USAID
Economic Analysis
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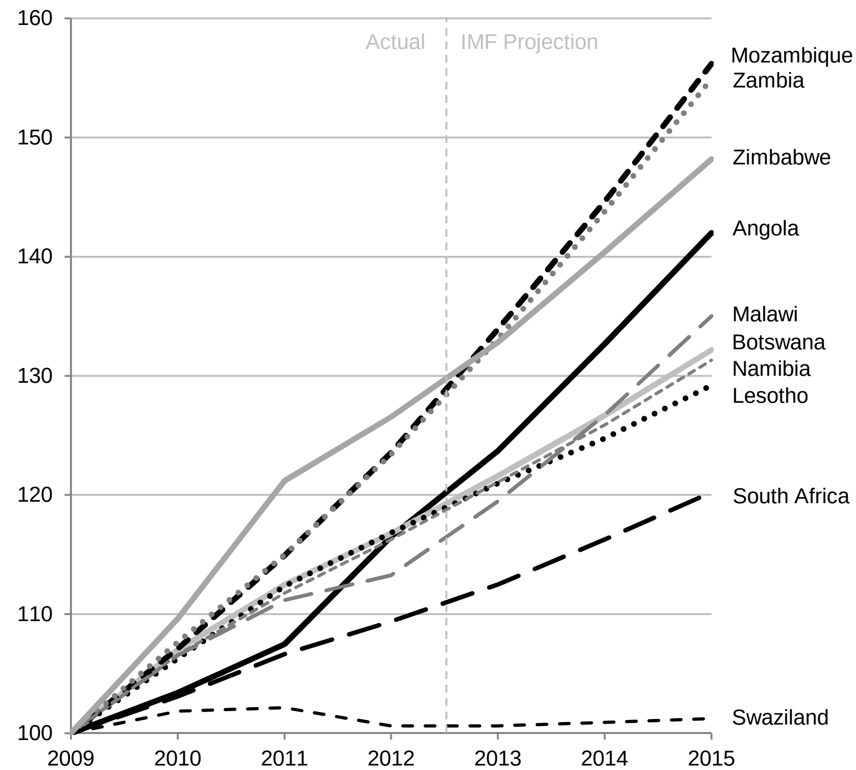
EADS Economic Trends Report
Southern Africa

May 2013

Economic Overview

Still recovering from the economic crisis, Southern Africa's economy expanded by 4.2 percent in 2012. With the exception of Swaziland, which posted a negative growth rate of 1.5 percent, countries in the region exhibited positive growth with a third of the countries attaining growth rates of at least 7.0 percent. South Africa, the largest economy in the region, grew slowly at a rate of 2.5 percent.

Real GDP (2009=100)



SOURCE: IMF, *World Economic Outlook*, April 2013.

Excluding Swaziland, which is expected to contract 0.005 percent, growth in the region is expected to average 5.2 percent in 2013.

However, downside risks remain in the weak global economy, lower commodity prices; and a potential slowdown in the Chinese investment rate could dampen prospects. By World Bank estimates Chinese demand currently represents close to 50 percent of the demand for industrial metals exports from Africa, therefore a slowdown in the Chinese economy would disproportionately affect non-diversified metal and mineral exporters in the region (Zambia, Botswana, and Namibia) as well as oil exporters such as Angola.

Many countries in the region rely predominantly on a particular natural resource for export and fiscal revenues (e.g., Botswana: diamonds; Angola: oil; Zambia: copper) and poor infrastructure remains one of the main obstacles to the diversification of the economy, which makes these countries especially susceptible to commodity demand price fluctuations.

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 and upper-middle income groups.

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

Fiscal and Monetary Policy

Business Monitor International (BMI) forecasts that South Africa's budget deficit will widen to 4.9 percent of GDP in fiscal year 2012/2013, due to the high public sector wage bill and slow growth in revenue. However, the budget deficit should decrease as revenue growth accelerates and if the treasury is able to maintain fiscal discipline in the run-up to the 2014 election.

Following the IMF's lead, Angola has incorporated the quasi-fiscal operations of the state oil company, Sonangol, into the central budget since oil revenue represents approximately 75 percent of domestic revenue. As a result, the 2013 budget forecast exhibits the first fiscal deficit since the oil price shock of 2009. The government intends to increase spending on the social sector, particularly health and education.

The World Bank highlights the need for resource rich countries such as Mozambique and Zambia to channel resource revenues towards effective public spending in order to sustain development, improve human welfare, and accelerate income growth. The World Bank emphasizes three aspects of natural resource management necessary to achieve these goals:

1. transparency with respect to contracts,
2. efficient tax collection, and
3. careful investment of resource rents.

