Swaziland

The Swaziland economy moderately improved, recording an estimated gross domestic product (GDP) growth of 2.1% in 2010. While the constraints that limited the government's countercyclical measures in 2010 continue, the economy is projected to grow at 1.9% in 2011. Growth is premised on an improved global economic environment (providing some stimulus to tourism and manufacturing) and an increase in domestic absorption, in particular, public investment.

In 2010, the economy experienced critical structural challenges related to an unfavourable business environment. Improvement in areas of weakness identified by the 2011 *Doing Business* report coupled with proposed reform measures in the financial services regulatory bill and regulation of the utility sector should promote private investment. High prevalence of HIV, unemployment and poverty are critical social challenges that continue to undermine social and economic progress.

In the context of a small domestic market of 1.2 million people and GDP per capita estimated at USD 2 452, external markets for exports are critical for sustained economic growth in the short to medium term. The country's membership in various trade partnerships points to the right direction.

After averaging 2.9% during 2004-08, economic growth in Swaziland significantly dropped in 2009, mainly due to the impact of the global economic downturn on export-oriented sectors, in particular textiles and wood pulp. Other contributory factors were prolonged drought and low levels of foreign direct investment (FDI). In 2010, the economy moderately recovered with a rebound in global demand mainly for sugar and textiles. However, falling receipts from the Southern African Customs Union (SACU) coupled with lower internal revenues constrained the government's ability to implement counter-cyclical measures. In order to support economic activity in 2010, low interest rates were maintained in line with those of South Africa. However, the main focus of the Central Bank of Swaziland continued to be price stability. Inflation was 4.5% in 2010, down from 7.5% in 2009. This was mainly driven by lower prices for food and transport. Inflation is forecast at 7.7% in 2011, reflecting the lagged impact of increases in tariffs for water and electricity in 2010. The anticipated fuel and food crises are also expected to impact domestic price levels.

The economic outlook for 2011 appears bullish with unchanged international prices for sugar and wood pulp. However, supply for wood pulp is expected to be affected by the closure of the Sappi Company in 2010. The continued appreciation of the South African rand (ZAR) against the US dollar (USD) and other major currencies has reduced profitability in export-oriented sectors including mining, which might lead to a scaling down of operations and postponement of planned investments. In addition, the high cost of doing business and the high rate of HIV/AIDS prevalence will continue to subdue growth in 2011.

In order to deal with the fiscal challenges caused by the drop in Southern Africa Customs Union (SACU) revenues and burgeoning wage salary expenditures, the Government of Swaziland (GoS) has prepared a Fiscal Adjustment Roadmap (FAR) that runs from 2010/11 to 2014/15. This became the basis for negotiations with the International Monetary Fund (IMF) for an IMF Staff Monitored Program (SMP) since late October 2010. Once concluded, the SMP will unlock external donor support for the FAR and lay a solid foundation for sustainable economic growth. The SMP among other things advocates for quick implementation of the Value Added Tax (VAT) and reduction of the budget, particularly wages and salaries (16.4% of GDP in 2010/11) by 5% per annum beginning 2011/12 until 2013/2014. Revitalising the private sector through improving the business environment and using existing and emerging partnerships will be critical to a quick economic turnaround and for putting the economy onto a path of sustainable economic growth.

Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	1.2	2.1	1.9	2.2
CPI inflation	7.5	4.5	7.7	10
Budget balance % GDP	-0.2	-6.7	-10.8	-13.6
Current account % GDP	-12	-16.6	-14.2	-12.5

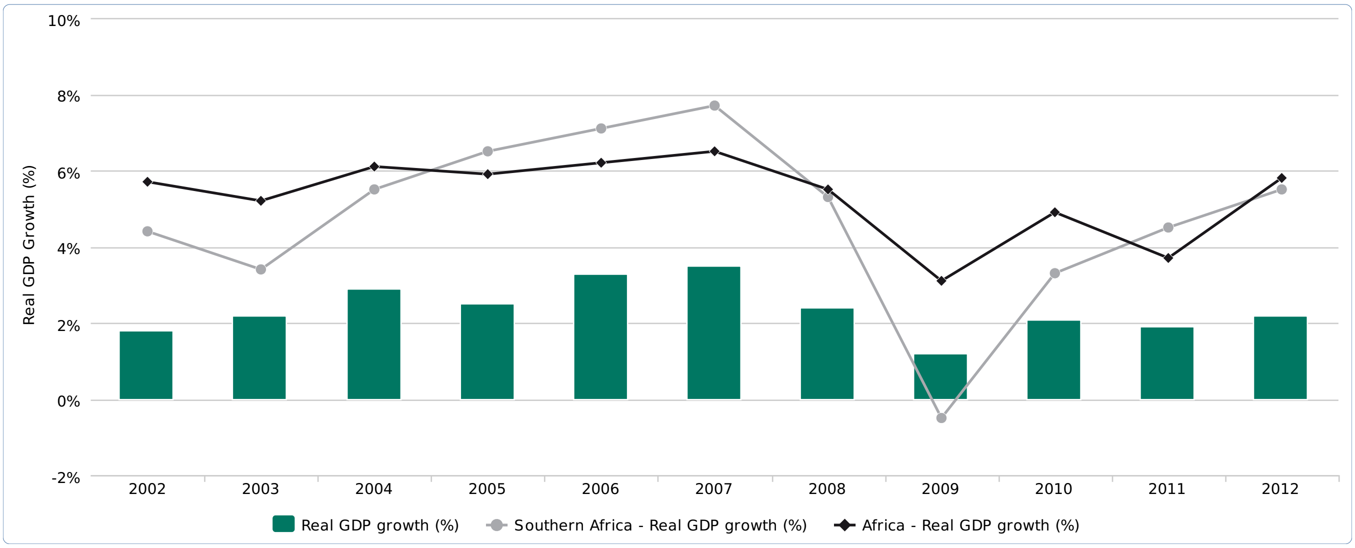
Source: National authorities' data; estimates and predictions based on authors' calculations.

Figures for budget balance refer to fiscal year April (n)/ March (n+1).

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink http://dx.doi.org/10.1787/888932406954

Figure 1: Real GDP growth (S)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink http://dx.doi.org/10.1787/888932404598

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