global financial crisis

2.1 G-20 economies

The global financial crisis has affected all regions, as can be seen in Figure 1. Different countries have been affected differently.

Figure 1: GDP per capita forecasts for 2009 (%)



Source: IMF (October 2009) and own calculations.

After large declines at the end of 2008 and during the period until the G-20 meeting on 2 April 2009, an Organisation for Economic Co-operation and Development (OECD) report in September 2009 suggested that economic conditions had finally stabilised and/or improved. Corporate bond spread had come down (US, euro), there was a tightening of credit by fewer banks (US, Japan, euro), there was a rebound in share prices from the start of 2009Q2 and spreads over the currency swap index were down (starting 2009Q1). Business inventories (as a percent of sales) were also corrected downwards (in 2009Q2 compared with Q1 in Japan, US and the euro area) after sharp increases in 2008Q4, which followed low and slowly declining levels of inventories. World trade volume stabilised, comparing 2009Q2 with 2009Q1; export orders increased recently and housing construction in the US has bottomed out for the first time in four years.

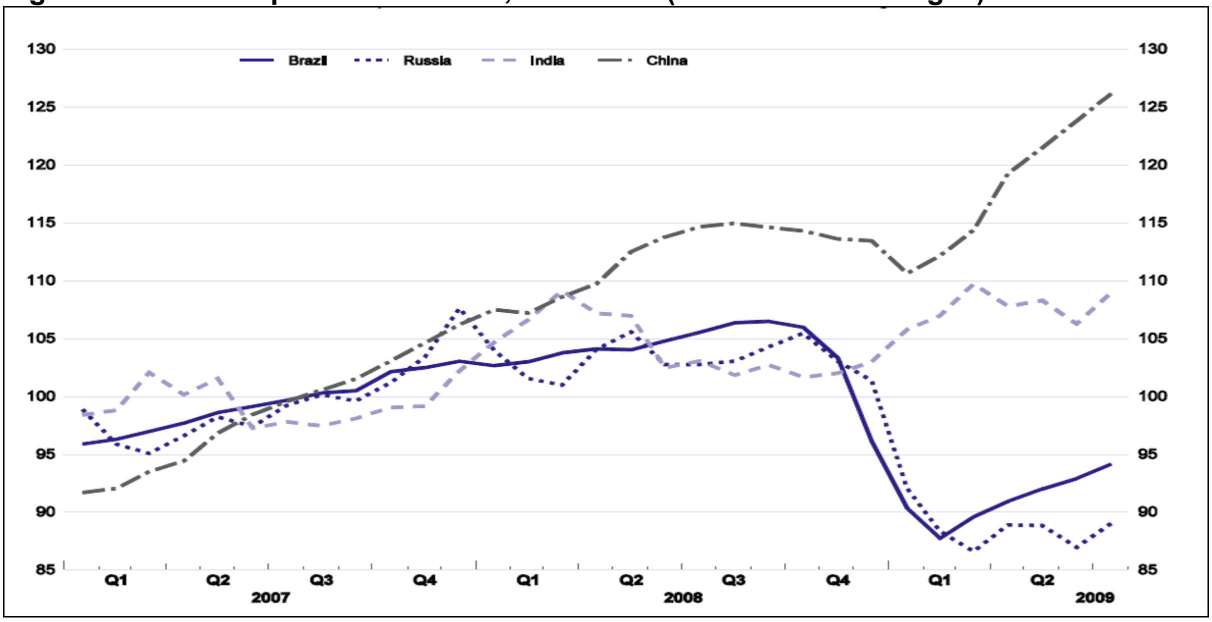
Table 1: GDP growth in G-7 economies, 2008Q1-2009Q4 (%)

	Annualised quarter on quarter growth								Year average growth 2009	
	08Q1	**08Q2**	**08Q3**	**08Q4**	**09Q1**	**09Q2**	**09Q3**	**09Q4**	**EO85 projection**	**Implied projection**
US	-0.7	1.5	-2.7	-5.4	-6.4	-1.0	1.6(+/-1.9)	2.4(+/-2.4)	-2.8	-2.8
Japan	3.9	-4.3	-3.9	-13.1	-11.7	3.7	1.1(+/-2.9)	-0.9(+/-2.8)	-6.8	-5.6
Euro area	3.1	-1.5	-1.5	-7.1	-9.2	-0.5	0.3(+/-1.3)	2(+/-1.6)	-4.8	-3.9
Germany	6.5	-2.2	-1.3	-9.4	-13.4	1.3	4.2(+/-2.2)	1.8(+/-2.3)	-6.1	-4.8
France	1.8	-1.9	-0.9	-5.5	-5.3	1.4	1.6(+/-1.3)	1.9(+/-1.7)	-3.0	-2.1
Italy	2.0	-2.2	-3.1	-8.3	-10.3	-1.9	-1.1(+/-1.7)	0.4(+/-2)	-5.5	-5.2
UK	3.2	-0.2	-2.9	-7.0	-9.3	-2.6	-1(+/-1.2)	0(+/-1.2)	-4.3	-4.7
Canada	-0.7	0.3	0.4	-3.7	-6.1	-3.4	-2(+/-1.6)	0.4(+/-2.1)	-2.6	-3.0
G-7	1.4	-0.5	-2.5	-7.3	-8.4	-0.1	1.2(+/-1.8)	1.4(+/-2.1)	-4.1	-3.7

Source: OECD (2009).

Industrial production is on the increase in major emerging countries, a trend which shows that the current crisis deviates from the Great Depression in the 1930s.

Figure 2: Industrial production index, 2007-2009 (three-month averages)



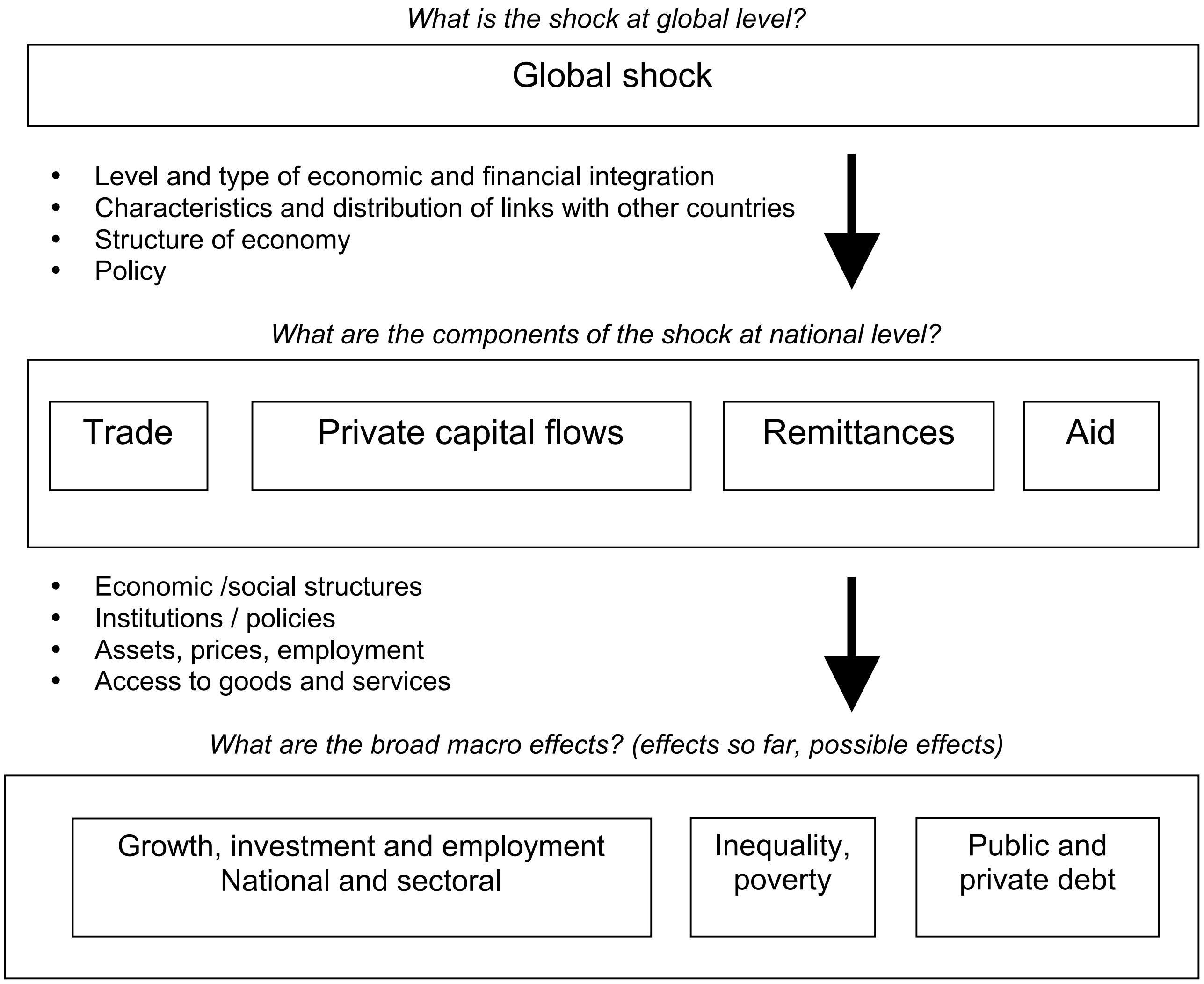
Source: OECD (2009).

2.2 African countries

An early estimate by the Overseas Development Institute (ODI, 2009) on the basis of International Monetary Fund (IMF) forecasts was that developing countries could lose at least $750 billion by the end of 2009. In sub-Saharan Africa (SSA), the figure could be over $50 billion. Figure 2 shows how forecasts for GDP per capita were consistently downgraded over the year. In October 2009, the IMF suggested that SSA would grow by a mere 1.5%, implying negative GDP per capita growth (Figure 1). While the forecasts for 2009 were upgraded for Asian and developed countries, those for SSA were downgraded further. In 2009, 10 African countries are likely to experience declines in real GDP by more than 5%, 11 between 3% and 5% and 19 between 1% and 3%; the rest may have been affected less. As appendix 5 shows African countries have been amongst the most and least developed countries.

Figure 3 covers the transmission mechanisms from the crisis and suggest how developing countries may have been affected. The channels are financial (private capital flows) and real (trade, aid and remittances) and interlinked (eg stock markets, trade finance). Some channels operate through the supply side (e.g. less liquidity to promote private financial flows to developing countries due to higher capital requirements in developed countries) and others are on the demand side (e.g. lower demand for tourism services from developing countries). We cover the transmission belts below.

