IMF STAFF POSITION NOTE

June 15, 2009
SPN/09/14

The Southern African Development Community's Macroeconomic Convergence Program: Initial Performance

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INTERNATIONAL MONETARY FUND

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Prepared by the African Department[1]
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June 15, 2009

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[1] The views expressed in this paper are those of the author and do not necessarily represent those of the IMF or IMF policy.

Executive Summary

The Southern African Development Community's (SADC's) regional economic integration agenda includes a macroeconomic convergence program, intended to achieve and maintain macroeconomic stability in the region, thereby contributing to faster economic growth and laying the basis for eventual monetary union. Most SADC member states have recorded solid macroeconomic performance in recent years, in general coming close too, and in many cases surpassing, the convergence targets specified for 2008. A notable exception in this regard is Zimbabwe, which was in the grip of hyperinflation. The macroeconomic targets for later years are ambitious and, in some cases, warrant further evaluation, given that achieving the targets may be neither necessary nor sufficient to achieve good macroeconomic results.

I. Introduction

1. SADC comprises 15 states and seeks to promote peace, security, and economic integration in the region.[2] SADC is one of eight regional economic communities formally recognized by the African Union as building blocks toward achieving an African Economic Community (Box 1).

Box 1. SADC in Historical Context

SADC has its origins in the organization of Frontline States (Angola, Botswana, Mozambique, Tanzania, and Zambia), which sought the political liberation of the region from colonialism and minority white rule in the mid- to late 1970s. The group expanded in 1980 when Lesotho, Malawi, Swaziland, and newly independent Zimbabwe joined to form the Southern African Development Coordination Conference (SADCC), with the aim of reducing economic dependence on apartheid South Africa and promoting their own economic development through cooperation and integration.

By the early 1990s, independence in Namibia and the end of apartheid in South Africa ended the struggle against colonialism in the region and normalized the political landscape. At the continental level, the 1980 Lagos Plan of Action (establishing regional economic communities as the building blocks for continental unity) was reaffirmed in 1991 at Abuja when the African Economic Community was established. In 1992 the SADCC was therefore transformed from the loose association of a coordination conference into SADC, a formal treaty-based organization. Membership of the organization increased to 14 with the accession of Namibia (1990), South Africa (1994), Mauritius (1995), Democratic Republic of Congo (1997), and Madagascar (2005). Seychelles, a member from 1997–2004, rejoined the group in August 2008.

2. SADC's regional economic agenda is outlined in its Regional Indicative Strategic Development Plan (RISDP), adopted by member states in 2003. The RISDP established a

[2] Angola, Botswana, the Democratic Republic of Congo (DRC), Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe.

roadmap for deepening regional integration over a 15-year period, outlining a number of targets and milestones to be met along the way. Its stated economic goals include the creation of a free trade area by 2008, a customs union by 2010, a monetary union by 2016, and a single currency by 2018.

3. One important component of the RISDP is the program to achieve macroeconomic convergence among member states. Recognizing that economic instability in any one country has negative spillover effects on the rest of the region, SADC member states agreed to achieve and maintain macroeconomic stability, committing to follow stability-oriented economic policies and to be monitored and measured against specific convergence criteria for inflation, fiscal balance, public debt, and the current account balance. The first targets were set for 2008, followed by targets for 2012 and 2018 (Table 1 and Box 2).

Table 1. Macroeconomic Convergence Targets

	2008	2012	2018
Inflation (annual rate)	Single digits	5%	3%
Fiscal deficit	5% of GDP	3% of GDP as anchor, with a range of 1%	3% of GDP as anchor, with a range of 1%
Public debt	60% of GDP	60% of GDP	60% of GDP
Current account deficit	9% of GDP	9% of GDP	3% of GDP

Source: SADC.

4. Another major economic target in the RISDP is GDP growth of 7 percent a year—the pace estimated to be necessary to achieve the Millennium Development Goal (MDG) of halving poverty by 2015. There are also ambitious targets on diversifying industrial structure and exports, increasing domestic savings and investment, developing and strengthening financial and capital markets, liberalizing exchange controls, and linking payments systems.[3]

5. This paper examines the estimated compliance with the macroeconomic convergence targets for 2008, based on estimates contained in the IMF's *Regional Economic Outlook: Sub-Saharan Africa* (the REO).[4] Section II provides an overview of the extent of economic integration within the region. Recent economic developments and progress toward the SADC economic convergence criteria are reviewed in Section III.

[3] See RISDP, ¶ 4.10.5.

[4] The paper covers 14 SADC member countries. The Seychelles, which formally rejoined SADC only in August 2008, has not been included in the analysis.

Prospects for the convergence program and analysis of whether the 2012 targets offer realistic guidance to economic policymakers in the individual SADC member countries are discussed in Section IV. Section V concludes with an overall summary of the convergence program.

Box 2. SADC Macroeconomic Convergence Commitments

The commitments of SADC member states to macroeconomic convergence are outlined in the Finance and Investment Protocol (FIP):[1]

Principles. Regional economic integration and macroeconomic stability are preconditions to sustainable economic growth and for the creation of a monetary union in the region…In order to achieve and maintain macroeconomic stability within the region, [member states] shall converge on stability-oriented economic policies implemented through a sound institutional structure and framework…Stability-oriented policies include but are not limited to restricting inflation to low and stable levels, maintaining a prudent fiscal stance based on the avoidance of large budget deficits, monetization of deficits, and high or rising ratios of public and publicly guaranteed debt to GDP; avoiding large financial imbalances in the economy; and minimizing market distortions.

Indicators and data. Macroeconomic convergence in the region shall be measured and monitored by the following indicators: the rate of inflation, the ratio of the budget deficit to GDP, the ratio of public and publicly guaranteed debt to GDP, taking account of the sustainability of such debt; and the balance and structure of the current account. Data shall be provided in accordance with international standards as defined by the IMF.

Fiscal and monetary cooperation. Member states shall formulate, implement and maintain fiscal and monetary policies that are transparent, consistent, and contribute toward the achievement of macroeconomic stability within the region; and…formulate and implement fiscal and monetary policies that are sustainable and minimize negative spillover effects into other member states.

Monitoring and surveillance: An annual review of macroeconomic convergence programs by a peer review panel (comprising Ministers of Finance and Central Bank Governors), which shall issue a communiqué explaining its assessments. *The first round of convergence reports was prepared in 2005–06 and tabled before Ministers of Finance and Investment in mid-2007.*[2] *An overview update was prepared by the SADC Secretariat in April 2008. However, the peer review panel has not yet been convened.*

[1] These were first laid out in a memorandum of understanding in 2002 and reiterated in the RISDP in 2003. Their inclusion in the FIP, which all member states signed in 2007, in theory makes them legally binding. In practice, however, implementation of SADC protocols has been patchy. There are also few references to the convergence criteria in national policy documents.

[2] See http://www.sadc.int/tifi/macroeconomic_policies_convergence/reports.php

II. Regional Economic Integration in SADC

6. SADC is the largest regional economic grouping in sub-Saharan Africa (SSA); it accounts for about half of regional GDP at market exchange rates.[5] It is also the richest, with real per capita income about two-thirds above the continental average—but there are huge variations in income across the SADC membership. South Africa, the main contributor to regional GDP, accounts for almost two-thirds of total output, although per capita income is higher in Botswana and Mauritius (Table 2).

