Integrated Paper on

Recent Economic Developments

in SADC

Prepared for the Committee of Central Bank Governors in SADC

by

The Reserve Bank of Zimbabwe

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EXECUTIVE SUMMARY

This paper reviews the recent economic developments in Southern African Development Community (SADC) and assesses the region's progress towards the attainment of macroeconomic convergence targets. The paper is presented at a time when the World economic growth has rebounded considerably from -0.5% in 2009 to 5.1% in 2010, presenting immense post crisis growth opportunities for the SADC region. This growth momentum will be sustained in the short to medium term, with global economic growth projected to expand further by 4.3% in 2011, underpinned by a favourable fiscal environment in the US and Europe.

In response to these positive growth factors, economic activity in the region expanded by 5.4% in 2010 from 2.3% in 2009. Growth in the SADC region was mainly underpinned by increased mining activity as a result of favourable commodity prices, stimulus packages (expansionary monetary and fiscal policies) to cushion economies against the global financial crisis, increased capitals flows into the region, improved manufacturing activity, and increased public investment which also supported private sector investments. Most of the region's economies registered robust growth, low inflation, sustainable fiscal balances, improvement in current account positions, rising foreign exchange reserves and sustainable public debt levels.

Global economic activity, however, remained susceptible to risks emanating from concerns over debt sustainability in the United States and Europe, high oil prices, rising food prices and climatic change. The political disturbances in North Africa and the Middle East have resulted in disruptions in fuel supplies exerting upward pressure on oil prices. The March 2011 calamity in Japan and the cutback in industrial production in the auto, telecommunication and consumer electronic industries will affect global trade flows.

Economic prospects in the region will, therefore, heavily depend on the unfolding events in the global economy. Any adverse developments in the US and advanced Europe emanating from the debt crisis will weigh down on the region's growth prospects.

In the SADC region specifically, economic activity is, still being weighed down by risks emanating from energy constraints, infrastructural bottlenecks, slow pace of industrialization, high commodity dependence, relatively underdeveloped financial markets, subdued foreign direct investment flows and relatively high costs of doing business.

Growth in the region is also constrained by risks arising from high oil and food prices, climatic change as well as fluctuations in world trade volumes and prices. External shocks notably during the 2007-2008 slowed down the pace of macroeconomic convergence in the region and caused divergence in some Member States. Global shocks have also jeopardized the region's progress towards attainment of Millennium Development Goals notably poverty reduction, universal education and health care.

With regards to macroeconomic convergence, SADC countries have made significant progress towards attainment of macroeconomic convergence targets in 2010. The region is poised for further growth, which underscores the need for sustaining sound macroeconomic policies. Most countries have managed to reduce inflation to single digit levels and curtail budget deficits, current accounts and public debt to sustainable levels. Prudent fiscal policies and adroit monetary policies are contributing to general macroeconomic stability and robust growth rates in the region.

The region has immense growth potential as evidenced by the availability of natural resources, and vast tracts of arable land. Investment opportunities abound in mining, agriculture, manufacturing, financial services, ICT, tourism and infrastructural development.

These broad based growth opportunities should be complemented by deliberate programmes to bridge infrastructural gaps and ensure reliable and extensive service delivery in health, education, energy, water and sanitation.

Extensive reforms are, therefore, required to unlock productive potential, promote trade and financial sector development, and encourage domestic savings and investment as well as strengthening of institutional capacity to help attract sustained capital flows into the SADC region.

Measures should be put in place early to mitigate the possible future contagion effects of sovereign debt crisis by single member states to the rest of the region. To this extent, it is recommended that SADC should strengthen the existing fiscal surveillance framework within the auspices of the Macroeconomic Monitoring, Surveillance and Performance Unit (MSPU).

To mitigate the adverse effect of rising global food prices, it is recommended that member states develop agricultural programmes that ensure the provision of adequate food, thereby controlling food inflation.

1. Introduction

This paper is the eighth edition of the Integrated Paper on Recent Economic Developments in the Southern African Development Community (SADC). The paper outlines the global and regional economic developments, putting emphasis on the economic developments in the SADC region. The paper explores the key drivers of economic growth as well as major sources of inflationary pressures in the region. In addition, the paper assesses progress on the SADC macroeconomic convergence programme. The paper will inform deliberations in the September 2011 CCBG meeting.

The paper is organized as follows; Section 2 explores the global and the regional macroeconomic developments in 2010 and the outlook period. Section 3 highlights the economic performance in the SADC region in 2010 and prospects for 2011 and focuses on developments on key macroeconomic variables including the Gross Domestic Product (GDP), money supply, inflation, fiscal and external sector developments. Section 4 discusses developments in energy sector. In section 5, the status of macroeconomic convergence in SADC is reviewed, while section 6 concludes by presenting the prospects for 2011 and proffers some recommendations on the way forward.

It is noteworthy that the data used in this paper is based on the reports on Recent Economic Developments submitted by individual SADC Member central banks. Data on global economic developments is based on the World Economic Outlook report (January 2011 update) prepared by the International Monetary Fund. Where data was not readily available, other sources were used, namely, the SADC Bankers' website, the individual central bank website(s), the International Financial Statistics published by International Monetary Fund (IMF) and African Economic outlook.

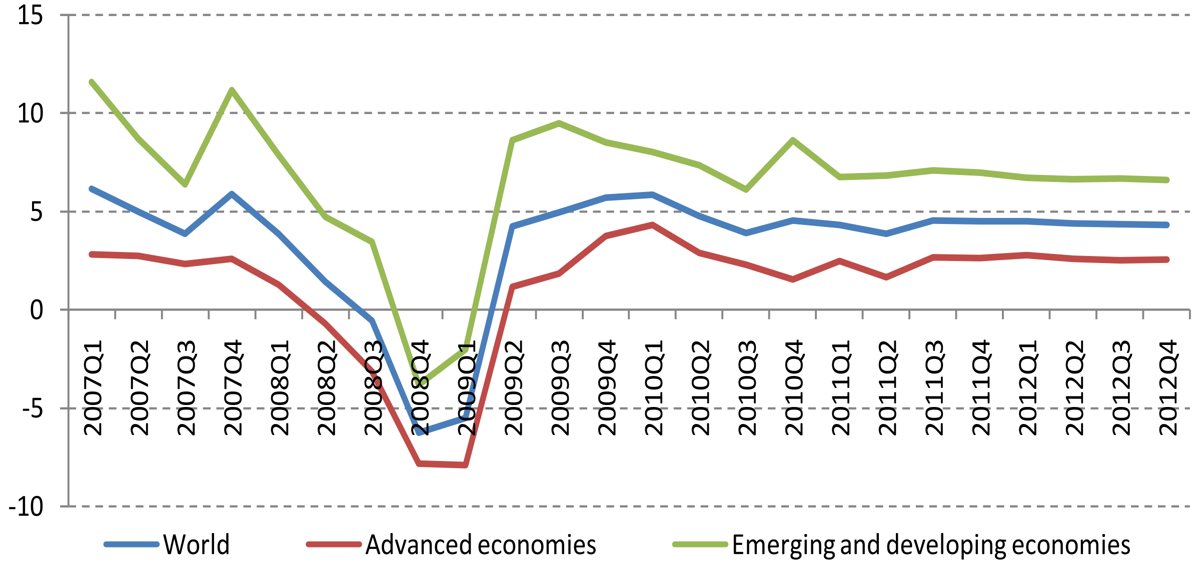
2. Overview of Global Economic Developments in 2010 and Prospects for 2011

2.1 Global Economy

Global economic growth rebounded considerably from -0.5% in 2009 to 5.1% in 2010, although conditions varied significantly across different parts of the world. Global economic recovery was against the background of unprecedented stimulus packages in advanced economies, SDR allocations by the IMF, tight legislative and regulatory interventions, softening interest rates and quantitative easing. These measures resulted in improved global economic and financial conditions, resulting in fast paced growth particularly in emerging markets and developing economies.

A growth of 4.3% is projected for the global economy in 2011. The slight slow down in economic activity is attributed to the fiscal and financial sector vulnerabilities, weakening aggregate demand in advanced economies, increased oil prices, declining real incomes and the after effects of the March 2011 Japanese earthquake and tsunami and the fiscal challenges in the US and Europe. This notwithstanding, the growth momentum for 2011-12 will remain broadly unchanged driven by strong potential growth in emerging and developing economies and relatively accommodative macroeconomic conditions.

Figure 1: Global Economic Growth Rates



Source: IMF World Economic Outlook Update, June 2011

2.2 Advanced Economies

Growth in the advanced economies is projected to decelerate to an average of 2.5% during the 2011-2012 period, from the previous average of 3% in 2010, due to the diminishing impact of the fiscal stimuli, high international commodity prices, bad weather and the devastating effects of the earthquake and tsunami on the Japanese economy. The slowdown in economic activity, however, will be partially offset by strong growth in the Euro area, driven by an upsurge in investment especially in German and France. In addition, the rebound of the Japanese economy in 2012 is anticipated to offset weaker growth in the United States.

GDP growth in the Euro area is projected to accelerate to 2% for 2011 from a growth of 1.8% in 2010. Growth in some countries, notably Greece, Ireland, Portugal and Spain will, however, be constrained by large fiscal or current account imbalances. Outside the euro area, the prospects for recovery are similarly diverse.

There are, however, market concerns that sovereign liquidity and solvency in Greece could turn into a full-blown sovereign debt crisis, leading to some contagion in the short to medium term.

Box 1: EU Debt Crisis and Lessons for SADC

The European sovereign debt concerns turned into a fully-edged crisis in November 2009, when the Greek government revealed that the fiscal deficit was twice as large as previously believed. But until March 2010, there was relatively little contagion to other European economies.

The main concern was that a Greek default would lead investors to lose confidence in other Euro area countries with less severe but similar debt and deficit problems, such as Portugal and Ireland, and perhaps even to larger countries such as Italy or Spain. In March, EU and IMF set up, a crisis-lending mechanism for Greece and other countries that might need it. The crisis entered its most acute phase in April. 2010 when the Greek debt rating was downgraded to junk status by Standard & Poor's, making the Greek debt government ineligible as collateral with the European Central Bank. Portugal's simultaneous downgrade and Spain's subsequent one added to the negative sentiment.

Interest rate spreads rose to over 900 basis points, a level that was seen before only in emerging market or developing economies. European equity markets fell, and the Euro depreciated against major currencies. Soon, the impact spread beyond Europe, causing a sell-out in global equity markets.

In May 2010, a crisis loan agreement of 110 billion Euros was granted to Greece to cover Greece's funding needs until 2012. The European Central Bank declared that Greek bonds would remain eligible as collateral and announcing a policy of supporting the price of certain government debts through open market purchases. A new entity, the European Financial Stability Facility (EFSF), was created to grant conditional crisis loans to Euro area governments affected by contagion from the Greek crisis.

Greece did not respect the 3% budget deficit limit that constitutes the core rule of European Monetary Union. Persistent budget deficits of more than 5% coupled with stagnant economic growth culminated into a ratio of public debt to GDP of 142% in 2010. The EU Commission did not insist on getting full access to fiscal and macro-economic data for Greece.

Lessons for SADC: *The Greek tragedy leaves three crucial lessons for the future and for SADC countries.*

- *Sound government finance and macro-economic policy remain preconditions for sustainable development.*
- *Public deficits and excessive public debts need to be addressed as soon as they appear.*
- *Strict enforcement of deficit and public debt rules are needed.*

2.3 Emerging and Developing Economies

Emerging and developing economies are projected to grow by 6.5% during 2011-2012, compared with 7.5% in 2010, although with variations across regions. This growth will be underpinned by strong growth in Asia, led by China and India. The decline in economic activity is a reflection of disruptions in regional production networks due to supply-side constraints from Japan.

Growth in Latin America and the Caribbean (LAC) has rebounded, and is projected to exceed 4.5% in 2011 led by strong domestic consumption. Production levels have increased sharply, especially in Brazil supported by improving financial conditions.

Economic growth has been strongest in South America, where high commodity prices and easy external financing conditions are fuelling domestic demand. Recovery in many Central American and Caribbean economies has gained strength, although growth continues to be constrained by strong links with slower-growing advanced economies particularly the United States, less favourable terms of trade, and high public debt.

Economic activity in the Middle East and North Africa remain clouded by political and social unrest, although the outlook has improved for the oil exporting countries. Considering these and other factors, growth in the Middle East and North Africa is projected to decelerate to 4.2% in 2011, up from a growth of 4.5% in 2010, although recovery prospects vary substantially across the region.

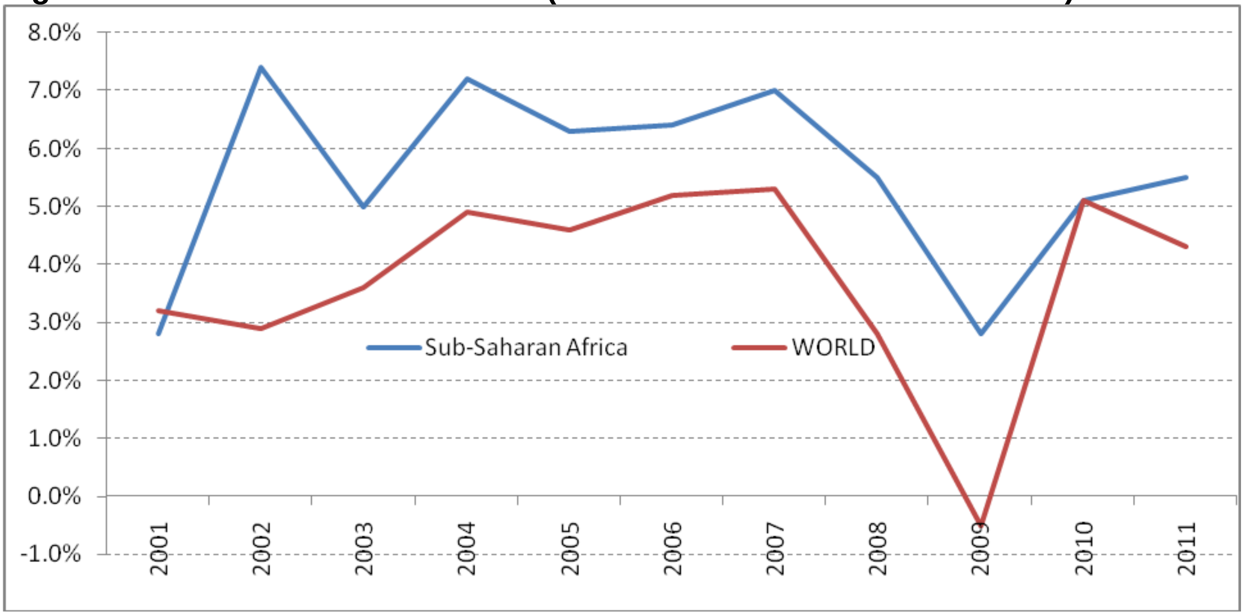
In much of Latin America and Asia and in low-income countries in sub-Saharan Africa, recovery has brought output back to pre-crisis levels, and many economies have already moved into expansion territory. Activity in these economies is being boosted by accommodative macroeconomic policies, rising exports and commodity prices and increased capital inflows.

2.4 Sub-Saharan Africa

In sub-Saharan Africa, robust growth of 5.5% and 5.9% is projected for 2011 and 2012, respectively, from a growth of 5.1% in 2010, underpinned by the global economic recovery, and favourable international commodity prices. Economic activity in the region is, however, still being weighed down by risks emanating from energy constraints, infrastructural bottlenecks, slow pace of industrialization, high dependence on primary commodities, relatively underdeveloped financial markets, subdued foreign direct investment flows and relatively high costs of doing business.

The region, however, remains susceptible to external shocks such as sharp increase in food and fuel prices. These price shocks are likely to lead to higher inflation in most countries and to deteriorating current account deficits in a number of fuel importing countries.

Figure 2: Economic Growth Trends (World versus Sub-Saharan Africa)



Source: IMF World Economic Outlook Update, June 2011

2.5 Global Inflation Developments

Global inflation accelerated from 3.5% in the last quarter of 2010, to 4% in the first quarter of 2011. Advanced economies continue to face inflationary pressures from high commodity prices, while emerging market economies are facing pressures from both strong domestic demand and high commodity prices.

