subsidies in industrial countries and extending greater market access for Africa's exports. Leadership is needed, especially from the major economies, to resolve the impasse on the Doha Round and relaunch the global trade negotiations.

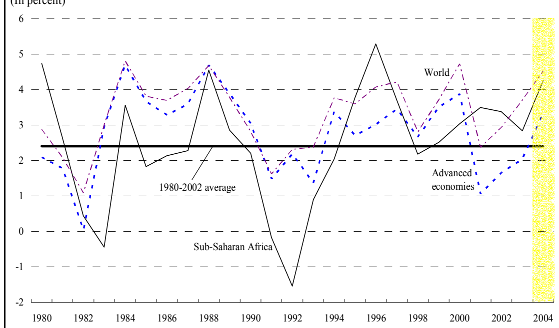
II. Economic Developments in 2003

Six basic themes emerge from the 2003 outturn: (i) average growth in the region remains far below the 7 percent estimated to be needed for the region as a whole to reach the MDGs on income-based poverty; (ii) growth experiences continue to be diverse, and some countries appear to be on a path of relatively strong sustainable growth; (iii) domestic policies matter—countries facing the same external environment are having very different growth experiences; (iv) conflict, civil strife, drought, and poor policies continue to be the causes of the worst growth experiences; (v) net exports have not been the source of economic growth, except in the oil exporting countries; and (vi) the achievement of growth rates sufficient to significantly reduce poverty will require higher rates of investment, which, in the absence of higher rates of national savings, will need to be financed through larger official and private capital flows.

Economic growth

Average real economic growth slowed to 2.8 percent in 2003 from 3.4 percent in the previous year. The slowdown occurred against the backdrop of an increase in world economic growth from 3.0 percent to 3.8 percent, and in the volume of world trade as well. The slowdown was fairly widespread, occurring in 23 of the region's countries. The more common causes of the slowdown were drought (notably in Ethiopia, Guinea, Mali, and Rwanda), conflict (Burundi, the C.A.R., the Republic of Congo, and Côte d'Ivoire), lower oil production (Angola and Congo), and economic mismanagement or poor governance (Seychelles and Zimbabwe).

Figure 2. Sub-Saharan Growth, 1980-2004[1]
(In percent)



[1] Shaded area indicates projections.

Real GDP growth in the region's oil-producing countries increased to an average of 6.0 percent in 2003. Sharply higher oil production levels in Chad, Equatorial Guinea, and Nigeria offset contractions in the other oil economies. Economic growth in Nigeria, with a fifth of the region's population, increased from 1.5 percent in 2002 to 5.9 percent in 2003, primarily on the basis a large increase in oil production.

Growth in the non-oil economies slowed from 2.9 percent in 2002 to 2.1 percent last year. Growth in South Africa declined from 3.6 percent to 1.9 percent, the slowest expansion since 1998. Rising gold and platinum prices induced a sizable increase in foreign portfolio investment. The resulting appreciation of the exchange rate choked off export growth and spurred import demand. The decline in net exports more than offset the increase in the growth of domestic demand and the overall growth rate fell as a result. Excluding South Africa, growth in the other non-oil economies as a whole was unchanged at 2.2 percent, compared with an average growth rate of 2.7 percent during the previous five years. Real growth in the non-oil CFA franc countries, at 2.2 percent, was in line with the experiences in most other non-oil economies in the region.

The economies of 13 countries, accounting for just under one-half of the region's population, expanded at rates of 5 percent or more in 2003. The highest rates of growth were realized in two oil-producing countries: Equatorial Guinea (14.7 percent) and Chad (10.0 percent), but all the rest (except one – Nigeria) were non-oil producers. The reasons for the relatively strong performance of these other countries vary. Four of them (Benin, Burkina Faso, Mozambique, and Tanzania) are HIPC Initiative completion point countries, with strong macroeconomic and structural reform agendas. The Gambia and Senegal rebounded from the effects of the 2002 drought, while Sierra Leone, the DRC, and Madagascar were recovering from civil unrest. Cape Verde, which had enjoyed relatively high growth in the past, continued to rebound from the acute macroeconomic imbalances of 2000. Real growth in Nigeria increased to nearly 6 percent, reflecting the increase in its Organization of Petroleum Exporting Countries (OPEC) quota.

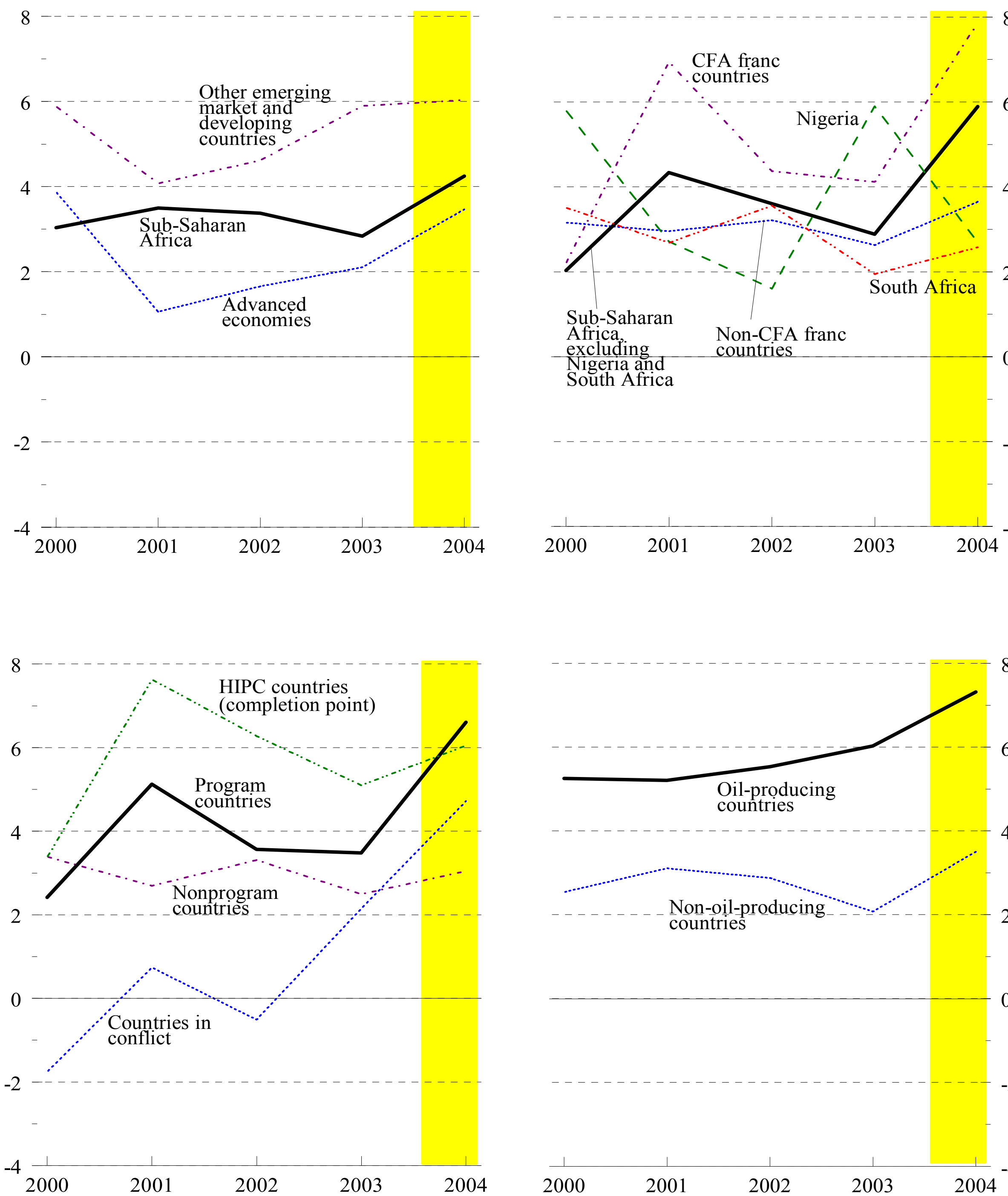
Seven countries saw their economies contract in 2003, compared with six in 2002. The reasons are familiar: domestic unrest (Burundi, Côte d'Ivoire, and the C.A.R.),[12] drought (Ethiopia), a combination of drought and a collapse in private consumption owing to the nonpayment of government salaries (Guinea-Bissau), and acute macroeconomic mismanagement (Seychelles and Zimbabwe).

