



Economic Overview

In general, the outlook for real GDP growth in 2011 is favorable in Southern Africa. More than half the economies are projected to expand by six percent or more this year. By contrast, among the countries not projected to expand rapidly this year are Lesotho, Swaziland, and South Africa. The tepid growth rate in South Africa, the largest economy in the region, is a restraint on overall growth for Southern Africa.

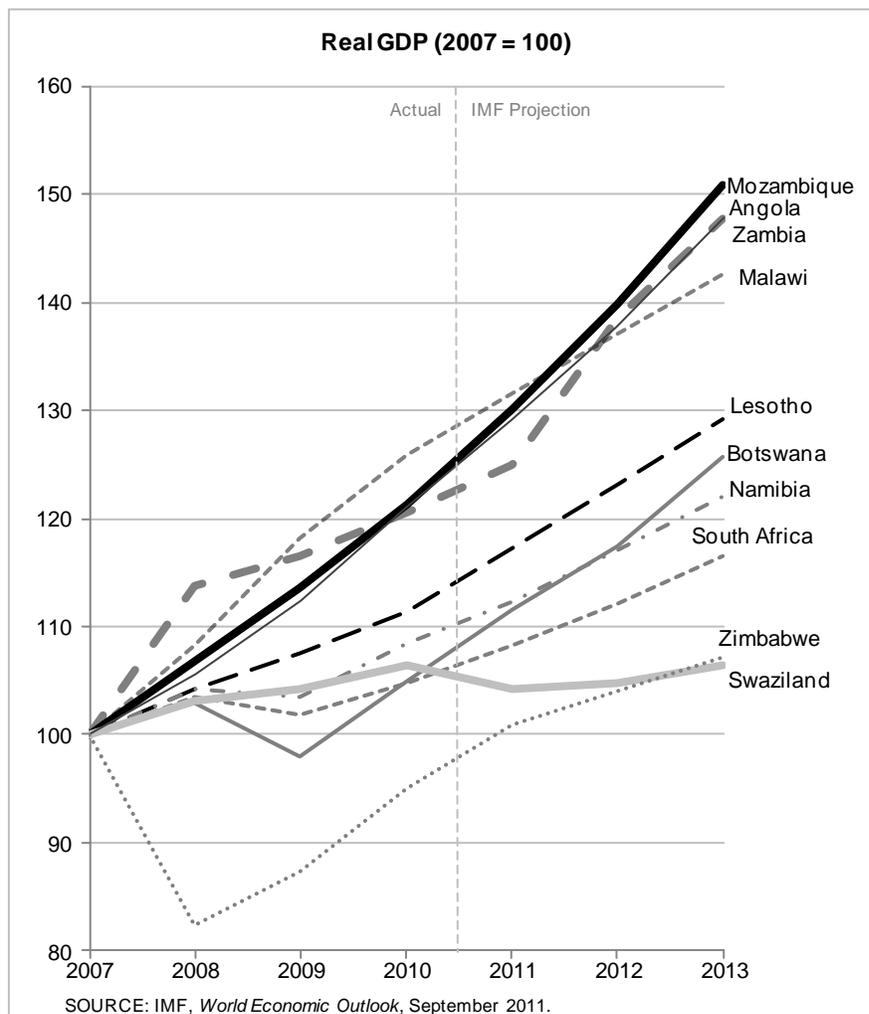
There are various causes of expansion in the countries with the strongest growth, including Angola, Mozambique, and Zambia.

The Angola expansion continues to reflect oil and diamond sector strength, but is augmented by favorable outcomes for agriculture and by sustained credit inflows for large infrastructure projects. Mozambique is sustaining fast growth presently due to foreign investment flows (led by the coal sector), higher prices for key exports

such as aluminum, and a strong performance in agriculture. Special economic zones (SEZs) are being introduced this year in Mozambique as the government seeks to diversify the economy. In Zambia, the economic expansion is more broadly-based across sectors, with fast growth in agriculture, mining, tourism, and manufacturing. The Zambian construction sector is booming.

