Ministry of Economic Planning and Development

Macroeconomic Analysis and Research Division

E-Bulletin No.4, Q3 2012

Highlights

International

- The IMF's global economic outlook for both 2012 and 2013 continues to deteriorate. Slow and / or negative growth due to fiscal consolidation and dysfunctional financial systems in the advanced economies is the major drag on the global economy (section 1.1 to 1.3).
- Forecast growth for Sub Saharan Africa has been revised down for 2012 but revised upwards for 2013. The RSA growth forecast for 2013 has been revised downwards while the 2012 forecast remains unchanged after being revised down to 2.6% in July (section 1.4).
- There are signs that world trade is stagnating as a result of declining EU imports (section 1.5)

Domestic

- Following a deceleration in the rate of inflation at the start of the quarter the headline rate rose to 9.11% at the end of Q3 on the back of higher food prices (section 2.1).
- There was a quarter on quarter expansion in lending to the private sector in Q3. However year on year lending to the private sector remains down. Lending to households also remains down year on year (section 2.3)
- The Rand remained relatively stable against the major currencies in Q3 (see section 2.4).
- The strong year to date export performance continued in Q3 (see section 2.5)
- Import figures indicate a small decline in private consumption in 2011 and a larger decline in 2012 (sections 2.6.1 to 2.6.4). Imports of construction materials suggest that the decline in the sector may have bottomed out with a return to growth in the latter half of 2012 (section 2.6.5). Industrial imports indicate some stagnancy in some manufacturing sub sectors (section 2.6.6)
- Slow growth in company taxes for the year to date are likely a lagging indicator of lower activity in 2011. Payroll taxes for the year to date indicate a further slowing of economic activity in 2012 (see section 2.7).
- There has been a marked improvement in the import cover ratio as a result of higher SACU receipts and improved budgetary controls (section 2.8).
- The latest GDP estimates and forecasts are attached as an Appendix

1. International Developments

The outlook continues to deteriorate

The IMF has revised down its global outlook for 2012 and 2013 from its July 2012 projection. The July 2012 projection was itself a downward revision of the April 2012 outlook.

Table 1 - Global Annual Growth Forecasts

	Actual	Jul 2012		Oct 2012	
	2011	2012	2013	2012	2013
World	3.9	3.5	3.9	3.3	3.6
Advanced	1.6	1.4	1.9	1.3	1.5
E & D	6.2	5.6	5.9	5.3	5.6

Source: IMF WEO October 2012

Growth in the advanced economies has been revised down to 1.3 percent and 1.5 percent for 2012 and 2013 respectively, due to the worsening outlook in Europe as well as the uncertainty being created by the impending "fiscal cliff" in the United States.

Table 2 - Advanced Economies Annual Growth Forecasts

	Actual	Jul 2012		Oct 2012	
	2011	2012	2013	2012	2013
US	1.7	2.0	2.3	2.2	2.1
Euro	1.5	-0.3	0.7	-0.4	0.2
UK	0.7	0.2	1.4	-0.4	1.1

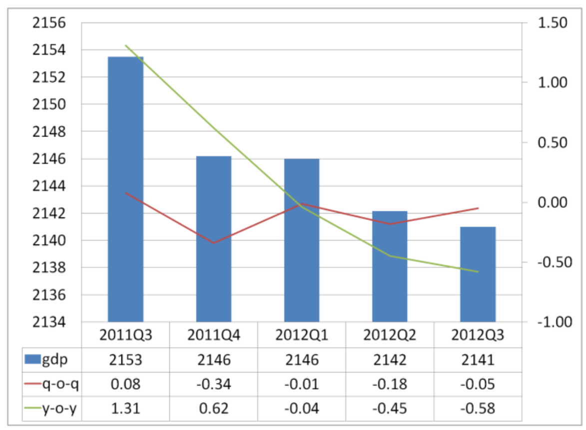
Source: IMF WEO October 2012

While the 2012 forecast for the US has been revised up to 2.2 percent, the US growth forecast for 2013 has been revised down to 2.1 percent. The outlook for the euro zone has also worsened for both 2012 and 2013. Following the release of UK GDP figures for Q2 2012 as well as a downward revision for Q1 the UK is forecast to undergo a contraction in 2012.

1.1 Euro Area

The euro area remains in recession having now undergone 3 consecutive quarters of negative growth.

Figure 1 – Euro Area GDP at constant prices (EUR billions



Source: ECB

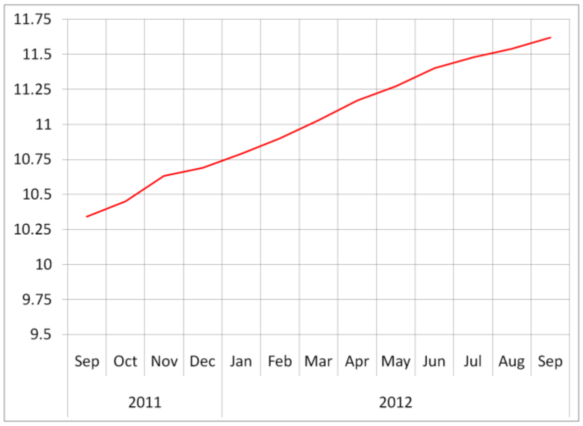
The contraction in the economic activity is mainly due to the scaling down in production in these economies because of tight financial and fiscal conditions.

Both Spain and Italy are now in recession as a result of fiscal consolidation. Growth is stagnant in the French economy while growth has slowed below 1% in Germany.

The labour market has also continued to worsen with unemployment now above 11.5

percent for the region, a 0.9% increase (11.6% from 10.6%) for the year to September 2012.

Figure 2 - Euro Area unemployment rate

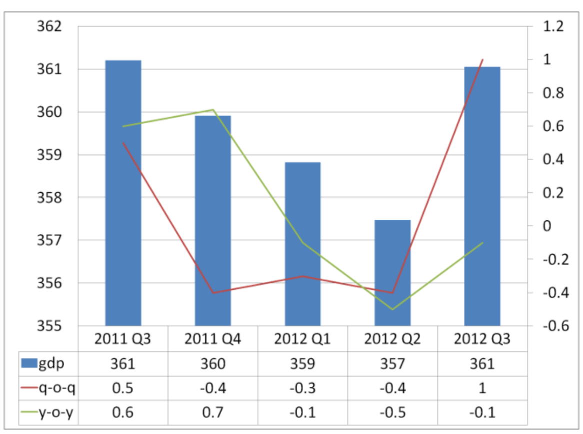


Source: ECB

1.2 United Kingdom

The UK emerged from recession in Q3 with quarter on quarter growth of 1%.

Figure 3 - UK GDP at constant prices (GBP billions)

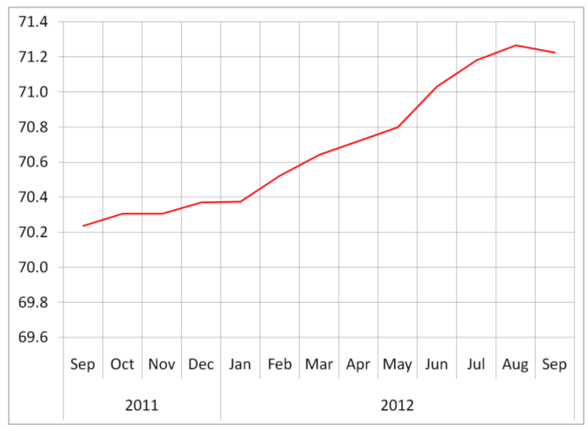


Source: ONS

The UK Office of Budget Responsibility is now forecasting a growth rate of -0.1% for 2012 which is slightly better than the IMF forecast of -0.4% (see Table 2 above). The OBR is forecasting growth of 1.2% for 2013 which is again close to the IMF October forecast of 1.1% (see Table 2 above).

In the labour market both the employment-to-population ratio and the unemployment rate which had curiously been increasing and decreasing respectively appear to have stabilized (see EB No.3 for discussion).

Figure 4 - UK employment-to-population ratio (age 16-64)



Source: ONS

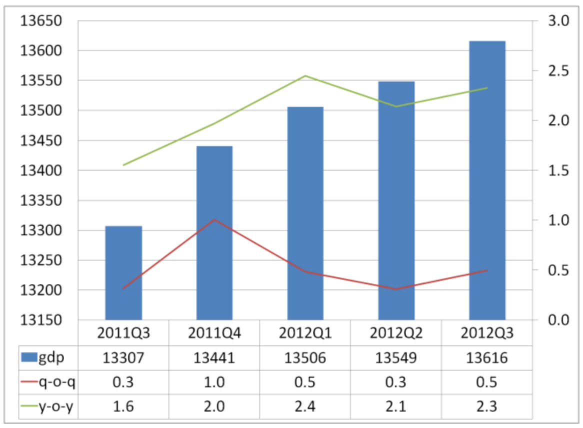
Figure 5 - UK unemployment rate (age 16-64)

Source: ONS

1.3 United States

The US economy expanded by 0.5 percent quarter on quarter and by 2.3 percent year-on year in Q3 2012.

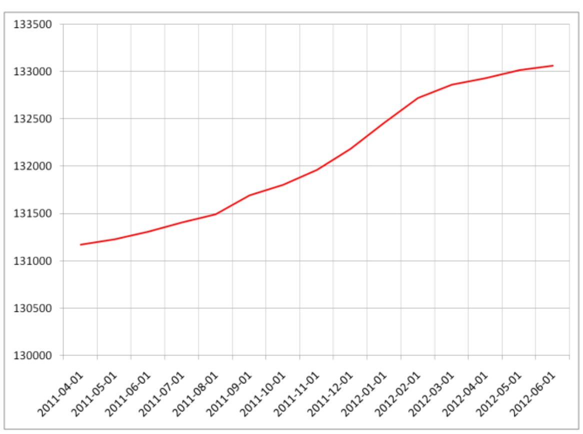
Figure 6 - US quarterly GDP and growth rates



Source: FRED

The employment situation also continues to improve with 1 % more people employed at the end of Q3 2012 compared to Q3 2011.

Figure 7 - US Total Non Farm Employment (thousands)



However, as noted in previous issues employment remains below pre-crisis levels and concerns remain over the US economy in relation to the impending *fiscal cliff*. This issue is discussed in Box 1 below.

Box 1: The US *Fiscal Cliff* by **Nomvula Ndwandwe**

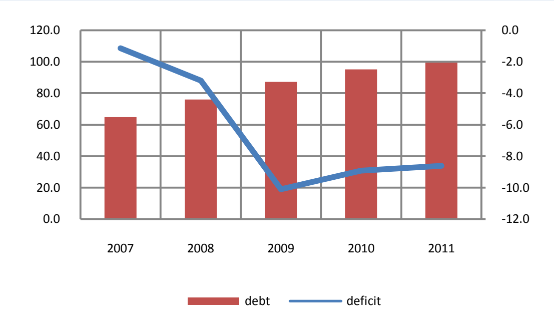
The *Bush Tax Cuts* is a catch all phrase which describes a number of pieces of legislation which reduced taxes early in the administration of then ~~p~~President George W. Bush whose administration covered the period 2001 to 2008. The purpose of the tax cuts was to stimulate economic activity in the face of recessionary fears following 9/11.

Specifically the legislation; reduced income tax rates; increased the child tax credit; reduced estate taxes; expanded tax incentives for retirement savings plans; and cut taxes on dividends and capital gains.

Due to the *Byrd Rule*, these tax cuts were set to expire at the end of 2010. However the Obama administration chose to extend these tax cuts for a period of two years as part of its stimulus package response to the *Great Recession*, pushing the expiration date to the 31st of December 2012.

In addition following the *Budget Control Act 2011* , a compromise which allowed for the raising of the *debt ceiling*, mandatory spending cuts will come into force in January 2013 should a deal on how to deal with the federal deficit not be reached before then.

Federal debt rose from 57% of GDP in 2001 to 65% in 2007 as a result of lower revenues (due to tax cuts) and higher spending (due to the wars in Iraq and Afghanistan). The recession following the financial crisis led to a dramatic increase in the budget deficit from 1.1% of GDP in 2007 to 10.1% of GDP in 2009. High unemployment has meant that the deficit remained high through 2010 and 2011. As a result the federal debt level has ballooned to 99% of GDP as at the end of 2011. Debt overhangs of greater than 90% of GDP have been identified as detrimental to growth in advanced countries.



Both sides of the US political spectrum agree that the deficit is unsustainable and needs to be reduced. However there is significant disagreement on how best to achieve fiscal sustainability. The administration favors extending the Bush Tax Cuts for all those earning less than $250k per year. The Republican led Congress favors extending tax cuts for all income earners and closing the deficit through spending cuts and reforms of entitlement programs.

If a deal is not reached before the end of the year then the US will go over the fiscal cliff. The Congressional Budget Office (CBO) has estimated that this will result in an immediate 4% of GDP reduction in the budget deficit. They further estimate that this will send the US economy into recession in the first half of the year.

How will this effect Swaziland?

With the exception of textile exports under AGOA (see section 2.6), Swaziland is not directly interconnected with the US Economy either for trade or investment. However the US is the largest economy in the world and if it moves into recession world demand will be depressed. This will affect our trading partners most notably Europe which is highly interconnected with the US economy. Therefore there are likely to be indirect effects for Swaziland through the trade channel due to lack of demand from both Europe and consequently South Africa. However while time is running out a deal may yet be reached in the coming weeks.

References

Williams R. et al. (2012). *Toppling off the Fiscal Cliff: Whose Taxes Rise and How Much? Urban Institute and Urban-Brookings Tax Policy Center.*

Labonte M. et Levit M.R. (2011).Fiscal Year 2013 Historical Tables, Budget of the U.S. Government. Congressional Research Service Report for Congress.

