This is the second issue of the quarterly e-bulletin of the MEPD Macroeconomic Division. This issue focuses on international, monetary, trade, labour market and public finance developments for the first quarter of 2012[1].

Disclaimer: Any views expressed in this publication are those of the authors and should not be interpreted as those of MEPD or the Government. Any errors are also our own.

Comments, criticisms and recommendations for improvement are most welcome. Please email: macrodivision.gos@gmail.com.

Macroeconomic Indicators

This section provides an overview of the SD economy in the form of annual economic indicators with the purpose of providing context for what follows.

Table 1 - Selected Macroeconomic Indicators

	2009	2010	2011
Growth	1.2	1.9	1.3(e)
Inflation	7.5	4.5	6.1
Unemployment	n/a	29	n/a
Deficit-to-GDP	-3.6	-9.6	n/a

Source: CSO, LFS 2010, (e) denotes estimate, n/a denotes not available

1. International Developments

The outlook has improved slightly on previous forecasts….

Table 2 - Global Annual Growth Forecasts

	Actual		Projections	
	2010	2011	2012	2013
World	5.3	3.9	3.5	4.1
Advanced	3.2	1.6	1.4	2.0
E & D	7.5	6.2	5.7	6.0

Source: IMF WEO April 2012

…..however the slowdown observed in 2011 is still set to continue into 2012.

The advanced economies and the Euro Area in particular, which is expected to contract in 2012, continue to be the primary source of the drag on global growth.

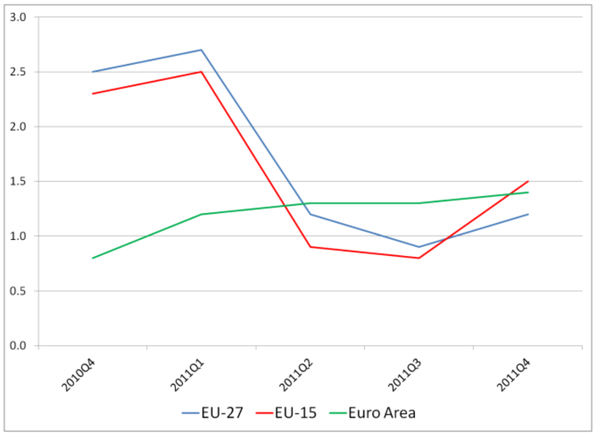
Table 3 - Advanced Economies Annual Growth Forecasts

	Actual		Projections	
	2010	2011	2012	2013
US	3.0	1.7	2.1	2.4
Euro	1.9	1.4	-0.3	0.9
UK	2.1	0.7	0.8	2.0

Source: IMF WEO April 2012

Growth in Europe has failed to recover…

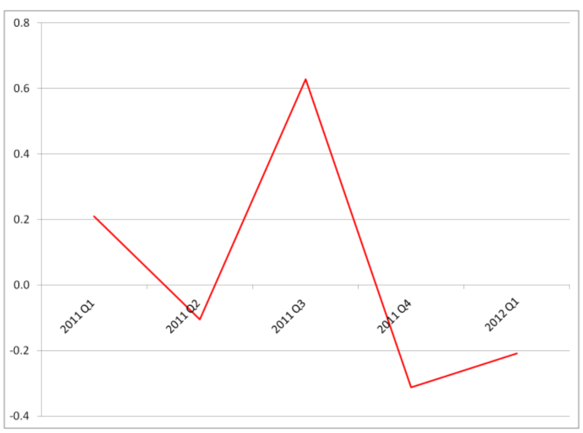
Figure 1 - EU QAG 2010 Q4 to 2011 Q4



Source: Eurostat

….while the outlook for the UK is similarly poor with the most recent data showing that the UK entered a technical recession[2] in Q1 2012.

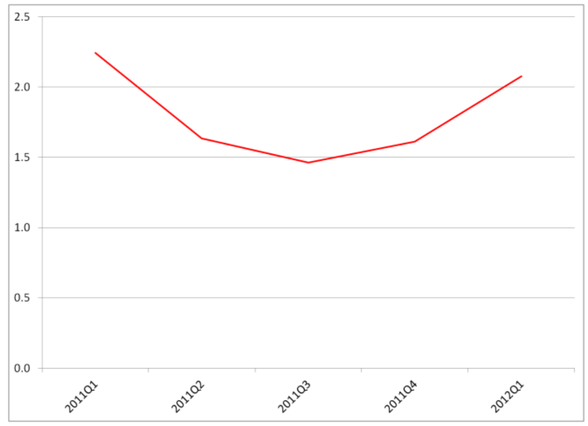
Figure 2 - UK QAG 2011 Q1 to 2012 Q2



Source: ONS

However the US recovery appears to be gathering momentum….

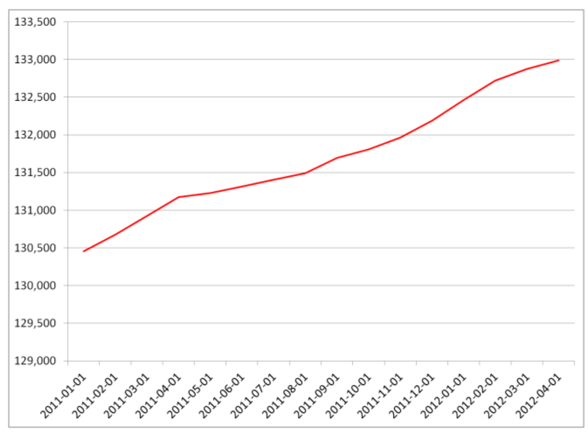
Figure 3 - US QAG 2011 Q1 to 2012 Q2



Source: FRED

…with annual growth of 2.1% in Q1 2012….

