IMPLEMENTATION OF THE AFRICAN MONETARY COOPERATION PROGRAMME (AMCP) IN THE SOUTHERN AFRICAN SOUTHERN AFRICAN SUB-REGION, 2004-2005

A DRAFT PROGRESS REPORT

TO

THE BUREAU OF THE ASSOCIATION OF AFRICAN CENTRAL BANK'S (AACB)

1. Introduction

1.1 The Southern African Sub-region which comprises twelve countries[1] is the largest sub-group of the AACB. Due to its large membership there are lags in submissions of reports on economic and financial trend by some countries, a factor which affects the timeliness of consolidated overview of the performance of the sub-region as a whole. It is for this reason that the sub – regional average performance against the criteria are reported with a one year time lag and explains the non - availability of data on the Tax Revenue/GDP ratio[2].

1.2 In section 2, this *Report* highlights the economic developments during the first two years of Stage 2 (2004-008) of the AMCP, together with growth projections for 2006. The next section summarises the progress made in implementing the targets for the AMCP performance indicators for 2004 and 2005. The overall conclusion is that although the economies of the sub – region, as a group, generally performed better than the continental average in 2004, and collectively met most of the benchmarks, there remain a number of challenges to be addressed including the foreign debt

[1] Angola, Botswana, Lesotho, Madagascar, Malawi, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

[2] Data for Madagascar are not available for both 2004 and 2005 because the country has not been active in the work programme of the sub-region.

burden, inflation, the need to attract direct foreign investment and capacity building in data compilation.

2. Economic Developments in the Sub-region during 2005 and Outlook for 2006

2.1 Overall, the sub-regional economy is estimated to have grown by almost 5.5 percent in 2005, a slight improvement on the 4.8 percent in 2004, and was above continent's projected economic expansion of 4.5 percent. The sub - region's economic performance benefited from prudent macroeconomic policies, continuous structural reforms as well as general improvement in the growth of the global economy. Higher rates of expansion are expected from Angola and Mozambique for instance. For 2006, the sub - region's growth rate is expected to accelerate slightly to about 5.6 percent, reflecting in part, more favourable weather conditions and availability of additional financial resources following debt relief for some countries and the buoyancy of oil prices which will benefit the sub-region's oil exporters.

2.2 Despite the somewhat good economic growth rate achieved, the sub - region continued to face the challenges of food security due to drought in some countries. These difficulties were exacerbated by the high prices of imported oil and oil products in non-oil producing countries, the weakening of prices of some non - fuel exports and the elimination of textile quotas for a number of countries including Lesotho, Swaziland, South Africa and Malawi which adversely affected employment. Moreover, the need to attract inflows of foreign direct investment remained a challenge.

3. IMPLEMENTATION OF AMCP AGAINST TARGET INDICATORS

3.1 Table 1 shows target performance indicators with benchmarks in brackets for stages two (2) to four (4) of the AMCP. For stage 2 (2004-2008) the performance indicators together with their corresponding benchmarks are: inflation (less than 10 percent); the budget balance/GDP ratio (not more than

5 percent); the foreign exchange months of import cover (3 months and above); and tax revenue/GDP ratio (20 percent and above).

TABLE 1

African Monetary Cooperation Programme Target Indicators

	Inflation (%)	Budget Balance/GDP Ratio (%)	Foreign Exchange Import Cover (Months)	Tax Revenue/ GDP Ratio (%)
Stage I (2002 - 2003)				
Stage II (2004 – 2008)	<10%	≤5%	≥3 Months	≥20%
Stage III (2009 – 2012)	<5%	≤3%	≥6 Months	≥20%
Stage IV (2013 – 2015)	<3%	Deferred	Deferred	≥20%

3.2 Although on average, the sub-region performed well against the benchmarks, the extent to which individual countries satisfied the various requirements was mixed as highlighted below.

(a) *Inflation Stability (<10 %)*

3.3 As shown in Table 2, the achievement of less than 10 percent level of inflation was illusive for four countries in both 2004 and 2005. In 2005 the average level of inflation rose to 34.1 percent from 20.2 percent in 2004 mainly as a result of Zimbabwe's performance. When Zimbabwe's data were excluded due its special circumstances, the adjusted inflation was 8.9 percent in 2004 and 8.3 percent in 2005.

TABLE 2

Inflation by Country

(%)

Country	2004 (End of period)	2005 (Annual Average)
Angola	31.0	…[3]
Botswana	7.0	8.6
Lesotho	5.1	3.4
Madagascar[4]	…[3]	…[3]
Malawi	11.5	15.4
Mozambique	9.1	13.8
Namibia	3.9	2.3
South Africa	4.3	3.4
Swaziland	3.1	4.8
Tanzania	4.2	4.4
Zambia	17.5	18.4
Zimbabwe	381.5	266.8

3.3 In 2005 the four countries that did not meet the inflation target were Zimbabwe (266 percent), Zambia (18.4 percent), Malawi (15.4 percent) and Mozambique (13.9 percent). It is expected that Angola's annual average inflation[5] may also have missed the benchmark. However, six countries: Namibia (2.3 percent), Lesotho and South Africa (3.4 percent each), Tanzania (4.4), Swaziland (4.8 percent) and Botswana (8.6 percent) met the inflation targets of less than 10 percent.

