
Country Report

Swaziland

January 2008

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The Economist Intelligence Unit

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Swaziland

January 2008

Summary

- Outlook for 2008-09** The implementation of the new constitution is not expected to lead to any real transformation of the political system unless the modernists' demand for political parties to be allowed is met. The outcome of the current opposition challenge to the new constitution before the Supreme Court will determine the course of Swaziland's politics in 2008-09. Economic liberalisation will be central to government policy, but progress will be slow and implementation patchy. Recovery from drought will see real GDP growth edge up to 2.5% in 2008-09, but this will be constrained by ongoing problems facing the textile and sugar industries. The Economist Intelligence Unit expects inflation to follow trends in South Africa, falling to 6.5% in 2008 and 6% in 2009. We expect the current-account deficit to widen to 3.7% of GDP in 2008 and to 4.5% of GDP in 2009, owing to stagnating earnings from sugar and textile exports and lower current transfers from the Southern African Customs Union (SACU).
- The political scene** The Supreme Court has begun hearing the challenge to the constitution by civic organisations. Political parties have begun planning for the 2008 elections. The courts have not yet ruled on the legality of the Swaziland Police Union. There has been slow progress in establishing the Human Rights Commission and staffing the Anti-Corruption Commission.
- Economic policy** The finance minister, Majosi Sithole, has presented the medium-term budget policy statement (MTBPS), which largely repeats the same priorities of expenditure control and improved revenue collection as the previous MTBPS. The IMF Article IV mission has stressed the revenue challenge facing the government, with SACU revenue inflows expected to fall. The Central Bank of Swaziland has raised interest rates to 11% in line with the South African Reserve Bank's 100-basis-point increase between October and December.
- The domestic economy** The year-on-year inflation rate rose to 9.8% in September, the highest level so far in 2007, on the back of higher food and fuel prices. A Namibian company is looking to invest E941m (US\$130m) in developing biofuels in Swaziland.
- Foreign trade and payments** Swaziland has agreed an interim Economic Partnership Agreement with the EU that will improve the country's access to the EU market for its textile exports, but retains quotas on sugar exports to the EU.

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Political structure

Official name	Kingdom of Swaziland	
Form of state	Absolute monarchy	
Legal system	Parallel systems of Roman-Dutch and customary law	
National legislature	A bicameral parliament; the House of Assembly is elected through the <i>tinkhundla</i> electoral system, which has three stages: nomination, primary election and secondary election; a secret ballot is now conducted for the last two stages; the Assembly has 55 elected members and ten royal appointees; the Senate consists of 30 members, 20 of them royal appointees and ten selected by the Assembly; the king may legislate by decree; a new constitution containing a number of small changes to the political system came into effect in February 2006	
National elections	Last parliamentary election October 2003; next election scheduled for October 2008	
Head of state	Monarch; succession governed by custom	
National government	The monarch and his cabinet, appointed in November 2003	
Political parties	None; status under the new constitution remains unclear, although some groups are operating openly and have applied for registration	
The government	Monarch	Mswati III
	Prime minister	Themba Dlamini
	Deputy prime minister	Constance Simelane
Key ministers	Agriculture & co-operatives	Mtiti Fakudze
	Economic planning & development	Reverend Absalom Dlamini
	Education	Themba Msibi
	Enterprise & employment	Lutfo Dlamini
	Finance	Majozi Sithole
	Foreign affairs & trade	Mathendele Dlamini
	Health & social welfare	Njabulo Mabuza
	Home affairs	Prince Gabheni
	Housing & urban development	Mabili Dlamini
	Justice & constitutional affairs	Prince David
	Natural resources & energy	Dumsile Sukati
	Public service & information	S'gayoyo Magongo
	Public works & transport	Elijah Shongwe
	Tourism, environment & communications	Thandi Shongwe
Central Bank governor	Martin Dlamini	

