FOR AGENDA

SM/10/33

February 9, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **Kingdom of Swaziland—Staff Report for the 2009 Article IV Consultation—Staff Assessment and Recommendations**

Attached for consideration by the Executive Directors is the staff report for the 2009 Article IV consultation with the Kingdom of Swaziland—staff assessment and recommendations. The staff report, together with the response of the authorities (SM/10/34, 2/9/10), is part of the pilot on innovating Article IV consultations and is tentatively scheduled for discussion on **Monday, February 22, 2010.** 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 Mr. Toe (ext. 36557) and Mr. Fontaine (ext. 37937) 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, February 18, 2010; and to the African Development Bank and the European Commission, following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

KINGDOM OF SWAZILAND

Staff Report for the 2009 Article IV Consultation—Staff Assessment and Recommendations

Prepared by the Staff Representatives for the

2009 Consultation with the Kingdom of Swaziland

Approved by Sharmini Coorey and Dhaneshwar Ghura

February 4, 2010

- **Discussions:** November 18–December 2, 2009 in Mbabane with Minister of Finance, M. Sithole, Central Bank Governor, M. Dlamini, other senior government officials, representatives of the private sector, and donors. The discussions were concluded on January 15, 2010.
- **Team:** Mr. Toé (head), Messrs. Crispolti, Fontaine, and Kpodar (all AFR). Mr. Uanguta (OED) and Mr. van Houtte (World Bank) also participated in the meetings.
- **Focus:** Policies needed to restore medium-term fiscal sustainability and preserve macroeconomic stability in the face of a severe external shock.
- **Past Fund advice:** The last Article IV consultation was concluded on October 17, 2008. Directors commended the achievement of budget surpluses, but underscored the need for fiscal restraint and the containment of the rapidly rising wage bill. They stressed the importance of strengthening public expenditure management and re-orienting public spending toward infrastructure and priority social sectors. While steps have been taken to strengthen the supervision of nonbank financial institutions and governance little progress has been realized in the key areas of fiscal reform and private sector development.
- **Exchange system:** Swaziland has accepted the obligations of Article VIII, Sections 2, 3, and 4, but maintains two restrictions subject to approval under Article VIII. These arise from limits on the provision of foreign exchange for advance payments for imports as an absolute amount (E 250,000) and a 33.33 percent limit for the import of certain capital goods. Staff does not recommend Board approval of the restrictions. The de facto exchange arrangement is a peg with the lilangeni at par to South Africa's rand.
- **Outreach:** Staff made presentations on medium-term fiscal sustainability to the Finance Committee of Parliament and the Cabinet. Meetings were also held with trade and labor unions and a press conference took place at the end of the mission.
- **Data provision** to the Fund is broadly adequate for surveillance, despite some lags in the communication of trade statistics.

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GLOSSARY

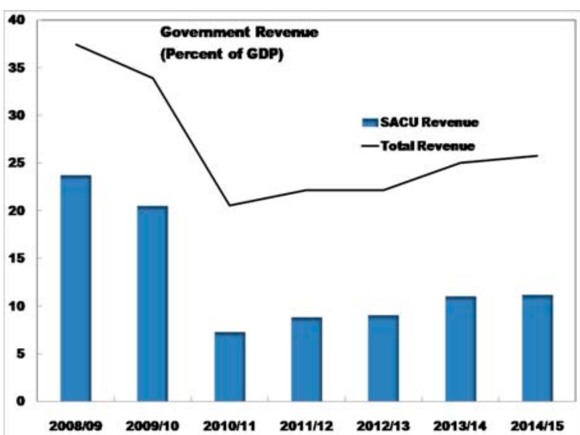
AIDS	Acquired Immunodeficiency Syndrome
BLNS	Botswana, Lesotho, Namibia, and Swaziland
CA	Current Account
CBS	Central Bank of Swaziland
CGER	Consultative Group on Exchange Rates
CMA	Common Monetary Area
CPI	Consumer price index
CTA	Central Transport Authority
DSA	Debt sustainability analysis
ERER	Equilibrium Real Effective Exchange Rate
ES	External Sustainability
FDI	Foreign direct investments
HIV	Human Immunodeficiency Virus
MB	Macroeconomic Balance
MDGs	Millennium Development Goals
NBFI	Nonbank financial institutions
PFM	Public financial management
PPP	Purchasing power parity
PPPs	Public Private Partnerships
PRSAP	Poverty Reduction Strategy and Action Paper
RA	Revenue Authority
REER	Real effective exchange rate
SACCOs	Savings and Credit Cooperatives
SACU	Southern African Customs Union
SARB	South African Reserve Bank
SMEs	Small- and medium-sized enterprises
TA	Technical assistance

I. Background and Outlook: Grappling with Severe Exogenous Shocks

A. Slower Growth and Widening Imbalances

1. **The global economic downturn has adversely affected the Swazi economy**. In 2009 growth is estimated to have slowed to 0.4 percent because of weak external demand for Swazi exports from 2.6 percent in 2008 and would recover only moderately in 2010. Meanwhile, inflation moderated, falling to 5.4 percent by end-2009 (Table 1). Growth has been hampered by low productivity, the high cost of doing business, and the prevalence of HIV/AIDS.

2. **The most severe impact of the global slowdown is being felt on the fiscal position via a sharp decline in net revenue from the Southern African Customs Union (SACU).** Reflecting the contraction of economic activity in South Africa brought about by the global downturn, the SACU revenue pool available to BLNS countries[1] has shrunk. In addition, Swaziland is expected to repay excess SACU transfers equivalent to 10 percent of GDP over the period 2009/10–2012/13 (see Box 1).[2] Consequently, SACU revenues are projected to fall by 18.1 percentage points of GDP between 2008/09 and 2010/11. At the same time, wage increases for civil servants, cabinet members and parliamentarians will push the wage bill to 18 percent of GDP, one of the highest in sub-Saharan Africa. In the absence of corrective measures, the fiscal deficit is projected to widen to 23.4 percent of GDP in 2010/11 and thereafter to an average of about 22 percent of GDP through 2014/15, increasing public debt from 19.3 percent of GDP in 2009/10 to 79.5 percent by 2014/15. This magnitude of debt will place a severe burden on the country's resources as the ensuing debt service obligations will crowd out spending on critical social programs.



Sources: National authorities; and Fund staff estimates.

Swaziland: Medium-Term Fiscal Scenario Without Adjustment, 2009/10-2014/15
(Percent of GDP, unless noted otherwise)

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Revenue and Grants	34.9	22.2	23.2	23.3	26.3	27.1
of which SACU revenue	20.5	7.2	8.8	9.0	11.0	11.2
non-SACU revenue	13.4	13.3	13.3	13.1	14.0	14.6
Expenditures	44.5	45.6	45.7	46.7	47.1	47.3
of which: Wages and salaries	18.4	18.4	18.1	17.9	17.9	17.9
Overall Balance including grants	-9.6	-23.4	-22.5	-23.4	-20.8	-20.2
Gross official reserves in months of imports	3.8	2.6	1.5	0.9	0.9	1.2
Gross official reserves in percent of broad money	83.8	63.2	36.1	20.9	20.8	28.3
Non-SACU fiscal balance	-28.5	-29.7	-29.8	-30.8	-30.5	-30.2
Government Debt	19.3	33.8	45.5	59.0	71.0	79.5
Memorandum Item						
External current account balance	-6.5	-19.5	-19.3	-19.3	-19.0	-18.7

Sources: Swazi authorities and Fund staff projections.

[1] Botswana, Lesotho, Namibia, and Swaziland.

[2] A recent review of Swaziland's import data, a key component of the revenue sharing formula also resulted in their share of the pool shrinking from an average of 18 percent to about 15.

Box 1: Southern African Customs Union (SACU) Revenue-Sharing Formula

The Southern African Customs Union (SACU), comprising of Botswana, Lesotho, Namibia, Swaziland (the BLNS) and South Africa, was established in 1910 and administered by the 1969 and 2002 Agreements. All customs duties and excise taxes collected by the members of the union are paid into a Common Revenue Pool (CRP) administered by South Africa and distributed quarterly based on country shares. For 2009/10, SACU revenue accounts for a significant share of government tax revenue for the BLNS, ranging from 27 percent in Botswana to 55 percent in Lesotho and 63 percent in Swaziland.

The CRP is allocated among the member countries as follows: (i) customs revenues are shared according to each country's share of intra-SACU trade (ii) a share (85 percent) of the excise pool is allocated on the basis of the country's share of SACU GDP; and (iii) the remainder of the excise pool, designated as the development component, is distributed inversely to each member's per capita GDP, such that the smaller the country's GDP per capita, the larger its share of the development component. Under the current formula, the BLNS benefit in particular from the treatment of customs revenues, given that their share of intra-SACU trade is much higher than their share of total customs collections.

The size of the CRP, and the resulting payments to the BLNS, increased significantly since 2004/05, reflecting sharp increases in South Africa's imports of capital and consumer durables— in particular motor vehicles, which have high tariffs— in the context of robust growth in investment and rising household incomes. In addition, the revenue sharing formula was changed in 2005 to treat customs and excise revenues as two distinct components, and provided for the establishment of the development component, which enhanced the receipts of the smaller economies.

The size of the pool has started to decline as a result of the recent global economic downturn and ensuing contraction in most SACU countries, particularly South Africa. Reflecting a sharp drop in imports by South Africa in 2009 and a projected slow recovery, the size of the pool will remain lower than in the recent past, resulting in lower SACU payments to the BLNS. The current projection is for a 31 percent reduction in collection of customs duties in 2010/11, from R 24.6 billion to R 17 billion, and a 7 percent reduction in excise duties, from R 22.6 billion to R 21 billion.

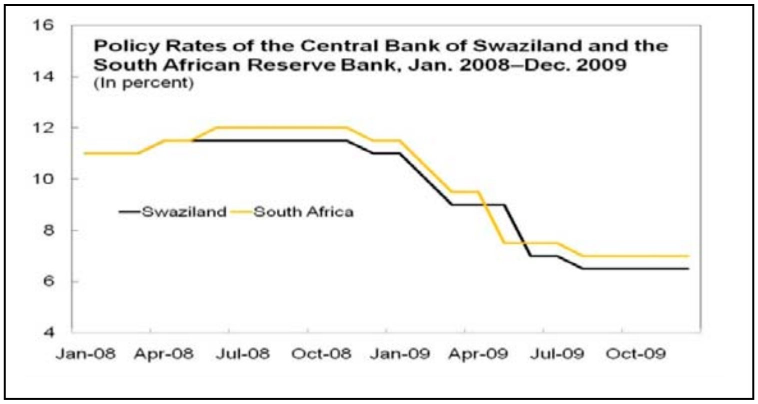
3. **Under the scenario without adjustment, external current account deficits are projected to widen to unsustainable levels and official reserves to dwindle.** Sharply-lower textile exports and higher oil-related imports would contribute to a widening trade deficit even as SACU transfers decline. Assuming the authorities are able to borrow on the regional market, reserve levels under this scenario would fall gradually from 4 months of import cover in 2008 (113.2 percent of broad money) to about one month (or 28 percent of broad money) by 2014.

B. Current Policies: Targeted Expenditure Cuts and Easing of Monetary Conditions

4. **The authorities are considering a range of expenditure cuts in response to the deteriorating fiscal situation (Table 2).** In particular, they are cutting ministries' budget proposals for 2010/11 by 14 percent across the board and implementing a freeze in the wage bill at the 2009/10 level for the next three years. Targeted cuts in goods and services, and the accelerated privatization of the Central Transport Authority (CTA) will provide additional fiscal space and allow the containing of the budget deficit at less than 10 percent

of GDP on average over the medium term. The authorities also plan to establish a Revenue Authority (RA) by the first quarter of 2010, but have yet to fully staff it.

5. **Since June 2008, the Central Bank of Swaziland (CBS) has maintained a 50 bps differential with the policy rate of the South African Reserve Bank (SARB)**. The CBS maintains that the differential is to lower the cost of credit and encourage lending to the private sector. However, credit to the private sector fell to its lowest level in years as banks tightened lending standards in the aftermath of the global crisis, thus contributing to a projected anemic recovery.



6. **In addition, the authorities are enforcing a previously imposed domestic asset requirement as a means to provide funding for domestic investment**. Pension funds and insurance companies have been required by law to repatriate, by end-2009, 30 percent of their assets held abroad. By end-September 2009, these institutions have all reportedly complied with this requirement.[3]

C. Outlook: Modest Recovery with Near-Term Downside Risks

7. **The medium-term macroeconomic framework foresees a gradual economic recovery with widening domestic and external imbalances**. Stronger global demand and ongoing initiatives to increase agricultural production would underpin economic recovery. However, reflecting a sharp drop in SACU transfers, both the overall fiscal and external current account deficits are projected to widen over the medium term, averaging 11 and 10 percent of GDP, respectively. Gross official reserves are likely to fall gradually to about two months of import cover or to about 50 percent of broad money by 2014 from 113 percent in 2008.

8. **Downside risks remain.** The main near-term risk stems from uncertainties about the strength of the global and South Africa's economic recovery**.** The phase-out of preferential agreements could further cloud Swaziland's economic growth prospects particularly if structural reforms to foster competitiveness are not implemented. Failure to carry through with the expenditure measures being considered, in particular the wage bill freeze, would result in the fiscal deficit ballooning and contribute to substantially higher public debt levels.

