Southern African Global Competitiveness Hub

Macroeconomic Impact of Global Financial and Economic Crisis on Southern Africa

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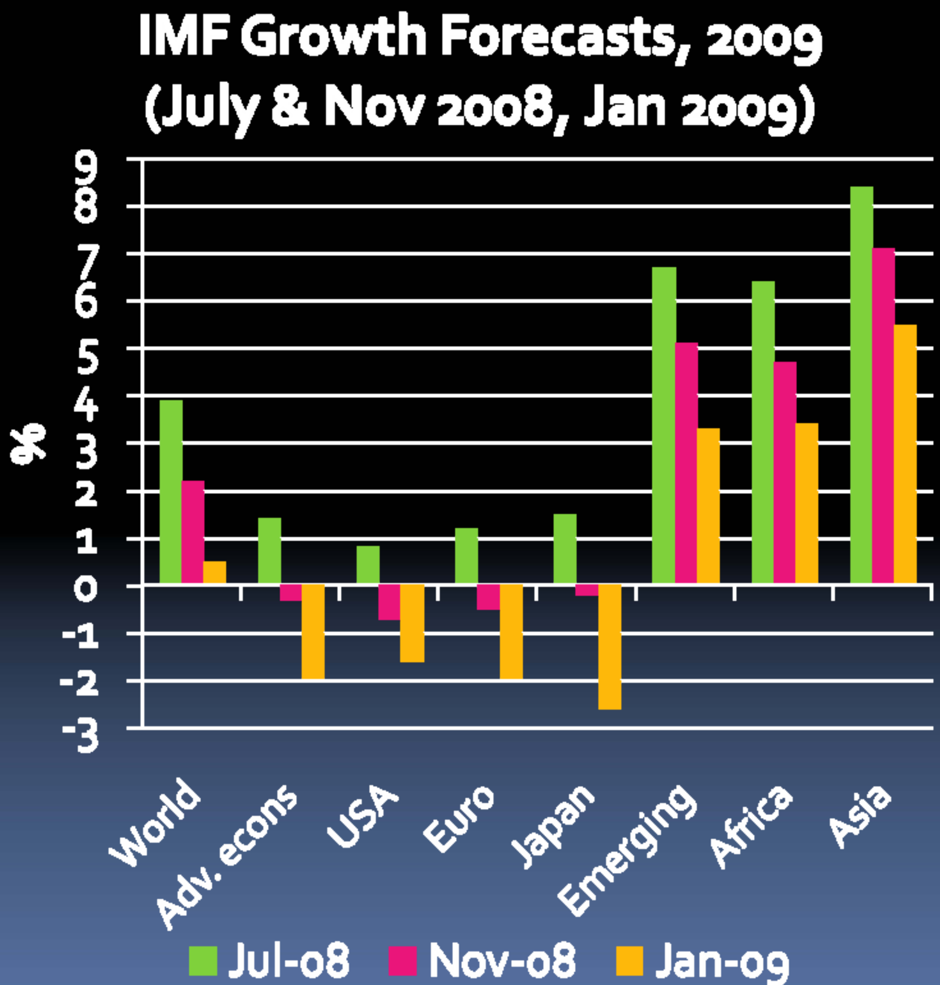
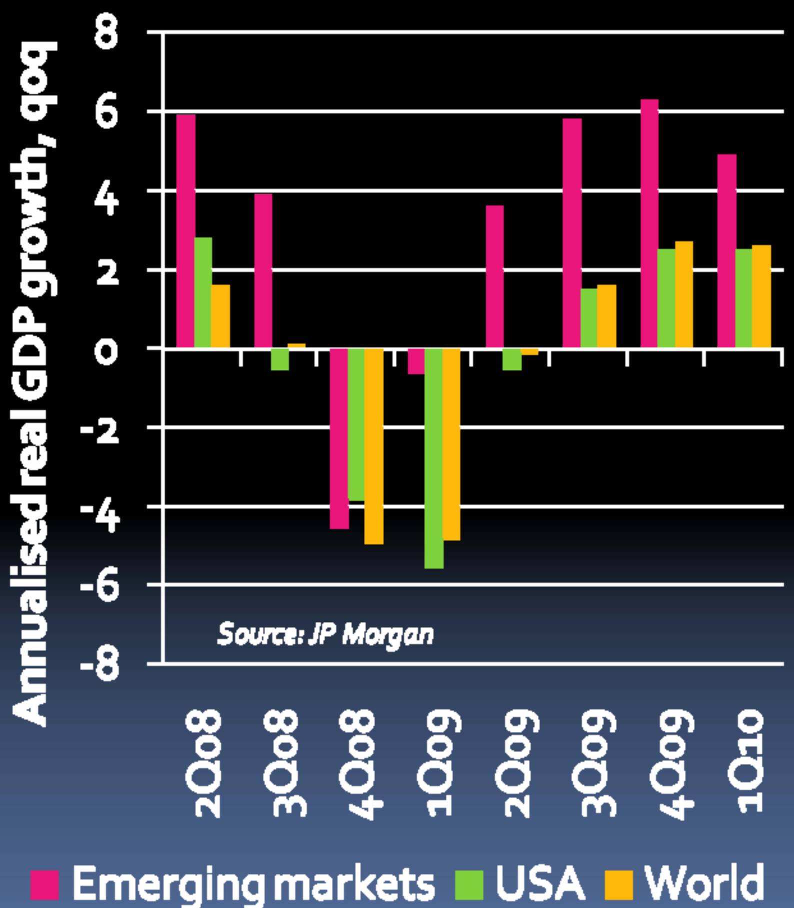
Global Growth Slowdown - IMF



