# ECONOMIC DEVELOPMENTS IN THE MEFMI REGION

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*TECHNICAL COOPERATING PARTNERS' MEETING*

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- Conclusion and Way Forward for MEFMI Countries

# Introduction

- The Macroeconomic and Financial Management Institute of Eastern and Southern Africa (**MEFMI**) is composed of fourteen (14) Member States

- MEFMI countries include Angola, Botswana, Burundi, Kenya, Lesotho, Malawi, Mozambique, Namibia, Rwanda, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe

- Institute's Secretariat is based in Harare, Zimbabwe

# Population & Economic Size of MEFMI Region

- MEFMI region has about 242 million people, representing 21% and 26% of the population in Africa and Sub-Saharan Africa, respectively **(Table 1)**
- By end 2013, estimated GDP in MEFMI region was US$191.3 billion, or 20% of GDP in Sub-Saharan Africa and 14% in Africa
- Major economic activities include Agriculture, Mining, Tourism and Services

# Table 1: Population Size of the MEFMI Region (2009-2013)

| | 2009 | 2010 | 2011 | 2012 | 2013 (Estimate) |
|---|---|---|---|---|---|
| **Angola** | 18.92 | 19.55 | 20.18 | 20.82 | 21.47 |
| **Botswana** | 1.95 | 1.97 | 1.99 | 2.00 | 2.02 |
| **Kenya** | 39.82 | 40.91 | 42.03 | 43.18 | 44.36 |
| **Lesotho** | 1.99 | 2.00 | 2.03 | 2.05 | 2.07 |
| **Malawi** | 14.57 | 15.01 | 15.46 | 15.91 | 16.36 |
| **Mozambique** | 23.36 | 23.97 | 24.58 | 25.20 | 25.83 |
| **Namibia** | 2.14 | 2.18 | 2.22 | 2.26 | 2.30 |
| **Rwanda** | 10.53 | 10.84 | 11.14 | 11.46 | 11.78 |
| **Swaziland** | 1.17 | 1.19 | 1.21 | 1.23 | 1.25 |
| **Tanzania** | 43.64 | 44.97 | 46.35 | 47.78 | 49.25 |
| **Uganda** | 32.86 | 33.99 | 35.15 | 36.35 | 37.58 |
| **Zambia** | 12.83 | 13.22 | 13.63 | 14.08 | 14.54 |
| **Zimbabwe** | 12.89 | 13.08 | 13.36 | 13.72 | 14.15 |
| **MEFMI Average** | **216.67** | **222.88** | **229.33** | **236.04** | **242.96** |
| **South Africa** | **50.22** | **50.90** | **51.58** | **52.27** | **52.98** |
| **Sub-Saharan Africa** | **841.95** | **864.72** | **888.14** | **912.21** | **936.88** |
| **Africa** | **1,003.44** | **1,028.75** | **1,054.80** | **1,081.54** | **1,108.92** |
| **World** | **6,803.74** | **6,883.51** | **6,964.64** | **7,043.11** | **7,124.54** |

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

# Real GDP Growth (2009-2014)

- MEFMI region is among the fastest growing regions in Sub-Saharan Africa
- The region registered a real GDP growth of 6.9% and 5.4% in 2010 and 2013, respectively
- Favourable growth was supported by favourable domestic and external global demand for goods and services, following recovery in advanced economies
- Growth performance places the MEFMI region second to East Asia and the Pacific, which grew at 7.2% in 2013 **(Table 2)**

# Table 2: GDP Growth in the MEFMI Region

| | 2009 | 2010 | 2011 | 2012 | 2013 (Estimate) | 2014 (Forecast) |
|---|---|---|---|---|---|---|
| **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*** |
| ***World*** | ***-2.1*** | ***4.1*** | ***2.8*** | ***2.4*** | ***2.2*** | ***3.6*** |

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

# 2014 Growth Forecasts

- In 2014, the MEFMI region is expected to grow by an average of 5.9%, compared to the projected average growth rate of 5.0% for the Sub-Saharan region and 3.6% for the World economy **(Table 2)**

