

# SWAZILAND

**Table 1** **2015**

Population, million	1.1
GDP, current US\$ billion	3.5
GDP per capita, current US\$	3126
Poverty rate (\$1.9/day 2011PPP terms) <sup>a</sup>	42.0
Poverty rate (\$3.1/day 2011PPP terms) <sup>a</sup>	63.1
Gini Coefficient <sup>a</sup>	51.5
School enrollment, primary (% gross) <sup>b</sup>	114.3
Life Expectancy at birth, years <sup>b</sup>	48.9

Sources: World Bank WDI and Macro Poverty Outlook.

Notes:

(a) Most recent value (2009)

(b) Most recent WDI value (2014)

*GDP is expected to contract by some 0.9 percent in 2016, the weakest performance in 34 years, and a falloff from 1.7 percent-age growth in 2015. The decline in output during the year is tied to persistent drought, currency depreciation, and weak regional economic conditions. 2016 wage increases in the context of declining revenues threaten fiscal sustainability. And the persistence of drought poses further significant food and water security risks, and is expected to increase poverty given that the majority of the population depend on agriculture for their livelihood.*

## Recent developments

Swaziland's economic growth declined to 1.7 percent in 2015 from 2.7 percent in 2014. This was driven by declining SACU revenues, adverse weather conditions caused by the El Nino phenomenon, and poor regional economic performance, especially in South Africa. The 2015 economic decline in South Africa, the major export destination for Swaziland, weighed negatively on textile exports.

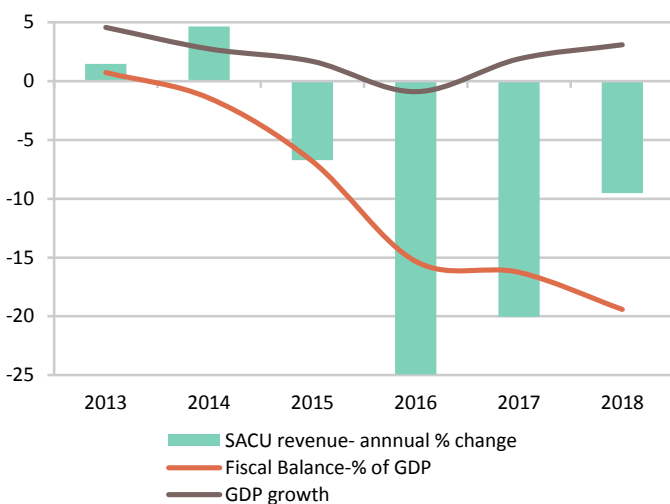
The weak economic environment, together with persistent drought conditions slowed poverty reduction in the country. Three in four Swazis live in rural areas making agriculture their main source of livelihood. As a result, the adverse weather conditions have limited poverty reduction, with the poverty rate at the international extreme poverty line of \$1.9 per day in 2015 stagnating at 39.4 percent, compared to 39.5 percent in 2014. Further, with a Gini coefficient of 49.5, inequality is high and indeed rising in rural areas. The labor force participation rate is lower among women (46 percent) compared to men (55.3 percent). And at 28.1 percent, the unemployment rate is high, exacerbated by skills mismatch and a high HIV/AIDS prevalence rate of 27.7 percent among adults. The bulk of employment is in low value added activities, particularly in subsistence agriculture, contributing to relatively high poverty rates.

The fiscal deficit has been on an upward trend, from 1.4 percent of GDP in FY2014/15 to 6.8 percent in FY2015/16,

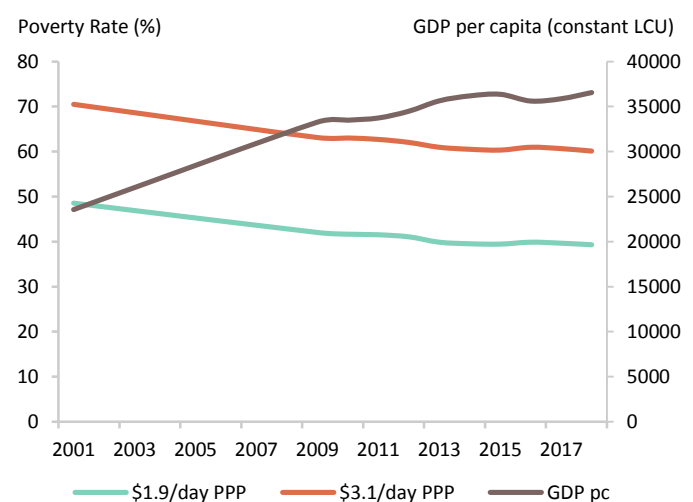
amid falling Southern African Customs Union (SACU) revenues (see figure 1). The July 2016 salary review resulted in a minimum 17 percent salary increase for civil servants and 32 percent for politicians; an additional E850 million to government expenditure in 2016. Total public debt stood at 16 percent of GDP for the second quarter of 2016- up from 14 percent in the first quarter of the year.

The current account surplus narrowed by 1.4 percent of GDP in the first quarter of 2016, from 4.2 percent in the third quarter of 2015. This development is driven mainly by a decline in exports (falling 15.3 percent in the first quarter), linked to a drop in soft drink concentrates and textiles. Overall, the BOP registered surplus during the first quarter of 2016, at about 0.5 percent of GDP. International reserves averaged 4.1 months of import cover from January to July 2016, slightly above 3.6 months estimated for the whole of 2015. However, current international reserves are lower than the regional target of six months.