- Global growth forecasts revised down from 3.9% to 0.5% (IMF)
- Developed country growth forecasts slashed to -2.0%
- Emerging / developing much faster growth at 3.3%, but still affected
- Further downward revisions?

Global Growth Slowdown - JPM

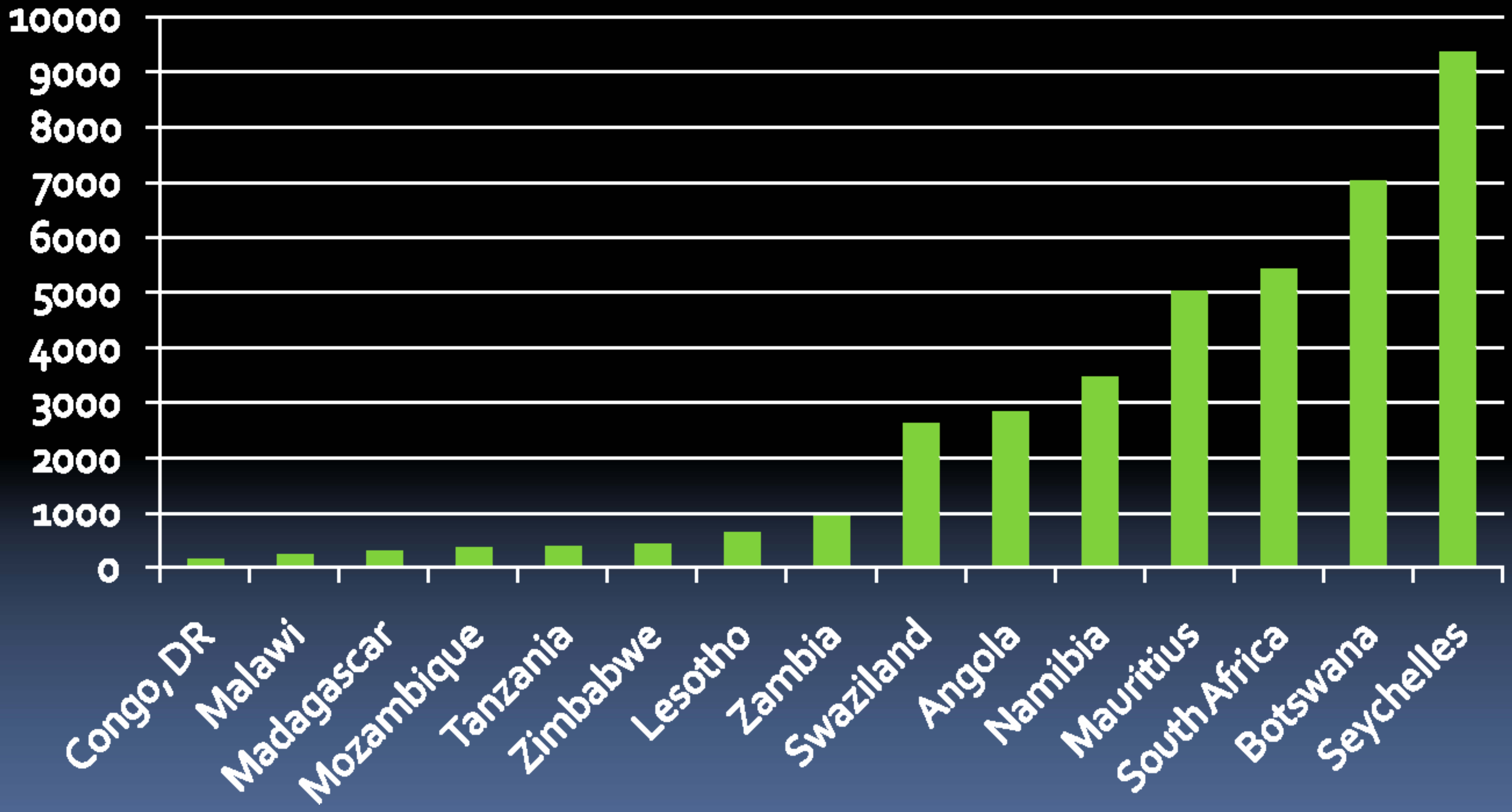


- Growth forecasts being steadily revised downwards
- World economy in recession in 2009 – first y-o-y negative growth since WW2
- Stronger growth in emerging markets, but still big drop
- Japan & euro area lagging US
- Weak recovery towards end of 2009
- Timing of recovery being pushed further out
- Robust growth not expected before 2011

Impact on SADC Economies

- Domestic financial sector
  - Limited impact
- Trade
  - Impact of global recession and ending of commodity price boom
  - Export slowdown
  - Protectionism?
- External balance (BoP)
  - Wider CAD
  - Financing constraints
- Fiscal balance
  - Revenue slowdown
  - Larger deficits
- GDP
  - Growth slowdown likely
- Positives
  - Inflation
  - Power supplies
  - Oil imports

SADC Economies – GDP per capita ($), 2006



Export Slowdown

- Main impact on mineral producers
- Huge declines in:
  - Oil prices (-70%)
  - Base metal prices (copper, -70%; nickel, -80%)
  - Diamond sales volumes, to a lesser extent prices

- Slow recovery forecast in commodities markets, but no return to 2007/8 peaks
- E.g. Stanchart f'casts 2009 avg. vs. end-2008
  - Nickel +0%
  - Copper +18%
  - Oil +56%
- Lower than 2008 avg prices