Inflation in the advanced economies is projected to increase from 1.6% in 2010, to 2.6% in 2011 whilst in the emerging and developing economies, inflation is expected to increase from 6.1% in 2010, to 6.9% in 2011.

In the Sub-Saharan region, inflationary pressures are building up, reflecting higher prices for oil and other imported goods. However, the longer-term inflation outlook remains benign.

Box 2: Commodity Price Developments in 2010

The IMF commodity price index (which includes oil and foods) is estimated to have increased by 40% since the middle of 2010, with large increases across all major commodity groups. In addition, the demand pressures on commodity prices are expected to remain broadly unchanged as global economic activity continue to increase in 2011.

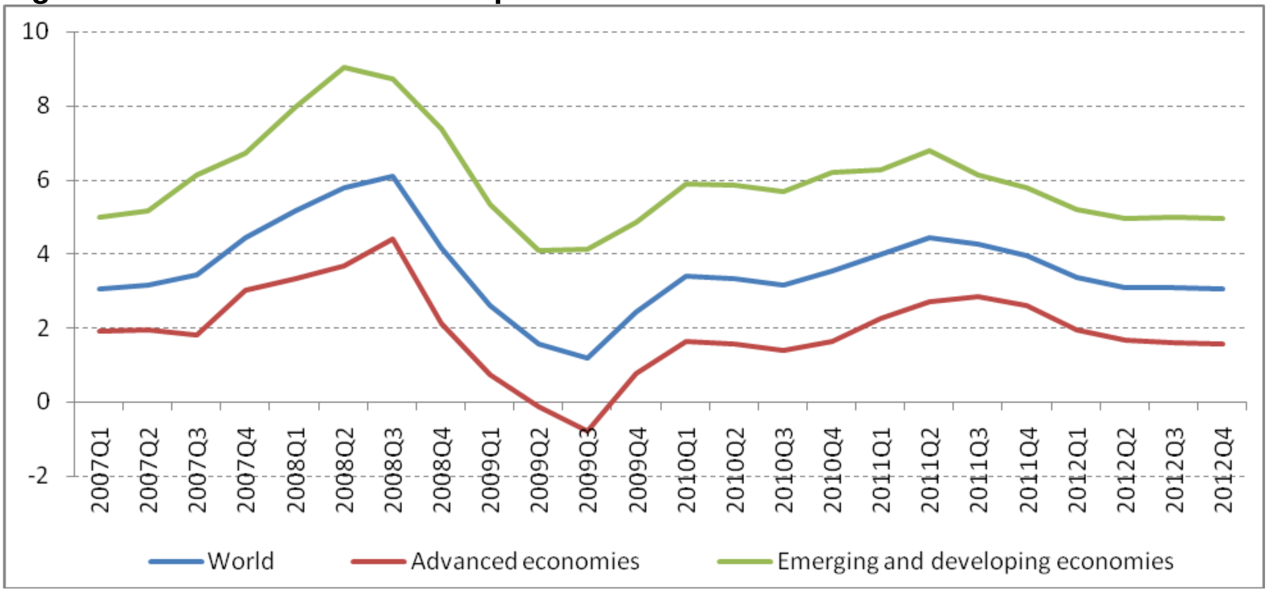
The outlook for commodity prices, however, is heavily contingent on growth in economies that are heavy importers of commodities (such as in East Asia). Based on the World Economic Outlook (WEO) projections, the IMF commodity price index is projected to increase by nearly 30 % in 2011.

Better weather conditions have also improved the outlook for food supply, although low global inventory levels for many crops is likely to be the major source of inflationary pressures on food prices.

Oil price pressures on the other hand, have broadly eased in recent weeks, including after the recent announcement by the International Energy Agency of releases from strategic oil reserves. Current futures prices for 2011 and 2012 are close to the oil price baseline (which is based on futures prices) of $106.30/bbl and $105.25 in 2011 and 2012, respectively.

However, oil inventories and spare capacity have declined, and geopolitical risks in the Middle East and North Africa are only slowly unwinding. For oil prices to be stable, higher production by OPEC in 2011–12 will be required.

Figure 3: Global Inflation Developments



Source: IMF World Economic Outlook Update, June 2011

2.6 Implication on Monetary Policy

In response to the building inflationary pressures, monetary policy has been tightened in a number of countries, including in all the major economies of Asia, except in Japan. Overall, world monetary policy remains expansionary, thus increasing the risk of inflationary pressures.

2.7 Threats to Global Economic Activity

Sovereign creditworthiness in the US and Europe remains the major threat to sustained global economic growth. When the US reached its debt ceiling the legislature raised the ceiling by US$400 billion so as to avoid a default which could have had drastic effects on the US itself and the rest of the world economies. However, Standard and Poor Credit rating agency downgraded the US rating from AAA to AA+.

In addition, overheating pressures in many emerging and developing economies are intensifying, as exhibited by rising inflation and rapid credit growth. Low interest rates in major advanced economies continue to push investors into riskier assets in search for higher yield, thus potentially generating financial imbalances, particularly in some emerging markets.

Political risks are also raising questions about medium term fiscal adjustment in some advanced economies, notably the United States and Japan.

Box 3: Key Policy Considerations

The key fiscal priority issues for advanced economies especially the United States and Japan will be to implement fiscal consolidation programmes aimed at achieving debt sustainability in the medium to long term.

For some countries, monetary policy can remain accommodative, provided inflation pressures remain subdued.

The risks of not resolving the Greek crisis are severe. A greater sense of urgency is needed to address the crisis and reduce the risks of contagion. Alongside fiscal consolidation, progress on financial sector repair and reform has been too slow, and policy initiatives are urgently needed to make financial systems resilient to new systemic shocks.

Some of the support facilities initially implemented to contain the global financial crisis are already winding down as private market activity recover. But the persistence of vulnerabilities may require others to remain in place for some time, including for example, wider eligible collateral assets for central bank credit and programs.

Financial market inefficiencies and regulatory and supervisory failures played a major role in the crisis and need to be remedied to build a stronger financial system. Progress in remedying financial inefficiencies and reforming prudential policies and frameworks will also increase the effectiveness of monetary policy and reduce the risk that the ample supply of liquidity accompanying an accommodative monetary policy might find an outlet in renewed speculative distortions.

Reforms of prudential frameworks should ensure that the financial sector plays a greater stabilizing role over the business cycle. Given the increasingly integrated nature of financial markets and institutions, effective repair, reform, and deployment of macro prudential tools will require coordination across countries.

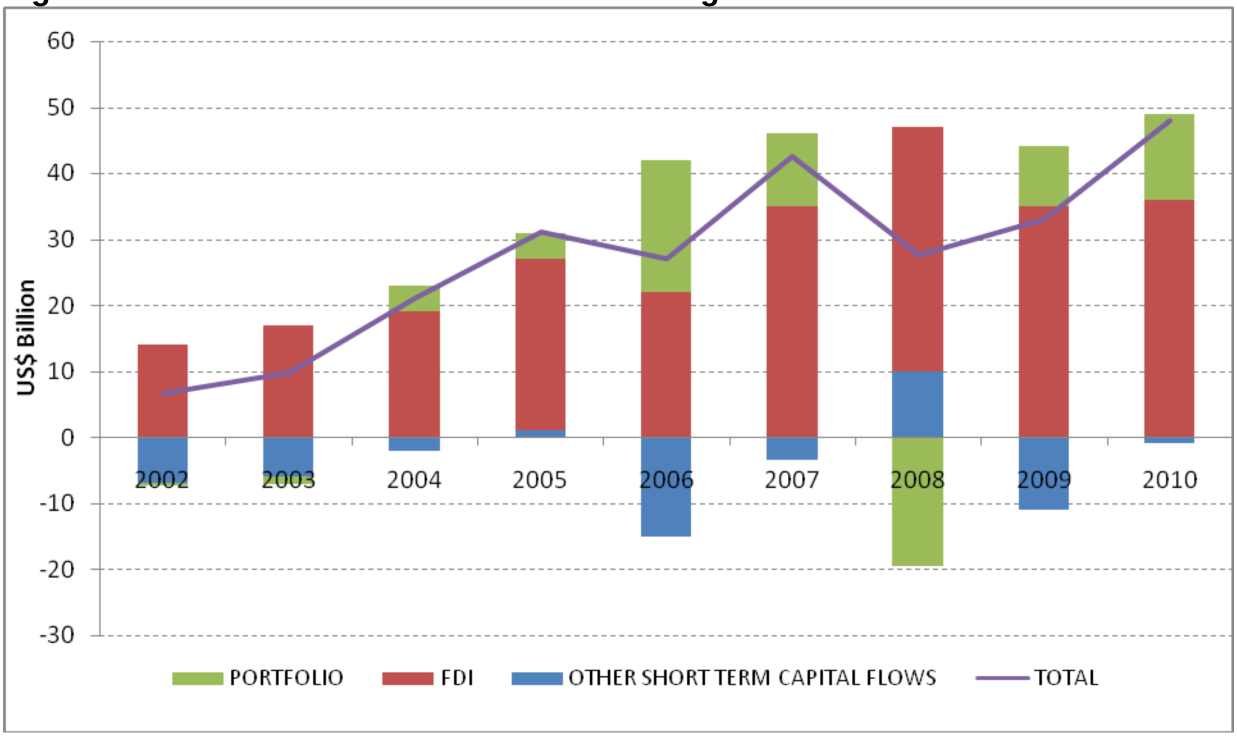
These considerations apply to all regions of the world, be it advanced economies or developing countries.

2.8 Capital Flows to Africa

There are tentative signs of renewed foreign investor interest in Sub-Saharan Africa and the broadening access to international capital markets. For instance, South Africa returned to the international bond market in mid-2009, Senegal issued its first international bond in December 2009, and Seychelles concluded a successful debt exchange operation in February 2010. Similarly, countries such as Angola, Kenya, Mozambique, Nigeria, and Tanzania have indicated their intention to borrow in international capital markets.

In consequence, private capital flows from official and private sources continued to increase in 2010 due to a combination of both pull and push factors. The driving push factors encompass global determinants such as interest rates and market growth, while the pull factors included among other things, the quality of institutions, economic stability, and deep and open financial markets. Fiscal discipline and abundant natural resources have combined to significantly attract FDI into sub-Saharan Africa.

Figure 4: Sub-Saharan Africa Private Financing Flows



Source: World Economic Outlook, October 2010

Regrettably, the recent surge in private capital flows has bypassed many of the region's low income countries. About, two-thirds of inflows over the last economic cycle were absorbed by South Africa and Nigeria, while the majority (eighteen countries) shared the remaining one third.

Competition for external private financing has also intensified, given the budget constraints faced by the donor community. This underscores the need to undertake extensive reforms to unlock productive potential, promote trade and financial sector development, encouraging domestic savings and investment, raising standards of governance, and strengthening institutional capacity to help attract sustained private capital inflows.

3. Economic Developments in SADC

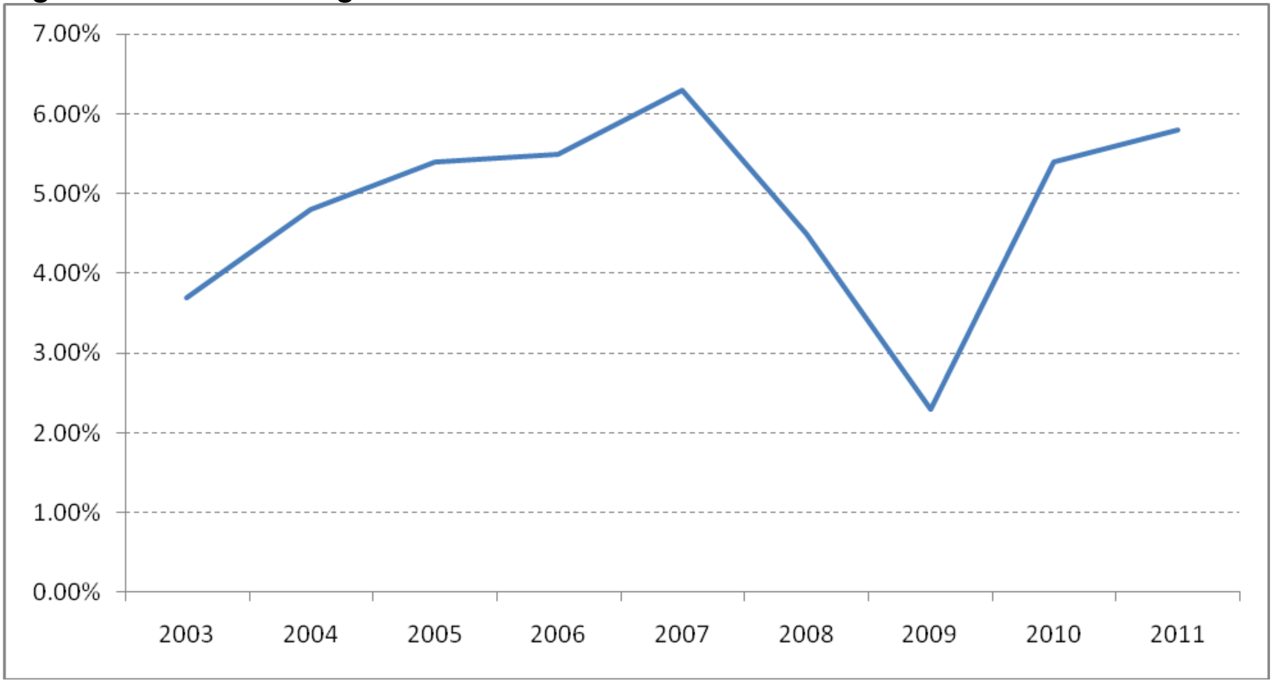
3.1 Overview of Economic Growth

Economic activity in the SADC region picked up in 2010 following a slow down experienced in 2008 and 2009 as a result of the global economic and financial crisis. The reacceleration in economic activity in the SADC region was driven by recovery of the global economy. This recovery helped to stimulate rising external demand, firming of international metal prices, rising global incomes, resurgence of capital flows to the region as well as sound macroeconomic policies by SADC Member States. The global economic growth rebounded from a negative growth of 0.5 in 2009 to a strong growth of 5.1% in 2010, presenting immense post -crisis growth opportunities for SADC.

In response to these positive growth factors, economic activity in the region grew by 5.4% in 2010, compared to a growth of 2.3% in 2009. Growth in the SADC region was mainly underpinned by increased mining activity as a result of favourable commodity prices, stimulus packages (expansionary monetary and fiscal policies) to cushion economies against the global financial crisis, increased capitals flows into the region, improved manufacturing activity, and increased public investment which also supported private sector investments.

In the outlook period, strong growth remains broadly in place supported by a cocktail of factors highlighted above. Economic activity, however, will be heavily dependent on the unfolding events in the advanced economies. Any further adverse developments in the US and advanced Europe emanating from the debt crisis will weigh heavily on the region's growth prospects. Figure 5 shows SADC average economic growth rate profile and projections for 2011.

Figure 5: SADC Average Economic Growth Rates



Source: World Economic Outlook, June 2011 Update

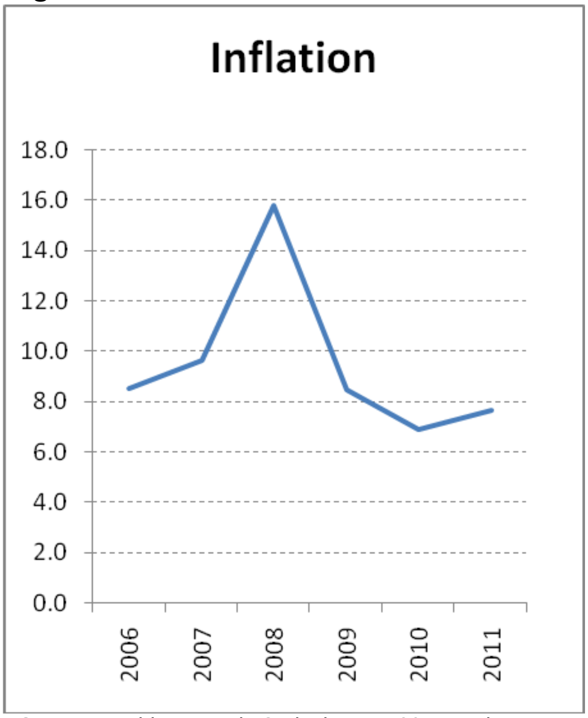
3.2 Inflation Developments

Inflation in the SADC region surged in 2008 largely on account of high cost of imported food and rising international oil prices. In most SADC countries, food constitutes a significant share of the consumer basket and as such any significant increase in the cost of food results in increased inflationary pressures. From 2009, however, inflationary pressures eased as food prices began to slow down and output improved. As a result, average inflation in the SADC region is now on a declining trajectory.