Swaziland's monetary policy is closely interlinked with that of South Africa. The lilangeni is pegged at par to the South African rand, which is also legal tender in the country. The scope to use monetary and exchange rate policy is therefore limited by its membership in the Common Monetary Area. In May 2016, the Central Bank increased the bank rate from 6.5 percent to 7 percent, matching the repo rate of South Africa, and helping to mitigate capital outflows to South Africa. However, the increase further pushed the prime lending rate to 10.5 percent in the

**FIGURE 1 Swaziland / Fiscal balance and SACU revenue**


Sources: World Bank staff calculations and Central Statistics Office.

**FIGURE 2 Swaziland / Actual and projected poverty rates and GDP per capita (constant LCU)**


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

second quarter from 10 percent in the first quarter of 2016. Private sector credit growth at the end of 2015 was -0.2 percent and averaged 0.7 percent in the first six months of 2016. Swaziland's inflation rate remained the highest among the Common Monetary Area members at 7.5 percent on average. Inflation pressures are driven by rising food prices as a result of the prevailing drought and depreciating exchange rate.

## Outlook

Swaziland's economic outlook is weak, as drought and depressed regional prospects continue to weigh on growth. GDP is expected to decline by 0.9 percent in 2016, as sugar production, one of the major export earners, is viewed to drop by 25 percent; maize by 64 percent, and electricity generation by 23 percent. Swaziland's main trading partner, South Africa, is projected to grow by only 0.4 percent in 2016, a rate that presents risks to already declining SACU revenues and Swaziland's textile exports. The fiscal situation is expected to deteriorate further, as the impact of the 2016 salary review and falling SACU revenues take stronger effect, with the budget deficit widening to 15.3 percent of GDP in

2016. SACU revenues are projected to decrease to E5.3 billion, representing a significant 25 percent decline between FY2015/16 and FY2016/17.

The current account surplus should continue to compress during the remainder of 2016, amid an increase in grain imports, and a decline in exports-especially of textiles. The falloff in exports is expected to be cushioned by the depreciating exchange rate. Further, the manufacturing sector continues to suffer from the loss of the country's African Growth and Opportunity Act (AGOA) trade benefits since January 2015.

As a result of these weak economic prospects, poverty and inequality are expected to remain critical challenges as growth of disposable income and job creation slows. The international extreme poverty (\$1.9 per day) rate is projected to remain near 39 percent through to 2018 (see figure 2 and table 2). The 2016 Swaziland Drought Assessment Report concluded that water sources declined by 50 percent which resulted in a reduction of 64 percent in crop production in the FY2015/16 season and an increase in the number of vulnerable people by 68 percent in 2016. Further, the drought is expected to exert more inflationary pressure on food prices: the inflation outlook is expected to continue at an elevated level,

averaging 8 percent in 2016, and easing to below 6 percent only by 2018. This will affect the poor who spend a very high share of their total expenditures on food.

## Risks and challenges

The fiscal situation poses significant risks in the short and medium terms. Fiscal risks emanating from the 2016 wage increases and declining SACU revenues might cause a crisis similar to the 2010/11 fiscal crisis. This is compounded by the persistent drought as well as low growth in South Africa. The Swazi government initiated some measures to overcome these challenges by raising domestic revenues and stimulating growth through capital spending. However, such policy is unlikely to succeed because SACU revenues are expected to remain low in the foreseeable future and the expected impact of capital spending on growth may be less-than expected. Nominally, the fiscal deficit is in large measure domestically financed and may hamper private sector growth, while the accumulation of double-digit fiscal deficits will rapidly elevate public debt.

**TABLE 2 Swaziland / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2013	2014	2015	2016 f	2017 f	2018 f
<b>Real GDP growth, at constant market prices</b>	4.6	2.7	1.7	-0.9	1.9	3.1
Private Consumption	2.9	-0.5	1.0	-1.0	2.8	4.9
Government Consumption	6.9	-1.2	11.2	-2.7	-0.3	12.9
Gross Fixed Capital Investment	8.3	12.0	-76.4	5.7	122.5	-1.4
Exports, Goods and Services	8.9	11.0	5.7	3.9	6.0	6.0
Imports, Goods and Services	-1.6	0.0	1.6	4.5	3.0	9.2
<b>Real GDP growth, at constant factor prices</b>	4.6	2.7	1.7	-0.9	1.9	3.1
Agriculture	3.6	-4.5	7.4	-8.1	8.1	7.0
Industry	3.8	4.9	1.1	-2.1	2.2	3.1
Services	5.3	2.1	1.5	1.0	0.9	2.6
<b>Inflation (Consumer Price Index)</b>	5.6	5.7	5.0	8.1	6.2	5.5
<b>Current Account Balance (% of GDP)</b>	5.2	3.2	9.7	1.3	6.2	8.2
<b>Fiscal Balance (% of GDP)</b>	0.7	-1.4	-6.8	-15.3	-16.3	-19.4
<b>Debt (% of GDP)</b>	14.7	15.1	24.2	31.9	43.9	72.7
<b>Primary Balance (% of GDP)</b>	1.5	-0.5	-5.4	-13.1	-13.7	-15.9
<b>Poverty rate (\$1.9/day PPP terms)<sup>a,b,c</sup></b>	39.9	39.5	39.4	39.9	39.6	39.3
<b>Poverty rate (\$3.1/day PPP terms)<sup>a,b,c</sup></b>	61.0	60.5	60.3	61.0	60.7	60.1

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) Projections are from 2013 to 2018.