Figure 4 - US Total Monthly Employment 2011 to 2012 Q1



Source: FRED

…and a 1.4% quarterly annual increase in employment.

Closer to home growth in SSA is set to continue at similar levels.

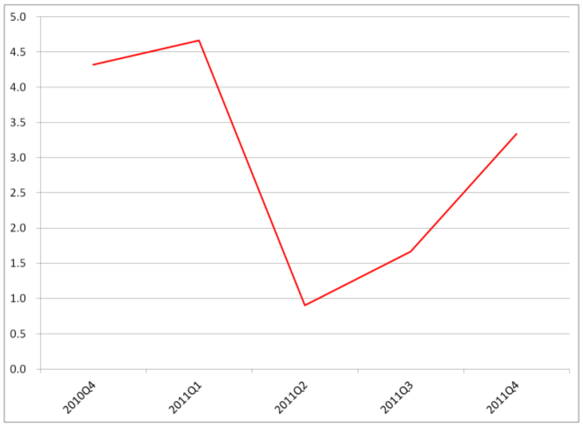
Table 4 – SSA Annual Growth Forecasts

	Actual		Projections	
	2010	2011	2012	2013
SSA	5.3	5.1	5.4	5.3
RSA	2.9	3.1	2.7	3.4

Source: IMF WEO April 2012

However RSA growth is forecast to fall in 2012….

Figure 5 - RSA QAG 2010 Q4 to 2011 Q4



Source: SSA

…and while a stronger performance is forecast for 2013 growth remains well below pre-crisis levels.

What does all this mean for SD?

The current global economic outlook is not favorable for SD.

RSA is the primary destination for SD exports. Recovery in SD is therefore dependent on recovery in RSA which remains sluggish.

Similarly the EU is also a major export market.

The US recovery should provide indirect benefits via its impact on world demand in general. However outside of the textile sector (see section 3 below) it remains a small market for SD exports.

Summing up on international developments…

Demand is likely to remain subdued in our key export markets.

This heightens the need to increase competitiveness and diversify into new markets where the opportunities exist.

2. Monetary Developments

Inflation still rising….

Inflation rose for the second consecutive quarter in Q1 2011 to 9.2%.

Figure 6 - CMA QAI 2011 Q1 to 2012 Q1

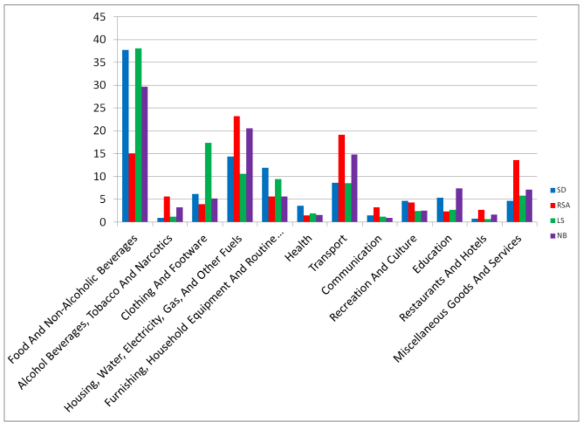
Source: CSO, SSA, LBS, BoN

This saw the inflation gap between SD and the other CMA members widen.

Why is inflation higher in Swaziland?

One potential reason is due to the weighting system used which reflects national consumer preferences.

Figure 7 - CMA inflation weights



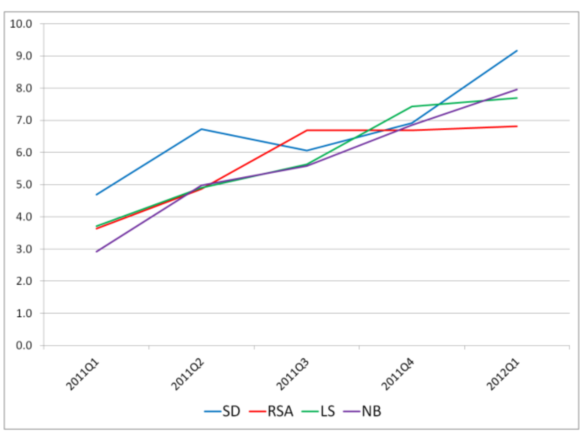
Source: CSO, SSA, LBS, BoN

As can be seen above there is some variation in the weightings used across CMA members.

How much of the inflation gap is explained by the weights?

To investigate this we can convert all the other members CPI weighting system to that used by SD.

Figure 8 - CMA Adjusted QAI



Source: CSO, SSA, LBS, BoN

This results in the inflation gap between SD and the other CMA members contracting.

However, even accounting for the difference arising due to different weights, there remains a significant inflation differential between SD and the other CMA members.

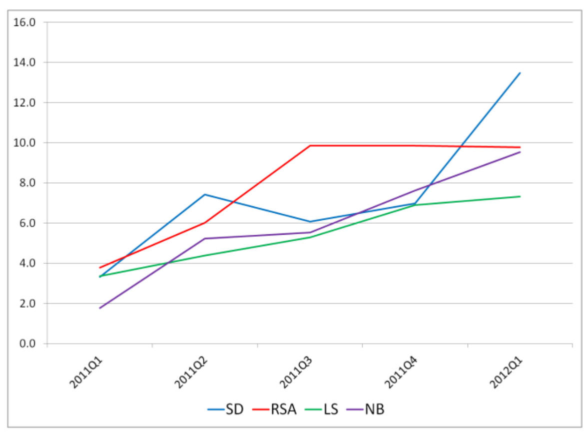
Potential explanations for the remaining differential include;

- Transport costs including border costs
- Lack of competition in the market
- Inelastic demand for necessary items

What is driving the increase in prices?

