Southern Africa Development Community

REGIONAL ECONOMIC PERFORMANCE AND THE BUSINESS ENVIRONMENT IN 2020 AND MEDIUM-TERM PROSPECTS

- Economic growth in the region contracted by 4.8 per cent in 2020 lower than the growth of 2.1 per cent recorded in 2019.

- SADC region annual inflation increased to an average of 49.6 per cent in 2020 from 16.4 per cent in 2019, largely due to heightened inflationary pressures in Zimbabwe. The average inflation excluding Zimbabwe averaged 6.4 per cent in 2020.

- Fiscal deficit deteriorated from 3.0 per cent of GDP in 2019 to 7.3 per cent of GDP in 2020. Public debt increased from 56.3 per cent of GDP in 2019 to 67.1 per cent of GDP in 2020.

- The region's current account balance as a ratio of GDP widen from an average deficit of 4.2 per cent in 2019 to a deficit averaging 4.7 per cent in 2020.

- SADC international reserves increased to 5.9 months of import cover in 2020 from 5.3 month of import cover in 2019 as a result of the subdued demand.

- Global growth in 2020 contracted by 3.3 per cent from a growth of 2.9 per cent in 2019, largely driven by the decline in commodity prices, trade policy uncertainty, escalation of trade tensions and rising debt.

Macroeconomic Policies and Convergence
Directorate of Finance, Investment and Customs
July 2021

1. INTRODUCTION

This report presents economic performance for the SADC region in 2020. It also presents the outlook for business environment in the region for the same period. In addition, the report presents the economic outlook in the short to medium term for the region; and main factors behind the outlook. Further, it highlights issues to inform policy direction both at national and regional levels.

The report is presented in seven sections. The first section is the introduction followed by highlights on the global economic outlook and economic developments in the region for the year 2020. Section 3 provides the regional economic performance for 2020. Developments with respect to major economic fundamentals in Member States are briefly presented in four followed by the business environment in section five. Section six provides a summary of development in the area of financial inclusion. Finally, section seven concludes by highlighting outlook, issues for policy consideration, risk and recommendations.

2. GLOBAL ECONOMIC BACKGROUND

2.1 Economic activity

The IMF World Economic Outlook report of April 2021 indicate that, the COVID-19 pandemic triggered the deepest global recession since World War II. In a bid to save lives and contain the spread of the virus, economies were pushed in “Great Lockdowns” which triggered the worst recession since the Great Depression. Notable adverse effects of COVID-19 pandemic include: economic lockdowns, direct disruption to global supply chains, weaker final demand for imported goods and services, and the wider regional declines in international tourism and business travel. Resultantly, IMF estimates the world economy contracted by 3.3 percent in 2020, an outcome far worse than during the 2009 Global Financial Crisis. The IMF is projecting a global economic growth of 6 percent in 2021 (0.5 percentage point upgrade from the January 2021 projection) and 4.4 percent in 2022 (0.2 percentage point upgrade). The revision in global prospects for growth in 2021 and 2022 is a result of sizeable growth upgrade of the United States, from 1.3 percentage points grow at 6.4 percent this year. Further, a rebound is expected to a majority of advanced economies, including the euro area in 2021. China is projected to grow at 8.4 percent in 2021. While there are signs that China’s economy had already returned to pre-pandemic GDP, many other countries may revert to their pre-COVID path in 2023.

Table 1: Major Macroeconomic Indicators of Selected Economies

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021*	2022*
World	4.3	3.5	3.5	3.6	3.4	3.4	3.8	3.6	2.9	-3.3	6.0	4.4
Advanced economies	1.7	1.2	1.4	2.1	2.3	1.7	2.4	2.2	1.7	-4.7	5.1	3.6
USA	1.6	2.2	1.8	2.5	2.9	1.6	2.2	2.9	2.3	-3.5	6.4	3.5
Euro Area	1.6	-0.9	-0.2	1.4	2.1	2.0	2.4	1.9	1.3	-6.6	4.4	3.8
EM & DE	6.4	5.4	5.1	4.7	4.3	4.6	4.8	4.5	3.7	-2.2	6.7	5.0
China	9.5	7.9	7.8	7.3	6.9	6.7	6.8	6.6	6.1	2.3	8.4	5.6
India	6.6	5.5	6.4	7.4	8.0	8.2	7.2	6.8	4.2	-8.0	12.5	6.9
Brazil	4.0	1.9	3.0	0.5	-3.5	-3.3	1.1	1.3	1.1	-4.1	3.7	2.6
SSA	5.3	4.7	5.2	5.1	3.2	1.4	2.9	3.2	3.1	-1.9	3.4	4.0

Note: EM & DE is Emerging Market and Developing Economies.
SSA is Sub-Sahara Africa
* April 2021 Projections
Source: IMF World Economic Outlook, April 2021.

According to the IMF's World Economic Outlook for April 2021, the US and Euro Area are estimated to have contracted by 3.5 percent and 6.6 percent in 2020, respectively. Growth in emerging and developing economies, which accounts for over half of the world growth contracted by negative 6.6 per cent from a growth of 3.7 per cent in 2019. In China growth declined to 2.3 per cent in 2020 from 6.1 per cent in 2019. Growth in India and Brazil contracted by 8 per cent and 4.4 per cent in 2020, from a growth of 4.3 per cent and 1.1 per cent in 2019, respectively.

In the Sub-Saharan Africa (SSA), growth is estimated to have realised a contraction of 1.9 percent, with the two largest economies in the region, namely Nigeria and South Africa, experiencing significant economic downturn.

The International Monetary Fund (IMF) envisages a brighter economic outlook underpinned by stronger-than-anticipated economic recovery across regions. The strong economic recovery results from additional fiscal support in a few large economies, the anticipated vaccine-powered recovery in the second half of 2021, and continued adaptation of economic activity to the new normal of subdued mobility. The IMF is projecting a global economic growth of 6 percent in 2021 (0.5 percentage point upgrade from the January 2021 projection) and 4.4 percent in 2022 (0.2 percentage point upgrade), from an estimated historic contraction of -3.3 percent in 2020.

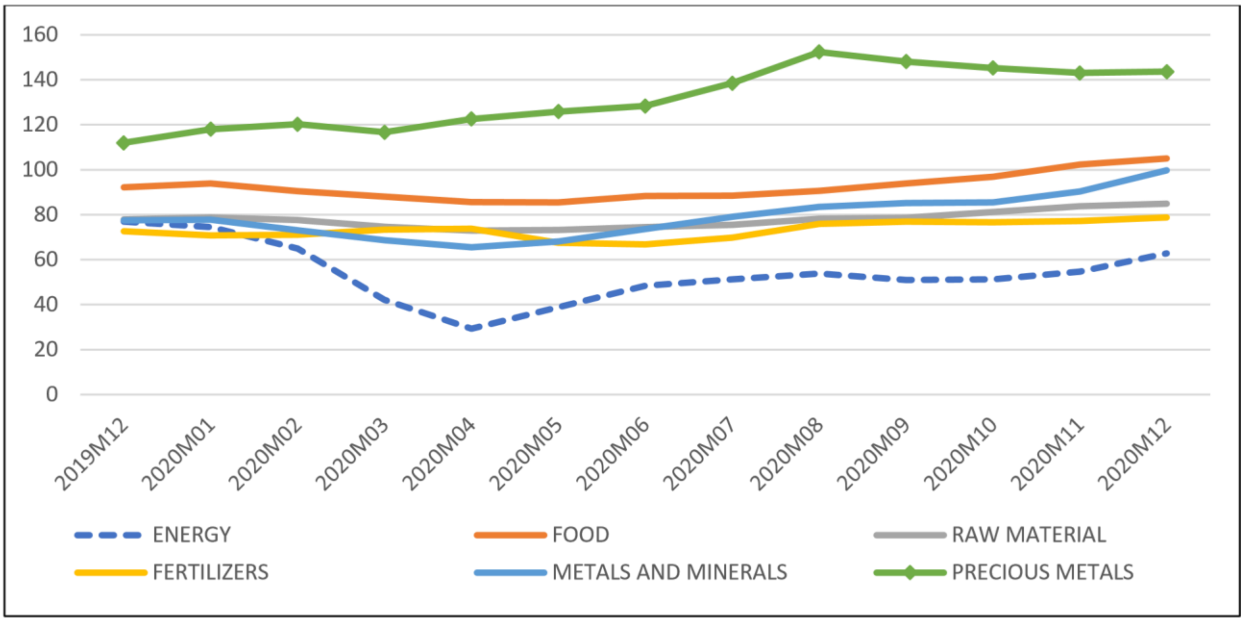
The upgrades in global growth for 2021 and 2022 mainly result from upgrades for advanced economies, particularly to a sizeable upgrade for the United States (1.3 percentage points) that is expected to grow at 6.4 percent this year. This makes the United States the only large economy projected to surpass the level of GDP it was forecast to have in 2022 in the absence of this pandemic. Other advanced economies, including the euro area, will also rebound this year but at a slower pace. Among emerging markets and developing economies, China is projected to grow this year at 8.4 percent. While China’s economy had already returned to pre-pandemic GDP in 2020, many other countries are not expected to do so until 2023.

2.2 Commodity Prices Development in 2020

The COVID-19 pandemic has delivered a significant shock to commodity markets but the severity of impact is varied across different commodity classes. This contrasts with the 2008 global recession, when almost all commodity prices crashed. **Figure 2a** shows that prices of most commodities were marginally affected by the pandemic with energy prices the hardest hit largely due to the crude oil price crash in April 2020. Crude oil prices were affected by the supply glut and weak demand as movement restrictions adopted globally to limit the transmission of the COVID-19 virus. In contrast, when most commodity prices were weak, precious metals prices significantly increased. As economies slowly opened and restored some activity, international commodity prices strengthened.

Metal prices saw a particularly strong recovery and is now above pre-pandemic levels, a marked contrast to their behaviour during the global financial crisis when the drop in prices was larger and more prolonged. As a result, metals and minerals price index gained 28.6 percent, precious minerals index added 28.3 percent, food index rose by 13.9 percent, raw materials index increased by 8.9 percent and fertiliser index closed the year 8.5 percent higher. However, due to the oil price crash, the energy price index ended the year 18.3 percent lower than the end of December 2019.

Fig 2a: Selected Commodity Price Indices (Dec 2019-December 2020)



Source: The Pink Sheet, World Bank, January 2021.

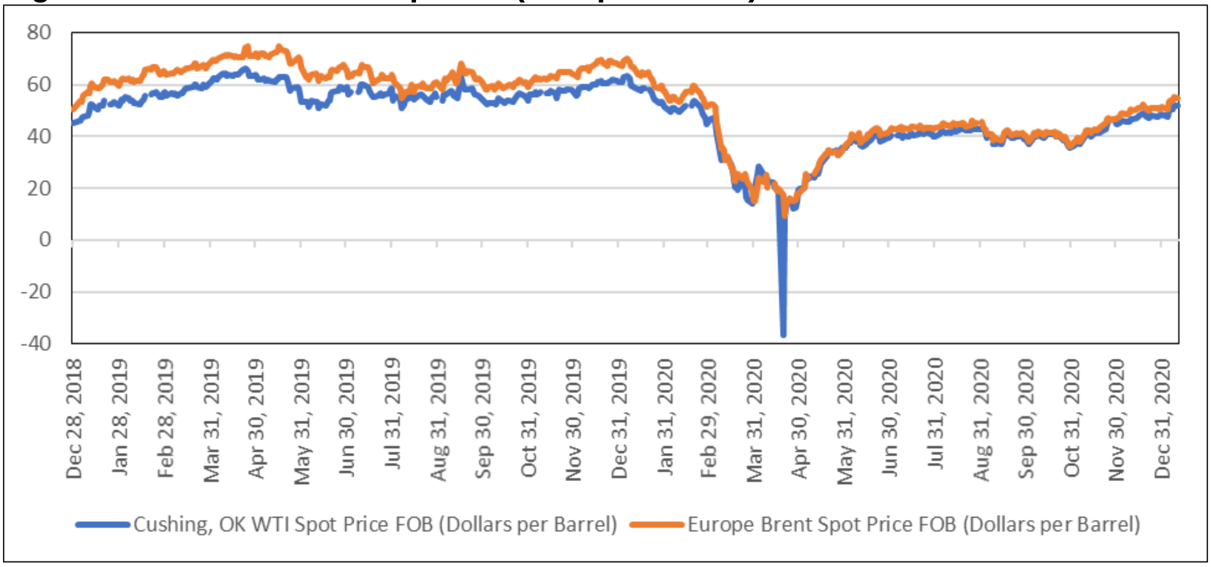
Gold the driver of precious minerals price index is seen as a safe haven asset with prices inversely related to the global economic prospects. As a result, gold price is expected to sour when global growth prospects are weak for instance during economic downturns/depressions or when economic uncertainties are elevated. Some precious metal prices surged early in the pandemic as uncertainty overshadowed the global economy. Commodity prices are projected to continue firming in 2021, however, the second wave which will weigh down the economic recovery prospects are likely to elevate the downside risks.

Gold prices eased during last quarter of 2020, after reaching an all-time high of US$2,067 per ounce on 6th August 2020. Demand for safe-haven assets has declined following improvement in economic conditions as global economies re-open by easing of pandemic related restrictions. The appetite for exchange-traded funds (ETFs) fell as well in the third quarter of 2020 while central bank gold purchases reversed. The gold-to-copper price ratio, a barometer of global risk sentiment, also declined, after reaching a 40-year high in April 2020.

Silver prices have declined after reaching a seven-year high of US$29 per ounce on 10th August 2020, but they remain substantially higher than in January 2020. Platinum prices, which plunged in April 2020, have held up much better in recent months on the back of a recovery in global auto sales. Both silver and platinum prices are supported by robust industrial demand. More than half of silver's demand comes from industrial applications, such as in electrical and electronics, while a quarter of platinum's supplies are used by the automotive industry (each catalytic converter uses 0.10 to 0.25 troy ounces of platinum, equivalent to $100-230 per vehicle at current prices).

Oil prices have partially recovered as large production cuts by OPEC+ helped bring the level of global supply closer to demand. Compared to the global financial crisis, the most recent decline in oil prices was a little steeper but also recovered faster. **Figure 2b** depicts the oil price evolution since end of 2018.

