Recent Economic Developments

PREPARED BY: THE CENTRAL BANK OF SWAZILAND

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1.0 EXECUTIVE SUMMARY

**Real GDP Developments**
Swaziland’s growth performance has been revised downward to 0.7 percent in 2011 and to 0.2 percent for 2012. The country’s economic performance continues to be affected by external factors particularly the sluggish global economic growth outlook and internal developments.

**Price Developments**
Annual headline inflation decelerated to 6.6 percent in March 2013 from 6.7 percent in February 2013. On month-on-month rates, inflation rose by 0.12 percent in March 2013.

**Interest Rates**
Interest rates remained unaltered in March 2013. The discount rate was maintained at 5 percent while commercial banks kept their prime lending rates unchanged at 8.5 percent.

**Monetary Aggregates**
During the month ended March 2013, net foreign assets closed at E7,202.6 million reflecting a contraction of 9.1 percent. Gross official reserves contracted by 1.9 percent to E6,196 million and were enough to cover an estimated 3.2 months of imports. Claims on the private sector fell by 1.2 percent to close at E8,145.1 million driven by claims on other sectors. 15.0 Broad money supply (M2) slowed by 4.8 percent to E10,145.9 million over the month ended March 2013.

**Exchange rate**
The local currency weakened to the dollar in the review period. It weakened to average E9.18 in March from E8.88 in February 2013.

**Public Debt**
At the end of March 2013, total public domestic debt recorded E2460.8 million, an equivalent of 7.6 percent of GDP. This reflects an increase from the 6.5 percent recorded the previous month.

**External Sector**
Preliminary data reflect that Swaziland’s Balance of Payments posted an overall surplus of E459.7 million in the quarter ending September 2012. The current account posted a surplus of E349.8 million in the third quarter of 2012. The financial account, excluding reserves, also recorded a net inflow of E364.0 million in the third quarter of 2012.
Table 1: Selected Monthly Economic Indicators (October 2012 to March 2013)
2.0 ANNUAL REAL GDP DEVELOPMENTS

Preliminary estimates reflect that real output growth dipped further to 0.2 percent in 2012 after recording 0.7 percent in 2011 and 1.9 percent in 2010. As a small open economy, Swaziland suffered from the general slowdown in global economic activity in 2012. The Eurozone crises affected the country in two ways: first directly through Swaziland’s trade links with the EU and secondly indirectly through South Africa’s trade links with the EU. The poor performance in the EU and South African markets, which collectively consumes about 70 percent of Swaziland’s exports, translated to a slower performance in the domestic economy. From the domestic front, the economy endured the second round effects of the fiscal crisis which were evident not only in the government sector but also in other sectors which are directly and indirectly linked with the government sector. These included inter alia; commerce, construction and financial intermediaries.

Figure 1: Swaziland GDP growth rates

![Graph showing GDP growth rates from 2008 to 2012]

Source: Central Statistical Office

Developments in the primary sector were mixed. The agriculture subsector recorded an overall decline of 1.3 percent in 2012 after expanding by 8.5 percent in the previous year. Significant decreases were noted in maize, citrus and livestock production. Sugarcane production continued to benefit from the completion of the
LUSIP and KDDP projects. Cane production, however, increased by a slower rate of 6 percent in 2012 compared to 12 percent in 2011. On the other hand, the forestry sector showed signs of recovery from the prolonged negative effects of the 2008 forest fires. The mining and quarry subsector output doubled buoyed by a significant rebound in coal and quarried stone production which rose by 27 and 49 percent, respectively. This subsector was further boosted by the re-opening of the Ngwenya iron ore mine which started operating in the last quarter of 2011. The mine intensified its operations during the course of 2012.

