MEFMI

Macroeconomic and Financial Management Institute of Eastern and Southern Africa

ECONOMIC DEVELOPMENTS IN THE MEFMI REGION

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AT THE NATURAL RESOURCES MANAGEMENT FIELD TRIP IN NORWAY

WEDNESDAY, 22 OCTOBER 2014

1. Introduction

The Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) is composed of fourteen (14) Member States, namely Angola, Botswana, Burundi[1], Kenya, Lesotho, Malawi, Mozambique, Namibia, Rwanda, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. The Institute's Secretariat is in Harare, Zimbabwe.

Figure 1: MEFMI Region

[1] Burundi was admitted on the 7th of October 2014, during the MEFMI Board Meeting in Washington, DC.

The MEFMI region has about 243 million people, representing around 22% and 26% of the population in Africa and Sub-Saharan Africa (SSA), respectively. As at end 2013, the estimated gross domestic product (GDP) for the MEFMI region was US$191.3 billion, equivalent to 20% of GDP in Sub-Saharan Africa and 14% in Africa. GDP per capita was US$1,655, exceeding the Sub-Saharan Africa and Africa ones by 39% and 25%, respectively **(Tables 1, 2 and 3).** Major economic activities include, among others, Agriculture, Mining, Tourism and Services.

Table 1: Population Size of the MEFMI Region (Million People)

Country/Region	2009	2010	2011	2012	2013 (Estimate)
Angola	19	20	20	21	21
Botswana	2	2	2	2	2
Kenya	40	41	42	43	44
Lesotho	2	2	2	2	2
Malawi	15	15	15	16	16
Mozambique	23	24	25	25	26
Namibia	2	2	2.22	2	2
Rwanda	11	11	11	11	12
Swaziland	1	1	1	1	1
Tanzania	44	45	46	48	49
Uganda	33	34	35	36	38
Zambia	13	13	14	14	15
Zimbabwe	13	13	13	14	14
MEFMI Total	**217**	**223**	**229**	**236**	**243**
South Africa	**50**	**51**	**52**	**52**	**53**
Sub-Saharan Africa	**842**	**865**	**888**	**912**	**937**
Africa	**1,003**	**1,029**	**1,055**	**1,082**	**1,109**
World	**6,804**	**6,884**	**6,965**	**7,043**	**7,125**

Source*: MEFMI Countries, IMF and World Bank*

2. Macroeconomic Performance in the MEFMI Region

2.1. Real GDP Growth (2009-2014)

The MEFMI region is among the fastest growing regions in Sub-Saharan Africa. The region registered a real GDP growth rate of 6.9% and 5.4% in 2010 and 2013, respectively. This favourable economic growth was supported by favourable domestic and external global demand for goods and services, following economic recovery in the advanced economies. This growth performance places the MEFMI region second to East Asia and the Pacific, which grew at 7.2% in 2013.

Albeit the looming global market turmoil in industrialised countries and unfavourable geopolitical developments, including the Ebola disease, economic growth in the MEFMI region is projected to be enhanced in 2014, buoyed by increased investment in natural resources, particularly minerals, oil, natural gas, agriculture as well as infrastructure development.

Table 2: GDP Growth in the MEFMI Region (%)