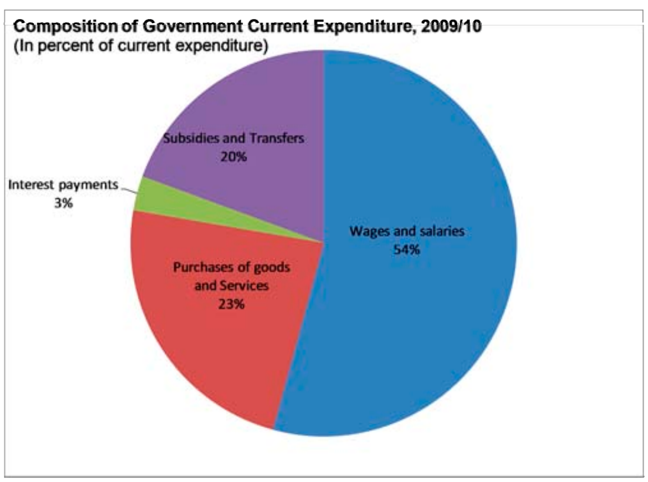
[3] Namibia and Botswana have also implemented similar requirements.

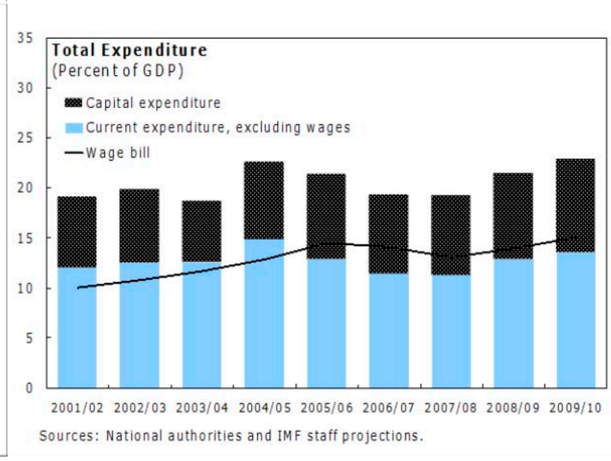
II. STAFF ASSESSMENT AND RECOMMENDATIONS

9. **Swaziland is at a crossroad as it faces a sharp reversal of its fiscal fortune**. For years, rising SACU transfers enabled the authorities to expand spending while generating surpluses and building up international reserves. However, the abrupt drop in SACU revenue has substantially deteriorated Swaziland's fiscal outlook and heighten the need to restore sustainability by targeting non-SACU balance as an anchor.[4] Based on a "normal" SACU revenue level of 13 percent of GDP (average level during 1996/97-2004/05), staff estimates non-SACU deficit of 17 percent of GDP (or an overall fiscal deficit of 5.6 percent of GDP) as sustainable. In the short term, the deficit will be financed by a drawdown of deposits at the CBS and borrowing both domestically and externally, essentially from the regional market.

A. Restoring Fiscal Sustainability by Reining in Current Expenditures

10. **The authorities have rightly placed the focus of fiscal adjustment on expenditure restraint**. The decision to maintain the wage bill constant in nominal terms over the medium term is a step in the right direction given its disproportionate share in current expenditures (54.3 percent in 2009/10). To ensure that such restraint can be credibly sustained, comprehensive civil service reform is needed as well as additional expenditure cuts on goods and services and transfers and subsidies. The cuts should focus on reducing excessive travel abroad. Strengthening public financial management (PFM) and accelerating the privatization program would generate savings on subsidies to ailing state-owned enterprises. At the same time, resources should be shifted to critical social programs and other priority spending that best support economic growth and poverty reduction, including health (still at 2.5 percent of GDP), education and agriculture. These measures will need to be implemented in a steadfast manner to ensure that the fiscal deficit is brought down to a sustainable level.





4 The non-SACU fiscal balance is defined as the overall fiscal balance excluding SACU revenues.

Box 2. Recommended Measures to Restore Fiscal Sustainability

Cuts in noninterest current expenditure could realize savings of up to 8.6 percentage points of GDP by 2014/15 and revenue measures would yield 3 percentage points of GDP by 2014/15.

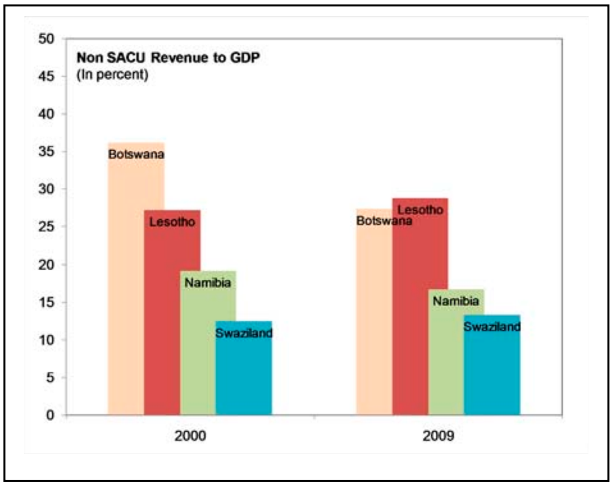
Expenditure measures:

1. Wage bill freeze (4.1 percent of GDP) through:
   - civil service reform in particular the retirement scheme;
   - streamlining the payroll by removing ghost workers; and
   - freezing vacant positions in non priority sectors.
2. Cuts in goods and services (2.6 percent of GDP)
3. Reduction in subsidies and transfers (1.9 percent of GDP) through:
   - revamping CTA (1.3 percent of GDP); and
   - accelerating the privatization program (0.6 percent of GDP).

Revenue measures:

1. Operationalize the Revenue Authority and establish, by mid-2010, a large taxpayer unit (1.3 percent of GDP);
2. Introduce VAT by 2012 (1.4 percent of GDP); and
3. Simplify the tax structure and use staff resources to focus on higher yield taxes (0.1–0.3 percent of GDP).

11. **The expenditure measures need to be complemented by efforts to increase domestic revenue in the context of a full-fledged fiscal program**. The authorities' intention to make the RA operational in early 2010 is noted. However, a Commissioner should be appointed and staffing provided without delay. The RA's priority should be to improve taxpayer compliance and broaden the tax base through the establishment of a large taxpayer unit and the introduction of the value-added tax. These revenue measures are estimated to yield about 3 percentage points of GDP in additional revenue by 2014/15. The fiscal adjustment recommended by staff will result in a significantly improved fiscal position (Table 3 and Text Table below). In particular, it will allow stabilization of the debt-to-GDP ratio by 2015, falling to 28.2 percent of GDP by 2020) provided the efforts to mobilize domestic revenue are sustained (See illustrative DSA, Table 10).



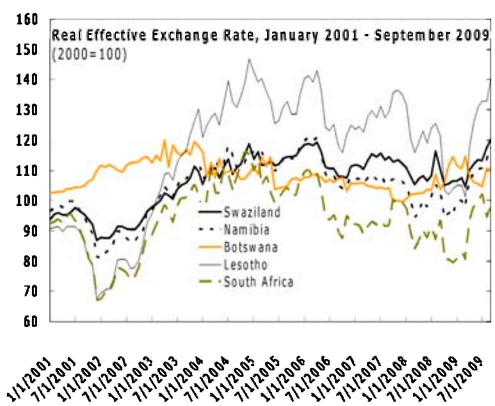
Swaziland: Macroeconomic Indicators in the Baseline and Alternative Scenarios, 2009/10 - 2014/15 1/
(In percent of GDP)

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Baseline Scenario (Authorities' policies)						
Total Revenue and Grants	34.9	22.2	23.2	23.3	26.3	27.1
Total Expenditure	42.9	37.0	35.0	34.6	34.8	34.7
Overall balance (including grants)	-8.0	-14.9	-11.7	-11.3	-8.5	-7.7
Gross official reserves (months of imports)	3.9	3.1	2.3	2.0	1.9	2.0
Gross official reserves (percent of broad money)	89.3	76.9	56.2	48.9	47.5	49.7
Non SACU fiscal balance	12.0	12.1	12.0	11.9	12.2	12.8
Governmnet debt	19.3	31.2	37.1	43.9	48.5	52.0
Current account balance	-6.5	-12.8	-12.3	-9.1	-7.2	-6.2
Alternative Scenario (Staff Recommendations)						
Total Revenue and Grants	34.9	22.3	23.5	23.8	27.0	28.4
Total Expenditure	42.8	36.8	34.0	33.9	34.0	34.0
Overall balance (including grants)	-8.0	-14.5	-10.5	-10.1	-6.9	-5.6
Gross official reserves (months of imports)	3.9	3.4	3.0	2.5	2.9	3.1
Gross official reserves (percent of broad money)	89.3	82.1	65.3	58.9	62.3	65.1
Non SACU fiscal balance	-28.4	-21.7	-19.1	-19.0	-17.7	-16.6
Governmnet debt	17.2	27.3	28.5	31.3	33.5	36.4
Current account balance	-6.4	-12.0	-11.9	-8.2	-6.5	-5.5

Sources: Swazi authorities and Fund staff projections.
1/ The fiscal year runs from April 1 to March 31.

B. Preserving External Stability and Improving Competitiveness

12. **The peg to the South African rand has served the country well**. Staff estimates based on different methodologies point to an overvaluation of the real exchange rate with the degree of overvaluation depending on the extent of fiscal adjustment over the medium



Source: Information Notice System.

Swaziland: Exchange Rate Assessment 1/

	Underlying Current Account Balance	Current Account Norm	Estimated Over (+)/ under (-) valuation
Macroeconomic Balance			
Without adjustment	-18.7	-9.8	26.9
With authorities policies	-6.2	-1.9	12.9
External sustainability 2/	-6.2	-0.9	15.9
Purchasing Power Parity	n.a	n.a	9.7

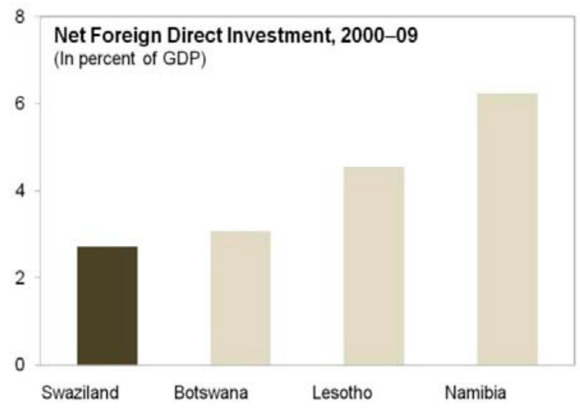
1/ Baseline results based on CGER-like and non-CGER methodologies.
2/To stabilize the net foreign assets-to-GDP ratio at 2008 level.

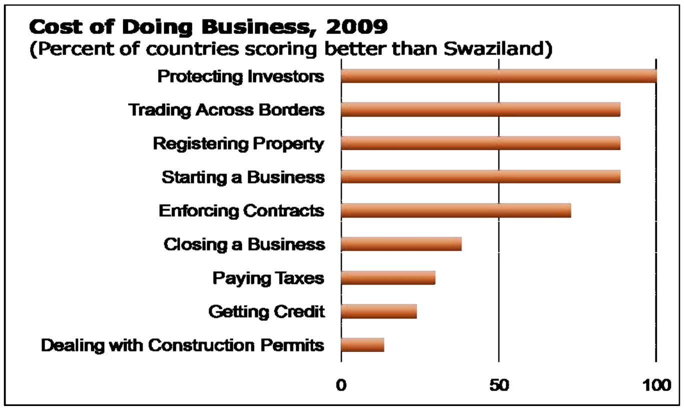
term. Moreover, the projected decline in the reserves both in terms of months of imports and broad money coverage could call into question the viability of the exchange rate peg.[5]

[5] The authorities believe that a reserve level of at least three months of import cover 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.

Substantial progress toward fiscal consolidation is therefore key to ensure consistency with the peg. Wage moderation and structural reforms to improve competitiveness will be also important.

13. **Swaziland continues to face the daunting challenge of remaining competitive in a rapidly changing global environment.** Linked to this competitiveness challenge is the inability to attract and sustain FDI. Attracting FDI will require among other things focusing on (i) simplifying business licensing requirements and procedures; and (ii) reducing uncertainties surrounding the renewal of work permits. In addition, reducing the high cost of doing business, land and labor productivity, and creating an enabling environment for private sector-led growth are all critical in improving Swaziland's competitiveness. Key elements should include skills training combined with policies to alleviate the productivity-eroding impact of skill mismatches, labor market rigidities, and HIV/AIDS.

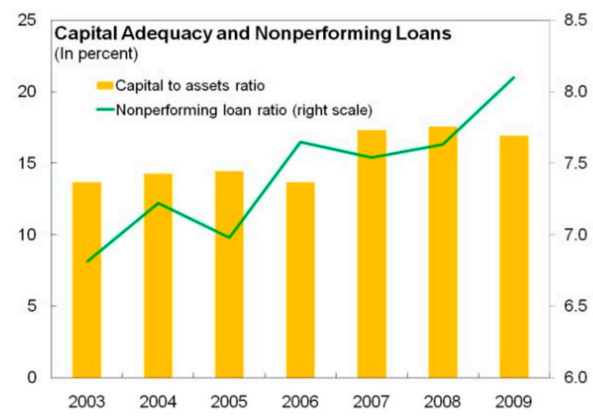


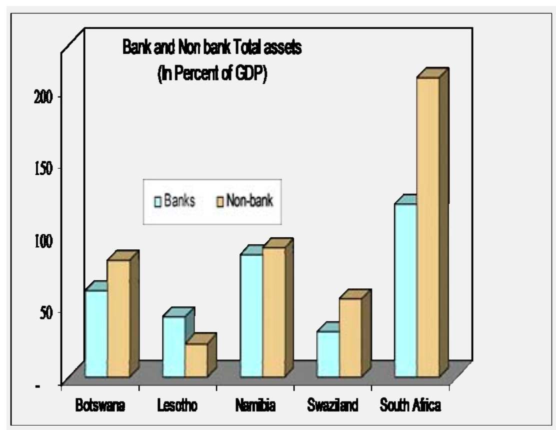


C. Ensuring Consistent Monetary Policy and Stepping Up Monitoring of NBFIs

14. **The policy rate differential with the SARB should, at least, be reversed and the domestic asset requirement reconsidered in a regional context**. Given the free movement of capital in the CMA, commercial banks have taken advantage of higher rates in South Africa, giving rise to capital outflows. The CBS therefore needs to raise its policy rate at least to par with the SARB's repo rate to stem the outflow of capital. Also, contrary to expectation, the domestic asset requirement for pension funds and insurance companies has thus far not benefited the local economy as the lack of investment opportunities has resulted in the repatriation back to South Africa. Meeting this requirement is also forcing these institutions to forgo higher yield investments abroad, and some may be venturing into areas where they might not have expertise such as granting loans directly to the private sector, thereby putting at risk their long-term financial viability.