Table 2: Sectorial Breakdown of Real Output Growth Rates

<table>
<thead>
<tr>
<th>Sectors</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011*</th>
<th>2012#</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary sector</td>
<td>-0.3</td>
<td>-1.3</td>
<td>3.5</td>
<td>8.3</td>
<td>-0.5</td>
</tr>
<tr>
<td>Agriculture &amp; forestry</td>
<td>-0.1</td>
<td>-2.0</td>
<td>3.3</td>
<td>8.5</td>
<td>-1.3</td>
</tr>
<tr>
<td>Mining &amp; Quarry</td>
<td>-16.0</td>
<td>-21.0</td>
<td>27.0</td>
<td>-15.0</td>
<td>106.3</td>
</tr>
<tr>
<td>Secondary sector</td>
<td>1.2</td>
<td>-2.8</td>
<td>-2.7</td>
<td>-2.1</td>
<td>-0.7</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1.6</td>
<td>-2.0</td>
<td>-3.2</td>
<td>0.4</td>
<td>0.7</td>
</tr>
<tr>
<td>Electricity, gas &amp; water</td>
<td>2.4</td>
<td>5.7</td>
<td>9.9</td>
<td>-3.2</td>
<td>-16.5</td>
</tr>
<tr>
<td>Construction</td>
<td>-3.0</td>
<td>-3.0</td>
<td>-2.6</td>
<td>-25.0</td>
<td>-10.0</td>
</tr>
<tr>
<td>Tertiary sector</td>
<td>4.0</td>
<td>5.1</td>
<td>5.3</td>
<td>1.2</td>
<td>0.5</td>
</tr>
<tr>
<td>Wholesale &amp; retail</td>
<td>4.1</td>
<td>4.9</td>
<td>4.5</td>
<td>3.0</td>
<td>-2.0</td>
</tr>
<tr>
<td>Transport &amp; communication</td>
<td>7.2</td>
<td>5.6</td>
<td>9.2</td>
<td>4.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Financial Intermediation</td>
<td>3.0</td>
<td>5.0</td>
<td>1.0</td>
<td>-5.0</td>
<td>-3.0</td>
</tr>
<tr>
<td>General government</td>
<td>1.6</td>
<td>4.0</td>
<td>5.4</td>
<td>0.4</td>
<td>0.1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2.4</td>
<td>1.2</td>
<td>1.9</td>
<td>0.7</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Source: CSO, CBS and MEPD. *represents revised estimates by the CBS and MEPD and # represents official estimates by CBS and MEPD as of December 2012. (NB: The CBS uses these estimates pending availability of official actual data produced by the CSO National Accounts section.)

The secondary sector contracted by a slower rate of 0.7 percent in 2012 compared to a 2.1 percent decline in 2011, mainly benefiting from a slight improvement in the manufacturing subsector. The real value added by the manufacturing subsector rose slightly from 0.4 percent in 2011 to 0.7 percent, largely due to slight increases in the production of sugar and sugar related products, edible concentrates, timber products and printing products. Growth in the manufacturing sector was however limited by
the poor performance in export destination markets notably the EU and South Africa which translated to lower demand for the country’s export products. The textile sector was one of the sectors negatively affected by the global downturn. The real output for electricity, gas and water supply sector decreased significantly due to a notable drop in power generation. The construction subsector remained subdued in 2012 in the absence of major public sector infrastructural development undertaken in the year under review.

Growth in the value added by the tertiary sector slowed to 0.5 percent in 2012 compared to 1.2 percent the previous year. The second round effects of the fiscal crises were predominantly felt in the general government services and wholesale and retail subsectors. The general government grew by a meagre 0.1 percent in 2012 compared to 0.4 percent in 2011 in line with the three-year hiring and wage freeze proposed in the Fiscal Adjustment Roadmap (FAR). The public-wage freeze coupled with relatively higher inflation rates exerted pressure on real disposable incomes and affected spending patterns. As a result, the real output for the wholesale and retail trade subsector decreased by five percentage points to -2 percent in 2012.