Figure 2b: Oil Price Development (US$ per Berrel)



Source: United States Energy Information Administration (EIA), January 2021 .

Oil price responded positively to increased demand owing to easing of restrictions and re-opening of economies. Western Texas Intermediate (WTI) and Brent crude oil prices ended the 2020 lower by 7.9 percent and 7.1 percent at US$48.35 per barrel and US$51.22 per barrel from US$61.14 per barrel and US$67.77 per barrel on 31st December 2019, respectively. In addition, oil price has continued to strengthen in 2021 with WTI and Brent oil prices reaching US$52.15 and US$54.84 on 11 January 2021, respectively.

2.3 Global Trade Developments

The World Bank estimated that global trade contracted by 9.5 percent in 2020 largely due to border closures and supply disruptions which interrupted the international provision of goods and services, before a projected recovery of 5.1 percent in 2021-22. Goods trade fell more rapidly and recovered more swiftly than during the 2008 global financial crisis supported largely by significant trade in medical supplies and equipment. On the other hand, services trade remained depressed reflecting the unusual nature of the recession, which has shifted consumption patterns toward goods and away from services requiring face-to-face interactions.

Continued impediments to international travel and tourism are contributing to persistent weakness in services. International travel has recovered from its April 2020 through but has stabilized far below pre-pandemic levels. In the decade following the global financial crisis, the increase in global trade activity was mostly driven by trade in services. The same is unlikely to be the case in the current recovery, as services will struggle to rebound until countries ease international travel restrictions. The lifting of international travel restrictions will depend heavily on whether countries have put the pandemic under control and as well as the coverage of vaccinations rollout.

2.4 Global Foreign Direct Investment

According to the UNCTAD World Investment Report 2020, the COVID-19 crisis has caused a significant decline in foreign direct investment (FDI) in 2020, and the situation is likely to continue in 2021. Global FDI flows are forecast to decrease by up to 40% in 2020, from their 2019 value of $1.54 trillion. This would bring FDI below $1 trillion for the first time since 2005. FDI is projected to decrease by a further 5 to 10% in 2021. In relative terms the projected fall is expected to be worse than the one experienced in the two years following the global financial crisis. At their lowest level ($1.2 trillion) then, in 2009, global FDI flows were some $300 billion higher than the bottom of the 2020 forecast. The downturn caused by the pandemic follows several years of negative or stagnant growth; as such it compounds a longer-term declining trend. The expected level of global FDI flows in 2021 would represent a 60% decline since 2015, from $2 trillion to less than $900 billion.

The COVID-19 pandemic effected foreign investment in Africa in 2020, mirroring the global trend. Foreign direct investment (FDI) flows are expected to decline between 25 per cent and 40 percent. Depending on the duration and severity of the global crisis, the longer-term outlook for FDI in Africa could draw some strength from the implementation of the African Continental Free Trade Area Agreement in 2020, including the conclusion of its investment protocol. In addition, investment initiatives for Africa by major developed and emerging economies could help the recovery. In 2019, FDI flows to Africa had already declined by 10% to $45 billion. Increased FDI flows to some of the continent's major economies, including Egypt, were offset by reductions in others, such as Nigeria and South Africa. The negative effects of tepid global and regional GDP growth and dampened demand for commodities inhibited flows to countries with both diversified and natural resource-oriented investment profiles alike, although a few countries received higher inflows from large new projects. Investment in Africa through mergers and acquisitions (M&As) increased substantially to $5.3 billion, compared with $1.6 billion in 2018. The rise was driven to a large degree by MNEs from the United Kingdom and Switzerland, which invested $3.1 billion and $1.1 billion, respectively. M&A investment from developing economies declined significantly.

FDI to Southern Africa increased by 22 per cent to $4.4 billion in 2019. This was mainly caused by the slowdown in net divestment from Angola. FDI flows to Angola in 2019 remained negative (-$4.1 billion) due to repatriations in the oil sector. There were some important foreign investment deals in the country, such as the $100 million investment by a unit of the Indonesian State-owned PT Pertamina (Persero) in an offshore oil block.

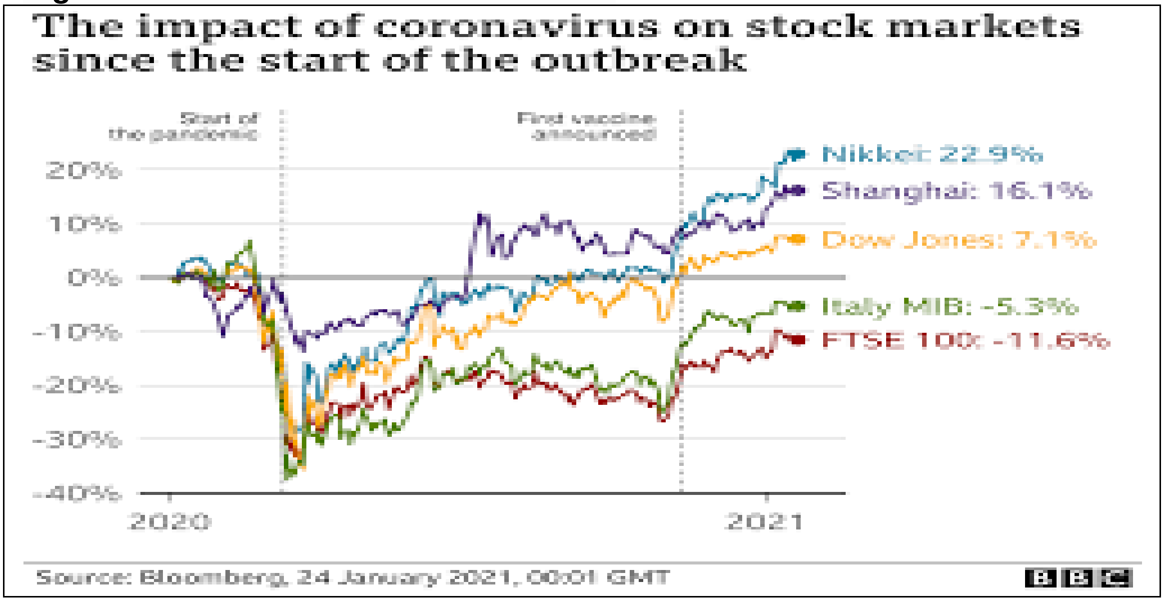
FDI inflows to South Africa decreased by 15 per cent to $4.6 billion in 2019. FDI to South Africa is mostly directed to mining, manufacturing (automobiles, consumer goods) and services (finance and banking). Although traditionally the major investor partners have been countries from the European Union (EU), China is slowly expanding its investment footprint in the country. Despite the decline in 2019, the level of FDI inflows in South Africa was encouraging after the low inflows between 2015 and 2017 (an average $2 billion a year). However, a significant part of FDI consists of intrafirm financial transfers, there is still a dearth of new greenfield investments.

2.5 Stock Market Performance

Performance in 2020 was mixed. Investors will remember 2020 for the impact of the COVID-19 pandemic. The global stocks suffered one of the quickest declines on record, but broadly recovered and hit new highs by year-end. Technology stocks outperformed the broad US market, while energy stocks had another year of double-digit losses. It was another strong year for most asset classes. Some of the highlights include: Global stocks (as measured by the MSCI World Index) climbed 14 per cent, Gold (as measured by Nymex per troy ounce) soared 28 per cent, and Bonds (as measured by the Barclays Aggregate Bond Index) gained 5 per cent.

However, not all asset prices increased in 2020, and certainly not all assets within each asset class had a positive year. For example, oil (as measured by WTI crude) plunged 24%, as slowing global economic activity due to the pandemic cut into energy demand. And within stocks, a plethora of businesses have been devastated or forced into bankruptcy as a result of the COVID-19 pandemic. The S&P 500 continued to trade at a significant premium to both its mean and median historical price-to-earnings.

Figure 2c: Stock Markets Performance



Source: Bloomberg (January 2021).

2.6 Global Fiscal Deficit and Public Debt Developments

The negative impact of COVID-19 has triggered a wave of defaults around the world. The spread of COVID-19 pandemic resulted to severe economic contractions, decline in revenues, raised government deficits and debt to unprecedented levels across all country income groups. Global average overall deficits as a share of GDP in 2020 reached 11.7 per cent for advanced economies, 9.8 per cent for emerging market economies, and 5.5 per cent for low-income developing countries. Countries' ability to scale up spending has diverged.

The rise in deficits in advanced economies and several emerging market economies resulted from roughly equal increases in spending and declines in revenues, whereas in many emerging market economies and most low-income developing countries, it stemmed primarily from the collapse in revenues caused by the economic downturn. Fiscal deficits in 2021 are projected to shrink in most countries as pandemic-related support expires or winds down, revenues recover somewhat, and the number of unemployment claims declines. Average public debt worldwide reached an unprecedented 97 percent of GDP in 2020 and is projected to be around 99 per cent of GDP in 2021(IMF Fiscal Monitor, April 2021).

3. Regional Economic Performance

3.1 Overview

Preliminary data provided by Member States in April 2021 and from the IMF World Economic Outlook database of April 2021 shows that the COVID-19 pandemic triggered an economic recession more severe in tourism and commodity exports driven economies as well as in economies with limited policy space to respond.

Annual regional inflation increased to an average in 2019 compared to 2018, largely due to heightened inflationary pressures in Angola and Zimbabwe. The Member States who achieved single digit average inflation benefited from the weak commodity prices especially oil price which is a major determinant of prices in the region.

The regional fiscal deficit average widened in 2020, largely due to an increase in government expenditure to curtail the spread of COVID-19. Public debt continued to rise with some countries breaching the regional threshold of 60 per cent of GDP despite the improvement in fiscal positions in 2019.

The region's external position in 2019 deteriorated in line with the weak commodity prices and slowdown in global economic activity due to shutdowns. However, the severity varied across the SADC Member States.

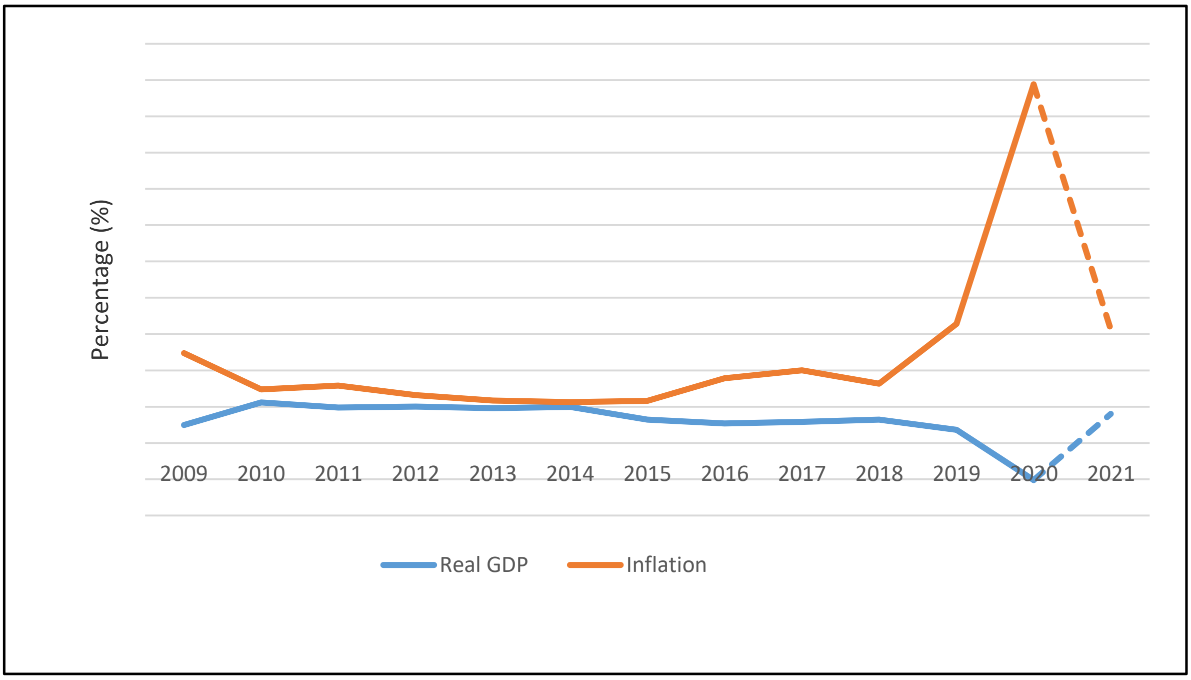
3.2 Real GDP

Recent data indicates SADC regional GDP growth contracted by 4.8 per cent in 2020, from a growth of 2.1 per cent in 2019. All Member States recorded contractions in real GDP growth in 2020 except for Malawi and the United Republic of Tanzania who recorded growth rates not exceeding 5 per cent.

3.3 Inflation

SADC region annual inflation increased to an average of 49.6 per cent in 2020 from 16.6 per cent in 2019, largely due to heightened inflationary pressures in Zimbabwe. The average inflation excluding Zimbabwe averaged 6.4 per cent in 2020. All Member States except Angola, DRC, Malawi, Zambia and Zimbabwe, met the regional inflation target of 3-7 percent range. Annual inflation rate in the SADC region is projected to ease a bit to 15.4 per cent in 2021. Zimbabwe's inflation is expected to decelerate significantly to 134.8 per cent in 2021 from 654.9 per cent in 2020. Inflation is expected to remain above the regional benchmark in 2021 for Angola, DRC, Malawi, Zambia and Zimbabwe.