15. **The Swazi financial sector has so far weathered relatively well the global financial crisis, but some vulnerability remains.** Commercial banks are well capitalized, even though nonperforming loans are on the rise.[6] The financial sector faces some vulnerability from the fast growth of insufficiently regulated Savings and Credit Cooperatives (SACCOs) and of nonbank financial institutions (NBFIs). NBFIs have grown significantly as they attempt to take advantage of the liquidity surge from the domestic asset requirement (¶ 6). It is therefore important that the authorities rapidly adopt and start implementing an action plan for restructuring the Swazibank by splitting its commercial and development operations. The recent passage of the Financial Services Regulatory Authority Bill to help address weaknesses in the supervision of the SACCOs and NBFIs is a welcome step but needs to be implemented.





D. Promoting Private Sector-Driven Growth: Overcoming Long-Standing Obstacles

16. **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 challenging investment climate, recurrent droughts, the HIV/AIDS epidemic and a high cost of doing business. Lack of implementation of other structural and land reforms further reduces the incentives for rapid economic growth. The projected growth rate of about 2.5 percent over the medium term is clearly far too low to adequately combat the widespread poverty. The authorities' intention to involve public private partnerships (PPPs) in the provision of public infrastructure could help overcome some of the obstacles to growth if managed well. Given the limited institutional capacity and inadequate legal framework, the authorities would need to avail themselves of Fund and World Bank TA in this area to mitigate the fiscal risks associated with PPPs. The Poverty Reduction Strategy and Action Paper (PRSAP) approved in 2007 could be useful

[6] Of the four commercial banks in Swaziland, three are subsidiaries of South African banks and one, the Swazibank, is state-owned.

as the basis for implementing strategies and policies to help address poverty reduction, but it needs a clearer implementation strategy and to show tangible progress.

III. Other Issues: Implementation of Policy Advice and improving data

17. **It is important to implement the recommendations contained in the numerous technical assistance (TA) reports submitted to Swaziland by the Fund and other donors**. While slow progress in implementing Fund TA recommendations reflects in part capacity limitation, an unclear commitment to the recommended reforms also plays a role. Progress has been made in bank supervision, regulatory framework for insurance and pension fund, reserve management, and the payment system. There has also been improvement of consumer price index (CPI) and monetary statistics and efforts are on-going to improve national accounts. However, trade statistics continue to be released with long delays and its quality needs significant improvement.

IV. Issues for Discussion

18. **Directors may wish to consider the following**:

- The urgency of implementing fiscal consolidation to preserve external sustainability.

- The appropriateness of the authorities' planned expenditure-reducing and revenue-raising measures to achieve the needed sustainable fiscal adjustment while creating fiscal space for spending on priority social programs.

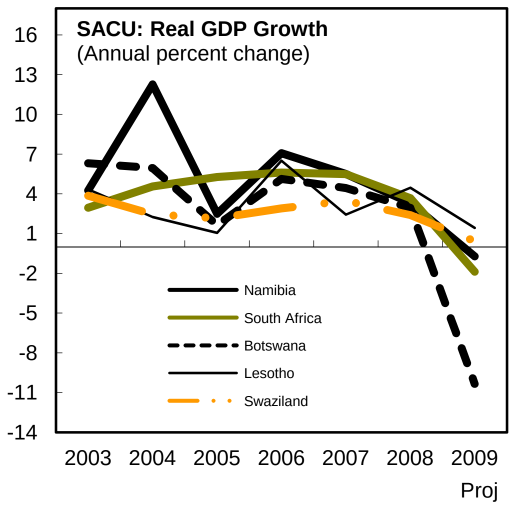
- The need to eliminate the differential in policy rates between the CBS and the SARB and reconsider the domestic asset requirement for pension funds and insurance companies.

- The need for structural reforms to improve productivity and competitiveness.

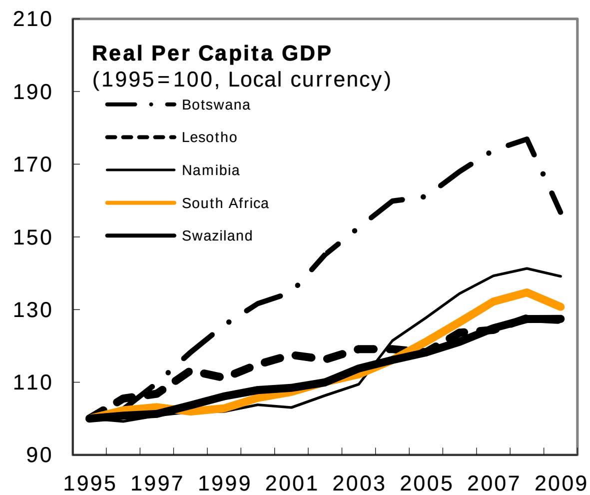
19. **It is recommended that Swaziland remains on the standard 12-month consultation cycle.**

Figure 1: Swaziland: Regional Comparison

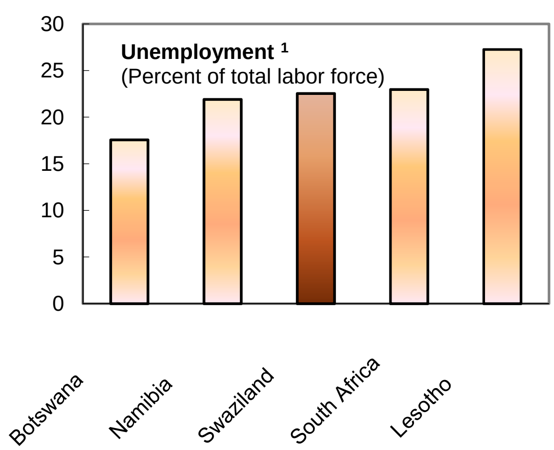
Swaziland's growth performance generally lags behind the BLNS…



…and real per capita GDP is rising slowly.



Unemployment is high…



…and income is unevenly distributed.

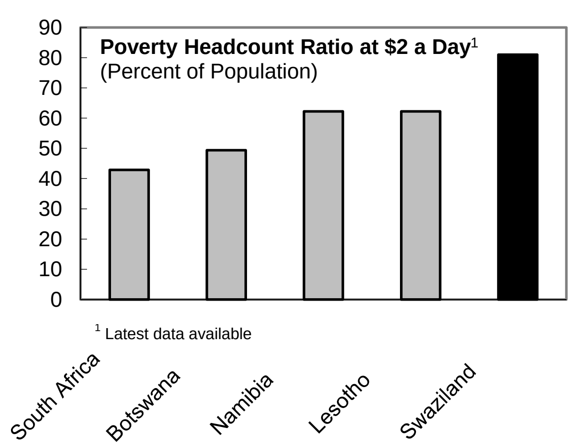
Income Distribution and Poverty

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

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

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

Poverty remains widespread…



… and HIV/AIDS continues unabated.

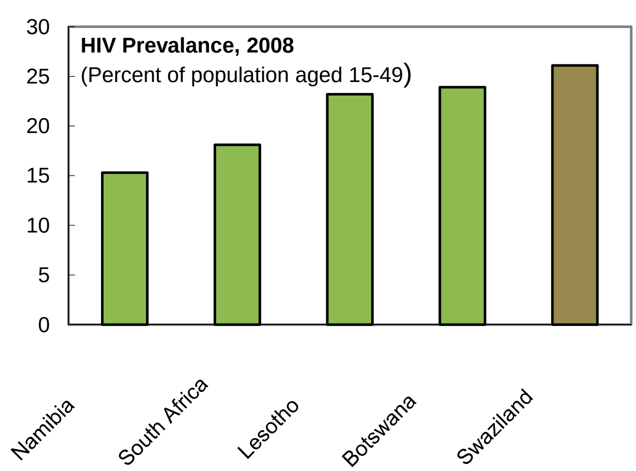
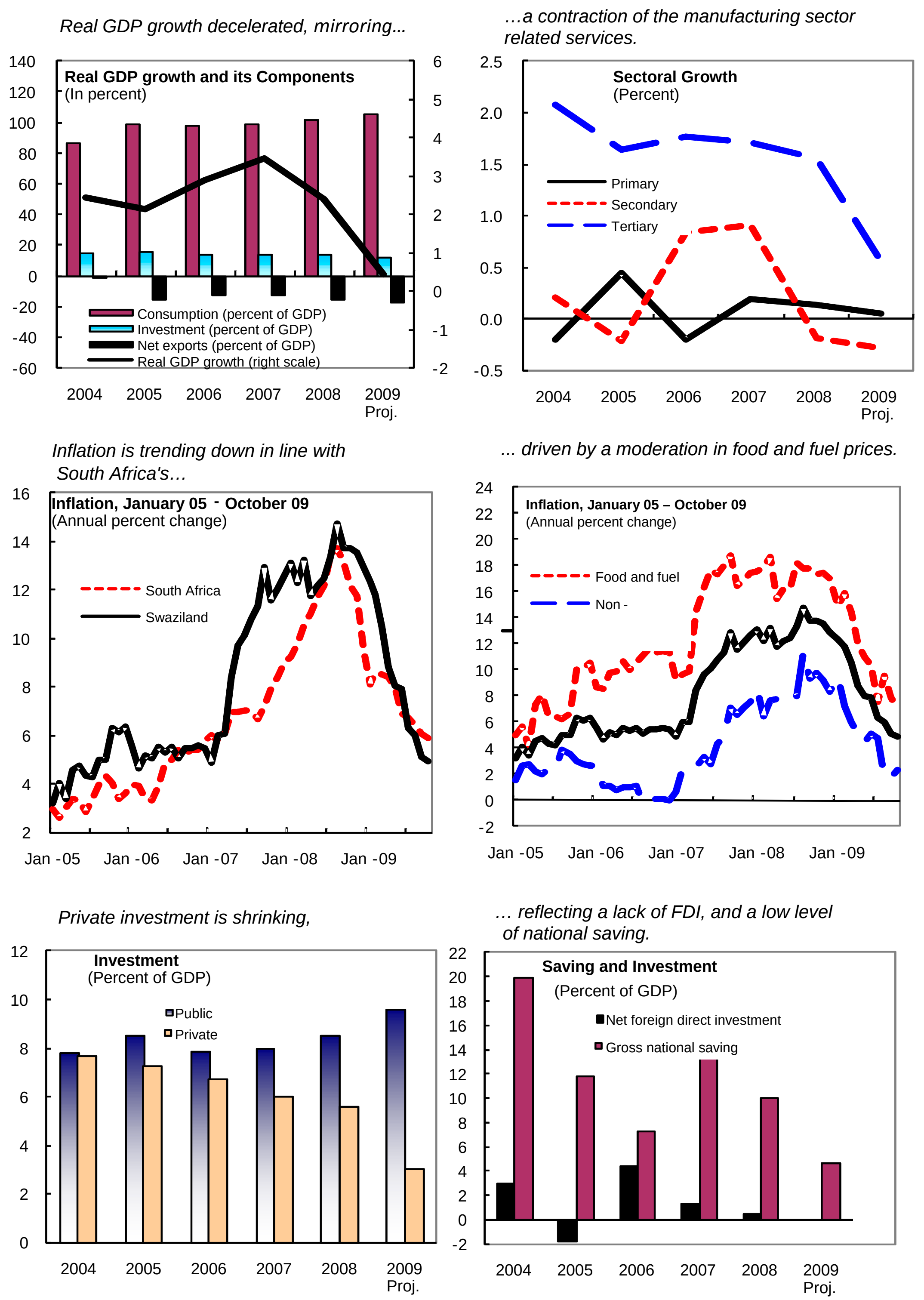
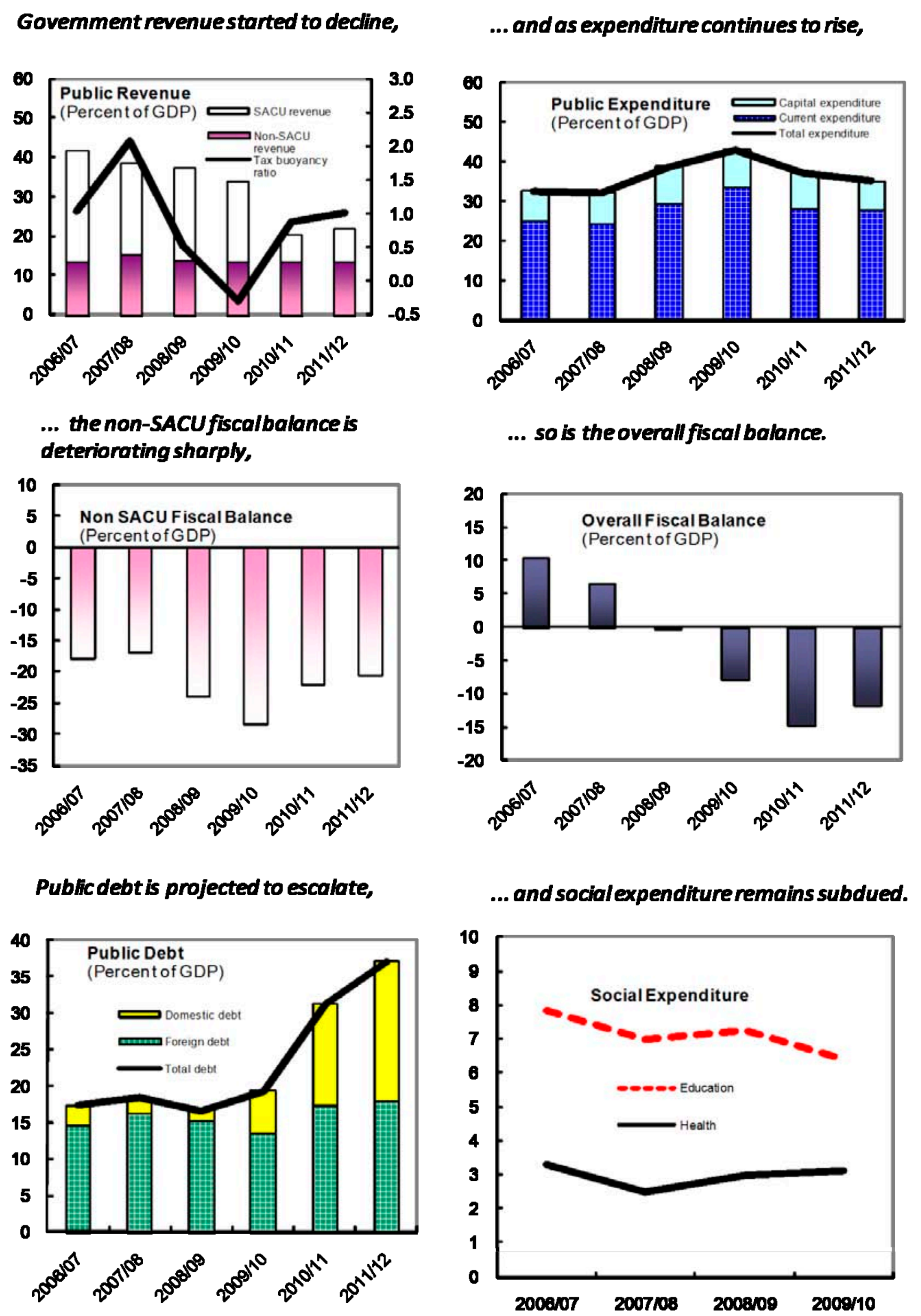


