Southern Africa Development Community

Review of Macroeconomic Convergence Performance for 2007

TIFI Directorate
Macroeconomic Policies and Convergence Section
April 2008

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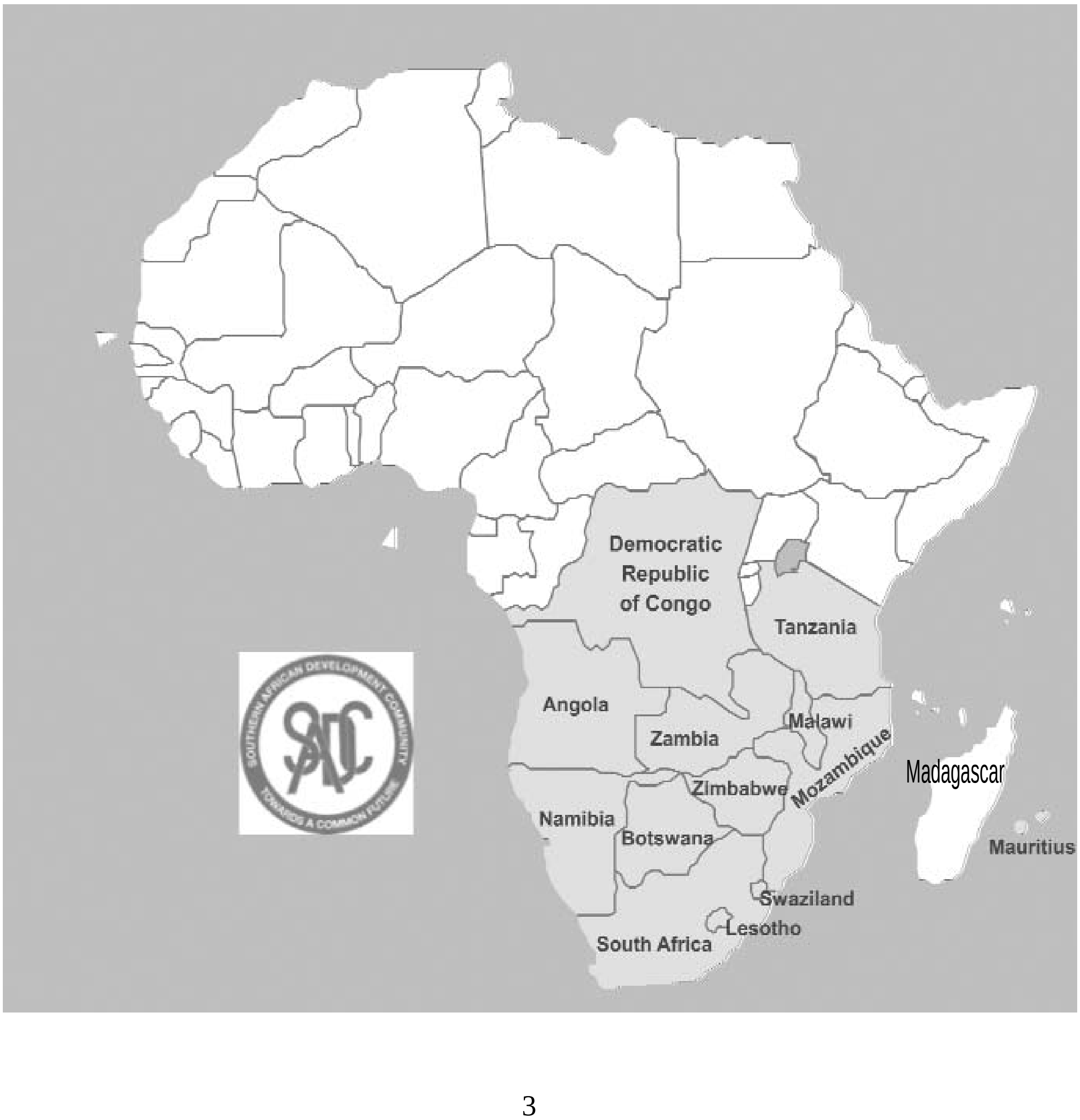
PART ONE


Democratic
Republic
of Congo
Tanzania
Angola
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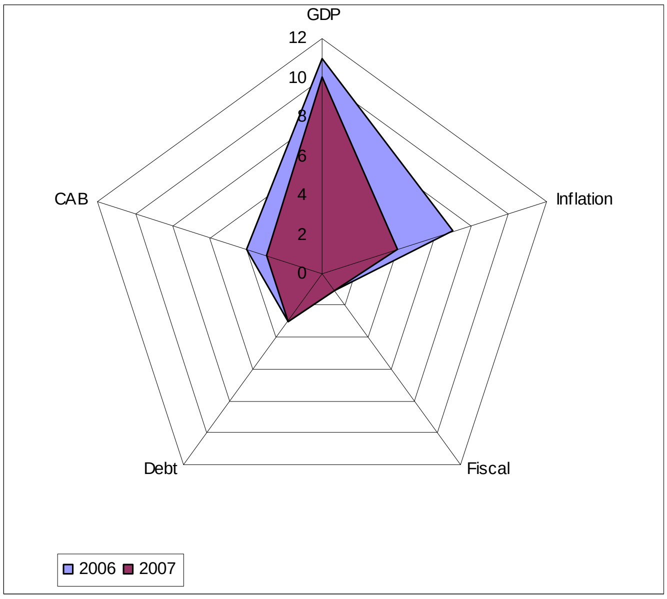
Mauritius
Swaziland
Lesotho
South Africa
SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
SADC
TOWARDS A COMMON FUTURE

Regional Economic Performance

Economic Performance

Updates provided by Member States in February 2008 indicate that economic performance in the SADC region was satisfactory in 2007 and prospects for 2008 are generally good. With regard to macroeconomic convergence indicators, Member States have made noticeable progress and the general picture is that the region is converging to some extent (see Fig 1).

Fig 1: SADC – Progress in Macroeconomic Convergence 2007



Economic Growth

Considerable progress has been made in attaining reasonable levels of economic growth in the region. Most countries have recorded positive growth for five consecutive years. However, the level attained in economic growth falls short of the regional target of real GDP growth set at 7.0 per cent for 2008. Real GDP increased on average by 5.9 per cent in 2007, virtually the same growth rate that was attained in 2006.

There are a number of factors contributing to the lag in economic growth. Firstly, this is partly attributed to the lagged effect of investment spending. It is only in recent years that the region has seen an increase in investment expenditure. The region recorded an investment/GDP ratio of 22.5 percent on average in 2007 compared to 20.7 per cent recorded in 2006. It is anticipated that the fruits of such investment should be forthcoming in the years to come. However, while investment has been increasing, its level remains low. Only a few countries have managed to come close to the regional investment target of 30 per cent of GDP for 2008.

The other important factor contributing to this lag in economic growth is the fact that economic structures of many countries in the region remain narrow. For instance, the majority of Member States' production sectors are not diversified and depend mostly on natural resources – agriculture, minerals, etc. This compromises the sustainability of economic growth. As such economic growth is susceptible to shocks such as recurrent adverse weather conditions.

All in all, the primary challenge for the SADC region is to translate the economic gains so far made into poverty reduction.

Inflation

Regional average inflation slowed down to 8.3 per cent in 2007 (excluding Zimbabwe) from 9.7 per cent recorded in 2006 (see Table 1). Most of the Member States have contained inflation through prudent monetary policies and have also benefited from improvements in weather, which has eased cost-push pressures on food prices. However, monetary expansion, external shocks such as rising commodity prices particularly of oil (for oil importing countries), and recurring droughts/floods remain a challenge to containing and sustaining inflation at low levels.

Table 1: Regional Performance of SADC, SACU and CMA

	2006					2007				
	Inflation	Fiscal	Debt	CAB	GDP	Inflation	Fiscal	Debt	CAB	GDP
SADC	82.8	2.6	34.9	-0.7	5.8	905.1	0.6	46.4	-1.8	5.9
SADC (Excl. ZIM)	9.7	3.2	31.6	-0.3	6.4	8.3	1.4	39.0	-1.8	6.8
SACU	6.5	4.4	25.7	8.5	4.7	7.2	2.8	23.5	8.1	4.5
CMA	5.3	3.5	32.1	5.4	4.9	7.3	3.3	29.4	6.5	4.1

Fiscal Balance/GDP Ratio

The region recorded an average fiscal balance surplus of 0.6 per cent of GDP in 2007, which is lower than the 2.6 per cent recorded in 2006. Most Member States have made progress towards achievement of the MEC target of fiscal deficit of less than 5 per cent of GDP. This has been due to the gains from Highly Indebted Poor Countries (HIPC) Initiative and prudent fiscal policies. Sustainability of the fiscal balances will depend on continued strong fiscal policy stance. For instance the majority of Member States' revenue sources remain narrow, hence their dependency on external loans/grants and domestic borrowing. Trade-related revenues continue to account for a large proportion of Government revenues for some of the Member States, especially those belonging to the Southern African Customs Union (SACU)[1] and the Common Monetary Area (CMA)[2].

Public Debt/GDP Ratio

Member States are striving to attain the MEC target of public debt/GDP ratio of lest than 60 per cent. The factors contributing to this include, amongst others,

[1] Botswana, Lesotho, Namibia, South Africa, Swaziland
[2] Lesotho, Namibia, South Africa, Swaziland

debt relief from the HIPC Initiative and prudent fiscal regimes. As such the region recorded a public debt/GDP ratio of 46.4 per cent in 2007, an increase by 11.5 percentage points from the 34.9 per cent recorded in 2006. The widening in the ratio is largely attributed to a deterioration of the public debt ratio for the Democratic Republic of Congo (DRC).

Current Account Balance/GDP Ratio

The region's current account balance deteriorated from an average deficit of 0.7 per cent of GDP in 2006 to an average deficit of 1.8 per cent of GDP in 2007, largely as a result of a surge in imports. However, these imports are largely intermediary imports for production, construction and infrastructure development. The current account deficits have largely been financed by capital inflows, grants and loans.

Table 2: SADC – Performance of Member States

	2006					2007				
	Average Annual Inflation	Fiscal Balance/GDP ratio	Debt/GDP ratio	CAB/GDP ratio	GDP Growth Rate	Average Annual Inflation	Fiscal Balance/GDP ratio	Debt/GDP ratio	CAB/GDP ratio	GDP Growth Rate
Angola	12.2	-3.4	19.2	16.4	18.6	11.8	-0.1	na	4.0	19.8
Botswana	11.6	8.1	0.0	20.9	3.9	7.1	0.6	0.0	14.5	6.2
DRC	18.2	-0.7	2.6	-7.5	5.1	9.9	2.8	105.0	-3.7	6.3
Lesotho	6.0	13.3	49.9	1.8	7.2	7.9	5.3	46.6	11.9	5.1
Madagascar	10.8	37.5	29.3	-8.8	4.9	10.3	-4.7	35.3	-19.3	6.3
Malawi	13.9	-0.7	26.3	-14.0	7.9	7.5	-1.9	22.6	-17.2	7.4
Mauritius	8.9	-4.3	62.8	-9.5	5.0	8.8	3.8	63.1	-5.4	5.6
Mozambique	13.3	-1.1	52.8	-9.3	6.3	8.2	1.9	45.0	-3.7	7.3
Namibia	5.1	2.1	31.4	18.3	4.6	6.7	4.8	28.3	17.8	3.8
South Africa	4.7	0.6	29.3	-6.5	5.0	6.2	0.5	27.4	-6.7	4.7
Swaziland	5.3	-2.1	17.9	8.1	2.8	8.2	2.6	15.4	3.0	2.8
Tanzania	7.3	-4.8	63.5	-12.2	6.2	7.0	3.8	40.4	-17.1	7.3
Zambia*	9.1	-2.8	25.8	-1.4	5.8	8.9	-1.2	na	-2.1	5.7
Zimbabwe	1033.4	-5.5	78.3	-5.5	-1.8	12562.7	-10.0	128.0	-0.8	-6.2

Sustaining Economic Performance

The work ahead for the region needs to dwell on ensuring that the milestones so far achieved especially in the areas of fiscal and public debt are guarded. Furthermore, the region should guard against letting inflation slip out by pursuing prudent monetary policies. The quality of the current account should be maintained, i.e. imports for investment rather than for final consumption should be encouraged. More importantly, the region should leverage the current performance to achieve higher economic growth in the medium term. However, to achieve all this, the region needs to surmount a number of challenges, namely:

(a) recurrent droughts/floods, which affect production and levels of prices;
(b) power shortages due to low generation capacities compounded by a surge in demand as a result of increased economic activity;
(c) continued conflicts in some Member States;
(d) rising oil prices on the international market;
(e) rising food prices especially this time when global food reserves are at their lowest level in 30 years;

(f) the FIFA 2010 World Cup preparations which have impacted on availability and pricing of a number of commodities in the region such as cement which is required for construction of the infrastructure for the World Cup; and

(g) shortage of critical skills due to the HIV/AIDS pandemic and the expanding economic activities.

To that effect, a majority of Member States have put in place strategies aimed at improving the business and investment climate; developing entrepreneurship; and general private sector development as a means of overcoming the challenges and sustaining the current levels of performance and meeting the minimum target of 7 per cent growth in real GDP.

PART TWO


DEMOCRATIC REPUBLIC OF CONGO
Kinshasa
UNITED REPUBLIC OF TANZANIA
Dodoma
Dar es Salaam
Luanda
ANGOLA
MALAWI
Lilongwe
ZAMBIA
Lusaka
MOZAMBIQUE
Harare
ZIMBABWE
MAURITIUS
Port Louis
Antananarivo
MADAGASCAR
NAMIBIA
Windhoek
BOTSWANA
Gaborone
Pretoria
Maputo
Mbabane
SWAZILAND
Maseru
LESOTHO
SOUTH AFRICA
Cape Town

Angola

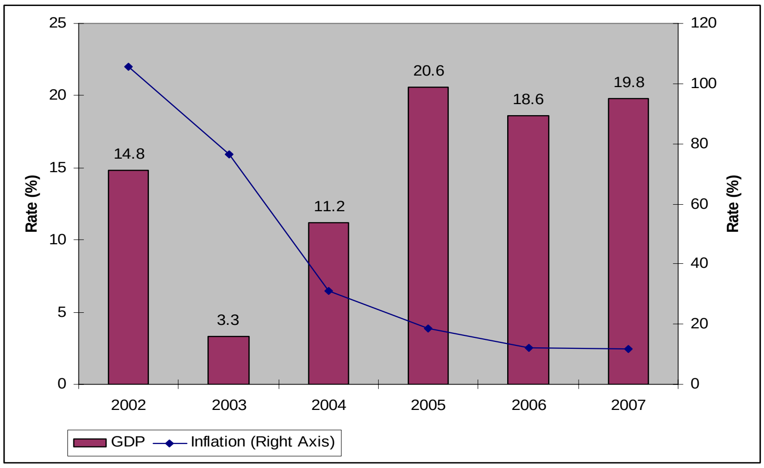
Overview

The performance of the Angolan economy remains satisfactory with record GDP growth rates since 2004, largely on account of large investments in the natural resource sector and improved commodity prices on the international market. Both the external and domestic balances remain strong. Inflation has substantially decelerated from 3-digit levels in 2002. However, the economy remains narrow based, hence susceptible to shocks such as poor terms of trade.

