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Kingdom of Swaziland: 2010 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Swaziland

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2010 Article IV consultation with Swaziland, the following documents have been released and are included in this package:

- The staff report for the 2010 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on November 10, 2010, with the officials of Swaziland on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 22, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- An Informational Annex to the Staff Report of December 22.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its January 10, 2011 discussion of the staff report that concluded the Article IV consultation.

- A statement by the Executive Director for Swaziland.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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KINGDOM OF SWAZILAND

Staff Report for the 2010 Article IV Consultation

Prepared by the Staff Representatives for the 2010 Consultation with the Kingdom of Swaziland

Approved by Mark Plant and Dhaneshwar Ghura

December 22, 2010

Mission. A staff team—J. Mongardini (head), A. Thomas, T. Kinda, A. Meyer-Cirkel (all AFR), and O. Basdevant (FAD)—visited Mbabane from October 27 to November 10, 2010. The mission met with Prime Minister B. Dlamini, Finance Minister M. Sithole, Economic Planning and Development Minister Prince Hlangusempi, Central Bank Governor M. Dlamini, and other senior officials. It presented the mission's findings to the government in a cabinet meeting on November 9, 2010. The mission was joined by representatives of the African Development Bank (AfDB) and the World Bank (WB).

Past advice. The last Article IV consultation was concluded on February 22, 2010. In view of Swaziland's rapidly deteriorating fiscal position, the Fund stressed the need for urgent fiscal consolidation along with structural reforms in key areas to help achieve fiscal sustainability over the medium term, boost economic growth, and preserve external stability. The authorities have responded to the advice by putting together a comprehensive Fiscal Adjustment Roadmap.

Exchange system. Conventional peg. Swaziland maintains one exchange restriction subject to approval under Article VIII. This arises from the 33.33 percent limit for advance payments for the import of certain capital goods. In July 2010, the authorities removed the overall limit on the provision of foreign exchange for advance payments for imports, thus eliminating another exchange restriction arising from such limits.

Outreach. The mission held a seminar on November 8, 2010 on the analytical work of the 2010 Article IV Consultation, which was attended by about 100 representatives of the government, parliament, civil society, the donor community, and the press. It also held a joint press conference with the governor of the central bank and the permanent secretary of the ministry of finance on November 10, 2010.

Main Authors: J. Mongardini, O. Basdevant, T. Kinda, A. Meyer-Cirkel, A. Thomas.

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Glossary

AfDB	African Development Bank
AIDS	Acquired Immunodeficiency Syndrome
BLNS	Botswana, Lesotho, Namibia, and Swaziland
CBS	Central Bank of Swaziland
CGER	Consultative Group on Exchange Rates
CMA	Common Monetary Area
CPI	Consumer price index
CTA	Central Transport Authority
DSA	Debt Sustainability Analysis
EVERS	Enhanced Voluntary Early Retirement Scheme
ES	External Sustainability
FAR	Fiscal Adjustment Roadmap
FDI	Foreign Direct Investments
HIV	Human Immunodeficiency Virus
MOF	Ministry of Finance
MB	Macroeconomic Balance
MDGs	Millennium Development Goals
NBFI	Nonbank Financial Institutions
PFM	Public Financial Management
PPP	Purchasing Power Parity
PPPs	Public Private Partnerships
REER	Real Effective Exchange Rate
SACU	Southern African Customs Union
SARB	South African Reserve Bank
SMEs	Small- and Medium-sized Enterprises
SMP	Staff-Monitored Program
SRA	Swaziland Revenue Authority
TA	Technical Assistance
WB	World Bank

Executive Summary

Swaziland faces a fiscal crisis, driven by a large decline in Southern African Customs Union (SACU) revenues and one of the largest government wage bills in Sub-Saharan Africa. Absent corrective measures, the overall fiscal deficit is projected to reach 16 percent of GDP. The deficit is being financed through a significant accumulation of domestic arrears as the government runs down its deposits at the central bank. The debt dynamic is becoming unsustainable.

The Swaziland government has responded to the crisis by adopting a Fiscal Adjustment Roadmap (FAR) in October 2010, while taking immediate actions as well. On the latter, the authorities increased the fuel levy in November 2010, cancelled a large amount of investment projects, and implemented measures to reduce the wage bill. Over the medium-term, the aims to continue to expanding revenue sources and rationalize expenditures. On the revenue side, the authorities will shortly submit legislation to introduce a value-added tax. On the expenditure side, they intend to introduce a civil servants' wage and hiring freeze for the next three years, and are implementing a significant reduction in civil service payroll through a voluntary separation package. Overall, the FAR is expected to reduce the fiscal deficit gradually to about 3 percent of GDP by 2014/15. In support of the FAR, the authorities have requested financial and technical assistance (TA) from the African Development Bank (AfDB), the European Union (EU), the Fund, and the World Bank (WB).

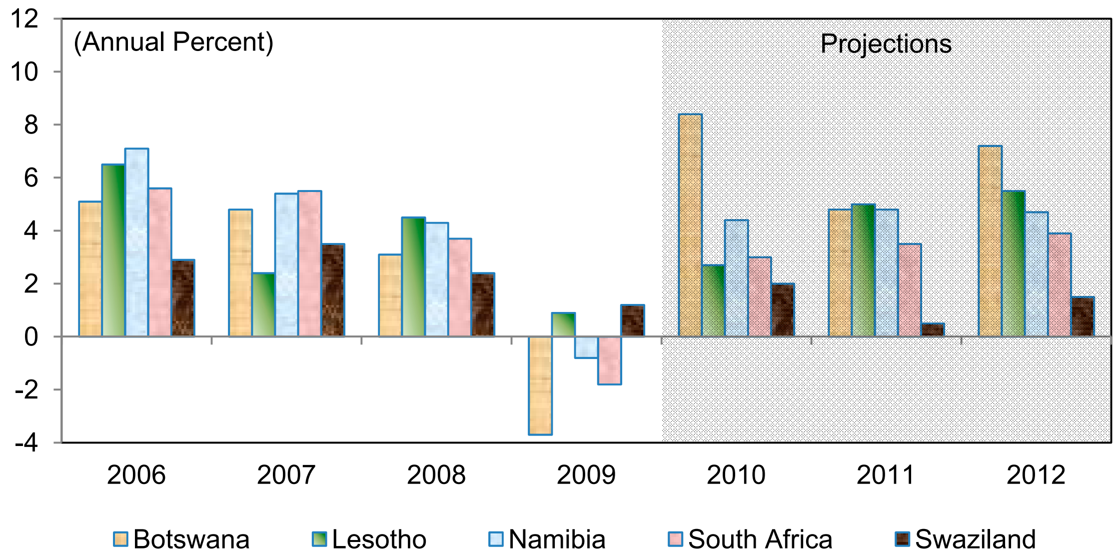
The Article IV Consultation discussions focused on restoring fiscal sustainability, improving competitiveness, and strengthening financial supervision. The authorities and staff shared the same diagnostic on the current situation. In light of the imminent fiscal crisis, staff advised upfront fiscal measures to eliminate domestic arrears, while preserving pro-poor spending. The authorities preferred a more gradual approach in 2010, but agreed that a conservative 2011/12 budget would be needed. While noting that the FAR is a welcome step, staff suggested that it needed to be strengthened and firmly implemented in order to successfully bring the deficit down to a sustainable level and reduce dependence on SACU transfers. There was a broad agreement on the need to improve competitiveness, to tackle widespread HIV/AIDS and poverty, and to preserve financial stability by strengthening the surveillance of the financial sector.

Political and social risks are significant. During the mission, trade unions indicated their willingness to make sacrifices, provided that these are fairly distributed across all income groups. Protecting pro-poor spending, as well as bold actions to address the spread of HIV/AIDS, are essential for maintaining political support for the needed fiscal adjustment.

I. The Impact of the Global Economic Crisis in the Context of Key Obstacles to Higher Growth

1. **The Swaziland economy continues to underperform compared to other SACU members, reflecting both the impact of the global economic crisis and a lack of competitiveness.** While real GDP growth is expected to have inched up to 2 percent in 2010, the rebound is moderate and has mostly been driven by public consumption. Swaziland also continues to underperform other SACU members, reflecting an overvalued real effective exchange rate, continued structural impediments to growth, the relatively high cost of doing business, and the heavy toll of HIV/AIDS on economic activity (Figure 1). The economic outlook shows only moderate growth averaging 2 percent over the medium term. Inflation has slowed in recent months (4.5 percent in October 2010) and is projected to remain moderate.

Figure 1. Real GDP Growth of SACU Members, 2006–12



Source: Country authorities's estimates and Fund staff projections.

2. **The impact of the crisis has been felt the most in the revenue transfers of the SACU to Swaziland.** SACU imports fell by 28.1 percent in 2009 due to the contraction of economic activity in South Africa and the unwinding of infrastructure spending associated with the 2010 World Cup (Figure 2). As a result, transfers from the common revenue pool to Swaziland have fallen by 11 percent of GDP in FY 2010/11 due to the highly procyclical SACU revenue-sharing formula.[1]

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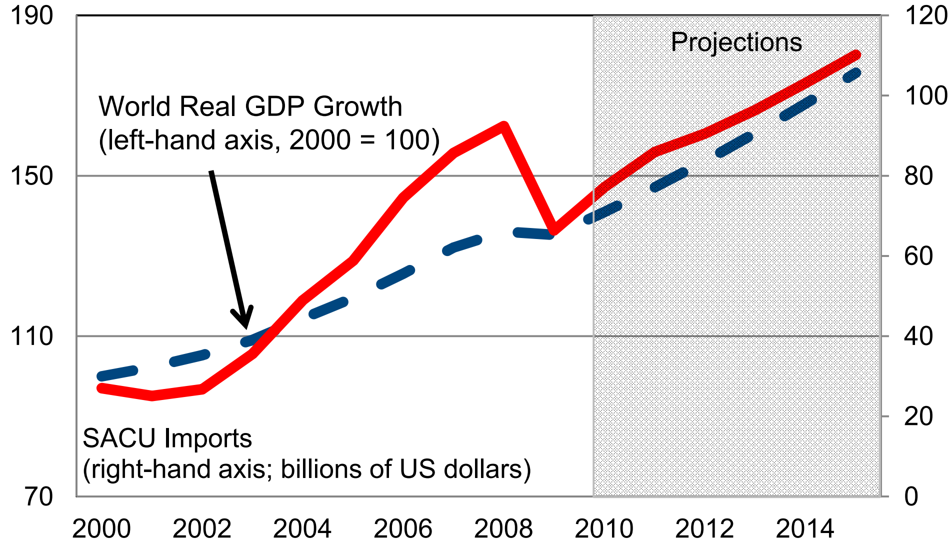
[1] For a discussion of the challenges of adjusting to lower SACU revenue, see the African Departmental Paper "In the Wake of the Global Economic Crisis: Adjusting to Lower Fiscal Revenue of the South African Customs Union in Botswana, Lesotho, Namibia, and Swaziland" available at http://www.imf.org/external/pubs/ft/dp/2011/afr1101.pdf.

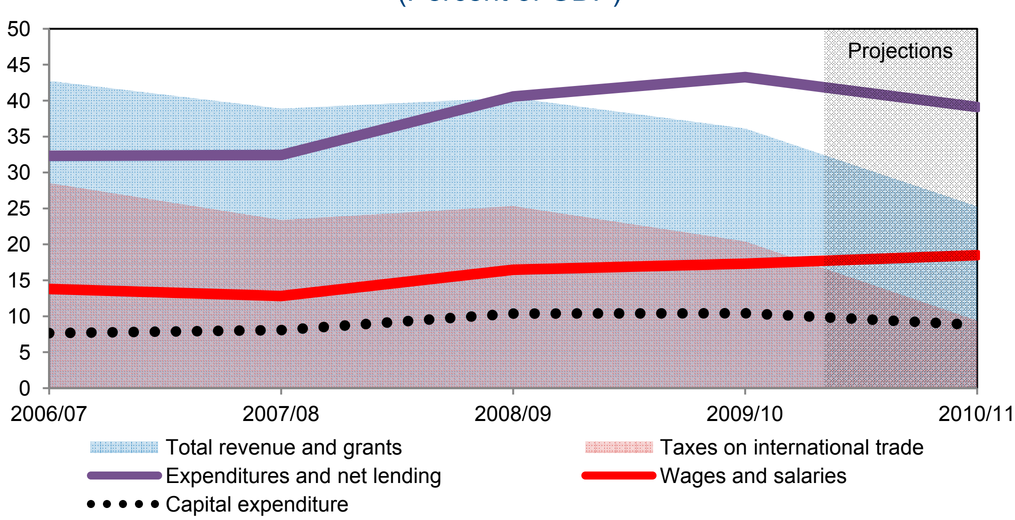
Figure 2. The Impact of the Global Economic Crisis on SACU Imports, 2000–15



Source: Country Authorities, WEO, and Fund staff estimates and projections.

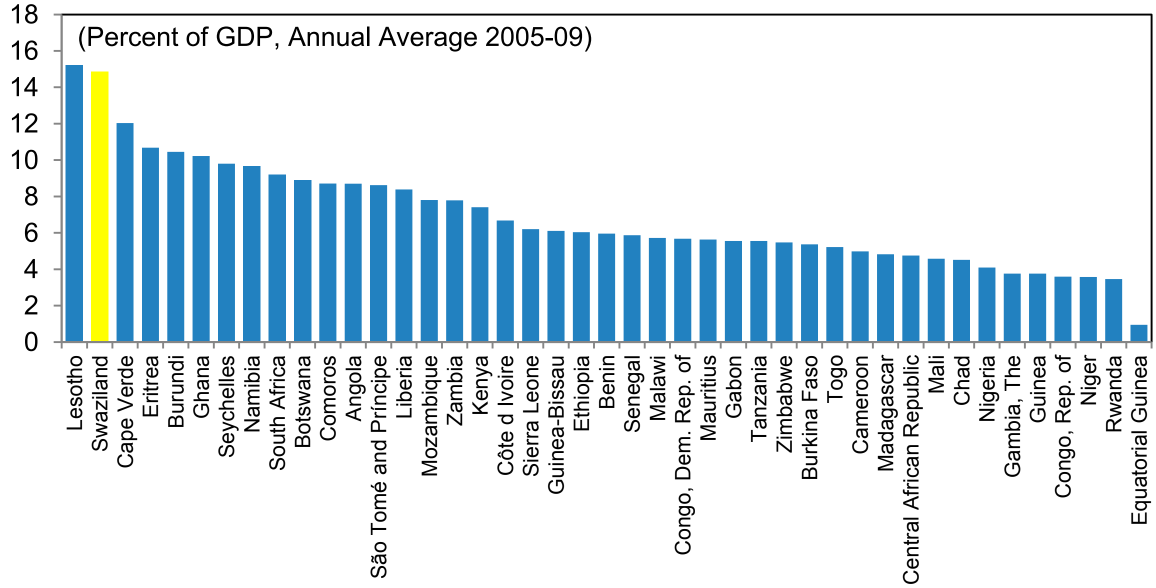
3. **The shortfall in SACU revenue and one of the highest government wage bills in Africa have triggered a fiscal crisis, with the government incurring domestic arrears.** Absent corrective measures (see below), the deficit is expected to widen to 16 percent of GDP in 2010/11, reflecting the decline in SACU revenue and a further wage increase granted in mid-2010 (Figure 3). This has contributed to making the Swaziland wage bill one of the largest in Sub-Saharan Africa (Figure 4). Since the Article IV discussion took place, the government added to fiscal pressures by passing through parliament in November 2010 a supplementary budget of E350 million (1.3 percent of GDP) to increase capital expenditures. The deficit has been financed through a drawdown of government deposits at the central bank and domestic arrears on all expenditure items, except wages and utilities.

Figure 3. Fiscal Developments, 2006/07–10/11
(Percent of GDP)



Source: Country Authorities and Fund staff estimates and projections.

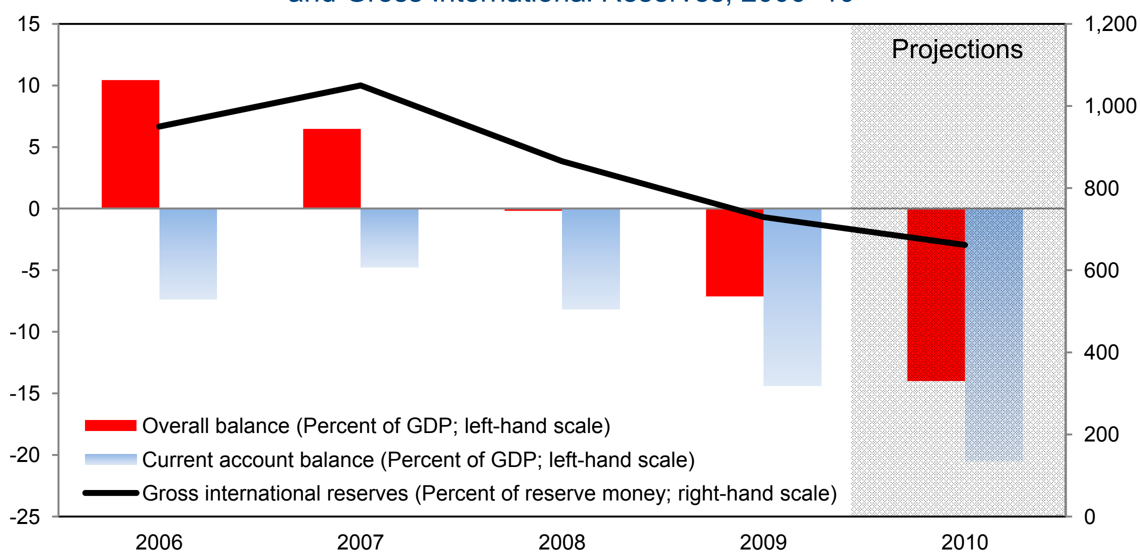
Figure 4. Wage Bill Comparison in Sub-Saharan Africa



Sources: Country authorities and Fund staff calculations.

4. **The fiscal crisis is mirrored by a rapid deterioration of Swaziland's external position.** The recent deterioration in the current account is mainly the result of weak export growth, higher import growth, and a sharp reduction in SACU revenues. The current account deficit is expected to have widened to 20.5 percent of GDP in 2010, reflecting the decline in SACU transfers and unabated public consumption. Foreign direct investment and other financial flows remain anemic. As a result, gross official reserves declined steadily in 2009-10, as the government drew down its deposits at the central bank (Figure 5).

