Ministry of Economic Planning and Development

Macroeconomic Analysis and Research Division

E-Bulletin No.25, Q1 2018

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

2018 Q1 Highlights

International

- Global GDP growth strengthened to 3.8 percent in 2017 and is expected to increase to 3.9 percent in 2018. A large majority of countries experienced growth acceleration in 2017.
- In Sub-Saharan Africa, growth is estimated to have rebounded to 2.4 percent in 2017, after slowing sharply to 1.3 percent in 2016.
- Growth in South Africa appears to be picking up, with growth in 2017 Q4 up 3.1 percent on 2016 Q4 figures. The secondary and tertiary sectors had a particularly strong performance.
- Global trade recovered strongly in 2017, after 2 years of weakness, to an estimated real growth rate of 4.9 percent. Global trade is expected to continue to strengthen in 2018.

Domestic

- The inflation rate subsided substantially over the last several quarters, falling to 4.2 percent in 2018 Q1.
- The Central Bank of Swaziland lowered the discount rate to 6.75 percent at the end of March, a 25 basis point decrease.
- The Lilangeni strengthened significantly relative to most major currencies in 2018 Q1, reaching an average value of E11.95 to the USD.
- Gross official reserves have continued to decline and were sufficient to cover just 3.2 months of imports, during the period under review.
- Total imports increased substantially in 2018 Q1 compared to 2017 Q1, while exports fell. This has led to a large merchandise trade deficit for the quarter.
- Total domestic revenue grew by 12 percent in 2017/18 Q4 and domestic revenue collections have continued to surpass SACU receipts. Nevertheless, public debt has continued to grow and is now equivalent to over 20 percent of GDP.

1. International Developments

1.1 Global Growth Performance

The Global GDP growth is estimated to have strengthened to 3.8 percent in 2017, according to the April 2018 World Economic Outlook (WEO). This was the highest global growth rate reported since 2011 and was also 0.5 percentage points higher than in 2016. A majority of countries experienced growth acceleration, with stronger growth in 2017 than in the previous year. The increase in global growth was driven largely by greater investment spending in advanced economies, along with the end to the investment decline that many commodity-exporting emerging market economies were facing. The global growth is expected to continue accelerating, with a 3.9 percent growth projected for 2018.

In terms of year-on-year performance, GDP growth improved by 2.3 percent in 2017 from the 1.7 percent recorded the previous year (2016) across the advanced economies (WEO, April 2018). This 0.6 percentage point pickup in the 2017 growth is mainly attributed to subdued investment spending in 2016. There was also increased output growth across emerging markets and developing economies, with an estimated average growth of 4.8 percent in 2017, up from the 4.4 percent estimated for 2016. The 0.4 percentage point pickup is a result of an acceleration in private consumption. However, the picture is mixed within this group of economies. In India and China, for instance, growth was supported by resurgent net exports and strong private consumption, respectively, while investment growth slowed. For others, higher fixed investment growth, alongside stronger private consumption also supported growth.

In Sub-Saharan Africa, growth is estimated to have rebounded to 2.4 percent in 2017, after slowing sharply to 1.3 percent in 2016. The rise reflects a modest recovery in major economies such as Angola, Nigeria and South Africa. Growth in the region is projected to rise to 3.4 percent in 2018 and improve slightly thereafter through the medium term to about 4.0 percent. However, within the region, the Southern African Customs Union (SACU) member states experienced a decline in output as growth decreased on average from 2.1 percent in 2016 to 1.8 percent in 2017. The El-Nino drought had a particularly negative effect on the SACU region, impacting on agricultural sector production.

In South Africa, Eswatini's biggest trading partner, growth in real GDP accelerated to an annualized rate of 3.1 percent in the fourth quarter of 2017, marking the third consecutive quarterly growth rate above 2.0 percent. For 2017 as a whole, real GDP growth in South Africa accelerated to 1.3 percent from 0.6 percent in 2016. The acceleration in real output growth in the fourth quarter of 2017 was driven by a faster pace of expansion in economic activity in the secondary and tertiary sectors. By contrast, output growth in the primary sector slowed, largely due to a contraction in the mining output. Growth in the real agricultural output also slowed somewhat, but nevertheless remained buoyant.

