

Executive Briefing

- Economic growth is expected to rebound by 3% in 2021.
- A Covid-19 response package and a post-Covid plan have been launched.
- Major export products are essential oils and resinoids and sugar.
- Economic recovery in South Africa will support higher levels of exports in 2021.

Macroeconomic Outlook

The recent enactment of the Special Economic Zone Act, attractive incentives and easy market access to the rest of southern Africa present numerous reasons for investment in Eswatini.

Real GDP did contract by 3.8% in 2020 due to the slowdown in economic activity as a result of measures to combat the Covid-19 pandemic. Growth is expected to rebound to 3% in 2021 as the economy continues to reopen. In the longer term, annual GDP growth is expected to average 2.4% between 2021 and 2030. Private consumption will drive economic recovery in 2021, while fixed investment will rise under the government's Post-Covid Plan to stimulate the economy through higher capital expenditure.

The government has implemented a response package (valued at 1.5% of GDP) to increase healthcare capacity, social protection transfers and improve access to sanitation facilities. In July 2020, the IMF approved USD110.4 million in emergency financial assistance to address Covid-19. In August 2020, a Post-Covid Plan was launched, including SZL7.1 billion (9.7% of GDP) to support development projects. The World Bank approved a USD40 million loan to support economic recovery in November 2020.

Eswatini's increasingly challenging fiscal position leaves it more vulnerable to shocks and limits its capacity to support growth and development. Government consumption in 2020 is expected to have increased by 5%, largely due to higher spending on health and social welfare in response to Covid-19. The government will cut back on expenditure in order to avert further deterioration in the fiscal balance. The government also plans to implement a hiring freeze in fiscal year 2021/2022, which will serve as an additional constraint on private consumption growth.

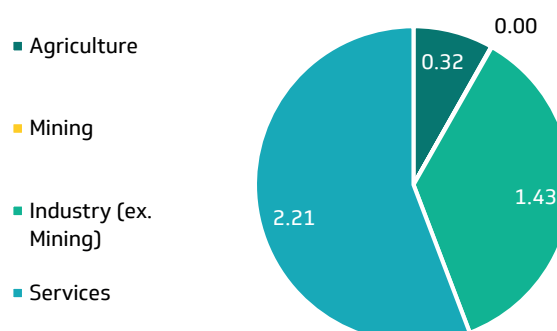
Key Macroeconomic Indicators	2018	2019	2020	2021	2021-25 ave	2021-30 ave
Population, mn	1.14	1.15	1.16	1.17	1.20	1.23
Real GDP Growth, % y-o-y	2.35	1.72	-3.78	2.97	2.34	2.41
Real GDP per capita, USD	4773.56	4805.44	4575.81	4662.54	4759.18	4914.09
Inflation (%)	4.80	2.60	3.80	4.00	4.00	4.00
Fiscal balance, % of GDP	-5.76	-7.00	-9.00	-5.40	-3.75	-3.28
Public debt, % of GDP	35.92	44.58	51.29	52.74	56.23	58.19
Current account balance, % of GDP	6.53	6.77	7.21	6.99	4.73	2.79
Exchange rate, SZL/USD, ave	13.26	14.45	15.64	16.85	18.02	18.43

Source: National Sources, Fitch Solutions

Political Climate

The absolute monarchy of Eswatini, ruled by King Mswati III, will continue to face pressure at home and abroad to liberalise the country's political system. Eswatini last held parliamentary elections in 2018. The death of Prime Minister Ambrose Dlamini in December 2020 is unlikely to have a substantial impact on the political outlook. Social unrest may re-escalate in 2021. Persistent sources of public dissatisfaction – stagnating living standards and a lack of political freedom – will continue to be exacerbated by a bleak economic environment.

Eswatini - GDP by Output, USD billion (2021)



Source: World Bank, Fitch Solutions

Business & Trade Climate

The US government's decision to reinstate Eswatini's eligibility under the African Growth and Opportunity Act (AGOA) is a positive step for investor confidence and will support exports and investment in the long term.

The country's readmission to AGOA, after having lost its eligibility in 2015, is a potential driver of new investment but currency strength will limit the competitiveness of exporters in the short term. That said, as the South African rand (to which the Eswatini lilangeni is pegged) depreciates against the US dollar in the medium term, exporters will become more competitive and this will boost exports and investment.

