

# IMPACT OF THE GLOBAL FINANCIAL AND ECONOMIC CRISIS ON DEVELOPMENT: WHITHER AFRICA?

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**Abstract:** The global economic crisis beginning in 2008 has come at an inopportune time for Africa. Economic growth had recovered, poverty had declined, and human development had improved. Then the crisis hit. Growth then fell by 60 per cent. The growth decline has been less than in previous economic crises though. Africa's resilience currently likely results from improvements in economic and political governance and to changes in the external environment. It appears that Africa will once again resume its path towards prosperity. However, although low-income and 'fragile' countries appear to be holding up well, many of them critically depend on external assistance. Above all, the commitment to improved governance must continue. Copyright © 2013 John Wiley & Sons, Ltd.

**Keywords:** global; economic crisis; Africa

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## 1 INTRODUCTION

The global economic crisis (EC) that became particularly evident in 2009 was precipitated by the financial crisis (FC) in the advanced countries. The FC came to the fore in the US financial markets about September 2008. It led to deepened recessions in most advanced economies.<sup>1</sup> For Africa, two negative external shocks are discernible: (i) a 'financial shock' (FS) involving the curtailment in the availability of credit and (ii) a 'trade shock' (TS), which is reflected by a reduced demand for Africa's exports.

These shocks may, in turn, translate to EC. Indeed, gross domestic product (GDP) growth for sub-Saharan Africa (SSA)<sup>2</sup> fell from 7.1 per cent in 2007 to 5.6 per cent and 2.8 per cent in 2008 and 2009, respectively (IMF, 2012a, 2012b). The timing of the crisis

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<sup>1</sup>The recessions in the advanced economies are deemed to have begun in 2008, generally. The full brunt of the recession was in 2009, though, with impacts on African economies occurring at a considerable lag.

<sup>2</sup>I use 'Africa' and 'SSA' interchangeably herein.

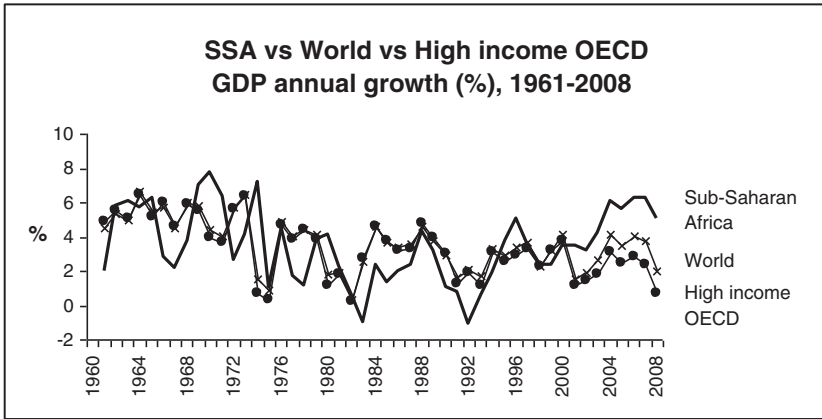


Figure 1. The African pre-crisis growth record, GDP growth (data source: World Bank, 2010)

is unfortunate, for the dawn of the 21st century had witnessed strong economic recovery for SSA.<sup>3</sup> Will the crisis seriously disrupt Africa's march towards prosperity?

The current paper explores the implications of the global crisis for Africa. Section 2 presents evidence on SSA's progress before the crisis. Section 3 discusses the expected economic and social impacts of the crisis. Section 4 examines key macroeconomic variables during the pre-crisis and post-crisis periods. Section 5 presents economic vulnerability measures historically for SSA in a global context. Section 6 sums up and offers conjectures for why Africa seems to have evinced greater resiliency during the current episode.

## 2 AFRICA'S PROGRESS BEFORE THE CRISIS

### 2.1 The Growth Record

Figures 1 and 2 present the growth record of Africa, vis-à-vis the high-income Organisation for Economic Co-operation and Development countries and the world, based on the annual growth rates of GDP and per-capita GDP during 1961–2008. These figures show, first, that SSA's growth has been subject to much volatility. Second, growth trended downwards until the early 1990s, after which it began an upward trend, with SSA's growth considerably above the world's during the last decade. Third, Africa's growth has been pro-cyclical with respect to the world, though with a lag. Fourth, the region's recessions have historically been considerably deeper than the world's. This phenomenon is particularly apparent in the early 1980s and early 1990s. Finally, there has been a departure since then, with the region's growth exhibiting a shallower dip in the early 2000s.

### 2.2 Progress on Poverty and on Human Development

However, has Africa's growth resurgence been transformed to poverty reduction and improvements in human development (HD)? According to Table 1, the poverty headcount

<sup>3</sup>From negative per capita GDP growth rates in the early 1980s and early 1990s, SSA's per capita growth was 4.6 per cent in 2007 (World Bank, 2009; IMF, 2012a).

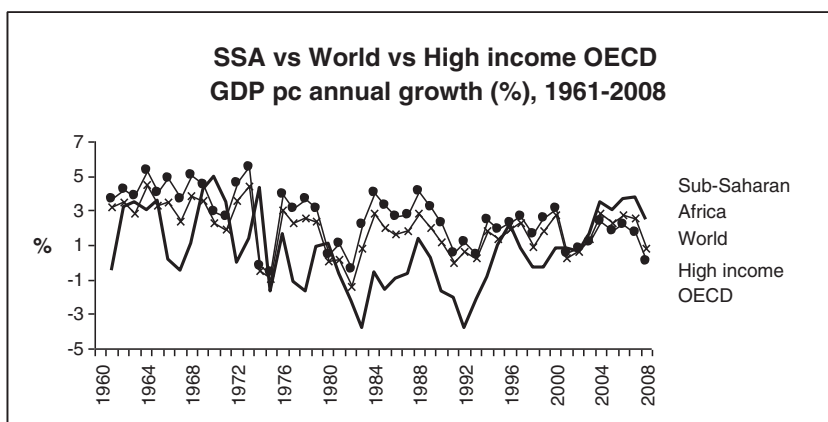


Figure 2. The African pre-crisis growth record, per-capita GDP growth (data source: World Bank, 2010)

ratio has declined by an average of about 0.9 percentage point annually between 1996 and 2008, roughly comparable to the 1.0-percentage-point decrease in South Asia (SAS). Similarly, the average rate of decline at the \$2.50 level is 0.5 percentage point, also quite comparable to the 0.6-percentage-point decrease for SAS.

