Ministry of Economic Planning and Development

Macroeconomic Analysis and Research Division

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Comments, criticisms and recommendations for improvement are most welcome. Please email: macrodivision.gos@gmail.com

2017 Q3 Highlights

International

- Global growth projections for both 2017 and 2018 have been revised upwards and are now forecasted at 3.6 and 3.7 percent respectively.
- Revisions have been positive for most advanced economies and growth is the Euro area in particular is now expected to contribute heavily to global growth.
- Growth forecasts for emerging economies in October 2017 remained unchanged at 4.6 percent
- Projections for countries within Sub-Saharan Africa are exceptionally varied, although the region is expected to grow at an overall rate of 2.6 percent in 2017. Growth projections for South Africa remain subdued.
- Global trade volumes have continued to grow throughout 2017, with growth rates that are several percentage points higher than the growth seen in the same periods in 2016.

Domestic

- Food inflation continued to subside in 2017 Q3; transport inflation also declined slightly. However, inflationary pressures in other categories mounted.
- Despite the decline in inflation, the Central Bank maintained the discount rate at 7.25 percent at the end of 2017 Q3.
- Credit to businesses continued to grow in 2017 Q2, albeit at a slower rate than in 2017 Q1.
- The local currency gained some ground against the US Dollar, but depreciated against the Euro and British Pound.
- Reserves were lower at the end of 2017 Q3 compared to the same period in 2016, with an import cover of 3.4 months.
- Total trade has grown significantly in 2017 and the trade surplus in 2017 Q3 was E875 million.
- Total domestic revenue grew by 13 percent from E1.8 billion in 2016/17 Q2 to E2.0 billion in 2017/18 Q2, although total public debt has also grown.

1. International Developments

1.1 Global Growth Performance

Global growth projections are expected to strengthen in 2017, according to the World Economic Outlook (WEO) October forecasts. Growth for 2017 and 2018 is forecasted at 3.6 and 3.7 percent respectively. The upward revision by 0.1 percentage point compared to the July forecasts are mainly attributed to positive growth forecasts in all regional economic groups. This is particularly the case in advanced economies (i.e. Euro area), where growth has been revised upward by 0.2 percentage points from the 2 percent projected in July. The positive growth forecasts follow an observed increase in economic activity coupled with business and consumer confidence in the first half of 2017.

WEO October 2017 forecasts for the growth in the US economy were revised upward to 2.2 percent from July forecasts of 2.1 percent. This revised growth was mainly attributed to supportive financial conditions and strong business and consumer confidence. However, long-term growth is expected to moderate due to a continuing slow growth in productivity and workforce growth resulting from population aging.

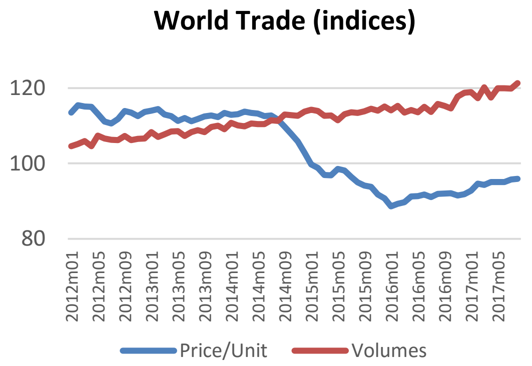
The Euro area, the main driver of growth in advanced economies is anticipated to post strong growth in 2017. Growth has been revised upward by 0.4 percentage points and 0.6 percentage points in 2017 and 2018 respectively compared to July forecasts. This follows an observed increase in trade and domestic demand supported by accommodative financial conditions and reduced political and policy uncertainty. Growth in the UK, however, is expected to slow down to 1.7 percent in 2017 from 1.8 percent in 2016. Relative to earlier WEO forecasts, growth in 2017 was revised downward by 0.3 percentage points. This is mainly a reflection of weak growth in private consumption after the pound depreciated, putting pressure on household income. Medium term growth prospects in the UK continue to be clouded by uncertainties over the new economic relationship with the EU after BREXIT.

Growth forecasts for Emerging and developing economies in October 2017 remained unchanged at 4.6 percent relative to July WEO forecasts. China’s growth forecasts were revised upward by 0.1 percentage point to 6.8 percent in 2017 compared to the 6.7 percent forecast in July 2017. This mirrors the higher than anticipated growth in the first half of 2017, supported by policy easing and supply side reforms. In the rest of the emerging markets and developing Asia, growth is expected to be vigorous and marginally higher than in the July 2017 WEO.

