***Ministry of Economic Planning and Development***

***Macroeconomic Analysis and Research Division***

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*Comments, criticisms and recommendations for improvement are most welcome.*

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## 2019 Q1 Highlights

***International***

- The global economy grew by 3.6 percent in 2018 from a combination of country- to sector-specific dynamics that resulted in reduced growth momentum.
- Projections reflect a decrease in global economic growth to 3.3 percent in 2019 and 3.6 percent in 2020.
- Persisting trade tensions between USA and China, the UK/ EU uncertainty of the Brexit deal or no deal and overall reduction in world trade contributed to the decline in global economic performance.

***Domestic***

- Inflationary pressures mounted from developments such as tariff hikes in electricity, as well as an annual increase in housing rentals. Headline inflation averaged at 5.1 percent in 2019 Q1.
- The Lilangeni strengthened marginally in 2019 Q1 compared with 2018 Q4 appreciating by 1.7 percent against the dollar (USD 14.02). This can be attributed to increased tensions over the trade negotiations between the USA and China. The Moody rating, which kept RSA credit ratings at investment grade while Eswatini credit rating was kept at speculative grade thus rendering Eswatini exports to the USA cheaper when compared to the previous quarter.
- At the end of the first quarter of 2019, Eswatini's total exports on an annualized quarter comparison increased by 19.2 percent from Q1 2018 driven by an increase in the demand of Eswatini's exports in the SACU region with the South Africa's economic recovery in the last half of 2018. Also the European market demand for local exports increased by 307 percent compared to the same period in 2018 due to the resumed uptake of beef exports in the EFTA market, low sugar prices and exchange rates developments.
- The country's total import declined by 15.1 percent from 2018 Q4 but on the annualized quarter comparison however, they were up by 6.3 percent in 2018 Q1. Nominal growth was mainly driven by motor fuel and energy and food imports in 2019 Q1. Pharmaceuticals and construction imports declined due to the continued fiscal challenges which led to cuts in recurrent and capital expenditures.
- Fiscal challenges are worsening as a decline in corporate taxes and value-added taxes (VAT) was reflected on a year-on-year basis 5.8 percent and 0.8 percent respectively and on a quarter-on-quarter basis by 3.5 percent and 1.8 percent.

***Information Boxes***

- Box 1: THE NATIONAL DEVELOPMENT 2019/20 – 2021/22
- Box 2: IS GM COTTON AN ANSWER TO THE AILING ESWATINI COTTON INDUSTRY?
- Box 3: QUARTERLY GDP

# 1. International Developments

## *1.1. Global Growth Performance*

*"Global expansion weakened in 2018 and growth forecasted to remain slow in 2019…"*

Global economic activity softened to 3.6 percent in 2018, from an estimated growth of 3.8 percent in 2017 (WEO- April 2019). Global growth had averaged above 3 percent for the past two years, but slowed in the second half of the year 2018. Activity moderated amid an increase in trade tensions and tariff hikes between the United States and China, which has led to declines in business confidence, a tightening of financial conditions, and higher policy uncertainty across many economies. Against this global backdrop, a combination of country- to sector-specific dynamics further reduced the momentum.

These changes in global economies developments prompted a downward revision for the medium-term projections with 2019 projected to grow by 3.3 percent, a downward revision of 0.2 percentage point and 2020 projected to grow by an unchanged 3.6 percent.

*Table 1: Global growth (% change)*

| | **Estimates** | | **Forecasts** | |
|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** |
| **World Output** | 3.8 | 3.6 | 3.3 | 3.6 |
| **Advanced Economies** | 2.4 | 2.2 | 1.8 | 1.7 |
| USA | 2.2 | 2.9 | 2.3 | 1.9 |
| **Euro Area** | 2.4 | 1.8 | 1.3 | 1.5 |
| UK | 1.8 | 1.4 | 1.2 | 1.4 |
| **Emerging Economies** | 4.8 | 4.5 | 4.4 | 4.8 |
| China | 6.8 | 6.6 | 6.3 | 6.1 |
| **SSA** | 2.9 | 3.0 | 3.5 | 3.7 |
| Nigeria | 0.8 | 1.9 | 2.1 | 2.5 |
| RSA | 1.4 | 0.8 | 1.2 | 1.5 |

*Source - WEO April 2019*

In terms of y-o-y projections, Gross Domestic Product (GDP) growth for advanced economies is projected to decelerate from 2.2 percent estimate in 2018 to 1.8 percent in 2019 and 1.7 percent in 2020. This shows a downward revision of 0.2 percentage point for 2019, while 2020 remained unchanged. The downward revision in advanced economies was linked to developments in the Eurozone, the UK, and the USA.

In the Eurozone, growth is anticipated to decrease from an estimated 1.8 percent in 2018, to 1.3 percent in 2019 signifying a downward revision of 0.3 percentage point, while 2020 is expected to grow by 1.5 percent showing a 0.2 downward revision. Growth slowed more than estimated as a combination of factors weighed on activity across the Euro area, including weakening consumer and business sentiment; delays associated with the introduction of new fuel emission standards for diesel-powered vehicles in Germany; and street protests that disrupted retail sales and weighed on consumption spending in France. With growth in the Eurozone anticipated to decrease, this will likely impact on Eswatini's export, as a key trading partner, particularly for sugar. . World sugar prices may decrease following reduction in consumer spending in the Eurozone which would significantly hit Eswatini's main exports, sugar and beef products.

The United Kingdom's (UK) economic growth for the medium term is expected to decelerate from a projected 1.4 percent in 2018, to 1.2 percent in 2019 signifying a downward revision of 0.3 percentage points, while 2020 is expected to grow by 1.4 percentage showing a 0.2 percentage point downward revision. This is mainly attributable to the mounting distresses around a no-deal Brexit, which is also likely to weigh down on investment spending within the Euro area. The mounting distress around a no-deal between EU and the UK may be positive for the Eswatini economy. The bilateral trade between these countries may be strengthened, and varied, to ensure that their demand for Eswatini products is fully met for their economic demands, and potentially create demand for other products where Eswatini enjoy comparative advantage on.

The growth estimates for the United States depicts a decrease from a projected 2.9 percent in 2018, to 2.3 percent in 2019 showing a downward revision of 0.2 percentage point, while 2020 is expected to grow by 1.9 percentage which will signify an upward revision of 0.1 percentage point. Momentum in the US remained vigorous amid a tight labor market and strong consumption growth, while investment moderated in the second half of the year. The extended truce in the US–China trade dispute has provided a welcome break in an otherwise unsettled policy environment that included Brexit negotiations, changes in Mexican policy direction under the new administration, the US federal government shutdown, and US policy on Iran. Trade tensions between the US and China may benefit Eswatini mainly in the textile and apparel space. The readmission of Eswatini into the African Growth Opportunity Act (AGOA) may create increased demand for textile products.

GDP growth for emerging markets and developing economies is projected to decrease slightly from 4.5 percent in 2018 to 4.4 percent in 2019 and improve marginally to 4.8 percent in 2020. This depicts a downward revision of 0.1 percentage points for both 2019 and 2020.

