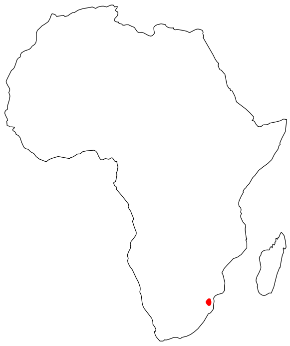
January 2005

Swaziland



Background

Autonomy for the Swazis was guaranteed by the British in the late 19th century; independence was granted in 1968. Student and labour unrest during the 1990s pressured the monarchy (one of the oldest on the continent) to grudgingly allow political reform and greater democracy. Swaziland recently surpassed Botswana as the country with the world's highest known rate of HIV/Aids infection

Government

Government type:
Monarchy; independent member of Commonwealth
Capital:
Mbabane (Lobamba is the royal and legislative capital)
Independence:
6 September 1968 (from UK)
Chief of state:
King Mswati III (since 25 April 1986)
Elections:
House of Assembly (balloting is done on a non-party basis and candidates are nominated by local council). Last held 18 October 2003 (next to be held October 2008).
A bicameral parliament, which consists of the Senate and the House of Assembly, is an advisory body.
Political parties are banned by the constitution.

Source: CIA World Factbook 2004

People

Population:
1 169,241 (July 2004 est.)
Estimates vary
Population growth rate:
0.55 (2004 est.)
Life expectancy at birth:
Total population: 37.54 years
Male: 39.1 years
Female: 35.94 years (2004 est)
Ethnic groups:
African 97%, European 3%
Religions:
Zionist (a blend of Christianity and indigenous ancestral worship) 40%, Roman Catholic 20%, Muslim 10%, other 30%
Languages:
English (official business language), siSwati
Adult literacy rate:
Definition: % of population aged 15 and over that can read and write. 2003: 81.6%

Source: CIA World Factbook 2004

Geography

Area:
Total: 17 363 sq km
Land: 17 203 sq km
Water: 160 sq km
Land boundaries:
Total: 535 km
Border countries: Mozambique 105 km, South Africa 430 km
Coastline:
Landlocked.

Climate:
Varies from tropical to near temperate.
Terrain:
Mostly mountains and hills, some moderately sloping plains.
Natural resources:
Asbestos, coal, clay, cassiterite, hydropower, forests, small gold and diamond deposits, quarry stone and talc.
Land use:
Arable land: 10.35%
Permanent crops: 0.7%.
Other: 88.95% (2001)
Irrigated land:
690 sq. km (1998 est)
Natural hazards:
Drought
Environment:
Limited supplies of potable water; wildlife populations are being depleted because of excessive hunting; overgrazing; soil degradation and erosion.

Source: CIA World Factbook 2004

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Health

People living with HIV/Aids:
Adults: (age 15-49) 2003: 38.8%
Adults: (age 15-49) 2003: 200 000
Women: (age 15-49) 2003: 110 000
Children: (age 0-14) 2003: 16 000
Tuberculosis cases (per 100 000 people):
2002: 769
Undernourished people (1999/2001):
12% of total population
Malaria cases (per 100 000 people)
2000: 2 835

Source: UNDP Human Development Report 2004; UNAIDS.

Corruption perceptions index

Not rated

Score:

Place:

(The surveys reflect the perceptions of business people, academics and country analysts. The surveys were undertaken over the past three years and no country has been included in the index without results from a minimum of three surveys).

Source: Transparency International

Restrictions on capital flows

- Swaziland is a member of the Common Monetary Area (CMA). Exchange controls are governed by the CMA. There are no foreign exchange restrictions between CMA members and it constitutes a single exchange control area. However, CMA members' exchange controls with the rest of the world cannot be less strict than South Africa's.

Taxation

- Corporate tax: 30%.
- Individual tax: progressive, maximum rate is 33% for incomes above E36 000.
- Withholding tax: 15% on dividend 10% in interest payments to non-residents.
- Sales tax: 14%; 25% for liquor.
- No capital gains tax.

Source: World Markets

Sovereign credit rating

Standard & Poor's:
Not rated
Moody's Investor Service:
Not rated
Fitch ratings:
Not rated

Human development

HDI rank 2004
137 out of 177 countries
(1=most developed, 177= least developed)

Norway	**1**
Seychelles	35
Mauritius	64
South Africa	119
Gabon	122
Namibia	126
Botswana	128
Ghana	131
Swaziland	**137**
Lesotho	145
Uganda	146
Zimbabwe	147
Kenya	148
Madagascar	150
Nigeria	151
Tanzania	162
Ivory Coast	163
Zambia	164
Malawi	165
Angola	166
DRC	168
Mozambique	171
Sierra Leone	**177**

The Human Development Index (HDI) measures a country's achievements in three aspects of human development: longevity, knowledge and a decent standard of living. Longevity is measured by life expectancy at birth; knowledge is measured by a combination of the adult literacy rate and the combined gross primary, secondary, and tertiary enrolment ratio; and standard of living, as measured by GDP per capita.

