

# SOUTHERN AFRICAN DEVELOPMENT COMMUNITY



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## ABBREVIATIONS

ADB	-	African Development Bank
AGIP Spa	-	AGIP Spa
AIDAB	-	Australian International Development Aid Bureau
ANG	-	Angola
AUS	-	Australia
AUST	-	Austria
BADEA	-	Arab Bank for Economic Development in Africa
BEL	-	Belgium
BOT	-	Botswana
BRA	-	Brazil
CAN	-	Canada
CBI	-	Confederation of British Industries
CFTC	-	Commonwealth Fund for Technical Cooperation
CHI	-	Peoples Republic of China
CITES	-	Convention on International Trade Endangered Species
DEN	-	Denmark
EEC	-	European Economic Community
FAO	-	Food and Agriculture Organisation of the United Nations
FIN	-	Finland
FRA	-	France
FRG	-	Federal Republic of Germany
IBRD	-	International Bank for Reconstruction and Development
ICAO	-	International Civil Aviation Organisation
ICE	-	Iceland
IDA	-	International Development Association
IDRC	-	International Development Research Centre
IDU	-	International Development Unit of the Commonwealth Secretariat
IFAD	-	International Fund for Agricultural Development
ILO	-	International Labour Organisation
IMPOD	-	Import Promotion office for Products from Developing Countries
IRE	-	Ireland
ISNAR	-	International Service for National Agricultural Research
ITA	-	Italy
ITB	-	International Tourism Board
ITU	-	International Telecommunications Unit
JAP	-	Japan
KUW	-	Kuwait Fund
LES	-	Lesotho
MAL	-	Malawi
MOZ	-	Mozambique
MAU	-	Mauritius
NAM	-	Namibia
NET	-	Netherlands
NOR	-	Norway
NORDICs	-	Nordic countries
OPEC	-	Organisation of Petroleum Exporting Countries

POR	-	Portugal
PTA	-	Preferential Trade Area
SADC	-	Southern African Development Community
SADCC	-	Southern African Development Coordination Conference
SAF	-	South Africa
SAFTTA	-	Southern African Federation of Travel and Tour Associations
SAREC	-	Swedish Agency for Research Cooperation with Developing Countries
SATEP	-	ILO Southern African Team for Employment Promotion
SPA	-	Spain
SWA	-	Swaziland
SWE	-	Sweden
SWI	-	Switzerland
TAN	-	Tanzania
TAZARA	-	Tanzania Zambia Railway Authority
UAPTA	-	Unit of Account of the Preferential Trade Area
UK	-	United Kingdom
UNDP	-	United Nations Development Programme
UNIDO	-	United Nations Industrial Development Programme
USA	-	United States of America
USSR	-	Union of Soviet Socialist Republics
WB	-	World Bank
ZAM	-	Zambia
ZIM	-	Zimbabwe

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## 1. EXECUTIVE SUMMARY

### 1.1 THE REGIONAL POLITICAL SITUATION

1.1.1 The SADC Organ on Politics, Defence and Security was launched on 28 June 1996 in Gaborone, Botswana. The Organ will be chaired by His Excellency, President Robert Mugabe of Zimbabwe. The Organ will become the foremost institution of SADC, mandated to address issues relating to political stability, conflict prevention, management and resolution, democracy and human rights, as well as issues pertaining to peace.

1.1.2 The political situation in the region has remained stable over the period under review.

1.1.3 Although the Angolan peace process had registered some progress as far as the cease fire was concerned, it was important to note the delays caused by UNITA that had led to great difficulties in the implementation of actions which would guarantee stability and lasting peace in Angola. There had been delays in the implementation of the fundamental aspects of the Lusaka Protocol, namely the selection and integration of the UNITA forces into the Angolan Armed Forces (FAA), the return of UNITA generals into the FAA, the removal of obstructions to the free movement of people and goods, and the restoration of the authority of the State throughout

national territory, as well as the conclusion of the amendments to the constitution so as to permit the creation of the offices of VicePresident.

1.1.4 Following the elections in October 1994, the Government and the people of Mozambique have made significant strides in consolidating peace and stability. Institutions of democracy were being strengthened and preparations were also underway for the holding of the first local government elections. The Government was implementing concrete plans for the reconstruction and transformation of the economy, and these were already beginning to show some positive results.

1.1.5 The situation in Zambia surrounding the constitutional debate was receiving attention from the Government and people of Zambia. The Government had put in place mechanisms to ensure that the elections later in the year were free and fair.

1.1.6 The constitutional process in Swaziland had formally been put in place following the official launching of the constitutional Review Commission. Internal national consultations were ongoing between the Commission and the citizens. The consultations were expected to result in an acceptable and sustainable dispensation for the Swazi Nation.

1.1.7 With respect to South Africa, the recent Local Government elections in KwaZulu-Natal were completed peacefully. These had brought a large measure of hope for peace and stability in that Province. It was hoped that these measures and others being put in place would go a long way towards ending violence and instability in the Province. The Government had also put in place strategies for combating crime generally throughout the country. These were already showing positive results.

1.1.8 The Government and the people of Lesotho continued to work together to consolidate peace and stability. The causes of political conflict were being addressed in order to pre-empt the recurrence of violence and instability in the country.

1.1.9 Political stability, peace, democracy and human rights continue to be deepened throughout Southern Africa. Multi-Party General Elections are being held throughout the region, and other political reforms, especially the electoral systems to ensure transparency and predictability of the systems and constitutional reforms, are being put in place. These measures are very necessary for the promotion of investment flows and the improvement of the overall investment climate of the region. As a result of these measures, the world attention to Southern Africa, especially by the international private sector investors

has been increasing considerably.

## 1.2 THE REGIONAL DROUGHT AND FOOD SECURITY SITUATION

1.2.1 With regard to the regional drought and food security situation, a preliminary review which assesses the availability/requirement position for maize and wheat only as the major staples in the SADC region has been made.

1.2.2 These forecasts indicate an above average cereal harvest of 26.36 million tonnes for 1995/96 crop season, a 62 per cent increase over the 1994/95 harvest of 16.27 million tonnes. Maize output was forecast at 20.24 million tonnes, an increase of 80 per cent over 1994/95 of 11.27 million tonnes and was also 15 per cent higher than the SADC average of 17.50 million tonnes. Total domestic maize availability (forecast opening stocks plus surplus production) was projected at 20.79 million tonnes as against projected requirements of 17.74 million tonnes including projected Strategic Grain Reserves (SGR) stocks of 1.56 million tonnes, giving a surplus of 1.49 million tonnes. Substantial maize output was forecast for all SADC member States, with South Africa, Zimbabwe and Botswana anticipating 100 per cent increases.

1.2.3 Production of the 1996 winter wheat crop is projected to rise to 2.87 million tonnes over last

season's harvest of 2.35 million tonnes due to increased availability of irrigation water particularly in South Africa and Zimbabwe.

1.2.4 Production forecasts for rice and sorghum/millet have also improved substantially over last year's levels.

1.2.5 Despite these impressive cereal harvest production levels, Namibia had experienced consecutive years of drought and had declared a drought emergency. A working figure of 180,000 vulnerable people affected by the drought had been established for planning purposes, and the Government was working closely with the international cooperating partners to assess the exact numbers and locations of those affected and what type of assistance to be provided.

### 1.3 GROWTH IN OUTPUT

1.3.1 During 1995, the world economy slowed down slightly to register a growth of 3.5 per cent as compared to the strong performance of 3.7 per cent for 1994. Most industrialised countries demonstrated a significantly slower expansion of economic activity during 1995 than during 1994. Industrialised countries as a whole recorded a 2.1 per cent growth in real GDP, compared to 2.8 per cent in 1994.

1.3.2 Growth in the developing countries as a group was projected to have slowed down in 1995. De-

veloping countries' GDP grew by 5.9 per cent in 1995 compared to 6.4 per cent in 1994. Rapid expansion continued in Asia. As a group, the Asian countries, economies grew by 8.4 per cent in 1995. While in Africa economic activity showed remarkable performance with GNP recording 3.2 per cent growth which was significantly higher than that of Latin America whose GDP grew at a mere 0.9 per cent in real terms and only slightly less than the Middle Eastern region whose GDP expanded by 3.7 per cent in 1995; while in Central and Eastern Europe GDP grew by 1.4 per cent in 1995.

1.3.3 The SADC region's 1995 GDP rose by 3.5 per cent, as compared to 2.7 per cent in 1994. The strong performance of the South African economy in 1995 of 3.4 per cent growth on the one hand, and the particularly high growth rates of Angola and Malawi of 9.2 and 9.9 per cent, respectively, on the other hand, contributed significantly to this result.

1.3.4 The very strong growth of Angola and Malawi represented a recovery of these economies from recessions in previous years, in the course of which Angola's economic activity, in 1993, recorded a dramatic contraction equivalent to 24 per cent while Malawi's output, in 1994, had fallen by 12.4 per cent.

- 1.3.5 The SACU countries' economic growth rates, in 1995, ranged around that of South Africa, with Lesotho and Botswana recording somewhat higher growth (7.4 and 4.4 per cent, respectively) than South Africa (3.4%), while Swaziland and Namibia recorded somewhat lower rates (3.1 and 1.7 per cent, respectively).
- 1.3.6 Mauritius, Mozambique and Tanzania are cases where economic growth in 1995 continued along the encouraging trend of rapid expansion of output experienced already since the beginning of the decade, with the exception of Mozambique, where the upswing started only after the peace accord in late 1992.
- 1.3.7 Finally, Zambia and Zimbabwe represent the group of weak SADC performers in 1995. Both economies recorded negative growth of 3.9 and 1.1 per cent respectively. In the case of Zambia, this is the second consecutive year of recession, adding on to the decline of 5.1 per cent of output recorded during 1994. In Zimbabwe's case, the decline in output was less pronounced and took place after a period of significant growth during 1993 and 1994.
- 1.3.8 These developments in the world economy had mixed implications for world demand and therefore prices and inflation.
- 1.3.9 With regard to world commodity prices, the following developments which had an impact on

Africa in general, and SADC countries, exports in particular, obtained:

- 1.3.9.1 World prices for copper, which had risen by some 20 per cent already in 1994 over their 1993 level, surged another 28 per cent in 1995 and reached a particularly high level in the third quarter of the year. However, towards the end of 1995 and the beginning of 1996, world copper prices weakened somewhat. In February 1996, copper prices stood at 13 per cent lower than their 1995 average, but still 10 per cent higher than their 1994 average.
- 1.3.9.2 World prices of both, nickel and tin, during 1995, exceeded their 1994 levels by 30 and 11 per cent, respectively, while the 1995 average price of manganese was some 5 per cent below that of 1994.
- 1.3.9.3 World prices for beef, which had fallen already in 1994 by some 11 per cent, continued their downward development dropping by another 18 per cent in 1995. The shake-up of the market in the wake of the UK cattle disease in 1996 and the change of consumer behaviour hint towards further deterioration of prices during 1996.
- 1.3.9.4 Cotton prices, in 1995, were 23 per cent higher than in 1994, and no less than 53 per cent higher than in 1993.



1.3.9.5 World prices for agricultural commodities showed a disperse performance during the last year: average sugar prices, in 1995, were some 10 per cent higher than in 1994 and maintained comfortably high levels during January and February 1996; world groundnuts and world tea prices, on the other hand, dropped in 1995 by 5 and 10 per cent, respectively.

1.3.9.6 With respect to SADC countries imports, the most important commodity is petroleum. World market prices of this commodity, during 1995, rose by some 8 per cent over the average price prevailing in 1994. Prices rose to an even higher level during the months of December 1995 to February 1996, but with the possibility of Iraq re-entering the market and imports from the North Sea producing countries increasingly putting the OPEC cartel under price pressure, projections for 1996 and beyond point to a short- and medium-term decline of world petroleum prices.

#### 1.4 INFLATION

1.4.1 Inflation in developing countries, African countries and SADC countries in particular showed signs of encouragement.

1.4.2 Both, developing as well as the African countries recorded achievements with respect to reducing inflation during 1995. Consumer prices in developing countries and Africa, in 1995,

rose by 19.9 per cent and 25.8 per cent respectively, compared to 48 per cent and 33.8 per cent, respectively, in 1994. Thus, the reduction of inflation was significantly more pronounced in developing countries in general, than for the African economies, where inflation is now higher than in the developing world - contrary to what was the situation in 1993 and 1994.

1.4.3 All SADC countries recorded some progress with respect to containing inflation in 1995, with the exception of Malawi, where inflation accelerated markedly to reach 56.5 per cent in 1995, compared to 34.6 per cent in 1995.

1.4.4 The formerly war-torn economies of Angola and Mozambique, on the other hand, managed to slow down inflation very significantly: in the case of Angola, hyperinflation of 1,379 per cent in 1993 seems now to be a phenomenon of the past, as inflation could be brought down to a rate of 43 per cent in 1995. In Mozambique, where inflation had temporarily accelerated in 1994, consumer price increases, in 1995, were brought back to the level of 1993 and recorded 44.3 per cent.

1.4.5 In all the other SADC countries, inflation decelerated somewhat in 1995, though not dramatically.

- 1.4.6 The SACU bloc, as in earlier years, recorded one digit inflation rates with consumer price rises, during 1995, of slightly below 10 per cent, thus showing the best record within SADC - with the exception of Mauritius, where consumer price increases were even less (6.1 per cent).
- 1.4.7 Tanzania, Zambia and Zimbabwe, in 1995, experienced consumer price increases of between 22 and 30 per cent, which represents an improvement in the case of the first two countries, while in Zimbabwe no major change was recorded.
- 1.5 Implementation of the SADC Programme of Action (SPA), continued during the reporting period. In accordance with various decisions made at the Council of Ministers meetings on rationalisation of the SPA, most of the Sectors have streamlined their programmes and the project portfolio under the SPA has been constantly under review. The size of the SPA has therefore either been maintained or reduced in accordance with the process of rationalisation. The size of the SADC Programme of Action therefore stands at 380 projects costing at US\$8.109 billion with 49.5 per cent funding secured.
2. **REVIEW OF THE POLITICAL SITUATION**
- 2.1. The Summit met in Gaborone, on June 28, 1996 to launch the SADC Organ on Politics, Defence and Security under the Chairmanship of His Excellency, President Robert Mugabe of Zimbabwe. The Summit also reviewed the political situation in the region. The Organ will become the foremost institution of SADC, mandated to address issues relating to political stability, conflict prevention, management and resolution, democracy and human rights, as well as issues pertaining to peace.
- 2.2 The political situation in the region has remained stable over the period under review.
- 2.3 Although the Angolan peace process had registered some progress as far as the cease fire was concerned, it was important to note the delays caused by UNITA that had led to great difficulties in the implementation of actions which would guarantee stability and lasting peace in Angola. There had been delays in the implementation of the fundamental aspects of the Lusaka Protocol, namely the selection and integration of the UNITA forces into the Angolan Armed Forces (FAA), the return of UNITA generals into the FAA, the removal of obstructions to the free movement of people and goods, and the restoration of the authority of the State throughout national territory, as well as the conclusion of the amendments to the constitution so as to permit the creation of the offices of Vice-President.
- 2.4 Following the elections in October 1994, the Government and

- the people of Mozambique have made significant strides in consolidating peace and stability. Institutions of democracy were being strengthened and preparations were also underway for the holding of the first local government elections. The Government was implementing concrete plans for the reconstruction and transformation of the economy, and these were already beginning to show some positive results.
- 2.5 The situation in Zambia surrounding the constitutional debate was receiving attention from the Government and people of Zambia. The Government had put in place mechanisms to ensure that the elections later in the year are free and fair.
- 2.6 The constitutional process in Swaziland had formally been put in place following the official launching of the constitutional Review Commission. Internal national consultations were ongoing between the Commission and the citizens. The consultations were expected to result in an acceptable and sustainable dispensation for the Swazi Nation.
- 2.7 With respect to South Africa, the recent Local Government elections in KwaZulu-Natal were completed successfully. These had brought a large measure of hope for peace and stability in that Province. It was hoped that these measures and others being put in place would go a long way towards ending violence and instability in the Province. The Government had also put in place strategies for combating crime generally throughout the country. These were already showing positive results.
- 2.8 The Government and the people of Lesotho continued to work together to consolidate peace and stability. The causes of political conflict were being addressed in order to preempt the recurrence of violence and instability in the country.
- 2.9 The Government of Tanzania continues to spearhead the search for peace with respect to the problems of the conflicts in Burundi. The former President of Tanzania, Mwalimu Julius Nyerere, is centrally involved in rallying all the leadership of the East African region in the search for lasting peace in Burundi and Rwanda. If the current efforts succeeded, this would enable large numbers of refugees spread throughout Eastern and Central Africa to return to their countries.
- 2.10 Political stability, peace, democracy and human rights continue to be deepened throughout Southern Africa. Multiparty General Elections are being held throughout the region, and other political reforms, especially the electoral systems to ensure transparency and predictability of the systems, are being put in place. These measures are very necessary for the promotion of investment flows and the im-

provement of the overall investment climate of the region. As a result of these measures, the world attention to Southern Africa, especially by the international private sector investors has been increasing considerably. A lot still needs to be done to assure the region and the international community that these changes are permanent, and that other administrative and bureaucratic impediments are also being addressed at the same time in order to open up the region for trade and investment with the rest of the world.

### **3. REVIEW OF THE REGIONAL DROUGHT AND FOOD SECURITY SITUATION**

#### **3.1 THE 1996/97 MARKETING YEAR**

3.1.1 With regard to the regional drought and food security situation, a preliminary review which assessed the availability/requirement position for maize and wheat only, as the major staples in the SADC region, had been made.

3.1.2 These forecasts indicated an above average cereal harvest of 26.36 million tonnes for 1995/96 crop season, a 62% increase over the 1994/95 harvest of 16.27 million tonnes. Maize output was forecast at 20.24 million tonnes, an increase of 80% over 1994/95 of 11.27 million tonnes and was also 15% higher than the SADC average of 17.50 million tonnes.

3.1.3 Total domestic maize availability (forecast opening stocks plus production) was projected at 20.79 million tonnes as against projected requirements of 17.74 million tonnes including projected Strategic Grain Reserves (SGR) stocks of 1.56 million tonnes, giving a surplus of 1.49 million tonnes. Substantial maize output was forecast for all SADC member States, with South Africa, Zimbabwe and Botswana anticipating 100% increases.

3.1.4 Production of the 1996 winter wheat crop was projected to rise to 2.87 million tonnes over last season's harvest of 2.35 million tonnes due to increased availability of irrigation water particularly in South Africa and Zimbabwe.

3.1.5 Production forecasts for rice and sorghum/millet had also improved substantially over last year's levels.

3.1.6 Despite the impressive cereal production levels, Namibia had experienced consecutive years of drought and had declared a drought emergency. A working figure of 180,000 vulnerable people affected by the drought had been established for planning purposes, and the Government was working closely with international cooperating partners to assess the exact numbers and locations of those affected and what type of assistance to be provided.

#### 4. THE WORLD ECONOMY - 1995<sup>1</sup>

##### 4.1 **OUTPUT GROWTH IN INDUSTRIALISED COUNTRIES**

4.1.1 During 1995, the world economy showed a satisfactory expansion, basically in line with its long term trend. Notwithstanding this broadly positive picture, a slight deceleration of economic growth was experienced relative to 1994, primarily as a result of a more pronounced slowdown of economic activity in Western Europe and North America, than was expected in early 1995 world growth of 3.5 per cent was just 0.2 percentage points lower than the performance of 1994<sup>2</sup>.

4.1.2 Most industrialised countries demonstrated a significantly slower expansion of economic activity during 1995 than during 1994. Industrialised countries as a whole recorded a 2.1 per cent expansion of real GDP, compared to 2.8 per cent in 1994, which was, nonetheless, almost double the rate of 1993.

4.1.3 The US economy, in its fourth consecutive year of strong growth, slowed markedly towards the end of 1995, but depicted signs of recovery during the first months of 1996. The Japanese economy picked up somewhat over its performance during 1994 but continued to

show the dampening influence of a strong yen on output, so that GDP growth was at a modest 0.9 per cent during 1995. In Western Europe, one group of countries, termed by the IMF the "outer ring countries", including Italy, UK, Sweden and Spain, experienced a depreciation of their currencies in combination with a relatively stronger growth performance. In contrast, the "inner core" group of countries with strong currencies, such as France, Germany and others which kept their currencies linked to the German D-Mark, experienced a relatively weak growth performance with a bare stagnation of economic activity during the second half of 1995.

4.1.4 Projections for 1996 reflect modest optimism, interpreting the deceleration of the industrialised economies during 1995, particularly during the second half of the year, as short lived and expecting a renewed upswing in economic activity as a result of sound macro-economic policies and the present low level of interest rates.

4.1.5 Lower than expected growth during 1995 in the industrialised countries and the virtual stagnation of economic activity towards the latter half of the year, particularly in a number of European countries, deteriorated an already bleak situation with respect to unemployment.

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<sup>1</sup> This section draws on the Monetary Fund's diagnosis in its "World Economic Outlook" of May 1996.

<sup>2</sup> Confer table 3 A below

Even if the relatively optimistic projections for economic activity

of the industrialised countries during 1996 and beyond prove correct, there seems to be little reason to believe that the grave unemployment problems that exist can be overcome in the short or even medium term. The underlying serious structural problems regarding labour markets and labour relations in many countries can only be overcome over the longer term with innovative policies.

- 4.1.6 For all practical purposes, inflation in the industrial economies, in 1995, remained unchanged relative to the 1994 level. In Japan, consumer prices, in fact, decreased marginally by 0.1 per cent and in Germany, inflation dropped from 2.8 per cent (1994) to 1.8 per cent (1995). In the US, UK and France, on the other hand, 1995 inflation rates ranged slightly above those of 1994 and picked up somewhat more markedly in Italy and Canada.

#### 4.2 OUTPUT GROWTH IN DEVELOPING COUNTRIES

- 4.2.1 Growth in the developing world dropped somewhat during 1996, in line with developments in the industrial countries. Thus, developing countries' GDP, in 1995, grew by 5.9 percent, compared to 6.4 per cent in 1994. Notwithstanding this relative decline, growth remained on a satisfactorily high level, well above the average annual growth of the period 1978 to 1991, and only slightly lower than the extraordi-

narily high growth rates of 1992 to 1994.

- 4.2.2 As in previous years, it was the Asian continent which contributed most to this achievement: the Asian countries' economies grew by an average of 8.4 per cent in 1995. Among them, the highest growth rates were experienced by the member countries of the ASEAN group (Bhutan: 7.0%; Indonesia: 8.1%; Malaysia: 9.6%, Singapore: 8.9%; Thailand: 8.6%; Vietnam: 9.5%) and China, which grew by 10.2% and Korea, whose growth rate was 9.0%.

- 4.2.3 The economy of the Latin American region slowed significantly, recording a bare 0.9 per cent of real GDP growth in 1995, as compared to 4.7 per cent in 1994. This was strongly influenced by the recession in Argentina, Mexico and Uruguay, where economic activity dropped by 4.4 percent, 6.9 per cent and 2.5 percent, respectively.