Export Slowdown

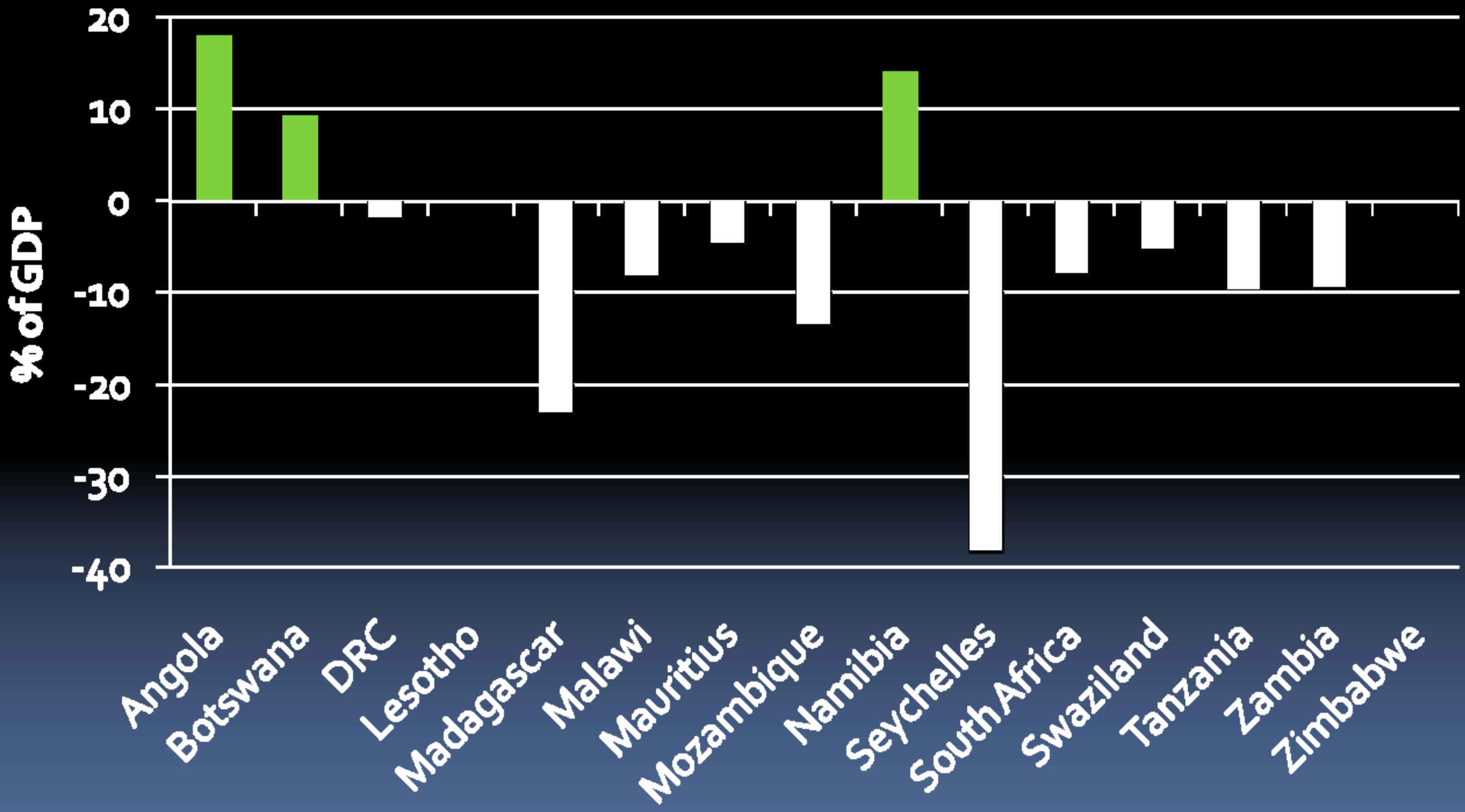
Mineral Exporters

Country	Commodity	% of exports
Angola	Oil, diamonds	99%
Botswana	Diamonds, copper, nickel, gold	86%
Congo DR	Diamonds, oil	64%
Mozambique	Aluminium, gas	74%
Namibia	Diamonds, copper, uranium	59%
South Africa	Gold, platinum, coal	<50%
Zambia	Copper, cobalt	77%

Other Exports

- Tourism
  - Slowdown in long-haul tourism due to recession
  - Mauritius, Seychelles most dependent
  - Also Botswana, SA, Zambia, Namibia, Mozambique, Tanzania
- Motor vehicles (SA)
  - sharp fall in new vehicle sales due to credit crunch
- Other exports also impacted, but less so
  - Food, clothing
- Being more diversified helps, but a matter of degree

Current Account Deficit (2008)

