AN ANALYSIS OF MACRO-ECONOMIC CONVERGENCE IN SADC[1]

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Abstract
One of the goals of the Southern African Development Community (SADC) is macro-economic convergence leading to monetary unification and a single central bank. This goal is aligned with the goal of the African Union to build a monetary union for the entire continent in stages, starting with each of the subregions, of which SADC forms one important region. Despite views to the contrary, the current degree of compliance with the Maastricht criteria for convergence and membership of the European Union, shows that the challenges facing a SADC monetary union would not be insurmountable if the convergence criteria are viewed as permanent goals, rather than preconditions.

One of the stated development goals of the African Union is to build a monetary union for the entire continent in stages, starting with each of the subregions. As one of the important subregions on the African continent, the Southern African Development Community (SADC) has set macro-economic convergence critieria that will lead the region to monetary unification and a single central bank. This paper considers the feasibility of convergence in SADC in view of international experience and similar initiatives in Africa.

The first of the macro-economic convergence criteria set by SADC should be achieved by 2008. The Committee of Central Bank Governors (CCBG) of the SADC monitors progression towards the achievement of macro-economic convergence criteria in SADC. Satisfactory progress is necessary to achieve the goal of monetary union and a single central bank for SADC by 2016.

This paper deals only with the economic aspects underpinning convergence, implying that political initiatives or obstacles are not considered. Section one of this paper describes the SADC region, its relevant structures and its most important economic goals. The second section highlights SADC's macro-economic convergence criteria. The third section deals briefly with a recent assessment of current regional initiatives in Africa aimed at monetary unification or co-operation. In the fourth section the convergence criteria applied in the European Union are analysed, and is followed by the conclusion.

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1. AN OVERVIEW OF THE SADC REGION

The SADC region has as member countries Angola, Botswana, Democratic Republic of the Congo (DRC), Lesotho, Malawi, Mauritius, Mozambique, Namibia, Republic of South Africa, Swaziland, Tanzania, Zambia and Zimbabwe, and Madagascar joined during August 2005. A previous member, the Seychelles, left SADC owing to a number of reasons, *inter alia*, cost of membership considerations. The SADC-secretariat is located in Gaborone in Botswana (Background information on SADC, 2000).[2]

SADC was established as the Southern African Development Co-ordination Conference on 1 April 1980 in Lusaka, and changed its name to SADC on 17 August 1992 in Windhoek (Background information on SADC, 2000). South Africa joined SADC in 1994.

Although member countries in the SADC region are committed to various goals, their main economic goals can be summarised for purposes of this paper as development and economic growth; poverty alleviation; improvement of living standards; harmonisation of socio-economic policy; and the establishment of suitable institutions and mechanisms for the mobilisation of resources to implement the programmes of SADC (Background information on SADC, 2000).

SADC has allocated the co-ordination of specific sectoral responsibilities to member countries in order to achieve the Community's goals. In such co-ordination, member countries ". . . are supervised by Sectoral Committees of Ministers. The Minister representing the sector co-ordinating country, chairs the Sectoral Committee of Ministers. Sectoral Commissions may be established and ratified by member States. Commissions are regional institutions, supported by all member States" (Background information on SADC, 2000).

The CCBG is one of the committees within the sectoral structures of SADC and is responsible for the co-ordination and monitoring of progress with the convergence criteria set by SADC. As the Republic of South Africa accepted sectoral responsibility for finance and investment in SADC (Background information on SADC, 2000), the Governor of the South African Reserve Bank, Mr T.T. Mboweni, chairs the CCBG.

Macro-economic convergence with the ultimate aim of establishing a monetary union and a regional central bank serving the best interests of all the countries in SADC is aligned with the goals of SADC, as is explained in the next section of this paper.

