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KINGDOM OF SWAZILAND

September 2017

2017 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE KINGDOM OF 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 2017 Article IV consultation with Kingdom of Swaziland, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its September 1, 2017 consideration of the staff report that concluded the Article IV consultation with Kingdom of Swaziland.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 1, 2017, following discussions that ended on June 20, 2017, with the officials of Kingdom of Swaziland on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 9, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Kingdom of Swaziland.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2017 Article IV Consultation with the Kingdom of Swaziland

On September 1, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Kingdom of Swaziland.

Since the 2010 fiscal crisis, Swaziland has experienced a period of macroeconomic stability and recovery. A rebound in South African Customs Union (SACU) revenues, expansionary policies and the peg to the South African rand have contributed to the rebuilding of buffers and supported a growth recovery. Yet, despite its middle-income status, structural impediments have hindered private investment and kept unemployment high, contributing to persistently elevated poverty and income inequality.

Macroeconomic conditions have recently deteriorated. In 2016, two shocks – a prolonged drought and a sharp decline in SACU receipts – severely hit the economy, while an expansionary fiscal policy worsened fiscal and external balances. Growth in 2016 stagnated, as agricultural productions declined, and headline inflation increased sharply, mostly due to rising food prices. Government's policy of increasing public expenditure, while SACU revenues declined, widened the FY16/17 deficit to about 10½ percent of GDP. Public debt rose and domestic arrears accumulated, while the current account deteriorated and international reserve coverage declined below 3 months of imports. The economic slowdown and government's domestic arrears have started having adverse effects on the banking sector's asset quality, with non-performing loans (NPLs) rising.

Fiscal policy remains on an expansionary course, while the monetary stance has tightened. Despite a pickup in SACU revenue, the 2017 budget envisages a continuation of large fiscal deficits, and further increase in public debt. In the context of the peg to the South African rand, in early 2017 the Central Bank of Swaziland raised its policy rate above South African Reserve Bank's rate.

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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.

The outlook is fragile, with an unsustainable fiscal policy. Growth is projected to pick up in 2017 due to the end of the drought and increasing SACU revenue, and turn negative thereafter as fiscal and external positions weaken. The large fiscal deficit would contribute to further reduce international reserves and bring public debt above sustainability thresholds.

Downside risks dominate the outlook. The main risk stems from further tightening in budget financing. Additional risks arise from deteriorating banks' asset quality, lower SACU revenue and demand for key exports. With a fragile outlook, the materialization of risks could trigger abrupt fiscal adjustment. Linkages between domestic financial institutions and the government could further amplify the negative impact of shocks on the economy.

Executive Board Assessment[2]

Executive Directors noted that while Swaziland has experienced sustained growth and macroeconomic stability in recent years, the country is now facing formidable challenges. A prolonged drought, and a sharp decline in Southern African Customs Union (SACU) revenues have recently hit the economy. An expansionary fiscal policy has further worsened fiscal imbalances and created tighter links between the government and domestic financial institutions, contributing to the fragile economic situation. In addition, Directors noted that structural impediments have kept growth relatively low. They emphasized that implementation of sound policies and structural reforms will be key to managing the rising risks, maintaining macroeconomic and financial stability, and generating stronger growth to reduce poverty and income inequality.

Directors emphasized that significant fiscal adjustment is needed to ensure macroeconomic stability and debt sustainability. They stressed that, with tightening budget financing, adjustment efforts should be spread over time and focus on both revenue and expenditure measures that can support long-term growth. Directors underscored that steps to contain the public wage bill, prioritize capital outlays, reduce transfers to extra-budgetary entities, and boost tax revenues will be critical to the adjustment effort. They encouraged the authorities to improve budget formulation and expenditure controls, and strengthen the governance of extra-budgetary entities to ensure the credibility of consolidation plans.

Directors noted that strong fiscal adjustment will help release pressures on monetary policy. They underscored that the Central Bank of Swaziland (CBS) should refrain from additional budget financing and, in the context of the peg with the South African rand, the CBS should maintain the policy rate at a positive spread with the South African Reserve Bank's rate.

[2] 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. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors welcomed the authorities' plans to amend the CBS Act to bolster the central bank mandate and independence and strengthen its supervisory structure. They stressed the importance of monitoring and assessing financial stability and macro-financial risks arising from tight linkages between the government and the financial sector, and systemically large non-bank financial institutions. In this context, Directors recommended to accelerate plans to create a financial regulatory architecture and enhance the CBS's capacity to assess macro-financial risks and exercise macro-prudential controls.

Directors emphasized that bolder structural reforms are needed to foster stronger and more inclusive growth. They highlighted that the reform effort should focus on reducing skill mismatches through improving access and quality of higher education, aligning wage and productivity dynamics, including by containing public sector wages, and simplifying business regulations and improving the institutional environment. Directors welcomed the authorities' recent increase of cash assistance programs and suggested further scaling up and better targeting to address extreme poverty.

Table 1. Swaziland: Selected Economic Indicators, 2013–22

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
			Est.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percentage changes; unless otherwise indicated)									
National account and prices										
GDP at constant prices	4.8	3.6	1.1	0.0	0.3	-0.9	0.1	1.3	1.9	2.2
GDP deflator	4.3	5.5	6.3	11.2	5.4	4.8	4.6	4.6	4.8	4.5
GDP at market prices (Emalangeni billions)	42.7	46.6	50.1	55.7	58.8	61.1	64.0	67.8	72.4	77.4
GDP at market prices (US dollar billions)	4.4	4.3	3.9	3.8	4.0	4.0	4.1	4.1	4.3	4.4
Consumer prices (average)	5.6	5.7	5.0	8.0	7.0	5.4	5.4	5.5	5.5	5.5
External sector										
Average exchange rate (local currency per US$)	9.7	10.8	12.8	14.7	…	…	…	…	…	…
Nominal exchange rate change (– = depreciation)[1]	7.3	5.4	2.7	6.2	…	…	…	…	…	…
Real effective exchange rate (– = depreciation)[1]	6.0	4.0	0.8	2.5	…	…	…	…	…	…
Terms of trade (deterioration -)	6.1	4.2	-0.9	9.7	-6.3	4.6	0.0	1.7	1.3	2.0
Gross international reserves										
(months of imports)	3.7	3.7	3.4	2.9	2.7	3.2	4.1	4.5	4.6	4.8
(percent of GDP)	18.9	17.1	17.0	13.9	12.5	14.5	19.1	21.1	21.9	22.6
(percent of reserve money)	423	424	392	268	235	241	278	309	325	341
Gross reserves minus reserve money										
(percent of deposits)	57.4	55.0	50.1	30.1	24.4	26.4	34.3	40.0	42.3	44.7
Money and credit										
Domestic credit to the private sector	20.2	9.8	4.2	11.6	11.4	5.9	6.1	6.5	7.1	7.2
Reserve money	6.0	-0.8	15.4	32.3	9.1	17.1	17.2	6.0	6.4	6.4
M2	15.9	3.9	13.6	26.4	7.2	17.1	17.2	6.0	6.4	6.4
Interest rate (percent)[2]	5.0	5.0	5.3	5.8	…	…	…	…	…	…
	(Percent of GDP)									
National accounts										
Gross capital formation	12.7	12.9	12.2	12.1	12.2	12.6	13.2	13.1	12.8	12.4
Government	3.3	4.2	4.1	4.0	4.3	4.3	4.1	4.0	4.0	4.0
Private	9.4	8.7	8.1	8.1	7.9	8.3	9.1	9.2	8.8	8.5
National savings	13.7	11.6	23.0	12.8	11.1	12.9	14.9	14.8	13.9	13.7
Government	6.8	7.8	4.4	-1.4	-0.2	2.6	5.1	6.2	6.3	6.2
Private	7.0	3.8	18.6	14.2	11.3	10.3	9.8	8.6	7.6	7.5
External sector										
Current account balance										
(including official transfers)	5.3	3.3	10.8	0.7	-1.1	0.2	1.7	1.7	1.1	1.3
(excluding official transfers)	-13.2	-13.5	-4.7	-9.0	-11.8	-11.0	-9.8	-9.9	-10.6	-10.5
External public debt	7.7	7.6	9.4	9.3	11.4	13.6	15.1	16.2	17.0	17.4
Central government fiscal operations[3]										
Overall balance	0.8	-1.1	-4.6	-10.5	-8.2	-5.1	-1.9	-0.9	-1.4	-1.4
Total revenue and grants	29.6	31.1	28.4	24.6	26.9	26.9	27.2	27.5	27.6	27.8
Total expenditure	28.8	32.2	33.0	35.1	35.1	32.0	29.1	28.4	29.0	29.2
Public debt, gross	15.3	14.3	18.7	25.3	31.3	35.4	36.3	34.5	34.1	33.8
Public debt, net	4.1	3.5	9.9	17.7	25.7	30.1	30.9	30.4	30.2	30.0
Memorandum item:										
Population (in million)	1.1	1.1	1.1	1.1	1.1	1.2	1.2	1.2	1.2	1.2

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

[2] 12-month time deposit rate.

[3] Fiscal year data (fiscal years run from April 1 to March 31).

INTERNATIONAL MONETARY FUND

KINGDOM OF SWAZILAND

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION

August 9, 2017

KEY ISSUES

Context. Swaziland has experienced a period of macroeconomic stability, but faces formidable policy challenges and structural issues. A drought and a sharp decline in SACU revenue have hit the economy, and an expansionary fiscal policy has worsened fiscal and external imbalances. Public debt is rising, domestic arrears accumulating, and reserve coverage is below adequate levels. Banks are well capitalized, but links between government and financial institutions pose macro-financial risks. Structural impediments have limited growth and contributed to keep poverty and inequality too high.

Outlook and challenges. The outlook is fragile and fiscal policy unsustainable, weighing on growth projected at 0.6 percent in 2017 and negative afterwards. Downside risks dominate the outlook and stem from tightening budget financing, lower SACU revenue and export demand. Materialization of risks could force abrupt adjustment. Current policy challenges are similar to those the country successfully addressed in 2010. Swaziland's key challenge is to preserve macroeconomic stability with significant fiscal adjustment, manage financial stability risks, and generate sufficient growth to reduce poverty and inequality.

Fiscal and monetary policy. Fiscal adjustment is needed to ensure macroeconomic stability and debt sustainability. Adjustment needs to be carefully designed to support long-term development. It needs to be spread over time and combine both revenue and expenditure measures that can boost long-term growth. Reforms of public financial management systems and extra-budgetary entities are essential to implement consolidation plans. To support the peg, the CBS should maintain the policy rate with a positive spread with the SARB's rate and refrain from budget financing.

Financial stability. Risks from linkages between the government and the financial sector and from large non-bank financial institutions (NBFIs) need to be monitored and managed. Creating a financial regulatory framework is critical to provide the CBS with powers and tools to assess macro-financial risks and exert macro-prudential controls. Plans to strengthen supervision and regulation of NBFIs should be brought forward.

Structural reforms. Selected structural reforms could boost private investment and deliver stronger and more inclusive growth. Reforms to reduce skill mismatches, align wages to productivity dynamics, and simplify business regulations and the institutional environment have the highest impact on investment and employment. Scaling up cash assistance programs could make further inroads in reducing extreme poverty.

Approved By
Anne-Marie Gulde-Wolf (AFR) and Zuzana Murgasova (SPR)

Discussions for the 2017 article IV consultation were held in Mbabane during June 7–20, 2017. The team comprised Mr. Palomba (head), Messrs. El Said and Nose (all AFR), Mr. Crispolti (FAD) and Ms. Ganum (RES). Ms. Dlamini-Kunene and Mr. Mahlinza (all OED) participated in the discussions. Mr. Ugazio (STA) contributed from HQ. Mses. Hammah and Prado de Guzman provided research and editorial assistance for the preparation of this report.

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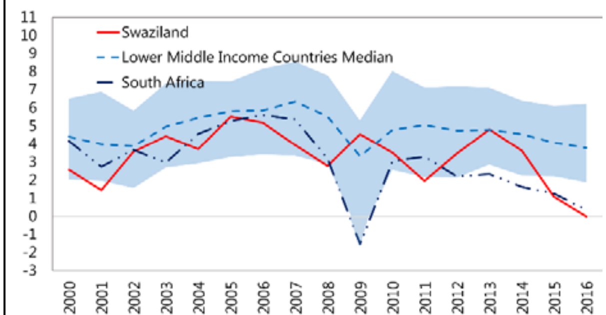
ANNEXES

CONTEXT: HIGH VULNERABILITY AND LIMITED BUFFERS

1. **Swaziland is a small middle-income economy particularly exposed to external shocks and with significant structural challenges.** After a sharp decline in revenue from the South African Customs Union (SACU) in 2010 that prompted a fiscal crisis, revenue bounced back, fiscal and external balances improved, and buffers were rebuilt. The peg to the South African rand contributed to moderate inflation, and growth recovered.[1] However, growth has been low compared to the pre-crisis period and other middle-income countries. The current account remains heavily dependent on SACU revenue and exports concentrated on a few products.[2] More recently, an expansionary fiscal policy has depleted buffers, leaving international reserve coverage below adequate levels and prompting a rapid increase in public debt (Table 1). Moreover, despite its middle-income status, Swaziland faces widespread poverty and a high HIV prevalence rate. Unemployment remains high and little responsive to growth, contributing to elevated income inequality (Figure 1).

Low Real GDP Growth
(Percent)



Sources: WEO and staff estimates.
Note: Shaded area represents the distribution of real GDP growth rates of lower-middle income countries, excluding top and bottom 20 percent of the distribution.

2. **In 2016, a prolonged drought and a sharp decline in SACU revenue severely hit the economy** (Table 1, Figure 2).

- Real GDP stagnated (1.1 percent in 2015) as agriculture and hydro-power production declined because of the drought, with negative effects on other sectors of the economy. Declining private demand largely offset the impact of an expansionary fiscal policy.
- The decline in SACU transfers (about 4¼ percent of GDP), coupled with strong demand for imports and lower exports (particularly for agricultural products), reduced the current account surplus to ¾ percent of GDP (10.8 percent of GDP in 2015). On the positive side, the net international investment position improved somewhat, although mainly reflecting short-term trade credit assets. However, other buffers have thinned, and end-year international reserve

[1] Swaziland, with Lesotho, Namibia and South Africa, is member of the Common Monetary Area (CMA), and its currency is pegged at par with the South African rand. CMA members and Botswana constitute the SACU.

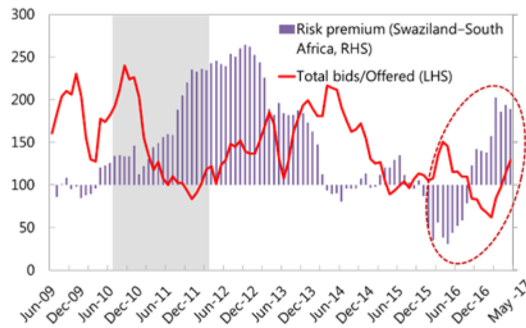
[2] In recent years, growth in agriculture, manufacturing and some services has slowed down. On the external side, exports of soft drink concentrates, caramel color, sugar, and textile constitute about 70 percent of total exports and are mainly directed to South Africa. See IMF Country Report 15/354.

coverage declined to below 3 months of projected imports (Annex I, Figure 3). More recently, reserve coverage has fallen further to 2.6 months of imports (May 2017).[3]

3. Government's policy of increasing public expenditure, against declining SACU revenue, widened the fiscal deficit and created budget financing shortfalls. The FY16/17 deficit widened to 10½ percent of GDP (4.6 percent in FY15/16) as SACU revenue declined and, on the spending side, a salary review increased wage costs and transfers and capital outlays reached the highest level since 2010, largely undoing the adjustment achieved during the 2010 fiscal crisis (Tables 2–3).[4] Gross financing needs increased to 21¾ percent of GDP. The government increasingly tapped domestic markets and, in addition, resorted to central bank financing and accumulated domestic arrears (about 5⅓ percent of GDP at end March 2017).[5] While still relatively low, public debt jumped to 25⅓ percent of GDP (from 18.7 percent), including domestic arrears (Figure 4). Against these developments, market pressures intensified, resulting in declining coverage ratios and rising yields for government securities.

Lower Coverage Ratio and Rising Yields

(91 Days T-Bill Auction Results, 3-month moving average)



Note: Shaded area represents the 2010-2011 fiscal crisis.
Sources: Haver, Central Bank of Swaziland

4. Economic slowdown and government's financing shortfalls have started adversely affecting the banking sector. Since 2012, credit growth to the private sector has averaged 11½ percent, but decelerated to 7½ percent in 2016 as corporate lending growth turned negative (Figure 5). However, credit to households for mortgages and durables remained buoyant, contributing to increase household indebtedness. At the same time, banks' asset quality deteriorated, with NPL rising rapidly and exceeding 10 percent of total loans (end-March 2017). As government's financing needs increased, banks' direct exposure to the public sector rose and holdings of government securities reached about 11 percent of banks' assets.[6]

5. Against this background, inflation picked up and monetary policy stayed on a tightening course. After averaging 5 percent in 2015, headline inflation reached 8.7 percent in

[3] Since FY13/14, SACU revenues have been on a declining trend. The sharp decline in FY16/17 compared to the previous year reflected past trends and an adjustment to offset overpayments in previous years. In 2016, international reserves were boosted by two currency swap operations that in April 2017 amounted to about US 18 million.

[4] The 2016 salary review reformed, among others, civil servant grades, resulting in additional annual wage costs of about 2 percent of GDP.

[5] Domestic arrears are estimated as the difference between above the line accrual spending and below the line cash financing, accounting for an average end-year float of due payments. As end-March 2017, authorities' systems identified pending bills, exceeding 30 days, above 4 percent of GDP.

[6] Given the volatility of credit series, credit growth refers to 12-month average. In July 2016, the Swaziland Central Bank increased liquidity requirements (from 20 to 25 percent of domestic liabilities to the public), creating an additional incentive for banks to invest in domestic securities.

December 2016, mostly due to high food prices reflecting the drought. In 2017, inflation has started slowly declining as the effect of the drought fades away. In the context of the peg with the South African rand, the Central Bank of Swaziland (CBS) raised the policy rate in 2016, and again in January 2017 to reach 7.25 percent, for the first time in years, above the South Africa Reserve Bank (SARB)'s rate, citing elevated risks (Figure 2).

6. Aware of the long-term challenges, authorities have adopted plans to boost growth and foster social and economic transformation, but results have been mixed. In the context of their 2022 vision, authorities have increased public investment, and deployed incentives to boost private investment and economic diversification. However, the impact of these initiatives has been limited, particularly on private investment, employment and economic diversification. On the positive side, macroeconomic stability has been maintained. However, implementation of recent staff's advice has been uneven, especially in the fiscal area, and new challenges are rising.

OUTLOOK AND RISKS

7. The outlook is fragile. In absence of policy actions, the FY17/18 fiscal deficit is projected to be large and domestic arrears to accumulate, weighing heavily on the outlook. Real GDP is expected to grow by 0.6 percent in 2017 and turn negative thereafter as domestic arrears rise. Inflation is foreseen to return below 6 percent by 2018 as food prices normalize. With no increase in SACU revenue over the medium-term and limited budget financing, government's liquidity problems would deepen and eventually trigger some form of adjustment. Even if government's budget financing were available, with no policy actions, the medium-term outlook would be unsustainable. Public debt would increase to 58 percent of GDP by FY19/20 and rise further over the projection period. High public expenditure would fuel domestic demand and contribute to a current account deficit and, absent additional external financing, quickly deplete international reserves, putting at risk the currency peg.

Staff Medium-Term Projections (No Policy Action)[1/]

(Percent of GDP, unless otherwise specified)

	2015	2016	2017	2018	2019
Real GDP Growth (annual change)	1.1	0.0	0.6	-0.5	-0.8
Credit to the Private Sector (annual change)	4.2	11.6	11.0	4.9	3.5
Fiscal Balance	-4.6	-10.5	-11.2	-12.4	-13.8
Primary Fiscal Balance	-3.4	-9.0	-8.7	-9.3	-10.0
Gross Financing Needs	14.5	21.7	22.1	24.2	25.8
Public Debt, gross	18.7	25.3	34.1	45.3	58.0
o/w Stock of Arrears	...	5.3	10.0	18.5	29.4
Current Account Balance	10.8	0.7	-2.6	-3.8	-4.5
Gross International Reserves (months of imports)	3.4	2.8	2.2	1.2	0.2
Gross International Reserves (percent of reserve money)	391.6	268.0	205.3	115.3	21.7

1/ Fiscal data refer to fiscal year.

Source: Staff estimates.

8. Risks to the outlook are firmly tilted to the downside. The main risk arises from further tightening in budget financing as investor confidence declines. Additional risks arise from deteriorating banks' assets quality as domestic arrears accumulate. External risks are also prominent, especially from lower demand for key exports as protectionist pressures rise, lower SACU revenue if growth in South Africa fails to pick up, and tightened global monetary conditions prompted by rising US policy rates.

9. The materialization of key domestic risks could trigger abrupt and disorderly fiscal adjustment with severe macroeconomic effects. Additional delays in government's payments could significantly slow down the economy. Banks' balance sheets would deteriorate and credit to the private sector decelerate, amplifying the negative impact on the economy. As the government's ability to honor its commitments weakens, capital would outflow, putting pressure on the sustainability of the currency peg. In the extreme case of difficulties in rolling over public debt, financial sector's asset quality and banks' capital coverage would drastically deteriorate, prompting banks to deleverage and bringing the country into deep recession.

Authorities' views

10. The authorities broadly agreed with the medium-term outlook and staff's risk assessment but have a more optimistic view on near-term growth prospects. They expect GDP growth to pick up in 2017 as the drought fades away, agricultural production and agro-processing activities recover and fiscal policy expands, with positive effects in the following year. However, they agreed that risks from government's financing shortfalls and accumulation of domestic arrears weigh heavily on the outlook. They concurred that without policy actions, the medium-term outlook is unsustainable and could lead to an abrupt adjustment with severe macroeconomic effects. To mitigate risks, they intend to consider options to contain the FY17/18 fiscal deficit within budget projections and reduce the fiscal deficit starting in FY18/19.

POLICY DISCUSSIONS

Swaziland's key challenge is to preserve macroeconomic stability against low SACU revenue and make inroads in reducing poverty and income inequality. With an expansionary fiscal policy contributing to an unsustainable outlook and external and financial vulnerabilities, discussions focused on the need for: (i) fiscal adjustment to bring the fiscal deficit in line with available financing, contain public debt dynamics and preserve external buffers; (ii) managing risks from fiscal and financial sector linkages and the large non-bank financial sector; and (iii) advancing structural reforms to generate sufficient growth and jobs to reduce poverty and inequality.

A. Ensuring Fiscal Sustainability and Macroeconomic Stability

11. The 2017 budget envisages a continuation of recent policies of large fiscal deficit.[7] High revenue buoyancy—from increased SACU receipts and some policy measures—and contained non-wage recurrent expenditures would offset further increases in wage and capital spending, and yield a deficit of 8.2 percent of GDP. The deficit is expected to be financed primarily through

[7] Swaziland budget documents focus on current year and present no medium-term expenditure framework.

domestic sources. However, the extent and quality of measures underpinning spending reductions remain unclear, revenue measures are still pending approval, and wage pressures are rising.

12. Under current policies, staff estimates that the fiscal deficit would remain large and difficult to finance with public debt rising to unsustainable levels. Despite a recovery in SACU revenue in FY17/18, staff projects lower tax revenue and higher wage and interest payments than the authorities.[8] As a result, the FY17/18 fiscal deficit would reach about 11 percent of GDP and rise over the projection period. Government's gross financing needs would on average exceed 23 percent of GDP per year, putting pressures on domestic markets and leading to further accumulation of domestic arrears. Over the medium term, fiscal policy would be unsustainable and public debt rise above 90 percent of GDP over the projection period. The fiscal outlook is also subject to significant risks, particularly from contingent liabilities in non-central government public entities (Box 1).

13. Fiscal adjustment is needed to bring the fiscal deficit in line with available financing and ensure debt sustainability and macroeconomic stability. The adjustment should be calibrated to bring public debt on a sustainable path and paced to reflect financing constraints.

- Under staff's macroeconomic assumptions, 11–12 percent of GDP in measures (depending on the pace of adjustment) is needed over FY17/18–FY19/20 to stabilize the public debt ratio at a sustainable level (Annex III). While extremely ambitious, the size of adjustment is close to the correction planned, and partly undertaken, during the 2010 fiscal crisis; as in 2010, implementation requires broad political consensus.[9] The pace of adjustment depends on available financing. As budget financing is currently limited, the adjustment would require a front-loaded effort that makes it difficult to implement and economically undesirable, despite Swaziland's low fiscal multipliers.[10] The authorities are exploring options to increase budget financing, and intend to use government's bank deposits and adopt new regulations increasing domestic asset requirements for non-bank-financial institutions (NBFIs).[11] Additional financing would allow spreading the adjustment over time,

[8] Staff budget projections for FY17/18 exclude revenue measures unlikely to materialize (e.g., communication license), and account for late approval of other measures, as well as for underestimated costs from salary inflation adjustment and domestic interest payments. The increase in FY17/18 SACU revenues reflects the latest revenue sharing agreement among SACU countries, and the absence of past overpayments and negative adjustments. SACU revenues are projected to stabilize thereafter as a share of GDP as import growth in South Africa, the main contributor to the SACU revenue pool, remains moderate.

[9] In 2010, authorities developed a Fiscal Adjustment Road Map envisaging a gradual reduction in the fiscal deficit by about 11 percent of GDP over four years, relying on both revenue and expenditure measures. As SACU revenue bounced back in FY12/13, the actual adjustment amounted to about 2/3 of the original target.

[10] In absence of additional financing, adjustment would exceed 6 percent of GDP in the current fiscal year, and reach 10 percent in FY18/19. Given the openness of the economy, staff estimate that fiscal multipliers in Swaziland are relatively low (IMF Country Report 14/223).

[11] Draft regulation for higher domestic asset requirement is currently at the consultation stage with main stakeholders. Budget financing assumes that the government uses part of its bank deposits, mainly in FY17/18 (about 1.6 percent of GDP), and that the planned increase in domestic asset requirements for NBFIs generates capital

(continued)

making the correction more feasible and reducing the negative impact on growth (Table 3). A gradual but sustained adjustment spread over three years, starting in the current fiscal year, would still deliver sustainable debt dynamics, with debt remaining below stress thresholds and slowly declining toward the end of the projection period.[12] However, it would most likely imply a temporary increase in the stock of arrears in FY17/18 as financing for the year remains limited.

