Integrated Paper on Recent Economic Developments in SADC

Prepared for the Committee of Central Bank Governors in SADC

by

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Executive Summary

The paper reviews the recent economic developments in the SADC in 2013 and assesses the region's progress towards the attainment of macroeconomic convergence targets. During the period under review, global economic growth still remains weak, although there are indications of slow recovery. Growth in world output weakened from 3.2 per cent registered in 2012 to 3.0 per cent in 2013, due to among other factors, tightening capacity constraints, falling commodity prices and slowing credit after a period of financial deepening. Inflationary pressures have remained subdued in 2013. Declines in the prices of commodities, especially fuels and food, have been a common force behind decreases in headline inflation across the globe.

In response to subdued global economic developments, economic growth in the SADC region expanded by 4.7 per cent in 2013 compared to 5.0 per cent recorded in 2012. Most of the SADC countries are export-led, implying that reduction in global demand and trade, had adverse impact on economic performance in the region. Most SADC countries registered real economic growth rates of below convergence target of 7 per cent.

On the inflation front, average inflation rate for the region decelerated from 8.0 per cent in 2012 to 6.6 per cent in 2013, which is within the 3 – 7 per cent band. The region is expected to register a wider budget deficit of 2.0 per cent of GDP in 2013, a deterioration from 0.4 per cent in 2012, though remaining within the target of 3 per cent as an anchor within a band of 1 per cent. Most member countries managed to meet public debt convergence criteria of less than 60 per cent of GDP during the period under review. The overall public debt level for the region as a percentage of GDP averaged 38.2 per cent in 2013, an increase from 35.7 per cent in 2012. Foreign reserve position in months of imports cover improved from 4.5 months in 2012 to 4.8 months in 2013. However, this is still below the convergence target of 6 months of imports cover.

1. Introduction

The Southern African Development Community (SADC)[1] has sequenced a number of activities in order to move toward economic integration in the sub-region. SADC launched a Free Trade Area (FTA) in August 2008. According to the SADC Regional Indicative Strategic Development Plan (RISDP), once the FTA is attained, Customs Union will follow in 2010, thereafter in 2015 a Common Market will be formed. In 2016 a monetary union will be formed and a single currency will be introduced in 2018. In order to prepare for the various degrees of economic integration set out in the RISDP, the SADC has set itself primary and secondary macroeconomic convergence benchmarks/targets. These benchmarks are used to assess macroeconomic convergence at SADC level.

This is the eleventh edition of the Integrated Paper on Recent Economic Developments in the 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 RISDP during 2012.

The paper is organised as follows: Section 2 explores global and the Sub-Saharan Africa macroeconomic developments in 2013 and the outlook for 2014; Section 3 highlights the economic performance in the SADC region in 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. Section 5 focuses on the challenges that each country faces in order to achieve the macroeconomic convergence criteria and also looks at possible policy solutions; while Section 6 reviews economic prospects for 2014; and finally Section 7 concludes.

This report is based on information submitted by member central banks to the Committee of Central Bank Governors (CCBG) Secretariat. Data on global economic

[1] SADC comprises: Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar (was suspended for couple of years), Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

developments is based on the World Economic Outlook (WEO) report (April 2014) 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), and African Economic outlook.

2. Overview of Economic Developments in 2013 and Prospects for 2014

2.1 Global Economy

The global economic growth still remains weak, although there are indications of slow recovery. The preliminary estimates from the International Monetary Fund (IMF) World Economic Outlook (April, 2014) indicated that world output grew moderately by 3.0 per cent in 2013 against 3.2 per cent in recorded in 2012. The reasons for the weaker growth differ across emerging markets and developing economies and may include tightening capacity constraints, falling commodity prices, and slowing credit after a period of rapid financial deepening. This shows that there are still some fragilities and weaknesses in some economies and therefore the downside risks remain.

Table 1: World Economic Growth Estimates 2012 – 2015*
(Annual Percentage changes)

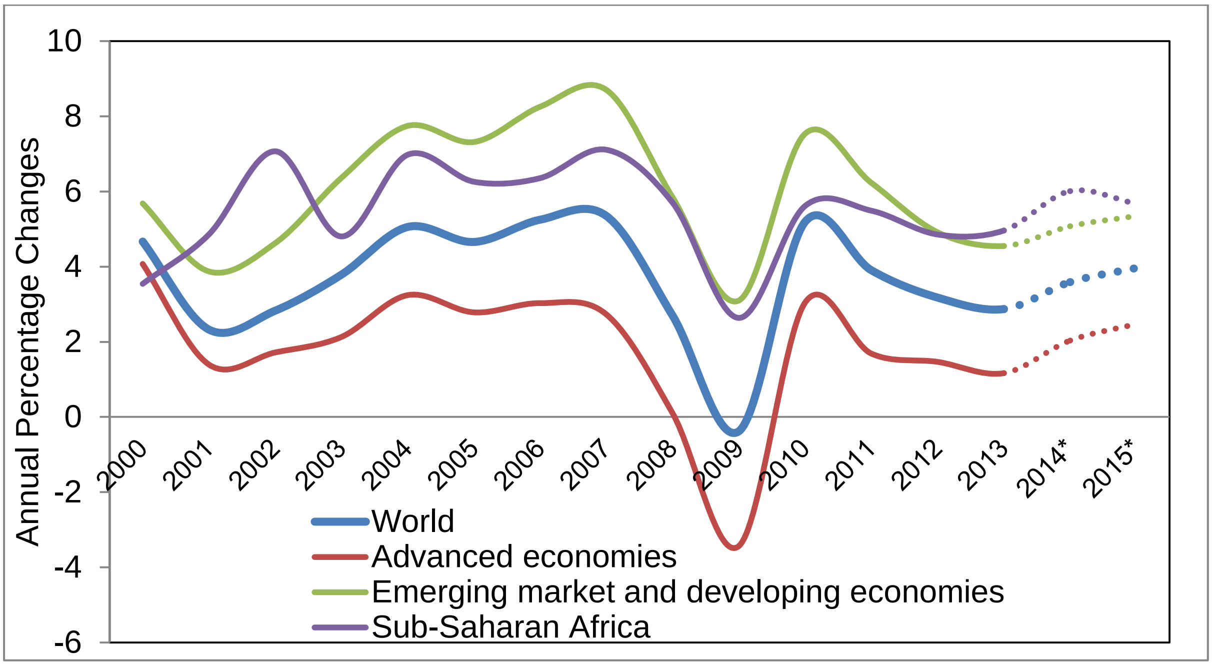
	2012	2013	2014*	2015*
World Output	**3.2**	**3.0**	**3.6**	**3.9**
Advanced economies	***1.4***	***1.3***	***2.2***	***2.3***
United States	2.8	1.9	2.8	3.0
Euro Area	-0.7	-0.5	1.2	1.5
Japan	1.4	1.5	1.4	1.0
United Kingdom	0.3	1.8	2.9	2.5
Emerging Markets and Developing economies	***5.0***	***4.7***	***4.9***	***5.3***
BRICS				
Brazil	1.0	2.3	1.8	2.7
Russia	3.4	1.3	1.3	2.3
India	4.7	4.4	5.4	6.4
China	7.7	7.7	7.5	7.3
South Africa	2.5	1.9	2.3	2.7
Sub-Saharan Africa	***4.9***	***4.9***	***5.4***	***5.5***

Source: International Monetary Fund (IMF), World Economic Outlook, April 2014
*Highlighted are IMF Projections

Both the economic performance in the advanced economies and, the emerging market and developing economies has slowed. The emerging market economies continued to account for the bulk of global growth. Economic activity in the Sub Saharan Africa has remained unchanged.

Global economic activity is expected to strengthen in 2014 largely on account of recovery in the advanced economies. In advanced economies, output gaps generally remain large and, given the risks, the monetary policy stance is likely to be accommodative and fiscal consolidation is likely to continue. In emerging markets and developing economies, stronger external demand from advanced economies is expected to spur growth.

Figure 1: Real GDP Growth Trends (2000- 2015*)



Source: IMF, WEO April 2014

2.2 Advanced Economies

Economic growth in advanced economies is estimated to have decelerated to an average of 1.3 per cent in 2013 compared to 1.4 per cent recorded in 2012.The ***United States'*** (US) economy recorded a significant deterioration from an average of 2.8 per cent recorded in 2012 to 1.9 per cent in 2013. This deterioration was attributable to strong fiscal consolidation in the first half of the year as well as political stand-off in the second half of the year, which led to the government shutdown and ultimately reduced the federal government spending. Over the review period, economic growth in the ***United Kingdom*** (UK) accelerated to an average of 1.8 per cent in 2013 from 0.3 per cent in 2012, amid easier credit conditions and increased confidence.

Economic growth in the ***Euro Area*** is slowly recovering, although it still remained in recession in the review period. According to the IMF projections, economic growth is expected to have contracted by 0.5 per cent in 2013 compared with a contraction of 0.7 per cent in 2012. This slight improvement is attributable to stronger external demand and a gradual improvement in private sector lending conditions. Some economic activity indicators in that region showed that the activity has begun to stabilise in the periphery and recover in the core. The aftermath of global financial crisis is still expected to continue to restrain growth in the Euro Area. The demand is persistently weak as the public and the private sector continue to deleverage, especially in the some periphery economies. In the core economies, despite recent improvements in confidence, private demand continues to be affected by concerns about global growth and continued uncertainty about the Euro Area prospects and policies.

Economic developments in ***Japan*** remained broadly positive as growth momentum continued to increase. Economic activity is expected to have accelerated from 1.4 per cent in the year 2012 to 1.5 per cent in 2013 amid fiscal stimulus and monetary easing of Abenomics which supported consumption, investment and exports. The major contributors to economic growth were the rise in domestic demand and exports.

2.3 Emerging Markets and Developing Economies

Growth in emerging and developing economies is estimated to have decelerated in 2013 to 4.7 per cent from the 5.0 per cent recorded in 2012. India, Mexico, Russia and South Africa economic growth rates decelerated, while Brazil’s economic output accelerated. China's economic performance remained unchanged during the review period.

The ***Brazilian*** economy is projected to have expanded by 2.3 per cent in 2013 compared to 1.0 per cent recorded in 2012, largely attributable to stronger investment, including inventories. Furthermore, the depreciation of the currency is envisaged to have improved the external competitiveness and partially offset the adverse impact of increases in sovereign yields. Economic growth in ***India*** remained fragile, albeit high, attributable to global uncertainties surrounding the US's Federal Reserve's quantitative easing (QE) tapering which intensified volatility in capital flows and thus led to weaker investment growth and domestic demand. Economic growth is expected to have registered 4.4 per cent compared with 4.7 per cent in the previous year on account of strong agriculture production and exports.

China continued to grow fairly strong in 2013. Economic activity is expected to have recorded a growth of 7.7 per cent, unchanged from the previous year's growth. This was attributed to higher exports, mainly to the US and Euro Area as well as increased investment resulting from higher public infrastructure spending and private manufacturing investment. However, there are concerns about the growth sustainability and therefore policymakers have refrained from further stimulating growth and this is consistent with the objective of safeguarding financial stability and moving the economy to a more balanced and sustainable growth path.

During the period under review, economic activity in ***South Africa*** (SA) continued to weaken driven by both domestic and external shocks. The labour unrest in the manufacturing and mining sectors weighed on production and thus weakened exports performance while tapering of QE by the US economy led to volatilities in the financial markets and hence capital reversals from SA to the advanced countries. Economic growth decelerated to 1.9 per cent in 2013 relative to 2.5 per cent increase in the previous year mainly on account of low investment due to weak investors' confidence.

