MINISTRY OF ECONOMIC PLANNING AND DEVELOPMENT

Macroeconomic and Research Unit

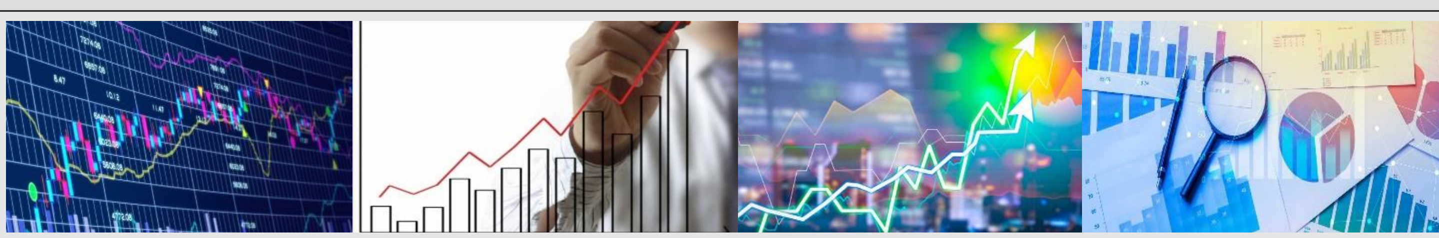
Email: macrodivision.gos@gmail.com

Web: http://www.gov.sz/index.php?option=com_content&view=article&id=232&Itemid=307

Economic Bulletin

Issue No. 30

Quarter 2, 2019



HIGHLIGHTS FOR 2019 Q2

INTERNATIONAL DEVELOPMENTS

- Global growth for 2019 is projected to be at 3.2 percent, at the back of the intensifying trade tensions.
- Sub-Saharan Africa projected to grow by 3.4 percent in 2019 driven positive performance in oil-exporting economies.
- Global Energy prices on a downward trend on an annualized comparison
- Eswatini records a positive trade balance as domestic exports up by 30 percent, while imports also up by 7 percent.

DOMESTIC DEVELOPMENTS

- Headline inflation decelerates by 65 percent to 1.7 percent, as the discount rate and prime lends rates remain unchanged.
- Gross Official Reserves decline moderately by 14 percent to amount to E5.2 billion in 2019 Q2 which covers 2.3 months of imports.
- Government revenue collection up by 24 percent whilst, Government expenditures down by 4 percent on an annualised comparision.

INFORMATION BOX

BOX 1: What is inflation?

BOX 2: U.K. Reaches Post-Brexit Deal With World's Oldest Customs Union

INTERNATIONAL DEVELOPMENTS & TRADE

1.1. Global Growth Performance

"Global growth in 2019 projected at 3.2 percent"

Global growth for 2019 is projected to be at 3.2 percent, at the back of the intensifying trade tensions between the United States (US) and China (WEO, July 2019). The USD 200 billion worth of tariffs imposed by the US on Chinese exports in May 2019 and retaliation by China reflects a 0.1 percentage point downward revision on global growth from the April 2019 WEO forecast which resulted in a downgrade for China's growth forecasts. While growth in 2020 is forecasted to improve to 3.5 percent. The projected global growth pick-up in 2020 is dependent of numerous factors such as the maintained positive sentiments from financial markets, the stabilization of stressed emerging markets as well as stoppages of continued delays for Brexit.

Advanced economies

Growth in Advanced economies for 2019 is projected to be at 1.9 percent, showing a 0.1 percentage point upward revision compared to April 2019 forecasts. The percentage point increase reflects an upward revision for the US.

The US which is Eswatini's trading partners through the African Growth Opportunity Agreement (AGOA) is expected to grow by 2.6 percent in 2019, reflecting a 0.3 percentage point upward revision as a result of strong performance in the first quarter of 2019. The strong performance was at the back of robust exports and inventory accumulation, which was counteracted by soft domestic demand and weak imports partly due to the effects of the trade tariffs. Growth in 2020 is anticipated to moderate to 1.9 percent due to the slowing down of fiscal stimulus.

Whereas, the Euro area, which is Eswatini's trading partner through the Economic Partnership Agreement, is projected to grow at 1.3 percent in 2019, showing a 0.1 percentage point upward revision. Growth in 2019 was revised upwards due to strong investments and weak imports in Spain, while growth for France was unchanged at 1.3 percent as a result of the fiscal measures promoting growth and the ending of the street protest action which were weighing down on growth. On the contrary growth in Germany and Italy remained subdued due to weaker than expected external demand, which slowed down investment, and uncertain fiscal outlook impacting investment and domestic demand respectively counteracting the positive growth for Spain and France. Growth in 2020 is anticipated to improve to 1.6 percent, supported by recovered external demand.

The United Kingdom, which is also under the Economic Partnership Agreement (EPA) is anticipated to grow at 1.3 percent in 2019, showing a 0.1 percentage point upward revision. The upward revision was based on a stronger than anticipated first quarter performance boosted by pre-Brexit inventory accumulation and stockpiling. Growth in 2020 is assumed to be at 1.4 percent assuming an orderly Brexit followed by a gradual transition to the new regime.

Emerging markets and developing economy

Growth is projected at 4.1 percent in 2019, showing a 0.3 percentage point downward revision due to the effects of the trade tariffs. While growth in 2020 is expected to improve to 4.7 percent.

Emerging and developing Asia, which is Eswatini's trading partner through the Economic Cooperation agreement (ECA) is projected to grow by 6.2 percent in 2019, showing a 0.1 percentage point downward revision. The downward revision was at the back of the effects of the tariffs on trade and investment. The negative effects of escalating tariffs and weakening external demand for Chinese exports has added pressure on China which is the midst of a structural reform. However, a policy stimulus is anticipated to moderate the negative external shocks faced by China. While, growth in 2020 is forecasted to decelerate at 6.0 percent.

Sub-Saharan Africa

The Sub-Saharan African region, which is Eswatini's regional trade partner through multilateral trade agreements such as SADC, SACU and the proposed AfCTFA agreement. Growth is projected at 3.4 percent as strong performance by numerous non-resource-intensive countries moderately counteracted the poor performance by the region's largest economies. A positive outlook for Nigeria, Angola and other oil exporting countries with higher but volatile oil prices expected. While growth in South Africa is anticipated to remain subdued following the weak first quarter performance reflecting the impact strike actions as well as energy issues in mining coupled with weak agricultural production. Growth in 2020 is projected to improve to 3.2 percent.

