



Ministry of Economic Planning and Development

Macroeconomic Analysis and Research Division

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

Highlights

International

- The IMF's global economic outlook has worsened due to ongoing uncertainty over developments in the Euro Area which is contributing to slower recovery in the other advanced economies (see section 1.1 to 1.3).
- While forecast growth for Sub Saharan Africa remains unchanged for 2012 and 2013, the growth outlook for South Africa has been revised downwards. RSA growth in 2012 is likely to be at least half a percentage point lower than 2011 (see section 1.4).
- While world trade is increasing EU imports have been declining (see section 1.5)

Domestic

- Despite moderating and starting to decline inflation remains high at 8.9% and there is a significant threat of accelerating inflation over the coming months in the form of food price increases (see section 1.1 and Box 1 on page 9).
- Lending to households has not expanded for the year to date, while lending to firms has contracted (see section 2.3)
- There was a significant depreciation of the Rand against the currencies of the advanced economies – including an 8% depreciation against the US dollar – in Q2 2012 (see section 2.4).
- Exports have performed well for the year to date rising by 17.9% compared to the same period for 2011, driven in particular by a strong Q1 2012 performance in a number of key industries including the sugar and textile industries (see section 2.5)
- Tax returns – particularly company taxes and to a lesser extent payroll taxes – for the year to date also indicate higher levels of economic activity. Company tax returns rose by 26% for the year to date (see section 2.6).
- Public debt increased further over the first two quarters of 2012, due to increased domestic borrowing by government as well as the effect of the exchange rate depreciation on foreign debt (see section 2.7).

1. International Developments

The outlook has worsened

The IMF outlook has deteriorated slightly on previous forecasts.

Table 1 - Global Annual Growth Forecasts

	Actual	April 2012		July 2012	
	2011	2012	2013	2012	2013
World	3.9	3.5	4.1	3.5	3.9
Advanced	1.6	1.4	2.0	1.4	1.9
E & D	6.2	5.7	6.0	5.6	5.9

Source: IMF WEO July 2012

Based on Q1 and Q2 2012 developments including stubbornly high unemployment rates and an escalation of the sovereign debt crisis in Europe, the IMF have revised down their 2012 growth projections for the advanced economies.

Table 2 - Advanced Economies Annual Growth Forecasts

	Actual	April 2012		July 2012	
	2011	2012	2013	2012	2013
US	1.7	2.1	2.4	2.0	2.3
Euro	1.5	-0.3	0.9	-0.3	0.7
UK	0.7	0.8	2.0	0.2	1.4

Source: IMF WEO April 2012

The euro area is still forecast to contract in 2012 and growth has been revised down for 2013. US growth forecasts for 2012 and 2013 have also been revised down marginally, while there has been a dramatic cut in the outlook for the UK for both 2012 and 2013.

1.1 Euro Area

The Euro Area is on the verge of a second recession.

Figure 1 – Euro Area quarterly GDP and growth rates

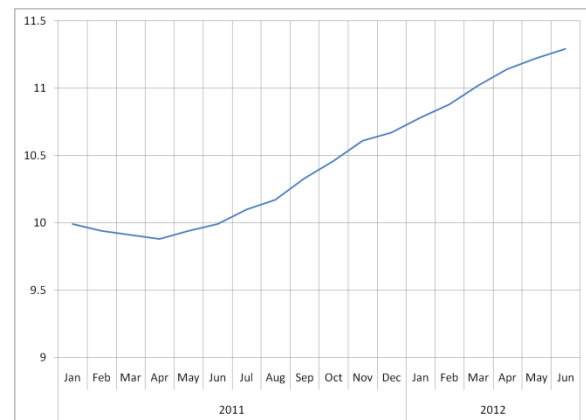


Source: ECB

In Q2 2012 Euro Area GDP contracted by 0.2% quarter on quarter and by 0.5% year on year.

The labour market has also significantly worsened.

Figure 2 - Euro Area unemployment rate



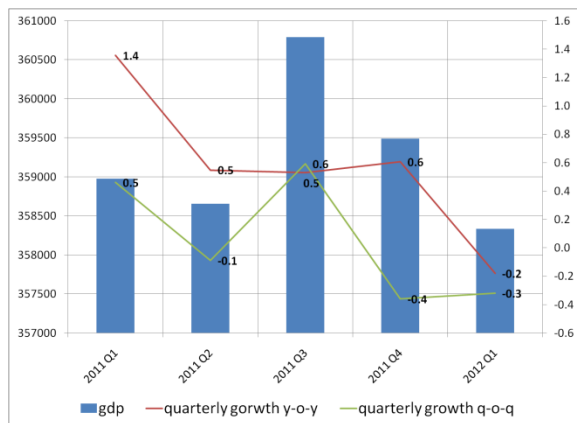
Source: ECB

Unemployment has been trending upwards since May 2011, and this trend has continued into Q2 2012

1.2 United Kingdom

The UK slipped into technical recession in Q1 2012 after two successive quarters of GDP decline.

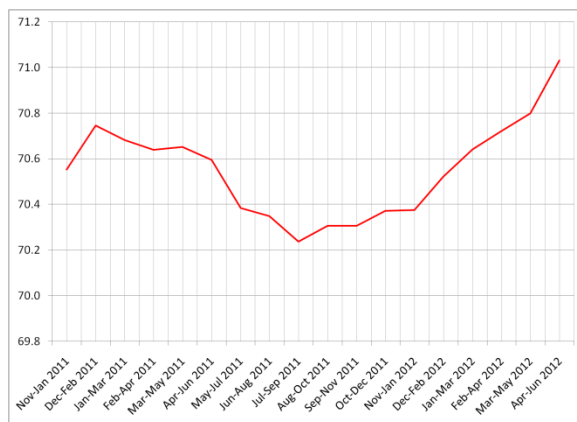
Figure 3- UK quarterly GDP and growth rates



Source: ONS

Q2 2012 figures have yet to be released

Figure 4 - UK employment rate (age 16-64)

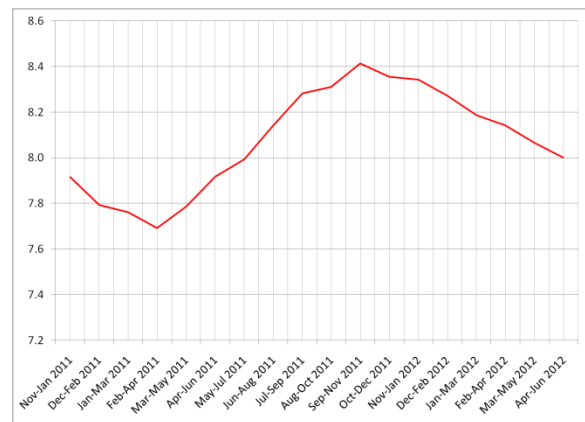


Source: ONS

Curiously however employment continues to rise.