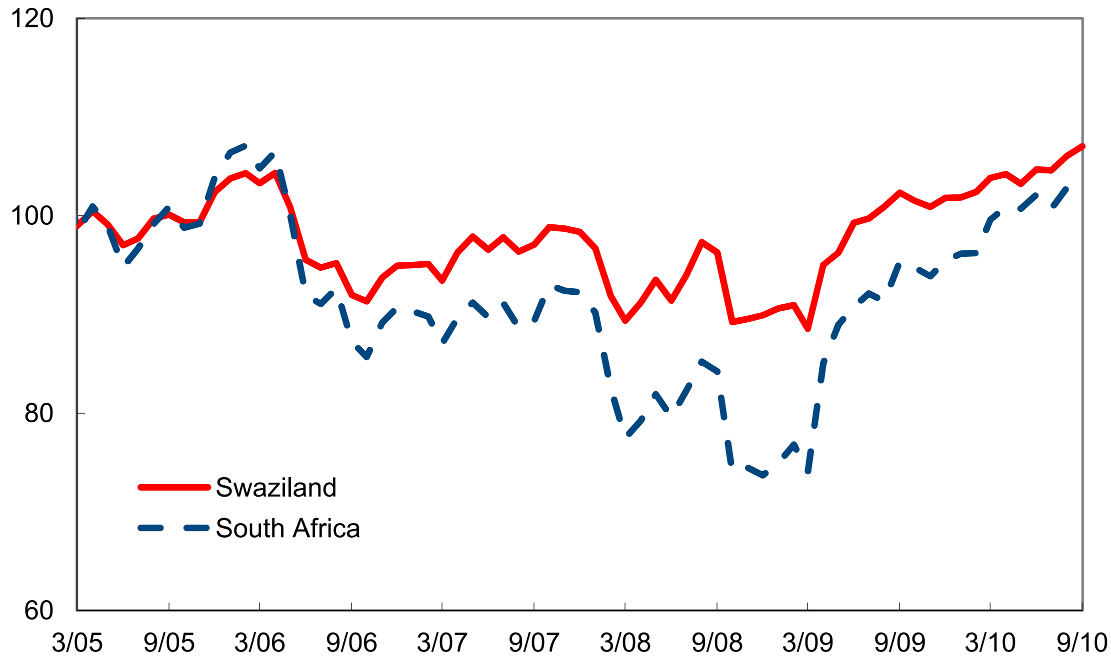
Figure 5. Fiscal Balance, Current Account Balance, and Gross International Reserves, 2006–10



Source: Authorities and Fund staff estimates and projections.

5. **Swaziland also suffers from an overvalued exchange rate and impediments to private sector development**. Staff estimates suggest that the overvaluation of the real effective exchange rate (REER) increased to a range of 16-25 percent at end-2009 and further rose in the course of 2010 (Appendix I and Figure 6). Given the peg of the Lilangeni to the South African rand,[1] the main factor behind the overvaluation lies in the public sector wage policy, which has granted consistent increases over the years, while productivity improvements remained uncertain. Moreover, despite comparative advantages in some export-oriented sectors (e.g., sugar, cassava, fruit juices), the private sector is still in dire need of further development, being held back by the high cost of doing business, as assessed by the World Bank. Given the projected fiscal imbalances, the recent appreciation of the South African rand vis-à-vis the US dollar and the need for structural reforms geared toward a private-sector-led growth, external stability could be jeopardized without an adjustment in policies.

Figure 6. Real Effective Exchange Rate in South Africa and Swaziland, 2005–10



Source: Country authorities and Fund staff estimates.

6. **Swaziland removed one of the existing exchange restrictions subject to approval under Article VIII.** Swaziland maintained two restrictions subject to approval under Article VIII. These arose from overall limits on the provision of foreign exchange for advance payments for imports as an absolute amount (E 250,000) and a 33.33 percent limit for the import of certain capital goods. In July 2010, the authorities amended the Exchange Control Rulings so as to remove the overall limits on the provision of foreign

[1] Swaziland is part of the Common Monetary Area with Lesotho, Namibia, and South Africa, and the lilangeni is fixed at par with the South African rand, which is also legal tender in Swaziland. There is therefore no independent monetary or exchange rate policy.

exchange for advance payments for imports, and issued a Circular to inform the public of the amendment. The authorities' actions eliminated the exchange restriction arising from such limits. The exchange restriction arising from the 33.33 percent limit on the provision of foreign exchange for advance payments for the import of certain capital goods still remains in place.

7. **The prevalence of HIV/AIDS strains human capital and substantially reduces potential output**. Swaziland remains the most affected country by HIV/AIDS in the world. By lowering life expectancy at birth to 31 years and increasing absenteeism due to sickness, HIV/AIDS deters human capital accumulation and reduces productivity growth (Appendix II). It also poses constrains on growth in labor intensive sectors, such as textile and agriculture, while placing a burden on household and public finances.[2]

II. The Authorities' Policy Response

8. **The government adopted immediate measures to reduce the deficit for 2010/11.** In November 2010, the fuel levy was raised by E25 per liter to align end-user prices to those in South Africa, with an additional increase planned for April 2011. Investment projects that have not been initiated yet were postponed to 2011/12, which would represent savings of about E 300 million (about 1 percent of GDP). However, the proposed cuts include pro-poor projects. Additionally, measures were taken to contain the wage bill, with cuts in over-time work, a freeze in new hires, and improved control of the number of civil servants by reducing ghost workers.

9. **The Fiscal Adjustment Roadmap (FAR), adopted in October 2010, would build on these measures and bring the deficit down to sustainable levels over the medium term.** On the revenue side, the FAR envisages:

- **Introducing a VAT and a capital gains tax**. The value added tax (VAT) is expected to replace the general sales tax starting with the 2012/13 budget.

- **The revenue administration will also be strengthened so as to fight tax evasion more effectively.** The Swaziland Revenue Authority (SRA) is now expected to be operational from January 2011. Furthermore, a creation of a large taxpayer unit is planned, as well as the simplification of the tax structure.

On the expenditure side, the FAR includes a:

- **A freeze on the wage bill for the next three years**. This would be achieved through: i) freezing vacancies and reallocating resources more efficiently; ii) reducing the overall size of the public service by 20 percent, by implementing an early retirement exit scheme, outsourcing services, and the creation of autonomous agencies (e.g. Civil

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[2] For an overview of the impacts of HIV/AIDS on food security and household vulnerability in Swaziland see Masuku, M. B. and M. M. Sithole, "The impact of HIV/AIDS on food security and household vulnerability in Swaziland," *AgEcon,* Vol. 48, Issue 2 (2009).

Aviation, Central Transportation Administration); and iii) reviewing compensation policy and introducing performance management systems.

➢ **Cuts in expenditures on goods and services.** The FAR envisages stricter controls and greater efficiencies in the delivery of goods and services, as well as PFM reforms to improve procurement, accounting, and auditing practices. In particular, the Central Transportation Administration will be turned into a full public enterprise subject to audited annual statements by end-March 2011. Most other public enterprises are generally well-run and profitable (Box 1).

Box 1: The Performance of Public Enterprises in Swaziland

Swaziland currently has 32 active public enterprises. These enterprises cover a broad range of activities, including agriculture, transportation, finance, utilities, services, education, housing, and health. About 40 percent of the public enterprises are non-profit entities and rely heavily on government subsidies for their activity. The remainder are profit-seeking public enterprises, which have recorded operating surpluses for the last three fiscal years, thus not posing significant fiscal risks. The government is required to report quarterly to parliament on their performance.

Swaziland: Performance Indicators of Profit-seeking Public Enterprises, 2007–10
(Percent)

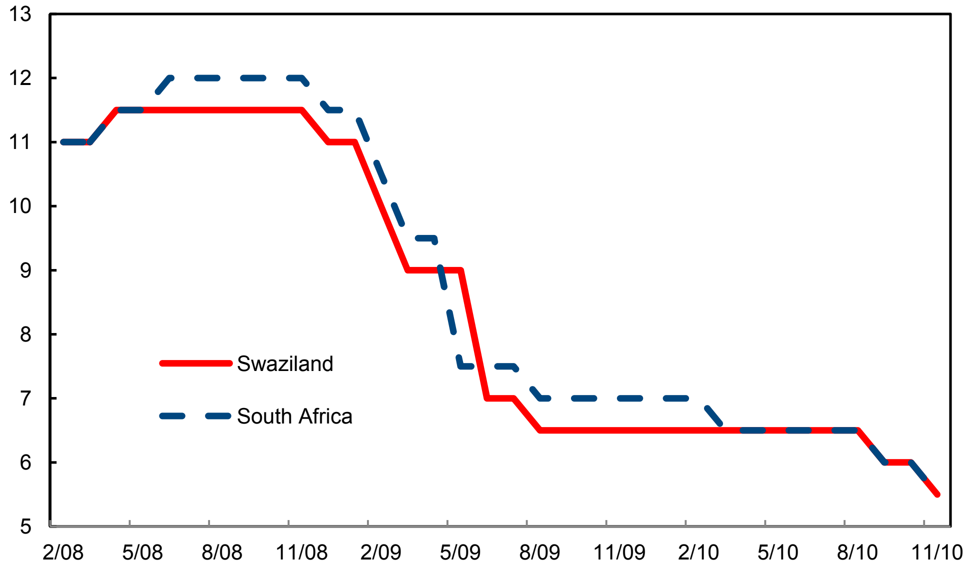
	2007/8	2008/9	2009/10
Total Revenue/Fixed Assets	62.9	62.2	82.4
Operating Surplus/Total Revenue	14.3	6.8	17.9
Return on Capital Employed (Net Income To Total Assets)	3.6	2.2	5.8
Debt ratio (Debt/Capital Employed)	43.8	45.4	N/A
Share of Enterprises with Operating Surplus	72.2	61.1	66.7

Source: Public Enterprises Unit, Ministry of Finance of Swaziland.

10. **If the FAR is successfully implemented, government debt should remain sustainable over the medium term.** Based on the debt sustainability analysis for middle-income countries, the debt to GDP ratio should peak below 40 percent in 2014/15 and start coming down thereafter. Debt service projections show interest payments gradually doubling to 1.5 percent of GDP by 2014/15.

11. **Monetary easing continues in line with the policy of the South African Reserve Bank.** The Central Bank of Swaziland (CBS) eliminated the differential in policy rates with South Africa in March 2010 and continues to follow the South African monetary policy, including with the latest interest rate reduction in November 2010 (Figure 7).

Figure 7. Policy Rate of the Central Bank of Swaziland and the South African Reserve Bank, 2008–10



Source: Country authorities and Fund staff estimates.

III. Policy Discussions

12. The main challenges facing the Swaziland economy are: a) restoring fiscal sustainability, b) improving competitiveness, and, c) strengthening financial supervision.

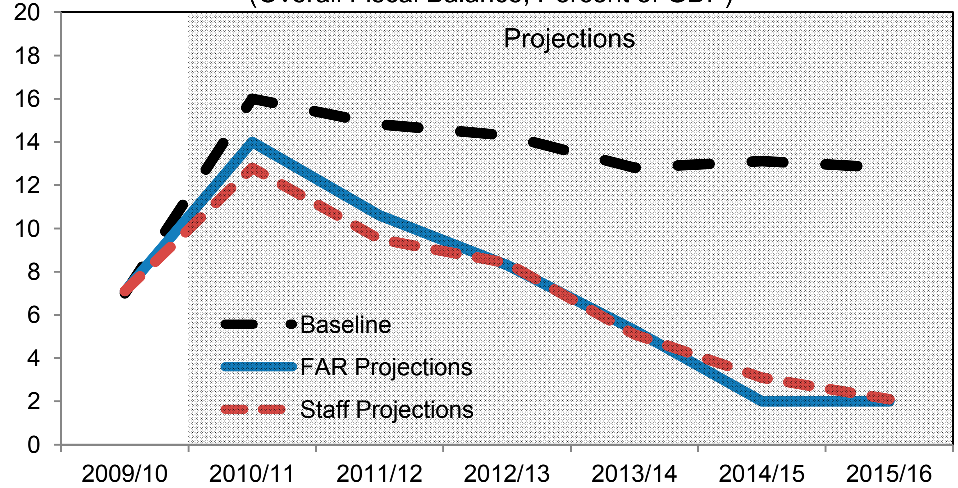
A. Restoring Fiscal Sustainability

13. **The current fiscal position is unsustainable.** Under unchanged policies, the debt to GDP ratio would rise rapidly to unsustainable levels over the medium term (Figure 8). In the short run, the spread of domestic arrears to the wage bill would have dire consequences for the rest of the economy, including the banking system. For example the exposure of banks and non-bank financial institutions (NBFIs) to the civil service could lead to a rapid increase in their non-performing loan should no action be taken to reduce domestic arrears. As the government continues to draw down its deposits at the central bank, the gross official reserves of the central bank will be further depleted, calling into question external stability.

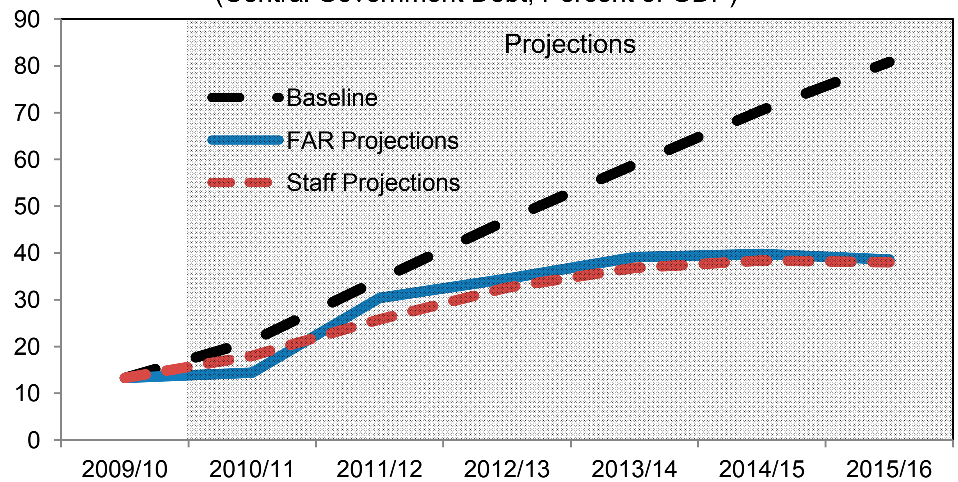
Staff's views: The fiscal crisis requires additional upfront measures and comprehensive medium-term fiscal reforms.

Figure 8. Baseline, Authorities, and Fund Staff Fiscal Projections, 2009/10–15/16

(Overall Fiscal Balance; Percent of GDP)



(Central Government Debt; Percent of GDP)



Source: Country Authorities and Fund staff estimates and projections.

14. **The current fiscal crisis necessitates upfront measures to eliminate domestic arrears, while preserving pro-poor spending**. This requires mobilizing significant additional bond financing over the next few months, and taking the necessary revenue and expenditure measures to bring the fiscal deficit down in line with available financing. In particular, a reversal of the wage increase granted in 2010 would make significant headway in reducing the large wage bill. Additional savings could be achieved by cutting nonpriority capital spending, while safeguarding education and health expenditure. In this context, it was unfortunate that the authorities moved forward with a supplementary budget on a nonpriority capital project in the midst of a fiscal crisis. On an institutional front, the Policy and Budgeting Committee, which has led to a segmentation of the budget process and expenditure authorization amongst three ministries, could be eliminated and all budgetary functions centered in the minister of finance. Budget reporting also needed to be beefed up for line ministries to report expenditure on a cash and commitment basis, as well as outstanding arrears.

15. **Additional revenue and expenditure measures are needed in the 2011/12 budget to ensure that the fiscal deficit is reduced to a sustainable path.**[3] In particular, the hiring and wage freeze needs to be maintained, while the civil service payroll is reduced by applicants to the Enhanced Voluntary Early Retirement Scheme (EVERS) adopted by the authorities in November 2010. In addition, any unforeseen SACU revenue should be saved in order to make further progress towards fiscal consolidation, while reducing fiscal vulnerabilities and restoring a sufficient level of gross official reserves. Inevitably, real GDP growth will suffer in 2011 (0.5 percent) as a result of the fiscal adjustment, but it is expected to recover to its potential rate of 2.5 percent over the medium term, as improvements in the business climate will lead the private sector to pick up the lower public demand.

16. **The main medium-term objective should be to bring the deficit down to a sustainable level and to reduce the dependence on SACU transfers in line with the FAR (Figure 8).** For Swaziland, the guiding principle of the adjustment effort was to stabilize the debt to GDP ratio below 40 percent of GDP, while maintaining a sufficient level of gross official reserves to maintain external stability. The optimal fiscal adjustment path that derives from this principle was a reduction in the overall fiscal deficit gradually to about 3 percent of GDP by 2014/15. Relying on recurrent expenditure cuts, with particular emphasis on the wage bill, would be the most credible way to achieve fiscal consolidation, while mitigating the impact on growth. At the same time, it will be important to protect education and health expenditures so as to improve the composition and quality of spending.

17. **The credibility of the medium-term fiscal adjustment would be strengthened by further improvements in the budget process.** The government could spell out its policies within a three-year budget framework, which could be anchored on debt and fiscal sustainability, while developing a medium-term vision on spending priorities and resource allocation between line ministries. Budget reporting and transparency need to be strengthened in line with prevailing standards in the SACU region to allow for appropriate oversight by parliament.

Authorities' views: While in agreement with staff views, the authorities have not yet been in a position to implement all the required measures

18. **Some policy recommendations have not been fully implemented, because the authorities are worried about their potential adverse impact on social peace.** They indicated in particular that a reversal in the wage increase granted in the first half of 2010 could cause social upheaval. They instead opted for cuts in overtime pay, a freeze in new hires, and the reduction of ghost workers. They also saw more limited scope for containing capital spending, arguing in particular that the supplementary budget was

[3] The projections for SACU revenue have been revised in line with the decision of the SACU Council of Ministers in December 2009 on the amounts of SACU transfers for fiscal year 2011/12: Swaziland will receive about E2.9 billion (9.8 percent of GDP).

essential in order to avoid large penalties if the ongoing capital project is stopped. Furthermore, against staff advice, cuts were proposed on pro-poor spending projects.

19. **The authorities shared the staff's views on the need for a conservative 2011/12 budget**. They pointed to the establishment of the SRA and the full-year impact of the measures already being taken, including the voluntary separations, as being a good basis to reduce significantly the 2011/12 fiscal deficit. They also agreed to the objective of reducing the fiscal deficit to single digits in percent of GDP over the medium term—consistent with stabilizing the debt at about 40 percent of GDP—and were ready to take additional measures if needed. They also saw passage of the Public Financial Management Bill in early 2011 as critical to improve expenditure management.

20. **Weaknesses in administrative capacity also hamper the implementation of fiscal measures.** The authorities have therefore requested TA from the Fund on revenue administration and expenditure management and control. They were also considering a request for an update of the Debt Management Performance Assessment done by the WB in 2008, and requested technical assistance on budget reporting from the EU.

B. Improving Competitiveness

21. **Beyond fiscal adjustment, the main challenge for Swaziland remains to improve competitiveness to enhance potential growth**. In the context of the Common Monetary Area (CMA) and an overvalued REER, fiscal policy is the main instrument to bring about a relative wage reduction compared with partner countries, while improving productivity and reducing the cost of doing business. This should, over time, bring about the necessary real exchange rate adjustment to allow Swaziland to grow at its full potential.

Staff's views: The authorities need to create the business environment for private sector-led growth.

22. **Improving competitiveness would require enhancing the business climate**. In this regard, the long-term decline in FDI is a clear indication that Swaziland is becoming a less attractive place for doing business in the region. Firm actions need to be taken to reduce the cost of enforcing contracts, reduce red tape and corruption, and make progress towards regional economic integration, which could be beneficial to smaller countries like Swaziland.

23. **Bold steps are needed to liberalize markets and restart the privatization program**. As an example, per minute mobile phone calls in Swaziland are four times higher than in neighboring South Africa, reflecting the current monopoly enjoyed by the local operator. Opening up the mobile telecommunication sector would reduce the cost of doing business, while raising considerable additional resources to the budget. Furthermore, publicly-owned enterprises operating in competitive markets could also be considered for privatization, including Swazi Bank.