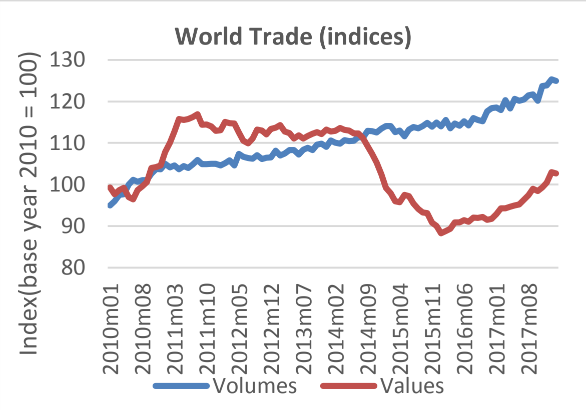
Global Economies	**Estimate** (%)		**Projections** (%)	
	2016	2017	2018	2019
World Output	**3.2**	**3.8**	**3.9**	**3.9**
Advanced Economies	1.7	2.3	2.5	2.2
United States	1.5	2.3	2.9	2.7
Euro Area	1.8	2.3	2.4	2.0
United Kingdom	1.9	1.8	1.6	1.5
Emerging Market and Developing	4.4	4.8	4.9	5.1
China	6.7	6.8	6.6	6.4
India	7.1	6.7	7.4	7.8
Brazil	-3.5	1.0	2.3	2.5
Mexico	2.9	2.0	2.3	3.0
Nigeria	-1.6	0.8	2.1	1.9
South Africa*	0.6	1.3	1.5	1.8

Source: WEO, April 2018; * - Stats SA and SARB

1.2 World Trade

Global trade recovered strongly in 2017, after 2 years of weakness, to record an estimated real growth rate of 4.9 percent, a 0.2 percentage point upward revision from the January 2018 estimates. This is up from the 2.5 percent growth rate of 2016. Global trade is expected to continue to strengthen in 2018. The upsurge has been more pronounced in emerging market and developing economies (with trade growth rising from 2.2 percent in 2016 to 6.4 percent in 2017).

According to the IMF, global commodity prices are rapidly increasing, rising by an average of 16.9 percent between August 2017 and February 2018. The increase was driven primarily by rising oil and natural gas prices. Metals and agricultural commodities also rose although less rapidly than energy prices. Although agricultural commodity prices rose, the price of sugar, one of Eswatini's major exports, decreased by 6.7 percent between August 2017 and February 2018 due to surplus global production, notably from Brazil and Europe.

