FOR AGENDA

EBS/83/101

CONFIDENTIAL

May 24, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Swaziland - Use of Fund Resources - Compensatory Financing Facility

Attached for consideration by the Executive Directors is a paper on a request expected to be received from Swaziland for a purchase equivalent to SDR 9.0 million under the compensatory financing facility. A draft decision appears on page 13.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Kaibni (ext. 74162).

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

SWAZILAND

Use of Fund Resources--Compensatory Financing Facility

Prepared by the Research Department and the African Department

(In consultation with the Exchange and Trade Relations, Legal, and Treasurer's Departments)

Approved by Wm. C. Hood and R.J. Bhatia

May 23, 1983

The Managing Director has been informed that the Swaziland authorities will shortly request a purchase of SDR 9.0 million (50 per cent of quota) under the compensatory financing decision. The request, the first by Swaziland, is being made with respect to a shortfall in merchandise export earnings for the calendar year 1982. If approved, the proposed purchase would raise the Fund's holdings of the member's currency from 105.40 per cent to 155.40 per cent of quota.

This paper, which is being circulated in advance of the formal request from Swaziland, is presented in five sections and an annex. The sections deal with: (1) balance of payments position and cooperation with the Fund; (2) estimation of the export shortfall; (3) causes of the shortfall and export prospects; (4) repurchase; and (5) staff appraisal and proposed decision. The relations of Swaziland with the Fund are summarized in the annex.

1. Balance of payments position and cooperation with the Fund

a. Balance of payments position 1/

Swaziland's external payments position has been weakening considerably since 1980. Following a surplus of SDR 24.1 million in 1980, the overall balance moved to a deficit of SDR 26.4 million in 1981. The most recent information indicates that another deficit of SDR 3.7 million is estimated for 1982, and a further deficit of SDR 24.2 million is projected for 1983 (Table 1).

1/ In October 1982, Swaziland received an advance STABEX transfer in the amount of ECU 600,000 (about SDR 0.5 million) on account of a shortfall in cotton exports to the EEC for calendar year 1982.

Table 1. Swaziland: Balance of Payments, 1979-83

	1979	1980	1981	1982 Prel.	1983 Est.
	(In millions of SDRs)				
A. Current account	-87.7	-65.0	-73.5	-76.5	-82.0
Trade balance	-64.3	-82.5	-64.9	-80.8	-72.0
Exports, f.o.b.	(185.7)	(267.2)	(306.5)	(276.6)	(301.0)
Imports, f.o.b.	(-250.0)	(-349.7)	(-371.4)	(-357.4)	(-373.0)
Services (net)	-55.6	-52.3	-82.8	-80.8	-109.0
Unrequited transfers (net)	32.2	69.8	74.2	85.1	99.0
B. Capital account (net)	53.4	64.4	25.1	50.7	57.8
Government	-0.8	19.3	10.9	-0.8	1.0
Private sector	54.2	45.1	14.2	51.5	56.8
C. Errors and omissions	28.3	23.5	20.8	22.1	--
D. SDR allocations	1.2	1.2	1.2	--	--
E. Overall balance	-4.8	24.1	-26.4	-3.7	-24.2
F. Financing	4.8	-24.1	26.4	3.7	24.2
Reserve tranche drawing	--	--	--	4.3	--
Buffer stock drawing	--	--	--	--	1.0
Proposed CFF drawing	--	--	--	--	9.0
Change in assets (- = increase)	4.8	-24.1	26.4	-0.6	14.2
Memorandum items:					
Current account (as per cent of GDP)	25.6	14.3	13.2	13.4	...
Overall balance (as per cent of GDP)	1.4	5.3	4.7	0.1	...
Gross official international reserves (end of year)					
In millions of SDRs	84.5	120.4	78.9	71.6	57.4 1/
In months of imports, c.i.f.	3.0	3.2	1.9	2.4	1.8 1/

Source: Central Bank of Swaziland.

1/ End-March.