Reinhart C. & Rogoff K. (2012), *Debt Overhangs: Past and Present*, NBER Working Paper

1.4 SSA & RSA Developments

The 2012 growth forecast for the SSA region has been revised down by 0.4% to 5.0%.

Table 3 – SSA Annual Growth Forecasts

	Actual	Jul 2012		Oct 2012	
	2011	2012	2013	2012	2013
SSA	5.1	5.4	5.3	5.0	5.7
RSA	3.1	2.6	3.3	2.6	3.0

Source: IMF WEO October 2012

The projections for 2012 and 2013 still reflect strong growth in the region despite the difficult external conditions.

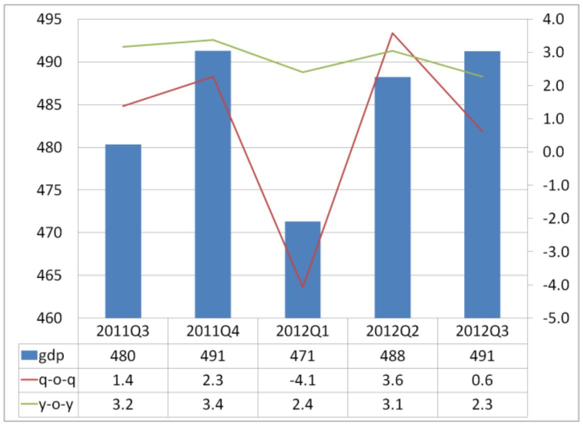
The projections are based on strong domestic demand in low income countries, particularly investment.

However, downside risks from the weaker external environment, particularly in Europe, are expected to continue to be a drag on middle-income countries' growth.

As a result the RSA outlook has been revised down to 3.0% for 2013. The 2012 projection remains unchanged.

The latest GDP figures for Q3 show year on year growth of just 2.3% in Q3 2012.

Figure 8 - RSA GDP at constant prices (ZAR billions)

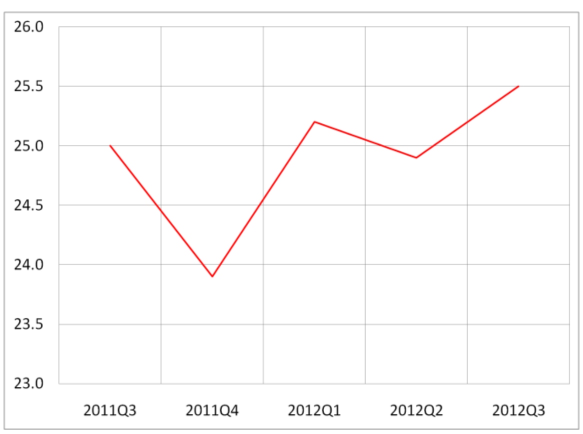


Source: SSA

This implies that a growth rate of 2.7% in the fourth quarter is required for the forecast growth rate of 2.6% (see Table 3 above) to be met.

The slowdown in growth is also affecting the labour market.

Figure 9 – RSA unemployment rate

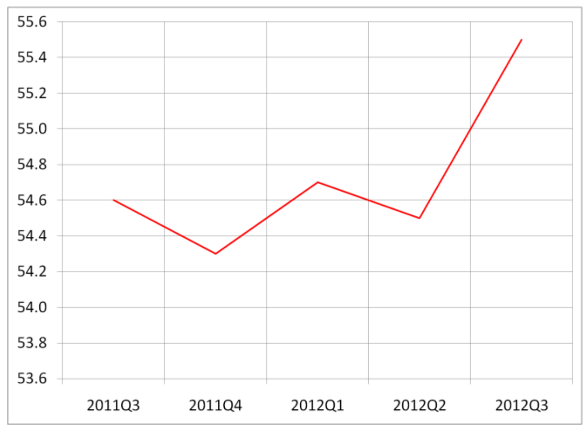


Source: SSA

The unemployment rate which had fallen to under 24% in Q4 2011 has risen to 25.5% as of Q3 2012.

However it is worth noting that employment in South Africa is increasing. The employment-to-population ratio increased over the same period from 54.6% to 55.5%.

Figure 10 - RSA employment to population ratio (15-64)



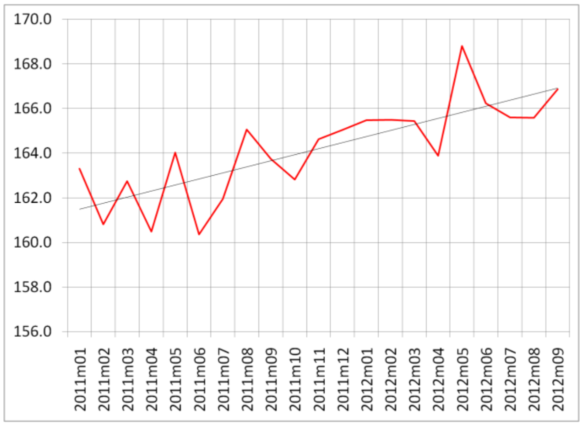
The reason for the divergent trends is that the labour force is growing faster than jobs are being added to the economy.

If the economy cannot sustain the changing demographics the higher unemployment rate is likely to lead to increased social unrest.

1.5 World Trade

World merchandise trade showed signs of stagnation in the early part of Q3 2012 before recovering towards the end of the period.

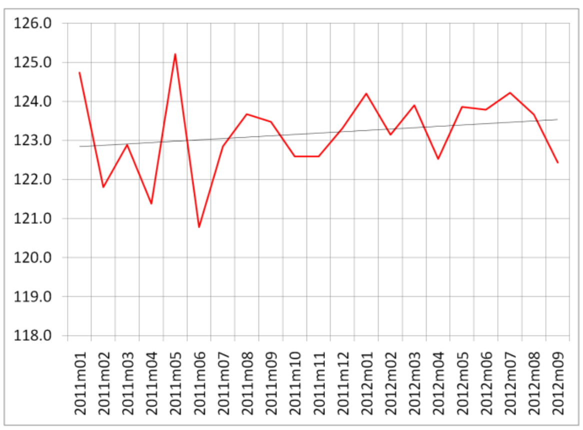
Figure 11 – Monthly World Trade Index (2000=100)



Source: World Trade Monitor

Advanced economy imports have in fact stagnated and declined sharply in the third quarter.

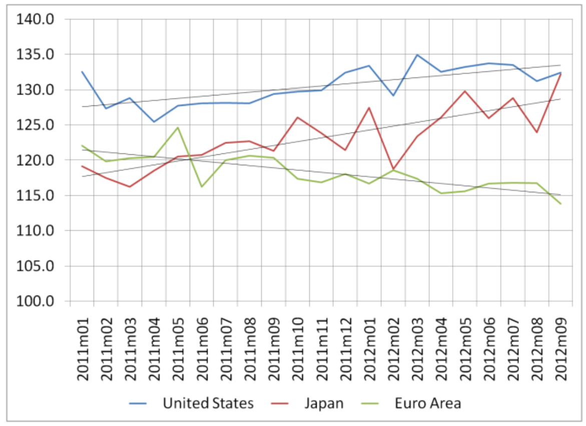
Figure 12 - Advanced Economy Imports Index (2000=100)



Source: World Trade Monitor

The stagnation is being driven by declining imports to the euro area in particular.

Figure 13 - Advanced Economies Imports Indices



Source: World Trade Monitor

Given that the European Union is Swaziland's second largest export market after South Africa (see section 2.5 below) this trend is a significant cause for concern for the country.

While Swaziland has a relatively diversified product base for a country of its size and development our markets are not well diversified with an over reliance on South Africa and the EU. This point was highlighted in the draft *Economic Diversification Study* coordinated by SIPA.

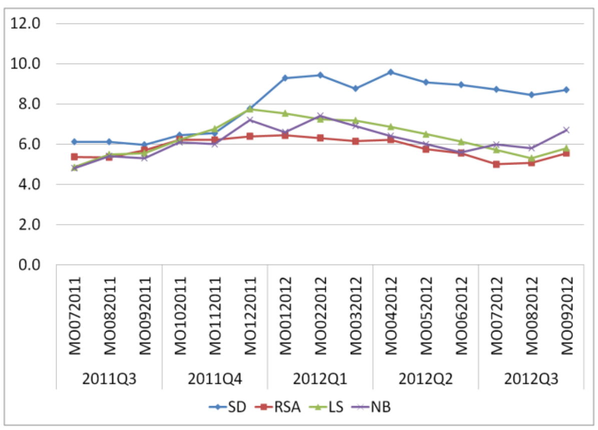
2. Domestic Developments

2.1 Prices

The declining inflation rate was short lived

Having declined to a low for the year of 8.45% in August, headline inflation rose to 9.11% in September 2012. The other CMA countries experienced a similar increase in inflation for the same period.

Figure 14 - CMA monthly inflation rates (headline)

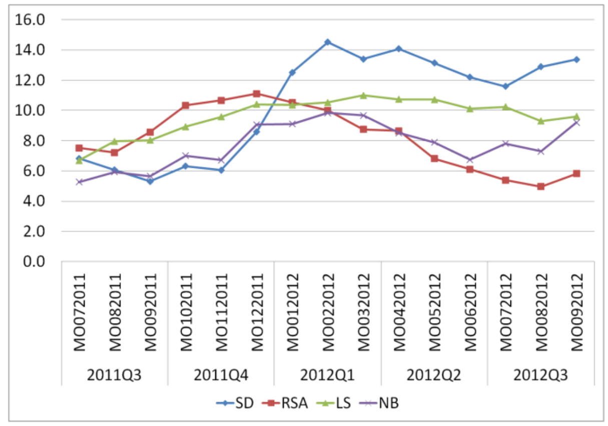


Source: CSO, SSA, LBS, SACU

The primary cause of the uptick in inflation was higher food price inflation which was forecast to arise as a result of supply shocks including the US drought[1].

Food price inflation rose to 12.4% in September having reached a low for the year of 11.6% in July.

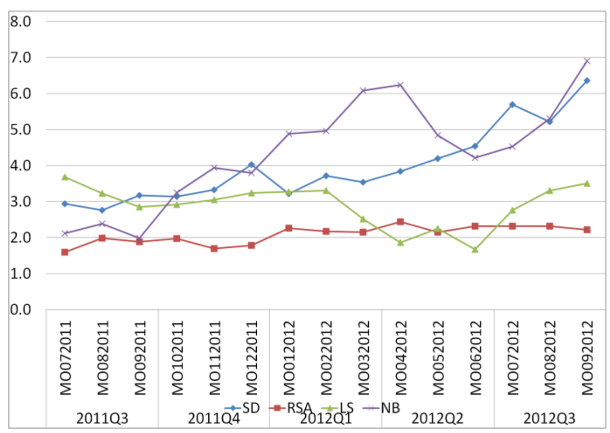
Figure 15 - CMA monthly inflation rates (Food)



Source: CSO, SSA, LBS, SACU

Furnishing, household equipment and routine household maintenance which is the third largest component of the CPI also increased from 4.2% in Q2 to 5.8% in Q3.

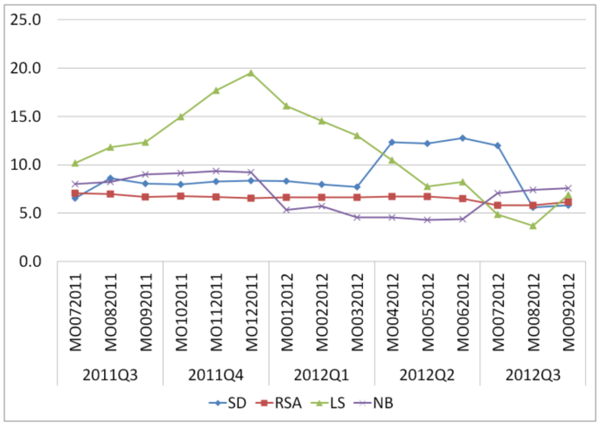
Figure 16 – CMA monthly inflation rates (Furniture etc)



Source: CSO, SSA, LBS, SACU

The increases in these prices were offset by a decline in the second largest component of the CPI *Housing, Water, Electricity, Gas, and Other Fuels*.

Figure 17 - CMA monthly inflation rates (H&U)

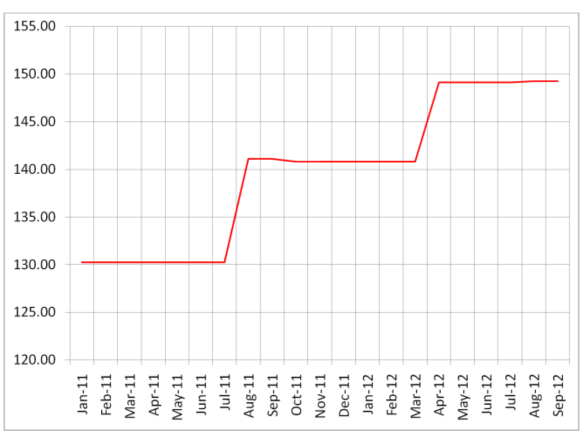


Source: CSO, SSA, LBS, SACU

This was due to a decline in the inflation rate of housing rentals from 14.5% in July to 5.75% in September.

Rental inflation has been quite high at 14.5% since April when rents were increased. However this inflation rate overstated the annual increase in housing rentals due to the fact that in 2011 the CPI recorded the rental increase in August.

Figure 18 - Housing Rentals CPI



Source: CSO

As such the inflation rate from April through to July reflected 2 years of price increases.

