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FOR AGENDA

SM/08/28

January 23, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Kingdom of Swaziland—Staff Report for the 2007 Article IV Consultation**

Attached for consideration by the Executive Directors is the staff report for the 2007 Article IV consultation with the Kingdom of Swaziland, which is tentatively scheduled for discussion on **Wednesday, February 6, 2008**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of the Kingdom of Swaziland indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Ms. Soonthornsima (ext. 37967), Mr. Davoodi (ext. 36942), Mr. Fontaine (ext. 37937), and Mr. Torrez (ext. 38382) in AFR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Thursday, January 31, 2008; and to the African Development Bank and the European Commission, following its consideration by the Executive Board.

This document, together with a supplement providing an informational annex, will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. The supplement, which is not being distributed in hard copy, will also be available in the Institutional Repository; a link can be found in the daily list (http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

KINGDOM OF SWAZILAND

Staff Report for the 2007 Article IV Consultation

Prepared by the Staff Representatives for the
2007 Consultation with the Kingdom of Swaziland

Approved by David Andrews and Anthony Boote

January 22, 2008

- Date: November 6–19, 2007.
- Team: Ms. Soonthornsima (Head), and Messrs. Davoodi, Fontaine, and Torrez (all AFR), Ms. Gesami of the Executive Director's office and Mr. Nolan, senior Resident Representative for South Africa.
- Staff met with senior government officials, made a presentation to the cabinet and held an outreach with other stakeholders.
- Swaziland has accepted the obligations of Article VIII, Sections 2–4, and maintains two exchange restrictions arising from limits on the provision of foreign exchange for advance payments for imports, including (i) an overall limit of E 250,000 and (ii) a specific 33.33 percent limit for the import of certain capital goods. The Swazi lilangeni is pegged at par to the South African rand, which is also legal tender in the country.

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Abbreviations and Acronyms

AGOA	African Growth and Opportunity Act
CBS	Central Bank of Swaziland
CGER	Consultative Group on Exchange Rates
CMA	Common Monetary Area
CPI	Consumer price index
DSA	Debt sustainability analysis
ERP	Economic Recovery Program
ES	External sustainability approach
EU	European Union Commission
FAD	IMF Fiscal Affairs Department
FDI	Foreign direct investment
FSRA	Financial Services and Regulatory Authority
GDP	Gross domestic product
GNI	Gross national income
LUSIP	Lower Usuthu Smallholder Irrigation Project
MCM	IMF Monetary and Capital Markets Department
MDGs	Millennium Development Goals
MoAC	Ministry of Agriculture and Co-operatives
MTEF	Medium-Term Expenditure Framework
NERCHA	National Emergency Response Council on HIV/AIDS
NFA	Net foreign assets
NIIP	Net International Investment Position
PPP	Purchasing power parity
REER	Real effective exchange rate
PRSAP	Poverty Reduction Strategy and Action Program
SACU	Southern African Customs Union
SADC	Southern African Development Community
SCCO	Saving and Credit Cooperatives
TA	Technical Assistance
STA	IMF Statistics Department
UNDP	United Nations Development Program
WB	The World Bank
WFP	World Food Program

EXECUTIVE SUMMARY

- **The Swazi economy has continued to register sluggish economic activity even as rising Southern African Customs Union (SACU) revenue contributed to a large fiscal surplus and accumulation of international reserves**. Growth has averaged just over 2 percent in the past six years as Swaziland struggles with drought, low productivity, erosion of preferential treatment for sugar and textile exports, and mounting social challenges. SACU revenues contributed to a record fiscal surplus in 2006/07, improved external accounts, and an increase in international reserves to over three months of imports.

- **The authorities concurred with the staff that the medium-term outlook is subject to several risks and adjustment is required to restore fiscal sustainability.** Risks include uncertainty about future SACU revenue, continued erosion of trade preferences, and vulnerabilities from the unregulated nonbank institutions. A 6 percent of GDP increase in expenditure in 2007/08 (with a parallel increase in the non-SACU fiscal deficit) is cause for serious concern and, unless reversed, this expansionary fiscal path could undermine macroeconomic stability in the medium term. Given the expected decline of SACU revenue after 2010, the authorities should use the opportunity to reduce expenditures while improving their quality.

- **To underscore the need for adjustment, staff proposed the use of the non-SACU fiscal balance when assessing fiscal performance.** The analysis helps put in context the current overall fiscal surpluses and underscores domestic revenue efforts. Consequently, staff proposed adjustments comprising revenue measures, expenditure cuts and reorientation, as well as enhanced fiscal management.

- **Assessments of the real exchange rate and the current account suggest no immediate threat to external stability**. However, structural reforms and fiscal adjustment are needed to maintain sufficient international reserves and support the peg under the CMA. Furthermore, the authorities should transfer all government's offshore deposits to the Central Bank's balance sheet.

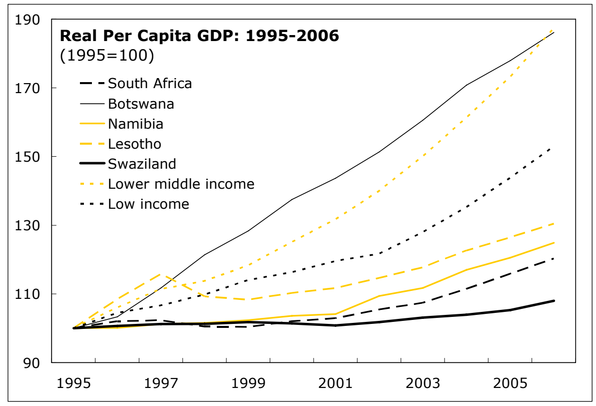
- **The unchecked growth of insufficiently regulated saving and credit cooperatives poses risks to the financial system.** Prompt actions are required to strengthen the regulatory and supervisory framework of the nonbank financial sector.

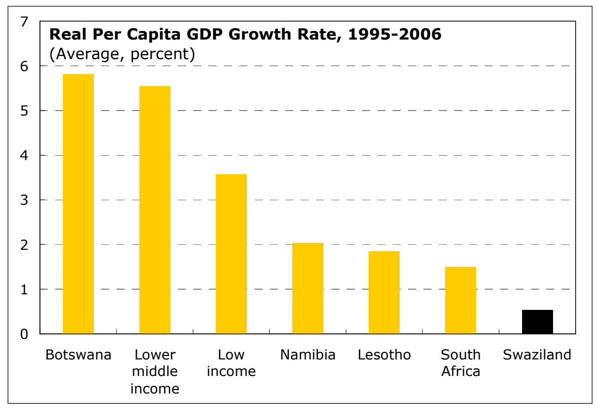
- **Staff welcomes the implementation of the Poverty Reduction Strategy and Action Program,** and recommends that it be embedded within a fiscal framework that is consistent with a prudent fiscal stance.

- **Further efforts are needed to improve the quality and timeliness of data** to facilitate policy formulation and monitoring.

I. Background

1. **The Swazi economy remains stagnant, registering very small gains in real per capita GDP.** Real GDP growth has slowed from an annual average of 3.6 percent in the 1990s to just over 2 percent in the past six years compared to an average of 5.5 percent among lower middle income countries. The slow pace of economic reforms and governance issues have worsened the investment climate, and the erosion of preferential treatment for Swaziland's main exports**,** textile and sugar, combined with declining competitiveness have further contributed to the weakened output performance. Swaziland's fiscal stance in recent years has been largely dependent on increasing revenue from the Southern African Customs Union (SACU). Concurrently, there have been limited efforts at raising domestic revenue and expenditure levels continue to rise.





2. **Years of persistently low growth has led to stubbornly high poverty and unemployment.** This situation is made worse by the high prevalence of HIV/AIDS, absenteeism from the labor force, and low productivity. Swaziland continues to suffer from recurrent droughts, which further exacerbate the humanitarian situation and hamper growth (Figure 1).

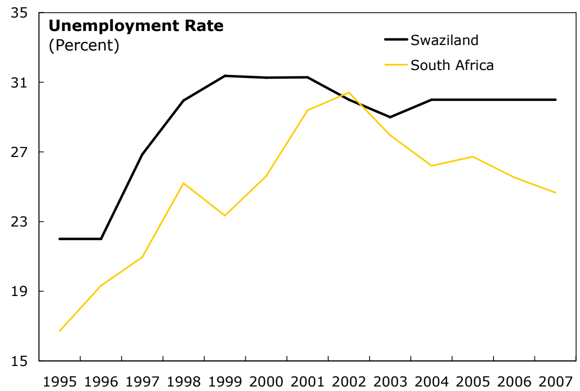
3. **Swaziland remains a constitutional monarchy.** A new constitution took effect in February 2006 and parliamentary elections are planned to take place in 2008, under the traditional *tinkhundla* system—a grass roots system of local governments and chiefdoms. Political parties are still not permitted, and cabinet members are appointed by the king.

II. Recent Economic Developments

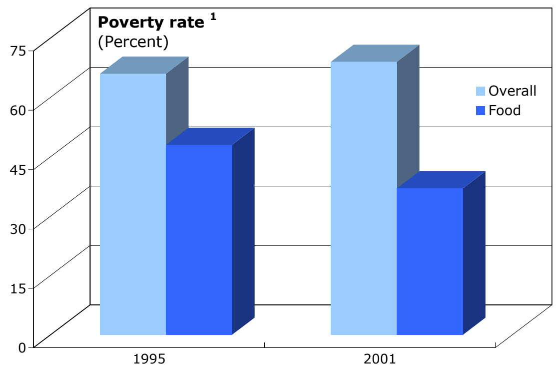
4. **After a small rebound to 2.8 percent in 2006, real GDP growth is estimated to have slowed to 2.3 percent because of drought and forest fires.** Swaziland's inflation rate typically closely follows that of South Africa, but is estimated to have increased to an annual average of 8.3 percent in 2007 reflecting rising food and oil prices. Since June 2006, the Central Bank of Swaziland (CBS) has increased its discount rate by 350 basis points to 11 percent in line with the South Africa Reserve Bank, and issued securities to help reduce excess liquidity.

Figure 1. Swaziland: Main Challenges

Low growth has led to stubbornly high unemployment..

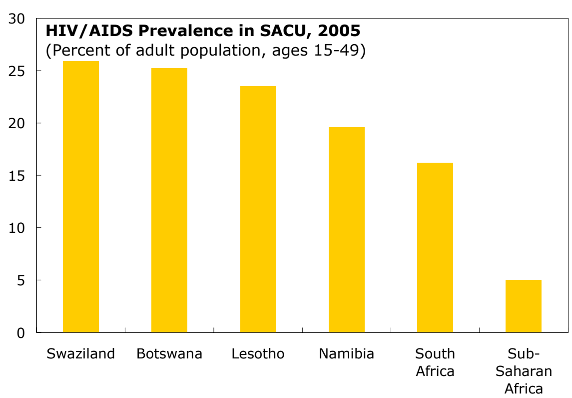


...and high poverty.



[1] The food poverty represents fraction of people who cannot afford buying food in order to maintain a minimum daily intake of 2,100 calories.

HIV/AIDS prevalence is the highest in the world...



...while high income inequality persists.