The working age employment to population rate has been rising, while the unemployment rate has started to decline.

Figure 5 - UK unemployment rate



This implies that labour productivity growth is slowing down which is quite unusual.

The explanations offered include labour hoarding, the substitution of labour for capital and the misallocation of capital due to a defective financial system¹.

1.3 United States

US GDP has continued its upward trend albeit at a decelerating growth rate.

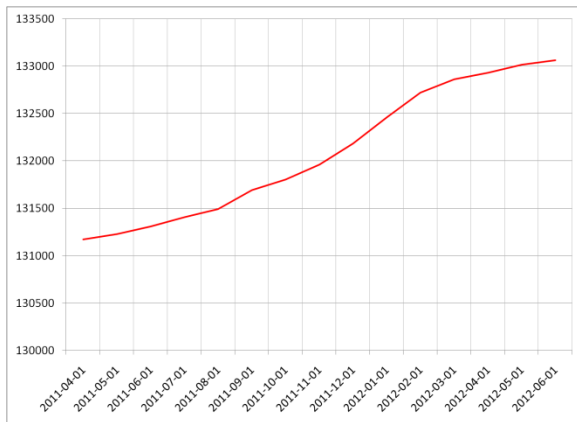
Figure 6 - US quarterly GDP and growth rates



Source: FRED

Employment also continued its upward trend in 2012 Q2.

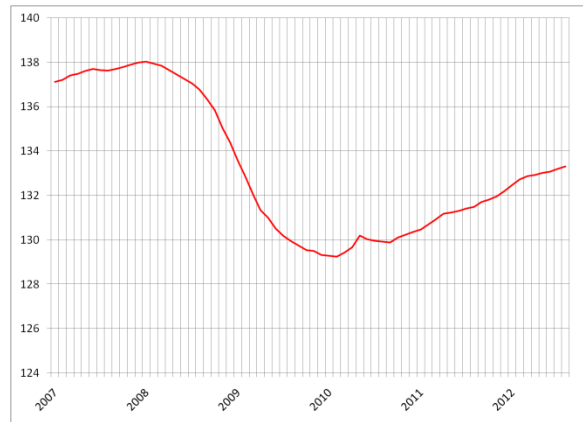
Figure 7 - US Total Non Farm Employment (thousands)



However, despite continued growth in both GDP and employment, employment levels remain well below their pre-crisis levels.

The implication is that currently the US economy is growing, but not nearly fast enough to restore employment to pre-crisis levels.

Figure 8 - US Total Non Farm Employment (millions)



Source: FRED

1.4 SSA & RSA Developments

For SSA the IMF outlook for 2012 and 2013 remains the same.

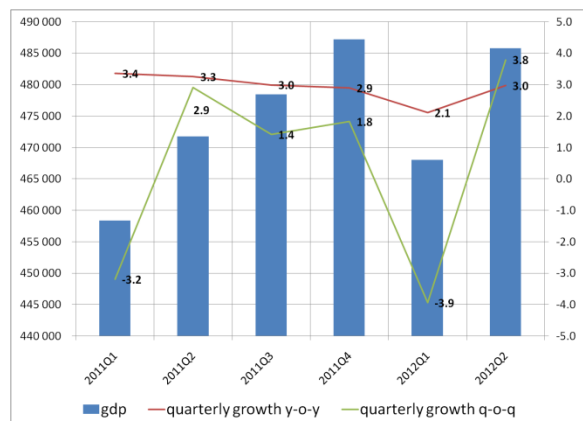
Table 3 – SSA Annual Growth Forecasts

	Actual	April 2012		July 2012	
	2011	2012	2013	2012	2013
SSA	5.1	5.4	5.3	5.4	5.3
RSA	3.1	2.7	3.4	2.6	3.3

Source: IMF WEO July 2012

However the RSA outlook has been revised down marginally for both 2012 and 2013.

Figure 9 - RSA quarterly GDP and growth rates



Source: SSA

The downward IMF revision is most likely due to the Q1 performance².

On a quarter-on-quarter basis GDP declined by 3.9% in Q1 2012 compared to a 3.2% decline in Q1 2011³.

On a year on year basis GDP rose by 2.3% in Q1 2012 compared to a 3.4% rise in Q1 2011.

In Q2 2012 GDP rose by 3.8% quarter-on-quarter compared to 2.9% for Q1 2012.

However the year-on-year growth rate for Q2 2012 was just 3.0% compared to 3.4% a year ago.

Taking Q1 and Q2 2012 together the economy expanded by 2.5% year on year compared to 3.3% for the same period in 2011.

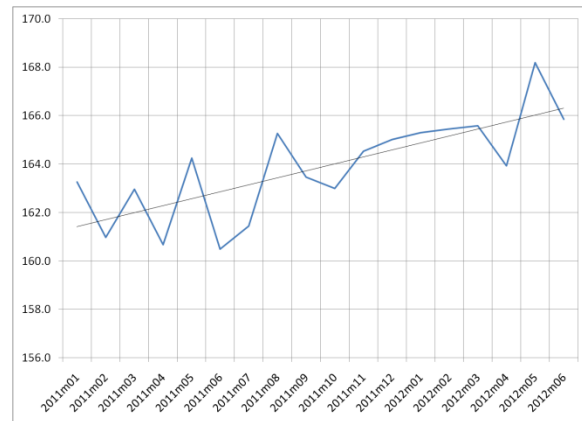
All of these indicators taken together support the IMF forecast that growth in 2012 is likely to be at least a half a percentage point lower than in the previous year.

Furthermore based on the poor labor relations climate that has developed in Q3 2012, the forecast may well be cut further.

1.5 World Trade

World merchandise trade continued to rise over the first 2 quarters of 2012.