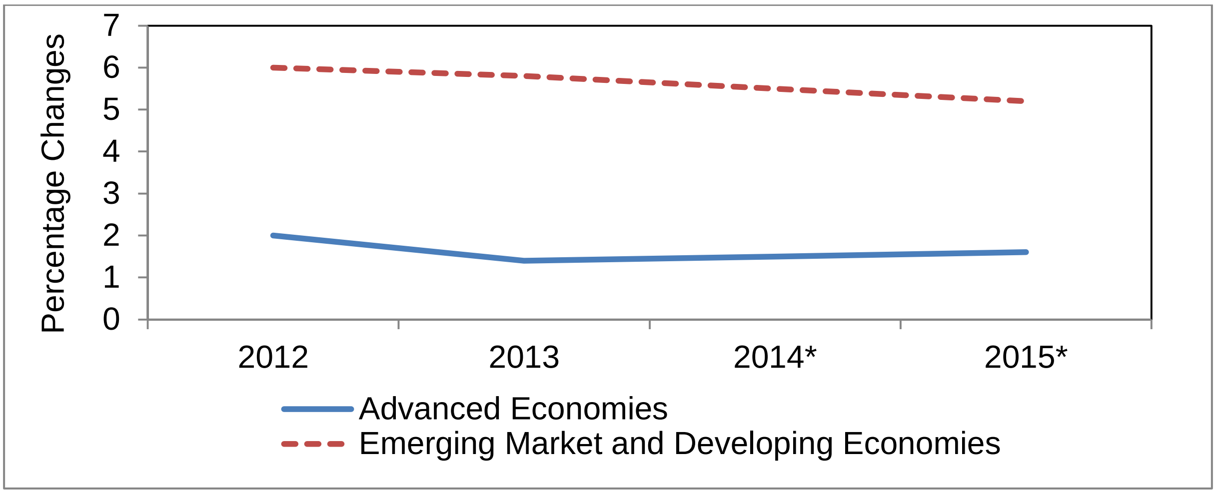
2.4 Sub-Saharan Africa

Economic activity in Sub-Saharan Africa remained strong during 2013. Sub-Saharan Africa is estimated to have grown at a constant pace of 4.9 per cent in 2013 ,same growth rate as recorded in 2012, reflecting strong domestic demand in most of the region. Angola's growth benefited from recovery in oil production. Nigeria benefited from high oil prices. However, SA's growth slowed due to industrial actions, slower private investment and weaker consumption growth.

2.5 Global Inflation Developments

Inflation in the advanced economies is estimated to have decelerated from 2.0 per cent recorded in 2012 to 1.4 per cent in 2013, attributable to a fall in commodity prices, especially fuels and food. Similarly, in the emerging and developing countries, inflation is also expected to have decelerated marginally from 6.0 per cent in 2012 to 5.8 per cent in 2013. See Appendix II for trends in selected commodity prices.

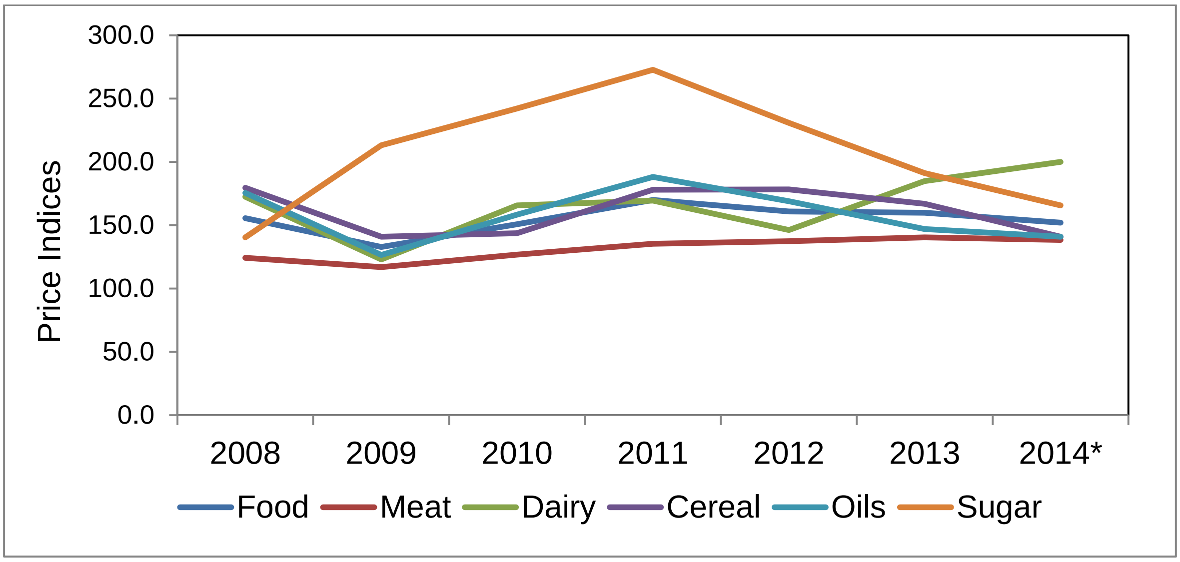
Figure 2: Average Inflation



Source: IMF WEO, April 2014

Going forward, inflation is expected to decelerate to less than 6.0 per cent in emerging markets and developing countries, amid the favourable food and energy price base effects, coupled with lower demand-pull inflationary pressures.

Figure 3: Real World Food Price Indices (Annual)



Source: FAO (2014)

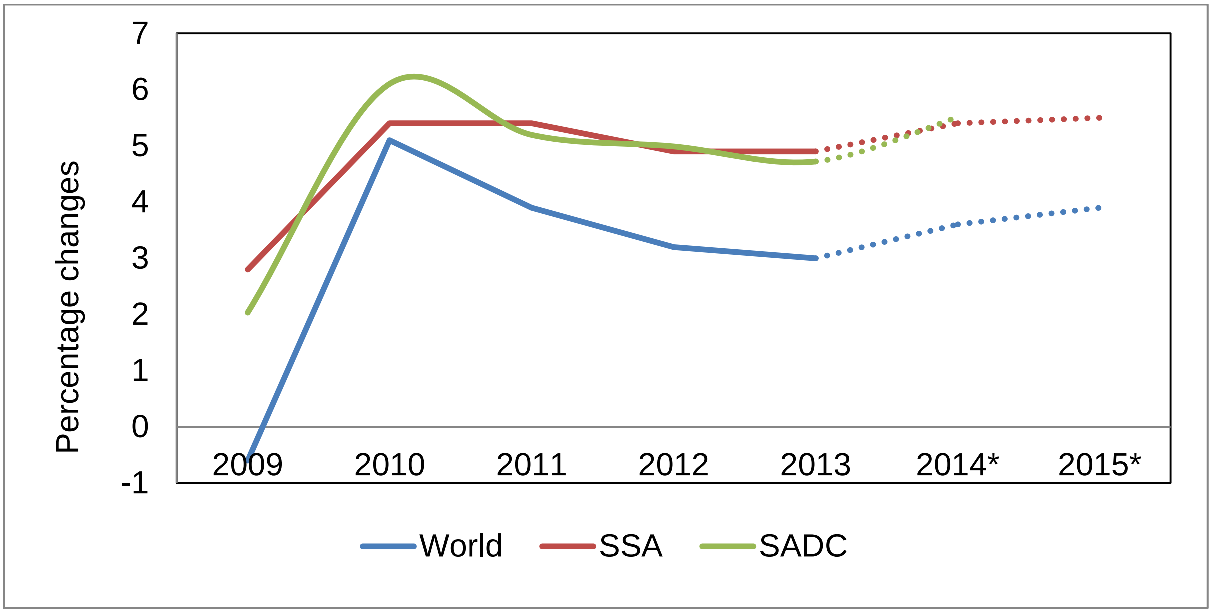
World food prices are expected remain subdued, with real food price index expected to contract by 4.9 per cent in 2014 compared with a contraction of 0.7 per cent in 2013. Of the five commodity group price indices forming the food price index, only dairy price index is expected to increase in 2014, while the other four are expected to decline – with significant declines anticipated for cereals and sugar price indices.

3. Economic Developments in SADC

3.1 Economic Growth

Economic performance in the region more or less followed the developments in the global economy during 2013. The overall regional economic growth is expected, on average, to register a growth rate of 4.8 per cent in 2013 compared to 5.0 per cent recorded in 2012. This is less than the 7 per cent target set by the SADC. The slowdown in the SADC economic growth in 2013 was attributable to slow recovery of the global economy, particularly in the advanced economies.

Figure 4: Economic Growth Rates



Source: World Economic Outlook, April 2014 and SADC Central Banks

3.2 Inflation

Average headline inflation in the SADC region was 6.6 per cent in 2013, better than the 8.0 per cent recorded in 2012. Double-digit inflation was still recorded in Malawi at an average of 22.9 per cent in 2013, a decrease from an average of 28.6 per cent in 2012. The high inflation in Malawian was attributable to high food prices which are beyond the control of the Central Bank. A stylized fact is that inflationary pressures in most of the SADC region emanate mainly from high food and energy prices. This is attributable to a fact that there is high weight on food and energy categories in these countries' compilation of consumer price index, therefore price fluctuations of these commodities contribute to general price volatility. Another stylized fact in the region is that drought usually plays a significant role in higher prices in most of the member countries.

3.3 Interest Rates

The stance of the monetary policy in the SADC region was mixed, with some countries increasing their key interest rate and others reducing their key interest rate. Malawi and Zambia adopted contractionary monetary policy and increased their key interest rates in 2013, whilst countries such as Angola, Mauritius, Mozambique and Seychelles adopted an expansionary monetary policy and reduced their key interest rates. In South Africa, the Monetary Policy Committee (MPC) kept the repurchase rate unchanged during 2013 as the risk to inflation outlook was considered to be on the upside.

3.4 Trade in SADC

Most of the SADC countries continued to record negative trade balances in 2013, amid higher increases in imports compared to exports. Angola, Democratic Republic of Congo (DRC), Swaziland and Zambia attained positive trade balances in 2013. Angola and DRC's economies continued to be dominated by petroleum and mineral exports, which explain the sustained positive trade balances over the past couple of years. Most of the Zambian positive trade balance is attributable to higher exports of copper and other non-metal exports.

Table 2: Total Trade Balance (US$ Millions)

	2011	2012	2013
Angola	47081.9	47374.3	44290.97
Botswana	-733.2	-1879.8	-
DRC	556.3	178.5	256.40
Lesotho	-982.5	-1258.1	-1030.13
Madagascar	-1379.2	-1575.7	-1407.30
Malawi	-263461.8	-1122.3	-970.10
Mauritius	-2586.0	-2683.0	-2529.00
Mozambique	-2248.3	-2698.0	-4356.90
Namibia	-8892.0	-13330.0	-17628.00
Seychelles	-415.7	-466.5	-424.90
South Africa	-10779	-19048	-7625.00
Swaziland	-43.9	77.6	202.00
Tanzania	-2632.3	-6259	-
Zambia	1482.9	587.7	1215.00
Zimbabwe	-3065.9	-2656.0	-3379.30

Source: SADC Central Banks

South Africa continues to record a positive trade balance with most countries in the region, largely because it is the main exporter of processed goods to the region. Apart from South Africa, only Angola, DRC, Swaziland and Zambia continuously attained positive intra-SADC trade balances for 2012 and 2013. South Africa's exports to the SADC region over the past three years averaged about 43 per cent 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 attributable to a fact that SA mostly exports processed goods to the region, while most countries in the region are exporters of primary goods.

Table 3: Intra SADC Trade Balance (US$ Millions)

	2011	2012	2013
Angola	408.46	1 276.52	-607.60
Botswana	-3873.10	-	-
DRC	-353.4	-532.10	-520.10
Lesotho	-1377.4	-1 659.86	-1316.22
Madagascar	-	-224.00	-175.70
Malawi	-594.63		
Mauritius	-119.0	-27.00	-74.00
Mozambique	-1252.6	-1 414.30	-1427.20
Namibia	-2669.3	-27 125.00	-26099.00
Seychelles	-112.0	-107.30	-
South Africa	5335	16 385.00	16664.00
Swaziland	-271.2	-298.50	-301.70
Tanzania	360.1	-	-
Zambia	-2131.0	-1 554.80	-2140.90
Zimbabwe	-1946.5	-926.20	-2363.40

Source: SADC central banks

3.5 Exchange Rates

Most of the currencies in the SADC region depreciated against the US dollar in 2013, with an exception of Seychelles Rupee which appreciated by 12.4 per cent from 2012 to 2013. Major depreciations were observed in the Malawian Kwacha which depreciated by about 72 per cent (due to prolonged ripple effects of May 2012 devaluation) and the South African Rand by 19 per cent. Other currencies recorded depreciations of less than 5 per cent against the US Dollar.