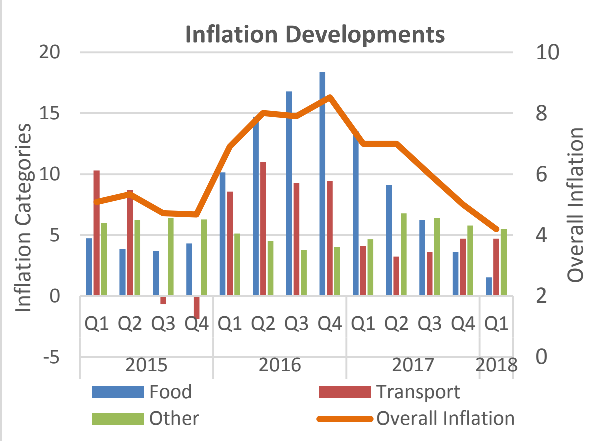


Source: CPB World Trade Monitor

2. Domestic Developments

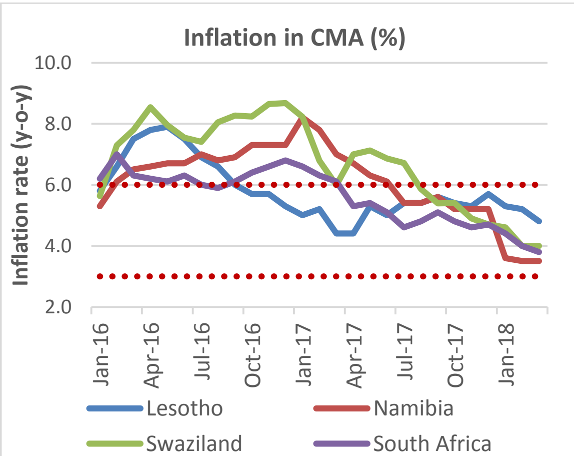
2.1 Prices

The country's inflation rate has subsided substantially over the last several quarters, falling to 4.2 percent in 2018 Q1. Hence the inflation rate has moved well below the Common Monetary Area (CMA) upper-band of 6 percent inflation. Food inflation in particular has dropped dramatically by close to 90 percent from the rates seen in 2017 Q1. This is mainly attributed to waning effects of the El-Nino drought after the country received good rainfall during the planting season. Transport inflation has been steadily increasing, driven by increasing fuel prices, but remains at an acceptable rate of 4.7 percent. While most other lines of inflation have also been relatively moderate, household utilities inflation has increased to just over 8 percent. There has been a spike in electricity prices in particular.



Source: CBS-CSO

The other countries in the CMA have also experienced a consistent moderation in their inflation rates and now all sit within the inflation band target of the CMA. Lesotho is the only country that has seen a rise in its inflation rates compared to 2017 Q1, although that country's inflation rates were also previously the lowest.



Source: National Statistics Offices of Member States

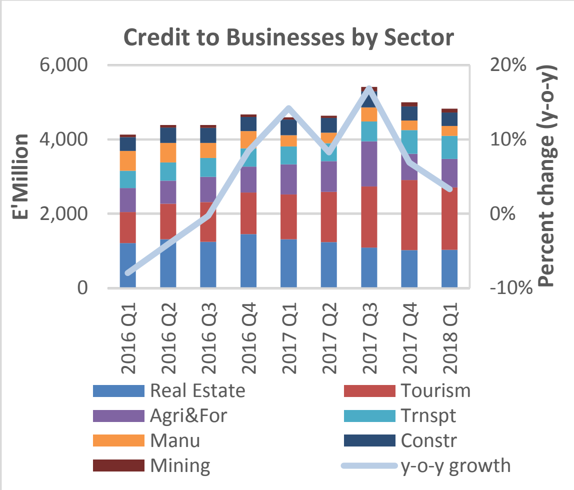
2.2 Interest Rates

The Central Bank of Swaziland lowered the discount rate to 6.75 percent at the end of March, a 25 basis point decrease. The discount rate is generally set to be close to the South African repurchase rate (which was also lowered by 25 basis points to 6.5 percent) with a differential in order to minimize capital outflows. Furthermore, the reduced inflationary pressures allows for a more accommodative discount rate that can assist in stimulating economic activity. Following the reduction in the discount rate, the rate at which banks lend to their most credit worthy customers (the prime lending rate), also dropped by 25 basis points to 10.25 percent.

2.3 Lending

Total credit extension to businesses and households declined slightly to E11.8 Billion in 2018 Q1 when compared to lending in the previous quarter. This figure is still 3.5 percent larger than the level of credit extension seen in 2017 Q1, although this appears to be largely attributable to surges in the middle quarters. Much of the volatility was observed in lending to businesses, while lending to households has remained relatively flat. Lending to agricultural business has been particularly volatile, reaching heights of E1.2 Billion in the middle of 2017 before falling back down to below 0.8 Billion by 2018 Q1. This decline may be a reflection of unfavorable international market conditions faced by the agricultural sector, sugar cane growers in particular, after the fall in world sugar prices.

