

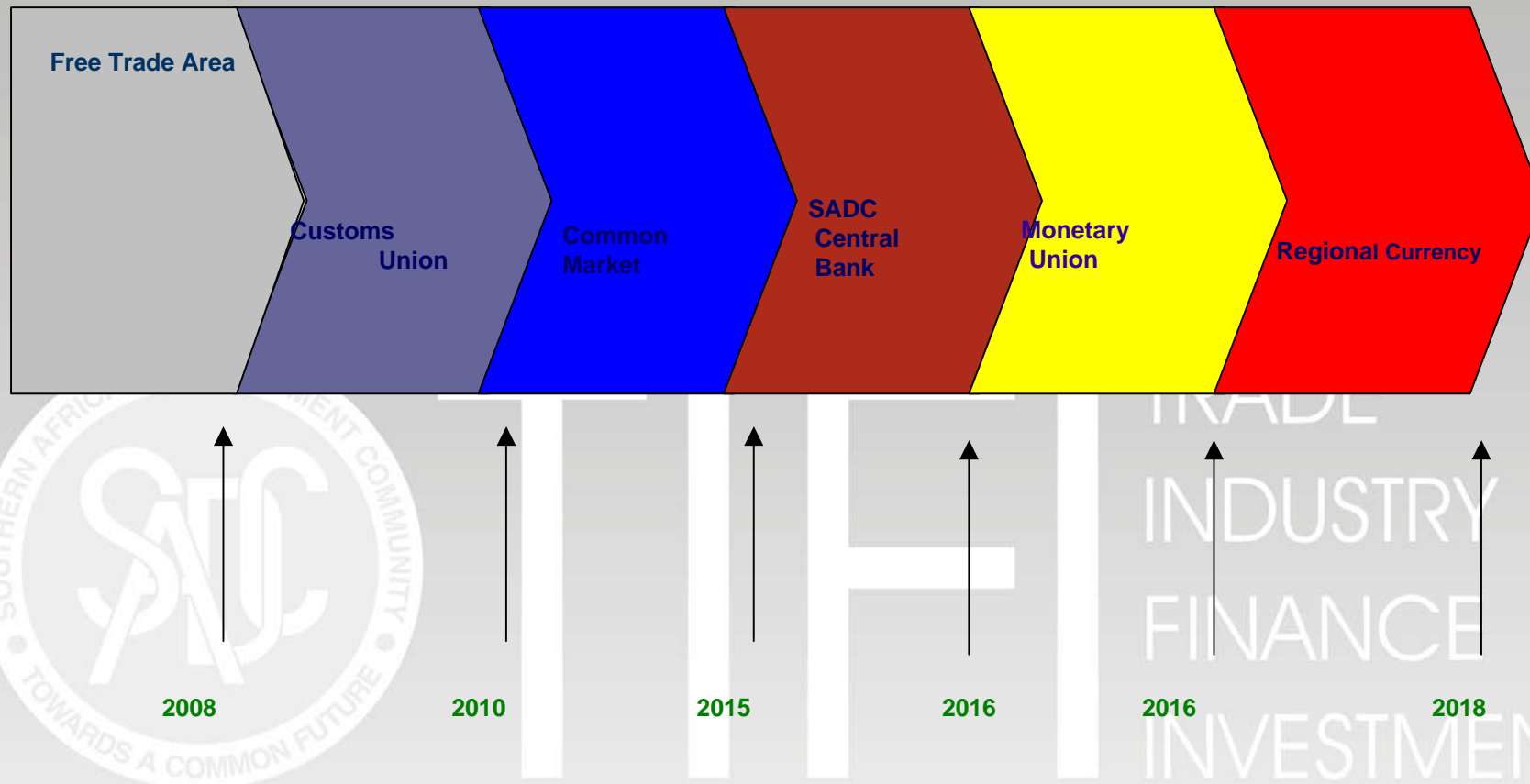
TIFI TRADE
INDUSTRY
FINANCE
INVESTMENT

THE SADC MACROECONOMIC CONVERGENCE PROGRAMME: PROGRESS TO DATE

THE REGIONAL INDICATIVE STRATEGIC DEVELOPMENT PLAN (RISDP)

- ◆ The Southern African Development Community (SADC) has a variety of policies in place to promote regional economic integration amongst Member States.
- ◆ The motivation and outline of these policies is laid out in the Regional Indicative Strategic Development Plan (RISDP), approved in 2003, while specific commitments are laid out in various protocols.
- ◆ The RISDP lays out a programme of regional economic integration targets, as follows:

SADC REGIONAL INTEGRATION TIMELINE



THE FINANCE AND INVESTMENT PROTOCOL

- ◆ The Finance and Investment Protocol (FIP), agreed in 2006 and signed by all Member States by August 2007, includes a range of commitments to co-operate and harmonise policies in the areas of finance, investment and macroeconomic policies.
- ◆ Specifically, Chapter Three of the FIP lays out a commitment to achieve stability-oriented macroeconomic policies, and to co-operate on macroeconomic convergence.
- ◆ This is in recognition that economic instability in one or more countries in the region has negative effects both on the countries themselves and the region more broadly through spill-over effects.
- ◆ The most basic component of macroeconomic convergence is to achieve macroeconomic stability across the region, thereby avoiding instability in terms of high inflation, unstable currencies, and other forms of macroeconomic imbalance.

