Ministry of Economic Planning and Development

Macroeconomic Analysis and Research Division

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2016 Q3 Highlights

International

- Estimates for 2015 revised upwards; preliminary data for first half of 2016 suggests slower economic activity compared to 2015 (and to previous projections)
- Growth prospects remain varied across regions - while projections in advanced countries have been revised downwards, they remain constant for emerging and developing countries
- Growth projections also affected by several different factors - while advanced countries try to battle uncertainties, emerging and developing countries need to adjust to the long term decline in commodity prices affecting domestic policy decisions
- Projections for growth in Sub-Sharan Africa severely affected by the commodity cycle with continued downward revisions

Domestic

- Inflation by the end of September 2016 remains high at 8.3 percent, highest among CMA countries
- The Central Bank of Swaziland maintains the Discount Rate at 7.0 percent, Prime Lending Rate kept unchanged at 10.5 percent by private banks
- While overall credit extensions to the private sector increase, lending to businesses continues to contract for a fourth consecutive quarter; majority of credit absorbed by households
- Local currency makes gains against major currencies compared to the previous quarter, however depreciation in annual terms continues
- Gross international reserves and consequently the import cover see an annual decline, owing largely to developments in SACU receipts
- Merchandise trade increases in 2016 Q3 compared to 2015 Q3, albeit with a lower surplus in the trade account
- Domestic tax collections increases in annual terms, boosted by increases in personal incomes tax following the implementation of the salary review, although corporate tax collection falls
- Public expenditures increase substantially in 2016/17 Q2 due to implementation of the salary review along with a general pick up in momentum into the fiscal year
- Public debt sees an increase of 2.2 percentage points as a share of GDP

1. International Developments

1.1 Global growth performance

According to the October 2016 projections by the IMF, global growth is expected to slow down by 0.1 percentage points compared to 2015 (with the revisions made to the 2015 growth estimates). Based on preliminary data, global output for the first half of 2016 is lower compared to the same time last year.

Several factors influence the October 2016 projections of global economic activity including anticipated effects of uncertainties (stemming from Brexit[1]) on trade and financial markets; and ongoing realignments, particularly China's rebalancing and commodity exporters' adjustments following a long-term decline in their terms of trade. Nevertheless, the global economy is expected to bounce back in 2017 with a growth of 3.4 percent.

Advanced economies as a group are projected to grow 0.5 percentage points slower in 2016 than in 2015. This is due to an upward revision to the 2015 growth estimate and a downward revision of 2016 projections compared to the July 2016 predictions. On the other hand, projections for emerging and developing economies have been revised slightly upwards.

Growth projections for the US have been revised significantly downwards by 0.6 percent and 0.3 percent respectively, owing partly to heightened policy uncertainty linked to the upcoming elections as well as other factors like the persistently weak nonresidential investments.

While high frequency data and corporate survey results show a muted response of the EU to Brexit, there is uncertainty on whether other countries will decide to adopt inward-looking policies in the medium term. Growth in the region remains fragile with slower growth in 2016 Q2 compared to the previous quarter as domestic demand slows in larger Euro.

Meanwhile, growth in the UK is expected to decelerate in 2016 owing to anticipated effects of the Brexit referendum including uncertainty which affects firms' investments and hiring decisions and consumers' confidence.

Emerging and developing economies are struggling with headwinds of weak commodity prices (to a large extent affected by China's rebalancing) and the quandary of balancing between expansionary and austerity policies.