Source: UNDP Human Development Report 2004

		1999	2000	2001	2002	2003	2004e
Population	(Million)	1.0	1.0	1.1	1.1	1.1	1.1
Nominal GDP¹	(US$bn)	1.38	139	1.27	1.18	1.81	2.05
GDP/head	(US$)	1384	1328	1184	1086	1636	181
Exchange reserves² -excluding gold	(US$m)	366.27	338.50	271.10	275.84	277.51	308.73(4)
Import cover	(Months)	4.1	3.9	2.9	3.4	2.2	-
External debt²	(US$m)	301	295	303	342	-	-
% of GDP	%	21.8	21.2	24.2	29.0	-	-

1) Year beginning in January. 2) End of period 3) Preliminary or estimates. 4) October 2004.

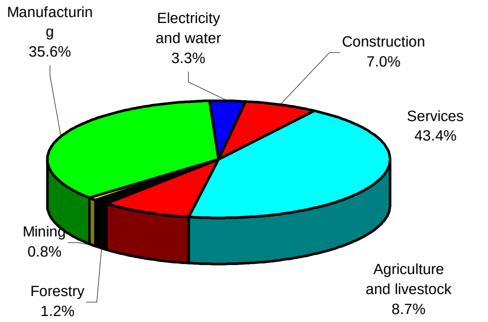
Economic structure

The economy is largely dependent on the agricultural sector. Swaziland's dual land tenure system has an impact on the productivity of the sector, as communal land, which is not irrigated, is used mostly for subsistence farming, whereas private land, which is largely irrigated, is used for commercial farming. Sugarcane and maize are two important commercial agricultural crops. Output of the agriculture and livestock sector (about 9% of GDP) is volatile as it is often negatively affected by adverse weather conditions. However, sugarcane is largely grown on irrigated land and has been partially protected from the effects of regional droughts.

Agriculture has strong links to the manufacturing sector as it provides its inputs. For example, sugar refining and soft drink processing in the manufacturing sector are clearly linked to the agricultural sector. The manufacturing sector also benefited from the US African Growth and Opportunity Act (Agoa) as exports of textiles and apparel increased from about US$8 million in 2001 to US$126.4 million in 2003. The manufacturing sector (about 36% of GDP) is the second largest contributor to output.

The service sector, the largest, accounts for 43% of GDP. Government services account for the largest part of the service sector, followed by wholesale and retail trade. The banking sector is relatively well developed.

Contribution to GDP



Source: IMF

Real GDP growth

Economic growth has stagnated since 1997. Swaziland lost some advantage as an investment destination when South Africa became a democracy in 1994.

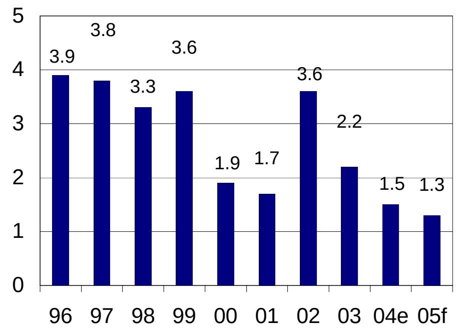
The growth outlook for the economy is clouded by the high incidence of HIV/Aids, poverty, hunger and unemployment. Recent droughts and adverse weather conditions have also hindered development. A growing fiscal deficit could endanger macroeconomic stability.

Higher output in the manufacturing sector should be a long-term source of economic growth, but the textile and apparel industry is likely to suffer from the scrapping of quota restrictions on exports to developed countries. The construction sector received a one-off boost with the completion of the Maguga Dam. Development of the tourism industry, which previously benefited from South Africa's political isolation, could boost the growth rate in the future.

As about half of Swaziland's exports are destined for South Africa, its economic prospects are largely dependent on South Africa's economic performance. South Africa's relative resilience over the past few years has been a benefit to the small landlocked country.

Growth in South Africa has slowed in recent years, from a high of 4.3% in 1996 to lows of 0.8% in 1998 and 1.9% in 2003. However, South Africa is well positioned to grow. The IMF expects 3.3% growth in 2005. This should benefit Swaziland as well as other neighbouring countries.

