SOUTHERN AFRICAN CUSTOMS UNION

SACU MEMBER STATES ECONOMIC PERFORMANCE: 2010

A FRAGILE ECONOMIC RECOVERY

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1 OVERVIEW OF INTERNATIONAL AND REGIONAL DEVELOPMENTS

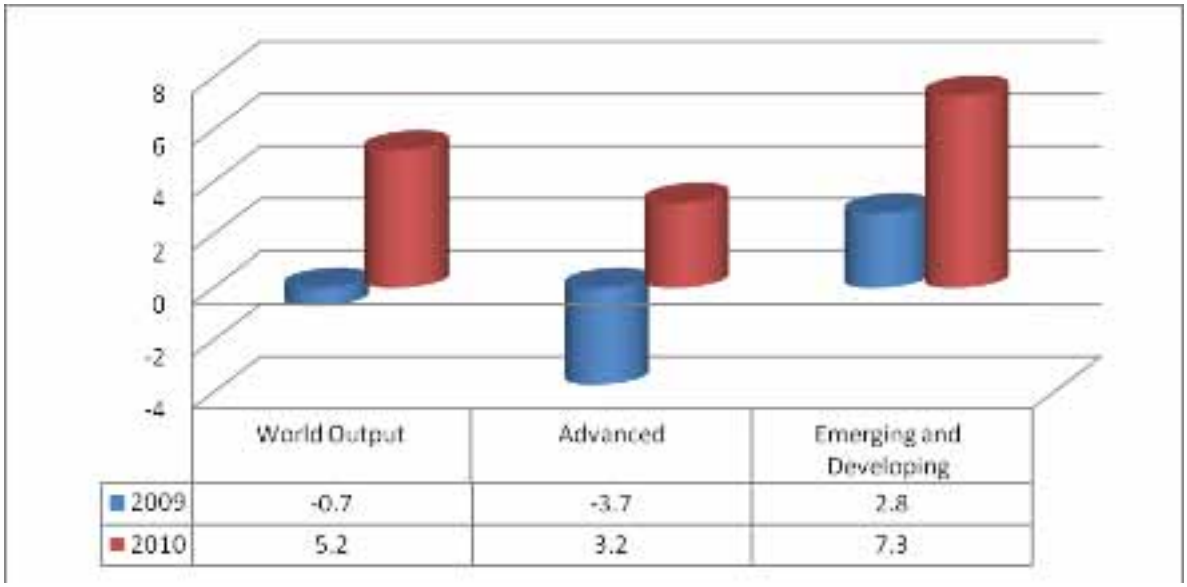
1.1 Following two consecutive years of the global economic and financial crisis, signs of economic recovery emerged in 2010. According to the International Monetary Fund (IMF) January 2012 World Economic Outlook (WEO), the world output grew by 5.2 percent in 2010 from a contraction of 0.7 percent recorded in 2009 as shown in **Graph 1**. During the same period, the advanced economies grew by 3.2 percent from a contraction of 3.7 percent whilst emerging and developing economies grew by 7.3 percent from a positive growth of 2.8 percent realised in 2009. The expansion in the world economy was underpinned by continued policy support and accelerated economic recovery in the emerging economies.

1.2 Economic growth in the major advanced economies was spurred by strong consumption, investment and increased manufacturing performance. The United States economy grew by 3.0 percent whilst the Euro Area grew by 1.9 percent. In the Euro Area, Spain is the only country that experienced a negative growth of 0.1 percent whilst Germany grew by 3.6 percent; Japan and the United Kingdom grew by 4.4 percent and 2.1 percent respectively whilst Canada grew by 3.2 percent. Economic recovery in the advanced economies continued to be fragile with incidences of increasing unemployment, fragility in financial conditions, debt crisis contagion particularly in Euro Area and an overall unfavourable business confidence.

1.3 The economic activity in emerging and developing economies was buoyant, reaching 7.3 percent in 2010. China, India and Brazil grew rapidly and contributed significantly to the overall improved economic performance. In particular, China grew by 10.4 percent, India grew by 9.9 percent whilst Brazil grew by 7.5 percent; ESEAN-5[1] grew by 6.9 percent. The growth in the emerging economies was supported by resurgent capital inflows due to export demand, increased consumer demand and accommodative economic policies. However, there were signs of overheating in some emerging economies as indicated by rapid credit growth and rising asset prices.

[1] Indonesia, Malaysia, Philippines, Thailand, and Vietnam

Graph 1: World Economic Performance



Source: IMF January 2012 WEO

1.4 In the African continent, Sub-Saharan Africa recovered well from the economic crisis and grew by 5.3 percent in 2010 compared to a 2.7 percent growth rate experienced in 2009; with South Africa, the major economy in Southern Africa, registering 2.8 percent growth. The economic revival was mainly driven by robust domestic demand, high commodity prices and accommodative macroeconomic policies. The economic recovery was robust across the low-income and oil producing countries but modest in middle-income countries dominated by South Africa. Whilst the output growth was higher in Sub-Saharan Africa, it did not translate into jobs, especially among the youth.

1.5 The IMF October 2011 Regional Economic Outlook (REO) showed that inflation in Sub-Saharan Africa dropped from 8.4 percent realised in 2009 to 6.9 percent in 2010 as shown in **Table 1** below. However, the increase in global food and fuel prices amplified by drought, has resulted in increased expenditure to finance humanitarian assistance, particularly in the Horn of Africa. As a result, inflation hiked to 9.4 percent in 2011 and is expected to drop to 6.8 percent in 2012.

Table1: Sub-Saharan Africa Macroeconomic Aggregates

	2009	2010	2011*	2012**
Real GDP growth	2.7	5.4	5.2	5.8
Inflation	8.4	6.9	9.4	6.8
% of GDP				
Fiscal balance excl grants	-6.7	-5.3	-3.1	-2.1
Current account balance	-2.2	-2.0	0.7	-0.5
Reserves (months of imports)	5.1	4.5	5.1	5.6

Source: IMF 2011 REO; * is an estimate ** is a projection

1.6 In line with the global economic recovery, SACU economies experienced positive growth mainly spurred by revived consumer demand. The recovery was supported by accommodative macroeconomic policies, high commodity prices and structural reforms. The profound economic crisis necessitated SACU Member States to pursue expansionary fiscal policies. Four Member States are also members of the Common Monetary Area (CMA) and to some extent, pursued similar monetary policies. Consequently, inflation rates remained low and stable, partly as a result of accommodative monetary policies.