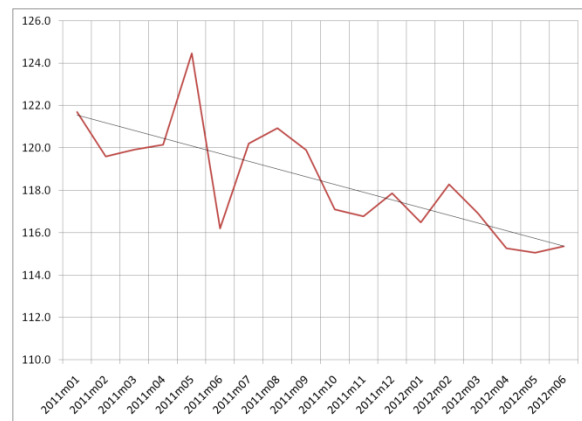
Figure 10 – Monthly World Trade Index (2000=100)



Source: World Trade Monitor

However a potentially alarming downward trend has been noted in relation to Euro Area merchandise imports.

Figure 11 - Index of Euro Area Imports (2000=100)



Source: World Trade Monitor

The impact of these developments on Swazi exports is discussed in more detail in section 2.5

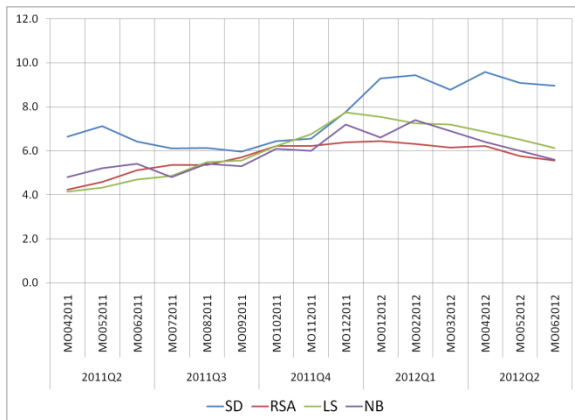
2. Domestic Developments

2.1 Prices

Inflation is moderating and beginning to decline

Inflation peaked at 9.6% in April before declining to 9.1% and 8.9% in May and June respectively.

Figure 12 - CMA monthly inflation rates (headline)



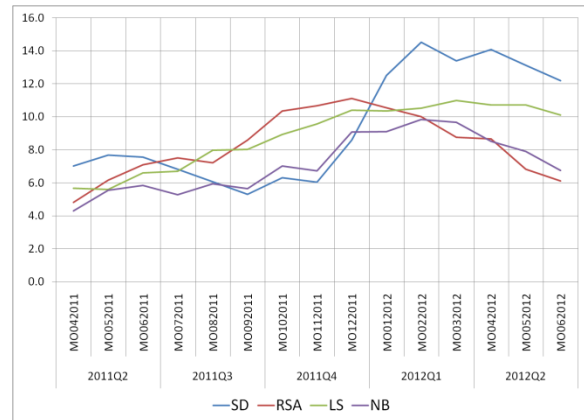
Source: CSO, SSA, LBS, BoN

However inflation remains higher than in other CMA countries and did not decline by as much in Q2 2012.

Most of the reason is related to price movements in the two largest components of the Swaziland CPI

Food and non-alcoholic beverages account for approximately 38% of the average Swazi's basket of goods.

Figure 13 - CMA monthly inflation rates (Food)

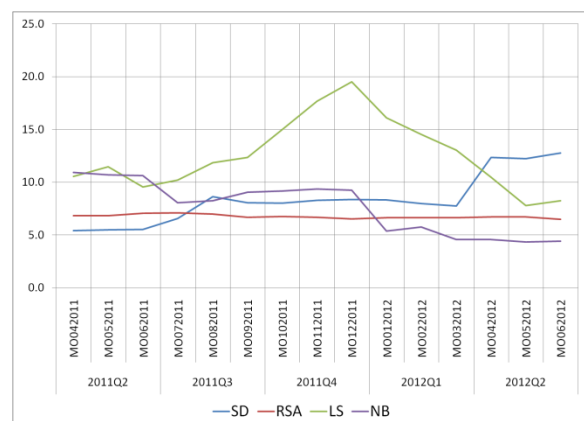


Source: CSO, SSA, LBS, BoN

Food price inflation in all CMA countries began to rise in Q4 2011. However the rise was sharper in Swaziland and the decline has followed the other CMA countries with a lag.

Housing, Water, Electricity, Gas, and Other Fuels is the next largest component of the CPI with a weighting of approximately 14%.

Figure 14 - CMA monthly inflation rates (H&U)



Source: CSO, SSA, LBS, BoN

There was a pronounced rise in the H&U inflation rate in Q2 2012 to 12.4% from 8% in Q1.

H&U prices rose by 4.3% between March and April 2012, which was mainly the result of a 5.9% increase in the price of rentals.

Given the leveling off over the following 2 months this appears to be a once off price rise, possibly the result of landlords passing on higher input costs to lessees⁴.

Up to Q4 2011 inflation in Swaziland was roughly in line with the other members of the CMA (see figure 12 above).

Food prices which began to rise in all CMA countries in Q4 2011, particularly in December, continued to rise in Swaziland into Q1 2012, while they began to moderate and fall in other CMA members.

Once off increases in H&U prices in Q2 have served to keep the overall inflation rate high.

In the short term inflation is expected to continue to decline in line with the CBS forecasts for 2012.

However recent developments in food markets pose a significant threat to this outlook (these developments are discussed in detail in Box 1 below).

2.2 Interest Rates

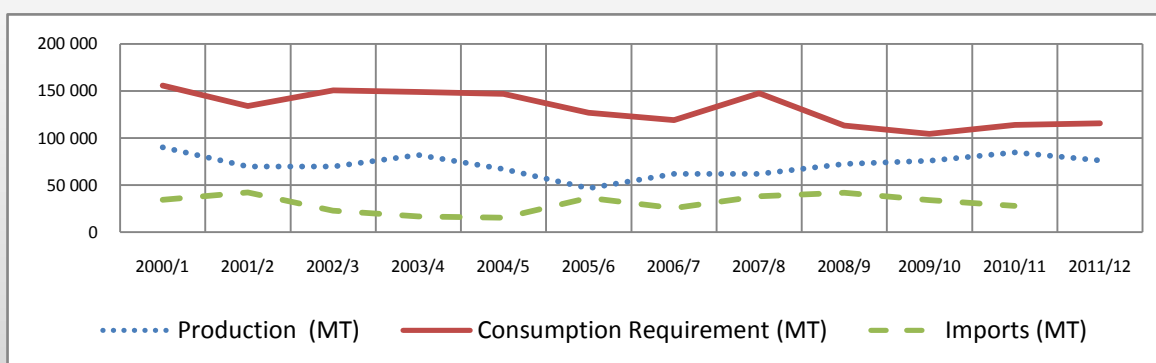
Following their July meeting the MPC of the SARB announced a 50 basis point reduction in the main repurchasing rate from 5.5% to 5.0%.