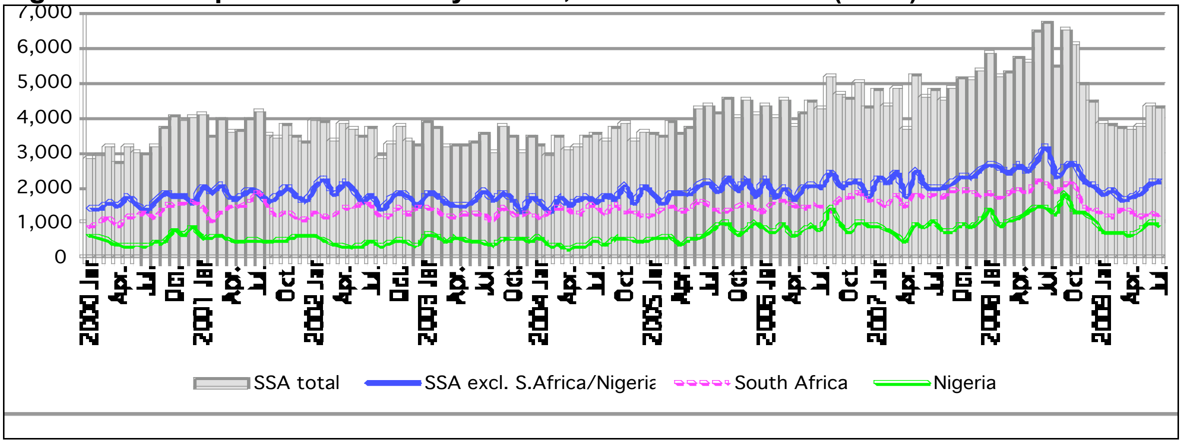
Figure 3: Mapping out the transmission belts of the global financial crisis on developing countries



2.2.1 Trade falling from a cliff

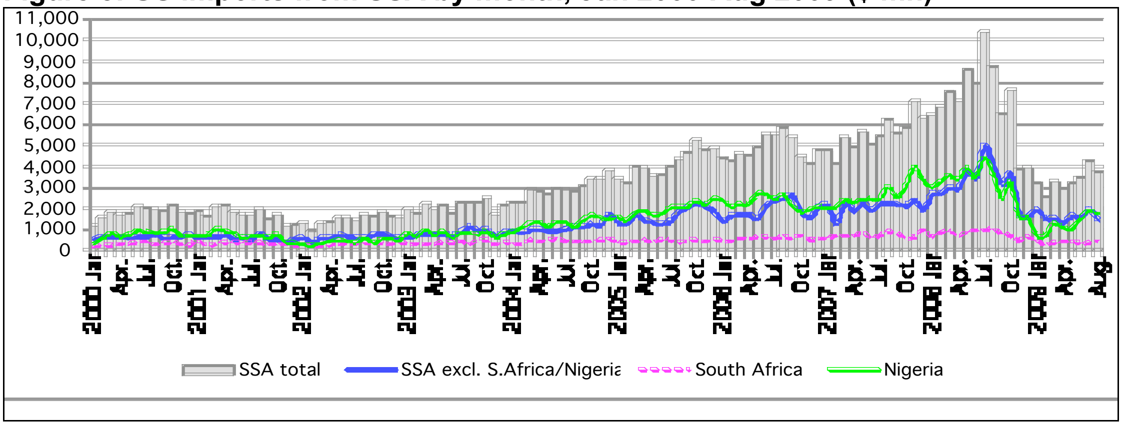
Exports from SSA countries to the EU, US and Japan fell off a cliff in the late 1980s (figures 4-6). The value of exports was inflated in part by high commodity prices (oil, copper, etc); when these prices fell, so did the value of exports.

Figure 4: EU imports from SSA by month, Jan 2000-Jul 2009 (€ mn)



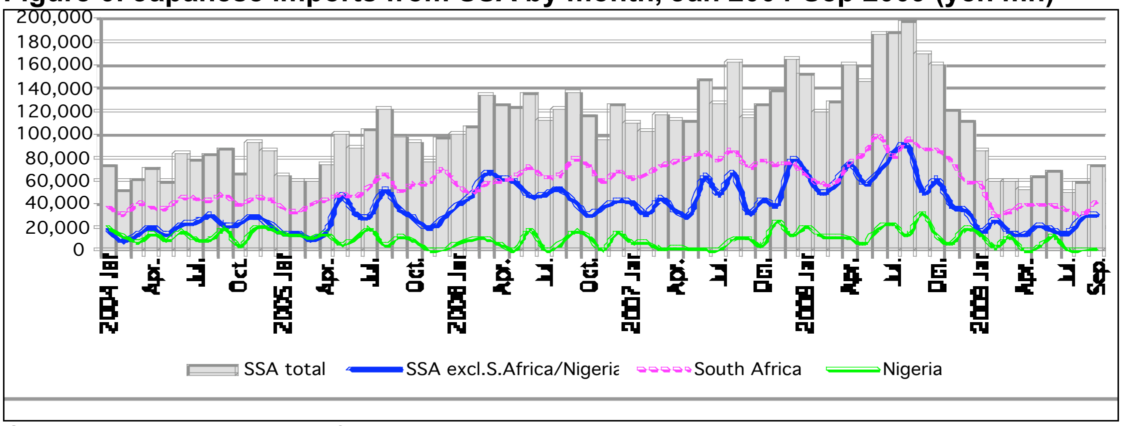
Source: Eurostat COMEXT database.

Figure 5: US imports from SSA by month, Jan 2000-Aug 2009 ($ mn)



Source: USITC Interactive Tariff and Trade DataWeb.

Figure 6: Japanese imports from SSA by month, Jan 2004-Sep 2009 (yen mn)



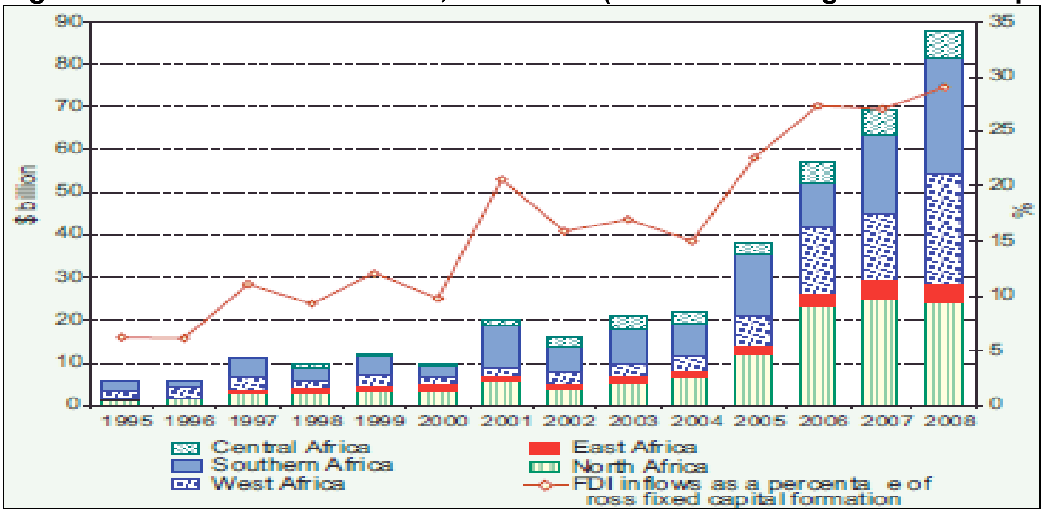
Source: Japanese Ministry of Finance website.

Trade in services performed variably; tourism declined in countries such as Kenya and Mauritius, while information and communication technology (ICT) exports held up reasonably well (e.g. Mauritius). This may have worsened the trade balance.

2.2.2 Foreign direct investment set to fall, after record rises

Africa experienced record levels of FDI despite the crisis, $88 billion in 2008 (and $64 billion to SSA,according to UNCTAD data), although comprehensive monitoring work (te Velde et al., 2009a) suggests that FDI plans were being postponed towards end-2008, perhaps falling by as much as a quarter ($16 billion).

Figure 7: Inward FDI investment, 1995-2008 (value and % of gross fixed capital formation)

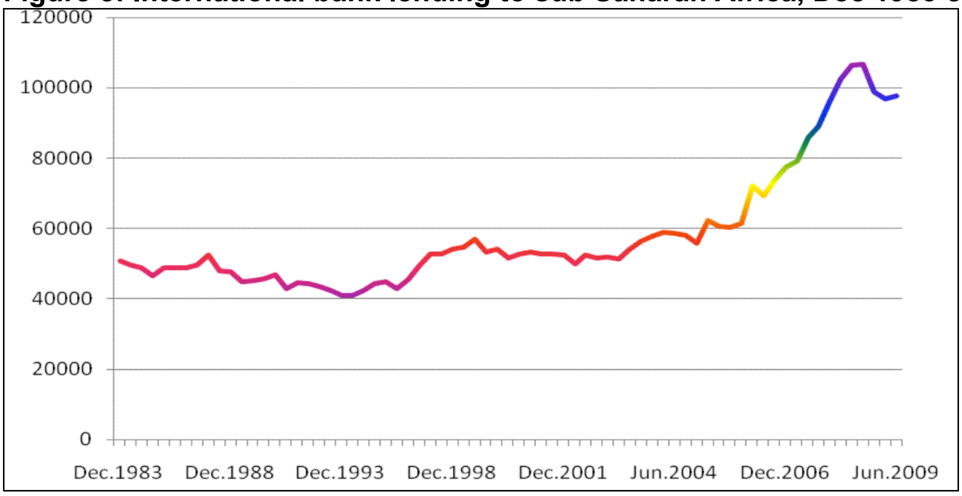


Source: UNCTAD FDI on-line database (2009).

2.2.3 International bank lending did fall, after all

When the financial crisis broke, several analyses (September 2008) suggested that SSA would not be affected as much because financial systems were not as leveraged as much as in the UK and US. By the end of 2008 it had become clear that SSA was feeling the effects of the crisis, but probably mostly through real channels (Massa and te Velde, 2008). However, recently it has also become clear that SSA was affected by financial contagion. Figure 7 shows that international bank lending increased at unsustainably fast rates until September 2009, but has since decreased significantly, by around 10% in the case of Africa. Developed country banks have been under pressure to hold more capital in their home countries and have therefore withdrawn from other countries.

