Integrated Paper on Recent Economic Developments in SADC

Prepared for the Committee of Central Bank Governors in SADC

Bank of Botswana

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EXECUTIVE SUMMARY

This paper reviews recent economic developments in SADC and assesses the region's progress towards the attainment of macroeconomic convergence targets. The paper is presented at a time when the global economic performance is rather sluggish, having recorded growth rate of only 3.1 percent in 2012, down from the 3.9 percent recorded in the previous year. The restrained growth momentum will be sustained in the short to medium-term, with global economic growth projected to remain at 3.1 percent in 2013, weakened by a less favourable economic environment in advance economies as well as in emerging markets and developing economies.

As a result of the subdued global economic developments, economic growth in the SADC region was 4.6 percent in 2012, down from the 5.3 percent in 2011. Growth in the SADC region was mainly undermined by the slow and fragile recovery of the global economy, particularly the weakness in advanced economies, which has adversely affected global demand. Since most of the SADC economies are export led, the reduction in global demand and trade, as well as economic growth, had a negative impact on economic performance. Individually, SADC economies mostly registered subdued growth, mixed performance on the inflation front, sustainable fiscal balances, improvement in current account positions, and a decline in foreign exchange reserves position 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, possible increase in oil prices and food prices and unfavourable climatic change. The political disturbances in North Africa and the Middle East were a risk and raised the spectre of disruptions in fuel supplies thus potentially exerting upward pressure on oil prices.

Economic prospects in the region will, therefore, significantly 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.

The continuing energy shortages, infrastructure bottlenecks, and slow pace of industrialisation, high dependence on exports of primary commodities and unprocessed products, relatively underdeveloped financial markets, subdued foreign direct investment flows and relatively high costs of doing business also constrain growth prospects for the region.

External shocks generated by the 2008-09 global economic crisis undermined progress made towards the attainment of macroeconomic convergence in the region and accentuated divergence of performance across the SADC member states. Global shocks also jeopardised the region's progress towards attainment of Millennium Development Goals, notably poverty reduction, universal education and health care.

With regard to macroeconomic convergence, SADC countries fared poorly towards attainment of macroeconomic convergence targets in 2012; particularly with reference to inflation, GDP growth and foreign exchange reserves. The region is poised for another subdued growth in 2013, which underscores the need for appropriate policy measures to support economic growth within individual member countries. Although most countries (thirteen in 2012) have managed to reduce inflation to single digit levels, it has been a major challenge for member states to attain the 2012 target of an annual inflation rate less than 5 percent. A significant number of countries have, however, been able to curtail budget and current accounts deficits, as well as and public debt to sustainable levels. It is, therefore, essential for the region to commit to appropriate fiscal and monetary policies and effective policy coordination and monitoring mechanisms in order to help expedite sustainable regional economic integration. Moreover, there is need to sustain work on bridging infrastructure gaps, enhancing trade facilitation, raising the levels of saving and investment and strengthening institutions.

The coming into operation of the SADC Peer Review Panel should help enhance information sharing, policy coordination, and collective monitoring of economic performance against the agreed targets, through collective surveillance; which should assist the integration process.

2012 RECENT ECONOMIC DEVELOPMENTS IN SADC

1. Introduction

This is the tenth edition of the Integrated Paper on Recent Economic Developments in the South African Development Community (SADC). The paper provides background information on recent economic developments within SADC and globally. Furthermore, it evaluates the region´s performance towards attainment of the macroeconomic convergence targets, as provided for in the SADC Regional Indicative Strategic Development Plan (RISDP), during 2012.

The paper is organised as follows: Section 2 explores global and the sub-Saharan macroeconomic developments in 2012 and the outlook period; Section 3 highlights the economic performance in the SADC region in 2012 and prospects for 2013 and focuses on developments on key macroeconomic variables, including Gross Domestic Product (GDP), inflation, interest rates, fiscal, exchange rates developments and external sector developments; Section 4 reviews individual SADC country performance towards attaining the macroeconomic targets, as well as considers policies implemented by individual countries in order to achieve the convergence targets; while Section 5 reviews economic prospects for 2013; and finally Section 6 provides recommendations on the way forward.

This report is based on information submitted by member central banks to the Committee of Central Bank Governors (CCBG) Secretariat. Data on global economic developments is based on the World Economic Outlook (WEO) report (July 2013 update) prepared by the International Monetary Fund (IMF). Other sources used are the SADC Bankers' website, the individual central bank website(s), the International Financial Statistics published by IMF, World Trade Organisation (WTO), Food and Agricultural Organisation (FAO), SADC Food Security Update (July 2013 update), International Trade Commission (ITC), Trade Law Centre (Tralac) and African Economic outlook.

2. *Overview of Economic Developments in 2012 and Prospects for 2013*

Global Economy

According to the IMF's World Economic Outlook update released in July 2013, global economic performance was estimated to have deteriorated in 2012, recording a growth rate of 3.1 percent, a deceleration from the 3.9 percent in 2011 (Table 1). The global economy (particularly influenced by advanced economies) is still struggling to shake off the effects of the 2008 - 2009 global economic crisis.

Furthermore, unlike in 2010 and 2011 when the emerging markets experienced a boom and managed to help pick up the slack, 2012 coincided with the end of the emerging markets boom, increased strains in the Euro area, as well as the large growth impact of fiscal adjustment amid tight financial conditions; all of which weighed down on the world economy.

Table 1: Global Growth Estimates 2011 - 2014 (percent)

	2011	*2012*	*2013*	*2014*
Global	***3.9***	***3.1***	***3.1***	***3.8***
Advanced economies, of which	***1.7***	***1.2***	***1.2***	***2.1***
USA	*1.8*	*2.2*	*1.7*	*2.7*
Euro Area	*1.5*	*-0.6*	*-0.6*	*0.9*
Japan	*-0.6*	*1.9*	*2.0*	*1.2*
UK	*1.0*	*0.3*	*0.9*	*1.5*
Emerging Markets and Developing economies, of which	***6.2***	***4.9***	***5.0***	***5.4***
Sub-Saharan Africa	*5.4*	*4.9*	*5.1*	*5.9*
China	*9.3*	*7.8*	*7.8*	*7.7*
India	*6.3*	*3.2*	*5.6*	*6.3*
Brazil	*2.7*	*0.7*	*2.5*	*3.2*
Russia	*4.3*	*3.4*	*2.5*	*3.3*

Source: International Monetary Fund, World Economic Outlook, July 2013 update

Global economic activities are expected to remain subdued in 2013, with world output growth projected to be 3.1 percent, the same as in 2012. The rather sluggish performance of the global economy is largely attributable to the lingering impact on the euro area economy of the sovereign debt problems as well as weaker domestic demand and the slowing expansion in some key emerging market economies. The IMF's July 2013 WEO update reported that global growth increased slightly in the first quarter of 2013 to an annualised rate of 2.75 percent from the 2.5 percent recorded in the second half of 2012, *and lower than the 3.25 percent projected in the April update. The slower performance was attributed to (a) sluggish growth in major emerging economies on account of weaker external and domestic demand, infrastructure bottlenecks and other capacity constraints, depressed commodity prices, financial stability, as well as weak policy support; (b) the protracted recession in the euro area in the midst of lower demand, depressed confidence as well as weaker balance sheets; and (c) a rather weaker than expected expansion of the US economy.*

Growth prospects are further hampered by fiscal austerity measures, bank deleveraging and weak demand due to high global unemployment rates. While prospects for global growth remain largely dominated by downside risks, additional risks have since emerged, which include among others: the possibility of a protracted growth slowdown in emerging markets; reduction in credit flows; as well as concerns over the likelihood of tighter financial conditions resulting from the anticipated unwinding of monetary policy stimulus in the United States of America, which could lead to reversals of capital flows.

Advanced Economies

Growth in advanced economies is estimated to have decelerated to an average of 1.2 percent in 2012, from the previous average of 1.7 percent recorded in 2011. The US economy recorded slight improvement in the growth rate as stronger fiscal contraction weighed on improving private demand, recording 2.2 percent growth compared to the 1.8 percent realised in 2011. Over the review period, economic growth in the United Kingdom decelerated to an average of 0.3 percent, from the 1 percent recorded in 2011. The euro area recorded a contraction of 0.6 percent, down from the 1.5 percent acceleration recorded in the previous year; the euro area was adversely affected by low demand, depressed confidence, and weak balance sheets. By contrast, Japan recorded a stronger growth of 1.9 percent from the 0.6 percent contraction registered in 2011; the strong performance of the Japanese economy was attributable to improvement in consumption and net exports.

Advanced economies are projected to remain subdued, recording a 1.2 percent growth rate in 2013, the same as in 2012, before picking up to 2.1 percent in 2014. The US and Japanese economies are expected to grow moderately at 1.7 percent and 2 percent *respectively in 2013, while most of the advanced economies are projected to remain relatively stagnant or close to recession (Table 1).*

Emerging Markets and developing economies

Growth in emerging and developing economies is estimated to have decelerated in 2012 to 4.9 percent from the 6.2 percent recorded in 2011; reflecting the slowing expansion in the majority of key emerging markets economies. China, India, Brazil, and Russia all had their growth rates decelerating over the review period (Table 1).

Growth prospects in emerging markets, just like in advanced economies, are projected to remain subdued in 2013 (5 percent) and 2014 (5.4 percent), reflecting weaker growth prospects across all emerging markets and developing economies (Table 1) amid weaker domestic demand and sluggish growth prospects in the advanced economies. Growth prospects for commodity exporting countries have significantly deteriorated largely on account of forecast declines in commodity prices (Box 2). China's growth is expected to average 7.8 percent in 2013 (the same with 2012) as exports demand from its key markets like the United States and euro area moderates. Furthermore, Chinese growth risks remain on the downside amid concerns over further credit tightening, the People's Bank of China is resolute to discipline what it perceive as overly leveraged financial institutions and control credit growth. The Brazilian economy is projected to expand by 2.5 percent compared to the 0.9 percent estimated for 2012; the relatively low expansion is attributed to the Central Bank of Brazil's move to further tighten monetary policy.