Growth in Sub-Saharan Africa is projected to reach 2.6 percent in 2017, 0.1 percentage higher than July WEO projections. Although growth prospects in the SSA region are characterized by sizeable differences across countries due to idiosyncratic factors in the region. Downside risks and policy uncertainty continue to overshadow growth prospects in the largest economies in the region. In 2017, Nigeria is expected to recover and grow by 0.8 percent from the 2016 recession caused by low oil prices and disruption in oil production. This growth will mainly be attributed to recovering oil production and strong growth in the agriculture sector. However, policy uncertainty and banking-system fragilities are expected to weigh on growth in the medium term. Growth in South Africa, on the other hand, is expected to remain subdued at 0.7 percent despite more favorable commodity export prices and strong agricultural output. This is mainly attributed to prevailing political uncertainty that continues to depress consumer and business confidence.

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 8 months, compared to 1.1 percent during the same time in 2016. World trade in value terms also rebounded in 2017 from -7.1 percent in 2016 and recorded positive growth of 4.7 percent. World trade in value terms has recorded a positive growth since December 2016 due to a modest recovery in prices. This development is also reflected in the improvement in growth prospects of some commodity exporting economies.

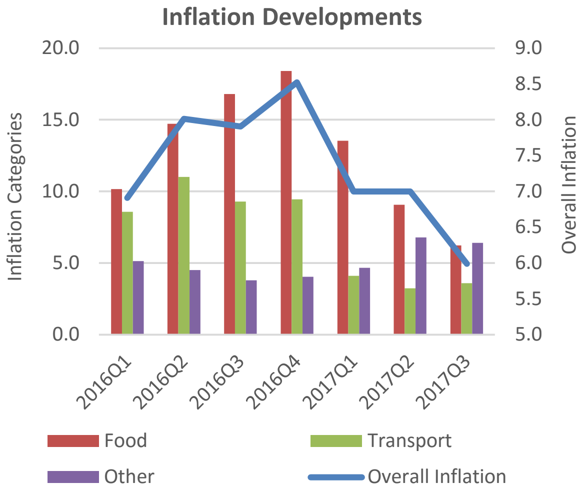


Source: WEO

2. Domestic Developments

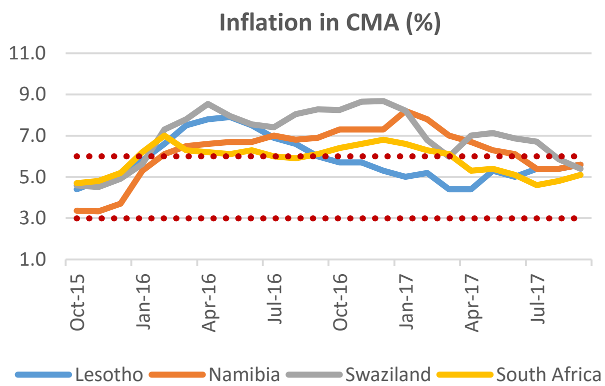
2.1 Prices

Inflationary pressures were subdued in the third quarter of 2017, averaging 6 percent compared to the 7 percent observed in the preceding two quarters. Food inflation continued to subside in the period under review, dropping to 6.2 percent from the 16.8 percent observed in 2016 Q3, underpinned by better rainfall and positive yields for the 2017 harvest season. Transport inflation also saw a significant year-on-year decline of more than 5 percentage points in 2017 Q3. Contrary to these developments, other inflation categories rose, primarily alcoholic beverages & tobacco, housing & utilities and education.



Source: MEPD-CSO

Inflation levels were within the target band of 3 percent to 6 percent for all the Common Monetary Area (CMA) countries by September 2017, mainly due to a deceleration in prices of food & non-alcoholic beverages. All CMA countries recorded average inflation within the target band in 2017 Q3, a huge improvement compared to the same period in 2016 where all member states recorded average inflation levels above the upper band of 6 percent. Amongst the CMA countries, Swaziland recorded the highest average inflation of 6 percent while South Africa posted the lowest level of 4.8 percent in the third quarter of 2017.