Figure 8: International bank lending to sub Saharan Africa, Dec 1983-Jun 2009 (US$ mn)



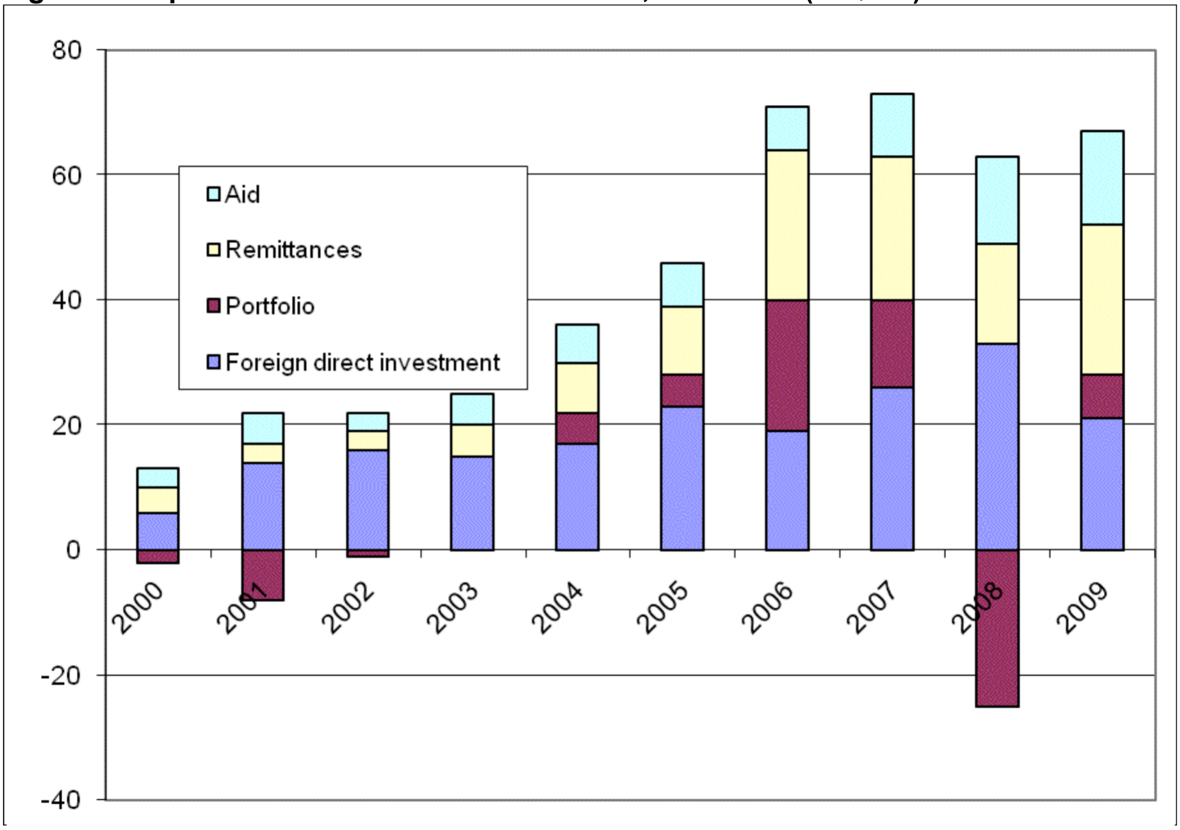
Source: www.bis.org

It is not yet clear to what extent the crisis has led to domestic lending and private sector credit. Growth in private sector credit seems to have slowed growth by 2008..

2.2.4 Portfolio flows highly variable

Net portfolio flows to SSA dropped substantially in 2008 and, although they are expected to increase in 2009, they are still expected to be below their 2006 and 2007 levels. It is noticeable how quickly portfolio flows were withdrawn from SSA (Uganda, South Africa, etc), and also that this was against expectations (SSA was supposed to be a safe haven), suggesting a general breakdown in trust.

Figure 9: Capital inflows to sub-Saharan Africa, 2000-2009 (US$ bn)



Source: IMF Regional Economic Outlook.

2.2.5 Remittances likely to fall

Around 80% of remittances to developing countries comes from high-income countries, making this often vital source of household income vulnerable to economic crises. Such remittances reached a record $251 billion in 2007, but have fallen in many of the countries studied. Remittances to Kenya, largely from the US, fell around 38% in the first eight months of 2008. Overall, remittances to developing countries are set to fall by between $25 and $66 billion in 2009 (Table 2) (Calì and Dell'Erba, 2009) and in SSA from $20 billion to between $18 and $19 billion.

Table 2: Prospects for remittances to developing countries

	World Bank forecasts, March 2009					ODI forecasts, March 2009			
		Base case		Low case		Base case		Low case	
	2008e	2009f	2010f	2009f	2010f	2009f	2010f	2009f	2010f
US$ bn									
Developing countries	305e	290	299	280	280	272[A];282[B]	312	239[A];270[B]	315
SSA	20	19	20	18	18	19	21	18	21
Growth rate (%)									
Developing countries	8.8	-5	2.9	-8.2	0.2	-8[A]; 8[B]	5	-12[A]; -22[B]	8
SSA	6.3	-4.4	3.5	-7.9	0.0	-6	7	-9	10

Notes: 'A' estimates are based on outflow predictions. 'B' estimates are based on inflow predictions.
Sources: World Bank data are based on March 2009 data on remittances. ODI estimates are based on February 2009 data on remittances.

2.2.6 Aid, so far so good

The OECD Development Assistance Committee (OECD-DAC) has analysed expected future aid flows for 2009-2010/11 from bilateral (and multilateral) donors on the basis of data available in January 2009. A donor survey included a number of bilateral and multilateral crisis responses.

Budget support allocations for 13 out of 41 donors that provided budget support in 2008 and 2009 have been 'to a large extent frontloaded', rising 34% in 2008 then expected to fall 7% in 2009, followed by an annual decline of 17% expected in 2010 and 2011. The OECD notes that it was 'not clear whether these reductions are due to short term programming uncertainties and therefore are reversible or whether they reflect a durable impact of the current crisis on donors' aid budgets'. In 2009, Africa is expected to receive 80% of reported budget support, the largest recipients of reported budget support being: Benin, Burkina Faso, Ethiopia, Ghana, Madagascar, Mozambique, Senegal, Tanzania, Uganda, Vietnam and Zambia.

The OECD includes estimates for Country Programmable Aid (CPA) for each recipient country. Compared with 2008 spending in each country (including some multilateral spending), the largest increases by 2011 for SSA are for Angola and the Republic of Congo, while spending will fall by almost half in Togo, Mauritius and Liberia (Table D.1).

However, it also notes that, in the short term (2008-2009), only highly exposed countries (according to the World Bank definition) in Far East Asia and South and Central Asia are expected to receive more aid, amounting to some $1.2 billion (mainly India, Pakistan and Vietnam); for exposed countries in SSA, aid is projected to decline by 1%. On the other hand, China recently announced a further $10 billion in three years for Africa.

2.2.7 Summary for SSA

The shortfalls in financial resources for 2009 have become clearer. SSA exports have declined in value to Japan, EU and US, by between 40% and 65%, based on a comparison between June-August 2009 and June-August 2008 and, as SSA imports have not declined as much, the trade balance has worsened substantially. For this particular quarter, this is a worsening in a year by around $25 billion, so annualised it could be up to $100 billion (that is, if trade prices remain depressed), which compares with just $350 billion for SSA exports.

We can add to this a $10 billion pullout in international bank lending from SSA over the year to June 2009 (Bank for International Settlements (BIS)), and a possible decline in remittances of $2 billion and an estimated fall of net portfolio flows to SSA by around $25 billion from 2007-2008, and still $6 billon lower in 2009 compared with 2007. Although FDI was increasing in 2008, we expect a decline in 2009, which could be of around $16 billion.

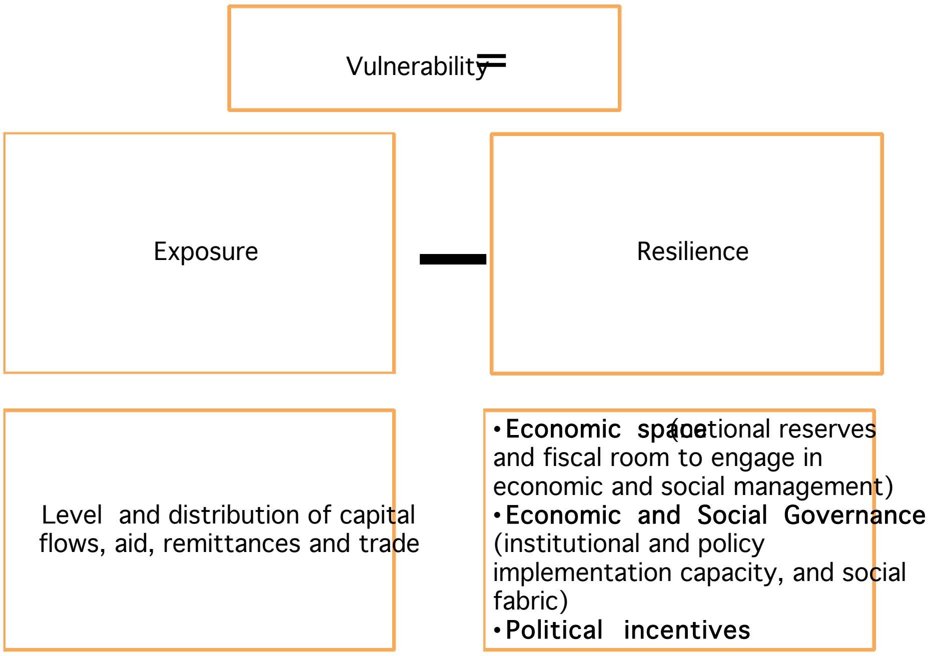
In sum, we expect a decline of financial flows by end-2009 of some $134 billion (trade, bank lending, remittances, portfolio flows and FDI).

3. Categorising policy responses to the crisis

The global financial crisis has shown that countries that are exposed to a globalising world are amongst the most vulnerable countries (Eastern European countries), and in this sense it shows both the benefits and costs of such exposure. However, exposure it is not the only factor that drives vulnerability (Guillaumont, 2008). For example, the UK and the US with highly leveraged financial markets, China with high exports and FDI levels, are amongst the least affected in appendix 5, but they were able to respond (monetary and fiscal easing) cushioning the impact of the crisis and averting a 1930s style great depression..