2. MACRO-ECONOMIC CONVERGENCE IN SADC

One of the goals of the African Union is ". . . to build a monetary union for the entire continent in stages, starting with each of the subregions" (Masson and Pattillo, 2005:114), of which SADC forms one important subregion. To this end SADC has agreed to macro-economic convergence criteria and, according to Masson and Pattillo "a set of indicators that will allow monitoring of progress towards convergence" (2005:114). The goal of macro-economic convergence in SADC is aligned with the ultimate goal of the economic integration of Africa. Governor Mboweni said as far back as 9 October 2003 that "[m]any initiatives have been undertaken to promote economic development in Africa. Article 44 of the AbujaTreaty calls for the harmonisation of economic policies across

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Table 1. Macro-economic convergence criteria for SADC

Criterion	**2008**	**2012**	**2018**
Inflation rate	Single digits	5%	3%
Budget deficit	5% or less of GDP	3% of GDP as anchor, with a range of 1%	3% of GDP as anchor, with a range of 1%
Government debt	Less than 60% of GDP	Less than 60% of GDP	Less than 60% of GDP
Foreign reserves	3 months' import cover	More than 6 months' cover	More than 6 months' import cover
Central bank credit to the government	Less than 10% of the previous year's tax income	Less than 5% of the previous year's tax income	Less than 5% of the previous year's tax income

Source: Adapted from Mboweni, 2003; and Mboweni, 2005; see also Rossouw, 2006.

the African continent. The Treaty emphasises two important pillars of economic integration across the African continent: the promotion of intra-Africa trade and the enhancement of monetary co-operation. The African Monetary Co-operation Programme (AMCP) seeks to operationalise the monetary co-operation mandate of the Abuja Treaty. In the main, this involves a single monetary area, encompassing a common currency and a common central bank . . . [for Africa] . . . by the year 2021" (Mboweni, 2003).[3]

Governor Mboweni reiterated on 28 February 2005 in Cape Town the convergence criteria of SADC (Mboweni, 2005).[4] In terms of the initial criteria set for 2008, " . . . SADC member states are required to have single digit CPI inflation rates; ensure that the nominal value of public and publicly guaranteed debt, as a ratio of GDP, does not exceed 60 per cent; ensure that the public budget deficit as a ratio of GDP does not exceed 5 per cent; and have sustainable current account deficits – meaning 3 per cent of GDP or less" (Mboweni, 2003). The convergence criteria comprise a memorandum of understanding, agreed to by the Ministers of Finance of the SADC countries. By setting clear convergence criteria, the memorandum provides the basis for a monetary union and a central bank for the SADC region, and South Africa already complies with these criteria.

Governor Mboweni also highlighted the additional convergence criteria of SADC set for achievement in 2012 and 2018, respectively, in terms of the rate of inflation; government debt and government-guaranteed debt as a ratio of gross domestic product (GDP); annual budget deficit of the government; current deficit on the balance of payments; and central bank credit to the government (Mboweni, 2005). These targets are summarised in Table 1.

Co-operation aimed at achieving macro-economic convergence in SADC and regional integration are also enhanced by "[t]he harmonisation of legal and operational frameworks of SADC central banks, the SADC payment, clearance and settlement systems, as well as the co-ordination of training of central bank officials" (Gaolathe, 2004:5).

Progress with the goal of achieving the convergence criteria is monitored by the CCBG in terms of SADC's *Regional Indicative Strategic Development Plan*, launched on 12 March 2004 in Arusha, Tanzania (Gaolathe, 2004:4). Tables 2a to 2e show for each of the SADC countries progress (or lack of progress) towards achievement of the convergence criteria between 1999 and 2004, as well as compliance by 2004 with the criteria set for 2008.

The analysis in Table 2 shows than the majority of SADC countries were already within the macro-economic convergence targets set for 2008, or made satisfactory progress towards the achievement of such targets by 2008.

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Table 2a. Inflation rate – single digits by 2008

Country	1999	2004	Progress towards target/remained within target	Target achieved by 2004
Angola	329,0	31,0	Y	N
Botswana	8,4	7,8	Y	Y
DRC	483,7	9,2	Y	Y
Lesotho	8,6	5,1	Y	Y
Malawi	44,7	11,5	Y	N
Mauritius	6,9	4,7	Y	Y
Mozambique	6.2	9.1	Y	Y
Namibia	8,6	3,9	Y	Y
South Africa	5,2	1,4	Y	Y
Swaziland	5,9	3,4	Y	Y
Tanzania	7,9	4,1	Y	Y
Zambia	26,8	18,0	Y	N
Zimbabwe	58,5	350,0	N	N