Table 2. SADC Basic Economic Indicators

	Population (2006)	GDP (2007)		GNI per Capita (2006)	
	(Millions)	(US$ billions)	(Percent total)	(US$)	(PPP, SADC=100)
Middle Income Countries					
Botswana	1.6	12.4	2.8	5680	300.8
Lesotho	2.4	1.6	0.4	980	45.9
Mauritius	1.3	6.9	1.6	5430	270.1
Namibia	2.0	7.4	1.7	3210	121.1
South Africa	47.4	283.1	64.6	5390	225.9
Swaziland	1.0	2.9	0.7	2450	120.1
Low Income Countries					
Madagascar	19.2	7.7	1.8	280	22.1
Malawi	13.1	3.6	0.8	230	17.5
Mozambique	19.9	8.1	1.8	310	16.8
Tanzania	38.2	16.7	3.8	350	24.9
Zambia	11.9	11.4	2.6	640	29.4
Fragile Countries					
DRC	59.3	10.4	2.4	130	6.9
Zimbabwe	11.7	4.7	1.1	340 [1]	…
Oil exporter					
Angola	16.6	61.3	14.0	1970	98.7

[1] 2005

Sources: IMF, African Department and World Economic Outlook databases, and World Bank *World Development Indicators*

For analytical purposes, it is useful to divide the SADC member countries into four groupings, following the classification system employed in the REO for SSA (IMF, 2009)[6]:

- *Middle-income countries:* South Africa, the four small economies (Botswana, Lesotho, Namibia, and Swaziland) that are joined with South Africa in the Southern African Customs Union (SACU), and Mauritius

[5] In global terms, however, the region is relatively moderate in terms of market size, with a combined GDP (2007, market exchange rates) that is slightly larger than that of Indonesia and slightly smaller than that of Belgium.

[6] The term "fragile states" here refers to low-income countries that are considered weak performers according to the World Bank's County Policy and Institutional Performance Assessment.

- *Low-income countries:* Madagascar, Malawi, Mozambique, Tanzania, and Zambia
- *Fragile countries:* Democratic Republic of Congo (DRC) and Zimbabwe
- *Oil exporters:* Angola.

7. The region's economies differ markedly, in terms of both economic structure and income level. Except for South Africa and Mauritius, most have narrow production bases that are dependent on agriculture (Madagascar, Malawi, Tanzania); specific natural resources (diamonds in Botswana and Namibia, copper in Zambia, and oil in Angola); or specific manufacturing industries (e.g., clothing in Mauritius, and soft drink concentrate in Swaziland) (Figure 1). As a result, the terms of trade within the region have typically not been well correlated (Figure 2). The size of terms of trade shocks facing SADC, measured by the standard deviation of changes in the terms of trade, also tends to be relatively large compared with other regional blocs, as might be expected given the number of commodity producers in the region.

Figure 1. SADC: Distribution of GDP by Sector, 2005

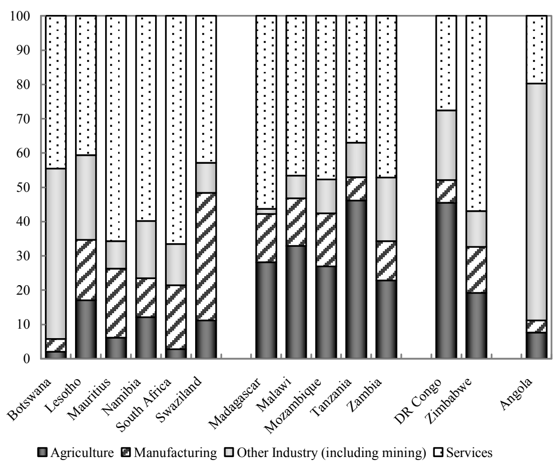
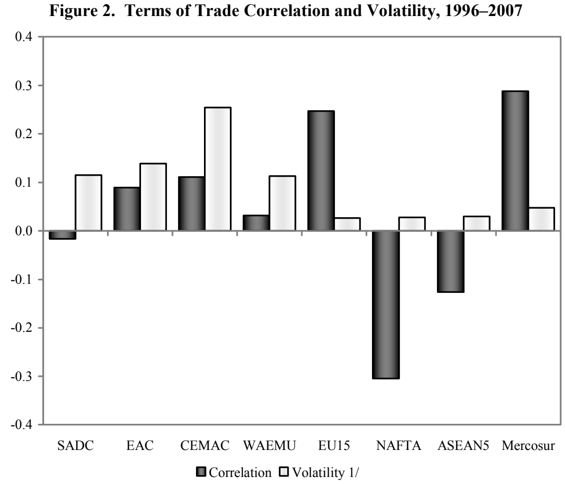


Figure 2. Terms of Trade Correlation and Volatility, 1996–2007



Sources: World Bank, *World Development Indicators*; and IMF, *World Economic Outlook.*
1/ The correlation is calculated as the simple average of correlation coefficients of terms of trade changes between members of the same region. Volatility is measured as the average of the standard deviation of terms of trade changes for each country in a particular region.

8. Economic linkages within the region tend to center on South Africa, with some exceptions where links between neighboring countries are strong:

Trade flows. Intra-regional trade flows are low by comparison with other regional blocs and tend to be dominated by bilateral flows with South Africa (Box 3). Changes in the volume or pattern of trade flows in recent years have been modest despite the movement towards the establishment of the SADC free trade area in August 2008.[7] Aside from the

[7] By 2008, 85 percent of intra-SADC trade was scheduled to be duty-free. However, there is an asymmetry in the speed at which countries were to reach this point: SACU countries and Mauritius eliminated most tariffs on imports from other SADC countries by 2005–06, whereas other SADC countries were to

(continued)

absence in most SADC countries of significant manufacturing capacity, the main barriers to intra-regional trade include complex rules of origin (exacerbated by overlapping memberships in preferential trading arrangements other than SADC [Box 4]) and transit costs and delays.

Investment. Most foreign investment in the region tends to come from advanced economies outside Africa and is heavily concentrated in the resources sector. South Africa is by far the largest source of investment from within the region, although Mauritius is also becoming active in tourism and financial services in neighbors like Mozambique and Madagascar. South African investment accounts for about 6 percent of the stock of total foreign direct investment in SADC on average and over 10 percent in Botswana, the DRC, Malawi, Mozambique, Swaziland, and Zimbabwe (Table 3). South Africa's presence in the resources sector is strong but investments have increasingly taken place in other areas, such as telecommunications, financial services, and retailing.[8]

Table 3. Outward Direct Investment from South Africa, 2006

	Stock as Percent of GDP	Stock as Percent of Total Inward FDI
Middle-Income Countries [1]		
Botswana	1.1	12.9
Lesotho	2.3	5.8
Namibia	1.8	4.5
Swaziland	4.2	15.5
Low-Income Countries		
Madagascar	0.0	0.0
Malawi	3.7	21.6
Mozambique	11.3	16.0
Tanzania	1.6	3.8
Zambia	0.5	1.6
Fragile Countries		
DRC	1.4	11.0
Zimbabwe	3.2	12.6
Oil Exporter		
Angola	0.0	0.1

[1] Mauritius is not reported here because some South African companies invest in other countries through Mauritian conduits.
Sources: South African Reserve Bank; IMF, *World Economic Outlook;* and UNCTAD, *Foreign Direct Investment Database.*

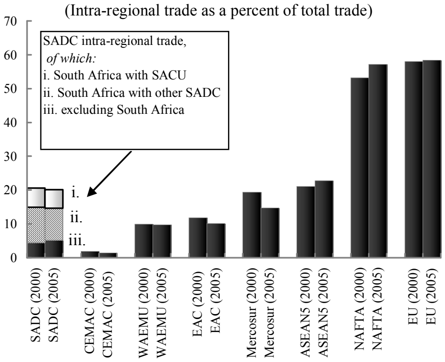
implement most of the reductions only in 2007–08. According to USAID (2007), Malawi, Mozambique, Tanzania, and Zimbabwe had fallen behind schedule in reducing their tariffs on intra-SADC trade.

[8] Earlier exchange controls in SACU may have discouraged outward flows of investment to other SADC countries but these have been progressively liberalized in recent years, with higher limits designed to encourage investment in the rest of SADC (and latterly in other African countries).

