

# SWAZILAND (ESWATINI)

Mbabane (GTAI) – Swaziland's path out of economic downturn is uncertain. Although the economy is expected to grow slowly in the medium term, growth forecasts vary widely. Markets for the all-important sugar industry are under threat and a recovery in the textile industry depends on whether preferential market access to the US can be regained through political reforms. Many renewable energy projects as well as a large railway project are in the pipeline.

## ECONOMIC PROSPECTS

The International Monetary Fund (IMF) expects an average increase in gross domestic product (GDP) of 1% per year for the period 2018 to 2021 with forecasts of -0.9 and 0.1% for 2018 and 2019. The outlook of the Economist Intelligence Unit (EIU) is more positive, with expected growth rates of 0.5 and 1.9%.

There is uncertainty in the sugar industry, which contributes around 11% to GDP and accounts for more than a fifth of Swaziland's exports. Swaziland's main customer, South Africa, plans to introduce a sugar tax, which is expected to have a very negative impact on consumption and, consequently, on the market for Swaziland sugar.

Industry experts expect a sharp rise in sugar production in the EU – Swaziland's second most important customer with about 28% – because of a reform that will increase sugar production quotas for individual EU member states. Import demand is likely to fall as a result, and Swaziland stands to lose its share of this market.

The sugar industry has also suffered the effects of a devastating drought that caused production in 2016/17 to fall by about 16% to 586,086 million tons. Many businesses in the sugar sector are heavily in debt. Planned construction of a fourth 20,000 hectare sugar refinery by Nsoko Msele and Newco Sugar Milling Company is currently on hold. The sector is unlikely to see significant growth.

Impetus could come from a revival of textile production, 90% of which was exported to the US before 2015 when Swaziland lost duty-free market access to the US under the African Growth and Opportunity Act (AGOA).

Tariff preferences are conditional on compliance with minimum standards in the rule of law; for Swaziland freedom of expression and freedom of assembly in particular became deficiencies. EIU is optimistic that Swaziland could be reinstated in the AGOA agreement by 2019 due to announced reforms.

## INVESTMENTS

Swaziland's government seeks to raise funds for infrastructure development through the Swaziland Government Infrastructure Bond (SGIFB). Over the next five years, 262 million USD will be raised for electrification, water and roads. Two auction rounds were held in 2017.

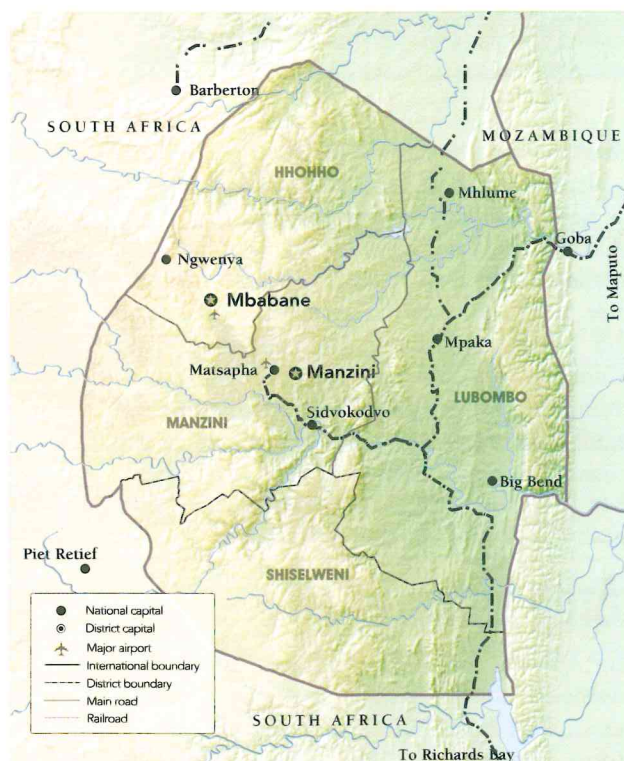
There is much activity in the energy sector. Peak load is currently around 225 megawatts, for which Swaziland has generating capacity of only around 60 megawatts installed, generated from smaller hydropower plants. As a result, electricity has to be imported from South Africa. By 2025, the Swaziland Electricity Company (SEC) plans to increase capacity by 494 megawatts.