2.2 Interest Rates

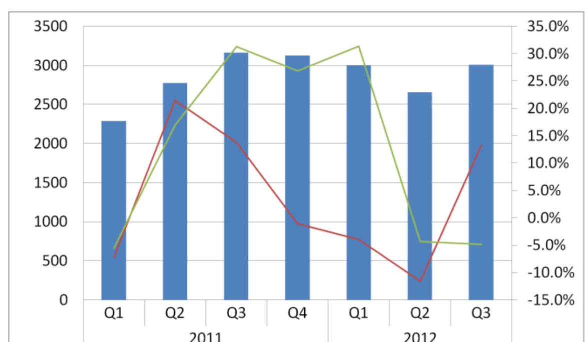
The CBS discount remained at 5% for the quarter under review. The prime lending rate remains at 8.5% also. Both fell by 50 basis in July from 5.5% and 9.0% respectively.

2.3 Lending

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

After 3 consecutive quarter-on-quarter declines in lending to the *non financial private sector*[2] credit to the sector expanded by 13.3% in the third quarter.

Figure 19 – Real lending to non financial private sector



	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3
Firms	2288	2778	3162	3128	3005	2658	3010
q-o-q	-7.2%	21.4%	13.8%	-1.1%	-3.9%	-11.6%	13.3%
y-o-y	-5.5%	17.0%	31.2%	26.9%	31.3%	-4.3%	-4.8%

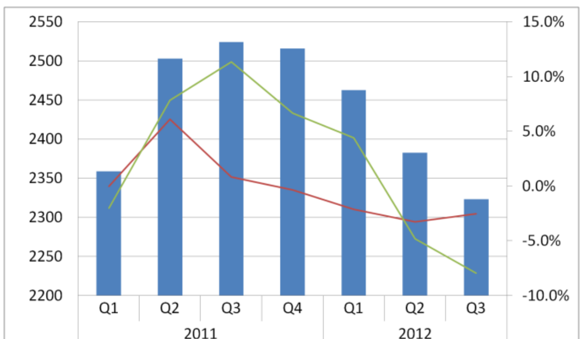
Source: CBS June 2012 Quarterly Review, Table S 3.7

However year on year lending to the sector remains down 4.8% in real terms[3] compared to Q3 2011.

Meanwhile there was a fourth consecutive quarterly decline in real lending to households[4] which fell by 2.5% for Q3 2012.

Year on year bank lending to households has declined by 8.0% in real terms compared to Q3 2012.

Figure 20 - Real lending to households



	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3
Total	2359	2503	2524	2516	2463	2382	2323
q-o-q	0.0%	6.1%	0.8%	-0.3%	-2.1%	-3.3%	-2.5%
y-o-y	-2.0%	7.8%	11.3%	6.6%	4.4%	-4.8%	-8.0%

Source: CBS Sept 2012 Quarterly Review, Table S 3.7

Lending to households consists of mortgage loans, motor vehicle loans and other loans which are primarily loans for education.

Figure 21 - Real y-o-y changes in lending to households

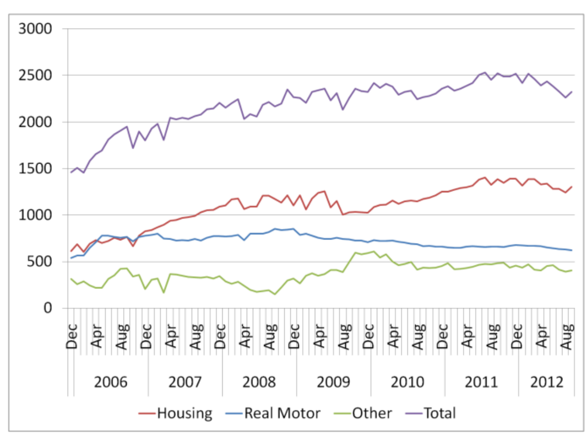
	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3
mortgage	15.9%	20.4%	18.2%	10.9%	7.4%	-7.1%	-6.0%
motor	-10.0%	-6.3%	-0.9%	2.4%	3.1%	-2.7%	-6.2%
other	-26.6%	-1.6%	11.5%	1.0%	-3.0%	-0.9%	-16.0%

Source: CBS

Motor vehicle loans have been declining throughout 2012 and in fact have been declining since as early as 2008. This most likely reflects a number of factors including the proliferation of other sources of official financing; cheaper motor vehicle imports; and employer motor vehicle loans schemes. As such the fall in motor vehicle loans may reflect a lack of demand for bank motor vehicle loans rather than a lack of supply from the banks. In fact as is noted in section 2.6 motor vehicle imports have increased for the year to date.

Other loans have also decreased year on year in every quarter of 2012 so far. Although the level increased in the latter half of 2011 the overall trend has been downward since early 2010 possibly coinciding with the implementation and rollout of free primary education. As such it is possible that there is falling demand for other loans also.

Figure 22 - Long run trends in real lending to households

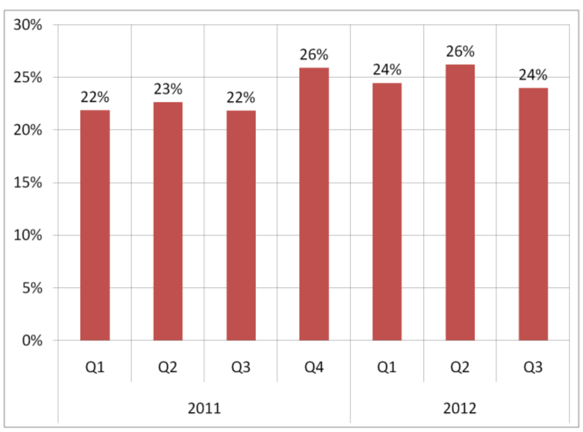


Source: CBS

However it may also be the case that mortgage lending has been crowding out motor vehicle and other loans. The long run trend for housing has been rising since 2009. The recent contraction in mortgage lending in Q2 and Q3 of 2012 is the primary reason for the overall contraction in lending to households.

The Q3 expansion in lending to the non-financial private sector sees the banking sectors required liquidity ratio decline to 24% i.e. the banks are still holding a cushion of 4% in excess of the CBS mandated liquidity requirement of 20%.

Figure 23 - Liquidity to Required Liquidity Ratio



Source: CBS Sept 2012 Quarterly Review, Table S 3.3

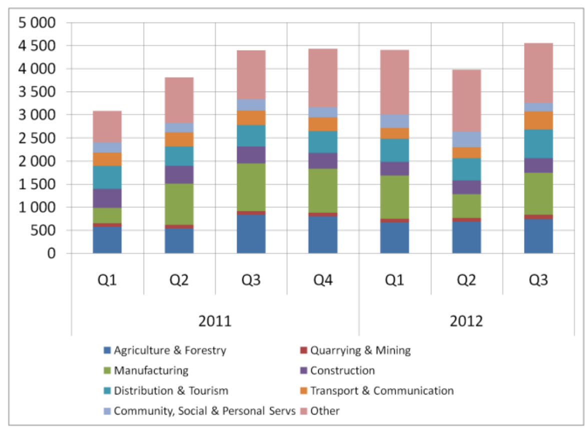
As documented in the previous issue the contraction in private sector lending in Q2 was primarily due to the repayment of a large loan by a single firm.

The Q3 data shows that this repayment has now been reabsorbed in private sector lending.

In fact the 10% nominal decline in lending to the private sector in Q2 has more than been reversed by a 15% expansion in private sector lending in Q3.

Most of the 15% expansion in lending was lent to the manufacturing sector with total lending to the sector increasing by 79%.

Figure 24 - Private sector lending by sector (E millions)



Source: CBS Sept 2012 Quarterly Review, Table S 3.3

Agriculture & Forestry (+8%), Quarrying and Mining (+18%), Manufacturing (+79%), Construction (+5%), Distribution & Tourism (28%), Transport & Communications (-46%) all saw quarter on quarter increases in lending while lending to Community, Social & Personal Services and other lending declined.

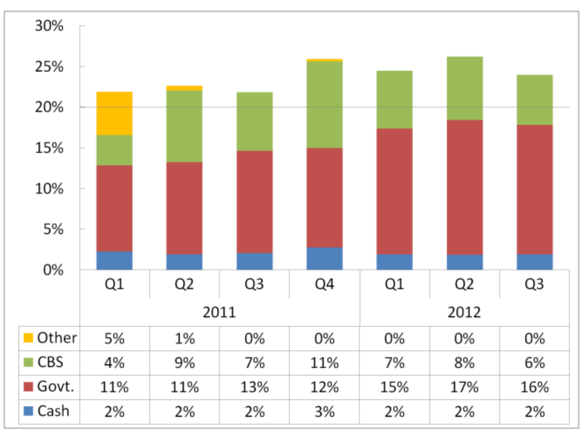
However year on year lending to the Agriculture & Forestry (-12%), manufacturing (-10%), construction (-15%), Community, Social & Personal Services (-25%) sectors remains down compared to Q3 2011.

The quarter on quarter increase in lending to private sector may reflect an improvement in the financial sector's confidence in the domestic economy but is also likely due to developments in both monetary and fiscal policy.

On the monetary policy front the discount rate was cut to 5% from 5.5% while on the fiscal front the interest rate on treasury bills fell to 7.2% in August from 7.5% the previous month.

These factors appear to be reflected in the liquidity to required liquidity ratio which shows a decline in the banks CBS holdings and their holdings of Government Paper (bonds and treasury bills)

Figure 25 - Liquidity to Required Liquidity Ratio by type



Source: CBS Sept 2012 Quarterly Review, Table S 3.3

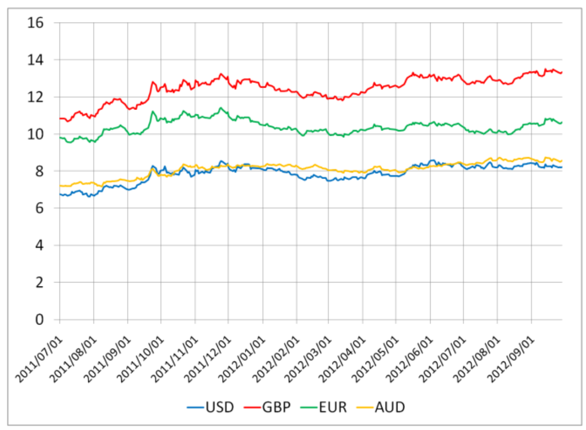
This might be a first signal that fiscal consolidation combined with the loose monetary policy stance is having a positive impact on the real sector.

While these Q3 developments are encouraging it should not be forgotten however that lending to the private and household sectors remains down in real terms for the year to date 2012.

2.4 Exchange Rates

There was less volatility between the Rand and the major currencies in Q3 2012.

Figure 26 - Selected daily exchange rates



Source: SARB

Table 4 - Selected Quarterly Exchange Rates (AP)

	ZAR/USD	ZAR/GBP	ZAR/EUR	ZAR/AUD
2011Q3	8.09	12.73	10.92	8.19
change	13.39	10.85	8.33	9.32
2011Q4	7.76	12.18	10.17	8.19
change	-4.18	-4.26	-6.89	0.00
2012Q1	8.14	12.87	10.43	8.20
change	5.00	5.63	2.55	0.22
2012Q2	8.27	13.05	10.34	8.59
change	1.52	1.38	-0.90	4.63

Source: SARB

On average the Rand traded at 1.5% lower against the Dollar, 1.4% lower against the Sterling, 0.9% higher against the Euro, and 4.6%

lower against the Australian dollar compared to Q2 2012.

At the end of the period the Rand was trading 1% higher against the US dollar, 2.8% lower against the British pound, 1.8% lower against the euro, and 1.72% lower against the Australian dollar compared to the end of Q2 2012.

Table 5 - Selected Quarterly Exchange Rates (EP)

	ZAR/USD	ZAR/GBP	ZAR/EUR	ZAR/AUD
2011Q3	8.13	12.53	10.50	8.25
change	1.31	0.21	-3.23	5.61
2011Q4	7.68	12.28	10.24	7.99
change	-5.53	-2.00	-2.49	-3.19
2012Q1	8.31	12.98	10.44	8.45
change	8.14	5.65	1.90	5.74
2012Q2	8.22	13.34	10.64	8.59
change	-1.03	2.82	1.89	1.72

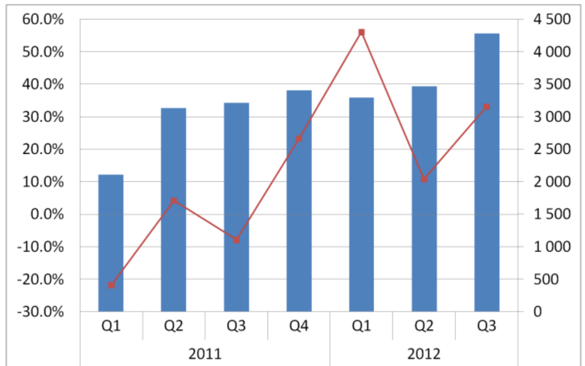
Source: SARB

Overall therefore the Rand and by extension the Lilangeni has weakened (depreciated) against the major currencies which *other things equal* makes our extra-SACU imports (i.e. fuel) more expensive and our extra-SACU exports more competitive[5].

2.5 Exports[6]

According to the latest data from the SRA exports grew by 33.2% in nominal terms year on year in Q3 2012 and by 30.6% year on year for the 9 months to September 2012.