GDP Growth

Angola continues to experience high economic growth of over 10 per cent for the past four consecutive years since 2004. Real GDP growth was 19.8 per cent in 2007, up by 1.2 percentage points from the 18.6 per cent growth recorded in 2006. Real GDP is projected to increase by 16.2 per cent in 2008.

Fig 1.1: Angola – Developments in Economic Growth and Inflation



Large investments in infrastructure and the natural resource sector such as oil and diamonds have contributed to the impressive performance. Further, improved terms of trade by way of increasing commodity prices of oil also contributed to the positive performance.

Inflation

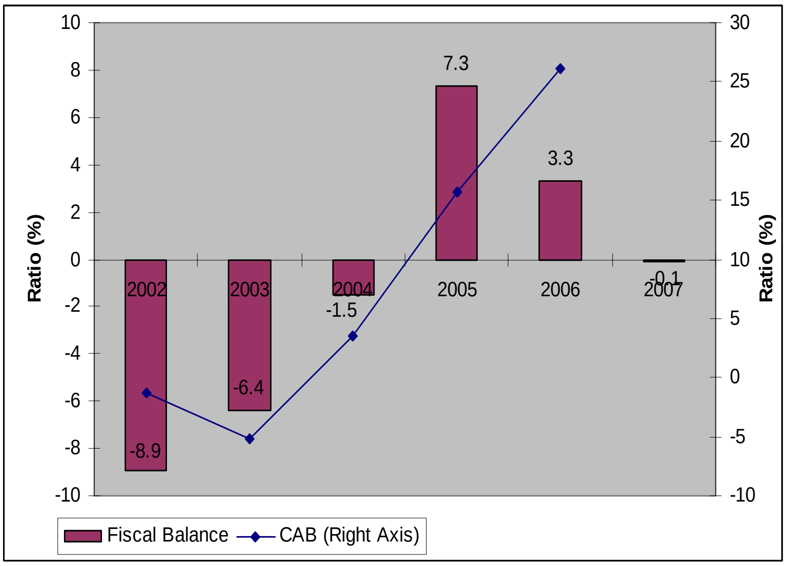
Angola has seen a rapid deceleration of its inflation rate in the past several years from levels above 105.6 per cent in 2002 to an annual average rate of 11.8 per cent in 2007. Inflation is expected to further decelerate to 10 per cent in 2008.

Factors contributing to the deceleration of inflation include stabilization of the exchange rate (arising from a balance of payments surplus largely due to oil and diamond exports) and a virtually balanced fiscal stance.

Fiscal Sector

In 2007, the Angola Government's fiscal stance was virtually balanced, with a small deficit amounting to 0.1 per cent of GDP. Angola recorded budget surpluses of 7.3 per cent of GDP and 3.3 per cent of GDP in 2005 and 2006, respectively. In 2008, a deficit is expected because of the need for Government to invest in infrastructure and the social sector.

Fig 1.2: Angola – Trends in Fiscal and Current Account Balances as Percent of GDP



External Sector

Angola last recorded a current account deficit in 2003 of 5.2 per cent. Since 2004, it has recorded surpluses of 3.5 per cent of GDP rising to 15.7 per cent of GDP in 2005. Angola recorded a current account surplus of 26.1 of GDP in 2006. This is largely on account of its significant exports of oil and diamonds. The country is expected to continue to record surpluses on the current account.

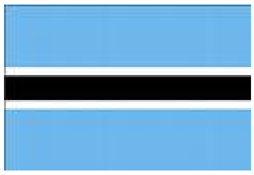
Public Debt

Public debt as a proportion of GDP has been on a downward trend since 2003, when it was at 64.8 per cent of GDP. In 2006, public debt stood at 20.6 per cent of GDP and it is expected to continue on this downward trend. Large foreign investment flows and proceeds from oil and diamond exports have helped Angola to reduce its public debt and the need to borrow to finance its budget needs.

Key Policy Thrust

Given the progress that has already been made over the past few years, the Angolan Government's key policy thrust is to consolidate the gains that have so far been made in stabilizing the macroeconomic environment. With inflation having come down over the past five years from over 100 per cent in 2002 to 11.8 per cent in 2007, the objective for 2008 is for the rate of inflation to come down further to single digit levels. Likewise, all the primary macroeconomic indicators (i.e. inflation, fiscal balance, current account balance, public debt) are expected to be within the SADC macroeconomic targets in 2008. On the back of continuing mineral exploration and favourable international commodity prices, GDP growth will remain high – above 7 per cent per annum - in the next few years. The strong export revenues should enable the government to maintain a prudent fiscal stance and the current account balance to remain positive.

The strong revenues from exports should also enable the Angolan Government to devote significant expenditures towards addressing the infrastructural bottlenecks that still exist as well as increasing social spending to address the poverty that a large proportion of the population faces.



Botswana

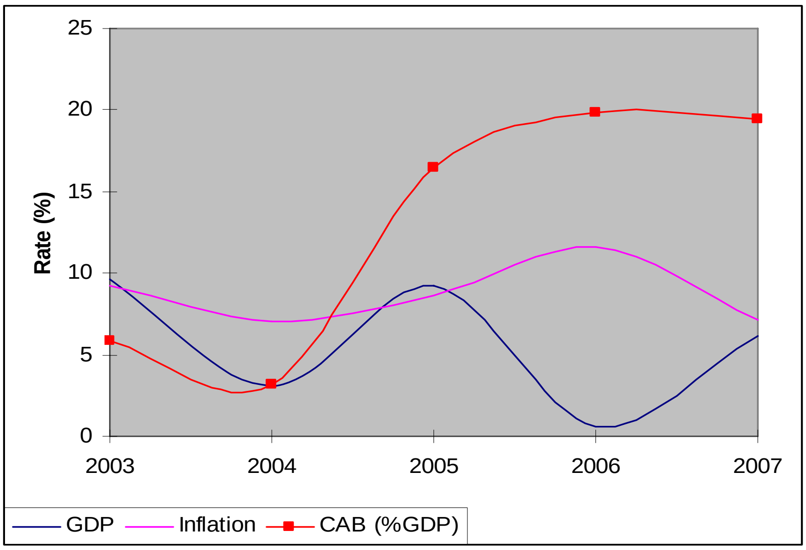
Overview

Botswana's economy continues to be dominated by the mining sector, which contributes roughly 40 per cent to GDP. The mining sector's performance has enabled the Government of Botswana to run surpluses on it's budget in most years since the early 1980s and the country to accumulate sizeable international reserves from its current account surplus.

Real GDP

Real GDP growth in the 2006/07 fiscal year amounted to 6.2 per cent. This compares to a marginal growth of 0.6 per cent recorded in 2005/06. Growth is estimated to have remained high in 2007 due to high commodity prices on the international market, particularly for diamonds, copper and nickel.

Fig 2.1: Botswana - Developments in GDP, Inflation and Current Account Balance



Savings and Investment

During 2006/07, domestic investment grew by 18.9 per cent, registering 25.5 per cent of GDP. During 2007 deposits by Government, firms and households in commercial banks increased by 74 per cent. Net international investment amounted to P57.3 billion in 2007.

Continuous efforts are being made to improve the investment climate in Botswana, particularly in view of the low Foreign Direct Investment (FDI), and especially in comparison to other middle income countries. These measures include improvement and maintenance of infrastructure; maintenance of a relatively low corporate income tax rate; and maintaining the anti-corruption stance.

Inflation

At the beginning of 2007 inflation stood at 7.4 per cent, continuing the downward trend experienced towards the end of the previous year. This trend continued during the first half of 2007, reaching 6.4 per cent in June. However, inflation started rising in the second half of the year to reach 8.1 per cent in December. Inflation averaged 7.1 per cent during 2007, which was lower than the average rate of 11.6 per cent in 2006.

The average inflation for 2007 was above the 4 to 7 per cent annual inflation objective range set by the Bank of Botswana. In 2008, Botswana’s inflation is expected to remain single digit levels, and is expected to fall within the Bank of Botswana’s medium-term objective of 3-6 per cent.

Fiscal Sector

The budget outturn for the 2006/07 fiscal year was an overall surplus of P7.7 billion, about 10 per cent of GDP. Total revenue and grants amounted to P27.4 billion, with Customs Union revenue showing the highest rate of increase at 68.2 per cent.

The actual total expenditure and net lending amounted to P19.7 billion, with recurrent expenditure of P16.0 billion and development expenditure of P4.1 billion. This total expenditure amounted to 28 per cent of GDP over the same period, which falls within Botswana’s Fiscal Rule of annual expenditure not exceeding 40 per cent of GDP. Measures are however being undertaken to improve project implementation and thereby scale up expenditure levels.

External Sector

The preliminary estimates of the balance of payments show a current account surplus of about P12.1 billion for 2007, an increase of P1.8 billion over the 2006 surplus. The capital account balance also increased to a surplus of P493 million compared to the 2006 surplus of P142 million, while the financial account balance recorded a deficit of P1.4 billion.

The overall balance of payments is expected to record a surplus of P10.3 billion in 2007. The foreign exchange reserves amounted to P59.8 billion as at the end of November 2007. This amount of foreign reserves is equivalent to 28 months of imports cover for goods and services.

Public Debt

Botswana's public debt amounted to P4,489.1 million, P2,872.7 million and P3,699.1 million for the years 2004, 2005 and 2006 respectively. These figures represent 10.5 per cent, 5.8 per cent and 6.5 per cent of GDP, respectively.

The twin surpluses on the government budget and the current account of the balance of payment shows that there has been no need to borrow either domestically or externally. This debt record was made possible by the accumulation and maintenance of sufficient international reserves, a concessionary loan portfolio as well as effective management of the debt. The current levels of public debt will allow for some increased levels of borrowing to finance development projects during the next few years and still be able to remain within or below the SADC target.

Key Policy Thrust

The major challenge for Botswana is to sustain the economy at high levels of growth. Other challenges include high levels of unemployment and poverty; narrow economic base; HIV/AIDS pandemic; small internal market; high transport costs due to the country being landlocked; and recent power shortages being experienced in the region. Policies will aim at addressing these challenges in the short to medium term.

Democratic Republic of Congo

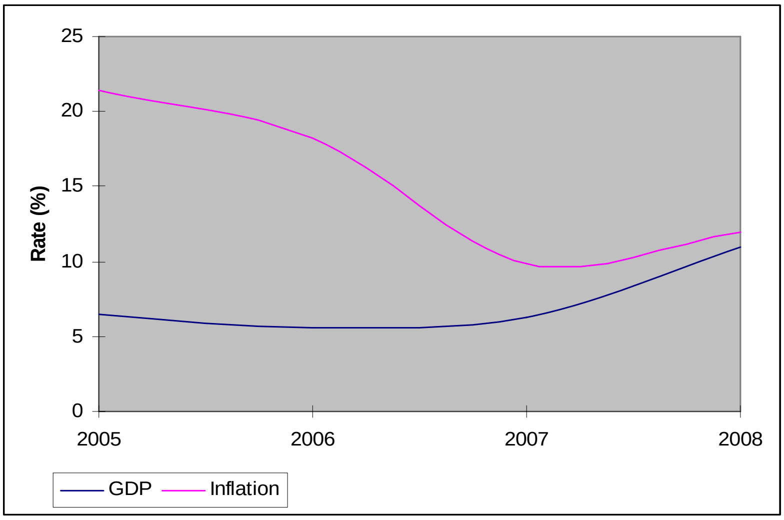
Overview

Following the restoration of democratic institutions, the Government of the Democratic Republic of Congo (DRC) has put in place a macroeconomic management programme designed to create macroeconomic stability as well as other reforms aimed at promoting good governance, poverty reduction and meeting the requirements of the Highly Indebted Poor Countries (HIPC) Initiative. This programme, which was launched in 2007, has seen improvements in macroeconomic performance in 2007 relative to 2006.

Real GDP

In 2007 the DRC registered real GDP growth of 6.3 per cent, compared to 5.6 per cent in 2006. In 2008, the economy is expected to expand by 11 per cent, on the back of a number of economic reforms, including the rehabilitation of the Inga Hydroelectric scheme, arresting the wage-price spiral, revisiting mining contracts and oil exploration.

Fig 3.1: DRC – Developments in Economic Growth and Inflation



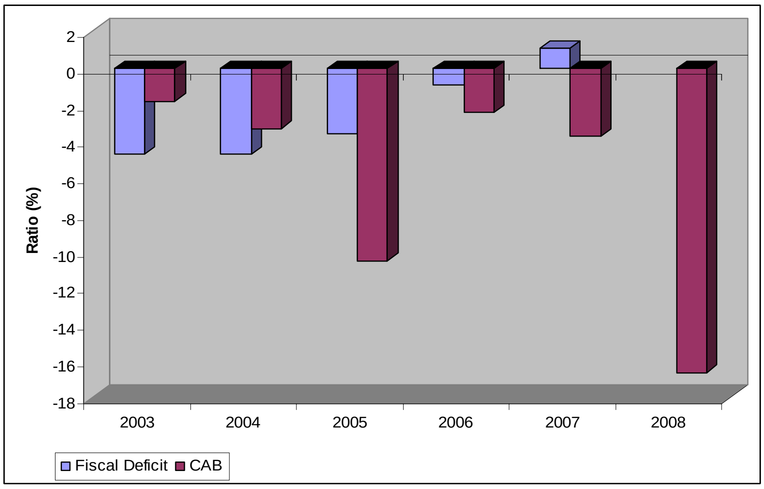
Inflation

Inflation registered a downward trend from 21.4 per cent in 2005, slowing to 18.2 per cent in 2006 and 9.9 per cent in 2007. Inflation is projected to rise to 12 per cent in 2008. The downward trend in inflation is however expected to continue in the short to medium-term.

Fiscal Sector

The DRC has managed to run relatively low levels of fiscal deficits since 2003. The fiscal deficit has narrowed from 4.9 per cent of GDP in 2004 to 0.9 per cent in 2006 ***(according to the IMF Regional Outlook for Sub-Saharan Africa, October 2007)***. DRC expects further improvements in the fiscal balance when it reaches the HIPC completion point, after which it will benefit a lot in terms of debt relief.

