

Swaziland: Selected Issues and Statistical Appendix

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SWAZILAND

Selected Issues and Statistical Appendix

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November 14, 2002

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Swaziland: Basic Data

Area	17,364 square kilometers				
Population (2001) 1/	997,964				
Population growth rate (2001) 1/	1.9 percent				
Formal employment (2001) 1/	94,000				
IMF Position (September 30, 2002)					
Quota	SDR 50.70 million				
Fund holdings of emalangenzi	SDR 44.15 million				
Holdings of SDRs	SDR 2.46 million				
Exchange rate	US\$1 = E 10.57				
	1997	1998	1999	2000	2001
					Est.
	(Annual percentage change, unless stated otherwise)				
National Income and Prices					
GDP at constant prices	3.8	3.3	3.5	2.0	1.8
GDP per capita at constant prices	1.0	0.5	1.0	-0.1	0.4
GDP deflator	12.0	9.1	9.0	12.4	11.8
CPI (period average)	7.9	7.5	5.9	9.9	7.5
CPI (end of period)	7.8	4.9	9.1	6.4	10.8
Unemployment rate (in percent)	26.9	30.0	31.4	31.3	31.3
External sector					
Current account balance (in millions of U.S. dollars)	-2.7	-94.1	-21.7	-51.7	-53.4
Trade balance (in millions of U.S. dollars)	-104.3	-106.9	-131.3	-136.5	-73.7
Exports, f.o.b. 2/	15.4	14.8	-2.8	4.1	-1.2
Imports, f.o.b. 2/	-2.0	17.5	-2.8	-6.3	-8.1
Nominal effective exchange rate 3/	-0.3	-2.8	0.4	-1.9	-5.1
Real effective exchange rate 3/	-0.1	-5.3	7.2	-1.9	0.9
Money and credit					
Broad money	19.4	12.9	15.6	-6.6	10.7
Prime lending rate (in percent; end of period)	18.8	21.0	15.0	14.0	12.5
Interest rates on 12-month time deposits (in percent; end of period)	11.8	14.1	8.0	7.0	6.3
	(In percent of GDP)				
Gross national savings	20.4	15.4	17.2	16.2	14.0
Of which: government	6.6	7.6	5.8	4.8	4.9
Gross domestic investment	20.6	22.4	18.8	19.9	18.1
Of which: government	4.8	5.9	6.7	6.2	7.3
Central government finance (fiscal year) 4/					
Total revenue and grants	29.9	29.6	30.4	28.3	27.2
Of which: South African Customs Union (SACU) receipts	14.8	14.0	14.0	14.1	13.2
Total expenditure and net lending	27.1	29.1	31.9	29.8	29.9
Current expenditure and net lending	22.5	22.0	25.2	23.7	22.3
Central government balance (including grants)	2.8	0.5	-1.5	-1.4	-2.8
Primary balance (including grants)	3.4	1.1	-0.6	-0.8	-1.9
Government debt	12.8	19.3	20.3	22.7	26.3
External sector					
Current account balance	-0.2	-6.9	-1.6	-3.7	-4.1
Trade balance (merchandise goods)	-7.3	-7.9	-9.5	-9.8	-5.7
Capital and financial account balance	3.1	10.4	2.8	2.6	-1.3
Overall balance 5/	1.8	3.7	1.5	-0.5	-4.4
External debt	16.0	21.2	23.2	25.7	22.3
Memorandum items:					
GDP in current prices (in millions of emalangenzi)	6,613	7,449	8,408	9,639	10,971
Overall balance of payments (in millions of U.S. dollars)	25	51	21	-6	-57
Net official international reserves (in millions of U.S. dollars)	284	329	314	293	228
(in months of imports of goods and nonfactor services)	2.6	2.9	3.0	2.8	2.5
Total external debt (in millions of U.S. dollars)	230	288	319	358	288

Sources: Swazi authorities.

1/ Population and employment estimates based on United Nations, World Bank, and U.S. Census Bureau estimates.

2/ Based on values in U.S. dollars.

3/ IMF Information Notice System trade-weighted; end of period.

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

5/ Excluding net errors and omissions.

I. INTRODUCTION

1. *Swaziland faces a serious socioeconomic situation, with the continued spread of HIV/AIDS exacerbating the already severe impact of high unemployment, income inequality, and poverty.* Economic growth has weakened since the early 1990s, in part because South Africa's emergence from political and economic isolation has eroded some of Swaziland's advantage as a location for investment. A deterioration in public finances since 1999 has contributed to inflationary pressures, which have blunted the impact on external competitiveness of a depreciation in the nominal value of the exchange rate. At the same time, significant prospective medium-term pressures on the budget are arising from the costs of HIV/AIDS and of contingent government liabilities, such as the Public Service Pensions Fund.

2. *Against this background, this paper describes recent economic developments in Swaziland and discusses some of the key issues that have a bearing on the economic outlook and policy debate.* The paper first discusses developments with regard to output and inflation, fiscal policy, monetary policy and financial markets, and the external sector. Section III discusses the economic impact of HIV/AIDS; Section IV analyzes the sources of GDP growth and the outlook; Section V examines the issue of external competitiveness; and Section VI describes the finances of the Public Service Pensions Fund.

II. RECENT ECONOMIC DEVELOPMENTS¹

A. Real Sector Developments

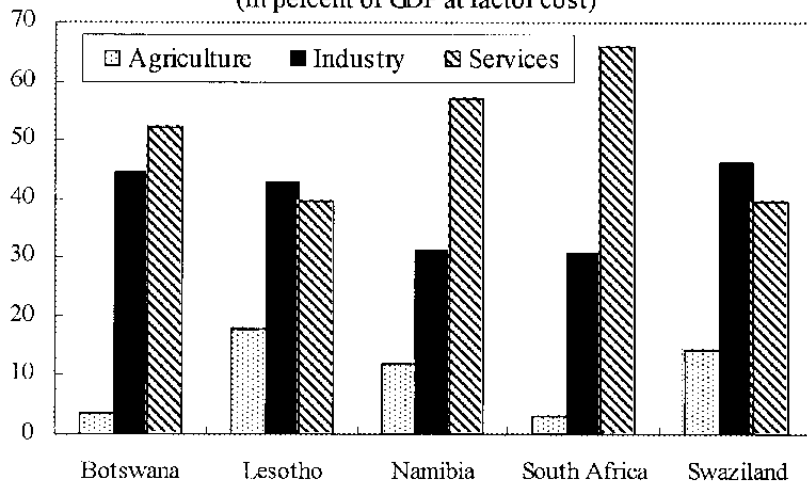
Background

3. *Swaziland's economic performance has deteriorated since the early 1990s.* The average annual growth rate of real GDP fell from 7¾ percent during the 1980s to 3¾ percent during the 1990s, while per capita GDP growth fell from 4¾ percent during the 1980s to 1¼ percent during the 1990s. This decline was partly due to the emergence of South Africa from economic isolation, which reduced some of Swaziland's relative attractiveness as an investment destination.

4. *Similar to other countries in the region, Swaziland's output is almost entirely accounted for by the industrial and services sectors (Figure II.1).* Primary production (mainly agriculture) accounted for 14 percent of GDP in 2001, which was higher than in most other countries in the region. The secondary sector, dominated by manufacturing, accounted for 46 percent of GDP—a large share by regional standards. The tertiary sector, mainly comprising government and wholesale and retail services, contributed 40 percent of GDP.

¹ Prepared by Gustavo Bagattini, Louis Erasmus, Matthias Vocke, and Luca Ricci.

Figure II.1. Composition of GDP, 2001
(In percent of GDP at factor cost)



Sources: Swazi authorities; and staff estimates.

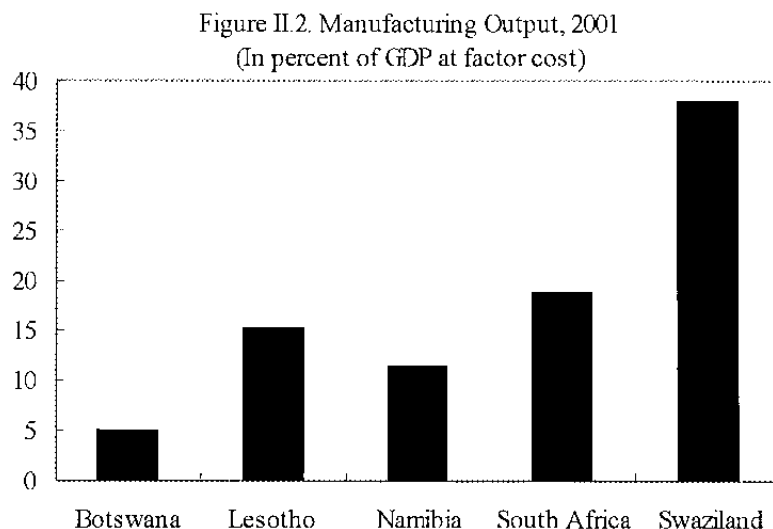
5. *Agricultural production mainly consists of sugarcane (the main cash crop) and maize (the main staple crop).*² Overgrazing, soil depletion, floods, and, especially, drought persist as problems affecting agricultural production. Land tenure is broadly of two types, Swazi Nation Land and Title Deed Land, which account for about 60 percent and 40 percent of land area and for one-fourth and three-fourths of agricultural production, respectively. Tenure over Swazi Nation Land is not defined by legislation – the land is controlled and held in trust by the King and allocated by tribal chiefs according to traditional arrangements. The land is rain fed and is mainly used for subsistence farming. Title Deed Land is held by freehold tenure, which recognizes exclusive access rights, and is usually irrigated. Commercial activity on Title Deed Land accounts for production of two of Swaziland’s main export earners—sugar and wood pulp.³

6. *The share of the manufacturing sector in GDP (38 percent) is high by regional standards (Figure II.2).* Manufacturing output accounts for over one-third of the country’s exports. It is closely linked to the primary sector, and comprises mainly sugar refining, other agro-processing (including soft drink processing), and the production of wood pulp. Furthermore, Swaziland’s participation in the U.S. African Growth and Opportunity Act

² Other important cash crops include pineapples, maize, citrus fruits, cotton, and tobacco.

³ Over 95 percent of Swaziland’s forests are in Title Deed Land. The main products are wood pulp (of which over US\$60 million is exported annually), sawn timber, and mine timber.

(AGOA) initiative since 2001 has contributed to the emergence of a fledgling clothing industry, which accounted for over 6 percent of exports in 2001.⁴



Sources: Swazi authorities; and staff estimates.

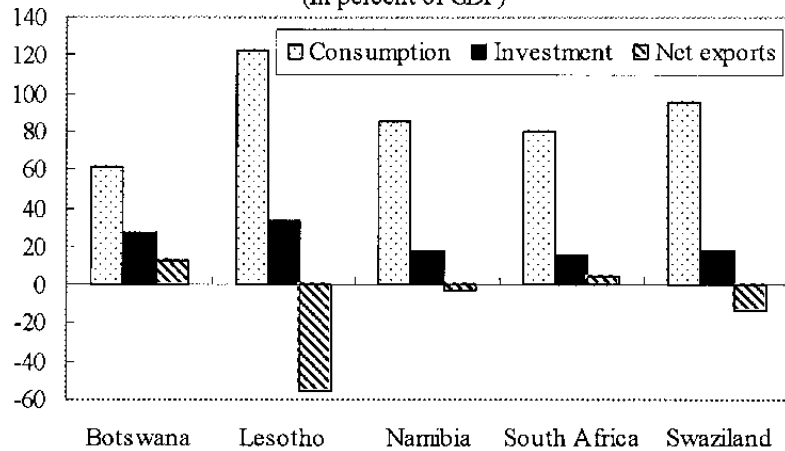
7. *The expenditure composition of Swaziland's GDP is characterized by a large share of consumption (and low saving), a small share of private investment, and a negative balance of trade in goods and nonfactor services (Figure II.3).*⁵ Consumption is equivalent to 95 percent of output, of which one-fifth represents government consumption. The ratio of national saving to GDP is 14 percent, which is the smallest share in the region.⁶ Investment is equivalent to 18 percent of GDP, of which private investment accounts for 10 percent of GDP (Figure II.4). Swaziland is a net importer of goods and nonfactor services, and in 2001 the trade deficit was equivalent to 13 percent of GDP.

⁴ Statistics on the contribution of the clothing industry to GDP are not available.

⁵ These shares are calculated in terms of GDP in current prices. Swaziland does not produce an expenditure breakdown of real GDP in constant prices.

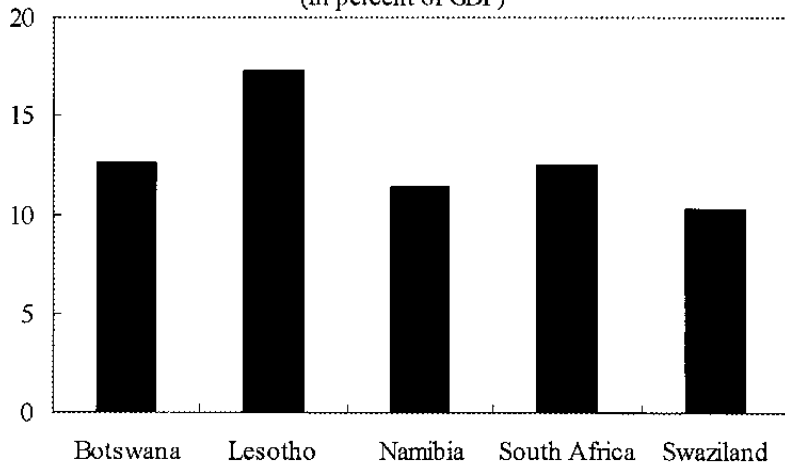
⁶ National saving is calculated as investment plus the external current account balance, which includes foreign income and transfers. Since foreign income and transfers are not part of GDP, the sum of consumption and national saving exceeds GDP by an equivalent amount.

Figure II.3. Expenditure on GDP, 2001
(In percent of GDP)



Sources: Swazi authorities; and staff estimates.

Figure II.4. Private Investment, 2001
(In percent of GDP)



Sources: Swazi authorities; and staff estimates.

8. *Swaziland has a population of about 1 million, half of which comprises working-age people.* The size and demographic profile of the population have been significantly affected by the rapid spread of HIV/AIDS. The infection rate increased from 4 percent of the working-age population in 1992 to one-third in 2001. The size of the population is estimated to be 30,000 people (3 percent) smaller than it would have been without the pandemic.⁷

⁷ United Nations Population Division.

Since the pandemic has primarily affected young adults, the dependency ratio increased from 0.9 in 1990 to 1.0 in 2001.⁸

9. ***Total employment in 2001 was estimated at about 268,000 people, accounting for two-thirds of the labor force.*** This implies that about one-third of the labor force is unemployed. Employment comprises formal employment (about 94,000) and estimated informal employment (about 174,000).⁹ About one-third of formal employment is in the public sector, and two-thirds in the private sector. Employment surveys based on productive sectors are not available on a timely basis.¹⁰

10. ***Inflation averaged about 9 percent during the 1990s, before rising to 10.8 percent at end-2001 and 12 percent in mid-2002.*** The inflation rate has a close correlation with that of South Africa. Large one-off increases in fuel prices (6 percent share of consumer price inflation), the education sector (6 percent share), and household operations (5 percent share) usually take place at the beginning of each year. Food inflation accounts for 25 percent of the index. Administered prices account for about 16 percent of the index.¹¹

Recent economic developments

11. ***Macroeconomic trends in Swaziland are correlated with those in South Africa.*** This reflects the close economic integration with South Africa, which accounts for 80 percent of Swaziland's imports and more than half of its exports. Swaziland's merchandise trade with South Africa is equivalent to over 110 percent of its GDP. Growth and inflation in the two countries are positively correlated, with a correlation coefficient during 1981–2001 of 0.3 for real GDP growth and 0.5 for consumer price inflation.

12. ***Real GDP growth has slowed since 1999, partly owing to the economic slowdown in South Africa, the declining share of investment in GDP, and the contraction of the agricultural sector.*** While real GDP growth averaged 3.8 percent annually during the 1990s, it fell to 2.2 percent in 2000 and further to 1.8 percent in 2001. South Africa's real output

⁸ The age dependency ratio is the ratio of dependents (people younger than 15 years and older than 64 years) to the working-age population (those aged 15-64). For example, 0.7 means there are 7 dependents for every 10 working-age people.

⁹ Informal sector employment was estimated using formal employment data from the authorities and labor force data from the World Bank.

¹⁰ In 1992 (latest data available), the services sector accounted for about one half of employment, and the agriculture and industry sectors for one-fourth of employment each.

¹¹ Administered prices include the prices of bread, sugar, milk, maize, and fuel.

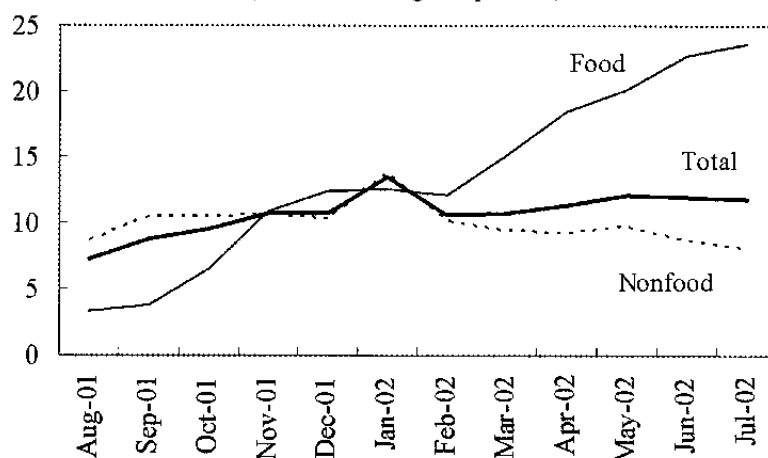
slowed from 3.4 percent in 2000 to 2.2 percent in 2001. The share of investment in GDP fell from 21 percent during 1990-99 to 18 percent in 2001, partly owing to the relocation of firms from Swaziland to other countries in the region, particularly after South Africa's economic reemergence in 1994. Economic activity appears to have weakened further in 2002, with agricultural output affected by drought and manufacturing output showing the effects of additional closures by foreign firms.

13. ***The share of consumption in GDP has decreased as the Swazi economy has slowed.*** During 1997-2001, the share of public consumption remained stable at about 23 percent of GDP, while the ratio of private consumption to GDP decreased from 74 percent to 72 percent. National saving fell from 18 percent of GDP during 1997-99 to 16 percent in 2000 and 14 percent in 2001. The share of public saving has decreased from 7 percent during 1997-99 to 5 percent in 2000-01, while the ratio of private saving to GDP fell from 11 percent in 1997-2000 to 9 percent in 2001, partly owing to decreased remittances from migrant mining workers in South Africa.

14. ***The trade deficit of goods and services averaged 19 percent of GDP during 1997-99, but narrowed to 17 percent in 2000 and 13 percent in 2001.*** Export volumes contracted by 1.2 percent in 2001, in part because of the economic slowdown in South Africa, and import volumes shrank by 8 percent, partly reflecting weak private investment. Export growth appears to have recovered somewhat in 2002, as economic activity in the region has picked up and the depreciation of the rand in 2001 has contributed to competitiveness.

15. ***The pickup in inflation since 2001 reflects a combination of domestic price pressures, higher imported inflation from South Africa, and an increase in food prices in southern Africa caused by a food shortage (Figure II.5).*** The inflation rate in Swaziland has been slightly higher than in South Africa since 1999, and the inflation differential (annualized rate) was 1¼ percent in July 2002. Domestic price pressures stem from fiscal expansion, rapid wage growth, and a 33 percent increase in school fees in January 2002. Imported inflationary pressures have been exacerbated by the depreciation of the rand and pass-through effects from South Africa. The regional drought has contributed to a food shortage and put upward pressure on food inflation. As of July 2002, the food consumer price inflation rate (12-month basis) was 24 percent, and the nonfood inflation rate was 8 percent.

Figure II.5. Inflation, August 2001-July 2002
(12-month change, in percent)



Sources: Swazi authorities; and staff estimates.

16. ***Employment did not increase in line with labor force growth during 1995-2001, leading to rising unemployment.*** The labor force is estimated to have increased by 20 percent during that period, while total employment grew by only 7 percent. Unemployment is estimated to have increased to 31 percent in 2001 from 22 percent in 1995. The emergence of the clothing industry has helped to create about 15,000 new jobs (equivalent to an estimated 6 percent of total employment). However, limited investment in other labor-intensive industries, factory closures, and the sluggish growth of output have prevented a reduction in the overall unemployment rate.

Reforms

17. ***In recent years, several structural reforms have been implemented with the intention of boosting agricultural productivity, reducing unemployment, and promoting investment.*** In 1999, the cabinet approved the Land Policy Act, which would institute long-term leases for agricultural and peri-urban land. Agricultural productivity, especially sugar farming, is expected to benefit from the completion of the Maguga Dam in 2002. The project will provide irrigation for over 5,000 hectares of sugar plantations—expecting to boost sugar production by 16 percent—and further lower operational costs.

18. ***An ongoing skills development study may be an important first step toward devising a strategy to reduce unemployment.*** The study, which encompasses a survey of abundant and lacking skills across the productive sectors, is being carried out by the Ministry of Public Service and Information and is expected to be ready during 2002. Underlying factors that may be contributing to unemployment and need to be addressed include the investment environment, skills shortages, labor market rigidities, and the adverse effects of HIV/AIDS.

19. *The secondary sector has been transformed owing to Swaziland's participation in the AGOA initiative.* The authorities have used a variety of incentives to attract investment, such as the construction of factory shells to provide industrial space to foreign investors, particularly in the clothing industry. In addition, Swaziland set up an investment agency, the Swaziland Investment Promotion Authority (SIPA), in 1998 to promote foreign investment.

B. Fiscal Developments and Policy

Background

20. *The public sector in Swaziland consists of three levels of government—central government, regional administration, and local government—and a large number of public enterprises.* The central government plays an important role in the economy, accounting for one-third of formal employment. During the 1990s, central government revenue and expenditure averaged about 30 percent of GDP each. These shares are similar to those in South Africa and Namibia (Table II.1). In 2001/02 (April-March), the central government recorded a deficit (including grants) of E 315 million (2.8 percent of GDP); grants were equivalent to 1 percent of GDP. Central government debt was equivalent to 26 percent of GDP, of which 25 percent of GDP comprised external debt. External debt is mostly contracted at concessional rates, and the maturity of loans varies between 10 and 40 years.

21. *There are four regional administrations, as well as a local government that consists of two city councils, three town councils, and seven town boards.* Regional administrations and town boards are dependent on budgetary transfers from the central government, as they have no independent sources of revenue or the authority to borrow from domestic and foreign capital markets.¹² The city and town councils function under the terms of the Urban Government Act of 1969. They have their own sources of revenue, comprising property taxes (60-70 percent of their revenue) and fees and fines. The councils also receive discretionary transfers from the central government, equivalent to 0.1 percent of GDP in 2000/01. Local governments have the authority to borrow from domestic and foreign capital markets, subject to the approval by the Ministry of Finance. In 2000/01, local government revenue and expenditure were equal to 0.7 percent and 0.6 percent of GDP, respectively. Borrowing is guaranteed by the central government but is allowed only to finance capital projects; external borrowing is limited to South African rand-denominated debt, and debt service may not exceed 15 percent of total revenue.

¹² Town boards were given the authority to develop their own sources of revenue in 1997, but they have not made use of this provision.

Table II.1. Cross-Country Comparisons for SACU Member Countries, 1990-2001

	(In percent of GDP)					
	1990-96 average	1997	1998	1999	2000	2001 Est.
Total government revenue						
Botswana	40.9	42.0	36.9	46.1	46.5	44.7
Lesotho	44.0	47.1	42.8	40.3	41.2	41.1
Namibia	33.2	31.9	29.8	29.0	29.2	28.1
South Africa	23.3	23.8	24.9	24.7	24.3	26.5
Swaziland	28.8	29.3	29.2	29.2	27.6	27.0
Tax revenues						
Botswana	30.2	33.6	28.4	38.0	40.0	39.2
Lesotho	37.4	37.6	33.3	32.9	30.5	34.3
Namibia	29.3	29.0	27.2	26.1	26.6	25.7
South Africa	22.7	23.3	24.3	24.1	23.9	26.0
Swaziland	26.9	27.5	26.9	27.2	26.1	25.6
Total government expenditures and net lending						
Botswana	41.5	37.3	41.5	43.2	42.3	37.1
Lesotho	47.1	49.1	55.7	58.8	45.4	42.6
Namibia	37.1	35.5	32.4	32.5	32.4	31.2
South Africa	29.2	27.7	27.2	26.7	26.3	27.0
Swaziland	29.5	27.7	28.8	30.9	30.1	31.6
Wages						
Botswana	8.8	8.5	9.8	10.1	9.5	9.1
Lesotho	13.6	15.1	16.5	14.6	14.5	14.1
Namibia	16.7	16.6	15.1	14.9	14.7	13.8
South Africa	11.5	11.4	11.1	10.8	10.3	10.2
Swaziland	12.2	11.8	11.1	12.1	11.1	11.8
Health						
Botswana	1.7	1.9	2.1	2.2	2.3	2.9
Lesotho	4.1	3.2	3.6	3.4	4.0	2.7
Namibia	3.5	3.5	3.3	3.3	3.4	3.3
South Africa	3.3	3.4	3.2	3.1	3.1	3.1
Swaziland	2.3	2.3	2.2	2.2	2.3	2.1
Defense						
Botswana	3.9	2.9	3.4	3.4	3.3	3.5
Lesotho	5.2	6.9	7.8	8.5	8.4	7.7
Namibia	2.0	2.3	2.2	2.1	2.2	2.2
South Africa	2.8	1.7	1.6	1.5	1.7	1.8
Swaziland	2.0	1.8	1.9	1.8	1.6	n.a.
Education						
Botswana	7.5	8.7	9.7	10.1	9.7	9.9
Lesotho	10.5	11.0	12.8	12.1	10.9	8.9
Namibia	8.1	8.6	8.1	8.0	7.7	7.4
South Africa	6.4	6.6	6.2	5.9	5.9	6.0
Swaziland	6.9	6.8	6.5	6.4	5.9	5.8

Source: *IMF*, World Economic Outlook, Winter 2002 database.

22. ***Tax revenues accounted for about 90 percent of total central government revenue in 2001/02 (Table II.2).*** Indirect taxes accounted for around two-thirds of total revenue, of which about half comprised transfers from the Southern African Customs Union (SACU).¹³ The other indirect taxes are a general sales tax levied at a rate of 14 percent (20 percent for most alcoholic products and tobacco), a levy on sugar exports, hotel and gaming taxes, license fees, and a road levy and oil tax. The main direct taxes are the company tax and the personal income tax.¹⁴ The company tax accounted for 8 percent of total revenue in 2001/02, while personal income tax accounted for 14 percent. Nontax revenue consists of property income and fees, fines, and nonindustrial sales, and accounted for 6 percent of total revenue in 2001/02. Grants accounted for 4 percent of total revenue.

23. ***Recurrent expenditure accounted for about three-quarters of total expenditure in 2001/02 (Table II.3).*** More than one-third of total expenditure is accounted for by wages and salaries. With the exception of Namibia, this represents the highest ratio of the SACU member countries, compared with only 10 percent in South Africa (Figure II.6). Subsidies and transfer payments represent around 20 percent of total expenditure, of which subsidies to nonfinancial public enterprises account for about one-fifth. In terms of the economic classification of public spending, about one-third of total expenditure is allocated to social sector spending, with allocations for education and health representing 22 percent and 8 percent of total expenditure, respectively. Public expenditure on education and health, as a percent of GDP, remained largely unchanged during the 1990s and is lower than in other SACU member countries (Figures II.7 and II.8). Defense spending accounts for 6 percent of total expenditure.

24. ***In 2001/02, expenditure on transportation and communication infrastructure accounted for about half of total capital expenditure.*** In contrast, expenditure on education represented only 2.2 percent of total capital expenditure. The budget on capital expenditure has been characterized by low implementation capacity, a feature contributing to the substantial divergence between projected and actual budgetary performance. In 2001/02, actual capital expenditure was equivalent to about 80 percent of what the budget envisaged.

¹³ SACU transfers consist of the total customs and excise revenue collected in the Common Customs Area, and is allocated according to a specific formula. A decline in Swaziland's imports related to slower economic activity, and a reduction in SACU's common external tariffs following implementation of the South Africa-EU Free Trade Agreement since 2000, have contributed to weaken Swaziland's receipts from the SACU revenue pool in recent years. A revised formula was adopted with effect from October 2002.

¹⁴ The company tax rate is 30 percent (10 percent for companies that have been granted a development approval order). The maximum personal income tax rate is 33 percent on annual incomes of E 36,000 and higher. The income threshold is E 14,000, and there are 5 income bands.

