SOUTHERN AFRICAN CUSTOMS UNION

SACU MEMBER STATES

ECONOMIC PERFORMANCE

2013

THE EFFECTS OF UNEVEN GLOBAL

ECONOMIC RECOVERY

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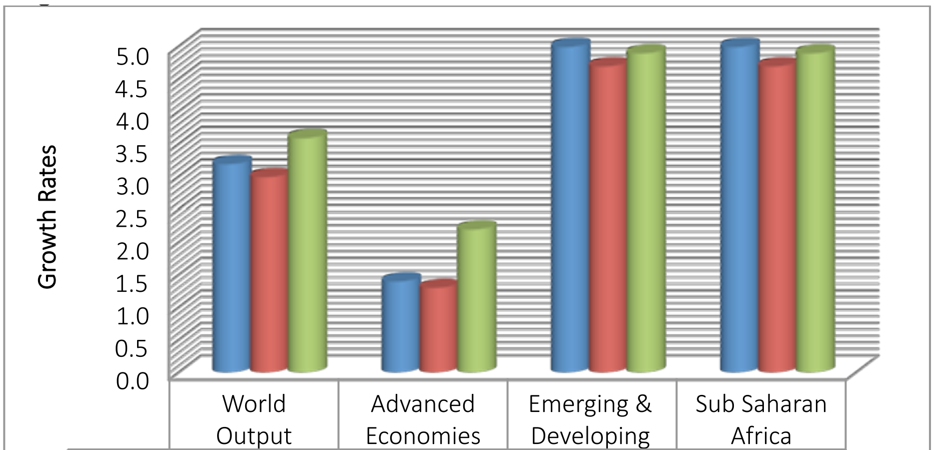
1.1 Following the financial and economic crisis, signals of economic recovery are imminent mainly supported by the advanced economies whilst growth in the emerging and developing economies is subdued. As a result, the economic recovery continue to be uneven and fragile, with some economies recovering faster whilst other economies are either on the mend or lagging behind. The economic rebound in the advanced economies, in particular the US normalisation of monetary policy through quantitative easing, has created an unconducive environment for the emerging and developing economies since they are bound to undertake difficult adjustment which may further create financial distress and dampen economic growth.

1.2 Whilst growth in the advanced economies continue to provide impetus to the global output, large output gaps have resulted in lower than expected inflation. The Euro Area is gradually recovering from sovereign debt crisis and economic recession but the possibility of deflation is threatening the economic prospects. Following the earthquake, which hit Japan in 2011, the economy is on the path of recovery. The recovery of the Japanese economy is premised on 'Abenomics' which seeks to achieve high and sustainable economic growth and abate deflation through fiscal consolidation, aggressive monetary easing and structural reforms. Japan experienced deflation for over 15 years and now prospects are that a 2 percent interest rate target will be achieved in two years.

1.3 Following economic slowdown in 2012 and a weak start in 2013, policy makers in the advanced economies managed to diffuse major global threats to economic recovery, namely, the breakup of the Euro area as well as the US fiscal cliff. However, there remains some challenges. The IMF World Economic Outlook (WEO) released in April 2014 indicates that, global economy grew by 3.2 percent in 2012 and moderately decelerated by 3.0 percent in 2013 as shown in **Figure 1**. In 2013, advanced economies grew by 1.3 percent from 1.4 percent recorded in 2012 with the US depicting an anaemic growth of 1.9 percent from 2.8 percent realised in 2012. The Euro Area remained in recession in 2013 with negative growth of 0.5 percent mainly driven by Italy and Spain, which depicted negative growth of 1.9 percent and 1.2 percent respectively although there was a moderate improvement from 2012. Japan remained on the growth path and grew by 1.5 percent compared to 1.4 percent registered in 2012. The United Kingdom, Canada and other advanced economies also depicted positive growth rates.

Figure1: World Economic Performance



	World Output	Advanced Economies	Emerging & Developing	Sub Saharan Africa
2012	3.2	1.4	5.0	5.0
2013	3.0	1.3	4.7	4.7
2014*	3.6	2.2	4.9	4.9

Source: IMF April 2014 WEO
* IMF projections

1.4 Growth in emerging and developing economies decelerated by 4.7 percent in 2013 from 5.0 percent recorded in 2012. Growth in the emerging markets, China in particular, continues to contribute substantially to the world output and the Chinese economic growth remained constant at 7.7 percent in 2012 and 2013. The growth prospects of the Chinese economy reaching 10 percent as expected may not be realised as the country is rebalancing economic growth away from investment towards consumption. In as much as the reforms have brought certainty to the economic growth path, the economy is slowing down due to among others, volatile capital flows, excessive credit and low exports. Like other emerging markets, the US Fed decision to taper quantitative easing in the second half of 2013 have resulted in the volatility of the capital markets and currency turbulences. India also depicted a slow growth from 4.7 percent in 2012 to 4.4 percent in 2013 whilst Brazil grew moderately by 2.3 percent from a subdued growth of 1.4 percent realised in 2012. On the other hand, the Russian economy grew sluggishly by 1.3 percent from 3.4 percent recorded in 2012 partly due to geopolitical instability, which were already looming in the second half of 2013.

Table1: Sub-Saharan Africa Macroeconomic Aggregates

	2011	2012	2013	2014
Real GDP Growth	5.5	4.9	4.9	5.4
Inflation	10.1	7.9	6.8	5.8
Fiscal Balance	-1.3	-2.8	-3.1	-3.0
Current Account Balance	-1.4	-3.0	-4.0	-4.0
Reserves (months of imports)	4.5	4.7	4.9	5.2

Source: IMF October 2013 REO; 2013 and 2014 are projections
Fiscal and current account balance include oil exporters

1.5 Growth in sub-Saharan Africa (SSA) remained robust although slowed down in 2012 and grew by 4.9 percent from 5.5 percent recorded in 2011 as shown in **Table 1**. Growth projections in 2013 suggest a stagnant growth of 4.9 percent although growth in the oil-exporting countries is expected to remain high at 6.1 percent. A marginal economic slowdown in 2013 was driven by adverse external environment including but not limited to subdued growth in the emerging markets, declining commodity prices and high interest rates. Beside the external factors, growth in the SSA slowed down due to supply-side constraints in some parts of the region, slow investment and weakening consumer confidence in some other countries. Inflation is on the downward trajectory since 2012 due to moderation in food and commodity prices. The infrastructural development drive in the SSA led to a surge in imports whilst exports edged down, resulting in the widening current account deficits. However, the robust economic growth in SSA failed to translate into inclusive developmental growth intended to reduce poverty and high levels of unemployment.

2 MEMBER STATES ECONOMIC PERFORMANCE

2.1 REAL SECTOR DEVELOPMENTS [1]

2.1.1 SACU economies are mainly driven by export-led industries like manufacturing and mining, particularly in commodities like diamonds, gold, and platinum. A recognition of infrastructural development as the main driver for job creation and poverty reduction across SACU Member States has resulted in a construction boom. Following an economic rebound experienced by SACU Member States in 2010, economic growth slowed down in 2011 and 2012 registering an average growth of 3.8 and 4.4 percent respectively but further declined by 4.2 percent in 2013. A decline in economic performance in the SACU economies was in line with the global economic slowdown mainly caused by the sluggish growth in the US, the Euro Area and in the emerging markets, which are the major trading partners for SACU Member States. The contagion effect of the economic slowdown had a direct impact on the performance of the SACU economies evident in the mining and manufacturing industries.

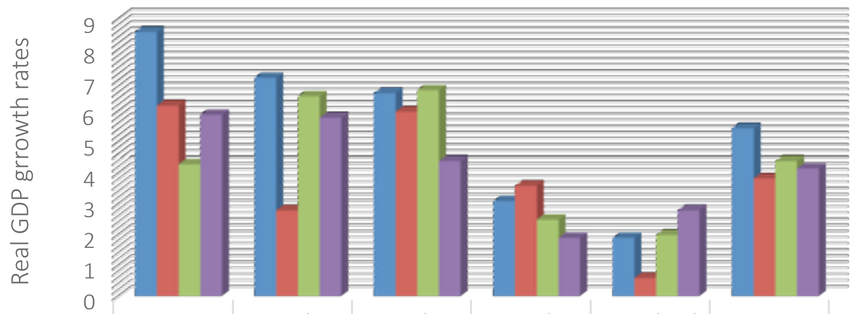
2.1.2 On average, economic growth in SACU Member States moderately slowed down in 2013 with all Member States' real economic growth rates decelerating in 2013 except in Botswana and Swaziland as shown in Figure 2. South Africa's economic growth was the lowest whilst Botswana's economy depicted relatively higher growth. The Botswana economy grew by 5.9 percent in 2013 mainly driven by the mining industry, which grew by 10.6 percent from a contraction of 7.0 percent, registered in 2012. Similarly, Swaziland economy showed signs of growth prospects following the recovery of SACU revenues as well as the effective efforts by the Swaziland Revenue Authority to broaden the tax base. Furthermore, there are economic and structural reforms aimed at boosting competitiveness

1 Botswana, Namibia and South Africa published 2013 National Accounts whilst Lesotho published 2012 National Accounts but the Ministry of Finance provided medium term estimates. Swaziland has not yet published 2012 National Accounts at the time of preparation of this report and preliminary estimates were sourced from the 2013Annual Report of the Central Bank of Swaziland as well as the 2014 Budget Speech.

and stimulating economic growth. The Lesotho economy rebounded in 2012 and grew by 6.5 percent mainly driven by the construction industry, which grew by 34.4 percent. The growth in the construction sector was boosted by private sector investment in construction of shopping malls and imminent property including the construction of the Metolong Dam. However, it is expected that the economy will decelerate by 5.8 percent in 2013 due to the sluggish growth in manufacturing industry given the uncertainty regarding the renewal of trade preference under AGOA beyond 2015.

