MACRO BULLETIN – ISSUE 1: JANUARY 2011

❖ Introduction

Macro Bulletin is a quarterly publication, produced by the MEFMI Macroeconomic Management Programme. This inaugural issue brings to the fore, discussions on recent developments on key macroeconomic indicators in the MEFMI region and their expected trend in 2011. The major source of the figures used in this bulletin is the International Monetary Fund (IMF), World Economic Outlook that was published in October 2010.

❖ World Economy

Available statistics indicate that the post global financial crisis recovery is driven by Asia. During 2009 and in the first three quarters of 2010, Asia recorded robust growth performances, mainly driven by private domestic demand. The future outlook also shows that the region will continue leading the global recovery. It is worth noting that the growth in the world economy in 2010 has been driven by economies like China and India, overtaking developed economies like USA and Japan. This trend is expected to continue in 2011. The rate of growth of the world economy in 2011 is projected to stabilise at 3.3 percent.

Inflation is projected to stay low amid continued excess capacity and high unemployment. Though the recovery of commodity prices has raised the level of consumer prices, market indicators suggest that commodity prices should remain stable,with downward pressure on wages. Headline and core inflation in advanced economies should converge to about 1¼ percent in 2011, and in emerging economies to about 5 percent. Inflation pressures are more elevated in economies that have had a history of unstable inflation or that are operating closer to full capacity.

Table 1: Real GDP Growth, Inflation and Private Domestic Demand across the World

	Real GDP Growth			Inflation Rate			Total Domestic Demand		
Country/ Region	**2009**	**2010(a)**	**2011(b)**	**2009**	**2010(a)**	**2011(b)**	**2009**	**2010(a)**	**2011(b)**
World	-2.1	3.3	3.3	--	--	--	--	--	--
United States	-2.6	2.6	2.3	-0.3	1.4	1.0	-3.6	3.0	2.2
Canada	-2.5	3.1	2.7	0.3	1.8	2.0	-2.6	4.9	2.9
Brazil	-0.2	7.5	4.1	4.9	5.0	4.6	--	--	--
Mexico	-6.5	5.0	3.9	5.3	4.2	3.2	--	--	--
Euro area	-4.1	1.7	1.5	0.3	1.6	1.5	-3.4	1.0	0.9
Germany	-4.7	3.3	2.0	0.2	1.3	1.4	-1.9	2.5	1.2
France	-2.5	1.6	1.6	0.1	1.6	1.6	-2.4	1.4	1.6
United Kingdom	-4.9	1.7	2.0	2.1	3.1	2.5	-5.4	2.4	1.4
Sub Saharan Africa	2.6	5.0	5.5	10.4	7.5	7.0	--	--	--
MEFMI Region	3.1	4.9	5.2	9.5	7.7	6.6	--	--	--
EAC	4.8	5.4	6.2	11.3	6.9	6.1	--	--	--
SADC	0.6	4.0	4.7	--	--	--	--	--	--
SACU	-1.8	3.3	3.6	8.0	6.3	5.8	--	--	--
COMESA	5.2	5.2	6.3	--	--	--	--	--	--
South Africa	-1.8	3.1	3.4	7.1	5.6	5.8	--	--	--
Central and Eastern Europe	-3.6	3.7	3.1	4.7	5.2	4.1	--	--	--

Russia	-5.0	1.0	--	11.7	6.6	7.4	--	--	--
Asia	3.6	7.9	6.7	--	--	--	-3.7	9.1	5.4
China	9.1	10.5	9.6	-0.7	3.5	2.7	--	--	--
India	5.7	9.7	8.4	10.9	13.2	6.7	--	--	--
Japan	-5.2	2.8	1.5	-1.4	-1.0	-0.3	-4.0	1.0	1.3
Middle East and North Africa	2.0	4.1	5.1	6.7	6.8	6.2	--	--	--

Sources: IMF, World Economic Outlook (WEO) database, October 2010.
[(a)] *Figures are preliminary estimates.*
[(b)] *Figures are forecasts*

Nevertheless, it should be noted that as a result of the global financial crisis economic growth in many economies in the world slowed down and industrialised economies experienced serious recession situations. Enterprises in general stopped hiring and many laid-off workers in considerable numbers. This has impacted negatively on workers in the diaspora, whose remittances to developing countries has slowed down considerably. Tourism has also been greatly affected, thus limiting the strength and pace of recovery by countries in Africa dependent on these two sources of income.

