worse, in some cases, by conflict, political turmoil, and the effects of HIV/AIDS on the agricultural labor force.

Many sub-Saharan African countries are finding it increasingly challenging to implement appropriate policies to adjust to external shocks, the report points out. Notably, oil importers' external and domestic balances have been deteriorating. The report urges oil importers to contain emerging fiscal pressures by cutting nonpriority spending, strengthening the revenue base, and, where possible, allowing exchange rate flexibility. Strong policy frameworks should accompany increases in aid or debt relief so that these flows can be more effectively absorbed. Factors that would help mitigate pressures for real exchange rate appreciation include high import content in additional public spending, focusing higher spending on infrastructure improvements to boost productivity and ease supply bottlenecks, and further trade liberalization. For the region's oil producers, accumulating foreign exchange reserves—generally accompanied by a buildup of net government assets with the central bank—can be an appropriate way to ease pressures for real appreciation caused by strong oil revenues.

For oil-producing countries, the average current account surplus, including grants, is projected to increase from 2.3 percent of GDP in 2004 to 7.7 percent this year. Higher revenues have enabled these countries to strengthen their fiscal positions, with the group's overall fiscal surplus projected to rise to 7.9 percent of GDP, from 4.3 percent last year. The report urged oil-producing countries to continue to smooth the fiscal spending response to higher oil prices, take a long-term perspective in implementing fiscal policy, and, especially in view of the scope for "rent seeking" associated with oil windfalls, improve fiscal transparency. At the same time, decisions concerning the extent to which fiscal spending is increased over time need to take into account individual country circumstances.

Political and economic risks cloud prospects

Although the region's economic growth in 2006 is expected to rebound to 5.3 percent, largely on the strength of economic activity in oil-producing countries, the report underscores that the region's prospects remain subject to a number of political and economic risks. If the recent international focus on further reducing debt and stepping up aid bears fruit, economic growth and poverty reduction would advance—assuming recipient countries implement policies that ensure the effective absorption and use of new aid flows.

On the downside, the European Union (EU) proposed sugar reforms—which would dramatically cut the internal EU sugar price and eliminate special quotas beginning in 2006—could lead to severe export revenue losses for several sugar-producing countries such as Mauritius and Swaziland. Other downside risks include the continued vulnerability of much of the region to drought and other natural disasters, the impact of HIV/AIDS, and the still-fragile security situation in the Great Lakes region. Uncertainties in world oil and other commodity markets also pose risks for the region. ■

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IMF Survey

The full text of the *African Regional Economic Outlook: Sub-Saharan Africa Supplement* is available on the IMF website (*www.imf.org*).

African ministers applaud debt deal

African finance ministers attending the IMF–World Bank Annual Meetings welcomed the G8 debt relief proposal to cancel the multilateral debt of the Heavily Indebted Poor Countries (HIPCs) but urged more initiatives to help Africa meet the Millennium Development Goals (MDGs) by 2015.

During a September 24 press briefing, finance ministers from Niger, Kenya, and Zambia heralded the debt cancellation as an opportunity for poor countries to use the freed-up resources in their efforts to reach the MDGs. Finance ministers Ali M. Lamine Zeine and David Mwiraria from Niger and Kenya, respectively, suggested that the G8 proposal be extended to non-HIPCs with similar income and poverty levels. Kenya, for example, is not a HIPC country, but eager to reach the MDGs nonetheless, Mwiraria said. "Therefore, while appreciating what is being done for our HIPC brothers, we think we should be considered for that waiver as well as for increased aid," he added.

The ministers also urged the IMF and World Bank to go further in simplifying and rationalizing its conditionality, and making it easier to apply. Zeine said that although the IMF had already taken encouraging steps to rationalize program conditionality, progress was still below expectations. While Zambia's finance minister Ng'andu Magande echoed this view, he stressed that the conditionality in these programs "must be our own" and cannot be imposed. He described Zambia's experience as one of good cooperation, where IMF staff and Zambian authorities sit down together to discuss and draft a mutually binding agreement. Both Magande and Mwiraria strongly welcomed the potential role of the IMF's new Policy Support Instrument (see page 291), as a nonfinancial mechanism that would give clear signals on a country's policies.

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