Figure 27 –Exports at current prices (E millions)

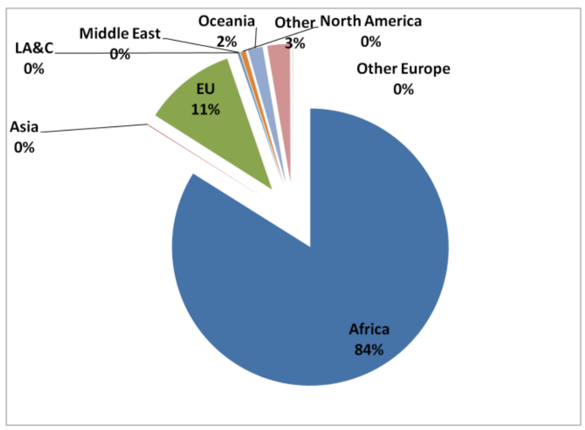


	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
value	2 113	3 133	3 216	3 409	3 297	3 472	4 282
y-o-y	-21.8%	4.2%	-7.8%	23.3%	56.1%	10.8%	33.2%

Source: SRA

In 2011 84% of exports were destined for Africa, with the EU (11%) being the second most important export market, followed by Oceania (2%)[7].

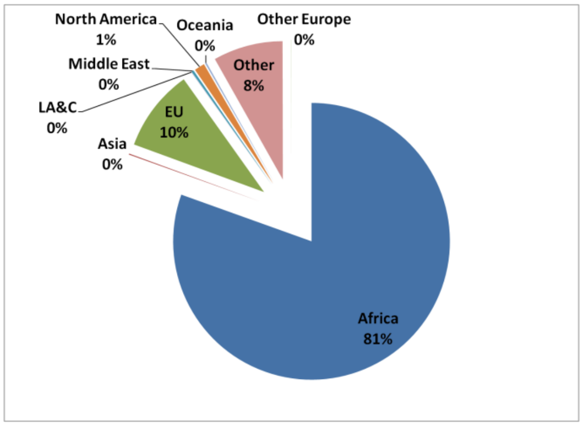
Figure 28 - Exports by region 2011



Source: SRA

There have been some changes in these export ratios for the year to date 2012. Notably Oceania has ceased to be an export destination of significance for Swaziland, while North America has re-emerged as an export market for textiles[8].

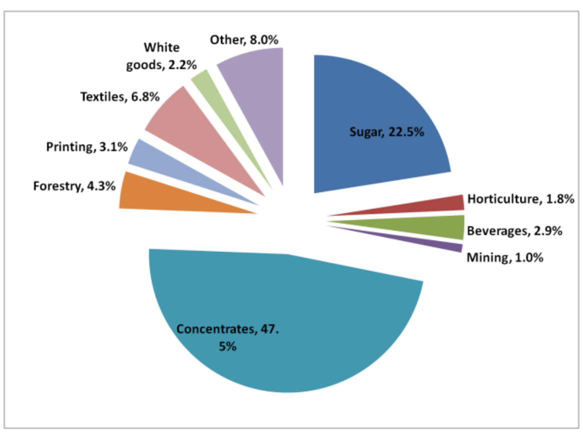
Figure 29 – Exports by region YTD 2012



Source: SRA

In 2011 9 sectors accounted for approximately 90% of Swaziland's exports with the manufacturing of concentrates and the manufacturing of sugar being the dominant sectors. These export ratios were relatively stable between 2010 and 2011 when exports declined by approximately 1% in nominal terms.

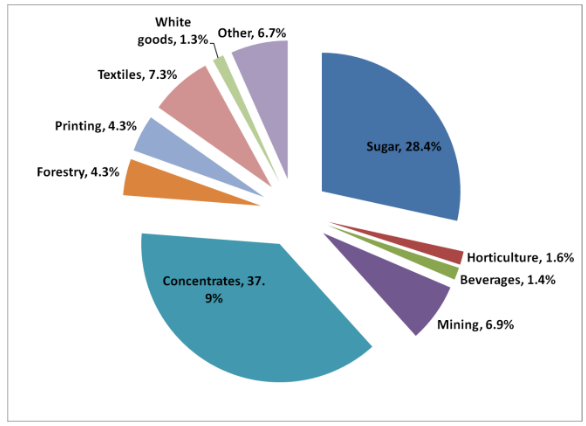
Figure 30 - Exports at current prices by sector 2011 (% of total)



Source: SRA

However, 2012 has seen some export sectors increase in significance with others consequently declining in significance.

Figure 31 – Exports at current prices by sector 2012 YTD (% of total)

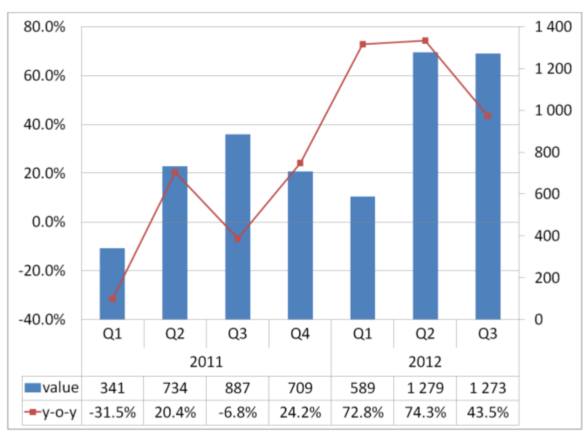


Source: SRA

2.5.1 Sugar[9]

The share of sugar in total exports has increased from 22.5% in 2011 to 28.4% for the year to date 2012. In the first 3 quarters of 2012, exports of sugar grew by 73%, 74% and 44% in nominal terms year on year respectively.

Figure 32 - Sugar exports at current prices (E millions)

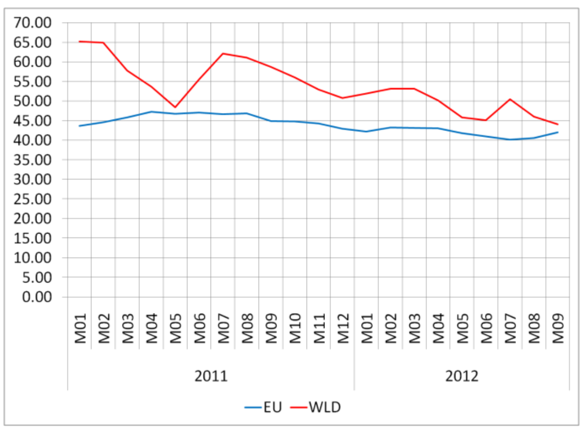


Source: SRA

While this represents a strong export performance for the industry, sugar prices have actually been on the decline throughout 2012.

Between September 2011 and September 2012 the EU price of sugar fell by 6.4% while the world price fell by 25%. The EU price in particular is likely being affected by lower demand given the recession in the Euro Area (see section 1.1 above).

Figure 33 - Sugar prices in nominal $US



Source: World Bank "pink sheet"

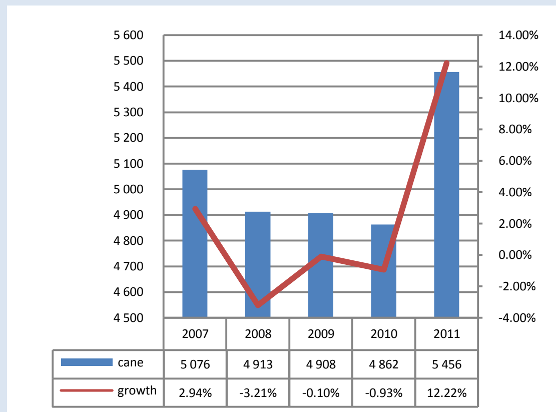
As such much of the strong export performance in 2012 can be attributed to higher production levels. However this should not be interpreted as a strong growth performance for the industry in 2012. What we are instead seeing is the effect on exports of the exceptional production performance of the industry in 2011 (see Box 2 below for a more in depth explanation).

Box 2: Focus on the Sugar Industry by **Cathal Long**

Exceptional 2011 performance

Following three consecutive declines in annual sugar cane production (2008 to 2010) cane production (the main raw material in sugar production) increased by approximately 12% in 2011.

Figure 34 - Sugar Cane production in metric tons (thousands)

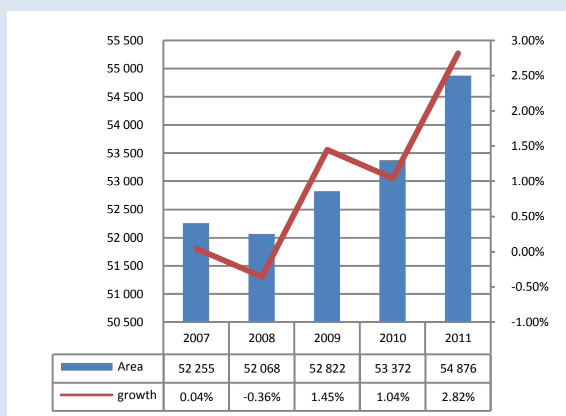


	2007	2008	2009	2010	2011
cane	5 076	4 913	4 908	4 862	5 456
growth	2.94%	-3.21%	-0.10%	-0.93%	12.22%

Source: Swaziland Sugar Association

The improved sugar cane production levels are attributable to increases in the area under cultivation in the 3 years to 2011.

Figure 35– Sugar cane area under cultivation (hectares)

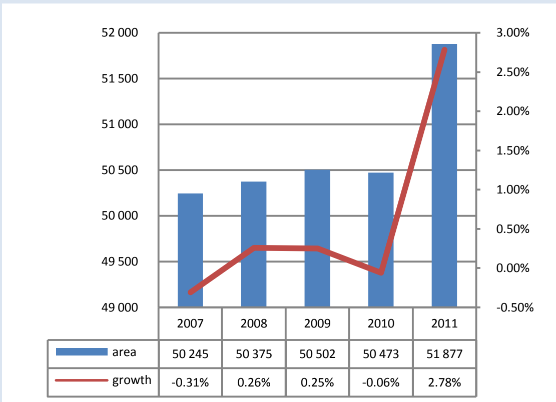


	2007	2008	2009	2010	2011
Area	52 255	52 068	52 822	53 372	54 876
growth	0.04%	-0.36%	1.45%	1.04%	2.82%

Source: Swaziland Sugar Association

These consecutive increases in the area under cultivation have translated into an increase in the area harvested in 2011.

Figure 36 - Sugar cane area harvested (hectares)

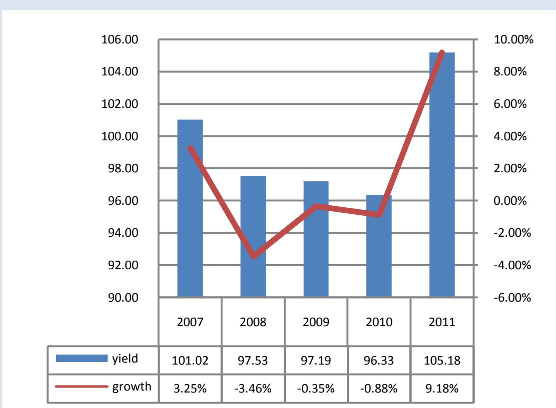


	2007	2008	2009	2010	2011
area	50 245	50 375	50 502	50 473	51 877
growth	-0.31%	0.26%	0.25%	-0.06%	2.78%

Source: Swaziland Sugar Association

Furthermore there were significant efficiency increases. Most notable was the higher cane yield (the amount of cane production per hectare in metric tons) which grew by 9.18% in 2011.

Figure 37 - Cane Yield (tons per hectare)

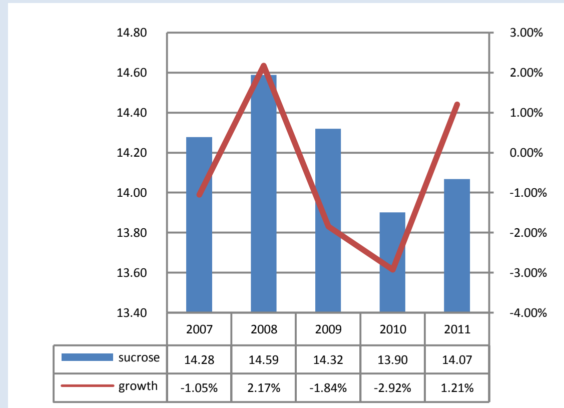


	2007	2008	2009	2010	2011
yield	101.02	97.53	97.19	96.33	105.18
growth	3.25%	-3.46%	-0.35%	-0.88%	9.18%

Source: Swaziland Sugar Association

Also the sucrose content (sucrose production as a % of cane production) of the harvest was higher than in 2010.

Figure 38 - Sucrose Content (%)

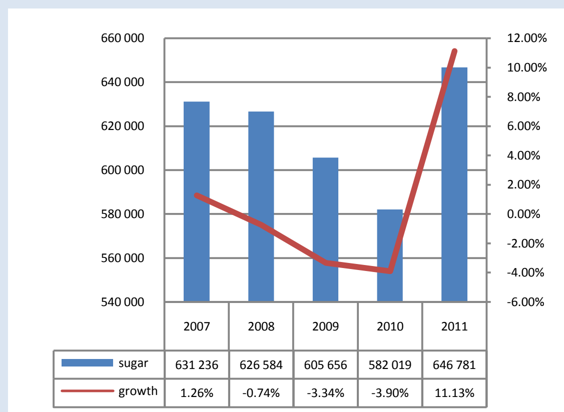


	2007	2008	2009	2010	2011
sucrose	14.28	14.59	14.32	13.90	14.07
growth	-1.05%	2.17%	-1.84%	-2.92%	1.21%

Source: Swaziland Sugar Association

The increase in cane production had positive knock on effects on sugar production. Sugar production rose by approximately 11% in 2011.