Growth prospects for India have been revised downwards; with the economy now projected to expand by 5.6 percent in 2013 on the back of worries over productivity/competitiveness, cost pressures resulting from wage increases and upward revisions in administered prices which could curtail growth and worsen inflationary pressures. In addition, the central bank's priority seems to have shifted from boasting economic expansion to supporting the local currency, rupee, which has recently been depreciating against major currencies.

Sub-Saharan Africa

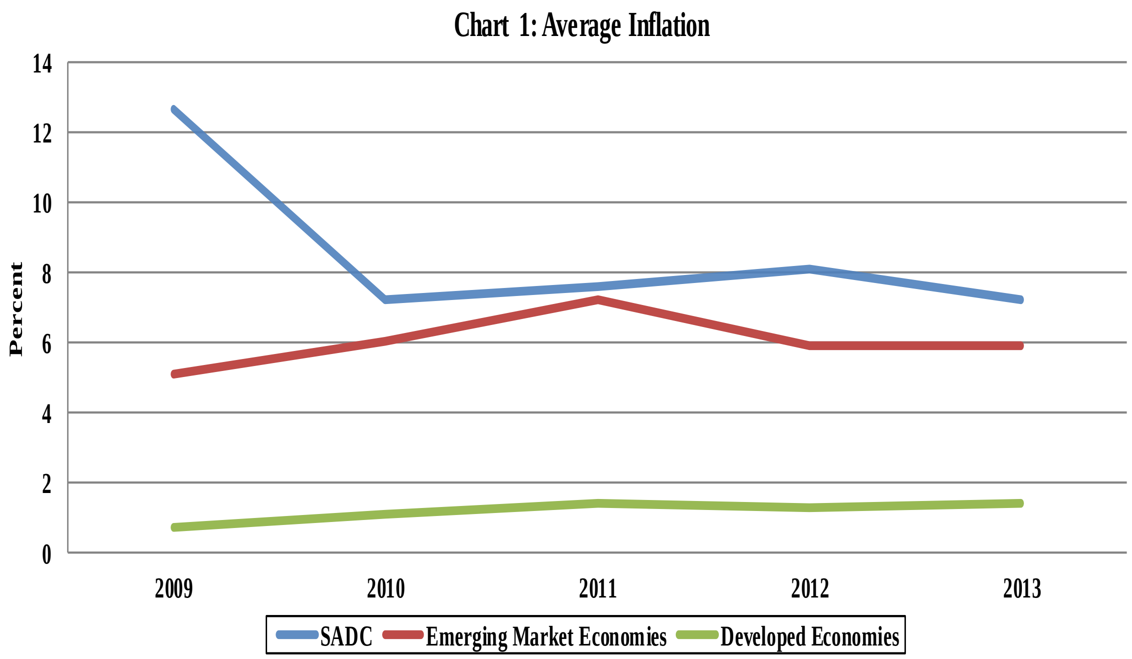
Sub-Saharan Africa is estimated to have grown at a slower pace of 4.9 percent in 2012 compared to the 5.4 percent recorded in 2011 (Table 1). The slower pace of growth for the region was due to its strong ties with the euro area, which experienced deceleration hence supressed demand. Growth prospects in the region are expected to remain weak in 2013 averaging 5.1 percent, before accelerating to 5.9 percent in 2014. Growth in sub-Saharan Africa is projected to be slower due to expected weakness in the largest economies of the region, South Africa and Nigeria; the two countries face domestic problems as well as weaker external demand, particularly from Europe.

Global Inflation Developments

Global inflation decelerated from 4.6 percent in 2011, to 3.2 percent in 2012 on the back of relatively lower commodity prices and restrained global demand amid high unemployment rates across the world.

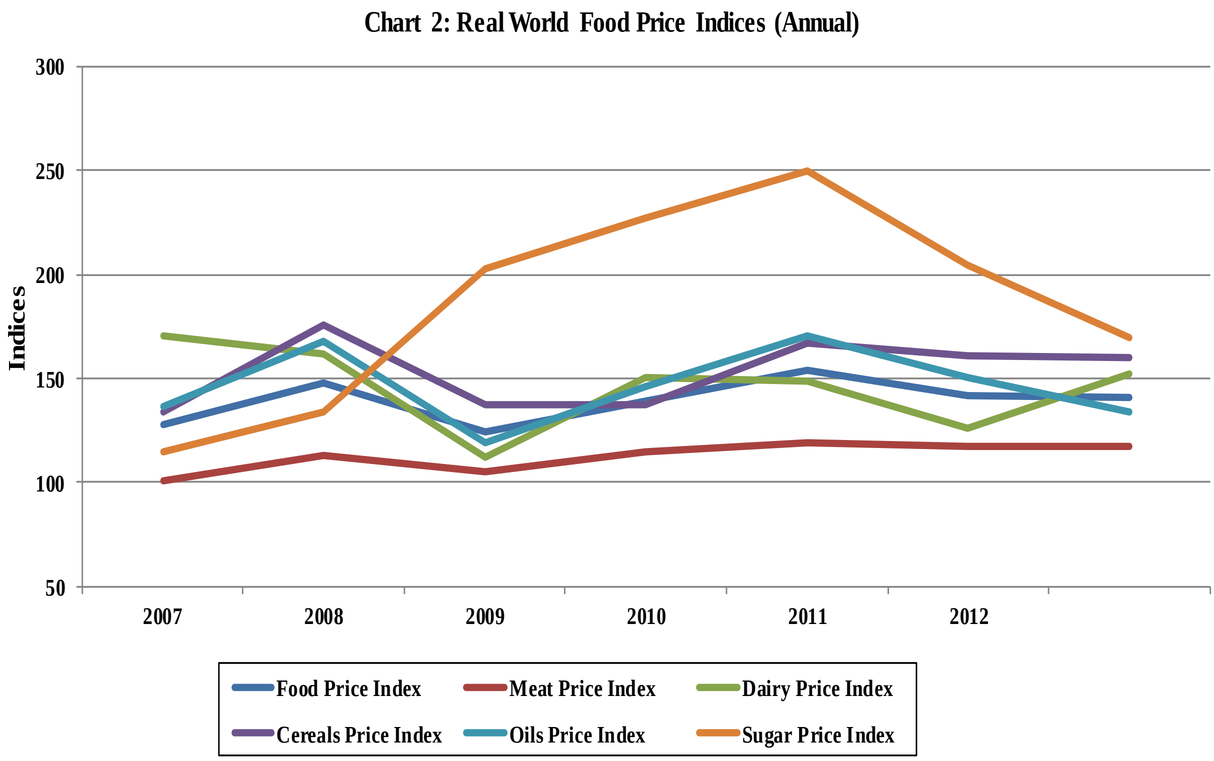
Inflation in the advanced economies is estimated to have declined from the 2.7 percent recorded in 2011, to 2.0 percent in 2012; whilst in the emerging and developing economies, inflation is expected to decrease from 7.1 percent in 2011 to 6.1 percent in 2012. The decline in inflation is largely attributable to a significant fall in commodity prices (non-oil commodity prices are estimated to have contracted by 9.9 percent over the review period), together with repressed demand due to high unemployment.

In the sub-Saharan region, inflation declined from the 10.1 percent in 2011 to 9.1 percent in 2012, reflecting effects of the reversal of the 2010/11 spike in global and food prices. Furthermore, the decline was attributable to tightening of monetary policies in some sub-Saharan countries, particularly in East Africa, where high inflation was experienced in 2011.



Source: SADC central banks; and International Monetary Fund, World Economic Outlook

Going forward, just like in other regions, inflationary pressures are expected to remain benign, benefiting from favourable food and energy price base effects, together with the evidently lower demand-pull inflationary pressures. World food prices are expected to remain restrained, with the real food index expected to contract by 8.1 percent and 0.8 percent in 2012 and 2013 respectively (see Chart 2)



Source: Food and Agricultural Organisation

Of the five commodity group indices forming the food Index, only meat and dairy price indices are expected to increase in 2013, while the other three are expected to decline- with significant declines anticipated for sugar and oil price indices.

Box1: Commodity Price Developments in June 2013

The IMF commodity price index (which includes oil and foods) fell by 2 percent in the six months to June 2013. The decline in commodity price indices was mainly due to the improving supply conditions, alongside the relatively weak demand, especially for industrial products.

The outlook for commodity prices remains subdued following underperforming global economic growth due to slower economic activities in several key emerging market economies, as well as by a more protracted recession in euro area.

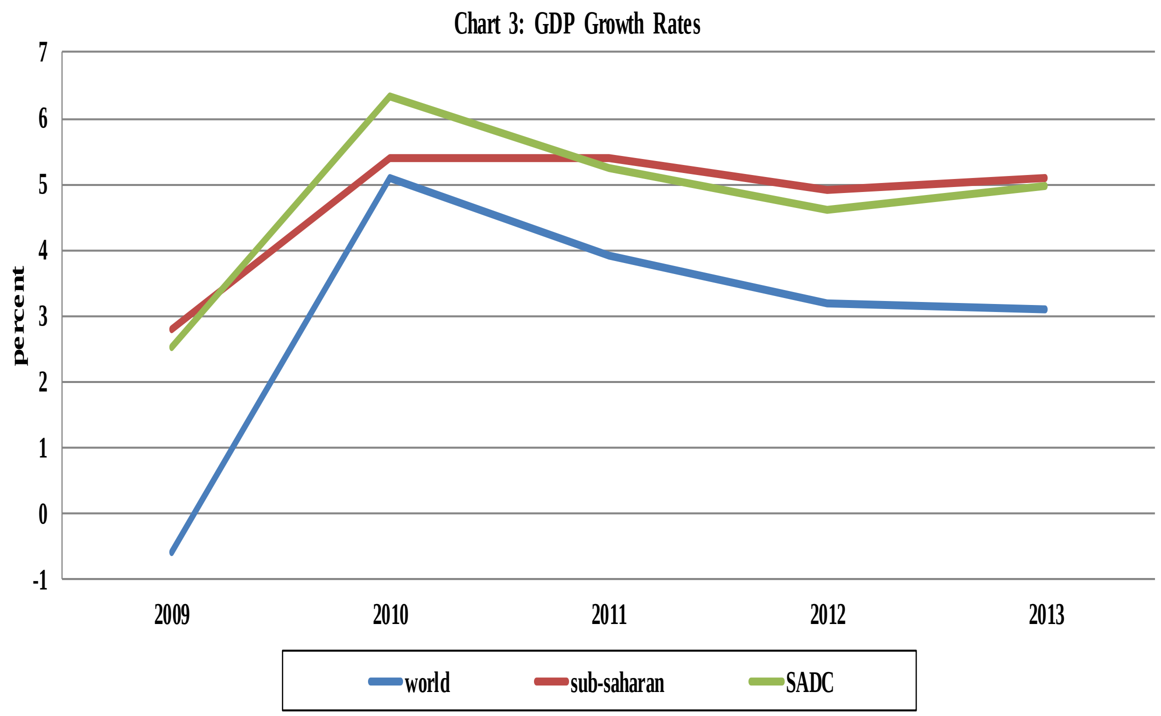
After the Midwestern United States (maize producing areas) and the Eastern Europe and the central Asian areas (wheat producing areas) were affected by the heat wave and severe drought in July 2012, respectively, the supply conditions for most food commodities improved considerably. For example, oil production is expected to reach a new record high, sufficient wheat crop and well-supplied rice markets are also expected in 2013/14. However, upside risks exist even though minimal, especially for maize and wheat, as any adverse weather event could upset the global market.