The table below shows the levels of unemployment in the world as end 2010.

Table 2: Unemployment Rates [(1)]

Region	2009	2010[(a)]	2011[(b)]
World	5.7	6.0	6.5
Advanced Economies	8.0	8.3	8.2
United States	9.3	9.7	9.6
Euro Area	9.4	10.1	10.0
Germany	7.5	7.1	7.1
France	9.4	9.8	9.8
United Kingdom	7.5	7.9	7.4
Japan	5.1	5.1	5.0
Canada	8.3	8.0	7.5
Asia	4.9	4.7	4.6
China	4.3	4.1	4.0
India	--	--	--
Sub-Saharan Africa	--	--	--
Nigeria	4.5	4.5	4.5
South Africa	24.3	24.8	24.4
Mauritius	8.0	7.5	7.3
Swaziland	30.0	30.0	30.0

Sources: IMF, World Economic Outlook (WEO) database, October 2010.
[(c)] *Figures are preliminary estimates.*
[(d)] *Figures are forecasts*
[(1)]: Percent, National definitions of unemployment may vary

❖ Sub-Saharan Africa Region

Growth in the Sub-Saharan Africa region was projected to rebound to 5.0 percent in 2010 and strengthen further to 5.5 percent in 2011. The recovery is expected to be driven by an increase in external demand leading to a huge increase in the export of minerals and oil. Strong demand for minerals from Asia (mainly China and India) as well as for oil will ensure continued and sustained investment in mineral rich and oil producing countries. This will finally result in the increase in fixed investment and a big shift in the inventory cycle which will also make marked contributions to growth in some countries (South Africa, Nigeria, Angola, Botswana, Namibia, Zambia, Ghana, and Zimbabwe).

The East Africa Community (EAC) and the Common Market of Eastern and Southern Africa (COMESA) are expected to record better growth performances than other sub regions and regional groupings in the sub-Saharan African region as a result of their successful integration process. Indeed better growth performance is also projected for the MEFMI region and needless to mention that most of its member states are also part of both the EAC and COMESA - considered to be leading the recovery process in Africa.

❖ Economy in MEFMI Region

- **GDP Growth**

GDP growth in 2010 was strong across the MEFMI region and is expected to remain strong in 2011, in spite of post global financial crisis effects and rising energy costs.

Table 3: Real GDP Growth Rate in the MEFMI Region (%)

Country	2007	2008	2009	2010[a]	2011[b]
Angola	20.3	13.2	0.7	5.9	7.1
Botswana	4.2	3.1	-3.7	8.4	4.8
Kenya	7.0	1.7	2.4	4.1	5.8
Lesotho	5.1	4.5	1.1	2.7	2.8
Malawi	8.6	9.8	7.7	5.6	6.0
Mozambique	7.3	6.7	6.3	5.9	6.7
Namibia	4.1	2.7	-0.8	4.4	4.8
Rwanda	7.9	11.2	4.5	5.5	5.8
Swaziland	3.5	2.5	1.2	2.0	2.5
Tanzania	7.1	7.4	6.0	6.5	6.7
Uganda	8.6	8.7	7.2	5.8	6.1
Zambia	6.2	5.7	6.2	5.4	5.9
Zimbabwe	-6.9	-14.1	4.0	4.1	2.3

MEFMI AVERAGE[1]	6.4	4.8	3.1	4.9	5.2

Sources: IMF, World Economic Outlook (WEO) database, October 2010.
(e) *Figures are preliminary estimates.*
(f) *Figures are forecasts*
[1] *Average weighted by GDP*

The thirteen member states grew on average by some 4.9 percent in 2010 and are expected to grow by 5.2 percent in 2011. However some selected country specific performances deserve to be singled out.

The six countries in which output actually fell between 2007 and 2009 were Angola, Botswana, Namibia, Lesotho, Swaziland, Kenya, and Zimbabwe. This group is quite dissimilar, comprising middle income countries an oil exporter as well as low income countries. With the exception of Botswana, poor policy environments before the crisis were the main sources of the output gaps, although the crisis added to countries' difficulties. Policy management challenges remain a big issue in a number of these countries.

