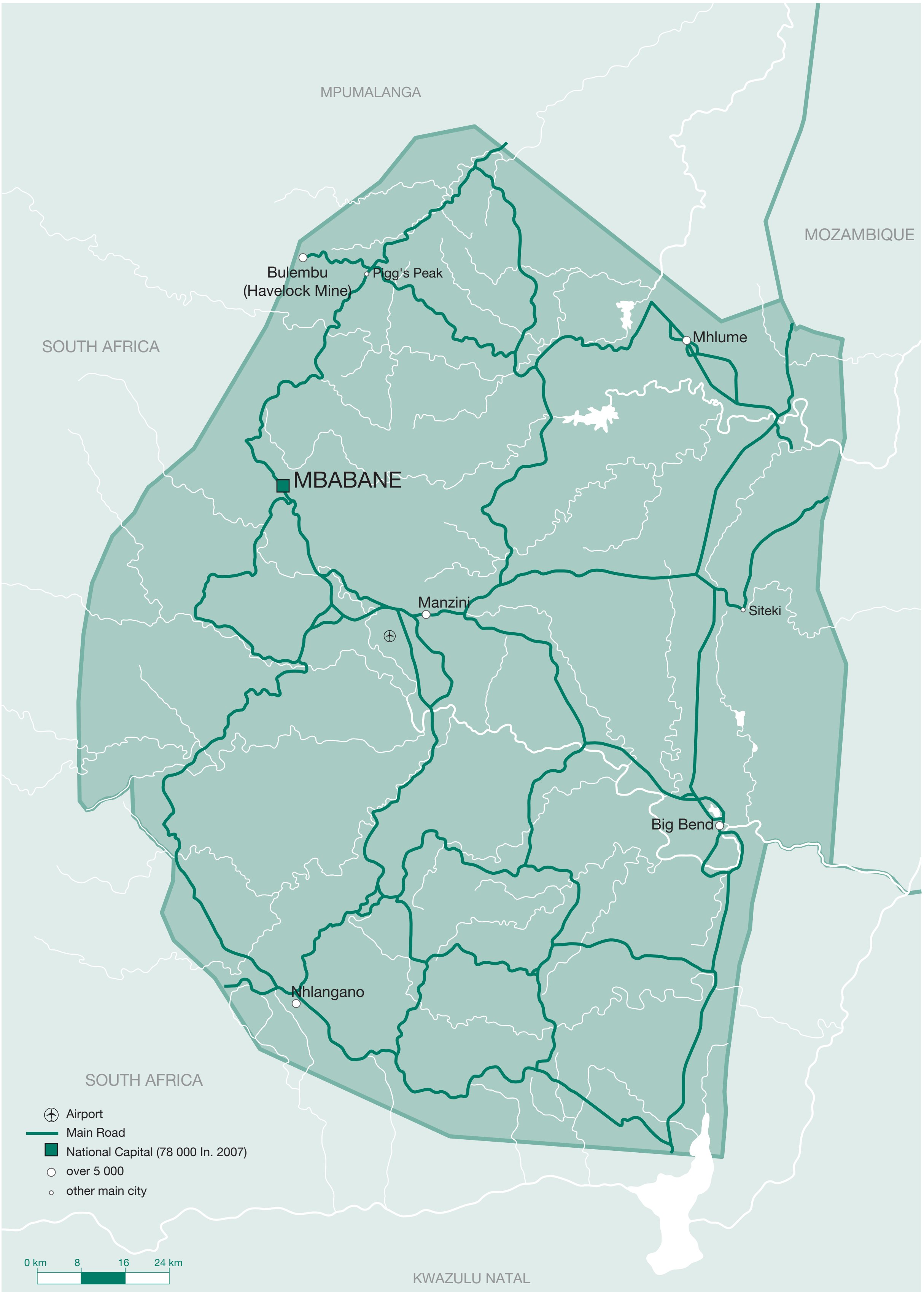
Swaziland

2010

www.africaneconomicoutlook.org


MPUMALANGA
MOZAMBIQUE
SOUTH AFRICA
Bulembu
(Havelock Mine)
Pigg's Peak
Mhlume
MBABANE
Manzini
Siteki
Big Bend
Nhlangano
SOUTH AFRICA
KWAZULU NATAL
Airport
Main Road
National Capital (78 000 In. 2007)
over 5 000
other main city
0 km
8
16
24 km

Swaziland

Overview

Swaziland is Southern Africa's second-smallest economy after Lesotho and it faces a host of economic challenges in the short and medium term. The combination of low investment, the end of EU preferential treatment for the country's main sugar and textile exports, low productivity, deteriorating trade receipts, low domestic resource mobilisation and the ongoing effects of the global economic crisis mean that sustained growth will remain elusive. Indeed, years of persistently sluggish growth have resulted in an expansion of poverty and unemployment. Moreover, the alarming 32.4% prevalence rate of HIV/AIDS will continue to exert undue pressure on government resources and has restricted Swaziland's annual population growth to about 0.4% since 1997.

Swaziland is a member of the Common Monetary Area (CMA) and its currency, the lilangeni (SZL) is fixed at parity with the South African rand. Swaziland has been adversely affected by the global economic slowdown as its economy is closely linked to that of South Africa. The country's manufacturing sector was hard hit, with virtually all significant manufacturing sub-sectors (cement, agricultural machinery, electronic equipment, refrigerator production, footwear, gloves, office equipment, confectionery, furniture, glass and bricks) affected by the global slowdown in trade. The wood-pulp industry was also further impacted by forest fires that destroyed timber supplies. Equally, the apparel industry was also hit as it is dependent on favourable trade arrangements with the United States through the African Growth and Opportunity Act (AGOA).

Since the European Community began removing subsidies on sugar in 2007, Swaziland's exports of raw and processed sugar have declined steadily in value. As prices are set by the Sugar Protocol with the EU, the almost 60% increase in world sugar prices in 2009 to a 28-year high (driven by the failed sugar crop in Brazil) had little effect on the sector's performance. A stronger lilangeni also offset increased sugar export receipts. More significantly, customs receipts – the government's primary revenue source – were badly affected by a substantial decline in Southern African Customs Union (SACU) trade.