# Real GDP Growth, 2009-2014

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

# Table 3: GDP Per Capita in the MEFMI 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*

# MEFMI Region Economic Growth Prospects

- Moreover, the positive prospects for improved financial inclusion and efficiency in payment systems in the region that began in East Africa and filtered through to the Southern African countries like Malawi, Mozambique and Zimbabwe

# Factors Underpinning Favourable Growth Prospects

- The improved financial inclusion is supported by exploitation of new technologies such as mobile money and internet banking

- Improvements in access to external financing in the MEFMI region, following issuance of euro bonds in Kenya, Rwanda and Zambia, and strong inflows of international remittances

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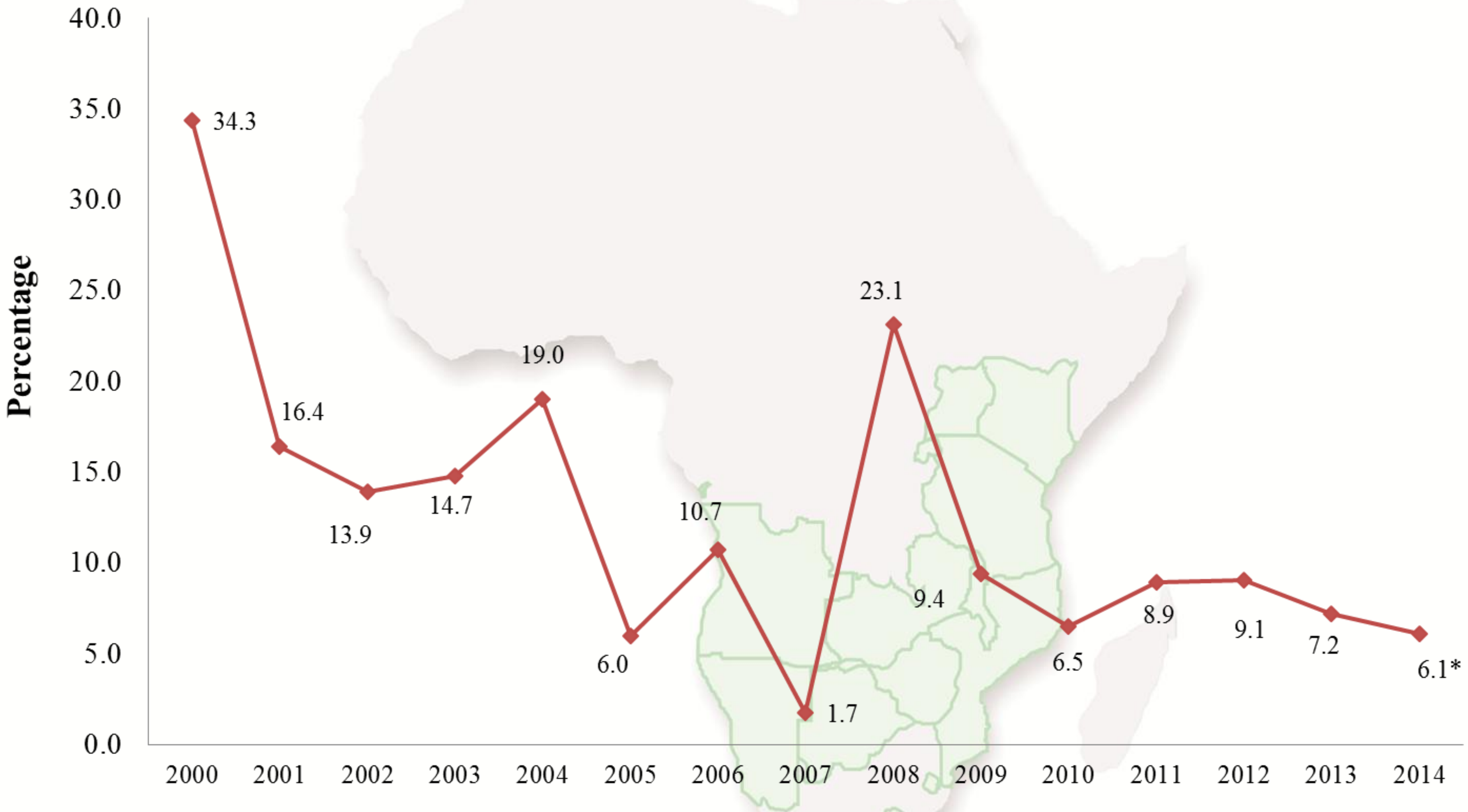
# Price Developments in the MEFMI Region