China is expected to decrease from 6.6 percent in 2018 to 6.3 percent in 2019 signaling an upward revision of 0.1 percentage point and 6.1 percent in 2020 showing a downward revision of 0.1 percentage point. In China, essential domestic regulatory tightening to reign in debt, constrain shadow financial intermediation, and place growth on a sustainable footing contributed to slower domestic investment, particularly in infrastructure. Expenditure on durable consumption goods also softened, with automobile sales declined in 2018 following the expiration of incentive programs for car purchases. Concurrently, the US-China trade tensions may have positive spillover effects to Eswatini. With China increasing their bilateral trade base with other countries outside the USA economy, this may increase the demand of Eswatini's products in particular textile in order to meet quotas given to them.

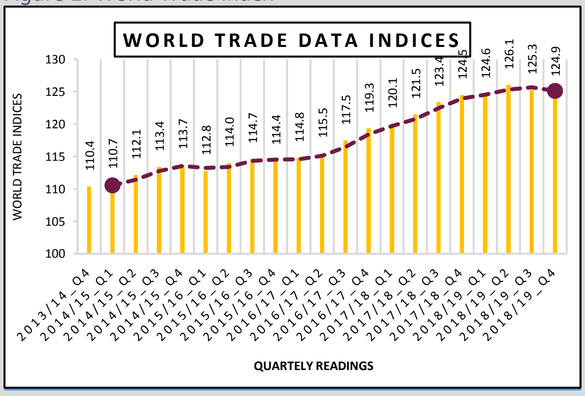
In sub-Saharan Africa, growth is expected to pick up to 3.5 percent in 2019 and 3.7 percent in 2020 which is an increase from 3.0 percent, previously projected in 2018. The projection is 0.3 percentage point and 0.2 percentage point lower for 2019 and 2020, respectively, than in the October 2018 WEO, reflecting downward revisions for Angola and Nigeria with the softening of oil prices. Growth in the Republic of South Africa is expected to marginally improve from 0.8 percent in 2018 to 1.2 percent in 2019 and 1.5 percent in 2020, a 0.2 percentage point downward revision for both years relative to the October projections. The projected recovery reflects modestly reduced but continued policy uncertainty in the South African economy after the May 2019 elections. Prospects for Eswatini in the Nigerian and Angolan economies remain a concern due to continually decreasing oil prices. The softening of these prices affect both the prices of sugar, miscellaneous goods and re-exports. The Republic of South Africa remains strong, as an Eswatini main trade partner, due to the recent election where the newly elected President's speech was to address issues of corruption and boosted investor confidence that their resources will not be seized by any political agendas. As such, investor confidence has increased and this has a multiplier effect for the Eswatini economy as the trade balance will remain firm. This will also favor Eswatini in increased SACU receipts, in as far as increased economic activity is concerned.

### *1.2. World Trade*

*"Global trade growth loses momentum with the ongoing trade tensions …."*

World trade volume increased by 0.5 percent when compared month-on-month basis, growth previously stood at -1.1 percent in February, despite an initial estimate of -1.7 percent. Quarter-on-quarter comparison shows that growth grew by -0.3 percent in 2019Q1 while 2018Q4 recorded a -0.6 percent growth. World merchandise trade volume is forecast to grow by 2.6 percent in 2019. This follows a weak import demand in Europe and Asia which dampened global trade volume growth in 2018.

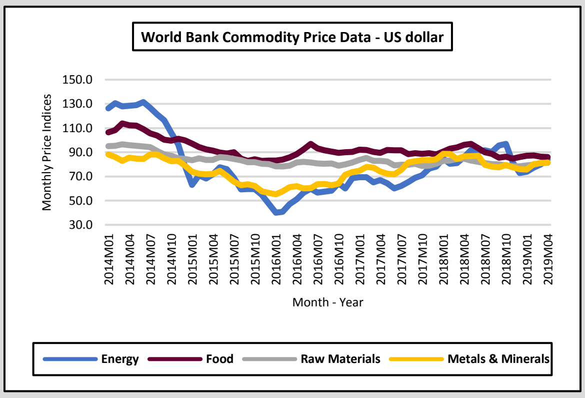
*Figure 1: World Trade Index*




*Source:* CPB WORLD TRADE MONITOR, fixed base 2010 = 100

Global commodity prices of food and other raw material remained stable, whilst there was rising pressure in the prices of energy (oil) during the period.

*Figure 2: Global Commodity Prices*




*Source: Pink Sheet April 2019*

World industrial production increased by 0.8 percent on a month-on-month comparison, which showed a significant recovery compared to an unchanged initial estimate of 0.1 percent decrease recorded in February 2019. Growth was recorded at 0.1 percent in 2019Q1 whereas 2018Q4 stood at a 0.3 percent growth. World industrial production momentum grew by 0.1 percent, when an impromptu non-annualized dataset was used. In February 2019, World industrial production momentum decreased by 0.1 percent, from a 0.2 percent decrease initially estimated.

### *BOX 1: THE NATIONAL DEVELOPMENT 2019/20 – 2021/22*

The Cabinet has announced their priorities and strategic plans for the coming years through the release of two key documents: the 'Strategic Road Map 2019 – 2022' and the 'National Development Plan 2019/20 – 2021/22'. The National Development Plan (NDP) is the main document that guides the allocation of national resources to achieve the key development agendas and priorities set by Government, particularly those set out in the Strategic Road Map.

The immediate focus of this NDP is economic recovery, which depends greatly on the government regaining control over the fiscal situation. Nevertheless, the ultimate vision is to improve the livelihoods of Eswatini residents across many dimensions. Key strategies and priority programmes in the NDP are organized under the following national and sectoral outcomes:

**NATIONAL DEVELOPMENT PLAN 2019/20 – 2021/22**

| National Outcomes | Sectoral Outcomes |
|---|---|
| **1 - Good Governance, Economic Recovery & Fiscal Stability** | 1. Stop the Bleeding: Fiscal Crisis Stabilised<br>2. Improved Fiscal Expenditure Management<br>3. Resource Envelope Risks Mitigated<br>4. Clarity on the Role of the Public Sector Restored |
| **2 - Enhanced & Dynamic Private Sector Supporting Sustainable & Inclusive Growth** | 1. Enhanced Export Growth & Product Diversification<br>2. Strengthened Business Environment<br>3. Increased Employment-Stimulating Investment<br>4. Entrepreneurial Activity Fostered |
| **3 - Enhanced Social & Human Capital Development** | 1. Improved Access to Quality Health & Health Services<br>2. Improved Access to Quality, Relevant & Inclusive Education & Lifelong Learning Opportunities<br>3. Reduced Poverty Rates in All its Forms<br>4. The Youth and Other Vulnerable Groups Empowered with Adequate Skills and Opportunities<br>5. Improved & Coordinated R&D & Innovation Systems for Evidence-Based Planning & Policy Formulation |
| **4 - Efficient Public Service Delivery That Respects Human Rights, Justice & the Rule of Law** | 1. An Efficient, Dependable & Modern Government Service<br>2. Strengthened Implementation & Enforcement of Human Rights, Law & Order & Constitutionalism |
| **5 - Well Managed Natural Resources & Environmental Sustainability** | 1. Improved Management & Access to Water & Sanitation<br>2. Improved Land Use Planning & Management<br>3. Equitable, Inclusive & Sustainable Management of Natural Resources<br>4. Improved National & Community Resilience to Natural Disasters<br>5. Clean & Safe Environment |
| **6 - Efficient Economic Infrastructure Network** | 1. Enabling Infrastructure for Improved Public and Private Sector Activity<br>2. Ensured Accessible, Robust, Reliable & Affordable ICT<br>3. Ensured Access to Secure, Clean & Affordable Energy |

The full NDP can be accessed on the Eswatini Government website: [http://www.gov.sz/](http://www.gov.sz/).