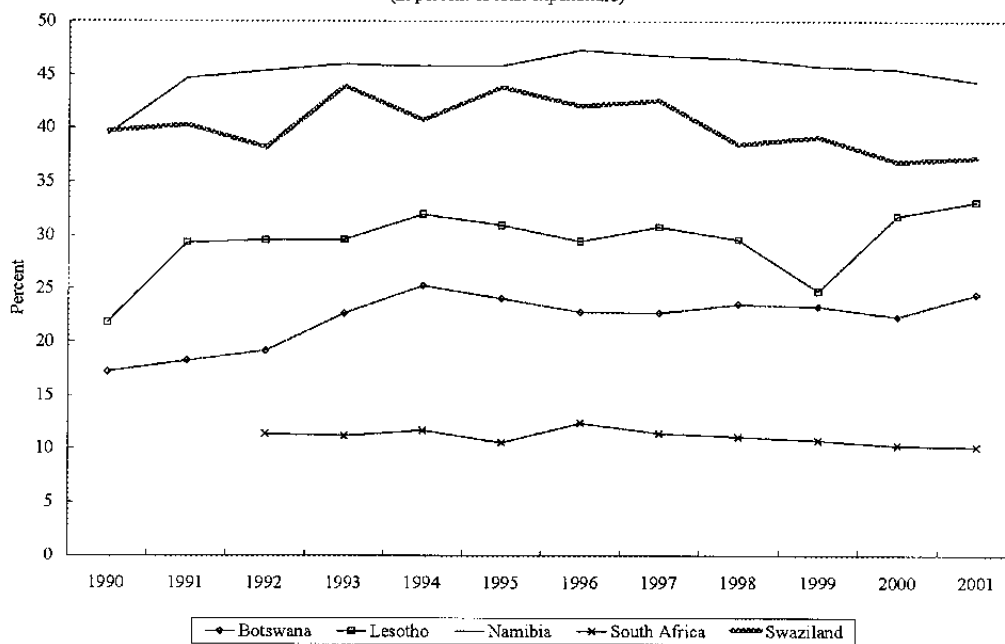
Table II.2. Central Government Revenue and Grants, 1996/97-2001/02 1/

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
(In millions of emalangeni)						
Tax revenue	1,621	1,883	2,042	2,369	2,574	2,779
Taxes on net income and profits	486	529	582	697	678	725
Companies	244	250	262	276	233	245
Individuals	220	258	299	397	431	431
Nonresident dividends and interest	22	21	21	24	14	49
Taxes on property	3	3	4	4	5	6
Taxes on goods, services, and international trade	1,124	1,347	1,451	1,665	1,886	2,042
Southern African Customs Union (SACU) receipts	852	1,007	1,076	1,222	1,407	1,504
Sugar export levy	14	27	19	19	15	28
Hotel and gaming taxes	2	3	3	3	3	3
Licenses and other taxes	49	54	77	88	89	99
Sales tax	207	255	275	334	372	408
Road levy and oil tax	...	0	0	0	0	0
Other taxes	8	5	6	4	5	7
Nontax revenue	63	137	188	167	139	194
Property income	44	90	138	117	91	132
Fees, fines, and nonindustrial sales	19	47	50	49	48	62
Total revenue	1,684	2,020	2,230	2,536	2,713	2,973
Grants	20	18	45	110	112	121
Total revenue and grants	1,704	2,039	2,275	2,646	2,825	3,094
(In percent of GDP)						
Tax revenue	27.4	27.6	26.6	27.2	25.8	24.4
Taxes on net income and profits	8.2	7.8	7.6	8.0	6.8	6.4
<i>Of which:</i> companies	4.1	3.7	3.4	3.2	2.3	2.1
individuals	3.7	3.8	3.9	4.6	4.3	3.8
Taxes on property	0.1	0.0	0.1	0.0	0.1	0.0
Taxes on goods, services, and international trade	19.0	19.7	18.9	19.1	18.9	17.9
<i>Of which:</i> SACU receipts	14.4	14.8	14.0	14.0	14.1	13.2
sales tax	3.5	3.7	3.6	3.8	3.7	3.6
Other taxes	0.1	0.1	0.1	0.0	0.1	0.1
Nontax revenue	1.1	2.0	2.4	1.9	1.4	1.7
Grants	0.3	0.3	0.6	1.3	1.1	1.1
Total revenue and grants	28.8	29.9	29.6	30.4	28.3	27.2
(In percent of total revenue and grants)						
Tax revenue	95.1	92.4	89.8	89.5	91.1	89.8
Taxes on net income and profits	28.5	25.9	25.6	26.3	24.0	23.4
<i>Of which:</i> companies	14.3	12.2	11.5	10.4	8.2	7.9
individuals	12.9	12.7	13.1	15.0	15.2	13.9
Taxes on property	0.2	0.1	0.2	0.1	0.2	0.2
Taxes on goods, services, and international trade	66.0	66.1	63.8	62.9	66.8	66.0
<i>Of which:</i> SACU receipts	50.0	49.4	47.3	46.2	49.8	48.6
Other taxes	0.5	0.3	0.2	0.1	0.2	0.2
Nontax revenue	3.7	6.7	8.3	6.3	4.9	6.3
Grants	1.2	0.9	2.0	4.2	4.0	3.9
Memorandum item:						
GDP at current market prices (in millions of emalangeni)	5,917	6,822	7,689	8,716	9,972	11,391

Sources: Ministry of Finance; and Fund staff estimates.

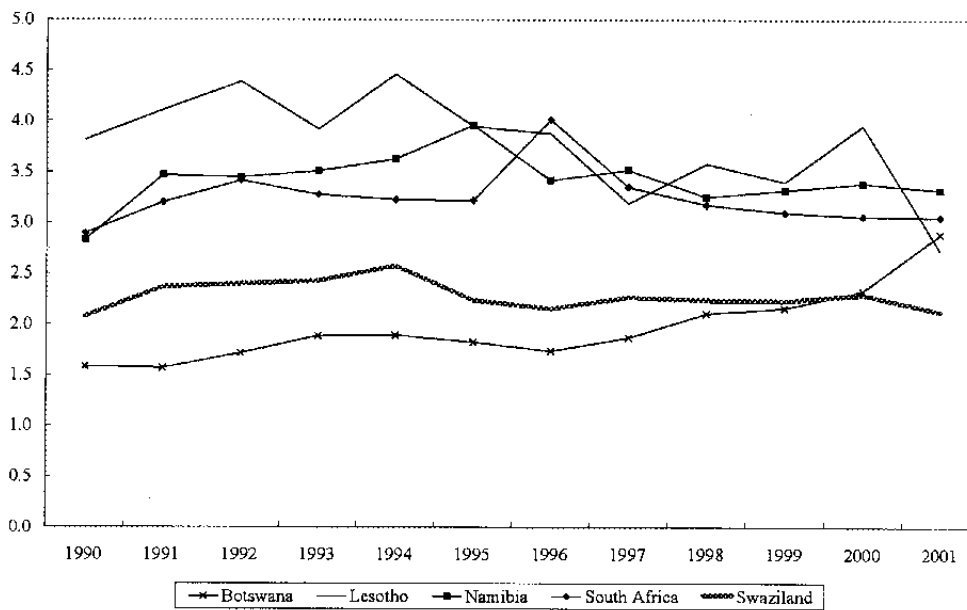
1/ Fiscal year runs from April 1 to March 31.

Figure II.6. Wage expenditure, 1990-2001
(In percent of total expenditure)



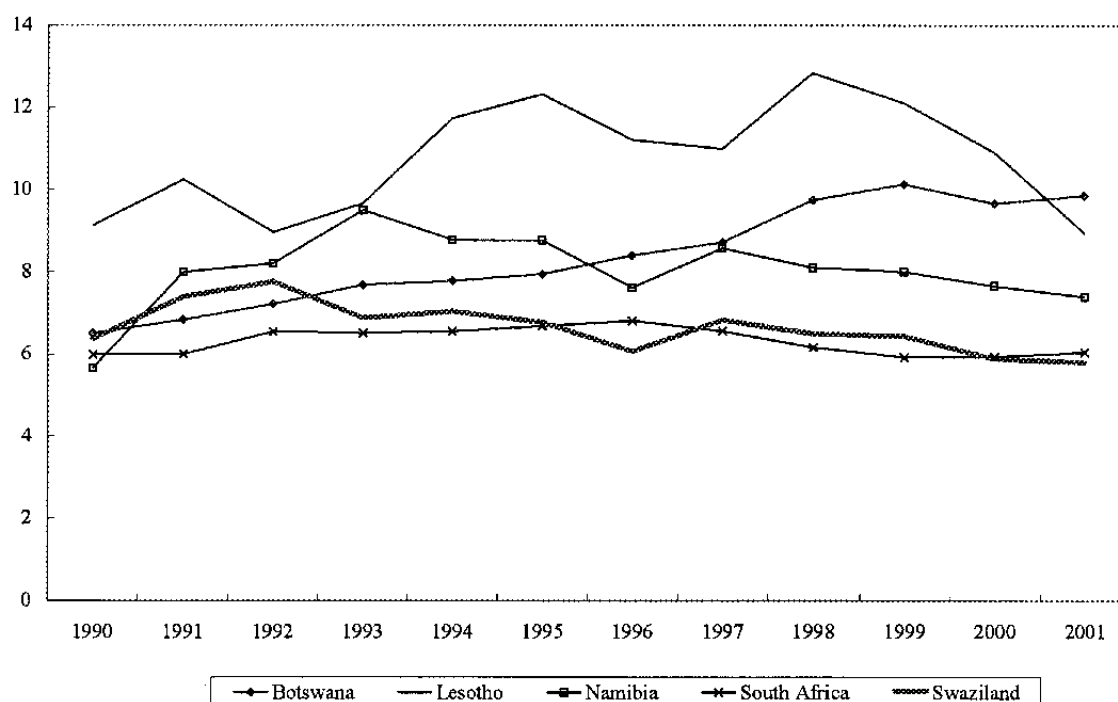
Sources: Swazi authorities; and staff estimates.

Figure II.7. Public Health Expenditure in SACU Member Countries, 1990-2001
(In percent of GDP)



Sources: Swazi authorities; and staff estimates.

Figure II.8. Public Education Expenditure in SACU Member Countries, 1990-2001
(In percent of GDP)



Sources: Swazi authorities; and staff estimates.

Capital expenditure is mostly financed by foreign borrowing, contracted on concessional terms. In 2000, the government launched the Millennium Projects (see para. 29 for details). The total estimated cost of these projects are E 2.5 billion, and implementation is expected to be completed by 2007/08.

25. *The public sector includes 45 public enterprises, 29 of which are classified as category A enterprises.*¹⁵ Public enterprises provide a wide range of services, including education, infrastructure, and developmental services. In 2001/02, the government's shareholding (share and loan capital) in public enterprises amounted to 2.7 percent of GDP, while current transfers from the budget were equivalent to 1.9 percent of GDP. In 2000, the contribution of public enterprises to real GDP and total formal sector employment amounted

¹⁵ Category A public enterprises are either wholly owned by the government, ones in which the government has a majority interest, or enterprises that are dependent on budgetary transfers. The remaining 16 enterprises are category B enterprises, defined as enterprises in which the government has a minority interest.

to 6 percent and 7 percent, respectively, and the consolidated financial position of public enterprises reflected a deficit of about E 100 million (1 percent of GDP). Operating deficits of the public enterprises are financed through transfers from the central government and debt.

Table II.3. Functional Classification of Central Expenditure and Net Lending, 1996/97-2001/02 1/

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
(In millions of emalangeni)						
Current expenditure	1,487	1,532	1,689	2,194	2,364	2,537
Wages and salaries	735	797	833	1,077	1,071	1,162
Other purchases of goods and services	341	436	463	542	679	781
Interest payments	40	43	51	76	63	96
Domestic	13	12	9	7	6	6
Foreign	27	30	41	68	57	91
Subsidies and other current transfers	371	256	342	499	550	497
<i>Of which</i>						
Subsidies to NFPEs 2/	95	74	132	142	148	140
Capital expenditure	293	323	483	585	604	866
Education	23	21	99	31	27	19
Agriculture	8	17	30	9	82	54
Transport and communications	121	108	184	246	179	425
Other	141	177	170	299	317	368
Net lending	2	-4	67	-3	0	7
Gross lending	12	29	76	4	19	13
Repayments	-10	-33	-9	-8	-19	-6
Total expenditure and net lending	1,782	1,850	2,239	2,776	2,968	3,409
(In percent of GDP)						
Current expenditure	25.1	22.5	22.0	25.2	23.7	22.3
Capital expenditure	5.0	4.7	6.3	6.7	6.1	7.6
Net lending	0.0	-0.1	0.9	0.0	0.0	0.1
Total expenditure and net lending	30.1	27.1	29.1	31.9	29.8	29.9
(In percent of total expenditure and net lending)						
Current expenditure	83.4	82.8	75.4	79.0	79.6	74.4
Wages and salaries	41.2	43.1	37.2	38.8	36.1	34.1
Other purchases of goods and services	19.1	23.6	20.7	19.5	22.9	22.9
Interest payments	2.2	2.3	2.3	2.7	2.1	2.8
Subsidies and other current transfers	20.8	13.9	15.3	18.0	18.5	14.6
Capital expenditure	16.4	17.4	21.6	21.1	20.4	25.4
Net lending	0.1	-0.2	3.0	-0.1	0.0	0.2
Total expenditure and net lending	100.0	100.0	100.0	100.0	100.0	100.0
Memorandum item:						
GDP at current market prices (in millions of emalangeni)	5,917	6,822	7,689	8,716	9,972	11,391

Sources: Ministry of Finance; and Fund staff estimates.

1/ Fiscal year runs from April 1 to March 31.

2/ NFPEs (nonfinancial public enterprises).

Developments

26. *After recording sizable surpluses during much of the 1990s, the central government budget balance has recorded persistent deficits since 1999/2000.* The overall deficit (including grants) rose from 1.5 percent of GDP in 1999/2000 to 2.8 percent in 2001/02, while the primary deficit widened from 0.6 percent to 1.9 percent over the same period. The deterioration in the fiscal position was due mainly to a weakening in revenue, and to a slight rise in expenditure as a percent of GDP.

27. *Both tax and nontax revenue contributed to the weaker revenue performance.*¹⁶ Tax revenue fell to 24 percent of GDP, reflecting weaker SACU transfers and company tax receipts. The decline in company tax receipts as a percent of GDP was due to a reduction in tax rates, announced in the budget for 2001/02, and to the closure of a number of manufacturing concerns, notably Fridgemaster in 2001. Revenue collection remains relatively weak. Tax arrears were an estimated E 300 million (2½ percent of GDP) in 2001/02, in part reflecting the limited ability of the Tax Department to enforce the judicial collection of arrears.

28. *Expenditure and net lending remained virtually unchanged at about 30 percent of GDP, as the decline in recurrent expenditure was offset by an increase in capital expenditure.* The decline in subsidies and transfers and wages and salaries contributed to a reduction in recurrent expenditure to 22.3 percent of GDP in 2001/02 from 23¾ percent in 2000/01.¹⁷ Capital expenditure increased from 6.3 percent of GDP in 1998/99 to 7.6 percent in 2001/02, with the increase in 2001/02 mainly reflecting expenditure on a major national road.¹⁸

29. *In 2000, the government launched the Millennium Projects as an integral element of its strategy to raise growth and reduce poverty and unemployment.* The Millennium Projects entail the construction of factory shells, the Ezulwini Valley Development (consisting of a hotel and sporting complex, an international convention center, and a theme park), the Manzini Adventure Playground (consisting of a trade fair, multipurpose sporting complex, and football stadium), a new international airport, and a new parliament building.

¹⁶ The major nontax revenue heads are property income and fees, fines and nonindustrial sales.

¹⁷ In 2001/02, the government reduced the number of daily paid workers by 3,000.

¹⁸ In recent years capital expenditure has fallen short of budgeted levels, mainly due to limited implementation capacity. In 2000/01 and 2001/02, actual capital expenditure was equivalent to around 80 percent of what was envisaged in the budget.

The total estimated cost of the projects is E 2.5 billion, but the government indicated it would seek to devolve the majority of the individual projects to the private sector. In 2001/02, a total of E 200 million was allocated for the Millennium Projects.

30. ***The budget deficits through 2000/01 were mainly financed by domestic nonbank and foreign sources.*** The ratio of public debt to GDP rose from 19 percent in 1998/99 to 26 percent in 2001/02, of which 25 percent of GDP comprised external debt. Domestic financing mainly was sourced through a drawdown in the government's deposits with the central bank. In April 2002, however, the government issued bonds in the amount of E 230 million in the domestic market in an effort to deepen domestic financial markets, provide commercial banks with an additional domestic asset in which to invest, and reduce external debt because of concerns that arose about the impact of exchange rate volatility on debt servicing following the depreciation of the lilangeni vis-à-vis the U.S. dollar in 2001.

Reforms

31. ***Against the background of the deteriorating budgetary position, there are significant medium-term challenges to the implementation of fiscal policy.*** A key source of pressure is the high prevalence of HIV/AIDS among the population.¹⁹ According to Haacker (2002), the direct cost of treating people with HIV/AIDS could add about 1 percent of GDP to the annual health budget by 2010. Other medium-term challenges for the budget include the significantly underfunded Public Service Pensions Fund and the envisaged decline in SACU revenue transfers.²⁰

32. ***The 2001/02 budget initiated measures to broaden the tax base while shifting the burden from direct to indirect taxation.*** The measures included removing the tax exemption of gratuities in employment contracts; introducing a withholding tax at a rate of 15 percent on royalties and management fees and at a rate of 10 percent on interest payments to residents; eliminating the tax-exempt status of public enterprises; and increasing the sales tax rate from 12 percent to 14 percent.²¹ In addition, the company income tax rate was lowered from 39 percent to 30 percent, the number of personal income tax bands was reduced from eight to five, and the income threshold was increased from E 12,000 to E 14,000.

¹⁹ See Section III of this paper for a further discussion of the economic impact of HIV/AIDS in Swaziland.

²⁰ Revenue from the SACU customs revenue pool is projected to decline over the medium term in line with continued trade liberalization, including in the context of the South Africa-EU Free Trade Agreement and the Southern African Development Community (SADC).

²¹ Removal of the tax-exempt status of public enterprises was not implemented, however, as there was a potential legal conflict with the statutes of establishment of public enterprises, which provide for tax exemption.

33. ***There is a need to reorient public spending to health, education, and other critical social areas within an overall framework of fiscal discipline.*** Budget expenditures on health and education have stagnated as a percent of GDP since the beginning of the 1990s, and remain below the average in neighboring countries. The restructuring of the civil service is being addressed within the framework of the Public Sector Management Program (PSMP). The PSMP was launched to investigate (i) the appropriate size of the civil service, (ii) the duplication of services within the civil service, (iii) organization and management issues, (iv) productivity issues, and (v) the improvement of service delivery. A study to determine the required size and sustainable cost of the civil service is being finalized. A draft report is expected to be submitted to the cabinet by May 2003, and its recommendations are expected to be implemented in 2004.

34. ***Public enterprises continue to be a source of strain on the public finances and on the overall efficiency of the economy.*** In 2001/02 public enterprises accounted for 6 percent of GDP, and received budgetary transfers equivalent to 4½ percent of GDP. While some progress has been made with the partial privatization of a few enterprises, and with the introduction of management contracts in some others, there have also been delays in comprehensively addressing the restructuring of public enterprises. In 2000, the government commissioned the drafting of a privatization policy with the assistance of the United Nations Development Program (UNDP). The policy is expected to be submitted to parliament for approval by March 2003, and implementation is expected during 2004.

35. ***In 2002, the government launched a fiscal restructuring project, with support from the European Union (EU) to be implemented over a four-year period.*** This project aims at enhancing revenue collection, forecasting, and monitoring, improving public expenditure and debt policy and management, and assisting the government with the preparation of a medium-term expenditure framework.

C. Monetary, Banking, and Exchange Rate Developments

Background

36. ***Monetary policy is constrained by Swaziland's membership in the Common Monetary Area (CMA) and the peg of the lilangeni to the South African rand.*** The Central Bank of Swaziland (CBS) is responsible for the conduct of monetary policy, as well as for banking supervision, administration of exchange controls, and public debt management. The main monetary policy instrument used by the CBS is the discount rate that it charges on loans to commercial banks. Other monetary policy instruments are a statutory reserve requirement and a liquid asset requirement on banks.²² The reserve requirement is somewhat higher than

²² These are currently 3 percent and 15 percent of total liabilities to the public, respectively. For the Swaziland Development and Savings Bank, a government-owned bank, the requirement is 10 percent. The liquid asset requirement is actually a domestic liquid asset

(continued)

in South Africa (3 percent of liabilities compared with 2½ percent). The CBS makes changes in the discount rate policy in line with interest rate changes announced by the SARB, with the intention of maintaining the exchange rate peg. The CBS also uses moral suasion to influence lending by the commercial banks.

37. ***The key market interest rates are the prime lending rate and the yield on treasury bills.*** The main monetary aggregates are narrow money (M1; emalangeni in circulation and demand deposits) and broad money (M2; comprising M1, savings deposits, and time deposits). The South African rand, although not legal tender in Swaziland, is also commonly used in cash transactions and is estimated to account for between 35 percent and 50 percent of the currency in circulation.

38. ***Swaziland's commercial banking system consists of four banks.*** Standard Bank Swaziland is the largest bank, accounting for 46 percent and nearly 50 percent of banking sector deposits and loans and advances, respectively, as of June 2002. Nedbank (Swaziland) and the First National Bank of Swaziland hold market shares of 22 percent and 19 percent, respectively, in the market for deposits, and 15 percent and 30 percent, respectively, in the market for loans and advances.²³ The Swaziland Development and Savings Bank (SDSB), which is owned by the government of Swaziland, accounted for 15 percent of total deposits and 4 percent of total loans and advances, respectively, in June 2002. The SDSB offers both commercial banking services and development finance. All three foreign-owned banks concentrate on short-term corporate lending to local (mostly agro-processing) industry. The CBS Bank Supervision Division, which is responsible for banking regulation, regularly monitors the liquidity position, capital requirements, credit risk, and lending concentration of the banks, and conducts off-site and on-site inspections.

39. ***Nonbanking financial institutions consist of mutual funds, insurance companies, securities firms, credit cooperatives, and development finance institutions.***²⁴ The CBS has no legal mandate for monitoring the nonbank financial sector. While credit cooperatives are monitored by the Ministry of Agriculture and Cooperatives, there is no legally binding

requirement because of the limited number of exclusively domestic securities that count under the requirement.

²³ All three banks are subsidiaries of South African banking groups.

²⁴ These institutions include, most prominently, the Swaziland Building Society (mortgages), the Swaziland Industrial Development Company Ltd. (development finance), and the Swaziland Stockbrokers Ltd. and African Alliance (securities trading). The insurance market is serviced mainly by Swaziland Royal Insurance Corporation (long- and short-term insurance coverage), Vista Insurance Brokers (short-term insurance coverage), and the National Provident Fund (life insurance). A growing number of credit cooperatives conduct microfinancing operations.

supervisory arrangement for mutual funds, insurance companies, securities firms, and development finance institutions.

Recent monetary and exchange rate developments

40. *While changes in interest rates have broadly matched those in South African rates, the level of interest rates remains lower in Swaziland than in South Africa (Figure II.9).* In July 2002, the 3-month treasury bill yield in Swaziland was nearly 4 percentage points lower than in South Africa. The domestic liquid asset requirement in Swaziland may have contributed to the differential. After widening to 200 basis points at end-1998, the differential between the prime lending rates narrowed to about -50 basis points and remained at that level through July 2002. The CBS views a small interest rate differential vis-à-vis South Africa as helping to keep the cost of financing at competitive levels. Transactions costs appear to have contributed to preventing capital outflows to South Africa.

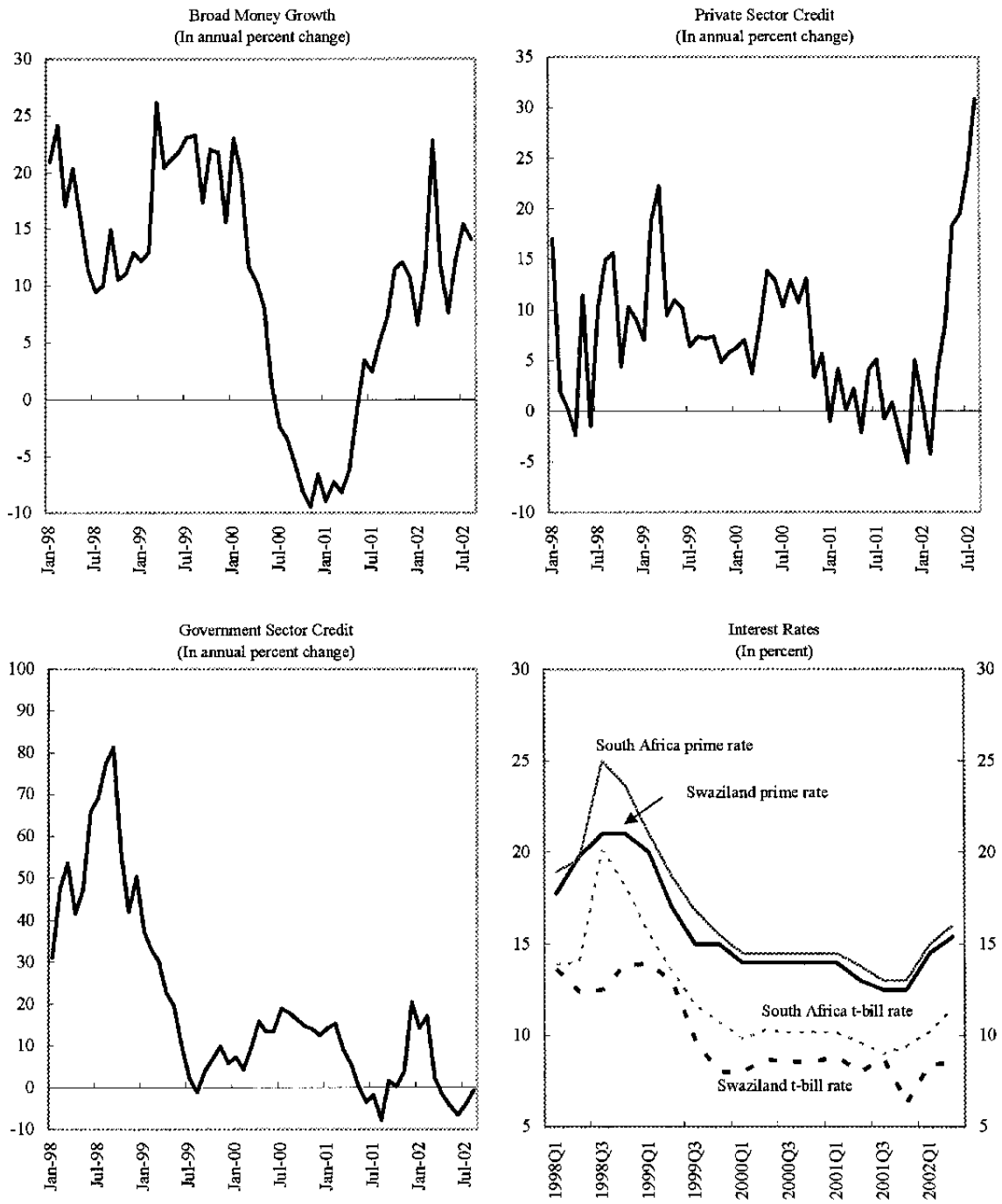
41. *The reserve money growth rate reached 16.5 percent in July 2002 (12-month basis)*²⁵. Currency in circulation increased by 10.1 percent in July 2002 and commercial bank deposits with the CBS rose by 34.4 percent after substantially decreasing during January-April 2002.

42. *The broad money growth rate moderated to 15.4 percent by July 2002 (12-month basis) after having risen to above 20 percent in the first quarter of 2002.* Private sector credit growth remained strong through July 2002, with a year-on-year growth rate of 18.2 percent; however, a month-on-month decline of 10.9 percent was registered in July as the agricultural sector started to repay loans within its annual credit cycle. The strong private sector credit expansion partly reflects the economic recovery in South Africa, Swaziland's most important trading partner. Net government deposits with banks more than doubled in the year to July 2002, as the commercial banking sector absorbed more than half of the government's E 230 million domestic bond issue in April 2002.

43. *Private sector deposits with commercial banks increased substantially between mid-2001 and mid-2002.* Private bank deposits rose by 17.8 percent (12-month basis) in July 2002, reflecting strong deposit growth in late 2001 and the first quarter of 2002, particularly in demand deposits.

²⁵ Since official data on currency in circulation, the main component of reserve money, exclude the widely used South African rand, reserve money growth is not a reliable variable in Swaziland.

Figure II.9. Swaziland: Monetary Developments, 1998-2002



Sources: South African Reserve Bank; and Swazi authorities.

44. *Swaziland has maintained a peg of the lilangeni to the rand at par for over 50 years.* The CMA agreement, which became effective on April 1, 1986, gradually introduced free capital mobility among its member countries.²⁶ The nominal effective exchange rate (NEER) of the lilangeni fell on average by 1 percent annually during 1991-2001, but the real effective exchange rate (REER) remained virtually unchanged, as Swaziland's inflation exceeded inflation rates in its trading-partner countries. During January-July 2002, the NEER and REER appreciated by about ½ percent each. The lilangeni depreciated by 36 percent against the U.S. dollar during 2001, reflecting movements in the South African foreign exchange market, but it recovered some of its value during January-October 2002, appreciating by about 17 percent.

Monetary policy reforms

45. *The CBS increased its discount rate in four steps during January-September 2002, raising it from 9.5 percent to 13.5 percent in line with monetary policy tightening by the SARB.* The prime lending rate has remained 3 percentage points above the discount rate, and 50 basis points lower than the prime lending rate in South Africa.

46. *The statutory reserve requirement on banks was lowered from 4 percent to 3 percent of total liabilities on August 1, 2002.* The decline brought the reserve requirement more in line with that in South Africa (2½ percent).²⁷ At the same time, the CBS lowered the proportion of commercial banks' cash-in-vault that can be applied toward the reserve requirement from 100 percent to 25 percent. So far, these policy decisions have not had any significant monetary impact, partly because banks have traditionally held reserves in excess of the statutory reserve requirement.

Recent financial sector developments

47. *The banking sector is well capitalized and provisioned, and the amount of nonperforming loans is relatively small.* All banks are in compliance with the Basel Core Principles on capital adequacy. The ratio of nonperforming loans of the three private commercial banks to the total loan portfolio fell from 10 percent in 2000 to about 1½ percent by June 2002.²⁸ Lower levels of nonperforming loans, better provisioning for the remaining nonperforming loans, and higher profitability have reduced banking sector vulnerability.

²⁶ The CMA agreement allowed for and resulted in the cessation of the legal tender status of the rand; consequently, Swaziland gave up its right to receive seigniorage from South Africa on account of the rand circulating in the country. The reintroduction of the rand as legal tender is under consideration.

²⁷ Since 1994, the CBS has steadily reduced the requirement from an initial level of 6 percent, in an effort to make it more compatible with South African levels.

²⁸ The required loan classification is in line with the Basel Core Principles.