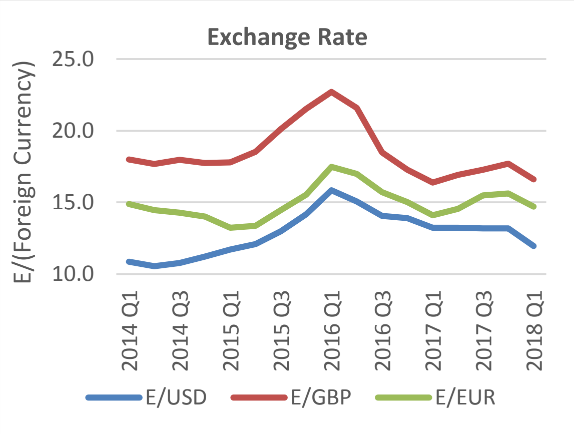
Lending to tourism businesses makes up the largest item under credit extension to businesses. This line has grown substantially and was close to 40 percent larger in 2018 Q1 compared to 2017 Q1. On the other hand, Real Estate lending, the second biggest item of business lending has declined significantly by 22 percent from 2017 Q1 to 2018 Q1. Together with a 15 percent decrease in lending to construction businesses, this could indicate that the expansion in property development may be moderating slightly. Several other business sectors have experienced an increase in lending, including transport and mining businesses. Finally, lending to manufacturing businesses has decreased by 10.7 percent from 2017 Q1 to 2018 Q1. This could also be indicative of the impact of the international sugar market supply glut weighing in on the domestic sugar industry.



Source: CBS

2.4 Exchange Rates

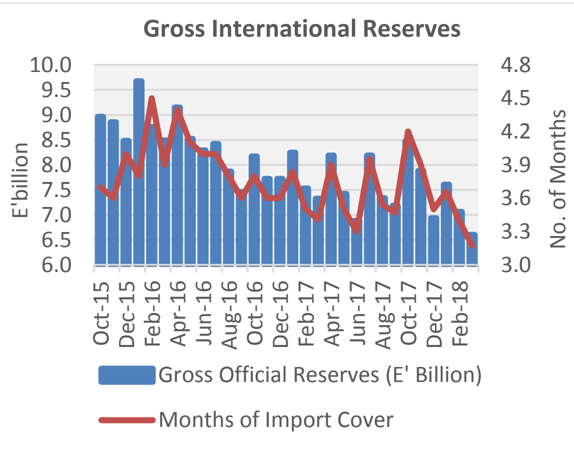
The Lilangeni strengthened significantly relative to most major currencies in 2018 Q1, bringing its value to the highs seen at the start of 2017. The Lilangeni's peg to the South African Rand secured exchange rate gains for domestic importers, this was after the easing of political and policy uncertainty that weighed heavily on business confidence and consequently the Rand in South Africa. The average value of the Lilangeni in 2018 Q1 stood at E11.95 to the USD, E16.6 to the GPB and E14.7 to the EUR, a strengthening of 10.4 percent, 6.6 percent, and 6.2 percent respectively compared to the Lilangeni´s 2017 Q4 average values. While this strengthening provides importers with relatively cheaper international goods, this will pose a significant challenge to businesses that export outside of the CMA.



Source: CBS

2.5 Reserves

Gross official reserves have declined by 9.9 percent at the end of 2018 Q1 compared to the corresponding period in 2017. Reserves have been on a downward trend for a number of quarters now, largely due to increasing fiscal challenges. While there have been surges in some instances, such as in November 2017, these have not been enough to offset the depletion in other months. Reserves currently sit at E6.6 billion, which is sufficient to cover 3.2 months of imports of goods and services. The standard international threshold for import cover is 3 months, a particularly important threshold to aim to adhere to for countries like Eswatini that have their currency pegged to a foreign currency.



