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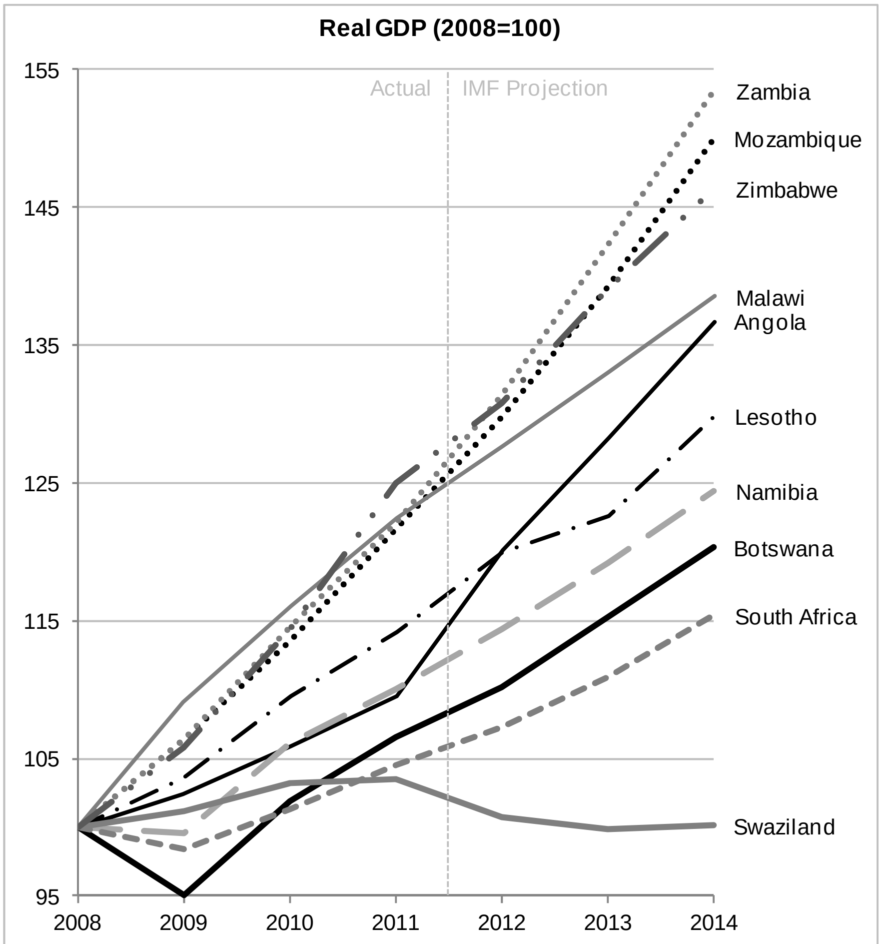
EADS Economic Trends Report
# Southern Africa

May 2012

## Economic Overview



SOURCE: IMF, *World Economic Outlook*, April 2012.

Continuing on its post-crisis recovery trajectory, GDP in Southern Africa is estimated to have expanded 4.7 percent in 2011. With the exception of Swaziland, which posted a nominal growth rate of 0.3 percent, countries in the region exhibited strong growth with a third of the countries having attained growth rates of at least 6.0 percent. South Africa, the largest economy in the region, grew slowly at a rate of 3.1 percent. With commodities dominating their exports, most Southern Africa countries benefitted from the surge in commodity prices in the earlier half of 2011, particularly the oil exporters (Angola, Malawi, and Lesotho). Though commodity prices were the main driver of the increase in export values, the volume of exports is growing, as well. Thanks to increased exploratory activities, new mineral export sources continue to come on stream in several countries. Mozambique, for example, began exporting coal from its large Moatize mine. Zambia's growth continued on a strong path at 7.7 percent in 2012 on the back of expanded copper production. However, the country's heavy reliance on its mining sector for foreign income makes it vulnerable to the state of the global economy.

Excluding South Africa and Swaziland, which are expected to post growth rates of 2.7 and -2.6 percent respectively, growth in the region is expected to average 5.6 percent in 2012. This acceleration in 2012 reflects new oil and mineral capacity picking up and increased investments in these sectors in Lesotho and Mozambique. Angola's growth prospects continue to hinge on its fortunes in the oil sector. Though Angola benefitted from higher oil prices in 2011, technical glitches prevented any significant expansion in output. However, these problems are expected to be resolved during 2012, which along with new wells and increased gas output will underpin growth rates of 9.7 and 6.8 percent in 2012 and 2013, respectively.

Countries covered in this report: Angola, Botswana, Lesotho, Namibia, Malawi, Mozambique, Swaziland, South Africa, Zambia, and Zimbabwe. Due to data limits, not all countries are represented in every graph or analytical section.