Figure 2. Swaziland: Real Sector Developments, 2004–09



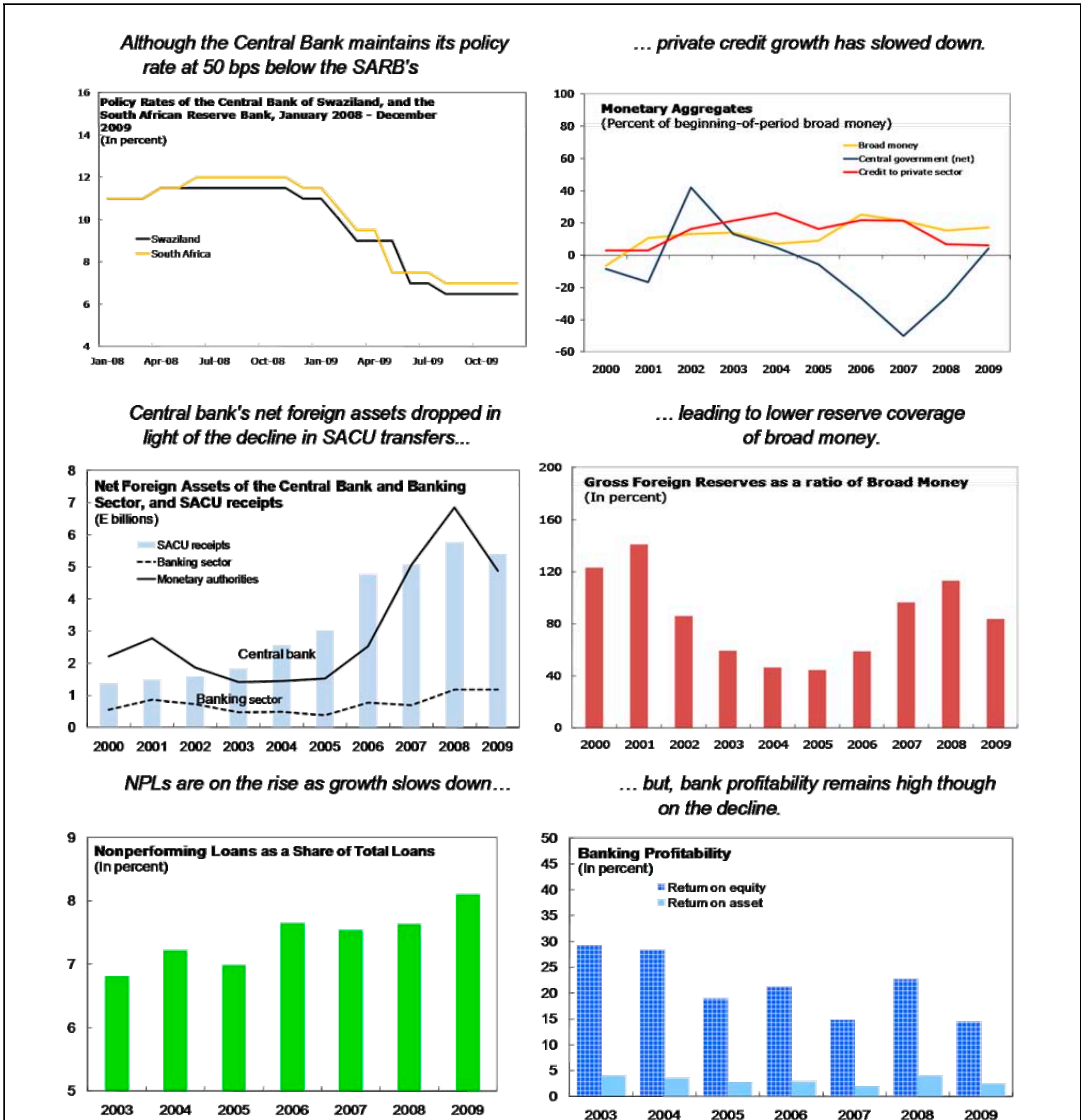
Source: National authorities; Fund staff estimates and projections.

Figure 3. Swaziland: Fiscal Indicators under the Baseline Scenario, 2007–12



Source: National authorities; and Fund staff estimates.

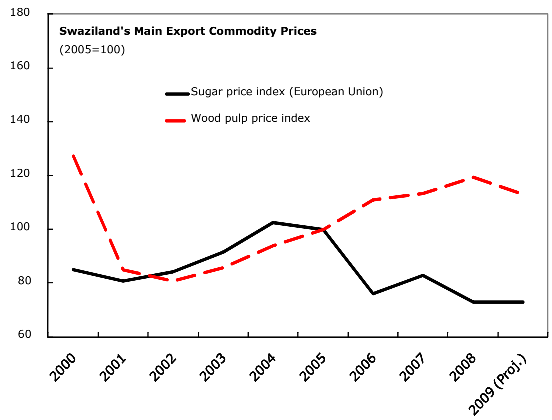
Figure 4. Swaziland: Monetary and Financial Sector Developments, 2000–09



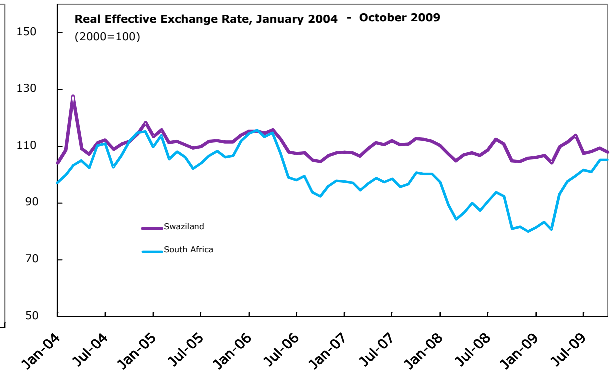
Sources: National authorities, IMF staff estimates and projections.

Figure 5. Swaziland: External Sector Developments, 2000–09

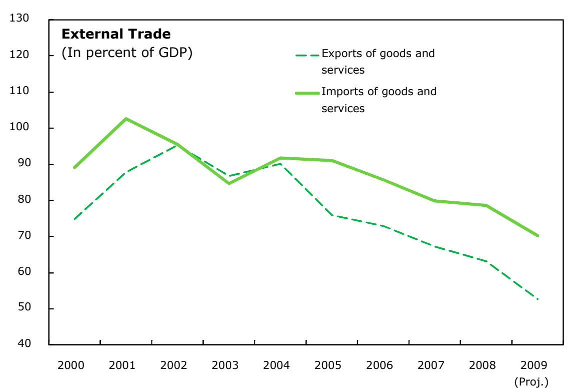
Sugar and wood pulp prices continued to decline…



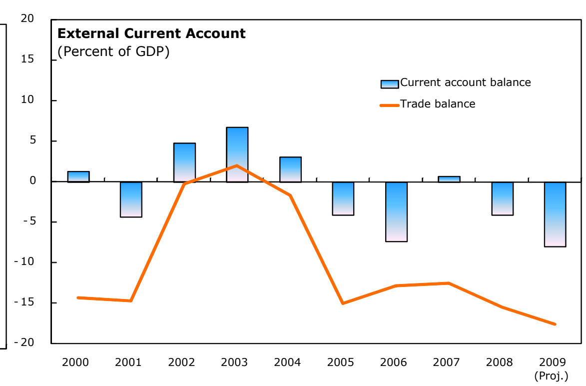
… and the REER appreciated somewhat…



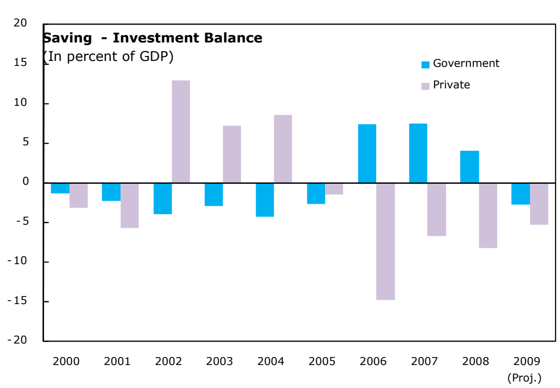
… contributing to a deterioration of the trade balance.



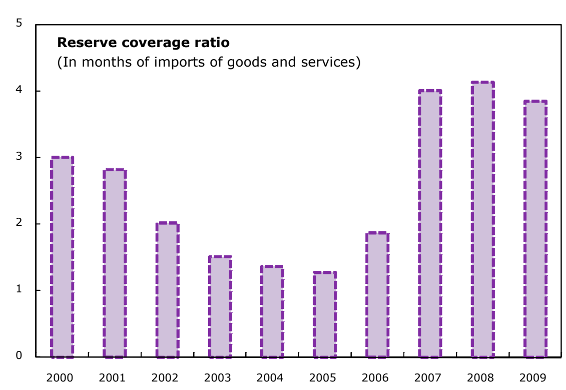
The current account deficit widened…



… as government started dissaving.



Nonetheless, reserves remained at comfortable levels, partly because of the recent SDR allocation.



Sources: National authorities, Information Notice System, IMF staff estimates and projections.