2.1.3 Namibia's economy also slowed down and grew by 4.4 percent in 2013 mainly driven by weaker performance of the primary sector. Much as the diamond industry depicted positive growth, it grew at a slower rate compared to 23.8 percent attained in 2012. The subdued economic growth in South Africa was responsive to the slow growth in the Euro Area and in the emerging markets and was triggered by negative domestic developments including among others, persistent industrial actions, contraction in mining output, and declining commodities prices.

Figure 2: Member States Economic Growth Rates



	Botswana	Lesotho	Namibia	South Africa	Swaziland	SACU
2010	8.6	7.1	6.6	3.1	1.9	5.5
2011	6.2	2.8	6.0	3.6	0.6	3.8
2012	4.3	6.5	6.7	2.5	2.0	4.4
2013#	5.9	5.8	4.4	1.9	2.8	4.2

Source: Central Statistics Offices and projections provided by Ministries of Finance;
* 2012 figure for Swaziland is a preliminary estimate;
#preliminary estimates from central statistics offices except for Lesotho and Swaziland

2.1.4 In real terms, the Botswana economy grew by 5.9 percent in 2013 from 4.3 percent growth realised in 2012 mainly driven by the mining industry. The industry remains the anchor of the economy and its contribution to GDP increased to 22.4 percent in 2013 from 19.9 percent recorded in 2012. The mining industry grew by 10.6 percent from a contraction of 7.0 percent registered in 2012 and in particular, the diamond production increased by 12.4 percent compared to 11.9 percent growth realised in 2012. It is expected that the relocation of Diamond Trading Centre from London to Botswana would further bolster growth. Trade, hotels and restaurants grew by 6.6 percent from 5.5 percent realised in 2012 whilst transport grew sluggishly by 4 percent from 9.5 percent, and business service also decelerated by 5.6 percent from 11 percent recorded in 2012. Notable is the construction industry, which also grew sluggishly by 3.8 percent from 14.4 percent registered in 2012. Electricity and water industry has been exhibiting negative growth from 2011 and in 2013, the output contracted by 30.9 percent mainly driven by disruptions in the electricity supply.

2.1.5 In real terms, the Lesotho economy grew by 6.5 percent in 2012 from 2.8 percent recorded in 2011 mainly driven by construction which increased by 34.4 percent. The manufacturing industry, in particular, clothing and textiles remain the major contributor to the economy although its contribution is following a downward trajectory from 20.1 percent realised in 2004 to 10.3 percent registered in 2012. The uncertainties regarding the renewal of the Third Country Fabric Provision in the US, which is the destination for Lesotho exports benefiting from trade preferences under AGOA, led to a decline in output. Wholesale and retail increased by 12.3 percent from 6.6 percent realised in 2011 mainly attributed to the emergence of shopping malls whilst mining and quarrying grew by 20.8 percent, depicting a revival in the mining industry following a sluggish growth of 4.0 percent recorded in 2010. Agricultural production, in particular crop production, registered a negative growth of 0.7 percent in 2011 because of floods and worsened to a negative growth of 3.9 percent in 2012 due to drought. Preliminary estimates indicate that the economy grew moderately by 5.8 percent in 2013 in line with the global output and most importantly, due to slow growth in the manufacturing sector given that the renewal of trade preference under AGOA beyond 2015 remains uncertain. However, construction activities related to Metolong Dam, Millennium Challenge Compact (MCC) and Phase II of the Lesotho Highlands Water Project including other public investment on infrastructure, is expected to have contributed to economic growth in 2013.

2.1.6 Namibia rebased the national accounts for the period 2007-2013 at current and constant prices. The year selected as a base year is 2010 since it was the year considered as normal and also because the Household Income and Expenditure Survey was undertaken during that year. From a contraction of 1.5 percent experienced in 2009, the preliminary annual National Accounts for 2013 show that the economy decelerated in 2013 and grew by 4.4 percent, a slowdown from 6.7 percent growth experienced in 2012. The slowdown was mainly driven by a contraction of 9.3 percent in the primary industries compared to 16.7 positive growth realised in 2012. Diamond mining depicted a positive growth of 6.6 percent although it was a deceleration compared to 23.8 percent growth realised in 2012. Growth in livestock farming and crop farming contracted by 39.2 percent and 8.6 percent respectively. Secondary industries grew by 8.7 percent in 2013 from 4.3 percent recorded in 2012 mainly driven by construction, which grew, by 35.2 percent compared 7.2 percent in 2012. Tertiary industries grew by 6.4 percent, a slowdown from 8.2 percent recorded in 2012 boosted by financial intermediation, hotels and restaurants and transport.

2.1.7 The South African economy is anchored by manufacturing and mining industries. However, the tertiary sector is outpacing the manufacturing sector as the anchor of the economy and it contributed on average 19.3 percent in 2013 compared to the 17 percent in 2012. In real terms, the economy recorded a slow growth of 1.9 percent, slowest since the contraction of 1.5 percent registered in 2009 at the peak of the economic crisis but still below the potential of an annual growth rate target of more than 5 percent as outlined in the National Development Plan. The slow growth was mainly driven by a deceleration in manufacturing output, which grew sluggishly by 0.8 percent from 2.1 recorded in 2012 whilst the mining industry rebounded from a negative growth of 3.6 percent recorded in 2012 and grew by 3.1 percent. Despite the recurring industrial actions in the mining sector, the growth in the output was strengthened by the economic recovery in the advanced economies. However, the recurring labour unrest in the mining and manufacturing sector as well as the slow growth in the Euro Area including in the emerging markets, resulted in the anaemic growth. Notwithstanding an appropriate action to counter the deteriorating inflation outlook, the contractionary monetary policy stance pursued by the South African Reserve Bank (SARB) in January 2014 may compromise economic prospects.

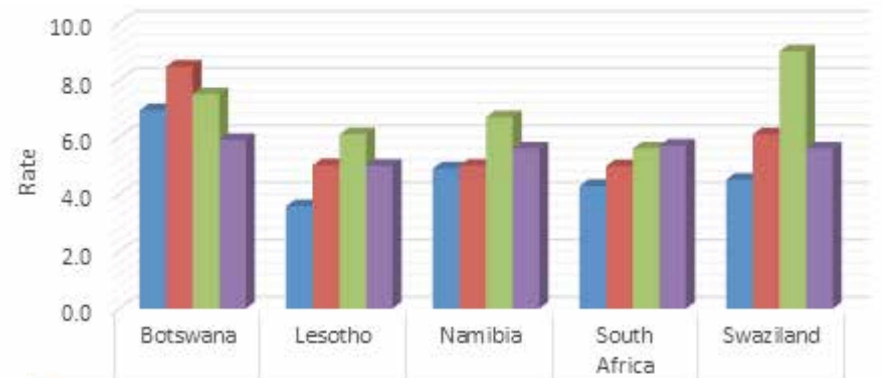
2.1.8 In 2010/11 and 2011/12, Swaziland experienced fiscal crisis due to a decline in revenue, in particular SACU revenue, which was lower than expected to finance budgetary operations. As a result, the economic growth slowed from 1.9 percent realised in 2010 and grew by 0.6 percent in 2011, significantly below the targeted average growth rate. The tertiary and secondary sectors were mostly affected due to among others, a government pay and hiring freeze; delay in payment for goods and services; the closure of a wood pulp plant; government reduction of the capital budget, which adversely affected the construction industry, and the private sector also dwindled due to loss of business confidence. However, the preliminary figures for 2012 indicate that the economy grew by 2.0 percent mainly boosted by the tertiary sector as a result of the revival of the government activities as well as the expansion of the business services. The preliminary figures for 2013 also show that the economy grew by 2.8 percent mainly boosted by the manufacturing and services sectors. Construction and communications industries grew by 9.4 percent and 8.5 percent respectively whilst agricultural output was adversely affected by heavy rains.

2.2 PRICE DEVELOPMENTS AND INTEREST RATES

2.2.1 All SACU Member States except Botswana are members of the Common Monetary Area (CMA) and their respective national currencies are pegged at par to the rand. As a result, the four Member States follow South African monetary policy stance including the decisions on interest rates even though interest and inflation rates are also subject to domestic 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.

2.2.2 In the SACU economies, inflation rate is measured as percentage change in the Consumer Price Index (CPI) followed a downward trajectory in 2013. Average annual inflation rates in all the economies were below 6 percent as shown in **Figure 3**, contrary to inflation rates recorded in 2012 which reached above 6 percent except for South Africa. The subdued economic growth, low commodity and food prices created a conducive environment to counteract inflationary pressures, which emanated from the depreciation of the currencies. However, the impact of the depreciation of the currencies became immediate on the price of fuel, which started to increase towards the end of 2013 to early 2014.

Figure 3: Member States Inflation Rates



	Botswana	Lesotho	Namibia	South Africa	Swaziland
2010	6.9	3.6	4.9	4.3	4.5
2011	8.5	5.0	5.0	5.0	6.1
2012	7.5	6.1	6.7	5.6	9.0
2013	5.9	5.0	5.6	5.7	5.6

Source: Member States Central Statistics Offices

2.2.3 In Botswana, inflation followed a downward trajectory from an annual average of 8.5 percent realised in 2011 to 5.9 percent in 2013 and fell within the objective range. The downward trend was in line with subdued domestic demand and the adjustment in administered prices including the government levies, which were also muted, thus exerting less pressure. Likewise, annual inflation also declined in Lesotho from an average of 6.1 percent recorded in 2012 to 5.0 percent in 2013 whilst Namibia's annual average inflation also decreased from 6.7 percent recorded in 2012 to 5.6 percent in 2013.

