This is the first issue of the quarterly e-bulletin of the Macroeconomic Division of the Ministry of Economic Planning & Development (MEPD). The focus of this issue is on the final (fourth) quarter of 2011. The purpose of the e-bulletin is to: keep stakeholders informed of developments in the macro economy; encourage the collection and timely dissemination of quarterly data; establish relationships between the Macroeconomic Division and the owners of quarterly data in order to allow the Macro Division to collect data required for its macroeconomic model currently under development; facilitate discussion of key macroeconomic trends among policy makers; and identify issues for further research. Comments, criticisms and recommendations for improvement are most welcome. Please email: macrodivision.gos@gmail.com.

1. Monetary Developments – Inflation rates, interest rates, exchange rates and foreign reserves

Rising Inflation!

The quarterly annualised inflation (QAI) rate rose to 6.9% in the final quarter of 2011 after falling to 6.1% in the previous quarter[1] implying an average inflation rate for 2011 of 6.1% compared to 4.5% for 2010.

Figure 1 – SD QAI for All Items 2010-2011

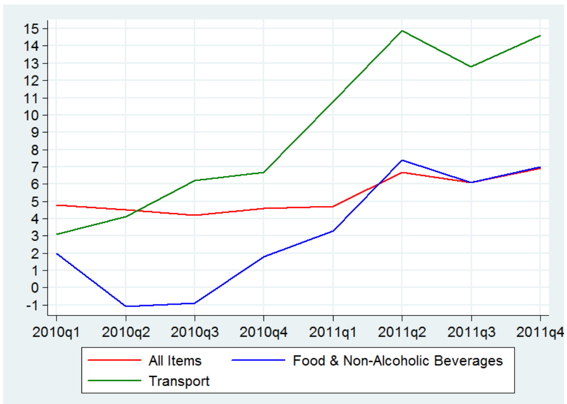
Source: *CSO*

While inflation is rising it remains below the average rate of 7.8% for the 5 years to Q4 2011.

Why is inflation rising?

At the 3 digit level[2] inflation was driven by rises in the prices of *food & non-alcoholic beverages* and *transport* which given their respective weights of 37.73% and 8.6% in the overall basket of goods are highly correlated with overall inflation[3].

Figure 2 - SD QAI for selected groups 2010-2011

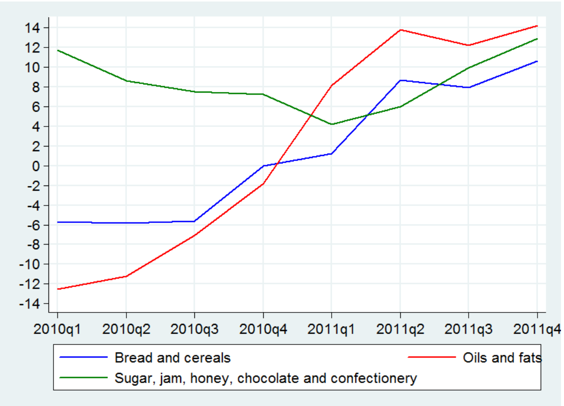


Source: *CSO*

Which food prices are rising?

Bread and cereals, oils and fats, and confectionary items[4] are all rising at rates above 10%.

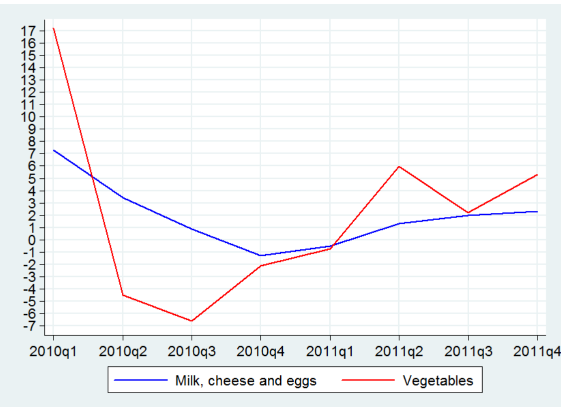
Figure 3 – High and rising Inflation



Source: *CSO*

Dairy products[5] and vegetables are rising from moderate levels of inflation.

