FOR AGENDA

SM/08/313

October 2, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Kingdom of Swaziland—Staff Report for the 2008 Article IV Consultation**

Attached for consideration by the Executive Directors is the staff report for the 2008 Article IV consultation with the Kingdom of Swaziland, which is tentatively scheduled for discussion on **Friday, October 17, 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 Monday, October 13, 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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KINGDOM OF SWAZILAND

Staff Report for the 2008 Article IV Consultation

Prepared by the Staff Representatives for the

2008 Consultation with the Kingdom of Swaziland

Approved by Anne-Marie Gulde-Wolf and Anthony R. Boote

October 1, 2008

Date: July 23–August 5, 2008.

Team: Ms. Soonthornsima (head), Messrs Torrez, Fontaine, Davoodi (all AFR), and Bartholomew (MCM). Ms. Gesami (OED) and Mr. Van Houtte (World Bank) also participated.

Staff met with senior government officials including Prime Minister Dlamini, the Cabinet, Finance Minister Sithole and Central Bank Governor Dlamini. Staff also conducted an outreach seminar for public officials, representatives of the private sector, labor unions, media and donors.

Swaziland has accepted the obligations of Article VIII, Sections 2–4; it maintains two exchange restrictions arising from limits on the provision of foreign exchange for advance payments for imports: (i) an overall limit of E 250,000, and (ii) a 33.33 percent limit for the import of certain capital goods. The Swazi lilangeni is pegged at par with the South African rand, which is also legal tender.

Statistical quality is adequate for surveillance, but there is scope for improvement especially in national accounts and balance of payments data.

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Abbreviations and Acronyms

CBS	Central Bank of Swaziland
CMA	Common Monetary Area
CPI	Consumer price index
DSA	Debt sustainability analysis
EFTA	European Free Trade Association
ES	External sustainability approach
EU	European Union Commission
FDI	Foreign direct investment
FSRA	Financial Services and Regulatory Authority
GDP	Gross domestic product
GNI	Gross national income
MCM	IMF Monetary and Capital Markets Department
MDGs	Millennium Development Goals
MOAC	Ministry of Agriculture and Co-operatives
MTEF	Medium-Term Expenditure Framework
NBFI	Nonbank financial institutions
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
RA	Revenue Authority
SACU	Southern African Customs Union
SADC	Southern African Development Community
SARB	South African Reserve Bank.
SCCO	Saving and Credit Cooperatives
TICA	Trade and Investment Cooperation Agreement

EXECUTIVE SUMMARY

- **High rates of economic growth remain elusive and downside risks have increased.** Growth recovered moderately in 2007, but inflation escalated into double digits, initially owing to high food and fuel prices. High Southern African Customs Union (SACU) revenue contributed to the second consecutive budget surplus, an improved current account, and a build-up of international reserves. The authorities anticipate higher growth rates than the staff but agreed that the growth was still too low. The global economic slowdown and the high food and fuel prices increase downside risks.

- **Growth could be bolstered by fiscal and structural reforms** to improve the investment climate, address financial sector vulnerabilities, and control the HIV/AIDS epidemic. The authorities generally agreed with the reforms recommended but noted that capacity constraints limit the pace of their implementation.

- **Fiscal adjustment is needed to mitigate the risks of high dependence on SACU revenue, given their likely eventual decline, and to safeguard macroeconomic stability.** High SACU revenues currently provide an opportunity for orderly fiscal and structural reforms that could increase fiscal savings and GDP growth. Staff recommended efforts toward an improvement in the quality of expenditure, domestic revenue measures, streamlining expenditures, and public finance management. The authorities indicated that enormous social needs and political constraints, including the program of the government elected in September, could limit fiscal consolidation.

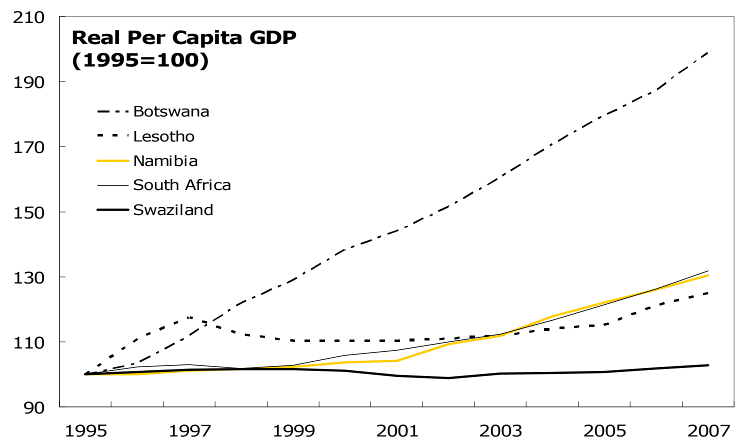
- **The level of the exchange rate seems broadly adequate, but competitiveness remains a concern.** Efforts should focus on structural reforms, such as enhancing the investment climate and governance. As a member of the Common Monetary Area (CMA), the authorities have limited independence in monetary policy and should keep the policy interest rate as close as possible to South Africa's to help control inflation while mitigating capital outflows.

- **To alleviate the impact of high food and fuel prices while being fiscally responsible, the authorities should focus assistance on the most vulnerable within the population and use the existing distribution channels to deliver such assistance.** Staff recommended liberalization of food imports, prompt pass-through of exogenous price increases, and better coordination among stakeholders.

- **To safeguard financial stability, prompt actions are required to tighten supervision of saving and credit cooperatives and address pyramid schemes.** Beginning with the privatization of the government-owned bank is a welcome step. The requirement that insurance and retirement funds invest domestically should be reconsidered, with a view to gradual phase-out, because it could reduce returns and undermine deepening of the financial sector. Several financial bills should be enacted as soon as possible.

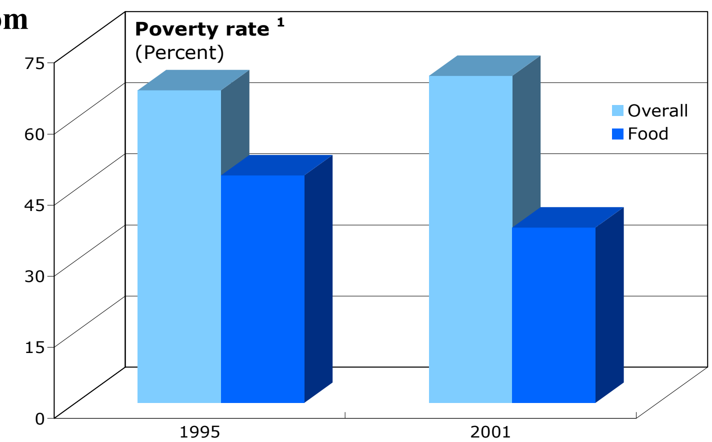
I. Background

1. **High and sustained economic growth remains elusive.** Real GDP growth is lower than the 5 percent government target for effectively reducing poverty. Growth prospects are clouded by low investments, slow pace of economic reforms, and deterioration of preferential treatment for Swaziland's main exports, sugar and textiles. The recent global shocks—surges of commodity prices and inflation, slowdown of economic growth, and continuing financial rebalancing—further increases risks to the Swazi economy. Years of persistently low growth have pushed up poverty and unemployment, a situation worsened by the prevalence of HIV/AIDS, labor force absenteeism, and low productivity. Since 1997 the epidemic has also limited annual population growth to about 0.4 percent.[1]



Source: World Economic Outlook.

2. **High and rising revenues from the Southern African Customs Union (SACU) have allowed Swaziland to expand public expenditure and accumulate international reserves.** The authorities have increased fiscal savings during the last two years; international reserves now cover more than three months of imports of goods and services after years of less than adequate coverage. Yet despite escalated public expenditure, the country's social challenges remain daunting.



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

3. **The first parliamentary election under the new constitution took place on September 19 using** the traditional *tinkhundla* system—a grass roots system of local government and chiefdoms (Swaziland is a constitutional monarchy). A new Cabinet is expected to be sworn in during October 2008.

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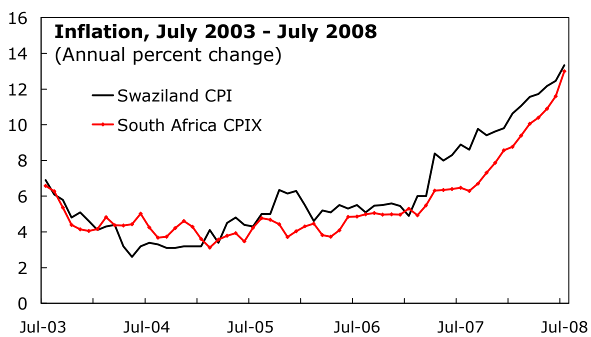
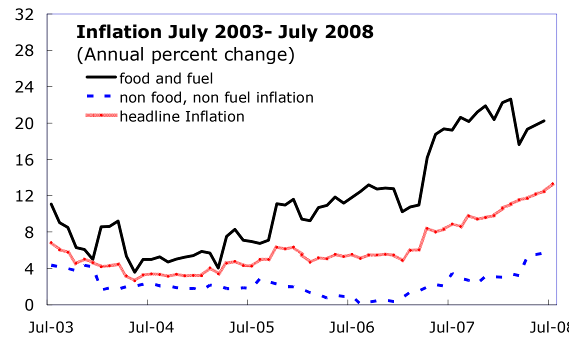
[1] The 2007 census showed the population had increased to 1,018 million from 980 million in 1997.

II. Recent Economic Developments and Outlook

4. **As Swaziland recovered from the 2006 drought, real GDP growth in 2007 rose to 3.5 percent, and inflation escalated.** Growth was also driven by increases in output in services and manufacturing. Inflation reached 9.8 percent at the end of 2007 as food and fuel prices rose. By the end of July 2008, inflation was at 13.4 percent. The authorities have responded to the recent surges of food, fuel and transportation prices mainly through a delayed pass-through of price increases.[2] In 2008 average inflation is expected to be about 13 percent based on second-round effects from double-digit wage settlements, and despite recent declines in global fuel prices. Interest rates generally have risen in line with those of South Africa but the authorities decided in June 2008 not to match a 50 basis point increase by the South African Reserve Bank (SARB).



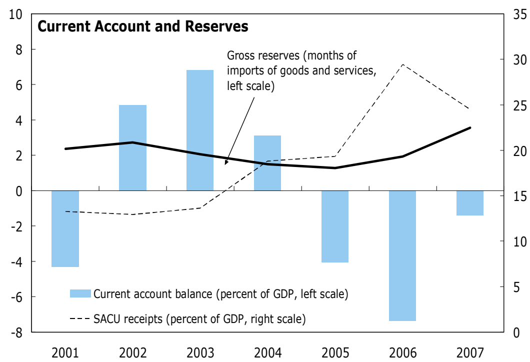
Sources: National authorities and IMF staff estimates.



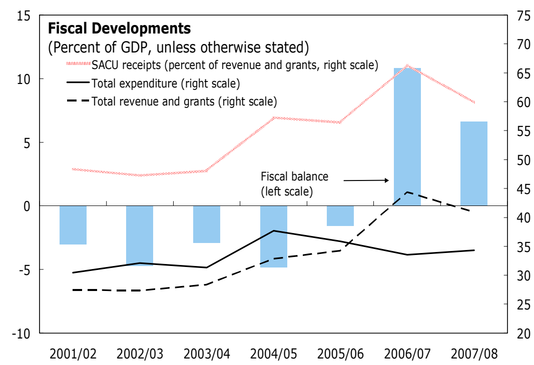
Sources: National authorities and IMF staff estimates.

5. **In 2007/08 high SACU transfers contributed to the second consecutive budget surplus (6.4 percent of GDP), an improved current account, and an accumulation of international reserves.** The recent depreciation of the nominal exchange rate along with the South African rand, to which it is pegged, is possibly having a positive impact on the export sector. External debt in 2007 declined to 16.7 percent of GDP, and international reserves reached the equivalent of 3.5 months of imports.

[2] Between June 2007 and June 2008 the price of maize increased by 38 percent, bread by 58 percent, milk by 11 percent, and rice by 100 percent. Bus fares increased by 60 percent in August. Despite relying mainly on imports from South Africa, electricity prices have been increased only with delays and at a more gradual pace than in South Africa. Swazi electricity prices increased in July, after the South African price increase announced in April.



Sources: National authorities and IMF staff estimates.



Sources: National authorities and IMF staff estimates.

6. **Since the last consultation the authorities have consolidated international reserves at the central bank (CBS) and enhanced supervision of the financial sector, but have done little to tighten expenditures and reform the civil service.** The 2008/09 budget forecasts increased expenditure by 7 percent of GDP to 40.3 percent and the wage bill to rise to 16.7 percent of GDP. Under the 2007 Revenue Authority (RA) Act, the authorities have established the RA and are recruiting staff. With insurance sector liberalization, four new companies started up in 2008. The authorities have begun the process of privatizing the government owned Swazi Bank and of supervising saving and credit cooperatives (SCCOs.)