Authorities' views: Actions have already been taken and are underway to strengthen the role of the private sector.

24. **The authorities are taking action to respond to the deterioration in competitiveness**. They agreed on the estimates of the overvaluation of REER and believed that a wage and hiring freeze will be sufficient over the medium term to bring about the necessary relative wage reduction needed to restore competitiveness. They also pointed to the REER overvaluation in South Africa as an indication that the problem is at the level of the CMA, not just Swaziland. The Companies Act, promulgated in June 2010, would strengthen investor protection while the processes of company registration and issuing of licenses had been improved markedly.

25. **The government planned to launch the tender of a second mobile phone license by March 2011**. It was also considering restarting its 2004 privatization program, with a view to making progress in attracting additional FDI to Swaziland. This would include the privatization of Swazi Bank, where the authorities were considering requesting technical assistance from development partners.

C. Strengthening Financial Supervision

26. **The financial sector has weathered the global crisis well but some vulnerabilities remain in the NBFIs.** Banks are well capitalized, profitable, and liquid (Table 6). However, several NBFIs have recently emerged as they attempt to take advantage of the liquidity surge from the mandatory repatriation of 30 percent of pension funds and insurance companies' assets held abroad. Some of the pension funds and insurance companies have started to venture into areas where they might not have expertise, such as granting loans to the private sector. The government passed the Financial Services Regulatory Authority Bill in early 2010 to help address weaknesses in the supervision of NBFIs including pension funds, but the legislation has not yet been implemented.

Staff's views: Strengthening the surveillance of the financial system is essential during the crisis.

27. **In order to preserve financial sector stability, the authorities should remain vigilant on the spillover effects the fiscal crisis may have on asset quality**. In particular, several banks were highly exposed, directly or indirectly, to the government and civil service, and any further increase in domestic arrears could lead to a significant jump in nonperforming loans. The authorities were urged also to act swiftly to recapitalize one insurance company. Staff cautioned against continued involvement of pension funds and insurance companies in noncore activities, as this could jeopardize their long–term financial viability, and could potentially lead to contingent liabilities for the budget.

Authorities' views: The NBFIs will shortly be appropriately supervised.

28. **The authorities recognized the importance of monitoring the financial sector portfolio closely**. They stood ready to act swiftly with prompt corrective actions if and when the quality of the loan portfolio deteriorated. On the supervision of the NBFIs, the authorities were looking into the recapitalization needs of one of the insurance companies. They planned to implement shortly the Financial Services Regulatory Authority. This should address the lack of oversight of noncore activities of pension funds and insurance

companies. A separate Securities Bill, currently with parliament, provides guidelines to improve the regulatory framework of the stock market and is projected to boost private sector investment by increasing the number of available investment instruments.

IV. Discussions on a Staff-Monitored Program and Risks

29. **During his visit to Washington, DC in early October, the prime minster requested Fund staff to monitor the implementation of the authorities' program through a Staff-Monitored Program (SMP)**. An SMP is appropriate at this stage to build a track record towards a formal Fund arrangement and to strengthen budget reporting and expenditure management. Broad understandings were reached on the main elements of an SMP in line with the recommendations emanating from the Article IV policy discussions. However, the lack of implementation on a number of urgent measures and the passage of a supplementary budget precluded the conclusion of the discussions. Further discussions are expected to take place in the context of a staff visit in early 2011.

30. **Mitigating the potential social implication of the fiscal adjustment will require protecting pro-poor spending and improved transparency, so as to create a climate more favorable to a broad political and social consensus on reforms.** Specifically, social cohesion will be essential around difficult economic measures, including the cuts in the wage bill. Trade unions indicated their willingness to staff to make sacrifices, provided that these are fairly distributed across all income groups. Protecting pro-poor spending, as well as bold actions to address the spread of HIV/AIDS, are also essential for maintaining political support for fiscal adjustment. In addition, political support for the reform agenda remains untested, including by the highest authorities.

V. Staff Appraisal

31. **The Swaziland economy is at a crossroad**. The sharp decline of SACU revenue this year and the steady ratcheting up of the wage bill over the last decade have led to a fiscal crisis. The treasury balances have been depleted, the gross international reserves have fallen dramatically, and the government is starting to accumulate large domestic arrears on all expenditure items, except wages and utilities. Continuing on the same trend will lead to higher domestic arrears, including on civil service wages, a spreading of the crisis to the financial sector, and possibly social upheaval. The alternative of going through a painful but necessary fiscal adjustment could potentially avoid such dire consequences.

32. **Greater focus on front-loaded revenue and expenditure measures is required given the immediacy of the crisis**. In this regard, it is unfortunate that the authorities adopted a supplementary budget to increase nonpriority spending at a time when the government is having difficulty financing itself. Bolder actions such as a nominal wage cut and/or additional cuts in nonpriority spending could be considered.

33. **The fiscal adjustment effort will need to be continued through a conservative budget for 2011/12**. Additional measures will be needed to reduce the budget deficit below 10 percent of GDP. In this context, the authorities are encouraged to consider reversing the wage increase given in 2010 as a way to reduce the wage bill and mitigate

the impact of the adjustment on growth. It will also be essential to protect education and health spending in order to continue the fight against poverty and HIV/AIDS. Finally, the tender of the second mobile license and the privatization of public enterprises, including Swazi Bank, could bring significant FDI and reduce the large financing gap.

34. **The authorities' FAR is a welcome step, but needs to be strengthened and firmly implemented.** On the revenue front, the introduction of a VAT would be a welcome step, but technical improvements are necessary to ensure successful implementation. On the expenditure front, a more ambitious and comprehensive civil service reform is needed to tackle the unsustainably large wage bill and to enhance competitiveness. Finally, the budget elaboration, execution, and control should all be significantly improved. In particular, the Policy and Budgeting Committee could be abolished and all budgetary functions centered in the minister of finance. The strengthening of the budget process also requires enhanced expenditure management, and greater monitoring and transparency in fiscal reporting. In this context, technical assistance from the donor community will be critical to strengthen the administrative capacity of the ministry of finance.

35. **Beyond the fiscal adjustment, the challenge to improve competitiveness is daunting.** Decisive action is needed to address the heavy human toll from the HIV/AIDS epidemic, which also underscores the need to redouble efforts to make Swaziland an attractive place for doing business. Critical measures in these areas are the disengagement of government from key sectors of the economy and a systemic effort to reduce the cost of doing business. A reduction in relative waqes would also help address the overvaluation of the real exchange rate. With these measures, the historical decline in FDI could be reversed, and potential output increased.

36. **While the banking system seems currently in good health, NBFIs require effective supervision, stronger regulation, and higher capital for one insurance company.** The promulgation of the Financial Services Regulatory Authority Bill is a step in the right direction, but needs to be followed by swift implementation. The authorities should also remain vigilant on the health of the banking system, given that the fiscal crisis could quickly affect the quality of the banks' loan portfolio.

37. **It is recommended that the Kingdom of Swaziland remains on the standard 12-month Article IV Consultation cycle.**

Table 1. Swaziland: Selected Economic Indicators, 2008–15

	2008	2009	2010	2011	2012	2013	2014	2015
			Authorities' FAR					
			(percentage changes; unless otherwise indicated)					
National account and prices [1]								
GDP at constant prices	2.4	1.2	2.0	0.5	1.5	2.5	2.5	2.5
GDP per capita at constant prices	2.5	1.4	2.4	0.9	1.9	2.9	2.8	2.7
GDP deflator	10.1	5.4	6.2	7.8	6.3	3.3	4.5	4.1
GDP at market prices								
(Emalangeni millions)	23,436	24,995	27,064	29,333	31,637	33,498	35,882	38,267
Consumer prices (average)								
Headline	13.1	7.5	6.2	7.8	6.0	4.8	4.7	4.8
Underlying (excluding food)	12.6	3.0	4.5	5.5	4.5	4.4	4.3	4.3
External sector								
Average exchange rate								
(local currency per U.S. dollar)	8.3	8.4	…	…	…	…	…	…
Nominal exchange rate change (– = depreciation) [2]	9.5	-1.3	…	…	…	…	…	…
Real effective exchange rate (– = depreciation) [2]	4.4	-5.2	…	…	…	…	…	…
Gross international reserves								
(months of imports)	4.0	5.0	2.6	2.7	2.8	3.3	3.3	3.3
(percent of reserve money)	865.5	729.2	661.6	356.0	285.1	211.3	202.6	199.6
Money and credit [3]								
Domestic credit to the private sector	6.8	13.3	14.9	13.4	8.6	9.3	13.2	16.9
Reserve money	13.6	19.5	-28.9	98.0	39.7	70.5	11.5	7.9
M2	15.4	26.8	17.2	10.6	7.9	5.9	7.1	6.6
Interest rate (percent) [4]	11.0	6.5	…	…	…	…	…	…
				(percent of GDP)				
National accounts								
Gross capital formation	15.3	15.9	14.5	14.5	14.5	14.7	14.7	14.9
Government	9.8	10.4	9.2	9.2	9.3	9.3	9.3	9.5
Private	5.6	5.5	5.3	5.3	5.2	5.4	5.4	5.4
National savings	7.2	1.6	-6.0	-0.3	1.8	7.2	6.6	7.3
Government	10.8	3.9	-3.5	-2.2	0.5	3.3	6.5	7.5
Private	-3.6	-2.3	-2.5	2.0	1.3	3.9	0.1	-0.1
External sector								
Current account balance								
(including official grants)	-8.2	-14.4	-20.5	-14.7	-12.7	-7.5	-8.0	-7.6
(excluding official grants)	-22.9	-28.1	-28.1	-20.8	-18.5	-14.2	-15.0	-14.9
External public debt	13.5	13.8	11.5	19.7	27.4	32.4	33.5	33.9
Central government fiscal operations [5]								
Overall balance	-0.2	-7.1	-14.0	-10.6	-8.3	-5.3	-2.0	-2.0
(excluding grants)	-0.8	-7.6	-14.7	-11.3	-9.0	-6.0	-2.7	-2.7
Revenue	39.8	35.7	24.4	24.7	25.7	28.4	31.0	31.2
Grants	0.6	0.5	0.7	0.7	0.7	0.7	0.7	0.7
Total expenditure and net lending	40.6	43.3	39.1	36.0	34.7	34.4	33.7	33.9
Public debt, gross	16.6	13.3	14.4	30.4	34.5	39.1	39.8	38.6
Public debt, net	16.6	1.5	8.9	25.3	29.7	34.3	35.0	33.7

Sources: Swazi authorities; and Fund staff estimates and projections.

[1] The official GDP numbers from 1994 to 2006 were significantly revised in 2007, and recently in 2008.

[2] IMF Information Notice System trade-weighted; end of period.

[3] Percent of beginning-of-period broad money; end-September for 2009.

[4] 12-month time deposits rate.

[5] The fiscal year runs from April 1 to March 31.

Table 2. Swaziland: Fiscal Operations of the Central Government, 2008/09–15/16[1]

(Emalangeni millions)

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
					Authorities' FAR			
Total revenue and grants	9,627	9,222	6,944	7,582	8,476	9,909	11,564	12,802
Revenue	9,482	9,102	6,750	7,373	8,251	9,670	11,309	12,521
Tax revenue	9,128	8,732	6,390	6,972	7,797	9,155	10,721	11,911
Taxes on income, profits, and capital gains	1,939	2,326	2,394	2,591	2,781	2,954	3,343	3,677
Taxes on goods and services	1,144	1,182	1,326	1,533	1,966	2,429	2,964	3,260
Taxes on international trade	6,037	5,209	2,588	2,901	2,887	3,734	4,060	4,583
Other taxes	9	15	82	-54	162	38	355	390
Non-tax	354	370	360	401	454	515	588	610
Grants	145	120	194	209	225	239	255	281
Budget support	0	0	0	0	0	0	0	0
Project grants	145	120	194	209	225	239	255	281
Expenditures and net lending	9,669	11,038	10,799	10,762	11,128	11,719	12,294	13,604
Current expenditures	7,316	8,699	8,377	7,980	8,143	8,550	8,904	9,874
Wages and salaries	3,924	4,420	5,118	4,994	4,910	5,033	5,158	5,839
Goods and services	1,599	2,343	1,757	1,560	1,576	1,591	1,607	1,768
Subsides and transfer	1,547	1,723	1,292	1,150	1,167	1,185	1,203	1,323
Interest	246	213	210	276	490	741	936	945
Capital expenditure	2,472	2,656	2,422	2,782	2,985	3,169	3,390	3,730
Foreign financed	1,969	2,080	1,034	1,189	1,345	1,499	1,655	1,821
Domestic financed	503	576	1,388	1,593	1,640	1,670	1,735	1,909
Net lending	-119	-317	0	0	0	0	0	0
Exceptional Financing Transactions, Net	0	0	0	0	0	0	0	0
Overall balance (excluding arrears)								
Including grants	-42	-1,816	-3,856	-3,180	-2,653	-1,810	-730	-802
Excluding grants	-187	-1,936	-4,050	-3,389	-2,878	-2,049	-985	-1,083
Non-Oil Primary Balance	130.1	-1,694.3	-3,792.4	-3,135.8	-2,411.1	-1,333.0	-76.7	-168.0
Overall balance (including arrears)	-42.0	-1,816.0	-2,855.8	-4,180.2	-2,652.5	-1,810.0	-730.2	-802.1
Arrears (+ = accumulation)	0.0	0.0	1,000.0	-1,000.0	0.0	0.0	0.0	0.0
Financing [2]	42	1,816	2,856	1,346	184	-87	4	206
External financing (net) [2]	-93	1,432	559	615	321	141	156	406
Domestic financing (net)	135	385	2,298	905	50	-100	-100	-200
Monetary Sector	0	285	1,493	0	-50	-100	-100	-200
Non-Monetary Sector	135	100	805	905	100	0	0	0
Privatization proceeds	0	0	0	0	0	0	0	0
Errors and omissions/financing gap [2]	0	0	0	2,834	2,468	1,897	726	597
Memorandum item:								
Primary balance, including grants	204	-1,603	-3,646	-2,904	-2,163	-1,069	206	143
Central government debt (gross) [2]	3,955	3,392	3,976	9,082	11,087	13,338	14,509	15,481

Sources: Swazi authorities; and Fund staff estimates and projections.

[1] The fiscal year runs from April 1 to March 31.

[2] Financing gap assumed to be covered through foreign financing, which is included in the calculations of the stock of debt.

Table 3. Swaziland: Fiscal Operations of the Central Government, 2008/09–15/16[1]

(Percent of GDP)

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
			Authorities' FAR					
Total revenue and grants	40.4	36.1	25.1	25.3	26.4	29.1	31.7	31.9
Revenue	39.8	35.7	24.4	24.7	25.7	28.4	31.0	31.2
Tax Revenue	38.3	34.2	23.1	23.3	24.3	26.9	29.4	29.7
Taxes on income, profits, and capital gains	8.1	9.1	8.7	8.7	8.7	8.7	9.2	9.2
Taxes on goods and services	4.8	4.6	4.8	5.1	6.1	7.1	8.1	8.1
Taxes on international trade	25.3	20.4	9.4	9.7	9.0	11.0	11.1	11.4
Other taxes	0.0	0.1	0.3	-0.2	0.5	0.1	1.0	1.0
Non-tax	1.5	1.5	1.3	1.3	1.4	1.5	1.6	1.5
Grants	0.6	0.5	0.7	0.7	0.7	0.7	0.7	0.7
Budget support	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	0.6	0.5	0.7	0.7	0.7	0.7	0.7	0.7
Expenditures and net lending	40.6	43.3	39.1	36.0	34.7	34.4	33.7	33.9
Current expenditures	30.7	34.1	30.3	26.7	25.4	25.1	24.4	24.6
Wages and salaries	16.5	17.3	18.5	16.7	15.3	14.8	14.1	14.6
Goods and services	6.7	9.2	6.4	5.2	4.9	4.7	4.4	4.4
Subsides and transfers	6.5	6.8	4.7	3.8	3.6	3.5	3.3	3.3
Interest	1.0	0.8	0.8	0.9	1.5	2.2	2.6	2.4
Capital expenditure	10.4	10.4	8.8	9.3	9.3	9.3	9.3	9.3
Foreign financed	8.3	8.2	3.7	4.0	4.2	4.4	4.5	4.5
Domestic financed	2.1	2.3	5.0	5.3	5.1	4.9	4.8	4.8
Net lending	-0.5	-1.2	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional Financing Transactions, Net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (excluding arrears)								
Including grants	-0.2	-7.1	-14.0	-10.6	-8.3	-5.3	-2.0	-2.0
Excluding grants	-0.8	-7.6	-14.7	-11.3	-9.0	-6.0	-2.7	-2.7
Non-Oil Primary Balance	0.5	-6.6	-13.7	-10.5	-7.5	-3.9	-0.2	-0.4
Overall balance (including arrears)	-0.2	-7.1	-10.3	-14.0	-8.3	-5.3	-2.0	-2.0
Arrears (+ = accumulation)	0.0	0.0	3.6	-3.3	0.0	0.0	0.0	0.0
Financing [2]	0.2	7.1	10.3	4.5	0.6	-0.3	0.0	0.5
External financing (net) [2]	-0.4	5.6	2.0	2.1	1.0	0.4	0.4	1.0
Domestic financing (net)	0.6	1.5	8.3	3.0	0.2	-0.3	-0.3	-0.5
Monetary Sector	0.0	1.1	5.4	0.0	-0.2	-0.3	-0.3	-0.5
Non-Monetary Sector	0.6	0.4	2.9	3.0	0.3	0.0	0.0	0.0
Privatization proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions/financing gap [2]	0.0	0.0	0.0	9.5	7.7	5.6	2.0	1.5
Memorandum items:								
Primary balance, including grants	0.9	-6.3	-13.2	-9.7	-6.7	-3.1	0.6	0.4
Central government debt (gross) [2]	16.6	13.3	14.4	30.4	34.5	39.1	39.8	38.6

Sources: Swazi authorities; and Fund staff estimates and projections.

[1] The fiscal year runs from April 1 to March 31.

[2] Financing gap assumed to be covered through foreign financing, which is included in the calculations of the stock of debt.