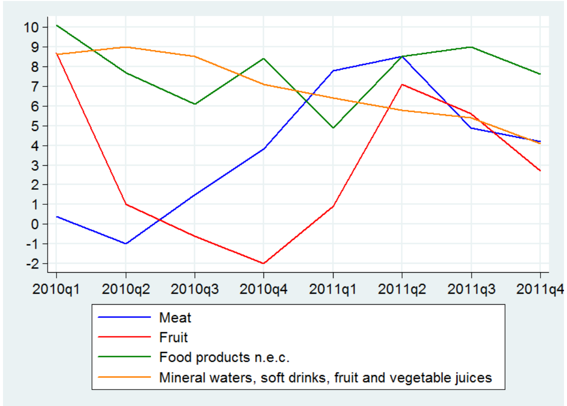
Figure 4 – Moderate and rising inflation



Source: *CSO*

Meat, fruit, food products n.e.c.[6], and non-alcoholic beverages have all declined from high to moderate inflation rates in the second half of 2011.

Figure 5 - High to moderate and falling inflation



Source: *CSO*

Meanwhile *coffee, tea and cocoa* has declined from high inflation rates while fish and seafood prices have been falling throughout the year.

Is this all bad news?

Not necessarily. The rise in prices appears to be driven by increasing commodity prices. If the prices of our export commodities are rising then this may be good news. However if our import commodity prices are rising this is most certainly bad news. Further analysis on this question is left to section 2 below.

Which transport prices are rising?

The primary driver of increasing transport prices is the price of fuel, which has risen throughout the year and again in the fourth quarter.

Figure 6 - SD QAI for Fuel 2010-2011

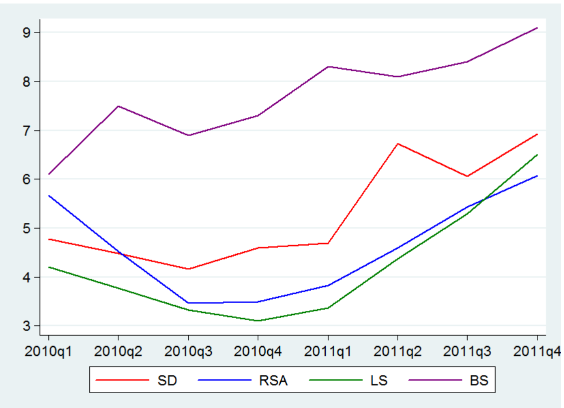
Source: *CSO*

The trend is largely attributable to rising oil prices on international markets (see section 2 on commodity prices).

Is this story any different to that in other SACU countries?

A little bit. Inflation in SD tends to move in the same direction as other SACU members but tends to be higher than other CMA members on average[7].

Figure 7 - AQI for SACU Members 2010-2011



Source: *CSO, SSA, LBS, SSA, BoB*

Inflation has also been more volatile in SD over the past 5 years compared to other SACU members[8].

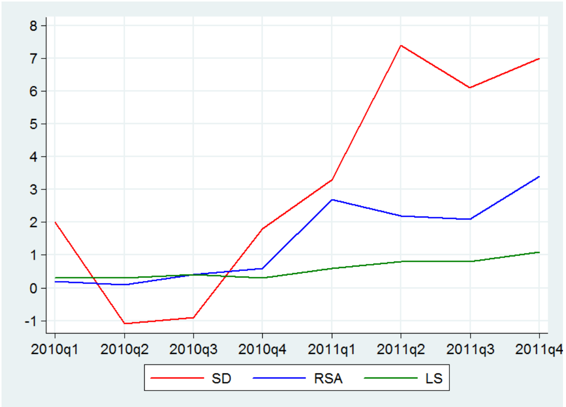
Table 1 - Average AQI for SACU members 2007 to 2011

	Mean	S.D.	Min	Max
SD	7.8	3.2	4.2	13.9
RSA	7.0	2.8	3.5	13.4
LS	6.9	2.9	3.1	11.5
BS	8.7	2.6	5.9	14.7

Source: *CSO, SSA, LBS, BoB*

The recent rise in food prices has also been experienced in the RSA though not to the same degree, while food price inflation in LS is low and stable.

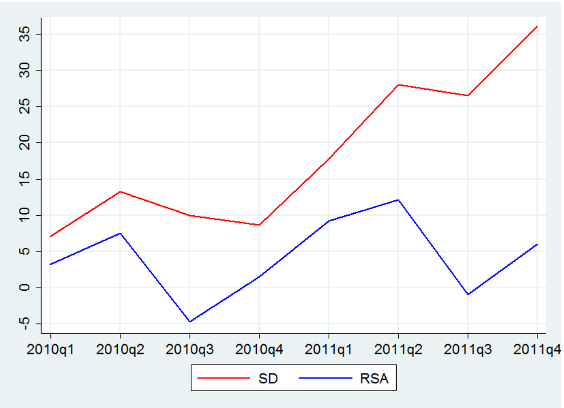
Figure 8 - QAI for Food and Non-Alcoholic Beverages



Source: *CSO, SSA, LBS*

Rising fuel prices have also been observed in the RSA but again not to the same degree. This might be explained by the fact that RSA enjoys lower prices due to market size and the fact that country has a strategic oil reserve.