Country/Region	2009	2010	2011	2012	2013 Estimates	2014 Forecasts
Angola	2.4	3.4	3.9	5.2	7.1	8.8
Botswana	-4.9	7.2	7.2	4.2	5.9	5.1
Kenya	2.6	5.8	4.4	4.6	4.9	5.7
Lesotho	3.4	7.1	2.8	6.5	3.4	4.5
Malawi	8.9	11.1	2.9	2.1	6.1	6.0
Mozambique	6.3	6.8	7.3	7.2	7.0	8.5
Namibia	-1.1	6.3	5.7	6.7	4.4	4.3
Rwanda	6.2	7.2	8.2	8.0	6.6	7.4
Swaziland	1.2	2.0	1.3	1.9	2.8	2.5
Tanzania	6.0	7.0	6.4	6.9	7.0	7.0
Uganda	4.1	6.2	6.3	2.8	4.7	7.0
Zambia	6.4	7.6	6.8	6.8	6.7	7.0
Zimbabwe	5.4	11.4	11.9	10.6	4.5	3.0
MEFMI Average	***3.6***	***6.9***	***5.8***	***5.7***	***5.4***	***5.9***
South Africa	***-1.5***	***3.1***	***3.6***	***2.5***	***1.9***	***..***
Sub-Saharan Africa	***1.9***	***5.1***	***4.2***	***3.8***	***4.9***	***5.0***
Africa	***5.7***	***5.0***	***1.0***	***5.0***	***3.0***	***3.7***
World	***-2.1***	***4.1***	***2.8***	***2.4***	***2.2***	***3.6***

***Source**: MEFMI Countries, IMF and World Bank*

Table 3: GDP Per Capita in the MEFMI Region (US$)

Country/Region	2009	2010	2011	2012	2013 (Estimate)
Angola	2,574.59	2,576.53	2,593.90	2,644.62	2,668.66
Botswana	5,721.99	6,150.67	6,465.32	6,706.83	7,032.03
Kenya	558.39	575.05	584.47	594.80	606.12
Lesotho	820.95	874.78	886.30	934.80	980.39
Malawi	249.61	219.20	222.08	219.86	224.44
Mozambique	364.89	380.80	398.54	416.89	435.79
Namibia	3,917.65	4,099.43	4,267.57	4,472.52	4,588.35
Rwanda	338.33	349.24	365.19	380.93	387.55
Swaziland	2,447.77	2,451.55	2,395.06	2,401.38	2,428.80
Tanzania	422.16	438.52	452.91	469.81	487.51
Uganda	384.12	393.12	405.31	405.30	414.75
Zambia	709.72	741.27	768.14	797.65	821.48
Zimbabwe	362.37	397.73	435.75	446.88	441.14
MEFMI Average	***717.82***	***735.40***	***753.39***	***771.26***	***787.30***
South Africa	***5,595.15***	***5,693.75***	***5,820.92***	***5,885.78***	***5,916.68***
Sub-Saharan Africa	***951.63***	***974.21***	***988.13***	***998.33***	***1,008.69***
Africa	***1,187.19***	***1,214.12***	***1,193.66***	***1,224.47***	***1,231.24***
World	***7,343.92***	***7,554.23***	***7,677.17***	***7,772.14***	***7,850.17***

