Ministry of Economic Planning and Development

Macroeconomic Analysis and Research Division

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2017 Q1 Highlights

International

- Global economic activity gains momentum as IMF projections point to an increase from an estimated 3.1 percent growth in 2016 to 3.5 percent and 3.6 percent growth in 2017 and 2018, respectively.
- The Sub-Saharan African region is expected to recover, though modestly, in 2017 and 2018.
- South Africa recorded a very low real economic growth of 0.3 percent for 2016, which is SA's lowest growth rate since 2009 during the global recession.

Domestic

- Inflationary pressures were subdued in 2017 Q1 due to a slowdown in food inflation; inflation stood at 6 percent in March 2017.
- The Central Bank raised the discount rate by 25 basis points to 7.25 percent in January 2017, 25 percent above South Africa's; commercial banks raised the prime rate to 10.75 percent.
- Credit extended to businesses grew by 8 percent after five consecutive quarters of declines, showing vibrancy in some sectors of the economy.
- The local currency continued to gain ground against major currencies in 2017 Q1; the Lilangeni strengthened against the US Dollar, the British Pound and the Euro for a second consecutive quarter.
- Gross official reserves amounted to E7.3 billion at the end of March 2017, a year-on-year decline of 13.7 percent.
- Exports reached E5.6 billion in 2017 Q1 with rapid growth in mining and textile exports whereas growth in miscellaneous edibles and sugar exports was slightly lower compared to the same time last year.
- Imports stood at E4.7 billion with high growth coming from fuel imports; food imports moderated whereas others like construction and capital goods reduced compared to last year.
- Total domestic revenue collection for the 2016/17 fiscal year was around E7.7 billion, an increase of the 14 percent compared to the previous fiscal year.
- External government debt recorded an annual decline of 10 percent, while domestic debt increased by about 80 percent during the same period.

1. International Developments

1.1 Global Growth Performance

After an estimated economic growth of 3.4 percent and 3.1 percent in 2015 and 2016 respectively, the global economy is projected to gain momentum and grow by 3.5 percent and 3.6 percent in 2017 and 2018, respectively (IMF World Economic Outlook, April 2017). Upside risks include an expectation of even stronger global demand, and agreed restrictions on oil supply leading to an improvement in commodity prices which relieves commodity exporters, helps lift global headline inflation, and reduces deflationary pressures. On the financial markets side, continued policy support in China and expected fiscal expansion and deregulation in the USA are projected to boost activity.

On the other hand, downside risks to the projected global outturn include inward-looking policies which threaten global economic integration, structural challenges, such as high income inequality and low productivity growth, which are likely to persist and hamper output growth. Moreover, a faster than expected pace of interest rate hikes in the USA could tighten financial conditions elsewhere and further US dollar appreciation could strain economies who already have balance sheet mismatches.

The average projection for advanced economies is 2.0 percent growth for both 2017 and 2018, slightly higher than the October 2016 forecast. The upward revision is a reflection of the anticipated cyclical recovery in global manufacturing and trade, signs of which were observed in the second half of 2016. Additionally, in the United States assumed fiscal policy easing and an expected increase in business confidence will likely boost performance. However, within the Euro Area, though recovery is expected to proceed at a similar pace as in 2016, there are possible challenges in the region that may weigh down on growth. For example, issues of political uncertainty, as a significant number of countries in the region approach elections, coupled with the unclear future relations between the UK and the EU. The United Kingdom has continued to perform better than expected after Brexit. However this could mean that the negative impacts of the Referendum manifest more gradually than previously anticipated.

Emerging and developing economies are forecast to collectively grow at 4.5 percent and 4.8 percent in 2017 and 2018, respectively. This is a significant increase in momentum given these countries' estimated growth averaged 4.2 percent and 4.1 percent in 2015 and 2016, respectively. An important contributor to this uptick in activity is the recovery of commodity exporters who had been adjusting due to significant falls in commodity prices. Moreover, the firming growth in India is anticipated to offset the gradual slowdown of the Chinese economy resulting from the transition to a more sustainable growth pattern that is less reliant on investment and commodity imports.