- 4.2.4 In contrast to the slack in Latin America, economic activity picked up substantially in the Middle East and more modestly in Central and Eastern Europe: in the former, GDP expanded by 3.7 per cent (1994: 0.7%), in the latter by 1.4 per cent (1994 : -2.9%).

#### 4.3 OUTPUT GROWTH IN AFRICAN COUNTRIES IN GENERAL, AND SADC COUNTRIES IN PARTICULAR

- 4.3.1 The African continent's economic activity showed a very encouraging performance in 1995: it recorded a rise in GDP of 3.2 percent, significantly higher than that of Latin America and only little less than that of the Middle East region. Africa's 1995 GDP growth was 0.8 percentage points higher than in 1994 and by far the highest in the 1990s. Singling out the Sub-Saharan economies, it becomes apparent that they showed an even more promising record: Sub-Saharan economic growth in 1995 was no less than 4.8 per cent, double, or more, than the rate of any year since 1988.
- 4.3.2 SADC countries participated in, and contributed to, this favourable record of the Sub-Saharan economies: the SADC region's 1995 GDP rose by 3.5 per cent, as compared to 2.7 per cent in 1994. The strong performance of the South African economy in 1995 of 3.4 per cent growth on the one hand, and the particularly high growth rates of Angola and Malawi of 9.2 and 9.9 per cent, respectively, on the other hand contributed significantly to this result<sup>3</sup>.
- 4.3.3 Grouping the SADC countries into different sub-groups can facilitate the interpretation of the

sub-region's economic performance during 1995.

- 4.3.3.1 The very strong growth of Angola and Malawi represented a recovery of these economies from recessions in previous years, in the course of which Angola's economic activity, in 1993, recorded a dramatic contraction equivalent to 24 per cent while Malawi's output, in 1994, had fallen by 12.4 per cent.
- 4.3.3.2 The SACU countries' economic growth rates, in 1995, ranged around that of the lead economy, South Africa, with Lesotho and Botswana recording somewhat higher growth of 7.4 and 4.4 per cent, respectively, than South Africa's 3.4%, while Swaziland and Namibia recorded somewhat lower rates of 3.1 and 1.7 per cent, respectively.
- 4.3.3.3 Mauritius, Mozambique and Tanzania are cases where economic growth in 1995 continued along the encouraging trend of rapid expansion of output experienced already since the beginning of the decade, with the exception of Mozambique, where the upswing started only after the peace accord in late 1992.
- 4.3.3.4 Finally, Zambia and Zimbabwe represent the group of weak SADC performers in 1995. Both economies recorded negative growth, with a reduction in GDP of 3.9 and 1.1 per cent respectively. In the case of Zambia, this is the second consecutive

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<sup>3</sup> Confer table 3 A below.

year of recession, adding on to the decline of 5.1 per cent of output recorded during 1994. In Zimbabwe's case, the decline in output was less pronounced and took place after a period of significant growth during 1993 and 1994.

#### 4.4 EVOLUTION OF WORLD COMMODITY PRICES

4.4.1 African countries' exports of commodities seem to have continued to benefit from favourable world market price developments, as the relatively high prices of 1994 were generally maintained.

4.4.2 Examples regarding world market prices of commodities weighing heavily in African exports, and SADC countries' exports in particular, reveal the following developments<sup>4</sup>:

4.4.2.1 World prices for copper, which had risen by some 20 per cent already in 1994 over their 1993 level, surged another 28 per cent in 1995 and reached a particularly high level in the third quarter of the year. However, towards the end of 1995 and the beginning of 1996, world copper prices weakened somewhat and, in February 1996, stood 13 per cent lower than their 1995 average, but still 10 per cent higher than their 1994 average.

4.4.2.2 World prices of both, nickel and tin, during 1995, exceeded their

1994 levels by 30 and 11 per cent, respectively, while the 1995 average price of manganese was some 5 per cent below that of 1994.

4.4.2.3 World prices for beef, which had fallen already in 1994 by some 11 percent, continued their downward development dropping by another 18 per cent in 1995. The shake-up of the market in the wake of the UK cattle disease in 1996 and the change of consumer behaviour hint towards further deterioration of prices during 1996.

4.4.2.4 Cotton prices, in 1995, were 23 per cent higher than in 1994, and no less than 53 per cent higher than in 1993.

4.4.2.5 World prices for agricultural commodities showed a disperse performance during the last year: average sugar prices, in 1995, were some 10 per cent higher than in 1994 and maintained comfortably high levels during January and February 1996; world groundnuts and world tea prices, on the other hand, dropped in 1995 by 5 and 10 per cent, respectively.

On the whole, it seems that SADC producers and exporters of commodities fared favourably in view of world market price developments for their products, especially taking into account the general upwards trend of 1994 and the little change, during 1995, over the satisfactory 1994 level.

<sup>4</sup> Refer to International Monetary Fund, International Financial Statistics, April 1996, p.72 ff.



- 4.4.3 With respect to SADC countries' imports, the most important commodity is petroleum. World market prices of this commodity, during 1995, rose by some 8 per cent over the average price prevailing in 1994. Prices rose to an even higher level during the months of December 1995 to February 1996, but with Iraq re-entering the market and imports from the north sea producing countries increasingly putting the OPEC cartel under price pressure, projections for 1996 and beyond point to a short- and medium-term decline of world petroleum prices.
- 4.5 **INFLATION IN DEVELOPING COUNTRIES, AFRICA AND SADC.**
- 4.5.1 Both, developing as well as the African countries recorded achievements with respect to reducing inflation during 1995. Consumer prices in developing countries and Africa, in 1995, rose by 19.9 per cent and 25.9 percent, respectively, compared to 48 per cent and 33.8 per cent, respectively, in 1994. Thus, the reduction of inflation was significantly more pronounced in developing countries in general, than for the African economies, where inflation is now higher than in the developing world - contrary to what was the situation in 1993 and 1994.
- 4.5.2 All SADC countries recorded some progress with respect to containing inflation in 1995, with the exception of Malawi, where inflation accelerated markedly to reach 56.5 percent in 1995, compared to 34.6 per cent in 1994<sup>5</sup>.
- 4.5.3 The formerly war-torn economies of Angola and Mozambique, on the other hand, managed to slow down inflation very significantly : in the case of Angola, hyperinflation of 1,379 per cent in 1993 seems now to be a phenomenon of the past, as inflation could be brought down to a rate of 43 per cent in 1995. In Mozambique, where inflation had temporarily accelerated in 1994, consumer price increases, in 1995, were brought back to the level of 1993 and recorded 44.3 per cent.
- 4.5.4 In all the other SADC countries, inflation decelerated somewhat in 1995, though not dramatically.
- 4.5.5 The SACU bloc (excluding Swaziland, 12.8%), as in earlier years, recorded one digit inflation rates, with consumer price rises, during 1995, of slightly below 10 per cent, thus showing the best record within SADC - with the exception of Mauritius, where consumer price increases were even less (6.1 per cent).
- 4.5.6 Tanzania, Zambia and Zimbabwe, in 1995, experienced consumer price increases of between 22 and 30 per cent, which represents an improvement in the case of the first two countries, while in Zimbabwe no major change was recorded.

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<sup>5</sup> Confer table 3 B below.

**Table 3 A: GROWTH IN REAL GDP, 1993 - 1995***(ANNUAL PERCENTAGE CHANGE)*

	1993	1994	1995
World	2.5	3.7	3.5
Industrial Countries	1.2	2.8	2.1
US	3.1	3.5	2.0
Japan	-0.2	0.5	0.9
Germany	-1.1	2.9	1.9
United Kingdom	2.2	2.2	3.2
Developing Countries	6.1	6.4	5.9
Africa	0.7	2.4	3.2
Sub-Saharan Africa	1.2	1.7	4.8
SADC	-0.7*	2.7	3.5
Angola	-23.8	2.7	9.2
Botswana	0.4	2.8	4.4
Lesotho	8.5	13.5	7.4
Malawi	10.8	-12.4	9.9
Mauritius	.7	4.7	4.1
Mozambique	19.3	5.4	4.3
Namibia	-1.9	5.4	1.7
South Africa	1.3	2.7	3.4
Swaziland	2.5	2.6	3.1
Tanzania	3.7	3.1	4.5
Zambia	6.5	-5.1	-3.9
Zimbabwe	4.2	5.2	-1.1

Source: International Monetary Fund, *World Economic outlook, May 1996, Tables 1 and A6; own calculations for SADC*

**Table 3 B: CONSUMER PRICE INCREASES, 1993 - 1995***(ANNUAL PERCENTAGE CHANGE)*

	1993	1994	1995
Industrial Countries	2.9	2.3	2.4
US	3.0	2.6	2.8
Japan	1.3	0.7	-0.1
Germany	4.4	2.8	1.8
United Kingdom	3.0	2.4	2.8
Developing Countries	42.5	48.0	19.9
Africa	27.4	33.8	25.8

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\* Excludes Mauritius and South Africa

Sub-Saharan Africa	33.2	50.9	29.5
SADC			
Angola	1,379.0	950.0	43.0
Botswana	14.2	11.1	9.1
Lesotho	7.0	9.5	7.7
Malawi	22.8	34.6	56.5
Mauritius	8.9	9.4	6.1
Mozambique	42.3	63.1	44.3
Namibia	8.5	10.8	9.3
South Africa	9.7	9.0	8.9
Swaziland	11.2	13.8	12.8
Tanzania	26.1	29.0	22.0
Zambia	187.3	35.2	30.0
Zimbabwe	27.6	22.1	23.0

Source: *International Monetary Fund, World Economic outlook, May 1996, Tables A9, All and A12*

## 5. COUNTRY PROFILES

### 5.1 ANGOLA

5.1.1 The Angolan economy continued to suffer the effects of the civil war. However, the peace process helped to create some confidence in the people and the business community.

5.1.2 In Agriculture, when the cereal harvest comes in during April 1996, at the end of the rainy season, it is unlikely to show any significant improvement on production in recent years. The 1995 cereals harvest which totalled about 235,000 tons, left a national cereals deficit variously estimated at between 500,000 and 735,000 tons. Despite a large and successful donor-assisted programme to distribute seeds and tools at the start of the 1995/96 planting season, a significant increase in cereal production was unlikely because very few people had returned to their areas of origin before the

planting season. In addition, rainfall was poor in the key maize producing province of Huambo and in Coastal Benguela. From the end of December to mid March, and this is expected to result in a large fall in the maize harvest in these areas.

5.1.3 The Energy areas prospects were excellent for a steady expansion of oil production, reaching 1M barrels (b/d) by 2002. Oil production rose to 620,000 b/d in 1995, a slightly lower figure than the 635,000 b/d previously reported. The state owned oil company, Sonangol projected last October that production would rise to 730,000 b/d in 1996, due to large investments in oilfield development by Chevron in Cabinda, Elf in Blocks 3/85 and 3/91 and Texaco in Blocks 2, as well as the recommissioning by Profina of onshore fields closed down by the UNITA occupation of Soya areas in 1993/94.

5.1.4 Many of the alluvial diamond mining sites in Luanda-Norte and Luanda-Sul are still under the control of UNITA or illegal diamond diggers. The estimated volume of diamonds mined by UNITA and the illegal diamond diggers was about US\$30m a month, which is six times higher than the official production. According to estimates from De Beers, total sales of Angolan diamonds both official and unofficial, amounted to about US\$ 600m in 1995, with arrears accounting for US\$120m, UNITA US\$320m and other sources US\$160m.

5.1.5 As a result of these developments, Real Gross Domestic Product (GDP) grew by around 9.2% in 1995. Most of this growth came from Agriculture, Mining and the Energy Sectors.

5.1.6 A very rapid consumer price inflation, which is reported to have reached 3,000% at the end of 1995, has continued to erode real incomes, sparking off a wave of strikes in the public sector.

#### 5.1.7 Foreign Trade and Payment

5.1.7.1 The Government is confirming its practise of resorting to short and medium term external borrowing, guaranteed by future oil deliveries, to pay for essential imports and cover part of its budget deficit. These loans, which carry enormous interest rates have become a major component in Angola's external debt, have tied up much of the governments ex-

pected oil receipts for the next three to four years.

5.1.7.2 The World Bank estimates long-term debt at US\$8.45 billion and interest arrears on long-term debt at US\$1.12 billion.

#### 5.1.8 **Future Prospects**

For 1996, the debt situation is expected to worsen, as it is forecast to reach more than US\$14.3 billion, of which most of it will be arrears. The accumulation of arrears on medium and long-term debt is expected to worsen, unless a part of the external debt can be written off. Most of the medium and long-term debt is owned to Russia and the Paris Club.

### 5.2 **BOTSWANA**

#### 5.2.1 Growth Domestic Product

5.2.1.1 The slow recovery in economic growth that began in 1992/93 continued during 1994/95 when real economic growth rate was estimated at 3.1 per cent. Although this is 1 per cent below the growth rate for the previous year, economic indicators point to an up-ward trend for the 1995/96 period. This is mainly due to the improvements in the output and price of diamonds, the main export commodity for Botswana, as well as impressive growth in the non-mining sectors.

5.2.1.2 While the mining sector grew by 5.0 per cent, growth in other sectors was 5.5 per cent. From a

decline of 1.3% in 1993/94, the manufacturing sector grew by 4.3% in 1994/95. The construction industry recorded a marginal improvement of 1.6% in 1994/95 as against 1.0% in 1993/94. Other sectors continued to record positive growth rates during the period under review. The main source of growth were trade, hotels and restaurants which accounted for 7.8%, banks, insurance and business services, 7.6%, transport, 6.7%, water and electricity, 6.2% and general government 6.1%.

5.2.1.3 The slow recovery process is also reflected in the trends of main expenditure categories of the GDP and real GDP per capita. Data from the Central Statistics Office show that while shares of Government expenditure and net exports of goods and services rose over the period from 1989/90 to 1994/95, the share of private consumption and gross investment fell. The rapid growth in diamond exports and expansion of employment in the Government sector are the major explanatory factors.

5.2.1.4 The decline in the share of gross investment from 32.1% of GDP in 1989/90 to 23.4% in 1994/95 is a major source of concern. The fall in private consumption is further revealed in the trends of real GDP per capita which increased by only 0.6% in 1993/94 and fell marginally by 0.3% in 1994/95. This was compounded by the rapid population growth rate which was es-

timated at 3.5% during the same period.

## 5.2.2 Consumer Prices

5.2.2.1 A modest fluctuation of prices was experienced during the year under review, as the year-on-year rate of inflation varied between 9.8 and 11.1 per cent. This pushed up the Cost of Living Index from 145.6 in December 1994 to 161.3 in December 1995. Price increases were recorded mainly in food (11.2%), alcohol and tobacco (12.0%), housing (8.5%), furniture (19.9%), and transport (10.7%). Given the higher weights of these commodities in the total Index, increases in their prices greatly contributed to the overall inflation rate.

5.2.2.2 The rising prices of imported goods also greatly contributed to domestic inflationary pressures since most of the commodity goods in the Consumer Price Index have a high import content. Anti-inflationary measures through wage restraint and tight monetary policy are expected to continue in controlling the growth of aggregate demand in the economy and thereby ensure price stability.

## 5.2.3 External Trade and Balance of Payments

5.2.3.1 A significant improvement was recorded in the external sector and overall balance of payments position during 1995. From a decline of 60% during 1993/1994, the balance of payments in-

creased by 94%, from the previous year's level of P390 million to P750 million in 1995. This was mainly due to a substantial surplus generated from the balance on visible trade, which grew by about 30%, from P1419 million in 1994 to P1801 million in 1995. Some substantial rise of about 330% was also recorded in the financial account, that had an increase of P277 million in 1995 from P64 million in 1994.

5.2.3.2 The positive results in the trade balance was largely due to the good performance of the diamond industry, combined with increased vehicle exports and non-diamonds exports. Non-mineral and non-beef exports have in recent years increased their contributions to export earnings. With regard to the financial account, the observed surplus was mainly due to a decline in the outflow of private long-term capital. The capital account recorded an increase of 25%, from P16 million in 1994 to P20 million in 1995.

5.2.3.3 Investment income, on the other hand, continued to experience a negative balance in 1995, reflecting the repatriation of dividends and profits especially from the diamond industry. On the whole, out flows have remained stable, while inflows have tended to be erratic largely due to fluctuations in international bond market rates, as well as significant changes in the growth rate of foreign exchange reserves.

#### 5.2.4 Employment Situation

5.2.4.1 Total formal sector employment increased marginally by 1.4%, from 231,200 in March 1994 to 234,500 in March 1995. This rate of growth was below that of the labour force which was estimated at 2.1 per cent per annum. As a result, the unemployment situation continued to deteriorate. According to 1994 estimates unemployment rate stood at 21.0% compared to 13.9% in 1991. The low pace of employment generation is primarily due to the economic recession that the country had been experiencing in the early 1990s.

5.2.4.2 In terms of sectoral breakdown, the observed employment generation occurred mostly in the General Government sector where employment increased from 68,500 in March 1991 to 85,000 in March 1995. The private and parastatal sectors, which account for the largest proportion of formal sector employment, in contrast, recorded a decline in employment over the same period by 3%. The construction and manufacturing sectors were the worst affected. The construction sector continued to perform unsatisfactorily as it registered a decline in employment by 15.4% during 1994/95.

5.2.4.3 However, the trends have slowly been reversing since 1994. Employment in Central Government increased by 4.5% between

March 1994 and March 1995, while in Local Government it grew marginally by 1.3% during the same period. The downward trend in formal sector employment in the private sector came to a halt and instead a fractional increase of 0.2% was recorded in 1995. Employment in the manufacturing sector also recovered in 1994/95 with an increase of 7.8% , after three years of continuous decline.

#### 5.2.5 Government Finance

5.2.5.1 The overall balance of the government budget continued to experience a decline during the year under review. A reduction of 77.7% , in the surplus of P879 million in 1993/94 to P196 million in 1994/95 was recorded. The surplus for 1994/1995 was actually in contrast to an estimated deficit of P237 million. This was largely due to underspending on the development budget and net lending, which in turn was a reflection of limitations in the Government's budget implementation capacity.

5.2.5.2 The unsatisfactory performance of the Government budget was further reflected in the decline in the total revenues and grants by about 17% from P5,359 million in 1993/94 to P4,472 in 1994/95. This was as a result of a fall in revenue from the Bank of Botswana by about 169% from P1,107 in 1993/94 to P452 million in 1994/95 due to adverse developments in world bond prices. Non-mineral income taxes also registered a

decline during the period under review, largely due to the reduction in tax rates announced in the 1994/95 budget and the slow growth in the economy.

5.2.5.3 Total expenditure and net lending declined by 5% in 1994/95 over the level of the previous year. Development expenditure declined by 11.6%, while net lending fell sharply from positive P188 million in 1993/94 to negative P113 million in 1994/95. A 10% increase recorded in recurrent expenditure in 1994/95 fell short of the average annual increase of 25% experienced during the previous five years. The observed modest increase was mainly due to the wage restraint that was maintained in 1994/95.

#### 5.2.6 Future Prospects

5.2.6.1 The recovery process should be sustained further in 1996/97 by monetary and fiscal reform measures being implemented aimed at reviving and diversifying the economy. The measures include the liberalisation of exchange controls, the reduction in corporate tax, and wage restraint. In addition to the restructuring of the parastatals, a rationalisation programme has been put in place in the diamond mining sector. Output in this sector is expected to increase following the expansion of operations and the introduction of more efficient working practices at the Jwaneng mine.

5.2.6.2 Positive developments on the international market for diamonds

should provide further stimulus to economic growth. Export revenues from this commodity are expected to increase following a relaxation of the quota system on diamond sales, a rise in prices and a steady supply of diamonds on the world market after an agreement between Russia and De Beers in early 1996 to have exports of diamonds from Russia marketed through the Central Selling Organisation.

5.2.6.3 Although further deficits of P270 million and P636 million are projected for the years 1996 and 1997 respectively, a number of factors such as implementation bottlenecks on the capital budget, continuation of vacancies in the public service and additional revenues from diamond exports may come into play to modify the final figures. On the other hand, development expenditure is expected to increase due to contributions to government supported major projects such as the Botswana Ash Company and the North South Carrier Water Project.

5.2.6.4 With respect to employment, concerted efforts will be needed to generate the required employment opportunities, given the rapid growth of the labour force and the backlog of unemployment. In this regard, macro-economic policy measures should continue to be consistently implemented in order to enhance the recovery process and ensure sustained economic growth. Measures should also

be put in place to encourage employment creation in the informal sector, which in recent years has offered alternative employment opportunities. In addition, sound labour policies and training programmes that promote and facilitate increased labour absorption should be implemented.

## 5.3 LESOTHO

### 5.3.1 Overview

5.3.1.1 Despite the widespread drought that covered almost the entire Southern Africa, the Lesotho economy performed satisfactorily during the 1995/96 financial year. The continued implementation of the Lesotho Highlands Water Project (LHWP) and the ongoing positive developments in South Africa since the April 1994 democratic elections have contributed significantly to Lesotho's economy.

5.3.1.2 In 1995 the Gross Domestic Product (GDP) grew by 8 per cent in real terms, as compared to 11.2 per cent achieved in 1994. The decline in the GDP was attributed mainly to the drought which afflicted most parts of the country. The rate of inflation as measured by the consumer Price Index was estimated at 9.5 per cent. This was an increase of 1.7 per cent on the previous year, after continuous declines since 1992.

5.3.1.3 The external sector position of the economy declined substantially in terms of both the overall balance and the current account.



The overall balance shrank by almost half from M500.1 million recorded in 1994 to M254.2 million in 1995, and the current account balance also dropped drastically from a surplus of M179.3 million to as little as M74.2 million.

5.3.1.4 The budget outturn for the fiscal year 1995/96 is estimated at M156.3 million. Total revenue (revenue plus grants) increased by 16.9 per cent to M1849.7 million. Customs Union revenue grew by 7.8 per cent whereas Income tax receipts increased by 26.7 per cent.

### 5.3.2 Developments in the Real Sector

5.3.2.1 The performance of the domestic economy for 1995 was satisfactory after a continuous decline since the beginning of the 1990's and despite the drought experienced during the 1994/95 agricultural year. At an annual growth rate of 8 per cent, the Gross Domestic Product (G.D.P) grew slightly less than the 11.2 per cent attained in 1994. This was mainly due to prevalent drought conditions.

5.3.2.2 The Primary Sector's performance deteriorated slightly in 1995 as a result of the above-mentioned drought. Its share of GDP was estimated at 9.7 per cent, 4.3 percentage points below the Sector's contribution in 1994.

5.3.2.3 The Secondary Sector's contribution to GDP was estimated at 43.4 per cent as against a lower

figure of 40.5 per cent realised in 1994. This was largely attributed to the continued implementation of the Lesotho Highlands Water Project. The Secondary Sector's value added increased by 13.6 per cent in 1995 compared to 21.1 per cent in 1994. This deceleration was partly due to the fact that, the activities of the Lesotho Highlands Water Project, the largest contributor to the Sector's growth, had reached their peak.