Table 4. Swaziland: Monetary Accounts, 2008–15[1]
(Emalangeni millions; unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	2014	2015
			Authorities' FAR					
			I. Depository Corporation Survey					
Net foreign assets	8,035	8,321	6,163	6,457	7,030	8,446	8,917	9,376
Net domestic assets	-1,949	-605	2,877	3,537	3,750	2,967	3,309	3,662
Claims on central government (net)	-5,260	-4,223	-1,654	-901	-888	-950	-1,050	-1,225
Claims on private sector	5,578	6,319	7,259	8,231	8,942	9,771	11,062	12,931
Other items (net)	-2,269	-2,705	-2,731	-3,795	-4,307	-5,856	-6,705	-8,046
Broad money	6,086	7,715	9,040	9,994	10,779	11,413	12,226	13,038
Currency in circulation [2]	280	328	407	700	755	913	978	1,043
Deposits	5,806	7,388	8,633	9,295	10,025	10,500	11,248	11,995
			II. Central Bank					
Net foreign assets	6,857	6,386	3,903	4,197	4,770	6,186	6,657	7,116
Gross reserves	6,941	6,989	4,461	4,755	5,328	6,744	7,215	7,674
Net domestic assets	-6,055	-5,428	-3,222	-2,849	-2,885	-2,973	-3,073	-3,248
Claims on central government (net)	-5,193	-4,107	-2,916	-2,543	-2,580	-2,668	-2,768	-2,943
Claims on private sector	10	11	13	13	14	14	14	14
Claims on commercial banks	2	4	3	3	3	3	3	3
Other items (net) [3]	-874	-1,335	-322	-322	-322	-322	-322	-322
Reserve money	802	958	681	1,349	1,884	3,213	3,584	3,868
Memorandum items:	(12–month percentage change; unless otherwise indicated)							
Reserve money	13.6	19.5	-28.9	98.0	39.7	70.5	11.5	7.9
M2	15.4	26.8	17.2	10.6	7.9	5.9	7.1	6.6
Credit to the private sector	6.8	13.3	14.9	13.4	8.6	9.3	13.2	16.9
M2-to-GDP ratio (in percent)	26.0	30.9	33.4	34.1	34.1	34.1	34.1	34.1
Money multiplier (broad money/reserve mon	7.6	8.0	13.3	7.4	5.7	3.6	3.4	3.4
Credit to the private sector (in percent of GD	23.8	25.3	26.8	28.1	28.3	29.2	30.8	33.8
Velocity (GDP/broad money)	3.9	3.2	3.0	2.9	2.9	2.9	2.9	2.9
Gross reserves to reserve money	8.7	7.3	6.6	3.5	2.8	2.1	2.0	2.0

Sources: Swazi authorities; and Fund staff estimates and projections.

[1] End of period.

[2] Excludes rand in circulation.

[3] Including valuation changes.

Table 5. Swaziland: Balance of Payments, 2008–15

(Millions of US dollars; unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	2014	2015
			Authorities' FAR					
Current account	-231.7	-425.9	-735.0	-534.2	-469.8	-279.2	-304.1	-292.0
Trade balance	-9.9	-131.2	-245.1	-125.3	-117.6	-128.6	-130.5	-136.0
Exports, f.o.b.	1,570.4	1,572.8	1,731.5	1,772.5	1,821.1	1,875.4	1,938.5	2,000.9
Imports, f.o.b	-1,580.3	-1,704.0	-1,976.6	-1,897.8	-1,938.6	-2,004.0	-2,069.0	-2,136.9
Of which: oil	-585.1	-287.7	-418.7	-403.2	-403.5	-422.9	-437.0	-454.3
Services (net)	-426.5	-363.4	-399.5	-367.2	-335.3	-303.7	-271.6	-227.4
Income (net)	-5.2	-123.2	-182.7	-94.8	-71.9	56.6	-24.4	-75.6
Of which: interest on public debt	-22.6	-21.5	-24.3	-11.2	-25.4	-50.4	-69.9	-80.3
Transfers	209.9	191.9	92.3	53.0	55.0	96.4	122.3	147.1
Official transfers	418.2	406.6	271.5	220.3	213.0	246.1	264.9	283.3
Other transfers	-208.3	-214.7	-179.2	-167.3	-158.0	-149.7	-142.6	-136.3
Capital and financial account	439.8	469.8	406.1	307.9	237.7	210.3	246.3	274.9
Capital account	-8.8	-4.0	32.0	40.0	28.7	27.2	25.9	24.8
Financial account	448.6	473.8	374.1	267.8	209.0	183.1	220.4	250.2
Foreign direct and portfolio investment	82.1	175.6	72.7	72.2	69.8	82.6	99.0	100.9
Other investment	366.5	298.2	301.4	195.6	139.2	100.5	121.4	149.3
Medium and long-term	176.2	47.4	229.2	439.3	430.0	323.0	211.7	181.9
Of which:								
Public sector (net)	-9.3	-21.2	102.9	337.0	344.9	246.3	123.4	97.9
Disbursements	204.5	228.2	148.3	379.5	425.5	377.8	296.0	303.0
Amortization	-213.8	-249.5	-45.4	-42.6	-80.6	-131.5	-172.6	-205.1
Short-term	190.3	250.8	72.2	-243.7	-290.8	-222.4	-90.3	-32.7
Errors and omissions	-220.7	157.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-12.6	201.1	-328.8	-226.4	-232.1	-69.0	-57.8	-17.1
Financing								
Net international reserves of the monetary authorities (– = increase)	12.6	-201.1	328.8	-36.4	-66.8	-156.7	-49.6	-46.3
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	262.7	298.9	225.7	107.4	63.3
Memorandum items:				(percent of GDP)				
Current account	-8.2	-14.4	-20.5	-14.7	-12.7	-7.5	-8.0	-7.6
Trade balance	-0.3	-4.4	-6.8	-3.5	-3.2	-3.5	-3.5	-3.5
Capital and financial account	15.5	15.9	11.3	8.5	6.4	5.7	6.5	7.1
Overall balance	-0.4	6.8	-9.2	-6.2	-6.3	-1.9	-1.5	-0.4
Official grants	14.7	13.7	7.6	6.1	5.8	6.6	7.0	7.4
Gross International Reserves								
(US$ millions) [1]	746	947	576	576	610	733	748	759
(months of imports)	4.0	5.0	2.6	2.7	2.8	3.3	3.3	3.3
National currency per US dollar	8.3	8.4	…	…	…	…	…	…

Sources: Swazi authorities; and Fund staff estimates and projections.

[1] Including the new SDR allocation of US$ 65.4 million in 2009.

Table 6. Financial Sector Indicators
(Percent; unless otherwise indicated)

	2004	2005	2006	2007	2008	2009	2010 (Sept)
Banking indicators							
Capital adequacy							
Capital to assets	14.3	14.4	13.7	17.3	17.6	16.9	12.6
Regulatory capital to risk-weighted assets	15.5	17.3	26.3	23.6	33.8	26.3	21.9
Regulatory tier 1 capital to risk-weighted assets	13.3	14.4	19.5	20.7	18.1	17.1	19.4
Nonperforming loans net of provisions to capital	..	..	33.5	32.8	35.3	35.0	15.5
Asset quality							
Large exposure to capital	111.1	138.8	137.1	151.8	105.7	160.3	87.6
Nonperforming loans to total gross loans	7.2	7.0	7.7	7.5	7.6	8.1	7.7
Sectoral distribution of loans to total loans							
Agriculture	22.0	23.7	23.6	13.5	9.7	13.7	…
Mining and quarrying	0.0	0.0	0.0	0.0	0.1	0.0	…
manufacturing	17.4	20.6	14.1	11.8	10.3	11.0	…
Construction	6.1	6.0	6.1	7.2	3.3	5.3	…
Distribution and Tourism	9.2	16.0	15.0	21.7	12.8	22.0	…
Transport and Communication	7.2	4.1	3.7	7.9	8.4	7.4	…
Community, Socialand Personal services	7.1	9.7	6.8	5.0	7.8	4.7	…
Other	31.1	19.8	30.7	32.9	47.6	35.9	…
Earnings and profitability							
Trading income to total income	26.5	31.5	34.8	25.4	26.1	31.6	
earnings and profitability	3.5	2.7	2.9	1.9	4.0	2.4	2.3
Return on equity	28.5	19.0	21.2	14.8	22.7	14.4	14.2
Interest margin to gross income	56.7	54.9	53.4	76.0	59.2	58.2	
Noninterest expenses to gross income	64.1	73.7	65.2	53.5	64.5	68.4	66.4
Personnel expenses to noninterest expenses	53.2	45.1	49.7	53.1	45.9	44.9	51.5
Liquidity							
Liquid assets to total assets	13.8	15.2	18.6	7.0	12.9	12.2	13.5
Liquid assets to short-term liabilities	18.1	18.7	16.6	16.2	16.5	15.7	…
Customer deposits to total (non-interbank) loans	128.3	138.9	116.2	94.1	117.8	127.2	…
Exposure to foreign exchange risk							
Net open position in foreign exchange to capital	97.6	112.4	101.9	48.3	89.6	127.2	…
Financial system structure (number)							
Banks	4	4	4	4	4	4	4
Private commercial	0	0	0	0	0	0	0
State-owned	1	1	1	1	1	1	1
Foreign-owned subsidiaries	3	3	3	3	3	3	3
Branches of foreign banks	24	24	24	25	25	26	26
Assets (E millions)							
Banks	4,442,986	4,793,888	5,132,502	5,885,604	7,050,629	7,902,588	10,865,909
Private commercial	..	..	..	..	..	..	
State-owned	677,563	724,638	801,801	955,089	1,255,159	1,320,645	1,624,455
Foreign-owned subsidiaries	3,765,423	4,069,250	4,330,701	4,930,515	5,795,470	6,581,943	8,046,100
Branches of foreign banks	..	..	..	..	..	..	
Deposits (E millions)							
Banks	2,768,582	3,296,098	3,690,813	4,656,594	5,430,660	6,329,932	8,162,972
Private commercial	..	..	..	..	..	..	
State-owned	312,020	396,346	461,733	570,290	773,237	812,524	920,045
Foreign-owned subsidiaries	2,456,562	2,899,752	3,229,080	4,086,304	4,657,423	5,517,408	6,707,011

Sources: Central Bank of Swaziland; and IMF staff estimates.

Table 7. Swaziland: Millennium Development Goals

	1995	2000	2005	2008	2009
Goal 1: Eradicate Extreme Poverty and Hunger					
Employment to population ratio, 15+, total (%)	55.6	53.2	51.2	50.4	…
Employment to population ratio, ages 15-24, total (%)	35.1	30.5	26.7	25.5	…
Income share held by lowest 20%	2.7	…	…	…	…
Malnutrition prevalence, weight for age (% of children under 5)	…	9.1	…	…	…
Poverty headcount ratio at national poverty line (% of population)	…	…	…	…	…
Prevalence of undernourishment (% of population)	…	…	…	…	…
Vulnerable employment, total (% of total employment)	…	…	…	…	…
Goal 2: Achieve universal primary education					
Literacy rate, youth female (% of females ages 15-24)	…	89.8	…	94.7	…
Literacy rate, youth male (% of males ages 15-24)	…	87.0	…	91.8	…
Persistence to last grade of primary, total (% of cohort)	…	58.2	83.6	…	…
Primary completion rate, total (% of relevant age group)	63.5	60.3	64.3	…	…
Total enrollment, primary (% net)	…	71.4	75.0	…	…
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliaments (%)	…	3.0	10.8	…	13.6
Ratio of female to male tertiary enrollment (%)	…	89.4	105.7	…	…
Ratio of female to male primary enrollment (%)	96.8	94.4	93.3	…	…
Ratio of female to male secondary enrollment (%)	…	100.3	101.0	…	…
Share of women employed in the nonagricultural sector (% of total nonagricult	33.2	…	…	…	…
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)	94.0	72.0	92.0	95.0	…
Mortality rate, infant (per 1,000 live births)	66.3	82.9	65.7	58.8	…
Mortality rate, under-5 (per 1,000)	93.2	123.8	94.5	83.4	…
Goal 5: Improve maternal health					
Adolescent fertility rate (births per 1,000 women ages 15-19)	…	105.9	93.1	82.3	…
Births attended by skilled health staff (% of total)	…	70.0	…	…	…
Contraceptive prevalence (% of women ages 15-49)	…	27.7	…	…	…
Maternal mortality ratio (modeled estimate, per 100,000 live births)	…	…	390.0	…	…
Pregnant women receiving prenatal care (%)	…	87.0	…	…	…
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children with fever receiving antimalarial drugs (% of children under age 5 with	…	25.5	…	…	…
Condom use, female (% ages 15-24)	…	…	44.0	44.0	…
Condom use, male (% ages 15-24)	…	…	66.0	66.0	…
Incidence of tuberculosis (per 100,000 people)	337.0	801.5	1141.0	1227.2	…
Prevalence of HIV, female (% ages 15-24)	…	…	…	…	…
Prevalence of HIV, total (% of population ages 15-49)	11.9	25.7	26.4	…	…
Tuberculosis case detection rate (all forms)	47.3	49.3	39.9	50.7	…
Goal 7: Ensure environmental sustainability					
CO2 emissions (kg per PPP $ of GDP)	0.2	0.3	0.2	…	…
CO2 emissions (metric tons per capita)	0.5	1.1	0.9	…	…
Forest area (% of land area)	28.8	30.1	31.5	…	…
Improved sanitation facilities (% of population with access)	50.0	50.0	…	…	…
Improved water source (% of population with access)	59.0	59.0	…	…	…
Marine protected areas (% of total surface area)	…	…	…	0.0	…
Goal 8: Develop a global parternership for development					
Net ODA received per capita (current US$)	59.6	12.2	41.5	57.7	…
Debt service (PPG and IMF only, % of exports, excluding workers' remittance:	1.5	2.1	1.4	…	…
Daily newspapers (per 1,000 people)	…	18.9	…	…	…
Mobile cellular subscriptions (per 100 people)	0.0	3.1	17.8	45.5	…
Telephone lines (per 100 people)	2.2	3.0	3.1	3.8	…
Other					
Fertility rate, total (births per woman)	4.9	4.2	3.8	3.5	…
GNI per capita, Atlas method (current US$)	1730.0	1550.0	2260.0	2600.0	…
GNI, Atlas method (current US$)	1.7	1.7	2.5	3.0	…
Gross capital formation (% of GDP)	16.0	17.4	15.4	16.5	…
Life expectancy at birth, total (years)	59.1	50.7	44.9	45.8	…
Literacy rate, adult total (% of people ages 15 and above)	…	79.6	…	86.5	…
Population, total	969,227	1,079,690	1,124,410	1,167,834	…
Trade (% of GDP)	133.8	166.1	182.5	149.3	…

Source: World Bank World Development Indicators database, December 2010.

Table 8. Country: External Debt Sustainability Framework Based on the Authorities' FAR, 2004-15

(In percent of GDP, unless otherwise indicated)

	Actual						Projections						
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Debt-stabilizing non-interest current account 6/
Baseline: External debt	18.2	14.8	14.1	16.5	13.5	**13.8**	**11.5**	**19.7**	**27.4**	**32.4**	**33.5**	**33.9**	**-1.1**
Change in external debt	-1.2	-3.4	-0.7	2.4	-3.0	0.2	-2.2	8.2	7.7	5.0	1.1	0.3	
Identified external debt-creating flows (4+8+9)	-11.5	3.3	2.0	2.9	4.8	12.2	18.7	13.0	10.8	4.8	4.8	4.3	
Current account deficit, excluding interest payments	-5.3	3.3	6.4	3.7	7.2	13.4	19.8	14.4	12.0	6.1	6.1	5.4	
Deficit in balance of goods and services	1.6	15.0	12.8	12.3	15.4	16.7	18.0	13.6	12.3	11.7	10.6	9.4	
Exports	90.1	76.0	72.9	67.3	63.2	59.9	55.6	56.7	57.6	59.7	61.0	62.3	
Imports	91.7	91.0	85.7	79.7	78.6	76.6	73.6	70.3	69.9	71.3	71.6	71.8	
Net non-debt creating capital inflows (negative)	-3.1	0.9	-4.6	-0.5	-4.0	-2.0	-1.6	-1.6	-1.7	-2.0	-2.4	-2.4	
Automatic debt dynamics 1/	-3.0	-0.9	0.1	-0.3	1.5	0.9	0.5	0.3	0.5	0.7	1.1	1.3	
Contribution from nominal interest rate	0.9	0.8	0.9	1.0	0.9	1.0	0.7	0.4	0.8	1.4	1.9	2.2	
Contribution from real GDP growth	-0.4	-0.4	-0.4	-0.4	-0.4	-0.2	-0.2	-0.1	-0.3	-0.7	-0.8	-0.8	
Contribution from price and exchange rate changes 2/	-3.6	-1.4	-0.4	-0.9	1.0	...	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	10.3	-6.7	-2.7	-0.5	-7.7	-12.0	-20.9	-4.8	-3.1	0.2	-3.7	-4.0	
External debt-to-exports ratio (in percent)	20.2	19.4	19.3	24.5	21.4	23.0	20.7	34.8	47.6	54.4	55.0	54.3	
Gross external financing need (in billions of US dollars) 4/	-0.1	0.0	0.1	0.0	0.1	0.4	0.7	0.5	0.4	0.2	0.3	0.2	
in percent of GDP	-6.3	1.8	4.5	0.9	3.8	13.7	20.1	14.2	11.8	6.4	7.0	5.5	
Scenario with key variables at their historical averages 5/						**13.8**	**11.1**	**8.3**	**5.5**	**2.8**	**0.1**	**0.0**	**-3.7**
Key Macroeconomic Assumptions Underlying Baseline													
Real GDP growth (in percent)	2.5	2.2	2.9	3.5	2.4	1.2	2.0	0.5	1.5	2.5	2.5	2.5	
GDP deflator in US dollars (change in percent)	22.5	8.1	2.9	6.6	-5.8	3.1	18.6	0.6	0.4	-2.1	-0.4	-0.6	
Nominal external interest rate (in percent)	6.0	4.8	6.8	7.8	5.4	7.8	6.5	3.3	3.9	5.2	6.0	6.6	
Growth of exports (US dollar terms, in percent)	30.3	-6.8	1.5	1.9	-9.5	-1.2	12.4	3.1	3.5	3.9	4.3	4.2	
Growth of imports (US dollar terms, in percent)	35.8	9.6	-0.3	2.5	-4.9	1.6	16.3	-3.4	1.3	2.4	2.4	2.2	
Current account balance, excluding interest payments	5.3	-3.3	-6.4	-3.7	-7.2	-13.4	-19.8	-14.4	-12.0	-6.1	-6.1	-5.4	
Net non-debt creating capital inflows	3.1	-0.9	4.6	0.5	4.0	2.0	1.6	1.6	1.7	2.0	2.4	2.4	

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Table 9. Swaziland: Public Sector Debt Sustainability Framework Based on the Authorities' FAR, 2004-15

(In percent of GDP, unless otherwise indicated)

