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Highlights

International

- The IMF has made marginal downward revisions to its global economic outlook for 2013. The situation in Europe continues to be the main drag on the global economy (section 1.1 to 1.3).
- South Africa grew by just 2.5% in 2012, slightly above the IMF forecast of 2.3% but significantly slower than the 3.1% recorded for 2011 and well below pre-crisis growth levels (section 1.4). The IMF is forecasting the South African economy to grow by 4.1% in 2014.
- World Trade continues to be sluggish with European imports declining and Japanese imports stagnant (section 1.5)

Domestic

- Declining food prices saw inflation decelerate to 8.3% in December after rising above 9% in October and November. Inflation for 2012 was 8.9% up from 6.1% in 2011. Rising food prices have been the main driver of the higher inflation observed in 2012 (see section 2.1).
- Despite CBS maintaining a 5% interest rate, lending to the private sector declined by 6% in the fourth quarter. Lending to households expanded by 4% (see section 2.3).
- The rand / lilangeni continued to depreciate in the fourth quarter but at a significantly slower pace (see section 2.4)
- The strong export performance for 2012 continued into the fourth quarter with exports growing by 33% in nominal terms (see section 2.5)
- Imports remain sluggish indicating a lack of consumer spending in the economy (see section 2.6)
- There was further improvement in the governments balance sheet with the level and average interest rate of domestic debt declining as well as further improvement in the reserves position (see section 2.7)

1. International Developments

In its *January Update* the IMF revised down its growth forecasts for the global economy slightly from 3.6 % to 3.5 % growth.

Table 1 - Global Annual Growth Forecasts

	Oct 2012		Jan 2013		
	2012	2013	2012	2013	2014
World	3.3	3.6	3.2	3.5	4.1
Advanced	1.3	1.5	1.3	1.4	2.2
E & D	5.3	5.6	5.1	5.5	5.9

Source: IMF WEO Update January 2013

Growth forecasts for both the advanced economies as well as the emerging and developing economies have been revised downwards marginally.

For 2014 the IMF are projecting more robust growth rates of 2.2 % and 5.9 % for advanced and emerging & developing economies respectively. These growth forecasts remain below pre-crisis levels reflecting the IMF view that the recovery will remain gradual.

Table 2 - Advanced Economies Annual Growth Forecasts

	Oct 2012		Jan 2013		
	2012	2013	2012	2013	2014
US	2.2	2.1	2.3	2.0	3.0
Euro	-0.4	0.2	-0.4	-0.2	1.0
UK	-0.4	1.1	-0.2	1.0	1.9
Japan	2.2	1.2	2.0	1.2	0.7

Source: IMF WEO Update January 2013

Although the overall downward revision is marginal this masks the rather larger downward revision to the Euro Area of 0.4 %, implying that the Euro Area is not expected to exit recession until late 2013.

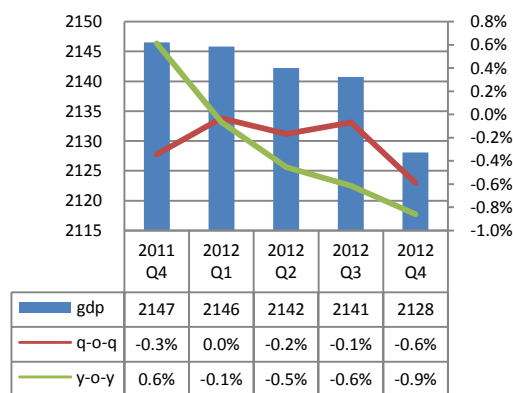
While Japan slipped into technical recession in late 2012, a change in political leadership leading to more expansionary fiscal and monetary policy sees the outlook for 2013 unchanged at 1.2%.

The US projections are based on the assumption that the pace at which the government reduces spending remains at 1.25 % of GDP.

1.1 Euro Area

Euro Area GDP contracted by 0.6% in Q4, its fifth consecutive quarterly contraction.

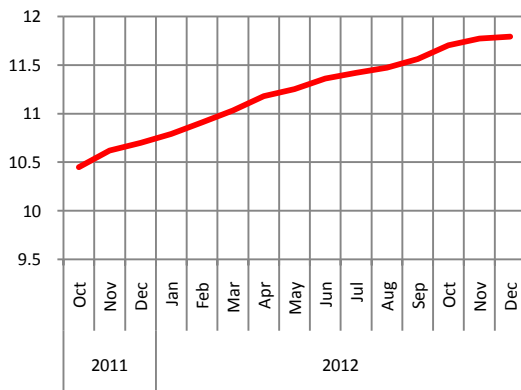
Figure 1 – Euro Area GDP at constant prices (EUR billions)



Source: ECB

As a result the euro area labor market continues to worsen with a December 2012 unemployment rate of 11.7%, a 10% increase from 10.7% in December 2011.

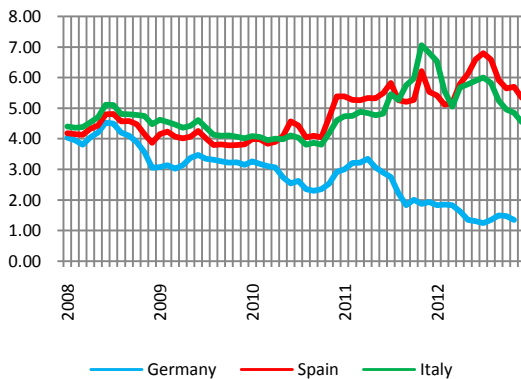
Figure 2 - Euro Area unemployment rate



Source: ECB

However the bad growth and employment numbers are masking recent improvements in financial markets, particularly in relation to borrowing costs in the troubled euro periphery.