PRIMARY MEC INDICATORS AND THEIR TARGETS (FIP)

INDICATOR	2008	2012	2018
INFLATION ANNUAL RATE	<9.5%	<5%	<3%
FISCAL DEFICIT/GDP	<5%	<3%	<1%
PUBLIC DEBT/GDP	<60%	<60%	<60%
CURRENT ACCOUNT/GDP	<9%	<9%	<3%

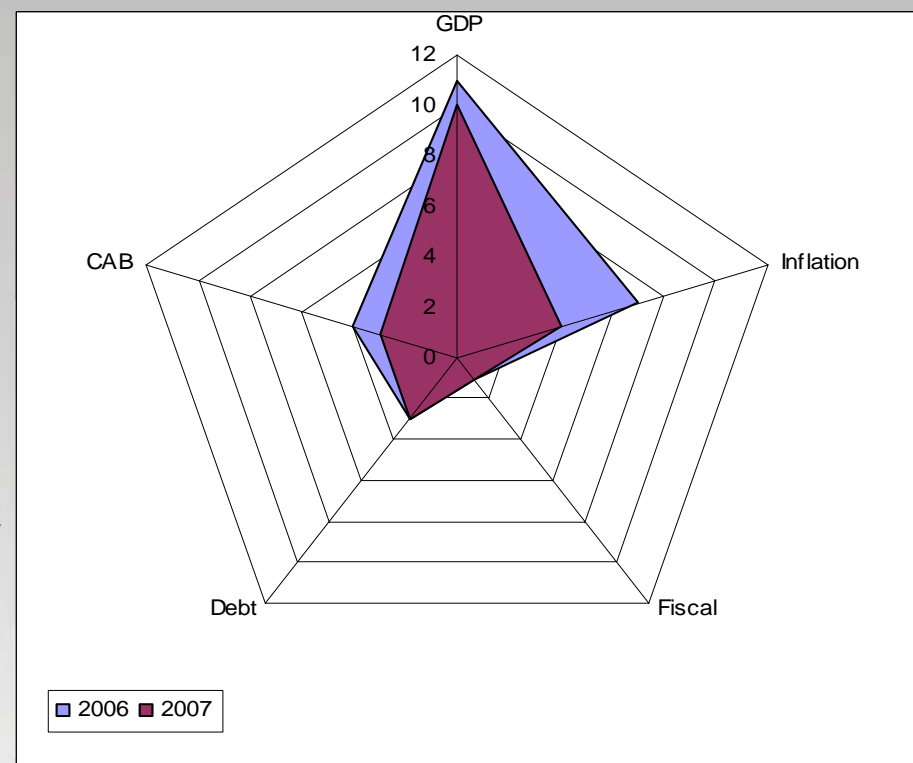
SECONDARY MEC INDICATORS AND THEIR TARGETS (RISDP)

INDICATOR	2008	2012	2018
ECONOMIC GROWTH (%)	7%	7%	7%
EXTERNAL RESERVES (IMPORT COVER, MONTHS)	3	6	6
CENTRAL BANK CREDIT TO GOVT (% OF REVENUES)	10%	5%	5%
DOMESTIC SAVINGS (% OF GDP)	25%	30%	35%
DOMESTIC INVESTMENT (% OF GDP)	30%	30%	30%

