



Southern Africa Development Community

**Update on the Impact of the Global
Economic Crisis on SADC**

TIFI Directorate

OVERVIEW

A pull out from the recession has been registered in the global economy. However, stabilisation is uneven and the recovery is expected to be sluggish. Accordingly, global activity is forecast to contract by 1.1 per cent in 2009 and to expand by 3.1 per cent in 2010.

Growth in Africa has slowed significantly as a result of the collapse of global trade and disruptions in global financial markets, but growth is expected to regain momentum as the global recovery gets under way. The effect of the global recession was initially felt most strongly in those economies more highly integrated into global financial markets, including South Africa. Subsequently, the impact of the fall in financial flows propagated to oil exporters (including Algeria, Angola, Libya, Nigeria), manufacturing exporters (Morocco, Tunisia), and commodity exporters (Botswana) as global trade collapsed. The recent improvement in financial conditions and commodity prices, however, will help these economies recover from the damage.

Real GDP growth in Africa is projected to decline from an average of 5.2 per cent in 2008 to 1.7 per cent in 2009, before accelerating to 4 per cent in 2010. This growth performance, while disappointing in light of the experience of the mid-2000s, is still encouraging given the severity of the external shocks. An important factor behind this outcome has been that many governments in the region have been able to use fiscal balances as shock absorbers, sustaining domestic demand and helping contain employment losses.

The pace of recovery will depend on the balance between opposing forces. The downward drag exerted by the financial shock; the sharp fall of global trade; and the general increase in uncertainty and collapse of confidence is gradually diminishing. However, supportive forces are still weak. Many housing markets have yet to bottom out. Financial markets remain impaired and bank balance sheets still need to be cleaned and institutions restructured.

REGIONAL ECONOMIC DEVELOPMENTS

Just like the picture at global and continental levels, growth in the SADC region is expected to slow down significantly. While commodity prices are improving, the current account balance positions remain under pressure; government revenues are on the decline, thus exerting pressure on the fiscal balances of Member States. However, inflation pressures have eased on the back of improved food supply and an ease in oil prices.

Inflation

Downward trends in inflation have been registered in most Member States after dramatic increases in food and fuel prices in 2008. Since January 2009 to July 2009, inflation has slowed down, with Botswana, Lesotho, Malawi, Mauritius, Namibia and South Africa recording single digit inflation (see Table 1). Regional average inflation is expected to slowdown to 12.6 per cent in 2009 and further to 8.0 per cent in 2009 (see Fig 1).

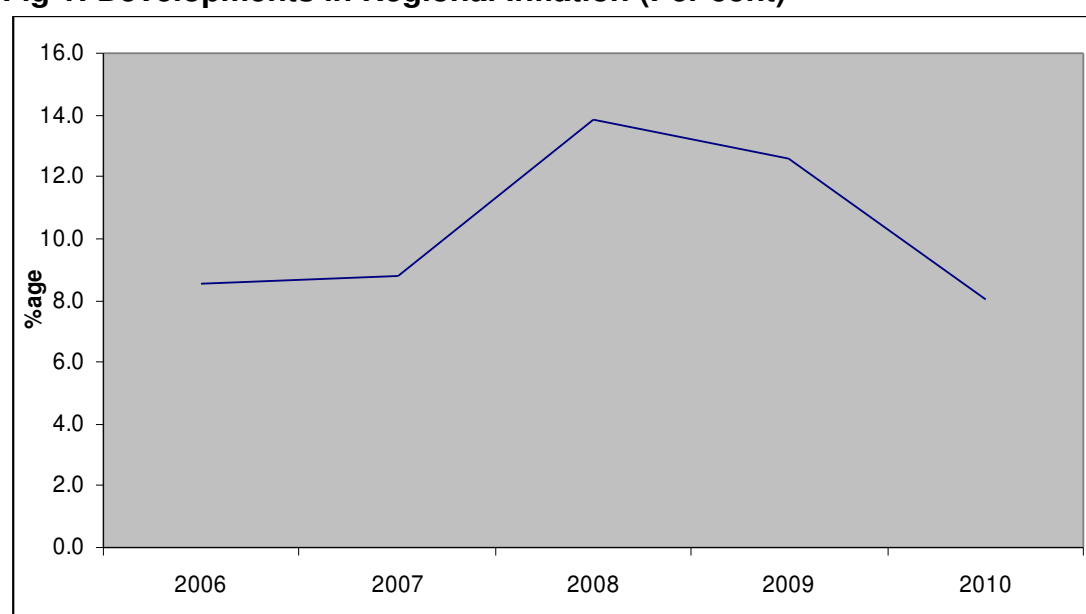
Table 1: Developments in Inflation from January to July 2009 (year on year)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Angola	...	...	...	...	...	...	...	...
Botswana	12.8	11.7	11.7	10.2	8.4	7.0	6.0	...
DRC	...	...	...	...	...	...	...	...
Lesotho	10.7	10.2	10.1	9.5	8.9	8.1	6.9	...
Madagascar	...	...	...	...	...	...	...	...
Malawi	10.1	9.7	9.5	9.2	8.7	8.4	8.0	7.8
Mauritius	5.2	4.6	4.8	3.8	2.8	3.3	1.9	...
Mozambique	...	...	...	...	...	...	...	...
Namibia	11.6	11.6	11.2	10.0	9.6	9.1	7.5	...
Seychelles	...	49.8	49.5	47.9	46.7	42.8	39.8	30.2
South Africa	8.1	8.6	8.5	8.4	8.0	6.9	6.7	...
Swaziland	...	...	...	...	...	...	...	...
Tanzania	12.9	13.3	13.0	12.0	11.3	10.7	10.9	12.1
Zambia	16.0	14.0	13.1	14.3	14.7	14.4	14.0	...
Zimbabwe	...	...	...	...	...	...	...	...