Recent balance of payments difficulties have been exacerbated by declines in prices of most of Swaziland's commodity exports, in particular sugar, the main export commodity. Despite an apparent 4 per cent decline in imports, the provisional current account deficit in 1982 widened by 4 per cent to SDR 76.5 million largely because of a 12 per cent decline in total exports. Owing to a reduction in 1982 in the differentials between interest rates in the Republic of South Africa and Swaziland, private capital inflow of SDR 51.5 million, mainly short term, was far above the previous year's level of SDR 14.2 million, and the overall deficit decreased from SDR 26.4 million in 1981 to SDR 3.7 million in 1982. In 1983, the current account deficit is projected to widen to SDR 82 million, mainly because of a sharp increase in the deficit on services account associated with outlays for three large infrastructural projects. A projected increase in capital inflows from SDR 51 million in 1982 to SDR 58 million in 1983 will not be sufficient to prevent the expected widening of the overall deficit from SDR 3.7 million to about SDR 24.2 million.

In the light of falling reserves, the authorities made a reserve tranche purchase of SDR 4.3 million in March 1982, and purchased SDR 1.0 million in January 1983 under the buffer stock financing facility 1/ in connection with the obligation of Swaziland to constitute special stocks under the 1977 International Sugar Agreement. Gross official reserves, which had declined from SDR 120 million at end-1980 to about SDR 72 million at end-1982, decreased further to SDR 57 million at end-March 1983, equivalent to about eight weeks of estimated 1983 imports.

b. Cooperation with the Fund

The request for the proposed purchase may be met when the Fund is satisfied that the member will cooperate with it in an effort to find, where required, appropriate solutions for its balance of payments difficulties.

As noted during the Executive Board discussion (EBM/83/1) of the Article IV Consultation with the member, the Swaziland economy has performed relatively well in recent years; the depreciation in 1982 of the South African rand, to which the lilangeni is pegged, has strengthened the competitiveness of Swaziland's exports; and outstanding foreign debt has remained relatively small, and the debt service ratio was only about 6 per cent in 1982. However, in view of the worsening budgetary and balance of payments outlook for 1983/84, Executive Directors referred to the need for the authorities to restrain public expenditure, diversify the revenue base, and raise interest rates on financial savings to help decrease capital outflows and further mobilize private domestic savings. The staff has recently been informed by the authorities that (i) the 1983/84 budget presented to Parliament in March 1983 includes a continued freeze on public sector employment and measures to improve control over current expenditure;

1/ EBS/82/204, dated 11/9/82.

(ii) sales tax legislation will be presented for ratification to the new parliament which will assemble in October 1983 with the hope of its implementation from April 1, 1984; and (iii) both deposit and lending rates have been permitted to move more closely in line with the RSA rates. Swaziland continues to maintain an exchange system free of restrictions. The request is expected to include a statement that the member will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties.

2. Estimation of the export shortfall

The Swaziland authorities have requested that calendar year 1982 be treated as the shortfall year and have provided actual data for the first three quarters of the year; exports for the last quarter of the year have been estimated by the staff in conjunction with the authorities. 1/

After increasing by 54 per cent in 1980 and by a further 10 per cent in 1981, *export earnings are estimated to have declined by 12 per cent in 1982* (Table 2). They are projected to recover by 10 per cent per year during the

Table 2. Swaziland: Estimation of the Export Shortfall

(In millions of SDRs)

	Calendar Years				
				Projected 1/	
	1980	1981	1982 2/	1983	1984
Total exports	278.6	305.5	268.8	294.5	327.1
Compensable shortfall: (a)-(b)			24.6		
a. Unadjusted shortfall			(25.4)		
b. Double compensation 3/			(0.8)		
Proposed purchase			9.0		

1/ Based on judgmental projections of export earnings shown in Table 3.
2/ Estimated data for October-December 1982.
3/ The double compensation arises from the buffer stock purchase of SDR 0.975 million made in January 1983 (EBS/82/204). In accordance with established practice, the amount of SDR 0.975 million is treated as exports distributed equally over the 12 months preceding the purchase. The addition of the amount of the buffer stock purchase to the value of exports in 1982 has the effect of reducing the shortfall by SDR 0.8 million.

1/ The estimated value for total exports of SDR 73.6 million in the last quarter of 1982 is higher than both the average quarterly exports of SDR 65.1 million realized during the first three quarters of 1982 and the post-shortfall period (1983-84). On the basis of these export movements, the shortfall for 1982 is estimated at SDR 25.4 million. This shortfall has to be adjusted downward by SDR 0.8 million on account of a purchase of SDR 0.975 million made in January 1983 under the buffer stock financing facility. 1/ The compensable shortfall of SDR 24.6 million is nearly three times the amount of the proposed purchase of SDR 9.0 million.

