



COMMUNIQUÉ

SADC MACROECONOMIC PEER REVIEW MECHANISM PANEL MEETING

Gaborone Botswana, 7 July 2016

1. SADC Ministers responsible for Finance and Investment and the Central Bank Governors constituting the Macroeconomic Peer Review Panel (PRP), met on 7 July 2016 in Gaborone, Botswana to review Angola, Swaziland and Tanzania, the second group of State Parties (to the Protocol on Finance and Investment) to be reviewed since the SADC Macroeconomic Peer Review Mechanism was launched in May 2013 in Maputo, Mozambique. The meeting of the Panel was preceded by a two day preparatory meeting of Senior Officials.
2. The purpose of the peer review process is to review progress made by individual Member States towards the achievement of agreed SADC Macroeconomic Convergence targets as well as to identify risks to economic outlook and policy actions to mitigate them.
3. This statement summarises the main findings and recommendations of the Panel as well as the Authorities views. The Panel is highly appreciative of Angola, Swaziland and Tanzania Authorities' demonstrated commitment to the review process and for giving the necessary support to the SADC Review Missions undertaking independent evaluations of the Countries' Macroeconomic Convergence (MEC) self-assessment reports.

Swaziland

4. Swaziland managed to stabilize the economy during the last decade through the institution of progressive macroeconomic policies, resulting in the growth of the economy. The economy is, however, susceptible to exogenous factors, notably the volatility of SACU receipts and changes in the global economic and financial environment and droughts. Following the fiscal crisis precipitated by the decline in SACU revenues in 2011, the Swaziland economy has shown nascent recovery signs, albeit in a modest manner. As such, economic activity rebounded, culminating in real GDP growth rates of 3%, 2.9% and 2.5% realized in 2012, 2013 and 2014, respectively. Although GDP growth rates remained below the SADC Macroeconomic Convergence (MEC) target, improved SACU revenues shored up economic activity. Despite the recovery realized in the post-fiscal

crisis era, GDP growth has, however, decelerated to 1.7% estimated for 2015 and 1.4% projected for 2016, which are falling below the MEC target of 7%.

5. It is, however, noteworthy that Swaziland managed to meet some of the MEC primary targets, since it emerged from the negative repercussions of the 2011 fiscal crisis. As a consequence, Swaziland's inflation has remained within the SADC threshold, although drought induced food gaps in 2016 compounded by the expected rise in the food import bill, could generate renewed inflationary pressures.
6. Adverse weather conditions in the 2015/16 agricultural season, in the wake of the *El Nino* phenomena affecting the entire sub-region, could dim economic prospects for most regional economies. The drought is expected to undermine agricultural output, resulting in possible running down of foreign exchange reserve buffers to bridge anticipated food deficits and accompanying import requirements. The drought scenario will also widen Swaziland's budget deficit in 2016, further away from the regional convergence threshold of not more than 3% of GDP.
7. The deterioration in the external environment, particularly the anticipated adverse developments in South Africa, is expected to affect SACU revenues, with adverse repercussions on Swaziland's current account balance and the fiscal position in 2016. These developments are envisaged to further constrain the country's growth prospects, with a negative bearing on the country's ability to meet and sustain two of the primary MEC targets, particularly inflation and budget deficit indicators.
8. Importantly, emerging risks emanating from preferential trade agreements within the auspices of the US African Growth and Opportunities Act (AGOA) and the EU's Economic Partnership Agreements (EPAs), remains integral to external sector developments in the outlook period. The downturn in international commodity prices, particularly sugar and the closure of the iron ore mining house in 2014, are likely to undermine Swaziland's ability to fully attain some of the SADC Macroeconomic convergence targets in the short to medium term, particularly relating to GDP growth, current account balance, import cover, as well as savings and investment.
9. The establishment of the Swaziland Revenue Authority (SRA) is a welcome move by authorities, a development which has improved efficiency with regard to tax revenue collection and administration. This is likely to partially offset the expenditure increases associated with the cost of living adjustment effected on salaries for the civil service in 2015. This notwithstanding, the fiscal balance is expected to widen in 2016, against the backdrop of the anticipated decline in SACU revenues and expenditures to import food to mitigate the adverse effects of the drought.
10. Although domestic debt has been contracted gradually to bridge fiscal gaps, Swaziland's public debt (both domestic and external), at below 20% of GDP, is well within the SADC threshold of 60%. The increase in domestic debt, however, exhibits a worrying trend, which requires urgent policy attention. In this regard, the conducting of frequent Debt Sustainability Analysis

(DSA), would be essential, to monitor debt sustainability in the medium to long term in the context of the evolution in other key macroeconomic fundamentals.