Source: National Authorities Websites

The improvements in inflation are on the back of improvements in the supply of food in the region. According to the SADC Food Security Early Warning System update of September 2009, SADC cereal production increased marginally from 29.62 million tonnes in 2008 to 31.26 million tonnes in 2009, representing a 6 per cent increase. All Member States except for Lesotho, Namibia, South Africa and Tanzania indicate increases in cereal production in 2009 compared to last year. The region is expected to record a cereal surplus of 476,000 tonnes in 2009 compared to a deficit of 1.78 million tonnes in 2008.

Fig 1: Developments in Regional Inflation (Per cent)



Source: SADC Secretariat March 2009 & IMF WEO October 2009.

On the international market prices of most agricultural commodities have fallen in 2009 from their 2008 height, an indication that many markets are returning into balance, in sharp contrast to what was witnessed this time last year. The apparent easing of market conditions is reflected in the benchmark FAO Food Price Index which has fallen by one-third from last June's peak (see Fig 2). In terms of production, the increased global production is sufficient to meet demand for food and other uses as well as facilitating replenishment of global reserves to pre-crisis levels.

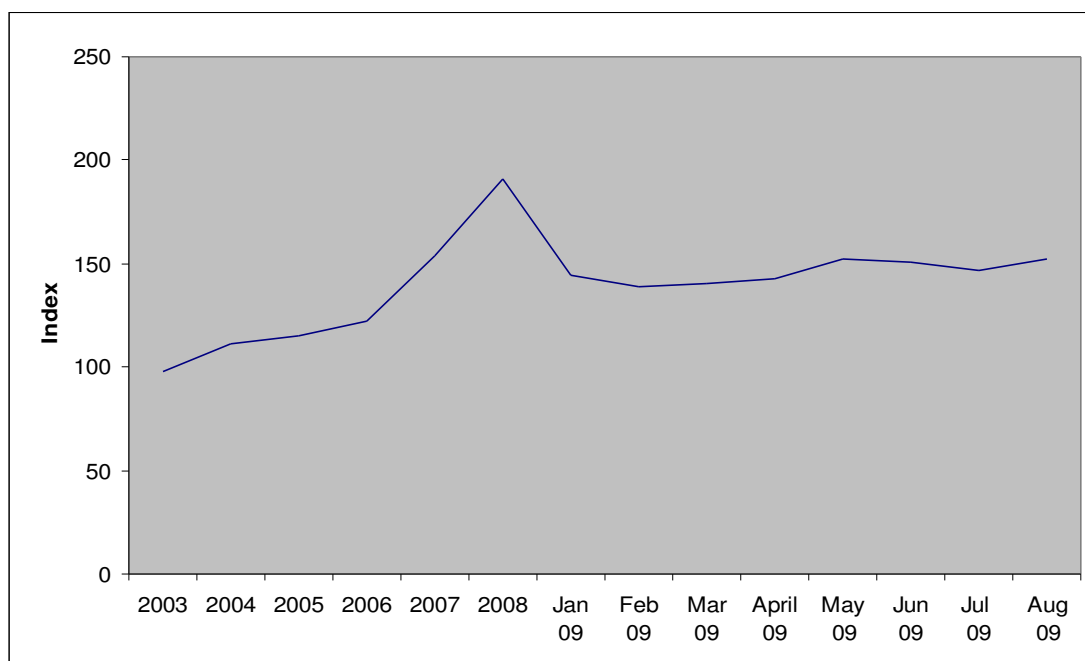


FIG 2: FAO Food Price Index (2002-2004:100)

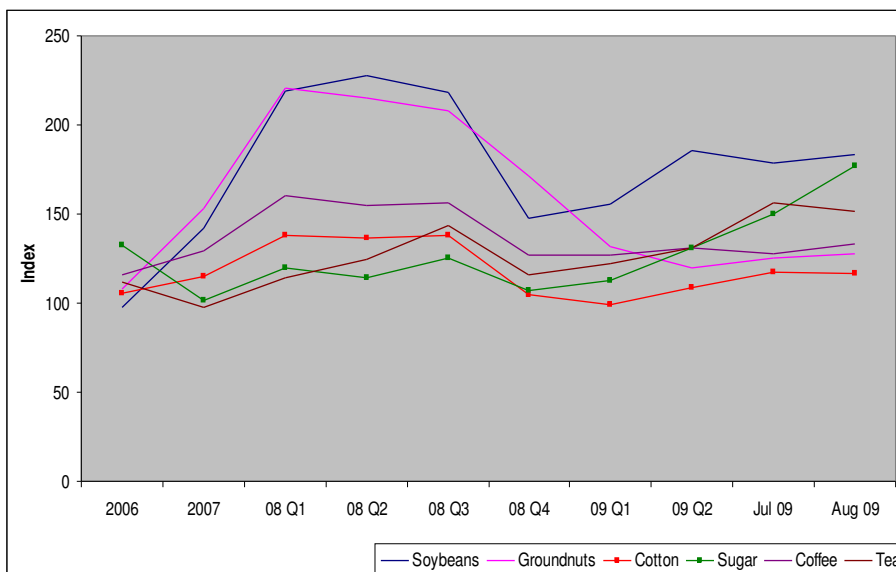
Source: Food Agricultural Organisation Database.

In view of the above and assuming that fuel prices, which dictate inflation for oil importers in the region, remain at current levels, the downward trend in inflation is expected to be sustained into 2010.