Figure 3 - Euro Area Sovereign Borrowing Rates



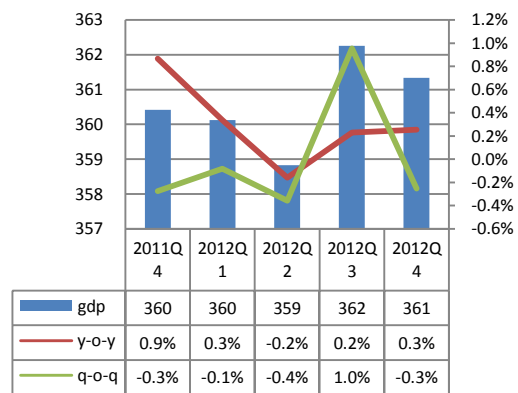
Source: FRED

In the second half of the year borrowing costs on Italian and Spanish bonds began to fall, reflecting positive steps towards resolving the euro crisis, in particular the establishment of the European Stabilisation Mechanism in September and the bond buying program of the ECB. The IMF forecast that the benefits of these reforms and lower borrowing costs will begin to materialize in 2013. In the meantime fiscal consolidation remains a major drag on the euro area economy.

1.2 United Kingdom

The UK economy remained stagnant in Q4 of 2012, following the third quarter boost it received from hosting the Olympic Games. Growth for the year was therefore 0.2% slightly above the -0.2% estimate of the IMF (see Table 2 above).

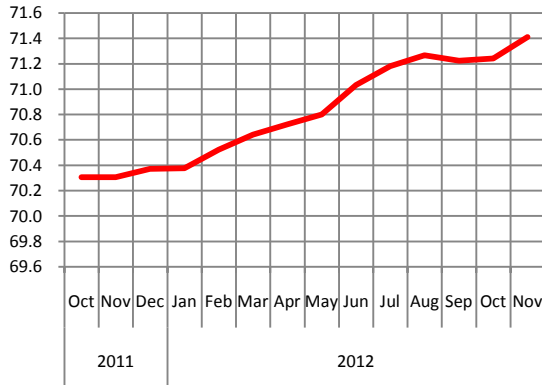
Figure 4 - UK GDP at constant prices (GBP billions)



Source: ONS

Despite stagnant growth the UK economy continues to add jobs, which indicates a decline in labour productivity.

Figure 5 - UK employment-to-population ratio (age 16-64)

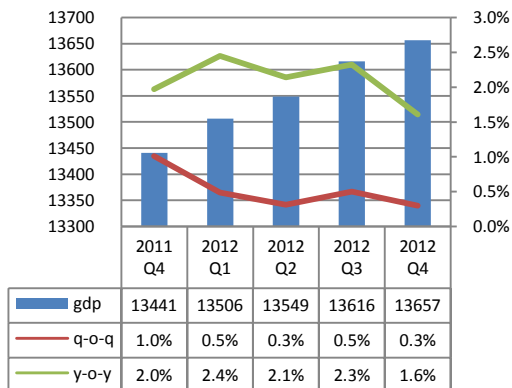


Source: ONS

1.3 United States

Growth slowed in the final quarter reducing the growth rate to 2.1% for the year, -0.2% lower than the IMF estimate for 2012.

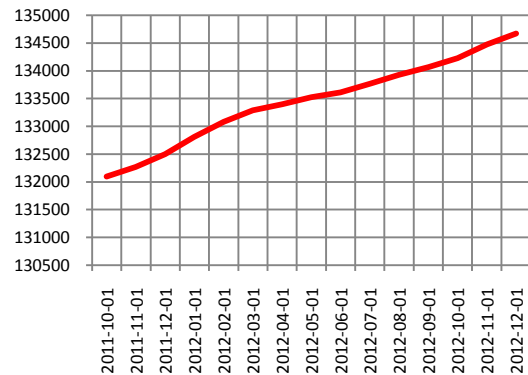
Figure 6 - US quarterly GDP and growth rates



Source: FRED

The total number of people employed rose by 2.7 million in 2012, a 1.6% annual increase.

Figure 7 - US Total Non Farm Employment (thousands)



Source: FRED

1.4 SSA & RSA Developments

While Sub Saharan Africa continues to enjoy strong growth prospects, the outlook for RSA continues to be revised downwards. In January the IMF revised down their estimate for 2012 by 0.3% to 2.3% and their forecast for 2013 by 0.2% to 2.8%.

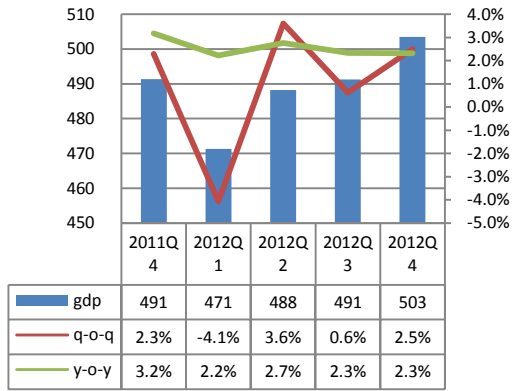
Table 3 – SSA Annual Growth Forecasts

	Oct 2012		Jan 2013		
	2012	2013	2012	2013	2014
SSA	5.0	5.7	4.8	5.8	5.7
RSA	2.6	3.0	2.3	2.8	4.1

Source: IMF WEO Update January 2013

RSA growth for Q4 2012 has now been confirmed at 2.3% bringing annual growth for 2012 to 2.5% which is 1% below growth for 2011 of 3.5%.

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

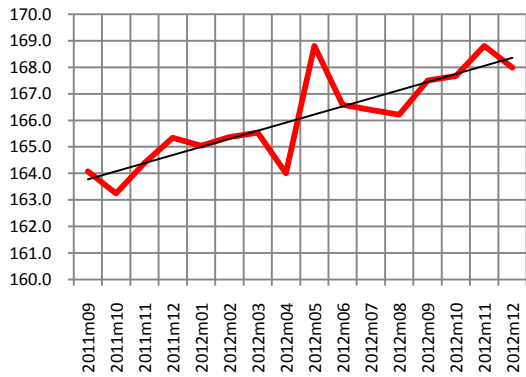


Source: SSA

1.5 World Trade

There was a slight uptick in world trade in November before declining in December.