CBS followed suit the following day following the meeting of the MPCC.

While the further monetary easing is to be welcomed, as discussed in previous issues, interest rates which have been low for some time do not appear to be having a significant effect on domestic lending conditions. This point is discussed further in the next section

Box 1: Food Price Inflation Warning*by Vangile C Dlamini***1. Background****1.1 Maize Production in Swaziland**

As the staple food, maize is the dominant crop grown on *Swazi Nation Land* (SNL). Crop production is highly dependent on rainfall and has poor infrastructure in terms of irrigation, storage and transport facilities in comparison to *Title Deed Land* (TDL) crop production. Due to these and other issues Swaziland is not self sufficient in maize production and therefore meets its consumption requirement by importing the shortfall from South Africa.



The *National Maize Corporation* (NMC) is the only institution in the country allowed to import maize for commercial purposes. Imports are approximately 30% of domestic production with the remaining shortfall being filled by food aid programs.

1.2 Maize Production in South Africa

Maize production in South Africa takes place in the Free State (40%); North West (30%); Mpumalanga (17%); and Gauteng (5%) provinces. SA's consumption requirements for maize are approximately 101.4 million tons (60.2 million tons white and 41.2 million tons yellow). Although South Africa produces enough maize to meet its domestic needs, it occasionally finds itself with a shortage because the surplus gets exported to cash in on the growing international demand. Due to poor rains, the SA government has lowered its maize forecasts for 2012 and Grain SA is predicting reduced maize surplus of just 1 million tons.

1.2 Maize Prices in Swaziland

Maize prices are controlled by Government which sets a floor on the price which covers the cost of production and a profit margin for domestic farmers. Between 2002 and 2011 the floor price was set at E950 per ton. In 2011 Cabinet approved the upward revision of the price to E1,400 per ton. The price of Maize imported from South Africa is determined on the South African Futures Exchange (SAFEX).

Box 1 (continued)**1.3 Drought in the United States**

The US is currently experiencing its worst drought since 1988. In July and August drought covered approximately 63% of the country. Indications are that yields will be down significantly and that 38% of corn and 30% of soybeans are to be rated poor to very poor in quality.

Since the beginning of June the decline in production has led to price increases of 38% and 19% for maize and soybeans respectively. Furthermore wheat prices tend to follow the price of these two food commodities. As the largest producer of these three food commodities developments in the US will affect prices worldwide.

2. Effects on Swaziland**2.1 Maize affordability**

The drought in the US has resulted in an increase in the demand for maize, which in turn has pushed maize prices up, and this will affect the 30% of maize that SD imports from SA. This increase will result in maize and maize products being unaffordable for many households. The price inflation is expected to spread to other food groups that depend on maize e.g. meat, eggs, milk, dairy products, and starch products.

2.2 Maize Availability

The US is one of the major maize exporters in the world, thus the current drought situation could possibly also result in a global shortage of maize. The maize demand from the US, its maize export markets and the growing demand from Asian countries coupled with the lucrative prices could induce SA to export to these markets. SD will need to match these prices to make up the shortfall in domestic supply.

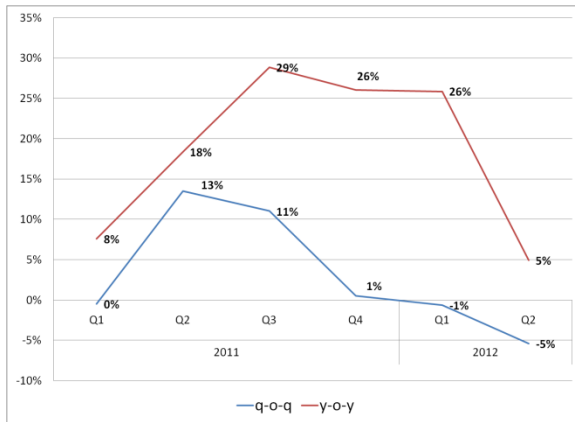
2.3 Government Fiscal Situation

All of this could result in more people being vulnerable to food insecurity, thereby forcing government to increase its budget for disaster relief, as was the case last year where the programme overspent by over 70%. Also, food price inflation will alter the spending pattern of households. As food becomes more expensive, a majority of households will spend more on food and less on non-food luxury items. Since food products are zero-rated for VAT, government will collect less in taxes due to the reduction in the consumption of luxury goods that attract VAT. This will result in a decline in taxes and worsen the already deteriorated fiscal position. Furthermore, food price inflation will almost certainly trigger further pressure on government for wage increases.

2.3 Lending

Lending conditions appear to be tighter in 2012.

Figure 15 - Changes in total bank lending (%)

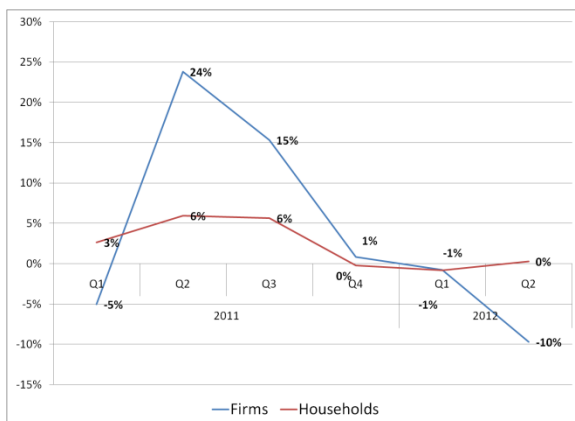


Source: CBS June 2012 Quarterly Review, Table S 3.7

Quarter on quarter and year on year lending to the economy declined.