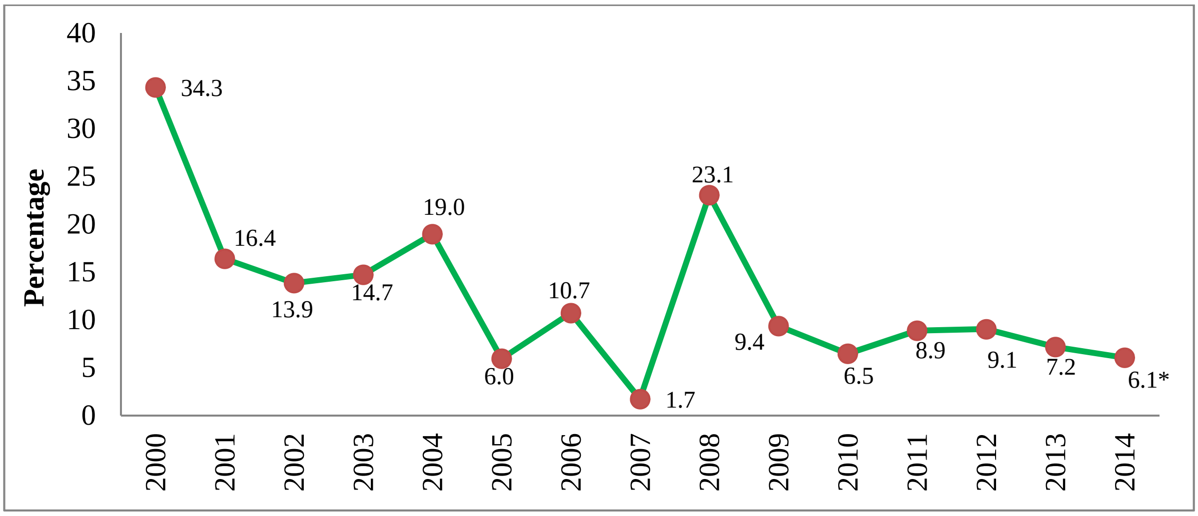
***Source**: MEFMI Countries and IMF*

There are good prospects for improved financial inclusion and efficiency in payment systems in the region that began in East Africa and are filtering through to the Southern African countries like Malawi, Mozambique and Zimbabwe. This is mainly through the exploitation of new technologies such as mobile money and internet banking. Access to external financing has also improved in the MEFMI region, following issuance of euro bonds in Kenya, Rwanda and Zambia, and strong inflows of international remittances.

2.2. Price Developments

The MEFMI region has managed to contain inflation to single-digit levels from over 30% in 2000. As at end 2013, annual inflation eased to an average of 7.2% from 9.1% in 2012. A further slow-down to 6.1% is projected by end 2014, mainly due to moderate food prices, slow-down in oil prices and prudent monetary and fiscal policies in most countries in the MEFMI region **(Figure 2).**

Figure 2: Price Developments in the MEFMI Region, 2000-2014



**Projections based on Preliminary Data from MEFMI Countries*

Source: *MEFMI Countries and IMF Databases*

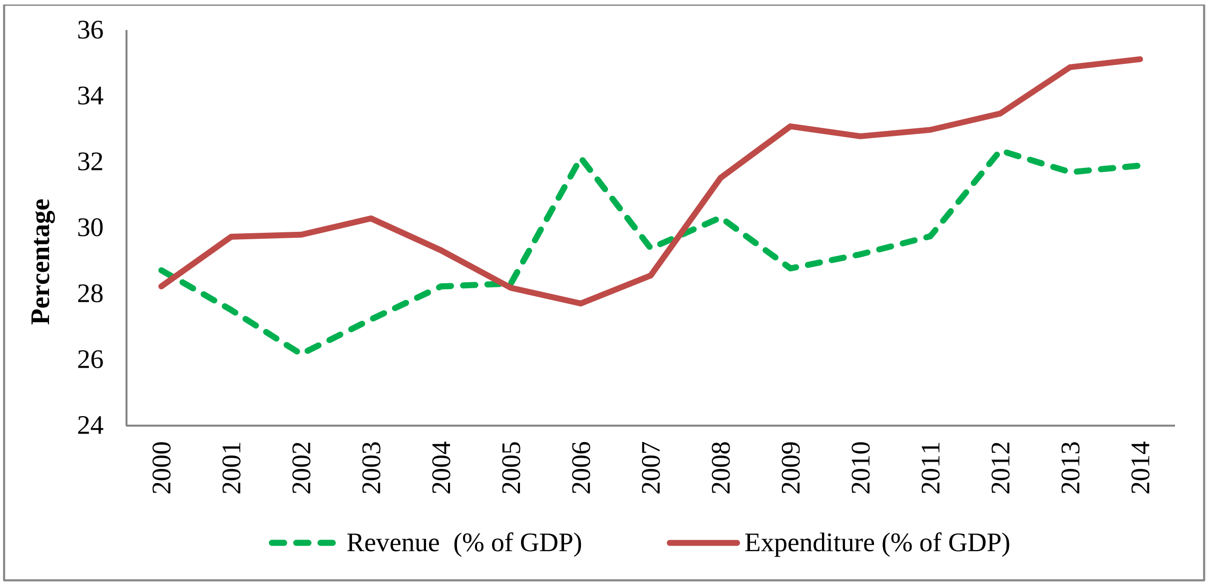
With the exception of Malawi, which recorded relatively high inflation since 2012, partly due to the weakening Malawi Kwacha, the other MEFMI Member States, are expected to maintain low and stable inflation.

