

# SWAZILAND

Table 1	2015
Population, million	1.1
GDP, current US\$ billion	4.1
GDP per capita, current US\$	3625
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>	114.4
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 (2013)

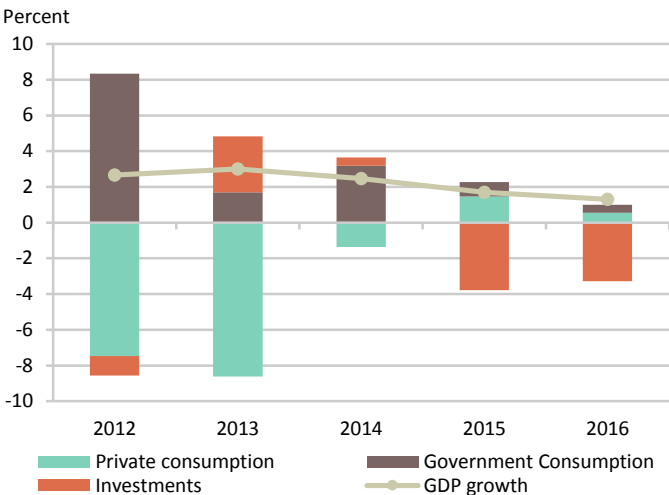
Economic growth in Swaziland is estimated to have decelerated to 1.7% in 2015 down from 2.5% in 2014, and is forecasted to further decline to 1.3% in 2016. This is partly due to adverse weather conditions and a gloomy regional economic outlook. A marginal recovery is expected in 2017 and 2018 with 1.4% and 1.6% real GDP growth forecasts, respectively. Declining Southern Africa Customs Union (SACU) revenues pose fiscal challenges. As a result of poor macroeconomic conditions, poverty rates are expected to remain high while labor conditions remain weak.

## Recent developments

Recent real GDP growth slowed to 1.7% in 2015 from 2.5% in 2014, on the back of declining SACU revenues, adverse weather conditions and poor regional economic outlook especially in South Africa. The manufacturing sector suffered from the loss of the country's African Growth and Opportunity Act (AGOA) trade benefits in January 2015, and the textile industry was characterized by retrenchments. Despite significant improvements in domestic revenue collection as a result of tax reforms including the new VAT refund at border posts with South Africa, the fiscal deficit widened to 3.6% of GDP in 2015/16 (the fiscal year starts April 1) on the back of declining SACU revenues (which constitute about 48% of Swaziland revenue) and rising recurrent expenditures especially the wage bill. SACU revenues are estimated to have fallen to 13.3% of GDP in 2015/16 from 15.3% in 2014/15. The external sector position moderated in 2015. The current account surplus narrowed to 0.4% of GDP in 2015 down from 4.4% in 2014, while international reserves rose slightly to 3.6 months of import cover in 2015 from 3.5 in 2014. This is above the international accepted minimum threshold of 3 months of import cover but below the government's medium term target of 5-7 months of imports. The current account decline was cushioned by increased exports of textiles to South Africa following the depreciation of the Rand.

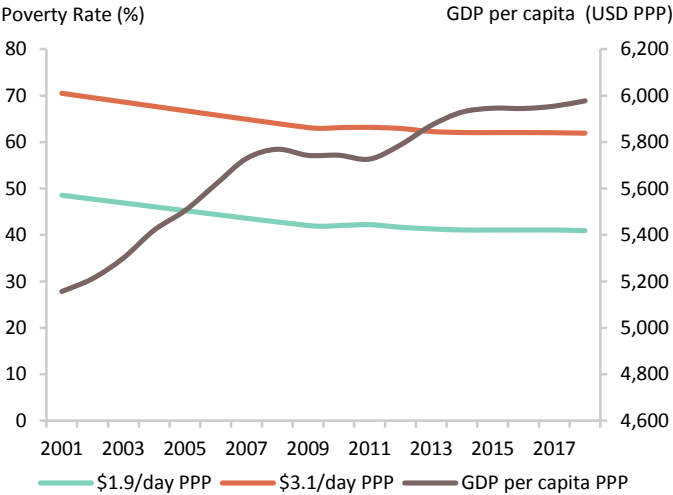
Inflation remained below the upper bound threshold of 6% in 2015, and averaged 5% in 2015. The decline in international commodity prices kept inflation within the threshold while the 2015 drought exerted an upward pressure on prices. The decline in growth continued to put pressure on development challenges in Swaziland, which have not significantly improved over the past decade. 63% of Swazis lived below the national poverty line in 2010 which is relatively high for a lower middle income country. Poverty is largely a rural phenomenon: in 2010, 73% of Swazis living in rural areas were living below the national poverty line compared to 31.1% in urban areas. The adverse weather conditions are expected to further widen the gap between rural and urban poverty. Using the international extreme poverty line of \$1.9 per day suggests that an estimated 41.1% of Swazis were poor in 2015 compared to 42.0% in 2010. With a Gini coefficient of 51.5, inequality is high and actually increased in rural areas between 2001 and 2010. Swaziland's labor markets suffer from low labor force participation rates and high unemployment, exacerbated by skills mismatches and a high prevalence of HIV/AIDS (27.7% among adults). The bulk of employment is in low value added activities, particularly in subsistence agriculture and low value added services. Government accounts for a large share of employment, with the private sector lacking the vibrancy to create employment opportunities to support faster poverty reduction.

