Integrated Paper on

Recent Economic Developments

in SADC

Bank of Mauritius

September 2004

PERFORMANCE OF THE AFRICAN ECONOMY IN 2003

Against a background of fragile global economic recovery and prolonged political and structural constraints that hindered improved performance in some parts of Africa, the continent nevertheless registered a four-year high growth rate in 2003. Africa's real GDP growth in 2003 is estimated at 3.7 per cent as compared to 2.9 per cent in 2002. It is worth noting that Africa's 2003 growth rate was even higher than both the global growth rate and the rate of expansion of economic activity registered by advanced countries.

Several factors can help explain this improved economic performance of the African continent. On the external front, global economic recovery, debt relief under the Enhanced Heavily Indebted Poor Countries (HIPC) initiative as well as a firming up of Africa's export commodity prices contributed to the strong growth performance of African economies. The price of cotton, gold, copper and oil inter alia rose notably. Africa's economic performance in 2003 can also be explained by improved policy frameworks in terms of greater discipline in managing both public finances and monetary policy during the year.

Moreover, improved economic growth in Africa in 2003 was also associated with a strengthening of economic fundamentals in the region. The fiscal deficit as percentage of GDP declined from 3.4 per cent in 2002 to 3.0 per cent in 2003 on account of tighter fiscal policy and higher export receipts. Trade performance also improved and the trade surplus went up from US$6.7 billion in 2002 to US$15.6 billion in 2003. The debt service ratio maintained its downward trend and stood at 15.2 per cent of exports of goods and non-factor services in 2003 as compared to 21.2 per cent in the preceding year. Although 2003 witnessed a rise in average rate of inflation for Africa from 9.4 per cent in 2002 to 11.2 per cent on account of hyperinflation in countries such as Zimbabwe, the median inflation rate stood at 5.6 per cent and around 40 countries in Africa registered single-digit inflation rates in 2003. The investment to GDP ratio also improved from 19.7 per cent in 2002 to 20.5 per cent in 2003.

An interesting point worth noting is that, although there has been an improvement in overall economic performance in Africa in 2003, considerable variations from year to year can be observed in the growth rate of individual countries, which can be attributed to changes in climatic conditions that affect agricultural production, export prices of primary commodities, civil conflicts in certain countries and the unpredictable nature of donor support to African countries.

The International Monetary Fund as well as the African Development Bank projections point to a pick up in the growth rate for Africa to 4.3 per cent in 2004. However, it must be stressed that, based on current trends, the growth performance of Africa will remain far below the level required for halving poverty and attaining the internationally agreed Millennium Development Goals by 2015.

PERFORMANCE OF THE SADC REGION IN 2003[1]

ECONOMIC GROWTH

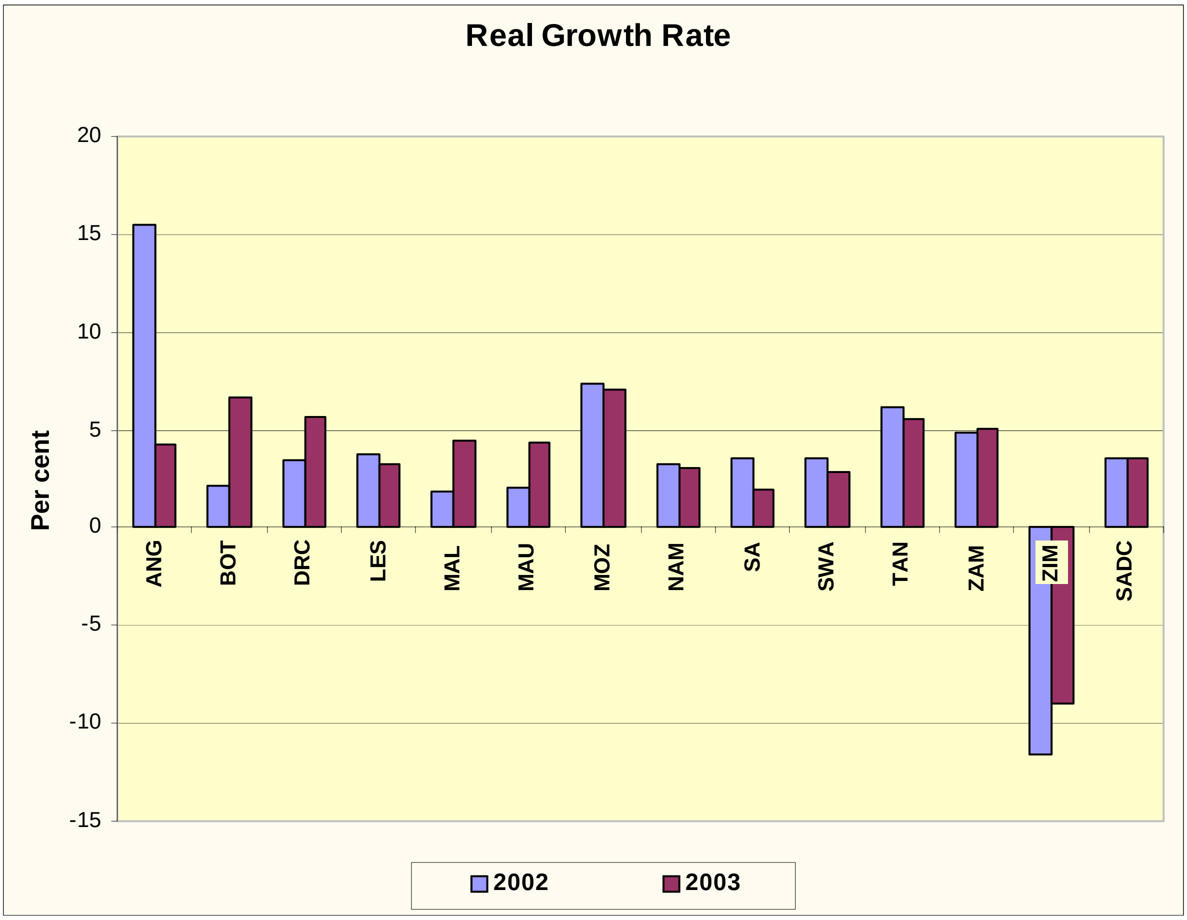
SADC's growth performance was more or less unchanged in 2003. On an average basis, GDP growth hovered around 3.5 per cent in 2003. This stable level of growth was mainly the result of the slowdown in the growth rate, from 3.6 per cent in 2002 to 1.9 per cent in 2003, of South Africa, the largest economy in the region, on account of declines in its manufacturing, agricultural and gold mining outputs.