3. Causes of the shortfall and export prospects

The overall shortfall of SDR 25.4 million was overwhelmingly attributable to sugar (SDR 21.5 million); smaller shortfalls were estimated for woodpulp (SDR 2.5 million), asbestos (SDR 2.5 million), and coal (SDR 0.3 million), while excesses were recorded for citrus fruit (SDR 1.8 million) and "other" exports (SDR 2.7 million) (Table 3). The shortfall for sugar was predominantly due to the decline in export unit value resulting from a shift in exports from the higher-priced U.S. market to the lower-priced markets outside the United States following the imposition of import quotas by that country in May 1982. The shortfall for asbestos was largely due to a volume decline caused by reduced demand and the shortfall for woodpulp was entirely due to lower international prices (Table 4). The projected increase in sugar is based on both larger volumes and higher prices for 1983 and 1984, while that for woodpulp is based on higher prices. The projected rise in asbestos earnings is based on higher volumes. For coal, both the volumes and prices are projected to be higher, resulting in a recovery in export values to pre-shortfall levels.

a. Sugar 2/

After declining by 3 per cent in 1981, earnings from sugar exports fell by a further 32 per cent in 1982 to SDR 85.4 million, accounting for 32 per cent of total export earnings compared with 43 per cent during 1980-81.

Since 1976, Swaziland's sugar production has increased substantially through the expansion both of acreage under sugar cane and of milling capacity. Domestic consumption of sugar, at an annual volume of 21-23 thousand tons, accounts for a small proportion of total output which averaged 347 thousand tons during 1980-81, and the volume of sugar exports

1/ (Continued from page 4) SDR 72.0 million realized in the last quarter of 1981. The shortfall would be reduced to the minimum required level of SDR 9.8 million if the estimated exports for the fourth quarter of 1982 were 27 per cent higher.

1/ See Table 2, footnote 3.

2/ Swaziland is a signatory to the International Sugar Agreement (ISA), and as such it is obligated to constitute special stocks of sugar amounting to 15,463 tons by the end of December 1983, of which a minimum quantity of 6,185 tons was constituted by the end of June 1982. Swaziland accumulated the latter amount in May 1982 on account of which it made a purchase of SDR 0.975 million under the buffer stock financing facility.

Table 3. Swaziland: Export Earnings and Shortfalls by Major Commodities

	Years Ending December								Shortfall	
	1977	1978	1979	1980	1981	1982	1983	1984	Geometric	Arithmetic
	(In millions of SDRs)									
Total exports	140.8	155.8	181.1	278.6	305.5	268.8	294.5	327.1	25.4	26.1
Sugar	52.3	54.1	65.4	128.9	124.9	85.4	93.0	109.1	21.5	22.9
Nonsugar	88.5	101.7	115.7	149.7	180.6	183.4	201.5	218.0	1.8	3.2
Woodpulp	29.6	23.4	25.8	36.6	45.2	38.9	40.6	46.5	2.5	2.7
Citrus fruit	10.0	7.5	8.7	7.5	8.9	12.7	13.0	14.0	-1.8	-1.5
Canned fruit	5.6	7.5	8.5	9.4	12.1	11.7	12.5	13.0	--	--
Asbestos	14.6	16.7	16.2	15.4	17.3	13.0	17.0	15.0	2.5	2.5
Coal	1.4	1.9	2.7	2.9	3.0	2.6	3.0	3.0	0.3	0.3
Iron ore	9.1	5.7	4.8	1.8	--	--	--	--	--	0.4
Other	18.2	39.0	49.0	76.1	94.1	104.5	115.4	126.5	-2.7	-1.2
	(Percentage change)									
Total exports		11	16	54	10	-12	10	11		
Sugar		3	21	97	-3	-32	9	17		
Nonsugar		15	14	29	21	2	10	8		
Woodpulp		-21	10	42	23	-14	4	15		
Citrus fruit		-25	16	-14	19	43	2	8		
Canned fruit		34	13	11	29	-3	7	4		
Asbestos		14	-3	-5	12	-25	31	-12		
Coal		36	42	7	3	-13	15	--		
Iron ore		-37	-16	-63	-100	--	--	--		
Other		114	26	55	24	11	10	10		

Table 4. Swaziland: Value, Volume and Unit Value Indices by Major Commodities

(1982=100: In terms of SDRs)