7. **With current policies, medium-term prospects are not encouraging and subject to substantial risks that could undermine macroeconomic stability.** Growth could be further hampered by uncertainties about the viability and timing of investment projects, low competitiveness scores, an investment climate that keeps the cost of doing business high, and the prevalence of HIV/AIDS. Staff therefore expects a growth slowdown to less than 3 percent annually, although the authorities, anticipating investment projects, expect growth rates of at least 3 percent. The current account deficit is expected to widen as tariff protection in the SACU market is eliminated, and preferential prices for sugar in the EU market are reduced.[3] Furthermore, recent global financial market developments may have an adverse impact on the country's financial sector should South African banks, which dominate the sector, suffer significant losses. The outlook is further clouded by a fiscal stance that is overly dependent on SACU revenue, high inflation, and a vulnerable financial sector.

[3] Sugar prices to the EU will fall by 17.3 percent in 2008 and by a further 19 percent in 2009.

III. Policy Discussions

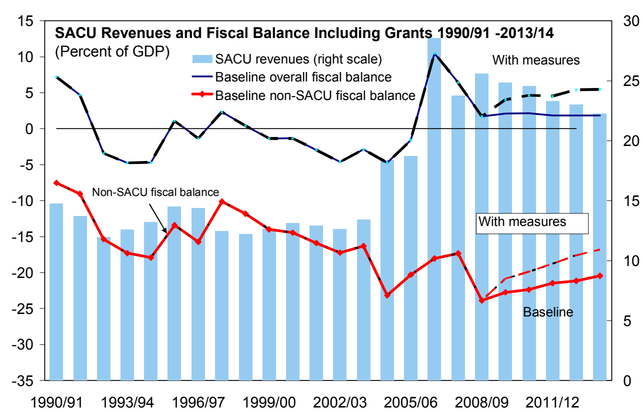
Box 1. Summary of the 2007 Consultation Discussions

Directors expressed concern about the slow pace of economic growth that lags behind most of other lower middle income countries, emphasized the need to ensure fiscal sustainability and safeguard priority spending to address urgent social needs (HIV/AIDS and unemployment). The Fund encouraged the authorities to use the buoyant SACU revenues to accelerate fiscal and structural reforms aimed at securing macroeconomic stability and addressing impediments to higher growth and poverty reduction. It commended the authorities' efforts in rebuilding international reserves, strengthening banking supervision, and the passage of key financial legislation. Finally, directors recommended the timely implementation of the Poverty Reduction Strategy and Action Program and in line with the medium-term fiscal expenditure framework.

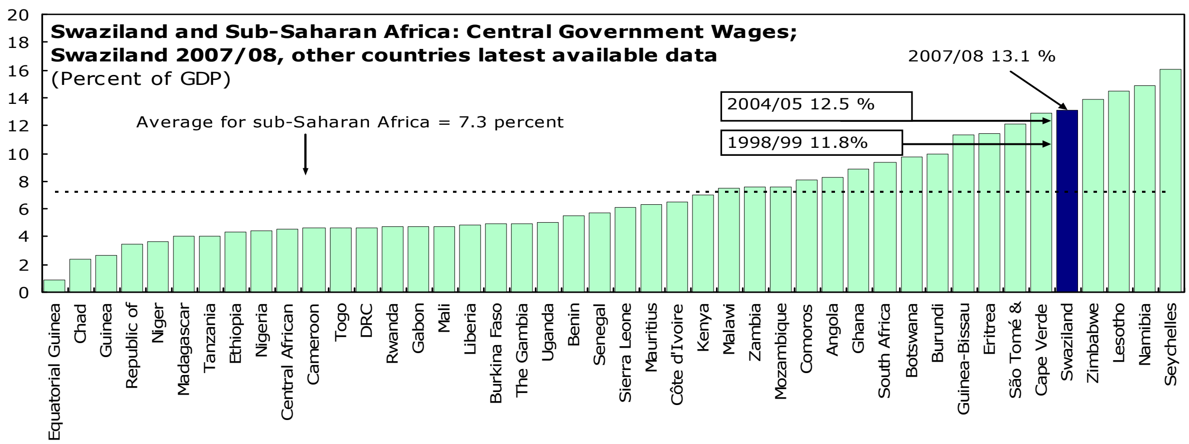
A. Fiscal Sustainability and Reforms

8. **Swaziland's fiscal stance is highly dependent on SACU revenues but these are not likely to be sustained,** based on: (i) a call by South Africa to revisit the revenue-sharing formula; (ii) a slowdown in South Africa's economic growth; (iii) a reduction in common external tariff rates due to trade liberalization; and (iv) possible transformation of the Southern African Development Community (SADC) into a customs union, which would imply lower shares for SACU members.

9. **In anticipation of SACU revenue declines in the long term, fiscal policy is not tight enough to make room for the savings needed** to smooth expenditure and prevent abrupt fiscal adjustment that could undermine macroeconomic stability**.** Furthermore, a tighter fiscal policy in the near term is also advisable from a cyclical perspective given the current high inflation that is anticipated to remain in 2009. Hence**,** the fiscal expansion of the 2008/09 budget and its medium-term fiscal outlook should be corrected, with adjustments equivalent to 4 percent of GDP over the medium term to secure savings (see below).



Sources: National authorities and IMF staff estimates and projections.



10. **To help put in context recent fiscal surpluses owing to temporary surges of SACU revenue, the non-SACU fiscal balance is used to estimate the deficit and level of adjustment needed for fiscal sustainability.** [4] Based on "normal" SACU revenue of 13 percent of GDP (the average for 1996/97–2004/05), staff targeted a sustainable non-SACU deficit of 16.8 percent of GDP. However, the authorities project a non-SACU deficit of 26.8 percent of GDP in the 2008/09 budget. Staff estimates that without reform, the fiscal imbalance would worsen, with non-SACU deficits of about 22 percent over the medium term.

11. **To achieve sustainable fiscal balances, staff proposed a phased implementation of revenue and expenditure reforms while providing for more spending on high-priority sectors.** Measures to immediately improve tax administration and introduce the VAT in the next few years should increase revenue by about 2 percent of GDP by 2013/14.[5] Civil service reform could bring the wage bill back to 12 percent of GDP, about the level in 2004/05—though the sub-Saharan African average is 7.3 percent to GDP. Expenditure reform should therefore combine consolidation, reorientation, and quality improvements to reduce spending by about 2 percent of GDP and allow fiscal space to facilitate economic growth and reduce poverty. On civil service reform, the performance management system, developed with the Botswana National Productivity Board, needs to be implemented promptly; it should involve redeployment toward prioritized sectors such as health care while promoting increased productivity, transparency, and accountability.[6] Though they concurred with the staff

[4] The non-SACU fiscal balance is defined as the overall fiscal balance excluding SACU revenues (see the 2007 Selected Issues Paper). A sustainable non-SACU fiscal balance allows for maintaining international reserves at about three months of imports, sufficient to support confidence in the currency peg and a low debt burden.

[5] In 2007 the revenue administration consultant estimated that only 20 percent of collectible tax is collected.

[6] Human resource allocations should better reflect priority sectors. For example, in 2007/08, only 7 percent of the wage bill was for the health sector; education received 37 percent and protection services 27 percent.

analysis, the authorities admitted that social pressures and a cumbersome bureaucracy had delayed implementation.

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

	2007/08	2008/09 Budget	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Baseline								
Non-SACU fiscal balance w/o measures	**-17.3**	**-26.9**	**-23.9**	**-22.7**	**-22.4**	**-21.5**	**-21.2**	**-20.4**
Revenues w/o SACU	16.0	13.6	13.4	13.8	14.0	14.0	14.2	14.6
Expenditures	33.3	40.5	37.2	36.5	36.4	35.5	35.4	35.0
Wages and salaries	13.1	16.7	13.8	13.8	13.7	13.6	13.5	13.2
Goods and services	6.4	6.5	6.4	6.4	6.4	6.4	6.5	6.5
Subsidies and transfers	4.3	7.0	7.1	5.7	5.7	4.8	4.8	4.7
Capital Expenditure	8.2	9.5	9.2	10.0	10.0	10.0	10.0	10.0
Interest payments	1.0	0.9	0.9	0.8	0.7	0.7	0.6	0.6
Adjusted scenario								
Non-SACU fiscal balance with measures				**-20.8**	**-19.9**	**-18.8**	**-17.6**	**-16.8**
Revenue w/o SACU				14.7	15.1	15.3	16.2	16.5
Expenditures				35.6	35.1	34.1	33.8	33.3
Of Which:								
Wages and salaries				13.3	13.0	12.8	12.6	12.2
Goods and services				6.4	6.4	6.4	6.4	6.3
Subsidies and transfers				5.3	5.1	4.2	4.0	3.8
Capital Expenditure				10.2	10.3	10.4	10.7	10.9
Memorandum items:								
SACU receipts [2]/	23.8	25.6	25.6	24.9	24.5	23.3	23.0	22.3
Overall balance without measures	6.4	-1.3	1.7	2.1	2.2	1.8	1.8	1.8
Overall balance with measures				4.0	4.7	4.5	5.4	5.5

[1]/ The fiscal year runs from April 1 to March 31.
[2]/ The buoyant SACU revenues through 2013/14 are consistent with the forecast of the South African staff team.

12. **Improvement in public expenditure management and assurance that spending is of high quality is crucial to successful fiscal adjustment.** Poor coordination of budget execution across government agencies has resulted in under-spending for some, arrears for others, and frequent supplementary budgets. To better manage public expenditure, the authorities highlighted continuing improvement of the procurement system and reform of the Public Finance Management Act. Staff underscored the need to assess expenditure and budget allocation on the basis of the social rate of return and government priorities in health, education, and agriculture, consistent with the Poverty Reduction Strategy and Action Program (PRSAP).

13. **Staff proposed an alternative scenario based on fiscal and structural reforms, preferably starting in 2008/09, that could generate GDP growth of about 4 percent over the medium term.** With reforms, the saving-investment balance should improve and foreign investment and donor financing be attracted, thus helping to raise GDP growth. Improved fiscal surpluses will help sustain reserves at more than 3.5 months of imports of goods and

services[7] while reducing the debt-to-GDP ratio to about 8 percent by 2012. While agreeing with staff on the risk to SACU revenues and the need for fiscal adjustments, the authorities identified political constraints and enormous social needs as formidable challenges to fiscal consolidation. Nonetheless, the authorities plan to save this year's unbudgeted SACU windfall.[8]

Swaziland: Medium-Term Scenario, 2008-2013
(Percent of GDP, unless noted otherwise)

	2007	2008	2009	2010	2011	2012	2013
Main macroeconomic variables [1]							
Without measures							
Real GDP growth	3.5	2.6	2.5	2.5	2.5	2.5	2.5
Inflation	8.2	12.7	8.9	6.0	5.9	5.5	5.3
Investment/GDP	16.2	17.4	17.7	17.2	16.8	16.8	16.3
GDP per capita at constant prices	3.1	2.1	2.1	2.1	2.1	2.1	2.1
Current account balance	-1.4	-5.3	-2.0	-2.6	-3.2	-3.1	-2.6
Gross official reserves (months of imports of goods and nonfactor services)	3.6	3.2	2.9	2.8	2.6	2.6	2.7
Government debt	18.8	15.9	14.4	13.5	12.7	12.0	11.5
Total Revenues and grants	39.7	39.0	38.7	38.5	37.3	37.2	36.9
Total Expenditure and Net Lending	33.3	37.2	36.5	36.4	35.5	35.4	35.0
Fiscal balance, including grants	6.4	1.7	2.1	2.2	1.8	1.8	1.8
Reform policies scenario [2]							
Real GDP growth		2.6	3.4	3.8	4.1	4.6	4.6
Investment/GDP		17.4	18.4	18.6	18.9	19.3	19.5
GDP per capita at constant prices		2.1	3.0	3.4	3.7	4.2	4.2
Current account balance		-5.3	-0.3	-0.1	0.5	1.3	1.3
Gross official reserves (months of imports of goods and nonfactor services)		3.2	3.4	3.6	3.7	3.9	4.0
Government debt		15.9	10.6	9.0	8.0	7.6	5.1
Total Revenues and grants		39.0	39.6	39.6	38.6	39.2	38.8
Total Expenditure and Net Lending		37.2	35.5	35.0	34.1	33.8	33.3
Fiscal balance, including grants		1.7	4.0	4.7	4.5	5.4	5.5

[1] Fiscal year runs from April 1 to March 31.
2 Assuming that fiscal policy and structural reforms including reducing the cost of doing business; improving the quality of public institutions; addressing the lack of transparency and poor administrative coordination; increasing labor market flexibility; simplifying business licensing; and improving infrastructure) will result in fiscal and current account surpluses.