Oil price pressures on the other hand, have broadly eased, and the oil prices are expected to decline going forward. The anticipated decrease in oil prices are due to slower global economic growth, growing supplies of conventional and unconventional oil, and efficiency gains. Also, pressures to reduce emissions due to environmental concerns is expected to further dampen oil demand growth at the global level. On the upside risks, OPEC is expected to reduce production to keep prices high, but the organisation will be limited by its fear that high prices would induce innovations that would fundamentally alter the long-term path of oil prices. Therefore, nominal oil prices are expected to average $101/bbl. during 2013, and they are forecast to slow further to $100/bbl. in 2014.

3. Economic Developments in SADC

Economic Growth

Economic performance in the SADC region largely mirrored developments in the global economy during 2012 (Chart 3). The overall regional economy is expected, on average, to grow by 4.6 percent in 2012, less than the 7 percent target set by SADC, and furthermore, a decline from the 5.3 percent recorded in 2011. The slowdown in the SADC economic growth in 2012 was attributable to the slow and fragile recovery of the global economy, particularly the weakness in advanced economies, which has adversely affected global demand. Since most of the SADC economies are export led, the reduction in global demand and trade, as well as economic growth, would have had a negative impact on economic performance. Although the general economic performance of the SADC countries was subdued, all the fourteen reporting countries recorded positive growth rates.



Source: SADC central banks; and International Monetary Fund, World Economic Outlook

Inflation in SADC

Average headline inflation in SADC was 8.1 percent in 2012, worse than the 7.6 percent recorded in 2011. The region experienced higher inflationary pressures, despite moderate inflationary pressures in both advanced and emerging market economies, reflecting high food and fuel prices in the region as well depreciation of the local currencies against the US dollar during the review period.

Box 2: Cereal Production in the SADC Region

The July 2013 issue of the SADC Food Security Update indicated that the SADC cereal harvest for 2013 is estimated to increase by about 0.2 percent, rising to 35.11 million tonnes from the 35.02 million tonnes in 2012. The estimated 2013 cereal output is about 5 percent above the region's average output for the past five years, suggesting sustained above average production over the past two years. All SADC countries, except for Botswana (-15.1 percent), Namibia (-51.2 percent), South Africa (-4.7 percent), Zambia (-9.6 percent) and Zimbabwe (-15.1 percent), are expected to experience positive growth in cereal output in 2013. Three countries South Africa (41 percent), Tanzania (21 percent), and Malawi (11 percent) account for over 73 percent of the region's total cereal output.

SADC Cereal Production (2011-2013)

Country	('000 Tonnes)		
	2011	2012	2013
Angola	1409	506	940
Botswana	62	53	45
DRC	1475	1474	1476
Lesotho	103	58	106
Malawi	4121	3838	3894
Mauritius	2	2	2
Mozambique	1832	2176	2218
Namibia	117	166	81
South Africa	13579	14794	14104
Swaziland	84	76	82
Tanzania	6787	7558	8314
Zambia	3363	3197	2890
Zimbabwe	1656	1123	953
SADC	34590	35021	35105

Source: - SADC Food Security Update, Issue No.1; July 2013

Although the region's cereal output has been on an upward trend, SADC is still expected to face a cereal deficit of about 4.01 million tonnes during 2013/14 marketing year; with all countries in the region except Malawi, South Africa, Tanzania and Zambia, facing cereal deficits. To meet the deficit, the region will have to import cereal denominated in hard currencies, which may turn to be inflationary under the current environment of depreciating local currencies. On the specific cereal crops, the region is projected to record a surplus of about 326 000 tonnes of maize, whilst recording deficits in other crops (sorghum, millet, wheat and rice). Maize surpluses were recorded in major producers such as Malawi, South Africa, Tanzania and Zambia; whilst the rest of the region recorded deficits.

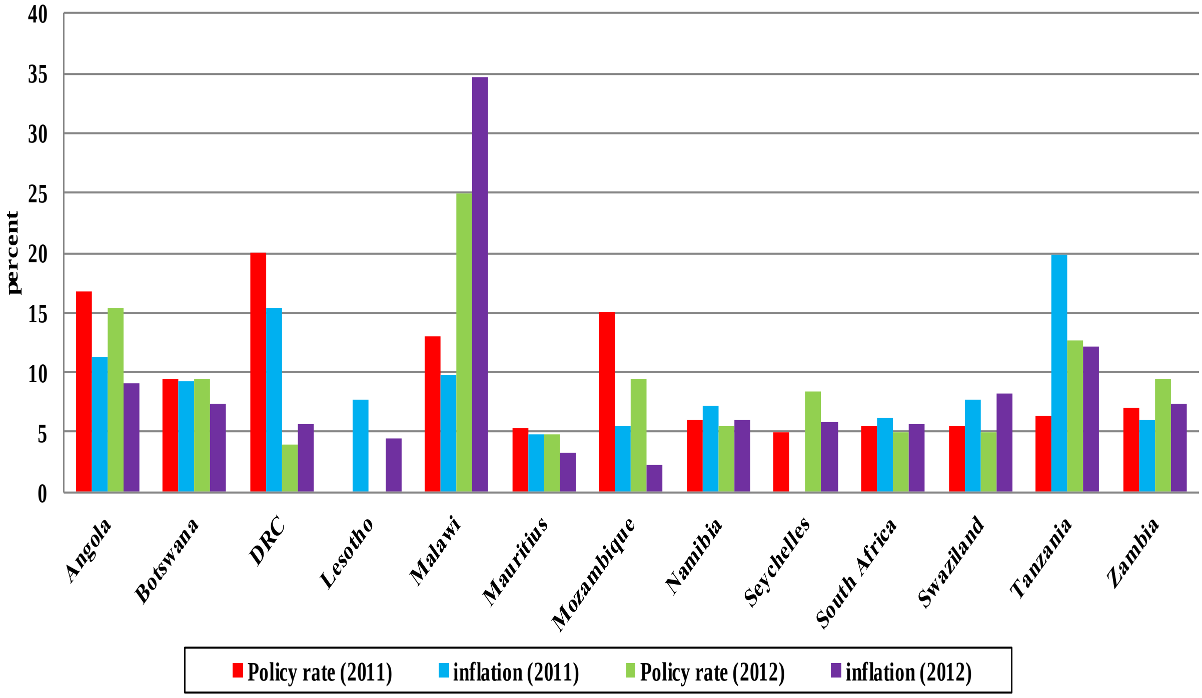
Double-digit inflation was recorded in both Malawi and Tanzania. Malawi had the highest inflation average of 21.3 percent in 2012, a sharp increase from an average of 7.6 percent in 2011. The jump in Malawi's inflation was largely due to the devaluation of the Malawian kwacha in May 2012 and its subsequent depreciation, which was further exacerbated by increase in food, fuel and electricity prices. Tanzania's annual average inflation increased from 12.7 percent recorded in 2011 to 16.1 percent in 2012, mainly due to food and power supply shortages.

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 in 2012. Malawi, Seychelles, Tanzania and Zambia increased interest rates in 2012, whilst countries such as Angola, the Democratic Republic of Congo (DRC), Mauritius, Mozambique, Namibia, South Africa and Swaziland reduced interest rates, reflecting easing of the monetary policy stance by concerned member countries. Botswana and Lesotho maintained their interest rest during 2012. Overall, average interest rates, in the SADC region generally remained stable during 2012, reflecting that countries in the region adopted accommodative monetary policies so as to help stimulate domestic economies, which remain subdued amid restrained global demand. The rather expansionary monetary policy stance in the region could, however, have contributed negatively to the control of inflationary pressures in the region. Zimbabwe, however, does not have any policy rate under the multicurrency regime which has seen the country losing control of its monetary policy.

During 2012, DRC, Malawi and the Common Monetary Area (CMA) recorded negative real interest rates, while the rest of the region except for Zimbabwe which currently operates a multiple currency regime-hence without no control over monetary policy, on average, attained positive real interest rates (Chart 4).

Chart 4: Policy and Inflation Rates (2011 & 2012)



Source: SADC central banks

Trade in SADC

Most SADC countries continued to have negative trade balances in 2012, reflecting higher increases in imports compared to exports. Only Angola, the Democratic Republic of Congo and Zambia have consistently attained positive trade balances over the past three years; the three countries' economies are highly dominated by petroleum and mineral exports, which explains the sustained positive trade balances over the past few years. Swaziland also managed to record positive trade balance in 2012, reflecting higher contraction in imports (5.5 percent) and a slight increase in exports (0.7 percent).

Intra-SADC trade remained subdued although it is on a growth trajectory. Most SADC countries are commodity dependent and as a result rely on a limited number of products for exports. Thus, intra-SADC trade is dominated mainly by food items. South Africa is the main exporter of processed goods to the region; hence it continues to record a positive trade balance with most countries in the region. Besides South Africa, only Tanzania has been able to attain positive intra- SADC trade balances for both 2011 and 2012. Angola, another country that had a positive intra-regional trade balance in 2011, recorded a negative trade balance for 2012. Against this background, there is ample 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.