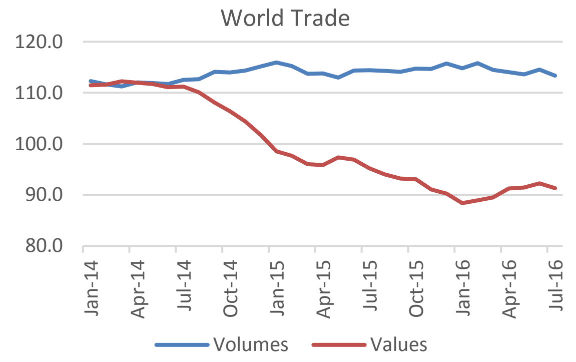
Projections for Sub-Saharan Africa have continuously been revised sharply downwards since mid-2015 (when growth was projected to be as high as 5 percent). The region's largest economies are adjusting to lower export revenues owing to developments in commodity markets. Oil production interruptions, lower oil receipts and subsequent foreign currency shortages, lower power generation, and weak consumer confidence in Nigeria led to a downward revision of the country's projected output in 2016. As the economy stabilizes from commodity and drought shocks, growth in South Africa is expected to remain flat in 2016 and recover modestly in 2017. Growth in entire southern Africa is generally affected by the dominant effects of the El Nino phenomenon.

	July-16			October-16		
	2015	2016	2017	2015	2016	2017
World Output	3.1	3.1	3.4	3.2	3.1	3.4
Advanced Economies	1.9	1.8	1.8	2.1	1.6	1.8
US	2.4	2.2	2.5	2.6	1.6	2.2
Euro	1.7	1.6	1.4	2.0	1.7	1.5
UK	2.2	1.7	1.3	2.2	1.8	1.1
Emerging Economies	4.0	4.1	4.6	4.0	4.2	4.6
China	6.9	6.6	6.2	6.9	6.6	6.2
SSA	3.3	1.6	3.3	3.4	1.4	2.9
Nigeria	2.7	-1.8	1.1	2.7	-1.7	0.6
RSA	1.3	0.1	1.0	1.3	0.1	0.8

Source: World Economic Outlook, October 2016

[1] UK's vote to leave the EU

South Africa recorded a positive annualised growth of 3.3 percent in 2016 Q2 after a contraction (-1.2 percent) in the previous quarter. Growth was mainly attributed to strong growth in mining output in the primary sector and the secondary sector. Increase in mining output offset negative growth in agriculture output as crop production was severely impacted by the effects of the drought[2]. Performance in the secondary sector was driven by an increase in the manufacture of vehicles, mainly due to a more competitive exchange value of the Rand in the period. Wholesale and retail trade activity growth led to further improvements in the tertiary sector in 2016 Q2.



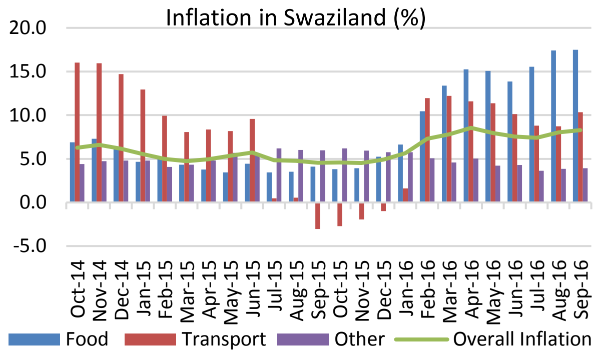
Source: World Trade Monitor

While global trade volumes have been more or less stable, prices per unit of volume have been on a downward trend since the second half of 2014, albeit with some recovery in 2016 Q2. Though this manifests as declining terms of trade[3] for commodity-exporting countries, could benefit countries like Swaziland which import commodities such as crude oil.

2. Domestic Developments

2.1 Prices

Inflation remains high in Swaziland reaching 8.3 percent by the end of September 2016. Food inflation continues to be the main driver of inflation as it continues unabated (17.5 percent). Average food inflation to date in 2016 has been at 14 percent, mainly due to the drought. While transport inflation is slowly declining, it still remains high following the upward revision of transport fares earlier in the year, averaging about 10 percent in 2016. Increasing pressure is also coming from the clothing & footware, and household furniture and equipment lines. On the other hand, pressure from utilities is now easing after the upward revision in tariffs in April 2016.



Source: Central Statistics Office

2.2 Interest Rates

The Discount Rate and Prime Lending Rate were maintained at 7.0 percent and 10.5 percent, respectively during the month of September. However, in the two years since July 2014, the rate was increased 6 times.