South African economic growth is projected to only be 3.5 percent this year, but the IMF projects that the pace will pick up next year and in 2013. However, that optimistic projection rests on the view that the world economy is accelerating and that South Africa's exports are due for a boost. A quickening of domestic demand on its own terms is harder to envision.

Economic growth in Southern Africa has been generally boosted by positive developments in agriculture. As the largest sector in most economies, agricultural growth is essential for overall expansion. One notable trend in



Southern Africa is the emergence of Malawi as a net food exporter within the last five years and policy reforms in Zambia to similarly boost productivity.

Political risks to the economic outlook for Southern Africa are mild. Three countries (Lesotho, Zambia, and Zimbabwe) had or will have elections in 2011. Zimbabwe had a decade of political turmoil end with the new government in 2009. Its new found political stability has boosted economic growth.

As is the case in many Sub-Saharan countries, growth prospects rely largely on continued strength in commodity prices and demand worldwide. High but stable oil prices are favorable for oil-exporting Angola, but significantly higher oil prices would undercut the oil-importing countries in the region.

World Bank Income Groups

Three of the Southern African countries are in the World Bank's Low Income group: Malawi, Mozambique, and Zimbabwe. The rest are split between the Lower Middle Income and Upper Middle Income categories.

Over the past decade, Southern Africa's growth experience has filled a wide span, essentially covering the A to Z of economic growth rates. The range of experience has run from rapidly growing Angola to slowing declining Zimbabwe. In Angola, the oil and diamond sectors have grown rapidly, benefitting from a worldwide commodities boom. Zimbabwe has tread the opposite course. Agricultural output started to collapse in the late 1990s and other sectors have been hit hard. In recent times, the economy has expanded- but not by enough to even raise income levels back to where they were more than a decade ago.

Fiscal Policy

South Africa's fiscal policy has been expansionary in recent years, partly due to increased spending on infrastructure in advance of the World Cup. The consolidated fiscal deficit increased to 6.9 percent of GDP in fiscal year 2009/10, but is now on a course of moderate decline.

A donor-supported program of improve public financial management in Malawi since 2006 has achieved stronger fiscal revenue collection. The primary fiscal balance shifted into a small surplus for 2010. Continued rises in government capital spending, along with a fall back in official grants, are shifting the fiscal balance into deficits for this year and next.

Lesotho is running relatively large fiscal deficits caused by increases in infrastructure spending and a decline in revenue from customs duties. Diversifying away from an excessive reliance on customs for government revenue remains Lesotho's biggest public finance challenge.

Mozambique's fiscal policy is firmly expansionary, driven mostly by an ambitious program of public works projects. Namibia adopted an aggressively expansionary fiscal stance when the world financial crisis hit and the current budget continues to inject stimulus. Swaziland adopted a "Fiscal Adjustment Roadmap" a year ago, a wide-ranging set of tax and spending reforms. In Zambia, the budget gaps have been steadily rising as revenue shortfalls have more than offset government efforts to limit spending.

Monetary Policy

Membership in the Common Monetary Area and an exchange rate peg to the South African rand impose limits on monetary policy discretion for Namibia, Swaziland, and Lesotho. To the extent possible, all three countries are currently adopting expansionary monetary policies.

South Africa cut official interest rates in 2010, but has maintained a steady monetary policy in 2011. The Reserve Bank’s repurchase rate, at 5.5 percent, stands at the lowest level in three decades. Following several years of a steady monetary policy and a stable exchange rate versus the U.S. dollar, the Reserve Bank of Malawi lowered its policy rate in August 2010. Lending rates in the Malawian economy have eased by a corresponding amount. In Zambia, central bank efforts to lower interest rates are being limited by inflationary pressures.