Approximately 95% of all lending is to private firms (50%) and households (45%)

Figure 16 - Changes in bank lending by sector (%)



Source: CBS June 2012 Quarterly Review, Table S 3.7

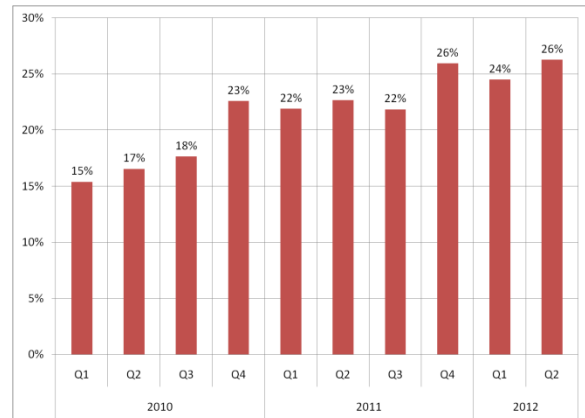
Lending to households has not expanded for the year to date, while lending to firms has contracted.

However the contraction in lending to the private sector was primarily due to the repayment of a sizeable loan by a large manufacturing firm.

In July 2011 CBS increased its liquidity requirement from 13% of total covered liabilities to 20%.

However, this does not appear to be the underlying cause of the contraction in lending.

Figure 17 - Liquidity to Required Liquidity Ratio



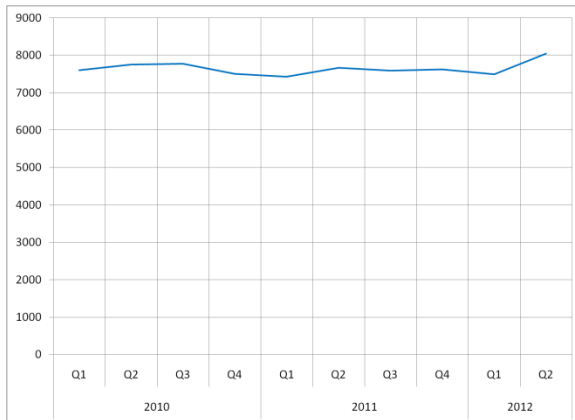
Source: CBS June 2012 Quarterly Review, Table S 3.3

As early as Q4 2010, the liquidity to required liquidity ratio was in excess of the 20% requirement.

There appears to be three main reasons for the declining levels of lending.

Firstly despite a slight uptick in Q2 2012 deposits are not growing thus making it difficult to extend more credit.

Figure 18 - Total covered liabilities⁵ in E millions

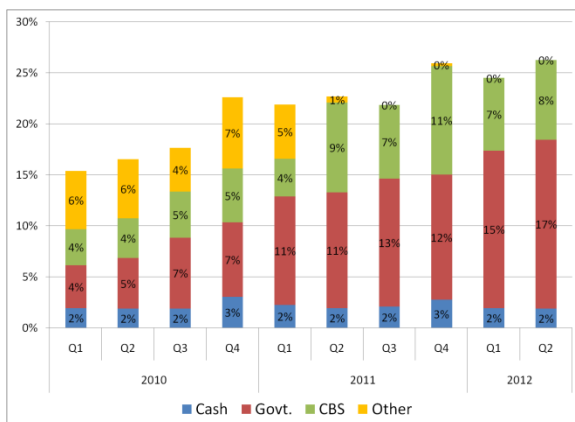


Source: CBS June 2012 Quarterly Review, Table S 3.3

Secondly existing loans are being paid back rather than being rolled over or extended as new loans.

Thirdly government borrowing is crowding out private sector borrowing.

Figure 19 - Liquidity to Required Liquidity Ratio by type



Source: CBS June 2012 Quarterly Review, Table S 3.3

Government is currently borrowing at relatively high interest rates (see section 2.7)

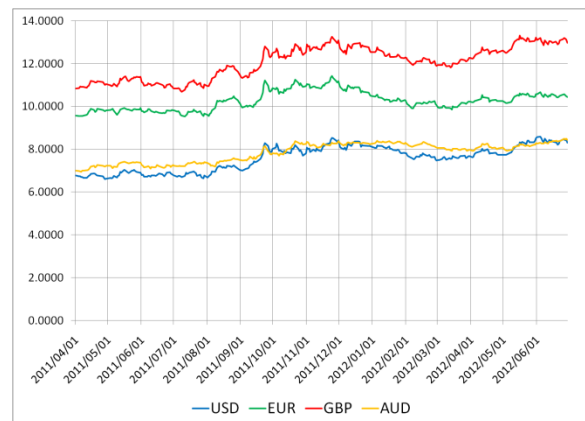
Over the last 2 years (i.e. since Q2 2012) the commercial banks have increased their holdings of government securities by E947 million which is approximately 12% of all credit advanced by the commercial banking system as at Q2 2012.

2.4 Exchange Rates

The Rand (and therefore the Lilangeni) has continued to be volatile against the currencies of our major trading partners.

Following the appreciation in Q1 2012 (see previous issue) the Rand depreciated against the currencies of major trading partners in Q2 2012.

Figure 20 - Selected daily exchange rates



Source: SARB

On average the Rand traded at 4.9% lower against the Dollar, 5.6% lower against the

Sterling and 2.5% lower against the Euro compared to Q1 2012.

Table 4 - Selected Quarterly Exchange Rates (AP)

	ZAR/USD	ZAR/GBP	ZAR/EUR	ZAR/AUD
2011Q3	7.14	11.48	10.08	7.49
change	5.03	3.65	3.10	3.82
2011Q4	8.09	12.73	10.93	8.19
change	13.38	10.87	8.39	9.31
2012Q1	7.76	12.19	10.18	8.19
change	-4.10	-4.24	-6.90	0.02
2012Q2	8.14	12.87	10.43	8.20
change	4.92	5.59	2.50	0.20

Source: SARB

The depreciation is more pronounced when one considers end of period values.

Table 5 - Selected Quarterly Exchange Rates (EP)

	ZAR/USD	ZAR/GBP	ZAR/EUR	ZAR/AUD
2011Q3	8.03	12.51	10.86	7.81
change	18.41	15.22	10.55	7.50
2011Q4	8.16	12.61	10.54	8.23
change	1.63	0.79	-2.92	5.35
2012Q1	7.68	12.28	10.24	7.99
change	-5.83	-2.56	-2.80	-2.96
2012Q2	8.31	12.98	10.44	8.45
change	8.14	5.65	1.90	5.74

Source: SARB

On an end of period basis the Rand is trading 8.1% lower than the Dollar, 5.7% lower than the Sterling, 1.9% lower than the Euro and 5.7% lower than the Australian Dollar.