Economic structure

Annual indicators

	2003 ^a	2004 ^a	2005 ^a	2006 ^b	2007 ^b
GDP at market prices (E bn)	14.4	16.3	17.4	19.2	20.4
GDP (US\$ bn)	1.9	2.5	2.7	2.8	2.8
Real GDP growth (%)	2.4	2.1	1.8	2.8	2.3
Consumer price inflation (av; %)	7.3	3.4	4.8	5.3 ^a	7.5
Population (m)	1.1	1.1	1.1	1.1 ^a	1.1
Exports of goods fob (US\$ m)	1,484.8	1,741.1	1,824.7	1,877.4	1,927.2
Imports of goods fob (US\$ m)	1,442.1	1,601.1	1,751.8	1,808.3	1,930.5
Current-account balance (US\$ m)	36.3	74.0	25.9	23.7	-40.4
Foreign-exchange reserves excl gold (US\$ m)	277.5	323.6	243.9	372.5 ^a	381.5
Total external debt (US\$ bn)	0.4	0.5	0.5	0.5	0.5
Debt-service ratio, paid (%)	1.4	2.2	1.8	4.2	1.4
Exchange rate (av) E:US\$	7.6	6.5	6.4	6.8 ^a	7.3

^a Actual. ^b Economist Intelligence Unit estimates.

Origins of gross domestic product 2004 ^a	% of total	Components of gross domestic product 2004 ^a	% of total
Agriculture & forestry	14.3	Private consumption	64.9
Industry	44.8	Government consumption	21.0
Manufacturing	34.9	Gross fixed investment	17.4
Services	40.9	Exports of goods & services	93.6
		Imports of goods & services	-97.0

Principal exports fob 2004 ^b	US\$ m	Principal imports cif 2004 ^b	US\$ m
Edible concentrates ^c	800	Machinery & transport equipment	409
Consumable finished goods ^d	477	Manufactured goods	531
Sugar	184	Food & live animals	330
Wood pulp	123	Chemicals	298

Main destinations of exports 2004	% of total	Main origins of imports 2004	% of total
South Africa	72.1	South Africa	95.5
US	7.5	Taiwan	1.8
Mozambique	3.9	EU	0.9
New Zealand	2.6	China	0.9

^a IMF estimates. ^b Preliminary estimates. ^c Largely soft-drink concentrate. ^d Largely textiles and clothing.

Quarterly indicators

	2005	2006				2007		
	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr
Prices								
Consumer prices (Jan 1996=100)	197.0	201.0	202.9	204.6	208.0	213.3	n/a	n/a
Consumer prices (% change, year on year)	6.2	5.1	5.3	5.4	5.6	6.1	n/a	n/a
Consumer price Index "A" ^a	196.3	200.1	201.9	203.5	206.7	211.0	n/a	n/a
Consumer price Index "A" (% change, year on year)	6.2	5.0	5.2	5.2	5.3	5.4	n/a	n/a
Consumer price Index "B" ^b	217.6	223.9	227.1	230.2	236.9	241.0	n/a	n/a
Consumer price Index "B" (% change, year on year)	8.2	6.9	8.1	8.7	8.9	7.6	n/a	n/a
Financial indicators								
Exchange rate E:US\$ (av)	6.538	6.144	6.457	7.164	7.321	7.230	7.091	7.107
Exchange rate E:US\$ (end-period)	6.325	6.205	7.170	7.765	6.970	7.275	7.110	6.870
Deposit rate (av; %)	3.89	3.89	4.05	5.13	6.65	6.75	6.76	7.04
Discount rate (end-period; %)	7.00	7.00	7.50	8.00	9.00	9.00	9.50	10.00
Lending rate (av; %)	10.50	10.50	10.67	11.33	12.17	12.50	12.67	13.33
Money market rate (av; %)	3.36	3.36	3.66	4.84	5.75	6.00	6.21	6.79
Prime rate (end-period; %)	10.50	10.50	11.00	11.50	12.50	12.50	13.00	13.50
Treasury-bill rate (av; %)	6.85	6.99	7.07	7.72	8.39	8.58	8.40	9.32
M1 (end-period; E m)	1,294.8	1,326.2	1,328.2	1,445.7	1,358.1	1,477.4	1,568.2	1,589.6
M1 (% change, year on year)	19.8	25.6	11.4	17.1	4.9	11.4	18.1	9.9
M2 (end-period; E m)	3,469.9	3,971.4	4,057.2	4,352.4	4,340.3	4,627.3	5,041.4	4,940.8
M2 (% change, year on year)	9.7	26.2	23.1	30.3	25.1	16.5	24.3	13.5
Sectoral trends								
Sugar exports ('000 tonnes)	126.0	99.3	142.7	147.2	138.6	n/a	n/a	n/a
Electricity consumption (m kwh)	216.0	222.0	224.8	234.0	231.4	253.3	n/a	n/a
Building plans approved, industrial (no.)	38	24	22	43	22	n/a	n/a	n/a
Building plans approved, industrial (E '000)	67,168	8,981	14,014	27,400	13,681	n/a	n/a	n/a
Foreign reserves								
Reserves excl gold (end-period; US\$ m)	243.9	267.9	294.8	312.0	372.5	405.1	643.4	598.7