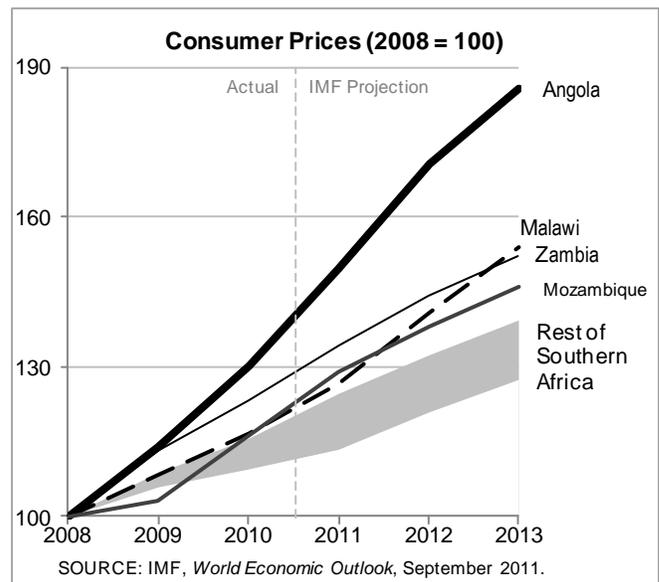
Mozambique is responding to currency depreciation and rising inflation by raising interest rates. The key interest rate on the standing lending facility was raised to 16.5 percent in February 2011, up 400 basis points in little more than a year. Bank reserve requirements have also been tightened.

Real GDP Growth Rates, 2010	West Africa 6.3%	East and Central Africa 6.0%	Southern Africa 3.1%
-----------------------------	---------------------	---------------------------------	---------------------------------

Inflation

Partly because economic growth has been modest over the past decade, inflation has not been a pressing issue for most of Southern Africa. The glaring exception is Angola, which has frequently experienced double-digit annual inflation rates. In just over a decade, consumer prices in Angola have increased by nearly twenty times. The pace of inflation has been lessened in the last three years, but Angola remains the most inflationary economy in Southern Africa.

On a lesser scale, inflation presents a significant problem for Malawi, Zambia, and Mozambique. Malawi’s inflation rate rose to 8.4 percent in 2009, but has been easing the last two years. If crop harvests remain good and oil prices do not rise sharply, Malawi should be able to keep slowing inflation over the next two years. In Zambia, the inflation has tracked a similar pattern: increase in 2009 before easing over the last two years. A bumper crop for maize has undercut pressures on food prices. In Mozambique, inflation accelerated to a double-digit pace in 2010. Phasing out fuel subsidies and rising international oil prices both raised the inflation rate for energy. A poor year for Mozambican agriculture put upward pressure on food prices.



Inflation Trends

Typically high inflation: Angola and Zimbabwe have had the worst problems with avoiding chronically high inflation since 1990. Zambia has managed to have achieved relative price stability in the past decade after a highly inflationary 1990s.

Moderate inflation: South Africa, Lesotho, and Swaziland (reflecting a measure of price convergence) have had a relatively good record of keeping inflation low throughout the past two decades.

By contrast, inflation since 2008 in the other six Southern African countries has been within the grey shaded cone in the graph. In each case, governments need to work towards meeting a lower target for inflation, but the pressures are relatively mild.

Consumer Price Inflation, 2011 (projected)	West Africa 8.7%	East and Central Africa 8.4%	Southern Africa 6.9%
--	---------------------	---------------------------------	---------------------------------