1.7 The main challenge confronting the SACU economies is the translation of economic growth to inclusive growth particularly among the youth. Another challenge is the ability to improve and sustain domestic revenue especially among the Botswana, Lesotho, Namibia and Swaziland (BLNS) Member States. All Member States have responded to the plight of rising unemployment by establishing youth funds for the purpose of promoting self-employment and supporting small and medium enterprises.

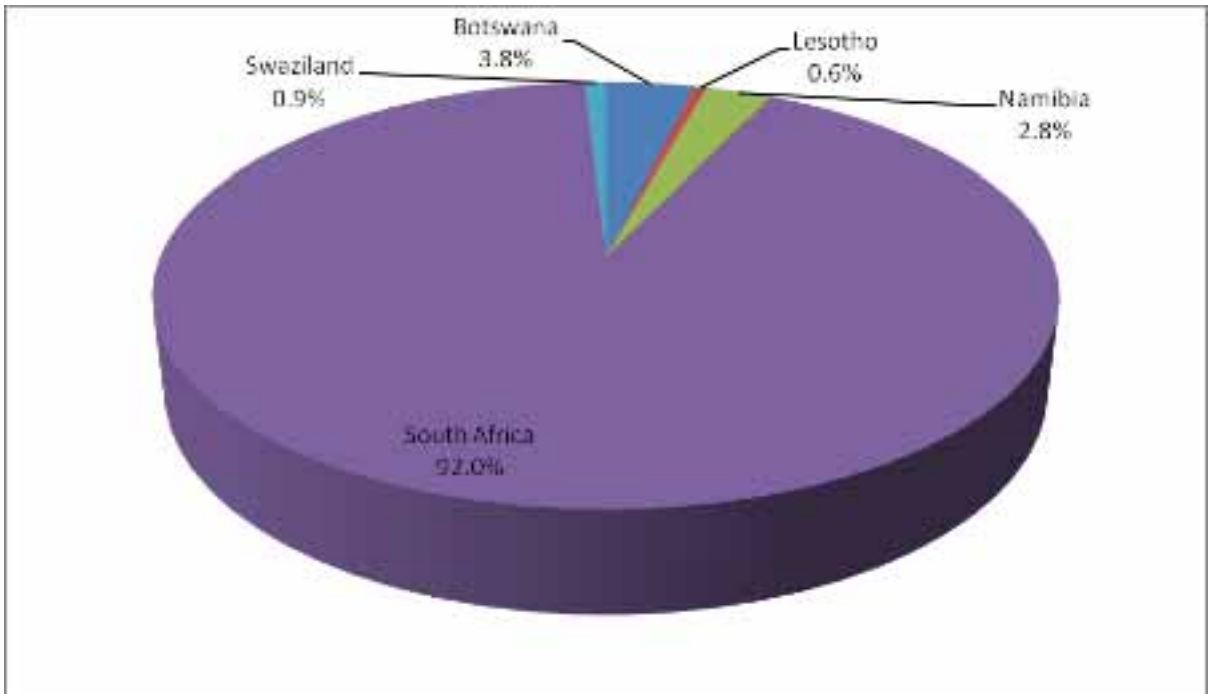
1.8 Furthermore, all the Member States have embarked on expansionary fiscal policies to cushion the effects of the economic crisis and stimulate growth. However, the increased expenditure has resulted in large fiscal deficits which would require sustainable financing. In recognition of possible increases in financing requirements, Member States continue to pursue prudent debt management strategies.

2 MEMBER STATES ECONOMIC PERFORMANCE

REAL SECTOR DEVELOPMENTS

2.1 In real terms, SACU economies grew by 4.8 percent in 2010 from a contraction of 0.6 percent realised in 2009. This performance is reflective of economic rebound among SACU Member States following the global economic crisis of 2008 and 2009. On average, the improved performance for the region was mainly driven by Botswana's economy which grew by 7.2 percent whilst Namibia grew by 6.6 percent. The slow recovery in Swaziland and South Africa reduced overall growth prospects in the region. Overall, SACU economies are mainly driven by export-led industries like manufacturing and mining, particularly in commodities like diamonds, gold, and platinum. The South African economy contributes 92 percent of SACU GDP and has a large industrial base and serves as a trade hub in the region as shown in **Graph 2** below.