REVIEW OF MACROECONOMIC CONVERGENCE PERFORMANCE 2007

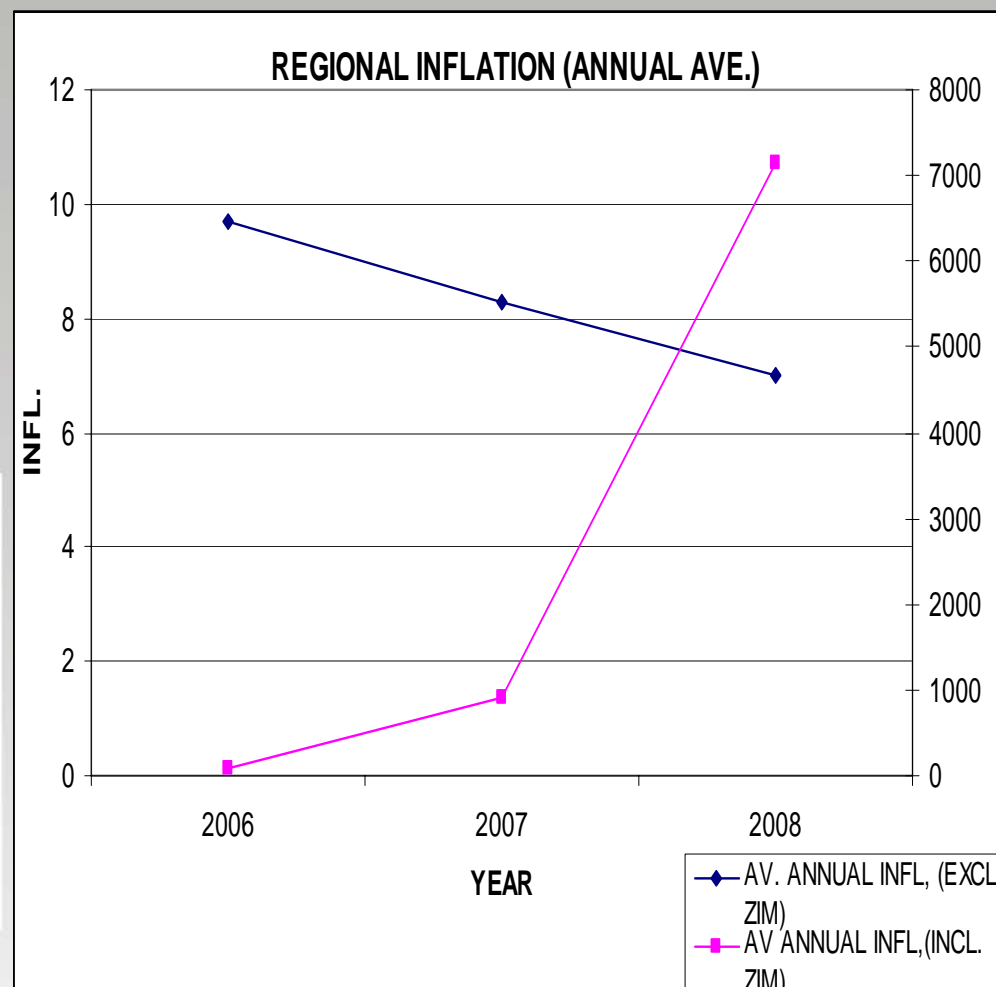
OVERVIEW

- ◆ ECONOMIC PERFORMANCE IN THE SADC REGION WAS SATISFACTORY IN 2007
- ◆ 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



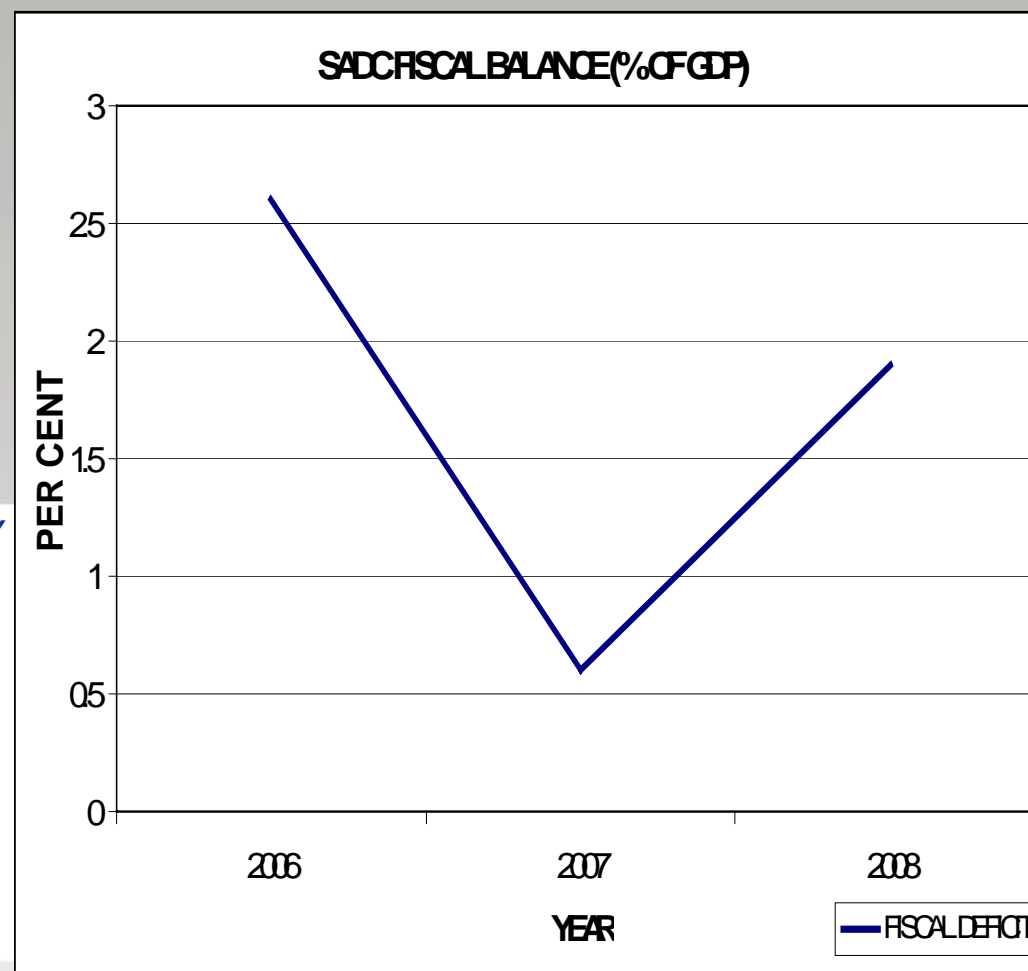
INFLATION

- ◆ REGIONAL AVERAGE 8.4 PER CENT IN 2007 (EXCLUDING ZIMBABWE) FROM 9.7 PER CENT IN 2006.
- ◆ INFLATION CONTAINED THROUGH PRUDENT MONETARY POLICIES AND REDUCED COST-PUSH PRESSURES ON FOOD PRICES.
- ◆ 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.