	Value Share in Total Exports in 1982 (In per cent)	Years Ending December 1977	1978	1979	1980	1981	1982	1983	1984	Shortfall in Per Cent of Level in Shortfall Year
Value	61.2	69	68	78	122	129	100	109	122	15.9
Sugar	31.8	61	63	77	151	146	100	109	128	25.2
Woodpulp	14.5	76	60	66	94	116	100	104	120	6.4
Citrus fruit	4.7	79	59	69	59	70	100	102	110	-14.3(excess)
Canned fruit	4.4	48	64	73	80	103	100	107	111	-0.4(excess)
Asbestos	4.8	112	128	125	118	133	100	131	115	18.8
Coal	1.0	54	73	104	112	115	100	115	115	11.2
Volume		75	83	86	93	100	100	104	105	0.3
Sugar		62	67	69	92	101	100	103	105	0.1
Woodpulp		83	94	94	91	91	100	100	100	-3.7(excess)
Citrus fruit		92	94	89	77	93	100	102	105	-5.2(excess)
Canned fruit		56	69	86	72	100	100	104	108	-4.2(excess)
Asbestos		132	143	141	119	120	100	128	113	15.6
Coal		106	136	214	181	154	100	110	110	27.5
Unit value		92	82	90	131	128	100	105	117	15.6
Sugar		98	95	111	163	145	100	106	122	25.0
Woodpulp		91	64	70	103	127	100	104	120	10.3
Citrus fruit		85	63	77	76	75	100	100	105	-9.8(excess)
Canned fruit		86	94	85	111	104	100	103	103	4.1
Asbestos		85	90	88	99	111	100	102	102	2.7
Coal		51	54	49	62	75	100	105	105	-12.5(excess)

has increased commensurately with output until 1982. Swaziland has an assured quota of about 120 thousand tons of raw sugar (equivalent of 116,400 tons of refined sugar) for export to the EEC at preferential rates under the Lome Convention. Under the International Sugar Agreement, Swaziland's export quota to the free market in 1982 was set at about 216 thousand tons, compared to a quota of 159 thousand tons in 1981. 1/ Exports to the U.S. market, which had grown from about 66 thousand tons in 1977 to about 175 thousand tons in 1981, have had to be cut sharply since May 1982 following introduction of sugar import quotas by the United States, and they amounted to only 45 thousand tons for the entire year. 2/ Although several cargoes were diverted to alternative destinations following the imposition of the quota, the disruptions caused to the marketing arrangements contributed to a 1 per cent decline in the volume of exports in 1982.

The loss of a major portion of the U.S. market share, together with the sharp decline in the free market price of sugar, resulted in a substantial decline in Swaziland's export unit values in 1982--to the equivalent of 12.4 U.S. cents per pound, from 19.4 cents in 1981--(Table 5). Even at that reduced level, however, Swaziland's unit values were substantially above the free market price, which averaged 8.4 cents per pound in 1982, after having declined by 50 per cent from 1981. The decline in Swaziland's export unit value in 1982 amounted to 31 per cent in terms of SDRs, and this, together with the lower volume of exports, resulted in a 32 per cent reduction in earnings.

The volume of exports is projected to increase in the post-shortfall period by 2-3 per cent per year. Despite a global freeze by the International Sugar Organization (ISO) of the basic export tonnages of members' exports to the free market at their 1982 level for 1983 and 1984, Swaziland qualifies for exceptional treatment under Article 34 (2)(g) 3/ of the International Sugar Agreement, and the projected increases in export volume are thus permissible. The projected export volumes (average of 356 thousand tons) are well within the projected level of supplies of sugar during the post-shortfall period as the 1983 and 1984 crops are expected to average about 380 thousand tons annually. Although free market sugar prices in 1983 are expected to average slightly below their 1982

1/ Although the final quota, including a Hardship Reserve of 10 thousand tons requested by Swaziland, was 159 thousand tons, Swaziland was allowed to export up to an additional 76 thousand tons because of an exemption under Article 45(6).

2/ The sharp increase in volume of exports to the United States in 1981 resulted in a loss of duty-free access status under the Generalized System of Preferences, but Swaziland regained duty-free import status in April 1983 as the value of exports to the United States during the preceding 12-month period fell below the threshold level of $53.3 million.