Countries in the region were largely shielded from the global financial crisis due to their limited integration into global manufacturing and financial networks. However, South Africa, a middle income country with greater integration to global markets, has yet to fully recover from its impact. South Africa is facing a surge in unemployment, high household debt, low capacity utilization, and the slowdown in advanced economies; all of which have made for a slow recovery.

However, downside risks remain in the lackluster global economy, lower commodity prices; and heightened uncertainty in global financial markets and monetary policy tightening in some countries could dampen prospects. A further deterioration of the global economic environment could have substantial spillovers for the region. A slowdown in either of the U.S. or European economies would undermine prospects for exports, remittances, official aid and private capital flows. Should global growth slow down significantly, economies with adequate policy buffers should aim to support growth, the IMF recommends that South Africa allow its automatic stabilizers to operate on the fiscal side and ease monetary conditions.

**World Bank Income Groups**

Three of the Southern African countries are in the World Bank's Low Income group: Malawi, Mozambique, and Zimbabwe. The rest are split between the Lower Middle Income and Upper Middle Income categories. Zambia was upgraded from a Low income country to Low Middle Income country by the World Bank in 2011.

## Fiscal and Monetary Policy

The direction of shifts in fiscal balances in 2011 depended on the composition of exports. Fiscal balances deteriorated for non-resource rich countries and improved for oil exporters such as Angola. There are further differences among non-oil exporters with resource rich non-oil exporters (Botswana and Mozambique), mostly metal and mineral exporters keeping their deficits steady while for other non-oil and non-mineral exporters, deficits widened, giving them limited fiscal space to maneuver.

Although the fiscal outlook for Angola is positive at present, the country's heavy reliance on oil revenues leaves it vulnerable to fluctuations in global prices for crude oil.

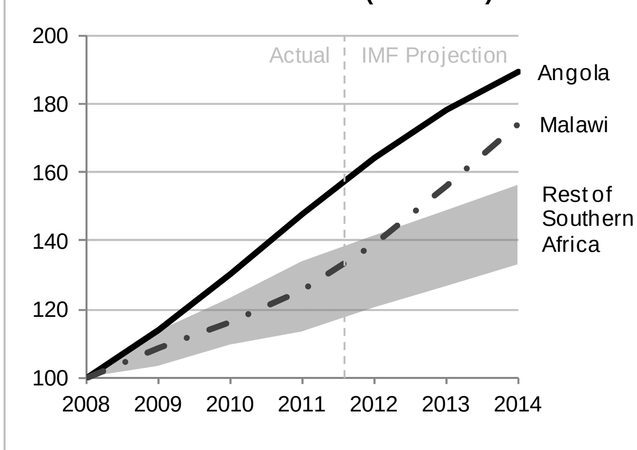
With Zimbabwe operating under a foreign currency regime, Business Monitor International (BMI) predicts that the large current account deficit will exacerbate the tight liquidity conditions that the economy is already facing. Monetary authorities can do little as the use of foreign currency precludes expanding domestic money supply to stimulate domestic demand.

Countries such as Lesotho and Malawi, which receive high levels of budget support from donors, remain vulnerable to sharper than anticipated cuts. With fiscal space much more restricted and in a context where external financing may not be available, governments may be forced to cut deeply into spending, further exacerbating the downturn.

| Real GDP Growth, 2012 (IMF Projections) | West Africa | East and Central Africa | Southern Africa |
|---|---|---|---|
| | 8.2% | 5.2% | 4.6% |

## Inflation

Overall, the region's inflation continues its upward trend, driven by the surge in commodity prices. Inflation steadily increased in Lesotho in 2011 and is expected to continue increasing in 2012, mainly driven by high international commodity prices and agricultural shortages following months of floods. Despite a slight slowdown in 2011, annual inflation in Zimbabwe is expected to head higher in 2012, driven by increasing food and energy prices as late rains in 2011 delayed planting of the country's maize crop, the staple food. Both of these countries mirror rising inflation in the region.



SOURCE: IMF, *World Economic Outlook*, April 2012.

Price growth in Angola is likely to remain elevated owing to factors beyond the influence of monetary policy. The country's shambolic infrastructure exacerbates the effects of inflationary trends, as high transportation costs restrict access to goods for a significant proportion of the population. Malawi has seen a surge in inflation over the last few years. To slow rising inflation, the IMF recommends that Malawi adopt a number of policies including a flexible exchange rate and make active use of interest rate policies in order to drain excess liquidity in the financial system.