Fig 3.2: DRC – Trends in Fiscal and Current Account Balances (as percent of GDP)



External Sector

Performance of the external sector improved between 2005 and 2007 as indicated by the decline in the current account deficit from 10.5 per cent of GDP in 2005 to 2.4 per cent of GDP in 2006. A current account deficit ratio to GDP of 3.7 per cent was recorded in 2007. However, the current account is expected to deteriorate to 16.6 per cent of GDP in 2008.

Public Debt

Public debt levels remain high in the DRC although they have gradually decreased from levels of 151 per cent of GDP in 2005 to 105 per cent of GDP in 2007. However, DRC is expected to benefit from the HIPC initiative after reaching completion point, which should see most of its debt written off. As such it is projected that public debt will be reduced substantially to 23 per cent of GDP in 2008.

Key Policy Thrust

The policy thrust for DRC in the short to medium term will aim at attaining and ensuring macroeconomic stability; and economic growth. This will be achieved through prudent fiscal policies; infrastructural development including rehabilitation of the Inga Dam and improvement of telecommunication infrastructure; reforms in the mining sector such as revision of mining contracts; reforms in the trade sector including decentralization of custom procedures; and improving productivity of both public and private enterprises.

Kingdom of Lesotho

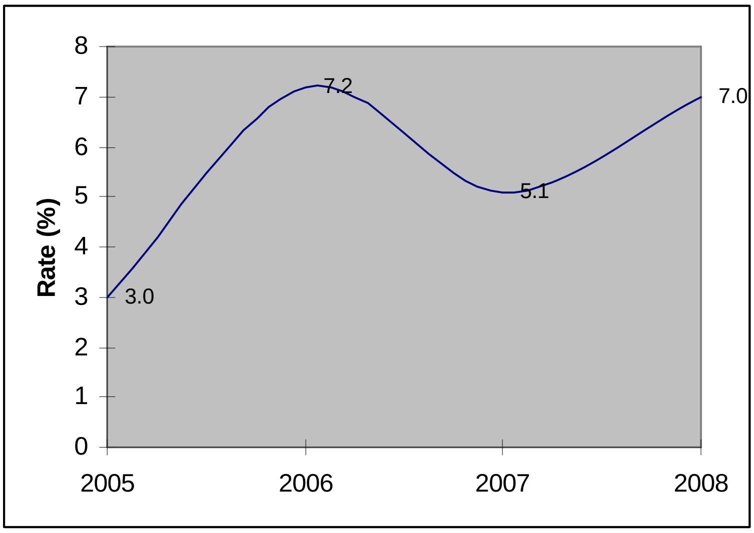
Overview

Despite the worst drought in 30 years, economic performance of Lesotho remained positive in 2007. Savings and investments registered satisfactory performance. Inflation developments continued to follow those of the region. The domestic and external balances remained robust.

Real GDP

Real GDP registered a growth rate of 5.1 percent in 2007; 2.1 percentage points lower than the growth rate in 2006 of 7.2 per cent. Real growth is projected to accelerate to 7.0 percent in 2008 and in the medium term.

Fig 4.1: Lesotho - Trends in Real GDP Growth



However, the agricultural sector suffered a sharp decline in 2007 because of severe drought. Crops declined by a significant 40.0 percent while livestock increased by a margin of 0.5 percent. Government with the assistance of the European Union (EU) and Food Agricultural Organisation (FAO) are implementing the “inputs subsidy program” for the 2007/08 cropping season to assist farmers to cope with the drought. Crops are expected to fully recover in 2008.

Nonetheless, the negative performance of the primary sector was mitigated by the continued increase in diamond mining output. The mining and quarrying sector recorded a 37.5 percent growth in 2007. This was due to persistently good performance of the Lets’eng Diamond mine coupled with the opening of the Liqhobong mine. The increase in output is a reflection of the streamlining of efficiency gains that accrued due to additional investment that the sector benefited from. The investment is likely to be rewarded in the international market as there is a shift from liquid stock market instruments to commodities, in particular precious metals. The output is expected to keep this upward trend given that at least four mining companies are at prospecting stage.

The secondary sector remained strong in 2007. Manufacturing, which predominantly comprises the textile and clothing sector, and accounts for more than 15 percent of GDP, appears to have recovered. Manufacturing growth sustained an upward trend from what it was in 2006 to 11.0 percent in 2007. This growth is likely to decelerate in 2008 and in the medium term as the sub-sector reaches full capacity unless there is an increase in production capacity.

Savings and Investment

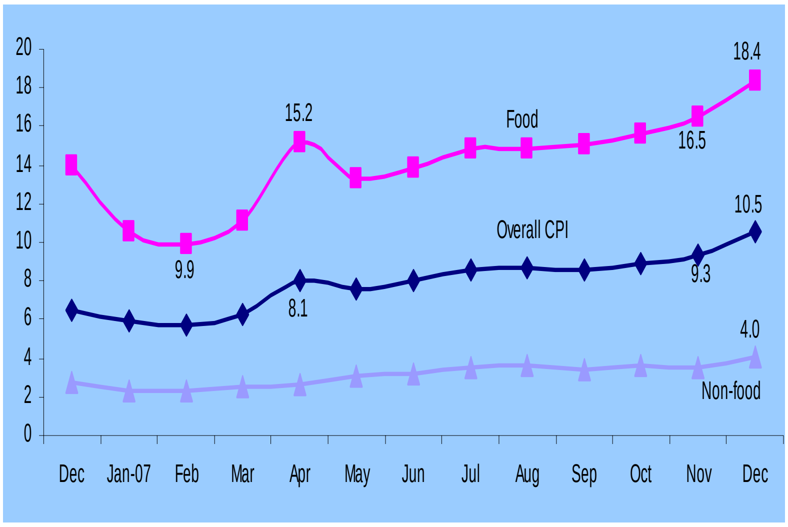
Both total savings and investment recorded significant increases as a percentage of GDP in 2007. A national savings/GDP ratio of 45.7 percent was recorded in 2007, mostly driven by the growth in private sector savings; and is expected to stay at around 40 percent of GDP in 2008.

Total investment which has stayed at just above 30 percent of GDP for the past few years and into 2007 (33.8 percent of GDP) will remain at that level into 2008 and beyond.

Inflation

Inflation reached 7.9 percent in 2007 compared to 6.0 percent in 2006. The severe food shortages due to drought conditions in the region and the persistent increase in the price of oil along with the increased use of biofuels are exerting

Fig 4.2: Lesotho – Developments in Inflation



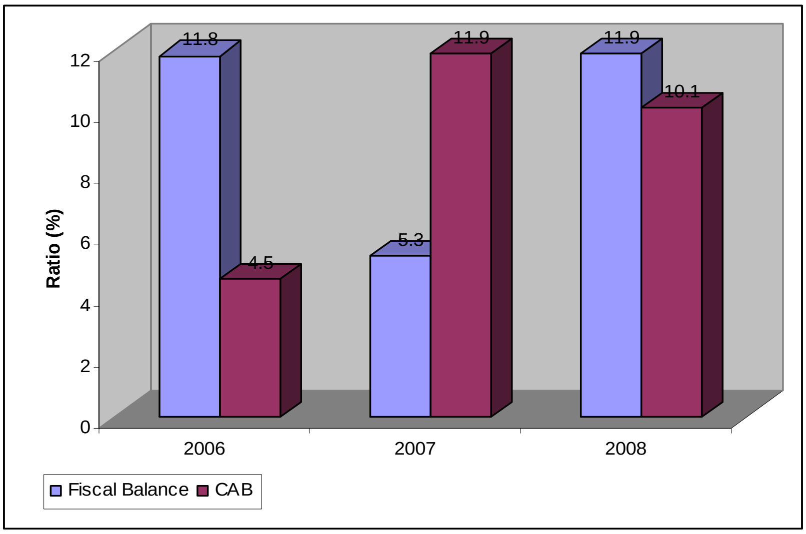
immense inflationary pressure on the economy. Depreciation of the domestic currency against major currencies has also put some pressure on inflation as well through increased prices for imported inputs.

Inflation is expected to stabilise in 2008 and through the medium term, thus remaining within the digit SADC macroeconomic convergence target.

Fiscal Sector

The fiscal balance continued to register surpluses and was at 5.3 percent of GDP in 2007. This is a reduction from 11.8 percent recorded in 2006. There were significant amounts from customs revenue that included upward adjustments on the actual collection that was received during the third quarter of the year coupled with good performance of non-customs revenue. Spending has also been relatively slow, especially the capital budget, thus expanding the annual budget surpluses.

Fig 4.3: Lesotho – Trends in Fiscal and Current Account Balances



External sector

The provisional overall balance of payments registered a surplus of M1.94 billion for 2007, although the second quarter of 2007 registered a deficit, entirely due to the appreciation of the local currency against major currencies including the US Dollar experienced during the quarter.

The current account balance registered an improvement; a surplus of 11.9 percent of GDP in 2007 and it is expected to record a surplus of 10.1 percent of GDP in 2008.

Public Debt

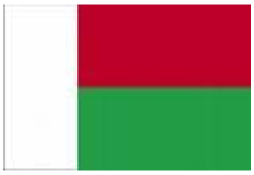
Since 2004 the Government of Lesotho has been using the budget surpluses to reduce public debt, while at the same time the surpluses ameliorated the pressure to borrow. The public debt to GDP ratio has, therefore, stabilised at an average of 48 percent during 2006 and 2007. During 2008, the debt to GDP ratio is expected to decrease to 42 percent and decrease even further in the medium term, when the remaining domestic debt matures in 2009.

The Government of Lesotho is committed to maintaining its public debt at sustainable levels, by disposing of all commercial debt and limiting its borrowing to concessional terms (over 85 percent of Lesotho's debt is concessional and considered sustainable), based on the determined Public Sector Borrowing Requirement (PSBR). Government is further committed to building its reserves from the current budget surpluses for future financing requirements.

Key Policy Thrust

Lesotho's challenges in the medium to long term include an expected decline in the customs revenue (which constitutes about 60 percent of total revenue) as a result of trade liberalization under the SADC Free Trade Area and Customs Union; and increased competition in textiles exports. Therefore, Government's policy direction will focus on domestic revenue mobilisation and diversification of export products and markets. To sustain economic growth, Government will focus on consolidating its public investment programme to assist the development of the private sector, by providing complementary infrastructure.

Madagascar



Overview

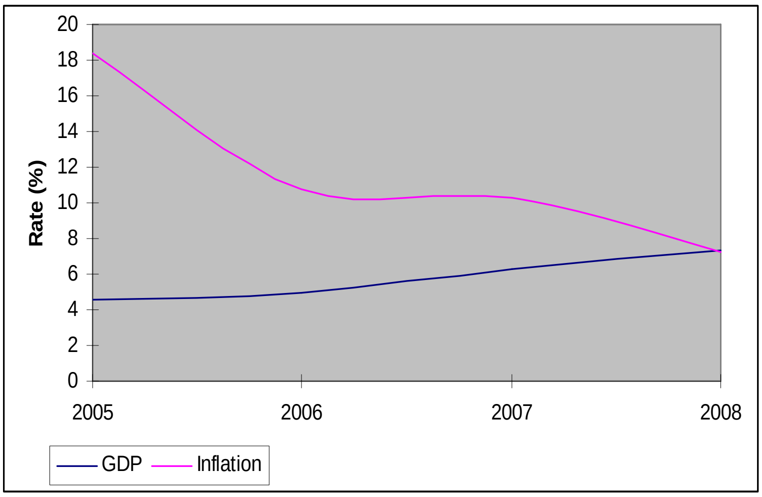
Madagascar has experienced high levels of economic growth in recent years. The main sources of growth are mining, construction and exports arising from the Export Processing Zones (EPZ).

The Government has also implemented some key economic policy reforms. These include the setting up of the Economic Development Board of Madagascar (EDBM) whose primary function is to make the investment climate attractive by streamlining administrative procedures and tax administration. Other reforms include more transparent public finance management and budget preparation; and computerization of customs.

Real GDP

The performance of the economy of Madagascar has been satisfactory since 2003. This is due to significant FDI flows and the coming on stream of major mining projects. As such, GDP increased by 6.3 per cent in 2007 and is expected to increase by 7.3 per cent in 2008.

Fig 5.1: Madagascar – Developments in Real GDP and Inflation



Of the total growth in GDP in 2007, 1.9 per cent was attributed to the primary sector; 9 per cent to the secondary sector; and 8.3 per cent to the tertiary sector. This good performance was also explained by the upturn of the EPZ sector which grew by 8.3 per cent following a period of decline during the past years.

Inflation

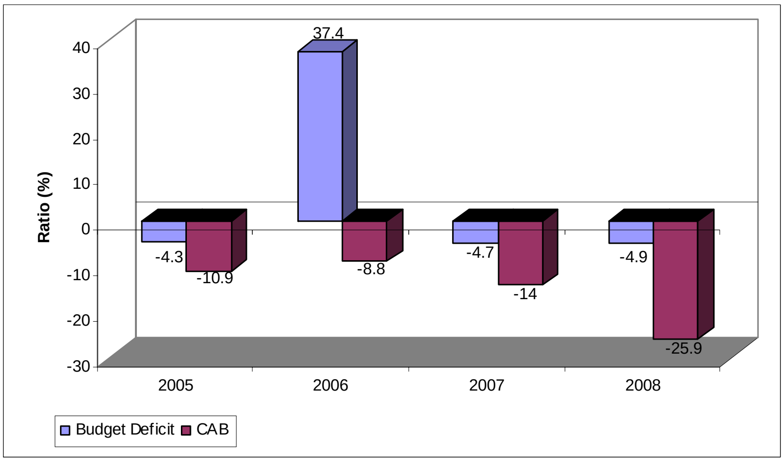
Madagascar's inflation has been decelerating since 2005. In 2007, inflation averaged 10.3 per cent and is expected to average 7.2 per cent in 2008. This is due to prudent monetary policy combined with a tight budgetary policy.

The main objective of monetary policy was sterilizing the liquidity injections arising from the start-up of two major mining projects in the country, which led to significant inflows of foreign exchange, and curbing the demand for credit from the private sector.

Budget Deficit

Government's objectives in the fiscal area are primarily to widen the tax base and to consolidate measures that have been put in place to improve tax and customs administration. The budget deficit as a percent of GDP returned to its 2005 level in 2007 after recording a surplus of 37.4 per cent of GDP in 2006.