- 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
- Favourable underpinning factors include moderate food prices, slow-down in oil prices and prudent monetary and fiscal policies in most countries in the MEFMI region (**Figure 1**)

# Fig1: Price Developments in the MEFMI Region




**Projections based on Preliminary Data from MEFMI Countries*
***Source:** MEFMI Countries and IMF Database*

# Inflation Prospects in the MEFMI Region

- With the exception of Malawi, which recorded relatively high inflation over the last 2 years since 2012, partly due to the weakening Malawi Kwacha, the other MEFMI Member States, are expected to maintain low and stable inflation

# Fiscal Policy Stance and Outcomes

- Fiscal policy reforms in MEFMI countries since early 2000s have culminated into significant improvement in fiscal positions
- Resultantly, fiscal revenues rose from 26% of GDP in 2002 to 32% in 2006
- Public expenditure contracted from 30% of GDP in 2002 to around 28% in 2006

# Fiscal Policy Stance and Outcomes

- 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 2**)

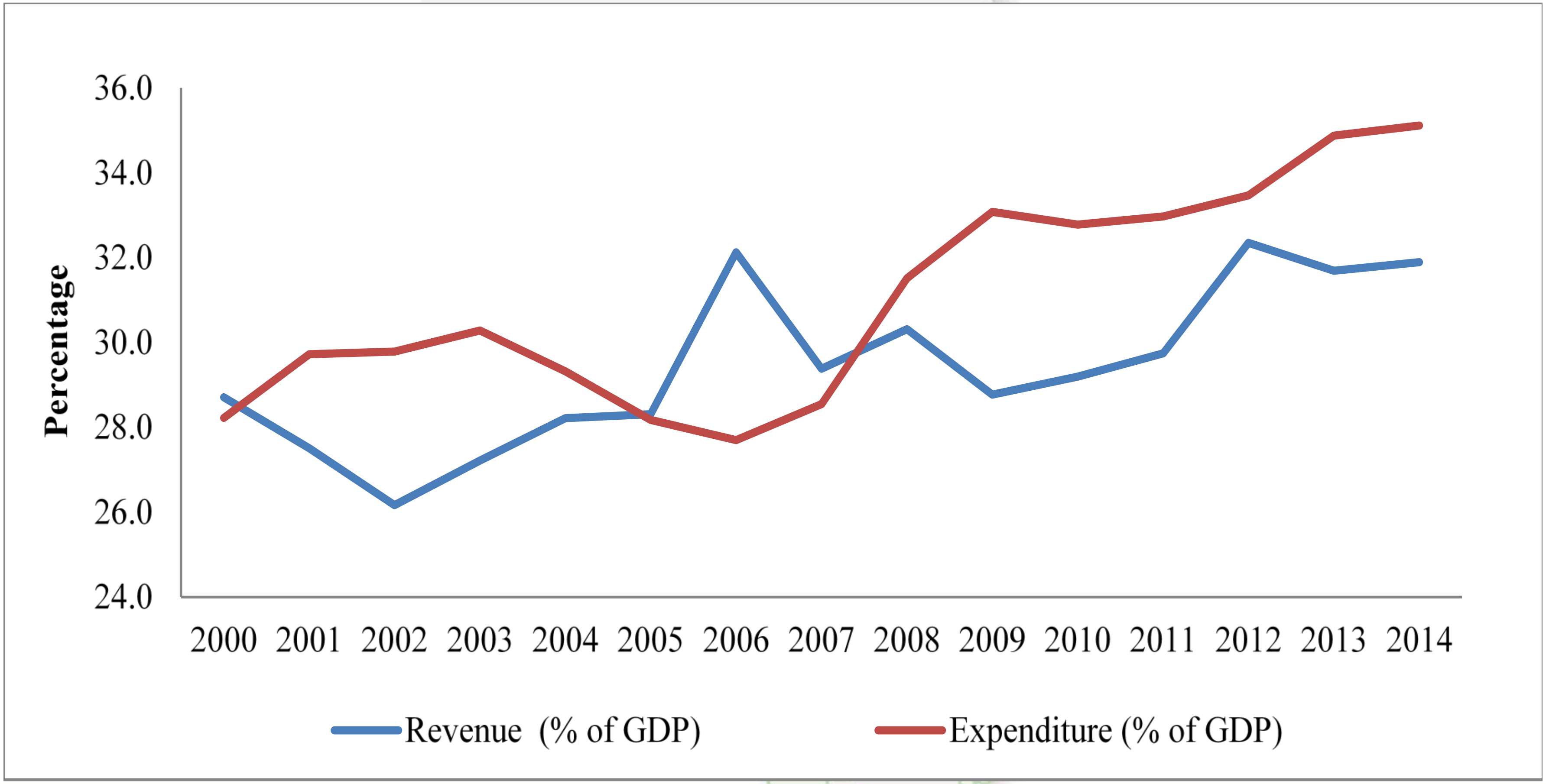
# Fiscal Policy Stance and Outcomes

- Deterioration in revenues during in post-global recession period resulted in rising government domestic borrowing

- Countries such as Kenya, Mozambique, Tanzania, Rwanda and Zambia issued euro bonds

- As a result, in Kenya, 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 2)**

# Figure 2: Revenue and Expenditure Patterns in the MEFMI Region (% of GDP), 2000-2014




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

# Revenue and Expenditure Patterns in the MEFMI Region (% of GDP), 2000-2014

- Commitment to 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 growth and reduce poverty by increasing investment on infrastructure and other pro-poor spending

# External Sector Performance

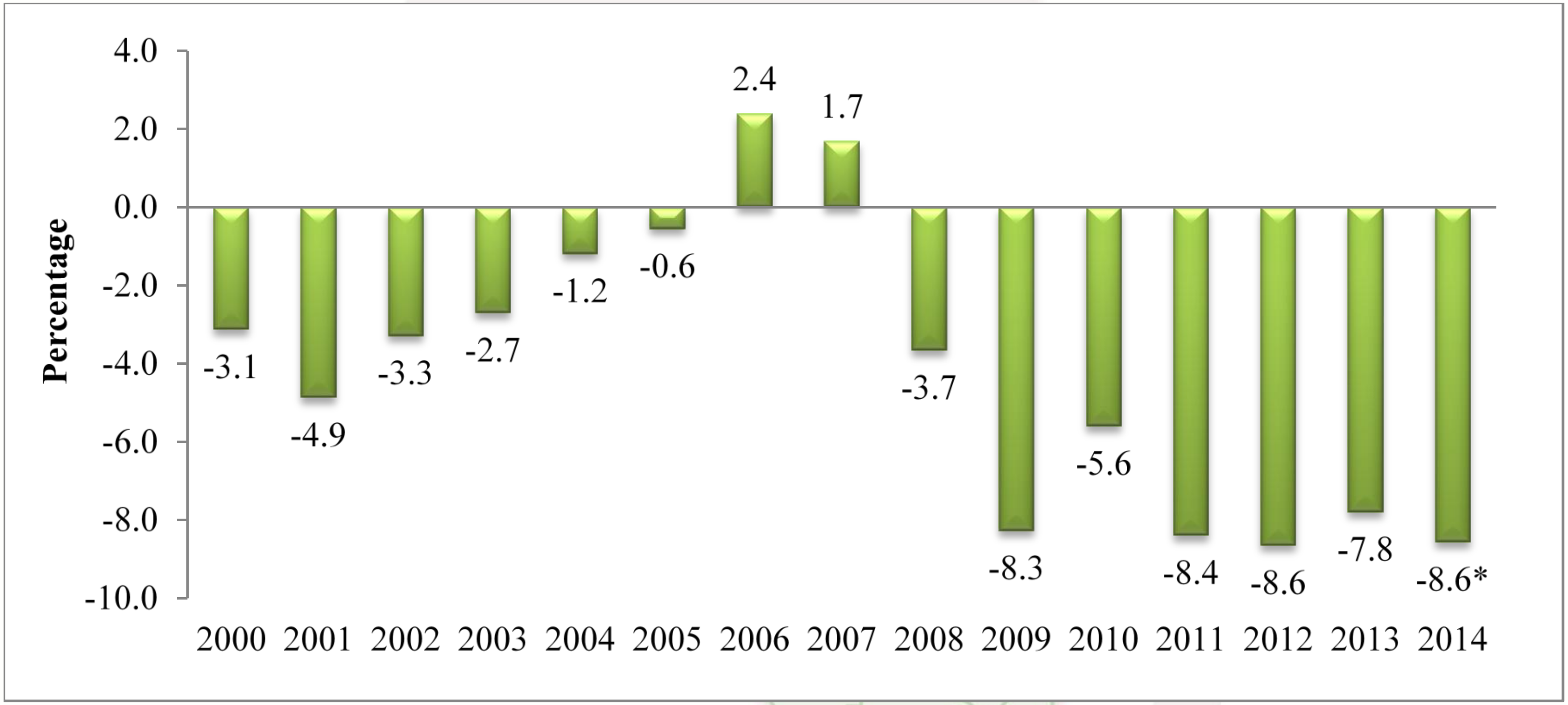
- Current Account deficit (excluding grants) improved in 2013 to 7.8% of GDP from 8.6% recorded in 2012