2.3. Fiscal Policy Stance

Fiscal policy reforms implemented by MEFMI countries since the early 2000s have culminated into significant improvements in fiscal positions, reflected in rising revenues from 26% of GDP in 2002 to 32% in 2006. Over the same period, public expenditure contracted from 30% of GDP to around 28%. The improved fiscal position was, however, negatively affected by the 2009 global recession, which lowered revenues in most Member States to around 29% of GDP **(Figure 3).**

Deterioration in revenues during the post-global recession period culminated into rising Government domestic borrowing. Some countries such as Kenya, Mozambique, Tanzania, Rwanda and Zambia issued euro bonds. As a result, in Kenya, the debt-to-GDP ratio deteriorated from 50% in 2012 to 52% in 2013; Mozambique 39% to 46%; Rwanda 17% to 21%; Uganda 26% to 29% and Zambia 31% to 34% over the same period.

Figure 3: Revenue and Expenditure Pattern in the MEFMI Region (% of GDP), 2000-2014



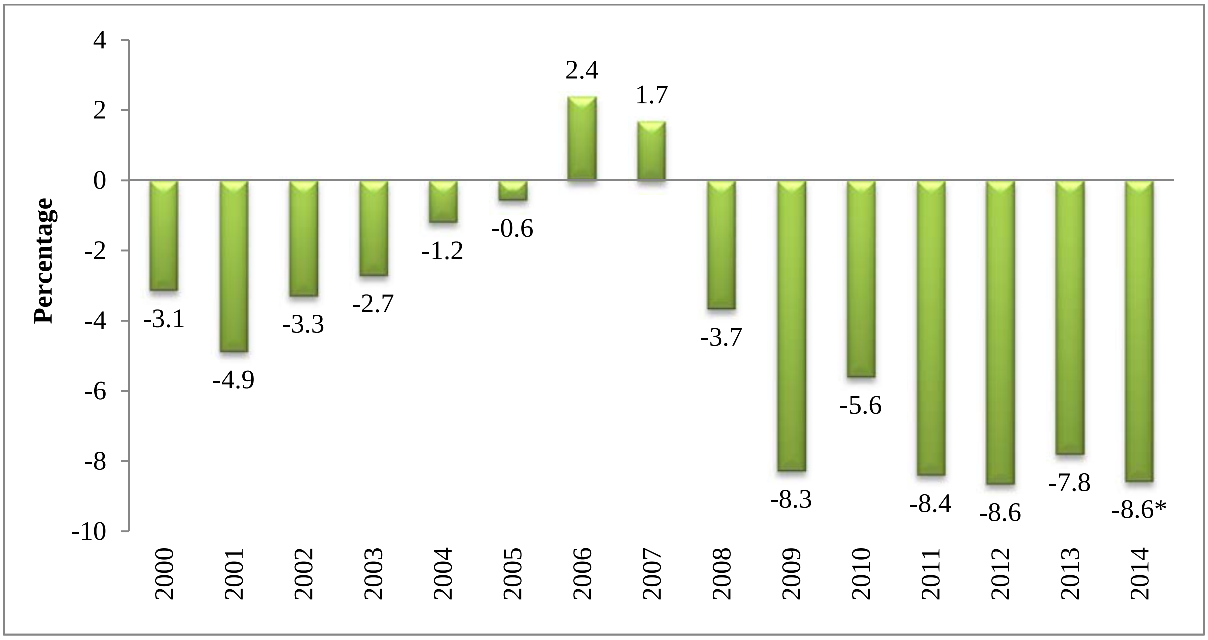
Source: *MEFMI Countries and IMF Database*

Commitment to the pursuance of prudent fiscal policies during the post-recession period is expected to limit growth of spending while at the same time increasing revenues. Nevertheless, Member States are facing challenges as they are also poised to boost economic growth and to reduce poverty by increasing investment on infrastructure and other pro-poor spending activities.