3/ This exception has been granted to Swaziland on the basis of additional production capacity resulting from expansion projects previously registered with the Executive Director of the ISO.

Table 5. Swaziland: Sugar Exports by Market

	Calendar Years				
	1980	1981	1982 1/	1983 2/	1984 2/
			Total		
Value (SDR millions) 3/	128.9	124.9	85.4	93.0	109.1
Volume ('000 metric tons)	316.5	344.9	341.5	352.0	360.0
Unit value (.01 SDR/lb.)	18.5	16.4	11.3	12.0	13.7
Unit value (cents/lb.)	24.0	19.4	12.5	13.0	14.9
			EEC		
Value (SDR millions)	50.6	40.8	41.3	45.5	48.5
Volume ('000 metric tons)	129.0	123.7	124.9	120.0	120.0
Unit value (.01 SDR/lb.)	17.8	15.0	15.0	17.2	18.3
Unit value (cents/lb.)	23.2	17.6	16.5	18.7	19.9
			Free Market		
United States					
Value (SDR millions)	46.5	69.3	15.3	17.7	19.9
Volume ('000 metric tons)	112.0	175.9	45.7	41.5	45.0
Unit value (.01 SDR/lb.)	18.8	17.9	15.2	19.3	20.1
Unit value (cents/lb.)	24.5	21.1	16.8	21.0	21.8
Other					
Value (SDR millions)	31.8	14.8	28.8	29.8	40.6
Volume ('000 metric tons)	75.5	45.3	170.9	190.5	195.0
Unit value (.01 SDR/lb.)	19.1	14.8	7.6	7.1	9.4
Unit value (cents/lb.)	24.9	17.5	8.4	7.7	10.3
Free market price	28.7	16.9	8.4	8.0	11.0

Sources: Swaziland authorities and Fund staff estimates.

1/ Partly estimated.
2/ Staff projections.

level, U.S. and EEC import prices are projected to increase in 1983; a further increase is projected for sugar prices in all markets in 1984, although the free market price is expected to remain significantly lower than the EC and U.S. markets. On the basis of these price movements, Swaziland's export unit values are projected to rise by 6 per cent in 1983 (to equal 13.0 U.S. cents per pound) and by 15 per cent in 1984 (to equal 14.9 U.S. cents per pound). The value of sugar exports in 1983-84 is thus projected to increase by 9 per cent in 1983 and by a further 17 per cent in 1984; the projected 1984 export value (SDR 109.1 million) is still 14 per cent below the average value realized in 1980-81. An export shortfall of SDR 21.5 million is estimated.

b. Nonsugar exports

Nonsugar exports taken together are estimated to have incurred an export shortfall of SDR 1.8 million as the rate of increase of these exports fell from 25 per cent per year during 1980-81 to 2 per cent in 1982. Export shortfalls for woodpulp, asbestos, and coal were partly offset by export excesses for citrus fruit, and "other" exports.

Despite a 10 per cent increase in volume, earnings from woodpulp exports, the second largest export product, declined by 14 per cent in 1982 as the result of a 21 per cent decline in export unit values caused by depressed international demand during the world recession. No volume increase is projected for the post-shortfall period as production will remain at its 1982 level, but export unit values are projected to recover by 4 per cent in 1983 and by 15 per cent in 1984 as world prices recover; the projected 1984 price, however, is 5 per cent below the level realized in 1981. Based on these projected movements in prices and volumes, an export shortfall of SDR 2.5 million is estimated for 1982.

Earnings from citrus fruit exports increased by 43 per cent in 1982 on account of both larger volumes and higher unit values and accounted for about 5 per cent of total export earnings. Citrus is mainly exported to the EEC countries, Japan, and the Middle East. The larger volume of exports was possible because of an increase in production due to higher yields and the increasing number of young trees which reached maturity. With the better varieties of citrus planted in recent years, the improved quality contributed to higher unit values. Growth in exports is projected to slow down in 1983-84 with both volume and price increases expected to be only around 2-3 per cent per year. As a result of these developments, an export excess of SDR 1.8 million is estimated for 1982.