Box 3. Intra-SADC Trade Flows

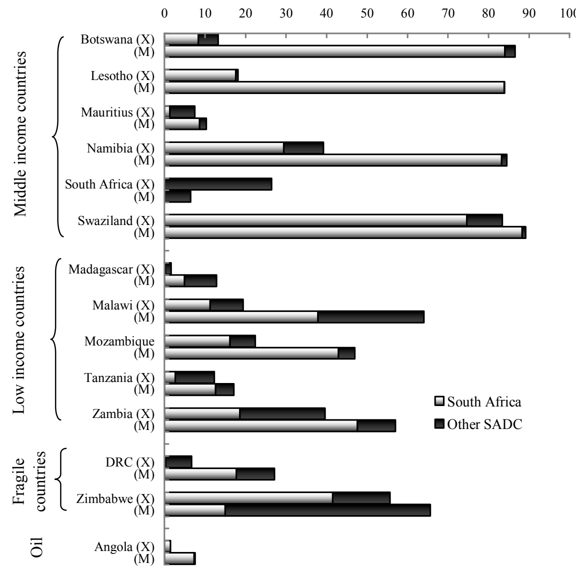
Intra-regional flows in SADC account for about 20 percent of total trade—more than in other African regions but well below intra-regional trade in more established regional trading blocs. However, the bulk of these flows are accounted for by trade with South Africa. Intra-regional trade excluding South Africa is only about 5 percent of total trade.

Figure. Intra-regional Trade by Region
(Intra-regional trade as a percent of total trade)



Sources: IMF, *Direction of Trade Statistics;* and United Nations, *COMTRADE*

Figure. Importance of SADC Trade by Country, 2005
(Percent of total exports (X) and imports (M))



Sources: IMF, *Direction of Trade Statistics;* and UN, *Comtrade*

Trade within SADC varies significantly by country. Most of trade consists of imports from South Africa, which accounts on average for about one-third of the region's total imports and considerably more than that in the case of its SACU neighbors.[1] South Africa is also a major export market for Namibia, Swaziland, Zambia, and Zimbabwe, and Zambia's exports to its SADC neighbors are considerable. However, SADC members account for less than 10 percent of exports from Angola, the DRC, Madagascar, and Mauritius.

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[1] Official data probably overstate the degree of import dependence on South Africa given its role as a transport and logistical hub for the region; many goods enter South Africa and are then re-exported to the rest of the region. This is particularly true for South Africa's SACU partners.

Financial integration. The extent of financial integration within the region is (unsurprisingly) highest within the Common Monetary Area, in which the currencies of Lesotho, Namibia, and Swaziland are pegged at par to the South African rand. Interest rate movements in those four countries are highly synchronized.[9] South African financial institutions are dominant, accounting for 60 to 90 percent of banking system assets and deposits in the smaller CMA members. South African banks are also active in the rest of the region; they have a significant presence in Botswana, Mozambique, Tanzania, Zambia, and Zimbabwe.

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[9] Wang and others (2007).

Labor flows. Historically, southern Africa has experienced substantial waves of labor migration, both economically motivated movement (stimulated by differences in earnings and employment opportunities) and forced displacements associated with independence or liberation struggles. In the past, large numbers of unskilled and semi-skilled workers from Botswana, Lesotho, Malawi, Mozambique, and Swaziland sought employment in South African mines—the resulting remittances became a major source of foreign earnings for their home countries. These flows have declined in importance over the past decade as mining production has become more capital intensive; meanwhile, there have been increasing flows of skilled workers into Botswana, Namibia, and South Africa. More recently, there has been an acceleration in migration from Zimbabwe as the economic situation there has deteriorated, with South Africa the principal destination.

Box 4. Membership of Regional Economic Organizations in Southern Africa

Most SADC countries are members of at least one other regional economic bloc or preferential trading arrangement:

- Seven SADC members (the DRC, Madagascar, Malawi, Mauritius, Swaziland, Zambia, and Zimbabwe) are also members of the ***Common Market for Eastern and Southern Africa (COMESA)***.
- Two (Angola and the DRC) are members of the ***Economic Community of Central African States (ECCAS)***.
- One (Tanzania) is a member of the ***East African Community (EAC)***.
- One (the DRC) is a member of the ***Economic Community of the Great Lakes States (CEPGL)***.
- Two (Madagascar and Mauritius) are members of the ***Indian Ocean Commission (IOC)***.

In addition, the five members of SACU form a long-established customs union, with free flows of goods among them.

Even within the SADC arrangement, there are important differences. The DRC is not a signatory to the establishment of the SADC free trade area. Most countries also retained preferential bilateral trading agreements with other SADC members, often to circumvent the complex rules of origin and lingering tariff protection in the SADC agreement. Zimbabwe, for example, has separate trade agreements with Botswana, the DRC, Namibia, Malawi, Mozambique, and South Africa.

Finally, the negotiation of **Economic Partnership Agreements** (EPAs) with the EU adds another layer of complexity to regional trading arrangements. SADC member states are scattered among several EPA groups: (i) Botswana, Lesotho, Mozambique, Namibia, and Swaziland have signed an interim EPA as the "SADC" group; Angola has indicated its intention to join this agreement; South Africa has yet to sign (and would be subject to differential treatment from the rest of the group); (ii) Tanzania has signed an interim EPA along with its EAC partners; (iii) Madagascar, Mauritius, and Zimbabwe have signed an interim EPA as part of the Eastern and Southern Africa group; Malawi and Zambia, which are in this negotiating group, have yet to sign; and (iv) the DRC is part of a central African negotiating group.

III. Macroeconomic Performance in the SADC Region

9. As macroeconomic performance in the SADC region has improved in recent years, most countries are making progress towards, and in many cases exceeding, the convergence criteria (Table 4 and Figure 3).[10] Last year proved to be difficult, however, as countries were buffeted first by surging food and oil prices and then by the impact of the global financial crisis. This section first puts growth in the region in context and then assesses performance against the four SADC convergence criteria.[11]

A. Growth

10. Growth has accelerated steadily across much of the region over the past decade, in line with the improved performance across the rest of the continent (Figure 4).

- Growth has been strongest in Angola, where the economy has been benefiting from high oil prices and rising production levels; low-income countries in the region have also been among the continent's leading performers, with growth in Malawi, Mozambique, and Tanzania above or close to 7 percent in recent years.
- Growth in middle-income countries has averaged 4–5 percent in recent years, supported by growth in domestic demand in South Africa, a robust expansion of the minerals sectors in Botswana and Namibia, and a mini-recovery in the textile sectors in Lesotho and Mauritius after preferences under the U.S. Africa Growth and Opportunity Act were extended to 2012.
- In the fragile states, recovery is underway in the DRC, but output has steadily fallen in Zimbabwe.

B. Inflation

11. Most countries have made considerable headway in establishing price stability, although surging oil and food prices pushed up inflation rates in many countries in 2008. The median rate of inflation in the region has remained close to upper single digits in recent years; and inflation rates in most of the region's poorer performers have converged toward this level (Figure 5).

- Having been well within single-digit territory in recent years, consumer price

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[10] This contrasts with an earlier study for the SADC Committee of Central Bank Governors (2001), which concluded that macroeconomic performance had diverged across the region during the 1990s. It is, however, in line with more recent studies, such as SADC (2007, 2008), which have found that the macroeconomic performance of most members has improved in recent years.