Table 1: Global growth (% change)

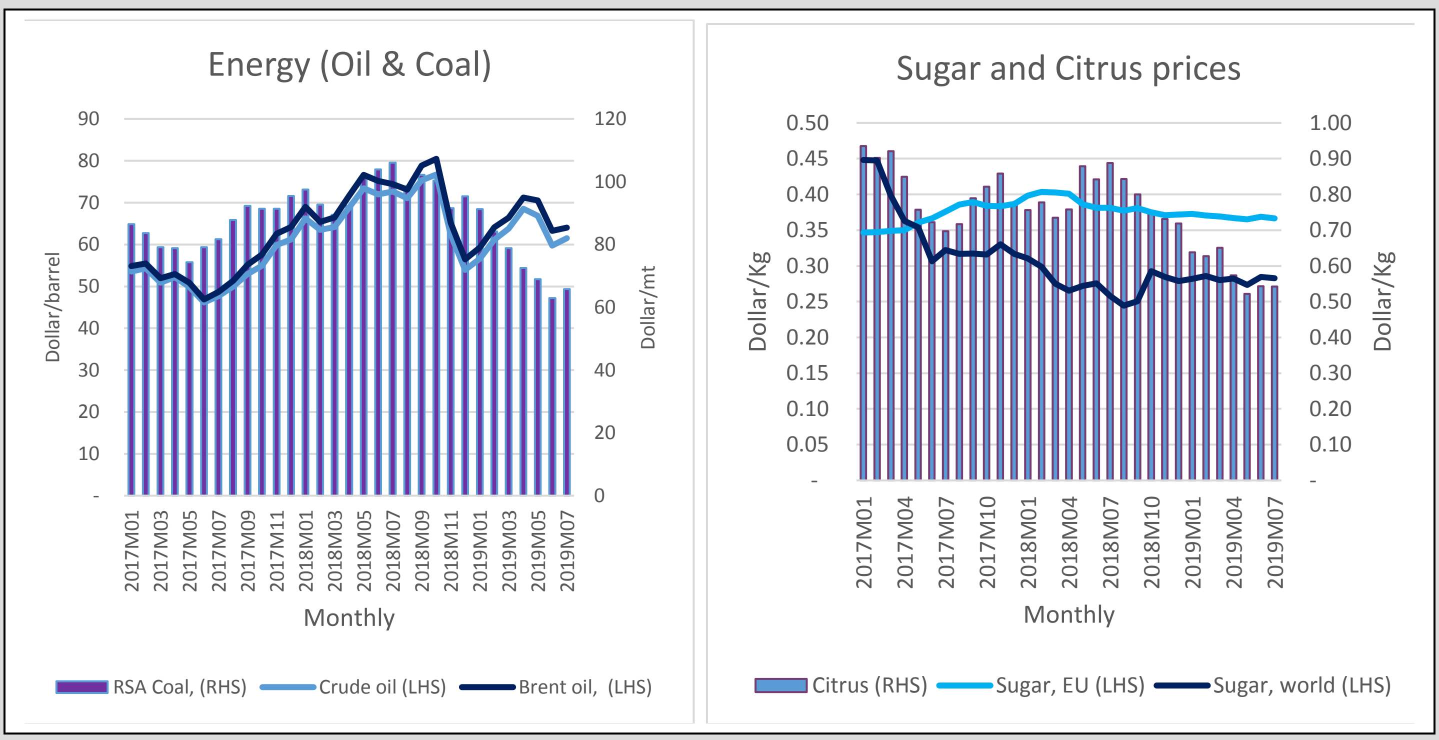
	2017 est.	2018 est.	2019 prj	2020 prj
World Output	**3.8**	**3.6**	**3.2**	**3.5**
Advanced Economies	**2.4**	**2.2**	**1.9**	**1.7**
United States	*2.2*	*2.9*	*2.6*	*1.9*
Euro Area	**2.4**	**1.9**	**1.3**	**1.6**
Germany	*2.2*	*1.4*	*0.7*	*1.7*
France	*2.3*	*1.7*	*1.3*	*1.4*
Italy	*1.7*	*0.9*	*0.1*	*0.8*
Spain	*3.0*	*2.6*	*2.3*	*1.9*
United Kingdom	*1.8*	*1.4*	*1.3*	*1.4*
Emerging Market and Developing Economies	**4.8**	**4.5**	**4.1**	**4.7**
China	*6.8*	*6.6*	*6.2*	*6.0*
Sub-Saharan Africa	**2.9**	**3.1**	**3.4**	**3.6**
Nigeria	*0.8*	*1.9*	*2.3*	*2.6*
South Africa	*1.4*	*0.8*	*0.7*	*1.1*

Source - WEO Julyl 2019

1.2. Commodity Prices

"Energy and Sugar prices on a downward trend annually"

Figure 1: Global Commodity Prices



Source: Pink Sheet Juyl 2019

According to the World Bank Pink sheets (July 2019), prices for fuels particularly, brent oil, crude oil and coal have been on a downward trend on an annualized basis. Oil prices are crucial for Eswatini as the country is an importer of fuel. An increase in world fuel prices has direct transmissions to the cost of goods and services in the Eswatini economy. Hence, on a y-o-y comparison, crude oil and brent oil prices decelerated by 8.9 percent and 8.3 percent respectively drive by over-supply of fuel in the market. Coal is important for Eswatini as the country is an exporter of coal. The South African coal prices declined drastically by 31.4 percent from R99.36 per metric tonne in 2018 Q2 to R68.12 per metric tonne in 2019 Q2. However, on a quarterly basis, comparing 2019 Q1 with 2019 Q2, crude oil and brent oil prices grew marginally by 7.5 percent and 8 percent respectively. Whereas during the same period, coal prices remained subdued decelerating by 19.6 percent from R84.75 per metric tonne in 2019 Q1 to R68.12 per metric tonne in 2019Q2.

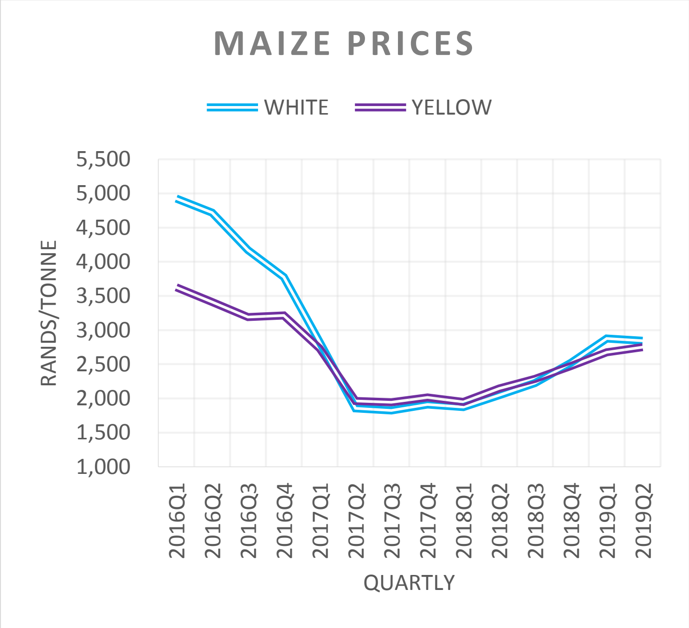
Sugar prices are vital for Eswatini as the country exports a lot of sugar to the European market and the world. On a y-o-y comparison, sugar prices decline marginally by 6 percent from UDS 0.39 cents per kilo in 2018Q2 to UDS 0.37 cents per kilo in 2019Q2. On the contrary during the same period, the world sugar prices grew marginally by 3 percent from UDS 0.27 cents per kilo to USD 0.28 cents per kilo. Whiles on a q-o-q comparison both the EU and World sugar prices were stable at USD 0.37 cent and USD 0.28 cent respectively in 2019 Q1 as well as 2019 Q2.

Citrus prices, which are critical for Eswatini because the country is an exporter of citrus fruits to the European markets, were on a downward trajectory of a y-o-y comparison. They were down by 34 percent from USD 0.83 cents in 2018Q2 to USD 0.55 cents in 2019 Q2. The decline was mainly due to the oversupply and saturation of the market with citrus fruits. While on a q-o-q basis citrus prices remain subdued decelerating by 14 percent from UDS 0.64 cents in 2019 Q1 to 0.55 cents in 2019 Q2.