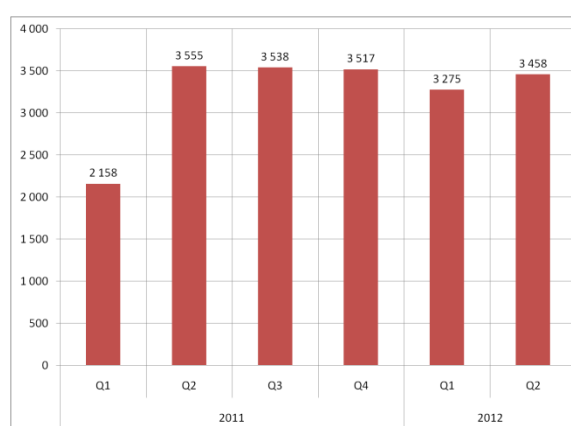
As noted in previous issues a weakening (depreciating) Rand makes our exports more

competitive on international markets but also makes imports more expensive.

2.5 Exports

The most recent figures indicate a strong export performance for the year to date⁶.

Figure 21 - Exports in E millions



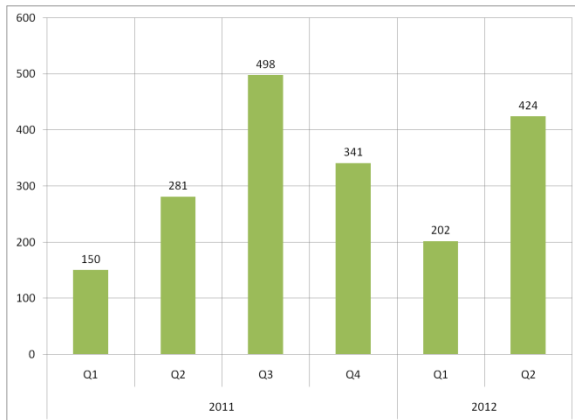
Source: SRA

YTD nominal exports rose by 17.9% compared to 2011, due to a strong Q1 performance which saw exports grow by 51.8% year on year. Q2 exports were 2.7% lower year on year.

Furthermore to date SD does not appear to have been affected by Euro Area developments.

Q1 and Q2 exports to the EU grew by 34.3% and 50.9% respectively.

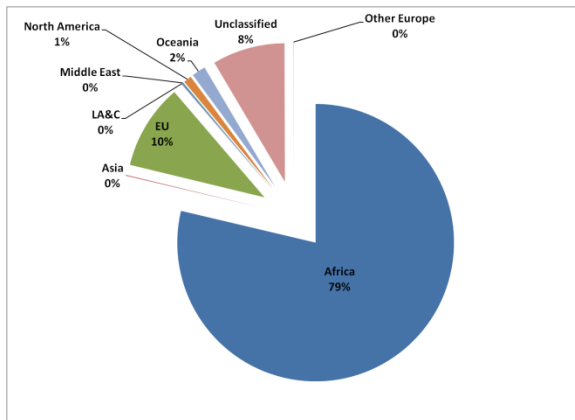
Figure 22 - Exports to the EU in E millions



Source: SRA

In 2011 exports to the EU accounted for 10% of total exports.

Figure 23 – 2011 Exports by Region (% of total exports)

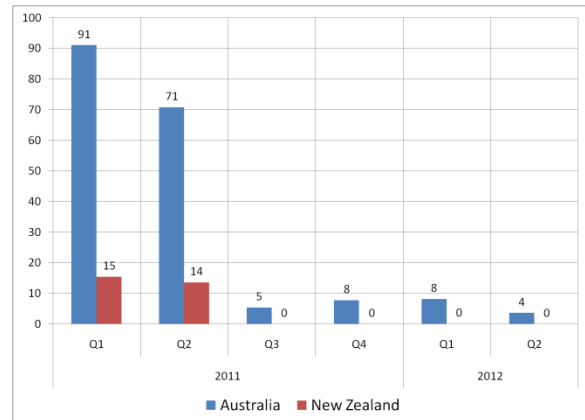


Source: SRA

YTD 2012 exports to the EU currently represent the same level of total exports.

However there has been a total collapse in exports to Oceania which in 2010 represented 5% of total exports from Swaziland.

Figure 24 –Exports to Oceania in E millions

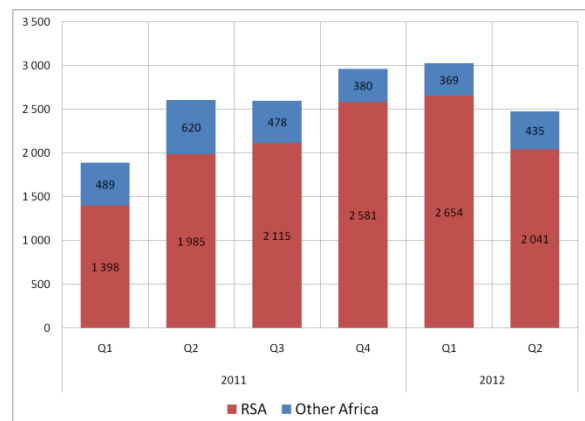


Source: SRA

This has been the case for both New Zealand and Australia.

The poor Oceania export performance has been offset by increased YTD 2012 exports to Africa.

Figure 25 - Exports to Africa in E millions



Source: SRA

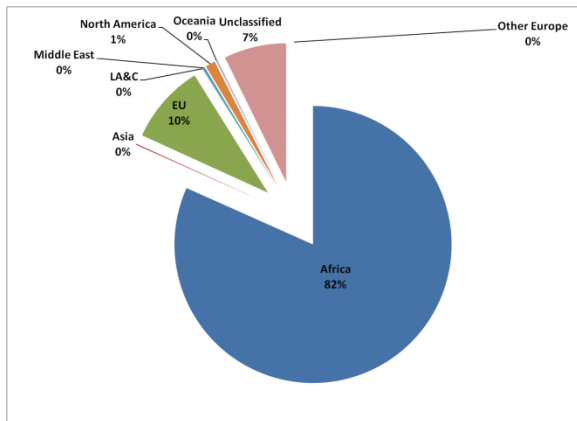
Like total exports the strong YTD performance is attributable to Q1 in which exports to Africa rose by 60% year on year whereas they fell by 5% year on year in Q2.