2.2.4 In South Africa, headline inflation modestly increased from 5.6 percent in 2012 to 5.7 percent in 2013, leaning towards the upper end of the target. Notwithstanding the subdued economic growth, the marginal increase was mainly driven by the depreciation of the rand, which continues to pose a significant risk to the inflation outlook. In Swaziland, inflation trended downwards from the peak of 9 percent realised in 2012 to 5.6 percent in 2013 mainly driven by a decrease in food inflation.

2.2.5 The primary responsibility of the central banks is to contain inflation and ensure that the inflationary expectation are kept in check. Interest rates are therefore used as a tool to counter inflationary pressure. The central banks in SACU Member States continued to provide monetary stimuli through low interest rates with a view to stimulate economic activity. In Botswana, the Bank Rate was cut by cumulative 200 basis points from 9.5 percent (remained unchanged since December 2010) to 7.5 percent benign global low inflationary pressure, subdued domestic demand as well as positive inflation outlook. In Lesotho, the 91-day Treasury Bill rate slowed moderately from 5.4 percent in December 2012 to 5.2 percent in December 2013 in line with the Lombard Rate[2], which declined from 9.4 percent to 9.2 percent over the same period.

2 Lombard Rate is used by the Central Bank of Lesotho as a penalty to commercial banks if they don't meet the liquidity requirements. It is calculated as a Treasury Bill rate plus 400 basis points. The Treasury Bill rate is therefore the monetary policy rate.

Box 1: Rebasing of CPI Basket Weights in Namibia

In October 2013, the Namibia Statistics Agency rebased the CPI basket weights from January to October 2013 based on 2009/10 National Household Income and Expenditure (NHIES) Survey whilst inflation rates before December 2012 are based on weights derived from 1993/1994 NHIES. The revisions are shown below:

Items	Before December 2012	After December 2012
Food and non-alcoholic beverages	29.63	16.45
Alcoholic beverages and tobacco	3.26	12.59
Clothing and footwear	5.13	3.05
Housing, water, electricity, gas and other fuel	20.59	28.36
Furnishings, household and equipment and ….	5.61	5.47
Health	1.51	2.01
Transport	14.79	14.28
Communications	0.9	3.81
Recreation and Culture	2.5	3.55
Education	7.36	3.65
Hotels, cafés and restaurant	1.62	1.39
Miscellaneous good and services	7.11	5.39
All items	100	100

The average prime lending rate remained unchanged at 9.92 percent in December 2012 and 2013. In Namibia, the repo rate remained unchanged at 6.0 percent until August 2012 when it was further reduced to 5.5 percent and since then, it has remained unchanged to date. Accordingly, the prime lending rate was reduced from 9.75 percent to 9.25 percent.

2.2.6 In South Africa, despite the upside risks to the inflation outlook mainly driven by the exchange rate and wage pressures, the Monetary Policy Committee (MPC) adopted an accommodative monetary policy stance to stimulate economic output. The repo rate was left unchanged at 5.5 percent since November 2010 to May 2012 mainly due to the volatile and uncertain economic outlook as well as the upside risks. However, the repo rate was reduced by 50 basis points to 5.0 percent in July 2012 and was left unchanged to ease the strained sectors of the economy and stimulate growth until it was increased by 50 basis points to 5.5 percent in January 2014. An increase of the repo rate was in response to the deteriorating inflation outlook amidst the depreciating rand, capital outflows, current account deficit and general deterioration of economic outlook of the emerging economies as well as the turbulence in currencies. In Swaziland, the Central Bank left the discount rate unchanged at 5.5 percent since 2010 but reduced the rate to 5.0 percent in July 2012 and it has remained unchanged to date. In line with the interest rate movement, the commercial banks also reduced the prime lending rate to 8.5 percent and it has also remained unchanged to date.

2.3 BALANCE OF PAYMENTS [3]

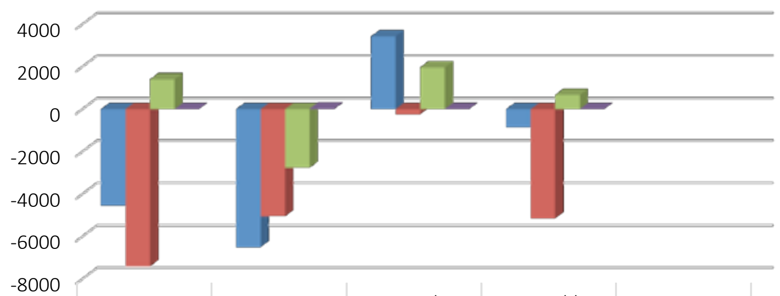
2.3.1 The preliminary estimates for 2013 indicate that Lesotho, Namibia and South Africa recorded deficits in the current account except for Botswana which recorded a surplus of P7.9 billion. According to Botswana 2014 Budget Speech, the current account surplus was mainly driven by an increase in SACU receipts as well as earnings from diamond exports, an improved performance compared to the current deficit of P5.15 billion recorded in 2012. With regard to Lesotho, a current account deficit of M405 million representing 1.9 percent of GDP indicated an improvement from a deficit of M1.95 billion, 10.2 percent of GDP, recorded in 2012. An improvement was also driven by SACU receipts. In Namibia, the current account deficit remained high at N$7.4 billion, equivalent 6.2 percent of GDP, although lower than the one registered in 2012, which was 7.5 percent of GDP. The high deficit was attributed to a widening trade

3 2013 BOP data was not yet published from Botswana, Lesotho and Swaziland. Data on 2013 BOP from Botswana was sourced from the 2014 Budget Speech and Lesotho provided a write-up based on the preliminary data.

deficit as well as large net service payments from abroad as a result of the depreciation of the Namibian dollar. In South Africa, much as the current account deficit improved in the fourth quarter of 2013 from 6.4 percent registered in the third quarter to 5.1 percent of GDP, on annual basis, the current account widened to 5.8 percent from 5.2 percent recorded in 2012.

2.3.2 In Botswana, the overall external position is estimated to have been recouped in 2013, registering an overall surplus of P4.7 billion compared to a deficit of P862 million as shown in **Figure 4.** The external position improved due to an increase in export earnings owing to a surge in sales of diamond and other mineral resources as well as an increase in current transfers boosted by SACU receipts. The improvement in the external position came at the backdrop of a deteriorated position registered in 2012, which was attributed to the decline in export earnings whilst imports increased. The current account deficit of P5.2 billion registered in 2012 was driven by the large trade account deficit, which amounted to P13.6 billion although part of it was offset by net current transfers which amounted to P12.7 billion. As the Bank of Botswana states, the large trade account deficit was driven by the alteration of the merchandise trade pertaining to the establishment of the Diamond Trading Centre, which resulted in a surge of diamond imports from other countries to Botswana before being re-exported to the United Kingdom. However, the sales activities were transferred to Botswana in 2013. Net transfers increased due to the SACU receipts whilst service and income accounts registered deficits. The capital account registered insignificant transfers since it has been revised to record only transfers by migrants whilst grants are now classified under current transfers. The financial account registered a lower surplus in 2012 due to a decline in direct investment.

Figure 4: Botswana Balance of Payments Accounts (P millions)

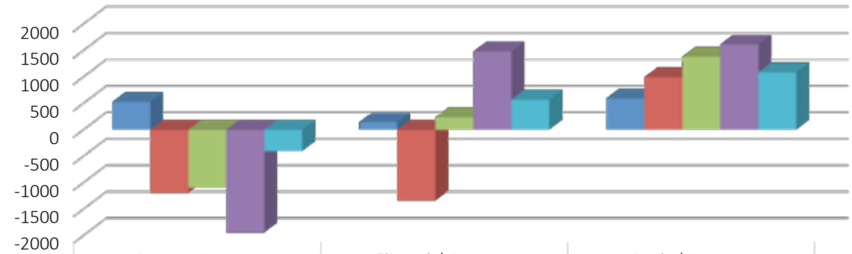


	2009	2010	2011*	2012**
Overall Balance	-4563	-6511	3430	-862
Current Account	-7412	-5054	-251	-5150
Financial Account	1409	-2766	1970	679
Capital Account	0	23	3	0

Source: Bank of Botswana
* Revised ** Provisional

2.3.3 The preliminary estimates show that Lesotho's external position improved in 2013, registering a current account deficit of 1.9 percent of GDP compared to 10.2 percent recorded in 2012. The narrowing current account deficit as shown in **Figure 5** is attributed to the current transfers as well as high-income receipts from abroad. The trade account deficit narrowed owing to the increase in exports of clothing and textiles, culminating from a recovery in orders following an extension of Third Country Fabric Provision. It remains uncertain whether trade preferences under AGOA will be extended beyond 2015. The depreciation of the local currency also boosted the export growth. However, exports of diamond fell due to the supply-side constraints, in particular, shortage of electricity supply in some mines. Notwithstanding the supply-side constraints in the mining sector, Letseng Diamond mine continued to support the mining sector. The net transfers were boosted by SACU receipts whilst the income account was boosted by large returns of the Central Bank assets. On the other hand, capital and financial account registered a lower surplus compared to 2012 mainly due to the winding down of the major capital projects, which were financed by Millennium Challenge Account (MCA) and the completion of Metolong Dam.