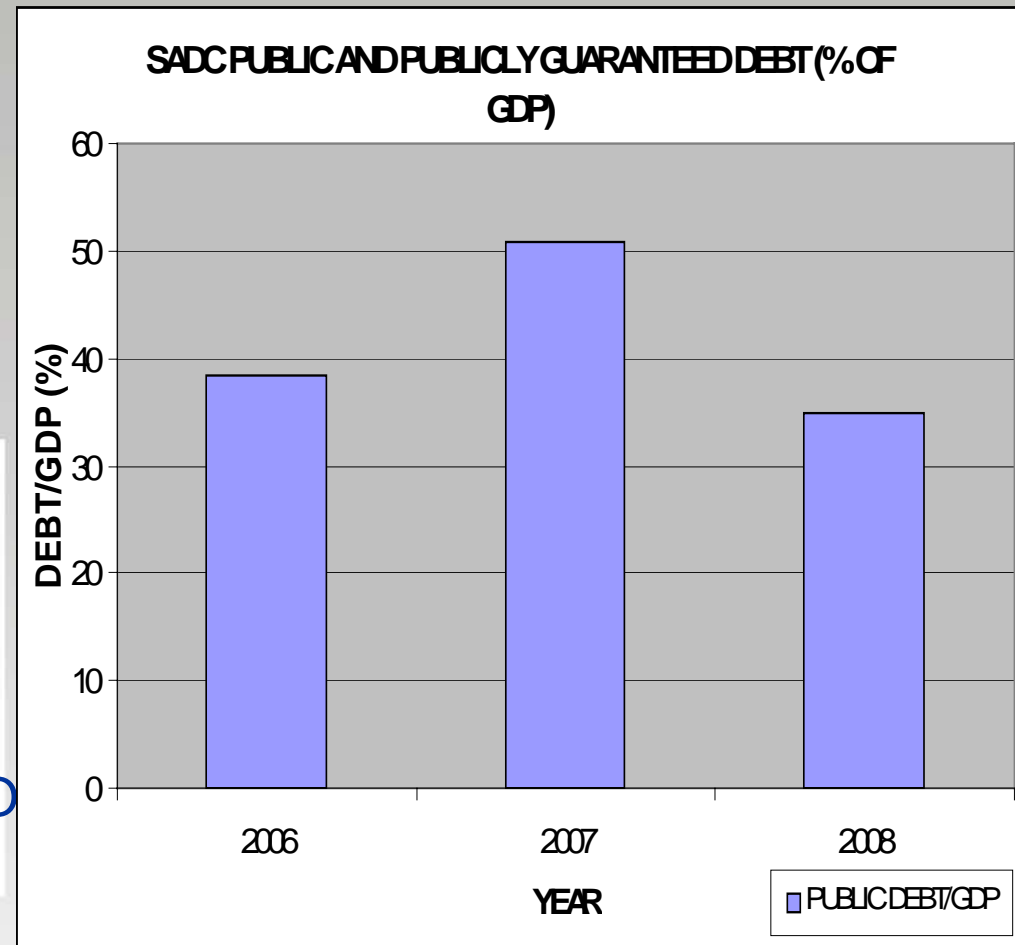
FISCAL BALANCE/GDP RATIO

- ◆ THE REGION RECORDED A FISCAL SURPLUS OF 0.6 PER CENT OF GDP IN 2007, WHICH IS LOWER THAN THE 2.6 PER CENT RECORDED IN 2006.
- ◆ THIS HAS BEEN PRIMARILY DUE TO THE GAINS FROM HIPC INITIATIVE AND PRUDENT FISCAL POLICIES.
- ◆ SUSTAINABILITY OF THE FISCAL BALANCES WILL DEPEND ON CONTINUED STRONG FISCAL POLICY STANCE.
- ◆ THE MAJORITY OF MEMBER STATES' REVENUE SOURCES REMAIN NARROW; HENCE THEIR DEPENDENCY ON EXTERNAL LOANS/GRANTS AND DOMESTIC BORROWING.



