

SWAZILAND

Table 1 **2016**

Population, million	11
GDP, current US\$ billion	3.9
GDP per capita, current US\$	3427
International poverty rate (\$ 19) ^a	42.0
Lower middle-income poverty rate (\$3.2) ^a	64.4
Upper middle-income poverty rate (\$5.5) ^a	82.0
Gini coefficient ^a	51.5
School enrollment, primary (% gross) ^b	12.8
Life expectancy at birth, years ^b	48.9

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent value (2009), 2011 PPPs.

(b) Most recent WDI value (2014)

Economic growth is expected to decline to 0.9 percent in 2017 from 1.3 percent in 2016, due to slow recovery in agriculture and escalating fiscal challenges. Domestic arrears doubled in less than a year, posing significant macroeconomic risks. Public debt may breach the Government's medium term threshold, unless corrective measures are taken. Foreign reserves have been deteriorating as they are partly financing the fiscal deficit. No gains in poverty reduction are expected in 2017 owing to slow recovery in agriculture.

Recent developments

Economic growth was revised upwards to 1.3 percent in 2016 from an earlier projected contraction of 0.6 percent, following easing of supply side constraints in agriculture, food processing, and utilities production. Sugarcane production fell by 15 percent, lower than the 25 percent decline that was previously projected. Further, the civil service salary review boosted aggregate demand, stimulating the tertiary sector.

Fiscal expansion continued into the first half of 2017, financed partly by accumulating domestic arrears. Domestic arrears have doubled to 4 percent of GDP in May 2017 from about 2 percent in December 2016. Total public debt levels increased by 26 percent between July 2016 and July 2017, reaching 19.7 percent of GDP. While external debt remained stable, domestic debt increased by over 50 percent during the same period. As the fiscal situation remains tight, the government is reverting to the use of foreign currency reserves to finance the deficit. Thus, reserves have declined by 17 percent year-on-year to 3.3 months of import cover in June 2017. Reserves remained volatile between January and July 2017, heavily dependent on Southern African Customs Union (SACU) revenue inflows. Import cover only increased to around 3.9 months during months when SACU revenues were received (figure 1).

Current account balance stayed positive during the first half of 2017, but remains

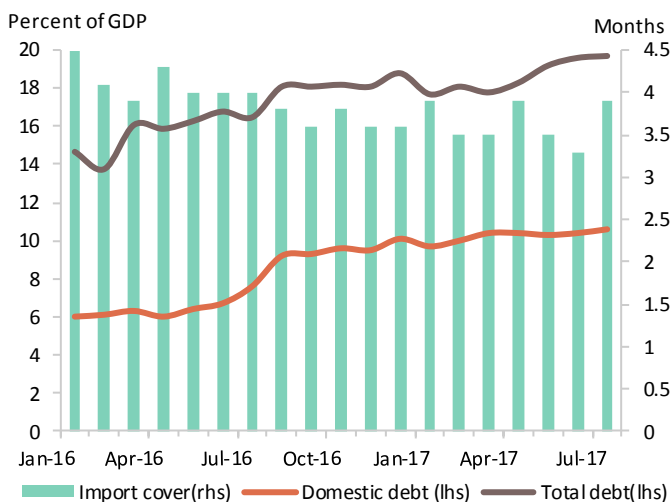
under pressure as trade balance slipped into deficit in 2017 Q2. This is mainly due to underperforming exports that declined by 10.2 percent quarter-on quarter to E5.1 billion in 2017 Q2 while imports increased by 5.5 percent.

The Central Bank maintained the bank rate at 7.25 percent for 8 consecutive months to August 2017, as inflation rate continues to trend down. Inflation rate declined to 6.7 percent in July, 2017 from 6.9 percent in June, and 7.1 percent in May 2017. Credit extended to the private sector has been growing at a steady rate, growing by 6.5 percent year-on-year at the end of May 2017.

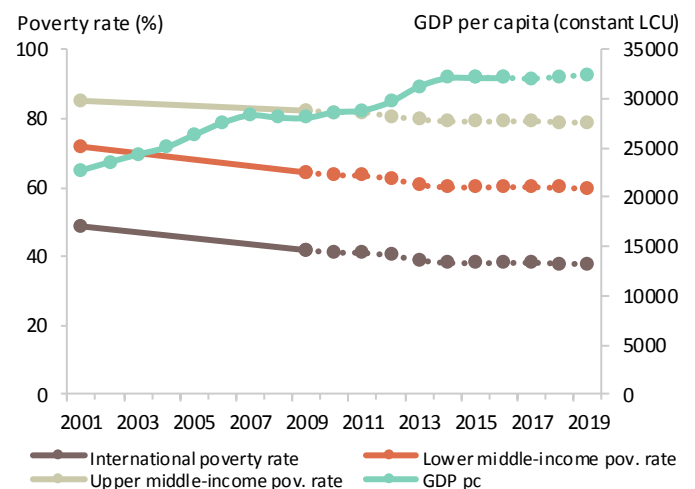
Poverty stagnated between 2015 and 2016 with 38.1 percent of Swazis living below the \$1.9 per day international poverty line in both years. Though there was a contraction in agriculture between 2015 and 2016, the modest growth in the economy, to some extent, cushioned further deterioration of poverty.