5.3.2.4 The slow-down in this Sector is further illustrated by the Building and Construction Sub-Sector which recorded a growth rate of 13.3 per cent, as compared to 30.8 per cent achieved in the previous year. The share of this Sub-Sector of the total output of the Secondary Sector was recorded at 62.9 per cent in 1995, as compared to 63.0 per cent in the previous year.

5.3.2.5 The manufacturing value added grew by 14.0 per cent as compared to 7.6 per cent in the previous year. This growth was a result of the following factors:

- i) the lifting of quotas by North America on Lesotho's clothing and textiles exports which is believed to have triggered off an increase in production;
- ii) more foreign investment resulting from business confidence as a consequence of political stability; and,

iii) relocation of textile industries in Lesotho by firms formerly operating in South Africa. These firms were adversely affected when South Africa was requested by the General Agreement on Trade and Tariffs (GATT/WTO) to reduce tariffs on imported textiles and clothing. These firms are taking advantage of Lesotho's assured export market for their products.

5.3.2.6 The share of Manufacturing of the total Secondary Sector's output was recorded at 34.1 per cent in 1995.

5.3.2.7 The Tertiary (Services) Sector recorded a value added increase of 14.8 per cent as against 7.1 per cent in 1994. The share of this Sector increased to 45,6 per cent partly due to the shrinking share of the Primary Sector and also as a result of a resurgence in the growth rate of other services, as well as an increase in the value added of the Government Sector.

### 5.3.3 Employment

5.3.3.1 It is estimated that 653,266 people were employed in 1995, registering a growth rate of 2.8 per cent from the previous year's figure of 635,294. Of the total employment figure, 26.8 per cent were women (175,169) and 73.2 per cent were men (479,097), giving an annual growth rate of 2.7 and 2.9 per cent respectively.

5.3.3.2 The inadequate nature of the data on formal employment in Lesotho makes it difficult to establish and analyse labour market trends for the economy as a whole. It also makes it rather difficult to sufficiently estimate the rate of underemployment and/or unemployment. However, on the basis of a few available indicators, some inferences can be made. For instance, it is strongly believed that in the Agricultural Sector, the employment situation worsened in 1995 due to the poor distribution of the rainfall throughout the country.

5.3.3.3 Employment of miners in South Africa has been on the decline for several years now (since 1989). In 1995, about 103,744 Basotho were employed in South African mines. This represented a further decrease of 8.9 per cent compared to the the 2.9 per cent registered in the previous year.

5.3.3.4 The Government continues to be the largest employer in the formal sector in Lesotho. It is estimated that 32,725 people were employed by the Government in 1995, registering an increase of 5.2 per cent against its level in 1994. This was brought about by an increase of 4.3 per cent in the number of civil servants and 3.3 in the number of teachers.

5.3.3.5 In 1995, about 5,780 people, of whom 89.2 per cent were Basotho, were employed in the construction activities of the Lesotho Highlands Water Project. This figure was higher than the

1994 figure of 5,124 people, of which 84.6 per cent were Basotho. It should be observed that the percentage of Basotho employed at the LHWP also increased. Employment in the infrastructure activities of the project stood at 906, of which 19.7 per cent were Basotho.

5.3.3.6 The Lesotho National Development Corporation (L.N.D.C) continues to create a substantial number of new jobs in the formal sector. In 1995, an estimated number of 16,600 people were employed in firms generated by LNDC. At this level, the number employed had increased by 4.8 per cent. This increase follows a decline of 3.8 percent recorded in the previous year as a result of frequent industrial action taken by employees, some of which resulted in dismissals and others in closure of firms.

5.3.3.7 The Basotho Enterprise Development Corporation (BEDCO) employed an estimated 352 people at its industrial sites in 1995, recording a decrease of 3.7 percent.

#### 5.3.4 Wages

5.3.4.1 The Government made an upward review of 15.0 per cent on the salaries of civil service personnel in the 1995/96 fiscal year following a 10.0 percent increase offered in 1994/95.

5.3.4.2 It is estimated that, on average, the different types of mining industries in South Africa offered an increase of 15.4 per cent in

1995 as against 9.0 percent in 1994. In July 1995, the minimum wage levels for various categories in the private sector were revised upwards by 9.0 per cent over those fixed in 1994. Wage increases in Lesotho were thus comparable to those offered in South Africa.

#### 5.3.5 Inflation

5.3.5.1 The annual rate of inflation measured as the average of the annualized quarter-to-quarter change in the consumer Price Index (CPI) rose to 9.5 per cent in 1995 as against 7.9 per cent in the previous year. In January 1995, the inflation rate was 9.5 per cent and then rose to 10.0 per cent in April, and to 10.8 per cent in July. However, it dropped to 8.5 per cent in the last quarter of 1995.

5.3.5.2 The slight upturn in the inflation rate was attributed to above average annual growth rates in the group indices for food, beverages and tobacco and the other goods and services categories.

#### 5.3.6 **PUBLIC FINANCE**

5.3.6.1 Preliminary estimates of the actual budget out-turn for the fiscal year 1995/96 puts the overall balance at a surplus of M156.3 million. This surplus expressed as a percentage of GNP is estimated at 33 per cent. This performance was largely brought about by an increase in revenue from sales tax due to improved tax collection measures, as well as from Customs Union receipts

resulting from the continued implementation of the Lesotho Highlands Water Project.

5.3.6.2 Revenue and Grants which together make up total receipts, were estimated to have reached M1,849.7 million, an increase of 16.9 percent from the previous years figure of M1,582.7 million. Revenue alone was projected to have grow by 17.1 per cent to M1,684.17 million. At this level, it accounted for 91.1 per cent of total receipts and exceeded the M1,612.6 million benchmark by 4.5 per cent.

5.3.6.3 Customs receipts alone which accounted for 53.8 per cent of total revenue reached a level of M906.5 million in 1995, an increase of 7.8 per cent from the previous year's figure of M840.9 million.

5.3.6.4 Total expenditure for 1995/96 was recorded at M1,693.4 million. At this level, it had increased by 18.2 per cent from last year as compared to 14.6 per cent a year earlier. Following a slow growth of 7.4 per cent in 1994/95, capital expenditure is projected to grow by 29.4 per cent to M536.8 million, exceeding the target figure of M522.7 million by 8.6 per cent.

### 5.3.7 External Trade and Balance of Payments

5.3.7.1 The surplus on the current account decreased by M106.9 million in 1995 from M179.3 million in 1994.

5.3.7.2 Long term capital dropped from M289.6 million in 1994 to M163.6 million in 1995. This resulted in the decline of the overall balance from M500.1 million in 1994 to M254.2 million in 1995. The drastic decline in the current account surplus is attributed to imports which were estimated to have grown by M598.4 million in 1995. There was a slight increase in exports from M509.3 million in 1994 to M555.1 million in 1995.

5.3.7.3 Unrequited transfers however continued to increase by 23.3 per cent to M366.3 million. These financed about 52.1 per cent of imports while Mineworkers' remittances financed about 40.1 percent of imports.

### 5.3.8 Monetary Sector

5.3.8.1 The growth of Money Supply (M2) decreased sharply from 16.3 per cent in December 1994 to 5.0 per cent in December 1995. This was a result of a drop in domestic credit and a rise in other items which exerted contractionary pressure on M2.

5.3.8.2 Money supply rose by 3.2 per cent to M1167.8 million in the first half of the review period, followed by a 1.8 per cent increase in the second half to close at M1189.0 million. At 5.0 per cent, the annual rate of growth of M2 was lower than the annualised quarter-to-quarter

inflation of 9.5 over the same period.

5.3.8.3 Total domestic credit declined by 74.7 per cent to a negative figure of M448.2 million as a result of an improvement in the Governments' net creditor position.

It dropped by 34.0 per cent and 30.4 percent in the first and second half of 1995, respectively. Credit to the private sector and statutory bodies jointly registered an annual 18.5 per cent increase to M692.3 million.

Table 1.1

**GROSS DOMESTIC PRODUCT BY KIND OF ECONOMIC ACTIVITY**

**(1980 = 100)**

**Maloti Million**

	1991	1992	1993	1994	1995*
<b>Primary Sector:</b>	57.7	42.7	56.5	68.9	52.7
Agriculture	55.1	40.8	54.0	65.8	50.4
Mining & Quarrying	2.6	1.9	2.5	3.1	2.3
<b>Secondary Sector:</b>	148.2	158.5	165.1	199.9	235.0
Manufacturing	56.3	58.4	63.2	68.0	79.7
Electricity & Water	3.6	5.4	5.6	5.9	6.9
Building & Construction	88.3	94.7	96.3	126.0	148.4
<b>Tertiary Sector:</b>	193.2	200.3	210.1	225.0	253.9
Wholesale & Retail	33.6	35.2	37.9	42.9	44.2
Government Services	91.7	98.3	101.4	111.5	125.9
Other Services	67.9	66.8	70.8	70.6	83.8
<b>GDP at Factor Cost</b>	<b>339.1</b>	<b>401.5</b>	<b>431.7</b>	<b>493.8</b>	<b>541.6</b>
<b>Pius:</b>					
Indirect Taxes, Net	52.9	56.3	51.6	47.0	42.4
<b>GDP at Market Prices</b>	<b>452.0</b>	<b>457.8</b>	<b>483.6</b>	<b>540.8</b>	<b>584.0</b>

Source: Bureau of Statistics

\* Central Bank of Lesotho Projections

Table 1.2

**GROSS DOMESTIC PRODUCT BY KIND OF ECONOMIC ACTIVITY**

(1980 = 100)

(As a share of GDP at factor cost in per cent)

	1991	1992	1993	1994	1995*
<b>Primary Sector:</b>	14.5	10.6	13.1	14.0	9.7
Agriculture	13.8	10.2	12.5	13.3	9.3
Mining & Quarrying	0.6	0.5	0.6	0.6	0.4
<b>Secondary Sector:</b>	37.1	39.5	38.2	40.5	43.4
Manufacturing	14.1	14.5	14.6	13.8	14.7
Electricity & Water	0.9	1.3	1.3	1.2	1.3
Building & Construction	22.1	23.6	22.3	25.5	27.4
<b>Tertiary Sector:</b>	48.4	49.9	48.7	45.6	46.9
Wholesale & Retail	8.4	8.8	8.8	8.7	8.2
Government Services	23.0	24.5	23.5	22.6	23.2
Other Services	17.0	16.6	14.3	15.5	15.5
<b>GDP at Factor Cost</b>	100.0	100.0	100.0	100.0	100.0

Source: Bureau of Statistics

\*Central Bank of Lesotho Projections

Table 1.3

**GROSS DOMESTIC PRODUCT BY KIND OF ECONOMIC ACTIVITY**  
**AT CURRENT PRICES**  
 Maloti Million

	1991	1992	1993	1994	1995*
Primary Sector:	184.4	145.1	244.0	338.5	266.5
Agriculture	176.2	138.7	233.2	123.5	254.7
Mining & Quarrying	8.2	6.4	10.8	15.0	11.8
Secondary Sector:	439.6	569.0	697.9	887.0	1129.6
Manufacturing	208.1	265.0	325.1	356.4	442.7
Electricity & Water	18.1	37.2	55.7	83.8	97.4
Building & Construction	263.4	266.7	317.1	446.8	589.5
Tertiary Sector:	679.2	820.2	946.4	1084.3	1243.4
Wholesale & Retail	127.2	255.6	190.4	233.0	219.3
Government Services	288.6	365.6	433.7	494.9	510.9
Other Services	263.4	299.0	322.3	356.4	513.2
GDP at Factor Cost	1303.2	1534.3	1888.3	2309.8	2639.5
Pius:					
Indirect Taxes, Net	349.3	442.7	443.1	454.0	533.8
GDP at Market Prices	1652.5	1977.0	2331.1	2763.8	3173.3

Source: Bureau of Statistics -

\*Central Bank of Lesotho Projections



**Table 1.4**  
**LESOTHO CONSUMER PRICE INDICES**  
 (All Urban Households)  
 April 1989 = 100

Item	1991	1992	1993	1994	1995
All Items	135.9	158.4	177.2	191.3	209.8
Food Beverages & Tobacco	133.3	164.7	179.5	194.7	221.6
Clothing & Footwear	140.1	155.0	176.1	187.5	199.1
Water Fuel & Power	157.7	168.4	189.0	200.9	200.7
Furniture & H/hold Equipment	135.2	146.5	167.1	178.5	189.6
Transport & Communication	130.3	134.7	147.0	174.3	177.5
Other Goods & Services	135.0	153.5	191.2	200.2	211.2
Percentage change from the previous year					
All Items	18.4	16.5	12.0	7.9	9.7
Food Beverages & Tobacco	17.8	23.6	9.2	8.5	13.8
Clothing & Footwear	15.9	10.6	13.7	6.5	6.2
Water, Fuel & Power	29.4	5.3	13.8	6.9	0.1
Furniture & H/hold Equipment	17.3	88.4	14.2	6.8	6.2
Transport & Communication	21.8	3.4	9.1	19.3	1.8
Other Goods & Services	20.4	13.5	25.3	4.7	5.5

Source: Bureau of Statistics

Table 1.5

**SUMMARY OF BALANCE OF PAYMENTS**

Maloti Million

	1991	1992	1993	1994	1995*
<b>CURRENT</b>					
Account	- 99.9	59.0	106.8	179.3	72.4
Goods & Services	-1094.2	-1128.0	-1321.1	-1393.2	-1866.4
Exports f.o.b	186.2	310.9	438.9	509.3	555.1
Imports c.i.f	-2332.4	-2671.4	-2952.2	-3119.6	-3718.0
Worker's Remittance	1205.1	-1299.1	1328.7	1401.3	1489.2
Investment Income	- 142.7	- 80.9	- 3.5	- 51.6	- 32.0
Other Services Net	- 11.0	14.3	- 133.0	- 132.6	- 160.7
Unrequited Transfers	995.1	1187.0	1427.9	1572.5	1938.8
<b>LONG TERM</b>					
Capital	117.0	183.5	178.0	259.9	163.6
Official	98.8	141.1	120.9	110.4	80.7
Private	1832.0	42.4	57.1	149.2	882.9
<b>ERRORS &amp; OMISSIONS</b>	101.2	23.9	55.4	61.2	18.2
<b>OVERALL BALANCE</b>	118.2	266.4	340.2	500.1	254.2
Central Bank of Lesotho	(121.5)	(166.1)	(377.6)	(460.6)	(347.7)
Commercial Banks	(- 3.4)	(100.3)	(-37.4)	( 39.5)	(-93.5)

Table 1.6

**SUMMARY OF GOVERNMENT BUDGETARY OPERATIONS**

Million Maloti

	1991/92	1992/93	1993/94	1994/95	1995/96*
<b>TOTAL RECEIPTS</b>	969.3	1161.4	1400.3	1582.1	1849.7
Revenue	820.1	1019.4	1262.9	1438.5	1684.7
Customs	424.1	547.7	746.9	840.9	906.5
Grants	149.2	141.8	137.4	143.6	165.0
<b>TOTAL RECEIPTS</b>	978.9	1085.2	1250.7	1432.8	1693.4
Recurrent	622.7	723.9	842.1	994.1	1125.6
Capital	356.2	361.3	408.6	438.7	567.8
Surplus/def	- 9.6	76.2	149.3	149.3	156.3
Government Saving	197.4	295.7	420.8	444.4	559.1
Financing	9.6	- 76.2	- 149.6	- 149.3	- 156.3
Foreign	126.5	140.8	167.7	103.2	188.8
Domestic, Net	-116.9	- 217.0	- 317.3	- 252.5	- 345.1
Bank Fin.	-133.7	- 262.6	- 328.2	- 277.0	- 335.3
Other (Res)	16.8	45.6	10.9	24.5	- 9.8
As percentage of GNP					
Total receipts	34.2	35.0	36.7	33.8	39.1
Total expenditure	34.5	32.7	32.9	30.6	35.8
Budget def./surp	-0.3	2.3	3.9	3.2	3.3
Government saving	0.7	8.9	11.1	9.5	11.8

Source: Ministry of Finance

## 5.4 MALAWI

### 5.4.1 The Macroeconomic Policy Framework

5.4.1.1 During the reporting period (1995/96), Malawi continued to pursue policies aimed at poverty reduction and growth. The focus was on the agriculture sector whose overall policy objective is to improve the well being of Malawians through poverty alleviation, especially among rural people, by promoting rapid agricultural development. Other interrelated objectives for the agriculture sector include expanding and diversifying agricultural output and exports, raising farm incomes and promoting economic growth while conserving natural resources.

5.4.1.2 The total approved development programme for 1995/96 was K1,594.35 million, of which 82.7 per cent was allocated to the major sectors as follows:

- Water and sanitation: 19.1 percent;
- Education: 18.9 per cent;
- Transport and Communications: 15.9 per cent;
- Agriculture: 14.6 per cent; and
- Health: 14.3 per cent.

5.4.1.3 The development programme, is in principle, an instrument to ensure that Government investment, whose major thrust is poverty alleviation and growth, is

also consistent with the following four other objectives:

- (a) maintaining a stable balance of payments;
- (b) maintaining a proper balance between the private and public sectors;
- (c) control of the money supply in line with the target rate of inflation; and
- (d) maintenance of a balance between current investment expenditure and expected future recurrent costs.

5.4.1.4 Complementary expenditure control and revenue enhancement measures are being pursued to correct the budget imbalances. To assist in this exercise, the Government of Malawi has launched a Medium-term Expenditure Framework (MTEF). The MTEF represents a direct and rational response to a strategic approach to public expenditure planning - a need that was identified by the recently completed Budget Management Review. Among other benefits, the MTEF will:

- (a) help guide aggregate public expenditures in accordance with changing macro-economic and fiscal circumstances, and concepts of the role of government;
- (b) guide inter-sectoral expenditure allocations in response to changing priorities;

- (c) guide the choice of sectoral policies and programmes in accordance with strategic objectives;

To achieve its intended aims, the MTEF will be closely linked to civil service management reforms and restructuring - an exercise that will be gradually implemented over a period of time.

## 5.4.2 The Macroeconomic Situation

5.4.2.1 Following a dramatic decline of 13 per cent in 1994, Malawi's economy experienced a marked recovery, recording a 9 per cent growth in real Gross Domestic Product (GDP). This positive rate of growth in real GDP, implies gains in per capita income, given the 3.2 per cent population growth rate. The healthy economic performance in 1995 is primarily attributed to growth in output in the small-scale agricultural sector brought about by good climatic conditions and favourable price effects in the agricultural trading sector.

5.4.2.2 Agriculture continued to be the leading sector in terms of sectoral contributions to real GDP, accounting for 36 per cent, followed by manufacturing (13 per cent), Government Services (13 per cent) and distribution (11 per cent). GDP by sector of origin is shown in table 1. The agriculture sector's dominance in terms of contributions to real GDP, is a reflection of the economy's dependence on Agriculture.

5.4.2.3 Overall real output in the agricultural sector grew by around 28 per cent, reflecting significant production increases in the smallholder agricultural sector (33 per cent) and the large scale sector (15 per cent). The improved production in agriculture is more noticeable when looked at against the background of a depressed performance in 1994, when the sector recorded a decline of some 29 per cent in real output. A combination of good climatic conditions and favourable price effects have augured well for the sector and contributed to the growth.

5.4.2.4 Production in manufacturing, the second largest economic sector, has been steadily, though marginally, increasing over the years, recording a growth rate of 6.3 per cent in 1995 compared to 3.2 per cent in 1994. The reforms in the exchange rate regimes, coupled with other economic reforms aimed at liberalisation, have augured well for the sector. Being an agriculture dominated economy, most of Malawi's industries are agro-based. As a result, the growth in 1995, is largely attributable to a 39 per cent increase in sugar production. Other sub-sectors, such as chemicals, fertilisers, printing and publishing also registered positive growth rates. Meat production and a number of other sub-sectors registered declines. Despite the tariff regime currently in place, stiff competition from imported manufactured goods continues to haunt the local manufacturing sector and

therefore the development of industry in Malawi.

5.4.2.5 The utilities sector, comprising electricity and water grew by 3.1 per cent in 1995 compared to 7.8 per cent in 1994. The sector continues to exhibit positive growth rates, owing to increased activities in the manufacturing sector and the general growth in population. The increase in the volume of electricity production, is primarily attributed to increased demand and the resumption of electricity exports to some bordering parts of Mozambique. Water consumption has continued to grow despite the drought, as new water projects have become operational.

5.4.2.6 The construction sector recorded a positive recovery and grew by 4.3 per cent in 1995, compared to negative growth rates of 4.2 per cent and 3.4 per cent in 1993 and 1994 respectively. The positive performance by the sector is mainly a result of increased activities in the manufacturing and agricultural sectors. In addition, the frequent shortages of cement experienced in 1994 were overcome.

5.4.2.7 Following an unsatisfactory performance in which the distribution and the transport and communications sectors registered declines of 4.9 per cent and 8.7 per cent in 1994 respectively, the two sectors experienced an upturn in 1995, recording marginal growth rates of 1.9 per cent and 2.7 per cent respec-

tively. Agricultural distribution suffered a setback owing to liquidity problems at the Agricultural Development and Marketing Corporation (ADMARC) which reduced the organisations ability to make the necessary purchases. The resumption of freight service through the Nacala corridor, the emergence of more private transporters and the resumption of freight and passenger services in the lake service, following the successful rehabilitation of some vessels, all contributed to the 2.7 per cent growth in the transport and communications sector.

5.4.2.8 With the exception of government which declined by around 3 per cent over 1994, the services sector grew substantially following the growth in the manufacturing and service sectors. Financial and professional services grew by 6.7 per cent, private, social and community services by 2.2 per cent and ownership of dwellings by 2.4 per cent. The decline in the activities of government were mainly a result of the expenditure reduction measures that have been put in place.

#### 5.4.3 Inflation

Inflation, as measured by the composite national retail consumer price index, has continued its upward acceleration from 22.8 per cent in 1993, to 34.7 per cent in 1994 and a staggering 83.3 per cent in 1995. However, from the second quarter of 1995, a steady downward

trend in the rate of inflation was observed. The jump in the rate of inflation reflected a continuation of the cost-push inflationary pressures that were triggered by the depreciation of the Kwacha, following its floatation in February 1994. Food shortages on account of the 1994 drought, further fuelled the inflationary pressure.

#### 5.4.4 External Trade and Balance of Payments

5.4.4.1 Malawi continued to enjoy improved terms of trade in the world markets. In 1995, the import unit value rose by 71.4 per cent compared to a rise of 96.7 per cent the previous year. In real terms, imports including maize increased by around 21 per cent (11.9 per cent excluding maize imports). The export unit value grew by 79.2 per cent, while exports in real terms increased by 12.5 per cent. The commodity terms of trade therefore improved from an index of 76.9 per cent in 1994 to 80.4 per cent in 1995, while the income terms of trade also improved from an index of 93.3 per cent in 1994 to 109.8 per cent in 1995.