Figure 39 - Sugar production in metric tons

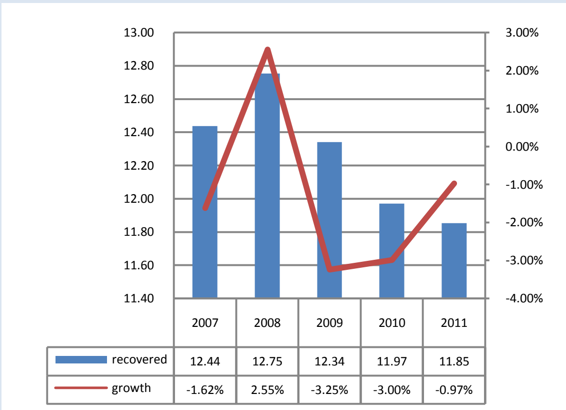


	2007	2008	2009	2010	2011
sugar	631 236	626 584	605 656	582 019	646 781
growth	1.26%	-0.74%	-3.34%	-3.90%	11.13%

Source: Swaziland Sugar Association

However despite the backward linkage benefit of the increase in raw material with higher sucrose content sugar production did not grow at the same rate as cane production due to a decline in the level of sugar recovered (sugar production as a percentage of cane production).

Figure 40 - Sugar recovered (%)



Source: Swaziland Sugar Association

Recording in the National Accounts

On the production side of the national accounts the sugar industry is represented in both the primary and secondary sectors[1]. The value added from the production of sugar cane is recorded under the Title Deed Land (TDL) subsector of agriculture, while the value added from the production of sugar is recorded under manufacturing in the secondary sector.

However it is important to note also what happens on the expenditure side of the national accounts[1]. The finished product (sugar) is produced primarily in the latter half of the year and often cannot be sold /exported immediately and is therefore warehoused until it is sold. On the expenditure side this is captured as an increase in investment, specifically an increase in inventory.

So in 2011 following a record harvest year and an 11% increase in sugar production inventories increased. In 2012 much of the inventory is then sold. This means exports increase but inventories decline by the same amount such that the effect for 2012 is neutral. As such sugar exports are a *lagging indicator* of the past performance of the industry.

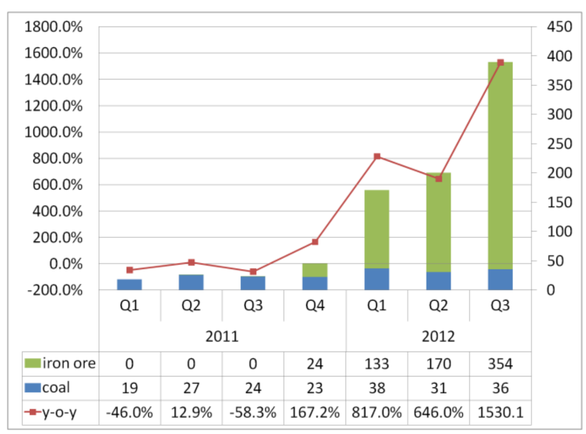
Following the exceptional harvest in 2011, growth in sugar cane production is forecast to be more modest in 2012 at approximately 4.8%. Growth in sugar production is therefore forecast to be roughly similar. As such we would expect the export performance of the industry over the next year to remain strong although at a declining growth rate as was the case for Q3 2012.

1 The production side of the national accounts captures the value added of each sector of the economy.
2 The expenditure side is represented by the familiar accounting equation GDP = C + I +G + (X-M) where C is consumption, I investment, G government spending and X-M the trade surplus / (deficit).

2.5.2 Mining[10]

The mining sector has grown from 1% of total exports in 2011 to 6.9% of total exports for the year to date 2012 due to the commencement of iron ore mining as well as an improved coal export performance.

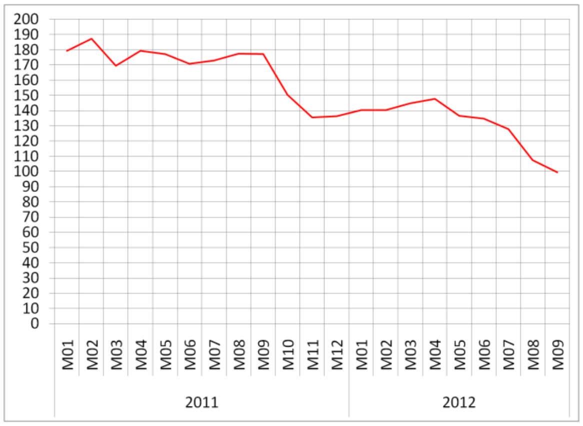
Figure 41 - Mining exports at current prices (E millions)



Source: SRA

Iron ore prices however have been on the decline in 2012 particularly in Q3 2012 which saw the price fall by approximately $35 per metric ton.

Figure 42 - Iron Ore Prices in nominal $US



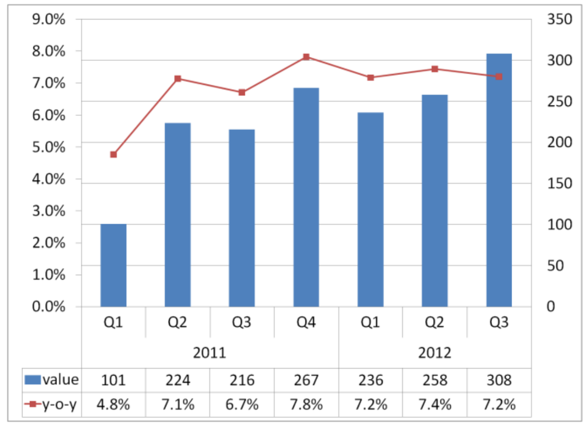
Source: World Bank "pink sheet"

As such what we are seeing in mining is a significant expansion of the sector driven primarily by the iron ore sub-sector. However the mining sector remains small. Factoring in forecast growth of approximately 100% for 2012 the mining sector is forecast to contribute just 0.2% of total value added in 2012.

2.5.3 Textiles[11]

The textile sector expanded from 6.8% of exports in 2011 to 7.3% of exports in 2012, with the recovery which began in 2011 continuing into 2012. Year on year export growth in nominal terms was 7.2% in Q3 2012 and the exports of the industry have been growing at this trend since Q2 2012.

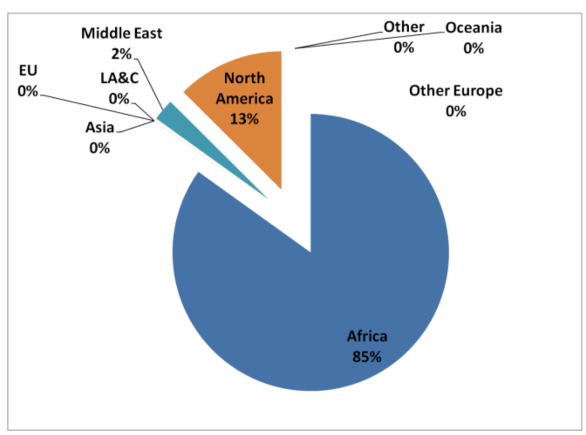
Figure 43 - Textile exports at current prices (E millions)



Source: SRA

The destination of these textile exports for the year to date 2012 have been Africa (85%), North America (13%) and the Middle East (2%). However the regional designations hide the fact that textile exports are not particularly well diversified by destination in that 99% of the exports to Africa, North America and the Middle East go to South Africa, the United States and Saudi Arabia[12] respectively.

Figure 44 – Textile exports by region 2012 year to date

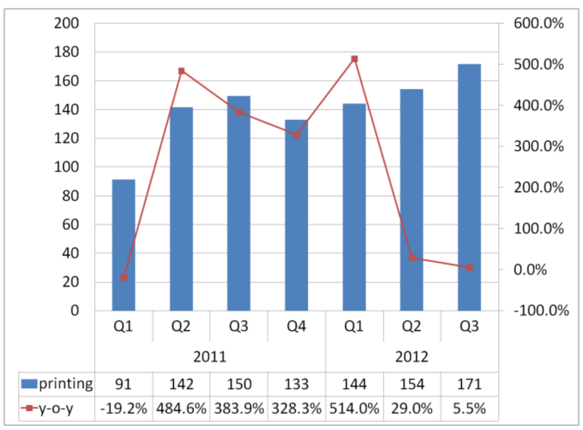


Source: SRA

2.5.4 Printing

The printing industry which experienced rapid growth in exports over the year Q2 2011 to Q2 2012 appears to have now stabilized at more moderate growth levels, growing by just 5.5% in Q3 2012. Exports of the printing industry are destined for South Africa (approximately 99%) with the remaining 1% destined for Mozambique and the other SACU countries.

Figure 45 – Printing exports at current prices (E millions)

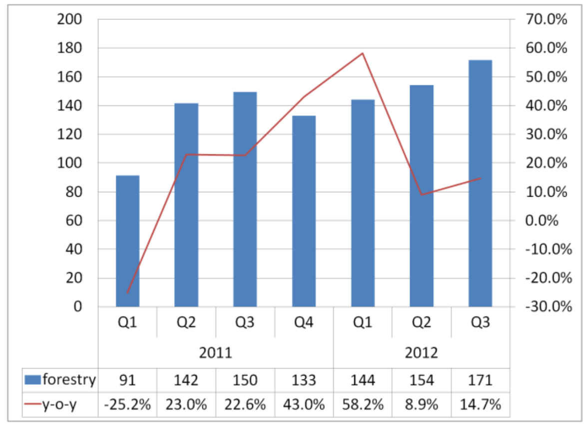


Source: SRA

2.5.5 Forestry[13]

The growth rate of exports of the forestry industry has slowed over the last 2 quarters following a period of rapid growth over the period from Q2 2011 to Q1 2012. In 2011 approximately 95% of exports were to South Africa while 5% of exports were to Mozambique.

Figure 46 – Forestry exports at current prices (E millions)

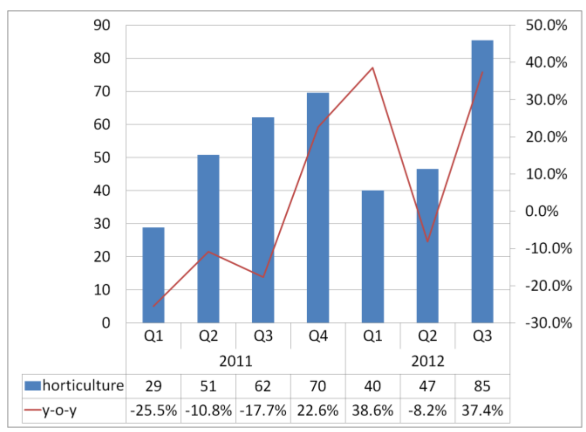


Source: SRA

2.5.6 Horticulture[14]

Stronger Q1 and Q3 performances suggest that this sector is recovering following a decline in exports in 2011.

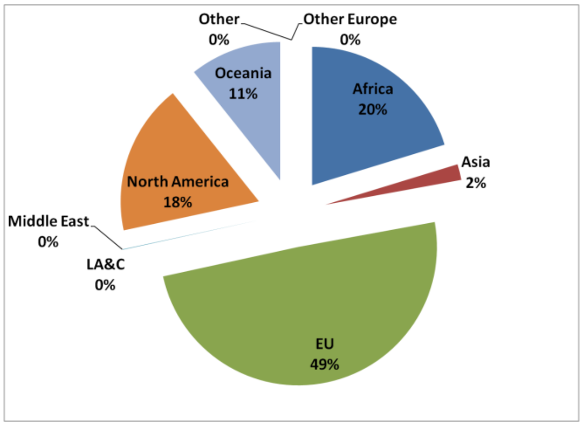
Figure 47 - Horticulture exports in current prices (E millions)



Source: SRA

Though the export market is small (1.6% of total exports for 2012) it is quite well diversified exporting to a variety of regions.

Figure 48 – Horticulture exports by region YTD 2012



Source: SRA

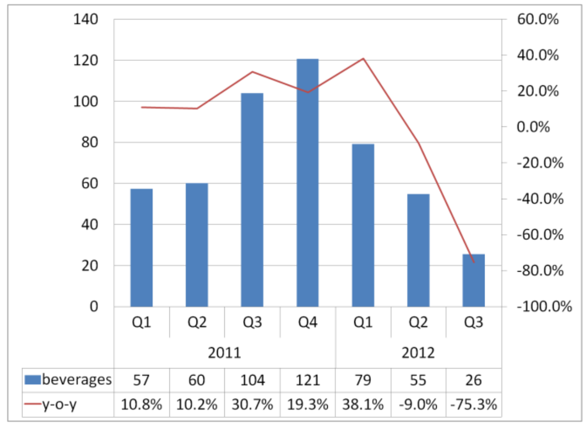
While the sector has been affected by the downturn in the EU (exports to the EU fell by 25% in 2011) much of the effect is being offset by higher exports to Africa and North America which more than doubled in 2011 and are above this level for the year to date 2012. The Asian and Oceania markets have also recovered for the year to date 2012.

2.5.7 Beverages[15]

The decline in exports for the year to date 2012 reflects the franchise arrangements of the industry. Swaziland only exports beverages when there is a shortfall in production in other SADC countries.