	January 2017		April 2017	
	2017	**2018**	**2017**	**2018**
World Output	3.4	3.6	3.5	3.6
Advanced Economies	1.9	2.0	2.0	2.0
US	2.3	2.5	2.3	2.5
Euro	1.6	1.6	1.7	1.6
UK	1.5	1.4	2.0	1.5
Emerging Economies	4.5	4.8	4.5	4.8
China	6.5	6.0	6.6	6.2
SSA	2.8	3.7	2.6	3.5
Nigeria	0.8	2.3	0.8	1.9
RSA	0.8	1.6	0.8	1.6

Source: WEO, April 2017

While economic growth was slowed down by macroeconomic challenges faced by large economies in Sub-Saharan Africa (SSA) in 2016, the IMF projects that the region will recover, albeit modestly, in 2017 and 2018 to 2.6 percent and 3.5 percent respectively. Nigeria, one of the largest economies in Africa, is expected to bounce back from a recession in 2016 to a 0.8 percent growth in 2017 owing to recovery in oil production, continued growth in agriculture, and higher public investment. As commodity prices recover, drought conditions ease, and electricity capacity expands, South Africa is expected to grow at a faster pace of 0.8 percent in 2017. Better terms of trade are also expected to boost Angola's economic performance.

According to the South African Reserve Bank (SARB), the country experienced a contraction in the fourth quarter of 2016 contributing significantly to the very low real economic growth of 0.3 percent for 2016 - SA's lowest growth rate since 2009 during the global recession. The primary and secondary sectors were responsible for the contraction as, despite the return of rains after a prolonged drought, the agriculture sector still posted negative growth; real value in the mining sector also contracted because of low production levels in all mineral groups; manufacturing also grew negatively owing to suppressed demand. Developments in the tertiary sector upheld growth as finance and transport subsectors expanded at a slightly faster pace in the fourth quarter of 2016. Nevertheless, an upward movement in the country's business cycle indicator indicates towards improved economic performance for the year 2017, in line with the IMF projections.

1.2 World Trade

Although world trade volumes have been on the rise when compared year-on-year, with 2.7 percent, 2.0 percent, and 1.3 percent growth in 2014, 2015 and 2016 respectively; world trade prices have been contracting by 1.6 percent, 13.5 percent, and 5.1 percent in the same period, respectively. However, looking closely at quarterly price movements shows that changes have been positive (i.e. prices are increasing) since 2016 Q2. This gain in momentum can be attributed to, among other things, the agreed restrictions on oil supply.

World Trade Movements

Year-on-year (volumes)*			
	2014	**2015**	**2016**
World Trade	2.7	2.0	1.3
World Imports	2.6	1.9	1.4
World Exports	2.7	2.2	1.3
Year-on-year (prices)*			
	2014	**2015**	**2016**
World Trade	-1.6	-13.5	-5.1
World Imports	-1.4	-13.2	-5.1
World Exports	-1.7	-13.7	-5.1