Compared to other countries in sub-Saharan Africa, Eswatini's export basket remains largely diversified. Together, essential oils and resinoids and sugar, Eswatini's top two exports, account for approximately 50% of total exports. Chemical products, articles of apparel and wood complete the list of Eswatini's top five exports. South Africa, Kenya and Nigeria are the largest markets for Eswatini's exports. Exports are forecast to have fallen by 2.6% in 2020 but should recover quickly. Economic recovery in South Africa will support higher levels of exports from Eswatini in 2021.

Imports are sourced primarily from South Africa, China and Mozambique, and consist of fuels, vehicles, machinery, electrical equipment and plastics. Imports of goods and services growth is forecast to outpace export growth in the years ahead.

Market Risk

Risk Factor	Impact on Business
An underdeveloped infrastructure may concern investors.	Increases the cost of doing business.
A constrained business environment could deter investment.	This limits profitable investment opportunities. Eswatini is ranked 121 out of 190 countries in the World Bank's Doing Business 2020 report.
Land tenure system represents a concern.	Most land cannot be purchased by foreigners. Limits investment in commercial real estate and agriculture.

Investment Opportunities



Agribusiness

The agricultural sector provides numerous inputs into the manufacturing sector through the processing of raw materials such as timber and sugar cane. The sector employs approximately 70% of the population. Eswatini has a number of diverse agricultural activities, including the cultivation of citrus fruit, cereals, cotton and maize.

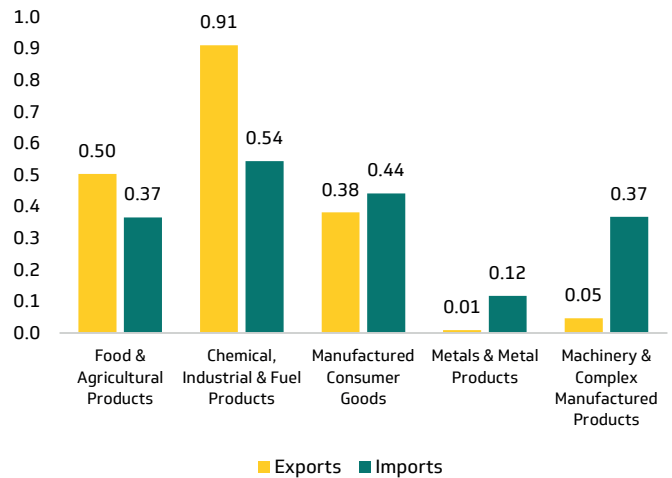
Sugar production is dominated by South Africa-based Illovo Sugar, which owns a 60% share in Ubombo Sugar (with the remaining 40% owned by Tibiyo Taka Ngwane, Eswatini's sovereign wealth fund), and Royal Eswatini Sugar Corporation, owned jointly by Tibiyo Taka Ngwane and South Africa's RCL Foods. In June 2020, South African company Tongaat Hulett sold Tambankulu Estates to Eswatini's Public Service Pensions Fund. Montigny Investments, a privately owned and operated company, is the largest timber producer in the country and owns eight mills and processing plants.



Transport & Logistics

The government has prioritised the streamlining of border processing procedures in recent years and is now seeing the dividends. A large share of transport activity in Eswatini is linked to the agribusiness and manufacturing sectors. Notable players within the transport sector include Logico Unlimited (the official distributor for Coca-Cola products in Eswatini) and Montigny Transport, which provides services to the timber and cement industries.

Eswatini Exports & Imports, USD billion (2018)



Source: UN Comtrade



Renewable Energy

Reforming the legal and regulatory framework for infrastructure development presents a number of opportunities to pursue private projects. The government is actively seeking investments from independent power producers in the biomass, solar and hydro power-generation space. Eswatini can produce up to 30% of its own power. However, the state imports between 80% and 100% of its power from South Africa and Mozambique due to a lack of storage capacity at domestic hydropower plants. The 200MW hydroelectric project by Zoetic Global, valued at USD600 million, is currently in the planning stage. The government has awarded 40MW of solar photovoltaic (PV) capacity to potential independent power producers and a 40MW biomass procurement programme is also being planned. Various sugar production plants currently have unrealised potential to produce biomass power.



Manufacturing

The manufacturing sector is the second-largest employer in Eswatini. The main manufactured products include beverages, textiles, timber, plastics and chemical products. Eswatini is home to Coca-Cola's largest manufacturing plant in Africa, accounting for a large share of industrial products exported from the country, and 40% of all Coca-Cola products sold in Africa by volume.

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