The financial intermediation subsector contracted by a slower rate of 3 percent in 2012 after decreasing by 5 percent in the previous year. Credit to the private sector was mute in the period under review despite lending rates staying at record low levels. The effect of slow demand in the South African markets was also manifested in the tourism subsector. The total number of tourist arrivals in 2012 decreased to 1,278,530 from 1,328,366 in 2011 mainly due to a 5.7 percent decrease in arrivals from South Africa. As a result, the real output growth of the hotels and restaurants subsector remained negative for the third consecutive year since 2010.

On a positive note, the ‘transport, storage and telecommunications’ and ‘real estate and business services’ subsectors reflected resilient growth in the period under review. The transport, storage and communications subsector grew by 3.5 percent in 2012 compared to 4 percent in 2011. The transport subsector benefited from the
improved performance of the manufacturing and mining subsectors. The communication sector on the other hand improved mildly due to increased number of subscribers and the usage of data internet services. However, the unresolved disputes between the two major players in the communications subsector clouded the subsector’s performance in 2012. The real output for real estate and business services grew by 2.1 percent in 2012 compared to 0.2 percent in 2011. The accommodative monetary policy stance adopted by the Central Bank which kept interest rates at record low levels boosted this sub-sector. The growth of this sector was however limited by uncertainties caused by the fiscal crises (especially for civil servants) which in turn constrained financial intermediation towards this sector.

2.1. Headline Inflation Developments

The headline inflation rate in March 2013 for the country is 6.6 percent. This annual rate of inflation is 0.09 percentage points lower than the corresponding annual rate of 6.7 percent observed in February 2013. The Month to Month inflation rate is 0.12 percent. This lower headline inflation is due to decreasing annual rates of change reflected in March 2013 in the price indices for Alcoholic Beverages and Tobacco which decreased from 5.63 percent in February to 3.41 percent in March, Clothing and Footwear which decreased from 2.45 percent in February to 2.22 percent in March, Housing, Water, Electricity, Gas, and other Fuels which decreased from 5.85 percent in February to 5.73 percent in March 2013, and Recreation and Culture which decreased from 6.94 percent in February to 5.98 percent in March 2013.

However, these decreasing rates were slightly counteracted by increasing rates of growth in the price indices for, Food and Non-Alcoholic Beverages which increased from 7.57 percent in February to 7.59 percent in March, and Furnishing, Household Equipment and Routine Household Maintenance increased from 7.0 percent in February to 7.56 percent in March 2013.
International developments characterized by high food and oil prices, a relatively weaker exchange rate (Rand/Lilangeni to US Dollar) continue to put upward pressure on the Swaziland inflation outlook. The approval of an 8 percent hike for Eskom by the National Energy Regulator of SA is likely to ameliorate pressure on the then anticipated local consumer inflation given that Swaziland Electricity Company imports above 60 percent of electricity from South Africa. However, the recent fuel price cut effected in January 2013 is expected to cushion inflationary pressures coming from the above factors. Despite the VAT factor pushing domestic inflation up resulting in a huge differential between SA inflation and domestic inflation, the Bank projected monthly inflation to have a falling trend in the year 2013 albeit at a slow pace.

2.3 Inflation for SACU member States
Botswana registered the highest annual inflation rate among the Member States, registering an inflation rate of 7.6 percent in March 2013 followed by Swaziland at 6.6 per cent. The lowest annual inflation was observed in South Africa, recording inflation rate of 5.9 percent. Lesotho figures were not readily available. The Member States
recorded a single digit annual inflation rate during March 2013 as shown in Table 3 below.

### Table 3: Annual inflation rates for SACU MS

<table>
<thead>
<tr>
<th></th>
<th>BOTSWANA</th>
<th>LESOTHO</th>
<th>NAMIBIA</th>
<th>SOUTH AFRICA</th>
<th>SWAZILAND</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feb - 2013</td>
<td>7.5</td>
<td>5.1</td>
<td>6.2</td>
<td>5.9</td>
<td>6.7</td>
</tr>
<tr>
<td>Mar - 2013</td>
<td>7.6</td>
<td></td>
<td>6.3</td>
<td>5.9</td>
<td>6.6</td>
</tr>
</tbody>
</table>

*Source: SACU Member States Statistics Offices*

#### 3.0 MONETARY SECTOR

The Central Bank kept the discount rate at 5 percent throughout the quarter ended March 2013 in a bid to stimulate sluggish economic activity through increased lending to the private sector by the commercial banks. Consequently, the commercial banks also kept the prime lending rate at 8.5 percent.

