INTERNATIONAL MONETARY FUND

IMF Country Report No. 12/37

KINGDOM OF SWAZILAND

2011 ARTICLE IV CONSULTATION

February 2012

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2011 Article IV consultation with Swaziland, the following documents have been released and are included in this package:

- **Staff Report** for the 2011 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on November 16, 2011, with the officials of Swaziland on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 23, 2011. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- **Informational Annex** prepared by the IMF.
- **Staff Statement** of January 23, 2012
- **Statement by the Executive Director** for Swaziland.
- **Press Release**

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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KINGDOM OF SWAZILAND

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION

December 23, 2011

KEY ISSUES

The fiscal crisis in the Kingdom of Swaziland (hereinafter "Swaziland")—emanating from a decline in revenue from the Southern African Customs Union (SACU) and one of the largest public wage bills in sub-Saharan Africa—has reached a critical stage. Delays in implementing up-front fiscal measures committed under the Staff-Monitored Program (SMP) led to a slowdown of economic activity, a drying up of budget financing, and a large buildup of domestic arrears. The fiscal crisis is also spilling over to the financial sector and affecting external stability.

In the Article IV Consultation discussions, staff emphasized the need for up-front measures embedded in a credible medium-term fiscal consolidation strategy. Key policy recommendations are:

- Cutting the wage bill by E 300 million (1¼ percent of GDP) on an annual basis, while protecting pro-poor spending, as a first step toward restoring fiscal sustainability. The authorities prefer a more gradual approach, based on reducing the civil service through an audit of the civil service roster, attrition, a reduction in the retirement age, and possibly a revised voluntary retirement scheme.

- Preserving parity with the rand by stopping central bank financing to the government and repaying the emergency credit line provided by the central bank. The authorities agreed that preserving the parity is a priority and took a decision in September 2011 to stop borrowing from the central bank.

- Addressing emerging pressures in the financial sector and strengthening nonbank financial sector supervision. The authorities are aware of the need for liquidity injections in the financial sector, and the central bank will shortly take over the regulation and supervision of savings and credit cooperatives.

Approved By
Sharmini Coorey and Dhaneshwar Ghura

Discussions took place in Mbabane November 2–16, 2011. The staff comprised Messrs. Mongardini (head) and Basdevant, and Mmes. Baba and Mircheva (all AFR). Mr. Carter Biggs (MCM expert) joined part of the mission to examine financial sector issues.
Ms. Dlamini-Kunene (OED) participated in the policy discussions. Mmes. Forrest and Coyne provided excellent research and editorial assistance, respectively, to the drafting of this report.

CONTENTS

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

A. The Fiscal Crisis Has Reached a Critical Stage

1. **Since the last Article IV Consultation, the fiscal crisis has worsened** (Figures 1 and 2). Real GDP growth slowed to an estimated 0.3 percent in 2011, compared with 2.0 percent in 2010, while inflation picked up.[1] Faced with revenue shortfalls associated with slowing economic activity, uncontrolled public spending, and lack of financing, the authorities continued to deplete central bank reserves and accumulate domestic arrears. At end-September 2011, domestic arrears reached an estimated E 1.5 billion (5.3 percent of GDP), while gross official reserves declined from E 7.3 billion at end-January 2010 to E 4.4 billion at end-November 2011 (2.5 months of import cover). In FY 2011/12, the authorities have been able to finance only a minimal amount of expenditure, including wages, utilities, and essential transfers. As a result, key social programs, like the fight against HIV/AIDS, free primary education, support for orphaned and vulnerable children, and elderly grants, have been negatively affected.

2. **Policy advice provided during the 2010 Article IV Consultation has only partly been implemented**. The authorities adopted a 10 percent wage cut for political appointees and parliamentarians in April 2011 and a supplementary budget cutting expenditure by E 556 million (1.9 percent of GDP) in November 2011. However, these measures will not restore fiscal sustainability because the fiscal deficit is now expected to reach close to 10 percent of GDP in the fiscal year ending March 31, 2012 (FY 2011/12). Initial steps were taken to improve the business environment, including the preparation for the privatization of the last state-owned bank. Although a new regulatory body for the supervision of nonbank financial institutions was created by law in 2010, it is not yet operational.

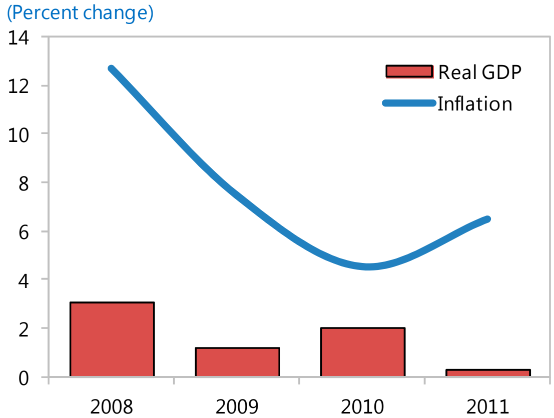
3. **A Staff-Monitored Program (SMP), approved by Fund Management in April 2011, quickly went off track (Box 1).** The authorities did not implement key spending cuts they committed to under the SMP, including the E 240 million (0.8 percent of GDP) cut in the wage bill. Expenditure overruns, notably on defense, travel allowances, and public investment led to a significant accumulation of domestic arrears and worsened the quality of spending.

[1] The authorities have a higher estimate of real GDP growth of 1.3 percent for 2011.

Figure 1. Swaziland: Recent Economic Developments

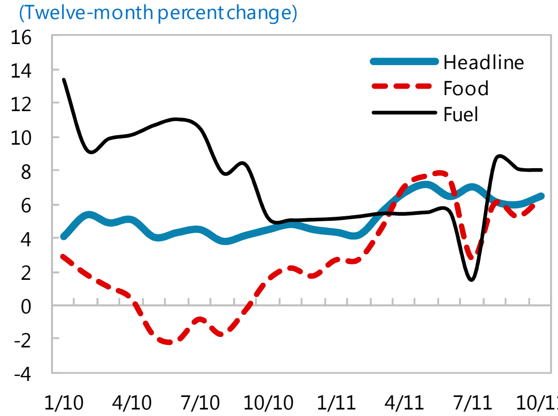
Growth slowed in 2011, while inflation picked up…

Growth and Inflation
(Percent change)



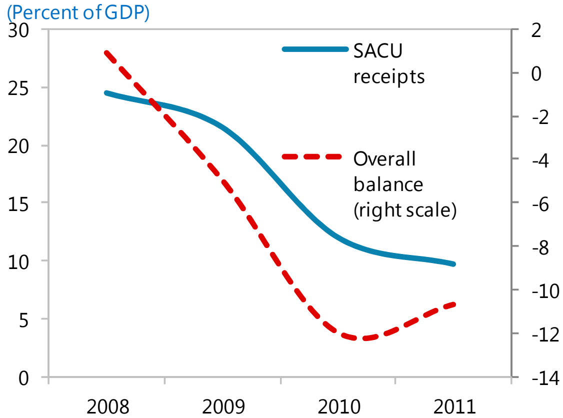
…owing to a surge in food and fuel prices.

Components of Inflation
(Twelve-month percent change)



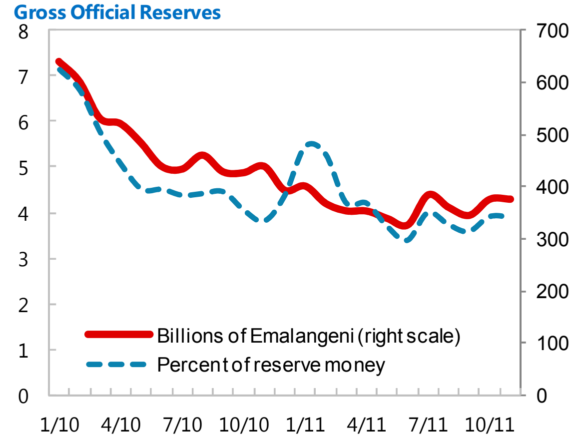
The fiscal deficit remains unsustainable, …

Fiscal Policy
(Percent of GDP)



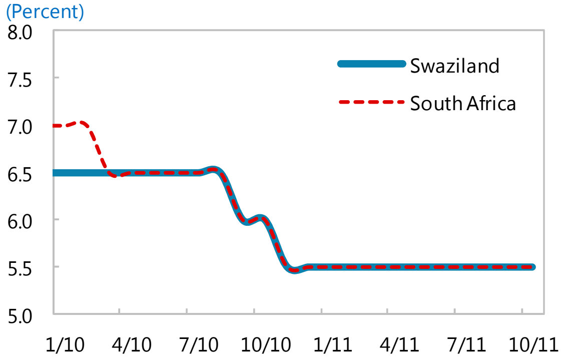
…leading to a depletion of central bank reserves.