B. External Stability and Exchange Rate Policy

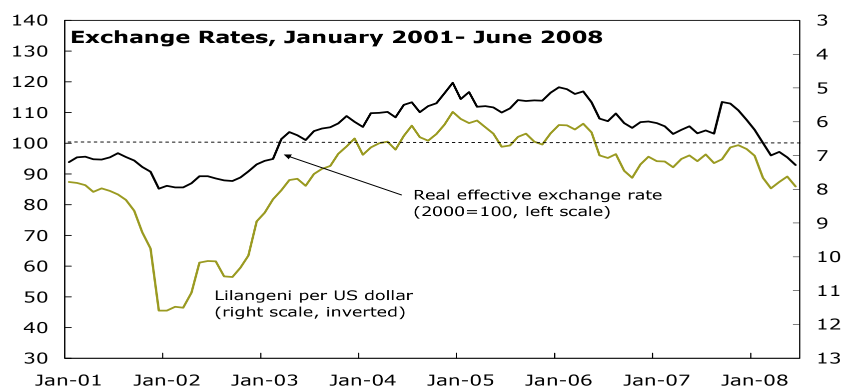
14. **Sufficient international reserves are critical to safeguard external stability and confidence in the currency peg with South Africa,** which has served the country well. Staff supported the authorities' policy to have reserves of at least three months of import cover. The authorities believe that this level is appropriate in relation to the domestic monetary base (reflecting the free circulation of the rand) and external debt, while preserving confidence in the peg and serving as a cushion against adverse external shocks.

[7] Neighboring countries have higher import coverage: Botswana, more than 26 months; Lesotho, about seven months; and South Africa 3.7 months. Only Namibia has lower import coverage at 2.8 months.

[8] The difference between the estimated and actual value of the revenue-sharing pool in any given year.

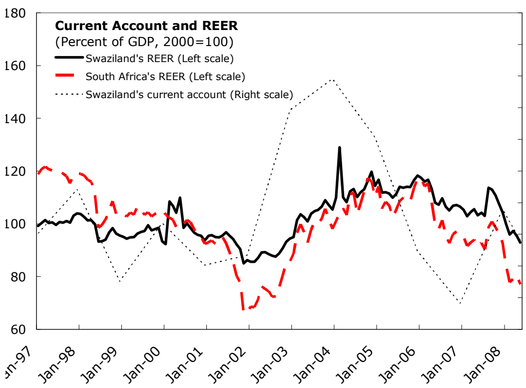
15. **Debt sustainability analysis (DSA) shows that Swaziland has very low debt Tables 7 and 8)**. Since 2002 despite the most recent depreciation, total public sector debt has declined, reflecting in part limited new borrowing and an exchange rate appreciation between 2003 and 2006. As a lower-medium-income country, Swaziland has limited access to concessionary loans; any large increases in external debt would carry high interest costs.

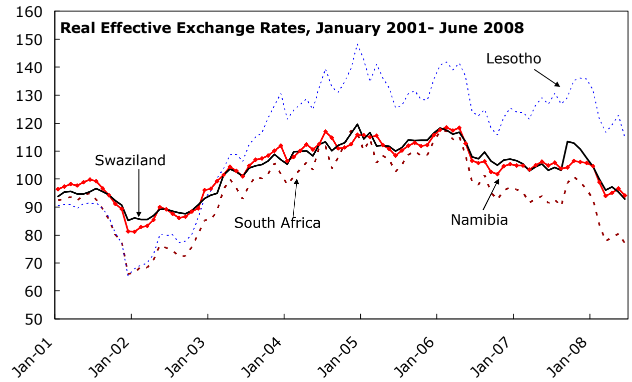
16. **The level of the exchange rate seems broadly adequate and the exchange rate regime is appropriate.** The assessment of the exchange rate level is based on two methodologies. The purchasing power parity methodology, adjusted for productivity differentials, indicates no misalignment as of 2008. The external sustainability approach indicates that stabilizing the current account at the net foreign asset (NFA) position as of 2007 would imply a somewhat stronger current account than projected, which could imply some overvaluation of the real exchange rate. Yet there are no other clear signs of an overvaluation and the depreciation of the real exchange rate since 2006 has boosted Swaziland's exports. As to the exchange rate regime, staff and the authorities agreed that the currency peg under the CMA should be maintained because it facilitates capital and current transactions with the country's most important economic partner, South Africa.



Sources: International Financial Statistics and Information Notice System.

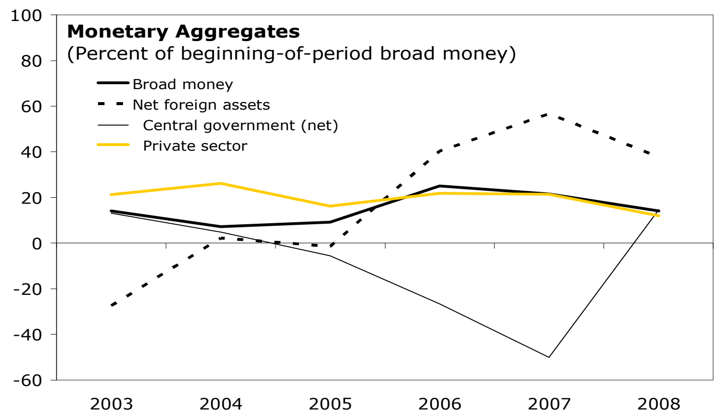
17. **In the CMA, movements in the real effective exchange rate are largely exogenously determined, and more effort is needed to improve structural competitiveness.** With the Swaziland's inflation rate also closely tracking South Africa's—and responsibility for macroeconomic stability resting squarely with fiscal policy—competitiveness should be pursued through structural reforms that improve the investment climate and compensate for eroding trade preferences. Staff acknowledged that—despite the depreciation in 2008 of the rand—Swaziland's lackluster export performance was, to a large part, due to lower preferential prices for sugar exports to the EU. Loss of preferences in the textiles sector is aggravated by escalating wage and other operational costs, labor strikes, and prospects for that sector do not look encouraging.





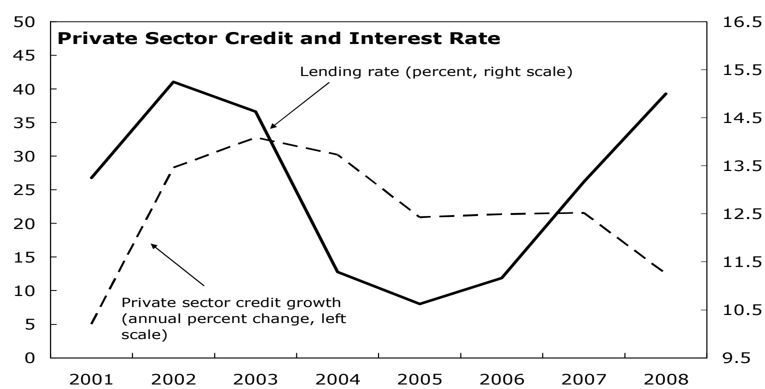
C. Monetary and Financial Sector Policies

18. **The CBS has limited independent monetary policy as a CMA member, and financial institutions tend to follow their rates in South Africa rather than the CBS policy rate.** Nevertheless, for the first time in recent memory, the CBS in June this year did not match a 50 basis point increase in the SARB repo rate. A lower policy rate does not necessarily lead to lower effective interest rates in Swaziland and by having a different policy rate from the SARB rate; the CBS could risk public misinterpretation about its commitment to combat inflation. The CBS is closely monitoring the impact of its June interest rate decision and capital outflows.



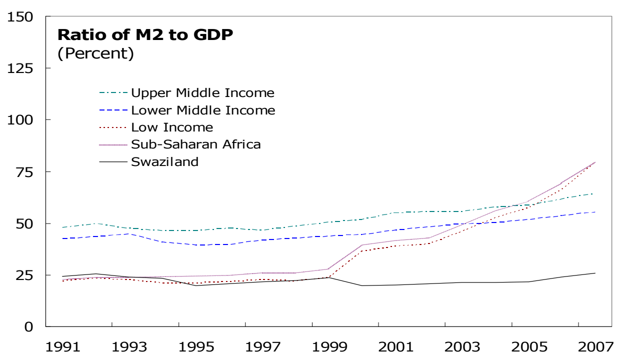
Sources: National authorities, and IMF staff estimates and projections.

19. **Authorities and staff agreed that continuing supply shocks and rising inflation expectations heighten the importance of clearly communicated justification of policy** to help contain the rise in inflation expectations, particularly given the July government wage settlement of 10.5 percent. Efforts could be made to educate the public about the nature of the current shocks, the importance of anchoring second-round inflation effects, and the long-run trade-off between inflation and growth.

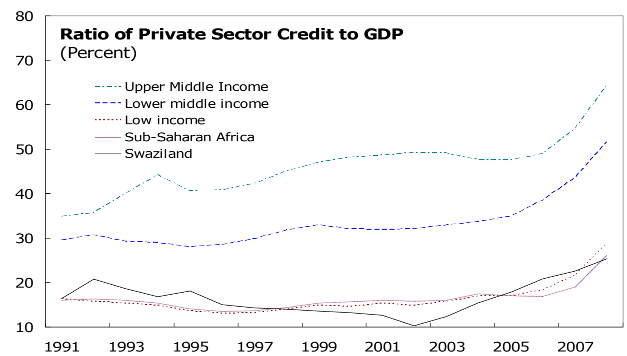


Sources: International Financial Statistics and IMF staff estimates.

20. **The financial sector faces some vulnerabilities from weaknesses in the Swazi Bank and emerging vulnerabilities from the fast growth of insufficiently regulated SCCOs and the emergence of pyramid schemes.** In 2008 the number of nonbank financial institutions (NBFIs) has grown significantly as they attempt to take advantage of the liquidity surge from the requirement that all insurance and retirement funds must increase their holdings of domestic assets from 10 to 30 percent of total assets through 2009. The emergence of pyramid schemes, offering inordinately high rates of return, could also pose significant risks to the financial sector if left unchecked because they face constant rollover risks and are very likely to fail. Staff reiterated the urgency of prompt enactment and full implementation of the Financial Services Regulatory Authority (FSRA), Security, Payment System and Clearance bills to under gird the soundness of the financial sector, prevent regulatory arbitrage, and facilitate deepening of the sector. The authorities welcomed the financial sector strategy note prepared by staff emphasizing the need for deepening.



Sources: International Financial Statistics and World Economic Outlook.



Source: International Financial Statistics and World Economic Outlook.

21. **The authorities have approved privatization of Swazi Bank and are monitoring bank lending to the sugar industry.** On Swazi Bank, an advisory committee concurred with the staff view that any privatization strategy should be preceded by separation of its development and commercial activities. As prospects for the sugar sector weaken, staff urged the authorities to closely monitor loans to the industry and further scrutinize the risk management practices of banks. It is imperative that revised loan provisioning requirements be issued and enforced.

22. **To better supervise and regulate SCCOs, the Ministry of Agriculture and Credit Cooperatives (MACO) and the CBS have begun a technical collaboration plan.** The plan sets prudential standards for SCCOs and provides for training of MACO staff to better monitor financial soundness, enforce compliance, and compile information relevant to monitoring SCCOs. MACO should move quickly to preserve the assets of some insolvent SCCOs to ensure public confidence in that sector.

23. **The recent proliferation of pyramid schemes has increased the threat they pose to the stability of the financial system.** These entities as yet are relatively small. The authorities have warned the public of the risks and have taken legal action against some

operators. Staff urges further efforts, such as formalizing coordinated efforts among financial sector regulators, improving internal processes for dealing with fraudulent financial operations, and passing legislation prohibiting such operations.

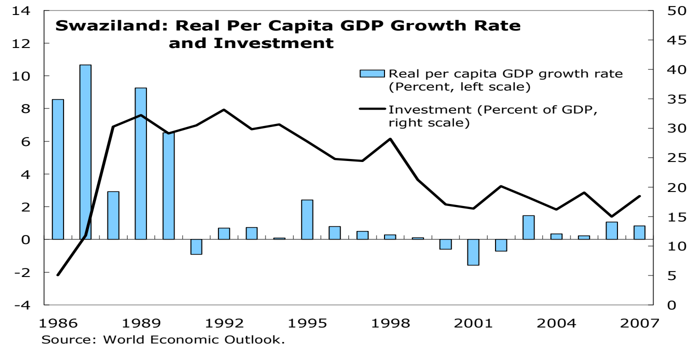
24. **Concerning the insurance and retirement sector, a recently announced domestic investment requirement should be reconsidered.** Staff noted that, in the absence of deep markets, the requirement—at least 10 percent by 2007 and 30 percent by 2009 of investable funds will need to be held in Swazi assets—could lead to severe distortions, discourage investment flows to Swaziland and undermine efforts to develop the financial sector in the country. It argued that implementation experience to date showed that some insurance and retirement funds are merely displacing commercial bank lending and some are rerouted off-shore without financing new capital formation in Swaziland. Hence, staff recommended that the requirement should be gradually phased out.