Grain prices

Grain prices are important for Eswatini because the country is a net importer of grains. Grain prices have a direct price transmission to the economy as an increase in the price of grain in at safex markets will result in an increase in the price of grain and grain products domestically. White maize is important for the country for food security reasons as it is the staple food, whilst, yellow maize is important for the manufacture of livestock feed. According to the SAFEX for July 2019, white maize prices grew massively by 39 percent from R2 049.76 in 2018Q2 to R2 844.40 in 2019Q2. Similarly, yellow maize prices also grew by 28 percent from R2 147.03 in 2018Q2 to R2 748.65 in 2019Q2. While on a q-o-q basis white maize prices decelerated marginally by 1 percent from R2876.18 in 2019Q1 to R2844.40 in 2019Q2. Whilst, on the contrary yellow maize prices grew marginally by 3 percent from R2673.94 in 2019Q1 to R2748.65 in 2019Q2.

Figure 2: Grain prices



Source: July SAFEX prices

2.1 External Trade

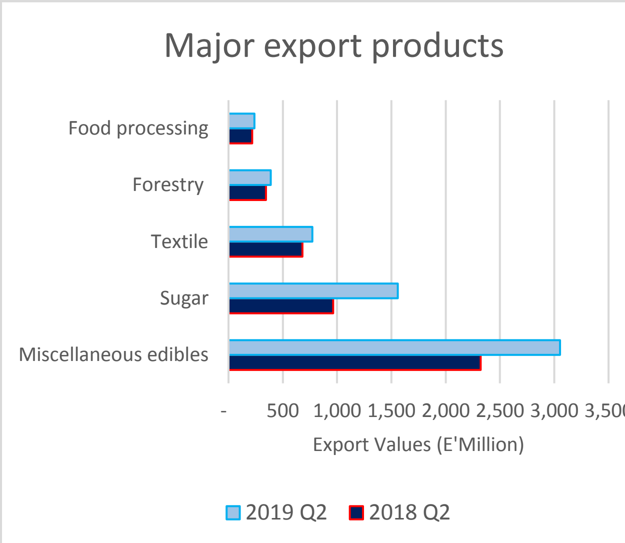
2.1.1 Exports

"Demand for Eswatini exports increases as they grow by 30 percent in 2019 Q2 "

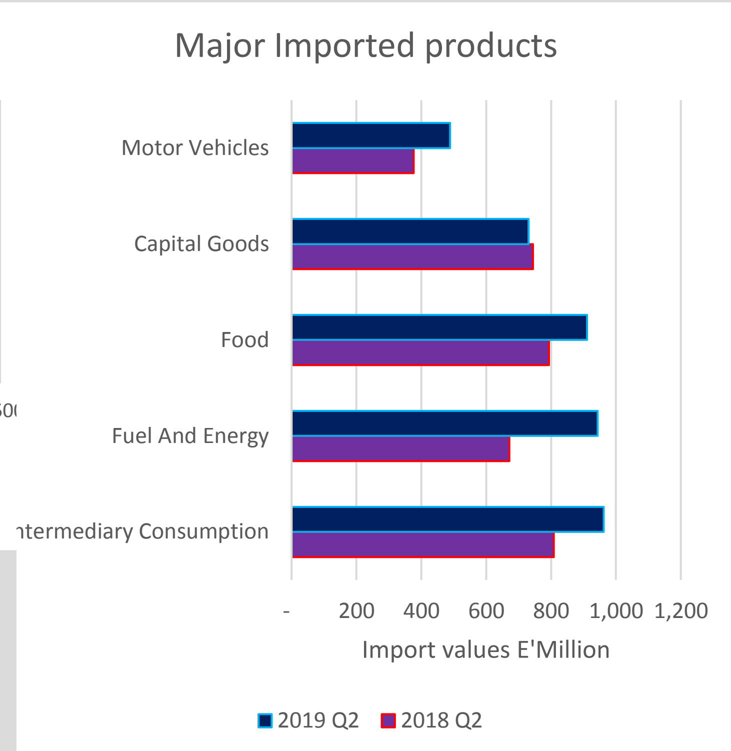
On an annualized basis total merchandise exports grew massively by 30 percent from E5.074 billion in 2018 Q2 to E6.576 billion in 2019 Q2. This growth was driven by sugar exports as well as miscellaneous edibles exports which grew by 62 percent and 32 percent respectively. Whereas, textile products, forestry related products and processed foods exports grew modestly at a 10 average of percent. Sugar exports grew exponentially benefiting from the production side as local sugarcane production increased due to favorable weather conditions and increased production efficiencies. Whilst, the growth of miscellaneous edibles exports benefited from access to new markets with the Sub-Saharan region.

In terms of exports destination's the SACU regions remains the dominant exports market for Eswatini products representing 66 percent of the markets share. However, Eswatini's share of exports to the SACU region decelerated marginally from 70 percent in 2018 Q2. However, the reduction in SACU exports was moderated by a 4 percent increase in exports to Sub-Saharan Africa which grew from 23 percent in 2018 Q2 to 27 percent in the same quarter of 2019. The EU markets and the Asian markets remain a viable market for Eswatini products because of fairly low trade activity engages on, compared to what these markets demand.

Figure 3: Merchandise Exports



Source: SRA Trade data (July)



Source: SRA Trade data (July)

2.1.2 Imports

"Eswatini's Imports, increased in 2019 Q2 indicating increased domestic demand..."

On a y-o-y basis total merchandise imports grew modestly by 7 percent from E5.867 billion in 2018 Q2 to E6.301 billion in 2019Q2. This growth in total imports was largely driven by a 50 percent increase in pharmaceutical imports, a 41 percent increase in fuel and energy imports, a 30 percent increase in alcohol and tobacco imports, textile inputs imports and motor vehicles imports as well as a modest 15 percent increase in food imports.

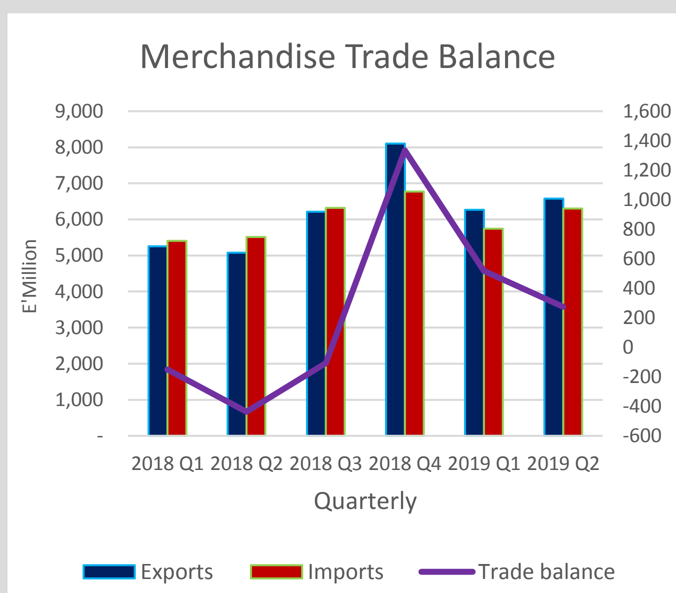
In terms of imports the SACU region remains the major source of imports for Eswatini contributing 72 percent of the imports. Asian region provides 16 percent of Eswatini imports. The Eurozone, Sub-Saharan Africa and North America remain viable import sources for Eswatini contributing 12 percent of imports collectively.