Figure 9 - QAI for Fuel 2010 to 2011

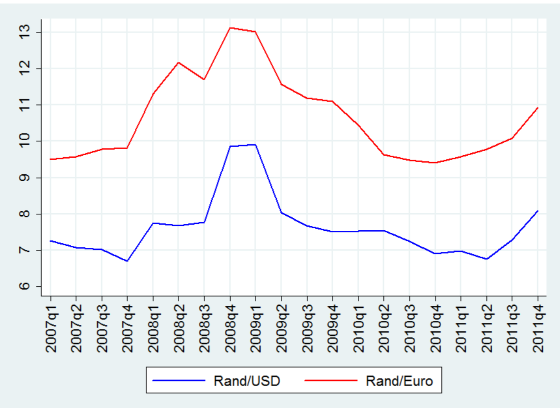


Source: *CSO, SSA*

What effect has the exchange rate had on inflation?

The exchange rate impacts inflation via the import channel. Other things equal a depreciating rand implies rising import prices while an appreciating rand implies falling import prices.

Figure 10 - Exchange Rates 2007 to 2011



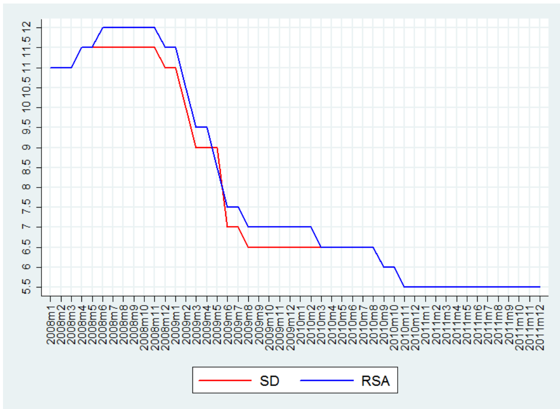
Source: *SARB, Index Mundi*

In recent periods and particularly in 2011 Q4 the rand has depreciated against both the US dollar and the Euro, which has had an inflationary impact on imports.

What about interest rates?

Interest rates affect the inflation rate via their effect on the growth of the money supply.

Figure 11 - Monthly Discount Rate 2008 to 2011



Source: *CBS, SARB*

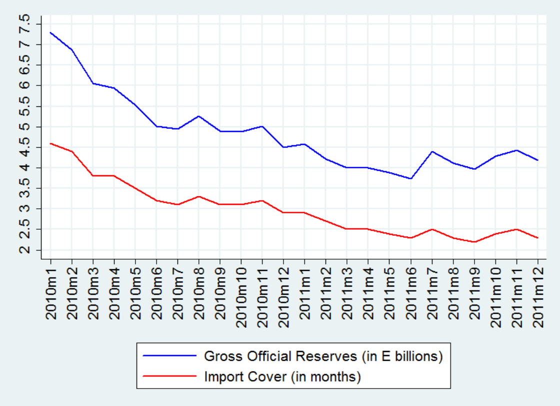
The Central Bank interest rate has stood at 5.5% since November 2010 a historic low.

Reserves

Reserves fell again in December due to a draw down by government.

Since January 2010 reserves have declined by 43% and import cover has fallen from 4.5 months to 2.5 months due to government liquidity constraints.

Figure 12 - GOR and Import Cover 2010-2011



Source: *CBS*

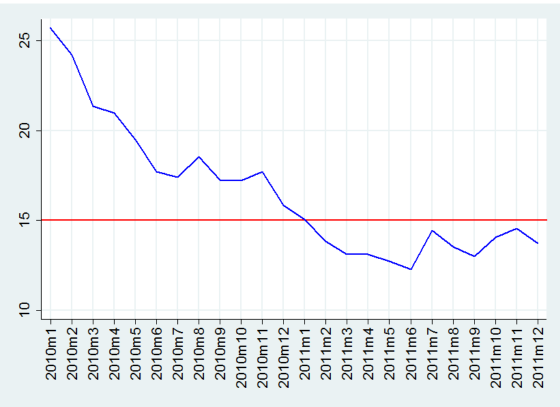
Why is this important?

The falling levels of reserves puts pressure on the sustainability of the 1:1 peg with the Rand.

However the Central Bank has direct access to Rand through SARB to ensure the credibility of the peg over the short run.