11. The country's financial sector has also remained stable, with nearly all macro-prudential and soundness indicators remaining robust. This has enabled the banking sector to effectively play its intermediary role and help the economy to sustain positive real growth rates, albeit on a declining scale. The Panel therefore supports and encourages Swaziland to continue to expeditiously implement comprehensive policy measures contained in the National Development Strategy (NDS) and the Economic Recovery Strategy (ERS) in order to improve the macroeconomic environment. Additional policy recommendations include the following:

- (i) Investment in irrigation infrastructure and developing a drought mitigation plan anchored on dam construction to improve access to irrigation water, to boost agricultural productivity;
- (ii) Exploring the new growth sources (minerals) to stimulate the economy;
- (iii) Pursue export diversification strategies including expanding product lines and reclaiming eligibility under AGOA;
- (iv) Increase value addition and beneficiation of sugar cane, ethanol, citrus fruits, wood and wood products;
- (v) Improve revenue generation through empowerment of the Revenue Authority to collect user fees and charges under the purview of Ministries, and introduction of presumptive taxes; and
- (vi) Improve competitiveness of local industry through strategies to reduce cost of doing business.

Tanzania

12. Economic performance for Tanzania has been satisfactory supported by consistency in policies. GDP growth averaged 6.4% between 2006 and 2014; and provisional data indicate that GDP increased by 7.0% in 2015. Over the period, the structure of the economy has changed with financial services (including ICT) and the construction sector, increasing their contribution to growth on account of increased construction of infrastructure and building projects. Meanwhile, the contribution of manufacturing and transport sectors declined over the period. However, the agriculture sector remain the largest and most critical sector in the economy, accounting for 26.7 per cent of GDP in 2014; 85% of exports; and employing about 70% of the work force who are predominantly rural. The necessity and urgency to diversify the economy is now clear given the decline in commodity prices and adverse weather conditions. Despite this impressive performance, Tanzania needs to pursue policies that will engender inclusive growth to address growing unemployment especially among the youth.

13. GDP growth is expected to remain strong as the authorities continue to take steps to industrialise the economy. The implementation of the second five-year plan from 2016/17 is expected to focus on industrial transformation, including agro-processing, energy sector and improving the business environment.
14. On the fiscal sector, fiscal deficit narrowed to 3.3 per cent in 2014/15 but projections indicate that the shortfall is likely to widen to 4.2 per cent in 2015/16. Over the medium-term, the risks remain with depressed commodity prices, potentially impacting negatively on fiscal revenues; and hence worsening fiscal position of the country.
15. Total public debt has stabilised at around 42 per cent of GDP in the past three years, within the MEC target of 60 per cent. The results of the debt sustainability conducted in 2014, confirms that public debt for Tanzania remains sustainable in both the short to medium term.
16. The Panel commends Tanzania for being able to sustain its GDP growth of 7 per cent and for meeting most of the primary and secondary MEC targets. Tanzanian Authorities should pursue inclusive growth strategies to transform and spread the growth to the majority of the population. One way would be to prioritise agriculture in the inclusive growth matrix given the sector's potential and that over two thirds of the population relies on the sector. The Panel encouraged Tanzania to implement broad-based policy measures including:
 - (i) Implementation of an agriculture policy that mitigates against occasional drought in some parts of the country by developing irrigation infrastructure;
 - (ii) Policies aimed at improving agriculture productivity by developing effective input schemes, mechanization and improvement in the delivery of extension services;
 - (iii) Improvement in domestic revenue collection;
 - (iv) gradually expanding coverage of inflation throughout the country. Currently CPI compilation only covers urban areas, hence is likely to be underestimated; and
 - (v) Diversification and value addition of exports.

Angola

17. Angola being an oil producer and exporter has been adversely affected by, *inter alia*, weak external demand, the strength of the US dollar at the international level, drop in prices for the main commodities and negative flow of foreign direct investment and declining oil prices.
18. After a brief post-war recovery, with two-digit annual growth rates in real GDP between 2004 and 2008, the Angolan GDP slowed down considerably from 2009 to 2014, recording an average annual growth rate of 4 per cent.