FIGURE 1 Swaziland / Contribution to annual growth



Source: World Bank staff calculations.

FIGURE 2 Swaziland / Actual and estimated poverty rates (%) and GDP per capita (PPP)



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

## Outlook

Swaziland's economic outlook is expected to continue on a downward path particularly in the short term. Real GDP growth is projected at 1.3% in 2016 down from 1.7% in 2015. This is due to downside risks emanating from weak economic prospects for South Africa and the expected continued drought conditions in 2016. The country is facing the worst drought in 35 years, and the country has already lost over 44,000 cattle since January 2015. South Africa is projected to grow by only 1% in both 2016 and 2017, a growth rate that presents downside risks to already declining SACU revenues and prospectively to Swaziland's textile exports to South Africa. SACU revenues are projected to decrease to E5.3 billion in 2016/17 from E6.9 billion received in 2015/16, representing a 22% decline year on year.

The budget deficit is expected to deteriorate in the short term as revenue falls, and public recurrent expenditures especially on wages increase. The external sector is expected to deteriorate, as exports fall due to the slowdown in South Africa's economy and the effects of expiration of AGOA qualification, the major export destination of Swaziland.

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 down. The international extreme poverty (\$1.9 per day) rate is forecasted to remain near 41% through to 2018. The prolonged drought is expected to increase rural poverty, as three out of four households depend on subsistence farming. Further, the drought is expected to exert inflationary pressure on food prices: the inflation rate is projected to breach the upper bound threshold of 6% in 2016, with early year warnings already showing the buildup of food and non-alcoholic beverages prices at 6.6% in January 2016 up from 5.2% in December 2015. This will negatively affect the poor who spend a disproportionately higher share of their total expenditure on food. Limited access to borrowing through financial markets is expected to continue to compromise the poor and vulnerable ability to adequately cushion themselves from the weak economic conditions.

## Risks and challenges

The economic outlook for Swaziland remains poor, in line with broader concerns

for South Africa and the SACU region. Lower SACU transfers and exports to South Africa are expected. There is no scope for public sector stimulus, and a rationalization of expenditures in line with the fall in SACU transfers is needed, particularly with respect to the public wage bill. Postponed implementation of the salary review would help in this regard, as well as improved focus on the quality of spending and coordination of social protection programs, together with adjustments to their design and implementation.

Swaziland needs to step up efforts to increase investment especially in the private sector. This is crucial for stimulating growth and job creation which is key to higher, inclusive economic growth needed to tackle the challenges of high poverty, inequality, and unemployment. To promote private investment, there is need to implement policies that address human capital challenges, improve the regulatory environment and ease of doing business (currently ranked 105 out of 189 countries). Private investment is central to export diversification that will build resilience to external shocks such as the one emanating from expiration of AGOA.

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

(annual percent change unless indicated otherwise)

	2013	2014	2015 e	2016 f	2017 f	2018 f
<b>Real GDP growth, at constant market prices</b>	3.0	2.5	1.7	1.3	1.4	1.6
Private Consumption	-12.1	-2.3	-4.3	-7.0	-8.0	-9.5
Government Consumption	5.5	10.1	2.4	1.3	1.5	1.5
Gross Fixed Capital Investment	26.2	3.4	25.1	28.6	17.8	13.4
Exports, Goods and Services	2.4	6.6	5.5	5.0	6.0	6.5
Imports, Goods and Services	5.7	3.6	5.1	4.8	4.4	4.0
<b>Real GDP growth, at constant factor prices</b>	1.8	1.9	2.4	2.6	2.8	3.0
Agriculture	2.3	2.6	-1.8	-2.9	10.7	5.0
Industry	-3.0	-2.9	3.6	4.2	-11.9	-5.5
Services	4.7	4.5	2.6	2.7	9.7	6.5
<b>Inflation (Consumer Price Index)</b>	5.6	5.7	5.0	5.9	6.1	6.0
<b>Current Account Balance (% of GDP)</b>	7.0	4.4	0.4	-2.4	-1.8	-2.4
<b>Fiscal Balance (% of GDP)</b>	0.6	-2.1	-3.6	-4.3	-6.8	-2.3
<b>Debt (% of GDP)</b>	15.1	13.9	13.2	15.9	17.6	23.4
<b>Primary Balance (% of GDP)</b>	1.3	-0.7	-1.4	-1.7	-2.8	0.5
<b>Poverty rate (\$1.9/day PPP terms)<sup>a,b,c</sup></b>	41.3	41.1	41.1	41.1	41.1	40.9
<b>Poverty rate (\$3.1/day PPP terms)<sup>a,b,c</sup></b>	62.3	62.0	62.0	62.0	62.0	61.9

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 constant PPP.

(c) Projections are from 2013 to 2018.