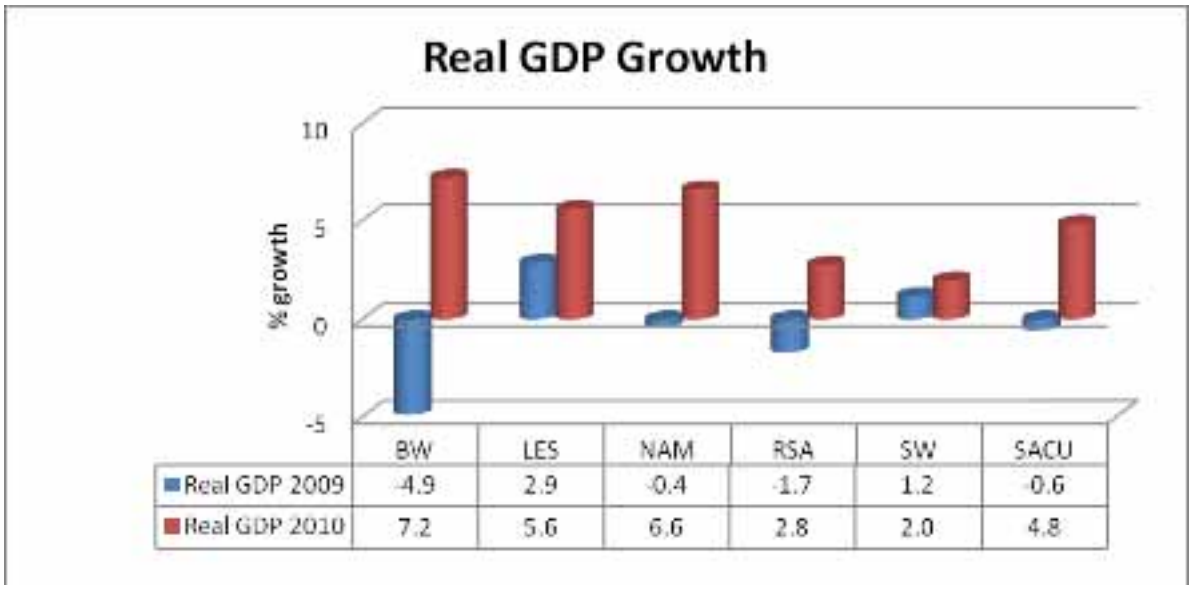
Graph 2: 2010 GDP at Market Prices



2.2 The Botswana economy rebounded from a contraction of 4.9 percent recorded in 2009 and grew by 7.2 percent in 2010 mainly driven by a boom in the mining sector. Mining grew by 7 percent in 2010 from a contraction of 21.0 percent whilst non-mining grew by 7.3 percent. The mining sector which accounts for 30.3 percent of total GDP, was hard hit by the economic crisis triggering the country's poor economic performance in 2009. The secondary sector also recovered from a contraction of 4.8 percent to a positive growth of 6.6 percent in 2010 whilst the tertiary sector grew by 7.3 percent from a 1.4 percent recorded in 2009.

2.3 The Lesotho economy grew by 5.6 percent from 3.1 percent recorded in 2009 mainly driven by good performance in the secondary sector. Manufacturing remains the biggest contributor to the overall secondary sector with the textile and clothing sub-sectors accounting for 62.3 percent of the value added of the secondary sector. The primary sector registered a positive growth of 4 percent in 2010. The secondary sector grew by 4.2 percent in 2010 mainly as a result of an increase in construction activities undertaken by the Government. Manufacturing recovered moderately in 2010, registering a growth of 7.9 percent from a contraction of 6.6 percent experienced in 2009. The tertiary sector registered a positive growth of 4.6 percent as a result of improved output in financial intermediation, public administration and real estate.

Graph 3: Member State Economic Growth Rates



Source: MS Statistical Offices;

2.4 The Namibian economy grew by 6.6 percent in 2010 from a contraction of 0.4 percent realised in 2009. The mining sector, which is the largest contributor to GDP, was worst hit by the global economic crisis due to its reliance on external demand. Mining output contracted by 41.5 percent in 2009 and rebounded in 2010, showing a positive growth of 24.6 percent. Agricultural output showed a modest decline from 0.6 percent realised in 2009 to 0.4 percent whilst fishing output contracted by 5.2 percent from a positive growth of 4.4 percent realised in 2009. Manufacturing grew by 9.1 percent from 5.6 percent realised in 2009 whilst construction recovered from a negative growth of 3.1 percent recorded in 2009 to 10.8 percent in 2010. However, hotel and restaurants worsened in 2010 registering a decline of 8.2 percent from a contraction of 2.0 percent recorded in 2009. Growth in the tertiary sector was modest.

2.5 The South Africa economy is anchored on the manufacturing and mining industries and in real terms, the economy grew by 2.8 percent in 2010. Mining and quarrying output increased by 5.8 percent from a contraction of 4.2 percent recorded in 2009 as global demand for raw materials recovered along with the global economy; agricultural output grew by 0.9 percent from a contraction of 3.0 percent realised in 2009. Manufacturing grew by 5.0 percent in 2010 following a sharp contraction of 10.4 percent experienced in 2009 mainly driven by increased production of motor vehicles, petrochemicals and basic iron and steel. The construction sector grew sluggishly by 1.5 percent in 2010 from 9.5 percent and 7.4 percent growth registered in 2008 and 2009 respectively. The modest growth in the construction industry was due to the winding down of construction related activities for the 2010 FIFA World Cup. The growth in the tertiary sector continues to be supported by general government, even though

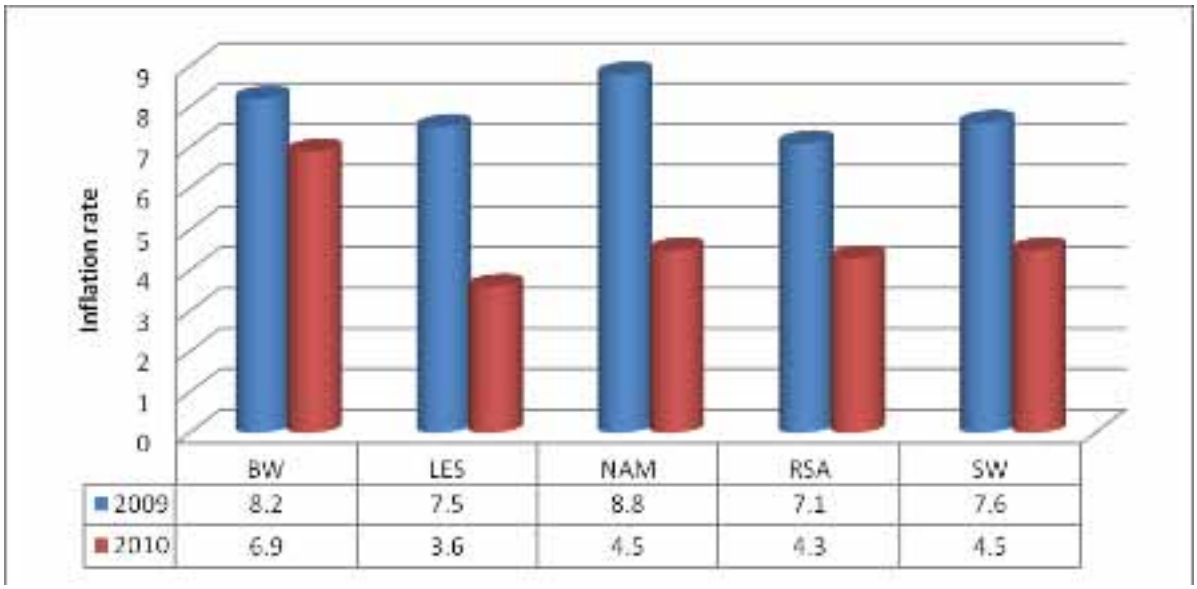
there was a marginal decline in growth from 4.1 percent realised in 2009 to 3.0 percent recorded in 2010.