Source: CBS

3. External Trade

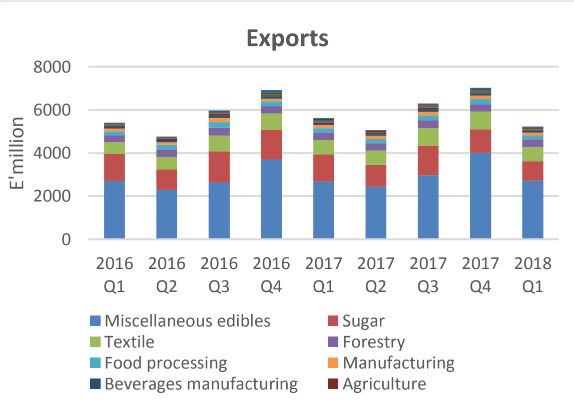
3.1 Exports

There has been a slight decline in exports for the country in 2018 Q1, according to Swaziland Revenue Authority (SRA) trade data. Total nominal exports for 2018 Q1 was reported to be E5.2 Billion, which is a 7.2 percent decline compared to the E5.6 Billion recorded in 2017 Q1. This decline in exports can largely be attributed to Brazil flooding the world sugar market with cheaper sugar products and the strengthening of the exchange rate. This ultimately resulted in a 27.9 percent decrease in local sugar exports to the European Union (EU) market.

Although, there was a decline in total exported products, agricultural products exported increased by a massive 30 percent in 2018 Q1 compared to 2017Q1. The upsurge of agricultural products exported can be explained by the recent favourable weather conditions experienced locally. Moreover, there has been a 1.6 percent increase in miscellaneous edibles for 2018 Q1 compared to 2017 Q1. There was also a 3.7 percent increase in forestry products exported in 2018 Q1, although this increase was small compared to the 11.3 percent growth rate experienced in 2017 Q1.

Miscellaneous edibles remain the largest contributor to the export basket contributing 52 percent in 2018 Q1. This shows a slight increase of 5 percent compared to the 47 percent recorded in 2017 Q1. Moreover, sugar remains the second highest contributor to the export basket, contributing 17 percent in 2018 Q1. However, there was a slight decline of 6 percentage points compared to the 23 percent recorded in 2017 Q1.

The SACU region remains the leading export destination for Swati products, consuming 72 percent of the total export basket in 2018 Q1. This shows a 3 percentage point increase compared to the 69 percent exported to the SACU region in 2017 Q1. Exports to the EU region have shrunk to 2 percent in 2018 Q1. This shows a 6 percentage point decrease in Q1 2018, moving from 8 percent in 2017 Q1. Moreover, there has been an emerging market in Asia for agricultural products, sugar and manufacturing products. Exports to the Asian region were recorded at 4 percent in 2018 Q1 while there was little trading activity in 2017 Q1. A majority of the exports to Asia were agricultural products and sugar to China and manufactured products to Pakistan.



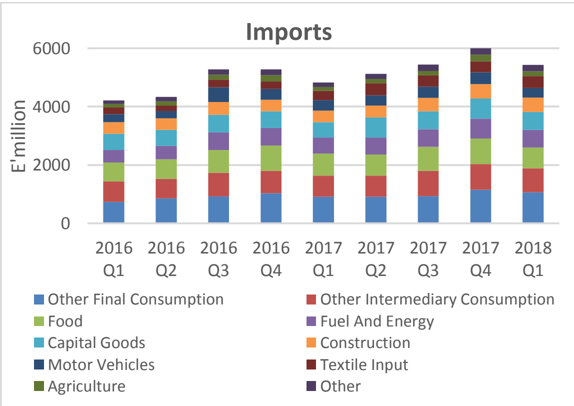
Source: SRA

3.2 Imports

According to SRA trade data, there was an 11.3 percent increase in total nominal imports in 2018 Q1 compared to 2017 Q1. Total nominal imports for 2018 Q1 were recorded to be at E5.4 Billion, whereas in 2017 Q1 it was reported to be at E4.8 Billion. This increase in total imports was prompted in part by local infrastructural developments. In particular, this can be attributed to various construction activity as some construction projects are nearing completion while others are in their inception phase. This resulted in a 25.7 percent growth in total construction imports in 2018 Q1 compared to 2017 Q1. This can also be justified by a significant increase in furniture imports, from 13.4 percent reported in 2017 Q1 to an outstanding 87.2 percent in 2018 Q1. Additionally, there was a 23.2 percent increase in agricultural imports in 2018 Q1 compared to 2017 Q1. This can be largely explained by the 57 percent increase in fertilizer imports recorded in 2018 Q1, as a result of the good rains received.