Income Distribution and Poverty

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

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

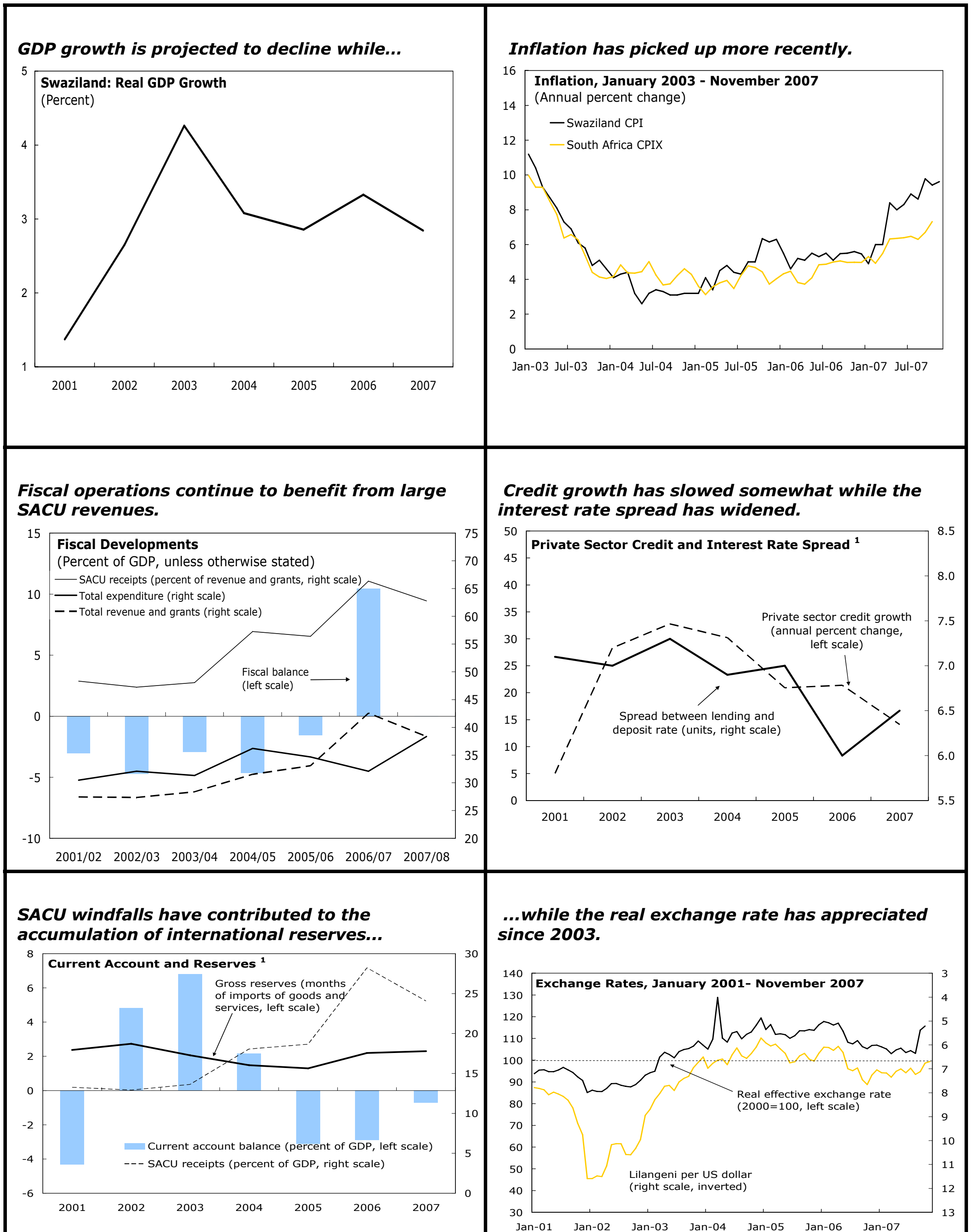
[1] A measure of distribution of income, where 0 represents perfect equality and 100 represents perfect inequality.

Sources: National authorities, IMF staff estimates, Swaziland Household Income and Expenditure Survey, 2000-2001, World Bank, World Development Indicators, and UNAIDS reports, 2006 and 2007.

5. **Rising SACU revenue contributed to a large fiscal surplus and accumulation of international reserves.** In 2006/07, SACU revenues rose by 9 percent of GDP to a record level of 27.5 percent of GDP. At the same time, spending fell short of budgeted amounts, because of the nonapplication of the voluntary early retirement scheme for public servants and lower payments to government's pension fund; the overall fiscal surplus reached 10 percent of GDP.[1] Despite stronger

[1] Government's actuarial liabilities to the Public Service Pension Fund have declined to E343 million in 2006/07 from E3.1 billion in 2004/05.

Figure 2. Swaziland: Recent Economic Developments

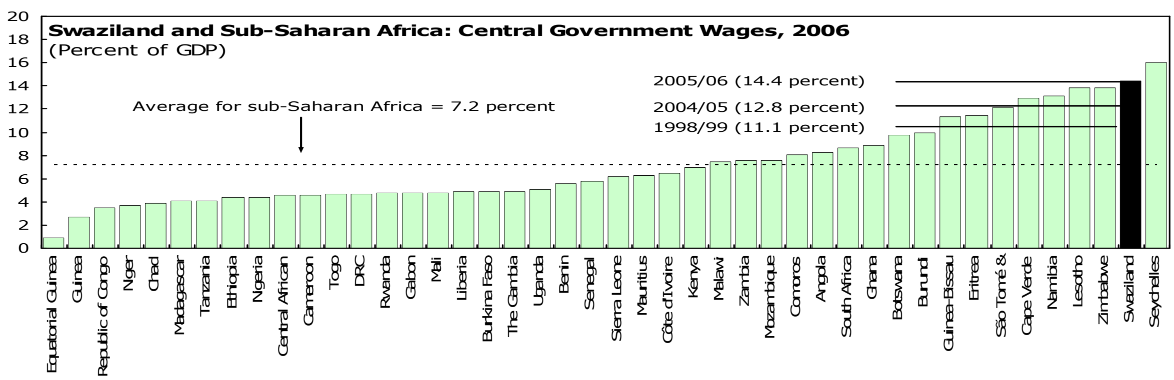


Sources: National authorities and IMF staff projections.

[1] As of October 2007 except for the current account balance and SACU receipts which are end 2007 projections.

import growth, the external current account deficit narrowed in 2007, owing to stronger demand for Swaziland's major export, soft drink concentrate, the extension of the African Growth and Opportunity Act (AGOA), which benefited exports of textiles,[2] and large SACU transfers. International reserves recovered to an estimated 3.4 months of imports at end-2007 (Figure 2).

6. **The authorities have implemented some measures since the 2006 Article IV consultation, but made limited progress on civil service reform.** Budgetary control has improved, which has yielded some results in controlling the fiscal arrears. Improvement of the public procurement system has also started with assistance from Crown Agents, while the UNDP and the World Bank are assisting in strengthening public financial management, including the revision of the Public Financial Management Bill. The Revenue Authority Bill has been enacted, but the privatization program is progressing slowly. Stalled civil service reform and—despite the 'zero-growth' policy—rising employment and higher wage demands resulted in an escalation of the wage bill during the last four years, and it is currently among the highest in Africa.



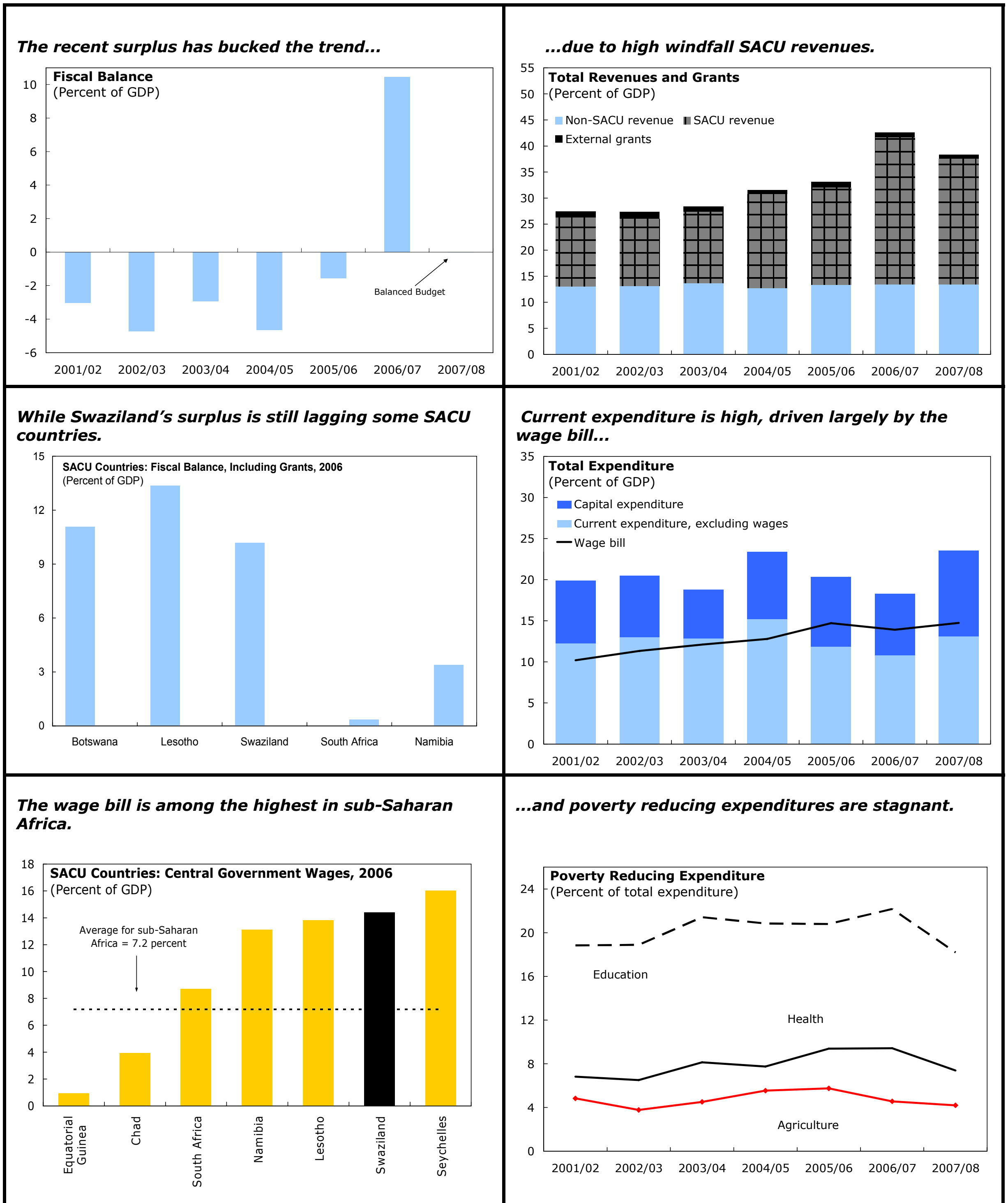
7. **Broad money has expanded sharply during the past two years, reflecting the rise in net foreign assets.** While credit to the government has declined, due to the surpluses arising from SACU receipts, growth in lending to the private sector slowed only moderately from 22 percent in 2006 to 19 percent in 2007. Interest rates have risen in line with developments in South Africa, but the spread between the lending and deposit rate increased to 4.2 percent.

8. **Banking soundness indicators are generally positive, but the deposit-taking Saving and Credit Cooperative (SCCO) sector remains without effective supervision.**[3] Banks are well capitalized, liquid and profitable with low nonperforming loans (Table 4). However, the government

[2] Countries can only benefit from sourcing fabric from third countries through 2012.

[3] See Selected Issues Paper. During the last few years, the SCCO sector has grown rapidly with over 40,000 members, and deposits accounting for 10 percent of the banking system deposit (2 percent of GDP).

Figure 3. Swaziland: Fiscal Developments



Sources: National authorities and IMF staff projections.

owned SwaziBank continues to have high nonperforming loans and face difficulties meeting compliance requirements. A few major SCCOs also face severe financial difficulties. Nevertheless, notable progress has been made in establishing a framework for regulation and supervision of insurance and pension funds.[4] The new regulations require that all insurance and pension funds increase their holdings of domestic assets from 10 to 30 percent of total assets in the next three years.

III. The Medium-term and Risks to the Economic Outlook

9. **On current policies, medium-term prospects are not encouraging.** Growth is expected to average 2 percent in the medium term. Although supported by moderate activity in the services sector and some improvement in manufacturing, growth prospects are also seriously constrained by a weak investment climate and high cost of doing business, recurrent droughts, and the HIV/AIDS epidemic. However, inflation is expected to moderate somewhat as food prices slowly return to normal. The continuation of higher SACU revenues would contain the external current account deficit to around 2 percent of GDP through 2010.

10. **The medium-term outlook is subject to several risks:**

- **SACU revenues are unlikely to remain high after 2010, putting fiscal sustainability at risk.** The downside risks include: (i) a call by South Africa to revisit the revenue-sharing formula, resulting in possibly lower SACU shares for member countries; (ii) the possible transformation of the Southern African Development Community (SADC) into a customs union by 2010, with possibly lower shares to existing SACU members; and (iii) a slow down in South Africa's economic growth and the reduction in common external tariff rates due to trade liberalization. Hence, the decline in SACU revenue may be even greater than that shown in the baseline;

- **The financial sector faces vulnerabilities.** Continued weaknesses in the government-owned bank as well as emerging vulnerabilities from the fast growth of insufficiently regulated nonbank financial institutions pose significant risks to the financial sector; and

- **The external environment may also deteriorate further**. Erosion of trade preferences, particularly for sugar and textiles as well as increasing trade liberalization could all adversely impact prospects in the external sector (see Selected Issues Paper).

