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Macroeconomic Convergence in East,
Central and Southern Africa, 1980-2007

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I. Introduction

This paper analyses the economic performance of the thirteen countries generally defined as comprising East, Central and Southern Africa (Kenya, Tanzania, Uganda, Burundi, Malawi, Rwanda, Zambia, Zimbabwe, Mozambique, Botswana, Lesotho, Swaziland and South Africa). The purpose of the paper is to inspect the extent to which these countries show convergence in their macroeconomic variables, and whether the relatively strong growth performances in the 2000s might be sustained.

The paper presents an analytical framework, then provides empirical evidence on macroeconomic outcome and policy convergence, highlight pertinent international experiences and summarize the debate on the cons and pros of macroeconomic convergence. It uses country-level data, covering members of the main regional economic communities in Eastern, Central and Southern Africa (the Southern African Development Community, SADC, the Common Market for Eastern and Southern Africa, COMESA, and the East African Community, EAC) to assess macroeconomic convergence in the sub-regions. In addition to examining the trends and constraints to macroeconomic convergence, the study reviews policies affecting macroeconomic convergence in Eastern and Southern Africa.

Section II of the paper presents the analytical framework, which specifies the link between policy and outcomes, developed within the standard national accounting framework, following the lead of Geda's seminal paper (Geda 2001). A central conclusion is that factors beyond the control of policymakers are so great that they create substantial indeterminacy between policy instruments and outcomes. The third section considers the empirical evidence, which shows mixed results with regard to outcome convergence, as well as raising questions with regard to the sustainability of the relatively

strong regional growth in the 2000s. The final section reviews policy measures for sustained growth and poverty reduction (pro-poor growth).

Policy harmonisation, defined as the implementation of cross-country rules and practice on policy goals and instruments, is not considered in this paper, because it requires a detailed review of institutional arrangements among the countries. For the purpose of the present study, macroeconomic convergence refers to outcomes, the manifestation of policy and non-policy factors in macroeconomic variables.

II. Analytical Framework

In his study on fiscal policy harmonisation for the ECA, Geda notes that from the early 1980s the spread of stabilisation and structural adjustment programmes in the sub-Saharan region resulted in similar macro policies by governments:

The adoption of Structural Adjustment Programs (SAPs) starting in mid 1980s in almost all African countries has led to openly adopting a liberalization (open economy) policy. The identical nature of policy instruments prescribed by International Financial Institutions across countries in the continent implies a *de facto* macro policy harmonization, at least at the level of intent. (Geda 2001, 4)

Implicit in the quotation are the ambiguities associated with both the concept and practice of policy convergence, and for policy harmonisation. The convergence of trade regimes across countries is perhaps the easiest to assess empirically, on the basis of numerical measures of tariff rates, coverage of quotas, and related indicators. Much more difficult to assess is the convergence of fiscal, monetary and exchange rate policies, because apparently similar policies can be quite different in their practical implementation, as we shall see.

To organise the analysis of outcome convergence we begin with the national income identity where C is private consumption, I is private investment, G is total government expenditure, X is exports, N is imports, and T is total public revenue.

$$Y = C + I + G + (X - N)$$

$$C = a(Y - T)$$

$$N = b(Y - T) - cE$$

$$T = tY$$

$$I = I_0 - fR$$

$$X = X_0 + hE$$

$$Y = a(1 - t)Y$$

$$Y = a(1 - t)Y + (I_0 - fR) + G + (X_0 + gE) - [b(1 - t)Y - cE]$$

$$Y = [(I_0 - fR) + G + X_0 + E(h - c)]/[1 - (a - b)(1 - t)]$$

Where $q = 1/[1 - (a - b)(1 - t)]$ is the multiplier and the policy variables are:

G = government expenditure

t = marginal tax rate

R = central bank rate, assumed to equal the market interest rate

E = nominal exchange rate

Holding the tax rate constant in order to avoid a quadratic equation and assuming the parameters I_0 and X_0 constant, the rate of growth of GDP is:¹

$$(1) \quad y = q[\delta_G g - \varepsilon_{I,R} \delta_I r + (\varepsilon_{X,E} - \delta_T \varepsilon_{N,E})be] + v$$

The lower case letters y, r and e are the proportional rates of change of GDP, the central bank rate and the nominal exchange rate. The Greek letters ε are elasticities, with the relevant variables noted in subscripts. The Greek letter δ_G is the initial ratio of government expenditure to GDP, δ_I the ratio of investment to GDP, and δ_T the ratio of imports to exports. Since the marginal propensity to import is equal to the average, $N/Y = b$. The change in government expenditure takes a positive sign, as does the exchange rate because $\varepsilon_{N,E}$ is negative. The interest rate impact is always negative, by raising the cost of investment. On the assumption that the multiplier and the parameters within the brackets are stable, the symbol v incorporates all non-policy factors, such as changes in international prices, weather-related shocks and policy changes in other countries.

If we assume that an economy has a stable structure of behavioural relationships, differences in growth rates among the thirteen countries covered by this study can be organised into three broad categories, changes in policy instruments (G, R and E),

¹ The algebra is simple, albeit tedious: first, take the total differential of Y and divide through by Y to obtain $y = \Delta Y/Y$ on the left hand side; second, multiply each term in the right by unity in the form of the variable itself (G/G, R/R and E/E); and third, multiply the parameter f by I/I, the parameter h by X/X and the parameter b by N/N.

changes in the behavioural parameters of the economy, and exogenous effects, where the word ‘exogenous’ does not refer to the domestic-international dichotomy, but to within and without the parameter structure of the economy.

Taking these in reverse order, exogenous effects have a major impact on the growth rates of sub-Saharan economies, with the most important being the growth rates of the developed countries (and, increasingly, China), prices of primary products (related to the previous), weather conditions, and capital flows (including development assistance). The importance of such influences is indirectly indicated by the rather low explanatory power of cross-country regressions for African countries whose principle arguments are domestic variables (for a review of several studies see Ndulu 2007). If one takes growth residuals as an indicator of exogenous effects, they may account for up to half of annual variations. A strong factor in improved growth performance of the countries covered in this study was the increase in primary product prices in the 2000s, both for agricultural and mineral commodities. For the countries that are overwhelmingly agricultural, weather conditions were key, though no one has produced a rigorous method of estimating the impact by country. Some exogenous effects have a similar impact across countries and, therefore, would tend *ceterius paribus* to make growth rates converge.

However, differences in behavioural relationships mean that changes in exogenous variables, such as international prices and weather, are transmitted to each country to a different degree. An obvious example is the level of development of capital markets. In South Africa turbulence in international money markets have a direct and rapid impact on the national economy; in countries with underdeveloped capital markets the impact would be indirect and weak in the short term. Perhaps the most important of behavioural relationships for growth are the elasticity of export production with respect to international prices and exchange rates, and the elasticity of investment with respect to capital cost, including interest rates. Even without rigorously-generated evidence on these elasticities, of which there is little, one can conclude that export elasticities would tend to be low in the short term for agricultural products (see Weeks *et. al.* 2007). Therefore, it is reasonable to presume that $\epsilon_{X,E}$ in the equation above would vary substantially across the thirteen countries. The import elasticity, $\epsilon_{N,E}$, would be

determined primarily by the extent to which there are domestic substitutes. As a result of trade liberalisation policies in all of the thirteen countries domestic production of manufactures declined in the 1990s, with limited recovery in the 2000s. As a result the import elasticities with respect to the exchange rate would tend to be similar, quite low, across countries, except for South Africa and perhaps Kenya.

One can also be confident that the elasticity of investment with respect to interest rates would be low in all countries except South Africa. This is because of the underdevelopment of capital markets, the structure of commercial bank assets,² and the tendency of international companies to finance investment from abroad where interest rates would be lower almost without exception. Similarly, the interest rate in most of the thirteen countries plays only a weak role in attracting capital flows, due to a lack of financial intermediation. Again, South Africa could be the exception.

With regard to policy instruments, there is some potential for these to be used to generate similar growth rates across countries. It is unfortunate that official similarities in fiscal policy, an emphasis on low deficits, would result in convergence toward rates below the growth potential of the countries. This issue is considered in the next section. Policy convergence on the role of the central bank rate has also had a growth depressing effect, though the mechanism is complicated. While national money markets are not the primary source of investment by international companies, they are important for domestic enterprises. The extensive use of the central bank rate for inflation control in the region tended to distort rates above their market determined level in the 1990s and 2000s, which we demonstrate below. This discourages investment by domestic enterprises, as well as to raise the fiscal cost of the domestic debt.

We have to this point assumed that the three policy instruments in equation 1 can be treated as independent, which is not the case. A change in the exchange rate, either through some market process or being set by the central bank, has a direct impact on the domestic price level. For example, a nominal devaluation of ten percent in an economy with an import share of forty percent of GDP, the average for the thirteen countries in the 2000s, will tend to raise the domestic price level by four percent. This increase in the

² Commercial banks in all the thirteen countries except South Africa hold a large part of their income generating assets in government bonds. See Weeks, et. al. (2006).

price level, in addition to reducing the real devaluation, will have a contractionary effect through a lower the real money supply. It would also tend to reduce the real purchasing power of government expenditure, though this would be partly offset by the increase in the domestic currency value of foreign currency revenues of the government, from trade taxes, development assistance, and non-concessionary borrowing in international money markets.

The price level effect of devaluation leads the analysis into consideration of the effectiveness of monetary supply management as an instrument of policy. Differences among countries imply that similar monetary policies would not necessarily result in outcome convergence. This can be demonstrated by placing the discussion in the context of the current macro orthodoxy that favours flexible or ‘floating’ exchange rates. The standard textbook analysis concludes that with a flexible exchange rate, money policy, specifically central bank adjustments of the money supply, is effective in managing the level of output and fiscal policy is not. This, the well-known conclusion of the Mundell-Fleming model, is used to justify an active monetary policy and passive fiscal exchange rate policies.

However, this conclusion assumes that changes in the exchange rate have no impact on the domestic price level, which is contrary to theory and reality. If we define the symbol $\epsilon_{y,m}$ as the elasticity of output (GDP) with respect to changes in the money supply, algebraic manipulation of the balance of payments identity shows it to be the following:³

1. Perfectly elastic capital flows

$$(2) \quad \epsilon_{y,m} = \epsilon_T [1 - a_3] / [a_3 + \epsilon_T]$$

2. Imperfectly elastic capital flows:

$$(3) \quad \epsilon_{y,m} = \epsilon_T^* [(1 - a_3) / (a_3 + \epsilon_T^*)] [R_w / R_d]$$

Where

³ The algebra is demonstrated in detail in Weeks 2008. It involves algebraic manipulations such as those described for equation 1.

ϵ_T = sum of the elasticities of exports and imports with respect to the real exchange rate (with the Marshall Lerner condition requiring it be greater than zero);⁴

ϵ_T^* = sum of the elasticities of exports and imports with respect to the real exchange rate when exports and imports are not equal;

a_3 = import share, N/Y ;

R_w = the 'world rate of interest (e.g., London inter-bank rate); and

R_d = domestic rate of interest.

In the case of perfectly elastic capital flows there can be no difference between the international and domestic rate of interest and the domestic rate. While this case is hardly relevant for the countries under review, it is analytically useful because it yields the highest possible value for the effectiveness of monetary policy. Assume a sum of trade elasticities of unity, extremely high for the short run (because $R_w = R_d$). For the value import share across the 13 countries of 42.7 percent, the implied effectiveness of monetary policy in managing the level of output is forty percent. For the nine low income countries with their lower import share of one-third, effectiveness is fifty percent. Were the sum of the trade elasticities a more realistic .5, the effectiveness would fall to eight percent and twenty percent, respectively. If $R_w > R_d$, as is the case for all thirteen countries, the effectiveness of monetary policy is even less, approaching zero. These calculations imply that for countries with high import shares and low trade elasticities, fiscal policy is more effective than monetary policy when the exchange rate regime is flexible.⁵

It follows from this discussion is that if a government chooses to rely on an active monetary policy with fiscal and exchange rate policies passive, its ability to manage the economy would be extremely limited. In consequence, any outcome convergence or divergence would be the result of non-policy influence. On the basis of the discussion in this section, several conclusions can be drawn:

⁴ In the more familiar case of the nominal exchange rate the condition is that ϵ_T be equal to or greater than unity.