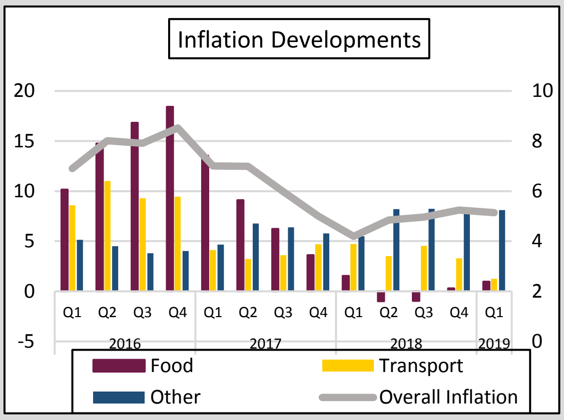
## 2. Domestic Developments

### *2.1 Prices*

*"There was mounting pressure on domestic prices in the first quarter of the year (on a y-o-y comparison)..."*

Headline inflation averaged at 5.1 percent in 2019 Q1. This shows a marginal increase of 0.9 percentage point on a y-o-y basis compared to 2018 Q1 where it averaged at 4.2 percent.[1] This was largely attributed to a 14 percent tariff hike in electricity, as well as an annual increase in housing rentals which were effected at the end of 2018 Q1. While on a q-o-q comparison headline inflation declined marginally by 0.1 percentage point from the 5.2 percent reported in 2018 Q4. This marginal decline was attributed to a 2.0 percentage point deceleration in transport inflation due to a sustained decline in world fuel prices. Moreover, the decline was also attributed to a 1.2 percentage point and 0.8 percentage point deceleration in hospitality inflation namely restaurants & hotels and recreation and culture respectively. This decline may be partially influence by the drop in prices by the hospitality industry in order to stimulate activity in the tourism sector. However, the deceleration in transport inflation as well as hospitality inflation was counteracted by a 0.6 percentage point increase in food inflation which grew from 0.3 percent in 2018Q4 to 1.0 percent in 2019 Q1.

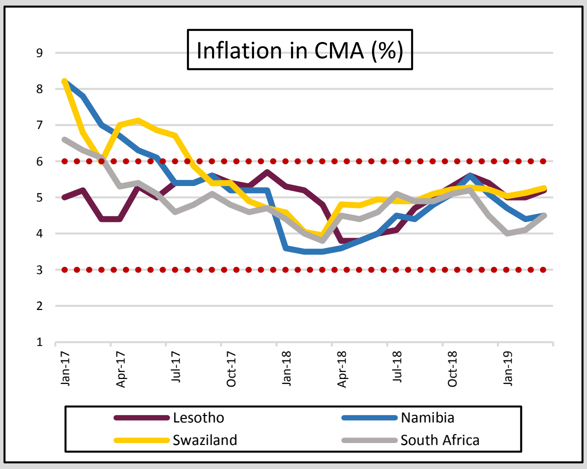
*Figure 3: Domestic Prices (% change)*




*Source: CSO*

Apart from Eswatini, the headline inflation within the Common Monetary Area (CMA) countries also decreased slightly, and all the rates fell within the 3-6 percent target band in the quarter under review. On average Lesotho and Eswatini both had the highest headline inflation rates in 2019 Q1 at 5.1 percent down by 0.4 percentage points and 0.1 percentage points respectively. The deceleration in Lesotho's inflation was driven by a decline in food inflation. Whereas, Namibia's headline inflation was at 4.5 percent in 2019 Q1 down by 0.7 percentage points compared to 2018 Q4. This deceleration was attributed to a decline in prices for furniture and household equipment. The lowest headline inflation in 2019 Q1 was recorded in the Republic of South Africa at 4.2 percent down by 0.7 percentage points compared to 2018Q4. This decline was attributed to transport inflation as well as housing and utility costs.

*Figure 4: Inflation in CMA countries (%)*




***Core inflation***

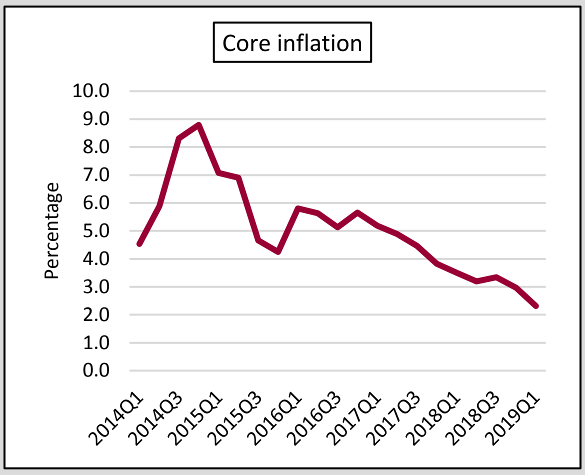
Core inflation is defined as the change in cost of goods and services, however does not include those from the food and energy sector which are deemed most volatile. The measurement of core inflation is important because it shows the relationship between the prices of goods and services and the prices of consumer's general income, hence, reflecting the consumers' spending power.

On a q-o-q comparison core inflation was down by 0.7 percentage points from 3.0 percent in 2018 Q4 to 2.3 percent in 2019 Q1. This deceleration in core inflation was driven by decline in alcohol, clothing, health, transport, recreation, hotel and miscellaneous inflation categories. The decline in this categories of inflation portrays that consumers spending power has declined over time due to depressed income while prices of goods and services have

[1] Annual tariff increases are effected in April of every year and its effects are felt throughout the year.

been on the rise thus eroding their buying power.

*Figure 5: Eswatini Core Inflation (%)*




*Source: CSO*

## 2.2 Interest Rates & Lending

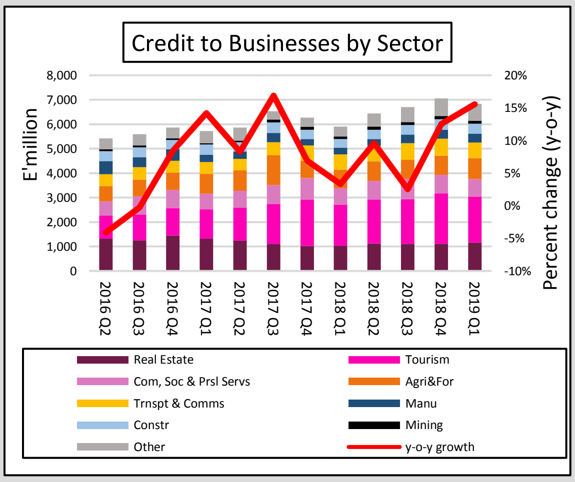
*"Accommodative monetary stance maintained, despite mounting inflationary pressures whilst credit extension is seen to be decelerating (in real terms) on a q-o-q basis…."*

The monetary policy stance was kept accommodative in 2019 Q1, with the discount rate maintained at 6.75 percent similar to 2018 Q4. This was done in consideration of the global, regional and domestic conditions. These rate at par with the South African repo-rate which was at 6.75 during the review period. In line with the unchanged discount rate, the prime lending rate was also kept at 10.25 percent, same as 2018 Q4.