Real GDP growth %



Source: IMF

Consumer inflation (%)

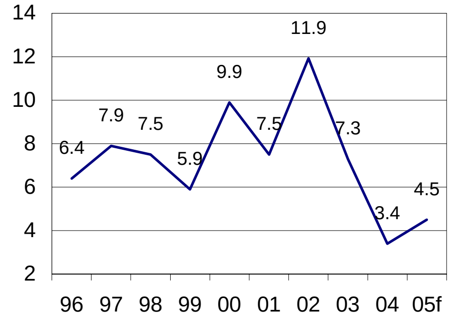
Swaziland is a member of the Common Monetary Area (CMA) with South Africa, Lesotho and Namibia; as well as of the Southern African Customs Unions (SACU), which comprises the CMA members and Botswana. These regional links suggest close trade linkages and integration. Because of its membership of the CMA and the fact that about 80% of its imports are from South Africa, Swaziland's inflation largely moves in tandem with South Africa's. Inflation in Swaziland has, however, been slightly above South Africa's since 1998. The main reasons are higher transport costs for imports and the higher weight of food in the consumer price index.

Average inflation moved higher in South Africa in 2002 with the sharp depreciation of the currency. However, the recovery of the rand during much of 2003 and 2004 has brought inflation to lower levels and to within the South African Reserve Bank (SARB) CPIX (CPI less mortgages) target of 3% to 6%.

Swaziland's inflation was largely caused by the sharp currency depreciation in 2001 and 2002 as well as high food price increases, which peaked at nearly 30% y/y in October 2002. With a weight of 24.5% in the overall consumer price index, food price increases largely drove inflation higher. In 2003 average food inflation was 12.6%, but declined to 6.9% in 2004. High international crude oil prices did not put undue pressure on the inflation rate as the strong exchange rate helped to mitigate their inflationary impact.

The strength of the currency, despite being highly volatile, has reduced inflationary pressures. Food aid and administered prices on items such as bread, sugar, milk and maize, keep a lid on food price increases. Inflation is expected to average less than 5% in 2005.

Consumer inflation – annual % average



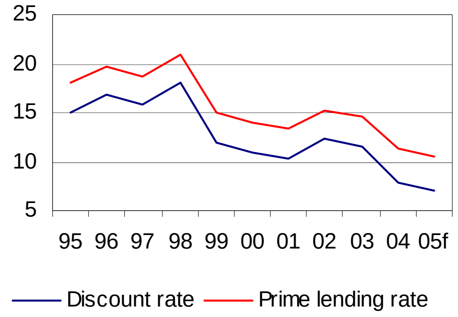
Source: IMF, Central Bank of Swaziland

Interest rates (%)

Membership of the CMA limits the Central Bank of Swaziland's (CBS) monetary policy options. Swaziland's monetary policy is largely determined by the SARB and its interest rates follow similar trends to South Africa's. Swaziland's CMA membership is based on its close trade and financial ties with South Africa. The CMA contributed to Swaziland's monetary integration and stability, despite limiting its monetary policy options.

Historically, the CBS has maintained marginally lower interest rates than South Africa to stimulate investment. However, at the end of 2003 interest rates converged. Prime rates in Swaziland and South Africa have been the same since September 2003 and Swaziland's discount rate is the same as South Africa's repo rate. South Africa's interest rates are expected to drop marginally in the second quarter of 2005, as the inflationary outlook is positive and inflationary expectations are low. Swaziland's rate could follow a similar trend.

Interest rates – annual average %



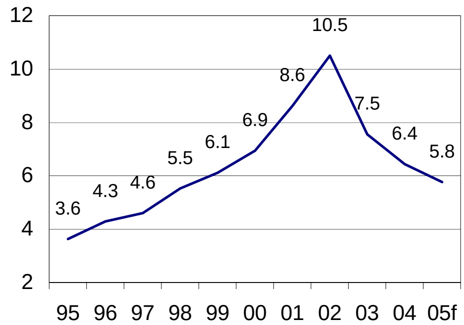
Source: IMF, CBS

Exchange rate

The lilangeni is pegged at par to the South African rand under the CMA agreement. The lilangeni and the rand depreciated sharply against the US dollar during 2001 and 2002, falling to a low of ZAR13.8 to the US dollar in December 2001. The relatively weak currency boosted Swaziland's exports outside South Africa. Exports of goods that are priced in US dollars, such as textiles and apparel under Agoa, benefited.

