KINGDOM OF ESWATINI'S ECONOMIC GROWTH FORECASTS FOR 2018 – 2021

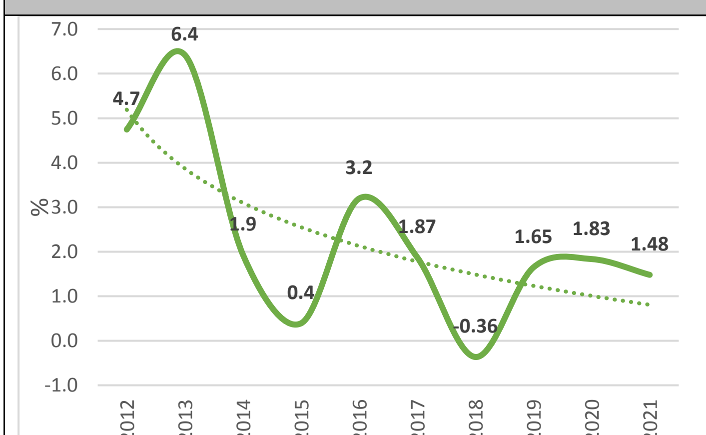
Overall Economic Growth

Economic activity to contract by 0.4 percent in 2018 from a 1.9 percent growth in 2017...

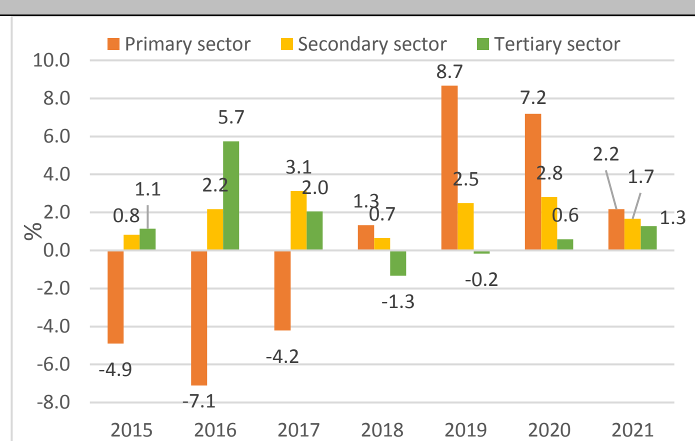
Economic activity, as measured by real GDP, is projected to decline by 0.4 percent in 2018 in the wake of weakening fiscal and external positions. The ongoing government's cash flow challenges in the domestic economy triggered the accumulation of domestic arrears and reinforced the need for fiscal consolidation which manifested through cuts in both recurrent and capital expenditure as well as increases in some tax rates in 2018/19 fiscal year. This is expected to weigh negatively on growth in the short-term. On the external sector side, the anticipated poor performance of the South African economy in 2018 is expected to slow down the demand for the country's exports, as South Africa is the country's major trading partner. The RSA economy, which slipped to a technical recession in the second quarter of 2018, is projected to grow by 1.2 percent in 2018; a revision from an earlier projection of 1.7 percent (South Africa Reserve Bank) forecasted in February 2018; indicating slowing economic activity in that country.

The demand factors notwithstanding, agriculture, agro-processing electricity and water supply subsectors are expected to contribute positively to growth largely boosted by a full recovery from the effects of the El Nino induced drought experienced in 2015 and 2016. The sectors will also benefit from the returns of implemented investments and expansions such as continuous investments under the Lower Usutu Smallholder Irrigation Project (LUSIP) as well as other investments earmarked for power generation.

REAL GDP GROWTH
(CSO: 2012-2017 & MFT: 2018-2021)



REAL GDP GROWTH BY SECTOR
(CSO: 2015-2017 & MFT: 2018-2021)