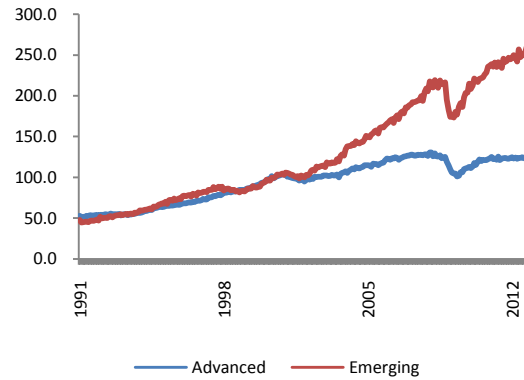
Figure 9 – Monthly World Trade Index (2000=100)



Source: World Trade Monitor

Overall trade appears stagnant after a strong recovery following the 2009 collapse in trade levels. This can be attributed to the slowing of imports into the advanced economies.

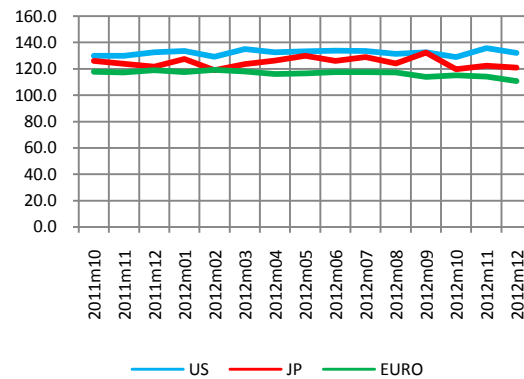
Figure 10 - Imports Index (2000=100)



Source: World Trade Monitor

The stagnation is being driven by declining imports into the euro area in particular but there was also a decline in imports to Japan in Q4 2012.

Figure 11 - Advanced Economies Imports Indices



Source: World Trade Monitor

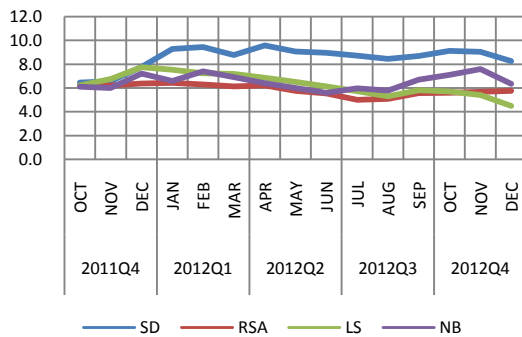
2. Domestic Developments

2.1 Prices

Inflationary pressures eased in the final quarter but remain high for the year

Inflation rose to over 9% in October and November before declining to 8.3% in December. A similar trend was observed in the other CMA countries with the exception of South Africa where inflation rose to 5.8% in December.

Figure 12 - CMA monthly inflation rates (headline)



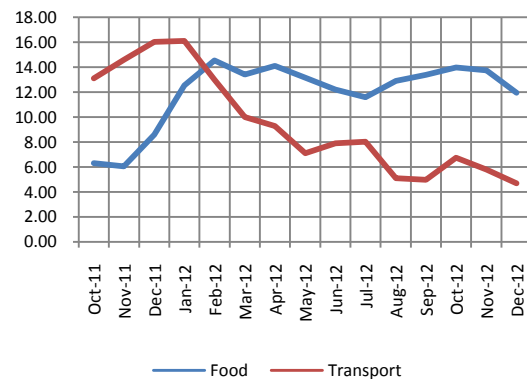
Source: CSO, SSA, LBS, SACU

Overall inflation in 2012 remained high and well above the 6 % bench mark for inflation targeting reaching a year on year average of 8.9 % compared to 6.1 % recorded in 2011.

The main driver has been food price inflation which accelerated to 13.1% in 2012 compared to 5.95% in 2011.

The decline in overall inflation in December mirrored the slower increases in food and transport price inflation. Food price inflation declined to 11.9% whilst transport prices fell to 4.7%.

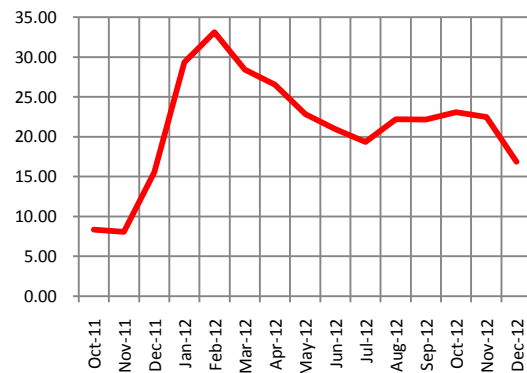
Figure 13 - SD monthly inflation rates (Food & Transport)



Source: CSO

The decline in food prices was driven by a fall in the prices of cereals. According to the FAO international prices of major cereals including rice and maize declined in December 2012.

Figure 14 - SD monthly inflation rates (Cereals)



Source: CSO

2.2 Interest Rates

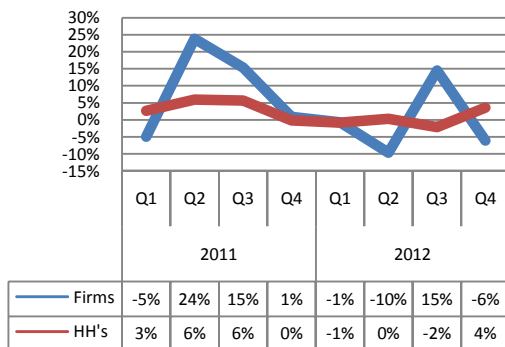
Interest rates remained unchanged at 5% in December 2012 despite the domestic inflationary pressures. Likewise the prime rate was unchanged at 9% in the period under review.

In his Q3 statement, the Governor noted that inflationary pressures are largely exogenous and as such interest rates would be maintained at low levels in order to stimulate lending and economic activity.

2.3 Lending

Despite the efforts of the Central Bank to stimulate credit extension, the lending market has failed to respond with the overall trend for the year being negative.

