Impact of the Global Financial Crisis on Zimbabwe

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by

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Background

- The world is currently faced with the worst recession since the 1930s.
- Though the crisis originated in the developed countries, developing countries are being severely hit by weaker trade, tighter credit conditions and lower remittances.
- Poverty and hunger are increasing and major reversals in hard-won gains towards the MDGs will likely be seen.
- Children, women, the working poor, migrants and already people at a disadvantage are the most vulnerable.
- Increased risk of accelerated environmental degradation and social tensions.
Origins and Causes

- The years to the crisis were characterised by high global growth, and relatively low inflation in most countries.
  - This pattern of growth, coupled with deficient regulation led to over-leveraged financial institutions, businesses and households which proved unsustainable.
  - The global search for higher yields was accompanied by mounting international financial imbalances.
Transmission of Global Crisis to SSA

- The channels through which SSA countries have been affected by the crisis are:
  - Reduced commodity prices and volumes along with corresponding changes in the terms of trade and pressures on the trade balance;
  - Credit crunch: contraction in trade finance and business/consumer lending;
  - Low remittances flows, FDI, portfolio investment and foreign aid;
  - Capital repatriation by foreign parent banks, and
  - Weaker financial intermediation due to higher credit risk, liquidity and solvency problems.
The most recent IMF forecasts for SSA growth for 2009 have been downgraded to 2 percent (falling from 5.25 percent in 2008).

This means that while SSA countries are still expected to grow this year, increases in national income will not be enough to keep up with population growth and represent a reduction in GDP per capita for the region as a whole due to the financial crisis.

Some countries will be at serious risk of back sliding.

One of the main channels through which SSA countries have been affected by the crisis is international trade.

The available data for the early part of 2009 suggest that the impact of the crisis on SSA exports has been quite nuanced - with some countries still experiencing strong export growth while others have been hit hard.
SSA Exports and the Crisis

- Countries are gaining in some markets, while losing in others.
- However, it is the traditional frailty of SSA exports that appears to be the main driver of recent export performance: susceptibility to volatile commodity prices.
- *The global financial crisis is affecting SSA countries through changes in their exports to western markets*
- By the end of this year, the IMF is projecting that the world economy will contract by 1.3 percent in the deepest recession since World War II before rebounding to grow at 1.9 percent next year. World Bank projections for growth are similar: projecting a 2.9 percent fall in global GDP in 2009 before recovering to 2 percent in 2010.
- Despite recent evidence that China’s demand for imports is already rising rapidly, and so spurring some recovery in the global market, the outlook for the current downturn remains gloomy and the recession is likely to be more protracted than in the past.
Zimbabwe’s Exports and the Crisis – Global and Contagion Effects from RSA

- Preliminary evidence suggests that Africa’s merchandise exports have already suffered an important drop in value during the first part of 2009.
- Monthly trade data available for the US (until April 2009) and EU (until March 2009), shows that SSA exports to the former were 57 percent lower in the first four months of 2009 versus the first four months of 2008 and, to the latter, 29 percent lower during the first quarter of the year.
- With respect to Zimbabwe percentage change in western imports declined by over 90% in US Jan –April 2009/Jan-April 2008 and by 40% in the EU Jan-March 2009 /Jan-Mar 2008 according to figures from US Trade Commission and Eurostat.
- Recent changes have been mainly driven by changes in commodity prices.
- Over 12 months there has been steep declines in the price of cotton and nickel while gold and sugar have remained relatively stable.
- Overall, the potential impact of terms of trade as a % of GDP was -8.94% cf 2009/2008 expressed as a % of 2006 GDP cf a positive 7.84 in 2008/2007.
- The cumulative effect over the two periods is 1.47
- The contagion effects of the crisis on regional markets - particularly South Africa - are also impacting Zimbabwe’s exports.
Zimbabwe’s Exports and the Crisis – Global and Contagion Effects from RSA

- World Bank estimate that South Africa’s economy will contract by 1.5 percent in 2009, its first contraction since 1992, on the back of lower commodity prices and sales to the EU, US and Japan which jointly account for over 60 percent of its exports.

- Already key sectors in South Africa such as retail, manufacturing and mining are in decline. Nearly 180,000 jobs were lost in South Africa between January and March 2009 pushing the unemployment rate to 23.5 percent versus 21.9 percent in the fourth quarter of 2008.

- These factors will reduce demand for imports in South Africa which, coupled with changes in commodity prices, could lead to lower revenues for some African countries.

- The exact impact on exports to South Africa – whether a rise or a fall - will depend on the composition of Zimbabwe exports to this market. This concern is supported by recent data on South African imports showing a decline from all sources of 14 percent in the period January-April 2009 compared to January-April 2008 and for Zimbabwe an even greater drop of 71.9 percent.
Zimbabwe’s Exports and the Crisis – Global and Contagion Effects from RSA

- Zimbabwe exports 34% of its exports to South Africa.
- Zimbabwe’s exports to RSA are concentrated in a few products which makes them vulnerable, e.g.; in 2007, 3/4 of Zimbabwean exports were in nickel.
- Comparing Jan-March 2009/Jan-March 2008 the following is noted of the these Zimbabwe’s major exports to RSA vis-à-vis percentage changes:
  - All products -71.9% (R450m Jan-March 2009)
  - Base metals and articles of base nickel – 82.8% (R152m Jan-March 2009)
  - Cotton textiles % clothing +96.4% (R140.9 m Jan –March 2009)
  - Prepared foodstuffs, beverages and tobacco -40.1% (R76.1m Jan –March 2009)
- Thus for Zimbabwe exports losses in the US and EU have been aggravated by losses also in the South African market.
**Conclusion**

- Zimbabwe has been affected by the crisis through the international trade channel by losing import shares in US, EU and RSA markets.
- Exports this year will decline by 8% and imports by 5% and CA deficit will be 25% of GDP. Contraction in exports is due to falling commodity prices.
- Zimbabwe has not been spared from other channels such as difficulties in accessing lines of credit, low investment, low tourist arrivals and low remittances from residents living abroad.
- FDI will be only USD150m and portfolio investment will be only USD35m. This year.
- Remittances are forecast to decline this year due to recession so are tourist receipts.
- Bulk of the inflows into the country will be humanitarian assistance through NGOs of USD699m this year.
- Despite this the IMF forecast a real GDP growth rate of 3.7 this year and 6% in 2010. This growth is from a very low base.
Thank You