2.4. External Sector Performance

Current Account deficit (excluding grants) improved in 2013 to 7.8% of GDP from 8.6% recorded in 2012. These aggregate figures, however, conceal the larger deficits in countries such as Mozambique, Tanzania and Zimbabwe, where the current account deficits have swelled into double-digit ratios to GDP. The deficit is projected to widen to 8.6% of GDP in 2014 due to falling export commodity prices, weakening export demand from China and growing imports to finance foreign direct investment (FDI) activities and infrastructure developments (e.g. roads, energy and ports) in countries such as Kenya, Mozambique, Tanzania and Uganda **(Figure 4).**

Figure 4: Current Account Balance (excluding grants, % of GDP), 2000-2014



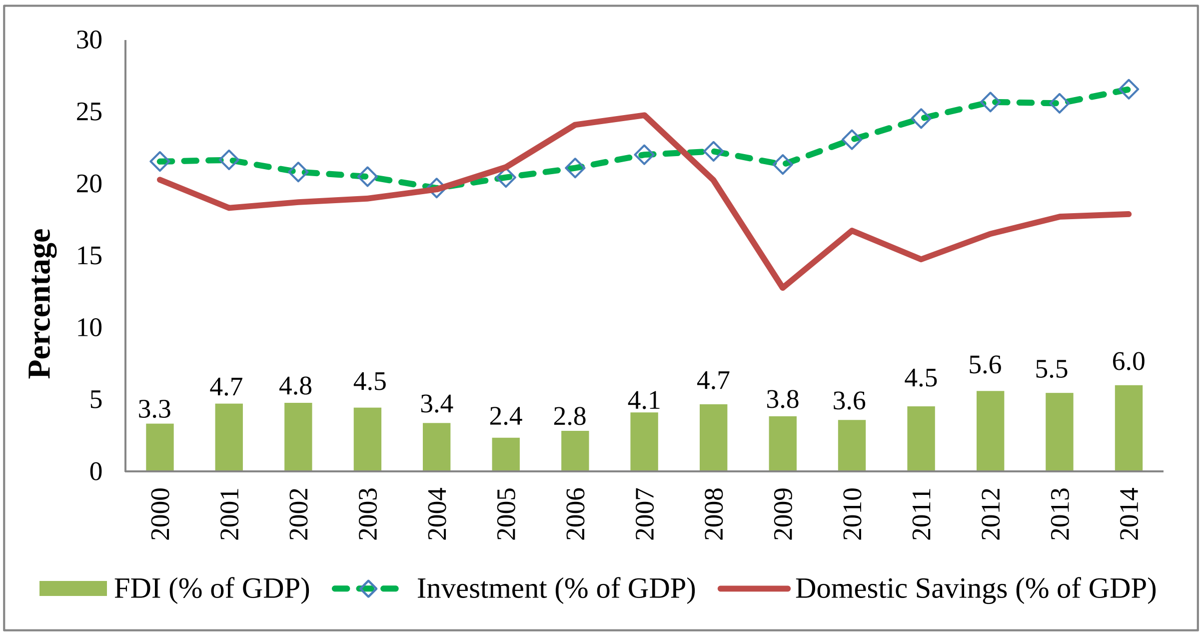
**Projection*

Source: *MEFMI Countries, IMF Databases*

2.5. Foreign Direct Investment

A stable macroeconomic environment, characterised by higher real GDP growth and favourable price developments have made the MEFMI region attractive to foreign investors. Consequently, the share of FDI to GDP rose from 3.3% in 2000 to 5.5% in 2013 and is projected to reach 6% of GDP by end 2014, on account for expanding resources directed to the exploration of oil and natural gas in East Africa, including Mozambique. Resource rich countries such as Angola, Botswana, Mozambique, Namibia and Zambia have also become major destinations of Foreign Direct Investment (FDI). Given low domestic savings in the region, FDI will remain a critical source of financing investment **(Figure 5).**