Other economies that experienced a loss in momentum in the expansion of economic activity in 2003 included Angola, Lesotho, Mozambique, Namibia, Swaziland and Tanzania. Factors cited as contributing to this decline in growth rate included amongst others, low growth rate in foreign direct investment, slowdown in manufacturing output and unfavourable weather conditions that affected the agricultural sector. It should be noted that though Mozambique registered a decline in output growth in 2003, it nevertheless recorded the highest growth rate of the order of 7.1 per cent. Tanzania also performed well with a growth rate of 5.6 per cent, the third highest amongst SADC countries in 2003.

The only countries registering a pick up in economic activity in 2003 were Botswana, Democratic Republic of Congo (DRC), Malawi, Mauritius and Zambia. Of these, Botswana was the best performer with a growth of 6.7 per cent as compared to 2.1 per cent in 2002. Zambia, with an expansion in economic activity of 5.1 per cent, and DRC, with a growth of 5.7 per cent, were the only other countries in this group that had a growth rate in excess of 5 per cent. Mauritius and Malawi had more or less similar growth rates of 4.3 per cent and 4.5 per cent, respectively. The factors that led to the pick up in economic activity in these countries include recovery in the agricultural sector, notable growth of the manufacturing, construction, tourism and mining sectors.

[1] Statistics used are simple average

Chart 1: Growth Performance



Zimbabwe was the only country that recorded a negative growth rate in 2003. However, the negative growth of 9.0 per cent in Zimbabwe in 2003 was an improvement over the decline of 11.6 per cent registered in the preceding year.

The impact of measures being implemented under the economic turnaround programme that was launched In December 2003, has begun to be felt with monthly inflation, which had reached a peak of 34% in November 2003 falling to 3,5% by August 2004. The annual rate of inflation has decreased from a peak of 623% in January 2004 to 314,4% as at the end of August 2004.

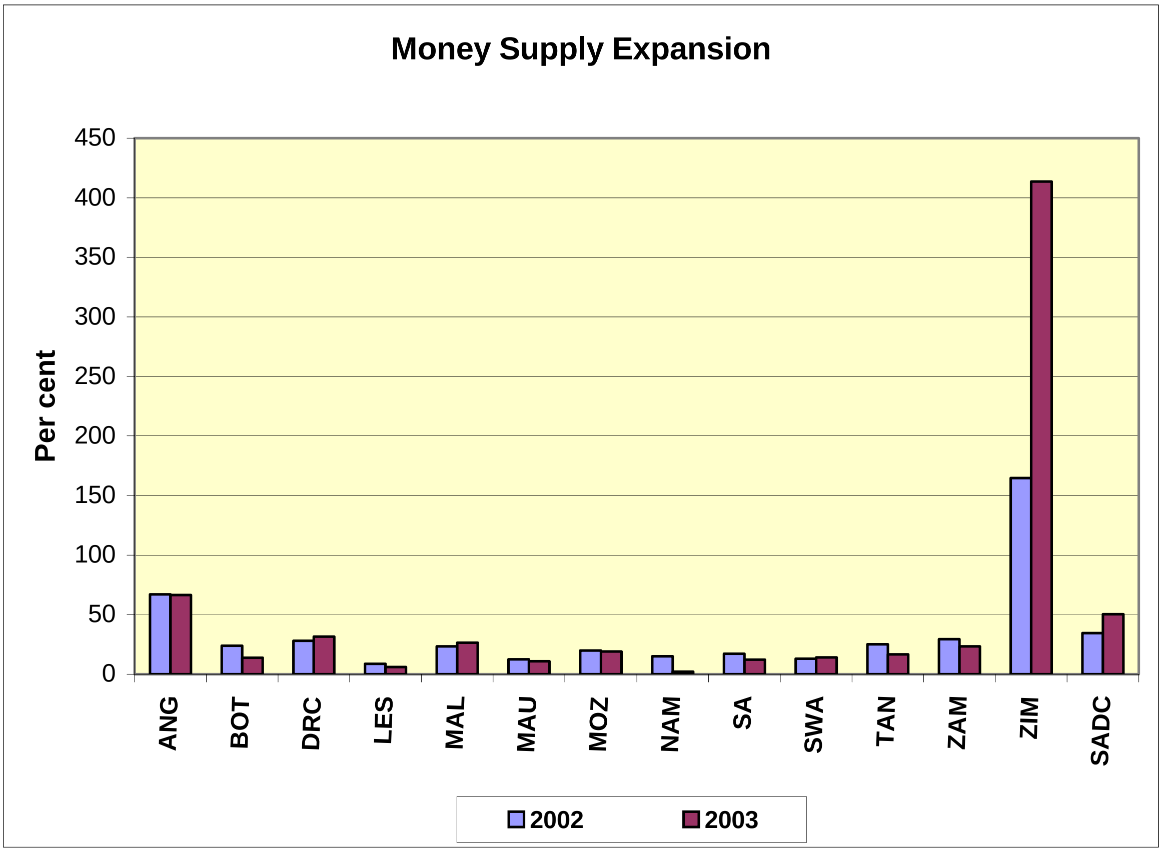
The Reserve Bank of Zimbabwe aims to reduce inflation to between 175% - 200% by December 2004 and further down to double digit inflation by 31 December 2005, with single digit inflation being targeted for the end of 2007.

In the context of the above strategies, the performance of the economy is expected to improve, from a GDP decline of -9% in 2003 to -5% in 2004, with positive growth being projected beginning 2005 onwards.