In **Angola**, for instance the government's adjustment program, supported by an IMF stand-by arrangement, has largely succeeded in restoring macroeconomic stability, following the destabilising effects of the 2009 oil price and collapse of mineral prices (namely diamonds). After a relatively modest recovery in 2010, notwithstanding substantial monetary easing, Angola's economic growth should receive a strong boost in 2011 when oil production is expected to boost both exports and industrial output. Output growth – helped by growing oil production - is expected to approach 7.7 percent in 2011 from 6.9 percent in 2010.

In **Botswana**, the demand for diamonds collapsed as the global financial crisis unfolded. However, because of previously prudent policies, the authorities were able to ease fiscal and monetary policies promptly. Overall, the economy contracted by 3.8 percent in 2009. With a rebound of activity in the diamond sector and continued strength elsewhere in the economy, activity is expected to settle at 5.5 percent in 2011 against 5.8 percent in 2010.

In **Kenya**, a fine line should be drawn between maintaining the recovery through further fiscal stimulus measures and ensuring that there are no risks to debt sustainability. Similarly, monetary policy will need increasingly to be directed towards inflation objectives. According to recent IMF estimates, although growth is recovering well, it is expected to stay below its potential of 6 percent for the next two years.

In **Zimbabwe,** after a cumulative output decline over the last decade of more than 40 percent by 2008, and inflation spiraling out of control, strengthened economic policies, higher commodity prices, and good agricultural seasons have underpinned economic recovery since 2009. Real GDP was projected to increase by 4.1 percent in 2010. Maintaining this growth momentum will require fiscal discipline and an investment friendly environment.

- **Inflation**

Inflation has largely been kept under control during the period 2007 to 2010. It is expected to decline further in 2011 in Mozambique, Tanzania and Uganda, and is likely to rise in Zimbabwe.

Table 4: Consumer Price Index (Annual Average % change) *(Twelve-month change in the consumer price index)*					
Country	**2007**	**2008**	**2009**	**2010[(a)]**	**2011[(b)]**
Angola	12.2	12.5	13.7	13.3	11.3
Botswana	7.1	12.6	8.1	6.7	6.3
Kenya	4.3	16.2	9.3	4.1	5.0
Lesotho	8.0	10.7	7.2	6.3	6.0
Malawi	7.9	8.7	8.4	8.0	8.0
Mozambique	8.2	10.3	3.3	9.3	5.6
Namibia	6.7	10.0	9.1	6.5	5.9
Rwanda	9.1	15.4	10.4	6.4	6.5
Swaziland	8.2	13.1	7.6	6.2	5.6
Tanzania	7.0	10.3	12.1	7.2	5.0
Uganda	6.8	7.3	14.2	9.4	5.5
Zambia	10.7	12.4	13.4	8.2	7.5
Zimbabwe	--	--	6.5	4.7	7.8
MEFMI AVERAGE[1]	8.0	11.6	9.5	7.7	6.6

Sources: IMF, African Department database, September 23, 2010; and IMF, World Economic Outlook (WEO) database, September 23, 2010.
[(g)] *Figures are preliminary estimates.*
[(h)] *Figures are forecasts*
[1] *Average weighted by CPI*

- **Unemployment**

According to World Bank economic prospects, unemployment remains high in sub-Saharan countries of which MEFMI countries, especially in Angola, Mozambique, Malawi, Tanzania, and Zimbabwe - countries experiencing economic growth without job creation.

- **Budget Deficit**

Most MEFMI countries maintain a balanced budget policy; however countries like Kenya, Tanzania, Mozambique, Namibia, Lesotho, Swaziland and Zimbabwe are facing a lot of challenges struggling to balance their budget. Lesotho and Swaziland are now facing serious revenue challenges following the suspension of payment of SACU compensatory revenue by South Africa. Kenya, Tanzania, Mozambique and Namibia are still recovering from elections cost shocks and will continue to feel the brunt from these negative shocks until mid-term 2011.