The main driver of inflation has been rising food prices which constitute by far the largest component of the CPI (37.73%).

Figure 9 - CMA Food Price Inflation

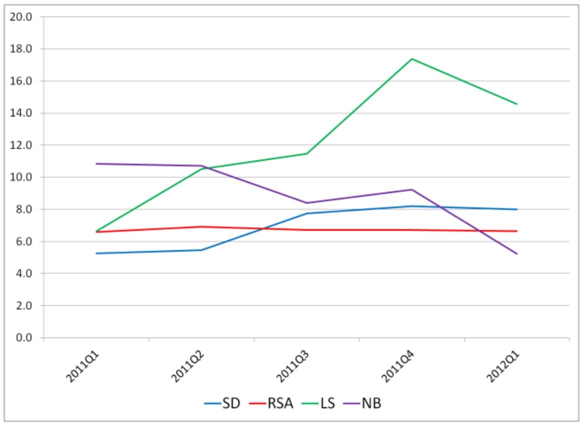


Source: CSO, SSA, LBS, BoN

Food price inflation rose by 2.2% on a quarterly basis and by 4.5% on an annual basis to 13.5%.

The next largest component of consumer spending in SD is on housing & utilities.

Figure 10 - CMA Housing & Utilities Price Inflation

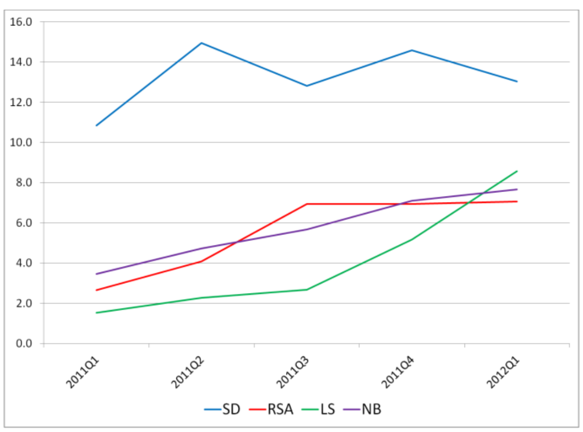


Source: CSO, SSA, LBS, BoN

Although the inflation rate remains high, it fell slightly in Q1, but is 2.7% higher than at the same time last year.

Transport price inflation, the fourth largest component of consumer spending, also remains high despite falling in Q1.

Figure 11 - CMA Transport Price Inflation



Although transport inflation fell by 1.5% on a quarterly basis to 13%, it remains 2.2% above the rate observed this time last year.

Finally although there has been a 3.3% fall in education inflation, it still remains high at 8.8%, while health inflation has risen to 6.6% on a quarterly annualized basis.

As such rising inflation is being driven primarily by very high food and transport price inflation.

What is driving some of these price increases is highlighted below in our discussion of exchange rates and commodity prices.

Will VAT increase prices further?

VAT came into force on the 1st of April, replacing the Sales Tax.

VAT is charged at 14%, the same rate as the Sales Tax it replaced.

For most items, VAT is simply replacing the Sales Tax, and therefore there is no inflationary effect.

Some items, such as staple foods and fuel which were exempt from Sales Tax, remain exempt from VAT and therefore there is no inflationary effect.

However, some goods and services which were exempt under sales tax are now subject to VAT. Therefore there will be a once off inflationary effect up to a maximum of 14% in the case of these items only. Examples include security services and maintenance services.

Therefore, since the bulk of the items which make up the CPI are either exempt (i.e. food and fuel) or were previously subject to the Sales Tax, we should not expect a significant increase in inflation as a result of the introduction of VAT.

Summing up on inflation…..

Inflation is still rising, and is higher than in other CMA members.

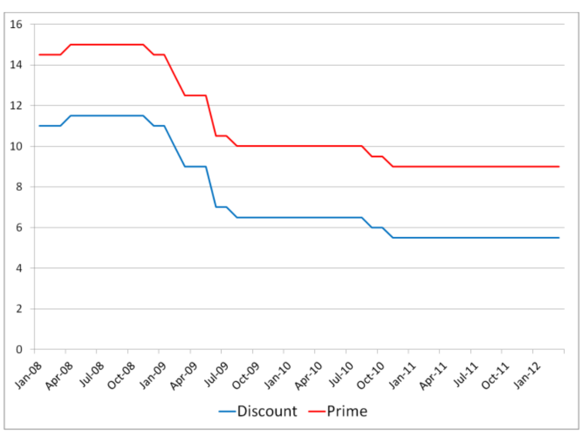
The difference in CPI weightings explains some but not all of the inflation differential between CMA countries.

We do not expect the introduction of VAT to have a significant effect on the overall CPI.

Historically low interest rates….

Despite rising inflation interest rates remain at historically low levels.

Figure 12 - Interest rates 2008 to 2012 Q1



Source: CBS

As RSA moved into recession in 2009, interest rates were substantially reduced.