The IMF is currently proposing the implementation of a 15% of GDP target for reserves.

Figure 13 – GOR-to-GDP 2010 to 2011



Source: *CBS/MEPD*

Based on this criterion reserves are currently below target although were moving in the right direction prior to December[9].

The real challenge to the peg is likely to arise over the medium to long term if government is unable to achieve fiscal sustainability.

Summing Up….

Inflation in SD is rising faster than in other CMA countries. However the overall trend suggests that SARB monetary policy will be optimal in the short run.

Both government and the private sector will face challenges in maintaining wages at levels required to stabilize the fiscal balance and restore competitiveness.

Over the medium run rising inflation is likely to give rise to a tightening of monetary policy which may further dampen the prospects of a return to a higher level of economic growth.

The depreciation of the rand against the major world currencies is contributing to inflationary pressures. On the upside this development increases the competitiveness of SD exports in international markets.

The level of import cover provided by reserves is below target. Maintaining the 1:1 peg with the Rand requires government to achieve fiscal sustainability over the medium term.

2. Commodity Prices[10]

Commodity prices impact on the SD economy both in terms of imports and exports.

What are our exports?

Key export commodities include sugar and soft drink concentrates[11].

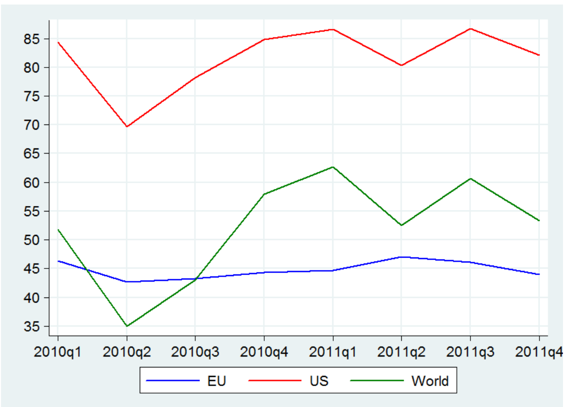
Table 2 - Exports by category as a % of total exports

	2009	2010
Sugar	17.2	15.1
Wood Pulp[12]	3.0	0.3
Coal	0.7	1.0
Citrus Fruits	1.5	0.5
Canned Fruit	1.4	1.3
Meat	0.4	0.4
Textiles	5.7	6.0
Zippers	0.8	0.9
Misc Edibles	53.6	56.5
Other	15.8	18.1

Source: *CBS Quarterly Report June 2011*

The world price of sugar fell in Q4 2011 but remains above the EU price.

Figure 14 - Sugar Prices (cents per Kg in USD) 2010 to 2011



Source: *IMF "pink sheet"*

The world sugar price impacts the price at which the SSA sells into the SACU market.

EU prices are fixed until Q3 2012. Thereafter they will be impacted by the world price.

The US price is distorted by import restrictions, tariffs and subsidies.

While higher prices benefit the sugar sector they likely negatively impact on the production costs of the soft drink concentrates sector.

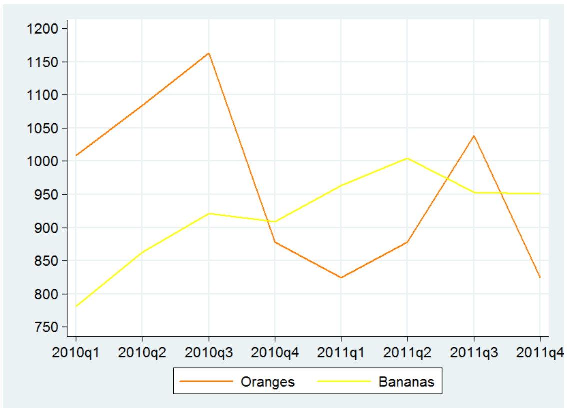
In the mining sector SD exports coal and, since mid 2011, iron ore dust.

The price of coal has been volatile over the past 2 years, and has been falling since Q2 2011 and declined sharply in Q4 2011.

For the citrus fruits sector weather conditions impacted on SD exports in 2010.

The price of oranges on world markets has been volatile in recent periods and declined sharply in the final quarter of 2011.

Figure 15- Price of Oranges ($ per Mt) 2010 to 2011



Source: *IMF "pink sheet"*

The price of bananas declined in Q3 2011 but remained relatively stable in Q4 2011.

The price of beef and chicken both rose in the final quarter of 2011.

Figure 15 - Meat prices (in cents per kg) 2010 to 2011

Source: *IMF "pink sheet"*

Chicken prices have been relatively stable over recent periods while beef prices have displayed more volatility.