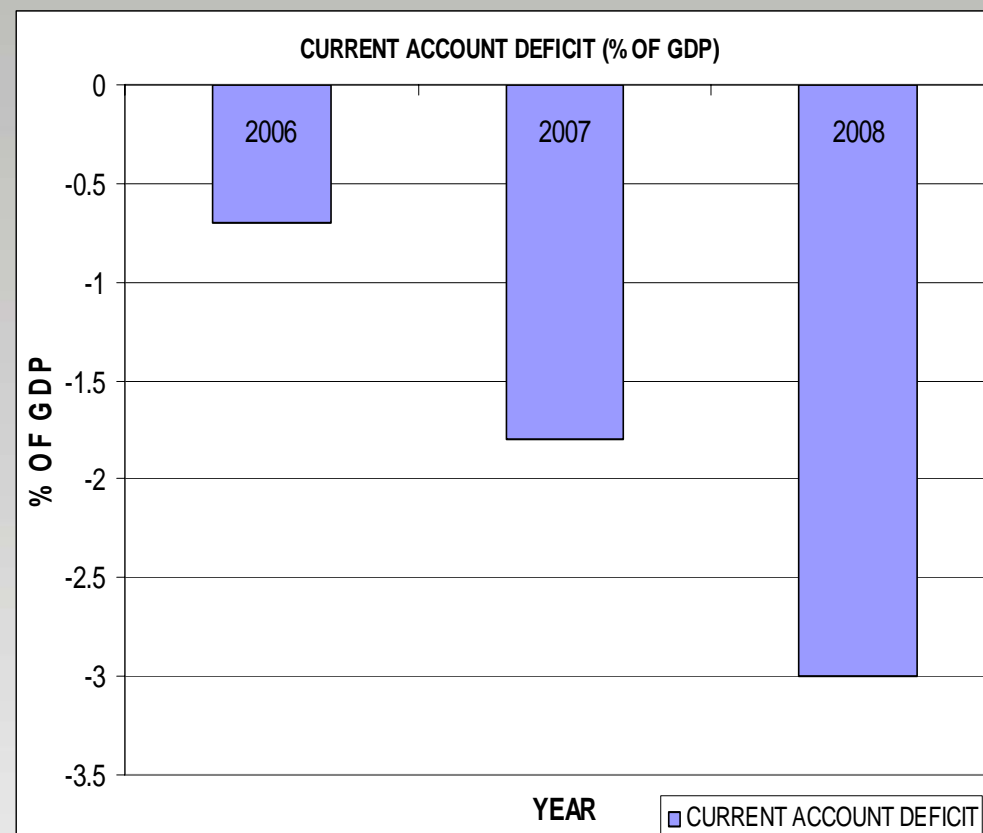
PUBLIC AND PUBLICLY GUARANTEED DEBT

- ◆ MEMBER STATES STRIVING TO ATTAIN THE MEC TARGET OF PUBLIC DEBT/GDP RATIO OF LESS THAN 60 PER CENT.
- ◆ FACTORS CONTRIBUTING TO REDUCTION IN DEBT INCLUDE DEBT RELIEF FROM HIPC INITIATIVE AND PRUDENT FISCAL REGIMES.
- ◆ WIDENING OF THE RATIO IN 2007 LARGELY ATTRIBUTED TO A DETERIORATION OF THE PUBLIC DEBT RATIO FOR DRC.



