

SWAZILAND

Table 1 **2016**

Population, million	1.1
GDP, current US\$ billion	3.7
GDP per capita, current US\$	3277
Poverty rate (\$1.9/day 2011PPP terms) ^a	42.0
Poverty rate (\$3.1/day 2011PPP terms) ^a	63.1
Gini Coefficient ^a	51.5
School enrollment, primary (% gross) ^b	113.3
Life Expectancy at birth, years ^b	48.9

Source: World Bank WDI and Macro Poverty Outlook
Notes:

(a) Most recent value (2009)

(b) Most recent WDI value (2014)

Economic growth is projected to rebound to 1.7 percent in 2017, in part due to modestly improved regional growth prospects and recovery of agricultural production following better rains. This is expected to support moderate gains in poverty reduction. Over the medium term, a more favorable regional economic outlook is expected to sustain the external sector. However, accumulation of domestic arrears together with fiscal pressures exerted by the 2016 salary review will continue to pose significant risks to macroeconomic sustainability.

Recent developments

Growth slipped into negative territory (-0.6 percent) in 2016 from 1.9 percent in 2015, as agricultural production fell due to drought conditions. The drought had an adverse effect on secondary sector activity, especially for the manufacturing sector that relies on inputs from the primary sector. While the supply side did not perform well, the civil service salary review gave a boost to the demand side in 2016. As a result, tertiary sector growth rates reached about 2 percent in 2016 from 1.3 percent in 2015, driven by wholesale and retail trade, and repair of motor vehicles.

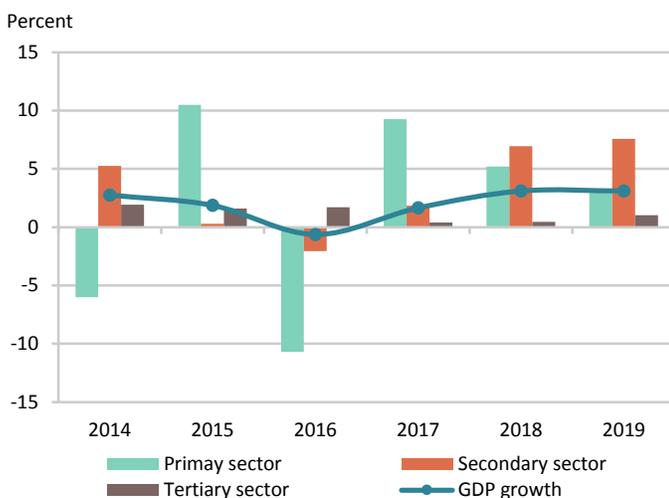
An expansionary fiscal policy, mainly a result of the 2016 salary review, yielded a substantial budget deficit of 12.3 percent of GDP, up from 4.8 percent in 2015. This was compounded by declining revenues, falling 0.7 percent in 2016. The drop-off in revenue was mainly due to a 24 percent decline in South African Customs Union (SACU) revenues, while payroll and value added taxes increased following salary revisions. As fiscal challenges mounted, government accumulated domestic arrears of about 3 percent of GDP as of end November 2016. Total public debt increased to 18.8 percent of GDP in 2016, driven mainly by domestic debt. Further, as cash flows were constrained, government drew down foreign reserves to pay budgetary obligations. As a result, reserves declined by 9.2 percent to E7.7 billion as of end December 2016. The import cover narrowed to 3.7 months at end

December 2016 from 4 months in December 2015.

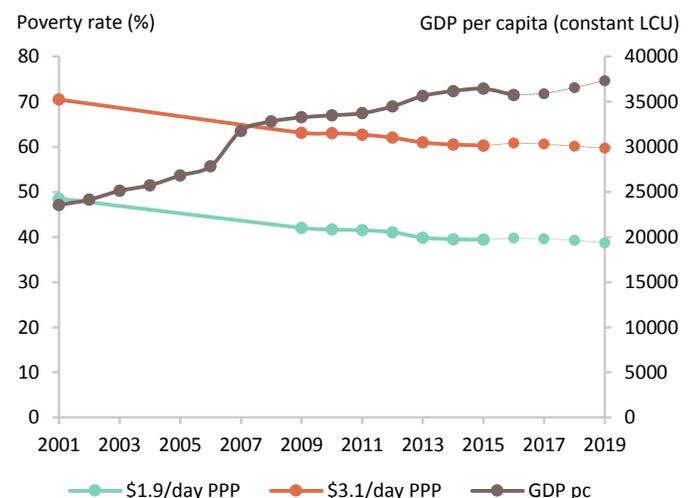
The current account deteriorated, but remained in surplus in 2016. Imports grew by 4.5 percent partly due to drought induced food imports. This gain was faster than that for exports, which grew by 3.9 percent in 2016, driven mainly by recovery of textile exports to regional markets after the Africa Growth Opportunity Act suspension. Overall, the BOP was in deficit in 2016 and partly financed by draw-down of foreign reserves

The monetary policy stance was contractionary in 2016, mainly in response to inflationary pressures from food prices. Inflation averaged 7.8 percent (above the upper threshold of 6 percent) in 2016, up from 5 percent in year preceding. The central bank increased the discount rate from 5.75 percent in 2015 to 7 percent in 2016, moderately limiting growth in credit to the private sector.

The last two years of consecutive droughts contributed to a slowdown in poverty reduction. The proportion of Swazis living below the \$1.9 per day poverty line rose marginally from 39.4 to 39.8 percent between 2015 and 2016. The Swaziland Vulnerability Analysis Committee reports that 350,000 people need emergency food aid. Allocations towards social welfare programs were not increased in 2016, hence no additional resources were made available to cushion the poor against rising prices. Further, poverty reduction efforts continued to be dampened by relatively high inequality (a consumption per capita Gini coefficient of 51.5) and unemployment (28.1 percent).