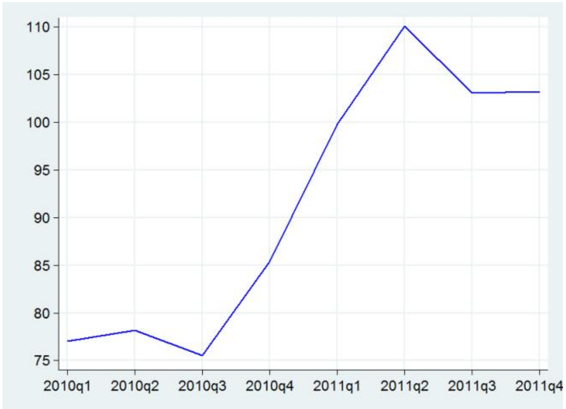
What do we import?

Key import commodities include petrol, maize, wheat, construction materials, and electricity.

Of the 8.6% weighting for transport costs in the CPI, 3% constitutes gasoline and diesel, while a further 2.2% is represented by transport services for which these are the main input cost.

As such the price of oil is a major determinant of transport price inflation.

Figure 167 - Oil Prices in USD per barrel 2010 to 2011



Source: *IMF "pink sheet"*

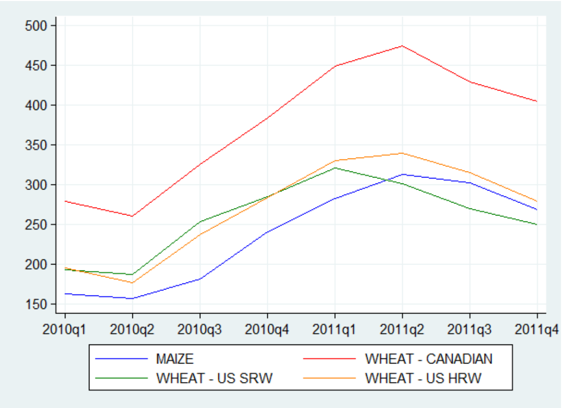
Oil prices rose to over $110 a barrel in Q2. Although prices have fallen and moderated in the final 2 quarters they remain at historically high levels.

Rising oil prices are explained by the increase in global demand following the economic crisis of 2008 to 2009, as well as supply constraints arising from civil unrest in oil producing countries in Northern Africa and the Middle East.

Much of the variation in fuel price inflation in SD appears to be explained by changes in oil prices.

SD imports some of its maize and 100% of its wheat requirement.

Figure 178 - Grains in USD per Mt 2010 to 2011



Source: *IMF "pink sheet"*

Grain commodity prices tend to move in line with one another and rose substantially over the period Q2 2010 to Q2 2011 but have all declined over the final two quarters of 2011.

This is at odds with the rise in prices observed for *bread and cereals* observed in the final two quarters of 2011. However it is likely that the commodity price observed on international markets has a lagged effect on consumer prices[13]. In this case we would expect to see a decline in the price of bread and cereals over the coming period.

SD imports approximately 85% of its electricity requirement primarily from Eskom, SA, which generates 95% of its electricity mainly from coal fired plants[14].

It stands to reason therefore that the price of coal will have a large bearing on electricity prices paid in SD. As such the recent decline in the price of coal may indeed be good news for the economy overall.

However this picture does not fit with the evidence. SEC is currently requesting a 25% increase in prices from the regulator, since they are in turn being squeezed by their suppliers.

Summing up….

Rising food and energy prices are contributing to higher inflation via the import channel.

While our export commodity prices in 2011 were on average higher than in 2010, there were notable declines in the final quarter of 2011.

3. Employment & Investment

There were company closures in the period to Q4 2011 resulting in further job losses.

Table 3 - Company closures 2011

Name	Sector	Job Losses
Peak Timbers	Forestry	340
Tuntex	Textile	480
Carapparel	Textile	800

Source: *SIPA*

The closures resulted in the loss of 1,640 jobs.

What does this mean in the context of overall employment?

The most recent LFS was conducted in 2010. The preliminary results show an unemployment rate of 40.6%[15].

Holding everything else constant (i.e. ignoring employment developments we are not aware of) the loss of 1,640 implies an increase in the unemployment rate to 41.1%

Have there been any positive developments?

Yes, SIPA reports a number of potential expansions for 2011/12

Table 4 - Potential Expansions 2011/12

Name	Investment (E millions)
Casquip Starch	185.0
RSSC Cogeneration Plant	105.0
Usuthu Forests Products(Pty) Ltd	102.0
Kraft Foods	unknown

Source: *SIPA*

Therefore there is the potential for these expansions to create jobs to offset those lost.

