

The Fiscal Policy Response in African Countries to the Global Economic Crisis

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Outline

1. An overview of the fiscal policy response in SSA to the 2008–2009 global economic crisis
2. A closer look at the fiscal policy response in representative SSA countries
3. Examples of SSA countries which have recently implemented targeted social safety nets
4. A few lessons



In contrast with previous recessions, during the 2008-2009 global economic crisis fiscal policy in most SSA countries was highly expansionary during 2009-2010

Sub-Saharan Africa:
2009 Budget Plans vs. 2003–07 Average

	Overall Balance	Total Spending	Total Revenue and Grants
	<i>(Difference in percent of GDP)</i>		
Sub-Saharan Africa	-5.7	5.1	-0.6
Oil Exporters	-7.4	5.4	-2.1
Middle-income Countries	-7.8	7.9	0.2
Low-income Countries	-2.3	2.2	-0.1
Fragile States	1.7	2.4	4.1

Source: IMF, African Department database.

Sub-Saharan Africa:
2009 Budget Outturns vs. 2003–07 Average

	Overall Balance	Total Spending	Total Revenue and Grants
	<i>(Difference in percent of GDP)</i>		
Sub-Saharan Africa	-5.8	3.7	-2.0
Oil Exporters	-8.3	3.4	-4.9
Middle-income Countries	-7.5	7.0	-0.4
Low-income Countries	-2.2	0.6	-1.5
Fragile States	2.5	3.6	6.1

Source: IMF, African Department database.



Counter-cyclical monetary and fiscal policies helped cushion the impact of the decline in external demand

Sub-Saharan Africa: Real GDP Growth



Public expenditures on health and education capital were largely maintained during the 2008-2009 crisis

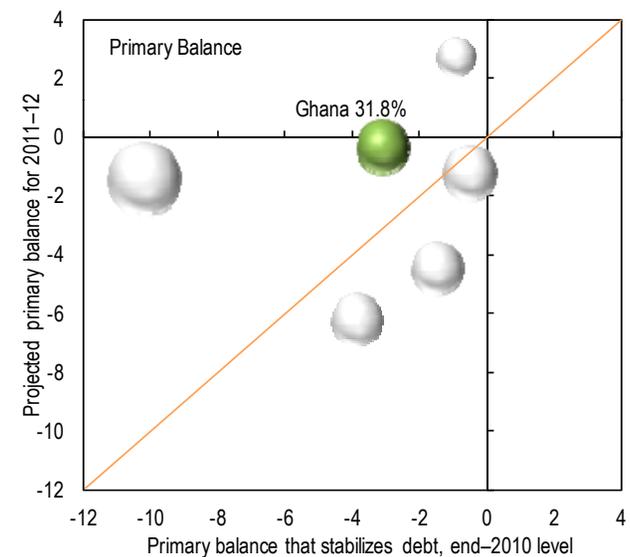
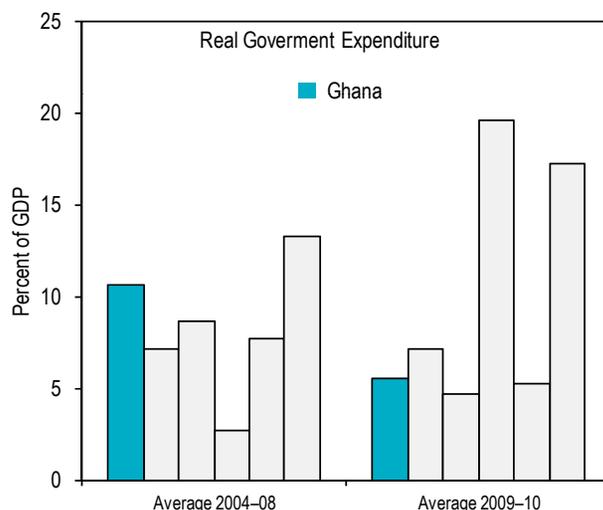
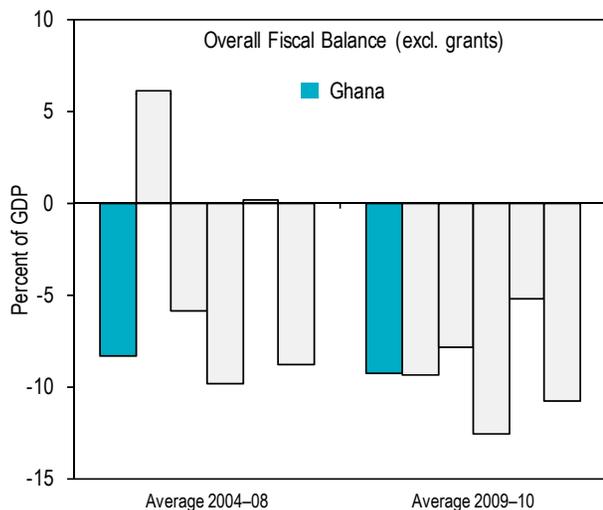
Sub-Saharan Africa: Median Capital and Health and Education Expenditure, 2003–09