2.6 Following the global economic crisis, the Swaziland economy depicted moderate recovery in 2010 with the official estimates showing that the economy grew by 2.0 percent from a sluggish growth of 1.2 percent experienced in 2009. In the primary sector, agricultural output grew by 1.6 percent in 2010 following good rains and increased irrigation capacity. The mining sector, mainly comprising anthracite coal and quarried stones, recorded a negative growth since 2007 but due to coal mining prospects, the mining sector grew by 16.3 percent in 2010. The manufacturing sector, which is the mainstay of the economy, showed a modest improvement registering -0.7 percent growth from a contraction of 2.0 percent in 2009. Growth in this sector was mainly driven by the rebound of the global economy which led to the increased demand for the domestic exports including beef and soft drink concentrates. Nonetheless, the closure of the country's major pulp mill in 2010 negatively impacted the performance of the manufacturing sector. The construction sector regained momentum in 2010 attributable to the private and other major public infrastructure developments. The tertiary sector grew moderately, particularly financial intermediation and public administration even though this sector faces challenges in the wake of fiscal crisis.

PRICE DEVELOPMENTS AND INTEREST RATES

2.7 All SACU Member States except Botswana are members of the Common Monetary Area (CMA) and their respective national currencies are pegged to the Rand. As a result, the four Member States follow similar monetary policy as in South Africa including the decisions on interest rates even though interest and inflation rates are also subject to national economic developments. The Botswana monetary policy is consistent with the monetary policies in the CMA given that the sole mandate of all the central banks is price stability. Therefore, all the central banks use the appropriate tools to keep inflation in check even though some external factors, like increasing global food and fuel prices exert inflation pressures beyond the economic capacity of the national economies. Botswana pursues a medium-term inflation objective, set at a range of 3-6 percent whilst South Africa pursues inflation targeting framework with a range of 3 – 6 percent.

Graph 4: Member States 2010 Inflation Rates



2.8 Inflation in SACU economies followed a downward trajectory as a result of low international food and oil prices as well as strong macroeconomic fundamentals in the CMA, particularly the strong Rand which is pegged to member country currencies. However, Botswana inflation recorded 6.9 percent in 2010 which was outside the upper band of the inflation objective range largely because of an increase in Value Added Tax (VAT) from 10 percent to 12 percent in 2010 as well as an increase in other administered prices.

2.9 Likewise, SACU Central Banks use interest rate to contain inflation. In 2010, monetary policy eased amidst low and stable inflation. In particular, the Bank of Botswana decreased the bank rate from 10.0 percent registered in December 2009 to 9.5 percent in December 2010; Lesotho's Lombard facility[2] rate dropped from 11.67 percent realised in 2009 to 10.50 percent in 2010 Namibia's repo rate was reduced to 6.0 percent in December 2010; South Africa's repo rate was reduced three times to 5.5 percent; whilst Swaziland repo rate fell to a lowest rate of 5.5 percent in December 2010.

BALANCE OF PAYMENTS

2.10 The state of economic affairs in the wake of the economic recovery necessitated more capital outflows which did not match the inflows into the SACU economies.

[2] The Central Bank of Lesotho does not have a domestic inflation target nor an official bank rate (repo rate) at which it would buy government securities. The central bank uses a Lombard rate, set for overnight accommodation for commercial banks. The Lombard rate tracks changes in South African interest rates in order to reduce capital outflows. The Central Bank of Lesotho adjusts its Lombard rate so that it is in line with interest-rate developments in South Africa

In that regard, overall balance of payments for all Member States were in deficits. The current accounts were also in deficits due to a decline in SACU transfer particularly for the BLNS Member States except for Namibia which registered a marginal surplus of N$80 million as shown in **Graph 5 and Table 2** below. The financial accounts were also in deficits except for South African and Swaziland which registered a surplus of R69.8 billion and E845 million respectively whilst capital accounts registered surpluses.

2.11 Botswana's current account deficit widened to P5.1 billion from P3.9 billion recorded in 2009 mainly driven by deteriorating position in services, merchandise trade, income and net transfer accounts. The capital account, which mainly constitutes capital grants and transfer of migrants assets, registered a surplus of P129 million which was a reduction from P639 million surplus realised in 2009. The financial account registered an outflow amounting to P2.2 billion compared to inflow of P5.4 billion recorded in 2009.

South African Reserve Bank Monetary Policy Decisions in 2010

Subdued inflationary pressures experienced in 2010, allowed the Monetary Policy Committee (MPC) to adopt an accommodative monetary policy stance in order to stimulate the economy for a speedy recovery. In 2010, the repo rate was reduced three times by a cumulative 150 basis points to 5.5 percent.

On 26 January 2010, the MPC kept the repo rate unchanged at 7 percent;

On 25 March 2010, the MPC reduced the repo rate by 50 basis points to 6.5 percent;