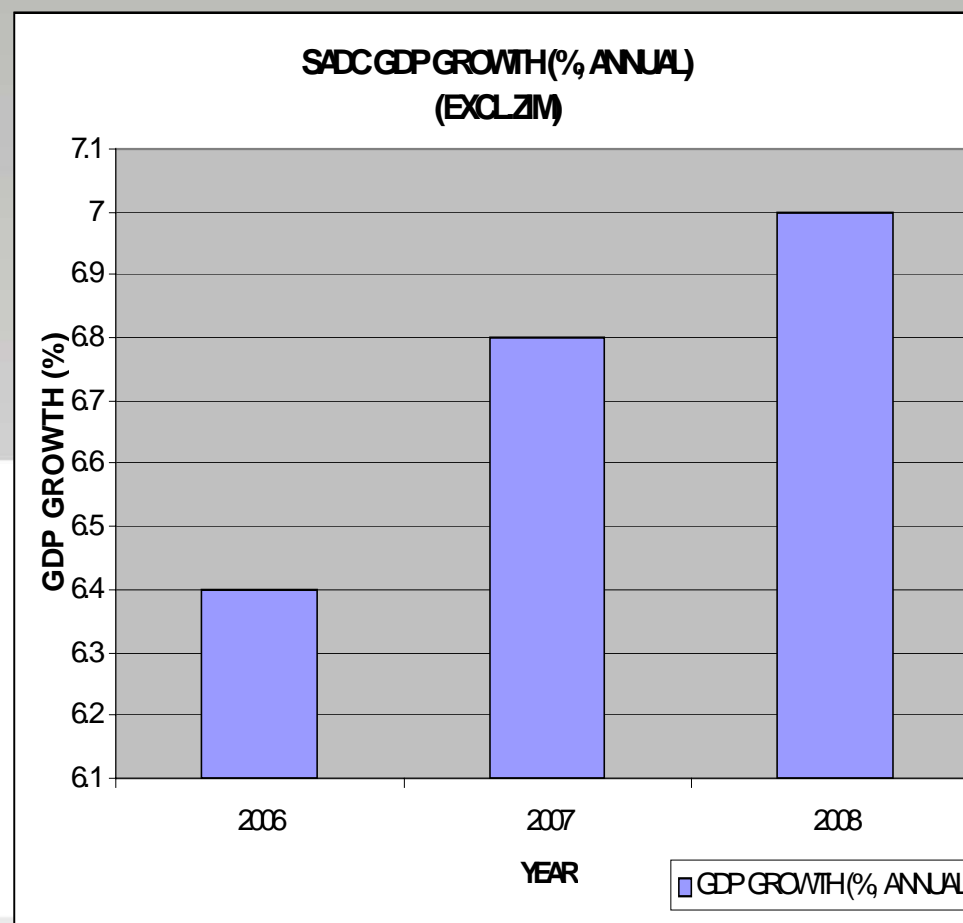
CURRENT ACCOUNT DEFICIT/GDP

- ◆ CURRENT ACCOUNT BALANCE DETERIORATED FROM AN AVERAGE DEFICIT OF 0.7 PER CENT OF GDP IN 2006 TO 2.1 PER CENT OF GDP IN 2007, LARGELY AS A RESULT OF A SURGE IN IMPORTS.
- ◆ THESE IMPORTS ARE LARGELY INTERMEDIARY IMPORTS FOR PRODUCTION, CONSTRUCTION AND INFRASTRUCTURE DEVELOPMENT.
- ◆ CURRENT ACCOUNT DEFICITS LARGELY FINANCED BY CAPITAL INFLOWS, GRANTS AND LOANS.



REAL GDP GROWTH

- ◆ REGIONAL REAL GDP ROSE 6.8 PER CENT 2007, 6.4% IN 2006. THIS IS IN COMPARISON TO THE REGIONAL GROWTH TARGET OF 7.0%.
- ◆ LOW RATE OF ECONOMIC GROWTH ATTRIBUTED TO THE LAGGED EFFECT OF INVESTMENT SPENDING WITH AN INVESTMENT/GDP RATIO OF 22.5 PERCENT IN 2007 COMPARED TO 20.7 PER CENT RECORDED IN 2006 AND THE REGIONAL TARGET OF 30%.
- ◆ THE FRUITS OF SUCH INVESTMENT SPENDING SHOULD BE FORTHCOMING IN THE YEARS TO COME.
- ◆ THE NARROW ECONOMIC BASE OF MANY COUNTRIES IN THE REGION ALSO LIMITS GROWTH.
- ◆ RELIANCE ON A FEW NATURAL RESOURCES FOR THE ECONOMIC PRODUCTION AND EXPORTS COMPROMISES SUSTAINABILITY OF ECONOMIC GROWTH, WHICH BECOMES SUSCEPTIBLE TO SHOCKS SUCH AS RECURRENT ADVERSE WEATHER CONDITIONS.



SUMMARY OF REGIONAL ECONOMIC PERFORMANCE 2006-2007

	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	122	-3.4	19.2	16.4	18.6	11.8	-0.1	na	4.0	19.8
Botswana	11.6	8.1	na	20.9	3.9	7.1	0.6	na	14.5	6.2
DRC	18.2	-0.7	26	-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	71.1	-9.5	5.0	8.8	3.8	65.8	-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
Average excl. Zimbabwe	9.7	3.2	34.9	-0.3	6.4	8.3	1.4	43.2	-1.8	6.8
Average All SADC	82.8	2.6	38.3	-0.7	5.8	905.1	0.6	50.9	-1.8	5.9

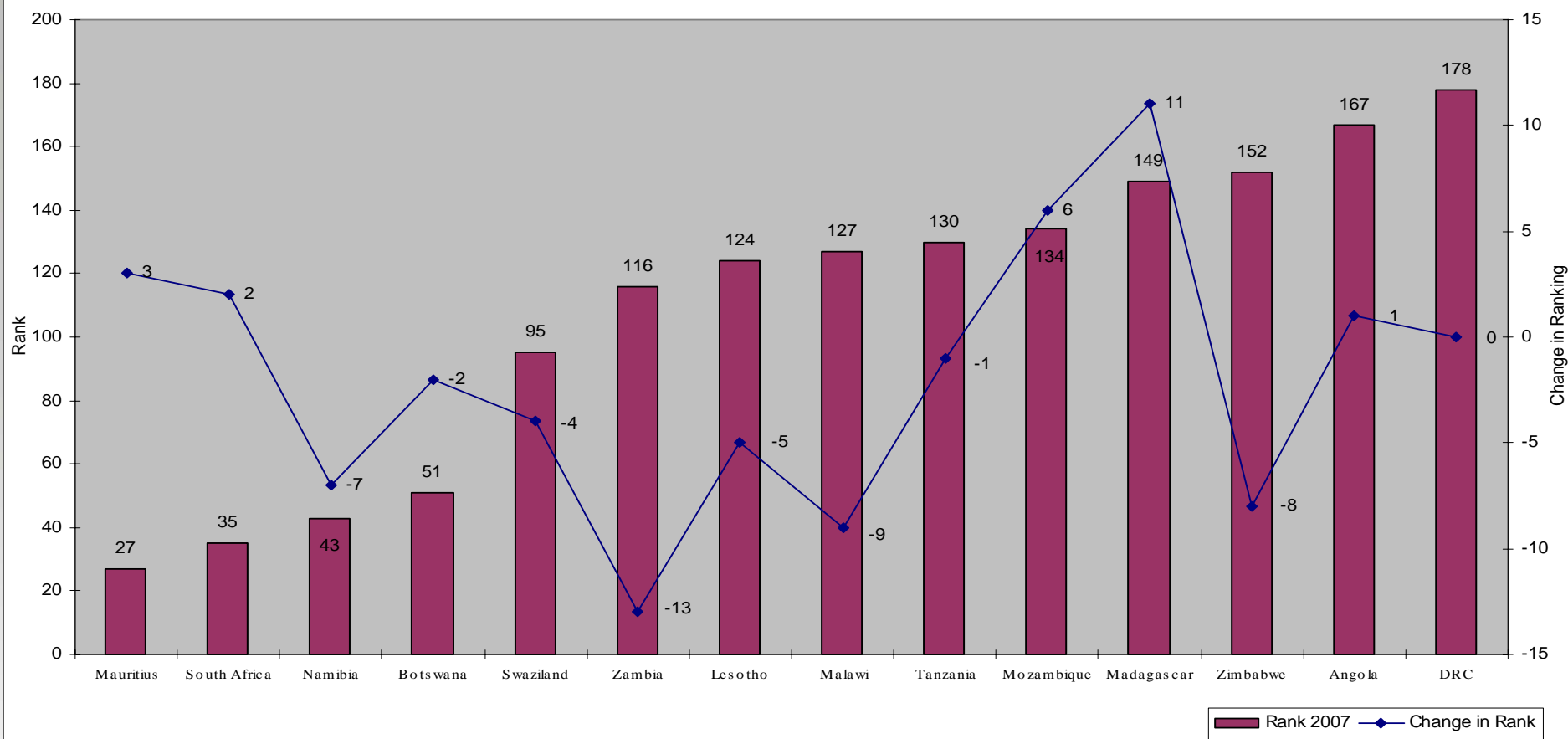
Note: *Inflation for Zambia is end-period.