Figure 5: Foreign Direct Investment Flows in the MEFMI Region (% of GDP)



***Source:** MEFMI Countries, IMF and UNCTAD Databases*

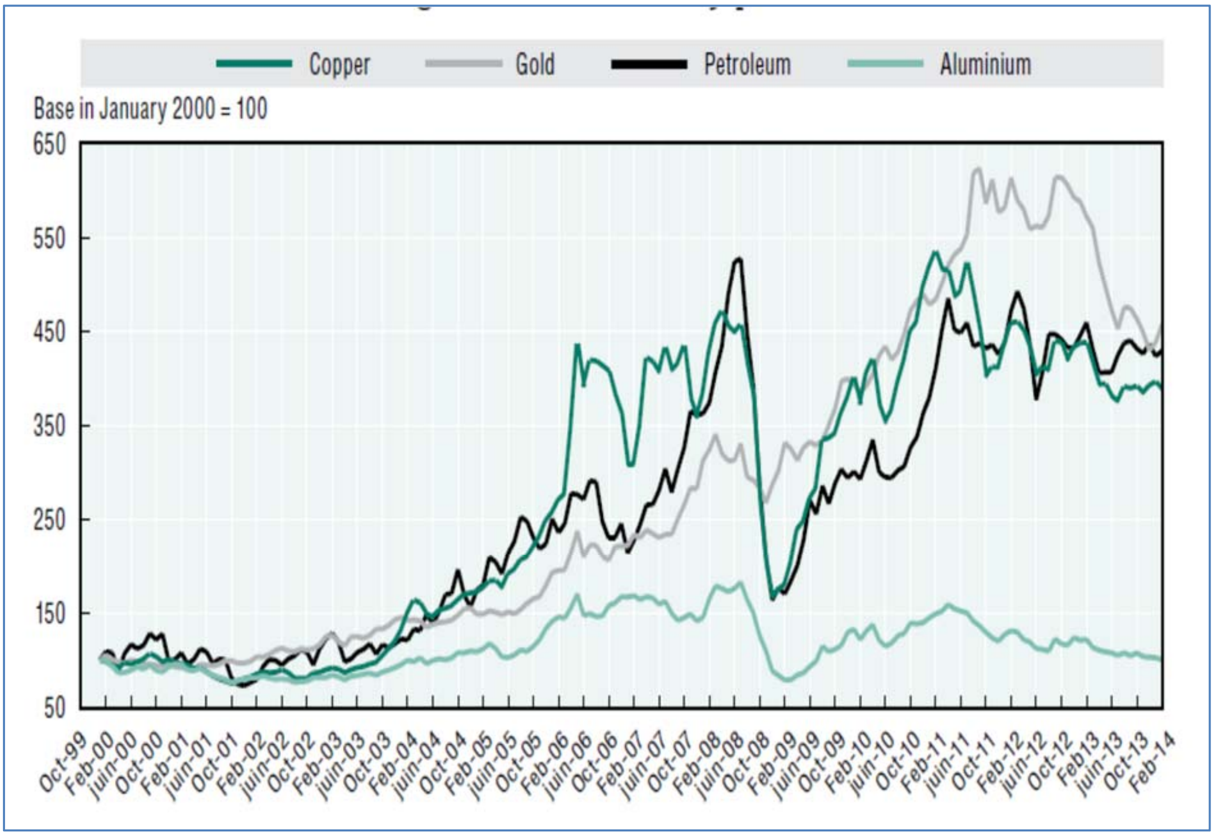
3. Potential Risks

Despite robust economic performance, MEFMI countries remain vulnerable to downside risks associated with volatile global financial markets and commodity prices on major exports. During the last quarter of 2013 and the first quarter of 2014, prices of key mineral export commodities (copper, gold, petroleum and aluminium) declined. This adversely affected most countries which depend on natural resources. Prices of some agricultural cash crops such as cotton and coffee registered erratic growth trends **(Figures, 6 and 7).**

There are also renewed concerns on the likely resurgence of the Euro crises as well as the Ebola outbreak, which are expected to adversely affect economic growth in Sub-Saharan Africa, including the MEFMI region.