Figure 4: Merchendise Imports

2.1.3 Trade balance

During the 2019Q2 Eswatini had a positive trade balance of E275 million meaning the country was able to export more than it imported during the review period. This is the third consecutive quarter since 2018 Q3 where Eswatini has recorded a trade surplus.

Figure 5: Trade balance



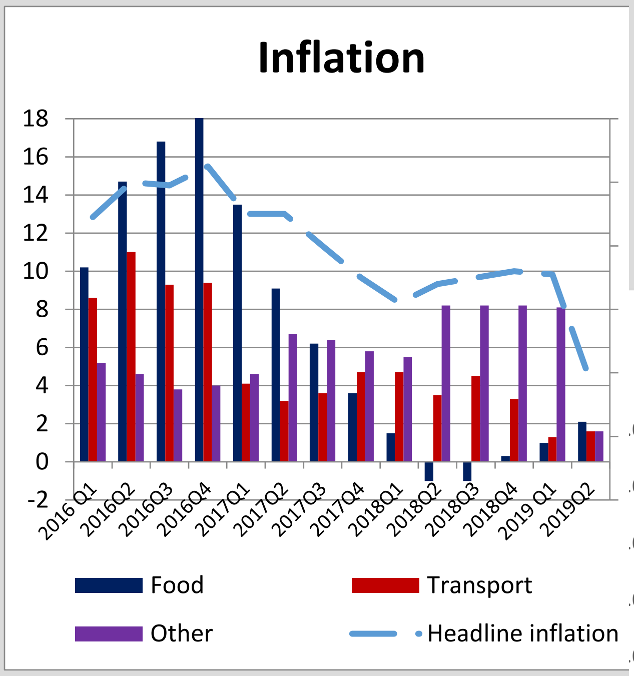
Source: SRA Trade data (July)

DOMESTIC DEVELOPMENTS

2.1 Prices

"Headline inflation deccelarates by 65 percent on y-o-y basis..."

Figure 6: Inflation



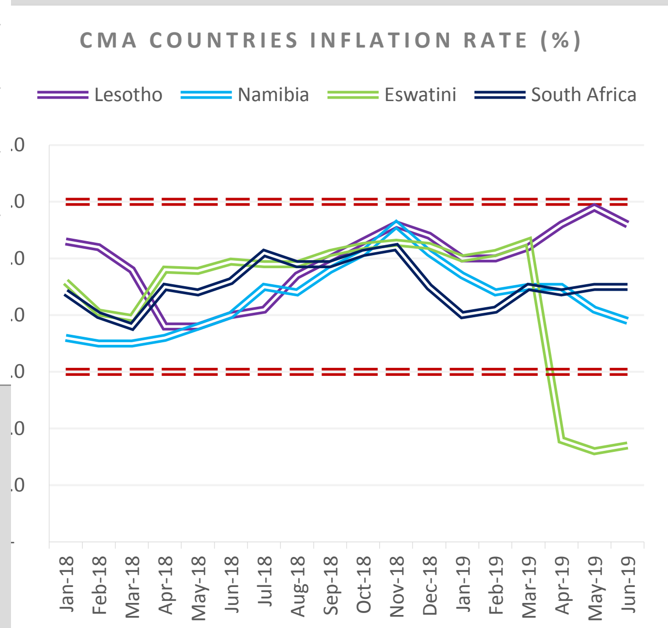
Source: CSO data (July)

On an annualized basis, Eswatini's headline inflation decelerated by 65 percent between 2018 Q2 and 2019 Q2. In 2019Q2, inflation averaged 1.7 percent, having come down from 4.8 percent in 2018 Q2. This was mainly driven by a substantial disinflation in food prices as well as housing and utilities costs. The costs of housing and utilities went down by 97 percent mainly due to a non-increase in housing rentals in 2019 as well as the new government's policy stance suspending utility tariff hikes. Food prices, on the other hand, decelerated by 320 percent in the review period following the sustained recovery from the drought which led to favorable weather conditions in 2018.

Similarly, on a q-o-q basis, headline inflation decelerated by 67 percent, coming down from 5.1 percent in 2019 Q1 to 1.7 percent in 2019 Q2. This was mainly driven by substantial disinflation in the costs of clothing and footwear (558 percent), housing and utilities (97 percent) as well as communication (100 percent). However, these declines were counteracted by a 36 percent increase in food inflation which grew from 0.1 percent in 2019 Q1 to 2.1 percent in 2019 Q2.

Apart from Eswatini, the headline inflation within the Common Monetary Area (CMA) countries also increased moderately, however, all the rates fell within the 3-6 percent target band in the quarter under review. On average, Lesotho had the highest inflation rate in 2019 Q2 at 5.7 percent, showing a 12.5 percent increase compared to 2019 Q1. This was mainly driven by a 19.2 percent hike in the costs of housing and utilities. Whereas in South Africa, headline inflation was recorded at 4.5 percent, portraying a 6.3 percent rise in prices which was attributed to a 55 percent increase in transport inflation compared to 2019 Q1. The lowest headline inflation rate was recorded in the Namibia which reported 4.2 percent in 2019 Q2. This shows an 8.1 percent deflation compared to 2019 Q1, driven by an 11 percent decline in clothing and footwear costs.

Figure 7: CMA countries inflation



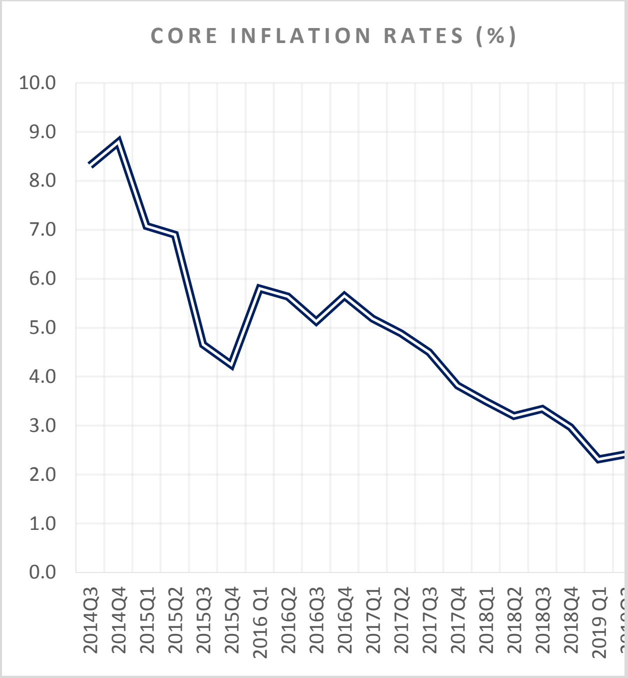
Source: CMA countires data (July)

Core inflation

Core inflation is important because it shows the relationship between the prices of goods and services and the prices of consumer's general income, hence, reflecting the consumers' spending power.

