Ministry of Economic Planning and Development

Macroeconomic Analysis and Research Division

E-Bulletin No.22, Q2 2017

2017 Q2 Highlights

International

- Global growth for 2016 revised slightly upwards; projections for 2017 and 2018 predicting recovery, remain the same
- Growth projections for advanced countries change significantly although performance remains varied
- Projections for emerging economies improve although prospects for Sub-Saharan Africa remain bleak especially for commodity exporting countries
- In South Africa, economic activity shrinks for a second consecutive quarter in 2017 Q1, marking a technical recession
- Global trade records positive growth in both volumes and values; value of global trade reveal positive changes after a prolonged decline since the second half of 2014

Domestic

- While pressure on food inflation eases, inflation in other categories rises; CBS maintains the key interest rates
- Lending to business recovers while that to households slows down in 2017 Q1
- Despite the shock of downgrading of South Africa's credit rating, local currency continues to appreciate
- Reserves close on a low E6.9 billion; import cover at the lowest level in recent past
- Year-on-year, total domestic revenue increase by 10 percent to E2.1 billion in 2017/18 Q1
- Overall debt increases by 29 percent following a 74 percent rise in domestic debt

1. International Developments

1.1 Global Growth Performance

According to the World Economic Outlook (WEO, July 2017), cyclical economic recovery continues. Global growth in 2016 is estimated to have reached 3.2 percent, slightly better than the estimates published in April 2017, owing to robust activity mainly in Iran and India. While growth in 2017 and 2018 is expected to pick up pace to 3.5 percent and 3.6 percent respectively, it remains below the pre-crisis average level. This is especially true of advanced economies which are affected by weak investments and slow productivity growth but also commodity-exporting developing economies which have been grappled by low revenues due to unfavourable international prices.

While estimates and projections for growth in advanced countries remain unchanged, these mask the varied performance within the group. Projections for the US have been toned significantly down assuming that fiscal policy will be less expansionary going forward than earlier anticipated as well as due to weak performance in 2017 Q1. Poor growth outturn in the UK is also the reason for a downward revision in its growth projections. On the other hand, growth projections in the EU, where economic activity was above expectation and momentum for domestic demand remains strong, have been revised up. A similar pattern is also observed in other advanced economies notably Canada.

Growth estimates in emerging economies were revised upwards in 2016 resulting into a better global economic outturn. Growth is expected to accelerate from 4.3 percent in 2016 to 4.6 percent in 2017 and further to 4.8 percent in 2018. While growth will mostly be driven by commodity-importers, the upward revisions also reflect an improvement in conditions of large commodity-exporters affected by declining global commodity prices. Growth forecasts for China have been revised upwards following better performance in 2017 Q1 and with the assumption that the much needed fiscal adjustments will be delayed until 2018 to meet the target of doubling real GDP between 2010 and 2020. Growth in developing Europe is expected to strengthen significantly following good outturn in 2017 Q1, while in Latin America there have been downward revisions.

Growth in Sub-Saharan Africa was slightly lower than previously anticipated. Growth is insufficient to see per capita incomes rise - growth for a third of the countries will be negative. Marginal upward revisions in 2017 mainly reflect somewhat better prospects for South Africa with a bumper crop harvest after good rains and an increase in mining output following a modest recovery in commodity prices. However, challenges over political uncertainty and eroded business confidence will overshadow this development; consequently projections for 2018 have been revised down.