Canned fruit exports, mostly pineapple, accounted for 4 per cent of total export earnings in 1982. These exports traditionally go to South Africa and the EEC countries. Their value declined by 3 per cent in 1982 because of lower prices, but volume remained at its record 1981 level. The volume of pineapple production and exports is projected to increase by about 4 per cent per year during 1983-84 as the new plantations established several years ago have now begun to yield crops, and export unit values are projected to be 3 per cent higher. Exports in 1982 were at the five-year trend level, and consequently, no export shortfall or excess is estimated.

Earnings from asbestos exports declined by 25 per cent in 1982 because of the further contraction in international demand on account of health reasons, and both volume (by 17 per cent) and unit value (by 10 per cent) declined. In the post-shortfall period, the volume of exports is projected to increase by 28 per cent in 1983 but to decrease by 12 per cent in 1984. The reason for the projected increase in 1983 is that the output of major producers of asbestos (especially Canada) has been cut substantially by mine closures, and Swaziland has succeeded in obtaining export contracts for a large amount of asbestos in 1983 at a slightly higher price. A decline in export volumes is projected for 1984 because Swazi production is expected to decline owing to the gradual depletion of the mine; the export unit value is projected to remain the same as in 1983. An export shortfall of SDR 2.5 million is estimated for 1982.

Export earnings from coal, which accounted for 1 per cent of total exports, declined by 13 per cent in 1982 on account of a volume decline of 35 per cent the effects of which were partly offset by a 33 per cent increase in export unit values. The volume decline was largely caused by transportation difficulties and reduced demand from the cement industry in Kenya caused by recession in the construction sector. Special characteristics of the Swazi coal, which confine its use to certain furnaces, limit the scope for shifting markets. Projections for the post-shortfall years are based on volumes rising by 10 per cent and unit values by 5 per cent above their corresponding 1982 levels. The projected volume is still 40 per cent below pre-shortfall levels as demand for the Swazi coal is not expected to recover fully during the period. Projected unit values are roughly in line with those for South Africa. An export shortfall of SDR 0.3 million is estimated for 1982.

"Other" exports include a variety of products ranging from the agriculture based goods--such as cotton, wood and wood products, meat and meat products--to non-agriculture industries--like chemicals (mostly fertilizers), textiles, and electronic equipment (television sets) which largely consist of assembly and further processing of imports destined for the South African market. Earnings from this group of exports have grown on average by 55 per cent annually during 1978-81, but the growth rate fell to 11 per cent in 1982 despite relatively large increases in exports of fertilizers (29 per cent) and electronic equipment (19 per cent). The deceleration in the growth rate was largely due to weak international demand which adversely affected exports of cotton, textiles and wood products. Export projections for 1983-84 assume that these exports will grow at about the same rate as in the shortfall year; the recovery in international demand for textiles and building materials is expected to be slow, and further large increases in exports of some other products will require relatively large investments which are not in prospect. Based on these movements in exports, an export excess of SDR 2.7 million is estimated for 1982.

4. Repurchase

In accordance with paragraph 7 of the compensatory financing decision, the authorities of Swaziland are expected to represent that they will make a prompt repurchase in respect of any outstanding part of this purchase, if the amount purchased on the basis of partly estimated data (i.e., estimates for the three-month period October-December 1982) exceeds the amount that could have been purchased on the basis of actual data for the entire shortfall year. The amount to be repurchased would be equivalent to the excess purchased by using partly estimated, rather than actual, data for the entire shortfall year.

5. Staff appraisal and proposed decision

The Swaziland authorities are expected to request a purchase of SDR 9.0 million (equivalent to 50.0 per cent of quota) under the compensatory financing facility (Executive Board Decision No. 6224-(79/135)), in respect of a shortfall of SDR 25.4 million in export earnings calculated for the calendar year 1982. Data for the last three months of the shortfall year are based on estimates, and in accordance with paragraph 7 of the CF decision, the request is expected to include a representation that Swaziland will make a prompt repurchase of the amount, if any, by which the proposed purchase exceeds the amount that could have been purchased on the basis of actual, rather than estimated data for the entire shortfall year.

Swaziland's balance of payments, which registered an overall deficit of SDR 26 million in 1981, remained relatively weak in 1982, although the deficit declined to an estimated SDR 4 million, because the slightly larger deficit in the current account was offset by a sharp increase in short-term private capital inflows. In 1983, despite an improvement in the trade balance, the current account deficit is expected to widen further owing to a deterioration in the service balance due to larger outlays for three major development projects; a worsening of the overall deficit to approximately SDR 24 million is estimated for 1983. Swaziland made a reserve tranche purchase of SDR 4.3 million in 1982 and a buffer stock purchase of SDR 1 million in early 1983. Gross international reserves, which fell from SDR 120 million at end-1980 to SDR 72 million at end-1982, declined further to SDR 57 million at end-March 1983, equivalent to less than 2 months of imports. The staff considers that Swaziland's balance of payments need justifies the proposed purchase under the compensatory financing decision.