Projects will be implemented with private sector investment and solar energy projects totalling 56 megawatts are planned. SGL Power and Wundersight have announced projects in this field and Ecolibri (Italy) also wants to develop wind power. Hydropower and biomass have a generation potential of 440 and 150 megawatts respectively. Swaziland also intends to invest in coal-fired power generation and the 300 megawatt Lubhuku power plant is in discussion.

## CONSUMPTION

The mood among Swaziland's consumers is sullen. The weak economy is unlikely to create new jobs in key sectors such as the sugar industry and food processing. Around 3,000 textile sector jobs were lost in recent years. Unemployment is estimated at around 40%, with rudimentary social security. Many citizens of Swaziland thus look to neighbouring South Africa to provide employment.

Public sector wages account for about a third of government spending. The state as employer is nevertheless unable to stimulate consumption; in 2017, because of its difficult budget situation, government announced a moratorium on all recruitment. The state budget for 2016/17



Area	17 363 km <sup>2</sup>
Population	1.36 million
Population growth	1.8%
Official languages	siSwati, English
Capital city	Mbabane
GDP growth	2%
King (Ngwenyama)	Mswati III
Ease of doing business	112/190 (2017)
Currency	Lilangeni

\*CIA Factbook, World Bank

### ECONOMIC DATA

Indicator	2015	2016	Comparative data Germany (2016)
GDP (nominal, billions US \$)	3.9	4.0	3,480.2
GDP per capita (nominal, US \$)	3,512	3,343	42,188
Population (millions)	1.3	1.3	82.5
Exchange rate	12.9	14.7	-

Sources: IMF; Federal Office of Statistics; German Bundesbank

### FOREIGN TRADE (USD MILLIONS)

	2015	2016	% change
Imports	1,387	1,405	1.3
Exports	1,647	1,577	-4.3
Balance of trade	260	172	

Source: EIU

### SWOT ANALYSIS

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>Relatively stable political environment</li> <li>Close cooperation with South Africa; South African Customs Union ensures duty-free trade</li> <li>Swazi currency is linked 1:1 to the South African rand</li> <li>Good connections to ports at Durban and Richards Bay (South Africa) and Maputo (Mozambique)</li> <li>Relatively diversified economy</li> </ul>	<ul style="list-style-type: none"> <li>Small market of 1,3 million inhabitants</li> <li>Shortage of expertise and specialists</li> <li>Inefficient administration</li> <li>Absolute monarchy limits political participation</li> <li>National budget is highly dependent on SACU revenue</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>High infrastructure investment needs (energy, water, roads)</li> <li>Good farming conditions</li> <li>AGOA privileges may energise textile industry</li> <li>Construction industry may benefit from Swazi Link Rail Project</li> <li>Development of raw material resources (gold, coal, iron ore)</li> </ul>	<ul style="list-style-type: none"> <li>High dependence on sugar industry</li> <li>Climate change: drought conditions could increase</li> <li>Government directs funds to inefficient prestige projects</li> <li>Growing dissent in the population with the political situation</li> </ul>

### SELECTED MAJOR PROJECTS

Project	Investment amount (USD)	Project Status	Comment
Swazi Link Rail Project	1,468* million	Planning, feasibility study prepared, call for tender as Public Private Partnership (PPP) in preparation	146 km railway line with a capacity of up to 30 million t per year, joint projects between Swaziland and South Africa
Swaziland National Agricultural Investment Programme	2,000 million	Execution 2015 to 2025	Modernisation and professionalisation of agriculture, improved market access
Lower Usuthu Smallholder Irrigation Project II	148 million	In implementation	Creation of 5,000 ha of irrigation land for smallholders
Swazi Mobile	45 million	Planning	Establishment of a 2G, 3G and 4G mobile network, award of a second mobile license
Montigny Biomass Power Plant	146* million	Planning	35 MW biomass power plant by forestry company Montigny, possible extension to 60 MW
Hydrokinetic Power Plant	600 million	Planning	200 MW hydropower plant by Zoetic Energy
Lower Maguduza Hydro Power Station	51.3* million	Planning	Hydroelectric power station for 12 MW by Middle Lusufu Hydropower
Ngwempisi Hydro Power Plant	Unknown	Planning	120 MW-Hydroelectric power station

\*) Based on exchange rate 1 L = 0.07 US \$

Sources: gtaí, Press reports

showed a deficit of 12.3% of GDP, with a decline of 8.2% expected in 2017/18. In the context of the necessary consolidation plans, the government intends to implement a 'zero round' for public-sector salary increases in collective bargaining for 2017/18.