Fig 5.2: Fiscal and Current Balances as Percent of GDP



The high surplus level in 2006 was a result of investment-related inflows and capital transfers from the Multilateral Debt Relief Initiative (MDRI). The fiscal balance is expected to record a deficit of 4.9 per cent of GDP in 2008.

External Sector

Madagascar's current account deficit widened significantly in 2007 to 14.0 per cent of GDP from 8.8 per cent in 2006, primarily on account of a rise in capital and intermediate goods imports by the mining sector, which saw new projects being commenced. These imports for the mining sector will see the current account deteriorate further in 2008 to a deficit of 25.9 per cent. However, while the current account may be worsening, the country has recorded healthy inflows of Foreign Direct Investment (FDI) which have resulted in an overall balance of payments surplus of SDR148.4 million in 2007.

Public Debt

The Multilateral Debt Relief Initiative helped Madagascar to reduce public debt from record levels of 80.3 per cent of GDP in 2005 to less than 40 per cent of GDP in recent years. As such public debt stood at 35.3 per cent of GDP in 2007 and is expected to decline further to 34.8 per cent of GDP in 2008.

Key Policy Thrust

The major challenge for Madagascar in the short to medium term is to ensure a stable macroeconomic environment. As such, economic policy will focus on implementing prudent monetary policies to contain inflation and ensure a healthy international reserve position.

Further, reforms will be directed towards ensuring improvements in productivity and diversification of the economy. More importantly, Government will focus on implementing polices that will improve the investment climate through the Economic Development Board of Madagascar (EDBM); setting up measures to improve administrative procedures and the tax system; simplification and facilitation of the fiscal system; and transparency in the budget process and public finance in general.

Malawi

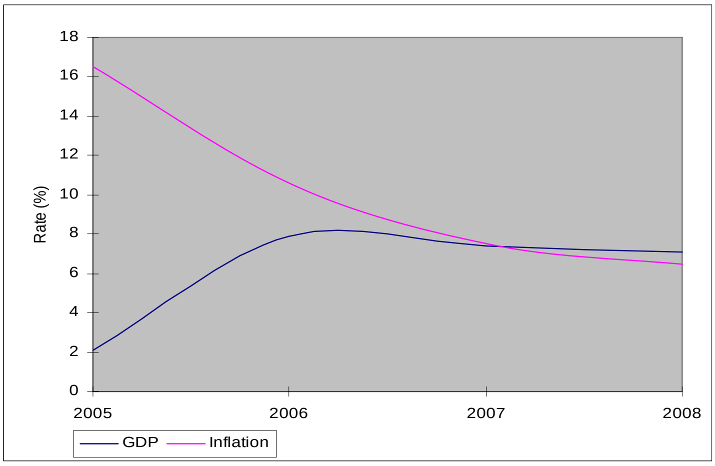
Overview

Malawi's recent economic performance has been satisfactory and prospects for the medium term remain good. However, mixed performance in the external sector; dependency on rain-fed agriculture; and a large domestic debt remain challenges in the short to medium term.

Real GDP

Real GDP grew by 7.9 per cent in 2006 on account of a more than expected growth in the agriculture sector. In 2007, real GDP growth is expected to slightly slowdown to 7.4 per cent; and is projected to slowdown further to 7.1 per cent in 2008.

Fig 6.1: Malawi - Developments in Economic Growth and Inflation



This satisfactory performance is on the back of impressive performance in the agriculture sector. Government agriculture inputs subsidy programme and irrigation programmes; and the good weather have partly contributed to this performance. In addition, huge construction works; an expanding export sector due to increased production activities emanating from increased investments; and general stability in the macroeconomic environment have contributed to the good performance.

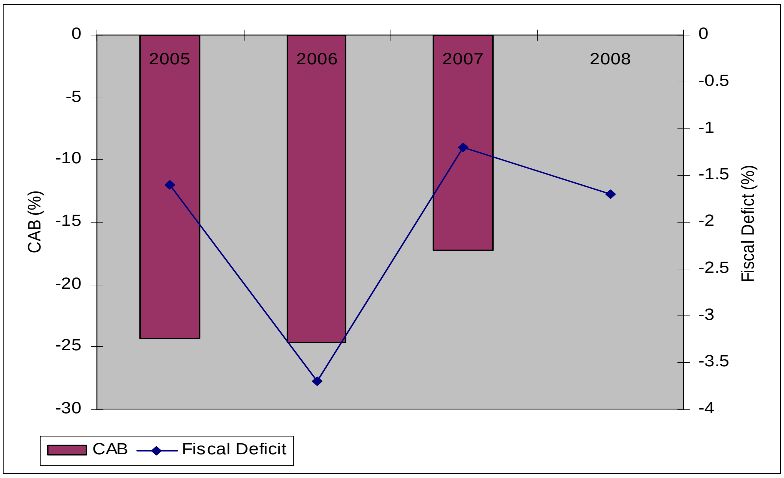
Inflation

The increased food supply as a result of increased agriculture production has helped to slowdown inflation from an annual average of 10.6 per cent in 2006 to 7.5 per cent in 2007; and is expected to slowdown further to 6.5 per cent in 2008. Reduced government borrowing and expenditure; and tight monetary policy have also contributed to the positive developments in overall inflation.

Fiscal Sector

Overall fiscal performance for the 2006/07 financial year was satisfactory. Total revenue and grants as a percentage of GDP amounted to 31.9 per cent, slightly above the programmed target of 30.7 per cent. Domestic revenues of 18.2 per cent of GDP were substantially higher than projected, reflecting a rebound in economic activity and continued improvements in tax administration.

Fig 6.2: Malawi – Developments in the Current Account and Fiscal Balances (%GDP)



On the other hand, total expenditure of 33.1 per cent of GDP was above the programmed target of 31.7 per cent of GDP. This was largely due to unexpected non-discretionary expenditures and delays in aid disbursement despite continued government efforts to improve fiscal discipline. Consequently, the overall deficit including grants was 1.2 per cent of GDP above the programmed target of 1 per cent.

External Sector

Performance of the external sector remains unimpressive despite good performance of the economy in general. Exports are not growing much faster than imports. However, Malawi was able to export maize in 2007 in addition to traditional exports, i.e. tobacco, tea and sugar. This was a result of large surpluses of maize realized in the 2006 and 2007 agriculture seasons.

Consequently, the current account deficit as a percentage of GDP improved slightly from 24.6 per cent in 2006 to 17.2 per cent in 2007. Implementation of export diversification and promotion programmes; and improvement in infrastructure such as transportation are expected to improve the export prospects in the medium term.

Public Debt

As of end-2005 the total disbursed and outstanding debt stock on public and publicly guaranteed debt amounted to US$2.97 billion. This was significantly reduced by end-December 2007 following the approval of the HIPC Completion Point by the World Bank and the IMF in August 2006.

In present value terms, external debt was reduced from unsustainable levels of 245 per cent of exports of goods and services to 2.7 per cent in 2007. In nominal terms, the ratio of public debt to GDP declined from 137 per cent before debt relief to 22.6 per cent as of 2007. The likely impact on debt service is a substantial reduction from US$115 million per annum representing 22 per cent of exports of goods and services to US$16 million per annum between the years 2006 to 2015.

In the long run, external debt will be sustainable even though there is a risk of worsening debt indicators as a result of expected future borrowing arising from unanticipated exogenous factors.

Key Policy Thrust

Government policy will centre on wealth creation through sustainable economic growth and infrastructure development as a means of achieving poverty reduction. To ensure food security Government shall maintain overall increased agriculture production through intensified irrigation programmes; and reduced cost of major farm inputs.

On monetary policy, focus will be on achieving low inflation and sustainable low interest rates. Inflation is targeted to come down to 5 per cent by 2011. Broad money is expected to anchor the monetary programme with foreign exchange sales and open market operations as the main policy instruments in influencing liquidity in the economy. The exchange rate policy will remain market determined.

The medium term fiscal policy objective will strive to maintain fiscal discipline while balancing Government expenditure between productive and social sectors of the economy. It is expected that the underlying fiscal deficit will average 0.2 per cent for the next five years.

Mauritius

Overview

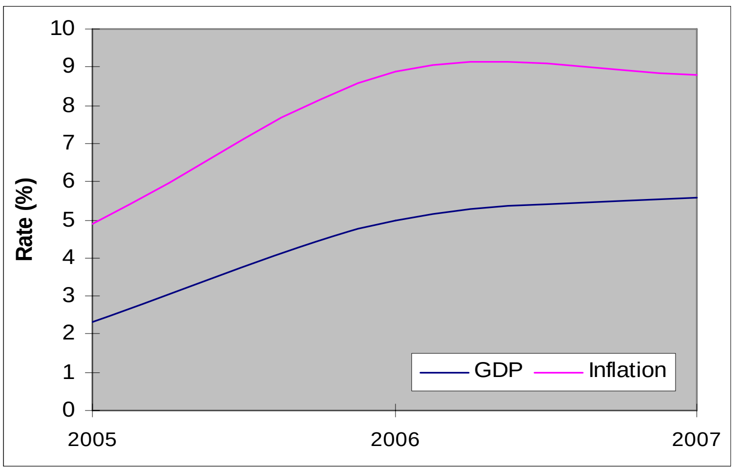
Mauritius stands at the crossroads, having experienced a sharp transition from dependence on trade preferences to open competition in the global economy; and a deteriorating macroeconomic performance, namely: low GDP growth rate of 2.3 per cent in 2005; high budget deficit of 5.3 per cent of GDP in 2005/06; high debt to GDP ratio of 71.1 per cent in 2005/06; widening current account deficit of 9.4 per cent in 2006; rising unemployment rate at 9.6 per cent in 2005; and declining saving and investment rates of 17.4 per cent and 21.4 per cent in 2005. As such a new reform programme was put in place to address these factors.

Real GDP

After recording marginal economic growth of 2.3 per cent in 2005, real GDP increased by 5.0 per cent in 2006 and by 5.4 per cent in 2007. The turn around in economic growth is a positive response to the reforms Government has put in place.

These reforms seek to bring back the economy to a higher growth path of 6-7 per cent and making it more competitive, flexible and adaptable. Real GDP growth in 2008 is therefore projected at 6.0 per cent.

Fig 7.1: Mauritius – Developments in Economic Growth and Inflation



Inflation

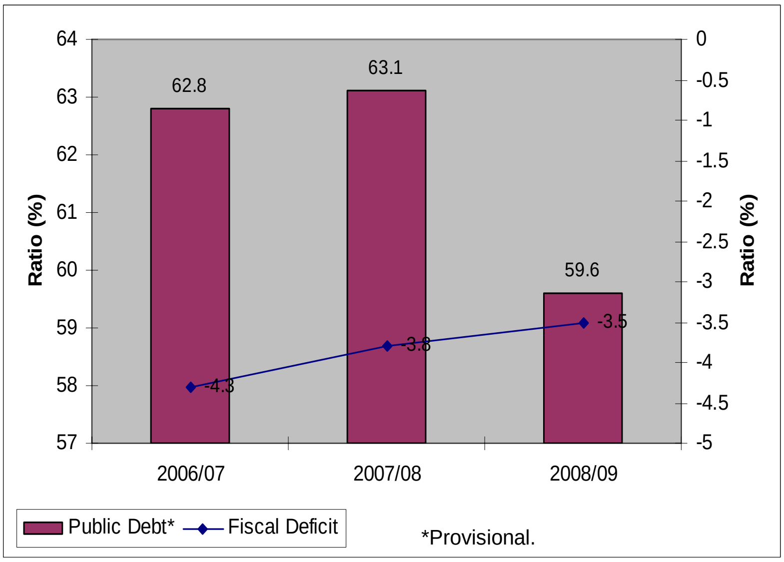
Inflation stabilized at 8.8 per cent in 2007 compared to 8.9 per cent recorded in 2006. Inflation is expected to slow down further in 2008.

Government's policy aims at maintaining low levels of inflation by, among other things, sustaining reductions in the fiscal deficit; reinforcing the role of the central bank in maintaining price stability; improving the monetary framework; and setting up a Monetary Policy Committee to improve the formulation of monetary policy and ensure a high degree of transparency and accountability to the public.

Fiscal Sector

Mauritius has been undergoing a period of fiscal consolidation. As a result fiscal deficit declined from 5.3 per cent of GDP recorded in 2005/06 to 4.3 per cent of GDP in 2006/07. In 2007/08 fiscal deficit is expected to decline to 3.8 per cent of GDP. In the 2008/09 fiscal year, the deficit is projected to decline further to 3.5 per cent of GDP.

Fig 7.2: Mauritius – Trends in Fiscal Deficit and Public Debt (as percent of GDP)



Public Debt

Public and publicly guaranteed debt as a share of GDP registered a downward trend since 2005/06 and this trend is expected to continue in the medium term. Mauritius is expected to record a public debt of 63.1 per cent of GDP in 2007/08 compared to 62.8 per cent of GDP recorded in 2006/07. Public debt is projected to decline in 2008/09.

External Sector

The current account balance deteriorated from a deficit of 5.2 per cent of GDP in 2005 to 9.4 per cent in 2006, mainly due to some exceptional factors such as the purchase of aircraft. However, the deficit is estimated at 5.4 per cent of GDP in 2007. The structural reforms underway are expected to deliver a trade and services platform by raising productivity, diversifying into higher value-added sectors and exploiting new export markets. Consequently, the current account position is expected to improve in the short to medium term.

Key Policy Thrust

There are a number of challenges the economy of Mauritius is facing ranging from external shocks such as increasing oil and other commodity prices;

unfavourable climatic conditions affecting sugar output and the agriculture sector in general; and low demand on the international market as a result of recession or slower growth in major trading partner countries.

As such Mauritius' policy direction will focus on continuing with reforms in the labour and financial markets. Mauritius will continue consolidating the fiscal sector and improving public sector efficiency; improving trade competitiveness; improving the investment climate; and democratizing the economy through participation, social inclusion and sustainability.

Mozambique

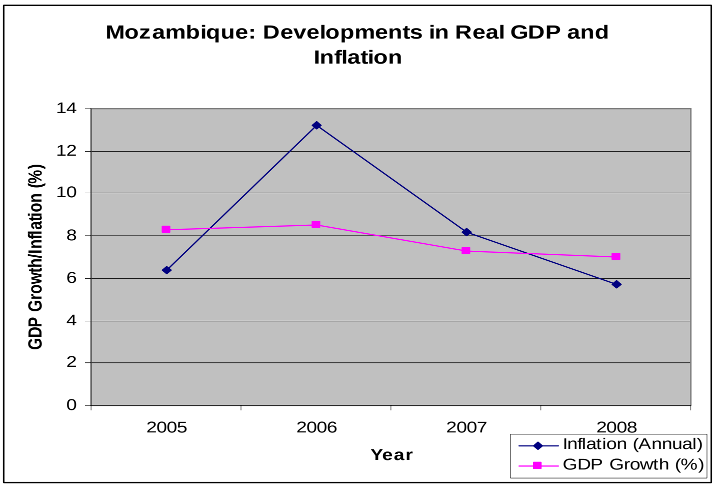
Overview

The Government of Mozambique's economic programme for 2007 envisaged the achievement of a number of macroeconomic objectives, which included reducing inflation to 6.4 per cent on an annual basis; economic growth of 7 per cent; accumulation of reserves to 4.7 months of imports of goods and non-factor services, as well as monetary targets. Despite exogenous shocks such as rising oil prices and adverse weather, performance of the economy was satisfactory.