5.4.4.2 In 1995 current prices, total exports (f.o.b) doubled to MK6,559.2 million from a figure of MK3,253.7 million in 1994. On the other hand, imports (c.i.f) also increased from MK3,295.7 million in 1994 to MK6,318.8 million in 1995. These developments led to an improvement on the visible trade balance from a

deficit of MK42 million in 1994 to a surplus of MK240.4 million in 1995. This improvement was due to the stronger export performance brought about by increased production and higher export prices. The depreciation of the Kwacha triggered by its floatation, also contributed to increased export earnings.

5.4.4.3 Tobacco continued to dominate the export sector and the economy as a whole, accounting for 63.6 per cent of total exports in 1995, followed by sugar (7.6 per cent) and tea (6.7 per cent). Projections for 1996, indicate a similar picture.

5.4.4.4 A larger current account deficit of MK834.0 million was recorded in 1995 compared to one of MK452.9 million in 1994. The worsening of the current account balance is on account of increased payments on private transfers, factor services, as well as non-factor payments particularly the cost of shipment. Despite these unfavourable developments in the current account balance, the current account deficit as a ratio of GDP continues on an improvement trend, from 12.4 per cent in 1993 to 4 per cent in 1994 and 3.7 per cent in 1995. The depreciation of the Kwacha continues to have a positive impact on this ratio. The overall balance of payments as reflected in net foreign exchange assets position, shows an improvement of MK482.3 million in 1995.

#### 5.4.5 Public Finance

5.4.5.1 The revised 1995/96 budget reveals that total government revenue (including grants) will be some 13 per cent higher than the approved estimate of MK5,562.59 million (see table 2). This increase is on account of a higher than budgeted out-turn of grants and revenue, brought about by increased BOP support by Cooperating Partners, and the revenue enhancement measures that the Government has put in place.

5.4.5.2 Revised expenditure figures on the other hand, reveal a decline of MK97.07 million from the approved estimate of MK7,199.00 million owing to the expenditure control measures that are now in place. The net effect of the developments on the revenue and expenditure sides, has been a reduction of the budget deficit from an approved MK1,636.41 million to a revised MK780.67 million. The deficit (after grants) was accordingly revised downwards from 10.2 per cent of GDP to 4.9 per cent of GDP.

5.4.5.3 Company tax, pay as you earn, surtax and import duties, continue to be the major sources of central government revenues. For 1995/96, total revenues have been revised from the budgeted K3,633.3 million to K4,355.84 million owing to better than planned performances in company and individual taxes, goods and services tax, and international trade taxes.

5.4.5.4 Revenue from taxes on income and profit accounted for 31 per cent of total revenue, an increase of around 2 per cent over the previous year. Taxes on goods and services contributed 32 per cent; taxes on international trade (the bulk of which is import duties) contributed 25 per cent, while non-tax revenue (departmental receipts, rents etc.) contributed 10 per cent.

5.4.5.5 The revised recurrent expenditure budget for 1995/96, shows unallocable services (largely made up of public debt services) replacing economic services as the largest component. This is a reflection of the increased dependence on foreign financing for the budget deficit. Public Debt Servicing was revised to 26.0 per cent of total recurrent expenditures compared to an approved 17.9 per cent.

5.4.5.6 As a reflection of the Government's commitment to the implementation of the poverty alleviation programme, the shares of agriculture and social sectors in development expenditure rose from 9.1 per cent and 12.2 per cent to 28.3 per cent and 27.0 per cent respectively. Owing to implementation problems, these shares dropped to around 13 per cent for agriculture and 24 per cent for social sectors in 1995/96.

#### 5.4.6 Prospects for 1996

5.4.6.1 The economic outlook for 1996 is encouraging. Real GDP is ex-



pected to grow by 8.8 per cent, mostly on account of agricultural output which is expected to register a 20.1 per cent growth over 1995.

5.4.6.2 The good rains that were experienced during the growing season, coupled with the drive by Government in the provision of inputs, and the new pricing structure that is now in place, auger well for the small scale agriculture sector which is expected to grow by 25.8 per cent over 1995. Maize production in this sector is expected to make a spectacular comeback, registering an increase of 25.1 per cent over 1995. Significant production increases are likewise expected in rice (33 per cent), pulses (60.6 per cent), seed cotton (more than double 1995 production levels), burley tobacco (94.1 per cent).

5.4.6.3 The good climatic conditions and favourable price effects are also expected to boost up large-scale agriculture output by 5.3 per cent in 1996. As a result, production increases are expected in large scale crops such as flue cured tobacco, burley tobacco, coffee and sugar.

5.4.6.4 other sectors of the economy are expected to register steady growth rates as follows: Manufacturing (4.5 per cent); Utilities (4.0 per cent); Construction (3.5 per cent); Distribution (5.2 per cent); Transport and Communications (4.3 per cent). Financial and professional services, private, social and community

services are expected to show modest growth in 1996. Output of the government services is expected to slow down owing to the introduction of the cash budget system which has curtailed government expenditure.

5.4.6.5 The general trend in the rate of inflation from the second quarter of 1995 indicated a steady decline in the inflation as measured by the growth of the composite national consumer price index. This trend is expected to continue in 1996. As a result, inflation rate is expected to be 25 per cent in 1996 compared to 83.3 per cent in 1995.

5.4.6.6 The good tidings projected for the Malawi economy in the medium term will materialise only if the following conditions are met:

(a) The availability of foreign exchange to sustain required imports and maintain a stable exchange rate, a basic requirement for medium term confidence in the capacity of the economy to absorb investments.

(b) The availability of raw materials to improve the capacity utilisation of the industrial sector.

(c) Favourable weather conditions to sustain a steady growth in agricultural sector and agro-based industries.

(d) Further declines in the rates of inflation will bring down interest rates, and also yield

positive real interest rates which are a necessary condition in the drive towards greater investments. In this regard, there are strong indications of a further drop from the envisaged levels of 25 per cent in 1996 to around 4.5 per cent in the year 2000.

5.4.6.7 In general, the liberalisation of the agro-markets, coupled with the deregulation of basic strategic commodities such as maize will enhance more competitive performance in the agricultural economy, and will boost productivity and farmer confidence in the medium term. Liberalisation also bodes well for the industrial sector which creates, in the medium term, conditions for perfect market competition, creativity, diversification and general dyna-

mism in the economy. Within that environment, prospects for investment is forecast to be buoyant in the medium term. Real investment is expected to grow by an average of 10.0 per cent per year in the medium-term. Investment/GDP ratio is expected to be 12.5 in 1996 and will remain at more or less the same level up until the year 2000.

5.4.6.8 Growth in real imports is expected to be in the region of 3.0 to 5.0 per cent per annum in the medium-term. Real exports are expected to grow by an average of 3.0 per cent per annum in the medium-term. The medium-term growth prospects also require sustained growth in small-scale output in view of government's poverty alleviation drive.

Table 1

**GROSS DOMESTIC PRODUCT (GDP, BY SECTOR OF ORIGIN AT  
1978 CONSTANT FACTOR COST (1991-1996)  
(K MILLION)**

	1991	1992	1993	1994	1995	1996
Agriculture	367.5	275.2	421.0	297.6	381.8	458.7
Small-Scale	269.0	168.3	311.1	206.9	277.1	348.5
Large-Scale	98.5	106.9	109.9	90.7	104.7	110.2
Manufacturing	137.5	141.6	126.8	130.8	139.1	145.4
Electricity and Water	24.5	26.3	27.2	29.3	30.2	31.4
Construction	43.9	43.0	41.2	39.2	41.5	42.9
Distribution	132.1	129.5	118.4	112.6	114.7	120.7
Transport and Communication	60.0	59.4	56.7	51.8	53.2	55.5
Financial and Professional Services	71.7	71.4	67.3	62.3	66.5	69.2
Ownership of Dwellings	43.6	44.4	44.9	45.9	47.0	48.2
Private, Social and Community Services	43.9	44.9	45.1	46.4	47.4	48.6
Producer of Government	149.8	154.8	154.2	147.3	142.0	137.7
Unallocable Finance Charges	-18.8	-18.4	-25.7	-11.5	-25.4	-28.8
GDP at Factor Cost	1,055.8	972.2	1,076.9	952.1	1,038.0	1,129.4

**TABLE 2: VISIBLE TRADE BALANCE, 1993 - 1996***(K million)*

	1993	1994	1995	1996*	% Change 1995 on 1994	% Change 1996 on 1995
Exports (f.o.b.)	1,396.6	3,253.7	6,559.2	7,908.6	101.6	20.6
Domestic	1,356.3	3,184.8	6,371.6	7,717.3	100.1	21.1
Re-exports	40.2	68.9	187.6	191.4	172.3	2.0
Imports (c.i.f.)	2,349.8	3,295.7	6,318.8	7,693.1	91.7	21.7
F.O.B.	1,443.0	1,977.4	3,791.3	4,615.9	91.7	21.7
Shipment	906.8	1,318.3	2,527.5	3,077.2	91.7	21.7
Visible Trade Balance	-953.2	-42.0	240.4	-215.5	-672.1	-10.3

\* Projects

Source: Ministry of Economic Planning and Development, Treasury and Reserve Bank of Malawi

**TABLE 3****TRADE INDICES (1989 - 1996)****(1980=100)**

	1989	1990	1991	1992	1993	1994	1995	1996
Imports:								
Volume	100.7	104.0	118.2	110.8	104.8	73.0	88.5	99.0
Unit Value	431.7	474.8	503.3	654.3	754.2	1,483.4	2,542.5	2,476.4
Domestic Exports:								
Volume	82.3	103.9	110.0	109.0	103.9	114.3	128.6	142.9
Unit Value	361.3	433.5	486.0	526.4	539.0	1,141.1	2,044.7	2,218.9
Commodity Terms of Trade	83.7	91.3	96.5	80.5	71.5	76.9	80.4	89.6
Income Terms of Trade	73.1	100.6	112.7	93.1	78.8	93.3	109.8	135.9

## 5.5 MAURITIUS<sup>1</sup>

### 5.5.1 Output

5.5.1.1 The recent National Accounts figures show that there has been a slowdown in the economy in recent years. The average growth rate over the past three years has revolved around 5.2 per cent as compared to growth rates of up to 6 per cent in previous periods. This had been a result of problems faced by the agricultural sector due in part to Cyclone Hollanda and also due to contraction in the industrial and construction sectors. Despite these problems, the economy grew in real terms at a comfortable rate of 5.4 per cent in 1995 compared to 5.0 per cent in 1994.

5.5.1.2 Gross Domestic Product (GDP) at current factor cost registered a nominal increase of 10.6 per cent and totalled Rs60,000 million. Indirect taxes net of subsidies dropped by around 5 per cent to Rs8,135 million. This brought GDP at market prices to Rs68,135 million representing an increase of 8.5 per cent only.

### 5.5.2 Sectoral Performance

5.5.2.1 The agricultural sector which was affected seriously by Cyclone Hollanda in 1994 recorded an impressive growth in 1995.

It grew by 6.9 per cent compared to a decline of 7.4 per cent in 1994. The overall 6.9 per cent growth in the agricultural sector was the combined effect of an 8 per cent increase in sugarcane production and 5.5 per cent increase in agriculture. The sugar crop attained 539,521 tonnes in 1995 against 500,209 tonnes in 1994, following Cyclone Hollanda. The sugar sector remains an important sector to the Mauritian economy as it contributes substantially to value added, employment and export earnings.

5.5.2.2 The manufacturing sector grew by 5.7 per cent in 1995 which is slightly higher than that registered in 1994 at 5.1 per cent. This performance reflects the combined effect of a 5 per cent growth in the EPZ, a 6.1 per cent growth in the non-EPZ and an 8 per cent growth in the sugar milling. It is important to point out that whilst the EPZ sector picked up and performed at a higher rate of 5 per cent as compared to 4 per cent in 1994, the non-EPZ industries witnessed a slight slowdown at 6.1 per cent compared to 9 per cent in 1994 probably due to contraction in the construction sector. It is also important to note that the manufacturing sector activities fall into three broad categories as follows:

i) Agro-industrial manufacturing activities (such as sugar milling);

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Based on a) Economic Indicators - An Occasional Paper on National Accounts Estimates 1993-96  
b) Republic of Mauritius - States of the Economy January 1996.

ii) Domestic-oriented manufacturing activities; and

iii) Export - oriented manufacturing activities which enjoy export incentives under the EPZ Act.

5.5.2.3 The tourism industry is one of the most dynamic sectors in the Mauritian economy. Over the period 1991-95, tourist arrivals increased by 8.5 per cent on average and earnings by 66 per cent to reach over Rs6 billion according to the recent report from Mauritius on the State of the Economy, January 1996. The tourism sector as characterised by the hotels and restaurants sector contributed 3.8 per cent to GDP in 1995, compared to 3.3 per cent in 1991. In terms of growth, the sector is estimated to have grown by 5.5 per cent in 1995 with 422,463 tourist arrivals bringing in Rs7 billion. With regard to direct and indirect employment generated by the sector, this is estimated around 41,400 jobs in 1995<sup>2</sup>

5.5.2.4 The financial, insurance, real estate and business services sector which comprises imputed services of owner occupied dwellings registered a 6.6 per cent growth, but its main sub-sectors banking sustained a 9 per cent growth and insurance and business services performed at 7.5 per cent after reaching a peak of 10 per cent in 1994. Activities in the transport and other services sectors also showed remarkable

growth although at a slow rate of 6.5 per cent and 7.5 per cent compared to 10 per cent growth registered in 1994.

### 5.5.3 Consumption, Savings and Investment

5.5.3.1 Aggregate consumption expenditure increased by 10 per cent from Rs48,175 million in 1994 to Rs52,976 million in 1995 or 4.4 per cent in volume terms. Consumption expenditure by households which accounted for 84 per cent or Rs44,592 million is estimated, in real terms, to have increased at a slower rate of 4.4 per cent in 1995 compared to 5.3 per cent in 1994. General Government shared the remaining 16 per cent or Rs8,384 million.

5.5.3.2 Gross Domestic Savings (GDS) that is, GDP at market prices less aggregate consumption, yielded Rs15,159 million in 1994. Consequently, the ratio of savings to GDP, the savings rate, declined further to 22.2 per cent in 1995 from 23.3 per cent in 1994 and 24.7 per cent in 1993.

5.5.3.3 On the other hand, investment, defined as Gross Fixed Capital Formation (GFCF), declined by 11 per cent in nominal terms from Rs19,550 million in 1994 to Rs17,425 million in 1995. After taking into account price effects estimated at 4 per cent, investment, in real terms, dropped by 14.4 per cent. However, comparison with 1994 investment figure exclusive of purchase of aircraft, shows a decline of 5.2

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Government of Mauritius, State of the Economy January 1996.

gramme for 1996 the Government aims at achieving a 5% GDP growth, a reduction of inflation to 34% and a budget deficit reduction.

5.6.5.2 Private sector investment is expected to increase in the country, especially investments related to the Maputo Development Corridor.

## 5.7 NAMIBIA

5.7.1 During the period 1990/95 real income per capita has risen marginally by about 0.4% per year, signalling a suspension of the decline in real per capita income. To bring about a politically meaningful material improvement to the people of Namibia, the Government put in place a five-year development plan with the objective of reviving the economy so as to reduce income inequalities and poverty among the people of Namibia. Although the five-year plan projected growth rates of 5% or more, these were, however, impossible to realise. The Government of Namibia remains committed in its macroeconomic policy framework to increase the rate of economic growth to 5% per annum, create ample opportunities for employment through increased investment flows, reduce inequalities in income distribution, alleviate poverty and help vulnerable groups in society.

5.7.2 Namibia's economic growth has been decelerating since 1995. This slow down may be ascribed to reduced performances by all

major sectors of the economy. In this respect, adverse climatic and oceanic conditions impacted negatively on the performance of the fishing industry. Due to late and insufficient rainfall during the 1995/96 agricultural year, agricultural output fell on average by 31% during the last six months of 1995. The mining industry, especially gold and diamonds, has also not performed well. As a result of these events, real GDP growth has been slower. Though modest and uneven, the economy has been able to register between 1990 and 1995, an average growth rate of 3.5%.

5.7.3 Since independence, the Namibian balance of payment situation has been characterised by increasing current account surpluses and capital account deficits. For the first time since 1990, Namibia recorded a trade deficit during 1995. This was a combined result of strong import demand induced by higher private consumption and investment demand, and disappointing exports within the fishing industry. The current account surplus has been accompanied by deficit on the capital account since 1994. However, in 1996, the capital account has shown signs of increased direct investment in Namibia from abroad, and decreasing outflows of Namibian savings in the form of portfolio investments through life insurance and pension fund companies.

5.7.4 The Namibian budget is characterised by fiscal discipline. The



per cent. This decline results from lower spending on investment by the public sector and a reduction in the construction of dwellings and non-residential buildings. Consequently, investment level, measured by the share of GDFCF in GDP at market prices, fell to 25.6 per cent from 31.1 per cent in 1994 inclusive of the aircraft.

5.5.3.4 Details on investment by type of goods show that expenditure on construction works, represented 59 per cent of the total or Rs10,320 million. Within this component residential buildings declined by 6.4 per cent due to shortage of inputs, non-residential buildings contracted by 3.5 per cent whilst infrastructural works grew by 2.4 per cent. Expenditure on transport represented Rs1,505 million and that on other capital Rs5,600 million. of the total investment of Rs17,425 million, the public sector's share represented 31.2 per cent while the private sectors' share was 68.8 per cent.

#### 5.5.4 Inflation

5.5.4.1 As a result of a number of measures designed to liberalise the economy and stimulate competition in the domestic market, inflation was further brought down to more manageable levels of 7.3 per cent and 6 per cent in 1994 and 1995 respectively as opposed to 10.5 per cent in 1993.

5.5.4.2 The battle against inflation remains the top-most priority for Mauritius. Import duties on a large number of articles were reduced, subsidies on rice and flour were re-introduced while monetary policy was directed towards mopping up excess liquidity and stimulating savings.

#### 5.5.5 Employment

5.5.5.1 Mauritius has been experiencing a consistent decline in the unemployment rate for the past decade. In 1995, the level of unemployment, based on the number of registered unemployed, was estimated at 9,000 translating into unemployment rate of 1.7 per cent, as compared to 14.8 per cent in 1985 and 1.6 per cent in 1994. The labour force was estimated at 515,000 in 1995 of which a total of 506,000 was employed. Total employment grew from 456,000 in 1991 to 506,000 in 1995 this represents an annual average rate of growth of 2.7 per cent compared to the rate of growth of the labour force of 2.7 per cent.

5.5.5.2 Foreign workers account for 2 per cent of total employed labour in Mauritius. Most of these are from China and India and are employed in the textile and construction sectors and also direct part-time jobs in households. In 1995, there were about 9,800 foreign workers, compared to 2,291 in 1991. The continued reliance on foreign labour is a sensitive issue especially with regard to reactions from trade

unions, employers and the local population in times of hard economic conditions.

#### 5.5.6 Monetary Policy

5.5.6.1 Monetary policy has continued to emphasise the control of inflation and promotion of efficient mobilisation and allocation of resources through a market-oriented monetary system which relies on indirect means of monetary controls. The following measures have been implemented to ensure that this is achieved:

- i) liberalisation of interest rates;
- ii) abolition of quantitative control on bank credit;
- iii) abolition of all foreign exchange control; and
- iv) development of a foreign exchange market.

5.5.6.2 Although there have been mixed results with regard to inflation and performance of the financial sector, some dividends have been achieved. With regard to Money Supply (M1), which comprises currency with public and demand deposits, grew by 16 per cent in 1994/95 compared to 21 per cent in 1991/92. The annual growth rate of quasi-money (time and savings deposits) declined significantly from 20 per cent to 9 per cent over the same period. Aggregate monetary resources (M2), consisting of money supply and quasi-money, which grew annually by

20 per cent in the early 1990s, showed a slow growth of 9.7 per cent in 1994/95.

5.5.6.3 Domestic credit in the banking system, grew by 24 per cent in 1992/93, it slowed down in the following two years reaching 18 per cent at the end of June 1995. However, bank credit to Government, net of deposits with the banking system increased at a faster rate of 24 per cent in 1994/95 compared with a growth of 15 per cent in the private sector credit in that year, as reported in the State of the Economy, January 1996. This trend could be dangerous as it shows a clear crowding out of the private sector.

5.5.6.4 Trends in monetary aggregates show that aggregate monetary resources (M2) reached Rs52,792 million at the end of December 1995 overshooting its target of Rs50,135 million by 5.3 per cent. Excess liquidity in the economy is currently estimated at around Rs2.6 billion (January 1996) this may impact negatively on price stability. This liquidity was a result of the issue of the Floating Rate Note (FRN) introduced in October 1996. The rupee counterpart of the loan of US\$150 million deposited with the commercial banks brought substantial additional liquidity to the economy.

#### 5.5.7 Public Finance

5.5.7.1 Since 1990, the Government of Mauritius has maintained a relatively consistent level of revenue

and grants, which, expressed as a ratio of GDP has ranged between 19 and 21 per cent. Tax revenue has also shown that a similar steady trend with its ratio to GDP ranging between 18 and 20% during the period 1990 and 1994. In 1996, the ratio slipped to 16.2 per cent.

5.5.7.2 Non-tax revenue, measured in relation to GDP grew from 2.3 per cent in 1994 to 2.6 per cent in 1995.

5.5.7.3 Total expenditure in relation to GDP has also shown a steady trend that ranged between 22 and 23 per cent. In 1995, the ratio was estimated at 22.8 per cent. Current expenditure that constitutes about 83 per cent of total expenditure stood at 19.2 per cent in 1995 as compared to 18.8 per cent in 1994.

5.5.7.4 As a result of the increases in both total revenue and expenditure, the overall deficit in relation to GDP amounted to 3.6 per cent in 1995 as compared to 2.4 per cent of GDP in 1994. The major proportion of the overall deficit was financed by net borrowings.

#### 5.5.8 Balance of Payments

5.5.8.1 Exports tend to be concentrated on a few products and markets.

Total exports was estimated at Rs27,326 million in 1995 as compared to Rs24,697 million in 1994. Article of apparel and clothing accessories, which constitutes about 52% of the total exports, increased by about 8%. Sugar which accounts for 23%, increased by 10% to reach Rs6,326 million during the same period. Most of the exports were destined to the European markets, namely UK and France.

5.5.8.2 Total imports in 1995 stood at Rs34,363 million as compared with Rs34,548 million. Food imports which account for 14% of total imports increased by 10%. Textiles clothing and footwear remained the highest at 26% in 1995.

5.5.8.3 The trade deficit share decreased slightly to reach Rs7,037 million in 1995 as compared with Rs9,851 million in 1994.

5.5.8.4 As a result, the current balance account (including transfers) was minus Rs380 million in 1995 compared with minus Rs4,168 million in 1994.