Sectoral Developments in 2018

Primary Sector

The primary sector is projected to grow by 1.3 percent in 2018 from a contraction of 4.2 percent in 2017 and is expected to contribute 1.1 percent to the overall growth, as the sector fully recovers from the effects of the 2015/16 drought situation. Crops production is envisaged to increase by 5.7 percent with activity both in the SNL and ITF expected to remain resilient, benefiting from better rainfall, expansions of acreage under crop production and envisaged improvements in productivity and efficiency gains. Animal production is also expected to recuperate during the period, but grow marginally by 0.1 percent in 2018 up from a 15.8 percent decline in 2017 with favourable weather conditions expected to support a full replenishing of previously depleted stock caused by the drought. The livestock sector is also expected to benefit on investments made in the dairy industry. However, challenges on the marketing side such as the European (EFTA) ban on beef exports (effected in September 2017) would affect demand for commercial slaughters and thus keep growth in the livestock sector at modest levels. Developments in the mining and quarrying industry are mixed in 2018. Coal production is projected to decline in 2018 as a result of geological constraints that continue to negatively impact on coal yields. Quarried stone production is projected to be positive in the short term in line with construction activity particularly road infrastructure projects under implementation.

Secondary Sector

The decelerating manufacturing activity is expected to dampen growth in the secondary sector. The manufacturing industry is forecasted to decline by 0.3 percent and contributes -0.1 percent to overall economic growth in 2018, due to slowing external demand and other markets-related issues, particularly in the food processing and textile industries. The meat processing industry is expected to continue to suffer from the EFTA-exports ban, with no new markets anticipated in the short term to fully replace the shortfall from the ban. The textile industry, on the other hand, is expected to suffer from the knock-on effects from the developments in the South African economy in the short-term which has led to closure of some textile firms in the country.

Buoyant construction activity is expected during the period, despite the fiscal challenges, boosted by ongoing activity both in the private and public sectors. Private sector construction is driven by the move by some corporate entities who have ventured into construction of their own buildings for office space as well as commercial centre expansions targeted at shopping malls and other office space for rental. On public sector side, even though capital expenditure has been cut back in the wake of fiscal cash-flow challenges, there is continuous implementation of public mega projects which have been broadly financed through external loans. As a result, construction activity is projected to remain positive in the short term.

Electricity generation and water supply subsectors are projected to remain resilient mainly supported by improvement in weather conditions. Electricity generation increased by 16.6 percent as hydro powered production increased with improving dam levels and was further boosted by increased investments from Individual Power Producers (IPPs). Moreover, water supply grew by 2.9 percent with the rise in water consumption, as the situation normalizes, combined with the increase in new connections boosted by completion of water sanitation projects (SISOMA) in the South.

Tertiary Sector

The tertiary sector is a demand driven sector and is largely influenced by the fiscal sector developments. The sector is expected to contract by 1.3 percent in 2018, contributing -0.7 percent to GDP growth. Wholesale and retail activity is projected to decelerate by 6.9 percent in 2018 largely due to depressed real disposable incomes. Government's implementation of a hiring freeze will result in slowing activity in public administration (zero growth) which will have spill-over effects to other sectors including; the 'Wholesale and retail' due to tighter spending patterns with deterioration in public real wages and cuts in other recurrent spending; the 'Accommodation and food' due to declining conferencing activities; and the financial sector due to increasing household indebtedness, a slow-down in lending to corporates and rising non-performing loans linked to government accumulation of arrears.

Other sub- sectors, such as 'Information and Communication', and 'real estate', will benefit from the innovation of new products and reduced pricing (mainly data packages) increasing volumes, and the completion of some commercial buildings for rental space, respectively. Whilst the transportation sub-sector, which has direct links with activity under manufacturing, mining, construction, agriculture and construction sectors, will slow down due to poor performance of the secondary sector (particularly due to weak manufacturing and mining activity).

2019 – 2021 Outlook

Growth in the short – medium term is expected to remain passive, although positive, as the fiscal situation is not expected to improve (at least in the short term). Growth will thus be driven by supply side developments, including increased agriculture production boosted by continued expansions e.g.

LUSIP 2 projects and the manufacturing activity benefiting from new trade agreements which will avail new markets for the country's exports and the regaining of the AGOA market.

Risks to outlook

The worsening fiscal situation poses a major threat to the economic outlook in medium term. The impact of this will be on both recurrent and capital spending which will reduce demand for goods and services in the country. Other risks include the bad weather conditions e.g. El'nino drought which will reverse any gains from the recovery of the primary sector and the continued decline in external demand.