MONETARY DEVELOPMENTS

As compared to an average expansion of 34.5 per cent in 2002, broad money supply for the SADC region grew by 50.5 per cent in 2003. However, these figures include Zimbabwe which somewhat distorts the picture as it registered high money supply growth rates of 164.8 per cent and 413.5 per cent in 2002 and 2003, respectively on account of domestic credit expansion caused by increased lending to both the private sector and the government. Excluding Zimbabwe (SADC X ZIM), expansion of broad money supply in the region fell from 23.6 per cent in 2002 to 20.2 per cent in 2003.

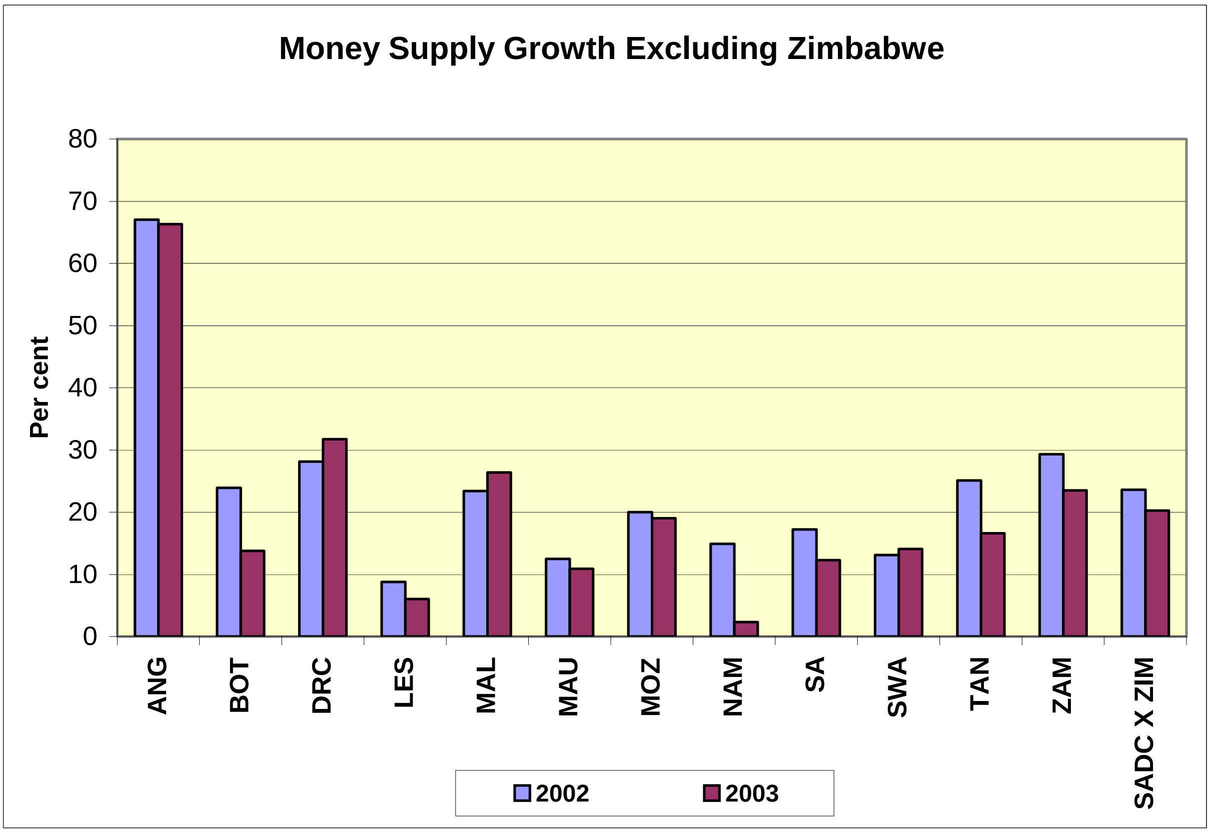
Chart 2: Money Supply Expansion



During 2003, nine SADC Member States namely Angola, Botswana, Lesotho, Mauritius, Mozambique, Namibia, South Africa, Tanzania and Zambia experienced declines in the growth rate of their money supply as compared to 2002. Six countries registered money supply expansion of less than 15 per cent in 2003 and of these countries, Lesotho and Namibia had growth rates of even less than 7 per cent.

The three other countries apart from Zimbabwe that witnessed an increase in the growth rate of money supply in 2003 were DRC, Malawi and Swaziland with expansions of 31.7 per cent, 26.4 per cent and 14.1 per cent, respectively. In Malawi, the 26.4 per cent growth in money supply was the result of increased borrowing by the government from the banking system that was necessitated by non-timely disbursement of programmed or budgeted donor funds.

Chart 3: Money Supply Growth (Excluding Zimbabwe)



Except for Zimbabwe and Angola (which recorded an expansion of 66.3 per cent in 2003) money supply growth in the remaining SADC Member States appears to be within controllable levels. However, it is to be noted that although DRC's growth rate in money supply was high, yet its inflation rate was within controllable limits.

On the interest rate front, most of the countries in SADC pursued an easing of the monetary policy stance in 2003. Botswana, DRC, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland and Zambia all reduced their policy rate during the year. In South Africa, abating inflation allowed monetary policy to be relaxed and the Reserve Bank reduced its repurchase rate from 13.5 per cent in June 2003 to 8.0 per cent in December 2003.

In Lesotho, major money market rates followed a downward trend on account of the easing of inflationary pressures following the recovery of the rand during the year. Average prime lending rates also fell and these changes tracked those of South Africa where the prime lending late declined from 17.0 per cent in 2002 to 11.5 per cent in December 2003. Namibia's decision to reduce its Bank Rate in 2003 was largely based on the need to keep domestic interest rates in line with those prevailing in South Africa. The easing of monetary policy in Namibia was also expected to boost business confidence and support growth prospects in the economy.

