

FOCUS ISSUE 15: EXTERNAL DEBT

I. Overview of commitments

Africa:

Monterrey Consensus, 2002

- ◆ The Monterrey Consensus noted that external debt relief could play a key role in liberating resources that could then be directed towards activities consistent with attaining sustainable growth and development.
- ◆ National comprehensive strategies to monitor and manage external liabilities, embedded in the domestic preconditions for debt sustainability, including sound macro-economic policies and public resource management, are a key element in reducing national vulnerabilities. Debtors and creditors must share the responsibility for preventing and resolving unsustainable debt situations.

Development Partners:

Monterrey Consensus, 2002

- ◆ Called for a speedy, effective and full implementation of the enhanced HIPC initiative and indicated that this should be financed through additional resources.
- ◆ Encouraged donors to take steps to ensure that resources provided for debt relief do not detract from ODA resources intended to be available for developing countries.
- ◆ Urged heavily indebted poor countries to take the policy measures necessary to become eligible for the HIPC initiative.
- ◆ Technical assistance for external debt management and debt tracking can play an important role and should be strengthened.

G8 Summit Declarations, 2003-2007

- ◆ At Gleneagles, Leaders of G8 countries committed to cancelling 100% of outstanding debts of eligible HIPC to the IMF, IDA and African Development Fund, and to provide additional resources to ensure that the financing capacity of the IFIs is not reduced. These Multilateral Debt Relief Initiative (MDRI) commitments were reaffirmed in St. Petersburg in 2006 and Heiligendamm in 2007.
- ◆ At Evian, the G8 Summit adopted the Evian approach to Paris Club debt relief which is more flexible and can provide debt cancellation to a greater number of countries (including middle-income countries) than was available under prior Paris Club rules.

World Summit Outcome, 2005

- ◆ Leaders resolved to promote a comprehensive and durable solution to the external debt problems of African countries, including through cancellation of 100 % of multilateral debt consistent with the G8 proposals for heavily indebted poor countries, and, on a case-by-case basis, where appropriate, significant debt relief, including, inter alia, cancellation or restructuring for heavily indebted African countries not part of the HIPC initiative that have unsustainable debt burdens.

II. What has been done to deliver on these commitments?

Africa:

- Addressing Africa's debt problem has been a major challenge for policymakers in the region as well as development partners. The Heavily Indebted Poor Countries (HIPC) initiative of 1996, the enhanced HIPC initiative of 1999 and the Multilateral Debt Relief Initiative (MDRI) of 2005 are key attempts by development partners to deal with this problem stifling growth in African economies. Of the 27 African countries that were eligible for either debt relief or reduction under the HIPC programme in July 2008, 19 have reached the completion point and 8 are between decision and completion points. The other six pre-decision point countries—Comoros, Côte d'Ivoire, Eritrea, Somalia, Sudan and Togo—are either in a conflict or post-conflict situation or lack a clear development strategy. Table 1 presents the status of the 33 African countries that are part of the HIPC programme.

Table 1. List of Heavily Indebted Poor Countries (as of end-July 2008)

19 Post-Completion-Point Countries ^{1/}		
Benin	Malawi	São Tomé and Príncipe
Burkina Faso	Mali	Senegal
Cameroon	Mauritania	Sierra Leone
Ethiopia	Mozambique	Tanzania
Ghana	Niger	Uganda
Gambia, The	Rwanda	Zambia
Madagascar		
8 Interim Countries ^{2/}		
Burundi	Congo, Dem. Rep. of the	Guinea-Bissau
Central African Rep.	Congo, Rep. of	Liberia
Chad	Guinea	
6 Pre-Decision-Point Countries ^{3/}		
Côte d'Ivoire	Eritrea	Sudan
Comoros	Somalia	Togo

Notes: ^{1/} Countries that have reached completion points and therefore qualify for irrevocable debt relief under the enhanced HIPC Initiative and have received MDRI relief. ^{2/} Countries that have qualified for assistance under the enhanced HIPC Initiative (i.e. reached decision point), but have not yet reached completion point. ^{3/} Countries that are potentially eligible and may wish to avail themselves of the enhanced HIPC Initiative.

Source: IMF/WB, Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)—Status of Implementation, October 2008.

- Debt management systems have improved although only marginally in sub-Saharan Africa where half the countries are considered to have satisfactory setups in place according to the World Bank's Country Policy and Institutional Assessment (CPIA).