Gross Official Reserves



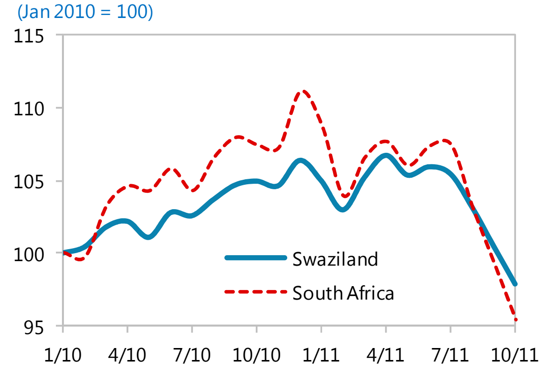
Monetary policy continues to be aligned to that of South Africa…

Policy Rates of the Central Bank of Swaziland and the South African Reserve Bank, Jan 2010–Sep 2011
(Percent)



…while the real exchange rate follows closely the movements of the South African rate.

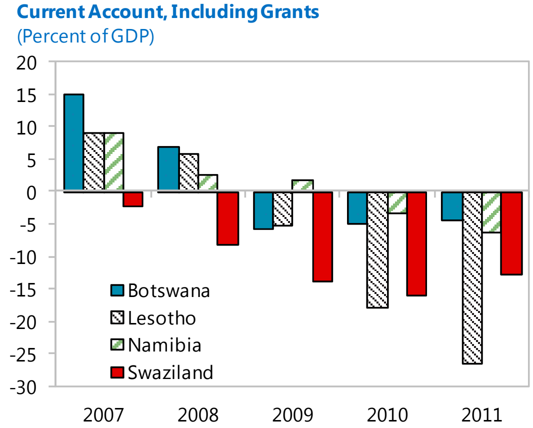
Real Effective Exchange Rate
(Jan 2010 = 100)



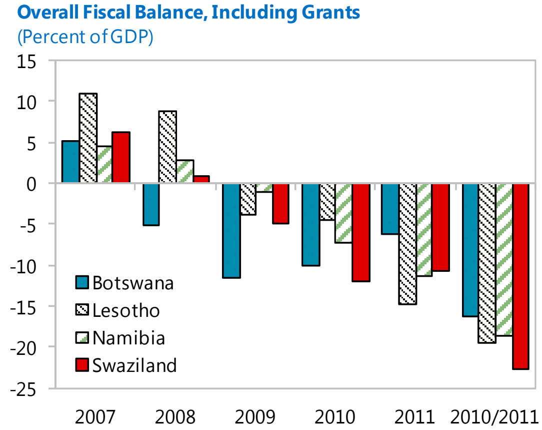
Sources: Country authorities and IMF staff estimates.

Figure 2. Swaziland: Cross-Country Comparison

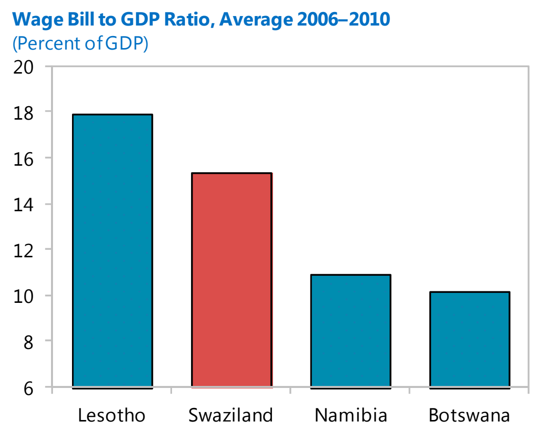
The decline in SACU revenue negatively affected current account balances throughout the region, ...



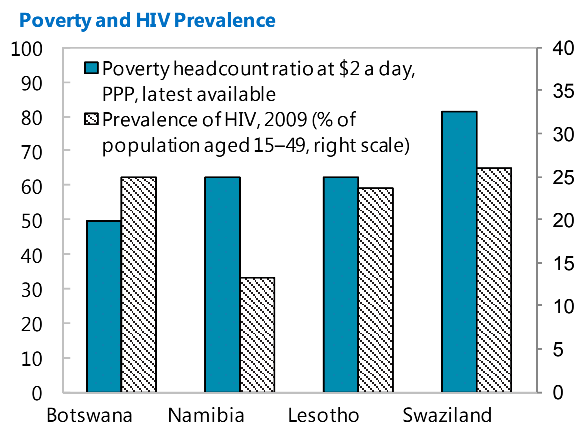
...but the fiscal deterioration has been cumulatively higher in Swaziland in 2010–11.



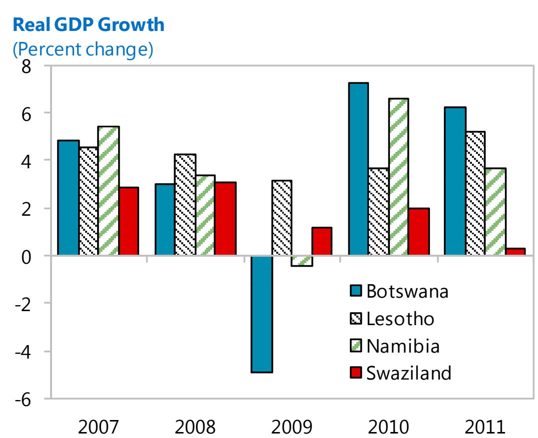
The main fiscal risk comes from the high wage bill, ...



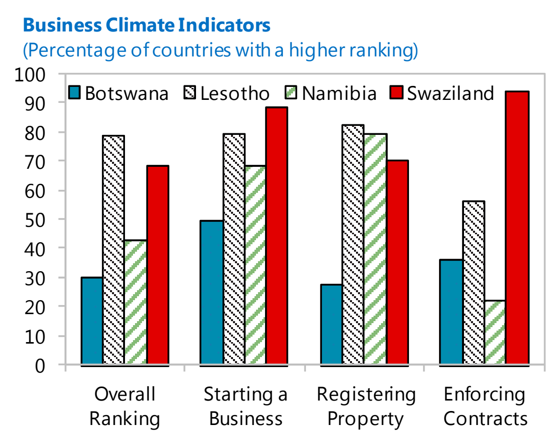
...which constrains social spending.



Growth performances are weaker than in the region, ...



... calling for improvements in the business climate.



Sources: Country authorities, IMF staff estimates, and World Bank Doing Business Indicators 2011.

Box 1. Performance Under the Staff-Monitored Program

The first-ever Staff-Monitored Program, approved by Fund Management on April 4, 2011, went quickly off-track. Most quantitative targets under the SMP at end-March and end-June 2011 were missed, as a result of lack of expenditure controls. The targets on total financing of the budget and on net international reserves were missed both at end-March and end-June. The targets on net domestic assets of the central bank and on the government social expenditure were met at end-March, but missed at end-June.

On the structural side, most structural benchmarks were met, albeit with a delay. The notable exception was the implementation of a wage bill cut for E 240 million envisaged for end-May 2011.

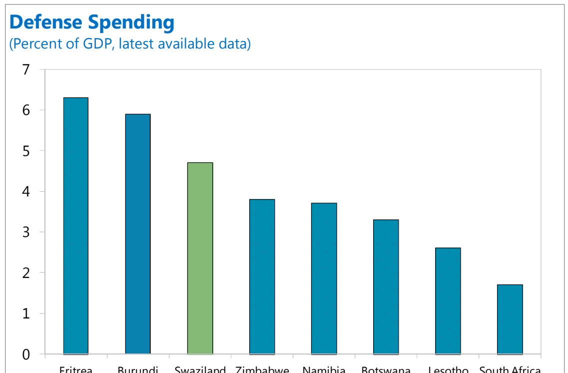
Staff-Monitored Program Indicative Targets, 2011

	2011					
	Mar.			Jun.		
	Prog.	Adj. Prog.	Act.	Prog.	Adj. Prog.	Prel.
Indicative targets:						
	(Emalangeni millions)					
Ceiling on the total financing requirement of the central government [1, 2]	3,510	3,426	3,798	584	259	818
Ceiling on the net domestic assets of the Central Bank of Swaziland [2]	-1,796	-1,880	-2,404	-1,977	-2,302	-1,842
Floor on central government social expenditure [3]	2,790	2,790	3,263	770	770	560
Ceiling on the stock of domestic arrears	1,200	1,200	1,288	1,200	1,200	1,060
	(US$ millions)					
Floor on the stock of net international reserves of the Central Bank of Swaziland [2]	437	449	415	476	442	374
Ceiling on the stock of external payments arrears [4]	0	0	0	0	0	0
Memorandum items:						
Net disbursements [1,2]						
Budget Loans	0.0	0.0	0.0	40.0	40.0	0.0
Project Loans			...	...	...	...
External debt service payments	65.0	65.0	53.0	14.8	14.8	8.3
	(Emalangeni millions)					
SACU receipts [1]	2,629	2,629	2,630	720	720	720

Sources: Swazi authorities and IMF staff estimates.
[1] Values are cumulative from April 1 (beginning of the fiscal year).
[2] Definitions and program adjusters are specified in the TMU.
[3] Includes spending on school feeding program, old age pension, and HIV/AIDS.
[4] Continuous indicative target.