Exports to South Africa increased by 89.8% and 2.8% year on year in Q1 and Q2 respectively.

However exports to other African countries declined by 24.5% and 29.9% year on year in Q1 and Q2 respectively.

For the YTD Africa accounts for 82% of total exports with South Africa comprising 70% and other African countries making up the remaining 12%

Figure 26 - 2012 YTD Exports by Region (% of total)



Source: SRA

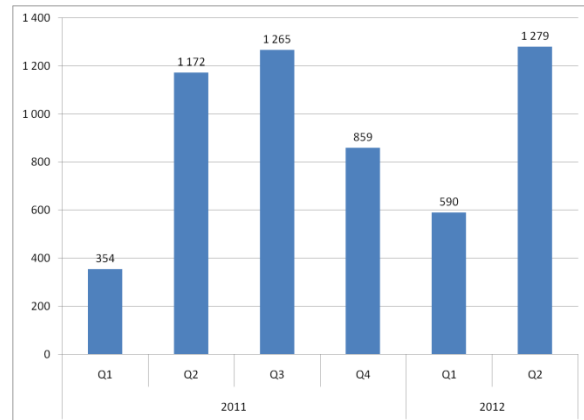
90% of the 17.9% 2012 YTD increase in exports can be accounted for by 5 industries.

Table 6 - Contributions to export growth YTD 2012

Industry	Code	2012 YTD	
		% of total	% of growth
Sugar	17	28	+22.4
Iron Ore	26	5	+29.7
Printing	49	6	+22.5
Textiles	61, 62	6	+14.2
Concentrates	28,33, 38	36	-14.5

Source: SRA

Figure 27 - Sugar Exports in E millions

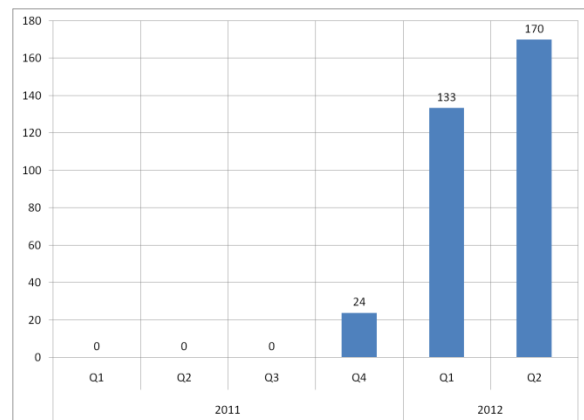


Source: SRA

Sugar exports grew by 22.4% accounting for 33.5% of the overall export growth rate.

Iron ore exports which commenced in Q4 2011 account for 5% of YTD exports and 29.7% of the overall export growth rate.

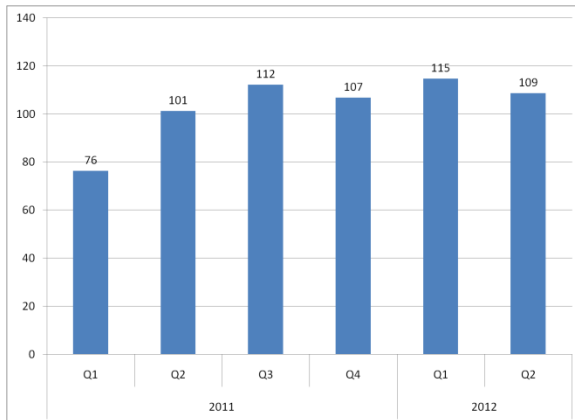
Figure 28 - Iron Ore Exports in E Millions



Source: SRA

Exports of the printing industry grew by an impressive 158.7% accounting for 22.5% of overall export growth rate.

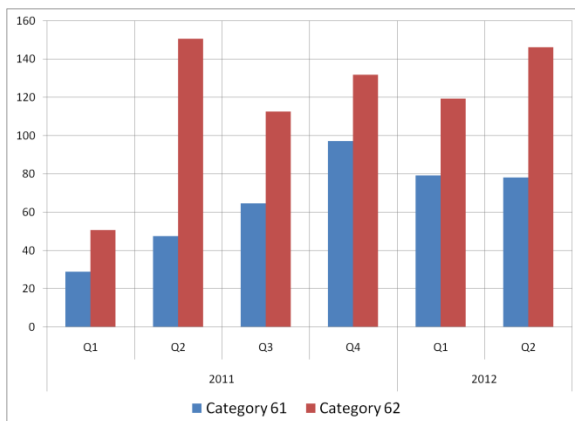
Figure 29 - Printing Industry Exports in E millions



Source: SRA

Textile exports also recorded high growth rates and accounted for 14.2% of the overall export growth.

Figure 30 - Textile Exports in E millions



Source: SRA

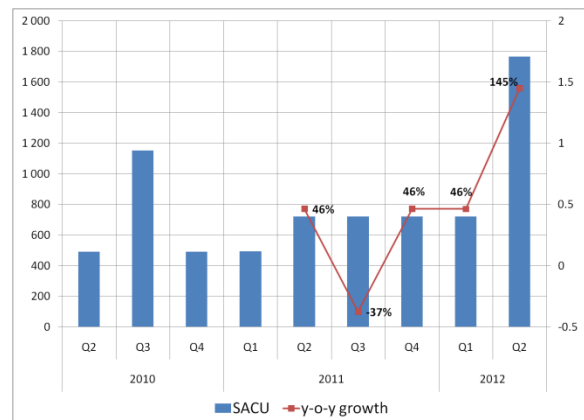
Exports of the concentrates industry declined contributing -14.5% to the overall growth rate.

2.6 Taxes

SACU receipts are the largest component of the revenue base.

As has been well publicized there will be a significant rise in SACU receipts for the 2012/13 fiscal year, which is reflected in the Q2 2012 data.

Figure 31 - SACU Receipts



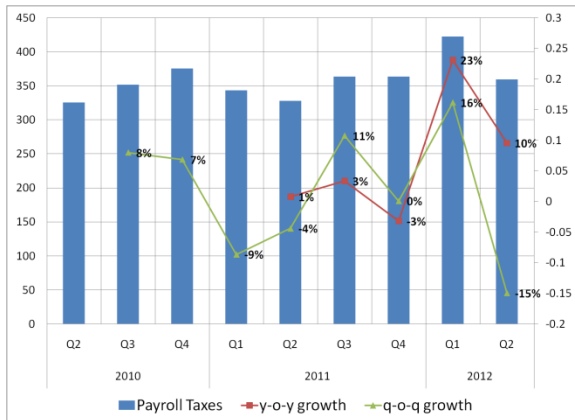
Source: MoF

SACU receipts will be 145% higher than in the previous fiscal year.