	Capital Expenditure						Health and Education					
	2003–07	2008	2009	2003–07	2008	2009	2007	2008	2009	2007	2008	2009
	<i>(Percent of GDP)</i>			<i>(Real growth, percent)</i>			<i>(Percent of GDP)</i>			<i>(Real growth, percent)</i>		
Sub-Saharan Africa	7.5	7.4	9.2	13.2	16.0	11.1	4.9	5.5	6.0	5.6	4.8	6.8
Oil Exporters	7.9	7.9	9.5	16.2	14.9	-13.8	3.1	3.2	4.1	18.5	14.1	4.6
Middle-income Countries	6.2	8.3	7.9	6.2	30.3	14.6	7.8	8.8	8.5	-0.1	13.4	0.2
Low-income Countries	9.9	9.0	9.5	13.2	0.6	11.1	5.5	6.1	5.9	9.5	1.6	6.8
Fragile States	4.8	4.6	7.1	16.4	25.7	39.1	4.0	4.4	5.8	7.8	2.5	17.8

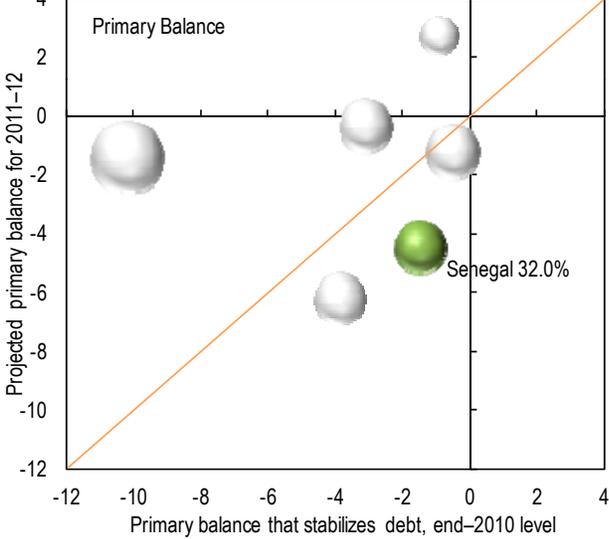
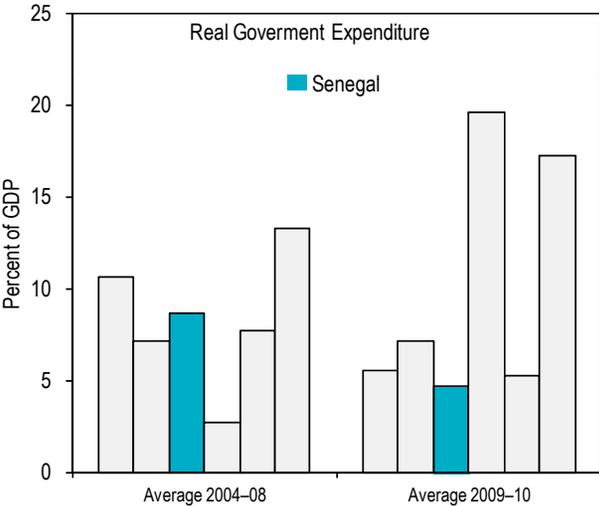
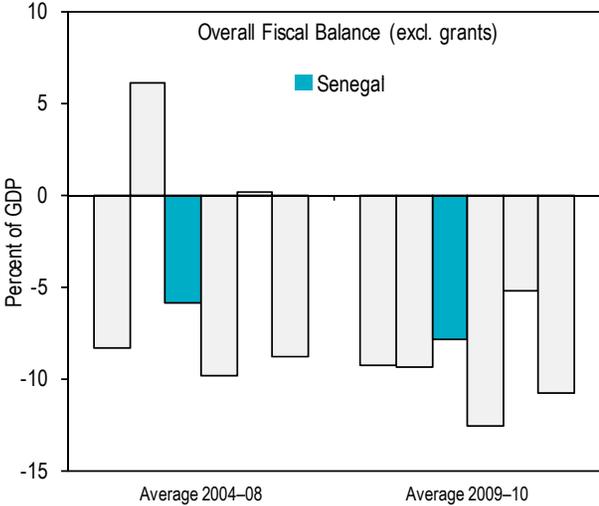
Source: IMF, African Department database.