⁵ The effectiveness of fiscal policy is $\epsilon_{y,m} - 1$ (Weeks 2008).

1. There is a substantial non-policy element in the determination of all macroeconomic variables in the countries covered by this study, with GDP growth being but an example.
2. Relying on an active monetary policy ensures that governments have little control over macro outcomes.
3. Within an orthodox macro framework, policy convergence in the sense of similar practice of use of policy instruments across countries will not necessarily foster outcome convergence.

With these points made, the study turns to empirical trends in macro variables during 1980-2007. These trends indicate the extent to which further regional integration might be feasible, and, more important for the medium term, whether the improved growth performances across countries during the 2000s might be sustained.

III. Empirical Trends

III.1 Introduction

Macroeconomic stability is one of the goals of fiscal and monetary policy. The term is sometimes used without a clear indication of its operational meaning, and its relationship to poverty reduction rarely specified rigorously. For policy purposes, the term almost always refers to lowering inflation and maintaining a sustainable balance of payments. The exact level of inflation and condition of the balance of payments that constitutes 'stability' should be established in the context of each country. Stability is but one of several goals of macroeconomic policy. Its practice derives from the government's management of inflation and the balance of payments. In the orthodox macro framework macroeconomic stability is a necessary and *prior* condition for all other policy goals. Whether this is a rational policy approach depends upon the operating definition of macroeconomic stability, and in all countries is an empirical issue. As Dornbusch (1991) famously stated, stability is not a ticket to prosperity.

An economy is unstable at the macroeconomic (aggregate) level if key *economic aggregates fluctuate excessively* over time. To be operational, this definition requires the identification of the aggregates that signal the need for a policy response, and a definition

of excessive fluctuations, because market economies are dynamic and in continual flux to some degree. Fluctuations can be judged as excessive on the basis of two general rules: 1) when they immediately undermine the achievement of outcomes that are policy goals of the government; or 2) inherent in them is the tendency to increase in amplitude which will undermine those outcomes at some future time. Fluctuations in variables that have no impact on desired outcomes, even if they are extreme by some reasonable judgement, are of no policy importance. The key variables to monitor to maintain macroeconomic stability are domestic inflation, the exchange rate, investment (public and private), current government expenditure on economic and social services, and exports, since they each affect both growth and distribution, and growth on both the demand and supply sides.

In as far as macro instability impacts on growth and poverty reduction, its specification in terms of the rate of inflation will vary across the thirteen countries under review. As is argued below, there is no theoretical or empirical support for a policy to target the same inflation rate in each country. Instead, policy makers can make macroeconomic stability derivative from growth and poverty goals rather than the reverse. Another way to put this is if stabilisation is defined with respect to the inflation result, there are desirable and undesirable stabilisation outcomes. Low inflation associated with low growth may be defined as a stabilised economy by some, but it is an unacceptable outcome that requires policy intervention to correct.

III.2 Growth and Poverty

The primary goal of government should be to foster rapid, sustained economic growth which achieves the maximum feasible rate of poverty reduction. The qualifier 'maximum feasible' is important because economic growth will tend to reduce poverty to some extent in all but exception cases. However, economic growth without a pro-poor focus can have a limited impact on poverty for several reasons.

First, the aggregate elasticity of poverty reduction with respect to output growth may be very low, requiring an unachievable growth rate to reach a policy objective such as the Millennium Development Goal of reducing poverty by half by 2015. The elasticity may be low because the population under the poverty line is concentrated towards the

bottom of the income distribution, or because the gains from economic growth are concentrated toward the upper end of the income scale. Second, with no change in the distribution of income, the poverty reducing effect of growth may be temporary, reversed when growth turns negative. And third, the growth pattern can simultaneously reduce and increase poverty, with the net effect indeterminate *ex ante*. This may result if growth results in changes in assets or technology than create landlessness and unemployment.

With these general points in mind, we turn to Table 1, which reports growth rates for the thirteen countries of East, Central and Southern Africa, with a graphical presentation in Figures 1 and 2. The statistics show a notable difference between the middle income countries (Botswana, Lesotho, South Africa and Swaziland) and the low income countries (Burundi, Kenya, Malawi, Mozambique, Rwanda, Tanzania, Uganda, Zambia and Zimbabwe).⁶ For aggregate GDP, the growth of the former group was substantially higher in the 1980s than in either of the subsequent decades, with little difference between the 1990s and 2000s. For the low income countries the reverse was the case, considerably more rapid growth in the 2000s. In all but six years during 1980-2007 per capita income grew faster in the middle income countries, suggesting no tendency for levels to converge over time. The decline in the rate of population growth partly contributed to the increase in per capita income growth, more for the middle income countries than for the low income countries. Despite the increase in economic growth, five low income countries had lower per capita incomes for the 2000s than for the 1980s, as shown in Table 2 (Zimbabwe, Kenya, Rwanda, Malawi and Burundi).

Notwithstanding the higher growth rates during the 2000s, if they can be sustained, optimism must be tempered by the magnitude of the task of poverty reduction, which is demonstrated in Tables 3a and 3b. Table 3a reports poverty and income distribution statistics for the countries from two sources, the World Bank and the OECD. For several countries there are substantial differences in the statistics, which are unlikely to be explained by difference survey years. Malawi is perhaps the clearest example. The World Bank reports for 1997 an overall one US dollar a day poverty rate of 42 percent

⁶ For the two categories we follow the IMF (for example, IMF 2008h). The IMF sources provide no explanation for the apparent anomaly of Lesotho being in the middle income group, despite a per capita income in 2006 of only US\$ 528 (2000 prices). The anomaly appears all the greater because in 1980 Zimbabwe's per capita income was double that of Lesotho's.

and a Gini coefficient of 50, while the OECD statistics for 2004 are 21 percent and 39. It is extremely unlikely that the two pairs of statistics can be reconciled. For the statistical exercise in Table 3a the figures reported by the OECD are used.

It comes as no surprise that the poverty shares are considerably higher for the low income countries, with their difference from the middle income countries statistically significant using a difference of means test. Perhaps less expected is the high degree of income inequality in the sub-region. All the middle income countries had Gini coefficients above 50 in the OECD statistics, which is comparable to inequality in Latin America. For the nine low income countries, seven were above 40, and three were fifty or more. These are extremely high levels of inequality, all the more so because the distribution measure is based on consumption data, which invariably shows lower inequality than income data. The inequality statistics indicate clearly a potential for including distributional policies within growth strategies.

If governments seek a substantial reduction in poverty in the medium term, distributional policies would be necessary. This is demonstrated in Table 3b by calculating growth rates that would be necessary to meet the first Millennium Development Goal of reducing extreme poverty by half in 2015 (with 1990 as the base year). For reference points, the table gives per capita income in 1990 and 2006, and the five year average rate of growth for 2002-2007. The fourth column reports the calculated rate of growth required during 2007-2015 to make poverty in 2015 fall to half its level of 1990 on the assumption of an unchanged distribution.⁷ For only three of thirteen countries is the growth rate required for the poverty target below or equal to the average for 2002-2007 (the 'growth gap'). It is probable that for eight of the countries, including two middle income countries, the required growth rate of per capita income is not feasible, because of growth gaps in excess of three percentage points. Consider for example South Africa: reaching the target poverty level would require eight years of sustained growth in aggregate GDP in excess of eight percent. Even Tanzania's

⁷ The growth rate is calculated using the technique in Dagdeviren, van der Hoeven and Weeks (2002). The US one dollar a day head count poverty share represents one point in the income distribution. A Pareto function is constructed that passes through this point and yields a distributional coefficient that is the analogue of the country's Gini coefficient. This presents the initial distribution. For the 2015 distribution the poverty target provides the required point on the Pareto curve. The growth rate appropriate to the target poverty level can then be calculated.

probability of success could be considered low, with sustained growth of seven percent per annum required.⁸

The statistics suggest that while growth rates improved for the low income countries of the region in the 2000s, except for a few countries this improvement was well below what would be necessary to achieve the poverty reduction judged necessary by international consensus (see ECA 2008, 1). In countries experiencing an increase in inequality, the required growth rate would be above the estimate in Table 3b. It follows that either distributional policies must guide growth strategies, or the Millennium poverty target will not be met.

III.3 External Sector

The current orthodoxy that exchange rates should be determined in an unregulated foreign exchange market, that they should ‘float’, is a marked reversal of the previous orthodoxy of twenty-five years. During 1945-1971, all members of the IMF were signatories to an agreement that governments would maintain a fixed rate, usually to the US dollar, and inform the IMF of intentions to devalue or revalue.⁹ The system of fixed exchange rates broke down not because of a change in judgement about its effectiveness; on the contrary, attempts were made to extend its life when its imminent demise was obvious. Given the strength of the fixed exchange rate orthodoxy before the early 1970s, it is difficult to avoid the conclusion that the acceptance of the theoretical arguments for ‘flexible’ rates represented making a virtue of necessity, though exhibiting questionable virtue for the countries under review.

The orthodox arguments for fiscal austerity and tight monetary policy allege that these indirectly benefit the poor, by fostering macroeconomic stability. In as far as this might be true, one would conclude that the poor would benefit no more than the population as a whole, so strictly speaking these policies would not be pro-poor. In the case of flexible exchange rates, the orthodox argument is that they benefit the poor directly, and more than the non-poor. The argument, which is made for underdeveloped

⁸ These estimates are similar to those made by the ECA in ECA (1999, 22ff).

⁹ In practice prior notice was given only by error because of the currency speculation which would result.

countries in general and especially the sub-Saharan region, goes as follows: 1) the majority of poor households are rural, deriving their livelihoods directly or indirectly from agriculture; 2) agricultural commodities are tradables; 3) real currency depreciation raises the prices of tradables relatively to non-tradables; and 4) flexible exchange rates result in real currency depreciation.¹⁰

For our thirteen countries only the first step in the argument are generally valid. In only a few of the countries is a majority of the population urban, and in none is a majority of the poor. However, the second, third and fourth steps in the analytical sequence are of dubious validity. Tradability is not determined simply, by international markets for similar products. As Liang (1992) argued, a commodity is a tradable only if it is a close substitute in the international market, and if transport costs are not prohibitive. Many of the major products of small farmers in the sub-region are not close substitutes to international products, and the producers are so distant from transport and marketing channels that even close substitutes may not in practice be traded internationally.

While in theory a real devaluation should increase the price of tradables, if domestic markets are inefficient, the relative price change can be slight. Even more important, in many sub-Saharan countries a large portion of the poor, both urban and rural, may be net food buyers, in the latter case because they are agricultural day labourers. The net impact of a rise in the relative price of tradables on poverty cannot be determined *a priori*. None-the-less, the export promotion effect of a real devaluation would be a key part of a pro-poor exchange rate policy. Before the mid-2000s one could safely assume that a floating exchange rate regime in the sub-region would result in nominal devaluation. However, the increase in primary product prices, especially of minerals, generated nominal appreciations, most notably in Botswana and Zambia. Prior to the mid-2000s, it might have been realistic to assume that shifting from a fixed to a flexible exchange rate would result in devaluation, but not once primary products began to rise. It was in part for this reason that the government of Botswana adopted a 'crawling peg' regime.

¹⁰ It would be more precise to say that orthodox theory concludes that a floating regime would produce a nominal exchange rate that continually adjusted to the optimum for the relative price of tradables and non-tradables.

Whatever the distributional effects of a floating exchange rate regime, within the orthodox framework its general purpose would be to enforce the efficient allocation of resources between traded and non-traded commodities via market forces. The specific outcome anticipated by ‘freeing’ the exchange rate combined with trade liberalisation would be the rise in the share of export production, and a tendency for the balance of payments to adjust to a sustainable position. Table 4 reports the exports shares for the countries of the region by decades. At the risk over oversimplification, the 1980s can be treated as a decade of administrative controls over trade and moderate to high tariffs, the 1990s as a decade of rapid transition to trade liberalisation, and the 2000s as a decade of liberalised trade (see ECA 2004 and Geda 2001).