The next largest component of the revenue base, payroll taxes⁷ rose by 23% and 10% year on year in Q1 and Q2 respectively, and by 16% for the year to date compared to 2012.

Quarter on quarter payroll taxes increased by 16% in Q1 but declined by 15% in Q2. This suggests a seasonal effect without any permanent effect on permanent employment.

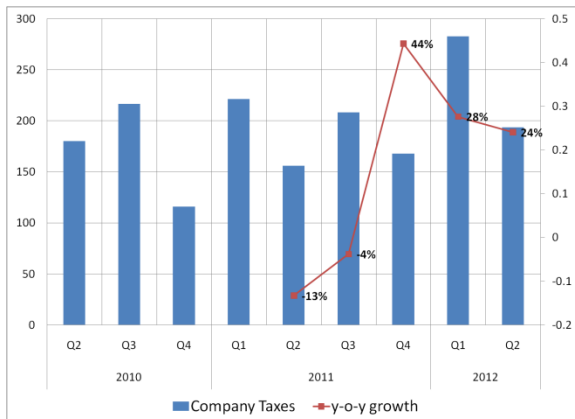
Figure 32 - Payroll Taxes



Source: MoF

Company taxes increased by 28% and 24% year on year in Q1 and Q2 respectively, and by 26% for the year to date compared to 2011.

Figure 33 – Company Taxes



Source: MoF

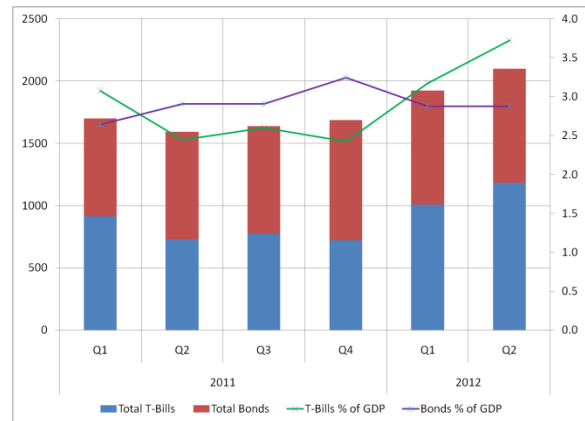
As indicators of economic activity the rise in company and payroll taxes are encouraging developments.

Note: unfortunately data on VAT receipts was not available at the time of writing. We will endeavor to rectify this in future issues.

2.7 Public Debt

Domestic debt has continued to rise slowly over the first two quarters of 2012.

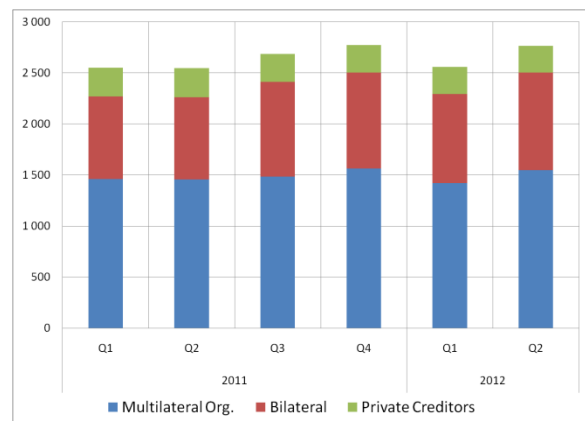
Figure 34 - Domestic Debt in E millions and % of GDP



Source: CBS

All of the increase is the result of increased short term borrowing in the form of treasury bills which now constitute a higher proportion of domestic borrowing than bonds.

Figure 35 - External Debt in E Millions



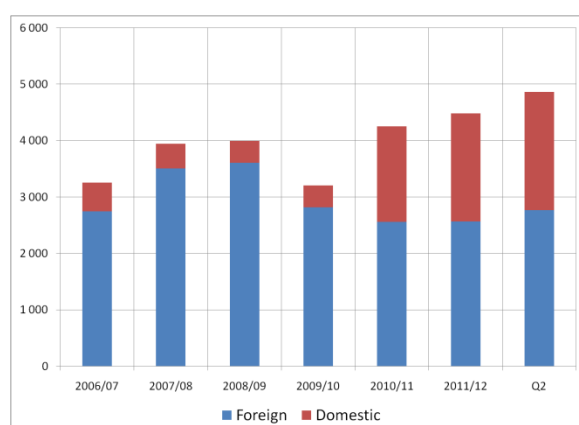
Source: CBS

There have been no significant increases in the level of foreign debt. However the depreciation

of the Lilangeni (see section 2.4 above) against the dollar in particular, saw the stock of foreign debt increase in Q2 2012.

However the general trend is a declining level of foreign debt to GDP with domestic debt now assuming an increasing proportion of the overall stock of public debt.

Figure 36 - Total Public Debt in E Millions



Source: CBS

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 <http://www.ft.com/intl/cms/s/0/f4ee26a8-0262-11e2-b41f-00144feabdc0.html#axzz27689CF31>

² This assumption is based on the timing. The IMF released its outlook in July whereas Q2 figures for SA were not released until late August.

³ Note that unlike figures 1, 2 and 5 for the Euro Area, UK and US, figure 8 does not use seasonally adjusted data. While SSA provides a seasonally adjusted quarterly GDP series it only provides it in an annualised form. The unseasonalised series for RSA always declines between Q4 and Q1 the following year. What is notable is not the decline but that it was larger than for the same period last year.

⁴ As discussed in the previous bulletin (Q1 2012), following the introduction of VAT in April 2012, security and maintenance services are now subject

to VAT whereas they were not previously subject to Sales Tax.

⁵ Total covered liabilities are deposits less deposits pledged as security on loans

⁶ Note that the export figures in the Central Bank Balance of Payments and the National Accounts are revised up for under coverage based on quarterly data collected by CBS. Therefore the SRA data should be construed as an indicator rather than as the overall level of exports.

⁷ PAYE deductions at source