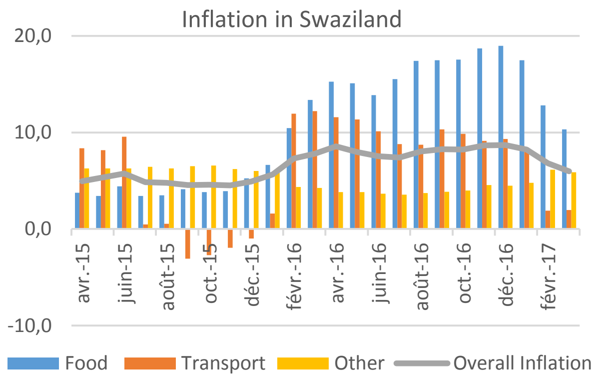
*Percentage changes

Source: World Trade Monitor, February 2017

2. Domestic Developments

2.1 Prices

Inflationary pressures somewhat subsided in the first quarter of 2017. Inflation stood at 6.0 percent in March 2017, 2.6 percentage points lower than in December 2016. Average inflation was at 7.0 percent in the first quarter of 2017, down from 8.0 percent in 2016 Q4. On the backdrop of better rainfall, food inflation receded in 2017 Q1, averaging 13.5 percent, significantly lower than the 18.4 percent recorded in 2016 Q4. Transport inflation was also significantly lower in the first quarter of 2017. However, these developments were countered by elevated education prices as a new academic year commenced for basic education in the review period.



Source: CSO

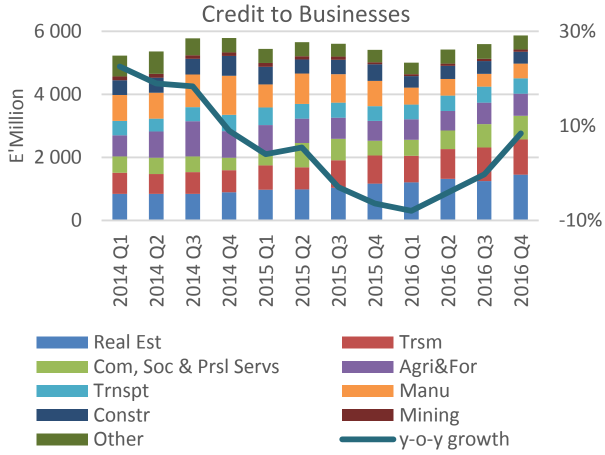
In the Common Monetary Area (CMA), Lesotho is the only country that recorded inflation levels within the target band of 3 percent-6 percent in the first quarter of 2017, averaging 4.9 percent due to a huge decline in food inflation. Namibia reported an average inflation of 7.7 percent in 2017 Q1, which was the highest amongst the CMA countries as housing & utilities, food, and transport categories recorded noticeable acceleration. Price increases in South Africa decelerated from 6.6 percent in 2016 Q4 to 6.3 percent in 2017 Q1. Inflation levels were generally on a downward trend in most CMA countries in the review period, with varying developments in the Consumer Price Index (CPI) baskets.

2.2 Interest Rates

The Central Bank of Swaziland increased the discount rate by 25 basis points to 7.25 percent at the beginning of 2017 Q1. This stance was underlined by inflationary pressures observed in the last quarter of 2016 emanating from high food prices due to the drought. Concomitantly, commercial banks raised the prime rate by 25 basis points to 10.75 percent. Due to these revisions, the country's repo rate stood at 25 basis points above South Africa's, which may help curtail capital outflows from the domestic economy. A decline in the country's annual inflation led to the maintenance of the discount rate at 7.25 percent until the end of 2017 Q1, noting upside risks to inflation.

2.3 Lending

Credit extended to businesses, excluding financial corporations, recovered in 2016 Q4 to post a positive growth of 8 percent after five consecutive quarters of declines. This is due to better growth posted in credit extended to community & social services, real estate and tourism. Credit extended to real estate and tourism sectors has been on an upward trend since 2015 Q3, showing economic vibrancy in these sectors. After poor performance since 2015 Q4 owing to the drought conditions, credit extension to agriculture & forestry show signs of recuperating on the back of improved rainfall. Credit extended to manufacturing, construction and mining sectors continued on a downward trend, indicating depressed activity in these sectors.