- These aggregate figures, however, conceal the larger deficits in some countries such as Mozambique, Tanzania and Zimbabwe, where the current account deficits have swelled into double-digit ratios to GDP

# Prospects on External Sector Developments

- The external 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 FDI activities and infrastructure developments (roads, energy and ports) in countries such as Kenya, Mozambique, Tanzania and Uganda (**Figure 3**)

# Figure 3: Current Account Balance (excluding grants, % of GDP), 2000-2014




**Projection*

***Source:*** *MEFMI Countries, IMF Database*

# Foreign Direct Investment (FDI)

- Stable macroeconomic environment characterised by higher real GDP growth & favourable price developments have made the MEFMI region attractive to foreign investors
- 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 of expanding resources directed to the exploration of oil and natural gas in East Africa, including Mozambique in Southern Africa

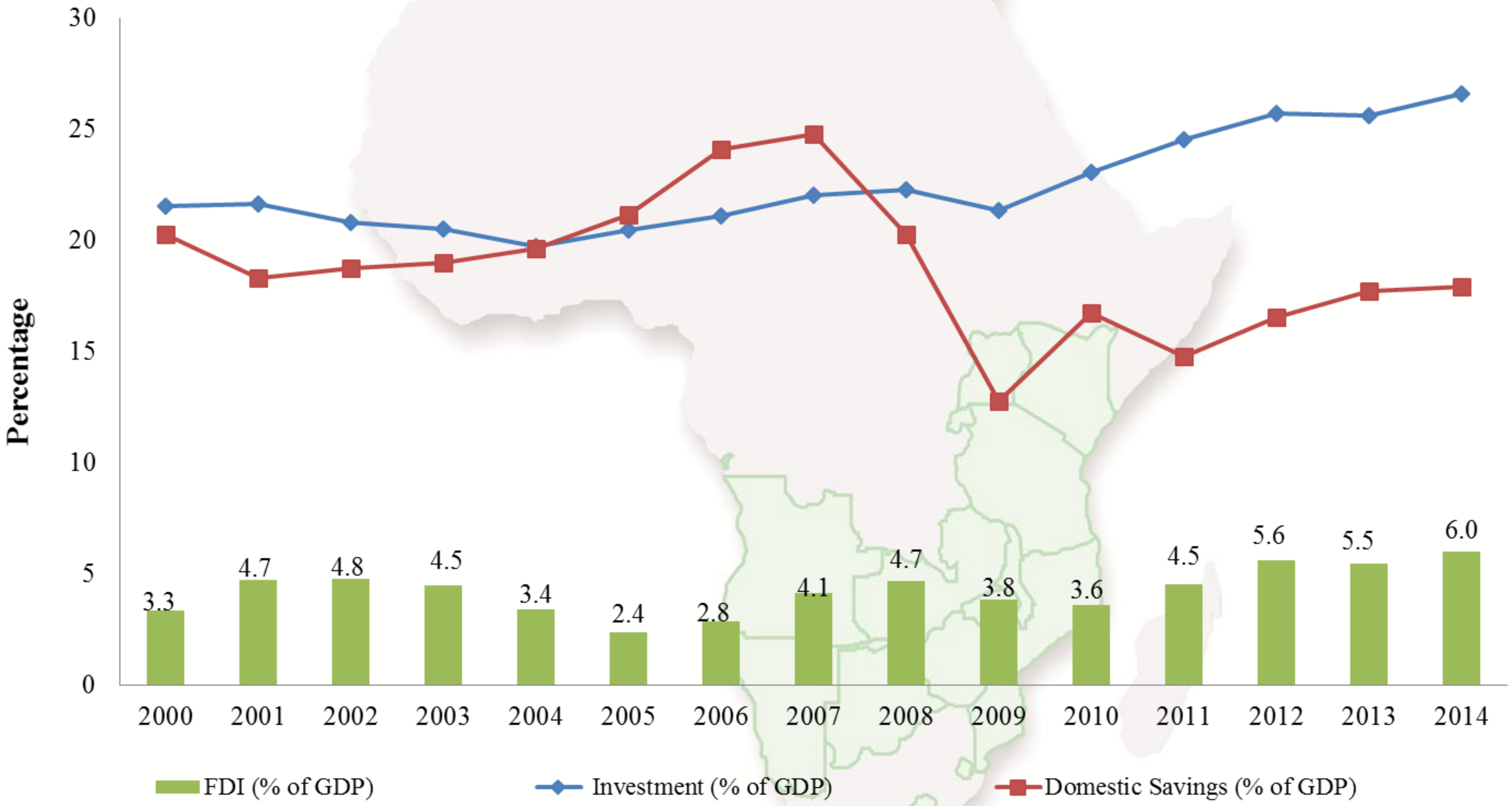
# Foreign Direct Investment (FDI) Cont.

- Resource rich countries such as Angola, Botswana, Mozambique, Namibia and Zambia have also become major destinations of Foreign Direct Investment (FDIs)

- Moreover, with recent discoveries of natural resources, notably oil in Uganda and Kenya and natural gas in Tanzania and Mozambique FDI is expected to surge in the medium to long term

- Given low average domestic savings in the region, FDI will remain a critical source of financing investment (Figure 4)