Table 1. Swaziland: Selected Economic and Financial Indicators, 2006-14

	2006	2007	2008	2009	2010	2011	2012	2013	2014
			Est.			Projections			
	(Annual percentage change, unless otherwise indicated)								
National income and prices									
GDP at constant prices	2.9	3.5	2.4	0.4	1.1	2.5	2.5	2.4	2.4
GDP per capita at constant prices	2.5	3.1	2.1	0.0	0.7	2.1	2.1	2.0	2.0
GDP deflator	6.5	11.1	10.1	5.7	6.1	5.7	5.2	3.3	4.5
CPI (period average)	5.3	8.2	13.1	7.6	6.2	5.6	5.0	4.9	4.8
CPI (end of period)	5.5	9.8	12.9	5.4	5.9	5.3	4.9	4.8	4.8
External sector									
Current account balance (US$ millions)	-196.7	21.6	-116.3	-194.6	-390.2	-383.6	-289.3	-233.3	-203.2
Export volume, f.o.b.	-4.0	-4.0	-21.1	8.9	-1.5	-0.3	0.7	1.3	1.1
Import volume, f.o.b.	0.6	-4.7	-15.0	2.4	0.2	0.7	0.7	1.0	1.4
Real effective exchange rate[1]	-8.0	0.4	-2.9	...	...	...	...	...	...
Terms of trade	4.5	3.0	4.0	...	...	...	...	...	...
Money and credit[2]									
Broad money	25.1	21.4	15.4	2.2	7.3	...	...	...	...
Domestic Credit	-4.9	-28.7	-19.5	32.5	54.3	...	...	...	...
Central government (net)[3]	-26.7	-50.0	-26.2	26.6	46.8	...	...	...	...
Private sector	21.8	21.4	6.7	5.9	7.5	...	...	...	...
Prime lending rate (percent; end of period)	12.5	14.5	14.5	10.0	11.5	...	...	...	...
Interest rate (percent; end of period)[4]	8.5	10.0	9.8	4.0	6.0	...	...	...	...
Discount rate (end of period)	9.0	11.0	11.0	6.5	7.5	...	...	...	...
	(Percent of GDP)								
Gross national savings	7.2	14.7	11.2	8.9	1.8	0.9	3.6	5.5	6.6
Government	5.1	6.5	7.0	3.7	-4.0	-4.6	-4.0	-1.9	-0.6
Private	2.1	8.2	4.2	5.3	5.8	5.5	7.6	7.4	7.1
Gross domestic investment	14.6	14.0	15.3	15.5	14.6	13.2	12.6	12.8	12.8
Government	7.9	8.0	9.8	9.9	9.3	7.9	7.4	7.4	7.4
Private	6.7	6.0	5.6	5.5	5.3	5.3	5.2	5.4	5.4
Central government finances (fiscal year)[5]									
Total revenue and grants	42.8	38.9	40.5	34.9	22.2	23.2	23.3	26.3	27.1
Of which: South African Customs Union (SACU) receipts	28.4	23.3	25.3	20.5	7.2	8.8	9.0	11.0	11.2
Total expenditure and net lending	32.3	32.4	40.6	42.9	37.0	35.0	34.6	34.8	34.7
Current expenditure	25.0	24.1	30.7	33.1	28.0	27.5	27.2	27.5	27.4
Capital expenditure and net lending	7.7	8.1	10.4	9.8	9.1	7.5	7.4	7.3	7.3
Central government balance (including grants)	10.4	6.5	-0.2	-8.0	-14.9	-11.7	-11.3	-8.5	-7.7
Primary balance (including grants)	11.3	7.3	0.9	-7.0	-13.5	-9.0	-7.4	-4.7	-4.2
Government debt	17.3	18.4	16.6	19.3	31.2	37.1	43.9	48.5	52.0
Non-SACU fiscal balance (including grants)	-17.9	-16.8	-25.4	-28.5	-22.1	-20.6	-20.3	-19.5	-18.8
External sector									
Current account balance	-7.4	0.7	-4.1	-6.5	-12.8	-12.3	-9.1	-7.2	-6.2
Trade balance (goods)	-9.4	-3.4	-0.3	-2.2	-2.3	-2.3	-2.1	-1.9	-2.2
Capital and financial account balance	6.1	12.6	16.6	6.5	7.8	7.7	7.6	7.0	7.0
Overall balance	5.8	12.3	6.6	0.0	-5.0	-4.6	-1.5	-0.3	0.8
***Memorandum items*:**									
GDP at current prices (E millions)[6]	18,078	20,781	23,436	24,879	26,687	28,922	31,190	33,002	35,333
GDP at current prices (US$ millions)	2,671	2,946	2,840	2,983	3,050	3,117	3,196	3,220	3,284
Overall balance of payments (US$ millions)	154	362	188	0	-153	-143	-47	-9	25
Gross official reserves (US$ millions)[7]	367	748	723	721	569	427	381	373	398
Months of imports	1.9	4.0	4.0	3.9	3.1	2.3	2.0	1.9	2.0
Percent of broad money	59.0	96.6	113.2	89.3	76.9	56.2	48.9	47.5	49.7
Total external debt (US$ millions)	441	507	451	567	588	645	696	749	792

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; end-September for 2009.

[3] Includes government holdings abroad.

[4] 12-month time deposits rate.

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

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

[7] In 2009 includes the new SDR allocation of US $65.4 million.

Table 2. Swaziland: Summary of Central Government Operations Under Baseline Scenario, 2007/08-2014/15 [1]

	2007/08	2008/09	2009/10	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
			Budget	Est.	Projections				
	(Millions of emalangeni)								
Total revenue and grants	8,341	9,627	9,373	8,838	6,046	6,890	7,408	8,881	9,784
Tax revenue	7,565	9,128	8,700	8,235	5,265	6,186	6,654	7,844	8,644
SACU receipts	4,990	6,010	5,627	5,189	1,975	2,619	2,865	3,711	4,035
Non-SACU revenue	2,575	3,118	3,073	3,046	3,290	3,568	3,789	4,132	4,609
Nontax revenue	713	354	338	357	340	378	394	599	670
Grants	63	145	335	246	441	325	360	439	470
Total expenditure and net lending	6,952	9,669	11,463	10,859	10,101	10,373	11,008	11,755	12,560
Current expenditure	5,177	7,316	8,375	8,388	7,631	8,142	8,666	9,301	9,911
Wages and salaries	2,750	3,924	4,528	4,551	4,551	4,551	4,551	4,751	5,084
Goods and services	1,343	1,599	1,862	1,968	1,476	1,520	1,566	1,790	1,925
Interest payments	171	246	243	243	384	815	1,256	1,301	1,243
Subsidies and transfers	913	1,547	1,742	1,627	1,220	1,257	1,294	1,459	1,659
Capital expenditure	1,733	2,472	3,088	2,470	2,471	2,230	2,342	2,455	2,649
Net lending	43	-119	0	0	0	0	0	0	0
Primary balance	1,560	204	-1,847	-1,777	-3,671	-2,668	-2,345	-1,573	-1,533
Overall balance (including grants)	1,389	-42	-2,090	-2,021	-4,055	-3,483	-3,601	-2,874	-2,776
Overall balance (excluding grants)	1,326	-187	-2,426	-2,267	-4,496	-3,808	-3,961	-3,313	-3,246
Financing	-1,389	42	2,090	2,021	4,055	3,483	3,601	2,874	2,776
Foreign (net)	98	-93	13	480	683	735	619	357	324
Domestic (net)	-1,487	135	2,078	1,541	3,372	2,748	2,982	2,517	2,452
	(Percent of GDP, unless otherwise indicated)								
Total revenue and grants	38.9	40.5	35.9	34.9	22.2	23.2	23.3	26.3	27.1
Tax revenue	35.3	38.4	33.3	32.5	19.3	20.9	20.9	23.2	23.9
SACU receipts	23.3	25.3	21.5	20.5	7.2	8.8	9.0	11.0	11.2
Non-SACU revenue	12.0	13.1	11.8	12.0	12.1	12.0	11.9	12.2	12.8
Nontax revenue	3.3	1.5	1.3	1.4	1.2	1.3	1.2	1.8	1.9
Grants	0.3	0.6	1.3	1.0	1.6	1.1	1.1	1.3	1.3
Total expenditure and net lending	32.4	40.6	43.9	42.9	37.0	35.0	34.6	34.8	34.7
Current expenditure	24.1	30.7	32.1	33.1	28.0	27.5	27.2	27.5	27.4
Of which:									
Wages and salaries	12.8	16.5	17.3	18.0	16.7	15.3	14.3	14.1	14.1
Goods and services	6.3	6.7	7.1	7.8	5.4	5.1	4.9	5.3	5.3
Interest payments	0.8	1.0	0.9	1.0	1.4	2.7	3.9	3.9	3.4
Subsidies and transfers	4.3	6.5	6.7	6.4	4.5	4.2	4.1	4.3	4.6
Capital expenditure	8.1	10.4	11.8	9.8	9.1	7.5	7.4	7.3	7.3
Primary balance	7.3	0.9	-7.1	-7.0	-13.5	-9.0	-7.4	-4.7	-4.2
Overall balance (including grants)	6.5	-0.2	-8.0	-8.0	-14.9	-11.7	-11.3	-8.5	-7.7
Overall balance (excluding grants)	6.2	-0.8	-9.3	-8.9	-16.5	-12.8	-12.4	-9.8	-9.0
Non-SACU fiscal balance (including grants)	-16.8	-25.4	-29.5	-28.5	-22.1	-20.6	-20.3	-19.5	-18.8
Financing	-6.5	0.2	8.0	8.0	14.9	11.7	11.3	8.5	7.7
Foreign (net)	0.5	-0.4	0.0	1.9	2.5	2.5	1.9	1.1	0.9
Domestic (net)	-6.9	0.6	8.0	6.1	12.4	9.3	9.4	7.5	6.8
Government debt	18.4	16.6	18.8	19.3	31.2	37.1	43.9	48.5	52.0
Foreign	16.3	15.1	15.4	13.6	17.3	17.8	19.4	20.2	20.7
Domestic	2.1	1.5	3.4	5.7	13.9	19.3	24.5	28.3	31.3
Memorandum items:									
GDP at current prices (E millions)	21,445	23,797	26,122	25,331	27,286	29,656	31,823	33,779	36,143
Wages and salaries (percent of current expenditure)	53.1	53.6	54.1	54.3	59.6	55.9	52.5	51.1	51.3
Government debt (E millions)	3,940	3,959	4,899	4,884	8,525	11,013	13,977	16,393	18,781
Foreign (E millions)	3,500	3,605	4,014	3,444	4,725	5,293	6,177	6,831	7,485
Domestic (E millions)	440	354	885	1,440	3,800	5,720	7,800	9,562	11,296

Sources: Ministry of Finance; and Fund staff projections.

[1] With authorities' policies. The fiscal year runs from April 1 to March 31.

Table 3. Swaziland: Summary of Central Government Operations, Under Alternative Scenario; 2008/09-2014/15 [1]

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
		Est.		Projections			
			(Millions of emalangeni)				
Total revenue and grants	9,627	8,848	6,122	7,155	7,715	9,315	10,453
Tax revenue	9,128	8,245	5,341	6,452	6,962	8,278	9,313
SACU receipts	6,010	5,189	1,975	2,619	2,865	3,711	4,035
Non-SACU revenue	3,118	3,056	3,366	3,833	4,097	4,566	5,278
Nontax revenue	354	357	340	378	394	599	670
Grants	145	246	441	325	360	439	470
Total expenditure and net lending	9,669	10,859	10,093	10,356	10,984	11,705	12,521
Current expenditure	7,316	8,388	7,623	8,116	8,643	9,250	9,872
Wages and salaries	3,924	4,551	4,551	4,551	4,551	4,751	5,084
Goods and services	1,599	1,968	1,476	1,520	1,566	1,790	1,925
Interest payments	246	243	376	788	1,232	1,250	1,204
Subsidies and transfers	1,547	1,627	1,220	1,257	1,294	1,459	1,659
Capital expenditure	2,472	2,470	2,471	2,240	2,342	2,455	2,649
Primary balance	204	-1,767	-3,595	-2,412	-2,037	-1,139	-864
Overall balance (including grants)	-42	-2,011	-3,971	-3,200	-3,269	-2,390	-2,068
Overall balance (excluding grants)	-187	-2,257	-4,412	-3,525	-3,629	-2,829	-2,538
Financing	42	2,011	3,971	3,200	3,269	2,390	2,068
Foreign (net)	-93	480	683	735	619	357	324
Domestic (net)	135	1,531	3,288	2,465	2,650	2,032	1,744
			(Percent of GDP, unless otherwise indicated)				
Total revenue and grants	40.5	34.9	22.3	23.5	23.8	27.0	28.4
Tax revenue	38.4	32.5	19.5	21.2	21.5	24.0	25.3
SACU receipts	25.3	20.5	7.2	8.6	8.9	10.8	11.0
Non-SACU revenue	13.1	12.1	12.3	12.6	12.7	13.3	14.3
Nontax revenue	1.5	1.4	1.2	1.2	1.2	1.7	1.8
Grants	0.6	1.0	1.6	1.1	1.1	1.3	1.3
Total expenditure and net lending	40.6	42.8	36.8	34.0	33.9	34.0	34.0
Current expenditure	30.7	33.1	27.8	26.7	26.7	26.8	26.8
Of which:							
Wages and salaries	16.5	17.9	16.6	14.9	14.1	13.8	13.8
Goods and services	6.7	7.8	5.4	5.0	4.8	5.2	5.2
Interest payments	1.0	1.0	1.4	2.6	3.8	3.6	3.3
Subsidies and transfers	6.5	6.4	4.4	4.1	4.0	4.2	4.5
Capital expenditure	10.4	9.7	9.0	7.4	7.2	7.1	7.2
Primary balance	0.9	-7.0	-13.1	-7.9	-6.3	-3.3	-2.3
Overall balance (including grants)	-0.2	-7.9	-14.5	-10.5	-10.1	-6.9	-5.6
Overall balance (excluding grants)	-0.8	-8.9	-16.1	-11.6	-11.2	-8.2	-6.9
Non-SACU fiscal balance (including grants)	-25.4	-28.4	-21.7	-19.1	-19.0	-17.7	-16.6
Financing	0.2	7.9	14.5	10.5	10.1	6.9	5.6
Foreign (net)	-0.4	1.9	2.5	2.4	1.9	1.0	0.9
Domestic (net)	0.6	6.0	12.0	8.1	8.2	5.9	4.7
Government debt	16.5	17.2	27.3	28.5	31.3	33.5	36.4
Foreign	15.1	12.7	15.9	16.0	18.4	18.9	19.4
Domestic	1.3	4.5	11.4	12.5	12.9	14.6	17.0
Memorandum items:							
GDP at current prices (E millions)	23,797	25,356	27,450	30,444	32,368	34,455	36,801
Wages and salaries (percent of current expenditure)	53.6	54.3	59.7	56.1	52.7	51.4	51.5
Government debt (E millions)	3,924	4,361	7,494	8,676	10,131	11,542	13,395
Foreign (E millions)	3,605	3,225	4,356	4,859	5,965	6,523	7,125
Domestic (E millions)	319	1,136	3,138	3,817	4,166	5,019	6,270

Sources: Ministry of Finance; and Fund staff projections.