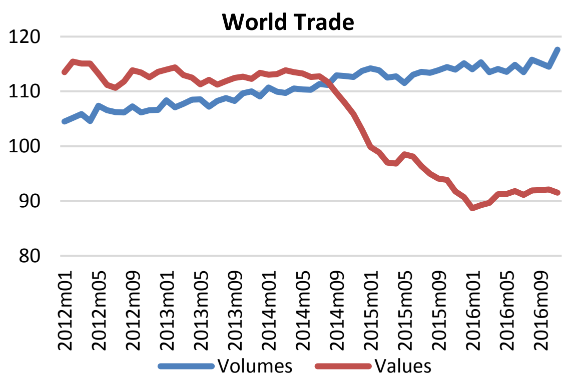
	Apr-17			Jul-17		
	2016	2017	2018	2016	2017	2018
World Output	3.1	3.5	3.6	3.2	3.5	3.6
Advanced economies	1.7	2.0	2.0	1.7	2.0	1.9
US	1.6	2.3	2.5	1.6	2.1	2.1
Euro	1.7	1.7	1.6	1.8	1.9	1.7
UK	1.8	2.0	1.5	1.8	1.7	1.5
Emerging Economies	4.1	4.5	4.8	4.3	4.6	4.8
China	6.7	6.6	6.2	6.7	6.7	6.4
SSA	1.4	2.6	3.5	1.3	2.7	3.5
Nigeria	-1.5	0.8	1.9	-1.6	0.8	1.9
RSA	0.3	0.8	1.6	0.3	1.0	1.2

Source: World Economic Outlook, July 2017

According to the statistical office, real economic growth in South Africa in 2017 Q1 declined further by 0.7 percent. This comes on the back of a 0.3 percent decline in 2016 Q4. After consecutive declines between 2015 Q1 and 2016 Q4, agriculture production expanded by 22.2 percent in 2017 Q1. Growth in mining on the other hand, has been uneven, though positive in 2017 Q1 at 12.8 percent. These two sectors contributed over 1 percent towards overall growth in the period under review. However, this positive development was offset by declines in all other sectors especially trade and manufacturing.

1.2 World Trade

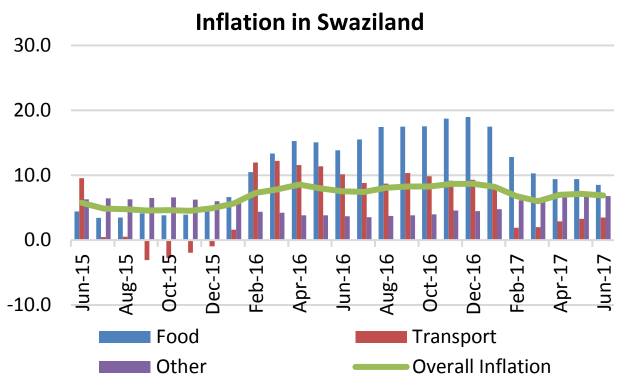
Growth in global trade volumes has been more robust since the beginning of 2017 at 4.4 percent in the first 5 months compared to 1.0 percent during the same time in 2016. Moreover, world trade in value terms also recorded positive growth in 2017 of 4.9 percent. After a sustained decline since the second half of 2014, which coincides with the decline in international commodity prices, world trade in value terms has recorded a positive growth since December 2016 due to modest recovery in prices. This development is also reflected in the improvement in growth prospects of some commodity exporting economies. However, value of world trade still remains far below its 2014 levels before commodity prices collapsed.



2. Domestic Developments

2.1 Prices

Inflationary pressures on food continue to ease, although they still remain high, in 2017 as observed in the subsequent deceleration in prices of food in the second quarter of 2017. With improved rainfall and positive yield forecasts for the 2017 harvest season, average food inflation in 2017 Q2 stood at 9.1 percent compared to an average of 13.5 percent in the previous quarter. Transport inflation also slowed in the period under review recording an average of 3.2 percent. Notwithstanding the easing in pressure of food and transport prices, inflation for other categories like alcohol and beverages, clothing, utilities and household equipment grew rapidly in 2017 Q2. These developments have meant that average inflation recorded in 2017 Q2 was at the same rate as in 2017 Q1 at 7.0 percent.