Table 5: Fiscal Balance (% GDP)[1]					
Country	**2007**	**2008**	**2009**	**2010[(a)]**	**2011[(b)]**
Angola	11.3	8.9	-8.6	2.7	3.3
Botswana	5.9	-3.0	-11.8	-8.1	-5.2
Kenya	-2.8	-3.9	-5.3	-6.6	-5.1
Lesotho	10.5	3.1	-1.7	-15.2	-18.2
Malawi	-4.5	-5.2	-5.8	0.3	-0.6
Mozambique	-2.9	-2.5	-5.6	-5.4	-6.9
Namibia	4.4	2.6	-1.7	-7.0	-8.5
Rwanda	-1.7	1.0	-2.3	1.6	-0.7
Swaziland	7.5	1.0	-6.6	-12.7	-14.8
Tanzania	0.0	-5.1	-7.5	-6.4	-6.1
Uganda	-1.3	-3.0	-2.1	-2.5	-3.1
Zambia	-1.3	-1.5	-3.2	-2.7	-3.2
Zimbabwe	-4.1	-3.1	-2.7	-1.9	-2.7
MEFMI AVERAGE[2]	**1.6**	**-0.8**	**-5.0**	**-4.9**	**-5.5**

Sources: *Sources: IMF, African Department Database, and IMF, World Economic Outlook (WEO) October, 2010.*
(a) Figures are preliminary estimates.
(b) Figures are forecasts
[1]Additional spending compared to tax receipts relative to GDP
[2]Average weighted by GDP

- **External Accounts Indicators**

  - **Trade Balance**

Diamond producing countries are likely to see a strong bounce-back in activity in 2011, after poor performance in 2009 and early 2010, as demand for diamonds have recovered sharply. Botswana and Namibia are projected to grow 5.8 percent and 4.4 percent respectively in 2011, while other mineral rich economies will also benefit from robust external demand, particularly from Asia (China and India).

Table 6: Trade Balance in Percent of GDP					
Country	**2007**	**2008**	**2009**	**2010[(a)]**	**2011[(b)]**
Angola	50.8	51.0	21.7	32.4	32.1
Botswana	13.0	2.5	-5.6	-3.9	-1.9
Kenya	-15.3	-21.5	-17.3	-17.3	-17.5
Lesotho	-50.6	-51.2	-56.5	-60.0	-55.4
Malawi	-13.3	-19.0	-13.6	-11.2	-9.1
Mozambique	-4.9	-10.0	-14.1	-14.7	-13.0
Namibia	-2.0	-7.6	-12.0	-8.9	-8.9
Rwanda	-10.8	-13.1	-14.7	-16.0	-16.5
Swaziland	-3.4	-0.3	-1.9	-2.3	-2.4
Tanzania	-14.8	-16.6	-15.9	-14.7	-15.0
Uganda	-8.4	-6.3	-6.4	-7.9	-9.8
Zambia	7.8	2.8	7.1	8.5	6.1
Zimbabwe	-6.3	-24.7	-34.8	-23.3	-21.7
MEFMI AVERAGE[1]	**-4.5**	**-8.8**	**-12.6**	**-10.7**	**-10.2**

***Sources**: Sources: IMF, African Department Database, and IMF, World Economic Outlook (WEO) October, 2010.*
(a) Figures are preliminary estimates.
(b) Figures are forecasts
[1]Average weighted by GDP

Share of China in Total Merchandise Trade (In percent of total)

Recent findings[1] on new directions of global trade *show* that exports from Africa to Asia tripled in the last five years, making Asia Africa's third largest trading partner (27 percent) after the European Union (32 percent) and the United States (29 percent). While Asia accounts for one-quarter of Africa's global exports, this trade represents only about 1.6 percent of the exports shipped to Asia from all sources worldwide. The overwhelming bulk of Africa's exports to Asia are mainly natural resources like resource-extractive commodities, agricultural goods such as cotton, and other traditional African exports. However India and China receive from other parts of the world other much diversified non-traditional exports such as processed commodities, light manufactured products, household consumer goods, food, and tourism which call for a serious focus if Africa is to raise her share in the global trade. Trade with Asia provides growth opportunity for Africa and ultimately reduction of poverty, because Africa's trade for many years has been concentrated in primary commodities and natural resources. Africa can achieve this because of its labor-intensive capacity; Africa has the potential to export these non-traditional goods and services competitively to the average Chinese and Indian consumers and firms.