Real GDP

Preliminary estimates indicate that real GDP in 2007 increased by 7.3 per cent, largely contributed by good performance in the construction, agriculture and services sectors. The construction and agriculture sectors grew by 54.1 per cent and 9.9 per cent, respectively. In the service sector, growth was more pronounced in the transport and communications sub-sector, which increased by 12 per cent; and financial services sub-sector by 21.6 per cent.

Fig 8.1: Mozambique – Developments in GDP and Inflation



Inflation

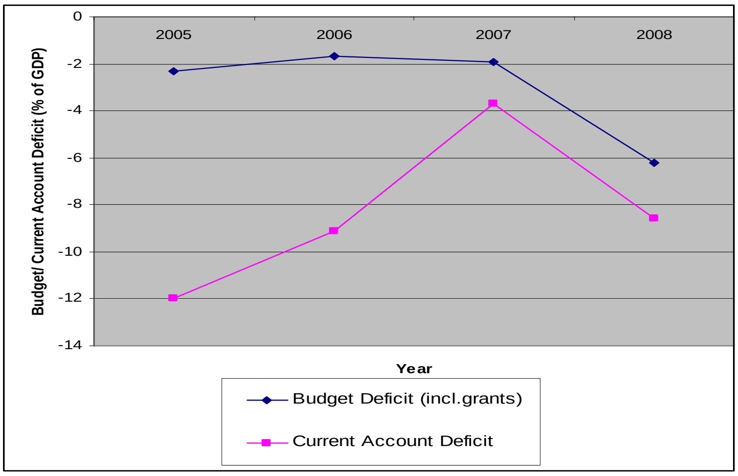
Mozambique recorded end-period inflation of 10.3 per cent in 2007 compared to 9.4 per cent in 2006. However, average inflation for the year stood at 8.2 per cent compared to an annual average of 13.2 per cent recorded in 2006. It is expected that inflation will continue on its downward trend to average 5.7 per cent in 2008.

A number of external shocks have, however impacted on the inflation outlook. These include international commodity prices, especially the price of oil, which in December 2006 stood at USD53.80 per barrel, but ended the year 2007 at USD90.84 per barrel, representing an increase of 67 per cent. This has affected the costs of production of goods and services and the costs of transportation services.

Fiscal Sector

Mozambique continues to rely heavily on external budgetary support as reflected in its budget figures. The budget deficit excluding grants has been above 10 per cent of GDP from 2006 (when it was 12.7 per cent). In 2007, the deficit widened to 18.3 per cent of GDP and in 2008 it is estimated at 20 per cent of GDP. However, when grants are included, the deficit falls to below 5 per cent of GDP. In 2006, the deficit (including grants) was 1.7 per cent of GDP; in 2007 it is estimated at 1.9 per cent of GDP and the projection for 2008 is estimated at 6.2 per cent of GDP due to the efforts being made towards achieving the Millennium Development Goals.

Fig 8.2: Mozambique – Trends in Fiscal and Current Account Balances (as % GDP)



Public Debt

Public debt has been registering a declining trend since 2005 when it was 74 per cent of GDP. It has gradually declined to 52 per cent of GDP in 2006; 45 per cent of GDP in 2007; and is projected at 41.9 per cent in 2008. Debt relief from the HIPC initiative has greatly contributed to this satisfactory performance in the fiscal sector.

External Sector

Despite the rise in prices of such imports as oil, Mozambique's performance in the external sector has been satisfactory. Some improvements in the exports sector and the debt relief under HIPC initiative have partly contributed to this performance. Athe current account deficit, as a percentage of GDP, has been declining over the past few years from 12 per cent in 2005; to 9.1 per cent in 2006 and 3.7 per cent in 2007.

Key Policy Thrust

Government's policy thrust for 2008 aims at achieving a number of macroeconomic objectives, namely: achieving GDP growth of about 7 per cent per annum; maintaining inflation at single digit levels; and accumulation of international reserves amounting to USD1.566 billion compared to USD1.508 billion in 2007.

In the medium term policy objectives will focus on improving the transparency and formulation of monetary policy through the Monetary Policy Committee; improving banking supervision; improving the business environment; and improving the capacity of local authorities.

Namibia

Overview

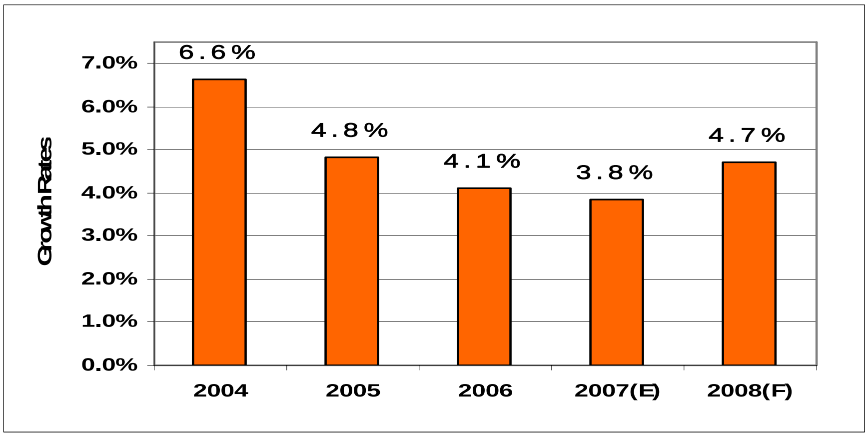
Despite the slowdown in real GDP growth in 2007, economic performance in Namibia has generally been broad-based. Real investment slowed down due to high interest rates. There were noticeable improvements though, in the external sector with the balance of payments recording a surplus higher than that recorded in 2006.

Prospects for 2008 are generally good in terms of overall GDP growth. However, real investment is expected to slowdown further as interest rates are expected to continue rising in the short-term due to downside risks to the inflation outlook.

Real GDP

Namibia's real GDP growth was estimated to have slowed down by 0.2 percentage points to 3.9 per cent in 2007 from 4.1 per cent in 2006 (see Fig 9.1). The slowdown in the economy was a direct response to the slow growth in the world economy as a result of inflationary pressures and the instability of global financial markets. World economic growth slowed down, over the same period, by 1.7 percentage points to 3.7 percent.

Fig 9.1: Namibia - Real GDP growth



The growth in real GDP was relatively broad-based with all major industries recording positive growth rates. The secondary industries, in particular, performed well during 2007, while the performance of the primary industry slowed down. Output of primary industries slowed down significantly largely due to a decrease in production of diamonds in 2007 and therefore contributing less to economic performance in that year. However, tertiary industries, such as transport and communications, where investments were made in telecommunications' infrastructure, made a significant contribution.

Economic growth is expected to be broad-based in 2008 but particularly strong in the mining sector. Real GDP is projected to grow at 4.7 percent in 2008, mainly on account of increased uranium production, and the continued strong growth in the tertiary sector. Tourism is also proving to be a strong contender in increasing its contribution to GDP.

Investment

Real investment grew by 7.2 percent in 2007, reflecting a slow down from 18 percent recorded in 2006. The slow down was attributable to high interest rates during that period due to necessary adjustments to contain rising inflation. The growth rate is estimated to further slow down and stabilize at 6.0 percent in 2008. This growth is mainly coming from new investment in mining and energy, although it may be negatively affected by the regional energy shortage. As a ratio to GDP, investment stood at around 30 percent.

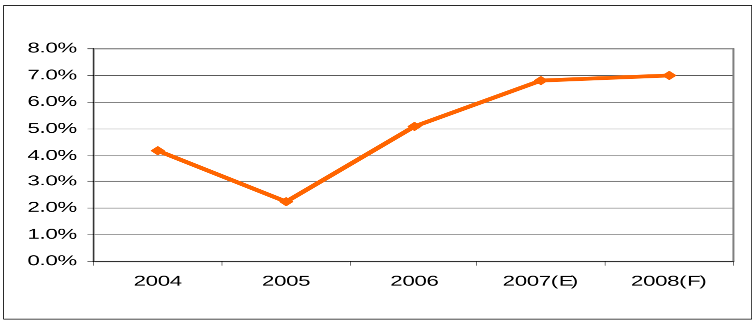
Consumption

Real final consumption increased by 2.6 per cent in 2007 and is expected to increase by 4.0 per cent in 2008. The expected increase by 1.4 percentage points in 2008 will be due to demand arising from private consumption. The other subcomponent of final consumption expenditure, which is general government consumption, contracted by 1.7 percent in 2006. Preliminary figures point to growth rate of 2.2 percent during 2007 and 2008.

Inflation

Namibia experienced persistent inflationary pressures in 2007. The pressures have emanated mainly from increases in food and transport prices, largely as a result of high oil prices, which are US dollar denominated. The annual average inflation rate for 2007 was 6.7 percent, which is higher than an annual average rate of 5.1 percent recorded in 2006 (see Fig 9.2).

Fig 9.2: Namibia – Inflation Trend



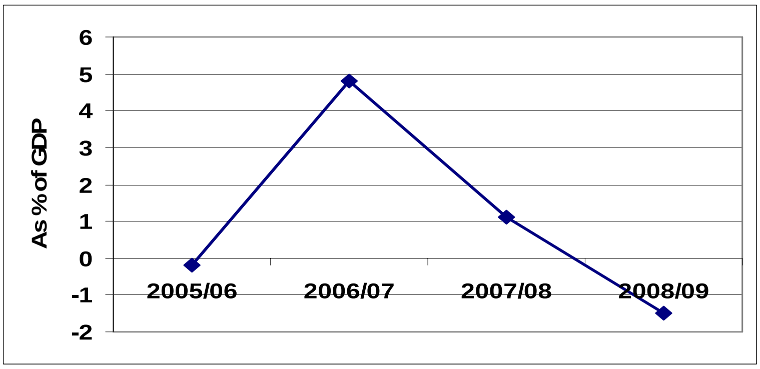
The major categories that were affected are food (e.g. cereal shortages) and non-alcoholic beverages as well as transportation. The increased food prices were attributable to escalating production costs, resulting from rising fuel prices, and other factors such as adverse climatic conditions (droughts, floods, hurricanes) which affected agricultural output globally and regionally in 2007.

In an effort to contain inflationary pressures, the Bank of Namibia tightened monetary policy by increasing the Bank Rate to 10.5 per cent.

Fiscal Sector

Namibia recorded a budget surplus of N$2,314.2 million representing 4.8 percent of GDP in 2006/07 (see Fig 9.3), against a budgeted 1.1 percent of GDP. The increase in the surplus was attributable to strong revenue collection in the same year.

Fig 9.3: Namibia - Budget Deficit/Surplus

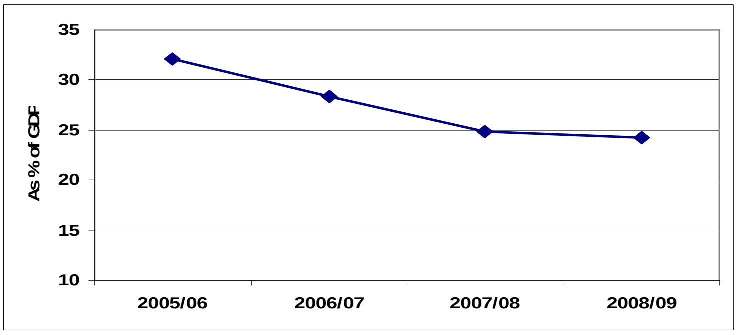


The total revenue for 2006/07 exceeded the budget estimates by 6.1 percent. This was driven by stronger-than expected domestic tax collection, particularly income tax on individuals, corporate tax on mining companies (non-diamond) and VAT.

Public Debt

Total public debt was projected to reach 33.7 percent of GDP at the end of the 2006/07 financial year. However, with the more favourable revenue turnout, coupled with an upward revision in GDP, debt stock was reduced to 28.3 per cent of GDP at the end of the 2006/07 financial year (see Fig 9.4).

Fig 9.4: Namibia - Public Debt/GDP Ratio



Total debt stock as a proportion of GDP is projected to further decrease to 24.8 percent at the end of the current financial year.

External Sector

The current account surplus increased to N$9.2 billion in 2007 from N$7.5 billion recorded in 2006. This increase was supported by strong mineral export proceeds, net inflows in services and SACU receipts. As a proportion to GDP, the current account surplus increased from 15.9 percent recorded in 2006 to 17.8 percent in 2007. The outlook for 2008 remains favourable with the current account surplus projected at 12.6 per cent of GDP.

Key Policy Thrust

There are a number of factors that could play a downside role in maintaining key macroeconomic indicators within the determined targets. Amongst these are:

(a) Supply side constraints;
(b) Need for risk mitigation against externally induced factors (fiscal and monetary);
(c) Access to affordable funds for national development and private sector initiatives which remains difficult to obtain;
(d) Need for further tax reforms that broaden and deepen tax base;
(e) Harmonization and consolidation of regional tax systems to optimize the customs and excise and revenue collection;
(f) Insufficient power generation capacity that leads to electricity shortage;
(g) Shortage of specialized skills,
(h) Accomplishment of the MDGs, especially in terms of HIV/AIDS and primary health care targets;
(i) On an immediate needs' basis (often ad hoc) be able to address and mitigate other external factors, notably natural disasters (e.g. droughts, floods) and health related emergencies (e.g. polio, meningitis).

In addressing these challenges a number of policy and strategy planning and execution measures have been put in place which include the following:

- Introducing result-based planning;
- Increasing domestic power generation capacity and exploring of alternative power sources, including from renewable energy sources;
- Improving outcome of the education system;
- Improving agricultural output to ensure food security;
- Developing infrastructure conducive to full regional integration and compatible to globalization;
- Developing a service sector that further enhances the process of regional integration and strengthening of international relations;
- Addressing supply-side constraints through accelerated industrialization process (value addition and diversification of economy); and
- Promoting productivity of both the public and private sectors.

