SADC Responses to the Recent Shocks and the Global Financial and Economic Crisis

Keynote Contribution to

Potsdam Spring Dialogues 2010

External Shocks and Africa's Regional Organisations: from Reaction to Prevention

by

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16 April 2010
Potsdam

Mr. Albrecht Ansohn, Director for Development Policy Forum, Inwent Capacity Building International and Chairperson for this session.

Colleagues

Distinguished Ladies and Gentlemen

It is a great pleasure to have the opportunity to be part of this important dialogue on external shocks and Africa's responses and actions, particularly in context of the Potsdam Spring Dialogues 2010. Allow me to extend my appreciation to Inwent for inviting SADC to participate in this dialogue.

Before I proceed, I wish to extend sincere apologies on behalf of the Executive Secretary for SADC, Dr. Salomão, who could not make it to this meeting because of other prior engagements.

Indeed, the world and the Southern Africa Development Community, in particular, have experienced a number of shocks in addition to the current global financial and economic crisis, in the recent years. It is evident that these shocks and crises have had varying degrees of impact on the economies of the world including the SADC region.

Over the past decade the SADC region and sub-Saharan Africa in general made remarkable gains in promoting growth and achieving economic stability. Growth, which is essential for much needed poverty reduction, averaged more than 6 per cent over the past five years; inflation had fallen to single-digit levels; and reserves were built up. These positive developments relied on strong economic policies; a favorable external environment, especially rising commodity prices; and debt relief and aid from the international community.

These hard-won economic gains were reversed by the effects of the recent shocks and in particular the current global economic crisis.

In my presentation I will share with you how the global economic crisis has affected economic performance of the SADC region; how Member States responded to the crisis in order to mitigate its impact on their economies; and the lessons learnt to shape policy directions going forward. However, allow me first to briefly highlight the developments that preceded the crisis since we are dealing with external shocks in general.

Events preceding the global economic crisis

As you are all aware, the global economic crisis was preceded by a dramatic rise in food prices between 2006 and mid-2008. Similar trends to food prices were apparent with fuel prices, which increased steadily from 2002 onwards. Crude oil prices rose from under $20 per barrel at the beginning of 2002 to $55 at the beginning of 2007, but then rose even more dramatically, reaching a peak of nearly $150 in July 2008.

Higher food and fuel prices contributed to rising inflation and deteriorating current account balances both for food and fuel importers in SADC. Inflation averaged 13.8 per cent in 2008 compared to 8.8 per cent recorded in 2007. However, for fuel exporters like Angola, the rising fuel prices benefited them.

In addition to the rising food and fuel prices, power shortages became an increasingly serious problem in several SADC economies during 2007 and 2008. Until that time, the region had a power surplus with a comfortable reserve margin that enabled power supplies to be maintained during periods of peak demand as well as enabling capacity to be taken out of service for scheduled maintenance, and provided a cushion in case of unanticipated supply interruptions.

The reserve margin has however been steadily declining, due to a combination of steady economic growth, the aging of much of the region's generating capacity, and lack of investment in new capacity. This became a serious crisis in 2008 as a series of events led to a shortage of power in South Africa, the main source of electricity in SADC, leading to load shedding affecting both domestic consumers and exports to neighbouring countries.

The power shortage situation has had economic impact on SADC. During 2008, load shedding in South Africa had a negative impact on many sectors of the economy, but particularly mining. Botswana, which is dependent upon South Africa for the majority of its power supplies, faced similar problems.

Given the close relationship between power consumption and economic growth, electricity shortages inevitably limited growth potential. Not only was production interrupted by load shedding, but productivity deteriorated as workers were left idle during blackouts but still had to be paid. Furthermore new investment projects were likely delayed or deferred until the supply situation improves, affecting future economic growth.

On the surface, the situation seems to have improved, not due to increased generation capacity; but largely because of the global economic downturn.

The impact of the global financial and economic crisis on SADC region

Ladies and Gentlemen

With regard to the global financial and economic crisis, the SADC region was mostly affected by the second round effects of the global financial and economic crisis that became more pronounced in 2009. Economic growth slowed down but remained positive in most Member States. The most affected sectors were mining, manufacturing (particularly textiles, vehicles, etc) and tourism.

Real GDP

Available statistics indicate that the SADC region's real GDP increased marginally by an estimated 2.7 per cent in 2009 down from an increase of 4.8 per cent recorded in 2008.

The fall in demand for exports and decline in commodity prices; and deterred foreign direct investment (FDI) are among the factors that contributed to the unsatisfactory performance of economic performance in the region.

The fall in economic growth has had adverse impact on employment in the region. The impact on employment was more pronounced in the mining and tourism sectors. However, in some Member States the impact on employment was relatively moderate compared to the rest of the world.