Figure 15 – Lending to Firms and Households



Source: CBS Dec 2012 Quarterly Review, Table S 3.7

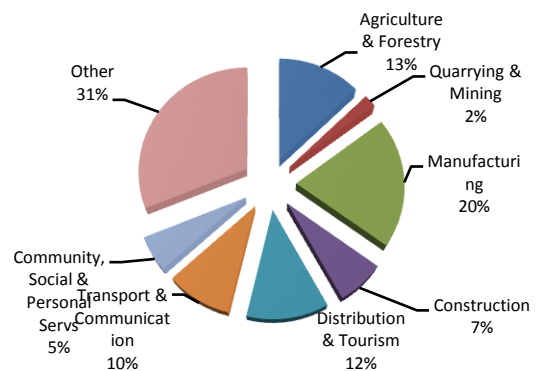
The lending story was mixed in the final quarter of 2012. On the one hand lending to households

increased by 4%. However lending to firms actually decreased by 6% following what looked like a turnaround in Q3.

The Q4 decline in lending to firms affected all sectors of the economy with the exception of community, social and other activities.

Lending to the manufacturing sector declined by 7%, agriculture and forestry sector fell by 26%, while the quarrying and mining sector saw a decrease in lending of 11%. Lending to the construction sector fell by 4% while there was an 18% decline in lending to the distribution & tourism sector.

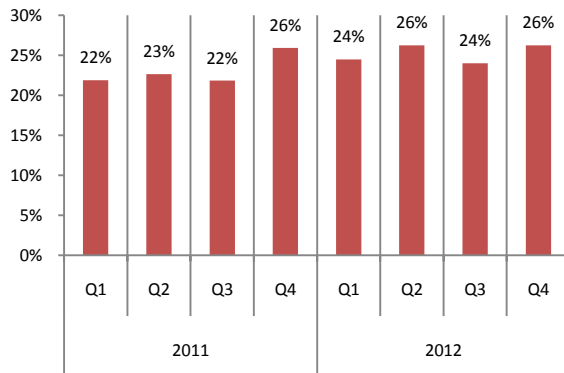
Figure 16 – Share of total lending to firms at Q4 2012



Source: CBS Dec 2012 Quarterly Review, Table S 3.8

Despite the rise in lending to households the decline in lending to firms has resulted in an overall decline in lending and a consequent rise in the liquidity to required liquidity ratio. The ratio rose to its Q2 level of 26%, 6% above the required level.

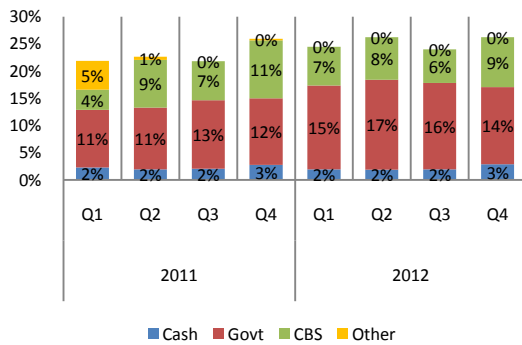
Figure 17 - Liquidity to Required Liquidity Ratio



Source: CBS Dec 2012 Quarterly Review, Table S 3.3

The rise in liquidity saw the financial sector increase its holdings of cash and deposits at the central bank while lending to government declined.

Figure 18 - Liquidity to Required Liquidity Ratio by type

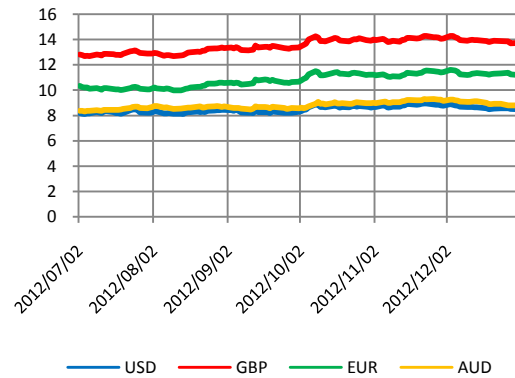


Source: CBS Sept 2012 Quarterly Review, Table S 3.3

2.4 Exchange Rates

The rand continued to depreciate against the major international currencies in Q4 2012 but at a significantly slower pace and had in fact appreciated slightly against the US dollar by the end of the period.

Figure 19 - Selected daily exchange rates



Source: SARB

Table 4 - Selected Quarterly Exchange Rates (AP)

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

Source: SARB

Table 5 - Selected Quarterly Exchange Rates (EP)

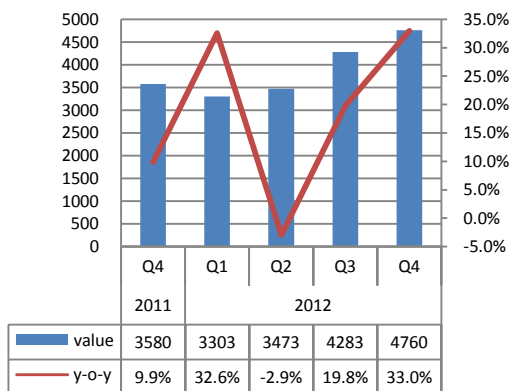
	ZAR/USD	ZAR/GBP	ZAR/EUR	ZAR/AUD
2012Q1	8.13	12.53	10.50	8.25
Change	1.31	0.21	-3.23	5.61
2012Q2	7.68	12.28	10.24	7.99
change	-5.53	-2.00	-2.49	-3.19
2012Q3	8.31	12.98	10.44	8.45
Change	8.14	5.65	1.90	5.74
2012Q4	8.22	13.34	10.64	8.59
change	-1.03	2.82	1.89	1.72

Source: SARB

2.5 Exports¹

The strong export performance for the year to date continued in Q4. Exports grew by 33% in nominal terms in Q4.

Figure 20 –Exports at current prices (E millions)

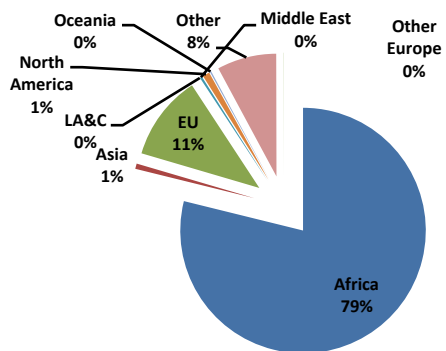


Source: SRA

As a result, exports grew by 19.6% in 2012 compared to 0.7% contraction in 2011.