Although most African countries have historically fallen in the bottom two deciles on the global HDI index (HDI) rankings, by 2007, the region was making considerable progress. From a dismal average growth rate of 0.3 per cent annually in the 1980s through the early 1990s, HDI in the region grew more than 1.0 per cent annually starting in the mid-1990s (Fosu & Mwabu, 2010).

There is considerable country variance from the above overall-Africa account, however. By the time of the crisis, there were 24 African countries whose annual GDP growth had each averaged more than 4.0 per cent since 1995; in contrast, 13 countries experienced yearly growth rates each of less than 3.0 per cent (Arbache & Page, 2008), likely insufficient to compensate for population growth. Similarly, the HD and poverty improvements have varied widely across African countries (Fosu & Mwabu, 2010).

### 3 IMPLICATIONS OF THE CRISIS

The FC might translate to EC via two channels:

- (1) FS, resulting from declines in the availability of credit, leading to diminished supply of exports, and

Table 1. Historical poverty record (headcount ratio, %), SSA versus South Asia (SAS) (source: World Bank, 2013)

	1981	1996	2005	2008
<b>\$1.25 Standard</b>				
SSA	51.4	58.1	52.3	47.5
SAS	61.1	48.6	39.4	36.0
<b>\$2.50 Standard</b>				
SSA	79.5	84.0	81.6	77.8
SAS	92.8	89.0	84.0	82.3

- (2) TS, emanating from decreases in the derived demand for Africa's exports, leading to declining export prices and volumes.

In the short term, TS may constitute the more crucial channel for most African economies, given the limited reliance on private international financing.<sup>4</sup>

### 3.1 Trade Shock

Rising prices of natural resources and other commodities have contributed to Africa's strong economic growth over roughly the last decade (Arbache & Page, 2009). During the 2003–2007 pre-crisis period for instance, the GDP growth of Africa's resource-intensive countries averaged 7.8 per cent per annum, compared with 5.4 per cent for their non-resource intensive counterparts (IMF, 2009a). This period coincided with substantial increases in commodity prices.<sup>5</sup>

As commodity prices have fallen sharply following the global recession precipitated by the FC<sup>6</sup> and in concert with accompanying declines in export volumes, export revenues would fall.<sup>7</sup> Exports have traditionally constituted an important source of growth for African economies (Fosu, 1990). Normally averaging about 40 per cent, they represent a substantial share of GDP (IMF, 2009a). Furthermore, most of these exports, some 69 per cent, have traditionally been destined for advanced economies, where the FC has been most severe.<sup>8</sup>

Meanwhile, recent trends show a substantial rise in export-trade diversification of the destination for Africa's exports towards emerging economies.<sup>9</sup> Given that the derived import demands of these other emerging economies are less responsive to the FC than those of the advanced economies, African countries' exports should be less vulnerable to the crisis than they were previously.<sup>10</sup>

### 3.2 Financial Shock

#### 3.2.1 *Financial and Capital Exposure*

The direct exposure of Africa's domestic banks to the global financial system has been historically limited. Nonetheless, two recent innovations following structural adjustment may have reduced such immunity: (i) capital account liberalization and (ii) expansion of foreign bank operation into the domestic market. Indeed, financial sector development has occurred in Africa generally in recent years, with credit to the private sector expanding

<sup>4</sup>Official development assistance (ODA) is quite important for most African economies though.

<sup>5</sup>Between January 2003 and July 2008, energy, food and metal price indices rose by 329 per cent, 102 per cent and 230 per cent, respectively (IMF, 2009b).

<sup>6</sup>Commodity prices, which had reached record levels by June 2008, dropped precipitously. Between January 2003 and July 2008, energy, food and metal price indices fell by 64 per cent, 30 per cent and 46 per cent, respectively, between June 2008 and February 2009 (IMF, 2009b).

<sup>7</sup>SSA's exports of goods and services have declined from 41.0 per cent of GDP in 2008 to 31.1 per cent in 2009 (IMF, 2009a, 2010a).

<sup>8</sup>For 2009, world trade contracted by 11 per cent and the share of exports in Africa's GDP by 10 percentage points (IMF, 2010a, 2010b).

<sup>9</sup>The share of SSA's exports going to Brazil, Russia, India and China, of which China is the most prominent, has risen from less than 10 per cent in 2000 to 20 per cent in 2009 (Christensen, 2010: Table 1).