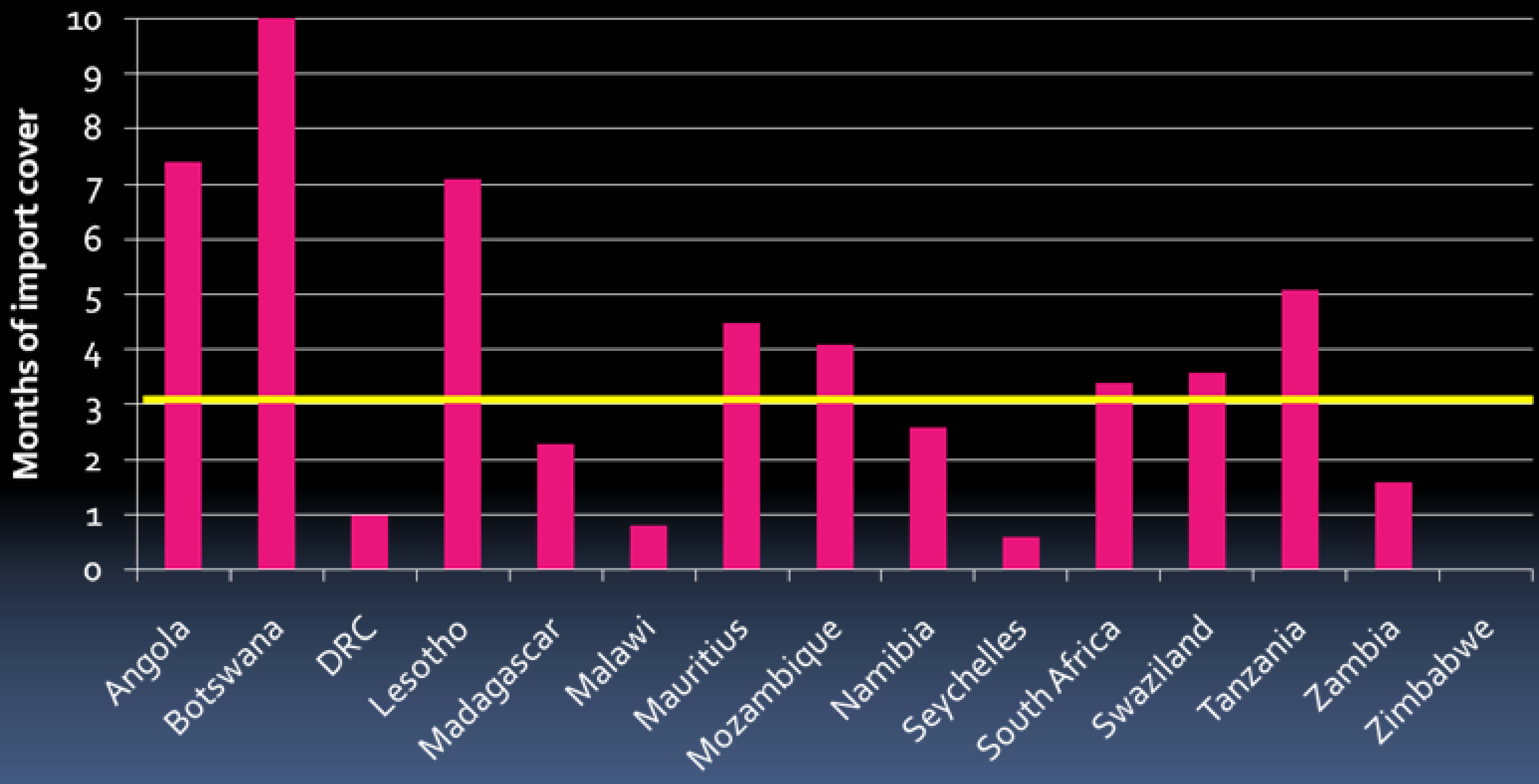


Source: IMF Regional Economic Outlook for Sub-Saharan Africa, Oct 2008

Financing of Current Account

- Short-term portfolio flows (MICs)
  - Tightening of credit markets and "flight to quality" has hit emerging markets
  - Higher cost of funds (risk premium)
- FDI (all ex. Zimbabwe)
  - Credit crunch
  - Project viability (esp. minerals)
- Donor funds (LICs)
  - Fiscal pressures in donor countries
  - Limited IMF and World Bank funds
- Remittances (Lesotho, Madagascar, Malawi, Zimbabwe)
  - Rising unemployment in developed countries
  - Reduced remittance flows
- FX reserves