The diversity of growth experiences in the face of a common external environment reveals the importance of both domestic policies and good luck. Eleven countries have experienced average real economic growth rates of five percent or more during the past five years. Three of them (Angola, Chad, and Equatorial Guinea) are benefiting from rapid expansions in oil production. Botswana continues to expand its production of diamonds and other minerals. Rwanda's economy is still rebounding from the effects of the domestic violence of the mid-1990s (real per capita income has still not recovered to pre-genocide levels). Cape Verde has been implementing a wide-ranging reform program for over ten years. The other five (Benin, Burkina Faso, Mozambique, Tanzania, and Uganda) are all HIPC Initiative completion point countries with strong reform programs. Ten of these countries (the exception being Tanzania) are the only ones to have achieved average

[12] For the purposes of this report, seven countries are defined as conflict cases: Burundi, the C.A.R., the Republic of Congo, the DRC, Côte d'Ivoire, Madagascar, and Sierra Leone. A country is classified as being in conflict if there has been sustained fighting during the past three years.

Figure 3. Real GDP Growth by Regional and Country Grouping, 2000-04[1]

(In percent)

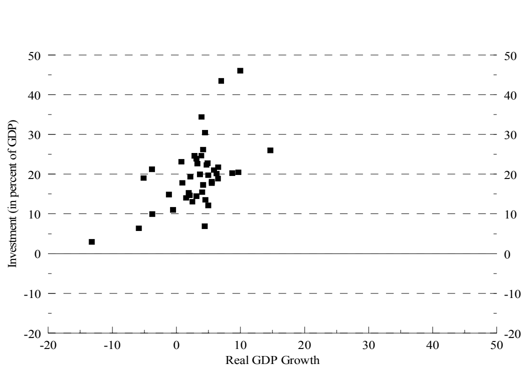


[1] Shaded areas indicate projections.

growth of 5 percent or more for the past ten years.

The faster-growing economies share some common characteristics. During the past five years, investment rates have generally been higher than average, and fiscal expenditures, and fiscal deficits have generally been smaller (Annex Table 2). However, excluding countries with histories of high inflation (Angola, the DRC, and Zimbabwe), inflation has generally been the same (below 10 percent) in the fastest and slowest growing economies. The faster-growing economies also have had (Annex Tables 1 and 2) somewhat larger external current account deficits than the average for non-oil exporters, an outcome that has been possible because of large concessional official flows and a growing level of foreign direct investment. However, the correlary of this is that net exports have been less of a source of growth for these countries than on average, or even compared with the slowest-growing economies.

Figure 4. Investment and Real GDP Growth, 2003
(In percent, unless otherwise specified)

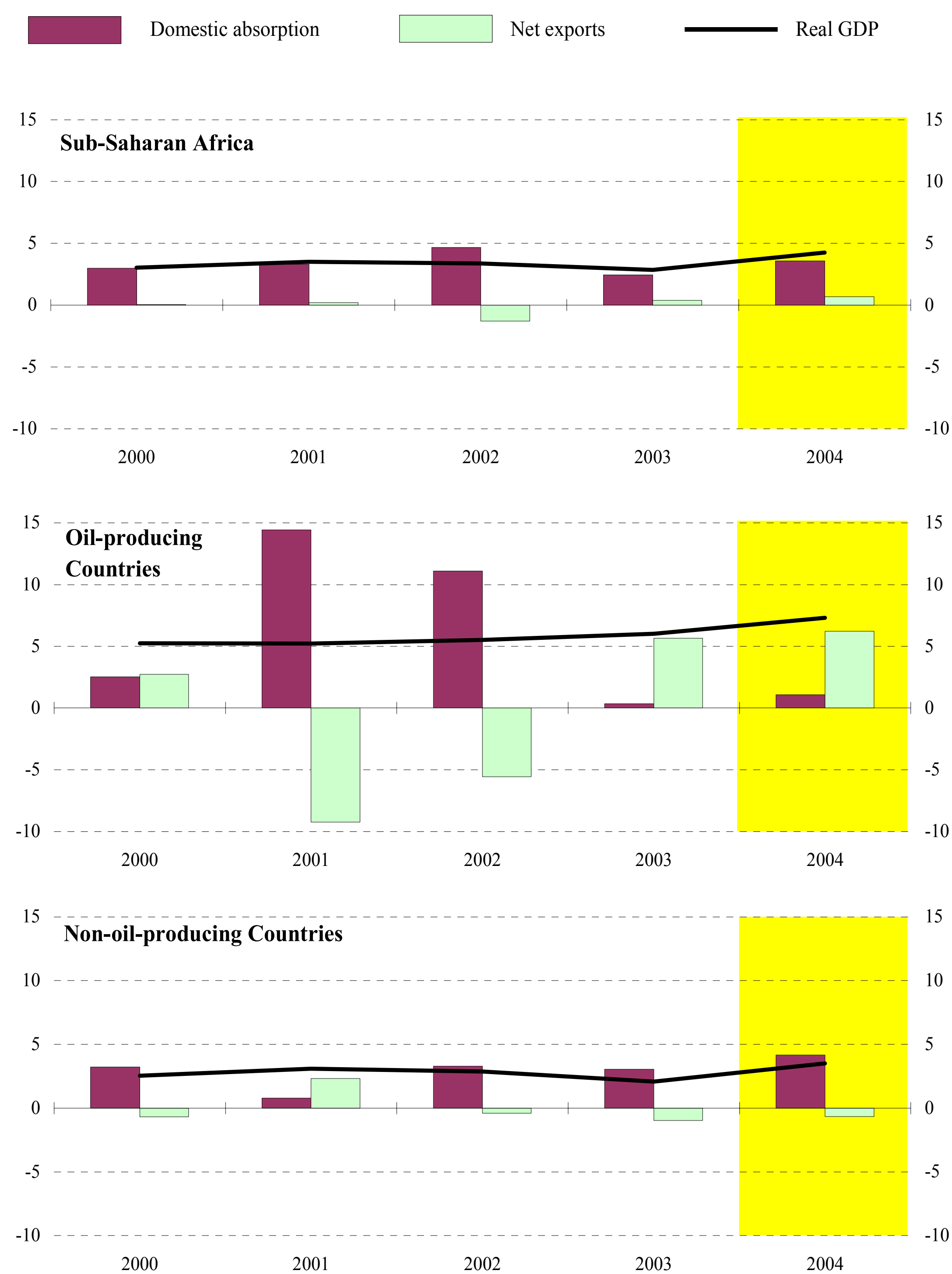


A general falling off in manufacturing and other secondary economic activity were the principal causes of the economic slowdown, which shaved 0.5 percentage point off real GDP growth. Growth of tertiary economic activities (mostly services) also slowed, contributing another 0.3 percentage point to the decline in overall regional growth. Primary sector activities, basically increased oil production, provided a modest boost to the overall growth rate (0.2 percentage point). This effect was sufficiently large to increase the overall real GDP growth rate in the oil producers. In the other countries, the impact of drought and conflict on agricultural production resulted in a modest reduction in overall primary sector growth, contributing to the slowdown in aggregate economic growth.