Banking and Financial Sector

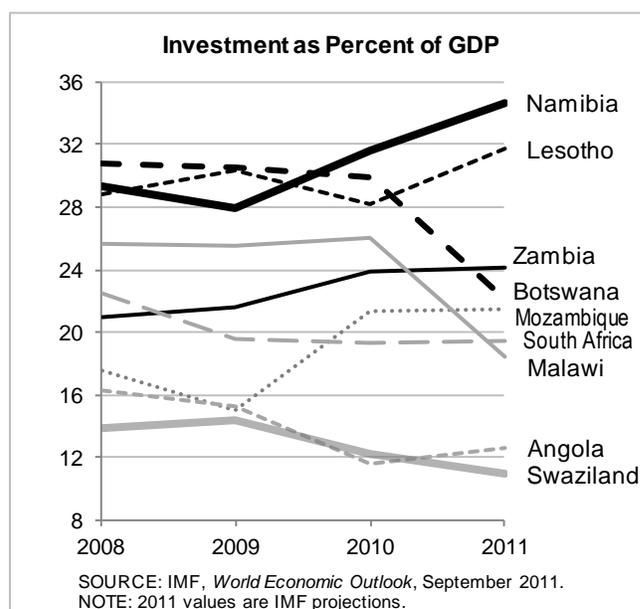
The expansion of domestic credit to the private sector has been mostly mild in Southern Africa over the past decade. Angola has boosted domestic credit as the oil sector has expanded, but data for the past two years would likely show a cutback as the government has tightened monetary policy to curb inflation and strengthen the exchange rate. Recognizing that inadequate access to credit (particularly in the rural parts of the country) is hampering industrial growth in Mozambique, the government is working to implement IMF recommendations under the Financial Sector Assessment Program. In Namibia, the banking system is unusual for its relative liquidity due to savings and pensions deposits. An improved business environment would encourage the private sector to avail itself of the credit on hand.

Investment

Unlike many countries in other regions, the Southern African economies as a group averted a notable drop in investment in the wake of the slowdown in the world economy in 2008. Investment as a percent of GDP held steady or dipped only slightly for most countries.

Namibia, Zambia, and Lesotho have been sustaining investment increases over the past six years and into the present. In Namibia's case, the upswing in investment is led by the mining sector (particularly uranium); the country could benefit from more diversified investments. In Zambia, the government has facilitated investment by creating Multi-Facility Economic Zones (MFEZs). In Lesotho, the investment gains are led by the textile and clothing industries and have spurred significant employment growth.

Swaziland's investment remains sluggish, but the government is working with donors to implement reforms so that the business climate is more conducive to investment.



Although some Southern African countries are raising their investment levels as economic growth strengthens in the short term, the past decade has seen a mixed record for investment growth in the subregion. Nearly half the countries now invest a smaller percent of their GDP than in 2001. As a group, they have lower investment than in other parts of Sub-Saharan Africa.

Investment as a Percent of GDP, 2010	West Africa 24.6%	East and Central Africa 23.9%	Southern Africa 20.0%
--------------------------------------	----------------------	----------------------------------	----------------------------------

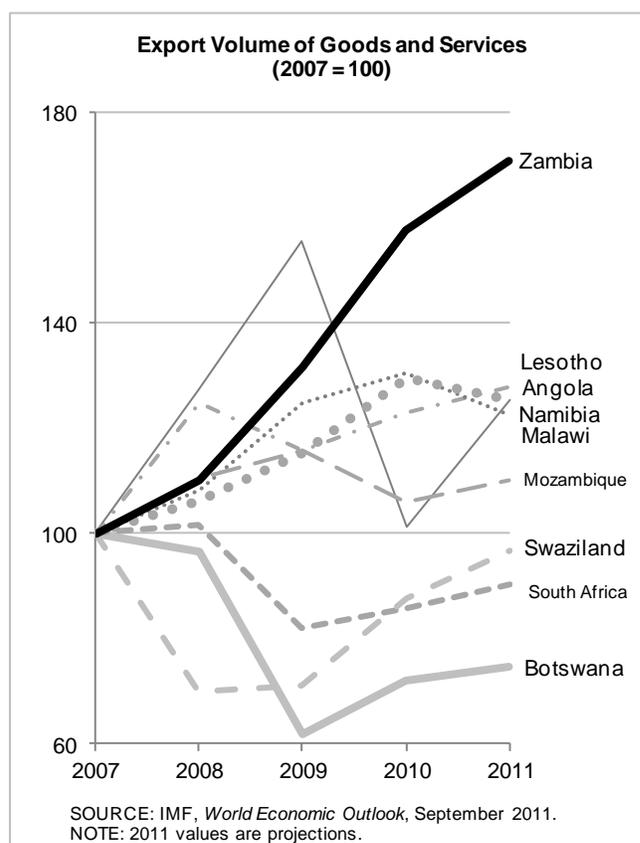
Trade

Southern Africa trade has been held back by generally mild economic growth in South Africa- the largest economy in the region. Another limiting factor is that China, rather than neighboring countries, is an increasingly important trading partner for South Africa. In some countries, such as Swaziland, the narrow export base is a restraint on trade growth.