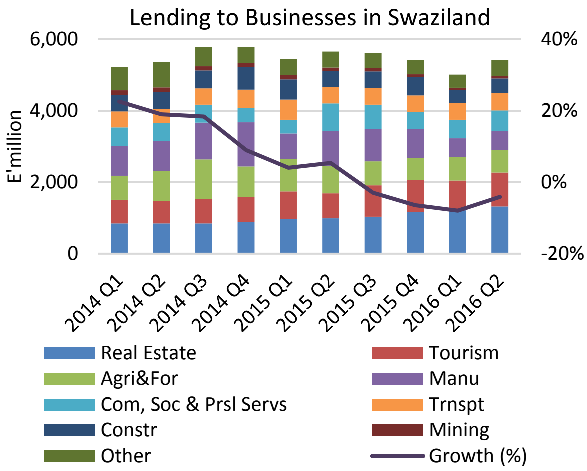
2.3 Lending

Total credit extensions to the private sector reflect an annual increase of about 7 percent in 2016 Q2. Credit to households grew rapidly by 19 percent. However, credit to business contracted 4 percent during this time. The proportion of the total credit extensions going to

2 South Africa has become a net importer of maize in 2016, with imports expected to exceed 2 million tons, because of the drought for two consecutive seasons.

3 Terms of trade, represents the value of the exports of a country, relative to the value of its imports

businesses has been on the decline since 2015 Q3. From a high of over 54 percent in 2013 and 2014, the proportion of the total credit extended towards businesses has declined to about 47 percent in 2016 (in the first half).



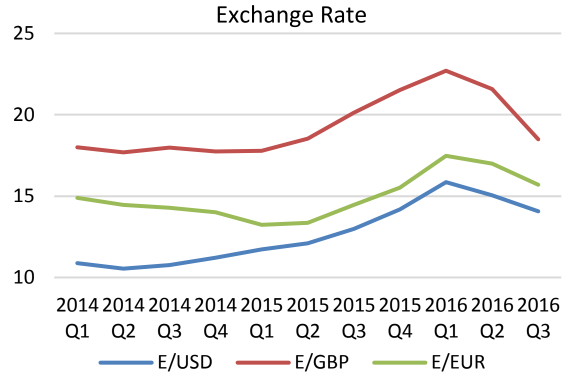
Source: Central Bank of Swaziland

Within businesses, rapid growth was noticed in credit to sectors like tourism and real estate. However credit to almost every other sector contracted. Lower credit to the agriculture sector can be attributed to the effects of the drought, from which the sector is yet to recover. This also partly explains the contraction in credit by over 45 percent to the manufacturing sector. Subdued activity in the construction sector have also meant lower credit extensions to the sector compared to the same time last year.

On the other hand, credit to households is seeing a rapid rise supported by higher credit especially in unsecured loans. However increases were also observed in housing and motor vehicle loans.

2.4 Exchange Rates

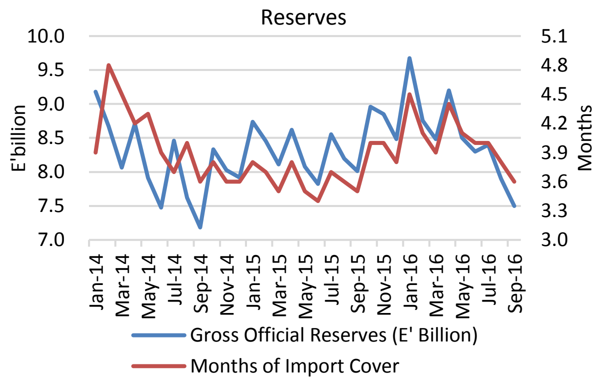
The local currency made some gains against major currencies in 2016 Q3 since the precipitous fall against the US$, GBP and Euro starting 2015 Q4. However, depreciation in annual terms continues, albeit at a slower pace. Depreciation against the US$ as well as the Euro stood at around 8 percent. However, unfavourable movements against the GBP have been abated; in fact the local currency appreciated against the GBP by around 8 percent. This is mainly related to a fall in the latter following developments related to Brexit.