With regard to aggregate expenditure, the economic slowdown generally reflected softer domestic demand, which was offset only partially by the contribution of net exports to growth. The weakening of domestic demand was most pronounced in the oil exporters, which saw a sharp decline in the growth of private consumption. This effect was more than offset by the increase in net exports. The reduction in the contribution of domestic demand to growth was less pronounced in the non-oil economies, but the contribution of net exports declined, resulting in a reduction in the overall growth rate.

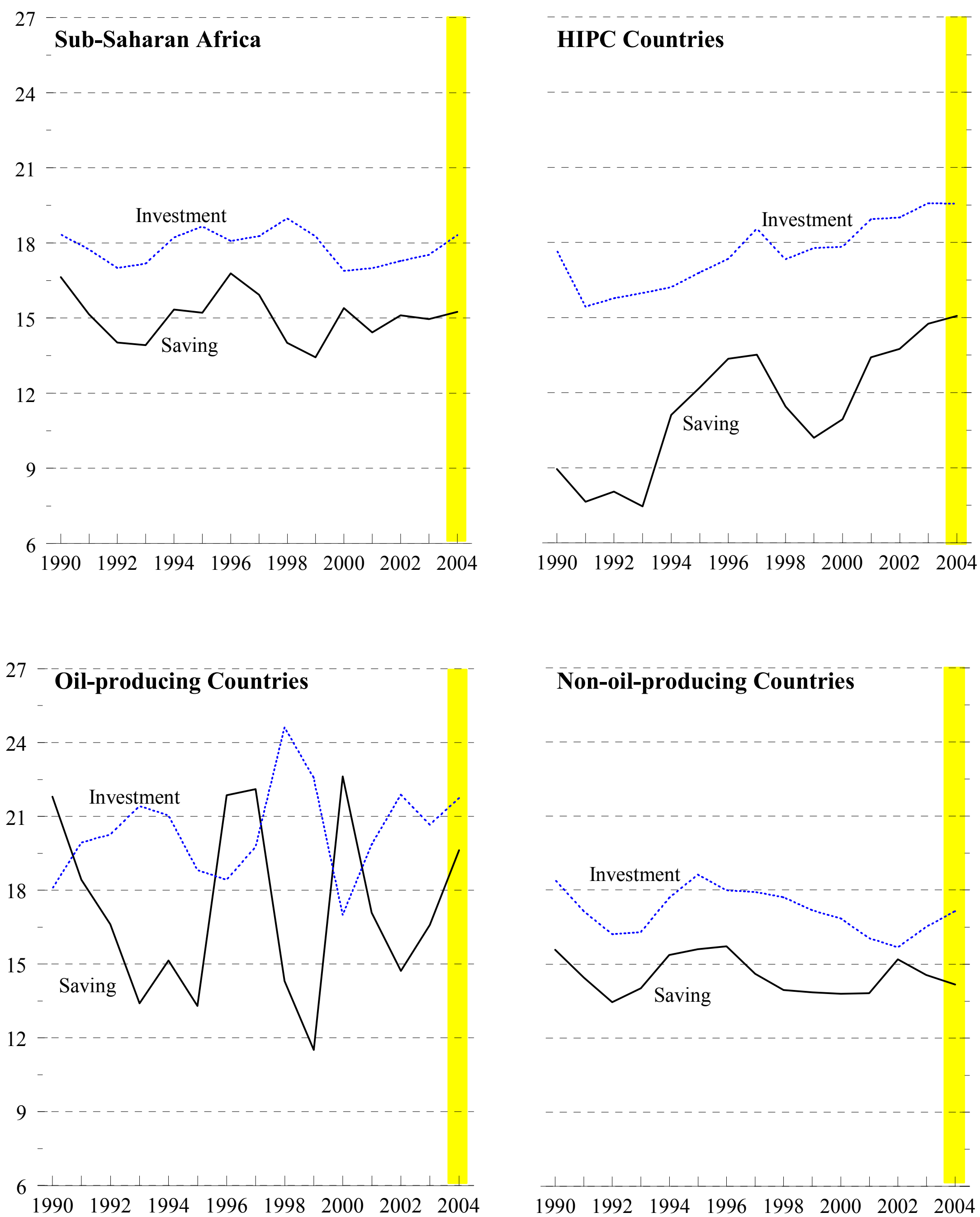
Investment rates increased for most countries, but, because of a decline in Nigeria, the average investment rate was broadly unchanged at 17.5 percent of GDP. Investment rates fell in most of the oil-producing countries to an estimated 20.7 percent of GDP, and increased in the other countries by ¾ of 1 percentage point to an average of about 16.5 percent of GDP. Private sector investment is

Figure 5. Contribution to GDP Growth, 2000-04[1]
(Average annual contribution; percent)



[1] Shaded areas indicate projections.

Figure 6. Saving and Investment, 1990-2004[1]
(In percent of GDP)



[1] Shaded areas indicate projections.

estimated to have amounted to an estimated 12.5 percent of GDP and that in the public sector to about 5 percent.

The overall national savings rate was nearly unchanged at 15 percent of GDP, rising in the oil producing countries and falling in the non-oil economies. The increase in savings rates among oil producers to 16.6 percent reflected the improved fiscal positions arising from higher oil revenues; private savings rates generally fell. Private savings rates among the other economies generally increased, but the widening fiscal deficits among this group resulted in an overall decline in the savings rate to about 14.6 percent of GDP.

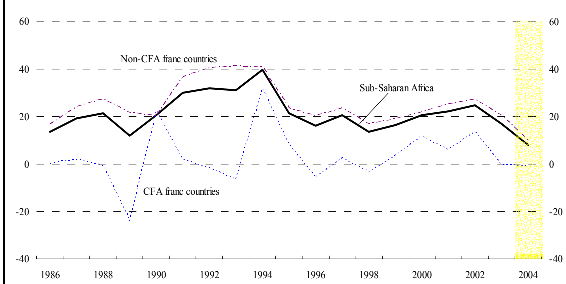
Monetary policy and inflation

Inflationary pressures remained subdued in most countries in the region. This was largely the result of low world inflation (in the countries with exchange rate pegs) and continued monetary discipline (in the floating-rate economies). Inflation in the advanced economies averaged about 2 percent in U.S. dollar terms. As a result of the appreciation of the euro against the dollar and other major currencies, import prices fell for SSA countries with exchange rates pegged, either directly or indirectly, to the euro. In addition, liquidity conditions tightened in about half of the countries in the region.[13]

[13] Liquidity conditions are considered to tighten when the difference between the growth rates of nominal broad money and real GDP declines. This measure does not account for shifts in money velocity, which may decline in periods of rapid disinflation (as in the DRC) or in the aftermath of conflict (as in the C.A.R.).