Inspection of Figure 3 suggests that shifts in trade policy across the region coincided with a sudden increase in the rate of growth of exports at the end of the 1990s for both the middle and low income countries. However, for both groups the moment of rapid export growth was brief. During 2000-2006, the average growth of exports volumes was seven percent per annum for the middle income countries and eleven for the low income countries. For 2002-2006, the averages fell to four and six percent, respectively (excluding Zimbabwe from the latter group for both periods). Inspection of standard deviations indicates no tendency for export growth rates to converge.

Given likely margins of measurement error, it appears that no change occurred in export orientation for either middle income or low income countries from the 1980s to the 1990s (see Table 4 and Figure 4). For the former group export shares fell in two countries and rose in two. For the nine low income countries, there was no statistically significant change for five countries, a fall for one (Rwanda), increase for two (Mozambique and Zimbabwe), and no data for Tanzania during the 1980s. For the 2000s, when one would expect a shift towards tradables to manifest itself, it appears from the averages that there was a substantial increase of the middle income countries and a moderate increase for the low income countries. Looking across countries, the increase for the middle income countries was substantial in three countries, with the exception being Botswana. However, for the low income countries, close inspection produces the conclusion that no significant increase occurred. Mozambique’s increase from about thirteen percent in the 1990s to over thirty percent in the 2000s accounts for almost all the

rise in the low income average (see note to Table 4). The export share fell in Kenya and Zimbabwe, showed no significant change for Burundi, Tanzania and Zambia, and rose in Rwanda and Uganda. For the last two countries the average for the 2000s was close those for the 1980s.

Import shares rose slightly for the low income countries from the 1990s to the 2000s, while falling substantially for the middle income countries (see Table 5 and Figure 5). The combination of the movements in export and import shares had quite different consequences for the middle income and low in groups (Table 6 and figure 6). For the former, the trade position in the 2000s was sustainable, while it is clear that it was not for the low income group. Botswana enjoyed a remarkable trade surplus of fourteen percent of GDP, and South Africa's trade was approximately balanced. Swaziland ran trade deficits in the 2000s, but substantially lower than previous decades and covered by sustained remittances from labourers in South Africa. The only middle income country with a trade deficit likely to be unsustainable was the dubiously categorised Lesotho, which on per capita income criterion should be low income. The situation for the low income group was dramatically different, with trade deficits in every country. Running sustainable trade deficits is rational trade policy for low income countries because of their typical lack of a domestic capital goods sector. However, 'sustainable' is a key modifier, and it would appear that the deficits were not sustainable in several of the countries: Burundi, Malawi, Rwanda and Uganda, and perhaps Tanzania.¹¹ Each of these countries had average deficits in excess of ten percent of GDP, and none would be likely to enjoy sustained private capital flows or remittances approaching the size of their deficits.

As a consequence of their large trade deficits, the low income countries were notably dependent on development assistance, as much so in the 2000s as during the 1990s. Table 7 shows the current account balances of the thirteen countries, with and without development assistance (also Figure 7). When ODA grants are included, the middle income current account in GDP was close to zero in all decades, and at sustainable levels in the 2000s except for Lesotho. Again except for Lesotho the current

¹¹ As a result of the dramatic increase in the price of copper, Zambia's trade deficit declined from thirteen percent of GDP in 2004 to three percent in 2005, then moved into surplus in 2006 and 2007. As discussed below, this resulted in a massive appreciation of the Kwacha (Weeks, *et. al.* 2007)

account balances without ODA during the 2000s were either in surplus (Botswana) or showed quite small deficits (South Africa and Swaziland). In contrast, for the low income countries the current account deficits without ODA were quite extraordinary: seventeen percent of GDP in the 1980s, rising to over thirty percent in the 1990s, and a decline to twenty-five percent in the 2000s.¹² If the astounding deficit for Mozambique were excluded from the average for the 1990s, the difference between the 1990s and 2000s would not be statistically significant.

The conclusion cannot be avoided that for the low income countries of the sub-region it is probable that the current accounts were less sustainable in the 2000s than twenty years before, with no significant improvement compared to the 1990s. This conclusion implies another: of highest priority for the low income countries of the sub-region is to narrow their trade gaps. The sub-region is excessively dependent on development assistance, which is both unreliable in delivery and distorting for policy making (UNCTAD 2000 and Geda and Weeks 2008).

As a general policy rule, governments should maintain a level of reserves sufficient to cover expected and unexpected declines in foreign exchange inflows. This is particularly important for agricultural exporters because of the seasonal character of those flows. However, for a developing country it is not rational to hold reserves in excess of precautionary requirements. These idle reserves represent a foregone opportunity for development expenditure for countries in which most capital goods are imported.¹³ Inspection of Table 8 shows an excessive accumulation of reserves for several countries (see also Figure 8). During the 1990s and 2000s, Botswana held reserves in excess of two and one half years of imports, far greater than the most risk-averse strategy would dictate as rational. Among the low-income countries in the 2000s, Rwanda, Tanzania and Uganda maintained reserves in excess of six months of imports. In addition to carrying a substantial opportunity cost, the high level of reserves would be a source of upward pressure on the nominal exchange rate, which would undermine export growth. While the excessive reserves might be corrected by appreciation, this would be brought about by

¹² The lump sum debt relief payments during 2005-2007 are excluded from the current account.

¹³ The author wishes to thank Masood Karshenas for point this out.

a decline in export competitiveness that could have serious medium and long term effects (see Weeks, *et. al.* 2007).

Figure 9, showing nominal exchange rates deflated by the GDP price index, confirms a tendency to appreciation among the countries, especially for the middle income group after 2002. Every middle income country showed a substantial real appreciation between 2000 and 2007, with Botswana's twenty-five percent the lowest of the four. Among the low income countries, four had appreciations in excess of thirty percent (Kenya, Malawi, Uganda and Zambia), and only two experienced depreciations, small in both cases (1.4 percent for Mozambique and 3.2 for Tanzania). If export competitiveness was the goals of governments, their exchange rate policies did not achieve it.

III.4 Investment

In the long term, one of the constraints on the rate of growth of an economy is the rate of investment. While the rate of investment does not determine the rate of growth, by its increments to the capital stock it sets the sustainable upper limit, around which the actual rate of growth will fluctuate as capacity utilisation rises above and falls below its economically optimal level. Countries can grow rapidly without an increase in the rate of investment as idle capacity is reduced, but this is a short and medium term phenomenon that cannot be sustained.

A sustained increase in the rate of growth of the countries in the sub-region requires a sustained increase in the share of investment in GDP. In addition to creating capacity, investment can be used as a mechanism for making growth more poverty reducing. This would be the case if, for example, infrastructure investments were directed to parts of the country where poverty rates were relatively high. The use of investment to make growth more poverty reducing highlights the importance of the public sector component. Private investment can be pro-poor in the strict sense of raising the incomes of the poor more than those of the non-poor, but it is unreasonable to expect profit seeking enterprises to design their investments with this purpose. The public sector, by contrast, can base its investment criteria on social rates of return that included

considerations of greater equality of distribution and more rapid poverty reduction (Weeks and Roy 2004).

Given the importance of investment for more rapid, sustainable growth that is poverty reducing, the trends in the sub-region are not encouraging. Table 9 shows that on average for all countries of the sub-region, the rate of investment was lower in the 2000s than in the 1990s, and not statistically different from the average of the 1980s. There was a notable difference between the middle and low income countries. Despite the stronger fiscal position of the middle-income countries (see next sub-section), overall investment was substantially lower in the 2000s than for the previous decades, declining for all four countries. The low income countries show an increase in each decade when Zimbabwe is excluded, with a weak tendency toward converging on the average among the countries. However, the low income average remained low in the 2000s. On the basis of empirically realistic capital output ratios the average investment share in the 2000s, 18.6 percent, would imply a sustainable potential growth rate of only four to five percent, well below the rate that would achieve the MDG poverty target by 2015.

The statistics on investment indicate that raising the rate of capital formation must be a priority throughout the region. Except for Lesotho none of the countries have investment shares that approach those of the East and Southeast Asian countries in their rapid growth period of the last few decades of the twentieth century, or of the Latin American countries before the debt crisis (see Weeks 2000). While investment rates have converged in the region, the convergence has been towards a level implying a low sustainable growth rate. Use of part of the accumulated foreign reserves would be part of increasing public investment.

III.5 Public Sector

The most important policy limit on a pro-poor macro policy is the expenditure constraint. To consider this, we use Walter Heller's definition of 'fiscal space', as the potential for expenditure expansion consistent with macro stability. The creation of fiscal space is the essence of a pro-poor framework, and all other macro policies derive from it. There are four ways to generate fiscal space: raising the revenue share in GDP;

increasing the fiscal deficit; benefiting from debt relief; and receiving a higher level of development assistance.

Increasing the share of public revenue in GDP is the most effective way to create fiscal space, especially when combined with a prudent deficit. Increasing revenue has the potential to be pro-poor both on the revenue and expenditure sides, the former through progressive taxation and the latter through social programmes and public investment. Raising tax rates and extending coverage are the obvious methods for increasing revenue. The scope to do both varies in the countries under review. One of the most important determinants of revenue generation is the level of development of a country. Middle income countries have considerably more capacity to generate public revenue than low income countries, because of the larger share of the so-called formal sector. Six of the countries of the sub-region have major exports generated by international companies, which in itself increases the potential for revenue collection.¹⁴

It would be much more difficult to raise revenue in the countries that are almost exclusively agricultural exporters. The potential for broadening the coverage of sales taxes is limited in these countries, because a large portion of sales in rural and urban areas are by small and micro operators. Assessing the level of turnover of these operators involves the same problems as estimating incomes. It is not surprising that since independence much of public revenue in the sub-Saharan region came from taxes on external trade, which as a result of trade liberalization has declined. The attempt to replace these by so-called value added taxes has not in general proved successful, in the sub-Saharan countries or elsewhere (Weeks & Roy 2004). The collection of VAT suffers from the same problems as for sales taxes in general.

The difficulties of raising public revenue in countries low-income that do not have mineral resources is shown in Table 10 and Figure 10. The share of public revenue in the four middle income countries was almost forty percent of GDP in the mid-2000s, with Lesotho the having the highest share of over fifty percent, and South Africa the lowest at about a quarter of GDP. Well over half of Lesotho's revenue derived from customs levies, the highest share in the region, and income taxes accounted for the next largest

¹⁴ These are Botswana (diamonds), Kenya (market vegetables and tourism), Mozambique (electric power), South Africa (precious stones, gold and other minerals), Zambia (copper), and Zimbabwe (precious and non-precious metals).

category (IMF 2008c). To a great extent, this strong revenue performance was the result of the customs treaty with South Africa and remittances, arrangements not open to other countries in the region except for Botswana and Swaziland, both of which had revenue shares well thirty percent of GDP (enhanced by mineral wealth in the case of Botswana). The relatively low revenue share of South Africa can be interpreted as a policy choice rather than capacity to raise revenue. The effect of mineral wealth is shown in the case of Zimbabwe, which had revenue shares in all decades well above what one would expect for a low income country.

At the low end of the scale were Rwanda, Tanzania and Uganda, all low-income countries without mineral wealth, with revenue shares of 12-13 percent of GDP. Two notable cases were Mozambique and Zambia, which had low revenue shares, but by the mid-2000s had great potential to raise revenue, Mozambique from energy exports to South Africa and Zambia from a dramatic rise in the copper price.¹⁵ Raising revenue in these two countries could be achieved through higher taxes on exporters, though Zambia was constrained in taxing copper production by the extremely unfavourable privatisation contracts during the 1990s (Weeks, *et. al.*, 2006).

The seriousness of the revenue problem in the sub-region is shown in Table 11, which reports fiscal balances as a proportion of GDP with and without development assistance (see Figures 11 and 12). During the period for which there were comparable statistics, 1992-2007, the middle income countries eliminated deficits without or without development assistance. For the low income countries the result was quite different. With the inclusion of development assistance, it appears that fiscal balances improved substantially, from an average deficit of four percent of GDP in the first half of the 2000s to well under two percent in the middle of the decade. The improvement was entirely the result of development assistance. Net of development assistance, the low income countries had an average deficits-GDP ratio in the mid-200s that was not significantly different from the 1990s. This is only partly explained by the extraordinary increase in the deficit of Burundi from the early to the middle 2000s. Deficits increased substantially

¹⁵ Electricity from the Cahora Bassa dam in Mozambique was exported to South Africa. Gas fields in Pande and Temane also exported to South Africa. See <http://www.dfid.gov.uk/countries/africa/Mozambique/Energy.pdf>

in both Rwanda and Tanzania; in the latter case, the fiscal deficit in the second half of the 2000s was higher than in previous periods.