Foreign Reserves, 2008



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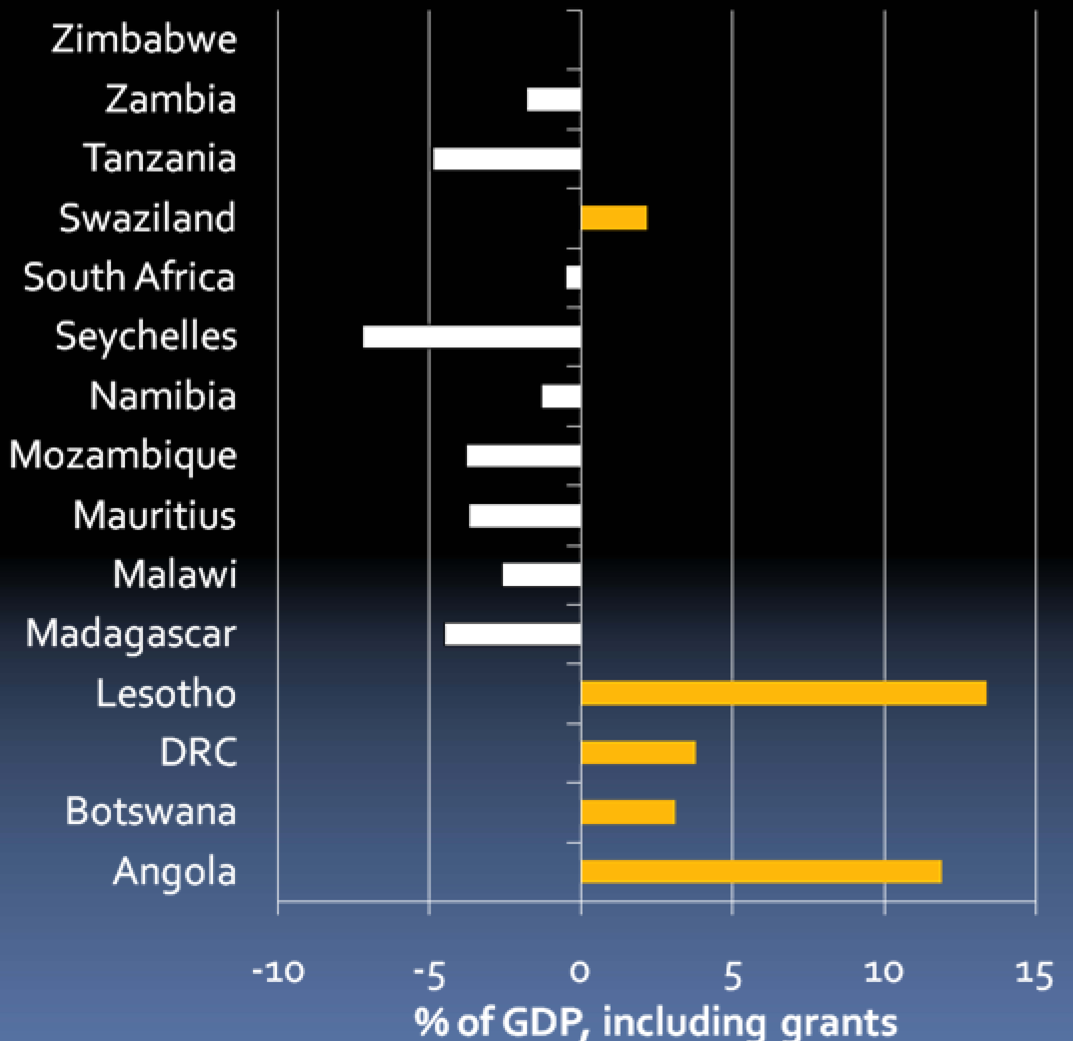
Fiscal Balance (2009)