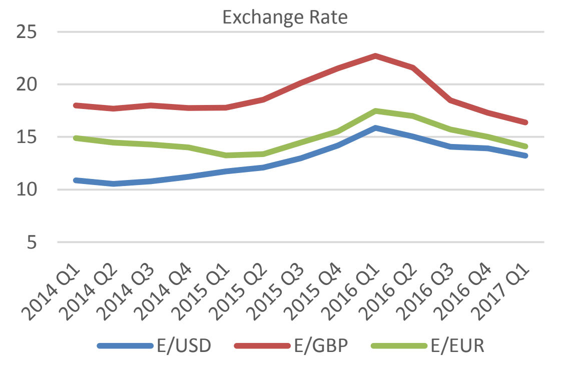


Source: CBS

Credit to households has been growing as a share of total credit extension since 2014 and stood at 49 percent in 2016, from 41 percent in 2014. On the contrary, proportion of credit to businesses has declined from 55 percent in 2014 to 47 percent in 2016, indicating a slowdown in economic activity as this is used for production. Credit to households is predominantly driven by consumption loans such as mortgage, vehicle finance and unsecured loans.

2.4 Exchange Rates

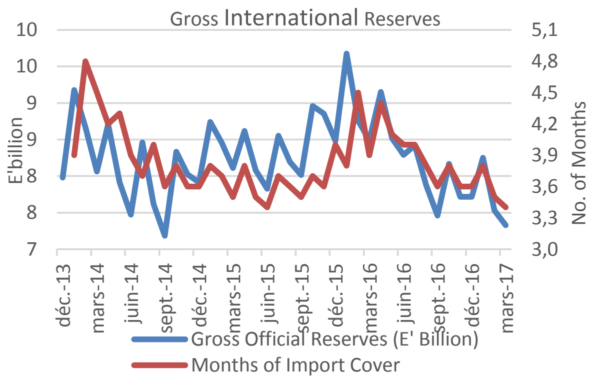
The local currency has gained significant ground against major trading currencies in 2017 Q1. The Lilangeni (SZL) strengthened against the US dollar (US$), British Pound (£) and Euro (€) for a second consecutive quarter. On annualized basis, the Lilangeni recorded double digit gains for all the three major currencies; 17 percent against the US$, 28 percent against the £ and 19 percent against the €. Developments around the Brexit and new administration in the US have led to uncertainty in these economies, adversely affecting their currencies. The chart below shows that after the peak observed in 2016 Q1 (when the local currency was the weakest), the Lilangeni has continued to recover. Following recent political developments in the neighboring economy, the Lilangeni, pegged one-on-one to the South African Rand, is anticipated to depreciate.



Source: CBS

2.5 Reserves

Gross official reserves amounted to E7.3 billion at the end of March 2017, a decline of 13.7 percent compared to the same period last year. Such low levels were last observed in September 2013. Import cover also dropped from 3.9 months in March 2016 to 3.4 months in March 2017, depicting the lowest levels since June 2015. On an annualized basis, reserves have been on a downward trend since the second half of 2016, partly owing to lower SACU receipts in the past fiscal year and an appreciation of the local currency in this period.

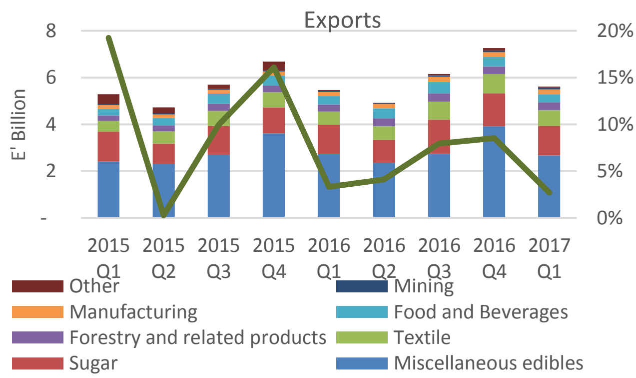


Source: CBS

3. External Trade

Exports: According to recent data by the SRA, exports in 2017 Q1 amounted to E5.6 billion. Growth in exports was low at about 2.7 percent compared to 2016 Q1. This however seems in line with past trends where growth in the first quarter is generally muted before picking up pace in subsequent quarters. Growth was mixed across industries.