Interest rates in Malawi remained generally high in 2003 due to the high demand for credit by the government. However, the Reserve Bank of Malawi reduced its Bank Rate from 40.0 per cent in 2002 to 35.0 per cent in late 2003 as a signal to the commercial banks to follow suit and lower the cost of borrowing in an attempt to rejuvenate private sector activity and also to reduce interest payments by the government. The decision to lower interest rates was also motivated by lower inflation rates.

Against a backdrop of a general decline in international interest rates, a global economic slowdown and a fall in the domestic inflation rate, the Bank of Mauritius reduced its Lombard Rate on four occasions by a total of 125 basis points during 2003 with a view to supporting the growth prospects of the domestic economy. In Botswana, interest rates remained relatively stable during the first nine months of 2003, but fell in the last three months after the two cuts in the Bank Rate by 50 basis points, in each instance, in October and December 2003, reversing increases of the same magnitude in late 2002.

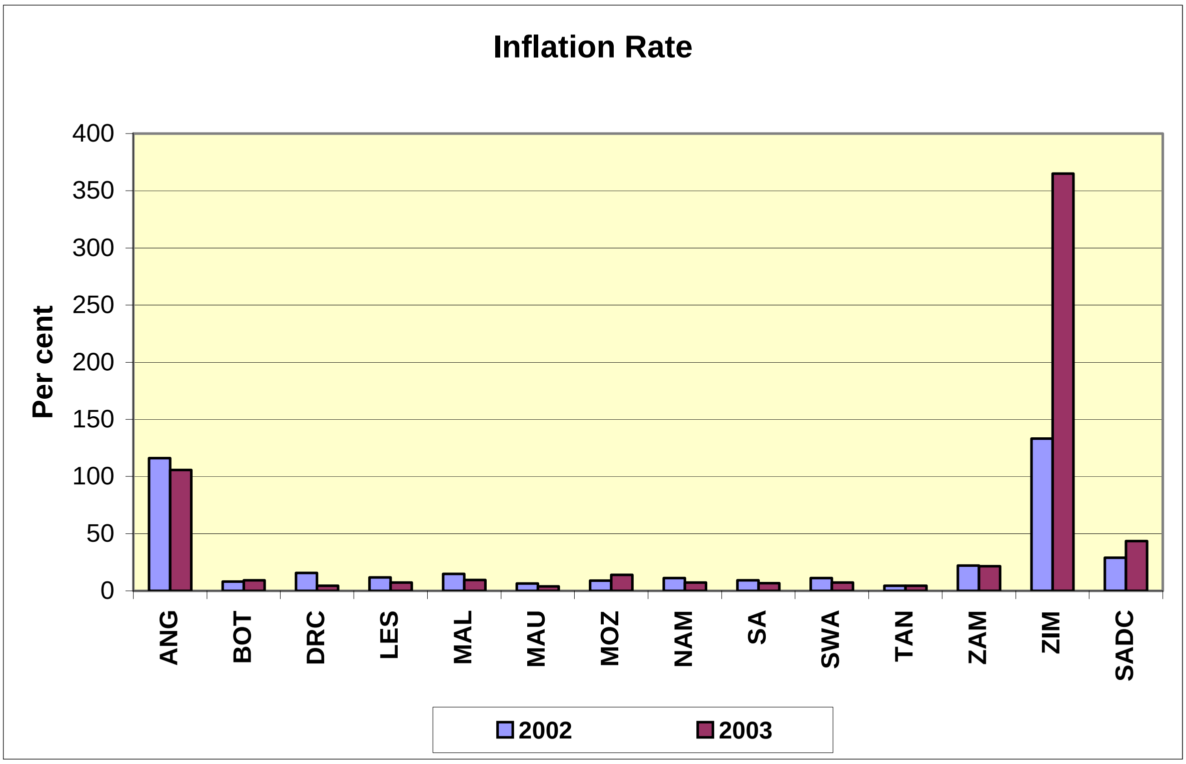
The downward trend in interest rates in Zambia was mainly due to easing liquidity conditions in the system following the reduction in October 2003, of statutory reserve ratios on both foreign currencies and Kwacha deposits from 17.5 per cent to 14.0 per cent. This action was intended to release funds to commercial banks with a view to improving availability of loanable funds in the banking system for lending to the real sector, especially agriculture and subsequently, driving lending interest rates downwards. Furthermore, the conversion earlier in the year, of foreign exchange statutory reserves held in Kwacha into US dollars contributed to lowering the cost of funds for commercial banks in particular and interest rates in general.

Tight liquidity conditions led to increases in domestic money market rates in both Tanzania and Zimbabwe. In Tanzania, the overall interbank cash market rates as well as the weighted average yield on Treasury Bills and Treasury bond yields all portrayed an upward trend in 2003. In Zimbabwe, with acute shortages in the money market during the last quarter of 2003, the overnight accommodation rate was hiked to 300 per cent and this triggered increases in other market rates to levels above 300 per cent. The increase in the overnight accommodation rate was meant to influence rates on non-productive lending upwards, under the Reserve Bank of Zimbabwe's dual interest rate policy.