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

Table 4. Swaziland: Monetary Survey, 2005-10

	2005	2006	2007	2008	2009	2010
					Projections	
	(Millions of emalangeni)					
Monetary authorities						
Net foreign assets	1,520	2,532	5,060	6,857	5,172	4,173
Central Bank of Swaziland (CBS)	1,520	2,497	3,780	6,857	5,140	4,141
Of which: Capital Investment Fund (CIF), managed by CBS	0	0	0	0	0	0
Government	0	35	1,280	0	32	32
Net domestic assets	-1,031	-2,003	-4,354	-6,055	-4,719	-1,833
Central government (net)	-1,083	-2,012	-4,049	-5,193	-3,597	-712
CBS claims on government	101	55	15	0	..	..
Government deposits with CBS	-1,184	-2,067	-4,063	-5,193	..	..
Domestic	-1,183	-1,993	-2,780	-5,188	..	..
Foreign [1]	0	-74	-1,283	-5	..	..
Private sector	9	20	8	10	12	13
Commercial banks (net)	1	22	2	2	2	2
Other items (net)	43	-33	-315	-874	-1,136	-1,136
Reserve money	490	565	706	802	453	2,340
Commercial banks						
Net foreign assets	374	762	698	1,178	1,014	859
Reserves	211	354	499	609	1,006	1,416
Domestic credit	3,832	4,581	5,385	5,501	5,881	6,375
Central government (net)	302	306	169	-67	-42	-15
Claims on Government	315	369	344	331	..	..
Government deposits	13	64	175	398	..	..
Private sector	3,531	4,276	5,216	5,568	5,923	6,390
Other items (net)	-1,196	-1,589	-1,559	-1,487	-1,520	-1,630
Private sector deposits	3,221	4,088	5,023	5,802	6,382	7,020
Monetary survey						
Net foreign assets	1,894	3,294	5,757	8,035	6,186	5,032
Domestic credit	2,758	2,590	1,344	318	2,296	5,676
Central government (net)	-781	-1,706	-3,880	-5,260	-3,639	-727
Private sector	3,539	4,296	5,224	5,578	5,935	6,403
Other items (net)	-1,182	-1,542	-1,828	-2,267	-2,262	-4,036
Broad money	3,471	4,342	5,273	6,086	6,220	6,672
Currency in circulation [2]	242	251	249	280	435	467
Deposits	3,229	4,091	5,024	5,806	5,784	6,205
	(Annual change in percent of beginning-of-period broad money)					
Broad money	9.1	25.1	21.4	15.4	2.2	7.3
Net foreign assets	-1.5	40.3	56.7	43.2	-30.4	-18.6
Domestic credit	10.6	-4.9	-28.7	-19.5	32.5	54.3
Central government (net)	-5.6	-26.7	-50.0	-26.2	26.6	46.8
Private sector	16.2	21.8	21.4	6.7	5.9	7.5
Other items (net)	-0.1	-10.4	-6.6	-8.3	0.1	-28.5
Memorandum items:						
Currency/broad money (percent)	7.0	5.8	4.7	4.6	7.0	7.0
Reserve money/deposits (percent)	15.2	13.8	14.0	13.8	7.8	37.7
Money multiplier (broad money/reserve money)	7.1	7.7	7.5	7.6	13.7	2.9
Velocity (GDP/period average broad money)	4.3	4.3	4.3	4.1	4.0	4.1

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

[1] Counterpart of government deposits held abroad.

[2] Excludes rand in circulation.

Table 5. Swaziland: Balance of Payments, 2006-14

	2006	2007	2008	2009	2010	2011	2012	2013	2014
				Est.		Projections			
	(Millions of U.S. dollars, unless otherwise indicated)								
Current account balance	-196.7	21.6	-116.3	-194.6	-390.2	-383.6	-289.3	-233.3	-203.2
Trade balance	-252.1	-100.0	-9.9	-64.3	-69.9	-72.1	-66.5	-59.9	-72.3
Exports, f.o.b.	1,663.9	1,742.5	1,570.4	1,567.7	1,580.7	1,604.4	1,637.6	1,676.8	1,722.5
Imports, f.o.b.	-1,916.1	-1,842.5	-1,580.3	-1,632.0	-1,650.6	-1,676.5	-1,704.2	-1,736.6	-1,794.8
Services (net)	-90.1	-267.8	-429.8	-416.3	-388.1	-407.2	-396.5	-396.4	-388.0
Exports of services	283.5	241.5	224.2	145.0	158.2	147.2	148.6	152.2	156.1
Imports of services	-373.6	-509.2	-654.0	-561.4	-546.3	-554.4	-545.1	-548.7	-544.1
Goods and services balance	-342.3	-367.7	-439.6	-480.6	-458.1	-479.3	-463.0	-456.3	-460.3
Income (net)	14.0	41.1	-7.4	-227.9	-49.4	-11.3	29.8	11.8	3.3
Income (credits)	241.8	286.2	297.9	236.6	227.8	217.3	218.2	213.0	219.2
Income (debits)	-227.8	-245.1	-305.3	-464.5	-277.2	-228.5	-188.4	-201.3	-215.9
Of which: interest	-21.9	-24.5	-26.0	-24.5	-29.0	-31.7	-34.7	-36.9	-38.6
Transfers (net)	131.6	348.3	330.7	514.0	117.2	106.9	143.9	211.2	253.8
Official sector (mainly SACU receipts) [1]	366.5	410.4	432.4	646.8	317.5	264.8	287.2	341.4	367.5
Private sector	-234.9	-62.1	-101.7	-132.8	-200.3	-157.9	-143.3	-130.2	-113.7
Capital and financial account balance	164.1	372.4	469.5	192.5	237.7	241.9	243.3	225.2	228.8
Capital account balance	24.8	-30.1	-8.8	22.9	27.6	34.9	25.2	24.0	22.8
Financial account balance (excluding reserve as	139.3	402.5	478.3	169.6	210.1	206.9	218.1	201.2	206.0
Direct investment	121.7	14.3	113.8	67.9	42.4	39.0	46.8	55.5	70.8
Portfolio investment	1.5	6.1	12.2	193.2	12.5	11.0	7.7	6.8	6.3
Other investment	16.0	382.1	352.3	-91.4	155.2	157.0	163.6	138.9	128.9
Errors and omissions	163.3	-31.0	-37.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	130.7	363.1	315.3	-2.1	-152.5	-141.8	-45.9	-8.2	25.6
Memorandum items:									
Current account/GDP (percent)	-7.4	0.7	-4.1	-6.5	-12.8	-12.3	-9.1	-7.2	-6.2
Goods and services balance/GDP (percent)	-12.8	-12.5	-15.5	-16.1	-15.0	-15.4	-14.5	-14.2	-14.0
Gross official reserves (end of period)	367.4	747.6	723.2	721.1	568.6	426.8	380.9	372.7	398.4
In months of imports of goods and services	1.9	4.0	4.0	3.9	3.1	2.3	2.0	1.9	2.0
Exports fob, volume growth (percent)	-4.0	-4.0	-21.1	8.9	-1.5	-0.3	0.7	1.3	1.1
Imports fob, volume growth (percent)	0.6	-4.7	-15.0	2.4	0.2	0.7	0.7	1.0	1.4
Total SACU receipts	708.8	723.7	697.4	646.8	317.5	264.8	287.2	341.4	367.5

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

[1] SACU: Southern African Customs Union. For historical numbers does not include SACU excess transfers.

Table 6. Swaziland: Financial Sector Indicators

(In percent; unless otherwise indicated)

	2003	2004	2005	2006	2007	2008	2009 (Sept)
Banking indicators							
Capital adequacy							
Capital to assets	13.7	14.3	14.4	13.7	17.3	17.6	16.9
Regulatory capital to risk-weighted assets	21.0	15.5	17.3	26.3	23.6	33.8	26.3
Regulatory tier I capital to risk-weighted assets	12.7	13.3	14.4	19.5	20.7	18.1	17.1
Nonperforming loans net of provisions to capital	..	..	..	33.5	32.8	35.3	35.0
Asset quality							
Large exposure to capital	146.6	111.1	138.8	137.1	151.8	105.7	160.3
Nonperforming loans to total gross loans	6.8	7.2	7.0	7.7	7.5	7.6	8.1
Sectoral distribution of loans to total loans							
Agriculture	26.6	22.0	23.7	23.6	13.5	9.7	13.7
Mining and quarrying	0.5	0.0	0.0	0.0	0.0	0.1	0.0
manufacturing	29.7	17.4	20.6	14.1	11.8	10.3	11.0
Construction	6.2	6.1	6.0	6.1	7.2	3.3	5.3
Distribution and Tourism	11.7	9.2	16.0	15.0	21.7	12.8	22.0
Transport and Communication	4.2	7.2	4.1	3.7	7.9	8.4	7.4
Community, Socialand Personal services	9.5	7.1	9.7	6.8	5.0	7.8	4.7
Other	11.6	31.1	19.8	30.7	32.9	47.6	35.9
Earnings and profitability							
Trading income to total income	41.5	26.5	31.5	34.8	25.4	26.1	31.6
Return on assets	4.0	3.5	2.7	2.9	1.9	4.0	2.4
Return on equity	29.2	28.5	19.0	21.2	14.8	22.7	14.4
Interest margin to gross income	59.7	56.7	54.9	53.4	76.0	59.2	58.2
Noninterest expenses to gross income	58.6	64.1	73.7	65.2	53.5	64.5	68.4
Personnel expenses to noninterest expenses	52.3	53.2	45.1	49.7	53.1	45.9	44.9
Liquidity							
Liquid assets to total assets	20.5	13.8	15.2	18.6	7.0	12.9	12.2
Liquid assets to short-term liabilities	18.4	18.1	18.7	16.6	16.2	16.5	15.7
Customer deposits to total (non-interbank) loans	119.1	128.3	138.9	116.2	94.1	117.8	127.2
Exposure to foreign exchange risk							
Net open position in foreign exchange to capital	121.3	97.6	112.4	101.9	48.3	89.6	127.2
Financial system structure (number)							
Banks	4	4	4	4	4	4	4
Private commercial	0	0	0	0	0	0	0
State-owned	1	1	1	1	1	1	1
Foreign-owned subsidiaries	3	3	3	3	3	3	3
Branches of foreign banks	23	24	24	24	25	25	26
Assets (E millions)							
Banks	4,191,741	4,442,986	4,793,888	5,132,502	5,885,604	7,050,629	7,902,588
Private commercial	..	..	..	..	..	..	..
State-owned	645,483	677,563	724,638	801,801	955,089	1,255,159	1,320,645
Foreign-owned subsidiaries	3,546,258	3,765,423	4,069,250	4,330,701	4,930,515	5,795,470	6,581,943
Branches of foreign banks	..	..	..	..	..	..	..
Deposits (E millions)							
Banks	2,284,400	2,768,582	3,296,098	3,690,813	4,656,594	5,430,660	6,329,932
Private commercial	..	..	..	..	..	..	..
State-owned	268,564	312,020	396,346	461,733	570,290	773,237	812,524
Foreign-owned subsidiaries	2,015,836	2,456,562	2,899,752	3,229,080	4,086,304	4,657,423	5,517,408

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

Table 7. Swaziland: Millennium Development Goals

	1995	2000	2005	2008
Goal 1: Eradicate extreme poverty and hunger				
Employment to population ratio, total (% of people ages 15 and over)	56	54	51	51
Employment to population ratio, total (% of people ages 15-24)	35	31	27	26
Income share held by lowest 20%	2.7	4.3	..	1
Malnutrition prevalence, weight for age (% of children under 5)	..	9.1	..	..
Poverty headcount ratio at national poverty line (% of population)	..	69.2	..	..
Prevalence of undernourishment (% of population)	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	84	74
Primary completion rate, total (% of relevant age group)	62	64	67	75
School enrollment, primary (% net)	..	76	79	87
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliament (%)	3	3	11	11
Ratio of female to male enrollments in tertiary education (%)	..	89	106	98
Ratio of female to male in primary enrollment (%)	97	94	93	93
Ratio of female to male in secondary enrollment (%)	..	100	100	89
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	33.2	..	..	..
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12-23 months)	94	72	57	91
Mortality rate, infant (per 1,000 live births)	78	93	71	66
Mortality rate, under-5 (per 1,000)	109	133	98	91
Goal 5: Improve maternal health				
Adolescent fertility rate (births per 1,000 women ages 15-19)	109	105	91	84
Births attended by skilled health staff (% of total)	56	70	74	69
Contraceptive prevalence (% of women ages 15-49)	..	28	51	51
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	390	..
Pregnant women receiving prenatal care (%)	..	87	85	85
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Children with fever receiving antimalarial drugs (% of children under age 5)	..	26	1	1
Condom use, female (% ages 15-24)	..	..	44	44
Condom use, male (% ages 15-24)	..	..	66	66
Incidence of tuberculosis (per 100,000 people)	267	801	1,141	1,198
Prevalence of HIV, female (% ages 15-24)	..	..	23	23
Prevalence of HIV, total (% of population ages 15-49)	..	..	6	6
Tuberculosis cases detected under DOTS (%)	1	26	26	26
Goal 7: Ensure environmental sustainability				
CO2 emissions (kg per PPP $ of GDP)	0	0	0	..
CO2 emissions (metric tons per capita)	1	1	1	..
Forest area (% of land area)	29	30	31	..
Improved sanitation facilities (% of population with access)	59	59	60	60
Improved water source (% of population with access)	..	..	..	..
Marine protected areas, (% of surface area)	..	..	3	3
Goal 8: Develop a global partnership for development				
Aid per capita (current US$)	60	12	41	55
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	1	2	1	2
Internet users (per 1,000 people)	0	1	4	4
Mobile phone subscribers (per 100 people)	0	3	18	39
Telephone mainlines (per 100 people)	2	3	3	4
Other				
Fertility rate, total (births per woman)	5	4	4	4
GNI per capita, Atlas method (current US$)	1,730	1,550	2,260	2,520
GNI, Atlas method (current US$) (billions)	2	2	3	3
Gross capital formation (% of GDP)	16	17	15	15
Life expectancy at birth, total (years)	58	50	46	46
Literacy rate, adult total (% of people ages 15 and above)	..	80	..	..
Population, total (millions)	1	1	1	1
Trade (% of GDP)	134	166	183	160