IV. Policy Discussions

11. **Against the background of slow growth and significant medium-term risks, discussions focused on preserving fiscal sustainability to ensure macroeconomic stability; external stability**

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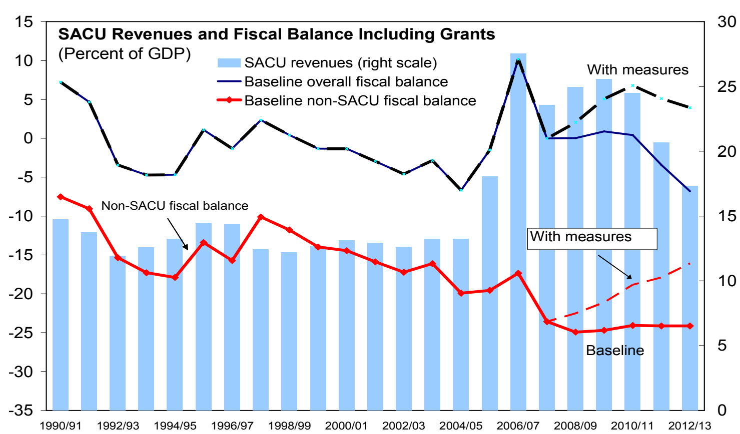
[4] These include: establishment of Insurance and Pension Funds Registrar's Office; opening up of these markets to foreign competition; and passage in December of the Insurance Regulations and Pension Fund Regulations.

and exchange rate policy; financial sector vulnerability; and policies to reinvigorate private sector led growth.

A. Fiscal Sustainability and Reforms

12. **Staff expressed concern that increased SACU revenues have facilitated a sharp fiscal expansion that could undermine macroeconomic stability in the medium term.** In 2007//08 expenditures are budgeted to rise 6 percent of GDP to a record level of 37.6 of GDP, with a parallel rise in the non-SACU fiscal deficit. Although this includes increased food assistance in the wake of widespread drought and forest fires, staff noted that the bulk of the expansion, funded by high SACU revenues, reflects a one percent of GDP increase in the wage bill and higher capital spending. While noting that some spending could not be delayed at this stage, the authorities indicated that capital expenditures may not be executed in full. The medium-term budget policy through 2010/11 remains largely expansionary. Without offsetting expenditure cuts to allow for additional spending on education, and agriculture and health, staff estimates that total expenditures would rise to a record high of over 39 percent, while the wage bill rises to over 15 percent of GDP. Even allowing for some expected improvements in domestic revenue collections, the projected decline of SACU revenues would result in a budget deterioration to a deficit of almost 7 percent of GDP by 2012/13.

13. **The staff discussed the usefulness of targeting a non-SACU fiscal balance when assessing the fiscal performance.** Concurring with staff's assessment of the likely decline in SACU revenues beyond 2010/11, the authorities welcomed the supplementary fiscal analysis that helps put in context the current overall fiscal surpluses.[5] The non-SACU deficit also allows more focus on domestic revenue efforts while providing an anchor for fiscal savings to help smooth-out expenditure over the long term. During 1996/97-2004/05, the non-SACU fiscal deficit averaged about 16 percent of GDP based on SACU revenues of 13 percent of GDP, but widened to 17.4 percent of GDP in 2006/07.



Sources: National authorities and IMF staff estimates and projections.

14. **Staff's *baseline scenario* assumes some revenue buoyancy from strengthening of the tax administration and expenditure levels based on recent outturns.** On this basis, the non-SACU fiscal deficit will remain at around 24 percent of GDP. Reversing the consequent decline in international reserves beyond 2012/13, and returning fiscal policy to a sustainable path would then require unrealistically large spending cuts within a short time frame.

[5] The non-SACU fiscal balance is defined as the overall fiscal balance excluding SACU revenues.

15. **A proposed fiscal *reform scenario* targets a non-SACU deficit of 16 percent of GDP based on 'more normal' SACU revenue of about 13 percent of GDP.**[6] The required adjustment implied by this scenario could be attained by the phased implementation of a package of revenue and spending measures, while still increasing pro-poor and HIV/AIDS expenditures. This would also allow for fiscal surpluses that would be used to repay debt, leading to a decline in the debt-to-GDP ratio. The low debt level gives flexibility to the authorities, if needed, to provide additional social spending through debt financing. These measures, together with structural reforms, could gradually raise GDP growth to 3–4 percent over the medium term (see Box 1). The authorities were generally receptive to staff's proposed adjustments, but also indicated that any expenditure cuts could be challenging given this year's election and the recent large fiscal surplus.

Swaziland: Medium Term Fiscal Scenario Without and With Measures 1/
(Percent of GDP)

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Baseline							
Non-SACU fiscal balance w/o measures	**-17.4**	**-23.6**	**-24.9**	**-24.7**	**-24.1**	**-24.1**	**-24.1**
Revenues w/o SACU	14.0	14.0	15.0	15.0	15.1	15.1	15.2
Expenditures	31.3	37.6	39.9	39.7	39.2	39.2	39.3
Wages and salaries	13.6	14.4	15.8	15.7	15.4	15.4	15.3
Goods and services	5.4	6.8	6.5	6.5	6.5	6.5	6.5
Subsidies and transfers	4.3	5.2	6.3	6.3	6.3	6.3	6.3
Capital Expenditure	7.3	10.2	10.3	10.3	10.3	10.3	10.3
Interest payments	0.8	0.8	0.9	0.8	0.7	0.7	0.9
Adjusted scenario							
Non-SACU fiscal balance with measures			**-22.5**	**-21.1**	**-18.8**	**-17.9**	**-16.1**
Revenue w/o SACU			15.0	15.2	15.7	16.0	17.1
Expenditures			37.5	36.3	34.5	33.9	33.2
Of Which:							
Wages and salaries			14.8	14.3	13.8	13.6	13.5
Goods and services			6.2	6.1	5.9	5.8	5.6
Subsidies and transfers			5.2	4.8	3.9	3.8	3.4
Memorandum items:							
SACU receipts	27.5	23.6	25.0	25.6	24.5	20.7	17.3
Overall balance without measures	10.2	0.0	0.0	0.9	0.4	-3.4	-6.8
Overall balance with measures			2.4	4.5	5.6	2.8	1.2

1/ The fiscal year runs from April 1 to March 31.

16. **Strengthened public financial management is also needed to improve the quality of spending.** A new computerized commitment system is helping to reduce arrears accumulation. However, not all expenditure items are linked with this system and some manual payments orders remains, making the budgetary control process cumbersome. A good start is being made in improving the procurement system. Staff welcomes the government's intention to strengthen the medium-term expenditure framework (MTEF) and public finance management. To support the transparency effort, the government should disseminate budget and outturn information in addition to the fiscal policy statement.

[6] At 16 percent of GDP, the non-SACU fiscal deficit did not create an unsustainable debt burden while allowing for maintaining sufficient international reserves.

Box 1. Key Measures to Restore Fiscal Sustainability

In anticipation of SACU revenue decline after 2010/11 that would threaten fiscal sustainability, staff proposed the following measures.

Revenue measures	Expenditure measures
Establish a large taxpayer unit by mid-2008 (0.01-0.3 percent of GDP).	Restore budget credibility, avoid supplementary budget and eliminate unbudgeted expenditures and arrears
Implement the Revenue -Authority bill, and introduce VAT within the following two years (0.1-1.5 percent of GDP).	Strengthen expenditure management and procurement system (0.3 – 0.9 percent of GDP).
Simplify the tax structure by eliminating some taxes that are not productive and use staff resources to focus on higher yield taxes.	Implement the voluntary exit retirement scheme, reallocate resources to high priority sectors, and freeze hiring (0.8 – 1.8 percent of GDP).
	Prioritize expenditures to support pro-poor and productive projects.
	Reduce excessive transportation and foreign travel (0.1 – 0.3 percent of GDP).
	Accelerate implementation of privatization programs and approve all pending bills (0.1 – 1.1 percent of GDP).
	Reduce subsidies and transfers particularly through improving the operations of the Central Transport Administration (1.5 percent of GDP).

Source: Staff estimates

The revenue impact of these measures would be small initially but would increase to 2 percent of GDP by 2012/13.Expenditure measures could realize savings of 6 percent of GDP by 2012/13. These measures together with structural reforms aimed at facilitating private sector initiatives could generate GDP growth of 3-4 percent over the medium term.

Swaziland: Medium-Term Scenario, 2007-2012
(Percent of GDP, unless noted otherwise)

	2006	2007	2008	2009	2010	2011	2012
Main macroeconomic variables [1]							
Without measures							
Real GDP growth	2.8	2.3	2.0	2.0	2.0	2.0	2.0
Current account balance	-2.9	-0.7	-1.4	-1.4	-1.7	-3.1	-3.8
Gross official reserves (months of imports of G&S)	2.2	3.4	3.0	2.8	2.6	2.3	1.8
Government debt	16.8	15.2	13.6	12.4	11.3	14.0	19.4
Total Revenues and grants	41.5	37.5	40.0	40.6	39.6	35.8	32.5
Total Expenditure and Net Lending	31.3	37.6	39.9	39.7	39.2	39.2	39.3
Fiscal balance, including grants	10.2	0.0	0.0	0.9	0.4	-3.4	-6.8
Reform policies scenario [2]							
Real GDP growth		2.3	2.8	3.7	3.9	4.0	4.0
Current account balance		-0.7	0.0	1.6	2.5	2.0	2.0
Gross official reserves (months of imports of G&S)		3.4	3.5	4.0	4.3	4.0	4.0
Government debt		15.2	13.5	10.6	9.5	9.8	10.0
Total Revenues and grants		37.5	40.0	40.8	40.1	36.7	34.4
Total Expenditure and Net Lending		37.6	37.5	36.3	34.5	33.9	33.2
Fiscal balance, including grants		0.0	2.4	4.5	5.6	2.8	1.2

[1] Fiscal year runs from April 1 to March 31.
[2] Assuming that strong policy reforms will result in fiscal and current account surpluses.

B. External Stability and Exchange Rate Policy

17. **Staff and the authorities agreed on the need to maintain sufficient international reserves to safeguard external stability that is underpinned by a prudent fiscal policy.** The staff welcomed the authorities' policy of rebuilding international reserves through saving some of the SACU windfalls. The authorities reconfirmed their intention to maintain reserves of at least three months of imports.

18. **In light of the government's holding of some SACU savings offshore, the staff recommended that all government foreign deposits should be transferred to the CBS, consistent with the constitution.** During 2007 international reserves reached US$637 million of which US$102 million (about 16 percent of total international reserves) was held offshore by the government. The staff expressed concerns about the absence of a proper investment strategy to safeguard these assets against undue risks and urged their transfer to the CBS balance sheet. The authorities were receptive to this recommendation.

19. **An updated debt sustainability analysis (DSA) shows Swaziland has very low debt levels, but these could rise significantly if the fiscal situation deteriorates (Tables 7 and 8).** Since 2002, total public sector debt has declined, reflecting in part, an exchange rate appreciation between 2003 and 2006, and limited new borrowing. Based on current fiscal trends, particularly with respect to high SACU revenues, debt levels are expected to continue to trend downwards, at least to 2010, reaching 11.4 percent of GDP. However, following the expected decline in SACU revenues after 2010, the debt-to-GDP ratio will quickly rise to 20.5 percent by 2013.

20. **Assessments of the real exchange rate and the current account suggest no immediate threat to external stability provided that necessary structural reforms and fiscal policies are implemented to support the peg under the CMA.** Staff analysis suggests either no misalignment, or mild overvaluation of the real exchange rate (Box 2). Staff shared the authorities' view that the current exchange rate system should be maintained. It facilitates capital and current transactions with South Africa, Swaziland's most important economic partner. Under the CMA, movements in the real effective exchange rate are largely exogenously determined, and responsibility for macroeconomic stability rests squarely with fiscal policy and pursuit of competitiveness through structural reforms.

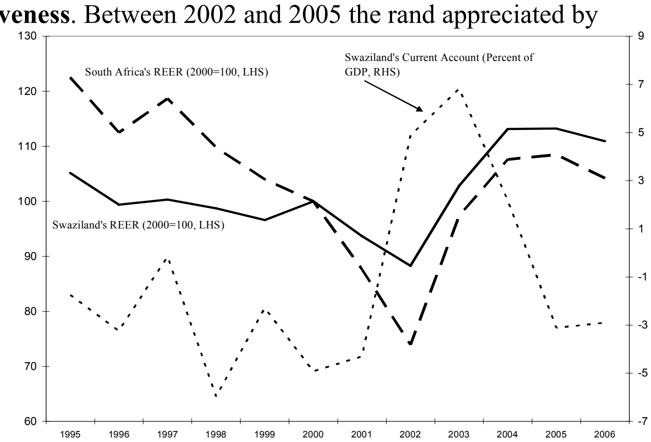
21. **Prudent macroeconomic policies need to be complemented with competitiveness-enhancing reforms** to reduce the cost of doing business, and improve the quality of public institutions. Impediments to investment include a lack of transparency; poor administrative coordination; low labor productivity; and concerns of corruption.[7] Key reforms should include skills-training, increased labor-market flexibility; simplifying business licensing procedures; improving

[7] "The Swaziland Investor Roadmap 2005" by USAID and "Assessment of the Investment Climate in Swaziland 2007" prepared by the World Bank.