Vulnerability of a country to a crisis depends on the *exposure* to the crisis as well as the ability of the country to cope and respond (*resilience*), see Te Velde et al (2009a), Briguglio et. Al (2006) and Fosu and Naude (2009). This section discusses the key policy and institutional responses which affect the resilience of a country. Economic resilience is the policy-induced ability of a country to withstand or recover from the adverse effects of shocks (Briguglio et al., 2006).In the future it will be important to understand whether and how to reduce unwanted exposure and promote desirable exposure to globalisation (i.e. crisis-resilient growth). Financial crises can have significant short-run effects (average of 9% of output peak to through, see Reinhart and Rogoff, 2008) and long-run effects (IMF, 2009b).

Figure 10: Key components of vulnerability (= exposure – resilience)



There are four types of policy responses stimulating crisis-resilient growth (see figure 10):

- Reducing the *exposure* to a shock (avoiding a crisis)
- Macro-economic management (insuring against a crisis)
- Social policies to manage the impact (coping with a crisis)
- Economy-wide and sector structural growth policies (escaping from a crisis)

On the macro side, we include the “automatic” macro-economic stabilisers:

- Financial and banking policies
- Monetary policies; and
- Fiscal policies.

These policies can be put in place to dampen the negative impact of the shock. For example, monetary easing can increase the level of liquidity in an economy and stimulate demand, e.g. by reducing interest rates which would encourage consumption and investment, while increased fiscal spending (e.g. public works) might promote growth directly. Financial and banking policies could transfer assets from the private to the public sector, e.g. in the case of non-performing loans.

The extent to which countries can use these policies will depend to a large extent on whether they have been prudent in the lead up to the crisis. If they have built up reserves and fiscal surpluses in good times (called economic space in figure 10), they are less restricted in the short term to use fiscal and monetary policies.

Social policies could include:

- Putting in place or using safety nets and cash transfers for households affected by the global financial crisis;
- Putting in place safety nets for firms affected by the global financial crisis;
- Changing allocations for social sectors, such as education and health.

There are limits to what can be done through short-term economic and social management, as this is unlikely to deal with structural challenges. Normal growth-enhancing policies are one way to get a country out of the crisis. For example, a fiscal stimulus may bring spending and hence growth forward, but a change in business conditions would lead to faster investment, which may raise growth now and in the future. A question mark is whether the crisis has led to a slowing down of such measures, or on the contrary, to an acceleration of such measures. Much depends on the policy implementation capacity and political will (figure 10)

Structural policies could include:

- Trade policies (tariffs, subsidies);
- Tax policies (e.g. corporate taxes, investment incentives);
- Competition policies;
- Industrial policies (e.g. export processing zones, technology and R&D);
- Business policies;
- Investment climate measures and administrative procedures;
- Human resource policies.

Such policies could might be implemented economy-wide (e.g. competition policy) or at sector level (e.g. a new skills centre for garments).

Sections 4 and 5 compare G-20 and African policy responses in the following areas: banking policies, monetary policies, fiscal policies, trade and industrial policies and institutional policies all o which affect resilience in figure 10.

4. G-20 country policy and institutional responses

4.1 Financial policies

When the crisis broke in earnest with the fall of Northern Rock and then Lehman Brothers, developed countries faced a situation of collapsed stock markets and defaulting capital markets and banks. The whole financial system was at risk of collapsing. G-20 countries responded quickly and bailed out banks. The costs of bank bailouts amounted to several trillions of US dollars and are still ongoing (with a £40 billion bailout of Royal Bank of Scotland (RBS) in the UK on 3 November 2009).

There is general agreement that regulatory failures lie at the heart at the malfunctioning of the financial markets, yet so far very few new regulations have been introduced. G-20 discussions have centred around agreeing reforms to the national and global supervisory system – in capital requirements, liquidity, leverage, governance and transparency. The most recent G-20 Finance Ministers Meeting (St Andrews, 6 November 2009) also heard call to discuss insurance fees to reflect systemic risk; collective or individual resolution funds; contingent capital arrangements; and global financial levies.

4.2 Monetary policies

Monetary policies were accommodative. Interest rates were reduced to post-war lows in most countries (Table 3), although few were convinced that this alone was sufficient, given that capital markets were not responding initially.

Table 3: Short-term interest rates, Jul 2008-Oct 2009 (%)

	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09
US	2	2	2	1	1	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Euro area	4	4.25	4.25	3.75	3.25	2.5	2	2	1.5	1.25	1	1	1	1	1	1
UK	5	5	5	4.5	3	2	1.5	1	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Japan	0.5	0.5	0.5	0.3	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Australia	7.25	7.25	7	6	5.25	4.25	3.25	3.25	3	3	3	3	3	3	3	3.25
Argentina	9.14	9.05	9.1	9.5	11.25	11.5	11.75	11.38	10.88	10.5	10.5	10.5	10.5	10.5	10.5	10.5
Brazil	12.25	13	13	13.75	13.75	13.75	12.75	12.75	11.25	10.25	10.25	9.25	8.75	8.75	8.75	8.75
Canada	3	3	3	2.25	2.25	1.5	1	1	0.5	0.25	0.25	0.25	0.25	0.25	0.25	0.25
China	7.47	7.47	7.2	6.66	5.58	5.31	5.31	5.31	5.31	5.31	5.31	5.31	5.31	5.31	5.31	5.31
India	6	6	6	6	6	5	4	4	3.5	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Indonesia	8.75	9	9.25	9.5	9.5	9.25	8.75	8.25	7.75	7.5	7.25	7	6.75	6.5	6.5	6.5
Mexico	8	8.25	8.25	8.25	8.25	8.25	7.75	7.5	6.75	6	5.25	4.75	4.5	4.5	4.5	4.5
Russia	10.75	11	11	11	11	13	13	13	13	12.5	12	11.5	11	10.75	10	9.5
Saudi Arabia	5.5	5.5	5.5	4	3	2.5	2	2	2	2	2	2	2	2	2	2
South Africa	12	12	12	12	12	11.5	11.5	10.5	9.5	9.5	7.5	7.5	7.5	7	7	7
South Korea	5	5.25	5.25	4.25	4	3	2.5	2	2	2	2	2	2	2	2	2
Turkey	16.25	16.75	16.75	16.75	16.25	15	13	11.5	10.5	9.75	9.25	8.75	8.25	7.75	7.25	6.75

Source: http://www.tradingeconomics.com/Economics/Interest-Rate.aspx.

4.3 Fiscal policies

G-20 leaders gathered in London on 2 April 2009 and coordinated a global fiscal stimulus worth several percentage points of GDP (e.g. 13.5% in China and 5.9% in the US). The implementation of this stimulus occurred much faster in China than in the US.

Table 4: Financial and fiscal responses in G-20 countries

	Bank bailouts		Fiscal stimulus		Public debt as % GDP 2007	Public debt as % GDP 2009 (latest)
	$ bn	% 2008 GDP	$ bn	% GDP 2008		
Australia	n/a		19.3	1.8	15.6	17.8
Canada	n/a		43.6	2.8	64.7	70.9
China	100	2.3%	586	13.5	17.8	18.3
France	576.6	20.1%	20.5	0.7	63.8	76.0
Germany	970	26.4%	130.4	3.4	65.4	76.3
Italy	30.1	1.3%	7.0	0.3	103.9	113.8
Japan	131	2.7%	104.4	2.2	170.8	187.4
Korea	100	10.8%	26.1	2.7	27.0	29.1
UK	1348	50.3%	40.8	1.5	44.0	65.9
US	4300	27.8%	841.2	5.9	36.9	49.8
Argentina	n/a		4.4	1.3	56.9	52.3
Brazil	n/a		8.6	0.5	45.1	40.6
India	n/a		6.5	0.5	61.3	60.1
Indonesia	.676	.13%	12.5	2.5	34.8	31.1
Mexico	n/a		11.4	1.0	20.8	28.0
Russia	27.4	1.6%	30.0	1.7	5.9	13.5
Saudi Arabia	n/a		49.6	9.4	25.7	21.8
South Africa	n/a		7.9	2.6	31.8	34.7
Spain	193.8	12.1%	75.3	4.5	36.7	55.6
Turkey	n/a		0.0	0.0	40.5	46.7

Sources: *The Economist* 'Global Debt Comparison: http://buttonwood.economist.com/content/gdc. Also, China = International Herald Tribune (2008). France; Germany; Italy; Spain = EC (2009). Japan = Jiji Press (2008). Korea = Asia in Focus (2009). UK = Prasad and Sorkin (2009). Indonesia = Asia in Focus (2008). Russia = Business and Finance Daily News Service (2009).

4.4 Trade, currency transactions and industrial and development policies

Developed countries have become more protectionist (Evenett, 2009), despite promises by the G-20 to do so; this was noticeable in higher tariffs, higher non-tariff barriers, higher subsidies (EU dairy), buying of local provisions (automobile industry) and tighter restrictions on labour mobility. Industrial policy is back on the menu of options, given that many realise now more than ever before that the market can fail to allocate resources efficiently, and such market failures need to be addressed (te Velde and Morrissey, 2005). However, countries have not become as protectionist (Newfarmer and Gamberoni, 2009), as they did in the 1930s, when turning inwards deepened and prolonged the depression.

Recently, countries such as Brazil and Colombia have re-imposed capital controls, e.g. a 2% tax on capital inflows, as several emerging countries have recently received a great deal of portfolio capital, which has led to exchange rate appreciations. Tobin taxes on currency transactions, once considered hot air, are now seriously being considered. Banks in the UK and US are being urged to hold more capital.

The London G-20 summit in April 2009 was successful with regard to raising development issues and involving low-income stakeholders, including those from Africa. It was able to increase resources to IFIs significantly and raise $50 billion for low-income countries. Partly as a result, the IMF, and the World Bank to a lesser extent, significantly expanded its exposure in Africa. However, by the Pittsburgh G-20 Summit, the debate had shifted to bankers' bonuses and global imbalances, rather than development or regulatory issues.

4.5 Institutions

A key feature of the crisis response in G-20 countries is the quality of the institutional response. Governance structures were flexible enough for countries to turn away from becoming protectionist, design bailout packages when needed and coordinate fiscal stimuli and monetary policy responses.

Bodies such as the Financial Services Authority (FSA) have continued to lead debates on bank capital adequacy ratios, Tobin taxes and bankers' bonuses.