Commercial banks' profitability had increased to nearly 15 percent (pretax return on capital) by June 2002. The improvement in profitability of the private banks stemmed from increased efficiency in their operations, a diversification of sources of revenue toward fee-based revenues, and improved risk management.²⁹

48. ***The SDSB's commercial banking operations were suspended in 1995 owing to poor financial performance.***³⁰ After regaining its commercial banking license in June 2001, following a recapitalization and write-off of its nonperforming loans and adoption of new risk management procedures, the bank relaunched its commercial banking operations in September 2001. The SDSB offers the full range of commercial banking services, but it is also required by its statutes to play a role in promoting rural development, infrastructure development, and local empowerment. Financial support from the budget has continued, despite progress in cutting the bank's operational losses.³¹

49. ***The SDSB continued its restructuring under new management after its relaunch in September 2001.***³² In contrast to the other three commercial banks, the SDSB requires an initial deposit of only E 100 (instead of E 500) to open an account; this factor has contributed—together with a network of eight branches—to higher costs as a result of decentralized and personnel-intensive operations. The rapid expansion of the deposit base created a need for alternative assets to invest in, since the new structure of risk management procedures and loan committees did not allow for an equally rapid expansion in the volume of loans and advances. By June 2002, the SDSB had acquired market share of 3¾ percent in the market for loans and advances, and 14¾ percent in the market for deposits. Lending operations remained predominantly concentrated in civil service mortgages and farming

²⁹ The SDSB introduced a risk management system under which a risk officer in every branch thoroughly reviews loan applications before approval

³⁰ The lack of effective risk management procedures had led to a highly-concentrated loan portfolio resulting in four-fifths of the bank's loans being nonperforming. After a capital injection of E 325 million (US\$31 million) in 2001/02 (April-March), the bank was able to write off its portfolio of nonperforming loans and, by June 2002, it had exceeded the statutory capital adequacy requirements by large margins. However, the bank's increase in revenues and its return to profitability in 2001/02 are due only to the recapitalization.

³¹ The bank received a capital injection from the government of about E 45 million and a grant of E 75 million, and subordinated loans amounting to E 205 million were transformed into a grant.

³² In a contractionary market for loans and advances in Swaziland in the third quarter of 2001, the SDSB increased its loan portfolio by more than 55 percent, albeit from a very low base of 1.4 percent of all loans and advances.

development finance—the main area of expertise of the bank—accounting for 55 percent and 17 percent of the total loan portfolio, respectively, at end-March 2002.

50. ***Stock market capitalization declined during the 1990s after the delisting of several important companies.*** Five companies are currently listed on the Swaziland Stock Exchange (SSX) and trading volumes are very small between the country's two licensed broker firms.³³ The SSX was established in 1990 and achieved a market capitalization of over E 2 billion (45 percent of GDP) in 1996. Capitalization declined to about E ½ billion in October 2001. It rose to E 1.6 billion (about 15 percent of GDP) in early 2002 as a result of a merger between the Royal Swazi Sugar Corporation and the unlisted Mhlume Sugar Company. The main market index, the unweighted SSM index, rose from 117.5 in 1990 to 205.7 in January 2002.

51. ***The bond market was established in 1995 with a long-term government issue of E 30 million but remained inactive until March 2002.*** Three government debentures are also listed on the exchange, but during the first quarter of 2002, trading volumes in these debentures amounted to just E 70,000 (about US\$7,000). In an attempt to deepen the domestic bond market, the government issued domestic bonds for E 230 million in April 2002. For the domestic banking system, the government bond issue provided a new vehicle for asset diversification in an economy that remains centered around the agro-processing industry.

52. ***Money and interbank markets are very limited in Swaziland, since most commercial banks resort to their South African holding companies for short-term financing.*** Excess liquidity is invested in South Africa and repatriated to Swaziland when needed, thus limiting activity in local money and interbank markets. Nevertheless, commercial banks engage in short-term lending activity in order to meet liquidity needs across the domestic banking system.

Financial sector reforms

53. ***Parliament passed new legislation to combat money laundering in August 2002 in an effort to comply with emerging international standards.*** It established a task force to prepare and carry out an action plan in such areas as the drafting of detailed regulations and the building of the necessary institutional capacity and expertise. Swaziland is cooperating with other members of the Eastern and Southern African Anti-Money-Laundering Group to improve anti-money-laundering systems in the region.

54. ***The parliament is considering a Securities Bill that aims at establishing a more formal market for securities.*** A Retirement Fund Bill is under consideration that would

³³ The listed companies, all of which are included in the SSM Index, are Nedbank (Swaziland), the Royal Swazi Sugar Corporation, Swaziland Growth Properties, Swaziland Property Investments, and Swazispa Holdings.

require local pension funds' assets to be invested in Swaziland in an effort to develop the domestic capital market.

55. *An automated clearing and settlement system was introduced in November 2001.* The system appears to be working well. Payment system reforms are being complemented by appropriate legislation in the form of the National Payment System Bill, a draft of which is awaiting parliamentary approval.

56. *Banks are required to comply strictly with the requirements for categorizing of, and minimum provisioning for, bad loans as defined in existing regulations.* The regulations, specifically Inspection Circular No. 8, have been in place since 1999. Exceptions were often granted when regulations were felt to be too restrictive, particularly in view of the substantial borrowing needs of the sugar industry. However, the CBS has started to rigorously enforce the regulations in 2002. It distinguishes five categories for asset classification, which are not identical to the categories defined by South African banking legislation. All five categories require either general or specific provisioning, which constitutes another difference from South African regulations.

D. External Developments

Background

57. *Swaziland's economy is very open and is characterized by sizable external trade and transfers in relation to its GDP.* The degree of openness, as measured by the ratio of external trade in goods and nonfactor services to GDP, was 161 percent in 2001, which is very high by international standards and larger than the share in other Southern African Customs Union (SACU) countries (Table II.4).³⁴ During 1998–2001, the trade deficit averaged 17 percent of GDP and was financed by income payments and transfers of 12½ percent of GDP (mainly SACU transfers) and capital inflows equivalent to 4 percent of GDP (mainly composed of foreign direct investment). The overall balance was close to zero during the period. However, a sharp fall in

Table II.4. Openness to Trade in SACU Countries, 1998-2001
(Total external trade in percent of GDP)

	1998	1999	2000	2001
Botswana	120	140	134	...
Lesotho	117	105	105	118
Namibia	104	103	103	...
South Africa	51	49	54	58
Swaziland	182	176	169	161

Source: IMF, *International Financial Statistics*.

³⁴ SACU comprises Botswana, Lesotho, Namibia, South Africa, and Swaziland.

the overall balance in 2001, as well as valuation effects arising from a steady depreciation of the lilangeni and the South African rand vis-à-vis the U.S. dollar, contributed to a decline in the dollar value of net international reserves from \$329 million (equivalent to almost three months of imports of goods and services) in 1998 to \$228 million (2½ months of imports) in 2001.³⁵

58. ***South Africa is by far Swaziland's most important external trading partner.*** For Swaziland, much like for other SACU countries, South Africa is proportionately more important as a source of imports (80 percent of total imports) than as a destination for exports (50 percent of total exports), partly because a substantial share of exports (about 15 percent) is governed by preferential trade agreements with industrial countries.³⁶ The main merchandise exports are sugar and sugar derivatives (mostly soft drink concentrate), consumer goods, and wood pulp. Imports mainly include capital and intermediate goods, such as chemicals, manufactured goods, machinery, and transport equipment (about 65 percent of imports), agricultural and farming goods (20–25 percent of imports), and energy (10–15 percent of imports).

59. ***Swaziland is a net importer of services, with the deficit in the services balance accounting for about half of the overall trade deficit over the 1998-2001 period.*** During 1998–2001, travel services accounted for the largest share of service exports (about 40 percent), and business services for the largest share in services imports (about 50 percent).

60. ***Regional free trade agreements (FTAs) and preferential trade agreements govern most of Swaziland's external trade relations.*** In addition to its membership in SACU, Swaziland is also a member of the Common Market for Eastern and Southern Africa (COMESA).³⁷ Despite the resulting access to regional markets, Swaziland's regional trade with countries other than South Africa remains small (1 percent of total trade). Swaziland also benefits from preferential trade agreements with industrial countries, in particular the Lomé Convention and the Generalized System of Preferences (GSP), which govern most of its sugar exports, and the U.S. Africa Growth and Opportunity Act (AGOA), under which most clothing is exported.

61. ***Inflows of shared SACU revenues account for the bulk of transfers, while the income balance is driven by inflows of labor-related income, returns on reserve assets, and***

³⁵ Import coverage is lower in Table 32 than in Table 33 of the Statistical Appendix due to valuation effect.

³⁶ The information related to the share of trade with South Africa is based on Central Bank of Swaziland data, which may differ from data of the Department of Customs and Excise.

³⁷ In addition, Swaziland is a member of the Southern African Development Community (SADC), which is in the early stages of planning its transformation into an FTA, the Southern African Free Trade Association (SAFTA).

outflows of direct investment returns. The traditionally positive balance on transfers is driven by SACU revenues, which averaged 8½ percent of GDP during 1998–2001. The income credits mainly reflect labor-related compensation of Swazi employees working in South Africa (about 5 percent of GDP on average during 1998–2001) and income on other investment (about 6 percent of GDP on average during the same period), which arises from interest payments on the one-third of Swaziland’s reserve assets that are invested in South Africa. Investment income related to foreign direct investment accounts for the largest share in income debits (about 3 percent of GDP during 1998–2001).

62. *Financial account inflows mirrored the current account deficit over the 1998-2001 period.* Foreign direct investment was the main source of capital inflows, averaging almost 5 percent of GDP over the period. Nearly half of the gross inflows, however, were due to repatriated earnings, which do not affect the overall balance of payments.³⁸ Other investment registered a significant outflow (nearly 1½ percent of GDP), mainly owing to a reduction in trade credit and banks’ foreign assets. As portfolio flows were close to zero, the financial account balance averaged 3½ percent of GDP. Errors and omissions were small by historical standards (averaging ½ of 1 percent of GDP, compared with almost 3 percent over 1994-97), so that the overall balance of payments was on average zero during the 1998-2001 period.

Recent developments

63. *The overall balance experienced a significant decline in 2001 with respect to the previous three years, as declining net foreign income and transfers, and lower foreign direct investment, more than offset a significant reduction in the deficit on trade in goods and nonfactor services.* The trade deficit narrowed from 18½ percent of GDP in 1998-2000 to 13 percent in 2001, mainly because of a reduction in imports related to the slowdown in economic activity. However, net income and transfers declined by 5½ percent of GDP, leaving the current account balance roughly unchanged at 4 percent of GDP. The financial account balance fell from a surplus of over 5 percent of GDP in 1998-2000 to a deficit of over 1 percent of GDP in 2001, mainly owing to a steady decline in foreign direct investment from South Africa. As a consequence, the overall balance fell from an average surplus of over 1 percent of GDP in 1998-2000 to a deficit of over 4 percent of GDP in 2001 (Table II.5).

64. *In 2001, the reduction in the trade deficit occurred notwithstanding a decline in export values and volumes, as weakness in economic activity contributed to a substantial fall in imports.* Exports of goods and services declined by over 1 percent in volume terms, mainly as a result of lower economic growth in South Africa—Swaziland’s main export market—and closures of several export-oriented businesses. Lower export prices led to an

³⁸ Because repatriated earnings are recorded as investment outflows in the income account of the balance of payments and as foreign direct investment inflows in the capital account, they have no impact on the overall balance.

Table II.5. Swaziland: Balance of Payments, 1998-2001
(In millions of U.S. dollars, unless otherwise specified)

	1998	1999	2000	2001 Prel.
Current account balance	-94	-22	-52	-53
Trade balance	-107	-131	-137	-74
Exports, f.o.b.	976	937	910	820
Imports, f.o.b.	-1,083	-1,068	-1,046	-894
Services (net)	-178	-109	-106	-95
Exports of services	92	95	108	86
Imports of services	-270	-205	-213	-182
Goods and services balance	-285	-241	-242	-169
Income (net)	57	88	67	35
Income (credits)	169	164	126	120
Income (debits)	-112	-76	-59	-85
<i>Of which</i> : interest	-16	-23	-28	-21
Transfers (net)	134	131	124	81
Official sector (nonduty Southern African Customs Union receipts)	131	130	124	81
Private sector	3	1	0	0
Capital and financial account balance	141	38	36	-16
Capital account balance	0	0	0	1
Financial account balance (excluding reserve assets)	141	38	36	-17
Direct investment	130	87	20	27
Portfolio investment	1	6	-3	0
Other investment	10	-55	18	-44
Errors and omissions	4	5	10	12
Overall balance	51	21	-6	-57
Memorandum items:				
Current account/GDP (in percent)	-6.9	-1.6	-3.7	-4.1
Goods and services balance/GDP (in percent)	-20.9	-17.5	-17.3	-13.1
Net official reserves (end of period)	329	314	293	228
In months of imports of goods and services	2.9	3.0	2.8	2.5
External debt service (in percent of exports of goods and services)	1.5	2.3	2.7	2.3
Total external debt	288	319	358	288
Public	244	267	274	234
Private	45	52	85	55
Total external debt/GDP (in percent)	21	23	26	22
GDP at current prices (at market exchange rates)	1,359	1,376	1,396	1,292
Emalangeni per U.S. dollar (end of period)	5.86	6.15	7.57	12.13
Emalangeni per U.S. dollar (period average)	5.48	6.11	6.91	8.49
Exports f.o.b., volume growth	14.8	-2.8	4.1	-1.2
Imports f.o.b., volume growth	17.5	-2.8	-6.3	-8.1

Sources: Central Bank of Swaziland; and staff estimates.

11 percent decline in the dollar value of exports. However, the fall in exports was offset by a reduction in imports of over 8 percent in volume terms and 17 percent in value terms, largely on account of a weakening in private investment—the import content of which is high in Swaziland—and in consumption.

65. ***Export performance differed significantly across individual product categories.***

While some of Swaziland's key exporting firms closed down during 2000–01, the depreciation of the lilangeni against the U.S. dollar and expanding international markets for Swazi products, such as soft drink concentrates and clothing, helped offset the impact on exports.³⁹ Exports of softdrink concentrates and clothing increased by 37 percent and 170 percent, respectively, during 2001.

66. ***The effects of a free trade agreement (FTA) between South Africa and the European Union (EU), effective January 2000, on Swaziland's external trade have been small.*** No significant diversion of Swaziland's trade from either South Africa or the EU has been observed, mainly because many of the products covered by the FTA already faced zero tariffs in the South African market prior to the FTA. Little trade diversion is envisaged over the medium term since the FTA foresees a gradual phaseout of trade barriers over a period of 8–12 years.

67. ***The decline in net foreign income and transfers as a percent of GDP in 2001 was mainly due to lower SACU receipts, which fell by over one-third in U.S. dollar terms owing to the reduction in external trade.*** Net foreign income declined on account of both lower income credits, as a result of fewer Swazi workers in the South African mining sector, and higher income debits, on account of the growth in the repatriation of earnings by foreign investors.

68. ***In 2001, the financial account posted a deficit (of US\$57 million) for the first time in seven years.***⁴⁰ While net foreign direct investment into Swaziland increased during 2001, other investment fell by US\$44 million, mainly reflecting a repatriation of government reserve assets from South Africa to finance the budget deficit, as well as a reduction in trade credits.

69. ***The deficit in the overall balance of payments in 2001 was reflected in a fall in net official reserves from \$293 million in 2000 to \$228 million (2.5 months of imports of goods and nonfactor services).*** Gross official reserves declined from \$295 million in March 2001 to \$227 million in March 2002. This decline was due mainly to the deficit in the balance of

³⁹ The firms that closed included Fridgemaster, HVL Asbestos, Africa Edible Oils, and Sugar Daddy Candy.

⁴⁰ On average during 1998–2000, the financial account surplus amounted to US\$72 million, or 5¼ percent of GDP, thereby providing a major contribution to the financing of current account deficits.

payments, but also to the depreciation of the lilangeni versus foreign currencies, which affected the one-third of reserves that are rand denominated. Since 1998, the stock of net official reserves in U.S. dollars has fallen by more than 30 percent, reducing the coverage relative to imports of goods and services from 3 months in 1998 to 2½ months in 2001.

70. ***In 2001, external debt increased as a percent of GDP although it declined in dollar terms.*** In dollar terms, external debt returned to its 1998 level (US\$288 million) after peaking at \$358 million in 2000. Both public debt, which accounts for four-fifths of external debt, and private external debt declined in 2001. Since most of the external debt (about 90 percent) is denominated in hard currencies, the depreciation of the lilangeni vis-à-vis these currencies contributed to a significant expansion in the value of the debt expressed in emalangeni. As a share of GDP, external debt in emalangeni terms increased from 23 percent in 1998 to 32 percent in 2001, and the ratio of debt service to exports of goods and nonfactor services rose from 1.5 percent to 2.3 percent. As of March 2002, about 80 percent of public external debt was owed to multilateral organizations and financial institutions—mainly the African Development Bank, which accounts for 54 percent of the debt—while Germany was the main bilateral creditor, holding 9 percent of the debt. All public debt is of long-term maturity, having been issued with repayment periods of between 10 and 40 years, and with repayment spread out between 2002 and 2040. The debt was mainly contracted on concessional terms, and the authorities estimate the average yield at about 4 percent.

Reforms in trade and exchange control regimes

71. ***Swaziland has a relatively open trade regime, with an IMF trade restrictiveness index of 4 (on a scale of 1 to 10, with 10 being the most restrictive). Tariff rates range from 3 percent to 57 percent, with a simple average rate of 6.4 percent.*** Swaziland's trade regime is mainly governed by its membership in SACU.⁴¹ Intra-SACU trade in goods and services faces almost no remaining barriers.⁴² SACU member countries, including Swaziland, completed negotiations of a new formula to share SACU duty and excise revenues among themselves. The new formula includes an element of development assistance in the sharing exercise, as it takes into account the relative economic size of the countries. Some nontariff barriers still remain, as the list of goods that require permission to be imported has not been modified since 1974. Apart from safety items such as arms and drugs, the list includes used vehicles, clothing, and textiles, mineral oils and fuels, agricultural and animal products, precious metals, and electric appliances.

⁴¹ Swaziland is also a member of COMESA, but—because it also belongs to SACU—has been given a derogation with regard to its intra-COMESA trade policies. The derogation expires in May 2003.

⁴² The SACU agreement allows member countries to establish tariffs to protect infant industries; these tariffs would apply to imports from SACU and non-SACU countries. Swaziland has not made use of this provision.

III. THE ECONOMIC IMPACT OF HIV/AIDS IN SWAZILAND⁴³

A. Background

72. *The spread of HIV/AIDS continued unabated over the past decade.* With an estimated infection rate of more than 33 percent among working-age people in 2001, Swaziland was the third-most affected country in the world, after Botswana and Zimbabwe. While new HIV infection numbers started to decline in several countries throughout the region (e.g., Botswana, Namibia, and South Africa), infection rates in Swaziland rose sharply from just 4 percent of the adult population in 1992 to the current level.

73. *Swaziland's population is severely affected by HIV/AIDS, based on available evidence on infection rates and mortality.*⁴⁴ According to data from antenatal care (ANC) attendees, infection rates in 2000 varied among the country's five regions from 27 percent to 41 percent. At the national level, HIV prevalence in 2000 was at its peak among the 20-24-year-old ANC attendees, at 42.5 percent. In 2001, an estimated 12,000 deaths (1¼ percent of the total population) were caused and 35,000 children (7 percent of all children) orphaned by AIDS (Table III.1).

Table III.1. Swaziland: HIV/AIDS Situation
(At end-2001, unless otherwise noted)

		in percent	
Population	938,000		
Estimated number of people living with HIV/AIDS	170,000		
<i>Of which</i>			
Women	89,000	52.4	
Children aged 0-14	14,000	8.2	
Children aged 0-14 orphaned by AIDS	35,000		
Estimated number of AIDS-related deaths (in 2001)	12,000		

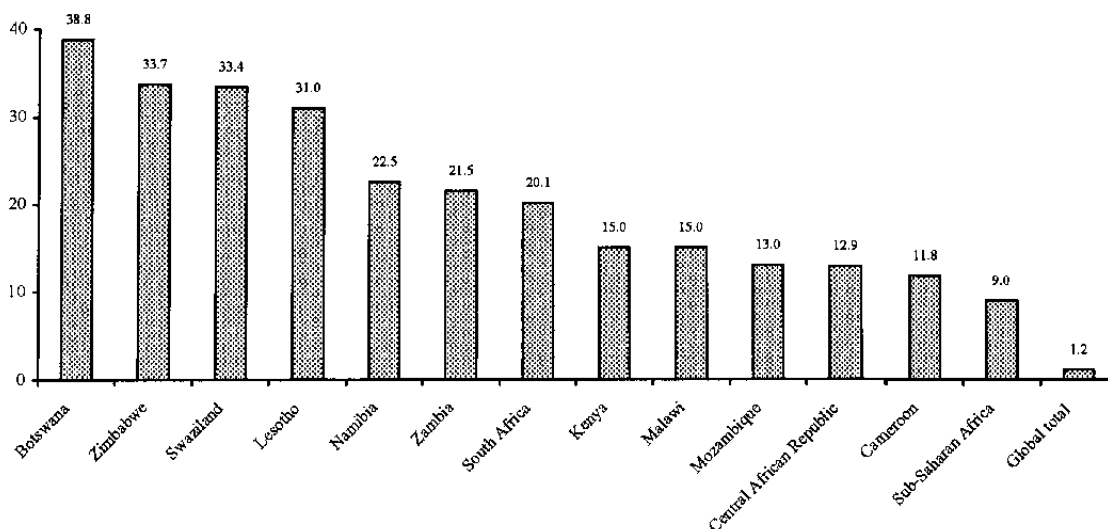
Source: UNAIDS (2002).

⁴³ Prepared by Gustavo Bagattini and Matthias Vocke.

⁴⁴ HIV infection rates and AIDS-related mortality for the entire population are estimated based on extrapolations from small samples. HIV tests are not mandatory in any circumstances, and the need for testing is not generally accepted in Swazi society. As a result, women attending antenatal care clinics are the only group for whom somewhat reliable statistical information on the spread of the disease is available. While women with HIV have lower fertility, which would underestimate prevalence among women, female prevalence is generally higher than male prevalence.

74. *Swaziland is among the three countries in the world that are most affected by the spread of HIV.* Based on estimates for the entire working-age population, Swaziland has the third-highest rate of HIV infections, both in southern Africa and worldwide—at 33.4 percent—after Botswana (38.8 percent) and Zimbabwe (33.7 percent).⁴⁵ The countries with the highest HIV infection rates are all in sub-Saharan Africa (Figure III.2).

Figure III.2. Countries with the Highest Adult HIV Infection Rates in the World, 2001
(In percent of adults aged 15-49)



Source: UNAIDS (2002).

75. *Infection rates are particularly high among young adults, who form a large share of the economically productive population.* Infection rates within the younger segment of this population sub-sample are also high. Furthermore, UNAIDS data for end-2001 suggest a gender divide in prevalence rates for people between 15 and 24 years of age, with infection rates for young women estimated at 31-48 percent and those for young men much lower at 12-19 percent. Reliable data on infection rates are available for attendees of antenatal care and male patients with sexually-transmitted diseases. These data show rapidly rising infection rates for antenatal care attendees at 34.2 percent in 2000, up from 3.9 percent in 1992. Prevalence rates among male patients with sexually-transmitted diseases stood at 48.9 percent in 2000.

⁴⁵ Haiti has the highest adult HIV infection rate outside Africa, recorded at 6.1 percent in 2001.

76. ***The pandemic is likely to spread further over the coming years.*** On current trends, by 2010, the number of orphans in Swaziland might triple to an estimated 120,000 (almost one-fourth of all children)⁴⁶, and life expectancy may decline further to 27 years (from 46 years in 2000).⁴⁷ Rising numbers of new infections among the working-age population suggest that the dependency ratio may continue to rise over the medium term from levels that are already high (1.0 in 2001). Depending on available treatment options, the number of AIDS-related deaths, which amounted to 1¼ percent of the total population in 2001, is likely to mirror, with a lag, the rise in infection rates. In consequence, AIDS-related mortality rates may increase dramatically, possibly to about 2 percent of the total population annually (Table III.2).

Table III.2. Swaziland: HIV Infection Rates and AIDS-Related Mortality in Southern Africa, 1990-2001
(In percent)

	HIV Infection Rates 1/				AIDS-Related Mortality Rates	
	1990	1995	2001	2/	2001	
Swaziland	3.9	3/	16.1	4/	33.4	1.28
Botswana	18.1	3/	32.4		38.8	1.67
Lesotho 5/	5.5	6/	31.3	4/	31.0	1.22
South Africa	0.7		10.5		20.1	0.82
Zimbabwe	12.0		37.0		33.7	1.56

Sources: UNAIDS (2002); and Swaziland Ministry of Health and Social Welfare.

1/ Based on survey results from antenatal clinic attendees.

2/ Estimated infection rate among adults aged 15-49.

3/ Data are for 1992.

4/ Data are for 1994.

5/ Infection rates are for Maseru only; they were somewhat lower in other parts of Lesotho.

6/ Data are for 1991.

77. ***Further to its demographic and social impact, HIV/AIDS threatens to significantly reduce economic growth and the standard of living over the medium term.*** In addition to its severe humanitarian and social implications, the spreading pandemic has substantial economic costs, as it constrains output growth, eliminates work skills and knowledge, shrinks the tax base, raises health-related expenditure, and increases financial imbalances in the public pension fund, all of which may in turn contribute further to the humanitarian crisis unless they are adequately addressed.

⁴⁶ Orphans in this context refers to children who have lost one or both parents.

⁴⁷ U.S. Census Bureau estimate.

78. *The authorities reinforced their commitment to fight the disease through the establishment of the National Emergency Response Committee on HIV/AIDS (NERCHA) in 2001.* In addition, they submitted an application to the Global HIV/AIDS Fund in September 2002, requesting funding of E 160 million (US\$15 million) annually over five years. However, these efforts might still fall short of adequately addressing the likely economic burden imposed by the pandemic.

B. Macroeconomic Implications of HIV/AIDS

79. *The economic literature on the macroeconomic impact of HIV/AIDS suggests that the disease may have fundamental implications for southern African economies.* The pandemic could have a particularly negative effect on economies in which labor-intensive sectors dominate production. In Swaziland, the emergence of AGOA-related clothing investment in early 2000 and closures of some of the more capital-intensive businesses—such as mining operations, agro-processing, and manufacturing of consumer durables—have increased the labor intensity of the economy, making it more vulnerable to the pandemic. Some countries may be in a better position than others to avert these costs because most of their output is produced in the non-labor-intensive mining sector (e.g., Botswana, where mining output accounts for 60 percent of total output).

80. *Swaziland's labor supply is likely to decline substantially from what it would have been without AIDS, although with a substantial lag to the HIV infection rates.* Demographic profiles incorporating the effects of HIV/AIDS suggest that the population and labor force growth rates will decelerate and may even start to shrink later in the decade, following previous increases in the rates of HIV infections and AIDS (Table III.3).⁴⁸ Infected people have an estimated average remaining life expectancy of eight years. A declining workforce could translate into lower output growth, as long as low investment limits the capacity for a capital-labor substitution. Output growth per capita could also decrease somewhat, as declining skill levels lower total factor productivity.

Table III.3. Swaziland: Population Scenarios, 2000-50
(In thousands, unless otherwise indicated)

	2000	2015	2050
Scenario with AIDS	925	1,022	1,391
Scenario without AIDS	950	1,354	2,254
Population difference	25	332	863
(in percent)	3	25	38

Source: United Nations Population Division.

⁴⁸ While the United Nations Population Division projects only a slowdown in population growth, the U.S. Census Bureau forecasts zero growth by 2004 and a -0.4 percent annual decline by 2010.

81. ***National saving and investment rates may decrease as a result of the pandemic.*** Public saving could decline in line with increased government spending on health and other forms of social support. Private saving may also decline, as an increasing number of households will need to finance health care costs. A World Bank study⁴⁹ indicates that the saving rate in developing countries may be negatively related to the HIV prevalence rate. The incentive to invest could decline owing to lower growth prospects, higher health-related production costs, and lower expected returns from training as workers face a greater probability of falling ill.

82. ***The potential for economic growth is seriously affected by the pandemic.*** One growth model (Haacker, 2002) estimates in Swaziland that the level of per capita output relative to a baseline scenario could be depressed by some 7 percent over the medium term and by about 2 percent over the long term, partly because total factor productivity would decline with decreasing average levels of work experience. The annual fiscal balance could deteriorate substantially as a result of sharply increasing health expenditure. Haacker estimated that the additional costs arising from AIDS-related deaths, such as a shrinking tax base and an increase in underfunding of pension funds, could be more than E 1 billion (US\$95 million; cumulative estimate) during 1999-2016.

83. ***Poverty in households throughout Swaziland is likely to rise as a result of HIV/AIDS.*** Despite Swaziland's categorization as a low-middle-income country, its income distribution is highly skewed, two-thirds of the population lives on less than US\$1 per day, and nearly one-third of the population is unemployed.⁵⁰ The spread of HIV/AIDS could increase poverty, as households lose their breadwinners, savings are consumed by increased medical costs and funerals, and fragile networks of support are further drained.

84. ***The pandemic could also negatively affect efforts aimed at poverty alleviation.*** With economic growth potentially slowing down as a result of HIV/AIDS, government finances might be weakened, leaving the government less able to provide social support. The main challenges for government finances could stem from a decline in non-SACU tax revenues (from both lower personal income tax revenues and corporate tax revenues), substantially higher health expenditure, the continued provision of food assistance, and the liabilities of the Public Service Pensions Fund.

C. The National Response to HIV/AIDS

85. ***The formation of NERCHA represents a new step in the fight against HIV/AIDS, which in the past was hampered by limited cooperation among various agencies.*** NERCHA's operating budget for 2002/03 (April-March) is E 32 million (¼ of 1 percent of

⁴⁹ World Bank (2000).

⁵⁰ At 0.61, Swaziland's Gini coefficient is the highest among LMI countries.

GDP).⁵¹ The committee's moderate success in coordinating existing groups, including nongovernmental organizations (NGOs), and spending its allocation indicates that its funds may be exhausted by the end of the year. In contrast, in 2001/02, only one-fourth of the budget allocations to HIV/AIDS were actually spent, owing to coordination problems among the agencies involved.

86. ***NERCHA aims to tackle various aspects of the disease, including prevention, support, care, and impact mitigation.*** Factors exacerbating the situation include the lack of education about HIV/AIDS, behavioral practices, the health care's infrastructure and limited reach, the lack of technical experts and health care professionals, limited home-based care material, the destitution of orphans, and the prohibitive cost of adequate treatment.

87. ***Future funding of NERCHA's efforts may come from increased allocations in the national budget and from the international community.*** Budget expenditure on HIV/AIDS, which doubled in 2002/03, is expected to increase by another 50-100 percent in 2003/04. However, non-HIV/AIDS health expenditures have decreased, which may jeopardize the Ministry of Health's ability to create and maintain an appropriate infrastructure to fight and treat the disease. The authorities have submitted an application to the Global HIV/AIDS Fund requesting funding of E 160 million (US\$15 million) annually over five years. The success of this and further aid requests may be dependent on the demonstration of a strong domestic commitment to fight the disease.