Inflation

Inflation pressure had eased in most Member States in 2009. By December 2009, a number of Member States including Botswana, Lesotho, Malawi, Mauritius, Namibia, Seychelles, South Africa, Zambia and Zimbabwe had recorded single digit inflation. The easing in inflation pressures at global level mainly as a result of stable food prices and modest increases in fuel prices; combined with improvements in food supply in the region, helped to contain inflation pressures in the region in 2009. However, the region still recorded a double digit inflation rate averaging 10.2 per cent in 2009 compared to 13.8 per cent (excluding Zimbabwe) in 2008.

Fiscal Balance and Public Debt

With global demand and commodity prices declining resulting in deteriorating external balances including reductions in remittances; and slow down in economic growth, government revenues declined in most Member States. On the other hand, expenditures were maintained and in some circumstances increased to finance critical programmes aimed at mitigating the impact of the global economic crisis. As such fiscal deficit for the region deteriorated to 5.5 per cent in 2009 compared to a surplus of 2.0 per cent recorded in 2008. These deficits were mostly financed by borrowing both from the domestic and external markets. Consequently, public debt increased, although still sustainable and within the range of not more than 60 per cent of GDP. The region recorded a public debt of 48.6 per cent of GDP in 2009 compared to 38.4 per cent in 2008.

Measures implemented to mitigate the impact of the global economic crisis on the SADC region

Ladies and gentlemen

In order to mitigate the impact of the crisis on their economies, Member States took a number of measures. Allow me to share with you the broader ones as follows:

(i) most Member States implemented expansionary fiscal policies and relaxed monetary policies to accommodate expanded government spending. This was in the form of stimulus packages aimed at protecting retrenched workers and supporting selected firms affected by the crisis;

(ii) a majority of Member States implemented policies aimed at rationalizing government budgets by cutting on non-essential expenditures such as travel;

(iii) some Member States extended tax relief for selected and critical companies; and

(iv) a number of Member States continued with the implementation of reforms aimed at improving the business environment.

Lessons from the global economic crisis and policy direction for the region

Ladies and Gentlemen

Lastly, the most important thing from the current global financial crisis; and indeed the recent food and fuel prices, and energy shocks is what we can learn from them. There are a number of lessons SADC as a region has learnt from the current shocks. These lessons will ultimately shape the policy direction of the region in an effort to accelerate and sustain economic growth which is vital for achieving the ultimate objective of eradicating poverty in the region. Allow me to share with you some of the main lessons and the policy direction going forward as follows:

(i) Member States that had accumulated surpluses and foreign reserves were able to implement stimulus packages timeously. There is, therefore, need for Member States to build some savings which can be used in times of shocks and crises. Further more, Member States should have contingency plans to accommodate shocks and crises especially now that shocks and crises have become common;

(ii) macroeconomic reforms and prudent macroeconomic management achieved in the last ten years helped economies of the region withstand the impact of the crisis. As such prudent macroeconomic policy remains the solid foundation for economies to withstand impacts of shocks and crises.

(iii) the current global economic crisis further emphasizes the need for the economies of the region to be diversified, including export markets and local value addition to build resilience;

(iv) there is need for Member States to develop alternative markets as there is uncertainty regarding the future of some of the preferential trade arrangements such as AGOA. This emphasizes the need for the region to step up efforts for the regional integration agenda;

(v) there is need for Member States to diversify their sources of revenue, particularly those that depend on SACU revenues;

(vi) there is need for the region to undertake wide and deep reforms to improve the investment climate and support ease of doing business as a means to increase investment and generate new employment opportunities in the region;

(vii) there is need for political stability and commitment to harness financial and human resource capacities in the Diaspora; and attraction of foreign direct investment, in general;

(viii) there is need to step up issues of climate change into the macroeconomic policy and planning arena. Just to give an example: climate change affects agriculture production which affects food security through droughts and floods; and damages infrastructure (roads and railways) through floods. These have a bearing on the macroeconomic fundamentals of any economy through rising inflation, widening fiscal and external balances and ultimately increasing poverty.

(ix) development of the physical infrastructure (transport and energy) of the region is critical. As such, fast tracking the implementation of the Project Preparation and Development Facility (PPDF) would go a long way in supporting physical infrastructure development.

(x) there is need to increase productivity of the different economic sectors of the region (e.g. agriculture) through improvement in the quality and quantity of human skills capacity worsened by HIV and AIDS pandemic.

Ladies and gentlemen

I wish to conclude by saying that some of what we are calling shocks are no longer shocks. Others have been with us for some time now. For example, we can predict with some certainty that if we have good rains for two years, in the third year we will have a drought, dry spells or rains with floods. What is important now is to move from being reactive to being proactive regarding some of these shocks. I am looking forward to the discussions on this important subject.

I thank you for your kind attention.