Despite significant development needs, Swaziland has one of the highest defense spending budgets in the region (Figure 3). Most indicative targets at end-March and end-June 2011 were missed.

Figure 3. Swaziland Defense Spending



Source: US Central Intelligence Agency.

4. Access to domestic and foreign financing dried up in 2011. Commercial banks reduced their exposure to the government, leading to net redemptions of government paper in the second half of 2011. With the SMP off track, the African Development Bank and the World Bank were not in a position to disburse their budget support. The proposed R 2.4 billion (about $350 million) loan from the South African authorities, announced in August 2011, has not been signed yet, pending an agreement on the associated conditionality.

5. **The fiscal crisis is spilling over to the corporate and the financial sectors**. The accumulation of arrears by the government has created financial constraints on private businesses, which consequently have reduced their activity. In parallel, the exposure of the financial sector to the government is significant (between 10 and 30 percent of commercial banks' assets), both in direct exposure to government securities and indirectly through loans given to government suppliers and civil servants. Furthermore, according to commercial banks, about E 1 billion (3¼ percent of GDP) in deposits were converted into rand deposits or transferred to South Africa in the second and third quarters of 2011. At the same time, the central bank increased the reserve requirement and the liquidity ratio in June 2011. As a result, banks are now facing liquidity pressures. In addition, savings and credit cooperatives are highly exposed to civil servants, have low liquidity ratios, and are without adequate supervision and regulation, because the new regulatory agency for nonbank financial institutions (NBFI), created by law in 2010, is not yet functional.

6. **The fiscal crisis is affecting external stability.** The current account deficit is estimated to have narrowed to 10.7 percent of GDP in 2011, reflecting higher sugar exports more than offsetting a decline in tourism receipts. Portfolio outflows and continued government borrowing—including an emergency credit line of E 660 million (2.4 percent of GDP) provided by the central bank in February 2011—have put pressure on the gross official reserves of the central bank. The real effective exchange rate depreciated by 6.7 percent in the 12 months to October 2011.

7. **Swaziland continues to maintain one exchange restriction subject to Fund approval under Article VIII.** This arises from a limit on the provision of foreign exchange for advance payments for the import of certain capital goods. In November 2011, the central bank increased the limit from 33.33 percent to 50 percent.

8. **Social and political tensions have increased.** Periodic demonstrations have taken place during the year. The latest demonstrations in September 2011, calling for democratic reforms and fair burden-sharing of the adjustment, turned violent.

B. Outlook and Risks: A Significant Contraction in 2012

9. The outlook for the medium term is predicated on an initial contraction in 2012, followed by a gradual recovery. Under the baseline scenario with an up-front fiscal adjustment in 2012 triggering a renewed access to external financing, real GDP growth is projected to contract by 2 percent in 2012 (Table 2). It would then gradually increase to 2½ percent over the medium term, largely driven by private sector activity. In contrast, unchanged policies are likely to result in a stronger contraction in 2012, with a weaker growth recovery over the medium term, because the fiscal position remains unsustainable (Table 1). The contraction would result from much larger accumulation of arrears, and the medium-term path would suffer from an adjustment based on capital expenditure cuts and a loss of confidence by the private sector.

10. The medium-term outlook reflects significant macroeconomic risks (Figure 4):[2]

- **Under unchanged policies, Swaziland would face a significant risk of debt distress in the short to medium term, with the debt-to-GDP ratio increasing rapidly to more than 80 percent of GDP by 2016 (Figure 4)**. This is notwithstanding the expected windfall in SACU revenue in 2012/13 of E 7.1 billion (23.4 percent of GDP),[3] and optimistic authorities' projections of SACU revenue in the subsequent years, given the protracted difficulties in the world economy. Under the baseline scenario, the debt-to-GDP ratio would stabilize around 30 percent of GDP over the medium term, whereas domestic arrears would be paid fully in 2012.

- **The real exchange rate is significantly overvalued, largely because of the large fiscal imbalances**. Staff estimates suggest an overvaluation of the real exchange rate of 19–33 percent at end-October 2011. The overvaluation also reflects low productivity, underscored by a weak business climate, widespread poverty, and the negative impact of HIV/AIDS on productivity. With the implementation of the fiscal adjustment predicated in the baseline scenario, the overvaluation could be reduced to 3–16 percent over the medium term.

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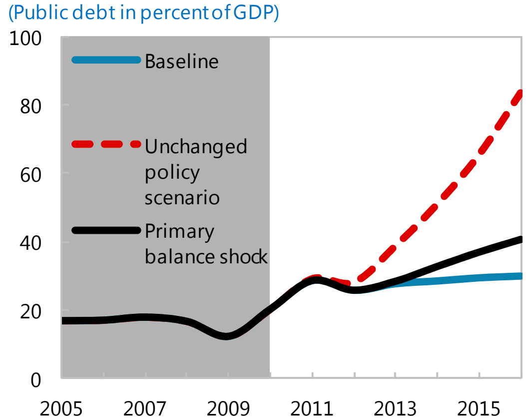
[2] See African Departmental Paper, "Macroeconomic Vulnerabilities Stemming from the Global Economic Crisis: The Case of Swaziland," 11/7.

[3] The 2012/13 SACU revenue is significantly higher than expected, reflecting optimistic assumptions on SACU imports and an adjustment of E 1.0 billion related to higher-than-projected imports in fiscal year 2010/11.

Figure 4. Swaziland: Risks to the Outlook

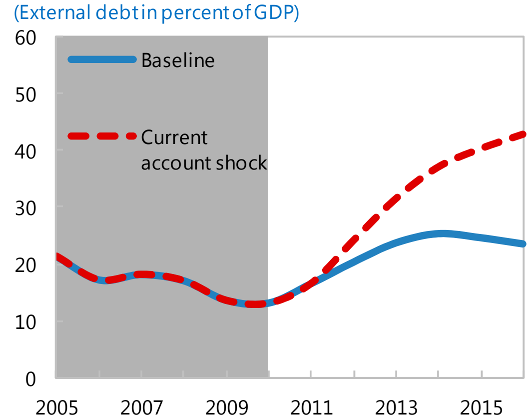
The current fiscal policy is unsustainable, …

Public Debt Sustainability
(Public debt in percent of GDP)



…and Swaziland remains vulnerable to external shocks.

External Debt Sustainability
(External debt in percent of GDP)



The real effective exchange rate is overvalued, …

Overvaluation of the Real Effective Exchange Rate
(Percent)

	Unchanged Policies	Adjustment Scenario
Overall	**19–33**	**3–16**
Macroeconomic balance approach	25.2	3.1
Equilibrium real effective exchange rate approach	18.9	16.1
External sustainability approach	29.8–32.5	11.8–14.5

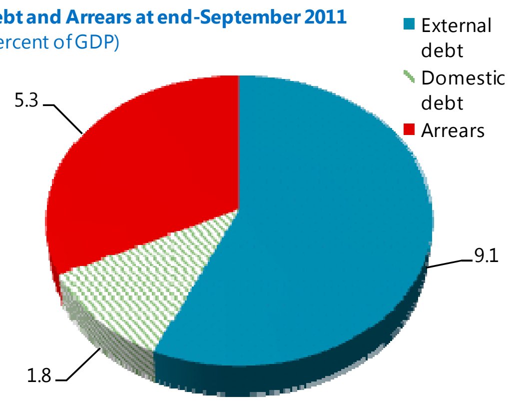
…and the level of reserves is inadequate.

Recommended Reserve Adequacy Level

	2011	
	Billion of Emalangeni	Prcent of GDP
Traditional Metrics		
3 months of prospective imports	5.4	18.6
100 percent of short-term debt	2.5	8.7
20 percent of M2	1.8	6.2
Model–based metric	5.1	17.7
Gross official reserves, end-Nov. 2011	4.4	15.2

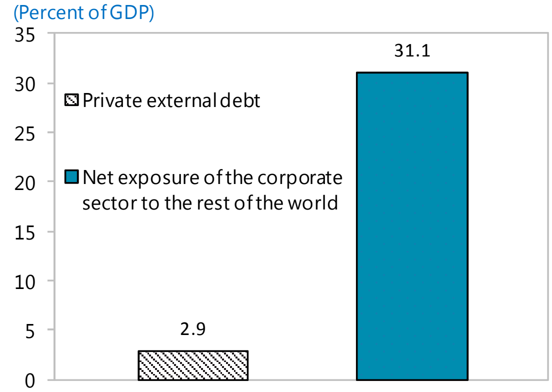
Government liabilities heavily weigh on the private sector, especially banks (debt) and suppliers (arrears).

Debt and Arrears at end-September 2011
(Percent of GDP)



The corporate sector is exposed to external shocks.

