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INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
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Statement by the Hon. **THEMBA N. MASUKU**,
Governor of the Fund for **SWAZILAND**,
at the Joint Annual Discussion

STATEMENT BY HON. THEMBA MASUKU, SWAZILAND'S GOVERNOR TO THE

FUND, AT THE JOINT ANNUAL DISCUSSIONS OF THE WORLD BANK GROUP AND

THE IMF

Introduction

Mr. Chairman, Governors, ladies and gentlemen.

On behalf of my delegation and myself, it gives me, great pleasure and honour to make a statement on this year's occasion of the Annual Meetings of the World Bank Group and the IMF.

The Economy

The Kingdom of Swaziland is a small open economy with a population of about a million people, and a real GDP averaging US$324.4 million in the past three years. Swaziland's economy has been growing at an average real rate of 2.6%, over the past five years, with a declining velocity. Such growth has been backdropped by high population growth rates (recording 3.2% per year), declining real capital inflows (both private and official bilateral and multilateral) and rising inflation. A direct consequence of this economic performance has been declining standards of living, growing unemployment and a general impoverishment of the people of Swaziland. Currently, the rate of unemployment is estimated above 30%. This is quite high for an economy of less than a million people. With a large young population, Swaziland is faced with a high social dependency ratio.

The threat of globalisation is quite "real" in Swaziland. Its impact is going to be two-fold. Firstly, being in a free trade area with South Africa, under the Southern African Customs Union (SACU), Swaziland together with the other smaller member states, is expected to take a faster lane in adjusting to the GATT-94 requirements. This will be a difficult and costly exercise to the economy of Swaziland. Secondly, real threats are being observed on Swazi industries, engaged both in the domestic and external markets, as competition is likely to overwhelm them. This competition will offer little assistance to problem of unemployment facing the economy. To a great extent, this will have far reaching implications on revenue generation.

The government and the people of Swaziland, do realise that there exists an urgent need for the economy to adjust to this new world trade order. This process has already started, in earnest, with a robust and objective public sector reform, under the themes, "Economic and Social Reform Agenda" (ESRA) and the "National Development Strategy" (NDS). These are two complementary programmes, where the NDS is designed to forge long term strategies for the economy, whilst ESRA synthesises short term programmes for implementation within a specified time frame, of two to three years. Both these are closely monitored with performance targets. Nonetheless, Swaziland remains concerned about the uncertainty regarding the success of its adjustment, in the light of unfolding events in the world arena.

These concerns take us directly to two related challenges that face Swaziland, namely, competition from neighbouring economies, its ability to attract the requisite capital for funding its developmental programmes and the lack of a sufficient human resource base.

Flows into Swaziland

As the rest of Africa, Swaziland is deeply concerned about the decline in capital flowing to the region, in particular ODA resources. I can single out IDA allocations, in this regard. Due to its relative economic size and a low population, which together translate into high levels of per capita income; Swaziland finds itself unable to access IDA funding of its developmental programmes. This classification ignores numerous crucial constraints faced by small landlocked countries, such as Swaziland, such as absence of scale economies, insufficient skills, high levels of ecological fragility etc. These constraints coupled with the effects of the new world order, deal an unsustainable blow on, not only, the economy of Swaziland but similar economies. It is our plea, therefore, that these be reconsidered for more concessionary financing, in order to successfully achieve their developmental programmes. An alternative to the factors being considered, for such funding, could be a creation of programmes that will push these economies further away from the fringes, in order not to be threatened by the possibility of falling back into the net.

Over the previous five years, since 1993/94, grant finance to government operations has averaged 2% of revenue. An improvement in these flows can be greatly appreciated, taking cognisance of the need to remain non-dependent.

After noting this development, there has been a shift in policy emphasis, in order to sufficiently grow the economy, from reliance on official to private capital flows. The government of Swaziland has remained cautious about the nature of capital flowing into the economy. Attention has been put on non-debt generating forms of capital, such as equity capital flows. Whilst private capital flows, in particular foreign direct investment (FDI), have increased in nominal terms, these have declined in real terms as a result of high levels of inflation. FDI has been growing at a rate of 3.1%, over the period; whilst inflation has recorded an average of 11.3%. The implications of this cannot be overemphasised.