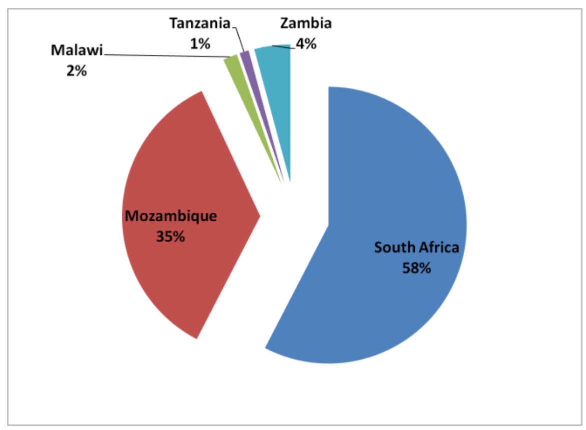
The primary export destinations are South Africa and Mozambique.

Figure 49 - Beverage exports at current prices (E millions)



Source: SRA

Figure 50 - Beverage exports by country YTD 2012



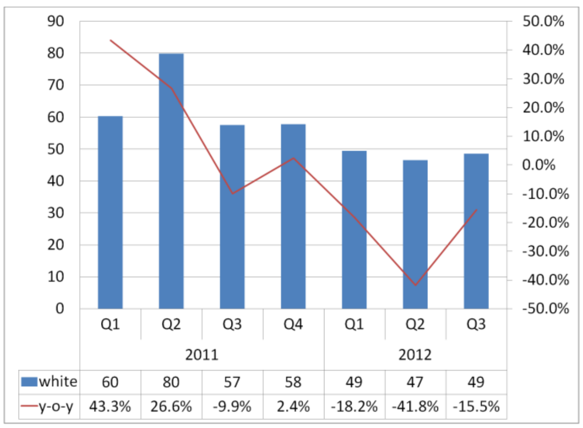
Source: SRA

2.5.8 White Goods[16]

This sector exports almost exclusively to the SADC market. 2011 was a better year for the sector with the South African market growing by 27% and the Mozambican market expanding by a multiple of 15. However smaller markets including Zimbabwe and Malawi continued to shrink in the face of international competition.

There has been significant year on year quarterly declines in exports for this sector in each of the first 3 quarters of 2012. This is due to a much slower South African market and to a lesser extent the loss of the Zimbabwean market.

Figure 51 – Exports of white goods at current prices (E millions)

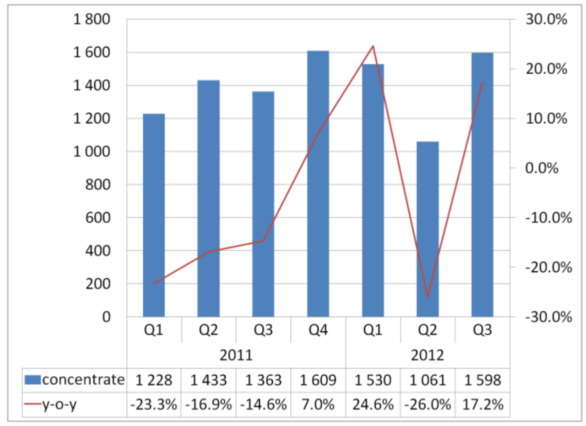


Source: SRA

2.5.9 Concentrates[17]

This sector is Swaziland's largest export sector. Exports fell by 12.3% in 2011. The decline was a result of declines in both the African (-7%) and Oceania (-72%) markets. In 2012 the African market which is now 100% of exports grew by 4.1% for the year to date Q3 2012.

Figure 52 - Concentrates exports at current prices (E millions)



Source: SRA

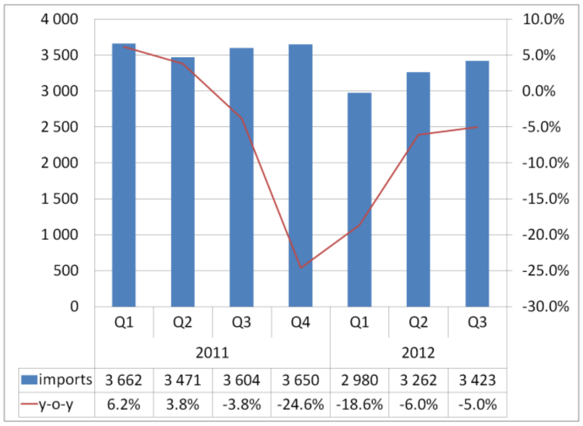
2.6 Imports[18]

Imports are an important indicator of private consumption in a small open economy like Swaziland where consumer spending is primarily on imports. Imports are also an important indicator of capital investment and of economic activity.

There was a fifth consecutive year on year decline in imports in Q3 2012. However Q2 and Q3 2012 have seen a significant moderation in the declines compared to Q1. For the year to date 2012 there has been a 10% year on year decline in imports.

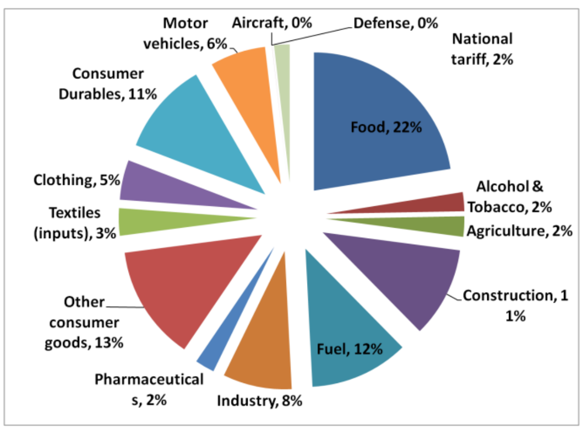
It is therefore important to determine the source of the decline in imports.

Figure 53 - Imports at current prices (E millions)



Source: SRA

Figure 54 - Imports by category 2011

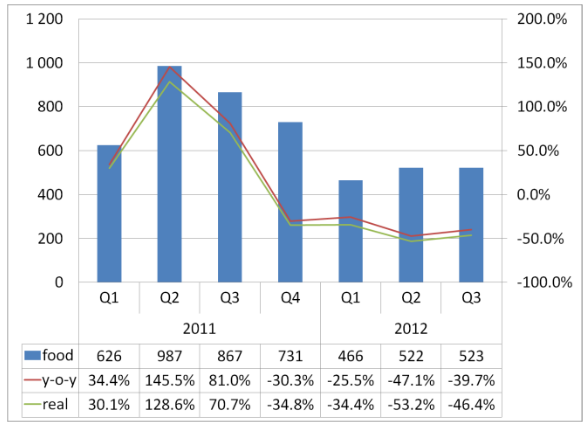


Source: SRA

2.6.1 Food Imports[19]

In 2011 food was the largest import category with a share of 22% of total imports. Food imports have declined by 38.9% in nominal terms and by 45.9% in real terms[20], year-on-year for the year to date 2012. Although there may have been some substitution of domestic for foreign products this decline is a strong indicator of a decline in private consumption.

Figure 55 - Food imports at current prices (E millions)

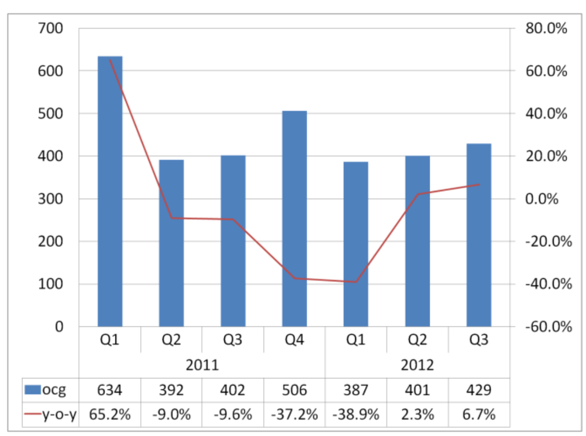


Source: SRA

2.6.2 Other Consumer Goods[21]

The second largest category of imports is *other consumer goods* with a 2011 share of 13% of total imports. Imports of these goods rose by 2.3% and 6.7% in the second and third quarters respectively. However the first quarter decline of 37.2% means that for the year to date these imports have declined by 14.8%. This is again an indicator of a decline in private consumption.

Figure 56 - Other consumer goods imports at current prices (E millions)

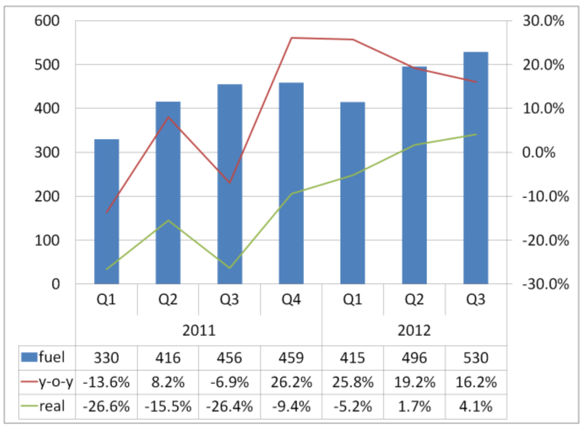


Source: SRA

2.6.3 Fuel Imports[22]

The third largest category is fuel (which relates predominantly to imports of petroleum) with a 12% share of total imports. After declining in real terms by 28% in 2011 fuel imports have risen for the year to date by 19.9% in nominal terms and by 0.4% in real terms.

Figure 57 - Imports of fuel at current prices (E millions)



	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3
fuel	330	416	456	459	415	496	530
y-o-y	-13.6%	8.2%	-6.9%	26.2%	25.8%	19.2%	16.2%
real	-26.6%	-15.5%	-26.4%	-9.4%	-5.2%	1.7%	4.1%

Source: SRA

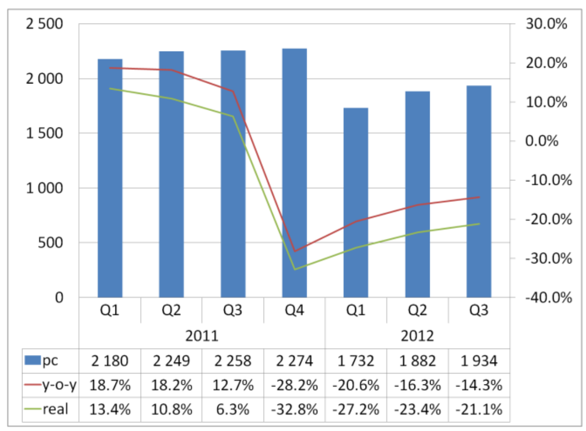
2.6.4 Other indicators of private consumption

Other indicators of private consumption are consumer durables[23], motor vehicles[24] and clothing[25] with shares of total imports of 11%, 6% and 5% respectively.

Imports of consumer durables declined by 0.5% in nominal terms for the year to date 2012 following a decline of 26.8% in 2011. Clothing imports declined by 2.2% in real terms for the year to date 2012, following a real decline of 27.8% in 2011. In contrast to these trends imports of motor vehicles grew by 8% in real terms for the year to date 2012, following real growth of 3.4% in 2011[26].

Taken together the categories related to private consumption (excluding fuel) rose by 0.6% in 2011 in nominal terms and have declined by 17% in real terms for the year to date 2012. In real terms (deflating using the headline CPI rate) there was a 5% decline in 2011 and there has been a 23.9% decline for the year to date 2012.

Figure 58 – Private consumption imports at current prices (E millions)



	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3
pc	2 180	2 249	2 258	2 274	1 732	1 882	1 934
y-o-y	18.7%	18.2%	12.7%	-28.2%	-20.6%	-16.3%	-14.3%
real	13.4%	10.8%	6.3%	-32.8%	-27.2%	-23.4%	-21.1%

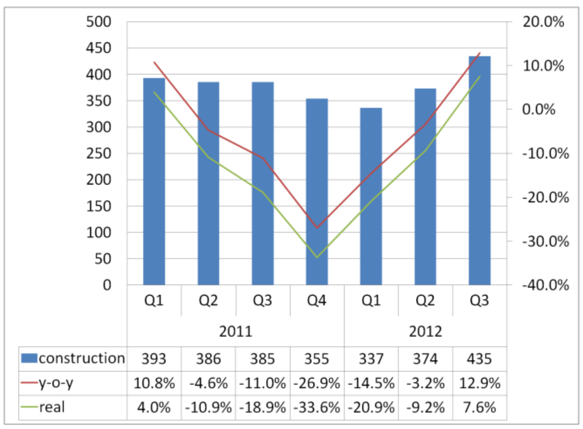
Source: SRA

These indicators point to a small decline in private consumption in 2011 and a larger decline in 2012.

2.6.5 Construction Imports[27]

Imports of construction materials declined by 9.5% in 2011 (16.2% in real terms) and are down 1.7% (8% in real terms) for the year to date 2012. The decline in the import of construction material appears to have bottomed out in the fourth quarter of 2011. Growth was positive at 12.9% (7.6% in real terms) year on year for Q3 2012 which is an indication that the construction sector is recovering.

Figure 59 - Imports of construction material at current prices (E millions)



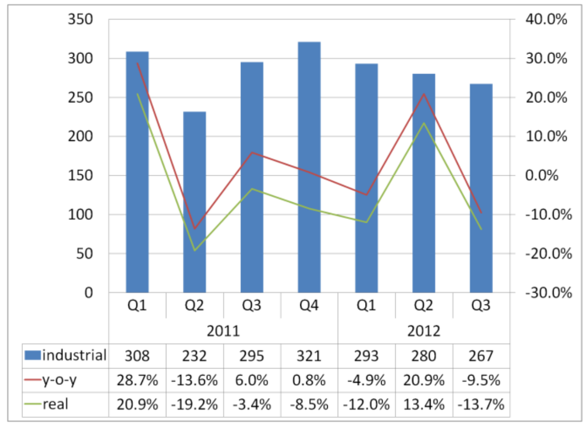
	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
construction	393	386	385	355	337	374	435
y-o-y	10.8%	-4.6%	-11.0%	-26.9%	-14.5%	-3.2%	12.9%
real	4.0%	-10.9%	-18.9%	-33.6%	-20.9%	-9.2%	7.6%

Source: SRA

2.6.6 Industrial imports[28]

Industrial imports (i.e. intermediate inputs in the manufacturing sector) rose by 4.7% in nominal terms in 2011 (3.3% decline in real terms) but have risen by just 0.7% (a 5.5% real decline) for the year to date 2012. This implies stagnation in those subsectors of the manufacturing sector that use inputs imported from abroad. However it is worth noting that much of Swaziland's manufacturing base is backward linked to the domestic agricultural sector.