South Africa

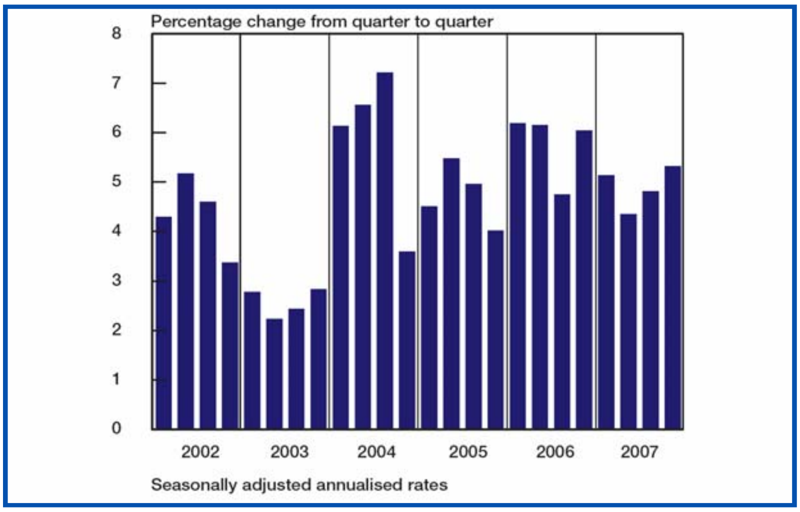
Overview

For now close to a decade, South Africa has maintained satisfactory economic growth supported by steady demand. Investment by both private business enterprises and public corporations remains strong. To a large extent inflation has been maintained at low levels although recently sharp rises in prices have been recorded, attributed largely to rising oil and food prices. Performance of the fiscal sector was satisfactory recording its first ever surplus.

Real GDP

South Africa's real GDP growth rate for 2006 was revised upwards to 5.4 per cent – a growth rate level last recorded in 1981. In the first three quarters of 2007 economic growth remained buoyant although falling back marginally from an annualized rate of 5 per cent in the first quarter to 4.4 per cent in the second quarter, before accelerating again slightly to 4.8 per cent in the third quarter. This was the 36th consecutive quarter of uninterrupted positive growth and is still well-aligned to the country's current growth potential, although positive structural changes may be somewhat inhibited by temporary supply constraints such as electricity. The overall turn out was an annual real GDP growth rate of 5.1 per cent in 2007 compared to 5.4 per cent recorded in 2006.

Fig 10.1: South Africa – Developments in Real GDP

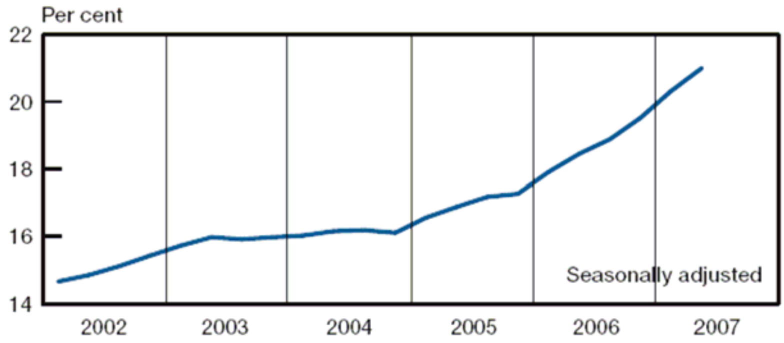


A number of factors have contributed to South Africa's satisfactory performance. These include recent robust growth at global level; buoyant commodity prices; high global liquidity; low global inflation and interest rates; and prudent domestic macroeconomic policies.

Investment and Savings

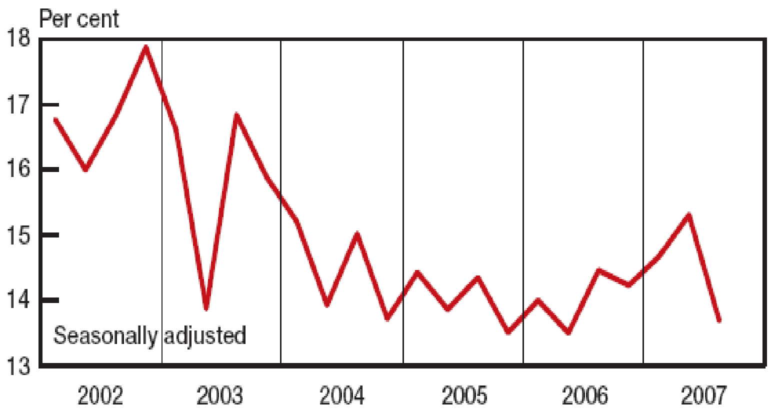
Annualized growth of real gross fixed capital formation recorded a robust rate of increase of 19.3 per cent in the first quarter of 2007, followed by slower though still strong rates of increase of 12.4 per cent and 12.9 per cent in the second and third quarters of 2007. This was supported in particular by capital outlays by private business enterprises and public corporations.

Fig 10.2: South Africa – Gross Fixed Capital Formation



The construction works sector recorded rapid growth supported by investment in transport equipment. As a result the ratio of gross fixed capital formation to GDP increased in excess of the 20 per cent mark – the highest level recorded since 1990.

Fig 10.3: South Africa – Gross Savings as Percent of GDP

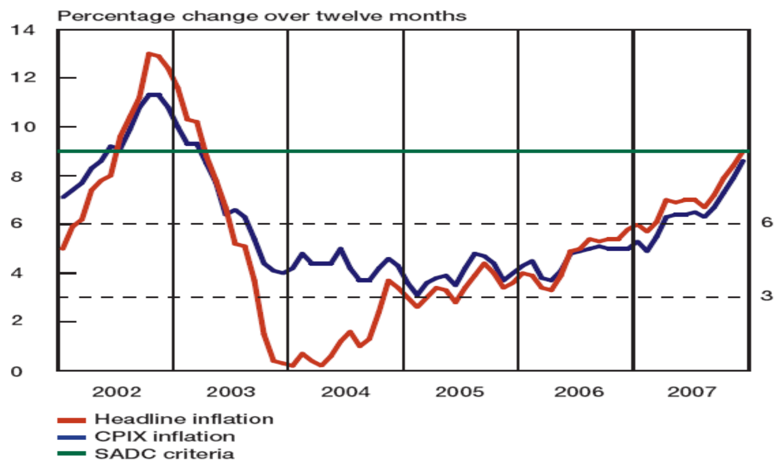


Gross saving as a ratio of gross domestic product declined from 15.3 per cent in the second quarter of 2007 to 13.7 per cent in the third quarter as saving ratios by both the corporate and general government sectors weakened while that of the household sector remained broadly unchanged. However, the national saving ratio for the first nine months of 2007 at 14.5 per cent was still marginally higher than the 14 per cent of 2006.

Inflation

Persistent food price pressures though may be short-term with recent good weather; oil prices prone to supply disruptions; rising electricity prices; and exchange rate depreciation with growing current account deficit and risk aversion to emerging market assets but commodity prices all impacted on general rise in prices in 2007. Year-on-year *CPIX inflation* accelerated to 8.6 per cent in December 2007 while year-on-year *headline inflation* also increased to 9.0 per cent in December 2007 – the highest since March 2003.

Fig 10.4: South Africa – Trends in Inflation

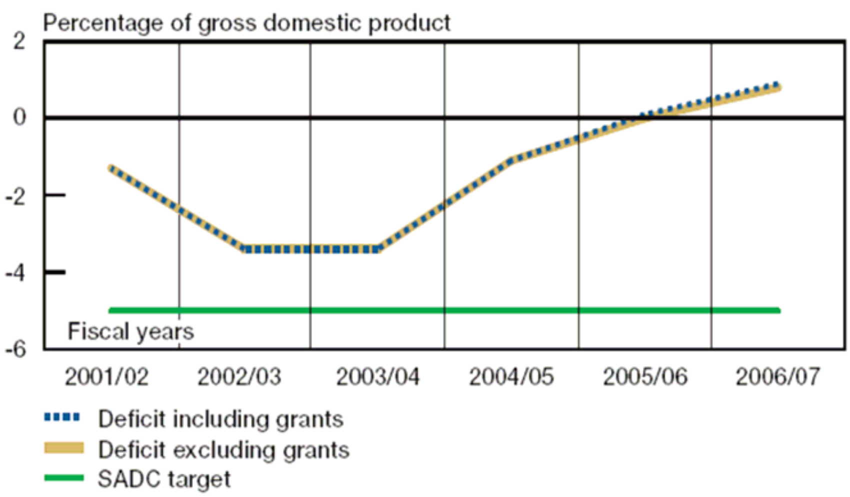


Overall, annual inflation averaged 6.5 per cent in 2007, 1.9 per centage points over 2006 level. Average annual inflation in 2006 was 4.6 per cent.

Fiscal Sector

The net result of the higher-than-budgeted revenue and lower-than-budgeted expenditure in 2006/07 fiscal year was a cash book *surplus* of R10.4 billion compared with a *deficit* of R5.6 billion recorded a year earlier. This surplus, the first ever to be recorded at national government level, was in contrast to the originally budgeted deficit of R26.4 billion. The surplus was also higher than the estimated revised surplus of R5.2 billion presented to Parliament in February 2007.

Fig 10.5: South Africa – Fiscal Deficit/Surplus

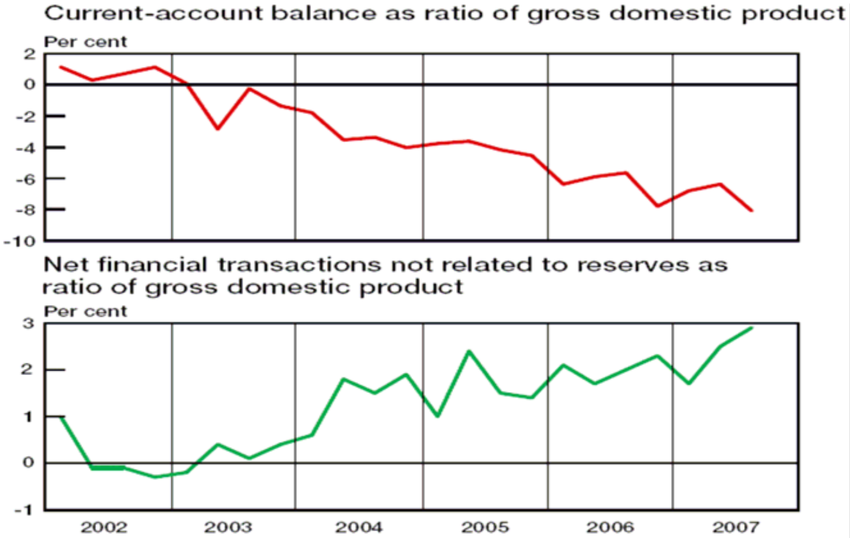


As a ratio of gross domestic product, the national government surplus before borrowing and debt repayment amounted to 0.6 per cent in 2006/07 fiscal year compared with a deficit ratio of 0.3 per cent recorded in the previous fiscal year.

External Sector

The deficit on the trade account together with an increase in net service, income and current transfer payments to the rest of the world caused the deficit on the current account of the balance of payments to widen to R163 billion in the third

Fig 10.6: South Africa – Developments in the External Account



quarter of 2007, compared to R131 billion and R124 billion in the first and second quarters, respectively. As a ratio of gross domestic product the current-account deficit at first decreased from 6.9 per cent in the first quarter of 2007 to 6.5 per cent in the second quarter, before increasing to 8.1 per cent in the third quarter.

The net inflow of capital on the financial account of the balance of payments amounted to R58 billion in the third quarter of 2007, compared to inflows of R33 billion and R48 billion in the first and second quarters, respectively – dominated by portfolio and direct investment. Net financial transactions not related to reserves as a percentage of gross domestic product increased to almost 3 per cent in the third quarter of 2007.

Public Debt

Total national government debt decreased from R527 billion at the end of March 2006 to R523 billion at the end of March 2007. The share of foreign debt in the total national government debt increased from 12.7 per cent at the end of March 2006 to 15.8 per cent at the end of March 2007.

Total national government debt as a ratio of gross domestic product decreased from 33.4 per cent at the end of March 2006 to 29.3 per cent at the end of March 2007. However, public debt for 2007 averaged 26.9 per cent of GDP, down from 30.5 per cent of GDP in 2006

Fig 10.7a: South Africa – Public Debt/GDP Ratio

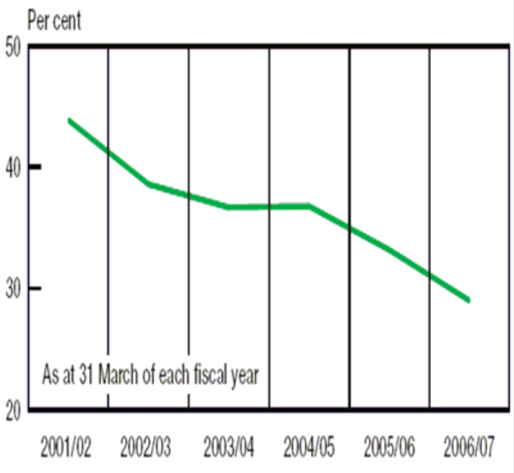
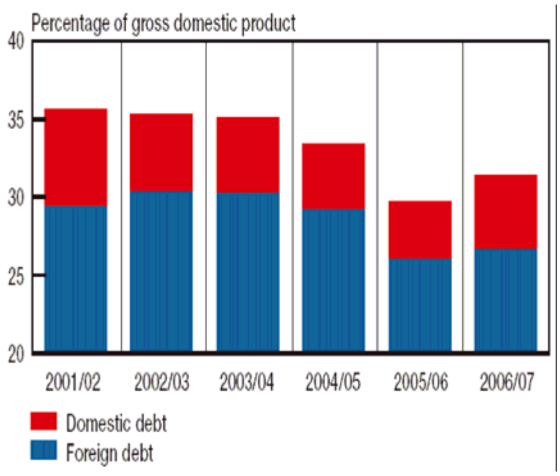


Fig 10.7b: South Africa – Public Debt: Foreign and Domestic



Key Policy Thrust

South Africa's policy thrust in the short to medium term will aim at containing inflation at low levels; improving the economy's competitiveness; increasing employment; raising net exports; and reducing poverty and inequality. This will be achieved through:

(a) monetary policy tightening and vigilance supported by fiscal policy stance;
(b) labour intensive initiatives;
(c) infrastructure and human capital development;
(d) exports development through research, technological development assistance, marketing, training and skills development; and
(e) improving public sector service delivery.

Kingdom of Swaziland

Overview

Economic growth rebounded in 2007 from the low levels recorded in 2005 and 2006. There was an improved performance in the manufacturing and service sectors. There was also slight recovery in the construction and mining sectors. High consumption-biased government spending also helped to stimulate demand and prop up economic performance. However, the agriculture sector remains exposed to drought and erratic weather conditions.