Despite the increase the country’s export markets remain highly concentrated.

Figure 21 - Exports by region 2012 (% of total exports)

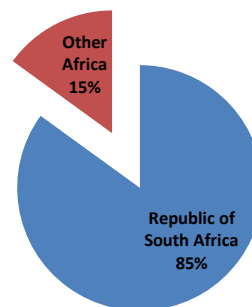


Source: SRA

Africa remains by far the largest export market with 79% of total exports followed by the EU with 11%.

However within the Africa region, Swaziland’s exports appear to have become more concentrated towards South Africa in 2012.

Figure 22 - Exports to Africa 2012 (% of total African Exports)



Source: SRA

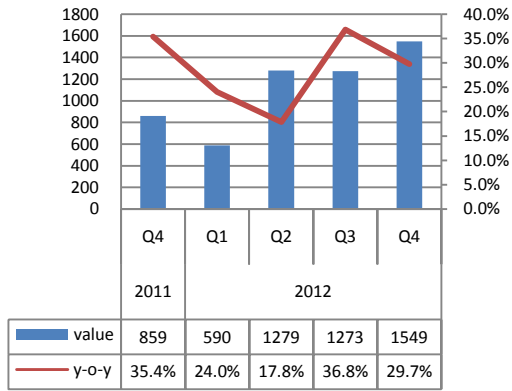
In 2012 exports to South Africa grew by 30.4% while exports to other African countries declined by 9.2%.

This is because many of the country’s fastest growing export industries are focused on the South African market while those struggling are focused on other countries.

2.5.1 Sugar²

Q4 saw sugar exports increase by 29.7% year on year.

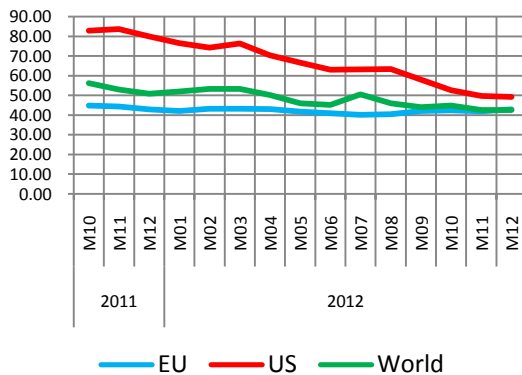
Figure 23 - Sugar exports at current prices (E millions)



Source: SRA

The strong Q4 performance brought growth in sugar exports to 28.4% for 2012.

Figure 24 - Sugar prices in nominal \$US



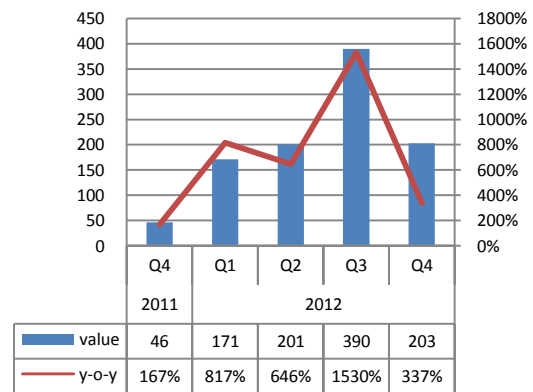
Source: World Bank "pink sheet"

The EU price of sugar remained relatively constant over the final quarter of 2012, while the world price declined such that both were the same price at the end of the quarter. The US price fell significantly over the period.

2.5.2 Mining³

Despite a quarter on quarter decline in nominal exports in Q4, 2012 has been a spectacular year for the mining industry, with exports increasing by a multiple of 7.3 compared to 2011.

Figure 25 - Mining exports at current prices (E millions)

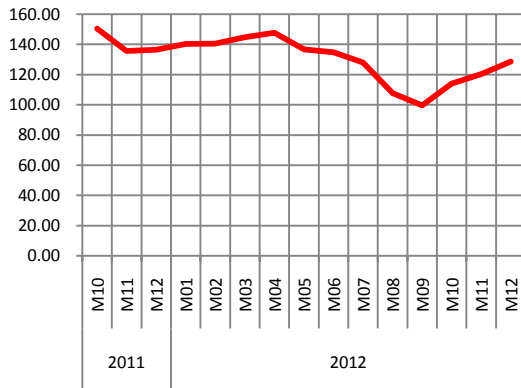


Source: SRA

The Q4 quarter on quarter nominal decline was due to a 55% nominal decline in exports of iron ore, which accounted for 85% of mining exports in 2012.

The scaling down of iron ore extraction is seen as a response by the mining company to falling international prices for iron ore in recent periods, and the company has now taken the decision to invest in capacity to refine the ore in Swaziland.

Figure 26 - Iron Ore Prices in nominal \$US



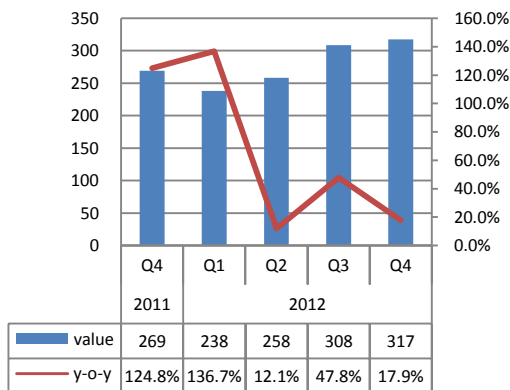
Source: World Bank “pink sheet”

However given the Q4 increase in iron ore prices further extraction and export of iron ore may potentially happen over the short term.

While coal mining now accounts for just 15% of mining exports, the industry has also enjoyed an excellent year. Having declined by 30% in 2011 exports of coal grew by 60% in 2012.