Development Partners:

- ◆ Substantial progress has been made in the implementation of the HIPC Initiative. More than 80% of eligible countries (27 out of 33)¹ have passed the decision point and qualified for HIPC Initiative assistance and qualified for irrevocable debt relief under the HIPC Initiative and MDRI, most of them since the Monterrey conference. In the past year, the Central African Republic and Liberia reached the decision point and The Gambia the completion point.
- ◆ Further debt relief has been provided through the MDRI to accelerate progress towards the MDGs. The MDRI was proposed in June 2005 by the G-8 and was implemented in 2006 by the IMF, IDA, and the African Development Fund (AfDF). Under the MDRI, 100% of these institutions' eligible debt claims on countries that reach the completion point under the HIPC Initiative are cancelled.² The objective was to provide substantial additional debt relief to free up resources to help HIPCs reach the MDGs.
- ◆ The overall assistance committed to the 27 post-decision-point HIPCs in Africa amounts to US\$90 billion (in nominal terms), mostly in the form of HIPC Initiative and MDRI relief. This represents on average about 50% of these countries' 2007 GDP. Multilateral financial institutions which account for 46% of the total estimated cost of HIPC initiative debt relief and Paris Club bilateral creditors (36% of the total cost) participate fully in the initiative. It is estimated that non-Paris Club creditors only deliver 40% of the expected debt relief
- ◆ Under the Evian approach, development partners have also taken some actions to deal with debt problems of non-HIPC African countries. For example, Nigeria is one of the countries that have benefited from debt relief under this programme.
- ◆ Flexibility has been applied in implementing the Initiative to facilitate HIPCs' progress towards debt relief, specifically in the areas of eligibility criteria, the establishment of a track record of policy performance, requirements on poverty reduction strategy papers, delivery of interim relief, facilitation of early clearance of arrears, and fulfilment of completion point triggers. The impact of exogenous factors on debt relief recipients has also been taken into account.
- ◆ Several OECD countries and the Bretton Woods institutions have provided technical assistance to African countries for government debt issuance and management. To help countries avoid law suits by creditors who do not participate in the HIPC process, the World Bank and other donors have proceeded with buying back commercial debt at a discount, thus clearing the part of the debt which is not covered by the HIPC Initiative.

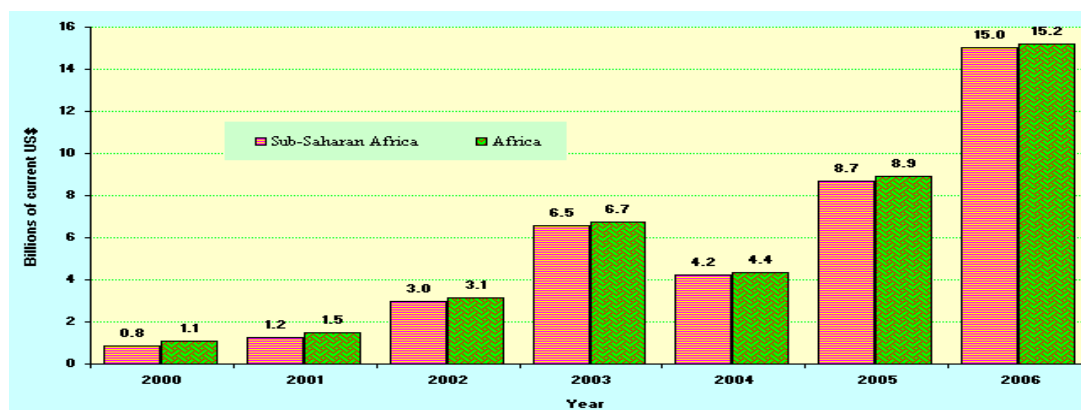
III. What are the results?

1. Total debt stock reduction has been significant: As shown in Table 2 and Figure 1, Africa's total external debt stock decreased from US\$298 billion to US\$245.9 billion over the 2000-06 period. It is projected that the stock of external debt of post-completion-point countries will be reduced by more than 90% in end-2007 NPV terms. Most of this reduction would be delivered in the context of the HIPC Initiative and the MDRI. The remainder is attributable to traditional debt relief and voluntary bilateral debt relief beyond HIPC. Debt stocks in the 8 interim period countries are expected to decline by a similar factor.