Box 2. Assessing Swaziland's Real Exchange Rate and Competitiveness

Swaziland's current account is largely influenced by factors outside the country's control. These include SACU transfers, brand loyalty for Swaziland's major export (soft drink concentrates) and preferential trade arrangements (EU and AGOA) for exports of sugar and textiles.

However, appreciation of the rand, driven by South Africa's exchange rate fundamentals, could adversely affect Swaziland's competitiveness. Between 2002 and 2005 the rand appreciated by 65 percent in nominal terms and Swaziland's REER appreciated by 30 percent. Although mitigated by preferential trade arrangements, these sizable appreciations lowered growth of sugar exports, while the depreciation in 2006 has boosted sugar exports. On the other hand, exports of textiles have stagnated and declined in 2006 despite the depreciation, with factory closures and loss of almost 50 percent of the workforce since 2004.



Against this background, various CGER and non-CGER approaches are used to assess the level of the REER and sustainability of the current account.

The *external sustainability approach* (ES) under the baseline scenario indicates that the current account norm (a deficit of 1.8 percent GDP)—the current account balance that would stabilize the ratio of net international investment position (NIIP) to GDP at the 2006 level—would be stronger than the projected current account deficit in 2012 (3.8 percent of GDP), suggesting an *overvaluation*.

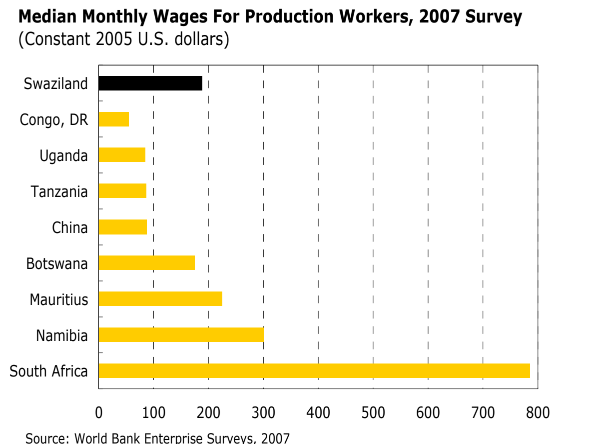
Stabilizing the NIIP (under the ES approach) at a level prior to the large SACU windfalls since 2002, consistent with an underlying current account that is purged of SACU windfalls, will result in a much weaker current account norm (a deficit of 3.9 percent of GDP). Since this is identical to the projected current account in 2012 under the baseline scenario, it suggests *no misalignment of the exchange rate*. However, if the current account deteriorates faster than projected under the baseline scenario, the external position becomes unsustainable, consistent with the sensitivity tests in the external DSA (Figure 7).

The *absolute version of the purchasing power parity* (PPP) approach suggests that the lilangeni's REER was *undervalued* by some 65 percent in 2006, but with a margin of error larger than this undervaluation.

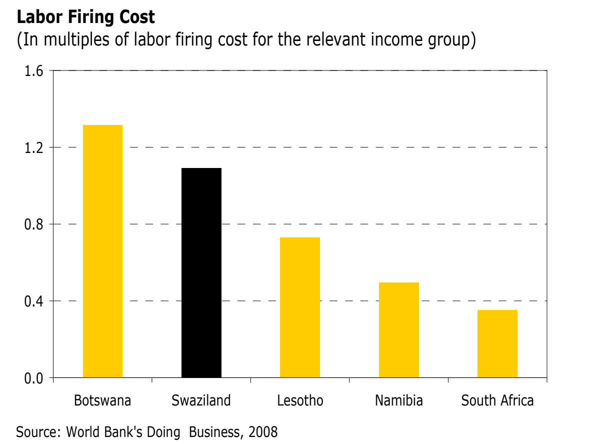
However, *structural measures of competitiveness* indicate that Swaziland has a weak competitiveness position in a number of areas (Figure 4).

Figure 4. Swaziland: Competitiveness Indicators

High labor cost is impacting competitiveness…

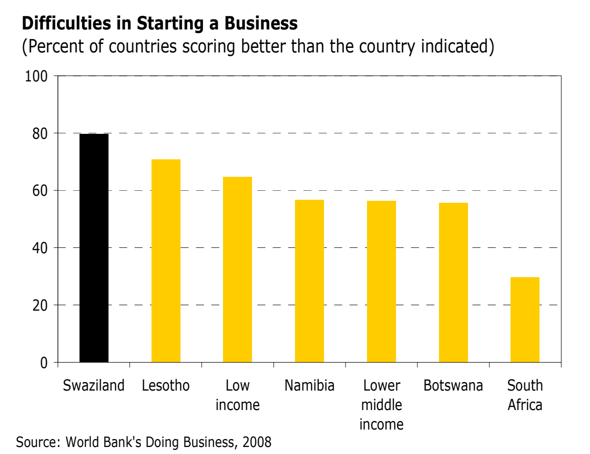


…so are high firing costs.

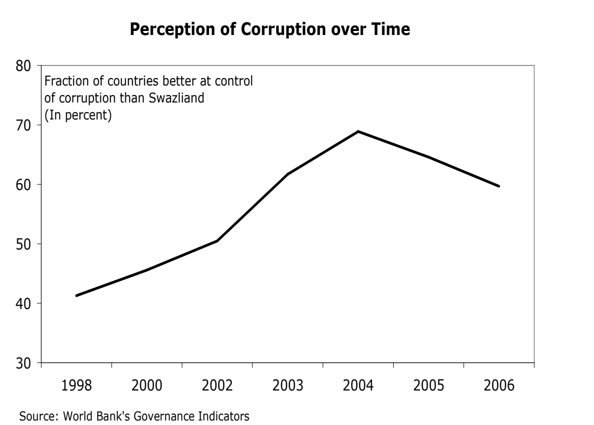


Swaziland is a difficult place to do business.

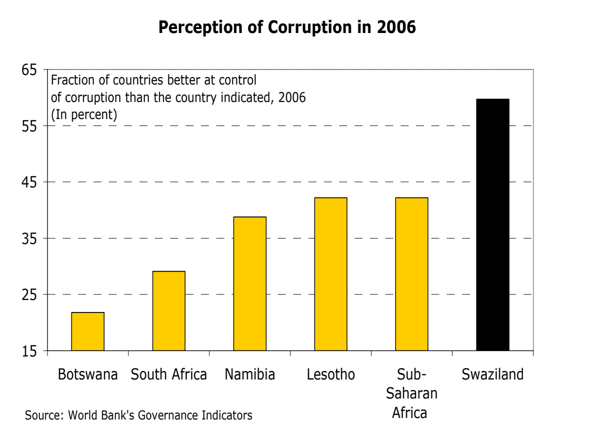
While obstacles to starting a business remain large…



…as does high corruption perception over time



..and regionally.



infrastructures; and increasing land productivity. The authorities plan to appoint a Commissioner to head the anticorruption agency by early 2008.

C. Financial Sector Vulnerabilities and Financial Deepening

22. **The authorities have taken a number of steps to address compliance by the SwaziBank, but agreed that unsupervised SCCOs pose significant risks to the financial system.** A recent on-site inspection prompted the CBS to require that SwaziBank hire a new auditor to undertake a system audit by end-2007 and propose remedial actions. The entire board of directors of the bank has also been replaced. SwaziBank is on a list for fast track privatization and the bank is looking for a strategic partner to develop its retail business. Staff recommends that prior to privatization, SwaziBank's development and commercial banking activities be separated, and the former combined with the operations of other government-owned development finance institutions. The authorities indicated that they will assess the feasibility of this proposal particularly given that these institutions have other shareholders.

23. **Progress in supervision of SCCOs has been hampered by continued capacity constraints at the Ministry of Agriculture and Co-operatives (MoAC), the supervisory agency for SCCOs, as well as a legal impasse that prevents the CBS from taking over the supervision of the SCCOs.** In the meantime, the public are aware that a few of the SCCOs are in serious financial difficulties, which could undermine confidence in the sector.[8] Upon resolution of the legal impasse, MCM is ready to provide further TA.

24. **The staff noted that although prudential indicators are generally positive, the continued strong growth and concentration of credit calls for close scrutiny of banks' loan portfolios.** The staff expressed its concerns over the banking sector exposure to sugar-related industry (70 percent of loans) in light of the declining preferential treatment for the sector and rising interest rates. The authorities explained that banks are in compliance with exposure limits, and are closely monitoring these practices. Furthermore, the CBS is tightening loan provisioning requirements.

25. **Further risks to the financial sector stem from the delayed enactment of some important financial sector legislation**. The staff urged the authorities to expedite the passage of the Securities bill (1993); the Financial Services and Regulatory Authority bill (FSRA, 2003) that aims to supervise the consolidated nonbank financial institutions; and the National Clearing and Settlement Systems bill 2004.

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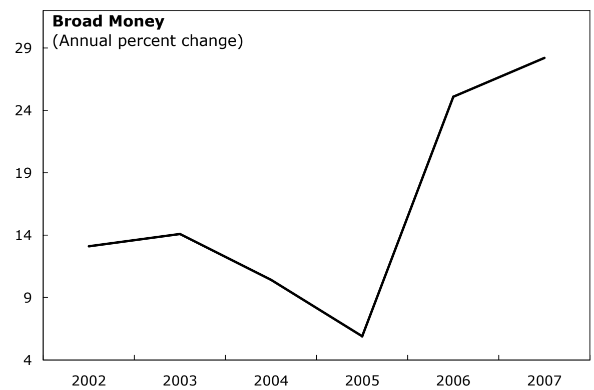
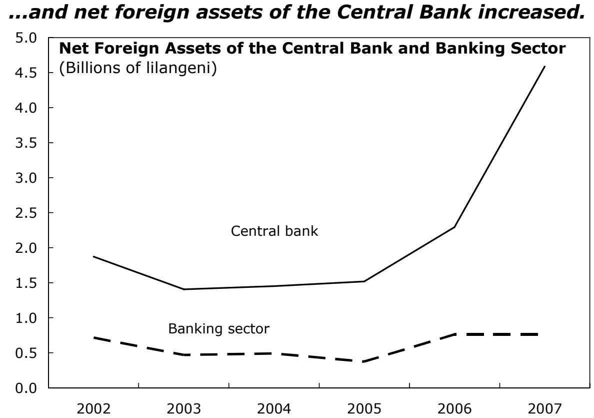
[8] As of end-2006, these insolvent SCCOs hold deposits of about 4 percent of commercial banks' deposits (1 percent of GDP) and involve about 20,000 members or half of the total membership.

Figure 5. Swaziland: Monetary and Financial Developments[1]

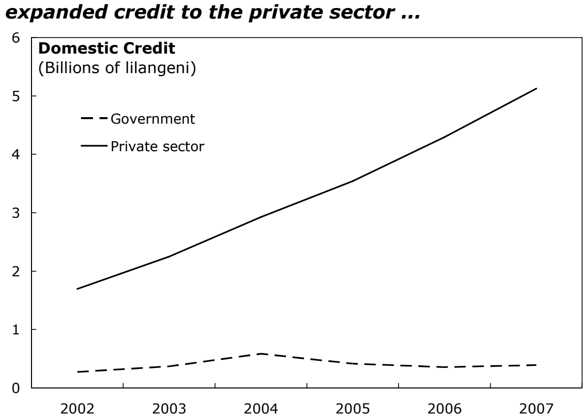
Broad money continue to grow...



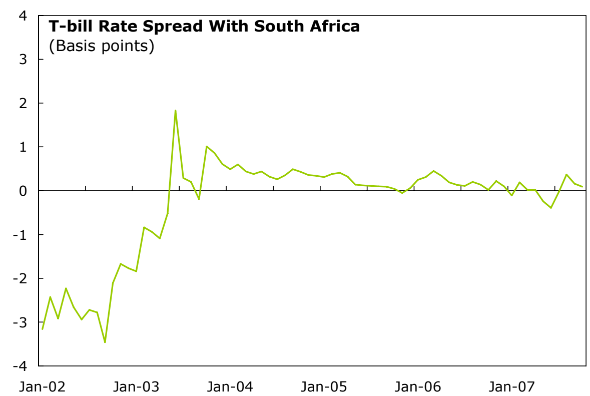
...and net foreign assets of the Central Bank increased.



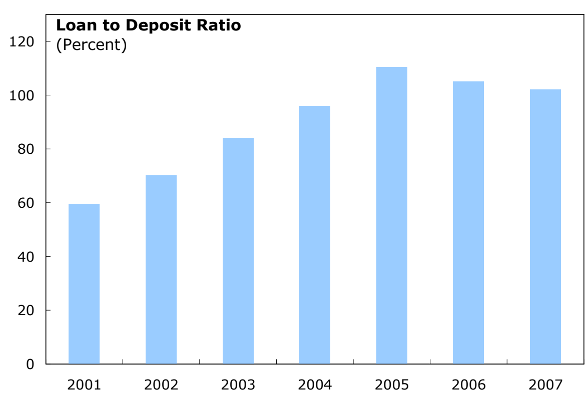
The decline in government borrowing has given way to expanded credit to the private sector ...