Further to volatility in commodity prices, security conditions in Southern Sudan and Somalia are exerting a heavy toll on some of the neighbouring countries, hence impacting negatively on economic growth.

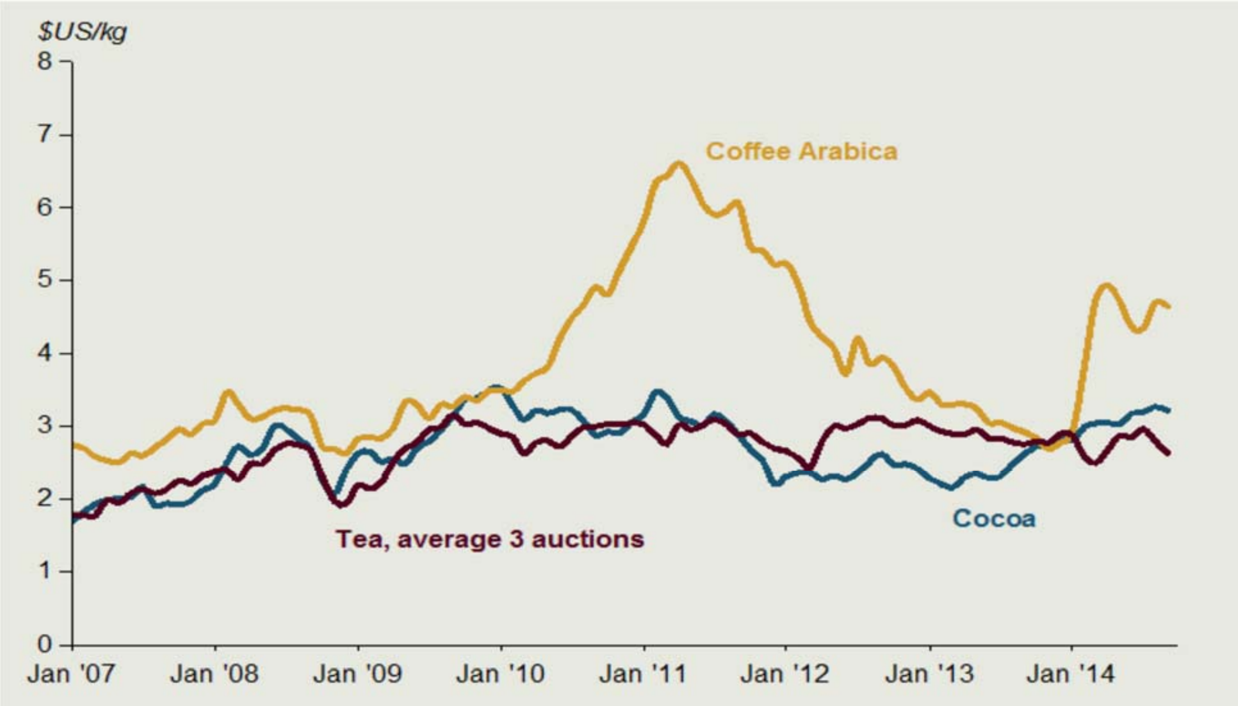
Figure 6: Global Mineral Prices (Index)