Private External Debt and Net Exposure of the Corporate Sector to the Rest of the World
(Percent of GDP)



Sources: Country authorities and IMF staff estimates.

- **At 2.5 months of import cover, the reserves of the central bank currently seem inadequate to sustain parity with the rand by traditional or model-based metrics.** The traditional metric of three months of import cover indicates a gap from an adequate level of reserves of about E 1.0 billion. Model-based estimations, based on a new methodology for emerging markets developed by IMF staff, show a similar gap of E 0.7 billion.[4]

POLICY DISCUSSIONS

Discussions focused on (i) restoring fiscal sustainability, in line with available financing; (ii) preserving external stability and improving competitiveness; and (iii) addressing emerging pressures in the financial sector. The discussions were anchored on the baseline scenario, where the overall fiscal deficit would be reduced gradually to below 3 percent of GDP by 2013/14, while debt would remain below 30 percent of GDP (Figure 5). The external current account deficit would decline in line with the fiscal adjustment path from about 10 percent in 2011 to about 4 percent over the medium term. Accordingly, the gross official reserve position would strengthen to about 4 months of import cover.

A. Policy Theme 1: Restoring Fiscal Sustainability

Staff Recommendations

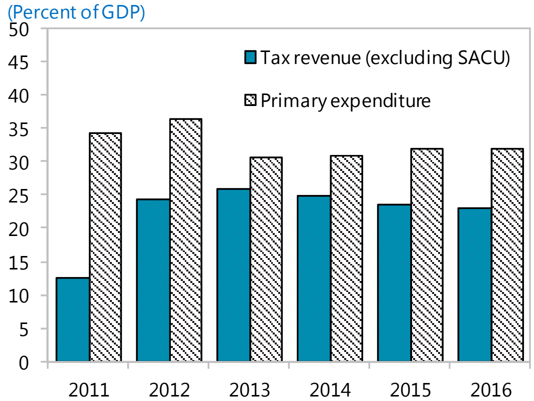
11. Restoring fiscal sustainability—in the face of a permanent decline in revenues—will require a cut in the wage bill, while safeguarding priority spending. Following passage of the supplementary budget in November 2011, the financing gap for the remainder of FY 2011/12 is estimated at E 2.9 billion (9.9 percent of GDP), including the repayment of the stock of outstanding domestic arrears. The scope for additional revenue measures is small and unlikely to yield additional collections, given the slowdown in economic activity. Further cuts in other recurrent expenditure and/or capital spending would further affect priority spending in education and health. This leaves only the wage bill as the largest expenditure, accounting for 50 percent of total expenditure and 63 percent of total revenue in FY 2010/11. An initial wage bill cut of E 300 million (1.2 percent of GDP) would start bringing the wage bill down to more moderate levels. Several options could be considered, including a graduated wage cut and/or the implementation of the authorities' voluntary early retirement scheme.

[4] Roaf, J., and others (2011), "Assessing Reserve Adequacy," IMF Policy Paper.

Figure 5. Swaziland: Medium-Term Outlook Under the Baseline Scenario

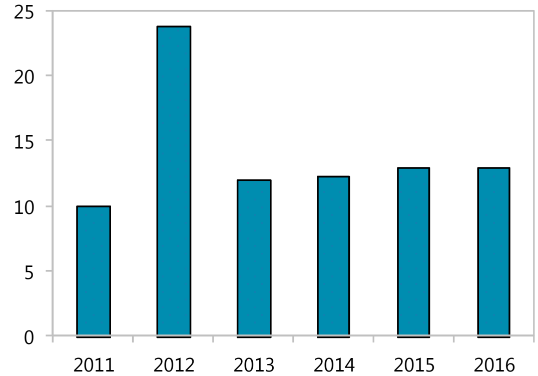
A gradual fiscal adjustment could take place, balancing revenue and expenditure measures.

Revenues and Expenditures
(Percent of GDP)



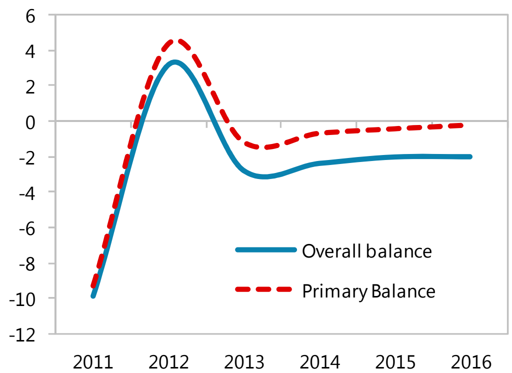
Together with a windfall in SACU receipts in 2012, ...

SACU Receipts
(Percent of GDP)



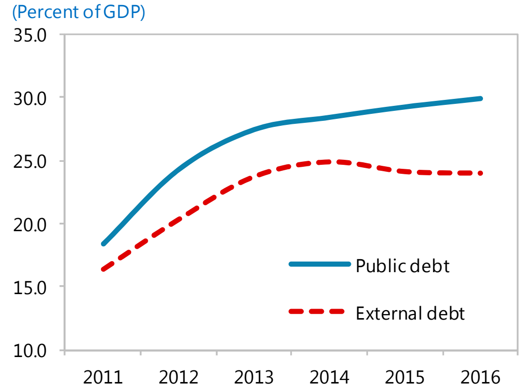
...fiscal measures will bring the deficit down below 2 percent of GDP over the medium term, ...

Fiscal Position
(Percent of GDP)



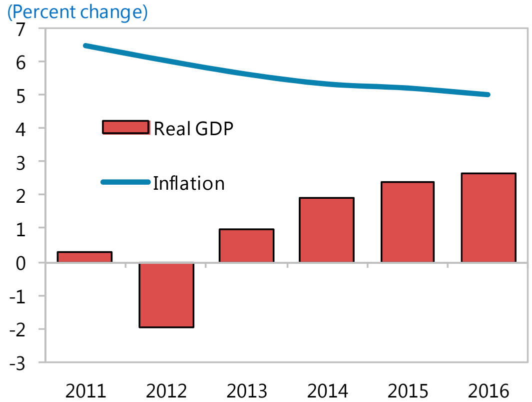
... stabilizing public and external debt.

Public and External Debt
(Percent of GDP)



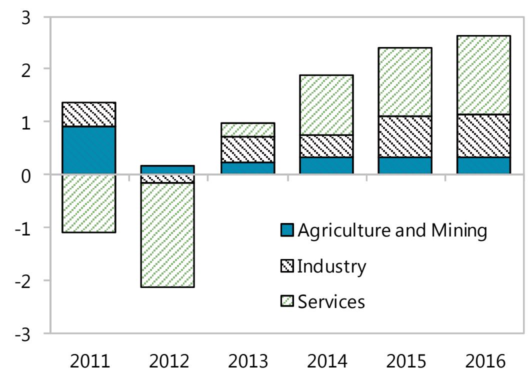
As a result, growth would gradually recover, ...

Growth and Inflation
(Percent change)



...led by the private sector.

Contributions to Growth
(Percent of GDP)



Sources: Country authorities and IMF staff estimates and *projections*.

12. **The 2012/13 budget should aim at a fiscal surplus, while using the windfall SACU revenue to pay the stock of domestic arrears**. The implementation of the VAT in FY 2012/13 is likely to boost domestic revenue by about 1 percent of GDP. Further cuts in the wage bill, an additional E 300 million, would be needed to continue making progress on fiscal sustainability. Domestic arrears are projected to reach E 2.5 billion (8.6 percent of GDP) at end-March 2012 and can be covered by the windfall increase in SACU revenue (E 4.2 billion). The need to restore fiscal sustainability and the lack of external financing will leave little room to expand other recurrent spending or capital investment. Accordingly, staff recommended targeting an overall surplus of 3.1 percent of GDP on a commitment basis, which would translate into a cash deficit of 6.0 percent of GDP, to pay off domestic arrears.

13. **Staff strongly advised against the use of the windfall SACU revenue to postpone the adjustment or to increase spending**. Postponing the adjustment would increase fiscal risks because SACU receipts remain highly volatile and are still expected to decline over the medium term as a result of weakening global economic growth, trade liberalization, and a possible change in the SACU revenue-sharing formula.[5] Staff encouraged the authorities to continue to work with other SACU members at a regional level to reduce the volatility of SACU revenue.

14. **To ensure that fiscal objectives can be achieved, it is critical to strengthen the role of the Ministry of Finance and the Swaziland Revenue Authority (SRA)**. Currently, budgetary functions are divided among the Ministry of Finance, the Ministry of Economic Development and Planning, and the budget functions of the Ministry of Public Service. To bolster the capacity of the government to deliver the approved budget, staff recommended merging all budgetary functions into one ministry, which would be solely accountable for all aspects of elaborating and implementing the budget. Furthermore, strengthening the capacity of the SRA remains essential to mobilizing additional domestic revenue.