Figure 5: Lesotho Balance of Payments Accounts (M millions)

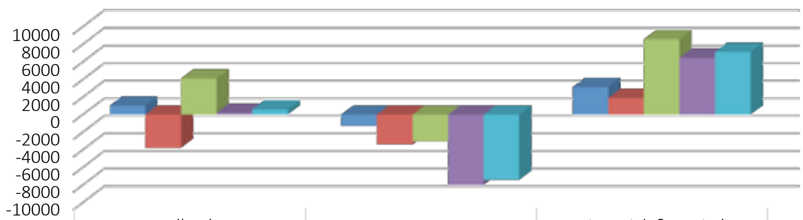


	Current Account	Financial Account	Capital Account
2009	525	142	592
2010	-1200	-1344	991
2011	-1097	235	1379
2012*	-1946	1477	1611
2013**	-405	567	1085

Source: Central Bank of Lesotho
* Revised estimate ** Preliminary

2.3.4 Namibia's overall balance of payments recorded a moderate surplus of N$598 million in 2013, a marginal improvement to the surplus of N$231 million recorded in 2012 as shown in **Figure 6**. The current account registered a large deficit of NS7.4 billion, equivalent to 6.2 percent of GDP, but smaller than a deficit of N$8.01 billion, equivalent to 7.5 percent of GDP registered in 2012. The sizable capital and financial account surplus offset the current account deficit in both years.

Figure 6: Namibia Balance of Payments (N$ millions)



	Overall Balance	Current Account	Financial & Capital Account
2009	1022	-1284	3144
2010	-3794	-3424	1897
2011	4114	-3025	8571
2012*	231	-8010	6482
2013**	598	-7433	7142

Source: 2013 Bank of Namibia Annual Report

2.3.5 The trade balance increased to N$19.2 billion as imports surged to N$64.0 billion whilst value of exports reached N$44.8 billion. High on the list of imports was fuel, motor vehicles and electrical equipment and machinery. Exports were mostly dominated by exports of minerals, which accounted for 42.7 percent of total exports, of which diamonds and uranium exports accounted for 26.1 percent. Like in the other BLS countries, current transfers were boosted by SACU receipts which increased by 19.5 percent. On the other hand, the capital and financial account recorded large net inflows attributed to net foreign direct investment and long-term investment. According to the Bank of Namibia, equity capital increased from N$4.1 registered in 2012 to N$13.8 billion mainly driven by investment in the mining sector.

2.3.6 In 2013, the current account deficit in South Africa widened to R197 billion from R164 billion registered in 2012 as shown in **Table 2**. Relative to GDP, the current account deficit widened from 5.2 percent to 5.8 percent, the largest deficit since 2009 although lower than expected as a result of the inclusion of BLNS Member States trade in the trade account. In 2013, merchandise exports increased to R854 billion from R744 billion registered in 2012. Notwithstanding the increase in the value of exports, imports also increased from R854 billion recorded in 2012 to R991 billion, resulting in a trade deficit of R74 billion. The current account deteriorated because growth in domestic expenditure supported by low interest rates, was higher than domestic production. The high import penetration ratio reflects high propensity to import capital, intermediate and consumption goods. This is further exacerbated by the major infrastructural development programme, which is expected to further boost imports of capital goods, thus machinery and electrical equipment. The services, income and transfer account marginally decreased from a deficit of R125 billion registered in 2012 to R124 billion in 2013. Notwithstanding the widening trade balance, the value of exports increased by 14 percent owing to the depreciation of the rand as well as the recovery of the global economy.

Table 2: South Africa Current Account (R billion)

	2009	2010	2011	2012	2013
Trade Balance	2.3	27.2	16.4	-39.0	-74.0
Current Account	-91.1	-75.0	-98.8	-164.0	-197.0
% of GDP	-4.0	-2.8	-3.4	-5.2	-5.8

Source: March 2014 SARB Quarterly Economic Bulletin

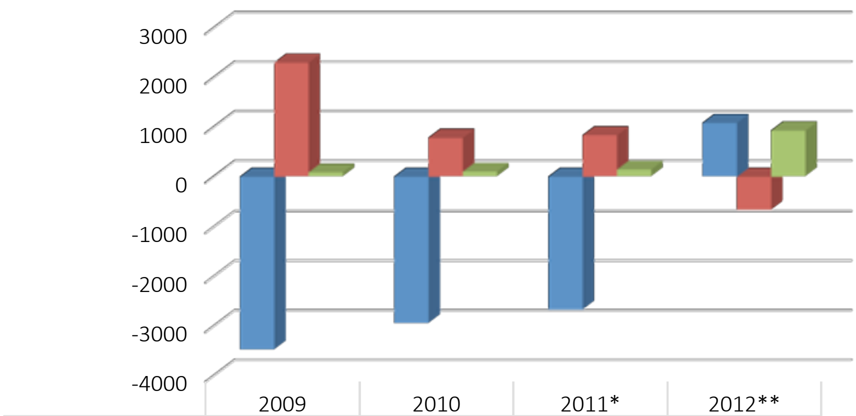
2.3.7 With regard to the financial account, South Africa like other emerging markets was adversely affected by US Fed decision to taper quantitative easing and the effect was further exacerbated by the uncertainty regarding the actual time and pace of the tapering of future bond purchases. Furthermore, business confidence was dented by labour strikes, depreciation of the rand, weak economic growth and recurring current account deficits. These international and domestic developments resulted in the reversal of portfolio flows, which were most evident in the fourth quarter of 2013 during which net capital inflows dropped to R35.9 billion from R79.9 billion recorded in the third quarter. Specifically, foreign direct investment amounted to R4.1 billion in the fourth quarter, marking a drastic decline from R47.4 billion recorded in the third quarter. Cumulatively, foreign direct investment reached R79.1 billion in 2013 compared to the inflow of R37.5 billon recorded in 2012. However, other investment and portfolio investment declined in 2013 to R49.8 billion and R14.2 billion compared to R66.8 billion and R95.1 billion registered in 2012 respectively.

Box 2: Revision of Trade Statistics by SARS

In mid-November 2013, the South African Revenue Service (SARS) announced the revision of trade statistics that entailed the inclusion of the trade data from the BLNS, which were previously excluded in the compilation of trade statistics. This follows the comprehensive modernisation of systems to incorporate international trade transactions. The revision covered trade data from 2010 to 2012 and moving forward, direct trade within the BLNS will be included in the compilation of monthly trade statistics with a view to provide accurate reflection of South Africa's trade. The revision of trade statistics led to the revision of the trade account of the balance of payments. The accurate data on the revisions were provided in the quarterly bulletin of the SARB published in December 2013.

2.3.8 Preliminary data show that Swaziland's overall balance of payments improved in 2012 and registered an overall surplus of E1.3 billion from deficit of E690 million recorded in 2011. The improved performance was mainly driven by the trade and current accounts. The current account registered a surplus of E1.08 billion from a revised deficit of E2.7 billion recorded in 2011 as shown in **Figure 7.** The current account was boosted by net transfers, which improved to a surplus of E8.01 billion from surplus of E3.85 billion registered in 2011 thus explaining factors behind the overall surplus. The trade account registered a surplus of E639.2 million from a deficit of E319.2 billion recorded in 2011 mainly driven by exports in the mining and manufacturing sectors. Total merchandise exports amounted to E15.81 billion from E13.84 billion recorded in 2011 whilst imports totalled E15.16 billion compared to E14.09 billion recorded in 2011. A drastic increase of the net transfers was mainly driven by SACU receipts, which amounted to E6.02 billion compared to E2.65 billion received in 2011. Grants also contributed to the improved performance of the net current transfers and amounted to E1.44 billion compared to E397.8 million recorded in 2011. Services account registered a deficit of E5.09 million mainly due to the services that are sourced from outside the country whilst the income account also registered a deficit attributed to outflows of profits and dividends by resident companies from abroad.

Figure 7: Swaziland Balance of Payments Accounts (E million)



	2009	2010	2011*	2012**
Current Account	-3477.5	-2946.6	-2674.5	1084.1
Financial Account	2298.6	785.2	835.5	-663.8
Capital Account	91.1	105.5	146.9	930.3

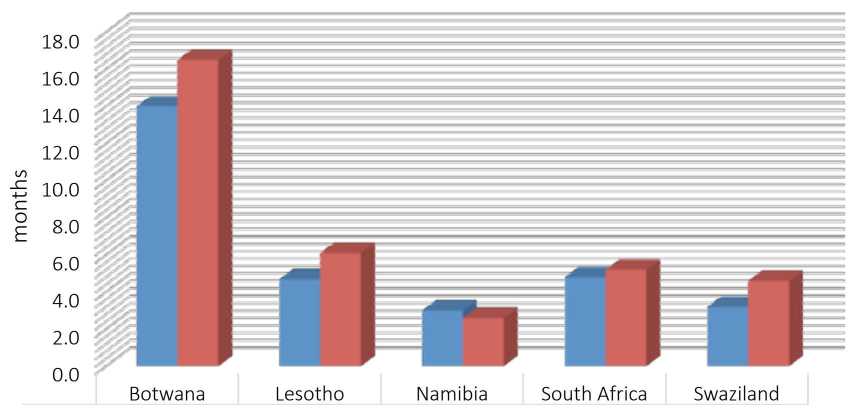
Source: Central Bank of Swaziland 2013 Annual Report

2.3.9 In 2012, the financial account registered a deficit of E663.8 million mainly due to the net outflows in the portfolio and other investments accounts whilst foreign direct investment registered a net inflow of E789.1 million, which was offset by the net outflow, resulting in a deficit. The capital account registered a surplus of E930.8 due to the capital injection amounting to E968.01 million, the highest capital ever recorded since 2007.