External Sector

Since the last update in June 2009, the external sector has improved in terms of commodity market prices. The upward trend in agricultural commodity prices recorded at the beginning of the second quarter of 2009 continued in

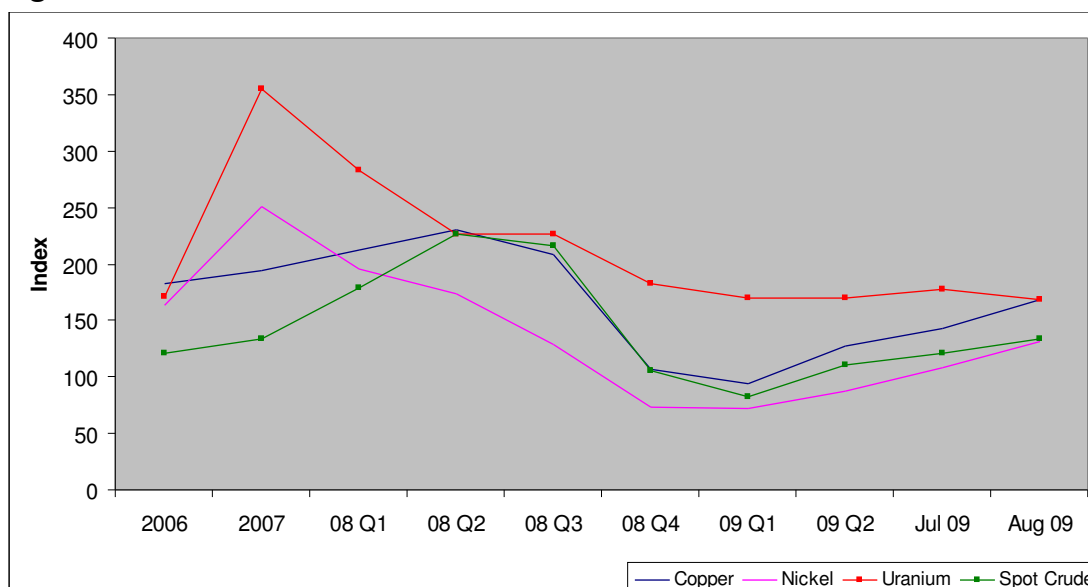
Fig 3: IMF- Indices of Market Prices for Commodities



the third quarter, with sugar recording a stronger trend (see Fig 3). Regarding minerals, commodity prices of copper and nickel have improved by 78 per cent and 82 per

cent from first quarter to August 2009, respectively (see Fig 4).

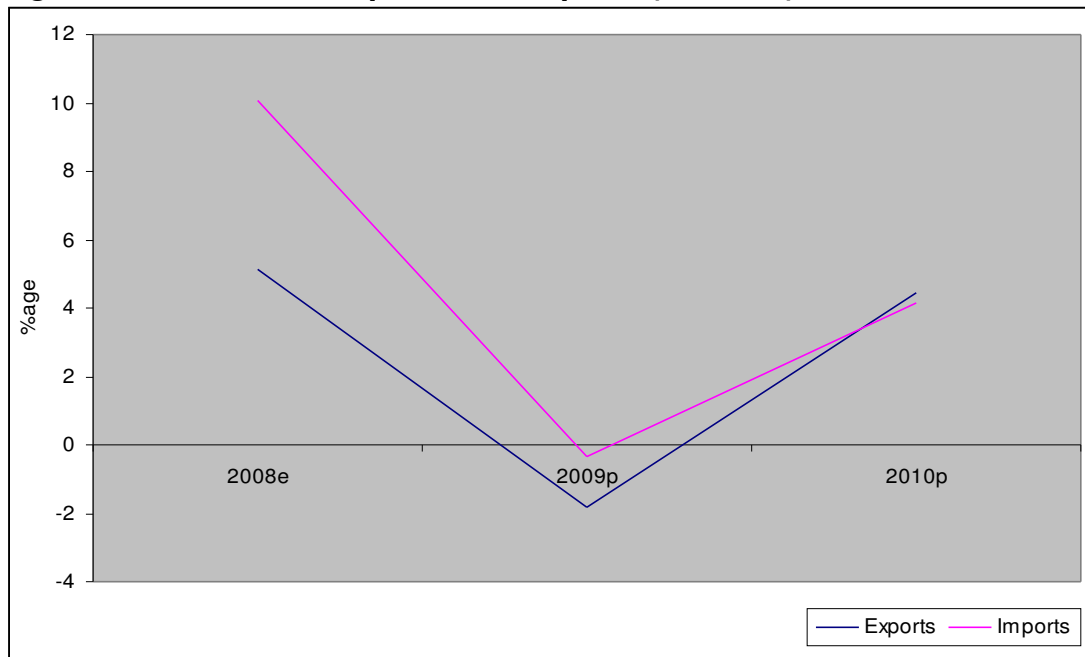
Fig 4: IMF- Indices of Market Prices for Commodities



However, according to the African Economic Outlook, volumes of exports for SADC are expected to decline by 1.8 per cent in 2009 compared to an increase of 5.1 per cent in 2008. In 2010, volumes of exports are projected to increase by 4.4 per cent (see Fig 5).

The volumes of imports are expected to decline marginally by 0.4 per cent in 2009 compared to an increase of 10.1 per cent recorded in 2008. Imports volumes are projected to increase by 4.1 per cent in 2010.

