December 30, 1982 - 82/242

:atement by Mr. Sangare on Swaziland
Executive Board Meeting 83/1
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I should begin by thanking the staff for their well-written set of papers on the 1982 Article IV consultation with Swaziland and on Swaziland's request for use of Fund resources under the buffer stock financing facility.

Despite the constraints imposed by being a landlocked country, the Swazi economy continued to grow in 1982, although at a slower pace than in the previous year when real growth of GDP was 6.6 per cent. However, the real growth rate of about 4 per cent projected for 1982 is still satisfactory when viewed against the background of falling world prices for sugar, Swaziland's most important export commodity, as well as the recession abroad particularly in neighboring South Africa, which accounts for about one-quarter of Swaziland's exports. Agriculture, industrial production and construction activity contributed in varying degrees to economic growth in 1982.

The financial position of the Government, which had remained strong during the last two fiscal years, 1979/80-1980/81, weakened in 1981/82, moving from a surplus of E 17.8 million in 1980/81 to a deficit of E 49 million, equivalent to about 8 per cent of GDP. The weakening was due in part to the sharp increase in expenditure, especially capital outlays which rose from E 42.1 million in 1980/81 to E 71.5 million in 1981/82, and to the drop in revenue from the Customs Union as a result of underrecording of imports which affected Swaziland's share of revenue from the Union. To finance this deficit, it has been necessary to resort to a drawdown of government deposits. As a result, the net creditor position of the Government declined from a peak of E 85.5 million in March 1981 to E 31.5 million in June 1982.

The external payments position also deteriorated in 1981 with the balance of payments swinging from a surplus of SDR 24.1 million in 1980 to a deficit of SDR 26.4 million in 1981. This was due in part to the fact that the value of exports increased by only 15 per cent in 1981 compared with an average increase of 21 per cent during the period 1978/80, reflecting a sharp decline in the value of sugar exports resulting from falling world market prices. The situation was compounded by a decline in net capital inflows, both public and private, and a widening service account deficit.

The authorities are aware of these problems and even of the possibility of a further slowdown in economic growth and continued pressure on the balance of payments. They therefore consider it to be of utmost importance to continue with their development strategy, which aimed at creating the basis for sustained economic growth and increased employment opportunities within the framework of prudent fiscal and monetary policies.

As in the past, the authorities are giving priority to the development of the agricultural sector, with emphasis on new strategies aimed at raising the productivity of traditional agriculture where output has not increased in line with investment. Accordingly, a major review of the Rural Development Area Program (RDAP) is being conducted with World Bank assistance in order to determine how best to deploy resources to maximize production. Given the economy's high dependency on sugar production, which is the major activity in the modern agricultural sector, the authorities do not intend any major new investment in this area during the Fourth Plan which is now under preparation. The production of foodstuffs, particularly maize, will receive more attention with a view to achieving self-sufficiency. In this connection, work has already begun to improve storage facilities, improve herd management on Swazi Nation Land through the establishment of common grazing areas under the RDAP, and develop fattening ranches to reduce pressure on communal grazing areas. A project for the production of cattle feedstock is under consideration, while steps are being taken to increase production of dairy products, particularly milk. It is to be noted that with the exception of maize, prices for agricultural products will continue to be market determined.

The Government's industrial policy continues to stress diversification of production, manpower training, and the development of labor-intensive industries. In pursuit of these objectives, the authorities are currently studying the incentive system, which now includes generous depreciation and training allowances and special provisions for locating outside the existing industrial zones, to find ways of improving its effectiveness. They are also placing major emphasis on attracting foreign investment. Furthermore, the National Industrial Development Corporation of Swaziland (NIDCS) and its subsidiary, the Small Enterprises Development Corporation (SEDCO) are providing assistance to private investors, including the preparation of feasibility studies.

However, a major problem which so far has posed serious constraints on the capacity to expand the country's production has been transportation bottlenecks, particularly those emanating from capacity limits in the rail system and in port facilities in Mozambique. This is one of the main issues which has slowed progress on the development of two new coal mines which could increase the country's production by about two million tons annually. The authorities are determined to seriously tackle this problem and have initiated discussions with South Africa with a view to securing access to port facilities in that country. A project is also under way to link Swaziland with the South African rail system, with construction expected to begin in May 1983. In addition to the railway expansion, the authorities are considering a number of projects for inclusion in the Fourth Development Plan, while being presently engaged in an extensive three-year road maintenance training program with foreign technical assistance.

With regard to the financial situation of the public sector, revenue from the sugar export levy is now expected to be nil due to falling sugar prices, compared with E 8 million projected at the beginning of the year.

Similarly, shortfalls are envisaged in receipts from the tax on corporations. Therefore the revenue target for the 1982/83 fiscal year is not likely to be achieved. Given this unfavorable outcome, the authorities are making efforts to contain the growth in expenditure, the aim being to keep the overall deficit within 1 per cent of GDP. However, because of the poor prospect for sugar prices and the unlikelihood that the large increase in Customs Union receipts experienced in the current fiscal year will be repeated in the near future, and given the fact that the implementation of a number of development projects in coming years will also place a strain on the Government's financial resources, the medium-term fiscal outlook is less promising. In this connection, the authorities are conducting preliminary work on the introduction of a sales tax and are considering ways of improving the performance of those public corporations or departmental enterprises which could be a burden on the budget. Moreover, the authorities intend to maintain their policy of not subsidizing consumer goods and of generally allowing prices to reflect market conditions.

In the monetary field, domestic credit expanded by 51 per cent during the first six months of 1982 as a result of the deterioration in the net creditor position of the Government, which moved from E 52.1 million in December 1981 to E 31.5 million in June 1982, and a 15 per cent increase in credit to the private sector. The banks are now limiting the growth of credit because of the much tighter liquidity position, given their dependence upon government deposits. The authorities have increased interest rates to bring them more in line with those prevailing in South Africa. It is hoped that this will encourage savings as well as curb capital flight. They are also considering the issue of restricting the placement of government funds with commercial banks so as to encourage them to increase their efforts to mobilize private sector deposits.

With regard to the external sector, the debt service burden of Swaziland is relatively low, equivalent to about 5.7 per cent of 1982 exports of goods and services. The country maintains an exchange system that is virtually free of restrictions on payments and transfers for current international transactions. The balance of payments is expected to improve in 1982 with a projected deficit of not more than SDR 18 million compared with a deficit of SDR 26.4 million in 1981. Nevertheless, the improvement is not the result of an increase in export earnings but rather a reflection of the decline in the budget deficit and the increase in interest rates which took place in 1982.

With the softening of the world market for sugar, Swaziland, as an exporting member of the International Sugar Agreement (ISA), was obliged to accumulate special stocks amounting to 6,185 tons of sugar in the 12 months ended June 1982. In this context, my Swazi authorities are requesting a purchase of SDR 0.975 million under the buffer stock financing facility. The staff has indicated quite clearly in EBS/82/204 that the request satisfies all requirements of the buffer stock financing decision. There is a balance of payments need, as I have already pointed out, and the authorities have demonstrated their commitment to cooperate closely with the Fund in seeking solutions to the country's economic and financial difficulties. I should therefore like to urge the Board to approve the proposed decision on page 7 of EBS/82/204.