2.5.3 Textiles⁴

Figure 27 - Textile exports at current prices (E millions)



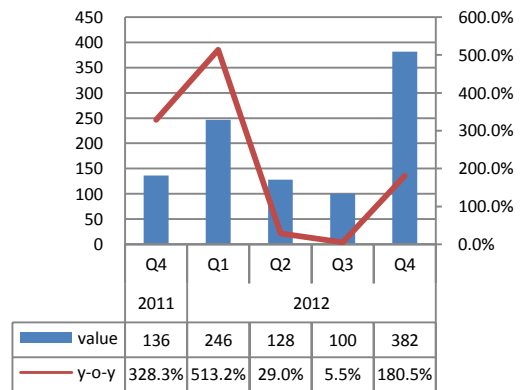
Source: SRA

The strong year to date performance of the textile industry continued in the fourth quarter. Year on year fourth quarter textile exports rose by 17.9% in nominal terms.

2.5.4 Printing

Printing exports surged in Q4 2012, almost doubling compared to the same period in 2011. The increase is most likely explained by back to school requirements.

Figure 28 – Printing exports at current prices (E millions)

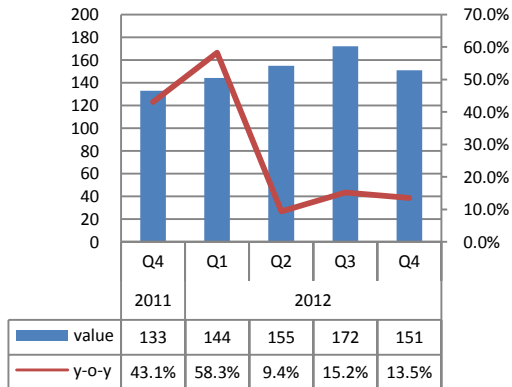


Source: SRA

2.5.5 Forestry⁵

Exports rose 13.5% in nominal terms compared to 2011. While there was a quarter on quarter decline of 12.4% this represents a seasonal fluctuation⁶.

Figure 29 – Forestry exports at current prices (E millions)

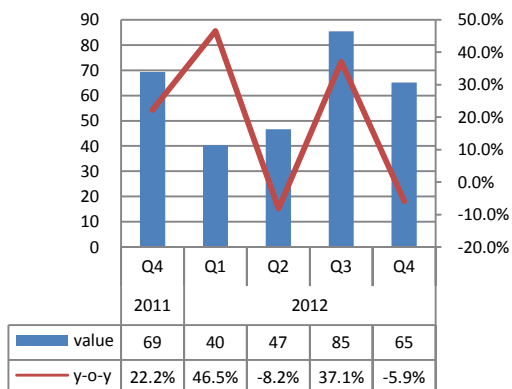


Source: SRA

2.5.6 Horticulture⁷

Exports declined both year on year (Q4 2012 compared to Q4 2011) as well as quarter on quarter (Q4 2012 compared to Q3 2012). Nevertheless due to the successful Q1 and Q3 exports from this sector are up by 13.2% in 2012.

Figure 30 - Horticulture exports in current prices (E millions)

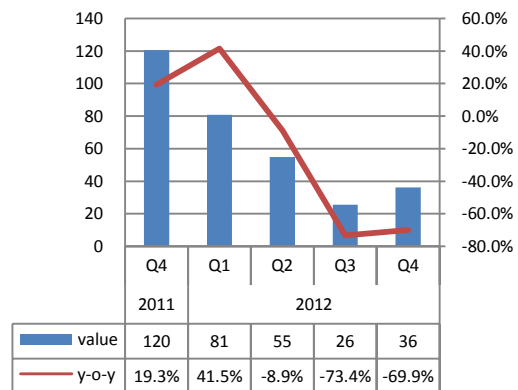


Source: SRA

2.5.7 Beverages⁸

Exports of beverages declined by 41% for 2012 which reflects more the franchising arrangement in the Southern Africa market rather than weakness in the industry⁹.

Figure 31 - Beverage exports at current prices (E millions)

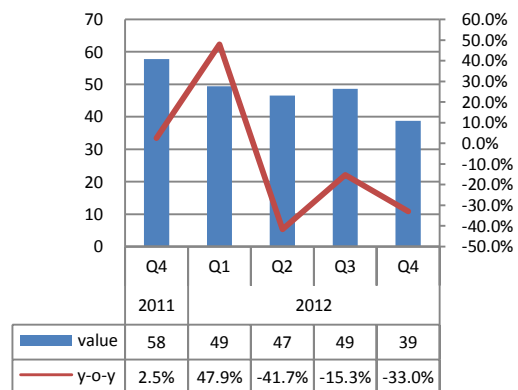


Source: SRA

2.5.8 White Goods¹⁰

Exports continued to decline in the fourth quarter and are down 20% in 2012 compared to 2011.

Figure 32 – Exports of white goods at current prices (E millions)

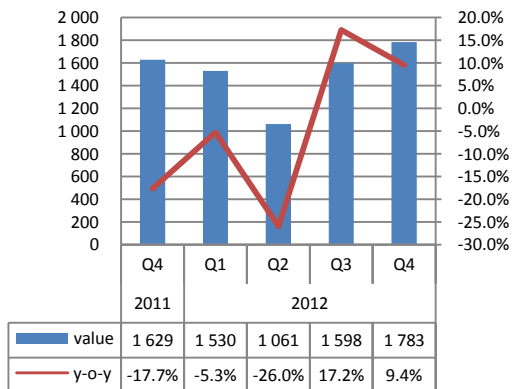


Source: SRA

2.5.9 Concentrates¹¹

A strong fourth quarter performance sees exports of concentrates decline by just 1% for the year.

Figure 33 - Concentrates exports at current prices (E millions)



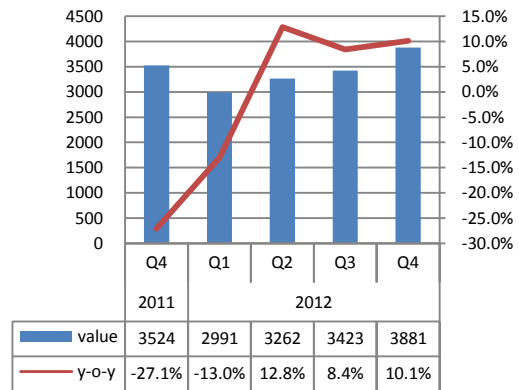
Source: SRA

2.6 Imports¹²

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.