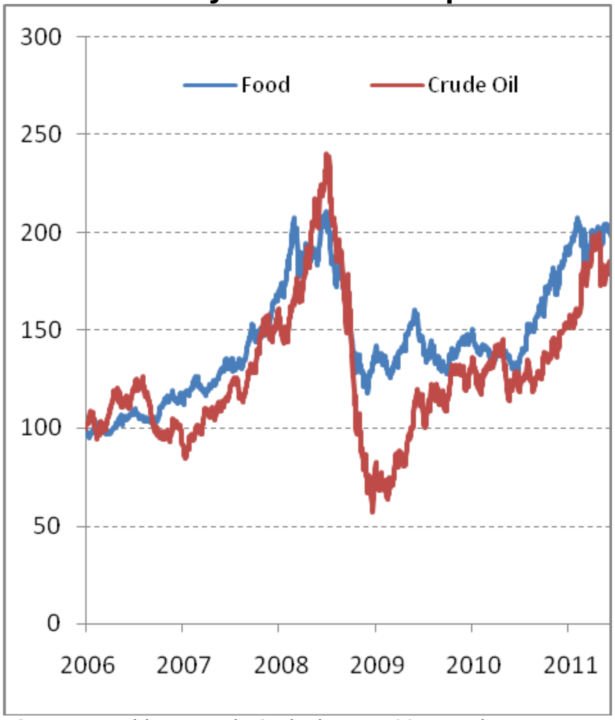
Although pressure on food markets have eased somewhat, low inventories and bad-weather related supply disruptions are likely to result in the building up of inflationary pressures on food prices. In addition, rising international oil prices will also be a major source of inflationary pressure for oil importing countries in the region in the outlook period.

Figure 6 below demonstrates how inflation in the SADC region is related to international food and oil price developments and section 3.11 discusses inflation developments in individual SADC countries.

Figure 6: Inflation in SADC Countries and Commodity Prices Developments



Source: World Economic Outlook, June 2011 Update



Source: World Economic Outlook, June 2011 Update

3.3 Causes of Inflation in the SADC Region

Inflationary pressures in the SADC region mainly stem from high food and energy prices, wage increases, high utility charges and exchange rate movements against the United States dollar. The energy and food components cause volatility in inflation in the region since they constitute a greater weight in the consumer price index for most of the countries in the region. Any significant shock to oil prices will put considerable pressure on domestic prices as most countries in the region are oil importers.

Increases in food prices mainly emanate from food shortages due to frequent droughts in the region, which over the years has been an impediment to adequate production of food. In some SADC countries, droughts occur every 3 to 5 years and economies are urged to put in place appropriate drought mitigating programmes, for example, the establishment of irrigation infrastructure. A surge in world food prices, coupled with shortages of grain in most SADC countries, also results in a significant impact on inflation. However, in some countries such as Malawi, South Africa, and Zambia, the 2010 grain harvest was strong, limiting price increases.

Movements in the South African rand against the United States dollar also exert considerable inflationary pressure on some regional economies, notably Zimbabwe, Botswana, and Mozambique that rely heavily on imports from South Africa. An appreciation of the South African rand against the United States dollar will automatically translate into price increases in these countries.

To cushion the adverse inflationary and welfare effects, some countries have introduced price controls and subsidies. For instance, Mozambique has introduced price controls covering several commodities such as bread, sugar, maize, and rice.

At the same time, some countries notably, Mauritius, continue to make use of administered prices and/or introduced food and fuel price subsidies (Madagascar, Mozambique). When these administered prices are dismantled, they can cause short term surges in prices.

Demand management in SADC countries has also been useful in the control of inflation. The region employs either inflation targeting or monetary targeting to keep inflation under control.

3.4 Domestic Economy

Following sluggish economic performance in 2009, economic activity in the SADC region rebounded somewhat in 2010 underpinned by global economic recovery which spurred commodity demand. This development resulted in firming international commodity prices of metals, new investment in mining and resurgence of mining output. Against this background, GDP growth in the SADC region is estimated to have increased to an average of 5.4 percent in 2010 from an average of 2.3 percent in 2009. All the countries in the region registered positive growth rates in 2010.

Botswana, DRC, Malawi, Tanzania, Zambia and Zimbabwe recorded GDP growth rates of at least 7% in 2010. Growth in Botswana was driven by mining, trade, tourism and construction sectors. In addition, the strong growth was supported by a combination of strong fiscal policies and a rebound in the global demand for diamonds.

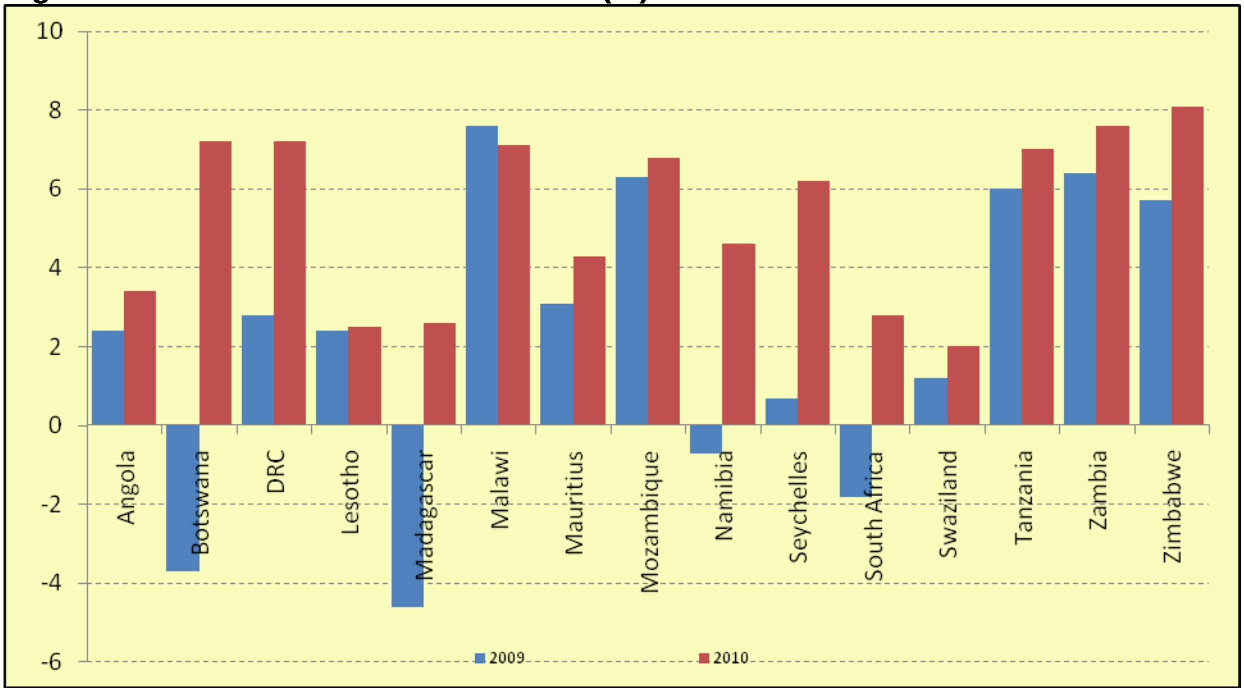
Zambia's growth was driven by increased agriculture and mining output following a good agriculture season and improved performance of the copper industry. Robust growth in Zimbabwe was driven by phenomenal growth in the mining and agriculture sectors which expanded by 47% and 34%, respectively. The expansion in mining activity in Zimbabwe was spurred by opening of previously closed mines and new investments in the mining sector underpinned by firming international mineral prices and a relatively stable macroeconomic environment. Mozambique and Mauritius recorded growth rates of above 4% in 2010.

The growth in Mauritius was driven by the recovery of external demand, which helped prop up the tourism industry which had been seriously hit by the global financial crisis in 2009. In addition, supportive expansionary fiscal and monetary policy measures also supported economic recovery in Mauritius.

In South Africa, the normalisation of the manufacturing activity and increased mining activity spurred the economy. In addition, substantial investment deployed to develop infrastructure within the context of the 2010 World Cup boosted economic activity in the region. South Africa is now a member of the BRICS (Brazil, Russia, India, China, and South Africa). This is a club of fast developing economies. The rest of the SADC will benefit from South Africa's membership to BRICS through access to goods and technology from this group of countries.

The good performance in the region reflected improved economic fundamentals and more robust policy stances that provided room for the effective use of countercyclical macroeconomic policy to counter the global downturn. Furthermore, the pronounced shift in the region's trading pattern toward faster-growing parts of the global economy has boosted export growth.

Figure 7: SADC Real GDP Growth Rate (%)

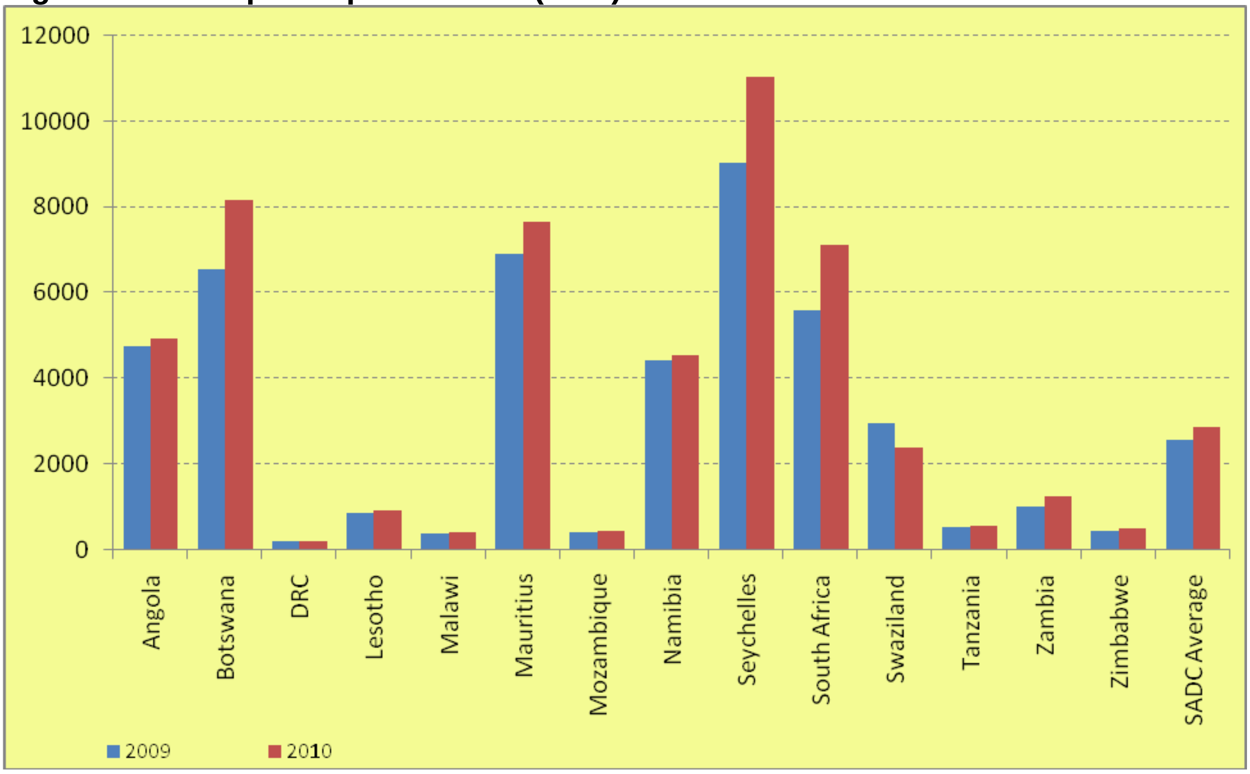


Source: SADC Central Banks

3.5 Per Capita Income

Average Per Capita Income in the SADC region increased by more than 12.1 percent from US$3 082 in 2009 to US$3 456 in 2010. The increase in per capita income in 2010 mainly reflects improved economic activity in the region following sluggish growth in 2009. Botswana, Mauritius, Seychelles and South Africa are leading other countries with per capita incomes greater than US$7 000 in 2010, respectively. Angola, Lesotho, Namibia, Swaziland, and Zambia also enjoy relatively high per capita incomes in excess of US$1 000. The rest of the countries have less than US$1 000 in per capita income.

Figure 8: SADC per Capita Income (USD)



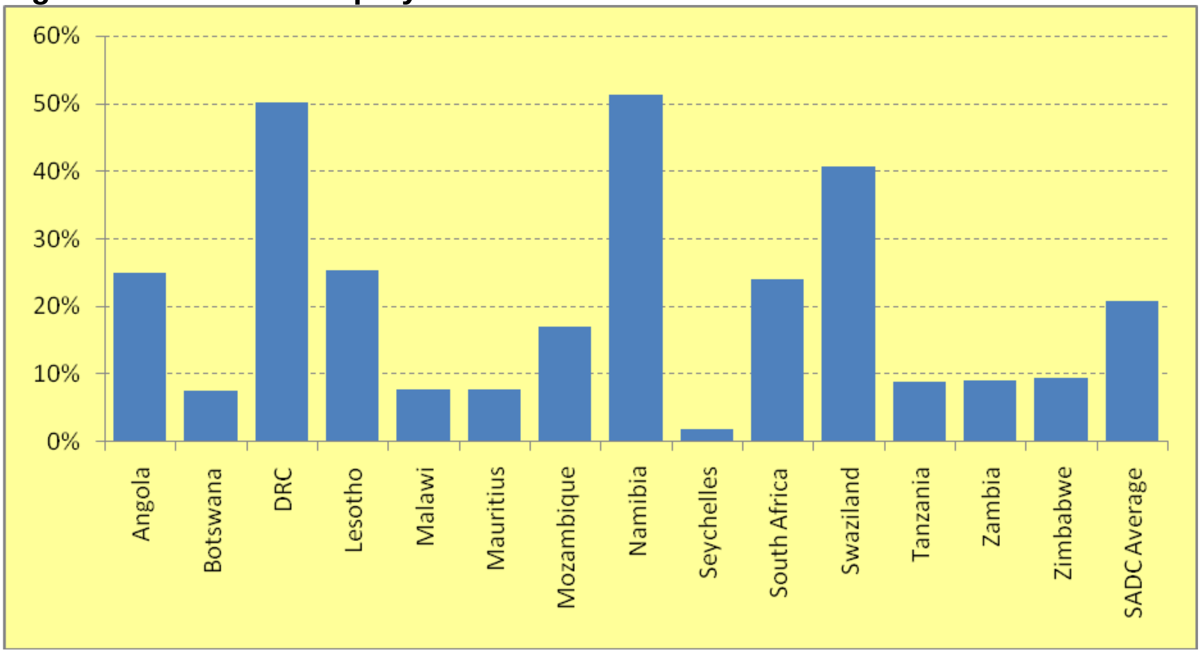
Source: SADC Central Banks and World Bank (Seychelles)

3.6 Unemployment

Most SADC countries do not have accurate and up to date figures on unemployment. There is a huge discrepancy between official employment figures and those produced by independent organizations. The average unemployment rate in the SADC region based on official sources is about 21%. Although official unemployment rates in Malawi, Mozambique, Tanzania, Zambia and Zimbabwe are relatively low, unemployment as reported by other independent organizations is still very high with some countries exceeding 70%.

Rates of growth of formal sector wage employment are less than rates of growth of the labour force in most SADC countries. Other factors responsible for the labour market problems are the rise of capital intensive techniques and sectors, the mismatch of skills and the inability of countries to adjust their economies in the face of globalization.