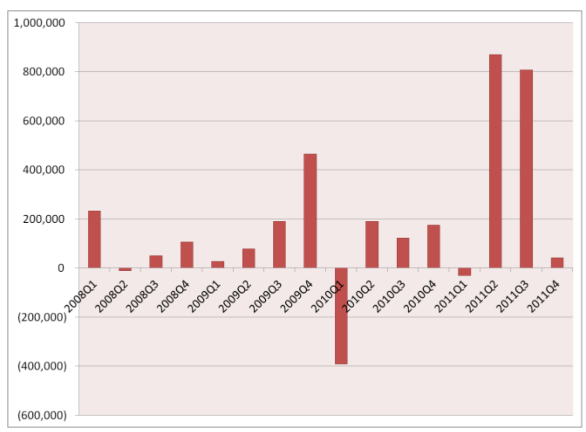
With the RSA recovery remaining sluggish, interest rates remain low despite accelerating inflation.

What has been the effect of the looser monetary policy?

We might expect looser monetary policy (i.e. lower interest rates) to stimulate economic activity as borrowing becomes cheaper and saving less attractive.

There has been little evidence of increased lending activity until recently.

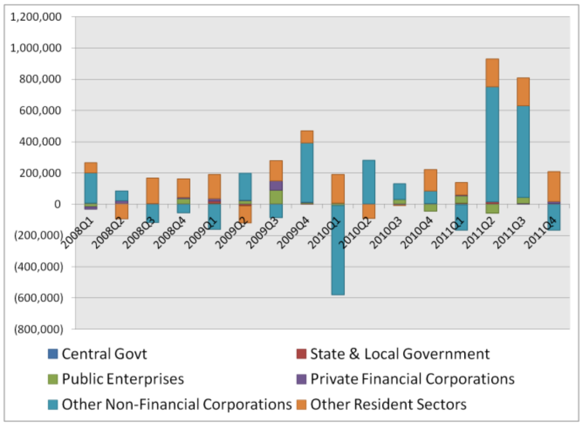
Figure 13 - Advances & Loans by SD commercial banks



Source: CBS

The direction of the recent upturn in lending looks promising, going towards the non-financial (real sector) and other resident (households).

Figure 14 - Advances & Loans by sector (E '000's)

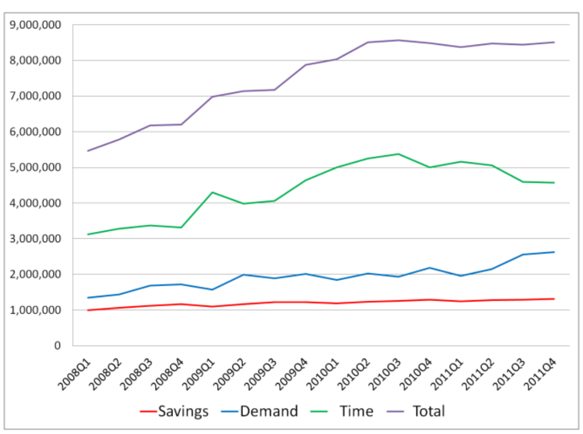


Source: CBS

However given what we know about the worsening of the government arrears situation over this period, the lending is likely to be related to short term working capital requirements rather than long term investment.

On the saving side the trend has remained upward or constant despite the fall in interest rates.

Figure 15 - Deposits by type 2008 to 2011 (E '000's)



Source: CBS

So despite the accommodative environment the looser monetary policy does not appear to be having the desired effect.

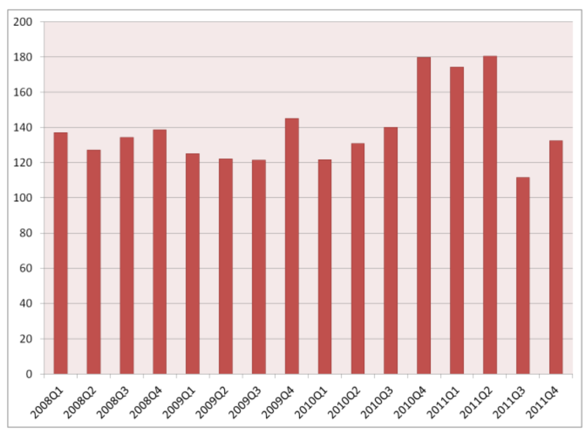
Could banks be lending more?

In principle, yes.

The CBS like all central banks requires the commercial banks to hold a fixed percentage of their liabilities as liquid (safe) assets.

Loans are long term and illiquid and therefore more risky.

Figure 16 - Ratio of Liquidity to Required Liquidity



Source: CBS

What we have seen however are banks holding in excess of the CBS liquidity requirement, although the situation has returned to slightly less but still significantly prudent levels over the last two quarters.

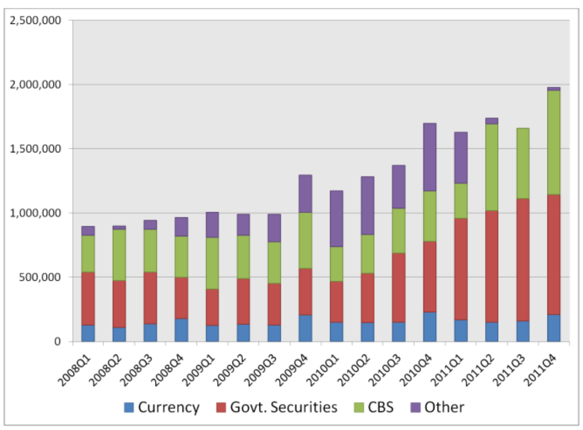
Why aren't they?

There are many potential reasons for this, but in general it's likely that banks just don't see good lending opportunities presently.

However there are also specific reasons why banks are not lending more.

In particular governments funding requirements may be crowding out lending to the private sector.

Figure 17 - Banking Sector Liquid Assets by type (E '000's)



Source: CBS

Lending institutions have been increasing their holdings of government securities in recent periods.