Most of the countries that saw an easing of liquidity conditions were rebounding from unusually tight policy stances in 2002, or suffered temporary supply-side shocks (such as Ethiopia).

Figure 7. Liquidity Conditions, 1986-2004[1]
(In difference between broad money growth and real GDP growth)

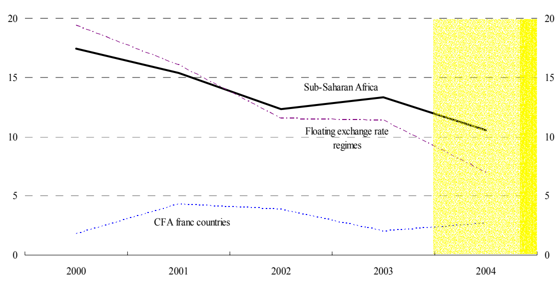


[1] Shaded area indicates projections.

Nearly three-quarters of SSA countries had single-digit inflation rates in 2003, continuing a trend that began in 1998. Although for SSA as a whole, inflation increased to 13 percent, this was primarily because of a sharp increase in inflation in Zimbabwe to 430 percent; the median inflation rate rose only slightly to 6.3 percent, in line with the trend of the previous five years.. Four countries (Burundi, Ethiopia, The Gambia, and Guinea) saw inflation rates rise above 10 percent, owing to the impacts of drought and/or conflict, and poor macroeconomic policies were the cause in The Gambia. Inflation in these four countries has averaged less than 10 percent during the past five years. For the other six countries with inflation rates above 10 percent, five (Angola, Ghana, Nigeria, Zambia, and Zimbabwe) have histories of relatively high inflation rates, reflecting a general lack of monetary restraint (though Nigeria has had a few years with inflation rates below 10 percent). Mozambique, which experienced a sharp rise in inflation in

2002 because of a temporary relaxing of policies, was able to lower the rate in 2003 to about 13.5 percent.

Figure 8. Inflation, 2000-04[1]
(In percent)



[1] Shaded area indicates projections.

Countries that have maintained some form of a pegged exchange rate regime, supported by appropriate macro-economic policies, generally continued to experience inflation rates lower than those with more flexible regimes. The 14 countries in the CFA franc zone have maintain low inflation for the past 10 years. The stability of the peg has been supported by the adoption of a convergence program introduced following the devaluation of 1994. Average inflation fell to 2.0 percent in the CFA franc zone, down from 3.8 percent in 2002. Lesotho, Namibia, and Swaziland, whose exchange rates are pegged to the rand, benefited from lower inflation in South Africa. Botswana maintains a peg against a basket of currencies, and the exchange rates of Cape Verde and the Comoros are pegged to the euro. Inflation in these six countries averaged 5 percent in 2003.[14] Inflation in the flexible exchange rate countries, by comparison, averaged about 11½ percent. However, some countries with floating exchange rates did quite well. South Africa succeeded in bringing inflation down to 6 percent, and, with the exception of 2002, has kept annual average inflation in the range of 5-7 percent since 1998.

Fiscal developments

The main fiscal challenge facing most SSA countries is how to increase spending on key poverty-reducing programs, while ensuring that the stance of fiscal policy is sustainable and consistent with macroeconomic stability. This challenge is being met, to varying degrees of success, by a combination of expenditure restructuring, revenue enhancement, and, equally important, greater reliance on non-debt-creating external financial support.

Fiscal balances (excluding grants) increased in 2003 for half the countries in the region and declined for the other half.[15] The average fiscal deficit shrank from 4.1 percent to 3.8 percent, and half the countries in the region had fiscal deficits equivalent to 7 percent of GDP or less. Three countries (Cameroon, Equatorial Guinea, and Gabon—all oil producers) ran fiscal surpluses, as high as

[14] While Seychelles and Zimbabwe have de jure fixed exchange rates regimes, both have large parallel foreign exchange (continued) markets with large premia. Inflation in Seychelles has been suppressed through the use of price controls.

[15] Not all countries have fiscal deficits. An increase in a fiscal balance refers to either an increase in the fiscal surplus or a reduction in the size of the fiscal deficit.

23.3 percent of GDP in the case of Equatorial Guinea. Otherwise, deficits continue to be the norm, and the average deficit among the non-oil economies increased moderately from 4.2 percent to 4.6 percent of GDP, ranging as high as 44.7 percent for São Tomé and Príncipe. Fiscal deficits among the HIPCs as a group expanded very slightly from 6.8 percent to 7.1 percent of GDP. The deficits of the six HIPC Initiative completion point countries expanded moderately to 9.1 percent of GDP. Deficits in countries with fixed exchange rates were generally smaller than those in their floating-rate counterparts.

Revenue performance is estimated to have improved in most countries; although the average revenue ratio remained at about 22.2 percent of GDP. Revenues in Equatorial Guinea, Ghana, Malawi, and Seychelles increased by 3 percent of GDP or more. At the other end, Angola, Botswana, and the C.A.R. saw revenues fall by 2 percent of GDP or more. Performance varied widely within the region, ranging from a low of 8 percent in the C.A.R. and the DRC (which have long histories of low revenue yields) to a high of 44 percent of GDP in Botswana and Seychelles (mineral royalties and unusually high tax rates, respectively).

The increase in revenues among non-oil countries reflects the impact of new policy initiatives. As part of a fiscal adjustment package, the government of Seychelles has implemented new taxes, including an across-the-board 12 percent sales tax, which are estimated to have yielded 8 percent of GDP in new revenues in 2003. New tax measures in Ghana, including a national health premium, petroleum excises, new road and timber fees, and improved revenue administration boosted revenues by nearly 4½ percent of GDP. In Malawi, revenues were increased through efficiency gains, higher fees, and onetime maize sales.