Source: Central Bank of Swaziland

2.5 Reserves

Reserves by the end of September 2016 were over 6 percent lower compared to the same time last year. From a peak of E9.7 billion in January 2016, reserves reached a low of E7.5 billion by September 2016. Consequently, the import cover fell from a high of 4.5 months to 3.6 months during the same period. However, import cover still remains above the international minimum of 3 months. While reserves usually see a rise at the beginning of every quarter due to transfers from SACU, the beginning of 2016 Q3 recorded lower reserves compared to the same time last year. This is due to the fact that SACU receipts for the year 2016/17 are about 25 percent lower than last year. Reserves by the week ending October 7, 2016 however rose to E8.5 billion, although this is still a decline in annual terms.



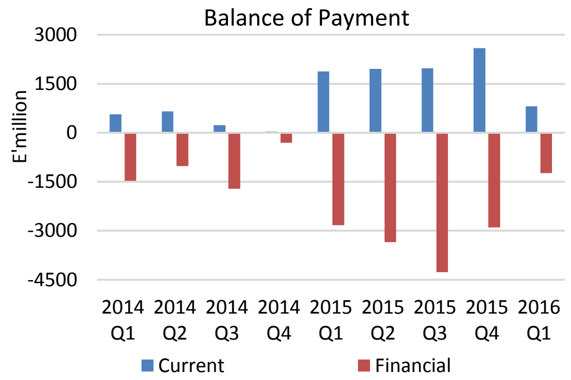
Source: Central Bank of Swaziland

3. External Sector

3.1 Balance of Payment

The current account surplus in 2016 Q1 shrunk significantly by about 57 percent compared to 2015 Q1. Trade surplus, however, was higher, benefitting from lower import bill thanks to low international oil prices on the one hand, and lower exchange value of the local currency which made exports competitive on the other hand. However developments in the income and transfers account meant that the overall balance declined from E1.9 billion to E811 million.

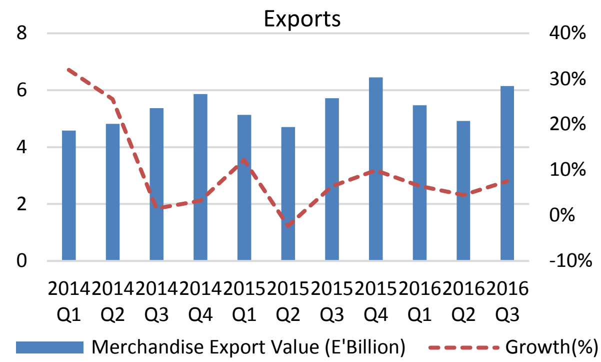
Financial account balance also shrunk from E2.8 billion to E1.2 billion during this period due to subdued pick up in reinvested earnings along with a net outflow in foreign direct investment.



Source: Central Bank of Swaziland

3.2 Merchandise Trade

Swaziland's total value of merchandise trade grew from E10.2 billion in 2015 Q3 to E11.7 billion in 2016 Q3, a significant growth at 14 percent in 2016 Q3. Exports recorded inflows of E6.1 billion compared to E5.7 billion in 2015 Q3. In annual terms exports grew by 7.5 percent in 2016 Q3. This growth was faster than inflows recorded in 2015 Q3 (of 6.4 percent).



Source: Swaziland Revenue Authority

Manufacturing, which accounts for only 2.3 percent of total merchandise exports, grew rapidly from E130.5 million in 2015 Q3 to E199.8 million in 2016 Q3. This is mainly attributed to an increase in exports of pharmaceuticals (from less than E0.5 million in 2015 Q3 to over E33 million in 2016 Q3) and soap products (from E10.3 million to E31.2 million). This rapid growth also increased the contribution of these exports towards total growth.