The high interest rates offered on these securities will generally make lending to the private sector less attractive.

Summing up on interest rates….

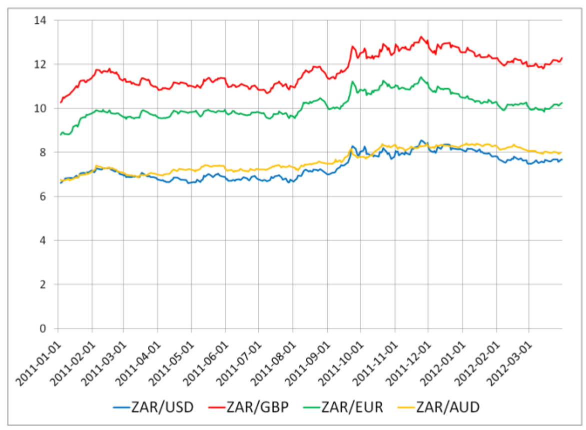
Despite historically low interest rates there is only weak evidence of increased lending activity.

It is likely that government funding requirements are dampening additional lending to the private sector.

Exchange rate appreciation….

Q1 2012 saw the Rand (and therefore the Lilangeni) appreciate against the currencies of our developed country trading partners.

Figure 18 - Selected daily exchange rates 2011 to 2012 Q1



Source: SARB

However this appreciation needs to be viewed in the context of the large depreciations observed in the final two quarters of 2011.

Table 5 - Selected Quarterly Exchange Rates

	ZAR/USD	ZAR/GBP	ZAR/EUR	ZAR/AUD
2011Q2	6.80	11.08	9.78	7.22
change	-2.87	-1.21	2.22	2.62
2011Q3	7.14	11.48	10.08	7.50
change	5.03	3.65	3.10	3.88
2011Q4	8.09	12.73	10.92	8.20
change	13.39	10.85	8.33	9.30
2012Q1	7.76	12.18	10.17	8.19
change	-4.18	-4.26	-6.89	-0.12

Source: SARB

Furthermore despite the recent strengthening of the Rand, it remains weaker than at this time last year.

This makes imports from outside the CMA more expensive and is contributing to rising inflation within the CMA.

We would therefore expect the recent strengthening of the rand in Q1 2012 to exert downward pressure on inflation within the CMA and by extension in SD.

On the positive side….

….the weaker rand makes SD exports more competitive abroad.

The recent appreciation erodes some of this competitiveness.

The most significant appreciation has been against the Euro, the future of which remains in doubt.

A further strengthening of the Rand against the Euro would see a further erosion of competitiveness of exports going in that direction i.e. Sugar.

Summing up on exchange rates….

The Rand remains weaker than at this time last year.

While making exports more competitive this is also a contributing factor to the rising inflation observed over the last number of quarters.

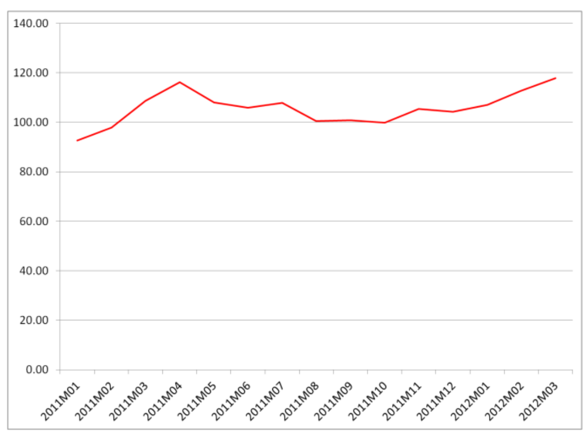
The recent strengthening of the Rand should place downward pressure on inflation in future periods.

However, further strengthening of the Rand also comes at the cost of declining competitiveness.

3. Trade Developments

Oil prices rose sharply once again in Q1 2012…

Figure 19 - Monthly Oil Prices ($ per barrel) 2011 to 2012 Q1



Source: World Bank "Pink Sheet"

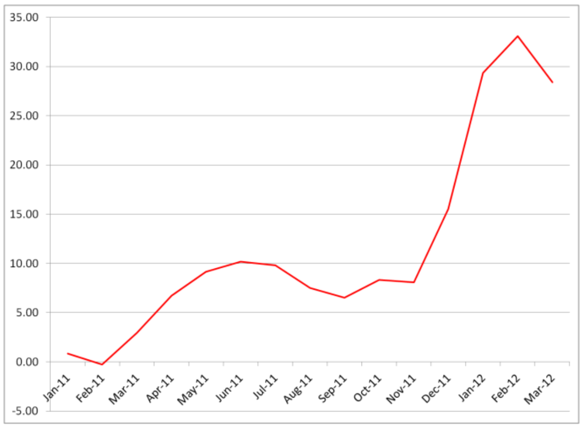
…to levels last seen during Q1 2011, a time when there was much geopolitical tension in oil producing countries.

How does this impact SD?

Mainly through rising transport and energy costs which we noted are high and contributing significantly to inflation in section 2 above.

Food prices are also contributing significantly to inflation, particularly bread and cereals which experienced sharp price rises in Q1 2012.

Figure 20 - QMI Bread & Cereals 2011 to 2012 Q1



Source: CSO

Some of this inflation is likely to be as a result of rising transport prices of imports but is also due to price increases in the underlying food commodities.