Table 2: Total Trade Balance

USD million	*Year*		
	2010	*2011*	*2012*
Angola	*33928.0*	*47081.9*	*47374.3*
Botswana	*-927.0*	*-733.2*	*-1879.8*
DRC	*435.4*	*556.3*	*178.5*
Lesotho	*-1093.34*	*-982.5*	*-1258.1*
Malawi	*-1104.0*	*-263461.8*	*-1122.3*
Mauritius	*-2122.0*	*-2586.0*	*-2683.0*
Mozambique	*-1179.1*	*-2248.3*	*-2698.0*
Namibia	*-6510.0*	*-8892.0*	*-13330.0*
Seychelles	*-361.3*	*-415.7*	*-466.5*
South Africa	*-9725*	*-10779*	*-19048*
Swaziland	*-149.8*	*-43.9*	*77.6*
Tanzania	*-3952.4*	*-2632.3*	*-6259*
Zambia	*2098.5*	*1482.9*	*587.7*
Zimbabwe	*-1844.3*	*-3065.9*	*-2656.0*

Source: SADC central banks; and World Trade Organisation (http://stat.wto.org)

South Africa's exports to SADC over the past three years averaged about 68 percent of its total trade with the region. This would seem to suggest that intra-SADC trade is highly skewed in favour of South Africa; however, this is largely on account that South Africa mostly exports processed goods to the region, while most of the countries in the region are exporters of primary goods. Over the three-year period from 2010 to 2012, SADC's trade with South Africa accounts for about 8 percent of the country's total trade; exports to SADC account for about 11 percent of South Africa's export earnings and imports for just less than 5 percent of its average import bill over the review period. Hence in terms of size, the SADC region remains a relatively small trading partner for South Africa, albeit an important one, particularly for processed and manufactured goods.

Table 3: Intra SADC Trade Balance

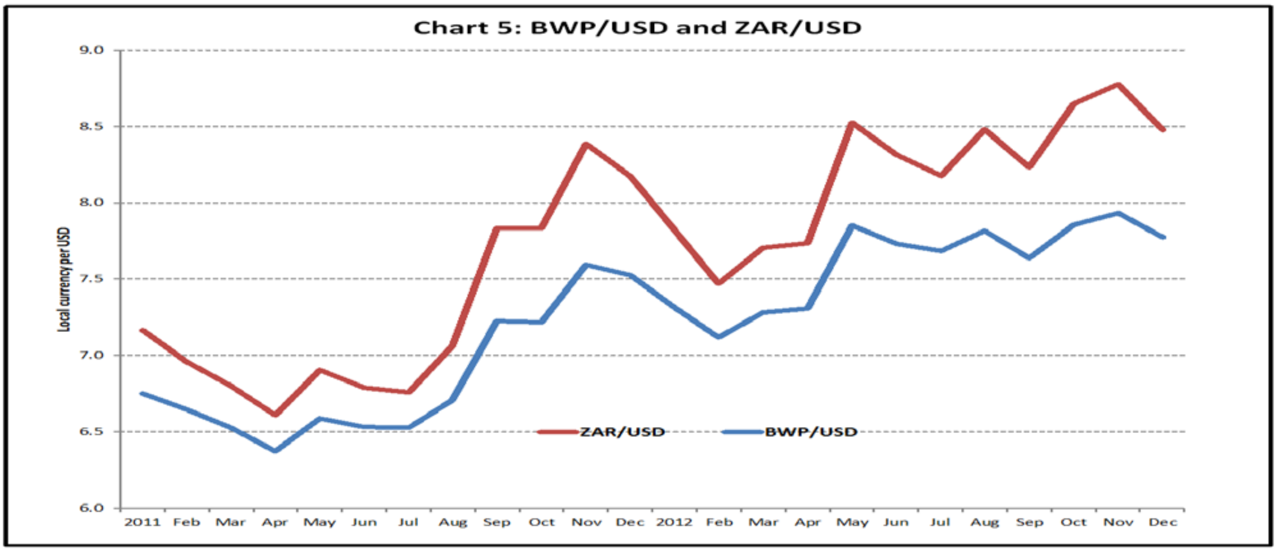
USD million	*Year*		
	2010	*2011*	*2012*
Angola	*343.0*	*408.46*	*-174.4*
Botswana	*-3369.8*	*-3873.10*	*-4547.9*
DRC	*-866.3*	*-353.4*	*-496.9*
Lesotho	*-1281.6*	*-1377.4*	*-1659.9*
Malawi	*-*	*-594.63*	*-714.83*
Mauritius	*-172.00*	*-119.0*	*-26.0*
Mozambique	*-1247.9*	*-1252.6*	*-1254.7*
Namibia	*-2195.3*	*-2669.3*	*-3304.3*
Seychelles	*-101.8*	*-112.0*	*-105.1*
South Africa	*4365*	*5335*	*4728*
Swaziland	*-564.7*	*-271.2*	*-298.5*
Tanzania	*-178.7*	*360.1*	*324.1*
Zambia	*-1949.3*	*-2131.0*	*-1554.8*
Zimbabwe	*-1703.7*	*-1946.5*	*-984.3*

Source: SADC central banks; World Trade Organisation (http://stat.wto.org); and International Trade Centre (ITC)

Exchange Rates Developments

Almost all currencies in the SADC region depreciated against the US dollar in 2012, with the average depreciation amounting to 5.2 percent (Charts 5-8). Major depreciations were in the Malawian kwacha which depreciated by about 59.2 percent (due to May 2012 devaluation); the South Africa rand by 13.2; Botswana pula by 11.8 percent (largely reflecting the currency's strong links with the rand through its peg to both the rand and the IMF's Special Drawing Rights); Seychelles rupee by 10.6 percent; Mozambican metical by 9.8 percent; and the Zambian kwacha by 6 percent; while the other currencies depreciated by less than 5 percent or were stable against the greenback.

The depreciation of the South Africa rand (Chart 5) was largely on account of events within the country, and to a less extent international developments in foreign exchange markets. During 2012 the rand was weighed down by weak economic fundamentals in the South African economy, including widening budget and current account deficits during 2012; the situation was further aggravated by tense industrial relationships in 2012, which adversely affected international investors' sentiments and thus weakened their appetite for rand denominated assets. Furthermore, the rather weak outlook for the global economy, has driven down the price of risky assets denominated in emerging markets currencies (like the South African rand) resulting in investor fleeing for safe-haven currency denominated assets.



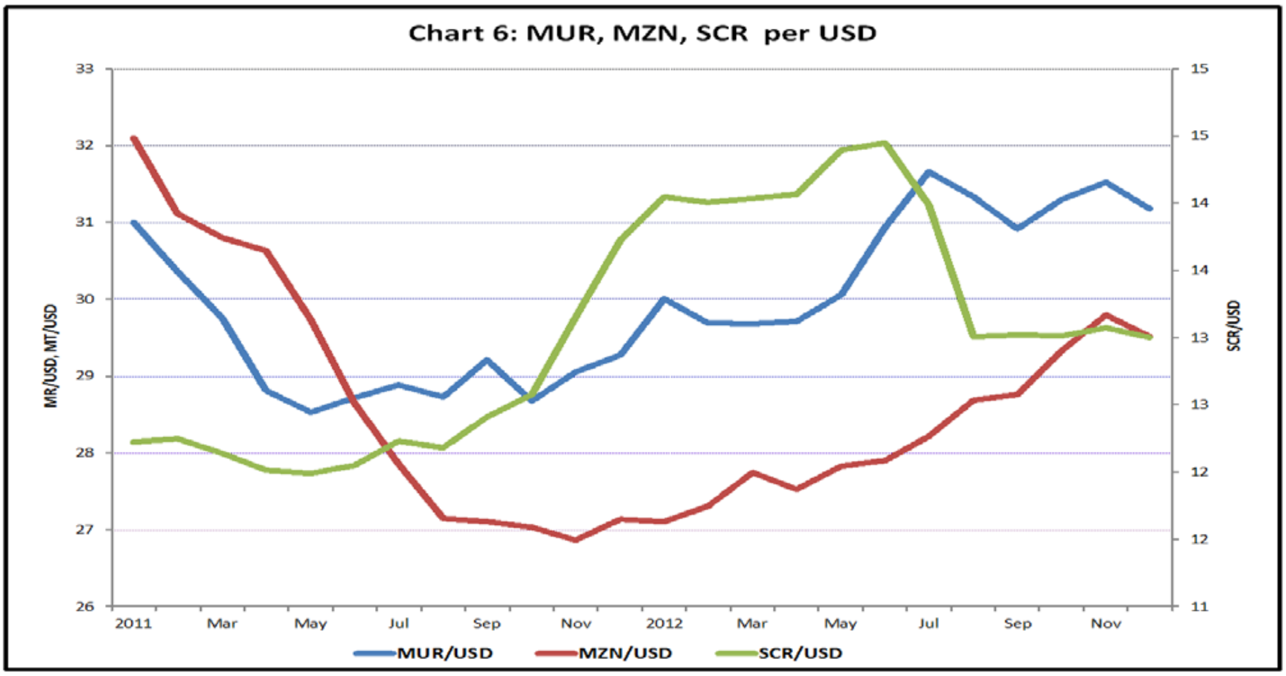


Chart 6: MUR, MZN, SCR per USD
33
32
31
30
29
28
27
26
MR/USD, MT/USD
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15
14
14
13
13
12
12
11
SCR/USD
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SCR/USD