In line with the accommodative monetary policy stance, total credit extension to household and business was reported to be E12.7 billion in 2019 Q1. On a y-o-y bases this was 8 percent marginal increase compared to 2018 Q1 where E11.8 billion was extended as credit. This increase was mainly driven by credit extension to the business sector which grew by 16 percent while credit extension to households was relatively stagnant. Credit extension to businesses was recorded at E6.8 billion in 2019 Q1, increasing from the E5.9 billion recorded in 2018 Q1. This acceleration in credit extension to business was attributed to a modest growth in credit extension to distribution and tourism (12%), agriculture and forestry (10%), real estate (13%) and manufacturing (34.1) as well as other sector (68.4%).

However, on a q-o-q comparison total credit extension to business and households decelerated by 3.3 percent from E12.9 billion in 2018 Q4 to E12.7 billion in 2019 Q1. This deceleration was mainly driven by a 1 percent marginal decline in credit extension to business which was offset by a 2 percent increase in total credit extension to households. The decline in credit extension to businesses was largely attributed to a deceleration in credit extension to distribution and tourism, transport and communication as well as construction amongst other. However, this decline was moderated by an acceleration in credit extension to real estate and agriculture which grew by 5.2 percent and 5.9 percent, respectively. Whereas, the 2 percent acceleration in credit extension to households was attributed to a modest increase in personal (unsecured) loans as well as mortgage finance.

*Figure 6: Credit Extension to Businesses*




***Source: CBS***

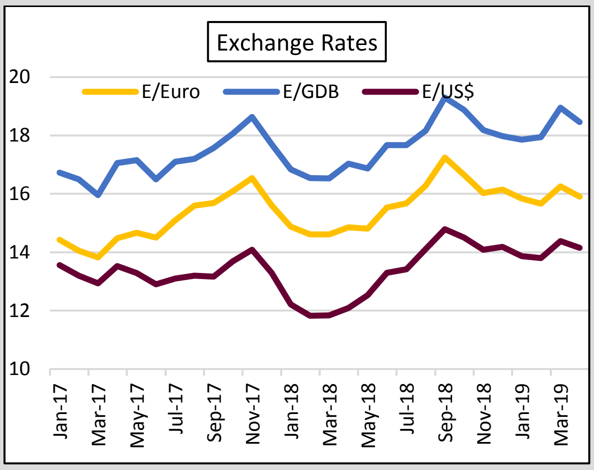
## 2.3 Exchange Rates

*"Lilangeni/ Rand exchange rate remained weak during the period, averaging E 14.02 to the US Dollar, owing largely to the uncertainty in the RSA political space…"*

The performance of the Lilangeni is tied to the developments in the RSA economy as well as developments in the global environment such as geopolitical tensions between China and the USA over the trade war, the continued uncertainty surrounding the Brexit deal between EU and the

UK. On a q-o-q comparison against the three major currencies the Lilangeni strengthen marginally in 2019 Q1 compared with 2018 Q4. When paired against the US Dollar, the Lilangeni appreciated marginally by 1.7 percent, averaging at USD 14.02 from the USD 14.26 in 2018 Q4. The slight strengthening of the Lilangeni compared to the US Dollar was linked to the uncertainty over the negotiation of a trade truce between China and the US as well as the Moody rating, which kept RSA credit ratings at 'investment grade' while Eswatini credit rating was kept at 'speculative grade'. This made the value of Eswatini exports to the USA becoming cheaper when compared to the previous quarter. Similarly, when paired against the Euro, the Lilangeni appreciated by 2.2 percent averaging at EUR 15.92 in 2019 Q1 from the EUR 16.28 in 2018 Q4. Likewise, against the sterling pound, the Lilangeni strengthened by 0.5 percent averaging at GBP 18.28 from the GBP 18.35 in 2018 Q4. The strengthening of the Lilangeni against the Sterling Pound and Euro was linked to the continued uncertainty over the Brexit deal weighing negatively on both currencies. This made the value of Eswatini exports to Europe become cheaper also compared to the previous quarter.

*Figure 7: Major trading currencies*



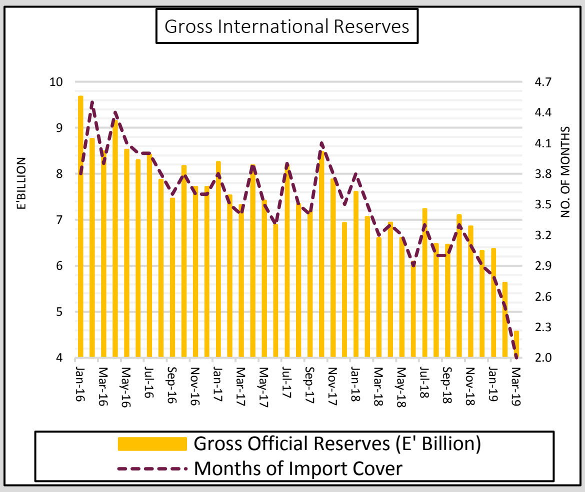

*Source: CBE*

## 2.4 Reserves

*"Reserves were on a downward trend and below 3 months of import cover during the period as the government struggled with cashflow challenges; posing a threat to the peg…"*

In 2019 Q1, the gross official reserves were reported to be at E4.6 billion, a massive decline of 30.8 percent compared to 2018 Q1 where they were reported at E6.6 billion. Similarly, on a q-o-q comparison gross official reserves also declined by 27.7 percent from E6.3 billion in 2018 Q4 to E4.6 billion in 2019 Q1. This was sufficient to cover 2.0 months of imports of goods and services. This level of reserves was far below the 3 months recommended international threshold and also way below the SADC macroeconomic convergence target of 6 months import cover. Reserves have been on a downward trend since 2018, primarily due to fiscal challenges and sluggish growth which resulted in the rapid drawdown of reserves and also hindering build-up of reserves.