<sup>10</sup>For 2007–2009, GDP growth fell by 6 percentage points each for Emerging and Developing Countries and Advanced Countries, which translate to 70 per cent and over 200 per cent for these groups, respectively (IMF, 2010b).

rapidly and foreign banks owning more than 50 per cent of local banking assets in more than one half of African countries. African stock markets have also begun to develop rapidly, with capitalization reaching 107 percent of GDP by 2007, a higher ratio than in any other developing or emerging region. (Maimbo, 2008)

### 3.2.2 *External Flows and Financing*

External financial inflows, such as official development assistance (ODA), foreign direct investment, remittances and, to a lesser degree, private portfolio flows, represent an appreciable portion of the financial instruments for Africa's growth and development.<sup>11</sup> Of these external flows, ODA remains the most important in a large majority of African countries. Representing an average of 4.1 per cent of GDP in 2007, external aid for SSA rose in response to the multilateral debt reduction initiative (MDRI) of 2005, but has now returned nearly to its level in 2000.<sup>12</sup> There is considerable variation across countries, however. ODA is particularly high for post-conflict countries like Liberia (45 per cent), Burundi (38 per cent), and Sierra Leone (34 per cent), where it could help reduce the risk of conflict resurgence (Collier, 2005).<sup>13</sup> It is also appreciable for a number of countries where it has supported economic and political reforms, for example, Uganda (15 per cent), Mali (14 per cent), Tanzania (14 per cent), and Ghana (12 per cent). As many development partners have experienced declining incomes following the crisis, however, there are signs that their ODA contributions will likely not meet agreed-upon targets.<sup>14</sup> Nonetheless, the evidence so far indicates that grants, the most generous form of ODA going to fragile countries, did not decrease during the crisis period. Its average value as per cent of GDP for this country group actually increased from 3.1 per cent in 2007 to 3.7 per cent and 4.8 per cent in 2008 and 2009, respectively (IMF, 2010a).<sup>15</sup>

Related closely to the issue of ODA is external debt, which has fallen substantially from 30.1 per cent of GDP in 2004 to 11.1 per cent in 2007 for SSA generally (IMF, 2009a), thanks in great part to MDRI.<sup>16</sup> A potential outcome of the current crisis is that many African governments may be compelled to contract additional loans, in the absence of sufficient ODA and domestic revenues, raising the spectre of another external debt crisis,<sup>17</sup> with potential adverse effects on growth (Fosu, 1996, 1999) and possible diversion of government expenditures from the social sector (Fosu, 2007; Fosu, 2008b). Remittances have traditionally played a useful counter-cyclical role in many economies generally (Chami et al, 2009), helping to reduce poverty (Gupta, Catherine, & Smita, 2007). Although remittances are expected to fall in response to declines in senders' incomes given the severe recessions in relatively advanced countries, their counter-cyclical intent suggests that they might not

<sup>11</sup>ODA, FDI and remittances together represented more than 10 per cent of Africa's GDP in 2006 (World Bank, 2009).

<sup>12</sup>ODA/GDP increased from 3.9 per cent in 2000 to 5.5 per cent in 2006 but fell to 4.1 per cent in 2007 (World Bank, 2009).

<sup>13</sup>The numbers in parentheses are average ODA levels for 2000–2007, expressed as proportions of gross national income (rather than GDP).

<sup>14</sup>The 2002 Monterrey targets, for instance, are 0.7 per cent of donors' GDPs.

<sup>15</sup>There are differences across countries, though, despite the overall increase in the grant/GDP ratio during the crisis. For example, the grant element decreased from 21.6 per cent to 14.9 per cent in Burundi and from 146.8 per cent to 114.6 per cent in Liberia (IMF, 2010a).

<sup>16</sup>Among MDRI countries, the decline is much larger: from 60.1 per cent in 2004 to 14.3 per cent in 2007 (IMF, 2009a).

<sup>17</sup>There is the view that the EC of the late 1970s and 1980s contributed substantially to the debt crisis that came to the fore in the 1980s (see e.g. Greene, 1989). The crisis in turn led to the various bilateral debt-relief initiatives of the 1990s and to the multilateral 1996 and 1999 heavily indebted poor countries programs.

decrease, if at all, during the crisis. Unfortunately, only sporadic data are currently available to shed light on the crisis's impact on remittances.

### 3.3 Economic and Social Vulnerability

Through their deleterious effects on derived demand, both FS and TS could lead to lower incomes and higher levels of unemployment, inequality and poverty, as well as to reductions in HD (Thorbecke & Charumilind, 2002). Furthermore, rising inequality might increase poverty not only through lower growth in income but also via its tendency to retard the rate at which growth is translated to poverty reduction (Fosu, 2010a, 2010b, 2010c, 2009). The EC may also raise the risk of civil war via reducing incomes (Collier & Hoeffler, 1998; Bruckner & Ciccone, 2010).

## 4 PRE-CRISIS AND POST-CRISIS: KEY MACROECONOMIC VARIABLES

This section presents evidence on likely short-run effects of the crisis by examining the pre-crisis and post-crisis values of key macroeconomic variables: per-capita GDP growth, consumer price inflation, exports, and international terms of trade (TOT). Similarly examined are measures of economic vulnerability risk: domestic fiscal balance, the (external) current account, and the availability of international reserves.

### 4.1 Real GDP Growth: SSA versus Rest of the World (ROW)

To shed light on the impact of the crisis on relative economic performance, Table 2 presents data on real GDP growth for SSA and for other global categories: 'World', 'Advanced Countries', and 'Emerging and Developing Economies'. The pre-crisis, crisis and post-crisis periods are represented by years 2007, 2008–2009, and 2010–2012, respectively. Although growth for all regions fell between 2007 and 2008, the decline was much larger between 2008 and 2009, indicating 2009 as the main crisis period. Furthermore, the 2007–2009 decline was least in SSA and largest in the Advanced Countries.

The post-crisis regional differences paint an interesting picture. SSA does not fare as well as the other regions when the immediate post-crisis year, 2010, is considered: SSA exhibits the largest decline from 2007, whether on per cent or percentage point basis. When the post-crisis period is extended beyond 2010, however, a different picture emerges: SSA actually stands out with the least decline (per cent basis) during 2010–2012, with all the other regions suffering considerable growth deterioration, whereas SSA's growth is virtually maintained. Thus, so far, SSA has evinced greater resilience than other regions, contrary to the historical record.