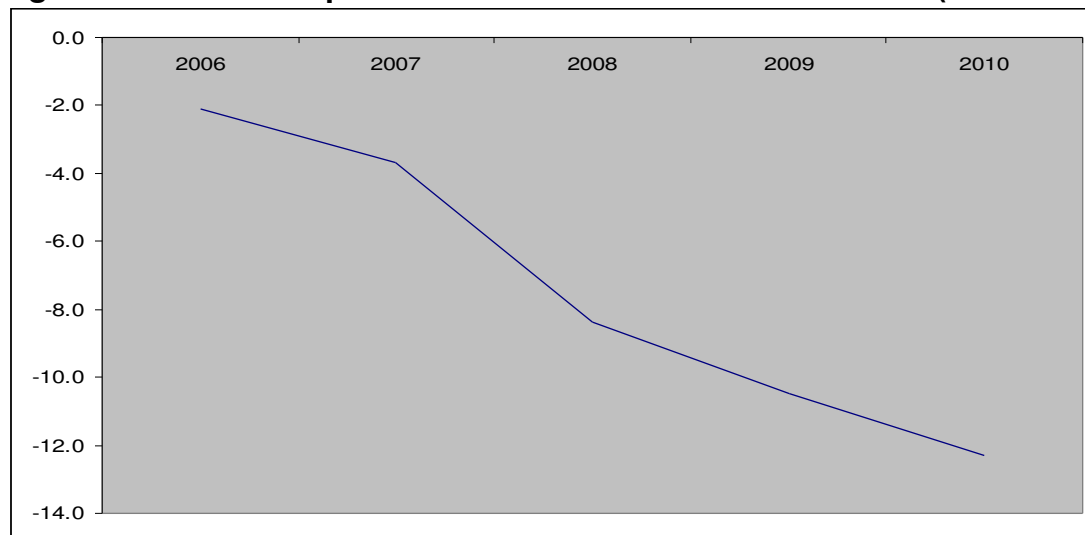
Fig 5: Real Growth in Exports and Imports (Per cent)



Source: Africa Economic Outlook (AfDB, OECD, EU, ACP & UN).

Despite improvements in commodity prices, the external account remains under pressure. The current account balances of most Member States remain wide. The SADC current account deficit is expected to average 10.5 per cent in 2009 and widen further to 12.3 per cent in 2010 (see Fig 6).

Fig 6: SADC – Developments in the Current Account Balance (% of GDP)



Source: SADC Secretariat March 2009 & IMF WEO October 2009.

Fiscal Sector

With depressed economic activity and a weak external sector performance, the fiscal sector remains under pressure. Member States' resource envelopes are expected to shrink as indicated by the total revenue and grants as a percentage of GDP. Total revenue and grants as a percentage of GDP is

expected to decline to 30.6 per cent in 2009 from 32.9 per cent in 2008. Total revenue and grants as a percentage of GDP is projected to marginally increase by 0.1 percentage point to 30.7 per cent (see Table 2).

	2007	2008e	2009p	2010p
Angola	45.1	47.2	36.8	36.2
Botswana	40.7	37.5	31.0	32.3
DRC	17.5	15.5	14.2	13.1
Lesotho	60.4	84.9	70.1	72.0
Madagascar	15.2	17.5	15.7	15.1
Malawi	31.7	30.1	31.3	32.1
Mauritius	19.2	21.5	20.1	20.5
Mozambique	25.3	28.7	30.3	28.8
Namibia	28.9	27.3	27.8	31.4
Seychelles	36.0	36.9	35.6	35.2
South Africa	27.1	26.4	26.1	27.3
Swaziland	43.0	40.5	42.9	39.9
Tanzania	19.0	23.2	21.2	22.0
Zambia	21.2	23.1	25.5	24.3
Zimbabwe	97.4	...	...	...
Average	35.2	32.9	30.6	30.7

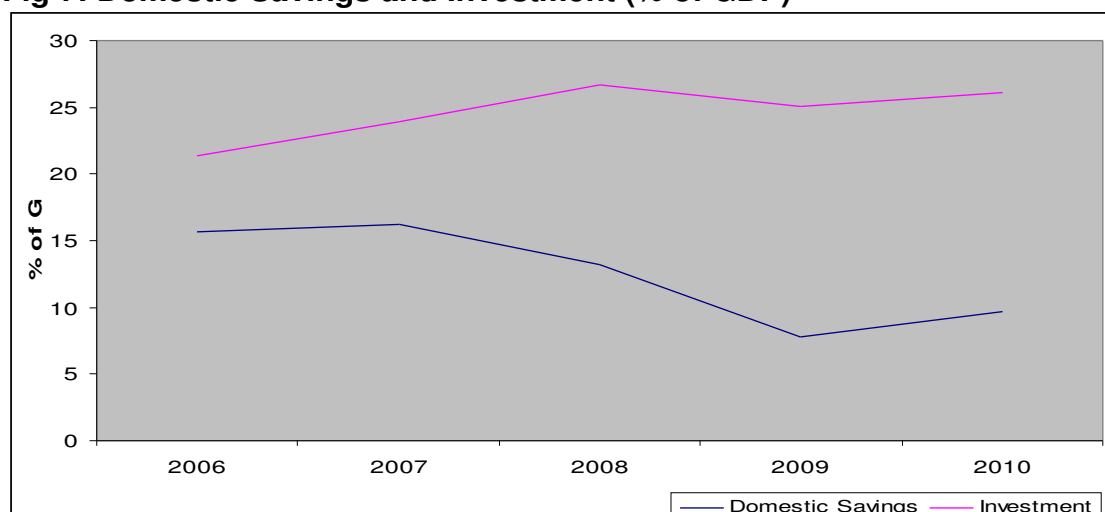
Table 2: Total Revenues and Grants (% of GDP)

Source: Africa Economic Outlook (AfDB, OECD, EU, ACP & UN).