	Actual						Projections						
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Debt-stabilizing primary balance 9/
Baseline: Public sector debt 1/	19.5	17.1	17.3	18.1	16.9	**13.6**	**18.4**	**27.6**	**35.0**	**39.8**	**40.4**	**40.5**	**0.4**
o/w foreign-currency denominated	16.3	14.3	14.6	15.9	15.3	12.0	11.9	20.3	28.2	33.3	34.3	34.7	
Change in public sector debt	-2.7	-2.4	0.2	0.9	-1.3	-3.3	4.8	9.2	7.5	4.8	0.6	0.0	
Identified debt-creating flows (4+7+12)	0.0	0.5	-8.8	-9.0	-0.9	4.4	11.3	10.0	6.8	4.1	0.1	-0.5	
Primary deficit	3.2	1.2	-8.7	-8.2	-2.3	4.6	11.6	10.5	7.4	4.0	0.3	-0.4	
Revenue and grants	31.3	33.2	40.9	39.8	39.7	37.3	27.8	25.3	26.1	28.5	31.1	32.6	
Primary (noninterest) expenditure	34.4	34.4	32.2	31.6	37.4	41.9	39.3	35.8	33.5	32.5	31.4	32.2	
Automatic debt dynamics 2/	-3.1	-0.6	-0.1	-0.9	1.4	-0.2	-0.3	-0.5	-0.6	0.1	-0.2	-0.1	
Contribution from interest rate/growth differential 3/	-0.3	-0.4	-1.0	-1.4	-1.1	-0.2	-0.3	-0.5	-0.6	0.1	-0.2	-0.1	
Of which contribution from real interest rate	0.2	0.0	-0.5	-0.9	-0.7	0.0	0.0	-0.4	-0.2	0.9	0.7	0.9	
Of which contribution from real GDP growth	-0.5	-0.4	-0.4	-0.5	-0.4	-0.2	-0.2	-0.1	-0.4	-0.8	-0.9	-0.9	
Contribution from exchange rate depreciation 4/	-2.8	-0.2	0.9	0.6	2.5	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	-2.8	-2.9	9.0	9.9	-0.4	-7.7	-6.5	-0.8	0.7	0.7	0.5	0.5	
Public sector debt-to-revenue ratio 1/	62.4	51.4	42.2	45.6	42.5	36.4	66.2	108.9	134.4	139.7	130.1	123.9	
Gross financing need 6/	0.0	-2.6	-12.4	-12.6	-8.7	2.0	11.1	10.2	6.6	2.5	-1.8	-3.3	
in billions of U.S. dollars	0.0	-0.1	-0.3	-0.4	-0.2	0.1	0.4	0.4	0.2	0.1	-0.1	-0.1	
Scenario with key variables at their historical averages 7/						**13.6**	**5.8**	**3.4**	**2.3**	**0.7**	**-1.1**	**-2.9**	**0.0**
Scenario with no policy change (constant primary balance) in 2009-2014						**13.6**	**11.4**	**14.5**	**19.0**	**23.6**	**27.9**	**32.5**	**1.0**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline													
Real GDP growth (in percent)	2.5	2.2	2.9	3.5	2.4	1.2	2.0	0.5	1.5	2.5	2.5	2.5	
Average nominal interest rate on public debt (in percent) 8/	5.5	6.5	6.2	5.4	6.0	5.6	6.2	5.2	5.4	6.1	6.7	6.5	
Average real interest rate (nominal rate minus change in GDP deflator, in p	1.1	-0.1	-3.2	-5.7	-4.1	0.2	0.0	-2.6	-0.9	2.8	2.1	2.4	
Nominal appreciation (increase in US dollar value of local currency, in perc	17.3	1.4	-6.0	-4.1	-14.5	...	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	4.4	6.6	9.5	11.1	10.1	5.4	6.2	7.8	6.3	3.3	4.5	4.1	
Growth of real primary spending (deflated by GDP deflator, in percent)	19.5	2.0	-3.8	1.6	21.3	13.4	-4.2	-8.4	-5.1	-0.5	-1.1	5.2	
Primary deficit	3.2	1.2	-8.7	-8.2	-2.3	4.6	11.6	10.5	7.4	4.0	0.3	-0.4	

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ For projections, this line includes exchange rate changes.

6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Table 10. Swaziland: Public Sector Debt Sustainability Framework Based on the Staff's Scenario, 2004-15

(In percent of GDP, unless otherwise indicated)

	Actual						Projections						
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Debt-stabilizing primary balance 9/
Baseline: Public sector debt 1/	19.5	17.1	17.3	18.1	16.9	**13.6**	**18.4**	**26.3**	**33.1**	**37.4**	**39.0**	**39.8**	**0.0**
o/w foreign-currency denominated	16.3	14.3	14.6	15.9	15.3	12.0	11.9	19.0	26.2	30.9	32.9	34.1	
Change in public sector debt	-2.7	-2.4	0.2	0.9	-1.3	-3.3	4.8	7.9	6.8	4.3	1.6	0.8	
Identified debt-creating flows (4+7+12)	0.0	0.5	-8.8	-9.0	-0.9	4.4	10.4	8.9	6.7	4.1	1.1	-0.1	
Primary deficit	3.2	1.2	-8.7	-8.2	-2.3	4.6	10.7	9.0	6.8	3.6	1.1	0.0	
Revenue and grants	31.3	33.2	40.9	39.8	39.7	37.3	27.7	25.6	25.9	28.4	30.3	32.1	
Primary (noninterest) expenditure	34.4	34.4	32.2	31.6	37.4	41.9	38.4	34.6	32.7	32.0	31.4	32.0	
Automatic debt dynamics 2/	-3.1	-0.6	-0.1	-0.9	1.4	-0.2	-0.3	-0.1	-0.1	0.5	0.0	0.0	
Contribution from interest rate/growth differential 3/	-0.3	-0.4	-1.0	-1.4	-1.1	-0.2	-0.3	-0.1	-0.1	0.5	0.0	0.0	
Of which contribution from real interest rate	0.2	0.0	-0.5	-0.9	-0.7	0.0	0.0	0.0	0.3	1.2	0.9	0.9	
Of which contribution from real GDP growth	-0.5	-0.4	-0.4	-0.5	-0.4	-0.2	-0.2	-0.1	-0.4	-0.8	-0.9	-0.9	
Contribution from exchange rate depreciation 4/	-2.8	-0.2	0.9	0.6	2.5	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	-2.8	-2.9	9.0	9.9	-0.4	-7.7	-5.6	-1.0	0.1	0.3	0.5	0.9	
Public sector debt-to-revenue ratio 1/	62.4	51.4	42.2	45.6	42.5	36.4	66.3	102.5	127.7	131.8	128.7	124.2	
Gross financing need 6/	0.0	-2.6	-12.4	-12.6	-8.7	2.0	10.2	9.1	6.7	2.8	-0.4	-2.5	
in billions of U.S. dollars	0.0	-0.1	-0.3	-0.4	-0.2	0.1	0.4	0.3	0.2	0.1	0.0	-0.1	
Scenario with key variables at their historical averages 7/						**13.6**	**6.7**	**4.2**	**2.5**	**0.6**	**-1.1**	**-2.4**	**0.0**
Scenario with no policy change (constant primary balance) in 2009-2014						**13.6**	**12.3**	**15.6**	**19.8**	**24.4**	**28.9**	**34.0**	**1.2**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline													
Real GDP growth (in percent)	2.5	2.2	2.9	3.5	2.4	1.2	2.0	0.5	1.5	2.5	2.5	2.5	
Average nominal interest rate on public debt (in percent) 8/	5.5	6.5	6.2	5.4	6.0	5.6	6.2	7.8	7.6	7.3	7.1	6.5	
Average real interest rate (nominal rate minus change in GDP deflator, in p	1.1	-0.1	-3.2	-5.7	-4.1	0.2	0.1	0.0	1.3	4.0	2.6	2.5	
Nominal appreciation (increase in US dollar value of local currency, in perc	17.3	1.4	-6.0	-4.1	-14.5	...	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	4.4	6.6	9.5	11.1	10.1	5.4	6.2	7.8	6.3	3.3	4.5	4.1	
Growth of real primary spending (deflated by GDP deflator, in percent)	19.5	2.0	-3.8	1.6	21.3	13.4	-6.5	-9.5	-4.0	0.3	0.5	4.7	
Primary deficit	3.2	1.2	-8.7	-8.2	-2.3	4.6	10.7	9.0	6.8	3.6	1.1	0.0	

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ For projections, this line includes exchange rate changes.

6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

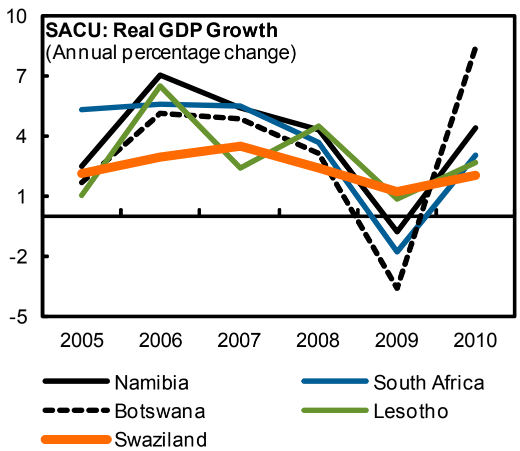
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

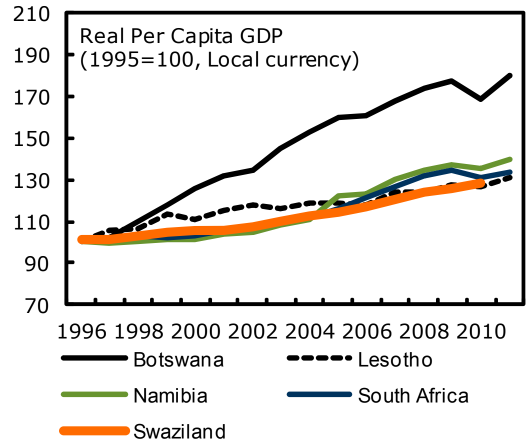
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 9. Swaziland: Regional Comparison

The Global Crisis has had a significant impact on Growth in SACU...



...and real per capita income



Income distribution remains a source of concern...

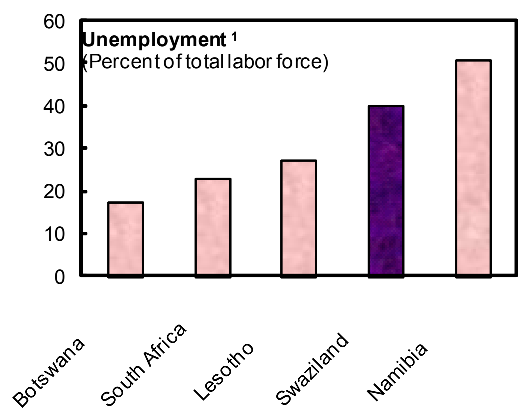
Income Distribution and Poverty

	Gini Index [1]	Share of Income Held By: Top 20 %	Share of Income Held By: Bottom 20 %
Swaziland	**61**	**64.4**	**2.7**
Botswana	63	70.3	2.2
Chile	57	62.2	3.3
Lesotho	63	66.5	1.5
Malaysia	49	54.3	4.4
Mexico	50	55.1	4.3
Namibia	74	78.7	1.4
South Africa	58	62.2	3.5

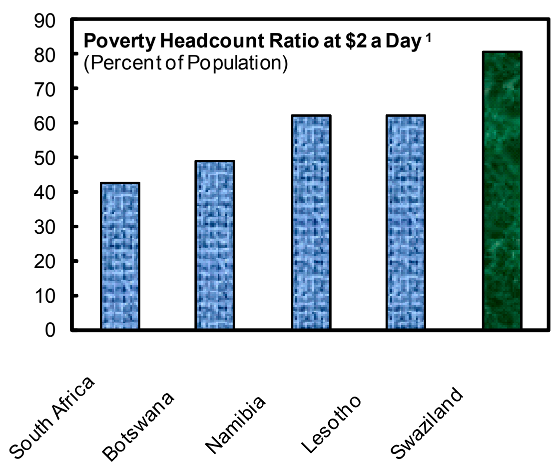
Source: World Bank, World Development Indicators. Latest data available.

[1] A measure of distribution of income, where 0 represents perfect equality and 100 represents perfect inequality.

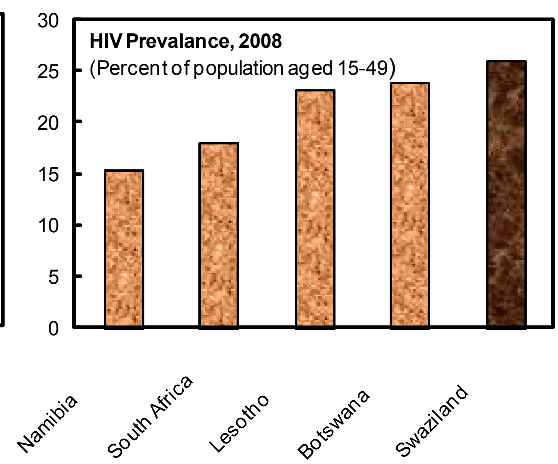
...as well as the high levels of unemployment



The poverty headcount remains high...



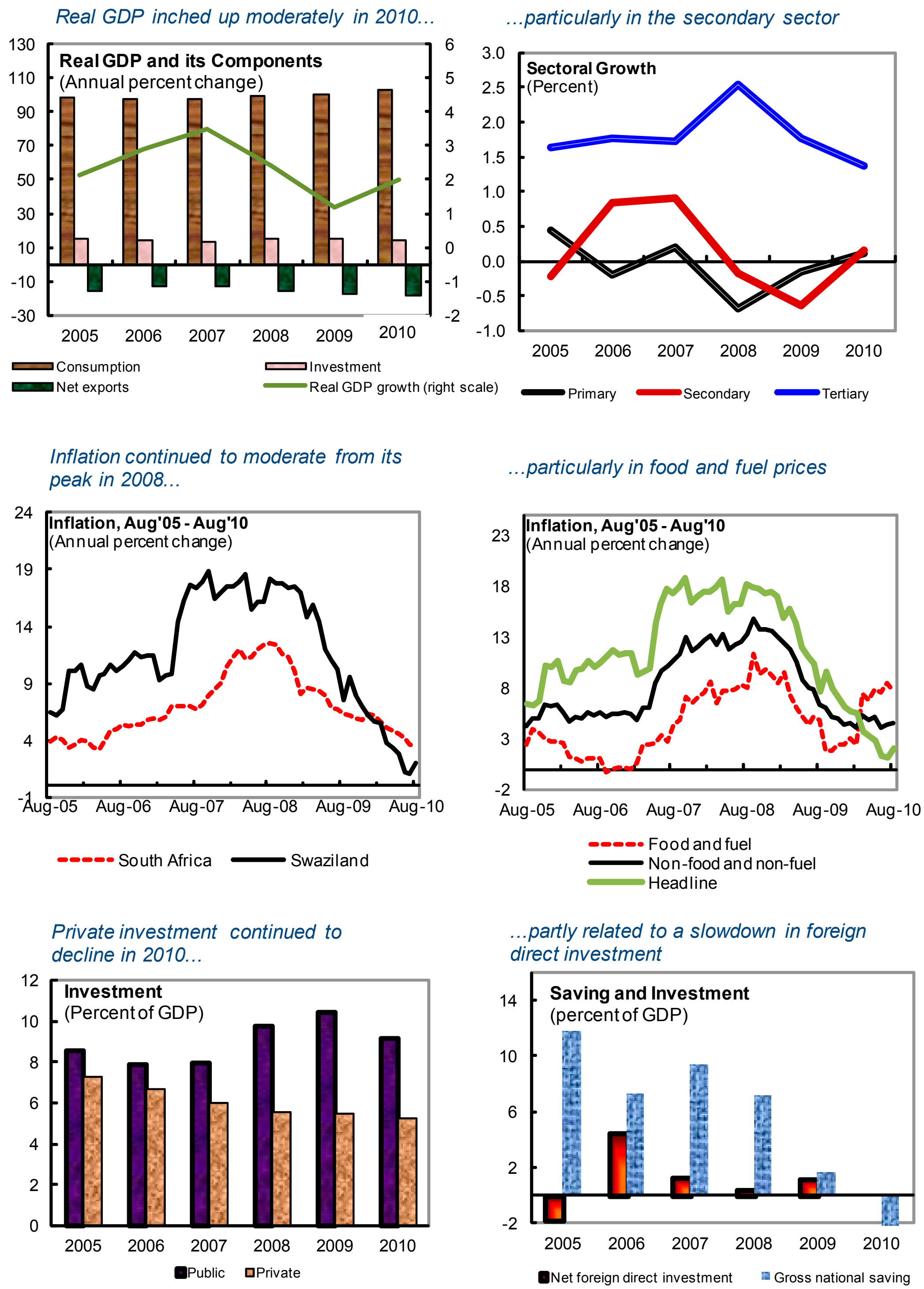
...partly related to the high incidence of HIV/AIDS



Source: Country authorities; World Development Indicators; and Fund staff estimates.

[1] Data from latest available year.

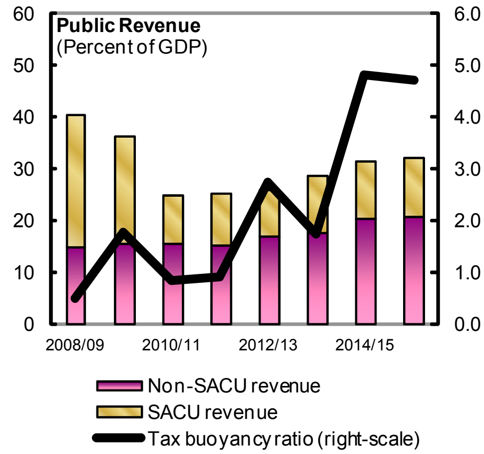
Figure 10. Real Sector Developments



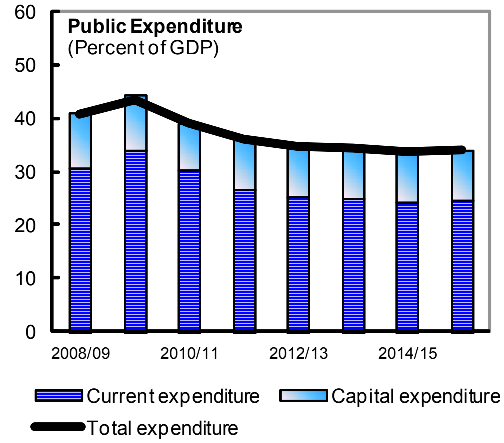
Source: Country authorities; Fund staff estimates and projections.

Figure 11. Swaziland: Fiscal Indicators under the Authorities' FAR

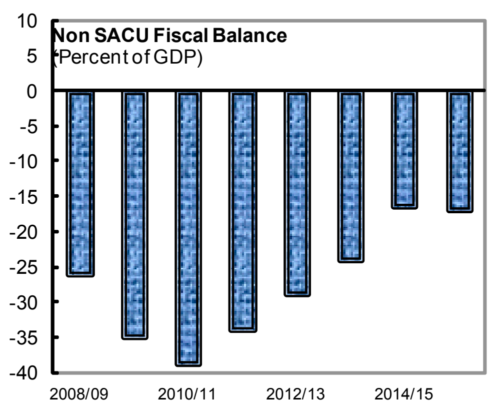
Government revenue has declined slowly,



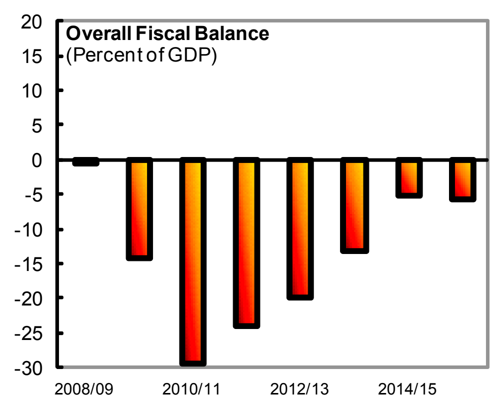
... and as expenditure continues to rise,



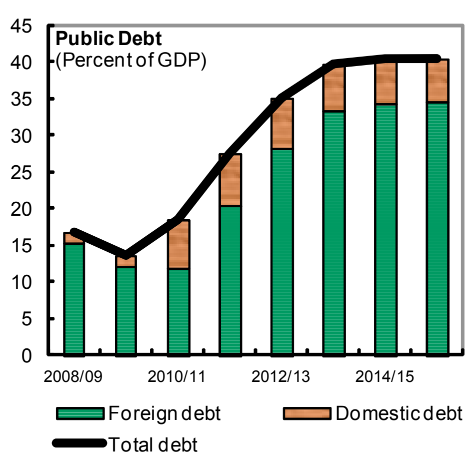
... the non SACU fiscal balance is deteriorating sharply,



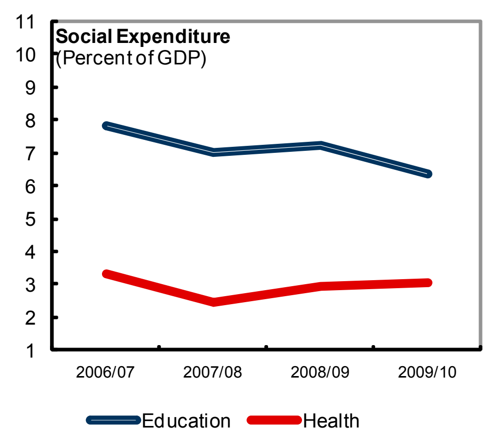
... so is the overall balance.