[1] *Harry G. Broadman (WB, 2010)." New Global Trade Directions".*

Figure 1a: Share of China in Total Merchandise Trade (In percent of total)

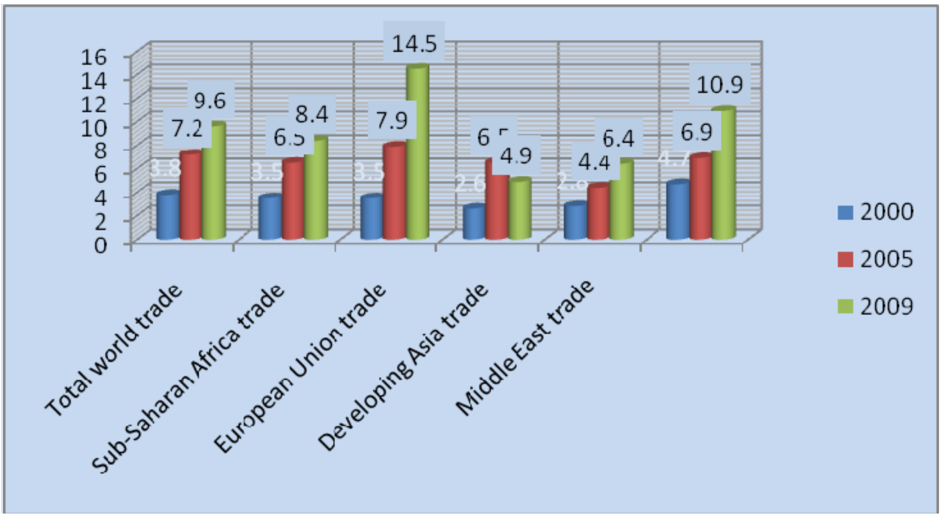
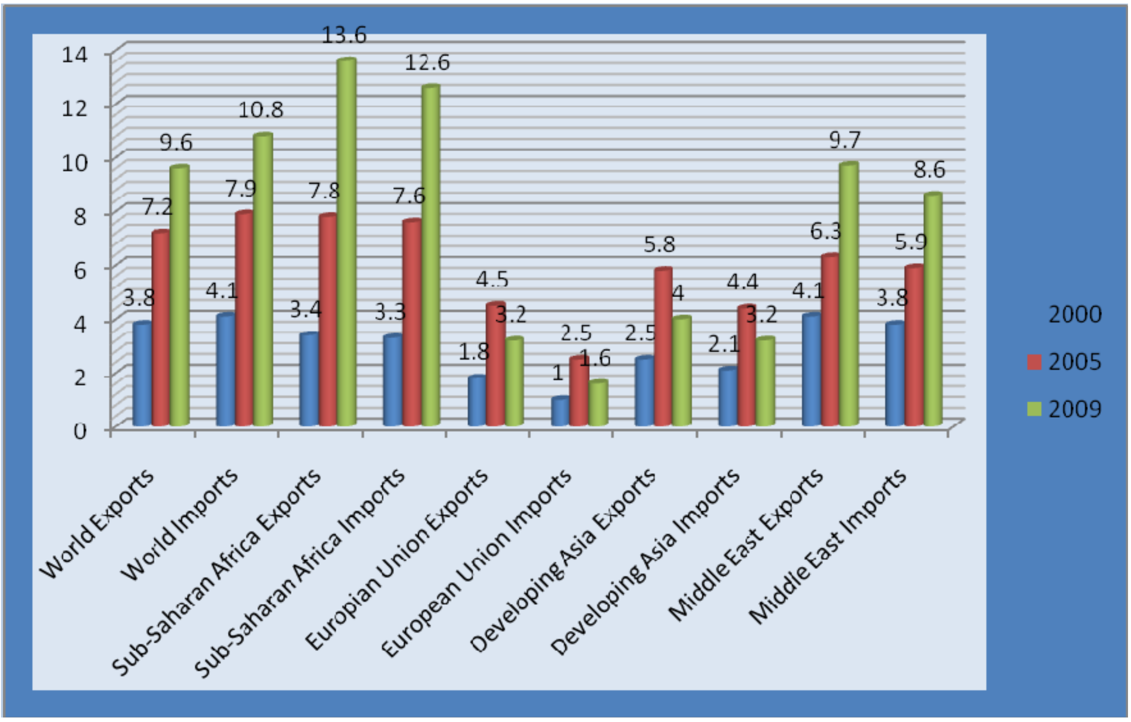