Savings and Investment

According to the WEO April 2009, domestic savings for the region are expected to decline by 5.4 percentage points from 13.2 per cent of GDP in 2008 to 7.8 per cent of GDP in 2009. Domestic savings are projected to increase marginally to 9.6 per cent of GDP in 2010 (see Fig 7).

Fig 7: Domestic Savings and Investment (% of GDP)

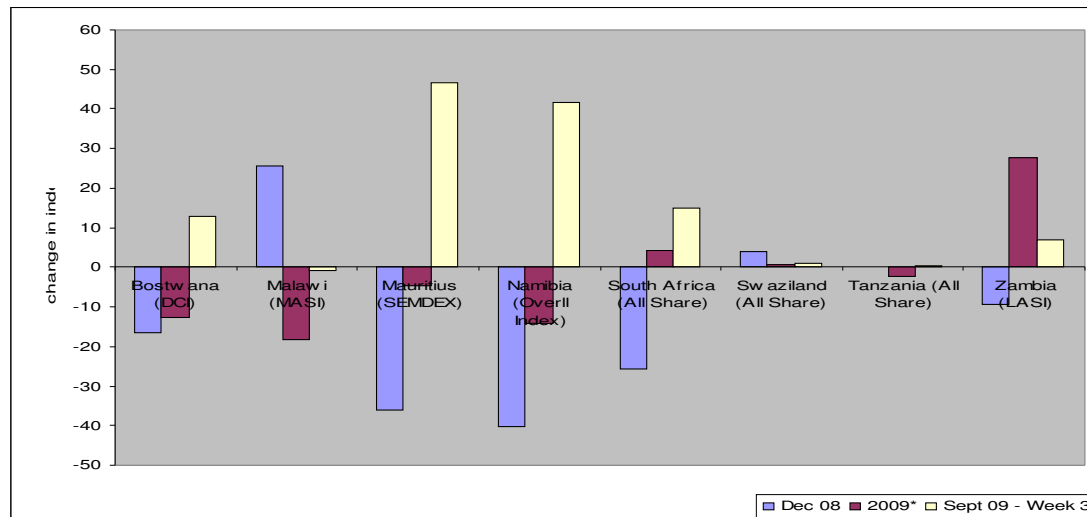


Source: IMF WEO April 2009.

With respect to the capital markets, developments in the share index of selected markets indicate an improvement since the last update in June 2009. Botswana, Mauritius, Namibia, South Africa and Zambia recorded significant

improvements in the share indices by the 3rd week of September 2009 compared to May 2009 positions. The share indices for Swaziland and Tanzania increased by a marginal 1 per cent while Malawi recorded a marginal decline of 1 per cent (see Fig 8).

Fig 8: SADC- Developments in Selected Capital Markets



Source: National Authorities Websites.

2009*: Botswana: End-April; Malawi: end-March; Mauritius: end-April; Namibia: 27 May; South Africa J200: End-April; South Africa J203: 22 May; Swaziland: End April; Tanzania: 27 May; Zambia: 27 May.

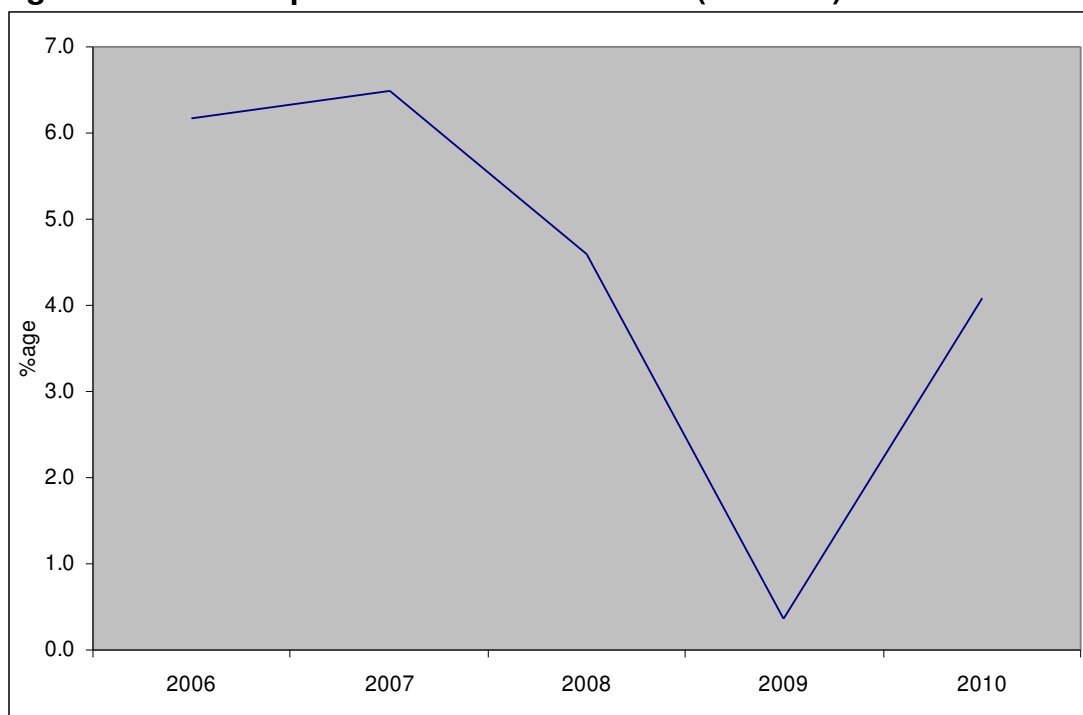
With the above developments, investment in the region is expected to decline by 1.5 percentage points from 26.6 per cent of GDP in 2008 to 25.1 per cent of GDP in 2009. Investment is projected to rebound to 2008 levels in 2010, though 0.5 percentage points lower (see Fig 7).