What do these expansions mean in the context of overall investment in SD?

Total private sector investment in 2009 (the most recent year for which data is available) was E1,303.4 million.

The 3 expansions noted in Table 4 represent 30% of this amount.

What about public sector investment?

The capital budget was reduced by approximately 20%.

Therefore total investment which has been falling in real terms certainly fell further in 2011

Summing Up….

With the limited data available it appears that the unemployment situation is worsening.

This underlines the need to have regular data on the employment situation in the economy allowing policy makers to be pro-active rather than reactive.

Similarly, there is also a limitation on investment data availability. Nonetheless, the meager data suggests that 2011 has not been a good year in terms of investment.

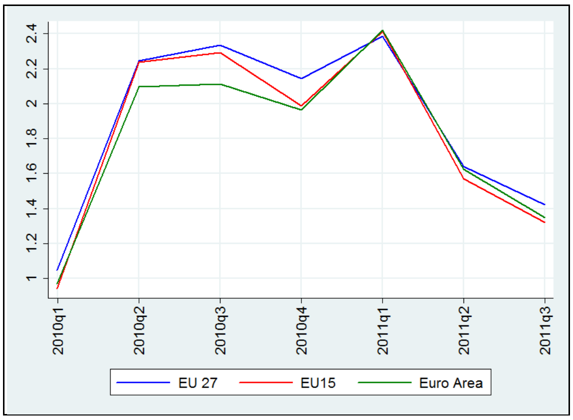
4. International Developments

The global recovery is developing unevenly between and within regions.

What is happening in Europe?

The recovery in Europe has stalled since Q2 and the growth rate fell further in Q3.

Figure 18 - Growth in Europe Q1 2010 to Q3 2011

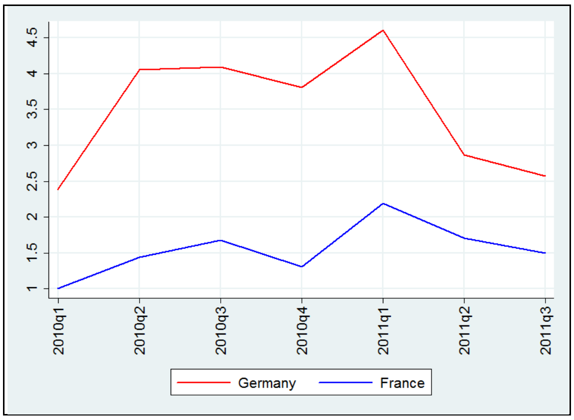


Source: *Eurostat*

Contagion from the sovereign debt crises in the "periphery" has spread to the "core"[16].

Growth rates in France and Germany have retreated towards 2010 Q1 levels.

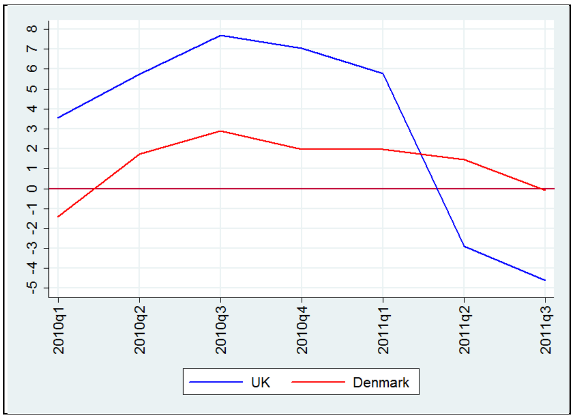
Figure 190 – Growth in France and Germany 2010 Q1 to 2011 Q3



Source: *Eurostat*

Growth rates in non euro zone members also appear to be affected by the crisis.

Figure 20 – Growth in UK & Denmark 2010 Q1 to 2011 Q3

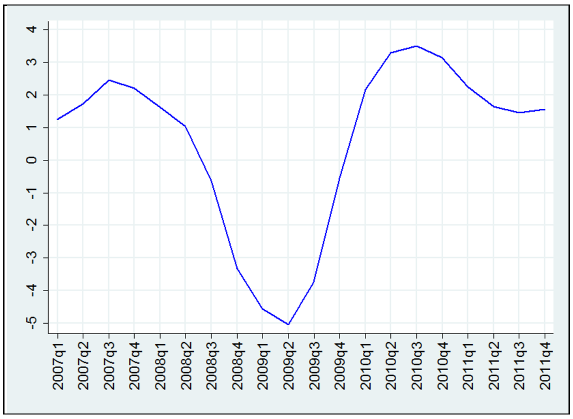


Source: *Eurostat*

Has the story been any different in the US?