The depreciation of the Rand was driven by a combination of factors, which negatively affected SA's capital inflows and thus led to the weakening of the rand. For most part of 2013, SA experienced labour unrest from some sectors of the economy. This led to loss of confidence by the investors and as a result reduced capital inflows. In addition, the uncertainty surrounding the scaling back of QE in the US and the decision to start cutting down on bonds purchasing from January 2014 resulted in further capital reversals in emerging markets. For graphical presentation of the exchange rates dynamics, please refer to the Appendix I.

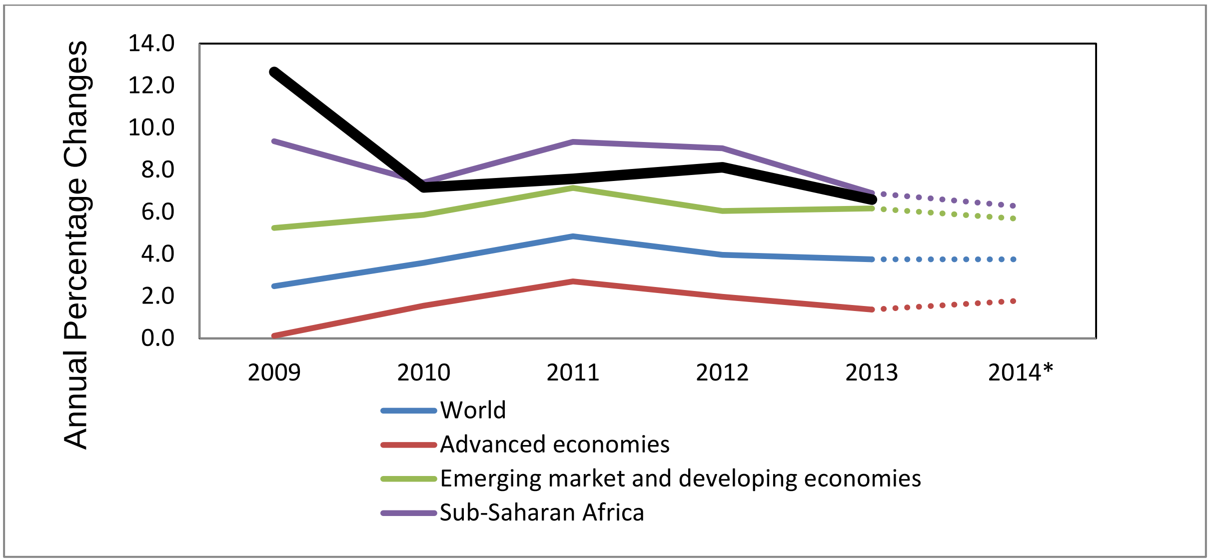
4. Status of Macroeconomic Convergence in 2013

4.1 Performance Against the Primary Indicator Targets

4.1.1 Inflation (3 % inflation rate by 2018)

The average inflation rate for the region was recorded at 6.6 per cent in 2013, better than the 8.0 per cent recorded in 2012. However, at this rate, the annual average inflation rate in the region still remains higher than the convergence criteria's inflation rate of 3 per cent by 2018. Assessed against the current band of 3 – 7 per cent, the 2013 inflation performance has met the convergence target range.

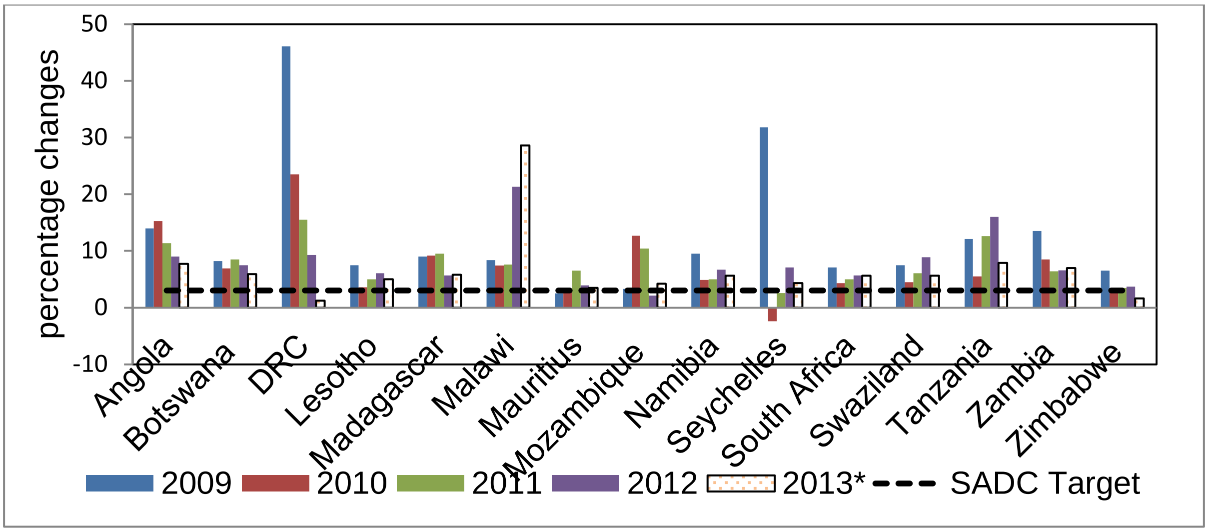
Figure 5: Average Annual Inflation



Source: World Economic Outlook, April 2014 and SADC Central Banks

Only DRC and Zimbabwe had their inflation rates within the 3 per cent target, suggesting that inflation remains a major challenge for the region. Although still on the high side, most of the member states experienced decelerations, except Madagascar, Mozambique and Zambia. A double-digit inflation was recorded in Malawi at 28.6 per cent in 2013 compared to 21.3 per cent in 2012. The Malawi's inflation was largely attributable to the effects of the adoption of a free floating exchange rate in May 2012 which resulted in high pass-through effects into domestic prices. Furthermore, logistical bottlenecks in transporting maize to areas with major shortages drove maize prices upwards. Moreover, the depreciation of the Kwacha against the US dollar resulted in the increase in the costs of imported foods.

Figure 6: Annual Inflation Rates in SADC Region (Percentage Changes)

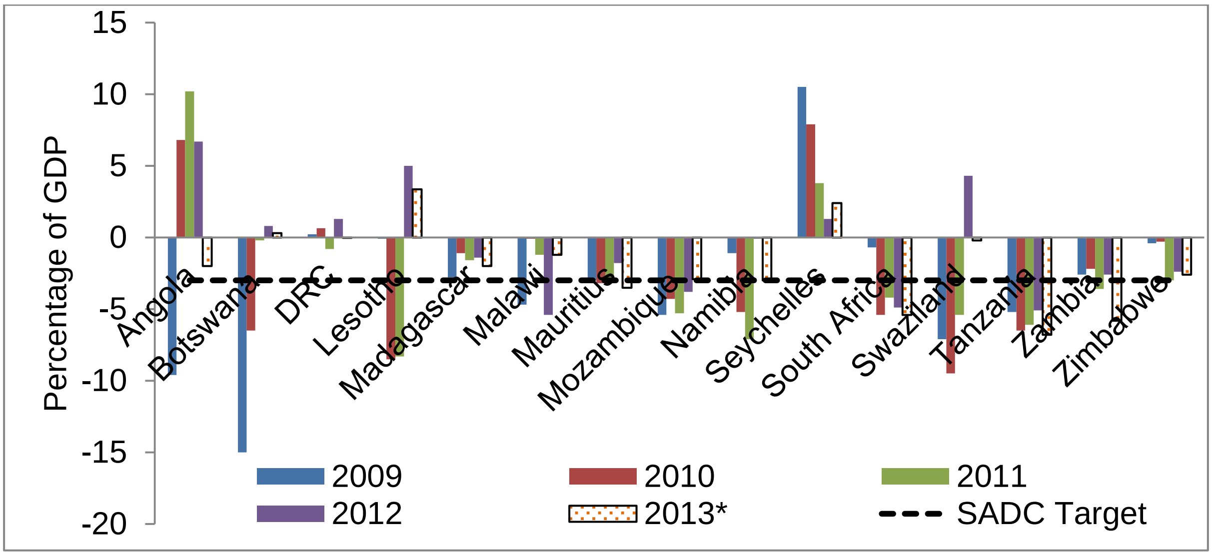


Source: SADC Central Banks

4.1.2 Budget Deficit/ GDP (≤ 3 per cent as an anchor within a band of 1 per cent)

SADC registered a budget deficit of 2.0 per cent of GDP in 2013, deterioration from a deficit of 0.5 per cent recorded in 2012. Although deteriorated, it is well within the SADC target of 3 per cent as an anchor within a band of 1 per cent. Higher deficit was recorded in Tanzania followed by Zambia then South Africa. A study by Rakotonjatovo and Ramilison (2007) discovered that the majority of SADC countries are confronted with high budget deficits mainly due to a need to develop social and economic infrastructure.

Figure 7: Budget Balance in the SADC Region (Percentage of GDP)



Source: SADC Central Banks

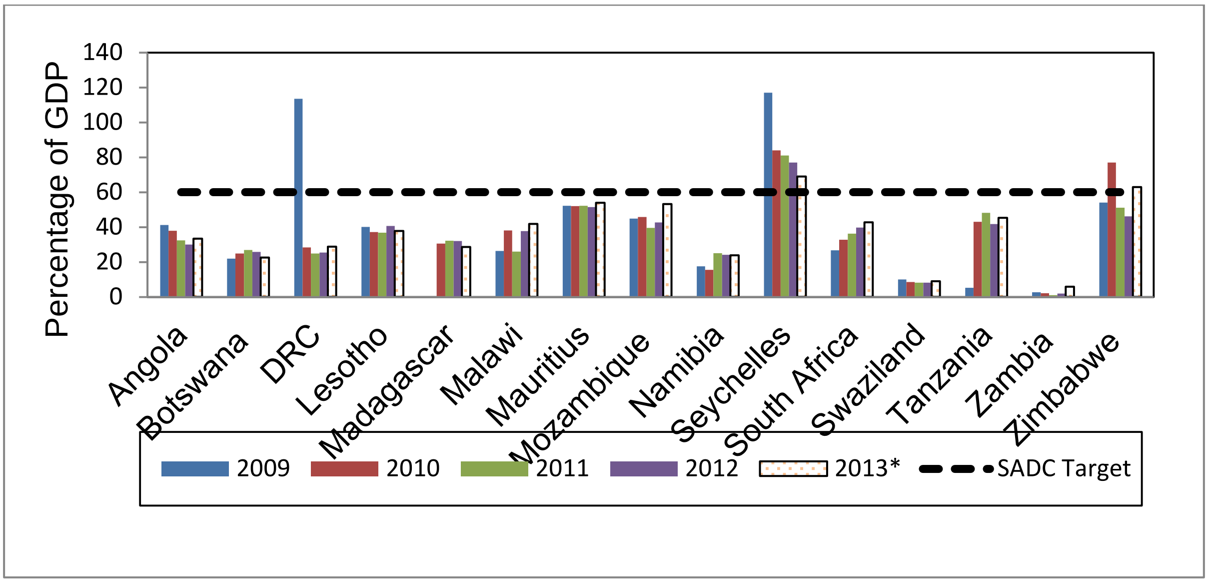
Mauritius, South Africa, Tanzania and Zambia are expected to record deficits relative to GDP outside the set target. In all these member countries, budget deficits are expected to worsen, as expenditure growth continues to exceed growth in revenue collection. Lesotho is expected to register a higher surplus in the region, reflecting increased revenue and reduced expenditures. Angola is expected to register a deficit after three years of sustained surpluses. Madagascar, Mauritius, Namibia, South Africa, Tanzania, Zambia and Zimbabwe's budget deficits are expected to worsen in 2013 partly due to the increase in government investment expenditure in infrastructure development.

4.1.3 Public Debt/ GDP (Less than 60 per cent of GDP)

SADC countries have been able to attain and maintain sustainable public debt levels in 2013, with most member countries, meeting the convergence target of debt being less than 60 per cent of GDP. The overall public debt level for the region as a percentage of GDP averaged 37.2 per cent in 2013, an increase from 35.0 per cent recorded in 2012. Only Seychelles and Zimbabwe are expected to record public debt levels of over 60 per cent of GDP in 2013. On the one hand, the Seychelles government aims to reduce the debt to 50 per cent of GDP by 2018, and considerable progress has been made over the past 4 years. On the other hand, Zimbabwe has adopted a debt resolution strategy referred to as Zimbabwe

Accelerates Arrears Clearance and Debt Development Strategy (ZAADS). It is expected that Zimbabwe's resolution of the external debt overhang will go a long way in unlocking credit lines and significantly improving the country's creditworthiness.