However, there is inertia with regard to decision making, e.g. on regulatory reform, although some maintain that, despite the good wishes of the Washington G-20 leaders' meeting in October 2008, European regulation was already advanced enough to require little change. No truly new and binding regulation seems to have been agreed on since, although Appendix 2 provides a list of some ideas. While each crisis tends to lead to calls for more transparency and prudential regulation, very little is emerging. Increasing banking capital is difficult when banks are also forced to lend more to businesses and households and, bankers' bonuses are back with a vengeance. The debate on tax havens has moved on, but apart from inevitable closures of some and reluctance to bail them out, there have been few effects on developing countries.

5. African country policy and institutional responses

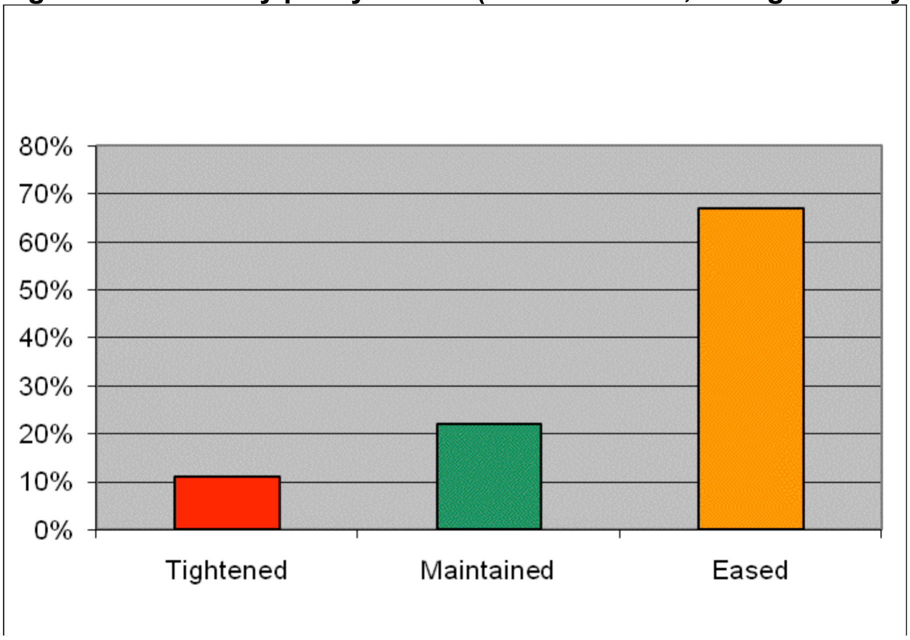
5.1 Financial policies

Very few countries needed to respond to the crisis with financial policies. There were some bank rescue and financial sector packages. For example, there were a number of financial sector policies to address the financial sector crisis linked to the construction boom in Nigeria. But banks were generally strong in such countries as Mauritius and South Africa, with high capital adequacy ratios and fewer problems in inter-bank lending (which is more common in developed countries).

5.2 Monetary policies

Two-thirds of countries are expected to have eased their monetary policy in response to the crisis, compared with 100% in the G-20. So, while monetary policies were countercyclical, not all African countries have been affected in the same way, and some were facing inflationary pressures as a response to high commodity prices.

Figure 11: Monetary policy in SSA (% of countries, changes in key policy interest rate)

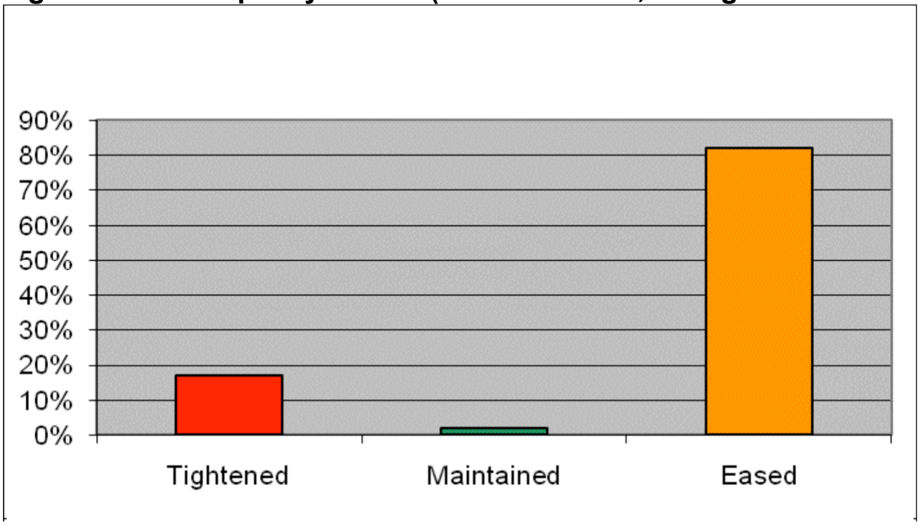


Source: IMF Regional Economic Outlook.

5.3 Fiscal policies

According to the IMF, the fiscal stance was expected to be eased in most African countries (Figure 10) as government deficits are expected to be increased. On the whole, this may owe less to increases in expenditure and more to decreases in trade, meaning losses in tariff revenues, which have been important for overall government revenues and losses in corporate tax revenues. The 2009 October Regional Economic Outlook (IMF) suggests that SSA is set to incur a deficit of 4.75% of GDP in 2009 compared with a surplus of 1.75% of GDP over 2004-2008, reflecting sharp swings in fiscal aggregates in the oil-exporting and middle-income countries, but also in low-income countries and fragile states, from 2% of GDP in 2004-2008 to 3-5% in 2009.

Figure 12: Fiscal policy in SSA (% of countries, changes in fiscal stance vs. 2008)



Source: IMF Regional Economic Outlook.

5.4 Other policies

The UN Conference on Trade and Development (FDI on-line database 2009) suggests that several African countries have adopted policy measures that seek to promote private investment and FDI:

- Burundi has adopted a new investment code which aims to attract foreign investors.
- Egypt has decided to establish various free industrial zones.
- Kenya has privatised a number of utilities.
- Mauritius has enacted competition legislation, introducing restrictions on monopolies and collusion.

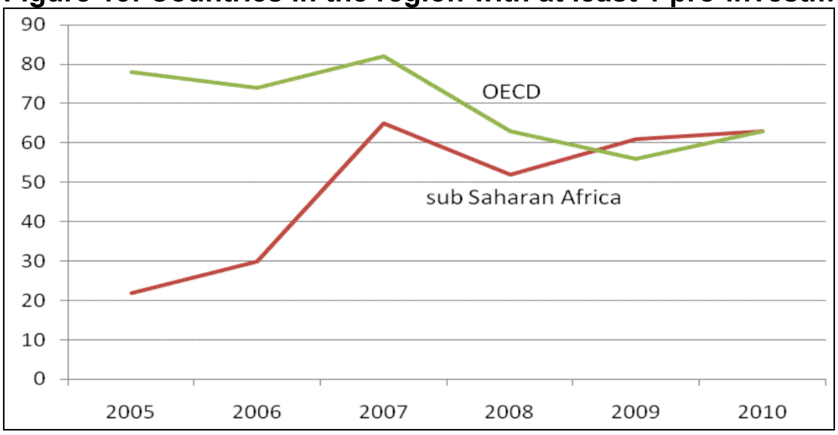
On the other hand, Zambia has introduced a new tax regime, raising the tax rate in the mining industry. Overall, UNCAD suggests that FDI reforms might be slowed down a little.

The 2010 Doing Business report published by the World Bank in September 2009 (World Bank, 2009) suggests that African countries are still reforming, increasingly more so than in OECD countries. The report shows that the momentum for reform has not been lost in Africa (latest data points are for the 12 months up until June 2009), see also figure 13.

Indications on financial and capital market reforms also suggest that countries are continuing their reforms. South Africa has liberalised international capital flows further, with Tanzania doing this in a regional context.

While in the past there has been much policy uncertainty, much of SSA has not engaged in knee-jerk reactions against globalisation.

Figure 13: Countries in the region with at least 1 pro-investment reform, 2005-2010 (%)



Source: Doing Business reports (World Bank).

5.5 Institutions

An interesting feature is the institutional context within which policy decisions are being made (te Velde et al., 2009a). Countries such as the Democratic Republic of Congo (DRC), Kenya, Mauritius, Nigeria and South Africa have also started task forces to monitor the effects of the global financial crisis. There is a question as to which circumstances such institutions work best under, e.g. when there are already good state–business relations. Sen and te Velde (2009) find that there is still much to improve with regard to state–business relations in SSA. It is of course not possible easily to transfer US or UK institutions responsible for flexible responses, but it looks as if the current financial crisis is bringing state and business in closer contact than previously was the case in a number countries because of the urgency.

6. What can African countries learn and what can African countries teach the world?

6.1 Who and what got us into this mess?

Regulatory failures in G-20 countries were responsible for leveraged financial markets exposed to weakening construction sectors, using sophisticated financial products that few understood. But, unlike in Europe and the US, the South Africa inter-bank market is working normally, capital adequacy ratios are strong and, by summer 2009, no bank had had to approach the South African Reserve Bank for extraordinary assistance.

In Mauritius, the banking sector has been resilient to the crisis owing to adequate capitalisation of private banks. It was overleveraged to toxic assets and had high and increasing profits. The capital adequacy ratio of commercial banks (increasing from 15% to 17% from December 2008 to March 2009) is well above the required minimum of 10%. The banking sector also has significant and increasing liquid assets (36.1% of total assets in December 2008, increasing to 40.4% in March 2009) (see Mauritius Financial Stability Report of August 2009).

In Kenya, all 45 banks meet the criteria for minimum core capital requirements (capital adequacy 18.1% June 2009 vs. required 12%); there was adequate liquidity to meet the payment needs of the financial system (liquidity ratio average 42.4% vs. required 20%); there was an appropriate balance between loans and deposits (75%: Ksh712B against Ksh953B – June 2009); and the ratio of gross non-performing loans to gross loans, at 9.4% in June 2009, has declined from a high of 10.60% in December 2007. Lending to the private sector increased by 19.2% during the year to June 2009.

Thus, developing country financial markets have been less exposed and more focused on lending to the real sector. Developed countries should learn from this.

