



KINGDOM OF ESWATINI
MEDIUM TERM ECONOMIC GROWTH FORECASTS (2019 – 2022)

Gross domestic product grew by 2.4 percent in 2018...

Economic activity improved significantly in the second half of 2018 recovering from the negative performance that was observed in the first half of the year. According to the Central Statistics Office (CSO) provisional estimates, GDP (which is a measure of economic activity) expanded by 2.4 percent for the year 2018 from a revised estimate of 2.0 percent in 2017, and much higher than the previous projections of 0.6 percent. The higher than earlier anticipated growth emanated from resilient performance in the agriculture, agro-processing as well as some selected tertiary subsectors. Favourable weather conditions, which were characterized by good rains and adequate sunshine, boosted the growing of crops such as sugarcane, maize and cotton among others, which recorded bumper harvests in 2018. In line with the positive performance in agriculture, there was notable growth in agro-processing and sugar production in particular.

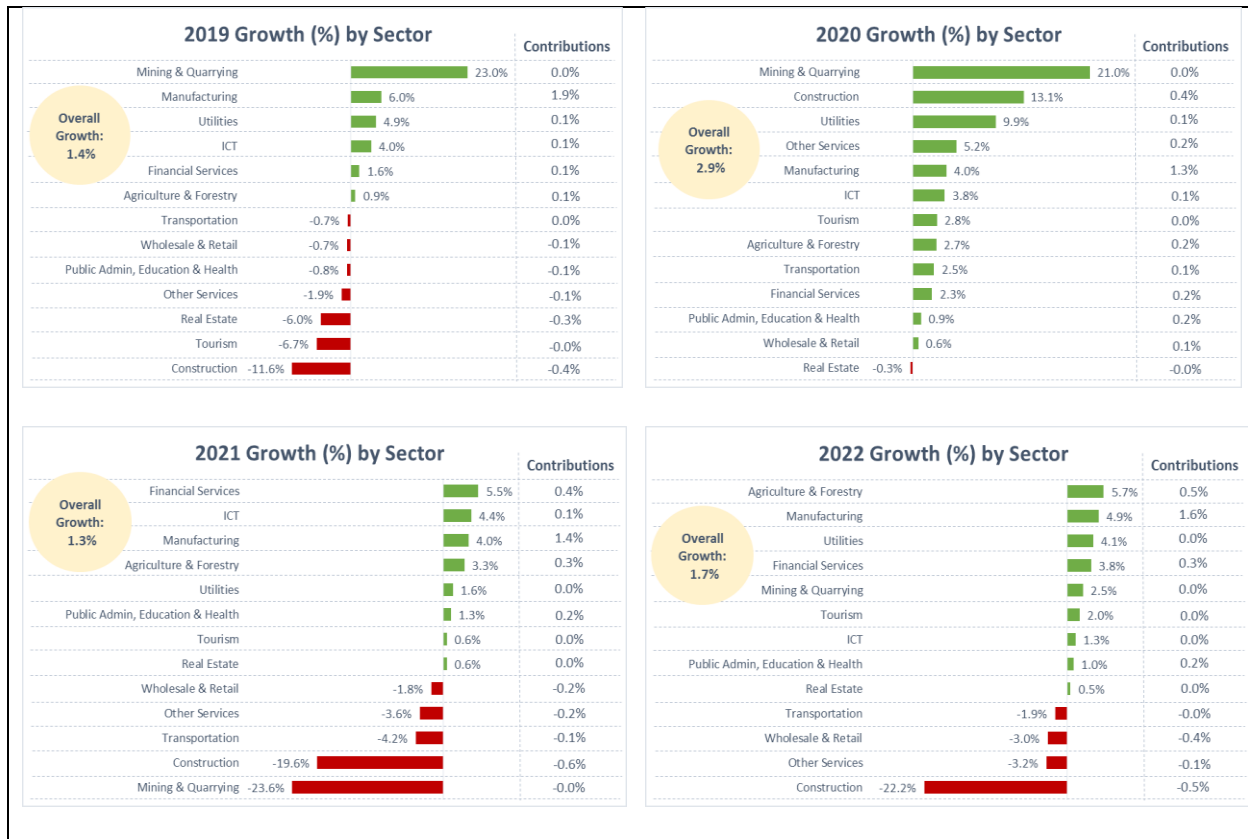
However, unfavourable developments in the South African market, particularly in the first half of the year where South Africa slipped into a technical recession, resulted in muted overall growth in the manufacturing sector. The most affected subsectors included 'manufacturing of beverages' and 'other non-food manufacturing'. There was, however, a recovery in external demand in the second half of the year which was evident in the country's exports, such as textile, sugar, beverages and other manufacturing products. The positive performance of these sectors supported growth in other segments of the tertiary sector such as 'financial services' and 'transport and storage'.