15. **Staff discussed a comprehensive medium-term public financial management (PFM) action plan with the authorities, based on inputs from staff of the African Development Bank (AfDB), the European Union (EU), the IMF, and the World Bank (WB)**. The AfDB and the EU have also offered

[5] See Basdevant O. and others, "The Design of Fiscal Adjustment Strategies in Botswana, Lesotho, Namibia and Swaziland", IMF Working Paper 11/266 (November 2011).

significant financial resources to implement the proposed action plan. Staff encouraged the authorities to continue working on a revised PFM bill, with technical assistance from AFRITAC South, and to develop a medium-term fiscal framework, that would link spending to key fiscal indicators (debt and available financing).

16. **Greater transparency of public finances would also strengthen the quality of spending**. Staff encouraged the Ministry of Finance to undertake an assessment of the transparency of its practices against international best standards through a fiscal Report on the Standards and Codes (ROSC), which could provide helpful guidance on the way forward.

Authorities' Views

17. **The authorities agreed on the magnitude of the adjustment but disagreed with an up-front cut in the wage bill**. They preferred a more gradual approach, based on reducing the civil service through an audit of the civil service roster (expected to be undertaken in 2012 with assistance from the World Bank), attrition, a reduction in the retirement age, and possibly a revised voluntary retirement scheme. They conceded, though, that it will be difficult to finance government operations during the coming months.

18. **The authorities agreed that all budgetary functions should be centralized in one ministry**. They plan to do so after the legislative elections in March 2013.

19. **For the 2012/13 budget, the authorities are targeting a deficit of 5 percent of GDP in their medium-term budget outlook paper.** They acknowledged, however, that the budget may not be financed unless additional external budget financing becomes available.

20. **The authorities shared the need to strengthen their PFM system**. They have requested technical assistance to revise the PFM bill and the tax system; and to strengthen the budget process, expenditure controls, and internal and external audit functions. However, the authorities are still reviewing the PFM action plan proposed by staff.

21. **The authorities agreed that greater transparency in the budgetary process would strengthen the quality of spending.** However, they were not ready to undertake a fiscal ROSC.

B. Policy Theme 2: Preserving External Stability and Improving Competitiveness

22. **Swaziland's external stability is heavily dependent on ensuring an adequate level of reserves of the central bank**. As part of the Common Monetary Area, the lilangeni is fixed at par with the South African rand, which is also legal tender. Therefore, there is no independent monetary or exchange rate policy. The real exchange rate overvaluation and the depletion of gross official reserves since January 2011 pose serious risks to the peg. Staff projects that, under unchanged policies, the gross official reserves of the central bank would be depleted in the medium term.

Staff Recommendations

23. **The parity against the rand needs to be preserved to avoid a severe recession driven by balance sheet effects**. In view of the large liabilities of the corporate sector to the rest of the world, a change in exchange rate policies would have a severe impact on private sector activity. Staff therefore urged the government to stop borrowing from the central bank and repay the emergency credit line the central bank extended to the government in February 2011. In addition, the implementation of the proposed fiscal adjustment would not only reduce the current account deficit over the medium term, but also create more favorable conditions for the resumption of capital inflows.

24. **Competitiveness could be enhanced through a public sector wage cut and improvements in the business climate**. The fiscal adjustment is not only needed to restore fiscal sustainability, but is also the most effective policy tool available to reduce the external current account deficit and thus protect the reserves of the central bank and the peg. Given the weight of the public sector in the economy (estimated at about 50 percent of GDP) and the links between public and private wages, a public wage cut would strengthen private sector competitiveness and lead to the needed depreciation of the real exchange rate. Staff encouraged the authorities to work with the World Bank and other donors on a strategy for private sector–led growth, which would increase and diversify the export base and attract foreign investment. In addition, staff emphasized the importance of privatizing public enterprises and liberalizing markets to allow greater competition.

Authorities' Views

25. **The authorities agreed that preserving the parity of the peg is a priority**. In line with the staff's

recommendation, the government decided in September 2011 to stop borrowing from the central bank or using its frozen deposits at the central bank.

26. The authorities also broadly agreed that private growth could be a driving force for Swaziland's economy. Consultants have already been approached to finalize the privatization process of the last state-owned bank. However, the authorities are not yet ready to liberalize the domestic mobile telecommunications market or other sectors of the economy.

C. Policy Theme 3: Addressing Emerging Pressures in the Financial Sector

27. The financial sector is starting to feel the spillover effects of the fiscal crisis. With the outflow of deposits to South Africa and delays in government payment of civil servants' loans to commercial banks, liquidity pressures in the banking sector have been mounting. [6] Liquid assets in the banking system only covered 24 percent of liquid liabilities at end-June 2011. In addition, credit cooperatives are highly exposed to civil servants, have low liquidity ratios, and are not adequately supervised and regulated. Furthermore, asset management companies have recently introduced new products to allow depositors to place resources in South Africa.

Staff Recommendations

28. The emerging liquidity problems in the financial sector need to be addressed up front. At present, commercial banks are liquidity constrained but are still solvent. This requires liquidity injection by their parent companies.[7]

29. The new regulatory agency for the supervision of NBFIs should be made operational as soon as possible. The lack of a functioning supervisory and regulatory agency for NBFIs has led to a regulatory vacuum, which may lead to a significant concentration of systemic risk in savings and credit cooperatives and other NBFIs.

30. In the interim, the supervision of NBFIs could be moved to the central bank to fill the regulatory vacuum. The central bank is knowledgeable and experienced in the regulation and supervision of the financial sector. It could therefore easily accommodate the supervision of NBFIs on a temporary basis. Once the new regulatory agency is operational,

[6] Debt service payments for civil servants' loans are deducted at source from their government salaries.

[7] Swaziland's banking sector is composed of one state-owned bank and three subsidiaries of South African banks.

the central bank could shift some of its resources to the new agency.

Authorities' Views

31. **The authorities are aware of the need for liquidity injections.** Although the central bank does not have sufficient resources to provide extensive liquidity, it will call on parent companies to provide lines of credit to their subsidiaries in Swaziland.

32. **The authorities agree that adequate regulation and supervision of NBFIs is imperative.** The government recognizes the vulnerabilities stemming from lack of supervision and regulation of unit trusts and savings and credit cooperatives. The central bank stands ready to provide the necessary expertise once the new regulator becomes operational. Meanwhile, the regulation and supervision of savings and credit cooperatives will be transferred (on a temporary basis) from the Ministry of Commerce, Industry, and Trade to the Central Bank of Swaziland.

STAFF APPRAISAL

33. **Swaziland's fiscal crisis has reached a critical stage**. Budget financing has dried up, domestic arrears continue to mount, and the risk of not being able to pay civil servants' wages over the next few months is high. More importantly, economic activity, the financial sector, and key priority programs on education, health, and social protection are being negatively affected.

34. **The macroeconomic outlook is bleak, notwithstanding the windfall SACU revenue in 2012**. Under unchanged policies, the economy is likely to contract significantly as a result of the projected global economic slowdown and the continued negative impact of the fiscal crisis. As a result, the current account deficit could widen further over the medium term, and external stability could ultimately be jeopardized.

35. **Staff therefore urges the authorities to take up-front measures, including cutting the wage bill, embedded in a medium-term strategy to restore fiscal sustainability and access to budget financing**. Although steps taken so far to cut wages of political appointees and parliamentarians in April 2011 and to pass the supplementary budget in November 2011 are welcome, they are insufficient to restore fiscal sustainability. A significant cut is needed to start restoring fiscal sustainability. Time is of the essence; otherwise, the permanent impact of the crisis on the economy and poverty indicators will be much larger.

36. The 2012/13 budget will be essential in the strategy to restore fiscal sustainability. The budget should aim at a significant surplus to use the windfall from SACU revenue to pay off domestic arrears. The wage bill will need to be cut further. In addition, the quality of spending needs to be improved, with a significant reorientation toward education, health, and vulnerable segments of society. The public investment program should be refocused on key national priorities, with projects clearly ranked according to their development impact. The authorities are also encouraged to work with other SACU members to reduce the volatility of SACU revenue.

37. Staff strongly supports the authorities' objective of preserving the exchange rate parity with the rand. It provides the key anchor for macroeconomic stability and for trade and financial integration. A change in exchange rate policy would have a severe negative impact on the economy and the financial system. It is therefore essential for the government to stop borrowing from the central bank or drawing down its deposits at the central bank, so as to restore an adequate level of reserves. The authorities are urged to eliminate the remaining exchange restriction subject to approval under Article VIII.

38. Restoring competitiveness is critical for higher sustainable growth. Staff encourages the authorities to move forward with the privatization of the last remaining state-owned bank and with the liberalization of other markets. It is also imperative to redouble efforts at improving the business climate and making Swaziland an attractive environment for private sector–led growth.