Fig 3a: Real GDP and Inflation



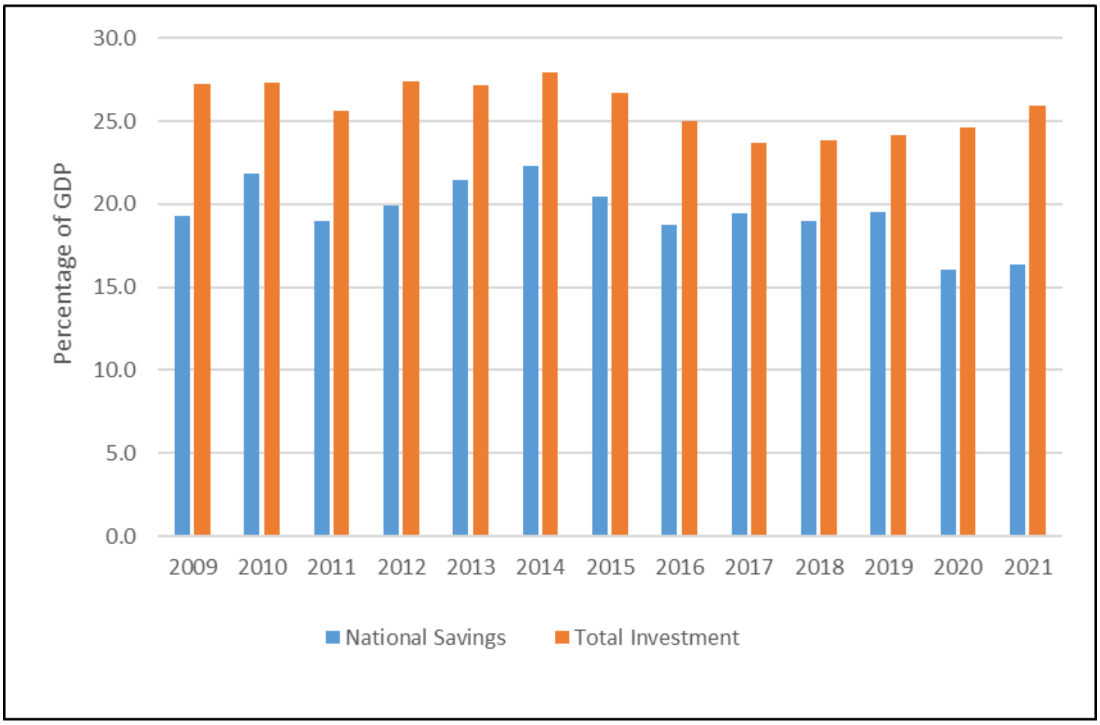
Source: Member States, April 2021 and IMF WEO April 2021.

3.4 National Savings and Investment

Annual total investments and gross national savings remained subdued in 2020, with most Member States below the regional targets. After a decline from 26.2 per cent of GDP in 2015 to 23.5 per cent of GDP in 2016, total investments have been on a steady increase up to 2020. The region recorded a marginal increase in total investments to 24.9 per cent of GDP in 2020 from 23.7 per cent of GDP in 2019. Only five Member States (Botswana, Mozambique, Seychelles, United Republic of Tanzania and Zambia) recorded investments above the regional target of at least 30 per cent of GDP.

On the savings side, gross national savings remained below 20 per cent of GDP at 15.0 per cent of GDP in 2020 from 16.3 per cent of GDP in 2019. Only Zambia has recorded total gross national savings above the regional target of 35 per cent of GDP.

Fig 3b: National Savings and Total Investment (% of GDP)



Source: Member States and IMF World Economic Outlook, April 2021.

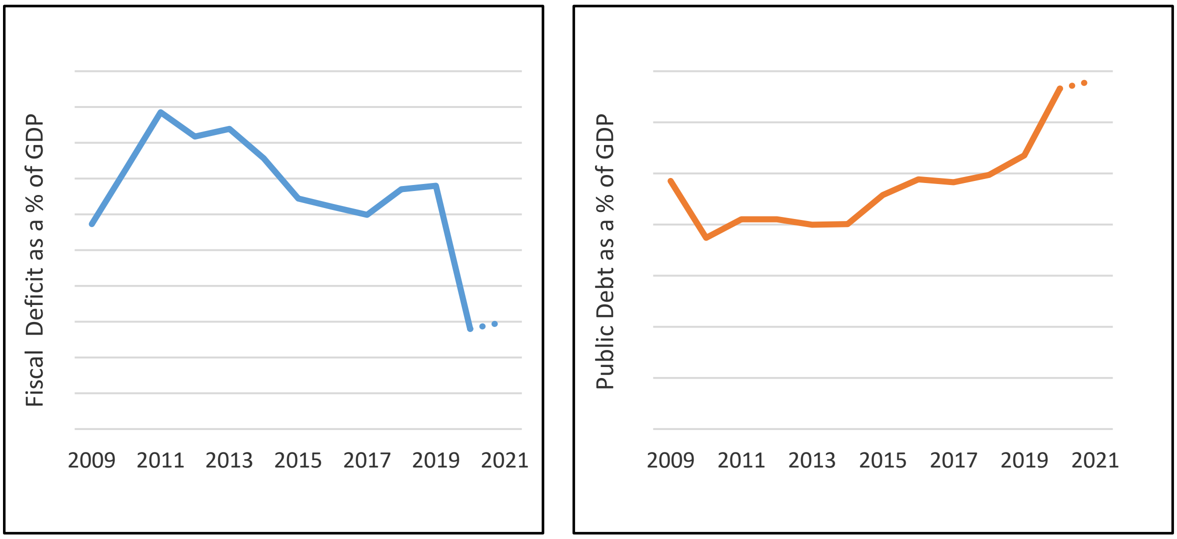
On the savings side, gross national savings remained below 20 per cent of GDP at 15.0 per cent of GDP in 2020 from 16.3 per cent of GDP in 2019. Only Zambia has recorded total gross national savings above the regional target of 35 per cent of GDP.

3.5 Fiscal Sector

The global economic developments, weak commodity prices, adverse weather conditions and the impact of COVID-19 weighed down the regional economy in the second and third quarter of 2020 and these had varying negative impacts on the fiscal positions of Member States.

Fiscal deficit deteriorated from 3.0 per cent of GDP in 2019 to 7.3 per cent of GDP in 2020. Only Angola, DRC, Lesotho, Madagascar, Tanzania and Zimbabwe achieved the regional fiscal deficit target of 3 per cent of GDP in 2020. This is a result of synchronised increases in government expenditure to support the recovery from the impact of COVID-19.

Fig 3c: SADC - Fiscal Deficit and Public Debt as a % of GDP



Source: Member States, April 2021 and IMF WEO April 2021.

Public debt continued to trend upward and it has breached the regional threshold of 60 per cent of GDP due to weakening fiscal positions in 2020. Public debt increased from 56.3 per cent of GDP in 2019 to 67.1 per cent of GDP in 2020. The increasing public debt levels will put additional burden to Member States' resources as debt service costs increase. Debt burden is expected to worsen for SADC Member States with public debt forecasted to further increase to 69 per cent of GDP in 2021. Member States' expenditure continued on an upward trend as Member States invested heavily in the public health system to mitigate human and economic impact of the coronavirus. This will result in a mismatch of expenditures and revenues which will further widen the fiscal deficit and worsen Member States' debt position. The crisis has significantly eroded the fiscal space and debt sustainability concerns are a growing challenge for Member States. The risk of defaulting to service external debt is now high. Only six Member States (Botswana, DRC, Eswatini, Madagascar, Malawi and United Republic of Tanzania) achieved the regional set target of public debt of 60 per cent of GDP in 2020.

3.6 Selected SADC Member States sovereign debt ratings

The coronavirus pandemic and subsequent impact on the commodity prices are having a considerable effect on rating of SADC Member States. In the short to medium term more downgrades are expected as the impact of pandemic continue to unfold. **Table 2** below provides the latest update on sovereign debt ratings in the region.

Table 2: SADC Region Sovereign debt ratings of some SADC countries

Country	Rating Agencies								
	S&P			Moody's			Fitch		
	Rating	Outlook	Date	Rating	Outlook	Date	Rating	Outlook	Date
Angola	CCC+	Stable	Mar 20	B3	Under review	Mar 20	CCC	n/a	Sep 20
Botswana	BaBB+	Stable	Mar 20	A2	Negative	May 20			
DRC	B-	Negative	Apr 20	Caa2	Stable	Oct 18	CCC	n/a	Mar 19
Eswatini				B3	Stable	Jul 20			
Lesotho							B	Negative	Aug 20
Mauritius				Baa1	Negative	Apr 20			
Mozambique	CCC+	Stable	Nov 19	Caa2	Stable		CCC	n/a	Nov 19
Namibia				Ba2	Negative	May 20	BB	Negative	Jun 20
Seychelles							B+	Stable	May 20
South Africa	BB-	Stable	Apr 20	Ba1	Negative	Mar 20	BB	Negative	Apr 20
Tanzania				B2	Stable	Aug 20	CC	n/a	Apr 20
Zambia	CCC	Negative	Feb 20	Ca	Stable	Apr 20	CC	n/a	Apr 20

Source: SADC countries, trading economics website.

n/a: Fitch typically does not assign Outlooks or apply modifiers for sovereigns with a rating of 'CCC' or below.

Angola: In September 2020, the rating agencies revised the credit rating for Angola following fears of increasing debt, falling international oil prices and deteriorating level of foreign exchange reserves

Botswana: According to Moody's Investors Service rating, Botswana is 'A2' for long-term bonds denominated in both domestic and foreign currency but revised the outlook from stable to negative. The revision of the outlook reflects the increasing risks of lower growth, larger budget deficits and likely resultant increase in government borrowing.

DRC: The latest rating by Standard & Poor's credit rating for DRC stands at B- with negative outlook, while Moody's credit rating for Congo was last set at Caa2 with stable outlook in October 2018. The latest Fitch rating for DRC is CCC from March 2019.

Eswatini: Received a downgrade by Moody's to B3 with a stable outlook in July 2020 underpinned by a deterioration in the government's debt burden and debt affordability continued weakening the sovereign's fiscal strength. This is coupled with dwindling of reserves, persistent liquidity pressures evident in the accumulation of arrears and regular reliance on central bank financing.

Lesotho: In August 2020, Fitch Ratings revised the Outlook on Lesotho's Long-Term Foreign-Currency Issuer Default Rating (IDR) to Negative from Stable and affirmed the IDR at 'B'. The revision of the Outlook to Negative is attributed to the impact of the COVID-19 pandemic on Lesotho's economy's and public finances. Further, this is sgainst a background of potential falling receipts from the Southern

Africa Customs Union (SACU), an important source of reserves, fiscal and external financing.

Mauritius: Moody in April 2020, Moody confirmed the country's rating of Baa1 but revised down the outlook to negative. This is associated with upside risks such as economic and fiscal deterioration as a result of the COVID-19 spread coupled a prolonged plummet in the tourism industry.

Mozambique: The latest credit rating was conducted in November 2019. The countries were rating being upgraded to CCC+, with a stable outlook, following a successful completion of a distressed debt exchange program and improving economic growth prospects.

Namibia: The June 2020 Fitch Ratings is BB and the outlook was revised downward to negative from stable. The negative outlook indicates the impact of the COVID-19 pandemic on Namibia's economy and public finances. This rating also reflects the country's vulnerability to external shocks such as subdued growth in South Africa, potentially lower SACU receipts, international commodity prices and a weaker exchange rate.

Seychelles: The latest rating by Fitch Ratings affirmed Seychelles' Long Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BB' with a Stable Outlook. Seychelles' unsecured foreign-currency bond was also rated 'BB'. The Short-Term Foreign and Local Currency IDRs were affirmed at 'B' and the Country Ceiling at 'BBB-'. In May 2020, Fitch Ratings downgraded Seychelles' Long Term Foreign and Local Currency Issuer Default Ratings (IDRs) by two notches to 'B+' from 'BB', with a Stable Outlook. Seychelles' unsecured foreign-currency bond was also downgraded to 'B+' from 'BB'. The Short-Term Foreign and Local Currency (IDRs) remained unchanged at 'B' whilst the Country Ceiling was downgraded to 'BB' from 'BBB-'. This rating reflects the increase in the risks associated with the impact of COVID-19, a decline in tourism and deterioration of the fiscal balance.

South Africa: Due to the impact of COVID-19-related demands which had significant adverse implications to the economy, Fitch in April 2020 downgraded South Africa. The rating was prompted by the country's lack of a clear path towards stabilizing its debt position.

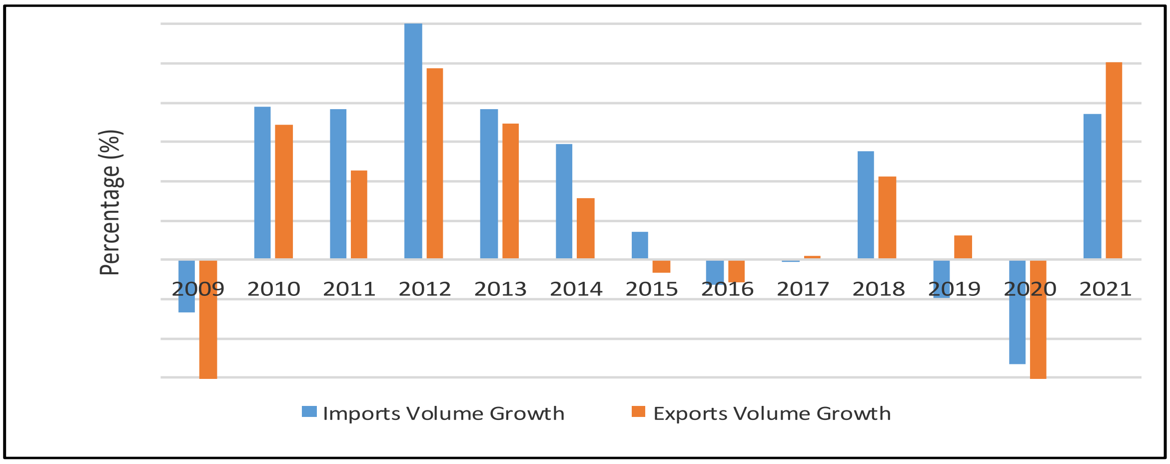
Tanzania: In August 2020, Moody downgraded the foreign and local currency issuer ratings of the Government of Tanzania from B1 to B2 and changed the outlook from negative to stable. The downgrade was underpinned by ongoing uncertainty over the regulatory environment and policy stance of the government, particularly as it relates to the mining sector. The rating was also influenced by notable income constraints, weak institutions and a vulnerable exchange rate.