6.2 Fiscal stimulus versus fiscal sustainability: Who is more prudent?

G-20 countries are likely to see budget deficits of more than 10% of GDP in 2009 in implementing large stimulus packages. On the other hand, in the case of a $50 million loan to Ethiopia granted in February 2009 under the Exogenous Shocks Facility, some observers suggest that the IMF programme requires the government to tighten monetary and fiscal policy; the government's deficit is to be brought down from 2.7% of GDP to zero. While there is some more space for governments to increase their deficits (Kenya, Mozambique), by around 2% of GDP, there still seems to be external pressure and G-20 stimuli are worth much more. Indeed, declines in GDP are likely to be more than 3-4% in many developing countries. Government debt has not yet reached G-20 levels (e.g. some project EU debt to reach 100% of GDP soon), while Kenyan debt to GDP is 44.5%, so a stimulus is still sustainable. African countries need to engage on structural spending, e.g. infrastructure, so they should be provided the space as long as they have the capability to take on the debt (although this does not mean an indiscriminate approach to taking on debt).

6.3 Monetary policies: Are all doing what they can?

Both G-20 and African countries have eased their monetary policies significantly, although some countries are still suffering from inflationary policies, so qualitatively there is little difference.

6.4 External reserves: Global imbalances affecting the G-20

It is well known that global imbalances are a major feature of the current crisis. There are large current account deficits in the US and UK and large current account surpluses and reserves in China and Germany. G-20 countries are currently resolving their imbalances, but it is unclear how and why poor countries have been affected by this.

Developing countries with higher reserves and lower debt have been able to weather the storm much better. The DRC, for example, had very few reserves (apparently only a few days' worth of imports) and had to be bailed out by the IMF when commodity prices fell; Bolivia had built up reserves on the basis of high mineral prices and so was in a much better position (te Velde, 2009). On the other hand, Mauritius, a small country affected by declines in tourism and remittances, was able to implement a fiscal stimulus; St Lucia, affected by a similar shock, was not able to do this (te Velde et al., 2009b).

6.5 Trade policies: Who is reversing the trend to openness?

All the indications are that developed countries have become slightly more protectionist, while developing countries seem to have done better. Some might even suggest that an export-led model is not useful anymore, although this seems farfetched. Countries become richer by specialisation and technical change, which are impossible in a closed economy.

However, much more can be done to reduce exposure and increase resilience to the crisis. Countries tend to be more exposed to external crises if they are more concentrated in crisis-affected products (oil, copper, some garments, etc), so more diversified countries have been able to cushion crisis impacts. More developed countries tend to be more diversified so have more lessons on this.

6.6 International bank lending policies: Who is withdrawing funds?

Exposure of African countries to international bank lending differs enormously, from 0-100% of all banking assets. Initially, anecdotal evidence suggested few pullouts by international banks; now we know that there have been substantial withdrawals, even from several African countries, in part because of pressures in home countries.

The effects in Africa may not have been as large as those in Eastern Europe. The latest European Bank for Reconstruction and Development (EBRD) transition report suggests that the regions need to reconsider the growth vs. instability effect of inter-bank lending. Brambila Macias and Massa (2009) suggest that international bank lending to Africa has grown substantially and that this has had a positive growth effect, but there is now likely to be further instability, which can be a drag on growth.

G-20 countries are openly discussing how to tax banking activity. For example, Gordon Brown reopened a global discussion on the social contract between banks and society (in the Financial Times, 9 November 2009). One proposal is a transaction tax on financial flows. But if this is not implemented globally it will not work; if it is, and if it works to dampen financial flows, it will distort capital markets (e.g. pension and hedge funds, in addition to banks) in ways which may even reduce global growth. It is also not clear how developing countries fit into this.

Such a discussion on the vexed question of transaction taxes usefully clears the way to implement other proposals, related to capital adequacy ratios and living wills for banks. For example, raising capital adequacy ratios of banks can help address boom and bust cycles in the future, although implementation needs to be phased in over time, as African countries (suffering a 10% drop in internal bank lending in the year to June 2009) and UK small and medium-sized enterprises are already seeing the negative effects of demanding a large capital base quickly.

Analogous to the ‘publish what you pay’ initiative for extractive industries in poor countries with poor governance, developed country banks now need a ‘publish what you lend and what you do for society’ commitment from banks, backed up by state regulations that make clear to shareholders and customers that their banks could in future be bailed out only to the extent that banks are fulfilling a socially useful function. Space for bankers’ bonuses could similarly be linked to achieving economic rates of return, not short-run financial returns. The practices of development finance institutions in developing countries can teach us a great deal.

6.7 Industrial policies: Where is the debate more active?

G-20 countries have actively tried to support certain sectors (e.g. the automobile sector) throughout the crisis. Similar responses are happening in countries such as Mauritius, whose budget announced support to firms affected by the crisis. It is fair to say that the debate on industrial policy is much more alive in developing countries (mainly Asian).[2] There are many examples of what works and what can go wrong.

6.8 Shift in state-business relations: Which SBRs are most stable?

To respond to the challenges of the global financial crisis and to be able to make the right policy decisions, it is important to have the right institutional framework in place to make the right policy decisions. The foundations of state–business relations are being shaken. Research suggests that only the most institutionalised (in the formal or informal sense) can act in an effective way (Sen and te Velde, 2009) to address market and coordination failures in development. Throughout the developed world, the public sector has taken over banks, forcing them to lend to small enterprises. We already know that (financial) markets can fail (te Velde and Morrissey, 2005), and now we also know that this applies in practice, signalling the end of *laissez-faire*. Thus, SBRs in developed countries are in flux.

While there are new initiatives in African countries, these seem to be less wide-ranging than in developed countries. Ghana, for example, has set up a commission to monitor the impact of the crisis; South Africa has introduced a new subcommittee of the national body governing relationships among government, business and labour; and Mauritius has used its already established institutions to respond flexibly. However, most African countries still need to set up effective consultative state–business relations.

7. Conclusions

The global financial crisis has affected G-20, African and other countries. Effects have been widespread and have encompassed a wide range of transmission belts, albeit different ones in different countries, and with different levels of impact. When the crisis broke, several analyses at the time (in September 2008) suggested that SSA would not be affected as much because financial systems were not leveraged as much as in the UK and the US. By the end of 2008, however, it had become clear that SSA was feeling the effects of the crisis, probably mostly through real channels. Recently, it has become clear that SSA has been affected also by financial contagion. International bank lending increased at unsustainably fast rates until September 2008, but has since decreased significantly, by around 10% in the case of Africa. Based on actual evidence so far, and in some cases forecasts, we note a shortfall of some $134 billion for SSA countries (trade, bank lending, remittances, portfolio flows and FDI).

This paper finds that G-20 countries have acted through fast and large bailouts, historically large fiscal stimuli and accommodative monetary policies. It seems that African countries could learn from this, in part in terms of the flexibility and responsiveness of policies and institutions. However, African countries have also put in place their own responses to the crisis – albeit with a time lag. Moreover, developed G-20 countries are currently not always regarded as the right master, and African countries may have outgrown apprentice status on some issues, so it may be inappropriate to think only in terms of lessons from G-20 countries for Africa.

We have examined the master–apprentice relationship with regard to several issues, and conclude the following:

2 For a recent debate see http://www.odi.org.uk/events/audio-video.asp?id=2048&title=role-industrial-policy-development.

- It was poor regulation in G-20 countries that got us into the financial crisis, not African countries.
- Fiscal policy in African counties seems to have been tighter, sometimes against their own development interests (even though the IFIs have allowed some extra budgetary space), compared with G-20 countries.
- Both G-20 and African countries have introduced accommodative monetary policies, but G-20 countries were much faster as they faced fewer inflationary pressures going into the crisis.
- Global imbalances and differences in reserves are affecting the G-20 more than African countries.
- If anything, G-20 countries, not African countries, are reversing a previous trend towards openness and have become more protectionist. African countries are now better reformers than OECD countries.
- G-20 countries are withdrawing international bank lending from African countries, and G-20 countries need to tighten up on regulation, while African countries have been prudent.
- G-20 countries are considering the use of industrial policies, yet the debate is much more active on this with respect to developing countries.
- A shift in state–business relations seems to be happening in G-20 countries more than in African countries.

We note, however, that there are still some useful messages for African countries:

- There needs to be more debate on the appropriateness of the fiscal stance in African countries in times of crisis.
- There needs to be more emphasis on building flexible institutions to ensure that taskforces work.
- There needs to be a more active approach to openness and trade and finance diversification, not only because of general development concerns but also to make growth more crisis resilient and to reduce exposure to the shock (e.g. regional exports in Uganda and ICT exports on Mauritius; and foreign vs. local sources of lending) and promote domestic resource mobilisation.

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Appendix 1: Trade balance between Africa and rest of the world

SSA imports (US$ mn) into	**EU**	**US**	**Japan**
Jun-Aug 2009	17,385	11,596	1873
Jun-Aug 2008	29,563	27,222	5333
Year-on-year change (%) imports	-41.2%	-57.4%	-64.9%
Year-on-year change (%) exports	-23.5%	-28.7%	-39.2%
Change in trade balance (US$ mn)	6,440	14,131	2460

Appendix 2: Examples of regulatory reform in G-20 countries

US	• New Consumer Financial Protection Agency • A council of regulators is charged with coordinating system-wide issues • The Fed is being given considerably more authority over all of the large financial institutions • All financial institutions will face tougher capital requirements • ‘Say-on-pay’, giving shareholders a vote on executive compensation in privately traded companies • Strengthening Securities and Exchange Commission (SEC) authority over and supervision of credit rating agencies
G-20	• Publish a blacklist of tax havens and announce sanctions • New scrutiny of ratings agencies and lightly regulated hedge funds • Sarkozy called for a ‘global regulator’ that could reach inside the US and other large nations to deal with international financial firms
EC	• The EC's plan calls for the creation of a panel, the European Systemic Risk Council, which would be headed by the president of the European Central Bank (ECB) and include governors of the EU's 27 central banks. The panel would monitor broad risks in the region's financial system and intervene if necessary • The EC’s proposal would also strengthen national regulators' ability to coordinate the regulation of banks, securities firms and insurance companies across the EU. The Commission aims to have the rules in place next year • Strengthening capital requirements
France	• Creation of a single regulator for banking, insurance and investment services under the auspices of the Banque de France
Germany	• Risk Limitation Act which, among other things, forces large investors to disclose their intentions and the origins of their funds • A revision of the Foreign Trade Law, which gives the government the right to veto FDI of more than 25% in a company if it violates public order or national security • Financial regulators have stepped up their cooperation with counterparts in other EU countries
South Korea	• Modified the structure of the financial regulatory system in Korea, combined into one body – the Financial Services Commission (FSC) • Capital Markets Consolidation Act, which took effect on 4 February 2009, has cut the number of regulations and introduced a negative list covering the activities of non-banking financial institutions, rather than requiring specific permissions for each new activity
UK	• Business Plan for 2009/10, the Financial Services Authority (FSA) recognised that it should adopt a more intrusive and effective regulatory approach in the future • Turner Report: Give the FSA more resources and devote them to acquiring more staff with specialist prudential skills, carrying out more analysis, paying closer attention to high-impact, large and complex financial institutions and intensifying the role the authority plays in bank balance sheet analysis and in the oversight of accounting judgments

Sources: EIU (2009); Elliot (2009).

