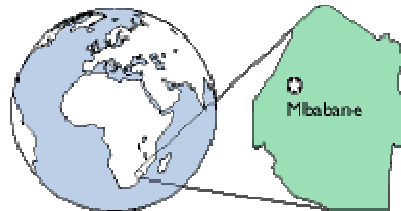


COUNTRY REVIEW

Swaziland



9 July 2010

ANALYST: Andrew Atkinson

EULER HERMES COUNTRY RISK GRADE: C

Country Risk Grades are on a scale of AA, A, BB, B, C, D
where AA is the lowest and D the highest risk.

COUNTRY PROFILE

Capital city:	Mbabane
GDP:	USD3,010mn (2009e)
Population:	1.19mn (2009e)
GDP per capita:	USD2,530 (2009e)
Currency:	Lilangeni (SZL). South African rand (ZAR) is also legal tender
Form of state:	Absolute monarchy
Head of state:	King Mswati III
Next elections:	Parliamentary by September 2013

Swaziland is a **small, landlocked monarchy** in Sub-Saharan Africa and King Mswati III rules with absolute power, although in conjunction with the queen mother by royal decree. He appoints the prime minister and a majority of legislators in the senate. There are **no mechanisms for the formal transfer of executive power**, and the king has reinforced his authority through periodic revisions of the constitution. **The royal family is likely to retain all the key levers of power.** Nevertheless, opposition to the monarchy has risen in recent years and civil disorder has had to be controlled forcefully by the security agencies and military. In March 2008, the army was deployed to quell strikes and demonstrations by unionised workers. Relations with South Africa remain superficially good, despite periodic border blockades by South African trade unions in support of their Swazi counterparts. International relations are affected negatively by widespread reporting of the king's excesses and the **donor community is becoming increasingly vexed with corruption** levels and with Mswati's profligacy—particularly purchases of personal jet aircraft, cars and new palaces.

Policymaking is restricted by the competing positions adopted by the royal household, government and unelected advisory bodies. It tends to be reactive and **reforms are adopted only slowly to protect vested interests.** Accordingly, economic performance over the long term has been poor, with a skills shortage resulting from insufficient investment in education, and an estimated one-quarter of the population receives food aid on a regular basis. **Around 70% of the population is employed in agriculture although the sector contributes only 10-20% of GDP directly.** A low tax base and reliance on Southern African Customs Union (SACU) inflows for around 50% of revenues has resulted in increasing fiscal deficits, which are exacerbated by expanding health expenditure to deal with **HIV/AIDS, which affects an estimated 32% of the population aged 15-49 years (probably the world's highest incidence).**

The country's **textile sector (providing 16% of export receipts)** has suffered market loss because of the expiry of the Multi-Fibre Arrangement (MFA) at the beginning of 2005. In addition, the **sugar industry, which provides 18% of export receipts** and provides over 35% of agricultural wage employment, is also facing additional competition as the EU has withdrawn preferential treatment for traditional suppliers. Against this background of restricted export opportunities and recession in key markets in 2009, overall **GDP growth** slowed to around 0.2% from 2.4% in 2008 and is **unlikely to expand by more than 2.5% in both 2010 and 2011.** Additionally, with loss of competitiveness in key export sectors at a time of rising import costs to meet food shortages and energy requirements, the trade balance has deteriorated and the **current account registers annual deficits of 3-7% of GDP.** Allocations from the centralised SACU accounts were restricted by generally weak trading conditions in 2009, although Swazi **FX reserves increased to USD879mn by the end of that year and currently provide around three months of import cover.**

The structural **business environment remains well below the average of all the countries we assess.** In the Heritage Foundation's 2010 Index of Economic Freedom (IEF), Swaziland is ranked 102 out of 179 countries assessed by this methodology, above Algeria, Nigeria and Mozambique, but below Tanzania, Zambia and Kenya. The IEF notes that there are **constraints on the development of a more vibrant private sector**, including poor public finances, administrative complexities and lack of respect for contracts. Moreover, bureaucratic inefficiency and corruption affect many aspects of the economy and court enforcement of property rights is vulnerable to political interference.

Andrew Atkinson

London: +44 (0)20 7860 2577