### 4.2 Real Per-Capita Growth: SSA and by Country Group

Table 3 presents data on real per-capita GDP growth in 2007–2012 for SSA and by country group. The overall decrease in per-capita GDP growth between 2007 and 2009 was 4.0 percentage points and similarly for oil-exporting countries. The fall in growth is, however,

Table 2. Pre-crisis and post-crisis GDP growth, SSA versus ROW

Year	2004–2006	2007	2008	2009	2010	2011	2012	% pt. change			% change		
								2007–2009	2007–2010	2007–2012	2007–2009	2007–2010	2007–2012
SSA	6.6	7.1	5.6	2.8	5.3	5.1	5.0	-4.3	-1.8	-2.1	-60.6	-25.4	-29.6
World	4.9	5.4	2.8	-0.6	5.1	3.8	3.3	-6.0	-0.3	-2.1	-111.1	-5.6	-38.9
Advanced	2.9	2.8	0.1	-3.5	3	1.6	1.3	-6.3	0.2	-1.5	-225.0	7.1	-53.6
Em&Dev <sup>a</sup>	7.7	8.7	6.1	2.7	7.4	6.2	5.3	-6.0	-1.3	-3.4	-69.0	-14.9	-39.1

<sup>a</sup>Emerging and Developing Economies

Notes: Data for 2012 are projected; source: IMF (2012a) and author's computations.

Table 3. Pre-crisis and post-crisis SSA real per-capita GDP growth, by country group

Year	2007	2008	2009	2010	2011	2012	2007–2009	2007–2010	2007–2012	2007–2009	2007–2010	2007–2012	% change
Country groups							% pt. change						
SSA	4.6	3.4	0.6	3.1	2.9	3	-4.0	-1.5	-1.6	-87.0	-32.6	-34.8	
Middle income (11)	3.5	2.7	-2	2.5	3	1.8	-5.5	-1.0	-1.7	-157.1	-28.6	-48.6	
Excluding South Africa	3.6	3.5	0.1	4.6	6.1	3	-3.5	1.0	-0.6	-97.2	27.8	-16.7	
Low income (14)	4.8	4.2	2.6	3.7	2.8	3.3	-2.2	-1.1	-1.5	-45.8	-22.9	-31.3	
Fragile (12)	0.1	-0.6	0.4	1.4	-0.3	3.8	0.3	1.3	3.7	300.0	1300.0	3700.0	
Oil-exporting countries (7)	6.6	4.3	2.4	3.8	3.4	3.9	-4.2	-2.8	-2.7	-63.64	-42.424	-40.91	

Notes: Data for 2012 are projected; numbers in parentheses are country frequencies; source: IMF (2012b) and author's computations.

larger in middle-income than in low-income economies. In the case of fragile countries, there is relatively little change, as the pre-crisis growth of this country group was minimal to begin with. The respective growth rates for 2010 and beyond suggest further that the growth resurgence has proceeded generally better in low-income countries than in their middle-income counterparts (including South Africa). Moreover, the fragile economies as a group are estimated to have recovered reasonably well by 2012. Disaggregating the data, nearly all countries in the fragile group exhibit higher growth in 2012 than in 2009.<sup>18</sup> A similar observation holds when the recent growth is compared with that for the pre-crisis year of 2007, with most of the countries experiencing improved growth (IMF, 2012a, 2012b: Table SA3).

We note also that the growth resurgence of oil-producing countries has been rather lethargic. Although growth has recovered from its nadir of 2.4 per cent in 2009 to 3.9 per cent by 2012, this current rate is far less than the pre-crisis growth of 6.6 per cent. Such performance might be attributable to the lack of oil price recovery during the post-crisis period, when the recovery of the advanced countries has been rather anaemic (Table 2).

### **4.3 Price Stability: SSA and by Country Group**

Price stability is an important indicator not only of the success of macroeconomic policy but also of the room for the conduct of monetary policy. A highly inflationary atmosphere would make it difficult for monetary authorities to accommodate the use of fiscal instruments to counteract the effects of the crisis, thus limiting the fiscal space. Such instruments could include the funding of public services, such as education and health, especially for assisting the less well off. The poor are often the most adversely affected by high inflation, as they lack the assets to hedge against it.

Table 4 shows that consumer price inflation increased for SSA as a whole between 2007 and 2009, by about one third its 2007 value. Much of this increase is attributable to the fragile economies and oil-exporting countries. However, although inflation appears to be returning to its pre-crisis levels by 2012 for fragile economies, the reverse seems to be the case for particularly oil-exporting countries and also for low-income countries. Thus, the crisis has worsened macroeconomic stability in SSA, as measured by the consumer price inflation, although there are substantial differences across country groups. Worsening inflation in fragile and low-income countries would be particularly worrisome given their relatively large poverty levels. The good news for now, though, is that for fragile economies, there is a deceleration of the inflation rate during the post-crisis period, thus providing a larger fiscal space. For SSA as a whole, however, this policy space seems to have shrunk a little despite the observation that on average the inflation rate remains in the single digits.

### **4.4 Trade Variables**

To shed light on the TS channel, I examine next the behaviours of exports and the barter TOT. Table 5 reports data for 2007–2012 on SSA exports, expressed as GDP shares. Between 2007 and 2009, the export share for SSA fell by 15 per cent of its value in

<sup>18</sup>The only exceptions are Guinea-Bissau and Zimbabwe.