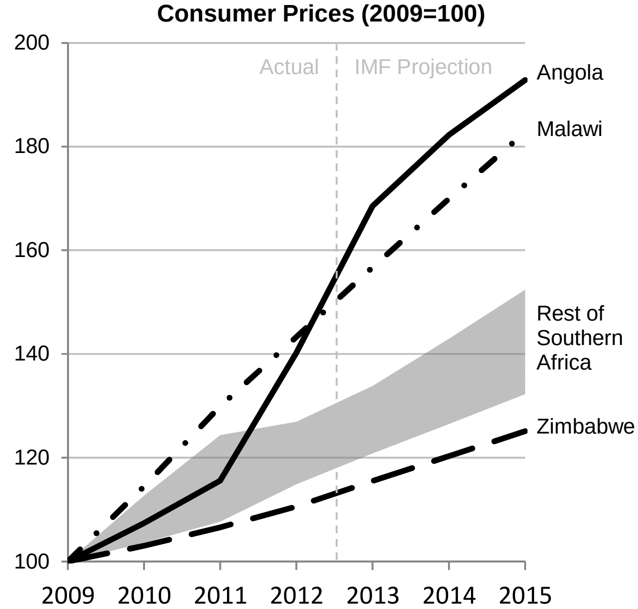
Real GDP Growth, 2013 (IMF Projections)	West Africa 6.8%	East and Central Africa 5.5%	Southern Africa 4.8%

Inflation

Overall, inflationary pressures persist throughout the region, driven by high commodity prices. Headline inflation in Angola fell from 13.5 percent in 2011 to 10.3 percent in 2012 and is expected to continue on a downward trend to 7.0 percent in 2018, underpinned by a stabilization of the exchange rate. However, price pressures remain high, underpinned by the economy's dependence on imported goods.

The poor agricultural season is impacting prices in Malawi with prices for the staple, maize, rising significantly well above their 2012 levels. Exchange rate liberalization in Malawi increased the price of the U.S. dollar by 50 percent and led to an average inflation rate of 21.3 percent in 2012. Inflation will be moderated by subsidies to poor households and falling commodity prices. Due to momentum, inflation will remain high at 20.2 percent in 2013 but is expected to slow down for the period of 2014–2018 to an average of 5.1 percent.

Consumer Prices (2009=100)



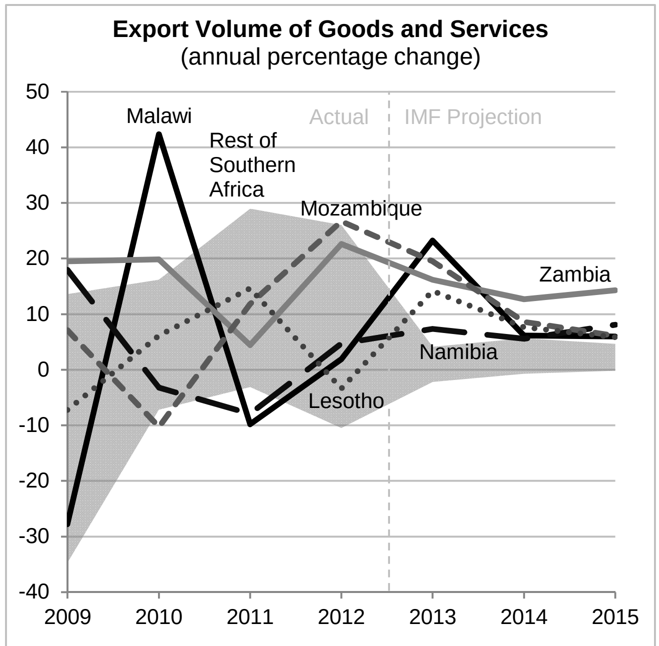
SOURCE: IMF, *World Economic Outlook*, April 2013.

Inflation in South Africa increased slightly in 2012 to 5.7 percent in 2012 from 5.0 percent in 2011 and is expected to remain in the 5 percent range for the remainder of the forecast period of 2013–2018, supported by more stable commodity prices, slowing growth and stricter competition policy and efficiency gains. As Swaziland imports most of its food and electricity from South Africa, its inflation closely follows that of South Africa typically by 1–2 percentage points. However, the introduction of a value added tax in Swaziland has led to the gap between the two countries to widen in 2012 to 3 percentage points. The gap is expected to narrow over the next few years as more tax changes are implemented and maize prices decrease. Headline inflation in Swaziland is forecast to decrease from 8.1 percent in 2013 to 5.0 percent in 2018.

CPI Inflation, 2013 (IMF Projections)	West Africa 5.1%	East and Central Africa 6.4%	Southern Africa 7.8%

Trade

After a contraction in exports in 2009, exports in the region are slowly recovering. South Africa, the largest economy, is expected to see a pickup in export growth, up from 0.1 percent in 2012, to 3.5 percent in 2013. After contracting by 9.8 percent in 2011 and a growth rate of 1.9 percent in 2012, Malawi's exports are expected to rebound at a rate of 23.2 percent in 2013, driven by a recovery in tobacco production and growth in uranium exports. Food and fuel imports are also expected to rise in 2013 following a currency adjustment.



SOURCE: IMF, *World Economic Outlook,* April 2013.