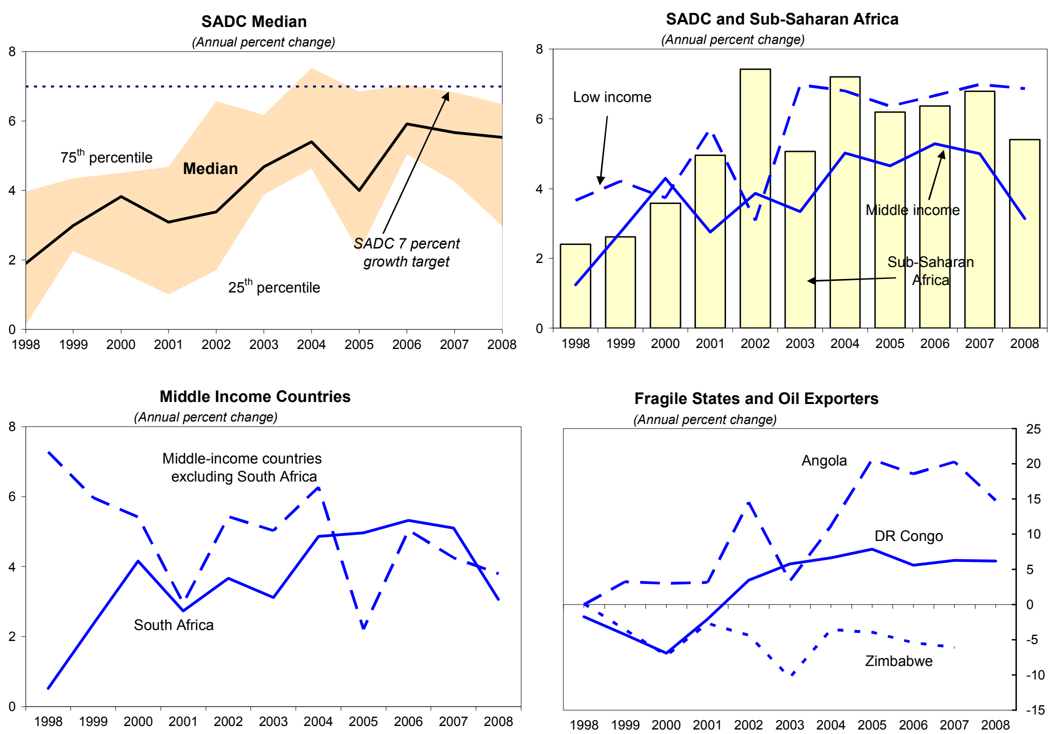
[11] The estimates are taken from IMF (2009), the latest REO for sub-Saharan Africa. Detailed country data for each indicator are reported in Appendix Tables 1–7.

Table 4. Performance of SADC Member States in relation to 2008 Convergence Criteria

	Consumer Price Inflation	Government Budgetary Postion: Overall Balance [1]	Government Budgetary Postion: Public Debt	Current Account Balance	Real GDP Growth
	(Annual average percent change)	(Percent of GDP)		(Percent of GDP)	(Annual percent change)
Reference Value	10	-5	60	-9	7
Middle Income Countries					
Botswana	12.6	-3.1	5.0 [2]	7.0	2.9
Lesotho	10.7	6.2	52.9	-3.2	3.5
Mauritius	8.8	-3.4	54.1	-8.7	6.6
Nambia	10.3	-3.3	23.7	2.3	2.9
South Africa	11.5	-0.6	26.9	-7.4	3.1
Swaziland	13.1	-0.1	19.4	-6.4	2.5
Low Income Countries					
Madagascar	9.2	-2.6	30.3	-24.4	5.0
Malawi	8.7	-5.8	10.6	-6.3	9.7
Mozambique	10.3	-4.0	59.8	-12.6	6.2
Tanzania	10.3	0.0	39.1	-9.7	7.5
Zambia	12.4	-1.5	20.0	-7.4	6.0
Fragile Countries					
DRC	18.0	-0.1	101.4	-15.4	6.2
Zimbabwe [3]	10452.6	-1.8	n.a.	-1.4	-6.1
Oil Exporter					
Angola	12.5	12.4	11.0	21.2	14.8
SADC [4]	**11.6**	**1.5**	**26.9**	**-2.5**	**5.3**
Sub-Saharan Africa [4]	11.6	2.1	30.3	-1.3	5.4

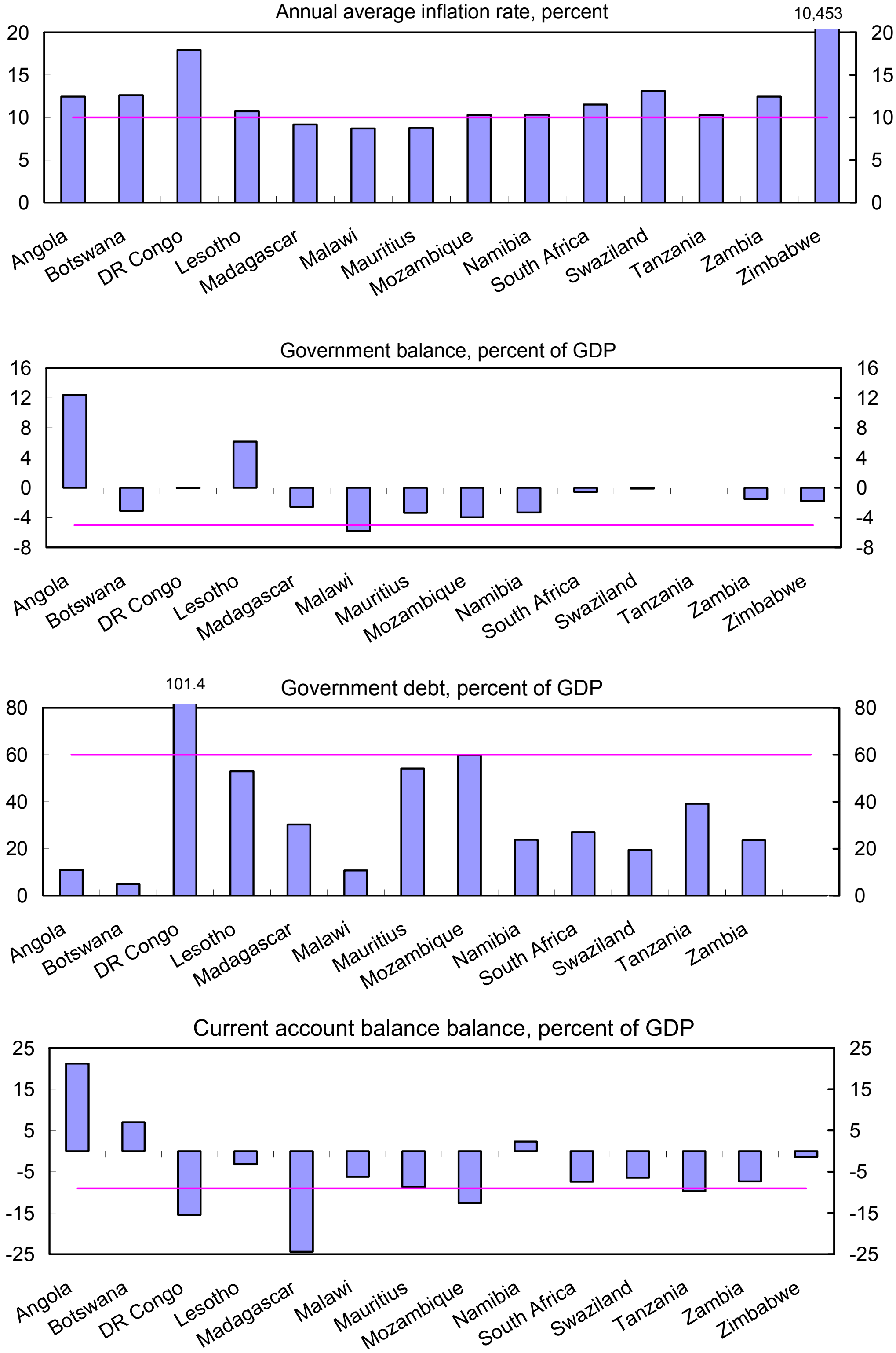
[1] Overall balance including grants
[2] Financial year 2008-09
[3] Estimates for 2007
[4] Weighted averages, except for public debt figures which are median levels.
Sources: IMF, African Department database and country desks.