Figure 8: Public Debt in the SADC Region (Percentage of GDP)



Source: SADC Central Banks

Table 4: Summary of Performance against Primary Indicators

Country	Inflation (≤ 3%)	Budget Deficit (≤ 3%)	Public Debt (≤ 60%)	2013 Targets Achievement
Angola	X	√	√	2/3
Botswana	X	√	√	2/3
DRC	√	√	√	3/3
Lesotho	X	√	√	2/3
Madagascar	X	√	√	2/3
Malawi	X	√	√	2/3
Mauritius	X	X	√	1/3
Mozambique	X	√	√	2/3
Namibia	X	√	√	2/3
Seychelles	X	√	X	1/3
South Africa	X	X	√	1/3
Swaziland	X	√	√	2/3
Tanzania	X	X	√	1/3
Zambia	X	X	√	1/3
Zimbabwe	√	√	X	2/3
Total	2/15	11/15	13/15	

The overall picture with regards to the attainment of the primary macroeconomic indicators is not satisfactory. Only one country (DRC) attained all the three targets in 2013. This is a deterioration from two countries (Mauritius and Mozambique) that attained three targets in 2012. Nine countries in 2013 reached two macroeconomic targets compared with six countries in 20112. Furthermore, similar to 2012, only five countries in 2013 reached only one convergence target. In a nutshell, all the countries attained at least one of the primary macroeconomic targets in 2013.

With respect to the target of the economic growth rate of at least 7 per cent, only three countries (DRC and Tanzania) managed to achieve this target. The SADC member states also performed poorly with respect to the target of inflation rate of less than 3 per cent by 2018. One country, Malawi, continued to register a double-digit inflation rate during the year under review, amid higher food prices. Only DRC and Zimbabwe managed to achieve the inflation target. The slowdown in Zimbabwean inflation rate is attributable to sustained liquidity crunch that is being experienced in the economy in recent years. The best performances were achieved with regard to the targets for the fiscal balance and the public debt, with 11 and 13 member countries achieving these targets, respectively.

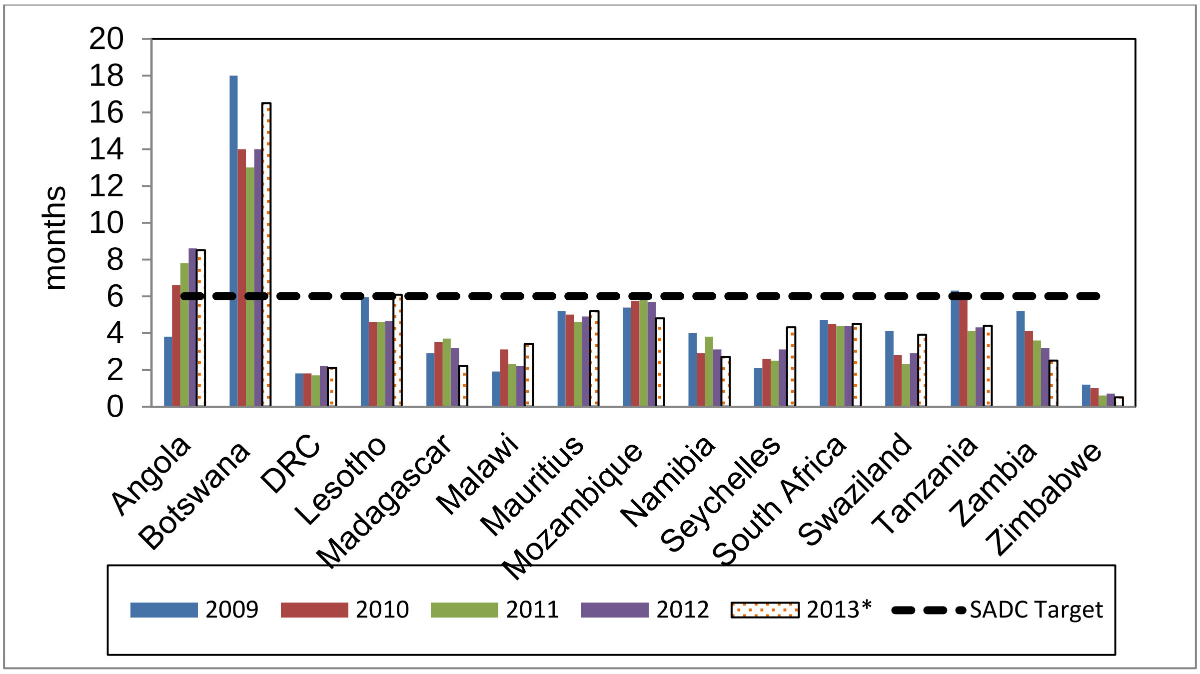
In a nutshell, SADC is in a right direction towards achieving regional macroeconomic performance. However, it should be noted that the region strongly depends on external factors such as global demand and commodity prices.

4.2 Performance Against the Secondary Indicator Targets

4.2.1 International Reserves (Months of import cover not less than 6 months)

Most countries in the SADC region do not have adequate foreign reserves to cushion them against sudden shocks. On average, months of imports cover for the SADC region was 4.8 months in 2013 compared to 4.5 months in 2012. Although this has improved to some extent, it is still below the targeted 6 months of imports cover as set in the SADC RISDP. The slowdown in the growth of the global economy, due to fiscal consolidation in advanced economies, had a negative impact on global demand. Since most of the SADC countries are exporters of raw materials and unprocessed goods, the decline in global demand had an adverse effect on the region's export earnings, and therefore led to failure to accumulate foreign reserves.

Figure 9: Foreign Reserves in the SADC Region (Months of Imports)



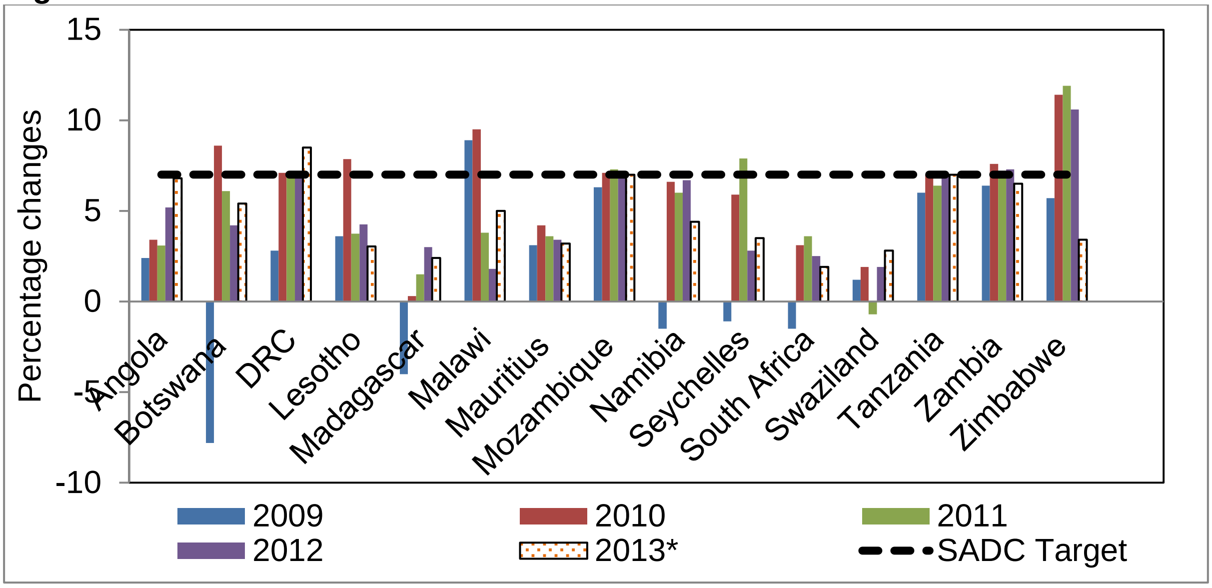
Source: SADC Central Banks

Figure 9 shows that only Angola, Botswana and Lesotho had international reserves equivalent to at least 6 months of imports cover as per the convergence target. However, international foreign reserves for DRC, Madagascar, Namibia, Zambia and Zimbabwe remained below the internationally set reserve adequacy threshold of 3 months of import cover. The highest international reserve position was registered in Botswana, with reserve position of 16.5 months in 2013, followed by Angola at 8.5 months. The high foreign reserve position in both countries is attributable to high diamonds and oil reserves. Zimbabwe continued to register the lowest level of reserves in the region, with international reserve position of 0.5 months of imports cover for 2013, on account of a disproportionately huge import bill against low international reserves.

4.2.2 Real GDP Growth (Not less than 7 per cent)

Average economic growth in the SADC region decelerated from 5.0 per cent in 2012 to 4.8 per cent in 2013. All member states, except DRC, Mozambique and Tanzania, recorded real economic growth rates below the SADC convergence target of 7 per cent. DRC registered growth rate of 8.5 per cent, and Mozambique and Tanzania all registered growth rates 7.0 per cent in 2013. Mozambique attained the SADC's 7 per cent target for the fourth year in succession, largely driven by the performance in the mining and quarrying, agriculture, transportation and communication, and financial services sub-sectors. Mining and quarrying sub-sector is expected to continue to drive the economic activity due to the new discoveries of mineral resources such as coal and gas.

Figure 10: Real GDP Growth Rates in SADC

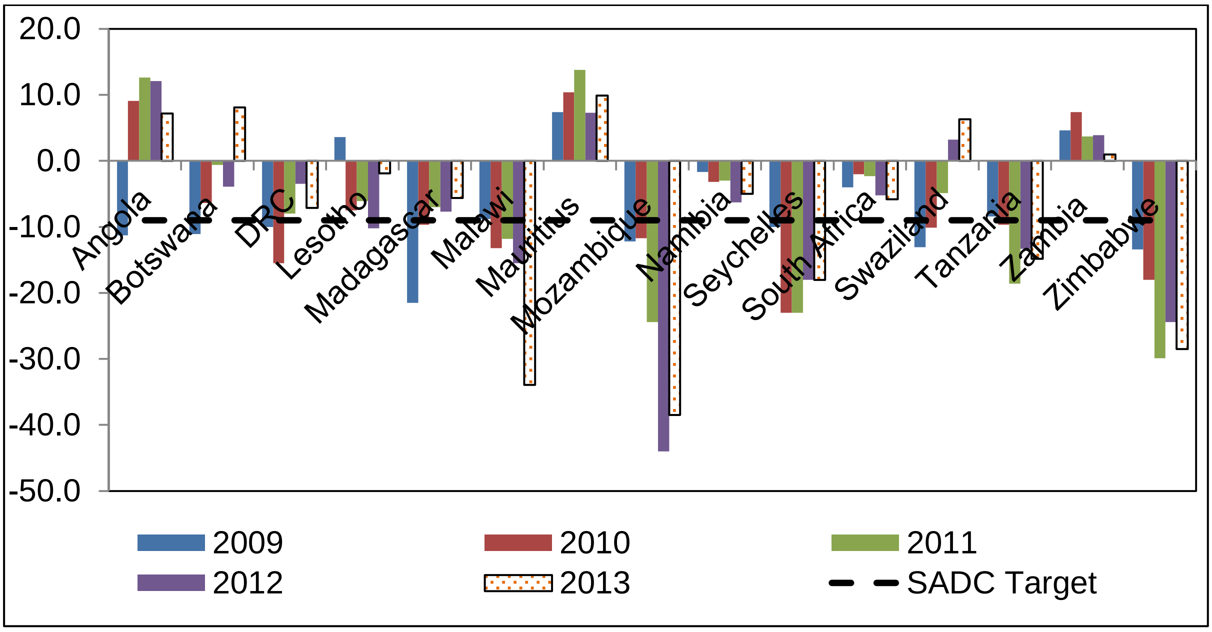


Source: SADC Central Banks

4.2.3 Current Account Deficit/GDP (Less than 9%)

Most SADC countries experienced balance of payment pressures in 2013 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 has continuously been widening from 6.9 per cent of GDP in 2010, to 7.3 per cent in 2011, to 8.4 per cent for both 2012 and 2013. Despite the regions average being on an upward trend; Angola, DRC, Lesotho, Madagascar, Mauritius, Namibia, South Africa, Swaziland, Zambia and Zimbabwe managed to maintain their current account deficits within the target levels of less than 9 per cent of GDP in 2013; Angola, Botswana, Mauritius, Swaziland and Zambia registered current account surpluses in 2013. DRC, Malawi, South Africa, Tanzania and Zimbabwe, however, experienced widening current account deficits substantially beyond 9 per cent (see Figure 11).