- Lower revenues likely due to reduced trade and growth
- Countries with large deficits vulnerable
- Also those dependent on SACU revenues

Summary of negative impacts

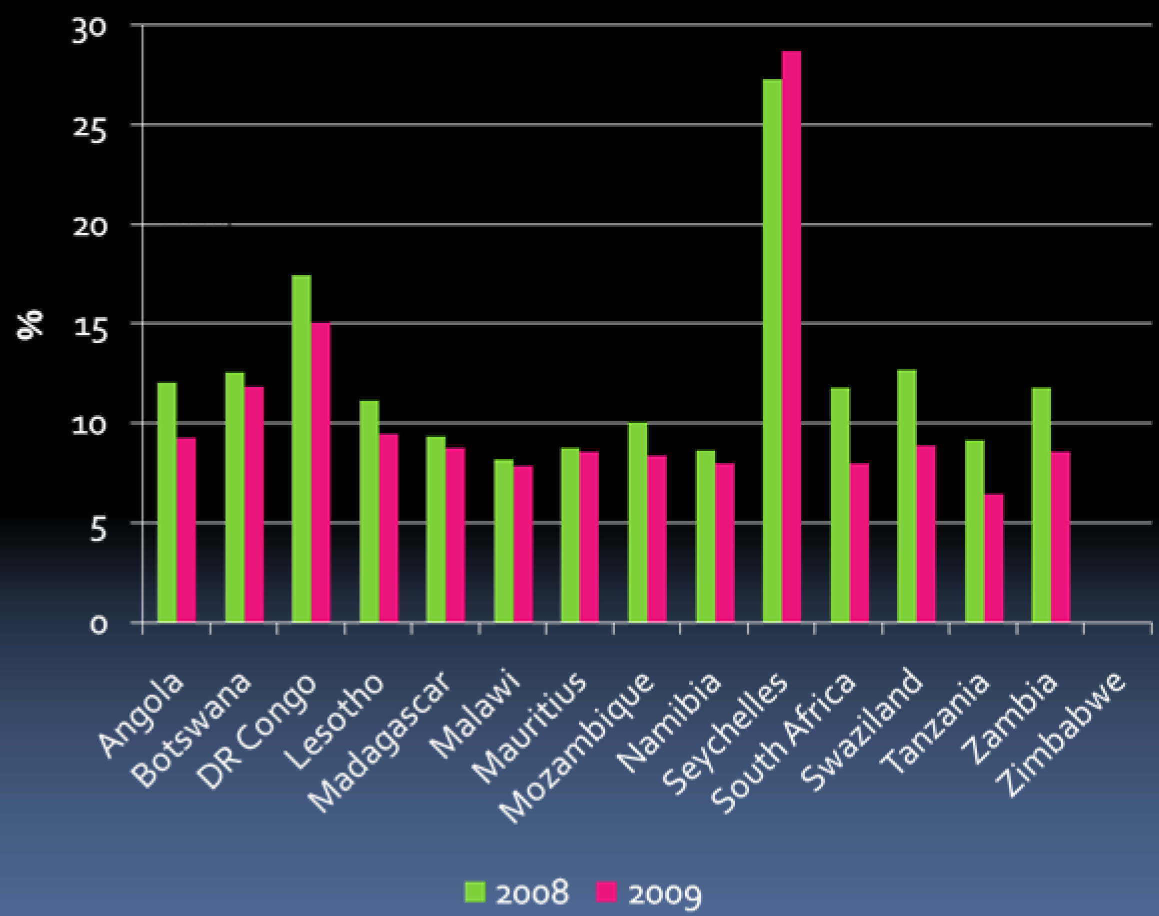
- Slower / negative GDP growth
- Reduced investment
- Increased current account deficits
- Financing constraints
- Exchange rate weakness
- Fiscal deficits
- Rising unemployment
- Uncertainty over depth and duration of crisis