*Figure 8: Gross International Reserves*



## *BOX 2: IS THE GM COTTON AN ANSWER TO THE AILING ESWATINI COTTON INDUSTRY?*

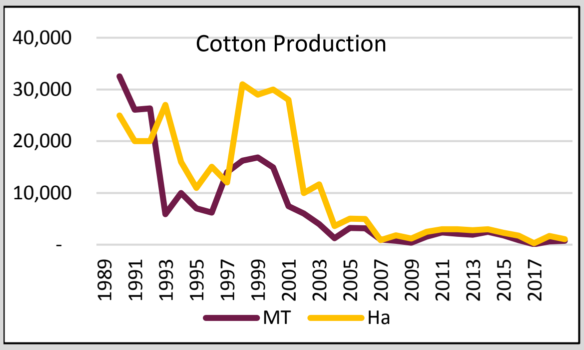
***A trend analysis study on the potential impact of implementing GM cotton in the country…***

The Eswatini cotton industry experienced a major shock in the 1990s and early 2000s from which, it never recovered. A substantial amount of farmers simply stopped cotton production or swapped cotton for sugarcane production having been discouraged by a combination of factors such as the drought. Ultimately, this has negatively impacted the area under cotton production as much of the land has been left idle with no economic productive usage. The area under cotton production has been on a downward trend from 20,000 hectares in the growing season of 1990 to 1,082 hectares in the 2018. Compounding the situation is that the yield for conventional cotton varieties followed a similar downward trend due to the labour intensive nature of cotton production as well as it's being prone to pests and diseases. It tends to be labour intensive nearly all through the production process from weeding, spraying for pest and disease control and also during harvesting. Furthermore, another deterrent to cotton production has been the low local buying price offered to producers. These obstacles within the supply-side of cotton industry have eventually led to the underutilization of the cotton ginnery as it is operating at 10 percent of the maximum capacity. Furthermore, the closure of Spintex Swaziland manufacturing firm directly impacted local demand of cotton as its value chain was broken with little value addition done locally to produce cotton products.

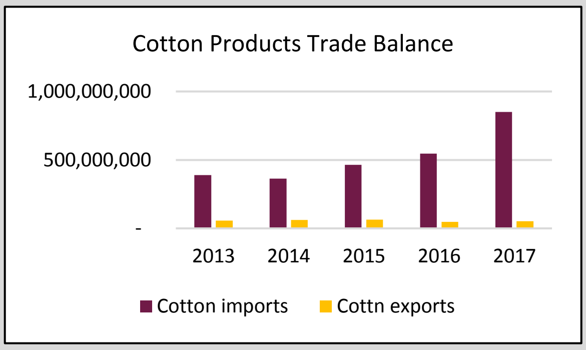
Fundamentally, cotton production has direct economic linkages with the textile industry, as raw cotton products such as carded or combined cotton, cotton yarn, cotton sawing threads and woven fabrics of cotton are used as production inputs in the manufacturing sector. Currently, the Eswatini textile industry is a net-importer of raw cotton products, heavily reliant on cotton products imports originating from China (51%), The Republic of South Africa (21%), Lesotho (16%), Mauritius (10%) and the rest of the world (2%) as inputs for the textile industry. In 2017, Eswatini imported cotton products worth E851 million in line with the cut-make-trim (CMT) model which encourages the influx of yard import, while the country exported cotton products worth E52 million. The top three products that were exported by the country in 2017 were cotton carded or combined, cotton sawing threads and cotton yarn. A large proportion of these products were sold to the Republic of South Africa (73.5 %), followed by Botswana (22.3%) while the remaining 5% was sold to the rest of the world. This is evidence that domestically the country has a market to consume cotton products as inputs for the textile sector, however, this can only work if the country has a manufacturing firm such as Spintex for value addition and also introduce the fully factored (FF) manufacturing to coexist with the CMT model. These will be key to unlock the potential to enhance value creation through the forward linkages between agriculture and manufacturing.

Genetically Modified Organisms popularly known as GMOs are plants, animals or microorganisms whose genetic makeup has been modified in a laboratory using genetic engineering or transgenic technology. The world over has started embracing GMO cotton due to its many productive advantages. Depending on the gene modification process, GMO cotton has the ability to increase cotton yields and reduce the labour requirement by omitting and/or reducing weeding and pest control requirements. A field demonstration for GMO cotton in Nisela, Big Bend revealed that GMO cotton yield is 3.20 times more prolific that the conventional cotton seed varieties. This is mainly due to the cotton ball size and the addition of a gene that is resistant to a number of factors including the notorious American ball-worm. However, locally there is still skepticism with GMO products mainly because of environmental and health concerns. As such current laws are not favourable in particular for a supplier of GMO seeds to the domestic economy.

**ESWATINI'S COTTON EXPORT DESTINATIONS**




**ESWATINI COTTON PRODUCT'S IMPORTS COUNTRY OF ORIGIN**




These yield numbers are evidence of the massive potential that GMO cotton can have on supply side of cotton production. GMO cotton has the potential to resuscitate the struggling cotton industry by putting idle land into economic productive use especially, in areas with ideal climatic conditions such as the Lowveld of Eswatini. Additionally, it has the potential for employment creation, as more people can obtain gainful employment through the production side and also the manufacturing side of the cotton value chain. Lastly, GMO cotton has the potential to decrease economic leakages by reducing cotton imports and also reducing the outflow of financial resources because the domestic production of GMO cotton can cover the domestic demand for cotton products within the textile industry. The surplus can be exported to other regional markets such as SACU and SADC.

### GM Cotton Scenarios on Economic growth

| | 2020 Cotton growth (%) | 2020 Agricultural growth (%) | 2020 Primary Sector growth (%) | 2020 GDP growth (%) |
|---|---|---|---|---|
| ***Scenario 1:*** *GM cotton (baseline)* | 35.2 | 3.4 | 5.1 | 1.3 |
| ***Scenario 2:*** *GM cotton used only by Cotton Board* | 464.4 | 7.2 | 6.9 | 1.8 |
| ***Scenario 3:*** *GM Cotton used by Board + 3000 ha private farms* | 1188.5 | 13.6 | 10.0 | 2.7 |

*Source: Macro-forecasting team*

**Scenario1:** Assumed that GM cotton does not pass in Eswatini and the conditions are at pre-drought where the cotton yield is at 1mt/ha with the area planted at 1 700 hectors of land.

**Scenario 2:** Assumes that GM cotton passes and all the farmers under the cotton board start using GM cotton with the yield of 3.25 MT/ha and the area planted at 1 700 hectors of land.

**Scenario 3:** Assumes that GMO cotton passes and the farmers under the cotton board start growing GM cotton, furthermore 3000 hectors is added by private farms with the yield maintained at 3.25 MT/ha and the area planted at 4 700 hectors of land.

In conclusion, from a macroeconomic perspective GMO cotton has the potential to increase the contribution of the agricultural sector and the manufacturing sector of the economy. Currently, agriculture contributes 9 percent to GDP while, manufacturing is currently at 38 percent. GMO cotton has potential to reinforce the important role of agriculture in the Eswatini economy as we are an agrarian economy. However this also calls for clear regulations, not conflicting, that will direct the protection of the environment.

*Disclaimer: The GDP Growth is subject to all things remaining constant as of 2018.*

## 2.5 External Trade

### 2.5.1 Exports

*"Increased demand for the country's exports observed in Q1 of 2019, mainly due to recovery of the SACU market (for sugar and miscellaneous edibles)..."*

At the end of the first quarter of 2019, Eswatini's total exports amounted to E6.3 billion, having declined by 22.7 percent from the previous quarter. On an annualized quarter comparison, however, they were up by 19.2 percent, rising from E5.3 billion in the same period of the previous year. This was mainly driven by an increase in the demand of Eswatini's exports, particularly in the SACU region emanating from South Africa's economic recovery in the last half of 2018.