2.2 Interest Rates

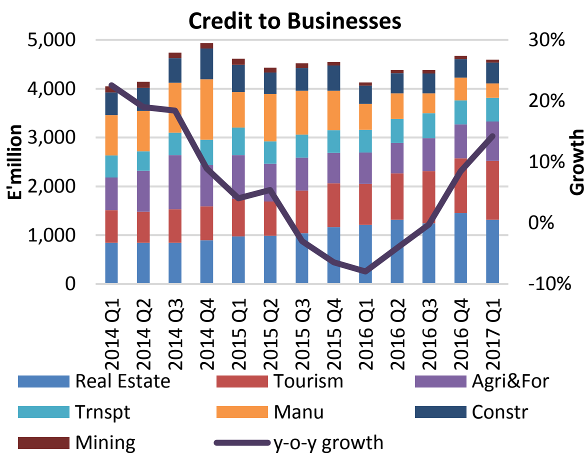
The Central Bank of Swaziland maintained interest rates at 7.25 percent in 2017 Q2. This was mainly in response to observed inflationary pressures (from prices of water, electricity and housing) in 2017 Q1 and risks of an increase in administered prices. Prime lending rates consequently remained at 10.75 in the period under review.

2.3 Lending

Credit to businesses (excluding financial corporations) accelerated in 2017 Q1[1] after rebounding (8.4 percent) in 2016 Q4, recording double digit growth (14.2 percent). Growth is mainly driven by increased credit to tourism, community & social services and agriculture and forestry. While real estate accounts for the largest share of total credit to businesses,

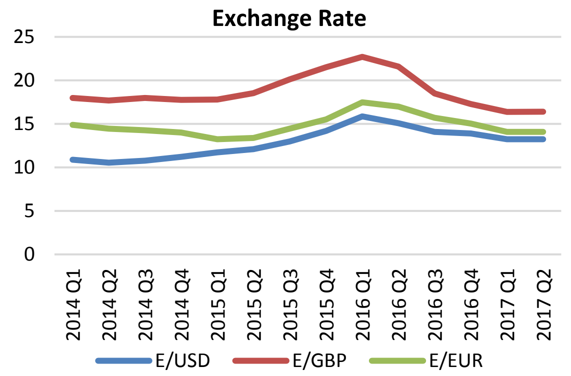
[1] It should be noted that data on credit extension comes with a lag of one quarter

growth in credit slowed in 2017 Q1 compared to previous periods. Credit to manufacturing and mining sectors continued to post negative growth in the period under review. Total credit to households receded to 4.6 percent in 2017 Q1 compared to double digit growth recorded since 2015 Q3. This is mainly attributed to weak performance in unsecured lending in the period under review. Total private sector lending (excluding credit to financial institutions) grew by 9.2 percent in 2017 Q1 compared to 11.6 percent in 2016 Q4. While this may be slower growth compared to previous quarter, it is faster compared to 2016 Q1 when it was 4.9 percent.



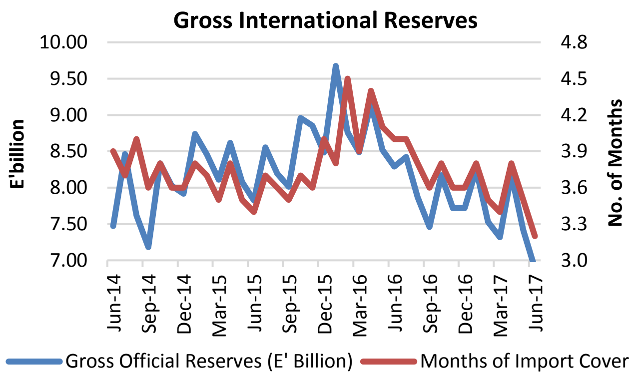
2.4 Exchange Rates

In April 2017 the Lilangeni, pegged at par to the Rand, weakened against the major currencies, mainly a response by markets after South Africa's sovereign credit down grade to junk status. However, the local currency quickly recovered from this shock in subsequent months due to assurances of political stability in South Africa on the one hand, and political instability and uncertainty in the UK, EU and the USA on the other. In 2017 Q2, the Lilangeni on average appreciated by 12.1 percent, 24.1 percent and 17 percent respectively against the US Dollar, British Pound and the Euro.