Public debt is projected to escalate,

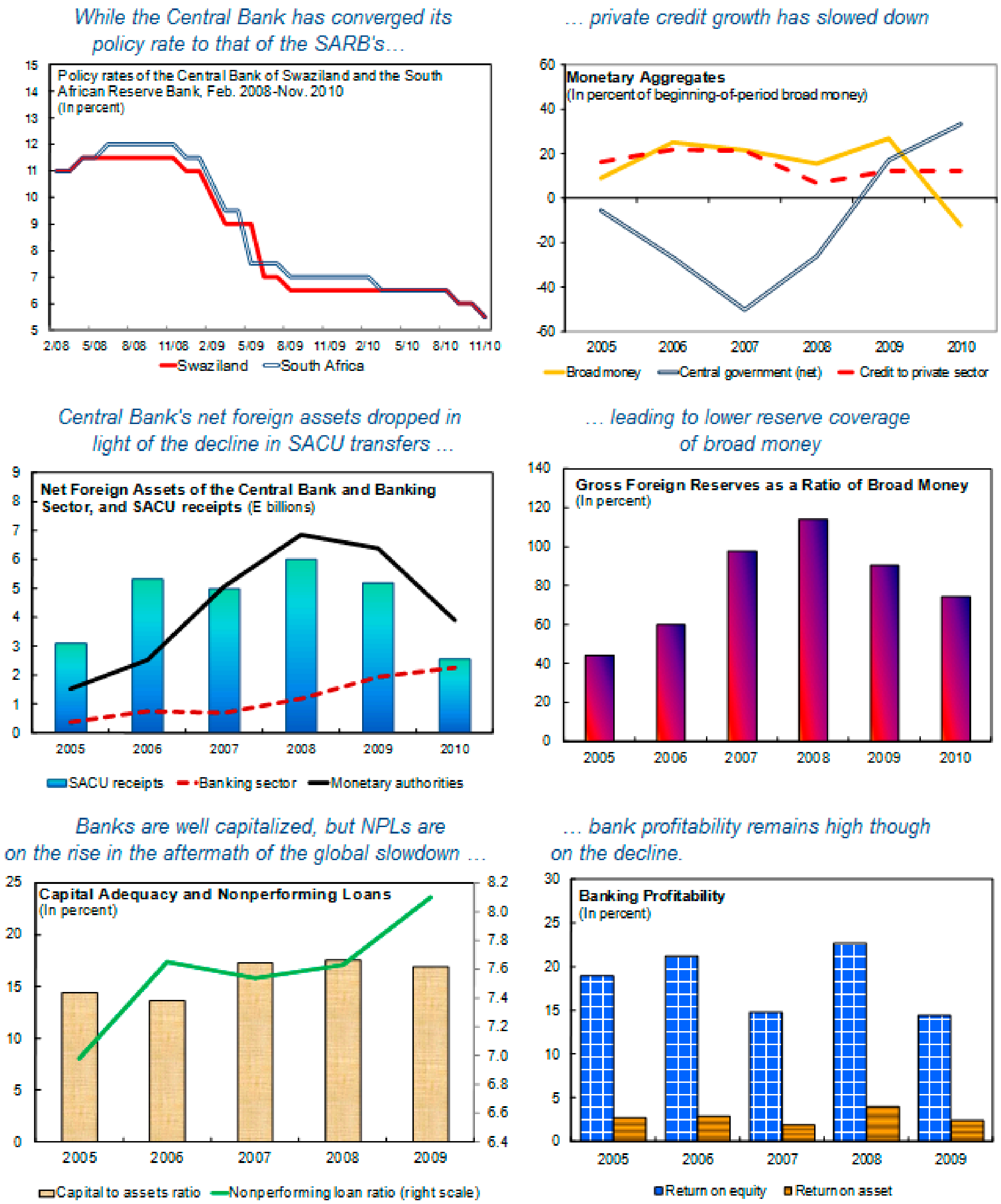


... and social expenditure remains subdued



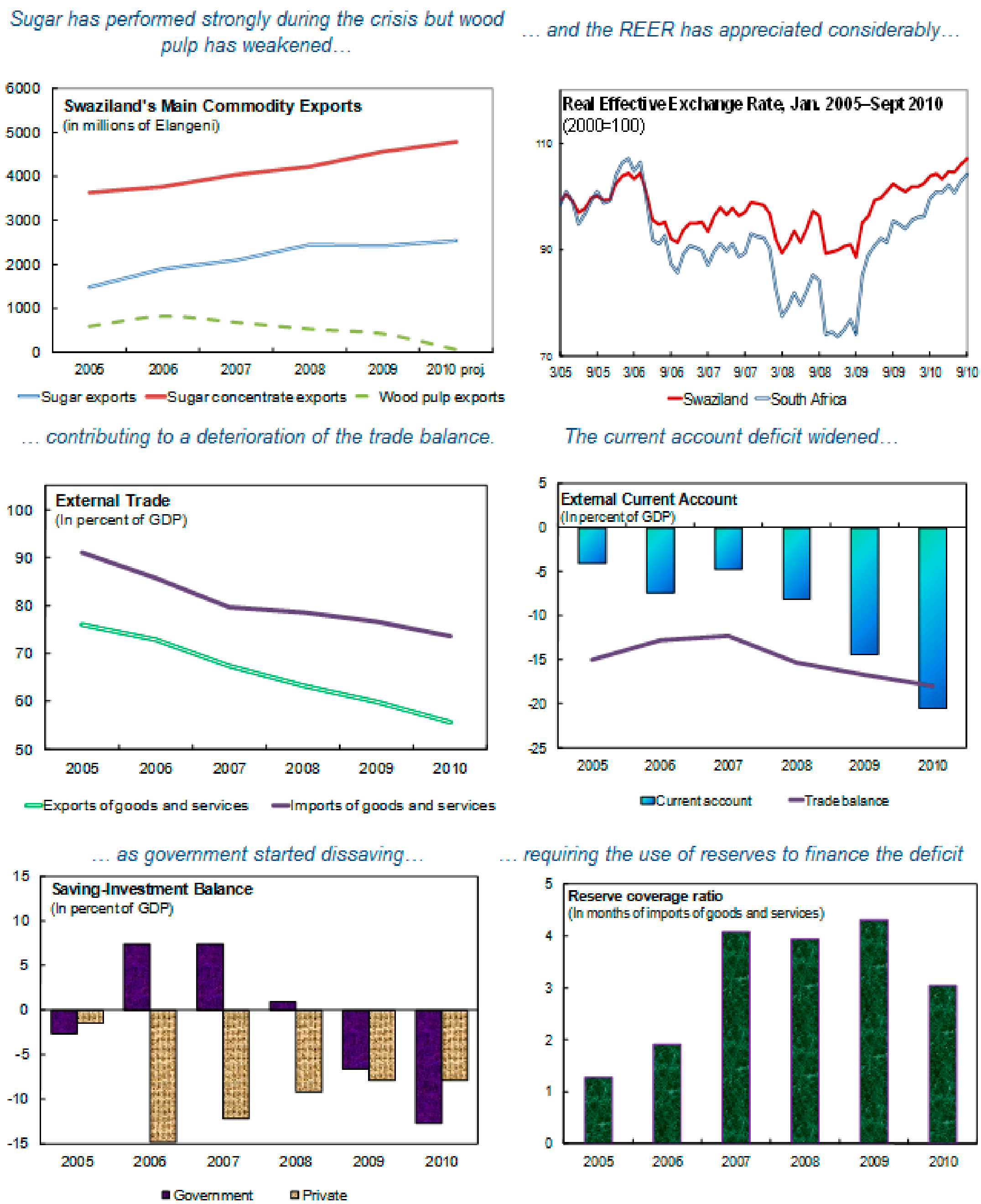
Source: Country authorities; and Fund staff estimates and projections.

Figure 12. Monetary and Financial Developments



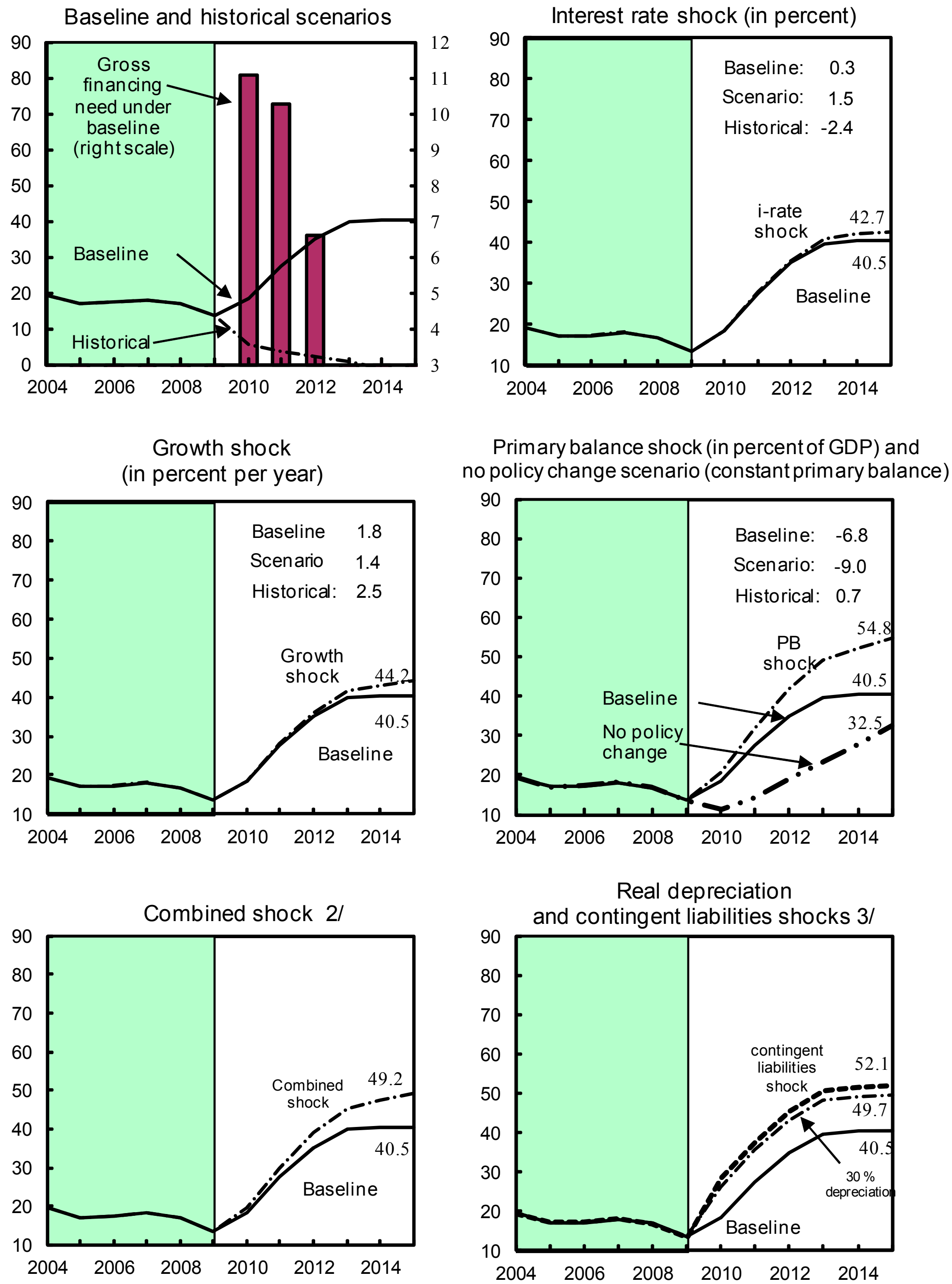
Source: Country authorities; and Fund staff estimates and projections.

Figure 13. External Sector Developments



Source: Country authorities, Information Notice System, and Fund staff estimates and projections.

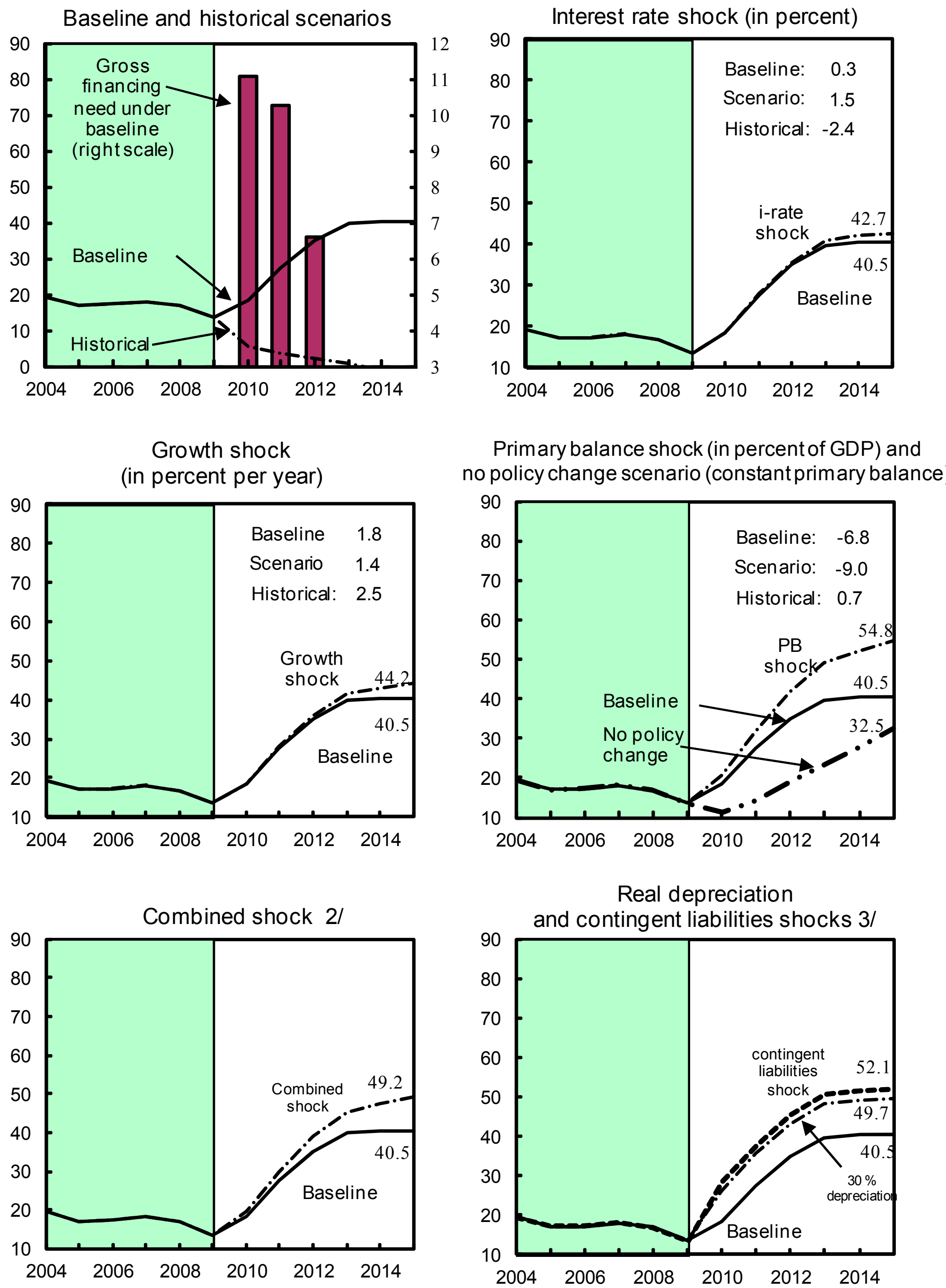
Figure 14. Swaziland: External Debt Sustainability: Bound Tests[1]
(External debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2010, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

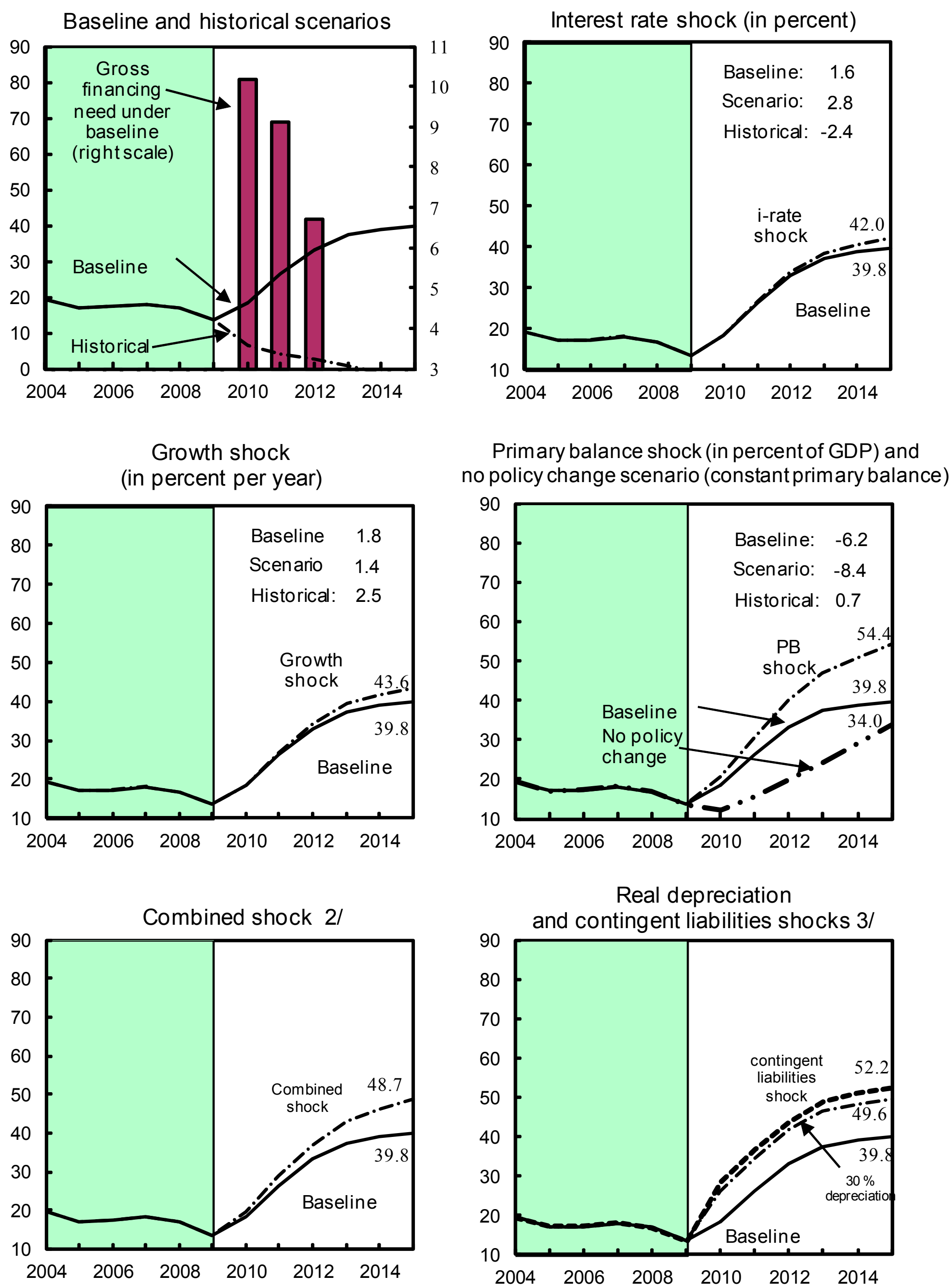
Figure 15. Swaziland: Public Debt Sustainability Under the Authorities' FAR: Bound Tests[1]
(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2010, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Figure 16. Swaziland: Public Debt Sustainability Under the Staff Scenario: Bound Tests 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2010, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Appendix I. Exchange Rate Assessment[1]

1. **Swaziland is a member of the CMA together with Lesotho, Namibia, and South Africa**. The Swaziland lilangeni is pegged at par with the South African rand, which is also legal tender. In this context of a currency union, the assessment of the exchange rate level provides an indication of whether domestic policies are in line with external stability.