- Fiscal adjustment would help ensure macroeconomic stability. Together with stabilized SACU revenues, it would help maintain the external position broadly in line with medium-term fundamentals and desirable policies, as well as contribute to more adequate levels of international reserves (Table 4 Annex I). In addition, it would contain risks to the financial sector from a deterioration in government's creditworthiness. However, in the near term, the adjustment would lower growth, negatively affecting banks' asset quality and profitability. It would also increase risks from tighter linkages between the government and the domestic financial sector.

Staff Medium-Term Projections (Gradual Adjustment with Additional Budget Financing)[1/]

(Percent of GDP, unless otherwise specified)

	2015	2016	2017	2018	2019	2020	2021	2022
Real GDP Growth (annual change)	1.1	0.0	0.3	-0.9	0.1	1.3	1.9	2.2
Fiscal Balance	-4.6	-10.5	-8.2	-5.1	-1.9	-0.9	-1.4	-1.4
Revenue	28.4	24.6	26.9	26.9	27.2	27.5	27.6	27.8
Expenditure	33.0	35.1	38.1	39.0	40.1	40.5	41.0	41.2
Policy gap (cumulative)	...	...	3.0	7.0	11.0	12.0	12.0	12.0
Primary Fiscal Balance	-3.4	-9.0	-5.8	-2.3	1.4	2.4	1.8	1.8
Gross Financing Needs	14.5	21.7	20.4	18.5	16.7	14.9	12.5	11.6
Public Debt, gross	18.7	25.3	31.3	35.4	36.3	34.5	34.1	33.8
o/w Stock of Arrears	...	5.3	7.1	5.3	2.1	0.0	0.0	0.0
Current Account Balance	10.8	0.7	-1.1	0.2	1.7	1.7	1.1	1.3
Gross International Reserves (months of imports)	3.4	2.9	2.7	3.2	4.1	4.5	4.6	4.8
Gross International Reserves (percent of reserve money)	392	268	235	241	278	309	325	341

1/ Fiscal data refer to fiscal year. Adjustment measures to be identified.

Source: Staff estimates.

14. The adjustment should address the sources of recent fiscal deterioration, while supporting long-term growth. Reductions in key expenditure items and well-designed increases in domestic revenue (e.g., ¼ of the adjustment), while strengthening social assistance programs, could enhance long-term growth and protect the poor.[13]

inflows (about 6–6.5 percent of GDP) over FY18/19–19/20 that are largely invested in government paper, in absence of viable alternatives. Moreover, financing assumes that the government gradually repays domestic arrears over time, and starts repayments to the central bank in FY19/20.

[12] Gradual adjustment assumes an average 4 percent of GDP annual correction, starting with 3 percent of GDP in FY17/18, sufficient to contain the fiscal deficit within the budget target. Public debt would peak at about 36⅓ percent of GDP in FY19/20, thus remaining below the default thresholds estimated for emerging market countries with market access under the IMF debt sustainability analysis (Staff Guidance Note for Public Debt Sustainability Analysis in Market Access Countries, IMF 2013). [13] See IMF Policy Paper, Fiscal Policy and Long-Term Growth,

[13] See IMF Policy Paper, Fiscal Policy and Long-Term Growth,

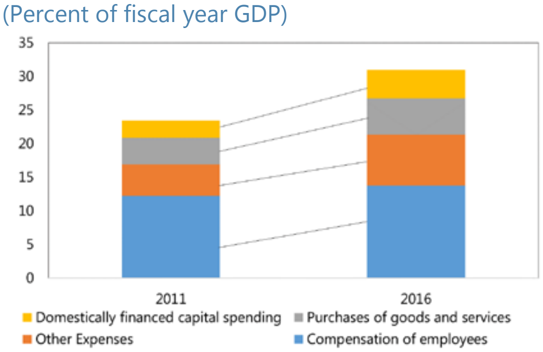
Staff proposed a menu of measures to be considered by the authorities. On the spending side, staff suggested to: (i) contain the bloated government wage bill by constraining inflation adjustments, and limiting new hires and allowances (Annex IV); (ii) prioritize capital outlays to improve investment efficiency; (iii) reduce transfers to extra-budgetary entities and rationalize their functions; and (iv) curb non-essential purchases. Over time, these measures are likely to bring wage dynamics closer to productivity trends with positive effects on labor market outcomes and long-term growth. They would also improve investment efficiency and enhance the impact of public investment on growth. On the revenue side (Annex V), measures should minimize the negative impact on growth by focusing on consumption (e.g., VAT base, fuel levy, excises) and property taxation, and reducing tax incentives and exemptions (e.g., under income taxes). Improving the progressivity of the personal income tax and renewing efforts to strengthen collection of tax arrears and revenues would contribute to the adjustment and ensure equitable burden sharing.

Possible Fiscal Adjustment Measures (FY17/18–FY19/20)
(Percent of GDP)

Measures	Budget Savings
Total	Up to 14
Revenue measures	Up to 5.0
Widen the VAT tax base	0.8
Increase domestic levies, including on SACU excises (e.g., fuel, luxury good, alcohol, tabacco)	0.5
Reduce tax incentives/exemptions	2.0-2.5
Remodule PIT rates	0.4
Improve VAT productivity	0.7
Expenditure measures	Up to 9.0
Limit public salary increases, new hires, and statutory posts	2.5-3.5
Reprioritize capital budget	2.5-3.0
Reduce transfers to public entities (restructure the sector)	1.5
Rationalize non-essential purchases and travel expenditures	1.0

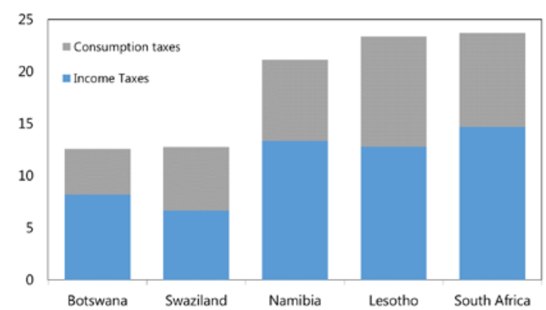
Sources: MOF, and IMF staff estimates

Increasing in Primary Spending
(Percent of fiscal year GDP)



Sources: Swaziland Ministry of Finance and IMF staff estimates.

Low Tax Revenue and Consumption Taxes, 2015
(Percent of GDP)



Note: SACU transfers not included.
Source: IMF Fiscal Affairs Tax Revenue Indicators Database

15. The credibility of fiscal adjustment relies on implementing structural reforms in public financial management and rationalizing the extra-budgetary public entities. Improving budget formulation and expenditure controls, and streamlining public entities is critical to implement consolidation plans and ensure a more equitable burden sharing. Reforms should focus on:

- ***Public financial management (PFM).*** In the near term, strengthening commitment controls and cash management practices (including, adopting a single treasury account) and centralizing all budgetary functions within the ministry of finance (wages, capital budget; MoF) is critical to manage a tight budget and contain arrears accumulation. With large domestic arrears, developing an arrear clearance strategy would support orderly fiscal adjustment. Accelerating the adoption of regulations to enact the 2011 Public Procurement Act and improve procurement processes could reduce waste and free up resources for adjustment. Moreover, improving public investment management (e.g., project appraisal, implementation) would support project re-prioritization and more efficient and growth-enhancing public spending. Finally, as the authorities implement the recently approved PFM Act, strengthening the top-down budget formulation process and budget calendar ahead of next fiscal year would support the design of credible budget and adjustment plans.

- ***Extra-budgetary entities and funds.*** Reforms of public entities and reviews of fund transfers are needed to lower budgetary costs and contain fiscal risks. Transfers to these entities represent a significant burden on public finances and they are a source of contingent liabilities for the central government (Box 1). At the same time, they operate key functions and deliver essential services (e.g., electricity, water, education, health). The authorities are aware that public entities face performance and governance challenges and have recently announced their intention to review and reform the sector. Reforms should focus on key areas, including: (i) review the scope and mandate of all entities and funds; (ii) enforce a stronger governance framework (e.g., creation of new entities, board appointments, business plans, performance agreements, borrowing powers); and (iii) establish clear demarcation between social, regulatory and commercial activities to strengthen accountability and efficiency.

16. As the government develops its adjustment plans, the central bank should intensify its efforts to support the peg. With high policy uncertainty, the CBS should maintain the policy rate at a positive spread with the SARB's rate to reflect risk differentials. Moreover, to support the peg, the CBS should refrain from additional budget financing and consider measures to control domestic liquidity and base money creation in case government financing expands.

Authorities' views

17. Authorities recognize that the recent expansionary fiscal policy has significantly deteriorated the macroeconomic outlook, threatening economic stability. They concur that possible revenue shortfalls and spending pressures are likely to widen the FY17/18 deficit above budget projections. They are cognizant that the current fiscal policy stance is not sustainable and, if not modified, would keep public debt on a rising path, deepen external imbalances and threaten macroeconomic stability.

18. They see limited room for action in the short term, but intend to adopt measures to contain the FY17/18 deficit within budget projections and start fiscal adjustment next year and recognized that these policies require broad consensus. They agreed that a cumulative adjustment of about 11–12 percent of GDP is needed over time to bring the public debt ratio to a sustainable path, and eventually below their policy-guiding target of 35 percent of GDP. They noticed that with the fiscal year almost half way, room for immediate adjustment is limited but

Box 1. Extra-Budgetary Public Entities and Funds in Swaziland

Extra-budgetary public entities (PEs) and other funds play important roles in key sectors of the economy. There are 67 PEs (5 financial entities), and several extra-budgetary funds. PEs are in large part fully controlled by the government and perform a wide range of activities, including social, development, regulatory and commercial functions. Commercial PEs (about 12 entities) operate in key services and network industries, often in monopoly positions, such as electricity (Swaziland Electricity Company), water (Water Services Corporation), telecommunications (Posts and Telecommunications Corporation), and transport (Swaziland Railways), and under special rules. PEs are also critical for employment, and employ a work force of about a fifth of central government's civil servants (May 2017).

The financial performance of the largest PEs varies widely. With few exceptions, in 2016 non-financial commercial PEs typically reported operational surpluses, but some companies had high leverage ratios (e.g., Electricity, Water, and Maize corporations, Housing Board). By contrast, most non-commercial entities recorded operational deficits even after government's transfers, and some reported high leverage ratios (e.g., Revenue Authority, Nazarene hospital).

Swaziland. Profitability, Leverage, and Transfers of Main PEs

Commercial PEs	Return on Asset	Debt to Asset	Transfers (E. mil.)
Water Services Corporation	1.4	76.7	..
National Maize Corporation	14.0	59.6	..
Swaziland Electricity Company	3.1	53.2	..
National Housing Board	18.8	127.9	..
Posts and Telecommunications Corporation	5.1	37.2	..
Non-commercial PEs	**Net Income (after**	**Debt**	**Transfers**
	(in millions emalangeni)		
Swaziland Revenue Authority	4.4	620	356
University of Swaziland	-51.6	68	323
Agricultural Development Enterprise	1.5	302	136
Nazarene Health Institution	-16.8	373	131
HIV Response Council	0.0	98	43

Sources: Authorities and staff estimates.

Extra-budgetary entities and funds represent a significant burden on public finances and a source of fiscal risks. The main fiscal costs are associated with annual budget transfers. In FY16/17, transfers amounted to 6.9 percent of GDP (2.9 percent of GDP to PEs, 3.9 percent of GDP to other funds),[1] with six PEs and funds accounting for about 45 percent of total transfers, including sovereign funds, the national treasury, revenue authority, agricultural development enterprise, and Swazi university. These entities and funds are also a source of fiscal risks. While no comprehensive information is available on government's contingent liabilities, preliminary evidence suggests that central government's loan guarantees to non-financial PEs exceed 2 percent of GDP, their gross debt is about 10 percent of GDP (possibly including claim by the central government), and have recently been accumulating large tax and payment arrears. Moreover, several entities incur indirect fiscal costs related to implicit subsidies for social and developmental activities.

Authorities are aware that PEs face financial and governance challenges, and rising transfers, and are considering possible reforms. In addition to fiscal costs and contingent liabilities, governance of PEs remains poor. The scope and mandate of several entities are not adequately defined and new entities can be created with limited controls. There are no uniform rules for the appointment of professional board members, remunerations, preparation and enforcement of management performance agreements, and binding limitations on borrowing powers. Moreover, there is no clear demarcation between social, developmental and commercial activities, with several entities operating in monopoly positions and under special rules, preventing private investment in key sectors of the economy. Recognizing the role and problems of PEs, the authorities intend to review and reform the sector. Specifically, they are focusing their attention on regulating the creation of new PEs and introducing professional requirements for management and performance contracts.

[1] Due to data limitation, the breakdown of transfers is in part estimated.

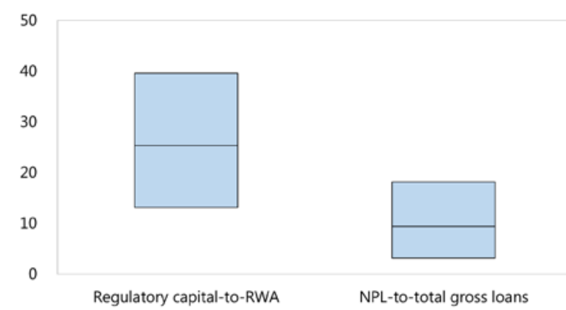
intend to review options and adopt measures to contain this year deficit within the budget limit of 8.2 percent of GDP. To this purpose, they are preparing a cabinet paper identifying possible measures for cabinet consideration. They agreed that adjustment should be phased over time and affirmed their commitment to start fiscal consolidation with next year budget, broadly in line with staff adjustment scenario.

19. Authorities also noticed that fiscal adjustment should be based on a combination of spending and revenue measures that can boost long-term growth. In this respect, they intend to adopt measures to contain wage bill dynamics, strengthen the selection process to prioritize capital spending, and reform public entities. However, they noticed that in absence of a medium-term budget framework and with the upcoming 2018 parliamentary elections, they cannot build adequate consensus to develop a fully-fledged three-year adjustment strategy. In this context, the CBS concurred that the policy rate should be maintained in line with the SARB's rate, possibly with a positive spread to reflect risk differentials. The CBS also ruled out any budget financing above current legal limits and agreed to implement measures to manage domestic liquidity and contain inflationary pressures.

B. Managing Risks in the Financial Sector

20. Swaziland has a relatively large and growing financial sector dominated by non-bank financial institutions. The banking system (assets about 34 percent of GDP) is on average well capitalized and profitable. Credit quality is good, although NPL have been recently rising (Table 6). However, disparities exist across banks in terms of capitalization and asset quality. Swaziland has also large NBFIs (gross assets about 119 percent of GDP), dominated by pension and asset management companies. Significant foreign ownership and inter-

Banks' Capitalization and Asset Quality, 2016
(In percent)



Note: Top and bottom boundaries of the box indicate the maximum and minimum of each indicator, and the middle line the average.
Source: Central Bank of Swaziland.

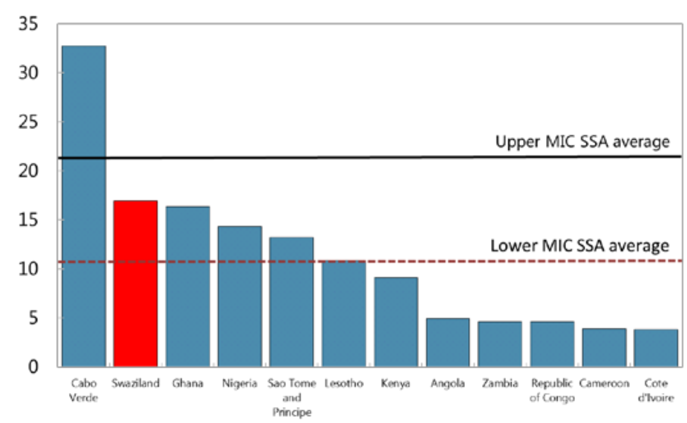
institutional linkages add a layer of complexity to the financial system and its supervision. In addition, both banks and NBFIs are closely linked to the public sector, together holding about 95 percent of government-issued securities. With the sector growing, financial inclusion has improved and is comparable to other middle income countries (Figure 5).

21. As the financial sector expands, specific sources of risks, with potentially large effects on the economy, are gaining prominence.

- *Linkages between financial sector and government.* With a weak fiscal position, the large holdings of government securities by domestic financial institutions and banks' indirect exposure to government (via domestic arrears) raise financial stability concerns. Balance sheet analysis suggests that maturity mismatches in the government's balance sheet can be a source of major shocks to banks. Stress tests indicate that the banking sector is on average robust to substantial increases in NPL with some differences across banks (see below). However, with government securities amounting to about 80 percent of banks' capital, even partial failures to fully servicing public debt would severely affect banks' capital coverage, prompting banks to deleverage, thus amplifying the negative impact on the economy.[14]

- *Banking sector's vulnerabilities***.** Extensive reliance on wholesale deposits, and highly concentrated loan books point to potential vulnerabilities in the banking sector. Stress tests suggest that while the banking sector can on average withstand significant increases in NPL (e.g., linked to domestic arrears), some banks could face difficulties in complying with capital requirements and would need to take actions, including deleveraging, with negative impact on bank credit and growth.[15] Banks are also exposed to liquidity risks as most of their liquidity is concentrated in non-marketable government securities. While small, exposure concentration and rising NPLs of saving and credit cooperatives (SACCOs) and

Credit to Households in Lower-Middle Income sub-Saharan African countries, 2016 (Percent of GDP)



Sources: IMF MFS, CBS, FSRA, and IMF staff estimates.

[14] Based on Selected Issues Paper on "The Economic Impact of Fiscal Vulnerabilities: A Balance Sheet Approach."

[15] Stress test analysis is based on banks' balance sheets as of end-2016. NPLs are assumed to increase by the amount of government's domestic arrears as of March 2017, equivalent to about 20 percent of banks' loans to the domestic private sector. Interest and currency risks appear on average limited.

building societies may be a source of risks against to relatively high household indebtedness, compared to other African middle income countries.[16]

- *Financial stability risks from NBFIs.* Some NBFIs are systemically large and closely linked to banks and the public sector. They provide about a tenth of banks' deposits and hold 40 percent of government-issued securities. Moreover, some of the largest NBFIs have large external exposures (above 25 percent of GDP in 2016). However, the legal framework for the sector is still fragmented and the Financial Services Regulatory Authority (FSRA) has yet to develop adequate regulatory and supervisory tools, raising concerns about the ability of monitoring and managing possible risks from the sector.

22. Progress in specific areas would strengthen the authorities' ability to monitor and manage the main sources of systemic risks in the financial sector:[17]

- *Improving banking supervision and regulation.* Over the past years, the CBS has been improving its supervisory capacity moving toward risk-based supervision. However, the legislation supporting the CBS' supervisory functions needs to be improved by eliminating gaps and inconsistencies. Moreover, the risk-based supervisory framework could be strengthened by applying a progressive ladder of regulatory actions (e.g., mandatory corrective actions). Over time, regulatory changes may help mitigate banks' concentration risks by, for example, increasing regulatory capital requirements and jointly syndicating large loan exposures.[18]

- *Enhancing the supervision of NBFIs.* Since its creation, the FSRA has been building up its monitoring and supervisory capacity. However, the sector needs a consistent legal framework to cover the different segments of the industry, and the FSRA should scale up its supervisory role beyond monitoring regulatory requirements, particularly for systemic NBFIs and lending entities (i.e., SACCOs, building societies, micro and development credit institutions).

- *Monitoring and managing stability risks from macro-financial linkages.* Linkages between the domestic financial sector and the government, and large NBFIs are macro critical and warrant closer scrutiny. The CBS is the institution best placed to take the lead in assessing financial stability risks and exercise a macro-prudential role for the entire sector. While a Financial Stability Unit within the CBS is operating, authorities should accelerate their plans to create a financial regulatory architecture for the sector and provide the CBS with the

[16] While relatively small, some of the micro and development credit institutions have lately seen a sharp increase in NPLs that, in some cases, exceed 20 percent of loans.

[17] Policy advice reflects recommendations from IMF technical assistance on financial stability (June 2015).

[18] The CBS is also preparing migration to Basel II regulations and the adoption of IFRS9 accounting standard by early 2018.

power and instruments to assess macro-financial risks and exercise macro-prudential controls.

- *Strengthening crisis preparedness.* For the CBS, in coordination with the FSRA and the MoF, is critical to develop crisis management and contingency planning abilities. The CBS's liquidity facilities should be strengthened by expanding emergency liquidity assistance and developing long-term liquidity lending. The recently created Financial Stability Panel should start operating to improve coordination between CBS, FSRA and the MoF, and the Financial Institution Act amended to introduce a bank resolution framework.

- *Addressing data gaps.* Authorities have been addressing data gaps, particularly for NBFIs, however, additional progress is needed. FSRA should improve data collection and eventually publish financial indicators and analyses of NBFIs. Data gaps in the real estate, household and corporate sectors and linkages across financial institutions should also be addressed to monitor risks.

Authorities' views

23. Authorities agreed with staff's risk assessment and are taking steps to better monitor and manage financial sector risks. They concurred that concentration risks on both sides of banks' balance sheets is a structural vulnerability, and that the recent deterioration in asset quality signal rising risks. They agreed that household indebtedness is relatively high, and close monitoring is required. However, they noticed that banks are well capitalized and resilient to shocks. They affirmed their intention to finalize amendments to the Central Bank Act to clarify the CBS mandate and independence, and strengthen its supervisory framework.

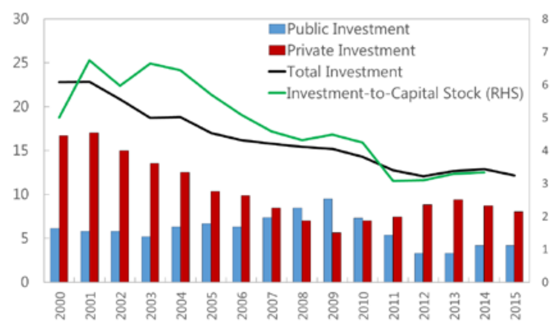
24. They are cognizant of possible risks from linkages between financial institutions and the government and from large NBFIs. They noted that maturity mismatches in the government balance sheet can be a source of risk for the financial sector and that linkages with the government have tightened. They concurred that the CBS should take a leading role in monitoring and managing macro-financial risks and conducting macroprudential policy. To this effect, they are planning to finalize a new Financial Stability Bill by end-2017. Together with several amendments to the CBS and the Financial Institution Acts, the new bill would shape a financial stability framework, provide the CBS with a leading role in managing stability risks, and introduce a bank resolution framework.

C. Supporting Growth, and Reducing Unemployment and Income Inequality

25. Structural impediments are limiting growth and keeping unemployment high, particularly among youth. Since the 2010 fiscal crisis, growth has recovered but remains below the pre-crisis level, held back by negative capital formation and low private investment. In addition, unemployment is persistently high and little responsive to the recovery (Figure 7). Compared to other countries, private investment and the elasticity of employment to growth appear constrained by structural factors, among others: (i) large skill mismatches in the labor market, particularly for higher education skills; (ii) wage dynamics exceeding productivity trends; and (iii) weaknesses in institutional and business environments, including contract enforcement and difficulties in starting businesses (Figure 8).[19]

26. The authorities' strategy of increasing public investment and providing incentives for private sector development has had limited impact, and new initiatives are planned. The recent increase in public investment has supported demand, but has failed to crowd in private investment. Compared to other middle-income countries, health and education attainments are relatively poor (Figure 8). Tax incentive and credit guarantee schemes have had limited impact on declining export diversification (IMF country report 15/353). Moreover, the land tenure and management systems constrain private investment.[20] More recently, the loss of AGOA eligibility in 2014 has reduced textile exports outside the CMA. Cognizant of these trends, authorities have recently announced new initiatives to alleviate the shortage of serviced land to start new businesses, plan to create special economic zones with investment incentives, and are completing the legislative steps to regain access to AGOA.

Declining Gross Fixed Capital Formation, 2000–2015
(Percent of GDP)



Sources: Central Statistics Office, Penn World Tables, and IMF staff estimates.

27. Reforms in selected areas could support private investment and increase the elasticity of employment to growth, delivering stronger and more inclusive growth. Structural reforms in two areas could potentially improve long-term growth and employment dynamics:[21]

- *Skill mismatches and human capital development*. Reducing skill mismatches in the labor market, especially for higher education skills, and improving education attainments appear the most promising ways to rise both private investment and employment elasticity. This requires improving access and quality of secondary and higher education. Moreover,

[19] On factors holding back growth in small middle income countries in Africa, see "The Challenges of Small Middle-Income Countries in sub-Saharan Africa", IMF 2013. The Authorities' 2011 Economic Recovery Strategy recognized the need to address several shortcomings, including: (i) shortages in the supply of human capital skills, (ii) insufficient funding for health and education, (iii) inadequate planning and high cost in public infrastructure projects, and (iv) limited access to credit.

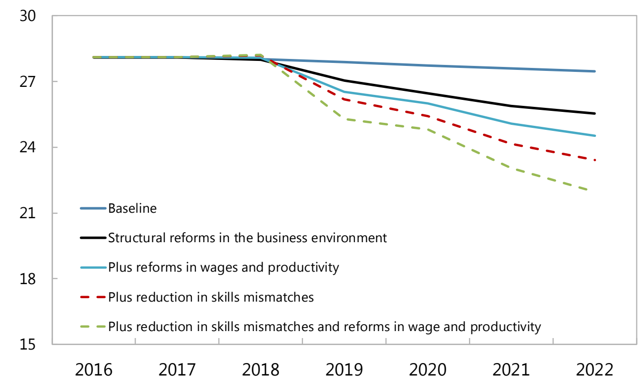
[20] Country Partnership Strategy, World Bank, 2014.

[21] Based on Selected Issues Paper on "Investment, Employment and Inclusive Growth in Swaziland." By promoting private sector development, these reforms could also potentially improve export diversification (IMF Country Report 15/354). Staff analysis of structural impediments to growth and employment relies on third party indicators that should be interpreted with caution due to limited number of respondents, cross-country differences in survey sample size, standardized assumptions and, in some cases, their perception-based nature.

reducing HIV prevalence rates could further raise employment elasticity and contribute to more inclusive growth.

- *Wage dynamics and business conditions*. Reducing the disconnect between wage and productivity dynamics (e.g., containing public wages, increasing market flexibility in wage determination) has the potential to significantly boost private investment. Moreover, simplifying business regulations (e.g., starting businesses, land management) and strengthening the institutional environment (e.g., contract enforcement, judiciary independence) would improve employment elasticity and reduce unemployment.