Zambia: In April 2020, both Fitch and Moody's further downgraded the Zambia to CC and Ca, respectively. These ratings reflect impact of the COVID-19 pandemic to the already constrained external liquidity.

3.6 External Sector

The region's external sector performance in 2020 deteriorated due to the COVID-19 pandemic which resulted in weak commodity prices and a global economic downturn as well as escalated global trade tensions had minimal impact on the region's external sector largely due to strong export performance augmented by a contraction in imports. However, the pandemic severity varied across Member States with some achieving current account surpluses of over 10 per cent of GDP whilst on the other hand, others realizing deficits in excess of 10 per cent of GDP. The region's average current account deficit as a ratio of GDP marginally widen from 4.2 per cent in 2019 to 4.7 per cent in 2020. Nine Member States (Angola, DRC, Eswatini, Lesotho, Namibia, South Africa, Tanzania, Zambia and Zimbabwe) met the regional current account balance target in 2020. Member States that are experiencing significant current account deficits are Malawi, Mauritius, Mozambique and Seychelles.

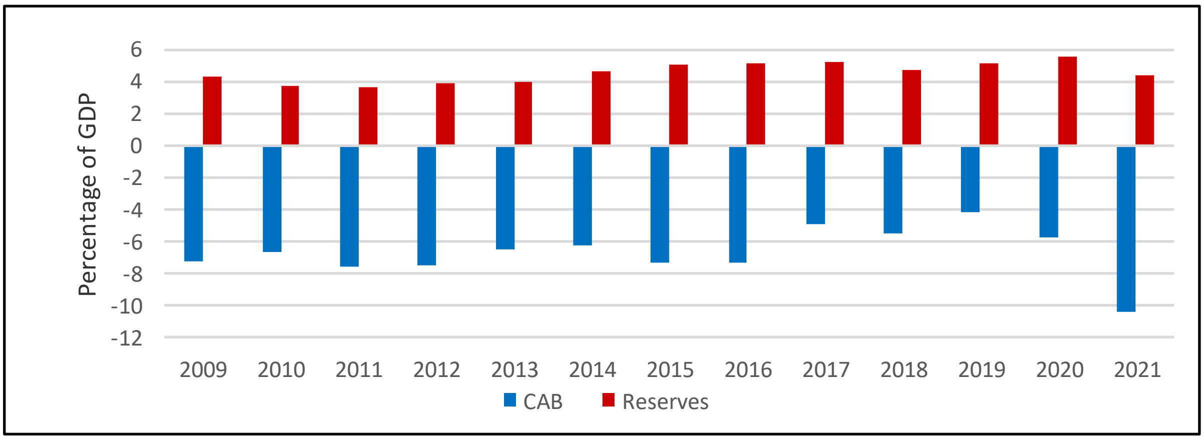
Figure 3d: Imports and Exports Growth



Source: Member States, April 2021 and IMF WEO April 2021.

SADC international reserves increased to 5.9 months of import cover in 2020 from 5.3 month of import cover in 2019 as a result of the subdued demand, therefore a majority of Member States were not able to meet the criterion of 6 months of import cover as the gains made from their exports significantly decreased, with some of them falling short of the IMF benchmark of 3 months of import cover. Only six Member States (Angola, Botswana, Madagascar, Mauritius, Mozambique and South Africa) recorded external reserves above the regional target of 6 months import cover in 2020.

Figure 3e: Current Account Balance and External Reserves



Source: Member States, April 2021 and IMF WEO April 2021.

In terms of the exchange rate, the impact of COVID-19 resulted in exchange rates depreciating at varying magnitudes in the first and second quarters of 2020. The currencies depreciated due to downward revisions of economic growth projections, power supply interruptions and the COVID-19 outbreak which resulted in a massive sell-off of risky assets and capital flows to safe-haven assets such as the US dollar. Throughout 2020, the Angolan kwanza, the Zambian kwacha and the South African rand were the most volatile currencies. The least volatile currencies were the Tanzanian shilling and the Malawian kwacha.

3.7 Overall Performance Macroeconomic Convergence Programme

SADC Member States faced multiple challenges in attaining macroeconomic convergence in 2020. As highlighted in Section I above, a majority of Member States underperformed in achieving the agreed macroeconomic convergence indicators. Only Tanzania met the set targets of the primary Macroeconomic Economic Convergence indicators (Inflation, Fiscal Deficit and Public Debt) in 2020. Four Member States (DRC, Seychelles, Madagascar and Tanzania) met the set targets of the primary indicators in 2019.

Whilst good progress had been made over the years towards meeting the MEC targets, the exceptional impact of COVID-19 has caused an impediment in the convergence process, and resulted in notable divergence from the MEC targets for the region. In view of the diverse economies of SADC region, it was observed that they faced differing challenges in regards to the pandemic, in terms of the extent to which their economies have been impacted. Whilst some Member States seem to have stumbled in terms of performance, others have severely diverged away from the targets. This unprecedented shock derailed the MEC programme, and uncertainty remains high with regards to the recovery path and the outlook as the pandemic is still unfolding. Notwithstanding the significant headwinds, as the effects of the pandemic are expected to linger on for several years to come, there is commitment by Member States to implement recovery plans to get the MEC programme back on track in the shortest possible time.

4. Brief Overview of National economic Performance

4.1 Angola

Angola is expected to remain in recession in 2020 due to the recent plunge in oil prices and the global slowdown resulting from the impact of COVID-19. The Angolan economy is projected to further contract by 3.3 percent from 0.6 percent and 2 percent contractions in 2019 and 2018, respectively. The forecasted economic contraction in 2020 reflects a negative trajectory of the oil and natural gas sector. Travel restrictions instituted globally in response to the COVID-19 pandemic weakened global demand resulting in low oil prices reflecting an oil supply glut. The price war between Saudi Arabia and Russia, further weakened oil prices adversely affecting oil depended economies. Additionally, non-oil sectors that include Diamond Extraction, Metallic Minerals and Other Minerals sector have underperformed as international commodity prices crushed on the back of weak global demand largely due to the pandemic the disrupted the global value chains. Spill over effects from lower oil prices, reduced imported capital goods, tighter financing conditions, currency depreciation, and restrictions in the movements of goods and people will also contribute to economic contraction.

The Angolan economy has experience disinflation between 2016 and 2019 largely due to prudent and coordinated management of monetary and exchange rate policies. The accumulated inflation rate, which in 2016 was around 41.9 per cent, went to 17.06 per cent in 2019. However, in 2020, this trajectory of deceleration of the inflation rate was interrupted, as a result of the adoption of a moderately accommodative monetary policy as well as the pass-through effect of the exchange rate. Resultantly, inflation in project to increase in 2020 to an average of 22.3 percent.

After a prolonged period of accumulation of fiscal deficits between 2014 and 2017, fiscal consolidation measures put in place to promote sustainability of public finances resulted in a change in the trajectory of the fiscal balance, with a surplus balance in 2018 and 2019 of about 2.0 percent and 0.6 percent of GDP, respectively. However, this path of surplus balances is estimated to be interrupted in 2020, with a fiscal deficit of around 1.5 percent of GDP predicted, largely due to COVID-19 related expenditures coupled with a sharp drop in oil and non-oil revenues, in nominal terms, by about 47 per cent and 36 per cent, respectively.

The Angolan Authorities developed the Medium-Term Debt Strategy as an instrument for managing public finances and debt to improve the cost and risk profile of the debt and that support its sustainability. Public debt is expected to remain on an upward trajectory largely underpinned by the worsening fiscal position a result of the contraction of GDP and a greater need for budget financing, influenced by the shock in the price of oil and, consequently, a fall in tax revenues, and the depreciation of the kwanza in the foreign exchange market. Public debt is expected to reach 123 percent of GDP in 2020, up from 113 percent of GDP in 2019 and 91 percent of GDP in 2018.

Considering the new floating exchange rate regime, and taking into account the level of overvaluation in which the national currency was found, combined with the imbalances of the external account, there has been a trend of depreciation of the national currency. The average depreciation of the nominal exchange rate, between June 2019 and June 2020, reached 65.0 percent. The Angolan foreign exchange market is based on the foreign exchange supply and demand mechanism, allowing the exchange rate to float freely until it finds a balance between demand and supply. Additionally, to support the new foreign exchange regime, the limit of foreign exchange positions of commercial was reduced from 5 percent to 2.5 percent with effect from 2 January 2020, so that foreign currency can flow freely between economic agents.

The oil price shock largely due to COVID-19 related weak global demand will result in the deterioration of the current account balance to a projected deficit of 1.3 percent of GDP from surplus in 2019 and 2018 of 6.1 percent of GDP and 6.9 percent of GDP, respectively. Foreign exchange reserves are expected to improve to 8.10 months from 7.71 months in 2019 and 7.41 months in 2018.

Angola continued with economic diversification and improving the business environment (such as institutional reforms, competitiveness, and promotion of public private partnerships); fiscal reforms (broadening of the tax base, strengthening of capacity of tax administration and rationalisation of public expenditure through reforms in the civil service); and financial sector reforms (change in exchange rate regime, establishment of necessary institutions to strengthen the financial sector and ensure financial stability).

Angolan Authorities are implementing several instruments to achieve these goals that include:

(a) National Development Plan (PDN) 2018-2022: It constitutes the medium term planning that establishes the objectives for the promotion of socioeconomic and territorial development, the macroeconomic stability of Angola. The implementation of the 2018-2022 NDP will be based on the materialization of various policies and their respective action programs.

(b) Macroeconomic Stabilization Program (PEM): PEM is a management tool that aims, to restore the stability and sustainability of the country's economy

(c) Extended Fund Facility Program: This program aims to help Angola to restore external and fiscal sustainability and to lay the foundations for sustainable economic diversification led by the private sector. Among the basic pillars of the program are fiscal consolidation, to bring debt to safer levels; greater exchange flexibility, to regain competitiveness; and a monetary policy that supports the reduction of inflation;

(d) Privatization Program (PROPRIV): The Privatization Program (PROPRIV) was approved in August 2019 following the privatization law approval in May 2019. Upto June 2020, around fourteen (14) public companies have been privatized.

PROPRIV continues, with completion scheduled for 2022, and it established a set of guidelines for the privatization process, including eligible companies from the Public Business Sector, the schedule and modality of privatizations and the communication strategy;

(e) Credit Support Program (PAC): This program applies to investment projects that contribute directly or indirectly to the domestic production of essential goods, by enabling access to finance for private investments in the production and marketing chain 54 basic goods and other priority goods of national origin. During the first half of 2020, 46 projects have been submitted to commercial banks;

(f) Integrated Plan for Intervention in Municipalities (PIMM): PIIM focuses on the sectors of social action, agriculture, livestock, water, education, energy, administrative and municipal infrastructure, fisheries, basic sanitation, security and public order and roads of communication; and

(g) Action Plan for Employability Training (PAPE): PAPE is aimed at youth, entrepreneurs (already established and emerging ones) and women, being one of the instruments that aims to respond to the problem of unemployment. It is expected that the program can directly benefit more than 83 thousand young people and indirectly more than 240 thousand young people.

4.2 Botswana

Economic growth in the Botswana is estimated to contract by 7.9 in 2020 from 3 per cent in 2019. This reflects a significant contraction in sectors such as the Mining, Trade Hotels & Restaurant (especially the Tourism subsector), Construction, Manufacturing, as well as Transport sector due to restrictions in movement caused by COVID-19 pandemic.

Inflation averaged 1.9 per cent 2020 down from 2.8 per cent in 2019. The lower inflation reflects the subdued domestic demand resulting from the adverse effects of the containment measures occasioned by the outbreak and subsequent spread of COVID-19; and the modest increase in foreign prices. The low inflation has also been influenced by the impact of changes in administered prices, where the downward adjustment of domestic fuel prices more than offset the increase in electricity tariffs, public transport fares and postal tariffs. Food prices have been on an upward trajectory generally during 2020, reflecting supply constraints occasioned by the travel restrictions.

The COVID-19 pandemic affected the revenue collections against rising expenditures to mitigate the pandemic. Total Revenues and Grants for the period 2019/2020 amounted to P54.3 billion, compared to P53.4 billion that was recorded in

2018/19. Total Expenditure and Net Lending amounted to P65.4 billion against P62.4 billion over the same period in the preceding year. Of the 2019/20 total budget, P51.8 billion was recurrent expenditure, while development expenditure was P13.6 billion. The overall result was a budget deficit of P11.1 billion, which is 5.6 per cent of GDP.

Public debt increased to 18.3 per cent of GDP in 2020 from 17.8 per cent of GDP in 2019. Out of the 2019/20 debt amount, external debt including guarantees amounted to 10.3 per cent of GDP while domestic debt and guarantees to GDP for the same period amounted to 8 per cent.

The current account balance recorded a cumulative deficit of P14.2 billion (equivalent to a deficit of 10.7 per cent of GDP) during the period ending September 2020, compared to a deficit of P8.4 billion over the same period in 2019, mainly reflecting a deficit in the trade balance as exports fell significantly against higher expenditure outlays on imports. The fall in exports was mainly a result of a decline in diamond exports owing to lower global demand for rough diamonds as a result of travel restrictions and lockdowns aimed at mitigating the spread of the COVID-19 pandemic. Exports during the period under review fell by 30.7 per cent, mainly reflecting lower diamond trade. With the roll out of the COVID-19 vaccine unfolding in many countries, a positive change on exports is expected as travel restrictions and lockdown are lifted over time.

Foreign exchange reserves continued to show a downward trajectory, recording negative growth during the period ending December 2020. The reserves declined by 18.1 per cent year-on-year compared to a decline of 8.7 per cent over the same period in 2019. The level of reserves also decreased across all currencies, with the value in Pula terms estimated at P53.4 billion in December 2020, down from P65.2 billion over the same period in 2019. In US dollar and SDR terms, reserves fell to US$4.9 billion and SDR3.4 billion, from US$6.2 billion and SDR4.4 billion, respectively, during the period under review. The reserves in Pula terms during the month of December 2020 were equivalent to about 9.9 months of import cover of goods and services compared to 14 months of import cover in December 2019. The decline in foreign reserves is attributable to payments for imports, Government external obligations and net capital flows, as well as Government's drawing down on its savings to meet increased fiscal spending obligations, which have been brought about by the COVID-19 pandemic.