D. Response to the Fuel and Food Price Increases

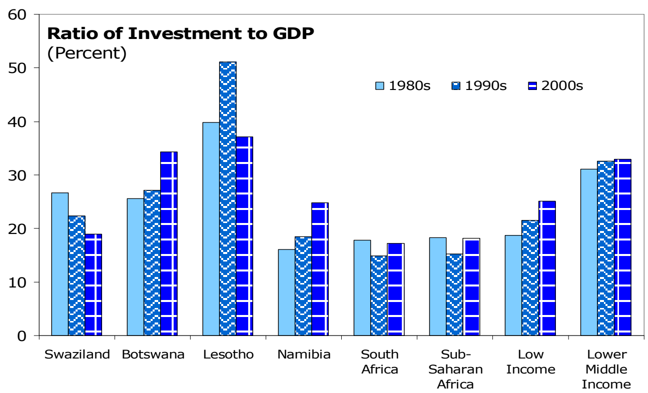
25. **The recent surges of food and fuel prices have significantly affected the poor and created special challenges for the authorities.** Staff discussed policy options for dealing with surging prices, focusing on fiscal viability, minimization of market distortions, and effective and timely delivery to target groups**.** Staff recommended liberalization of food imports (e.g., maize) and providing assistance through already extensive food distribution programs. The policy of delaying the price pass-through should be abolished to depoliticize price adjustments and eliminate market distortion. Because Swaziland faces frequent food shortages, the authorities need to implement long-term solutions that are consistent with their sectoral policy while remaining fiscally sustainable. The National Disaster Management Agency needs to improve coordination of stakeholders on the food security issue. The authorities agreed that targeted assistance to the most vulnerable groups is appropriate, but are concerned about increasing public outcry for more interventionist programs, mostly general subsidies for commodities, and for agricultural inputs and finance.

26. **In September, in response to the surges of food and fuel prices, the "food price crisis" committee proposed several measures to the Cabinet, but it remains unclear when implementation will take place.** These measures are consistent with the Comprehensive Agricultural Strategy and the National Program for Food Security**.** Short-term measures include improvements to the food distribution provided by the World Food Program and other donors, provision of cash transfers, and removal of levies on dairy and wheat products. Other recommendations included subsidies to boost maize production and implementation of the agricultural strategy.

E. Growth, Poverty Reduction, and Competitiveness



27. **Poverty and lackluster economic growth are major risks to the social and economic stability of Swaziland.** Growth prospects are seriously constrained by a low investment-to-GDP ratio, a poor investment climate, recurrent droughts, the HIV/AIDS epidemic, and the high cost of doing business. Failure to implement other structural and land reforms further reduces growth prospects. The PRSAP approved last year could be the basis for strategies and policies to reduce poverty, but it needs a clearer implementation strategy and measures of tangible progress.



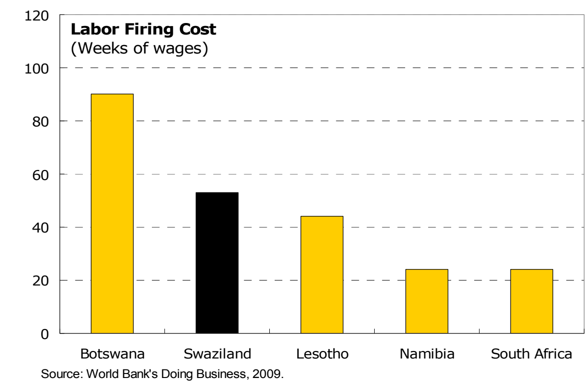
28. **To increase its growth prospects, Swaziland needs to increase investment and deepen its financial sector (see the SIP).** Since 2002 total investment has been stagnant at about 18 percent of GDP—not enough to promote growth and employment. Foreign direct investment (FDI) continues to decline. Swaziland needs to channel domestic resources to viable investment projects, with special attention to small and medium enterprises and public and Private Partnerships (PPPs). The authorities agreed with staff's view that the approach to PPPs should be cautious given the country's limited institutional capacity, inadequate legal framework, and the need to mitigate fiscal risks. Deepening the financial sector should help improve resource allocation.

29. **Private-sector-led growth is severely constrained by concerns about Swaziland's competitiveness and governance issues (Figure 1).** To address these issues, staff recommended that the authorities implement the recommendations of the Swaziland Investor Roadmap Study (2005) and the Investment Climate Assessment (2008) prepared by the World Bank. The authorities welcomed the World Bank's Interim Strategy Note to help them address competitiveness, governance, and HIV/AIDS issues. They also noted that enactment of the Companies and Competition Bills in 2008 provides a legal framework for businesses to flourish, and expected the one-stop shop at the Swaziland Investment Promotion Agency to help reduce the cost of doing business. An anticorruption commissioner was appointed in 2008 and work has started on bringing corruption cases before the court. However, serious constraints within the court system could hinder the work.

Figure 1. Swaziland: Competitiveness Indicators

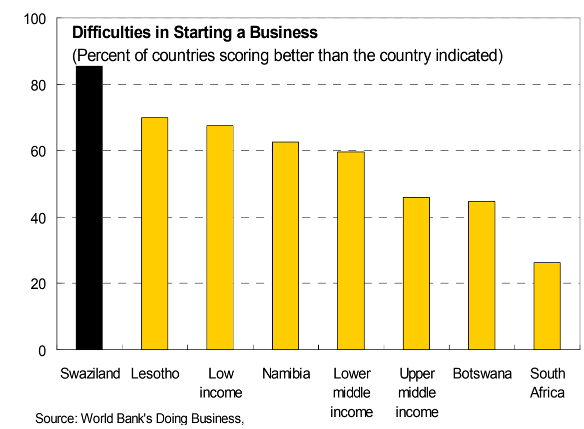
High labor cost is impacting competitiveness…

…so are high firing costs.

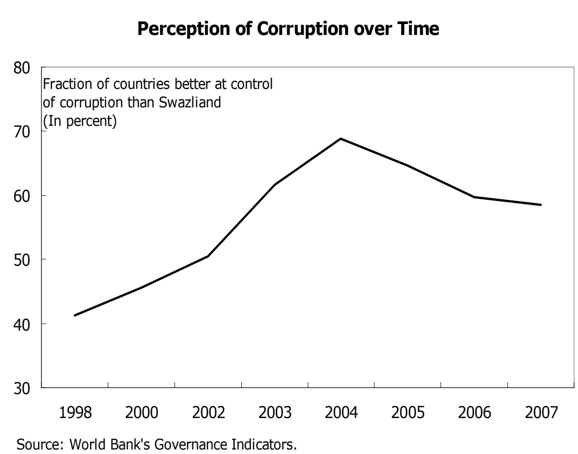


Swaziland is a difficult place to do business.

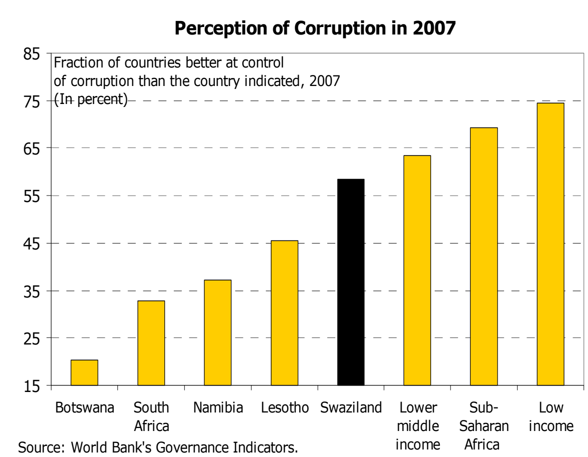
While obstacles to starting a business remain large…



Perception of corruption has declined over time.

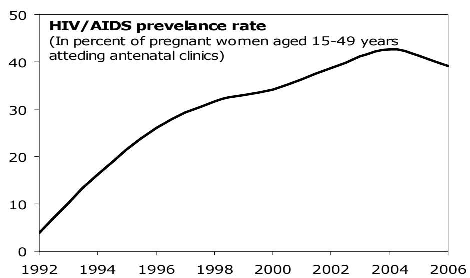


…though it remains high regionally.

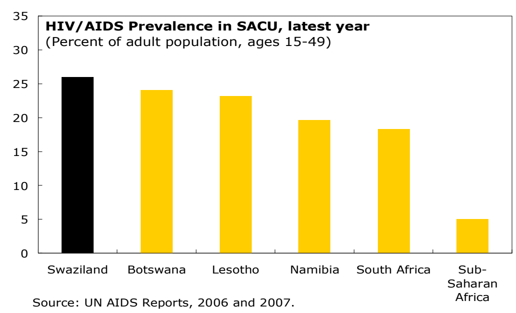


30. **Swaziland continues to promote regional economic integration and negotiate trade agreements in order to increase market access for its exports.** Discussions continue within SADC to initiate a free trade area and eventually a SADC customs union. In 2007Swaziland and four other SADC members initialed an Interim Economic Partnership Agreement with the EU for duty- and quota-free access to the EU market. Negotiations have also been concluded on a SACU-EFTA (European Free Trade Association) free trade agreement. SACU is negotiating with the US on a Trade and Investment Cooperation Agreement (TICA) and with the Latin American trading block MERCOSUR on a preferential trade agreement.

31. **The authorities are taking steps to mitigate the adverse effects of HIV/AIDS (Box 2)**. A plan will be provided to the Global Fund that details the use of $81 million that was awarded in 2007. The authorities are currently considering a multiyear plan to: (i) scale up investment in education of young children and orphans left behind by HIV/AIDS, providing them with free meals and reducing drop-out rates; (ii) provide short-term child support grants with assistance from the World Bank and IFC; and (iii) scale up use of antiretroviral therapy.



Source: Ministry of Health and Social Welfare, 10th. Round of Serosurveillance

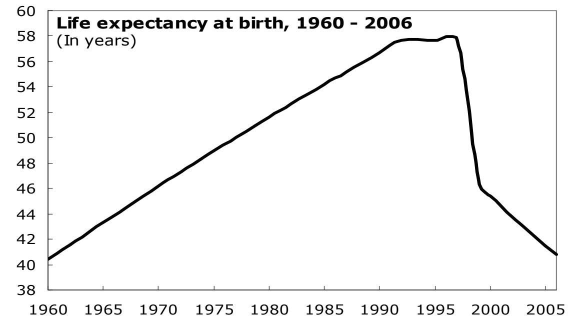


Source: UN AIDS Reports, 2006 and 2007.

Box 2. Macroeconomic Impact of HIV/AIDS in Swaziland

HIV/AIDS presents formidable longer-term challenges for Swaziland. Cross-country studies of the impact of HIV/AIDS on growth range from insignificant or very modest to losses of more than 2 percentage points a year. HIV/AIDS affects growth negatively by, among other things, lowering life expectancy, reducing incentives for human and physical capital formation, and limiting productivity growth.

Staff estimates based on two studies[1] suggest that if life expectancy (a measure of health and human capital) had stayed at 57 years— the level in mid-1990s before HIV/AIDS accelerated and growth decelerated—instead of the current estimate of 41 years, Swaziland's per capita GDP growth would have been higher on average by 1.3 percentage points a year.



Source: World Bank's World Development Indicators.

Using a different methodology, the International Labor Organization (2004) estimates that HIV/AIDS reduced per capita GDP growth in Swaziland on average by 1.8 percentage points each year from 1992 through 2002.

The adverse impact on education could be sizable, increasing the burden on future generations. According to the ILO (2004), in Swaziland the cost of hiring and training teachers to replace those lost to HIV/AIDS is projected to reach US$233 million (8 percent of 2007 GDP) by 2016.

The toll on Swaziland's agriculture, a major source of earnings for a large segment of the population, could be heavy. HIV/AIDS can lower the agricultural labor supply, reduce the productivity of affected farmers, as well as the income needed for purchasing farm inputs. These effects have resulted in an estimated 54 percent reduction in production of maize and 34 percent reduction in land cultivation (UNAIDS, 2002).

The impact on Swaziland's businesses is significantly larger than in comparator countries that also suffer from HIV/AIDS. According to the 2007 World bank investment climate assessment survey, over 50 percent of company managers reported much higher worker absenteeism due to sickness than other countries in Southern Africa. Among the workers surveyed, 25 percent reported being sick in the previous 30 days compared with less that 20 percent in Botswana and Namibia.

[1] See Jeffrey D. Sachs and Andrew M. Warner, 1997, "Fundamental Sources of Long-Run Growth," *American Economic Review*, Vol. 87, no. 2., pp. 184–88; and Xavier Sala-i-Martin, Gernot Dooppelhofer, and Ronald I. Miller, 2004, "Determinants of Long-Term Growth: A Bayesian Averaging of Classical Estimates (BACE) Approach *American Economic Review*, Vol. 94, no. 4, pp. 813–35.

[2] International Labor Organization, 2004, "HIV/AIDS and work: global estimates, impact and response."