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⁵¹ Out of NERCHA's budget, E 20 million was allocated from the national budget, of which E 12 million was carried over from 2001/02. NERCHA became operational in June 2002, and had spent E 10 million as of September 2002.

HIV/AIDS Profile: Swaziland, International Programs Center, Population Division, U.S. Census Bureau, HIV/AIDS Surveillance Data Base, June 2000.

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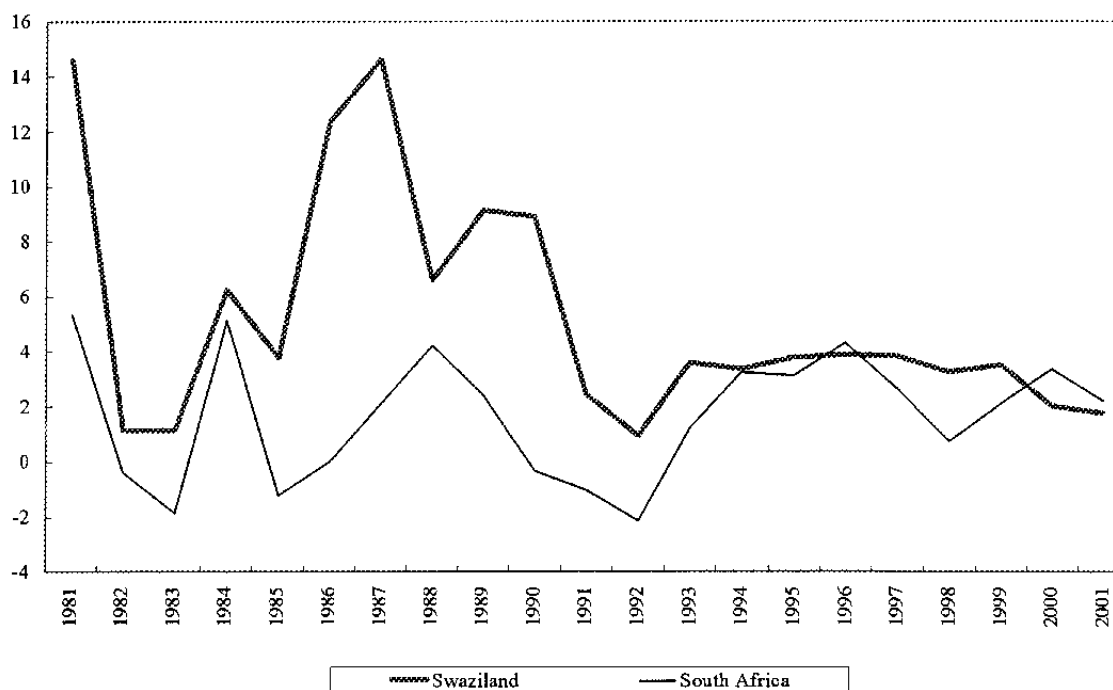
IV. AN ANALYSIS OF ECONOMIC GROWTH IN SWAZILAND⁵²

A. Background

88. *This section analyzes Swaziland's real GDP growth performance during the period 1981-2001.* Relatively strong growth during 1981-93 was followed by a slowing after 1994, as South Africa's emergence from political and economic isolation diminished some of Swaziland's attractiveness as a destination for investment. The results from a standard growth-accounting exercise suggest that the growth slowdown is due to a decline in the contributions both of capital and labor and of total factor productivity.

89. *Swaziland's growth performance was very strong during the 1980s, but it has weakened subsequently, particularly since the late 1990s (Figure IV.1).* During 1981-93, Swaziland experienced annual GDP growth of 6½ percent, compared with 1 percent in South Africa (Table IV.1). During 1994-2001, Swaziland's average economic growth rate fell to 3¼ percent. In 2000 and 2001, annual GDP growth was below 2 percent.

Figure IV.1. Real GDP Growth, 1981-2001
(Annual percentage change)



Sources: Swazi and South African authorities; and staff estimates.

⁵² Prepared by Louis Erasmus and Luca Ricci.

Table IV.1. Real GDP Growth Rates (In percent), 1981-2001

Average annual growth rate 1981-1993				
Swaziland	South Africa	Namibia	Botswana	Lesotho
6.6	1.0	0.3	9.4	4.5
Average annual growth rate 1994-2001				
Swaziland	South Africa	Namibia	Botswana	Lesotho
3.2	2.7	3.9	5.8	3.9

Sources: Central Statistical Office; and staff estimates.

90. *The pattern of Swaziland's growth during 1981-93 is similar to that of other Southern African Customs Union (SACU) member countries, notably Botswana and Lesotho (Figure IV.2).*⁵³ Real GDP growth in these countries fluctuated during the 1980s, but on average it was substantially higher than that of South Africa. Before 1994, the close economic integration of these countries with South Africa made them attractive for investment that otherwise would have been located in South Africa.⁵⁴ During the 1980s, growth was largely driven by investment, and the average share of gross investment in GDP was 26 percent during 1980-93, in part reflecting foreign direct investment by businesses that relocated to Swaziland in order to avoid trade sanctions (Table IV.2).

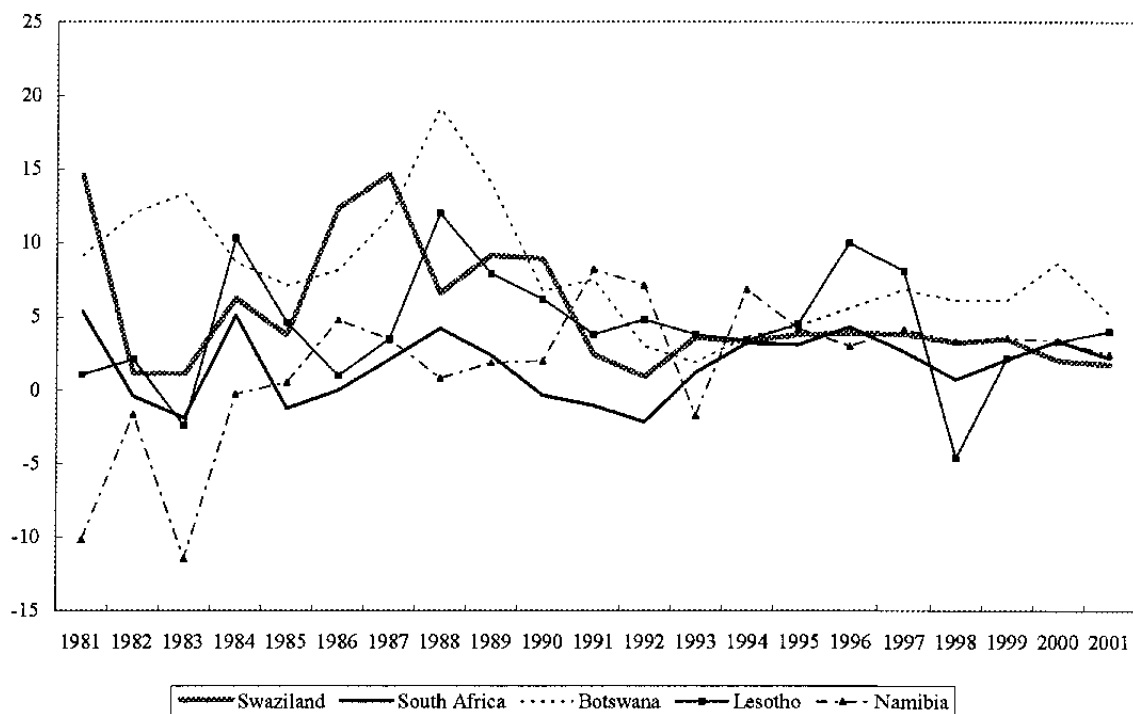
91. *During the period since 1994, output growth in Swaziland—like in other SACU countries—has tended to converge to that in South Africa.*⁵⁵ Since the mid-1990s, the attractiveness of Swaziland as an investment destination has been limited by both regional factors, including the emergence of the South African economy from isolation and the stabilization in other neighboring countries (such as Mozambique), and domestic factors such as the spread of HIV/AIDS and the policy orientation.

⁵³ Namibia's growth performance during this period was similar to that of South Africa as it was administered by South Africa for the greatest part of the period.

⁵⁴ For a discussion of the role played by the international isolation of South Africa in Swaziland's economic performance prior to 1994 see, for example, SM/90/210, SM/94/150, SM/95/292 and SM/97/50.

⁵⁵ Of course country specific differences also played an important role, as Botswana's economic performance is largely determined by natural resources activity, while the growth pattern in Lesotho is explained by activity related to the Lesotho Highlands Water Project.

Figure IV.2. Real GDP Growth, 1981-2001
(Annual percentage change)



Sources: Swazi authorities; and staff estimates.

Table IV.2. Expenditure Composition of GDP, 1980-2001
(In percent)

	1980-93	1994-01
Private consumption	75.3	74.2
Government consumption	21.4	23.5
Investment	26.2	20.2
Exports of goods and services	72.5	74.4
Imports of goods and services	-95.4	-92.4
GDP	100.0	100.0

Sources: Swaziland Central Statistical Office; and staff estimates.

B. Sectoral Performance

92. *Swaziland's economy is relatively well diversified (Table IV.3).*⁵⁶ During 1994-2001, the primary sector (mainly agriculture) accounted for about 11 percent of real GDP, and the secondary and tertiary sectors for one-third of GDP each. Manufacturing is the most important activity in the secondary sector, accounting for 31 percent of GDP. The tertiary sector consists of a large number of subsectors, the most important of which are the government and wholesale and retail trade services. During 1994-2001, the secondary sector accounted for nearly half of real GDP growth, and the tertiary sector for over one-third of growth (Table IV.4).

Table IV.3. Sectoral Composition of Real GDP, 1994-2001
(In percent)

	1994-2001	1994	2001
Primary sector	10.5	10.8	9.0
Agriculture	8.3	8.1	7.3
Other (including mining)	2.2	2.8	1.7
Secondary sector	37.7	37.0	38.3
<i>Of which</i>			
Manufacturing	30.6	31.2	29.7
Construction	4.4	3.1	5.9
Tertiary sector	35.2	35.3	36.2
<i>Of which</i>			
Wholesale and retail services	7.0	5.8	8.3
Government services	14.2	15.4	13.9
Indirect taxes less subsidies	16.6	16.9	16.5
GDP	100.0	100.0	100.0

Sources: Swaziland Central Statistical Office; and staff estimates.

⁵⁶ Information on the sectoral distribution of real GDP is not available prior to 1990.

Table IV.4. Sectoral Growth Patterns, 1994-2001

	Output growth	Contribution to growth
Primary sector	1.1	0.1
<i>Of which</i> : agriculture	2.3	0.2
Secondary sector	3.9	1.4
<i>Of which</i>		
Manufacturing	2.7	0.8
Construction	14.5	0.5
Tertiary sector	3.9	1.2
<i>Of which</i>		
Wholesale and retail services	8.0	0.5
Government services	1.3	0.2
Indirect taxes less subsidies	2.9	0.5
GDP	3.2	3.2

Sources: Swaziland Central Statistical Office; and staff estimates

93. *In the period since 2000, Swaziland has experienced an increase in the establishment of new operations related to the country's participation in the U.S. African Growth and Opportunity Act (AGOA).* However, while the establishment of a number of new garment firms is contributing to higher employment, the contribution to value added in the manufacturing sector is limited because inputs (mainly textiles) are imported and there are few linkages to the rest of the economy.

C. Sources of Growth

94. *This subsection attempts to identify the sources of Swaziland's growth during 1980-2001 in terms of employment, capital accumulation, and total factor productivity (TFP).*

A simple growth-accounting exercise is conducted that assumes an economy-wide Cobb-Douglas production function with constant shares of labor and capital in output. Because of data limitations, several assumptions were necessary with regard to key economic variables. The approach and the assumptions are described in detail in the annex to this section.

95. *The analysis suggests that Swaziland's rapid growth prior to 1994 was due to all three factors, but especially to capital accumulation (see Table IV.5).* The more muted growth performance since 1994 is due to a decline in the contribution of all three factors,

particularly capital accumulation.⁵⁷ During 1994-2001, TFP growth accounted for half of overall output growth.

96. *The overall picture is largely consistent with the discussion in subsection A.* The high investment rates experienced before 1994 were due partly to external factors that no longer exist. In the second half of the 1990s, capital accumulation progressively slowed, as witnessed by the closure of various firms in recent years. A surge in unemployment (which is estimated to have risen from 22 percent in 1995 to over 30 percent in 2001) is reflected in a markedly lower contribution of labor input to GDP growth during those years. The higher TFP growth in the pre-1994 period may be due partly to the technological spillovers associated with the more intense trading activity, and to the high profitability of such activity.⁵⁸

Table IV.5. Contributions to Growth, 1980-2001

	1980-93	1994-2001
Real GDP growth (in percent)	6.6	3.2
Contributions (in percentage points)		
Capital	2.7	0.5
Labor	1.8	1.1
TFP	2.1	1.6

Sources: Swazi authorities; and authors' estimates.

97. *The analysis can be employed to assess alternative prospects for Swaziland's long-run growth.* Under the current policy scenario, the contribution from all three factors is likely to slow further, particularly in the absence of policy changes that enhance productivity and the attractiveness of investment. Employment growth is likely to slow given the prospective impact of the HIV/AIDS pandemic. Under these assumptions (Table IV.6, scenario 1), annual real GDP growth could be only around 1½ percent, entailing a modest increase in living standards (a real GDP per capita growth rate of 0.8 percent). However, if a wide set of policy reforms were put in place to address the HIV/AIDS problem, induce a more favorable

⁵⁷ Previous work by the staff (SM/00/133) shows a broad-based contribution to GDP growth from both factor accumulation and TFP growth during 1972-97).

⁵⁸ Since TFP is calculated as a residual, it reflects changes in both the overall productivity of the economy and other sources of changes in profitability (for example, those associated with changes in the extent of market distortions such as trade sanctions).

investment environment, and improve the overall productivity of the economy, growth could reach 2½ percent annually (Table IV.6, scenario 2). This would entail a per capita growth rate of about 1½ percent, which is somewhat higher than what Swaziland experienced during 1994-2001.

Table IV.6. Long-Run Growth Outlook: Alternative Scenarios

	Scenario 1	Scenario 2
Real GDP growth (in percent)	1.5	2.5
Contributions (in percentage points)		
Capital	0.8	1.2
Labor	0.4	0.5
TFP	0.3	0.8

Source: Authors' calculations.

Annex: Technical Details Underlying the Growth-Accounting Exercise

98. The growth-accounting exercise involves the calculation of the contribution to real GDP growth of labor and the capital stock, and the residual derivation of the contribution of total factor productivity (TFP). The standard approach assumes an economy-wide Cobb-Douglas production function with constant shares in output of labor and capital. Given the lack of a detailed database in Swaziland, assumptions regarding some of the economic variables were needed.

Labor

99. A series for employment was estimated on the basis of World Bank data for the labor force and IMF staff estimates for unemployment.

Capital stock

100. In the absence of actual data, a capital stock series was estimated based on assumptions related to capital accumulation. The stock of real capital (K_t) can be expected to evolve over time according to the following relation:

$$K_t = K_{t-1}(1 - \delta) + I_t$$

where I_t is the level of real investment and δ is the depreciation rate.

101. Given an estimate for the stock of real capital in the first year of the sample (K_{1980}), this relation allows us to derive an estimated series of the real capital stock. The initial level of the capital stock can be estimated by substituting backward the same capital accumulation pattern, and by assuming that the economy was historically on a steady state path:

$$K_{1980} = K_{1980-\tau} (1 - \delta)^{\tau+1} + s Y_{1980} \left(1 + \frac{1 - \delta}{1 + g} + \left(\frac{1 - \delta}{1 + g} \right)^2 + \dots + \left(\frac{1 - \delta}{1 + g} \right)^{\tau} \right)$$

where τ represents the number of years the calculation is pushed backward, s is the historical steady state investment-to-GDP ratio, Y_{1980} is the level of real GDP in 1980, and g is the historical steady state real GDP growth rate. For τ large enough, the first component vanishes (as the capital stock can be considered fully depreciated over τ years) and the relation can be approximated by the following:

$$K_{1980} \cong \frac{s(1 + g)}{\delta + g} Y_{1980}.$$

102. For simplicity, one can assume that (i) the rate of depreciation is 5 percent, (ii) in the historical steady state the investment-to-GDP ratio was about 15 percent, and (iii) the real growth rate was about 2 percent.⁵⁹ This methodology results in a capital stock-to-GDP ratio of about 2.2 in 1980.

Total factor productivity

103. Given the series for employment and the capital stock, the calculation of the TFP contribution to real GDP growth can be derived from the following formula:

$$\hat{TFP}_t = \hat{Y}_t - \alpha \hat{L}_t - (1 - \alpha) \hat{K}_t,$$

where a hat represents percentage changes, α is the share of labor in GDP, and L_t is the stock of labor at time t .

104. As the share of labor in GDP for Swaziland is not known, this level is assumed to be at a slightly higher level (60 percent) than in neighboring South Africa (55 percent), which is more capital intensive than Swaziland.⁶⁰

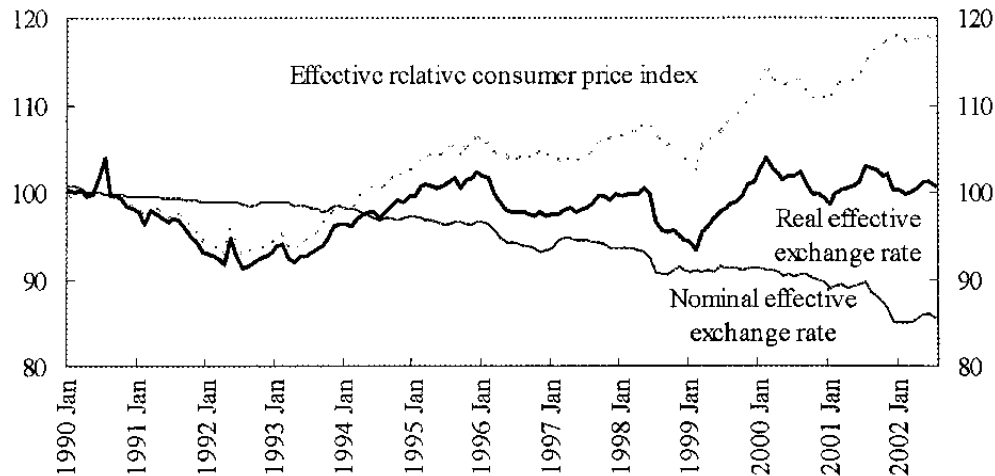
⁵⁹The results are not particularly sensitive to these assumptions, given the small share of capital in GDP.

⁶⁰Given that the difference in the growth rates of capital stock and labor is not particularly large, altering this assumption does not have a significant impact on the results.

V. REAL EFFECTIVE EXCHANGE RATE AND COMPETITIVENESS IN SWAZILAND⁶¹

105. *During 1990-2002, higher inflation in Swaziland than in its trading partner countries has prevented an improvement in overall competitiveness.* In nominal effective terms, the lilangeni depreciated steadily, losing about 15 percent of its original value. The real effective exchange rate of the lilangeni fluctuated markedly during the period, but as of July 2002 it was close to its 1990 level (Figure V.1).

Figure V.1. Swaziland: The Real Effective Exchange Rate and Its Components, January 1990-July 2002
(Index, 1990=100)



Source: IMF, Information Notice System.

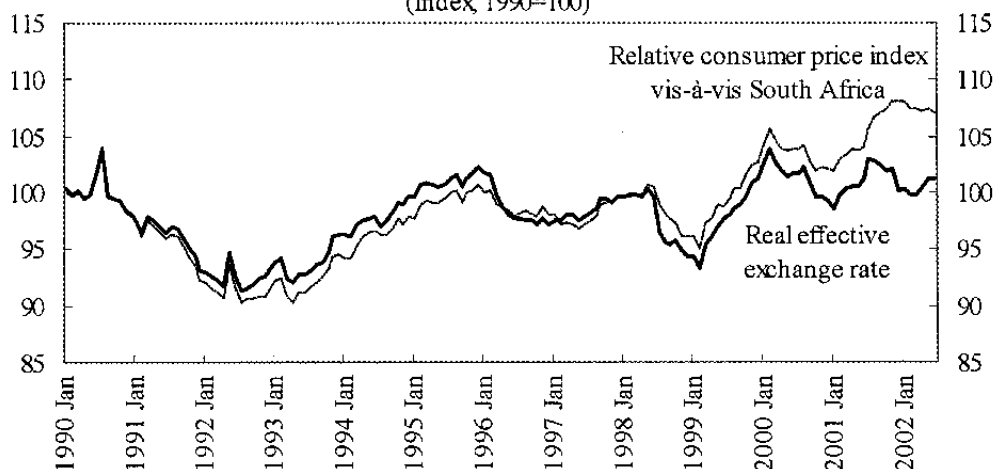
106. *The overall exchange rate and competitiveness trends mask a heterogeneity of patterns vis-à-vis Swaziland's various trading partners.* An overwhelming majority of Swaziland's trade flows are accounted for by South Africa, which, therefore, plays a crucial role in determining its real effective exchange rate.⁶² The real effective exchange rate in Swaziland closely reflects the relative consumer price index vis-à-vis South Africa (Figure V.2). Given the peg of the lilangeni to the rand, the real effective exchange rate of Swaziland vis-à-vis South Africa is determined exclusively by the relative price level in the two countries. Consistent with the exchange rate peg, Swaziland's price dynamics have

⁶¹ Prepared by Luca Ricci and Gustavo Bagattini.

⁶² In the Fund's Information Notice System (INS) for calculating the real effective exchange rate, the weight of the South African rand for Swaziland is about 86 percent. The other currencies used in the calculation are the euro (6 percent), U.S. dollar (3 percent), pound sterling (3 percent), and Canadian dollar (2 percent).

tended to converge with those of South Africa over long time horizons, thus generating a roughly neutral impact on its real effective exchange rate. However, the price dynamics in Swaziland and South Africa have diverged over short horizons, as in 2000-02, when Swaziland's inflation has exceeded that in South Africa (by a cumulative 4 percent in July 2002 with respect to July 2000).

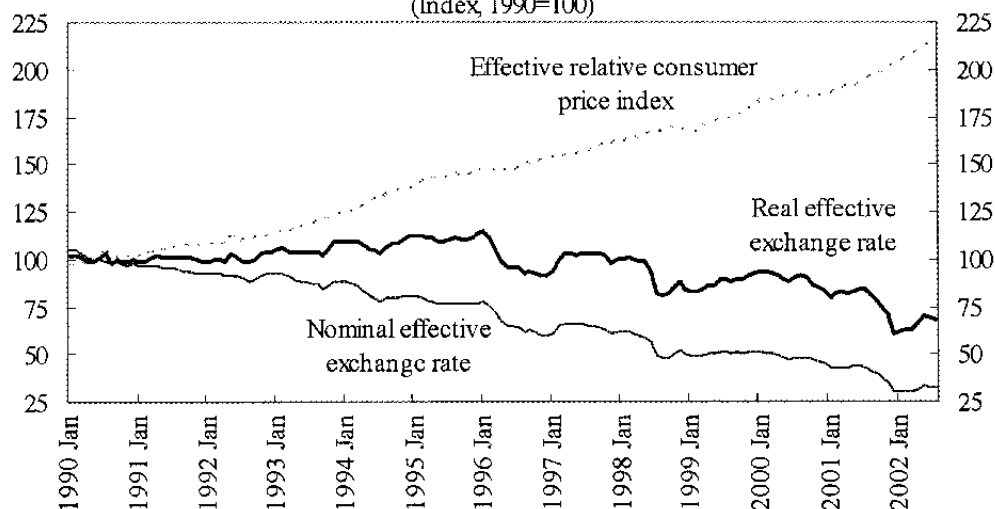
Figure V.2. Swaziland: Real Effective Exchange Rate and Relative Price vis-à-vis South Africa, January 1990-July 2002
(Index, 1990=100)



Source: IMF, Information Notice System.

107. *The behavior of Swaziland's real exchange rate vis-à-vis its other trading partners besides South Africa (mainly the European Union and the United States) is driven primarily by the price and exchange rate patterns of South Africa.* On the one hand, during 1990-2002, inflation in Swaziland has exceeded inflation in its industrial country trading partners by a substantial margin (a cumulative 100 percentage points over the period; Figure V.3). On the other hand, reflecting the large depreciation of the South African rand, the lilangeni has lost about 70 percent of its value with respect to the currencies of industrial countries since 1990. The higher inflation has been more than offset by the size of the nominal effective exchange rate depreciation, entailing a significant gain in Swaziland's competitiveness vis-à-vis these trading partners. Most of the real depreciation has occurred during 2000-02, when the nominal depreciation of the lilangeni vis-à-vis non-Common Monetary Area (CMA) currencies has intensified.

Figure V.3. Swaziland: The Real Effective Exchange Rate and Its Components vis-à-vis Other Trading Partners, January 1990-July 2002 (Index, 1990=100)



Source: IMF, Information Notice System.

108. *The heterogeneity of patterns of the real exchange rate components vis-à-vis the various trading partners is particularly striking in recent years.* In 2001 and the first half of 2002, the lilangeni remained stable in real effective terms, as the gain in competitiveness vis-à-vis industrial countries compensated for the higher inflation in Swaziland relative to South Africa (Figure V.2).

109. *The higher inflation of Swaziland with respect to South Africa during 2002, which is partly due to higher food prices (with the regional drought contributing to a food shortage), higher wage growth, fiscal expansion, and a jump in school fees, is reducing competitiveness.*⁶³ Further inflationary pressures could stem from the lagged effect of the substantial depreciation of the rand in 2001. Such pressures arise from the direct impact on domestic prices of the depreciation of the lilangeni with respect to industrial country currencies and, particularly, from pass-through effects from South Africa, which are substantial, given Swaziland's sizable imports from South Africa. If second-round inflationary effects are not limited (for example, by controlling wage and fiscal pressures), competitiveness vis-à-vis South Africa may be further eroded, and the gain in competitiveness vis-à-vis other trading partners quickly reduced.

⁶³ With the exception of school fees, which might only affect the price of non-tradable goods and services.

VI. THE SWAZILAND PUBLIC SERVICE PENSIONS FUND⁶⁴

A. Background

110. *Swaziland's Public Service Pensions Fund (PSPF) plays a key role in the country's social safety net.* At end-March 2001, the most recent date for which information is available, the PSPF had 35,710 members (the number of actual beneficiaries is much higher since it includes dependents). With public employment at more than 30 percent of total formal employment in 2001, average public wages above the average wage level in the economy, and high dependency ratios, the proper functioning of the PSPF is an essential part of the social safety net in Swaziland. Other elements of Swaziland's pension system include private pension funds and the Swaziland National Provident Fund (SNPF). Beyond pension schemes, the social safety net is limited in scale, with social safety net spending in the 2002/03 budget (April-March) amounting to just 0.2 percent of total public expenditure.⁶⁵

111. *The PSPF is significantly underfunded, with an actuarial deficit equivalent to more than half of total liabilities as of April 2001.* The financing gap (the difference between the net present values of assets and liabilities) amounted to E 1.7 billion (16 percent of annual GDP) according to the most recent actuarial report (Alexander Forbes Financial Services, 2002).⁶⁶

112. *While the assumption on mortality was increased by 50 percent relative to that in South Africa in the actuarial assessment, no explicit allowance was made for the potential impact of HIV/AIDS on the financial position of the pension fund.* The actuary noted that HIV/AIDS is expected to increase the amount of death and disability benefits over the next few years, but to reduce retirement benefits correspondingly. The actuary also noted that the retrenchment of civil servants in the context of the Public Sector Management Program (PSMP) could put additional pressure on the PSPF's finances.

⁶⁴ Prepared by Louis Erasmus and Matthias Vocke.

⁶⁵ Social safety net expenditure consists of old-age pensions; medical services for the elderly (over 60 years) and children (under 5 years); public assistance for the disabled and destitute elderly; disability payments; and support for handicapped children, children in hospitals, children in foster care, and orphans.

⁶⁶ The net present values of assets and liabilities were estimated by discounting projected income and benefit payments (using assumptions regarding mortality, disability and retirement, and salary increases), based on an annual rate of interest of 15 percent.

113. *This section discusses the financial soundness of the PSPF and options for strengthening its financial position.* Subsection B discusses the functioning of the PSPF, its financial position, and recent developments. Subsection C discusses the potential impact of HIV/AIDS on the PSPF's finances and viability. Subsection D notes some measures that could be taken to improve the financial position of the fund.

B. The PSPF

114. *The PSPF was established in 1993 as a defined-benefit scheme.*⁶⁷ Under a defined-benefit pension plan, the benefits received by individuals are specified in advance, usually as a function of their contributions. Actual funding levels of the PSPF's liabilities increased from 33 percent in 1998 to 46 percent in 2001 (Table VI.1), largely due to a sharp rise in investment income (Table VI.2).⁶⁸ Annual returns on the PSPF's asset portfolio averaged about 30 percent in the three years up to September 2001 (compared with average annual inflation of below 9 percent).

Table VI.1. Actuarial Valuation of the Swaziland Public Service Pensions Fund, 1998-2001 1/
(In millions of emalangeni, unless otherwise indicated)

	1998	1999	2000	2001
Total liabilities	2,237	2,496	2,889	3,227
Accrued liability for pensionable officers	2,032	2,055	2,461	2,662
Accrued liability for nonpensionable officers	10	12	12	13
Accrued liability for contract workers	3	3	4	4
Pensioners	192	427	412	548
Actuarial value of assets	743	850	1,204	1,478
Shortfall	1,494	1,646	1,685	1,748
Funding level (in percent of total liabilities)	33	34	42	46

Source: Alexander Forbes Financial Services (2002).

1/ Position as of April 1.

⁶⁷ The PSPF was established under Section 3 of the Public Service Pensions Order of 1993. It is an autonomous statutory body that is managed by a Board of Trustees. The fund is exempt from taxation in terms of Section 12 (1) (a) of the Income Tax (Consolidation) Order 1975, as amended. As of April 1, 2001, the PSPF had 35,710 members.

⁶⁸ According to KPMG, the PSPF's external auditor, the PSPF was substantially underfunded at the time of its establishment.

115. *During 2002, the underfunding of the PSPF is likely to have increased, based on current contributions from civil servants and the government and more modest investment returns.* The PSPF is characterized by contribution rates of 5-10 percent of pensionable salaries for members, and 15 percent of pensionable salaries for the government.⁶⁹ These rates have remained stable since inception. Assuming a real return on assets of 3 percent annually, which is the targeted rate of return for funds of the Swaziland National Provident Fund, the PSPF would have been unable to increase its funding levels based on these contribution rates. The fact that the rise in benefits paid to members has substantially exceeded the increase in contributions to the pension fund since 1996 provides another indication that the PSPF has improved its financial position purely on the basis of investment income.