In the low income countries of the sub-region revenue generation remained as weak in the 2000s as it had been in the previous decade. Because of the difference structures of the economies of the sub-region no convergence to a common revenue share occurred, and one could not expect this. An urgent priority for the low income countries of the sub-region is to increase revenue to reduce dependence on development assistance. The middle income countries of the sub-region have a more enviable priority: to use their strong revenue position to accelerate poverty reduction through more and better pro-poor programmes.

III.5 Monetary Sector

Throughout the sub-region central banks have applied or are in the transition to applying a monetary regime dominated by ‘inflation targeting’. The analytical basis of this policy is the presumption that every economy is in or moving toward general equilibrium and inflation is the result of expectations of inflation and ‘random shocks’. In other words, inflation has no structural cause; it follows from people’s anticipation of it, and these anticipations are primarily the result of government behaviour. In its most inflexible form, inflation targeting assigns to the central bank the mandate to use its policy instruments to realize an inflation rate within a specific range, or, more extreme, below a specific rate (see Saad Filho 2005). The instrument used to ‘hit’ the target is almost always the nominal interest rate. In practice, attempting to fulfil such a mandate over-rides all other policy objectives, be they short, medium or long run, including the maintenance of a competitive exchange rate, stimulating investment, and managing the budgetary cost of the government’s debt.

The major argument in favour of inflation targeting is that its success, a low inflation rate with a small variation, would foster growth by providing a ‘stable macro environment’. There are two issues here: the effect and wisdom of targeting; and the inflation rate to be targeted. The alleged positive benefits of inflation targeting require a prior acceptance that the policy is feasible; i.e., that most central banks in the sub-region

could by use of the monetary instruments available to them realize a pre-determined rate of inflation and maintain it with small variability.

This proposition is not credible, because of the large and unavoidable stochastic (random ‘shock’) element in policy outcomes. For example, during 1980-1999, the average annual terms of trade shock across the thirteen countries equalled 4.5 percent of GDP, with a standard deviation of 5.4.¹⁶ For the average sub-regional economy with a trade sector of about one-third to one-fourth of GDP (average of the export and import shares), this would imply an annual average price ‘shock’ of 1.5 to two percent. Because the standard deviation is so large, there would be a thirty-three percent probability of a positive shock of three percent in any year. An inflation target of five percent, for example, would be exceeded half the time (by the definition of randomness), and be double the target rate ten percent of the time. Should the mandate demand five percent or less in most years, the *de facto* target would have to be well below the mandated target. This implies an institutionalization of high nominal interest rates, which would translate into demand-compressing real interest rates.

In the context of such large and persistent terms of trade shocks, not to mention weather-related shocks, it would be impossible for the central bank to achieve the basic goal of a stable and predictable rate of inflation. But, could it be argued that inflation has been so serious in the sub-Saharan countries that targeting it is required to bring the rate down, even if stability is beyond policy? Table 12 presents statistics to evaluate this question. Over three decades inflation rates have fallen, both for the middle and the low-income countries. Leaving out the hyper-inflation case of Zimbabwe, in the 1980s, ten of the remaining twelve countries had double-digit inflation. In the first half of the 1990s this increased to eleven, all but Burundi. During 1995-99 the number fell to seven, to four during 2000-04, and to three for 2005-07. As the inflation rates for the low-income countries declined into the range of five to ten percent, there was a ‘low-inflation’ group and a ‘high-inflation’ group. For the members of the former, Burundi, Kenya, Malawi and Rwanda, the 1990s was a strongly inflationary decade, with both the 1980s and the 2000s characterised by rate around ten percent. Their average for the 2000s was almost

¹⁶ The calculation is from *World Development Indicators 2008*, ‘Terms of Trade Adjustment’, and the average is of the absolute value.

the same as for the 1980s. Whatever policy adjustments occurred had little impact on the rate of inflation.

By contrast, the four low-income countries in the high-inflation group, Mozambique, Tanzania, Uganda and Zambia, showed dramatic falls in inflation from the second half of the 1990s onwards, from an average of over fifty percent to converge on the low-inflation group. This pattern, no change for the low-inflation group in the 2000s compared to the 1980s, and dramatic decline for the high-inflation countries, strongly suggests that the fall in inflationary pressures was not the result of short term monetary policies. Had orthodox stabilisation programmes been the cause of the abatement of inflation, one would have expected this to manifest itself during the 1990s, when both groups of countries suffered from rapid price increases. A more convincing explanation lies in the characteristics of the high-inflation countries. All four were countries undergoing fundamental structural transitions during the 1980s and 1990s: from economic controls to market regulation in the cases of Tanzania and Zambia; and from controls to market regulation severely aggravated by the transition from conflict to reconstruction for Mozambique and Uganda. Burundi and Rwanda also suffered from terrible conflicts, but not fundamental change of economic regime. This non-rigorous review suggests that the rapid liberalisation of controlled economies is an inherently inflationary process. Whether or not this interpretation is correct, it is clear that a convergence has occurred in the sub-region to relatively low inflation.

As discussed at the beginning of this section, the orthodox prescription for inflation control is use of the central bank rate. Table 13 and Figure 13, reporting price-deflated interest rates show the consequences. In the 1980s, three countries had negative real interest rates, Botswana (very slightly negative), Uganda and Zambia, three were positive and below five percent, four above five, and none above ten. In the 1990s one country had a negative average rate (Zambia at -1.4), five were positive and below five, and six above five, three of which were above ten. During 2000-2007 there was again one negative rate (Zimbabwe), one positive rate below five percent, and eleven above five of which no less than six above ten percent. If one excludes the crisis case of Zimbabwe, in the 2000s half of the twelve countries of the region had real interest rates above ten percent; the low-income average was eleven percent.

Economic theory tells one that just as excessive wages represent an efficiency-reducing price distortion, interest rates can be distorted upwards. A real interest rate that persists for several years in excess of the long term sustainable rate of per capita growth is a price distortion.¹⁷ Again, one discovers an economically undesirably convergence in the sub-region, of real interest rates moving into a growth depressing range. This convergence of real interest rates towards distorted and economically irrational levels might partly explain the persistence of low investment rates in the sub-region.

Despite the recessionary consequence of choosing a low numerical target and attempting to achieve it in the context of severe and systematic random shocks, many external assistance agencies vigorously defend the policy of inflation reduction through inappropriate interest rates. The defence is that ‘inflation is bad for the poor’; therefore, inflation targeting is ‘good for the poor’. This allegation appears repeatedly in IMF and World Bank documents. There is little evidence to support it. In one of the few empirical studies of the distributional impact of inflation, Galli and van der Hoeven found that ‘[t]hough in high inflation countries restrictive monetary policy is often beneficial for inequality, reducing inflation in economies with initially low inflation might increase inequality’ (Galli and van der Hoeven 2001).

III.6 Countries of the Region and SADC Convergence Targets

As part of their preparation for further economic integration, the members of the Southern African Development Community (SADC) established targets for macroeconomic indicators (Jefferis 2008). These targets are presented in Table 14. Of the countries under review, eight were SADC members, with Angola, Democratic Republic of Congo, Namibia, Mauritius and Madagascar not among them. A review of previous tables shows that few countries achieved a majority of targets for 2008, and at least one target was achieved by none of the countries (the investment-GDP ratio). Assessment of the likelihood of achieving the targets for 2018 would be extremely speculative. The relative proximity of 2012 makes it relevant to consider the likelihood of the specified convergence targets, for both the SADC members and non-members.

¹⁷ In long term equilibrium the rate of return on capital should equal the real interest rate, which in turn should equal the rate of per capita growth. See Swan (1956).

On the basis of the outcomes for 2000-2007, three of the countries achieved half or more of the targets, Botswana (3), Tanzania (5) and Uganda (4). The indicators for the two most frequently achieved targets, the fiscal deficit and the current account deficit, include development assistance. Excluding development assistance, none of the low income countries could be on target. The two least achieved targets included the most important, the GDP growth rate, met only by Mozambique and Tanzania, with the later country a bit below, but quite close. It is clear that the failure to meet the growth target by eleven countries was in great part the result of no country coming close to the investment target. The likelihood of meeting the investment target would be reduced by the attempts to achieve the deficit targets too quickly, for low deficits would require fiscal restraint if not contraction. In all the countries reaching a thirty percent investment share would require increased public investment designed to 'crowd-in' private investment. Low deficit targets would greatly constrain the fiscal space for public investment.

The principle of convergence of macro indicators would be necessary for regional integration, especially when that integration includes monetary union. However, the macro targets should be established consistent with the growth outcome among the countries, and it is not clear that this consistency was rigorously established. Further, establishing a common target for all countries is unlikely to be appropriate. It is clear from the discussion above that the various countries have different internal dynamics, notably in their structural inflationary pressures, trade elasticities and determinants of domestic investment.

IV. Policies for Sustained Growth and Poverty Reduction

IV.1 Policy Framework

This paper concludes with a specification of macro policies appropriate for the complementary goals of economic stability, sustained and rapid growth, faster poverty reduction, and outcome convergence for further regional integration. A rigorous specification of pro-poor policies by country requires a careful analysis of the structural parameters of each economy. For example, the implementation and effectiveness of

monetary policy would be considerably different in South Africa with its developed financial intermediation than in most of the low income countries of the region. In the low income countries the market for government securities is extremely narrow, limited in practice to purchases and sales to a few banks. The recommendations that follow offer general guidelines, rather than recommendations for specific countries.¹⁸

IV.2 Exchange Rate Policy

The appropriate exchange rate regime for promoting pro-poor economic openness would be one in which the government purposefully intervenes in the foreign exchange market with clear medium term objectives, export promotion and exchange rate stability. There are several advantages of this regime over a ‘floating’ rate with only crisis interventions. First, the view that economies have a unique, market-determined exchange rate which strikes the correct balance between tradables and non-tradables is incorrect in practice. A substantial portion of a country’s foreign exchange flows may not be market related (development assistance and debt service), so that the so-called market rate would not reflect the appropriate relative price of tradables even in theory. Second, the practical goal of export promotion is achieved through devaluation, lowering the foreign currency price of a country’s exports. If the inflationary effect of the devaluation is contained, the purpose should be achieved in the short run. However, if the trading regime is a liberal one, as in most sub-Saharan countries, the domestic currency price of exportables will slowly approach the international price (the so-called Law of One Price). Because of the lag in the price adjustment, periodic nominal devaluations are needed maintain a wedge between the export price in domestic currency and the world price. Third, with a floating exchange rate, periods of rising export prices will tend to generate appreciation, undermining export promotion.

A final, extremely important comment is required on exchange rates. At the beginning of this section we pointed out that the IMF was created to oversee a system of fixed exchange rates. The principal purpose of the system was to prevent the recurrence of the competitive devaluations of the 1930s that had destabilized international trade. In the current imperfect world, governments in sub-Saharan countries have little choice but

¹⁸ For more detail, see Weeks and McKinley (2007) and Weeks and Patel (2007).

to pursue an exchange rate policy that fundamentally represents a regime of under-cutting its regional neighbours, who export many of the same commodities. In the long term this fallacy of composition problem may be reduced by export diversification.¹ In the short and medium term one must frankly concede the likelihood of fallacy of composition effects from any exchange rate policy, even one that is part of a pro-poor macro policy.