Table 2b. Budget deficit – 5% or less of GDP by 2008

Country	1999	2004	Progress towards target/remained within target	Target achieved by 2004
Angola	-0,7	-7,0	N	N
Botswana	-64,5	-0,2	Y	Y
DRC	-2635,0	-0,8	Y	Y
Lesotho	-6,5	-5,2	Y	N
Malawi	-4,9	*-6,4*	N	N
Mauritius	-3,6	-5,4	N	N
Mozambique	-1,1	*	-	-
Namibia	-4,6	-1,6	Y	Y
South Africa	-1,7	-1,9	Y	Y
Swaziland	-1,7	-3,6	Y	Y
Tanzania	0,0	-3,3	Y	Y
Zambia	-3,7	-1,7	Y	Y
Zimbabwe	-6,1	*-6,7*	N	N

Table 2c.Government debt – Les than 0% of GDP by 2008

Country	1999	2004	Progress towards target/remained within target	Target achieved by 2004
Angola	**	**	-	-
Botswana	16,9	5,0	Y	Y
DRC	**	**	-	-
Lesotho	72,3	53,7	Y	Y
Malawi	**	163,9	-	N
Mauritius	49,4	56,5	Y	Y
Mozambique	15,4	**	-	-
Namibia	23,9	35,1	Y	Y
South Africa	47,7	36,0	Y	Y
Swaziland	19,1	24,1	Y	Y
Tanzania	91,5	88,9	Y	N
Zambia	**	**	-	-
Zimbabwe	84,7	95,0	N	N

In this analysis it is important to note the difference between the calculation of the budget deficit and for central bank credit to the government. The deficit calculation regards grants received by the government as income in as much as the criterion is set for a deficit specified as the difference between expenditure on the one hand and revenue plus grants on the other. On the contrary, the criterion for central bank credit to the government is measured in respect of tax revenue of government only. However, despite the difference in definitions used, seven SADC countries already achieved by 2004 the budget deficit target set for 2008, while six achieved by 2004 the target set for government debt for 2008.

Table 2d. Foreign reserves – 3 months' import cover by 208

Country	1999	2004#	Progress towards target/remained within target	Target achieved by 2004
Angola	**	**	-	-
Botswana	**	17	-	Y
DRC	**	1	-	N
Lesotho	**	5,7	-	Y
Malawi	**	2,3	-	N
Mauritius	**	**	-	-
Mozambique	**	5,4	-	Y
Namibia	**	**	-	-
South Africa	**	4	-	Y
Swaziland	**	2	-	N
Tanzania	**	8	-	Y
Zambia	**	1,3	-	N
Zimbabwe	**	**	-	-

Table 2e. Central bank credit to the government – Less than 10% of the previous year's tax income by 2008

Country	1999	2004	Progress towards target/remained within target towards	Target achieved by 2004
Angola	53,3	5,7	Y	Y
Botswana	0,0	0,0	Y	Y
DRC	206,0	42,9	Y	N
Lesotho	7,9	5,9	Y	Y
Malawi	22,5	60,0	N	N
Mauritius	12,2	7,2	Y	Y
Mozambique	0,1	0,0	Y	Y
Namibia	0,0	0,0	Y	Y
South Africa	5,3	5,3	Y	Y
Swaziland	0,0	5,3	Y	Y
Tanzania	24,8	10,4	Y	N
Zambia	65,2	36,1	Y	N
Zimbabwe	*6,7*	6,5	Y	Y

* *The GDP of Mozambique has not yet been calculated for 2004.*
** *Figures not available.*
# *Figures in months.*
Source: Committee of Central Bank Governors, 2005; own calculations.

The next section highlights current monetary unions and regional monetary co-operation initiatives in Africa.

3. CURRENT MONETARY UNIONS AND REGIONAL MONETARY CO-OPERATION INITIATIVES IN AFRICA

Currently the Common Monetary Area (CMA), comprising the Republic of South Africa, Lesotho, Namibia and Swaziland (Metzger, 2004)[5] and the two CFA franc zones function as monetary unions in Africa.

The CMA comprises the Republic of South Africa, Lesotho, Namibia and Swaziland (Metzger, 2004). The CMA was initially established as the Rand Monetary Area, with South Africa, Botswana, Lesotho en Swaziland as members. Botswana left the CMA in 1976 and Namibia joined after independence in 1990. Although member countries have their own currencies, these currencies trade at par and these countries also apply similar

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exchange control regulations, implying that capital flows freely between the CMA countries.