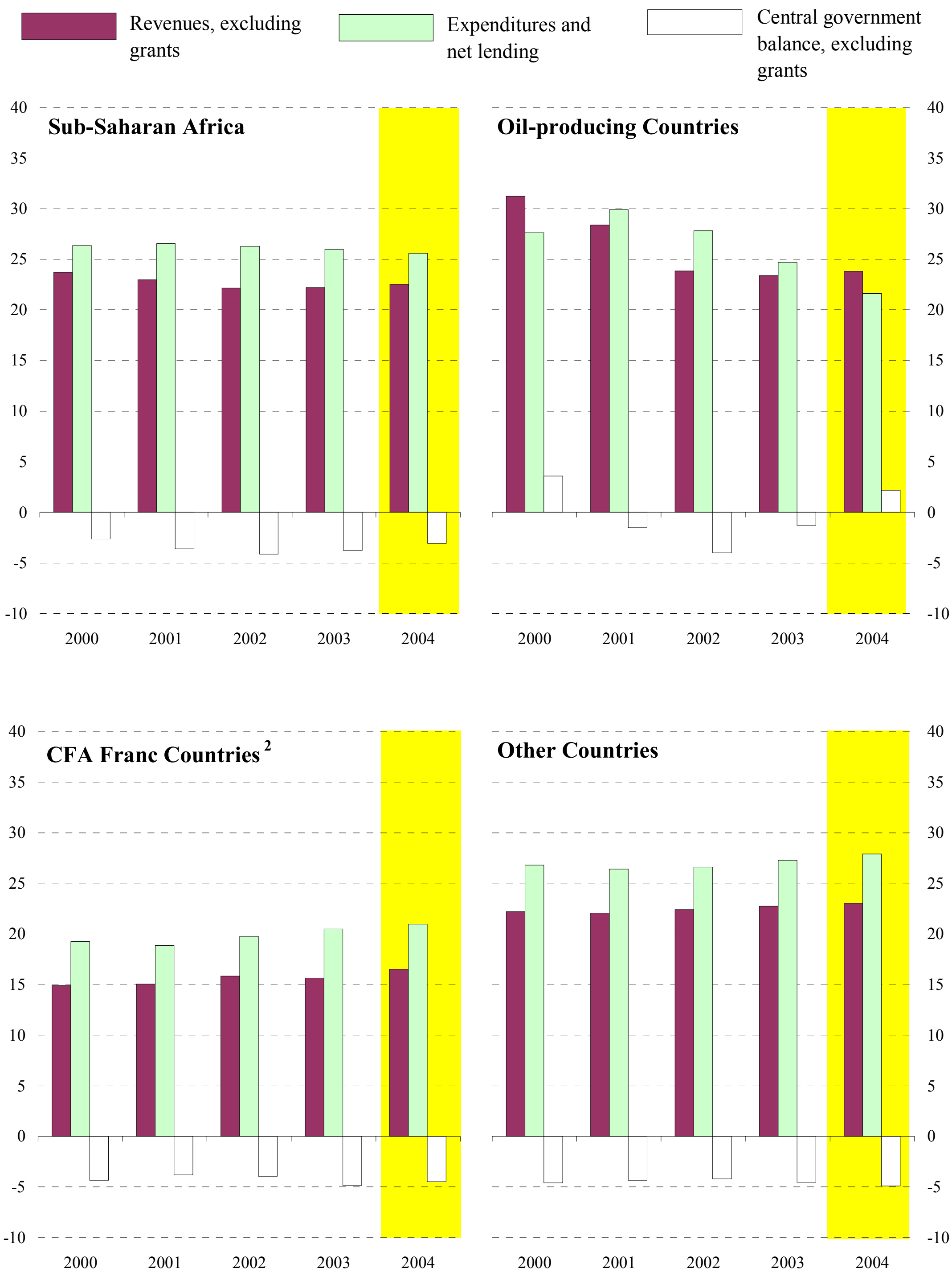
Expenditures are estimated to have remained about 26 percent of GDP for the region as a whole in 2003, falling in oil exporting countries (where GDP is rising rapidly) and rising very slightly in non-oil countries. As is the case with revenues, expenditure levels also varied widely, ranging from a low of 11 percent of GDP in Equatorial Guinea (where GDP has been growing very rapidly) to a high of 68 percent in São Tomé and Príncipe, where basic social spending is extremely high, relative to GDP, and is financed primarily by external resources. Wages and salaries, on average, amounted to 8.0 percent of GDP and public investment expenditures amounted to just over 4 percent. Scheduled interest payments (domestic and foreign) were an estimated 34 percent of GDP.

Official grant financing of fiscal operations is estimated to have increased moderately to 1.3 percent of GDP in 2003. Excluding Nigeria and South Africa (which receive no grants), the increase is a bit more encouraging, from 2.2 percent to 3.0 percent of GDP (the highest level since 1984), as such financing rose for most countries in the region. Based on recent indications from donors, Mozambique, São Tomé and Príncipe, and Sierra Leone are estimated to have received grants in excess of 10 percent of GDP. In the latter two cases, the magnitude of donor assistance reflects the needs for post-conflict reconstruction and provision of basic services. In the case of Mozambique, it reflects strong donor

Figure 9. Fiscal Deficits and Grants, 2000-04[1]
(In percent of GDP)

[1] Shaded areas indicate projections.
[2] Excludes HIPC countries.

Figure 10. Fiscal Developments, 2000-04[1]
(In percent of GDP)



[1] Shaded areas indicate projections.
[2] Excludes oil-producing countries.

support for the government's PRGF supported reform agenda. Another ten countries are expected to have received grant assistance for fiscal operations in excess of 5 percent of GDP, including three of the six HIPC Initiative completion point countries (Burkina Faso, Tanzania, and Uganda) and Ethiopia (which received an unusually high level of grant financing to help it defray the costs of food relief in response to the recent drought). About twelve countries saw the level of grant support fall relative to GDP.

Some countries with large fiscal deficits (past and present) relative to the level of available external financing are facing mounting domestic debt problems (see Box 5). This problem is particularly acute in The Gambia, Ghana, Malawi, Mauritius, and Seychelles, where domestic interest payments amounted to 4 percent of GDP or more in 2003. Domestic bank financing of fiscal operations in these countries during the past five years ranged from 3 percent of GDP in Malawi to nearly 7 percent in Seychelles. Ghana and Seychelles began to tackle the problem last year. By increasing external financing under its PRGF-supported program, the government of Ghana was able to bring domestic financing to zero in 2003. Meanwhile, the government of Seychelles reduced it to about 2 percent of GDP by narrowing its deficit. Three other countries (Lesotho, São Tomé and Príncipe, and Zimbabwe) all have histories of large domestic financing of fiscal deficits (averaging 6 percent of GDP or more since 1998) but have avoided, for the time being, a rising domestic interest burden. Lesotho was able to draw on its deposits with the banking system, which it had built up in earlier years, but this source of financing has been exhausted and domestic government debt is beginning to mount. São Tomé and Príncipe has relied on zero interest loans from the central bank. The lack of a competitive market for government securities in Zimbabwe has kept interest rates artificially low and highly negative in real terms, two factors that have allowed the government to reduce the real value of its domestic debt through inflation.[16] In addition, a number of governments in the region continued to accumulate domestic arrears, adding to the domestic debt burden.

External sector developments

Exports of goods and services are estimated to have increased by about 6 percent in real terms in 2003. Real export growth among the oil producers was on the order of 16½ percent, rebounding from last year's contraction (reflecting Nigeria's reduced production). Export growth among the region's other countries was a more subdued 3½ percent, up slightly from 2002. Imports of goods and services are estimated to have increased by 4½ percent, notably faster than real GDP.

External current account deficits in 2003 (excluding official transfers) narrowed for most oil exporters and widened for most other countries. The regional average current account deficit contracted from 4 percent of GDP in 2002 to 3.5 percent of GDP last year. The average current account deficit among

[16] As a result, domestic interest payments in Zimbabwe fell from 16.5 percent of GDP in 2000 to 1.9 percent in 2003.