Export growth in Mozambique will decelerate in 2013 to 19.5 percent, down from 26.7 percent in 2012. Export growth is expected to remain robust in 2014–2015, averaging 7.3 percent and is expected to pick up at 20.6 percent in 2016. However, import demand is expected to increase as Mozambique, already a net food importer, recently experienced widespread flooding in January 2013.

Exports in Zambia are expected to grow by 16.2 percent in 2013, down from 22.6 percent in 2012, driven by an increase in copper production, which represents over 80 percent of exports by EIU estimates. Imports are also expected to grow as a result of strong domestic demand and investment growth.

Growing demand for oil will fuel exports in Angola, which rebounded in 2012 after contracting through 2009–2011. Export growth is forecast to average 3.7 percent for the next six years.

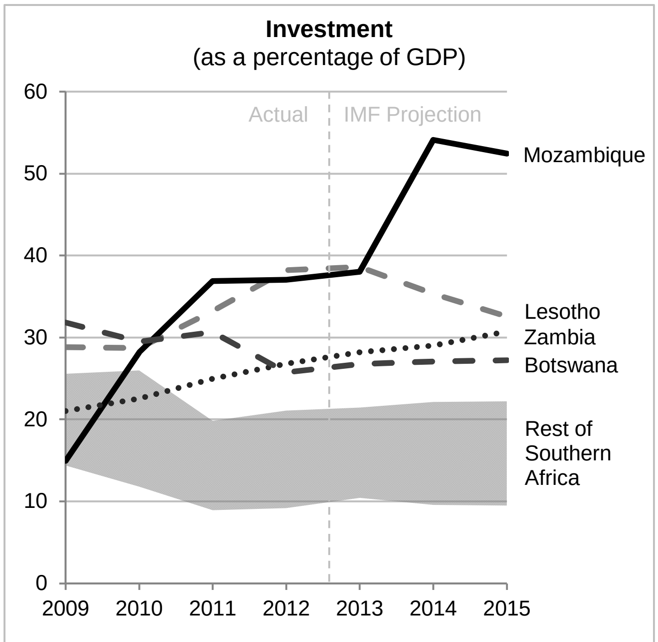
Export Volume of Goods and Services, 2013 (annual percentage change) (IMF Projections)	West Africa 12.2%	East and Central Africa 11.5%	Southern Africa 6.2%

Investment

South Africa received approximately $5.8 billion in foreign direct investment (FDI) flows in 2011, with Walmart's US$2.4 billion acquisition of Massmart Holdings representing almost half of the total. The country's level of investment remained steady and is expected to remain in the range of 20 percent of GDP for the forecast period of 2013–2018.

The World Bank forecasts that Mozambique will attract $50 billion in foreign investment over the next ten years to its large coal deposits and offshore gas discoveries, with investment forecast to peak at 54.1 percent of GDP in 2014.

According to the World Bank, Zambia's copper sector will continue to receive large investments with FDI reaching $2 billion in 2011. Investment as percent of GDP is expected to continue growing, albeit modestly, from 28.2 percent of GDP in 2013 to 32.3 percent of GDP 2018.



SOURCE: IMF, *World Economic Outlook,* April 2013.

Angola saw net outflows in 2010 and 2011 as oil subsidiaries based in Angola repaid loans and profits to their parent companies. While South Africa retains the ascendency in manufacturing in the region, Lesotho has been attempting to diversify away from the textile industry. In February, the country attracted a manufacturer of plastic ornaments which decided to relocate from South Africa to Lesotho in part due to the country's preferential access to the U.S. market through the African Growth and Opportunity Act (AGOA).

Investment, 2013 (as a percentage of GDP) (IMF Projections)	Southern Africa 24.8%	West Africa 24.6%	East and Central Africa 24.2%

Euro Bonds

A growing number of African countries are raising capital from international sources. In 2012, Zambia issued its first 10-year $750 million euro bond at a 5.625 percent yield, which was 15 times oversubscribed, making it one the most successful bonds in Sub-Saharan Africa. Other African countries that accessed global bond markets for the first time include Ghana, Namibia, Nigeria, and Senegal. In 2012, the domestic bonds of South Africa and of Nigeria, the two largest economies in Sub-Saharan Africa were added to the emerging market bond indices of Citi World Bond Index and the JP Morgan Emerging Market Global Index respectively. In addition, the International Finance Corporation (IFC) is planning to issue local currency denominated bonds in selected countries. In January 2013, IFC became the first non-resident entity to issue a Naira bond, which raised $75 million. While access to more diversified sources of capital can be used to fund critical infrastructure projects, the World Bank cautions that countries should act prudently to maintain fiscal balances and debt-to-GDP ratios to protect against the increased exposure to private capital flows.

Additional Information

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For country-specific data and additional information about the countries covered in this report, please visit the ESDB 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*, *Doing Business*, and *Africa's Pulse* reports from the World Bank (http://www.worldbank.org/); the Economist Intelligence Unit Country Reports (http://eiu.com/uc/); and Business Monitor International *Business Forecast Reports* (http://www.businessmonitor.com/).