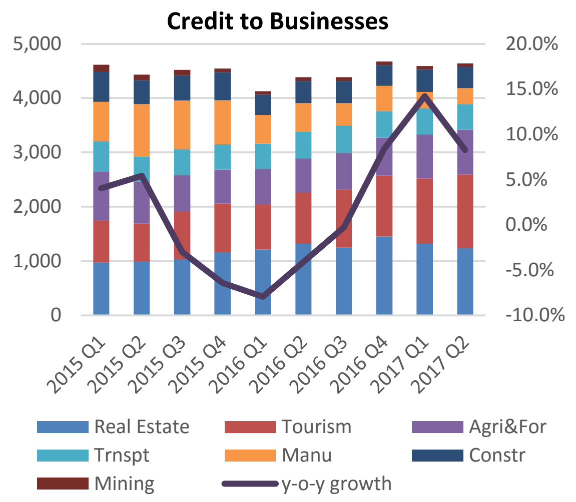
Source: National Statistics Offices of Member States

2.2 Interest Rates

The Central Bank of Swaziland maintained the discount rate at 7.25 percent at the end of the third quarter of 2017, despite the decline in inflation levels observed in recent months. It was noted that inflationary pressures have not subsided enough to warrant a change in the monetary policy stance due to other challenges in the domestic economy. At this level, the country's discount rate is 50 basis points higher compared to South Africa, implying a positive interest rates spread that may attract more investment into the country. Commercial banks also maintained the prime lending rates at 10.75 percent in the period under review. Downside risks to the current stance are an improvement in global economic conditions, better economic outturn in South Africa and a downward revision in domestic inflation forecasts.

2.3 Lending

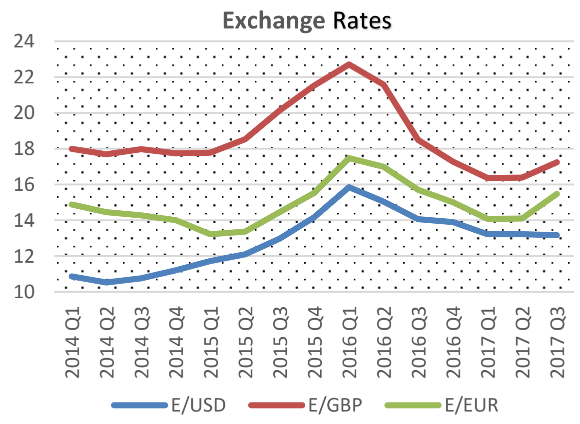
Total credit extension (to businesses, households and government) increased at a faster rate of 8.4 percent in 2017 Q2 from 4.8 percent in 2016 Q2. This performance was underlined by a rebound in credit to businesses. Meanwhile there was a deceleration in credit extended to households on annual basis. Credit to businesses accelerated by 8.3 percent in 2017 Q2, a slowdown from 14.2 percent recorded in the previous quarter, due to negative growth in real estate, transport and construction while credit extended to the manufacturing and mining sectors continued to post negative growth. Credit extended to the tourism and community & social services sectors were the major contributors of growth in credit extension in 2017 Q2. Total credit to households steadied to a growth of 5.5 percent in the second quarter of 2017, but still fell short by about 14 percentage points compared to 2016 Q2. Mild growth was observed in mortgage loans and motor vehicle financing while other unsecured loans fell at the end of 2017 Q2.



Source: CBS

2.4 Exchange Rates

The Lilangeni strengthened for a fourth consecutive quarter on a year-on-year basis against major trading currencies in 2017 Q3, underpinned by improving economic conditions in neighboring South Africa.[1] However, the local currency recorded significant losses against the British Pound and the Euro in 2017 Q3 compared to the previous quarter due to better economic outturn in the euro area. Against the US dollar, the lilangeni appreciated by 0.5 percent as the US posted weaker economic data during this period.

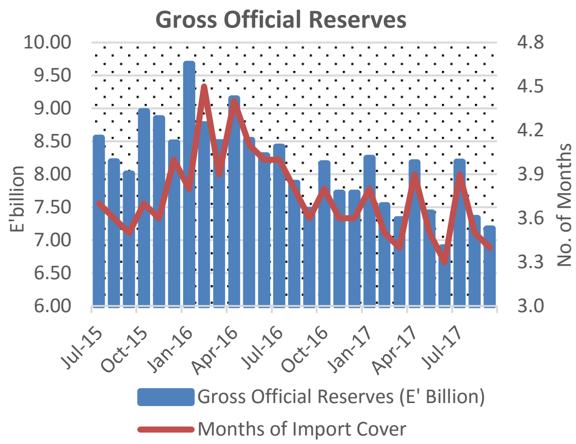


Source: CBS

[1] The Lilangeni is pegged at par to the South African rand

2.5 Reserves

Gross official reserves have been generally on a downward trend since 2016 Q2 on a quarter-to-quarter basis. Reserves stood at E7.18 billion at the end of 2017 Q3, reflecting a decline of 3.8 percent compared to the same period in 2016. At this level, reserves were sufficient to cover 3.4 months of imports. Import cover, though still above the acceptable international threshold of 3 months, has not exceeded 4 months since August 2016, indicating high government obligations against strained revenues.



