Main Findings

- Sub-Saharan Africa's recovery from the crisis-induced slowdown is well under way, with growth in most countries now back fairly close to the high levels of the mid-2000s. Growth this year is expected to average 5½ percent, and 6 percent in 2012.

- There is, however, some variation among country groupings. In most of the region's 29 low-income countries and 7 oil exporters, the recovery to precrisis growth rates is near complete. The picture is less favorable in the region's middle-income countries, a grouping dominated by South Africa. Here, growth is recovering more gradually.

- This overall sanguine picture must be judged alongside still lingering dislocations from the global financial crisis. The region's progress toward the poverty reduction Millennium Development Goals (MDGs) has been delayed by weaker employment incomes (including job losses of 1 million in South Africa) and the impact of the 2008 spike in food and fuel prices.

- With the advent of another sharp increase in food and fuel prices, the resilience exhibited by the region during the last few years is about to be tested again. These price shocks (coupled with the recovery) are likely to lead to higher inflation in most countries and to deteriorating current account deficits in a number of fuel importers. Wherever pass-through of higher international fuel prices to domestic prices is delayed, fiscal accounts are also likely to be hit.

- Now that output growth is generally strong and inflation is rising, the broad direction of both fiscal and monetary policy should be moving away from the supportive stance of the last few years. But there are strong incipient spending pressures that might need to be accommodated in some countries. Fiscal intervention to alleviate the impact of rising food prices should be targeted on the incomes or primary spending items of poor households.

- In most low-income countries, tax revenues are projected to be sufficiently buoyant to allow fiscal deficits to be brought down gradually while still accommodating the recent fast rate of expansion in real government expenditure. The planned gradual reduction in fiscal deficits in most countries is appropriate now that the slack in most economies has diminished. In oil-exporting countries, windfall revenues should be saved, with spending constrained by absorptive capacity within a medium-term fiscal framework.

- Middle-income countries are a different story. Fiscal deficits are likely to remain elevated because of slower growth. This stance is appropriate if tax revenues are expected to rise strongly once output growth recovers. But, where reductions in tax ratios have become persistent, fiscal consolidation will be needed to ensure medium-term sustainability.