Swaziland maintains an exchange system free of any restrictions. The last Article IV consultation with Swaziland (SM/81/223) was discussed by the Executive Board in January 1983. The request is expected to include a statement that Swaziland will cooperate with the Fund in efforts to find, where required, appropriate solutions for its balance of payments difficulties.

After having increased by 54 per cent in 1980 and by 10 per cent in 1981, export earnings dropped by 12 per cent in 1982. In the two post-shortfall years, they are projected to resume growth, increasing at 10 per cent per year. After a deduction of SDR 0.8 million from the gross shortfall of SDR 25.4 million to avoid double compensation arising from the buffer stock purchase made last January, the compensable shortfall is calculated at SDR 24.6 million, which is nearly three times the amount of the proposed purchase (SDR 9.0 million).

The overall shortfall of SDR 25.4 million was almost all accounted for by a shortfall in sugar (SDR 21.5 million). Woodpulp incurred a shortfall of SDR 2.5 million, asbestos one of SDR 2.5 million, and coal one of SDR 0.3 million, while citrus fruit and "other" exports recorded export excesses of SDR 1.8 million and SDR 2.7 million, respectively. The shortfall for sugar was caused by a decline in unit value as the result of an unavoidable shift from the U.S. market to other markets where sugar prices declined sharply in 1982; the decline in exports to the U.S. market was caused by the imposition of import quotas by the United States in early May 1982. The shortfall in woodpulp was entirely due to lower prices associated with weak demand from the industrial countries, while the asbestos and coal shortfalls were largely due to the lower volume of exports in the shortfall year because of reduced demand. The projected increases in export earnings in 1983-84 are based on both volume and unit value increases for sugar and coal and a price recovery for woodpulp; the volume of asbestos exports is projected to increase in 1983 as a result of sharply reduced supplies from other producers, but to decrease in 1984 as Swaziland's output declines. The staff considers that the shortfall in Swaziland's export earnings, due predominantly to the low price of sugar, is attributable to factors largely beyond the member's control. The staff also considers that it is temporary in character, since exports are projected to recover during the post-shortfall period.

The staff considers that the expected request will meet all the requirements set forth in the compensatory financing decision. Accordingly, the following draft decision is proposed for adoption by the Executive Board after a duly authenticated request has been received:

1. The Fund has received a request by the Government of Swaziland for a purchase equivalent to SDR 9.0 million under the Decision on Compensatory Financing of Export Fluctuations (Executive Board Decision No. 6224-(79/135), adopted August 2, 1979).

2. The Fund notes the representations of Swaziland and approves the purchase in accordance with the request.

Swaziland--Relations with the Fund
(As of April 30, 1983)

Date of membership:	September 22, 1969.
Status:	Article XIV.
Quota:	
Present	SDR 18.0 million.
Proposed	SDR 24.7 million.
Fund holdings of emalangeni:	SDR 18.973 million, or 105.40 per cent of quota, including SDR 975,000, or 5.42 per cent of quota, in respect of the buffer stock financing facility.
Net cumulative allocation of SDRs:	SDR 6.43 million.
Holdings of SDRs:	SDR 5.88 million, equivalent to 91.49 per cent of net cumulative allocation.
Trust Fund loans:	SDR 4.50 million.
Direct distribution of profit from gold sales:	US$1.25 million.
Gold distribution:	6,847 ounces.
Intervention currency and the rate:	U.S. dollar; E 1 = R 1 = US$0.8478.

Recent staff visits:

Last Article IV consultation:	The last Article IV consultation discussions were held during September 20-October 1, 1982; Board discussions of the staff report (SM/82/223 and SM/82/231) took place on January 3, 1983.
Technical assistance:	In the past, the Fund has provided Swaziland with considerable technical assistance in the central banking and fiscal fields, and is currently providing an advisor to the Research Department and an administrative advisor to the Central Bank, as well as a Budget Advisor to the Ministry of Finance.