INFLATION

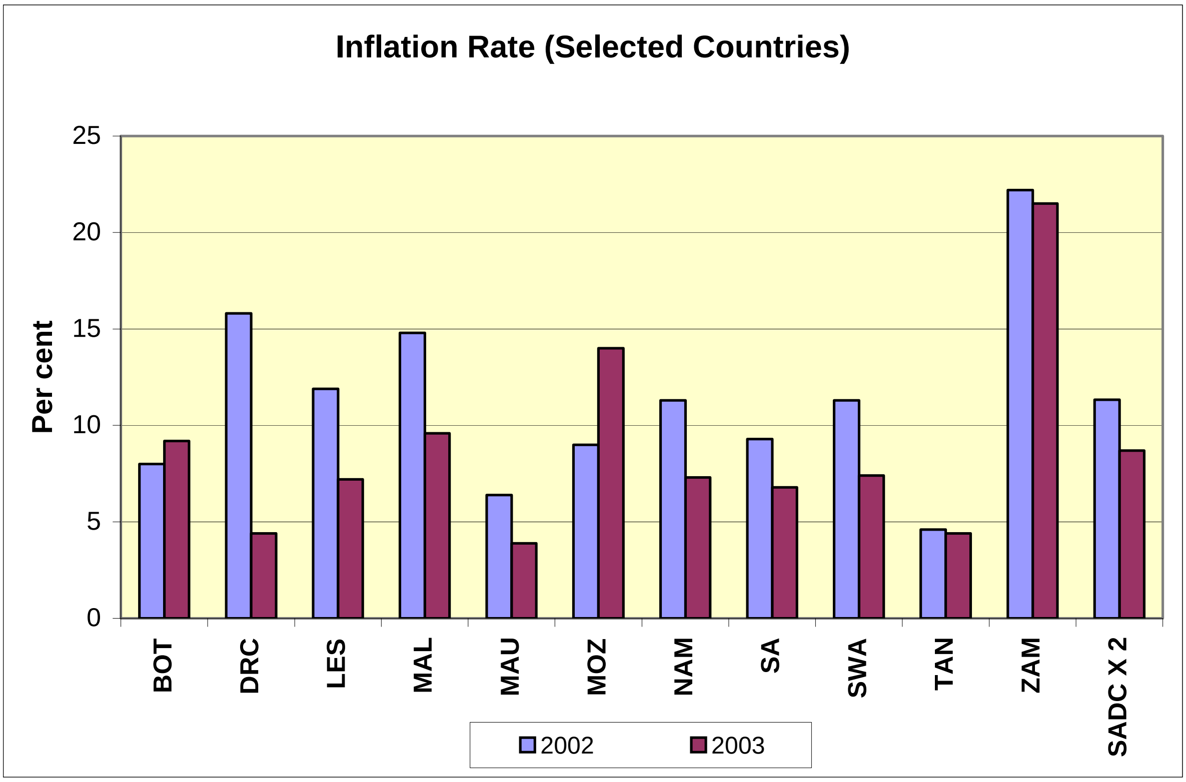
Viewed on an average basis for the SADC region, annual inflation rate went up drastically from 28.8 per cent in 2002 to 43.6 per cent in 2003. However these figures are skewed as they include outliers like Angola and Zimbabwe, with very high inflation rates. The annual inflation rate for Angola, though at a high level, declined from 116.1 per cent in 2002 to 105.6 per cent in 2003. In Zimbabwe, annual inflation rate accelerated from 113.2 per cent in 2002 to 365 per cent in 2003, reflecting underlying demand and supply imbalances in the economy, adverse inflation expectations as well as a range of cost push factors.

Chart 4: Annual Inflation rate



Excluding Zimbabwe, average annual inflation for the remaining SADC Member States fell from 20.1 per cent in 2002 to 16.8 per cent in 2003. With the exclusion of Angola (SADC X 2), the average rate of inflation for the region further improved from 11.3 per cent to 8.7 per cent over the same period. The annual rate of inflation for the remaining eleven SADC Member States ranged between 3.9 per cent and 21.5 per cent in 2003. Of these, nine countries namely Botswana, DRC, Lesotho, Malawi, Mauritius, Namibia, South Africa, Swaziland and Tanzania posted annual inflation rates of less than 10 per cent in 2003. This augurs well with the objective of attaining the target of single digit inflation rate as proposed in the SADC macroeconomic convergence programme for the period 2004–2008.

Chart 5: Annual Inflation rate of SADC Countries Excluding Angola and Zimbabwe



Mauritius recorded the lowest inflation rate of 3.9 per cent in 2003. This prevailing low level of inflation rate can largely explained by the change in the basket of goods and services used for the computation of the CPI, subdued inflation in Mauritius's major trading partners and the weakness of the US dollar.

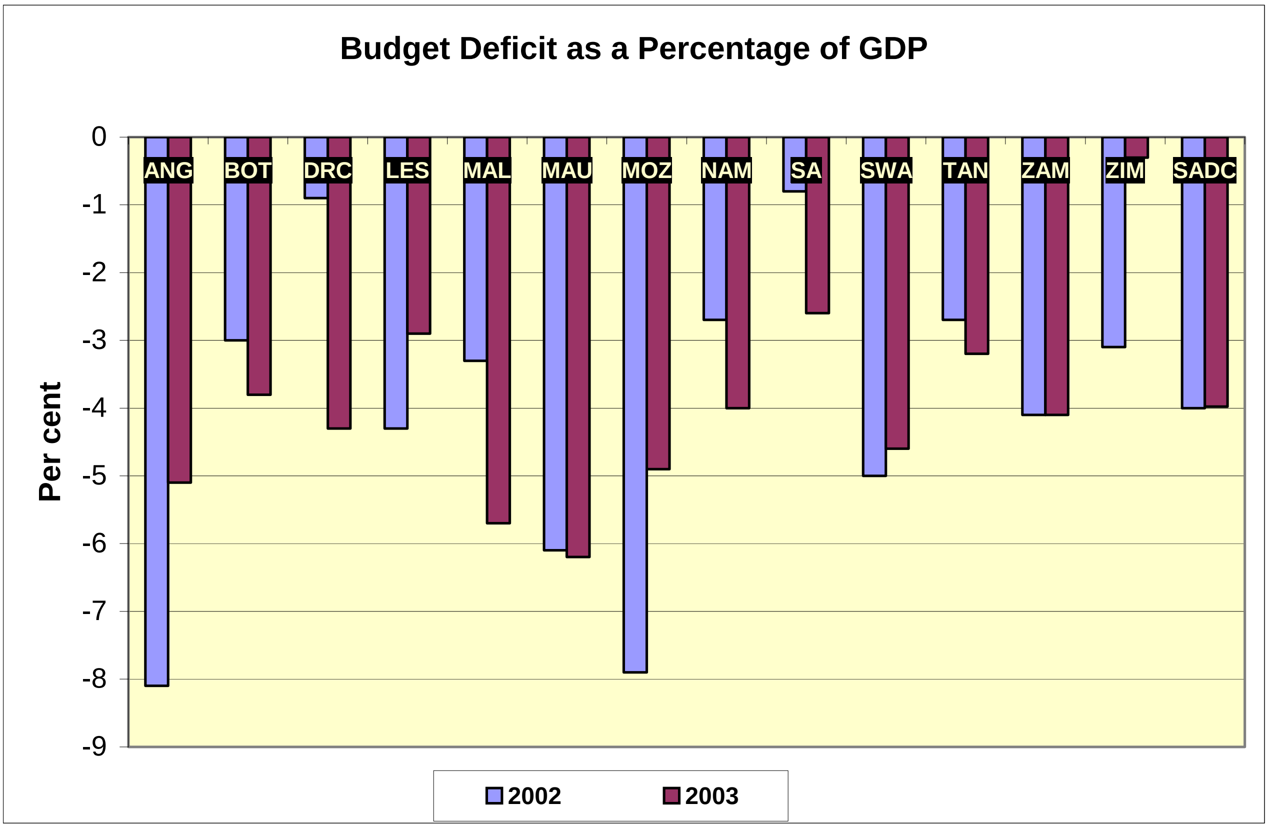
A major contributor to the decline in inflation in the region in 2003 was the fall in food prices in countries such as Lesotho, Malawi, Namibia, Swaziland and Zambia amongst others. In fact, besides the fall in the price index for food, mainly driven by the reduction in the price of maize, the appreciation of the rand/lilangeni against major trading currencies and lower imported inflation emanating mainly from South Africa, explain the slowdown in inflation in Swaziland.