Figure 9: Official Unemployment Rates in SADC



Source: SADC Central Banks and CIA World Fact Book

3.7 Private and Public Consumption

Private consumption expenditure as percentage of GDP continued to account for the bulk of GDP expenditure in the SADC region averaging 72.6% in 2010, a marginal decrease from 73.2% in 2009 (see Table below).[1] Public consumption on the other hand, increased by 1.2 percentage points from 18.2% in 2009 to 19.4% in 2010. Botswana, Lesotho and Namibia maintained very high public sector expenditures in 2010, as a result of deliberate efforts to stimulate economic activity in order to mitigate the adverse effects of the global financial crisis.

Private sector consumption declined in some economies, reflecting declining incomes and rising unemployment levels. Increased private consumption in other countries was underpinned by strong growth in agriculture, mining, and manufacturing activity.

[1] Some countries have no data on private and public consumption

Table 1: Private and Public Consumption as Percentage of GDP, 2009 and 2010

Description	Private			Public		
	2009	2010	Change	2009	2010	Change
Angola	-	-		-	-	-
Botswana	44.7	42.3	-2.4	24.5	20.9	-3.6
DRC	67.8	67.9	0.1	10.9	11.8	0.9
Lesotho	96.1	97.0	0.9	40.7	40.6	-0.1
Madagascar	72.9	-	-	9.8	-	-
Malawi	88.9	86.2	-2.7	10.1	10.4	0.3
Mauritius	74.0	73.6	-0.4	14.1	13.9	-0.2
Mozambique	81.6	83.4	1.8	14.0	13.2	-0.8
Namibia	65.7	58.3	-7.4	23.7	20.2	-3.5
Seychelles	-	-	-	-	-	-
South Africa	60.8	59.1	-1.7	21.1	21.5	0.4
Swaziland	88.9	87.0	-1.9	13.7	13.5	-0.2
Tanzania	66.4	65.5	-0.9	17.4	17.5	0.1
Zambia	56.7	-	-	19.4	-	-
Zimbabwe	86.7	79.0	-7.7	16.8	29.9	13.1
SADC Average	**73.2**	**72.6**	**-0.5**	**18.2**	**19.4**	**1.2**

Source**:** SADC Central Banks

3.8 Private and Public Investment

Private investment as a percentage of GDP in the SADC region declined by 2.3 percentage points from an average of 17.6% in 2009, to 15.1 percent in 2010 (see Table 2 below). Public sector investment declined marginally by 0.2 percentage points in 2010, from an average of 6.7% in 2009 to an average of 6.5% in 2010.

Table 2: Private and Public Investment as Percentage of GDP, 2009 and 2010

Description	Private			Public		
	2009	2010	Change	2009	2010	Change
Angola	-	-	-	-	-	-
Botswana	-	-	-	-	-	-
DRC	18	21.9	3.9	1.8	2.4	0.6
Lesotho	28.4	27.3	-1.1	7.7	5.9	-1.8
Madagascar	26.6	-		2.5	-	-
Malawi	18	16.7	-1.3	6.9	7.7	0.8
Mauritius	19.8	18.8	-1	0.3	0.3	-0.5
Mozambique	6.3	2.2	-4.1	13.1	13.9	0.8
Namibia	18	17.2	-0.8	7.9	3.9	-4
Seychelles	-	-	-	-	-	-
South Africa	13.6	11.9	-1.7	8.6	7.7	-0.9
Swaziland	4.9	4.5	-0.4	5.4	5	-0.4
Tanzania	20.5	-	-	7.9	-	-
Zambia	17.9	17.8	-0.1	4.2	4.7	0.5
Zimbabwe	15.8	12.3	-3.5	7.6	7.6	0
SADC Average	**17.3**	**15.1**	**-2.3**	**6.7**	**6.5**	**-0.2**

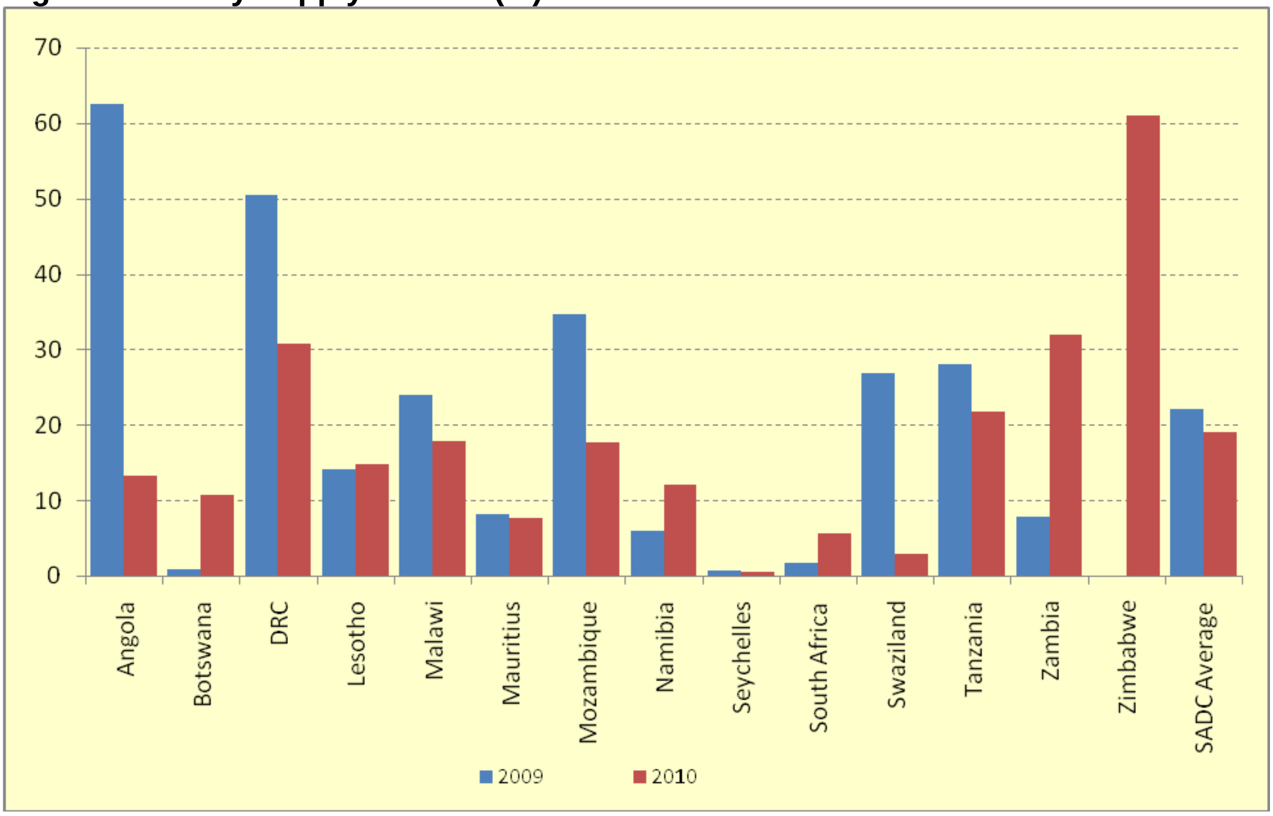
Source: SADC Central Banks

3.9 Monetary Developments

Money supply (M2) growth as percentage of GDP for the SADC region, declined by 8.9 percentage points from an average of 27.1% in 2009 to 18.2% in 2010. The decline in money supply was most notable in Angola, DRC, Mozambique, and Swaziland. Money supply growth also declined in Malawi, Mauritius and Tanzania. The decline in money supply growth reflected an end to expansionary monetary policies pursued in 2009 to mitigate the effects of the global financial crisis and expanded economic activity. Most countries in the region experienced declining revenues in 2009 as a result of the global financial crisis and were compelled to increase money supply to stimulate economic activity.

Money supply growth in South Africa, Namibia, and Lesotho, however, increased in 2010, reflecting monetary easing in the CMA region. Most countries in the CMA region experienced declining revenues in 2010. In Botswana money supply growth also increased in 2010, reflecting monetary easing aimed at stimulating economic activity. In Zimbabwe, money supply growth was attributed to improved access to external lines of credit and increased capital flows. Under the multicurrency regime, the Reserve Bank of Zimbabwe does not issue any currency of its own and the country's money supply is determined by the performance of the external sector.

Figure 9: Money Supply Growth (%)

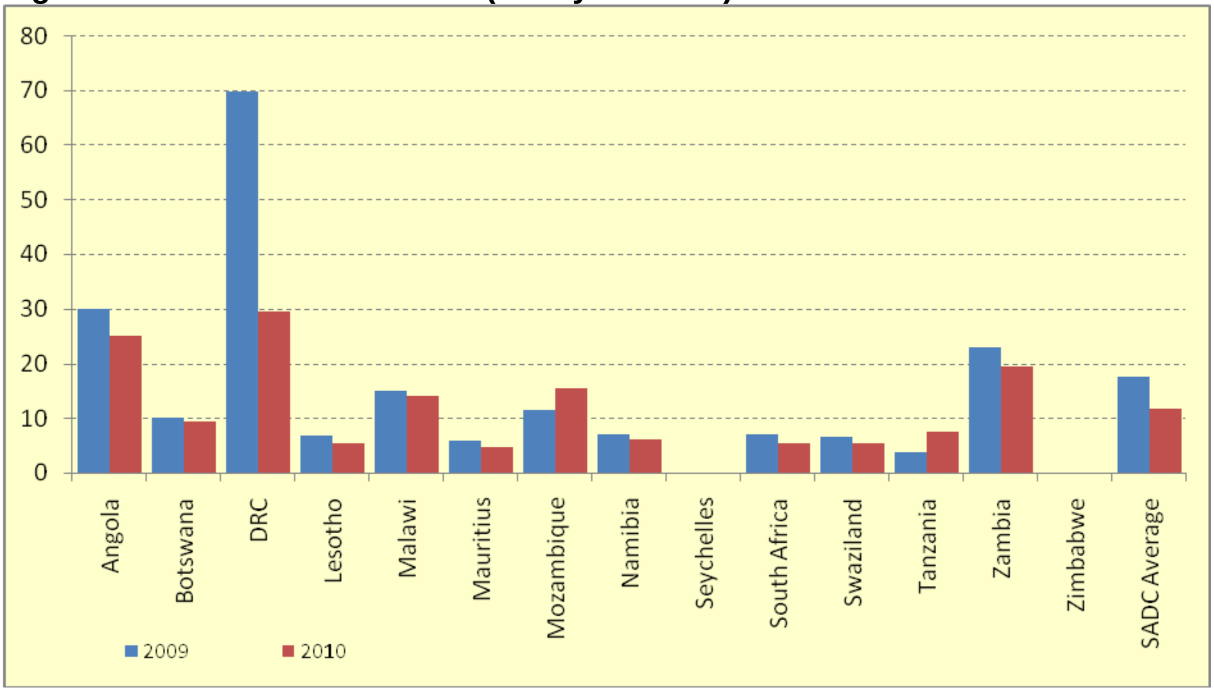


Source: SADC Central Banks

3.10 Interest rates

The monetary policy stance in the SADC region was quite varied with some countries pursuing expansionary monetary policy, whilst others pursued a tight monetary policy stance. Angola, DRC, and Mozambique increased interest rates in 2010, whilst countries in the CMA region (South Africa, Namibia, Swaziland and Lesotho) reduced interest rates, reflecting easing of the monetary policy stance by South Africa. Overall, average interest rates, in the SADC region generally trended upwards as fiscal revenue improved and economic activity picked up. This stance contributed positively to the containment of inflationary pressures in the region. Zimbabwe, however, does not have any policy rate under the multicurrency resulting in loss of control over monetary policy.

Figure 10: SADC Interest Rates (Policy Rates %)



Source: SADC Central Banks

*In the multicurrency regime, the Zimbabwe central bank has no control over monetary policy and so does not have any policy rate

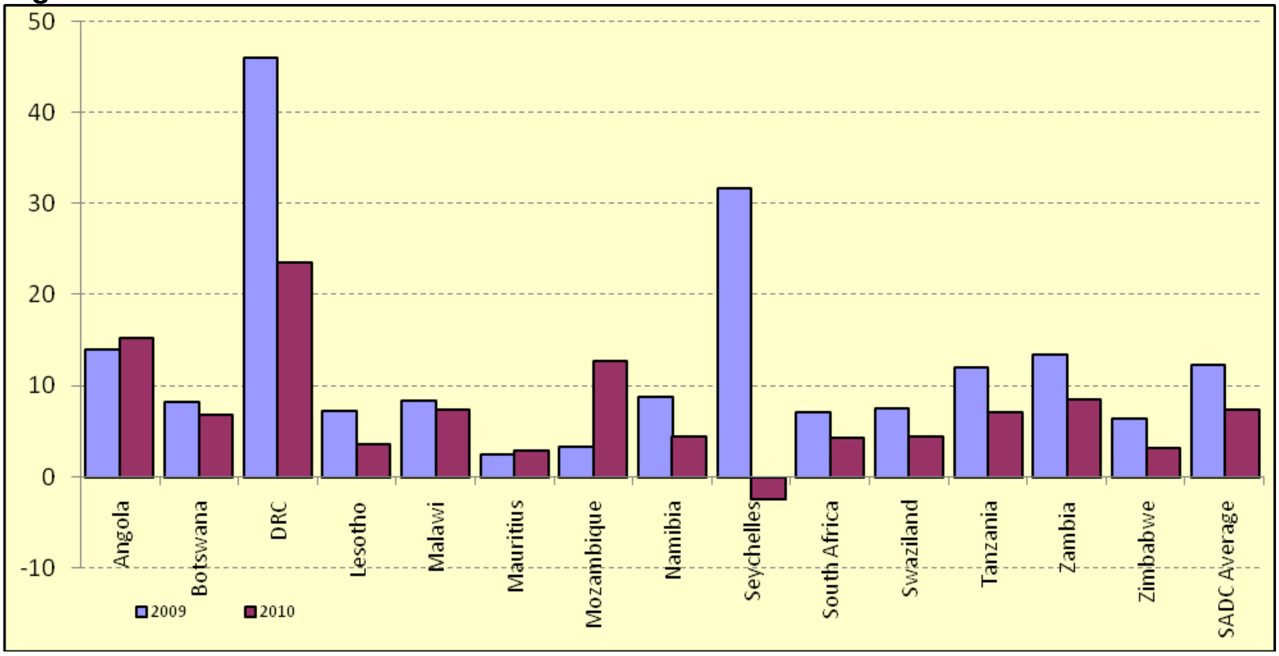
3.11 Inflation

Annual headline inflation in the SADC region declined from an average of 12.4% in 2009 to an average of 7.4% in 2010. The decline in headline inflation in the region largely reflected strong and robust monetary policy stance being implemented by Member States. The most notable declines in inflation were experienced in DRC and Seychelles. Other countries that witnessed a significant drop in inflation include Botswana, Lesotho, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

Countries that experienced increases in inflation were Angola, Mauritius and Mozambique. A significant increase in inflation was experienced in Mozambique where inflation increased by about 9.4 percentage points from 3.3 percent in 2009 to 12.7 in 2010.

Inflationary pressures in Mozambique were a result of the weakening of the Mozambican metical against the US dollar and the strengthening of the South African rand. In Angola, inflationary pressures in 2010 were largely attributed to the depreciation of the kwanza against the US dollar.