^a Middle- and high-income groups, base January 1996=100. ^b Low-income groups in Mbabane and Manzini, base January 1996=100.

Sources: International Sugar Organisation (ISO), *Statistical Bulletin*; IMF, *International Financial Statistics*; Central Bank of Swaziland, *Quarterly Review*.

Outlook for 2008-09

Political outlook

Domestic politics Political power in Swaziland will continue to lie almost exclusively within the royal court of King Mswati III and the queen mother, Ntombi, as the constitution gives the monarchy absolute power. Although traditionalists will continue to protect the status quo, modernists are pushing for reform. Whether or not political parties will be legalised will depend on the outcome of a series of court cases over the interpretation of the new constitution that took effect in February 2006. This will have a significant impact on the parliamentary election, which is due to be held in October 2008 and which at present can be contested only by independents.

It is difficult to predict the outcome of a party-based election, as this would be a new phenomenon in Swaziland—the population is essentially conservative and support for the progressive movements could well be below the level that they claim. Although conservative support would be split between the traditional royalist party, Imbokodvo, and a moderate political movement, Sive Siyinqaba Sibahle Sinje, their combined vote should exceed that of the progressives, who will face funding problems. Together with the moderate Swaziland Federation of Labour, Sive Siyinqaba will be an important force for cautious change.

If parties are not allowed to participate, Sive Siyinqaba will put up a slate of unofficial candidates for election in 2008 that will be based on the *tinkhundla* (traditional voting) system, while the traditionalists will continue to operate as in the past. Some of the progressive modernists, such as the centre-left Ngwane National Liberatory Congress, are likely to rethink their strategies and contest the election in an attempt to capture sufficient parliamentary seats to change the constitution in order to allow political parties to function. The more radical groups, such as the People's United Democratic Movement, are likely to continue to shun the *tinkhundla* system, staging mass stayaways and border blockades. Most critically, parliament will remain a weak institution, incapable of challenging the government, which will remain bloated by vested political interests, corruption and inefficiency.

International relations The US, the EU and various pressure groups will closely monitor the implementation and interpretation of the new constitution, particularly with regard to clauses guaranteeing freedom of expression and assembly. However, Swaziland's small economic size militates against it being a strong focus of international attention. On a regional level, little action can be expected from the Southern African Development Community—despite its electoral charter, to which Swaziland is a signatory. Although Swaziland's economic links are weighted heavily towards South Africa and the West, King Mswati will continue to court Middle Eastern and Asian countries in an attempt to win support for his political and economic initiatives.

Economic policy outlook

Policy trends Economic liberalisation will be central to government policy, but progress will be slow and implementation patchy. Policymaking will be largely reactive, hindered by the complex interaction between the royal household, unelected advisory bodies, the government and the civil service. The IMF has emphasised the need for fiscal prudence in order to restore macroeconomic stability, but poor governance will remain a strong constraint to achieving this. Although negotiations are proceeding on a number of privatisations, progress towards sales will be slow owing to low political commitment.