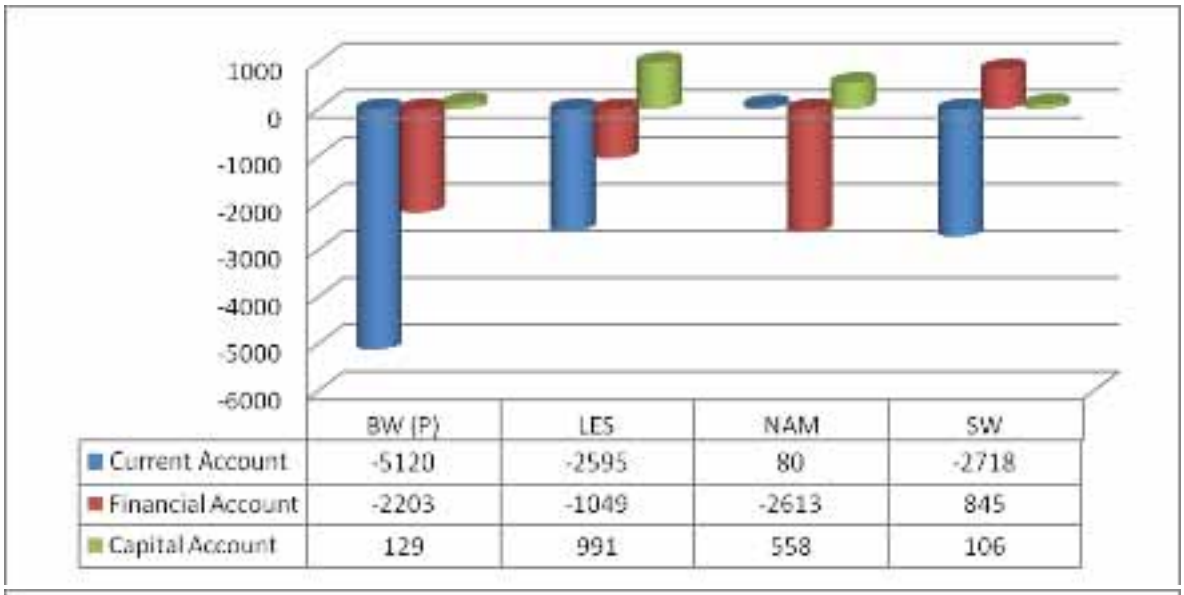
On 13 May 2010, the MPC kept the repo rate unchanged at 6.5 percent;

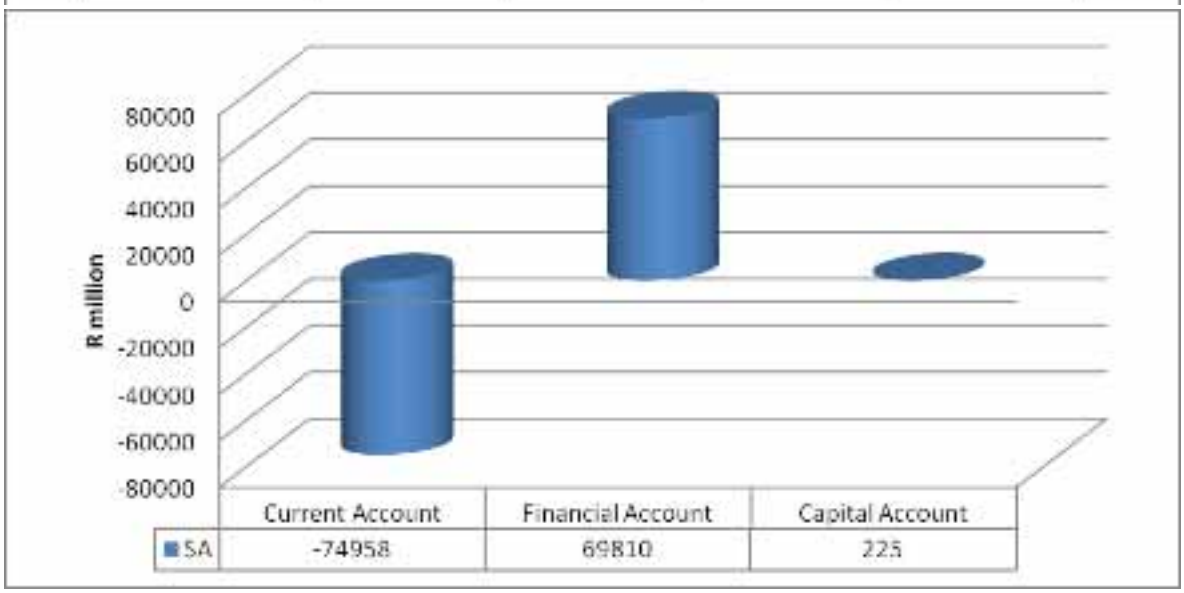
On 22 July 2010, the MPC kept the repo rate unchanged at 6.5 percent;

On 9 September 2010, the MPC reduced the repo rate by 50 basis points to 6.0 percent; and

On 18 November 2010, the MPC reduced the repo rate by 50 basis points to 5.5 percent.

Graph 5: Balance of Payment Accounts: 2010





2.12 Lesotho's external sector position deteriorated in 2010 and the current account deficit widened from M130 million recorded in 2009 to M2.6 billion, equivalent to 17.5 percent of GDP. This was mainly as a result of lower than expected current transfers, particularly SACU revenue as well as a drop in labour income emanating

from Basotho mineworkers. The financial account recorded an outflow of R1.0 billion whilst the capital account registered a net inflow of R991 million.

Table 2: Balance of Payments:2010

	(in millions)				
	Botswana (P)	**Lesotho**	**Namibia**	**South Africa**	**Swaziland****
Current Account	-5,120	-2,595	80	-74,598	-2,718
Merchandise trade	-1,200	-8,003	-6,131	-27,208	-1,097
Services	-6,142	3,536	589	-32,481	-2,930
Income	-1,417	4,046	-3,282	-52,923	-1,616
Net current transfers	3,639	4,898	9,013	-16,762	2,925
Financial Account	-2,203	-1,049	-2,613	69,810	845
Capital Account	129	991	558	225	106

** preliminary figures

2.13 Namibia's overall balance of payments recorded a deficit of N$3.8 billion with a marginal current account surplus of N$80 million from a surplus of RN$1.3 billion recorded in 2009. The deterioration in the current account was mainly driven by a decline in SACU receipts as well as capital outflow to the tune of N$2.6 billion. Export volume surged as the global demand of commodities increased although volume of imports dropped marginally. In this regard, total exports increased to N$59.6 billion whilst import declined to by 2.5 percent to N$35.7 billion.