2.5 Reserves

Gross international reserves closed at E6.89 billion in June 2017. On an annual basis reserves declined by 16.9 percent in June 2017. At the end of the period 2017 Q2, international reserves were sufficient to cover 3.2 months of imports. This is the lowest import cover observed in the recent past.

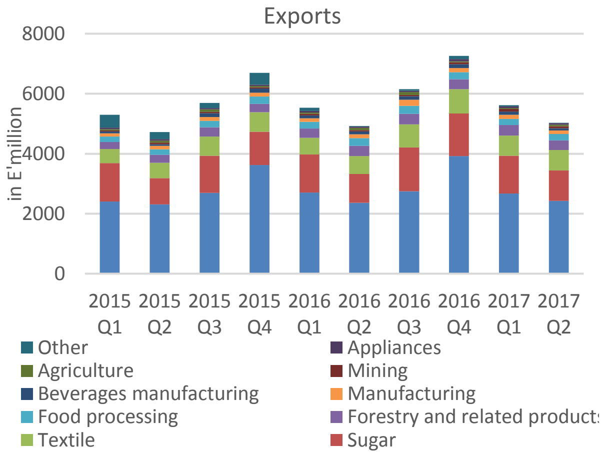


3. External Trade

3.1 Exports:

The total value of exports in 20172017 Q2 grew by 2.2 percent in nominal terms to reach E5.0 billion. Growth accelerated compared to the previous quarter (1.5 percent), however when comparing the semi-annual figures it is noted that growth in 2017 (up to June) at 1.9 percent is subdued compared to 4.3 percent during the same time in 2016.

A slowdown was observed in the exports of sugar - growth up to June 2017 was 2.2 percent compared to 4.9 percent during the same period in 2016. Textile exports also slowed compared to the previous quarter, although growth still remains in the double digits. Interestingly, these exports were the largest positive contributor to the overall growth in exports. Exports of miscellaneous edibles, which account for about half of the export basket, accelerated in 20172017 Q2, growing by 3.1 percent. However growth up to June 2017 shows that these exports also slowed significantly compared to last year (from 7.2 percent to 0.9 percent). While growth in mining exports slowed in 20172017 Q2 compared to the previous quarter, it remained high at 46 percent. The pace of growth of these exports has picked up since 20162016 Q3 driven by the recent renewal of mining license for the coal producer. However, their small weight in the export basket has meant their contribution to overall growth has not been significant.



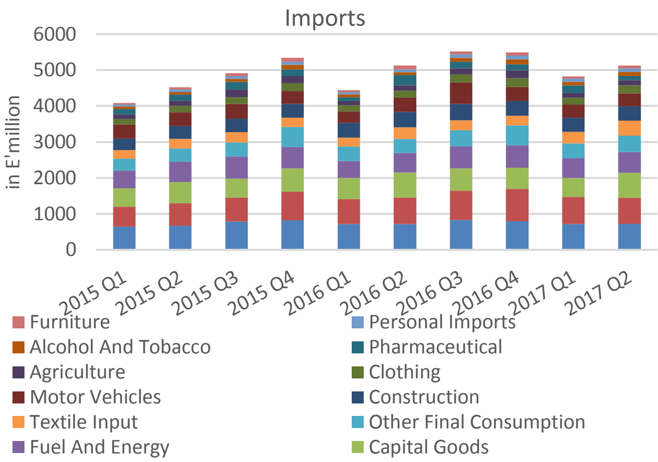
Source: SRA

Significant declines were observed in exports of agricultural products, beverage manufacturing, food processing and forestry products. Their combined negative effect has resulted in overall growth in exports falling by as much as 2.2 percent. Declines in agricultural products and food processing, both of which include live animals and meat processing, resulted from the depletion of animal stock following steep rises in sales during the drought. The decline can as such be attributed to the high base in 2016. Declines in beverage manufacturing can also be attributed to high base effects in 2016 when the major manufacturer supplied beverages to other markets on request.