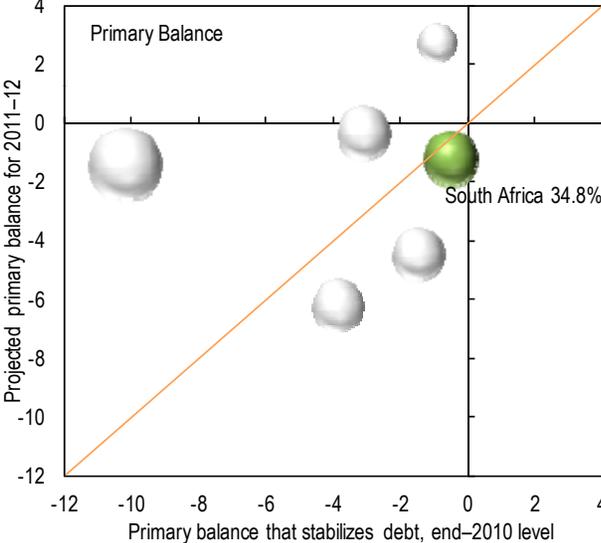
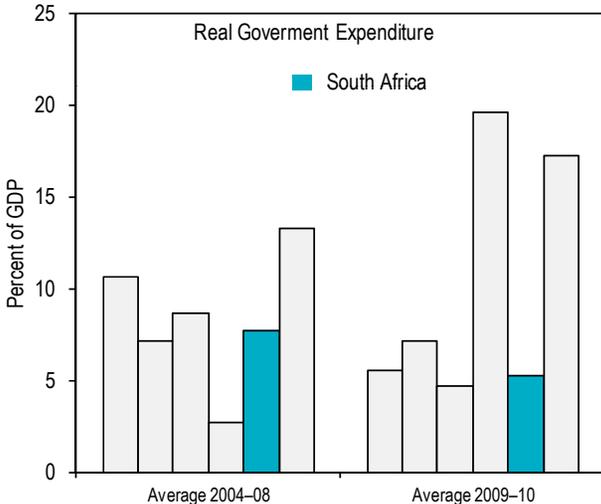
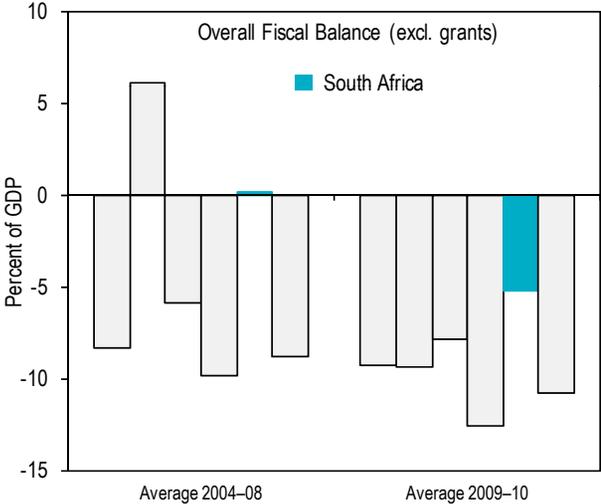
Ghana—constrained during the peak of the crisis, but improving outlook