Figure 4. Growth in SADC



Source: IMF African Department database

Figure 3. Key Convergence Indicators [1/]



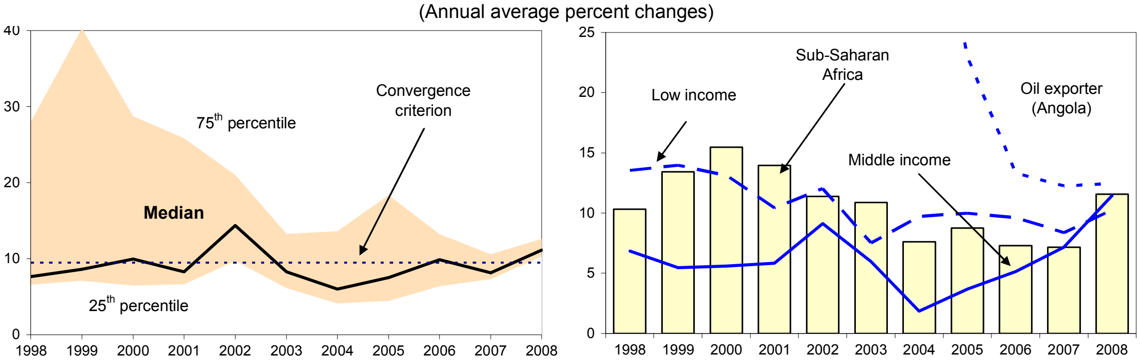
[1/] Figures for Zimbabwe are estimates for 2007.

Source: IMF African Department Database

inflation in middle-income countries has risen in response to robust demand, emerging capacity constraints, and rising oil and food prices.

- Inflation in low-income countries has been on a declining trend despite sustained increases in commodity prices.
- Angola and the DRC experienced triple-digit inflation some years ago but are now within striking distance of single-digit inflation rates.
- Zimbabwe experienced hyperinflation.

Figure 5. SADC Consumer Price Inflation
(Annual average percent changes)



Source: IIMF African Department database.

C. Fiscal Balances

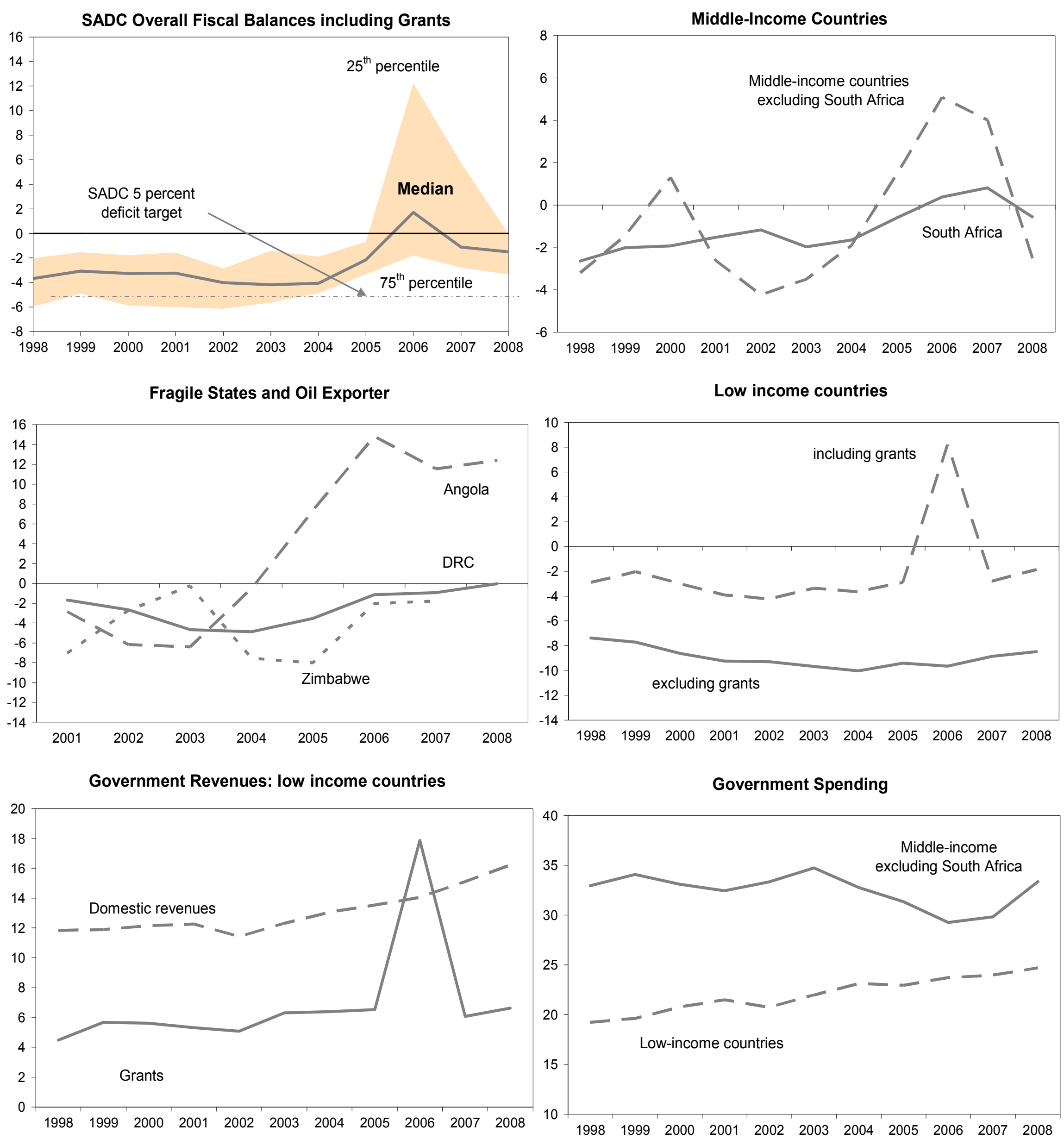
12. There has been a gradual improvement in the fiscal positions of most SADC members as they mobilize more domestic revenue and, in the case of low-income countries, more grants. As mixture of structural tax reforms, the impact of the economic cycle, and high commodity prices has brought in more revenue, to the point where the median fiscal position (including grants) is now a modest deficit of 1½ percent of GDP. All but Malawi are expected to have met the 5 percent deficit criterion in 2008.

- Middle-income countries saw a gradual improvement in their fiscal positions in recent years. This in part reflected strong domestic demand, notably in South Africa, which also benefited the fiscal positions of its SACU partners (Botswana, Lesotho, Namibia, and Swaziland) through revenue-sharing arrangements. Budget positions weakened in 2008, however, as growth began to slow.
- In the low-income countries and the DRC, increased revenues and grants have enabled governments to boost spending while keeping deficits (including grants) at about 2–3 percent of GDP on average (Figure 6).[12]
- Angola's fiscal position has improved dramatically in recent years, reflecting higher oil revenues.

[12] The figures for low-income countries in 2006–07 are distorted by debt relief for a number of countries.

- Discussion of fiscal developments in Zimbabwe is hampered by the emergence of very large quasi-fiscal outlays, conducted via the Reserve Bank of Zimbabwe. These outlays helped to fuel hyperinflation.[13]

Figure 6. SADC Fiscal Indicators [1]



Source: IMF African Department database.
[1] Country group composites are weighted averages

[13] See for example, Muñoz (2007).

13. The extent to which increased revenues since 2002 have either been spent or saved is shown in detail in Table 5.

- Revenue increases have averaged about 3 percent of GDP in middle-income countries as they mobilize more domestic revenue. On average, three-quarters has gone toward increased spending and the rest has been saved in the form of improvements in the fiscal balance. Very large increases in revenues in Lesotho and Swaziland, largely owing to windfalls from the SACU sharing arrangement, have enabled both substantially more spending and significant improvements in the fiscal balance.
- With the exception of Zambia where revenues have fallen somewhat, the pattern is similar in low-income countries and also the DRC. Of the 6¼ percent of GDP increase in revenues in low-income countries, about three-quarters has come from higher domestic revenues and the remaining one-quarter from increased grants. Most of the increase in revenues has been used to boost public spending but there has also been a significant improvement in fiscal balances.