The South African rand serves as anchor for the currencies of the CMA owing to the dominating role of the South African economy in the CMA. South Africa's GDP *per capita* is for instance 1,5 times that of Namibia and nearly six times larger than in the case of Lesotho (Masson and Pattillo, 2005:67). In addition, South Africa's GDP comprised some 95 per cent of the GDP of the CMA by 2002 (ISS, undated).[6]

The two CFA areas, established after the Second World War, are the:

- West African Economic and Monetary Union (WAEMU), comprising Benin, Burkina Faso, Guinea-Bissau, Ivory Coast, Mali, Niger, Senegal and Togo, with the BCEAO in Dakar as its central bank, and a regional development bank in Lomé (US Department of State, 2002:1; see also Doré and Masson, 2002). In this instance CFA is an abbreviation for *Communauté Financière Africaine* (IMF Survey, 2002:284); and
- Central African Economic and Monetary Community (abbreviated as CAEMC or as CEMAC in French), comprising Cameroon, Central African Republic, Chad, Equatorial-Guinea, Gabon and the Republic of the Congo (Republic of South Africa, 2004:1), with the BEAC in Yaoundé as its central bank. In this instance CFA is an abbreviation for *Coopération Financière en Afrique centrale* (IMF Survey, 2002:284).

In addition, the Economic Communion of West African States (ECOWAS) has ratified on 20 April 2000 macro-economic convergence criteria for its member countries. ECOWAS was established in 1975 in terms of sections 3 and 51 to 55 of the treaty on the establishment of an economic and monetary union for the member countries, comprising Ghana, Guinea, Liberia, Nigeria, Sierra Leone and The Gambia (WAMI, undated).[7] In order to achieve the goals of ECOWAS, the heads of state of member countries, with the exception of Liberia, ratified on 20 April 2000 in Accra a declaration for the establishment of the West African Monetary Zone and agreed that a common currency for the region would be called the ECO (WAMI, undated). Owing to the burden of rebuilding its infrastructure after a period of internal conflict, Liberia elected not to ratify the declaration (WAMI, undated).

Apart from these monetary unions and regional monetary co-operative initiatives, Africa is also characterised by other initiatives of countries to co-operate, but none of these have explicit monetary or macro-economic objectives.

In comparing progress with the achievement of macro-economic convergence criteria in SADC in particular, with developments culminating in the current monetary union in Europe, the analysis in the next section shows that convergence and monetary union are never achieved without overcoming continued challenges, confirming that the challenges facing SADC (or the other regions on the African continent) are not insurmountable.

4. AN ANALYSIS OF THE EUROPEAN UNION

It is nearly impossible to date the earliest attempts to achieve political and economic unification in Europe. In his book *European Monetary Union since 1848: a political and historical analysis*, Vanthoor (1996:xiii) mentions that "[t]wo thousand years of European

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history bear witness to continual attempts to convert Europe . . . into a political and economic union". Vanthoor traces modern attempts to a united Europe to the introduction of a federal government in Switzerland in 1848 (1996:4).

The current monetary union in Europe, embodied in the European Central Bank and a single currency for member countries, finds its roots in the Delors Report completed under the auspices of the French Minister of Finance at the time, Mr Jacques Delors (Vanthoor, 1996:96). This report put forward concrete proposals for a European economic and monetary union, anchored in fixed exchange rates for the currencies of member countries before the introduction of a single currency. As all member countries of the European Union were not enthusiastic about the proposals, it was agreed that a European monetary union would be introduced in three stages, but without any fixed time table.

The next important milestone for European monetary convergence was the ratification of the Treaty on the European Union, generally referred to as the Maastricht Treaty, on 7 February 1992 (Maastricht Treaty, 1993;[8] Convergence Criteria, 1992).[9] In terms of this Treaty, the convergence criteria set at the time for member countries of the European Union were (Convergence Criteria, 1992):

- Inflation rates not higher than 1,5 per cent above the average inflation rate of the three countries in the Union with the lowest inflation rates.
- Long term interest rates not diverting by more than 2 per cent from the interest rates in the three countries with the lowest inflation rates.
- The annual budget deficits of governments of countries in the Union not exceeding 3 per cent of the GDP of the relevant country.
- Government debt not exceeding 60 per cent of the GDP of the relevant country.
- In the period running up to the acceptance of the Euro as a single currency, the exchange rates of member countries of the Union staying within the accepted exchange rate target range.