SADC Competitiveness

- ◆ Generally, SADC Member States are making progress in improving their competitiveness and enhancing the business environment.
 - The World Bank Doing Business Report 2008 indicates that three countries in SADC (Mauritius, South Africa and Namibia) rank among the top fifty business-friendly countries in the world.
 - This is down from four Member States in 2007, namely Mauritius, South Africa, Namibia and Botswana.
 - Botswana slipped down from the top 50 by two ranks from 49 in 2007 to 51 in 2008.

Cont'd

World Bank Ease of Doing Business Rankings 2007 and Change in Ranking on 2006



Cont'd

- ◆ Most of the SADC Member States slipped down in the rankings except for Mauritius, South Africa, Mozambique, Madagascar and Angola that gained in rankings.
- ◆ However, Mauritius, South Africa, Namibia and Botswana maintained the lead in most of the ten areas of business regulation.
- ◆ Nonetheless, all countries except Mauritius are ranked poorly with respect to trading across borders (see Table 1).

Cont'd

SADC: Ranking in the Ten Ease of Doing Business Areas

	Starting a Business	Dealing with Licenses	Employing Workers	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business
Mauritius	8	33	61	153	97	11	11	17	78	66
South Africa	53	45	91	76	26	9	61	134	85	68
Namibia	101	31	33	128	36	64	48	144	33	47
Botswana	99	122	70	36	26	107	14	145	95	26
Swaziland	142	19	51	142	36	175	40	146	129	56
Zambia	82	148	121	125	97	64	30	160	86	84
Lesotho	126	146	69	132	115	141	49	129	99	62
Malawi	108	117	90	87	84	64	78	161	135	135
Tanzania	95	170	151	160	115	83	104	100	35	109
Mozambique	125	147	162	126	97	33	72	140	138	134
Madagascar	61	139	150	165	176	51	86	126	151	178
Zimbabwe	143	172	123	79	97	107	144	169	74	151
Angola	173	136	172	166	84	51	120	164	176	138
DRC	146	138	171	141	158	147	149	154	173	150

Cont'd

- ◆ The picture doesn't necessarily imply that countries are not carrying out reforms to improve business environment.
 - It is rather the speed of reforms is not fast enough compared to other regions.
- ◆ A number of countries have carried out reforms as follows:
 - DRC: Specialized commercial courts started operating end-2006.
 - Lesotho: reduced the tax burden on companies by simplifying the tax structures and decreasing rates; made registration easier for women by allowing married women to transfer land without their husband's signature.
 - Madagascar: reduced business registration to just 8 days; streamlined operations at one stop shop (GUIDE); port authorities implemented an electronic data interchange system and privatized port terminal handling.
 - Malawi: the commercial division of the high court was established in ay 2007.
 - Tanzania: Cut cost of starting a business.

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- Mauritius: Simplifying the issuance of a unique Building and Land Use Permit; three year programme to harmonize tax system; reducing property registration fee to 5% of property value; a new risk management system in place.
- Mozambique: passed a new commercial code which replaced the 1888 commercial legislation.
- South Africa: requires lenders to check their overall debt levels before granting loans and guarantees borrowers the right to access and challenge their credit records; the regional services levy and the regional establishment levy were removed.