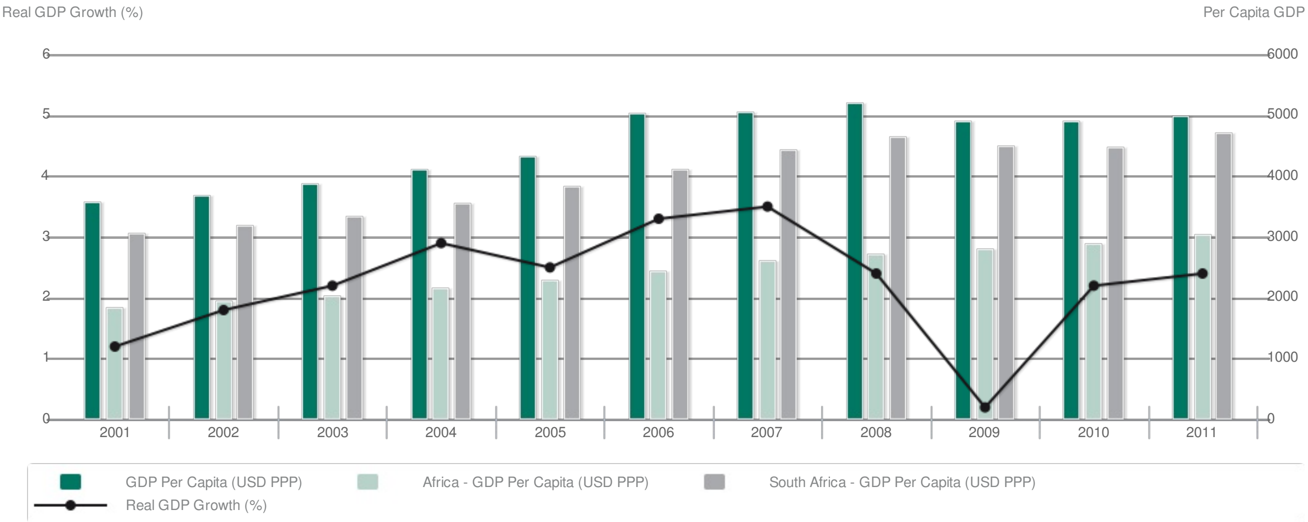
On the positive side, the economy has benefitted from a medium-term decline in inflation and from an associated lower cost of borrowing. Swaziland's agricultural sector was the cornerstone of growth in 2009, largely due to the introduction of the Lower Usuthu Smallholder Irrigation Project (LUSIP) and favourable weather.

Swaziland's economy grew by 2.4% in 2008 before declining to an estimated 0.2% in 2009. Projections for 2010 and 2011 are that growth will rebound to 2.2% and 2.4%, respectively, below the 5% government target to reduce poverty to 30% by 2015. Inflation improved to a single-digit figure as commodity prices fell and the lilangeni remained relatively stable against the US dollar (USD).

Inflation is not expected to cross the 10% mark until 2011 despite increased inflationary pressure emanating from the recovery in oil prices. It is projected to increase from 4.6% in 2009 to 6.9% in 2010 and 10.2% in 2011. As inflation in South African is projected to decline, imported inflation will be low in the medium term.

Growth in 2010 and 2011 will depend upon a continued and gradual recovery in the global economy, modest rises in oil and other commodity prices, as well as an upswing in workers' remittances, foreign direct investment (FDI) inflows and official development assistance (ODA) disbursements, offset by sluggish export performance.

Figure 1: Real GDP growth and per capita GDP (USD/PPP at current prices)



Sources: IMF and National Statistics data; estimates (e) and projections (p) based on authors' calculations
Figures for 2009 are estimates; for 2010 and later are projections.

StatLink http://dx.doi.org/10.1787/854348305875

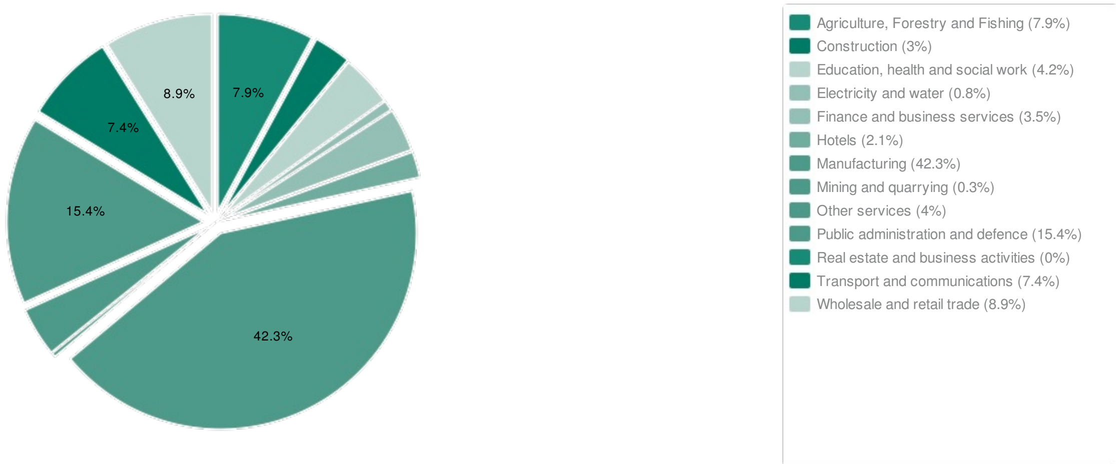
Table 1: Macroeconomic indicators

	2008	2009	2010	2011
Real GDP growth	2.4	0.2	2.2	2.4
CPI inflation	12.7	4.1	5.5	7.2
Budget balance % GDP	2.7	-3.3	-8.3	-14.2
Current account % GDP	-4.4	-2.6	-5.4	-7.4

Sources: Data from Central Statistical Office & Ministry of Finance, Swaziland, Jan. 2010; estimates (e) and projections (p) based on authors' calculations.
Figures for 2009 are estimates; for 2010 and later are projections.

StatLink http://dx.doi.org/10.1787/863683208442

Figure 2: GDP by sector, 2008 (percentage)



Sources: Authors' estimates based on national data.
Figures for 2009 are estimates; for 2010 and later are projections.

StatLink http://dx.doi.org/10.1787/854356716365

The global economic crisis dominated Swaziland's performance in 2009 with growth reaching just 0.2%. Turbulence on world financial markets significantly affected consumer and investor confidence, in turn, negatively impacting the Swazi economy's real sector because investors shifted away from emerging markets. Higher costs of agricultural inputs and energy also translated into higher production and transportation costs.

Manufacturing is the main driver of the Swazi economy, accounting for 42.3% of GDP. The sector consists primarily of four export-oriented industries: wood pulp production, drink processing, fruit canning, and sugar processing. The manufacturing sector is estimated to have expanded by 0.5% in 2008 before contracting by 4% in 2009. Projections for 2010 point to a recovery with marginal growth of 1.5%, followed by further declines in the coming years mainly attributable to the second-round effects of the global recession.