Appendix 3: African policy responses – illustrative examples

	Macroeconomic management	Long-term growth	Social programmes	Institutional
DRC	Anti-cyclical measures trying to stabilise the economy, including cash-based budgeting, focusing spending on expenditures that support domestic demand and increasing the Central Bank policy rate.			The government has established an inter-ministry commission, but it is not clear whether it is fully operational.
Ghana	Bank of Ghana cuts its prime rate further by 50bps to 18% in November 2009		Several programmes in relation to the food and fuel crises, e.g. Livelihood Empowerment Against Poverty (LEAP) programme, which was launched in March 2008 and reached 8000 households with social grants by the end of 2008. During the food crisis, LEAP was used as an emergency programme with an additional $20 million. The government has made a commitment in the 2009 budget to increase social protection expenditures by increasing the capitation grant; extending participation in the National Health Insurance Scheme (NHIS); and continuing the school feeding programme, as well as extending LEAP.	
Kenya	Central bank recently lowered the cash ratio from 6-5% and the Central Bank rate from 9-8.25% in order to lower interest rates and enhance credit supply in the economy. Engaged in largest fiscal stimulus in		Financing of the food deficit and provision of food to vulnerable populations has been prioritised over other planned social	A taskforce has been set up to look into ways of cushioning Kenya's economy from the adverse effects of the crisis, comprised

	history (24% increase in public spending, $11 billion).		sector expenditure. 15% of the budget (KSh37 billion or $450 million) has been diverted from programmes to fund imports to alleviate food shortage and replenish stocks; Ksh10 billion ($120 million) allocated to education has been reallocated to fund food imports; expenditure on non-priority employment and development projects is suspended.	of officials of the Ministry of Finance and Planning as well as the Central Bank.
Mauritius	Expansionary fiscal and monetary stance. Used budget contingencies of Rs1.8 billion ahead of the recession and launched a stimulus package worth 3.4% of GDP in May 2008. Additional stimulus package equivalent to about 3% of GDP in December 2009. The Bank of Mauritius lowered interest rates and increased liquidity in the banking system. The repo rate was reduced by 250 basis points between October 2008 and July 2009.	Improved project implementation; the largest public sector investment programme in Mauritius using frontloading of infrastructure spending.	Investment in vulnerable companies to save jobs.	The Prime Minister set up two ministerial committees in November. First, a Committee on Nurturing Resilience, headed by the Prime Minister and supported by a Technical Committee chaired by the Secretary to Cabinet. The second, a Committee on Human Capacity, Solidarity and Physical Infrastructure, is presided over by the Vice Prime Minister and Minister of Finance, Technical Committee chaired by the Financial Secretary.
Nigeria	Reduction in the monetary policy rate (MPR) from 10.25-8.0% (July 2009); reduction in cash reserve requirement (from 4 to 1); cutting liquidity ratio from 40-25%. Fiscal stimulus through	Large part of fiscal stimulus to infrastructure.		Presidential Advisory Team on capital market to deliberate on measures to reverse the declining trend in

	drawdown from oil savings to augment monthly revenue to three tiers of government to mitigate the adverse effect of substantially lower current revenue receipts (although slow in coming) .			Nigerian capital market. Presidential Steering Committee on Economic Crisis.
South Africa (also G-20)	A 350 basis point reduction in the repurchase rate. Exchange rate appreciation (short-term capital inflows). October 2009 budget announced exchange controls liberalisation.	According to National Treasury estimates, public sector infrastructure expenditure is expected to average 9.7% of GDP over the coming three fiscal years, compared with 4.5% in the 2005/06 fiscal year. During the current fiscal year, total expenditure by the SA National Roads Agency Ltd (SANRAL) is estimated at R19.6 billion, compared with R2.2 billion in 2005/06. A scaled-up industrial policy action plan is to focus on the automotive, chemicals, metal fabrication, tourism, clothing and textiles sectors as well as forestry. The stated intention now is to 'rebuild local industrial capacity and avoid de-industrialisation'. The Industrial Development Corporation (IDC) has helped companies in distress.	500,000 job opportunities' in 2009 – mainly through a public works programme.	Task Force for a unified response initiated in December 2008, but still considering actions in May 2009.
Sudan	Initial response of the government to the global crisis was slow and apologetic, and almost denied any possible negative effects on the economy. In May 2009, the Ministry of Finance raised VAT to 15% (from 10% in 2000 and 12% in 2006), scaled up customs rates on some imported goods and increased indirect taxes on luxury goods, cigarettes and other products in 2009. The Central Bank of the Sudan has been more proactive, announcing monetary policy to reform the banking			

	system, improve banking supervision, restructure and raise banks' capital and deal with the problem of the high non-performing loan ratio (in some banks reaching 26%).			
Tanzania	Rescue package of $1.23 billion (TZS1.7 trillion) in 2009/10 budget, with time-bound support to the banking sector. Recapitalisation of the Tanzania Investment Bank (with plans for an agriculture sector investment lending window) and maintaining fertiliser subsidy levels (to offset tripled world market prices). By August 2009, some $6.85 million (TZS21.9 billion) had been used to bail out companies through loan guarantees.	Hastened approach to reduce supply- and demand-side constraints to production, value addition and export trade. Priorities include sustaining investment in infrastructure development (roads, irrigation) and farmer income stabilisation (via enabled marketing coops/companies). Mining companies will also be granted a two-year royalty leave.		
Uganda	After an increase in interest rates to address inflation, rates have recently been lowered. An expansionary fiscal policy response, which started in FY2008/09, remains in place, with increased funding to agriculture and energy.	Strengthening regional trade through infrastructure development, especially for those routes with higher potential; support to the agriculture sector. Questioning openness.		
Zambia	Tight fiscal and monetary policies.		The government was considering scaling up the Social Cash Transfer Scheme as its major social protection strategy. However, the government is planning to reduce allocations to social protection in 2009 as a result of the crisis.	

Sources: te Velde (2009); te Velde et al. (2009a).

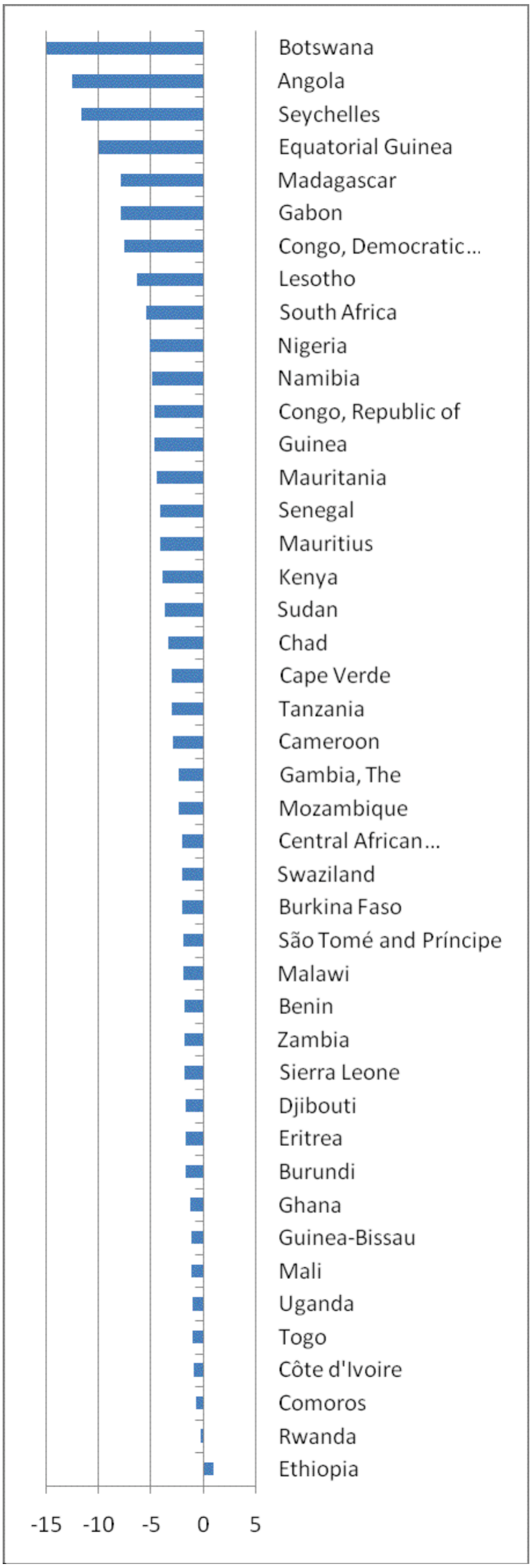
Appendix 4: Transmission mechanisms, vulnerabilities and evidence so far for African World Trade Organization Least-developed Countries