39. The financial sector requires intensive supervision. The emerging signs of liquidity pressures could quickly turn into systemic solvency problems if not addressed up front. In addition, the central bank should take over, on a temporary basis, the supervision of savings and credit cooperatives to ensure adequate liquidity and appropriate regulation. The new regulatory agency for NBFIs should be made operational at the earliest possible opportunity.

40. It is recommended that the Kingdom of Swaziland remains on the standard 12-month Article IV Consultation cycle.

Table 1. Swaziland: Selected Economic Indicators, 2009–16 [1]

Projections (unchanged policies scenario)

	2009	2010	2011	2012	2013	2014	2015	2016
			Projections (unchanged policies scenario)					
			(Percentage changes; unless otherwise indicated)					
National account and prices								
GDP at constant prices	1.2	2.0	0.3	-5.0	0.3	0.3	0.3	0.3
GDP per capita at constant prices	-0.3	2.4	0.7	-4.7	0.7	0.7	0.7	0.7
GDP deflator	5.4	6.2	6.4	5.4	3.1	4.6	4.4	3.0
GDP at market prices								
(Emalangeni billions)	25.0	27.1	28.9	28.9	29.9	31.4	32.9	33.9
Consumer prices (average)								
Headline	7.4	4.5	6.5	6.0	5.6	5.3	5.2	5.0
Underlying (excluding food)	5.9	7.2	6.2	5.4	5.2	4.0	4.0	4.0
External sector								
Average exchange rate								
(local currency per US$)	8.4	7.3	8.0	...	...	...	...	...
Nominal exchange rate change (– = depreciation) [2]	1.3	6.7	-6.7	...	...	...	...	...
Real effective exchange rate (– = depreciation) [2]	5.1	7.9	-7.5	...	...	...	...	...
Gross international reserves								
(months of imports)	3.9	2.8	2.1	2.5	1.8	1.1	0.6	0.5
(percent of reserve money)	496.5	383.7	255.0	305.8	221.6	134.1	67.8	55.0
Gross reserves minus reserve money								
(percent of deposits)	70.1	41.7	29.9	39.7	24.7	7.8	-5.7	-8.5
Money and credit [3]								
Domestic credit to the private sector	11.9	-0.4	2.5	-1.9	1.3	4.5	4.0	5.1
Reserve money	5.9	-1.7	2.7	-0.2	0.6	1.1	1.0	0.8
M2	26.8	7.9	2.1	-1.4	3.5	6.5	4.7	4.9
Interest rate (percent) [4]	6.5	5.5	5.5	...	...	...	...	...
			(Percent of GDP)					
National accounts								
Gross capital formation	13.9	12.2	10.8	11.2	11.9	12.9	13.6	14.5
Government	8.4	6.9	5.5	5.8	6.5	7.1	7.8	8.7
Private	5.5	5.3	5.3	5.4	5.4	5.8	5.8	5.8
National savings	0.1	-4.2	0.1	14.0	7.1	6.5	7.1	8.2
Government	4.9	-3.8	-4.5	6.2	0.2	-4.2	-6.1	-8.9
Private	-4.8	-0.4	4.6	7.8	6.9	10.7	13.2	17.0
External sector								
Current account balance								
(including official transfers)	-13.8	-16.5	-10.7	2.7	-4.8	-6.4	-6.5	-6.3
(excluding official transfers)	-17.8	-22.7	-13.4	-10.5	-10.9	-10.0	-9.5	-9.1
External public debt	12.0	10.0	9.4	9.2	8.7	8.1	7.5	7.1
Central government fiscal operations [5]								
Overall balance (cash basis)	-6.4	-9.1	0.7	-12.8	-10.6	-13.2	-16.0	-20.0
Overall balance (commitment basis)	-6.4	-13.8	-10.2	2.5	-10.6	-13.2	-16.0	-20.0
Total revenue and grants	36.2	25.2	25.0	40.9	31.4	32.0	31.9	32.2
Total expenditure	42.6	39.0	35.2	38.5	42.0	45.1	48.0	52.3
Stock of arrears	0.0	4.6	15.4	0.0	0.0	0.0	0.0	0.0
Public debt, gross	12.6	15.9	13.9	28.3	38.9	51.0	65.3	83.3
Public debt, net	-3.5	5.8	4.6	17.3	27.4	39.4	53.9	72.2

Sources: Swazi authorities and IMF staff estimates and projections.

[1] Projections are based on the adjustment envisaged under the proposed SMP.

[2] IMF Information Notice System trade-weighted; end of period. For 2011, numbers for end-October.

[3] Percent of beginning of period M2, unless otherwise indicated.

[4] Twelve-month time deposits rate. For 2011, numbers for October.

[5] Fiscal year data (fiscal years run from April 1 to March 31).

Table 2. Swaziland: Selected Economic Indicators, 2009–16 [1]

Projections (baseline scenario)

	2009	2010	2011	2012	2013	2014	2015	2016
			Projections (baseline scenario)					
			(Percentage changes; unless otherwise indicated)					
National account and prices								
GDP at constant prices	1.2	2.0	0.3	-2.0	1.0	1.9	2.4	2.6
GDP per capita at constant prices	-0.3	2.4	0.7	-1.6	1.4	2.3	2.8	3.0
GDP deflator	5.4	6.2	6.4	5.4	3.1	4.6	4.3	3.0
GDP at market prices								
(Emalangeni billions)	25.0	27.1	28.9	29.8	31.1	33.1	35.4	37.4
Consumer prices (average)								
Headline	7.4	4.5	6.5	6.0	5.6	5.3	5.2	5.0
Underlying (excluding food)	5.9	7.2	6.2	5.4	5.2	4.0	4.0	4.0
External sector								
Average exchange rate								
(local currency per US$)	8.4	7.3	8.0	…	…	…	…	…
Nominal exchange rate change (– = depreciation) [2]	1.3	6.7	-6.7	…	…	…	…	…
Real effective exchange rate (– = depreciation) [2]	5.2	7.9	-7.5	…	…	…	…	…
Gross international reserves								
(months of imports)	3.9	2.8	2.1	4.2	4.3	4.1	4.0	4.1
(percent of reserve money)	496.5	383.7	255.0	508.7	535.7	509.1	476.9	484.4
Gross reserves minus reserve money								
(percent of deposits)	70.1	41.7	29.9	78.8	84.0	78.9	73.9	75.4
Money and credit [3]								
Domestic credit to the private sector	11.9	-0.4	2.5	2.0	4.0	3.6	5.7	6.0
Reserve money	5.9	-1.7	2.7	0.3	0.7	1.1	1.4	1.0
M2	26.8	7.9	2.1	1.8	4.1	6.6	6.8	5.7
Interest rate (percent) [4]	6.5	5.5	5.5	…	…	…	…	…
			(Percent of GDP)					
National accounts								
Gross capital formation	13.9	12.2	10.8	12.7	12.9	12.9	13.8	14.2
Government	8.4	6.9	5.5	7.3	6.9	6.7	7.4	7.7
Private	5.5	5.3	5.3	5.4	6.0	6.2	6.4	6.5
National savings	0.1	-4.2	0.1	14.6	7.1	6.1	9.0	10.3
Government	4.9	-3.8	-4.2	8.6	6.7	5.4	6.7	7.1
Private	-4.8	-0.4	4.4	6.0	0.4	0.7	2.4	3.2
External sector								
Current account balance								
(including official transfers)	-13.8	-16.5	-10.7	1.9	-5.8	-6.8	-4.8	-3.9
(excluding official transfers)	-17.8	-22.7	-13.4	-10.6	-9.8	-8.2	-6.9	-6.3
External public debt	12.0	10.0	13.5	17.4	20.7	22.0	21.4	21.1
Central government fiscal operations [5]								
Overall balance (cash basis)	-6.4	-9.1	-4.8	-6.0	-2.8	-2.4	-2.0	-2.0
Overall balance (commitment basis)	-6.4	-13.8	-9.8	3.1	-2.8	-2.4	-2.0	-2.0
Total revenue and grants	36.2	25.2	24.8	40.1	28.8	29.6	30.8	31.1
Total expenditure	42.6	39.0	34.6	37.0	31.6	31.9	32.9	33.1
Stock of arrears	0.0	4.6	9.4	0.0	0.0	0.0	0.0	0.0
Public debt, gross	12.6	15.9	19.3	25.9	27.8	28.6	29.5	30.0
Public debt, net	-3.5	5.8	10.0	15.2	16.7	17.6	18.9	20.0

Sources: Swazi authorities and IMF staff estimates and projections.

[1] Projections are based on the adjustment envisaged under the proposed SMP.

[2] IMF Information Notice System trade-weighted; end of period. For 2011, numbers for end-October.

[3] Percent of beginning of period M2, unless otherwise indicated.

[4] Twelve-month time deposits rate. For 2011, numbers for October.

[5] Fiscal year data (fiscal years run from April 1 to March 31).