# Figure 4: Foreign Direct Investment Flows in the MEFMI Region (% of GDP)




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

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# Potential Risks

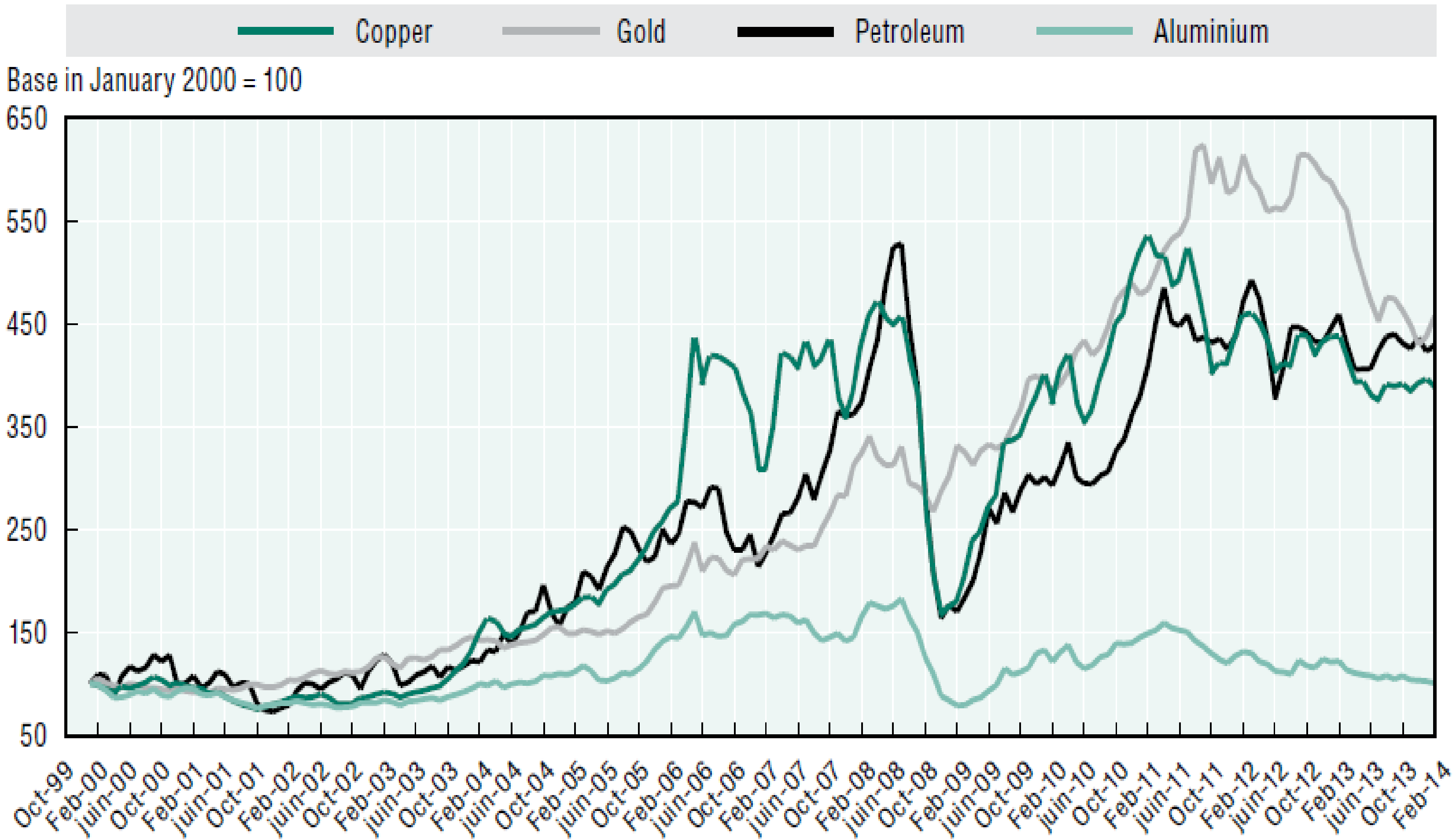
- Despite robust economic performance, MEFMI countries remain vulnerable to downside risks associated with volatile global financial markets and commodity prices on major exports as well as adverse geopolitical developments

- During the last quarter of 2013 and the first quarter of 2014, prices of key mineral export commodities (copper, gold, petroleum and aluminium) declined