In the period under review, theEuropean market was good for the local exports as they surged up to E363.8 million in 2019 Q1, growing by 307 percent from the same period in 2018.This can be attributed to the resumed uptake of beef exports in the EFTA market, low sugar prices and exchange rates. This is concretized by the improved uptake of the local exports in the region which stood at 6 percent in 2019 Q1, compared to 2 percent in the same period of 2018.

Sugar exports also accelerated by 61.3 percent, and amounted to E1.473 billion in 2019 Q1, thus contributing 10.7 percent to total export growth. The higher growth in sugar exports was also boosted by good yields for the current season and stock piling during tough market conditions. Furthermore, miscellaneous edibles exports also grew by 6.5 percent and were recorded at E2.9 billion in 2019 Q1 compared to E2.7 billion in the corresponding period of 2018.

As indicated earlier, the uptake of the local exports also improved in the SACU market as it absorbed 73 percent of the total exports for the quarter, which is a percentage point more than in the corresponding period in 2018. In monetary terms, the exports transactions to the SACU market were worth E4.60 billion in 2019 Q1 compared to E3.80 billion in the same period of 2018.

*Figure 9: Merchandise Exports (SZL) Source: SRA*


### 2.5.2 Imports

*"Imports, on the other hand, declined during the period indicating declining domestic demand..."*

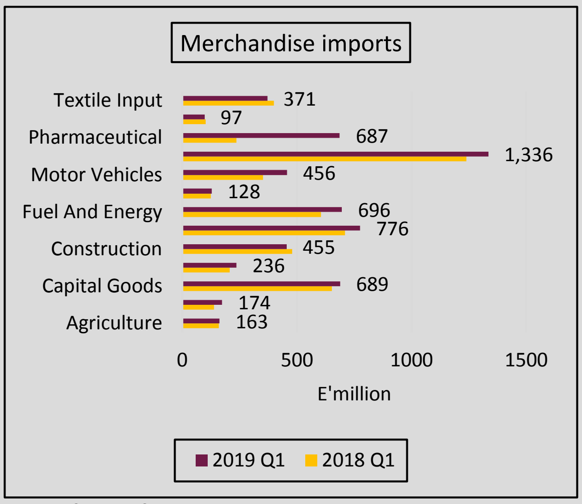
When compared on a quarter-on-quarter basis, the country's total import transactions were worth E5.75 billion in 2019 Q1, having declined by 15.1 percent, from E6.77 billion in 2018 Q4. On the annualized quarter comparison however, they were up by 6.3 percent, from E5.41 billion in 2018 Q1.

This nominal growth in the import volumes was mainly driven by "motor vehicles" as well as "Fuel and Energy" which had grown by 29.7 percent and 15.0 percent respectively. Furthermore, "Food imports" increased by 9.2 percent, while other final consumption and other intermediary consumption grew by 9.1 percent and 7.1 percent respectively in 2019 Q1.

However, "pharmaceutical" and "construction" imports were down in this period. They dropped by 28.6 percent and 5 percent respectively, mainly due to the continued fiscal challenges which led to the reduction of the government's capital program. Construction imports also fell as a result of the completion of major projects.
The SACU market, particularly South Africa, remained the major source for the country's imports in 2019 Q1. It supplied 72 percent of the imports in this period, which is a percentage point lower than in 2018 Q4.Imports from Asia remained flat at 15 percent, while those from the European

Union increased from 3 percent in 2018 Q4 to 5 percent in 2019 Q1.

*Figure 10: Merchandise imports (SZL)*



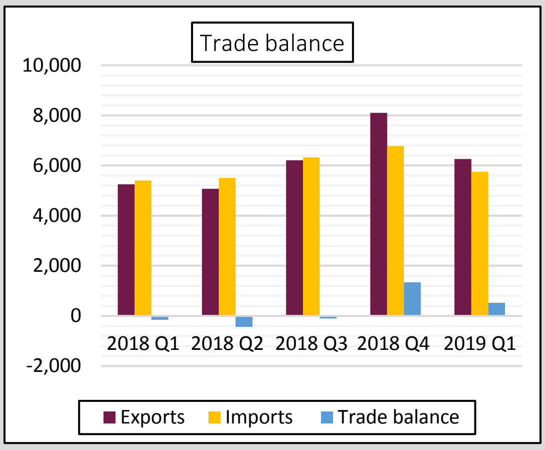

*Source: SRA*

### 2.5.3 Trade balance and current account[2]

*"A lower trade surplus recorded in 2019 Q1, reflecting slower growth of merchandise exports than merchandise imports during the period; current account surplus recorded in 2018 Q4..."*

On a q-o-q basis, the country's trade balance was in surplus between the last quarter of 2018 and the first quarter of 2019. By the end of 2019 Q1, it was recorded at E518.3 million, which was however, 61.1 percent lower than that of 2018 Q4. These surpluses are justified for Eswatini's export-led economy, given the South African economic recovery in the last half of 2018, the regaining of the AGOA market and the resumption of beef exports to the European Free Trade Area (EFTA) market.

*Figure 11: Merchandise trade balance*




*Source: SRA*

According to the Central Bank of Eswatini (CBE)'s preliminary data, the current account recorded a E2.72 billion surplus in 2018 Q4,having surged from E46.4 million in the previous quarter

On a q-on-q basis, services imports increased and amounted to E868.2 million in 2018Q4, having grown by 13 percent from the previous quarter. This resulted in the deficit of the services account widening by 24.5 percent, to E634.8 million in 2018 Q4.

Net primary income (receipts and payments of employee compensation paid to non-resident workers and investment income) performance improved in 2018 Q4 as the primary income account recorded a E433.9 million surplus, rebounding from a E 1.009 billion deficit in the previous quarter. This indicates an increase in investment income by non-residents within Eswatini and a decrease in employee compensation paid to non-residents during the period.

The secondary income account also recorded a E1.664 billion surplus in 2018 Q4, which is 5.5 percent lower than in the previous quarter. Despite these surpluses, the secondary income receipts declined, when compared on both the annualized quarter and q-o-q basis. They amounted to E1, 779.3 billion in 2018 Q4, which is 6 percent lower than in the previous quarter, and 19 percent lower than in the same period in 2017. This is reflective of the volatility of SACU receipts and thus emphasizes the need for Eswatini to reduce its reliance on SACU revenues.

The financial account indicates that Eswatini was a net debtor to the rest of the world by E2.3

[2] BOP data has a quarter lag.

billion in 2018Q4, a much higher outflow than that of E461.3 million in the preceding quarter. Net direct investment was down, recording an outflow of E221 million in 2018 Q4 following an inflow of E776.6 million in the previous quarter. This is due to the depletion of reinvested earnings in the period. Furthermore, the reserves were also down, on account of the fiscal challenges.