2.14 South Africa registered a current account deficit to the tune of R75 billion equivalent to 2.8 per cent of GDP which marked an improvement from the deficit of R97.1 billion representing 4.1 per cent of GDP in 2009. The improvement in the current account deficit was principally driven by a revival in external demand for domestically produced goods and favourable terms of trade. The deficit in net service, income and transfer payments to the rest of the world narrowed in 2010 to R102.2 billion. Capital inflows rebounded in 2010 amid supportive financial environment and reached R106 billion even though slightly lower than R113.9 billion recorded in 2009.

2.15 Preliminary data shows that Swaziland's overall balance of payments recorded a deficit of E1.3 billion in 2010 from a deficit of E19.1 million recorded in 2009. The current account recorded a deficit of E2.7 billion which was an improvement from E3.4 billion registered in 2009. The deficit in current account is reflective of a deterioration in trade, income and service accounts even though net current transfers improved to E2.9 billion from E1.6 billion recorded in 2009. The trade

account recorded a deficit of E1.1 billion whilst income account deteriorated due to an increase in outflows of dividends and distributed profits. The capital and financial accounts registered a surplus of E591 million, a decline from a surplus of E2.3 billion recorded in 2009 due to increased net outflow which was cushioned by inflows in direct and portfolio investment. Foreign direct investment registered a net inflow of E919 million from E497 million recorded in 2009 reflective of a revived business confidence.

MONETARY SECTOR

Broad Money Supply

2.16 Botswana's broad money supply (M2) grew by 10.7 percent from a contraction of 1.3 percent realised in 2009 attributed to an increase in foreign reserves mainly from export earnings on diamond sales. Lesotho's growth in money supply as measured by M2 increased by 11.2 percent compared to growth of 9.9 percent realised in 2009. The increase in money supply is attributable to a surge in domestic credit including net claims on government. The surge in net claims on government signalled deterioration in government deposits held with the Central Bank due to the financing of the fiscal deficit.

2.17 In Namibia, broad money supply measured by M2 decelerated from 66.0 percent registered in 2009 to 9.5 percent mainly driven by contraction in net foreign assets, net claims on Central Government and claims on non-residents by commercial banks. In Swaziland, M2 grew sluggishly by 8.3 percent to E2.5 billion due to a drop in time deposits which decelerated to E8.5 billion during the last quarter of 2010.

2.18 South Africa, unlike other Member States, use broadly defined money supply (M3) to measure money supply. South Africa broadly defined money supply decelerated in 2008 during the economic crisis and reached its lowest level in February 2010. This was mainly driven by slow growth in nominal output and expenditure. However, the economic revival resulted in an increase in M3 which grew by 6.0 percent December 2010.

Table 3: Selected Monetary Aggregates

Jan - Dec 2010	% growth			
	M2	NFA	Credit Ext(Businesses)	Credit Ext(house holds)
Botswana	10.7	-16.0	8.0	10.0
Lesotho	11.2	-18.0	23.7	13.0
Namibia	9.5	-24.0	12.0	9.0
South Africa (M3)	6.0	23.0	17.0	6.0
Swaziland	8.3	-37.0	13.0	5.0

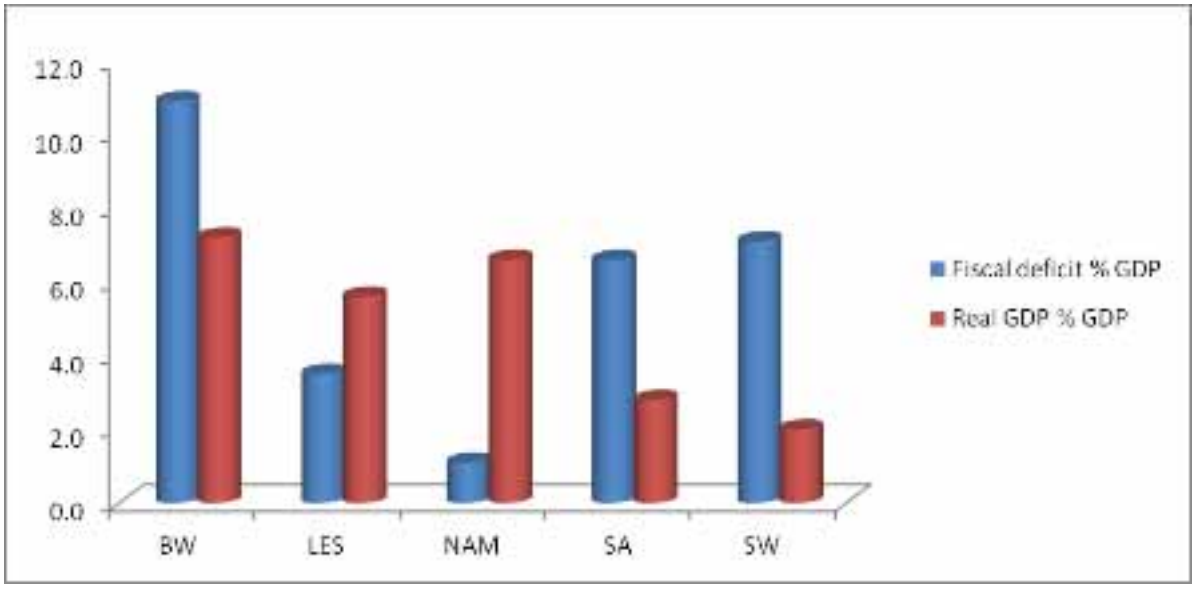
Credit Extension

2.19 In Botswana, credit extended to the private sector grew by 8 percent whilst household credit grew by 10.0 percent. The sluggish growth on credit extension partially eased inflationary pressures. In Lesotho, credit extended to households and businesses also rose by 13.0 percent and 23.7 percent respectively whilst in Namibia, credit extension to households and businesses increased by 9.0 percent and 12.0 percent respectively. In South Africa, growth in corporate and household deposits was sluggish in 2009 but moderately increased during the first half of 2010. Growth in banks' total loans and advances extended to private sector was on a downward trajectory since 2008 mainly driven by high household debt and low corporate income. However, by December 2010, credit extension to business and household recouped and grew by 17.0 percent and 6.0 percent respectively.