Prospects in Real GDP Growth

The depressed external sector has impacted negatively on the public resource envelopes of Member States. This has in turn affected the ability of Member States to carry out meaningful investments, thus affecting economic growth prospects.

As such real GDP is expected to increase marginally by 0.4 per cent in 2009, a 0.3 percentage point improvement from 0.1 per cent as estimated in WEO April 2009. Real GDP is projected to increase by 4.1 per cent in 2010 (see Fig 9).

Fig 9: SADC – Prospects in Real GDP Growth (Per cent)



Source: IMF WEO October 2009.

EFFORTS TO ADDRESS THE ECONOMIC CRISIS

Efforts to minimise the impact of the global economic crisis on economies continue at all levels, that is, national, regional, continental and international. Notable efforts include the IMF's injection of \$283 billion in Special Drawing Rights (SDRs) into the global economy; commitments by the G-20; Member States continued with reforms to improve the investment and business environments; and some Member States are undertaking employment and social policy measures to counter the crisis.

IMF Injection of \$283 billion in SDRs and Help for the Poorer Countries

In response to the call by the G-20 April 2009 Summit in London, the IMF allocated \$283 billion in SDRs to supplement its members' foreign exchange reserves. The allocation, equivalent to \$250 billion was made on 28 August 2009 and was followed by a much smaller allocation of \$33 billion on 9 September 2009. The allocation will enable SADC region to bolster its foreign exchange reserves by SDR 3.8 billion (see Table 3).

Table 3: IMF Injection of US\$283 Billion in SDRs into Global Economy

	SDRs (Mn)
Angola	273
Botswana	53.1
DRC	424.5
Lesotho	29.1
Madagascar	97.8
Malawi	55.4
Mauritius	81.1
Mozambique	108.8
Namibia	130.4
Seychelles	7.9
South Africa	1565.1
Swaziland	41.9
Tanzania	159.1
Zambia	400.8
Zimbabwe	328.4
All SADC	3756.4

August 2009

Source: IMF, September 2009.

The French and British governments announced a \$4 billion allocation to the IMF to help poorer countries. The money will go to the IMF new loan facility to help countries which do not have enough money to pay for imports as a result of the economic crisis. The money will come from the \$250 billion allocation distributed on 28 August 2009. Both countries have given up about 20 per cent of their extra SDR quota.

In addition to the above, the Executive Board of the IMF has approved the sale of up to 403.3 tonnes. The proceeds will help finance a new income model for the IMF, making it less dependent on its lending revenue to cover expenses, which include surveillance of Members' economic and financial policies and other non-lending activities. Part of the money raised will also help boost financing for concessional lending to low income countries.

Earlier this year, the IMF agreed to mobilise \$17 billion through 2014 for lending to low income countries, mostly in Africa, that have been hard-hit by the global crisis. A financing package, which includes resources linked to these gold sales, has been agreed to generate the additional new subsidy resources of SDR 1.5 billion needed to help cover the cost of concessional interest rates on increased concessional lending by the Fund.

The G-20 Pledges

The leaders of the G-20 group pledged to bring the world economy out of the recession when they met in London in April 2009. At their Summit in Pittsburgh in September 2009, they reviewed progress in terms of the global

economic crisis and their pledges. The following is the status of the pledges they made:

1. The G-20 pledged a \$1.1 trillion deal to help countries fight the economic crisis. Much of this funding was to be directed toward the IMF. The G-20 has succeeded in increasing the IMF's lending capacity by \$500 billion to \$750 billion. The target was only met in September 2009 after the EU increased its initial pledge of about \$100 billion to \$178 billion. Only a tiny fraction of this (\$2.3 billion) has so far been allocated.
2. As presented above, the IMF has allocated an additional \$250 billion worth of reserves to member countries that can be tapped when needed. Around \$100 billion has been allocated to developing countries. The IMF has also approved its first major sale of gold since 2000 to raise money for additional financing for poor countries. The sale of 403 metric tonnes of gold should raise \$13 billion, more than the \$6 billion asked for by the G-20.
3. The G-20 also pledged to help boost trade by providing \$250 billion worth of financing, with \$50 billion expected to come from the World Bank. The G-20 says that \$65 billion has been taken up so far. For its part, the World Bank has only received commitments of \$7.8 billion from donors.
4. The G-20 said it would support an increase in lending to poor countries of at least \$100 billion through Multilateral Development Banks (MDBs). The G-20 says MDBs are planning to lend an extra \$110 billion this year. However, concrete figures are hard to come by and it is not clear if this is from fresh or existing funding.
5. G-20 governments pledged a total of \$5 trillion in stimulus measures to boost their own economies, predicting that the extra cash would increase global economic output by 4 per cent by the end of 2010. However, few countries have detailed exactly how much they have spent and the IMF's own estimate is slightly more cautious at 2 per cent of GDP in 2009 and 1.5 per cent of GDP in 2010.
6. On the agreement to reform the global architecture to meet the needs of the 21st Century, the G-20 at the September 2009 Summit in Pittsburgh, agreed to:
 - a. a shift in International Monetary Fund (IMF) quota share to dynamic emerging markets and developing countries of at least 5 per cent from over-represented countries to under-represented countries using the current quota formula as the basis to work from; and