..and the T-bill rate is broadly in line with South Africa.



The loan to deposit ratio has leveled off on account of high deposit growth...



...while financial markets continue to be shallow.

Comparative Monetary Indicators, 2006

	Percent of GDP	
	Broad Money	Private Sector Credit
Swaziland	21.1	20.5
Lesotho	34.0	8.7
Botswana	40.2	19.8
Namibia	52.7	64.2
South Africa	78.1	78.4

Sources: IFS and WEO.

Sources: National authorities and IMF staff projections.

[1] For 2007, data is as of October, except for the loan-to-deposit ratio and domestic credit by sector ,which are as of June.

D. Fostering Growth Acceleration and Poverty Reduction

26. **Staff welcomed the authorities' initiative to address poverty through the implementation of the Poverty Reduction Strategy and Action Program (PRSAP), and efforts at addressing food security (Box 3).** In addition, staff stressed the need to accelerate growth through structural reform measures (see paragraph 21). The authorities concurred with staff's view that the on-going development of the Economic Recovery Program (ERP)—a strategy for implementation of the PRSAP—should be consistent with the Medium-Term Budget Policy, and eventually the MTEF. Given frequent droughts and declining land productivity, staff welcomed efforts at improving yields through various irrigation programs, and improving the distribution of food. The authorities' draft Comprehensive Agricultural Strategy also allows for specific implementation plans and schedules for addressing the food security situation.

27. **HIV/AIDS remains a major challenge to overcoming poverty.** In this context, the recent award of $81 million (or 3 percent of GDP) by the Global Fund to the National Emergency Response Council on HIV/AIDS (NERCHA) to help fight aids is welcome. Staff noted that government's commitment to take over full funding of jobs in the health sector beyond 2012 when the funding is fully exhausted again underlines the importance of attaining fiscal savings elsewhere and developing an MTEF. Additional assistance from the World Bank and donors to fight this and other diseases is welcome.

Box 3. The PRSAP

The PRSAP, approved by the cabinet in September 2007, represents the first such strategy since the establishment of a Poverty Reduction Strategy Task Force in 2000. It has been the outcome of a wide consultative process with strategies and specific actions for poverty reduction for the next 10 years. The goal is to reduce poverty by more than 50 percent by 2015 and absolutely eradicate it by 2022.

It is based on six pillars:

- Macroeconomic stability and accelerated economic growth based on broad participation;
- Empowering the poor to generate income and reduce inequalities;
- Fair distribution of the benefits of growth through fiscal policy;
- Human capital development;
- Improving the quality of life for the poor; and
- Improving governance and strengthening institutions.

Detailed policies and actions are specified under each pillar. However, the costing exercise is on going under the ERP. To support the implementation of the PRSAP, the authorities plan to increase the budgetary allocation by an additional 3 to 7 percent of expenditure to the health, agriculture, and education sectors.

E. Technical Assistance and Addressing Weaknesses in Statistics

28. **Swaziland has received a significant amount of technical assistance (TA) in all areas of the Fund's expertise,** but the implementation of TA recommendations is uneven reflecting both capacity limitations and unclear commitment to effective use of TA. Progress has been made in bank supervision, the regulatory framework for the insurance and pension funds, reserve management, and the payment system. However, implementation of recommendations in revenue administration, nonbank financial supervision, and AML/CFT have been delayed. Much remains to be done with regards to national accounts, balance of payments, and trade statistics.

V. Staff Appraisal

29. **Swaziland's economic performance has continued to lag behind the gains in most lower middle income countries.** Adverse developments, including the HIV/AIDS epidemic, a loss of trade preferences and recurrent droughts, have contributed to slow growth and increasing poverty. However, the current high levels of SACU revenue provide a window of opportunity to accelerate overdue reforms and address impediments to higher growth.

30. **Fiscal policy should be geared to safeguarding priority spending and fiscal sustainability given an expected decline in SACU revenues after 2010.** Hence, a focus on the deficit excluding SACU revenues, coupled with a prudent assessment of the risk to these revenues over the medium term, highlights the nature of adjustment needed to ensure fiscal sustainability while smoothing expenditure over the longer term. The recent enactment of the Revenue Authority bill is a welcome step in enhancing domestic revenue collection. The authorities should also improve revenue administration and introduce the VAT, which could yield significant resources in time to substitute for the anticipated decline in SACU revenues.

31. **However, the burden of the required fiscal adjustment falls primarily on spending reductions.** In this context, the sharp increase in expenditure (mirrored by a 6 percent of GDP increase in the non-SACU fiscal deficit) in 2007/08 is of serious concern and needs to be reversed over the medium term. In addition, steps need to be taken to increase pro-poor spending and improve the productivity of expenditure. Welcome steps to improve budget management through expenditure monitoring should be supported by more vigorous implementation of the recommendations of the World Bank's Public Expenditure Review and strengthening the MTEF to enhance planning and budget credibility. The authorities need to produce tangible results in civil service reform strategy, approved in 2005, and reduce excessive expenditures on such items as travel and transportation, and unproductive transfers. Faster privatization will also provide additional fiscal space for addressing the much needed social programs while helping to improve the environment for private sector development.

32. **Staff commends the authorities' effort in rebuilding international reserves to support the confidence in the peg.** However, the recent build up of government deposits in banks outside Swaziland is a cause for concern. The staff therefore urges the authorities to transfer management of all government foreign deposits to the CBS, as mandated by the constitution.

33. **The staff considers that the lilangeni's peg to the rand has served the country well.** The fixed exchange rate is underpinned by close economic integration with South Africa. An exchange rate assessment suggests either no misalignment or a mild overvaluation. However, maintenance of current policies will weaken Swaziland's net external position, thus threatening the peg. As such, a medium-term policy for fiscal sustainability needs to be accompanied by structural reforms to strengthen competitiveness and support the peg under the CMA.

34. **To improve competitiveness, the authorities should accelerate structural reforms and measures to improve the investment climate and reduce the cost of doing business.** Key measures include operationalizing the anticorruption commission; reducing labor market rigidities; simplifying business licensing requirements and procedures; and land reform that would help increase agricultural productivity.

35. **Staff supports the authorities' effort to press for more timely compliance of all banks with prudential regulations and improve the supervision of SCCOs.** In view of Swazibank's high nonperforming loans, staff welcomes the system audit of the bank's accounts and further remedial actions. The rapid growth of the SCCOs, the severe financial difficulties of some, and recent increases in interest rates pose serious risks to the financial system. The authorities should therefore quickly resolve the legal impasse that has prevented the CBS from taking over the supervision of the SCCOs, and secure passage of the FSRA bill.

36. **Staff welcomes progress in development of a framework for insurance and pension funds.** However, the authorities should exercise caution in enforcing the domestic investment requirement as it could unduly expose investors to risk of low or negative returns due to lack of profitable domestic investment opportunities. The passage of the Securities bill will further deepen domestic capital markets, adding momentum to continuing reforms in the area of insurance and pension funds.

37. **The authorities' poverty reduction growth strategy and accelerated efforts at addressing the HIV/AIDS epidemic and food security are welcome.** To enhance economic growth and sustain it, however, greater efforts are needed to ensure that the PRSAP is costed out within a MTEF that ensures macroeconomic stability.

38. **Further efforts are needed to improve the quality and timeliness of data to better facilitate policy formulation and monitoring.**

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

Table 1. Swaziland: Basic Economic and Financial Indicators, 2004-2012

	2004	2005	2006	2007	2008	2009	2010	2011	2012
			Est.	Projections					
	(Annual percentage change, unless stated otherwise)								
National income and prices									
GDP at constant prices	2.6	2.4	2.8	2.3	2.0	2.0	2.0	2.0	2.0
GDP per capita at constant prices	0.4	0.4	1.1	0.8	0.7	0.7	0.6	0.7	0.6
GDP deflator	3.4	4.8	5.3	8.3	6.6	6.0	6.0	6.0	6.0
CPI (period average)	3.4	4.8	5.3	8.3	6.6	6.0	6.0	6.0	6.0
CPI (end of period)	3.2	6.3	5.5	9.5	6.3	6.0	6.0	6.0	6.0
External sector									
Current account balance (millions of U.S. dollars)	51.7	-81.4	-80.8	-20.4	-43.2	-46.3	-59.7	-114.2	-143.8
Export volume, f.o.b.	34.4	-15.4	-4.0	-3.8	3.6	0.4	0.6	0.4	0.6
Import volume, f.o.b.	-1.9	-1.4	-1.7	3.4	5.7	6.5	6.2	6.0	1.8
Real effective exchange rate [1]	3.0	1.7	-5.2	...	...	...	...	...	...
Terms of trade	11.0	7.7	4.5	3.0					
Money and credit [2]									
Broad money	10.4	5.9	25.1	26.8	...	...	...	...	...
Domestic Credit	30.9	10.3	-3.4	-20.6					
Central government (net) [3]	4.8	-5.4	-25.2	-39.9					
Private sector	26.1	15.7	21.8	19.3					
Prime lending rate (percent; end of period)	11.0	10.5	12.5	14.0	...	...	...	...	...
Interest rate on 12-month time deposits (percent; end of period	4.1	3.5	8.5	9.8	...	...	...	...	...
Discount rate (end of period)	7.5	7.5	9.0	11.0	...	...			
	(Percent of GDP)								
Gross national savings	20.6	14.8	14.0	18.8	17.1	17.3	15.9	13.0	11.8
Of which : government	3.6	6.5	12.8	10.5	10.6	11.6	10.9	7.0	3.6
Gross domestic investment	18.4	18.0	16.9	19.5	18.6	18.7	17.5	16.1	15.5
Of which : government	8.2	8.5	7.5	10.5	10.6	10.7	10.5	10.5	10.5
Central government finances (fiscal year) [4]									
Total revenue and grants	30.9	32.0	41.5	37.5	40.0	40.6	39.6	35.8	32.5
Of which : South African Customs Union (SACU) receipts	17.7	18.1	27.5	23.6	25.0	25.6	24.5	20.7	17.3
Total expenditure and net lending	35.5	33.5	31.3	37.6	39.9	39.7	39.2	39.2	39.3
Current expenditure and net lending	27.4	25.7	24.1	27.2	29.6	29.4	28.8	28.9	28.9
Central government balance (including grants)	-4.6	-1.5	10.2	0.0	0.0	0.9	0.4	-3.4	-6.8
Primary balance (including grants)	-3.5	-0.4	11.0	0.8	1.0	1.7	1.1	-2.8	-5.9
Government debt	17.8	15.9	16.8	15.2	13.6	12.4	11.3	14.0	19.4
Non-SACU fiscal balance	-22.3	-19.6	-17.4	-23.6	-24.9	-24.7	-24.1	-24.1	-24.1
External sector									
Current account balance	2.2	-3.1	-2.9	-0.7	-1.4	-1.4	-1.7	-3.1	-3.8
Trade balance (merchandise goods)	3.8	-4.7	-5.1	-10.4	-12.6	-13.0	-11.9	-11.8	-11.3
Capital and financial account balance	-10.5	3.2	10.2	22.1	0.3	0.3	0.9	-0.1	-0.7
Overall balance	-1.8	-0.1	5.1	10.7	-0.5	-0.6	-0.4	-1.6	-2.2
External debt	20.4	16.6	15.8	15.8	14.5	13.7	13.4	13.4	12.8
Memorandum items :									
GDP in current prices (millions of emalangeni) [5]	15,353	16,617	18,854	20,729	22,499	24,283	27,832	29,747	31,456
Balance of payments (millions of U.S. dollars)	-52	-7	163	309	-17	-19	-14	-59	-85
Gross official reserves (millions of U.S. dollars)	262	231	364	637	620	601	588	528	443
(months of imports of goods and nonfactor services)	1.5	1.3	2.2	3.4	3.0	2.8	2.6	2.3	1.8
Net official international reserves (millions of U.S. dollars)	258	240	324	633	616	598	584	525	440
(months of imports of goods and nonfactor services)	1.5	1.4	2.0	3.4	3.0	2.7	2.6	2.3	1.8
Total external debt (millions of U.S. dollars)	485	435	441	460	450	447	457	479	491

Sources: Swazi authorities; and IMF staff projections.

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

[2] Data for 2007 pertain to the latest available actual information-September 2007.

[3] Includes government holdings abroad.

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

[5] The official GDP numbers from 1994 to 2006 were significantly revised.