On a q-o-q comparison core inflation was marginally up by 0.1 percentage points from 2.3 percent in 2019 Q1 to 2.4 percent in 2019 Q2. This accelaration in core inflation portrays that consumers spending power has marginally improved, in the mist of depressed income while prices of goods and services have subdued moderately thus improving consumers buying power.

Figure 8: Eswatini Core Inflation (%)


CORE INFLATION RATES (%)
10.0
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
2014Q3
2014Q4
2015Q1
2015Q2
2015Q3
2015Q4
2016 Q1
2016Q2
2016Q3
2016Q4
2017Q1
2017Q2
2017Q3
2017Q4
2018Q1
2018Q2
2018Q3
2018Q4
2019 Q1

Source: CSO

WHAT IS INFLATION?

Imagine your grandma stuffed a E20 note in her old wallet in the year 1995 and then forgot about it. The cost of paraffin during that year was around E2.00 per liter, which means she could have then bought 10 liters of paraffin with that E20 note. Twenty-four years later in the year 2019, the cost of liter was around E10.50 per liter. If she finds the forgotten note in the year 2019 and then goes on to purchase paraffin, she would have bought only 1.90 liters. Although the E20 note remained the same for its value, it lost its purchasing power by around 81 percent over the 24-year period. This simple example explains how money loses its value over time when prices rise. This phenomenon is called inflation.

What is inflation?

Inflation is a quantitative measure of the rate at which the average price level of a basket of selected goods and service in an economy increases over a period of time, usually calculated on year-on-year basis. In other words, inflation is the constant shifts in the general level of prices where a unit of currency buys less or more than it did in prior periods. Inflation is often expressed as a percentage, where it indicates a decrease in the purchasing power of a nation's currency.

Causes of inflation?

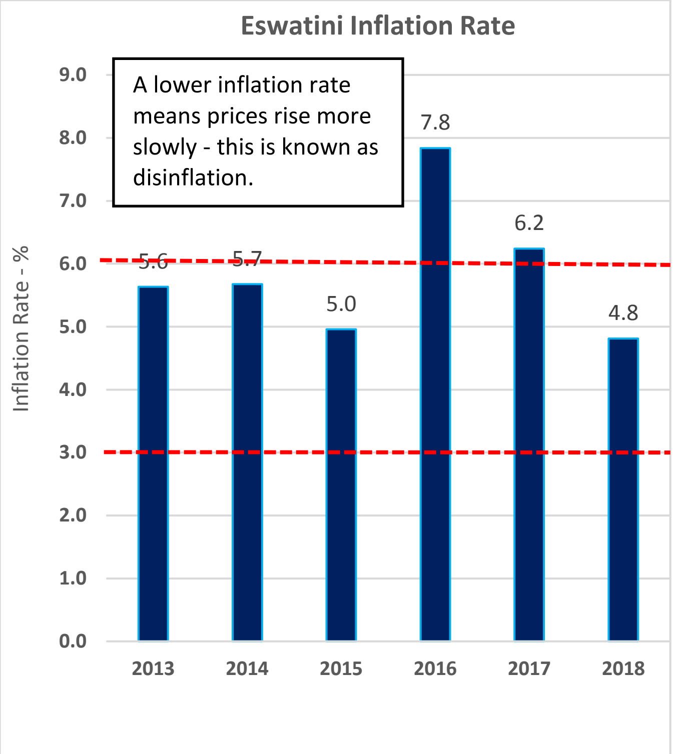
Price changes are the root of inflation, though these can be attributed to different factors.

1. *Demand-pull inflation effect*

Demand-pull inflation occurs when the overall demand for goods and services in an economy increases more rapidly than the economy's production capacity. It creates a demand-supply gap with higher demand and lower supply, which results in higher prices. For instance, when the oil producing nations decide to cut down on oil production, the supply diminishes. This leads to higher demand, which results in price rises and contributes to inflation.

2. *Cost-Push inflation effect*

Cost-push inflation is a result of the increase in the prices of production process inputs. Examples include an increase in labor costs to manufacture a good or offer a service or increase in the cost of raw material. These developments lead to higher cost for the finished product or service and contribute to inflation.



Inflation – Key Term Glossary

<u>Consumer Price Index (CPI)</u> – a measure of the price level in the economy based on the price of a collection of products designated to reflect the consumption basket of the average consumer.

<u>Deflation</u> – a decline in the general price level in an economy, signified by an annual inflation rate below 0% (negative).

<u>Disinflation</u> – disinflation is a fall in the rate of inflation e.g. from 5% to 2%. Prices are still rising but at a slower rate.

<u>Hyper-inflation</u> – a period of very high rates of inflation, usually leading to a loss of confidence in an economy's currency.

<u>Inflation rate</u> – the annual rate of change of the average price of goods and services.

<u>EFFECTS OF INFLATION</u>

Many governments, including Eswatini, have set their Central Banks a target for a low but positive rate of inflation. They believe that persistently high inflation can have damaging economic and social consequences.

1. **Income redistribution:** One risk of higher inflation is that it has a regressive effect on lower - income families and older people in society. This happen when prices for basic needs inclusive of food and domestic utilities such as water and energy rises at a rapid rate.

2. **Falling real incomes:** With thousands of people facing a cut in their wages or at best a pay freeze, rising inflation leads to a fall in real incomes.

3. **Negative real interest rates**: If interest rates on savings accounts are lower than the rate of inflation, then people who rely on interest from their savings will be poorer. Real interest rates for millions of savers in RSA and many other countries have been negative for at least four years.

4.**Cost of borrowing:** High inflation may also lead to higher borrowing costs for businesses and people needing loans and mortgages as financial markets protect themselves against rising prices and increase the cost of borrowing on short and longer-term debt. There is also pressure on the government to increase the value of the state pension and unemployment benefits and other welfare payments as the cost of living climbs higher.

5. **Risks of wage inflation:** High inflation can lead to an increase in pay claims as people look to protect their real incomes. This can lead to a rise in unit labor costs and lower profits for businesses

6**. Business competitiveness:** If one country has a much higher rate of inflation than others for a considerable period of time, this will make its exports less price competitive in world markets. Eventually this may show through in reduced export orders, lower profits and fewer jobs, and also in a worsening of a country's trade balance. A fall in exports can trigger negative multiplier and accelerator effects on national income and employment.

7. **Business uncertainty:** High and volatile inflation is not good for business confidence partly because they cannot be sure of what their costs and prices are likely to be. This uncertainty might lead to a lower level of capital investment spending.

2.2 Interest Rates & Lending

"Accommodative monetary stance maintained, as discount rate is unchanged

In 2019 Q2, the Central Bank of Eswatini (CBE) maintained an accommodative monetary policy stance and also kept the discount rate unchanged at 6.75 percent, which was at par with the South African repo rate.