Figure 21 – Daily Cereal Spot Prices 2011 to 2012 Q1

Source: JSE

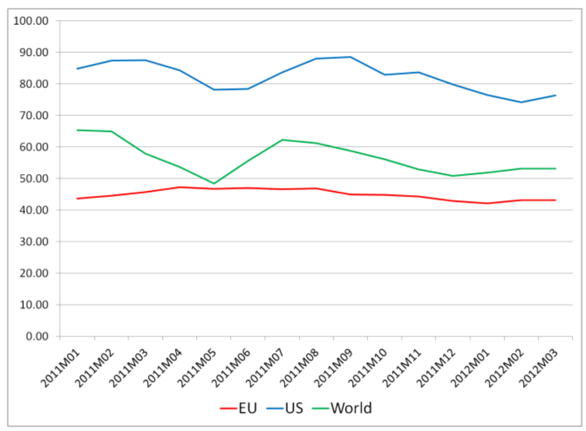
The final quarter of 2011 saw a significant rise in the spot price of maize. While there has been a decline since there has also been considerable volatility.

The declining spot price level should lead to lower food price inflation going forward.

What about the prices of our export commodities?

Both the world and EU sugar price trended up slightly over the last quarter….

Figure 22 - Sugar Prices 2011 to 2012 Q1



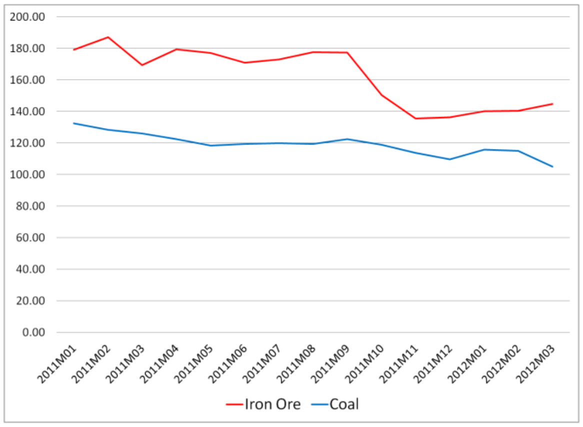
Source: World Bank "Pink Sheet"

….while the US price trended downwards albeit from a much higher level.

There currently appears to be a large amount of uncertainty as to the future direction of sugar prices, stemming from uncertainty over the size of the 2012 Brazilian harvest.

In the mining sector the price of iron ore[3] recovered following the previous quarters declined but remains significantly below levels observed this time last year ….

Figure 23 - Mining Commodity Prices 2011 to 2012 Q1



Source: World Bank "Pink Sheet"

…while the price of coal[4] continued its downward trend.

What about manufactured goods?

Recent trade data shows that 2011 was a particularly bad year for textile and apparel exports to the US under AGOA.

Figure 24 - Textile & Apparel Exports to US under AGOA

	2009	2010	2011
$ millions	94.426	93.528	76.907
% of GDP	3.0	2.4	1.9

Source: www.agoa.info

Total textile and apparel exports to the US fell by approximately 18% in 2011.

Conversely 2011 was a much better year for the sugar industry….

Figure 25 - Cane & Sugar production 2009 to 2011

Production	2009	2010	2011
Cane	-0.1	-0.9	+12.2
Sugar	-3.3	-3.9	+11.1

Source: Swaziland Sugar Association

…with a 12.2% increase in cane production leading to an 11.1% increase in sugar production according to the latest available data.

Summing up on commodity price and trade developments….

High oil and food commodity prices continue to exert inflationary pressures.

In the mining sector key exports prices have fallen from those observed last year.

In manufacturing the latest available data shows a somewhat mixed performance.

4. Labour Market Developments

Earlier this month the final results of the 2010 Labour Force Survey were released….

Figure 26 - Employment Statistics from LFS 2007 & 2010

	2007	2010	%Δ
Pop. >15	599,528	578,569	-3.5
Employed	222,771	194,426	-12.7
E-to-P Ratio	37.2	33.6	-3.6

Source: Ministry of Labour & Social Protection

...which clearly show the severe impact of the economic malaise on employment over the 3 years to 2010.

The 3.6% decline in the employment-to-population ratio, while terrible, paints a better picture than is actually the case, given that the working age population (i.e. the denominator) has declined by 3.5% over the period.

The real economic and human damage can be seen in the 12.7 decline in employment where 28,345 jobs were lost over the 3 year period.

This equates to 9,448 job losses per annum and 787 job losses per month over the period.

Given the labour intensive nature of the textile sector and the downturn in this sector discussed in the previous section, it is likely that quite a number of the job losses were in this sector.

Given the further jobs losses reported for 2011[5] there is little reason to suspect that there has been a significant reversal in the trend as of yet.

Summing up on the labour market…..

Employment levels have seen a drastic fall in the 3 years to 2010.

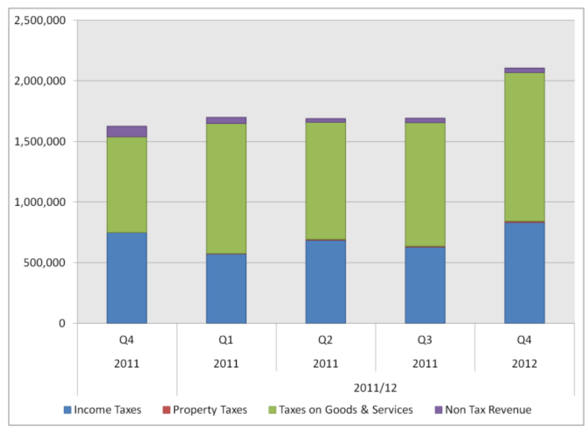
There is little evidence to suggest that there has been a significant reversal in the downward employment trend, since the LFS was carried out in 2010.