Another very significant reform initiative, that the Kingdom is undertaking relates to governance. In this respect, a Constitutional Commission has been put together to review the country's constitutional process which is hoped not to result in a loss of credibility and maintain wide acceptability. The government of Swaziland welcomes the recent announcement, by the Executive Board, of guidelines covering the role of the IMF in issues of governance. It is hoped that the advice and technical assistance that the IMF has been offering will be extended and further enhanced by this move.

Even though exchange controls have been relaxed in South Africa, offering wider options for South African capital thus reducing potential flows to Swaziland, we view this step as an opening of wider financial integration for a more efficient allocation of resources amongst other benefits. Swaziland fully welcomes these developments, as proponent of liberalisation, and is geared to fully follow suit, in the spirit of the Common Monetary Area (CMA) arrangement, with the aim of delivering a high level of capital account convertibility. Significant strides have already been taken in this direction under the Financial and Investment Sector Co-ordinating Unit (FISCU) of SADC and the Macro-economic and Financial Management Institute of Eastern & Southern Africa (MEFMI), with its headquarters in Harare.

Much as the Swazi government realises the fundamental need to generate private capital flows, it also notes that this should not be a substitute for ODA flows. I say this, because the infrastructural provisions are still quite lacking in the economy; and they need urgent enhancing. Only government can ensure the delivery of such services, which in turn applies significant pressure on public resources. After a history of budget surpluses, government has started recording deficits, reaching a level of 4.5% of GDP in 1996/97 at an average cost of borrowing of 13.7% (local loans) and 6% (foreign loans, excluding exchange risk). Deficits are set to increase in the coming years as large developmental projects come on stream, making it even more important to access concessional funding.

The government of Swaziland is considering more creative forms of financing, one of which is to develop and deepen the domestic financial market. In this front, Swaziland commissioned a detailed financial sector study, in 1994, whose main objective was to reform the sector in line with various challenges, facing the economy; in order to provide the "necessary growth dynamic within the Swazi economy." An issue in the international capital markets is another option, but one that will be constrained by exchange rate volatility. In this light, the government of Swaziland has already put together a borrowing strategy, which will be implemented in the next budget.

The above, not withstanding, the government has embarked on a number of schemes to harness domestic savings towards wealth developing and enhancing programmes, with the sole aim of empowering and increasing reliance on indigenous investment. These involve guarantees for small business enterprises, exporting industries and public enterprises. A significant amount of domestic savings find their way out of the economy. As part of the initiative of harnessing savings, Swaziland is consciously putting together market based structures which will attract these resources back into the economy, to fund development.

International and Regional Comparison

Swaziland's rather forlorn prospects are taking place amidst a backdrop of impressive regional and international economic performance. World output growth is expected to improve further in 1997, to record 4.4% from levels of 3.7 and 4% in 1995 and 1996, respectively. Growth has also been impressive at the developing country level, and even more impressive for countries in Africa, whose performance has been upbeat, since 1994-95. Africa recorded its best performance in 1996, where it recorded 5%. Whilst growth in Africa is expected to grow at 4.75% in 1997, prospects for Swaziland are quite modest.

Whilst advanced countries view the globalisation process, with the belief that it harms the interests of workers, especially unskilled through immigration, trade and capital flows, it is our belief that the gains far outweigh the costs to these countries. I will agree with the view of the IMF that "... rather than attempting to limit globalisation, the appropriate policy response, is instead, to address the underlying structural rigidities that prevent labour markets from adjusting...". Education and training are the best ingredients to this exercise and Swaziland would benefit greatly from such an initiative. I am confident that Swaziland is not alone in this thought, as recent world economic outlook (WEO) data reveals that low income countries are faced with low stocks of human capital, poor resource bases and political instability. These are crucial complementary factors for growth and development.

CONCLUSION

The task facing Swaziland, in particular, and the SADC region, in general, is onerous. We shall need all the assistance we can get from the world community. What we remain cognisant of, is the need to access capital that will not threaten current debt levels and thus its sustenance.