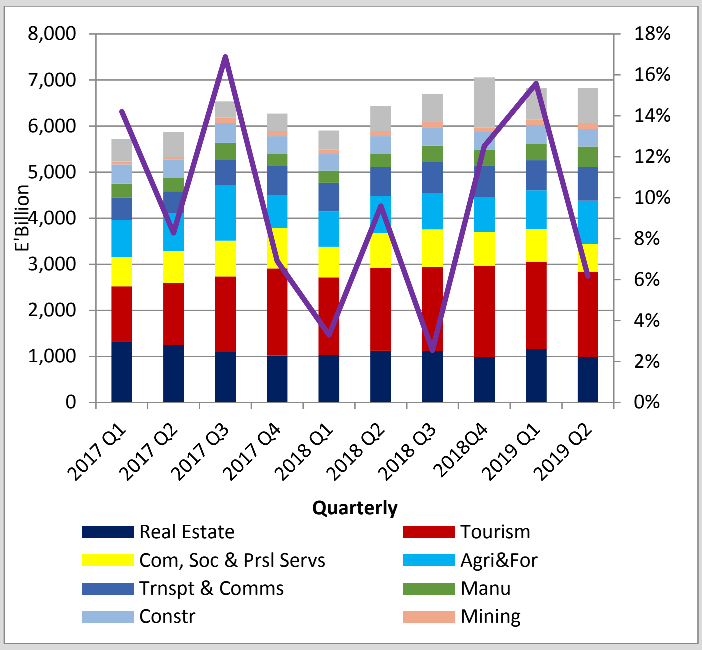
This was done in consideration of the global, regional and domestic conditions. In line with the unchanged discount rate, the prime lending rate was also maintained at 10.25 percent, which was similar to that of 2019Q1.

Coherent with the accommodative monetary policy stance, the total credit extended to households and private businesses amounted to E13.1 billion in 2019 Q2. On an annualized basis, this was a marginal 6 percent growth from the E12.3 billion extended in 2018 Q2. This can be attributed to a 6.7 percent modest growth in credit extended to households, which is 0.5 percentage points higher than that extended to private businesses in 2019 Q2.

In this period, credit extended to businesses was E 6.8 billion, having grown from E6.4 billion in 2018 Q2. This was mainly driven by substantial growths in credit extended to the manufacturing (58.5 percent) and "other" sectors (43.2 percent) as well as modest growths in credit offered to the agriculture (18.1 percent) and transport and communication (15.1 percent).

On a q-o-q basis total credit extended to households and businesses also grew marginally by 3.1 percent, rising from E12.7 billion in 2019 Q1 to E 13.1 billion in 2019 Q2. This was also driven mainly by a 6.2 percent growth in credit extended to households, which was recorded at E6.3 billion in 2019 Q2 compared to E5.9 billion in 2019 Q1. Credit to businesses was up by 0.1 percentage point as a result of credit extended to the manufacturing (25.1 percent) and agriculture sectors (13.3 percent).

Figure 9: Credit Extension to Businesses



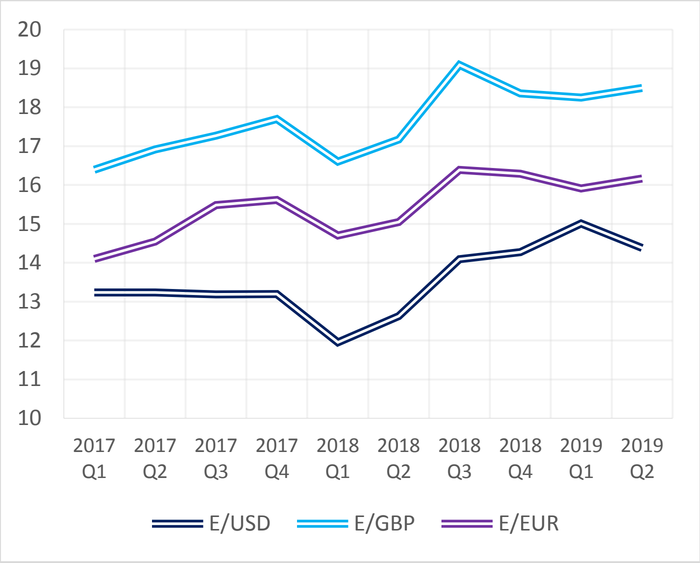
Source: CBS

2.3 Exchange Rates

"Mixed performance for Lilangni against major currencies "

The Lilangeni is at par with the South African Rand, it follows that the local currency's performance is linked to that of the South African economy as well as developments in the global economy such as the US-China trade tensions as well as the uncertainties around the Brexit deal. When compared on a q-o-q basis against the three major currencies namely, the US Dollar, the British Pound and the Euro, the Lilangeni's performances were mixed between 2019 Q1 and 2019 Q2. Against the US dollar, the Lilangeni appreciated by 4.2 percent, averaging E14.39 in 2019 Q2 from E15.01 in 2019 Q1. The slight strengthening of the Lilangeni compared to the US Dollar was linked to the uncertainty over the negotiation of a trade truce between China and the US. This therefore made the country's exports to the US cheaper than in the previous quarter. Against the British Pound, the local currency slightly depreciated by 1.4 percent, averaging E18.49 in 2019 Q2 compared to E18.24 in 2019 Q1. Similarly, when paired against the Euro, it depreciated slightly by 1.7 percent averaging E16.17 in 2019 Q2 compared to E15.91 in 2019 Q1. This depreciation of the local currency was driven by the continued uncertainty of the Brexit deal.

Figure 10: Major trading currencies



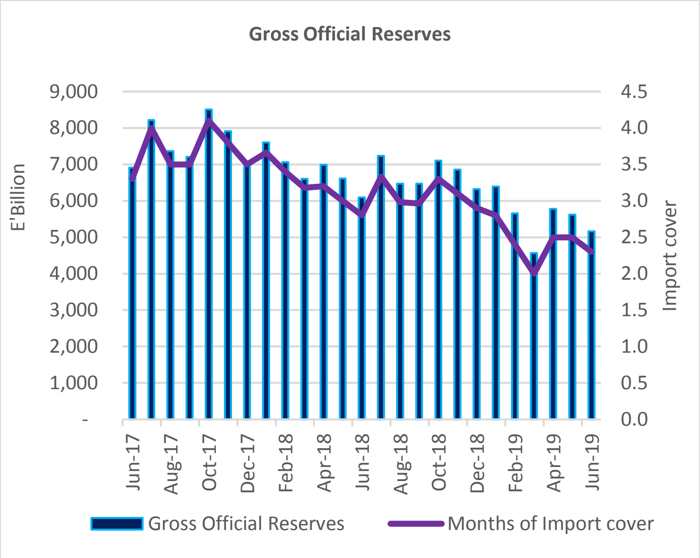
Source: CBE

2.4 Reserves

"Reserves remain below 3 months of import cover"

Gross official reserves were reported to be at E5.2 billion in 2019 Q2, which is a modest 14.1 percent decline from 2018 Q2, where they were at E6.1 billion. This was sufficient to cover 2.3 months of imports, which is below the internationally recommended 3 months threshold. However, on a q-o-q basis, they were up by 13 percent, having grown from E4.6 billion in 2019 Q1. This can be attributed to the country's SACU receipts which came in to boost the reserves in 2019 Q1. The reserves have generally been on a downward trend since 2018, primarily due to the continued fiscal challenges as well as the sluggish economic growth which have resulted in their rapid draw down, thereby hindering their build up.