Table 5. Changes in Government Revenues, Spending, and Fiscal Balances between 2002 and 2008
(Percent of GDP)

	Government Revenues			*of which:*	
	Revenue (1)	Grants (2)	Total Revenues (3) = (1) + (2)	Fiscal Balance (5)	Spending (6)
Middle-Income Countries	3.0	0.0	3.0	0.8	2.2
Botswana	-4.8	0.7	-4.1	0.2	-4.3
Lesotho	16.3	-1.7	14.6	9.5	5.1
Mauritius	2.6	-0.1	2.6	2.7	-0.1
Namibia	1.2	0.1	1.3	-0.1	1.4
South Africa	3.3	0.0	3.3	0.6	2.7
Swaziland	12.8	-0.9	11.9	4.6	7.3
MIC excluding South Africa	1.6	0.2	1.8	1.7	0.0
Low-Income Countries	4.8	1.5	6.3	2.4	4.0
Madagascar	5.5	2.3	7.8	3.6	4.2
Malawi	7.1	5.9	13.0	2.6	10.3
Mozambique	4.2	2.6	6.9	3.3	3.6
Tanzania	4.7	2.7	7.3	0.9	6.5
Zambia	1.1	-4.4	-3.3	3.6	-6.9
Fragile countries					
DRC	10.6	3.6	14.2	2.6	11.5
Oil exporters	6.5	0.0	6.5	18.6	-12.1
Angola	6.5	0.0	6.5	18.6	-12.1

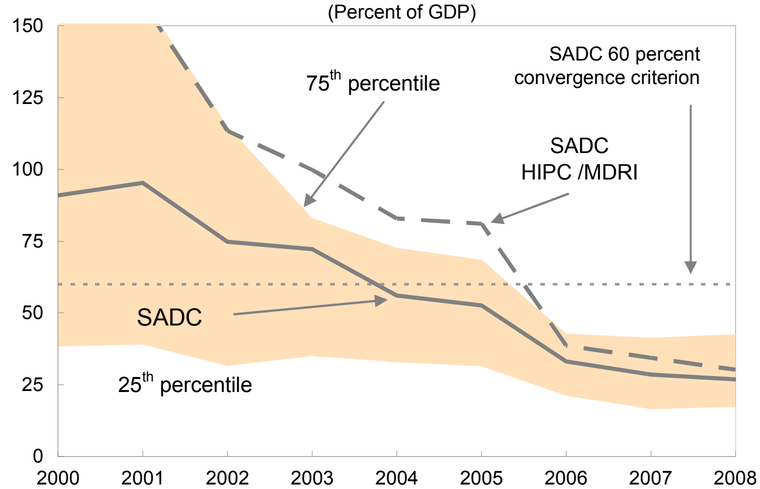
Source: IMF African Department database

D. Public Debt

14. Taken together, improved fiscal positions, higher growth, and the provision of debt relief have led to a significant reduction in debt levels. Median total government debt in SADC has fallen to 27 percent of GDP from 91 percent in 2000 (Figure 7). The improvement has been greatest in the low-income countries, all of which benefited from debt relief under the Heavily Indebted Poor Countries (HIPC) initiative and the Multilateral Debt Relief Initiative. Debt has also dropped sharply in Angola, where high

oil prices have enabled the government to run substantial fiscal surpluses. Debt has fallen in middle-income countries as well, but more gradually.

Figure 7. SADC Public Debt: Central Government
(Percent of GDP)



Source: IIMF African Department database.

E. Current Account Balances

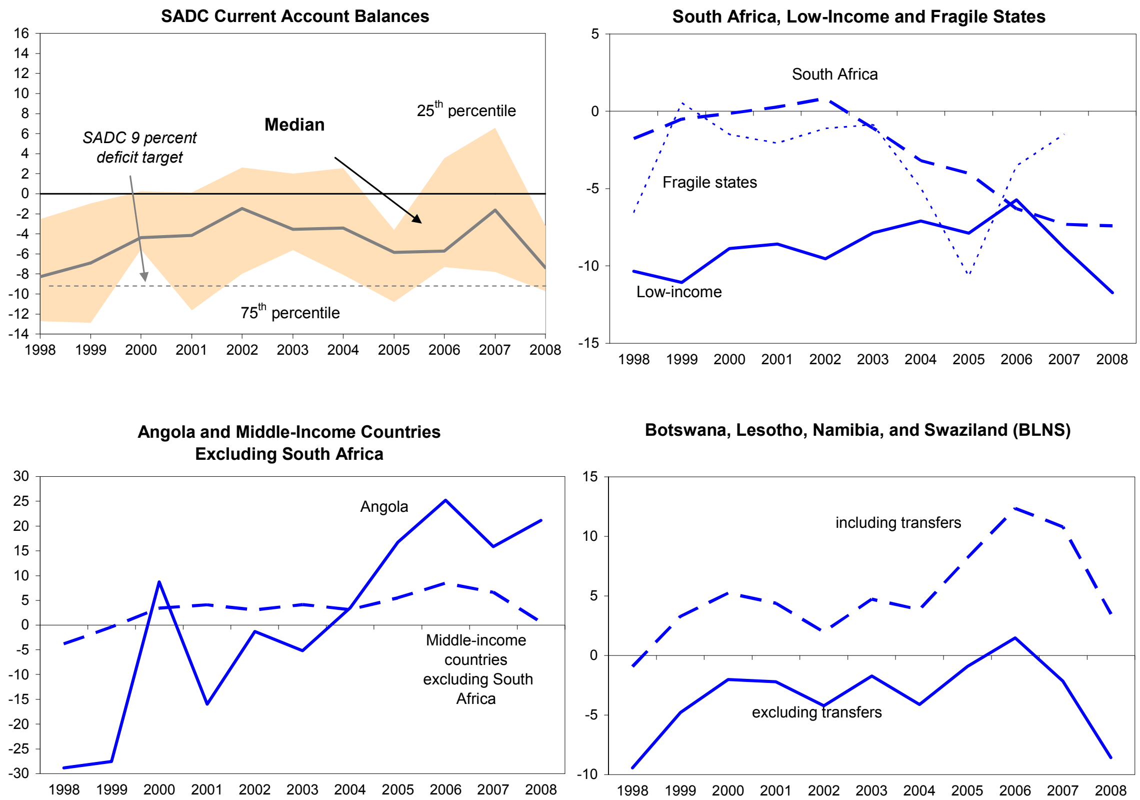
15. Current account positions vary widely among SADC members, reflecting sizeable grants or current transfers to some countries and the impact of commodity price developments on mineral exporters (Figure 8).

- Among the middle-income countries, current account deficits in Mauritius and South Africa have widened in recent years because of investment-driven growth in imports. Botswana, Lesotho, Namibia, and Swaziland, on the other hand, have run current account surpluses that have averaged 9 percent of GDP over the past four years, thanks to surging SACU transfers.
- Current account deficits in low-income countries have widened in recent years to 12 percent on average because of increased aid-financed imports and rising oil prices. In Madagascar, the rapid import growth associated with large new mining investments pushed the current account deficit up sharply to 24 percent of GDP in 2008.
- Angola's current account position has improved dramatically (and temporarily) in line with rising oil prices, whereas Zimbabwe's deficit has narrowed as financing has become more constrained.