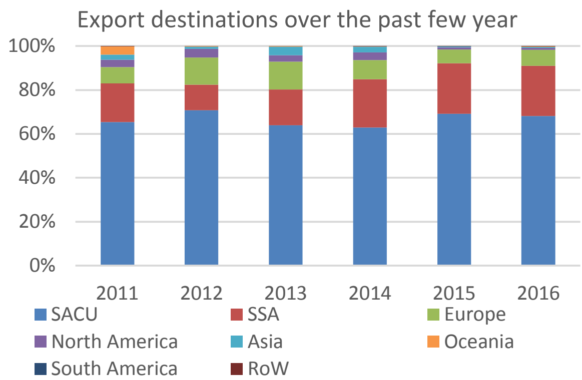
Rapid growth was registered in the mining industry. Mining exports stood at over E88 million in 2017 Q1 compared to just about E49 million in 2016 Q1, a growth of over 80 percent. Exports of the industry have been picking up pace since finalization of the rather prolonged renewal of the coal license. Even though mining's overall weight in the export basket is small, this industry contributed 1.3 percent to the overall growth in exports. Another sector with rapid growth in exports was textiles which grew by over 20 percent. Average growth in this sector, despite the loss of AGOA, has been in double digits since 2015. Its contribution to overall growth in exports was 2.5 percent in 2017 Q1. While growth in forestry exports has slowed compared to recent quarters, it still remains significant at about 11 percent and contributed about 0.7 percent to the overall exports growth. Exports of miscellaneous manufactures also grew by 15 percent boosted by exports of products like soaps, glassware, fertilizers etc. However their relatively small weight in the export basket meant that their contribution was lower at 0.4 percent.



Source: SRA

On the other hand, Swaziland's major exports of miscellaneous edibles and sugar both registered (slight) negative growth. Their significant weight in the export basket meant that their negative contribution brought down overall growth substantially. Moreover, a decline was also noticed in exports of processed foods, mostly meat. Similarly, agricultural exports also contracted, especially exports of live animals, but also vegetables, and saps. These together brought down overall growth by 1.4 percent.

Looking at Swaziland's export destinations over the past few years, it is clear that the SACU region (especially South Africa) remains an important destination accounting for 60-70 percent of all exports. About 50 percent of the exports to SACU are miscellaneous edibles, 20 percent sugar and increasingly textiles which by 2016 constituted about 15 percent of the exports to the region. Exports to Sub-Saharan Africa have become substantial, accounting for over 20 percent of the total Swazi exports, especially since 2014 mainly driven by miscellaneous edibles and to a lesser extent beverages and sugar.



Source: SRA

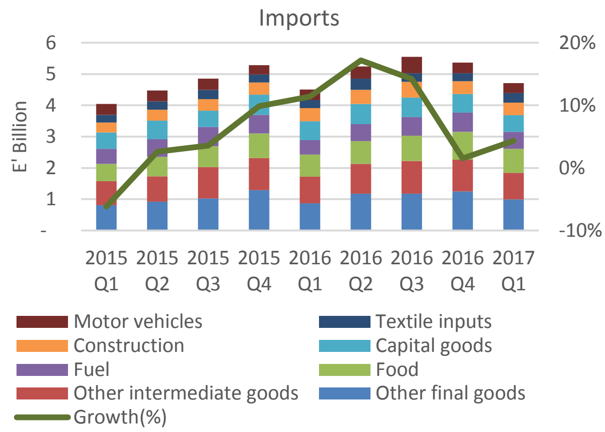
Main exports to Europe, Swaziland's third largest regional market group, include sugar, though its proportion in the export basket is slowly declining (from 90 percent in the period before 2012 to about 80 percent in 2016 now). Other important exports to Europe include canned fruits, citrus and meat. There have however also been some changes in the exports basket over the past few years. Whereas the proportion of Sub-Saharan Africa is becoming stronger in the exports baskets, exports to Asia have substantially reduced. In the absence of iron ore mining, which was the main export to the region, exports in 2016 were only about 17 percent of what they used to be in 2013 before the mine shut. Similarly, exports to the US have declined in the absence of AGOA to be about 27 percent (in 2016) of what they used to be in 2014 before the suspension.