Table VI.2. Income Statement of the Swaziland Public Service Pensions Fund, 1995-2001 1/
(In thousands of emalangeni)

	1995	1996	1997	1998	1999	2000	2001
Total income	138,939	188,583	193,923	228,834	190,763	346,364	327,568
Employer contributions	86,560	74,692	85,562	104,198	104,077	115,382	122,380
Employee contributions	28,531	24,959	28,525	32,079	34,718	38,488	40,790
Investment income	23,848	54,499	64,435	70,231	51,523	192,494	164,296
Other	0	34,433	15,401	22,326	445	0	102
Expenses	1,799	4,168	6,664	8,935	8,894	11,001	12,074
Member benefits	13,932	28,803	41,283	63,211	69,482	71,455	109,816
<i>Of which</i>							
pensions	8,835	12,009	19,755	28,798	34,781	42,059	49,833
death gratuities	677	3,196	3,652	7,078	5,416	5,168	21,674
retirement gratuities	4,416	13,506	17,756	26,652	28,608	23,415	36,573
Taxation 2/	0	0	3,762	5,359	8,239	5,003	6,758
Operating surplus/deficit	123,208	155,612	142,214	151,329	104,148	258,905	198,920

Source: Public Service Pensions Fund, annual financial statements

1/ Financial year ending March 31.

2/ Provisioning for foreign taxation; the PSPF is exempt from domestic taxation.

116. *The regulations currently applied to PSPF members strongly discourage early retirement without disabilities.* The pension fund requires a minimum contribution period of ten years to obtain eligibility for old-age benefits. After this minimum contribution period,

⁶⁹ Individual contributions range from 10 percent for soldiers to 8 percent for senior sergeants, and 5 percent for all other members. The resulting average contribution rate is equal to 5½ percent.

the PSPF provides strong disincentives to take early retirement, as a member's pension is reduced by $\frac{1}{3}$ of 1 percent for each month of early retirement.⁷⁰ Benefits are accrued at a rate of 2 percent of the member's final pensionable salary for each year of service, or part thereof. With effect from April 2001, the board of trustees of the PSPF established a minimum monthly pension of E 360 for retirees, E 180 for spouses, and E 36 for children. Annual adjustments in pensions are made at the discretion of the trustees, acting in consultation with the actuary.

117. *Death-related benefits paid to beneficiaries increased sharply in 2001, reflecting changes in the benefit structure rather than rising mortality.* Death benefits for active civil servants are divided into a onetime lump-sum payment equivalent to one's annual pensionable salary, a spouse pension of 50 percent of the accrued pension, and a pension of 10 percent of the accrued pension for each child (up to a maximum of 50 percent).⁷¹ The lump-sum payment in the event of death was doubled to twice the annual salary with effect from June 2001. Against this background, the payment of death-related gratuities rose threefold between 2000 and 2001.

118. *The latest actuarial valuation of the PSPF in April 2001 concluded that the fund remained in a vulnerable financial position.* It stated that a high degree of caution should be exercised in granting salary or pension increases or raising benefits. The actuary estimated that the combined contribution rate (members and government) would have to be increased by 13.9 percentage points in order to eliminate the actuarial deficit related to past service. The contribution rate would have to be raised by an additional 5.2 percentage points to address the actuarial deficit related to future service. Thus, a total contribution rate of 39.4 percent of pensionable salaries would be required to ensure that sufficient assets are available to meet future benefits payable.⁷²

C. The Impact of HIV/AIDS on the PSPF

119. *Assessing the impact of the HIV/AIDS pandemic on the PSPF's financial situation remains a difficult task.* Any analysis of the impact is complicated by uncertainties about average life expectancies after infection with HIV, which may depend on the future availability of treatment options, and about infection rates among future civil service

⁷⁰ The normal compulsory retirement age is 60 years, except for judges (65 years) and members of the armed forces (45-50 years). The mandatory retirement age for members of the defense force was increased by 5 years during 2000/01.

⁷¹ In contrast to old-age pensions, death benefits are payable irrespective of the number of years of service. These benefits are generally the same for members who die after retirement, except that no lump-sum payment is made.

⁷² This compares with a contribution rate of 20.5 percent at present.

applicants. The management of the PSPF has requested the fund's actuary to assess the potential impact of HIV/AIDS on the fund, but the study's findings have not yet been made public (as of November 2002).

120. ***The prevalence of HIV/AIDS in Swaziland is projected to significantly alter the population's demographic profile.*** These demographic changes will likely affect the entire range of parameters with relevance for the PSPF's financial position, including the average life expectancy after entering the civil service, the number of dependents to receive death-related benefits, and the average life expectancy after retirement. Over the medium term, the fund's financial situation could be adversely affected by the current concentration of HIV/AIDS among the working-age population and the implied rise in the dependency ratio, although this would be countered to some extent by a decline in retirement benefits payable.⁷³

121. ***A World Bank study on the impact of HIV/AIDS on the PSPF concludes that the fund might face a severe funding crisis soon, imposing substantial budgetary liabilities on the government over the medium term.***⁷⁴ The study concludes that the longer-term impact of the pandemic on the fund's expenditure remains unclear. On the one hand, the pandemic could bring forward in time liabilities associated with disability and death. On the other hand, it may reduce old age pension expenditure by decreasing the number of future retirees and lowering their life expectancies.⁷⁵ The study predicts a contraction in the flow of revenues as prevalence rates are relatively high among younger and middle-aged contributors and the fund's membership might decrease if replacements for them are not found.

122. ***An HIV/AIDS-related deterioration in the PSPF's financial position would be unlikely to persist in the longer run.*** The life expectancy of both members and their dependents is projected to decline significantly as mother-to-child transmission of HIV/AIDS increases child mortality rates. Thus, by 2010, the dependency ratio could decline, the growth rate of the population could become negative, and life expectancy could fall to 27 years.⁷⁶

⁷³ The dependency ratio—the ratio of the age groups 0-14 and over 50 to the working-age population (15-49)—rose from 0.9 in 1992 to 1.0 in 2001 owing to the high prevalence of HIV/AIDS.

⁷⁴ Bonnerjee (2001).

⁷⁵ However, upward pressure on expenditure may result from system maturity as workers retire with longer contribution histories on average, not considering the impact of HIV/AIDS on their life expectancy.

⁷⁶ See Section III of this paper.

D. Options for Reform

123. *The literature on reforming pension systems distinguishes between systemic and parametric reforms.* Systemic reforms typically involve a fundamental change of the system, such as transforming mandatory defined-benefit schemes into multipillar schemes, which then rely on both pay-as-you-go elements and fully funded, defined-contribution elements. Parametric reforms, in contrast, entail adjustments to parameters within the existing pension arrangements, such as raising the retirement age, raising contribution rates, reducing average replacement rates, increasing the minimum contribution period, or modifying indexation provisions. Approaches to public pension reform in several other countries have focused mainly on parametric changes (mainly to increase revenues through larger contributions or budgetary transfers), rather than systemic reforms.

124. *A systemic conversion of the defined-benefit scheme into a defined-contribution scheme can be ruled out as long as the underfunding persists.* Changing the foundation of the PSPF would be difficult to achieve in view of the sizable underfunding, as substantial budgetary transfers (16 percent of GDP) would be required to adequately fund the PSPF's actuarial obligations.

125. *Furthermore, the adoption of a mandatory defined-contribution scheme would raise several problems (see, for example, Heller (1998) and Schiff and others (2000)).* These include the risk that invested contributions may not deliver higher returns than the implicit returns associated with defined-benefit schemes. In addition, since defined-contribution schemes do not address distributive concerns or the provision of safety net incomes, they may need to be complemented by approaches to provide income security. Moreover, Chand and Jaeger (1996) find that the fiscal costs of shifting from defined-benefit to defined-contribution schemes may be very high.

126. *The present strategy to improve the PSPF's financial position focuses exclusively on achieving positive investment returns.* The PSPF's board of trustees stated its objective to achieve returns on the fund's offshore investment portfolio equal to or above the benchmark set by South African financial markets,⁷⁷ as well as an annual real rate of return of at least 3 percent on domestic investments. The investment contributions aimed at improving the fund's financial situation may be difficult to achieve, particularly in view of the decline in returns since 2001. In addition these contributions would eliminate the underfunding only over an 11-year period, a time span that the actuary considers too long in relation to the future working lives of current employees.⁷⁸ The proposed Retirement Fund Bill, which

⁷⁷ On April 30, 2001, the market value of total assets amounted to about E 1.6 billion, of which more than 90 percent was invested in South African financial markets.

⁷⁸ Assuming a return of 10 percent on investments (the average return in 2001), and that the fund's financial position will not deteriorate further because current contribution rates are insufficient to fully finance benefits related to future service.

would force the repatriation of the PSPF's investments from South Africa to Swaziland, could further reduce the returns on the PSPF's investment portfolio, given the limited size and diversification of the domestic financial market.⁷⁹

127. *According to the actuary, as noted, moving the PSPF to a position of financial soundness would require increasing the total contribution rate to 39.4 percent of pensionable salaries.* Alternatively, the board of trustees should consider restructuring benefits in respect of future service. Furthermore, the board of trustees should exercise a high degree of caution when granting pension increases or improvements in benefits affecting the liabilities of the pension fund.

128. *Relying on an increase in contribution rates alone would be difficult in view of the significant adjustment that is required.* The government's ability to increase its contributions to the PSPF is also likely to be constrained by anticipated adverse developments, including the impact of rising HIV/AIDS on fiscal balances⁸⁰ and a weakening of SACU revenue transfers in the context of continuing trade liberalization. In addition, a substantial increase in members' contribution rates could have a negative impact on private consumption expenditure, which is already low. Furthermore, the corresponding widening of the tax wedge may create disincentives to labor supply.

129. *A sustainable improvement in the PSPF's financial position would, therefore, require a comprehensive parametric reform, including increasing contribution rates and adjusting the retirement age and the structure of pension fund benefits.* In this regard, the government should give consideration to increasing the total contribution rate to at least 25.5 percent of pensionable salaries in order to ensure that benefits accrued in respect of future service will be fully funded. The increase in the mandatory retirement age for members of the defense force by five years should help strengthen the PSPF's finances. However, the introduction of minimum monthly pensions of E 360 for retirees, E 180 for spouses, and E 36 for children, as well as the increase in death benefits payable from one to two times annual salary will further undermine the financial viability of the PSPF.

⁷⁹ Regulation 168, which obliges the PSPF to seek government approval before each investment decision, could also restrict returns by limiting adjustments to the investment portfolio.

⁸⁰ Haacker (2002) projects that the total cost of HIV/AIDS-related services in the budget could rise by 1.1 percent of GDP over the period 2000–10.

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Table 1. Swaziland: Gross Domestic Product by Sector of Origin at 1985 Constant Prices, 1996-2001

	1996	1997	1998	1999	2000	2001
(In millions of emalangeni)						
Primary production	173.6	174.8	182.1	191.7	180.7	162.5
Agriculture and livestock	142.6	137.9	141.3	153.9	147.1	131.5
SNL crops 1/	46.6	37.4	41.4	44.0	32.0	28.7
TDL crops 2/	81.4	84.7	82.7	90.1	94.2	89.3
Livestock and other	14.6	15.8	17.2	19.8	20.9	13.5
Forestry	15.8	18.4	17.3	17.6	18.0	18.5
Mining	15.2	18.5	23.5	20.2	15.6	12.5
Secondary production	585.0	618.8	637.7	655.2	667.8	689.5
Manufacturing	481.3	507.8	515.8	522.3	530.0	535.0
Electricity and water	44.0	44.9	46.9	49.3	46.0	48.9
Construction	59.7	66.1	75.0	83.6	91.8	105.6
Services	544.0	560.9	579.8	605.3	632.6	652.7
Wholesale and retail	98.9	108.8	119.2	129.8	139.3	149.4
Hotels and restaurants	28.2	29.3	29.9	31.0	29.8	28.1
Transport	52.5	52.8	54.3	58.4	62.8	65.1
Communications	25.9	26.6	24.3	24.8	25.2	25.6
Banking, finance, and insurance	46.8	51.9	50.7	55.8	60.1	58.8
Real estate	49.0	52.1	53.9	56.2	58.0	59.9
Government services	226.4	225.6	230.4	235.4	245.1	250.0
Other services	22.6	23.3	24.0	24.5	25.1	25.6
Owner-occupied dwellings	33.7	34.7	36.3	36.9	38.4	40.3
Imputed bank service charge	-40.0	-44.2	-43.2	-47.5	-51.2	-50.1
GDP at factor cost	1,302.6	1,354.4	1,399.5	1,452.2	1,481.1	1,504.1
Indirect taxes less subsidies	261.1	269.1	277.0	283.3	289.8	297.7
GDP at market prices	1,563.7	1,623.6	1,676.5	1,735.6	1,770.9	1,802.3
(Annual percentage change)						
Agriculture and livestock	26.2	-3.3	2.5	8.9	-2.8	-10.6
Forestry	-5.4	16.5	-6.0	1.7	2.3	2.8
Mining	-35.6	21.7	27.0	-14.0	-22.8	-19.9
Manufacturing	2.4	5.5	1.6	1.3	1.5	0.9
Electricity and water	12.8	2.0	4.5	5.1	-6.7	6.3
Construction	5.7	10.7	13.5	11.5	9.8	15.0
Services	1.6	3.1	3.3	4.3	4.6	3.2
GDP at market prices	3.9	3.8	3.2	3.5	2.2	1.8
(In percent of GDP at factor cost)						
Agriculture and livestock	10.9	10.2	10.1	10.6	10.1	8.7
Forestry	1.2	1.4	1.2	1.2	1.2	1.2
Mining	1.2	1.4	1.7	1.4	1.1	0.8
Manufacturing	36.9	37.5	36.9	36.0	35.7	35.6
Electricity and water	3.4	3.3	3.4	3.4	3.1	3.3
Construction	4.6	4.9	5.4	5.8	6.2	7.0
Services	41.8	41.4	41.4	41.6	42.6	43.4

Source: Central Statistical Office.

1/ Swazi Nation Land (SNL).

2/ Title Deed Land (TDL).

Table 2. Swaziland: Gross Domestic Product by Sector of Origin at Current Prices, 1996-2001
(In millions of emalangeni, unless otherwise indicated)

	1996	1997	1998	1999	2000	2001
Primary production	857.4	893.1	996.3	1,093.7	1,083.9	1,080.0
Agriculture and livestock	780.3	810.5	914.3	991.3	988.7	999.3
SNL crops 1/	103.4	80.7	104.3	119.2	88.8	102.5
TDL crops 2/	607.9	648.3	720.8	768.6	784.8	768.9
Livestock and other	69.0	81.5	89.2	103.5	115.1	127.9
Forestry	32.5	35.3	33.4	40.7	53.0	55.8
Mining	44.6	47.3	48.6	61.7	42.2	24.9
Secondary production	1,876.1	2,204.7	2,435.5	2,612.7	2,954.8	3,320.9
Manufacturing	1,568.9	1,866.0	2,049.3	2,170.5	2,400.2	2,757.2
Electricity and water	101.2	103.4	108.1	113.5	105.9	111.7
Construction	206.0	235.3	278.1	328.7	448.7	452.0
Services	1,792.5	2,051.4	2,170.9	2,370.8	2,658.9	2,858.4
Wholesale and retail	295.1	353.4	387.2	433.7	494.4	563.6
Hotels and restaurants	77.0	110.7	116.8	120.5	122.9	125.6
Transport	145.1	147.3	155.4	163.5	216.6	229.5
Communications	76.8	90.4	106.4	122.4	140.7	161.8
Banking, finance, and insurance	204.1	226.2	221.0	230.8	248.4	242.3
Real estate	69.9	73.8	76.1	79.1	81.4	83.9
Government services	864.1	950.2	1,027.7	1,130.5	1,243.5	1,367.9
Other services	69.9	73.7	75.5	78.9	80.7	82.6
Owner-occupied dwellings	128.4	178.5	154.1	167.3	198.1	164.9
Imputed bank service charge	-137.9	-152.8	-149.3	-155.9	-167.8	-163.7
GDP at factor cost	4,526.0	5,149.2	5,602.7	6,077.1	6,697.7	7,259.2
Indirect taxes less subsidies	1,159.5	1,463.3	1,846.7	2,330.6	2,941.2	3,711.8
GDP at market prices	5,685.5	6,612.5	7,449.4	8,407.7	9,638.9	10,971.0
Memorandum items:						
GDP deflator (index, 1985=100)	363.6	407.3	444.3	484.4	544.3	608.7
(percent change)	10.1	12.0	9.1	9.0	12.4	11.8

Source: Central Statistical Office.

1/ Swazi Nation Land (SNL).

2/ Title Deed Land (TDL).

Table 3. Swaziland: Gross Domestic Product by Expenditure Category at Current Prices, 1996-2001

	1996	1997	1998	1999	2000	2001
	(In millions of emalangeni)					
Final consumption expenditure	5,987.3	6,391.8	7,204.1	8,080.3	9,236.5	10,422.1
Private	4,801.5	4,752.6	5,403.2	6,214.1	7,273.1	8,425.9
Government	1,185.8	1,639.2	1,800.9	1,864.3	1,929.1	1,996.2
Capital formation	1,176.6	1,362.0	1,665.4	1,577.1	1,916.7	1,984.5
Gross fixed capital formation	1,125.4	1,308.1	1,665.4	1,577.1	1,916.7	1,984.5
Public	295.7	322.8	483.0	614.8	727.2	855.2
Private	829.7	985.3	1,182.4	962.3	1,189.5	1,129.3
Increases in stocks	51.2	53.9	0.0	0.0	0.0	0.0
Balance of trade for goods and nonfactor services	-1,478.4	-1,141.3	-1,420.1	-1,247.8	-1,480.0	-1,435.6
Exports	4,090.0	5,003.2	5,917.4	6,116.1	6,141.0	7,699.4
Imports, f.o.b. 1/	-5,568.4	-6,144.5	-7,337.5	-7,363.9	-7,621.0	-9,135.0
GDP at market prices	5,685.5	6,612.5	7,449.4	8,407.7	9,638.9	10,971.0
	(In percent of GDP)					
Final consumption expenditure	105.3	96.7	96.7	96.1	95.5	95.0
Private	84.5	71.9	72.5	73.9	75.5	76.8
Government	20.9	24.8	24.2	22.2	19.9	18.2
Capital formation	20.7	20.6	22.4	18.8	19.8	18.1
Gross fixed capital formation	19.8	19.8	22.4	18.8	19.8	18.1
Public	5.2	4.9	6.5	7.3	7.5	7.8
Private	14.6	14.9	15.9	11.4	12.3	10.3
Increases in stocks	0.9	0.8	0.0	0.0	0.0	0.0
Balance of trade for goods and nonfactor services	-26.0	-17.3	-19.1	-14.8	-15.3	-13.1
Exports of goods and services	71.9	75.7	79.4	72.7	63.5	70.2
Imports of goods and services, f.o.b.	-97.9	-92.9	-98.5	-87.6	-78.8	-83.3
GDP at market prices	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Statistical Office.

1/ The whole of the Southern African Customs Union receipts are treated as indirect taxes (and therefore deducted from imports, c.i.f. to get imports, f.o.b.), accounting for the significant difference between the trade figures in the national income accounts reported in this table and those in the balance of payments.

Table 4. Swaziland: Population and Labor Estimates, 1996-2001

	1996	1997	1998	1999	2000	2001
(In percent, unless otherwise indicated)						
Annual population growth 1/	2.6	2.8	2.8	2.5	2.1	1.3
Population (in thousands) 1/	890	915	940	964	985	998
Population density (per sq.km.)	51.3	52.7	54.2	55.5	56.7	57.5
(In thousands, unless otherwise indicated)						
Labor force 2/	332	345	359	371	383	392
Total employment	259	253	251	255	263	268
Formal employment 3/	95	92	92	93	96	98
Public sector	31	32	32	32	33	33
Private sector	63	61	60	61	64	65
Informal employment 4/	164	160	159	162	167	170
Unemployment rate (in percent) 4/	22.0	26.9	30.0	31.4	31.3	31.6

Sources: Central Statistical Office; World Bank; United Nations; and staff estimates.

1/ Average of World Bank and United Nations estimates.

2/ World Bank estimates.

3/ Central Statistical Office data.

4/ Staff estimates, based on the last official observation for unemployment (22.0 percent in 1995).

Table 5. Swaziland: Summary of Developments in Crop Production, 1996/97-2000/01 1/

	1996/97	1997/98	1998/99	1999/2000	2000/01
(In thousands of metric tons)					
Volume					
Sugarcane	3,694.0	3,886.0	3,887.0	4,322.6	4,442.0
Cotton	16.2	16.9	14.9	7.5	13.1
Maize	119.0	137.7	118.0	124.1	86.7
SNL 2/	108.2	125.2	107.3	112.8	78.8
TDL 3/	10.8	12.5	10.7	11.3	7.9
Citrus fruit	89.3	100.1	107.8	99.1	102.3
Tobacco	0.016	0.018	0.087	0.167	0.072
(In metric tons per hectare)					
Yield					
Sugarcane	97.2	101.0	96.0	101.4	102.0
Cotton	0.6	0.6	0.5	0.3	0.5
Maize					
SNL 2/	1.8	1.9	1.9	1.6	1.4
TDL 3/	2.1	1.9	1.9	1.6	1.4
Citrus fruit	35.7	40.0	43.1	39.6	40.9
(In millions of emalangeni)					
Value					
Sugarcane	4,178	4,216	4,820	5,140	5,428
Cotton	39	42	37	17	32
Maize	77	90	83	88	76
SNL 2/	70	82	75	80	71
TDL 3/	7	8	7	8	6
Citrus fruit	85	96	110	104	112
(In emalangeni per metric ton)					
Producer prices					
Sugarcane	1,131	1,085	1,240	1,189	1,222
Cotton	2,410	2,458	2,508	2,270	2,412
Maize	650	651	700	710	900
Citrus fruit	956	956	1,024	1,045	1,095

Source: Central Statistical Office.

1/ Variable crop years.

2/ Swazi Nation Land (SNL).

3/ Title Deed Land (TDL).

Table 6. Swaziland: Developments in Sugar Production, Processing, and Consumption, 1996/97-2001/02 1/ 2/

	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02
	(In thousands of hectares)					
Crop area						
Area under cultivation	39	38	43	43	45	47
Area harvested	38	38	40	41	44	44
	(In thousands of metric tons)					
Production and processing						
Cane	3,694	3,886	3,887	4,323	4,442	4,179
Sucrose	532	537	540	607	603	573
Sugar	471	476	475	534	528	501
	(In metric tons per hectare harvested)					
Sugarcane yield	97	101	96	101	102	95
	(In thousands of metric tons)					
Domestic consumption and local sales 3/	184	212	247	275	255	296

Source: Swaziland Sugar Association.

1/ Sugarcane is grown mainly on Title Deed Land.

2/ Crop year beginning in May, unless otherwise indicated.

3/ Calendar year. "Domestic" covers Swaziland, as well as the other members of the Southern African Customs Union.

Table 7. Swaziland: Production of Other Major Crops on Title Deed Land, 1996/97-2000/01 1/

	1996/97	1997/98	1998/99	1999/2000	2000/01
	(In thousands of metric tons)				
Production					
Pineapples	8.4	22.1	23.9	13.6	19.9
Maize	10.8	12.5	10.7	11.3	7.9
Citrus fruits	89.3	100.1	107.8	99.1	102.3
Cotton	16.2	16.9	14.9	7.5	13.1
Tobacco	0.016	0.018	0.087	0.167	0.072
	(In thousands of hectares)				
Area harvested					
Pineapples	0.2	1.3	1.7	0.3	1.1
Maize	5.2	6.5	5.6	6.1	6.1
Citrus fruits 2/	2.5	2.5	2.5	2.5	2.5
Cotton	29.0	30.0	30.0	34.5	31.5
Tobacco	0.02	0.02	0.02	0.10	0.05
	(In metric tons per hectare)				
Yield					
Pineapples	42.0	17.0	65.0	50.0	57.5
Maize	2.1	1.9	1.9	1.6	1.4
Citrus fruits 2/	35.7	40.0	43.1	39.6	40.9
Cotton	0.6	0.6	0.5	0.3	0.5
Tobacco	0.8	0.9	4.4	1.7	1.4
	(In millions of emalangen, at producer prices)				
Value					
Pineapples	2.4	2.9	5.5	5.0	4.4
Maize	7.0	8.1	7.5	7.9	5.6
Citrus fruits	85.4	95.7	110.4	101.5	104.8
Cotton	39.0	41.5	37.4	17.2	30.0
Tobacco	64.1	72.7	565.5	1,085.5	475.2
Total	197.9	221.0	726.2	1,217.1	620.0
	(In emalangen per metric ton)				
Unit value					
Pineapples	281	131	402	365	384
Maize	650	651	700	710	900
Citrus fruits	956	956	1,024	1,045	1,095
Cotton	2,410	2,458	2,508	2,270	2,725
Tobacco	4,006	4,039	6,500	6,500	6,600

Source: Central Statistical Office.

1/ Variable crop years.

2/ Refers to area under cultivation.

Table 8. Swaziland: Production of Food Crops on Swazi Nation Land, 1996/97-2000/01 1/

	1996/97	1997/98	1998/99	1999/2000	2000/01
	(In thousands of metric tons)				
Output					
Maize	108.2	125.2	107.3	112.8	78.8
Sorghum	0.7	0.6	0.4	0.1	0.1
Beans	5.0	0.9	0.7	0.1	0.1
Groundnuts	9.5	1.3	0.8	0.9	0.7
Jugo beans	1.7	1.1	0.6	0.6	0.5
	(In thousands of hectares)				
Area under cultivation					
Maize	60.9	65.1	56.0	68.5	58.3
Sorghum	1.1	0.3	0.2	0.1	0.1
Beans	4.2	1.5	0.8	0.7	0.6
Groundnuts	6.3	2.0	1.2	1.5	1.4
Jugo beans	2.5	1.1	0.6	0.9	0.8
	(In metric tons per hectare)				
Yield					
Maize	1.8	1.9	1.9	1.6	1.4
Sorghum	0.6	2.0	2.0	1.7	1.5
Beans	1.2	0.6	0.9	0.1	0.1
Groundnuts	1.5	0.7	0.7	0.6	0.5
Jugo beans	0.7	1.0	1.0	0.7	0.8

Source: Central Statistical Office.

1/ Crop year beginning September 1.

Table 9. Swaziland: Livestock Population and Processing, 1996-2000

	1996	1997	1998	1999	2000
(In thousands of head)					
Livestock population					
Cattle	658.6	659.1	623.4	599.1	588.3
SNL 1/	537.8	...	...	508.1	496.2
TDL 2/	121.3	...	...	91.0	92.1
Goats	467.7	486.4	354.1	362.3	296.2
Sheep	35.4	36.1	22.8	19.7	15.7
Pigs	46.4	51.0	...	37.4	36.7
Cattle statistics					
Births	89.4	90.2	...	95.7	94.2
Deaths	33.2	26.8	30.0	26.1	25.4
Offtake	98.0	96.0	...	...	...
<i>Of which</i>					
SMC 3/	12.4	18.3	21.7	29.3	25.5
(In thousands of metric tons)					
Beef exports to European Union (EU)	0.5	0.3	...	...	...
EU beef export quota	3.5	3.5	...	...	...

Sources: Central Statistical Office; and Ministry of Agriculture and Cooperatives.

1/ Swazi Nation Land (SNL).

2/ Title Deed Land (TDL).

3/ Swaziland Meat Corporation (SMC).

Table 10. Swaziland: Forest Area and Processing, and Consumption of Forestry Products, 1996-2000

	1996	1997	1998	1999	2000
(In thousands of hectares, unless otherwise indicated)					
Total forest area	105.6	103.7	103.3	104.1	103.7
Swazi Nation Land	4.5	4.5	4.5	4.5	4.5
Commercial forests	101.1	99.2	98.8	99.6	99.2
<i>Of which</i>					
Pines	78.3	77.5	78.4	78.1	78.0
Wood processing					
Wood pulp					
(thousands of metric tons)	148.2 1/	145.0	184.1	165.5	164.9
Sawn timber					
(thousands of cubic meters)	45.9	59.3	57.2	61.0	59.2
Mine timber					
(thousands of cubic meters)	102.1 2/	52.9	59.9	65.5	59.4
(In thousands of metric tons)					
Memorandum item:					
Exports of wood pulp	136.2 1/	145.0	184.1	165.5	164.9

Source: Central Statistical Office.

1/ Wood pulp produced by South African Paper and Pulp Industry (SAPPI) in Usuthu only.

2/ Sheselweni Forestry.

Table 11. Swaziland: Mineral Production and Exports, 1996-2000
(In thousands of metric tons)

	1996	1997	1998	1999	2000
Production					
Chrysolite asbestos	26.0	25.9	27.7	22.9	12.7
Coal	129.0	203.1	410.0	426.3	378.0
Exports					
Chrysolite asbestos	26.0	26.0	28.0	23.0	...
Coal	129.0	203.0	410.0	426.0	...

Sources: Central Statistical Office; and Geological Survey and Mines Department.

Table 12. Swaziland: Index of Industrial Production, 1996-2001
(1985 = 100)

	1996	1997	1998	1999	2000	2001
Mining	93.0	113.7	144.4	124.0	95.5	76.6
Manufacturing						
Sugar refining	130.5	132.9	146.7	154.8	154.8	154.8
Other agro-processing	96.0	67.6	111.1	117.8	113.1	113.1
Drink processing	1,684.7	1,987.3	2,146.6	2,178.9	2,267.2	2,372.8
Wood pulp, timber, and packaging	76.3	103.2	97.3	100.3	95.1	109.1
Other manufacturing	774.6	831.9	760.9	635.2	638.7	633.1
All industries	255.9	269.8	273.1	261.9	264.9	270.5

Source: Central Statistical Office.