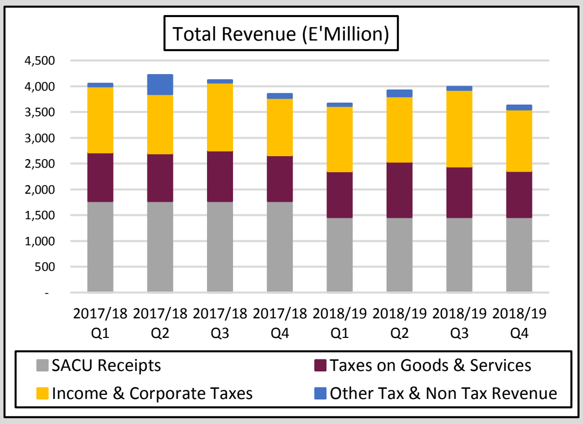
### 2.6 Fiscal Developments

*"Fiscal situation is deteriorating further owing to cash flow challenges (increasing expenditures unmatched by the revenue collection), unrelenting accumulation of arrears as financing gap widens…"*

#### 2.6.1 Government Revenue

Preliminary data indicates that total revenues for the last quarter of the fiscal year 2018/19 were down by 5.8 percent on the same period in the previous year, falling from E3.85 billion to E3.63 billion. A fall in SACU receipts for the fiscal year was the key driver of this y-o-y decrease. On a q-o-q basis, 2018/19 Q4 revenue was 9.1 percent lower than 2018/19 Q3. This is a regular pattern every year, given that there is an increase in economic activity near the end of the year. Nevertheless, this drop was more significant than usual and was driven by a decline in corporate taxes and value-added taxes (VAT). On a year-on-year basis, these declined by 5.8 percent and 0.8 percent respectively and on a q-o-q basis they declined by 3.5 percent and 1.8 percent.

*Figure 12: Government Revenue*




*Source: MOF*

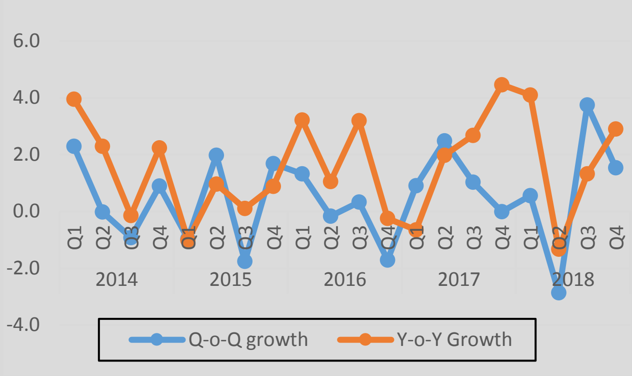
The fall in these taxes most likely corresponds to the difficult macroeconomic conditions in the country currently. Many companies are struggling to be profitable in a difficult business environment and large Government arrears in some cases creating cash-flow issues for even profitable companies. The VAT decline is unexpected given that the VAT rates were increased from 14 percent to 15 percent in August 2017. This is indicative that disposable incomes are under strain, resulting in reduced consumption. In nominal terms, company taxes brought in E226.0 million in 2018/19 Q4, while VAT brought in E605.9 million.

Individual income taxes, the second largest tax source after SACU receipts, do not vary as rapidly with economic conditions and instead depend to a greater degree on employment and salary arrangements. This was the case in 2018/19 Q4, with income taxes growing by 11.3 percent year-on-year, rising to E804.4 million. The other significant revenue source, fuel taxes, grew by 7.9 percent year-on-year to reach E257 million. This is in line with the trade data, which also reflect a similar increase in the nominal value of fuel imports.

## *BOX 3: ESWATINI QUARTERLY NATIONAL ACCOUNTS*

The Central Statistics Office (CSO) of Eswatini in February 2019 officially released the first publication of the Quarterly National Accounts (QNA) also known as quarterly GDP for the domestic economy. From this publication it was indicated that the CSO plans to disseminate quarterly GDP at the end of each quarter, although with a 3 month lag, so as to indicate current economic activity on a quarterly basis i.e. high frequency. According to the release, economic activity for the period ending December 2018 (Q4 2018) was estimated at 1.5 percent (SA) and 2.9 percent (SA) for the annual period 2018.

**Figure 1: Eswatini Quarterly GDP - CSO**




### What are quarterly national accounts? (*Information sourced from the MEFMI Guidelines for quarterly GDP*)

QNA constitute a system of integrated quarterly time series coordinated through an accounting framework. The main purpose is to provide a picture of current economic developments that are more timely and frequent than what is provided by annual national accounts (ANA). Also, QNA normally tends to be more comprehensive than that provided by individual short-term indicators. National accounts are important in an economy as they provide information on a country's economic performance comparable with those of the international community and they enable decision makers to formulate economic policies. National Accounts also provide timely and useful information on the economy for business participation.

### Differences and links between QNA and ANA

In practice, constraints of data availability and resources compels QNA to be usually less complete than ANA which are long term in nature. Survey nonresponse may be more acute for quarterly surveys than for annual survey because of the time constraints posed by having to complete the survey in a shorter period. A benchmarking process is then used to link the QNA and ANA. Benchmarking deals with the problem of combining a series of high-frequency data (e.g., quarterly data) with a series of less frequent data (e.g., annual data) for a certain variable into a consistent time series. Benchmarking is done mainly for 2 purposes;

- Quarterly distribution of annual data to construct time series of benchmarked QNA estimates ("back series"); and
- Quarterly extrapolation to derive the QNA estimates for quarters for which ANA benchmarks are not yet available ("forward series").

The series is normally seasonally adjusted to account for any seasonal and/or calendar effects for a better understanding of the underlying economic movements in the series. There are different components of seasonality in a series:

- The trend/cycle component-includes both the long-term trend and the business-cycle movements in the data
- The seasonal component-seasonal fluctuations that repeat themselves with similar annual timing, direction and magnitude (administrative, traditions – Incwala, Christmas)
- The calendar component -calendar effects that changes from period to period (e.g. Easter Holidays)
- The irregular component-captures all the other fluctuations that are not part of the trend cycle, seasonal and calendar components

### Methodology for Eswatini

The QGDP for Eswatini is currently compiled by the production approach and measured at both current and constant prices. The expenditure approach is not done currently due to data constraints. The methodology for compilation is the same as the Annual. The current series for the QNA is from 2013 whilst ANA has a series dating back to year 2000 and chain linked to 1980.

The process of disseminating QNA involves a number of revision which are prompted by the following; revisions to source data, availability of new source data, introduction of new methodologies, changes due to concepts and classifications, rebasing and benchmarking amongst others.