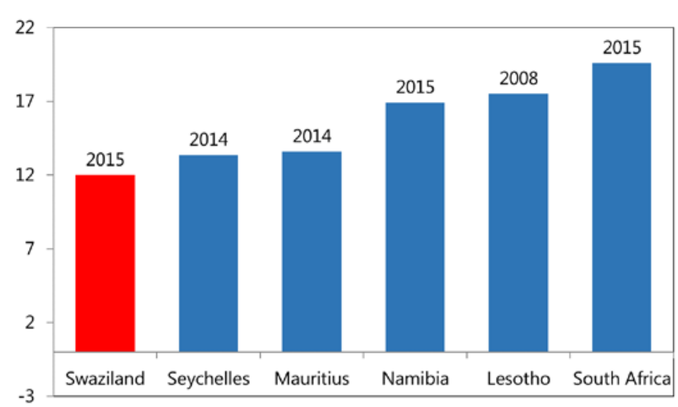
Impact of Structural Reforms on Unemployment
(Percent)



Sources: Barro-Lee, ILO, Ministry of Labor and Social Security, World Economic Forum, IMF Staff estimates.

28. Scaling up social assistance programs could make further inroads in reducing inequality and extreme poverty. Compared to other sub-Saharan middle-income countries, Swaziland allocates a relatively small share of GDP to social spending, including education, health, and direct cash transfers (i.e., old age, public assistance programs about 0.6 percent of GDP in 2016). While education and health spending contributes to reducing inequality, the impact of cash transfers on poverty is limited. Incidence analysis suggests that the impact of cash transfers on poverty could significantly improve by scaling up existing programs, now insufficient to bring people out of poverty, and by introducing means-testing methods to better reach people in extreme poverty (Box 2).

Social Spending (last year)
(Percent of GDP, upper-middle income sub-Sahara African countries)

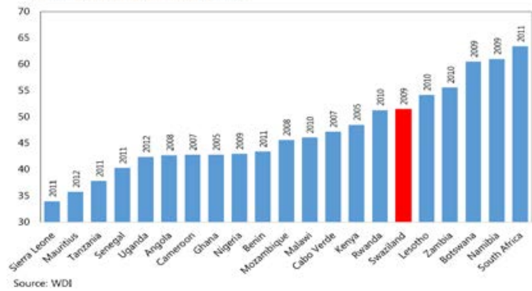


Sources: IMF Government Finance Statistics; Swaziland authorities, and staff calculations.
Note: Fiscal coverage is general government for South Africa, and central government for other countries.

Box 2. Scaling up and Improving Social Assistance Programs to Reduce Poverty[1]

Despite its middle-income status, Swaziland faces widespread poverty and high income inequality. In 2009/10, 63 percent of the population was estimated to live below the poverty line, and about 30 percent was in extreme poverty. Income inequality remains one of the highest in the world (Gini coefficient 51.5 in 2009/10, latest year available), largely reflecting high unemployment and unequal distribution of wealth.[2] Addressing poverty and income inequality remains key national priorities.

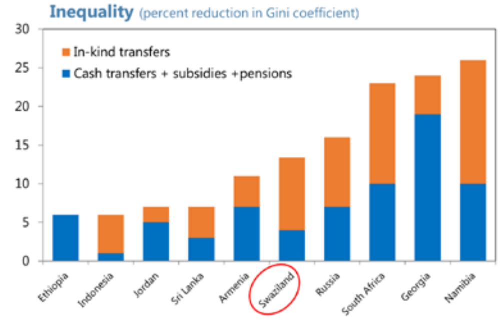
Countries with Highest Income Inequality
(latest available Gini coefficient)



Source: WDI

Government social spending programs are relatively small, and play limited role in reducing poverty and addressing income inequality. In 2015, social spending in Swaziland was about 12 percent of GDP (36 percent of total public spending), smaller than in other sub-Saharan middle income countries. Social spending programs include direct cash transfers (mainly old age grants, and transfers to disabled and vulnerable individuals; about 0.6 percent of GDP in 2015), in-kind social spending in education and health, and pensions. Incidence analysis suggests that cash transfers have limited impact and reduce extreme poverty by only 1 percentage point. Likewise, for inequality, the main cash transfer program and pensions lower inequality by only 4 percent (of Gini coefficient). Inequality is reduced by an additional 9½ percent if in-kind spending on education and health is considered. The impact of social spending on poverty and inequality is much smaller than in Namibia and South Africa.[3]

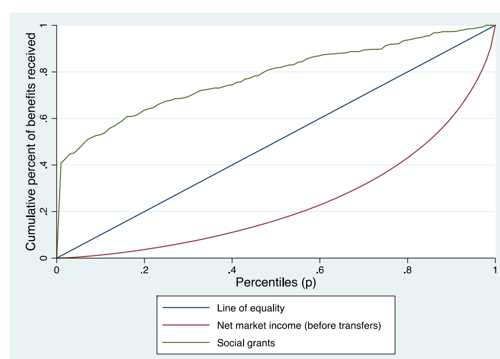
Impact of Social Programs on Reducing Income Inequality (percent reduction in Gini coefficient)



Sources: World Bank CEQ Report, and Tulane University.

The impact of social spending on poverty and income inequality could significantly improve by scaling-up cash transfers and introducing forms of means-testing. Incidence analysis suggest that social cash transfers are generally progressive, with the bottom half of the income distribution receiving nearly four-fifths of the benefits. Therefore, low benefits and delayed payments are the main cause of the limited impact of these programs on poverty (World Bank 2012). Moreover, the largest cash transfer programs are not means tested and introducing some form of means-testing targeting those in extreme poverty (mainly subsistence farmers in rural areas) would free up resources to increase the size of transfers and have more meaningful effect on recipients.[4] In addition, fiscal expenditure assessment tools suggest that Swaziland's level and efficiency of education and health spending are relatively low compared to peers (IMF 2017).[5] In this context, reviewing social spending policies could improve spending outcomes.

Progressivity of Cash Transfers: Lorenz Curve



Sources: Tulane University, Commitment for Equity

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[1] The analysis relies on the Commitment to Equity assessment model developed at Tulane University. For Swaziland, the analysis is conducted in collaboration with N. Lustig and J. Jellema (Tulane University). Analysis uses data from the 2009/10 Household Income and Expenditure survey and real social spending for the same period. Since then, social programs and total social spending (as a share of GDP) have not significantly changed.

[2] Freedom House, "The Deformed Economy and its Consequences for Swazi People," online.

[3] IMF Country Report 16/373.

[4] World Bank (2012) "Swaziland: Using Public Transfers to Reduce Extreme Poverty".

[5] IMF (2017) Expenditure Assessment Tool (EAT), Technical Notes and Manuals.

Authorities' views

29. Authorities reaffirmed their commitment to adopt policies that support long-term growth and reduce extreme poverty and income inequality. They are strengthening technical vocational programs to facilitate the acquisition of market relevant skills, and have recently established a higher education council to improve the performance of higher education institutions. Authorities argued that public investment, particularly in infrastructure, is critical to support growth and expect the creation of special economic zones to positively affect private investment and job creation. To reduce extreme poverty, in early 2017 authorities started increasing cash transfers to elderly and disadvantaged people.

STAFF APPRAISAL

30. Since 2011, Swaziland has experienced macroeconomic stability, but economic conditions are rapidly deteriorating and poverty and income inequality remain high. A rebound in SACU revenue, expansionary policies and the peg to the South African rand have contributed to preserve macroeconomic stability and support growth. However, economic conditions have recently deteriorated. A prolonged drought and a sharp decline in SACU revenue have severely hit the economy, and an expansionary fiscal policy has worsened fiscal and external imbalances. Public debt is rising fast and domestic arrears accumulating, the current account has deteriorated and international reserves coverage is below adequate levels. At the same time, linkages between domestic financial institutions and the government have tightened, raising macro-financial concerns. In addition, structural impediments have kept growth relatively low and unemployment high, contributing to persistently elevated poverty and income inequality.

31. Swaziland faces a fragile outlook and formidable policy challenges, with risks firmly tilted to the downside. Real GDP is expected to grow little in 2017 and turn negative thereafter as weakening fiscal and external positions weigh on the outlook. With no policy action, the fiscal deficit would remain large, government's liquidity problems deepen and international reserves decline, possibly putting at risk the sustainability of the peg to the South African rand. Downside risks dominate the outlook and stem from further tightening in budget financing, deteriorating banks' asset quality, and lower SACU revenue and demand for key exports. Current policy challenges are similar to those the country successfully addressed in 2011. Swaziland's key challenge is to preserve macroeconomic stability through significant fiscal adjustment, manage rising risks from the financial sector, while generating sufficient growth and jobs to reduce poverty and income inequality.

32. The 2017 budget continues past policy of large deficit, but significant fiscal adjustment is needed to ensure macroeconomic stability and debt sustainability. Staff assesses that a cumulative 11–12 percent of GDP in measures is needed, starting in the current fiscal year, to bring public debt on a declining path and restore external buffers. While ambitious, the size of adjustment is similar to the correction planned during the 2010 fiscal crisis; as in 2010, implementation requires broad political consensus. The adjustment should be carefully designed to support long-term development. It needs to be spread over three years, requiring additional budget financing, and be based on a combination of revenue and expenditure measures that can support long-term growth. Measures should include containing the public wage bill, prioritizing capital outlays, reducing transfers to extra-budgetary entities, as well as boosting consumption tax revenues and reducing tax incentives and exemptions. Fiscal structural reforms to improve budget formulation and expenditure controls, and the governance of extra-budgetary entities is critical to implement credible consolidation plans.

33. Fiscal adjustment will also help preserve external balance and facilitate monetary policy management in the context of the peg with the South African rand. Together with stabilized SACU revenues, fiscal adjustment would maintain the external position broadly in line with fundamentals and desirable policies and contribute to build adequate levels of international reserves, releasing pressures on the CBS. In this respect, the CBS should maintain the policy rate at a positive spread with the SARB's rate to reflect risk differentials, and refrain from additional budget financing.

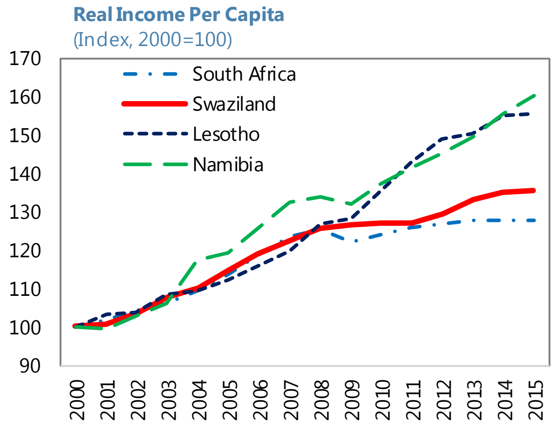
34. Risks from banks' vulnerabilities, links between the government and the financial sector, and large non-bank financial institutions should be carefully monitored and managed. Staff welcomed authorities' plans to amend the CBS Act to bolster the central bank mandate and independence and strengthen its supervisory framework. As links between government and domestic financial institutions, and systemically large NBFIs are macro critical, authorities should monitor and manage possible macro-financial and financial stability risks. In this respect, they should accelerate their plans to create a financial regulatory framework for the sector and provide the CBS with powers and tools to assess financial stability risks and exert macro-prudential controls, while enhancing the ability of the FSRA to deploy adequate regulatory and supervisory tools.

35. Selected structural reforms and expanded cash transfers could contribute to deliver stronger and more inclusive growth. Structural reforms should focus on the areas with the highest potential to boost private investment and deliver more inclusive growth, including reducing skill mismatches in the labor market (e.g., improving access and quality of higher education), aligning wage and productivity dynamics (e.g., containing public sector wages, increasing market flexibility in wage determination), and simplifying business regulation and improving the institutional environment (e.g., starting businesses, protecting property rights, judicial independence). Staff support the recent increase in cash assistance programs and suggest that further scaling up and better targeting could help to further reduce extreme poverty.

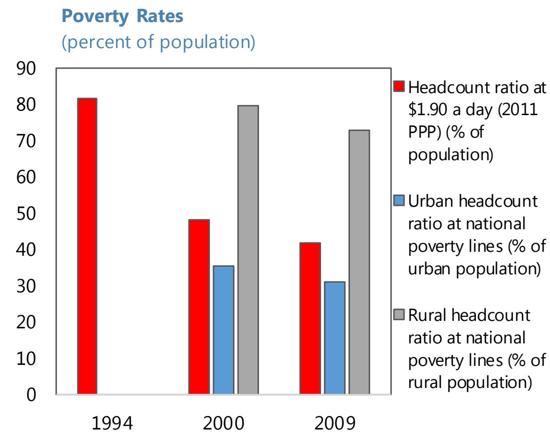
36. It is proposed that the next article IV consultation with Swaziland be held on the standard 12-month cycle.

Figure 1. Swaziland: High Poverty and Inequality, and Persistent Unemployment

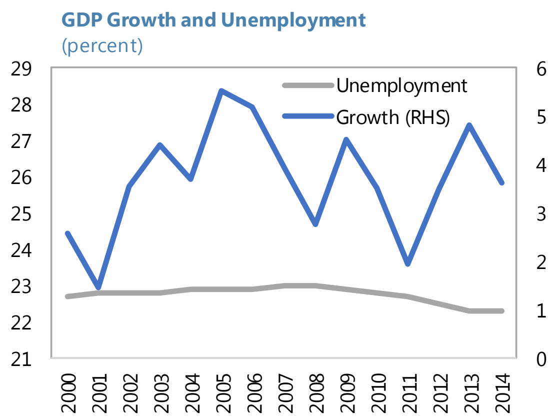
Over the past decades, per capita income has improved less than in other SACU countries …



…and poverty remains widespread especially in rural areas.

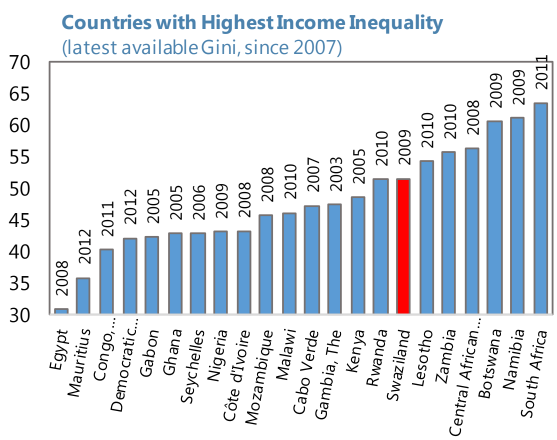


Unemployment is persistently high, particularly for youth…

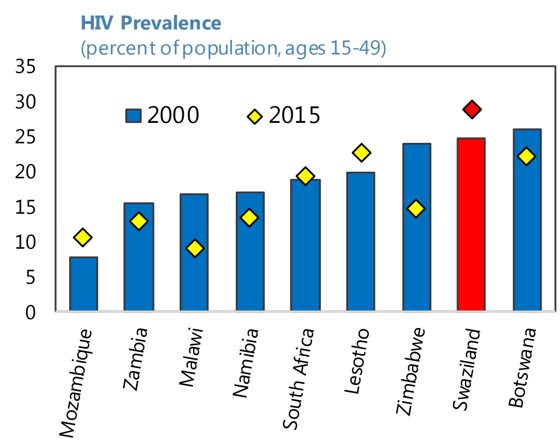


…contributing to limited progress, in the last decade, in reducing income inequality…

.. which remains one of the highest in the world ….



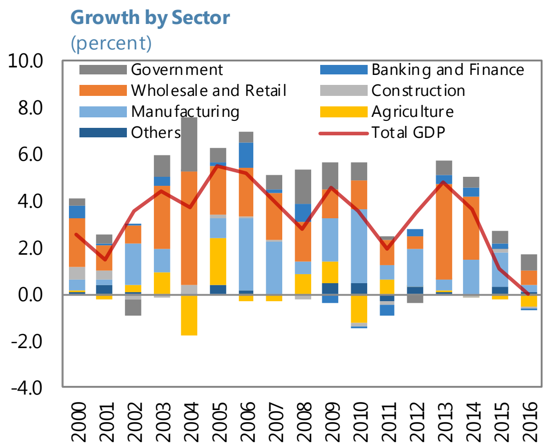
… as is the HIV prevalence rate.



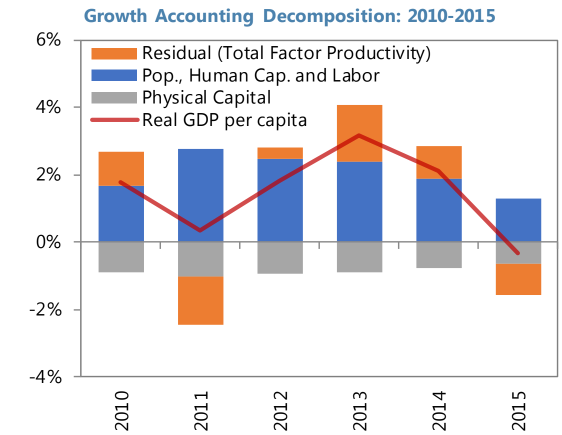
Sources: Central Statistical Office, World Bank WDI, and IMF staff calculations.

Figure 2. Swaziland: Sluggish Growth, Rising Inflation and Monetary Policy

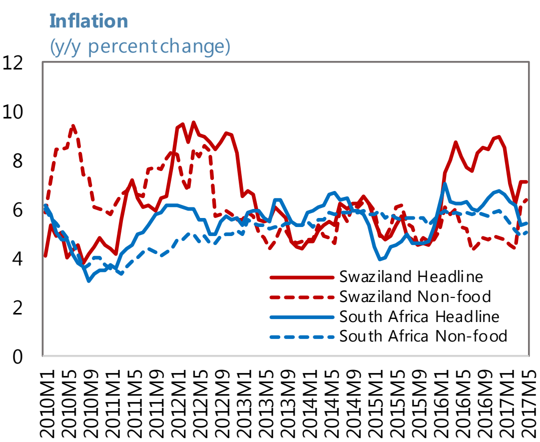
Real GDP growth has recently been on a declining path…



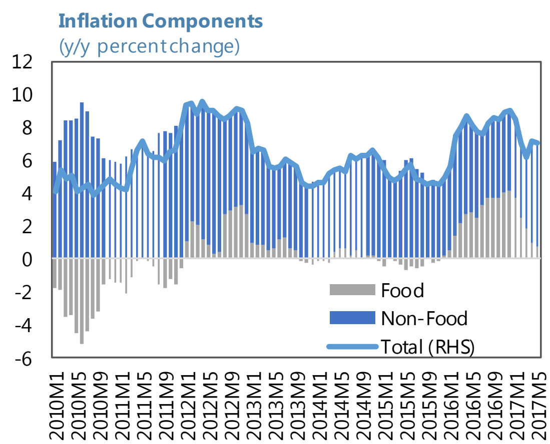
… held back by negative growth in physical capital and limited improvements in total factor productivity.



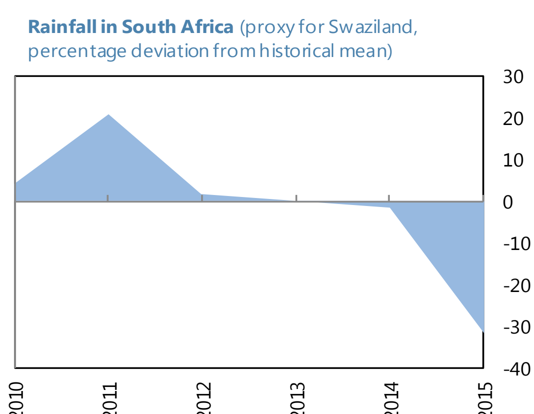
Inflation has been rising since late 2015 …



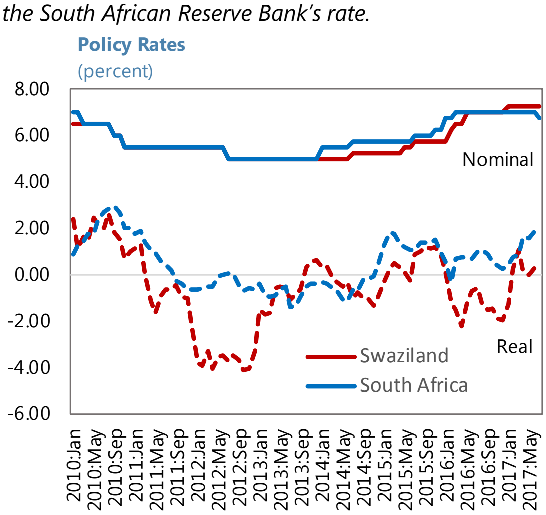
… led by increasing food prices, that have recently started declining …



… after a prolonged drought.



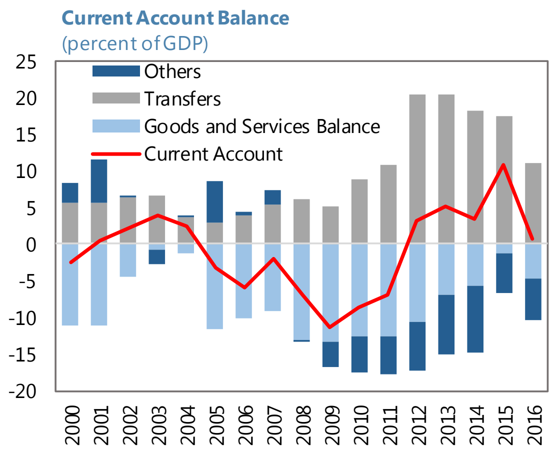
The CBS has increased its policy rate, which is now above the South African Reserve Bank's rate.



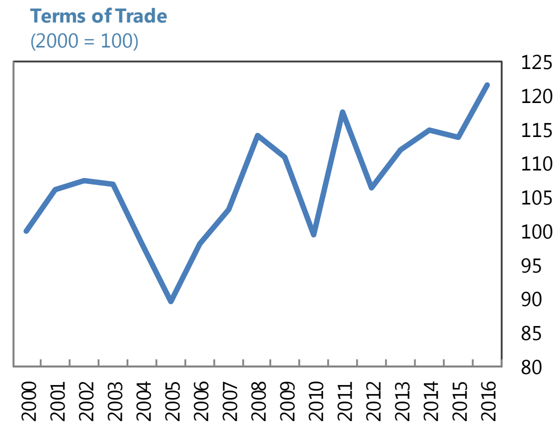
Sources: Central Statistical Office, Central Bank of Swaziland, South African Reserve Bank,World Bank, IMF staff.

Figure 3. Swaziland: Declining External Buffers

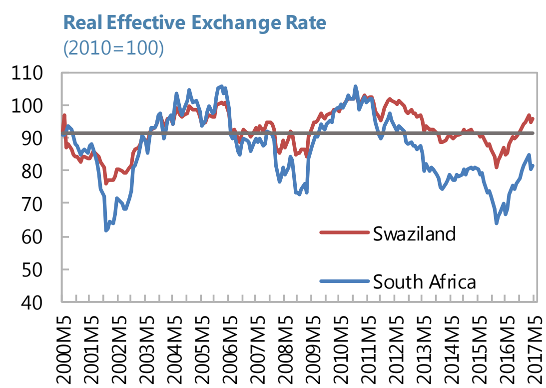
Structural trade deficit in goods and service and low SACU revenue have recently deteriorated the current account balance...



... despite improving terms of trade ...

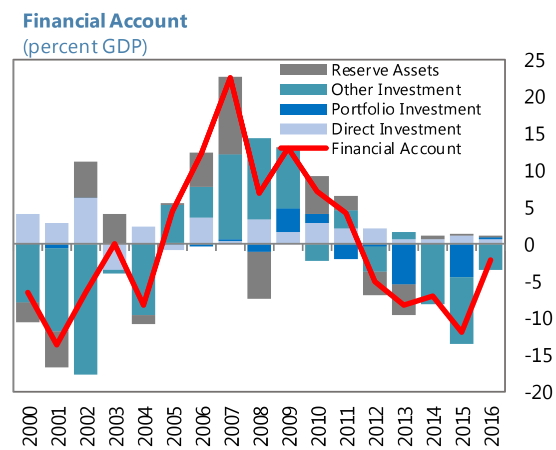


... and REER depreciation in 2016.

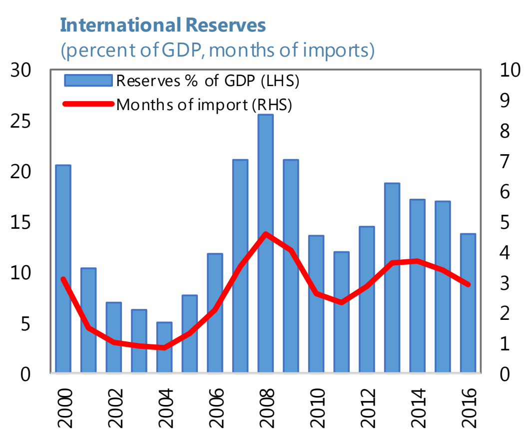


Note: Line represents average Swaziland REER 1995M1-2017M5

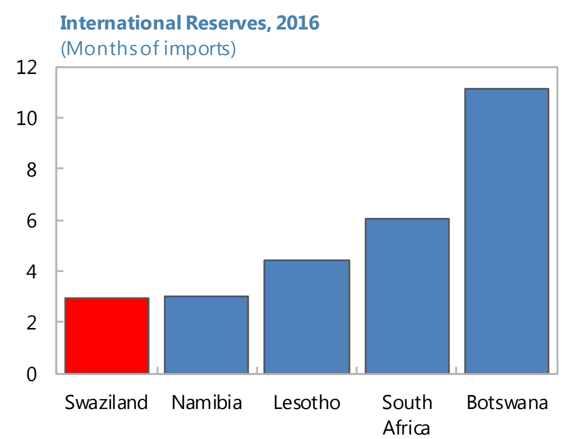
Non-FDI financial flows have remained negative since the 2011 fiscal crisis ...



... contributing to declining international reserves ...



... which have reached one of the lowest levels among Common Monetary Area (CMA) member countries.

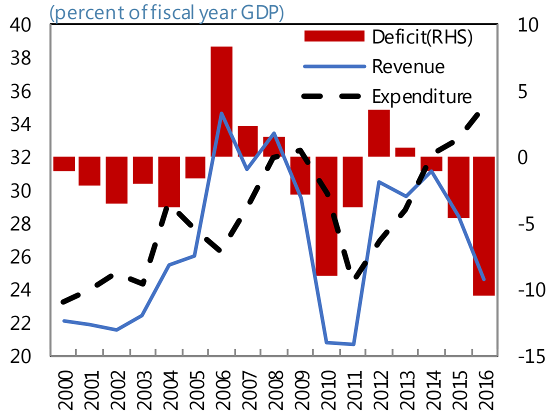


Sources: Central Bank of Swaziland, IMF staff calculations.