IV. Staff Appraisal

32. **Achieving government's target growth over the medium term remains elusive, without prompt structural reforms.** Risks stem from the eventual decline of SACU revenues and emerging financial vulnerabilities. The short-term outlook is further clouded by a global economic slowdown and the adverse impact of high food and fuel prices. Timely economic and structural reforms, increasing investment, and aggressively tackling the HIV/AIDS epidemic are necessary to stimulate growth and reduce poverty.

33. **Because SACU revenues are expected to stay high in the next few years, they offer an opportunity for Swaziland to generate fiscal savings** to help smooth out expenditure later when SACU revenues decline and to safeguard economic stability, address structural reforms, and improve the effectiveness of public policy. The authorities should take immediate steps to reduce the level of expenditures in 2008/09 and make further adjustments in the 2009/10 budget and the medium-term fiscal policy framework. Operationalizing the Revenue Authority and introducing the VAT could increase domestic revenue significantly. Much-needed spending reform requires improving the quality of expenditure, tangible civil service reform, and better assessment of investments. Expenditure must be reoriented toward priority sectors to reduce widespread poverty.

34. **The monetary regime under the CMA, including the exchange rate peg to the rand have served the country well given Swaziland's economic integration with South Africa**. Fiscal and structural adjustment is required to support confidence in the peg and ensure external stability. With comfortable reserve levels, the exchange rate does not appear to be misaligned. Monetary policy should stay tight to limit the effects from surges of food and fuel prices, and the CBS should keep its policy rate as close as possible to the SARB's.

35. **Improvement of the financial position of the Swazi Bank through privatization, tighter supervision of SCCOs, and addressing pyramid schemes are priorities for preserving financial stability.** Prompt enactment of financial sector bills will help safeguard financial stability**.** Addressing pyramid schemes implies better coordination among domestic and regional financial regulators, improving internal processes for dealing with fraudulent operations, and passing laws prohibiting pyramid operations. For the insurance and retirement funds, the domestic investment requirement should be reconsidered, with a view to gradual phase-out because it could create a nonmarket risk premium and make it harder to deepen the financial sector if the market perceives it to be a move toward capital control.

36. **Responses to food and fuel price surges should focus on the most vulnerable population, using existing distribution channels for food delivery and liberalizing food imports.** General subsidies and delayed pass-through of price adjustment should be discouraged**.**

37. 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, 2005-2013

	2005	2006	2007	2008	2009	2010	2011	2012	2013
			Est.	Projections					
	(Annual percentage change, unless stated otherwise)								
National income and prices									
GDP at constant prices	2.2	2.9	3.5	2.6	2.5	2.5	2.5	2.5	2.5
GDP per capita at constant prices	1.8	2.5	3.1	2.1	2.1	2.1	2.1	2.1	2.1
GDP deflator	6.6	6.5	9.0	9.2	8.1	6.5	6.6	5.4	4.8
CPI (period average)	4.8	5.3	8.2	12.7	8.9	6.0	5.9	5.5	5.3
CPI (end of period)	6.3	5.5	9.8	13.5	7.5	5.9	5.7	5.4	5.3
External sector									
Current account balance (millions of U.S. dollars)	-102.6	-196.7	-41.2	-158.4	-64.2	-88.9	-115.9	-118.3	-102.4
Export volume, f.o.b.	-15.5	-2.6	-3.7	12.7	10.8	-7.5	-0.4	0.6	0.6
Import volume, f.o.b.	-2.0	-2.4	4.0	3.6	2.0	5.8	11.5	13.8	5.2
Nominal effective exchange rate [1/]	2.6	-4.2	8.7	...	...	...	...	...	...
Real effective exchange rate [1/]	-2.6	-8.0	3.3	...	...	...	...	...	...
Terms of trade	7.7	4.5	3.0						
Money and credit [2]									
Broad money	5.9	25.1	21.4	...	...	...	...	...	...
Domestic Credit	10.6	-4.9	-28.7						
Central government (net) [3]	-5.6	-26.7	-50.0						
Private sector	16.2	21.8	21.4						
Prime lending rate (percent; end of period)	10.5	12.5	14.5	...	...	...	...	...	...
Interest rate on 12-month time deposits (percent; end of period	3.5	8.5	10.0	...	...	...	...	...	...
Discount rate (end of period)	7.5	9.0	11.0	...	...				
	(Percent of GDP)								
Gross national savings	14.5	9.3	14.8	12.1	15.7	14.6	13.6	13.7	13.7
Of which : government	6.7	12.8	15.3	11.1	12.3	12.4	12.1	12.1	12.0
Gross domestic investment	18.6	16.7	16.2	17.4	17.7	17.2	16.8	16.8	16.3
Of which : government	8.8	7.9	8.5	9.4	10.2	10.2	10.2	10.2	10.2
Central government finances (fiscal year) [4]									
Total revenue and grants	33.2	43.0	39.7	39.0	38.7	38.5	37.3	37.2	36.9
Of which : South African Customs Union (SACU) receipts	18.7	28.5	23.8	25.6	24.9	24.5	23.3	23.0	22.3
Total expenditure and net lending	34.8	32.5	33.3	37.2	36.5	36.4	35.5	35.4	35.0
Current expenditure and net lending	26.7	25.1	24.8	28.1	26.6	26.5	25.5	25.4	25.0
Central government balance (including grants)	-1.6	10.5	6.4	1.7	2.1	2.2	1.8	1.8	1.8
Primary balance (including grants)	-0.4	11.4	7.4	2.6	2.9	2.9	2.5	2.5	2.4
Government debt	16.5	17.4	18.8	15.5	15.9	14.4	13.5	12.7	12.7
Non-SACU fiscal balance	-20.3	-18.0	-17.3	-23.9	-21.6	-20.8	-20.5	-21.5	-21.2
External sector									
Current account balance	-4.1	-7.4	-1.4	-5.3	-2.0	-2.6	-3.2	-3.1	-2.6
Trade balance (merchandise goods)	-10.2	-9.4	-8.5	-19.3	-15.3	-14.7	-15.0	-14.5	-13.3
Capital and financial account balance	-1.4	11.5	26.4	7.5	-0.4	2.4	4.0	5.1	5.6
Overall balance	0.4	5.6	12.4	1.1	-1.2	-0.1	0.4	1.0	1.5
External debt	17.2	16.6	16.7	17.2	16.0	15.2	14.5	13.9	11.9
Memorandum items :									
GDP in current prices (millions of emalangeni) [5]	16,050	18,078	20,386	22,856	25,321	27,634	30,177	32,621	35,017
Balance of payments (millions of U.S. dollars)	11	150	358	32	-38	-5	14	37	60
Gross official reserves (millions of U.S. dollars)	244	367	747	681	622	608	607	631	677
(months of imports of goods and nonfactor services)	1.3	1.9	3.6	3.2	2.9	2.8	2.6	2.6	2.7
Net official international reserves (millions of U.S. dollars)	240	363	743	677	618	604	603	627	674
(months of imports of goods and nonfactor services)	1.3	1.9	3.5	3.2	2.9	2.7	2.6	2.6	2.7
(months of imports of goods)	1.5	2.3	4.4	3.6	3.3	3.2	3.0	3.0	3.1
Total external debt (millions of U.S. dollars)	435	441	507	520	520	530	534	541	550

Sources: Swazi authorities; and IMF staff projections.

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

[2] In percent of beginning-of-period broad money.

[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 in 2007, and recently in 2008.

Table 2. Swaziland: Summary of Central Government Operations, 2006/07-2013/14 [1]

	2006/07	2007/08	2008/09	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
		Est.	Budget	Est. [2]	Projections				
	(Millions of emalangeni)								
Total revenue and grants	8,021	8,341	9,209	9,145	10,013	10,896	11,487	12,371	13,145
Tax revenue	7,683	7,565	8,846	8,852	9,672	10,519	11,081	11,913	12,652
SACU receipts	5,322	4,990	6,009	6,009	6,440	6,934	7,174	7,641	7,938
Non-SACU revenue	2,361	2,575	2,837	2,843	3,233	3,585	3,907	4,272	4,713
Nontax revenue	172	713	217	204	242	267	283	309	333
Total expenditure and net lending	6,063	6,993	9,504	8,737	9,462	10,287	10,922	11,760	12,490
Current expenditure	4,681	5,217	7,288	6,607	6,891	7,478	7,843	8,434	8,926
Wages and salaries	2,589	2,750	3,924	3,247	3,572	3,873	4,187	4,485	4,704
Goods and services	1,203	1,343	1,517	1,490	1,645	1,805	1,970	2,159	2,331
Interest payments	163	211	212	212	198	203	207	212	216
Subsidies and transfers	726	913	1,635	1,657	1,476	1,597	1,478	1,578	1,675
Capital expenditure	1,437	1,733	2,233	2,148	2,590	2,827	3,079	3,327	3,564
Net lending	-55	43	-18	-18	-18	-18	0	0	0
Primary balance	2,121	1,560	-82	620	749	812	773	822	871
Overall balance (including grants)	1,958	1,348	-295	408	551	610	565	611	655
Overall balance (excluding grants)	1,792	1,285	-440	319	452	499	442	461	494
Financing	-1,958	-1,348	295	-408	-551	-610	-565	-611	-655
Foreign (net)	214	98	40	129	96	75	79	90	94
Domestic (net)	-868	-1,446	255	-537	-646	-684	-644	-701	-749
Government deposits abroad	-1,304	-855	...	...	...	...	...		
Government debt [3]	3,252	3,940	3,641	3,736	3,736	3,821	3,900	3,990	4,084
Foreign	2,742	3,500	3,531	3,626	3,626	3,701	3,780	3,870	3,964
Domestic	509	440	110	110	110	120	120	120	120
	(Percent of GDP, unless otherwise specified)								
Total revenue and grants	43.0	39.7	39.2	39.0	38.7	38.5	37.3	37.2	36.9
Tax revenue	41.2	36.0	37.7	37.7	37.3	37.2	36.0	35.9	35.5
SACU receipts	28.5	23.8	25.6	25.6	24.9	24.5	23.3	23.0	22.3
Non-SACU revenue	12.7	12.3	12.1	12.1	12.5	12.7	12.7	12.9	13.2
Nontax revenue	0.9	3.4	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Grants	0.9	0.3	0.6	0.4	0.4	0.4	0.4	0.5	0.5
Total expenditure and net lending	32.5	33.3	40.5	37.2	36.5	36.4	35.5	35.4	35.0
Current expenditure	25.1	24.8	31.1	28.1	26.6	26.5	25.5	25.4	25.0
Of which:									
Wages and salaries	13.9	13.1	16.7	13.8	13.8	13.7	13.6	13.5	13.2
Goods and services	6.4	6.4	6.5	6.4	6.4	6.4	6.4	6.5	6.5
Interest payments	0.9	1.0	0.9	0.9	0.8	0.7	0.7	0.6	0.6
Subsidies and transfers	3.9	4.3	7.0	7.1	5.7	5.7	4.8	4.8	4.7
Capital expenditure	7.7	8.2	9.5	9.2	10.0	10.0	10.0	10.0	10.0
Primary balance	11.4	7.4	-0.4	2.6	2.9	2.9	2.5	2.5	2.4
Overall balance (including grants)	10.5	6.4	-1.3	1.7	2.1	2.2	1.8	1.8	1.8
Overall balance (excluding grants)	9.6	6.1	-1.9	1.4	1.7	1.8	1.4	1.4	1.4
Non-SACU fiscal balance (w/grants)	-18.0	-17.3	-26.9	-23.9	-22.7	-22.4	-21.5	-21.2	-20.4
Financing	-10.5	-6.4	1.3	-1.7	-2.1	-2.2	-1.8	-1.8	-1.8
Foreign (net)	-5.8	0.5	0.2	0.5	0.4	0.3	0.3	0.3	0.3
Domestic (net)	-4.7	-6.9	1.1	-2.3	-2.5	-2.4	-2.1	-2.1	-2.1
Government deposits abroad	-7.0	-4.1							
Government debt	17.4	18.8	15.5	15.9	14.4	13.5	12.7	12.0	11.5
Foreign	14.7	16.7	15.0	15.4	14.0	13.1	12.3	11.6	11.1
Domestic	2.7	2.1	0.5	0.5	0.4	0.4	0.4	0.4	0.3
Memorandum items:									
GDP at current prices (millions of emalangeni)	18,655	21,004	23,472	23,472	25,899	28,270	30,788	33,220	35,638
Wages and salaries (percent of current	55.3	52.7	53.8	49.1	51.8	51.8	53.4	53.2	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.

[3] Includes requested supplementary budget

[3] Disbursements less amortizations.