Figure 11: Current Account Balance (% of GDP)



Source: SADC Central Banks

The overall picture with regards to the attainment of the secondary macroeconomic indicators is not satisfactory either. No country attained all the three targets in 2013. Only four countries in 2013 reached two macroeconomic targets and two countries (Malawi and Seychelles) failed to attain even one secondary target.

Table 5: Summary of Performance against Secondary Indicators

Country	Real GDP growth (≥ 7%)	Reserves (≥6 months)	Current Account Deficit (≤ 9%)	2013 Targets Achievement
Angola	X	√	√	2/3
Botswana	X	√	√	2/3
DRC	√	X	√	2/3
Lesotho	X	√	√	2/3
Madagascar	X	X	√	1/3
Malawi	X	X	X	0/3
Mauritius	X	X	√	1/3
Mozambique	√	X	X	1/3
Namibia	X	X	√	1/3
Seychelles	X	X	X	0/3
South Africa	X	X	√	1/3
Swaziland	X	X	√	1/3
Tanzania	√	X	X	1/3
Zambia	X	X	√	1/3
Zimbabwe	√	X	X	1/3
Total	4/15	3/15	10/15	

5. Macroeconomic Convergence Challenges and Possible Solutions

Angola

For 2013, Angola met almost all convergence targets, excepting the inflation rate due to factors such as inflation inertia and other structural factors that have negatively affected the behaviour of the inflation rate, preventing it from reaching levels below those recorded. Moreover, a clear weakness in the constitution of the value chain of products has also negatively affected the formation of real prices.

In 2013, Angola exported liquid Natural gas (LNG) to Brazil and this will contribute to strong growth.

Madagascar

A high and stable economic growth is for now the main challenge to achieve macroeconomic convergence and it will need a political stability. Growth would instil better government revenue collections, exports performance, and an increase in foreign direct investments. It will impact on the balance of payments and the country official foreign reserves, as long as government and institutions are stable, business climate is improving and government revenue collections are well used.

The experiences of the country show that political stability brings a more secure environment to boost investment in infrastructure, to reduce corruption on public services especially on customs and tax services and land service. In the past, this had reduced illegal practices in business, fostered investment in manufacturing industries and encouraged tourism activities. Recently, the mining sector and the exploration of crude oil are developing well. The Government and the population should benefit from this progress in that there should be an enhanced public-private partnership. As for the agriculture sector, notwithstanding weather conditions and cataclysms, government should reinforce programmes to improve the output.

Mauritius

As a small open economy, the major challenge facing Mauritius is its dependence on external developments, in particular the growth outlook in main export markets and movements in food, energy, raw materials and other commodity prices. For instance, a prolonged period of slow growth in Europe adversely impacts growth in Mauritius.

Mauritius has also reached a stage where new pillars of growth need to be established through a diversification of its markets and products. Achieving 7 per cent growth rate is not feasible in the medium term.

The low rate of savings and investment is a source of concern and is in part the result and cause of the low growth being experienced by Mauritius. Policies are being devised to address these problems.

- The government has taken several measures to open up the economy to foreign investment and brought in several fiscal initiatives to further diversify the economy.
- Sound monetary policy and proper co-ordination with the fiscal authorities is being pursued.
- Monetary policy has remained accommodative against the backdrop of weak and uncertain global economic environment and easing inflationary pressures.
- Heavy investment in modernising public infrastructure has been undertaken over the last few years.
- New pillars of the economy like Ocean industry are being initiated while consolidating well-performing existing sectors.
- Efforts are also being undertaken to consolidate the International Financial Centre image of the country.

Namibia

The key challenges and risks facing Namibia with regard to its attainment of macroeconomic convergence targets remain broad. Although demand from the advanced economies such as the USA and Germany picked up, the global economic environment remains a crucial factor restraining growth of the Namibian economy, through continued moderated demand for Namibia's export. Structural challenges of unemployment, poverty and diverse supply-side constraints remain key long-term challenges for the country's growth prospects. In response to the challenges, government is expanding investment in infrastructure, and resources for skills development. While the Targeted Intervention Programme for Economic Growth (TIPEEG) is ending this year, the mass housing programme that started this year is expected to sustain the momentum of the construction sector as the driver of growth in Namibia.

Seychelles

Given the economic challenges faced in 2008 and the ensuing reform programme, the Seychelles has found it challenging to also focus on attaining SADC macroeconomic convergence targets. Currently, the focus is on attaining the reform programme targets, which are nevertheless inline in many ways with the SADC convergence programme.

South Africa

The economy remains vulnerable to supply shocks that amplify the country's vulnerability, in particular: an unreliable electricity supply, a fractious labour relations environment and protracted strikes are undermining investor confidence, growth and employment. Employment creation remains that most significant challenge to long-term economic stability and growth. In terms of global the exchange rate remains vulnerable to a number of global risks including, world monetary policy normalisation, capital flows, and the current-account deficit

The National Development Plan recommends a series of actions to address structural constraints and bottlenecks in the economy. Urgent decisions across a range of policy areas are needed to translate the plan's vision into reality, start changing the structure of the economy and shift onto a higher growth trajectory.

These should include measures that:

- Support sustainable long-term investment in competitive economic infrastructure through financing that combines cost-reflective tariffs, taxes, loans and private-sector participation.

- Introduce active labour market policies that enable young, unskilled job seekers to transition into employment, and ensure the price of labour relative to productivity and capital helps stimulate job creation.
- Encourage new business creation and small business expansion by reducing the cost of tax and regulatory compliance for small and medium-sized firms, streamlining processes for granting licenses and permits, and paying government invoices on time.
- Transform human settlements and develop functioning public transport networks to improve living conditions and support the country's rapid urbanisation.
- Provide policy certainty and predictability to encourage long-term investment in the mining sector, and structure the tax regime to expand the benefits accruing from South Africa's mineral wealth.
- Increase exports in areas where South Africa has natural endowments and comparative advantage, such as mining, construction, mid-skill manufacturing, agriculture and agro-processing, education, tourism and business services, and encourage export diversification.
- Take a more developmental approach to regional integration, while emphasising efficient transport infrastructure, uniform competition rules and faster progress in removing trade barriers. Achieving such results will require a willingness to manage difficult trade-offs, effective and efficient implementation, and broad partnerships between government, business, labour and civil society.

Swaziland

Volatility of SACU receipts which account for almost half of government revenue always pose a challenge to fiscal sustainability

Tanzania

High global oil prices and unfavourable weather conditions in the East African region exerted pressure on transportation and importation costs as well as food prices, hence overall inflationary pressure.

As a way forward:

- The government to continue with pursuing prudent macroeconomic policies in order to build a strong and competitive economy
- The Bank of Tanzania will continue to pursue prudent monetary policy conditions needed for macroeconomic stability and monitor inflation expectations
- Government to increase domestic revenue collections and curb wasteful expenditures by strengthening management and accountability in the uses of public funds

Zambia

Challenges to the attainment of macroeconomic convergence target on inflation may arise from cost push pressures associated with the lagged pass-through effects of the depreciation of the Kwacha in the last quarter of the year. In addition, developments in the global economy could have an impact on Zambia's external sector.

The Zambian Government's broad macroeconomic objectives for 2014 achieving include reducing inflation to 5.0% by 2014 and achieving real GDP growth of above 7%; attaining end year inflation of no more than 6.5%; increasing international reserves to over 3 months of import cover; maintaining a fiscally sustainable public external debt level so that debt service and amortization do not exceed 30% of domestic revenues and limiting domestic borrowing to 2.5% of GDP.

In order to achieve the inflation target, the Government will continue to implement monetary policy through its interest rate targeting framework. The Government will

also continue to enhance the business environment by investing in infrastructure such as roads, boarder stations/posts which will boost economic activity.
With respect to the external sector, the promotion export growth oriented investments in the Multi-facility Economic Zones will attract investment in non-traditional sectors. At the same time, new investments in mining and other sectors will boost production and increase export earnings.

On the fiscal side, the Government recognises the importance of prudent fiscal policy, and therefore will continue to address bottlenecks in tax administration in order to enhance domestic revenue mobilisation. The Government is also focusing on creating fiscal space through expansion of domestic revenues and allocating more resources to infrastructure development. In order to ensure sustainable borrowing, the Government will continue to conduct regular debt sustainability analyses to guide borrowing decisions.

Zimbabwe

The country is also grappling with a precarious balance of payment position typified by a wide current account deficit of more than US$3.7 billion or 28.5% of GDP in 2013. The huge current account deficit is mainly driven by a disproportionately huge import bill against subdued exports on account of the supply gaps in the economy and relatively expensive local products which are prompting consumers to resort to cheap imports from abroad.

The country's international reserve position currently at 0.7 months of imports is precariously low. This is largely due to the country's inability to accumulate reserves because of the limited fiscal space and subdued export earnings.

As future policies to achieve the macroeconomic convergence targets, Zimbabwe launched a new economic blue print, the Zimbabwe Agenda for Social and Sustainable Economic Transformation (ZIM-ASSET), whose aim is to achieve sustainable development and social equity anchored on indigenization, empowerment and employment creation. This will be achieved largely through judicious exploitation of the country's abundant human and natural resources.

The economic blueprint is built around four strategic clusters that will enable Zimbabwe to achieve economic growth and reposition the country as one of the strongest economies in the region and Africa. The four strategic clusters are: Food Security and Nutrition; Social Services and Poverty Eradication; Infrastructure and Utilities; and Value Addition and Beneficiation.

In addition, Government is currently on an International Monetary Fund Staff Monitored Programme (SMP). The Staff Monitored Programme (SMP) will enable the country to establish a good track record in the implementation of macroeconomic policy and to show its commitment to debt and arrears clearance. The successful implementation of the SMP is expected to restore confidence in the economy and to lay the foundation for debt relief. While the implementation of an SMP does not entail immediate funding by multilateral institutions, it is necessary to give confidence to creditors and donors that exceptional assistance will be put to good use.

The multicurrency system will be maintained in the short to medium term and this is expected to continue fostering macroeconomic stability as well as inspire investor confidence in the Zimbabwean economy.

6. Economic Prospects for 2014

- According to the IMF projections, global economic output is expected to grow by 3.6 per cent in 2014, higher than the 3.0 per cent expected for 2013, largely on account of recovery in the advanced economies. However, fragilities and downside risk still remain in some countries.
- Economic growth in the United States is expected to be 2.8 per cent in 2014, up from 1.9 per cent in 2013. The higher growth rate is expected to be attributable to strong export growth and temporary increases in inventory demand. Furthermore, expected higher growth rate is envisaged to emanate from accommodative monetary conditions as well as from real estate sector recovery after a slump. Higher household wealth and easier bank lending conditions are also expected to induce faster economic growth.

- The Euro Area is slowly recovering from recession. Economic growth in the region is expected to expand by 1.2 per cent in 2014 compared to a contraction of 0.5 per cent in 2013. However, high debt is expected to hold back domestic demand. Domestic demand has picked up in some of the largest economies in the Euro Area, such as Germany. This is amid supportive monetary conditions, robust labour market conditions and improving confidence.
- Growth in emerging markets and developing economies is expected to increase to 4.9 per cent in 2014 compared to 4.7 per cent in 2013. These countries are still expected to contribute more than two-thirds of global growth. However, increased financial market and capital flows volatility remain a concern given the US tapering. Furthermore, the downside risks to growth are expected to be attributable to a larger-than-projected slowdown in investment and spending on durable goods due to recent monetary policy tightening in some emerging market economies, coupled with lower growth in China and geo-political risks related to Ukraine. Sub Saharan Africa region is expected to gain momentum in 2014, with growth rates forecast to accelerate from 4.9 per cent in 2013 to 5.4 per cent in 2014.
- World inflation is projected to remain muted and unchanged at 3.8 per cent in 2014, with continued sizeable negative output gaps in advanced economies, weaker domestic demand in several emerging market economies. According to the IMF, in the Euro Area and the United States, headline inflation is expected to remain below longer-term inflation expectations, which could lead to adjustment in expectations and risks of higher debt burdens and real interest rates.
- Declines in the prices of commodities, especially fuels and food, have been a major force behind recent decreases in headline inflation across the globe. The international crude oil price is expected to be contained in the medium-term. In a nutshell, global demand for oil and non-OPEC oil supply are expected to increase in 2014, with stronger non-OPEC oil supply driven mainly by increasing US shale oil production.