Table 2. Swaziland: Summary of Central Government Operations, 2006/07-2011/12 [1]

	2005/06	2006/07	2007/08	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
			Budget	Est.	Projections				
	(Millions of emalangeni)								
Total revenue and grants	5,499	8,021	7,662	7,948	9,172	10,221	11,212	10,789	10,415
Tax revenue	5,190	7,683	7,453	7,605	8,821	9,865	10,786	10,331	9,929
SACU receipts	3,101	5,322	4,990	4,990	5,725	6,440	6,934	6,241	5,554
Non-SACU revenue	2,088	2,361	2,463	2,615	3,096	3,425	3,852	4,091	4,375
Nontax revenue	137	172	121	186	214	211	263	284	301
Total expenditure and net lending	5,758	6,052	7,630	7,953	9,166	9,998	11,095	11,829	12,599
Current expenditure	4,416	4,662	5,728	5,765	6,792	7,394	8,166	8,707	9,281
Wages and salaries	2,443	2,622	3,213	3,056	3,634	3,964	4,355	4,641	4,891
Goods and services	996	1,052	1,276	1,436	1,501	1,645	1,836	1,961	2,085
Interest payments	194	163	183	169	212	202	201	208	301
Subsidies and transfers	783	825	1,056	1,104	1,446	1,583	1,774	1,896	2,004
Capital expenditure	1,410	1,412	1,887	2,168	2,374	2,604	2,929	3,122	3,318
Net lending	-68	-22	15	19	0	0	0	0	0
Primary balance	-64	2,132	215	164	218	425	318	-832	-1,882
Overall balance (including grants)	-259	1,969	32	-5	6	223	117	-1,040	-2,184
Overall balance (excluding grants)	-431	1,803	-56	-162	-131	78	-46	-1,214	-2,368
Financing	259	-1,969	-32	5	-6	-223	-117	1,040	2,184
Foreign (net)	212	214	35	35	-12	11	43	64	83
Domestic (net)	47	-879	-67	-31	6	-233	-160	976	2,100
Government deposits abroad	...	-1,304	-654	-654	...	...	...	...	
Government debt [2]	2,730	3,252	3,213	3,213	3,120	3,127	3,192	4,232	6,226
Foreign	2,303	2,742	2,778	2,778	2,800	2,827	2,912	3,181	3,342
Domestic	427	509	436	436	320	300	280	1,050	2,884
	(Percent of GDP, unless otherwise specified)								
Total revenue and grants	32.0	41.5	36.2	37.5	40.0	40.6	39.6	35.8	32.5
Tax revenue	30.2	39.8	35.2	35.9	38.4	39.2	38.1	34.2	31.0
SACU receipts	18.1	27.5	23.6	23.6	25.0	25.6	24.5	20.7	17.3
Non-SACU revenue	12.2	12.2	11.6	12.4	13.5	13.6	13.6	13.6	13.6
Nontax revenue	0.8	0.9	0.6	0.9	0.9	0.8	0.9	0.9	0.9
Grants	1.0	0.9	0.4	0.7	0.6	0.6	0.6	0.6	0.6
Total expenditure and net lending	33.5	31.3	36.0	37.6	39.9	39.7	39.2	39.2	39.3
Current expenditure	25.7	24.1	27.1	27.2	29.6	29.4	28.8	28.9	28.9
Of which:									
Wages and salaries	14.2	13.6	15.2	14.4	15.8	15.7	15.4	15.4	15.3
Goods and services	5.8	5.4	6.0	6.8	6.5	6.5	6.5	6.5	6.5
Interest payments	1.1	0.8	0.9	0.8	0.9	0.8	0.7	0.7	0.9
Subsidies and transfers	4.6	4.3	5.0	5.2	6.3	6.3	6.3	6.3	6.3
Capital expenditure	8.2	7.3	8.9	10.2	10.3	10.3	10.3	10.3	10.3
Primary balance	-0.4	11.0	1.0	0.8	1.0	1.7	1.1	-2.8	-5.9
Overall balance (including grants)	-1.5	10.2	0.2	0.0	0.0	0.9	0.4	-3.4	-6.8
Overall balance (excluding grants)	-2.5	9.3	-0.3	-0.8	-0.6	0.3	-0.2	-4.0	-7.4
Non-SACU fiscal balance (w/grants)	-19.6	-17.4	-23.4	-23.6	-24.9	-24.7	-24.1	-24.1	-24.1
Financing	1.5	-10.2	-0.2	0.0	0.0	-0.9	-0.4	3.4	6.8
Foreign (net)	1.2	-5.6	0.2	0.2	-0.1	0.0	0.2	0.2	0.3
Domestic (net)	0.3	-4.5	-0.3	-0.1	0.0	-0.9	-0.6	3.2	6.5
Government deposits abroad		-6.7	-3.1	-3.1					
Government debt	15.9	16.8	15.2	15.2	13.6	12.4	11.3	14.0	19.4
Foreign	13.4	14.2	13.1	13.1	12.2	11.2	10.3	10.5	10.4
Domestic	2.5	2.6	2.1	2.1	1.4	1.2	1.0	3.5	9.0
Memorandum items:									
GDP at current prices (millions of emalangeni)	17,176	19,323	21,171	21,171	22,945	25,170	28,311	30,175	32,070
Wages and salaries (percent of current	55.3	56.2	56.1	53.0	53.5	53.6	53.3	53.3	52.7

Sources: Ministry of Finance; and Fund staff projections.

[1] Without corrective policy measures. The fiscal year runs from April 1 to March 31.

[2] Disbursements less amortizations.

Table 3. Swaziland: Monetary Survey, 2002-2007 [1]
(Millions of emalangeni)

	2002	2003	2004	2005	2006	2007
Monetary authorities						
Net foreign assets	1,873	1,405	1,450	1,518	2,293	4,223
Central Bank of Swaziland (CBS)	1,863	1,378	1,243	1,518	2,257	3,525
Of which : Capital Investment Fund (CIF), managed by CBS.	1,220	713	667	0	0	0
Government	10	27	207	0	35	698
Net domestic assets	-1,544	-974	-877	-1,021	-1,723	-3,496
Central government (net)	-1,300	-1,031	-933	-1,082	-1,960	-3,589
CBS claims on government	57	83	252	101	55	22
Government deposits with CBS	-1,357	-1,113	-1,185	-1,183	-2,015	-3,612
Domestic	-127	-374	-311	-1,183	-1,976	-2,911
Foreign [2]	-1,230	-739	-874	0	-39	-701
Private sector	-77	-80	10	9	20	8
Commercial banks (net)	0	0	0	2	314	276
Other items (net)	-167	136	46	50	-98	-191
Reserve money	329	430	477	490	566	725
Commercial banks						
Net foreign assets	715	469	490	374	762	1,006
Reserves	209	236	256	211	354	500
Domestic credit	1,985	2,614	3,344	3,832	4,581	5,329
Central government (net)	215	286	331	302	306	203
Claims on Government	215	287	332	315	369	368
Government deposits	0	0	2	13	64	165
Private sector	1,770	2,328	3,013	3,531	4,276	5,126
Other items (net)	-552	-655	-1,110	-1,196	-1,589	-1,581
Private sector deposits	2,357	2,664	2,946	3,221	4,088	5,254
Monetary survey						
Net foreign assets	2,588	1,874	1,941	1,893	3,055	5,229
Domestic credit	609	1,504	2,421	2,759	2,642	1,748
Central government (net)	-1,084	-744	-602	-781	-1,654	-3,386
Private sector	1,693	2,248	3,023	3,539	4,296	5,134
Other items (net)	-595	-409	-1,084	-1,181	-1,354	-1,471
Broad money	2,602	2,969	3,278	3,471	4,342	5,505
Currency in circulation [3]	155	213	236	242	251	250
Deposits	2,447	2,756	3,042	3,229	4,091	5,255
	(Annual change in percent of beginning-of-period broad money) [4]					
Broad money	13.1	14.1	10.4	5.9	25.1	26.8
Net foreign assets	-45.5	-27.5	2.2	-1.5	33.5	50.1
Domestic credit	58.3	34.4	30.9	10.3	-3.4	-20.6
Central government (net)	42.1	13.1	4.8	-5.4	-25.2	-39.9
Private sector	16.2	21.3	26.1	15.7	21.8	19.3
Other items (net)	0.3	7.1	-22.7	-3.0	-5.0	-2.7
Memorandum items:						
Currency/broad money (percent)	6.0	7.2	7.2	7.0	5.8	4.5
Reserve money/deposits (percent)	13.5	15.6	15.7	15.2	13.8	13.8
Money multiplier (broad money/reserve money)	7.9	6.9	6.9	7.1	7.7	7.6
Velocity (GDP/period average broad money)	5.11	4.94	4.92	4.48	4.44	4.21

Sources: Central Bank of Swaziland (CBS); and Fund staff estimates.

[1] End-of-year data. (For 2007, as of end-October)

[2] Counterpart of government deposits held abroad.

[3] Excludes rand in circulation.

[4] For October 2007, change from Dec. 2006.

Table 4. Swaziland: Commercial Banks' Performance Ratios, Dec. 2003 - 2007

	2003 Dec.	2004 Dec.	2005 Dec	2006 Dec	2007 June
			(Percent)		
Performance Ratios					
Basle capital ratio (Tier 1)	14	14	15	20	23
Basle capital ratio (Tier 2)	20	16	17	26	23
Asset Quality					
Loans to deposit ratio [1]	75	73	83	86	88
Earning assets to total assets	90	87	92	65	67
Nonperforming loans to total loans [1]	2	3	2	4	4
Reserve for losses to total loans	9	8	7	10	9
Liquidity Ratios					
Liquid assets to total deposits	19	18	17	20	20
Available reserves to total deposits	18	19	20	10	12
Liquid assets to total assets	14	14	13	15	14
Profitability Ratios					
Net income to average total assets (return on assets)	4	3	3	6	3
Net income to average total equity (return on equity)	29	20	20	52	26
Total expenses to total income	60	64	68	71	74

Source: Central Bank of Swaziland.

[1] Excluding the Swaziland Development and Savings Bank, which is owned by the government and offers both development finance and commercial banking services since its recapitalization and relaunch by the government in 2001.

Table 5. Swaziland: Balance of Payments, 2004-2012 [1]
(Millions of U.S. dollars, unless otherwise specified)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
			Est.	Projections					
Current account balance	51.7	-81.4	-80.8	-20.4	-43.2	-46.3	-59.7	-114.2	-143.8
Trade balance	91.0	-121.8	-140.4	-300.2	-387.5	-419.4	-426.4	-437.3	-426.6
Exports, f.o.b.	1,808.9	1,612.5	1,484.4	1,629.5	1,756.3	1,824.4	1,872.9	1,901.5	2,023.7
Imports, f.o.b.	-1,717.9	-1,734.3	-1,624.8	-1,929.7	-2,143.8	-2,243.8	-2,299.3	-2,338.8	-2,450.3
Services (net)	-152.6	-111.2	-71.7	-15.0	-16.3	-17.0	-22.2	-23.1	-24.5
Exports of services	250.0	284.3	283.1	314.7	343.3	357.4	367.1	381.9	405.2
Imports of services	-402.6	-395.5	-354.8	-329.7	-359.6	-374.4	-389.3	-405.0	-429.7
Goods and services balance	-61.6	-233.0	-212.1	-315.1	-403.8	-436.4	-448.6	-460.4	-451.1
Income (net)	7.4	58.2	0.6	12.0	14.7	3.4	-15.1	-19.9	-38.1
Income (credits)	132.5	158.4	166.9	163.7	176.4	172.5	173.8	182.4	178.4
Income (debits)	-125.1	-100.2	-166.3	-151.7	-161.8	-169.1	-188.9	-202.3	-216.6
Of which : interest	-21.2	-20.1	-21.8	-23.2	-22.9	-22.7	-22.8	-23.9	-24.5
Transfers (net)	106.0	93.3	132.5	282.7	345.9	386.8	404.0	366.1	345.5
Official sector (mainly SACU receipts) [2]	371.4	331.0	377.8	542.8	630.4	689.9	727.1	663.5	622.2
Private sector	-265.4	-237.7	-245.4	-260.1	-284.6	-303.2	-323.1	-297.4	-276.7
Capital and financial account balance	-206.6	85.3	143.0	329.0	26.3	27.8	46.0	55.0	58.9
Capital account balance	-0.6	-3.5	24.7	23.7	25.1	25.3	27.0	30.5	29.6
Financial account balance (excluding reserve asse	-206.0	88.8	118.3	305.3	1.3	2.5	19.0	24.5	29.3
Direct investment	66.4	50.2	32.6	78.7	35.2	39.9	38.6	37.4	42.2
Portfolio investment	-11.3	0.6	-0.2	-2.9	-3.1	-3.2	-3.6	-3.7	-3.8
Other investment	-261.2	38.0	85.8	229.4	-30.9	-34.3	-16.1	-9.2	-9.1
Errors and omissions	141.4	-21.3	75.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-13.5	-17.4	137.3	308.5	-16.9	-18.5	-13.7	-59.1	-84.9
Memorandum items:									
Current account/GDP (percent)	2.2	-3.1	-2.9	-0.7	-1.4	-1.4	-1.7	-3.1	-3.8
Goods and services balance/GDP (percent)	-2.6	-8.9	-7.7	-10.9	-13.1	-13.6	-12.6	-12.4	-11.9
Gross official reserves (end of period)	261.8	230.9	364.4	637.0	620.1	601.4	587.7	528.3	443.2
In months of imports of goods and services	1.5	1.3	2.2	3.4	3.0	2.8	2.6	2.3	1.8
Exports fob, volume growth	34.4	-15.4	-4.0	-3.8	3.6	0.4	0.6	0.4	0.6
Imports fob, volume growth	-1.9	-1.4	-1.7	3.4	5.7	6.5	6.2	6.0	1.8
Total SACU Receipts	395.2	474.5	704.4	706.1	757.9	829.5	874.1	797.7	690.0

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

[1] Without corrective policy measures.