GOVERNMENT FINANCE AND PUBLIC DEBT

2.20 During 2009/10, all SACU Member States pursued expansionary fiscal policies in order to stimulate their economies from the effects of the economic recession. Botswana recorded the highest fiscal deficit of 10.9 percent of GDP whilst Namibia recorded the lowest deficit of 1.1 percent of GDP. However, the Botswana economy grew rapidly by 7.2 percent in real terms. The Swaziland economy grew sluggishly by 2.0 percent whilst the fiscal deficit remained the second highest at 7.1 percent of GDP.

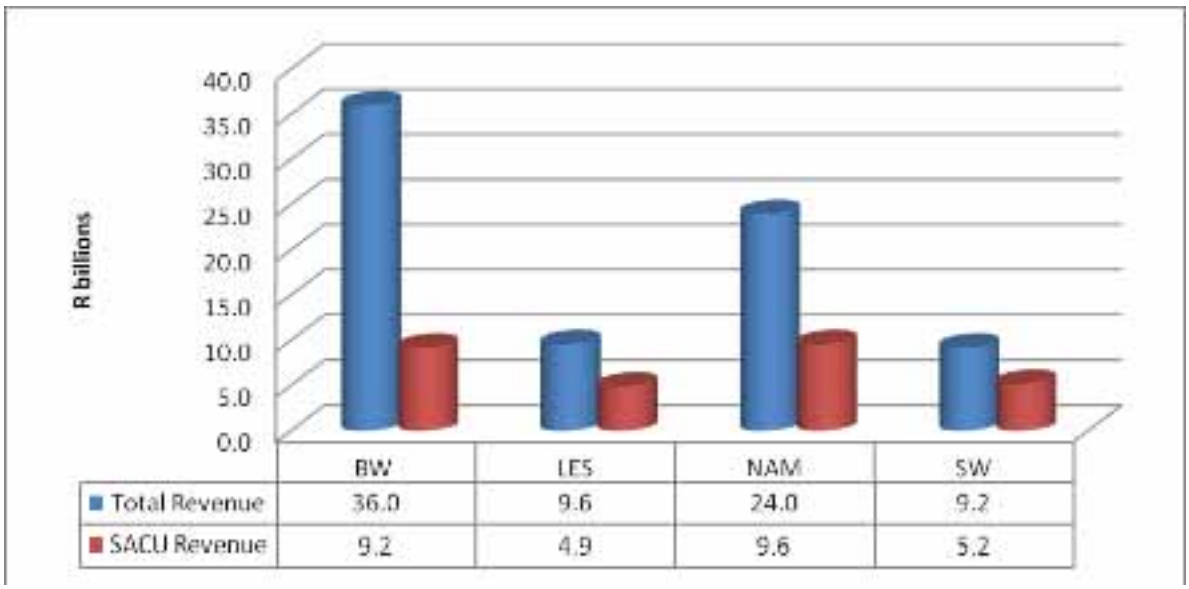
Graph 6: Fiscal Deficit in 2009/10



2.21 Among the BLNS Member States, SACU revenue plays a critical role in financing government programmes and on average, SACU revenue contributed 37 percent to total revenue during 2009/10 as shown in **Table 4 and Graph 7.** SACU revenue

is a significant contributor to Swaziland and Lesotho total revenue, of which SACU revenue contributed 56.5 percent and 51.0 percent respectively. With regard to Namibia, SACU revenue contributed 40.0 percent of total revenue, which is relatively high whilst in Botswana, SACU revenue contributed 25.6 percent to total revenue.

Graph 7: SACU Revenue Contribution to Total Revenue in 2009/10



2.22 The contribution of SACU revenue to South Africa total revenue is insignificant and in 2009/10, SACU revenue contributed 3.4 percent of total revenue and 0.9 percent to GDP. Unlike the BLNS Member States, particularly Lesotho and Swaziland, domestic tax revenue was the largest source of budget revenue and in 2009/10, tax revenue amounted to R598.7 billion, representing 90 percent of total revenue and 24.4 percent to GDP.

Table 4: SACU Revenue Contribution in 2009/10

	BW	LES	NAM	SA	SW
Total Revenue	36.0	9.6	24.0	664.8	9.2
SACU Revenue	9.2	4.9	9.6	22.7	5.2
SACU % of Total Revenue	25.6	51.0	40.0	3.4	56.5
SACU Revenue as % GDP	8.5	30.6	11.8	0.9	19.3

2.23 Botswana's total revenue including grants amounted to P30.0 billion, which was P2.2 billion higher than the original budget. The improved outturn was mainly driven by more than expected mining output and revived domestic consumption. Total expenditure and net lending amounted to P39.5 billion compared to P41.3 billion, of which recurrent expenditure accounted for 65 percent of the total expenditure, equivalent to P25.7 billion whilst development expenditure amounted to P13.0 billion. Botswana formulated a debt strategy and limited government debt to 40 percent of GDP allocated equally between domestic and

external debt. As at March 2010, total outstanding debt stock amounted to P18.8 billion, disaggregated as P6.2 billion for domestic debt (6.8% of GDP) and P12.2billion (12.5% of GDP) for external debt as shown in **Table 5.** The drawing down of the African Development Bank (AfBD) loan and multilateral loans to finance infrastructure projects increased external debt portfolio which was nearing the 20 percent threshold and as such, the government increased the domestic borrowing to finance the fiscal deficit and subsequently boost the domestic capital market by issuing government bonds.

Table 5: 2009/10 Fiscal Aggregates

	In billions				
	BW (P)	**LES**	**NAM**	**SA**	**SW**
Total Revenue incl grants	30.0	9.6	24.0	664.3	9.2
Total Expenditure	39.5	10.0	24.9	826.6	11.0
Fiscal Balance	-9.5	-0.4	-0.9	-121.3	1.8
% of GDP	10.9	3.5	1.1	6.6	7.1
Total Debt Stock	18.8	5.5	12.9	805.0	3.8
Domestic	6.2	0.7	10.0	705.5	1.3
Foreign	12.6	4.8	2.9	99.5	2.5
Debt as % of GDP	17.8	36.8	14.8	33.0	14.4

2.24 In Lesotho, total revenue including grants amounted to M9.6 billion whilst total expenditure amounted to M10.0 billion. Domestic revenue increased as a result of Income Tax and VAT collections, which grew by 5.7 percent and 16.6 percent respectively. Total expenditure increased, particularly recurrent expenditure which grew by 11.5 percent. In financing the fiscal deficit, total debt increased by 5.1 percent as a result of issuance of domestic bonds in the last quarter of 2010. As a percentage of GDP, public debt stood at 36.8 percent, disaggregated as 31.6 percent of GDP for external debt whilst domestic debt constituted 5.2 percent of GDP. It should be noted that Lesotho's debt to GDP ratio is the highest in SACU although it remains below the 60 percent sustainability threshold. Most of Lesotho's external debt is contracted on concessional terms.