- b. adopting a dynamic formula at the World Bank which primarily reflects countries' evolving economic weight and the World Bank's development mission, and that generates an increase of at least 3 per cent of voting power for developing and transition countries, to the benefit of under-represented countries. While recognizing that over-represented countries will make a contribution, it will be important to protect the voting power of the smallest poor countries. The World Bank should play a leading role in responding to problems whose nature requires globally coordinated action, such as climate change and food security. The World Bank and the regional development banks should have sufficient resources to address these challenges and fulfill their mandates.
7. On the pledge to curb tax havens, the G-20 reckons there has been progress on the issue, with governments eager to boost tax receipts as the recession hits public finances. Since April 2009, 13 jurisdictions, including Belgium and Austria, have implemented internationally agreed tax standards, according to the OECD which monitors tax matters. Switzerland and Liechtenstein remain on a "grey list" of about 33 tax havens but have agreed to co-operate with foreign tax authorities. The G20 has given tax havens until March 2010 to co-operate on tax evasion or face sanctions.
8. At the Pittsburgh Summit, the G-20 agreed to take new steps to increase access to food, fuel and finance among the world's poorest while clamping down on illicit outflows. Steps to reduce the development gap can be a potent driver of global growth. To start, the World Bank should develop a new trust fund to support the new Food Security Initiative for low-income countries announced last summer. The G-20 will increase, on a voluntary basis, funding for programmes to bring clean affordable energy to the poorest, such as the Scaling Up Renewable Energy Program.

Reforming Amidst the Crisis

The Ministers responsible for Finance and Investment at their Extraordinary Meeting in February 2009, in Cape Town, South Africa, emphasised the need for urgent and innovative strategies aimed at addressing the challenges of the global recession, in particular, the need:

- (a) to take advantage of opportunities in the Region, and in particular, fast-tracking the regional integration process and addressing issues that impede regional trade such as rules of origin and non-tariff barriers; and

- (b) for the improvement of the investment and business environment in the Region.

According to the World Bank Doing Business Report 2010, despite the many challenges, more governments implemented regulatory reforms aimed at making it easier to do business in 2008/09 than in any year since 2004, when *Doing Business* started to track reforms through its indicators. *Doing Business* recorded 287 such reforms in 131 economies between June 2008 and May 2009, 20 per cent more than in the year before. Reformers focused on making it easier to start and operate a business, strengthening property rights and improving the efficiency of commercial dispute resolution and bankruptcy procedures.

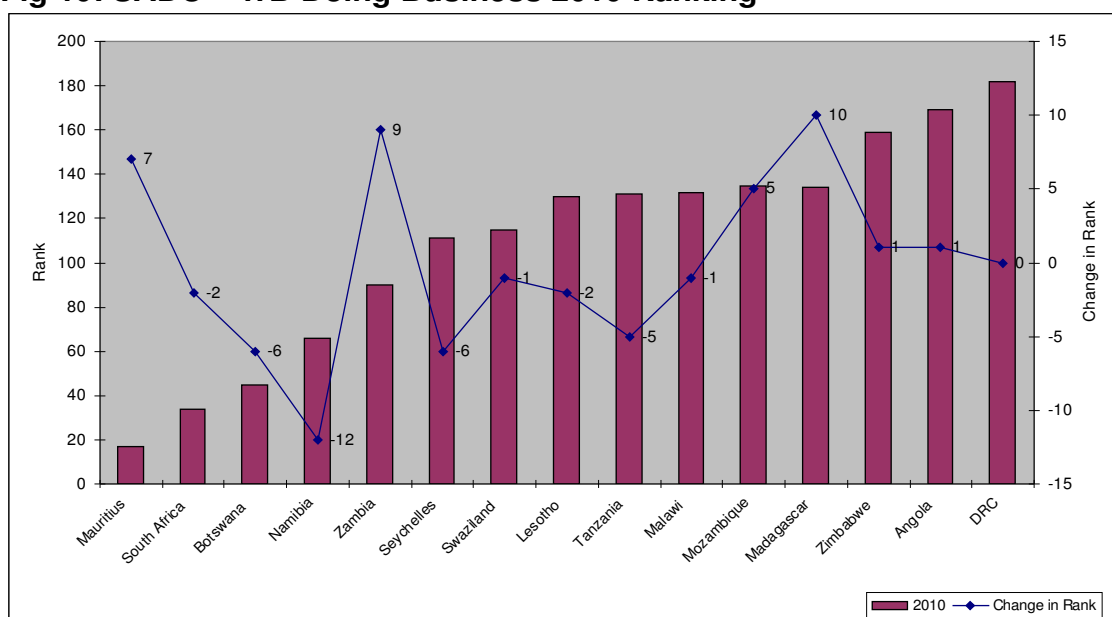
While a majority of Member States slipped in ranking compared to last year (see Fig 10), a number of reforms were undertaken in the following Member States:

- a. Angola made it easier to pay taxes by introducing mandatory electronic filing of social security for businesses with more than 20 employees. The land registry was digitized and split into two units—each covering half the country's land—accelerating procedures needed to transfer property in Luanda. Trade across borders was expedited with a customs improvement programme that streamlined procedures and lowered trade times and costs.
- b. Botswana eased business start-up by making tax registration more efficient and streamlining the process for obtaining a business license. Introduction of case management and improved use of information technology has contributed to more efficient resolution of commercial disputes.
- c. In the Democratic Republic of Congo participation by private companies in terminal handling at the port of Matadi has improved services, reducing the time taken to handle cargo.
- d. In Madagascar business start-up was simplified by streamlining procedures at the one-stop shop and eliminating the stamp duty and minimum capital requirement.
- e. Malawi introduced a law limiting liquidator fees during insolvency procedures. Implementation of a risk-based inspection regime and a post-destination clearance programme for preapproved traders has shortened the time for clearing goods.
- f. Mauritius made employing workers easier with more flexible redundancy procedures, removing the requirement for authorization to

dismiss one or a group of workers and lowering dismissal costs. A new insolvency law introduced a rehabilitation procedure for companies as an alternative to winding up and defines the rights and obligations of creditors and debtors—as well as sanctions for those who abuse the system. A specialized commercial division of the supreme court was created, improving contract enforcement. Access to credit information was strengthened by allowing the licensing of private credit information bureaus and expanding the bureaus' coverage to all credit facilities. Property registration was made easier by setting a limit of 15 days to obtain final property titles from the land registry. The introduction of electronic submissions of customs declarations and bills of lading has expedited trade.