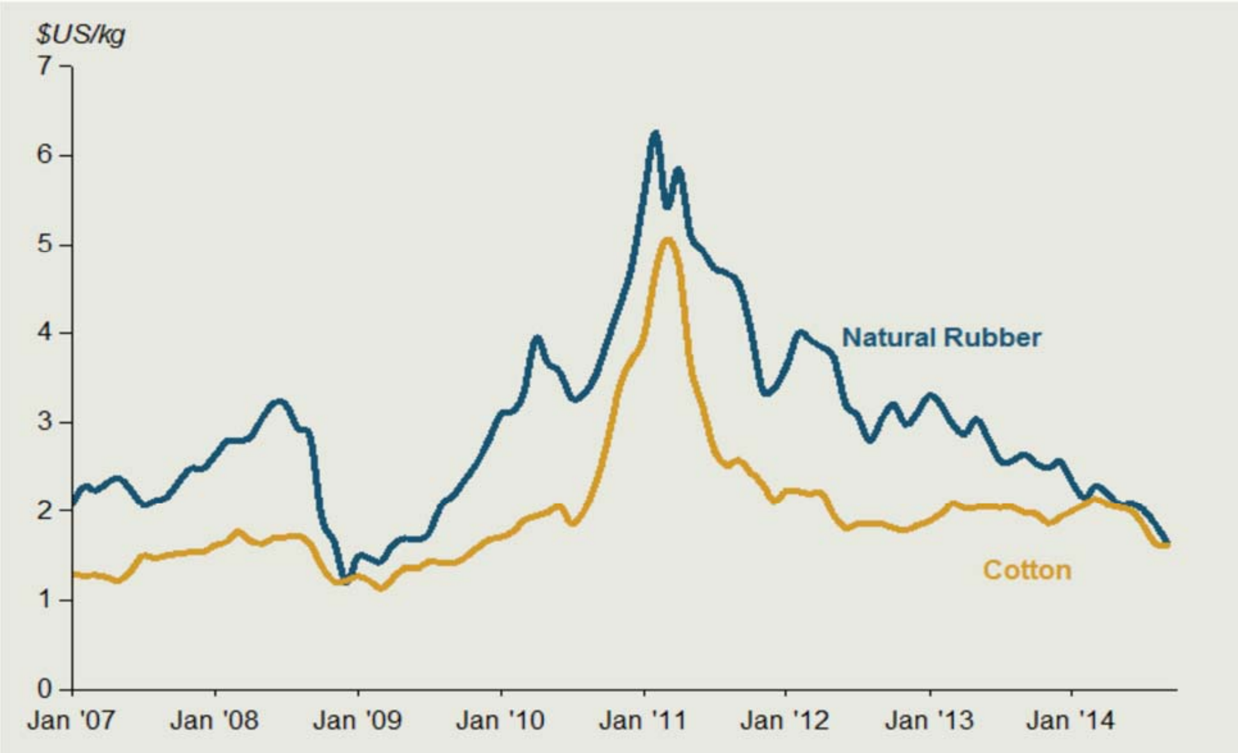
Source: *World Bank and AfDB*

Figure 7: Global Agricultural Commodity Prices

(Figure 7a)



(Figure 7b)



Source: *World Bank*

4. Conclusion

Despite potential downside risks, medium-term growth prospects for MEFMI countries remain favourable. Domestic demand will continue to drive growth in most countries. FDI, the dominant type of capital flows to the region is set to rise and will remain resilient to external shocks. The continued focus on expanding public infrastructure to ease supply bottlenecks and improved agricultural production are expected to give further impetus to growth.

The high rates of growth of GDP in recent years has increased the size of the Middle Class in many countries. This has led to explosion of consumer demand as evidenced by rapid growth of investment in shopping malls in all the countries. Some countries such as Zambia have recently graduated into lower middle income status.

Favourable inflation outcomes are expected to increase private consumption and provide a conducive macroeconomic environment for economic growth and poverty reduction.

Going forward, MEFMI Member States need to continue carrying out fiscal consolidation measures and gradually strengthen fiscal buffers to increase their resilience to external shocks.

Furthermore, the on-going regional integration initiatives within the EAC, COMESA and SADC are also expected to impact positively on the economies.

MEFMI will continue intensifying and consolidating capacity in macroeconomic and financial management, in collaboration with its technical and financial partners to ensure that institutions enhance their capacities to address the downside risks emanating from the global economy.