Figure 11: Gross International Reserves



Source: CBE

Fiscal Developments

"Governemt revenues collections increase on a q-o-q basis"

3.1 Government revenues

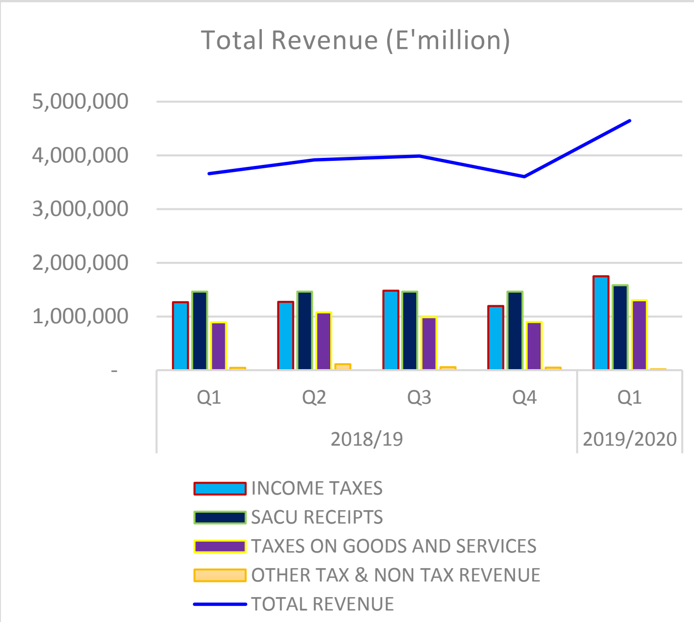
Total revenue collected for 2019 Q1 amounted to E4.6 billion according to preliminary data sourced from the Ministry of Finance and SRA. This reflects a positive performance when compared on both a y-o-y and a q-o-q basis.

Revenues collected in same quarter in 2018 Q1 amounted to E3.7 billion, depicting a 27 percent massive increase. This growth was driven primarily by an 8.1 percent increase in SACU revenues for the fiscal year from E1.46 billion in 2018 Q1 to E1.58 billion in 2019 Q1. Income taxes also grew significantly by 39 percent driven by increased corporate tax collected that reflected a 57 percent growth on a y-o-y basis which may signal marginal improvement in economic activity. VAT collection also reflected a 64 percent increase in a y-o-y basis. The introduction of the motor vehicle levy also contributed to the increase in revenue collection.

On a q-o-q basis, total revenue collection also increased from E1.2 billion in 2018 Q4 to E1.8 billion in 2019 Q1, potraying a 38 percent increase. This growth was mainly driven by corporate tax which grew massively by 172 percent which can be expected due to companies submitting tax returns in the last quarter of the fiscal year.

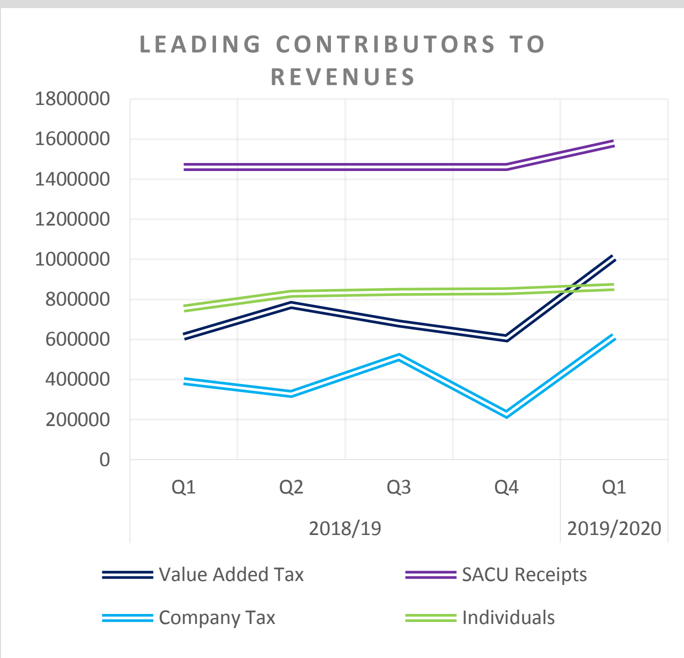
Normally the third largest contributor to total revenue collection, VAT revenues surpassed Individual Income tax in the quarter under review from the effects of the 1 percent VAT increase whereas Individual tax remained somewhat constant as no significant changes have occurred in salary arrangements of significant employers in the economy.

Figure 12: Government revenue collection



Source: MOF & SRA

Figure 13: Composition of Governemt revenues



Source: MOF & SRA

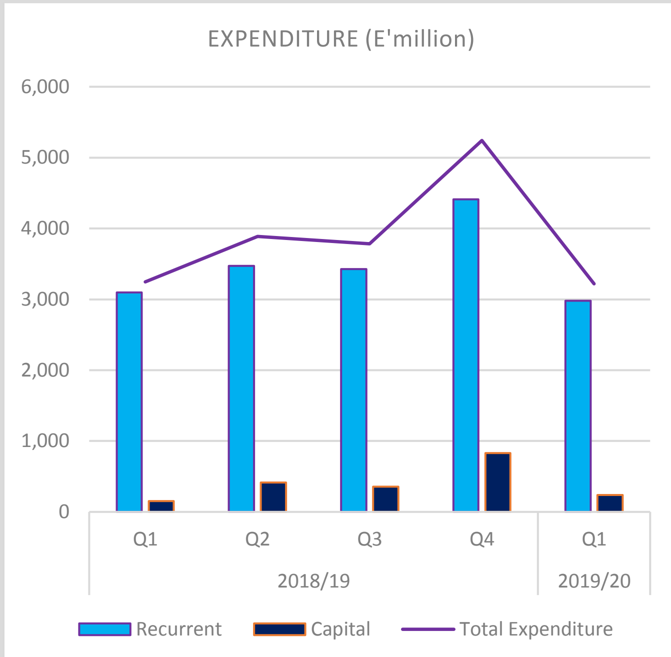
> *"Government expenditures decline on a y-o-y compansion"*

3.2 Government expenditure

Total Government expenditure is driven by recurrent expenditure for Eswatini. In 2019 Q1 recurrent expenditure amounted to E2.98 billion depicting a 4 percent decline on an annual basis compared to the E3.097 billion spent in 2018 Q1. This decline was largely attributed to cuts in transfers and goods and services expenditure. Wages and salaries continue to be leading contributor to recurrent expenditure however, they have remained relatively constant at E1.82 billion following Government fiscal stance of a hiring freeze and no costs of living adjustment. Whereas, goods and services also declined by 38 percent on an annualized basis from E512 million in 2018 Q1 to E319 million 2019 Q1. Similarly,

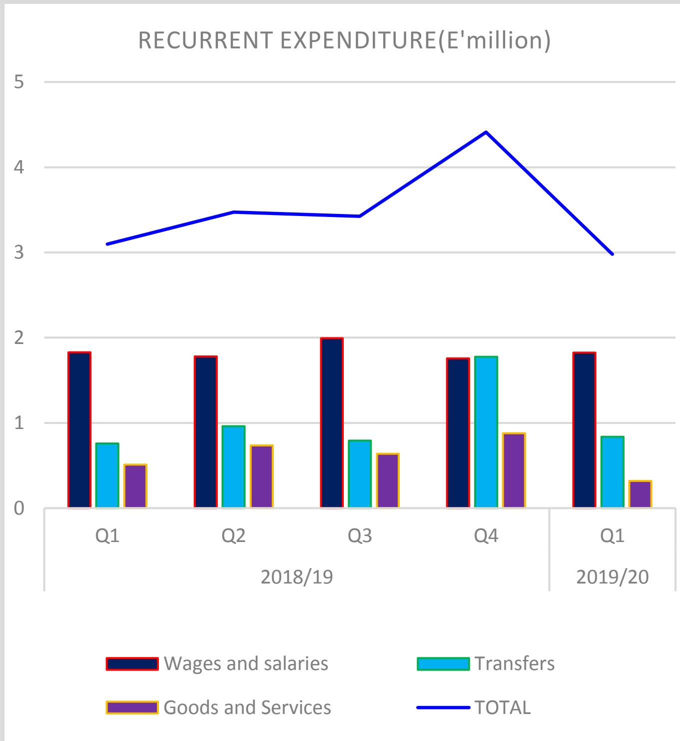
Capital expenditure on the other hand grew massively by 59 percent from E151.3 million in 2018 Q1 to E240 million in 2019 Q1. The growth in capital expenditure was driven by continued implementation of government capital projects.