Although there was an increase in total imports, the country experienced a 6.5 percent reduction in imported food products in 2018 Q1 compared to 2017 Q1. This may be attributed to the recent rains experienced locally boosting the local production of food. Moreover, there was a deceleration in the importation of textile inputs in 2018 Q1 as 24.7 percent textile inputs were imported compared to the 40.2 percent imported in 2017 Q1. Nevertheless, the continued growth of textile inputs is a good sign for the domestic textile industry as the industry is on the rise and further growth may be stimulated by the country regaining eligibility to export through the African Growth Opportunity Act (AGOA).

The SACU region, specifically the Republic of South Africa, remains the main import partner for the Kingdom of Eswatini, accounting for 75 percent of the imports basket in 2018 Q1. However, this is a 4 percent shortfall compared to the 79 percent imports recorded in 2017 Q1. The Asian region remains as the second largest import partner for the Kingdom of Eswatini, accounting for 14 percent of total imports. This shows a 1 percentage point increase compared with the 13 percent share recorded in 2017 Q1.

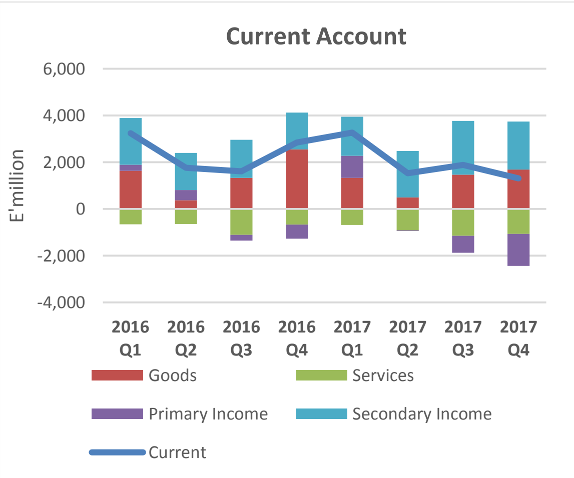


Source: SRA

3.3 Trade balance and current account

The Kingdom of Eswatini recorded a negative merchandise trade balance of E211 Million, according to the SRA trade data for 2018 Q1. This shows a 126 percent decrease in the trade balance compared to 2017 Q1. This deficit highlights the fact that the Kingdom of Eswatini is currently importing more products than it is actually exporting.

According to recent data from the Central Bank of Swaziland (CBS) for 2017 Q4, the Current Account had a surplus of E1.3 Billion. This shows a 54 percent reduction compared to 2016 Q4. This surplus in the Current Accounts is largely contributed to by a trade surplus and secondary income received in 2017 Q4. With regards to the Financial Account, there was a E2 Billion surplus in 2017 Q4. This shows a 41 percent decline compared to 2016 Q4. This surplus can be attributed to a positive balance in direct investments, financial derivatives and other investments.