When looking at exports to partners, the value of exports to Asia and the MENA region saw a significant increase mainly from raised supply of miscellaneous edibles and fruits and vegetables. These regions, however, account for just about 1 percent of the total exports. SACU region continues to dominate as the main destination of the export basket. By 20172017 Q2 the region accounted for as much as 71 percent of the total exports, an increase of 3 percentage points compared to 20162016 Q2 when it was 68 percent. The increase is mainly attributed to rising exports of miscellaneous edibles and textiles and, to a smaller extent, mining and sugar. On the other hand, Sub-Saharan Africa (excluding the SACU market), which accounts for about a quarter of the total exports, saw a decline in exports destined to the region. Declines came mainly from the exports of miscellaneous edibles and beverages, but also agricultural exports and appliances.

3.2 Imports:

Total value of imports in 20172017 Q2 declined by 0.1 percent. While this is a slowdown compared to the previous quarter, a lot of the declines in various import categories are a result of the high base observed during the same time last year.



Source: SRA

For instance, food imports declined in the period under review as domestic food production stabilized after good rains, reducing the unusually high import bill in 20162016 Q2 due to the effects of the drought. Other categories of imports with declines that can be explained by high base effects include furniture and pharmaceuticals. Imports of motor vehicles also declined during the period. These categories helped contain the import bill by as much as 5.1 percent, although this was somewhat offset by increases in other categories of final consumption goods.

Construction imports is another category with observed declines. Up for a second consecutive quarter. Up to June 2017, these imports declined by 5.4 percent compared to a 25 percent increase during the same time in 2016. This can be attributed to the reduction in construction activity following the near completion of some major private sector projects as well as fiscal challenges. Imports of agricultural goods (including fertilizers etc.) also declined. Imports of textile inputs on the other hand have been increasing rapidly, recording double digits. This is consistent with the rising exports of textiles. This category was also the largest positive contributor to the overall growth in imports.

Fuel imports, after a sustained decline over 10 quarters, have been rising since 20162016 Q4. Growth in 20172017 Q2 was at 6.6 percent, contributing positively towards the overall growth in imports. These imports, which used to be the single largest commodity of imports, have declined from about 20 percent of total imports in 2013-2014 to about 11 percent since 2016.

Imports of capital goods posted positive growth in 20172017 Q2 from a negative in the previous quarter (0.5 percent from -10.4 percent). However, between January and June 2017 these imports declined 5 percent compared to an increase of over 15 percent in 2016.

Looking at partners, imports from the EU have been consistently declining over the past 4 quarters (-12 percent in 2017 Q2). Declines are observed especially in the category of capital goods where imports have been declining since 2015 Q4 along with other durable goods like furniture. Another important category with declines has been construction imports. The region accounts for about 4 percent of the total imports. SACU remains the main source of imports for Swaziland. However, total imports from the region declined by 1.8 percent, and the region now accounts for 77 percent of the total imports compared to 79 percent in 2016 Q2. Decreases in imports of capital goods and motor vehicles explain most of the decline in imports from the SACU region in 20172017 Q2. Declines in the intermediate consumption categories like construction and agriculture was offset by increases in imports of textile inputs and other goods. Imports of final consumption goods, on the other hand, contributed positively to the overall increase in imports from the region. Imports from the wider Sub-Saharan African region (excluding SACU) also declined by 44 percent owing to reduced imports of food, other final consumption goods and intermediate consumption goods. Consequently, the region accounted for only 0.6 percent of the total imports in 2017 Q2, compared to 1.1 percent in previous quarters.