Imports: According to recent data by the SRA, imports in 2017 Q1, imports amounted to E4.7 billion. Imports grew moderately at about 4.3 percent.

Fuel, the single largest commodity of import, ballooned the imports bill by 19 percent and contributed 2.3 percent to the overall growth in imports. This is the effect of the recently internationally agreed restrictions on oil production. However, the country has benefitted from low international fuel prices between 2014 Q2 and 2016 Q3 when the value of fuel imports continually dropped. By 2017 Q1 these imports amounted to E550 million, still much lower than around 2013 when they amounted close to E1 billion as fuel prices were higher.

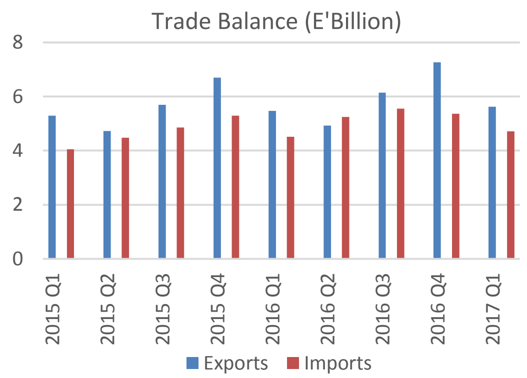
Food imports grew more moderately at 8 percent in 2017 Q1 compared to all quarters of 2016 when average growth was close to 20 percent due to the drought. Nevertheless, this category contributed 1.3 percent towards the overall growth in imports. Pharmaceuticals registered a staggering growth of 89 percent, and contributed 3.6 percent towards overall growth in imports. Imports of other final consumption goods with significant growth include alcohol and tobacco, furniture and clothing, together contributing about 1 percent to overall growth of imports. This however was more or less offset by the decline in imports of motor vehicles and other goods.

Inputs for domestic industries like agriculture grew moderately at about 7 percent. Imports of textile inputs have been rapidly rising, in line with the development in the exports. These imports alone contributed 1.3 percent to overall imports growth. On the other hand, construction imports declined by about 6 percent after rapid growth in 2016, contributing negatively towards overall imports growth to the tune of 0.5 percent. Similarly, imports of capital goods also declined significantly bringing down growth of overall imports.



Source: SRA

Trade balance and current account: As the figure below illustrates, Swaziland's exports have consistently exceeded its imports with the exception of 2016 Q2. This has helped maintain some surplus in the merchandise trade account.



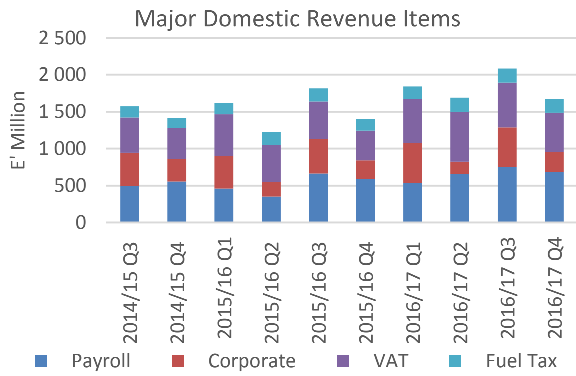
Source: SRA

However, this surplus is quickly depleted by the rising deficit in the services account. According to the data published by the CBS, by September 2016, the deficit in the services account stood at E2.2 billion whereas the surplus in the goods account was only about E1.3, leading to an overall deficit of E0.9 billion in the goods and services account. Income account continues in the negative as inflows, mainly investment income and interest receipts, remain insufficient to offset outflows, which are driven by dividends and distribution of profits to non-residents. On the other hand, current transfers recorded net inflows, thanks to SACU receipts, although these remain significantly lower than inflows recorded in 2015/16.