Figure 11: SADC Inflation



Source: SADC Central banks

3.12 Public Finance

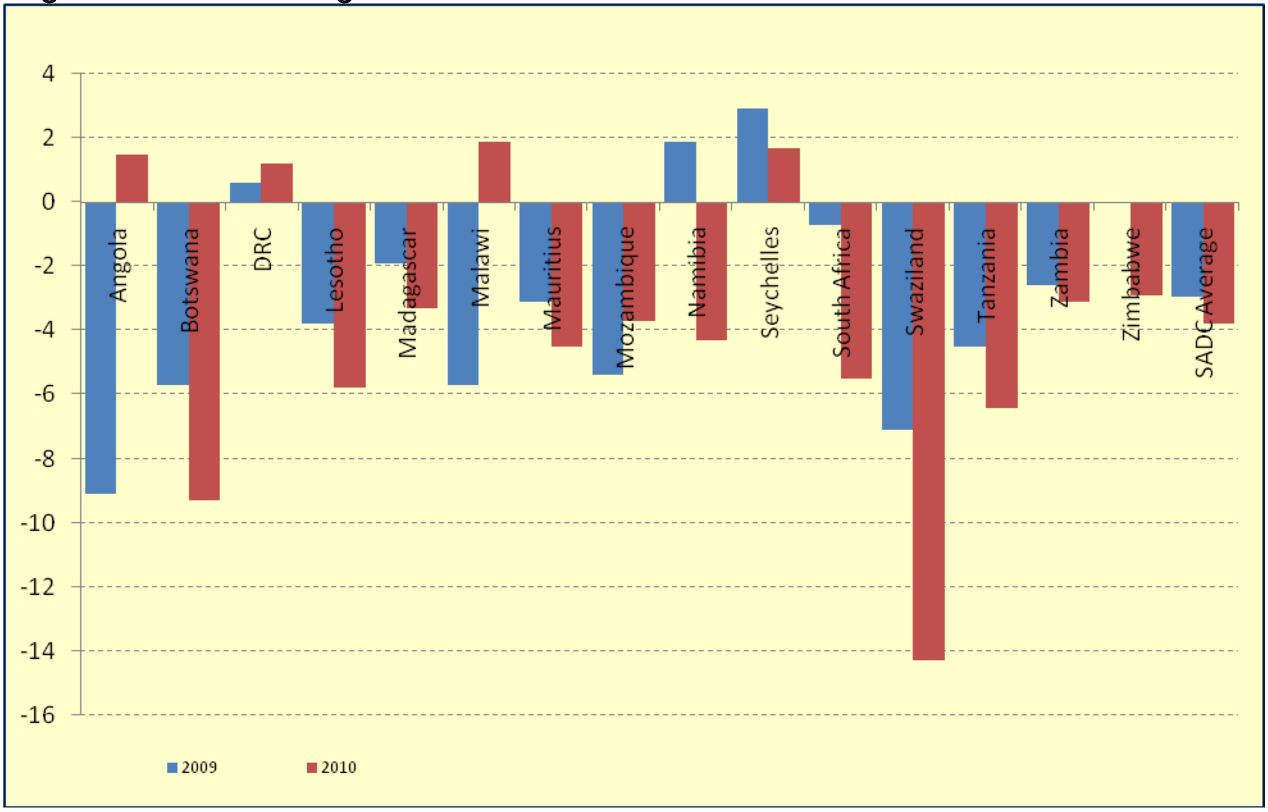
The SADC average fiscal deficit as a percentage of GDP increased from 2.2% in 2009, to 3.3% in 2010 (see Table 3 and Figure 12 below). Notable increases in the fiscal deficits were experienced in the CMA region as a result of reduced CMA revenues. Botswana also experienced a huge fiscal deficit in 2010 of 9.3%, as government revenues declined due to reduced revenue from diamond exports and increased government expenditure in order to cushion the economy against further economic decline.

Angola, DRC, Malawi, and Seychelles, however, managed to maintain budget surpluses in 2010. In Malawi, the budget surplus was attributed to a 49.7% increase in domestic revenue and budgetary grants of about K13.2 billion.

South Africa’s budget deficit increased from 0.7% in the 2009/2010 fiscal year to 5.5% in the 2010/2011 fiscal year. Cyclical forces played a major role in the deterioration of the fiscal deficit. Zambia and Tanzania experienced further increases in the budget deficits in 2010. Zimbabwe recorded a low budget deficit of 2.9% in 2010, as a result of austerity measures being implemented by the government.

With regard to public and publicly guaranteed debt to GDP ratio, the region recorded an improvement of 6.4% from an average of 47.1% in 2009, to 40.7% in 2010, (see Table 3 below). This was largely due to significant declines of public debt in DRC and Seychelles which recorded declines of 85.2% and 34%, respectively. Other countries that recorded significant declines in public debt include Angola, Lesotho, Namibia, Zambia and Zimbabwe. The decline also reflected increased economic activity in these countries.

Figure 12: SADC Budget Balances



Source: SADC Central Banks

Table 3: Fiscal Balance and Public Debt as Percentage of GDP, 2008 and 2009

Description	Budget Balance		Public Debt		
	2009	2010	2009	2010	% Change
Angola	-9.1	1.5	22.6	21.7	-0.9
Botswana	-5.7	-9.3	6.9	13.6	6.7
DRC	0.6	1.2	113.5	28.3	-85.2
Lesotho	-3.8	-5.8	40.1	36.8	-3.3
Madagascar	-1.9	-3.3	26.1	-	
Malawi	-5.7	1.9	40.8	35	-5.8
Mauritius	-3.0	-3.2	59.3	57.6	-1.7
Mozambique	-5.4	-3.7	43.7	45.1	1.4
Namibia	1.9	-4.3	15.8	27.4	11.6
Seychelles	2.9	1.7	117	83	-29.1
South Africa	-0.7	-5.5	31.5	39.4	7.9
Swaziland	-7.1	-11.0	12	14.4	2.4
Tanzania	-4.5	-6.4	40.9	43.2	2.3
Zambia	-2.6	-3.1	26.4	21.3	-5.1
Zimbabwe	0	-2.9	109.8	103	-6.8
SADC Average	-2.2	-3.1	47.1	40.7	-6.4

Source: SADC Central Banks

3.13 Foreign Trade and Payments

3.13.1 Regional Trade

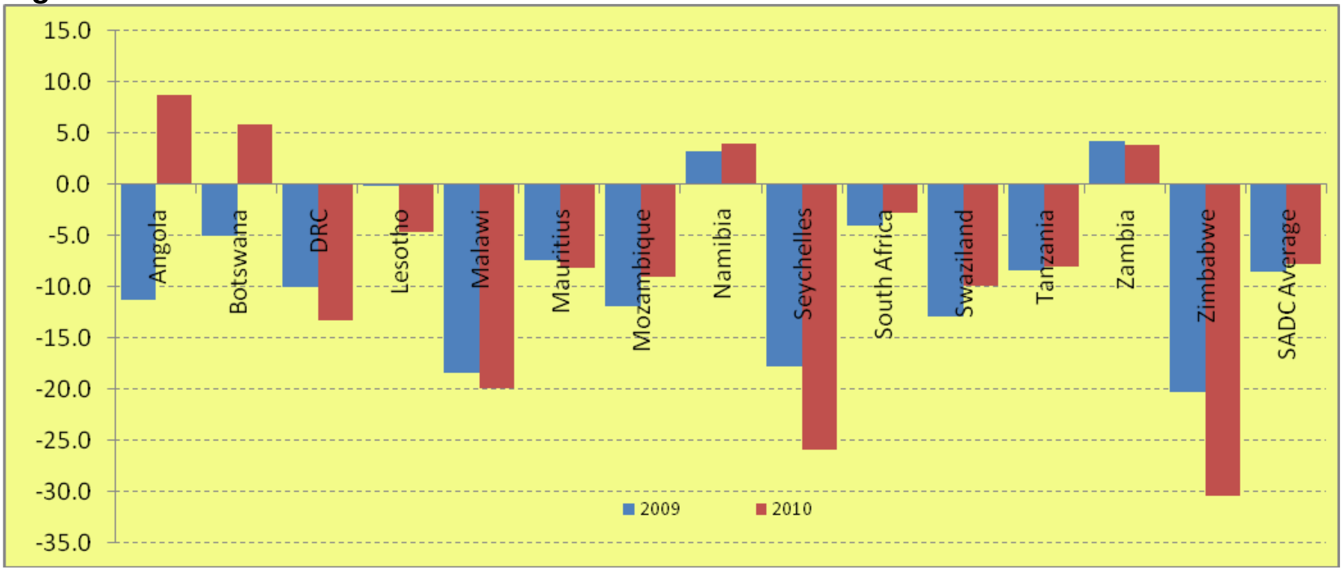
Intra SADC trade remained subdued although it is on a growth path. Most SADC countries are commodity dependant and as a result rely on a limited number of products for exports. As a result, intra-SADC trade is mainly dominated by food items. Most countries in the region rely heavily on South Africa for imports. South Africa continues to record a positive trade balance with most countries in the region. Against this background, there is great scope for strengthening trade ties in the region through deepening regional integration. SADC countries need to invest in diversification and value addition in order to increase intra-SADC trade.

3.14 Balance of Payments Developments

Most countries in the SADC region experienced balance of payments pressures in 2010 as reflected by high current account deficits. The average current account deficit as a ratio of GDP, however, narrowed somewhat, from a deficit of 5.2% in 2009 to a deficit of 3.7% in 2010. The improvement in the current account balance largely reflected recovery of export performance in the region driven by firming international commodity prices. Angola, Botswana, Namibia and Zambia, however, are the only countries in the region that recorded current account surpluses in 2010 (Figure 15 below refers). The current account surpluses were due to increased exports value of oil in Angola, diamonds in Botswana and Namibia and copper in Zambia.

Countries that experienced widening current account deficits were DRC, Malawi, Mauritius, Seychelles and Zimbabwe. The deterioration of the current account deficit in Malawi and Mauritius was attributed to the increase in international oil and food prices. In Zimbabwe, the current account deficit widened as a result of a disproportionately huge import bill mainly food items, fuel and electricity against sluggish growth in exports.

Figure 13: Current Account Balance as % of GDP



Source: SADC Central banks

3.15 Foreign Direct Investment (FDI) Inflows

FDI inflows into the SADC region declined from US$21.6 billion in 2010 to US$18.4 billion in 2010, representing a decline of about 18% (see Table 5 below). This decline was attributed to the adverse effects of the global financial crisis. For 2011, preliminary reports indicate that FDI into the region is on a growth path benefiting from the recovery of the global economy. The increase in FDI inflows is also attributed to the various measures being put in place by member states to attract investment into the region.

Table 4: Foreign Direct Investment Inflows (US$ Million), 2009 and 2010

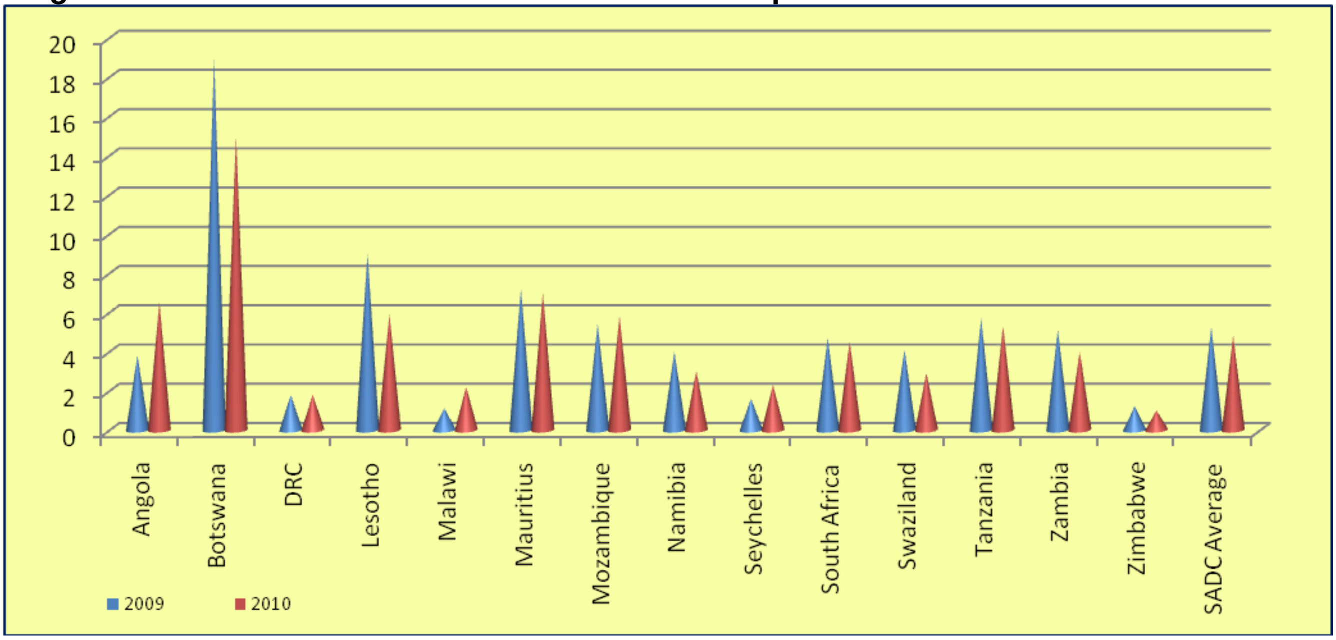
Description	2009	2010	% Change
Angola	11,673.1	9,941.6	-14.8
Botswana	576.0	-	-
DRC	629.4	2,932.1	365.9
Lesotho	47.6	54.6	14.7
Malawi	55.5	55.8	0.5
Mauritius	257.4	430.0	67.1
Mozambique	892.5	788.9	-11.6
Namibia	518.7	864.0	66.6
Seychelles	113.1	156.8	38.64
South Africa	5,389.0	1,553.0	-71.2
Swaziland	66.0	130.7	98.0
Tanzania	414.5	433.4	4.6
Zambia	694.8	1041.4	49.9
Zimbabwe	105.0	165.9	58.0
SADC Average	**21,564.3**	**18,391.4**	**-19.6**

Source: SADC Central Banks

3.16 Foreign Reserve's Position

Most countries in the SADC region do not have adequate foreign reserves to cushion them against external shocks. The SADC average gross international reserve position as measured by months of import cover deteriorated from an average of 5.1% in 2009 to 4.8% in 2010. In 2009, the region's international reserves were given a boost by the SDR allocations from the International Monetary Fund for the mitigation of the adverse effects of the global financial crisis. Botswana remains the top performer with reserves of more than 15 months of import cover.

Figure 14: International Reserves in Months of Import Cover



Source: SADC Central Banks

3.17 Exchange Rate Developments

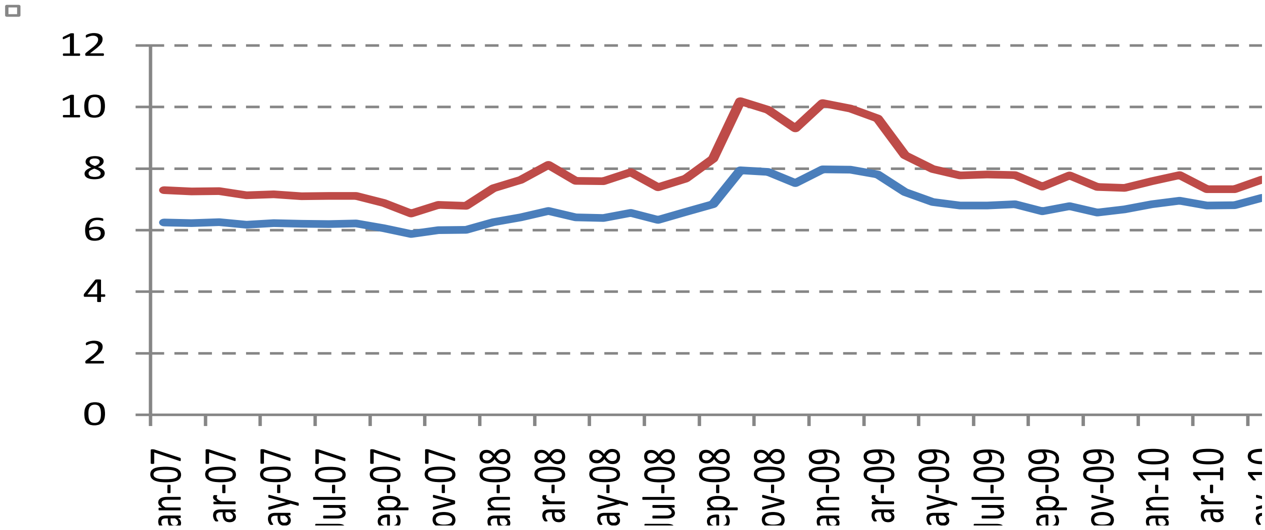
Most currencies in the SADC region have been deprecating against the US dollar over the years. Currencies of countries in the Common Monetary Area (CMA) region have been appreciating against the US dollar as a result of huge capital flows into the region, particularly South Africa.