2016 Q3 Merchandise Exports Performance

Item	% growth	Item	% growth contribution
Other Manufacturing	53%	Sugar	4.0%
Food processing	22%	Textile	1.9%
Mining	21%	Other Manufacturing	1.2%
Sugar	19%	Concentrates	0.9%
Textile	17%	Forestry	0.9%
Forestry	16%	Food processing	0.8%
Agriculture	10%	Mining	0.2%
Concentrates	2%	Agriculture	0.2%
Beverages	-8%	Beverages	-0.2%
Appliances	-21%	Appliances	-0.2%
Printing and Stationery	-74%	Printing and Stationery	-2.2%
		% Growth	**7.5%**

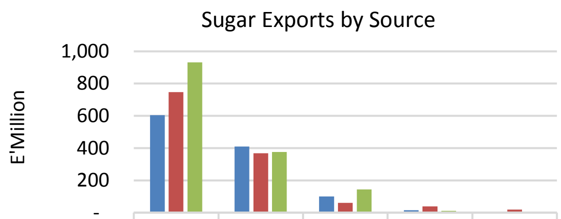
Source: Swaziland Revenue Authority

Food processing also registered high growth of 22 percent in 2016 Q3 and contributed 0.8 percent towards the total growth in exports. These exports were boosted by an increase (17 percent) in exports of processed fruits and vegetables. Exports of processed meat and animal waste also recorded significant growth. This is because drought induced animal slaughters in 2016 grew rapidly in the light of dire shortages of water to raise the cattle.

Consequently, exports of processed meat grew by 30 percent compared to only 5 percent in 2015 Q3. Waste from animal processing industries also grew by 38 percent in 2016 Q3.

Textile exports also grew rapidly despite the loss of AGOA in 2014 Q4. The SACU market accounts for over 90 percent of the total textile exports; exports to the region grew 18 percent. On the other hand, exports to the USA and EU markets continued to contract (23 percent and 15 percent respectively). In terms of contribution to the overall growth in exports, textiles were the second largest contributor in 2016 Q3.

Sugar exports contributed more than half to the total growth in exports in 2016 Q3, because of the relative high weight of sugar in total exports (24 percent) combined with the rapid growth observed in 2016 Q3. On the other hand, the contribution of concentrates, despite higher weight in total exports (almost 45 percent), was lower due to much slower growth.



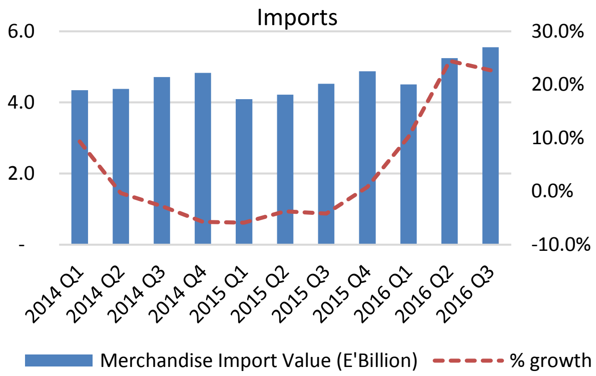
	SACU	EU	USA	Other	COMESA
2014 Q3	605	411	100	16	2
2015 Q3	747	368	61	39	19
2016 Q3	931	376	144	10	1

Source: Swaziland Revenue Authority

Growth in sugar exports from E1.2 billion in 2015 Q3 to E1.5 billion in 2016 Q3 came mainly from higher exports to the SACU region which increased 25 percent. SACU market accounted for 64 percent of total sugar exports in 2016 Q3. On the other hand, exports to EU, over 25 percent of the total sugar exports, increased 2 percent. This slow growth however was somewhat offset by higher exports to the USA.

Growth in total exports was brought down slightly by the contraction in exports of beverages, printing & stationery and appliances. However their negative contribution to overall performance was more than offset by other exports like sugar, textile and manufacturing.

Imports grew from E4.5 billion in 2015 Q3 to E5.6 billion in 2016 Q3, a growth of 23 percent compared to a contraction of 4 percent in 2015. The depreciation of the local currency to a large extent has ballooned the import bill.