Global Competitiveness Index

- ◆ Just like in the Doing Business Report, the rankings in the Global Competitiveness Report indicate that South Africa, Mauritius, Botswana and Namibia occupy the top ranks in the region.
- ◆ In terms of basic factors that lead to improved business environment, i.e. institutions; infrastructure; macroeconomy; and health and primary education, Member States rank well with respect to institutions.
- ◆ However, there is need for more work in health and primary education; macroeconomy; and infrastructure.

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GCI: Ranking of Factors that Drive Productivity and Competitiveness, 2007

	Overall Rank	Institutions	Infrastructure	Macroeconomy	Health & Primary Education	Higher Education & Training	Market Efficiency	Technological Readiness	Business Sophistication	Innovation
South Africa	46	31	50	48	106	56	34	44	32	29
Mauritius	58	43	42	107	44	69	70	54	44	65
Botswana	83	38	67	41	115	89	61	81	98	92
Namibia	88	49	45	45	114	108	80	79	85	89
Tanzania	108	64	96	103	121	115	76	87	83	56
Madagascar	113	98	119	118	103	116	100	103	102	78
Lesotho	115	89	121	54	112	118	120	112	125	120
Zambia	117	56	90	122	118	120	86	96	128	121
Malawi	120	66	118	127	109	122	91	121	116	106
Zimbabwe	121	101	101	128	116	99	115	110	92	94
Mozambique	124	112	102	115	120	125	125	122	117	113
Angola	128	123	116	126	128	128	123	124	126	124

Source: Africa Competitiveness Report 2007.

Note: Data on DRC and Swaziland not available.

Credit Rating

- ◆ Provide an impartial baseline for investors to use in evaluating the economy.
 - “Money is a coward – it will go nowhere where it is put in fear.”
- ◆ Information is provided by senior economists and sovereign-risk analysts at leading global banks and money management and securities firms.

Institutional Investor: Credit Rating of 174 Countries

	Credit Rating Rank (September 2007)	Credit Rating Rank (March 2008)	Change in Rank
South Africa	49	52	-3
Botswana	50	49	1
Mauritius	65	65	0
Namibia	74	72	2
Lesotho	91	91	0
Swaziland	102	113	-11
Angola	108	105	3
Tanzania	113	118	-5
Mozambique	119	114	5
Zambia	131	121	10
Madagascar	135	135	0
Malawi	139	139	0
DRC	159	167	-8
Zimbabwe	172	174	-2

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- ◆ Investment Grade: AAA – BBB: Lowest to low expectation of credit risk.
- ◆ Speculative Grade: BB – D: Possibility of credit risk developing to default.
- ◆ Of the five areas of rating economic structure risk is rated poorly in the region.

Fitch Credit Ratings March 2008

	Sovereign Risk	Currency Risk	Banking Sector Risk	Political Risk	Economic Structure Risk
Angola	BB	BB	B	CCC	B
Botswana	AA	A	A	AA	BBB
DRC	-	-	-	-	-
Lesotho	-	-	-	-	-
Madagascar	-	-	-	-	-
Malawi	BB	BB	B	B	CCC
Mauritius	BB	BBB	BBB	AA	B
Mozambique	-	-	-	-	-
Namibia	BBB	BBB	BBB	BBB	BBB
South Africa	BBB	BBB	BBB	A	BB
Swaziland	-	-	-	-	-
Tanzania	BB	BB	BBB	B	B
Zambia	B	BB	B	B	B
Zimbabwe	C	C	C	C	C

Implications

- ◆ Investment has been growing slowly in the region; and remains low.
- ◆ Only a few countries have managed to come close to the regional investment target of 30 per cent of GDP for 2008.

	2006	2007
Angola	15.0	13.7
Botswana	25.3	25.8
DRC	13.4	16.6
Lesotho	26.2	26.4
Madagascar	21.7	21.9
Malawi	14.2	19.6
Mauritius	21.2	23.4
Mozambique	24.8	27.7
Namibia	29.4	31.9
South Africa	20.3	20.4
Swaziland	17.2	17.2
Tanzania	23.4	24.5
Zambia	23.5	25.0
Zimbabwe	11.0	17.5
SADC Average	20.5	22.3

SUSTAINING ECONOMIC PERFORMANCE: CHALLENGES TO OVERCOME

- ◆ RECURRENT DROUGHTS/FLOODS
- ◆ THE GLOBAL ECONOMIC DOWNTURN, WHICH IS SPREADING FROM THE USA TO THE EU, SADC'S MAJOR TRADING PARTNER
- ◆ POWER SHORTAGES DUE TO LOW GENERATION CAPACITIES AND SURGE IN DEMAND AS A RESULT OF INCREASED ECONOMIC ACTIVITY
- ◆ CONTINUED CONFLICTS IN SOME MEMBER STATES
- ◆ RISING OIL PRICES ON THE INTERNATIONAL MARKET;
- ◆ RISING FOOD PRICES. GLOBAL FOOD RESERVES ARE AT THEIR LOWEST LEVEL IN 30 YEARS
- ◆ SHORTAGE OF CRITICAL SKILLS
- ◆ IMPACT OF THE FIFA 2010 WORLD CUP PREPARATIONS ON AVAILABILITY AND PRICING OF COMMODITIES SUCH AS CEMENT.