5. Public Finances[6]

The public finances continue to be a major source of concern…..

However revenue was up in the final quarter of the fiscal year, compared with the same period for 2010/11.

Figure 27 - Quarterly Total Revenue (E '000's)



Source: MoF

The increase was due to a;

- 11.3% increase in income taxes
- 55.6% increase in taxes on goods & services

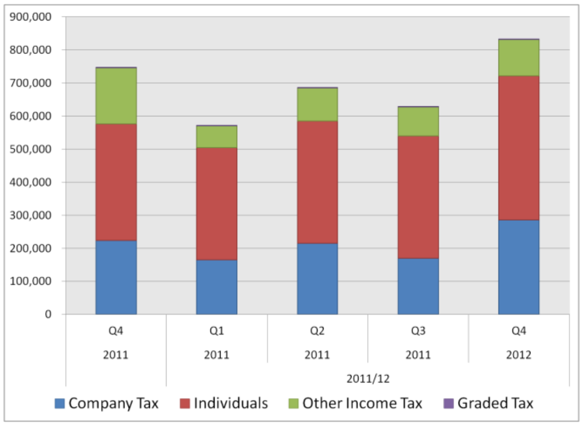
The Q4 annualized 11.3% rise was not uniform across all categories of income taxes.

Table 6 – Annualized quarterly change in Income Taxes

	2011/12			
	Q1	Q2	Q3	Q4
Company	-11.8	-4.6	+34.3	+28.3
Individual	+1.5	+1.7	+-4.2	+23.1
Other	+50.0	+53.5	+205.4	-35.4
Graded	-34.5	-6.7	-4.1	-1.1

Source: MoF

Figure 28 – Quarterly Income Tax Revenue (E '000's)



Q4 company tax was 28.3% higher than for the previous year but 2.9% lower for the fiscal year overall.

Q4 individuals tax was 23.1% higher than for the previous year but only 0.4% higher for the fiscal year overall

The annual growth rates of these revenues suggest that the private sector remained subdued throughout the most recent fiscal year.

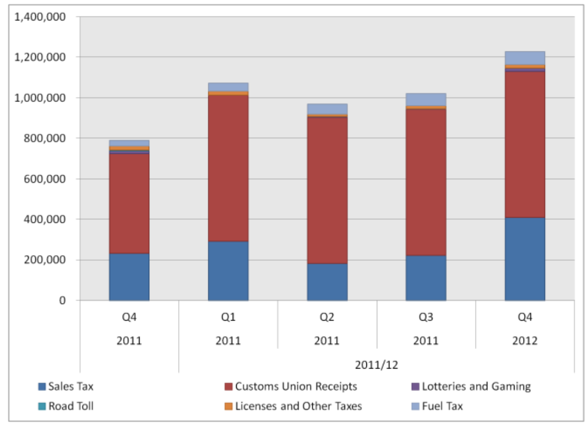
The Q4 annualized 55.6% increase in taxes on goods & services, was the result of increases in sales tax, SACU and fuel tax receipts.

Table 7 - Annualized quarterly change in Taxes on G&S

	2011/12			
	Q1	Q2	Q3	Q4
Sales	-23.2	-33.8	-15.1	77.4
SACU	46.4	-56.2	250209.7[7]	46.3
Fuel	n/a	-25.0	61.9	125.9

Source: MoF

Figure 29 - Quarterly Income Tax on G&S (E '000's)



Source: MoF

Q4 sales tax was 77.4% higher than in the previous year but 7.7% lower for the fiscal year overall.

Q4 SACU receipts were 46.3% higher than in the previous year equating to a rise of 8.7% for the fiscal year overall.

Q4 fuel tax receipts were 125.9% higher than in the previous year and 30.6% higher for the fiscal year overall.

Total Q4 tax receipts were up 29.5% on the previous year and 3% higher for the fiscal year.

Despite these higher revenues in Q4 2011/12 it was not enough to match spending.

Table 8 - Government current spending by type of financing

	Jan'12	Feb'12	Mar'12	**Q1 '12**
Revenue	1,420	284	398	**2,102**
Reserves	-542	223	324	**5**
Domestic	39	150	108	**297**
Foreign	0	0	0	**0**
Arrears	0	0	0	**0**

Total	917	657	830	**2,404**

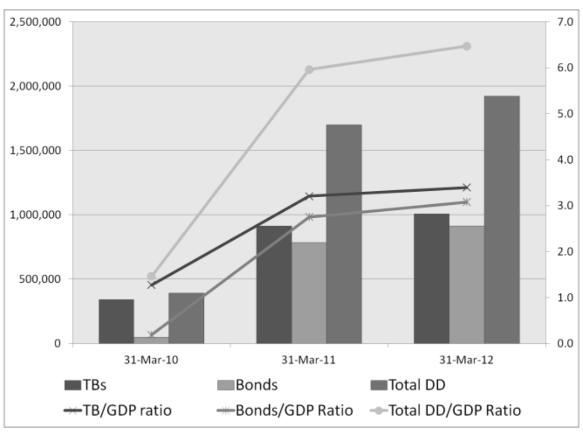
Source: MoF

Q4 spending is revealing in that it indicates that;

- The budget deficit for the quarter was 12.5% of total spending;
- The January drawdown on balances at the Central Bank indicates continuing cashflow difficulties;
- The deficit is being predominantly financed by domestic borrowing.

As such the level of domestic debt has risen over the last 2 fiscal years.