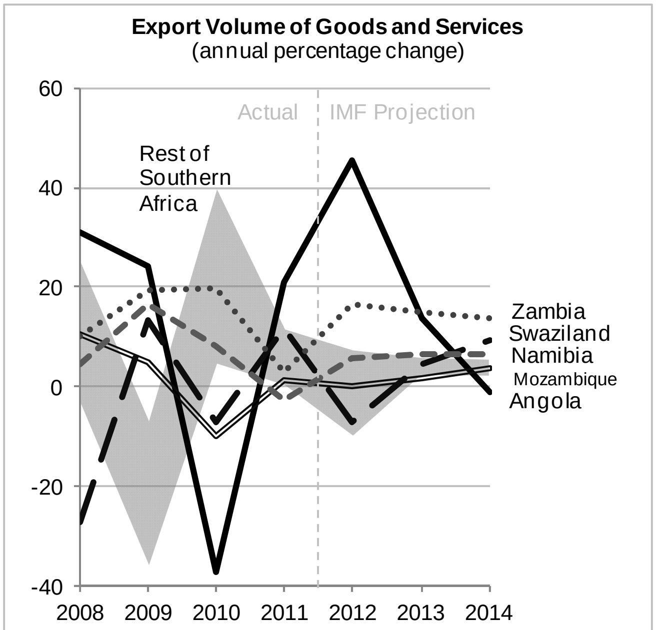
| CPI Inflation, 2012 (IMF Projections) | East and Central Africa | Southern Africa | West Africa |
|---|---|---|---|
| | 12.2% | 7.4% | 5.9% |

## Trade

After a fall in exports in 2009, exports in the region are still recovering. South Africa, the largest economy, is expected to see a slowdown in export growth, down to 2.8 percent in 2012, from 5.5 percent in 2011.

Botswana's exports continue to be dominated by diamonds, despite the government's diversification efforts. Export growth slowed down in 2011 to 11.4 percent, down from 16.8 percent in 2010 and is expected to contract further by 10.0 percent in 2012. Similarly, Namibia's exports improved significantly in 2010 because of rapidly rising prices for diamonds and other minerals. In 2011, however, exports fell by 2.8 percent but are expected to recover in 2012 with a growth rate of 5.7 percent.

Zambia's exports are expected to increase by 16.4 percent in 2012 as mining productivity expands.



SOURCE: IMF, *World Economic Outlook*, April 2012.

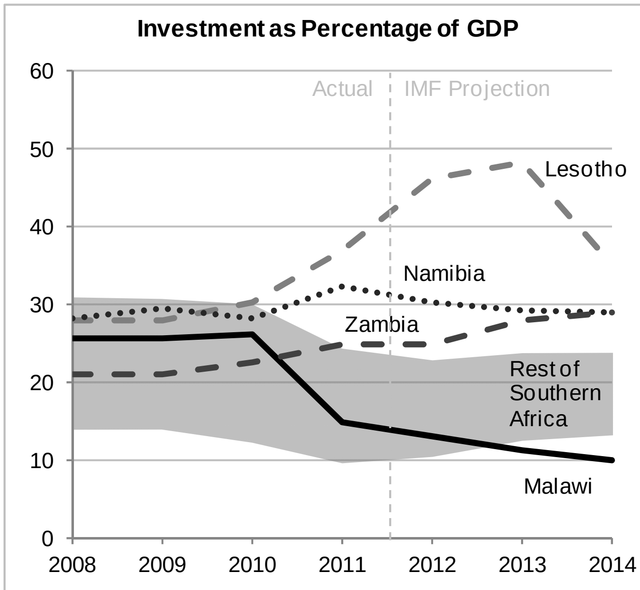
The outlook for exports is a positive one for the Zimbabwean economy thanks to the mining sector. BMI expects exports of minerals (gold, platinum, chromium, etc.) to grow at a strong pace in 2012 and beyond. The lifting of the ban on the sale of stones from the Marange diamond fields by the Kimberly process in 2011 is expected to boost growth in diamond exports in 2012. The positive effect of exports will be mitigated to some extent by strong growth in imports as the country's manufacturing has been struggling and will thus need to import many of the goods necessary for consumption and investment. In addition, late rains in 2011 will mean that Zimbabwe's food imports will most likely increase in 2012.