#### 5.5.9 Prospects for 1996

5.5.9.1 The Mauritian economy is expected to grow by 5.5% in 1996 under the following assumptions:

	<b>Sector</b>	<b>Assumption</b>	<b>Real Growth Rate</b>
(a)	Sugar	Production attaining 625,000 m/tons	+16%
(b)	EPZ	Exports forecast at around Rs20,000 million	+5%
(c)	Tourism	Tourists arrivals to reach 440,000 and tourist earnings attaining Rs7,500 million	+5.5%
(d)	Construction		+2%
(e)	Other		+5.4%
		<b>Overall</b>	<b>+5.5%</b>

5.5.9.2 GDP at factor cost for 1996 is forecast at Rs60,000 million increasing in nominal terms by 10.6% over 1995. Assuming that net indirect taxes yield Rs8,135 million, the same amount as in the previous year, GDP at market prices will total Rs68,135 million.

5.5.9.3 Aggregate consumption expenditure in 1996 is expected to increase in nominal terms by around 10% to Rs58,045 million.

5.5.9.4 Information on intended investment by the public and private sector shows that, in 1996, Gross Fixed Capital Formation (GFCF) will pick up by nearly 10%, from Rs17,425 million to Rs19,150 million. After elimination of price effects estimated at 4.2%, the volume of investment is expected to grow by 5.3%.

5.5.9.5 In real terms, expenditure on construction will remain at previous year's level with residential buildings growing by 2.3%, following the 6.4% drop in 1995. However this growth will be offset by the decline in other construction works.

5.5.9.6 As regards investment in machinery and equipment, the substantial increase of 20% to Rs8,560 million, is explained by public sector's acquisition of equipment (generators, "patrol-boat"). The share of the public sector will therefore rise to 33% from 31% in 1995.

## 5.6 MOZAMBIQUE

### 5.6.1 Economic Performance

5.6.1.1 The Economic Rehabilitation programme and its successor, the Economic and Social Rehabilitation Programme have been in place for nine years. During this period, a range of policy measures were adopted to restructure and revitalise the economy as a market oriented one. This process of change was conducted despite the difficulties imposed by war and drought.

5.6.1.2 In 1995, the Government launched a set of economic reforms aimed at increasing domestic and external finance. These reforms were conducted despite the limitations imposed by the stabilisation programme. Donor assistance was essential in helping the Government im-

plement these policies. The policy objectives are to strengthen governance; support the agricultural sector; prioritise the social sectors; increase fiscal revenues; and prioritise resource allocation to the areas where economic growth can be most rapid.

5.6.1.3 In 1995, the end of the special programmes linked to the peace process led to negative adjustment in the economy. Public consumption was projected to fall by 20% in real terms. However, faced with scarce budget resources, the Government further reduced public expenditure, which fell by 37% in real terms.

5.6.1.4 This resulted in a slower than projected GDP growth rate in 1995. This was due to the contraction in public consumption which was partly offset by an important increase in private sector activity. The latter is illustrated by the strong growth recorded in the productive sectors which, excluding services reached 7%. It is particularly important to highlight the performance of the manufacturing industry which after 5 years of successive decline, showed a real increase of 18.5%.

5.6.1.5 Agriculture expanded by about 5% in real terms. Notably, growth was led by an 18% increase in market output from the small-holder sector. This was possible because of the positive impact of peace and the resettlement of displaced population in rural areas. Rural markets remained weak as progress made

in road rehabilitation did not compensate for the wide spread destruction of the rural marketing network. In terms of live-stock production, severe fever resulted in a drop of nearly 70% in meat production. In the fishing sector, there was a marked increase in the shrimp catch but a reduction by half in the fish catch over 1994 levels.

## 5.6.2 Inflation

5.6.2.1 The annual rate of inflation was 54.5 percent in 1995, 15.5 percentage points lower than the previous year, but above the original target of 24% and revised target of 34%.

5.6.2.2 This outcome reflects the negative factors that affected the supply of some basic food products such as rice, fish and meat, with heavy weights in the CPI index, as well as an excessive monetary expansion during the last months of the year. Fuel and commercial food aid price increases, both resulting from structural adjustments to bring prices closer to international levels, were also important factors affecting inflation.

## 5.6.3 Balance of Payment (BOP) and Privatisation

5.6.3.1 The promotion of exports is seen by the Government as a cornerstone to reduce external dependence. In 1995, export earnings reached US\$169.6m according to preliminary figures, although the final official figure is likely to be slightly higher. It represents

an improvement of some US\$20m over the 1994 total.

5.6.3.2 Imports of goods fell by about US\$235m in 1995. Of this amount about US\$190m can be attributed to the discontinuation of special programmes. The country also experienced a reduction in grants for agricultural tools and seeds, which fell by approximately 75% in 1995. The other area of aid reduction impacted on investment, where grants fell by about 26%. This decline is largely on domestic resources which, given the link between internal and external financing, led to a slowdown in disbursements.

5.6.3.3 In 1995, foreign debt increased to US\$5.3 Billion, representing about four times the nation's GDP and thirteen times the value of exports of goods and services. Thus, the volume and structure of Mozambique's debt, which in recent years has grown in relative terms more quickly with the multilateral agencies has caused not only short-term problems but also medium and long-term problems.

5.6.3.4 The privatisation process was accelerated during 1995. Since 1992, 45 new private enterprises have been established as a result of privatising large previously owned state companies. In terms of small and medium scale enterprises, some 42.3 enterprises have been sold, 25 joint ventures agreed upon and 54 placed under private management.

#### 5.6.4 Investment Climate

5.6.4.1 The Government is in the process of establishing a favourable investment climate in the country, which will focus on the following:-

\*Reform of the financial system;

\*Opening the financial sector to new banks;

\*The promotion of credit for rural development, particularly at the local level;

\*Transforming informal into formal financial activities;

\*Acceleration of privatisation of State Owned Enterprises(SOE);

\*Simplifying and Decentralising the Process of Investment Authorisation;

5.6.4.2 Within the frame-work of reforming the financial sector and restructuring the enterprises sector in Mozambique the Government decided to privatise two state owned commercial banks, Banco Commercial de Mozambique (BCM) and Banco Popular de Desenvolvimento (BPD). Both banks will be in private hands by the end of 1996.

#### 5.6.5 Future Prospects

5.6.5.1 With peace now prevailing in the country, medium to long-term prospects for the economy look promising. In its economic pro-

gramme for 1996 the Government aims at achieving a 5% GDP growth, a reduction of inflation to 34% and a budget deficit reduction.

5.6.5.2 Private sector investment is expected to increase in the country, especially investments related to the Maputo Development Corridor.

## 5.7 NAMIBIA

5.7.1 During the period 1990/95 real income per capita has risen marginally by about 0.4% per year, signalling a suspension of the decline in real per capita income. To bring about a politically meaningful material improvement to the people of Namibia, the Government put in place a five-year development plan with the objective of reviving the economy so as to reduce income inequalities and poverty among the people of Namibia. Although the five-year plan projected growth rates of 5% or more, these were, however, impossible to realise. The Government of Namibia remains committed in its macroeconomic policy framework to increase the rate of economic growth to 5% per annum, create ample opportunities for employment through increased investment flows, reduce inequalities in income distribution, alleviate poverty and help vulnerable groups in society.

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major sectors of the economy. In this respect, adverse climatic and oceanic conditions impacted negatively on the performance of the fishing industry. Due to late and insufficient rainfall during the 1995/96 agricultural year, agricultural output fell on average by 31% during the last six months of 1995. The mining industry, especially gold and diamonds, has also not performed well. As a result of these events, real GDP growth has been slower. Though modest and uneven, the economy has been able to register between 1990 and 1995, an average growth rate of 3.5%.

5.7.3 Since independence, the Namibian balance of payment situation has been characterised by increasing current account surpluses and capital account deficits. For the first time since 1990, Namibia recorded a trade deficit during 1995. This was a combined result of strong import demand induced by higher private consumption and investment demand, and disappointing exports within the fishing industry. The current account surplus has been accompanied by deficit on the capital account since 1994. However, in 1996, the capital account has shown signs of increased direct investment in Namibia from abroad, and decreasing outflows of Namibian savings in the form of portfolio investments through life insurance and pension fund companies.

5.7.4 The Namibian budget is characterised by fiscal discipline. The

Government has been able to reduce overall budget deficit by restraining additional expenditure by the public sector. In addition the Government succeeded in improving the performance and collection of all revenues. These led to the downward revision of the budget deficit for 1995/96, from 4.1% of GDP to 3.8% of GDP.

- 5.7.5 Low international inflation together with South Africans restrictive stance on monetary policy and its downwards correction in the price levels of food stuffs because of improved weather conditions, have impacted on the overall inflation rate in Namibia to recede slightly from 10.8% in 1994 to 9.9% in 1995. A considerable deceleration in consumer price inflation was witnessed during the later half of 1995 originating mainly from much slower food price increases. However, the Consumer Price Index registered a marginal monthly increase of 0.48% to 7.69% in February 1996.
- 5.7.6 Monetary developments indicated strong increases in almost all monetary aggregates during the fourth quarter of 1995. Total domestic credit increased by 4%, while credit from the banking system to the private sector increased by 5%. On the other hand, Government indebtedness to the banking system declined by 7%. By the end of December 1995, the annual growth rate in broad money supply, M2 was approximately 23% and had in-

creased to 26.3% by January 1996.

## 5.8 SOUTH AFRICA

- 5.8.1 The South African Government of National Unity put in place a macroeconomic policy with the objective of reducing budget deficit, contain non-interest recurrent expenditure, improve expenditure efficiency, avoid permanent increases in the overall tax burden, maintain price stability, reduce Government over expenditure, address gender discrimination, reduction of tax on pensions and retirement benefits, the implementation of the Reconstruction and Development Programme and the introduction of multi-year fiscal planning, by 1997/98.
- 5.8.2 The South African economy continued its current economic growth phase in 1995, recording a growth rate of 3.3% compared to 2.7% in 1994. Although a slow down in economic growth is evident, it is nevertheless expected that growth of about 3% will be recorded for 1996.
- 5.8.3 Manufacturing is South Africa's largest single income generating sector, and the country manufactures a wide range of consumer goods and industrial products. The volume of production of capital goods has increased substantially. It is anticipated that these sectors together with the mineral beneficiation will constitute the major areas of private investment for the future. The tertiary sector, with a 53%



share in the national product, continued to perform well. Although the role of the primary sector currently only contributes about 15% to national product and is steadily declining, it will be the mainstay of the expected 3% growth in 1996.

5.8.4 In the year up to the middle of 1995, only 55,000 new jobs were created in the formal sector of the economy outside the agricultural sector. This growth failed to match the rate at which the economically active population is growing. The problem of unemployment is the biggest challenge that the South African economy should address.

5.8.5 Over the past few years, South Africa succeeded in bringing the rate of inflation down from over 15% in 1991 to 8.7% in 1995. Over a twelve-month period leading to March 1996, the Consumer Price Index increased by 6.3%.

5.8.6 A net inflow of R21.7 billion in 1995 brought the cumulative net inflow of capital since the middle of 1994 to R30 billion at the end of 1995, compared with a net outflow of R51.7 billion from 1985 up to the second quarter of 1994. This improvement in the capital account was mainly due to a net inflow of long term capital (R12.5 billion). A substantial portion of the inflow of long term capital, however, consisted of portfolio investments which could be less permanent. It is, however, estimated that about 20% of the total capital inflow in

1995 consisted of long term fixed investments.

5.8.7 The external value of the Rand depreciated sharply from mid-February 1996 due to unfounded rumours and speculative transactions. After firming up in March, the value of the Rand fell sharply in April 1996, and stabilised in May and June 1996. From January 1996 to the end of May 1996, the Rand depreciated by about 16% against the American Dollar. However, this depreciation brought the Rand to more realistic and competitive levels.

5.8.8 Fluctuations experienced in the foreign exchange market had a serious impact on capital flows. The trend of large capital inflow was affected by leads and lags in foreign payments and receipts, which led to a substantial outflow of short term capital. This was initially offset by inflows of long term capital, but from the beginning of March 1996, these inflows subsided and turned into net outflows of long term capital.

5.8.9 To counter the trend of net capital outflows, the Government put in a comprehensive macro-economic stabilisation programme. The programme is intended to address a faster fiscal deficit reduction programme to contain debt service obligations, counter inflation and free resources for investment, and a renewed focus on budgetary reform to strengthen the redistributive thrust of expenditure. A deficit of 4% of GDP is foreseen

for 1997/98, compared to the budgeted deficit of 5.1% for 1996/97, and the revised deficit of 5.5% for 1995/96.

## 5.9 SWAZILAND

### 5.9.1 Gross Domestic Product

5.9.1.1 The Swazi economy continued to register moderate growth rates during the period under review. Gross Domestic Product (GDP) was estimated to have increased by 3.7% during 1994/95 as against an estimated growth of 3.8% during 1993/94. Although this growth rate is slightly higher than that of 1991 and 1992/93 when GDP figures fluctuated between 2.6% and 1.2% respectively, it falls far short of the growth rates recorded during the mid-1980s when average growth stood at 13.3 %.

5.9.1.2 Nevertheless, recent trends seem to indicate that the recovery process is on track. This is mainly as a result of increased production in the manufacturing sector, especially the soft drink sub-sector that grew by 6% on account of a slight improvement in export demand. The small industrial sugar blending subsector also made an important contribution to the growth in manufacturing value-added. Other sectors that contributed to the GDP growth were forestry, agriculture and mining, due to various factors such as improvement in world prices, increased production and good rains.

5.9.1.3 In terms of sectoral breakdown of the GDP, the manufacturing sector continued to be the mainstay of the economy of Swaziland, accounting for about 36% of the GDP. The performance of this sector is therefore crucial to the overall economic situation in the country. Like the Swazi economy in general, this sector is highly export-oriented and linked to the South African economy through the Southern African Customs Union and the Common Monetary Area. Structural constraints such as high tariff barriers and other protectionist measures that have made South African companies uncompetitive internationally also face industries in Swaziland. Other factors that have affected the performance of this sector include the decline in direct investment from South Africa, shortage of skills, poor infrastructure and communications.

5.9.1.4 An analysis of the utilisation of the GDP, shows a predominance of consumption expenditure over capital formation whose average annual share was 77.6 % and 13 % respectively between 1989-94. Within these broad categories, private consumption averaged around 57 % of the GDP and grew at an average of 11 % per annum, while public consumption was about 20.6 % and grew at an average of 24 %. These trends continued during the period under review as consumption expenditure accounted for 75 % while gross fixed capital formation constituted about 25 % of GDP. This high share of

consumption is largely due to recurrent costs associated with capital costs and personnel expenditure in the overall budget.

5.9.1.5 Gross fixed capital formation, on the other hand, was on average about 24 % of the GDP and grew at around 17 % per annum. Public capital formation at the annual growth rate of 26 % during the period 1989-94 was twice as high in comparison to private capital formation which grew at annual rate of about 11.5 % during the same period. The growth of the former was as a result of Government expansion of the physical and economic infrastructure in an effort to make Swaziland an attractive destination for foreign investment. However, the inflow of foreign direct investment has not been as high as expected, hence the lower rate in the growth of private capital formation.

## 5.9.2 Consumer Prices

5.9.2.1 A slight decrease in the overall price movements was registered in 1995, when the average annual rate of inflation of 12.3 % was recorded as against 13.8 % in 1994. The downward trend of prices was much evident from March to October 1995 on all the three main price indices covering low-income, middle and high-income and all-income groups. This was mainly a result of lower -than-average increases in most of the items with significant weights in the overall index. Except for education and health care which recorded 38.6 % and

14.4 % price increases respectively, all other items such as food, transport and communication, clothing and footwear recorded price increases ranging between 2.0 % and 11.5 %.

5.9.2.2 A number of factors, both external and internal, were responsible for the reduction in inflation. Since the Swazi economy is closely integrated to the South African economy, developments in the later are a major determinant of both the overall price level and the rate of annual inflation in Swaziland. In this regard, a strong Rand, continued adherence to a tight monetary policy stance in South Africa and the move towards a gradual reduction of tariffs, as a result of the implementation of WTO obligations, all had an impact on inflation in Swaziland. There were also specific internal factors at play such as government price controls or manipulations and restrictions on the importation of certain products that had an impact on price developments. For instance, government still determines the prices of some goods and services such as electricity, fuel and some food items.

## 5.9.3 External Trade and Balance of Payments

5.9.3.1 Available figures for 1994 suggest a continued unfavourable position of the overall balance of payments of Swaziland. The export boom that the country enjoyed from the 1980s up to the early 1990s seems to have leveled off. Nearly all the

major items of the BOP account were in deficit. Net official reserves also showed a declining trend, as they stood at E45.6 million in 1994 as against E208.2 million in 1993. Consequently, the number of months of import cover provided by re-

serves are estimated to have decreased from 6 months cover in September 1993 to less than 4 months cover in September 1994. The table below shows the Balance of Payments situation in Swaziland since 1992.

**Table 1 : Balance of Payments 1992-1994 ( E Million )**

Item	1992	1993	1994*
Balance of Visible Trade	-	-	-
	359.6	316.5	261.1
Balance of Services	78.3	-	-
		135.0	234.5
Balance of Goods and Services	-	-	-
	281.3	451.5	495.6
Net Transfers	353.5	324.5	314.6
Current Account Balance	72.2	-	-
		128.0	182.0
Balance on Capital Account	108.6	-	-
		147.8	198.8
Net Errors & Omissions	67.8	67.6	335.2
Overall Balance	248.6	-	-45.6
		208.2	

*Source: Central Bank of Swaziland  
Notes\* Provisional*

5.9.3.2 Although the deficit in the trade balance showed a declining trend since 1992, it still remained high at E261.1 million in 1994 compared to E316.5 million in 1993. The decline in sugar exports, one of the major export items, adversely affected the growth in export earnings. A sharp rise in some of the non-traditional exports especially the category of "other food products", that increased by about 136 % from E356.5 in 1990 to E842 million in 1994, did not change the overall position as the value of exports continued to lag behind that of imports. On the other hand, the services balance registered a deficit of E234.5 million

in 1994 in comparison to a deficit of E135 million in 1993. As a result, the goods and services balance deteriorated further during the period under review.

5.9.3.3 The official net transfers, that stood at E315 million in 1994 as against E322.3 million in 1993, were inadequate to offset the deficit of the goods and services balance. The net inflow of transfers largely consists of payments made to Swaziland under the SACU Agreement. The shortfall in net transfers, coupled with a rapidly deteriorating goods and services balance, did not yield the expected overall favourable effect on the

current account balance, resulting into a deficit of E182 Million in 1994 compared to E128 million in 1993 on this account.

5.9.3.4 With regard to the net capital inflows, the overall capital account continued to deteriorate, as a deficit of E198.8 million was recorded in 1994 as against a deficit of E147.8 million in 1993 and a surplus of E108.6 million in 1992. This was largely due to the substantial deficits on both the short and long-term capital balance. The increase in private direct investment, which stood at E147 million in 1994 as against E11 million and E57 million in 1992 and 1993 respectively, were not adequate to off-set the huge deficits during the same period.

#### 5.9.4 Employment Situation

5.9.4.1 Provisional estimates indicate that the employment situation continued to deteriorate during the period under review. Preliminary figures show that formal sector employment declined by 1.5 % from 93,496 in 1993 to 92,089 in 1994. This decline was recorded in the largest employing sectors of agriculture and forestry and manufacturing. Employment creation in the agricultural sector was unsatisfactory due to the effect of the prolonged drought. The slowdown in direct foreign investment in the manufacturing sector led to the decline in the output of the sector and hence to a fall in employment generation. The problem was compounded by the

capital-intensive nature of the operations in the sector.

5.9.4.2 The profile of the unemployed show that the problem is most acute among the age group 15-24 years as this group constituted about 50 % of the unemployed in 1991. The rural areas recorded unemployment rates twice as high as those in the urban areas. In terms of educational characteristics, the level of education of the unemployed persons was higher in urban areas than in rural areas. A breakdown by gender indicates that both sexes are equally affected by unemployment, since 57 % of the unemployed are male and 43 % are female. With declining formal sector employment, an increasing proportion of the rapidly growing labour force has sought employment opportunities in the informal sector.

#### 5.9.5 Public Finance

5.9.5.1 The Government budget continued to record deficits during the period under review. The trend that begun in 1992/93, when for the first time in six years a deficit of E42m was registered, persisted as the deficit increased by about 16 % from E171m in 1993/4 to E198m in 1994/95. While revenue were growing at an annual rate of 16 % , expenditure on the other hand grew at 20 % per annum during the period 1991-1995. Government reserves declined and were completely exhausted by early January 1995 as the deficit was financed by a draw down of re-

serves . This situation is a reflection of the general unsatisfactory performance of the Swazi economy since the early 1990s. However, measures are being taken to reverse the unfavourable budgetary situation through improving revenue collection and controlling expenditure. As a re-

sult, the deficit is estimated to decline to E47m during the period 1995/96. Table 2 below shows Government revenue and expenditure during the period 1992-1994.

**Table 2: Government Revenue and Expenditure, 1992-1994  
( E Million )**

Item	1993/95	1994/95	1995/96*
Total Revenue & Grants	981.9	1200.1	1483.7
- Customs Union Receipts	454.7	566.5	743.8
- Company Tax	204.0	209.3	240.0
- Personal Income	96.3	134.5	147.9
- Sales Tax	122.9	131.1	170.0
- Other Revenue	75.2	127.3	157.7
- Grants	28.7	31.4	24.3
Total Recurrent Expenditure	872.7	1049.6	1240.3
- Personnel	527.6	542.6	644.4
- Goods and Services	220.4	262.7	352.3
- Subsidies & Transfers	103.1	219.5	211.7
- Public Debt Interest	21.6	24.8	32.0
Total Capital Expenditure	265.7	349.0	316.7
Net Lending	14.4	-1.0	-41.4
Overall Surplus / ( Deficit:- )	- 170.9	- 197.5	- 32.0

**Source: Ministry of Finance, Swaziland  
\* Latest Estimate**

5.9.5.2 Total revenue and grants increased by about 22 % from E981.9m in 1993/94 to E1200.1m in 1994/95. This improvement was a result of an increase in SACU revenue and sales tax and individual tax. Revenue from SACU continued to be the main source of gov-

ernment budgetary resources as its share in total revenue and grants stood at 47 % in 1994/95. Customs Union receipts grew by about 25 % from E454.7m in 1993/94 to E566.5m in 1994/95. Company tax, the second most important source of government revenue,

grew marginally by about 2.6 % from E204m in 1993/94 to E240m in 1994/95, reflecting the difficult economic situation the companies were confronted with. Although constituting only about 10 % of total government revenue, personal income and graded tax recorded a substantial increase of 40 % in 1994/95. This was largely a result of the introduction of the Final Deduction System that has greatly improved tax collection.

5.9.5.3 Total expenditure and net lending increased by about 21 % from E1152.8m in 1993/94 to E1397.6m in 1994/95. About 75 % of this expenditure is for recurrent expenditure. Within the recurrent expenditure category, personnel expenditure takes the largest share. In 1994/95 it absorbed about 46 % of the recurrent expenditure. However, the growth in this expenditure is being closely monitored and controlled. During the period under review this item recorded only about a 3 % increase.