Source: World Bank World Development Indicators database, September 2009

Table 8. Country: External Debt Sustainability Framework, 2004-14

(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Debt-stabilizing non-interest current account 6/
Baseline: External debt	21.2	17.2	16.5	17.2	15.9	**17.8**	**18.4**	**19.8**	**21.1**	**22.3**	**22.9**	**-1.6**
Change in external debt	-1.4	-4.0	-0.7	0.7	-1.4	1.9	0.6	1.4	1.3	1.2	0.6	
Identified external debt-creating flows (4+8+9)	-12.1	2.8	1.8	-3.0	0.3	-2.3	10.8	10.3	6.9	4.8	3.3	
Current account deficit, excluding interest payments	-5.3	3.3	6.5	-1.6	3.2	5.7	11.8	11.3	8.0	6.1	5.0	
Deficit in balance of goods and services	1.6	15.0	12.8	12.5	15.5	16.1	15.0	15.4	14.5	14.2	14.0	
Exports	90.1	76.0	72.9	67.3	63.2	57.4	57.0	56.2	55.9	56.8	57.2	
Imports	91.7	91.0	85.7	79.8	78.7	73.5	72.0	71.6	70.4	71.0	71.2	
Net non-debt creating capital inflows (negative)	-3.1	0.8	-4.6	-0.7	-4.4	-8.8	-1.8	-1.6	-1.7	-1.9	-2.3	
Automatic debt dynamics 1/	-3.7	-1.2	-0.1	-0.7	1.6	0.8	0.8	0.6	0.6	0.6	0.6	
Contribution from nominal interest rate	0.9	0.8	0.8	0.8	0.9	0.8	1.0	1.0	1.1	1.1	1.2	
Contribution from real GDP growth	-0.4	-0.4	-0.5	-0.5	-0.4	-0.1	-0.2	-0.5	-0.5	-0.5	-0.5	
Contribution from price and exchange rate changes 2/	-4.2	-1.6	-0.5	-1.0	1.1	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	10.6	-6.8	-2.5	3.7	-1.6	4.2	-10.2	-8.9	-5.6	-3.6	-2.7	
External debt-to-exports ratio (in percent)	23.6	22.7	22.7	25.6	25.1	31.0	32.3	35.3	37.8	39.3	40.1	
Gross external financing need (in billions of US dollars) 4/	-0.1	0.1	0.2	0.0	0.1	0.2	0.4	0.4	0.3	0.2	0.2	
in percent of GDP	-4.4	4.1	7.4	-0.7	4.1	6.6	12.9	12.4	9.1	7.3	6.2	
Scenario with key variables at their historical averages 5/						**17.8**	**3.7**	**-8.8**	**-17.7**	**-25.0**	**-31.1**	**-3.3**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	2.5	2.2	2.9	3.5	2.4	0.4	1.1	2.5	2.5	2.4	2.4	
GDP deflator in US dollars (change in percent)	22.5	8.1	2.9	6.6	-5.8	4.6	1.1	-0.3	0.0	-1.6	-0.4	
Nominal external interest rate (in percent)	5.1	4.1	5.0	5.5	5.1	5.4	5.5	5.6	5.6	5.5	5.4	
Growth of exports (US dollar terms, in percent)	30.3	-6.8	1.5	1.9	-9.5	-4.6	1.5	0.7	2.0	2.4	2.7	
Growth of imports (US dollar terms, in percent)	35.8	9.6	-0.3	2.7	-5.0	-1.8	0.2	1.5	0.8	1.6	2.3	
Current account balance, excluding interest payments	5.3	-3.3	-6.5	1.6	-3.2	-5.7	-11.8	-11.3	-8.0	-6.1	-5.0	
Net non-debt creating capital inflows	3.1	-0.8	4.6	0.7	4.4	8.8	1.8	1.6	1.7	1.9	2.3	

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

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

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

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

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

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

Table 9. Swaziland: Public Sector Debt Sustainability Framework, 2004-14

(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Debt-stabilizing primary balance 9/
Baseline: Public sector debt 1/	19.6	17.4	17.1	16.2	17.6	**18.7**	**28.5**	**35.9**	**42.4**	**47.8**	**51.5**	**1.4**
o/w foreign-currency denominated	15.9	14.7	14.5	14.2	16.0	14.0	16.5	17.8	19.1	20.2	20.7	
Change in public sector debt	0.5	-2.2	-0.3	-0.9	1.4	1.1	9.8	7.4	6.5	5.4	3.6	
Identified debt-creating flows (4+7+12)	0.5	2.6	-8.3	-9.9	2.2	5.1	12.0	10.3	8.8	6.9	4.8	
Primary deficit	3.2	1.2	-8.7	-8.2	-2.3	5.2	12.0	10.1	7.8	5.4	4.4	
Revenue and grants	31.3	33.2	40.9	39.8	39.7	36.3	25.3	23.1	23.3	25.8	27.1	
Primary (noninterest) expenditure	34.4	34.4	32.2	31.6	37.4	41.5	37.3	33.2	31.1	31.1	31.4	
Automatic debt dynamics 2/	-2.6	1.5	0.4	-1.7	4.5	0.0	0.0	0.2	1.1	1.6	0.4	
Contribution from interest rate/growth differential 3/	-0.1	-0.4	-1.0	-1.4	-0.9	0.0	0.0	0.2	1.1	1.6	0.4	
Of which contribution from real interest rate	0.3	0.0	-0.6	-0.9	-0.5	0.0	0.2	0.9	1.9	2.5	1.5	
Of which contribution from real GDP growth	-0.4	-0.4	-0.4	-0.5	-0.3	-0.1	-0.2	-0.7	-0.8	-1.0	-1.1	
Contribution from exchange rate depreciation 4/	-2.5	1.9	1.4	-0.3	5.3	...	...	...	...	...	...	
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	
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	
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	
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	
Residual, including asset changes (2-3) 5/	-0.1	-4.8	8.0	9.0	-0.8	-4.0	-2.2	-2.9	-2.3	-1.5	-1.1	
Public sector debt-to-revenue ratio 1/	62.8	52.4	41.8	40.8	44.3	51.5	112.9	155.6	181.9	185.5	190.2	
Gross financing need 6/	-22.2	-15.4	-18.1	-11.5	-0.2	11.4	22.1	24.2	25.6	25.8	26.3	
in billions of U.S. dollars	-0.5	-0.4	-0.5	-0.3	0.0	0.3	0.7	0.8	0.8	0.8	0.9	
Scenario with key variables at their historical averages 7/						**18.7**	**14.9**	**10.2**	**6.0**	**2.7**	**-0.2**	**0.0**
Scenario with no policy change (constant primary balance) in 2009-2014						**18.7**	**23.3**	**25.6**	**29.0**	**33.4**	**37.4**	**1.1**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	2.5	2.2	2.9	3.5	2.4	0.4	1.1	2.5	2.5	2.4	2.4	
Average nominal interest rate on public debt (in percent) 8/	6.4	6.5	6.1	5.5	6.7	5.9	7.5	9.3	11.0	9.7	8.0	
Average real interest rate (nominal rate minus change in GDP deflator, in p	2.0	-0.1	-3.3	-5.6	-3.4	0.2	1.4	3.6	5.8	6.4	3.4	
Nominal appreciation (increase in US dollar value of local currency, in perc	17.9	-11.0	-9.3	2.3	-28.5	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	4.4	6.6	9.5	11.1	10.1	5.7	6.1	5.7	5.2	3.3	4.5	
Growth of real primary spending (deflated by GDP deflator, in percent)	19.5	2.0	-3.8	1.6	21.3	11.4	-9.2	-8.7	-3.9	2.5	3.3	
Primary deficit	3.2	1.2	-8.7	-8.2	-2.3	5.2	12.0	10.1	7.8	5.4	4.4	

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

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

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

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

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

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

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

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

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

Table 10. Swaziland: Public Sector Debt Sustainability Framework Under the Alternative Scenario, 2005-20

(In percent of GDP, unless otherwise indicated)

	Actual				Projections							
	2005	2006	2007	2008	2009	2014	2015	2016	2018	2019	2020	Debt-stabilizing primary balance 9/
Baseline: Public sector debt 1/	17.4	17.1	16.2	17.6	**17.2**	**36.4**	**35.4**	**32.6**	**30.3**	**29.3**	**28.2**	**0.9**
o/w foreign-currency denominated	14.7	14.5	14.2	16.0	13.7	19.9	19.0	17.4	15.5	14.8	14.0	
Change in public sector debt	-2.2	-0.3	-0.9	1.4	-0.4	2.9	-1.0	-2.8	0.3	-1.0	-1.1	
Identified debt-creating flows (4+7+12)	2.6	-8.3	-9.9	2.2	6.9	3.4	3.4	3.1	2.0	1.5	1.4	
Primary deficit	1.2	-8.7	-8.2	-2.3	7.0	3.4	3.4	2.8	2.0	1.5	1.5	
Revenue and grants	33.2	40.9	39.8	39.7	34.9	28.4	29.3	30.6	33.3	34.1	34.8	
Primary (noninterest) expenditure	34.4	32.2	31.6	37.4	41.9	31.8	32.8	33.4	35.3	35.6	36.3	
Automatic debt dynamics 2/	1.5	0.4	-1.7	4.5	0.0	0.0	0.0	0.3	0.0	0.0	-0.1	
Contribution from interest rate/growth differential 3/	-0.4	-1.0	-1.4	-0.9	0.0	0.0	0.0	0.3	0.0	0.0	-0.1	
Of which contribution from real interest rate	0.0	-0.6	-0.9	-0.5	0.0	0.7	0.8	1.1	0.8	0.8	0.7	
Of which contribution from real GDP growth	-0.4	-0.4	-0.5	-0.3	-0.1	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	
Contribution from exchange rate depreciation 4/	1.9	1.4	-0.3	5.3	...	...	...	...	...	...	...	
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	
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	
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	
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	
Residual, including asset changes (2-3) 5/	-4.8	8.0	9.0	-0.8	-7.3	-0.5	-4.4	-6.0	-1.7	-2.5	-2.5	
Public sector debt-to-revenue ratio 1/	52.4	41.8	40.8	44.3	49.3	128.2	120.9	106.7	90.9	85.9	81.2	
Gross financing need 6/	-15.4	-18.1	-11.5	-0.2	12.2	20.0	21.6	19.4	15.7	14.0	12.9	
in billions of U.S. dollars	-0.4	-0.5	-0.3	0.0	0.4	0.7	0.8	0.8	0.8	0.7	0.7	
Scenario with key variables at their historical averages 7/					**17.1**	...	...	...	...	...	...	**0.2**
Scenario with no policy change (constant primary balance) in 2009-2014					**17.2**	**34.6**	**36.6**	**36.6**	**40.9**	**44.1**	**47.0**	**0.9**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	2.2	2.9	3.5	2.4	0.4	2.4	2.4	2.5	2.9	2.9	2.9	
Average nominal interest rate on public debt (in percent) 8/	6.5	6.1	5.5	6.7	5.9	7.0	6.5	6.5	6.0	5.9	5.8	
Average real interest rate (nominal rate minus change in GDP deflator, in p	-0.1	-3.3	-5.6	-3.4	0.2	2.4	2.4	3.5	3.0	2.9	2.8	
Nominal appreciation (increase in US dollar value of local currency, in perc	-11.0	-9.3	2.3	-28.5	...	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	6.6	9.5	11.1	10.1	5.7	4.5	4.1	3.0	3.0	3.0	3.0	
Growth of real primary spending (deflated by GDP deflator, in percent)	2.0	-3.8	1.6	21.3	14.6	3.2	5.6	7.9	8.5	7.1	8.4	
Primary deficit	1.2	-8.7	-8.2	-2.3	7.0	3.4	3.4	2.8	2.0	1.5	1.5	

1/ General government gross debt.

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.