Table 3. Swaziland: Fiscal Operations of the Central Government, 2009/10–16/17 [1]

(Emalangeni millions)

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
		Prel.	Projections (baseline scenario)					
Transactions affecting net worth								
Total revenue and grants	9,225	6,944	7,212	12,096	9,094	9,959	11,063	11,809
Total revenue	9,105	6,885	7,059	11,935	8,925	9,782	10,877	11,613
Tax revenue	8,698	6,621	6,938	11,810	8,794	9,643	10,728	11,456
Taxes on income, profits, and capital gains	2,307	2,573	2,533	2,721	2,881	3,174	3,490	3,804
Taxes on property	17	25	24	24	25	26	28	30
Taxes on international trade and transactions	5,190	2,629	2,883	7,063	3,711	4,035	4,556	4,817
Of which: SACU receipts	5,190	2,629	2,883	7,063	3,711	4,035	4,556	4,817
Domestic taxes on goods and services	1,158	1,384	1,472	1,975	2,148	2,375	2,620	2,770
Other taxes	27	6	27	28	29	31	33	35
Non-tax revenue	408	264	121	125	131	140	149	157
Grants	120	59	153	161	169	177	186	195
Budget support	0	0	0	0	0	0	0	0
Project grants	120	59	153	161	169	177	186	195
Expense	8,389	8,611	8,291	8,331	7,573	8,064	8,556	9,118
Compensation of employees [2]	4,551	4,340	4,318	4,688	3,623	3,787	4,035	4,266
Purchases or use of goods & services	1,968	2,056	1,455	1,476	1,546	1,682	1,793	1,895
Interest	243	161	181	352	504	566	567	673
Other expense	1,627	2,054	2,337	1,815	1,901	2,028	2,160	2,284
Gross operating balance	836	-1,667	-1,079	3,765	1,520	1,896	2,507	2,691
Transactions in nonfinancial assets:								
Net acquisition of nonfinancial assets	2,470	2,119	1,783	2,822	2,398	2,695	3,233	3,452
Foreign financed	141	139	317	350	377	405	434	455
Domestically financed	2,329	1,979	1,466	2,472	2,021	2,290	2,799	2,997
Total expenditure	10,859	10,730	10,074	11,153	9,971	10,759	11,788	12,570
Accumulation of arrears	0	1,276	1,471	-2,747	0	0	0	0
Primary net lending / borrowing	-1,391	-2,349	-1,210	-1,452	-374	-233	-158	-89
Net lending/borrowing	-1,634	-2,510	-1,391	-1,804	-877	-799	-725	-762
Transactions in financial assets and liabilities:								
Net acquisition of financial assets	1,612	1,309	160	-500	-300	-200	-100	0
Of which: policy lending	317	0	60	0	0	0	0	0
Net incurrence of liabilities	21	1,202	1,231	2,304	1,177	999	825	762
Domestic	0	1,329	-395	1,010	-305	177	815	400
Foreign	21	-127	1,626	1,294	1,482	822	10	362
Unidentified financing [3]	0	0	0	1,352	1,504	946	0	0
Memorandum items:								
Overall balance (cash basis)	-1,634	-2,510	-1,391	-1,804	-877	-799	-725	-762
Overall balance (commitment basis)	-1,634	-3,786	-2,862	943	-877	-799	-725	-762
Primary balance (commitment basis)	-1,391	-3,624	-2,682	1,295	-374	-233	-158	-89
Stock of arrears	0	1,276	2,747	0	0	0	0	0
Gross public debt [3]	3,204	4,383	5,614	7,793	8,774	9,630	10,594	11,395

Sources: Swazi authorities and IMF staff estimates and projections.

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

[2] Includes one-off spending of 2.5 percent of GDP to finance the early-retirement program EVERS.

[3] Unidentified financing assumed to be covered through foreign financing, which is included in the calculations of the stock of debt.

Table 4. Swaziland: Fiscal Operations of the Central Government, 2009/10–16/17 [1]

(Percent of GDP)

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
		Prel.	Projections (baseline scenario)					
Transactions affecting net worth								
Total revenue and grants	36.2	25.2	24.8	40.1	28.8	29.6	30.8	31.1
Total revenue	35.7	25.0	24.2	39.6	28.3	29.0	30.3	30.6
Tax revenue	34.1	24.1	23.8	39.2	27.9	28.6	29.9	30.2
Taxes on income, profits, and capital gains	9.0	9.3	8.7	9.0	9.1	9.4	9.7	10.0
Taxes on property	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Taxes on international trade and transactions	20.3	9.6	9.9	23.4	11.8	12.0	12.7	12.7
Of which: SACU receipts	20.3	9.6	9.9	23.4	11.8	12.0	12.7	12.7
Domestic taxes on goods and services	4.5	5.0	5.1	6.6	6.8	7.1	7.3	7.3
Other taxes	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Non-tax revenue	1.6	1.0	0.4	0.4	0.4	0.4	0.4	0.4
Grants	0.5	0.2	0.5	0.5	0.5	0.5	0.5	0.5
Budget support	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	0.5	0.2	0.5	0.5	0.5	0.5	0.5	0.5
Expense	32.9	31.3	28.5	27.6	24.0	23.9	23.8	24.0
Compensation of employees [2]	17.8	15.8	14.8	15.6	11.5	11.2	11.2	11.2
Purchases or use of goods & services	7.7	7.5	5.0	4.9	4.9	5.0	5.0	5.0
Interest	1.0	0.6	0.6	1.2	1.6	1.7	1.6	1.8
Other expense	6.4	7.5	8.0	6.0	6.0	6.0	6.0	6.0
Gross operating balance	3.3	-6.1	-3.7	12.5	4.8	5.6	7.0	7.1
Transactions in nonfinancial assets:								
Net acquisition of nonfinancial assets	9.7	7.7	6.1	9.4	7.6	8.0	9.0	9.1
Foreign financed	0.6	0.5	1.1	1.2	1.2	1.2	1.2	1.2
Domestically financed	9.1	7.2	5.0	8.2	6.4	6.8	7.8	7.9
Total expenditure	42.6	39.0	34.6	37.0	31.6	31.9	32.9	33.1
Accumulation of arrears	0.0	4.6	5.1	-9.1	0.0	0.0	0.0	0.0
Primary net lending / borrowing	-5.5	-8.5	-4.2	-4.8	-1.2	-0.7	-0.4	-0.2
Net lending / borrowing	-6.4	-9.1	-4.8	-6.0	-2.8	-2.4	-2.0	-2.0
Transactions in financial assets and liabilities:								
Net acquisition of financial assets	6.3	4.8	0.5	-1.7	-1.0	-0.6	-0.3	0.0
Of which: policy lending	1.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	0.1	4.4	4.2	7.6	3.7	3.0	2.3	2.0
Domestic	0.0	4.8	-1.4	3.4	-1.0	0.5	2.3	1.1
Foreign	0.1	-0.5	5.6	4.3	4.7	2.4	0.0	1.0
Unidentified financing [3]	0.0	0.0	0.0	4.5	4.8	2.8	0.0	0.0
Memorandum items:								
Overall balance (cash basis)	-6.4	-9.1	-4.8	-6.0	-2.8	-2.4	-2.0	-2.0
Overall balance (commitment basis)	-6.4	-13.8	-9.8	3.1	-2.8	-2.4	-2.0	-2.0
Primary balance (commitment basis)	-5.5	-13.2	-9.2	4.3	-1.2	-0.7	-0.4	-0.2
Stock of arrears	0.0	4.6	9.4	0.0	0.0	0.0	0.0	0.0
Gross public debt [3]	12.6	15.9	19.3	25.9	27.8	28.6	29.5	30.0

Sources: Swazi authorities and IMF staff estimates and projections.

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

[2] Includes one-off spending of 2.5 percent of GDP to finance the early-retirement program EVERS.

[3] Unidentified financing assumed to be covered through foreign financing, which is included in the calculations of the stock of debt.