Source: CBS

3. External Trade

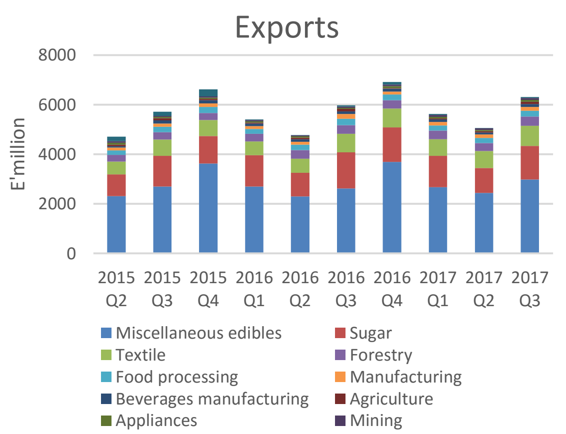
3.1 Exports:

Overall exports have been performing well on a number of metrics. The total value of exports in the 2017 Q3 in nominal terms reached E6.3 billion. The amount of exports in Q3 of 2017 was 5.6 percent higher than in Q3 of 2016. Further, the semi-annual figures (up to September 2017) are up by 5.2 percent compared to the same period in 2016.

The top contributing sectors to the growth in exports has included miscellaneous edibles, textiles, mining and appliances. Miscellaneous edibles exports, which make up close to 50 percent of total exports, were up by 5.9 percent compared to the same quarter last year and had also experienced significant growth in Q2. Although a minor sector, the semi-annual growth in appliances has been impressive, at over 32 percent compared to the same period in 2016. The recent renewal of mining license for the coal producer has stimulated growth in exports over the course of this year, although this growth has slowed each quarter. The textile industry continues to grow in importance, with textile exports experiencing consistent growth each quarter, bringing the semi-annual figures to 15.6 percent higher than the same period in 2016. Overall, growth in textile exports this year have contributed 35.7 percent to overall export growth. Forestry exports are also up compared to the same quarter last year, despite a slight decline last quarter.

Several exporting products have been negatively weighing overall export growth down. This has largely been driven by the effects of the drought in 2016. In particular, food processing and agriculture exports have both experienced consistent negative growth through the last several quarters, with food processing dropping by 16.6 percent in 2017 Q3 compared to 2016 Q3 alone. Both of these categories of exports include live animals and meat processing, which experienced sharp demand increases in 2016 due to the drought. The 2017 decline in these exports can be explained by both the depletion of animals in 2016 and the high 2016 starting base. High base effects similarly impacted beverages manufacturing exports in the first two quarters of the year, but these exports have since recovered in 2017 Q3. Growth in other exports, including manufacturing and sugar exports, have stagnated in 2017. Although both were up in 2017 Q2 compared to 2016 Q2, this reversed in 2017 Q3.

In terms of exports to partners, exports to the EU region have fallen by 23% when comparing the semi-annual figures up to September 2017 with the same period in 2016. Sugar exports in particular have dropped significantly. This has brought the proportion of total exports to the EU to below 5 percent, where the figure used to be over 8 percent. An important explanation for this may relate to the new EU policies around trade liberalization, which reduces the advantages of previous SADC-EU trade agreements. The reduction in exports to the EU has been more than made up for by increased exports to the Sub-Saharan Africa and SACU regions. Exports to these two regions currently make up 94 percent of total exports (24 percent and 70 percent respectively). The value of exports to more minor trading partners have seen significant increases, including to trading partners in Asia, MENA and Oceania. The increases are predominantly attributable to agriculture, food processing and manufacturing exports.