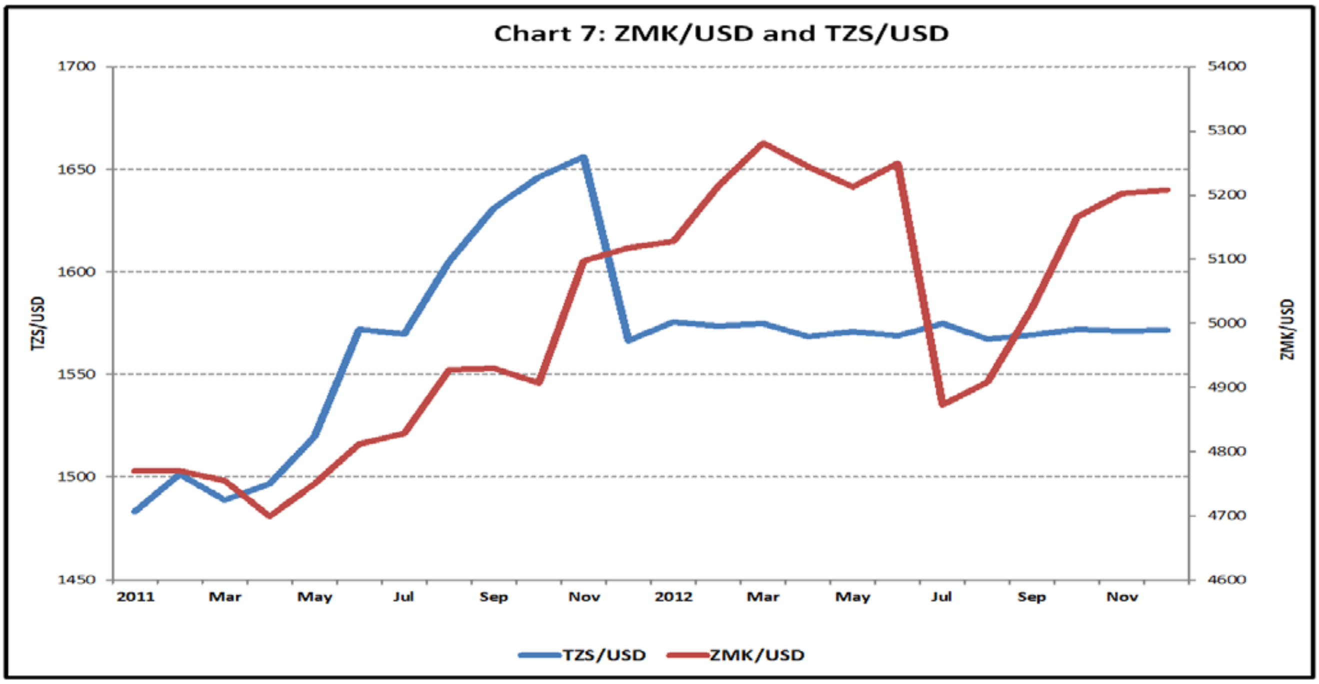

Chart 7: ZMK/USD and TZS/USD
1700
1650
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1550
1500
1450
TZS/USD
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5200
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5000
4900
4800
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ZMK/USD
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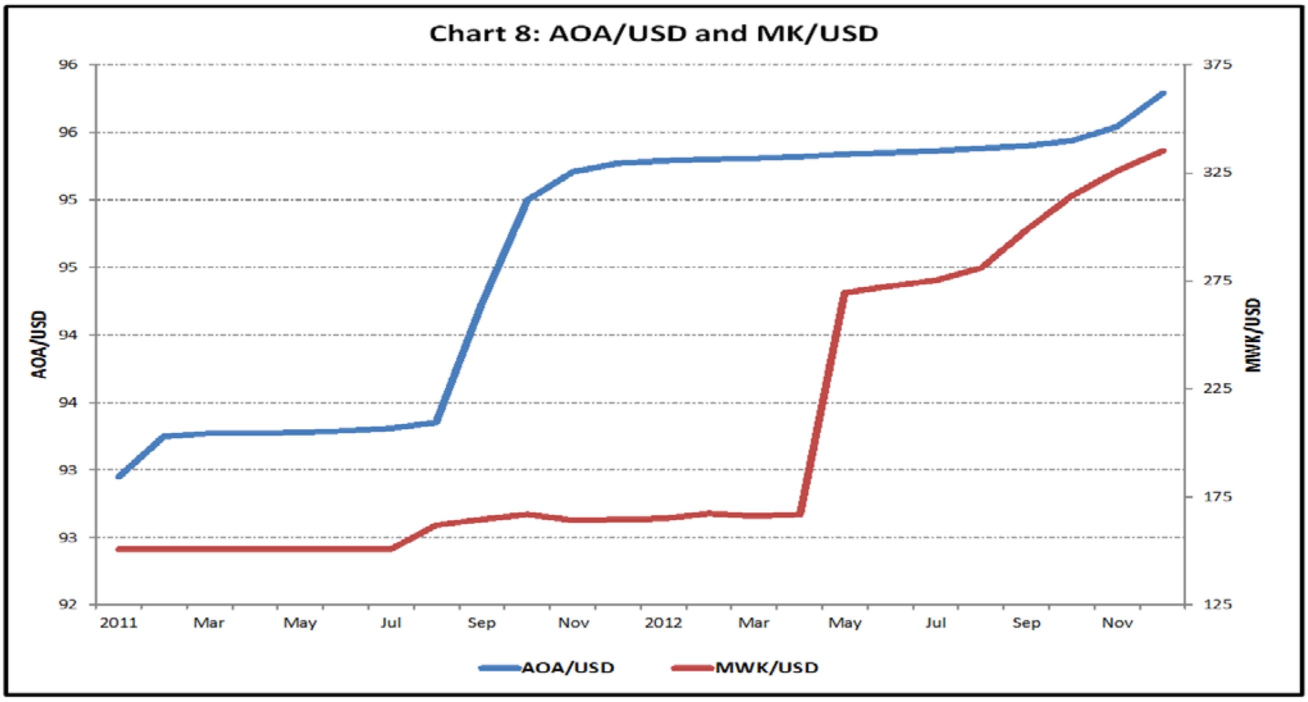


4. Status of Macroeconomic Convergence in 2012

Majority of the SADC countries have made some progress towards attainment of the macroeconomic convergence targets. Most countries, though still struggling to meet the 2012 target of inflation rate not more than 5 percent, have managed to reduce inflation to single digit. Current account and budget deficits have been curtailed, while public debt reduced to sustainable levels.

Prudent fiscal and monetary policies continued to underpin improvement in the general macroeconomic performance and economic stability in the region. The resilience of the SADC economies to the global crisis can be attributed to strong economic fundamentals prior to the crisis, a strength which regional economies should build on and try to sustain.

Performance against the Primary Indicator Targets

Inflation of less than 5 percent in 2012

Most countries have made considerable headway towards the attainment of price stability, although surging oil and food prices pushed inflation rates up in many countries in 2012. The average rate of inflation in the region has remained closer to upper single digits in recent years. Having been well within single-digit in recent years, consumer price *inflation for SADC countries has risen in response to robust demand, depreciations of local currencies, emerging capacity constraints as well as rising oil and food prices.*

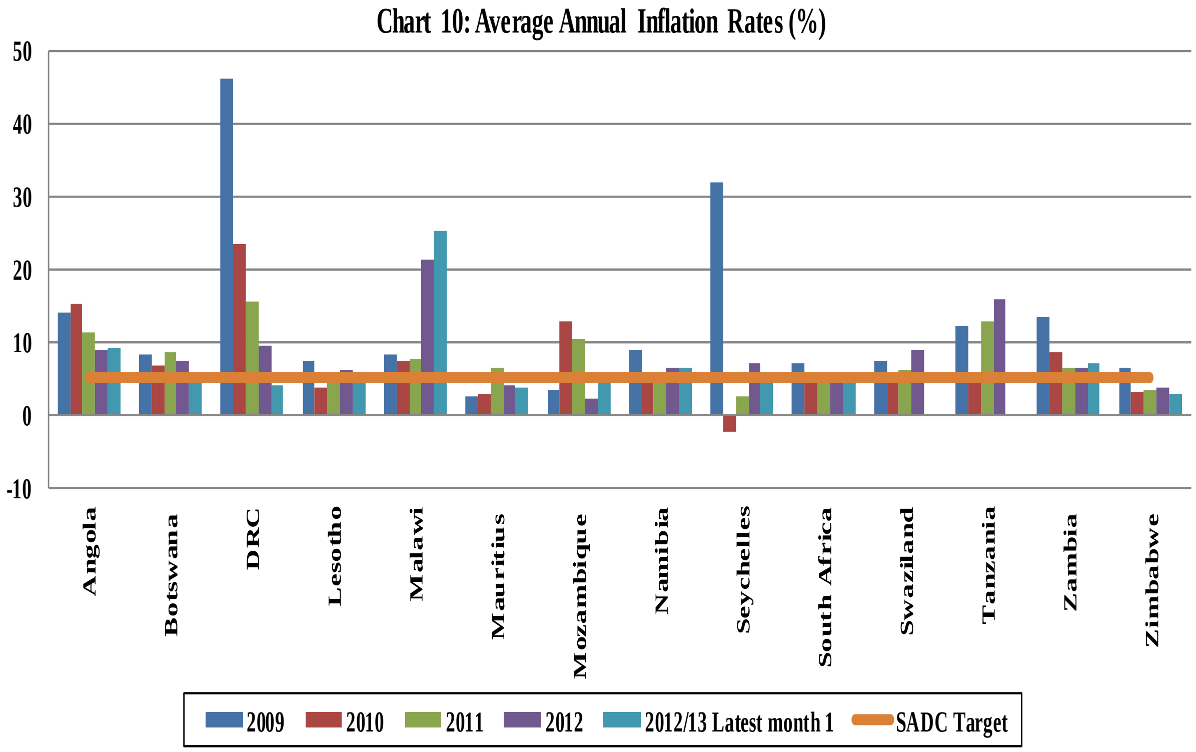
The Democratic Republic of the Congo (DRC) experienced double-digit inflation during the period between 2009 and 2011; however, it has consistently been on a downward trend.

SADC member countries' performance in the debut year for the 2012 macroeconomic targets in respect of inflation less than 5 percent, showed tremendous improvement from the 2009 inflation figures. In 2009, only two countries Mozambique and Mauritius had their inflation rates lower than 5 percent, whilst the region's average was about 12.7 percent; in 2012, three countries recorded inflation rates of less than 5 percent, with the region's average being 8.1 percent, whereas only two countries recorded double digit inflation compared to five in 2009. Twelve countries reported single digit average inflation in 2012.

The tightening of the indicator standard to 5 percent from less than 10 percent under the 2008 target explains why few countries were reported to be compliant in 2012.