The global crisis particularly affected Swaziland's wood and wood products sub-sector. Until the end of 2009, Usutu Pulp was both the leading wood pulp processing company and Swaziland's largest employer, with an annual capacity to produce 220 000 tons of bleached kraft pulp. In January 2010, Sappi, the London-based management of Usutu Pulp, decided to wind up operations, with a loss of 550 jobs. Other companies in the sector also fared badly in 2009. Swazi Paper Mills closed with a loss of 223 jobs and another, Peak Timbers, retrenched half of its 170-workforce at its Piggs Peak plantation. Further job losses are likely to occur as the effects of the Usutu Pulp closure cascade through the economy. Many of the 250 or so local firms that supplied the mill may inevitably close. Similarly, it is also estimated that losses at the Swaziland Electricity Company reached SZL 15.6 million in 2009, while Swaziland Railway and other firms providing road transport services were expected to lose SZL 7 million and SZL 6 million in 2009, respectively.

For its part, the textile and apparel sector shed an estimated 3 000 jobs in 2009. Employment in the sector fell from 15 000 in 2008 to 12 000 by mid 2009, largely the result of falling global demand and production cuts. Even more jobs were likely to have been lost were it not for the lilangeni's depreciation, which kept exports competitive. Swaziland's textile and apparel sector became eligible for the AGOA in 2000 and qualified for the apparel provision in 2001. Subsequently, over 30 000 jobs, mostly for women, were created in the sub-sector. However, even before the ongoing global crisis, the industry experienced major setbacks in 2005-06, due to both increased global competition as a result of the end of the Agreement on Textiles and Clothing (ATC) in early 2005, and the then strong lilangeni which reduced exports.

Agriculture accounts for 80% of the Swaziland's total land area and 70% of employment, contributing just 7% to GDP. The sector is strongly linked to the manufacturing sector. The two most important crops are sugarcane and maize both of which are grown commercially. Swazi agricultural productivity is principally a function of the country's two-tier land tenure system: Swazi Nation Land (SNL) and Individual Tenure Farms (ITF). The former is communally owned, generally not irrigated, and is mostly used for subsistence, low-productivity agriculture. The primary SNL crops are maize, cotton and tobacco, all of which suffer from adverse weather. Productive commercial irrigated farming is generally restricted to private holdings and focuses mostly on sugarcane, citrus, timber and pineapples. It is estimated that ITF-based agriculture accounts for three-quarters of the country's total agricultural output.

In December 2009, the government outlined a new agricultural policy focusing on achieving greater food security, increasing farm tools, crop yields and storage facilities, diversifying food and commercial crops via agribusiness, and lastly, supporting price stabilisation and better market access programmes.

The tertiary sector, at approximately 38% of GDP is dominated by finance and banking followed by transport. The tourism sub-sector has great potential and is increasingly regarded as a source of future growth. According to the World Travel and Tourism Council (WTTC), tourism accounted for 7% of GDP in 2008 although both business and personal travel and tourism declined by 3% that year. In 2009, business and personal travel remained flat. However, the outlook for 2010 is optimistic as the industry should benefit from the 2010 FIFA World Cup in South Africa. The WTTC projects 5% and 3% growth in 2010 and 2011, respectively. The government has allocated funds for various infrastructure improvements with the aim of better positioning the country to benefit from spillovers from the World Cup.

Table 2: Demand composition

	2001	2008	2009	2010	2011
Gross capital formation	22.3	11.4	0.9	1.2	1.1
Gross capital formation - Public	6.0	6.0	0.4	0.4	0.3
Gross capital formation - Private	16.2	5.4	0.5	0.8	0.8
Consumption	91.4	102.6	0.8	1.2	0.8
Consumption - Public	18.0	13.8	0.4	0.3	0.3
Consumption - Private	73.4	88.8	0.4	0.8	0.5
Solde extérieur	-13.6	-14.0	-1.5	-0.2	0.4
External sector - Exports	89.3	60.8	-1.0	1.9	1.5
External sector - Imports	-103.0	-74.8	-0.5	-2.2	-1.1
Real GDP growth rate	-	-	0.2	2.2	2.4

Sources: Data from Central Statistical Office & Ministry of Finance, Swaziland, Jan. 2010; estimates (e) and projections (p) based on authors' calculations.
Figures for 2009 are estimates; for 2010 and later are projections.

StatLink http://dx.doi.org/10.1787/863684513710

Macroeconomic Policy

Fiscal Policy

Swaziland relies greatly on fiscal policy to enhance the country's macroeconomic stability. In general, the country's fiscal policy is geared towards supporting higher growth rates, boosting employment, and providing poor and marginalised communities with the capabilities and infrastructure to participate in the formal economy. Yet, fiscal management remains generally weak. Moreover, the country's fiscal stance is largely dependent on receipts from SACU, which account for almost 75% of government revenue, a figure that has risen from 49% in 2003/04 to over 70% in 2008/09. For several years, increased SACU revenue helped the government to realise large fiscal surpluses and accumulate substantial international reserves. Since the start of the global economic crisis, declining SACU revenues have undermined Swaziland's fiscal sustainability causing it to become more uncertain.

The Ministry of Finance has estimated that the budget deficit will reach SZL 1.986 billion in 2009/10, or 8% of GDP. This marks a sharp reversal of the nearly 10% surplus recorded as recently as 2006/07 and the position is expected to deteriorate further in the medium term before stabilising in 2012/13. A deficit of at least 14% of GDP is projected for 2010/11 and 17% for 2011/12, primarily attributable to an expected decline in SACU revenue.

The government plans to finance these deficits using domestic sources including securities, treasury bills and bonds as well as by running down reserves. In the short term, the government plans to increase the current weekly borrowing limit from SZL 10 million to SZL 40 million, thus generating up to SZL 520 million during the 2010/11 fiscal year. Furthermore, about SZL 500 million would be raised through a 2-5 year bond. The government is also considering reviewing the legislation governing domestic borrowing, with a view to increase the annual limit to more than the current SZL 1 billion.

The IMF has identified Swaziland's large fiscal deficits as its key challenge in the medium term. Financing these by running down reserves could result in unsustainable levels of debt. With a continuation of current spending, it will be difficult to finance the projected 2010/11 deficit of 14% of GDP from the country's disposable income without compromising private sector growth and stockpiling debt.

Swaziland's savings are low and the country can barely sustain a deficit without breaching reserve requirements. Consumption has steadily increased from about 85% of GDP in 2003 to 102.6% in 2008. National disposable income has ranged between 105% and 111% of GDP between 2003 and 2008, mainly supported by current transfers which are in part derived from SACU receipts. Investment on the other hand has been declining in real terms from 20.1% of GDP in 2002 to 11.4% in 2008 and 10.6 in 2009.