Reserves

2.3.10 **Figure 8** illustrates the level of international reserves across SACU Member States expressed by months of import cover. The level of international reserves expressed by months of import cover increased in 2013, except in Namibia where the level of reserves declined due to an increase in imports relative to the accumulation of reserves. In Botswana, reserves amounted to P67.6 billion equivalent to 16.5 months of import cover, increasing by 14 percent from P59.3 billion recorded in December 2012. An increase in reserves is attributed to a surge in net foreign exchange inflows as well as gains of the depreciation of Pula against major trading currencies. In Lesotho, gross official reserves increased to 6.1 months of imports in 2013, compared to 4.7 months of imports recorded in in 2012. An increase in gross reserves was supported by a higher overall fiscal surplus in 2013, which allowed government to build up its deposits and thus an increase in reserves. In 2013, Namibia stock of international reserves increased to N$15.7 billion equivalent to 2.6 months of import cover compared to 3.0 months recorded in 2013. The decline in months of import cover was mainly driven by an increase in imports, which surpassed the accumulation of reserves.

Figure 8: Level of Reserves Expressed by Months in Import Cover



	Botwana	Lesotho	Namibia	South Africa	Swaziland
2012	14.0	4.7	3.0	4.8	3.2
2013	16.5	6.1	2.6	5.2	4.6

2.3.11 The value of South Africa's gross gold and international reserves amounted to USD49.6 billion by end of December 2013, equivalent to 5.2 months of imports cover. According to the March 2014 Quarterly Economic Bulletin of the South African Reserve Bank, the level of reserves marked a decline of USD1.1 billion mainly due to lower gold price. In Swaziland, international reserves reached 4.6 months of import cover by December 2013, marking an increase from 3.2 months recorded in 2012.

2.4 MONETARY SECTOR

Broad Money Supply [4]

2.4.1 In December 2012, Botswana's broad money supply (M2) grew by 9.0 percent compared to 4.4 percent growth recorded in December 2011 mainly driven by declining government deposit and expanding credit growth. According to the Bank of Botswana, transfers increased by 24.2 percent whilst other deposits and depository compensation increased by 6.0 percent and 8.9 percent respectively. In Lesotho, real growth in money supply accelerated by 16.1 percent in December 2013 compared to 2.8 percent growth registered in December 2012. The acceleration in money supply exceeded the rate of inflation and was driven by a decline in domestic credit including claims on government whilst credit extended to the private sector increased. A decline in net claims on government was attributed to the build-up of government deposits with the central bank due to a fiscal surplus. The Net Foreign Assets (NFA) of both the Central Bank and the commercial banks increased. An increase in the NFA of the Central Bank was driven by a surge in SACU revenue and a slow execution of capital budget whilst the NFA of the commercial banks increased because of liquidity injected by government and private sector.

2.4.2 In Namibia, broad money supply measured by M2 increased by 12.8 percent in 2013 compared to a slow growth of 4.1 percent in 2012. A rapid growth was mainly driven by Net Domestic Assets (NDA), which saw robust growth in claims on individuals. On the other hand, growth in NFA was boosted by the valuation adjustment on account of the depreciation of the Namibian Dollar as well as growth claims on other depositary corporations. In Swaziland as at March 2013, M2 grew by 17.0 percent compared to 3.3 percent growth registered in 2011/12. Growth in money supply was boosted by a recovery in net foreign assets largely driven by SACU receipts and depreciation of the local currency. NFA amounted to E7.12 billion compared to E3.69 billion registered in 2011/12 and according to the Central Bank of Swaziland, an increase in NFA was recorded in both official and other depository corporations.

2.4.3 South Africa, unlike other Member States, use broadly defined money supply (M3) to measure money supply. Following sluggish growth since 2009, broadly defined money supply accelerated by 10.0 percent in April 2013 and decelerated by 6.2 percent in December 2013. The slowdown in money supply during the second half of 2013 was reflective of the slow economic growth as well as declining long-term deposits even though bond market became more attractive.

Credit Extension

2.4.4 In SACU, credit extended to households and businesses signalled divergent movements with Botswana and Swaziland trending upwards whilst in Lesotho, Namibia and South Africa, credit extension decelerated compared to the previous year. In Botswana, commercial credit grew by 23.6 percent of which lending to the business sector grew by 17.8 percent in December 2012. Year-on-year, credit extended to households grew by 28.5 percent, much higher than 18.8 percent growth realised in 2011. The share of household credit to total private commercial bank credit was 56.8 percent. In Lesotho, credit extended to businesses decelerated by 5.9 percent in 2013 from 23.0 percent recorded in 2012 whilst credit extended to households also decelerated by 30.2 percent in 2013 from 55.3 percent growth registered during the previous year. Personal loans registered a significant share of the credit extended to households followed by mortgages.

2.4.5 In Namibia, private sector credit extension (PSCE) moderated in 2013 although it remained within double-digit at 14.3 percent from 17.0 percent realised in 2012. A deceleration in PSCE was mainly driven by a decline in overdraft facility. Likewise, growth in credit extended to businesses moderated to 13.5 percent compared to 22.1 percent registered in 2012 as the overdraft repayments dwindled. In contrast, credit extended to households increased by 14.6 percent compared to 12.2 percent growth recorded in 2012 mainly driven by expansion of mortgage loans.

4 Bank of Botswana and Central Bank of Lesotho have not published 2013

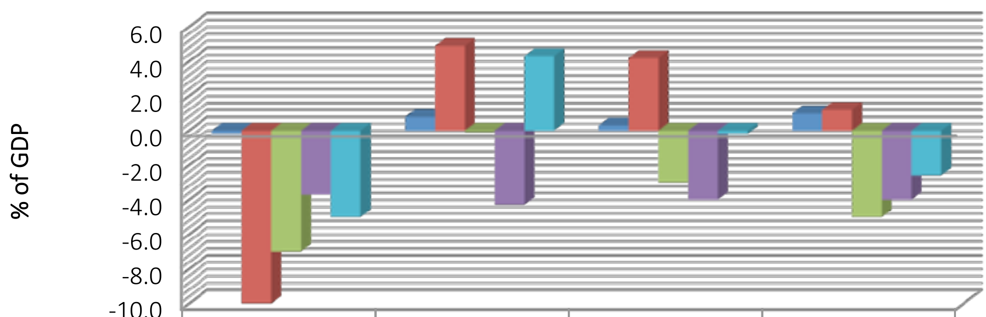
2.4.6 In South Africa, growth in banks' total loans and advances extended to private sector has been on a downward trajectory since 2008 mainly driven by high household debt and low corporate income. Year-on-year, credit extension to the private sector grew by 7.4 percent in November 2013. A slowdown in loans extended to household contributed to a weak performance of total loans and advances. Contribution of credit extended to households decreased from 74 percent in 2012 to 60 percent in 2013. In Swaziland, credit extended to private sector increased by 16.2 percent, an indicative support to the expansion of mining and manufacturing industries. Contribution of credit extended to households increased by 12.2 percent and was mainly channeled towards personal and housing finance.

2.5 GOVERNMENT FINANCE AND PUBLIC DEBT

2.5.1 The macroeconomic management of SACU Member States is prudent with sound fiscal framework and effective implementation of countercyclical fiscal policies. Swaziland experienced fiscal crisis at the height of the economic crisis, which led to significant decline in SACU revenue. In line with the global and regional economic recovery, Swaziland fiscal position has improved since 2012/13 and the ongoing implementation of fiscal reforms are expected to create fiscal space in addressing some of the socio-economic challenges whilst growing the economy.

2.5.2 Following the economic crisis, Member States pursued expansionary fiscal policies in order to stimulate their economies and as a result, experienced huge fiscal deficits in 2010/11 and 2011/12**.** Except for Botswana in 2011/12, the fiscal deficits recorded by SACU Member States exceeded the international threshold of 3.5 percent of GDP as shown in **Figure 9.** Botswana is evidently on the right path towards attaining medium term Government plan of a zero balance whilst building reserves. Lesotho has been attaining budget surpluses since 2012/13 as a result of SACU revenue and safeguarding macroeconomic stability through fiscal consolidation and rationalisation of expenditure. Namibia and South Africa have been experiencing fiscal deficits since 2010/11. However, these countries are committed to sustainable and countercyclical approach of managing revenue and expenditure whilst supporting economic recovery through fiscal consolidation.

Figure 9: Member States Fiscal Balance



	2011/12	2012/13	2013/14*	2014/15**
Botswana	-0.2	0.8	0.3	1
Lesotho	-10.0	4.9	4.2	1.2
Namibia	-7.0	-0.1	-3.0	-5
South Africa	-3.7	-4.3	-4.0	-4
Swaziland	-5.0	4.3	-0.2	-2.6

Source: 2014 Budget Speeches, Budget Strategy Papers and Fiscal Frameworks
*Projected outturn; ** budget estimate

SACU Revenue

2.5.3 Among the BLNS Member States, SACU revenue plays a critical role in financing government programmes. However, the adverse effects of the economic crisis resulted in the deficits of the CRP amounting to R9.1 billion and R9.9 billion in 2008/09 and 2009/10 respectively. Consequently, the deficits were financed by Member States from their respective revenue shares in 2010/11 and 2011/12, resulting in a significant decline in revenue shares. However, the CRP has been realising surpluses since 2010/11. In 2010/11, the surplus amounted to R9.1 billion whilst in 2011/12 and 2012/13, the surpluses amounted to R6.1 billion and R5.1 billion respectively. In accordance to the 2002 SACU Agreement, these surpluses were allocated to Member States revenue shares in 2012/13, 2013/14 and 2014/15 respectively.