In 2010, the average inflation performance outcome was much better when compared to 2009. Seven countries met the target compared to two in the previous year and eleven of them had a single digit average inflation rate for the year as opposed to nine the previous year. This outturn was due to improved food supply following favourable weather conditions in most member countries. This was augmented by favourable pass-through effects of the exchange rates as most member countries exchange rates stabilised or appreciated following the recoveries achieved in the global economy. This was despite the euro debt crisis, which had an unfavourable influence on some SADC member countries' currencies. Only one country; Zimbabwe, has met the target since the year 2010 while Angola, Botswana, DRC, Malawi, Tanzania and Zambia have consistently failed to meet the target during the years under review. Angola, Botswana and the Democratic Republic of Congo (DRC), although above the target, recorded decelerations in inflation. For the first time in many years, both Angola and the DRC had single digit inflation levels, evidently pointing to the significant progress made by the two countries over the years.

Malawi's inflation is expected to start decelerating in the latter half of 2013 as the impact of the May 2012 devaluation of the kwacha dissipates; with inflation projected to be around 14.2 percent by the end of year, down from 34.6 percent recorded at the end of 2012.



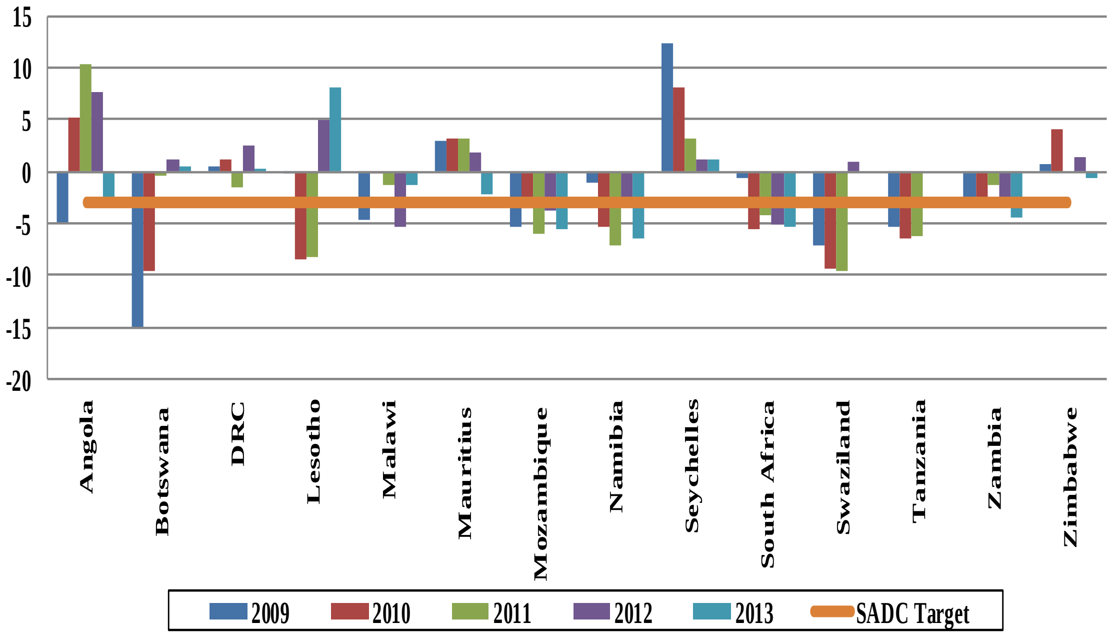
Budget Deficit to GDP (less than 3 percent)

With regard to the fiscal balance performance in 2012, at least ten countries are expected to attain the SADC target. The region has made significant recovery following weak performances in 2009 and 2010 on the back of global economic crisis, which saw most of the SADC member countries adopting expansionary fiscal policies in endeavour to mitigate its effects of the crisis.

The SADC region is expected to record a budget surplus of about 0.1 percent in 2012, which is well within the SADC target of 3 percent as an anchor within a band of 1 percent, and an improvement from the 2.0 percent deficit to GDP ratio in 2011. Only Malawi and South Africa are expected to record budget deficits relative to GDP outside the set target. South Africa's budget deficit to GDP ratio is expected to worsen by about 0.8 of a percentage point in 2012 from the 4.2 percent recorded in 2011 to 5 percent, as *expenditure growth continues to exceed growth in revenue collection. Malawi's performance was attributed to weaker-than-expected domestic revenue generation amid poor performance of the domestic economy, which was worsened by higher increases in expenditure. Furthermore, Malawi's situation deteriorated as a result of the withdrawal of donor support. Angola is expected to continue with higher surpluses in the region, reflecting increasing oil export earnings.*

Five countries have consistently achieved the target for the period between 2009 and 2012; and these were DRC, Mauritius, Seychelles, Zambia and Zimbabwe (Chart 11).

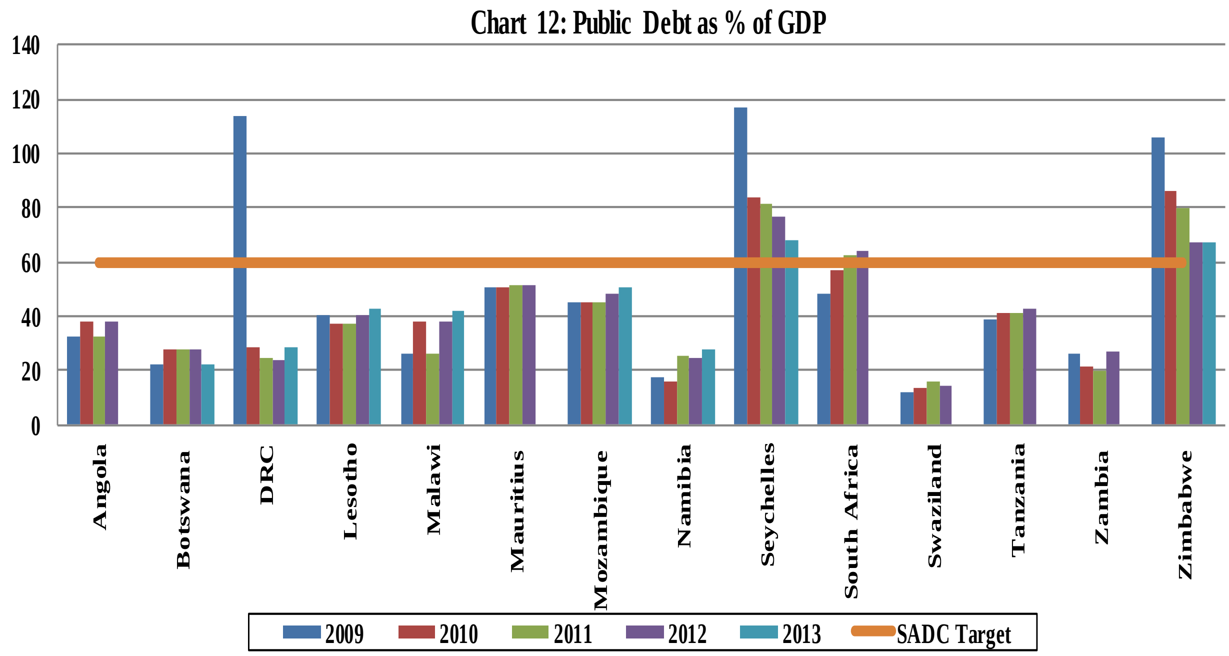
Chart 11: Budget Balance as % of GDP



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

Just like in previous years, SADC countries, in general, were able to attain and maintain sustainable public debt levels in 2012, with most countries meeting the convergence target of a public debt less than 60 percent of GDP (Char 12). The overall public debt level for the region as a percentage of GDP averaged 41.7 percent in 2012, a slight increase from the 40.8 percent recorded the previous year. Only Seychelles, South Africa and Zimbabwe are expected to record public debt levels of over 60 percent of GDP in 2012, with the debt levels relative to GDP amounting to 77 percent, 64.4 percent and 67 percent, respectively. For Seychelles, the prevailing situation is a result of a series of large government deficits *that existed prior to the 2008 IMF reform programme. However, the country's public debt as a percentage of GDP has been declining over the years, from 117 percent in 2009 to 77 percent in 2012. The debt as a percentage of GDP for Zimbabwe decreased from 79.9 percent in 2011 to 67 percent in 2012. It should, however, be noted that over eighty percent of the debt is arrears accumulated during economic hardships emanating from sanctions imposed on the country by the Western countries. The country has since adopted a debt resolution framework within the auspices of the Zimbabwe Accelerates Arrears Clearance and Debt Development Strategy (ZAADS), to reduce further public debt to sustainable levels.*

South Africa's high public debt as a proportion of GDP was largely driven by non-financial public corporations stepping-up their capital investment. South Africa is one of the few countries reporting comprehensive public and publicly guaranteed debt information, hence the relatively higher proportion of public debt to GDP ratio compared to other countries which do not or tend to under report information on public guaranteed loans. Central Government debt to GDP ratio for South Africa was about 39.4 percent in 2012, with external debt accounting for 3.9 percent of GDP and domestic debt amounting to 35.5 percent of GDP. The higher proportion of domestic debt than external means that the country is less susceptible to exchange rate risks, associated with large external debts denominated in hard currencies.



2012 Summary of Performance against Primary Indicators

Country	*Inflation (Less than 5%)*	*Budget Deficit (Less than 3%)*	*Public Debt (Less 60%)*	***2012 Targets Achievement***
Angola	***X***	√	√	***2/3***
Botswana	***X***	√	√	***2/3***
DRC	***X***	√	√	***2/3***
Lesotho	***X***	√	√	***2/3***
Malawi	***X***	***X***	√	***1/3***
Mauritius	√	√	√	***3/3***
Mozambique	√	√	√	***3/3***
Namibia	***X***	√	√	***2/3***
Seychelles	***X***	√	***X***	***1/3***
South Africa	***X***	***X***	***X***	***0/3***
Swaziland	***X***	√	√	***2/3***
Tanzania	***X***	√	√	***2/3***
Zambia	***X***	√	√	***2/3***
Zimbabwe	√	√	***X***	***2/3***
Total	***3/14***	***12/14***	***11/14***	

The overall picture with regard to the attainment of the primary macroeconomic indicators is not satisfactory. Only two countries (Mauritius and Mozambique) attained all the three targets in 2012; six countries reached two macroeconomic targets whilst five countries reached only one target and South Africa, the region's largest economy, failed to meet any of the primary macroeconomic targets in 2012.

