Swaziland's 2006 budget

The Minister of Finance Majozi Sithole presented the budget to parliament on 17 February.

The economy is expected to have grown at 2% in 2005 and is expected to grow by 1.7% in 2006, according to IMF projections. The currency, which is pegged to the rand, remained strong in 2005. The central bank's discount rate was 7% and the prime rate 10.5% at end 2005, which is on a par with South Africa. Inflation averaged 4.8% in 2005. Net foreign assets were equivalent to just 1.9 months of imports, which is below the accepted minimum of three months. Total stock of public debt was relatively low at 22.9% of GDP at end-September 2005. These indicators paint a mixed, but generally positive, picture.

Yet, the country is confronting a number of serious problems, not least the political unrest and dissatisfaction with Africa's last remaining absolute monarchy. Political parties are banned. A spate of petrol bombings since last year has resulted in several arrests. Poverty levels (almost 70% of the population lives below the poverty line) and unemployment rates (a third of the labour force) are unacceptably high. Swaziland recently overtook Botswana as the country with the highest HIV/Aids infection rate. About 80 000 children have been orphaned by the Aids pandemic and some households are headed by children. Droughts, food shortages and harvest failures aggravate the dire situation.

The main themes of the budget were poverty alleviation, HIV/Aids, employment creation, food security, macroeconomic management, economic growth and revenue diversification.

Budget allocations for 2006/07

E million	**2006/07**	**Ratios**
Revenue and grants	6,400	
- of which: SACU receipts	4,017	63% of revenue and grants
- of which: income tax	1,400	22% of revenue and grants
Expenditure	6,770	
Recurrent expenditure	5,320	79% of expenditure
- of which: salaries	2,864	54% of recurrent expenditure
Capital expenditure	1,450	21% of expenditure
Overall balance after grants	-373	Deficit of 2% of GDP

Various programmes have been launched to tackle the pandemic and E29 million has been allocated to roll out antiretroviral drugs. Already some 13 000 patients receive these drugs free of charge.

According to the minister, the manufacturing sector has retrenched over 10 000 workers in the last year, despite some jobs having been created in the textile and apparel, transport and sugar sectors. These new jobs are not sufficient to reduce poverty and unemployment.

The agricultural sector is poorly diversified as production is focused on sugarcane, maize and cattle. The cotton industry provides an opportunity for diversification and it is envisaged that production should increase fivefold by 2009 from 3 000 tons today. A number of other initiatives will also be launched to further diversify the sector and help improve food security, such as planting drought-resistant crops.

The need to diversify is underscored by the problems facing the sugar sector. Reforms of the European Union Sugar Regime will result in prices paid to the Swazi sugar producers falling by 36% over four years from 2006/07.

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Other initiatives include capacity building in the small and medium enterprise (SME) sector, for which E50 million has been earmarked; higher disbursements by the Swaziland Development Finance Corporation to SMEs; tourism development and infrastructure development.

In terms of revenue, Southern African Customs Union (SACU) receipts comprise 63% of revenue and grants. As the revenue pool is likely to diminish over the medium term (because of falling international tariff barriers) the government will need to diversify its revenue sources. To this end the new Revenue Authority, to be set up from the merged Departments of Customs and Excise and Income Taxes, will introduce VAT within two years of its launch. VAT should improve the effectiveness of tax collection.

Expenditure is mostly dedicated to personnel costs, as salaries consume 54% of recurrent expenditure, and is double capital expenditure. This share of expenditure is not sustainable, a situation which the minister highlighted.

The minister budgeted for a deficit of 2% of GDP in 2006/07, in contrast to the 2004/05 deficit of 4.5% of GDP and the 2005/06 deficit of 4.3% of GDP.

Conclusion

Politics continue to dominate economics in Swaziland. The country's new constitution, the first in 30 years, became law in July 2005. It was signed by King Mswati III and should come into effect in early 2006. The king retains absolute power, remains the head of state and must approve all legislation passed by parliament. A significant change is that women have been accorded the same rights and opportunities as men.

The relatively sound macroeconomic indicators suggest that the government can help to alleviate poverty and reduce unemployment, but the political constraints will hamper the economy reaching its full potential growth rate. According to IMF data, Swaziland grew at an average rate of 5.6% between 1987 and 1996. Since then economic growth rates have declined, varying between 1.6% (2001) and 3.8% (1998). Getting the growth rate back up to above 5% as in the earlier period, is a necessary, but not sufficient condition, for peace and prosperity.

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