2.5.4 The financing of the CRP deficit resulted in a significant decline in Member States shares, in particular, the BLNS. The share of SACU revenue to total revenue also dropped as shown in **Table 3**. In Lesotho and Swaziland, the contribution of SACU receipts to total revenue dropped from 51.0 percent and 56.5 percent realised in 2009/10 to 24.9 percent and 28.4 percent in 2010/11 respectively. In Botswana the share of SACU revenue to total revenue also declined from 25.6 percent to 16.3 percent while in Namibia the share of SACU revenue dropped from 40.0 percent realised in 2009/10 to 22.0 percent in 2010/11.

2.5.5 In South Africa, the contribution of SACU revenue to total revenue is insignificant and in 2010/11, SACU revenue contributed 3.4 percent of total revenue and 0.88 percent of GDP. Unlike the BLNS Member States, particularly Lesotho and Swaziland, domestic tax revenue is the largest source of budget revenue and in 2010/11, tax revenue amounted to R674.2 billion, representing 89 percent of total revenue and 24.5 percent of GDP.

Table 3: SACU Contribution to Total Revenue (outturn in R billion)

	2010/11*				2011/12*			
	Total Revenue	SACU Revenue	% TR	% of GDP	Total Revenue	SACU Revenue	% TR	% of GDP
Botswana	34.65	5.66	16.3	4.5	40.39	8.95	22.2	6.5
Lesotho	8.67	2.16	24.9	16.1	9.62	2.75	28.6	14.9
Namibia	23.38	5.15	22.0	7.1	29.92	7.14	23.9	7.7
Swaziland	6.95	1.97	28.4	10.0	7.27	2.88	39.6	10.0
South Africa	758.4	23.39	3.1	0.88	837.00	23.61	2.8	0.80

Source: 2014 Budget Speeches, Budget Strategy Papers and Fiscal Frameworks
*Projected outturn; ** budget estimate.

Member States Fiscal Performance

Botswana

2.5.6 In 2012/13, the actual budget outturn indicates that total revenue and grants amounted to P41.7 billion, 2 percent increase from total revenue collected in the previous year. Both tax and non-tax revenue increased although tax revenue registered a significant increase as a result of the SACU receipts which amounted to P14.03 billion, equivalent to 34 percent of total revenue. Similarly, VAT collections increased due to the increase of the tax base whilst mineral revenue dropped to approximately P12.1 billion. Total expenditure and net lending amounted to P40.7 billion driven by among others, 12.4 percent increase in the personal emolument whilst 12.4 percent of the development budget was not utilised. As a result, a marginal budget deficit of P0.36 billion, which is equivalent to a 0.8 percent of GDP, as shown in **Table 4** was attained.

2.5.7 The revised budget estimates for 2013/14 indicate narrowing budget surplus of 0.3 percent of GDP notwithstanding an increase of 9 percent of total revenue whilst total expenditure also increased by 10.6 percent from 2012/13. Total revenue is expected to reach P45.3 billion mainly boosted by SACU receipts which accounted for 31.1 percent of total revenue whilst mineral revenue is expected to contribute 30.4 percent to total revenue. Total expenditure is expected to amount to P45.04 billion of which P1.1 billion was allocated to the energy sector amidst disruption of the electricity supply.

2.5.8 It is expected that in 2014/15, a budget surplus of 1.0 percent of GDP will be achieved since the revenue is estimated to increase by 10.5 percent, reaching P50.18 billion whilst total expenditure is also expected to increase at a lower rate by 8.5 percent to P48.86 billion. An improvement in revenue will be boosted by tax and non-tax revenue, in particular, SACU receipts, mineral revenue as well as non-mineral revenue. An increase in total expenditure will be mainly driven by the Personal Emoluments, which according to the 2014/15 Budget Strategy Paper, accounts for over 30 percent of the recurrent expenditure and it is considered to be the largest expenditure item.

Table 4: Botswana Fiscal Performance (P billion)

	BW			
	2011/12	2012/13	2013/14*	2014/15**
Total Revenue	38.49	41.66	45.43	50.18
Total Expenditure	38.68	40.74	45.04	48.86
Fiscal Balance	-0.2	0.9	0.4	1.33
% of GDP	-0.2	0.8	0.3	1
Total Debt Stock	29.4	29.6	30.9	32.6
Domestic	9.5	7.6	8.6	9.6
Foreign	19.9	22.0	22.3	23.0
Debt as % of GDP	27.5	26.4	24.3	23.9

Source: Ministry of Finance and Development Planning

*revised estimates; ** estimates

2.5.9 The statutory debt limit caps the debt to GDP ratio at 40 percent allocated equally to domestic and foreign debt. In 2012/13, total outstanding debt amounted to P29.6 billion from P29.4 billion recorded in 2011/12 and it is projected to increase marginally to P30.9 billion and P32.6 billion in 2013/14 and 2014/15 respectively. Notwithstanding the marginal increases of the total debt stock, debt to GDP ratio is still within the statutory limit as shown in **Table 4.**

Lesotho

2.5.10 In 2012/13, total revenue including grants increased to M13.15 billion from M9.6 billion realised in the previous year as shown in **Table 5.** The increase in total revenue was mainly driven by SACU revenue, which amounted to M5.97 billion, contributing 45 percent to the total revenue and 30.7 percent of GDP. Income tax amounted to M2.35 billion equivalent to 12.1 percent of GDP whilst VAT amounted to M1.64 billion equivalent to 8.4 to GDP. Total expenditure amounted to M12.16 billion, of which compensation of employees amounted to M3.75 billion equivalent to 30 percent of total expenditure and 19.3 percent of GDP. Goods and services amounted to M2.36 billion contributing 19 percent to total expenditure and 12.1 percent to GDP whilst capital expenditure amounted to M4.14 billion representing 34 percent of total expenditure. Consequently, a fiscal surplus of 4.9 percent of GDP was achieved.

2.5.11 It is estimated that in 2013/14, total revenue including grants amounted to M14.2 billion whilst total expenditure reached M13.54 billion, resulting in another surplus of 4.2 percent. Total revenue increased by 7 percent mainly boosted by SACU revenue, which amounted to M6.05 billion equivalent to 42 percent of total revenue whilst income tax and VAT increased to M3.15 billion and 1.95 billion respectively. Total expenditure is projected to amount to M13.5 billion of which compensation to employees is expected to total M4.39 billion whilst goods and services would amount to M2.99 billion. Capital expenditure is projected to marginally decline to M3.92 billion. Overall, it is expected that the fiscal surplus of 4.2 percent will be realised in 2013/14.

Table 5: Lesotho Fiscal Performance (M billion)

	Lesotho			
	2011/12	2012/13	2013/14*	2014/15**
Total Revenue	9.6	13.2	14.2	15.75
Total Expenditure	11.5	12.2	13.54	15.47
Fiscal Balance	-1.9	1.0	0.7	0.3
% of GDP	-10.2	4.9	4.2	1.2
Total Debt Stock	6.8	9.7	11.5	12.1
Domestic	1.1	1.1	1.1	1.1
Foreign	5.7	8.3	9.9	10.5
Debt as % of GDP	37.3	49.8	52.2	49.3

Source: Ministry of Finance

*expected outturn; ** budget estimates

2.5.12 The budget estimates in 2014/15 indicate that total revenue will amount to M15.75 billion whilst expenditure is expected to total M15.47 billion, resulting in a fiscal surplus of 1.2 percent of GDP, lower than the surpluses realised in 2012/13 and 2013/14. SACU revenue accounts for 44 percent of total revenue equivalent to 28.7 percent of GDP whilst compensation of employees accounts for 34 percent of total expenditure estimated at M5.21 billion. Capital expenditure is estimated to increase to M5.0 billion of which government will contribute M2.98 billion and efforts are underway to increase the absorptive capacity of the budget by establishing the Independent National Monitoring and Evaluation Authority.

2.5.13 Total debt to GDP ratio reached 49.8 percent in 2012/13 and it is expected to increase to 52.2 percent of GDP in 2013/14 and decline to 49.3 percent in 2014/15. It should be noted that Lesotho's debt to GDP ratio is the highest amongst the BLNS Member States although it remains below the 60 percent sustainability threshold and most importantly, the external debt is contracted on concessional terms.

Namibia

2.5.14 Namibia's implementation of fiscal policy is guided by the fiscal rules, which strive to maintain macroeconomic stability and fiscal consolidation over the MTEF. Following the economic crisis, the government continues to pursue countercyclical but expansionary fiscal policy aimed at stimulating the economy. The expansionary fiscal stance was strengthened by the introduction of Targeted Intervention Program for Employment and Economic Growth (TIPEEG) in 2011/12 estimated at N$14.5 billion over the medium term. TIPEEG focused mainly on infrastructure and transport, agriculture, housing and sanitation and tourism, and it was aimed at creating jobs and scaling-up investment in economic and social infrastructure. TIPEEG was made possible through the countercyclical fiscal policy amidst a challenging macroeconomic environment and is expected to wind-down in 2013/14. Consequently, there have been consecutive fiscal deficits expected to increase to 5.0 percent of GDP in 2014/15.