7. Conclusion

The region remains vulnerable to supply shocks. As expected, the economic performance of SADC countries in 2013 was influenced to a large extent by developments in the global economies, particularly the advance economies due to trade links between the region and those economies. The anticipated economic recovery in the advanced as well as emerging markets and developing economies is expected to bode well for SADC's growth prospects for 2014, as the region remains heavily dependent on commodity exports.

The SADC countries have consistently struggled to maintain inflation within the SADC target of less than 3 per cent by 2018. On the one hand, the region's inflation is largely food driven; it therefore calls for SADC countries to improve efforts to produce adequate food. On the other hand, the regional inflation is also driven by international crude oil prices. Therefore, the slowdown in international crude oil prices, if sustained, could reduce regional inflationary pressures.

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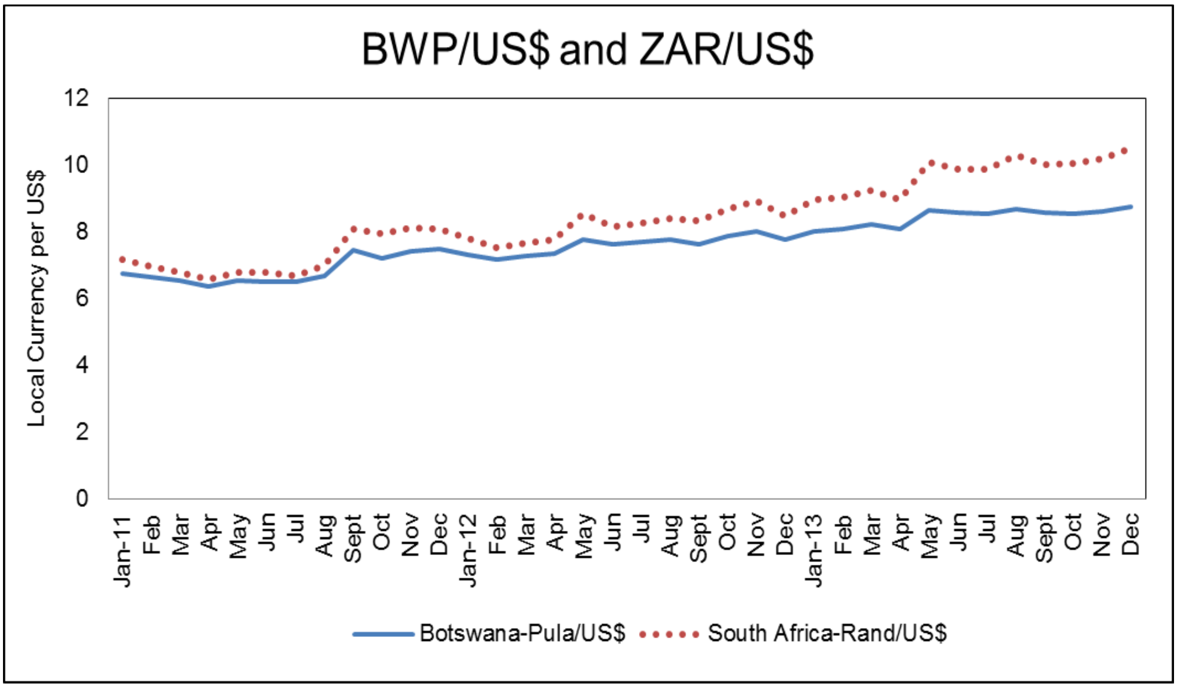
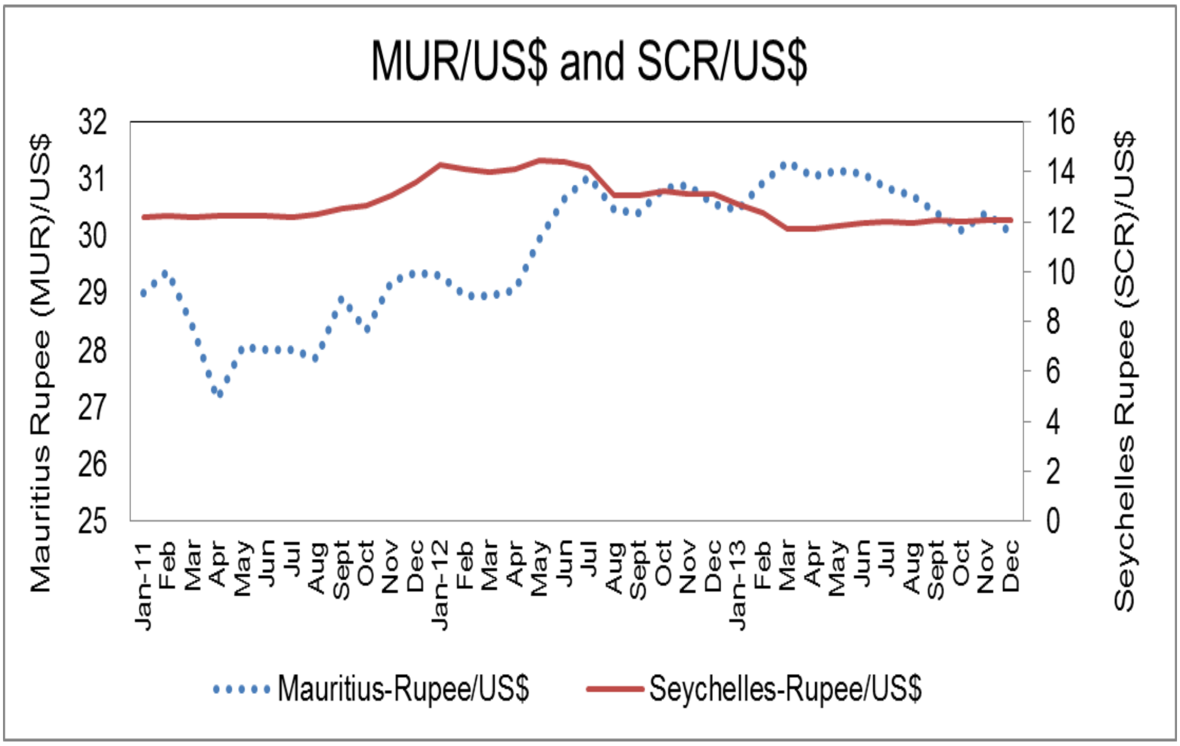
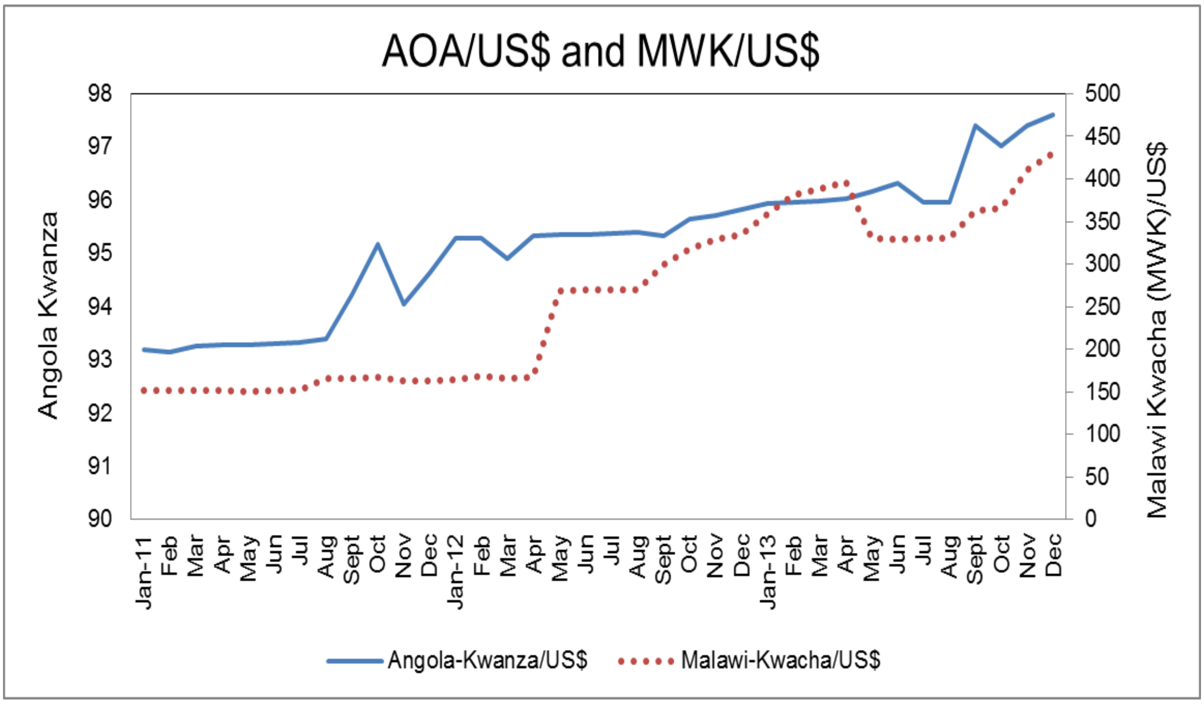
Appendices

Appendix I: Exchange Rates Trends






AOA/US$ and MWK/US$
Angola Kwanza
Malawi Kwacha (MWK)/US$
98
97
96
95
94
93
92
91
90
500
450
400
350
300
250
200
150
100
50
0
Jan-11
Feb
Mar
Apr
May
Jun
Jul
Aug
Sept
Oct
Nov
Dec
Jan-12
Feb
Mar
Apr
May
Jun
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Jan-13
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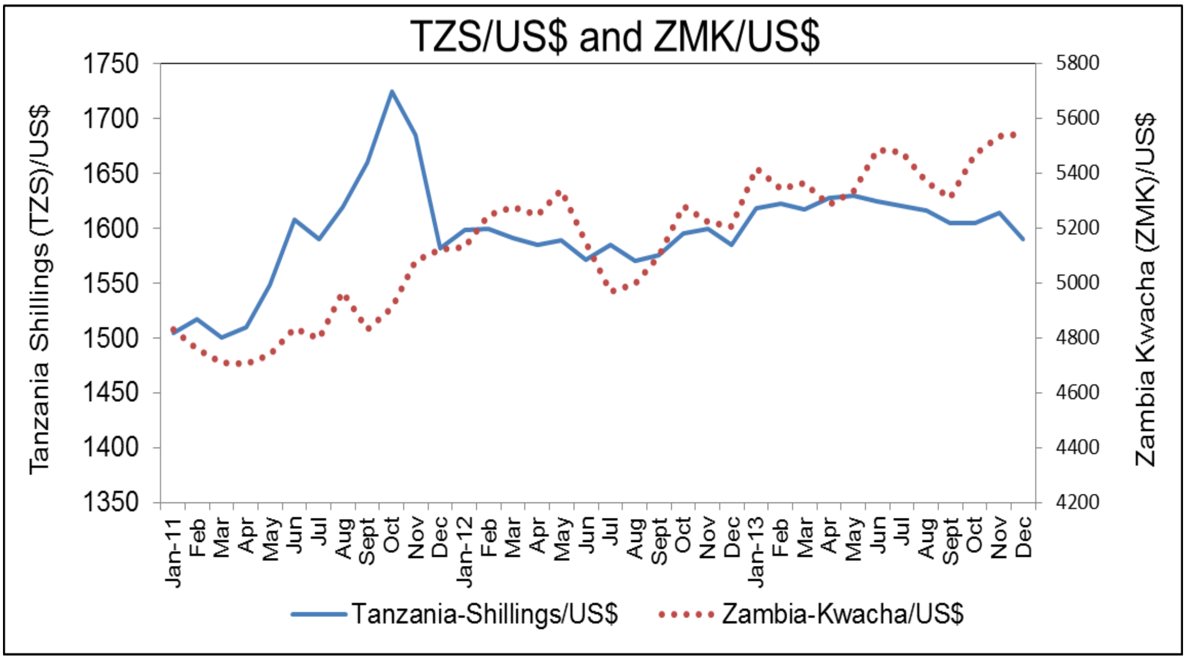
Angola-Kwanza/US$
Malawi-Kwacha/US$