Table 4. Pre-crisis and post-crisis SSA consumer price inflation, by country group

Country groups	Year										% pt. change		% change	
	2007	2008	2009	2010	2011	2012	2007–2009	2007–2010	2007–2012	2007–2009	2007–2010	2007–2012	2007–2010	2007–2012
SSA	7	12.6	9.4	7.5	9.3	8.9	2.4	0.5	1.9	34.3	7.1	27.1	7.1	27.1
Middle income (11)	7.5	11.8	8	4.9	5.6	6	0.5	-2.6	-1.5	6.7	-34.7	-20.0	-34.7	-20.0
Excluding South Africa	8.6	12.6	10.6	6.7	7.3	7.2	2.0	-1.9	-1.4	23.3	-22.1	-16.3	-22.1	-16.3
Low income (14)	7.6	17.5	8.6	5.9	15.5	13	1.0	-1.7	5.4	13.2	-22.4	71.1	-22.4	71.1
Fragile (12)	8.8	12.6	12.2	8.6	9.8	6.9	3.4	-0.2	-1.9	38.6	-2.3	-21.6	-2.3	-21.6
Oil-exporting countries (7)	5.6	10.4	11.1	11.4	9.6	9.8	5.5	5.8	4.2	98.2	103.6	75.0	103.6	75.0

Notes: Same as in Table 3.

Table 5. Pre-crisis and post-crisis exports of goods and services (% GDP), by country group

Country groups	Year										% pt. change		% change	
	2007	2008	2009	2010	2011	2012	2007–2009	2007–2010	2007–2012	2007–2009	2007–2010	2007–2012	2007–2010	2007–2012
SSA	38.4	41.4	32.7	34.8	37.8	37.1	-5.7	-3.6	-1.3	-14.8	-9.4	-3.4	-9.4	-3.4
Middle income (11)	33.1	35.9	29.3	29.7	31.8	32.1	-3.8	-3.4	-1.0	-11.5	-10.3	-3.0	-10.3	-3.0
Excluding South Africa	38.5	36.2	35.5	37.7	41.5	41.5	-3.0	-0.8	3.0	-7.8	-2.1	7.8	-2.1	7.8
Low income (14)	21.6	21.4	19.6	22.8	24.1	23.4	-2.0	1.2	1.8	-9.3	5.6	8.3	5.6	8.3
Fragile (12)	43.8	44.3	38.9	46.5	47.7	44.0	-4.9	2.7	0.2	-11.2	6.2	0.5	6.2	0.5
Oil-exporting countries (7)	51.9	54.1	42.6	44.5	49.4	47.4	-9.3	-7.4	-4.5	-17.9	-14.3	-8.7	-14.3	-8.7

Notes: Same as in Table 3.

2007. The drop has been faster in middle-income than in low-income countries. The decline was, moreover, fastest in the oil-exporting countries, which have also exhibited the least exports recovery from the crisis.

Trade shock should reduce not only the volume of exports but also its relative price, as measured by TOT. Table 6 reports data for TOT, which changed little during 2007–2009 for SSA as a whole and remained unchanged for low-income countries as a group. However, it decreased appreciably for middle-income countries (excluding South Africa) and considerably for oil-exporting countries. TOT appears to have recovered for SSA generally since 2009, however, actually surpassing its 2007 pre-crisis level by 14 per cent. Indeed, except for the middle-income countries (excluding South Africa), all income groups exhibit TOT recovery above the pre-crisis 2007 level, with the fragile economies in particular enjoying the largest increase. Thus, TOT recovery has contributed to the growth resiliency for nearly all income groups (Table 3).

## 5 ECONOMIC VULNERABILITY: EX-ANTE RISKS AND EX-POST OUTCOMES—A HISTORICAL PERSPECTIVE

### 5.1 Vulnerability Risks: SSA versus ROW

To gauge the ability of the African region to withstand external shocks from a historical perspective, Figures 3–5 provide 1980–2007 data on domestic fiscal balance (government revenue less government expenditure), current account balance (trade balance plus net foreign receipts), and foreign exchange reserves (months of imports covered). Improvements in these measures of economic vulnerability began in the late 1990s. For example, SSA's fiscal balance had improved tremendously from substantial deficits in the late 1990s to considerable surpluses by 2007. Indeed, as a proportion of GDP, the SSA large deficits, which had previously been the highest among the four regions [SSA, Middle East and North Africa (MENA), Latin America, and Emerging Asia], were transformed into the largest surpluses among these regions by 2007 (Figure 3).

Sub-Saharan Africa's current account was similarly in huge deficit in 1998, but by 2007, it was in considerable surplus. Indeed, as a proportion of GDP, SSA's 2007 surplus was well above those of the other regions (Emerging Asia and Latin America), except MENA (Figure 4). By contrast, SSA foreign exchange reserves consistently lie below the other regions (Figure 5). Nonetheless, this measure has been rising steadily, reaching its highest level in 2007 since 1980. Taken together, then, these data suggest that SSA was better prepared than previously when the most recent crisis hit, notwithstanding differences across country groups, with the oil-exporting countries better prepared for the crisis (Table 7).