One of the principal drivers of spending is the high public wage bill, estimated at approximately 52% of the budget, exceeding the conventional benchmark of 35%. Across-the-board salary increases in July 2009 (averaging 12%) are in part responsible for an unsustainably high level of recurrent spending even before the sharp and permanent drop in SACU revenue.

These increases cast some doubt on the government's commitment to containing costs according to the IMF, particularly as the measure resulted in the Minister of Finance requesting an additional supplementary budget of SZL 48 million, above the SZL 247 million supplementary budget tabled earlier. The high outlays on government wages has tended to crowd-out spending in other areas, and to reduce flexibility in the budget thereby compromising government effectiveness.

Capital expenditure for the 2009/10 fiscal year accounted for 27% of spending and recurrent expenditure 69% of total expenditure (with statutory expenditure accounting for the balance). According to the Ministry of Finance, the government allocated 44% of its budget to social spending on health, education, state security and infrastructure development.

Meanwhile, the government has projected that revenue will contract by a cumulative 9 percentage points of GDP between 2009/10 and the last year of the country's Medium-Term Budget Policy Statement (MTBPS) in 2012/13.

Moving forward, the government will need to mobilise greater domestic resources by strengthening fiscal collection and broadening the tax base. Similarly, the government needs to strengthen public resource management engaging in consolidated efforts to improve the quality of spending and to direct resources to critical social programmes, including human capital investment in order to foster economic growth.

Table 3: Public finances

	2001	2006	2007	2008	2009	2010	2011
Total revenue and grants	**31.2**	**32.3**	**39.4**	**36.4**	**37.8**	**29.2**	**23.7**
Tax revenue	28.8	30.4	37.7	34.0	35.7	26.2	20.7
Grants	1.1	1.0	0.8	0.8	0.6	1.4	1.5
Total expenditure and net lending (a)	**28.8**	**35.7**	**30.6**	**33.7**	**41.1**	**37.5**	**37.9**
Current expenditure	23.1	27.4	23.8	24.9	31.0	28.1	28.5
Excluding interest	22.5	26.3	23.0	24.1	30.0	27.2	27.1
Wages and salaries	10.2	14.1	12.7	12.4	16.1	14.1	13.8
Goods and services	6.5	6.9	5.9	6.2	6.6	6.0	6.2
Interest	0.6	1.1	0.8	0.8	1.0	1.0	1.4
Capital expenditure	5.7	8.3	7.1	8.8	10.1	9.4	9.5
Primary balance	**3.0**	**-2.3**	**9.6**	**3.5**	**-2.3**	**-7.3**	**-12.8**
Overall balance	**2.4**	**-3.4**	**8.8**	**2.7**	**-3.3**	**-8.3**	**-14.2**

Sources: a: Only major items are reported Data from Central Statistical Office & Ministry of Finance, Swaziland, Jan. 2010; estimates (e) and projections (p) based on authors' calculations.
Figures for 2009 are estimates; for 2010 and later are projections.

StatLink http://dx.doi.org/10.1787/863706856348

Monetary Policy

Swaziland is a member of the CMA and nearly 90% of its imports originate in South Africa. As such, inflation is Swaziland is closely linked to that of South Africa. Broadly, the central bank has pursued an inflation target of 3 to 6% to maintain price stability but since 2007, inflationary pressures arising from high cereal and oil prices resulted in inflation surpassing the 6% upper limit. Inflation averaged 12.6% in 2008, a 4.5 point increase over 2007, although it began to recede during the latter months of 2008 as food and fuel prices began to moderate.

This trend continued throughout 2009, further boosted by the efforts of South Africa's central bank to target inflation . By the end of 2009, inflation had returned to single digits averaging 4.1% for the year. This is expected to rise to 6.9% in 2010 and 10.2% in 2011 although volatility in oil and food prices, increases in energy costs, or a weakening of the South African rand could pose additional inflation risks.

While inflation broadly tracks that of South Africa, higher transport costs in this land-locked country and the larger weight of food in Swaziland's consumer price index (CPI) push inflation higher than in South Africa. Swaziland's CPI was re-based in August 2007 and new weights were introduced with food and non-alcoholic beverages representing 37.7% (up from 24.5% previously), followed by housing, water, electricity, gas and other fuels with 14.3% (15.9% previously).

Monetary policy for the 2010-11 period will mostly likely continue to mirror developments in South Africa, with the Central Bank of Swaziland (CBS) setting its discount rate largely along the lines of the repurchase rate set by the South African Reserve Bank (SARB). The CBS also maintains an interest rate differential of about 50 basis points to prevent speculative capital flows. The period of aggressive rate cuts by the SARB appears to have come to an end in 2009 as room for manoeuvre narrowed. For its part, the CBS cut its discount rate to 6.5% in August 2009 and continues to follow the SARB, with both institutions meeting monthly to decide monetary policy. The discount rate will remain around the 6.5% range and only increase moderately in the medium term in order to contain the risk of breakaway inflation.

In terms of movements in the major monetary aggregates, private sector credit grew by about 8% in 2009, while government net balances with the depository corporations declined by 13.3%. Over a 12-month period to October 2009, both narrow (M_1) and other deposits (quasi money) registered growth rates of 18.3% and 11.7%, respectively. Lastly, banks' liquidity ratio stood at 14.4% by end 2009, around the same level as at the same time in 2008.

With regards to the exchange rate, under the CMA, Swaziland's lilangeni is pegged at par to the South African rand. Developments in the exchange rate then are mostly dependent on the underlying factors affecting the rand's performance against other currencies. Broadly, there was a massive outflow of capital from the Southern African region following the global economic crisis. This initially caused the value of the lilangeni to plummet (in line with the rand), affecting the country's ability to cover import costs, increasing the trade deficit and posing problems for the balance of payments. Likewise, the depreciation of the lilangeni against major currencies led to an increase in Swaziland's external liabilities.

However, as the rand – which as one of the better performing emerging market currencies in 2009 – appreciated, Swaziland's external position improved as evidenced by its June 2009 debt figures. Indeed, by the last quarter of 2009, the rand/lilangeni was 20% stronger against the US dollar and had gained about 15% on the euro. As of the end of January 2010, the lilangeni was trading at SZL 7.6 per dollar from an average of SZL 8.30 in 2008. Reduced prospects of any significant increases in FDI and projected current account deficits will weigh on the currency in 2010-11, depreciating it from an average of SZL 8.54:USD 1 in 2009 to SZL 9.34:USD 1 in 2010 and SZL 9.75:USD 1 in 2011. Both currencies will remain prone to large short-term swings, mostly as a function of weak investor sentiment and the exposure of the lilangeni to short-term capital flows. The exchange rate is expected to further depreciate in the longer term but at a slower pace, driven by the anticipated recovery in the US economy and the subsequent strengthening of the US dollar.