Bank of Botswana continued to ensure implementation of an exchange rate policy that is in line with the objective of maintaining a stable real effective exchange rate amid the outbreak of COVID-19 in 2020. The Bank adjusted the rate of crawl downward to -1.57 per cent and -2.87 per cent, implemented effective January and May 2020, respectively. Consistent with this, the nominal effective exchange rate of the Pula depreciated by 2.4 per cent over the twelve months period to December 2020. The nominal Pula exchange rate appreciated by 2 per cent against the South African rand and depreciated by 5.8 per cent against the SDR.

The foremost agenda for the Government of Botswana currently, is to finish developing and execute the National Transformation Strategy. The Strategy is aimed at transforming the economy from the middle-income status to a high-income country. This transformation will be realised by revisiting objectives of existing policies, strategies and programmes to align them to the transformation agenda. The aim is to enable creation of sustainable jobs, improvement of education and training, provision of quality health and attraction of local and international investment among others. The overarching goal is to attain an inclusive economy that is characterised by high efficiencies in Government spending and delivery of services, stimulation of private sector participation and change in mind set.

4.3 Democratic Republic of Congo

Economic growth in the DRC has contracted to 1.7 per cent of GDP in 2020 from 4.4 per cent in 2019. This was attributed to subdued economic activities, which severely affected the primary and tertiary sectors resulting in a contraction by 3.1 per cent and 0.1 per cent, respectively.

Average inflation increased from 4.9 per cent in 2019 to 9.0 per cent in 2020. There was a significant buildup in inflationary pressures largely due to supply disruptions and a drop in imports resulting from the movement restrictions put in place to curb the spread of COVID-19.

In 2019, fiscal deficit amounted to CDF592.51 billion or 0.8 per cent of GDP. As at October 2020, a significant deficit of CDF896.53 billion or 0.97 per cent of GDP was recorded. The prudent fiscal policy supported by measures to reduce the external debt has seen public debt remain lower than the SADC threshold of 60 per cent of GDP at 12.3 per cent of GDP in 2020 from 11.0 per cent of GDP in 2019.

The current account deficit slightly narrowed to 2.2 per cent of GDP in 2020 from 3.4 per cent of GDP in 2019. The improvement is explained by the decrease in imports and high mining export volumes. However, foreign reserves remained very low at 0.65 months of import cover in 2020 compared to 1.1 months of import cover in 2019.

DRC will continue to implement policies and reforms to ensure a peaceful social climate in order to prevent disturbances that could negatively affect production. DRC is also implementing policies and reforms aimed at diversifying the economy to reduce dependence on limited number of sectors and increase the resilience of the economy to external shocks. In the fiscal sector, reforms are aimed at strengthening management of public finances by ensuring better governance at the level of public institutions through strict adherence to the Treasury Plan. DRC is also accelerating setting up of tax centres in order to improve collection of tax revenues. The Authorities are also enhancing financial market development by financing fiscal deficits through the issuance of debt securities. In terms of enhancement of financial inclusion in DRC, authorities embarked on financial education initiatives through awareness campaigns at the World Money Week.

4.4 Kingdom of Eswatini

Economic growth has remained far below the macroeconomic convergence targets owing to a number of challenges domestically as well as external shocks including the COVID-19 pandemic. The economy is estimated to have contracted by 2.4 per cent in 2020 from 2.2 per cent in 2019. This was an upward revision from the previous projection, on account of an improved and better than anticipated performance in the second half of the year emanating from the easing of the lockdown restrictions.

In 2020, inflation was within the 3-7 percent MEC target and averaged 3.9 per cent, which was slightly higher than the 2.6 per cent recorded in 2019.This was mainly due to an increase in the costs of food, housing and utilities as well as transport.

The fiscal deficit marginally improved from 6.5 per cent of GDP in 2019 to 6.1 per cent of GDP in 2020. Domestic debt increased to cover the financing gap, resulting in public debt to GDP reaching 39 per cent in 2020 from 33.1 per cent in 2019. Eswatini, received budget support in the form of loans advanced by the Multilateral Institutions resulting in a further increase in debt stock. Despite the unsustainable path in acquisition of debt, the country has been able to keep debt levels within the acceptable target and likely to meet the target in the medium term supported by the implementation of a fiscal adjustment plan.

Eswatini realised a current account surplus which increased from 3.8 per cent of GDP in 2019 to 10.5 per cent of GDP in 2020 despite the trade disruptions caused by COVID-19. On the other hand, foreign reserves as months of import cover, improved from 2.6 months in 2019 to 3.5 months in 2020 partly due to higher SACU receipts during the 2020/21 fiscal year at E8.3 billion compared to E6.3 billion during the 2019/20 fiscal year. The reserves were also boosted by inflows from foreign exchange trades with local banks as well as foreign exchange proceeds from IMF budget support to the government.

Weak economic activity in the domestic economy has resulted in the significant decline of private investment and foreign direct investment inflow. Public investment continued to bolster domestic investment figures. The target is thus not likely to be achieved unless major steps are taken in building up private sector investment by ensuring macroeconomic stability and focus on creating a more investment friendly environment.

In 2019, the country launched the National Financial Inclusion Strategy for Eswatini (NFIS) covering the period 2017 – 2022. This strategy provided the framework for an effective partnership between policy-makers, financial regulators, and financial institutions as well as the mobile network operators to enhance access to financial services for micro and small and medium businesses, and the Eswatini populace at large. For implementation, government and partners established a Centre for Financial Inclusion (CFI), which coordinates all issues of financial inclusion. The state of financial inclusion assessed using the FinScope Survey as per the Eswatini State of Financial Inclusion Report 2019, indicates that the Kingdom of Eswatini is one of the most financially included countries in SADC. Eswatini has realised substantial increase in formal financial inclusion since 2011, reducing adults who are exclusively dependent on informal mechanisms from 13 per cent in 2011 to 2 per cent in 2018. The number of excluded adults has been reduced from 38 per cent in 2011 to 13 per cent in 2018.

On the fiscal side, expenditures will continue to be rationalized and moderated in light of growing fiscal concerns and large budget deficits in the face of falling SACU revenues and the effects of COVID-19 pandemic.

Eswatini continues to implement domestic revenue generating measures to improve its fiscal position and reduce over-reliance on SACU revenues. These measures include legislative reforms aimed at adjusting current fees and levies and introduction of new ones. The Central Bank of Eswatini continued to pursue accommodative monetary policy to support economic growth.

4.5 Kingdom of Lesotho

Economic growth contracted by 5.7 per cent in 2020 from a growth of 2.2 per cent realised in 2019. The growth contraction is reflective of COVID-19 precautionary mitigation measures which have hampered economic activity, coupled with low external demand which has adversely impacted the mining and manufacturing industries.

Inflation averaged 5 per cent in 2020 compared to an average of 5.2 per cent in 2019. The main driver of inflation was a rise in food and non-alcoholic beverages as well as clothing and footwear inflation. The inflation trajectory is expected to follow food price developments, since the food category commands the largest share in the domestic consumer price index (CPI) basket.

The overall fiscal position improved from a deficit of 4.8 per cent of GDP in 2019/20 to a surplus of 0.5 per cent of GDP in 2020/1. The improvement was largely driven by an increase in government revenue, especially a substantial increase of 36.0 per cent in SACU revenue. Also, tax revenue performed above expectations amidst the prevailing economic situation. Moreover, non-tax revenues increased by 32 per cent relative to 2019 as some main sectors like water and mining, continued to operate within the pandemic.

The public sector debt of Lesotho stood at 69.6 per cent of GDP in 2020 compared to 45.2 per cent of GDP in 2019. The stock of public sector debt grew significantly by 24.4 per cent in 2020 following a slight growth observed in 2019. This follows contraction of multilateral and bilateral debt coupled with issuance of domestic debt instruments.

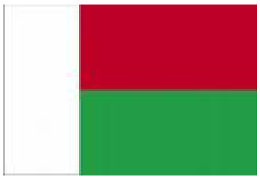
The total loans and advances granted to the private sector contracted sharply during the second quarter of 2020. Overall credit extended to the private sector weakened by 6.1 per cent between end of the second quarter and end of the first quarter of the year. Hence this reversed the 4.5 per cent increase recorded between the first quarter of 2020 and the last quarter of 2019. However, measured year-on-year, private sector credit improved by 2.1 per cent. The contraction in loans and advances extended during the review quarter was evident from both the business enterprises and households. This was amid slowdown in economic activity due to the lockdowns imposed by governments to curtail the spread of COVID-19 global pandemic. The real growth in credit extension fell by 12.4 per cent during the review period, after decreasing slightly by 0.2 per cent in the previous period.

In terms of foreign trade, merchandise imports plunged by 27.6 per cent, following a 1.9 per cent drop in the preceding quarter. Merchandise exports contracted by 55.6 per cent during the second quarter of 2020, following a 3.7 per cent decline in the previous quarter. Exports across most categories were adversely affected by lockdown measures, which slowed production, imposed to curb the Covid-19 pandemic during the quarter under review. Most categories of exports fell sharply, with textiles and clothing as well as diamonds displaying staggering declines of 58.5 per cent and 50.7 per cent, respectively. Diamond exports, in particular plummeted as one of the mines completely ceased its production activities during the review quarter, while exports from other mines were negatively impacted by the unfavourable global demand. On an annual basis, total exports contracted by 55.6 per cent, deteriorating from an 18.2 per cent increase in the prior quarter. Expressed as a share of GDP, exports accounted for 20.1 per cent in the review period, declining from 39.6 per cent of GDP in the quarter ending in March 2020.

Lesotho’s current account deficit narrowed from 4.1 per cent of GDP in 2019 to 2.9 per cent of GDP in 2020. The improvement in the current account balance resulted from a surge in the secondary income account surplus. The combination of higher capital account inflows and the significant improvement in the current account balance enhanced the Central Bank’s ability to accumulate resources, which resulted in higher reserve assets in 2020 compared to the previous year. As a result, gross official reserves rose from 3.9 months of import cover in 2019 to 4.3 months of import cover in 2020.

Government embarked on a number of measures that include: enhancement of budget execution; strengthening of the national statistical framework; enhancing stakeholder consultations; enhancement of debt management and development of a crisis management framework for the banking sector.

4.6 Madagascar



Madagascar was on an upward trajectory before COVID-19, recording growth rates of 3.9 per cent in 2017, 3.2 per cent in 2018 and 4.4 per cent in 2019. In 2020, the economy contracted by 5.7 per cent with all sectors significantly affected by the crisis, especially the extractive sector which contracted by 47.3 per cent, mainly due to the suspension of the activities of the largest mining company in the country. In addition, the other mining companies slowed down their production due to the global recession. Nonetheless, the primary sector has recorded a positive growth of 3.1 percent. As a result, GDP per capita has declined by 6.7 per cent to stand at US$499.4 in 2020.

Inflation slowed down in 2020 at an average of 4.5 per cent compared to 5.6 per cent in 2019. The main factors behind price developments include prudent and proactive monetary policy, contraction of aggregate demand especially during lockdown periods, good climate conditions and weak demand for imports. The weak import demand is related mainly to the contraction of economic activities.

The combined effect of a decrease in revenues and a significant rise in expenditures in response to COVID-19 resulted in a fiscal deficit of 3.4 per cent of GDP in 2020 from a deficit of 1.4 per cent of GDP in 2019. As a result of the deterioration in the fiscal position, public debt increased in 2020 to 32.4 per cent of GDP in 2020 up from 29.2 per cent of GDP in 2019.

After years of realising low current account deficit, Madagascar's current account deficit widened to 5.2 per cent of GDP after export revenues plummeted due to the drop in mining exports, tourism and vanilla's earnings. Despite a significant trade deficit in 2020, Madagascar's foreign reserves in months of import cover improved from 4.2 months in 2019 to 6.0 months resulting from a drop in imports, an influx in foreign financing and an increase in remittances.

The Government of Madagascar is currently implementing some of the recommendations of the Peer Review Panel, such as: strengthening domestic resource mobilization through fighting against corruption and tax evasion; and reducing tax exemptions; increased investment expenditure on basic infrastructure in the transport and energy sectors; promoting financial inclusion through the implementation of the National Financial Inclusion Strategy; implementation of reforms aimed at improving the business climate; and promoting the extension of credit to small and medium-sized enterprises, particularly through the creation of a consultation framework bringing together private sector players and commercial banks; the dematerialization of land titles; and the creation of a register of guarantees.

Madagascar is under a three years Extended Credit Facility (ECF) with the IMF. This programme is expected to sustain economic recovery and help to achieve middle term growth objectives. In line with the ECF programme, the Financial Act for 2021 provides for various economic stimulus to restore a positive growth by 2021, including a massive public and private investment plan to implemented in several sectors.

4.7 Malawi

The COVID-19 pandemic and its containment measures have sharply weakened 2020 domestic growth prospects. Prior to the COVID-19 shock, real GDP growth was projected to rise to 5.5 per cent in 2020 from 5.1 per cent in 2019. As a result of the COVID-19 outbreak, the growth for 2020 was revised to 0.9 per cent which is significantly below the national long-term trend growth, from 5.4 per cent in 2019.

The pandemic has significantly affected most of the sectors of the economy including the manufacturing, tourism and accommodation, transportation, mining and quarrying, wholesale and retail trade, financial services, real estate, and construction sectors. In terms of sectoral contribution to overall GDP, the agriculture sector continued to be the mainstay of Malawi's economy, accounting for about 27.8 per cent of overall GDP, followed by wholesale and retail sector at 15.8 per cent and manufacturing sector at 9.1 per cent in 2020.

Inflationary pressures in Malawi subsided in 2020, with an average headline inflation of 8.6 per cent compared 9.4 per cent registered in 2019. This development was influenced largely by food inflation, which moderated to an average of 13.1 per cent in 2020 from 14.3 per cent in 2019 primarily reflective of improved production of maize during the 2019/20 agricultural season, coupled with subdued industrial demand for maize amidst COVID-19 pandemic. Non-food inflation was broadly stable and slightly slowed down to 4.7 per cent in 2020 from 5.4 per cent in 2019, largely reflecting a stable exchange rate as well as the relative stability in prices of major components of non-food inflation such as electricity, water, and housing.