IV.3 Fiscal Policy

The fiscal policy stance in a pro-poor strategy is determined, first of all, by the need to achieve rapid, sustained, broad-based and employment-intensive growth.¹⁹ Growth-accommodating fiscal policies will help to stimulate the economy, ensure that growth is led by pro-poor sectors, and secure the achievement of the desired distributive outcomes. Rapid growth plays a more prominent role in pro-poor strategies than in orthodox programmes. However, in order to play these roles pro-poor policies must be bolder and more expansionary than what is permissible under an orthodox strategy. This includes, at an absolute minimum, the counter-cyclical use of the fiscal budget; in contrast, the orthodoxy normally wishes to limit the fiscal deficit to arbitrarily low levels throughout the economic cycle:

[T]he central aim of fiscal policy should be to help achieve the high quality and quantity growth rates that are needed ... [T]ax and expenditure policies should be based on their ability to promote growth, redistribution, poverty reduction and employment creation. The temptation to achieve a balanced budget must be

¹⁹ '[I]f an economy's growth path does not create sufficient jobs or livelihood opportunities, people are deprived of more than a livelihood. They are also robbed of opportunities to develop their abilities, thereby undermining their dignity and self-respect. Thus a successful growth model must also ensure appropriate investment in the development of human capabilities, and match people's capabilities with productive and properly rewarded employment opportunities. Since these outcomes are not necessarily direct consequences of a market economy, specific policy measures are required to ensure that economic growth embodies qualities that result in human progress. These qualities and outcomes cannot be 'added on' to a conventional economic reform package; rather, an integrated and consistent long-term policy framework is needed. This will encourage the achievement of economic growth through diverse forms of investments (e.g. public and private investments in physical and human capital) and redistribution (e.g. land)' (South Africa HDR 2003, p.170).

tempered by the immediate and long-term growth and development implications.²⁰

Essential to such a policy is raising revenue. In the most constrained circumstances, countries with low incomes, few mineral resources and no substantial presence of foreign companies, this must be done through trade taxes, particularly import taxes.

IV.4 Monetary Policy

Liberated from the straight-jacket of inflation targeting, monetary policy could contribute to pro-poor growth. Used as the major instrument for macro management, monetary policy can do little to make growth pro-poor. However, in support of an expansionary fiscal policy it can indirectly foster growth that is pro-poor. As a general rule, if inflationary pressures are weak, this support would take the form of positive but low real interest rates and an expanding monetary supply.

While these seem simple guidelines, foster growth and counter inflation when necessary, their application in the sub-region countries is not straight-forward and varies across countries. In most of the countries of the region, financial markets are underdeveloped. Indeed, in a few countries, the monetization of the economy is low. The concrete result of underdeveloped financial markets is that governments find it difficult or impossible to sell their bonds to private agents. This explains the common practice in the region of legislation that requires commercial banks to hold a portion of their reserves in government bonds. In practice this requirement has tended to have an anti-poor bias (Saad Filho 2005, Weeks *et. al.* 2007). The narrow bond market also implies that deficit spending, if financed domestically, tends to be covered by monetization (selling bonds to the central bank).

Wisely or unwisely, most sub-Saharan governments have granted autonomy for central banks to make decisions about the policy instruments which are within their mandate. The most used instrument in the hands of the central bank is the rate at which it lends money to commercial banks, often loosely called 'the interest rate'. Manipulating this rate is alleged to be an effective manner in which to achieve two policy outcomes,

²⁰ South Africa HDR (2003,196).

price stability and exchange rate stability. It would achieve price stability by: 1) provoking a commensurate change in the commercial bank lending rate; 2) that this would lower or raise the cost of borrowing; 3) a change in the cost of borrowing would increase or decrease the demand for credit; and 4) then, the supply of money would adjust to the demand. The alleged mechanism for stabilizing the exchange rate is more direct: 1) provoking a commensurate change in the commercial bank deposit rate; and 2) this attracts or repels foreign capital deposits, which by definition increases or decrease foreign exchange reserves.

These mechanisms do not operate effectively in most countries in the region (South Africa is the exception). The amount of commercial lending for fixed investment is typically low, allegedly for risk reasons. More often the lack of interest in lending for productive investment is because the high returns on government paper (due in great part to inflation targeting), and the faster turnover of loans to finance imports and exports. Therefore, attempts to stimulate private investment by lower interest rates are unlikely to have a substantial impact. Further, many countries are characterized by enormous spreads between the central bank rate and the commercial lending rate (and between lending and deposit rates. As a result, to induce commercial lending rates down to a level to stimulate investment is not feasible, perhaps requiring negative *nominal* central bank rates. Finally, most private productive investment is not financed through the commercial banking system either because it is by small operators, both rural and urban, or because foreign investors raise their funds abroad where interest rates are lower.

The limited ability of the central bank to stimulate investment does not imply there is no pro-poor role for the central bank rate. Lower central bank rates would have two pro-poor effects: 1) government bonds are held by the wealthy, or the institutions of the wealthy, so lowering rates has a positive impact on income distribution; and 2) lower rates imply a smaller domestic debt service in the public budget, producing 'fiscal space' for pro-poor government expenditure.

Allowing the money supply to expand faster than real output can also have a pro-poor impact, by increasing access to credit in 'informal' financial markets.² It also encourages financial 'deepening'; i.e., the ratio of the money supply to aggregate output, which is typically low in sub-Saharan countries. Money supply management raises the

question of what instruments would be used to counter inflationary pressures, if these became a serious policy concern. The key policy issue is what constitutes ‘a serious concern’. Cross-country regressions suggest that inflation is uncorrelated with growth for the rates that characterize sub-Saharan countries (Easterly & Bruno 1998); i.e., rates below forty percent. Therefore, if growth and poverty reduction are the goals, a tolerance for moderate inflation is required. This is especially the case because due to the weakness of financial markets, the only effective instrument for reducing inflation in most countries would be fiscal contraction.

In summary, a pro-poor monetary policy requires low real interest rates, a tolerance for moderate inflation rates, and an expansion of the money supply that accommodates growth and financial deepening. To achieve these outcomes, it is probably the case that it would be more pro-poor to finance prudent fiscal deficits by monetization than by bond sales, which redistributes income to the wealthy.

Table 1: Growth rates for 13 East, Central and Southern African countries, 1980-2007

<u>Country</u>	<u>GDP</u>			<u>GDP per capita</u>		
	<u>1980-89</u>	<u>1990-99</u>	<u>2000-07</u>	<u>1980-89</u>	<u>1990-99</u>	<u>2000-07</u>
Botswana	11.5	6.1	5.5	7.9	3.5	3.9
Burundi	4.3	-1.4	2.4	1.0	-3.1	-1.0
Kenya	4.2	2.2	4.0	.5	-.7	1.3
Lesotho	3.6	4.0	3.6	1.3	2.3	2.6
Malawi	1.7	4.1	2.7	-2.4	1.9	.1
Mozambique	.4	5.1	7.4	-.6	2.2	4.9
Rwanda	3.2	2.1	5.6	-.5	.2	2.4
South Africa	2.2	1.4	4.3	-.3	-.8	2.7
Swaziland	6.8	3.8	2.4	3.6	.6	.7
Tanzania	3.8	3.1	6.5	.6	.2	3.6
Uganda	3.0	6.9	5.7	-.5	3.4	2.5
Zambia	1.4	.4	4.9	-1.7	-2.2	2.9
<u>Zimbabwe</u>	<u>5.2</u>	<u>2.6</u>	<u>-5.6</u>	<u>1.4</u>	<u>.5</u>	<u>-6.8</u>
average (all)	4.0	3.1	3.8	.8	.6	1.5
middle income	6.0	3.8	4.0	3.1	1.4	2.5
low income*	2.8	2.8	4.9	-.5	.2	2.1

*Excludes Zimbabwe.

Source: World Bank, World Development Indicators 2008 (website) and IMF 2008.

Table 2: Per capita GDP for 13 East, Central and Southern African countries, 1980-2007 (measured in 2000 US\$)

<u>Country</u>	<u>1980s</u>	<u>1990s</u>	<u>2000s</u>
Botswana	1685	2768	4040
South Africa	3324	2993	3239
Swaziland	1035	1317	1354
Lesotho	309	425	478
Zimbabwe	613	632	491
Kenya	426	423	415
Zambia	417	332	337
Tanzania	256	256	296
Mozambique	179	198	282
Uganda	167	199	257
Rwanda	272	229	241
Malawi	146	141	139
<u>Burundi</u>	<u>145</u>	<u>130</u>	<u>104</u>
Average (all)	690	773	898
Middle income	1588	1876	2278
low income	291	282	285

Note: Figures in bold for 2000s indicate that per capita GDP was lower than in one or both previous decades.

Source: World Bank, World Development Indicators 2008 (website) and IMF 2008h.

Table 3a: US one dollar a day poverty and the Gini coefficient for 13 East, Central and Southern African countries, various years

<u>country</u>	<u>year</u>	US\$1 a day Poverty		Gini Coefficient		
		<u>WB</u>	<u>OECD</u>	<u>year</u>	<u>WB</u>	<u>OECD</u>
Botswana	1993, 2003	31	23	1993, 2003	63	57
Burundi	1998, 2006	55	48	1998, 2006	33	50
Kenya	1997, 1997	23	23	1997, 2000	43	42
Lesotho	1995, 1995	36	36	1995, 2002	63	52
Malawi	1997, 2004	42	21	1997, 2004	50	39
Mozambique	1996, 1996	38	38	1996, 2003	40	42
Rwanda	1999, 2005	52	57	1984, 2005	29	51
South Africa	2000, 2000	11	11	2000, 2000	58	58
Swaziland	1994, 2000	8	48	1994, 2001	61	50
Tanzania	1993, 1993	20	58	1993, 2000	38	38
Uganda	1999, 2005	85	32	1999, 2005	43	41
Zambia	1998, 2004	64	64	1998, 2004	53	51
<u>Zimbabwe</u>	1995, 2004	<u>56</u>	<u>62</u>	1995, 2004	<u>57</u>	<u>50</u>
Average, All		40	40		48	48
middle income		21	30		61	54
low income		<u>48</u>	<u>45</u>		<u>42</u>	<u>46</u>
Probably means are equal		.01	.09		.00	.00

Note: Substantial differences between sources shown in bold.

Sources: OECD 2008 and World Bank, http://devdata.worldbank.org/wdi2005/Table2_5.htm, and http://devdata.worldbank.org/wdi2005/Table2_7.htm

Table 3b: Growth rates for poverty reduction by half by 2015, East, Central and Southern African countries

<u>country</u>	<u>1990</u>	<u>2006</u>	<u>2002-07</u>	<u>2007-15</u>	<u>Growth Gap</u>
Botswana	2483	4423	3.6	1.3	-2.3
Mozambique	193	330	5.3	5.1	-.2
Uganda	172	275	2.4	2.5	.1
Lesotho	376	528	3.0	3.8	.8
Tanzania	257	324	3.8	5.1	1.3
South Africa	3152	3562	3.2	6.6	3.4
Rwanda	244	262	2.9	6.7	3.8
Zambia	373	371	3.1	8.0	4.9
Malawi	132	145	.9	6.8	5.9
Swaziland	1330	1401	1.2	7.4	6.2
Kenya	450	440	1.4	8.4	7.0
Burundi	152	102	-.8	12.9	13.7
Zimbabwe	<u>642</u>	390	<u>-6.5</u>	<u>13.4</u>	<u>19.9</u>
Average, All	776	1014	2.5	6.2	3.7
Middle income	1835	2479	2.8	4.8	2.0
Low income*	247	281	2.4	7.0	4.6
Percent increase per capita		<u>Level</u>	<u>Growth Rate</u>		
All		26.5	1.7		
Middle income		29.8	1.9		
Low income*		13.0	.8		

*Excludes Zimbabwe. Note: Figures in bold for 2000s indicate that per capita GDP was lower than in one or both previous decades.

Table 4: Exports, share of GDP, 13 East, Central and Southern African countries, 1980-2007

<u>Country</u>	<u>1980s</u>	<u>1990s</u>	<u>2000s</u>
Botswana	62.0	51.2	47.0
Burundi	10.4	9.0	8.7
Kenya	25.7	27.6	24.3
Lesotho	16.7	21.7	48.7
Malawi	23.7	25.1	25.3
Mozambique	6.8	12.8	31.0
Rwanda	10.4	6.0	9.0
South Africa	28.8	23.5	29.3
Swaziland	70.2	74.8	79.9
Tanzania	nd	16.4	18.2
Uganda	11.6	9.8	13.2
Zambia	34.4	32.8	31.5
Zimbabwe	<u>21.4</u>	<u>34.1</u>	<u>27.9</u>
Average, All	26.8	26.5	30.3
Middle Income	44.4	42.8	51.2
Low Income*	17.5	17.4	20.1

Source: World Bank, *World Development Indicators 2008* (website) and IMF 2008h. Without Mozambique the average for the 2000s is 18.6.