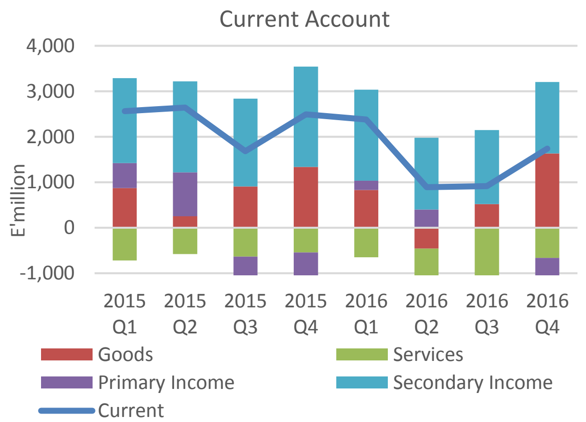
On the other hand, imports from Asia have been rising rapidly, accounting for 15 percent of the total imports in 20172017 Q2. Growth came from imports of textile inputs, but also other intermediate and final consumption goods.

3.3 Trade balance and current account:

External trade data (from SRA) shows that in 2017 Q2 Swaziland had a trade deficit of E96.2 million. A trade deficit was also observed in 2016 Q2, though it was much higher than (E210.4 million). This can be attributed to the seasonality in exports, which typically are lower in the second quarters of the year before increasing in the subsequent quarters while imports are more evenly spread throughout the year.

The methodology for Balance of Payments used by the Central Bank of Swaziland has been changed to adhere to Balance of Payments and International Investment Position Manual (BPM6), published in 2009. According to the new data, current account surplus reached E1.7 billion in 2016 Q4. While the surplus was larger compared to the previous quarter, it showed a decline compared to 2015 Q4 when it was E2.5 billion.

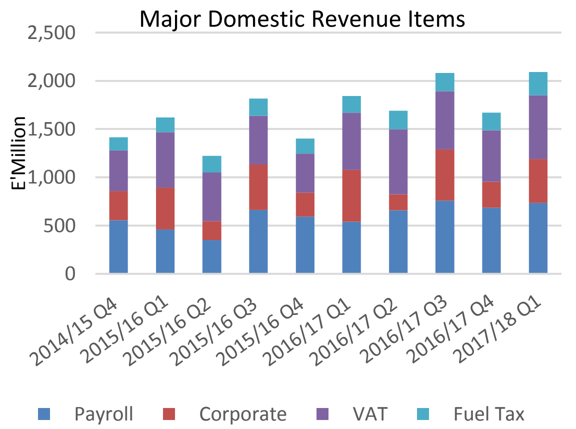
Surplus in the current account was boosted mainly by a higher trade balance. Although secondary income (formerly known as current transfers) also helped sustain the surplus, these net inflows are lower compared to the previous year. These flows mainly include SACU receipts, and the figure depicts lower receipts starting 2016 Q2 (i.e. beginning of 2016/17 fiscal year when these receipts declined substantially).



4. Fiscal Developments

4.1 Government Revenue

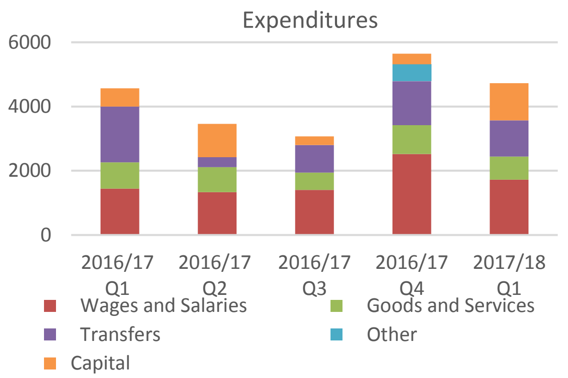
Year-on-year, total domestic revenue increased by 10 percent to E2.1 billion in 2017/18 Q1. Of the total revenues, income tax revenue constituted 58 percent, while taxes on goods and services accounted for 42 percent. Significant growth was observed in overall income taxes which grew by 10 percent. Of these, payroll taxes, about 57 percent of the total income taxes, grew by 36 percent to E734 million. This rapid growth is partly explained by the salary review which has raised income in the civil service. By 2016/17 Q1, the salary review had not yet been implemented. On the other hand, corporate tax collections fell by 15 percent in the period under review to E456 million; however, this line is rather volatile. Compared to same time in 2016/17, these taxes reduced from 46 percent of the total income tax to 36 percent in 2017/18 Q1, a decline of 10 percentage points.
Taxes on goods and services saw an increase of 19 percent in 2017/18 Q1. VAT collections, which account for about 72 percent of the total taxes on goods and services, increased by 11 percent during this period. Fuel tax grew rapidly by 40 percent. This is partly explained by the increase in administered fuel prices fuel tax increased from E2.20 per litre to E3.00 per litre in 2017 Q1. These taxes in 2017/18 Q1 accounted for 26 percent of the total taxes on goods and services, a 4 percentage point increase compared to 2016/17 Q1.