Malawi fiscal deficit widened from 4.6 per cent of GDP in 2019 to 6.6 per cent of GDP in 2020 largely explained by an increase in COVID-19 related expenditure against low tax revenue due to low economic activity in 2020. The deterioration in fiscal position is reflected in the increase in public debt from 45 per cent of GDP in 2019 to 53.9 per cent of GDP in 2020.

Malawi's current account balance (CAB) worsened by 5.9 per cent to US$1.8 billion in 2020 from US$1.7 billion in 2019. Furthermore, current transfers, including government transfers, workers' remittances and transfers to NGOs, declined, annually, by 13.6 per cent to US$454.2 million in 2020, also reflecting the impact of global economic lockdowns. However, as a percentage of GDP, the CAB improved slightly to a deficit of 12.0 per cent of GDP from 15.1 per cent of the GDP in 2019.

The Malawi Kwacha exchange rate depreciated by 4.7 per cent against the US dollar and traded at K773.11 per dollar as at end December 2020. Pressures on the exchange rate continued to mount, reflecting inadequate supply of foreign exchange, exacerbated by the impact of COVID-19 pandemic in 2020.

Monetary policy will continue focusing on entrenching disinflation, aiming to maintain the inflation rate in single digits while keeping real interest rates positive. Furthermore, the Bank will continue to strengthen its monetary policy communication strategy as a supportive instrument to enhance transparency.

Authorities will continue implementing floating exchange rate regime to cushion shocks and support economic diversification. Furthermore, this would also deepen the interbank forex market and moderate the Central Bank's role to dampening excess volatility and accumulating reserves when needed.

Government will continue implementing fiscal policies that will not only support disinflation and help maintain debt sustainability but also induce inclusive economic growth. Government will continue implementing Public Finance Management (PFM) reforms to improve resource mobilization and contain expenditures.

Government will ensure that borrowing is consistent with the objective of social development and poverty reduction and with overall medium to long-term debt sustainability. Government has developed a comprehensive medium-term debt strategy and will keep updating it.

4.8 Mauritius

The economy of Mauritius contracted by an average of 14.9 per cent in 2020 compared to a growth of 3.0 per cent in 2019 and 3.8 per cent in 2018. COVID-19 resulted in severe disruptions in economic activity in the first half of 2020. Activity was temporarily halted in some sectors while other sectors operated at reduced capacity for a prolonged period.

Headline inflation averaged 2.5 per cent in 2020, in the absence of major exogenous shocks from 0.5 per cent in 2019. External influences on prices were contained, given the decline in global energy prices and subdued inflationary pressures across trading partner countries.

The budget deficit for 2019/20 averaged 11.8 per cent of GDP reflecting the shortfall in revenue and higher expenditure due to the COVID-19 pandemic. Public debt increased to 75 per cent of GDP as at end June 2020 compared to 58.0 per cent as at end June 2019. This was due to the unprecedented fiscal interventions of Government to support businesses and individuals, to save lives and safeguard the livelihood of the population, combined with a contraction in GDP.

Current account deficit averaged 12.7 per cent of GDP in 2020 from 5.4 per cent of GDP in 2019. This is largely explained by the substantial decline in the services account (tourism earnings) and a lower surplus in the income account. However, the reserve assets of the country remained at adequate levels to provide a buffer against headwinds and provided cover for 16.8 months of imports of goods and services as at end-December 2020 compared to 12.3 months as at end-December 2019.

Mauritius is embarking on various strategies and reforms with the view to attract investment, foster private sector-led and inclusive growth. These include incentives for small and medium enterprises (SMEs) growth and job generation; and strategies to reduce the current level of unemployment. Mauritian authorities have set important national goals for themselves, namely: inclusive growth, improving quality of life, innovative and knowledge-based economy and graduation to high income status by 2023.

4.9 Mozambique

Mozambique economic growth projections for 2020 were revised from an initial growth of 2.2 per cent to a contraction of 1.3 per cent due to COVID-19 related economic shocks.

Inflation remained relatively stable averaging 3.1 per cent in 2020 from 2.8 per cent in 2019. COVID-19 induced low oil prices coupled with weak aggregate demand has resulted in muted inflationary pressures.

The fiscal position of Mozambique deteriorated as a result of the COVID-19 shock to Government expenditures and revenues. As a result, fiscal deficit widened to 3.9 per cent of GDP in 2020 from 1.5 per cent of GDP in 2019. Public debt improved in 2020 at 62.7 per cent of GDP down from 79 per cent of GDP in 2019.

The significant importation of capital goods by Mozambique has resulted in the current account deficit worsening. The current account deficit widened to 29.2 per cent of GDP in 2020 from 19.8 per cent of GDP in 2019. The foreign reserves in months of import cover, improved marginally from 7 months in 2019 and 7.2 months in 2020.

Mozambique will continue to prioritize the following measures: expansion of the productive base; facilitation of access to finance by SMEs; improvement of basic infrastructure through public-private partnerships (PPPs); improvement in tax administration; improvement of business environment; improvement and transparency in management of debt and public finance; and financial sector reforms and strengthening.

4.10 Namibia

The Namibian economy contracted by 7.3 per cent in 2020 on the back of global restrictions and weakening prospects in the country's main trading partners, namely, South Africa and Angola. Sectors such as mining, trade, financial services all contracted.

Namibia has progressively met the inflation target over the past years. The decline in commodity prices in 2020 allowed Namibia to record inflation rate of 2.2 per cent, which outperformed the SADC criterion of 3-7 per cent inflation range.

Government expenditure increased in 2020 to reach 41per cent of GDP in part due to the wide range of support measures rolled out by the Namibian authorities to mitigate the effects of COVID-19. As a result, the budget deficit widened in 2020 to stand at 9.5 per cent of GDP.

Government debt without guarantees rose in 2020 to about 55 per cent of GDP. With guarantees factored in, the figure would stand at about 61 per cent. Debt-Sustainability Analysis by the Namibian authorities in late 2020 shows that, barring any correction to the growth rate, debt may be unsustainable in the medium term.

The current account had moved into positive territory in 2020, with a surplus of 2 per centof GDP. This improvement took place as a result of the decline in imports which outweighed the decline in exports during the year. In parallel, the imports coverage ratio improved to above 5 months in 2020.

Credit growth has been steady over recent years and the pace of growth somewhat sloweddown in 2020, amid the sharp deterioration in economic conditions. Measures taken by the authorities were crucial in preventing borrowers' default, thereby ensuring that real sector disruptions do not percolate through to the banking sector. The banking system remains solvent and liquid, despite the headwinds associated with the COVID-19 pandemic.

4.11 Seychelles

The most recent 2020 real GDP growth estimate is -13.5 per cent[1]. In comparison, growth was projected to reach 3.5 per cent in the initial 2020 Budget, and was later revised downwards to -10.8 per cent in the 'Amended Budget' of March 2020.

In terms of inflation, the Consumer Price Index (CPI) reflected a year-on-year inflation rate of 3.8 per cent for 2020. This increase was on account of the depreciation of the exchange rate observed as of the second quarter of 2020 due to the contraction of the tourism industry. Given that Seychelles' imports most of its goods, an increase in average price levels was observed from June 2020, with a notable uptick in December 2020.

The primary balance, as of the release of the 2021 Budget was -19.2 per cent of GDP, equivalent to SR 3.95bn, which is a significant decrease from the surplus recorded in 2019. Revenue and Grants is estimated to have contracted by at least 1.1 per cent of GDP or SR 1.2bn. Estimated collections from almost all tax lines is lower, with the fall in VAT from tourism being particularly steep. However, while revenue contracted, total primary expenditure expanded to SR 11.19bn to cater for various schemes the Government put in place to assist individuals and businesses facing economic hardships.

The Budget deficit meant that Government had to resort to additional borrowings both externally and domestically. At the end of 2020, the total Government and Government guaranteed debt amounted to 96 per cent of GDP. In comparison to 2019, domestic debt has increased SR 2.0bn, or 29 per cent, and external debt increased by SR 3.5bn, or 62 per cent. Seychelles will therefore not meet its debt target of 50 per cent of GDP by 2021, with the date now pushed to beyond 2025.

Given the worsening situation, the Central Bank of Seychelles began using foreign exchange from the country's international reserves to support the domestic market. The Bank assisted the market through the sales of reserves denominated in USD through the Foreign Exchange Auction (FEA) facility, with sales amounting to USD 29.03m. The Bank also aided the market through direct sales of foreign exchange to specific entities for the purchase of essential goods and fuel. By the end of 2020, the preliminary Gross International Reserves (GIR) had contracted by 3.6 per cent compared to 2019.

[1] Budget Strategy and Outlook 2021

4.12 South Africa

Real GDP growth contracted by 7.2 per cent in 2020 compared to a growth of 0.2 per cent in 2019. The effect of the restrictions on economic activity in the second quarter of 2020 was broad-based, with output declining sharply in the primary, secondary and tertiary sectors.

Inflationary pressures were low in South Africa despite an acceleration of headline inflation from a 16-year low of 2.1 per cent in May 2020 to 3.2 per cent in July 2020. However, inflationary pressures receded amid domestic recessionary conditions and a marked decrease in fuel prices in the wake of the COVID-19. As a result, average inflation decelerated from 4.1 per cent in 2019 to 3.3 per cent in 2020.

The South African fiscal position deteriorated mainly on account of shortfalls in tax revenue and higher government expenditures due to the COVID-19 pandemic and debt-service cost related spending. Revenue contracted from R 1 530.5 billion in 2019/20 to an estimated R1 362.7 billion in 2020/21. On the other hand, expenditures increased from R 1 822.3 billion in 2019/20 to R2 052.5 billion in 2020/21. Resultantly, budget deficit widened from 5.7 per cent of GDP in 2019/20 to 14 per cent of GDP in 2020/21.

The public debt evolution reflected fiscal position developments. The government gross loan debt (domestic and foreign) reached R3.95 trillion, or 80.3 per cent of GDP, as at 31 March 2021 up from 63.3 per cent of GDP in 2019. Domestic debt increased by 23.3 per cent year-on-year and accounted for the largest share of total gross loan debt at 90.0 per cent, with foreign debt accounting for the remainder as at 31 March 2021. Debt-service costs stood at R232.9 billion in 2020/21.

The current account balance of South Africa improved from a deficit of 3 per cent of GDP in 2019 to a surplus of 1.7 per cent of GDP in 2020. The surplus largely emanated from trade balance surplus resulting from increase in the value of exports as a result of both volumes and prices. Consequently, foreign reserves as months of import cover, increased to 7.6 months in 2020 from 5.1 months 2019.

The real effective exchange rate (REER) of the Rand decreased by a notable 10.6 per cent from June 2019 to June 2020, reflecting improved competitiveness for domestic producers in foreign markets over this period. This decrease resulted mainly from the sharp depreciation in the exchange value of the rand amid the implementation of lockdown restrictions at the end of March 2020 in response to the COVID-19 pandemic.
Government continues to implement policy measures to rebuild the economy in line with Peer Review mission recommendation and guided by Vision 2030 of the National Development Plan; and the Economic Reconstruction and Recovery Plan that was outlined by President Ramaphosa on 15 October 2020.

4.13 United Republic of Tanzania

The Tanzanian economy grew by 4.8 per cent in 2020 down from 7.0 per cent in 2019 on account of the outbreak of COVID-19.

Headline inflation remained low at an average of 3.3 per cent in 2020 compared to 3.4 per cent recorded in 2019. Food inflation increased to 5.0 per cent from 4.3 per cent recorded in 2019 and core inflation slowed down to an average of 2.3 per cent from 3.0 percent recorded in 2019. The low and stable inflation is on account of stability in exchange rate, stability of power supply, prudent implementation of fiscal and monetary policy and slowdown in fuel prices in the world market.

Fiscal deficit widened marginally from 1.4 per cent of GDP in 2019/20 to 1.6 per cent in 2020/21 and remains within the 3 per cent SADC target. The deficit was financed through foreign and domestic borrowing. In the short to medium term, the deficit is expected to widen (but within the agreed target) as Government continues with major infrastructure financing such as SGR and power infrastructure. The healthy fiscal position, is reflected in the relatively stable public debt which slightly grew from 38.3 per cent of GDP in 2019 to 39.2 per cent of GDP in 2020.

The Debt Sustainability Analysis (DSA) conducted in December 2020 revealed that, the debt is sustainable in the short, medium and long. This implies that, the United Republic of Tanzania has space to borrow for funding development projects while meeting future financial obligations without sharp adjustment to revenue and expenditure. The DSA further revealed that all debt burden indicators are below their thresholds. For instance, the present value of external public debt-to-exports was 113.2 per cent against the internationally recommended threshold of 240 per cent; PV of public debt to GDP 27.9 per cent (against 70 per cent); and external debt service to revenue 13.7 per cent (against 23 per cent). Overall, the public debt is 39.2 per cent of GDP against the SADC recommended threshold of 60 per cent.

Domestic savings as a percentage of GDP averaged 16.8 per cent between 2016 and 2019; and maintained an upward trend from 15.8 per cent of GDP in 2017 to 18 per cent in 2019. On the other hand, domestic investment was 39.7 per cent of GDP in 2019 up from 38.4 per cent in 2018.

Tanzania external sector registered a good performance amid the impacts of COVID-19 worldwide. The current account deficit improved from 2.1 per cent of GDP in 2019/20 to 0.8 per cent of GDP in 2020/21. The current account deficit narrowed to US$ 994.8 million from a deficit of US$ 1,490.9 million recorded in 2019, on account of increase in exports of goods and decrease in imports.

Foreign exchange reserves remained high, amounting to US$ 4,767.7 million at the end of December 2020 compared with US$ 5,567.6 million recorded at the end of December 2019. The reserves were sufficient to cover 5.6 months of projected imports of goods and services. In April 2021 foreign exchange reserves was US$ 4,969.7 million equivalents to 5.8 months of import cover. The import cover is below the SADC benchmark of not less than 6 months but is above the country benchmark of not less than 4 months. Reserves are projected to increase slightly towards the end of June 2021. The projection takes into account expected inflows of foreign exchange which are relatively higher than projected outflows.