5.9.5.4 In terms of functional allocation, general administration took the largest share ( 30 % )of recurrent expenditure. This was followed by education which absorbed about 27 %. With regard to capital expenditure, roads, transport and communications absorbed the largest share (75%). The Manzini-Mbabane highway was the major project in this sector. Education was allocated the next largest share, mainly for the construction of

teachers housing and student accommodation at the university.

## 5.9.6 Future Prospects

5.9.6.1 The Swazi economy is expected to register moderate real growth of between 2.5 % and 3 % during the next three years. The growth will mainly originate from the agriculture sector which has shown some recovery following good rains in 1996. Contribution from the manufacturing sector will not be as high as in the past due to a projected decline in foreign direct investment, that have been largely responsible for the large increases in manufacturing value added and high growth rates. Other sectors that will make marginal contributions are construction, banking and insurance. The performance of the South African economy will be an important additional factor in view of the close links between the two economies. The demand for Swazi exports is expected to be boosted by the projected 4 % growth in the South African economy.

5.9.6.2 The price levels are expected to fluctuate around an average of 12 % in the near future due mainly to favourable external factors, especially the spin-off effects of the reduction of tariffs entailed in the implementation of the WTO Agreement. Good rains that were experienced in the 1995/96 season will greatly contribute to the increase in food production and hence bring down food prices, which were one of the major factors to inflation.

However, some external factors may also negatively impact on the expected price stability. If the Rand, to which the local currency is pegged at par, will experience a rapid depreciation then the cost of imports will be pushed up. This in turn will greatly contribute to inflationary pressures in the domestic economy.

5.9.6.3 The forecasts for external trade by the Economic Planning Office indicate a further deterioration in the balance of trade. Imports are expected to grow at an annual average rate of 11% in comparison to imports which are expected to grow by 7 % per annum. The growth in exports is expected to come from the main export-oriented sectors of agriculture and manufacturing. The volume of imports may increase as a result of the expected decline in import prices following the reduction of tariffs and the removal of surcharges in the process of the implementation of the WTO obligations. However, imports may not increase as high as expected if the Rand depreciates further since this may increase import prices.

5.9.6.4 The outlook for employment in the near future does not seem very promising. Formal sector employment is expected to grow at annual rate of only 0.7 % as against the growth of the labour force whose growth is estimated at slightly above 3 % per annum. The sluggish growth in employment creation will be mainly due to the level and nature of in-

vestments. New investments will be low, while existing ventures will tend to be capital intensive and cost effective. There will therefore be need for measures to promote small and medium size enterprises as well as the informal sector which have the potential for employment generation.

## 5.10 TANZANIA

### 5.10.1 Overview

5.10.1.1 The year 1995/96 was a difficult one in the implementation of the plans and programmes mainly due to problems associated with lack of foreign exchange and decline in domestic revenue generation. One immediate lesson learnt is that a dependent budget should be done away with and attention paid more to increasing efficiency and the mobilization and utilization of domestic resources. It has also come to be realised that the private sector is required to supplement and complement government efforts. Furthermore, both central and local governments need to greatly enhance their efforts at revenue collection, as well as at expenditure control.

5.10.1.2 Evidently, the scope for increasing foreign exchange earnings from export of goods and services is immense; what is required is to pay particular attention to the efficiency and effectiveness of management procedures, so as to maximise benefits from the export minerals, fruit and vegetables, cut flowers, industrial



products as well as benefits arising from tourism.

5.10.1.3 Moreover, the task of economic revival and consolidation for Tanzania, requires not only maximum mobilization and efficient utilization of the domestic resources, but also a change of people's attitudes towards development.

#### 5.10.2 Macro-economic Policy Framework

5.10.2.1 The Rolling Plan and Forward Budget is the major annual statement of the Government's development strategy, economic targets and budgetary projections. The document covers a three-year period and is rolled over and updated every year. The budgetary targets are for three year period while policy statements and strategies are based on a longer term perspective.

5.10.2.2 Fiscal year 1995/96 was the third year of the implementation of the Rolling Plan and Forward Budget system which is basically intended to translate Government's fundamental principles and goals into operational and coherent policy measures. The major emphasis of economic reform measures has been on:

- combating poverty and deprivation and thus improve people's welfare
- creating an enabling environment for a stronger private sector

- reducing government involvement in directly productive activities

- improving efficiency in the use of public resources

- ensuring macroeconomic stability

- maintaining an environmentally sustainable development path

5.10.2.3 Overall macroeconomic policy objectives and targets for 1995/96 included:

- achieving an overall rate of economic growth of 4.5% (1995)

- attaining a saving on the government recurrent budget of 1.1% of the Gross Domestic Product

- reducing the rate of inflation to 15% (end of June 1996)

- containing the external account deficit to the level of 1994/95

5.10.2.4 In order to realize those objectives and targets, the following specific measures were to be undertaken:

- further measures to enhance increases in export earnings and in capital account

- improved tax collection

- further government restructuring

- more stringent public expenditure controls
- continued programme for financial reform and checking inordinate credit expansion
- parastatal restructuring
- finalization of organization and efficiency reviews for ministries and departments
- eliminating distortionary incentives for private sector investment

### 5.10.3 Gross Domestic Product and Sectoral Performance

5.10.3.1 During 1995, Tanzania's real GDP grew by 3.9% compared to 3.0% in 1994 and 4.3% in 1993. The growth performance in 1995 was largely occasioned by the recovery of the agricultural sector which registered a growth rate of 7% on account of good rains during 1994/95 planting season and improved producer price incentives from the liberalized crop marketing. Also, the sectors of mining, transport and communications registered growth improvements. However, excluding agricultural and mining sectors, the growth in other sectors was lower than estimated, thus lending GDP not reaching the target of 5%. Failure to reach the projected targets by these sectors was largely due to low financial base to acquire raw materials, inadequate power and water supply in industries and shortage of working tools.

5.10.3.2 The Agricultural sector, which includes the subsectors of crops, livestock, forestry, hunting and fisheries continued to contribute the highest share of 55.2%. It recorded a growth rate of 7% in 1995 compared with 2% in 1994. The growth rate of 7% was higher than the estimated target of 5.5%.

5.10.3.3 Mining sector grew by 6% in 1995 compared with a growth rate 15% in 1994. In 1995 growth in the mining sector was largely due to increased quantity in the minerals produced while most of their prices fell. The sector contributed 0.9% of GDP in 1995.

5.10.3.4 Growth in the manufacturing sector registered some improvement as the fall was only 1% in 1995 compared with 6/8% in 1994. The sector was adversely affected by aged machinery, shortage of working capital and erratic supply of water and electricity.

5.10.3.5 The water and electricity sectors grew by 4.4% in 1995 compared with a rate of 14.5% in 1994. The electricity sector grew by 1.2% in 1995. These sectors were affected by the drought conditions, worn-out equipment and budgetary constraints.

5.10.3.6 The construction sector fell by 40.4% in 1995 against a growth rate of 5.8% in 1994. The fall was largely due to inability of the government to implement most of the construction projects in

the last two years. Consequently, the contribution of the sector to GDP has been 13% and thus second to agricultural sector.

5.10.3.7 The transport and communications sector grew by 9.3% in 1995 compared with 7.8% in 1994. The transport subsector grew by 9.8% while that of communications grew by 7% in 1995. Growth of this sector is a result of completion of projects which have been implemented during 1990-94.

5.10.3.8 The sectors of banking, insurance and other services grew by 8% in 1995 compared with the rate of 8.8% in 1994. Contribution of these sectors to GDP was 6.5% in 1995 compared with 6.3% in 1994.

5.10.3.9 The sector of public administration fell by 0.5% in 1995 compared with a growth rate of 5.9% in 1994. Trends in this sector reflect the implementation of the policy measures on public expenditure controls under the ongoing public sector reform programme.

5.10.3.10 Investment which is the basis for economic growth did not fare well in 1995 compared to 1994. Both at 1985 and 1995 prices capital formation in 1995 was less than for that of 1994. The main contributory factors for that performance include low financial base, shortage of power and water supply and lack of working equipment. Furthermore, there was contraction of investments

in both public and private sectors unlike 1994 when there was growth in both sectors. Capital formation in 1995 was 16.1% of GDP compared to 20.6% of GDP in 1994. Capital formation in 1995 was the lowest since 1989.

#### 5.10.4 External Trade and Balance of Payments

5.10.4.1 The performance of the external sector has been rather mixed. On the annual basis, Tanzania's trade deficit is estimated to have improved marginally to \$858 million during 1995, compared with a deficit of \$989 million in 1994. Export earnings increased by 31.5% in 1995 amounting to \$683 million compared with \$519 million in 1994. The value of traditional exports increased by 14.5% from \$337 million in 1994 to \$384 million in 1995. Similarly, non-traditional exports earnings increased by 64% from \$182 million in 1994 to \$299 million in 1995. In general, the increase in export earnings is accounted by increases in volumes of exported commodities such as coffee, cotton, raw cashewnuts, sisal and tobacco.

5.10.4.2 The import bill for 1995 increased marginally by 2.4% to \$1541 million from \$1505 million in 1994. Importation of capital declined by 17% while intermediate goods recorded an increase of 101% from \$290 million in 1994 to \$585 million in 1995. Importation of consumer goods increased by 11% to

\$400 million in 1995 from \$359 million in 1994.

5.10.4.3 Total debt committed and outstanding as at 31 December, 1995 was \$7074.4 million. out of the total debt, disbursed outstanding debt was \$5084.6 million or 71.9% while the committed undisbursed debt was \$1989.8 million or 28.1%. of the disbursed outstanding debt, multilateral debt accounted for 45.7%, followed by bilateral debt, which accounted for 45.2%. The proportion of total debt owed to commercial sources and other private creditors accounted for 4.5% and 1.6% respectively. The central government was the largest borrower, accounting for 92.5% of total debt, followed by public corporations at 5.3% and that of private sector at 2.2%. Furthermore, 22.3% of debt was disbursed for balance of payments support.

#### 5.10.5 Inflation

5.10.5.1 According to the National Consumer Price Index (NCPI) , the prices increased by an average of 29.3% in 1995 compared to an average of 35.5% in 1994. By April 1996, the rate of inflation had declined to 25.5%. The main reason for the continuing high rate of inflation is the excess of money supply in the economy which is the outcome of exceeding credit ceilings. The efforts of the Bank of Tanzania and the implementation of macro-economic policies, especially that of restricting growth

of money supply to levels consistent with the objective of attaining macroeconomic stability, contributed to the slowdown of inflation.

5.10.5.2 Although money supply and food supply are the main causes of the increase and decrease in the rate of inflation, the availability of industrial products and their distribution also contribute to price trends. The problems that faced industrial production (electricity supply, shortage of water, working capital) in 1995 led to an average increase of 16% in the price of industrial products between January and September 1995 compared to an increase of 12% in 1994 and 10% in 1993.

#### 5.10.6 Public Finance

5.10.6.1 In 1995/96, the government's financial capacity was very low. It is estimated that by end of June 1996, total expenditure will reach Tsh 434 051 million compared to the target of Tsh 488 981 million, a reduction of Tsh 54 779 million. Collection of domestic revenue by the end of June 1996 will be Tsh 438 755 million compared to the target of Tsh 455 981 million.

5.10.6.2 In the Development Budget of 1995/96, it was estimated that Tsh 138 838 million (Tsh 22 672 million from domestic sources and Tsh 116 186 million from foreign sources) would be spent on various development programmes. By and large implementation of the budget was

greatly constrained by financial instability as most of the funds allocated for the implementation of the projects were not made available. As of March 1996, a total of only Tsh 5 700 million was utilized on development projects. The main reasons for the meagre allocation to development projects was that the government was compelled to meet expenditure for general elections which amounted to Tsh 38 555.6 million in excess of the planned budget. This situation was caused by the donor community not honouring their pre-election pledges: the actual amount which donors made available was only Tsh 6,845.4 million compared to their pledges amounting to Tsh 22,000 million. Increases in recurrent expenditure was also another major problem.

### 5.10.7 Prospects for 1996/97

5.10.7.1 The main assumptions embodied in the 1996/97 Rolling Plan and Forward Budget are the following:

- adequate rainfall and at the right time for increasing in production in agriculture and natural resources sectors
- improvement and stabilization of energy supply for increasing production in manufacturing, services and communications sectors
- improved efficiency in financial institutions as a result of

reforms and de-bureaucratization

- improved efficiency in government operations
- government expenditure to match with actual revenue in line with the budget
- incorporation of the informal sector in the economic mainstream of the economy.

5.10.7.2 The 1996/97 Plan has the following goals to build a growing and sustainable economy:

- GDP is estimated to grow by 4.7%
- the rate of inflation is projected to reach 15% by June 1997
- the exchange rate is estimated to be between Tsh 560 - 600 per one US Dollar
- export earnings are forecast to be USD 785 million and imports at USD 1460 million
- government revenue collection is expected at Tsh 563,756 million and government recurrent expenditure at Tsh 632,906 million
- the development budget has been allocated Tsh 126,990 million.

5.10.7.3 For the last decade, 1986-1995, the Government of Tanzania (GOT) has initiated and implemented a number of policy and

institutional reform measures aimed at revitalizing the national economy. The present state for the economy is the result of the cumulative impact of those reform actions undertaken so far. Indeed, the macroeconomic environment has changed quite remarkably compared to the one which existed at the beginning of the 1980's but still the state of the economy is far from satisfactory. Growth has been oscillating instead of accelerating on a sustained basis. Furthermore, the magnitude of the growth rates have been too low to facilitate wholesome improvements in the people's living standards.

5.10.7.4 The government is determined and committed to continue with the agenda of structural reforms and macroeconomic stabilization with a view to generating the strongest economic growth which would tackle poverty and underdevelopment more squarely. Focus and deepening will continue to concentrate on the following reforms:

- consolidating and extending reforms in the financial sector
- removing barriers to private sector investment and creating an enabling environment for the private sector development
- deepening reforms in the public sector (parastals and civil service)

- liberalization of external payments with full current account convertibility
- trade reforms
- agricultural marketing reforms
- increased share of public expenditure toward improvement of social and physical infrastructural services
- protection of environment

## **5.11 ZAMBIA**

### **5.11.1 . Policies and Actions in 1995**

5.11.1.1 In 1995, Zambia implemented economic policies aimed at creating an enabling environment to attract high levels of investment, and also to promote competition, productivity and efficiency in the economy. The Strategy adopted was to maintain macro-economic stability and increase private sector participation in the economy by ensuring that adequate credit was channelled to this sector and by reducing government domestic borrowing. To increase the supply of investable resources, statutory reserves were converted to Government bonds in February 1995 and reserve ratios were reduced to allow for increased lending levels by commercial banks.

5.11.1.2 The restructuring and privatisation of State-owned enterprises was enhanced, with 30 firms privatised in 1995 thereby bringing the total number of companies privatised to 60. It is

planned to privatise over 100 companies during 1996.

5.11.1.3 Appropriate investment incentive packages introduced in 1994, were maintained in 1995. Efforts aimed at rehabilitating roads, bridges, communications, electricity supply installations and other physical infrastructure, continued to be implemented. As a specific policy to attract investment in the transport sector and increase the provision of transport services to the public, sales tax and import duties on all categories of buses were suspended in 1995. Duties were also suspended on selected imported raw materials, in order to enhance the performance of the manufacturing sector.

5.11.1.4 In the agricultural sector, the Government launched the Agricultural Sector Investment Programme (ASIP). Through this programme, it is planned to invest approximately US\$350 million over a period of four years to support extension and training, research, agricultural finance, market development, animal production and health, farm mechanisation and irrigation. This programme is being undertaken to ensure that the agricultural sector plays its central role of supporting the development of local industry, and of providing a sustainable source of livelihood for the majority of Zambians and also of earning foreign exchange for the country.

5.11.1.5 In the social sectors, the Government launched the education

sector development programme and continued to implement the health sector reform programme. In this regard, resources allocated to the social sectors were substantially increased. A drought relief programme was also implemented in cooperation with the non-governmental organisations to alleviate starvation in the famine-prone areas of the country.

## 5.11.2 The Performance of the Economy in 1995

5.11.2.1 The Zambian economy experienced serious problems that retarded its growth in 1995. Preliminary estimates indicate that despite an increase in economic activity particularly in the informal sector, the economy registered a decline of 3.9 per cent in real Gross Domestic Product (GDP) in 1995 as compared to a 3.1 per cent decline of 1994. This weak performance is as a result of several factors including recurrence of drought conditions which contributed to a drop in the agricultural sector's output; the production difficulties of the mining sector; and the sluggish performance of the manufacturing and the banking sector.

5.11.2.2 The failure of the banking sector had far reaching consequences on the economy and the monetary sector as it was manifested through the rapid depreciation of the Zambia Kwacha on the foreign exchange market and the upward movement of interest rates. This instability was further exacerbated by the poor

revenue performance during the year and higher government expenditures whose financing led to monetary expansion, the result of which was the adoption of a tight monetary stance. The resulting high interest rates had negative impact on economic growth as private investment was curtailed, particularly for the small scale business sector.

5.11.2.3 However, value-added in Transport and Communications, Real Estate and Business Services, Electricity and Water and the Finance and Insurance Sectors was very impressive and registered positive growth rates. The structure of GDP and the trends in sectoral performance between

1991 and 1995 is indicated in Tables 5.11(A) and 5.11(B) with values given in current and constant prices.

5.11.2.4 The Agriculture, Forestry and Fishing Sector is estimated to have registered a decline in value-added of 11.3 per cent in 1995 compared to a 6.8 per cent growth registered in 1994. The unfavourable performance by the sector is due to poor weather conditions during the 1994/95 farming season. The late delivery of inputs at the beginning of the season and the high cost of credit also contributed to the unsatisfactory performance by the sector.



**TABLE 5.11(A): GROSS DOMESTIC PRODUCT  
BY KIND OF ECONOMIC ACTIVITY AT CURRENT PRICES 1991-1995  
(K'MILLIONS)**

SECTOR	1991	1992	1993	1994	1995*
1. Agriculture, Forestry & Fishing	34,518.2	121,132.3	451,732.0	644,205.9	581,163.5
Agriculture	28,759.9	101,406.9	374,575.2	510,251.1	361,117.5
Forestry	2,620.6	12,899.7	51,531.0	89,511.3	138,636.1
Fishing	3,138.6	6,825.7	25,625.8	44,443.5	81,409.9
2. Mining & Quarrying	18,230.3	31,819.8	129,785.3	191,973.9	318,438.2
Metal Mining	17,313.4	30,459.6	127,538.0	189,101.1	301,083.2
Other Mining & Quarrying	916.9	1,360.2	2,247.3	2,872.8	17,355.0
3. Manufacturing	72,786.0	189,147.6	477,313.4	737,720.0	1,286,744.8
Food, Beverages & Tobacco	21,782.2	81,507.3	297,675.1	487,277.4	826,790.8
Textile & Leather Industries	4,768.4	8,795.9	17,336.6	24,970.2	39,355.6
Wood & Wood Products	2,387.7	4,087.2	9,981.1	8,875.6	7,553.5
Paper & Paper Products	4,336.7	6,067.3	13,150.5	31,810.4	85,812.1

SECTOR	1991	1992	1993	1994	1995*
Chemical, Rubber & Plastics	4,795.9	13,908.7	27,004.5	40,924.9	68,876.0
Non-Metallic Mineral Products	13,517.7	28,115.1	41,039.5	35,703.7	49,093.6
Fabricated Metal Products	19,944.1	40,398.8	60,375.6	91,533.0	183,853.5
Other Manufacturing	1,253.3	6,272.3	10,750.5	16,624.8	25,409.7
4. Electricity, Gas & Water	1,657.9	7,255.1	18,094.5	23,988.1	45,662.6
5. Construction	8,352.8	20,975.2	61,310.3	65,757.9	65,334.2
6. Wholesale & Retail Trade	22,254.8	40,189.9	137,462.7	224,468.0	338,513.4
7. Restaurants & Hotels	4,818.6	21,328.2	54,310.2	77,595.5	101,121.3
8. Transport, Storage & Commu	11,218.7	24,896.2	65,241.1	103,282.8	172,968.6
Rail Transport	3,843.0	7,259.8	18,296.9	29,429.8	46,959.9
Road Transport	2,480.3	4,669.2	14,402.5	24,099.3	41,756.3
Other Transport, Storage & Communication	4,895.4	12,967.2	32,541.7	49,753.7	84,252.4
9. Financial Institutions & Ins	4,676.8	17,773.6	23,972.0	37,374.8	65,012.8
10. Real Estate & Business Serv	10,510.9	23,716.7	72,228.0	120,668.6	186,754.3
11. Community, Social & Personal Services	13,901.0	42,461.3	102,368.9	197,050.5	270,680.2
Public Admin, Defence & Sanitary Services	7,838.8	27,426.7	57,646.1	102,967.6	140,181.6
Education	3,357.7	8,604.1	25,603.3	55,793.9	79,818.7
Health	1,226.2	2,586.0	7,943.7	16,011.0	21,327.8
Other Community & Social Services	1,478.3	3,844.5	11,175.8	22,278.0	29,352.1
12. Import Duties	13,632.3	33,841.4	30,165.1	78,000.0	116,833.0
13. Less: Imputed Banking Service Charges	(1,282.5)	(4,873.7)	(10,065.7)	(15,812.0)	(27,504.7)
<b>TOTAL GDP AT MARKET PRICES</b>	<b>218,275.8</b>	<b>569,663.6</b>	<b>1,613,918.2</b>	<b>2,486,274.0</b>	<b>3,521,722.6</b>

Source: Central Statistical Office

\*Preliminary

**TABLE 5.11(A): GROSS DOMESTIC PRODUCT  
BY KIND OF ECONOMIC ACTIVITY AT CONSTANT PRICES 1991-1995  
(K'MILLIONS)**

SECTOR	1991	1992	1993	1994	1995*
1. Agriculture, Forestry & Fishing	406.7	272.2	457.6	488.7	433.7
Agriculture	361.4	226.6	405.9	435.2	378.3
Forestry	19.4	21.0	21.8	22.7	23.6
Fishing	25.9	24.6	29.9	30.8	31.8
2. Mining & Quarrying	148.0	166.9	152.3	127.4	117.5
Metal Mining	143.4	161.4	148.0	124.5	113.3
Other Mining & Quarrying	4.6	5.5	4.3	2.9	4.2
3. Manufacturing	586.6	657.3	605.2	550.7	525.8
Food, Beverages & Tobacco	284.3	357.1	347.3	338.0	322.8
Textile & Leather Industries	72.9	70.3	50.2	45.6	41.6
Wood & Wood Products	11.9	11.4	12.0	9.9	9.0
Paper & Paper Products	33.4	32.5	31.9	25.1	21.9

SECTOR	1991	1992	1993	1994	1995*
Chemical, Rubber & Plastics	38.6	35.6	37.4	28.2	23.7
Non-Metallic Mineral Products	22.9	29.1	20.1	13.8	14.3
Fabricated Metal Products	106.7	109.4	89.1	74.9	77.9
Other Manufacturing	15.9	18.9	17.2	15.2	14.6
4. Electricity, Gas & Water	63.8	60.6	62.7	64.9	65.0
5. Construction	61.8	58.5	44.7	38.7	33.5
6. Wholesale & Retail Trade	177.5	165.7	183.5	175.6	161.1
7. Restaurants & Hotels	48.9	78.6	75.7	66.8	66.2
8. Transport, Storage & Comm	97.1	84.6	81.3	73.7	81.8
Rail Transport	20.4	24.6	19.1	14.1	17.2
Road Transport	38.6	15.9	19.5	20.2	22.0
Other Transport, Storage & Communication	38.1	44.1	42.7	39.4	42.6
9. Financial Institutions & Ins	54.7	52.2	54.1	50.5	55.1
10. Real Estate & Business Serv	178.1	185.7	191.5	197.4	203.5
11. Community, Social & Personal Services	387.6	385.3	391.0	399.3	407.9
Public Admin, Defence & Sanitary Services	149.5	146.4	150.8	154.2	157.9
Education	126.0	125.0	126.9	129.8	132.8
Health	46.7	46.3	47.0	48.2	49.3
Other Community & Social Services	65.4	67.6	66.3	67.1	67.9
12. Import Duties	17.0	21.7	20.1	13.6	11.3
13. Less: Imputed Banking Service Charges	(15.1)	(32.0)	(22.9)	(21.3)	(23.3)
<b>TOTAL GDP MARKET PRICES</b>	<b>2212.7</b>	<b>2157.3</b>	<b>2296.8</b>	<b>2226.0</b>	<b>2139.1</b>
<b>REAL GDP AT MARKET PRICES</b>	<b>0.0</b>	<b>(2.5)</b>	<b>6.5</b>	<b>(3.1)</b>	<b>(3.9)</b>

Source: Central Statistical Office

\*Preliminary

\*\*Provisional

5.11.2.5 The Mining Sector recorded a decline of 7.8 per cent in value-added in 1995 which was lower than the decline of 16.3 per cent registered in 1994. Production declined for the basic mineral, copper, whose output dropped by almost 50,000 metric tonnes to stand at 307,800 tonnes in 1995. Copper production was constrained by mining related problems including the non-availability of high grade ores and the geotechnical problems experienced at some mines. However, cobalt production rose over the 1994 levels and stood at 2,934 tonnes in 1995 as opposed to 2,546 tonnes in 1994. The performance in other mining activities and quarrying sub-sectors rose by almost 45 per cent in 1995 compared to a decline of 33 per cent in 1994.