On the contrary, the fiscal situation deteriorated with continued accumulation of government arrears which further suppressed the private sector activity that is linked to government by extending cash-flow problems. This was mainly visible to private businesses in the construction



sector and the suppliers of goods & services. Other sectors that performed poorly in 2018 included 'Tourism related activities', 'Professional and technical activities' and 'other services'.

Sector Contributions & Overall GDP Growth Projections



Source: MFT, August GDP Projections (2019)

Manufacturing sector performance is expected to drive growth in 2019...

Economic activity is projected to grow by 1.4 percent in 2019 supported by growth in the manufacturing sector, which will account for approximately 1.9 percent to overall GDP growth during the period. 'Manufacture of beverages' is expected to lead growth in this sub-sector, owing to the envisaged recovery from the 2018 RSA recession coupled with entrance into new markets. Overall market developments are expected to improve during the period and thus boost growth through increased demand for exports. The reinstated EFTA market is expected to benefit meat processing exports whilst the regaining of the



AGOA market will result in increased activity for textile manufacturing. Textile activity is also expected to benefit from increased demand in the RSA economy, evidenced by ongoing expansions.

Activity in the agriculture sector is expected to be somewhat flat in 2019; crops production growth is expected to stabilize from the previous bumper harvests with 'normal rains' to 'below normal rains' expected to prevail during the season. The sector will grow by 0.9 percent with a positive contribution of 0.08 percent to overall growth. In the Mining sector, activity is expected to rebound with coal yields expected to increase with the easing of geological constraints.

The fiscal situation is envisaged to remain very weak in 2019, manifesting into continuous accumulation of arrears and unavoidable fiscal consolidation. Construction activity remains the major fatality of the situation, mainly the publicly financed road construction projects, with implementation rates likely to be lower than anticipated. The 'wholesale and retail' sector will also be affected by fiscal constraints through suppressed wages due to the continuous non-awarding of the cost of living adjustment and the declining activity in 'public administration' sector due to the hiring freeze. Overall, the tertiary sector is expected to take a dive and to contract by 1.62 percent, contributing negatively by 0.85 percent to GDP growth in 2019.

A mixed outlook is envisaged for the medium term...

Growth in the medium term is expected to be volatile. In 2020, GDP is forecasted to grow by 2.9 percent on the back of a temporary relief in the government's fiscal position which is envisaged to benefit from financing measures aimed at clearing outstanding arrears coupled with an anticipated improvement in taxes. The construction sector which has been one of the hard hit subsectors from the fiscal cash-flow challenges, is projected to be a major beneficiary in the short-term. A better fiscal position may also prospectively temporarily bolster several other key sectors, including the 'Wholesale and Retail' sector.

In the outer years (2021 and 2022) economic activity is expected to remain positive mainly supported by anticipated investments and positive markets prospects. However, fiscal challenges and increased pressures for fiscal consolidation in light of rising government debt will weigh



negatively on growth prospects. Therefore, GDP is estimated to decelerate to 1.3 and 1.7 percent in 2021 and 2022, respectively.

Risks to Projections

Assumptions used will remain prone to changes as a result of risks that may have effects on estimated performance in the economic sectors. Downside risks include, amongst others, adverse weather patterns such as drought, worsening fiscal position and weakening economic performance of the country's main trading partners resulting in the decreased demand of exports. On the other hand, the implementation of fiscal and economic reforms by government could greatly change the outlook.