THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON DEVELOPING COUNTRIES

THE 2008 GLOBAL FINANCIAL CRISIS AND SOUTH AFRICA

Don Ross

A theme in some commentaries on the current global financial crisis that began in mid-2007 is that emerging markets have been ‘innocent victims’. This is truer in some cases than in others. Those, like Zambia, that are suffering mainly because looming world recession has taken the shine off commodity prices, can reasonably claim to have been caught in a cross-fire in which they had no active involvement. But others, such as Hungary, are in trouble primarily due to large current-account deficits that, in the context of the capital crunch, have caused sudden depreciation of their currencies and saddled them with unsupportable debts. A country’s current-account balance is arguably a variable that is under its policy control.

When the financial tsunami struck in September 2008, South Africans braced both for a soaking and for a round of our usual self-abuse. We could see multiple sources of potential vulnerability. We have been carrying a large current-account deficit for years. Our small currency is heavily traded. Our financial institutions are sophisticated – and hence fully capable of dealing in the sorts of new-fangled instruments that have turned out to be (unsurprisingly) dangerous in the hands of the imprudent. Our investors have been enjoying asset appreciation fuelled by inflows of foreign capital attracted by high nominal interest rates. If our currency, stock market and financial institutions were now collapsing, we could all be saying we knew it, we knew it, and we were asking for it. Several of our more prominent commentators would be able to simply pull old columns from their hard drives and adjust the dates.

But it isn’t happening. True, our stock market has fallen and (to a lesser extent) risen with world averages. The Rand had lost about 35 per cent of its mid-September value against the US Dollar as of mid-October. Our Finance Ministry, in its mid-year forecast, predicted that our growth rate would fall by a bit less than half over the coming 18 months. We are, then, taking some lumps. But they are comparatively mild. The currency has already recovered significantly, and it never did fall seriously against those of our largest trade partners, the Euro-zone and the UK. The reduction in growth we expect is not a recession. Our inter-bank lending market never froze and our commercial and even investment banks remain profitable. While others panic, we are beginning to wonder if we should be enjoying a feeling of smugness we are used to reserving for occasions that directly involve Nelson Mandela.

We should not get carried away. Much of our good fortune is an unintended consequence of policies we adopted or persisted in for reasons that weren’t good economics. These included currency controls, encouragement of over-conservative monetary policy and restrictions on lending to the poor. The latter two have stifled the broadening of entrepreneurship, causing a drag on our development that will continue to afflict us while less inhibited emerging markets roar into recovery later. Still, these are our discretionary policies and they are partly sheltering us from the storm. Furthermore, our extremely competent and alert National Treasury has shown itself to be a national treasure, having accumulated a fiscal surplus that allows it to now run counter-cyclical debt while continuing to raise net savings through infrastructure investment. Those with capital in flight from rotten securities have plenty of good buys available in depressed first-world equity markets, of course – but there also continues to be excellent value available from investing in South Africa, and this has not been lost on the market. We are pleased to be a port in the storm.

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