¹ Globally, the percentage is slightly lower: 33 out of the 41 HIPC eligible countries have reached the completion point.

² MDRI debt relief covers debt disbursed before end-2004 (for the IMF, and AfDF) or end-2003 (for IDA) and still outstanding at the time of qualification after HIPC Initiative debt relief.

Figure 1: Net Debt Relief, 2000-2006 (current US\$ billions)



Source: OECD Stat, DAC Online Database

2. **Significant progress has been made in reducing the burden of external debt:** The ratio of external debt to gross national income (GNI) in Africa decreased from 55.1 % in 2002 to 24.2 % in 2006. Most of the recent decline in the external debt of Africa is due to the implementation of the MDRI introduced in 2005. It is also a consequence of the very large debt relief received by Nigeria and the improvement in the growth performance of several countries in the region. However, total debt service paid rose from US\$24.5 billion in 2002 to US\$42.9 billion in 2006 due largely to the high payments made by Nigeria (as part of the commercial debt buy-back arrangement where Nigeria had to pay US\$6 billion up front to get a write-off for the remaining debt) and Algeria in 2006. It is projected that debt service payments expressed as a share of GNI will fall sharply as the MRDI process kicks in for more countries. The debt service ratio (debt service over exports) for these countries is estimated to have declined from an average of about 17% in 1998–99 to about 4% in 2006.

Table 2: External Debt Data for Africa

	2000	2001	2002	2003	2004	2005	2006
	Total External Debt (billions of current US\$)						
Africa	298.7	287.0	298.4	320.9	330.3	297.9	245.9
Sub-Saharan Africa	211.9	203.9	212.7	230.4	239.1	216.3	173.5
	Total Debt Service (billions of current US\$)						
Africa	24.4	24.3	24.5	24.1	24.1	33.2	42.9
Sub-Saharan Africa	13.5	13.9	13.1	11.3	11.2	20.1	21.4
	Total External Debt (% of GNI)						
Africa	56.2	54.4	55.5	50.6	44.4	34.5	24.2
Sub-Saharan Africa	65.7	64.1	63.9	55.9	47.7	36.7	24.6
	Total Debt Service (% of GNI)						
Africa	4.6	4.6	4.6	3.8	3.3	3.9	4.5
Sub-Saharan Africa	4.2	4.4	4.0	2.8	2.3	3.5	3.3

Source: World Development Indicators Online Database & OECD.Stat, DAC Online database

3. **Commercial creditors have markedly increased their delivery of HIPC Initiative relief:** commercial creditors only account for 6 % of the total HIPC Initiative cost and delivery of the related relief had so far constituted a challenge, with participation in the low single digits until last year. This share increased significantly after the authorities of the Republic of Congo reached a debt restructuring agreement with their commercial creditors, organized as a creditors' committee (previously known as the London Club). Two successful commercial debt buybacks supported by the World Bank Debt

Reduction Facility (DRF) for Mozambique and Nicaragua (another one is under preparation for Liberia) also contribute to the improvement. Notwithstanding overall progress, the debt picture is still mixed.

4. **Challenges of coordination among creditors for a full delivery of debt relief by all non-PC bilateral creditors and private creditors remain.** With the increasing role of private creditors and emerging bilateral creditors, there is a need for greater creditor coordination. One possible avenue is to broaden the membership of the Paris Club to include non-member creditors and commercial creditors. Another is the establishment of more universal guidelines outside the Paris Club framework, covering all creditors, with developing countries playing a leading role. This requires increased inter-creditor coordination, particularly taking into account the increasing role of private creditors and emerging bilateral creditors, such as China and India.

5. **The problem of litigating creditors against some developing countries, including HIPCs, has to be addressed.** Court cases have been filed by commercial creditors and vulture funds against 12 HIPCs over the past decade. The HIPCs facing the most litigation cases are Liberia, the Republic of Congo, Uganda, and Sierra Leone. Efforts needed to deal with this problem include moral suasion, debt buybacks and Paris Club creditors not reselling claims in secondary markets. Technical assistance to HIPCs in capacity building in debt management and sound legal expertise to respond to litigators is important as well.