Exports in Angola are expected to expand by 45.4 and 13.8 percent in 2012 and 2013, respectively, following a contraction of 37.0 percent in 2010, largely due to a number of major new oil projects coming online. However, these will be tempered by the high import volumes of capital goods required to operate the large-scale infrastructure projects and oil exploration. Further boosting Angola's trade balance is a positive outlook for the diamond mining sector.

| Export Volume of Goods and Services, 2011 (percentage change) | West Africa 17.4% | East and Central Africa 6.5% | Southern Africa 6.3% |
|---|---|---|---|

## Investment

After a two year decline in FDI, investment is expected to continue slowing down in 2012 with the notable exception of South Africa where investment is expected to increase a nominal 1.2 points in 2012. Private capital flows, which had been gaining importance as a source of external financing before the crisis, have resumed only to South Africa. Lesotho is expected to see a 9 point increase in investment as a percent of GDP in 2012, mainly driven by the mining sector. Sustained investment depends on ongoing reforms to improve the business environment. Lesotho ranked 143 out of 183 on the World Bank's *Ease of Doing Business* index, although it made improvements in enforcing contracts in 2011 by launching a specialized commercial court.




SOURCE: IMF, *World Economic Outlook*, April 2012.

For Angola, much of its growth has been underpinned by FDI directed at its oil sector. Due to the segregational nature of extractive activities, this means that FDI inflows have generated fewer linkages to the rest of the economy.

The prevalence of copper and Zambia's strong business environment (ranked 84 on the Doing Business Index) have stimulated foreign investment. In addition, investment in key non-mining sectors in Zambia, particularly the power and transportation infrastructure and the tourism industry has contributed to high growth.

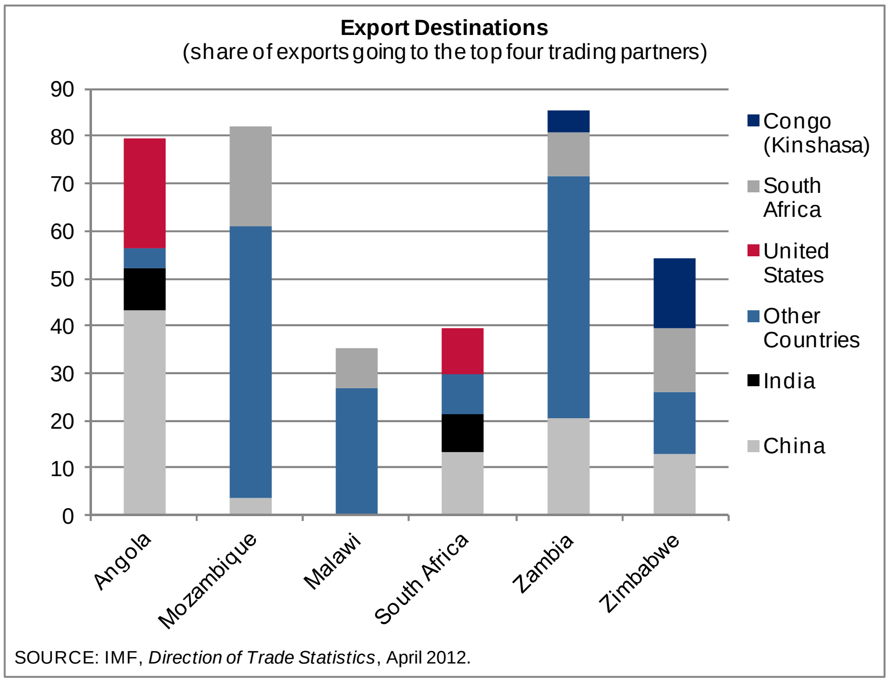
A fall in commodity prices is likely to reduce incomes and slow investment flows to the resource sector, an important growth sector for many economies. According to the World Bank, in Angola, where the oil sector accounts for over 60 percent of GDP, a 10.0 percent decline in oil prices could translate into a 2.7 percent decline in GDP.

| Total Investment, 2012 (as a percentage of GDP) (IMF Projections) | West Africa 24.1% | East and Central Africa 23.7% | Southern Africa 22.1% |
|---|---|---|---|

## Regional Integration

The Southern African countries are poorly integrated as measured by intraregional trade share in merchandise exports. With the exception of Zimbabwe, most countries in the region export predominantly to Western countries. In the case of Angola, Mozambique, and Zambia, their main trading partner receives over 40 percent of their exports (China: 43.1, Netherlands: 52.7, and Switzerland: 51.3 respectively).

Even with rapid growth in the other Southern African countries, South Africa remains the largest economy and exporter in the region.




**Additional Information**

For questions or more information, please contact the author, Marie-Ellen Ehounou, at mehounou@devtechsys.com.

For country-specific data and additional information about the countries covered in this report, please visit the EADS Country Portal at http://esdb.eads.usaidallnet.gov/query/do?_program=/eads/esdb/countryPortal.

Sources used in compiling this report include the semi-annual *World Economic Outlook* from the International Monetary Fund (http://www.imf.org/), the *Global Economic Prospects* and *Doing Business Reports* from the World Bank (http://www.worldbank.org/), and Business Monitor International Business Forecast Reports (http://www.businessmonitor.com/).