Yes. Although the turnaround has not been dramatic the growth rate rose marginally in Q4 2011.

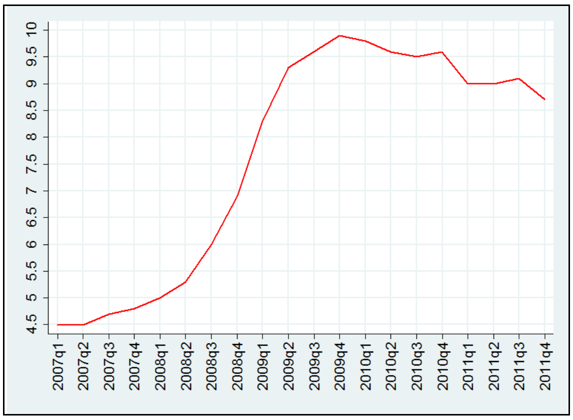
Figure 21– Growth in the US 2007 Q1 to 2011 Q4



Source: *FRED*

Furthermore unemployment levels appear to be falling in the US.

Figure 22 - US Quarterly Unemployment 2007 Q1 to 2011 Q4



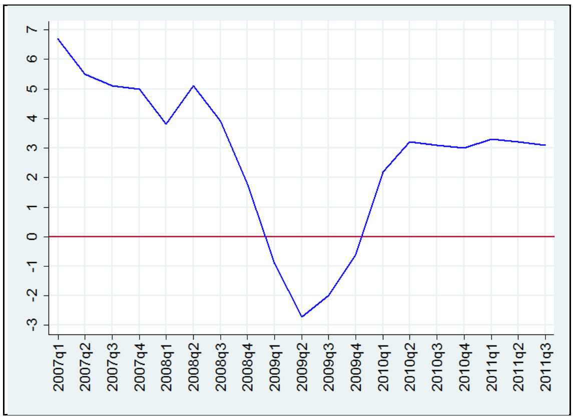
Source: *US Bureau of Labor Statistics*

This suggests that the counter cyclical monetary and fiscal policies of the Federal Government are having a positive effect, whereas the commitment to austerity in the euro zone is floundering.

What about closer to home?

Growth in South Africa has not returned to pre-crisis levels.

Figure 24 - Growth in RSA Q1 2007 to Q4 2011



Source*: SSA*

In addition to weak global demand, industrial action in the manufacturing and mining sectors have contributed to the slower pace of recovery.

What is the outlook for 2012?

Based on recent trends and particularly the ongoing issues in the euro zone, the IMF has revised its outlook for 2012 and beyond[17].

Table 5 - IMF Forecasts for selected regions and countries

	Actual		Forecasts		Revisions[18]	
	2010	2011	2012	2013	2012	2013
US	3.0	1.8	1.8	2.2	0.0	-0.3
EA	1.9	1.6	-0.5	0.8	-1.6	-0.7
SA	2.9	3.1	2.5	3.4	-1.1	-0.6
SSA	5.3	4.9	5.5	5.3	-0.3	-0.2

Source: *IMF World Economic Outlook*

The major revisions are for 2012 growth in the Euro Area (EA), and South Africa (SA).

What are the implications for Swaziland?

As a small open economy the performance of Swaziland's export sectors is dependent on international demand.

The developed nations are the primary destination of SD exports and primary source of ODA and FDI.

Therefore the continuing malaise in the developed nations poses a significant threat to the economic growth prospects of SD.

What about the emerging economies?

The recovery in the emerging economies has been stronger particularly in China and India.

Table 6 - IMF Forecasts for selected emerging economies

	Actual		Forecast	
	2010	2011	2012	2013
Brazil	7.5	2.9	3.0	4.0
Russia	4.0	4.1	3.3	3.5
India	9.9	7.4	7.0	7.3
China	10.4	9.2	8.2	8.8

Source: *IMF World Economic Outlook January 2012*

Should Swaziland diversify into these markets?

This is a question many have been asking recently. In theory this would mitigate SD's exposure to external shocks originating in the developed nations.

However in practice SD competes with the emerging and developing nations both in agriculture and manufacturing[19]. Furthermore, SD benefits from preferential trade agreements with the developed nations.

Nevertheless, given the size of the emerging markets SD should be looking to find niches in these markets as part of the longer term agenda.

Summing Up….