Box 5. Domestic Debt Markets in Sub-Saharan Africa

In the past decades, the external debt burden and its impact on fiscal sustainability and economic growth in low-income countries have been extensively debated. However, at least until recently, much less attention has been given to the issue of domestic debt in low-income countries, despite its potential significant impact on government budgets, macroeconomic stability, private sector lending, and ultimately growth performance.

Based on a newly collected database for 27 non-CFA sub-Saharan African countries covering the period 1980–2000, Christensen (2003) discusses the long-term developments and identifies key characteristics of African domestic debt markets. The main findings are:

- **Domestic debt service presents a significant burden to government budgets.** Domestic interest payments account for 11 percent of government domestic revenues, the same level as for foreign interest payments.

- **Domestic debt is much more expensive than foreign borrowing**. The average interest rate on domestic debt is 17 percent compared with 1 percent on foreign borrowing.

- **The average ratio of domestic debt to GDP was 15 percent at the end of the 1990s**, compared with 10 percent in the 1980s. However, relative to external indebtedness, the domestic debt stocks are small given the rapid accumulation of external debt in the SSA countries.

- **Domestic debt accounts for a significant part of financial resources**, given the thin and shallow financial markets in the countries. The ratio of domestic debt to broad money is about 40 percent, but approaches 100 percent in some countries.

- **Commercial banks are the main holders of domestic debt**, accounting for about 50 percent of outstanding debt. The non-bank sector plays a limited role given the relatively underdeveloped institutional investment sector in many of the countries.

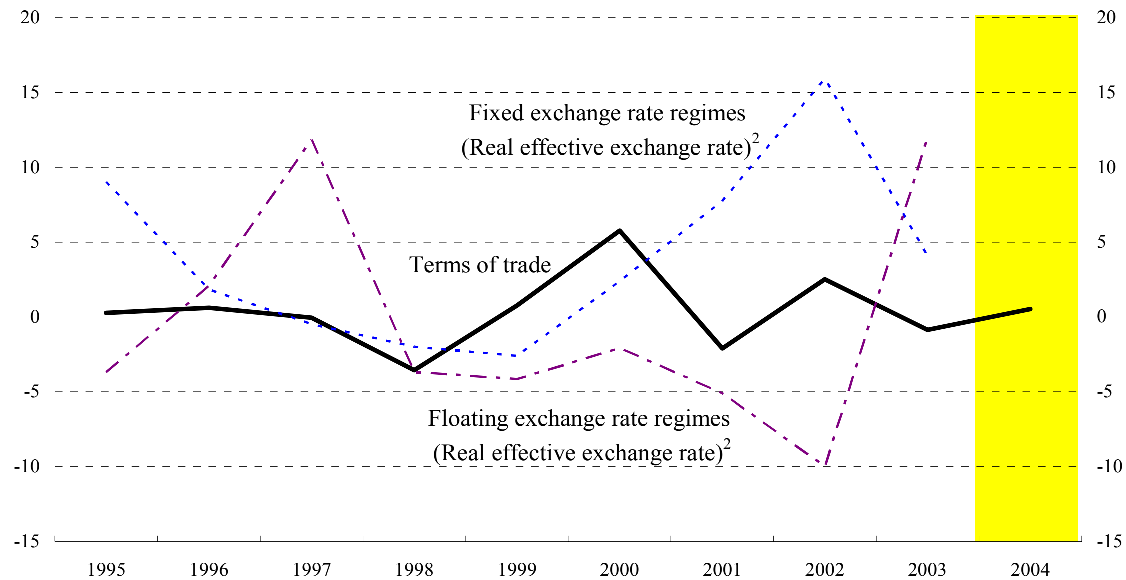
- **Domestic debt markets are of a highly short-term nature**, with the most common instrument being three month bills. The average maturity of domestic debt is 272 days.

- **Some HIPC countries are faced with a significant domestic debt burden** in addition to their large external indebtedness. This, combined with high domestic interest rates, imply that in six of the thirteen HIPC countries for which data were available, domestic interest payments exceed foreign interest payments.

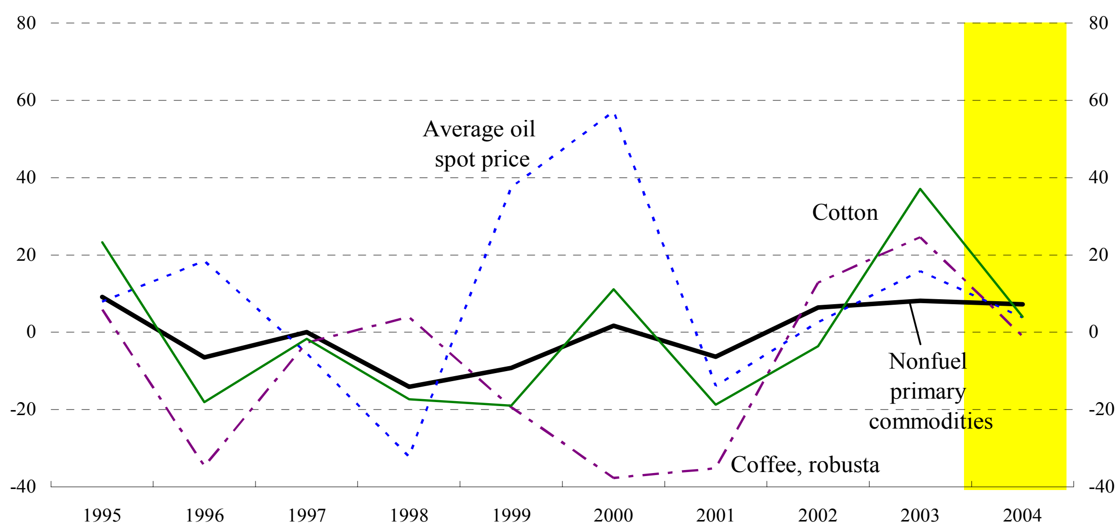
Note: The main author of this box is Jakob Christensen.

Figure 11. Competitiveness and Nonfuel Commodities, 1995-2004[1]
(In annual percent change, unless otherwise specified)

Competitiveness



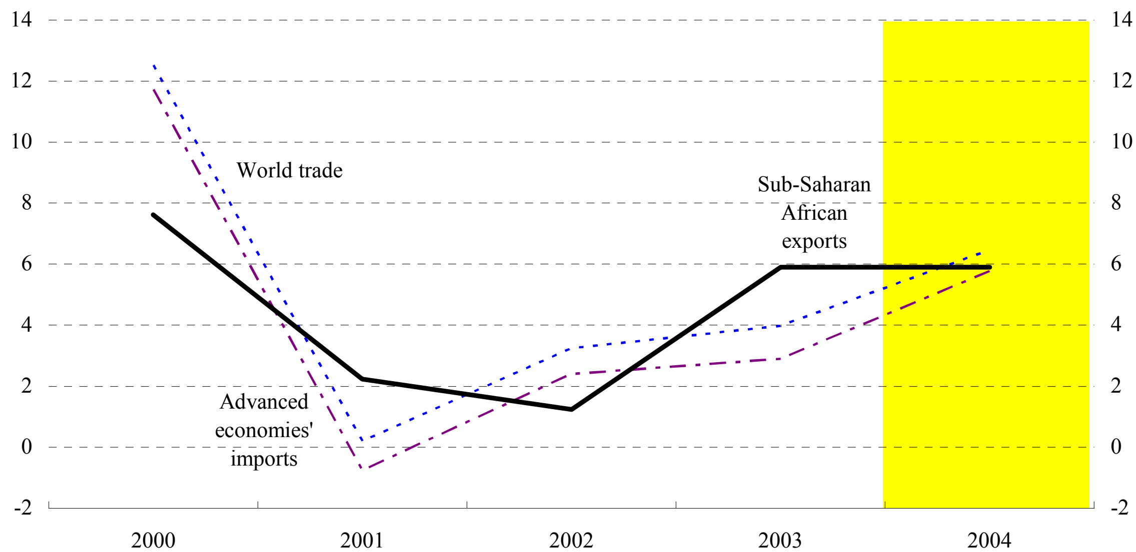
Nonfuel Commodity Prices
(In U.S. dollar terms)