Real GDP

Real GDP performance was satisfactory in 2007, recording a growth rate of 2.8 per cent compared to 2.3 per cent growth registered in 2006. This was on the back of strong performance in the manufacturing and service sectors; and a slight recovery in the agriculture sector. Strong fiscal reforms also contributed to this satisfactory performance.

Table 11.1: Swaziland – Major macroeconomic Indicators

	2005	2006	2007
GDP growth	1.8	2.3	2.8
Inflation	4.8	5.3	8.2
Fiscal Balance as percent of GDP	-1.8	-2.1	2.6
Current Account Balance as percent of GDP	7.2	8.1	3.0
Public Debt as percent of GDP	16.9	17.9	15.4

Savings and Investment

In 2007 savings stood at 25 per cent of GDP, boosted by Government savings emanating from an improved fiscal position. However, individual savings are estimated to have amounted to only E10 billion.

Investment as a per cent of GDP amounted to 22 per cent of GDP. This was largely affected by the high consumption bias of Government expenditure.

Inflation

Swaziland's inflation has been on the upward trend in recent years. In 2005 inflation was at 4.8 per cent, rising to 5.3 per cent in 2006; and further rising by 2.9 percentage points to 8.2 per cent in 2007. Rising food and energy prices have largely contributed to this trend, in particular recurrent droughts have affected the agriculture sector and specifically food production.

Fiscal Sector

The fiscal sector performed satisfactorily in 2007, recording a surplus of 2.6 per cent of GDP compared to a deficit of 2.1 per cent of GDP recorded in 2006. Increased revenues from SACU and general improvements in tax administration contributed to this satisfactory performance.

Public Debt

Public debt as a percent of GDP improved in 2007, from 17.9 per cent in 2006 to 15.4 per cent in 2007. This was mainly on account of improvements in the level of revenues, part of which was used to retire some of the debt.

External Sector

The current account balance recorded a surplus of 3 per cent of GDP in 2007 compared to a surplus of 8.1 per cent of GDP in 2006. The poor performance was largely a result of unsatisfactory performance in the agriculture sector, which in turn affected agriculture-related exports and necessitated importation of food.

Key Policy Thrust

Prospects are good for a continued economic recovery in the medium term. However, high demand on public resources due to the requirements of the Poverty Reduction Strategy,, Economic Recovery Programme (ERP) and socio-economic needs remain challenges. As such policies will aim at reviewing the investor roadmap in order to create an implementation programme that will restore investor confidence and improve competitiveness. Further, policies will aim at improving tax collection through introduction of VAT and improving overall fiscal management. Government will also review the current procurement system and carry out civil service reforms.

United Republic of Tanzania

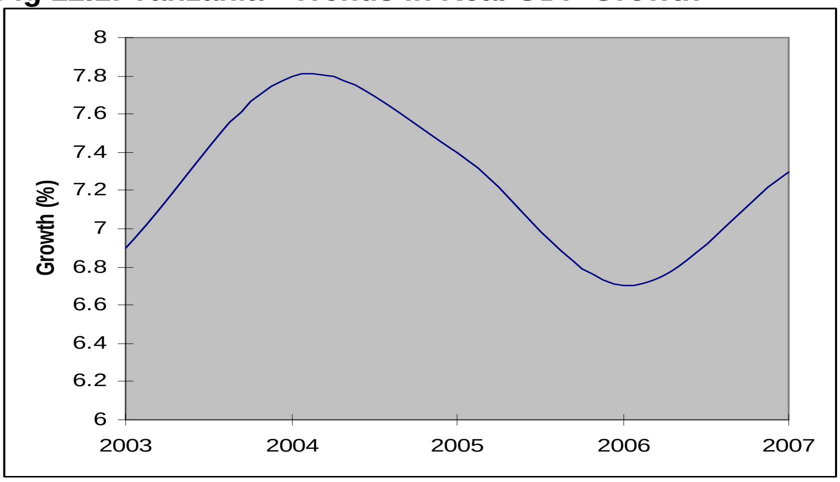
Overview

Tanzania recorded significant economic growth during 2007 reflecting the cumulative impact of economic reforms that have been implemented over the last decade. The year 2007 witnessed a recovery in economic performance following a slight slowdown in 2006, as a result of drought and high oil prices on world markets. Significant growth was recorded in the trade and repairs sub-sector; the manufacturing sector; and the crops sub-sector.

Real GDP

Real GDP is estimated to have grown by 7.3 percent in 2007, compared to 6.7 percent in 2006. The economy is projected to grow at an average of 8.4 percent between 2008/09 and 2010/11.

Fig 12.1: Tanzania - Trends in Real GDP Growth

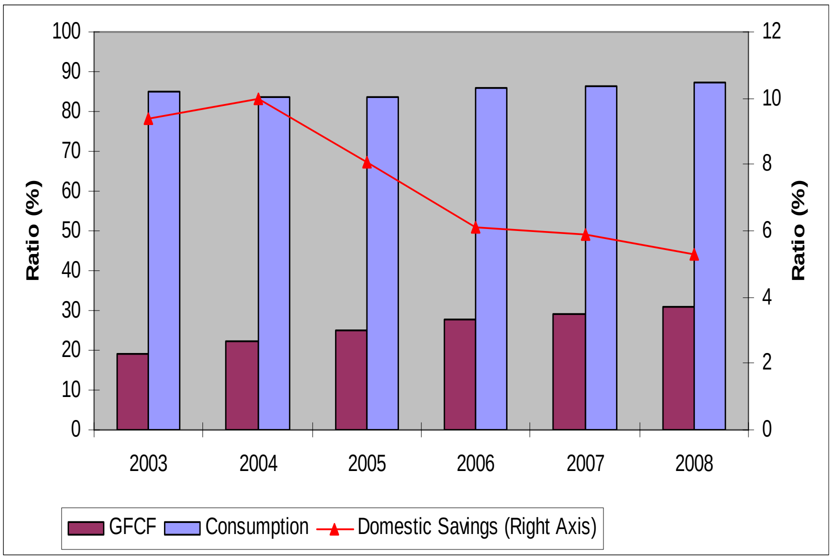


This projection is based on the assumption that recent trends in the performance of the agriculture, mining and quarrying, hotels and restaurants (including tourism), and manufacturing sectors will be sustained, and that favourable developments in world market commodity prices will persist. Impetus for growth during the period is also expected to emanate from trade and repairs, electricity and gas, manufacturing, construction, communication and financial intermediation.

Investment, Savings and Consumption

There is a widening gap between investment, as represented by gross fixed capital formation (GFCF) and national saving. While investment as a percent of GDP increased to 27.5 percent in 2006 from 24.5 percent in 2005, savings declined from 8.1 percent to 6.1 percent over the same period. The Investment to GDP ratio is forecast to increase to about 30 percent in the medium term, as a result of policy measures to boost both savings and investment, and efforts to create a conducive environment for local and foreign investment. These include the establishment of the Tanzania Investment Centre and the Credit Reference Bureau, and improvements in the operation of credit guarantee schemes.

Fig 12.2: Tanzania – Investment, Consumption and Savings as Percent of GDP



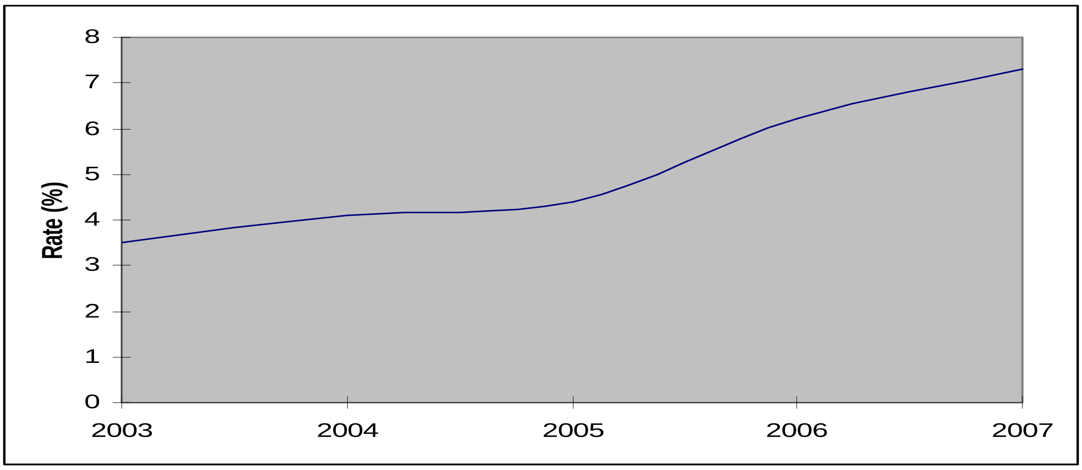
The widening gap between saving and investment is projected to narrow in the medium term as the poverty reduction strategies currently being implemented by government begin to take effect, thereby boosting both household income and household savings. In the short-term, government will continue to focus on attracting foreign direct investment and transfers to bridge the gap between savings and investment.

The expenditure composition of GDP reveals an increase in the shares of both private and public consumption. The share of consumption in GDP increased from 83.8 percent in 2005 to 86.0 percent in 2006. The private sector accounts for most of this increase. This reflects higher expenditure on education and health services, and increases in the overall cost of living. Consumption's share of GDP is estimated to increase further, though marginally, to 86.4 percent in 2007 and 87.1 per cent in 2008.

Inflation

Single digit inflation was maintained throughout the five-year period since 2003. However, the trend is a general upward rise in inflation, which has become more pronounced in the past two years. This is largely attributed to imported inflation particularly the rise in oil prices on the international market. In addition rising food prices as a result of the drought that affected agriculture production have contributed to the rising inflation.

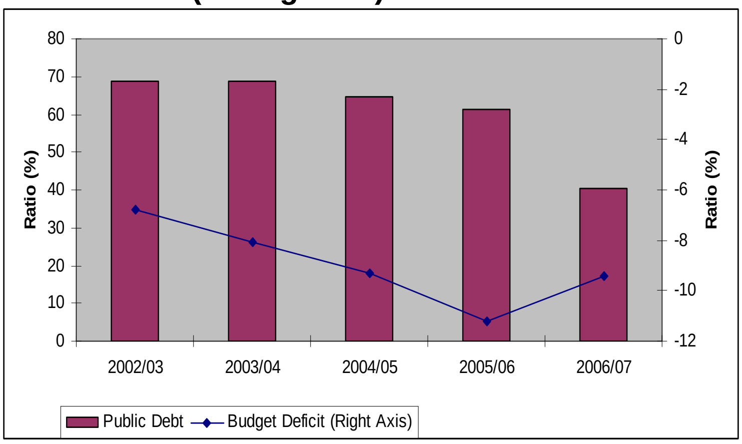
Fig 12.3: Tanzania – Trends in Inflation



Fiscal Sector

The budget deficit as percentage of GDP worsened from 6.8 percent in 2003 to 11.2 percent in 2006 and then improved marginally to an estimated 9.2 percent of GDP in 2007. This deterioration in the fiscal position is associated with increased government expenditure to finance activities associated with poverty

Fig 12.4: Tanzania – Fiscal Deficit and Public Debt as % of GDP (excl. grants)



reduction strategies earmarked under the National Strategy for Growth and Poverty Reduction (NSGPR). The NSGPR seeks to accelerate broad based growth by developing key sectors of the economy that are believed to have high potential with respect to boosting growth and tackling poverty.

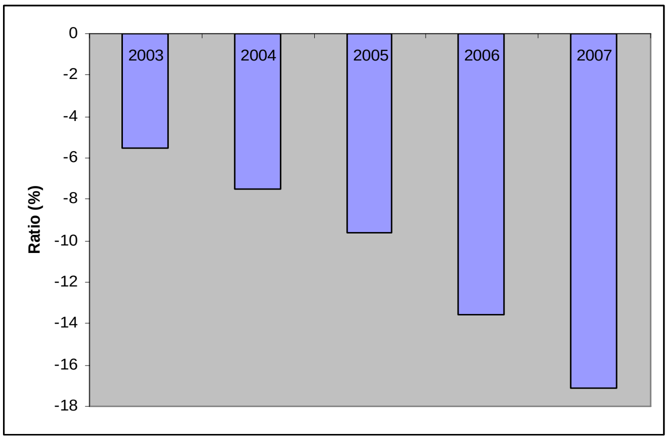
Public Debt

Tanzania's debt stock position substantially improved largely on the back of the debt forgiveness under the HIPC initiative. Public debt (excluding grants) as a percent of GDP declined from 61.4 per cent in 2005/06 fiscal year to 40.4 per cent in 2006/07 fiscal year.

External Sector

Tanzania's external sector performance continued to improve despite the fact that exports remain vulnerable to exogenous shocks such as unfavourable weather and adverse movements in the terms of trade.

Fig 12.5: Tanzania – Current Account Balance as % of GDP (excluding grants)



Exports of goods and services have increased at an average rate of 14.1 percent over the past five years. However, this has been more than offset by the increase in the import bill, which grew at an average rate of 23.5 percent over the same period.

A surge in imports was recorded in 2007 on account of high oil prices on the world market, and increasing demand for capital and intermediate goods, in line with the growth momentum of the economy. A sharp increase in international oil prices, coupled with increased demand for oil for thermal power production resulted in a higher import bill, which could not be supported by the modest increase in exports. Consequently, the current account balance (CAB) excluding grants deteriorated to 17.1 percent of GDP in 2007 from a deficit of 13.6 percent of GDP in 2006.

The overall balance of payments position, however remained positive, as the further deterioration of the current account deficit was offset by capital inflows in the form of grants, foreign direct investments and foreign borrowing. The official foreign exchange reserves position increased to US$2,950.7 million as of end-December 2007 compared to US$2,246.31 million as of end-December 2006, and was sufficient to cover 5.6 months of imports of goods and services.

Key Policy Thrust

To sustain the current levels of economic growth government policy will aim to effectively implement the NSGRP; carry out private sector reforms such as formalizing properties and business in informal sector, promoting the development of SMEs, broadening the base of production in various sectors (agriculture, manufacturing, mining and trade) and generally creating a conducive environment for business and investment.

In the fiscal sector, government will focus on implementing prudent fiscal and monetary policies, particularly maintaining fiscal discipline by strengthening tax administration and expenditure management (in line with the cash budget system). In the short to medium term, government's fiscal policy will focus on enhancing domestic revenue collection, lowering budgetary dependence on aid, allocating adequate resources to sectors which are likely to have a significant impact on poverty reduction and ensuring that debt remains sustainable.