Fiscal policy Despite a relatively favourable budget position at present, Swaziland is facing a fiscal crisis in the longer term. Broadening the revenue base is vital, as the current high level of receipts from the Southern African Customs Union (SACU)—which have accounted for a growing share of total revenue—cannot be expected to last indefinitely, and the Economist Intelligence Unit expects these to decline as South African import growth starts to slow over the forecast period. It will not be possible for the government to make up the shortfall because the tax base cannot be widened much further in the forecast period and efficiency reforms within the government ministries will be slow. We estimate the fiscal balance to record a deficit of 0.8% of GDP in 2007/08, owing to poor economic growth and drought-related expenditure. The deficit is forecast to widen further, to 1.8% of GDP in 2008/09 and to 3.8% of GDP in 2009/10, as fiscal reforms fail to cover a probable decline in SACU revenue. The Central Bank of Swaziland will continue to finance the deficits, mainly domestically.

Monetary policy Swaziland is expected to remain a member of the Common Monetary Area (which also comprises Lesotho, Namibia and South Africa) throughout the forecast period, and the lilangeni will continue to be pegged at parity to the South African currency, the rand. Monetary policy will thus continue to be determined by developments in South Africa. The Central Bank will closely follow the repurchase rate set by the South African Reserve Bank (SARB)—currently at 11%—in order to maintain interest-rate parity and prevent speculative capital flows between Swaziland and South Africa. The SARB will maintain a hard line on inflation—it is keen to preserve the credibility of its inflation target range of 3-6%—by continuing its tight monetary policy. We expect the SARB to ease interest rates gradually over 2008-09 as inflation subsides.

Economic forecast

International assumptions

Swaziland: international assumptions summary

(% unless otherwise indicated)

	2006	2007	2008	2009
Real GDP growth				
World	5.3	5.1	4.5	4.6
OECD	3.1	2.5	1.8	2.4
EU27	3.0	2.7	2.1	2.2

Swaziland: international assumptions summary

(% unless otherwise indicated)

	2006	2007	2008	2009
Exchange rates				
¥:US\$	116.2	117.5	105.0	96.3
US\$:€	1.256	1.369	1.460	1.328
SDR:US\$	0.680	0.651	0.626	0.648
Financial indicators				
¥ 3-month repo rate	0.28	0.62	0.80	1.81
US\$ 3-month commercial paper rate	5.03	5.06	4.03	4.30
Commodity prices				
Oil (Brent; US\$/b)	65.3	73.3	78.0	72.0
Gold (US\$/troy oz)	604.5	696.7	822.5	706.3
Food, feedstuffs & beverages (% change in US\$ terms)	16.1	26.7	8.1	-1.1
Industrial raw materials (% change in US\$ terms)	49.6	12.8	-3.1	-12.8

Note. Regional GDP growth rates weighted using purchasing power parity exchange rates.

Growth in the global economy is forecast to fall back from an estimated 5.1% in 2007 to 4.5% in 2008 and 4.6% in 2009. In South Africa—Swaziland's main trading partner—real GDP growth is expected at 5.1% in 2008 and 5.4% in 2009, mainly because of strong domestic demand and high levels of investment. World sugar prices are forecast to be relatively strong, although plans in the EU—Swaziland's most important overseas market for sugar—to cut support prices by over one-third between 2006 and 2010 are getting under way and will dampen Swaziland's export earnings. The price of Brent crude is forecast to average US\$78/barrel in 2008 and US\$72/b in 2009 as global supply increases.

Economic growth

Real GDP growth is estimated to decline to 2.3% in 2007. The main reason for the slowdown is the drought, which heavily affected agricultural output, with subsequent knock-on effects in manufacturing (agri-processing). Although the Swaziland Sugar Association forecasts output in the 2007/08 crop year (April-March) at 633,000 tonnes (up from 623,357 tonnes in 2006/07), crop failures elsewhere and food security problems have affected around 40% of the population. However, good early summer rains suggest improved crop production over the forecast period, which will push real GDP growth to 2.5% in 2008-09. Higher growth will be constrained by difficulties in the sugar and textile industries as export levels are undermined by the expected EU price reductions and competition from Asian producers respectively.

Inflation

The average annual rate of inflation is estimated at 7.5% in 2007, as drought and high international oil prices have driven food prices higher. However, food prices are expected to moderate over the forecast period, and oil prices from 2009. Overall, the inflation rate largely tracks price movements in South Africa (the source of 90% of Swaziland's imports). We expect the official inflation rate in South Africa to be on a downward trend in 2008-09 and that Swaziland's inflation will fall in line with this, to 6.5% in 2008 and 6% in 2009. Higher oil prices than expected or a downturn in food production in the region will continue to pose price risks.