### 5.2 Economic Growth Vulnerability during Crises: SSA versus ROW

Given the above risks, Table 8 presents historical evidence on the economic growth vulnerability of SSA, as measured by changes in the growth rate of GDP during the global recessions of 1980–1982, 1990–1991 and, most recently, 2008–2009. For comparison, data are additionally provided for ROW, represented by 'World' and 'Advanced Economies'. The rationale is to examine how the current SSA economic vulnerability compares with the historical record, both absolutely and relative to ROW. We define 'vulnerability' as the

Table 6. Pre-crisis and post-crisis SSA terms of trade (2000 = 100), by country group

Year	2007	2008	2009	2010	2011	2012	2007-2009	2007-2010	2007-2012	2007-2009	2007-2010	2007-2012	% change
Country groups							% pt. change						
SSA	120	127	121	131	140	137	1.0	11.0	17.0	0.8	7.0	17.0	9.2
Middle income (11)	117	119	124	131	130	125	7.0	14.0	8.0	6.0	12.0	8.0	12.0
Excluding South Africa	104	104	99	100	92	87	-5.0	-4.0	-17.0	-4.8	-3.8	-17.0	-3.8
Low income (14)	87	89	87	94	102	100	0.0	7.0	13.0	0.0	8.0	13.0	8.0
Fragile (12)	138	134	136	142	177	166	-2.0	4.0	28.0	-1.4	2.9	28.0	2.9
Oil-exporting countries (7)	137	154	123	138	156	157	-14	1.0	20	-10.2	0.7	20	0.7

Notes: Same as in Table 3.

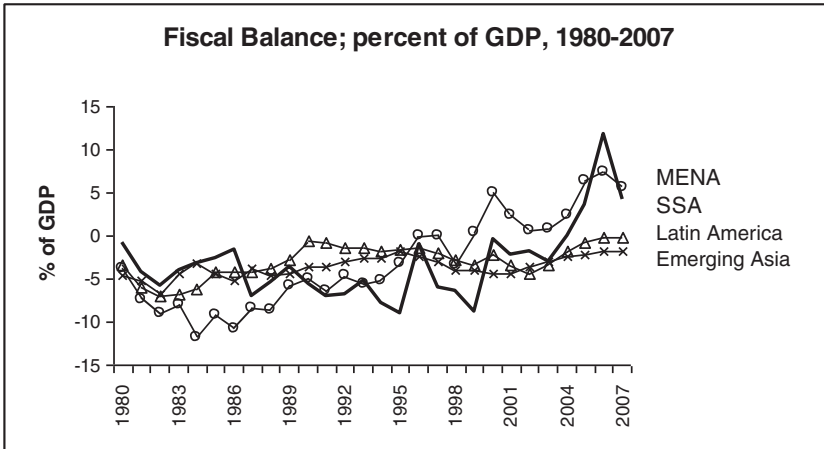


Figure 3. Historical vulnerability measures: fiscal balance, SSA versus other regions (data source: IMF, 2009b)

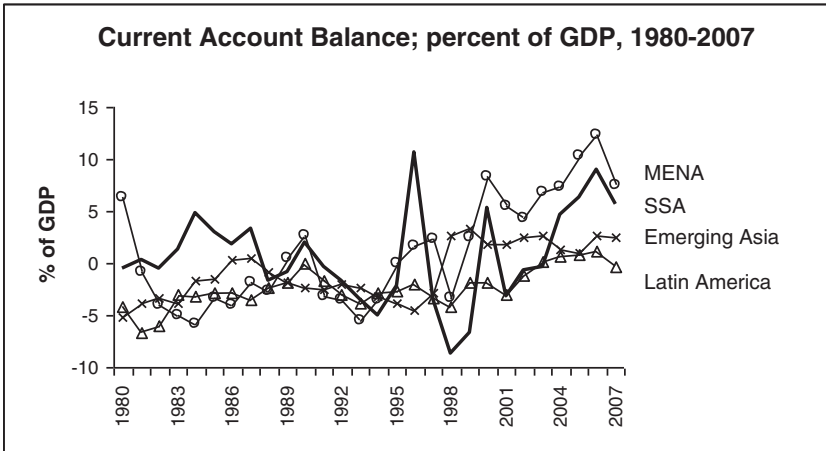


Figure 4. Historical vulnerability measures: current account balance, SSA versus other regions (data source: IMF, 2009b)

decline in the growth rate between the year immediately preceding the EC (recession) and the year during which the crisis ends.<sup>19</sup>

For SSA, the declines in the respective per-capita growth rates between the years preceding the crises (recessions) and their end years are larger for the previous recessions than for the latest one: -75 per cent, -77 per cent, and -61 per cent, chronologically. Meanwhile, in the case of ROW, the present crisis has exerted the greatest impact (-111 per cent and -225 per cent for World and Advanced Countries, respectively), followed by the early 1980s recession (-77 per cent and -95 per cent, respectively). Hence, absolutely and relatively, SSA has been least vulnerable during the current recession, compared with the two previous episodes. This observation is buttressed by

<sup>19</sup>For the most recent crisis, the second year is used, as the recovery in 2010 seemed transitory.

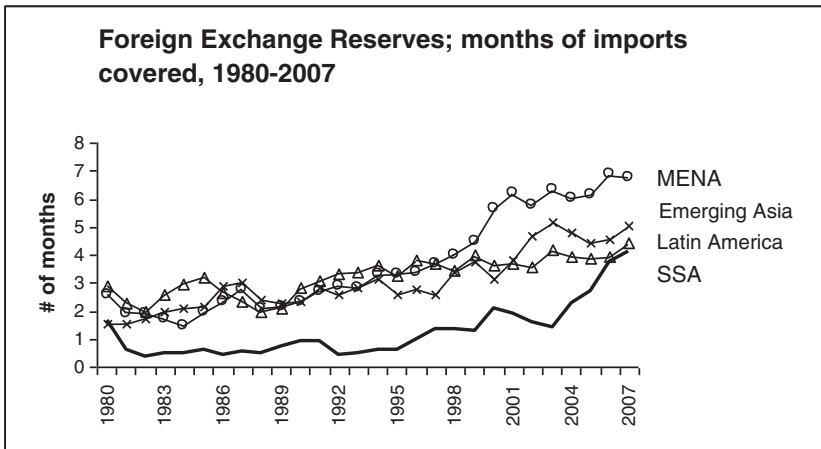


Figure 5. Historical vulnerability measures: foreign exchange reserves, SSA versus other regions (data source: IMF, 2009b)

the SSA/ROW ratios, which show that SSA's GDP growth fell equally or by more than those of World and Advanced Countries in the earlier recessions (1.0 and 1.3, respectively) but considerably less during the current recession (0.5 and 0.3).