The SADC member states performed poorly with respect to the primary indicator of an annual inflation rate less than 5 percent. Only three out of the fourteen member countries managed to achieve an inflation rate of less than five percent, with two countries recording double-digit inflation. The best performance was achieved with regard to the primary indicators for the "Fiscal Balance" and the "Public Debt to GDP Ratio"; with nine and eleven member states, respectively, fulfilling the indicators.

The economic data for 2009 indicates that the world economic crisis hit the SADC region quite hard. Although the overall trend concerning macroeconomic targets in the SADC region has been rather positive, the volatility of macroeconomic fortunes during the review period shows how vulnerable the national economies in the SADC region are with regard to global developments. Macroeconomic stability in the SADC region is therefore heavily dependent on external forces (high global demand and prices for regional commodities *and special development initiatives such as Heavily Indebted Poor Countries (HIPC) initiatives).*

In summary, it appears that SADC is on course towards increasing regional macroeconomic convergence, although it was set back by the impact of the global recession in 2009. Furthermore, the macroeconomic targets have probably been rather ambitious in view of the strong dependency of the SADC economies on external factors. But from a mere economic point of view they are necessary in order to map out a path to macroeconomic convergence in the SADC region.

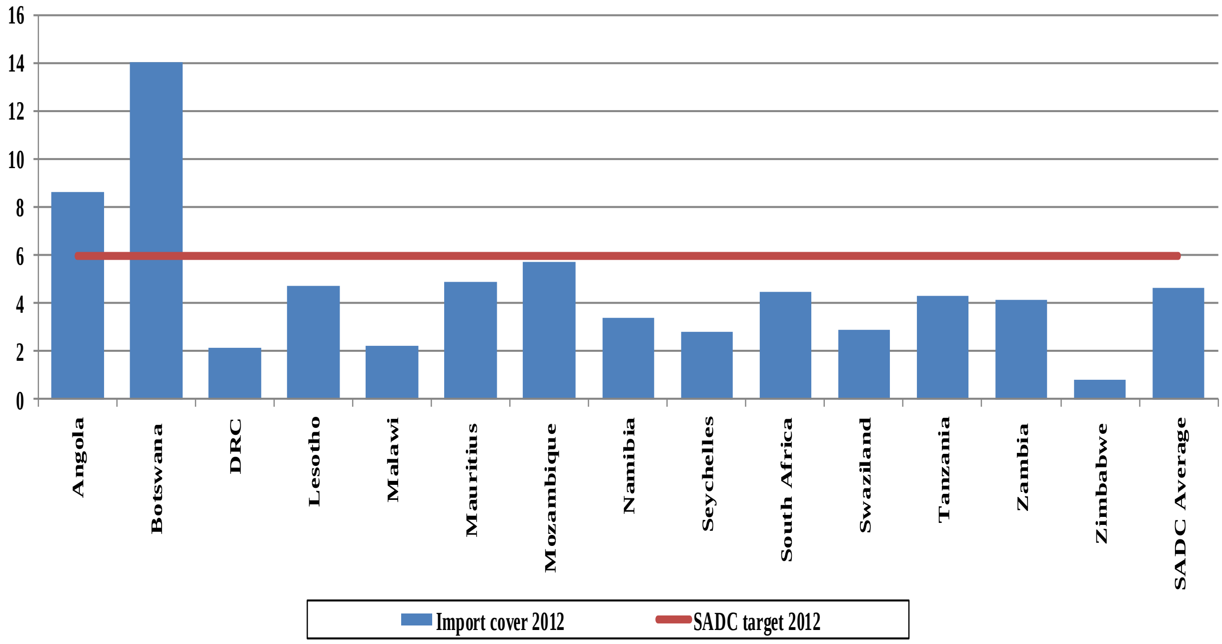
Secondary targets

International Reserves (6 months by 2012)

The average international reserve position of SADC countries did not meet the convergence criterion of 6 months by 2012; the SADC average reserve in months of import cover was estimated at 4.6 months of import cover for 2012. The slowdown in the growth of the global economy, on account of fiscal consolidation in advanced economies and a fragile financial system, weighed on global demand, particularly for unprocessed goods from developing countries, thus adversely affecting the region's ability to accumulate reserves. Majority of SADC countries are outward looking and mostly exporters of raw materials as well as unprocessed goods. The sustained decline in global demand has seen the region's export earnings declining over the past few years, while, on the other hand, the import bill has been on the increase- hence the region's ability to save has been seriously compromised.

Healthy reserve positions have been maintained in Botswana and Angola, which have surpassed the 2012 threshold of 6 months of import cover (Chart 13). Countries which had attained the 2008 reserve adequacy threshold of 3 months of import cover, but have failed to attain the current 6 months threshold, were Lesotho, Mauritius, Mozambique, Namibia, South Africa, Tanzania and Zambia. International reserve levels in DRC, Malawi, Zimbabwe, Swaziland, and Seychelles, however, remain below the internationally set reserve adequacy threshold 3 months of import cover, indicating the need to build buffers to cushion these economies against external vulnerabilities.

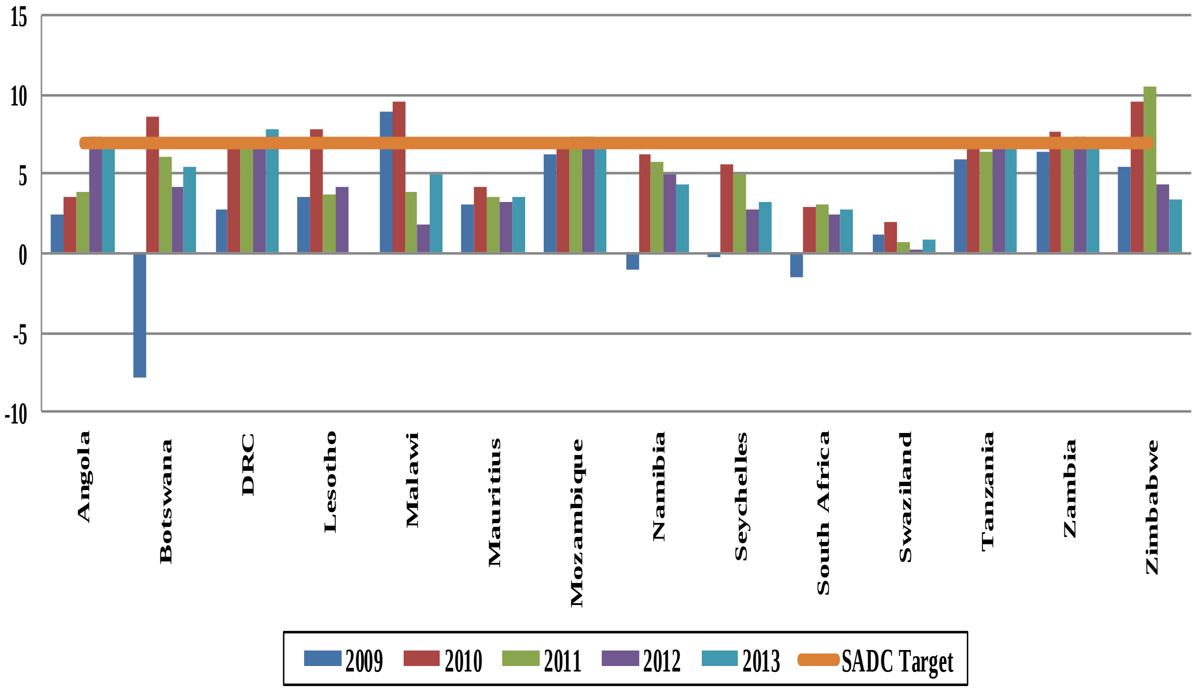
Chart 13: Reserves in Months of Import Cover



Real GDP growth (not less than 7 percent)

Economic growth in the SADC region decelerated from 5.3 percent in 2011 to 4.6 percent in 2012. However, notable expansions in GDP were registered in Angola, DRC, Mozambique and Zambia all of which surpassed the 7 percent growth rate target, with Tanzania just being shy of the 7 percent target, at 6.9 percent. Other member states recorded GDP growth rates below the SADC target of 7 percent. Even though economic performance was generally not impressive in other countries, they registered positive growth rates, with Malawi and Swaziland being the lowest at 1.8 percent and 0.2 percent respectively (Chart 14).

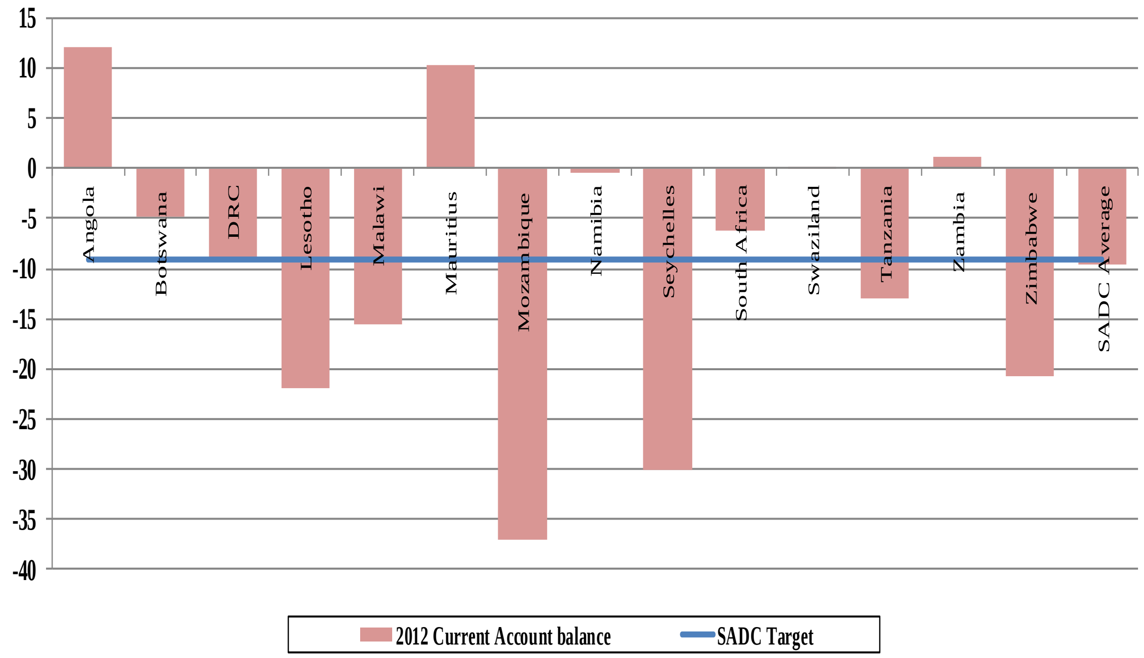
Chart 14 : Real GDP Growth Rate (%)



Current Account to GDP (less than 9 percent)

Most SADC countries experienced balance of payment pressures in 2012 as reflected by high current account deficits. The SADC average current account balance remains in deficit and has been widening over the past two years. The average current account deficit as a ratio of GDP, expanded somewhat, from a deficit of 7.5 percent of GDP in 2010 to 8.5 percent in 2011; and furthermore to 9.7 percent in 2012. Despite the regions average being on an upward trend, Angola, Botswana, Mauritius, Namibia, South Africa, Swaziland and Zambia managed to maintain their current account deficits within the target levels of less than 9 percent of GDP in 2012; Angola, Mauritius and Zambia registered current account surpluses in 2012. Lesotho, Malawi, Mozambique and Seychelles, however, experienced widening current account deficits substantially beyond 9 percent (see Chart 15).