**Table 1: Publication Table -CSO**

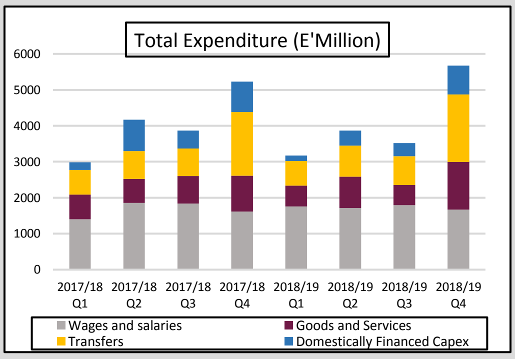
| Published in | Q1 | Q2 | Q3 | Q4 | Year |
|---|---|---|---|---|---|
| **June year T** | First | | | | |
| **September year T** | Revised | First | | | |
| **December year T** | Revised | Revised | First | | |
| **March year T+1** | Revised | Revised | Revised | First | First sum of 4 quarters |
| **June year T+1** | | Revised | Revised | Revised | Revised sum of 4 quarters |
| **August year T+1** | Revised | Revised | Revised | Revised | Preliminary annual estimates |
| **August year T+2** | Revised | Revised | Revised | Revised | Final annual estimates |

The release calendar for 2019 is proposed as follows:

•Friday 29 March: Fourth quarter of year 2018
•Friday 28 June: First quarter of year 2019
•Friday 30 August: Annual GDP – Preliminary 2018 and revised 2017
•Friday 27 September: Second quarter of year 2019
•Friday 20 December: Third quarter of year 2019

### 2.6.2 Government Expenditures

*Figure 13: Government Expenditure*

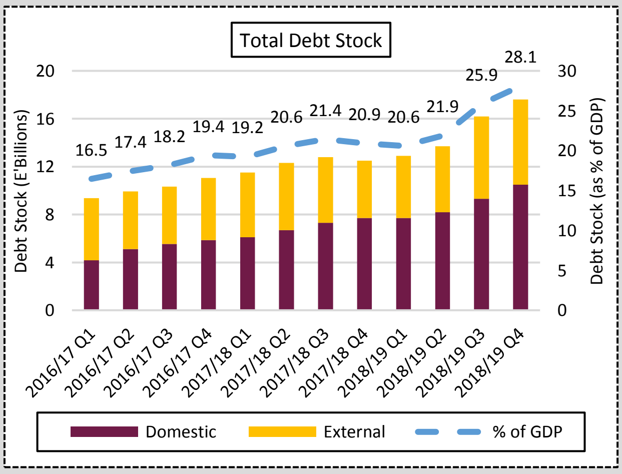



*Source: MOF*

Total expenditures in 2018/19 Q4, excluding interest payments and externally financed Capex, amounted to E5.67 billion, an 8.4 percent growth year-on-year. While these figures are preliminary, expenditure was within budgeted amounts. In line with the hiring freeze and no costs of living adjustment, wages and salaries have remained relatively constant at E1.67 billion. There has been a particularly large increase on expenditure on goods and services from 2018/19 Q4 compared to 2017/18 Q4, amounting to E1.32 billion. Domestically financed capex has been a focus of recent cuts and has fallen by 5.9 percent as a result, from E852 million in 2017/18 Q4 to E802 million in 2018/19 Q4. Finally, transfers increased y-o-y by 6.1 percent, from E1.77 billion to E1.88 billion.

### 2.6.3 Government Financing

*Figure 14: Government Financing*

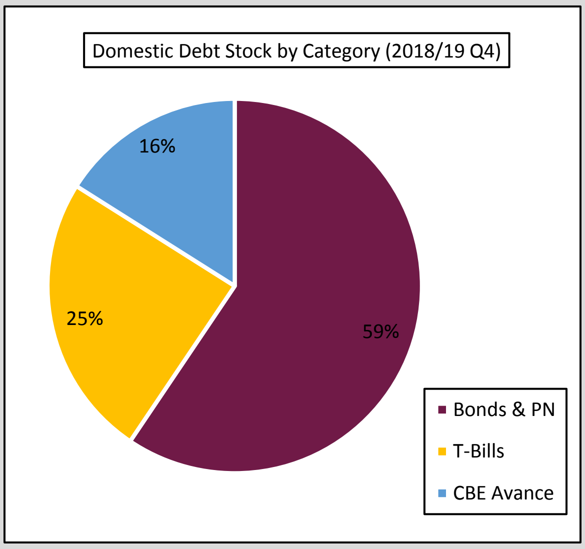



*Source: MOF*

The total public debt stock has risen substantially and is now at 28.1 percent of GDP. In nominal figures, the total debt stock now stands at E17.6 billion, a 41 percent increase from the 2017/18 Q4 amount of E12.5 billion. The increase in external debt has been driven by the financing of large ongoing capital projects and, to a lesser extent, the depreciation of the Rand against major currencies that increases the cost of unhedged debt. The external debt stock now amounts to E7.1 billion, up from E4.8 billion in the previous year.

The domestic debt stock accounts for 60 percent of the total debt stock. Domestic debt has accelerated in order to financing the deficit of the 2018/19 fiscal year, as well as to pay down arrears caused by financing gaps in the previous years. Domestic debt has grown by 36 percent year-on-year, from E7.7 billion in 2017/18 Q4 to E10.5 billion now. There is a limited supply of debt in the domestic private market in a given year, resulting in an increase in the amount borrowed from the central bank in the recent year in the form of an advance. Nevertheless, long-term bonds make up close to 60 percent of the domestic debt stock, with shorter-term treasury bills accounting for 25 percent.

*Figure 15: Domestic Debt*




*Source: MOF*

***Sources***

*Population: CSO, Population Projections*

*GDP at Market Prices: CSO, SNA*

*GDP per Capita: CSO, SNA*

*GDP Growth Rate: CSO, SNA*

*Agriculture Sector's Contribution to GDP: CSO, SNA*

*Manufacturing Sector's Contribution to GDP: CSO, SNA*

*Public (Govt) Sector's Contribution to GDP: CSO, SNA*

*Unemployment Rate: CSO, Labour Force Survey*

*HDI: UNDP*

*Proportion of Population Below Poverty Line (%): WFP, UNDP*

*Inflation Rate: Central Statistical Office: CSO*

*CPI: CSO*

*Discount Rate: CBS, BOP Section*

*Prime Lending Rate: CBS, BOP Section*

*Exchange Rate (E/US Dollar): CBS, BOP Section*

*Exchange Rate (E/Pound Sterling): CBS, BOP Section*

*Total FDI Inflows: CBS, BOP Section*

*Merchandise Exports and Imports: SRA*

*Trade Balance: Net Exports and Imports: CBS, BOP Section*

*Gross Official Reserves: CBS, BOP Section*

*Gross Official Reserves (Months of Import Cover): CBS, BOP Section*

*Total Revenue and Grants: MoF, MTFF as of November 2016*

*Total Expenditure and Net Lending: MoF, MTFF as of November 2016*

*Fiscal Surplus/Deficit: MoF, MTFF as of November 2016*

*Fiscal Surplus/Deficit as % of GDP: MoF, MTFF as of November 2016*

*Total External Debt: CBS*

*Total External Debt as % of GDP: CBS*

**List of Acronyms**

| | |
|---|---|
| AGOA | African Growth and Opportunity Act |
| CBS | Central Bank of Swaziland |
| CMA | Common Monetary Area |
| CSO | Central Statistics Office |
| FY | Fiscal Year |
| IMF | International Monetary Fund |
| MEPD | Ministry of Economic Planning & Development |
| SACU | Southern Africa Customs Union |
| SRA | Swaziland Revenue Authority |
| SSA | Sub-Saharan Africa |
| US | United States of America |
| UK | United Kingdom |
| WEO | World Economic Outlook |