BOX 4: EXCHANGE RATE REGIMES IN SADC COUNTRIES

SADC member countries employ a variety of exchange rate arrangements, ranging from independently freely floating or managed floating and currency peg. The CMA is a fixed-exchange-rate arrangement that groups South Africa, Lesotho, Namibia, and Swaziland. Under the terms of the CMA Agreement, Lesotho, Namibia, and Swaziland issue national currencies, the loti (introduced in 1980), the Namibian dollar (introduced in 1993), and the lilangeni (introduced in 1974), respectively. These currencies are pegged at a par to the South African Rand. In addition, the Rand is legal tender in each of these three countries, but, none of the three currencies is legal tender in South Africa. Since the rand is legal tender in the other three countries, South Africa compensates each of the countries for foregone seignorage. The South African monetary authorities follow a floating exchange rate arrangement for the rand against other currencies.

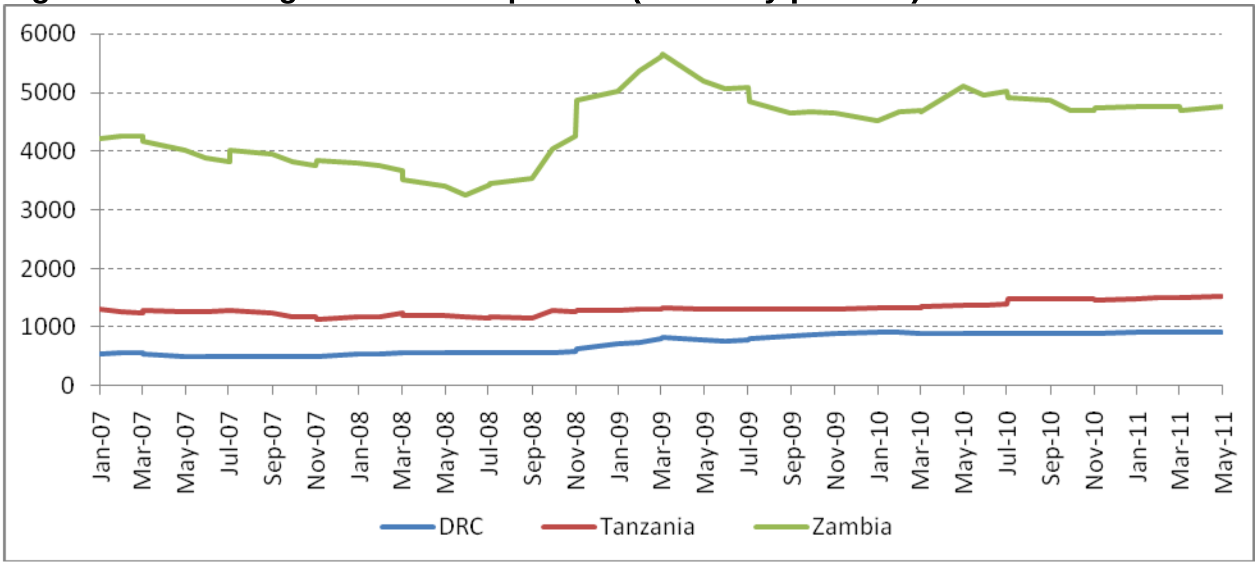
Most of the other SADC member countries have exchange-rate arrangements that are independently freely floating or managed floating. An exception is Botswana, whose currency (the pula) is pegged to a basket comprising the South African rand and the SDR; and Zimbabwe, which has adopted a multi-currency regime, a form of dollarization In February 2009. All SADC countries have capital controls.

Figure 15: Exchange Rate Developments (Currency/US$)



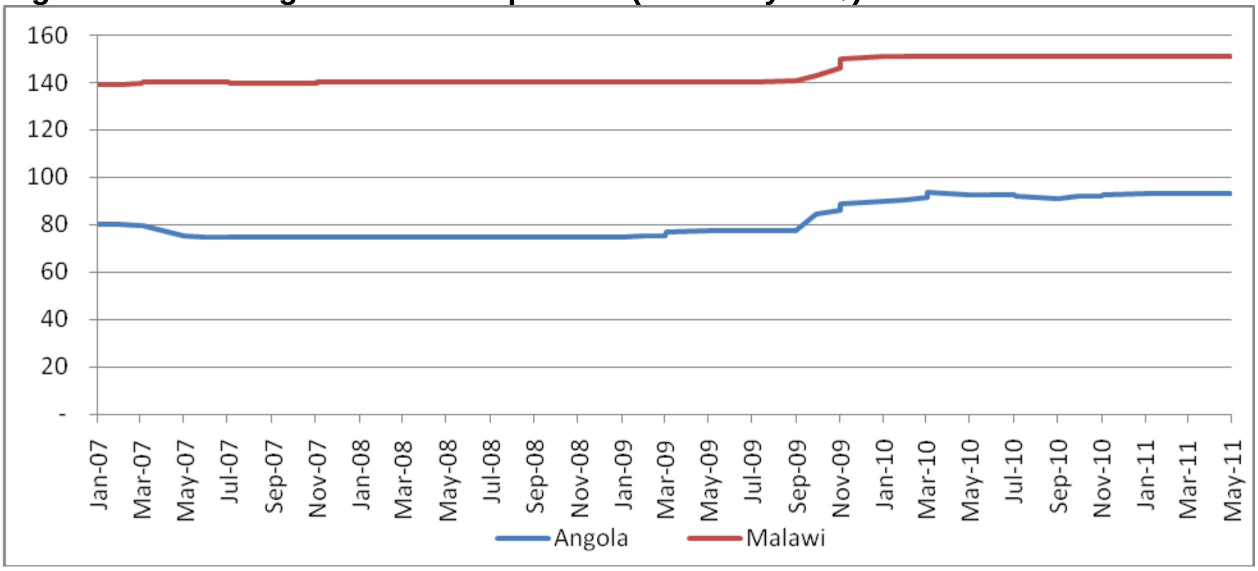
Source: SADC Central Banks
Note: South Africa, representing CMA countries (Lesotho, Namibia and Swaziland and South Africa).

Figure 16: Exchange Rate Developments (Currency per US$)



Source: SADC Central Banks

Figure 17: Exchange Rate Developments (Currency/US$)



Source: SADC Central Banks

N.B. Zimbabwe does not have an exchange rate of its on under the multicurrency system
* No data for Mozambique and Seychelles

4. Developments in the SADC Energy Sector

The SADC region is faced with diminished supply of power generation capacity. The power supply in the SADC region in 2010 was 45,650 MW against a peak demand of 50,306 MW. According to the current projections, the region will attain self-sufficiency in power by the year 2014, provided implementation of planned projects remains on course.

In 2010, about 1,040 MW of new generation capacity has been installed in the Region. However, due to the sustained economic growth, demand for electricity continues to surpass supply.

The SADC Member States agreed to take measures necessary to ensure completion of projects as per the planned milestones. The Southern Africa Power Pool (SAPP) is responsible for monitoring and implementation of power projects in the region.

The region is currently implementing demand side management to conserve energy. In 2010 alone, the demand side management policy achieved a saving of 750 MW using commercial lighting technologies.

With regard to the electricity tariffs, the region needs to move towards cost reflective tariffs to attract new investments in the energy sector. In addition, the region needs to ensure availability of sufficient, affordable and acceptable energy services, without losing sight of the need for an environmentally sustainable use of energy resources.

5. Status of Macroeconomic Convergence in 2010

SADC countries have made significant progress towards attainment of the macroeconomic convergence targets. Most countries have managed to reduce inflation to single digit levels. Current account and budget deficits have been curtailed and public debt reduced to sustainable levels.

Prudent fiscal and monetary policies continue to underpin improvement in general macroeconomic performance and economic stability in the region. The resilience of the SADC economies to the 2007/08 global shocks owes much to strong economic fundamentals prior to the crisis, a strength which regional economies should build on and sustain.

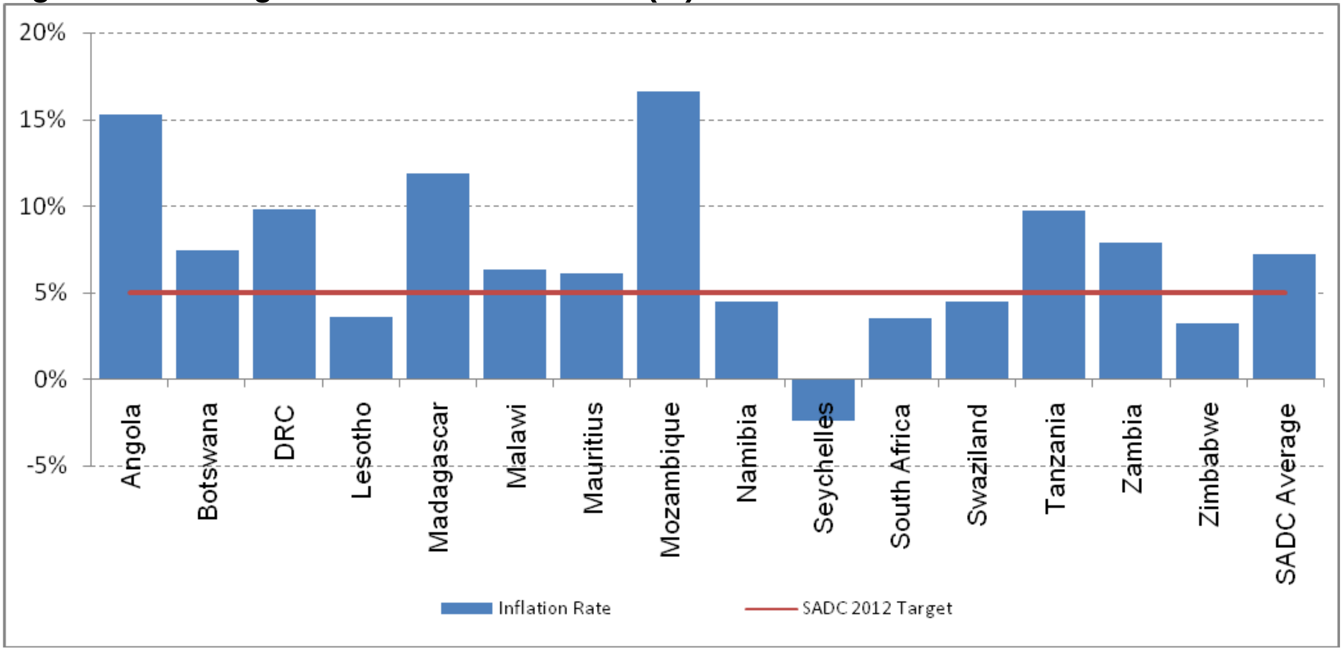
5.1 Primary Convergence

5.1.1 Inflation Rate of less than 5 percent by 2012

Some countries in the region are still grappling with high inflation of double digit levels whilst others have already attained single digit inflation in line with the 2008 SADC inflation target. Most member states, however, have attained the single digit inflation and are making significant progress towards achieving the 5% target of 2012.
Inflationary pressures, however, persist in Angola, DRC, Madagascar and Mozambique which are still in the double digit levels. The removal of subsidies in Mozambique, expansion in money supply in DRC and Angola generated price pressures in these economies.

Rising oil and food prices continue to exert inflationary pressures in the region and if the adverse effects are not properly managed, this might cause countries to diverge from the inflation target.

Figure 18: Average Annual Inflation Rates (%)



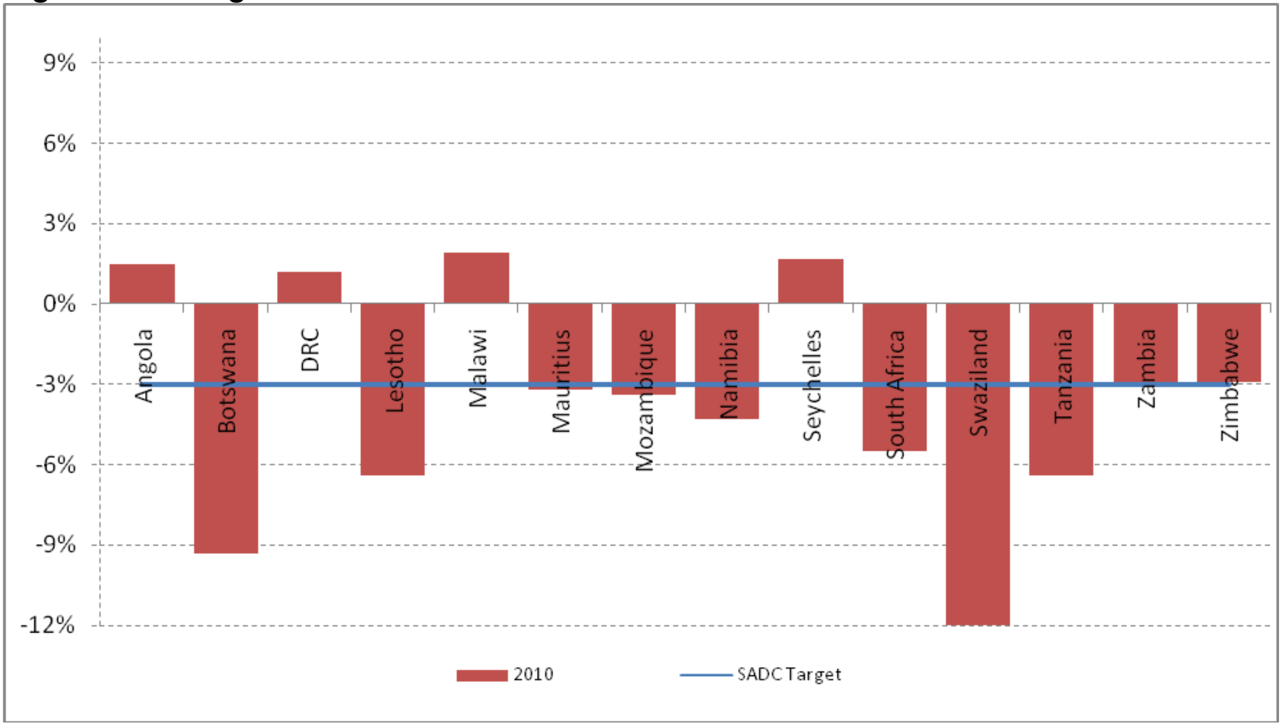
Source: SADC Central Banks

5.1.2 Budget Deficit to GDP (less than 3 percent)

SADC economies exhibited mixed fiscal performances in 2010. Angola, DRC, Malawi, Zambia and Zimbabwe were within the budget deficit target of 3% of GDP, benefiting from prudent fiscal management 9Figure 21 refers). Deterioration in the fiscal position of some SADC countries reflected substantial fiscal expenditures and projects implemented to stimulate internal demand and mitigate the impact of the global financial crisis.

Countries in the SACU region experienced widening fiscal balances due to declining SACU revenues and increasing capital expenditures. Angola, DRC and Malawi registered budget surpluses arising from high revenues.