Figure 30 - Domestic Debt (E '000's and % of GDP)

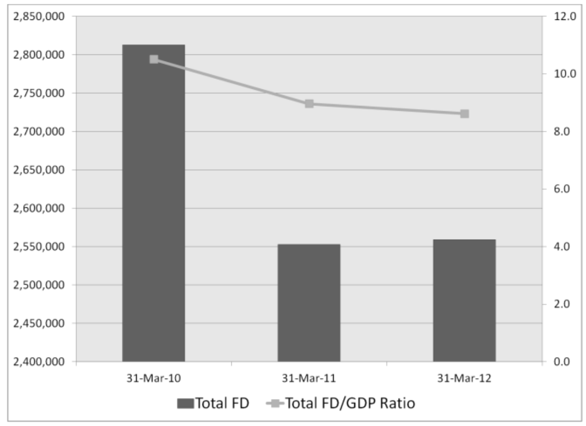


Source: CBS

As discussed in section 2 above, the high interest rates being offered on government securities may be having a contractionary effect on lending to private sector by domestic financial institutions.

Meanwhile the level of foreign debt has fallen, reflecting an inadequate supply of foreign lending for budget support.

Figure 31 - Foreign Debt (E '000's and % of GDP)

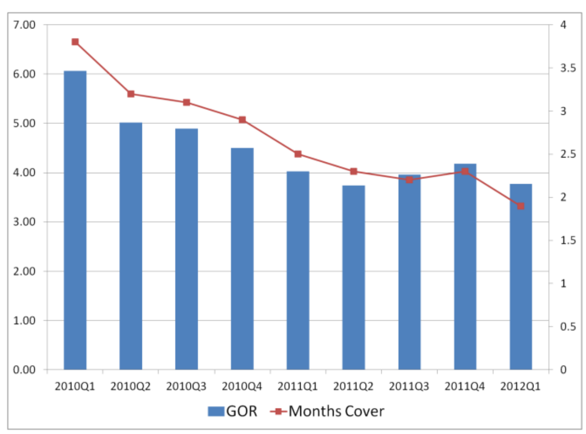


Source: CBS

Overall the total debt to GDP level remains relatively low at approximately 15%.

Reserves declined slightly after rising in previous 2 quarters and continue to remain below the recommended level of 3 months of import cover

Figure 32 - Gross Official Reserves (E billions & months of import cover)

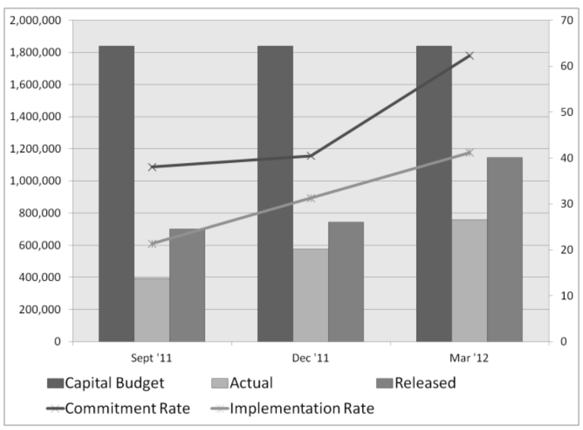


Source: CBS

As stated in the previous bulletin, this has the potential to lead to a loss of confidence in the Lilangeni which could destabilize the 1-to-1 peg with the Rand.

The cashflow constraints discussed above impact most significantly on capital expenditure projects.

Figure 33 - Capital Expenditure (E '000's)



Source: MoF

However the last quarter has seen improvements in both the commitment and implementation rates of capital projects.

Summing up on public finances…..

Falling annual income and sales tax revenues suggest that private sector growth remained sluggish in 2011

The financing of recurrent spending remains an issue going forward.

The reliance on domestic financing may be negatively effecting lending to the private sector.

The reliance on reserves places stress on the fixed exchange rate regime.

The low total debt-to-GDP ratio makes foreign financing an attractive possibility.

List of Acronyms

Sources:

AGOA	African Growth and Opportunity Act
BoB	Bank of Botswana
BoN	Bank of Namibia
CBS	Central Bank of Swaziland
CSO	Central Statistics Office (SD)
FRED	Federal Reserve Economic Data
IMF	International Monetary Fund
JSE	Johannesburg Stock Exchange
LBS	Lesotho Bureau of Statistics
LFS	Labour Force Survey
MEPD	Ministry of Economic Planning & Development
ONS	Office of National Statistics
SARB	South Africa Reserve Bank
SIPA	Swaziland Investment Promotion Authority
SSA	Statistics South Africa
WEO	World Economic Outlook

Other:

BS	Botswana
DD	Domestic Debt
E & D	Emerging & Developing Economies
FD	Foreign Debt

Kg	Kilogram
LS	Lesotho
Mt	Metric Ton
NB	Namibia
QAG	Quarterly Annualized Growth
QAI	Quarterly Annualized Inflation
RSA	Republic of South Africa
SACU	Southern Africa Customs Union
SD	Swaziland
TB	Treasury Bill

[1] While the main focus is on Q1 2012 the bulletin is completely driven by the availability of data. Where quarterly data is not yet available we may cite data from previous quarters, as well as citing annual data.

[2] A technical recession is defined as 2 consecutive quarters of negative growth

[3] Note that this is the price of iron ore

[4] Note that this is the Australian price of coal which is obviously different to anthracite coal mined in Swaziland which sells at a higher price. However we would expect price movements to be correlated.

[5] See Bulletin Issue No.1

[6] Note that references to Q4 in this section are for Q4 of the fiscal year which correspond to Q1 of the calendar year

[7] Figure distorted by the fact that in previous fiscal year 2 tranches of SACU receipts and a refund were received in same quarter