[2] SACU: Southern African Customs Union. SACU transfers in the current account does not reflect the true level of SACU revenue because of the particul treatment of those transfers in the accounts where the authorities make an estimate based on the level of imports and adjust in 'other investment' to refle the total SACU revenues.

Table 6. Swaziland: Millennium Development Goals [1]

	1990	1994	1997	2000	2003	2005
Goal 1: Eradicate extreme poverty and hunger						
Malnutrition prevalence, weight for age (% of children under 5)	...	...	...	10	...	...
Prevalence of undernourishment (% of population)	...	...	23	...	19	*22*
Goal 2: Achieve universal primary education						
Literacy rate, youth total (% of people ages 15-24)	85	...	...	...	...	...
Persistence to grade 5, total (% of cohort)	...	...	...	74	*77*	...
Primary completion rate, total (% of relevant age group)	61.3	60.2	61.6	64.3	61.3	*64.3*
School enrollment, primary (% net)	...	...	...	76	77	*80*
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliament (%)	4.0	...	3.0	3.0	3.0	10.8
Ratio of girls to boys in primary and secondary education (%)	...	...	...	94.1	95.5	*93.8*
Ratio of young literate females to males (% ages 15-24)	100.9	...	...	...	...	...
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	36	34	33	32	30	*30*
Goal 4: Reduce child mortality						
Immunization, measles (% of children ages 12-23 months)	85.0	94.0	92.0	72.0	71.0	60.0
Mortality rate, infant (per 1,000 live births)	78	...	...	98	...	110
Mortality rate, under-5 (per 1,000)	110	...	...	142	...	160
Goal 5: Improve maternal health						
Births attended by skilled health staff (% of total)	...	56.0	...	70.0	*74.0*	...
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	...	370.0	...	...
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Contraceptive prevalence (% of women ages 15-49)	...	...	...	28	*48*	...
Incidence of tuberculosis (per 100,000 people)	262.9	289.7	474.1	817.8	1,129.5	1,261.9
Prevalence of HIV, female (% ages 15-24)	...	...	...	...	...	23
Prevalence of HIV, total (% of population ages 15-49)	...	...	...	...	32	33
Tuberculosis cases detected under DOTS (%)	...	...	...	...	34.1	42.3
Goal 7: Ensure environmental sustainability						
CO2 emissions (metric tons per capita)	0.6	0.6	0.4	1.0	0.9	...
Forest area (% of land area)	27	...	...	30	...	31
Improved sanitation facilities (% of population with access)	...	...	...	...	...	*48*
Improved water source (% of population with access)	...	...	...	...	...	*62*
Nationally protected areas (% of total land area)	...	...	...	...	...	*3.5*
Goal 8: Develop a global partnership for development						
Aid per capita (current US$)	69.6	66.2	29.5	12.6	31.0	40.7
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	6	2	2	2	1	2
Fixed line and mobile phone subscribers (per 1,000 people)	17.7	20.8	26.1	62.1	118.7	207.8
Internet users (per 1,000 people)	0.0	...	0.9	9.6	24.4	*32.1*
Personal computers (per 1,000 people)	...	...	...	11.5	27.1	*32.1*
Total debt service (% of exports of goods, services and income)	6	2	2	3	1	2
Unemployment, youth female (% of female labor force ages 15-24)	...	...	48.3	...	...	...
Unemployment, youth male (% of male labor force ages 15-24)	...	...	41.7	...	...	...
Unemployment, youth total (% of total labor force ages 15-24)	...	...	55.2	...	...	...
Other						
Fertility rate, total (births per woman)	5.3	...	4.7	4.4	4.1	3.9
GNI per capita, Atlas method (current US$)	1,200.0	1,300.0	1,650.0	1,370.0	1,320.0	2,280.0
GNI, Atlas method (current US$) (billions)	0.9	1.1	1.6	1.4	1.5	2.6
Gross capital formation (% of GDP)	19.1	21.5	20.6	19.9	18.0	18.5
Life expectancy at birth, total (years)	56.6	...	57.6	45.4	43.0	41.5
Literacy rate, adult total (% of people ages 15 and above)	71.6	...	...	...	...	...
Population, total (millions)	0.8	0.9	1.0	1.0	1.1	1.1
Trade (% of GDP)	161.7	169.9	164.7	178.7	172.5	183.7

Source: World Development Indicators database, April 2006

[1] Figures in italics refer to periods other than those specified.

Table 7. Swaziland: External Debt Sustainability Framework, 2002-2013
(Percent of GDP, unless otherwise indicated)

	Actual					Projections							
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Debt-stabilizing non-interest current account [6]
Baseline: External debt	29.5	22.7	20.4	16.6	15.8	**15.8**	**14.5**	**13.7**	**13.4**	**13.4**	**12.8**	**13.2**	**-1.2**
Change in external debt	7.6	-6.8	-2.3	-3.7	-0.8	0.0	-1.3	-0.8	-0.3	0.0	-0.6	0.4	
Identified external debt-creating flows	-10.0	-20.9	-9.4	-0.4	1.5	-2.4	0.0	-0.1	0.4	1.9	2.5	2.3	
Current account deficit, excluding interest payments	-6.2	-7.8	-2.9	2.1	2.2	0.1	0.6	0.7	1.1	2.6	3.3	3.6	
Deficit in balance of goods and services	-2.3	-2.5	-1.4	6.9	7.1	12.3	14.3	14.6	14.2	13.9	12.9	12.2	
Exports	81.4	84.5	82.4	67.5	59.0	61.2	61.4	60.7	59.4	57.5	58.1	55.0	
Imports	79.1	82.0	81.0	74.4	66.1	73.5	75.7	75.3	73.6	71.3	71.1	67.2	
Net non-debt creating capital inflows (negative)	-7.5	-3.9	-2.8	-1.9	-1.2	-2.7	-1.1	-1.2	-1.1	-1.0	-1.1	-1.0	
Automatic debt dynamics [1]	3.7	-9.2	-3.6	-0.7	0.4	0.3	0.5	0.4	0.4	0.4	0.3	-0.2	
Contribution from nominal interest rate	1.3	1.0	0.8	1.0	0.7	0.6	0.8	0.7	0.7	0.6	0.6	0.0	
Contribution from real GDP growth	-0.5	-0.7	-0.5	-0.4	-0.5	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	
Contribution from price and exchange rate changes [2]	2.9	-9.5	-4.0	-1.2	0.2	...	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets [3]	17.6	14.1	7.1	-3.3	-2.3	2.3	-1.3	-0.7	-0.7	-1.9	-3.1	-1.8	
External debt-to-exports ratio (percent)	36.2	26.8	24.8	24.6	26.9	25.8	23.6	22.6	22.6	23.3	21.9	24.0	
Gross external financing need (in billions of US dollars) [4]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
percent of GDP	-3.8	-6.0	-1.6	4.1	3.5	1.6	2.5	2.4	2.7	4.1	4.6	3.7	
Scenario with key variables at their historical averages [5]						**15.9**	**12.9**	**10.1**	**7.4**	**3.6**	**3.2**	**3.0**	**-2.4**
Key Macroeconomic Assumptions Underlying Baseline													
Real GDP growth (percent)	2.2	3.8	2.6	2.4	2.8	2.3	2.0	2.0	2.0	2.0	2.0	2.0	
GDP deflator in US dollars (change in percent)	-11.5	47.4	21.3	6.2	-1.0	2.0	4.8	2.7	2.7	2.7	2.7	2.7	
Nominal external interest rate (percent)	5.5	5.2	4.5	5.3	4.4	4.1	5.2	5.2	5.1	4.9	4.5	4.2	
Growth of exports (US dollar terms, percent)	-1.0	30.0	27.4	-10.1	-6.8	8.4	7.1	3.6	2.5	1.4	6.0	2.3	
Growth of imports (US dollar terms, percent)	-13.8	29.8	29.1	0.8	-5.2	16.1	10.0	4.3	2.3	1.6	4.4	2.3	
Current account balance, excluding interest payments	6.2	7.8	2.9	-2.1	-2.2	-0.1	-0.6	-0.7	-1.1	-2.6	-3.3	-3.6	
Net non-debt creating capital inflows	7.5	3.9	2.8	1.9	1.2	2.7	1.1	1.2	1.1	1.0	1.1	1.0	

[1] Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, 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 $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) and rising inflation (based on GDP deflator).

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

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

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

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

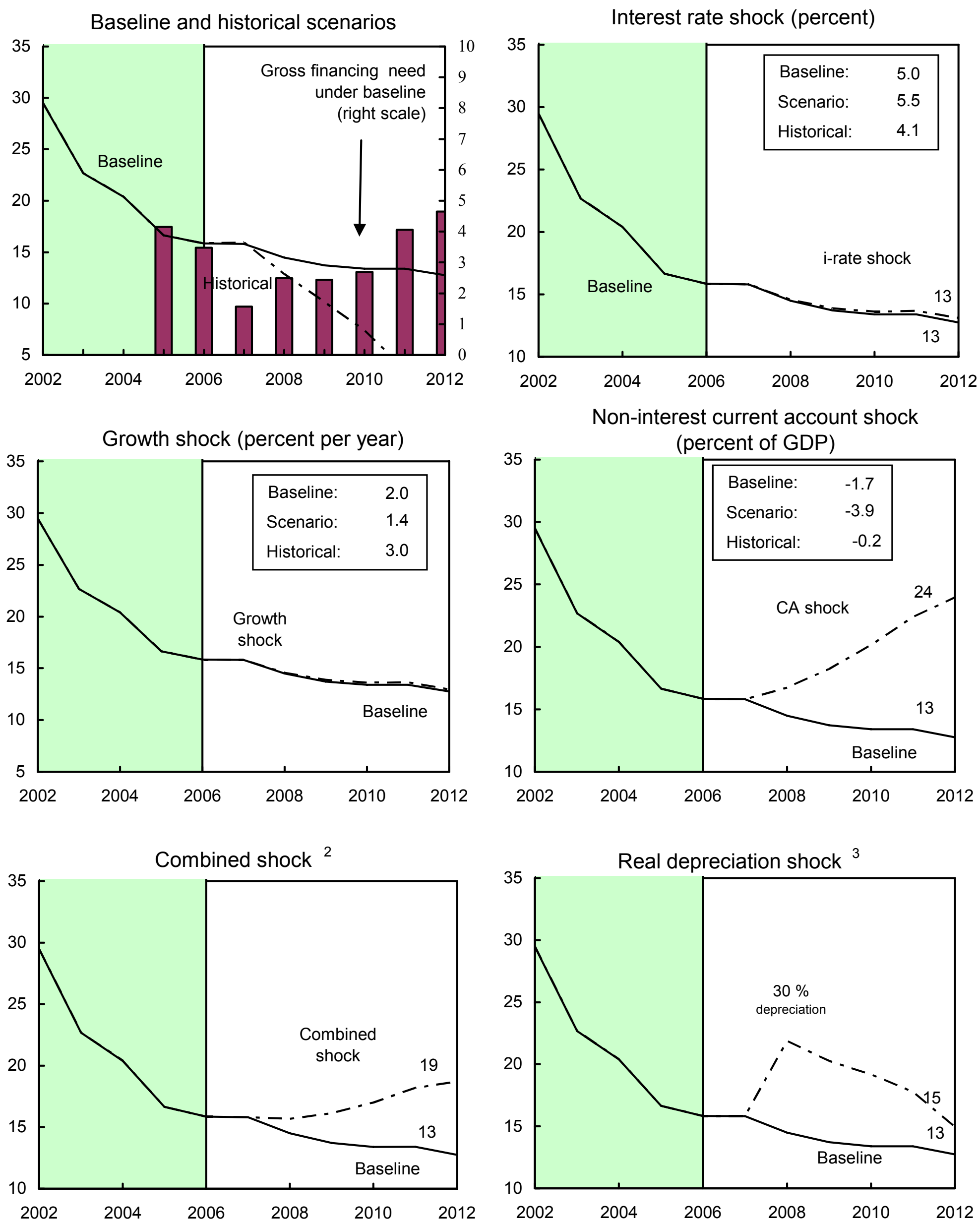
Table 8. Swaziland: Public Sector Debt Sustainability Framework, 2002-2013
(Percent of GDP, unless otherwise indicated)

