STATEMENT BY SWAZILAND

Mr. President,
Executive Secretary of the United Nations Economic Commission for Africa,
Honourable colleagues,
Invited guests

Let me take this opportunity to greet you all, and thank the Bank for availing me this chance to bring the situation of my country to the attention of the world, in the wake of the current global financial and economic meltdown.

Mr. President, the Swazi economy has been prima facie insulated from the financial turmoil stemming from the sub-prime mortgage. The direct impact of the financial turmoil to the monetary sector in Swaziland has not been evident, as banks were not exposed to trade in the toxic instruments that have lead to the financial crises.

The implementation of strict domestic prudential regulation (i.e. capital adequacy, liquidity and reserve requirements) and the exchange controls implemented by South Africa and other CMA member countries have made Swazi banking sector less susceptible to the crisis.

The Swazi economy however, has not been totally insulated from the financial crisis. The contagion effect from the rest of the world is reflected in the economic slow down which we are currently experiencing. Projections for 2009 indicate that growth will be less than 2 percent as our economy adjusts to the global economic crisis.

This is a result of lower export earnings, reduced consumer spending and slowing private sector investment. There are other factors which could threaten the growth outlook, and these include the volatile oil prices, the rising costs of agricultural inputs, while high energy costs may feed into high production and transportation costs of goods and services.

Mr. President, the global financial market turbulence has shown some drastic effects on our consumer and investor confidence, and as it persists, it will impact, negatively, on the real sector of the Swaziland economy.

The crisis has had a negative impact on the demand for our exports as the markets for our internationally traded goods and services in the United States of America (USA)-(comprising 14 percent of total exports), European Union (EU)-(comprising 15 percent of total exports) and the Republic of South Africa (RSA)-(comprising 70 percent of total exports), experience substantial reductions in demand. Citrus, sugar and beef are exported to the EU. Japan buys wood pulp, and textiles are sold in the US.
Thus with reduced export growth and lower commodity prices, the current account will be under pressure and it will be more difficult to fund the deficit, and further exerting downward pressure on foreign exchange reserves. Moreover, the slow down in global demand has negatively impacted on the level of employment as companies have engaged in cost cutting measures including scaling down production.

In the near future, it is expected that the crisis will affect access to credit as financiers have become more risk averse and, as a result, the general re-pricing of risk increases the cost of borrowing.

This will in turn affect investment given the high cost of money and ultimately the consumer will buy commodities at risk-adjusted higher prices, leading to an overall contraction in consumer spending. This outlook reveals challenges as the general slowdown in growth will force companies to shed jobs and scale down investment plans while the struggling ones face closure.

Within the banking sector Mr. President, the impact is already felt by the increase in the number of non-performing loans and credit tightening. Notwithstanding the turbulence, the Swaziland financial sector is expected to ride the storm as it is largely protected by capital controls and sound regulation within the Common Monetary Area (CMA).

Even though there is no evidence so far to suggest cut backs by donors on grant funding, past experience points to a high possibility. Developing countries including Swaziland have braced themselves for a dry spell which we are hoping will not last many years.

Mr. President, the South African economy is considered as the major economic powerhouse on the continent, and is one of the worst affected countries by the global economic downturn.

Since our economy is closely linked to that of South Africa, we will not be spared from the drastic effects, which will be prominent in the related sectors including the manufacturing, tourism and retail sectors.

In fact, a slowdown across all sectors of the economy is anticipated mainly affecting manufacturing, mining and retail sectors as investment slumps in response to weaker domestic and international demand. Currently the RSA’s mining, retail and manufacturing sectors are in recession. As a result, those miners, who may be from many Southern African countries, including Swaziland, send much less money home to their families.

Mr. President, I wish we can have an opportunity with my colleague at some point in time and share experiences. We read from publications that some corporations like Standard Bank, and Old Mutual,¹ who have established themselves widely in the Swazi economy, have been involved in speculation on the global credit derivatives market, and that they have incurred losses. This is because they have links with overseas firms, where they found out that their shares were almost worthless because of the current crisis.