Outlook

Growth is expected to remain subdued at 0.9 percent in 2017 as agriculture takes time to recover and fiscal challenges persist. The contraction in agriculture and forestry sectors is projected to slow to -0.3 percent in 2017 from -2.7 percent in 2016 as sugar production takes time to recover. Demand will remain subdued as retail and wholesale trade will slumber due to prevailing fiscal challenges. Growth in the medium term will remain constrained by

FIGURE 1 Swaziland / Debt and months of import cover


Source: Swaziland Central Bank.

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


Source: World Bank. Notes: see table 2.

accumulation of domestic arrears that will negatively affect the tertiary sector, general business operations, and financial sector expansion with non-performing loans.

Though the fiscal deficit is expected to moderate it will remain fragile as expenditure pressures remain elevated and domestic arrears continue accumulating. The fiscal deficit is projected at 8.2 percent of GDP in 2017, down from 12.3 percent in 2016. To achieve this deficit, fiscal consolidation, particularly the reduction in recurrent expenditure is expected to continue for the rest of the year. SACU revenues are projected 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). Public expenditures are expected to grow at a slower pace (3 percent in 2017/18) in comparison to 2016/17.

Current account pressures will persist but the balance is projected to remain positive at 0.1 percent of GDP in 2017. Exports, will partly decline due to protectionist policies from traditional trading partners. Further from 2018/19 sugar exports may be negatively affected by the EU sugar reforms to take effect from September 2017. However, textile exports will slightly increase as the South African economy

marginally recovers. While, food imports will decline due to recovery in the agriculture sector, fuel and capital goods imports will continue to increase.

A marginal increase in poverty is expected in 2017 as economic growth slows. The proportion of Swazis living below \$1.9 per day is anticipated to rise marginally from 38.1 to 38.2 percent between 2016 and 2017. This is at the back of slow recovery in agricultural production as the effects of drought continue to linger on. The reduced income and employment opportunities, along with increased food prices, exacerbate the poverty impact of the drought. Modest gains are expected in the medium term: the proportion of Swazis living below \$1.9 per day is expected to fall marginally to 37.9 percent in 2018 and 37.8 percent by 2019. The government recently increased cash transfers to elderly and disadvantaged people to reduce extreme poverty. This is expected to have an impact on poverty going forward.

Risks and challenges

The downside risks from the fiscal situation are high. Continued accumulation of domestic arrears could create a debt-deficit

vicious cycle. As government accumulates domestic arrears, companies that conduct business with government suffer and this affects their ability to pay taxes. Lower taxes lead to lower revenue, resulting in further accumulation of domestic arrears and increase in fiscal deficit and debt. Further, banks' balance sheet would be negatively affected as companies will not be able to service their loans and may result in increased non-performing loans. In addition, the volatility of SACU revenue may further amplify the fiscal challenges.

As the fiscal deficit is estimated to remain large, financing pressures might affect both debt sustainability and macroeconomic stability. Using the foreign reserves to finance the deficit may threaten the currency peg and continued reliance on domestic credit poses a risk of crowding out the private sector. Tight fiscal conditions and uneven recovery of agriculture across the country pose an additional threat to poverty reduction efforts. Fiscal consolidation is therefore needed to create an enabling environment for inclusive growth and shared prosperity.

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	4.2	1.5	1.3	0.9	1.9	1.8
Private Consumption	1.0	3.6	0.0	5.1	3.1	5.0
Government Consumption	24.3	1.7	9.5	7.0	9.6	9.8
Gross Fixed Capital Investment	4.9	7.0	3.7	-6.7	-3.1	-4.5
Exports, Goods and Services	9.9	0.4	2.0	2.1	2.5	3.8
Imports, Goods and Services	4.2	-5.0	4.3	5.0	4.9	4.5
Real GDP growth, at constant factor prices	4.5	1.2	1.1	0.7	1.9	1.8
Agriculture	3.4	4.1	-2.7	-0.3	5.0	3.1
Industry	1.0	0.4	1.5	3.1	2.6	2.9
Services	7.3	1.3	1.7	-0.8	0.7	0.7
Inflation (Consumer Price Index)	5.7	5.0	7.8	7.5	5.2	5.2
Current Account Balance (% of GDP)	4.1	10.8	0.9	0.1	1.5	2.8
Fiscal Balance (% of GDP)	-1.1	-4.5	-12.3	-8.2	-4.9	-3.0
Debt (% of GDP)	14.6	16.4	18.7	21.5	23.0	24.0
Primary Balance (% of GDP)	-0.3	-3.2	-10.9	-6.6	-3.1	-1.6
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	38.1	38.1	38.1	38.2	37.9	37.8
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	60.3	60.3	60.3	60.4	60.1	60.0
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	79.3	79.3	79.3	79.4	79.1	79.0

Sources: World Bank, Macroeconomics and Fiscal Management Global Practice, and Poverty and Equity Global Practice.

Notes: f = forecast.

(a) Calculations based on 2009-HIES. Nowcast: 2014 - 2016. Forecast are from 2017 to 2019.

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