Figure 60 - Industrial imports at current prices (E millions)

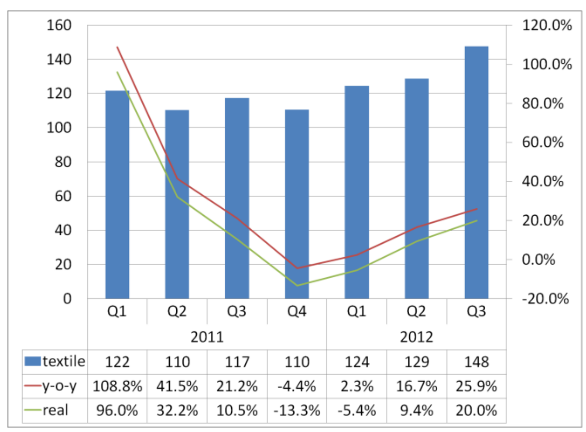


	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
industrial	308	232	295	321	293	280	267
y-o-y	28.7%	-13.6%	6.0%	0.8%	-4.9%	20.9%	-9.5%
real	20.9%	-19.2%	-3.4%	-8.5%	-12.0%	13.4%	-13.7%

Source: SRA

Imports used in the manufacture of textiles[29] grew by 31.9% in 2011 (22.3% in real terms) and have grown by 14.7% (7.4% in real terms) for the year to date 2012. These trends match the increase in exports for the sector noted above.

Figure 61 - Textile imports at current prices (E millions)



	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
textile	122	110	117	110	124	129	148
y-o-y	108.8%	41.5%	21.2%	-4.4%	2.3%	16.7%	25.9%
real	96.0%	32.2%	10.5%	-13.3%	-5.4%	9.4%	20.0%

Source: SRA

Imports of agricultural inputs[30] which grew by 8.5% in 2011 in nominal terms (a 9.5% real decline) have grown by 19.7% (12.4% in real terms) for the year to date 2012.

Figure 62 – Agri imports at current prices (E millions)

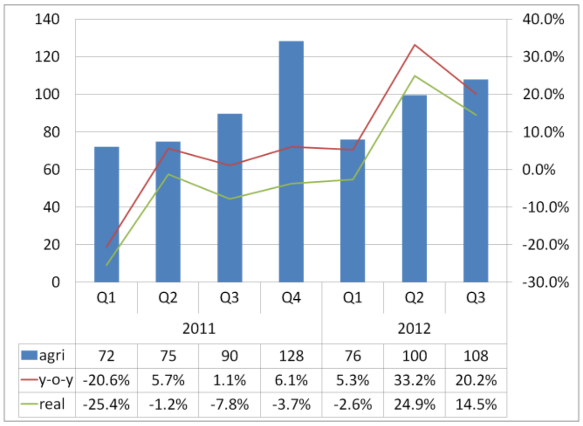
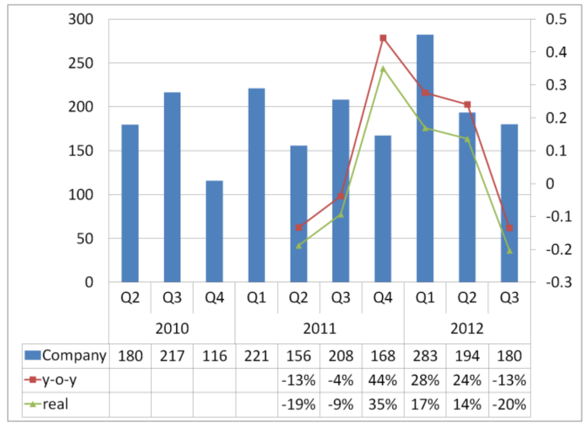


Figure 63 - Company Taxes at current prices (E millions)



Source: MoF

2.7 Taxes

Approximately 90% of the revenue base is made up of company taxes, payroll taxes (PAYE source deductions), VAT, fuel tax and SACU receipts.

2.7.1 Company Taxes

Company taxes fell by 13% in nominal terms (20% in real terms) year on year in Q3 2012. However for the calendar year to date 2012 company taxes are 12% higher in nominal terms (3% in real terms) than in the first 9 months of 2011.

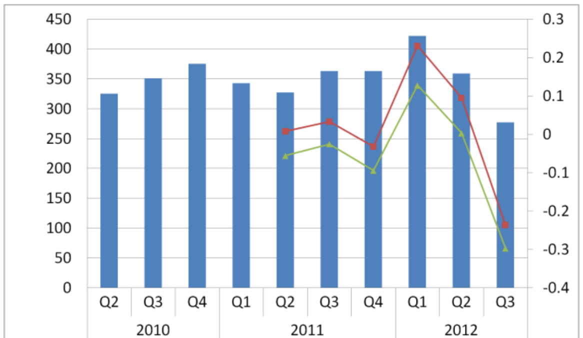
For the fiscal year to date 2012/13 company taxes are 2.6% higher in nominal terms, which represents a 5.7% decline in real terms.

Since companies file provisional tax returns based on estimates of their liability for the year (usually the previous financial year) company taxes are a *lagging indicator* of economic activity. The low and negative growth rates in collections of company taxes observed for the calendar and fiscal year respectively are therefore more an indicator of weaker economic activity in 2011.

2.7.2 Payroll Taxes

Payroll taxes move in line with economic activity (i.e. they are a *coincident indicator*). Payroll taxes fell by 20% in nominal terms (30% in real terms) in Q3 2012. For the calendar year to date 2012 payroll taxes are just 2% higher in nominal terms which represents a 6% decline in real terms. For the fiscal year to date there has been a 7.9% decline in nominal terms which represents a 15.4% real decline.

Figure 64 - Payroll taxes at current prices (E millions)



	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
Payroll	325	351	375	343	328	363	363	422	359	277
y-o-y					1%	3%	-3%	23%	10%	-24%
real					-6%	-3%	-9%	13%	0%	-30%

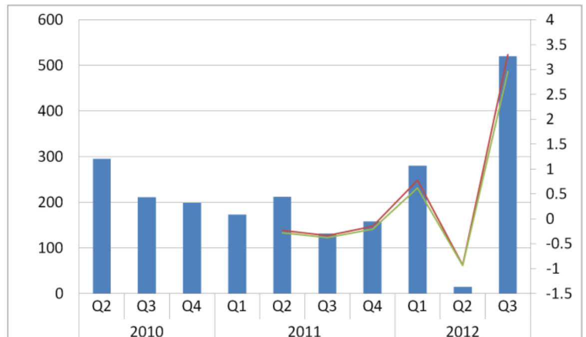
Source: MoF

The public sector wage and hiring freeze is contributing to the real decline in payroll taxes. Public sector employment is estimated to be one third of formal employment[31]. Given this statistic it is however unlikely that the government wage freeze is contributing the total 6% decline in payroll taxes for the calendar year to date 2012. This implies that the private sector is also engaging in slower wage growth and/or retrenchment. While the decline in payroll taxes effects the fiscus it should be noted that overall this decline is likely to be a positive development as it implies that internal devaluation is taking place.

2.7.3 VAT

VAT was introduced in Q2 2012 to replace the Sales Tax. The change in regime led to most of the receipts for Q2 and Q3 2012 being collected in Q3. For the calendar year to date VAT/Sales Tax was 73% higher in nominal terms (58% higher in real terms) than for the same period in 2011. For the fiscal year to date collections are up 70.3% in nominal terms and 55.6% in real terms.

Figure 65 - VAT receipts at current prices (E millions)



	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
VAT	295	211	198	172	212	131	158	280	14	520
y-o-y					-23%	-34%	-15%	77%	-93%	330%
real					-28%	-38%	-21%	63%	-93%	296%

Source: MoF

The increase is slightly above the 20% budgeted forecast increase over Sales Tax for the previous year. VAT receipts are currently at 54% of the total budget for the fiscal year.

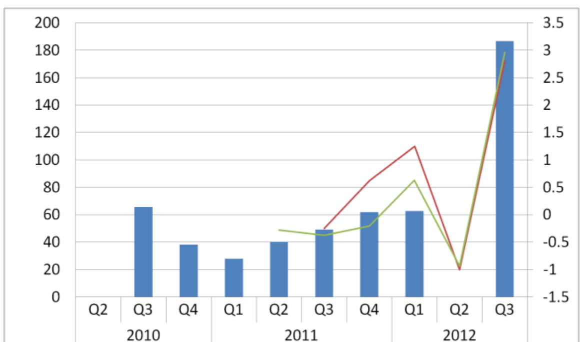
As an indicator of economic activity, an increase in VAT receipts usually implies an increase in consumption. However this runs contrary to our observation of declining imports (see section 2.6 above).

As such much of the increase in VAT may be due to improved compliance as well as some items (e.g. maintenance and security services) now being subject to VAT whereas they were previously exempt from Sales Tax. As such it is debatable whether or not VAT is currently a good indicator of economic activity.

2.7.4 Fuel Taxes

Fuel tax receipts have also risen, by 73% for the calendar year to date and by 70.3% for the fiscal year to date (58% and 55.6% in real terms respectively). This increase in fuel tax receipts reflects the doubling of the fuel tax as of the 1st of April 2012.

Figure 66 - Fuel tax receipts at current prices (E millions)



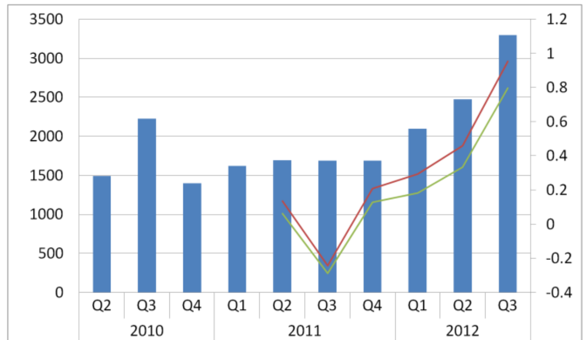
	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3
Fuel	0	66	38	28	40	49	62	63	0	187
y-o-y						-25%	62%	125%	-100	280%
real					-28%	-38%	-21%	63%	-93%	296%

Source: MoF

2.7.5 Total Revenue

Overall revenue is up for the calendar and fiscal year to date by 57% and 70.5% respectively in nominal terms and 44% and 56.5% in real terms. Of course much of the increase can be attributed to the 145% nominal increase in SACU receipts for the fiscal year 2012/13.

Figure 67 - Total revenue at current prices (E millions)

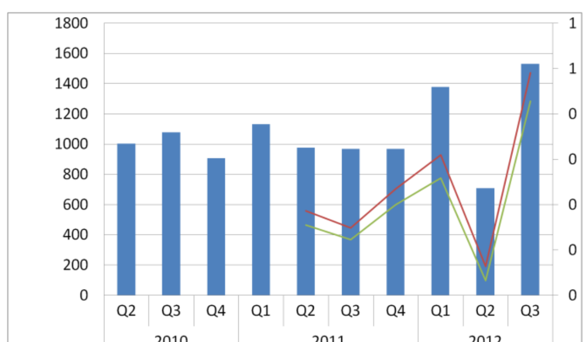


	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3
total	1497	2231	1399	1623	1697	1688	1689	2099	2475	3296
y-o-y					13%	-24%	21%	29%	46%	95%
real					6%	-29%	13%	18%	34%	80%

Source: MoF

Nevertheless total revenue excluding SACU is up by 18% and 15.2% for the calendar and fiscal year to date respectively in nominal terms and by 8% and 5.7% in real terms. This is because the increases in VAT and fuel tax receipts have outweighed the declines in company and payroll taxes.

Figure 68 - Total revenue less SACU at current prices (E Millions)



	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3
Tot-SACU	1004	1078	906	1130	976	967	968	1378	710	1530
y-o-y					-3%	-10%	7%	22%	-27%	58%
real					-9%	-15%	0%	12%	-33%	46%

Source: MoF

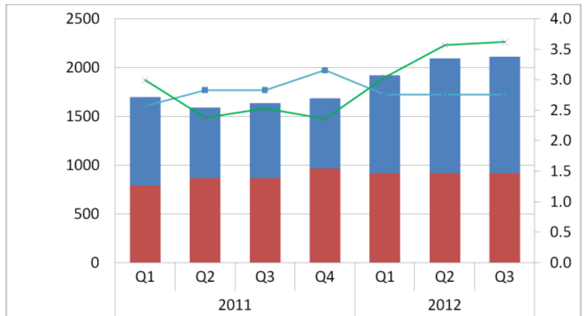
However barring increases in the rates of each, VAT and fuel tax collections are at best likely to increase only by the rate of inflation, given the slow rate of economic growth forecast for 2013. Company and payroll taxes will also continue to be affected by slow economic activity. SACU receipts of E7.1 billion have been announced for 2013/14 which implies no significant growth in this revenue source and an actual decline in real terms once adjusted for inflation.