Tanzanian Authorities continued to implement policy recommendations proposed by the Eswatini and Mozambique Peer Review Team that include containment of public debt; widening tax base through formalising the informal sector; investment in agriculture infrastructure to enhance productivity; enhance business environment to improve private sector participation; and promotion of public-private partnerships in infrastructure development.

4.14 Zambia

Zambia’s performance against the SADC macroeconomic convergence targets during the review period was mixed. The economy contracted by 3.0 per cent in 2020 compared to a growth of 1.4 per cent recorded in 2019. This was mainly due to significant contractions in the wholesale and retail trade, tourism, and construction sectors, mainly on account of disruptions in supply chains and COVID-19 containment measures.

Annual inflation increased to an average of 15.7 per cent in 2020 from 9.1 per cent in 2019. End-year inflation rose to 19.2 per cent in 2020 from 11.7 per cent in 2019. This was mainly driven by the upward adjustment in energy prices and higher food prices and later the pass-through effects from the depreciation of the Kwacha against the US Dollar and other convertible currencies.

The fiscal deficit rose by 14.4 per cent of GDP against a target of 5.5 per cent in 2019. Net domestic financing was higher than external financing. This was on account of the issuance of a COVID-19 Bond, raising of financing for FISP and fuel arrears clearance. External financing largely came through project financing.

The stock of public debt at end-2020 amounted to US $19.8 billion representing an increase of 2 per cent from the stock of US $19.4 billion recorded at end-2019. External debt stock increased by 9 per cent to US $12.74 billion as at end December 2020 from US$11.65 billion as at end-December 2019. The increase was on account of continued disbursements on existing project loans largely from multilateral institutions and supplier creditors to finance on-going infrastructure projects. The stock of domestic debt contracted through issuance of Government Securities, grew by 62.3 per cent to K130.2 billion as at end-December 2020 from K80.2 billion as at end-December 2019. This increase in domestic debt was largely attributed to the contraction of government securities to finance the 2019/2020 Farmer Input Support Programme (FISP) and liquidating fuel arrears.

During the period under review, the COVID-19 pandemic negatively impacted international trade in terms of both trade volumes and commodity prices. The pandemic also led to the country experiencing disruptions in cross border supply chains given the close trading relations in the region. In view of this, total trade in 2020 declined to US $13,065.8 million from US$14,198.7 million in 2019 reflecting a significant reduction in imports on account of sluggish economic activity, depreciation of the Kwacha and COVID-19 related travel restrictions. Merchandise imports (c.i.f) in 2020 declined by 26.4 per cent to US$5,318.7 million from US$7,224.1 million in fiscal year 2019. Subdued domestic economic activity, depreciation of the Kwacha and supply chain disruptions due to COVID-19 pandemic largely underpinned the decline in imports. Export earnings (f.o.b) at US$7,968.0 million were 11.1 per cent higher compared to US$7,171.0 million realized over the same period in 2019.

The current account balance expanded to US$2,170.2 million (12.2 per cent of GDP) in 2020 from US$140.7 million (0.6 per cent of GDP) in 2019. This was mainly on account of a significant increase in the balance on goods largely attributed to a sharp fall in imports. COVID-19 related disruption to international trade, depreciation of the Kwacha as well as subdued domestic economic activity explained the decline in imports. Export earnings, mainly attributed to copper exports also rose by 17.5 per cent and contributed to the expansion in the current account.

Gross international reserves declined to US$1.2 billion, equivalent to 2.1 months of import cover, at end-2020 from US$1.4 billion, equivalent to 2.3 months of import cover, at end-December 2019. The decline was largely attributed to Government debt service payments. Nonetheless, project receipts (US$ 150.4 million) and net foreign exchange purchases by the central bank in a tone of US$ 132.7 million moderated the decrease in reserves.

Authorities are putting more effort and fast-tracking the implementation of the quick wins in the agriculture and mining sectors (e.g. cashew nuts project, diversification of the mining industry, etc.), to boost growth in the medium to long-term.

Promoting & Enforcing Public Accountability and Performance of State-Owned Enterprises (SOEs): Government is also restraining growth in the wage bill to the projected annual inflation rate, improving commitment controls through full implementation of a Treasury Single Account (TSA) riding on an Integrated Financial Management Information System (IFMIS) in all government ministries, departments and State Owned Enterprises.

The authorities are implementing a National Statistical Framework to strengthen capacity in the National Statistical Office within the Ministry of National Planning and Development. This will support the effective implementation and monitoring of the Seventh National Development Plan.

4.15 Zimbabwe

In 2019 and 2020, poor weather conditions (severe droughts and the 2019 tropical cyclone Idai); reduced commodity prices; and the COVID-19 pandemic in 2020, resulted into a significant downturn in economic activities, leading to contractions of 6.0 per cent in 2019 and 4.1 per cent in 2020. However, in 2021, real GDP growth rate for Zimbabwe is projected at 7.4 per cent on the back of a good agriculture season largely due to favourable weather conditions during the 2020/2021 farming season. Agriculture output is expected to increase by up to 11.3 per cent, propelled by increased maize production whose output is projected to grow by more than 54 per cent. Another major source of growth in 2021 will be the mining sector which is expected to grow by 11 per cent, buoyed by improved commodity prices on the world market. In addition, the operationalization of NDSI and Infrastructure Investment Programme (IIP), public investments worth up to ZWL$139.8 billion are expected to be implemented in 2021. This will increase capital formation in the country thereby potentially putting the economy on a more sustained growth path.

Inflation in Zimbabwe continued to be extremely high with the country registering high inflation in 2019 and 2020. Year-on-year inflation peaked at 837.0 per cent in July 2020 while annual average inflation for the year was 654.9 per cent. The high inflation was due to the sharp depreciation of the newly issued ZWL dollar which was re-introduced in February 2019. Nevertheless, floatation of the exchange rate and the introduction of the foreign exchange auction system in June 2020 has increased efficiency and transparency in the foreign exchange market, stabilizing the exchange rate. This dampened inflationary pressures and put a more positive outlook for inflation. As such, annual inflation is projected to recede to 134.0 per cent in 2021 while end period inflation is expected at lower double-digit figures.

Fiscal reforms implemented under TSP between 2018 and 2020 resulted in a notable improvement in Zimbabwe's fiscal position despite absence of external support. The Zimbabwean authorities managed to reduce employment costs including pension from around 71.1 per cent of revenues in 2018 to around 40.6 per cent of revenues in 2020; recurrent expenditures from 22.3 per cent of GDP to 11.3 per cent of GDP in 2017 and 2020, respectively. Resultantly, budget balance improved from a deficit of 12.9 per cent of GDP in 2017 to 0.5 per cent of GDP in 2020. The improvement in fiscal position has enabled the authorities to significantly reduce domestic borrowing and has therefore put itself on a path towards creating fiscal space for development expenditure. However, Zimbabwe's public debt levels remain high at 81.0 per cent of GDP in 2020 from 67.5 per cent of GDP in 2017, with substantial amount in arrears.

Gross capital formation averaged 9.1 per cent of GDP between 2016 and 2020. This was led by public sector investment which averaged 5.5 per cent of GDP over that period while investment by the private sector averaged 3.7 per cent. The year 2018 had the highest share of investment in GDP at 10.1 per cent. This followed the fiscal expansion that the Government undertook resulting in an increase in the share of public investment in GDP to 6.9 per cent. However, domestic investment as a percentage of GDP remains below the MEC target of 30 per cent.

The economic slowdown resulted in significant decline in disposal incomes. As a result, Zimbabwe managed to save an average of 3.2 per cent of GDP between 2016 and 2020. Following implementation of the TSP, 2019 and 2020 registered improved domestic savings to GDP ratios of 14.6 per cent and 15.3 per cent, respectively. However, this had followed 3 consecutive years of dissaving which averaged minus 4.6 per cent of GDP between 2016 and 2018. The savings rate as a per cent of GDP, falls short of the MEC target of 35 per cent.

The loan quality has remained relatively strong, with the non-performing loans (NPLs) to total loans ratio declining from a peak of 10.8 per cent in December 2015 to 0.4 per cent in September 2020. The efforts made by Zimbabwe Asset Management Company (ZAMCO) of acquiring, restructuring and disposing some of the NPLs explain this trend. Furthermore, the RBZ initiated measures such as the creation of a credit registry which helped to enhance credit risk management by banks.

Following years of economic downturn, Zimbabwe’s external sector position was relatively weak until 2018. The current account balance improved from a deficit of 3.8 per cent in 2016 to current account balance surpluses of 5.0 per cent of GDP and 6.3 per cent of GDP in 2019 and 2020, respectively. The turnaround reflected sharp contraction in imports, strong international commodity prices and notable increases in diaspora remittances. However, international capital flows remain constrained by the continued existence of sanctions. Furthermore, international reserves remain critically low at less than a month of import cover.

5. BUSINESS ENVIRONMENT

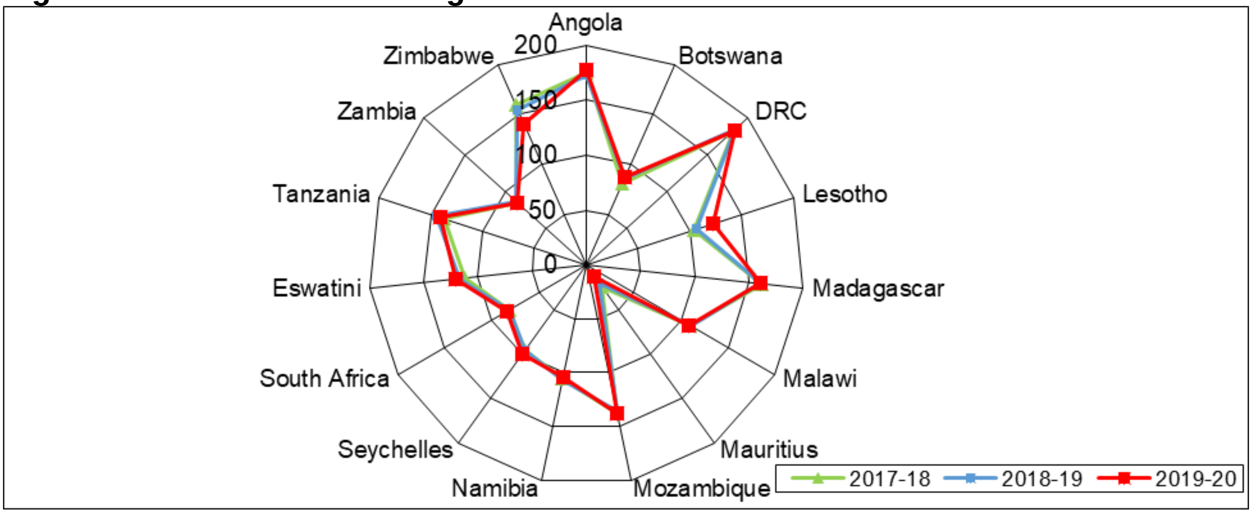
According to UNCTAD World Investment 2020 report the COVID-19 pandemic will severely curtail foreign investment in Africa in 2020, mirroring the global business environment tendency. The downturn will be further exacerbated by the extremely low oil prices, considering the resource-oriented investment profile of the continent. Foreign Direct Investment (FDI) flows are expected to decline between 25 and 40 per cent. Depending on the duration and severity of the global crisis, the longer-term outlook for FDI in Africa could draw some strength from the implementation of the African Continental Free Trade Area Agreement in 2020, including the conclusion of its investment protocol.

The AfDB Southern Africa Economic Outlook 2020 report shows that there has been slow progress in industrialization mainly due to an unfavorable policy environment for industrial development, low public and private sector investment in value chains, supply-side constraints such as volatile power generation capacity and limited energy source diversification into renewable energy. All these factors have undermined the region’s competitiveness and economic growth. For instance, the 2019 Global Competitiveness Index revealed that only four Southern Africa countries were among the top 100 competitive countries. These were Botswana, Mauritius, Namibia and South Africa.

However, the World Bank Ease of Doing Business 2019-20 report indicate that the SADC region improved slightly in terms of having a conducive business environment and its competitiveness in general. Seven Member States showed improvements in the ease of doing business ranking, namely: DRC, Malawi, Mauritius, Namibia, Tanzania, Zambia and Zimbabwe, compared to the six recorded in 2018. Two Member States (Mauritius and Zimbabwe) demonstrated exceptional improvements by moving up more than 3 positions from 20 in 2018 to 13 in 2019 and 155 in 2018 to 140 in 2019, respectively.

Performance with regard to ease of doing business indicate that Angola, Botswana, Eswatini, Lesotho, Mozambique, Seychelles, and South Africa slightly plummeted in their ranking positions in 2019 compared to 2018 performance. In 2019, four SADC Member States (Botswana, Mauritius, South Africa and Zambia) were ranked within the first 100 bracket.

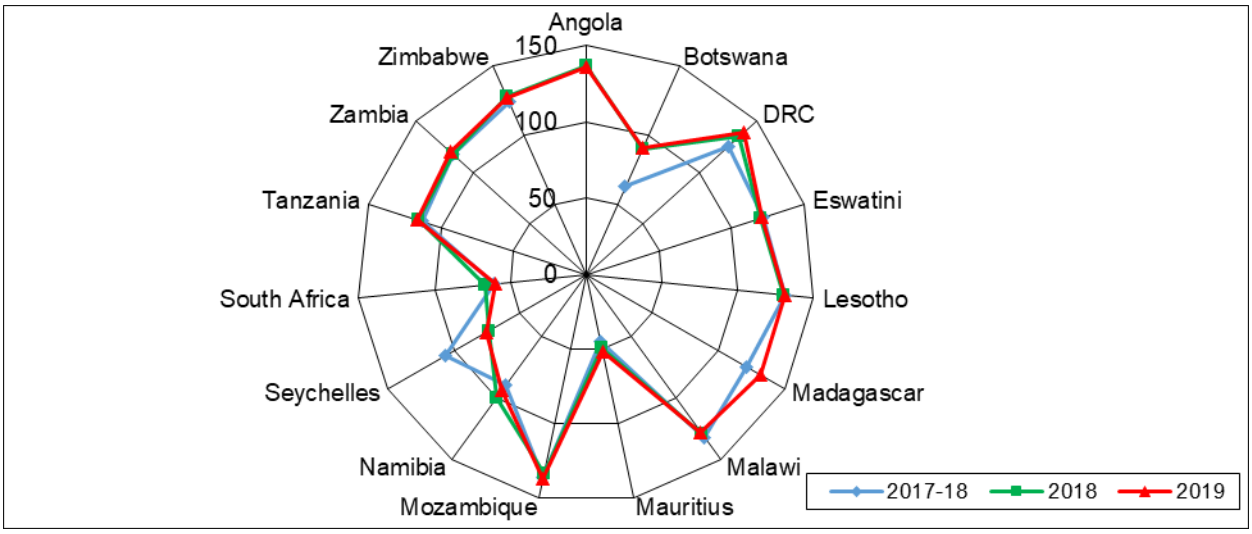
Figure 5a: Rank Ease of Doing Business



Source: World Bank Ease of Doing Business, 2019-20.