Figure 4. Swaziland: Rising Fiscal Imbalances

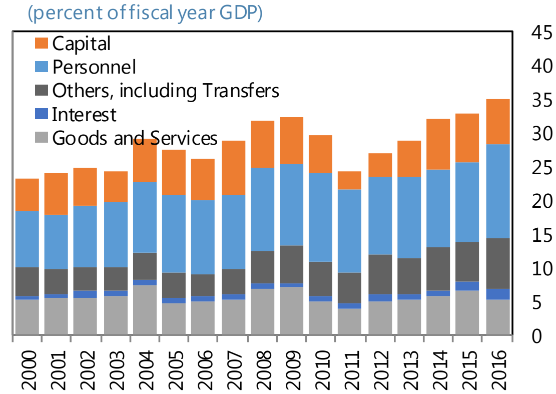
The fiscal deficit is widening as expenditures rise …

Budget Deficit
(percent of fiscal year GDP)



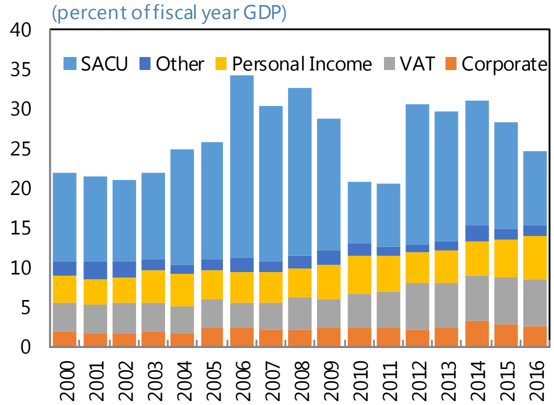
…led by increases in personnel and capital spending….

Expenditure Breakdown
(percent of fiscal year GDP)



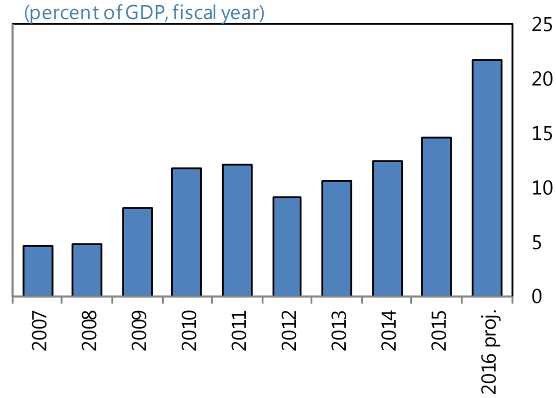
… and revenue decline following low SACU proceeds.

Revenue Sources
(percent of fiscal year GDP)



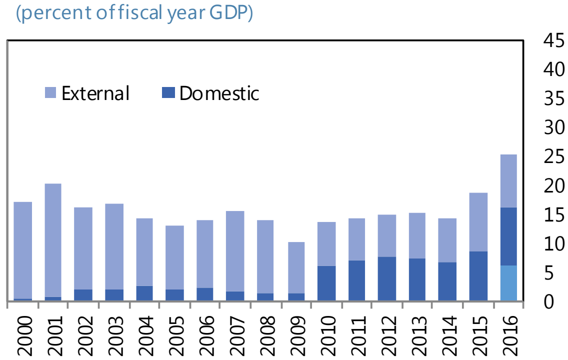
Government's gross financing needs have reached unsustainable levels …

Gross Financing Needs
(percent of GDP, fiscal year)



… and domestic arrears accumulation has led to a sharp increase in public debt …

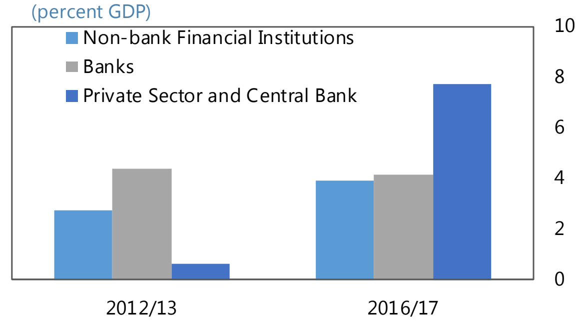
Government Debt
(percent of fiscal year GDP)



Note: Light blue area in 2016 represents stock of arrears.

… while domestic financial institutions' holdings of government securities and CBS exposure have risen.

Holding of Government Domestic Debt
(percent GDP)

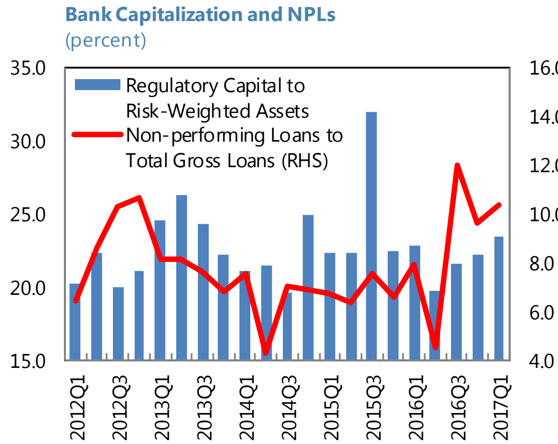


Estimated amount of domestic arrears (4.6% of GDP as of March 2017) in included as debt held by the private sector and the Central Bank.

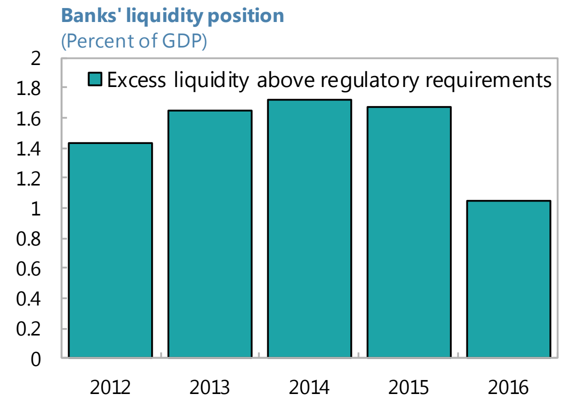
Sources: Ministry of Finance, Swaziland Revenue Authority, Central Bank of Swaziland, IMF staff calculations.

Figure 5. Swaziland: Expanding Banking Sector and Improved Financial Inclusion

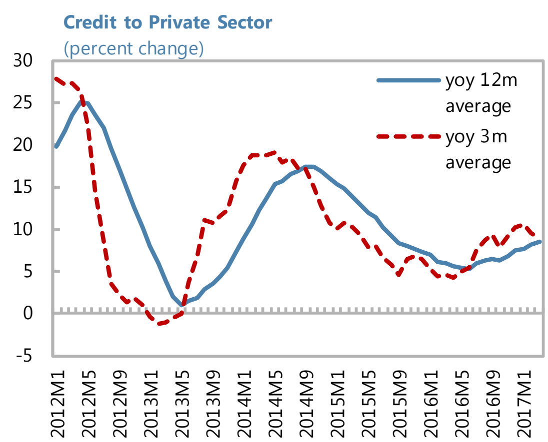
Banks are well capitalized, but asset quality has recently deteriorated …



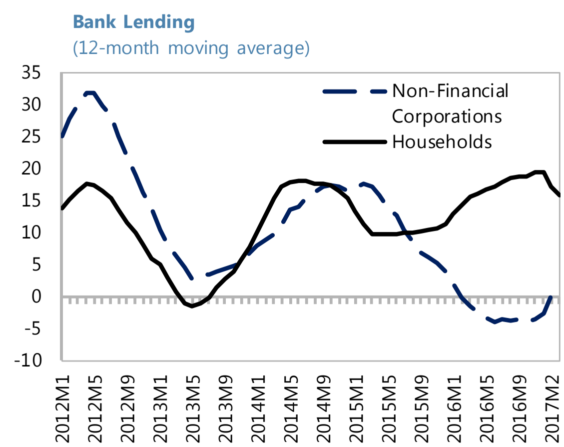
… and liquidity buffers have declined.



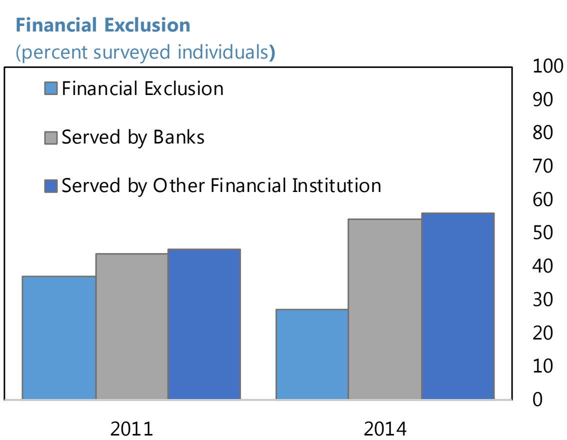
Credit growth is on a declining trend …



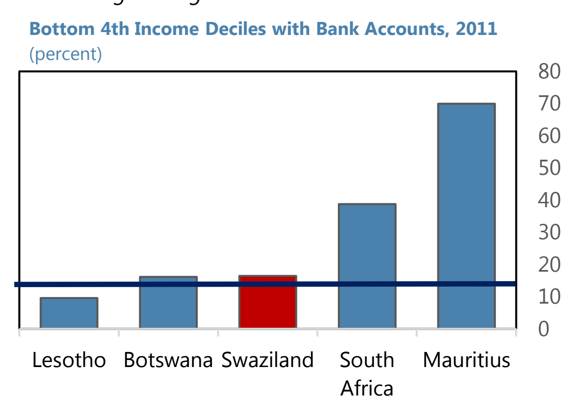
… driven by negative corporate lending growth, while mortgages to individuals remain buoyant.



Financial inclusion has improved …



… and access to bank services by low income individuals is close to neighboring countries.



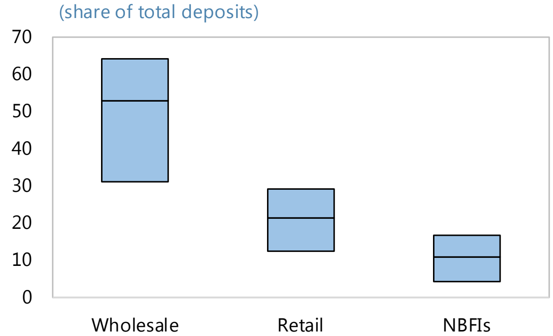
Note: Horizontal line represents average for lower middle income countries.

Sources: Central Bank of Swaziland, IMF FSI, FinScope, and IMF Financial Access Survey.

Figure 6. Swaziland: Macrofinancial Risks Building Up

Banks' funding is highly dependent on wholesale deposits, including from non-bank financial institutions.

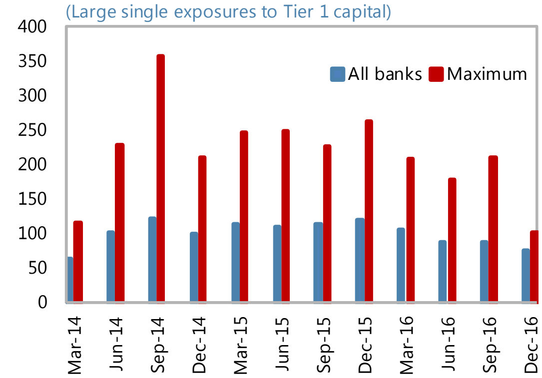
Deposit Concentration Across Banks, 2015
(share of total deposits)



Note: Middle lines indicate averages and top and bottom boundaries of boxes indicate maximum and minimum of each indicator.

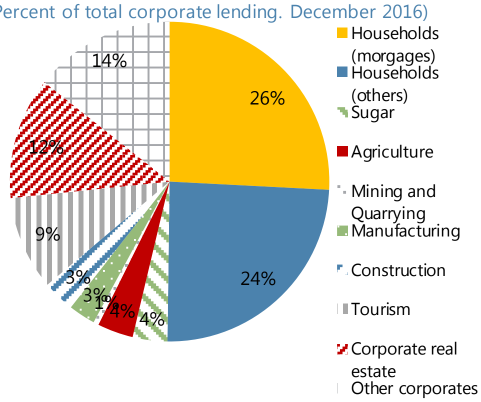
Banks' loan books are highly concentrated …

Concentration of Bank Loans
(Large single exposures to Tier 1 capital)



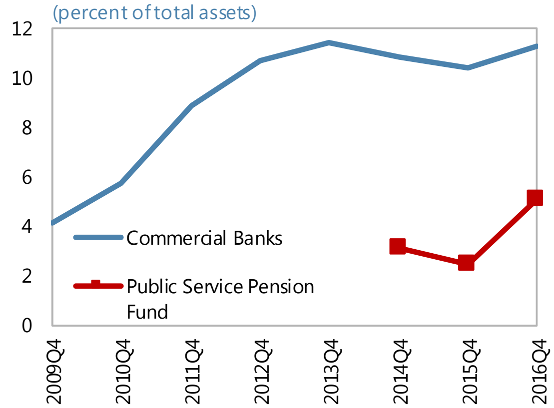
… with large exposures to the sugar industry and individual mortgages.

Composition of Banks' Corporate Loans
(Percent of total corporate lending. December 2016)



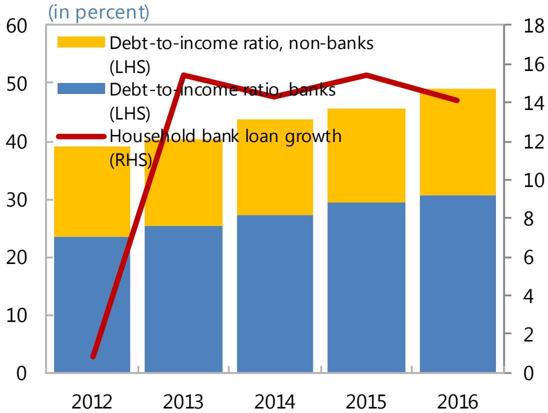
Domestic financial institutions' exposures to the government has increased.

Exposures to Government
(percent of total assets)



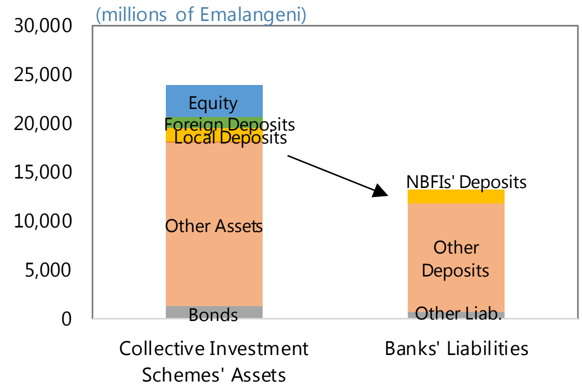
Household banking indebtedness is rising.

Household debt
(in percent)



NBFIs, through asset managers, hold large foreign exposures, and account for a sizable share of banks' deposits.

Linkages Between Investment Funds and Banks, 2016
(millions of Emalangeni)

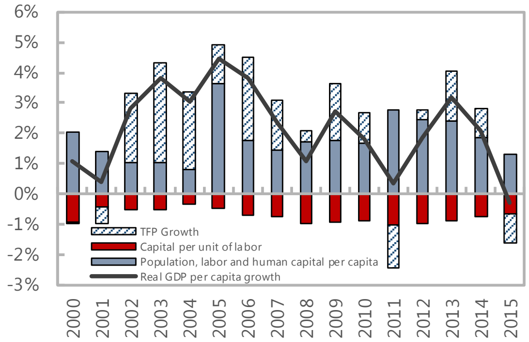


Sources: Central Bank of Swaziland, FSRA, and IMF staff estimates.

Figure 7. Swaziland: Low Growth, and Employment and Unemployment Little Responsive to Growth

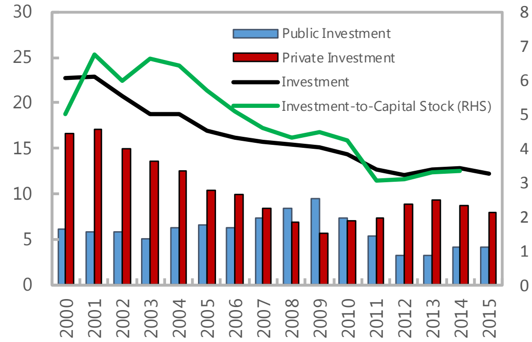
Growth is held back by negative capital accumulation per unit of labor …

Real GDP Per Capita Growth
(Growth decomposition)



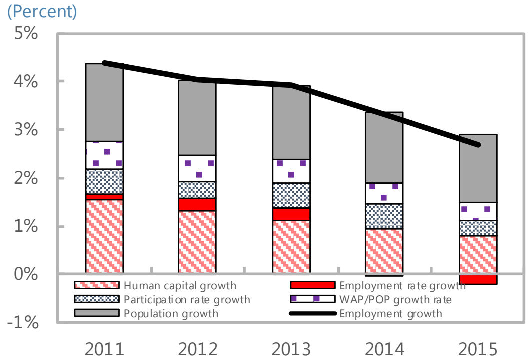
… and low private investment.

Gross Fixed Capital Formation, 2000-2015
(Percent of GDP)



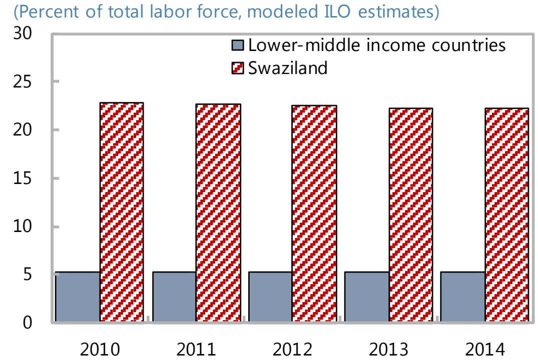
Declining growth in human capital contributes to poor growth.

Components of Employment Growth
(Percent)



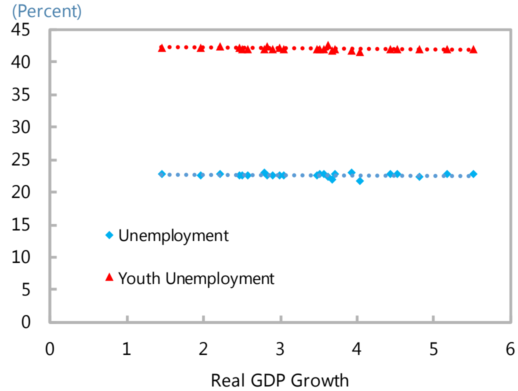
Unemployment remains persistently high …

Unemployment Rate
(Percent of total labor force, modeled ILO estimates)



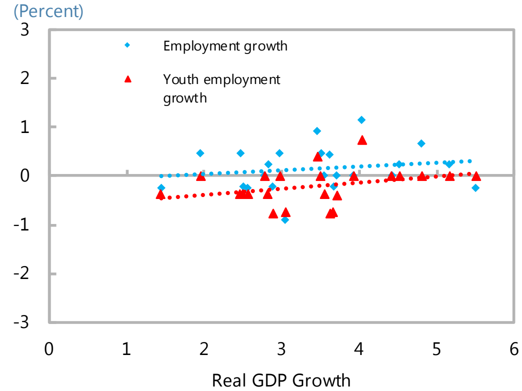
… and little correlated with GDP growth.

Unemployment Rate and GDP Growth, 1991-2014
(Percent)



Employment growth rates are also little responsive to growth.

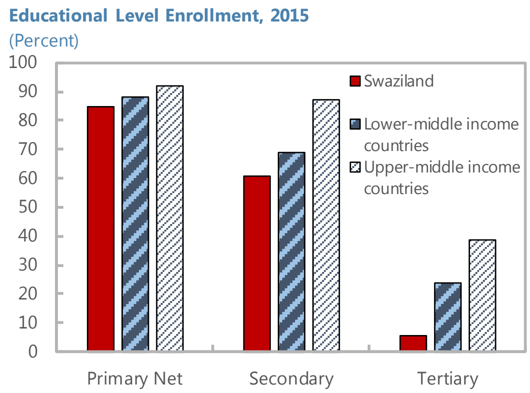
Employment Growth and GDP Growth, 1992-2014
(Percent)



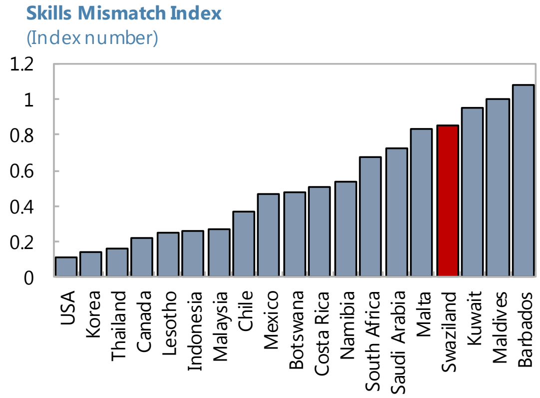
Sources: ILO, World Bank, and IMF staff estimates.

Figure 8. Swaziland: Structural Impediments Limiting Growth and Employment

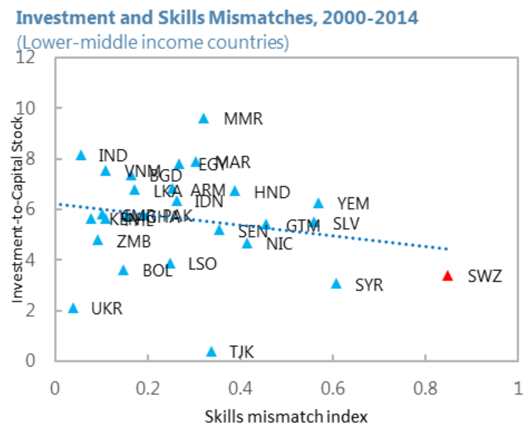
Secondary and tertiary education enrollment is low relative to other middle income countries …



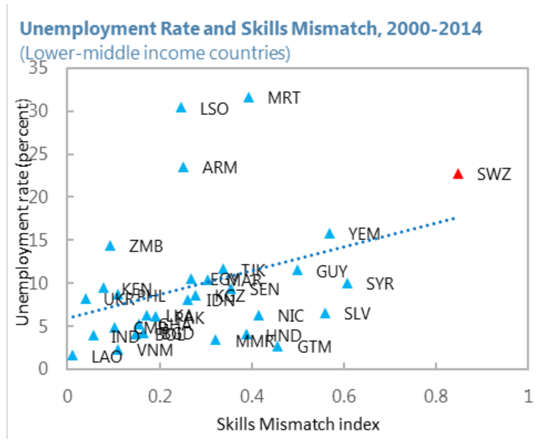
… leading to one of the highest skill mismatches in the labor market.



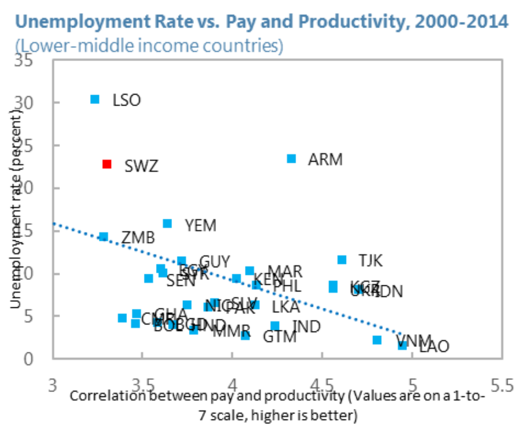
High skill mismatches are associated with lower investment …



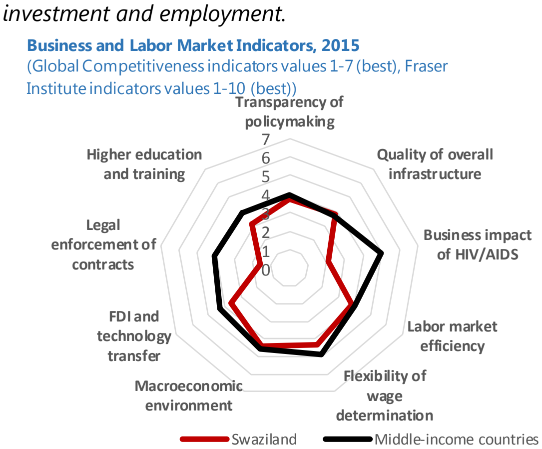
… and higher unemployment …



… while disconnection between wage and productivity is also keeping unemployment high.



Weaknesses in business conditions further constrain investment and employment.



Sources: World Bank, World Economic Forum, Fraser Institute, and IMF staff estimates.

Table 1. Swaziland: Selected Economic Indicators, 2013–22

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
			Est.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percentage changes; unless otherwise indicated)									
National account and prices										
GDP at constant prices	4.8	3.6	1.1	0.0	0.3	-0.9	0.1	1.3	1.9	2.2
GDP deflator	4.3	5.5	6.3	11.2	5.4	4.8	4.6	4.6	4.8	4.5
GDP at market prices (Emalangeni billions)	42.7	46.6	50.1	55.7	58.8	61.1	64.0	67.8	72.4	77.4
GDP at market prices (US dollar billions)	4.4	4.3	3.9	3.8	4.0	4.0	4.1	4.1	4.3	4.4
Consumer prices (average)	5.6	5.7	5.0	8.0	7.0	5.4	5.4	5.5	5.5	5.5
External sector										
Average exchange rate (local currency per US$)	9.7	10.8	12.8	14.7	…	…	…	…	…	…
Nominal exchange rate change (– = depreciation)	7.3	5.4	2.7	6.2	…	…	…	…	…	…
Real effective exchange rate (– = depreciation) [1]	6.0	4.0	0.8	2.5	…	…	…	…	…	…
Terms of trade (deterioration -)	6.1	4.2	-0.9	9.7	-6.3	4.6	0.0	1.7	1.3	2.0
Gross international reserves										
(months of imports)	3.7	3.7	3.4	2.9	2.7	3.2	4.1	4.5	4.6	4.8
(percent of GDP)	18.9	17.1	17.0	13.9	12.5	14.5	19.1	21.1	21.9	22.6
(percent of reserve money)	423	424	392	268	235	241	278	309	325	341
Gross reserves minus reserve money										
(percent of deposits)	57.4	55.0	50.1	30.1	24.4	26.4	34.3	40.0	42.3	44.7
Money and credit										
Domestic credit to the private sector	20.2	9.8	4.2	11.6	11.4	5.9	6.1	6.5	7.1	7.2
Reserve money	6.0	-0.8	15.4	32.3	9.1	17.1	17.2	6.0	6.4	6.4
M2	15.9	3.9	13.6	26.4	7.2	17.1	17.2	6.0	6.4	6.4
Interest rate (percent) [2]	5.0	5.0	5.3	5.8	…	…	…	…	…	…
	(Percent of GDP)									
National accounts										
Gross capital formation	12.7	12.9	12.2	12.1	12.2	12.6	13.2	13.1	12.8	12.4
Government	3.3	4.2	4.1	4.0	4.3	4.3	4.1	4.0	4.0	4.0
Private	9.4	8.7	8.1	8.1	7.9	8.3	9.1	9.2	8.8	8.5
National savings	13.7	11.6	23.0	12.8	11.1	12.9	14.9	14.8	13.9	13.7
Government	6.8	7.8	4.4	-1.4	-0.2	2.6	5.1	6.2	6.3	6.2
Private	7.0	3.8	18.6	14.2	11.3	10.3	9.8	8.6	7.6	7.5
External sector										
Current account balance										
(including official transfers)	5.3	3.3	10.8	0.7	-1.1	0.2	1.7	1.7	1.1	1.3
(excluding official transfers)	-13.2	-13.5	-4.7	-9.0	-11.8	-11.0	-9.8	-9.9	-10.6	-10.5
External public debt	7.7	7.6	9.4	9.3	11.4	13.6	15.1	16.2	17.0	17.4
Central government fiscal operations [3]										
Overall balance	0.8	-1.1	-4.6	-10.5	-8.2	-5.1	-1.9	-0.9	-1.4	-1.4
Total revenue and grants	29.6	31.1	28.4	24.6	26.9	26.9	27.2	27.5	27.6	27.8
Total expenditure	28.8	32.2	33.0	35.1	35.1	32.0	29.1	28.4	29.0	29.2
Public debt, gross	15.3	14.3	18.7	25.3	31.3	35.4	36.3	34.5	34.1	33.8
Public debt, net	4.1	3.5	9.9	17.7	25.7	30.1	30.9	30.4	30.2	30.0
Memorandum item:										
Population (in million)	1.1	1.1	1.1	1.1	1.1	1.2	1.2	1.2	1.2	1.2

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

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

[2] 12-month time deposit rate.

