

Ebson Uanguta: The impact of the euro area debt crisis on southern Africa

Welcoming and opening remarks by Mr Ebson Uanguta, Deputy Governor of the Bank of Namibia, for the CCBG Macroeconomic Subcommittee, Windhoek, 10 July 2012.

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On behalf of the Bank of Namibia, I wish to welcome you to Namibia and to this meeting in particular. I hope that you find the arrangements up to your expectations. Please, do not hesitate to approach us for any assistance. It is indeed, a pleasure for us to host you and please feel home away from home.

The Macroeconomic Convergence Subcommittee is an important organ of the CCBG and SADC in general. It is tasked with the responsibility to interrogate and deliberate on macroeconomic issues in support of the integration process. As the region moves towards deeper economic integration, it is obvious that the role of this committee will even become more important in advising the Governors on various macroeconomic issues and advancing the integration agenda.

This meeting is taking place at a time when the global economy is facing renewed weakening and heightened uncertainty. In particular, the U.S economy continues to recover at a slow pace, while worries about the euro area debt crisis and uncertainty over domestic fiscal plans are creating a challenging environment for the world's largest economy. A key factor contributing to recent weak global economic performance is the sovereign debt crisis affecting the Euro Area. Indeed, there cannot be any doubt that the Eurozone financial crisis poses a deep risk for the global economy. On-going tensions in some Euro Area sovereign debt markets and their impact on credit conditions, the process of balance sheet adjustment in the financial and non-financial sectors and high unemployment rates are expected to weigh on the underlying growth momentum. Clearly, it is of urgency now that European countries take all the necessary measures to restore confidence so as to contain and lessen the impact of the crisis on the rest of the world. With economic activities in emerging market economies having also slowed in the last 3 months, the global economy is indeed facing challenging times.

The recent performance of the World economy, and the uncertainties generated by the euro crisis, has revealed the vulnerability of our region to external shocks. This is mainly on account of the openness and trade linkages of SADC economies with the rest of the world. Therefore, SADC countries need to do more to trade with one another as a way to minimise this exposure.

In terms of the developments in the euro zone, fundamental weaknesses of a monetary union have been exposed and demonstrate that it needs to be undertaken cautiously. In this context, it is important to think about the challenges facing the European monetary union to infer and apply some of the lessons to our own situation in SADC in view of the proposal to establish a monetary union. A key lesson learned from the EU is that a properly functioning monetary union requires more than ex ante macroeconomic convergence and other conditions postulated in the theory of optimal currency area.

The experiences from Greece, Ireland and Portugal demonstrate that when macroeconomic imbalances arise in a monetary union, it is inevitable that fiscal policy adjustments be implemented. Thus, a full monetary union requires Member States to surrender both monetary and fiscal policy space to supranational institutions. These lessons present a challenge for policy makers in SADC to re-think the practicality of a monetary union for the region. Key question to be asked include whether the respective SADC countries are ready to forego autonomous monetary policy as a tool for macroeconomic management and adjustment. We need to know if the members will be prepared for a regional fiscal authority.

These and other related questions ought to be deliberated and the Macroeconomic Sub-Committee is therefore, expected to play a critical role in this respect and make recommendations for consideration by the Governors.

I am glad to note that the committee will be discussing a paper titled “Fiscal sustainability – Lessons from the EU for SADC”. I hope that this discussion will shed more light on this topic and make proposals on the way forward on integration in SADC.

I am informed that this meeting will also review progress being made on macroeconomic performance and convergence of the SADC economies. I am happy to note the substantial progress was made towards achieving macroeconomic convergence targets. For instance, 10 SADC countries averaged single digit inflation in 2011 and there have been significant improvements in the current accounts, budget deficit and public debt since the launch of the RISDP in 2004. However, a lot still remains to be done, especially with regard to the development of a good accountability framework to enforce the targets that we have set ourselves as SADC. It is my hope that the Peer Review Panel will become functional soon so that the peer review process could commence in earnest.

Last but not least, I hope that you will also make time to see a bit of our beautiful City and spend as much as possible some of your dollars before you go back.

I wish you a productive and insightful meeting and thank you for your attention!