Table 13. Swaziland: Electrical Power and Demand, 1996-2000
(In millions of kilowatt-hours)

	1996	1997	1998	1999	2000
Total local production and imports 1/	789.8	810.4	830.7	865.0	812.1
Local production 2/	191.8	193.5	191.0	175.7	264.7
Hydroelectric	191.0	192.0	189.6	174.2	263.4
Diesel	0.8	1.5	1.4	1.5	1.3
Imports (from ESKOM) 3/	598.0	616.9	639.7	689.4	547.4
Total sales 1/	664.7	679.0	709.7	745.5	695.6
Household	135.9	143.8	148.0	161.6	166.9
Commercial	56.1	61.5	63.2	72.9	74.6
Irrigation power and bulk	472.7	473.7	498.5	511.0	454.1

Source: Swaziland Electricity Board.

1/ The difference between production and sales is accounted for by transmission and distribution losses.

2/ Excludes self-generated power of several industrial concerns.

3/ South African Electricity Supply Commission (ESKOM).

Table 14. Swaziland: Retail Price Indices of Urban Families, 1996-2002

	1996	1997	1998	1999	2000	2001	2002 1/
	(January 1996 = 100)						
All-groups index 2/	106.0	114.2	119.8	130.7	139.1	154.1	167.9
Food	110.1	118.3	123.3	129.8	134.9	151.6	177.9
Alcohol and tobacco	111.6	121.0	136.2	153.6	168.4	185.4	194.3
Clothing and footwear	106.8	109.9	110.9	112.1	123.6	130.8	135.2
Housing	100.1	101.4	108.8	121.8	121.8	127.7	127.7
Fuel and power	114.5	139.4	166.2	217.9	273.1	276.6	282.4
Furniture and appliances	105.1	115.2	115.5	120.3	127.1	143.5	156.3
Household operations	104.2	115.3	117.7	145.0	134.8	180.6	192.1
Health care	104.8	108.7	116.2	120.6	130.7	149.2	153.9
Transport and communications	109.7	112.4	116.7	127.3	137.5	162.9	172.5
Leisure	105.1	104.2	110.3	112.4	118.7	133.6	138.4
Education	100.0	109.1	140.4	144.0	165.8	193.0	254.6
Personal care	103.6	141.7	144.0	157.9	110.9	166.6	156.7
Miscellaneous	100.6	123.3	104.3	117.7	118.6	121.3	121.8
Low-income index 3/	106.9	116.8	124.7	139.2	149.3	163.8	177.9
Middle- and high-income index 4/	106.1	114.3	119.7	130.8	138.9	153.9	167.5
	(Percentage change over previous year)						
All-groups index 2/	10.1	7.8	4.9	9.1	6.4	10.8	11.8
Low-income index 3/	11.9	9.3	6.8	11.6	7.3	9.7	12.3
Middle- and high-income index 4/	10.2	7.8	4.7	9.3	6.2	10.8	11.5
Memorandum item:							
Consumer price index in South Africa	7.4	8.6	6.9	5.2	5.3	5.7	6.3

Source: Central Statistical Office.

1/ Index as of July for 2002 and percentage change over January-July period of previous year.

2/ End of period; derived independently from the two income indices on the basis of a different basket of goods and services.

3/ End of period; families with incomes of E 2,399 per annum and below.

4/ End of period; families with incomes between E 2,400 and E 8,760 per annum.

Table 15. Swaziland: Minimum Wages for General Workers in Selected Industries, 1996-2000 1/

	1996	1997	1998	1999	2000
	(In emalangeni per month)				
Retail and wholesale					
Mbabane and Manzini	549.2	617.9	617.9	701.2	771.3
Elsewhere	479.0	538.9	538.9	611.6	672.8
	(In emalangeni per week)				
Manufacturing and processing	112.8	108.0	108.0	110.9	110.9
	(In emalangeni per day)				
Agriculture	5.2	6.1	6.8	10.8	10.8
	(In emalangeni per hour)				
Building and construction	2.4	2.8	3.0	3.2	3.4
Motor and engineering trades	1.5	1.7	1.9	1.9	2.9
	(Annual percentage change)				
Retail and wholesale					
Mbabane and Manzini	12.7	12.5	0.0	13.5	10.0
Elsewhere	9.0	12.5	0.0	13.5	10.0
Manufacturing and processing	0.0	-4.3	0.0	2.7	0.0
Agriculture	0.0	16.1	12.0	58.1	0.0
Building and construction	5.6	15.6	5.0	6.4	8.9
Motor and engineering trades	0.0	14.2	10.1	0.0	55.4

Source: Department of Labor.

1/ As of December of each year.

Table 16. Swaziland: Paid Employment in the Private and Public Sectors by Industry, 1996-2001 1/
(In number of employees)

	1996		1997		1998		1999		2000		2001	
	Private	Public	Private	Public	Private	Public	Private	Public	Private	Public	Private	Public
Agriculture/forestry	20,411	2,026	20,483	2,061	17,681	2,101	16,851	2,177	18,425	2,159	18,470	285
Mining and quarrying	1,138	0	947	0	929	0	922	0	922	0	620	0
Manufacturing	15,969	201	16,277	214	17,773	201	17,905	0	18,897	0	19,898	0
Electricity and water	0	1,189	0	1,205	0	726	0	1,411	0	1,407	0	1,409
Construction	3,935	1,066	4,983	1,070	3,795	2,026	3,499	1,923	3,718	1,795	3,968	1,811
Distribution	11,889	0	10,153	0	8,969	0	9,368	0	9,290	0	9,290	0
Transportation	759	1,944	1,351	1,981	1,422	1,836	1,396	1,193	1,366	1,852	1,350	1,869
Finance	5,088	1,090	4,994	1,098	5,084	761	6,466	916	6,505	901	6,572	920
Social services	4,309	18,861	4,450	19,141	4,330	19,587	4,449	20,539	4,475	20,531	4,649	20,674
Total	63,498	26,377	63,638	26,770	59,983	27,238	60,856	28,159	63,598	28,554	64,817	28,754
Memorandum item:												
Swazi mining migrant labor	14,371		19,960		10,336		9,610		8,308		...	

Source: Ministry of Enterprise and Employment.

1/ Paid employment (including part-time) as of June of each year.

Table 17. Swaziland: Summary of Central Government Operations, 1996/97-2001/02 1/

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
(In millions of emalangeni)						
Total revenue and grants	1,704	2,039	2,275	2,646	2,825	3,094
Tax revenue	1,621	1,883	2,042	2,369	2,574	2,779
<i>Of which</i>						
Southern African Customs Union (SACU) receipts	852	1,007	1,076	1,222	1,407	1,504
Nontax revenue	63	137	188	167	139	194
Grants	20	18	45	110	112	121
Total expenditure and net lending	1,782	1,850	2,239	2,776	2,968	3,409
Current expenditure	1,487	1,532	1,689	2,194	2,364	2,537
Wages and salaries	735	797	833	1,077	1,071	1,162
Goods and services	341	436	463	542	679	781
Interest payments	40	43	51	76	63	96
Subsidies and transfers	371	256	342	499	550	497
<i>Of which</i>						
Nonfinancial public enterprises	95	74	132	142	148	140
Capital expenditure	293	323	483	585	604	866
Net lending	2	-4	67	-3	0	7
Primary balance	-38	231	87	-54	-80	-219
Overall balance (including grants)	-78	188	36	-130	-143	-315
Overall balance (excluding grants)	-98	170	-9	-240	-255	-436
Financing	78	-188	-36	130	143	315
Foreign (net)	15	42	198	-109	-23	371
Domestic (net)	64	-230	-234	239	166	-56
(In percent of GDP, unless otherwise specified)						
Total revenue and grants	28.8	29.9	29.6	30.4	28.3	27.2
Tax revenue	27.4	27.6	26.6	27.2	25.8	24.4
<i>Of which</i>						
SACU receipts	14.4	14.8	14.0	14.0	14.1	13.2
Company tax	4.1	3.7	3.4	3.2	2.3	2.5
Personal income tax	3.7	3.8	3.9	4.6	4.3	3.1
Sales tax	3.5	3.7	3.6	3.8	3.7	3.5
Nontax revenue	1.1	2.0	2.4	1.9	1.4	1.7
Grants	0.3	0.3	0.6	1.3	1.1	1.1
Total expenditure and net lending	30.1	27.1	29.1	31.9	29.8	29.9
Current expenditure	25.1	22.5	22.0	25.2	23.7	22.3
<i>Of which</i>						
Wages and salaries	12.4	11.7	10.8	12.4	10.7	10.2
Goods and services	5.8	6.4	6.0	6.2	6.8	6.9
Subsidies and transfers	6.3	3.8	4.4	5.7	5.5	4.4
Capital expenditure	5.0	4.7	6.3	6.7	6.1	7.6
Primary balance	-0.6	3.4	1.1	-0.6	-0.8	-1.9
Overall balance (including grants)	-1.3	2.8	0.5	-1.5	-1.4	-2.8
Overall balance (excluding grants)	-1.7	2.5	-0.1	-2.8	-2.6	-3.8
Financing	1.3	-2.8	-0.5	1.5	1.4	2.8
Foreign (net)	0.2	0.6	2.6	-1.3	-0.2	3.3
Domestic (net)	1.1	-3.4	-3.0	2.7	1.7	-0.5
Memorandum item:						
GDP at current market prices (in millions of emalangeni) 2/	5,917	6,822	7,689	8,716	9,972	11,391

Source: Ministry of Finance.

1/ Fiscal year runs from April 1 to March 31.

2/ Converted to a fiscal-year basis.

Table 18. Swaziland: Central Government Revenue and Grants, 1996/97-2001/02 1/

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
(In millions of emalangeni)						
Tax revenue	1,621	1,883	2,042	2,369	2,574	2,779
Taxes on net income and profits	486	529	582	697	678	725
Companies	244	250	262	276	233	245
Individuals	220	258	299	397	431	431
Nonresident dividends and interest	22	21	21	24	14	49
Taxes on property	3	3	4	4	5	6
Taxes on goods, services, and international trade	1,124	1,347	1,451	1,665	1,886	2,042
Southern African Customs Union (SACU) receipts	852	1,007	1,076	1,222	1,407	1,504
Sugar export levy	14	27	19	19	15	28
Hotel and gaming taxes	2	3	3	3	3	3
Licenses and other taxes	49	54	77	88	59	99
Sales tax	207	255	275	334	372	408
Road levy and oil tax	...	0	0	0	0	0
Other taxes	8	5	6	4	5	7
Nontax revenue	63	137	188	167	139	194
Property income	44	90	138	117	91	132
Fees, fines, and nonindustrial sales	19	47	50	49	48	62
Total revenue	1,684	2,020	2,230	2,536	2,713	2,973
Grants	20	18	45	110	112	121
Total revenue and grants	1,704	2,039	2,275	2,646	2,825	3,094
(In percent of GDP)						
Tax revenue	27.4	27.6	26.6	27.2	25.8	24.4
Taxes on net income and profits	8.2	7.8	7.6	8.0	6.8	6.4
<i>Of which</i>						
Companies	4.1	3.7	3.4	3.2	2.3	2.1
Individuals	3.7	3.8	3.9	4.6	4.3	3.8
Taxes on property	0.1	0.0	0.1	0.0	0.1	0.0
Taxes on goods, services, and international trade	19.0	19.7	18.9	19.1	18.9	17.9
<i>Of which</i>						
SACU receipts	14.4	14.8	14.0	14.0	14.1	13.2
sales tax	3.5	3.7	3.6	3.8	3.7	3.6
Other taxes	0.1	0.1	0.1	0.0	0.1	0.1
Nontax revenue	1.1	2.0	2.4	1.9	1.4	1.7
Grants	0.3	0.3	0.6	1.3	1.1	1.1
Total revenue and grants	28.8	29.9	29.6	30.4	28.3	27.2
(In percent of total revenue and grants, unless otherwise indicated)						
Tax revenue	95.1	92.4	89.8	89.5	91.1	89.8
Taxes on net income and profits	28.5	25.9	25.6	26.3	24.0	23.4
<i>Of which</i>						
Companies	14.3	12.2	11.5	10.4	8.2	7.9
Individuals	12.9	12.7	13.1	15.0	15.2	13.9
Taxes on property	0.2	0.1	0.2	0.1	0.2	0.2
Taxes on goods, services, and international trade	66.0	66.1	63.8	62.9	66.8	66.0
<i>Of which: SACU receipts</i>	50.0	49.4	47.3	46.2	49.8	48.6
Other taxes	0.5	0.3	0.2	0.1	0.2	0.2
Nontax revenue	3.7	6.7	8.3	6.3	4.9	6.3
Grants	1.2	0.9	2.0	4.2	4.0	3.9
Memorandum item:						
GDP at current market prices (in millions of emalangeni)	5,917	6,822	7,689	8,716	9,972	11,391

Source: Ministry of Finance.

1/ Fiscal year runs from April 1 to March 31.

Table 19. Swaziland: Functional Classification of Central Expenditure and Net Lending, 1996/97-2001/02 1/

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
(In millions of emalangeni)						
Current expenditure	1,487	1,532	1,689	2,194	2,364	2,537
Wages and salaries	735	797	833	1,077	1,071	1,162
Other purchases of goods and services	341	436	463	542	679	781
Interest payments	40	43	51	76	63	96
Domestic	13	12	9	7	6	6
Foreign	27	30	41	68	57	91
Subsidies and other current transfers	371	256	342	499	550	497
<i>Of which: subsidies to NFPEs 2/</i>	95	74	132	142	148	140
Capital expenditure	293	323	483	585	604	866
Education	23	21	99	31	27	19
Agriculture	8	17	30	9	82	54
Transport and communications	121	108	184	246	179	425
Other	141	177	170	299	317	368
Net lending	2	-4	67	-3	0	7
Gross lending	12	29	76	4	19	13
Repayments	-10	-33	-9	-8	-19	-6
Total expenditure and net lending	1,782	1,850	2,239	2,776	2,968	3,409
(In percent of GDP)						
Current expenditure	25.1	22.5	22.0	25.2	23.7	22.3
Capital expenditure	5.0	4.7	6.3	6.7	6.1	7.6
Net lending	0.0	-0.1	0.9	0.0	0.0	0.1
Total expenditure and net lending	30.1	27.1	29.1	31.9	29.8	29.9
(In percent of total expenditure and net lending, unless otherwise indicated)						
Current expenditure	83.4	82.8	75.4	79.0	79.6	74.4
Wages and salaries	41.2	43.1	37.2	38.8	36.1	34.1
Other purchases of goods and services	19.1	23.6	20.7	19.5	22.9	22.9
Interest payments	2.2	2.3	2.3	2.7	2.1	2.8
Subsidies and other current transfers	20.8	13.9	15.3	18.0	18.5	14.6
Capital expenditure	16.4	17.4	21.6	21.1	20.4	25.4
Net lending	0.1	-0.2	3.0	-0.1	0.0	0.2
Total expenditure and net lending	100.0	100.0	100.0	100.0	100.0	100.0
Memorandum item:						
GDP at current market prices (in millions of emalangeni)	5,917	6,822	7,689	8,716	9,972	11,391

Source: Ministry of Finance.

1/ Fiscal year runs from April 1 to March 31.

2/ NFPEs (nonfinancial public enterprises).

Table 20. Swaziland: Economic Classification of Government Current Expenditure, 1996/97-2001/02 1/

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
(In millions of emalangeni)						
General public service	636	561	582	903	1019	1025
General administration	436	356	376	659	756	742
Public safety and defense	200	204	206	244	263	283
Defense	115	119	150	161	173	168
Social services	492	580	657	765	814	894
Education	324	390	452	534	552	607
Health	110	151	161	174	197	209
Other	58	39	44	57	65	78
Economic services	218	244	259	291	296	353
Agriculture	83	92	85	87	88	104
Manufacturing, mining, and construction	12	11	11	47	45	45
Water and sewerage	9	10	29	16	20	22
Transport and communications	76	89	115	122	132	160
Other	38	42	19	19	11	22
Interest payments	26	28	41	74	62	97
Total	1,487	1,532	1,689	2,194	2,364	2,537
(In percent of GDP)						
General public service	10.7	8.2	7.6	10.4	10.2	9.0
General administration	7.4	5.2	4.9	7.6	7.6	6.5
Public safety and defense	3.4	3.0	2.7	2.8	2.6	2.5
Defense	1.9	1.7	2.0	1.8	1.7	1.5
Social services	8.3	8.5	8.5	8.8	8.2	7.8
Education	5.5	5.7	5.9	6.1	5.5	5.3
Health	1.9	2.2	2.1	2.0	2.0	1.8
Other	1.0	0.6	0.6	0.7	0.7	0.7
Economic services	3.7	3.6	3.4	3.3	3.0	3.1
Interest payments	0.4	0.4	0.5	0.8	0.6	0.9
(In percent of total current expenditure, unless otherwise indicated)						
General public service	42.8	36.6	34.5	41.3	43.1	40.4
General administration	29.3	23.2	22.3	30.2	32.0	29.2
Public safety and defense	13.4	13.3	12.2	11.2	11.1	11.2
Defense	7.7	7.8	8.9	7.4	7.3	6.6
Social services	33.1	37.9	38.9	35.0	34.4	35.2
Education	21.8	25.5	26.8	24.4	23.4	23.9
Health	7.4	9.9	9.5	8.0	8.3	8.2
Other	3.9	2.5	2.6	2.6	2.8	3.1
Economic services	14.7	15.9	15.3	13.3	12.5	13.9
Interest payments	1.7	1.8	2.4	3.4	2.6	3.8
Memorandum item:						
GDP at current market prices (in millions of emalangeni)	5,917	6,822	7,689	8,716	9,972	11,391

Source: Ministry of Finance.

1/ Fiscal year runs from April 1 to March 31.

Table 21. Swaziland: Capital Expenditure by Sector, 1996/97-2001/02 1/
(In millions of emalangeni)

	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02
General public services	56	69	71	147	124	271
General administration	30	38	41	114	103	245
Public safety and defense	27	32	29	33	21	26
Social services	68	79	176	103	133	130
Education	26	21	98	31	27	52
Health	5	7	9	22	33	26
Housing	33	48	69	46	58	41
Recreation and culture	4	3	0	1	1	0
Other	0	0	0	3	14	11
Economic services	169	175	237	336	348	465
Agriculture	19	17	30	30	60	63
Industry and mining	21	8	7	9	81	6
Water and sewage	18	42	14	28	26	15
Transport and communications	94	76	170	246	179	349
Other	18	32	16	23	2	32
Total capital expenditure	293	323	483	586	605	866

Source: Ministry of Finance.

1/ Fiscal year runs from April 1 to March 31.

Table 22. Swaziland: Government Transfer Payments, 1996/97-2001/02 1/
(In millions of emalangeni, unless otherwise indicated)

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Grants to students	42.4	56.4	51.4	65.5	69.5	66.2
Grants to mission hospital	24.4	25.8	43.2	41.4	43.0	39.4
Public assistance	2.0	1.9	1.9	2.0	2.1	2.2
Grants to town councils	11.7	11.5	11.9	20.1	22.1	29.0
Grants to youth and sports	0.5	0.6	0.8	6.3	6.7	5.1
External transfers 2/	11.8	14.1	45.3	23.6	20.3	23.8
Swaziland National Treasury	5.3	6.9	7.4	12.9	7.0	10.0
Cattle-dipping chemicals	11.7	14.4	17.9	23.5	23.2	8.9
Swaziland Komati Project Enterprise	5.8	3.3	5.4	5.5	6.5	7.8
Other	0.7	8.2	49.7	25.5	52.4	99.6
Total	116.3	143.1	235.0	226.2	252.8	292.0
Memorandum item:						
Transfers (in percent of GDP)	2.0	2.1	3.1	2.6	2.5	2.6

Source: Ministry of Finance.

1/ Fiscal year runs from April 1 to March 31.

2/ Subscriptions to international organizations.

Table 23. Swaziland: Flow of Funds From the Government to Public Enterprises, 1996/97-2001/02 1/
(In thousands of emalangeni, unless otherwise indicated)

	1996/97	1997/98	1998/99	1999/00	2000/01 Est.	2001/02 Est.
Swaziland Railways	86,829	78,029	78,029	78,029	101,049	101,049
Share capital	61,049	61,049	61,049	61,049	61,049	61,049
Loan capital	16,980	16,980	16,980	16,980	40,000	40,000
Operating/transport subsidy	0	0	0	0	0	0
Capital subsidy	8,800	0	0	0	0	0
Swaziland Electricity Board	44,351	44,351	44,351	44,351	44,351	44,351
Share capital	44,351	44,351	44,351	44,351	44,351	44,351
Loan capital	0	0	0	0	0	0
Operating/transport subsidy	0	0	0	0	0	0
Capital subsidy	0	0	0	0	0	0
Swaziland Dairy Board	0	0	0	1,750	0	0
Share capital	0	0	0	0	0	0
Loan capital	0	0	0	0	0	0
Operating/transport subsidy	0	0	0	0	0	0
Capital subsidy	0	0	0	1,750	0	0
Small Enterprise Development Corporation	4,326	5,850	5,588	7,776	6,074	5,846
Share capital	2,041	2,041	2,041	2,041	2,041	2,041
Loan capital	0	0	0	0	0	0
Operating/transport subsidy	1,785	3,386	3,157	3,315	3,480	3,655
Capital subsidy	500	423	390	2,420	553	150
Swaziland Television Authority	3,614	7,444	13,047	8,449	4,299	10,068
Share capital	0	0	0	0	0	0
Loan capital	0	0	0	0	0	0
Operating/transport subsidy	3,614	7,444	9,899	8,449	4,299	10,068
Capital subsidy	0	0	3148	0	0	0
Royal Swazi National Airways	114,255	100,084	107,618	104,567	104,567	104,567
Share capital	1,500	1,500	1,500	1,500	1,500	1,500
Loan capital	98,464	98,584	103,067	103,067	103,067	103,067
Operating/transport subsidy	14,291	0	3,051	0	0	0
Capital subsidy	0	0	0	0	0	0
Piggs Peak Hotel	2	2	2,502	1,826	2	2
Share capital	2	2	2	2	2	2
Loan capital	0	0	0	0	0	0
Operating/transport subsidy	0	0	0	0	0	0
Capital subsidy	0	0	2,500	1,824	0	0
University of Swaziland	44,200	50,340	64,961	62,691	64,886	64,564
Share capital	0	0	0	0	0	0
Loan capital	0	0	0	0	0	0
Operating/transport subsidy	44,200	50,340	60,457	61,844	63,886	63,886
Capital subsidy	0	0	4,504	847	1,000	678
Swaziland Water Services Corporation	40,089	39,512	51,432	33,845	30,223	31,061
Share capital	30,223	30,223	30,223	30,223	30,223	30,223
Loan capital	1,896	5,924	0	0	0	0
Operating/transport subsidy	7,970	3,365	2,243	1,122	0	0
Capital subsidy	0	0	18,966	2,500	0	838
Sebenta National Institute	1,900	2,110	3,213	3,089	2,443	2,565
Share capital	0	0	0	0	0	0
Loan capital	0	0	0	0	0	0
Operating/transport subsidy	1,900	2,110	2,216	3,089	2,443	2,565
Capital subsidy	0	0	997	0	0	0

Table 23. Swaziland: Flow of Funds From the Government to Public Enterprises, 1996/97-2001/02 1/ (concluded)
(In thousands of emalangeni, unless otherwise indicated)

	1996/97	1997/98	1998/99	1999/00	2000/01 Est.	2001/02 Est.
Swaziland Development and Savings Bank	154,474	40,825	44,186	147,861	129,861	89,861
Share capital	9,861	9,861	9,861	9,861	9,861	9,861
Loan capital	0	0	0	0	0	0
Operating/transport subsidy	0	0	34,325	8,000	0	0
Capital subsidy	144,613	30,964	0	130,000	120,000	80,000
Post and Telecommunications Corporation	0	0	0	0	0	0
Share capital	0	0	0	0	0	0
Loan capital	0	0	0	0	0	0
Operating/transport subsidy	0	0	0	0	0	0
Capital subsidy	0	0	0	0	0	0
National Trust Commission	5,290	6,840	7,425	13,112	8,512	16,123
Share capital	0	0	0	0	0	0
Loan capital	0	0	0	0	0	0
Operating/transport subsidy	4,350	5,275	5,907	6,202	6,512	6,838
Capital subsidy	940	1,565	1,518	6,910	2,000	9,285
Swaziland Housing Board	10,800	10,800	10,800	10,800	10,800	10,800
Share capital	10,800	10,800	10,800	10,800	10,800	10,800
Loan capital	0	0	0	0	0	0
Operating/transport subsidy	0	0	0	0	0	0
Capital subsidy	0	0	0	0	0	0
Swaziland Investment Promotion Authority	0	0	1,500	3,552	3,729	3,915
Share capital	0	0	0	0	0	0
Loan capital	0	0	0	0	0	0
Operating/transport subsidy	0	0	1,500	3,552	3,729	3,915
Capital subsidy	0	0	0	0	0	0
National Maize Corporation	9,111	2,405	2,405	2,405	2,405	2,405
Share capital	2,405	2,405	2,405	2,405	2,405	2,405
Loan capital	0	0	0	0	0	0
Operating/transport subsidy	0	0	0	0	0	0
Capital subsidy	6,706	0	0	0	0	0
Enterprise Trust Fund	44,000	0	0	0	0	0
Share capital	44,000	0	0	0	0	0
Loan capital	0	0	0	0	0	0
Operating/transport subsidy	0	0	0	0	0	0
Capital subsidy	0	0	0	0	0	0
Motor Vehicle Accident Fund	0	0	11,124	34,000	34,000	28,000
Share capital	0	0	0	0	0	0
Loan capital	0	0	0	0	0	0
Operating/transport subsidy	0	0	11,124	34,000	34,000	28,000
Capital subsidy	0	0	0	0	0	0
Other 2/	0	0	0	4,375	25,600	9,750
Share capital	0	0	0	0	0	0
Loan capital	0	0	0	0	0	0
Operating/transport subsidy	0	0	0	4,375	7,400	9,750
Capital subsidy	0	0	0	0	18,200	0
Total	563,241	388,592	448,181	562,478	572,801	524,927
Share capital	206,232	162,232	162,232	162,232	162,232	162,232
Loan capital	117,340	121,488	120,047	120,047	143,067	143,067
Operating/transport subsidy	78,110	71,920	133,879	133,948	125,749	128,677
Capital subsidy	161,559	32,952	32,023	146,251	141,753	90,951
<i>Of which: subsidies to NFPEs 3/</i>	95,056	73,908	131,577	142,199	147,502	139,628
GDP (in millions of emalangeni)	5,917	6,822	7,689	8,716	9,972	11,391
Gross flows (in percent of GDP)	9.5	5.7	5.8	6.5	5.7	4.6

Source: Ministry of Finance.

1/ Fiscal year runs from April 1 to March 31.

2/ Including Swaziland Tourism Authority, Swaziland Komati Project Enterprise, and Joint Venture Capital Fund.

3/ Nonfinancial public enterprises (NFPEs)

Table 24. Swaziland: Outstanding Domestic Government Debt by Type of Instrument, 1996-2001
(In millions of emalangeni; end of period)

	1996	1997	1998	1999	2000	2001
Government bonds and stocks	47.6	37.6	30.0	30.0	30.0	30.0
Central Bank of Swaziland	0.1	0.0	0.0	0.0	0.0	0.0
Banks	18.8	20.3	20.3	20.3	20.3	20.3
Other financial institutions	15.2	7.2	1.0	1.0	1.0	1.0
Other	13.5	10.1	8.7	8.7	8.7	8.7
Treasury bills 1/	50.0	40.0	40.0	40.0	40.0	40.0
Central Bank of Swaziland	0.0	0.0	0.0	0.0	0.0	0.0
Banks	49.8	32.0	32.5	30.0	40.0	40.0
Other	0.2	8.0	7.5	10.0	0.0	0.0
Total domestic government debt	97.6	77.6	70.0	70.0	70.0	70.0
By original maturity						
Less than one year	60.0	47.6	40.0	40.0	40.0	40.0
From one to five years	7.6	0.0	0.0	0.0	0.0	30.0
From five to ten years	30.0	30.0	30.0	30.0	30.0	0.0
Over ten years	0.0	0.0	0.0	0.0	0.0	0.0

Source: Central Bank of Swaziland.

1/ The maturity of treasury bills is three months.

Table 25. Swaziland: Monetary Survey, 1996-2002 1/

	1996	1997	1998	1999	2000	2001	2002 Jul.
	(In millions of emalangeni)						
Monetary authorities							
Net foreign assets	1,208	1,384	1,928	1,935	2,217	2,771	2,485
CBS	1,078	1,112	1,452	1,356	1,600	2,389	2,206
<i>Of which</i> : CIF, managed by CBS	526	554	705	752	941	1,537	1,384
Government	130	271	476	579	617	382	278
Net domestic assets	-936	-1,101	-1,664	-1,639	-1,940	-2,523	-2,188
Central government (net) 2/	-771	-995	-1,480	-1,552	-1,765	-2,112	-1,912
Private sector	-39	-65	-36	-35	-52	-70	-35
Commercial banks (net)	37	43	43	44	42	42	0
Other items (net)	-162	-85	-190	-97	-165	-382	-241
Reserve money	272	282	265	296	277	254	296
Commercial banks							
Net foreign assets	259	328	530	783	546	866	786
Reserves	206	175	173	175	139	122	179
Domestic credit	939	1,137	1,198	1,259	1,368	1,443	1,719
Central government (net)	-33	42	38	36	59	60	186
Private sector	972	1,095	1,159	1,223	1,308	1,384	1,533
Other items (net)	-121	-122	-133	-179	-191	-345	-458
Private sector deposits	1,283	1,518	1,769	2,038	1,862	2,086	2,225
Monetary survey							
Net foreign assets	1,467	1,711	2,459	2,718	2,762	3,636	3,270
Domestic credit	128	78	-318	-328	-449	-739	-229
Central government (net)	-804	-953	-1,441	-1,516	-1,706	-2,053	-1,726
Private sector 3/	932	1,030	1,123	1,188	1,256	1,313	1,497
Other items (net)	-168	-84	-216	-165	-235	-596	-612
Broad money							
Currency in circulation 4/	91	109	107	137	148	135	154
Deposits	1,337	1,596	1,817	2,088	1,930	2,166	2,275
	(Annual change in percent of beginning-of-period broad money, unless otherwise specified) 5/						
Broad money	16.3	19.4	12.9	15.6	-6.6	10.7	15.4
Net foreign assets	36.1	17.1	43.8	13.5	2.0	42.1	10.8
Domestic credit	-12.0	-3.6	-23.2	-0.5	-5.5	-14.0	17.2
Central government (net)	-16.7	-10.4	-28.6	-3.9	-8.5	-16.7	3.5
Private sector	4.6	6.9	5.5	3.4	3.0	2.7	13.7
Other items (net)	-7.7	5.9	-7.8	2.7	-3.1	-17.4	-12.6
Memorandum items:							
Currency/broad money (percent)	6.4	6.4	5.6	6.2	7.1	5.9	6.3
Currency/deposits (percent)	6.8	6.8	5.9	6.6	7.7	6.2	6.8
Reserve money/deposits (percent)	20.3	17.7	14.6	14.2	14.3	11.7	13.0
Money multiplier (broad money/reserve money)	5.3	6.0	7.3	7.5	7.5	9.1	8.2
Velocity (GDP/period average broad money)	4.3	4.2	4.1	4.1	4.5	5.0	4.8

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

1/ End-of-year data, except 2002.