Figure 19: Budget Balance as % of GDP



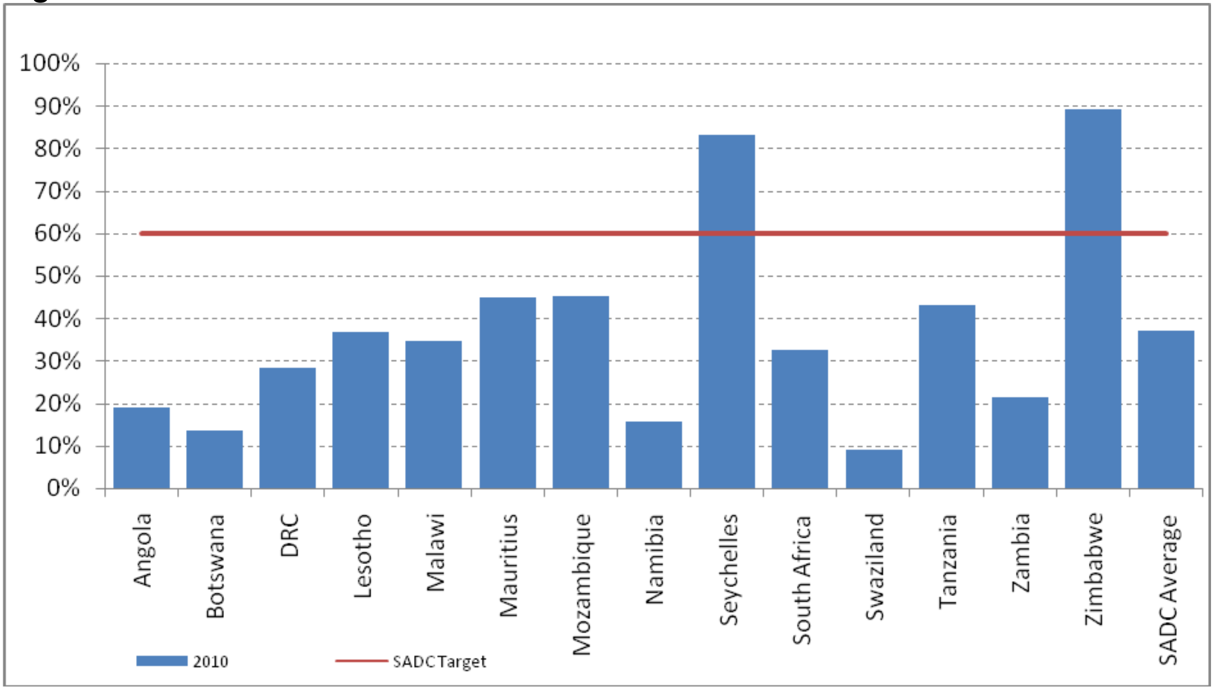
Source: SADC Central Banks

5.1.3 Public Debt to GDP (less than 60 percent of GDP)

Most SADC countries managed to reduce their public debt to sustainable levels, due to the expansion in economic activity and implementation of effective debt management strategies (See Figure 22). Zambia, Malawi, Mozambique and Tanzania benefited from debt relief initiatives under the HIPC and Multilateral Debt Relief Initiatives (MDRI).

In Zimbabwe and Seychelles, the proportion of public debt to GDP has fallen although the levels still remain above the 60% sustainability thresholds.

Figure 20: Public Debt as % of GDP



Source: SADC Central Banks

5.2 Secondary targets

5.2.1 International Reserves (at least 3 months in 2008 and 6 months by 2012)

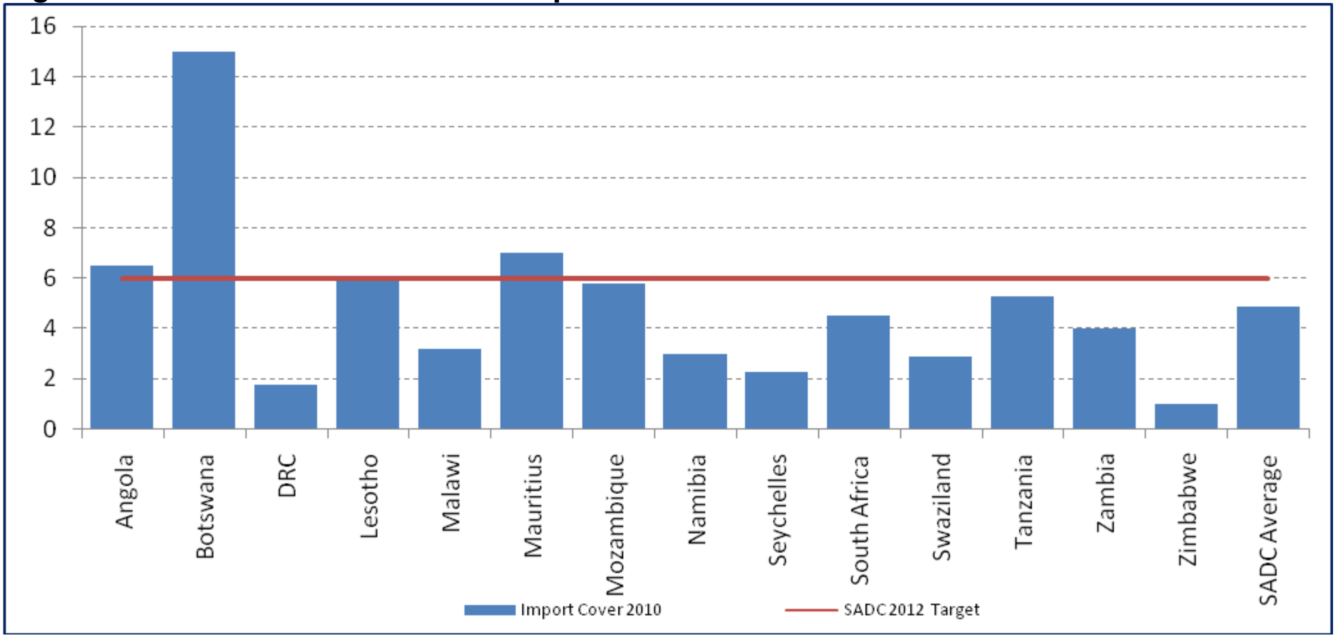
The post crisis recovery in exports and resurgence in financial flows to developing economies boosted international reserve positions in most SADC countries. Lesotho, Mozambique, Namibia, South Africa, Tanzania and Zambia attained the reserve adequacy threshold of 3 months of import cover.

Healthy reserve positions have been maintained in Botswana, Mauritius and Angola, which have already surpassed the 2012 threshold of 6 months of import cover.

International reserve levels in Malawi, DRC, Zimbabwe, Swaziland, and Seychelles, however, remain below 3 months of import cover, indicating the need to build buffers to cushion these economies against external vulnerabilities (Figure 23 refers).

Notable depletion of reserves in some countries reflected utilization of SDRs which were allocated by the Fund in 2009 to mitigate the effects of the global financial crisis.

Figure 21: Reserves in Months of Import Cover



Source: SADC Central Banks

5.2.2 Real GDP Growth (not less than 7 percent)

Economic growth in the SADC region accelerated, against the background of rebound in global economic activity and prudent economic policies. Notable expansions in GDP were registered in Botswana, DRC, Tanzania, Zambia and Zimbabwe which surpassed the 7% growth target.

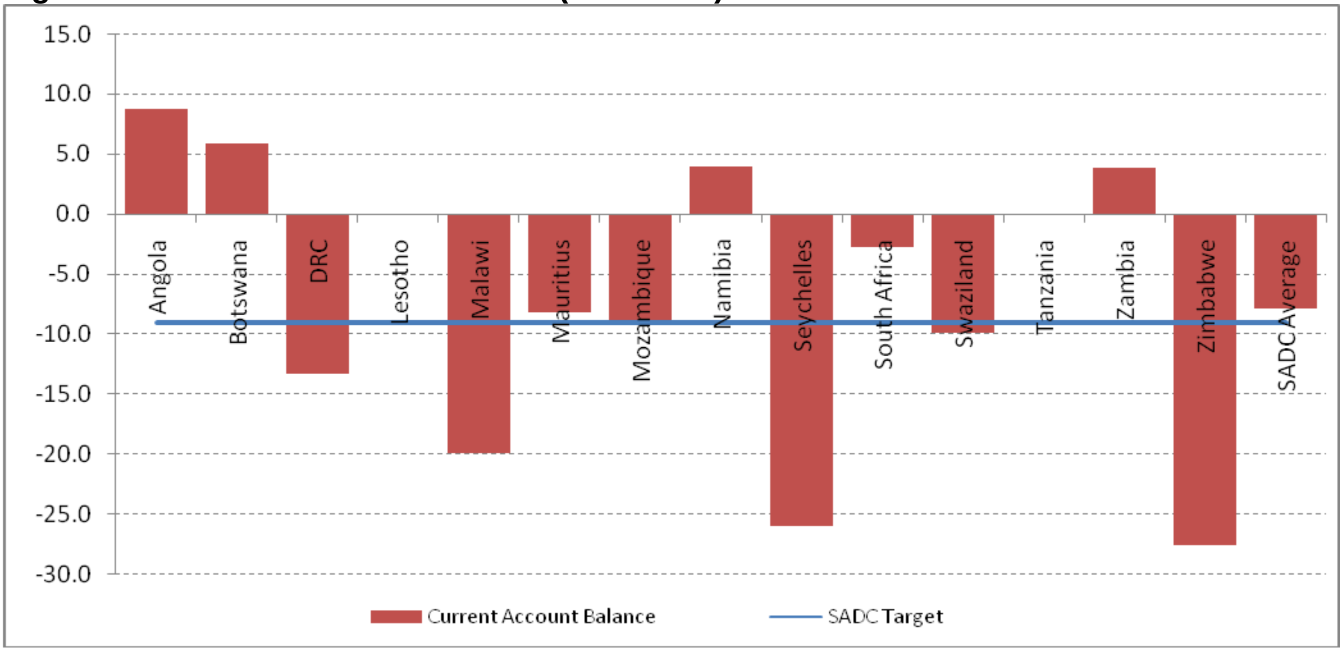
Positive growths in other member states were also supported by expansion in public sector investments in infrastructure and extensive human capital development. Other supportive growth factors in the region included the rich mineral resources, attractive tourism products, fertile agricultural land, high literacy rates and political stability.

5.2.3 Current Account to GDP (less than 9 percent)

The improvement in terms of trade and the recovery of the export sectors in the region resulted in improvement in the current account positions of most member states in 2010. The favourable terms of trade reflected higher global demand and rising export prices of primary commodities. Angola, Botswana, Lesotho, Mauritius, Mozambique, Namibia, South Africa and Tanzania maintained current account deficit within the target levels of less than 9 percent of GDP in 2010

Angola, Botswana, Namibia and Zambia registered current account surpluses in 2010, largely on account of increasing share of mineral exports. DRC, Malawi, and Zimbabwe, however, experienced widening current account deficits due to rising international oil prices and heavy reliance on imports.

Figure 22: Current Account Balance (% of GDP)



Source: SADC Central Banks

6. Prospects over the Medium Term

SADC countries have made significant progress towards attainment of macroeconomic convergence targets. The region is poised for further growth, which underscores the need for sustaining sound macroeconomic policies.

The region has immense growth potential as evidenced by the availability of natural resources, and vast tracts of arable land. Investment opportunities abound in mining, agriculture, manufacturing, financial services, ICT, tourism and infrastructural development. In addition SADC is a huge market with a population of over 250 million and GDP of over US$400 billion, presenting huge trade and growth opportunities.

The main challenge for the region will be to attract and sustain meaningful foreign direct investment flows to unlock the region's growth potential. This will provide momentum towards attainment of long term growth and stability, employment creation as well as enhanced competitiveness in regional and global markets.

7. Conclusion

The SADC regional economies have been more resilient to the global crisis than other emerging economies, with the exception of China and India**.** The region, however, remains susceptible to external shocks due to the heavy dependency on commodity exports. Continued growth in the SADC region in the outlook period, therefore, remain contingent on strong demand for tradables, and favourable international commodity prices and sustained global economic growth. Measures should, therefore, be put in place early to mitigate the possible effects of sovereign debt crisis by each member state.

The SADC macroeconomic convergence programme presents greater opportunities for much deeper integration in the region. Efforts should be made to move away from dependency on a narrow range of commodities towards commodity beneficiation and value addition.

Strong fiscal and monetary policy should also remain in place to keep the fiscal deficits under control and contain inflationary pressures in the region. Accordingly, Monetary Authorities are urged to continue implementing prudent monetary policies which are consistent with sustainable control of inflation. However, as indicated above, one of the major drivers of inflation in the SADC region are food prices.

To this extent, Member States should endeavour to ensure food self sufficiency in order to maintain inflation at single digit levels and meet the 2012 inflation target of below 5%. To increase agricultural food production, Member Countries should consider the following:

a. Development of irrigation infrastructure to mitigate the impact of frequent droughts;
b. Invest in programmes to reduce persistent flooding in some parts of the region;
c. Open up agricultural arable land, taking cognisant of the prevailing environmental laws and regulations; and
d. Provision of agricultural inputs and equipment, timeously.

SADC should also strengthen fiscal surveillance within the auspices of existing SADC Macroeconomic Monitoring, Surveillance and Performance Unit (MMSPU) whose mandate is to coordinate the peer review panel.

In addition, SADC should expedite the establishment and implementation of an infrastructural fund to finance the much needed projects in the energy, transport, agricultural, mining and manufacturing sectors.

Extensive reforms are also required to unlock productive potential, promote trade and financial sector development, and encourage domestic savings and investment as well as strengthening of institutional capacity to help attract sustained capital flows into the region.

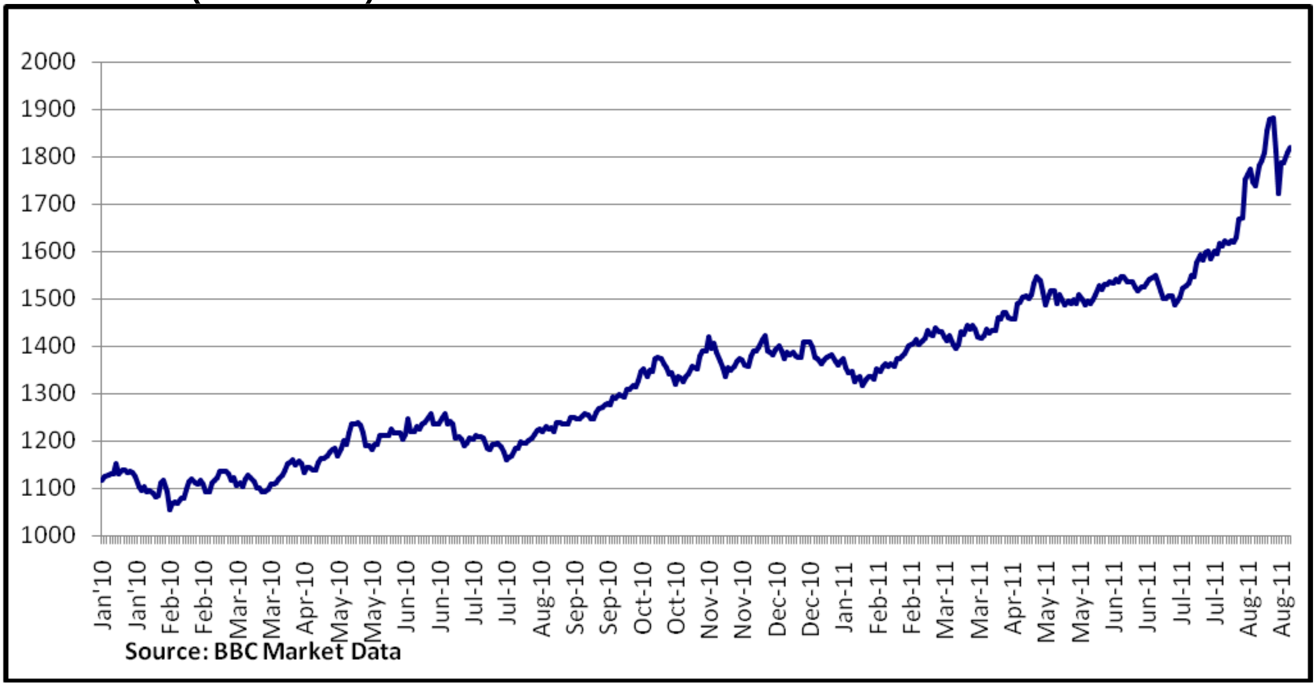
8. References

1. International Monetary Fund (IMF), September 2010, World Economic Outlook.
2. Primary Commodity Prices, International Financial Statistics (IFS) database; IMF.
3. Recent Economic Development Contributions received from member central banks.
4. www.sadcbankers.org