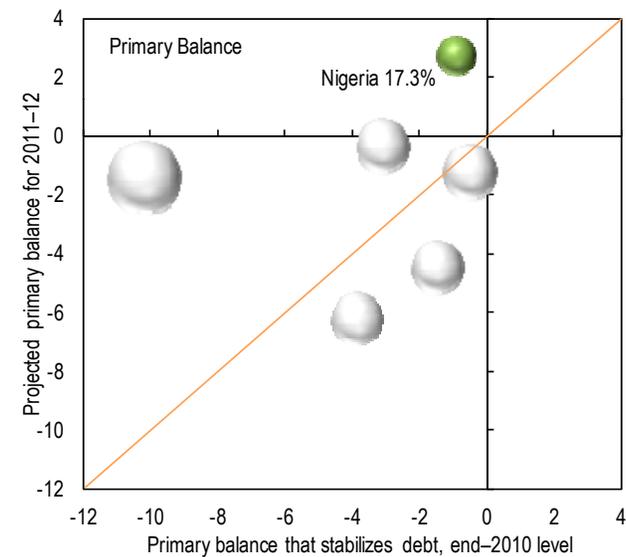
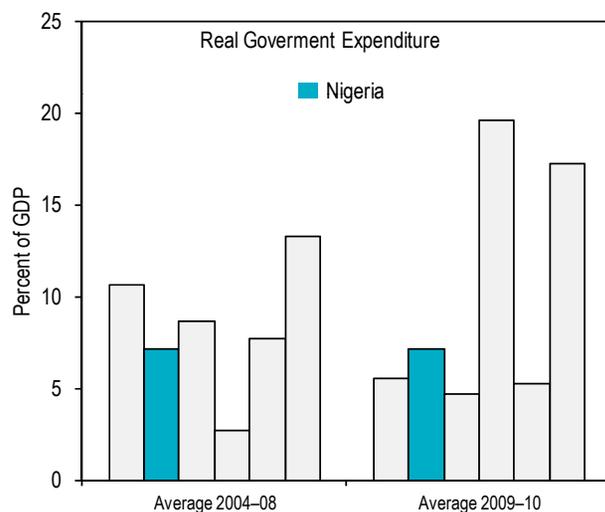
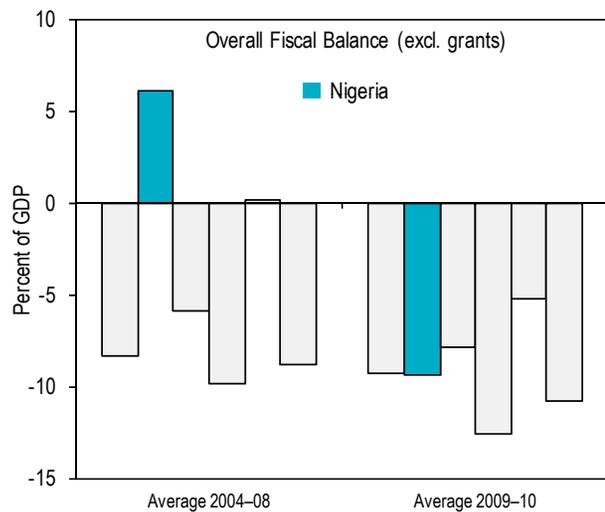
Senegal—implemented counter-cyclical fiscal policies, but worsening short-term debt dynamics



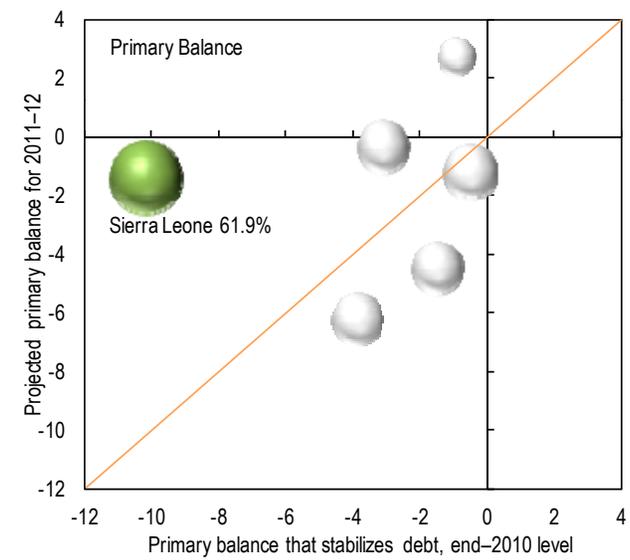
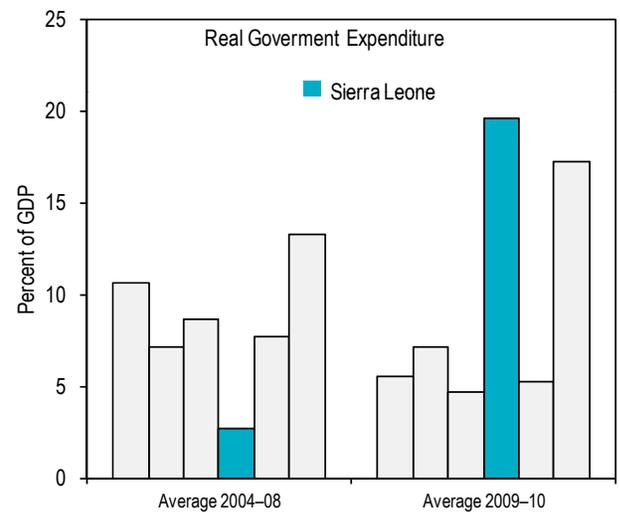
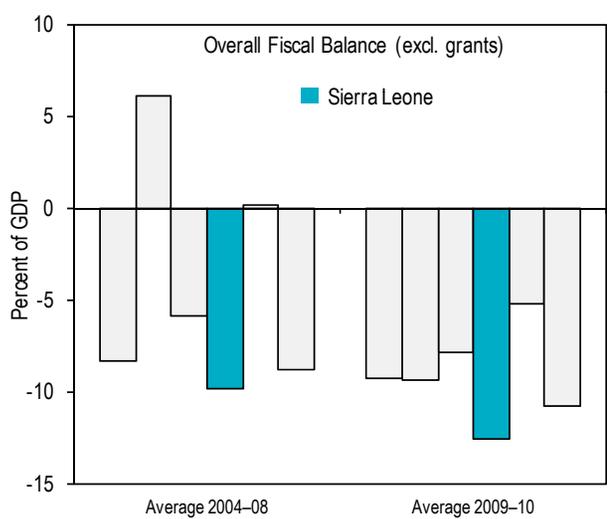
South Africa—strong counter-cyclical response