Exchange rates During the forecast period the lilangeni will remain pegged at par to the rand. Economic fundamentals point to a steady depreciation over the forecast period. We forecast that the rand (and hence the lilangeni) will average R7.25:US\$1 in 2007, R7.7:US\$1 in 2008 and R8:US\$1 in 2009. A sharper fall is possible, however: risk factors are the price of crude oil, sharp upward movements in US interest rates, South Africa's widening current-account deficit and the impact of short-term speculative inflows on the capital account.

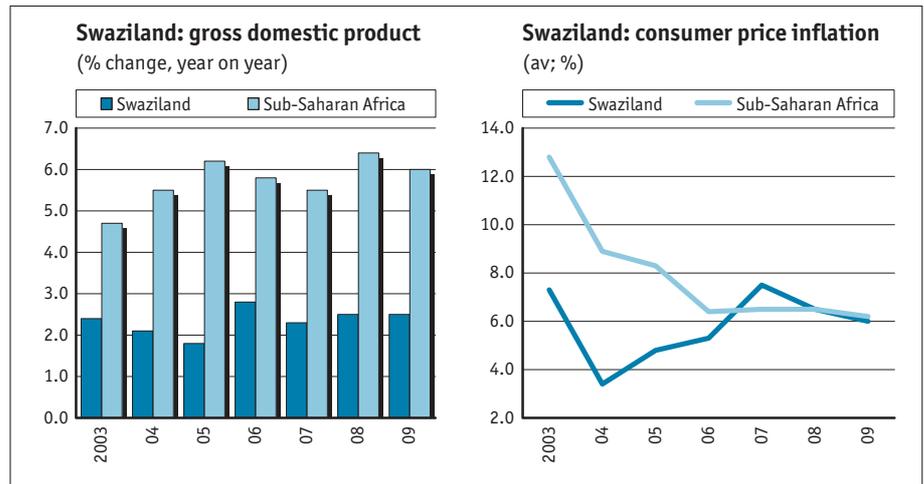
External sector We estimate that the current account will move into a deficit of 1.4% of GDP in 2007 as the trade balance becomes negative. Export earnings are expected to stagnate, owing mainly to lower volumes and prices for textile exports. In addition, Swaziland's sugar exports will be adversely affected by EU price reductions over the forecast period. Food imports will be required to offset the effects of a weak agricultural sector but import growth of consumer goods will be sluggish, in line with weak real GDP growth. The services deficit is expected to narrow in 2008-09 as growth in financial services boosts earnings, but the surplus on the income account is forecast to shrink as a result of increased repatriation of profits from foreign companies operating in the country. The current transfers surplus is also forecast to decline in 2008-09 as the expected reduction in SACU receipts takes effect. As a result, the current-account deficit is expected to widen to 3.7% of GDP in 2008 and 4.5% of GDP in 2009, reflecting Swaziland's weakening trade position and its overdependence on SACU revenue.

Swaziland: forecast summary

(% unless otherwise indicated)

	2006 ^a	2007 ^a	2008 ^b	2009 ^b
Real GDP growth	2.8	2.3	2.5	2.5
Consumer price inflation (av)	5.3 ^c	7.5	6.5	6.0
Short-term interbank rate	11.2 ^c	11.5	11.7	11.0
Government balance (% of GDP) ^d	2.3	-0.8	-1.8	-3.8
Exports of goods fob (US\$ m)	1,877.4	1,927.2	1,976.1	2,004.0
Imports of goods fob (US\$ m)	1,808.3	1,930.5	2,074.6	2,133.1
Current-account balance (US\$ m)	23.7	-40.4	-105.6	-140.3
Current-account balance (% of GDP)	0.8	-1.4	-3.7	-4.5
External debt (year-end; US\$ m)	482.7	540.4	576.1	586.3
Exchange rate E:US\$ (av)	6.77 ^c	7.25	7.70	8.00
Exchange rate E:¥100 (av)	5.83 ^c	6.17	7.33	8.31
Exchange rate E:€ (av)	8.50 ^c	9.92	11.24	10.62
Exchange rate E:SDR (av)	9.96 ^c	11.14	12.30	12.34

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts. ^c Actual. ^d Year beginning April 1st.