IV. Prospects for the Convergence Program

16. There has been a marked improvement in macroeconomic performance across the SADC region in recent years, with most countries projected to meet most if not all of the 2008 convergence criteria. Global food and fuel price developments have driven inflation rates in most SADC members a little above the single-digit convergence criterion. These

Figure 8. SADC Current Account Developments



Source: IIMF African Department database.

rates are not expected to be sustained, however, with inflation in most countries set to decline as commodity prices have eased and the global economy has slowed sharply.

17. Looking ahead to 2012, the next convergence target date, the program calls for member countries to achieve:

- output growth of 7 percent
- inflation of 5 percent
- a fiscal deficit anchored on 3 percent of GDP (with a range of 1 percent)
- public debt capped at 60 percent of GDP
- an external current account deficit not exceeding 9 percent of GDP.

In light of regional and international experience, are these targets sensible? Do they provide realistic guidance to economic policymakers in each SADC member country?

18. Experience suggests that achieving trend output growth of 7 percent is an ambitious, but achievable, target for some, but not all, countries. Countries best positioned to achieve such growth include (i) those countries emerging (on a sustained basis) from civil strife and turmoil; (ii) those countries benefiting from major natural

resource booms; and (iii) low-income countries benefiting from large aid inflows, established macroeconomic stability, and strong "catch-up" potential with the outside world. But achieving growth at this pace in more mature middle-income countries is much more difficult and uncommon: some significant underperformance vis-à-vis the 7 percent growth target therefore seems likely in the SADC middle-income countries, most notably South Africa, and crafting macroeconomic strategies around achieving 7 percent growth by 2012 would be misguided.[14]

19. The identification of an optimal target level for inflation for individual countries or groups of countries is difficult. There is a consensus that high inflation is harmful to growth, but also that trying to anchor inflation at too low a level may lead to an unnecessary loss of output. Estimates of the point at which higher inflation becomes increasingly harmful for growth range widely, but for developing countries tend to cluster in the 5–10 percent range.[15] For its middle-income members, the SADC 2012 inflation target of 5 percent seems sensible and achievable: it is close to the rates these countries have been able to sustain in recent years and is also within the 3–6 percent range that South Africa (and de facto the entire Common Monetary Area) has targeted since 2000. Low-income countries, which are subject to more pronounced output volatility and exogenous supply shocks, may find it more challenging to bring inflation down that far, and a case-by-case approach to setting inflation targets may be advisable.

20. The SADC 2012 targets for the fiscal deficit (3 percent of GDP) and public debt (60 percent of GDP) are best viewed together as part of an overall assessment of fiscal sustainability.

- Achieving a fiscal deficit of 3 percent of GDP may be neither necessary nor sufficient for achieving the macroeconomic stability objectives of the convergence program. Low-income countries like Mozambique that receive large amounts of concessional aid may not need to keep deficits below 3 percent of GDP to support their stability objectives as long as debt is sustainable. However, countries like South Africa that have large private investment-savings imbalances may need to run fiscal surpluses to limit their vulnerability to large shifts in private capital flows. Given the diversity of SADC member countries, one size does not fit all.
- In most SADC countries public debt is already well below the SADC target of 60 percent of GDP—but they would be unwise to take much comfort from that. The IMF (2003) found that over half of sovereign debt crises occurred when public debt ratios

[14] South Africa's growth strategy seeks to achieve annual growth of 6 percent on average during 2010–14, which is already a sizable step-up from estimates of potential output growth, and is made much more difficult to achieve by the troubled global economic environment.

[15] Selassie and others (2006) provides a review of these estimates.

were less than 40 percent of GDP and two-thirds occurred when it was less than 60 percent.

- Low-income SADC countries may instead want to use the IMF–World Bank Debt Sustainability Framework as a tool for evaluating whether their current fiscal positions are appropriate. The latest IMF–World Bank assessments rate four SADC members (Madagascar, Mozambique, Tanzania, and Zambia) as having a low risk of debt distress; three (Angola, Lesotho, and Malawi) as having a moderate risk; and two (the DRC and Zimbabwe) as already in debt distress.[16]

21. As with the fiscal targets, whether the SADC 2012 external current account deficit target of 9 percent of GDP is appropriate will need to be determined in light of a particular country's circumstances. The source of the deficit matters (for example, the extent to which it reflects a public or private sector imbalance; and whether it is driven by investment or consumption), as does how it is financed. The deficit would also need to be assessed against a country's external liabilities; in theory, less indebted countries should be able to run higher deficits. For middle-income countries, external current account deficits of 9 percent of GDP are unlikely to be sustainable for a prolonged period of time and would leave them vulnerable to a sudden stop in capital flows. For low-income countries, however, large deficits can sometimes be sustainable—if, for example, they are largely financed by concessional aid and if the deficits themselves result from productive spending.[17]

V. Conclusion

22. SADC's regional economic integration agenda includes a macroeconomic convergence program, intended to achieve and maintain macroeconomic stability in the region, thereby contributing to faster economic growth and laying the basis for eventual monetary union. Targets for key macroeconomic variables have been set out for 2008, 2012, and 2018.

23. Most SADC member states have recorded solid macroeconomic performance in recent years, in general coming close to, and in many cases surpassing, the convergence targets specified for 2008. A notable exception in this regard is Zimbabwe, which was in the grip of hyperinflation.

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[16] The IMF also conducts DSAs for middle-income countries, but they do not explicitly assess the risk of debt distress. Detailed assessments for low-income countries can be found at: http://www.imf.org/external/pubs/ft/dsa/lic.aspx.

[17] For low-income countries, where external borrowing by the private sector is typically low, assessing the sustainability of public external debt is the main focus of the IMF-World Bank DSAs.

24. The macroeconomic targets for 2012 are ambitious and, in some cases, warrant further evaluation, given that achieving the targets may be neither necessary nor sufficient to achieve good macroeconomic results. The striking diversity of SADC member countries means that macroeconomic targets realistic and appropriate for one subgroup of member countries (e.g., politically stable low-income countries) may be unachievable and/or inappropriate for other groups of member countries (e.g., middle-income countries).

Appendix Table 1. Real GDP Growth
(Percent)

	2000–2005	2006	2007	2008
Middle-Income Countries	4.0	5.3	5.0	3.1
Botswana	5.4	5.1	4.4	2.9
Lesotho	3.1	8.1	5.1	3.5
Mauritius	4.2	3.5	4.2	6.6
Nambia	4.8	7.2	4.1	2.9
South Africa	3.9	5.3	5.1	3.1
Swaziland	2.2	2.9	3.5	2.5
Middle-Income Countries excluding South Africa	4.5	5.0	4.3	3.8
Low-Income Countries	5.4	6.7	7.0	6.9
Madagascar	2.9	5.0	6.2	5.0
Malawi	2.1	6.7	8.6	9.7
Mozambique	7.6	8.7	7.0	6.2
Tanzania	6.7	6.7	7.1	7.5
Zambia	4.6	6.2	6.3	6.0
Fragile Countries	1.3	4.3	5.0	…
DRC	2.5	5.6	6.3	6.2
Zimbabwe	-5.4	-5.4	-6.1	…
Oil Exporter				
Angola	9.3	18.6	20.3	14.8
SADC	4.7	7.0	7.2	5.3
Sub-Saharan Africa	5.7	6.4	6.8	5.4

Source: IMF African Department database.