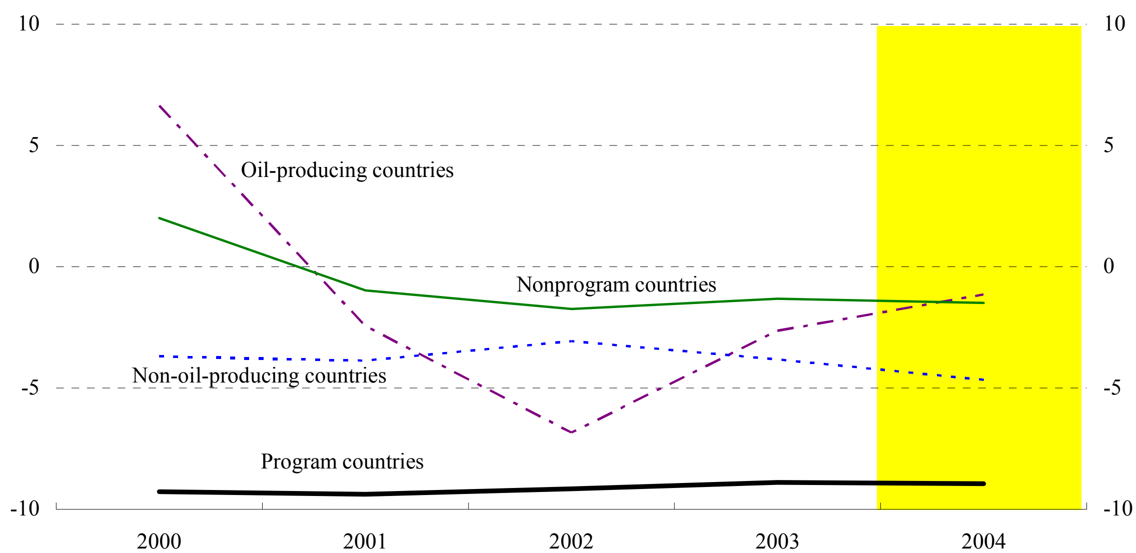
[1] Shaded areas indicate projections.
[2] Data through November used for 2003.

Figure 12. External Developments, 2000-04[1]
(In percent, unless otherwise specified)

Growth in Trade Volume



Current Account Balance Excluding Grants
(In percent of GDP)



[1] Shaded areas indicate projections.

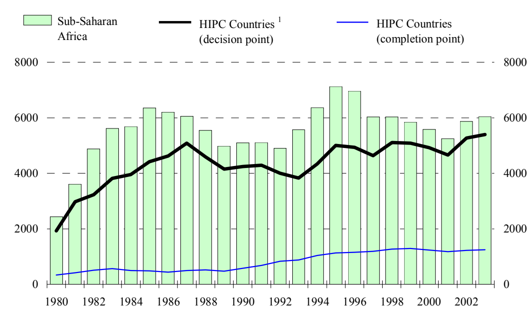
the oil producers fell to an estimated 2.6 percent of GDP, compared with 6.8 percent a year earlier. The average deficit among the non-oil economies increased from 3.1 percent to 3.8 percent of GDP.

As in the past, there was a diversity of experiences within the region in 2003. Current account balances (excluding official transfers) ranged from a deficit of 49 percent of GDP in São Tomé and Príncipe to a surplus of 4.8 percent of GDP in Côte d'Ivoire, where internal conflict and economic contraction contributed to a sharp decline in imports. Oil exporters saw the largest reduction in current account deficits, but a few non-oil exporters experienced sizable adjustments also. In particular, Seychelles's deficit is estimated to have contracted by nearly 14 percentage points of GDP (to 4.5 percent of GDP) on the basis of the similar-sized reduction in the fiscal deficit. Current account deficits in the six completion point countries are estimated to have increased moderately to about 12 percent of GDP in 2003, financed by a higher level of international donor support, as well as an increase in foreign direct investment.

The region's aggregate current account deficit (excluding official grants) is estimated to have increased to about US$14 billion in 2003, up from about US$13 billion in 2002. The deficit was more than covered by net official flows (including official grants and debt relief) amounting to about US$11.8 billion (up from US$10.0 billion in 2002),[17] and net private flows in the range of US$6.6 billion (mostly foreign direct investment), thereby allowing for an increase in net international reserves of some US$4 billion. The magnitude of net official flows in 2003 was equivalent to US$17.85 per capita (i.e., per SSA resident) and was equal to .04 percent of GDP in the advanced economies.

Net official current and capital transfers (excluding debt relief)) are estimated to have increased by about 15 percent to US$6.9 billion in 2003. While some of this increase represents money that was held back in 2002, most of it is enhanced assistance from donors in support of strong poverty reduction strategies.

Figure 13. IMF Credit and Loans Outstanding, 1980-2003
(In millions of U.S. dollars)



[1] Includes HIPC completion point countries.

Net lending (excluding debt relief) from multilateral institutions is estimated to have fallen slightly to US$1.1 billion. The net flow from the IMF fell sharply to US$175 million in 2003, substantial increases in lending to countries like the DRC, Ghana, Kenya, Burundi, and Niger

[17] Net official flows include official transfers, net disbursements from
(continued)

multilateral and bilateral creditors, debt relief (forgiveness and rescheduling), and the net accumulation of external arrears.

were largely offset by net repayments by Zambia, Cote d'Ivoire, Uganda, and Senegal.[18] In addition, the IMF disbursed US$150 million in HIPC Initiative relief during the course of the year.

Net lending by bilateral creditors (excluding debt relief) will continued to be highly negative, on the order of –US$2.5 billion. This reflected a shift toward grant financing on the part of bilateral partners; old loans were amortized while new disbursements were not growing in line with repayments.

Total exceptional financing (change in arrears, debt rescheduling, and debt forgiveness vis-à-vis multilateral and bilateral creditors) increased by about 15 percent to US$6.3 billion. This includes about US$3.7 billion in debt relief from bilateral creditors.