Namibian trade bounced back in 2010 and remained strong this year as mining operations expanded and favorable weather boosted agriculture. Higher output from mining has also boosted exports for Lesotho, even as that country's textile sector is being squeezed by currency appreciation.

Over the past few years, Zambia has posted the largest growth in exports of goods and services. Both the agriculture and mining sectors have expanded their output, taking advantage of rising world demand. Manufacturing exports have also gotten a boost from the establishment of Multi-Facility Economic Zones.

Taking a long-term perspective, while the last two years have had some positive trends for increased trade by Southern African countries, the past decade has generally not seen significant gains. Malawi is the notable exception. The export volume of goods and services for Malawi has multiplied several-fold since 2001. However, Malawi is currently being hit by a decline in exports as recent droughts restrain agricultural production. The biggest risk for Malawi trade, which remains largely undiversified, is that demand for burley tobacco (a major export) is in long-term decline.

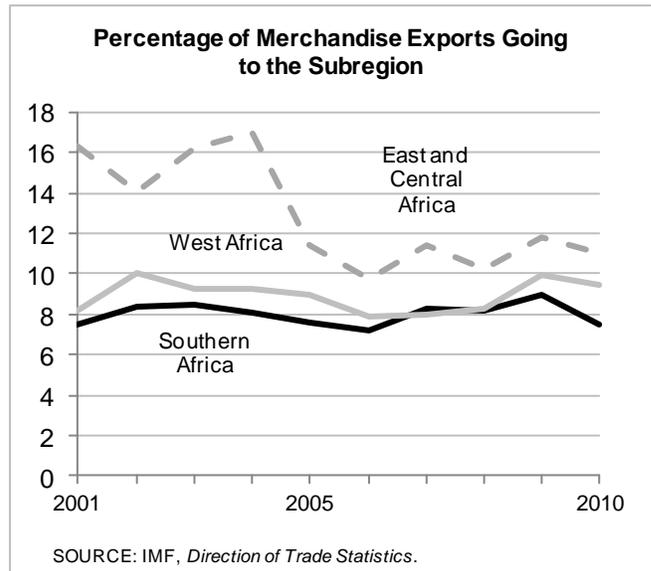


Percentage Change in Export Volume of Goods and Services, 2010	East and Central Africa 8.6%	Southern Africa 4.6%	West Africa -1.6%
--	---------------------------------	---------------------------------	----------------------

Regional Integration

Relative to other subregions in Sub-Saharan Africa, the Southern African countries are the least integrated as measured by intraregional trade share in merchandise exports. As the graph shows, the percentage of merchandise exports from Southern African countries which were destined for other Southern African countries has been fairly stable for the past decade and is lower than in either East or West Africa. (NOTE: Due to data limits, the trend line for Southern Africa is an estimate based on data for six of the countries in the subregion.)

Even with rapid growth in the other Southern African countries, South Africa remains the largest economy and exporter in the subregion. The direction of trade integration in Southern Africa will depend heavily on the extent to which South Africa’s closest neighboring economies can achieve rapid income growth and become more robust markets for South Africa’s exporters.



Promotion of Regional Integration

Two regional organizations which promote Southern African integration are the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA). All ten of the countries covered by this report are in SADC. Four are in COMESA.

Additional Information

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

Sources used in compiling this report include the semi-annual World Economic Outlook from the International Monetary Fund (<http://www.imf.org/>) and the Global Economic Prospects from the World Bank (<http://www.worldbank.org/>).