2.5.15 In 2012/13, total revenue and grants amounted to NS37.4 billion which was 25 percent higher than revenue collected in the previous year as shown in **Table 6.** An increase in revenue was mainly boosted by an improvement in domestic revenue as well as SACU revenue. SACU receipts amounted to N$13.8 billion, which increased by almost 100 percent from NS7.14 billion received in 2011/12 and accounted for 37 percent of total revenue. Income tax amounted to N$8.9 billion whilst company tax and VAT amounted to N$5.1 billion and N$6.4 billion respectively. Total expenditure amounted to N$38.1 billion equivalent to 34.4 percent of GDP but below the fiscal cap of 40.0 percent of GDP. Operational expenditure amounted to N$32.6 billion whilst development budget amounted to N$5.6 billion from an allocation of N$6.3 billion. Subsequently in line with the fiscal consolidation, a marginal fiscal deficit of 0.1 percent of GDP, edging closer to the balanced budget, was achieved.

Table 6: Namibia Fiscal Performance (N$ billion)

	Namibia			
	2011/12	2012/13	2013/14	2014/15
Total Revenue	29.9	37.4	43.8	52.5
Total Expenditure	36.6	38.1	47.6	60.3
Fiscal Balance	-6.7	-0.7	-3.8	-7.8
% of GDP	-7.0	-0.1	-3	-5
Total Debt Stock	24.7	27.6	32.4	38.5
Domestic	17.2	17.7	20.1	28.1
Foreign	7.5	9.0	9.7	10.5
Debt as % of GDP	25.9	24.9	25.9	29.6

Source: Ministry of Finance
*revised budget; ** estimates

2.5.16 According to the Fiscal Policy Framework of 2014/15 to 2016/17, the 2013/14 original estimate of total revenue amounting to NS40.1 billion was revised upward to N$43.8 billion, equivalent to 35.1 percent. Of the total revenue, SACU receipts amounted to N$14.7 billion, which accounts for 30 percent of total revenue. It is expected that income tax would amount to N$11.2 billion whilst company tax and VAT would amount to N$5.8 billion and 7.9 billion respectively. Total expenditure is expected to reach N$47.6 billion, resulting in a fiscal deficit of 3 percent, lower than the original estimated deficit of 6.4 percent.

2.5.17 The budget estimates for 2014/15 indicate another fiscal deficit of 5.0 percent and it is expected that total revenue will amount to N$52.5 billion whilst total expenditure is expected to reach N$60.3 billion. Of total revenue, SACU receipts amounted to N$18.1 billion accounting for 34.5 percent of total revenue whilst the increase in operational expenditure will be mainly driven by an increase in salaries and transfers to SOEs. The development budget amounted to N$9.6 billion earmarked for infrastructural development.

2.5.18 The fiscal rule sets debt-to-GDP ratio at 35 percent and much as the total debt stocks has been increasing, it has been within the limit. The consecutive countercyclical fiscal expansion has largely contributed to the considerable increase in the total debt stock. Since the issuance of the USD denominated Eurobond in 2011/12, total debt stock increased from 25.9 percent of GDP and is expected to reach 29.6 percent of GDP in 2014/15. However, Namibia's participation in the Eurobond and JSE market has confirmed its creditworthiness.

South Africa

2.5.19 South Africa's macroeconomic framework is premised on countercyclical fiscal policy to support growth and investment, alongside monetary policies which continue to counter inflationary pressure whilst stimulating economic activity. In light of the global economic down turn, damped domestic growth and rising debt level, the government has reaffirmed the fiscal stance that is underpinned by counter-cyclicality, debt sustainability and intergenerational fairness. As stated in the 2013 Medium Term Budget Policy Statement, the government undertook to contain expenditure, reduce budget deficit and stabilise debt, and improve the quality of spending whilst reducing waste.

2.5.20 The government follows medium-term expenditure framework (MTEF) which outlines public service delivery commitments in pursuit of national development and transformation goals. The MTEF for the period ahead reflects government's commitment to create jobs, grow the economy, promote equality and accelerate access to social services. The expenditure therefore focuses on infrastructure, education and skills development, improved health outcomes, integrated and sustainable human settlements, and rural development. In addition, social and economic infrastructure investments have been scaled up. Since 2011/12, special focus has been placed on infrastructural development, signalling a renewed public-sector investment drive as a foundation for long-term growth, employment creation and development.

2.5.21 In 2012/13, total revenue amounted to R909.3 billion equivalent to 28.3 percent of GDP whilst expenditure reached over a trillion for the first time and totalled R1.05 trillion, equivalent to 32.7 percent of GDP. As a result, a budget deficit of 4.3 percent was achieved and is expected to narrow to 2.8 percent in the medium term. The revised budget estimates for 2013/14 indicate that revenue would amount to R1.01 trillion, equivalent to 29.2 percent of GDP whilst expenditure is expected to total R1.15 trillion (30.2 percent of GDP), resulting in a budget deficit of 4.0 percent as shown in **Table 7.**

Table 7: South Africa Fiscal Performance (R billion)

	South Africa			
	2011/12	**2012/13**	**2013/14**	**2014/15**
Total Revenue	842.3	909.3	1010.5	1099.2
Total Expenditure	953.1	1045.2	1149.3	1252.3
Fiscal Balance	-110.8	-135.9	-138.8	-153.1
% of GDP	-3.7	-4.3	-4.0	-4.0
Total Debt Stock #	989.7	1181.5	1370.4	1573.7
Domestic	891.7	1065.7	1245.7	1455.7
Foreign	98.0	115.8	124.7	118.0
Debt as % of GDP	33.3	36.8	39.3	41.4

#Total net loan debt
Source: National Treasury

2.5.22 The budget estimates are based on the National Development Plan (NDP), which is premised on the reduction of poverty and inequality and employment creation. Despite the global and domestic economic challenges that may result in a subdued growth of 2.7 percent in 2014, the 2014/15 budget framework defines that in the medium term, budget deficit will narrow to 2.8 percent of GDP; net debt stock will stabilise at 45 percent of GDP and non-interest spending will also grow by 2 percent. Therefore, the budget estimates for 2014/15 allocate total revenue at R1.1 trillion whilst total expenditure amounts to R1.3 trillion resulting in a budget deficit of 4.0 percent.

2.5.23 Issuance of bonds, in particular fixed-income and inflation-linked bonds as well as Treasury Bills, 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. The low level of foreign debt reduces the government exposure to external risk whilst consolidating and strengthening domestic financial markets and the small proportion of debt denominated in foreign currency cushions the effect of the depreciation of the rand. Net debt as a share of GDP was 33.3 percent in 2011/12 but is expected to reach 41.4 percent in 2014/15. The long-term maturity structure of the government debt stock as well as the prudent maturity profiles cushions the impact of short-term fluctuations in the capital markets. The government is committed to stabilising debt with a view to rebuilding the fiscal space.

Swaziland

2.5.24 On average, SACU revenue contributes 60 percent of the total revenue. A decline in SACU revenue experienced in the 2010/11 and 2011/12 coupled with widened public wage bill gave effect to the fiscal crisis. SACU revenue fell by almost 25 percent in 2010/11 and amounted to E1.97 billion and recouped marginally to E2.88 billion in 2011/12. The fiscal deficit improved to 5 percent in 2011/12 supported by the IMF Staff-Monitored Programme, which advocated for expenditure cuts as well as the establishment of the Swaziland Revenue Authority (SRA).

2.5.25 In 2012/13, total revenue amounted to E12.0 billion, of which SACU revenue amounted to E7.06, accounting to 59 percent of total revenue as shown in **Table 8**. VAT was introduced on 1 April 2012 to replace sales tax and in 2012/13 and VAT accounted for 0.5 percent of GDP. Efforts to contain expenditure became effective and the total expenditure amounted to E10.5 billion resulting in a budget surplus of 4.3 percent. The projected outturn for 2013/14 estimates revenue to total E12.8 billion of which E7.15 billion is SACU revenue, accounting for 56 percent of total revenue. Domestic revenue increased by 12 percent from the previous year and is expected to reach E5.5 billion mainly boosted by income tax, which compensated more than expected VAT refunds. Total expenditure is projected to reach E12.9 billion resulting in a small fiscal deficit of 0.2 percent of GDP.

Table 8: Swaziland Fiscal Performance (E billion)

	Swaziland			
	2011/12	**2012/13**	**2013/14***	**2014/15****
Total Revenue	7.5	12.0	12.8	14.3
Total Expenditure	9.1	10.5	12.9	15.3
Fiscal Balance	-1.6	1.5	-0.1	-1.1
% of GDP	-5.0	4.3	-0.2	-2.6
Total Debt Stock	4.5	5.3	6.3	7.2
Domestic	1.9	2.5	3.1	3.7
Foreign	1.6	2.8	3.2	3.4
Debt as % of GDP	16.2	17.4	16.7	17.7

Source: Ministry of Finance
*project outturn **estimates

2.5.26 The 2014/15 budget estimates indicate 19 percent increase in the resource envelope and total revenue is expected to amount to E14.3 billon, of which E7.5 billion is SACU revenue, representing 49 percent to total revenue. This implies that 51 percent of the budget will be financed by non-SACU revenue compared to 56 percent in 2013/14, a strong signal of the government efforts to reduce dependency on SACU revenue. SRA is putting in place measures to strengthen and broaden the tax base in an effort to enhance domestic tax. On the other side, total expenditure is expected to reach E15.3 billion, of which E3.7 billion is capital expenditure, thus resulting in a fiscal deficit of 2.6 percent of GDP.

2.5.27 Debt to GDP ratio is the lowest in SACU and is far below the international threshold. On average, foreign debt constitutes 75 percent to total debt and efforts are underway to develop domestic capital markets to bolster domestic borrowing. In financing the deficit, total debt to GDP ratio increased from 16.2 percent recorded 2011/12 to 16.9 percent in 2013/14 and is expected to reach 17.7 percent in 2014/15. The evident increase in public debt is attributed to the fiscal crisis, which necessitated domestic borrowing to finance priority services as well as clearing the arrears.