[3] Fiscal year data (fiscal years run from April 1 to March 31).

Table 2. Swaziland: Fiscal Operations of the Central Government, 2013/14–2022/23
(Emalangeni millions)

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
			Est.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue	12,910	14,773	14,621	13,883	15,978	16,607	17,652	18,956	20,347	21,843
Tax revenue	12,433	13,803	13,925	13,186	15,315	15,856	16,885	18,104	19,438	20,872
Taxes on income, profits, and capital ga	2,809	3,533	3,825	4,547	4,688	4,893	5,157	5,498	5,872	6,273
of which: Corporate income tax	1,041	1,483	1,372	1,498	1,466	1,526	1,602	1,702	1,817	1,941
of which: Personal income tax	1,766	2,049	2,452	3,049	3,222	3,368	3,554	3,797	4,055	4,331
Taxes on property	17	29	34	43	48	50	52	56	59	63
Taxes on international trade and transac	7,154	7,487	6,931	5,252	7,109	7,312	7,893	8,525	9,207	9,943
of which: SACU receipts	7,154	7,487	6,931	5,252	7,109	7,312	7,893	8,525	9,207	9,943
Domestic taxes on goods and services	2,432	2,738	3,135	3,341	3,419	3,550	3,730	3,969	4,239	4,528
Other taxes	20	12	0	0	50	50	53	56	60	64
Non-tax revenue	282	192	367	197	237	320	336	357	382	408
Grants	196	778	329	500	426	430	431	494	528	564
Project grants	196	778	329	500	426	430	431	494	528	564
Expense	10,218	11,694	13,273	15,991	17,191	18,505	20,120	21,695	23,324	25,091
Compensation of employees	5,231	5,487	6,090	7,777	8,941	9,585	10,445	11,343	12,354	13,455
Purchases or use of goods & services	2,357	2,770	3,470	3,070	3,009	3,159	3,339	3,518	3,786	4,025
Interest	344	452	634	871	1,440	1,770	2,117	2,321	2,376	2,505
of which: Domestic	162	251	421	569	1,119	1,305	1,539	1,641	1,588	1,609
Other expense	2,285	2,984	3,080	4,273	3,801	3,991	4,219	4,514	4,808	5,105
of which: Subsidies	67	162	145	145	169	177	188	201	214	227
of which: Grants (transfers)	1,932	2,619	2,729	3,920	3,270	3,433	3,629	3,883	4,136	4,391
Gross operating balance	2,692	3,079	1,348	-2,109	-1,213	-1,898	-2,467	-2,739	-2,978	-3,248
Transactions in nonfinancial assets:										
Net acquisition of nonfinancial assets	2,364	3,610	3,651	3,843	5,472	5,625	5,922	6,219	6,896	7,331
Foreign financed	426	1,194	1,195	1,478	2,471	2,330	2,331	2,612	2,823	2,980
Domestically financed	1,938	2,416	2,456	2,365	3,000	3,294	3,592	3,607	4,074	4,352
Total expenditure	12,582	15,304	16,999	19,835	22,663	24,130	26,042	27,914	30,221	32,422
Primary net lending / borrowing	673	-79	-1,743	-5,081	-5,245	-5,754	-6,273	-6,638	-7,498	-8,074
Net lending/borrowing	328	-531	-2,377	-5,952	-6,685	-7,523	-8,390	-8,959	-9,874	-10,579
Policy gap (cumulative)					-1,809	-4,349	-7,155	-8,305	-8,851	-9,458
After adjustments										
Primary net lending / borrowing	673	-79	-1,743	-5,081	-3,436	-1,404	881	1,667	1,352	1,385
Net lending/borrowing	328	-531	-2,377	-5,952	-4,876	-3,174	-1,235	-654	-1,023	-1,121
Transactions in financial assets and liabilities:	-834	136	1,118	2,397	2,908	3,174	1,235	654	1,023	1,121
Net acquisition of financial assets	-1,222	-252	487	1,330	1,151	120	-191	301	-402	-461
of which: Policy lending	-57	2	-130	1,120	200	100	0	-355	-355	-355
Net incurrence of liabilities	388	388	631	1,067	1,758	3,054	1,426	352	1,425	1,581
Domestic	350	355	180	1,730	860	2,716	2,225	630	385	689
Foreign	38	33	451	597	1,645	1,284	1,087	1,100	1,040	893
Payments of pending bills				-1,259	-747	-946	-1,886	-1,378	0	0
Unidentified financing/accumulation of arrears	*506*	*395*	*1,259*	*3,555*	*1,968*	*0*	*0*	*0*	*0*	*0*
Memorandum item:										
Gross public debt	6,661	6,784	9,608	14,300	18,571	21,922	23,561	23,799	25,145	26,574
Domestic	3,201	3,180	4,499	9,080	11,360	13,230	13,569	12,466	12,496	12,830
External	3,460	3,604	5,109	5,221	7,211	8,692	9,992	11,334	12,649	13,744
Stock of arrears				2,990	4,210	3,264	1,378	0	0	0
Net lending (excl. external financing)	754	663	-1,182	-4,474	-2,405	-843	1,096	1,958	1,799	1,859
Net lending (excl. SACU revenues)	-6,826	-8,018	-9,308	-11,204	-11,985	-10,486	-9,128	-9,178	-10,230	-11,064

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

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

Table 3. Swaziland: Fiscal Operations of the Central Government, 2013/14–2022/23
(Percent of GDP)

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
			Est.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue	29.6	31.1	28.4	24.6	26.9	26.9	27.2	27.5	27.6	27.8
Tax revenue	28.5	29.1	27.0	23.3	25.8	25.6	26.0	26.2	26.4	26.5
Taxes on income, profits, and capital gains	6.4	7.4	7.4	8.0	7.9	7.9	7.9	8.0	8.0	8.0
of which: Corporate income tax	2.4	3.1	2.7	2.7	2.5	2.5	2.5	2.5	2.5	2.5
of which: Personal income tax	4.0	4.3	4.8	5.4	5.4	5.4	5.5	5.5	5.5	5.5
Taxes on property	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Taxes on international trade and transactions	16.4	15.8	13.5	9.3	12.0	11.8	12.2	12.4	12.5	12.6
of which: SACU receipts	16.4	15.8	13.5	9.3	12.0	11.8	12.2	12.4	12.5	12.6
Domestic taxes on goods and services	5.6	5.8	6.1	5.9	5.8	5.7	5.7	5.8	5.8	5.8
Other taxes	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Non-tax revenue	0.6	0.4	0.7	0.3	0.4	0.5	0.5	0.5	0.5	0.5
Grants	0.4	1.6	0.6	0.9	0.7	0.7	0.7	0.7	0.7	0.7
Project grants	0.4	1.6	0.6	0.9	0.7	0.7	0.7	0.7	0.7	0.7
Expense	23.4	24.6	25.8	28.3	28.9	29.9	31.0	31.4	31.7	31.9
Compensation of employees	12.0	11.5	11.8	13.8	15.1	15.5	16.1	16.4	16.8	17.1
Purchases or use of goods & services	5.4	5.8	6.7	5.4	5.1	5.1	5.1	5.1	5.1	5.1
Interest	0.8	1.0	1.2	1.5	2.4	2.9	3.3	3.4	3.2	3.2
of which: Domestic	0.4	0.5	0.8	1.0	1.9	2.1	2.4	2.4	2.2	2.0
Other expense	5.2	6.3	6.0	7.6	6.4	6.5	6.5	6.5	6.5	6.5
of which: Subsidies	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
of which: Grants (transfers)	4.4	5.5	5.3	6.9	5.5	5.6	5.6	5.6	5.6	5.6
Gross operating balance	6.2	6.5	2.6	-3.7	-2.0	-3.1	-3.8	-4.0	-4.0	-4.1
Transactions in nonfinancial assets:										
Net acquisition of nonfinancial assets	5.4	7.6	7.1	6.8	9.2	9.1	9.1	9.0	9.4	9.3
Foreign financed	1.0	2.5	2.3	2.6	4.2	3.8	3.6	3.8	3.8	3.8
Domestically financed	4.4	5.1	4.8	4.2	5.1	5.3	5.5	5.2	5.5	5.5
Total expenditure	28.8	32.2	33.0	35.1	38.1	39.0	40.1	40.5	41.0	41.2
Primary net lending / borrowing	1.5	-0.2	-3.4	-9.0	-8.8	-9.3	-9.7	-9.6	-10.2	-10.3
Net lending / borrowing	0.8	-1.1	-4.6	-10.5	-11.3	-12.2	-12.9	-13.0	-13.4	-13.4
Policy gap (cumulative)					-3.0	-7.0	-11.0	-12.0	-12.0	-12.0
<u>*After adjustments*</u>										
Primary net lending / borrowing	1.5	-0.2	-3.4	-9.0	-5.8	-2.3	1.4	2.4	1.8	1.8
Net lending / borrowing	0.8	-1.1	-4.6	-10.5	-8.2	-5.1	-1.9	-0.9	-1.4	-1.4
Transactions in financial assets and liabilities:	-1.9	0.3	2.2	4.2	4.9	5.1	1.9	0.9	1.4	1.4
Net acquisition of financial assets	-2.8	-0.5	0.9	2.4	1.9	0.2	-0.3	0.4	-0.5	-0.6
of which: Policy lending	-0.1	0.0	-0.3	2.0	0.3	0.2	0.0	-0.5	-0.5	-0.5
Net incurrence of liabilities	0.9	0.8	1.2	1.9	3.0	4.9	2.2	0.5	1.9	2.0
Domestic	0.8	0.7	0.3	3.1	1.4	4.4	3.4	0.9	0.5	0.9
Foreign	0.1	0.1	0.9	1.1	2.8	2.1	1.7	1.6	1.4	1.1
Payments of pending bills				-2.2	-1.3	-1.5	-2.9	-2.0	0.0	0.0
Unidentified financing/accumlation of arrears	*1.2*	*0.8*	*2.4*	*6.3*	*3.3*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
<u>Memorandum item:</u>										
Gross public debt	15.3	14.3	18.7	25.3	31.3	35.4	36.3	34.5	34.1	33.8
Domestic	7.3	6.7	8.7	16.1	19.1	21.4	20.9	18.1	17.0	16.3
External	7.9	7.6	9.9	9.2	12.1	14.1	15.4	16.4	17.2	17.5
Stock of arrears				5.3	7.1	5.3	2.1	0.0	0.0	0.0
Net lending (excl. external financing)	1.7	1.4	-2.3	-7.9	-4.0	-1.4	1.7	2.8	2.4	2.4
Net lending (excl. SACU revenues)	-15.6	-16.9	-18.1	-19.8	-20.2	-17.0	-14.1	-13.3	-13.9	-14.1
GDP at market prices (Emalangeni billions)	43,656.0	47,512.1	51,506.2	56,482.3	59,409.7	61,847.7	64,961.6	68,986.4	73,676.8	78,701.0

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

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

Table 4. Swaziland: Balance of Payments, 2013–22
(US$ millions, unless otherwise indicated)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
			Est.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	233.0	143.8	425.4	25.7	-44.5	9.7	67.8	70.9	46.8	54.9
Trade balance	202.2	212.7	340.0	197.0	158.2	235.3	293.0	294.5	272.0	276.9
Exports, f.o.b.	1,895.7	1,903.9	1,731.1	1,603.4	1,670.9	1,670.3	1,688.2	1,691.8	1,718.9	1,767.3
Imports, f.o.b	-1,693.6	-1,691.2	-1,391.0	-1,406.4	-1,512.7	-1,435.1	-1,395.1	-1,397.3	-1,446.9	-1,490.4
Services (net)	-503.4	-452.7	-386.4	-371.7	-393.0	-438.2	-450.8	-469.6	-487.1	-507.2
Income (net)	-367.2	-399.0	-213.4	-217.8	-301.5	-299.1	-299.7	-297.8	-300.7	-298.4
Of which: interest on public debt	-18.2	-18.1	-16.5	-19.0	-21.6	-28.2	-34.8	-39.9	-44.6	-49.0
Transfers	901.4	782.8	685.1	418.2	491.8	511.8	525.2	543.8	562.6	583.5
Official transfers	815.6	725.5	608.1	367.5	432.8	453.2	463.8	480.1	495.8	511.5
Other transfers	85.9	57.2	77.0	50.7	59.0	58.6	61.4	63.7	66.8	72.0
Capital and financial account	-143.6	-13.6	-456.3	-87.8	-38.4	62.1	112.9	20.9	-1.7	7.0
Capital account	25.8	77.9	28.7	14.9	15.0	14.4	13.8	13.3	12.8	12.3
Financial account	-169.4	-91.6	-484.9	-102.6	-53.3	47.8	99.1	7.5	-14.5	-5.3
Foreign direct investment	29.1	25.8	42.4	28.7	27.7	27.6	27.8	28.4	29.2	30.0
Portfolio investment	-236.9	-3.3	-178.9	2.1	-109.4	-10.3	35.2	-59.0	-74.8	-63.7
Other investment	38.4	-114.1	-348.5	-133.5	28.3	30.4	36.0	38.1	31.1	28.4
Medium and long-term	100.7	152.7	-203.7	-57.0	55.3	55.8	60.5	62.6	56.6	54.7
Of which:										
Public sector (net)	5.5	3.2	27.2	38.1	94.7	90.3	71.9	66.9	61.9	52.4
Disbursements	22.4	34.1	59.1	64.6	121.8	127.3	120.3	125.9	132.1	134.5
Amortization	-16.9	-30.9	-31.9	-26.5	-27.1	-37.0	-48.4	-59.0	-70.2	-82.1
Short-term	-62.3	-266.8	-144.7	-76.5	-26.9	-25.4	-24.5	-24.6	-25.5	-26.3
Errors and omissions	98.1	-141.4	16.4	45.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	187.4	-11.3	-14.4	-16.7	-82.8	71.9	180.7	91.8	45.1	61.9
Financing										
Net international reserves of the monetary authorities (– = increase)	-187.4	11.3	14.4	16.7	82.8	-71.9	-180.7	-91.8	-45.1	-61.9
				(percent of GDP)						
Current account	5.3	3.3	10.8	0.7	-1.1	0.2	1.7	1.7	1.1	1.3
Trade balance	4.6	4.9	8.7	5.2	3.9	5.9	7.2	7.1	6.4	6.3
Exports, f.o.b.	42.9	44.3	44.1	42.4	41.5	41.6	41.7	40.9	40.4	40.5
Imports, f.o.b	-38.3	-39.3	-35.4	-37.2	-37.5	-35.7	-34.4	-33.8	-34.0	-34.2
Services (net)	-11.4	-10.5	-9.8	-9.8	-9.8	-10.9	-11.1	-11.3	-11.5	-11.6
Income (net)	-8.3	-9.3	-5.4	-5.8	-7.5	-7.4	-7.4	-7.2	-7.1	-6.8
Of which: interest on public debt	-0.4	-0.4	-0.4	-0.5	-0.5	-0.7	-0.9	-1.0	-1.0	-1.1
Transfers	20.4	18.2	17.4	11.0	12.2	12.7	13.0	13.1	13.2	13.4
Capital and financial account	-3.2	-0.3	-11.6	-2.3	-1.0	1.5	2.8	0.5	0.0	0.2
Capital account	0.6	1.8	0.7	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Financial account	-3.8	-2.1	-12.3	-2.7	-1.3	1.2	2.4	0.2	-0.3	-0.1
Of which foreign direct investment	0.7	0.6	1.1	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Errors and omissions	2.2	-3.3	0.4	1.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	4.2	-0.3	-0.4	-0.4	-2.1	1.8	4.5	2.2	1.1	1.4
Memorandum items:										
Official transfers	18.4	16.9	15.5	9.7	10.7	11.3	11.4	11.6	11.7	11.7
Gross International Reserves	767	690	547	564	495	572	758	857	911	979
(months of imports)	3.7	3.7	3.4	2.9	2.7	3.2	4.1	4.5	4.6	4.8
National currency per US$	9.7	10.8	12.8	14.7	…	…	…	…	…	…

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

Data reflects BPM5 classification. Authorities are in the process of adopting BPM6 classification.

Table 5. Swaziland: Monetary Accounts, 2013–22[1]

(Emalangeni millions, unless otherwise indicated)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
				Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Emalangeni millions)									
Depository Corporation Survey										
Net foreign assets	7,867	7,714	8,898	8,949	8,243	9,544	12,700	14,659	16,006	17,503
Net domestic assets	3,330	3,925	4,321	7,759	9,675	11,437	11,883	11,396	11,712	11,992
Claims on central government (net)	-3,008	-2,965	-2,738	-833	511	1,042	1,092	1,551	1,521	1,284
Claims on other sectors	9,759	10,872	11,426	13,044	13,745	14,598	15,562	16,573	17,751	19,016
Of which: Claims on private sector	9,254	10,159	10,590	11,816	13,167	13,945	14,798	15,763	16,890	18,100
Other items (net)	-3,421	-3,983	-4,367	-4,451	-4,581	-4,203	-4,771	-6,729	-7,560	-8,309
Broad money	11,197	11,639	13,219	16,708	17,919	20,981	24,583	26,054	27,718	29,495
Currency in circulation [2]	499	530	555	609	543	1,343	1,573	1,667	1,774	1,888
Deposits	10,698	11,109	12,664	16,099	17,376	19,638	23,010	24,387	25,944	27,607
Central Bank										
Net foreign assets	7,158	7,078	7,361	6,552	6,136	7,567	10,847	12,923	14,382	15,985
Gross reserves	8,043	7,995	8,523	7,719	7,383	8,864	12,195	14,326	15,841	17,502
Net domestic assets	-5,256	-5,192	-5,184	-3,672	-2,993	-3,887	-6,534	-8,353	-9,520	-10,811
Reserve money	1,901	1,886	2,177	2,880	3,143	3,681	4,312	4,571	4,862	5,174
	(percent of GDP)									
Depository Corporation Survey										
Net foreign assets	18.4	16.5	17.8	16.1	14.0	15.6	19.8	21.6	22.1	22.6
Net domestic assets	7.8	8.4	8.6	13.9	16.4	18.7	18.6	16.8	16.2	15.5
Claims on central government (net)	-7.1	-6.4	-5.5	-1.5	0.9	1.7	1.7	2.3	2.1	1.7
Claims on other sectors	22.9	23.3	22.8	23.4	23.4	23.9	24.3	24.4	24.5	24.6
Of which: Claims on private sector	21.7	21.8	21.1	21.2	22.4	22.8	23.1	23.2	23.3	23.4
Broad money	26.2	25.0	26.4	30.0	30.5	34.3	38.4	38.4	38.3	38.1
Currency in circulation [2]	1.2	1.1	1.1	1.1	0.9	2.2	2.5	2.5	2.4	2.4
Deposits	25.1	23.8	25.3	28.9	29.5	32.1	36.0	36.0	35.8	35.7
Central Bank										
Net foreign assets	16.8	15.2	14.7	11.8	10.4	12.4	16.9	19.1	19.9	20.7
Net domestic assets	-12.3	-11.1	-10.3	-6.6	-5.1	-6.4	-10.2	-12.3	-13.1	-14.0
Reserve money	4.5	4.0	4.3	5.2	5.3	6.0	6.7	6.7	6.7	6.7
Memorandum items:	(12–month percentage change; unless otherwise indicated)									
Reserve money	6.0	-0.8	15.4	32.3	9.1	17.1	17.2	6.0	6.4	6.4
M2	15.9	3.9	13.6	26.4	7.2	17.1	17.2	6.0	6.4	6.4
Credit to the private sector	20.2	9.8	4.2	11.6	11.4	5.9	6.1	6.5	7.1	7.2
Money multiplier (broad money/reserve money)	5.9	6.2	6.1	5.8	5.7	5.7	5.7	5.7	5.7	5.7
Velocity (GDP/broad money)	3.8	4.0	3.8	3.3	3.3	2.9	2.6	2.6	2.6	2.6

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

[1] End of period.

[2] Excludes rand in circulation.

Table 6. Swaziland: Financial Sector Indicators, 2011–17

(Percent, unless otherwise indicated)

	2011	2012	2013	2014	2015	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1
Banking indicators										
Capital adequacy										
Capital to assets	12.2	12.5	11.9	12.6	12.9	13.9	16.1	18.9	13.0	15.5
Regulatory capital to risk-weighted assets	20.6	21.1	22.2	24.9	22.5	22.8	19.8	21.6	22.2	23.5
Regulatory tier 1 capital to risk-weighted assets	17.8	18.2	19.3	21.3	20.0	20.4	17.5	19.0	20.0	21.2
Nonperforming loans net of provisions to capital	5.9	35.3	20.9	18.1	19.7	22.6	7.5	27.0	28.7	31.0
Asset quality										
Large exposure to capital	105.8	89.2	55.2	102.2	107.1	94.3	49.4	56.1	68	74.0
Nonperforming loans to total gross loans	3.5	10.7	6.8	6.9	6.6	8.0	4.5	12.0	9.6	10.4
Sectoral distribution of loans to total loans										
Agriculture	18.1	12.9	17.0	14.9	12.5	13.0	11.5	12.1	11.9	14.2
Mining and quarrying	1.8	2.0	2.0	2.0	1.4	1.3	1.3	1.3	1.1	1.1
Manufacturing	21.6	20.1	19.6	21.9	16.5	10.6	9.8	7.3	7.9	5.2
Construction	7.6	7.0	8.8	9.2	8.8	7.4	7.5	7.2	6.5	7.3
Distribution and Tourism	10.6	11.9	9.4	12.3	16.1	16.7	17.5	19.1	19.1	21.1
Transport and Communication	6.8	9.6	9.0	9.1	8.5	9.3	9.0	9.1	8.4	8.5
Community, Socialand Personal services	4.8	5.5	5.9	7.0	9.0	10.3	10.8	13.3	12.7	11.1
Other	28.7	31.1	28.3	23.7	27.4	31.4	32.6	30.5	32.4	31.6
Earnings and profitability										
Trading income to total income	0.9	1.4	1.7	0.8	1.1	1.0	0.4	0.5	0.5	1.0
Return on assets	3.5	3.5	3.1	4.0	4.7	4.3	5.7	4.2	4.0	2.9
Return on equity	26.3	24.8	22.7	28.2	32.2	29.3	38.5	28.2	27.2	18.5
Interest margin to gross income	51.0	49.2	46.9	47.0	49.7	51.3	52.5	53.1	54.2	58.9
Noninterest expenses to gross income	60.0	61.1	59.9	58.7	53.9	56.8	55.8	56.9	58.3	62.9
Personnel expenses to noninterest expenses	54.8	50.1	50.7	47.1	54.0	48.6	47.7	47.1	47.0	47.2
Liquidity										
Liquid assets to total assets	9.8	9.0	8.0	9.7	10.5	9.1	8.5	9.6	11.2	8.2
Liquid assets to short-term liabilities	15.5	12.7	12.1	14.2	5.3	12.9	14.2	13.7	16.4	12.8
Customer deposits to total (non-interbank) loans	108.6	122.9	115.4	111.7	125.4	119.8	121.9	124.6	141	121.3
Exposure to foreign exchange risk										
Net open position in foreign exchange to capital	46.1	32.1	36.5	37.6	67.4	53.8	-4.4	14.2	24.8	…
Foreign currency liabilities to total liabilities	6.0	4.2	0.1	6.0	…	…	4.2	4.6	…	5.4
Financial system structure										
Banks	4	4	4	4	4	4	4	4	4	4
Private commercial	0	0	0	0	0	0	0	0	0	0
State-owned	1	1	1	1	1	1	1	1	1	1
Foreign-owned subsidiaries	3	3	3	3	3	3	3	3	3	3
Branches of foreign banks	28	38	39	39	39	39	39	39	39	39
Deposits										
Banks	7,481	8,119	9,448	10,050	11,649	10,972	11,520	12,385	14,458	12,043
Private commercial	…	…	…	…	…	…	…	…	…	…
State-owned	989	1,011	1,126	1,210	1,168	1,135	1,125	1,307	1,389	…
Foreign-owned subsidiaries	6,492	7,108	8,322	8,840	8,446	9,009	10,328	10,481	13,069	…

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

Note. Starting in 2012, statistics exclude Building Society. Last available year for branches of foreign banks is 2014. Data for 2017Q1 are preliminary.