### Figure 3: GOR and NFA Annual Changes

*Source: Central bank of Swaziland*

During the month ended March 2013, net foreign assets closed at E7, 202.6 million reflecting a contraction of 9.1 percent. The fall was on account of net foreign holdings of other depository corporations which fell by 27.6 percent to settle at E1,588.3 million mainly due to a decrease in the amount of foreign deposits. Net official assets also declined by 2.1 percent to E5, 614.3 million largely due to
payments of government’s budgetary obligations over the month. Gross official reserves contracted by 1.9 percent to E6, 196 million and were enough to cover an estimated 3.2 months of imports, slightly lower than the 3.3 months recorded at the end of February 2013. Over the year, net foreign assets depicted an increase of 95.3 percent.

Net domestic claims expanded by 6.4 percent to E6, 244.1 million over the review month. Claims on the private sector fell by 1.2 percent to close at E8, 145.1 million driven by claims on other sectors (mainly other financial corporations). Claims on other sectors also fell by 26.4 percent to close at E441.3 million. Claims on other resident sectors [Households & Non-Profit Institutions Serving Households (NPISH)] tapered by 0.4 percent to E3, 439.4 million.

Figure 4: Net Domestic Claims

[Graph showing net domestic claims from February 2012 to March 2013]

Source: Central bank of Swaziland

Claims on other non-financial corporations (Industry) on the other hand rose by 1.7 percent to E4,264.4 million mainly on account of increased borrowing in the distribution and tourism sector. Net claims on central government fell by 19.9 percent to E1, 900.9 million over the month. Over the year, net claims on central government increased by 301.8 percent while claims on the private sector fell by 1.1 percent.
Broad money supply (M2) slowed by 4.8 percent to E10, 145.9 million over the month ended March 2013. The decline was mostly reflected on narrow money supply (M1) which decreased by 12.5 percent to E3, 559.9 million mainly due to transferable deposits. Transferable deposits contracted by 14.8 percent to close at E3, 117.7 million. Currency outside depository corporations on the other hand rose by 8.9 percent to E3, 117.7 million.

Quasi money supply depicted a slight decline of 0.1 percent to E6, 586 million which was mainly reflected on time deposits. Time deposits fell marginally by 0.5 percent
to E5, 233.4 million. Savings deposits on the other hand grew by 1.4 percent to E1, 352.6 million. Over the year, M1 expanded by 28.9 percent, M2 by 17 percent while quasi money increased by 11.4 percent.

3.1 Exchange Rate Developments

The Lilangeni/Rand’s performance against major currencies was weak during the month of March 2013. The local unit averaged E9.18 at the end of the review period, weakening from an average of E8.88 recorded at the end of the previous review period. Against the British Pound, it weakened slightly to E13.85 in March 2013 from E13.76 in February 2013, while against the Euro, it weakened to E13.80 from E13.57 the previous month.

Figure 10: Annual Exchange Rates (Mar 2012 to Mar 2013)

4.0 Fiscal Sector

4.1 Public Debt

At the end of March 2013, total public debt recorded E5, 304.4 million, an equivalent of 16.4 percent of GDP. This reflects an increase of 9.7 percent from E4, 835.9 million recorded in February 2013. The increase was partly due to the depreciation of the local currency against the US Dollar and other major currencies in which most
of the country's liabilities are denominated coupled with a surge in treasury bills issuances during the period under review.

Total public external debt stood at E2,842.7 million as at end of March 2013, from E2,715.2 million recorded in February 2013. The rise was mainly due to the depreciation of the local currency against the US Dollar and other major currencies in which most of the country's liabilities are denominated. As a percentage of GDP, public external debt increased to 8.8 percent from 8.4 percent over the same period.