Table 3. Swaziland: Monetary Survey, 2004-2008 [1]
(Millions of emalangeni)

	2004	2005	2006	2007	Mar-08	Jun-08
Monetary authorities						
Net foreign assets	1,450	1,520	2,532	5,060	5,815	5,818
Central Bank of Swaziland (CBS)	1,243	1,520	2,497	3,780	4,994	5,818
Of which : Capital Investment Fund (CIF), managed by CBS.	667	0	0	0	0	0
Government	207	0	35	1,280	821	0
Net domestic assets	-973	-1,031	-2,003	-4,354	-5,171	-5,047
Central government (net)	-933	-1,083	-2,012	-4,049	-4,553	-4,488
CBS claims on government	252	101	55	15	0	11
Government deposits with CBS	-1,185	-1,184	-2,067	-4,063	-4,553	-4,499
Domestic	-311	-1,183	-1,993	-2,780	-3,691	-4,495
Foreign [2]	-874	0	-74	-1,283	-862	-4
Private sector	10	9	20	8	8	9
Commercial banks (net)	0	1	22	2	2	2
Other items (net)	-50	43	-33	-315	-628	-570
Reserve money	477	490	565	706	645	771
Commercial banks						
Net foreign assets	490	374	762	698	749	1,145
Reserves	256	211	354	499	472	525
Domestic credit	3,344	3,832	4,581	5,385	5,656	5,507
Central government (net)	331	302	306	169	196	80
Claims on Government	332	315	369	344	425	379
Government deposits	2	13	64	175	228	299
Private sector	3,013	3,531	4,276	5,216	5,460	5,427
Other items (net)	-1,110	-1,196	-1,589	-1,559	-1,642	-1,697
Private sector deposits	2,946	3,221	4,088	5,023	5,235	5,480
Monetary survey						
Net foreign assets	1,941	1,894	3,294	5,757	6,564	6,963
Domestic credit	2,421	2,758	2,590	1,344	1,111	1,028
Central government (net)	-602	-781	-1,706	-3,880	-4,356	-4,408
Private sector	3,023	3,539	4,296	5,224	5,468	5,436
Other items (net)	-1,180	-1,182	-1,542	-1,828	-2,199	-2,235
Broad money	3,182	3,471	4,342	5,273	5,477	5,756
Currency in circulation [3]	236	242	251	249	234	275
Deposits	2,946	3,229	4,091	5,024	5,243	5,482
	nnual change in percent of beginning-of-period broad money					
Broad money	7.2	9.1	25.1	21.4	18.0	14.1
Net foreign assets	2.2	-1.5	40.3	56.7	68.1	37.8
Domestic credit	30.9	10.6	-4.9	-28.7	-32.9	26.7
Central government (net)	4.8	-5.6	-26.7	-50.0	-52.9	14.7
Private sector	26.1	16.2	21.8	21.4	20.0	12.0
Other items (net)	-26.0	-0.1	-10.4	-6.6	-17.2	-50.4
Memorandum items:						
Currency/broad money (percent)	7.4	7.0	5.8	4.7	4.3	4.8
Reserve money/deposits (percent)	16.2	15.2	13.8	14.0	12.3	14.1
Money multiplier (broad money/reserve money)	6.7	7.1	7.7	7.5	8.5	7.5
Velocity (GDP/period average broad money)	4.72	4.32	4.26	4.24	4.12	4.11

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

[1] End-of-year data. (For 2008, as of end-June)

[2] Counterpart of government deposits held abroad.

[3] Excludes rand in circulation.

[4] For 2008, change from June 2007.

Table 4. Swaziland: Commercial Banks' Performance Ratios, Dec. 2003 - 2008

	2003 Dec.	2004 Dec.	2005 Dec	2006 Dec	2007 June	2007 Dec	2008 June
	(Percent)						
Performance Ratios							
Basle capital ratio (Tier 1)	14	14	15	20	23	21	18
Basle capital ratio (Tier 2)	20	16	17	26	23	24	20
Asset Quality							
Loans to deposit ratio [1]	75	73	83	86	88	105	86
Earning assets to total assets	90	87	92	65	67	69	73
Nonperforming loans to total loans [1]	2	3	2	4	4	6	8
Reserve for losses to total loans	9	8	7	10	9	8	6
Liquidity Ratios							
Liquid assets to total deposits	19	18	17	20	20	19	16
Available reserves to total deposits	18	19	20	10	12	12	5
Liquid assets to total assets	14	14	13	15	14	13	13
Profitability Ratios							
Net income to average total assets (return on assets)	4	3	3	6	3	3	4
Net income to average total equity (return on equity)	29	20	20	52	26	15	14
Total expenses to total income	60	64	68	71	74	63	68

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, 2005-2013 [1]
(Millions of U.S. dollars, unless otherwise specified)

	2005	2006	2007	2008	2009	2010	2011	2012	2013
		Est.	Projections						
Current account balance	-102.6	-196.7	-41.2	-158.4	-64.2	-88.9	-115.9	-118.3	-102.4
Trade balance	-258.1	-252.1	-246.5	-573.1	-487.3	-493.7	-537.7	-548.0	-528.8
Exports, f.o.b.	1,636.5	1,663.9	1,766.8	1,681.1	1,737.3	1,804.0	1,850.8	1,965.9	2,093.0
Imports, f.o.b.	-1,894.6	-1,916.1	-2,013.3	-2,254.3	-2,224.6	-2,297.7	-2,388.5	-2,513.9	-2,621.8
Services (net)	-120.4	-90.1	-52.1	-16.9	-17.5	-22.7	-24.0	-25.8	-27.7
Exports of services	282.4	283.5	454.1	304.6	315.9	328.0	346.7	373.6	401.1
Imports of services	-402.8	-373.6	-506.2	-321.5	-333.5	-350.7	-370.7	-399.5	-428.8
Goods and services balance	-378.5	-342.3	-298.6	-590.0	-504.8	-516.4	-561.7	-573.8	-556.5
Income (net)	178.3	14.0	63.7	39.0	22.9	-2.5	-16.7	-46.1	-78.6
Income (credits)	271.3	241.8	280.5	201.5	197.0	198.2	207.6	205.4	203.6
Income (debits)	-93.0	-227.8	-216.8	-162.5	-174.0	-200.7	-224.3	-251.6	-282.2
Of which : interest	-20.1	-21.9	-24.5	-26.5	-26.4	-26.5	-26.7	-27.1	-27.5
Transfers (net)	97.5	131.6	193.7	392.6	417.7	429.9	462.5	501.7	532.7
Official sector (mainly SACU receipts) [2]	339.6	366.5	403.0	623.9	663.6	692.2	705.7	730.1	747.5
Private sector	-242.1	-234.9	-209.2	-231.3	-245.9	-262.3	-243.2	-228.4	-214.8
Capital and financial account balance	-46.7	158.6	404.0	190.2	26.0	84.4	129.6	155.5	162.1
Capital account balance	-3.5	24.8	-30.1	23.8	23.9	29.4	38.5	28.6	28.0
Financial account balance (excluding reserve assets)	-43.2	133.8	434.1	166.3	2.0	55.0	91.1	126.9	134.1
Direct investment	-23.8	121.7	14.3	33.4	37.8	36.6	35.4	40.1	44.5
Portfolio investment	4.5	-4.0	5.2	-3.0	-3.2	-3.4	-3.6	-3.8	-4.0
Other investment	-23.9	16.0	414.5	135.9	-32.6	21.7	59.3	90.6	93.6
Errors and omissions	148.2	162.7	-4.5	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-1.1	124.6	358.3	31.8	-38.2	-4.6	13.7	37.2	59.7
Memorandum items:									
Current account/GDP (percent)	-4.1	-7.4	-1.4	-5.3	-2.0	-2.6	-3.2	-3.1	-2.6
Goods and services balance/GDP (percent)	-15.0	-12.8	-10.3	-19.9	-15.9	-15.3	-15.7	-15.1	-14.0
Direct Investment/GDP (percent)	-0.9	4.6	0.5	1.1	1.2	1.1	1.0	1.1	1.1
Net official reserves (end of period)	240.3	363.8	721.8	735.7	680.2	674.2	603.4	627.3	674.2
In months of imports of goods and services	1.3	1.9	3.4	3.4	3.2	3.1	2.6	2.6	2.7
Total SACU Receipts	474.5	704.4	719.1	747.3	794.8	829.2	845.3	874.5	895.3

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 particular 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 reflect the total SACU revenues.

Table 6. Swaziland: Millennium Development Goals

	1990	1995	2000	2006
Goal 1: Eradicate extreme poverty and hunger				
Employment to population ratio, total (% of people ages 15 and over)	42	44	40	39
Employment to population ratio, total (% of people ages 15-24)	26	27	23	22
Income share held by lowest 20%	..	2.7	4.3	..
Malnutrition prevalence, weight for age (% of children under 5)	..	..	9.1	..
Poverty gap at $1 a day (PPP) (%)	..	..	..	..
Poverty headcount ratio at $1 a day (PPP) (% of population)	..	..	..	..
Poverty headcount ratio at national poverty line (% of population)	..	..	69.2	..
Prevalence of undernourishment (% of population)	14	23	..	22
Vulnerable employment, total (% of total employment)	..	21	..	..
Goal 2: Achieve universal primary education				
Literacy rate, youth female (% of females ages 15-24)	..	..	90	..
Literacy rate, youth male (% of males ages 15-24)	..	..	87	..
Persistence to last grade of prmiary, total (% of cohort)	..	..	58	71
Primary completion rate, total (% of relevant age group)	61	61	64	67
School enrollment, primary (% net)	75	..	75	78
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliament (%)	4	3	3	11
Ratio of female to male enrollments in tertiary education (%)	76	..	89	98
Ratio of female to male in primary enrollment (%)	99	..	94	93
Ratio of female to male in secondary enrollment (%)	96	..	100	100
Ratio of young literate females to males (% ages 15-24)	..	..	103	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	..	33.2	..	..
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12-23 months)	85	94	72	57
Mortality rate, infant (per 1,000 live births)	78	78	98	112
Mortality rate, under-5 (per 1,000)	110	110	142	164
Goal 5: Improve maternal health				
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	46	41	34
Births attended by skilled health staff (% of total)	..	56	70.0	..
Contraceptive prevalence (% of women ages 15-49)	20	..	28	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	390
Pregnant women receiving prenatal care (%)	..	..	87	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Children with fever receiving antimalarial drugs (% of children under age 5)	..	..	26	..
Condom use, female (% ages 15-24)	..	..	..	..
Condom use, male (% ages 15-24)	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	267	337	801	1,155
Prevalence of HIV, female (% ages 15-24)	..	..	..	23
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	33
Tuberculosis cases detected under DOTS (%)	..	..	33	49
Goal 7: Ensure environmental sustainability				
Annual freshwater withdrawals, total (% of internal resources)	..	..	40.1	..
CO2 emissions (kg per PPP $ of GDP)	0.2	0.1	0.3	0.2
CO2 emissions (metric tons per capita)	0.6	0.5	1.0	0.9
Forest area (% of land area)	27	..	30	31
Improved sanitation facilities (% of population with access)	..	48	48	48
Improved water source (% of population with access)	..	62	62	62
Marine protected areas, (% of surface area)	..	..	..	..
Nationally protected areas (% of total land area)	..	..	..	4
Goal 8: Develop a global partnership for development				
Aid per capita (current US$)	70	64	13	30
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	5.6	1.7	2.3	1.7
Internet users (per 1,000 people)	..	0.0	1.0	3.7
Mobile phone subscribers (per 100 people)	..	..	3.2	22.0
Telephone mainlines (per 100 people)	1.8	2.3	3.0	3.9
Other				
Fertility rate, total (births per woman)	5.3	4.9	4.1	3.5
GNI per capita, Atlas method (current US$)	1,200	1,500	1,370	2,400
GNI, Atlas method (current US$) (billions)	0.9	1.4	1.4	2.7
Gross capital formation (% of GDP)	19.1	20.0	18.6	17.2
Life expectancy at birth, total (years)	57	58	45	41
Literacy rate, adult total (% of people ages 15 and above)	..	..	80	..
Population, total (millions)	0.8	0.9	1.0	1.1
Trade (% of GDP)	161.7	168.1	178.7	167.5