6. **Debt sustainability remains an issue in conflict and post-conflict countries.** Completing the implementation of the HIPC Initiative will entail mobilizing additional resources to finance debt relief to all remaining HIPCs. Three pre-decision-point HIPCs—Comoros, Côte d’Ivoire, and Togo—are making progress towards the decision point. Last year, Côte d’Ivoire and Togo cleared arrears to major creditors, including IDA and IMF, and are on track with the implementation of their IMF-supported programs and are expected to reach the decision point within the next year. Comoros cleared its arrears to the AfDB and, following the resolution of a short internal conflict, has indicated renewed interest in a Fund-supported program.

7. **Debt relief has provided more fiscal space for poverty reduction.** Before the HIPC Initiative, eligible countries were, on average, spending slightly more on debt service than on health education combined. Now, spending on health, education and other social services is about five times the amount of debt service payments. A key issue has been sidelined – often debt relief has not taken into account financing needs for productive and infrastructure investment.

8. **But development needs are much larger than debt relief in HIPCs and new financing has begun to threaten debt sustainability again.** Debt relief savings accrue through time and for most countries, constitute only a fraction of net aid inflows to HIPCs where development needs therefore requires larger new resource flows including aid. These new flows need to be on appropriate terms to make sure that debt sustainability, which has been restored through debt relief, is maintained in the future. Despite the recent gains that have been achieved in this area, there is concern that debt ratios are beginning to deteriorate in several post-completion point HIPC countries in the region. A recent study shows that 14 of the 23 post-completion-point HIPCs are at either moderate or high risk of debt distress (World Bank 2008a).

9. **Bond flows and bank debt have increased the vulnerabilities of several HIPCs.** While negligible before the 1990s, they now accounts for over a quarter of developing countries’ debt stock. This poses several challenges to debt policy planning as external factors play a more determining role and the sources of volatility are beyond the direct control of domestic financial authorities. South-South syndicated bank loans have acquired an increasing importance. While this form of finance only accounts for approximately 5% of bank lending to developing countries, it is growing rapidly and it has become an important source of finance in sub-Saharan Africa, where South-South lending represents 20% of total syndicated bank loans. Like other developing regions, Africa also observed an increase in their share of short-term debt that adds to the challenges in debt management.

10. **Long-term debt sustainability remains a challenge in many post-completion-point countries:** Despite the significant decline of debt burdens, over 50% of post-completion-point HIPCs have a moderate to high risk of debt distress according to the most recent debt sustainability analysis (DSA). The trend is even more worrisome with a sharp increase in the number of HIPCs with a high risk of debt distress rating in the past year. As of end-June 2008, Burkina Faso, The Gambia, Rwanda, and São Tomé and Príncipe had a high risk of debt distress. This situation needs a comprehensive strategy. In addition to a more systematic use of debt sustainability analysis, reducing the vulnerability of debtor countries requires also shared responsibility between debtors and creditors for preventing and resolving unsustainable debt situations and the strengthening of technical assistance for debt management and debt tracking.

IV. What are the key priorities?

Actions by Africa:

- ◆ The challenge for countries receiving HIPC and MDRI debt relief is to ensure that new borrowings from emerging official and private creditors and from domestic sources do not lead to renewed debt built-up, potentially jeopardising these countries' newly-restored capacity for borrowing to finance development. The application of the debt sustainability framework by both low-income countries and their creditors can help mitigate these risks.
- ◆ Enhance debt management and sustainability.

Actions by development partners:

- ◆ Provide more technical assistance to strengthen public debt management capacities in African countries.
- ◆ Intensify efforts to discourage lawsuits against HIPCs by non-Paris club creditors.

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Focus Issue 5: Impact of Recent International Developments on Africa

I. Introduction

1. In recent years countries in sub-Saharan Africa have enjoyed some of their highest growth rates in decades thanks partly to favourable external conditions³, in addition to improved domestic policies. As a group, African countries also experienced lower inflation and oil-importing countries have registered more sustainable fiscal and external deficits. While international reserves remained practically unchanged over the period, by 2006 most oil-importing countries – leaving out fragile states – had exceeded the equivalent of three months of import coverage, which is considered a minimum (Table 1). Thus, as a group, SSA economies were much better equipped to deal with exogenous shocks.