¹ Shaded area may not be read out
Of course Mr. President, I stand to be corrected by my colleague. We are sceptical then, Mr. President as these companies command a substantial share in the Swaziland monetary sector, because they can start withdrawing their money from our economy if the situation becomes worse.

Some of the largest overseas traders in the Johannesburg Stock Exchange (JSE), like JP Morgan, Merrill Lynch, Morgan Stanley, the Deutsche Bank, Citibank and Northern Trust Company \( ^2 \) have been hit hard by the crisis. These companies have felt the pinch of the crisis, and they are rapidly withdrawing their money from the JSE. This has reduced the average share value of JSE-listed companies by a substantial percentage (30%) since the beginning of the year.

The massive outflows of money have caused the value of the Rand/Lilangeni to plummet. The weaker our currency becomes, the more expensive for us to cover our costs of imports, hence increase in the trade deficit. This will cause serious problems with our balance of payments. The depreciation of our currency against major currencies has caused our external liabilities to increase. As at December 2008, total external debt stock had increased by 6.7 percent from a revised figure recorded in September 2008.

Mr. President, for the first time in five years, the projected size of the SACU revenue pool has had to be revised downwards. This is a result of the unforeseen global financial crisis, which has reduced trade amongst SACU and international partners. Inflation rates soared to average 12.9 percent due to escalating oil and food prices. In August last year, this indicator recorded a peak of 14.7 percent. Electricity, food, and transport were the main contributors to the inflation outcomes.

**Bank Intervention on the Swazi Economy**

On a more positive note Mr. President, the Kingdom of Swaziland would like to appreciate the Bank’s support, which has been flowing in over the years. We have just received the approved Results Based Country Strategy paper (RBCSP) covering 2009 – 2013, which is a result of extensive consultations between the Bank and Swaziland. We cannot agree more with the strategy, as it has been anchored on our very own Poverty Reduction Strategy and Action Programme.

Mr. President, in the medium term 2009 – 2012, the Government of Swaziland is working on improving the investment climate among other things. There is need to increase investment, both domestic and foreign, to stimulate economic growth. The country will intensify its focus on value adding industries, establish and promote local empowerment through Small and Medium Enterprises. As I speak, the ministry of commerce, industry and trade is reviewing legislation and policies to make the country’s investment climate more attractive.

We will welcome, Mr. President, any form of assistance from the Bank, to further improve our infrastructure to enhance productivity and competitiveness, to foster the business environment, and increased agricultural productivity and ensuring food security.

\( ^2 \) Shaded area may not be read out
Mr. President, tourism is one of the world’s fastest growing industries that have potential for job creation and poverty alleviation. The Government of Swaziland is working on strengthening the development of the tourism industry. There is a series of initiatives like registration and grading of hotels, commercialization of game parks and national parks that have been taken to improve this sector. By early 2010, we would have begun construction of our international airport, and a luxury resort close to the Republic of South Africa, all aimed at enhancing tourist attraction.

However, Mr. President, the Kingdom of Swaziland is still faced with the greatest challenge of all time (HIV/AIDS). The impact of this epidemic is clearly visible through the numbers of orphans and vulnerable children, which is at 31 percent of total child population. Our donors have pledged more funding for the fight against HIV, for which we are grateful.

The Bank offered grant funds which were used for the assessment of the status of primary health care facilities and training institutions, in order to identify rehabilitation and upgrading requirements, all aimed at improving primary health care delivery. We are very grateful to this form of assistance from the Bank, and I must report Mr. President, that a final report of this study is already available. We will have consultations with the Bank for support shortly. A word of thanks also goes to the Bank officials Mr. President, who tirelessly worked with us on this project.

Lastly Mr. President, I am looking forward to the outcomes of this years’ meeting, which couldn’t have been themed more correctly. We are hoping that solutions and strategies on how we can survive and ride through the crisis will come out of these meetings.