2/ Comprises government domestic deposits with the central bank and the counterpart of government (including Capital Investment Fund (CIF)) external assets in rand.

3/ Includes public sector entities other than the government.

4/ Excludes rand in circulation.

5/ For 2002, percent change of June 2002 over December 2001.

Table 26. Swaziland: Assets and Liabilities of the Central Bank of Swaziland, 1996-2002
(In millions of emalangeni)

	1996	1997	1998	1999	2000				2001				2002	
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.
Foreign assets	1,302	1,390	2,048	2,238	1,974	2,334	2,387	2,562	2,379	2,159	2,564	3,242	2,588	2,721
CBS managed 1/	1,172	1,119	1,581	1,659	1,373	1,661	1,792	1,945	1,748	1,700	2,192	2,861	2,230	2,550
Government	130	271	467	579	601	673	595	617	631	459	372	382	358	171
Claims on government	0	0	0	0	0	0	0	0	0	0	0	0	0	42
Claims on private sector	14	13	12	15	15	16	16	16	16	17	16	15	15	16
Claims on commercial banks	37	43	43	44	43	42	42	42	42	42	42	42	42	0
Assets = liabilities	1,353	1,446	2,103	2,297	2,032	2,392	2,445	2,621	2,437	2,218	2,621	3,300	2,646	2,779
Foreign liabilities	94	6	129	303	24	328	339	346	20	21	387	472	25	251
Government deposits 2/	771	995	1,471	1,552	1,615	1,680	1,681	1,765	1,770	1,661	1,727	2,112	1,963	1,953
Of which: Capital Investment Fund	526	554	705	752	804	818	882	941	994	1,003	1,150	1,537	1,463	1,391
Private sector deposits	53	78	48	50	60	46	50	68	72	79	82	80	81	58
Commercial banks	20	0	30	10	10	0	20	10	40	40	20	22	25	55
Reserve money	272	282	265	296	219	211	225	277	371	285	281	254	248	261
Currency in circulation 3/	124	141	152	200	171	178	193	214	175	179	188	202	191	201
Commercial bank deposits	148	141	113	96	48	33	32	62	196	106	93	52	57	60
Other items (net) 4/	142	85	160	87	105	127	129	155	164	131	124	360	305	201

Source: Central Bank of Swaziland (CBS).

1/ Includes Capital Investment Fund deposits but excludes government pension fund assets.

2/ Includes government foreign exchange holdings.

3/ Excludes rand in circulation.

4/ Includes balances held with other banks in Swaziland, bills payable, unclassified assets, and unclassified liabilities.

Table 27. Swaziland: Assets and Liabilities of Commercial Banks, 1996-2002 1/
(In millions of emalangeni)

	1996	1997	1998	1999	2000				2001				2002	
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.
Foreign assets 2/	516	465	592	845	872	765	700	654	621	752	850	892	1,157	808
Claims on government	68	52	53	50	50	31	40	59	59	60	60	60	216	186
Claims on private sector	972	1,095	1,159	1,223	1,243	1,266	1,213	1,308	1,256	1,350	1,255	1,384	1,315	1,580
Reserves	206	175	171	175	105	71	94	138	269	151	126	132	123	152
Balance with CBS	153	144	97	102	60	40	31	62	195	74	62	43	54	60
Cash in tills 2/	33	32	44	63	36	31	44	66	34	37	45	67	44	37
CBS bills	20	0	30	10	10	0	20	10	40	40	20	22	25	55
Other items (net) 3/	-46	6	-16	-40	-29	-39	-7	-32	-26	-4	17	-62	-49	253
Assets = liabilities	1,717	1,794	1,959	2,254	2,241	2,093	2,041	2,128	2,180	2,309	2,308	2,406	2,761	2,979
Foreign liabilities	257	138	61	62	73	36	47	108	79	72	41	26	186	73
Government deposits	101	10	14	15	5	10	0	0	0	0	0	0	0	0
Private sector deposits	1,283	1,518	1,769	2,038	2,013	1,910	1,850	1,862	1,814	1,954	1,971	2,086	2,262	2,222
Demand	332	383	394	526	500	549	477	513	491	487	545	619	651	668
Time	663	820	1,051	1,176	1,169	1,013	1,020	961	961	1,098	1,055	1,086	1,217	1,166
Saving	288	316	325	336	345	348	353	388	362	369	371	381	394	388
Balance due to CBS	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Capital accounts	75	128	114	139	150	138	143	158	287	283	296	293	313	683

Source: Central Bank of Swaziland (CBS).

1/ Includes the Swaziland Development and Savings Bank.

2/ Excludes rand in circulation.

3/ Includes balances held with other banks in Swaziland, bills payable, unclassified assets, and unclassified liabilities.

Table 28. Swaziland: Commercial Banks' Deposits by Sector, 1996-2002 1/
(In millions of emalangen)

	1996	1997	1998	1999	2000			2001				2002		
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.
Demand deposits	330	380	393	524	498	546	473	510	488	483	541	616	647	668
Central government	0	0	0	0	0	5	0	0	0	0	0	0	0	0
Other public bodies 2/	19	27	41	47	43	43	43	42	38	35	41	40	45	51
Personal	82	114	128	155	145	172	151	162	152	154	166	179	190	200
Business	228	239	225	322	310	325	279	306	298	294	334	397	412	417
Savings deposits	289	316	325	336	345	348	353	368	362	369	371	381	394	388
Central government	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other public bodies 2/	1	3	2	2	2	2	2	2	9	2	2	...	...	...
Personal	280	299	308	321	325	321	330	345	334	344	348	...	...	...
Business	7	14	15	14	18	24	21	21	19	24	21	...	...	...
Time deposits	764	830	1,065	1,191	1,173	1,017	1,020	982	961	1,098	1,055	1,086	1,217	1,166
Central government	101	10	14	15	5	4	0	0	0	0	0	0	0	0
Other public bodies 2/	158	203	250	294	297	216	245	252	222	208	233	...	...	...
Personal	228	154	198	155	149	153	162	151	146	183	180	...	...	...
Business	277	462	603	727	722	644	613	579	593	706	643	...	...	...
Total deposits	1,383	1,526	1,782	2,051	2,016	1,911	1,847	1,859	1,812	1,950	1,967	2,083	2,258	2,222
Central government	101	10	14	15	5	10	0	0	0	0	0	0	0	0
Other public bodies 2/	178	233	292	343	341	261	290	295	269	245	276	312	288	315
Personal	590	568	634	631	619	646	643	657	632	681	693	695	744	768
Business	513	715	842	1,062	1,050	994	914	906	911	1,024	998	1,076	1,226	1,139

Source: Central Bank of Swaziland (CBS).

1/ Numbers do not include bank checks outstanding.

2/ Comprises local government, city councils, and statutory corporations.

Table 29. Swaziland: Commercial Banks' Liquidity Position, 1996-2002
(In millions of emalangeni, unless otherwise indicated)

	1996	1997	1998	1999	2000				2001				2002	
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.
Total liquid assets 1/	337	400	393	387	361	279	306	350	439	354	345	390	439	387
<i>Of which:</i> balance with CBS	153	144	97	102	60	40	31	62	195	74	62	43	54	60
Required liquid assets	221	252	299	336	326	312	306	307	295	317	321	347	365	356
Domestic liquidity surplus	115	148	93	51	35	-34	0	43	144	38	24	43	75	31
Net due from foreign banks	257	327	541	754	777	657	625	516	530	664	811	835	933	715
Total liquidity surplus	372	474	634	805	812	623	625	559	674	702	834	878	1,008	746
Memorandum items:														
Liquidity ratios (in percent)														
Required liquidity to deposits	16	17	17	17	16	16	17	16	16	16	16	17	16	16
Actual liquidity to deposits	25	27	22	19	18	15	17	19	24	18	17	19	20	17

Source: Central Bank of Swaziland (CBS).

1/ Comprises cash in tills, treasury bills, and eligible stock of the Swazi government, balances with the CBS and other banks, and other approved liquid assets. Since November 1997, it has also included rand notes and coins held by banks.

Table 30. Swaziland: Commercial Bank Loans and Advances by Category of Borrower, 1996-2002
(In millions of emalangeni)

	1996	1997	1998	1999	2000			2001				2002		
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.
Industry	647	693	646	775	746	832	836	925	975	1,013	907	969	916	1,225
Agriculture and forestry	148	63	116	199	220	176	142	155	189	225	187	224	234	317
Mining and quarrying	5	5	4	3	3	4	3	4	4	5	4	4	5	6
Manufacturing	174	307	224	246	189	248	342	398	376	338	306	349	275	384
Construction	62	63	63	42	39	41	41	40	50	62	55	59	66	84
Distribution and tourism	105	99	114	135	137	184	143	140	164	169	153	136	140	180
Transport and communications	27	26	32	22	23	30	28	40	41	45	39	39	36	47
Social and personal services	31	37	46	68	67	68	67	70	75	84	80	80	85	121
Other	95	93	49	59	68	80	71	78	76	86	83	76	74	87
Personal loans 1/	217	242	336	264	251	264	232	215	155	177	173	185	247	204
Statutory bodies	7	8	61	45	47	49	43	28	24	23	26	34	29	32
Other 2/	0	4	7	6	6	8	6	51	52	66	50	55	62	78
Total	872	948	1,050	1,090	1,050	1,154	1,116	1,219	1,206	1,279	1,156	1,243	1,254	1,538

Source: Central Bank of Swaziland (CBS).

1/ Includes small amounts of loans to nonresidents.

2/ Local authorities and private financial institutions.

Table 31. Interest Rates in Swaziland and South Africa, 1996-2002
(In percent)

	1996	1997	1998	1999	2000				2001				2002	
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.
Discount rates														
Central Bank of Swaziland	16.8	15.8	18.0	12.0	11.0	11.0	11.0	11.0	11.0	10.0	9.5	9.5	11.5	12.5
South African Reserve Bank	17.0	16.0	19.3	12.0	11.8	11.8	11.8	12.0	12.0	11.0	9.5	9.5	11.5	12.5
Treasury bills														
Swaziland	14.2	13.5	13.7	8.0	7.9	8.7	8.5	8.6	8.8	8.0	8.7	6.3	8.4	8.5
South Africa	16.1	14.8	17.0	10.7	9.8	10.3	10.2	10.2	10.2	9.6	9.0	9.4	10.2	11.5
Prime lending rate														
Swaziland	19.8	18.8	21.0	15.0	14.0	14.0	14.0	14.0	14.0	13.0	12.5	12.5	14.5	15.4
South Africa	20.3	19.3	23.0	15.5	14.5	14.5	14.5	14.5	14.5	13.8	13.0	13.0	15.0	16.0
Bank time deposits														
Swaziland-31 days	11.2	10.3	12.5	6.8	5.8	5.8	5.8	5.8	5.8	5.8	5.3	4.8	6.9	7.6
South Africa-31 days	17.9	15.2	18.0	10.8	9.8	10.1	10.2	10.3	10.4	9.5	8.7	9.0	10.5	11.5
Swaziland-12 months	13.4	11.8	14.1	8.0	7.0	7.0	7.0	7.0	7.0	6.4	6.4	6.3	7.9	8.6
South Africa-12 months	16.0	15.1	16.3	11.4	11.2	10.5	11.1	10.9	10.2	9.6	8.8	10.2	11.5	12.7
Bank savings deposits,														
Swaziland 1/	9.0-13.0	7.8-12.0	8.5-14.0	2.0-8.0	1.0-7.0	1.0-7.0	1.0-7.0	1.0-7.0	1.0-7.0	1.0-7.0	3.6-6.5	1.0-5.8	1.0-7.5	1.0-8.3

Source: Central Bank of Swaziland (CBS).

1/ Simple average of end-of-period minimum and maximum rates across banks: rates on large-scale interbank deposits, as well as other money rates, often diverge widely from the deposit rates offered to the general public in Swaziland.

Table 32. Swaziland: Balance of Payments, 1996-2001
(In millions of U.S. dollars, unless otherwise specified)

	1996	1997	1998	1999	2000	2001 Est.
Current account balance	-52	-3	-94	-22	-52	-53
Trade balance	-205	-104	-107	-131	-137	-74
Exports, f.o.b.	856	962	976	937	910	820
Imports, f.o.b.	-1,062	-1,067	-1,083	-1,068	-1,046	-894
Services (net)	-141	-153	-178	-109	-106	-95
Exports of services	101	92	92	95	108	86
Imports of services	-242	-245	-270	-205	-213	-182
Goods and services balance	-346	-257	-285	-241	-242	-169
Income (net)	133	138	57	88	67	35
Income (credits)	202	183	169	164	126	120
Income (debits)	-69	-45	-112	-76	-59	-85
<i>Of which</i> : interest	-18	-21	-16	-23	-28	-21
Transfers (net)	161	116	134	131	124	81
Official sector (nonduty Southern African Customs Union receipts)	159	115	131	130	124	81
Private sector	2	1	3	1	0	0
Capital and financial account balance	31	45	141	38	36	-16
Capital account balance	0	0	0	0	0	1
Financial account balance (excluding reserve assets)	30	45	141	38	36	-17
Direct investment	28	-3	130	87	20	27
Portfolio investment	-2	-2	1	6	-3	0
Other investment	4	50	10	-55	18	-44
Errors and omissions 1/	37	-16	4	5	10	12
Overall balance	15	26	51	21	-6	-57
Memorandum items:						
Current account/GDP (in percent)	-3.9	-0.2	-6.9	-1.6	-3.7	-4.1
Net official reserves (end of period)	258	284	329	314	293	228
In months of imports of goods and services	2.4	2.6	2.9	3.0	2.8	2.5
Debt service (in percent of exports of goods and services)	1.9	2.0	1.5	2.3	2.7	2.3
Total external debt	246	230	288	319	358	288
Public external debt	192	178	244	267	274	234
Private external debt	54	52	45	52	85	55
Total external debt/GDP (in percent)	18	16	21	23	26	22
GDP at current prices	1,331	1,437	1,359	1,376	1,396	1,292
Emalangeni per U.S. dollar (end of period)	4.68	4.87	5.86	6.15	7.57	12.13
Emalangeni per U.S. dollar (period average)	4.27	4.60	5.48	6.11	6.91	8.49

Sources: Central Bank of Swaziland; and staff estimates.

1/ Includes valuation adjustments.

Table 33. Swaziland: Balance of Payments, 1996-2001
(In millions of emalangeni, unless otherwise specified)

	1996	1997	1998	1999	2000	2001 Est.
Current account balance	-223	-13	-516	-133	-357	-454
Trade balance	-877	-480	-586	-802	-943	-626
Exports, f.o.b.	3,657	4,430	5,351	5,723	6,281	6,968
Imports, f.o.b.	-4,533	-4,910	-5,936	-6,525	-7,223	-7,593
Services (net)	-602	-705	-974	-668	-729	-810
Exports of services	433	423	505	582	745	732
Imports of services	-1,035	-1,128	-1,480	-1,249	-1,474	-1,542
Goods and services balance	-1,478	-1,185	-1,560	-1,470	-1,672	-1,436
Income (net)	568	636	312	536	460	297
Income (credits)	863	842	928	1,002	869	1,023
Income (debits)	-295	-206	-616	-466	-410	-726
Of which: interest	-79	-97	-88	-143	-192	-175
Transfers (net)	687	536	732	801	855	685
Official sector (nonduty Southern African Customs Union receipts)	678	531	718	793	855	685
Private sector	9	5	14	8	0	0
Capital and financial account balance	131	207	772	232	246	-137
Capital account balance	1	0	0	0	1	4
Financial account balance (excluding reserve assets)	130	207	772	232	245	-142
Direct investment	121	-15	712	532	140	232
Portfolio investment	-7	-9	3	36	-18	-1
Other investment	16	231	57	-337	124	-373
Errors and omissions 1/	159	-78	23	32	66	104
Overall balance	66	117	279	131	-45	-487
Memorandum items:						
Current account/GDP (in percent)	-3.9	-0.2	-6.9	-1.6	-3.7	-4.1
Net official reserves (end of period)	1,208	1,384	1,928	1,935	2,217	2,771
In months of imports of goods and services	2.6	2.7	3.1	3.0	3.1	3.6
Debt service (in percent of exports of goods and services)	1.9	2.0	1.5	2.3	2.7	2.3
Total external debt	1,150	1,122	1,690	1,964	2,710	3,498
Public external debt	897	866	1,427	1,641	2,070	2,836
Private external debt	254	255	263	322	640	662
Total external debt/GDP (in percent)	20	17	23	23	28	32
GDP at current prices	5,686	6,613	7,449	8,408	9,639	10,971
Emalangeni per U.S. dollar (end of period)	4.68	4.87	5.86	6.15	7.57	12.13
Emalangeni per U.S. dollar (period average)	4.27	4.60	5.48	6.11	6.91	8.49

Sources: Central Bank of Swaziland; and staff estimates.

1/ Includes valuation adjustments.

Table 34. Swaziland: Merchandise Exports, 1996-2001
(In millions of U.S. dollars)

	1996	1997	1998	1999	2000	2001
Sugar	147	126	112	103	97	76
Wood pulp	58	59	59	62	65	61
Asbestos	13	9	10	9	3	1
Meat and meat products	4	2	3	3	3	0
Canned fruit	15	13	17	14	13	10
Citrus	19	19	13	7	1	10
Coal	2	4	9	8	7	2
Diamond	6	1	0	0	0	0
Zippers	12	10	10	12	13	12
Edible concentrates	181	247	263	253	204	281
Wood and wood products	29	26	19	20	22	19
Cottonseed and lint	4	6	7	6	4	5
Chemicals	0	0	0	0	0	0
Automobile	0	1	4	4	0	0
Fruit squash	9	10	13	16	14	9
Brake linings	7	5	3	0	0	0
Cotton yarn	40	41	30	21	16	10
Face bricks	1	1	0	0	0	0
Footwear	3	0	0	0	0	0
Other textiles	7	23	21	34	18	50
Paper products	27	29	29	20	18	8
Plastic products	1	1	2	2	2	0
Refrigerators	80	81	77	75	62	2
Ethanol	3	5	4	3	3	0
Eucalyptus	1	1	3	4	4	18
Television sets	8	0	0	0	0	0
Windscreens	4	3	0	0	0	0
Other food products	113	101	107	62	35	23
Other	46	20	153	188	299	215
Total domestic exports	836	844	970	926	902	813
Reexports	19	9	9	10	7	6
Total exports, f.o.b.	855	853	978	937	909	819

Sources: Central Statistical Office; and Central Bank of Swaziland.

Table 35. Swaziland: Sugar Exports by Volume, Value, and Unit Price, 1996-2001

	1996	1997	1998	1999	2000	2001
(In thousands of metric tons)						
Volume						
Non-SACU	244	254	267	237	275	273
European Union (EU)	193	176	176	186	183	169
United States	28	28	28	20	16	16
Other	23	50	63	32	76	88
SACU 1/	184	234	247	275	255	296
Total production 2/	471	476	475	534	528	501
(In millions of emalangeni)						
Value						
Non-SACU	626	580	594	629	673	662
EU	476	438	435	551	542	498
United States	77	58	57	46	42	50
Other	73	84	102	33	89	114
SACU 1/	...	416	471	560	565	701
(In U.S. dollars per metric ton)						
Average unit price						
Non-SACU	597	496	406	435	355	...
EU	574	540	451	486	429	589
United States	640	450	371	382	380	425
Other	739	365	295	171	171	200
SACU 1/	...	386	348	334	320	278
(In emalangeni per metric ton)						
Average unit price						
Non-SACU	2,566	2,283	2,225	2,660	2,450	...
EU	2,466	2,489	2,472	2,968	2,959	3,305
United States	2,750	2,071	2,036	2,333	2,625	2,738
Other	3,174	1,680	1,619	1,048	1,179	1,311
SACU 1/	...	1,775	1,906	2,039	2,212	2,364

Source: Swaziland Sugar Association.

1/ The Southern African Customs Union (SACU) accounts for all sales to SACU countries and includes sales of sugar within Swaziland (normally about 10-15 percent of SACU sales).

2/ The difference between total production and total exports represents a change in stock.

Table 36. Swaziland: Other Principal Exports by Volume, Value, and Unit Price, 1996-2001

	1996	1997	1998	1999	2000	2001
(In thousands of metric tons)						
Volume						
Wood pulp	131	171	257	166	133	186
Asbestos	26	18	28	23	13	3
Citrus fruits	47	64	51	47	46	43
Canned fruits	17	17	24	20	20	25
Coal	129	203	410	426	378	313
(In millions of emalangeni)						
Value						
Wood pulp	247	273	311	381	446	516
Asbestos	58	39	56	55	21	5
Citrus fruits	86	48	65	81	71	83
Canned fruits	62	62	93	84	87	112
Coal	8	20	51	52	48	48
(In U.S. dollars per metric ton)						
Average unit price						
Wood pulp	439	346	219	375	485	324
Asbestos	519	470	362	391	234	194
Citrus fruits	426	162	231	282	223	225
Canned fruits	839	773	716	697	629	522
Coal	14	21	23	20	18	18
(In emalangeni per metric ton)						
Average unit price						
Wood pulp	1,885	1,596	1,210	2,295	3,353	2,774
Asbestos	2,231	2,167	2,000	2,391	1,615	1,667
Citrus fruits	1,830	745	1,275	1,723	1,543	1,930
Canned fruits	3,605	3,563	3,957	4,264	4,350	4,480
Coal	62	99	124	122	127	154

Source: Central Bank of Swaziland.

Table 37. Swaziland: Merchandise Imports, 1996-2001
(In millions of U.S. dollars, unless otherwise indicated)

	1996	1997	1998	1999	2000	2001
Food and live animals	173	171	156	187	167	132
Beverages and tobacco	25	24	20	28	28	20
Inedible crude materials	50	47	51	36	35	33
Minerals, fuels, and lubricants	136	150	153	143	140	97
Animal and vegetable oils and fat	13	15	17	13	10	10
Chemicals and chemical products	173	132	132	164	125	112
Manufactures classified by material	169	184	183	157	180	148
Machinery and transport equipment	286	302	329	290	303	197
Miscellaneous manufactures	108	112	108	104	109	97
Commodities not classified by kind	14	17	17	19	15	3
Total imports, c.i.f.	1,146	1,155	1,165	1,142	1,110	849
Total imports, f.o.b.	1,062	1,067	1,099	1,068	1,038	...
Imports f.o.b./imports c.i.f.	0.93	0.92	0.94	0.94	0.94	...

Source: Central Bank of Swaziland.

Table 38. Swaziland: Services and Income Account, 1996-2001
(In millions of U.S. dollars)

	1996	1997	1998	1999	2000	2001 Est.
Nonfactor services: credit	101	92	91	95	108	85
Swaziland Railways	12	11	9	8	11	8
Other shipment and transportation	9	10	10	8	7	5
Travel	38	40	47	50	36	28
Other official	3	2	5	3	3	2
Other private	39	30	20	25	52	41
Nonfactor services: debit	-226	-206	-228	-164	-178	-134
Shipment and transportation	-15	-23	-24	-24	-28	-28
Travel	-42	-38	-58	-59	-53	-44
Other official	-8	-9	-6	-4	-10	-2
Other private	-161	-136	-140	-77	-87	-60
Factor income: credit	201	183	168	164	126	119
Investment income	126	99	90	94	69	66
Official interest	118	97	88	92	67	65
Private (incl. property income)	8	2	2	2	2	1
Labor income	75	84	78	70	57	53
Factor income: debit	-83	-84	-151	-116	-94	-131
Investment income	-69	-45	-111	-76	-59	-85
Official and government guaranteed	-18	-21	-15	-22	-32	-14
Private	-50	-24	-97	-54	-27	-71
Property income	-15	-39	-39	-40	-35	-46
Labor income	0	0	0	0	0	0
Services and income: credit	302	275	259	259	234	205
Services and income: debit	-310	-289	-379	-281	-273	-264
Total (net)	-8	-15	-120	-22	-39	-60

Source: Central Bank of Swaziland.

Table 39. Swaziland: Financial Account, 1996-2001
(In millions of U.S. dollars)

	1996	1997	1998	1999	2000	2001
Direct investment (net)	28.2	-3.3	128.8	87.1	20.2	27.0
Direct investment in Swaziland	21.7	-15.3	152.7	100.3	34.6	20.9
Equity capital	27.2	3.9	9.3	1.4	-21.3	-0.2
Reinvestment of earnings	-8.1	-25.2	73.0	36.5	9.7	29.5
Other long-term capital	-3.7	5.5	21.6	42.5	7.3	0.0
Other short-term capital	6.4	0.5	48.7	19.8	39.0	-8.3
Direct investment abroad	6.5	12.0	-23.9	-13.2	-14.4	6.1
Equity capital	-4.3	6.6	-0.8	1.4	0.7	0.0
Reinvestment of earnings	-4.7	-1.1	-0.9	-0.8	-0.7	-0.6
Other long-term capital	-0.8	-0.4	0.4	2.3	0.0	-0.1
Other short-term capital	16.2	6.8	-22.6	-16.1	-14.4	6.8
Long-term capital (net)	-8.9	-39.0	15.3	-3.7	-20.5	-20.3
Public sector (net)	2.7	-1.0	-0.7	-4.5	-1.2	4.3
Loan drawings (liability)	21.7	13.4	13.4	11.5	12.2	16.0
Loan repayments (liability)	-18.5	-14.0	-14.1	-16.1	-13.4	-11.7
Sasol Funds (assets)	-0.5	-0.5	0.0	0.0	0.0	0.0
Private sector (net)	-11.6	-38.0	15.9	0.9	-19.3	-24.6
Private sector (liability)	20.7	-1.7	13.2	30.2	24.2	-16.6
Corporate equity securities	0.4	-0.1	3.4	2.7	1.4	0.0
Loans (drawings and repayments)	20.3	-1.6	9.8	27.5	22.8	-16.6
Private sector (assets)	-32.3	-36.3	2.7	-29.3	-43.5	-8.0
Corporate equity securities	-0.2	-1.9	-1.3	1.5	-0.1	-0.1
Debt securities (money markets)	-1.7	0.0	-1.5	1.7	-3.9	0.0
Loans (drawings and repayments)	-1.0	0.1	0.1	0.8	0.2	0.0
Other assets including pension funds	-29.3	-34.4	5.5	-33.4	-39.7	-7.9
Short-term capital (net)	11.0	87.2	-4.4	-46.4	31.5	-29.2
Public sector (net)	1.6	-5.4	17.4	44.7	14.4	23.9
Received under Southern African Customs Union (SACU) (liability)	191.5	210.0	191.5	210.2	196.7	169.7
Monetary authority currency/deposits (liability)	3.8	-19.2	22.2	28.4	6.2	14.8
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Receivable under SACU	-193.7	-196.2	-196.3	-193.9	-188.6	-160.5
Private sector (net)	9.3	92.5	-21.8	-91.1	17.1	-53.1
Banks (net)	-35.5	-14.8	-36.7	-41.3	34.3	-37.3
Currency and deposits (assets)	-77.0	11.1	-22.9	-41.6	27.8	-27.8
Other liabilities (liability)	41.5	-25.9	-13.8	0.3	6.5	-9.5
Other (net)	44.8	107.4	14.8	-49.8	-17.2	-15.8
Trade credit (liability)	1.3	45.9	33.4	0.9	-1.2	9.7
Other liabilities (liability)	53.6	63.9	-42.3	-21.1	8.9	-6.1
Trade credit (assets)	18.6	-7.3	-7.0	-26.7	-0.8	-29.0
Currency holdings	-28.7	4.9	30.7	-2.9	-24.2	9.6
Other (unrecorded)	0.2	0.0	1.2	1.0	4.3	5.7
Financial account balance	30.5	44.9	140.9	37.9	35.6	-16.7

Source: Central Bank of Swaziland.

Table 40. Swaziland: Public Sector External Debt, 1996/97-2001/02 1/
(In millions of U.S. dollars)

	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02
Multilateral loans	107	114	105	157	173	155
IBRD	19	8	1	27	29	10
IDA	6	5	5	5	5	4
Arab League	1	0	0	0	0	0
United Nations	0	0	0	0	0	0
African Development Bank/Fund	63	87	83	111	125	128
European Development Fund/European Investment Bank	14	13	13	10	9	9
IMF Trust Fund	0	0	0	0	0	0
International Fund for Agricultural Development	5	3	3	4	6	4
Economic Development for Equatorial and Southern Africa	0	0	0	0	0	0
Bilateral loans	78	68	68	55	47	49
United Kingdom	8	5	4	3	2	1
Germany	39	35	35	28	23	21
United States	9	8	8	8	8	7
Denmark	14	14	13	8	6	5
Canada	0	0	0	0	0	0
Other	8	5	8	7	8	14
Financial institutions	0	30	49	51	39	33
Other	0	10	10	10	0	0
Total	185	222	232	273	258	237

Source: Ministry of Finance.

1/ Fiscal year runs from April 1 to March 31.

Table 41. Swaziland: Public Sector External Debt Service, 1996/97-2001/02 1/
(In millions of emalangeni)

	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02
Multilateral loans	70	64	101	95	99	142
Interest	24	24	32	42	39	59
Principal	46	40	69	54	60	83
Bilateral loans	31	30	36	64	40	65
Interest	7	5	6	35	16	13
Principal	25	26	30	30	24	52
Financial institutions	0	0	0	0	2	26
Interest	0	0	0	0	2	23
Principal	0	0	0	0	0	3
Total	102	106	137	160	141	233
Interest	31	33	38	76	57	95
Principal	71	66	99	83	84	138

Source: Ministry of Finance.

1/ Fiscal year runs from April 1 to March 31.