Foreign direct investment (FDI) is estimated to have fallen slightly, to US$8 billion, in 2003. Nearly two-thirds of this is expected to flow to the region's oil producers, with Nigeria and Angola alone accounting for nearly 40 percent of total FDI inflows. Nonetheless, a number of non-oil exporting countries succeeded in attracting significant levels of FDI. Mozambique, Namibia, Côte d'Ivoire, Tanzania, and Uganda account for a combined US$1.2 billion, 15 percent of the regional total. In Mozambique, where some "mega projects" are under way for the construction of an aluminum smelter and natural gas pipeline, FDI is expected to have reached 11 percent of GDP in 2003, the highest level among the non-oil countries.[19]

The international liquidity position of the region weakened moderately, but it was adequate for most countries. While international reserves are expected to have risen to a record US$40 billion in 2003, relative to imports of goods and services, gross international reserves are expected to have fallen for the third consecutive year to about 3.6 months, from a record high of 4.1 months in 2000. Most countries saw their reserves coverage fall. Reserve coverage for the CFA franc zone countries as a group fell from 3.6 months to 3.2 months. It also fell slightly for the other countries in the region, as a group, from 3.8 months to 3.7 months. Botswana continued to have the strongest reserve position, sufficient to cover 26 months of imports of goods and services. At the other end is Zimbabwe, with just over two weeks of coverage. Nonetheless, reserve coverage is generally adequate for most countries. Outside the CFA franc zone, only four countries other than Zimbabwe have reserves equivalent to less than two months of imports (Angola, Malawi, Seychelles, and Swaziland). Among the CFA franc zone oil producers, reserve coverage fell moderately to 1.3 months of imports, but it is unclear if all government foreign exchange earnings from oil sales, are being held with the regional central bank (the BEAC).

[18] Total Fund credit outstanding increased for 11 countries and declined for 20.

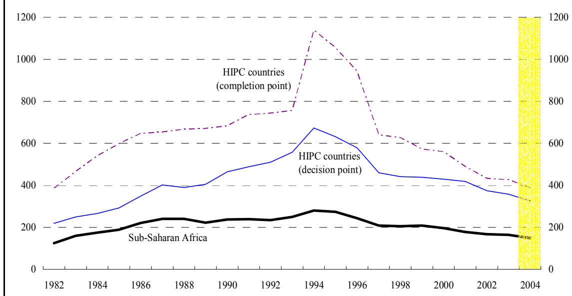
[19] FDI is expected to have amounted to only 1 percent of GDP for all non-oil-exporting countries.

The region's external debt burden continued to fall in 2003. The average debt-to-exports ratio[20] is expected to have declined for the fourth consecutive year to 165 percent in 2003, down from a high of 280 percent in 1994 and its lowest level in nearly 20 years.[21] This reflects the cumulative effects of debt-reduction operations, including under the HIPC Initiative, as well as better debt management by governments. In fact, the declining ratio of nominal debt to exports understates the declining debt burden for the 23 countries that have reached the decision point under the HIPC Initiative. While the impact of debt-reduction operations is reflected in the nominal debt stocks, the impact of HIPC Initiative debt relief provided by the Fund and Bank neither is the impact of debt-rescheduling operations that provide countries with longer repayment periods and lower interest rates. However, the HIPC Initiative in and of itself will not guarantee debt sustainability. Governments need to ensure that future borrowing, even to support much-needed poverty-reduction expenditure programs, does not exceed their capacities to repay creditors. In this regard, export promotion is a vital component of any country's poverty reduction and external debt strategies.

[20] Current-year external debt as a ratio to average exports of goods and services during the current and previous two years.

[21] The ratio has fallen in all but one of the last nine years.

Figure 14. Total External Debt, 1982-2004[1]
(In percent of 3-year average of exports of goods and services)

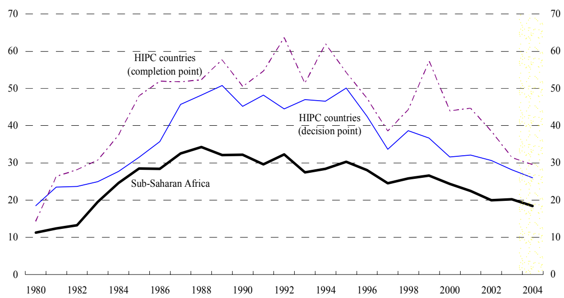


[1] Shaded area indicates projections.

Debt ratios increased in eight countries in each of the last four years. Five of these countries (Burundi, the C.A.R., The Gambia, Malawi, and Zimbabwe) saw debt burdens reach historical highs in 2003. With the exception of The Gambia and Malawi, these countries have not yet reached their decision points under the HIPC Initiative. While debt ratios also increased for Botswana and Namibia, they remain at very low levels. Ethiopia's debt ratio increased for the fifth consecutive year to over 600 percent of exports in 2003, but it is expected to reach the completion point under the HIPC Initiative soon, leading to a reduction in its debt burden.

Despite the easing of debt-to-export ratios in most countries, some are still having difficulties meeting their external payment obligations. Ten countries accumulated external payment arrears last year, including Liberia and Zimbabwe, the only two SSA countries with arrears to the Fund.

Figure 15. Total External Debt Service Due, 1980-2004[1]
(In percent of 3-year average of exports of goods and services)



[1] Shaded area indicates projections.

III. Economic Prospects and Outlook for 2004

The outlook for 2004 is relatively upbeat. Economic growth rates will rise, inflation rates is expected to fall, investment and savings rates are projected to increase, external current account balances will be largely unchanged, and net international reserves coverage will stabilize. This improvement will be supported by a general reduction in fiscal deficits and a further tightening of monetary policy.

Sub-Saharan Africa: Real GDP, Consumer Prices, and Fiscal Balance excluding Grants
(In annual percent change, unless otherwise indicated)

	Real GDP		Consumer Prices		Fiscal Balance Excluding Grants[1]	
	2004	1980-2003	2004	1980-2003	2004	1981-2003
Sub-Saharan Africa	4.2	2.4	10.5	23.0	-3.1	-5.9
Oil-producing countries	7.3	3.2	15.0	31.2	2.2	-5.0
Non-oil-producing countries	3.5	2.3	9.5	21.7	-4.8	-6.2

[1] In percent of GDP.

The outlook for 2004 is based on a number of important assumptions. First, it assumes an increase in economic growth in the rest of the world, and in import demand of the advanced economies in particular. Second, the projections are based on the authorities' objectives and policies that emerged during program negotiations, Article IV consultation discussions, and the governments' PRSPs. More specifically, the outlook assumes that all Fund-supported economic programs either remain on track (or get back on track where policy slippages have emerged). Third, it assumes that progress is made in ameliorating, if not fully resolving, the various conflicts in the region that have been inhibiting economic growth. Fourth, it is hoped that the region as a whole will not suffer from drought,

Economic growth

The expectations of the staff and the authorities are that 2004 will be an exceptional year for economic growth in SSA. Real GDP growth is projected to average 4.2 percent, a rate that has not been achieved since 1996. Real GDP growth of 5 percent or higher is anticipated in 21 of the region's countries, which would also be an eight-year high. Two countries, Seychelles and Zimbabwe, are expected to be in recession next year.

Real growth among oil exporting nations will rise to an average of 7.3 percent next year. This increase reflects the surge in output in Chad, where GDP is projected to increase by more than 42 percent and, to a lesser extent, Angola, where growth is projected to increase by about 13 percent. The rate of growth in Nigeria is expected to fall moderately to just under 3 percent on the assumption that no further increases in OPEC quotas are in the offing and that Nigeria adheres to its own.

Economic growth in the non-oil countries is expected to rise to 3.5 percent in 2004. This would be the highest rate of growth since 1996.