Member countries of the European Union have at the time and still experience difficulty in meeting these criteria. By 1995 Luxembourg was the only country meeting the four most important criteria (inflation, interest rates, budget deficit and government debt), while Greece, Italy, Portugal and Spain did not meet any of these criteria by 1995 (Vanthoor, 1996:113). Such non-compliance, however, did not prevent the introduction of a single currency in the European Union only seven years later, i.e. by 1 January 2002.

In the assessment of convergence, it is important to note the views of the President of the European Central Bank, Mr J-C Trichet. Mr Trichet said in 2004 at the press briefing on the *ECB Convergence Report* that " . . . to ensure that only those Member States having economic conditions that are conducive to the maintenance of price stability and the viability of the euro area can participate in it . . . convergence must not only be nominal, satisfactory at a specific point in time, but also sustainable. Second, the convergence criteria constitute a coherent and integrated package, and they must all be satisfied. There is no hierarchy of criteria. Third, the criteria have to be met on the basis of current data.

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Fourth, the application of the criteria should be consistent, transparent and simple . . . " (Trichet, 2004).[10]

Despite Mr Trichet's view, all member countries of the European Union currently do not comply with all the convergence criteria (ECB Convergence Report, 2004),[11] and in particular fiscal convergence criteria, which are still under the direct control of member countries of the Union.

Apart from France and Germany, the main economies in the European Union, three other countries also did not meet all four convergence criteria by 2003. "Within the euro zone, notably France and Germany already had . . . [public] . . . deficits above 3 per cent . . . [of GDP] . . . in 2002 that continued to grow in 2003 to 4,1 per cent in France and 3,9 per cent in Germany, respectively. The public deficit of Greece stood at 3,2 per cent of GDP in 2003. The trend in general government consolidated gross debt as a percentage of GDP has developed differently among the Member States. Some 'old' Member States that had a particularly high level of government debt in 1998 managed to reduce it, even if the 2003 value is still well above the 60 per cent mark. This is true for Belgium (1998: 119,6 per cent; 2003: 100,5 per cent), Italy (1998: 116,7 per cent; 2003: 106,2 per cent) and Greece (1998: 105,8 per cent; 2003: 103,0 per cent). On the contrary, the general government debt increased in Germany (1998: 60,9 per cent; 2003: 64,2 per cent), France (1998: 59,5 per cent; 2003: 63,0 per cent), and Portugal (1998: 55,0 per cent; 2003: 59,4 per cent)" (Eurostat, 2004:134 and 135).

It is important to note that such non-compliance does not put in jeopardy the continued existence of the European Union, the Euro as a single currency or the functioning of the European Central Bank. In an IMF Working Paper, *Experience with Budgetary Convergence in the WAEMU*, Doré and Masson concluded that " . . . a true measure of progress would also depend on the initial position from which a member country began its adjustment" (IMF Survey, 2002:286), implying that continued progress towards the convergence criteria by participating countries is probably a better indication of a commitment to unification, rather than actual compliance at any given period in time.

This places Mr Trichet's remark that " . . . convergence criteria . . . must all be satisfied . . . [and] . . . have to be met on the basis of current data" (Trichet, 2004) in a different light: convergence criteria are at best permanent goals, rather than permanent conditions, for monetary unification, a common central bank and a single currency for participating countries.

5. CONCLUSION

The experience of the European Union shows that monetary union and a single currency are and remain feasible even if all member countries do not meet all the macro-economic convergence criteria at all times. Such criteria are therefore at best goals which member countries in a region should aim to achieve, even after monetary unification, rather than conditions that should always be applied, even before unification. A monetary union in and a single central bank for SADC can succeed on this basis, as SADC countries not only

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recorded progress towards the achievement of the targets between 1999 and 2004, but many of the targets for 2008 were already achieved by 2004.

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