# Potential Risks Cont.

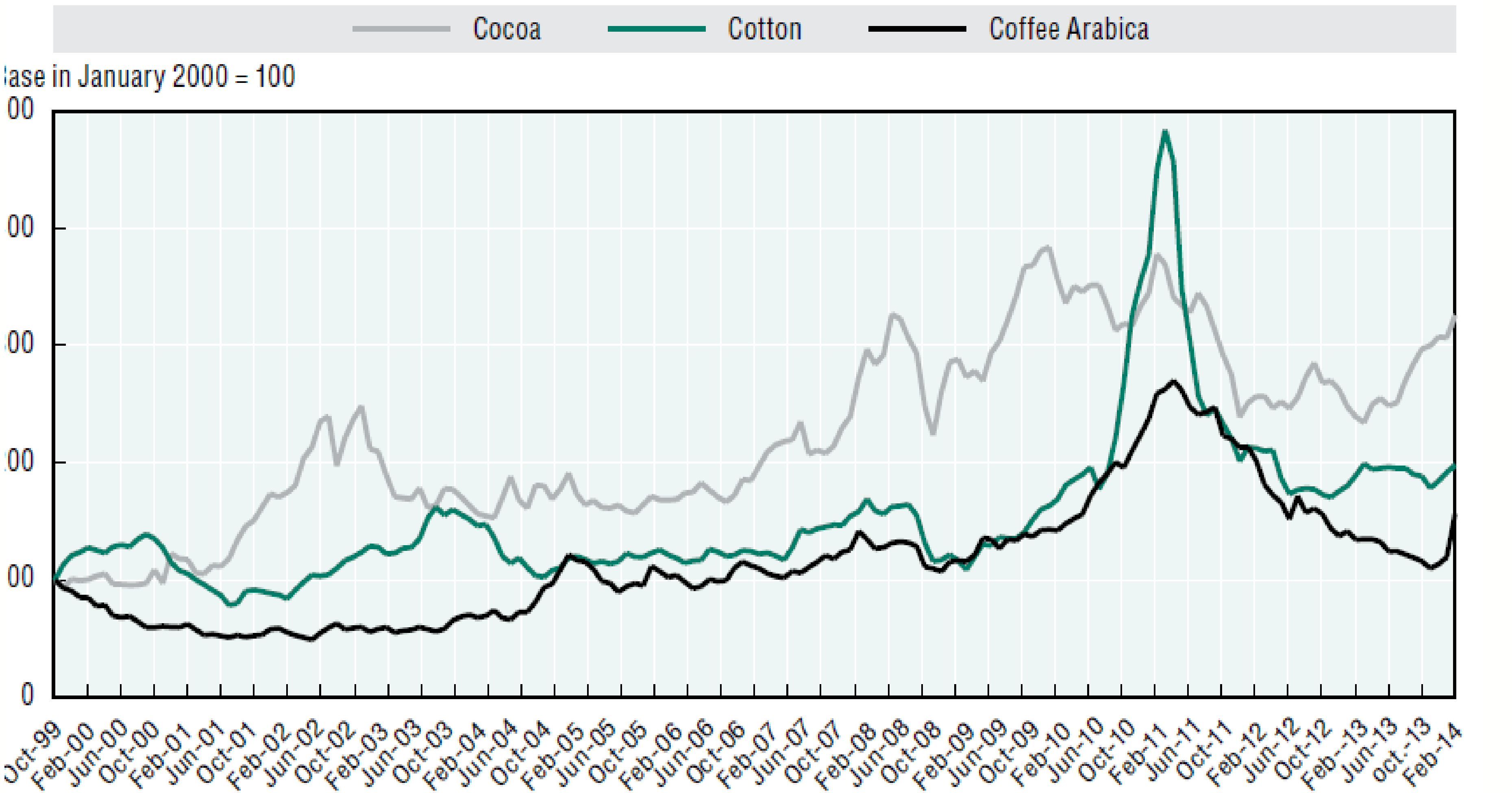
- This adversely affected most countries which depend on natural resources
- Prices of some agricultural cash crops such as cotton & coffee registered erratic growth trends (Fig. 5 & 6)
- Renewed concerns on the likely resurgence of the Euro crises as well as Ebola disease outbreak, which are expected to adversely affect growth in Sub-Saharan Africa, including the MEFMI region

# Chart 5: Global Mineral Prices




***Source***: *World Bank and AfDB*

# Chart 5: Global Agricultural Commodity Prices




***Source****: World Bank and AfDB*

# Potential Risks Cont.

- 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 in the region

# Conclusion

- Despite potential downside risks, medium-term growth prospects for MEFMI countries remain favourable
- Domestic demand will continue to drive growth in most countries
- High rates of growth of GDP in recent years have increased the size of the middle class in many countries, leading 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

# Conclusion Cont.

- FDI, the dominant type of capital flows to the region is set to rise and will remain resilient to external shocks

- Continued focus on expanding public infrastructure to ease supply bottlenecks and improved agricultural production are expected to give further impetus to growth

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

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

# Way Forward for MEFMI Countries

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

- Regional integration harmonisation policies will be intensified to support growth and poverty reduction

- MEFMI on its part will continue consolidating technical capacity with support from its partners to enhance institutional capacities to address the downside risks emanating from the global economy