In addition to Zimbabwe, Botswana and Mozambique also witnessed a higher rate of inflation in 2003 as compared to the preceding year. The impact of higher prices following the introduction of VAT in the second half of the 2002 in Botswana continued in the first half of 2003 but inflation slowed considerably in the second half of the year as the effect of VAT dropped out of the inflation calculation.

FISCAL DEVELOPMENTS

The SADC macroeconomic convergence programme proposes a fiscal deficit to GDP ratio target of less that 3.0 per cent to be attained between 2004 and 2008. Although all SADC Member States registered deficits in 2003, the fiscal deficit to GDP ratio for the region which averaged 4.0 per cent in 2002 improved to 3.7 per cent in 2003, a right step towards attaining the SADC macroeconomic convergence programme target.

Chart 6: Fiscal Deficit as a Percentage of GDP



Source: Members' contribution for the paper and Recent Economic Developments April 2004

Angola, Lesotho, Mozambique, Swaziland and Zimbabwe recorded improvements in their fiscal deficit as compared to 2002 while the deficits for Zambia and Mauritius were more or less unchanged at around 4 per cent and 6 per cent, respectively.

Zimbabwe registered a fiscal deficit to GDP ratio lower than 1 per cent in 2003. The countries that registered quite high fiscal deficit to GDP ratios of above 4 per cent include Angola (5.1 per cent), DRC (4.3 per cent), Malawi (5.7 per cent), Mauritius (6.2 per cent), Mozambique (4.9 per cent), Swaziland (4.6 per cent) and Zambia (4.1 per cent).

The increase in the fiscal deficit in Malawi was the result of some unplanned demands on the budget to cover domestic arrears, an increase in wage bill on account of promotions and the depreciation of the kwacha. In Mauritius, the deficit was financed essentially from domestic sources and, more specifically, from commercial banks and the non-bank sector. Net financing of the deficit by the central bank was negative for the fourth consecutive year. The unchanged domestic budget deficit to GDP ratio of 4.1 per cent for Zambia was largely due to expenditure overruns in the recurrent budget. Fiscal policy in South Africa became moderately expansionary in 2003, registering a deficit ratio of 2.6 per cent.