As such revenue for 2013/14 is likely to be lower than in 2012/13. With arrears accumulated since the start of the fiscal crisis still outstanding further cuts to the budget in 2013/14 are likely as has already been signalled by the Honourable Minister for Finance.

2.8 Financing

The financing situation reflects the improved fiscal position of the government. There have been no further issues of bonds in 2012 with the bonds to GDP ratio remaining at 2.8%. Treasury bills rose from 3.0% of GDP to 3.6% of GDP in Q2 2012 but have remained stable at that level in Q3. Overall therefore total domestic debt rose to 6.6% of GDP in Q3 2012 from 5.4% in Q3 2011. This was a much less dramatic increase than for the period Q3 2010 to Q3 2011 when the domestic debt to GDP ratio increased to 5.4% of GDP from 2.6% of GDP.

Figure 69 - Domestic debt at current prices (E millions)

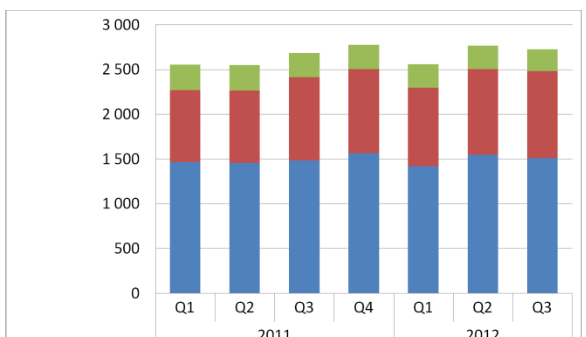


	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3
T-Bills	913	726	773	720	1008	1182	1199
Bonds	785	864	864	964	914	914	914
Bond/GDP	2.6	2.8	2.8	3.2	2.8	2.8	2.8
T-Bill/GDP	3.0	2.4	2.5	2.4	3.0	3.6	3.6

Source: CBS

Foreign debt continues to decline with principal repayments being larger than new disbursements. The rate of decline is being counteracted by the depreciation of the Lilangeni against major currencies (see section 2.4).

Figure 70 - Foreign Debt at current prices (E millions)

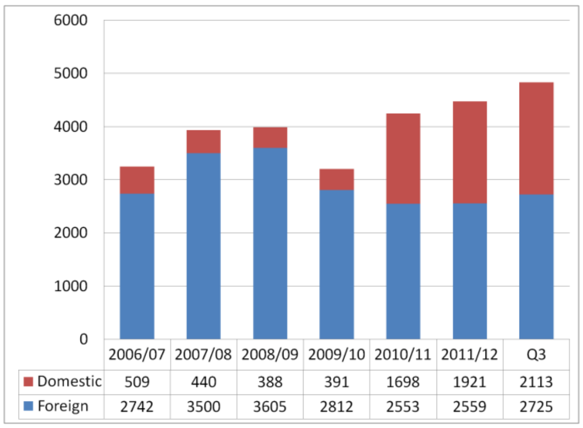


	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3
Private Creditors	284	286	271	268	264	260	246
Bilateral	807	808	931	940	875	959	968
Multilateral Org.	1 462	1 454	1 484	1 564	1 419	1 546	1 511

Source: CBS Sept 2012 Quarterly Review, Table S7.5.1

As highlighted in previous issues domestic debt is becoming an increasingly larger component of overall debt and currently stands at 44% of total debt as of Q3 2012.

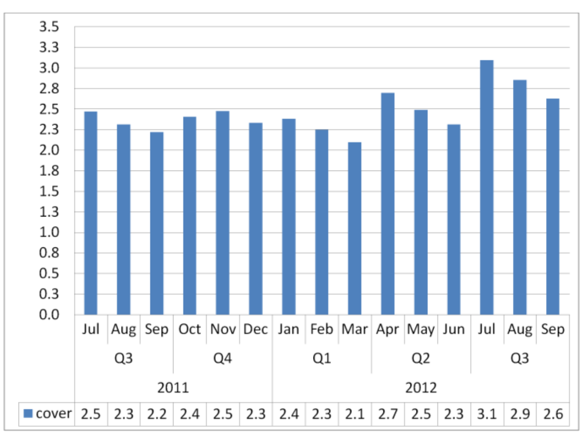
Figure 71 - Total debt at current prices (E Millions)



Source: CBS

The reserve position has improved over the last 2 quarters. It is worth noting that reserves are generally higher in the first month of the quarter as SACU receipts are received on the first day of each quarter.

Figure 72 - Reserves in months of import cover



Source: CBS Sept 2012 Quarterly Review, Table S2.2

A reserve position of 3 months of import cover is a generally recognised international standard. At the start of Q3 2012 (i.e. July) the level of import cover was 3.1 months compared to 2.5 months a year earlier. At the end of Q3 2012 (i.e. September) the level of import cover was 2.6 months compared to 2.2 months a year earlier.

As such there has been a general improvement in the reserve position as a result of the significantly higher level of SACU receipts for the fiscal year 2012/13 and the implementation of greater budgetary control.

While the overall financing situation has improved the following should be noted. Firstly although the pace of the growth in government debt has declined in Q3 it is still growing which means current revenues are not meeting current expenditures on a cash basis. Secondly arrears from previous periods remain outstanding. Finally the level of reserves still remains inadequate given that the level remains below the internationally recognised standard of 3 months at the end of Q3 2012.

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

Appendix – GDP estimates and forecast 2011 to 2012

Table 1: Real GDP Forecasts

	Oct 2011 Forecast		Jun 2012 Forecast		Oct 2012 Forecast		
	2011	**2012**	**2011**	**2012**	**2011**	**2012**	**2013**
Primary Sector	4.3	8.7	2.6	1.5	8.3	-0.5	1.5
Secondary Sector	0.5	2.3	-3.0	0.4	-2.1	-0.7	1.1
Tertiary Sector	1.4	0.8	4.1	2.1	1.2	0.5	0.3
GDP	**1.3**	**0.7**	**1.3**	**1.4**	**0.7**	**0.2**	**0.8**

Source: MEPD

In June 2012, the earlier October 2011 GDP projections were revised based on the release of *provisional* figures by the CSO. The revision mostly affected 2012 where GDP was forecast to grow by 1.4 percent against the earlier forecast of 0.7. In the absence of *actual* figures, the 2011 figures were re-estimated in the October 2012. The October 2012 revisions were also guided by the release of half year and third quarter economic data as well as downside revisions of the global economic outlook by the IMF and other international organizations.

Table 2: Real GDP Growth Rates 2010-2013

	2010[a]	2011*	2012#	2013#
Primary Sector	**3.5**	**8.3**	**-0.5**	**1.5**
Agriculture (Crops, Livestock, Forestry)	3.3	8.5	-1.3	3.1
Mining	27.0	-15.0	106.3	19.6
Secondary Sector	**-2.7**	**-2.1**	**-0.7**	**1.1**
Manufacturing	-3.2	0.4	0.7	1.6
Electricity & Water	9.9	-3.2	-16.5	3.5
Construction	-2.6	-25.0	-10.0	-7.0
Tertiary Sector	**5.3**	**1.2**	**0.5**	**0.3**
Wholesale & Retail	4.5	3.0	-2.0	-2.5
Hotel & Restaurants	-0.5	-10.0	-5.0	-2.0
Transport & Communications	9.2	4.0	3.6	2.1
Financial Services	1.0	-5.0	-3.0	-4.0
Real Estate	3.9	0.2	2.1	1.6
Public Services	5.3	0.7	0.2	0.8
Social Services	4.5	1.2	1.2	1.2
GDP	**1.9**	**0.7**	**0.2**	**0.8**

Source: MEPD, a actual,* estimate, # forecast

Primary sector – The agriculture industry is estimated to have performed well in 2011 due to improved performance in sugarcane, maize and citrus production, whilst cotton, livestock and forestry production contracted. The good performance in crop production is attributable to good rains, recovery of citrus from the 2009 hailstorms and increases in the area under irrigation. Under livestock, milk production increased whilst slaughters declined due to high mortality resulting in an overall decline in livestock production. The forestry industry continued to feel the effects of the devastating 2008 fires. The mining industry contracted due to significant declines in the production of coal and quarry stones. Quarry production was affected by the poor performance in the construction sector.

The sector is forecasted to contract in 2012 mainly due to the poor performance in crops and livestock production. Crop production will be affected by poor rains, shortage of government tractor services, and the transfer of land from citrus production to sugarcane. Sugarcane and forestry are forecast to record positive growth. Livestock production is forecast to continue to be affected by high mortality rates as well as the hyperthermia that hit the country in September. The mining industry is forecast to record impressive growth in 2012 due to improvements in coal and quarry production coupled with the re-opening of the iron ore mine.

The sector is forecast to rebound in 2013 due to positive growth in both agriculture and mining.

Secondary sector – The manufacturing industry is estimated to have grown by 0.4 percent in 2011 following two consecutive contractions. The picture is mixed with some sub-industries recording positive growth whilst others contracted. Expansion in the industry was driven by good performance in the production of sugar and sugar products, amongst others. Electricity and water production declined in 2011 mainly due to negative growth in electricity production which was affected low water levels in the reservoirs due to poor rains. The construction industry is estimated to have been negatively affected by the fiscal crisis and the completion of major government projects with no new capital projects coming on line due to cuts to the capital expenditure budget.

The sector is forecasted to decline by a lesser margin in 2012 due to slight improvements in the manufacturing and construction industry, whilst electricity and water production remains suppressed. The sector is forecast to record positive growth in 2013 in line with improvements in the manufacturing, electricity and water industries.

Tertiary sector - The tertiary (services) sector has been gaining more importance over the years and is currently the major driver of economic growth in the economy. However, this sector is the most vulnerable to developments within government due its strong direct and indirect linkages. In 2011 it is estimated that the sector grew by 1.2 percent due to positive growth in almost all industries with the exception of hotels & restaurants and financial services.

Growth in 2012 is forecast to be lower than the 2011 due to negative growth in wholesale & retail, hotels & restaurants and financial services; and unimpressive growth in transport & communication and public services. Growth in these industries will be affected by the public sector wage freeze and rising inflation resulting in a reduction in disposable income coupled with a 'reduction' in public expenditure. These effects are expected to continue well into 2013 and possibly over the medium term.

---

[1] See Box 1, EB Issue 3 Q2 2012 for discussion
[2] The *non-financial private sector* refers to lending to households and the non-bank private sector
[3] The nominal series is deflated using the CPI headline rate to calculate real lending to non financial corporations
[4] The nominal series is deflated using the CPI headline rate to calculate real lending to households
[5] Extra SACU exports refer to exports outside the union, while extra SACU imports refers to imports originating from outside the union.
[6] Export figures may not reconcile with other data sources particularly the *Balance of Payments* due to ongoing reconciliation and revision at SRA and due to adjustments for under coverage at the CBS particularly in relation to exports of sugar and concentrates. Work is ongoing to ensure that these differences are reconcilable in future periods
[7] Note that 3% of 2011 exports remain unclassified
[8] However it is worth noting that 8% of export destinations remain unclassified
[9] Sugar exports correspond to ASYCUDA Chapter 18
[10] Mining export figures correspond to chapter 26 (for iron ore) and chapter 27 (for coal) of ASYCUDA
[11] Textile export figures for the United States do not currently reconcile with trade data provided by the US Department of commerce under the AGOA agreement. Future issues will attempt to explain the reason for the differences in the figures.
[12] Following discussions with the SRA textile exports to Saudi Arabia may in fact be exports to South Africa as an error may have arose due to the similarities of the country codes SA (Saudi Arabia) and ZA (South Africa). We will seek to clarify this in the next issue.
[13] Forestry exports correspond to chapters 44 to 48 of ASYCUDA
[14] Horticulture exports correspond to chapter 20 of ASYCUDA
[15] Beverages exports correspond to chapter 22 of ASYCUDA
[16] *White goods* refer to large domestic appliances and correspond to chapter 84 of ASYCUDA. In the case of Swaziland exports this category refers to refrigerators.
[17] Concentrates exports correspond to chapters 28, 29, 33 and 38 of ASYCUDA
[18] Imports for 2012 may be understated as they have yet to be reconciled with South African data on exports to Swaziland. Generally this process leads to upward revisions. The declines in imports therefore need to be viewed in this context. Future issues will clarify the extent of the upward revisions which generally relate to personal imports, imports of petroleum and imports of motor vehicles.
[19] Food imports correspond to chapters 2 to 21 of ASYCUDA
[20] Where possible real growth rates of imports are determined by deflating the nominal series using the appropriate CPI index e.g. food imports are deflated using the food price index. Where an appropriate index is not available only the nominal growth rate is reported.

[21] These imports correspond to the remaining chapters not categorised in one of the other sections
[22] Fuel imports correspond to chapter 27 of ASYCUDA
[23] Consumer durables correspond to chapters 84, 85 and 89 of ASYCUDA
[24] Motor vehicles correspond to chapter 87 of ASYCUDA
[25] Clothing corresponds to chapters 60 to 65 of ASYCUDA
[26] The increase in motor vehicle imports may be due to higher imports by government and therefore may not be a good indicator of private consumption. We will seek to clarify if this is the case in future issues by decomposing government purchases.
[27] Construction imports correspond to chapters 72 to 81 and 86 of ASYCUDA. Real values are obtained by deflating the nominal series using the South African PPI
[28] Imports of industrial imports are deflated by the South African PPI to obtain the real series.
[29] Imports of inputs used in the textile industry correspond to chapters 51 to 56 of ASYCUDA
[30] Imports of agriculture imports correspond to chapters 1, 23 and 31 of ASYCUDA namely live animals, animal feed and fertilisers respectively
[31] Labour Force Survey 2010