Source: Swaziland Revenue Authority

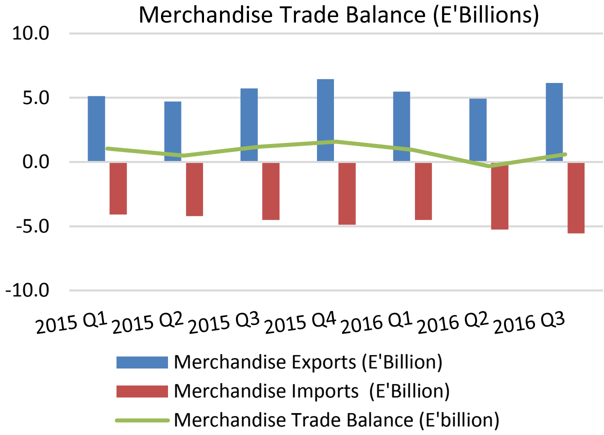
Industrial imports (construction, capital goods and other intermediary goods) ranked high on the list, accounting for over half of the total import bill. Imports of construction materials, almost 10 percent of total imports, amounted close to E500 million in 2016 Q3, a growth of 59 percent after contracting 7 percent in 2015 Q3. These imports contributed significantly to the overall growth in total imports. Textile inputs, despite an increase in textile exports, declined by 2 percent. Fuel import bill continues to shrink thanks to sustained lower oil prices. However, the decline in 2016 Q3 (2 percent) is more subdued compared to 2015 Q3 (23 percent).

2016 Q3 Merchandise Imports Performance

Item	% growth	Item	% growth contribution
Construction	59%	Other Final Cons.	6.8%
Motor vehicles	45%	Construction	3.8%
Capital Goods	37%	Capital Goods	3.5%
Other Final Cons.	27%	Motor vehicles	3.3%
Food	25%	Food	3.3%
Other Interm. Cons.	13%	Other Interm. Cons.	2.4%
Fuel & Energy	-2%	Textile Input	-0.1%
Textile Input	-2%	Fuel & Energy	-0.2%
		Total growth	**23%**

Source: Swaziland Revenue Authority

Rapid growth in total imports however was fueled by imports of other final consumption goods. These imports have rapidly risen to 26 percent of the total. Food imports grew rapidly from about E645 million in 2015 Q3 to over E800 million in 2016 Q3. Shortages in domestic food production in the light of the drought meant higher imports to satisfy domestic requirement.



Source: Swaziland Revenue Authority

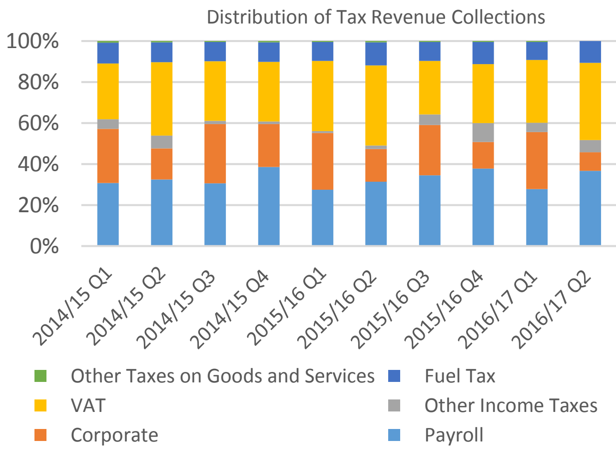
Even though, the value of imports grew more rapidly (23 percent) than exports (7.5 percent) in 2016 Q3, export earnings still exceeded the total value of imports. Overall, merchandise trade surplus in 2016 Q3 was E600 million. However, this is significantly lower than the trade surplus recorded in 2015 Q3 (E1.5 billion).