Due to events unfolding in the Euro Area, the global economic recovery remains uncertain. The prospect of an economic shock similar to the events of 2007/8 remains a major concern.

Uncertainty remains among consumers and investors as to politicians' ability to bring the sovereign debt crisis to a conclusion.

This uncertainty is likely to affect the prospects of the SD export sector in periods ahead.

Economic Indicators

Real GDP	E13.4 billion (2011 Est.)
Economic growth	1.3% (2011 Est.)
GDP per capita	E26, 382 (2010 Est.)
Manufacturing/GDP	33.4% (2011 Est.)
Agriculture/GDP	12.4% (2011 Est.)
Services/GDP	51.5% (2011 Est.)
Total Revenue & Grants	E7.1 billion (2011/12 Est.)
Total Expenditure	E10.2 billion (2011/12 Est.)
Of which capital	E1.8 billion (2011/12 Est.)
Surplus or Deficit/GDP	-9.5% (2011/12 Est.)
Debt/GDP ratio	16.9% (2011 Est.)
Inflation	6.1 (2011)
Interest rate	5.5% (DEC 2011)
Exchange rate E/US	7.1 (Q3, 2011)
Gross reserves in months of imports	2.3 months (DEC 2011)
Trade balance	-E908.7 million (Q2, 2011)
Exports	E4.13 billion (Q2, 2011)
Imports	-E3.95 billion (Q2, 2011)
Current A/C balance	-E707.2 million (Q2, 2011)
External balance	-E285.8 million (Q2, 2011)
Unemployment rate	28.5% (2009/10)
Population	1.07 million (2011 proj.)

Sources: *Budget Speech 2012/13 & Government Estimates of Expenditure for fiscal indicators, Central Bank Quarterly Report September 2011 for trade data, MEPD for GDP Figures and population projections, Ministry of Labour & Social Security for the Labour Force Survey*

Acronyms

BoB	Bank of Botswana
BS	Botswana
CBS	Central Bank of Swaziland
CSO	Central Statistics Office
FDI	Foreign Direct Investment
FRED	Federal Reserve Economic Data
IMF	International Monetary Fund
Kg	Kilogram
LBS	Lesotho Bureau of Statistics
LFS	Labour Force Survey
LS	Lesotho
MEPD	Ministry of Economic Planning & Development
Mt	Metric ton
ODA	Official Development Assistance
RSA	Republic of South Africa
SARB	South Africa Reserve Bank
SD	Swaziland
SEC	Swaziland Electricity Company
SIPA	Swaziland Investment Promotion Authority
SSA	Statistics South Africa

Endnotes

[1] Quarterly annualized inflation refers to the increase in prices from the quarter the previous year and is calculated as the simple average of inflation for the three relevant months within the quarter.
[2] The CSO has seven levels of disaggregation with the 7 digit level being the most disaggregated.
[3] For the 5 year period to 2011 the correlation coefficient for food and non-alcoholic beverages is 0.88 and 0.83 for transport
[4] Confectionary items include sugar, jam, honey, chocolate and confectionery
[5] Dairy products include milk, cheese, and eggs
[6] n.e.c. is a statistical acronym denoting "not elsewhere classified"
[7] At the time of writing data on Namibia could not be obtained due to a technical problem on the Bank of Namibia website. Future issues of the bulletin will include data on Namibia.
[8] Volatility is measured by SD (Standard Deviation)
[9] Based on Nominal GDP levels of E28.4 and E30.5 billion for 2010 and 2011 respectively as per most MEPD / CBS forecasts of real growth and CSO actual for inflation.
[10] Note that all commodity prices quoted from the IMF "pink sheet" are in US dollars or cents
[11] Soft drink concentrates are estimated to comprise over 80% of Miscellaneous Edibles
[12] The closure of SAPPI has led to the ending of wood pulp exports.
[13] It may be the case that these commodities are not good proxies for the varieties consumed in SD.
[14] Coal fired plants make up 92% of Eskom's generation portfolio.
[15] This is the relaxed definition of unemployment. The strict definition which only includes those actively seeking employment puts the unemployment figure at 28.5%.
[16] The "core" generally refers to the industrial heartland of Europe based in France, Germany, the Benelux and Northern Italy, while the periphery refers to countries including Portugal, Italy, Ireland, Greece and Spain.
[17] See IMF (2012), World Economic Outlook Update, 24/01/2012
[18] The revisions columns are the amount by which growth has been revised from previous forecasts e.g. previously the IMF had forecast growth in the Euro Area for 2012 at 1.1 percent.
[19] e.g. Brazil and India are major exporters of sugar