PRESENTATION BY H.E. MR. E.E.E. MTANGO, AMBASSADOR OF TANZANIA AND DEAN OF THE AFRICAN DIPLOMATIC CORPS IN JAPAN AT GRIPS-ODI-JICA JOINT SEMINAR: AFRICAN GROWTH IN THE CHANGING GLOBAL ECONOMY

Topic: African Growth, Financial Crisis and Implications for TICAD IV

OUTLINE

1. Anatomy of African Growth, pre-crisis period
2. Global Financial Crisis and its effects on:
- African Economy and Trade
- Foreign Direct Investments
- Capital and Equity Markets
- Banking System
- ODA
- Tourism Industry
- Remittances from Africans in Diaspora
- Foreign Reserves
- Achievement of MDGs
3. Implications on TICAD IV
4. What to do.

AFRICAN GROWTH
(Pre-Financial Crisis Period)

- Africa has enjoyed 10 years of sustained growth averaging 5% GDP growth per annum.
- Early 2008 average GDP forecast at 6.5% p.a.
- Growth due to strong demand for Africa's exports, high commodity prices, widened markets into Asia (China, India, South Korea), diversified sources of finance (investments from China, India, Middle East), and remittances from Africans in diaspora.
- Many African countries spent decades gearing economic growth to attract more private capital to dispel the reputation of unreliable investment destination.

GLOBAL FINANCIAL CRISIS

2.1. General Observations

-The financial crisis came as African economies were turning the corner.

- Effect of global financial crisis is already being felt;

  e.g. – Tanzania downgraded growth forecast to 7.5% down from 7.8%. AfDB forecast average growth of 5% down from 6.5%.

- However, the effect is to the Economies of African countries, in general. African Banks are not suffering from credit crisis as such since they are less exposed to the global credit system.

GLOBAL FINANCIAL CRISIS

2.2. Effect on African Economy and Trade:

If factories and supermarkets close in U.S.A., Europe, etc., this will lead to less demand for goods from Africa and consequently,

- Commodity prices fall, exports decline and many exporters lose markets (e.g. markets for garments for South Africa, Mauritius, Kenya, Swaziland, etc.)
- Foreign currency income slump due to reduced demand and low prices.
- Factories may close down, jobs lost resulting to unemployment increase.
- The health of banking sectors will be affected and defaulters build up.
- Economic slow down inevitable consequence.
- Balance of payments will be negatively affected.
- Importers would rush to hoard foreign currency leading to free fall of local currency.

GLOBAL FINANCIAL CRISIS

2.3. Effect on Foreign Direct Investments

- Fall of inward investments affecting important sectors such as agriculture, infrastructure development, health and education.
- Banks including World Bank (especially the commercial arm of IFC) will fail to raise capital from the Stock Exchange or from other banks to invest in Africa,
- Reduced or reversed portfolio inflows as investors flee to safer assets; Investors will sell securities causing local currencies to depreciate,

GLOBAL FINANCIAL CRISIS

2.3. Effect on Foreign Direct Investments

- Roads, energy and utility projects which need foreign capital will be affected,
- Money will be moved out of new projects to shore up balance sheets,
- Trade finance that is essential to export reliant countries may dry up,
- Planned issue of infrastructure bonds by African countries (e.g. Kenya, Tanzania) in international markets will have to be delayed as risk has become very high.

GLOBAL FINANCIAL CRISIS

2.4. Effect on Capital Markets/Equity Markets

- Countries with liberalized capital accounts (Nigeria, S. Africa and Kenya) will be the first to suffer due to the tendency for investors to withdraw to safer markets.
- Lower portfolio inflows and lower FDI inflows,
- Reverse portfolio inflows as investors flee to safer markets,
- Equity markets may fall sharply,
- Investors may sell securities and depreciate local currencies (already happening in Uganda, Zambia).

GLOBAL FINANCIAL CRISIS

2.5. Effect on Banking System

- Decline of quality of Banks' credit portfolios
- Losses in other financial assets (e.g. those deposited with foreign correspondent banks),
- Capital repatriation by private banks (which are usually foreign-owned).

GLOBAL FINANCIAL CRISIS

2.6. Effects on ODA

- Due to recession, rich countries may be tempted to cut down on ODA,
- Concessional loans may be reduced,
- Transaction costs are likely to rise,
- Roads, energy and utility projects will be affected,
- Countries usually receiving larger share of ODA (Uganda, Ghana, Tanzania) likely to suffer.

GLOBAL FINANCIAL CRISIS

2.7. Effects on Tourism Industry

- African tourism industry depends mainly on arrivals from overseas, As people’s savings decline, there is little money to spend on luxury; some want to stay put to see how the credit crisis will go,

- Tourism industry, transport companies, tour operators, hoteliers will feel the pinch (in Tanzania, reservations from U.S.A., Europe cancelled. Some hotels suffered 60% of cancellations in October 2008!)

GLOBAL FINANCIAL CRISIS

2.8. Effect on remittances from Africans in diaspora:

- Due to economic recession in USA, Europe, Japan, remittances from diaspora will decline.

GLOBAL FINANCIAL CRISIS

2.9. Effect on Foreign Reserves

- Countries' foreign reserves usually invested abroad will most likely be affected.

- Banks with high foreign currency exposure will be affected.

GLOBAL FINANCIAL CRISIS

2.10. Effect on Achievement of Millennium Development Goals (MDGs)

- Slow down of economic growth, foreign currency income slump, unemployment increase, reduced ODA, depreciation of local currency, etc.
  will result in a setback in achieving the MDGs.

IMPLICATIONS IN TICAD IV

3.1. TICAD IV is considered a great success because of:

- Enhanced focus on economic growth,
- Focus on infrastructure and agricultural development,
- Support, encouragement or incentivization for Japanese private sector to look more seriously at trade and investment opportunities in Africa
- Funding support mechanisms which GOJ promised to put in place (for infrastructure development and private sector support,
- Insurance cover against political risk to be extended by NEXI,
- Doubling of ODA in 5 years,
- Various interventions in Health, Education and support to achieve MDGs.

IMPLICATIONS IN TICAD IV

3.2. The Global Financial Crisis endangers the implementation of all above commitments.

WHAT TO DO.

- Donor countries should honour their commitments on ODA to Africa.
- International Financial Institutions (IMF, WB, AfDB, etc.) should adopt remedial measures to mitigate the risks to African countries.
- Central Banks should exercise prudential regulation and supervision and have early warning system.
- African Governments should exercise strict control of money laundering and insider trading.

WHAT TO DO.

- Central Banks should regulate issue of foreign exchange to companies during this time of crisis.
- Non-bank financial sector such as Pension Funds should also be regulated.
- African countries should strengthen domestic and regional markets and boost intra-african trade.
- It is important to promote domestic tourism.
- There is a need for new stability of the global financial system in which the voice of every nation, every continent is heard and their concerns taken into account.