Moreover, recovery from crisis has historically been slower one year following the recession in SSA compared to ROW (Table 8). For the first two recessions, growth declined even further in SSA following the end of the global recession, in contrast to ROW where there was positive growth. During the latest episode, however, SSA also enjoyed growth resurgence during 2009–2010 (Table 2). Furthermore, when 2011 is used as more representative given the transitory nature of the 2010 resurgence, the recovery is stronger in SSA, with the SSA/ROW growth decline ratios now less than 1.0, compared with the previous ratios of more than 3.0. Thus, 'resilience' appears to have improved considerably for SSA during the latest episode, both absolutely and in comparison with ROW.

## 6 SUMMING UP AND EXPLANATORY CONJECTURES

The 2008–2009 global recession precipitated by the FC has been the deepest since the late 1970s.<sup>20</sup> There appeared to be strong recovery initially, with the World's GDP growth rising from –0.6 per cent in 2009 to 5.1 per cent in 2010. The recovery faltered, however, as the growth rate declined to 3.8 per cent and 3.3 per cent in 2011 and 2012, respectively.

My focus here has been on the SSA region. Before the current crisis, the region seemed to be marching towards economic prosperity. For a decade, SSA's GDP growth had eclipsed that of the world. The sustained growth had, furthermore, been transformed to substantial poverty reduction since the mid-1990s. This progress on poverty rivals that of Southeast Asia, despite the stronger GDP growth in that region. Moreover, HD had increased over the same period.

<sup>20</sup>Indeed, the evidence points to the deepest recession since the Great Depression of the 1930s.

Table 7. Pre-crisis and post-crisis measures of vulnerability risk, by country group

Country groups	2007–2009							2007–2012				
	Year	2004–06	2007	2008	2009	2010	2011	2012	2007–2009	2007–2012	2007–2009	2007–2012
									% pt. change		% change	
<b>A. Overall fiscal balance (central government), % GDP (excluding grants, in brackets)</b>												
SSA (45)	2.5	1.3	0.8	-5.4	-3.7	-1.6	-2.2	-6.7	-3.5	-515.4	-269.2	
	[0.83]	[0.1]	[-0.3]	[-6.7]	[-4.8]	[-2.5]	[-3.2]	[-6.8]	[-3.3]	[-6800]	[-3300]	
Oil-exporting countries (7)	9.7	3.7	4.8	-4.3	3.6	6.9	4.1	-8	0.4	-216.2	10.8	
	[8.8]	[3.6]	[4.7]	[-7.3]	[-2.6]	[3.1]	[1.4]	[-10.9]	[-2.2]	[-302.8]	[-61.1]	
<b>B. External current account, % GDP (excluding grants, in brackets)</b>												
SSA (45)	0.8	1.3	-0.3	-3.2	-1.3	-2.0	-3.1	-4.5	-4.4	-346.2	-338.5	
Oil-exporting countries (7)	19.0	15.0	11.4	1.1	4.9	4.3	3.8	-13.9	-11.2	-92.7	-74.7	
<b>C. International reserves (months of imports of goods and services)</b>												
SSA (45)	4.3	4.9	6.4	5.1	4.2	4.4	4.7	0.2	-0.2	4.1	-4.1	
Oil-exporting countries (7)	6.6	7.1	9.7	6.6	4.8	5.2	5.9	-0.5	-1.2	-7.0	-16.9	

Notes: Same as in Table 3.

Table 8. Economic vulnerability/resilience in recessions (crisis periods), historical evidence: SSA versus ROW

Recession period	1980–1982		1990–1991		2008–2009	
	1979–1982	1979–1983	1989–1991	1989–1992	2007–2009	2007–2011
SSA	-2.9 (-75%)	-4.3 (-110%)	-2.4 (-77%)	-4.4 (-142%)	-4.3 (-61%)	-2.0 (-28%)
World	-2.9 (-77%)	-1.0 (-27%)	-2.2 (-59%)	-1.7 (-46%)	-6.0 (-111%)	-1.6 (-30%)
Advanced	-3.7 (-95%)	-1.0 (-26%)	-2.6 (-60%)	-1.8 (-45%)	-6.3 (-225%)	-1.2 (-43%)
SSA/World	1.0	4.1	1.3	3.1	0.6	0.9
SSA/Advanced	0.8	4.2	1.3	3.2	0.3	0.6

Notes: Figures corresponding to the respective regions are the percentage point changes in the GDP growth rate within the specified sub-period (between the two interval limits, which are the year preceding the recession period and the last year of the recession or one year after the end of the recession, except for the 2008–2009 recession, when the second year 2011 is used due to the lingering global economic difficulties); the numbers in parentheses are the respective percentage points expressed as per cent of the initial year growth rate. The figures corresponding to SSA/World and SSA/Advanced are the ratios of the SSA per cent changes to the World and Advanced Countries' per cent changes, respectively. Source: IMF data and author's computations using the following: World Bank (2010) for SSA historical data, except 2007–2011; IMF (2009b) for ROW (World and Advanced Countries') historical data, except 2007–2011; and IMF (2012) for 2007–2011.