Source: SRA

3.2 Imports:

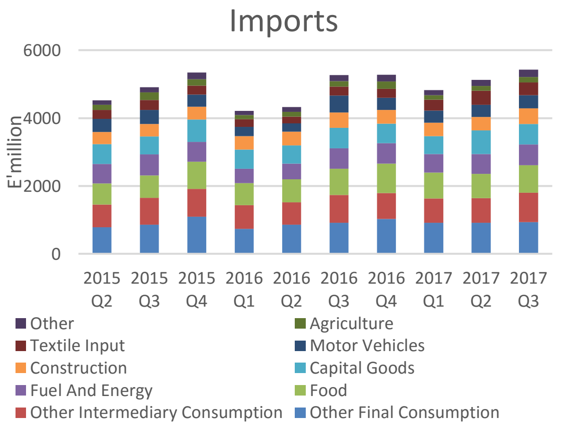
Total imports have also increased substantially over this year. The semi-annual figure of imports (up to September 2017) are up by 11.3 percent compared with the same period in 2016. However, much of this growth was seen in the first two quarters of 2017, as 2017 Q3 was only 2.9 percent higher than 2016 Q3. In nominal terms, the total value of imports in 2017 Q3 reached E5.4 billion, which is still relatively much smaller than the total value of exports.

Intermediate consumption goods predominantly led the expansion in imports. In particular, textile input imports so far this year have been 61.5 percent higher than they were by the same period last year. This is consistent with the growth seen in textile exports. Fuel and energy imports have also increased this year by almost 18 percent, despite declines in the previous several years. Imports of motor vehicles were much higher in the first two quarters of the year compared to the corresponding quarters of 2016. However, 2017 Q3 imports of motor vehicles were 22.6 percent lower than they were in 2016 Q3.

Food, alcohol and tobacco imports have also grown through this year. This can largely be attributed to the low base in 2016 resulting from the effect that the drought had on the SACU region, where the vast majority of Swaziland's food, alcohol and tobacco imports originate from. On the other hand, the import growth of capital goods, construction goods and agricultural goods (including fertilizers etc.) have all stagnated in 2017. The only category of imports that has experienced a significant decline in 2017 are pharmaceuticals, following declining growth in the Swaziland health sector.

The Asian region is increasingly becoming an important source of imports for Swaziland, with a semi-annual growth rate of imports of 41 percent. Swaziland now sources close to 14 percent of total imports from the Asian region, despite this figure being less than 10 percent a few years ago. There is no particular category of imports driving this and the growth in imports from Asia have been fairly diversified. Imports from the SACU region, which already contribute over 80 percent of total imports, have also increased substantially. This has been driven largely by an increase in final consumption goods from the region and it has also counterbalanced a stagnation in growth of imports sourced from the EU. Finally, intermediary consumption goods, including textile inputs and construction goods, are increasingly being sourced from the

Sub-Saharan African region (excluding SACU countries).



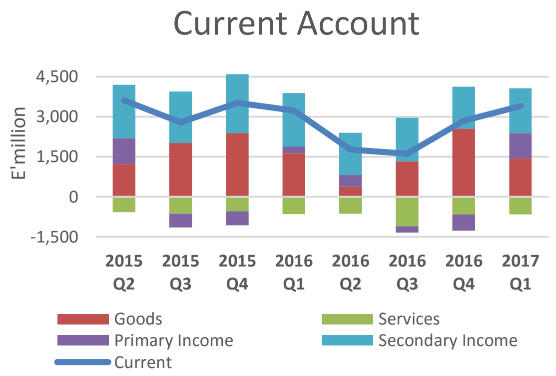
Source: SRA

3.3 Trade balance and current account:

Swaziland had a large merchandise trade surplus in 2017 Q3 of E875 million, according to SRA data. This is 26 percent higher than the merchandise trade surplus seen in the same quarter of 2016. On the other hand, the cumulative merchandise trade surplus from 2017 Q1 to 2017 Q3 is much lower than it was over the same period in 2016, with a merchandise trade deficit even occurring in 2017 Q2.

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). According to the new data, current account surplus reached E3.4 billion in 2017 Q1, 5 percent higher than the surplus seen in the corresponding 2016 Q1. Trade surpluses and secondary income sources have both contributed to a current account surplus over the last eight quarters. Interestingly in 2017 Q1 quarter, the current account surplus was also up due to a surplus in primary income.

The corresponding surplus in the financial accounts for the 2017 Q1 was chiefly due to a large reduction in Swaziland liabilities owed to non-residents. Despite the consistent surplus in the financial accounts, reserve assets have been depleting over the last eight quarters.