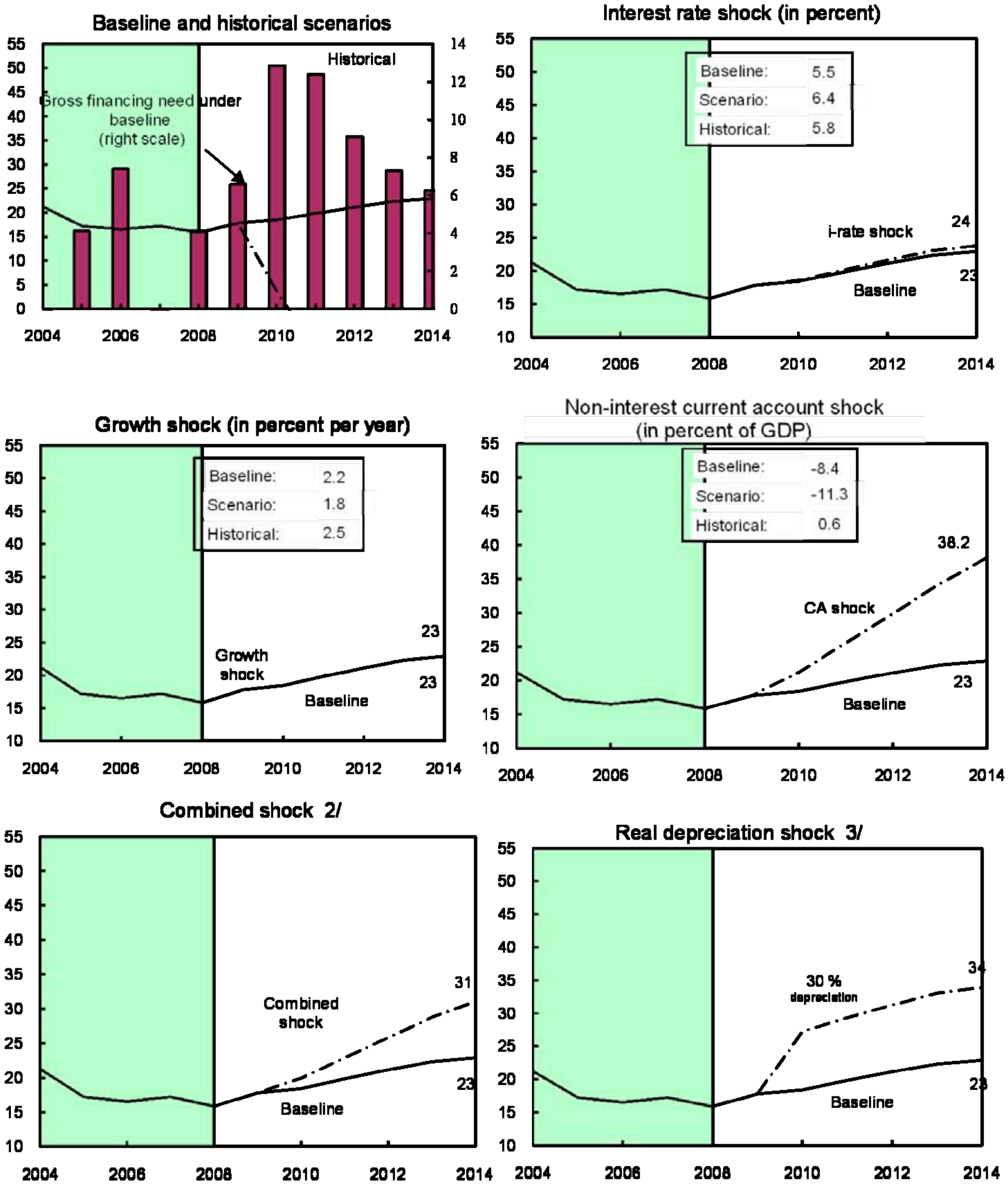
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

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.

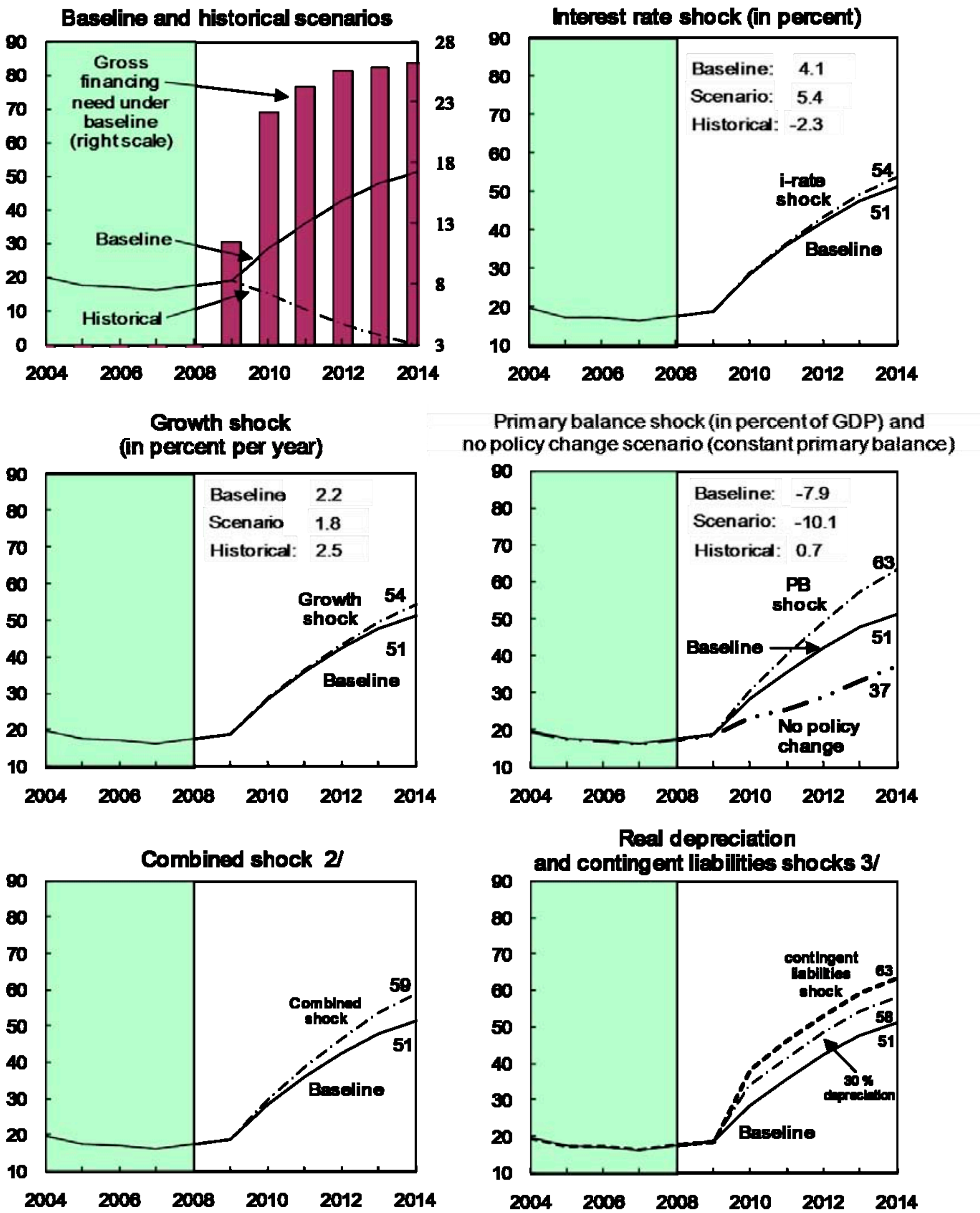
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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 2009.

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

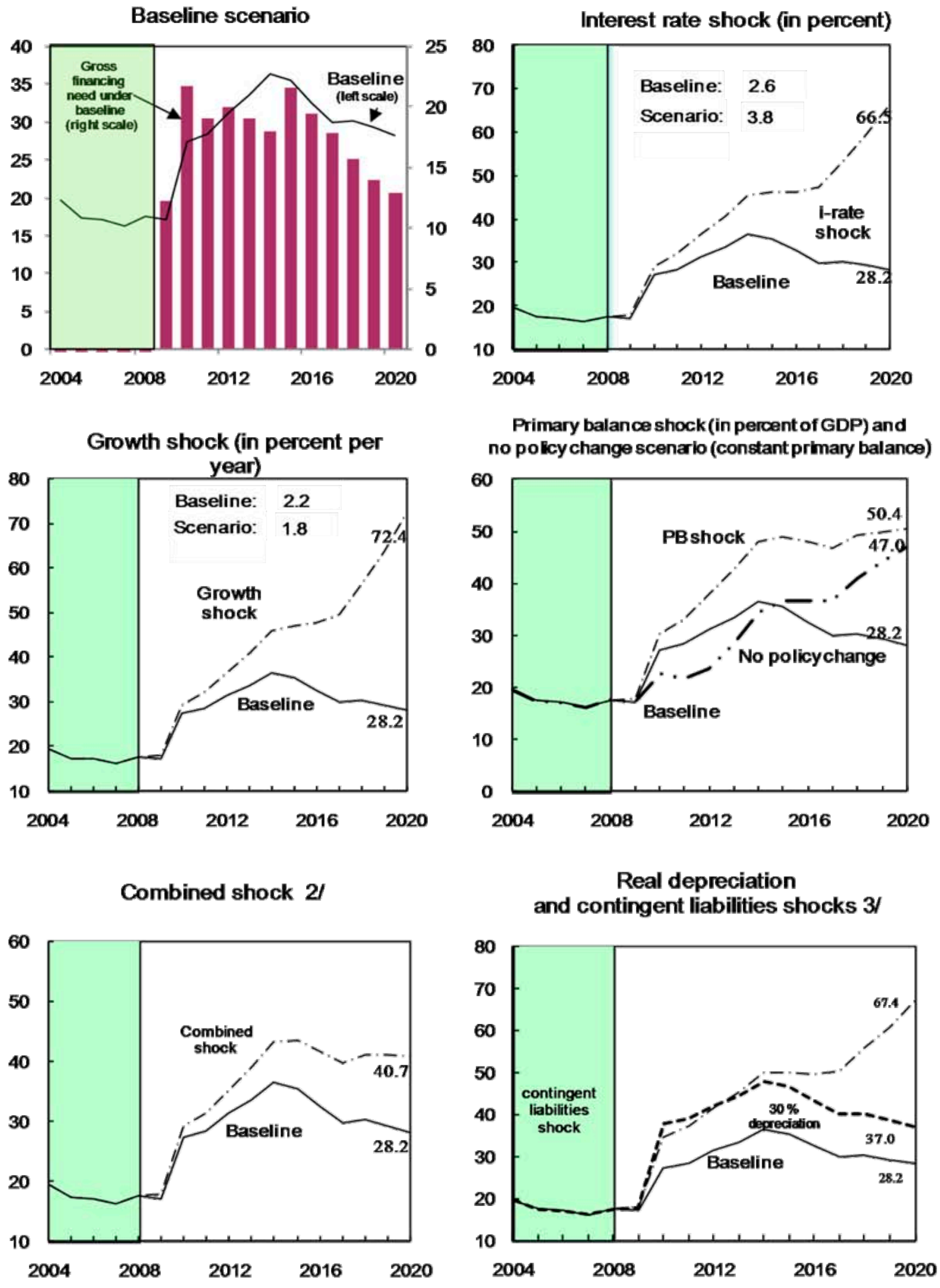


Sources: International Monetary Fund, country desk data, and staff estimates.

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 2009, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Figure 8. Swaziland: Public Debt Sustainability Under Alternative Scenario: Bound Tests 1/

(Public debt in percent of GDP)



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

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2009, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local

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IMF Executive Board Concludes 2009 Article IV Consultation with Kingdom of Swaziland

On February 22, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Swaziland.[1]

Background

The global economic downturn has adversely affected the Swazi economy with a sharp deceleration in real GDP growth to 0.4 percent in 2009 and a modest recovery projected for 2010, assuming stronger global demand and implementation of ongoing initiatives to increase agricultural production. Meanwhile, inflation moderated, falling to 5.4 percent by end-2009 and is expected to converge toward South Africa's inflation rate over the medium term. The global downturn is having its most severe impact on the fiscal and external positions as transfers from the Southern African Customs Union (SACU) decline abruptly. Both the overall fiscal and external current account deficits are projected to widen over the medium term, averaging 11 and 10 percent of GDP, respectively. Moreover, Gross official reserves are projected to gradually fall to two months of import cover or to about 50 percent of broad money by 2014.

The authorities are considering a series of expenditure-cutting measures in response to the rapidly deteriorating fiscal position. These measures combined with sustained efforts to mobilize

[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.

non-SACU revenue are expected to contain the fiscal deficit to sustainable levels over the medium term and preserve the viability of the exchange rate peg. Faced with the daunting challenge of remaining competitive in a rapidly changing global environment, the authorities are also implementing structural reforms aimed at reducing the high cost of doing business, enhancing land and labor productivity, and spurring private sector-led growth.

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, 2004–2009

	2004	2005	2006	2007	2008	2009 Est.
Domestic economy						
Real GDP	2.5	2.2	2.9	3.5	2.4	0.4
Consumer price inflation (period average)	3.4	4.8	5.3	8.2	13.1	7.6
Consumer price inflation (end of period)	3.2	6.3	5.5	9.8	12.9	5.4
External economy	(In millions of U.S. dollars, unless otherwise indicated)					
Exports, f.o.b.	1,809	1,636	1,664	1,743	1,570	1,568
Imports, f.o.b.	-1,718	-1,894	-1,916	-1,,843	-1,580	-1,632
Current account balance 1/	71	-103	-197	22	-116	-195
(percent of GDP)	3.1	-4.1	-7.4	0.7	-4.1	-6.5
Gross official international reserves	262	244	367	748	723	721
(months of imports of goods and nonfactor services)	1.5	1.3	1.9	3.8	4.0	3.9
Debt service (percent of exports of goods and nonfactor services)	1.0	1.0	1.1	1.2	1.5	1.4
Financial variables	(In percent of GDP, unless otherwise indicated)					
Total government revenue and grants 2/	32.1	33.2	42.8	38.9	40.5	34.9
Total government expenditure and net lending 2/	36.9	34.8	32.3	32.4	40.6	42.9
Overall government balance (incl. grants) 2/	-4.7	-1.6	10.4	6.5	-0.2	-8.0
Change in broad money (percent)	10.4	5.9	25.1	21.4	15.4	2.2
Interest rates (percent) 3/	4.1	3.5	8.5	10.0	9.8	4.0
Discount rate (percent)	7.5	7.5	9.0	11.0	11.0	6.5

Sources: Swazi authorities; and IMF staff estimates.

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