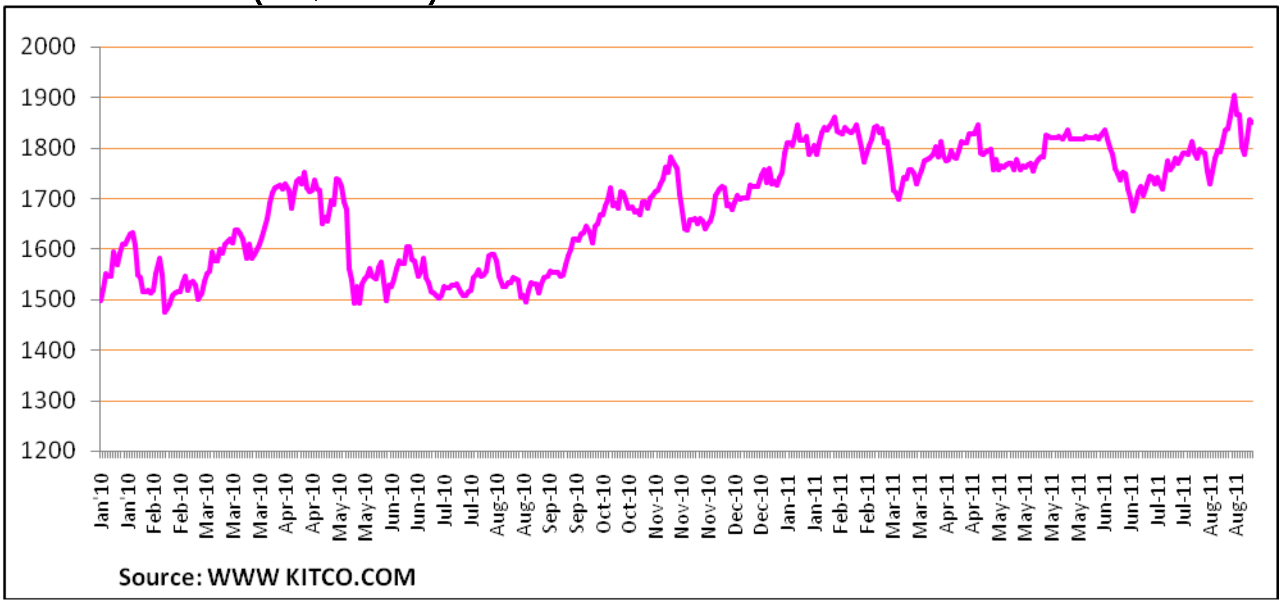
9. APPENDICES

9.1 Appendix I: Charts for Commodity Prices

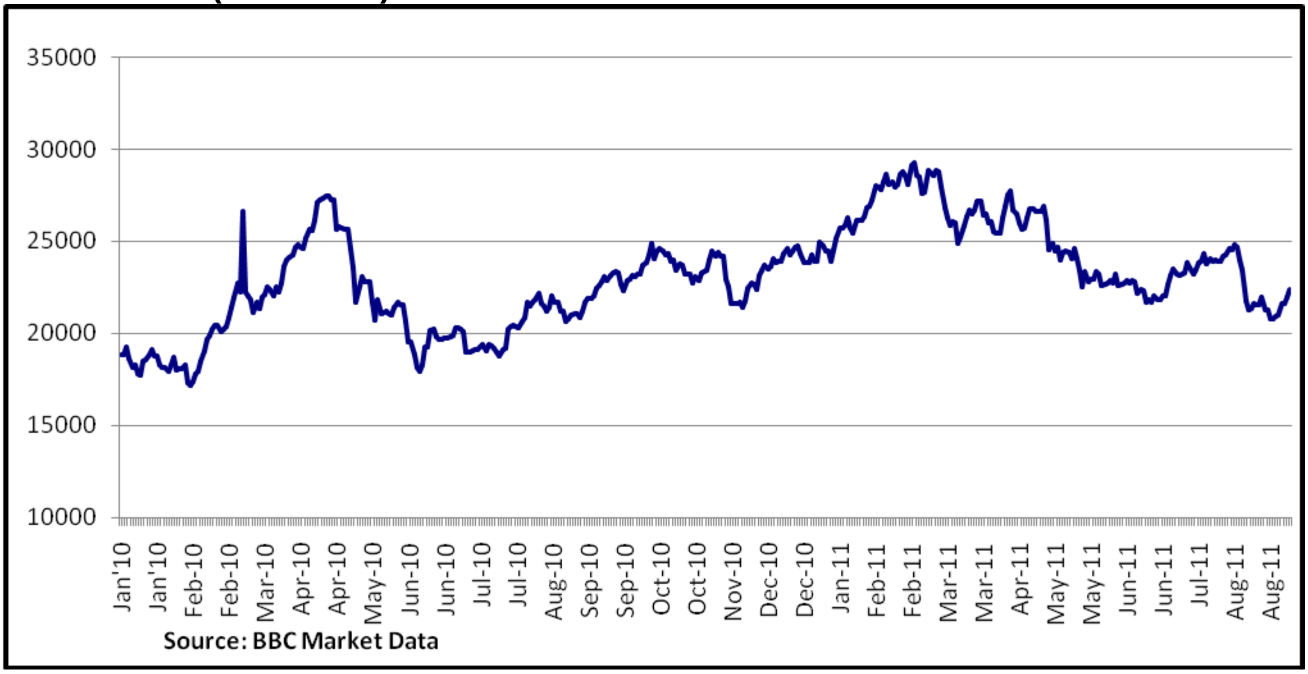
Gold Prices (US$/ounce)



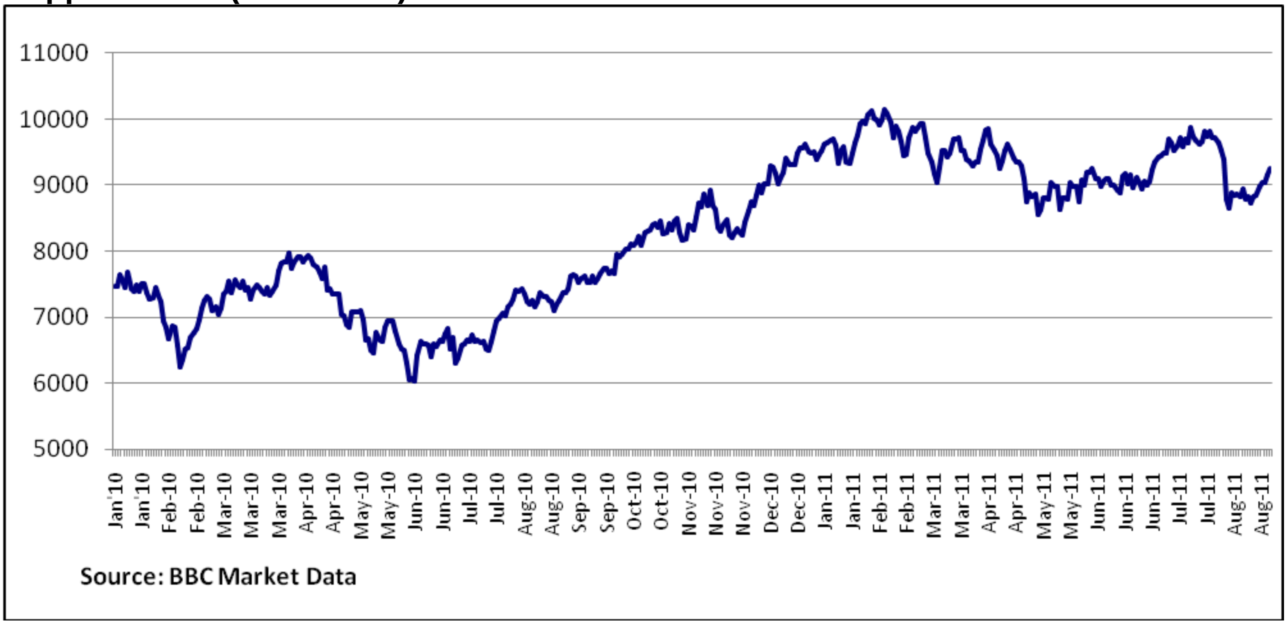
Platinum Prices (US$/ounce)



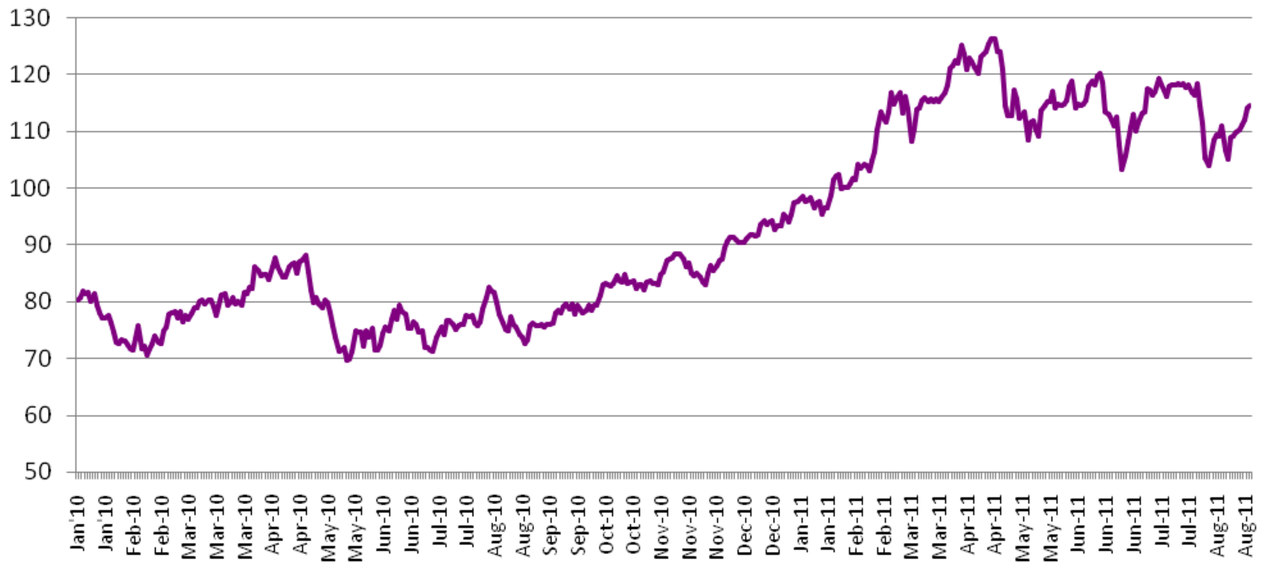
Nickel Prices (US$/tonne)



Copper Prices (US$/tonne)



Brent Crude Oil Prices (US$/barrel)



Source: BBC Market Data

9.2 Appendix II: Exchange Rate Regimes

Country	Currency	Regime
Angola	KWANZA	Managed floating
Botswana	PULA	Pegged to basket (South African rand and SDR)
DRC	CONGP FRANC	Independently floating
Lesotho	LOTI	Pegged to South African rand (CMA)
Madagascar	ARIARY	Independently floating
Malawi	KWACHA	De facto Fixed*
Mauritius	RUPEE	Managed floating
Mozambique	METICAL	Managed floating
Namibia	NAMIBIA DOLLAR	Pegged to South African rand (CMA)
Seychelles	RUPEE	Free Floating
South Africa	RAND	Independently floating; rand is CMA anchor currency
Swaziland	LILANGENI	Pegged to South African rand (CMA)
Tanzania	SHILLING	Independently floating
Zambia	KWACHA	Independently floating
Zimbabwe	Rand, United States Dollar, Pula, and Pound	Multi-currency

Source: IMF exchange rate arrangements and African economic outlook, 2010

Notes:
* *A de facto fixed exchange rate regime was adopted between 2006 and 2009 preventing the nominal exchange rate to balance demand and supply leading to foreign exchange shortages. However, the exchange rate of Malawian kwacha against the US dollar depreciated to 150.8 at end-December 2010 from 141.7 as at end December 2009. The kwacha has been kept at about 151 to the dollar since February 2010*

Managed floating: *The authorities influence exchange rate movements through active intervention to counter the long-term trend of the exchange rate, without specifying a predetermined exchange rate path, or without having a specific exchange rate target. Intervention may be direct or indirect. Indicators for managing the rate are broadly judgmental (e.g., balance of payments position, international reserves, parallel market developments), and adjustments may not be automatic.*

Independently floating: *The exchange rate is market determined; any foreign exchange intervention aims at moderating the rate of change and preventing undue fluctuations in the exchange rate that are not justified by economic fundamentals, rather than at establishing a level for the exchange rate. In these regimes, monetary policy is in principle independent of exchange rate policy.*

9.3 *Appendix III: SADC Macroeconomic Information (as at 21 September 2011)*

Country	Inflation (Period Average)				Budget Balance as % of GDP				Public debt as percentage of GDP				Months of Import Cover				Real Growth Rate			
	2008	2009	2010	2011*	2008	2009	2010[P]	2011 P	2008	2009	2010	2011	2008	2009	2010	2011 P	2008	2009	2010	2011 P
Angola	13.2	14	15.3	14.6	8.8	-9.1	1.5	3.5	17.6	22.6	21.7	17.6	5	3.8	6.5		13.8	2.4	3.4	7.6
Botswana	12.6	8.2	6.9	8.3	4.2	-5.7.	-9.3	-9.3	4.3	6.9	13.6	23.7	22	19	15	17	3.1	-3.7	7.2	5.7
DRC	17.9	46.1	23.6	15.9	-0.5	0.6	1.23	-0.37	91.8	113.5	28.3	24.7	0.1	2	1.78	1.81	6.2	2.8	7.2	6.2
Lesotho	10.8	7.3	3.6	4.3	4.7	-3.8	-5.8	-13.3	55	40.1	36.8	34.8	8.5	6.8	5.9	4.1	3.4	2.4	2.5	4.0
Malawi	8.7	8.4	7.4	7	-6.5	-5.7	1.9	-0.7	31.6	40.8	35	34.7	2.4	1.9	3.1	2.2	8.6	7.6	7.1	6.9
Mauritius	9.7	2.5	2.9	4.8	-3.3	-3.1	-4.5	-4.3	51.9	59.3	45		5.2	7.2	7.0		5.1	3.1	4.4	4.6
Mozambique	10.3	3.3	12.7	15.23	-2.5	-5.4	-3.7	-6.4	40.5	43.7	45.1		4.3	5.7	5.8	5.0	6.7	6.3	6.8	7.2
Namibia	10.3	8.8	4.5	5.2	2	1.9	-4.2		18.9	18	27.4		5.7	4	3		4.3	-0.7	4.6	4.1
Seychelles	37	31.8	-2.4	2.2	-5.9	2.94	**1.67**	-2.04	151	117	83	77**	1.1	1.6	2.3	2.5**	-0.9	0.7	6.2	4.4 P
South Africa	9.9	7.1	4.3	4.6	0.9	-0.7	-5.5	-4.2	31.4	31.5	39.4	42.3	3.7	5.1	4.9		3.7	-1.8	2.8	3.5
Swaziland	12.6	7.5	4.5	7.1	-1.5	-7.1	-14.3		16	12	14.4		4.6	4.1	2.9	2.1	2.4	1.2	2	
Tanzania	10.3	12.1	5.5	9.7	-1.7	-4.3	-7.5		31.5	40.9	43.2		4.3	5.7	5.3	4.5	7.4	6	7.0	6.8
Zambia	12.4	13.5	8.5	8.9	-2.5	-2.6	-3.1	-2.9	26.7	26.4	21.3	20	2.1	5.1	4.7	4.5	5.7	6.4	7.6	7
Zimbabwe	231.2 m	6.5	3.2	2.5		0	-2.9	0	147.7	109.8	103	105	0.3	1.3	1.1	0.6	-14.7	5.7	8.1	9.3
SADC Average	13.5	12.6	7.2	7.9	-0.3	-2.8	-3.8	-3.6	51.1	48.8	39.9	37.9	5.0	5.2	4.9	4.4	3.9	2.7	5.5	5.9
Convergence criteria (2004-2008)	Single digit inflation rate by 2008				Deficit smaller than 5% of GDP by 2008				Less than 60% of GDP by 2008				Not less than 3 months by 2008				Not less than 7%			
Convergence criteria (2009-2012)	5% inflation rate by 2012				Deficit 3% as an anchor within a band of 1%				Less than 60% of GDP by 2010				Not less than 6 months by 2012				Not less than 7%			

*May 2011
**June 2011
P Projection