Table: GDP by economic activity at constant 2011 prices

	Provisional CSO Estimates						Macro-Forecasting Team Projections			
Description	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Agriculture and forestry	12.8	5.7	-7.5	3.5	-7.3	-4.4	1.8	8.5	7.2	2.2
Growing of crops	-1.5	-0.3	3.3	-1.6	-28.4	23.2	5.7	14.3	8.1	3.1
Animal production	22.6	6.9	-15.7	8.6	4.1	-15.6	0.1	6.3	6.9	1.2
Support activities to agriculture	-2.7	-3.3	-1.8	-5.6	4.2	8.9	3.6	13.9	20.3	8.1
Forestry and Logging	23.6	20.1	0.0	0.4	-4.6	-10.5	-1.9	0.2	0.3	0.3
Mining and quarrying	*643.8*	*24.1*	*-49.3*	*-86.3*	*10.5*	*7.3*	*-23.6*	*21.5*	*7.1*	*2.7*
Primary sector	**27.7**	**8.2**	**-14.1**	**-4.9**	**-7.1**	**-4.2**	**1.3**	**8.7**	**7.2**	**2.2**
Manufacturing	1.8	3.1	4.3	1.5	1.1	5.4	-0.3	2.3	3.5	2.4
Electricity, gas, steam and air	-12.2	20.0	3.0	-33.9	-31.8	-41.7	16.6	11.6	31.7	10.5
Water supply; sewerage, waste	6.2	-2.1	-4.0	-12.8	1.5	-0.8	2.9	2.3	2.3	2.3
Construction	-0.6	1.5	-0.1	9.1	20.4	-9.9	8.3	3.7	-6.1	-6.9
Secondary sector	**1.2**	**3.3**	**3.8**	**0.8**	**2.2**	**3.1**	**0.7**	**2.5**	**2.8**	**1.7**
Wholesale and retail trade	1.7	10.1	5.5	-5.2	4.1	-3.4	-6.9	-2.4	-3.8	-1.6
Transportation and storage	-1.1	11.8	6.6	-3.8	1.3	3.9	-0.1	-3.6	0.9	1.0
Accommodation and food service activities	3.9	-0.5	3.9	0.7	13.6	5.0	-6.9	-0.8	0.2	1.3
Information and communication	11.8	6.1	16.1	1.2	7.1	4.6	2.1	1.4	2.0	2.8
Financial and insurance activities	3.8	15.2	1.2	2.2	0.4	8.0	1.0	1.9	3.5	4.3
Real estate activities	1.8	3.1	2.4	1.6	1.6	1.0	1.0	-1.3	2.1	2.1
Professional, administrative	10.8	11.5	12.0	16.5	-11.5	8.0	0.6	3.4	3.4	1.6
Public administration and defense	-6.7	13.7	4.7	5.1	20.1	0.7	0.0	0.0	1.0	2.0
Education	0.0	1.6	1.8	2.7	-0.6	3.7	0.9	0.9	1.5	1.3
Human health and social work	8.6	3.5	2.1	4.4	59.2	9.7	0.7	1.0	1.4	1.4
Arts, entertainment and recreation	-4.3	-4.5	12.3	5.7	-4.6	-5.0	2.0	2.0	0.5	0.5
Other service activities	0.4	2.1	8.7	-0.1	5.4	-4.2	1.2	1.1	1.1	1.1
Activities of households as employers;	1.6	1.6	1.6	1.6	1.6	1.6	1.2	1.1	1.1	1.1
Tertiary sector	**1.7**	**8.5**	**5.2**	**1.1**	**5.7**	**2.0**	**-1.3**	**-0.2**	**0.6**	**1.3**
Unspecified (FISIM)	-0.6	4.7	4.7	4.3	3.6	4.1	7.8	-4.2	0.5	2.4
Total: All industries	**4.3**	**6.6**	**2.2**	**0.3**	**3.1**	**1.8**	**-0.5**	**1.7**	**2.1**	**1.5**
Taxes on products	14.1	3.2	-2.5	1.8	4.6	2.8	2.3	1.0	-2.3	1.2
GDP by economic activity	**4.7**	**6.4**	**1.9**	**0.4**	**3.2**	**1.87**	**-0.36**	**1.65**	**1.83**	**1.48**