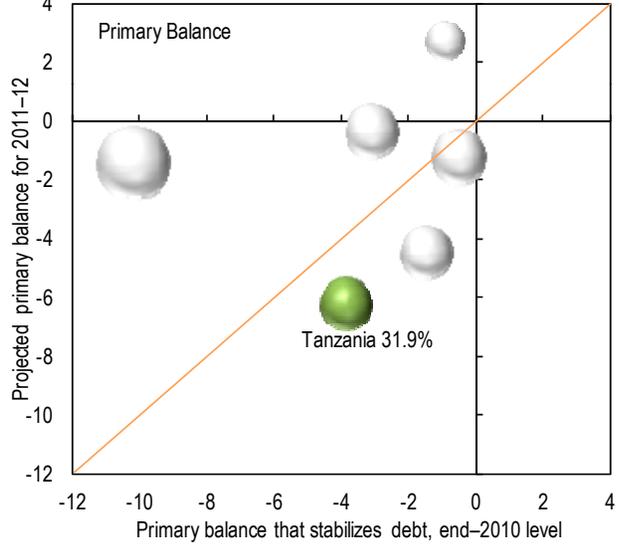
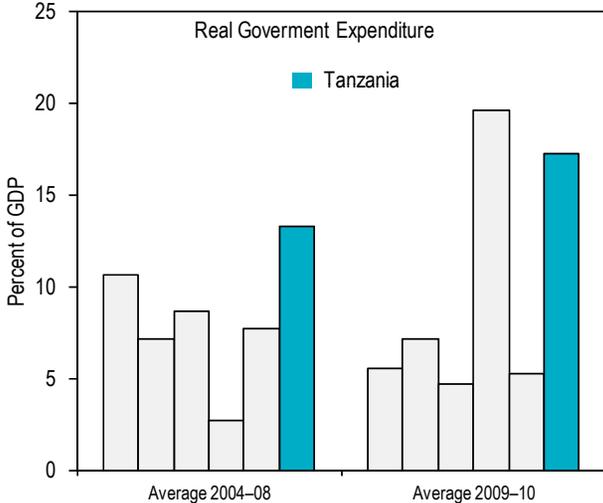
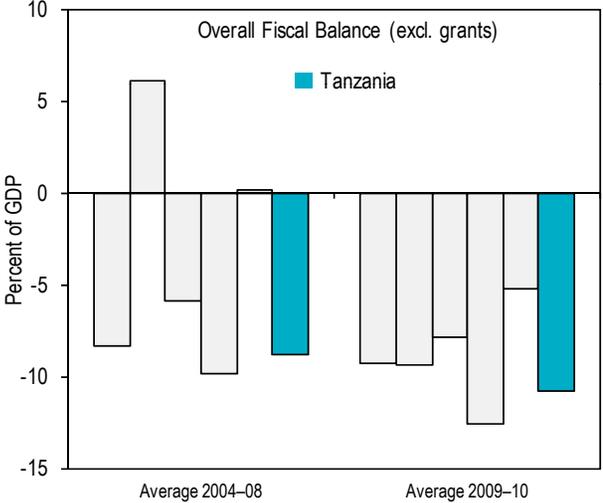
Nigeria—despite very expansionary fiscal policies, still has fiscal space available