Source: CBS

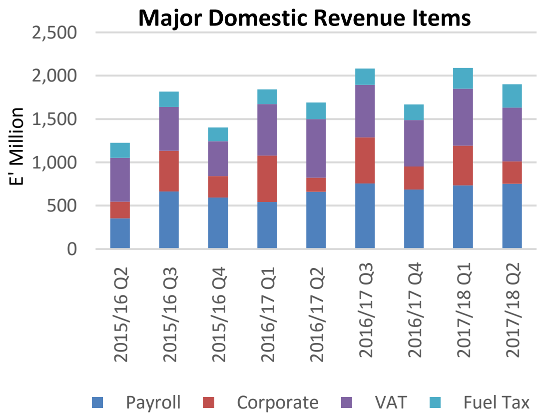
4. Fiscal Developments

4.1 Government Revenue

In the period under review total domestic revenue grew by 13 percent from E1.8 billion in 2016/17 Q2 to E2.0 billion in 2017/18 Q2. Most of the increase is accounted for by 59 percent growth in corporate tax collections and a 41 percent increase in fuel tax revenue. While the annual increase in corporate tax revenue may be due to the observed volatility of this revenue line, changes in administered fuel prices partly explain the spike in fuel tax revenue. The administered fuel prices were revised upwards in 2017, leading to fuel tax increasing from E2.20 per litre to E3.00 per litre.

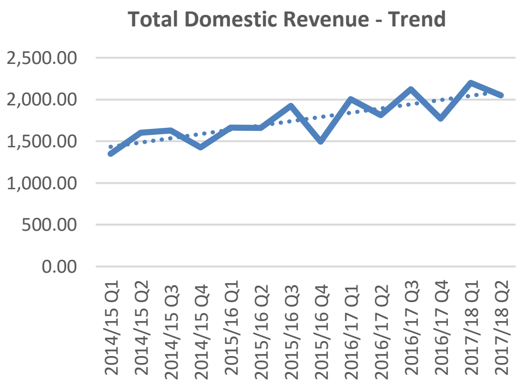
In 2017/18 Q2, income taxes (inclusive of corporate, payroll and other income taxes) were E1.5 billion and accounted for 56 percent of total domestic revenue. This is an increase of 5 percentage points compared to the same time last year. The remaining 44 percent (or E898 million) comprises taxes on goods and services whose share has fallen during the period under review.

The share of total domestic revenue that comes from payroll collections oscillated around 36 percent between 2016/17 Q2 and 2017/18 Q2; however, significant changes are observed in the proportion collected from corporate taxes, which increased by about 4 percent in the same period. The contribution of VAT revenue towards total domestic revenue is 7 percentage points less in 2017/18 Q2 compared to the same period last year; meanwhile, fuel tax collections rose by 3 percentage points during the same period.



Source: SRA

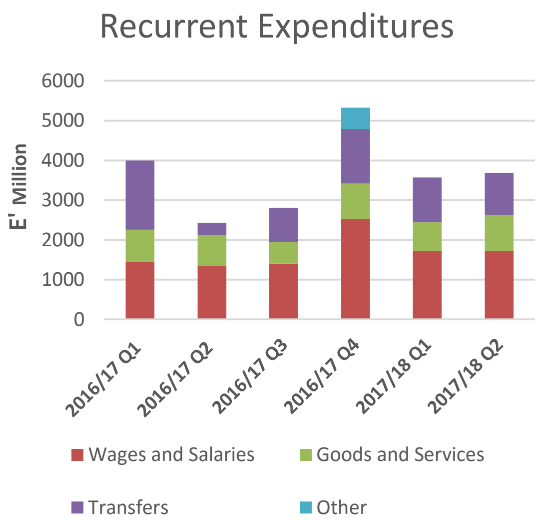
The Government has made significant progress in increasing domestic revenue collections, as shown by the upward trend in the total domestic revenue graph below. While more effort is expected in this area, it is commendable that in the fiscal year 2016/17 more revenue was collected domestically than was received from taxes on international trade and goods, i.e. SACU receipts.