Table 1b: Share of China in Total Merchandise Trade (In percent of total)



By the same token, Foreign Direct Investment (FDI) in Asia by African firms is extremely small, both in absolute and relative terms. Indian and Chinese foreign direct investment in Africa also grew, with China's investment amounting to $US1.18 billion by mid-2006.

- **Current Account**

The current account deficits continue to be a key issue across the region. The current account deficit is counterweighted by capital inflows in the form of remittances (Zimbabwe, Rwanda, and Tanzania) and FDI (Rwanda, Kenya and Zambia). However, these countries recorded a sharp reduction in remittances due to high unemployment rates and workers lay off in industrialised countries where most members of their diaspora live.

Table 7: Current Account(% GDP)

Country	2007	2008	2009	2010[a]	2011[b]
Angola	17.2	7.6	-3.7	4.6	4.4
Botswana	11.0	3.8	-5.5	-6.4	-6.9
Kenya	-3.8	-6.6	-6.9	-6.6	-6.0
Lesotho	13.1	9.5	-1.5	-18.2	-17.2
Malawi	-1.7	-6.4	-8.4	-2.4	-2.3
Mozambique	-9.8	-11.9	-11.8	-13.4	-13.8
Namibia	9.2	2.8	-2.3	-5.8	-5.2
Rwanda	-4.3	-5.0	-6.8	-7.1	-6.5
Swaziland	-2.3	-4.9	-6.3	-10.4	-12.3
Tanzania	-9.4	-10.5	-9.7	-10.1	-9.2
Uganda	-4.5	-5.0	-5.9	-6.3	-5.1
Zambia	-6.5	-7.1	-3.6	-2.9	-3.0
Zimbabwe	-8.1	-23.7	-28.2	-22.8	-17.6

***Sources**: Sources: IMF, African Department Database, and IMF, World Economic Outlook (WEO) October, 2010.*

(a) *Figures are preliminary estimates.*
(b) *Figures are forecasts*

- **International Reserves**

Monetary authorities in sub-Saharan African countries in general and in the MEFMI region in particular have experienced significant challenges in managing a period of inflationary pressures (2007–08) and, soon after, recessionary pressures (2008–09), both coming from abroad. However, monetary policy is more effective in sub-Saharan Africa than is perhaps commonly believed. Changes in base money growth and policy interest rates feed through to changes in broader monetary aggregates and market interest rates, respectively, with the impact larger in sub-Saharan Africa than other broad country groupings. Linkages from interest rates to economic activity and inflation are weaker, and global factors are also at work.