	Actual change (EU+US imports)[a]	Projected change (based on sector effects) [b]	Projected change in total exports (% of GDP)[c]	Dependence (share in GDP in 2007)[d]	Dependence (share in GDP in 2007)[e]	FDI (annual changes compared with year before)	Portfolio flows	Cross-border lending	Trade
Angola	-63%	-48%	-17%					Not affected	
Benin	-32%	-21%	-2%	4.1%	0.87%	26% drop in 2008	Share index declined from August 2008 to 2009Q	52% drop between March 2008 and March 2009	
Burkina Faso	-17%	-30%		0.7%	8.82%			20% drop between March 2008 and March 2009	
Burundi	82%	49%	2%	0.001%	0.01%			37% drop between March 2008 and March 2009	
Central African Republic	-14%	-16%			1.64%			17% drop between March 2008 and March 2009	
Chad	-41%	-54%			8.27%			25% drop between March 2008 and March 2009	
Congo, Democratic Republic	-71%	-49%			4.93%			32% drop between March 2008 and March 2009	Exports reduced by about $0.5 billion in 2008 and by $3.7 billion in 2009 (IMF)
Djibouti	-46%	-20%	-2%	3.4%	23.63%				
Gambia	58%	-16%	-3%	7.3%	9.84%			Not affected	
Guinea	-24%	14%	1%	3.3%	2.59%			Not affected	
Guinea-Bissau	519%	2%	0%	8.1%	1.83%			Not affected	
Lesotho	-18%	-19%	-5%	27.7%	6.83%			Not affected	
Madagascar	-16%	-5%	-2%	0.2%	13.51%			Not affected	
Malawi	70%	14%	1%	0.0%	2.20%		Share index fell by 15.5% between January and February 2009	58% drop between March 2008 and March 2009	
Maldives	-20%	-3%	-8%	0.3%	1.43%	15.5% projected drop in 2009		Not affected.	
Mali	-44%	79%	8%	3.1%	5.25%			22% drop between March 2008 and March 2009	
Mauritania	-67%	-32%		0.1%	5.40%			14% drop between March 2008 and March 2009	
Mozambique	-40%	-32%	-6%	1.3%	5.07%	Forecast 62% drop in 2009	Market capitalisation fell by 5% over 2007/08	14% drop between March 2008 and March 2009	
Niger	-14%	-15%	-2%	1.9%	0.68%			12% drop between March 2008 and March 2009	
Rwanda	-1%	-18%	-1%	1.5%	2.39%			12% drop between	

								March 2008 and March 2009	
Senegal	-15%	-24%	-3%	8.3%	0.69%			1% drop between March 2008 and March 2009	
Sierra Leone	-18%	-34%	-3%	8.9%	3.79%			13% drop between March 2008 and March 2009	
Tanzania	-15%	26%		0.1%	3.96%	$250 mn investment in bio-fuel production scaled down; $165 mn nickel project halted; plans to build a $3.5 bn smelter postponed	Foreign investors' participation in buying of share of newly listed companies slowed down; $500 mn bond issuance plan postponed in 2008	25% drop between March 2008 and March 2009	Manufacturing sector recorded drop in export revenue of about 50% by early 2009. Tourism was affected by a 30-40% decline in sales
Togo	33%	-36%	-5%	9.2%	2.68%			2% drop between March 2008 and March 2009	
Uganda	-15%	-4%	-1%	7.6%	2.97%	5.5% decline in 2008/09	Significant drop in Q2 and Q3 of 2008; share index lost 21% over 2007/08	34% decline between March 2008 and March 2009	Uganda's exports growth fell by 10.3% in September 2008 compared with a year earlier, with sharp declines continuing through May 2009, with only a slight increase between February and March 2009
Zambia	-59%	-47%	-8%	0.5%	8.73%	29% drop in 2008	In 2008, portfolio inflows at their lowest in Q4; significant portfolio outflows in Q2 and Q3; bonds total value traded declined. Share index lost 29% over 2007/08	19% drop March 2008 and March 2009	Total exports fell by 37% from the second half of 2008 to the first half of 2009

Notes: a. Year-on-year percentage change of EU + US merchandise imports from the country for the period Apr-Jun 2009 (over Apr-Jun 2008); b. Projected year-on-year change in merchandise exports based on expected sectoral effects and sectoral composition of exports; c. Projected year-on-year change in total exports of goods and services; d. Share of remittance inflows in GDP in 2007, source: World Bank; e. Share of FDI inflows in GDP in 2007, source: UNCTAD's FDI on-line database.

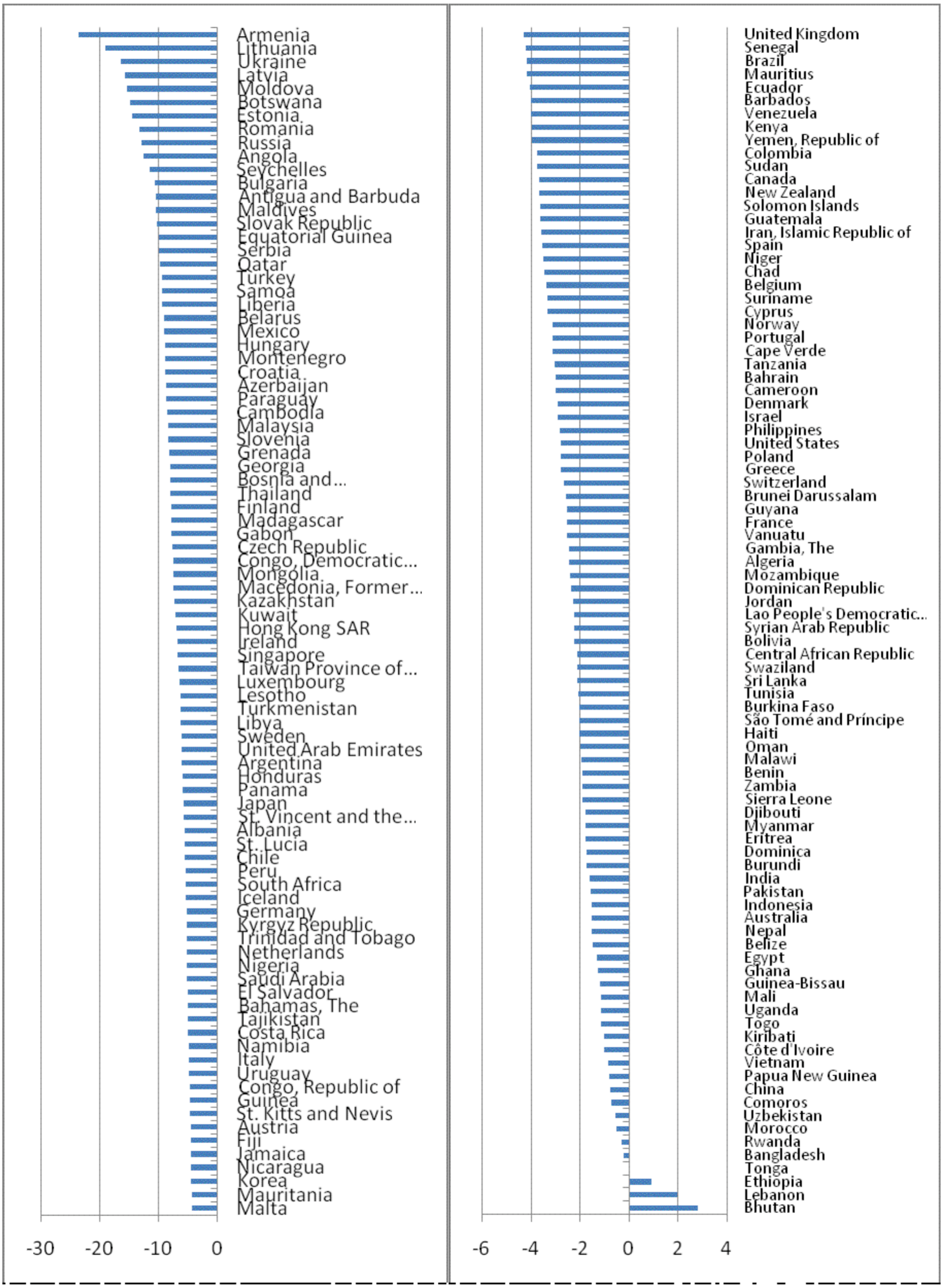
Appendix 5: 2009 real GDP growth forecasts in SSA (difference between IMF Oct 2009 forecasts and IMF Oct 2008 forecasts)



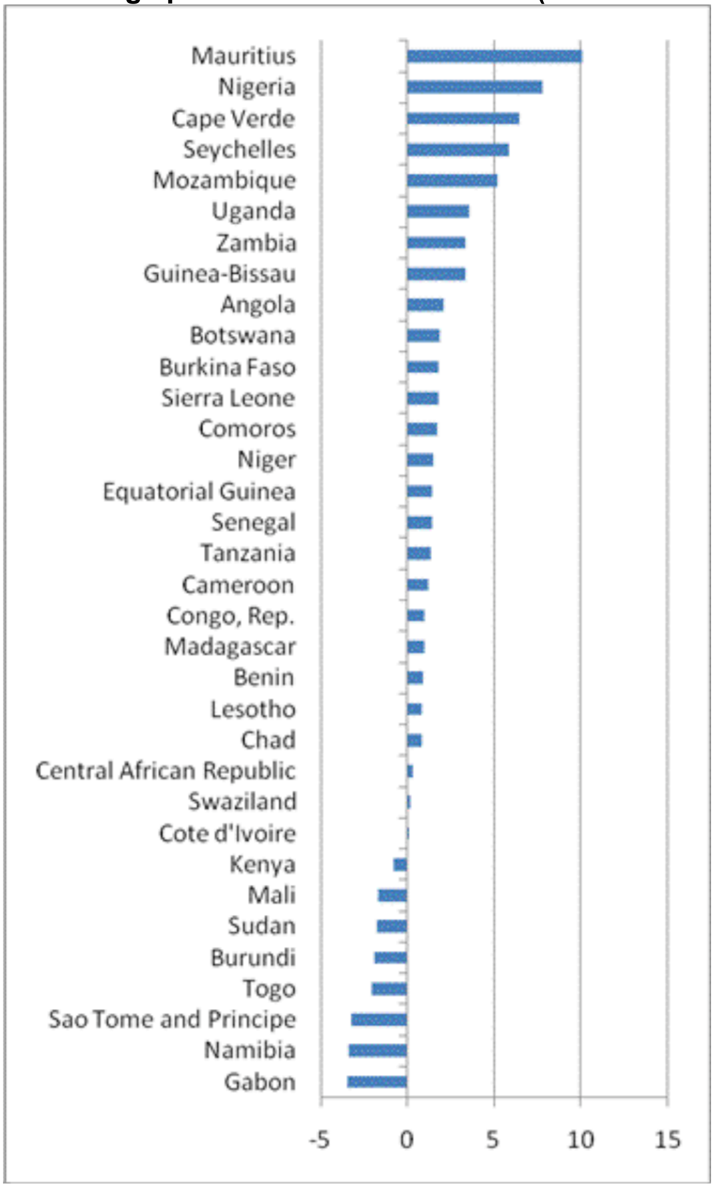
Source: IMF.

Appendix 5 continued: 2009 real GDP growth forecasts in World (difference between IMF Oct 2009 forecasts and IMF Oct 2008 forecasts)

Most affected Least affected



Appendix 6: Private sector credit in Africa ,
Percentage point difference 2008-2007 (as % of GDP)



Source: WDI