Appendix Table 2. Consumer Prices
(Annual Average Percent Change)

	2000–2005	2006	2007	2008
Middle-Income Countries	5.3	5.1	7.2	11.5
Botswana	8.0	11.6	7.1	12.6
Lesotho	6.9	6.1	8.0	10.7
Mauritius	4.9	8.9	9.1	8.8
Nambia	7.2	5.1	6.7	10.3
South Africa	5.1	4.7	7.1	11.5
Swaziland	7.0	5.3	8.2	13.1
Middle-Income Countries excluding South Africa	6.9	8.8	7.6	11.2
Low-Income Countries	10.5	9.6	8.4	10.3
Madagascar	10.8	10.8	10.4	9.2
Malawi	18.5	13.9	7.9	8.7
Mozambique	11.8	13.2	8.2	10.3
Tanzania	4.8	7.3	7.0	10.3
Zambia	21.3	9.0	10.7	12.4
Fragile Countries	135.6	47.7	86.5	…
DRC	161.8	13.2	16.7	18.0
Zimbabwe	202.5	1016.7	10452.6	…
Oil Exporter				
Angola	125.2	13.3	12.2	12.5
SADC	14.2	6.8	8.2	11.6
Sub-Saharan Africa	11.3	7.3	7.2	11.6

Source: IMF African Department database

Appendix Table 3. Overall Fiscal Balance Including Grants
(Central Government, Percent of GDP)

	2000–2005	2006	2007	2008
Middle-Income Countries	-1.5	0.8	1.1	-0.8
Botswana	1.9	10.5	6.3	-3.1
Lesotho	0.2	12.7	16.5	6.2
Mauritius	-5.3	-5.4	-4.2	-3.4
Nambia	-3.1	2.1	4.1	-3.3
South Africa	-1.5	0.4	0.8	-0.6
Swaziland	-3.1	10.8	6.8	-0.1
Middle-Income Countries excluding South Africa	-1.6	5.1	4.0	-2.5
Low-Income Countries	-3.5	8.2	-2.8	-1.9
Madagascar	-4.7	37.4	-2.9	-2.6
Malawi	-5.2	1.3	-2.7	-5.8
Mozambique	-4.3	-4.1	-3.0	-4.0
Tanzania	-1.8	-4.7	-3.7	0.0
Zambia	-5.0	19.8	-1.3	-1.5
Fragile Countries	-5.7	-1.5	-1.2	…
DRC	-3.9	-1.1	-1.0	-0.1
Zimbabwe	-7.4	-2.0	-1.8	…
Oil Exporter				
Angola	-2.5	14.8	11.6	12.4
SADC	-1.8	3.2	2.1	1.5
Sub-Saharan Africa	-0.9	4.9	1.0	2.1

Source: IMF African Department database

Appendix Table 4. Overall Fiscal Balance Excluding Grants
(Central Government, Percent of GDP)

	2000–2005	2006	2007	2008
Middle-Income Countries	-1.5	0.8	1.1	-0.8
Botswana	1.7	10.0	5.6	-3.8
Lesotho	-2.6	11.7	15.2	4.0
Mauritius	-5.6	-5.6	-4.4	-3.5
Nambia	-3.3	2.0	3.9	-3.6
South Africa	-1.5	0.4	0.8	-0.6
Swaziland	-4.1	9.9	6.5	-0.5
Middle Income Countries excluding South Africa	-2.0	4.7	3.5	-3.0
Low-Income Countries	-9.4	-9.7	-8.9	-8.5
Madagascar	-9.5	-10.5	-7.2	-7.1
Malawi	-13.7	-14.2	-17.2	-15.9
Mozambique	-13.3	-12.0	-12.3	-16.1
Tanzania	-6.4	-9.7	-8.3	-6.4
Zambia	-11.3	-6.2	-5.9	-5.4
Fragile Countries	-6.8	-6.6	-3.6	…
DRC	-5.5	-9.1	-4.4	-4.0
Zimbabwe	-7.6	-2.0	-1.8	…
Oil Exporter				
Angola	-3.2	14.8	11.5	12.4
SADC	-2.7	1.1	1.3	0.5
Sub-Saharan Africa	-2.1	1.7	-0.2	0.9

Source: IMF African Department datbase

Appendix Table 5. Public Debt
(Central Government, Percent of GDP)

	2000–2005	2006	2007	2008
Middle-Income Countries	37.7	32.4	28.1	26.7
Botswana [1]	8.4	5.4	5.0	5.0
Lesotho	81.5	51.0	44.8	52.9
Mauritius	55.2	51.0	44.8	52.9
Nambia	27.6	28.4	23.8	23.7
South Africa	38.8	33.1	28.6	26.9
Swaziland	20.8	17.1	16.5	19.4
Middle-Income Countries excluding South Africa	29.3	26.2	24.4	24.4
Low-Income Countries	93.9	38.3	36.4	34.2
Madagascar	103.6	40.1	34.4	30.3
Malawi	84.9	7.4	7.9	10.6
Mozambique	123.2	69.9	61.0	59.8
Tanzania [2]	68.1	38.7	40.3	39.1
Zambia	174.8	24.7	23.7	20.0
Fragile Countries				
DRC [3]	194.0	132.3	102.9	101.4
Zimbabwe	…	…	…	…
Oil Exporter				
Angola	105.6	22.5	16.2	11.0
SADC [4]	73.7	33.1	28.6	26.9
Sub-Saharan Africa [4]	79.2	41.4	38.5	30.3

(1) Fiscal years, beginning April 1.
(2) Fiscal years, beginning July 1. Average is for 2004-2005.
(3) Average is for 2001-2005
(4) Median values
Source: IMF African Department database and country desks

Appendix Table 6. External Current Account Balance Including Grants
(Percent of GDP)

	2000–2005	2006	2007	2008
Middle-Income Countries	-0.7	-4.8	-5.9	-6.6
Botswana	7.9	17.2	14.3	7.0
Lesotho	-13.3	4.3	12.7	-3.2
Mauritius	1.2	-5.3	-8.0	-8.7
Nambia	5.1	13.8	9.2	2.3
South Africa	-1.2	-6.3	-7.3	-7.4
Swaziland	0.2	-7.4	-1.4	-6.4
Middle-Income Countries excluding South Africa	3.9	8.4	6.6	0.6
Low-Income Countries	-8.3	-5.7	-8.9	-11.7
Madagascar	-6.3	-8.8	-14.5	-24.4
Malawi	-7.6	-7.2	-1.7	-6.3
Mozambique	-14.7	-9.2	-9.5	-12.6
Tanzania	-4.6	-7.7	-9.0	-9.7
Zambia	-14.4	1.2	-6.6	-7.4
Fragile Countries	-3.5	-3.5	-1.5	…
DRC	-3.6	-2.1	-1.5	-15.4
Zimbabwe	-3.8	-6.1	-1.4	…
Oil Exporter				
Angola	1.1	25.2	15.9	21.2
SADC	-1.5	-1.3	-3.1	-2.5
Sub-Saharan Africa	-1.6	1.4	-1.6	-1.3

Source: IMF African Department database

Appendix Table 7. External Current Account Balance Excluding Grants
(Percent of GDP)

	2000–2005	2006	2007	2008
Middle-Income Countries	-0.6	-4.7	-6.0	-6.6
Botswana	3.5	9.5	5.4	-0.6
Lesotho	-31.4	-20.2	-24.8	-35.2
Mauritius	1.0	-5.5	-8.1	-8.8
Nambia	-4.1	2.2	-2.0	-10.1
South Africa	-0.5	-5.2	-6.3	-6.3
Swaziland	-9.0	-21.6	-22.2	-26.9
Middle-Income Countries excluding South Africa	-1.6	-0.1	-3.5	-8.6
Low-Income Countries	-11.8	-9.7	-12.8	-15.5
Madagascar	-7.9	-10.0	-15.0	-25.4
Malawi	-15.0	-20.5	-15.7	-16.3
Mozambique	-20.5	-15.4	-15.9	-20.2
Tanzania	-8.1	-11.2	-12.0	-12.9
Zambia	-15.6	-0.7	-9.3	-9.6
Fragile Countries	-6.9	-8.9	-6.5	…
DRC	-9.8	-9.8	-8.6	-24.2
Zimbabwe	-4.2	-7.2	-1.9	…
Oil Exporter				
Angola	0.7	25.6	16.2	21.5
SADC	-2.1	-1.8	-3.8	-3.2
Sub-Saharan Africa	-2.5	0.7	-2.5	-2.2

Source: IMF African Department database

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