Figure 14: Government Expenditures



Source: MOF & SRA

Figure 15: Government Expenditures



Source: MOF & SRA

U.K. Reaches Post-Brexit Deal With World's Oldest Customs Union

SACU is the world's oldest customs union, comprising of the five members namely; South Africa, Botswana, Lesotho, Namibia and Eswatini. This member states derive between 30 percent and 40 percent of their government revenue from a customs-sharing pool that gains and falls on South African trade. Africa's most-industrialized economy (South Africa) recorded a first quarter trade deficit in more than a year in the first three months, widening the current-account shortfall. The fortunes of Lesotho, Namibia and Eswatini are also linked to developments in their larger neighbor with their exchange rates pegged to the rand whose contributions to the pool are most significant. Any developments within international markets have multilateral relationships with SACU members states making them easy targets with regards to positive and negative trade deals.

The United Kingdom (UK), who's South Africa's fourth largest trading partner with bilateral trade of about R140 billion in 2018, has agreed to an economic partnership agreement with the Southern African Customs Union and Mozambique (SACU+M) that will allow business to keep trading freely post Brexit. This deal will be known as the SACUM – UK Economic Partnership Agreement. South Africa has concluded a new trade deal with the UK, which will kick in if Britain leaves the European Union (EU) without an trade agreement, while Eswatini is yet to sign. The UK is set to leave the EU on 31st of Octobern 2019, and no trade deal currently existing between the two. While, UK Prime Minister, has vowed not to seek another extension, the UK Parliament has passed a law compelling him to seek a further delay if no departure deal has been concluded.

The British High Commission to South Africa stated in a press statement on Wednesday (11 September, 2019), that this agreement will be subject to final checks before it is formally signed. He continued to articulate that; "The agreement allows businesses to continue to trade on preferential terms with South Africa, Botswana, Lesotho, Namibia, Eswatini and Mozambique, "the commission further stated that, "this trade agreement also supports the economic development of these Commonwealth partners laying the foundations for new trade and investment in the future. "This will help to strengthen further the trading relationship between the UK and SACU+M nations, which was worth £9.7 billion last year (2018).

The SACU+M nations are an important market for UK exports of machinery and mechanical appliances worth £409 million in 2018, motor vehicles worth £335 million, and beverages including whisky worth £136 million. "This trade agreement, once it is signed and takes effect, will allow businesses to keep trading after Brexit without any additional barriers," said the UK's international trade secretary. "As well as benefiting British businesses, this will also support developing countries in reducing poverty through trade. They will be able to grow their economies, create jobs and increase incomes for their citizens. "This is a major milestone as the UK prepares to become an independent trading nation once again, and we are helping businesses get ready to trade with the most exciting markets around the world." Source: gov.uk.

Minister of Trade and Industry in South Africa, stated that RSA and the five other countries in the southern African region (Lesotho, Eswatini, Namibia, Botswana and Mozambique) have clinched a deal that would give the African states a soft landing in case of a no-deal Brexit which ensures that trade continues as normal with the UK regardless of whether the country leaves the EU with a deal, without a deal or does not leave at all. This creates the environment which preserves current trading conditions and protects jobs. If a deal is reached between the UK and the EU, this acts as a sort of insurance policy.

This deal will prove very helpful to the Eswatini Government as volatility of SACU receipts would be reduced, future forecasting would be more stable. The increased trade would further positively affect the trade balance; contribute to SACU; and increase bilateral trade within Britain. Due to this regard, this poses as a wake-up call to the Eswatini Economy to fix all investor-unfriendly variables in order to attract more investors interested in the SACU+M block. This would mean more employment opportunities for Emaswati, which would increase income taxes and corporate taxes for Government. This deal will give domestic companies more experience in producing for foreign markets, with time these companies would gain competitive advantages in global trade. Research shows that exporters are more productive than companies that focus on domestic trade.

Note: Imports allow foreign competition to reduce prices for consumers. It also gives shoppers a wider variety of goods and services. Examples include tropical and out-of-season fruits and vegetables.

Eswatini has been a net importer for years (trade balance), which in economic terms, Eswatini has been exporting jobs to international economies. This SACUM – UK Economic Partnership Agreement will create room for Eswatini to redeem herself in order to be a net exporter. Eswatini currently offers competitive labor costs, improved business registration times, and positive reforms from the Government's Strategic Roadmap which seeks to improve investor confidence within the economy. This deal will prove very helpful from households through to Government as a whole.

Sources

Population: CSO, Population Projections

GDP at Market Prices: CSO, SNA

GDP per Capita: CSO, SNA

GDP Growth Rate: CSO, SNA

Agriculture Sector's Contribution to GDP: CSO, SNA

Manufacturing Sector's Contribution to GDP: CSO, SNA

Public (Govt) Sector's Contribution to GDP: CSO, SNA

Unemployment Rate: CSO, Labour Force Survey

HDI: UNDP

Proportion of Population Below Poverty Line (%): WFP, UNDP

Inflation Rate: Central Statistical Office: CSO

CPI: CSO

Discount Rate: CBS, BOP Section

Prime Lending Rate: CBS, BOP Section

Exchange Rate (E/US Dollar): CBS, BOP Section

Exchange Rate (E/Pound Sterling): CBS, BOP Section

Total FDI Inflows: CBS, BOP Section

Merchandise Exports and Imports: SRA

Trade Balance: Net Exports and Imports: CBS, BOP Section

Gross Official Reserves: CBS, BOP Section

Gross Official Reserves (Months of Import Cover): CBS, BOP Section

Total Revenue and Grants: MoF, MTFF as of November 2016

Total Expenditure and Net Lending: MoF, MTFF as of November 2016

Fiscal Surplus/Deficit: MoF, MTFF as of November 2016

Fiscal Surplus/Deficit as % of GDP: MoF, MTFF as of November 2016

Total External Debt: CBS

Total External Debt as % of GDP: CBS

List of Acronyms

AGOA	African Growth and Opportunity Act
CBS	Central Bank of Swaziland
CMA	Common Monetary Area
CSO	Central Statistics Office
FY	Fiscal Year
IMF	International Monetary Fund
MEPD	Ministry of Economic Planning & Development
SACU	Southern Africa Customs Union
SRA	Swaziland Revenue Authority
SSA	Sub-Saharan Africa
US	United States of America
UK	United Kingdom
WEO	World Economic Outlook