Source: World Development Indicators database, June 2008

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	18.2	17.2	16.6	**16.7**	**17.2**	**16.0**	**15.2**	**14.4**	**13.8**	**11.9**	**-1.1**
Change in external debt	7.6	-6.8	-4.5	-1.0	-0.6	0.1	0.6	-1.3	-0.8	-0.7	-0.6	-1.9	
Identified external debt-creating flows	-10.0	-20.9	-13.2	6.1	3.3	0.2	3.8	0.5	1.2	1.9	1.8	1.1	
Current account deficit, excluding interest payments	-6.2	-7.8	-4.1	3.0	6.7	0.7	4.5	1.3	1.9	2.5	2.4	1.7	
Deficit in balance of goods and services	-2.3	-2.5	1.6	15.0	12.8	9.8	19.5	15.5	14.8	15.2	14.6	12.0	
Exports	81.4	84.5	90.1	76.0	73.0	72.9	65.8	63.0	61.1	59.4	59.7	53.9	
Imports	79.1	82.0	91.7	91.0	85.7	82.7	85.3	78.5	75.8	74.6	74.4	65.9	
Net non-debt creating capital inflows (negative)	-7.5	-3.9	-3.1	0.8	-4.4	-0.6	-1.0	-1.1	-1.0	-0.9	-0.9	-0.9	
Automatic debt dynamics [1]	3.7	-9.2	-6.1	2.3	1.0	0.1	0.3	0.3	0.3	0.3	0.3	0.2	
Contribution from nominal interest rate	1.3	1.0	0.8	1.2	0.7	0.6	0.8	0.7	0.7	0.6	0.6	0.5	
Contribution from real GDP growth	-0.4	-0.7	-0.4	-0.4	-0.5	-0.5	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3	
Contribution from price and exchange rate changes [2]	2.8	-9.5	-6.5	1.5	0.8	...	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets [3]	17.6	14.1	8.7	-7.1	-4.0	-0.2	-3.2	-1.8	-2.0	-2.6	-2.4	-3.0	
External debt-to-exports ratio (percent)	36.2	26.8	20.2	22.7	22.8	22.8	26.2	25.3	24.8	24.3	23.1	22.0	
Gross external financing need (in percent of GDP)[4]	-3.8	-6.0	-2.4	5.1	8.0	2.1	6.0	2.7	3.3	3.9	3.7	3.2	
Scenario with key variables at their historical averages [5]						**15.9**	**9.8**	**6.7**	**3.2**	**-1.1**	**3.2**	**3.0**	**-2.6**
Key Macroeconomic Assumptions Underlying Baseline													
Real GDP growth (percent)	1.8	3.9	2.3	2.2	2.9	3.5	2.6	2.5	2.5	2.5	2.5	2.5	
GDP deflator in US dollars (change in percent)	-11.3	47.3	40.5	-7.8	-4.4	10.7	-3.4	5.4	4.5	3.4	3.3	2.7	
Nominal external interest rate (percent)	5.5	5.2	5.1	6.2	4.2	4.2	4.6	4.5	4.5	4.4	4.4	4.2	
Growth of exports (US dollar terms, percent)	-1.0	30.0	33.8	-6.8	1.1	14.5	-10.6	3.4	3.8	3.1	6.5	6.6	
Growth of imports (US dollar terms, percent)	-13.8	29.8	40.4	9.6	-0.8	10.6	2.2	-0.7	3.5	4.2	5.6	4.7	
Current account balance, excluding interest payments	6.2	7.8	4.1	-3.0	-6.7	-0.7	-4.5	-1.3	-1.9	-2.5	-2.4	-1.7	
Net non-debt creating capital inflows	7.5	3.9	3.1	-0.8	4.4	0.6	1.0	1.1	1.0	0.9	0.9	0.9	

[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	19.6	17.4	17.1	**16.5**	**15.9**	**14.7**	**13.7**	**12.9**	**12.2**	**11.6**	**0.0**
o/w foreign-currency denominated	24.2	19.9	15.9	14.7	14.5	14.5	15.4	14.2	13.3	12.5	11.8	11.3	
Change in public sector debt	-2.8	-3.6	0.5	-2.2	-0.3	-0.6	-0.6	-1.2	-0.9	-0.9	-0.7	-0.6	
Identified debt-creating flows	-6.6	-4.1	-1.3	2.2	-8.3	-9.3	-2.3	-2.9	-3.4	-3.1	-2.8	-2.4	
Primary deficit	3.0	2.0	1.6	0.7	-8.7	-8.3	-1.4	-2.1	-2.9	-2.6	-2.5	-2.5	
Revenue and grants	26.7	27.5	31.7	33.4	40.9	40.5	39.3	38.8	38.6	37.6	37.2	37.0	
Primary (noninterest) expenditure	29.8	29.5	33.3	34.1	32.2	32.2	37.9	36.6	35.7	35.0	34.8	34.5	
Automatic debt dynamics [2]	-9.6	-6.2	-2.9	1.5	0.4	-1.0	-0.9	-0.8	-0.5	-0.5	-0.3	0.1	
Contribution from interest rate/growth differential [3]	-1.2	-0.8	0.0	-0.4	-1.0	-1.0	-0.9	-0.8	-0.5	-0.5	-0.3	0.1	
Of which contribution from real interest rate	-0.8	0.0	0.5	0.0	-0.6	-0.4	-0.5	-0.4	-0.2	-0.2	0.0	0.4	
Of which contribution from real GDP growth	-0.4	-0.8	-0.4	-0.4	-0.4	-0.5	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	
Contribution from exchange rate depreciation [4]	-8.4	-5.3	-3.0	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]	3.8	0.5	1.8	-4.4	8.0	8.7	1.7	1.7	2.4	2.2	2.1	1.8	
Public sector debt-to-revenue ratio [1]	85.2	69.7	61.8	52.2	41.8	40.8	40.4	37.8	35.5	34.2	32.7	31.3	
Gross financing need (percent of GDP) [6]	5.8	3.7	5.5	2.7	-10.2	-5.8	-1.0	-1.4	-1.5	-1.1	-1.1	-1.3	
Scenario with key variables at their historical averages [7]						**24.9**	**26.4**	**27.0**	**28.2**	**29.3**	**30.3**	**31.2**	**-0.7**
Scenario with no policy change (constant primary balance) in 2007-2012						**16.5**	**11.4**	**5.0**	**-1.5**	**-6.9**	**-12.2**	**12.8**	**0.0**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline													
Real GDP growth (in percent)	1.8	3.9	2.3	2.2	2.9	3.5	2.6	2.5	2.5	2.5	2.5	2.5	
Average nominal interest rate on public debt (in percent) [8]	5.2	6.0	7.2	6.7	6.1	6.4	6.3	5.6	5.4	5.4	5.4	8.0	
Average real interest rate (nominal rate minus change in GDP deflator, percent)	-3.3	0.1	2.6	0.1	-3.3	-2.5	-2.9	-2.5	-1.1	-1.1	0.0	3.2	
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)	8.5	5.9	4.6	6.6	9.5	9.0	9.2	8.1	6.5	6.6	5.4	4.8	
Growth of real primary spending (deflated by GDP deflator, percent)	6.0	3.0	15.5	4.3	-2.8	3.5	20.9	-1.0	0.1	0.3	1.9	1.8	
Primary deficit	3.0	2.0	1.6	0.7	-8.7	-8.3	-1.4	-2.1	-2.9	-2.6	-2.5	-2.5	

[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.

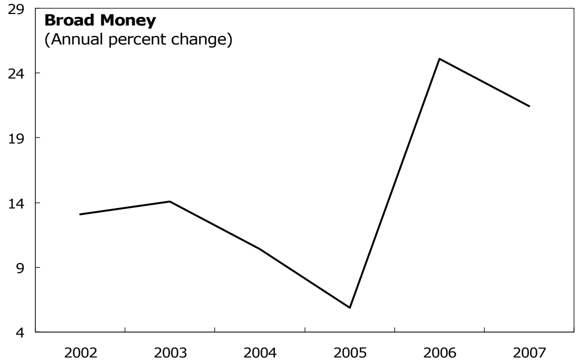
[7] The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

[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.

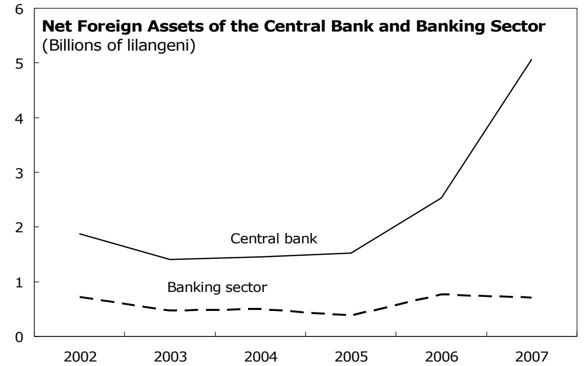
Figure 2. Swaziland: Monetary and Financial Developments

Broad money continues to grow...



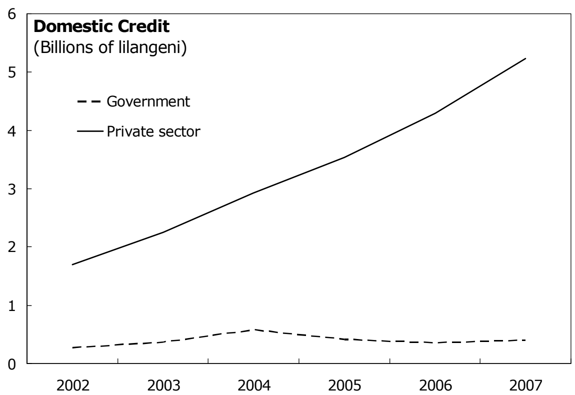
Sources: National authorities and IMF staff projections.

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



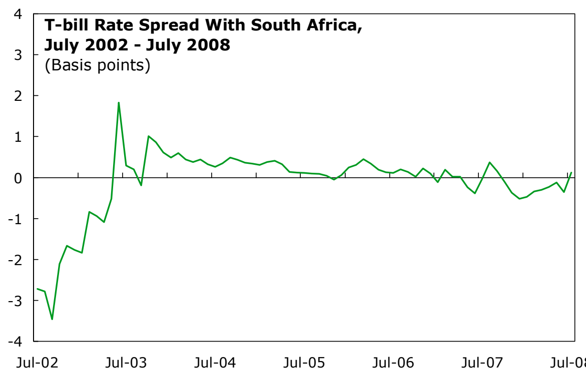
Sources: National authorities and IMF staff projections.

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



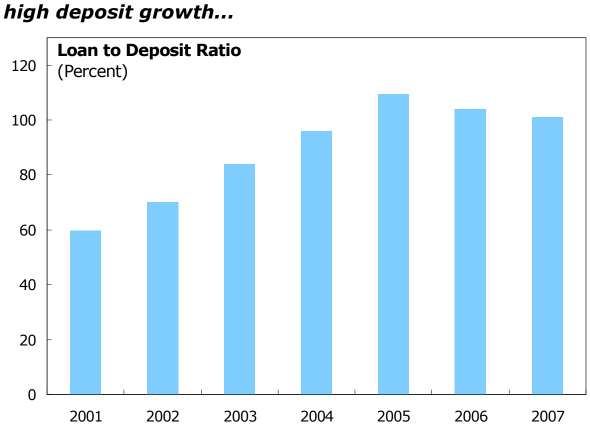
Sources: National authorities and IMF staff projections.

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



Sources: National authorities and IMF staff projections.

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



Sources: National authorities and IMF staff projections.

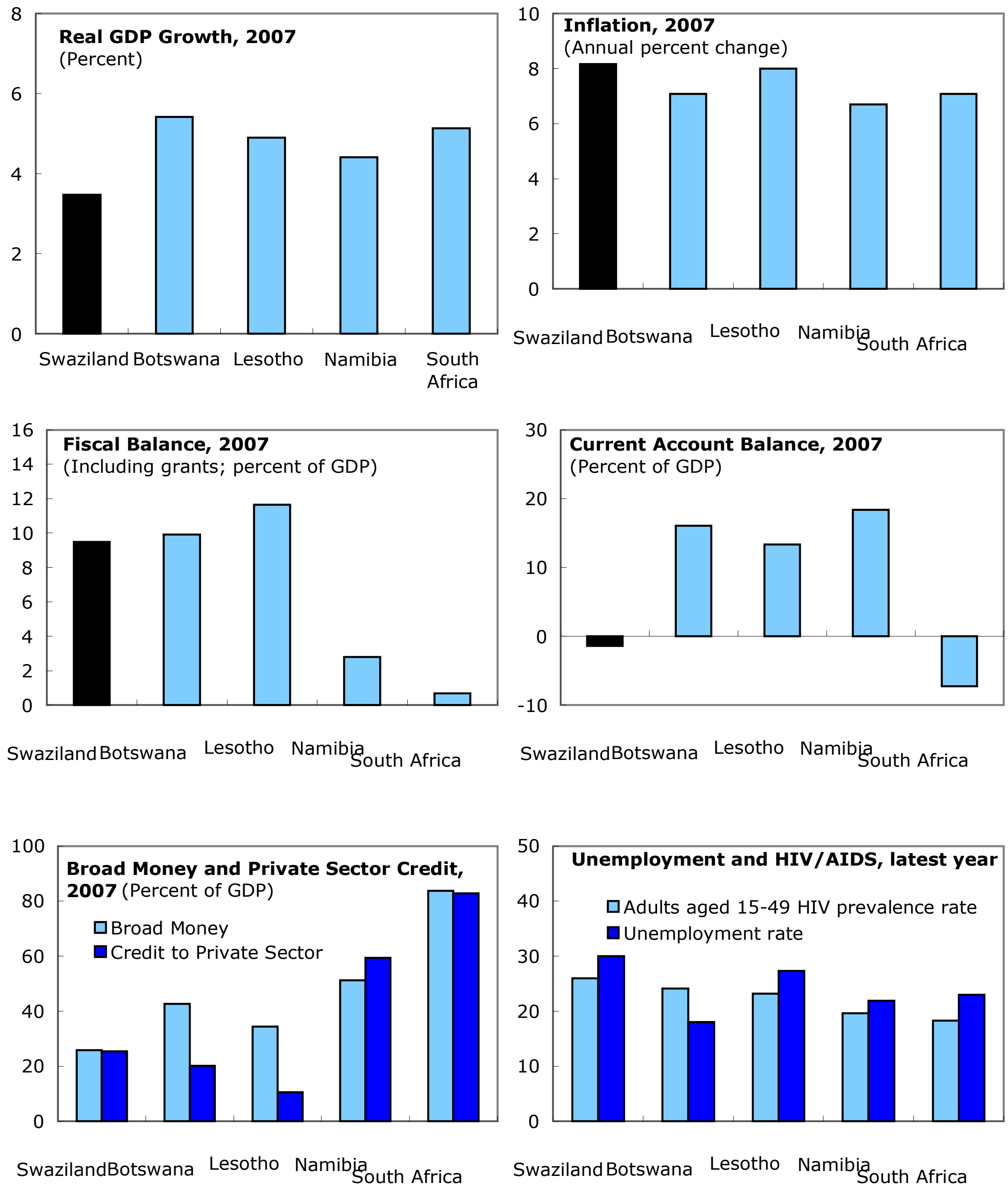
...while financial markets continue to be shallow.