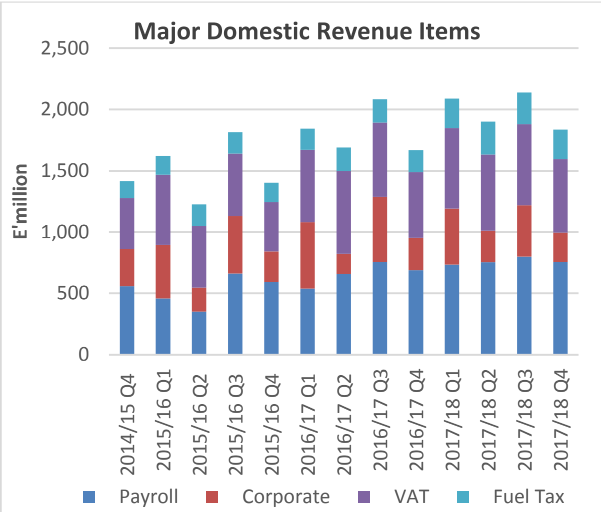
Source: CBS

4. Fiscal Developments

4.1 Government Revenue

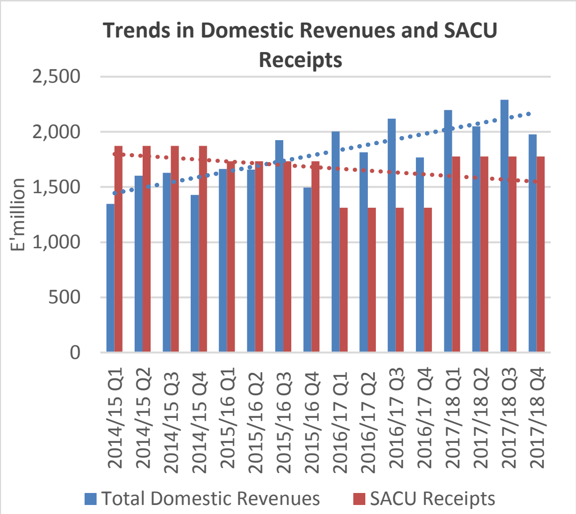
In the last quarter of the FY2017/18, domestic revenue collections grew by 12 percent, equivalent to E2 Billion, when compared to the same period in 2016/17. The increase was a result of good performance in the collections of some tax categories, including PAYE, VAT and fuel tax, amongst others. PAYE recorded a y-o-y growth of 10 percent, whilst VAT grew by 12 percent. Collections for fuel tax continued to surge, increasing by 31 percent during the period, highlighting the impact of the 20 cents fuel levy adjustment implemented in the beginning of the fiscal year.

Corporate income tax declined by 10 percent during the period, indicating slower activity, but also remains as one of the most volatile tax categories. Overall income tax grew by 5 percent on a y-o-y basis and accounted for more than 50 percent of the domestic revenue. Taxes on goods and services increased by 17 percent, with a share of 43 percent of total revenue. This was driven primarily by the good performance of fuel tax and VAT. Other taxes on goods and services, such as lottery, gaming, and road tolls, realized a growth of 8 percent during the period.



Source: SRA

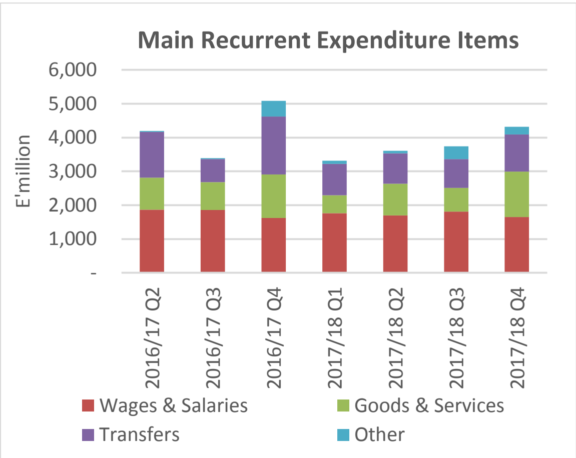
Domestic revenue collection in FY2017/18 Q4 was actually the lowest level for the year. Overall domestic revenue for the full fiscal year grew by 10 percent compared to FY2016/17, indicating significant improvement in collection and improved compliance in tax remittance.



Source: SRA

4.2 Government Expenditure

Actual government expenditure stood at E5.1 Million by the end of FY2017/18 Q4, with recurrent expenditure accounting for 85 percent of the total expenditure. This indicates a 12 percent year-on-year decline in total expenditure due to a 15.2 percent fall in recurrent expenditures during the period. Personnel costs and spending on goods and services were on the rise during the period, whilst there was reduction in transfers and other costs (including public debt interest).