The Bright Side

Financial Sectors

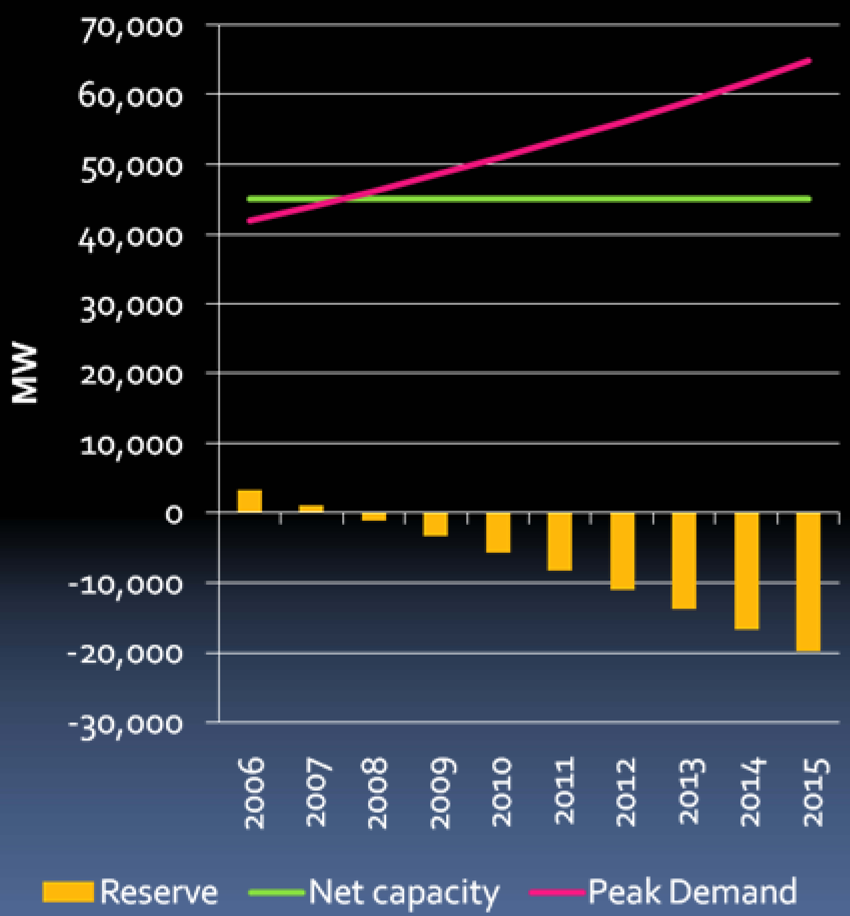
- Low levels of integration of SSA in global financial system a plus
- Less exposed to complex financial instruments and wholesale/foreign funding
- Money markets functioning normally
- But vulnerable to:
  - Loan losses
  - Losses on financial assets (e.g. Deposits with other banks)
  - Capital repatriations
- Equity markets following global markets

Inflation Forecasts



- Inflation will fall due to:
  - Lower oil prices
  - Lower food prices
  - Sharply declining global inflation
- Will lead to lower interest rates

Electricity



- Reserve margin rapidly eroded
- Eskom now expects no growth in demand in 2008-2009
- New capacity of 40000MW needed over next decade (almost doubling)
- Slowdown provides breathing space
- But commercial financial markets currently closed

Import Bills

- Lower commodity prices:
  - All except Angola & DRC net oil importers
  - Approx 20% of total imports on average
  - Will help CAD
  - Mainly oil, but also other commodity-related imports (e.g. steel)
- Net food importers also aided by lower world food prices

Summary of Impacts

- All countries will be hit, but impact will vary from country to country
- Impact less if:
  - sound policies in place
  - good reserves & low debt
  - more diversified
- Vulnerability from previous high inflation and CADs
- Most vulnerable are mineral exporters with high dependence on foreign capital

Policy Responses

- Exchange rate flexibility – to support adjustment
- Use monetary policy to support growth when inflation is low
- Fiscal policy – can be expansionary s.t. sustainability constraints
- Ensure quality of government budgeting & spending
- Renewed focus on financial sector supervision & regulation – banks & non-banks
- Need for high quality, timely economic and financial data
- Sustain reforms

Thank You