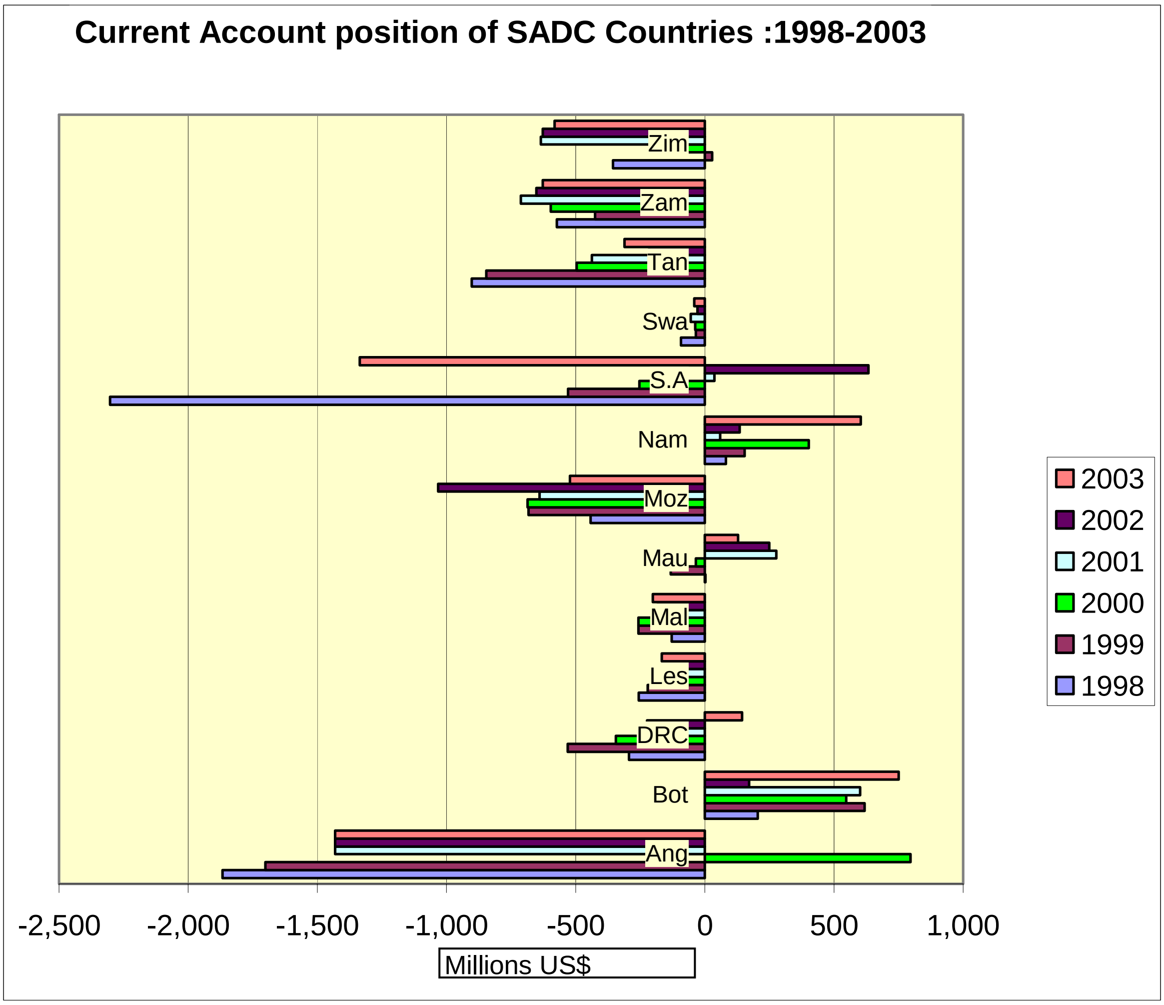
EXTERNAL SECTOR DEVELOPMENTS

Since recent data for the external sector variables were scanty, detailed analysis could not be carried out. The picture that emerges from the reports obtained is highlighted in the following paragraphs.

Balance of Payments Developments

On the external front, most of the countries in the region recorded current account deficits. This reflected in a loss in the region's external competitiveness and one possible explanation could be the stronger rand. The only countries registering current account surpluses in 2003 were Botswana, Mauritius and Namibia. However, it is worth pointing out that for some countries such as South Africa and Tanzania, though the current account was in deficit, the overall balance of payment position was a surplus one. However, to meet the macroeconomic convergence criteria, the current account deficit to GDP ratio should be one that can be sustained over time.

Chart 7: Current Account Position of SADC Member States: 1998-2003



Foreign Reserves Position and Foreign Direct Investment

On the Foreign Reserves Position and Foreign Direct Investment (FDI) fronts, a mixed picture emerged when considering data reported. With respect to Net Foreign Reserves, Botswana, Malawi, Namibia, Swaziland and Zimbabwe recorded declines in their position in 2003. Most countries in the Southern African region have been successful in attracting FDI over the years as they are either richly endowed in mineral resources and/or because they have actively pursued broad-based economic reforms. In recent years three countries namely Angola, Nigeria[2] and South Africa have accounted for around 50 to 75 per cent of the total inflows to the Sub-Saharan African region.

[2] Nigeria not a member of SADC

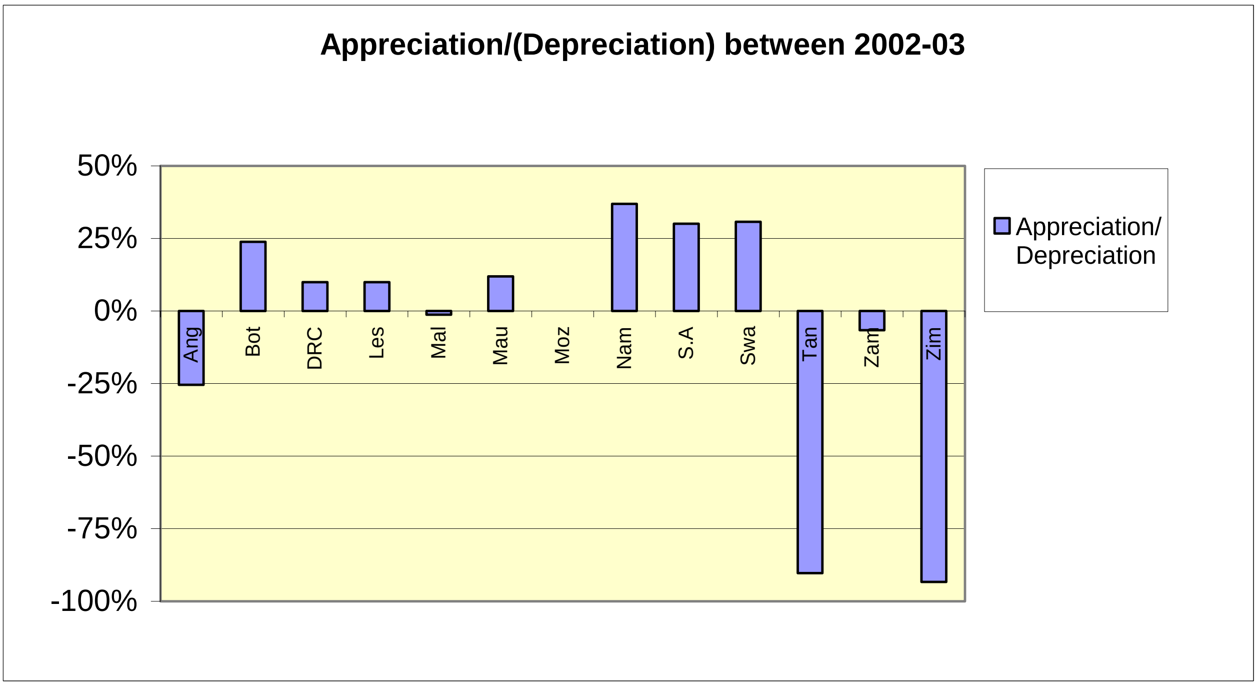
External Debt

Southern Africa is the least indebted region of the African continent. However, it is worth noting that there are wide disparities in the level of external indebtedness across countries. In fact, Malawi, Mozambique and Zambia are all classified as heavily indebted poor countries. By contrast, the ratio of external debt to GDP of Botswana, Mauritius, Namibia, South Africa and Swaziland stood below the 30 per cent mark over the period 1999 through 2002. However, most countries that provided data for 2003, reported a rise in their foreign debt. Zambia is the only country that reported a fall in its foreign debt position from US$7.1 billion at the end of 2002 to US$6.4 billion at the end of 2003. Malawi’s external debt position was unchanged with respect to the 2002 level at US$2.5 billion, which is quite high relative to the size of its economy.