Table 1: Key Economic Indicators

	1997-2002	2003-05	2006	2007	2008 ^{a/}
Real GDP growth, all SSA (%)	4.1	6.1	6.3	6.7	4.5-5.9 ^{b/}
Inflation rate, all SSA (%)	13.3	9.0	7.3	7.1	11.7
Overall fiscal balance, oil-importing countries, excluding South Africa ^{c/} (% of GDP)	-5.8	-6.1	-5.7	-5.5	-6.7
External current account (including grants), oil-importing countries, excluding South Africa (% of GDP)	-7.8	-6.9	-7.2	-8.4	-10.3
International reserves, oil-importing countries, excluding South Africa (months of imports of goods and services)	5.1	5.1	4.6	4.8	4.1

Notes: a/: estimates; b/: range of projections for 2008. The average GDP growth rate for SSA depends to a large extent on South Africa's growth performance. More recent estimates show lower figures; c/: the last three indicators reflect the situation of oil-importing countries, excluding South Africa which shows significantly better figures than the rest of the oil-importing countries. Due to the impact of high oil prices that affect both exports and government revenue, the trend of the last three indicators is less meaningful for oil-exporting countries.

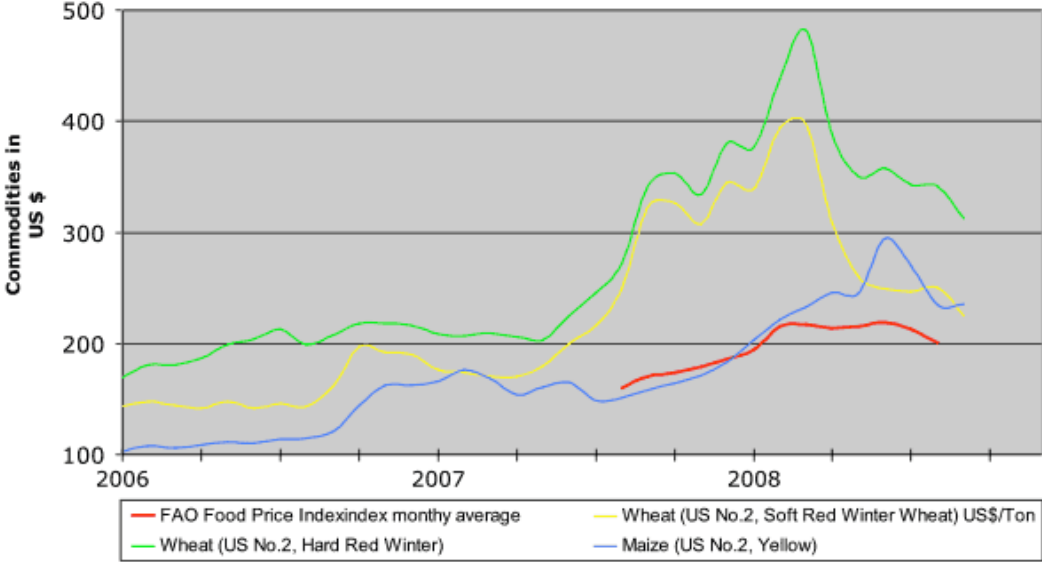
Sources: IMF (2008) and unpublished World Bank estimates.

2. Since late 2007, the external environment affecting developing countries has experienced a significant deterioration. First, sharp rises in food and fuel prices that culminated in the first half of 2008 (Figure 1) have forced African countries, many of whom are net food importers, to take actions to alleviate the impact of higher import prices through price controls, consumer subsidies and tax reductions on foodstuffs and fuels. As shown in the last column of Table 1, the impact of higher import prices and policy responses to address high food and fuel prices have led to a significant worsening of the macroeconomic conditions in most African countries, including higher inflation, deteriorating fiscal and external balances and reduced levels of foreign currency reserves to cover import costs.. The global financial crisis that emerged in September 2008 and its aftermath presents Africa with major additional challenges. In the short term, these range from outflows of funds (portfolio equity) triggering severe corrections in equity markets, particularly in countries that are more fully integrated to the world financial system, to the drying up of private capital inflows (portfolio equity, commercial lending and bonds). In the medium term, the expectation of protracted

³ Strong growth in the industrialized and emerging economies have led to increased export revenues and higher commodity prices, a surge in foreign direct investment, and increased remittances from abroad.

low growth in OECD countries threatens Africa’s export and growth prospects, and lower flows of external funding -- including remittances -- would constrain investment as well as consumer spending.