TZS/US$ and ZMK/US$
Tanzania Shillings (TZS)/US$
Zambia Kwacha (ZMK)/US$
1750
1700
1650
1600
1550
1500
1450
1400
1350
5800
5600
5400
5200
5000
4800
4600
4400
4200
Jan-11
Feb
Mar
Apr
May
Jun
Jul
Aug
Sept
Oct
Nov
Dec
Jan-12
Feb
Mar
Apr
May
Jun
Jul
Aug
Sept
Oct
Nov
Dec
Jan-13
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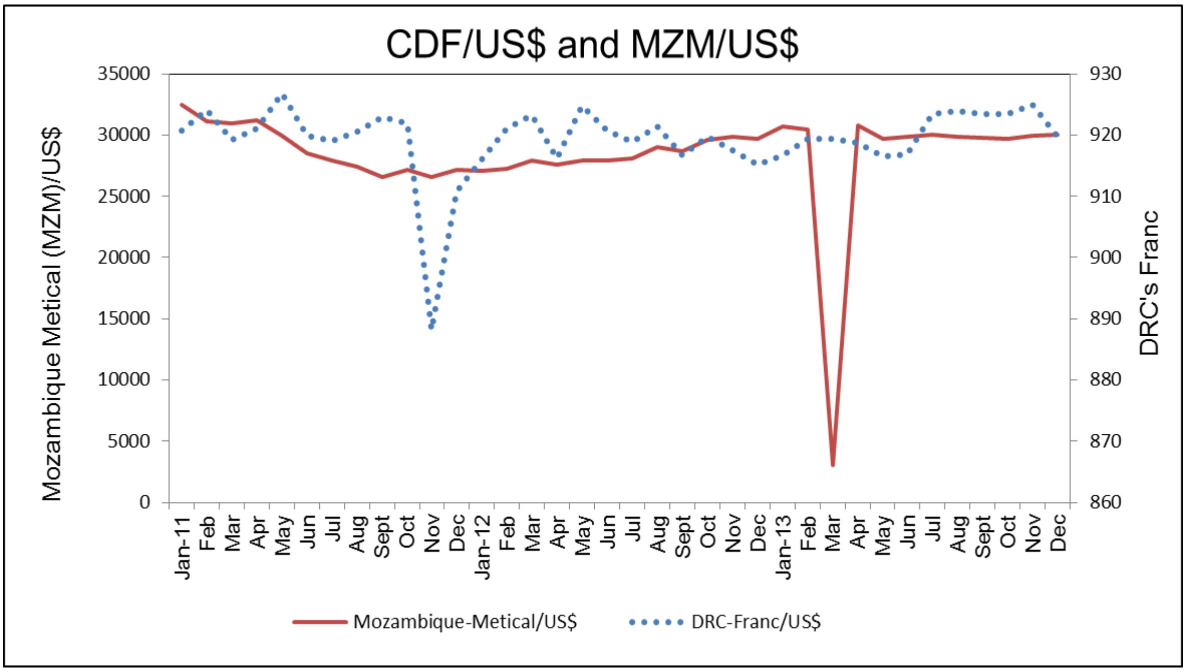
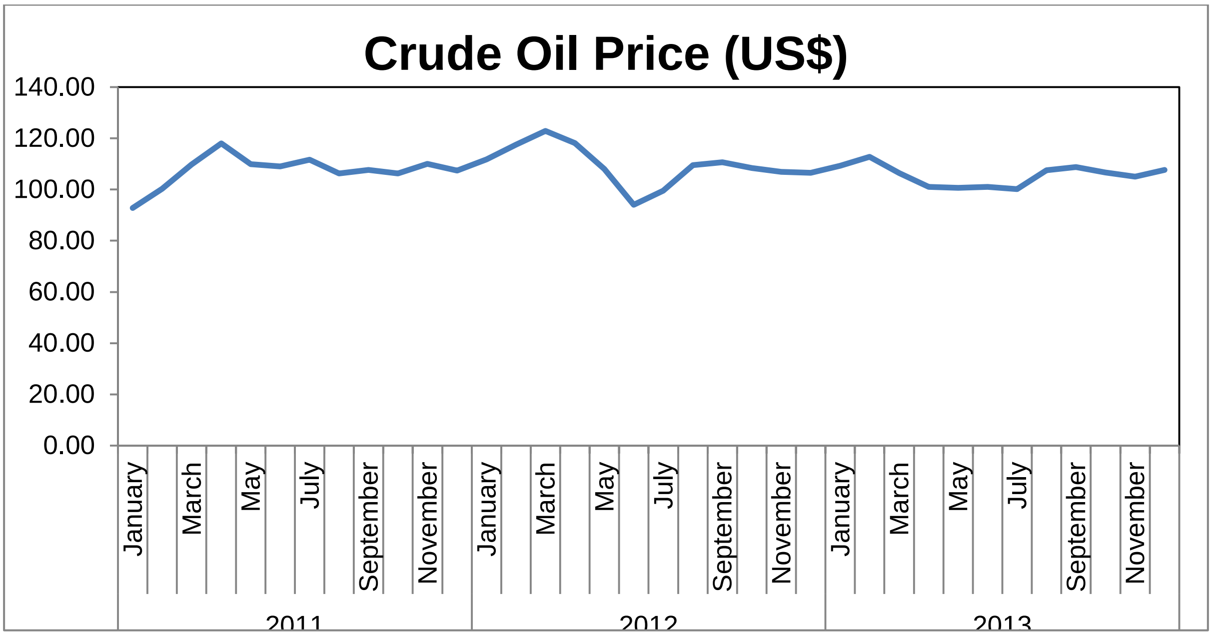
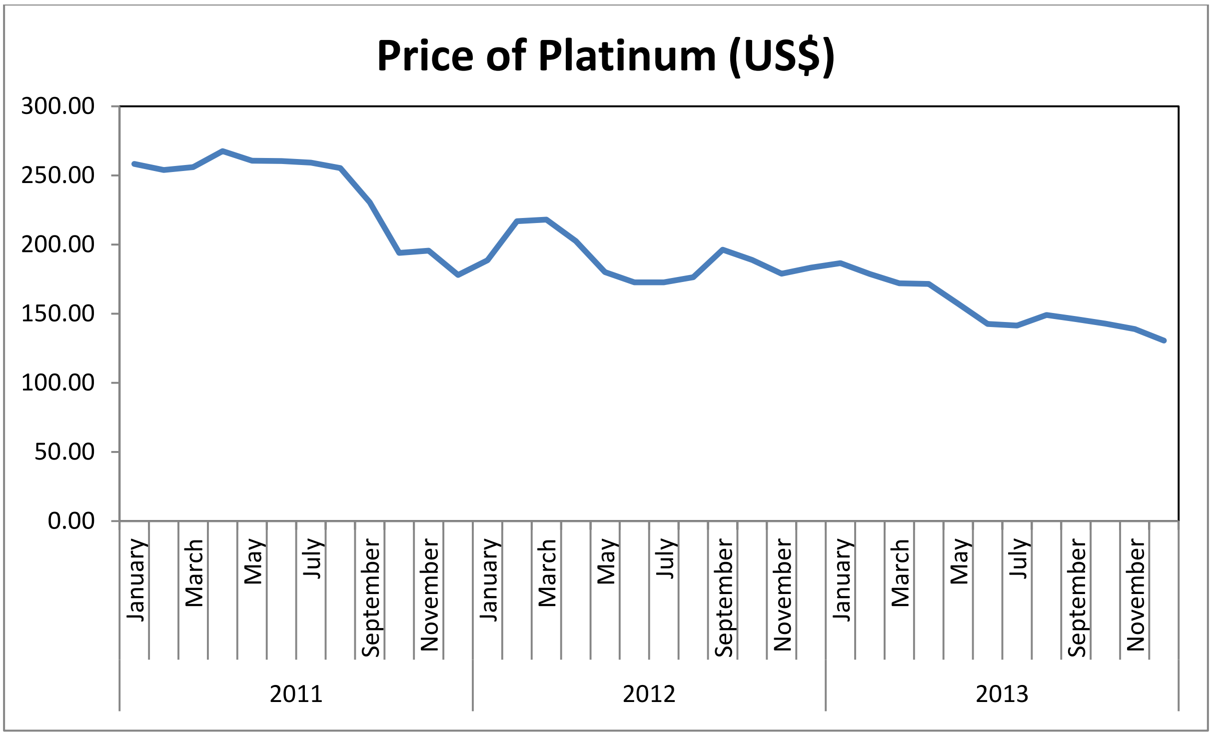
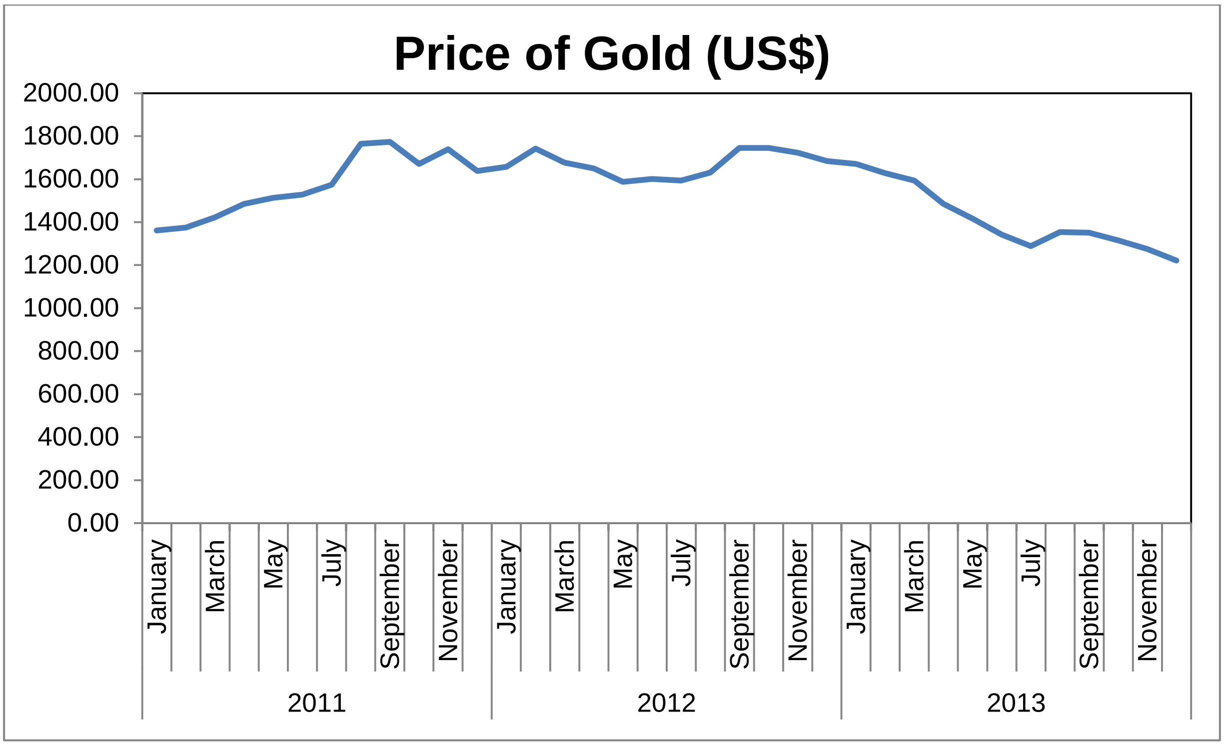
Oct
Nov
Dec
Tanzania-Shillings/US$
Zambia-Kwacha/US$