Exchange Rate Developments

At present since there are wide range of monetary policy frameworks among member countries, this result in a wide range of exchange rate regimes. Three countries namely Lesotho, Namibia and Swaziland have pegged their currencies to the South African rand at parity under the Common Monetary Area. The rand is a major component of the basket that determines the value of the Pula in Botswana. Thus, the appreciation of the rand vis-à-vis the US dollar was also matched by the appreciation of the currencies of Lesotho, Namibia and Swaziland. The Botswana pula and Mauritian rupee also appreciated against the US dollar in 2003.

Chart 8: Appreciation /Depreciation of Local Currency vis-à-vis the US dollar



Mozambique was the only country whose currency was stable against the US dollar in 2003. The currencies of Angola, DRC, Malawi, Tanzania, Zambia and Zimbabwe depreciated against the US dollar in 2003. Owing to lower levels of foreign exchange reserves in 2003, coupled with high demand for the greenback, the Malawi Kwacha depreciated vis-à-vis the US dollar. The depreciation of the Tanzanian shilling can be explained by the increase in demand for US dollars stemming from increased imports. In Zambia, the year 2003 started with the divesture of Anglo-American Corporation from KCM, threats of increased food imports stemming from the prolonged dry spells in the 2001-02 agricultural season which resulted in a food production shortfall (63,000 mt of maize), delay to reach an agreement on the new PRGF arrangement and the consequent failure to reach the HIPC initiative completion point. Rising oil prices in international markets and the sharp appreciation of Zambia's major trading partner currencies (particularly the South African rand and the euro) against the US dollar, also adversely affected the exchange rate of the Zambian Kwacha.

OUTLOOK FOR 2004

Despite the progress achieved so far, the SADC region still faces daunting challenges as it aims at accelerating growth, reducing poverty and attaining the Millennium Development Goals and the targets set in the Regional Indicative Strategic Development Plan, which is now a SADC policy document. The RISDP provides strategic direction to SADC programmes and activities and consists of a comprehensive and consistent programme of long term economic and social policies. It also envisages the completion of a Free Trade Area by 2008, the establishment of a customs union by 2010, subsequently a common market by 2016 and a common monetary union by 2018. The launch of the RISDP has marked yet another significant move towards a deeper level of co-operation and integration among countries in the Southern African region.

According to projections made by the African Development Bank, growth in the Southern African region is forecast to accelerate to 3.9 per cent in 2004. This regional outlook is basically dictated by the forecast improved growth performance of South Africa on account of a rebound in its export activities on the back of improved global market conditions. However, the high incidence of the HIV/AIDS pandemic on some countries' productive capacity is likely to have a dampening effect on the economic rebound.

Monetary policy in SADC Members States will remain geared to maintaining price stability in the region. Improved food supply conditions in the 2003-04 crop year and prudent monetary and fiscal policies, can contribute positively to reduce the inflationary pressures in the SADC region that may crop in due to persistent increases in crude oil prices.

Fiscal consolidation efforts would continue to be pursued in the SADC region in 2004 with a view to achieving the SADC macroeconomic convergence programme proposed fiscal deficit to GDP ratio target of less that 3.0 per cent, to be attained between 2004 and 2008. However, risks of fiscal slippages do exist in Botswana, Malawi, Mauritius and Mozambique, in their election years.

REFERENCES

- African Development Bank, African Development Report 2004
- IMF (April 2004). World Economic Outlook
- IMF (several issues), International Financial Statistics
- Recent Economic Developments Contributions received from Member States
- SADC (April 2004), “Recent Economic Developments and Statistics for SADC countries”; Committee of Central Bank Governors in SADC
- SADC (2004), CCBG April 2004 database

Table 1: Major Macroeconomic Indicators for SADC Member States

	Real Growth Rate (Per cent)		Money Supply Growth Rate (Per cent)		Inflation Rate (Per cent)		Budget Deficit(-) / Surplus (+) as percentage of GDP	
	2002	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**
ANG	15.5	4.3	67.1	66.3	116.1	105.6	-8.1	-5.1
BOT	2.1	6.7	23.9	13.8	8.0	9.2	-3.0	-3.8
DRC	3.5	5.6	28.1	31.7	15.8	4.4	-0.9	-4.3
LES	3.8	3.3	8.8	6.0	11.9	7.2	-4.3	-2.9
MAL	1.8	4.5	23.4	26.4	14.8	9.6	-3.3	-5.7
MAU	2.0	4.3	12.5	10.9	6.4	3.9	-6.1	-6.2
MOZ	7.4	7.1	20.0	19.0	9.0	14.0	-5.9	-4.0
NAM	3.3	3.1	7.7	6.2	11.3	7.3	-2.7	-4.0
SA	3.6	1.9	17.2	12.3	9.3	6.8	-0.8	-2.6
SWA	3.6	2.9	13.1	14.1	11.3	7.4	-5.0	-4.6
TAN	6.2	5.6	25.1	16.6	4.6	4.4	-2.7	-3.2
ZAM	4.9	5.1	31.3	22.6	26.7	17.2	-4.1	-4.1
ZIM	-11.6	-9.0	164.8	413.5	133.2	365.0	-3.1	-0.3
SADC Average	**3.5**	**3.5**	**34.5**	**50.5**	**28.8**	**43.6**	**-3.8**	**-3.8**
Convergence Criteria (2004-08)					**Single digit inflation rate by 2008**		**Less than 5% by 2008**	