FIGURE 1 Swaziland / Sectoral growth rates


Sources: Ministry of Finance and World Bank staff calculations.

FIGURE 2 Swaziland / Actual and projected poverty rates and GDP per capita


Sources: World Bank (see notes to table 2).

Outlook

Economic growth is expected to rebound to 1.7 percent in 2017, as agricultural production recovers. The agriculture and forestry sectors are projected to grow by some 10 percent in 2017 contrasted with a notable 11 percent contraction in 2016. As the primary sector recovers, the secondary sector is expected to grow by 2 percent in 2017, driven by manufacturing and electricity production. The secondary and service sectors together are expected to support 3.2 percent average economic growth in 2018/19.

The fiscal situation is expected to improve in 2017 as a result of stronger economic activity and various revenue enhancing policy measures expected to be implemented by the government. SACU revenues are expected to increase by 36.8 percent to E7.1 billion in 2017. This is due to expected lower deductions to repay the SACU Common Revenue Pool (CRP) and about a 15 percent projected increase in the size of the 2017/18 CRP. Expenditures are expected to grow at a slower pace (3 percent in 2017/18) in comparison to 2016/17. The fiscal deficit is projected at 8.2 percent of GDP. Fiscal consolidation efforts are, however, threatened by the accumulation of domestic arrears. This is despite ongoing

efforts by the government to issue a bond to raise funds to clear all domestic arrears. External sector pressures are expected to moderate as the current account surplus increases. Exports, especially textiles, will continue to increase as the South African economy gradually recovers. In contrast, imports will moderate as food imports decline due to recovery in the agriculture sector. However, from 2018/19 exports may be negatively affected by the EU sugar reforms to take effect from September 2017. The EU intends to remove reference prices and production quotas, which is likely to lead to a pickup in EU sugar production, negatively affecting demand for Swazi sugar exports. Gains in poverty reduction are expected to be marginal in 2017. The proportion of Swazis living below \$1.9 per day is anticipated to fall from 39.8 to 39.6 percent between 2016 and 2017. It is expected to fall further to 39.3 percent in 2018 and 38.7 percent by 2019. The muted gains especially in the near term suggest the impact of the recovery of the agricultural sector on poverty reduction is expected to be only modest in the near term.

Risks and challenges

There are considerable downside risks to Swaziland's fiscal situation. The European

Union-Southern African Development Community Economic Partnership Agreement (EU-SADC EPA) implementation (from October 2016) may constrain an anticipated increase in SACU revenues. Persistent economic management challenges in South Africa (as reflected by the recent downgrade of long term foreign currency denominated debt to speculative) would also result in lower growth and SACU revenues, inhibiting fiscal consolidation. Further, the forthcoming 2018 national elections might force government to continue on a path of expenditure expansion, while the huge wage bill will continue to weigh down on the fiscal position, leaving little space for poverty alleviation interventions.

The government continued to finance the fiscal deficit through borrowing from the private sector and the central bank--running down foreign reserves is a threat to macroeconomic stability. Continued reliance on domestic credit poses a risk of crowding out the private sector while running down reserves threatens the exchange rate peg. Without a clear adjustment path, significant macroeconomic risks will persist. Tight fiscal conditions and uneven recovery of agriculture partly due to current floods across the country, pose an additional threat to poverty reduction efforts.

TABLE 2 Swaziland / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2014	2015	2016 e	2017 f	2018 f	2019 f
Real GDP growth, at constant market prices	2.7	1.9	-0.6	1.7	3.1	3.2
Private Consumption	-0.5	1.0	-0.3	0.4	3.9	3.0
Government Consumption	-1.2	11.2	-2.7	-0.3	12.9	12.9
Gross Fixed Capital Investment	12.0	-75.1	-0.9	-5.4	-13.4	7.7
Exports, Goods and Services	11.0	5.7	3.9	6.0	6.0	6.0
Imports, Goods and Services	0.0	1.6	4.5	3.0	9.2	9.2
Real GDP growth, at constant factor prices	2.7	1.9	-0.6	1.7	3.1	3.2
Agriculture	-4.5	11.3	-11.2	9.6	6.0	5.1
Industry	4.9	1.1	-2.1	2.2	3.1	3.1
Services	2.1	1.3	2.1	0.5	2.7	3.0
Inflation (Consumer Price Index)	5.7	5.0	7.8	7.4	5.5	5.5
Current Account Balance (% of GDP)	3.2	8.2	0.8	4.2	3.7	3.0
Fiscal Balance (% of GDP)	-1.4	-4.8	-12.3	-8.2	-5.4	-4.1
Debt (% of GDP)	15.1	15.8	18.8	17.5	15.3	14.4
Primary Balance (% of GDP)	-0.5	-3.6	-11.0	-6.6	-3.9	-3.1
Poverty rate (\$1.9/day PPP terms)^{a,b,c}	39.5	39.4	39.8	39.6	39.3	38.7
Poverty rate (\$3.1/day PPP terms)^{a,b,c}	60.5	60.3	60.9	60.7	60.1	59.7

Sources: World Bank. Macroeconomics and Fiscal Management Global Practice, and Poverty Global Practice. Notes: e = estimate, f = forecast.

(a) Calculations based on 2009-HIES.

(b) Projection using neutral distribution (2009) with pass-through = 0.7 based on GDP per capita in constant LCU.

(c) Nowcast: 2014 - 2016. Forecast are from 2017 to 2019.