4. Fiscal Developments

4.1 Government Revenue

Domestic tax revenue collections slowed to E1.8 billion in 2016/17 Q2, compared to E2.0 billion in the previous quarter largely owing to a significant decline in corporate taxes. However, in annual terms, total domestic revenue grew by 18 percent compared to 2015/16 Q2. Tax collections benefited from significant growth in payroll taxes in the wake of the implementation of the salary review for civil servants. Taxes on goods and services also saw a significant improvement; both VAT and fuel taxes recorded double digit growth in annual terms.

Income taxes accounted for 51 percent of the tax collections while taxes on goods and services stood at 48 percent. This is different compared to 2015/16 Q2 when taxes of goods and services accounted for over half the total collections. Personal income tax accounted for 71 percent of income taxes, significantly higher than 64 percent same time last year. Corporate tax on the other hand, dwindled to 18 percent (compared to 33 percent in 2015/16 Q2). Within taxes on goods and services, the relative shares of VAT and fuel tax remained unchanged.

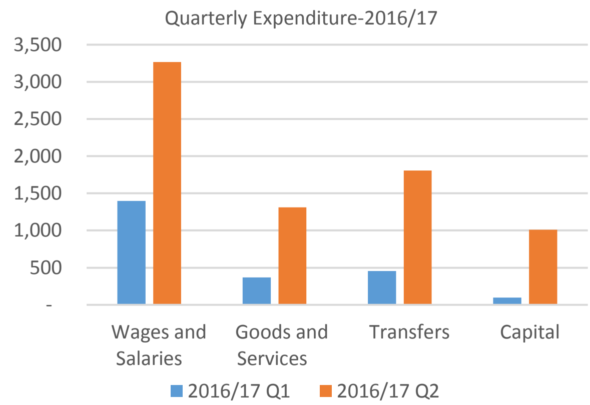


Source: Swaziland Revenue Authority

SACU receipts have declined by 25 percent in 2016/17 compared to the previous FY. Consequently, they accounted for about 40 percent of total government revenues, compared to over 50 percent observed historically. This has impacted on total government revenue which declined by 5 percent in 2016/17 Q2 compared to the same period last year despite the notable increase in domestic revenue collections.

4.2 Government Expenditure

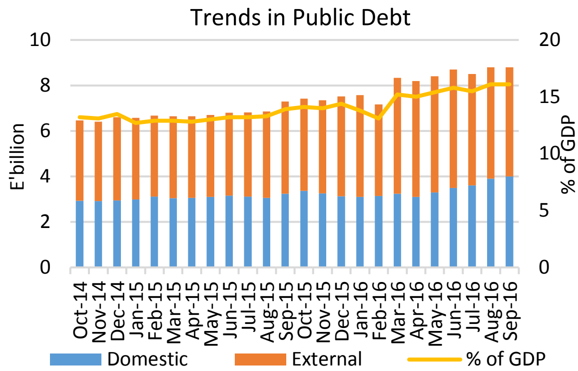
Total expenditure more than doubled in 2016/17 Q2 to reach E6.4 billion from E2.2 billion in the previous quarter. All components of government expenditure ballooned in the quarter under review. The main components of recurrent expenditure i.e. wages and salaries, and goods and services surged due to the implementation of the salary review and increased commitments as momentum picks up in the 2016/17 fiscal year. After recording low values in 2016/17 Q1, capital expenditure grew to E1.1 billion in the review period and accounted for 14 percent of total expenditure. It must be pointed out that in a given FY, expenditures usually pick up from Q2 as a number of activities are undertaken. In this regard, the trend is not expected to be significantly different in 2016/17.



Source: Ministry of Finance

4.3 Government Financing

Public debt stood at 16.1 percent of GDP in September 2016, 2.2 percentage points higher than a year ago. In nominal terms, public debt rose by 20 percent in the review period to close at E8.8 billion. Both components of public debt recorded double digit growth; external debt increased by 18 percent to E4.8 billion while domestic debt grew by 23 percent to close at E4.0 billion. Depreciation of the local currency has partly contributed to the increase in external debt stock.