4. Fiscal Developments

4.1 Government Revenue

Total domestic revenue collection for the 2016/17 fiscal year was around E7.7 billion, an increase of 14 percent compared to the previous fiscal year. Of this, about E1.8 was collected in the last quarter of the fiscal year, an annual increase of 18 percent. While corporate tax saw a single-digit growth of 7 percent compared to the same period last year; VAT, payroll, and fuel tax grew by double digits: 32 percent, 16 percent, and 16 percent, respectively. The exceptionally high increase in VAT could partly be a reflection of inflationary pressures on goods and services induced by the severe drought experienced earlier. Increases in payroll tax could partly be explained by the recent addition of (mostly temporal) staff working on the National Population Census. Also, recent increase in the administered fuel prices by E0.80 have contributed towards the growth in fuel tax.

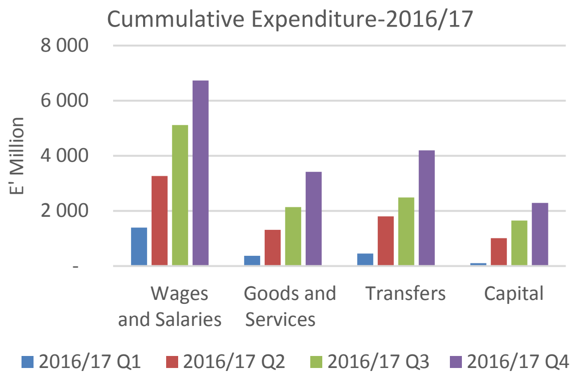


Source: SRA

4.2 Government Expenditure

By the end of 2016/17 Q4 Government total expenditure stood at E17.2 billion, about E9.5 billion more than the revenue collected domestically. Recurrent expenditure accounted for 87 percent, while the remaining 13 percent was for the capital program.

When compared to the overall budgeted E22.4 billion for the year, Government was able to execute about 77 percent of the budget. Recurrent spending was 85 percent of what was budgeted for the year. The capital program was only able to absorb 50 percent of what was allocated; however, this does not account for externally funded capital projects, which tend to have a higher implementation rate in Swaziland.

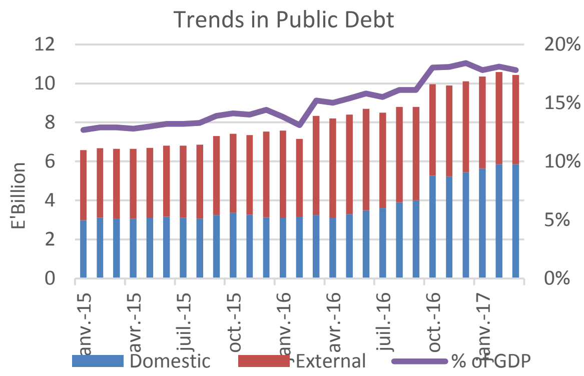


Source: Ministry of Finance

4.3 Government Financing

Like in previous years, domestic revenue collections fell short of financing Government operations in 2016/17. Total public debt remained above the double-digit billion mark, increasing from E10.0 billion recorded at the end of December 2016 to E10.4 billion at the end of March 2017. When compared to March 2016, total public debt increased by 25 percent. Moreover, as a percentage of GDP, total debt remains high at about 18 percent.

External debt saw an annual decline of 10 percent, while domestic debt increased by over 80 percent between March 2016 and March 2017. In effect, total domestic debt as a percentage of GDP broke into the double-digit zone at 10 percent at the end of 2017 Q1. The decline in external debt is mainly due to exchange rate movements; 2016 Q1 was a period when the local currency was the weakest against major trading currencies under which public debt is dominated.



Source: CBS

Under domestic debt, by the end of March 2017, bonds, which are normally dominated by non-bank financial institutions, almost doubled compared to the same period last year. Since March 2016 Government has received an advance from the CBS amounting to E1.1 billion; raised E575 million from both commercial and non-bank financial institutions to clear accumulated arrears via a suppliers' bond; and, successfully raised E1.08 billion through the ongoing Government Bond Issuance Program, exceeding the targeted E1 billion for the period. Meanwhile, treasury bills have an annual decline of about 2 percent.