Comparative Monetary Indicators, 2007

	Percent of GDP	
	Broad Money	Private Sector Credit
Swaziland	25.9	25.4
Lesotho	34.3	10.5
Botswana	42.7	20.2
Namibia	51.3	59.4
South Africa	83.7	82.8

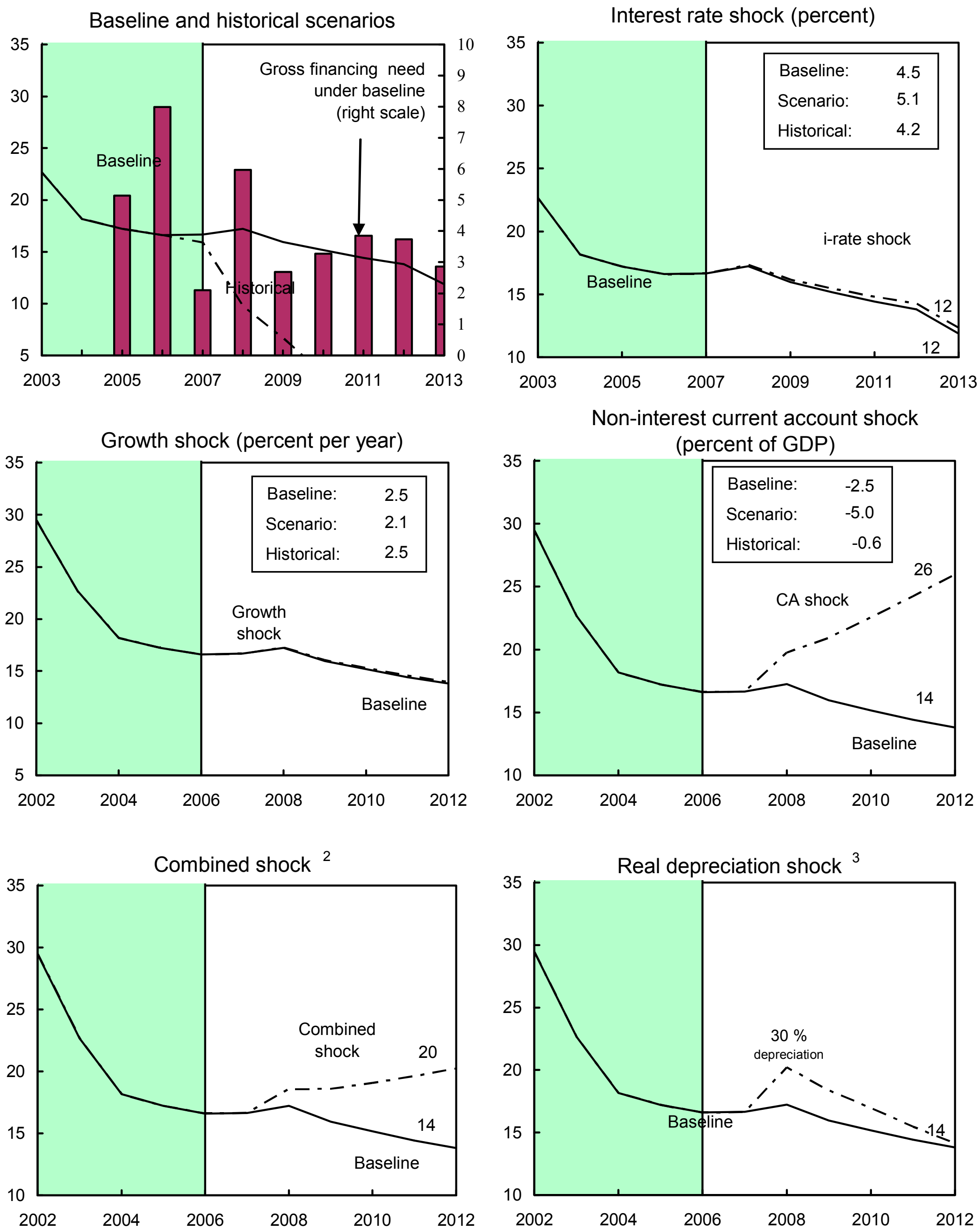
Sources: IFS and WEO.

Figure 3. Swaziland: Regional Comparison



Source: World Economic Outlook and International Financial Statistics.

Figure 4.Swaziland: External Debt Sustainability: Bound Tests [1]
(External debt in percent of GDP)



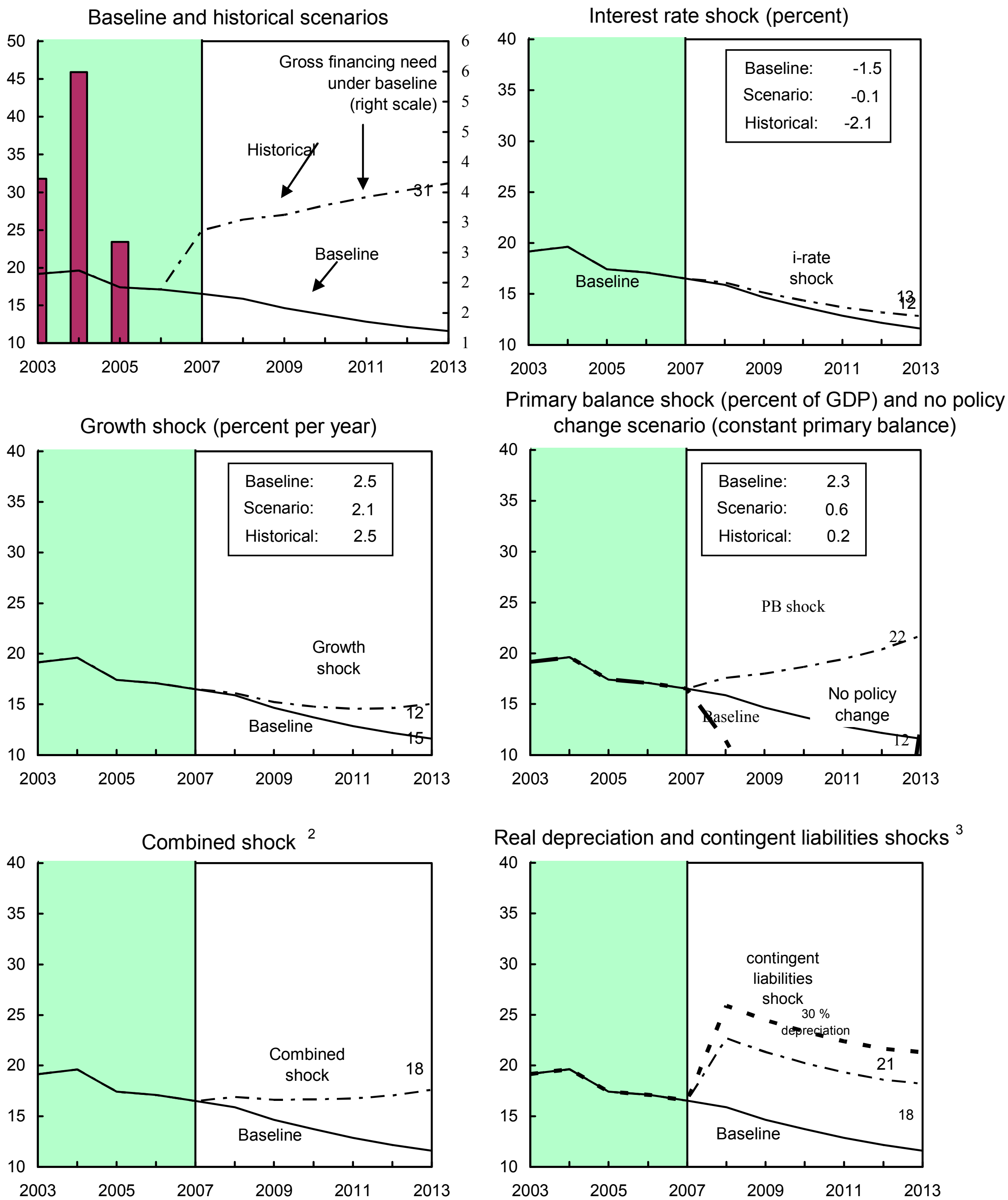
Sources: International Monetary Fund, Country desk data, and staff estimates.

[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 5:Swaziland: Public Debt Sustainability: Bound Tests [1]



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).

APPENDIX I. DRAFT PIN

INTERNATIONAL MONETARY FUND
Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No.
FOR IMMEDIATE RELEASE
[October XX, 2008]

IMF Executive Board Concludes 2008 Article IV Consultation with The Kingdom of Swaziland

On Friday October 17, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Kingdom of Swaziland.[1]

Background

Growth recovered moderately in 2007 to 3.5 percent, but inflation escalated into double digits—initially owing to high food and fuel prices. Sustained high rates of economic growth remain elusive, clouded by low investment climate, the slow pace of economic reforms, deterioration of preferential treatment of Swaziland's main exports, and arising financial sector vulnerabilities. The years of persistently low growth have led to high unemployment and rising poverty; a situation made worse by the high prevalence of HIV/AIDS that suppresses productivity.

High Southern African Customs Union (SACU) revenue contributed to the second consecutive budget surplus −-despite expanded public expenditure, an improved current account and a build-up of international reserves to a comfortable level. The recent depreciation of the nominal exchange rate along with the South African rand, to which it is pegged, impacted positively on the export sector.

Swaziland's inflation rate increased from 9.8 percent at end 2007 to 13.4 percent end-July 2008, reflecting rising food and fuel prices. To mitigate the surge on commodity prices, the

[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.

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government uses a delayed-pass-through policy for some items. Interest rates generally have risen in line with developments in South Africa but the authorities decided in June 2008 not to match the latest 50 basis point increase by the South African Reserve Bank (SARB)

The outlook is subject to several risks: high dependence of on SACU revenues, which is unlikely to be sustained; uncertainties about the viability and timing of investment projects; low competitiveness sores; an investment climate that keeps the cost of doing business high; the prevalence of HIV/AIDS; the external environment and emerging financial sector vulnerabilities.

Executive Board Assessment

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, 2003-2008

	2003	2004	2005	2006	2007 Est.	2008 Proj
Domestic economy						
Real GDP	3.9	2.5	2.2	2.9	3.5	2.6
Consumer price inflation (period average)	7.4	3.4	4.8	5.3	8.2	12.7
Consumer price inflation (end of period)	4.6	3.2	6.3	5.5	9.8	13.5
External economy	(In millions of U.S. dollars, unless otherwise indicated)					
Exports, f.o.b.	1,387	1,809	1,636	1,664	1,767	1,681
Imports, f.o.b.	-1,283	-1,718	-1,894	-1,916	-2,013	-2,254
Current account balance 1/	124	71	-103	-197	-41	-158
(In percent of GDP)	6.8	3.1	-4.1	-7.4	-1.4	-5.3
Gross official international reserves	265	262	244	367	747	681
(In months of imports of goods and nonfactor services)	2.1	1.5	1.3	1.9	3.6	3.2
Debt service (in percent of exports of goods and nonfactor services)	1.1	1.0	1.0	1.1	1.1	1.3
Financial variables	(In percent of GDP, unless otherwise indicated)					
Total government revenue and grants 2/	27.9	32.1	33.2	43.0	39.7	39.0
Total government expenditure and net lending 2/	30.8	36.9	34.8	32.5	33.3	37.2
Overall government balance (incl. grants) 2/	-2.9	-4.7	-1.6	10.5	6.4	1.7
Change in broad money (in percent)	14.1	10.4	5.9	25.1	21.4	...
Interest rates (in percent) 3/	4.2	4.1	3.5	8.5	10.0	...
Discount rate (in percent)	8.0	7.5	7.5	9.0	11.0	...

Sources: Swazi authorities; and IMF staff estimates.

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