The political scene

The Supreme Court will rule on constitutional case

The constitutional challenge by civic organisations—the Swaziland Federation of Trade Unions (SFTU), the People's United Democratic Movement (Pudemo), the Ngwane National Liberatory Congress (NNLC), the Swaziland Federation of Labour and the Swaziland National Association of Teachers—has continued before the courts. In its main application in August, the civic organisations had sought an order for the constitution to be declared null and void; in an alternative application they sought an order that Section 25 of the constitution relating to freedom of association be interpreted as allowing political organisations to contest elections. However, Justice Stanley Maphalala ruled on August 21st that Pudemo and the NNLC had no legal standing to bring a case before the courts (October 2007, The political scene), and on November 6th the full bench of the High Court upheld Mr Maphalala's decision, and also concluded that it had no power to rule on constitutional matters or to review the findings of the Constitutional Review Commission and Constitutional Drafting Committee. The civic organisations' appeal against the findings of the High Court was heard by the Supreme Court on November 8th. The full bench of the Supreme Court concluded that it could not decide on the question of legal standing without full knowledge of the basis for the High Court's ruling. The applications to the two courts and the issues are interconnected, and the Supreme Court found the position extremely confusing. By its next session the Supreme Court will have had an opportunity to study the judgment of the full bench of the High Court.

Political parties plan for the 2008 election

Various parties are already planning for the 2008 national elections, even though they do not yet know whether they will be contesting as parties or nominating individuals to stand for them. The biggest challenge for these organisations is to increase their support in the various areas dominated by traditionalists; hence, much of their activity will be focused on raising their profiles in these areas. Sive Siyinqaba Sibahle Sinje, a moderate political movement, has openly marketed itself in the media, and the Inhlava Forum has approached the SFTU with regard to forming an alliance as it prepares for a multiparty system.

Courts are still to rule on legality of police union

The High Court has not yet handed down judgment on the application by the Swaziland Police Union to force the government to have it registered. The government had refused to recognise both the police union and the Correctional Services Union, arguing that the formation of the police union would erode discipline in the police force and that the exclusion of the police from mainstream labour legislation was a legitimate limitation of their rights (April 2007, The political scene). However, such unions are commonplace in many other countries. The police application was heard in April 2007, and on October 31st public service unions marched on the High Court demanding that the judgment be handed down. It is widely held that the lengthy delay is due to pressure from the traditional rulers. The police application is regarded as a test case for the Bill of Rights, which guarantees freedom of association, and for the constitution, which designates the courts as the ultimate interpreters of the constitution. The courts are receiving growing criticism for being overly cautious in dealing with cases concerning the constitution and for resorting to the tactic of a full bench to hear such cases for fear of reprisals from the traditionalists.

There is slow progress in establishing commissions

There are signs that the Human Rights Commission, which should have been established within a year of the first meeting of parliament after the constitution came into effect, may become a reality with the announcement that the Commonwealth Secretariat has engaged a consultant to work on its establishment (October 2007, The political scene). The commission would monitor and investigate human rights violations and would also act as the body to which officials reported their earnings and liabilities. The Commonwealth Secretariat stated that the best-practice models from similar commissions in the Commonwealth would be applied to Swaziland, and that the government was giving the initiative its full support.

In another development, three applicants from outside Swaziland have been short-listed for the position of head of the Anti-Corruption Commission, which was established in 2006 (but which is not yet operational). In October it was reported that the commissioner and two deputies would be appointed in time for the Commission to become fully operational early in 2008. However, no appointments have yet been made and, with government decision-making on hold as a result of King Mswati III being in his annual seclusion, no developments can be expected until 2008.