Table 5: Imports, share of GDP, 13 East, Central and Southern African countries, 1980-2007

<u>Country</u>	<u>1980s</u>	<u>1990s</u>	<u>2000s</u>
Botswana	56.7	41.5	33.2
Burundi	23.8	23.4	32.6
Kenya	30.6	30.3	31.9
Lesotho	122.1	116.5	103.8
Malawi	30.4	39.4	40.7
Mozambique	25.1	36.4	44.3
Rwanda	20.7	26.0	26.4
South Africa	23.8	20.7	28.7
Swaziland	93.7	93.9	87.7
Tanzania	nd	35.6	28.4
Uganda	17.8	21.6	27.1
Zambia	36.5	38.4	39.3
Zimbabwe	<u>22.2</u>	<u>36.7</u>	<u>31.3</u>
Average, All	41.9	43.1	42.7
Middle Income	74.0	68.2	63.3
Low Income	26.4	31.4	33.8

Source: World Bank, *World Development Indicators 2008* (website) and IMF 2008h.

Table 6: Trade Balances, share of GDP, 13 East, Central and Southern African countries, 1980-2007

<u>Country</u>	<u>1980s</u>	<u>1990s</u>	<u>2000s</u>
Botswana	5.3	9.7	13.9
Burundi	-13.5	-14.4	-16.7
Kenya	-4.9	-2.7	-8.2
Lesotho	-105.4	-94.8	-54.7
Malawi	-6.7	-14.3	-15.5
Mozambique	-18.4	-23.6	-13.1
Rwanda	-10.3	-19.9	-17.3
South Africa	5.1	2.8	.9
Swaziland	-23.5	-19.1	-7.8
Tanzania	nd	-19.3	-10.4
Uganda	-6.2	-11.7	-13.3
Zambia	-2.1	-5.6	-6.8
Zimbabwe	<u>-8</u>	<u>-2.6</u>	<u>-3.2</u>
Average, All	-15.1	-16.6	-11.7
Middle Income	-29.6	-25.4	-11.9
Low Income	-7.8	-12.7	-11.6

Source: World Bank, *World Development Indicators* 2008 (website) and IMF 2008h.

Table 7: Current Account Balances, share of GDP, with and without ODA, 13 East, Central and Southern African countries, 1980-2007

<u>Country</u>	with ODA			without ODA		
	<u>1980s</u>	<u>1990s</u>	<u>2000s</u>	<u>1980s</u>	<u>1990s</u>	<u>2000s</u>
Botswana	.2	7.1	10.0	-8.3	4.8	8.6
Burundi	-4.5	-3.0	-7.7	-17.1	-22.7	-43.0
Kenya	-4.9	-2.1	-1.5	-12.7	-10.7	-4.9
Lesotho	2.8	-10.6	-11.9	-11.3	-19.5	-17.6
Malawi	-8.8	-8.7	-5.1	-25.7	-35.6	-23.2
Mozambique	-12.6	-16.3	-9.1	-28.4	-60.5	-36.8
Rwanda	-4.5	-3.6	-5.4	-15.2	-31.9	-27.5
South Africa	.6	.0	-2.7	.6	-.2	-2.3
Swaziland	-6.6	-1.5	.5	-12.6	-5.3	-1.2
Tanzania	nd	-12.1	-4.5	-5.6	-31.4	-17.6
Uganda	-1.9	-4.8	-4.5	-8.5	-20.7	-19.8
Zambia	-12.2	-10.4	-11.9	-25.8	-36.8	-29.6
Zimbabwe	<u>-2.0</u>	<u>-4.5</u>	<u>-4.0</u>	<u>-5.4</u>	<u>-10.7</u>	<u>-7.8</u>
All	-4.5	-5.4	-4.4	-13.5	-21.7	-17.1
Middle Income	-.7	-1.2	-1.0	-7.9	-5.1	-3.1
Low Income*	-7.1	-7.6	-6.2	-17.4	-31.3	-25.3

*Excludes Zimbabwe.

Sources: World Development Indicators 2008 and IMF 2008h.

Table 8: Foreign exchange reserves in months, 13 East, Central and Southern African countries, 1980-2007

<u>Countries</u>	<u>1980s</u>	<u>1990s</u>	<u>2000s</u>
Botswana	13.6	29.5	28.5
Burundi	3.0	7.6	3.6
Kenya	2.1	2.0	3.4
Lesotho	1.3	4.2	5.3
Malawi	1.9	2.5	2.3
Mozambique	nd	nd	nd
Rwanda	4.6	3.1	6.4
South Africa	2.0	1.7	3.0
Swaziland	2.7	3.1	2.3
Tanzania	nd	2.3	7.1
Uganda	1.2	3.9	7.7
Zambia	1.5	1.7	2.3
Zimbabwe	<u>2.5</u>	<u>2.3</u>	<u>.9</u>
Average, All	3.3	4.9	5.6
Middle Income	4.9	9.7	9.8
Low Income*	2.4	2.9	4.1

*Excludes Zimbabwe.

Sources: *World Development Indicators 2008* and IMF 2008h.

Table 9: Total Investment, share of GDP, 13 East, Central and Southern African countries, 1980-2007

<u>Countries</u>	<u>1980s</u>	<u>1990s</u>	<u>2000s</u>
Botswana	29.0	27.2	20.4
Burundi	16.1	9.0	9.9
Kenya	18.3	17.6	17.3
Lesotho	39.5	57.0	39.4
Malawi	15.8	15.2	17.3
Mozambique	12.2	20.7	22.8
Rwanda	14.4	14.5	19.4
South Africa	23.1	16.3	16.1
Swaziland	25.4	20.5	18.3
Tanzania	nd	21.0	18.1
Uganda	8.5	16.1	20.8
Zambia	16.1	14.6	23.1
Zimbabwe	<u>16.0</u>	<u>20.1</u>	<u>14.3</u>
Average, All	19.5	20.7	19.8
Middle Income	29.2	30.2	23.6
Low Income*	14.5	16.1	18.6

*Excludes Zimbabwe.

Sources: *World Development Indicators 2008* and IMF 2008h.

Table 10: Public revenue, share of GDP, without ODA,
13 East, Central and Southern African countries, 1992-2007

<u>countries</u>	<u>1992-95</u>	<u>1996-99</u>	<u>2000-03</u>	<u>2004-07</u>
Botswana	44.2	42.5	42.0	38.7
Burundi	17.4	15.6	20.1	19.2
Kenya	27.6	25.9	20.5	20.8
Lesotho	34.4	42.5	41.3	54.4
Malawi	17.3	16.8	17.3	18.0
Mozambique	10.8	11.3	12.9	14.9
Rwanda	7.3	9.8	11.4	12.9
South Africa	22.1	23.7	23.3	25.9
Swaziland	29.3	29.7	26.0	35.6
Tanzania	12.1	12.1	10.3	11.8
Uganda	9.6	11.4	11.4	13.0
Zambia	18.8	19.3	18.1	17.9
Zimbabwe	<u>25.1</u>	<u>31.1</u>	<u>27.9</u>	<u>33.2</u>
Average, All	21.2	22.4	21.7	24.3
Middle Income	32.5	34.6	33.2	38.6
Low Income*	14.8	15.1	15.0	15.8

*Excludes Zimbabwe.

Sources: *World Development Indicators 2008* and IMF 2008h.

Table 11: Fiscal Balances, share of GDP, with and without ODA, 13 East, Central and Southern African countries, 1992-2007

<u>Country</u>	with ODA				without ODA			
	<u>1992-95</u>	<u>1996-99</u>	<u>2000-03</u>	<u>2004-07</u>	<u>1992-95</u>	<u>1996-99</u>	<u>2000-03</u>	<u>2004-07</u>
Botswana	5.5	3.3	-4	6.6	4.5	2.7	-5	6.1
Burundi	-3.9	-6.8	-2.8	-1.9	-9.3	-7.3	-7.9	-19.2
Kenya	-4.4	-1.0	-2.5	-1.9	-5.6	-1.6	-4.2	-3.0
Lesotho	2.9	-3.6	-1.5	9.7	-.5	-6.5	-4.3	7.6
Malawi	-1.5	-4.8	-7.6	-2.5	-16.2	-10.1	-15.3	-14.6
Mozambique	-6.3	-2.9	-6.1	-3.4	-24.2	-13.2	-16.2	-13.1
Rwanda	-7.8	-3.7	-.9	-.2	-12.8	-10.0	-9.5	-11.9
South Africa	-6.8	-3.2	-1.8	-.2	-6.8	-3.2	-1.8	-.2
Swaziland	-3.6	.1	-2.6	.9	-4.5	-.6	-3.8	.1
Tanzania	-3.5	-.9	-1.6	-3.5	-6.4	-4.7	-6.3	-8.9
Uganda	-3.2	-3.7	-4.5	-1.4	-9.5	-8.8	-11.2	-8.8
Zambia	-4.7	-5.4	-6.4	3.1	-12.9	-11.8	-13.0	-7.4
Zimbabwe	<u>-7.6</u>	<u>-11.7</u>	<u>-6.2</u>	<u>-8.4</u>	<u>-9.4</u>	<u>-12.8</u>	<u>-8.0</u>	<u>-8.4</u>
All	-3.5	-3.4	-3.4	-.2	-8.7	-6.8	-7.8	-6.3
Middle Income	-.5	-.8	-1.6	4.3	-1.8	-1.9	-2.6	3.4
Low Income*	-4.4	-3.6	-4.0	-1.4	-12.1	-8.4	-10.5	-10.9

*Excludes Zimbabwe.

Sources: IMF 2008h and IMF reports for each country.

Table 12: Inflation rates, 13 East, Central and Southern African countries, 1980-2007

<u>Country</u>	<u>1980-84</u>	<u>1985-89</u>	<u>1990-94</u>	<u>1995-99</u>	<u>2000-04</u>	<u>2005-07</u>
Botswana	12.1	9.6	12.8	8.7	7.9	9.1
Burundi	8.6	5.7	8.5	18.5	10.2	8.2
Kenya	13.6	10.0	28.0	6.8	7.8	11.5
Lesotho	13.9	13.9	13.6	10.6	8.4	5.8
Malawi	13.8	19.2	21.1	40.9	17.6	12.5
Mozambique	13.1	63.5	46.2	22.9	12.9	9.4
Rwanda	7.6	1.8	12.6	14.9	5.8	9.1
South Africa	13.5	15.7	12.4	7.3	5.5	5.0
Swaziland	14.8	15.1	11.1	8.0	8.2	6.1
Tanzania	29.6	30.5	28.9	17.2	3.1	7.4
Uganda	56.2	155.2	25.9	5.9	3.1	7.2
Zambia	12.4	63.7	121.7	30.7	21.8	12.7
Zimbabwe	<u>14.5</u>	<u>11.1</u>	<u>26.5</u>	<u>30.6</u>	<u>197.3</u>	<u>3966.3</u>
Average, All	17.4	33.7	28.6	16.1	9.4	8.7
Middle income	13.5	13.6	12.5	8.7	7.5	6.5
Low income	19.4	43.7	36.6	19.7	10.3	9.8
low group	10.9	9.2	17.5	20.3	10.3	10.3
high group	27.8	78.2	55.7	19.2	10.2	9.2

Notes: Consumer price index. Averages exclude Zimbabwe.

'low group' includes Burundi, Kenya, Malawi and Rwanda.

'high group' includes Mozambique, Tanzania, Uganda and Zambia.

Source: *World Development Indicators 2008* and IMF 2008h.

Table 13: Price deflated lending rates, 13 East, Central and Southern African countries, 1980-2007

<u>Countries</u>	<u>1980s</u>	<u>1990s</u>	<u>2000s</u>
Botswana	-.2	4.2	7.5
Burundi	6.8	4.9	8.5
Kenya	4.5	10.0	10.6
Lesotho	.7	6.8	8.3
Malawi	3.0	4.0	14.9
Mozambique	nd	16.3	12.1
Rwanda	9.1	7.0	10.2
South Africa	.8	7.2	5.6
Swaziland	4.1	4.0	3.7
Tanzania	8.6	8.2	8.9
Uganda	-35.9	11.2	12.2
Zambia	-12.2	-1.4	10.9
Zimbabwe	<u>5.4</u>	<u>4.4</u>	<u>-19.3</u>
Average, All	-.4	6.7	7.2
Middle Income	1.3	5.6	6.3
Low Income	-2.3	7.5	11.0
low Y (exc Ug,Zmbw)	3.3	7.0	10.9
Standard deviation			
All	12.5	4.3	8.5
Middle Income	1.89	1.69	2.07
Low Income*	16.50	5.29	2.05

*Excludes Zimbabwe.