The continued strength of the currencies will have a positive effect on import prices. Despite this, currency volatility has impacted negatively on business sentiment. The currency's strength is expected to continue for some time, largely due to the weakening of the US dollar against the euro, emanating from the large twin deficits in the US. An annual average exchange rate of about SZL5.8 is forecast for 2005.

Lilangeni per US$



Source: Bloomberg

Balance of payments

The main export items are edible concentrates and sugar; apparel and clothing; and wood pulp and waste paper. Exports of textiles and apparel to the US under Agoa have improved dramatically since 2001. Although the sugar sector continues to support export performance, textiles and apparel have helped to diversify exports. South Africa absorbs about half the country's exports.

Main merchandise imports are machinery, fuels, vehicles, various manufactured goods, plastics and paper products. Some 80% of imports are from South Africa.

Swaziland's proximity to the relatively large South African market has been an advantage to trade, which is further strengthened by the CMA and the SACU.

The negative trade balance is partly offset by labour income and SACU transfers. A new SACU revenue-sharing formula, which was adopted in 2002, will come into effect soon. Revenues from this source are expected to continue to decline. The declining trend in labour income, from miners' remittances working on South African mines, is also expected to continue.

The current account deficit amounted to 2.2% in 2003 and 2.4% in 2002 compared to a high of 6.9% of GDP in 1998, according to central bank figures.

Capital inflows have been relatively low in recent years.

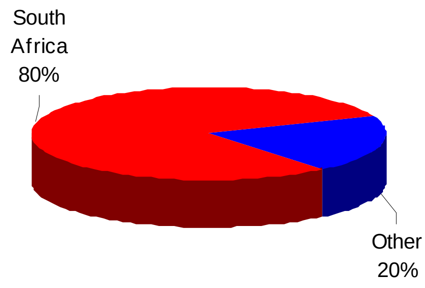
Historically, Swaziland has attracted strong foreign direct investment (FDI) inflows on the strength of its high economic growth, moderate inflation, stable exchange rate, productive workforce, close ties with the South African market, tax incentives and political stability. The slower growth since 2000 has discouraged investors and FDI flows have been erratic. Moreover, since its transition to democracy, South Africa has become a comparatively more attractive FDI destination than Swaziland. According to the IMF, most FDI in Swaziland is related to agriculture and manufacturing.

The country's good performance under Agoa may reverse the downward trend in FDI in the medium term, if it can continue to attract new investment, particularly in the textile and apparel sector. However, the World Trade Organization's Agreement on Textiles and Clothing (ATC), which eliminated all quota restrictions on exports, is expected to benefit low-cost producers, like China and India, whereas less productive countries will suffer.

Emalangeni (millions)	1998	1999	2000	2001	2002	2003
Exports	5 350	5 723	8 951	8 951	9 957	10 702
Imports	-5 936	-6 525	-7 255	-9 611	-10 227	-11 109
Trade balance	-586	-803	-944	-660	-271	-407
Services & transfers	69.9	588	492	196	-33	94
Current account	-516	-215	-452	-464	-304	-313
Capital account	795	345	407	-21	-8	184
Overall balance	279	131	-45	-485	-312	-128