Swaziland's reserve position in 2009 was maintained at levels above the internationally recommended three months' import cover. From January to June 2009, Swaziland's reserve position declined from 5.4 to 4.2 months as the lilangeni/rand appreciated against major currencies. The outlook for the country's official reserves appears negative in the medium term as revenue flows in the 2009/10 fiscal year and onwards will decline, compounded by the gradual elimination of trade preferences under the Cotonou Agreement which has expired.

External Position

The current account deficit is expected to widen to 5.4% of GDP in 2010 and 7.4% in 2011, owing mainly to the drop in SACU receipts and the ongoing global economic crisis. In particular, the latter will continue to have a negative impact on export demand during 2010 and 2011 as the international markets for Swaziland's goods and services remain sluggish. Not surprisingly, South Africa is Swaziland's main trading partner accounting for 70% of all exports. The United States (14% of total exports) and the European Union (15%) follow. Swaziland exports citrus fruits, sugar and beef to the EU, wood pulp to Japan, and textiles to the US. With reduced export growth and lower commodity prices, the country's current account is likely to remain under pressure. Likewise, the continued slowdown in global demand will negatively impact employment as companies retain cost cutting measures including scaled down production.

In terms of FDI, the largest affiliates of foreign transnational corporations continue to cluster in industry (food products, beverages and petroleum), the tertiary sector (construction and wholesale trade), and in finance and insurance (mostly banking). FDI to Swaziland has traditionally come from South Africa, UK, US, Australia and the EU. In recent years, the government has made attempts to attract investors from other countries, notably, China, India and other countries in Asia. In general, the ongoing global crisis dampened investor enthusiasm for emerging markets, and Swaziland was no exception.

South Africa has been one of the countries worst affected by the global economic downturn in Africa, with great tributary impact of its neighbouring economies. In particular, South Africa's GDP growth is expected to remain below recent averages over the near-term as power shortages and weakened export demand both act to reduce growth rates. Nonetheless, it is expected that Swaziland's exports to South Africa will recover somewhat in the 2010-11 period. Swaziland's imports, which fell in 2009, are expected to recover modestly in 2010, driven by the upturn in export industries, and to perform more strongly in 2011. Swaziland's services deficit, which narrowed in 2009 as trade-related costs fell even as the financial services and tourism industries fared poorly, is expected to widen in 2010-11 as imports accelerate. Likewise, as the profits of foreign-owned textile and garment factories recover, outflows on the income account are likely to rise, counterbalancing higher inflows from overseas investment. The current surplus in transfers is forecast to narrow in 2010-11, corresponding to reduced SACU receipts.

However, if the global situation does not improve, any subsequent reductions in South Africa's export revenues, especially in the mining and manufacturing sectors, would have major implications for Swaziland's growth in the medium term. In this case, the related sectors in Swaziland's economy including manufacturing, tourism and retail would also be affected.

As the Cotonou Agreement expired in 2007, Swaziland initialled an interim Economic Partnership Agreement (EPA) with the EU, which it eventually signed in June 2009. The comprehensive EPA, which will entail the staggered reduction of tariffs and import quotas for all African, Caribbean and Pacific (ACP) countries, was originally expected to be finalised by December 2008, but it is still under negotiation. Conclusion of these negotiations will encourage foreign direct investment from the EU. In August 2008 the SADC countries launched a Free Trade Area (FTA) with a view to deepening regional integration through the establishment of a Customs Union by 2010. However, these developments are expected to impact negatively on SACU receipts on which Swaziland is particularly dependent.

In other developments, Swaziland also became a signatory of a Preferential Trade Agreement (PTA) between the SACU and MERCUSOR (Argentine, Brazil, Paraguay and Uruguay) in 2009. Likewise, Swaziland participated in the first tripartite summit of the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC), and SADC in 2009. The major objective of the tripartite summit is to provide a strategic and policy direction relating to co-operation on trade and economic liberalisation. One of the main challenges identified by the tripartite summit was how to treat overlapping membership in the three regional economic communities, which affect 17 of the 26 countries, including Swaziland.

Swaziland's total external debt (including private sector non-guaranteed debt) decreased from SZL 3.98 billion in September 2008 to SZL 3.39 billion in September 2009, as two loans from the German government to construct the Mnjoli dam and Mpaka-Siteki Road matured. The appreciation of the lilangeni against the US dollar also helped improve Swaziland's external liabilities. The government engaged three new loans totalling SZL 358.9 million in 2009/10 with Kuwait, the OPEC Fund and the Arab Bank for Economic Development in Africa (BADEA) for the construction of the Nhlangano-Sicunusa and Mbadlane-Sikhuphe roads. It should be noted that while these will increase the government's debt stock, Swaziland maintains sustainable debt levels well below IMF/World Bank thresholds. The debt to GDP ratio stood at 15.7% in June 2009, largely below the moderate to severe level of 50 to 80%.