2.25 Namibia's implementation of fiscal policy is guided by the fiscal rules which strive to maintain macroeconomic stability over the Medium Term Expenditure Framework (MTEF). In 2009/10, expenditure and fiscal deficit benchmarks were adjusted upwards to consolidate expansionary fiscal policy. As a result, total revenue and grants amounted to N$24.0 billion, showing a marginal increase of 2.6 percent from N$23.4 billion recorded in 2008/09. Total expenditure increased by 31.1 percent to N$24.9 billion and it is expected that the average expenditure will reach 29.7 billion during 2010/11 – 2012/13 MTEF. In financing the fiscal deficit, domestic debt increased to N$10.0 billion, constituting almost 77 percent of total debt whilst external debt reached N$2.9 billion.

2.26 South Africa pursued countercyclical fiscal policy to support economic growth and attain sustainable macroeconomic stability. Despite the impact of the economic crisis, social and infrastructure spending increased. Total revenue amounted to R664.9 billion which was equivalent to 27.2 percent of GDP, of which tax revenue amounted to R598.7 billion, representing 90 percent of total revenue and 24.4 percent to GDP. In pursuit of national development and transformation goals as outlined in the MTEF, total expenditure increased to R826.6 billion, of which provincial expenditure amounted to R305.5 billion. Over the medium term, it is expected that R811.2 billion would be spent on public sector infrastructure programme with an annual growth averaging 4.7 percent. Issuance of bonds remains the primary source of financing the fiscal deficit over the medium term. On average, domestic debt contributes 88 percent to total debt whilst foreign debt contributes 12 percent. As at March 2010, domestic debt amounted to R705.5 billion whilst external debt amounted to R99.5 billion.

2.27 Swaziland's fiscal position was adversely affected by the economic crisis, which necessitated the formulation of a Fiscal Adjustment Roadmap (FAR). The FAR outlines short to medium term strategies to address fiscal challenges as well as to mitigate the impact of the economic crisis. In 2009/10, total revenue amounted to E9.22 billion compared to E9.63 collected in 2008/09. Total expenditure amounted to R11.04 billion, of which E8.7 billion was recurrent expenditure and E2.6 billion was capital expenditure. Of the recurrent expenditure, wages and salaries amounted to E4.4 billion representing 50.6 percent, whilst goods and services; and subsidies and transfers amounted to E2.3 and 1.7 billion respectively. Total public debt amounted to E3.78 billion, of which foreign debt stock amounted to E2.54 billion whilst domestic debt amounted to E1.2 billion. Domestic debt surged as a result of the issuance of 5-year bonds and the introduction of 182-day treasury bills.

3 ECONOMIC OUTLOOK

3.1 The global economy continues to be fragile although moderate growth is expected in the medium term. The economic recovery is threatened by the unresolved Euro Zone sovereign debt crisis and uncertainty over bank recapitalisation. Furthermore, slow economic growth in the US poses risks to the world outlook. Given the economic developments in the Euro Zone and anaemic growth in the US, the IMF January 2012 WEO revised downwards, the global output to a moderate growth of 3.3 percent in 2012 and 3.9 percent in 2013. Developing economies are expected to grow faster than the advanced economies but the slow global output and rising risks may hamper their growth potential. Nonetheless, the Euro Zone Leaders are working to resolve the debt crisis, abating possibilities of another crisis.

3.2 SACU Member States were adversely affected by the economic crisis and the current global economic developments may worsen the fragile recovery. Notwithstanding the worsened fiscal position in all the economies in 2009/10, the economic outlook is positive and the fiscal and external position is expected to improve in the medium term. Member States economies' are projected to grow moderately in the medium term. However, Swaziland is currently faced with a fiscal crisis and as a result, the IMF has estimated real GDP growth to fall to 0.3 percent in 2011. It is however, anticipated that the effective implementation of Fiscal Adjustment Roadmap (FAR) and an increase in SACU revenue, will alleviate the crisis.

3.3 Global inflation is moderating due to weak demand and this has contributed to a decline in food and commodity prices. As a result, interest rates have been kept low in the region to continue stimulating economic growth. However, uncertainty remains with respect to oil prices, which are affected by geopolitical factors that may exert inflationary pressure in the medium term.

3.4 Botswana's economic outlook is positive as indicated by increasing output in the mining sector. The economy is expected to grow by an average of 7.0 percent in the medium term mainly driven by the mining sector. Given the favourable economic growth, it is expected that revenue will outpace expenditure, resulting in an average budget surplus of 1.7 percent of GDP in the medium term. Likewise, Lesotho's economic outlook is positive and the economy is expected to grow by 4.2 percent in 2012/13. The Government undertook measures to consolidate macroeconomic stability and entered into the IMF Extended Credit Facility to support economic programs aimed at moving towards a stable and sustainable macroeconomic position.

3.5 In Namibia, the economic projections indicate a positive outlook in the medium term. In real terms, GDP is expected to grow by an average of 5.3 percent whilst the fiscal deficit is expected to average at 7.0 percent during the MTEF period. In South Africa, real GDP growth is expected to expand to an average of 4.0 percent between 2011-2013. It is expected that the fiscal deficit will average 4.6 percent during the MTEF period.

Data Sources

- Member States 2010 and 2011 Budget speeches;
- Ministry of Finance;
- Central Statistics Offices;
- Central Banks and
- Member States IMF Article IV Consultations

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