Table 42. Swaziland: Export Products and Country of Destination, 2001

	Total Exports (In thousands of U.S. dollars)	Exports to South Africa	Share of Exports to South Africa (In percent)
Standard International Trade Classification (SITC)			
Food and beverages	187,954	86,351	46
Citrus fruit	...	...	...
Canned fruit and fruit juices	9,125	641	7
Sugar, mainly raw	178,513	85,477	48
Nonalcoholic beverages	316	233	74
Crude materials	99,343	76,997	78
Coke and wood	18,704	18,620	100
Pulp and waste paper	80,640	58,377	72
Manufactures classified by material	26,094	...	...
Paper products	16,334	15,616	96
Textiles and yarns	1,045	...	...
Nonmetallic minerals	8,715	7,233	83
Machinery and transport equipment	21,060	19,997	95
General industrial machinery	18,147	17,263	95
Other machinery and equipment	2,913	2,734	94
Miscellaneous manufactured articles	101,685	58,435	57
Furniture and parts thereof	8,532	3,258	38
Apparel and clothing	92,943	55,024	59
Footwear	210	153	73
Other	466,942	315,716	68
Total, f.o.b.	903,078	...	...

Source: Department of Customs and Excise.

Table 43. Swaziland: Main Import Products and Country of Origin, 2001

	Total Imports (In thousands of U.S. dollars)	Imports from South Africa	Share of Imports from South Africa (In percent)
Standard International Trade Classification (SITC)			
Food and beverages	105,878	102,895	97
Live animals	7,331	7,331	100
Dairy products	16,013	14,076	88
Vegetables	14,445	14,421	100
Cereals	20,258	19,965	99
Flour, malt, and gluten	6,699	6,699	100
Sugar	69	69	100
Bread and pasta	6,738	6,708	100
Juice and jams	7,559	7,553	100
Ice cream, sauces, and soups	8,078	7,593	94
Beverages	18,688	18,478	99
Chemicals and fuels	181,668	179,696	99
Inorganic chemicals	7,081	6,768	96
Pharmaceuticals	15,467	14,679	95
Fertilizers	15,309	15,307	100
Toiletries and perfumes	17,087	17,063	100
Soaps, polishes, and wax	12,278	12,275	100
Gelatin and adhesives	1,511	1,511	100
Plastics	28,491	27,666	97
Fuels (coal and petroleum)	84,444	84,427	100
Manufactures classified by materials	65,683	64,771	99
Rubber and products thereof	12,584	12,488	99
Wood and products thereof	10,024	10,024	100
Paper products	24,689	24,370	99
Newspaper, printed	558	546	98
Special woven fabrics	170	170	100
Iron and steel products	13,863	13,858	100
Aluminum products	3,157	2,678	85
Nonmetallic minerals	637	637	100
Machinery, transport equipment, and others	253,497	240,911	95
Nonelectric machinery	102,734	94,515	92
Electric machinery	36,319	35,372	97
Vehicles	72,616	70,406	97
Clothing	23,729	22,627	95
Footwear	9,283	9,203	99
Furniture	8,818	8,789	100
Subtotal	602,556	587,636	98
Other	246,486	215,028	87
Total	849,042	802,664	95

Source: Department of Customs and Excise.

Table 44. Swaziland: Summary of the Tax System as of August 31, 2002
(All amounts in emalangeni)

Tax	Nature of Tax	Exemptions and Deductions	Rates
<i>A. Central government</i>			
<i>1. Taxes on net income and profits</i>			
<i>1.1 Taxes on companies</i>			
1.11 Company income tax (Normal Tax). The Income Tax Order 1975, as amended.	<p>Annual income tax is levied on taxable income derived from sources in Swaziland, or deemed to be in Swaziland, by all companies, foreign or domestic, public or private. Agricultural cooperatives, insurance societies, and public utility companies are also considered companies for taxation purposes. Taxable income is defined as gross income (excluding capital receipts, foreign and exempt income) less allowable deductions (including loss offsets) incurred in the process of production in Swaziland. The assessment year ends June 30 and tax (less provisional tax payments detailed below) is payable annually. Company tax legislation is integrated with personal income tax legislation. Consequently, where exemptions, deductions, and allowances normally appropriate for persons are appropriate for a particular company, these may be claimed (see 1.21 below). For farming companies, net change in livestock and produce held is deemed income (except for companies that opted otherwise under previous tax laws) and will be valued at purchase price or current market prices, whichever is lower.</p>	<p>Exemptions include, inter alia, dividend receipts of companies, receipts and accruals (including those from investments) of life insurance companies, building societies, pension benefit or provident funds, mutual savings banks, and mutual loan associations. Also excluded are the noninvestment profits of societies and associations that are derived solely through transactions with individual members, and the first E 1,000 of interest income from deposits in a financial institution.</p>	<p>(a) Companies: 30 percent of taxable income. (b) Companies granted development approval order: 10 percent of taxable income.</p>

Table 44. Swaziland: Summary of the Tax System as of August 31, 2002 (continued)
(All amounts in emalangeni)

Tax	Nature of Tax	Exemptions and Deductions	Rates
<p>I.11 Company income tax (Normal Tax). The Income Tax Order 1975, as amended. (continued)</p>	<p>Provisional tax: a system of provisional taxation is in operation in respect of all companies, directors of private companies, and any person whose income, other than remuneration under the PAYE (Pay-As-You-Earn) scheme, exceeds E 1,000 per annum. Provisional taxpayers pay provisional tax on account of their final liability for normal tax for the year. The advance payments are to be made: (a) on or before the last day of the six months of the year of assessment, one half of the tax payable on the estimated income for the year; and (b) on or before the last day of the year of assessment, the total taxes payable on the estimated income for the year less the amount of the previous provisional tax payment. The estimated income for the year will normally not be less than the taxable income in the preceding year of assessment. In the case of a company, the year of assessment will be the year in respect of which its financial accounts are drawn up. Farmers are required to make one payment of provisional tax on or before the end of the year of assessment on the estimated income for the year. As an introductory measure, a "phasing-in" period of five years is provided for payment of provisional tax. One-fifth of the provisional tax due for 1985/86 would be payable in that year and so on until full provisional tax payments are due in 1990/91. In terms of the provisions of the Income Tax (Amendment) Act of 1994, all companies that are provisional taxpayers are required, in addition to the two existing provisional tax payments mentioned above, to make a third payment for year of assessment. This final payment is due six months after the close of the year of assessment, by which time the company will be in a position to accurately estimate its taxable income.</p>	<p>A new business engaged in a manufacturing industry that is not already in existence in Swaziland or, with effect from July 1, 1988, any business that is predominantly engaged in exporting goods from Swaziland is exempt from normal tax for the first five years unless the cumulative taxable income less cumulative local wage bill exceeds 150 percent of the value of the assets, in which case the excess shall be taxed. The Minister of Finance makes the final decision on whether a business is new, engaged in a manufacturing industry, is not already in existence in Swaziland, or is predominantly engaged in exporting goods from Swaziland.</p> <p>Where the Minister of Finance is satisfied that a new business is beneficial to the development of the economy, he may, with prior approval of cabinet, declare that business a development enterprise, and he may issue a "development approval order" in respect of that business granting additional tax concessions to it.</p> <p>Deductions allowed include expenditures and losses incurred in the production of income (excluding capital expenditures and dividend payments), interest charges, "reasonable" depreciation allowances for plant, and 4 percent for buildings used in production, along with actual expenditures on repairs and maintenance. Any grant made to the University of Swaziland for the purpose of the university undertaking capital projects in the form of buildings, fittings, furniture, as well as other items associated with capital assets needed for the development of the university. An amount spent by a company as direct "listing" fees on the Swaziland Stock Exchange, subject to the proviso that only one third of the expense is claimable in the year of expense; the balance is spread equally in the next two years.</p>	

Table 44. Swaziland: Summary of the Tax System as of August 31, 2002 (continued)
(All amounts in emalangenzi)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.11 Company income tax (Normal Tax). The Income Tax Order 1975, as amended. (continued)		<p>Contributions to pension schemes are limited to 20 percent of employee remuneration and annuities (less employees' contribution) up to E 1,750 per employee. The total contribution by a taxpayer to retirement annuity funds is limited to the greatest of (a) 15 percent of taxable income accruing to the taxpayer in respect of trade carried on by him, provided such amount shall not exceed E 5,000 per annum; or (b) E 3,500 less contributions made by the taxpayer to a pension fund; or (c) E 1,750. All expenses relating to the training of Swazi employees are also deductible (in effect 200 percent) for taxpayers engaged in an industry gazetted by the Ministry of Finance with the scheme being approved by the Commissioner. Expenditures, direct and indirect, for research related to production are also deductible at the rate of annual cost or 4 percent of the total contract value, whichever is greater.</p> <p>Initial allowances are available for machinery or plant, infrastructural machinery, plant or facilities, including transmission equipment, lines and pipes qualifying for wear and tear allowances and for building housing such machinery or plant and used by the taxpayer for the first time in a manufacturing business at the rate of 50 percent granted in the first year of assessment during which the machinery or plant or building was first used.</p> <p>Companies that are considered approved companies in the hand-craft and cottage industry sector and companies considered to be engaged in the export of products from the handicraft and cottage industry sector ("export trading houses") are permitted to deduct from income, (i.e., in addition to the normal amounts permitted under the General Deduction Formula) additional</p>	

Table 44. Swaziland: Summary of the Tax System as of August 31, 2002 (continued)
(All amounts in emalangeni)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.11 Company income tax (Normal Tax). The Income Tax Order 1975, as amended. (<i>concluded</i>)		<p>amounts of 33 percent (for cottage industry) and 50 percent ("approved export trading houses") in respect of "approved export promotion expenditure," as defined. The additional expenditure allowance is subject to the company achieving an increase in volume of exports in the subsequent year.</p> <p>Contributions, whether in cash or in kind, made during the year of assessment toward any national disaster scheme established by the Government.</p> <p>Farming: special (100 percent) deductions (not exceeding 30 percent of gross income) are allowable for a variety of on-farm expenditures (e.g., irrigation, fencing). Where these deductions are made, initial and depreciation allowances are not allowable.</p>	
1.12 Casino tax. The Casino Tax Act 1963 (Act No. 56, 1963, as amended.)	<p>With effect from July 1, 1985, it is composed of an annual license fee and of a levy based on a percentage of the gross gaming room takings of the licensee less any amount paid out as winnings to casino patrons and is payable on an annual basis. A licensee is liable to normal tax.</p>		<p>(a) The annual license fee is E 2,000.</p> <p>(b) A levy payable on the gross gaming room takings of the licensee less any amount paid out as winnings to casino patrons, as follows:</p> <ul style="list-style-type: none"> • in respect of the first year of operation of the casino, no levy shall be paid; • in respect of the second, third, fourth, fifth, and sixth years of operation of the casino, a levy of 2.0 percent shall be paid; and • in respect of the seventh year and subsequent years of operation, a levy of 4.5 percent shall be paid.

Table 44. Swaziland: Summary of the Tax System as of August 31, 2002 (continued)
(All amounts in emalangeni)

Tax	Nature of Tax	Exemptions and Deductions	Rates											
1.21 Individual income tax (Normal Tax). The Income Tax Order, 1975, as amended).	<p>This is payable, subject to the deductions and exemptions noted, on income received by or accruing to all persons from sources within Swaziland or deemed to be within Swaziland. Tax is payable on assessed "taxable income," which is equal to gross income (excluding capital receipts and exempt income) less losses and allowable deductions. Taxable income includes, inter alia, annuities, wages and salaries, rent investment income, and benefits in kind (e.g., free housing). After the calculation of taxable income and, hence, tax payable, certain "tax abatements" may be deducted where applicable. With effect from July 1, 1991, both men and women are subject to a uniform system of taxation. (See below under "rates.")</p>	<p>Exemptions include, inter alia, every person who is ordinarily resident in Swaziland whose taxable income in one year of assessment does not exceed E 14,000 per annum. Other exemptions include salaries of United Kingdom and South African civil servants, consular personnel not permanent residents of Swaziland, war pensions and gratuities, the first E 1,000 of interest income received by or accrued to an individual from a deposit in a financial institution. Interest received by nonresidents from Swaziland government securities and bonds. Capital sums due from a provident fund or benefit fund, pension one third of the total value of the annuity to which any employee becomes entitled may be commuted for a single payment, capital sums in commutation of a retirement annuity, gratuities to a maximum of 25 percent of total remuneration in respect of services rendered prior to 1 July 2001. Severance allowance or notice pay payable under the Employment Act to an employee on the termination of his services is exempt from normal tax. The first E 10,000 received by or accrued to an individual on retrenchment. The first E 24,000 received by or accrued to an employee on termination of employment by reason of the employee having attained the retiring age or due to ill-health or infirmity.</p>	<p><i>Taxable income tax rate</i></p> <table border="0"> <tr> <td>0 - 14,000</td> <td>0</td> </tr> <tr> <td>14,001 - 20,000</td> <td>12</td> </tr> <tr> <td>20,001 - 30,000</td> <td>19</td> </tr> <tr> <td>30,001 - 36,000</td> <td>26</td> </tr> <tr> <td>36,000</td> <td>33</td> </tr> </table>	0 - 14,000	0	14,001 - 20,000	12	20,001 - 30,000	19	30,001 - 36,000	26	36,000	33	<p>Marginal (In percent)</p>
0 - 14,000	0													
14,001 - 20,000	12													
20,001 - 30,000	19													
30,001 - 36,000	26													
36,000	33													
			<p><i>Trust income</i></p>											
			<p>33 percent of taxable income</p>											
			<p><i>Dividend income</i></p>											
			<p>10 percent in the case of dividends received by, accrued to, or in favor of an individual from any company.</p>											
	<p>Employees are subject to monthly withholding at source; other taxpayers are assessed annually. Nonresidents are liable for income tax on income earned in Swaziland (including benefits in kind received for services rendered); however, dividends and interest payments are subject to special taxes (see 1.31 and 1.32). Personal income tax legislation is integrated with company tax legislation. Consequently, where exemptions, deductions, and allowances normally appropriate for companies are applicable to persons (e.g., owner-occupied farms), these may be claimed. For farmers, net change in produce and livestock held is deemed income (except for those farmers who opted otherwise under previous tax laws) and will be valued at the lesser of the purchase price or current market price (if purchased), and at standard book valuation otherwise.</p>													
	<p>A system of provisional tax is in operation in respect of self-employed persons and other individuals whose income, other than remuneration subject to PAYE, exceeds</p>													

Table 44. Swaziland: Summary of the Tax System as of August 31, 2002 (continued)
(All amounts in emalangeni)

Tax	Nature of Tax	Exemptions and Deductions	Rates										
1.21 Individual income tax (Normal Tax). The Income Tax Order, 1975, as amended. (<i>concluded</i>)	E 1,000 per annum (see 1.11 above). One of the important amendments introduced in the Income Tax (Amendment) Act No. 6 of 1994 was the introduction of the Final Deduction System (FDS) for employees, which came into operation on July 1, 1993. FDS constitutes a final liability to tax and is related to a full year of assessment. All employees, no matter how much they earn, are subject to the FDS, provided they have not derived any other taxable income during the year of assessment. Such employees are not required to furnish an income tax return if the income consists solely of employment income that is subject to FDS.	Dividends received by nonresidents (see 1.32 below). Individuals farming on Swazi Nation Land (other than land leased) are exempt from normal tax in respect of income derived from such land. Deductions include, in addition to those for companies (1.11 above) where appropriate, employee contributions to pension funds (maximum E 1,750 where pension fund not established by law). Death, accident, sickness, or unemployment insurance and contributions to provident and benefit funds (other than a medical aid fund) are also deductible at a rate of 10 percent to a maximum of E 180. To receive this deduction on death, accident, and sickness insurance premiums on policies entered after July 1, 1974, the policy must be with the Swaziland Royal Insurance Corporation.											
1.22 Graded tax. The Graded Tax Act of 1968, as amended.	This tax is payable by all persons (apart from the exemptions noted) resident or domiciled in Swaziland, and is thus akin to a head tax. Tax is determined on the basis of gross income and is payable annually for all except for employees whose deductions are made monthly at source.	Exemptions include all persons under the apparent age of 18, women earning less than E 15 per month, visitors, students, and the chronically ill.	Tax due is determined on the basis of gross income as shown below: <table border="1"> <thead> <tr> <th>Gross income</th> <th>Tax payable</th> </tr> </thead> <tbody> <tr> <td>E 0 - E 299</td> <td>E 4.20</td> </tr> <tr> <td>E 300 - E 449</td> <td>E 6.00</td> </tr> <tr> <td>E 450 - E 600</td> <td>E 12.00</td> </tr> <tr> <td>Over E 600</td> <td>E 18.00</td> </tr> </tbody> </table>	Gross income	Tax payable	E 0 - E 299	E 4.20	E 300 - E 449	E 6.00	E 450 - E 600	E 12.00	Over E 600	E 18.00
Gross income	Tax payable												
E 0 - E 299	E 4.20												
E 300 - E 449	E 6.00												
E 450 - E 600	E 12.00												
Over E 600	E 18.00												
1.31 Tax on nonresidents' interest receipts. The Income Tax Order, 1975, as amended.	This tax is payable by persons or the estate of a deceased person not resident in Swaziland or a company not registered in Swaziland on accrued interest where the debtor (person or company) is domiciled in Swaziland. The recipient is legally liable for the payment of this tax within 14 days of the accrual of interest, but it is normally paid by the debtor and deducted from interest remitted.	Exemptions: interest on loans specifically exempt by government (usually government and other public body loans); building society shares; interest from loans to agricultural cooperatives and public utilities established by parliament; interest received by church, charitable, or educational organizations; interest amounting to E 20 or less in a full tax year. Also, interest on importer's bills or notes is exempt where these have been handled through the banking system.	Tax is payable at 10 percent of the interest accrued.										

Table 44. Swaziland: Summary of the Tax System as of August 31, 2002 (continued)
(All amounts in emalangeni)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.32 Tax on nonresident shareholders. The Income Tax Order, 1975, as amended.	This tax is payable by persons or the estate of a deceased person not resident in Swaziland or any company not registered in Swaziland on dividends received from a company domiciled in Swaziland. This tax is payable on both interim and final dividends and is due within 30 days. Legal liability for payment resides with the recipient, but is normally paid by the payer and deducted from remitted dividends.	Exemptions include dividends paid by agricultural cooperatives and dividends received by church, charitable, or educational institutions, as are dividends accruing to a nonresident shareholder which the government has, in terms of a written undertaking, exempted from tax.	Tax is payable at the rate of 12½ percent where dividends are payable to a company incorporated (but not a branch of company headquartered in a third country) in Botswana, Lesotho, and South Africa. For all other destinations, tax is payable at the rate of 15 percent.
1.33 Tax on nonresident contractors. Income Tax Order, 1975, as amended.	This tax is payable by every person who makes payment to a nonresident person under an agreement relating to construction operations. The tax is deducted from each payment made to the nonresident. The nonresident is not relieved from any obligations to furnish returns for income tax and any assessment raised on the nonresident for income tax will be credited with the nonresident contractors' tax that has been paid on his behalf.	There are no exemptions.	Tax is payable at the rate of 15 percent.
1.34 Tax on nonresident for Swaziland source services contract. Income Tax, 1975, as amended.	Tax is payable by all nonresident persons on amounts derived by the nonresident from performance of services that gives rise to Swaziland – source income. The tax is payable on gross amount at source by withholding. The tax is a final tax.	There are no exemptions.	Tax is payable at the rate of 15 percent.

Table 44. Swaziland: Summary of the Tax System as of August 31, 2002 (continued)
(All amounts in emalangeni)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.34 Tax on nonresident entertainers and sportsmen. Income Tax Order, 1975, as amended.	This tax is payable by all nonresident entertainers and sportsmen who perform in Swaziland. The tax is payable on remuneration or gross receipts of any theatrical, musical, or sports performance where these receipts are received directly by the performers concerned. Legal liability for payment resides with the recipients. However, the payer is legally required to withhold the tax due from any remuneration payable.	There are no exemptions.	Tax is payable at the rate of 15 percent.
1.35 Tax on royalties and management charge paid to nonresident persons. Income Tax Order 1975, as amended.	This tax is payable by nonresident persons on gross amount of any royalty and management charge derived from a source in Swaziland. The tax is withheld at source and it is a final tax.	There are no exemptions.	Tax is payable at the rate of 15 percent.
1.36 Tax on interest paid to residents. Income Tax Order, as amended.	This tax is payable by residents on the gross amount of interest derived from every financial institution. The tax is withheld at source. It is a final tax.	There are no exemptions.	Tax is payable at the rate of 15 percent.
1.35 Tax clearance certificates.	A system of tax clearance is in operation. In terms of a gazette regulation published recently, tax clearance is presently needed for the issue, renewal, or transfer of any license, other than renewal of motor vehicle licenses, or similar document relating to any trade, business, profession, or vocation; the transfer of immovable property or any endorsement to any title deed having the effect of transferring property; the registration or deregistration of a company; first registration of motor vehicles in Swaziland; and the tendering for the provision of goods or services to the government or a parastatal body, in excess of E 5,000.		

2. Social security contributions

None.

Table 44. Swaziland: Summary of the Tax System as of August 31, 2002 (continued)
(All amounts in emalangeni)

Tax	Nature of Tax	Exemptions and Deductions	Rates
<i>3. Taxes on property</i>			
3.1 <i>Real estate taxes</i>	See 3.42.		The rate of tax varies with the size, or dutiable value, of the estate. The formula for determining the rate is: for every E 200 (or part thereof) in dutiable value, the tax rate rises by 0.015 percent. This is subject to a maximum tax rate of 33 1/3 percent (reached at a dutiable estate value of E 445,667).
3.2 <i>Tax on unutilized land</i> Land Tax Order, 1974, King's Order-In-Council No. 35, 1974.	This tax, which came into force on June 1, 1975, is levied by a Land Taxation Board on land deemed underdeveloped after a hearing initiated by the Minister of Agriculture (for agricultural land) or the Minister of Local Administration (for urban land). Tax may be levied on all or part of a property owner's land.		
3.3 <i>Death and succession duties</i>			
All death and succession duties under the Death Duties Act, 1942 were abolished by the Death Duties (Repeal) Act, 1985.			
3.4 <i>Property transfer tax</i>			
3.41 Transfer duty, Chapter 107 of the Laws, Revised Edition, 1959.	Duty is levied on the sale or long-term lease of fixed property situated in Swaziland. The person liable for payment of the tax is the party acquiring title to the property, or entering into a lease of 25 years duration (or longer), or entering into the lease of a claim for mineral rights for any period. The base for this tax is the value of the property being acquired or leased.	Exemptions include, inter alia, transfers of property by gift for public, municipal, religious, or charitable uses. Also, government purchases and purchases by public hospitals (for the sole use of the hospital) are exempt. Additionally, settlement of jointly owned property between married persons upon divorce, or on the death of one party, is exempt.	The rate of this duty is 2 percent on the first E 40,000 of transferred property value and 4 percent of any amount exceeding E 40,000, but only E 60,000 and 6 percent on any amount exceeding E 60,000.

Table 44. Swaziland: Summary of the Tax System as of August 31, 2002 (continued)
(All amounts in emalangeni)

Tax	Nature of Tax	Exemptions and Deductions	Rates
3.42 Mineral rights tax. The Mineral Rights Tax, Order No. 34, 1973.	<p>Holders of mining rights are subject to taxes with respect to properties able to produce precious and nonprecious metals to which they hold rights. There are three distinct taxes that are grouped together: (a) a tax on the transfer of mining rights; (b) a ground tax on mineral rights; and (c) a capital gains tax.</p>	None.	<p>(a) Transfer of mining rights is taxed at the rate of 27 ½ percent on the first E 20,000 value and 37 ½ percent above E 20,000;</p> <p>(b) The tax on unexploited rights is E 10 per ha. in each of the first five years, rising to E 50 per ha. thereafter, if there has been no exploitation; and</p> <p>(c) The tax on gains from shares in mineral rights is 37 ½ percent of that gain.</p>
<i>4. Taxes on goods and services</i>			
4.1 <i>Sales tax</i> The Sales Tax Act (Act. No. 12 of 1983).	<p>A tax levied at the import and manufacturing level. To be collected on certain services and all goods other than those specifically exempted. Where payable on goods imported from outside the customs union area, valuation is 110 percent of customs value plus customs duties payable. Proceeds are received directly by the Swazi Government, and are not paid into the SACU pool.</p>	<p>Many exemptions: necessities and intermediate goods for manufacturing all mostly exempt along with certain medical supplies, temporary imports, certain personal imports, electricity, etc.</p>	<p>14 percent on goods and services; and 20 percent on most alcohol and tobacco goods</p>
4.2 <i>Selective excises</i> The Customs and Excise Act (Act No. 21 of 1971).	<p>Specific duties are payable by the importer or manufacturer of beer, tobacco and cigarettes. Rates are those set by South Africa, with proceeds pooled under the Customs Union Agreement.</p>	<p>Exemptions are extended to exported goods.</p>	<p>Rates of excise duty are mostly specific. Examples of these rates include:</p> <p>(a) nonalcoholic beverages - E 4.36 per 100 liters;</p> <p>(b) spirituous liquors - E 1,314.96 per 100 liters of absolute alcohol; and</p> <p>(c) malt beer of prefermentation relative density of 1,040 degrees or less - E 39.27 per 100 liters.</p>

Table 44. Swaziland: Summary of the Tax System as of August 31, 2002 (continued)
(All amounts in emalangeni)

Tax	Nature of Tax	Exemptions and Deductions	Rates
4.3 <i>Business and professional licenses</i> Legal reference not available.	Annual license fees are charged for betting shops, companies with a place of business in Swaziland, persons or companies trading in Swaziland, and establishments licensed to sell or serve liquor.	None.	Annual fees areas follows: <ul style="list-style-type: none"> Betting licenses are charged on the basis of annual turnover; Company license fees vary from E 20 per annum for companies with a share capital of less than E 10,000 to E 200 per annum for companies with a share capital above E 50,000. Trading licenses are subject to a wide variety of rates, depending on the trade carried out, but are generally between E 25 and E 150 per annum; and Liquor licenses vary in cost between rural and nonrural areas, with the type of establishment, and the type of beverage sold; they are between E 25 and E 750 per annum.
4.4 <i>Motor vehicle taxes</i> Motor vehicle license fees. Legal reference not available.	License fees are levied on an annual basis. Rates vary with both the type and weight of the vehicle.	None.	Annual fees for motor vehicles are: <p>Motorcycles E 6 Motorcycles (with sidecar) E 9 Tractors E 9 Tractors (with trailer) E 3 Earthmover E 24</p> <p>Other vehicles (by weight): 0 - 1,300 lbs. E 14 1,301 - 1,699 lbs. E 16 (Broadly equivalent increases of E 2 for each additional 200 - 300 lbs) 3,300 - 4,000 lbs. E 28 Over 4,000 lbs. E 28 (plus E 3.50 for each additional 500 lbs.)</p>
4.5 <i>Fuel levy</i>	Levy on petroleum products.		35 cents per liter.
5. <i>Taxes on international trade and transactions</i>			

Table 44. Swaziland: Summary of the Tax System as of August 31, 2002 (continued)
(All amounts in emalangeni)

Tax	Nature of Tax	Exemptions and Deductions	Rates
5.1 <i>Duties on imports</i> Customs Union Agreement, 1969 (Legal Notice No. 71 of 1969) and the Customs, Fiscal, Excise, and Sales Duties Act, 1971 (Act No. 21 of 1971).	A common taxation system is levied on imports in conjunction with Botswana, Lesotho, Namibia, and South Africa. Import duties are levied at the point of entry into the common customs area and thereafter are free to move within the entire area. The importer is legally liable for the payment of these duties, the proceeds of which are pooled and divided among the countries according to a formula. Duty rates are set by South Africa on the basis of the six-digit Harmonized Commodity Description and Coding System. The rate structure includes general and most-favored-nation clauses. Most duties are ad valorem with specific duties on some items.	Rebates, remissions, and refunds of import duties are allowed in some cases (mostly for raw materials and semimanufactures). As with duty rates, such rebates must conform to South African rebates.	There are 45 ad valorem rates, ranging from 0 to over 70 percent.
5.2 <i>Taxes on exports</i>			
5.21 Sugar levy. Sugar Export Levy Act No. 4 of 1997.	The Sugar Export Levy is a tax on all sugar exported from Swaziland to any country other than Botswana, Lesotho, Namibia, and South Africa. The levy is collected from the Swaziland Sugar Association, which is a statutory body representing all millers and growers.	None.	The levy is on the net ex-mill protocol sales to the European Union to be applied two years in arrears. Net ex-mill export protocol sales proceeds is the Swazi currency equivalent of the gross amount received by the Association in respect of all sales of sugar exported less expenses as prescribed in the act and is payable on a quarterly basis.
5.22 Cattle export slaughter tax. Details not available.			
6. <i>Other taxes</i>			
6.1 <i>Stamp taxes</i> Chapter 100 of the Laws, 1959. The Stamp Duties Act, 1970 (Act No. 37) and 1974 (Act No. 13), as amended by the Finance Act of 1985.	These taxes, which are mostly ad valorem with some specific taxes, are payable on a wide range of legal documents (affidavits, bills of exchange, checks, bonds, contract notes, receipts, property transfers, etc.)	Government and specified public enterprises.	Stamp duties vary considerably. For example, checks carry a 6 percent stamp duty, receipts for payments of E 2 or more carry an E 0.10 duty, customs bills of entry an E 0.40 duty, and affidavits, agreements, and contracts an E 1 stamp duty.
6.2 <i>Miscellaneous licenses</i> The Registration of Dogs Act, 1953, as amended by the Finance Act, 1985.	Taxes are charged for dog licenses.	None.	Dog license tax is E 1 per annum in rural areas and E 3 per annum in urban areas.
B. <i>Local taxes</i>			
<i>Real estate tax</i>			

Table 44. Swaziland: Summary of the Tax System as of August 31, 2002 (continued)
(All amounts in emalangen)

Tax	Nature of Tax	Exemptions and Deductions	Rates
Property tax. Legal reference not available.	Taxation in the form of rates is collected in the two principal towns (Mbabane and Manzini). Land and improvements are taxed at different rates with quinquennial valuation assessments. If changes in tax rates are desired by the town councils, approval is required by the central government before such changes can be enforced.	Exemptions include government-owned property.	Rates are assessed at 4 percent of the land value and 0.5 percent of the value of improvements in both towns.

Sources: United Kingdom Board of Internal Revenue, *Income Taxes Outside the United Kingdom*, Vol. 7 (1972); International Bureau of Fiscal Documentation, *Tax System*; International Monetary Fund, *Surveys of African Economies*, Vol. 5; and Swaziland, Government Information Services, *A Handbook to the Kingdom of Swaziland*, various years, updated by the Swazi authorities.