Source: SRA

4.2 Government Expenditure

The total annual expenditure budgeted for 2017/18 stands at E21.8 billion. The total appropriated expenditure by 2017/18 Q2 had an execution rate of 40 percent. Recurrent expenditures up to 2017/18 Q2 show an increase of 13 percent compared to the same period last year. Wages and salaries are particularly higher at this point in the year. Nevertheless, they are currently at 50 percent of the allocated budget for the year, which is to be expected at the mid-year stage. Spending on goods and services, on the other hand, has been cut back in the first two quarters in order to manage the cash-flow situation.

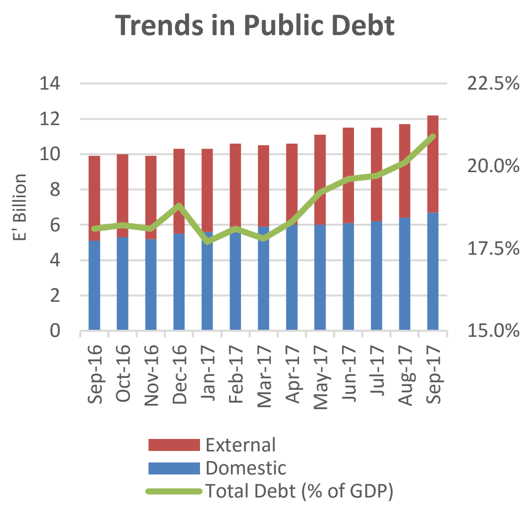


Source: MOF, MEPD (Sectorial Division)

The total capital expenditure budget for the year is E5.6 billion. So far, 40 percent of this has been implemented and the total budget release stands at E2.5 billion. A slow implementation rate in the first quarter of each fiscal year is to be expected, as the implementation generally only picks up pace towards the end of the fiscal year. Finally, the released amounts are currently slightly higher for locally funded projects.

4.3 Government Financing

The level of public debt has grown consistently over the last several years and has now reached over E12.2 billion. In Sept 2017, the public debt was over 20.9 percent of GDP. Domestic debt makes up the majority of total debt and currently sits at E6.7 Billion. Long-term bonds in particular have grown rapidly over the last year, from E2.0 billion in Sept 2016 to E3.4 billion in Sept 2017. Bonds currently account for over half of the total domestic debt. CBS advances have hovered at a more consistent level, although they rose slightly by E200 million in Sept 2017. T-bills, on the other hand, dropped through most of the year from E2.0 billion in Sept 2016, but increased again to E1.9 billion by Sept 2017. External financing has also been utilized and has resulted in an increase in external debt over the last year. Most recently, total external debt rose to E5.5 billion over the last quarter, largely due to a weakening of the Lilangeni against relevant foreign currencies.



Source: CBS

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)	27,213	30,339	32,497	35,002	39,604	44,034	47,505	51,294	54,731*
GDP per Capita	26,376	29,074	30,788	32,780	36,659	40,282	42,945	45,824	48,321*
GDP Growth Rate (%)	0.8	1.6	3.8	2.2	4.3	6.4	1.9	0.4	1.4*
Share of Agriculture & Forestry to GDP (%)	10.0	9.3	10.2	9.7	10.4	10.3	9.5	9.6	9.5*
Share of Manufacturing to GDP (%)	34.6	34.8	32.5	31.7	35.8	34.2	30.8	35.7	31.4*
Share of Public (Govt) Sector to GDP (%)	20.4	21.5	20.9	19.3	18.0	18.2	18.9	20.2	21.9*
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	20,744	22,404	23,860
Merchandise Imports (E' Million)	10,942	12,127	14,821	14,437	15,540	18,311	18,330	18,864	20,590
Merchandise Trade Balance (E' Million)	228	1,142	(443)	2,576	(1,266)	(19)	2,414	3,540	3,270
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	14,744	14,586	13,882
Total Expenditure (E' Million)	9,242	10,153	9,988	8,854	10,778	12,582	15,304	16,999	19,917
Fiscal Surplus/Deficit (E' Million)	369	(900)	(3,003)	(1,365)	1,390	328	(560)	(2,413)	(6,035)
Fiscal Surplus/Deficit as % of GDP	1.4	(3.0)	(9.2)	(3.9)	(3.5)	0.7	1.2	4.6	11.3
Total External Debt (E' Million)	3,605	2,812	2,553	2,559	2,843	3,333	3,366	3,891	5,219
Total External Debt as % of GDP	13.2	9.3	7.9	7.3	7.2	7.5	6.9	7.4	9.7

Note: Data according to CSO report from October 2017. * - estimate. + - data in fiscal year (April 01-March 31) e.g. 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: 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