Real GDP decelerated by 1.8 percentage points from 4.8 per cent in 2014 to 3.0 per cent in 2015. In addition to factors highlighted above, real GDP slowed down as a result of irregular rainfall patterns which affected agricultural production. Other factors included operational problems in some oil production units which had negative impact on the oil sector output; and a deficit in electricity supply with adverse impact on the economy as a whole. However, the slowdown in GDP growth over this period was cushioned by good performance in the construction sector, driven by massive public investment in the construction and reconstruction of infrastructure.

19. The acceleration in the exchange rate depreciation in 2015, together with problems in the supply chain of food commodities; removal of fuel subsidies; and domestic financing of public deficit, resulted in an increase in inflation. Inflation rose from 7.5 per cent in 2014 to 14.2 per cent in 2015, thereby reversing the downward trend that occurred between 2010 and 2014 when it dropped from 15.3 per cent to 7.5 per cent.
20. Between 2014 and 2015, the fiscal deficit decreased by 2.4 percentage points of GDP, standing at 4.2 per cent, largely reflecting the fiscal consolidation efforts undertaken by the Angolan Authorities. During the same period, total public expenditure was reduced by 22.3 percentage points of GDP to 29.6 per cent, against a fall of 9.9 percentage points of GDP in current revenue to 25.4 per cent, with oil revenues decreased from 23.8 per cent of GDP to 12.7 per cent. The elimination of subsidies on petroleum products, worth around US\$ 5 billion (about 4 per cent of GDP); and the cut in current spending by 6.8 percentage points of GDP to 3.2 per cent of GDP, were crucial in the fiscal consolidation in reference.
21. As a result of fiscal consolidation, public debt registered a modest growth as a percentage of GDP, increasing from 44.5 per cent of GDP in 2014 to 46.6 per cent of GDP in 2015. In terms of composition, it is noted that internal debt increased from 10.8 per cent of GDP in 2012 to 18.6 per cent of GDP in 2015 while external debt increased from 18.9 per cent of GDP in 2012 to 28 per cent of GDP in 2015.
22. The Panel encouraged Angola to continue with implementation of the following policies aimed at addressing some of the challenges facing the economy:
 - (i) Implementation of the National Development Plan 2013-2017 (NDP 2013-2017) which identified a number of priority infrastructure projects – with a projected public investment of USD 80 billion in the energy, water, education, higher education, commerce and logistics sectors, as well as roads. Implementation of this programme aims at improving the business environment in order to encourage private investment in the economy;
 - (ii) Implementation of structural reforms in the agriculture sector including mechanisation of the sector to increase productivity; and strengthening synergies between the Angola Development Bank and

multilateral support institutions to promote the development of agribusiness;

- (iii) Identification and implementation by Government in consultation with the private sector, of a number of priority areas for training, in order to guide the academic and professional education sectors to provide the labour market with the necessary skills to meet the challenges that confront the Angolan economy; and
- (iv) Enhancement of reforms to increase revenue and broaden the tax base through implementation of the Strategy on Tax Reforms approved in 2010/11. This Strategy aims at reviewing the legal tax system framework; strengthening tax administration; and simplification of tax procedures. In 2014, Government established the General Tax Administration (AGT), a body that coordinates and manages the entire process of internal and external tax collection. Recently, Government introduced a bank tax and is also considering introducing Value Added Tax (VAT).

23. The Panel also encouraged Angola to implement the following policies in addition to the above:

- (i) implementation of policies to improve agribusiness and tourism sectors in order to attract foreign direct investment;
- (ii) continuation of implementation of regulatory and institutional reforms to improve the business environment;
- (iii) promotion of public-private partnerships for the construction and operation of infrastructures;
- (iv) continuation of broadening the tax base by covering the informal sector and adoption of policies to improve the efficiency of tax revenue collection; and
- (v) deepening the institutional capacity in tax matters, with particular emphasis on VAT accompanied by tax education campaigns to economic agents and the general public in order to avoid undesirable effects at the time of implementation.

24. In concluding, the Panel thanked Angola, Swaziland and Tanzania for agreeing to be reviewed during the second round of reviews, acknowledging that although there are no enforcement mechanisms to ensure that Member States adhere to the agreed MEC targets, the peer review process affords Member States the opportunity to learn from and encourage each other to perform well and build capacity for the implementation of the MEC program. In addition the Panel agreed that DRC, Namibia, Zambia and Zimbabwe will be the next Member States to be reviewed during 2016/17 in line with the agreed Five Year Schedule of Member States to be reviewed.

25. The Panel expressed their heartfelt gratitude to the Government and the people of Botswana for their warm reception and hospitality extended to them during the course of the meeting.

Gaborone, Botswana
7 July 2016