Table 7. Swaziland: Social Development Indicators 1995–2016

	1995	2000	2005	2008	2009	2010	2011	2012	2013	2014	2015	2016
Goal 1: Eradicate Extreme Poverty and Hunger												
Employment to population ratio, 15+, total (%)	38.6	37.8	36.5	35.5	35.7	36.0	36.4	36.8	37.2	37.7	38.5	39.0
Employment to population ratio, ages 15-24, total (%)	23.9	21.3	17.8	15.5	15.4	15.4	15.4	15.3	15.3	15.3	15.9	16.1
Income share held by lowest 20%	...	4.5	...	...	4.0	...	...	...	...	...	...	...
Malnutrition prevalence, weight for age (% of children under 5)	...	9.1	...	7.3	...	5.8	...	...	...	5.8	...	...
Poverty headcount ratio at national poverty line (% of population)	...	69.0	...	...	63.0	...	...	...	...	...	...	...
Prevalence of undernourishment (% of population)	19.4	21.7	15.8	21.3	22.6	23.6	24.4	25.1	26.1	26.5	26.8	...
Vulnerable employment, total (% of total employment)	...	...	...	...	...	...	...	...	...	...	...	...
Goal 2: Achieve universal primary education												
Literacy rate, youth female (% of females ages 15-24)	...	92.9	...	...	...	94.7	...	...	...	...	96.0	...
Literacy rate, youth male (% of males ages 15-24)	...	90.7	...	...	...	92.2	...	...	...	...	93.5	...
Persistence to last grade of primary, total (% of cohort)	58.0	58.5	83.0	...	83.9	67.3	69.3	74.7	...	...	...	...
Primary completion rate, total (% of relevant age group)	63.4	60.9	65.6	...	72.2	76.7	76.8	77.5	79.0	...	...	...
Total enrollment, primary (% net)	74.5	72.3	76.5	...	...	...	...	...	78.6	79.7	...	...
Goal 3: Promote gender equality and empower women												
Proportion of seats held by women in national parliaments (%)	...	3.1	10.8	13.8	13.6	13.6	13.6	13.6	6.2	6.2	6.2	6.2
Ratio of female to male tertiary enrollment (%)	...	0.9	1.1	...	...	...	1.0	...	1.1	...	...	...
Ratio of female to male primary enrollment (%)	1.0	1.0	0.9	...	0.9	0.9	0.9	0.9	0.9	0.9	...	...
Ratio of female to male secondary enrollment (%)	...	1.0	1.0	...	1.0	1.0	1.0	1.0	1.0	1.0	...	...
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	33.2	...	...	...	...	...	...	...	...	...	...	...
Goal 4: Reduce child mortality												
Immunization, measles (% of children ages 12-23 months)	94.0	92.0	93.0	94.0	94.0	94.0	87.0	77.0	85.0	86.0	78.0	...
Mortality rate, infant (per 1,000 live births)	68.7	84.0	83.0	73.2	65.8	59.1	53.6	51.5	48.4	45.8	44.5	...
Mortality rate, under-5 (per 1,000)	96.9	128.3	130.2	113.8	104.2	88.4	79.1	72.6	67.6	62.6	60.7	...
Goal 5: Improve maternal health												
Adolescent fertility rate (births per 1,000 women ages 15-19)	115.5	105.2	93.8	87.7	87.3	87.0	86.7	86.4	80.0	73.6	67.2	...
Births attended by skilled health staff (% of total)	...	70.0	...	...	...	82.0	...	...	...	88.3	...	...
Contraceptive prevalence (% of women ages 15-49)	...	27.7	...	...	...	65.2	...	...	...	66.1	...	...
Maternal mortality ratio (modeled estimate, per 100,000 live births)	537.0	586.0	595.0	476.0	451.0	436.0	418.0	400.0	413.0	400.0	389.0	...
Pregnant women receiving prenatal care (%)	...	86.6	...	...	...	96.8	...	...	...	98.5	...	...
Goal 6: Combat HIV/AIDS, malaria, and other diseases												
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	...	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)	...	832.0	1292.0	1347.0	1308.0	1246.0	1157.0	1042.0	900.0	733.0	565.0	...
Prevalence of HIV, female (% ages 15-24)	17.4	21.9	18.1	17.3	17.3	17.4	17.5	17.5	17.4	17.2	16.7	...
Prevalence of HIV, total (% of population ages 15-49)	15.7	24.8	25.7	26.4	26.7	27.2	27.6	28.0	28.4	28.7	28.8	...
Tuberculosis case detection rate (all forms)	...	66.0	61.0	56.0	65.0	68.0	59.0	56.0	59.0	60.0	59.0	...
Goal 7: Ensure environmental sustainability												
CO2 emissions (kg per PPP $ of GDP)	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	...	...	...
CO2 emissions (metric tons per capita)	0.5	1.1	0.9	1.0	0.9	0.9	0.9	1.0	0.9	...	...	...
Forest area (% of land area)	28.8	30.1	31.5	32.2	32.5	32.7	33.0	33.3	33.5	33.8	34.1	...
Improved sanitation facilities (% of population with access)	49.5	51.8	54.1	55.6	56.0	56.5	57.0	57.5	57.5	57.5	57.5	...
Improved water source (% of population with access)	42.7	51.9	61.1	66.6	68.5	70.4	72.3	74.2	74.1	74.1	74.1	...
Marine protected areas (% of total surface area)	...	...	...	...	...	...	...	...	...	...	...	...
Goal 8: Develop a global parternership for development												
Net ODA received per capita (current US$)	59.9	12.3	42.3	60.7	47.5	76.4	102.3	72.8	94.2	68.1	72.0	...
Debt service (PPG and IMF only, % of exports, excluding workers'										...		
remittances)	1.5	2.1	1.4	2.5	2.1	...	...	...	...	...	...	...
Daily newspapers (per 1,000 people)	...	...	...	...	...	...	...	...	...	...	...	...
Mobile cellular subscriptions (per 100 people)	...	3.1	18.1	46.2	56.1	60.8	63.2	65.4	71.5	72.3	73.2	...
Telephone lines (per 100 people)	2.2	3.0	4.0	3.9	3.8	4.4	6.3	3.7	3.7	3.5	3.3	...
Other												
Fertility rate, total (births per woman)	4.9	4.2	3.9	3.7	3.4	3.6	3.5	3.4	3.3	3.3	3.2	...
GNI per capita, Atlas method (current US$)	1,750	1,570	2,830	3,040	3,000	3,060	3,460	3,800	3,720	3,610	3,280	2,830
GNI, Atlas method (US$ million, current)	1,685	1,670	3,121	3,513	3,519	3,651	4,193	4,674	4,657	4,579	4,227	3,803
Gross capital formation (% of GDP)	16.0	26.4	20.6	18.5	17.9	16.3	14.4	13.9	14.4	15.6	...	...
Life expectancy at birth, total (years)	56.4	48.7	45.9	47.3	47.9	48.3	48.7	48.9	48.9	48.9	48.9	...
Literacy rate, adult total (% of people ages 15 and above)	...	81.7	...	...	...	83.1	...	...	...	...	87.5	...
Population, total (million)	1.0	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.3	1.3	1.3	1.3
Trade (% of GDP)	133.8	154.2	135.7	124.8	118.7	104.0	101.3	99.0	98.4	102.7	...	...
Unemployment, total (% of total labor force)	21.7	22.9	25.5	28.2	27.9	27.8	27.5	27.3	27.0	26.7	25.8	25.3

Source: World Bank; and Swailand authorities.

Annex I. External Sector Assessment

In 2015, the external position of Swaziland was moderately weaker than suggested by fundamentals. In 2016, the current account (CA) balance deteriorated significantly as the trade balance declined and official transfers (mainly SACU receipts) lowered by a 39 percent compared to the previous year. On the positive side, financial account outflows, particularly portfolio investment, slowed significantly, and helped contain the negative impact of the deteriorated CA on international reserves. Nevertheless, the level of international reserves declined below three months of projected imports (end-December 2016). Against these developments, Swaziland's external position is broadly consistent with fundamentals. Staff recommends fiscal consolidation which, together with stabilized SACU revenues, would help maintain the external position broadly consistent with fundamentals.

A. International Reserve Adequacy

Swaziland's international reserves have been declining since 2013 and are close to the lower bound of the desired level per the IMF's reserve adequacy metric. However, a modified version of the metric to account for the large role of SACU revenues in the country' external current account and their volatility suggests that international reserves are well below safe levels.

Recent Trends

1. **Swaziland's international reserves have been on a declining trend since 2013.** Following the 2010 fiscal crisis, and in the context of the peg with the South African rand, an initial increase in SACU revenue helped to restore healthy levels of international reserves, but in 2013 reserves started declining. Over the last three years, reserves have dropped from a peak of US$767 million, equivalent to 3.7 month or prospective import coverage (about 19 percent of GDP) at end 2013 to US$564 million to end-2016, below 3 months of imports or 13.9 percent of GDP. However, reserve coverage in 2016 was in part boosted by swaps operations.[1] Reserves are expected to decline further in absence of fiscal adjustment and a compression of domestic demand.

Reserve Adequacy

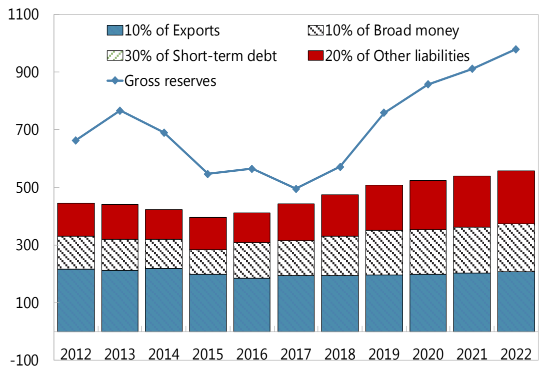
2. **Reserve adequacy is assessed using the IMF' composite metric (ARA) that captures vulnerabilities from multiple sources.** Traditional adequacy metrics suggest that Swaziland's international reserves are adequate both in terms of import and broad money coverage. However, these measures narrowly focus on single risks and could underestimate external vulnerabilities. The IMF metric is designed to measure the vulnerabilities that might arise in a country's balance of payments during exchange market pressure events. More specifically, it considers four specific sources of risk: (i) low export earnings that could arise from a terms of trade shock; (ii) low rollover rates of short-term debt at remaining maturity (short term debt plus debt service); (iii) non-resident

[1] The Central Bank of Swaziland (CBS) has performed private placements with asset managers, issuing locally denominated liabilities against foreign currency. The total amount of such placement outstanding in April 2017 was E270 millions.

capital outflows on portfolio investments plus medium and long-term debt; and (iv) resident capital flight proxied by broad money. The relative risk weights for each of these components are based on observed outflows from emerging market countries during past periods of exchange market pressures.

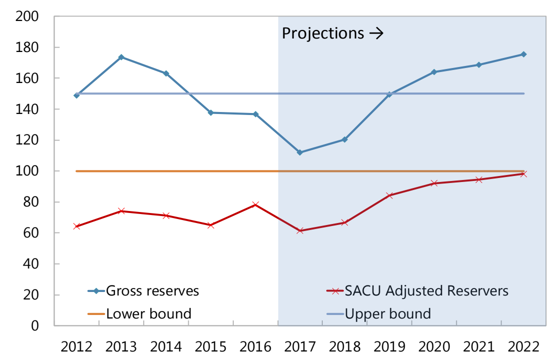
3. Despite declining, Swaziland's international reserves are above the lower bound of the IMF's metric. Reserves in the range of 100–150 percent of the composite metric are typically considered adequate. Using 2016 data, in the case of Swaziland, this range corresponds to reserves between 2.2 and 3.4 months of imports (10.9 and 16.3 percent of GDP). As SACU revenue have been declining over recent years, in 2016 gross international reserves declined below the upper bound of the IMF's reserve adequacy metric (to 136.7 percent of the metric). However, the volatility of SACU's revenue and its importance in the current account would suggest that Swaziland should hold a level of reserves above the upper bound.

Contributions to Reserve Adequacy Metric
(Millions of U.S. dollars)



Source: IMF staff calculations.
Note: Projections based on staff's macroeconomic baseline

Assessing Reserve Adequacy (ARA) Upper and Lower Bounds



Source: IMF staff calculations.

4. Tailoring the IMF metric to account for the dependence and high volatility of SACU revenue suggests that Swaziland's international reserves are below adequate levels. Accumulated decline of SACU revenue during 2010–11 amounted to 94 percent of the level of pre-crisis SACU revenue in 2009. Following the approach of the standard IMF's composite metric and adding the volatility of SACU revenue, the following revised metric for Swaziland results:

30% of STD+ 20% of OPL + 10% of M2 + 10% of X + 80% of SACU revenue,

where STD denotes short-term debt, OPL other liabilities, X exports and a conservative 80 percent weight is applied to a SACU revenue shock. Maintaining a 100 percent coverage of this modified metrics would require international reserve coverage of 4.9 months of imports, or about 20 percent of GDP in 2017.

5. Going forward, adequate policies should help ensure safer and adequate levels of international reserves. Under staff's adjustment scenario, international reserves are expected to decline in 2017 and, as fiscal adjustment is implemented, to gradually increase. By 2022, international reserves are projected to reach 4.8 months of imports (17.7 percent of GDP), i.e., above the upper bound of the IMF metric and in line with the metric adjusted to account for the volatility of SACU transfers.

B. External Position

Swaziland's external position is broadly consistent with fundamentals and desirable polices. The different external assessment approaches broadly provide similar results. Staff recommends fiscal adjustment of 11–12 percent of GDP which, together with stabilized SACU revenues, would help maintain the external position broadly consistent with fundamentals. The current account and the external sustainability approaches under the IMF's EBA lite methodology points to a limited misalignment, while the real effective exchange rate suggest a slightly higher undervaluation.

Recent trends

6. Swaziland's CA and net international investment position (NIIP) remained positive in 2016. A decline in SACU transfers, coupled with strong demand for imports and lower exports, reduced the CA surplus to ¾ percent of GDP (10.8 percent in 2015) and the balance is projected to turn negative in 2017. On the positive side, the capital and financial account, which is structurally negative because of large portfolio outflows by non-bank financial institutions, moderated in 2016. Swaziland's NIIP improved further and reached 41.7 percent of GDP in 2016 (39 percent of GDP in 2015), reflecting positive valuation effects and increased short-term trade credit assets. Most of the external assets are portfolio equity and debt instruments (about 77 percent of gross external assets), mainly owned by the CBS and non-bank private sector.

7. Swaziland's REER has been depreciating since the 2010 peak, and only started appreciating somewhat in late 2016. Since the lilangeni is pegged to the South African rand, the depreciation has mostly followed the rand, although the pace of the recent depreciation was less pronounced for Swaziland. On average, the REER has depreciated by about 12 percent between end-2010 and end-2016, reversing the bulk of the appreciation of 2009–10. More recently, the REER has been appreciating and currently stands at 5.0 percent above its historical average over January 1995–May 2017.

Methodology

8. Swaziland's external position is assessed using the three approaches defined under the IMF's EBA-Lite methodology. The first two approaches (the current account (CA) and the real effective exchange rate (REER model) are regression-based models. They assume that the current account and the real exchange rate are endogenous variables determined by fundamentals. Therefore, they estimate the current account and REER "norms" that are consistent with fundamentals and with desirable policies. The CA model also and makes normative evaluations of the current account.[2] Both approaches define a gap as the difference between the actual current

[2] See IMF Working Paper 13/272 and *Methodological Note on EBA-Lite*.

account and real exchange rate and the calculated norms. The third approach (external sustainability (ES)) is model-free and calculates a current account medium-term norm that would stabilize the net foreign asset (NFA) position at a benchmark level, usually the latest NFA observation. Following the EBA approach, the assessment is based on the latest available data (preliminary 2016).

Assessment

9. The CA and the external sustainability approaches suggest that the external position is broadly in line with fundamentals and desirable policies; however, the REER approach points to a moderate undervaluation of the real exchange rate.

- ***CA approach.*** Using 2016 preliminary data, the model finds that in 2016 Swaziland CA was broadly in line with the CA norm (Table 1) with limited REER undervaluation. That is, the actual CA balance is in line with the CA estimated under Swaziland's fundamentals and desired policies. The model estimated CA gap is 0.7 percent of GDP, which is the sum of the contribution of policy gaps (-5.0 percent) and the regression residual (5.8 percent). This approach explicitly accounts for the proposed fiscal adjustment under Staff's baseline that explains 80 percent of the identified policy gap. The large residual depends on a number of factors, in particular volatile SACU revenues.

- ***ES approach.*** Given Swaziland's large positive NIIP position, external sustainability is not a major concern, even after accounting for possible increases in domestic asset requirements for NBFIs (included in staff's baseline) that would imply capital inflows and a reduction in the NIIP. However, the relatively low international reserves, close to the lower bound of the ARA metric (section B), suggest that the sustainability analysis should usefully account for other possible distortions influencing the CA and the real exchange rate gaps using the different EBA-lite models.

- ***REER approach.*** The REER approach suggests an exchange rate undervaluation of about 8.9 percent (Table A1.1).[3]

[3] When the CA and the REER approach point to different conclusions, the CA model is often, but not always, more informative and reliable.

Table A1.1. Current Account and Real Exchange Rate Assessment Results

	Current Account Regressions[1]	External Sustainability	Equilibrium REER Regressions
Current account reference[2]	0.7	1.3	--
Current account norm	-0.1	-0.2	--
Current account gap	0.7	1.5	--
o/w: Policy gap	-5.0	--	--
Real exchange rate gap[3]	-2.4	-5.0	-8.9

Source: IMF staff estimates.

[1] Based on External balance Assessment methodology (IMF Working Paper 13 /272).

[2] For current account regression, 2016 value; for external sustainability approach 2022 value

[3] Positive numbers indicate overvaluation. Elasticity of current account to real exchange rate gap is -0.30

C. Overall Assessment

10. Overall, the above analysis suggests that the external position is broadly in line with that implied by medium-term fundamentals and desirable policy settings. The CA gap is estimated at about 0.7–1.5 percent of GDP and the real exchange rate gap at -2.4–8.9 percent. This assessment supports the macroeconomic policy adjustment, notably fiscal, and structural policies, proposed under staff's policy action scenario.

Annex II. Risk Assessment Matrix[1]

Source of Risk	Relative Likelihood and Time Horizon	Expected Impact on Economy	Recommended Policy Response
Policy uncertainty and divergence, including protectionist policies, diverging policies among major economies, and political uncertainties in Europe (e.g., elections, Brexit).	***High*** ***Short to Medium Term***	***Medium.*** Current account deterioration via impact on key exports and reduction in SACU revenue due to impact on South Africa (the latter would also negatively affect budget revenue); if capital flow reversals occur see below.	Fiscal and monetary measures to address current account and budget effects (see below)
Significant further strengthening of the US dollar and/or higher rates, with lower capital flows to some lower rated sovereigns, and possible higher financing costs	***High*** ***Short Term***	***High.*** With capital flow reversals in South Africa, higher interest rates in the CMA and domestically; costly and tighter sovereign financing; additional strain on fiscal accounts and possible budget financing shortfalls. Possible inflationary pressures as rand depreciates.	Increase policy rate in line with South Africa. Tighten fiscal policy to bring the fiscal deficit in line with available financing, while protecting social expenditures to minimize impact on the poor. If possible, seek external financing to smooth adjustment.
Weaker global growth, with (i) significant slowdown in China and other large emerging economies, and (ii) structurally weak growth in key advanced and emerging economies	***Medium/High*** ***Short to medium term***	***Medium.*** Deteriored current account through depressed exports and lower SACU revenue as South Africa slows down. Lower domestic growth.	Step up structural reforms to promote growth and private sector development.
Tightened government' financing constraints and materialization of Public entities (PE)'s contingent liabilities, e.g., triggered by no policy action, lower confidence as government struggles to meet budget obligations and large PE's arrears.	***High*** ***Short- Medium Term***	***High.*** Abrupt and disorderly fiscal adjustment; deterioration in financial sector's asset quality; deep recession.	Tighten fiscal policy to bring fiscal deficit in line with available financing; explore additional financing options to smooth adjustment over time, while maintaining public debt within sustainable limits. Implement measures to improve PEs' governance and performance, and reduce government's risk exposure. Possible asset sales.
Incomplete or weak policy implementation, e.g., triggered by political constraints, social pressure, limited support after the 2018 parliamentary elections.	***High/Medium*** ***Short- Medium Term***	***High.*** Tighter budget financing constraints; abrupt and disorderly fiscal adjustment; deterioration in financial sector's asset quality; deep recession.	Bring fiscal deficit in line with available financing; explore additional financing options while maintaining public debt within sustainable limits.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex III. Debt Sustainability Analysis

Swaziland's public debt ratio is relatively low but has been rising rapidly due to recent large fiscal deficits, which are also exerting upwards pressure on external debt. Under staff baseline, which includes substantial fiscal adjustment, debt sustainability analysis (DSA) indicates that sustainability indicators would remain below stress thresholds and both debt level and gross financing needs would be resilient to shocks. In absence of adjustment, debt level and gross financing needs would rapidly reach unsustainable levels, pointing to the need for fiscal adjustment. With fiscal adjustment, external debt would also remain low although sensitive to current account exchange rate shocks.

A. Public Debt[1]

Background

1. **Swaziland's public debt is relatively low, but has been rising rapidly since 2015 driven by large primary deficits** (Figure A3.3). Between FY14/15 and FY16/17, the public debt to GDP ratio almost doubled from 14⅓ to 25½ percent, owing to a large and growing primary deficit (with about half of the increase occurring in FY16/17).

2. **With high and rising gross financing needs, the authorities have steadily increased their reliance on domestic financial markets**. After reaching 14.5 percent of GDP in FY15/16, gross financing needs further increased to 21¾ percent of GDP in FY16/17. With no access to external debt markets,[2] the share of domestic debt rose from about 47 percent of total public debt in FY14/15 to about 63½ percent in FY16/17, including new loans from the central bank and domestic arrears.

3. **The maturity and composition of public debt bear significant rollover risks and exchange rate vulnerabilities.** At end-March 2017, short-term treasury bills and other short-term debt (i.e., central bank advances, domestic arrears) accounted for about 66 percent of government's domestic debt (52 percent at end-March 2016). Average domestic debt maturity of loans and issued instruments was 2.7 years (3.2 at end-March 2015), pointing at rollover risks. At end-March 2017, the share of public debt denominated in foreign currencies had declined mainly because of fast rising domestic debt, but remained as high as 36 percent (53 percent at end-March 2016), leaving debt somewhat sensitive to exchange rate fluctuations.

Outlook and Risks

4. **The DSA baseline includes considerable fiscal adjustment**. The baseline incorporates 12 percent of GDP in adjustment measures (see main text). Compared to past experience in Swaziland and other surveillance countries, the adjustment is ambitious but appears feasible

[1] Analysis based on fiscal year.

[2] External public debt is primarily in the form of project loans.

(Figure A3.2) and authorities are considering to start the adjustment in the current fiscal year. Indeed, a large adjustment is not without precedent in Swaziland as witnessed by the sharp fiscal correction in the aftermath of the 2011 fiscal crisis. Without adjustment, the public debt ratio would increase beyond distress thresholds, exceeding 90 percent of GDP by FY22/23 (Figure A3.5).

5. **Under the baseline, debt sustainability analysis suggests that the public debt ratio would remain sustainable and financing risks gradually decline** (Figure A3.3). Under this scenario, public debt would peak to about 36⅓ percent in FY19/20. As adjustment is implemented, the primary deficit is projected to be slightly above the debt stabilizing level and the public debt ratio to slowly decline and fall below 34 percent by the end of the projection period.

6. **Alternative scenarios and stress test analysis highlight the critical importance of fiscal adjustment to ensure debt sustainability and resilience to shocks.** Even a relatively small primary deficit in line with the historical data would imply a constantly increasing public debt and high gross financing needs (Figure A3.4). Stress analysis suggests that under the baseline, no temporary shock would lead to debt stress, although debt levels and gross financing needs are particularly sensitive to primary balance shocks (Figure A3.5). Under the combined macroeconomic and contingent liability shock scenario as well as a customized shock to SACU revenues (i.e. a fall by 5 percent in 2018–19), public debt would reach about 40–50 percent of GDP by FY22/23, depending on the type of shock, and gross financing needs would remain above 10 percent of GDP by FY22/13). In addition, risks could arise from the large annual changes in the short-term public debt, which widely exceeded the relevant benchmark in the past (Figure A3.1). With extra budgetary entities apparently carrying some debt obligations (Box 1, main text), staff tested debt dynamics including debt of extra-budgetary entities, alike to a tailored contingent liability shock.[3] Under this shock, public debt would increase to above 50 percent of GDP and stabilize at around 52 percent over the projection period; gross financing would be high, peaking at 34 percent of GDP in FY18/19, before declining to 16 percent by FY22/23.

B. External Debt[4]

7. **Swaziland's external debt and gross financing needs remain low** (Table A3.1). Following an increase in 2015 mainly due to the depreciation of the South African rand, to which the local currency is pegged, in 2016, the stock of external debt increased little (about 0.2 percent of GDP to 13.3 percent of GDP). Most of the external debt is public debt. Moreover, gross external financing needs increased but remained small relative to the size of the economy.

8. **Under the DSA baseline, external debt is forecasted to rise and stabilize over the projection period with gross financing needs remaining contained.** The external debt ratio is projected to gradually increase and stabilize at around 21 percent of GDP as the current account

[3] While no comprehensive information is available on extra-budgetary entities' debt obligations, preliminary evidence suggests their gross debt could be about 10 percent of GDP, possibly including claims by the central government and other public entities.

[4] Analysis based on calendar year.

surplus, in line with the debt stabilizing level, offsets exchange rate depreciation pressures. Fiscal adjustment under the baseline is critical to maintain an adequate current account surplus. Gross external financing needs are expected to stabilize at around 3.4 percent of GDP over the medium term. (Table A3.1).

9. Sensitivity tests suggest that Swaziland' s external debt is particularly sensitive to current account shocks (Figure A3.6). A shock to the non-interest current account would place the external debt-to-GDP ratio on an upward path. This result is driven by the high historical volatility of Swaziland's current account balance, largely owned to fluctuations in SACU transfers. However, higher interest rates or a slowdown in economic growth would, by themselves, have very limited effects on debt dynamics. A combined (interest rate, growth, current account) shock has, therefore, an impact on debt similar to the current account shock. Finally, a one-time real depreciation of 30 percent would raise the debt level, but it would not place debt on an upward path.