3 ECONOMIC OUTLOOK

3.1 According to the April 2014 IMF WEO, economic recovery is strengthened although it remains uneven across the regions. The impetus provided by the advanced economies to the global economic growth is expected to continue in 2014 although the normalisation of monetary policy in the advanced economies implies a changing environment for the emerging and developing economies. While the US Fed decision to taper quantitative easing signals recovery in the US, the emerging markets reacted with high degree of capital and currency turbulences amidst economic slowdown in China. There is a possibility that the US policy rate will increase earlier than expected in 2015.

3.2 The global economy is projected to grow by 3.6 percent in 2014 from 3.0 percent in 2013 and further grow by 3.9 percent in 2015. As indicated, growth in the world output will be supported by the advanced economies with the US taking the lead. The underlying growth prospects in the US remain favourable, supported by positive investment and consumption indicators, recovery in the housing market as well as supportive monetary policy and fiscal consolidation. The US economy is expected to grow by 2.8 percent in 2014 and 3.0 percent in 2015. Growth in the Euro Area is expected to remain weak and fragile and increasing debts and financial fragmentation is expected to further dampen consumption demand. Although there are signs of modest recovery, the Euro Area is expected to grow sluggishly by 1.2 percent in 2014 from two years of recession in 2012 and 2013 respectively. In particular, Germany is expected to grow by 1.7 percent in 2014 and 1.6 percent in 2015 whilst the Euro Area is expected to grow modestly by 1.5 percent in 2015.

3.3 Efforts to revive Japan's economy following the 2011 earthquake are underway and the fiscal consolidation as well as the structural reforms envisaged under the 'Abenomics' are expected to provide stimulus to the economy. However, the IMF estimates a modest economic slowdown in 2014 and expects that the economy will grow by 1.4 percent from 1.5 percent achieved in 2013. The economic activity is projected to slow down due to the tightening of the fiscal policy with the consumption tax expected to increase by 8 percent in 2014 and 10 percent in 2015.

3.4 While economic prospects in the advanced economies have improved, economic outlook in the emerging and developing economies have deteriorated. The growth prospects in the advanced economies have resulted in export growth supported by depreciating currencies. However, the volatility of the capital markets and financial tightening thereof, has crowded out investment. Nonetheless, the IMF states the emerging and developing economies contribute approximately two-thirds of the global output. It is therefore projected that growth will increase marginally by 4.9 percent in 2014 and further by 5.3 percent in 2015.

3.5 China and India continue to lead the global economic growth although at lower than anticipated rates. The economic outlook of the Chinese economy remains uncertain amidst excess credit extension and the recent contraction of the industrial production further poses downside risk. Economic growth in China is expected to be modest and grow by 7.5 percent in 2014 and further decelerate by 7.3 percent in 2015 on assumption that the reform blueprint will rebalance the economy on a sustainable growth path. On the other hand, the Indian economy is expected to grow by 5.4 percent in 2014 from 4.4 percent in 2013 and further grow by 6.4 percent in 2015. The growth impetus will be supported by the surge in exports following the depreciation of the rupee including government efforts to revive investment.

3.6 The economic growth in Russia is expected to remain stagnant at 1.3 percent in 2014 partly due to the geopolitical tension in Ukraine and Crimea but is expected to improve in 2015 and grow by 2.3 percent in 2015. The geopolitical tension over Ukraine may in turn result in rising prices of gas since Ukraine is strategically positioned to channel gas from Russia to Europe. Furthermore, Ukraine is the third largest exporter of corn and 6th biggest supplier of wheat and therefore these tensions are expected to increase the price of grain. However to date, there has not been contagion effect across other regions and South Africa's importation of grain from Ukraine is minimal. Growth in the SSA remains strong and despite a slowdown in 2013, economic growth in the region is expected to accelerate by 5.4 percent in 2014 and 5.5 percent in 2015.

3.7 Despite a subdued global economic environment, SACU economies depicted positive growth mainly spurred by revived consumer demand, accommodative macroeconomic policies, and structural economic reforms. As much as the US economy has strengthened, the weak and fragile economic growth in the Euro Area as well as the subdued economic growth in the emerging economies especially in China, further creates a bleak outlook for the SACU economies. However, the global output is expected to bounce back in 2014 but weak economic recovery in the Euro Area poses a challenge with regard to consumption demand of mining and other products from the region. Furthermore, Europe is the major trading partner of SACU economies and the subdued economic activity is likely to affect the export production to the region, resulting in lower than expected import duties.

3.8 In line with the global economic recovery even though expected to remain uneven across regions, SACU economies are expected to improve in 2014 from subdued growth experienced in 2013. The economic activity may not be buoyant but the economic reforms and supportive economic policies are expected to boost growth. Botswana's efforts to diversify the economy and divert growth prospects into non-mining sectors are expected to boost growth. Furthermore, the relocation of the Diamond Trading Centre from London to Gaborone is expected to bolster diamond exports amidst weak external demand. However, the recent disruptions in the power supply adversely affected the supply-side of the economy and the efforts are underway to restore reliable and sustainable power supply.

3.9 In Lesotho, the economy is expected to moderately decelerate by 5.6 percent in 2014 and further by 4.8 percent in 2016. Central to the expected deceleration in economic growth is the uncertainty with regard to the growth prospects in the clothing and textiles as well as diamond sub-sectors amidst stiff competition and weak global demand. Furthermore, the uncertainty on the extension of trade preferences beyond 2015 under AGOA remains. However, the planned major infrastructural development including the construction of phase II of the Lesotho Highlands Water Project as well as the expansion of the private sector credit towards private property development are expected to boost growth.

3.10 Following a slowdown in Namibia's economic growth experienced in 2013, the economy is expected to grow modestly in line with the global trend. The economy is projected to grow by 5.0 percent in 2014 and remain flat at 4.8 percent over the MTEF period. The economy will be boosted by major investments in construction, mining and manufacturing industries whilst low commodity price may give a setback to the growth prospects. Swaziland's economy is recuperating from the fiscal crisis following an increase in SACU receipts as well as the improvement in the collection of domestic taxes. The government has put in place some economic reforms and initiatives to bolster economic growth and improve competitiveness. The economy is therefore expected to grow by 2.0 percent in 2014, a downward growth from 2.8 percent estimated in 2013.

3.11 The South African economy is the largest in SACU and slowdown in economic activity has a direct impact in the region. The NDP, which is a framework for economic and social development, envisages 5.0 percent growth as an ideal growth rate to reduce poverty and create jobs. However, the global economic outlook as well as the domestic developments continue to hinder achievement of targeted growth rate. On the global front, the strengthening of the advanced economies whilst the emerging and developing economies are lagging behind, have created uncertain economic environment characterised by volatile capital markets, turbulence of currencies including the rand and overall subdued economic growth. Domestically, industrial actions, dwindling manufacturing output and low commodity prices have also dampened the growth prospects. However, the economy is expected to grow by 2.7 percent in 2014 from 1.9 percent growth attained in 2013, still far below from its potential. The improved economic prospects is in line with the global and SSA economic outlook and the infrastructure development programme is expected to further boost economic growth. However, the supply-side constraints including electricity capacity, labour disputes as well as the deteriorating inflation outlook due to the depreciation rand, may hamper growth prospects.

3.12 Much as the inflation followed a downward trajectory across SACU economies in 2013, the depreciation of the currencies poses a threat to the inflation outlook. So far South Africa is the only country in SACU to have raised interest rates in 2014 but if the inflationary pressures continue, there is a possibility of interest rates increases, which have remained unchanged for some time. External position is expected to improve as economies are expected to take advantage of the depreciating currencies and increase exports whilst current accounts of the BLNS are also expected to improve due to the expected increase in net current transfers as SACU revenue is expected to increase given the medium term projections of the CRP. With regard to fiscal position, the 2014/15 budget estimates projects fiscal deficits in Namibia, South Africa and Swaziland whilst Botswana and Lesotho edged towards balanced budgets. South Africa and Namibia have embarked on fiscal consolidation and countercyclical fiscal policy and it is expected that the fiscal deficit would narrow over the MTEF period whilst Swaziland is also expected to narrow the fiscal deficit in the medium term through the effective implementation of the fiscal strategy.

3.13 Notwithstanding the positive outlook, the main challenge confronting SACU economies is the translation of economic growth to inclusive growth and job creation. Another challenge is the ability to improve and sustain domestic revenue especially among the Botswana, Lesotho, Namibia and Swaziland (BLNS) Member States. However, the BLNS Member States have acknowledged the need to mobilise and enhance domestic revenue amidst the uncertain SACU revenue stream given the ongoing work of the review of the revenue sharing arrangement. All Member States have responded to the plight of rising unemployment by prioritising on promoting private sector development as a vehicle for economic growth as well as infrastructural development.

DATA SOURCES

- Member States 2014 Budget speeches;
- Ministry of Finance;
- Central Statistics Offices;
- 2012 and 2013 Central Banks Annual Reports;
- Member States IMF Article IV Consultations;
- IMF April 2014 World Economic Outlook; and
- IMF October 2013 Regional Economic Outlook.

*All Member States currencies have been expressed in their respective currencies and other currencies except for Pula are pegged to the South Africa Rand;

*Where necessary, Pula was converted into Rand vice versa using 2012/2013 average exchange rate (R/P =1.0892) or (P/R=0.9181).