At the same time inflation of 6.8% for 2017 and 5.6% for 2018 are expected.

#### FOREIGN TRADE

South Africa is by far Swaziland's most important trading partner and accounted for about 83% of imports and 71% of exports in 2016.

The Swazi Link Rail Project – a new rail link to the deep-water harbour of Richards Bay in South Africa – is expected to boost imports in coming years.

Around 100 kilometres of the new railway will be in Swaziland territory. Due to the mountainous terrain, many bridges will have to be constructed and existing sections of railway will be modernised. In particular, the imports of construction machinery, building materials and components such as signalling technology should receive a boost.

Export opportunities are provided by the Economic Partnership Agreement (EPA) with the EU signed in 2016, which grants duty-free and quota-free access to the European market. Swaziland could use this agreement to increase its exports of textiles and agricultural products.

#### POLITICAL AND GEOGRAPHICAL CONTEXT

Swaziland's ministers are appointed by King Mswati III, Africa's only absolute monarch. According to the Tinkhundla election system, no political parties are allowed in the 65-member parliament – individuals only may run for office. Ten seats are awarded directly by the king who has the final say on executive decisions and may, if deemed necessary, rule by decree.

The government implemented some political reforms in 2017, e.g. facilitating freedom of Assembly and the formation of trade unions to regain privileges under the African Growth and Opportunity Act (AGOA), which grants duty-free access to the US market. There are currently positive signs that the textile industry could see an upswing by 2018/19 due to Swaziland's reinstatement.

Despite reforms, there is growing popular dissent over the lack of political participation and criticism of the extravagant lifestyles of the royal family. The people of Swaziland are however very traditional, and do not question the continued existence of the monarchy.

Government is inclined to steer scarce

funding into prestige projects, like a rarely used new airport that cost around 219 million USD and a new hotel and convention complex being built for the 2020 AU summit, which is unlikely to be sustainably repurposed.

After Gambia, the Kingdom of Swaziland is the second smallest state on the African continent in terms of area. Geographically, it is surrounded by its neighbours South Africa and Mozambique, and does not have access to the sea. Swaziland is a member of the SADC; with a GDP of 1.3 billion USD, it is the second-smallest economy in the region after Lesotho.

## SECTOR SURVEY

In the African context, Swaziland has a fairly diversified economy and its industry accounts for around 45% of GDP. The Southern African Customs Union (SACU) allows duty-free trade with South Africa, Namibia, Botswana and Lesotho. However, with revenues from the Customs Union contributing about 50% of government revenue, there is a strong dependency on it.

#### AGRICULTURE AND PROCESSING

Swaziland's fertile soil is the foundation of its processing industry. The food and beverages sector is particularly prominent. In addition to the sugar cane mills of Illovo Sugar and the Royal Swaziland Sugar Company, Coca-Cola operates a large plant for concentrate production and Rhodes Group (South Africa) has a citrus fruit and pineapple canning facility. Other food manufacturers include Mondelez and Swaziland Beverages.

Paper and pulp processor, Montigny and textile companies such as YKK Africa are also important manufacturers.

#### MINING

Swaziland's mineral resources could provide opportunities for economic development. Swaziland has 2.1 million tonnes of gold reserves as well as anthracite coal reserves (159 million tonnes) and iron ore. However, in the past, the commodity sector has been mismanaged: 25% of all mining shares, by law, accrue to the King, which deters investors. The Lufafa gold mine, which opened only a year earlier, had to close again in 2017. As early as 2014, the Ngwenya iron ore mine had ceased operations because of non-repayment of loans by the king. At present, only Maloma coal mine is in production. ■