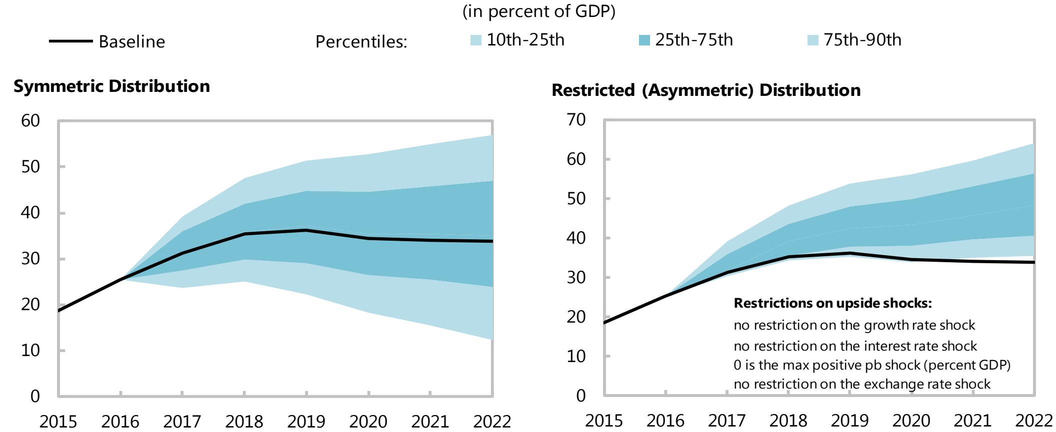
Figure A3.1. Swaziland Public DSA Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

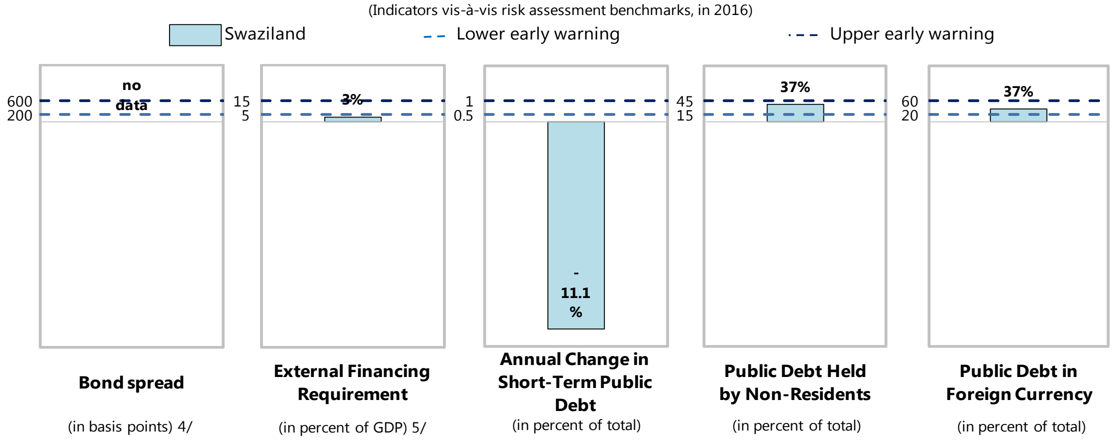
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2016)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

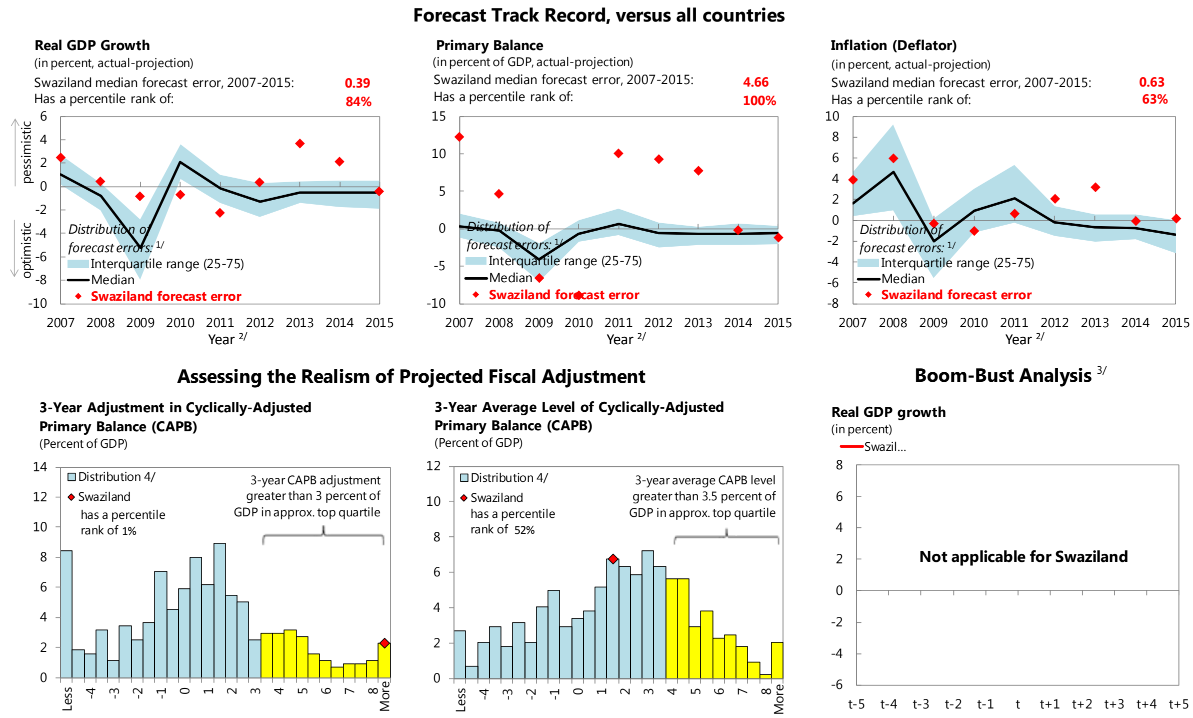
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 01-Jun-13 through 30-Aug-13.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure A3.2. Swaziland Public DSA — Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Swaziland, as it meets neither the positive output gap criterion nor the private credit growth criterion.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure A3.3. Swaziland Public Sector Debt Sustainability Analysis (DSA)—Baseline Scenario

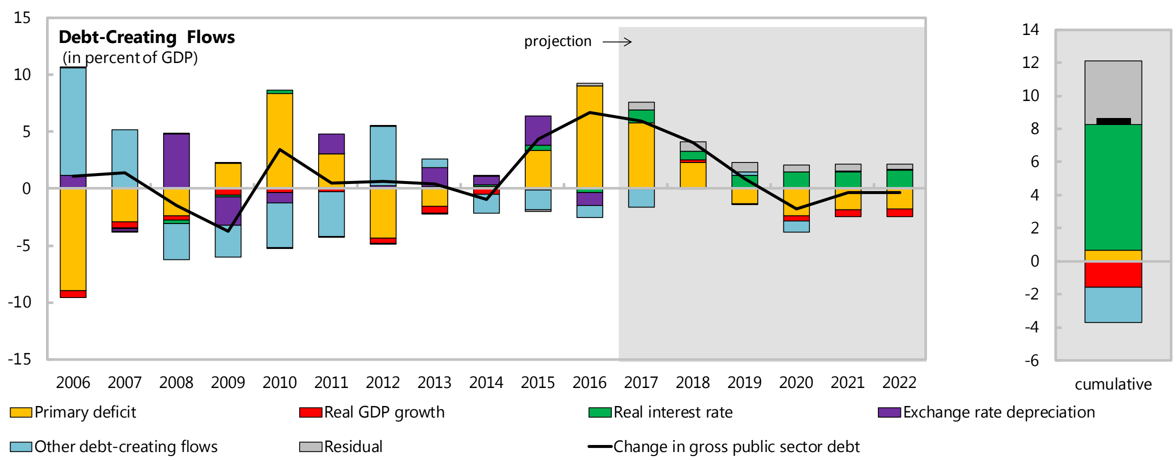
(In percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1]

	Actual			Projections						As of August 30, 2013		
	2006-2014 [2]	2015	2016	2017	2018	2019	2020	2021	2022	Sovereign Spreads		
Nominal gross public debt	14.0	18.7	25.4	31.3	35.4	36.3	34.5	34.1	33.8	EMBIG (bp) 3/		n.a.
Public gross financing needs	7.3	14.5	21.7	20.4	18.5	16.7	14.9	12.5	11.6	5Y CDS (bp)		n.a.
Real GDP growth (in percent)	3.8	1.1	0.0	0.3	-0.9	0.1	1.3	1.9	2.2	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	5.5	6.3	11.2	5.4	4.8	4.6	4.6	4.8	4.5	Moody's	n.a.	n.a.
Nominal GDP growth (in percent)	9.4	8.4	9.7	5.2	4.1	5.0	6.2	6.8	6.8	S&Ps	n.a.	n.a.
Effective interest rate (in percent) [4]	6.0	9.3	9.1	10.0	7.2	8.0	9.0	9.5	9.6	Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022	cumulative	debt-stabilizing
Change in gross public sector debt	0.2	4.4	6.7	6.0	4.1	0.9	-1.8	-0.3	-0.3	8.4	primary
Identified debt-creating flows	0.1	4.5	6.5	5.2	3.2	0.1	-2.3	-0.9	-0.7	4.6	balance [9]
Primary deficit	-0.7	3.4	9.0	5.8	2.3	-1.4	-2.4	-1.8	-1.8	0.7	1.0
Primary (noninterest) revenue and grants	29.0	28.4	24.6	26.9	26.9	27.2	27.5	27.6	27.8	163.8	
Primary (noninterest) expenditure	28.3	31.8	33.6	32.7	29.1	25.8	25.1	25.8	26.0	164.5	
Automatic debt dynamics [5]	0.3	2.8	-1.5	1.1	1.0	1.1	1.0	0.9	0.9	6.0	
Interest rate/growth differential [6]	-0.4	0.3	-0.3	1.1	1.0	1.1	1.0	0.9	0.9	6.0	
Of which: real interest rate	0.0	0.4	-0.4	1.1	0.7	1.1	1.5	1.5	1.6	7.6	
Of which: real GDP growth	-0.5	-0.1	0.0	-0.1	0.3	0.0	-0.5	-0.6	-0.7	-1.6	
Exchange rate depreciation [7]	0.7	2.6	-1.2	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.6	-1.7	-1.0	-1.6	0.0	0.3	-1.0	0.1	0.1	-2.1	
Government deposits (negative)	0.6	-1.7	-1.0	-1.6	0.0	0.3	-1.0	0.1	0.1	-2.1	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other debt-creating flows (+ increases fina	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8]	0.0	-0.2	0.2	0.7	0.8	0.8	0.5	0.5	0.4	3.9	



Source: IMF staff.

1/ Public sector is defined as central government. Data expressed in fiscal years.

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

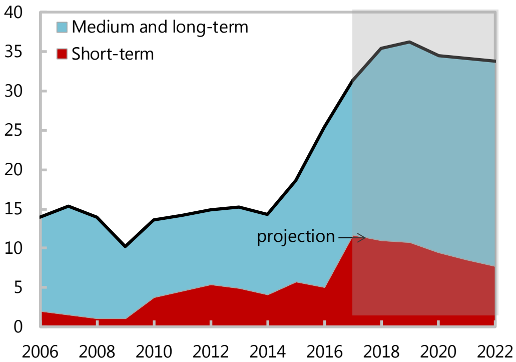
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure A3.4. Swaziland Public DSA — Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

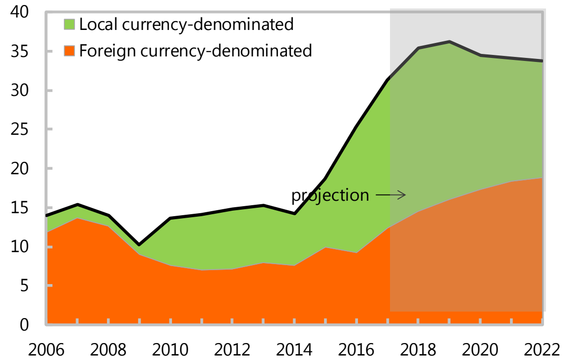
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

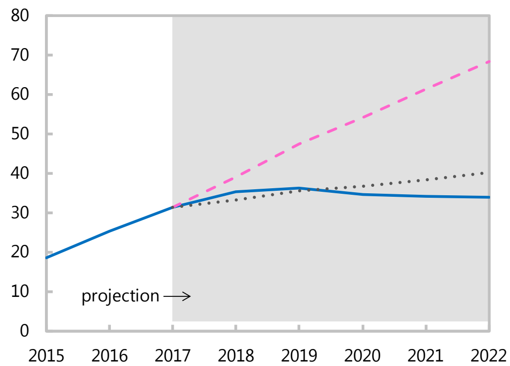


Alternative Scenarios

Baseline Historical Constant Primary Balance

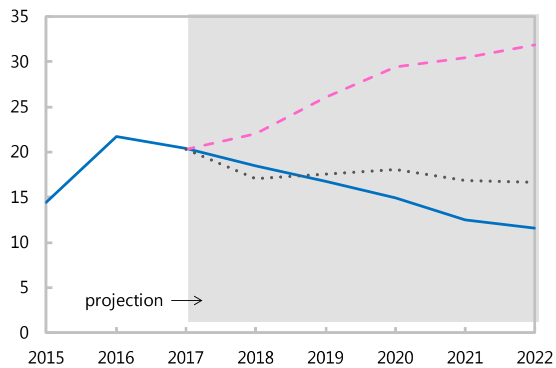
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

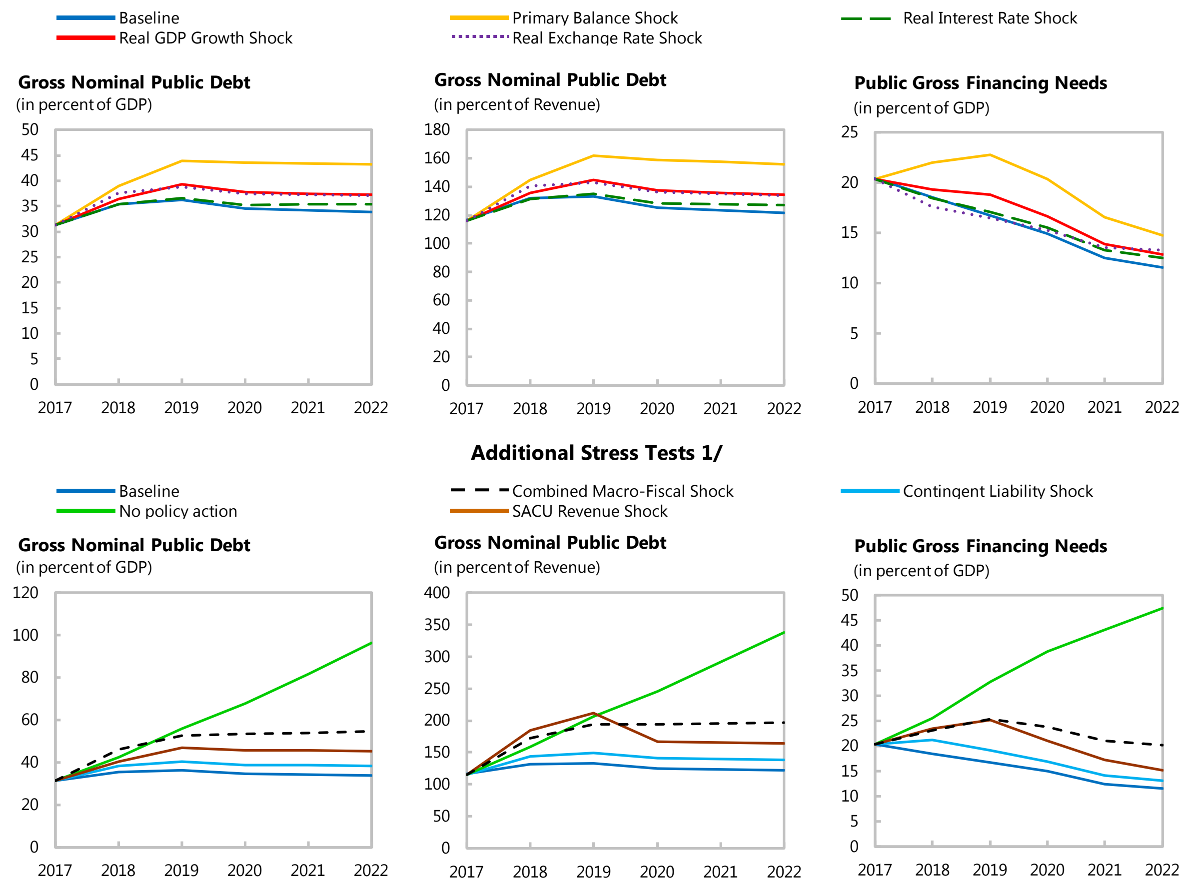
Baseline Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	0.3	-0.9	0.1	1.3	1.9	2.2
Inflation	5.4	4.8	4.6	4.6	4.8	4.5
Primary Balance	-5.8	-2.3	1.4	2.4	1.8	1.8
Effective interest rate	10.0	7.2	8.0	9.0	9.5	9.6
Constant Primary Balance Scenario						
Real GDP growth	0.3	-0.9	0.1	1.3	1.9	2.2
Inflation	5.4	4.8	4.6	4.6	4.8	4.5
Primary Balance	-5.8	-5.8	-5.8	-5.8	-5.8	-5.8
Effective interest rate	10.0	7.2	7.9	8.5	8.2	7.7

Historical Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	0.3	3.0	3.0	3.0	3.0	3.0
Inflation	5.4	4.8	4.6	4.6	4.8	4.5
Primary Balance	-5.8	-1.5	-1.5	-1.5	-1.5	-1.5
Effective interest rate	10.0	7.2	6.5	7.0	7.0	6.8

Source: IMF staff.

Figure A3.5. Swaziland Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Underlying Assumptions
(in percent)

	2017	2018	2019	2020	2021	2022
Primary Balance Shock						
Real GDP growth	0.3	-0.9	0.1	1.3	1.9	2.2
Inflation	5.4	4.8	4.6	4.6	4.8	4.5
Primary balance	-5.8	-5.8	-2.3	1.4	1.8	1.8
Effective interest rate	10.0	7.2	8.3	9.1	9.1	8.9
Real Interest Rate Shock						
Real GDP growth	0.3	-0.9	0.1	1.3	1.9	2.2
Inflation	5.4	4.8	4.6	4.6	4.8	4.5
Primary balance	-5.8	-2.3	1.4	2.4	1.8	1.8
Effective interest rate	10.0	7.2	8.9	10.1	10.5	10.5
Combined Shock						
Real GDP growth	0.3	-2.4	-1.4	1.3	1.9	2.2
Inflation	5.4	4.5	4.2	4.6	4.8	4.5
Primary balance	-5.8	-5.8	-2.3	1.4	1.8	1.8
Effective interest rate	10.0	8.5	8.8	9.8	10.1	10.0

	2017	2018	2019	2020	2021	2022
Real GDP Growth Shock						
Real GDP growth	0.3	-2.4	-1.4	1.3	1.9	2.2
Inflation	5.4	4.5	4.2	4.6	4.8	4.5
Primary balance	-5.8	-2.8	0.3	2.4	1.8	1.8
Effective interest rate	10.0	7.2	8.0	9.0	9.4	9.4
Real Exchange Rate Shock						
Real GDP growth	0.3	-0.9	0.1	1.3	1.9	2.2
Inflation	5.4	17.1	4.6	4.6	4.8	4.5
Primary balance	-5.8	-2.3	1.4	2.4	1.8	1.8
Effective interest rate	10.0	8.5	8.0	9.1	9.7	9.9
Contingent Liability Shock						
Real GDP growth	0.3	-2.4	-1.4	1.3	1.9	2.2
Inflation	5.4	4.5	4.2	4.6	4.8	4.5
Primary balance	-5.8	-4.4	1.4	2.4	1.8	1.8
Effective interest rate	10.0	8.4	8.2	8.9	9.3	9.3

Source: IMF staff.

1/ Under no policy action scenario, gross financing needs include repayments of domestic arrears.

Table A3.1. Swaziland: External Debt Sustainability Framework, 2012–2022

(In percent of GDP, unless otherwise indicated)

		Actual							Projections						
		2012	2013	2014	2015	2016	10-Year Historical Average	10-Year Standard Deviation	2017	2018	2019	2020	2021	2022	Debt-stabilizing non-interest current account 6/
1	**Baseline: External debt**	11.8	12.8	11.7	13.1	13.3			**15.8**	**17.9**	**19.3**	**20.3**	**20.9**	**21.2**	**-0.1**
2	Change in external debt	-4.0	1.1	-1.2	1.4	0.2			2.5	2.2	1.4	1.0	0.6	0.2	
3	Identified external debt-creating flows (4+8+9)	-6.7	-6.8	-2.8	-9.9	-0.8			-1.3	0.7	-0.8	-2.4	-2.6	-2.1	
4	Current account deficit, excluding interest payments	-3.8	-5.3	-3.8	-10.4	-1.4			-1.3	0.4	-1.1	-2.7	-2.8	-2.3	
5	Deficit in balance of goods and services	10.4	6.3	5.4	1.1	4.4			5.8	5.1	3.9	4.2	5.1	5.3	
6	Exports	44.5	44.8	49.7	46.4	47.3			48.3	48.5	48.7	48.0	47.6	47.7	
7	Imports	54.8	51.1	55.1	47.5	51.8			54.1	53.6	52.6	52.3	52.7	53.0	
8	Net non-debt creating capital inflows (negative)	-2.1	-2.0	-0.7	-0.6	-1.1			-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	
9	Automatic debt dynamics 1/	-0.7	0.6	1.7	1.2	1.6			0.7	1.1	1.1	0.9	0.9	0.9	
10	Contribution from nominal interest rate	0.7	0.4	0.5	0.6	0.7			0.8	0.9	1.1	1.2	1.2	1.3	
11	Contribution from real GDP growth	-0.5	-0.6	-0.5	-0.1	0.0			0.0	0.1	0.0	-0.3	-0.4	-0.4	
12	Contribution from price and exchange rate changes 2/	-0.9	0.7	1.6	0.8	0.9			...	...	...	...	...	...	
13	Residual, incl. change in gross foreign assets (2-3) 3/	2.7	7.8	1.6	11.3	1.1			3.3	1.4	2.2	3.4	3.2	2.3	
	External debt-to-exports ratio (in percent)	26.5	28.7	23.4	28.2	28.1			32.7	36.9	39.7	42.3	44.0	44.4	
	Gross external financing need (in millions of US dollars) 4/	-28.5	-56.1	97.1	-235.3	125.3			200.3	154.0	105.9	112.0	145.7	146.8	
	in percent of GDP	-0.6	-1.2	2.2	-5.5	3.2			5.3	3.9	2.6	2.7	3.5	3.4	
	Scenario with key variables at their historical averages 5/								**17.7**	**18.5**	**19.9**	**22.7**	**25.5**	**27.3**	**-0.5**
	Key Macroeconomic Assumptions Underlying Baseline														
	Real GDP growth (in percent)	3.5	4.8	3.6	1.1	0.0	3.3	1.6	0.3	-0.9	0.1	1.3	1.9	2.2	
	GDP deflator in US dollars (change in percent)	6.4	-5.8	-11.3	-6.1	-9.6	-2.1	8.8	-3.7	6.2	0.6	0.8	0.8	0.8	
	Nominal external interest rate (in percent)	4.9	3.7	3.8	4.6	4.9	4.8	0.8	5.8	5.8	6.0	6.2	6.3	6.4	
	Growth of exports (US dollar terms, in percent)	-1.8	-1.8	3.2	-9.1	-6.9	-0.6	9.2	4.6	0.2	1.3	0.6	1.8	2.8	
	Growth of imports (US dollar terms, in percent)	-5.2	-9.2	0.3	-16.1	-0.5	-1.5	9.1	7.2	-1.3	-1.0	1.4	3.5	3.2	
	Current account balance, excluding interest payments	3.8	5.3	3.8	10.4	1.4	-0.5	7.0	1.3	-0.4	1.1	2.7	2.8	2.3	
	Net non-debt creating capital inflows	2.1	2.0	0.7	0.6	1.1	1.9	1.2	0.7	0.7	0.7	0.7	0.7	0.7	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

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

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

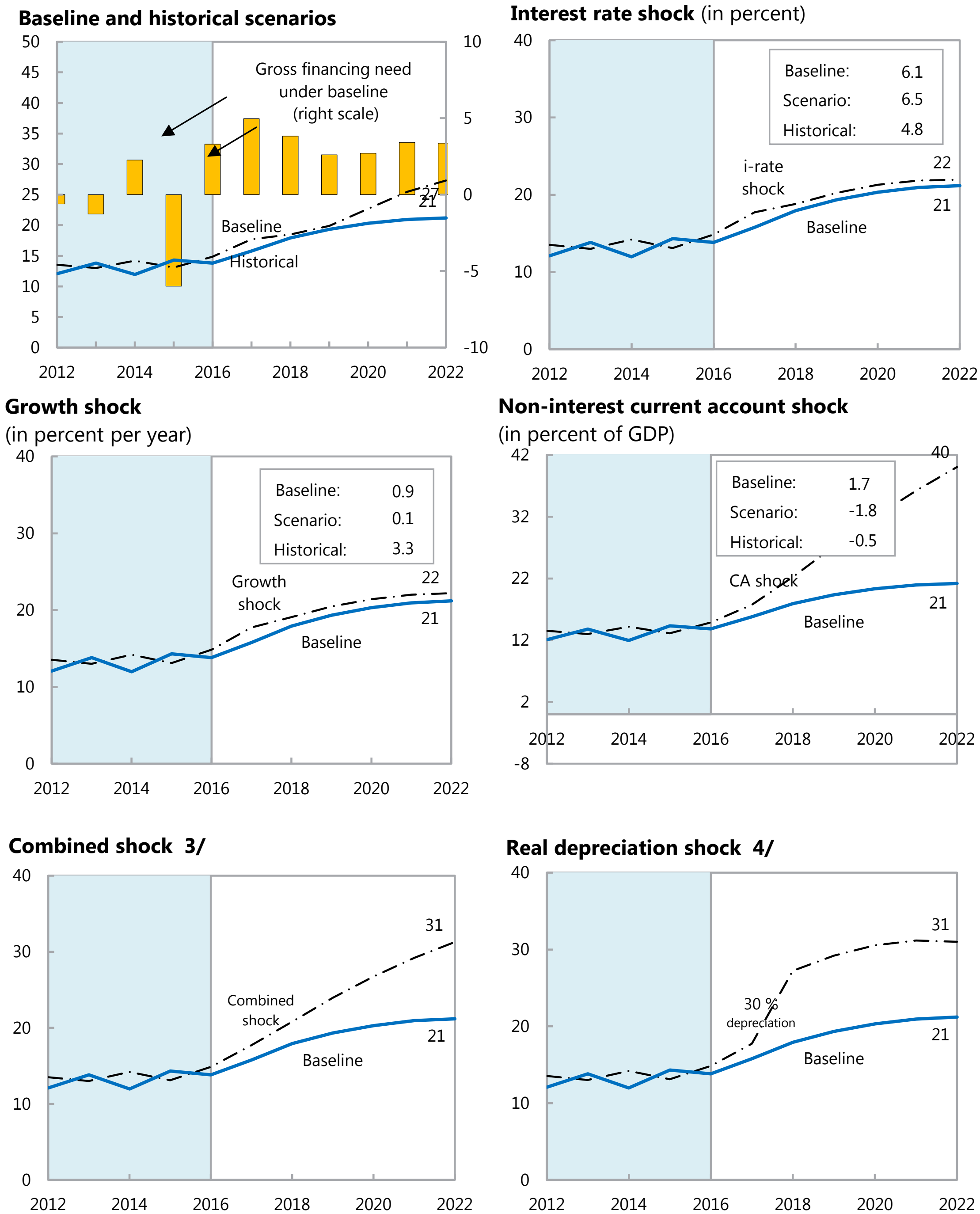
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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.