2. **The three standard approaches used by Fund staff to assess the level of the exchange rate are the equilibrium exchange rate approach, the macro balance approach and the external sustainability approach**:[2]

- The **equilibrium exchange rate approach** is based on a panel regression of real exchange rate determinants for 182 countries and using Africa specific coefficients.[3] It finds that the real effective exchange rate (REER) for Swaziland was 9 percent overvalued in 2008 using this approach. Since then, the real exchange rate has appreciated by 15 percent while the major determinants of the equilibrium rate (terms of trade, relative productivities) have stayed fairly stable. This suggests that the real effective exchange rate is currently overvalued by about 20-25 percent through September 2010.

- In terms of the **macro-balance approach**, the calculated current account norm for Swaziland based on variables included in the original CGER panel study is between zero and a 2 percent deficit using variable estimates for 2014 when a sustainable fiscal position is assumed to be in place (Aydin (2010)). This compares with a medium term current account deficit projected at about 10 percent of GDP. These figures are comparable to the estimates used in the 2009 Article IV consultation. Based on this norm and real exchange rate elasticity with respect to the current account of -0.4, the REER would need to depreciate by almost 18 percent to eliminate the disparity between the current account norm and the medium term current account forecast.

- The third approach based on **external sustainability** identifies the exchange rate change required to maintain the appropriate stock of net foreign assets (NFA) to GDP. An alternative metric is to use the external debt ratio at which the reserve coverage in terms of base money is at an acceptable level. Currently, gross official reserves cover five times base money but this coverage is projected to dwindle rapidly over time as the government draws down its deposits to finance the fiscal deficit. To square the circle, a combination of real exchange rate depreciation through relative wage

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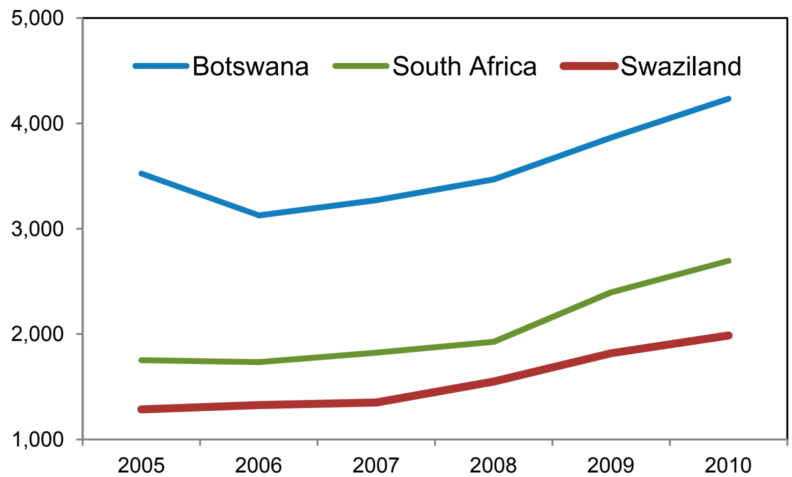
[1] Prepared by Alun Thomas and presented by Tidiane Kinda during the during the outreach seminar on November 8, 2010 in Mbabane.

[2] See IMF, Exchange Rate Assessments: CGER Methodologies, Occasional Paper No. 261, October 2008.

[3] Aydin, Burcu, Exchange Rate Assessment for Sub-Saharan Economies, IMF Working Paper, No. 10/ 162, July 2010.

adjustments and a higher share of borrowing in South African rand are needed to maintain reserve cover at the desired level of fully backing base money. For example, a combination of a 16 percent relative wage reduction and an increase in the share of foreign borrowing (e.g. US$100 million per annum) to finance the fiscal deficit would maintain the reserve coverage above the level of base money, and stabilize the external debt ratio at slightly below 30 percent of GDP. Recent developments in relative wages show that Swaziland's average wage level in dollar terms has grown slightly less than some of its neighboring countries. With the authorities' intention of maintaining a wage freeze over the next three years, this trend is likely to continue. Indeed, the combination of a wage freeze in Swaziland with wages in neighboring countries rising by 5 percent per annum over this period could contribute to improving the reserves position significantly.

Figure 1. Annual Wages Per Employee (US dollars)

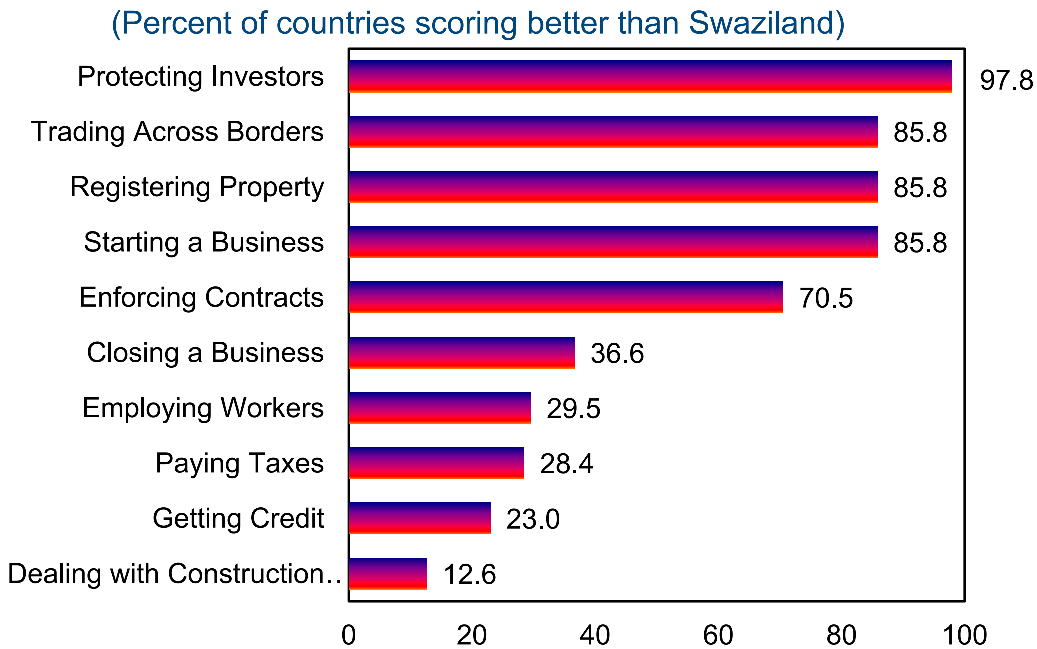


Source: Country Authorities and Fund staff estimates.

3. **All three exchange rate assessments suggest that the Swaziland currency is overvalued in the range of 16-25 percent**. In order to eliminate the overvaluation, a significant fiscal and relative wage adjustment is needed over the medium term to reduce domestic absorption, bring the real exchange rate to a competitive level and preserve external stability. The real exchange rate of South Africa is also estimated to be overvalued by 5-15 percent. Some of the needed real exchange rate adjustment may therefore take place through nominal adjustments in South Africa's exchange rate.

4. **There is also significant progress that Swaziland needs to make to improve its nonprice competitiveness.** .According to the World Bank Doing business database, Swaziland scores as in the lowest 3 percentile of countries in the world in the category of protecting investors (Figure 2). In addition, there is significant room for improvement also in the category of trading across borders, registering property, starting a business, and enforcing contracts. The Swaziland authorities are aware of these shortcomings and are working to address these issues, including by passing the new Companies Act.

Figure 2. Relative Ranking of Swaziland in the World Bank Doing Business Database, 2010

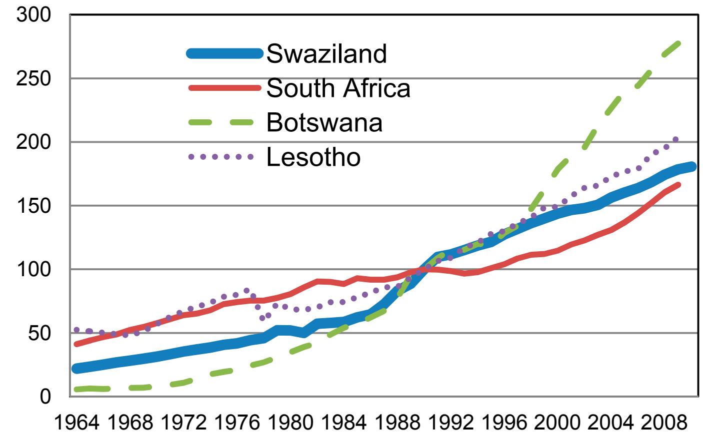


Source: World Bank Doingbusiness database, 2010

Appendix II. Background Note On Analyzing Swaziland's Economic Performance[8]

1. **In the past two decades Swaziland has seen a gradual decrease in its output growth**. For most of the three decades prior to 1990, Swaziland had an impressive growth rate averaging 6 percent. However, at the beginning of the 1990s, growth slowed, and the decade ended delivering an average growth rate of just 3.7 percent, falling short of the economic performance of its neighboring countries (Botswana, Lesotho, Namibia, and South Africa). The turn of the millennia brought about a further slowdown in growth, averaging only 2.3 percent in the period 2000–09.

Real GDP Index, 1990 = 100



2. **An important determinant of the slowdown in growth in the 1990s and 2000s has been lower investment, and a shift away from private investment-led growth**. Total investment accounted for 15.9 percent of GDP in 2009, similar to the level in 2000. However, from 2000 to 2009, public investment in percent of GDP rose from 5.7 percent to 10.4 percent, while at the same time private investment rate declined from 12.6 to 5.5 percent of GDP. The declining share of private investment resulted from the loss of attractiveness of Swaziland as a destination for investment, the end of some preferential trade agreements, and fierce competition from other textile producers.

3. **Major negative Total Factor Productivity (TFP) shocks started in the late 1980s and continued into the 1990s – driven by the rapid spread of HIV/AIDS**. A key ingredient in explaining productivity in Swaziland is the development in human capital. The two main components to human capital are education and health. Health, of course, affects human capital directly as it is the foundation for a productive labor force, and indirectly, because without a minimum level of it, no acquired education could be applied effectively. The rapid spread of HIV/AIDS has undermined human capital in Swaziland, which remained in 2007 the most affected country in the world according to the United Nations. By lowering life expectancy, and increasing absenteeism due to sickness, HIV/AIDS deters human capital accumulation and reduces productivity growth. High HIV/AIDS also poses constrains on growth in labor intensive sectors, such as textile and agriculture, while placing a burden on household and public finances. Its impact on growth can be relatively large; a study from the International Labor

[8] Prepared by Roland Kpodar and Alexis Meyer-Cirkel and presented during the outreach seminar on November 8, 2010 in Mbabane.

Organization estimates that HIV/AIDS reduced per capita GDP growth in Swaziland on average by 1.8 percentage points each year from 1992 through 2002.

4. **Economic development in Swaziland has furthermore been hampered by a loss of international competitiveness, as measured by the Doing Business indicators or the real effective exchange rate**. A bottleneck for the local industry seems to be the disproportionate amount of red tape. Swazi authorities request in excess of 15 percent more documents prior to export than the SSA average, and twice as many documents prior to export than the Euro Area. On the time required to enforce a contract the picture is even worse. The World Bank Doing Business database also shows that over time various indicators have been stagnant for Swaziland, while they have improved in the majority of other countries presented above. This means that the Swazi competitiveness has been deteriorating compared to other regions of the world. A comparison of the real effective exchange rate of Swaziland and South Africa provides an additional measure of competitiveness. This index particularly reflects price developments in local markets and thereby indicates what the production cost dynamics might look like. While the Lilangeni has been pegged to the South African Rand, the Swazi currency has been appreciating in real terms against the Rand, especially in the second half of the last decade, suggesting a loss of competitiveness against South African producers. At the same time, Swaziland has been losing labor productivity, which has likely compounded the loss of competitiveness.

5. **Likely increase in resource misallocation due to the government's broader participation in the economic process.** The size of the public sector in the economy may be a deterrent to private sector activity. The Swazi government participates in the economy in a wide range of areas (transportation and telecommunication being prominent ones) and often in a proportion, which theoretical and empirical studies would suggest are detrimental to a healthy and sustainable long term growth and development path. Government consumption as a percentage of GDP is relatively high in Swaziland, when compared to its peer group, or when compared to the fast growing Asian region. In addition, expenditure allocation within the budget is highly concentrated on public wages. The total cost of civil service accounts for a substantial portion of overall government spending. In 2010 the cost of the civil service wage bill added up to 17.8 percent of GDP, which is more than half of the overall expenditure. Budget expenses on the wage bill are much higher in Swaziland than in many parts of the world.

INTERNATIONAL MONETARY FUND

KINGDOM OF SWAZILAND

Staff Report for the 2009 Article IV Consultation—Informational Annex

Prepared by the African Department
(In consultation with other departments)

December 22, 2010

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the exchange rate system.
- **JMAP Bank-Fund Matrix of Actions**. Describes the priorities and main activities of the World Bank Group and the IMF, and areas of cooperation in their work with the Swazi authorities.
- **Statistical Issues.** Assesses the quality of statistical data.
- **Social and Demographic Indicators**. Provides an overview of key social indicators.

Contents Page

I. Relations with the Fund

(As of November 30, 2010)

I. **Membership Status:** Joined September 22, 1969; Accepted the obligations of Article VIII, sections 2, 3 & 4: December 11, 1989.

II. **General Resources Account:**	SDR Million	Percent Quota
Quota	50.70	100.0
Fund holdings of currency	44.15	87.1
Reserve position in Fund	6.56	12.9

III. **SDR Department:**	SDR Million	Percent Allocation
Net cumulative allocation	48.28	100.0
Holdings	44.41	91.97

IV. **Outstanding Purchases and Loans:** None

V. **Financial Arrangements:** None

VI. **Projected Payments to the Fund:**
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2010	2011	2012	2013	2014
Principal					
Charges/Interest	0.00	0.01	0.01	0.01	0.01
Total	0.00	0.01	0.01	0.01	0.01

VII. **Implementation of HIPC Initiative**: Not applicable

VIII. **Implementation of Multilateral Debt Relief Initiative**: Not applicable

IX. **Exchange Rate Arrangement**

The lilangeni (plural: emalangeni) is pegged at parity to the South African rand, which—alongside the lilangeni—is also legal tender. The intervention currency is the U.S. dollar; exchange rates for the U.S. dollar are based on the floating middle rate of the South African rand against the U.S. dollar. The rate on December 31, 2009 was E1 = US$0.13981. Swaziland maintains an exchange restriction subject to approval under Article VIII arising from a 33.33 percent limit for advance payments for the import of certain capital goods.

X. Article IV Consultation

The last Article IV consultation was concluded on February 22, 2010. In concluding the consultation, In view of Swaziland's rapidly deteriorating fiscal position, Executive Directors stressed the need for urgent fiscal consolidation along with structural reforms in key areas to help achieve fiscal sustainability over the medium term, boost economic growth, and preserve external stability.

XI. Technical Assistance, 2000–10

Department	Purpose	Date of delivery	Beneficiary Agency
FAD	Revenue administration	March 2007	MoF[1]
	Modernizing the Ministry of Finance	May 2009	MoF
LEG	Drafting of legislation on FIU	January 2004	CBS[2]
	Exchange Control Regulations	April 2007	CBS
	Exchange Control Regulations	April 2007	CBS
	Follow up on AML/CFT	December 2007	CBS
LEG/MCM (MFD)	Review legal and supervisory frameworks for AML/CFT	March 2004	CBS
	Follow mission on legislative drafting/FIU	May 2004	CBS
MCM (MFD)	Strengthening the CBS, including monetary and foreign exchange operations, the payment system, and banking supervision,	February 2003	CBS
	Development of the government securities market, and the strengthening monetary and foreign exchange operations	June-July 2003	CBS
	Structure of NBFI supervision under FIRST Initiative-funded TA	October 2003	CBS
	Workshop for Senior Bank Supervisors in East and Central Africa	July 2004	CBS
	Foreign exchange operations and foreign exchange reserves management	January 2005	CBS
MCM(MFD)	Long-term TA on reserves management	Oct. 2005-April 2006	CBS
	Central bank accounting, central bank organization and financial sector supervision	November 2005	CBS
	Supervision of saving and credit cooperatives	April 2007	CBS
	Bank supervision, follow-up	August 2007	CBS
	Insurance and pension funds supervision	September 2007	CBS

[1] Ministry of Finance.

[2] Central Bank of Swaziland.

Department	Purpose	Date of delivery	Beneficiary Agency
	Supervision of insurance companies	November 2007	CBS
	Insurance supervision	January 2008	CBS
	Review Payment System	March 2008	CBS
	Monetary operations, bank supervision, and forex	April 2008	CBS
	Insurance supervision	April 2008	CBS
	Insurance supervision	June 2008	CBS
	Insurance supervision	July 2008	CBS
	Insurance supervision	November 2008	CBS
	Insurance supervision	February 2009	CBS
	Payments system Regional Advisor	February 2009	CBS
	Insurance supervision	April-May 2009	CBS
STA	Participation in GDDS	July 2002	MoF
	Government Finance Statistics	July 2003	MoF
	Balance of payments statistics/GDDS Project for Anglophone Africa	October 2003	CBS
	Government Finance Statistics/GDDS Project for Anglophone Africa	October 2003	MoF
	Government Finance Statistics/GDDS Project for Anglophone Africa	June 2004	MoF
	National Accounts Statistics/GDDS Project for Anglophone Africa	July 2004	CSO[3]
	Consumer Prices Index/GDDS Project for Anglophone Africa	October 2004	CSO
	Monetary Statistics/GDDS Project for Anglophone Africa	November 2004	CBS
	Consumer Prices Index/GDDS Project for Anglophone Africa	January 2005	CSO
	National accounts statistics/GDDS Project for Anglophone Africa	April 2005	CSO
	Balance of payments statistics/GDDS Project for Anglophone Africa	May 2005	CBS
	Consumer Prices Index/GDDS Project	May 2005	CSO
STA	Consumer Prices Index/GDDS Project for Anglophone Africa	September 2005	CSO
	Balance of payments statistics/GDDS Project for Anglophone Africa	October 2005	CBS
	Government Finance Statistics/GDDS Project for Anglophone Africa	November 2005	MoF

[3] Central Statistical Office.