Figure 1: Commodity Prices
Selected Food Commodity Prices
Jan 2006 - Sept 2008



Source: Adapted from World Bank unpublished document. Original data form FAO

3. For clarity’s sake and to have a more logical presentation of the policy recommendations, this chapter will have two sections. The first section covers the impact of higher food and fuel prices on African economies which are more or less known. The impact of the financial crisis and its aftermath will be covered in the second section. As the financial crisis and its aftermath are still unfolding, assessing their impact on medium-term growth prospects and contagion risks to financial markets in sub-Saharan Africa are more speculative; the discussion will be restricted to identifying and discussing the channels through which the financial crisis in OECD countries can impact the financial systems in Africa.

II. The impact of food and fuel price shocks

4. **Inflationary pressure is a major concern in the near term.** Despite sharp declines in recent months, international food and fuel prices remain significantly higher than 2007 levels (Figure 1) and are expected to remain high for the next several years on account of global food supply and demand imbalances. The average inflation for 38 African countries with recent data is about 14.3% while food inflation is reaching 20.3% a year⁴. This is a substantial reversal of the single digit inflation achieved by African countries over the past 5 years. There are also indications of possible second-round inflationary effects, suggesting that inflation may be starting to increase beyond what is justified from the increase in the prices of food and fuels alone. In particular, wage increases appear to have accelerated in 8 out of the 14 countries for which wage data are available. Furthermore, domestic fuel prices might increase still further when fuel subsidies, introduced in 2008 to cushion the impact of high prices on the consumers, are progressively phased out for fiscal sustainability reason.

5. **Poverty concerns are real and significant and the pressure for governments to act is high.** Food and fuel price increases could lead to a substantial increase in poverty rates in a number of

⁴ This is the case, for example, in Ghana and Ethiopia, where public investment in infrastructure has been growing at a sustained pace. Ethiopia’s year-over-year inflation reached over 60 percent in August. Five other countries have inflation rates exceeding 20%.

countries, given that average households in sub-Saharan Africa spend about half of their income on food. A recent study finds that if domestic prices of important traded food commodities were to rise by the same percentage as their world market prices, the poverty head count in low-income African countries could rise by as much as 4 to 5 percentage points.

6. **The costs of the above measures and higher cost of imports have led to the deterioration of fiscal and external balances.** It was estimated that measures to cushion the impact on households cost, on average, about 0.5% of GDP in 2008 -- but for a few countries the cost could exceed 2% of GDP. This raises the issue whether these measures are fiscally sustainable. Furthermore, subsidies, and in particular fuel subsidies, are poorly targeted and accrue largely to the non-poor. On average, the current account deficit is projected to deteriorate by the equivalent of 2% of GDP in 2008, with several countries experiencing a larger balance of payments shock. For 17 African countries, including Malawi, Ethiopia, Guinea and Liberia, the shock is equivalent to losing half of the country's foreign exchange reserves.

7. **Preserving macroeconomic stability while shielding the poor from the impact of food and fuel shock could pose major economic policy challenges.** On the one hand, inflationary pressures and the sharp deterioration of the fiscal and external balances, particularly in countries with very low international reserves, would require some tightening of both monetary and fiscal policy. At the same time, it is important to fully pass through external price changes over time to encourage domestic economic actors to adjust, avoid permanent increases in untargeted and inefficient subsidies, and preserve fiscal and balance of payments sustainability. But the poor also need to be protected through well-targeted measures,⁵ -- and this raises difficult macroeconomic management challenges given that deteriorating fiscal balances limit the fiscal space available to governments for cushioning the impact on the poor. Public investment in infrastructure, crucial to promoting economic growth, is also likely to be curtailed.

III. The impact of the financial crisis and its aftermath

8. **There are two main impacts of the recent financial crisis.** First, and more straightforward to identify, are the consequences of the sharp economic growth slowdown expected in OECD countries which would negatively affect export and growth in African countries. A complicating factor of the analysis is the lack of a clearer view on the extent to which the level of economic activity in major emerging economies -- such as China and India who are major foreign investors in Africa -- is closely connected with that of the industrial countries. Second, the financial crisis that started in the U.S. and has since spread to Europe and other parts of the world will most likely have an impact on the financial systems in sub-Saharan Africa. Because little is known about the intensity and geographical spread of this impact, the discussion, as stated earlier, will concentrate on the possible channels of contagion.