Source: *World Development Indicators 2008*.

Table 14: SADC Macroeconomic Convergence Targets

indicators	year	2008	2012	2018
Inflation rate		9.5	5	3
Fiscal Deficit/GDP		-5	-3	-1
Current account deficit/GDP		-9	-9	-3
GDP growth		7	7	7
External reserves*		3	6	6
Domestic investment/GDP		30	30	30

*Months of import cover.

Source: Jefferis 2008, 9.

Table 15: Country Performance during 2000s and SADC Targets for 2012

Country	Inflation	FD/GD		CAD/GD		GDP	Ext Res	I/GDP	Summary
		P	P	P	P				
Target	5	-3	-9	7	6	30			
Botswana	8.4	2.2	10	5.5	29	20		3/6	
Target ratio	1.7			.8		.7			
Burundi	9.5	-2.5	-8	2.4	4	10		1/6	
Target ratio	1.9		.9	.3	.7	.3			
Kenya	9.2	-2.3	-2	4	3	17		1/6	
Target ratio	1.8		.2	.6	.5	.6			
Lesotho	7.4	2.7	-12	3.6	5	39		1/6	
Target ratio	1.5		1.3	.5	.8	1.3			
Malawi	15.7	-5.7	-5	2.7	2	17		1/6	
Target ratio	3.1	1.9		.4	.3	.6			
Mozambique	11.6	-5.1	-9	7.4	nd	23		2/6	
Target ratio	2.3	1.7			na	.8			
Rwanda	7	-0.6	-5	5.6	6	19		2/6	
Target ratio	1.4			.8	1.0	.6			
South Africa	5.3	-1.2	-3	4.3	3	16		2/6	
Target ratio			.3	.6	.5	.5			
Swaziland	7.4	-1.3	1	2.4	2	18		2/6	
Target ratio	1.5			.3	.3	.6			
Tanzania	4.7	-2.3	-4	6.5	7	18		5/6	
Target ratio						.6			
Uganda	4.6	-3.3	-4	5.7	7	21		4/6	
Target ratio				.8		.7			
Zambia	18.4	-2.8	-12	4.9	2	23		1/6	
Target ratio	3.7		1.3	.7	.3	.8			
Zimbabwe	1611	-7.0	-4	-5.6	1	14		0/6	
Target ratio	<u>322.2</u>	<u>2.3</u>	<u>.4</u>	<u>-.8</u>	<u>.2</u>	<u>.5</u>			
Summary*	3/12	10/12	7/12	2/12	3/12	0/12			

*Excludes Zimbabwe.

Countries in bold are SADC members.

FD/GDP – fiscal deficit as percentage of GDP

CAD/GDP – current account deficit as percentage of GDP

Ext Res – external reserves in months of import cover

Figure: 1
 GDP growth for 13 East, Central and Southern African countries, 1980-2007

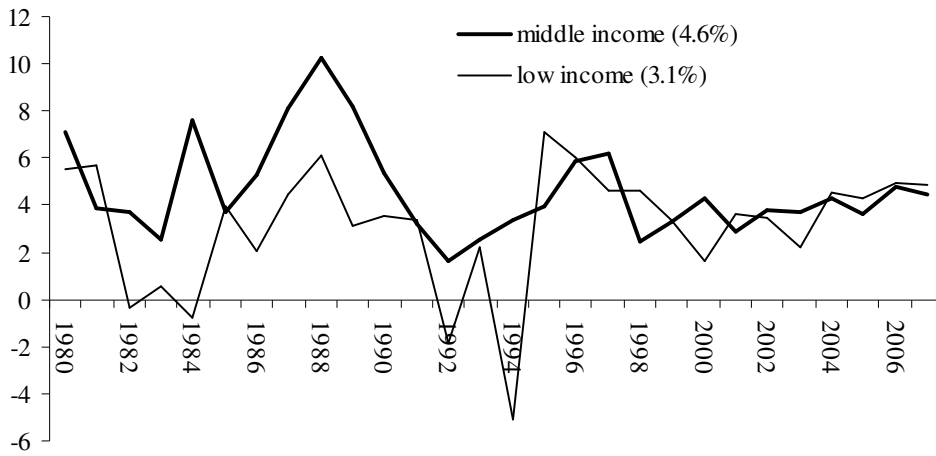


Figure: 2
 GDP per capita growth for 13 East, Central and Southern African countries, 1980-2007

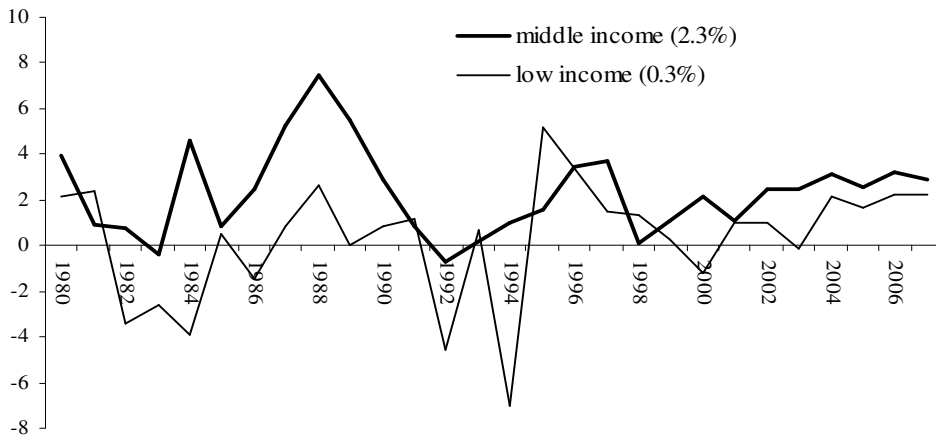


Figure: 3
 Export growth for 13 East, Central and Southern African countries, 1980-2007 (constant price)

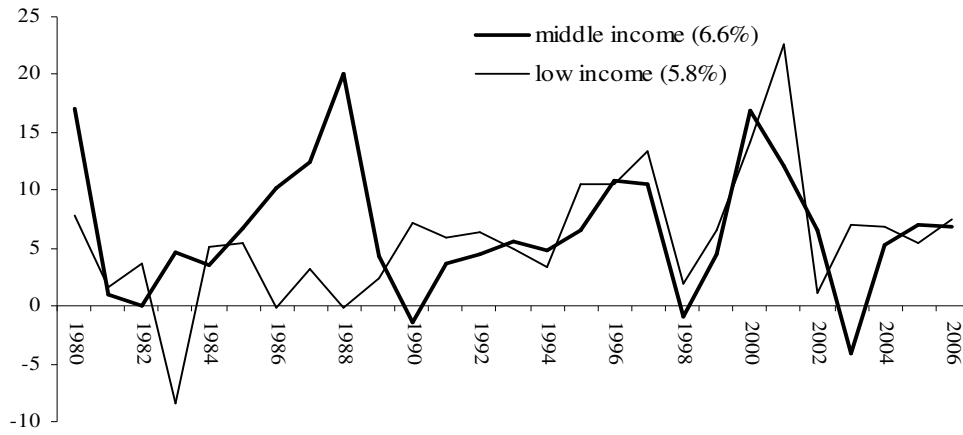


Figure: 4
 Export share in GDP for 13 East, Central and Southern African countries, 1980-2007

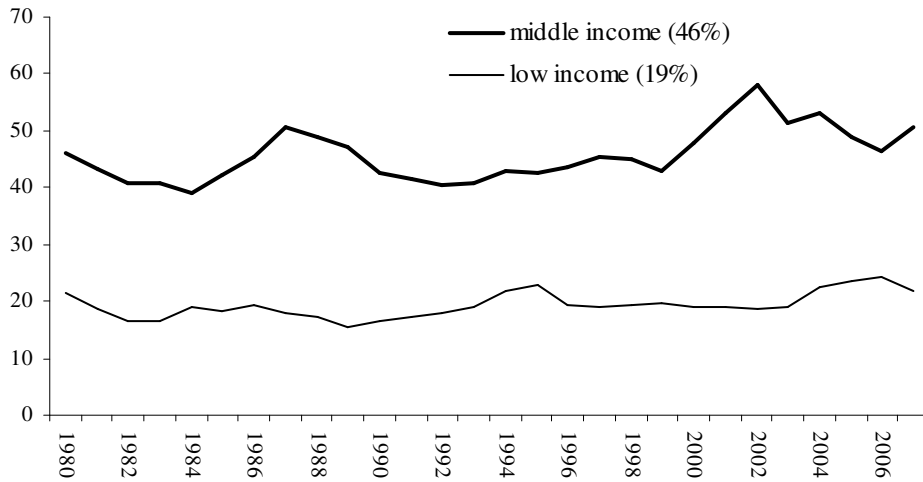


Figure: 5
 Import share in GDP for 13 East, Central and Southern African countries, 1980-2007

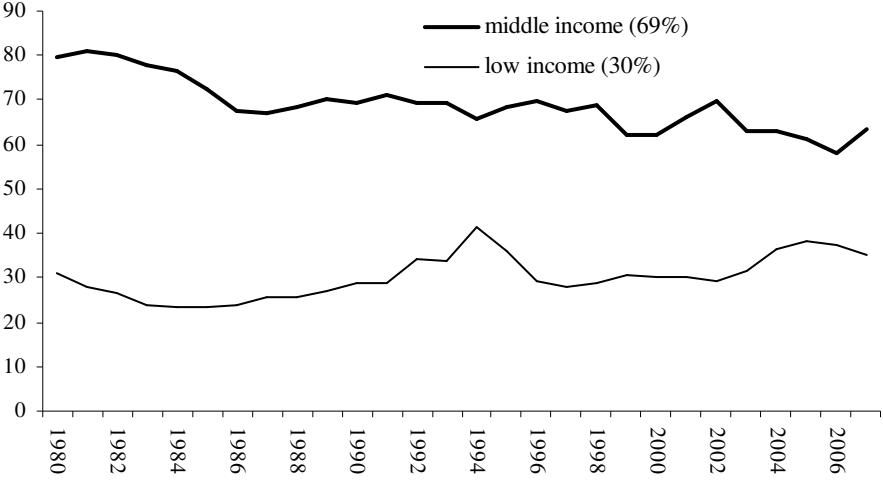


Figure: 6
 Trade balance, share in GDP for 13 East, Central and Southern African countries, 1980-2007

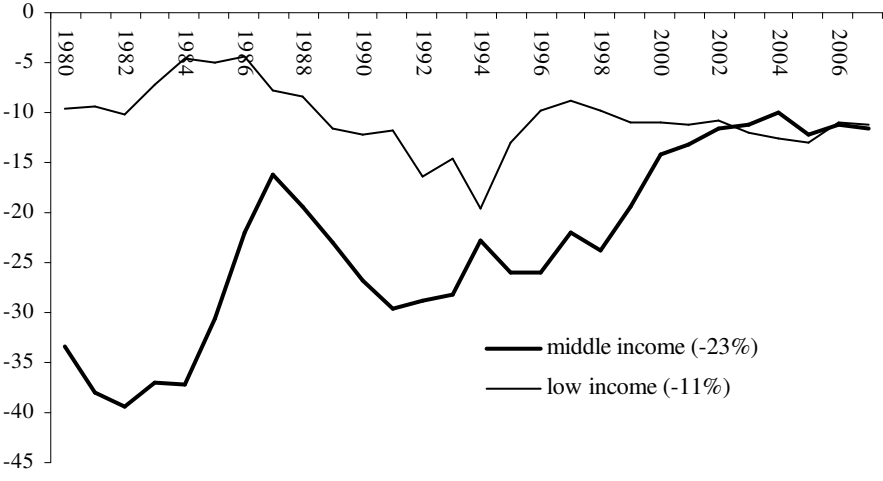


Figure: 7
 Current account balance, with and without ODA, 13 East,
 Central and Southern African countries