Economic policy

The budget policy statement is presented

In line with its medium-term expenditure framework (MTEF), which requires planning in three-year cycles, the government has released the medium-term budget policy statement for 2008/09-2010/11 (April-March). The statement, presented by the finance minister, Majozi Sithole, sets out the fiscal policy considerations that will underlie government budgets for the next three years. There is little in the statement that is new, and much of it is merely updated figures and repeated policy commitments of recent budget speeches. Strict expenditure control and improved revenue correction are again emphasised. Mr Sithole confirmed that the establishment of a Revenue Authority was

planned for July 2008, with value-added tax expected to be introduced two to three years later. The work on which the statement was based had clearly been prepared prior to the release of the preliminary 2007 population census figures (October 2007, Economic policy), which reflected a negative growth rate in recent years. Thus, the statement continues to reflect the fallacious argument that the population growth rate exceeds that of economic growth and that, therefore, income per head has declined. It is clear that economic forecasting in Swaziland needs to be revised to take account of falling population numbers and the serious impact on the labour force.

IMF mission stresses the revenue challenge

The IMF conducted its 2007 Article IV consultation discussions with Swaziland in November. According to the statement issued by the IMF, Swaziland's economic growth has been slower than that in most of Sub-Saharan Africa in recent years. The IMF expects real GDP growth in 2007 to slow to 2.3%, from 2.8% in 2006, owing mainly to drought and forest fires. Inflation is expected to average about 8% in 2007. Although strong inflows of revenue from the Southern African Customs Union (SACU) have enabled the Central Bank of Swaziland to rebuild international reserves, SACU transfers are expected to decline after 2010, as SACU imports, particularly for South Africa, are expected to decline and the implementation of the new revenue-sharing formula works its way through. SACU transfers represent the main source of government revenue, and the IMF recommended that fiscal policies take account of the expected decline, with measures being taken to strengthen revenue administration and broaden the tax base. These recommendations merely repeat those of previous Article IV reports. The mission recommended that costs of doing business should be reduced, infrastructure (transport, energy and telecommunications) improved and land productivity increased, partly through land-reform measures. However, land reform has been difficult to implement in the past, and a new strategy needs to be produced for Swaziland. Land reform will require considerable political will, as will the control of government expenditure necessary for a more disciplined macroeconomic performance.

There are moves on privatisation

In his MTEF policy statement Mr Sithole noted that a consultant had been engaged to establish a Public Enterprise Agency (PEA) to implement the government's privatisation policy. The PEA would commence operations in 2008. The government will establish a multi-sector regulator for energy, water and telecommunications, which is expected to start operating in the 2008/09 fiscal year. In a related development, the Swaziland Electricity Company, which has replaced the Swaziland Electricity Board, was incorporated on October 29th, in line with plans to commercialise its operations. It remains totally owned by the government. The telecommunications bill and the postal bill, which also seek to commercialise the operations of these entities, are being refined at the attorney-general's office before being put before parliament.

Toll roads are to be introduced

Parliament passed the Roads and Outspans (Amendment) Bill on November 21st, and this is now awaiting royal assent. This will result in two tolls being opened in 2008 on the main east-west highway: one between the South African border at Ngwenya and Mbabane and the other between Mbabane and Manzini. The plazas are expected to be operational by mid-2008,

with the fees to be set in line with those prevailing in South Africa. The tolling will be overseen by a new public enterprise that is yet to be established, the Toll Roads Management Company, and aims to raise money towards recent and future maintenance costs.

The domestic economy

Inflation rises to 9.8% in September

In line with the trend in South Africa, the year-on-year inflation rate has risen in 2007, averaging 5.6% per month in the first quarter, 8.2% in the second and 9.1% in the third. The rise from 8.6% in August to 9.8% in September was particularly high and unexpected, and was attributable mainly to transport-fare and food-price increases. The September rate was the highest since February 2003. The October figure has been delayed because of technical problems in the Central Statistical Office. The rate is well above the South African rate owing to the higher cost of living in Swaziland, largely because most goods have to be imported from South Africa, thus additional transport costs have to be factored in to prices. The inflation rate in South Africa has been boosted by high international oil prices, rising food prices and a rapid growth of domestic demand, and these have spilled over into Swaziland, where the prices of food and beverages, transport, health, utilities and fuel have increased particularly rapidly. The South African Reserve Bank (SARB) expects inflation to remain above the upper level of its target range of 3-6%, peaking at 7.8% in the first quarter of 2008, before re-entering the range in the second half of 2008 and then following a downward trend. Inflation in Swaziland is estimated to average 7.5% in 2007.