Figure A3.6. Swaziland: External Debt Sustainability: Bound Tests 1/ 2/

(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/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

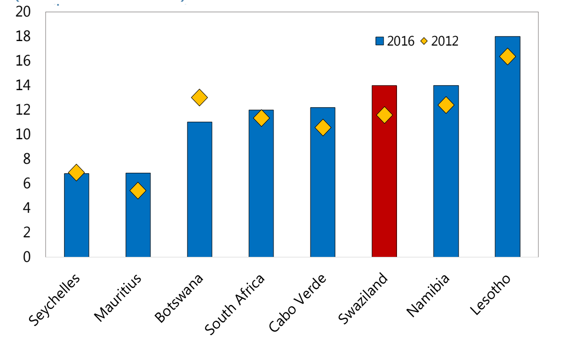
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2015.

Annex IV. Containing the Wage Bill in Swaziland

1. Swaziland has high and increasing public wage expenses. In FY16/17, public wage costs for central government employees peaked to 13.8 percent of GDP (11.3 percent in FY12/13) and amounted to 99 percent of domestic revenue (45 percent of domestic primary spending). Except for Lesotho, Swaziland (with Namibia) has the largest public wage bill (in terms of GDP) among SACU countries and small middle income economies in the region. While already on a rising path, in FY16/17, the wage bill sharply increased as a review of public sector salaries reformed, among others, the pay structure and resulted in about 2 percent of GDP in additional wage expenses. Looking forward, Swaziland's public wage-to-GDP ratio is expected, under current policies, to increase further and exceed 17–18 percent of GDP (about 49 percent of domestic primary spending) by FY21/22, largely above domestic revenue collection.

Public Wage Bill, 2012 and 2016
(Percent of GDP)

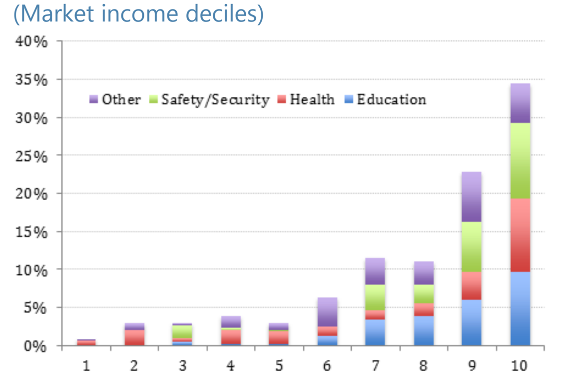


Sources: WEO, Swaziland Ministry of Finance.

2. The increase in the public wage bill has predominately reflected rising salaries. Over the last four years, the wage bill has increased by 2½ percent of GDP. Over this period, compensations per employee grew on average by about 11 percent per year in nominal terms, well above inflation dynamics and were the main driver of the rising wage bill, contributing about 85 percent of the overall nominal increase. During the same period, public employment increased on average by about 3.6 percent per year, outpacing population growth and contributing to the remaining part of the nominal wage bill increase. Higher public employment mainly reflected strong occupational dynamics in education, defense and security (about 60 percent of central government employment).

3. Containing the public wage bill is critical for fiscal adjustment and could strengthen long-term economic performance and employment, without affecting poverty. Empirical evidence for low and middle income countries suggests that wage increases above productivity gains are associated to higher unemployment rates (IMF, 2013). In the case of Swaziland, staff's analysis finds that public sector's wage dynamics do not reflect changes in labor productivity, and contribute to persistently high unemployment. Moreover, empirical evidence for small-middle income countries shows that creating public jobs does not necessarily reduce unemployment and, in some cases, may increase it by creating pressures on the labor market, e.g., with higher reservation wages (IMF 2013). Accordingly, controlling Swaziland's public wage dynamics and linking them to

Civil Servant Distribution Across Income Deciles
(Market income deciles)



Sources: Tulane University, HIES 2010.

productivity trends could potentially boost long-term growth and reduce unemployment.[1] Moreover, incidence analysis finds that the majority of civil servants belongs to the highest income quintiles of the market income distribution and that controlling public wage dynamics would have limited impact on poverty.

4. Reducing the wage bill and controlling its dynamics requires a combination of short and medium-term measures. Short-term measures are needed to control wage bill dynamics and help bring the fiscal deficit in line with the limited budget financing. However, cross-country experience suggests that short-term measures are not sustainable over time and tend to distort wage and employment structures (IMF, 2016).[2] Therefore, more permanent policies are needed to preserve initial gains and contain dynamics over time.

- ***Short-term measures.*** Experience in other countries suggests that a number of short-term measures are effective in bringing the wage bill under control, including: maintaining salary increases below inflation trends and suspending "notch" increases for workers not yet at the highest point-value of their pay grade; introducing temporary hiring rules to reduce public employment (e.g., retirement/hiring ratios); and reducing temporary and contractual positions outside social sectors.[3] In the case of Swaziland, correcting the wage increases granted with the 2016 salary review, e.g. by limiting the cost-of-living adjustment for some years could deliver substantial savings. Finally, curtailing allowances for statutory posts, Parliament, the Foreign Service, the Judiciary and high rank officials would contribute to the fairness of the adjustment.
- ***Medium-term measures.*** Over the medium term, there is considerable scope to improve the wage bill management. Specifically, it is important to link pay to performance, and align job requirements with compensation while ensuring some relation between public and private sector compensation for workers with comparable skills. In addition, strengthening human resource management by removing ghost workers, and improving wage bill controls (e.g., through biometric technologies, enhanced controls for the hiring of low-skilled workers) could deliver long-term savings. Finally, comprehensive organizational and functional reviews of ministries, departments, and agencies can produce tangible savings over the medium term by identifying areas of overlap or duplication.

[1] See Selected Issues Paper on "Investment, Employment and Inclusive Growth in Swaziland", IMF 2017; and, Leigh L. and A. Mansoor, "Africa on the Move: Unlocking the Potential of Small Middle-Income States", IMF, 2013

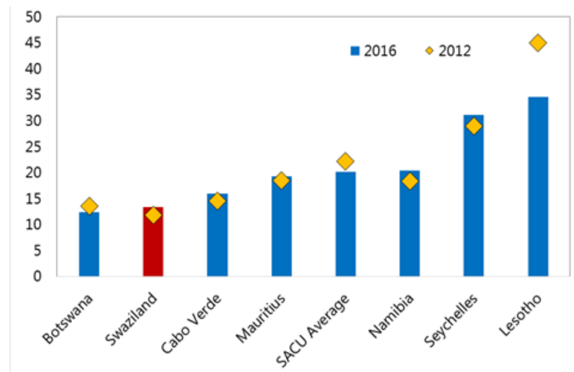
[2] IMF, "Managing Government Compensation and Employment—Institutions, Policies, and Reform Challenges", June 2016.

[3] To avoid the loss of critical skills and create incentives for critical workers (e.g., doctors, engineers) to leave public employment, these measures need to focus on non-essential personnel, exempting critical sectors (e.g., education, health), and allowing the reallocation of employees across sectors.

Annex V. Tax Revenue in Swaziland: Challenges and Reforms

1. **Improving domestic revenue mobilization is a critical priority in Swaziland.** While the revenue-to-GDP is relatively high (23⅓ percent of GDP in FY16/17), about 40 percent of this revenue is shared Southern African Customs Union (SACU) revenue. As a result, the domestic tax-to-GDP ratio over the last few years has been only 12-14 percent of GDP, one of the lowest collection rates among small middle income countries. The dependency from SACU revenue poses two additional challenges. First, SACU revenues fluctuate significantly from year-to-year creating budget management issues. Second, SACU revenues are forecasted to remain low over the medium term as growth in South Africa, the main contributor to the SACU revenue pool, remains moderate, while domestic spending pressures are rising.

Domestic Revenues in Selected Countries
(In percent of fiscal year GDP)



Source: Staff estimates.

2. **There is significant room to mobilize domestic revenue by broadening tax bases of both consumption and income taxation, and reviewing tax incentive regimes.** On the consumption side, options include (i) broadening the VAT base (e.g., electricity and fuel exemptions); (ii) reforming the excise regime (e.g., vehicles, fuel, and SACU excise bases). On the income taxation side, options include (i) improving the corporate income tax system (e.g. revising tax incentive schemes, addressing international tax issues—base erosion and profit shifting); (ii) expanding taxation of location-specific economic rents (e.g. natural resource producers, gambling and telecommunication companies);
(iii) reviewing the personal income tax, including the introduction of a comprehensive capital gains tax; (iv) harmonizing final withholding tax rates; and (iv) addressing informality through the introduction of a presumptive tax regime for small taxpayers. Finally, reviewing property taxes may be an option to raise additional revenue with limited impact on growth.

3. **Significant revenue administration reforms have been implemented over the past five years, including the creation of the Swaziland Revenue Authority in 2011**. In the process, good administrative foundations have been laid, with some of the major achievements including the introduction of a VAT in 2012; a new tax IT revenue management system; electronic filing of tax returns; self-assessments; integration of domestic taxes into a single domestic tax department; upgrading of the customs IT systems; strengthening of the large taxpayer unit (LTU); and development of a compliance strategy.

4. **The IMF has provided technical assistance (TA) to support the recent revenue administration reforms and plans further support over the next years.** Advice and TA has been

provided in the context of a five-year program.[1] Advice focused on key revenue administration areas, including administrative integration of domestic taxes, self-assessment, filing and payment compliance, management of tax arrears, development of risk models and audit case selection. Starting in 2017, further support is planned to spearhead another wave of reforms under the new Revenue Mobilization Trust Fund.[2] The new TA program will continue the work already commenced on compliance, and will reassess the operational structure, particularly that of the LTU, to better support a segmented approach to managing taxpayers.

[1] The Swaziland technical assistance program was financed by the Tax Policy and Administration Topical Trust Fund (TPA-TTF), a multi-donor fund that supports tax administration technical assistance projects spanning three to five years.

[2] The Revenue Mobilization Trust Fund is the successor the TPA-TTF funds in supporting technical assistance projects.

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INTERNATIONAL MONETARY FUND

KINGDOM OF SWAZILAND

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

August 9, 2017

Prepared By

Staff of the International Monetary Fund in collaboration with the World Bank.

CONTENTS

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FUND RELATIONS

As of June 30, 2017

Membership Status

Joined: September 22, 1969; Article VIII.

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	78.50	100.00
Fund holdings of currency	71.95	91.65
Reserve position	6.56	8.36

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	48.28	100.00
Holdings	48.75	100.96

Outstanding Purchases and Loans: None

Financial Arrangements None

Projected Payments to Fund

(SDR million; based on existing use of resources and present holdings of SDRs):

	2017	2018	2019	2020	2021
Principal					
Charges/Interest	0.00	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00	0.00

Implementation of HIPC Initiative None

Exchange Rate Arrangements. The lilangeni (plural: emalangeni) is pegged at parity to the South African rand, which is also legal tender. Exchange rates for the U.S. dollar are based on the floating middle rate of the South African rand against the U.S. dollar. Swaziland has accepted the obligations of Article VIII, Sections 2(a), 3, and 4 of the Fund's Articles of Agreement and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. The previously identified exchange restriction arising from a 50 percent limit on the provision for advance payments for the import of capital goods in excess of 10 million emalangeni was removed by Exchange Control Circular No. 1/2015 issued in December 2015.

Article IV Consultation. Swaziland is on a standard 12-month consultation cycle. The last Article IV consultation was concluded by the Executive Board on December 9, 2015.

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Technical Assistance, 2012-present

Department	Purpose	Date of Delivery	Beneficiary Agency
Fiscal Affairs Department (FAD)			
	PFM Act and Regulations	January 2012 May 2012 August 2012 October 2012 January 2014 September 2015 October 2015	MOF
	MTFF/Budget/Expenditure Management	March 2013 May 2013 July 2013 August 2013 December 2013 January 2014 August 2015 November 2015	MOF
	Cash management and accounting	June 2014 December 2014 February 2015 April 2015 October 2015 April 2017	MOF
	Chart of accounts	July 2012 December 2012 January 2013 February 2013 March 2013 August 2013 January 2014 August 2014	MOF
	Tax policy	April 2017	SRA
	Customs revenue administration	October 2012 June 2015	SRA
	Tax Administration	July 2012 October 2012 August 2013 December 2013 December 2014 November 2016	SRA
Monetary and Capital Markets (MCM)			
	Insurance supervision	January 2011 March 2011 November 2011 August 2012 August 2013 October 2013 May 2014	FSRA

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Department	Purpose	Date of Delivery	Beneficiary Agency
Monetary and Capital Markets (MCM)			
	Risk based supervision	November 2013	CBS
		February 2016	
	Capital market supervision	June 2013	FSRA
		August 2013	
		December 2013	
		April 2014	
	SACCOs[1] Supervision	May 2012	FSRA
		August 2013	
		January 2014	
		May 2014	
	Supervision non-banks	November 2011	CBS
		March 2012	
	Compliance with Basel	April 2013	CBS
		May 2013	
		August 2016	
	Financial stability	February 2015	CBS
		April 2016	
		April 2017	
	Public debt management	May 2015	MOF, CBS
	Stress testing	February 2016	CBS
	NPS development (Diagnostic)	July 2016	CBS
Statistical Department (STA)			
	Monetary and Financial statistics	September 2013	CBS
	Financial Soundness Indicators	March 2014	CBS
	Balance of Payment statistics	February 2017	CBS
	National Accounts Statistics	January 2012	CSO
		August 2012	
		October 2012	
		December 2013	
		April 2014	
		July 2016	
		February 2017	
Legal Department (LEG)			
	Central Banking and Bank Supervision	September 2016	CBS
	National Payment Systems	March 2017	CBS
	Bank Resolution and Institutional Setup for Crisis Management and Prevention	March 2017	CBS

[1] Savings and credit cooperatives

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JOINT WORLD BANK AND FUND WORK PLAN

Table 1. Swaziland: World Bank and IMF Planned Activities, next 12 months
(as of June 2017)

Title	Products	Mission Date[1]	Delivery Date[1]
A. Mutual Information on Relevant Work Program			
World Bank work program (next 12 months)	Private Sector Competitiveness	January, February July, October 2016	March 2021
	Financial Sector Development		
	HIV/AIDS and TB	TBD	TBD
	PFM Reform	2016	June 2018
	Public Sector Modernization	TBD	TBD
	Internal Audit	TBD	TBD
	Public Service Payroll Audit	TBD	TBD
		TBD	TBD
Fund work program (next 12 months)	2017 Article IV Consultation	June 2017	August 2017
	TA: PFM (Commitment and cash management, PFM regulatory framework, MTEF, COA, IFMIS)	Long-term advisor HQ mission (July-August 2017 AFS follow-up missions (September; December 2017)	On-going
	TA: Revenue administration	TBD	On-going
	TA: Tax Policy	TBD	On-going
	TA: Regulatory and prudential framework	July 2017	On-going
	TA: Risk-based supervision (AFS)	August 2017	On-going
	TA: Basel II/Basel III compliance (AFS)	November 2017	On-going
	TA: Financial stability law	September 2017	October 2017
	TA: National Payment Systems	TBD[2]	TBD
	TA: Balance of Payments (DFID EDDI2)	November 2017 (tentative)	TBD
B. Requests for Work Program Inputs			
Fund request to Bank	Periodic updates on work and progress related to structural reform agenda, business climate, financial sector development; and fiscal structural reforms.		Ongoing
Bank request to Fund	Periodic macro updates		Ongoing

[1] Dates are tentative. Years are calendar years

[2] Dependent on the finalization of the SADC law, which the CBS intends to implement.

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STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance	
General: Data provision has some shortcomings, but is broadly adequate for surveillance (Category B). Staff's analysis is mainly affected by shortcomings in the national accounts, fiscal and external sectors.	
National Accounts: The Central Statistical Office (CSO) has rebased GDP series with base year 2011 and reviewed past data up to2011 using revised and updated household and business surveys. Rebased data were disseminated in December 2016 and was used for the 2017 Article IV consultation. With TA from the Fund and donors, the CSO is integrating tax data in the GDP compilation framework, and is working on developing quarterly GDP estimates. Shortcomings remain with large statistical discrepancies for the demand-side of GDP series, delays in finalizing GDP series with about a year lag, and absence of an issuance calendar.	
Price Statistics: The base year for the consumer price index (CPI) is December 2012. Monthly consumer price data are published by the CSO with a one-month lag. The CSO is conducting the Household Income and Expenditure Survey which is planned to be finalized by end-2017. The last Labor Force Survey was conducted in 2013/14.	
Government Finance Statistics: Aggregate budgetary central government data by fiscal year are reported on an annual basis with expenditures stated on an invoice-registered basis. No fiscal statistics are disseminated for extra budgetary funds and institutions, consolidated central government, and consolidated general government. No data is available to assess fiscal risks.	
Monetary and Financial Statistics: The Central Bank of Swaziland (CBS) reports monthly monetary statistics on standardized report forms for the CBS balance sheet and other depository corporations (banks, and the Swaziland Building Society since December 2006). Credit and savings cooperatives remain outside the deposit corporations' survey. The CBS reports Financial Soundness Indicators (FSIs) to the Fund for commercial banks on a quarterly basis and, at times, require revisions.	
Balance of Payments and International Investment Position Statistics: The CBS reports balance of payments (BOP) and international investment position (IIP) data on a quarterly frequency with a lag of about six months according to a methodology consistent with the fifth edition of the *Balance of Payments Manual (BPM5)*. With IMF TA, the CBS is in the process of migrating to the BOP statistics based on the BPM6. However, with large errors and omission, there is room for further actions to improve the accuracy and reliability of the new BOP data.	
II. Data Standards and Quality	
Participant in the Enhanced General Data Dissemination System (e-GDDS) since January, 2017.	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 data are published in *International Financial Statistics (IFS)* and in the *Balance of Payments Yearbook*.	

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Swaziland: Table of Common Indicators Required for Surveillance

(As of July 1, 2017)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	June 17	June 17	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	June 17	June 17	W	M	M
Reserve/Base Money	April 17	June 17	M	M	M
Broad Money	March 17	June 17	M	M	M
Central Bank Balance Sheet	April 17	June 15	M	M	M
Consolidated Balance Sheet of the Banking System	March 17	June 17	M	M	M
Interest Rates[2]	April 17	June 17	M	M	D
Consumer Price Index	May 17	June 17	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	March 17	June 17	M	A	A
Stocks of Central Government and Central Government-Guaranteed Debt[4]	March 17	June 17	Q	Q	Q
External Current Account Balance	2016	June 17	Q	A	A
Exports and Imports of Goods and Services	2016	June 17	Q	A	A
GDP/GNP	2015	Dec 16	A	A	A
Gross External Debt	Dec 16	June 16	Q	A	A
International Investment Position[5]	2016	March 17	Q	Q	Q

[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] Including currency and maturity composition.

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

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

Statement by Mr. Mahlinza, Alternate Executive Director for Kingdom of Swaziland and Ms. Dlamini-Kunene, Senior Advisor to Executive Director
September 1, 2017

Our Swazi authorities thank Staff for the constructive engagement during the recent Article IV Consultation mission in Mbabane. They broadly concur with Staff's assessment of the economic developments and identification of policy challenges facing the country.

Following recovery from the fiscal crisis of 2010, Swaziland experienced two shocks in 2015, a fall in Southern African Customs Union (SACU) revenues and a devastating drought which affected the entire Southern African region. To mitigate the impact of the drought on the economy, the authorities responded with an expansionary policy to boost economic activity and employment. Whilst this policy stance supported growth, inadequate financing led to fiscal and external imbalances, and an increase in domestic arrears and public debt. The authorities acknowledge that current policies cannot persist in the medium-term and that consolidation should be pursued to safeguard macroeconomic stability, support growth, improve social outcomes, and restore reserves. To support this initiative, the authorities have initiated efforts to build broad consensus towards fiscal consolidation and structural reform.

Recent Economic Developments

Economic growth slowed down in 2016 due to the severe drought which affected agriculture and hydropower production, with consequent effects on other sectors of the economy. Going forward, the authorities are optimistic that real GDP will pick up in 2017 as agriculture and agro-processing recover.

Inflation averaged 8.0 percent year-on-year in 2016, higher than the 5.0 percent recorded in 2015, mainly driven by high food prices. Inflationary pressures are expected to subside in 2017 as the drought effects fade. In the first and second quarters of 2017, inflation averaged 7 percent and 6.7 percent year-on-year, respectively and is projected to moderate around 7 percent in 2017.

The current account continued to post surpluses in 2016 mainly supported by net surpluses in the merchandise trade as well as the current transfers' accounts. Current transfers benefitted largely from inflows of SACU receipts. The trade account however, turned negative in the second quarter of 2017 owing to increasing domestic demand which has a high import component.

Total public debt continued to increase in 2016 reaching 25.3 percent of GDP against 18.7 percent in the previous year. Most of this increase is attributed to the surge in domestic debt to finance Government's budgetary obligations. Overall, public debt is still below the authorities limit of 35 percent, despite increasing by 2.7 percent during the year to July 2017.

Fiscal Policy

A combination of strong domestic revenue performance and expenditure cuts on goods and services allowed the authorities to budget a lower deficit of 8.2 percent for FY2017/18 relative to the previous fiscal year. That said, challenges in financing the deficit led to a deterioration of the fiscal position, accumulation of domestic arrears, and faster accumulation of public debt.
The authorities acknowledge that the fiscal position is unsustainable and recognize the need to contain the FY2017/18 deficit within budget. In this respect, they are considering a set of measures that will contain expenditure and clear arrears within the available financing. These measures include: a downward revision of planned spending for FY2017/18; a zero percent increase in the cost of living adjustment; subjecting all non-core spending in the Ministries of Health and Education (previously exempt) to the commitment control system; and suspending all domestically financed capital projects.

Commencing in FY2018/19, the authorities are committed to implementing fiscal consolidation. Currently, they are exploring financing sources to ease the potential impact on growth. One of the key areas of concern is the high wage bill. In this regard, the authorities have begun a process of soliciting broad consensus with all key stakeholder to undertake wage reform measures.

Further, the authorities have placed high priority on effective cash management to minimize the accumulation of arrears. As a result, a Cash Management Unit has been established at the Ministry of Finance to manage the Government's cash flow position and provide guidance on expenditure management. With the assistance of Fund technical assistance (TA), the Unit is also working on strengthening cash flow projections and analysis of revenue streams and expenditures.

To improve the management of public resources, the PFM law and the Public Procurement Act were passed by Parliament and the authorities are in the process of preparing the regulations. In this context, the authorities will implement a medium-term expenditure framework with the FY2018/19 budget, in line with the new PFM law. The authorities have also established a Debt Management Unit which is now fully functional and, has commenced preparation of a debt management strategy.

To address deteriorating performance and efficiency of Public Enterprises and manage contingent liabilities, the authorities are planning to conduct a study to streamline and enhance performance and sustainability of these entities. This will also help reduce the number of enterprises by merging those with similar mandates. In the medium term, the

Government plans to develop policy guidelines for the establishment and management of Public Enterprises.

Monetary and Financial Sector Policies

Swaziland's fixed exchange rate regime has served the economy well and the authorities are committed to safeguarding the peg. In this regard, the authorities will endeavor to maintain reserves above the benchmark of three (3) months.

The financial sector is stable with the banking sector well capitalized and profitable. However, accumulation of domestic arrears by the Government is likely to adversely affect the banking sector's asset quality. Non-performing loans (NPLs) have been rising, especially in the construction sector. To reduce banking sector vulnerabilities associated with the rising NPLs, the government and the Central Bank of Swaziland (CBS) have developed an arrears' clearance program. In addition, the CBS is closely monitoring developments in the banking sector to ensure that the banks' balance sheets do not deteriorate further. In view of the fiscal challenges and possible implications on international reserves, the CBS will limit deficit financing.

In an endeavor to align with international standards, the CBS, is in the process of implementing Basel II. The target is to fully implement the new framework by January 2018 and thereafter prepare for Basel III.

To enhance the regulatory and supervisory frameworks, the authorities have submitted amendments to the Central Bank Order and the Financial Institutions Act to Parliament, and are in the process of drafting the regulations needed to operationalize the Bills. The target is to complete drafting by end September 2017 and the legislation passed into law by December 2017. In addition, the authorities are in the process of drafting the Financial Stability Bill, with the expectation that it will be passed into law in 2018.

Since establishment in 2010, the Financial Services Regulatory Authority (FSRA) has continued to expand and enhance its supervisory role to ensure that the financial system is safe and fair. With the support of Fund TA, the FSRA has continued to improve its coverage of the non-bank financial institutions (NBFIs) under its regulation. Consequently, the balance sheets of the Savings and Credit Cooperatives Organizations (SACCOs), for instance, have strengthened. Going forward, the FSRA will continue to build its regulatory and supervisory capacity to support the stability of the financial sector.

Further, the establishment of the Financial Stability Unit at the CBS and the enhanced coordination between the CBS and FSRA will strengthen supervision and oversight of the financial sector and ensure improved information sharing. With assistance of Fund TA, the authorities have produced the first Financial Stability Report, which will be published before 30 September 2017. To further strengthen financial sector stability assessment, efforts are ongoing to review the stress testing framework.

Structural Reforms

The authorities concur that advancing structural reforms is key to generating growth and jobs to reduce poverty and inequality. In this respect, they have consciously focused on improving the road and utilities infrastructure to encourage investment and growth. They have also continued to enhance access to education and health care.

The authorities are also considering new measures to address structural bottlenecks, including improving the ease of doing business, establishing special economic zones and reviewing the land policy. In this respect, development of serviced land is underway to alleviate shortage of land for investors.

The authorities will continue to implement structural reforms to support inclusive growth by enhancing productivity and diversifying the economy consistent with their Vision 2022 development agenda. To this end, the authorities have completed all legislative processes to facilitate gaining access into the AGOA market. The authorities are continuing with efforts to improve the business environment including through implementing the World Trade Organization trade facilitation agreement.

On education, the authorities will continue to strengthen Technical and Vocational Education and Training programs to facilitate the acquisition of skills needed by the country. Furthermore, the newly established Swaziland Higher Education Council and the National Qualifications Department will continue to regulate the quality of programs and performance of institutions of higher learning.

Finally, to reduce poverty, the authorities increased cash transfers to the elderly by 66 percent as part of the FY2017/18 budget. In addition, the monthly grants for disabled people were increased by 125 percent. At the same time, the authorities extended the provision of free education to orphaned and vulnerable children up to the first year after primary school.

Conclusion

The authorities recognize that Swaziland will continue to face exceptional domestic and external challenges given its vulnerability to external shocks and high dependency on SACU revenues. They reiterate their commitment to fiscal consolidation in the near to medium term, to restore fiscal sustainability, anchor macroeconomic stability and support inclusive growth. They value Fund advice and technical assistance and look forward to continued close collaboration with the Fund.