5.11.2.6 Preliminary indications of the performance of the manufacturing sector are that the sector declined by 4.5 per cent compared to a decline of 9.0 per cent in 1994. Except for sub-sectors such as the Fabricated Metal Products, Non-Metallic Mineral Products and Basic Metal Products where output had recovered, all other sub-sectors registered declines in value-added in 1995. The unfavourable performance is attributed to the lack of infusion of new technology, the high cost of borrowing and the competition from imported goods. The Government has however taken necessary steps to revitalise the manufacturing sector which include the suspension of duty on raw material im-

ports of selected items and also the introduction of value-added tax in July 1995 and the removal of sales tax.

5.11.2.7 The Electricity and Water Sector registered a marginal growth of 0.2 per cent in value added in 1995 compared to the growth of 3.5 per cent in 1994. Power rationing was introduced during the year as water levels fell at the main reservoirs. Ground water levels were also affected, the result of which some wells and boreholes dried up. To address the water shortage problem, the Government stepped up its programme of deepening boreholes and water wells, and digging new ones.

5.11.2.8 Real value-added in the transport and communications sector in 1995, grew by 11.0 per cent. The sector had registered a decline in value-added in 1994. All subsectors, namely, Rail Transport, Road Transport, Communication, and Other Transport and Allied Services recorded increases in value-added in the review year. The favourable performance is attributed to improved policy environment which allowed for increased investment in the sector. Government's goal continued to emphasise rehabilitation and maintenance of existing infrastructure to ensure access to an efficient transport and communications network.

5.11.2.9 The Finance and Insurance, Real Estate and Business Services, and the Community and Personal Services Sectors also registered

positive growth. Financial and Insurance Services Sector registered a growth in value-added of 9.2 per cent in 1995 mainly on account of increased activities in the insurance sub-sector. The banking sector experienced turbulence which led to the closure of three banks and one non-bank institution, the largest of which was Meridien BIOA Zambia Limited. The collapse of these banks had negatively affected the rest of the economy as shown by the overall performance of the economy. Nonetheless, value-added for the Real Estate and Business Services Sector grew by 3.1 per cent in 1995 following a similar growth in 1994. That for the Community and Personal Services Sector grew by 2.1 per cent in 1995.

5.11.2.10 Other sectors, namely, Construction, Restaurants and Hotels, and Wholesale and Retail Trade registered a decline of 6.9 per cent in combined value-added. The unfavourable performance by these sectors was mainly as a result of negative economic trends including the bank failures and the rising interest rates during the review period.

### 5.11.3 Formal Sector Employment

5.11.3.1 The changing economic situation in the country continued to affect employment opportunities adversely in 1995. The major productive sectors grappled with the impact of the structural adjustment programme. Although the pre-conditional nature of the

programme is to lead to economic recovery, it has resulted in an initial fall in formal sector employment through the downsizing of the civil service, liquidation of ailing companies and retrenchment of personnel whilst increasing informal sector employment. Despite the fall in total formal sector employment opportunities in the economy, growth in some such sectors such as private transport, trading, construction and insurance, translated in creation of employment opportunities in the economy.

5.11.3.2 Available statistics from the Ministry of Labour show that between January and October 1995 a total number of 6,905 employees were declared redundant in the economy by 310 companies compared to 6,528 employees declared redundant during the same period in 1994. Most of the workers declared redundant in 1995 were in the transport sector and this was mainly due to the closure of the United Bus Company of Zambia. Zambia Railways also declared some workers redundant in its restructuring process.

5.11.3.3 In terms of job openings, between January and July 1995, a total of 6,463 job openings for mostly unskilled workers were notified at the ministry of Labour out of which 5,285 were filled during the period. Furthermore, 6,654 job openings were advertised in the technical and professional categories in the local media between January and No-

vember 1995 as compared to 8,269 openings during the same period in 1994. The reduction in the number of openings is attributed to the restructuring of companies which were reducing numbers in an effort to increase their efficiency.

#### 5.11.4 Government Finance

##### 5.11.4.1 Fiscal Policy and Budgetary Performance

5.11.4.1.1 Fiscal policy was designed to arrest the habit of running huge budget deficits and thereby to control inflationary expectations in the economy. Over the years, the Zambian economy has stagnated and the standard of living of its people has been affected by high inflation rates. Instituting fiscal discipline is therefore essential in controlling inflation. A cash budget system was also maintained in 1995. Government also continued with the tax reform programme aimed at broadening the tax base so as to reduce tax rates and mobilise more resources for development. In this regard, a value added tax (VAT) was introduced to replace sales tax and measures to improve tax administration and enforcement were instituted.

##### 5.11.4.2 Revenue

5.11.4.2.1 Total revenues excluding foreign grants amounted to K595,859 million exceeding the budget estimate by 13 per cent. Revenues were also above total expenditure by 2.3 per cent. Except for company income tax

and non-tax revenues, all revenue categories were above the budget estimates. Revenue comprised tax revenue of K540,447 million and non-tax revenue of K55,412 million.

5.11.4.2.2 Tax revenue exceeded the budget estimate by 15.5 per cent. The highest increase in collections was recorded by the taxes on internal trade which mainly because of enhancement measures like the imposition of import declaration fee, exceeded the estimate by 35 per cent. Thus, at the end of the year, these taxes contributed 29 per cent to total tax revenue and represented over a quarter of total revenues collected in the country. Taxes on international trade were the highest contributors to total revenues in Zambia. Other tax revenue categories whose collections were above the budget estimates included that from pay-as-you-earn, domestic sales tax and VAT, and mineral revenues.

5.11.4.2.3 Non-tax revenue which included collection from user fees and charges for Government services, privatisation receipts, and exceptional revenue amounted to K55,412 million and was above the budget estimate by about 5 per cent. There were no dividends received from parastatal companies during the year. Collections from user charges and fees were less than anticipated. Receipts from the sale of state owned companies amounted to K20.5 billion while

exceptional revenue amounted to K20.2 million.

#### 5.11.4.3 Expenditure

5.11.4.3.1 Preliminary information show that expenditure by the Government, excluding external debt service payments and donor financed capital, rose above the 1995 budget estimate by K52 billion or 10 per cent. The increase in expenditure was mainly on account of rises in spending on interest on domestic debt, emoluments for public sector workers, defence and security and transfers to grant-aided institutions and to statutory bodies. Total expenditure is estimated at K579,639 million compared to the budget estimate of K527,280 million. Expenditure comprised recurrent expenditure of K531,385 million and Government-funded capital expenditure of K48,254 million. Because of the poor revenue flows for most part of the year, spending on capital projects was greatly constrained resulting in the reduction of the rate of implementation of the development projects and programmes.

5.11.4.3.2 Total recurrent expenditure exceeded the budget estimate of K445,155 million by almost 19 per cent. Except for recurrent departmental charges and the wage adjustment and civil service reform, all expenditure lines recorded higher levels than had been estimated for. Expenditure on personal emoluments including wage adjustment and civil service reform rose by 13 per

cent over the budget estimate as Government worked towards improving remunerations for public sector workers. Interest payments on debt contracted locally was K77,029 million exceeding the budget estimate by more than K32 billion. This was mainly due to the rise in interest rates which made Government to pay more on domestic debt.

5.11.4.3.3 Other expenditure items including defence, pensions and grants and other payments had levels of spending above the budget estimates. However, expenditure in respect of recurrent departmental charges, was below the budget estimate by 7.5 per cent. As a result, operations of most Government ministries were affected during the period. Similarly, capital expenditure which amounted to K48,254 million was below the budget estimate of K82,125 million by 45 per cent. The unfavourable revenue flows led to a contradiction in spending on both the recurrent departmental charges and the capital budgets.

#### 5.11.5 Consumer Prices and Inflation

5.11.5.1 Measured by monthly changes in the consumer price index (CPI) for the composite income group, inflation averaged 34.5 per cent in 1995 compared to the average of 53.3 per cent in 1994 and 187.1 per cent in 1993. This achievement is attributed to Government's policy stance which had since 1993 restricted the budget deficit to increase beyond the level that had previ-



ously been allowed. Preliminary estimates indicate that a small surplus was allowed in Government accounts related to domestic operations as opposed to the previous years when Government run deficits in its accounts. A strict monetary policy was implemented thereby containing the rate of expansion of money supply within an acceptable range. Thus, inflation rates have fallen below the rates registered in the period before 1989 during which prices in the country were controlled.

5.11.5.2 The monthly rates of inflation during the twelve month period of 1995 exhibited varying trends. The rates declined between January and May from 5.2 per cent in January to 0.3 per cent in May 1995. A rising trend in inflation was recorded after June with the rate increasing to the highest level of 8.5 per cent in October 1995. The year-on-year rates of inflation followed a similar pattern with the rate of inflation declining between January and May but rising to 46 per cent in November 1995. The rise in prices during the second half of 1995 was due to several factors. An important factor was that the country was experi-

encing food shortages arising from poor agricultural harvest. This put an upward pressure on the prices of food.

5.11.5.3 Prices of other goods and services also rose due to the rapid depreciation of the Kwacha against other currencies. This was the case particularly for fuel, news print, and hotel accommodation. The rise in fuel prices triggered increases in bus and train fares, and other transport services. There were also increases in prices of other services including medical services, rent and electricity. The inflationary trends in the period 1986 - 1995 are depicted in table 5.11(C).

5.11.5.4 A further analysis of price movements indicates that the low income group had experienced sharp rises in prices mostly for such categories of consumer goods as the food and beverage, the rent, fuel and lighting, and the furniture and other household goods. For the high income group, sharp price rises were recorded mainly by goods and services like household goods, recreation and entertainment, transport and communications, medical care and food.

**TABLE 5.11 (C)**

**INFLATION RATES BASED ON CONSUMER PRICE INDICES 1986 - 1995  
(1985=100) (1975 WEIGHTS)**

**I. ANNUAL AVERAGE RATES (1986-1995)**

COMPOSITE GROUP		LOW INCOME GROUP	HIGH INCOME GROUP
1986	54.8	54.0	60.1
1987	47.0	45.6	56.3
1988	54.0	54.7	50.1
1989	128.3	128.7	125.4
1990	109.5	111.0	100.2
1991	93.4	92.6	98.5
1992	191.3	197.4	152.0
1993	187.1	189.0	172.7
1994	53.3	52.3	62.1
1995	34.5	34.1	37.2

Source: Central Statistical Office (CSO)

**5.11.6 External Sector Performance**

5.11.6.1 The performance of the external sector was characterised by rising metal prices on international market, declining metal production in the domestic mining sector, increased need to import food due to crop failure, rapid depreciation of the exchange rate, and a heavy external debt burden. These were the prominent factors determining the outlook of the country's balance of payments and the general performance of the economy in the review period. They also represented a significant challenge for

Zambia in terms of economic management and building the foundation for economic growth and development.

5.11.6.2 The prices of the country's main export commodity, copper, were high in 1995 with the realised price averaging US\$1.18 per pound, compared to the average realised price of US\$0.97 per pound in 1994. However, the volume of copper exports declined by 6 per cent in 1995 relative to 1994, mainly reflecting the production problems in the domestic copper mining industry. This constrained earnings from copper as well as imports into the copper industry and the

overall supply of foreign exchange in the economy. Given the increased need to import food and other essentials, and in view of the high debt service requirements, there was pressure on the exchange rate which culminated in the depreciation of the Kwacha. In spite of these problems, Government took steps to reduce the debt service burden through seeking debt cancellation and rescheduling. The Government also continued to mobilise external assistance in terms of project and commodity assistance, and balance of payments support.

#### 5.11.7 Balance of Payments

5.11.7.1 Preliminary estimates on the external accounts indicate that the country had continued to experience external payments difficulties in 1995. Although the value of exports was more than that for imports resulting in a positive trade balance of US\$114.9 million, mainly as a result of huge outflows in the services accounts, a current account deficit was recorded. The large outflows in the services account were mainly as a result of large payments on foreign debt and on non-factor services which outweighed the unrequited transfers from abroad. The resulting deficit on the current account amounted to US\$207.2 million which, however, was a 29 per cent improvement over the deficit recorded in 1994. The current account deficit was financed by the direct foreign investment of US\$74.5 million and

short-term capital inflow of US\$84.3 million which included errors and omissions. This resulted in an overall deficit of US\$84.1 million which represented a great improvement over the overall deficit of US\$242.5 million registered in the balance of payments in 1994. The balance of payments estimates for the period 1994/95 are presented in table 5.11(D).

5.11.7.2 With regard to the capital account, it is observed that direct foreign investment rose to US\$74.5 million in 1995 from US\$40 million in 1994. This is a reflection of improved investment climate in the economy and the positive efforts made by the Government to attract foreign investment. However, arising from debt amortisation, there was a net outflow of US\$35.7 million in the medium to long-term capital account. Net inflows in the short-term capital account, including errors and omissions were estimated to amount to US\$84.3 million in 1995 compared to a net outflow of US\$69.3 million in 1994. This resulted in the capital account balance of US\$161.9 million which went into financing the current account deficit.

5.11.7.3 In terms of export performance, earnings were estimated at US\$1,254.7 million in 1995 as compared to US\$1,066.4 million earned in 1994, representing an increase of 17.7 per cent. By commodity type, earnings from copper exports registered a 24.2 per cent growth rate reflecting

mainly the continued improvements in prices on the international market. The realised price for copper averaged US\$1.18 per pound in 1995 as compared to US\$0.97 per pound in 1994. However, the volume of copper exports declined by 5.9 per cent from 360,000 metric tonnes in 1994 to 338,615 tonnes in 1995, mainly reflecting the production problems in the coun-

try's mining industry. The value of cobalt exports declined by 26 per cent in 1995 from US\$180.7 million in 1994 to US\$133.5 million. This was in spite of the improvement in the prices of cobalt on the international market. The average realised price of cobalt was put at US\$24.74 per pound in 1995 up from the average price of US\$19.2 per pound in 1994.

**TABLE 5.11(E)**

**BALANCE OF PAYMENTS ESTIMATES 1993/1994  
(US\$ MILLIONS)**

	1992	1993	1994	1995*
Exports (f.o.b.)	1,124.4	990.0	1,066.4	1,254.7
- Copper	880.0	717.0	729.2	905.5
- Cobalt	144.4	148.9	180.7	133.5
- Non-Traditional Exports	100.0	124.1	156.5	215.7
Imports (c.i.f.)	1,351.0	1,018.5	1,058.3	1,139.8
- Metal Sector	323.0	242.0	286.9	160.0
- Fertilizer	48.0	69.7	71.8	79.7
- Petroleum	133.0	93.3	74.1	90.3
- Maize	258.0	50.0	21.6	97.8
- Other Imports	589.0	563.5	603.9	712.0
TRADE BALANCE	-226.6	-28.5	8.1	114.9
Services (net)	-534.0	-433.3	-454.5	-439.6
- Interest (net)	-320.0	-216.3	-237.5	-157.3
- Other Factor Services (net)	-13.0	-20.0	-18.9	-27.6

5.11.7.4 Earnings from non-traditional exports continued to expand rising to US\$215 million in 1995 from US\$156.5 million in 1994, representing an increase of 38 per cent. The rate of expansion is still unsatisfactory in view of the rising need for the country to find alternative sources of foreign exchange earning given the persistent decline in copper production and export volumes.

5.11.7.5 As for imports, the total value is estimated to have increased by about 8 per cent to stand at US\$1,159.7 million in 1995. The rise in imports was due to increases in imports of fertiliser, petroleum, maize and other imports. Imports for the metal sector declined during the year. Fertiliser imports rose to US\$79.7 million from US\$71.8 million in 1994. Mainly to support transport and energy sectors, the value for petroleum imports rose to US\$90.3 million from US\$74.1 million in 1994. Because of the need to improve the supply of the staple food following the crop failure during the 1994/95 farming season, maize imports rose from US\$21.6 million in 1994 to US\$97.8 million in 1995. The value of other goods imported into the country rose by almost 30 per cent and stood at US\$712.0 million in 1995. The value of imports for the metal sector declined by 37.3 per cent from US\$286.9 million in 1994 to US\$179.9 million in 1995 resulting in the unfavourable performance of the mining sector.

#### 5.11.8 External Assistance

5.11.8.1 Preliminary indications are that the value of total foreign assistance to Zambia rose by US\$86 million to stand at US\$642 million in 1995. This represents an increase of 15 per cent over the US\$556 million recorded in 1994. The external assistance was being mobilised in order to fill the resources gap arising from the inability of the country to raise adequate domestic savings. This problem is exacerbated by the huge debt burden that the country carries which has continued to impede economic growth and development. However, owing to Zambia's determination to resolving her predicament, and especially given the strong commitment by the Government to implementing the economic recovery programme, growth prospects were becoming bright. The international community came forward to assist the country. The support to the country by donors continued to play an important role in supplementing domestically generated foreign exchange and savings.

5.11.8.2 In 1995, a sum of US\$350 million or 54 per cent of total assistance was provided in the form of balance of payments support. This category of assistance rose by 25.9 per cent over the sum of US\$278 million provided in 1994. Emphasis has continued to be in the area of balance of payments support rather than project support. Project support is valued at US\$252 million, rep-

representing a share of 39 per cent in the total external assistance provided during the year. Commodity aid represented a small proportion of total assistance and was valued at US\$40 million in 1995 up from US\$26 million in 1994. The support provided through commodity aid was directed at alleviating the effects of the drought.

5.11.8.3 The country, apart from seeking debt cancellation also continued to negotiate for debt relief. The

debt relief provided to Zambia in 1995 is estimated at US\$262 million. This put total external financing in 1995 at US\$904 million which is slightly above US\$816 provided in 1994. Given the debt service value of US\$614 million in 1995, the net external transfer into the country is calculated to be US\$290 million. This represents 45 per cent improvement over the net transfer of US\$200 million achieved in 1994.

**TABLE 5.11(F)**

**EXTERNAL ASSISTANCE: NET TRANSFERS TO ZAMBIA  
(US\$'MILLIONS) 1991/94**

	1991 ACTUAL	1992 ACTUAL	1993 ACTUAL	1994 ACTUALS	1995 ESTIM
Balance of Payments Support	466	491	299	278	350
World Bank Non-Project	202	165	144	147	190
Other	264	326	155	131	160
Commodity Assistance	76	246	90	26	40
Drought Maize	--	146	40	--	--
Other Support	76	100	50	26	40
Project Assistance	244	191	234	252	252
<b>TOTAL EXTERNAL ASSISTANCE</b>	<b>786</b>	<b>928</b>	<b>623</b>	<b>556</b>	<b>642</b>
Debt Relief	1,158	551	359	260	262
<b>TOTAL EXTERNAL FINANCING</b>	<b>1,479</b>	<b>1,479</b>	<b>982</b>	<b>816</b>	<b>904</b>
External Debt Service	(1,841)	(926)	710	(616)	(614)
<b>NET TRANSFER TO ZAMBIA</b>	<b>103</b>	<b>553</b>	<b>272</b>	<b>200</b>	<b>200</b>

Source: National Commission for Development Planning

### 5.11.9 External Debt Situation

5.11.9.1 Since 1991 considerable progress has been made in addressing the debt problem by negotiating for debt cancellation, engaging in debt buy-back operations, and seeking debt relief on debt falling due. As a result, the country's debt stock declined from US\$7.3 billion as at the end of 1991 to US\$6.4 billion as at the end December 1995. The reduction in the debt stock was achieved through write-offs and buy-back operations in the case of commercial debt. Commercial debt buy-back operations re-

sulted in the elimination from commercial debt of about US\$652 million.

5.11.9.2 However, exchange rate movements over the period since 1991, especially the devaluation of the US Dollar against other major currencies contributed to the increase in the debt stock. This together with net interest accrual and new disbursements resulted in the net reduction of debt by only about US\$1.0 billion over the period to US\$6.4 billion as of December 1995. The structure of Zambia's external debt over the period 1991 to 1995 is given in table 5.11(G) and 5. 11 (H)

**TABLE 5.11(G)**

#### **EXTERNAL DEBT POSITION 1991-1995 (US\$'MILLIONS)**

<b>DEBT FLOWS</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995*</b>
Beginning period debt stock	7,237	7,271	7,041	6,919	6,204
Disbursements	352	276	241	148	209
Principal Repayments	(258)	(157)	(181)	(164)	(152)
Debt Write Offs	(48)	(182)	(364)	(833)	(17)
Net Interest Accrual	18	30	21	20	22
Exchange Rate Adjustment	(30)	(197)	161	114	116
End Period Debt Stock	7,271	7,041	6,919	6,204	6,382

Source: Ministry of Finance

5.11.9.3A break-down of Zambia's debt stock of US\$6.4 billion indicates that most of the debt (US\$3.1 billion) was owed to bilateral creditors, especially to those belonging to the Paris Club and multilateral creditors (US\$2.9 billion), particularly the World Bank Group and the International Monetary Fund (IMF). The Paris Club creditors were owed US\$2.4 billion while the World Bank Group and the IMF were owed approximately US\$1.2 billion each (Table 5.11(H)).