Source: CBS Recent Economic Developments, Sept. 2016

At the end of September 2016, total domestic debt stood at E4.0 billion, equivalent to 7.3 percent of GDP. Domestic debt was denominated by almost equal shares of treasury bills (E4.00 billion) and bonds (E4.02 billion). Bonds have augmented by more than 40 percent in annual terms since September 2015. Participation in bonds is dominated by non-bank financial institutions whereas commercial banks dominate in short-term securities.

Annex 1 – Key Economic Indicators

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Real Sector									
Population	1,020,102	1,031,747	1,043,509	1,055,506	1,067,773	1,080,337	1,093,158	1,106,189	1,119,375*
GDP at Market Prices (E' Million)	23,690	26,771	30,296	33,139	36,015	39,970	44,519	48,756	52,547*
GDP per Capita	23,223	25,947	29,033	31,396	33,729	36,998	40,725	44,076	46,944
GDP Growth Rate (%)	4.1	4.4	2.6	1.8	1.9	3.4	4.6	2.7	1.9*
Share of Agriculture to GDP (%)	7.8	7.2	6.8	7.3	7.0	6.6	6.1	5.3	5.5*
Share of Manufacturing to GDP (%)	33.2	32.7	33.8	33.7	35.0	32.2	29.7	28.2	26.4*
Share of Public (Govt) Sector to GDP (%)	5.6	6.2	6.2	6.1	6.3	5.4	5.3	4.8	4.7*
Unemployment Rate (%)	28.2			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 (%)	8.1	12.7	7.4	4.5	6.1	8.9	5.6	5.7	5.0
Consumer Price Index (CPI)	66.7	75.1	80.7	84.3	89.5	97.5	103.0	108.8	114.2
Discount Rate (%)	11.00	11.00	6.50	5.50	5.50	5.00	5.00	5.25	5.75
Prime Lending Rate (%)	14.50	14.50	10.00	9.00	9.00	8.50	8.50	8.75	9.25
Average Exchange Rate (E/US Dollar)	7.05	8.26	8.44	7.33	7.26	8.24	9.65	10.85	12.75
Average Exchange Rate (E/Pound Sterling)	14.11	15.14	13.12	11.32	11.63	13.01	15.11	17.85	19.49
External Sector									
Merchandise Exports (E' Million)	10,950	11,170	13,269	14,378	17,013	14,274	18,292	20,646	22,015
Merchandise Imports (E' Million)	9,269	10,942	12,127	14,821	14,449	15,555	18,352	18,281	17,708
Merchandise Trade Balance (E' Million)	1,681	228	1,142	(443)	2,513	(1,253)	38	2,216	4,410
Gross Official Reserves (E' Million)	5,166	7,065	6,479	4,497	4,231	5,638	7,979	7,994	8,522
Gross Official Reserves (Months of Import Cover)	3.7	4.6	4.1	2.8	2.3	2.9	3.9	3.6	3.8
Fiscal Sector#									
Total Revenue and Grants (E' Million)	7,944	9,611	9,253	6,985	7,489	12,178	12,910	14,675	14,447
Total Expenditure (E' Million)	7,436	9,242	10,153	9,988	8,854	10,778	12,582	15,271	17,646
Fiscal Surplus/Deficit (E' Million)	507	369	(900)	(3,003)	(1,365)	1,400	328	(596)	(3,200)
Fiscal Surplus/Deficit as % of GDP	2.3	1.5	(3.3)	(10.4)	(4.3)	(4.0)	0.9	(1.4)	(7.2)
Total External Debt (E' Million)	3,500	3,605	2,812	2,553	2,559	2,843	2,882	3,366	3,891
Total External Debt as % of GDP	15.6	14.2	10.3	8.8	8.1	8.1	8.8	8.2	8.8

Note: Data on National Accounts has been revised according to the CSO National Accounts Report. * - estimate, # - 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: CBS and MEPD

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 September 2015

Total Expenditure and Net Lending: MoF, MTFF as of September 2015

Fiscal Surplus/Deficit: MoF, MTFF as of September 2015

Fiscal Surplus/Deficit as % of GDP: MoF, MTFF as of September 2015

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
WEO	World Economic Outlook