Caleb M Fundanga: The effects of the crisis on Africa

Remarks by Dr Caleb M Fundanga, Governor of the Bank of Zambia, at the African Economic Research Consortium Senior Policy Seminar (SPS XI), Lusaka, 6 April 2009.

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The Executive Director, African Economic Research Consortium;
Government and Central Bank Officials present;
Distinguished Participants;
Members of the Africa Economic Research Consortium;
Ladies and Gentlemen.

It is with great joy and gratitude that I welcome you all to Zambia and to this seminar. I wish to extend a warm welcome to all the international participants. I hope you will have a good stay in our beautiful and friendly city of Lusaka. I feel particularly honoured and grateful to officiate at this important seminar organized by the Institution I am proud to be associated with, the Africa Economic Research Consortium (AERC).

Chairperson, let me begin by thanking you and AERC for choosing Zambia to host this important seminar. I am aware that since its establishment in 1988, the AERC has played a pivotal role in developing and harnessing resources in Africa both informational and human capital. Research, workshops and seminars such as this one have helped to strengthen the capacity of undertaking policy–relevant research into the problems facing the management of economies in sub-Saharan Africa. It has, through these interventions, undoubtedly contributed to the positive strides African economies have scored in the last decade with regard to economic governance and development.

AERC's devotion to advanced policy research and training in the field of economics in Africahas built capacity in many institutions of economic management and academia in many of our countries. Today, there is no major economic and financial institution in Africa that does not boast of an AERC alumni. This could not have been possible if individual institutions across Africa were to pursue training on their own accord. This goes to show how important collaboration is in leveraging capabilities and realising the set objectives for African countries.

Once again AERC is showing its valuable existence by bringing together a panel of experts from all over the world to come and share ideas on how to address the causes of the global financial crisis, short, medium and long term consequences for the global economy, the impact of the crisis on African economies, implications for growth and development of the continent's financial sector as well as policy options.

Ladies and Gentlemen, this seminar could not have come at a more opportune time than when all our economies are faced with the challenges emanating from the impact of the global financial and economic crisis. This seminar is unique in the sense that it has been organised to specifically address the effects of the crisis. We feel particularly honoured to host this important event.

Chairperson, the ongoing economic crisis is not of Africa's making but arose from advanced economies like the United States of America and United Kingdom. However, there is a risk that African countries could become the biggest casualties of a crisis they did not create. The impact is already severe and has dealt a huge shock to our continent while posing a great threat of reversal to the hard earned social and economic gains that most of our economies had achieved in the recent past.

Ladies and Gentlemen, for more than a decade, most African countries had continued to register unprecedented economic growth rates averaging 5% and above. We saw a rise in income levels and a reduction in poverty among our peoples with improved education, health, water and infrastructure development. The continent also experienced a surge in investment flows in many sectors including mining, manufacturing, tourism, transport and construction. Progress in governance and accountability had also been noted in most African countries.

Mr Chairman, allow me without pre-empting the deliberations to mention some problems the global financial crisis has created for most African economies. Commodity exporting countries have experienced a decline in their export receipts. This has been due to the decline in commodity prices reflecting the weak demand of such commodities arising from the scaled down output in industrialised and emerging market countries. The declining export earnings as well as changing investor sentiment toward investing in emerging markets, which has been reflected in the reversal of investment flows, have been exerting pressure on the exchange rates. The depreciation of the local currencies is creating additional inflationary pressures while fiscal operations have not been spared as the tax revenue from export earnings has been adversely affected.

Furthermore, the effects have quickly extended to the real economy, with serious consequences on jobs. In particular, manufacturing has been adversely affected because of its support to the primary industries on the continent. As extractive industries on the continent face depressed commodity prices, the demand for manufactured goods will continue to decline. This is expected to negatively affect Africa’s manufacturing sector. The decline in the demand for finished goods in the advanced economies is also adversely affecting exports of our manufactured goods and thereby slowing down the manufacturing sector on our continent. Tourism is also adversely affected as many foreign tourists postpone or reschedule their visits to our continent as they grapple with severe economic conditions in their home countries.

Chairperson, an additional adverse effect of the global financial crisis on our economies has been on direct foreign investment s as many projects have either been suspended or cancelled. This has been due to a failure by many investors to raise funds as a result of unfavourable conditions in international financial markets. Other investors are pulling out their interests from Africa in a bid to save money and improve their liquidity for working capital purposes back home where liquidity has been a serious issue.

In Zambia, the effects of the global financial crisis have been generally felt in our mining industry, securities market, and the external sector of the economy. The drop in copper prices has led some mines closing while other have been placed on care and maintenance with massive job losses while the mining subsectors and mining related industries have also seen loss of jobs. The tourism industry is adversely affected with low occupancy rates while the horticulture industry has also recorded losses due to low export volumes as result of low demand and low commodity prices of vegetables and fresh flowers in European markets.

The exchange rate has also come under severe pressure as foreign exchange inflows declined reflecting the deterioration in the balance of payments position. This is partly a consequence of reduced earnings from copper exports arising from the fall in copper prices. Further, the weakness of the local currency is a consequence of increased risk aversion to emerging and developing economy financial assets.

Chairperson, the challenges arising from the global financial and economic crisis are huge but surmountable. Major economies of the world are putting in place various stimulus packages, which are expected to take the world economy out of the crisis. Without doubt, these measures will benefit emerging and developing economies as well, provided that were main committed to pursuing strong socio-economic policies. I urge all of us here present to be part of the solution and contribute to the economic recovery and prosperity of this continent. It is also important that we incorporate policy issues arising from this seminar in our domestic policy processes and thereby enrich such processes by taking into consideration regional perspectives.

The challenge going forward is how to maintain and sustain the economic gains and macroeconomic stability in our countries. There is need to encourage diversification and enhance competitiveness by increasing expenditure on infrastructure and social services. We need to continue to encourage investment in our economies that will lead to a diversified export base and a greater local value addition. For monetary authorities, there is need to continue to closely monitor global developments and always stand ready to take appropriate measures in the local financial markets to ensure that confidence in the financial systems is maintained and any systemic risk is avoided. Such actions will facilitate maintenance of the macroeconomic gains achieved thus far. This is a necessary ingredient for economic growth and poverty alleviation, even against the unfolding adverse effects of the global financial crisis.

Ladies and Gentlemen, let me end by urging all of us present here today to deliberate on issues that will help us face the future in a much more confident way. Let us use this unique opportunity to have a discourse on how to protect and sustain the recent achievements of higher income levels and reduced poverty. African countries need to find ways and means of coming up with a response framework to reverse the effects of the crisis. Our financial systems regulatory frameworks should be enhanced to ensure that what has happened else where does not visit us in the near future.

Thank you and I wish you successful deliberations.