5.11.9.4The Government regards the execution of a comprehensive debt reduction strategy as an essential component of its overall plans for stabilising and

restructuring the economy. The strategy is also expected to assist improve the country's access to sufficient external resources to generate economic growth. However, prospects for further large reductions in debt will depend upon the country's adherence to the economic recovery programme. Following Zambia's graduation from the Rights Accumulation Programme and with the approval of the Enhanced Structural Adjustment Facility (ESAF), and negotiations with Paris Club creditors, major debt relief in the form of debt service reduction can be expected.

**TABLE 5.11(H)**

**DEBT STOCK BY CREDITOR TYPE AS OF DECEMBER 1995 (US\$'M)\***

BILATERAL OFFICIAL	3,112
of which - Paris Club	2,380
- Non-Paris Club	732
MULTILATERAL	2,892
of which - IMF	1,180
- World Bank Group	1,286
- Other Multilateral	426
PRIVATE	378
of which - Suppliers	100
TOTAL EXTERNAL FINANCING	1,944
External Debt Service	1,841
NET TRANSFERS TO ZAMBIA	103



5.11.9.5 For the IMF debt, the arrears amounted to almost US\$1.2 billion as of December 1995. These arrears will be converted to a loan under the ESAF arrangements when these are finalised. Under the ESAF, interest will be reduced to 0.5 per cent on outstanding amounts while providing a 10 year maturity period and a grace period of 10 years. Thus, as the country continues to pursue these initiatives and with ESAF in place, it is expected to reduce the debt service burdens to levels of below US\$200 million per year in the next few years as compared to current levels of over 600 million per annum. This would provide relief and allow the savings to be directed to productive uses in the economy.

#### 5.11.10 Prospects for 1996

5.11.10.1 Gross Domestic Product (GDP) is forecast to grow at over 5 per cent in 1996. Government policy will continue to focus on supporting the growth of the private sector as the key to improvements in economic efficiency and growth. The agricultural sector is expected to achieve a growth rate of over 6 per cent in 1996. Other sectors including manufacturing, trade and transport are expected to show positive growth in 1996.

5.11.10.2 The Government of Zambia will continue to pursue sound macro-economic and development policies which will focus on facilitating strong supply response in

the economy. The privatisation and parastatal sector reform, key elements in fostering efficiency and economic growth will continue to be implemented in 1996. Other reform measures which include liberalisation of markets for goods and services, capital and foreign exchange, supportive legislation and institutions, will also be undertaken.

### 5.12 ZIMBABWE

#### 5.12.1 The Macroeconomic Policy Framework

5.12.1.1 Zimbabwe experienced some mixed economic performance for the most part of the 1980s. This made it imperative to open up the economy to market forces in order to stimulate economic growth. In February 1991, a "Framework for Economic Reform" blueprint was launched. The reform programme contained in that blueprint has come to be known as the Economic Structural Adjustment Programme (ESAP).

5.12.1.2 The first five year programme of stabilisation and structural reform has now been completed. Its most important achievements are:-

- (a) the implementation of appropriately restrictive monetary policies which have resulted in a substantial decline in the rate of inflation, a greater than expected reduction in the current account deficit and substantial increase in reserves;

- (b) the expansion, beyond original schedule, of the trade and payments system, thus effectively eliminating the import allocation system and exchange controls for current transactions;
- (c) investment promotion measures, including the liberalisation of restrictions on capital and dividend remittances for foreign investors and the introduction of portfolio investment on the Zimbabwe Stock Exchange; and
- (d) wide ranging reforms in agricultural pricing and marketing.

5.12.1.3 The implementation of the reform programme has not been without failures. The notable ones are:

- (a) slow progress in the area of privatisation; and
- (b) the ongoing high budget deficit has led to enormous demands for domestic financing. This has in turn put strong pressures on the financial markets, and has also led to high real interest rates and the crowding out of credit to the private sector.

5.12.1.4 The Government is committed to tackle the above problems during the next phase of economic reform. For instance, a national privatisation committee has been set up and will oversee the completion of the process of com-

mercialising and privatising the public enterprise sector.

#### 5.12.2 The Macroeconomic Situation

5.12.2.1 The overall performance of the economy in 1995 was undermined by the impact of inadequate rains during the 1994/95 agricultural season. As a result agricultural and manufacturing output declined by 12 per cent and 11 per cent respectively, leading to a negative economic growth rate of 2.7 per cent, compared to a positive 5.2 per cent in 1994. The negative economic growth rate experienced in 1995 should be treated with care as it is not a true reflection of the overall economic performance in that year, for the following reasons:-

- (a) If the communal agriculture sector (which was particularly hard hit by drought) and the textile and clothing manufacturing sectors (which were affected by the adverse regional trading environment) are excluded, the GDP growth rate for the rest of the economy is substantially higher.
- (b) Several key sectors of the economy such as mining, tobacco, horticultural products and tourism recorded strong growth rates. Mining grew by 10 per cent in real terms; tobacco output grew by 14 per cent; earnings on horticultural products went up by 48 per cent, whilst tourism earnings rose by 24 per cent.

Signs of a rebound were also noticed in the transport and construction sectors.

### 5.12.3 Inflation

The rate of inflation was on an upward trend at the beginning of 1995, at around 24 per cent compared to 22.3 per cent for 1994 as a whole. In response to a tight monetary policy stance, the inflation rate was contained at 22.4 per cent by October, and eventually settled at 22.6 per cent for 1995 as a whole. The inflation rate reflected a series of policy and drought induced events. On the policy side, sales tax increases and the removal of subsidies to the Grain Marketing Board resulted in inflationary pressure. On the other hand, higher food prices associated with the drought also led to inflation. Inflation continues to be a cause for concern on account of its negative impact on the propensity to save and invest. The next phase of economic adjustment will need to succeed in stabilising the economy.

### 5.12.4 External Trade and Balance of Payments

5.12.4.1 Developments in the Balance of Payments indicate a deteriorating trade balance from a surplus of US\$211 million in 1994 to a lower surplus of US\$198 million in 1995. The deterioration in the trade balance is explained by the drought which impacted adversely on agricultural and agro-based manufacturing exports. As a result, total export earnings

which grew by 19.1 per cent in 1994 are estimated to have slowed down to a growth of 6.8 per cent in 1995.

5.12.4.2 Agricultural exports grew marginally in 1995 by 3.9 per cent and stand at US\$709.5 million. The bulk of this growth is attributed to tobacco (which grew by 11.8 per cent) and horticulture (which grew by 48.2 per cent) and earned the country some US\$472.4 million and UD\$40.3 million respectively. On account of the drought, exports of maize, sugar and beef declined by 62.1 per cent, 36.6 per cent and 13.2 per cent respectively. Propelled by improved export performance of copper, asbestos and gold, total mineral exports rose by around 12.8 per cent, recording some US\$491.9 million. Exports of manufactured goods rose by 6.1 per cent largely on account of improved prices for ferro alloys in world markets. In general, manufacturing exports were affected by input supply constraints induced by the drought, the high cost of domestic borrowing, increased competition from the Far East, as well as the higher water and electricity tariffs.

5.12.4.3 Merchandise imports rose from US\$1,706.6 million in 1994 to US\$1,850.5 million in 1995, owing to increases in imports of capital, intermediate and consumption goods. Payments dividend remittances, travel and shipment costs also increased. The current account balance (excluding official transfers) ac-

cordingly deteriorated from a deficit of US\$266 million in 1994 to a higher deficit of US\$292 million in 1995.

5.12.4.4 On the capital account, net short term capital outflows in respect of public enterprises account for a deterioration from a surplus of US\$517 million in 1994 to a lower surplus of US\$328 million in 1995. As a reflection of these developments, the overall balance of payments position deteriorated from a surplus of US\$268 million in 1994 to US\$57 million in 1995.

#### 5.12.5 Public Finance

5.12.5.1 The overall revenue performance (including grants) shows that a total of Z\$8,942 million was collected in the first six months of the 1995/96 fiscal year. During the same period, government expenditure (including net lending) amounted to Z\$11,811 million, leading to a budget deficit of some Z\$2,868 million. This deficit was financed largely from domestic sources (Z\$2,312 million) with the remainder covered by net foreign financing.

5.12.5.2 The major sources of revenue during the period under review have been taxes (both direct and indirect) on account of various increases in sales tax and excise duties announced during the year. Revenue from this source accounted for around 78 per cent of total government revenue including grants. In this category, the large contributors were taxes on income and profits

(33.3 per cent), sales tax (18.4 per cent), and customs duties (16.6 per cent). Non tax revenue contributed 15.2 per cent, while international transfers and grants contributed 6.8 per cent.

5.12.5.3 On the expenditure front, during the first six months of the 1995/96 fiscal year, recurrent expenditure continued to be the major item, accounting for a staggering 92.7 per cent. The situation would have been worse had government not suspended annual bonus payments (estimated at Z\$500 million in November 1995), emanating from a civil service job evaluation exercise.

5.12.5.4 The major recurrent expenditure item during the period under review were salaries and wages accounting for Z\$3 653 million or 33.4 per cent, followed by interest payments on both domestic and foreign debt (30.5 per cent) while net lending and capital expenditure accounted for 4.2 per cent and 3.7 per cent respectively.

5.12.5.5 The reliance of the budget on domestic bank sources of finance, has seen the stock of domestic government debt rise to Z\$25 billion, with total foreign debt standing at Z\$22 billion. When looked at against the background of high domestic interest rates, debt servicing has become a burden on the budget. This point is amply demonstrated by the fact that interest payments on domestic debt accounted for 24 per cent or Z\$2.8

billion of total central government expenditure during the first six months of the 1995/96 fiscal year.

5.12.5.6 It should, however, be noted that although the level of foreign debt has risen sharply in recent years, both in absolute terms and as a percentage of GDP this has coincided with a considerable empowerment in the term structure of the debt. More than 90 per cent of the country's foreign debt consists of long-term concessional financing. In this regard, Zimbabwe stands a better chance to meet its future foreign debt commitments.

#### 5.12.6 Employment

5.12.6.1 Like in other countries in sub-Saharan Africa, Zimbabwe faces unemployment problems. It is estimated that around 200 000 school leavers enter the job market every year compared to only about 80 000 formal sector job openings in the economy. Half of the formal sector job openings are a result of new jobs being created, whilst the other half is a result of existing employees leaving formal sector employment. The excess (200 000 school leavers less 80 000 formal sector openings) is believed to be absorbed by the urban informal sector, the peasant farming sector and open unemployment (the latter is estimated to be in excess of 35 per cent).

5.12.6.2 Although of concern, the country's unemployment problem should be viewed in conjunction

with its demographic causes. The population growth rate has been quite high, at around 3.1 per cent per year during the period 1982 - 1992. Owing to a vigorous family planning programme that has been put in place, the annual population growth rate has been falling and is currently estimated at around 2.7 per cent. This development is likely to have a mitigating effect on Zimbabwe's unemployment problem in the long run.

#### 5.12.7 Prospects for 1996

5.12.7.1 Good tidings are on the making for Zimbabwe's economy. Owing to the fact that Zimbabwe's economy is, to some extent, weather dependent, it is expected that the superior rainfall season that was experienced in 1995 will unleash an economic rebound. The economy is forecast to grow by between 6 - 7 per cent in 1996, a drastic recovery compared to the 2.7 per cent decline experienced in 1995.

5.12.7.2 The economic resurgence will be powered by the agriculture sector, a major stimulant to overall economic growth, supported by continued strong growth in the mining and service sectors. Agricultural output is expected to register an 18 per cent upturn, with most of the crops contributing to the recovery. Mining, benefiting from firm world prices and high demand for mineral products, is expected to register a 13 per cent growth rate. Manufacturing output is also ex-

pected to record a rebound on account of an anticipated upturn in agro-based input supply as well as an increase in domestic demand, fuelled by a rise in agricultural incomes. Manufacturing output is expected to grow by 8 per cent in real terms, in spite of the high cost of borrowing and competition on both the domestic and regional export markets which continue to limit the output potential of the sector.

5.12.7.3 Underlying inflationary pressures persist as a result of continued fiscal imbalance, drought induced supply shortages and the effects of some revenue enhancing measures announced in 1995 which saw increases in sales tax and excise duties, as well as increases in fuel prices and electricity tariffs. The tight monetary policy stance taken in 1995 is, therefore, expected to be maintained until there is a durable reduction in inflation and inflation expectations. A turn-about in inflation during the course of 1996 is anticipated. Three years of high real interest rates have succeeded in reducing demand pull inflation, while the effects of an above average harvest should bring food price inflation down considerably in 1996. The expected fall in inflation should pave way for a fall in interest rates and thus give a significant boost to investment, both domestic and foreign, and thus provide the basis for future economic growth.

5.12.7.4 In the medium term, three major challenges will need to be considered and addressed:

- (a) Lowering the budget deficit, a vital condition for low monetary growth and stability in prices. Failure to lower the budget deficit results in macro-economic imbalances of high money supply growth, inflation, high interest rates, low investment, low growth and high unemployment. Perpetually high budget deficits and the accompanying inflation will threaten the gains so far achieved in liberalising both the trade and foreign exchange systems.
- (b) The recurring droughts and substantially high Government domestic and external debt, could continue to adversely affect the country's stabilisation efforts, import capacity and investment mix over the medium term. Priority should be given to investments in improved water management and conservation for sustainable development of the economy which is dependent on agriculture.
- (c) The speed at which trade barriers within the region can be lowered should also be addressed, taking into consideration that Zimbabwe is suffering from non-symmetrical access to the South African market. Given Zimbabwe's lower labour costs, the potential benefits of increased access to the regional market are substantial.

## 6. SADC PROGRAMME OF ACTION<sup>1</sup>

As at July 1996, the SPA stood at about 380 projects valued at US\$ 8,1 bill. The significant reduction was observed in the transport and communications sector which recorded a decline of 16 per cent. The overall decline was mainly attributed to the ongoing process of weeding out projects which have no regional impact. Out of the estimated cost of US\$ 8, 1 bill. , fifty per cent have been secured, 7 per cent being negotiated, leaving 43 per cent as the funding gap.

A major review and rationalisation of the SADC Programme of Action is also being undertaken in line with Council of Ministers decision of Johannesburg, August 1995. At this meeting, the Council of Ministers decided that the SADC Programme of Action be reviewed and rationalised taking into account the new mandate of SADC and also recent economic and political developments in the region. This study, once finalised, is expected to result into a complete overhaul of the SADC Programme of Action and a new focus in terms of its conception and implementation.

During the year under review, all the Sectors continued to take measures to implement the SADC Programme of Action.

The highlights include only the following:

### 6.1 Energy

The most important activity was the drafting of the SADC Energy Protocol which was approved by Energy Ministers in July 1995.

The Sector also continued to heed the 1992 Council directive by withdrawing three projects from the energy portfolio. Two new projects in the areas of New and Renewable Resources of Energy were approved.

The Energy portfolio, as at June 1996 stood at 44 projects valued at US\$928 million of which 95% is foreign requirement. Funding has only been secured for 25 projects at the cost of US\$630,69 million. This leaves the funding gap at 28.5%.

Refer to Table 1

### 6.2 Food Security

The Food Security Sector continued to co-ordinate the overall FANR programme. The Food Security portfolio stood at 11 projects valued at US\$71.2 million of which 31.4% has been secured as at June 30, 1996.

The 1995/96 highlight of the Sector include an overall Omnibus Workshop for the FANR Sector which was held in Harare in November 1995. The main purpose of the workshop was to discuss the cross-sectoral issues for the area of FANR which

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<sup>1</sup> Refer to Table 1.

should be taken into consideration when developing protocols for the sector comprising FANR.

The Food Security Training Programme commenced in April 1995. The 1996/97 training programme include Policy Development Management and Implementation; Household Food Security and Poverty Reduction and Food Markets and Marketing.

### **6.3 Environment and Land Management**

The Sector underwent restructuring in 1995/96. As a result of the January 1996 Council Decision, water resources programme was divorced from the sector and put under the newly proposed Water Sector. Most activities in the Sector are capacity building and information exchange.

### **6.4 Wildlife Sector**

The Sector portfolio stood at 11 projects in 1995 valued at US\$94.3 million. Out of US\$94.3 million, 87 per cent has been secured. There are four projects which are partially funded and one not funded. The Sector has been very successful in attracting funding for its project portfolio. The funding gap as at June 1996 was the lowest in the SPA at 13.1 per cent.

### **6.5 Forestry**

At the end of June 1996, the programme for the Sector had

14 projects valued at US\$125.9 million. Seven projects had secured funding at US\$46.7 million. In value terms, this amounts to 37 per cent of the total estimated cost. The remaining 7 projects are not funded despite the fact that feasibility studies have been undertaken on them.

### **6.6 Transport and communications**

The highlights for the Sector include the development of the SADC Protocol on Transport, Communication and Meteorology. The final draft of the protocol has been completed and circulated among member States for their comments. It is expected that the protocol will be signed in August 1996, during the Summit.

On the implementation of the SADC Programme of Action, the Sector continued to focus on improving efficiency, operational co-ordination issues and enterprise restructuring. The size of the programme remained at 174 projects in July 1996 valued at US\$6.5 billion. The decline (16%) in 1996 over 1995, was mainly due to the deletion of completed projects. The programme is being reviewed under the Regional Transport and Communication Integration Study for Southern Africa. The programme portfolio is expected to change significantly at the end of this study.



Table 1

1995/96

## SADC PROJECT FINANCING STATUS BY SECTOR

(U.S. \$ Million)

1995/96

AREAS OF COOPERATION	NO	ESTIMATED COST		FUNDING		STATUS						
		TOTAL	% LOCAL	SECURED	% UNDERNEG.	GAP	%					
FOOD, AGRICULTURE AND NATURAL RESOURCES	85	600.16	541.27	90.19	58.89	9.81	348.51	58.07	-	251.65	41.93	
1. AGRICULTURAL RESEARCH & TRAINING	14	120.44	94.62	78.56	25.82	21.44	77.16	64.07	-	43.28	35.93	
2. INLAND FISHERIES	8	44.91	44.48	99.04	0.43	0.96	26.12	58.16	-	18.79	41.84	
3. FORESTRY	15	125.94	115.70	91.87	10.24	8.13	46.71	37.09	-	79.23	62.91	
4. WILDLIFE	11	94.30	93.30	98.94	1.00	1.06	81.99	86.95	-	12.31	13.05	
5. FOOD SECURITY	11	71.21	66.17	92.92	5.04	7.08	22.35	31.39	-	48.86	68.61	
6. LIVESTOCK PRODUCTION & ANIMAL DISEASE CONTR	11	96.27	88.20	91.62	8.07	8.38	59.24	61.54	-	37.03	38.46	
7. ENVIRONMENT AND LAND MANAGEMENT	9	45.24	36.95	81.68	8.29	18.32	34.23	75.66	-	11.01	24.34	
8. MARINE FISHERIES AND RESOURCES	6	1.85	1.85	100.00	-	-	0.71	38.38	-	1.14	61.62	
MINING	21	27.25	21.98	80.66	5.27	19.34	16.45	60.37	-	10.80	39.63	
INDUSTRY AND TRADE	12	13.73	13.73	100.00	-	-	2.70	19.66	-	9.90	65.55	
ENERGY	44	927.86	884.74	95.35	43.12	4.65	630.34	67.93	2.03	264.24	28.48	
TOURISM	11	4.96	4.21	84.88	0.75	15.12	2.95	59.48	-	2.91	40.52	
TRANSPORT AND COMMUNICATIONS	174	6474.40	5528.10	85.38	946.30	14.62	2991.70	46.21	550.90	2931.80	45.28	
FINANCE AND INVESTMENT	10	0.38	-	-	0.38	100.00	0.38	100.00	-	-	-	
HUMAN RESOURCES DEVELOPMENT	16	44.76	44.76	100.00	-	-	16.27	36.35	1.50	26.99	60.30	
CULTURE AND INFORMATION	7	15.90	15.90	100.00	-	-	4.95	31.13	-	10.95	68.87	
<b>GRAND TOTAL</b>	<b>388</b>	<b>9109.40</b>	<b>7054.69</b>	<b>86.99</b>	<b>1054.71</b>	<b>13.01</b>	<b>4014.25</b>	<b>49.50</b>	<b>587.71</b>	<b>7.25</b>	<b>3507.44</b>	<b>43.25</b>

Notes 1) The column "secured" include both local and foreign resources

2) The column "negotiation" refers to resources for which there is a clearly identified funding source and a high probability of concluding a funding agreement within a specified period

Table 1 (cont.)

1995/96

SADC PROJECT FINANCING STATUS BY SECTOR  
(Percentage)

1995/96

AREAS OF COOPERATION	NO	ESTIMATED COST		FUNDING		STATUS	
		TOTAL	% FOREIGN	% LOCAL	% SECURED	% UNDER NEG.	% GAP
FOOD, AGRICULTURE AND NATURAL RESOURCES	22.37	7.40	7.67	5.58	8.68	-	7.17
1. AGRICULTURAL RESEARCH & TRAINING	3.68	1.49	1.34	2.45	1.92	-	1.23
2. INLAND FISHERIES	2.11	0.55	0.63	0.04	0.65	-	0.54
3. FORESTRY	3.95	1.55	1.64	0.97	1.16	-	2.26
4. WILDLIFE	2.89	1.16	1.32	0.09	2.04	-	0.35
5. FOOD SECURITY	2.89	0.88	0.94	0.48	0.56	-	1.39
6. LIVESTOCK PRODUCTION & ANIMAL DISEASE CONTR	2.89	1.19	1.25	0.77	1.48	-	1.06
7. ENVIRONMENT AND LAND MANAGEMENT	2.37	0.56	0.52	0.79	0.85	-	0.31
8. MARINE FISHERIES AND RESOURCES	1.58	0.02	0.03	-	-	-	0.03
MINING	5.53	0.34	0.31	0.50	0.41	-	0.31
INDUSTRY AND TRADE	3.16	0.17	0.19	0.90	0.07	0.35	0.26
ENERGY	11.58	11.44	12.54	4.09	15.70	5.66	7.53
TOURISM	2.89	0.06	0.06	0.07	0.07	-	0.06
TRANSPORT AND COMMUNICATIONS	45.79	79.84	78.36	89.72	74.53	93.74	83.59
FINANCE AND INVESTMENT	2.63	-	-	0.04	0.01	-	-
HUMAN RESOURCES DEVELOPMENT	4.21	0.55	0.63	-	0.41	-	0.77
CULTURE AND INFORMATION	1.84	0.20	0.23	-	0.12	-	0.31
<b>GRAND TOTAL</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Notes 1) The column "secured" include both local and foreign resources

2) The column "negotiation" refers to resources for which there is a clearly identified funding source and a high probability of concluding a funding agreement within a specified period