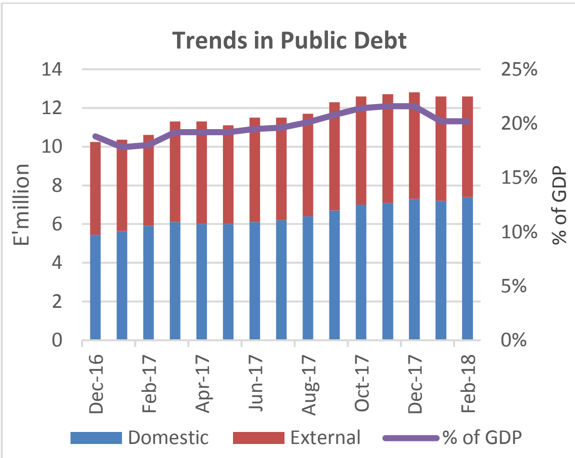
Source: MOF

In the last quarter of the year, actual funds paid out for the capital programme was E735 Million. The total implementation rate for the capital budget is estimated at 54 percent (as of end March), reflecting that just about half of the budgeted funds were actually spent during the fiscal year as a result of the cash flow challenges in government.

4.3 Government Financing

By February 2018, the country's total debt amounted to E12.6 Billion and was equivalent to 20.2 percent of GDP. The amount of external debt had declined by 4 percent during the period to reach E5.2 Billion from E5.4 Billion recorded in December 2017. Domestic debt, however increased during the period, by 3 percent, from E 7.2 Billion to E7.4 Billion.

The growth in domestic debt is attributable to an increase in the government securities (both the long and short term government papers), driven by the mounting pressures to finance government's budgetary obligations. The long-term bonds grew by 5 percent whilst T-Bills increased by 4.5 percent during the period. There was also an increase in the accumulation of arrears with suppliers during the period due to government's cash flow challenges.



Source: CBS

Annex 1 – Key Economic Indicators

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
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	54,730	58,782*
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	1.9*
Share of Agriculture & Forestry to GDP (%)	10.0	9.3	10.2	9.7	10.4	10.3	9.5	9.6	9.5	8.9*
Share of Manufacturing to GDP (%)	34.6	34.8	32.5	31.7	31.4	29.8	30.8	31.8	31.4	30.4*
Share of Tertiary Sector to GDP (%)	48.5	48.6	49.6	50.2	47.7	49.0	49.8	49.7	51.0	52.9*
Unemployment Rate (%)	-	-	28.5	-	-	28.1	-	-	-	-
Human Development Index (HDI)	0.518	-	0.526	0.534	0.539	0.541	0.541	0.541	-	-
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	6.2
Consumer Price Index (Dec-12=100)	75.1	80.7	84.3	89.5	97.5	103.0	108.8	114.2	123.2	130.8
Discount Rate (%)	11.00	6.50	5.50	5.50	5.00	5.00	5.25	5.75	7.0	7.25
Prime Lending Rate (%)	14.50	10.00	9.00	9.00	8.50	8.50	8.75	9.25	10.50	10.75
Average Exchange Rate (E/US Dollar)	8.26	8.44	7.33	7.26	8.24	9.65	10.85	12.75	14.72	13.33
Average Exchange Rate (E/Pound Sterling)	15.14	13.12	11.32	11.63	13.01	15.11	17.85	19.49	20.02	17.04
External Sector										
Merchandise Exports (E' Million)	11,170	13,269	14,378	16,820	14,274	18,292	22,676	22,175	23,062	24,006
Merchandise Imports (E' Million)	10,942	12,127	14,821	19,563	15,524	18,390	19,980	18,864	19,084	21,374
Merchandise Trade Balance (E' Million)	228	1,142	(443)	(2,743)	(1,249)	(98)	2,696	3,311	3,977	2,632
Gross Official Reserves (E' Million)	7,065	6,479	4,497	4,231	5,638	7,979	7,916	8,485	7,720	6,933
Gross Official Reserves (Months of Import Cover)	4.6	4.1	2.8	2.3	2.9	3.9	3.6	4.0	3.6	3.3
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

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