Sierra Leone—moderately expansionary fiscal policy mainly due to sharp increase in expenditure



Tanzania—counter-cyclical fiscal response thanks to available fiscal space



Examples of countries in SSA which have recently implemented targeted social safety nets

- ▶ In the run up to the global economic crisis, food and fuel prices increased sharply, reducing the purchasing power of households and particularly affecting the urban poor
- ▶ In response, during 2008-2009 several countries in SSA began experimenting with the design of more targeted social safety nets or expanding existing programs
- ▶ Most of these programs are very small and many are still in a pilot phase

Two examples of SSA countries which have recently implemented targeted social safety nets

- ▶ Burkina Faso:
 - In 2008 it began implementing the Orphans and Vulnerable Children Program, initially benefiting 3,250 poor households in 75 villages
 - In 2009 it began implementing a Conditional Cash Transfer Program, initially benefiting 140,000 poor households in the cities of Ouagadougou and Bobo-Dioulasso
- ▶ South Africa:
 - Since 1998 the government has successfully run the Child Support Grant program, which benefits more than 8 million children living with persons responsible for looking after them as primary caregiver



Lessons learned : Short term

- ▶ While fiscal policy was appropriately counter-cyclical in response to the global economic crisis, there now is a need to:
 - Accelerate the shift of fiscal policy to a more neutral stance and rebuild policy buffers
 - Prioritize public expenditure in key areas such as health, education, and infrastructure.
 - Prepare to adjust budgets in the event that growth in advanced economies decelerates sharply and current forecasts do not materialize
 - For those countries whose government budgets rely heavily on Official Development Assistance, prepare for possible further cuts in these aid flows in the event that growth decelerates sharply in donor countries

Lessons learned : Medium term

- ▶ Ability to respond depends not only on fiscal space, but also on available delivery mechanisms => need to develop automatic stabilizers
- ▶ Sustainable growth depends not on a temporary boost in aggregate demand, but on long-term issues such as:
 - Absorption and project execution capacities
 - Availability of projects with sufficiently high rates of return
 - Financing and debt sustainability considerations

Additional slides



Example of countries in SSA with recent targeted social safety nets or expansion of existing programs

Country	Program	Start date	Number of beneficiary households	Targeted population
Botswana	Food Coupon Program	2008	55,000 initially	Not available
Burkina Faso	Conditional Cash Transfer Program	2009	140,000 initially	Poor households in the cities of Ouagadougou and Bobo-Dioulasso
	Orphans and Vulnerable Children	2008	3,250 in 75 villages initially	Poor households of orphans and vulnerable children of HIV/AIDS in villages of the region of Nahouri
Ethiopia	Productive Safety Nets Programme	2005	8.5 million	Households without secure food access, including children, the elderly and disabled men and women
Ghana	Livelihood Empowerment Against Poverty (LEAP) Programme	2008	35,000 in 2010	Households in extreme poverty and with limited productive capabilities (orphans and vulnerable children, those above 65 years old and the disabled)
Kenya	Hunger Safety Net Program (HSNP)	2008	60,000 initially, with a 1.5 million target	Households who are chronically food insecure
	Cash Transfer Programme for Orphans and Vulnerable Children (CT-OVC)	2004	12,500 OVC in 37 districts initially; 30,000 in 2009, and target of 100,000	Poor households fostering Orphans and Vulnerable Children aged 0 to 17

Example of countries in SSA with recent targeted social safety nets or expansion of existing programs

Country	Program	Start date	Number of beneficiary households	Targeted population
Malawi	Social Cash Transfer Scheme	2007	2007-2008: 25,000; 2009-2012: 260,000	Households with income below the ultra-poverty line
Namibia	Basic Income Grant	2008 - 2009	930 initially (pilot stage)	Not available
Nigeria	In Care of Poor (COPE)	2008	3,000 households each in 12 pilot states by end 2009	Female headed households Aged parent headed households Physically challenged people headed households (e.g. leprosy patients) The transient-poor headed households' e.g. seasonal farmers VVF patients, HIV affected households
South Africa	Child Support Grant	1998	8 million in 2007	Persons responsible for looking after a child younger than 18 years old as primary caregiver
Uganda	Conditional Cash Transfer to Support	2005	10,000 households in 120 school	Poorest 20 percent of households without other social assistance and