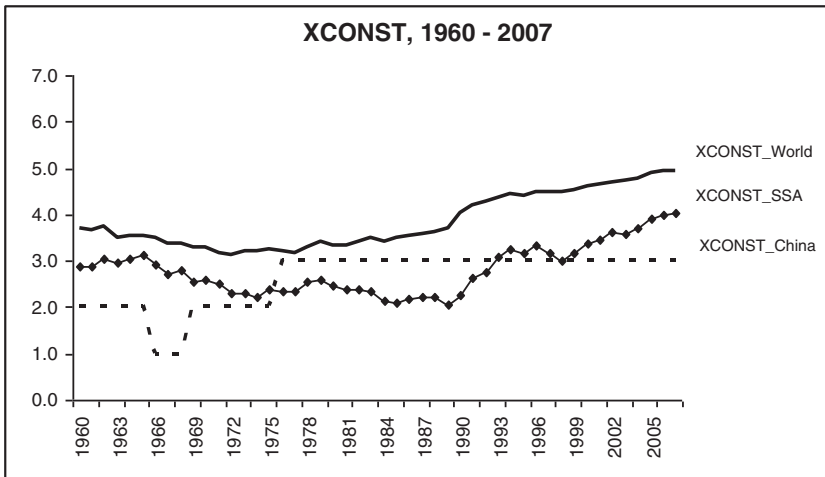


Figure 6. Political institutional evolution, SSA versus world—executive constraint (XCONST) (source: Polity IV Database)

Then the global crisis hit, precipitating a global recession in 2008–2009. SSA's GDP growth fell by over 60 per cent between 2007 and 2009. This decline, however, was the least among the various major development-country categories: 'World', 'Advanced', and 'Emerging and Developing Economies'. The region's initial recovery was tepid, though, as compared with that for ROW. By 2012, however, the reduction in growth from its pre-crisis level was the least among these groupings. Indeed, absolutely and relatively, SSA's resilience seems to be the best, both temporally and spatially, this time around.

There are considerable differences across SSA economies. In particular, low-income countries generally have fared better than their middle-income counterparts, and so have fragile countries. However, their relatively low pre-crisis growth performance suggests that there is no cause for celebration for these countries. Nonetheless, at least these countries do not appear worse off as a result of the crisis.

Why does SSA seem to be enjoying less vulnerability and/or greater resilience in the more recent crisis than in previous episodes? In the absence of rigorous econometric estimation,<sup>21</sup> we must resort to informed conjectures. First, the global environment has changed significantly, with emerging developing countries like China and India currently assuming a much larger portion of Africa's trade than previously. With these economies less adversely affected by the crisis than the advanced economies, SSA would be similarly so, via the TS channel. For example, GDP growth in Developing Asia, dominated by China and India, fell by 69 per cent between 2007 and 2009, compared with a decline of 225 per cent in Advanced Countries (Table 2).

Among the emerging economies, Africa's economic relationship with China is the most dominant. In 2009, whereas the shares of Africa's exports going to Brazil and India, for instance, were 2.5 per cent and 4.4 per cent, respectively, that destined for China was 11.2 per cent, a rise from less than 3.0 per cent in 2000.<sup>22</sup> Thus, even though the bulk

<sup>21</sup>Conducting meaningfully rigorous estimation would require the ability to control for country idiosyncratic attributes, the data for which are quite lacking, especially in a cross-sectional analysis around the crisis period.

<sup>22</sup>See Christensen (2010: 25, table 1). Here, 'Africa' includes both SSA and North Africa; data for SSA separately were not readily available.

of Africa's exports still go to the US and European Union, the share to the above emerging countries was sizeable, at close to 20 per cent during the latest recession, compared with about 6 per cent in 2000 (ibid.).

Second, economic governance has improved substantially for SSA as a whole, which should provide fiscal space. Third, political governance has improved; that should mitigate the vulnerability of growth to shocks. Fosu (2008a), for instance, finds that 'advanced-level' democracy is growth enhancing in Africa and that the region has likely attained this political regime generally.<sup>23</sup> Similarly, the degree of constraint on the executive branch of government (XCONST)<sup>24</sup> has increased considerably over time (Figure 6). XCONST began to accelerate in SSA around 1990; the gap with the world's average had narrowed substantially by 2007, although it remains large.

By mitigating the potentially pernicious effect of ethnicity, XCONST can raise the likelihood of a 'syndrome-free' regime,<sup>25</sup> which is necessary for sustaining growth and is 'virtually a sufficient condition for avoiding short-run growth collapses' (Fosu & O'Connell, 2006: 31). Further, such growth decelerations, usually precipitated by economic crises, have historically reduced Africa's per-capita GDP growth by about 1.0 percentage point (Arbache & Page, 2007). Avoiding growth collapses is, therefore, quite crucial, and XCONST appears as an important antidote in this regard. Thus, improving political governance by increasing XCONST would improve SSA's resilience.

It is too early to pronounce the global crisis over. Nonetheless, Africa has weathered the storm much better than it has before. There is, however, much variance in country performance. Although low-income and fragile countries appear to be holding up well generally, many of these economies require external assistance. Above all, the commitment to improved economic and political governance must continue. Such a commitment should be bolstered synergistically by the realization of the development partners' commitment of external assistance.

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<sup>23</sup>Fosu estimates the threshold for this regime as the index of electoral competitiveness exceeding 4.4 (0.0–7.0 range).

<sup>24</sup>XCONST measures the degree of constraint on the executive branch of government, and it takes on values of 0–7, where 7 is for 'strict rules for governance', 1 means 'no one regulates the authority', 0 signifies 'perfect incoherence', etc. (for details, see Fosu, 2013).

<sup>25</sup>'Syndrome-free' regime means a 'combination of political stability with reasonably market-friendly policies' (Fosu & O'Connell, 2006: 54).

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