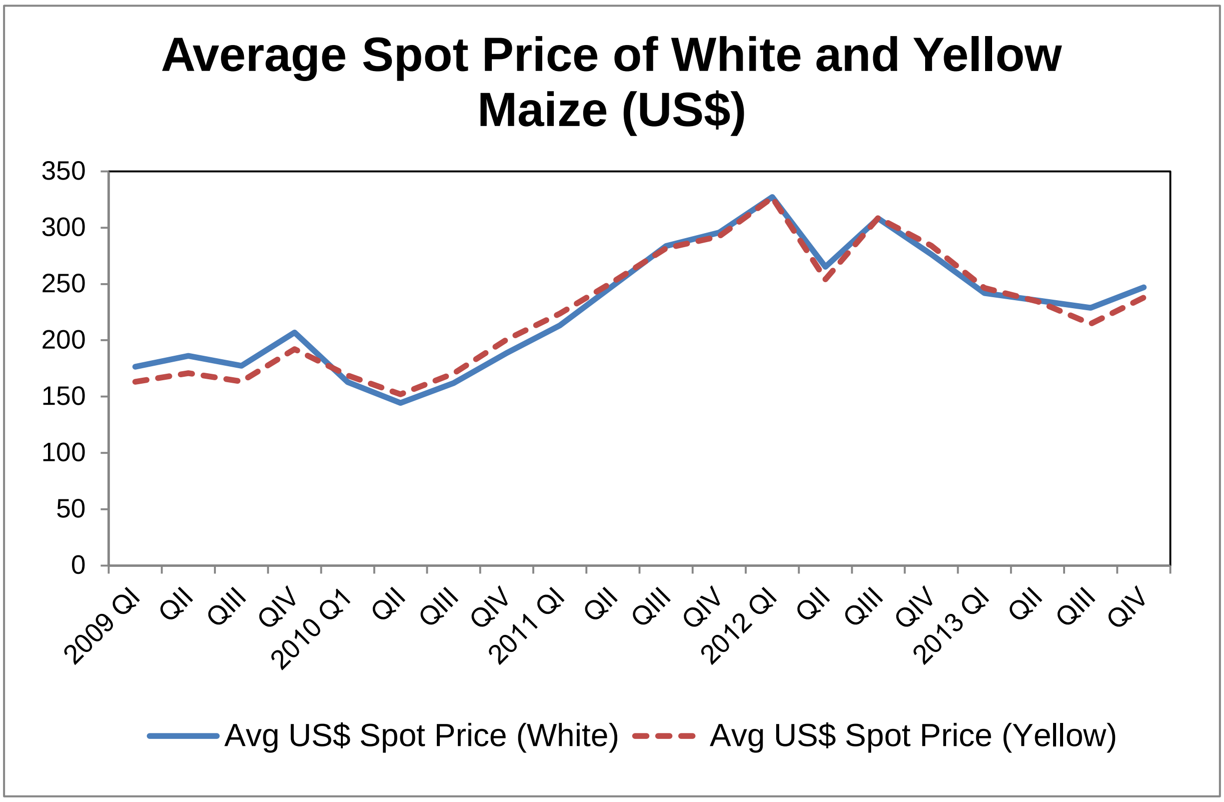


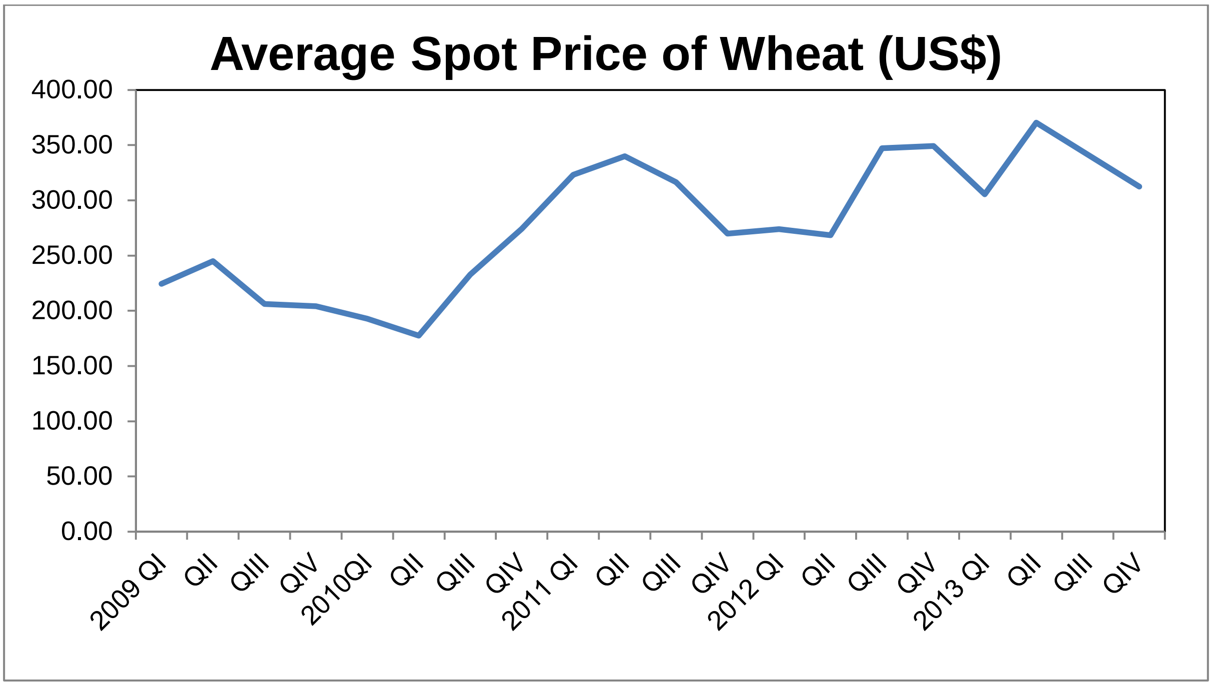
Appendix II: Selected Commodity Prices




Price of Platinum (US$)
300.00
250.00
200.00
150.00
100.00
50.00
0.00
January
March
May
July
September
November
2011
2012
2013


Price of Gold (US$)
2000.00
1800.00
1600.00
1400.00
1200.00
1000.00
800.00
600.00
400.00
200.00
0.00
January
March
May
July
September
November
2011
2012
2013


Average Spot Price of White and Yellow Maize (US$)
350
300
250
200
150
100
50
0
2009 QI
QII
QIII
QIV
2010 Q1
QII
QIII
QIV
2011 QI
QII
QIII
QIV
2012 QI
QII
QIII
QIV
2013 QI
QII
QIII
QIV
Avg US$ Spot Price (White)
Avg US$ Spot Price (Yellow)


Average Spot Price of Wheat (US$)
400.00
350.00
300.00
250.00
200.00
150.00
100.00
50.00
0.00
2009 QI
QII
QIII
QIV
2010QI
QII
QIII
QIV
2011 QI
QII
QIII
QIV
2012 QI
QII
QIII
QIV
2013 QI
QII
QIII
QIV

Appendix III: Summary of Macroeconomic Indicators

SADC Macroeconomic Information 11-Jun-14

Country	Inflation (Period Average) Headline				Inflation (Period Average) Underlying				Budget Balance as % of GDP				Public debt as percentage of GDP				Months of Import Cover				Real Growth Rate			
	2011	2012	2013	2014 Latest month	2011	2012	2013	2014 Latest month	2010	2011	2012	2013	2010	2011	2012	2013	2010	2011	2012	2013	2010	2011	2012	2013
Angola	11.38	9.02	7.69	7.22	n.a.	n.a.	n.a.	n.a.	6.8	10.2	6.7	-2	38.0	32.4	30.1	33.4	6.6	7.8	8.6	8.5	3.4	3.9	5.2	6.8
Botswana	8.5	7.5	5.9	4.5	8.2	7.1	5.7	4.1	-6.5	-0.2	0.8	0.3	24.8	26.9	25.8	22.5	14.1	13.2	14.3	15.8	8.6	6.2	4.3	5.9
DRC	15.5	9.3	1.2	1.4					0.6	-0.8	1.3	0.0	28.3	24.9	25.5	28.7	1.8	1.7	2.2	2.1	7.1	6.9	7.2	8.5
Lesotho	5.1	6.1	5.0	5.9*	5.1	6.1	5.0	5.9*	-6.3	-5.8	0.4	3.4	37.1	36.9	40.6	43.0	4.8	4.6	4.7	6.2	7.1	2.8	6.5	3.0
Madagascar	9.5	5.7	5.8	1.9	n.a.	n.a.	n.a.	n.a.	-1.1	-1.6	-1.4	-2.0	30.6	32.2	32.1	28.5	3.7	3.9	3.6	2.6	0.3	1.5	3.0	2.4
Malawi	7.6	28.6	22.9	23.9	12.2	23.6	30.7	28.5	-0.1	-1.2	-3.3	-3	31.7	33.9	48.1	56.5	3.1	2.3	2.2	3.4	6.7	4.3	1.9	6.1
Mauritius	6.5	3.9	3.5	4.0**	4.8	3.0	2.6	n.a.	-3.2	-3.2	-1.8	-3.5	58.8	58.7	57.9	60.0	5.0	4.6	4.9	5.2	4.2	3.6	3.4	3.2
Mozambique	10.3	2.1	4.2	3.8	9.8	2.0	3.7	3.6	-4.3	-5.3	-3.8	-2.9	45.8	39.6	42.7	53.1	3.3	2.4	2.8	3.1	7.1	7.4	7.3	6.9
Namibia	5	6.7	5.6	4.9	n.a	n.a	n.a	n.a	-5.2	-7.2	-2.8	-6.4	15.5	26.4	26.3	27.8	3	3.2	3.4	2.3	6	4.9	5.0	4.3
Seychelles	2.6	7.1	4.3	3	n.a	n.a	n.a	n.a	7.9	3.2	1.3	0.6	84	81	76	69	2.6	2.5	3	3.8	5.6	7.9	2.8	3.5
South Africa	5.0	5.7	5.7	6.1	3.5	4.6	5.2	5.5	-4.2	-5.0	-5.4	-4.9	63.0 (36.2)	65.1 (39.8)	70.7 (42.7)	73.9 (45.9)	4.9	5.0	5.0	n.a	3.1	2.5	1.9	2.7
Swaziland	6.1	8.9	5.6	5.3	6.3	6.4	5.1	4.9	-9.5	-5.4	4.3	-0.2	14.8	14.9	16	17.1	2.9	2.3	2.9	3.9	1.9	-0.7	1.9	2.8
Tanzania	12.6	16.0	7.9	6.3*	7.1	8.2	6.2	4.3*	-6.4	-6.6	-5.0	-6.8	43.1	48.2	41.8	45.2	6.2	4.1	4.3	4.6	7.0	6.4	6.9	7.0
Zambia	8.7	6.6	7.0	7.8	n.a	n.a	n.a	n.a	-2.2	-1.0	-2.9	-6.6	21.3	20.6	25.5	28.7	4.0	3.6	4.1	3.0	7.6	6.4	6.8	6.7
Zimbabwe	3.5	3.7	1.6	-0.3	n.a	n.a	n.a	1.6	-0.3	-3.0	-2.4	-2.2	91.9	65.5	56.8	58.9	1.0	0.6	0.7	0.6	11.4	11.9	10.6	3.4
SADC Average	7.86	8.46	6.26	5.79					-2.26	-2.19	-0.93	-2.42	40.41	38.72	38.94	40.89	4.47	4.11	4.45	4.66	5.81	5.06	4.98	4.88
Conv criteria (2009-2012)	5% inflation rate by 2012								Deficit 3% as an anchor within a band of 1%				Less than 60% of GDP				Not less than 6 months				Not less than 7%			
Conv criteria (2013-2018)	3% inflation rate by 2018								Deficit 3% as an anchor within a band of 1%				Less than 60% of GDP				Not less than 6 months				Not less than 7%			

n.a not available

* Apr 2014

**Headline Inflation for the month of May 2014

South Africa: Underlying CPI exlcuding food, non-alcoholic beverages, petrol and energy. Budget balance and public debt figures are in fiscal years; Public debt data for national government in brackets

Public debt is for December 2013, national government is for March 2014

Botswana: Fiscal year runs from April to March. E.g calendar year 2010 = financial year 2010/11