Swaziland: inflation

(% change, year on year)

	2006	2007						
	Av	Apr	May	Jun	Jul	Aug	Sep	Oct
Swaziland	5.7	8.4	8.0	8.3	8.9	8.6	9.8	n/a
South Africa ^a	4.6	6.3	6.4	6.4	6.5	6.3	6.7	7.3

^a CPIX, the consumer price index excluding interest rates on mortgage bonds.

Source: Central Bank of Swaziland.

The SARB's Monetary Policy Committee raised the repurchase (repo) rate by 50 basis points at each of its meetings on October 10-11th and December 5-6th, the latter being the fourth successive rise. The rate is now 11%, and the Central Bank of Swaziland, as is customary, promptly followed the SARB in raising the discount rate on each occasion. Domestic banks followed the actions of the Central Bank. The exchange-rate link, combined with free movement of funds within the Common Monetary Area (which comprises Lesotho, Namibia and South Africa, as well as Swaziland), obliges the Central Bank of Swaziland to align its interest rates with those prevailing in South Africa in order to prevent an outflow of funds.

More factory shells are to be built

With all Swaziland's factory shells currently occupied, the Swaziland Investment Promotion Agency (SIPA) has invited construction companies and the private sector to partner it and to build, lease and manage such facilities.

The SIPA is actively seeking new investment into manufacturing in Swaziland, but will need to ensure additional factory capacity in order to interest new investors. Because of the shortage of floor space, the government has purchased a factory at Matsapha currently occupied by a knitwear manufacturer that is closing down; this will be used to accommodate a South African company producing woven packaging bags, with which the Ministry of Enterprise and Employment has signed a Memorandum of Understanding. The company is expected to finalise its plans in February 2008 and to offer about 600 jobs.

A South African company, Akoodie, has purchased a local yarn manufacturer, Spintex, from the Swaki Group, owned by a prominent businessman, Natie Kirsch. Akoodie previously used to purchase 20% of Spintex's yarn output, and the balance was exported to Europe. Akoodie manufactures sewing thread and, with its acquisition of Spintex, will become Africa's biggest fully vertically integrated sewing-thread producer. Akoodie is considering expanding the Swaziland operation.

Biofuels attract investor interest

A Namibian-based company with Israeli connections, the Leviev Group, sent an investment mission to Swaziland in December to investigate opportunities in agriculture, mining and construction. In particular, the group is proposing an investment of E941m (US\$130m) to develop biofuels in Swaziland. Of this, about E680m would be for the purchase of 50,000 ha for growing jatropha, an oilseed-producing crop, and E261m for the establishment of an oil-producing plant that would be capable of producing biodiesel within three years. The project aims to produce about 100,000 tonnes of biodiesel per year and to create 20,000 direct and indirect jobs. About 1,000 ha have already been planted with jatropha in Swaziland by a UK-based company, D1 Oils; the company has plans to expand the plantation to at least 30,000 ha and has partnered with BP to produce biofuel through a new company, D1 BP Fuel Crops (October 2006, The domestic economy: Agriculture).

Foreign trade and payments

Swaziland agrees interim EPA with EU

In November, along with Botswana, Lesotho and Mozambique, Swaziland agreed an interim Economic Partnership Agreement (EPA) with the EU. This was to ensure continued concessional access for their exports to the EU market after the Cotonou Agreement, which governs trade between the EU and African, Caribbean and Pacific (ACP) countries, expires at the end of 2007. Under the interim EPA, the EU offered duty- and quota-free access for almost all exports. Of particular importance to Swaziland is the retention of the EU's import quotas on sugar, which are expected to remain in place until 2015. However, Swaziland will benefit from the relaxation of rules of origin for textile exports. By being allowed to use imported textiles to make garments for export to the EU, the country will hope to diversify its apparel industry away from dependence on the US market, to which it has preferential access through the African Growth and Opportunity Act (AGOA).