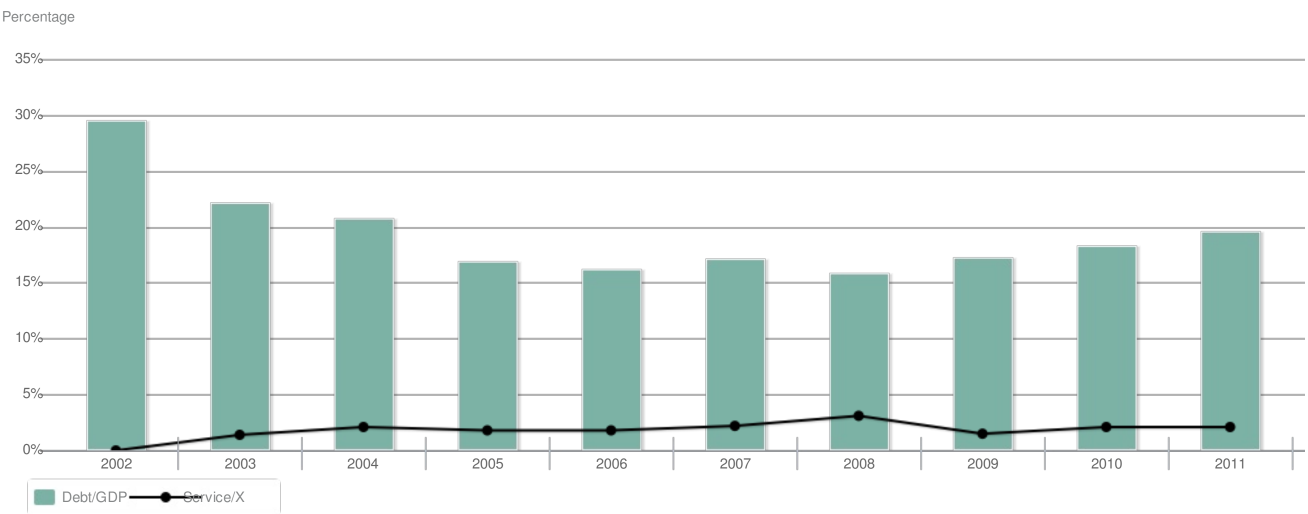
Table 4: Current account

	2001	2006	2007	2008	2009	2010	2011
Trade balance	**-1.9**	**-8.3**	**-4.5**	**-1.4**	**3.3**	**3.1**	**2.3**
Exports of goods (f.o.b.)	79.6	52.9	53.2	50.8	48.2	48.9	49.2
Imports of goods (f.o.b.)	81.4	61.2	57.8	52.1	44.9	45.8	46.8
Services	**-7.3**	**-3.1**	**-8.6**	**-9.5**	**-10.2**	**-11.9**	**-13.0**
Factor income	**7.4**	**0.5**	**1.3**	**-0.3**	**-0.1**	**-0.2**	**-0.1**
Current transfers	**7.0**	**4.5**	**6.0**	**6.8**	**4.3**	**3.6**	**3.4**
Current account balance	**5.2**	**-6.4**	**-5.8**	**-4.4**	**-2.6**	**-5.4**	**-7.4**

Sources: Data from Central Statistical Office & Ministry of Finance, Swaziland, Jan. 2010; estimates (e) and projections (p) based on authors' calculations.
Figures for 2009 are estimates; for 2010 and later are projections.

StatLink http://dx.doi.org/10.1787/863715438265

Figure 3: Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Sources: IMF
Figures for 2009 are estimates; for 2010 and later are projections.

StatLink http://dx.doi.org/10.1787/854368830372

Structural Issues

Private Sector Development

The World Bank's 2010 *Doing Business* report ranked Swaziland 115 out of 183 for the overall ease of doing business in the country – a marginal downgrade from the country's 114th ranking in 2009. The report cites a weak regulatory framework as a major bottleneck. The country's private sector development faces various challenges including fostering the general enabling environment necessary to boost investment and increase competitiveness, particularly for small and medium-sized enterprises (SMEs). Swaziland's rating in Transparency International's *Corruption Perception Index* dropped from 72 in 2008 to 79 in 2009.

SMEs account for about 33% of manufacturing and 56% of commerce in Swaziland. Acknowledging their importance in stimulating growth as well as in generating employment, the government developed a comprehensive strategy aimed at promoting SMEs in 2009. A key component of that strategy targets smallholder sugar farmers through a guarantee scheme aimed at facilitating their access to credit by mitigating the lending risks for banks. The programme is funded by the EU under the National Adaptation Strategy and the scheme is managed by Nedbank, FINCORP and SIDC. Elsewhere, the government in collaboration with International Fund for Agricultural Development (IFAD) is developing a rural financing scheme to help SMEs take advantage of formal banking facilities based on an ongoing pilot project with several participating financial institutions. In addition, the government has plans to recapitalise development finance bodies such as FINCORP to better serve the SME sector.

There are also ongoing efforts by the Swaziland Investment Promotion Authority (SIPA) in collaboration with the Commerce Ministry to streamline specific administrative, procedural and regulatory procedures to boost both domestic and foreign investment and to stimulate growth. In addition, the government is intensifying its focus on value, adding industries, establishing and promoting vertical integration systems as well as promoting local empowerment through SMEs. Likewise, there are also ongoing efforts to develop industrial estates in Matsapha, Mankayane, Ngwenya, Nhlangano and Sidvokodvo. The government is also involved in negotiations with several of its main trading partners aimed at increasing market access for Swazi products.

Other Recent Developments

To tackle the challenges of an underperforming public sector as well as a high poverty incidence of about 69%, the government has an ongoing and ambitious public sector reform programme based on its National Development Strategy (NDS) and the Poverty Reduction Strategy and Action Plan (PRSAP). The PRSAP's overall goal is to reduce poverty by more than 50% by 2015 and ultimately eradicate it by 2022. The government adopted the PRSAP in 2005 as its planning and budgeting framework until 2015, and also as the guiding documents for improving efficiency and service delivery in the civil service.

The government continues to be the main investor in infrastructure and it plans to invest SZL 410.4 million in completing an international airport by 2010/11. It is also finalising plans for completing the link road between Mbadlane and Sikhuphe and upgrading the Manzini-Mbadlane road. Another SZL 110 million has been earmarked for investment in the country's road network as part of a Medium Term Budget Policy Statement (MTBPS). Other major public works programmes include completion of the Mbabane by-pass road, rehabilitation of the Swaziland Broadcasting and Information (SBIS) building and the Hlathikulu Hospital, and the construction of water treatment plants for Siteki-Lomahasha and Nhlangano. Furthermore, construction of the Sicunusa-Nhlangano Road and the Lubombo Regional Hospital are also scheduled to begin in 2010.

Lastly, to strengthen expenditure management and project implementation, the government has inaugurated pilot schemes for a Sector Wide Approach (SWAP) to budgeting in four sectors, namely: health, education, agriculture, and water and sanitation. Plans to expand the scheme over the medium term are on hold pending assessments of the trial. Such an approach – currently championed by major donors across the developing world – aims to bring together all relevant stakeholders (public agencies, parastatals, development partners and other non-governmental agencies) to engage in a dialogue and develop singular programmes implemented by the different stakeholders.

Public Resource Mobilisation

Swaziland's public resource mobilisation as proxied by the government's total revenue budget has performed exceptionally well in recent years, but with some structural challenges. This is largely attributable to SACU receipts. SACU revenues peaked in 2006/07 at 43% of GDP from 33% in 2005/06 and remained high at almost 40% in 2008/09. The country's other taxes, including income and sales tax also reflected significant growth in recent years. Non-tax revenues, comprised largely of property income, fees, fines and loan repayments, contributed only about 5% of total government revenue.

However, the ongoing global recession has exposed the fragility of Swaziland's current fiscal stance. In particular, SACU revenues have fallen due to changing trade dispensations, a proposed revision of the revenue sharing formula, and the establishment of a SADC customs union in 2010. Indeed, the current environment of dwindling resources in the face of increasing demands has prompted the government to pursue new efficiencies in tax collection. The government is attempting to diversify revenue by unifying and strengthening its tax collecting agencies, introducing a Value Added Tax (VAT), implementing an automated system of customs data (ASYCUDA), and carrying out an overall reassessment of the country's entire fiscal stance.