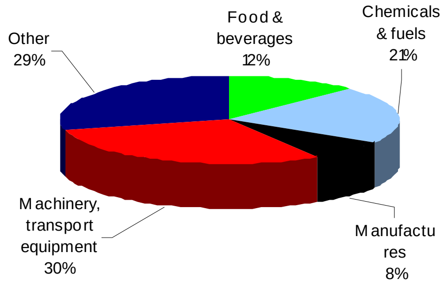
Source: Central Bank of Swaziland

Origin of imports



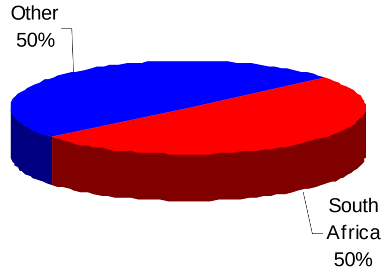
Source: IMF

Composition of imports



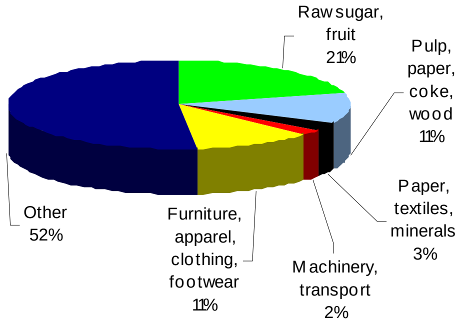
Source: IMF

Destination of exports



Source: IMF

Composition of exports



Source: IMF

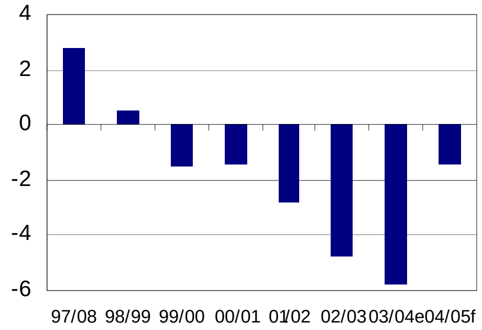
Government finances

The widening fiscal deficit, mainly after 1999, is a growing cause for concern. The main reason is total expenditure and net lending have risen faster than revenue and grants. Capital expenditures have also increased.

Historically, SACU receipts which, on average, represented 53% of Swaziland's tax revenue between 1996/97 and 2001/02, and which is equivalent to about 14% of GDP, have been relatively stable. However, a new SACU revenue-sharing formula was adopted in 2002. Each member's revenue will be based on a share of the customs and excise pools and a development component. The new SACU agreement thus changes the internal distribution of tariff revenue. However, the global trend of trade liberalisation will eventually reduce overall SACU revenues, as tariffs, which are taxes on trade, are being gradually reduced under World Trade Organization (WTO) rules.

There is considerable pressure on the government to increase spending on social infrastructure such as food, health and education. The high incidence of HIV/Aids will increasingly drain government resources, and at the same time erode the tax base.

Budget deficit - % of GDP



Source: IMF, Budget 2004

Economic outlook

Economic growth has been negatively affected by adverse weather conditions and disruptions in manufacturing. The recent regional drought had a negative effect on output growth and resulted in a food crisis, which affected about a quarter of the population. The country is now facing another period of food shortages, as rainfall has been erratic. A state of emergency was declared in 2003 because of the food crisis.

The sugar industry remains the backbone of the economy. According to Swaziland Sugar Association data, output represents a quarter of GDP; an eighth of exports; and three-fifths of agricultural production. All sugar cane is irrigated by either furrows or sprinklers. The regional drought has therefore not affected the sugar industry as severely as the rest of the agricultural sector. The recently completed Maguga Dam will place more sugar plantations under irrigation and boost output.

However, the outlook for the sugar industry is uncertain. The existing European Union and African, Caribbean and Pacific (EU-ACP) Sugar Protocol and the Agreement on Special Preferential Sugar (SPS) will be renegotiated when they expire in 2008. Also, the EU's new Everything But Arms (EBA) initiative will phase out preferential access between 2006 and 2009. The outlook for sugar prices received by Swaziland is negative - prices could fall dramatically - as the European Union is in the process of reviewing its pricing system.

Similarly, the textiles and clothing sector is facing strong competition from low-cost and large-scale producers such as China, India and Pakistan, under the new trade dispensation.

Tourism could become an important source of growth, with the development of the Lubombo Spatial Development Initiative (SDI), launched in 1997 between South Africa, Swaziland and Mozambique, as well as other initiatives. The strong currency, however, is hampering developments in this sector.

The Constitutional Review Commission's recommendations entrench the constitutional monarchy and extend the king's powers, which are contrary to democratic principles. Political freedom is curtailed by the ban on political parties, which has been in place since 1973. The country continues to be divided between the traditionalist monarchy and the more progressive forces, which envisage democratisation of the political dispensation.

The crisis in the judiciary has also not been resolved. The crisis emerged when the royal court ignored judgements by the Court of Appeal in 2002. The appeal court judges have not returned to work.

The monarchy remains a constraint on investment and growth. Social unrest, strikes and protest action from pro-democracy groups is expected to add to political instability and uncertainty.

According to the IMF, economic challenges are getting worse and macroeconomic stability is at stake. Land tenure reform is needed to boost productivity, particularly in the agricultural sector. The fiscal deficit is too high and reflects a weakening of the country's public finances. The authorities are also drawing down the country's foreign reserves to fund the fiscal deficit. Swaziland needs to maintain adequate reserves to sustain the credibility of the lilangeni exchange rate peg to the rand.

The main threat to Swaziland is the high rate of HIV/Aids infection, particularly the growing number of HIV-positive truck drivers. The country is land-locked and is dependent on road transport. Official statistics now put the HIV infection rate at over 38%. Social spending is inadequate to combat Aids and poverty.

The IMF expects GDP growth to moderate to 1.3% in 2005 from 1.5% in 2004. Although a more diversified economy will reduce some of the growth risks, the Aids pandemic could become an insurmountable barrier to development and improvements in the standard of living.

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