	Actual					Projections							
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Debt-stabilizing primary balance [9]
Baseline: Public sector debt [1]	22.8	19.2	18.8	16.8	16.4	**15.8**	**14.0**	**12.9**	**11.4**	**11.8**	**16.1**	**20.5**	**0.3**
o/w foreign-currency denominated	20.4	17.0	15.2	14.2	13.9	13.7	12.4	11.6	10.4	10.5	10.4	10.3	
Change in public sector debt	-2.8	-3.6	-0.3	-2.0	-0.4	-0.6	-1.8	-1.1	-1.5	0.4	4.4	4.4	
Identified debt-creating flows	-5.1	-3.3	-0.8	2.4	-7.3	-4.0	-1.3	-1.7	-1.4	1.7	5.1	9.1	
Primary deficit	3.0	2.0	1.5	0.6	-8.4	-3.2	-0.9	-1.5	-1.2	1.8	5.1	9.1	
Revenue and grants	26.7	27.5	30.5	32.2	39.2	38.4	39.4	41.0	39.4	36.6	33.4	29.5	
Primary (noninterest) expenditure	29.8	29.5	32.0	32.9	30.8	35.3	38.5	39.5	38.2	38.5	38.6	38.6	
Automatic debt dynamics [2]	-8.1	-5.3	-2.3	1.8	1.1	-0.8	-0.4	-0.2	-0.2	-0.2	0.0	0.0	
Contribution from interest rate/growth differential [3]	-1.2	-0.8	0.2	-0.1	-0.3	-0.8	-0.4	-0.2	-0.2	-0.2	0.0	0.0	
Of which contribution from real interest rate	-0.7	0.0	0.7	0.3	0.1	-0.5	-0.1	0.1	0.0	0.0	0.2	0.3	
Of which contribution from real GDP growth	-0.5	-0.8	-0.5	-0.4	-0.4	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.3	
Contribution from exchange rate depreciation [4]	-6.9	-4.5	-2.6	1.9	1.4	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [5]	2.2	-0.3	0.5	-4.4	6.9	3.3	-0.5	0.7	0.0	-1.3	-0.8	-4.8	
Public sector debt-to-revenue ratio [1]	85.2	69.7	61.8	52.2	41.8	41.0	35.4	31.4	29.0	32.2	48.3	69.5	
Gross financing need [6]	5.8	3.7	5.3	2.6	-9.9	0.9	1.1	0.1	0.5	4.3	7.7	10.9	
billions of U.S. dollars	0.1	0.1	0.1	0.1	-0.3	0.0	0.0	0.0	0.0	0.2	0.3	0.4	
Scenario with key variables at their historical averages [7]						**18.9**	**17.5**	**17.4**	**16.6**	**14.7**	**13.3**	**11.5**	**-0.2**
Scenario with no policy change (constant primary balance) in 2007-2012						**15.8**	**14.8**	**13.9**	**12.7**	**12.5**	**12.6**	**12.8**	**0.2**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline													
Real GDP growth (in percent)	2.2	3.8	2.6	2.4	2.8	2.3	2.0	2.0	2.0	2.0	2.0	2.0	
Average nominal interest rate on public debt (in percent) [8]	5.2	6.0	7.2	6.7	6.1	5.4	6.2	6.5	6.5	6.5	7.9	8.0	
Average real interest rate (nominal rate minus change in GDP deflator, percent)	-2.9	0.0	3.8	1.9	0.8	-2.9	-0.5	0.5	0.5	0.5	1.9	2.0	
Nominal appreciation (increase in US dollar value of local currency, percent)	40.4	30.1	17.9	-11.0	-9.3	...	...	...	...	...	...	...	
Inflation rate (GDP deflator, percent)	8.1	6.0	3.4	4.8	5.3	8.3	6.6	6.0	6.0	6.0	6.0	6.0	
Growth of real primary spending (deflated by GDP deflator, percent)	6.3	2.9	16.8	6.1	0.9	16.2	11.1	4.4	4.5	1.6	0.0	1.9	
Primary deficit	3.0	2.0	1.5	0.6	-8.4	-3.2	-0.9	-1.5	-1.2	1.8	5.1	9.1	

[1] Gross debt of the general government.
[2] Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
[3] The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.
[4] The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
[5] For projections, this line includes exchange rate changes.
[6] Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
[7] The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
[8] Derived as nominal interest expenditure divided by previous period debt stock.
[9] Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 6. Swaziland: External Debt Sustainability: Bound Tests[1]

(External debt in percent of GDP)



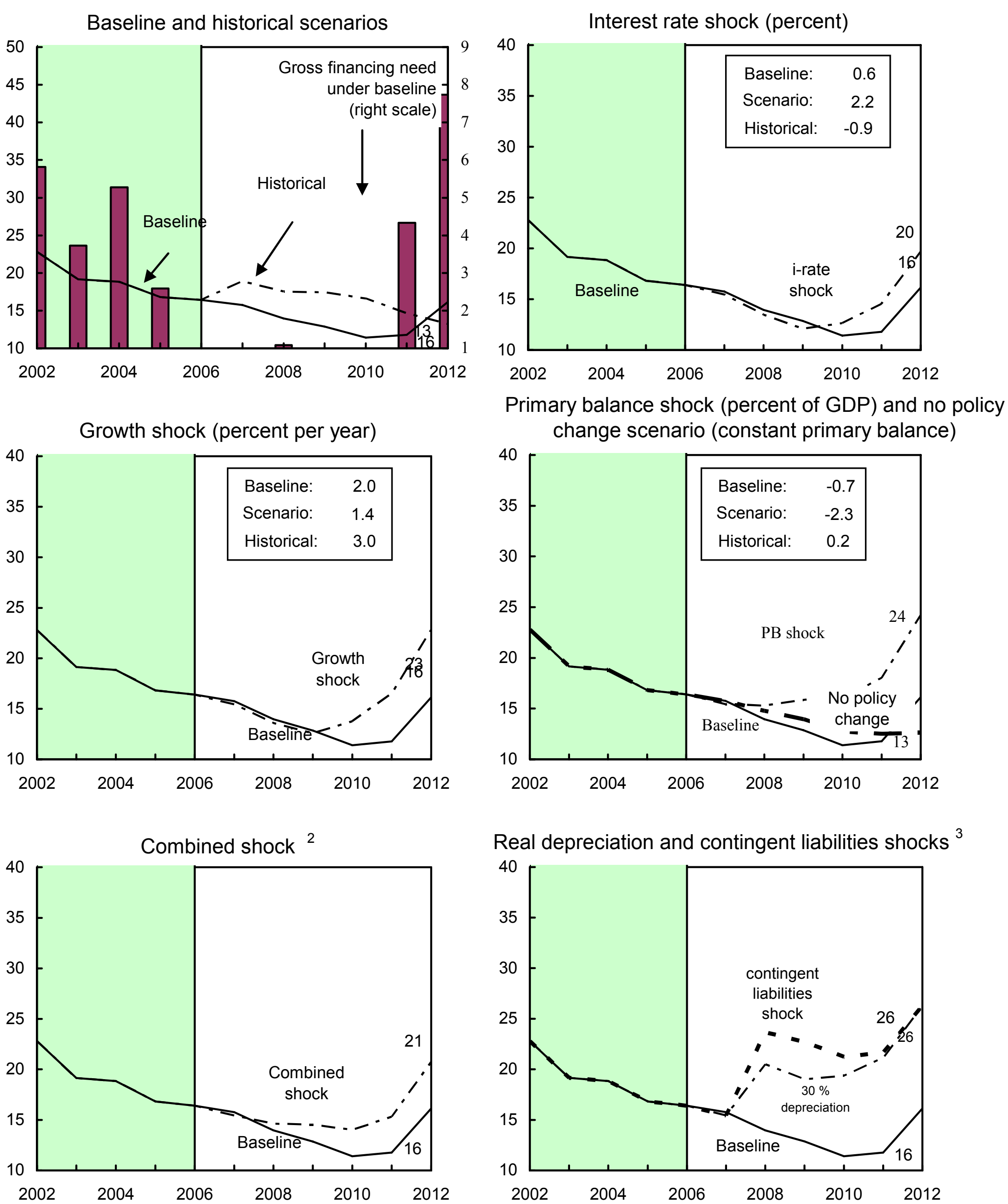
Sources: International Monetary Fund, Country desk data, and staff estimates.

[1] Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

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

[3] One-time real depreciation of 30 percent occurs in 2008.

Figure 7. Swaziland: Public Debt Sustainability: Bound Tests[1]
(Public debt in percent of GDP)



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

[1] Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

[2] Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

[3] One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2008, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL RELATIONS DEPARTMENT

APPENDIX I: SWAZILAND—DRAFT PUBLIC INFORMATION NOTICE

Public Information Notice (PIN) No.
FOR IMMEDIATE RELEASE
[February, 04, 2008]

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

IMF Executive Board Concludes 2007 Article IV Consultation with The Kingdom of Swaziland

On February 4, 2007, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Kingdom of Swaziland.[1]

Background

The Swazi economy remains stagnant. Real GDP growth has averaged just over 2 percent in the past six years. Per capita GDP growth is lagging behind other members of the Southern African Customs Union (SACU), and low and lower-middle income countries. The slow pace of economic reforms has worsened the investment climate, and the erosion of preferential treatment for Swaziland's exports of textile and sugar, combined with declining competitiveness and weak institutional capacity have further contributed to the weakened output performance. Years of persistently low growth have led to stubbornly high poverty, inequality and unemployment, and Swaziland has a high prevalence of HIV/AIDS.

High SACU revenue contributed to a record fiscal surplus and accumulation of international reserves to 3.4 months of imports. Despite stronger import growth the external current account deficit narrowed in 2007, owing to stronger demand for Swaziland's major export,

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

soft drink concentrate, the extension of the African Growth and Opportunity Act (AGOA), which benefited exports of textiles, and higher SACU transfers. Inflation has risen sharply since 2006 reflecting rising food and oil prices.

Broad money has expanded sharply during the past two years, mainly reflecting the rise in net foreign assets of the banking system. While credit to the government has declined, due to the surpluses arising from SACU receipts, growth in lending to the private sector slowed only moderately from 22 percent in 2006 to 19 percent in 2007.

The outlook is subject to several risks arising out of the uncertainty surrounding SACU revenues, the external environment and emerging financial sector vulnerabilities.

Executive Board Assessment

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Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Swaziland: Selected Economic and Financial Indicators, 2002–07

	2002	2003	2004	2005	2006	2007 Est
Domestic economy						
Real GDP	2.2	3.8	2.6	2.4	2.8	2.3
Consumer price inflation (period average)	11.7	7.4	3.4	4.8	5.3	8.3
External economy	(In millions of U.S. dollars, unless otherwise indicated)					
Exports, f.o.b.	1,032	1,387	1,809	1,612	1,492	1,630
Imports, f.o.b.	-941	-1,283	-1,718	-1,733	-1,633	-1,930
Current account balance [1]	58	124	52	-81	-81	-20
(In percent of GDP)	4.8	6.8	2.2	-3.1	-2.9	-0.7
Gross official international reserves	260	265	262	231	364	637
(In months of imports of goods and nonfactor services)	2.7	2.1	1.5	1.3	2.2	3.4
Debt service (in percent of exports of goods and nonfactor services)	1.4	1.1	1.0	1.1	1.2	1.2
Financial variables	(In percent of GDP, unless otherwise indicated)					
Total government revenue and grants [2]	26.7	27.6	30.9	32.0	41.5	37.5
Total government expenditure and net lending [2]	31.3	30.4	35.5	33.5	31.3	37.6
Overall government balance (incl. grants) [2]	-4.6	-2.9	-4.6	-1.5	10.2	0.0
Change in broad money (in percent)	13.1	14.1	10.4	5.9	25.1	26.8
Interest rates (in percent) [3]	9.5	4.2	4.1	3.5	7.4	8.4

Sources: Swazi authorities; and IMF staff estimates.

[1] Including transfers.
[2] Fiscal years (April 1-March 31).
[3] For 12-month time deposits.