Swaziland's reliance on customs duties is one of the highest in the world. The IMF has suggested that domestic revenue mobilisation is not as strong as it could be given that the share of non-SACU revenue has not kept pace with the growth of SACU revenue. In fact, the ratio of non-SACU revenue to GDP has been generally declining in recent years.

Since the mid 2000s SACU receipts for Swaziland as a share of GDP, increased by around 8 percentage points. The main driver of the increase was South Africa's higher level of economic activity, which meant an enlarged customs revenue pool. Moreover, the introduction of a fiscal transfer element in SACU's revenue sharing formula in 2005 benefitted less developed member countries such as Swaziland. However, when the effects of the current global economic crisis started to show in the middle of 2008/09, SACU receipts were immediately affected as the consumption (and imports) of large ticket items including motor vehicles, footwear and electrical equipment started to decline. As a result, about 17% of SACU's projected revenue pool (or, SZL 9.4 of SZL 53 billion) at the beginning of 2008/09, was not realised. That downward revision meant that the SACU member states had to pay the differential back into the pool, leaving Swaziland with a bill of SZL 1.4 billion. The government reached an agreement to retain SZL 437 million which was to be paid to Swaziland as an adjustment generated out of excess collections in 2006/07 and 2007/08 to partially offset this obligation. The remaining balance of SZL 987 million will be paid back from its 2010/11 revenue shares. A key implication of this is that Swaziland's projected SACU share for 2010/11 of SZL 4.8 billion will have to be lowered by 21.2% or SZL 987 million to SZL 3.7 billion.

The second most important source of tax revenues for Swaziland is income tax. The income tax base consists of four tax groups (companies, individuals, graded taxes and other taxes). All tax revenues are collected through the Department of Taxes as governed by the Income Tax Order of 1975. Whereas income taxes had been rising, they are expected to decline in the medium term. Government projections indicate that income taxes will average 6.1% of GDP annually, down from an average of 6.5% in the three most recent fiscal years (2008/09 to 2010/11). In nominal terms, it is expected that SZL 1.71 billion will be collected in income taxes in 2010/11 compared to SZL 1.65 billion in 2009/10. The government also projects a 2.8% fall in company tax receipts to SZL 632.6 million in 2010/11 as a result of the global economic deceleration. A growth of 17.6% is projected in 2011/12 marking both the expected economic recovery as well as the impact of the newly established revenue authority. The government expects company tax to grow at a steady rate from 20012/13 and onwards as the tax authority expands its coverage. An estimated SZL 1.1 billion will be collected in individual income tax in 2010/11, a figure projected to continue increasing at an average rate of 6% over the medium term.

Sales tax is also significant for Swaziland. This is collected by the Department of Customs and Excise. The tax is charged at 14% on specialised services, and on certain transactions, including the importation of goods and the sale of locally manufactured goods. Most alcohol and tobacco is taxed at a rate of 20%. Sales tax receipts in the last three years have been quite robust, at SZL 601 million in 2006/7 and expanding by 20.1% in 2007/08 to SZL 724.9 million and SZL 984 million in 2008/9, the latter represents a 35% year on year increase. The government estimates that sales tax receipts for 2009/10 will reach SZL 1012.1 million and projects SZL 1122.5 million in 2010/11. It should be noted however, that the government intends on replacing the sales tax with the Value Added Tax in 2012, a move expected to significantly boost revenue as it will be more broad based.

In addition to these revenue streams, Swaziland has a series of other less significant taxes, including road tolls, taxes on lotteries and gaming, and a fuel tax. Until September 2009, the government also levied a sugar export tax. However, this ended owing to changes in the sugar regime in Europe and the government received the final payment on 31 October 2009. Swaziland and 17 other ACP countries exported sugar to the EU under the ACP Sugar Protocol of 1975 (annexed to the Lome' Agreement and later to the Cotonou Agreement). Under the ACP Sugar Protocol, the EU undertook to buy specific quantities of sugar every year at a guaranteed price, totally exempt from import duties. However, in order to comply with WTO requirements, the EU was obliged to review its internal market. As a consequence the price of sugar paid by Europe was reduced gradually to approach world market prices. This meant a reduction of income for Swaziland, which enjoys a sizeable quota of raw sugar exports to the EU. Swaziland is the fourth largest supplier of sugar to EU among the sugar protocol countries after Mauritius, Fiji and Guyana.

The government still levies a road toll which is collected on foreign registered vehicles and trucks as they enter through border posts. The road toll contributed SZL 23.8 million to government revenues in 2007/08, decreasing slightly to SZL 22.9 million in 2008/9, but this is projected to increase by 17% for 2009/10 due to the higher tourist arrivals. Projections for 2010/11 through to 2012/13 assume a 7.5% inflationary increase. The government has also seen growing receipts from lotteries and gaming over the past years with collections in 2008/09 amounting to SZL 19.7 million – a 45% increase over the 2007/08 collection of SZL 13.5 million. The key driver for the lotteries and gaming revenue has been the increased participation of South Africa-based interactive gamblers. However, continued growth in this segment of tax revenues is uncertain in the medium term as South Africa is in the process of promulgating a law that will legalise interactive gambling which could see a tapering off of participants from South Africa in Swaziland's burgeoning interactive gambling industry. With regards to fuel tax, the government collected SZL 62.8 million in 2007/08, which increased by 18% to SZL 73.9 million in 2008/09, and was projected to further rise to SZL 83.2 million in 2009/10.

Swaziland's government also collects non-tax revenue, mostly from property income, loan repayments and fees and fines, all of which collectively contribute approximately 5% to government revenues. Government projections indicate a 7.8% growth in non-tax revenue amounting to SZL 399 million in 2011/12 and SZL 431 million in 2012/13.

The last component of government revenue is development aid from international development partners, including the EU, the Chinese Taipei, the UN system and special funds like the Global Fund to Fight AIDS, Tuberculosis and Malaria. The government projects a 31% increase to SZL 441.2 million in 2010/11 largely due to an increase in assistance from the European Commission (EC) and the UN. The UN agencies are mainly supporting poverty reduction programmes, a gender mainstreaming programme and the agriculture sector, the latter through a programme jointly funded by the European Commission.

Unlike many African countries, Swaziland does not have a centralised tax agency. The decision to establish the Swaziland Revenue Authority, which is now in the advanced stages of implementation, was motivated by the drive to find alternative sources of revenue. Legislation to create the Authority was adopted in 2008 and an overseer was appointed subsequently with plans to have the agency operational by July 2010. The Revenue Authority, which is also being supported by a grant from the African Development Bank (AfDB), will pave the way for the introduction of the VAT system sometime during the 2011/12 fiscal year. The experience of Swaziland's neighbouring countries in introducing VAT has been to boost revenue by 30-40%. The government has already approved the policy framework to govern the introduction of VAT and a team is drafting the requisite legislation.