[3] The three dots (…) indicate not available.

[4] Madagascar joined the sub-regional group recently, as a result its data are not available.

[5] The data on Angola's inflation were not up to date.

(b) *Budget Balancet/GDP Ratio (<5%)*

3.4 The benchmark for the ratio of the budget balance to GDP is 5 percent or less. In 2004 the average ratio for the sub-region was –2.3 percent. Zimbabwe’s deficit ratio (–5.5 percent) was higher than the target and contrasted sharply with that of Lesotho which had a significant budget surplus of 5.4 percent of GDP, while Botswana (-0.2) approximated a balanced budget. The target was also met by Zambia (-1.3), South Africa (-2.0) in 2004 and (-0.5) in 2005, Namibia (-2.4), Tanzania (-3.4), Swaziland (-3.6), Angola and Mozambique (-4.0 percent each) and Malawi (-4.4 percent).

Public Debt/GDP (<60 %)[6]

3.5 Although this benchmark is only applicable to SADC[7] convergence criteria, it has been reported due to its impact on the Southern African sub - region’s implementation of the AMCP performance benchmarks. In 2004 the average Public Debt/GDP ratio for SADC[7] was 62.9 percent, within which Botswana (11.3 percent), Swaziland (21.8 percent), Namibia (33.5 percent), South Africa (37.5 percent) in 2004 and (35.8 percent) in 2005, Angola (48.6 percent) and Lesotho (53.7 percent) met this convergence criterion. In contrast, Zambia (152.5 percent), Malawi (151.7 percent), Zimbabwe (110.4 percent), Mozambique (72.4 percent) and Tanzania (67.8 percent) recorded slippages.

[6] It is one of the convergence criteria for the SADC sub-region only.

[7] The coverage of the countries under SADC differs from that of the Southern African sub-region under the AACB.

(d) *The Foreign Exchange Import Cover (≥3 months)*

3.7 With an average import cover of 4.5 months in 2004, the sub - region fulfilled the required import cover. However, as was the case with other benchmarks, the average cover masked considerable differences in performances among the countries. Although Botswana's import cover of 17 months was lower than the 20 months in the previous year, it was, nevertheless, far in excess of the minimum benchmark of 3 months. Besides Botswana, the other four countries that met the target were Tanzania (8.6 months), Mozambique (5.8 months), South Africa (2.2 months) in 2004 and (3.0 months) in 2005, and Malawi (3 months). However, the remaining six countries[8] missed the benchmark.

4. CONCLUSION

4.1 Although its rate of economic growth is projected to have exceeded that of the continent as a whole in 2005, the sub - region still faced challenges of drought which exacerbated inflationary pressures and debt servicing burden. Furthermore, due to lags in data reporting among the member countries, average sub-regional performances against each of the AMCP benchmarks have only been reported for 2004. Nevertheless, where data were available, individual country achievements against each performance criterion have been included for 2005.

4.2 In 2004 the sub - region as a whole met, on average, two of the three performance benchmarks for which data were available: budget balance/GDP ratio (-2.3 percent) and the foreign exchange import cover (4.5 months). As indicated, the 34.1 percent average inflation for the region declined from 8.9 percent in 2004 to 8.3 percent in 2005 when the exceptionally high inflation in Zimbabwe was excluded. In which case, if it were not for Zimbabwe, the

[8] Angola (2.9 months), Swaziland (2 months), Namibia (1.7 months), Lesotho (1.5 months) Zimbabwe (1.3 months) and Zambia (1.2 months).

three performance benchmarks, for which 2004 data were available, would have been met[9].

4.3 Nevertheless, within the overall performance indicators under each benchmark, there were country variations in the degrees of compliance and non-compliance that reflected the different economic circumstances of each country during the first two years of Stage 2 (2004-2005) of the AMCP. For instance, under the budget balance/GDP ratio criterion, Botswana achieved a near budget balance in 2004 and Lesotho had a significant surplus which contrasted with a slippage in meeting the target by Zimbabwe. With regard to the foreign exchange import cover, six out of eleven member countries did not meet the required benchmark in 2004 while in 2005 four out of eleven countries did not meet the inflation performance criterion.

4.4 The sub-region still faces data challenges with respect to both delays and comparability across member countries. In this connection, there are indications that suggest differences in the compilation methodology for government debt across member countries. Therefore, the sub – region looks forward to the forthcoming workshop on the harmonisation of statistical concepts and compilation methodologies in order build the sub - region's capacity in this and other areas which will permit data comparability in the sub - region and contribute towards reducing the time lags report submissions.

[9] Data on Tax Revenue/GDP ratio were not available.