Department	Purpose	Date of delivery	Beneficiary Agency
	National accounts statistics/GDDS Project for Anglophone Africa	October 2006	CSO
	Balance of payments statistics/GDDS Project for Anglophone Africa	March 2006	CBS
	Consumer Prices Index/GDDS Project for Anglophone Africa	March 2006	CSO
	Monetary Statistics/GDDS Project for Anglophone Africa	March 2006	CBS
	Consumer Prices Index/GDDS Project for Anglophone Africa	July 2006	CSO
	Balance of payments statistics and External Debt/GDDS Project for Anglophone Africa	November 2006	CBS
	Consumer Prices Index	June 2007	CSO
	National accounts statistics/GDDS Project for Anglophone Africa	July 2007	CSO
	Money and Banking Statistics/GDDS Project for Anglophone Africa	November 2007	CBS
	Government Finance Statistics/GDDS Project for Anglophone Africa	July 2008	MoF
	National Accounts Module mission/GDDS Project for Anglophone Africa	October 2008	CSO
	National accounts statistics/GDDS Project for Anglophone Africa	March 2009	CSO
	Money and Banking Statistics/GDDS Project for Anglophone Africa	May 2009	CBS

II. SWAZILAND: BANK–FUND JOINT MANAGEMENT ACTION PLAN

Title	Products	Mission Date [1]	Delivery Date [1]
A. Mutual Information on Relevant Work Program			
The World Bank work program in the next 12 months	Local Government Project	Negotiations (November 2010)	Q4 of 2010
	Health, HIV/AIDS and TB project	Negotiations (November 2010)	Q4 of 2010
	Fiduciary Assessment		Q3 of 2010
	Strengthening PEM –IDF grant (on-going)	Supervision (October 2010)	Q4 of 2011
	Disaster Risk Reduction and Recovery (focus on disaster issues related to the agriculture sector)-TA		Q2 of 2010
	Development Policy Review – Policy Notes on the Underpinnings of Growth	regular missions led by PREM	Q4 of 2010
	Education Sector Strategic Plan – cost simulation TA		
	Country Partnership Strategy	Consultation Workshop (Q2 of 2010)	Q3 of 2011
	Development Policy Operation	Identification (Q4 2010)	Q3 of 2011
	Rural Sector Review		Q1 of 2011
	JSDF-financed rural development pilot project		2010-2014
The Fund work program in the next 12 months	African Department		
	2010 Article IV Consultation and discussions on a Staff Monitored Program (SMP) covering November 2010 – March 2011	November-2010	Management Approval in November
	Discussion on a follow-up IMF-supported program	April-2011	June-2011
	Technical Assistance		
	Financial sector		
	– Financial sector stability	November-2010	February-2011
	– Non-Bank Financial Institutions	To be determined	To be determined
	Supervision		
	– Insurance supervision	February-2011	April-2011

III. Swaziland: Statistical Issues Appendix

(As of December 16, 2010)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is broadly adequate for surveillance. Staff's analysis was affected by shortcomings in certain areas, including the national accounts and the external sector. The authorities provide available data to the Fund with a lag of one to three months, except for the national accounts, international trade data and the international investment position, which are reported irregularly.
Real sector statistics: STA GDDS missions have resulted in significant improvements in the **national accounts**. Current and constant price (base = 2000) GDP estimates are now available from both the production and expenditure approaches. These new estimates have not yet been published, as there are still some shortcomings concerning the treatment of Southern African Customs Union revenue. The authorities are planning the first labor force survey with support from the World Bank/GDDS project. The **consumer price index** was significantly revised in May 2007 in the context of the GDDS initiative, incorporating improvements in compilation methodology, market basket coverage, flexibility for introducing new pricing outlets and new varieties of products, and enhanced processing capabilities. Four new geographical indices, as well as a national index, with updated market basket weights, are now available. Monthly consumer price data are published by the Central Statistical Office (CSO) with a one-month lag.
Monetary and financial statistics: Although some progress was achieved in the reporting of data on the other depository corporations (ODCs), quality problems remained, particularly in the areas of classification and sectorization. The majority of the ODCs reported various degrees of difficulty in providing accurate data to the Central Bank of Swaziland (CBS). Furthermore, the institutional coverage of the depository corporations' survey is limited, as it covers only the CBS and the commercial banks. Recently the CBS has started to include the Swaziland Building Society into the monetary data backdated to December 2006. The credit and savings cooperatives, representing about 8 percent of the deposits of the commercial banks, are still outside the deposit corporations' survey.
External sector statistics: Annual balance of payments statistics are compiled by the CBS according to a methodology consistent with the fifth edition of the *Balance of Payments Manual (BPM5)*. However, shortcomings in the timeliness and availability of trade data impart a certain degree of uncertainty to external sector statistics and surveillance. The CSO publishes data on foreign trade on a quarterly basis, but the lack of sufficient computer resources results in long lags in the production of trade data, especially regarding imports. Further actions are required to improve the accuracy and reliability of external sector data.

II. Data Standards and Quality	
Participant in the General Data Dissemination System (GDDS) since February 11, 2003.	No data ROSC is available.

III. Reporting to STA
The CBS reports monetary and financial statistics to STA regularly, although the timeliness of data could be improved. Balance of payments and international investment position data are published in *International Financial Statistics (IFS)* and in the *Balance of Payments Yearbook.*

IV. Swaziland: Table of Common Indicators Required for Surveillance
(As of December 20, 2010)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Nov 10	Dec 10	M	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Sep 10	Dec 10	M	M	M
Reserve/Base Money	Sep 10	Dec 10	M	M	M
Broad Money	Sep 10	Dec 10	M	M	M
Central Bank Balance Sheet	Sep 10	Dec 10	M	M	M
Consolidated Balance Sheet of the Banking System	Sept 10	Dec 10	M	M	M
Interest Rates[2]	Oct 10	Dec 10	M	M	D
Consumer Price Index	Oct 10	Dec 10	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Sep 10	Nov 10	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2009	Sep 10	A	A	A
External Current Account Balance	2009	Sep 10	A	A	A
Exports and Imports of Goods and Services	2009	Sep 10	Q	A	A
GDP/GNP	2009	Sep 10	A	A 2/ 3/	A
Gross External Debt	2009	Sep 10	A	A	A
International Investment Position[6]	2006	Nov 09	A	A	A

[1] Any reserve assets that are pledged of otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means, as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I); and not available (NA).

V. Swaziland: Social and Demographic Indicators

Area (sq. km.)	17,364	**Population Density** (per sq. km)	65.47
Population	1.2 million		
Population		**Health**	
Population growth rate	1.4	Population per physician (2000)	5,675
Life expectancy at birth (2008)	46 yrs	Public health expenditure (2008; percent of GDP)	2.5
Infant mortality rate (per thousand)	66		
Urban Population (% total)	24.38	HIV prevalence rate (ages 15-49)	25.9
Population younger than 15 (percent of total population)	.		
GDP per capita (US dollars)	2,312	**Education**	
Access to safe water (2006)		Adult literacy rate (2007, percent)	84
Percent of total population	60	Primary school enrollment (2008, net, percent)	87
Urban	87		
Rural	51		
		Poverty Indicators (2006)	
Labor Statistics (thousands)			
		Share of income, lowest 20 percent (percent)	4.34
Labor Force	338		
		GINI Index	50.4
Formal Employment (2006)	92		
Private Sector	65		
Public Sector	28		

Sources: *International Financial Statistics;* World Bank, *World Development Indicators, April 2009*, UNAIDS, 2006, *2006 Report on the Global Aids Epidemic*; and national authorities. Data refer to 2006, unless otherwise indicated.

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Washington, D. C. 20431 USA

IMF Executive Board Concludes 2010 Article IV Consultation with Swaziland

On January 10, 2011, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Swaziland.[1]

Background

The Swaziland economy continues to underperform, reflecting both the impact of the global economic crisis and key obstacles to growth. While real GDP growth is expected to have inched up to 2 percent in 2010, the rebound is moderate and has mostly been driven by public consumption. Swaziland also continues to underperform other SACU members, reflecting an overvalued exchange rate, continued structural impediments to growth, and the heavy toll of HIV/AIDS on economic activity. The economic outlook shows only moderate growth averaging 2 percent over the medium term. Inflation has slowed in recent months (4.5 percent in October 2010) and is projected to remain moderate over the medium term.

The impact of the crisis has been felt the most in the revenue transfers of the Southern African Customs Union (SACU) to Swaziland. SACU imports fell sharply in 2009 due to the contraction of economic activity in South Africa and the unwinding of infrastructure spending associated with the 2010 World Cup. As a result, transfers from the common revenue pool to Swaziland have fallen by 11 percent of GDP in FY 2010/11 due to the highly procyclical SACU revenue-sharing formula.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

The shortfall in SACU revenue and a high wage bill are engendering a fiscal crisis. Absent corrective measures, the deficit could widen to 16 percent of GDP in 2010/11, reflecting the decline in SACU revenue and a further wage increase granted in mid-2010. This has contributed to making the Swaziland wage bill one of the largest in Sub-Saharan Africa. The government also added to fiscal pressures by submitting a supplementary budget to parliament in November 2010 to clear capital expenditure arrears. The deficit has been financed through a drawdown of government deposits at the central bank and domestic arrears on all expenditure items, except wages and utilities.

The fiscal crisis is mirrored by a rapid deterioration of Swaziland's external position. The current account deficit is expected to have widened to 20.5 percent of GDP in 2010, reflecting the decline in SACU transfers and unabated public consumption. Foreign direct investment and other financial flows remain anemic. As a result, gross official reserves declined steadily in 2009-10, as the government drew down its deposits at the central bank.

The government adopted a Fiscal Adjustment Roadmap (FAR) in October 2010 to correct the unsustainable fiscal position. On the revenue side, the FAR envisages increases in taxes and the introduction of the value added tax and a capital gains tax. On the expenditure side, the FAR includes a freeze on the wage bill for the next three years and cuts in expenditures on goods and services. It also envisages stricter controls and greater efficiencies in the delivery of goods and services, as well as PFM reforms to improve procurement, accounting, and auditing practices. In November 2010, the authorities increased the fuel levy, canceled a large amount of investment projects, and implemented measures to reduce the wage bill.

Executive Board Assessment

Executive Directors agreed with the thrust of the staff appraisal. They noted that a sharp decline in revenue transfers from the Southern African Customs Union (SACU) and excessive growth in the public sector wage bill have set the stage for a fiscal crisis which threatens external stability and the soundness of the financial sector. The immediate policy challenges are to restore a sustainable fiscal position, regain competitiveness, and strengthen financial sector supervision. Directors welcomed the authorities' plans on all these fronts, but emphasized the need for more ambitious and sustained efforts to revitalize Swaziland's economic performance.

Directors called for additional measures in the 2011/12 budget to compensate for recent increases in non-priority spending and continued weakness in SACU revenue transfers. They stressed the importance of reining in the public sector wage bill while protecting needed social programs. Noting the large financing gap for the 2011/12 fiscal year, they encouraged the authorities to mobilize additional domestic financing, while seeking financial assistance from the international community.

Underscoring that fiscal consolidation needs to be sustained over the medium term, Directors welcomed the authorities' intention to reduce the budget deficit to 2 percent of GDP by 2014/15. However, they considered that achieving this target requires bolder fiscal adjustment and budgetary reforms than envisaged in the current plan. Additional technical assistance is also necessary to build up implementation capacity, particularly at the ministry of finance.

Taking note of the staff's assessment that the real effective exchange rate remains overvalued, Directors expressed concern about the erosion of competitiveness which depresses growth and inhibits private sector development. They called for stepped up efforts to improve the business environment, including by reviving the government's privatization program, reducing the cost of doing business, and keeping labor costs in line with those in the region.

Directors noted that the banking system remains in good health but saw a need to strengthen the oversight of nonbank financial institutions which appear to have broadened their activities to non-core areas. More broadly, they encouraged the authorities to remain vigilant, given the risks posed to the financial sector by the fragile fiscal situation.

It is expected that the next Article IV consultation with the Kingdom of Swaziland will be held on the standard 12-month cycle.

Swaziland: Selected Economic and Financial Indicators, 2006–10

	2006	2007	2008	2009	2010 Est.
Domestic economy [1]	(percentage changes; unless otherwise indicated)				
GDP at constant prices	2.9	3.5	2.4	1.2	2.0
Consumer price inflation (period average)	5.3	8.2	13.1	7.5	6.2
Consumer price inflation (end of period)	5.5	9.8	12.9	4.5	7.0
External sector	(US$ millions, unless otherwise indicated)				
Exports, f.o.b.	1,570.4	1,572.8	1,731.5	1,772.5	1,821.1
Imports, f.o.b.	-1,580.3	-1,704.0	-1,976.6	-1,897.8	-1,938.6
Current account balance	-196.7	-139.5	-231.7	-425.9	-735.0
(percent of GDP)	-7.4	-4.7	-8.2	-14.4	-20.5
Gross international reserves	373.7	758.5	745.9	947.0	576.3
(months of imports)	2.0	3.9	4.0	5.0	2.6
Debt service (percent of exports)	7.7	9.3	13.1	7.5	3.6
Financial variables	(percent of GDP)				
Total government revenue and grants [2]	42.8	38.9	40.4	36.1	25.1
Total government expenditure and grants [2]	32.3	32.4	40.6	43.3	39.1
Overall balance (excluding arrears)	10.4	6.5	-0.2	-7.1	-10.6
Overall balance (including arrears)	10.4	6.5	-0.2	-7.1	-14.0
Change in broad money (percent)	25.1	21.4	15.4	26.8	17.2
Interest rates (percent) [3]	4.9	7.1	8.2	5.4	...
Discount rate (percent)	9.0	11.0	11.0	6.5	5.5

Sources: Swazi authorities; and Fund staff estimates and projections.

[1] The official GDP numbers from 1994 to 2006 were significantly revised in 2007, and recently in 2008.

[2] Fiscal years (April 1st–March 31).

[3] For 12–month time deposits.

Statement by Mr. Majoro on Swaziland
January 10, 2011

My Swazi authorities' medium-term objectives are guided by the broad based and nationally owned Poverty Reduction Strategy and Action Program (PRSAP), which prioritizes enhancing economic growth, improving social spending and ensuring food security, among others. The key challenges include restoring fiscal sustainability, addressing HIV/AIDS, reducing poverty and creating employment.

Economic performance

The Swazi economy has been adversely impacted by successive shocks of the lagged impact of global financial and economic crisis and sharp decline in Southern African Customs Union (SACU) revenue that has been worsened by past low long-term growth. Growth performance is projected to moderately recover in the near to medium term on the backdrop of improving global economy. Inflation has been contained at single digits level and projected to further decline. Gross international reserves are within the benchmark of 3 months of import cover and the country's debt ratios are low.

Fiscal policies

The budget deficit for 2010/11 is projected at a record high of 13 percent of GDP, largely as a consequence of worsening fiscal position following the sharp drop in SACU revenue. The authorities recognize that this deficit is unsustainable and are working on a mechanism to bring the deficit on a sustainable path, starting with a 14 percent expenditure cut across the board on the 2010/11 budget while protecting and enhancing priority social spending (such as addressing HIV/AIDS, protecting pro poor funding and poverty reduction). This is a necessary but not sufficient step in containing expenditures. The authorities are thus undertaking other expenditure cutting, structural and revenue enhancing measures. On the revenue side, the authorities have put in place measures to enhance revenue performance including introduction of new revenue instruments—minimum tax of 3 percent per annum for the lower end of the tax-payers, capital gains tax and upward revision of casino levy, and lotteries and gaming taxes as well as value added tax (VAT). The VAT will be implemented in 2012. Further revenue measures include a proposal to increase sales tax on excisable goods.

The authorities are aware that the wage bill accounts for the bulk of the recurrent budget and have put in place several measures to contain and reduce this expenditure item, including a freeze on recruitment with the exception of priority areas in the health, education and the newly created Anti-Human Trafficking Unit, and removal of ghost workers from the payroll. Additionally, capital spending has been reprioritized to on-going projects due to the now limited scope of introducing new ones. In November 2010, a supplementary budget of E350 million was approved by parliament as a rational decision to clear outstanding arrears on an on-going airport construction project as the alternative—terminating the project—would have been more costly. This expenditure was financed from under-spending on capital projects and was thus a re-allocation within the existing budget envelop. The authorities adopted a Fiscal Adjustment Roadmap (FAR) in October 2010 to build on these measures in order to bring the budget deficit to a sustainable path in the medium term. Already the 2011/12 budget will be based on the FAR and aims to further reduce the deficit.

The authorities intend to seek an arrangement, possibly an SBA, with the Fund to support achievement of their objectives and are, therefore, disappointed with the delay in concluding a Staff-Monitored Program (SMP). An arrangement with the Fund would have enabled the authorities to conclude a budget support loan from the African Development Bank in order to address the budget financing gap.

Structural policies

The authorities are keenly aware that attaining and sustaining high economic growth performance can only be achieved by increased diversification and enhancing competitiveness. To this end, a study on broadening Swaziland's economic base and increasing competitiveness is being undertaken with the assistance of the African Development Bank. To further enhance revenue performance, a review of income tax legislation is underway. Moreover, the Swaziland Revenue Authority was launched on July 31, 2010 and became operational on January 1, 2011. The establishment of the SRA has left about 180 people in the public service, whom the government is considering retiring, as part of reducing the wage bill. Enactment of VAT legislation has reached an advanced stage and is about to be sent to parliament for approval. Further measures to reduce expenditures include implementation of the Alternative Service Delivery (ASD) strategy, which aims at privatizing some services in government (such as the Central Transport Administration); establishment of authorities and separating personnel to those authorities (such as the SRA and the Civil Aviation Authority); and implementation of the voluntary early retirement program, which is being finalized, aimed at streamlining the overall size of the public service. In order to address the problem of unemployment, a cabinet committee has been set up to enhance employment creation.

Despite the low debt ratios, the authorities are committed to ensure continued debt sustainability for which they are preparing a comprehensive debt strategy in the medium term in view of the envisaged up-take of external debt.

Monetary and financial policies

Despite the ravages of the global financial and economic crisis, the financial system remained stable, sound and adequately capitalized. In 2009 the monetary authorities enhanced its oversight by implementing risk-based supervision framework in order to detect signs of financial risks and resilience to shocks early.

Conclusion

My authorities reiterate their commitment to implementing strong macroeconomic policies and deeper structural reforms to attain their program objectives. They are implementing fiscal consolidation and structural reforms in order to restore fiscal sustainability and create fiscal space to increase priority spending.