Monetary policy remains focused on achieving appropriate levels of liquidity in the economy in order to maintain price stability. The implementation of monetary policy has been complicated by the challenge of sterilizing large inflows of foreign aid and capital in the context of shallow financial markets and high domestic interest rates. The growth in the monetary aggregates was however maintained within the desirable levels.

Further, cognisant of the role played by the financial sector in supporting economic development, government has embarked on a program to reform and strengthen the financial system. The First Generation Financial Sector Reforms, introduced in the early 1990's focused on reforming commercial banks so as to strengthen competitiveness and enhance the efficient mobilisation of financial resources, creating an enabling environment for foreign exchange to be allocated efficiently, allowing the exchange rate to respond more to market forces and facilitating the emergence of a credit market that has the capacity to mobilise and allocate savings for medium and long term investments.

The Second Generation Financial Sector Reforms, currently being implemented, focus on strengthening the role of the Bank of Tanzania, with respect to monetary policy and the supervision of commercial banks; introducing new institutional arrangements and facilities, such as the credit guarantee schemes, the inter-bank clearing system and the Credit Reference Bureau, creating facilities for capacity building among bankers in Tanzania, fostering the development of a capital market and alternative sources of long term finance and introducing suitable legislation and infrastructure in order to raise access to credit amongst special groups such as small enterprises and smallholder farmers.

In recognition of the external sector's role in fostering economic growth, government will continue to implement a number of inward and outward reform strategies in order to enhance the sector's contribution to economic growth. Various export promotion driven schemes and arrangements have been instituted in an effort to improve export performance. These include the Export Revolving Fund, the Export Credit Guarantee Scheme (ECGS), the establishment of Export Processing Zones (EPZ) and Special Economic Zones (SEZ), the introduction of the Warehouse Receipt Payment System and negotiations on Preferential Trade Arrangements (PTA's). The objective of these initiatives is to attract more local and foreign investors in export sectors, to enhance domestic export processing capacity, and to improve Tanzania's competitiveness.

Zambia

Overview

Despite the poor performance in key sectors of the economy, i.e. mining and agriculture, the Zambian economy continued to perform well in 2007 evidenced by positive developments in real GDP growth. Inflation has been maintained at single digit level and performance with regard to interest rates, exchange rate, external sector and fiscal sector has also been satisfactory.

Real GDP

Real GDP growth in 2007 remained positive at 5.7 percent, largely driven by growth in the transport, storage and communications sector which grew by 34.7 percent. However, real GDP in 2007 was lower than the 6.2 percent recorded in 2006 and the annual target of 7 percent. This was on account of negative overall growth in the mining sector of 2.1 percent and negative growth in the agriculture sub-sector of 0.6 percent. In addition, there was a slowdown in growth in tourism, manufacturing and construction sectors.

Table 13.1: Zambia – Major Macroeconomic Indicators

	2006	2007*	2008**
Real GDP growth	6.2	5.7	6.0
Inflation(end Period)	8.2	8.9	5.0
Overall Budget Deficit (%GDP, excluding grants)	-7.4	1.2	0.5
Overall budget deficit (%GDP, including grants)	18.6		na
Current Account Deficit(%GDP, excluding grants)	-1.3	10.2	na
External Debt/GDP	9.6	8.7	na
Domestic Debt/GDP	21.4	8.2	na

Note: *Provisional.
****Forecast.**

In mining, floods in the first half of the year at some of the mines resulted in lower production than projected. Similarly, in agriculture, floods in the major agricultural provinces resulted in a fall in yields and consequently production. However, an overall food surplus of 628,396 tonnes was attained in the 2007/08 season.

Inflation and Interest Rates

Annual Inflation for the second year running was maintained at single digit levels of 8.9 percent as at end-December 2007. A favorable food security situation and appreciation of the Kwacha against major trading partners mitigated inflationary pressures. However, this outturn was higher than the target of 5.0 percent and the end-year 2006 inflation outturn of 8.2 percent. Given the external shock of high oil prices, this outturn was favourable.

Despite the fall in inflation, lending rates remain prohibitive at 24.4 percent in December 2007 from 27.9 percent in December 2006.This was in spite of Government lowering the cost of doing business for commercial banks by reducing corporate tax rate to 40 percent in 2007 from 45 percent and reducing the statutory reserve ratio on both the Kwacha and foreign currency deposits by the Bank of Zambia from 14.0 percent to 8.0 percent in 2007.The impact of the persistent high interest rates, was the reduction in private sector credit growth in 2007 to 44.5 percent from 49.4 percent in 2006.

External Sector

The external sector position in 2007 was generally strong with the exchange rate relatively stable against major convertible currencies such as the United States dollar, the British Pound and the South African rand. The strong macroeconomic fundamentals, particularly from the external sector resulted in a steady supply of foreign exchange on the market.

Gross International Reserves reached a record high of 3.6 months of imports. The overall balance of payments remained positive at US$266.3 million, although the current account recorded a deficit of US$856.0 million in 2007 compared to a surplus of US$175.8 million in 2006. The deterioration in the current account was on account of a decline in the merchandise trade balance coupled with an increase in both services and income account deficits. As a percentage of GDP, excluding grants, the current account deficit was 10.2 percent.

Fiscal Sector

Fiscal sector performance in 2007 was mixed. On one hand, total revenue and grants were above target by K1.0 billion. Expenditures on the other hand were below target by 10.3 percent. As a percentage of GDP, this was 23.4 percent against the target of 26.1 percent.

As a result a budget deficit of 1.2 percent of GDP (excluding grants) was recorded, being lower than the target of 3.9 percent. Low absorption capacity by implementing Ministries, Provinces and other Spending Agencies (MPSAs) explained by lengthy tendering procedures and structural factors associated with the budget implementation cycle contributed to this outturn.

Public Debt

The total Government external debt stock at US$1 billion or 8.7 percent of GDP remained sustainable. However, substantial improvements were made with respect to domestic debt as evidenced by a reduction of domestic debt ratio of GDP from 21.4 per cent in 2006 to 8.2 per cent in 2007.

Key Policy Thrust

The thrust of Government policy objective and direction in the short to medium term aims at transforming the positive macroeconomic developments into improved living standards, creation of more jobs and sustained broad-based economic growth. In this regard, specific targets are to:

(a) achieve real GDP growth of at least 7 percent;
(b) bring down end-year inflation to 7.0 percent of GDP;
(c) limit domestic borrowing to 1.2 per cent of GDP; and
(d) maintain the coverage of gross international reserves at not less than 3.6 months of imports.

To achieve this, policies will aim at addressing the following:

(a) Mitigating the impact of the floods on food production and infrastructure (bridges, roads,);
(b) Sustaining single-digit inflation in view of the likelihood of a poor crop harvest due to floods, and increases in energy prices;
(c) Addressing power outages so as to minimize the negative impact on growth prospects;
(d) Improving programme implementation by MPSAs in view of the low absorption capacity;
(e) Enhancing the investment and business environment so as to further stimulate growth by among other things, addressing the infrastructure deficit in the country; and
(f) Managing the impact of the real exchange rate appreciation on the non-traditional export sector.

Zimbabwe

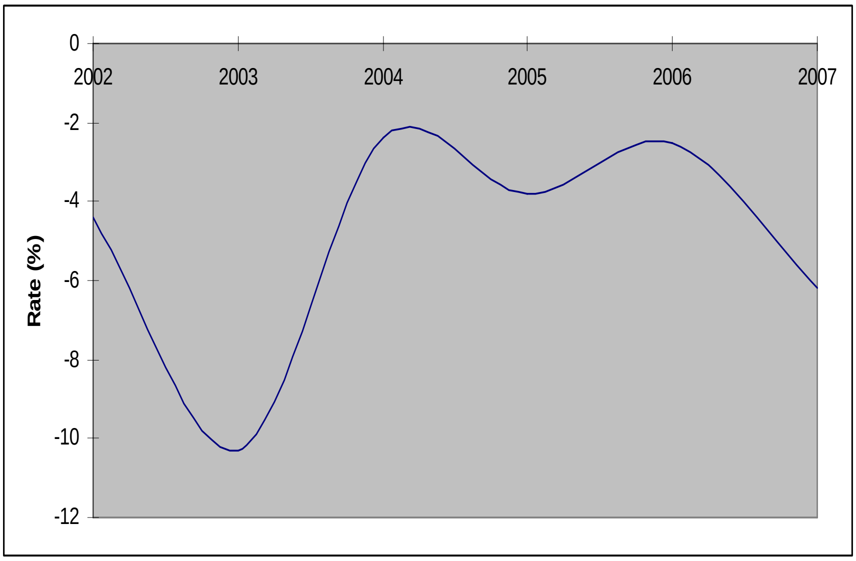
Overview

Zimbabwe's economic performance remained subdued in 2007 due to a number of factors. Firstly, the suspension of support from IMF and credit and financing windows has crippled the economy. Further, increasing oil prices and oil shortages; critical foreign exchange shortages; raw material supply bottlenecks; and recurrent droughts have worsened the already weak economic background of the country.

Real GDP

The economy declined further by 6.2 per cent in 2007 compared to a decline of 2.5 per cent in 2006. All major sectors declined except for the agriculture sector which recorded a marginal growth of 1.4 per cent in 2007 compared to 11.0 per cent growth recorded in 2006.

Fig 14.1: Zimbabwe – Trends in Real GDP Growth



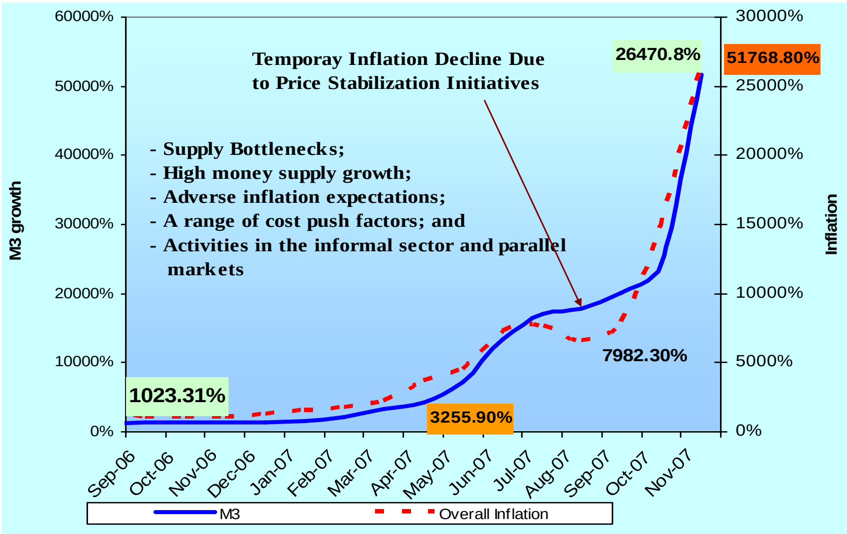
Low investment also contributed to this poor performance. Gross investment declined to 3.5 per cent of GDP in 2007 from 6.7 per cent of GDP in 2006; while negative savings of 10.2 per cent of GDP were recorded in the same year.

However, prospects for 2008 are good especially with respect to agriculture and mining sectors. Increased hectarage; improved mechanization; input schemes and finance facilities; contract farming arrangements; and favourable prices are expected to contribute to a rise in tobacco production in 2007. An increase in production of gold and platinum is also expected in 2008.

Inflation

Inflation rose to record levels of over 26,000 per cent by November 2007. However, inflation slowed down temporarily between August and September 2007 due to price stabilization initiatives.

Fig 14.2: Developments in Inflation

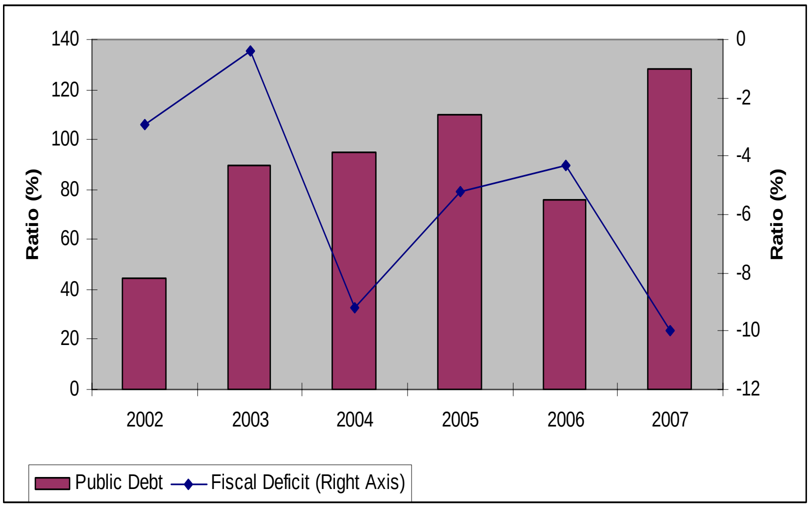


The rise in inflation is a result of a myriad of factors which include supply bottlenecks; high money supply growth; adverse inflation expectations; a range of cost-push factors; and activities in the informal and parallel markets.

Fiscal Sector

As a result of the contraction in the economy, performance of the fiscal sector has been poor characterized by swings in the fiscal deficit as a percent of GDP.

Fig 14.3: Zimbabwe – Fiscal Deficit and Public Debt (%GDP)



Fiscal deficit as a percent of GDP worsened from 0.4 per cent in 2003 to 9.2 per cent in 2004. There was a slight improvement in 2006 which saw the fiscal deficit coming down to 4.3 per cent of GDP. However, in 2007 it more than doubled to 10 per cent of GDP.

Public Debt

With most of credit and financing windows closed, borrowing options available to Zimbabwe remain narrow and often times expensive. As such public debt for Zimbabwe has increased tremendously between 2002 and 2007. From the modest level of 44.6 per cent of GDP in 2002, public debt has climbed to 128 per cent of GDP in 2007.

External Sector

Weak competitiveness; adverse impact of inflation; drought effects on the agriculture sector; and gold leakages and smuggling have partly contributed to the poor performance of the external sector. The current account balance recorded a deficit of US$325.2 million in 2007 compared to a deficit of US$349.2 million in 2006. The overall balance of payments deficit deteriorated from US$ 233.9 million in 2006 to US$266.4 million in 2007.

Key Policy Thrust

Prospects for 2008 are good. The mining sector is expected to benefit from improved commodity prices. The agriculture sector is expected to benefit from good weather conditions and agriculture mechanization programmes.

To leverage the positive prospects, the Government of Zimbabwe intends to target the agriculture sector; the parastatal and local authorities and industry in general with concessionary finance facilities. Government will also pursue tighter monetary and fiscal policies.