A. *Impact on exports, growth and financing*

9. The rapid pace of trade expansion in this decade is expected to decelerate sharply and African countries may also suffer from declines in terms of trade. The IMF recently projected growth in world trade volumes of just 4.1% in 2009, down from 9.3% as recently as 2006. More recent projections by the World Bank show that the deceleration could be much more rapid and that trade volumes may run the risk of physically contracting in 2009. The slowdown in economic activity in OECD countries is also expected to cause non-oil commodity prices to fall -- by perhaps one-fifth -- in 2009.

10. **External sources of funds for investment, which have played an important role in recent years, are likely to drop off sharply.** Portfolio investment, bond flows and commercial lending will likely fall, as greater risk aversion keeps capital closer to home. While FDI is historically more resilient to shocks, it, too, is expected to decline. And as labor markets slacken in OECD countries,

⁵ With the help of the World Bank and other external partners, over 15 African countries are developing and scaling up their social assistance programs, such as school feeding, food-for-work, and cash transfer programs.

foreign workers are likely to suffer disproportionate impacts on their earnings, which will reduce remittances⁶. While Africa relies relatively more than other developing regions on official development assistance as a source of financing, total net private capital flows to Africa including North Africa reached a record high level of US\$81 billion in 2007, of which about US\$28 billion went to North Africa. In 2007, Gabon, Ghana and Nigeria were successful in raising a total amount of US\$5.8 billion in the Eurobond market (see Table 1 of Focus Issue 2). Remittances added another US\$19 billion to sub-Saharan Africa in 2007. Together with the fact that over three-quarters of African oil importers has external deficits larger than 5 % of GDP⁷, African economies are vulnerable to swings in these various sources in external financing.

11. Unless official development assistance will rise, African governments will have limited scope to expand domestic demand through fiscal stimulus. Well-designed investments such as building infrastructure as a way of generating domestic demand can partly offset the expected decline in foreign demand. But in a larger sense, the deterioration of the macroeconomic framework, as discussed above, will effectively curtail the magnitude of counter-cyclical fiscal policy.

B. Possible contagion effect on financial systems

12. Direct contagion effects have thus far been limited but African financial systems are more vulnerable to international financial turbulence than before. On the whole African banks are not exposed to risks arising from complex derivative instruments nor – being relatively liquid – have banks relied substantially on foreign borrowing to fund their lending. South Africa may be the exception with the most developed and internationally integrated financial system in sub-Saharan Africa.

13. High levels of foreign bank ownership could potentially expose African financial systems to risk from international contagion. In 11 sub-Saharan African countries, foreign ownership of local banks exceeds 50%. Ownership of banks by parent institutions in Western Europe is a potential transmission mechanism, but the potential negative impact appears to be contained. Financial distress among the parent foreign banks could be transmitted to sub-Saharan Africa financial systems through either: (i) a withdrawal of capital; and/or (ii) calling in of loans made by the parents to their African subsidiaries. Also, the dominance of South Africa's and more recently Nigeria's financial systems within the region could cause a deterioration of the financial markets in these countries to reverberate in neighbouring countries.

14. Large portfolio equity flows in South Africa totalling over US\$35 billion in the past four years introduce a relatively high degree of risk. Nigeria and Ghana are the other countries that have relied relatively heavily on foreign syndicated borrowing (for Nigeria) and foreign Eurobond borrowing, including last years' oversubscribed issuance of US\$750 million by Ghana. Also, while FDI is still concentrated in resource-rich countries, 35 sub-Saharan African countries have managed to attract FDI flows in the past few years. As a result, for almost half of Africa, FDI flows contribute more than 20% of fixed investment. The reduction in global liquidity and increased risk aversion that is pushing spreads upwards and increasing the costs of finance makes it unlikely that Sub-Saharan African emerging markets will be able to place primary bond issues at acceptable interest rates in the short-term.

15. There are signs that trade financing is becoming scarce. While the bulk of trade credit used in Africa is in the form of letters of credit, cash crop growers in West Africa rely more on syndicated loans to cover their trade financing needs. They therefore face a higher risk of disruption in trade finance either through higher trade credit costs or reduced funding, or both.

⁶ After several years of strong growth, remittance flows to developing countries began to slow down in the third quarter of 2008.

⁷ Compared to about half of all developing countries have been running current account deficits of 5% of GDP or more.

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