- g. Mozambique simplified business start-up by eliminating requirements for minimum capital and bank deposits. Administrative improvements in customs have helped to reduce the time required to clear traded goods.
- h. South Africa eased the tax burden on businesses by abolishing the stamp duty.
- i. Zambia improved access to credit information by making it mandatory for banks and nonbank financial institutions registered with the Bank of Zambia to use credit reference reports and provide data to the credit bureau.
- j. Zimbabwe lowered the cost of transferring a property by 15 per cent of the value of the property.

Fig 10: SADC – WB Doing Business 2010 Ranking

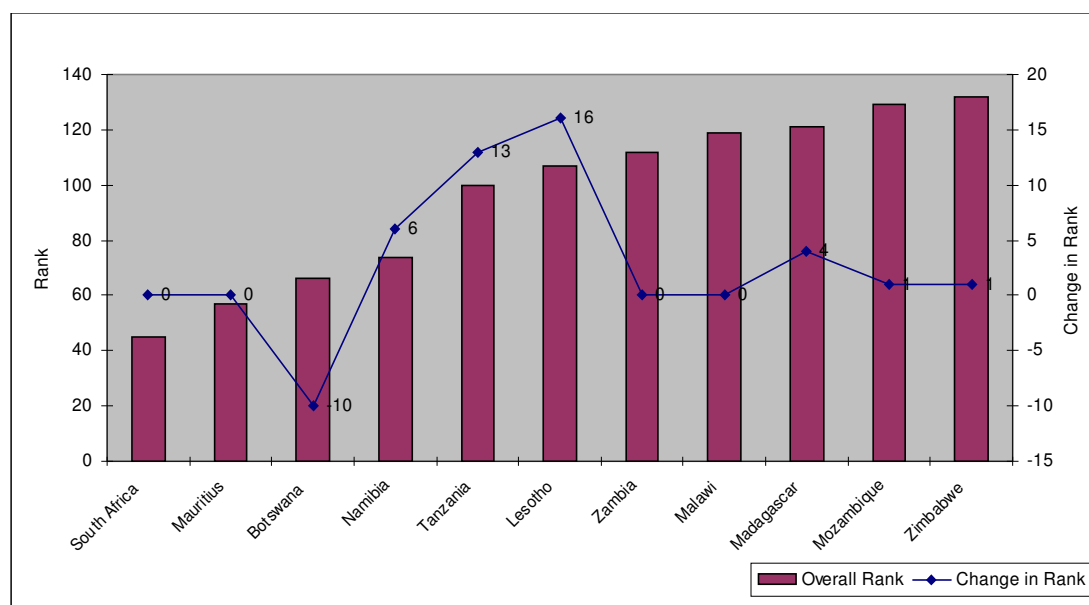


Source: World Bank Doing Business Report 2010.

The picture is the same with the World Economic Forum Global Competitiveness Index (GCI) Report for 2010 released in September 2009. Despite the global economic turmoil, some Member States continue to fare quite well.

South Africa and Mauritius have both maintained a stable performance since last year and are still in the top half of the rankings, and there have been measurable improvements across specific areas in a number of Member States. On the other hand, there have been some significant declines registered in countries that were previously making strides ahead, for example Botswana (see Fig 11).

Fig 11: SADC – WEF Global Competitiveness Index 2010 Ranking



Source: WEF Global Competitiveness Index Report 2010.

Employment and Social Policy Measures to Counter the Crisis

According to the International Labour Organisation (ILO), in the period between mid-2008 and 30 June 2009, countries have taken measures to stimulate employment generation by investing public resources for infrastructure of all types; providing additional support through credit facilities, tax reductions and technical guidance to small enterprises in particular; granting subsidies and reductions in social security contributions to enterprises to lower the cost of retaining workers in jobs and facilitating new hires; and retaining workers in jobs through working time reductions, partial unemployment benefits, labour cost reductions and training schemes.

In addition, countries have provided income support to workers and families through extension of unemployment benefits; extension of and adjustments in health benefits and old-age retirement benefits; and expansion of cash

transfer programmes and social assistance programmes. Further, they have supported the unemployed and jobseekers through strengthening of public employment services; and expansion of training programmes and facilities.

In the region, Tanzania increased coverage or level of old-age pension and support to the elderly. Tanzania also injected an additional TZS 29 billion for credit guarantees for export firms and SMEs as a means of improving access to credit.

South Africa increased targeting of employment programmes at the poor; and introduced family-friendly policies aimed at promoting employment of women. For instance, the R787 billion project for infrastructure development includes a provision that wherever possible labour-intensive approaches will be used for road maintenance. In addition to transportation and irrigation projects, the public works programme will give more attention to home-based care and community health. The programme targets poor heads of households and is expected to benefit women, who tend to be less represented in traditional public works schemes. It is expected to create 4.5 million job opportunities of 100 days, including skill acquisition opportunities.