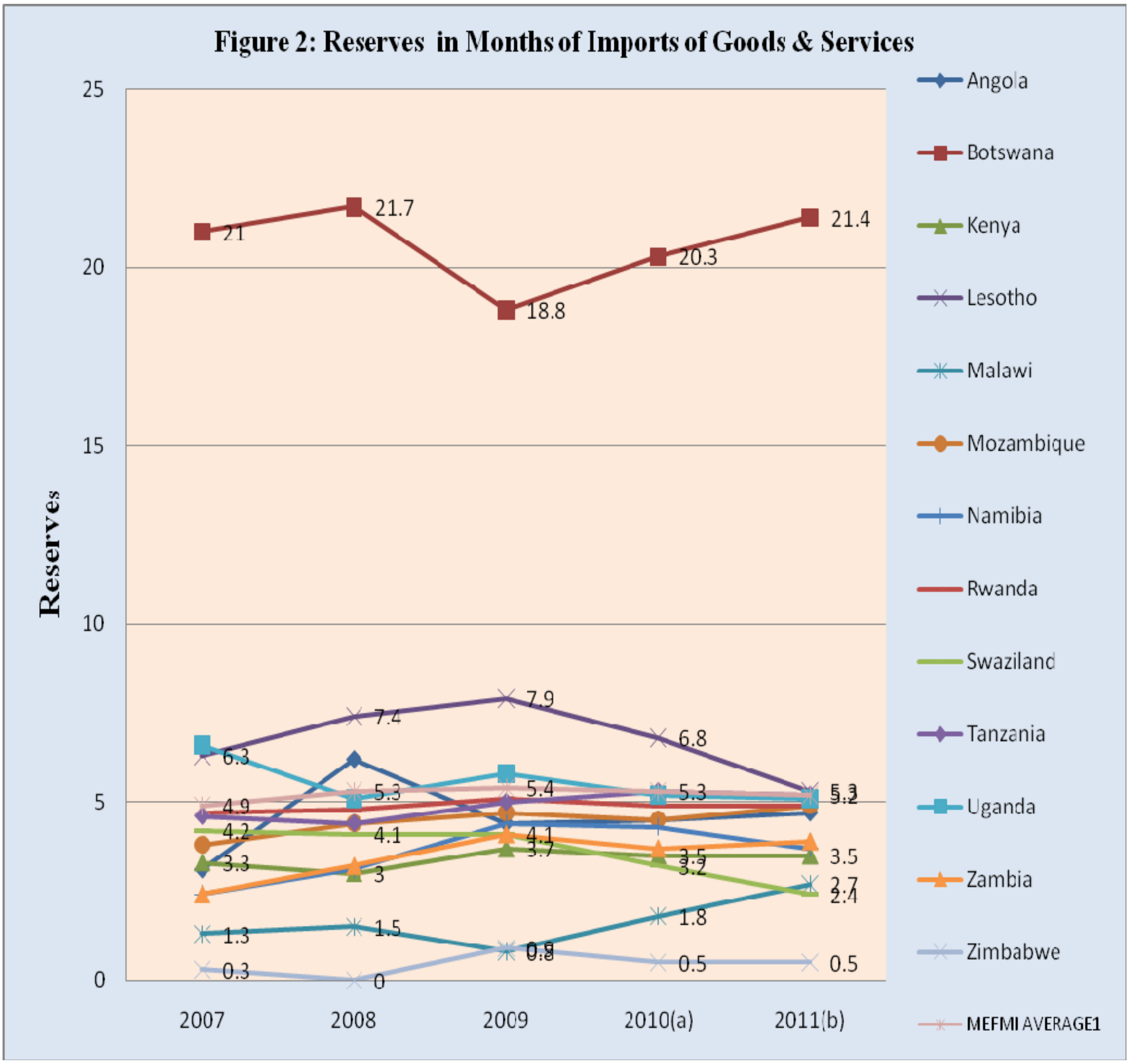


Figure 2: Reserves in Months of Imports of Goods & Services

***Sources**: Sources: IMF, African Department Database, and IMF, World Economic Outlook (WEO) October, 2010.*

(a) *Figures are preliminary estimates.*
(b) *Figures are forecasts*
[1]*Average weighted by Total Reserves*

Interestingly, accumulated reserves were quite strong in a number of countries during these two periods some of which were likely associated with large IMF disbursements. Reserve changes were not only influenced by deterioration in the current account but also by the amount available before the crisis. Countries with large reserve buffers used these to cushion the effects of the crisis (Botswana, Angola, and Lesotho) whereas countries with very low reserves (Malawi, Swaziland and Zimbabwe) needed to build up financing buffers.

Conclusion

This bulletin gives a clear picture of where key macroeconomic indicators stand in the World and in the MEFMI region. The picture coming from the figures outlined above portrays a promising post financial crisis recovery process in the world in general and in Africa and MEFMI region in particular. For Africa and MEFMI economies in particular, the major focus in the short term should be first on the review and implementation of strict measures in relation to financing of government deficit. Second, Africa should do its best to foster non-traditional exports in order to penetrate and benefit more from the Indian and Chinese diversified export demand and hence, increase its share in the global trade. By the same token, Africa will need to keep promoting FDIs - no matter their source - keeping an eye on their "pro-poor" selection approach of their spillover effects to the African community.