## Executive Summary

Africa's economies face a major challenge overcoming the economic contraction, which resulted from the global recession, while at the same time striving to achieve the UN Millennium Development Goals. While Africa is on the path to recovery, helped by strengthened global trade and the rebound of commodity prices, there is a risk that growth will not be enough to significantly reduce unemployment and poverty. Africa must, therefore, overcome the numerous obstacles, which had, even before the crisis, reduced its growth potential and increased inequality. Part I of this year's *African Economic Outlook* analyses Africa's macroeconomic and structural developments. It examines how the African continent, its regions and countries, have weathered the global crisis and forecasts economic developments in 2010 and 2011. It describes changes in external financial flows and discusses trade policies and measures to foster regional integration and also reports on progress towards the Millennium Development Goals and discusses political and economic governance developments.

Part II explores how public resources can be better mobilised for development through more effective, more efficient and fairer taxation. This issue is particularly important given the uncertainties about future export revenues and unstable and unpredictable inflows of Foreign Direct Investment and Official Development Aid.

## Part One: Overview

### *Chapter 1 - Macroeconomic Situation and Prospects*

The world economic crisis brought a period of relatively high economic growth in Africa to a sudden end. Average economic growth was slashed from an average of about 6% in 2006-08 to 2.5% in 2009 with per capita Gross Domestic Product (GDP) growth coming to a near standstill. The global crisis of 2009 had its strongest effect on Southern Africa, where growth was slashed (from the average over the preceding three years) by almost 8 percentage points to negative growth of around 1%. East Africa and North Africa proved to be the most resilient regions. While in most African countries GDP continued to grow in 2009, albeit at a lower rate, in 10 of the 50 African countries covered in this report, output declined. In half of the countries, per capita GDP stagnated or fell.

The economic slowdown was most pronounced in mining, manufacturing and tourism. These sectors were particularly exposed to the fall of commodity prices and global trade in goods and services. Other sectors, notably agriculture and services, were more resilient and mitigated the downturn. In fact, in most African countries the agricultural sector benefited from good harvests due to favourable weather, although in some countries bad harvests exacerbated the effect of the global crisis.

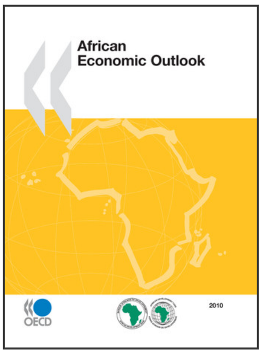
In Africa, the global crisis was mainly felt through the collapse of commodity prices and the fall of export volumes. In 2009, Africa's export volumes declined by 2.5% and import volumes by about 8%. Due to the fall in commodity prices, Africa's terms of trade deteriorated. Export values declined sharply, and more than import values, leading to a deterioration of trade and current account balances.

The global crisis also hit through the decline of worker remittances and of foreign direct investment.

On the positive side, donor countries have generally maintained their aid flows to Africa, despite substantial fiscal pressures at home. Furthermore, debt relief under the Heavily Indebted Poor Countries initiative by the International Monetary Fund (IMF) and the World Bank has reduced debt service costs. This together with additional loans by the IMF, the World Bank and the African Development Bank has helped African countries to better cope with the crisis.

Another positive factor was that due to past fiscal prudence and to disinflation, many African countries could pursue expansionary fiscal and monetary policies, which mitigated the downturn. Major public spending programmes were mostly continued and key policy interest rates were reduced. However, in a few countries, where economic fundamentals were less favourable, governments were forced to pursue tight macro policies to counter deteriorating current balances, falling exchange rates and losses of international reserves.

A gradual recovery of African economies is expected with average growth reaching 4.5% in 2010 and 5.2% in 2011. All African regions will achieve higher growth although the recession will leave its mark. Southern Africa, which was hardest hit in 2009, will recover more slowly than other regions. East Africa, which best weathered the global crisis, is likely to again achieve the highest average growth in 2010-11.

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