**Figure 11: Total Public Debt As At March 31, 2013**

![Graph showing total public debt for March 31, 2013](chart.png)

Source: Central bank of Swaziland

Total public domestic debt increased to E2,460.8 million in March 2013 from E2,120.7 million in February 2013. The rise in domestic debt was a result of a surge in 182, 273 and 364-days papers’ issuances over the period. As a percentage of GDP, public domestic debt increased to 7.6 percent from 6.5 percent over the same period.
Of the outstanding domestic debt, E913.5 million represented Government bonds which remained unchanged from the previous month. Treasury bills accounted for E1,547.3 million from the E1,207.1 million recorded in February 2013. Commercial banks continue to dominate participation in government securities accounting for 71.3 percent of holdings as at March 2013 followed by other financial institutions at 18.8 percent.

**Table 4: Public Domestic Debt Outstanding By Holder as at March 31, 2013 (E’000)**

<table>
<thead>
<tr>
<th>Holder</th>
<th>Government Bonds</th>
<th>Treasury Bills</th>
<th>Total</th>
<th>Share of Holdings (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBS</td>
<td>57,692</td>
<td>800</td>
<td>58,492</td>
<td>2.4</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>396,063</td>
<td>1,358,550</td>
<td>1,754,613</td>
<td>71.3</td>
</tr>
<tr>
<td>Other Financial Institutions</td>
<td>321,137</td>
<td>114,790</td>
<td>462,927</td>
<td>18.8</td>
</tr>
<tr>
<td>Other</td>
<td>138,677</td>
<td>46,120</td>
<td>184,0797</td>
<td>7.5</td>
</tr>
<tr>
<td>Total</td>
<td>913,569</td>
<td>1,547,260</td>
<td>2,460,829</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source: Central Bank of Swaziland**
5.0 EXTERNAL SECTOR

5.1 Overview
Preliminary data reflect that Swaziland’s Balance of Payments posted an overall surplus of E459.7 million in the quarter ending September 2012, compared to a surplus of a similar magnitude the previous quarter. Major contributors to the overall surplus position were a higher surplus in the trade account and a significant net inflow recorded in the transfers account during the quarter. Further contributing to the overall surplus was a turnaround in the financial account from a net outflow of E991.7 million to a net inflow of E364 million in third quarter 2012.

5.2 Current Account
The current account posted a lower surplus of E349.8 million in the third quarter of 2012 compared to a revised surplus of E960.8 million the previous quarter. Contributing to the current account surplus during the review period was an increase in the trade surplus combined with the recurring net inflows in the current transfers account. The deficits in the services and income accounts persisted in the quarter under review.

Figure 13: Trends in the Current and Financial accounts (Sept 2011 - Sept-2012)

Source: Central Bank of Swaziland
5.3 Trade Account
The trade account recorded a wider surplus of E342.7 million in the third quarter of 2012 compared to a surplus of E211.2 million in the quarter ended June. The improvement in the trade balance was attributed to an increase in merchandise export earnings, whilst imports remained flat on a quarter-on-quarter basis.

Export earnings recorded a 3.7 percent quarterly increase to E4, 282.1 million in the third quarter of 2012. Export receipts from miscellaneous edibles improved by 22.6 percent to E2,183 million during the review period. The increase in miscellaneous edibles exports was due to a rise in demand for sugar based products during the third quarter. Exports of miscellaneous edibles remained the highest export revenue earner in the third quarter of 2012.

5.4 Services Account
The deficit in the services account persisted in the quarter ending September 2012, increasing by 14.5 percent, from E1, 386.8 million in the second quarter to E1, 588.0 million. This was due to a drastic fall in services inflows of 47.4 percent compared to a lower decline in outflows of 1.8 percent.