The most recent SRA data shows imports up by 4.2% in nominal terms for 2012.

Figure 34 - Imports at current prices (E millions)

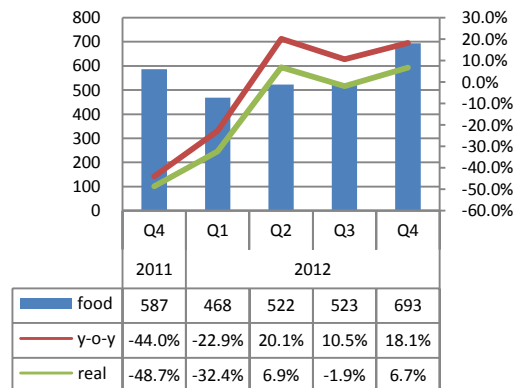


Source: SRA

2.6.1 Food Imports¹³

Food imports grew by 4.9% in nominal terms in 2012. Accounting for inflation this represents a real decline of 6.9%.

Figure 35 - Food imports at current prices (E millions)

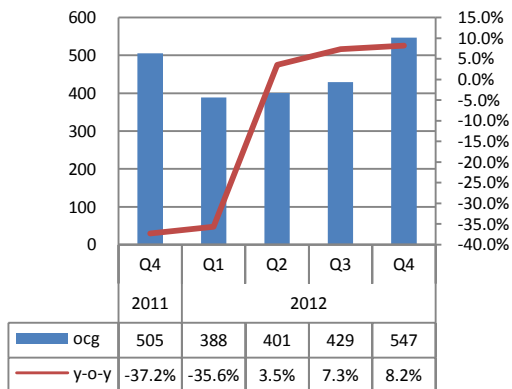


Source: SRA

2.6.2 Other Consumer Goods¹⁴

The latest data shows a 6.9% nominal decline in spending on imported *other consumer goods* in 2012.

Figure 36 - Other consumer goods imports at current prices (€ millions)

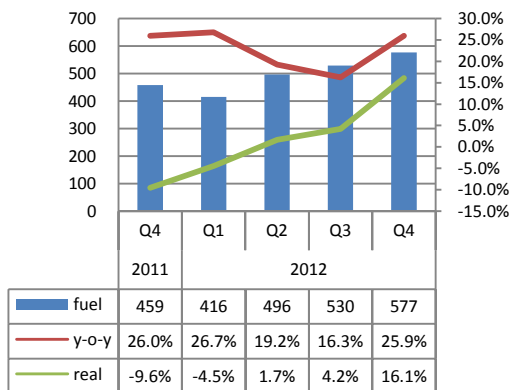


Source: SRA

2.6.3 Fuel Imports¹⁵

Imports of fuel increased by 21.7% in nominal terms and by 4.5% in real terms in 2012.

Figure 37 - Imports of fuel at current prices (€ millions)

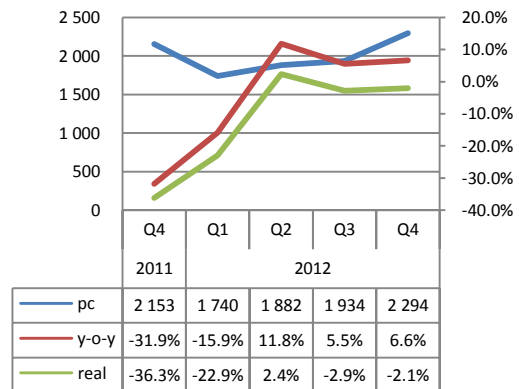


Source: SRA

2.6.4 Other indicators of private consumption

Imports of consumer goods rose by 1.4% in nominal terms in 2012. This represents a 7% real decline.

Figure 38 - Private consumption imports at current prices (€ millions)

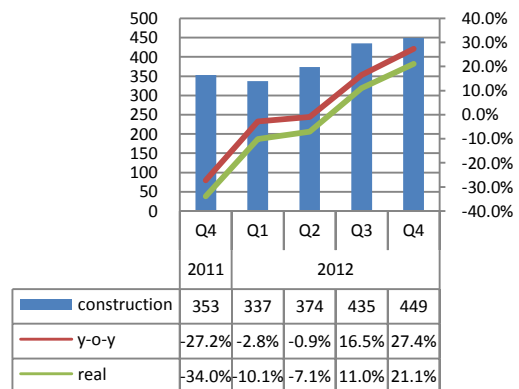


Source: SRA

2.6.5 Construction Imports¹⁶

Imports of materials used in construction grew by 10% in nominal terms and by 3.3% in real terms in 2012.

Figure 39 - Imports of construction material at current prices (€ millions)



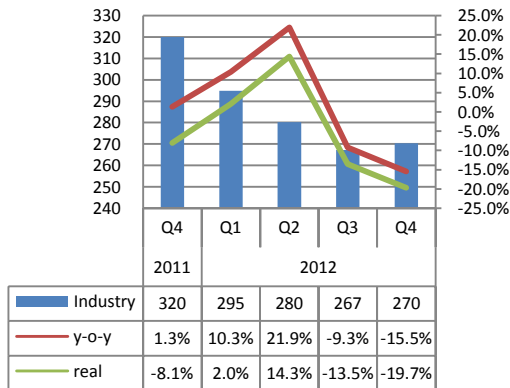
Source: SRA

This indicator suggests there was a positive turnaround in construction activity in the third quarter of 2012.

2.6.6 Industrial imports¹⁷

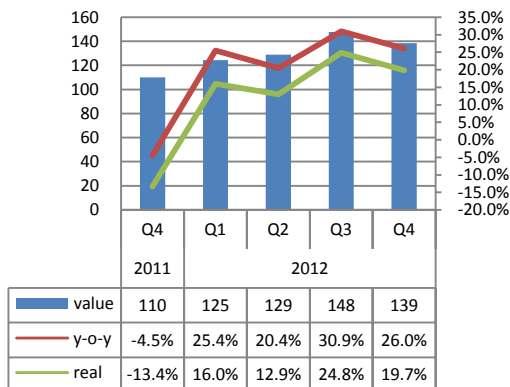
Overall industrial imports rose by just 0.1% in nominal terms and declined by 5.5% in real terms in 2012.