Source: SRA

4.2 Government Expenditure

The total annual expenditure budgeted for 2017/18 stands at E21.8 billion. Recurrent expenditures are projected to increase by less than 2 percent in nominal terms as part of the fiscal consolidation effort. At the end of 2017/18 Q1, recurrent expenditures show a decline of 11 percent. The execution rate during this time stood at 24 percent, compared to 28 percent during the same time last year. Declines come mainly from spending on goods and services like CTA, transport and communication, drugs, and rentals, although others show increases. Subvention and external grants (to foreign representations) also show declines. Spending on wages and salaries on the other hand increased by 19 percent in this period, accounting for 48 percent of the total recurrent expenditures.

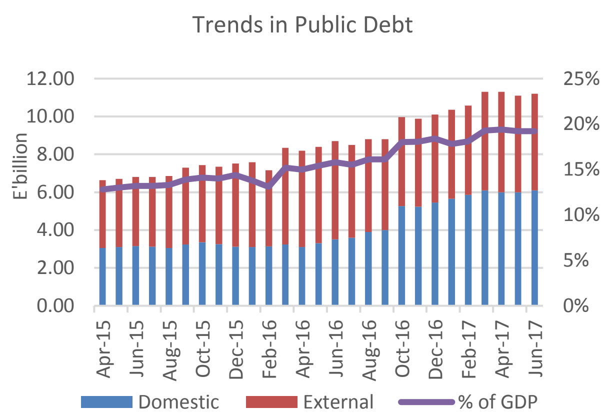


Source: Ministry of Finance

Total capital spending is budgeted to be E5.3 billion in 2017/18. By the end of 2017/18 Q1, released funds[2] have already reached 22 percent of the total budgeted figure. This is extraordinary given that the implementation rate in the first quarters of the fiscal year tend to be slow and only pick up pace towards the end of the fiscal year. While the execution of the domestically funded capital budget has been high at 30 percent, externally financed capital budget reached 14 percent by the end of 2017/18 Q1, which is also on the higher side for the first quarter of the year. Interestingly, not all released funds necessarily reflect a new construction activity. Many certificates of completion, which were not paid for in the previous year, have been resubmitted in the new fiscal year. These accumulated arrears are therefore being cleared in this fiscal year. Moreover, actual spending by Government only stands at around 25 percent of the released funds, or 8 percent of the budget pointing towards cash-flow issues.

4.3 Government Financing

To finance the difference between total revenue collected and total spending, Government had a total debt of E11.2 billion by the end of 2017/1818 Q1. A majority of this debt is domestic debt, which stood at E6.1 billion at the end of the period under review. Even though external debt has decreased by 2 percent compared to June 2016, domestic debt has increased by 74 percent and overall debt has increased by 29 percent. Central bank cash advances account for about 18 percent of domestic debt, while treasury bills account for 27 percent. The remaining 55 percent is for bonds (including suppliers bond and promissory notes).



Source: CBS

During the period under review (in June 2017) Government issued a E150 million bond that will mature in 7 years. This bond was allotted to individuals and non-financial bank institutions.

[2] There is an important distinction between released fund (which implies Government commitments) and actual payments. A higher released amount than actual hints towards accumulation of government arrears.

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