Services inflows declined from E498.1 million in the quarter ending June to E261 million in the review quarter. Inflows in the transportation sector dropped from E65.3 million in the second quarter to E17.7 million in the third quarter of 2012, whilst outflows increased, from E79.7 million to E174.4 million in the third quarter, contributing to the higher deficit in this account. Major contributors to transport services inflows were freight earnings by Swaziland railways and other transport services. Travel services posted a net outflow of E88.1 million in the quarter ending September 2012 against a net outflow of E116 million the previous quarter. Travel services inflows increased from E9.8 to E58.9 million, whilst outflows increased from E107.3 million in the second to E147.0 million in the third quarter of 2012. Tourism receipts continued to be a major contributor to travel inflows during the review quarter.
Other business services outflows, mainly comprising legal, accounting management and consulting services, continued to dominate the services account in the review quarter, rising from E1,117.7 million in the second quarter to E1,290.8 million in the review period.

### 5.5 Income Account

The Income account deteriorated from a deficit of E207.1 million in quarter two 2012 to a E466.4 million deficit in the quarter ending September 2012. Income inflows grew by 37 percent from E456.6 in the second quarter to E626.4 million in the review period, whilst income outflows increased by a higher 62 percent from E622.5 to E1,072.8 million in the third quarter resulting in the widening deficit.

Income from compensation of employees posted a net inflow of E38.3 million in the review quarter, slightly higher than a net inflow of E37.9 million the previous quarter. Compensation of employees inflows posted a marginal decrease from E56.4 to E55.0 million, whilst outflows also fell by 10.2 percent to E16.7 million in the third quarter of 2012.

Investment income inflows recorded a 43 percent quarter on quarter increase to E484.7 million in the third the quarter, whilst outflows recorded a significant 64 percent quarterly increase to E1,056.2 million in the third quarter also contributing to the increased income account deficit. Net interest earned by monetary authorities, government, banks and other sectors dominated income inflows at E228.9 million in the review quarter. Income outflows relating to dividends and distributed branch profits remained high at E758.3 million in the review period, though lower compared to E964.1 million in the quarter ending June.

### 5.6 Current Transfers

The current transfers account recorded a net inflow of E2,041.5 million in the quarter ending September 2012, which was 12.9 percent lower than the net inflow in the previous quarter. Although inflows increased from E2,453.6 in quarter two to E2,648.7 million in the third quarter, outflows increased drastically from E110.1 million to
E607.2, explaining the reduced surplus. Southern African Customs Union (SACU) receipts continued to form a large part of current transfers inflows contributing E1, 765.6 million in the third quarter, the same amount as the previous quarter. Other contributors to the net inflow figure were intergovernmental transfers which increased from E74.3 million to E130.2 million and technical assistance which stood at E505.4 million at the quarter ending September. Major contributors to the current transfers net outflows were inflows of workers remittances at E138.1 million and other transfers including gifts at E254.3 million in the review quarter.

5.7 Financial Account

The financial account, excluding reserves, recorded a net inflow of E364.0 million in the third quarter of 2012, reflecting a turnaround from the revised net outflow of E991.7 recorded in the second quarter. This improvement is attributed to the net inflow recorded in the direct investment and other investment account.

Foreign direct investment (FDI) into Swaziland recorded a net inflow of E44.5 million in the review quarter against a net outflow of E339.9 million recorded in the second quarter of the year. This improvement resulted to a net inflow of E38.4 million net FDI in the third quarter from a net outflow of E330.4 million realized in the previous quarter. Contributing to this movement was an increase of E229.3 million in reinvested earnings in the quarter ending September from a decline of E371.6 million posted in the quarter ending June. The other capital component of FDI recorded a net outflow of E185.7 million during the review period, reflecting repayments of loans from shareholders by local companies.

Portfolio investments, which comprise equity and debt securities, recorded a net outflow of E13.2 million in the quarter under review, a lower outflow compared to the outflow of E26.8 million recorded the previous quarter. Other investments, which include trade credits, currency and deposits as well as loans not included in FDI, registered a net inflow of E338.9 million in the period under review, a turnaround when compared to the net outflow of E634.5 million posted in the second quarter.