Chart 15 : Current Account Balance as % of GDP



Summary of secondary targets

Description	***Real GDP growth (target 7%)***		***Import cover months (target 6months)***		***Current Account Deficit (>9%)***		***2012 target achievement***
	2011	***2012***	***2011***	***2012***	***2011***	***2012***	
Angola	*3.9*	***7.4***	*7.8*	***8.6***	*12.6*	***12.1***	*Yes*
Botswana	*6.1*	*4.2*	*14.0*	***14.0***	*-0.2*	***-4.9***	*2/3*
DRC	*6.9*	***7.2***	*1.7*	*2.2*	*-8.0*	*-9.1*	*1/3*
Lesotho	*3.7*	*4.3*	*4.7*	*4.7*	*-17.3*	*-22.0*	*No*
Malawi	*3.8*	*1.8*	*2.3*	*2.2*	*-11.8*	*-15.5*	*No*
Mauritius	*3.5*	*3.3*	*4.6*	*4.9*	*13.3*	***10.3***	*1/3*
Mozambique	*7.3*	***7.4***	*5.8*	*5.7*	*-24.3*	*-37.0*	*1/3*
Namibia	*5.7*	*5.0*	*3.8*	*3.4*	*-3.6*	***-0.5***	*1/3*
Seychelles	*5.0*	*2.7*	*2.5*	*2.8*	*-28.0*	*-30.0*	*No*
South Africa	*3.1*	*2.5*	*4.4*	*4.5*	*-3.4*	***-6.3***	*1/3*
Swaziland	*0.7*	*0.2*	*2.3*	*2.9*	*-4.9*	***0.1***	*1/3*
Tanzania	*6.4*	*6.9*	*4.1*	*4.3*	*-16.6*	*-12.9*	*No*
Zambia	*6.8*	***7.3***	*3.6*	*4.1*	*3.7*	***1.1***	*2/3*
Zimbabwe	*10.6*	*4.4*	*0.6*	*0.8*	*-31.0*	*-20.8*	*No*
SADC Average	*5.3*	*4.6*	*4.4*	*4.6*	*-8.5*	*-22.2*	

Economic Prospects for 2013

The IMF projects global output growth of 3.1 percent in 2013, the same the 2012 estimate. The somewhat subdued expansion reflects increased uncertainty over the resolution of the euro sovereign debt problems and concerns over the possibility of a renewed banking crisis.

Major economies have undertaken policies aimed at addressing the possible economic crisis. More specifically, action has been taken to mitigate possible acute crisis risks in the euro area and the United States of America. The recovery in the euro area is expected to be delayed, with the euro area expected to contract by 0.6 percent in 2013. This shows that after a prolonged contraction, the euro area is still struggling to recover, and its prospects for recovery remain very weak. The subdued global economic recovery is expected to dampen global demand in 2013.

Growth in emerging and developing economies is expected to remain relatively subdued in 2013, and projected at 5.0 percent, a slight improvement from the 4.9 percent estimated for 2012; emerging markets and developing economies are not expected to reach the 2010 and 2011 expansionary rates. Hence they are not anticipated to provide much impetus to the global economy's growth in 2013. Consistent with the rest of the world, growth in sub - Saharan African region is expected to be subdued in 2013, with growth rate forecast to slightly increase from the 4.9 percent in 2012 to 5.1 percent in 2013.

The SADC region is expected to record moderate real output growth rate of about 5.0 percent in 2013, a slight pickup from the 4.6 percent estimated in 2012. The SADC economy is largely influenced by activity in the global economy; consequently, the anticipated sluggish growth in world output and restrained global demand (as well as trade), are expected to dampen growth in the region. International foreign reserves are therefore expected to further decline to approximately 4.6 months of import cover in 2013; largely on account of deteriorating trade balances as exports are expected to remain restrained, while imports continue to increase.

Globally, inflationary pressures are anticipated to remain benign as a result of sluggish growth in global demand and economic activity. Furthermore, persistent excess capacity and high unemployment rates in major economies have so far moderated the pace of *global inflation. World inflation is estimated at 2.3 percent in the second quarter of 2013, down from 2.5 percent in the previous quarter and is projected at 2.4 percent in the third quarter. In response to increased oil supply from non-OPEC members and weak prospects for growth in the world economy, international oil prices are expected to stabilise at lower levels in the medium term. In the short term, the deteriorating geopolitical tension in the Middle East poses an upside risk to oil prices. Overall, worldwide inflation is projected to ease marginally, from 2.4 percent in 2012 to 2.3 percent in 2013.*

The policy, in most economies, focus continues to be on measures to mitigate the negative short- to medium-term effects of fiscal consolidation and bank deleveraging on economic activity, particularly in the major economies. As such, efforts are geared towards entrenching conducive credit conditions and structural reforms to foster competitiveness, as well as designing appropriate fiscal consolidation plans and relief packages for heavily indebted countries. In general, monetary policy remains accommodative in advanced economies, with some central banks injecting liquidity into the economy through extending maturities of funding commitments and quantitative easing. In the latest policy reviews, major central banks such as the Federal Reserve, Bank of England, Bank of Japan, European Central Bank and the Reserve Bank of Australia maintained their low policy rates.

In emerging market economies, policymakers have generally maintained an accommodative policy stance to support domestic economic activity in the context of weaker external demand. In the latest reviews, policy rates were maintained in China, India and South Africa. However, the Central Bank of Brazil raised its benchmark rate in July 2013 by 50 basis points to 8.5 percent to help rein in inflation.

The SADC region is also expected to experience easing inflationary pressures in 2013, largely on account on of projected moderate expansion in world economic activities during the year. Inflationary pressures in the SADC region mainly stem from food and energy prices, and exchange rate movements against the United States dollar; both energy and food components constitute a greater weight in the consumer price index for most of the countries in the region. The projected decline in global food and fuel prices is, therefore, expected to moderate inflationary pressure in the region. Domestic demand (largely due to high unemployment rates) as well as external inflationary pressures is projected to remain low in 2013; which is expected to further constrain inflation in the region.

Risks to SADC inflation outlook emanate from any increases in international food and fuel prices, together with protracted depreciations of local currencies against the US dollar. The region is facing a 4.01 tonnes cereal deficit (Box 2), and the deficit has to be met by imports and in most cases these are denominated in US dollar, hence if the current trend of the depreciation of SADC currencies continues, it may lead to increases in imported food prices hence generating inflationary pressures in the region.

Some countries in the region have experienced negative real interest rates; as such countries have had to adopt accommodative monetary policies in an endeavour to stimulate growth in the aftermath of the global economic crisis. Although in the short term, such policies, indeed, lead to growth stimulation, there is need to be more cautious as in the medium to long-run negative real interest rates can adversely affect the economy as they tend to:- discourage saving as people get too low rates of return from their savings to compensate them for purchasing power loss, which could even be worse considering that savers have to pay tax on the interest income; tend to encourage borrowing for the same reasons that they discourage saving; can lead to increased speculation as investors seek higher returns to offset purchasing power loss; reduce confidence in the domestic currency as a store of value- hence may result in the dollarisation of the economy; and put upward pressure on the prices of commodities and precious metals as people seek out alternate stores of value to the local currency.

Conclusions

The economic performance of SADC countries in 2012 was influenced to a greater extent by developments in the global economies, particularly the advance economies reflecting trade links between the region and those economies. The projected restrained economic activities in the advanced as well as emerging markets and developing economies is expected to adversely affect SADC's growth prospects for 2013, as the region remains heavily dependent on commodity exports. It is, therefore, important that SADC should strengthen intra-region trade ties through deepening regional integration, and invest in diversification and value addition in order to increase intra-SADC trade to decrease dependency on demand in advanced economies for its products.

Most of the SADC economies are still relatively undiversified and reliant on export of raw materials, hence continuing to be significantly susceptible to external shocks. This calls for a review of policy measures by individual member states aimed at diversifying their economies, in order to mitigate the effects of external shocks and the instability emanating from global markets. There is, therefore, need for member countries to undertake extensive reforms to unlock productive potential, promote trade and financial sector development, and encourage domestic savings and investment as well as strengthening institutional capacity to help attract sustained capital flows into the region.

The region has consistently struggled to maintain inflation within the SADC target range, it is also evident that the region's inflation is largely food driven; it therefore calls for SADC countries to improve efforts to produce adequate food; and to do so, most of the countries should invest in drought mitigating measures, including the development of irrigation infrastructure and make use of the existing water bodies. Most of the region's farmers depend on rain-fed farming and with the region susceptible to droughts, production of adequate food in the region remains a major challenge, hence the need to consider irrigation farming to enhance food production.

In order to help expedite the integration process, there is need for strong fiscal and monetary policies to remain in place to keep the fiscal deficits under control and contain inflationary pressures in the region. SADC needs to enhance the monitoring and coordination of economic policies, as well as ensure that the all member countries maintain and sustain fiscal discipline.