Annex 1 – Key Economic Indicators

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Real Sector									
Population	1,031,747	1,043,509	1,055,506	1,067,773	1,080,337	1,093,158	1,106,189	1,119,375	1,132,657
GDP at Market Prices (E' Million)	26,771	30,296	33,139	36,015	39,970	44,519	48,756	52,547*	54,829#
GDP per Capita	25,947	29,033	31,396	33,729	36,998	40,725	44,076	46,943*	48,407#
GDP Growth Rate (%)	4.4	2.6	1.8	1.9	3.4	4.6	2.7	1.9*	-0.6#
Share of Agriculture to GDP (%)	7.2	6.8	7.3	7.0	6.7	6.4	5.8	7.1*	6.3#
Share of Manufacturing to GDP (%)	32.7	33.8	33.7	35.0	34.5	33.8	33.6	34.1*	34.6#
Share of Public (Govt) Sector to GDP (%)	6.2	6.2	6.1	6.3	5.6	5.8	5.5	6.1*	6.1#
Unemployment Rate (%)			28.5			28.1			
Human Development Index (HDI)	0.518		0.527	0.530	0.529	0.530			
Proportion of Population Below Poverty Line (%)		63							
Monetary Sector									
Inflation Rate (%)	12.7	7.4	4.5	6.1	8.9	5.6	5.7	5.0	7.8
Consumer Price Index (CPI)	75.1	80.7	84.3	89.5	97.5	103.0	108.8	114.2	123.2
Discount Rate (%)	11.00	6.50	5.50	5.50	5.00	5.00	5.25	5.75	7.0
Prime Lending Rate (%)	14.50	10.00	9.00	9.00	8.50	8.50	8.75	9.25	10.50
Average Exchange Rate (E/US Dollar)	8.26	8.44	7.33	7.26	8.24	9.65	10.85	12.75	14.72
Average Exchange Rate (E/Pound Sterling)	15.14	13.12	11.32	11.63	13.01	15.11	17.85	19.49	20.02
External Sector									
Merchandise Exports (E' Million)	11,170	13,269	14,378	17,013	14,274	18,292	20,646	22,404	23,798
Merchandise Imports (E' Million)	10,942	12,127	14,821	14,449	15,555	18,352	18,281	18,672	20,676
Merchandise Trade Balance (E' Million)	228	1,142	(443)	2,563	(1,280)	(60)	2,365	3,731	3,122
Gross Official Reserves (E' Million)	7,065	6,479	4,497	4,231	5,638	7,979	7,994	8,522	7,700
Gross Official Reserves (Months of Import Cover)	4.6	4.1	2.8	2.3	2.9	3.9	3.6	3.8	3.7
Fiscal Sector+									
Total Revenue and Grants (E' Million)	9,611	9,253	6,985	7,489	12,178	12,910	14,773	14,621	13,629
Total Expenditure (E' Million)	9,242	10,153	9,988	8,854	10,778	12,582	15,304	16,999	21,290
Fiscal Surplus/Deficit (E' Million)	369	(900)	(3,003)	(1,365)	1,400	328	(531)	(2,377)	(7,661)
Fiscal Surplus/Deficit as % of GDP	1.5	(3.3)	(10.4)	(4.3)	(4.0)	0.9	(1.4)	(7.2)	(13.7)
Total External Debt (E' Million)	4,135	3,327	2,543	2,773	2,715	3,400	3,568	4,408	4,650
Total External Debt as % of GDP	16.6	12.5	9.8	10.0	8.8	10.0	9.7	9.0	8.5

Note: Data according to CSO report from November 2015. * - estimate and # - projections by MEPD&CBS. + - data in fiscal year (April 01-March 31) eg. data under 2007 shows data for FY 2007/08

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: CBS, BOP Section

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