Another key development in terms of tax revenue mobilisation has to do with the full automation of the Department of Customs and Excise through the introduction of the ASYCUDA programme. The programme which has been set up at Ngwenya, Matsapha Airport, Matsapha African Growth and Opportunity Act (AGOA) stations, Lomahasha, and Mhlumeni, is expected to improve data capture and reduce the incidence of non/under declaration of imports into Swaziland. The system will also be introduced at Lavumisa, Mahamba and Mananga border posts once they are constructed and/or renovated.

In terms of non-tax revenue, the government has introduced a one-stop system for trading licences, the Trading Licence Computerisation Management System. This is expected to improve the collection of many fees as the system is linked with the Ministries of Home Affairs and Commerce, Industry and Trade. The system requires all applicants to posses all relevant documents such as citizenship or work permits for non-Swazis, tax clearance certificates, evidence of payment of company fees, and so on. With the system's computer generated receipts being more difficult to manipulate, the government has already seen some revenue gains.

In sum, Swaziland's system of public resource mobilisation seems finally to be set to undergo significant and positive reforms in the medium term in part because of the tougher global and domestic fiscal environment in which the country finds itself. The tax base is narrow and though improving, collection rates are low highlighting the urgent need to improve revenue administration. The government also needs to continue exploring new avenues of revenue enhancement aimed particularly at widening the tax base.

Political Context

Swaziland unveiled a new constitution in 2006 which sought to support good governance, the rule of law, and gender equality. The government is committed to addressing these governance issues in order to improve the country's image as well as boost investor confidence. In 2008 the country held elections under the new constitution which produced several new members of parliament. Prime Minister S.B. Dlamini was also reappointed.

Nonetheless, there is still much work to be done in order to implement the constitution. In particular, a number of agencies and bodies must be established, and under the constitution existing legislation must be reviewed and new legislation enacted. Likewise, there is a need for additional resources for the establishment of the necessary legal frameworks, institutions and structures. The government plans to allocate such resources to implement programmes such as state-funded, universal primary education (which is anticipated to begin in 2010), the decentralisation programme, the establishment of commissions, and the establishment of an independent judiciary and legislative arm of government.

Social Context and Human Resource Development

Although Swaziland is a lower middle income country with a GDP per capita of USD 2 251, it faces various development challenges many of which are also related to its anaemic economic prospects. In particular, the country's real GDP has decelerated during the last decade and has stayed below the annual population growth rate, implying a decline in the quality of life for the people of Swaziland. The government's stated policy priorities for the medium term focus on job creation and the generation of higher national output, education, health care, HIV/AIDS, and poverty alleviation. Specific programmes mostly revolve around the provision of safe water and sanitation, food security and social protection and welfare and national security, all within a framework of fiscal prudence and sound financial control and accountability.

Today, Swaziland is at the epicentre of the global HIV/AIDS pandemic, facing a social disaster of momentous dimensions. Despite a sound strategy, a strong national HIV/AIDS institution and considerable international support, the country has not been able to cope with this threat. As a result, Swaziland today has the highest HIV prevalence rate (32.4%), the highest death rate and, at 31 years, the lowest average life expectancy of any country in the world, with the long-term survival of Swaziland as a country seriously threatened if the pandemic remains unchecked. A staggering one-third of Swazi children are orphans or vulnerable. Antiretroviral therapy (ARVs) became available at all six public hospitals in the country in 2006, at five public health centres and at six facilities in the private sector. However, fewer than 33 000 people were receiving ARVs by the end of 2008 according to the UN. Limited infrastructure and human resources hinder the delivery of effective treatment. Around 80% of the population live within 8 kilometres of a facility that provides at least antenatal care, however access for rural communities remains limited. Swaziland has only 2 physicians per 10 000 people, and one nurse per 356 people. The recruitment and retention of staff is constrained by poor working conditions, few incentives and low pay, and the availability of health staff is declining further due to HIV related illness and deaths.

The government has increased its allocation to the health sector to 17.2% of the national budget in 2009/10, which is above the Abuja Declaration rate of 15%. The government has also embarked on a number of initiatives to improve efficiency through the continued strengthening of healthcare infrastructure, particularly the construction of new facilities such as the Lubombo regional hospital, the completion and equipping of the TB hospital, construction of institutional housing, strengthening the procurement of medical equipment and the rehabilitation of the Mbabane Government Hospital.

More broadly, Swaziland has persistently high levels of poverty coupled with a highly skewed distribution of income between rich and poor. However, the country is not poor enough to merit an International Monetary Fund (IMF) programme. Moreover, with an estimated 40% unemployment rate and no labour market reforms planned in the near term, there is an urgent need for Swaziland to move out of what increasingly looks like a low-growth trap. Further complications for the country's development agenda include overgrazing, soil depletion, frequent droughts and occasional floods.

Beginning in the 2009/10 fiscal year, the government earmarked over SZL 993 million for poverty related programmes mostly focusing on the provision of clean water and sanitation, grants and subsidies and agribusiness development. The Agriculture Ministry has also developed a comprehensive national programme for food security that aims at not only providing clear guidance regarding the strategies and measures requisite for improving the Swaziland's food security status, but also complementing existing initiatives on poverty reduction, agricultural production and marketing, environmental management, disaster preparedness and access to water and sanitation.

Table 5: Summary results

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Real GDP growth (incl.Stk)	1.2	1.8	2.2	2.9	2.5	3.3	3.5	2.4	0.2	2.2	2.4
CPI inflation	6.9	11.7	7.4	3.4	4.8	5.3	8.1	12.7	4.1	5.5	7.2
GDP (scaled $)	11110.6	11308.1	11561.4	11897.4	12190.5	12593.1	13034.4	13341.6	13368.8	13685.2	14038.1
RGDP	1290.6	1174.1	1795.9	2281.6	2523.8	2947.9	3053.8	2933.0	2905.2	2987.8	3032.8
Exchange rate	8.6	10.5	7.6	6.5	6.4	6.8	7.0	8.3	8.5	8.9	9.4

Sources: Data from Central Statistical Office & Ministry of Finance, Swaziland, Jan. 2010; estimates (e) and projections (p) based on authors' calculations.
Figures for 2009 are estimates; for 2010 and later are projections.

StatLink http://dx.doi.org/10.1787/863723564186

From:

African Economic Outlook 2010

Access the complete publication at:

https://doi.org/10.1787/aeo-2010-en

Please cite this chapter as:

OECD/African Development Bank/United Nations Economic Commission for Africa (2010), “Swaziland”, in *African Economic Outlook 2010*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/aeo-2010-58-en