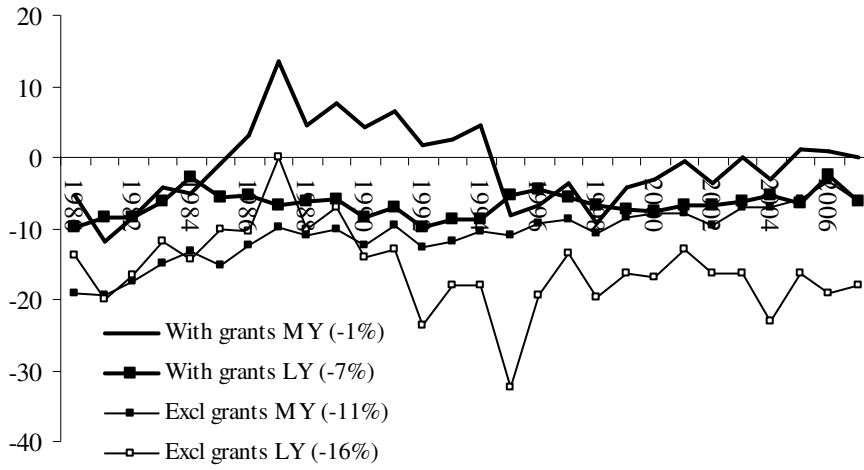
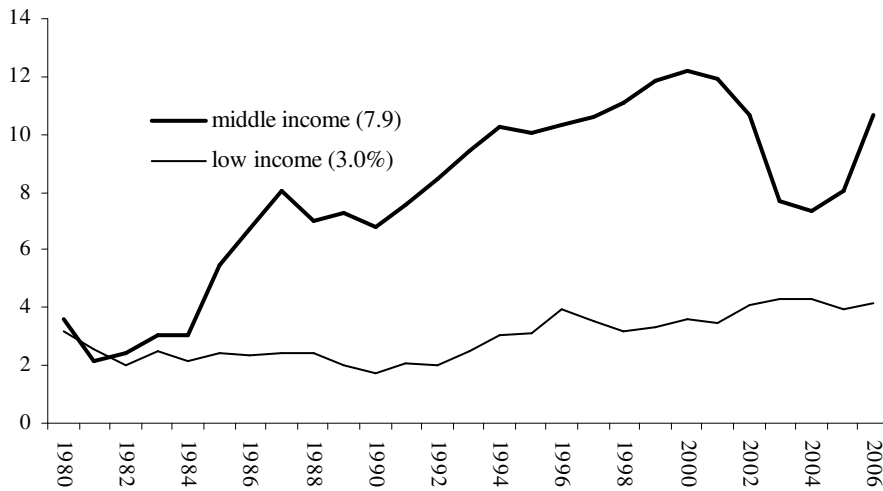


Figure: 8
 Foreign Exchange Reserves in months, 13 East, Central
 and Southern African countries, 1980-2006



Note: Period average in parenthesis.

Figure: 9

Price deflated exchange rates, 13 East, Central and Southern African countries, 1980-2006

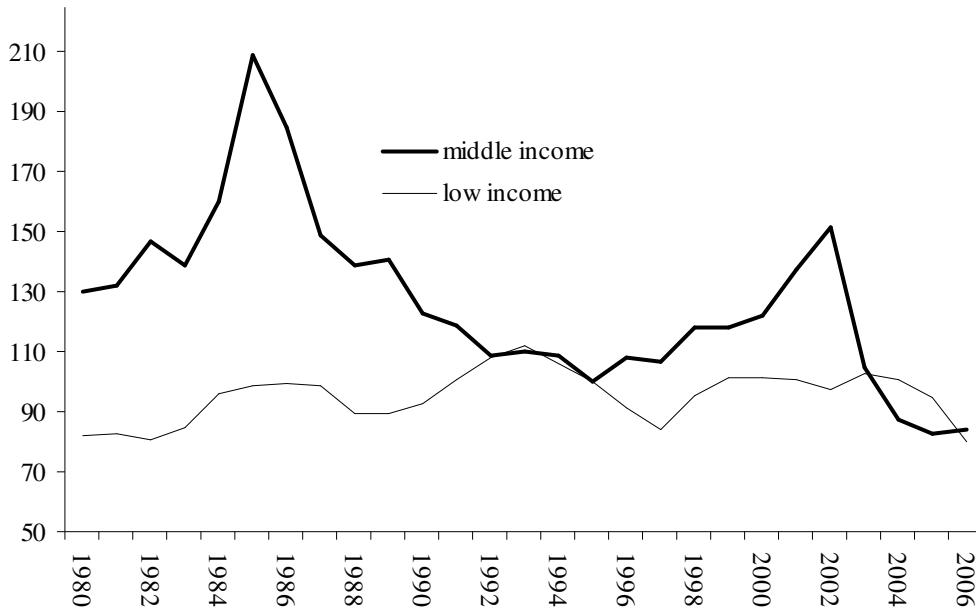


Figure: 10
Total revenue excluding ODA, share of GDP, 12 East, Central and Southern African Countries, 1992-2007

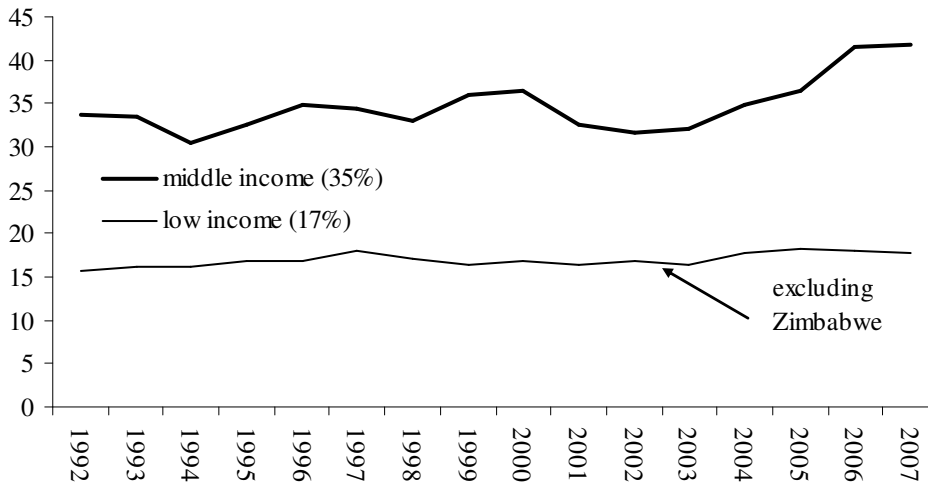


Figure 11:

Fiscal Deficit including ODA, share of GDP, 12 East, Central and Southern African Countries, 1992-2007

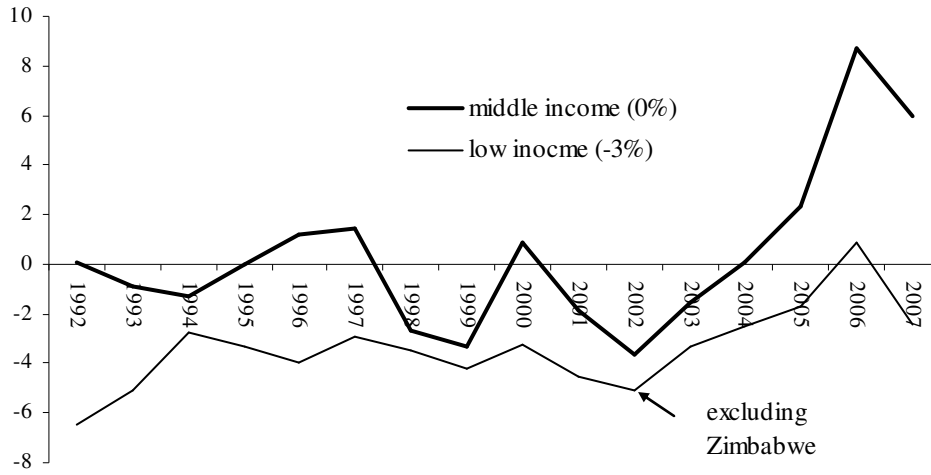


Figure: 12

Fiscal Deficit excluding ODA, share of GDP, 12 East, Central and Southern African Countries, 1992-2007

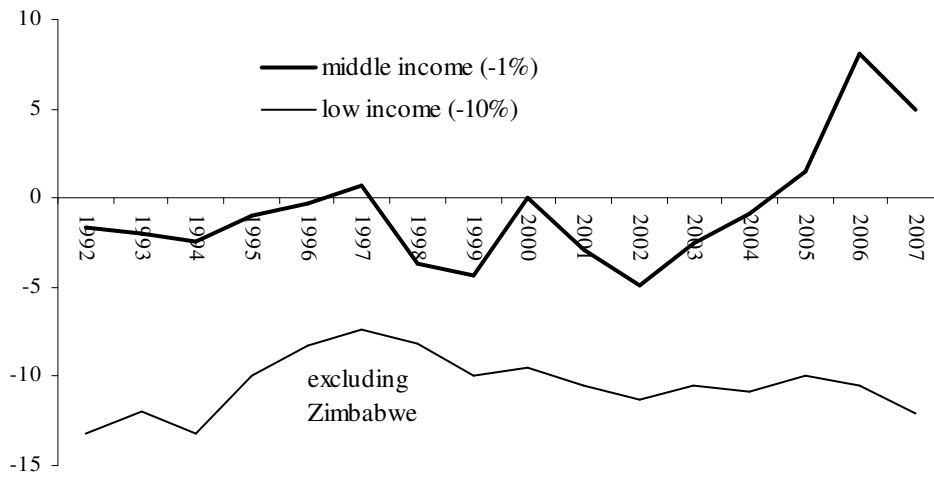
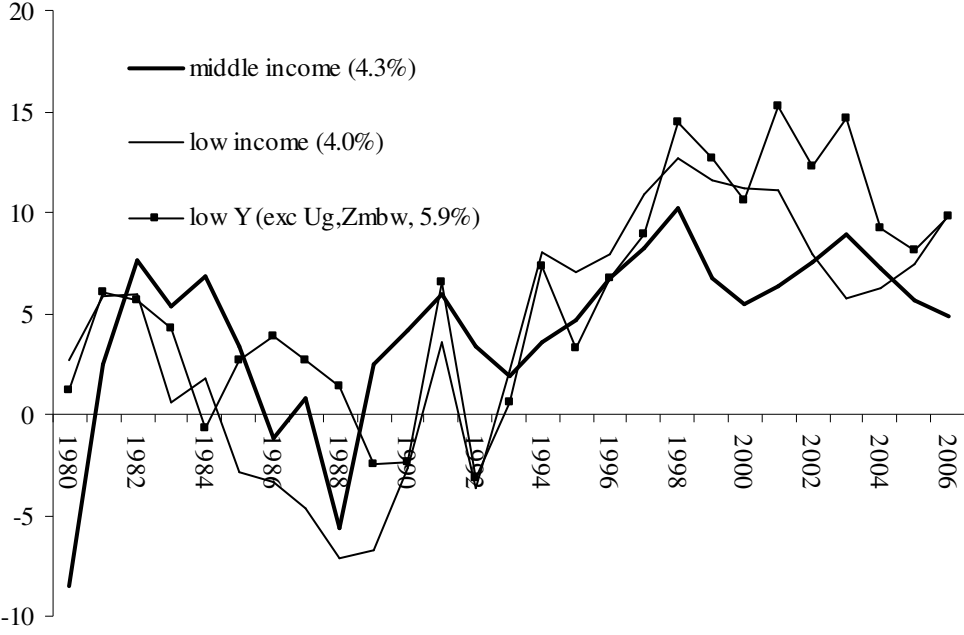


Figure: 13

Inflation deflated lending rates, 13 East, Central and Southern African countries, 1980-2006



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¹ Fallacy of composition refers to the possibility that what seems true for one producer (a lower price increases sales) may not be true if all producers take the same measure.

² While the term 'informal' is almost invariably used to refer to all borrowing and lending activities outside the commercial financial system, it is a misnomer, because these activities are quite formalized in terms of behaviour. More accurate would be the dichotomy 'regulated' and 'unregulated'.