The tendency with regards to improving the business environment shows a similar behavior if one considers the World Economic Forum Global Competitiveness Index (GCI) 2019-20. The GCI measures the competitiveness of an economy by considering all factors from basic factors that enable it to be competitive to factors that make it efficient and innovative.

Fig 5b: Ranking – Global Competitiveness Index



Source: WEF Global Competitiveness Index, 2018-19.

In 2019, five Member States improved in the GCI ranking, namely: Angola, Malawi, Namibia, South Africa, and Zimbabwe. Two Member States (Namibia and South Africa) demonstrated exceptional improvements by moving up six and seven positions from 100 to 94 and 67 to 60 respectively. The other ten Member States (Botswana, DRC, Eswatini, Lesotho, Madagascar, Mauritius, Mozambique, Seychelles, Tanzania and Zambia) deteriorated their score.

In 2019, Mauritius, South Africa, Botswana Seychelles remained the most competitive and top ranked Member States in the region, similar to 2018.

6. Financial Sector Deepening in the context of Financial Inclusion

The region continued to support activities in the area of financial inclusion and significant developments have been made by Member States in 2020: 68% of adults in the region are financially included against the target of 75% by 2021. In terms of gender split, 67% of female adults are financially included while the rate is 70% for male. As per the decision of the Ministers of Finance and Investment at their meeting in Namibia in July 2019, the SADC Financial Inclusion Subcommittee was operationalised.

SADC continues to implement a number of initiatives which will further reduce the average cost of cross-border remittances in the SADC region to below the G20 target of 5%. Among others, given the success of the Shoprite remittance product to Lesotho, a same approach was launched in Eswatini in January 2020. This new bank-retailer product aims to serve low value remitters in the South Africa – Eswatini corridor and costs less than 3% on a price point of US$55. New products have also been introduced between South Africa and Malawi, Zambia, DRC and Zimbabwe. In addition, due to travel restrictions and closure of borders caused by COVID-19 pandemic, the informal remittances providers were negatively affected and therefore an increase of 31,4% in the usage of formal cross-border remittances was noted: the total number of transactions (South Africa outbound) was estimated at 851,441 in June 2020 against 648,110 in June 2019.

Furthermore, following further guidance from the Ministers of Finance and Investment at their meeting in July 2019, three Members States, namely: Eswatini, Lesotho and Malawi have been assisted with regard to the domestication of the SADC Mobile Money Guidelines. Malawi has started paying interest on mobile money wallets.

In the area of payments system, as of March 2021, a total of 82 participating Banks, from the fifteen (15) SADC Member States (except Comoros), were electronically linked to effect cross-border payments and settlements in real time. From July 2013 to March 2021, the total number of transactions settled was 2,080,724, representing ZAR 8.15 Trillion equivalent of USD 549.12 billion.

7. PROSPECTS FOR 2021 AND THE MEDIUM-TERM, RISK AND RECOMMENDATIONS

7.1 Prospects for 2021 and Medium-Term

The region is forecasted to grow by 4.2 per cent in 2021 and 3.2 percent in 2022. The forecasted economic recovery in 2021 and beyond largely hinged on vaccine rollouts which will allow for the opening up of economies. However, limited resources, vaccine supply bottlenecks and logistical impediments are expected to delay vaccine distribution coupled with risks that include emergence of more contagious strains of the virus, social-distancing fatigue and vaccine hesitancy which can slow down vaccination programmes in the region. This can undermine economic recovery and ultimately dampen the growth prospects for the region.

Annual inflation rate in the SADC region is projected to ease to 15.4 per cent in 2021 on the back of significant disinflation in Zimbabwe to an average inflation of 134.8 per cent in 2021 from 654.9 per cent in 2020. Inflation is expected to increase above the regional benchmark for Angola, DRC, Malawi, Zambia and Zimbabwe.

The debt burden is expected to worsen for SADC Member States with public debt forecasted to further increase to 66.2 per cent of GDP in 2021. Member States' expenditure continued on an upward trend as Member States invested heavily in the public health system to mitigate human and economic impact of the coronavirus. This will result in a mismatch of expenditures and revenues which will further widen the fiscal deficit and worsen Member States' debt position. Only six Member States (Botswana, DRC, Eswatini, Madagascar, Malawi and Tanzania) are projected to achieve the 60 percent of GDP regional set target for the public debt in 2021.

Overall, Member States are projected to underperform in achieving the agreed macroeconomic convergence indicators in 2021. Similar to 2020, only the United Republic of Tanzania is projected to meet the set targets of the Primary Macroeconomic Indicators (Inflation, Fiscal Deficit and Public Debt) in 2021.

7.2 Risk

After contracting steeply last year, growth in the region is forecast to resume at only a modest pace in 2021-22, with particularly sluggish recoveries in private consumption and investment. The pandemic is expected to leave lasting scars on already slowing potential growth. Falling per capita incomes mean that living standards have been set back by a decade or more in SADC economies.

Policymakers aiming to rekindle their economies now have fewer resources at their disposal and will likely face some difficult choices. On current trends, significant financing gaps are likely to prevail, and without significant additional financial assistance, many countries will struggle to simply maintain macroeconomic stability while also meeting the basic needs of their populations.

The region will likely face additional hurdles in the distribution of pandemic vaccines which could further dampen the recovery. Persistently wide budget deficits and growing interest burdens could raise debt sustainability concerns in some economies Despite upward revisions to the projected pace of recovery in China, growth in major economies and key trading partners of the region could still disappoint. A weaker-than anticipated recovery in SADC region could be the result of lingering adverse effects of the pandemic, or the delayed distribution of effective vaccines, especially if combined with a marked uptick in new domestic cases. Moreover, new waves of infections would slow growth in non-regional trading partners, which would dampen the projected growth pickup in SADC through lower export demand, particularly, for tourism and reduced investment.

Although there has been substantial progress in COVID-19 vaccine development, wide scale vaccine distribution in the SADC region is likely to face many hurdles. These include poor transport infrastructure and distribution systems, weak health system capacity to implement largescale vaccination programs, and outdated or insufficient cold storage systems to preserve vaccines.

The banking industry may still face an increases in nonperforming loans as companies struggle to service their debt due to falling revenues. The risk is substantial if the unprecedented fiscal and monetary support undertaken by several countries is prematurely withdrawn.

The pandemic may also have worse-than-expected longer-term effects on regional growth. These could emanate from the effects of higher debt loads on investment, the impact of lockdowns, the impact of the second and third wave, and constrained fiscal space.

7.3 Recommendations

The following recommendation are important for the short to medium-term in the region:

- Sound debt management and transparency remains important in the short to medium term to avoid overburdening the future generations. This include keeping borrowing costs in check is important for the restoration of debt sustainability and management of fiscal risks.
- While support from international corporation has gone a long way in keeping SADC Member States afloat by providing some breathing room for financially

strained economies during the first wave of COVID-19, some countries are still struggling to pay their sovereign debts.

- Fiscal and monetary support for banking industry which are still grappling with nonperforming loans increases as companies struggle to service their debt due to falling revenues should not be is withdrawn prematurely.
- Bolstered investments in broadband infrastructure could help Member States leverage digital technologies.
- Member States are encouraged to ensure that healthcare systems are adequately resourced, including funding vaccine purchases and distribution as well as continuing investment in testing, therapies, and personal protective equipment.
- Member States are urged to continue with fiscal and monetary policy measures till the economic recovery is firmly underway.

Annex1: SADC – Primary Macroeconomic Convergence Indicators and GDP (2016 – 2021)

	2016				2017 (Revised)				2018 (Revised)				2019 (Revised)				2020 (Provisional)				2021 (Projections)			
	Inflation (3-7%)	Fiscal Deficit (3% of GDP)	Public Debt (60% of GDP)	Real GDP (7%)	Inflation (3-7%)	Fiscal Deficit (3% of GDP)	Public Debt (60% of GDP)	Real GDP (7%)	Inflation (3-7%)	Fiscal Deficit (3% of GDP)	Public Debt (60% of GDP)	Real GDP (7%)	Inflation (3-7%)	Fiscal Deficit (3% of GDP)	Public Debt (60% of GDP)	Real GDP (7%)	Inflation (3-7%)	Fiscal Deficit (3% of GDP)	Public Debt (60% of GDP)	Real GDP (7%)	Inflation (3-7%)	Fiscal Deficit (3% of GDP)	Public Debt (60% of GDP)	Real GDP (7%)
Angola	30.4	-3.8	76.6	-2.6	30.4	-2.9	66.0	-0.1	19.7	2.0	91.0	-2.0	17.1	0.6	113.0	-0.6	22.2	-1.5	129.0	-5.2	22.5	2.6	100.0	0.9
Botswana	2.8	0.6	21.1	4.3	3.3	-1.1	18.1	2.9	3.2	-4.6	17.9	4.5	2.8	-3.9	17.6	3.0	1.9	-5.6	18.3	-7.9	5.6	-8.2	21.5	8.8
DRC	3.2	-0.5	17.6	2.4	39.2	0.0	18.1	3.7	31.0	-0.4	11.0	5.8	4.9	0.0	11.0	4.4	9.0	-1.2	12.3	1.7	8.6	-0.3	13.4	3.8
Eswatini	7.8	-8.6	19.2	1.1	6.3	-6.0	21.1	2.0	4.8	-6.9	29.5	2.4	2.6	-6.2	36.0	2.2	3.9	-8.1	36.8	-2.4	4.3	-8.1	36.3	2.7
Lesotho	6.6	-8.7	35.4	3.6	5.3	-2.1	36.0	-3.2	4.1	-4.1	42.4	-1.2	5.2	-4.8	45.2	2.2	5.0	0.5	69.6	-5.6	5.2	-9.5	68.5	4.5
Madagascar	6.7	-1.7	35.2	4.0	8.6	-2.0	34.9	3.9	8.6	-2.2	30.3	3.2	5.6	-1.3	28.8	4.4	4.5	-2.9	36.2	-4.2	5.4	-6.6	39.8	3.2
Malawi	21.6	-2.8	57.8	2.7	11.5	-2.8	43.3	5.2	9.2	-4.4	45.7	4.4	9.4	-4.6	45.0	5.4	8.6	-6.6	53.8	0.9	8.4	-8.4	49.6	3.8
Mauritius	1.0	-3.5	59.3	3.8	3.7	-3.5	59.0	3.8	3.2	-2.9	57.0	3.8	0.5	-3.2	58.0	3.0	2.5	-11.8	75.0	-14.9	3.0	-5.6	85.9	5.4
Mozambique	19.9	-5.5	111.5	3.3	15.1	-3.4	82.0	3.7	3.9	-7.8	86.0	3.4	2.8	-1.5	79.0	2.2	3.1	-3.9	62.7	-1.3	5.6	-5.3	123.5	2.3
Namibia	6.7	-8.3	39.9	0.0	6.2	-7.1	42.8	-1.0	4.3	-5.1	48.3	1.1	3.7	-5.0	56.1	-0.6	2.2	-9.5	62.4	-8.0	3.2	-8.7	65.8	2.7
Seychelles	-1.0	-0.3	73.0	4.6	2.9	0.0	66.0	4.4	3.1	3.0	62.0	4.1	1.7	2.6	59.0	3.5	3.8	-19.2	96.0	-13.5	2.9	-6.0	85.0	4.6
South Africa	6.3	-3.9	50.5	0.4	5.3	-4.1	53.0	1.4	4.6	-4.0	56.6	0.8	4.1	-5.7	63.3	0.2	3.3	-14.0	80.3	-7.2	3.9	-9.3	81.9	3.3
Tanzania	5.2	-2.6	40.0	6.9	5.3	-0.3	41.0	6.8	3.5	-1.7	41.3	7.0	3.4	-2.5	39.9	7.0	3.3	-2.0	39.1	4.8	3.5	2.6	39.2	5.7
Zambia	18.2	-5.8	46.7	3.8	6.6	-6.1	53.8	3.4	7.9	-7.0	58.0	3.5	11.7	-9.1	75.5	1.4	15.7	-14.4	118.3	-3.0	13.3	-9.0	119.6	1.6
Zimbabwe	-1.6	-6.8	54.1	0.8	0.9	-9.4	67.5	4.7	10.6	-6.0	46.9	5.5	173.3	0.3	88.1	-6.0	654.9	-0.5	78.4	-4.1	134.8	-1.3	64.5	7.4
SADC AVERAGE	**8.9**	**-4.1**	**49.2**	**2.6**	**10.0**	**-3.4**	**46.8**	**2.8**	**8.1**	**-3.5**	**48.3**	**3.1**	**16.6**	**-3.0**	**54.4**	**2.1**	**49.6**	**-6.7**	**64.5**	**-4.7**	**15.4**	**-5.4**	**66.3**	**4.0**
NO. ACHIEVING TARGET	**10**	**6**	**12**	**0**	**10**	**8**	**11**	**0**	**9**	**6**	**12**	**1**	**11**	**7**	**10**	**1**	**10**	**6**	**6**	**0**	**10**	**4**	**6**	**3**

Source: Member States; WEO Database April 2021; and African Economic Outlook 2021
GDP 2016-19 SADC Statistics Committee June 2020