Figure 40 - Industrial imports at current prices (E millions)



Source: SRA

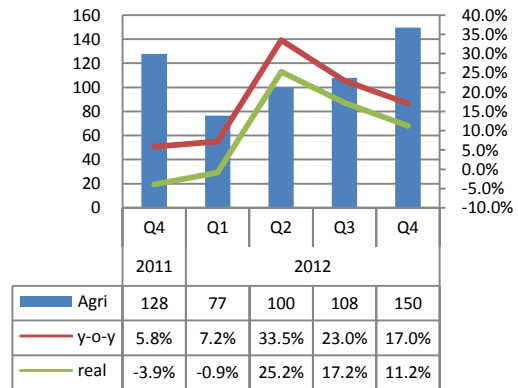
Figure 41 - Textile imports at current prices (E millions)



Source: SRA

However textile imports rose again in the fourth quarter such that growth in these imports for 2012 was 18.4% in real terms

Figure 42 – Agriculture imports at current prices (E millions)



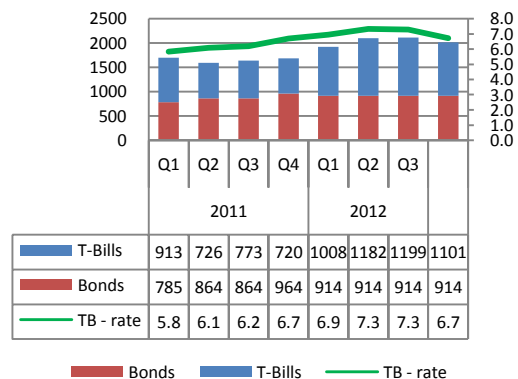
Source: SRA

Agriculture imports also grew in 2012 by 19.9% in nominal terms and 13% in real terms.

2.7 Government Financing¹⁸

The level of domestic debt declined for the first time in 12 months.

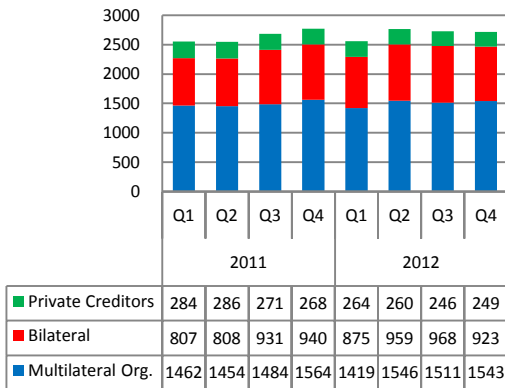
Figure 43 - Domestic debt at current prices (E millions)



Source: CBS

The average rate of interest on domestic debt also declined from 7.3% to 6.7%.

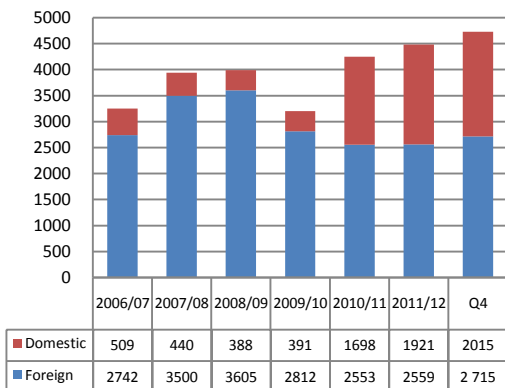
Figure 44 - Foreign Debt at current prices (E millions)



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

The level of foreign debt continues to remain at similar levels.

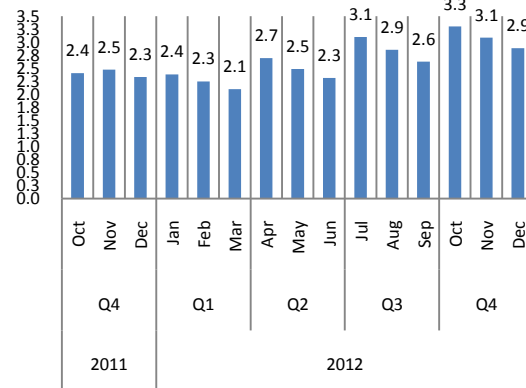
Figure 45 - Total debt at current prices (E Millions)



Source: CBS

The level of import cover also continues to rise quarterly.

Figure 46 - Reserves in months of import cover



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

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

¹ 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

² Sugar exports correspond to ASYCUDA Chapter 18

³ Mining export figures correspond to chapter 26 (for iron ore) and chapter 27 (for coal) of ASYCUDA

⁴ 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.

⁵ Forestry exports correspond to chapters 44 to 48 of ASYCUDA

⁶ There were quarter on quarter declines of 23.8% and 11.1% in 2010 and 2011

⁷ Horticulture exports correspond to chapter 20 of ASYCUDA

⁸ Beverages exports correspond to chapter 22 of ASYCUDA

⁹ Under the franchising agreements supply shortfalls in other Southern African countries may be met by exports from Swaziland.

¹⁰ *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.

¹¹ Concentrates exports correspond to chapters 28, 29, 33 and 38 of ASYCUDA

¹² NB – import data from Q2 2011 to Q4 2012 has yet to be reconciled with RSA data. This will tend to understate the import figures for 2011 and 2012, in particular Q4 2011 and Q1 2012. Statistics in this section must therefore be considered in this context.

¹³ Food imports correspond to chapters 2 to 21 of ASYCUDA

¹⁴ These imports correspond to the remaining chapters not categorised in one of the other sections

¹⁵ Fuel imports correspond to chapter 27 of ASYCUDA

¹⁶ 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

¹⁷ Imports of industrial imports are deflated by the South African PPI to obtain the real series.

¹⁸ Unfortunately this issue does not contain data on tax receipts which we hope to rectify going forward