Table 5. Swaziland: Monetary Accounts, 2009–16 [1]

(Emalangeni millions; unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	2015	2016
			Projections (baseline scenario)					
			(Emalangeni millions)					
Depository Corporation Survey								
Net foreign assets	7,811	5,744	5,717	9,625	10,552	10,906	11,320	12,225
Net domestic assets	-98	2,579	2,778	-975	-1,550	-1,308	-1,066	-1,383
Claims on central government (net)	-4,238	-2,232	-1,866	-2,115	-2,428	-2,625	-2,594	-2,513
Claims on private sector	6,250	6,215	6,422	6,592	6,941	7,263	7,808	8,425
Other items (net)	-2,371	-2,089	-1,942	-5,693	-6,313	-6,213	-6,564	-7,595
Broad money	7,713	8,323	8,495	8,649	9,002	9,598	10,254	10,841
Currency in circulation [2]	328	349	1,274	1,297	1,350	1,440	1,538	1,626
Deposits	7,386	7,973	7,221	7,352	7,652	8,158	8,716	9,215
Central Bank								
Net foreign assets	5,876	3,954	2,968	6,583	7,226	7,275	7,357	7,896
Gross reserves	6,479	4,494	3,551	7,213	7,906	8,010	8,150	8,753
Net domestic assets	-4,571	-2,783	-1,575	-5,165	-5,750	-5,702	-5,648	-6,089
Claims on central government (net)	-4,107	-2,323	-1,921	-2,271	-2,621	-2,846	-2,971	-2,996
Claims on private sector	11	21	25	25	25	25	25	25
Claims on commercial banks	2	3	5	5	5	5	5	5
Other items (net) [3]	-479	-486	310	-2,929	-3,165	-2,891	-2,712	-3,129
Reserve money	1,305	1,171	1,393	1,418	1,476	1,573	1,709	1,807
			(Percent of GDP)					
Depository Corporation Survey								
Net foreign assets	31.2	21.2	19.8	32.3	34.0	32.9	32.0	32.7
Net domestic assets	-0.4	9.5	9.6	-3.3	-5.0	-4.0	-3.0	-3.7
Claims on central government (net)	-17.0	-8.2	-6.5	-7.1	-7.8	-7.9	-7.3	-6.7
Claims on private sector	25.0	23.0	22.2	22.1	22.3	21.9	22.1	22.5
Other items (net)	-9.5	-7.7	-6.7	-19.1	-20.3	-18.8	-18.6	-20.3
Broad money	30.9	30.7	29.4	29.0	29.0	29.0	29.0	29.0
Currency in circulation [2]	1.3	1.3	4.4	4.3	4.3	4.3	4.3	4.3
Deposits	29.5	29.5	25.0	24.6	24.6	24.6	24.6	24.6
Central Bank								
Net foreign assets	23.5	14.6	10.3	22.1	23.3	22.0	20.8	21.1
Gross reserves	25.9	16.6	12.3	24.2	25.5	24.2	23.0	23.4
Net domestic assets	-18.3	-10.3	-5.5	-17.3	-18.5	-17.2	-16.0	-16.3
Claims on central government (net)	-16.4	-8.6	-6.6	-7.6	-8.4	-8.6	-8.4	-8.0
Claims on private sector	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Claims on commercial banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items (net) [3]	-1.9	-1.8	1.1	-9.8	-10.2	-8.7	-7.7	-8.4
Reserve money	5.2	4.3	4.8	4.8	4.8	4.8	4.8	4.8
Memorandum items:		(Twelve–month percentage change; unless otherwise indicated)						
Reserve money	38.3	-10.2	18.9	1.8	4.1	6.6	8.6	5.7
M2	26.8	7.9	2.1	1.8	4.1	6.6	6.8	5.7
Credit to the private sector	13.1	-0.5	3.3	2.7	5.3	4.6	7.5	7.9
M2-to-GDP ratio (percent)	30.9	30.7	29.4	29.0	29.0	29.0	29.0	29.0
Money multiplier (broad money/reserve money)	5.9	7.1	6.1	6.1	6.1	6.1	6.0	6.0
Credit to the private sector (percent of GDP)	25.0	23.0	22.2	22.1	22.3	21.9	22.1	22.5
Velocity (GDP/broad money)	3.2	3.3	3.4	3.5	3.5	3.5	3.4	3.5
Gross international reserves to reserve money (percent)	496.5	383.7	255.0	508.7	535.7	509.1	476.9	484.4
GDP (nominal)	24,995	27,071	28,883	29,840	31,058	33,113	35,378	37,403

Sources: Swazi authorities and IMF staff estimates and projections.

[1] End of period.

[2] Excludes rand in circulation.

[3] Including valuation changes.

Table 6. Swaziland: Balance of Payments, 2009–16

(US$ millions; unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	2015	2016
			Projections (baseline scenario)					
Current account	-409.4	-609.2	-422.5	72.0	-223.5	-268.5	-197.2	-170.4
Trade balance	-121.8	-150.0	-93.3	-91.0	-89.1	-71.7	-51.3	-48.9
Exports, f.o.b.	1,667.2	1,805.6	2,064.2	2,007.4	2,028.9	2,088.1	2,173.0	2,269.6
Imports, f.o.b	-1,789.0	-1,955.5	-2,157.5	-2,098.4	-2,118.0	-2,159.7	-2,224.3	-2,318.4
Of which: oil	-288.4	-334.6	-433.7	-426.7	-443.5	-458.0	-476.4	-497.1
Services (net)	-401.6	-415.8	-355.8	-350.2	-361.2	-337.7	-317.5	-318.0
Income (net)	-75.9	-226.1	-80.8	-11.4	-4.7	-8.6	-9.4	-9.0
Of which: interest on public debt	-24.1	-22.8	-11.9	-26.0	-38.6	-43.6	-45.7	-47.6
Transfers	189.8	182.7	107.4	524.6	231.6	149.5	181.0	205.5
Official transfers	119.3	228.4	107.4	485.7	154.3	54.4	82.9	101.7
Other transfers	70.4	-45.8	0.0	38.9	77.2	95.0	98.1	103.7
Capital and financial account	283.2	110.6	293.3	269.3	121.2	146.3	185.1	240.0
Capital account	10.8	14.4	9.9	13.3	13.6	14.1	14.6	15.7
Financial account	272.4	96.2	283.4	256.0	107.5	132.2	170.5	224.3
Foreign direct	58.9	131.8	154.3	128.7	147.5	151.7	165.2	174.6
Portfolio investment	26.3	54.4	39.6	-38.9	0.0	19.8	28.6	30.3
Other investment	187.2	-90.0	89.5	166.2	-40.0	-39.3	-23.3	19.5
Medium and long-term	182.4	-91.5	87.6	164.4	-41.7	-40.7	-24.3	18.5
Of which:								
Public sector (net)	-21.2	30.1	-1.7	197.1	-16.2	-18.5	-20.6	-26.9
Disbursements	10.0	8.9	19.6	228.6	19.1	22.0	27.1	29.7
Amortization	-31.2	21.2	-21.3	-31.5	-35.3	-40.5	-47.7	-56.6
Short-term	4.8	1.5	1.9	1.8	1.8	1.4	1.0	1.0
Errors and omissions	124.7	267.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-1.5	-230.8	-129.2	341.3	-102.3	-122.2	-12.1	69.7
Financing								
Net international reserves of the monetary authorities (– = increase)	1.5	230.7	129.2	-477.3	-86.3	-12.4	-16.2	-69.7
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	136.0	188.5	134.6	28.3	0.0
				(Percent of GDP)				
Current account	-13.8	-16.5	-10.7	1.9	-5.8	-6.8	-4.8	-3.9
Trade balance	-4.1	-4.1	-2.4	-2.3	-2.3	-1.8	-1.3	-1.1
Exports, f.o.b.	56.3	48.8	52.2	51.6	52.5	52.7	53.2	52.5
Imports, f.o.b	-60.4	-52.9	-54.5	-54.0	-54.8	-54.5	-54.4	-53.6
Services (net)	-13.6	-11.2	-9.0	-9.0	-9.4	-8.5	-7.8	-7.4
Income (net)	-2.6	-6.1	-2.0	-0.3	-0.1	-0.2	-0.2	-0.2
Of which: interest on public debt	-0.8	-0.6	-0.3	-0.7	-1.0	-1.1	-1.1	-1.1
Transfers	6.4	4.9	2.7	13.5	6.0	3.8	4.4	4.8
Capital and financial account	9.6	3.0	7.4	6.9	3.1	3.7	4.5	5.6
Capital account	0.4	0.4	0.3	0.3	0.4	0.4	0.4	0.4
Financial account	9.2	2.6	7.2	6.6	2.8	3.3	4.2	5.2
Foreign direct	2.0	3.6	3.9	3.3	3.8	3.8	4.0	4.0
Portfolio investment	0.9	1.5	1.0	-1.0	0.0	0.5	0.7	0.7
Other investment	6.3	-2.4	2.3	4.3	-1.0	-1.0	-0.6	0.5
Medium and long-term	6.2	-2.5	2.2	4.2	-1.1	-1.0	-0.6	0.4
Of which:								
Public sector (net)	-0.7	0.8	0.0	5.1	-0.4	-0.5	-0.5	-0.6
Disbursements	0.3	0.2	0.5	5.9	0.5	0.6	0.7	0.7
Amortization	-1.1	0.6	-0.5	-0.8	-0.9	-1.0	-1.2	-1.3
Short-term	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	4.2	7.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	0.0	-6.2	-3.3	8.8	-2.6	-3.1	-0.3	1.6
Financing								
Net international reserves of the monetary authorities (– = increase)	0.0	6.2	3.3	-12.3	-2.2	-0.3	-0.4	-1.6
Financing gap	0.0	0.0	0.0	3.5	4.9	3.4	0.7	0.0
Memorandum items:								
Official transfers	4.0	6.2	2.7	12.5	4.0	1.4	2.0	2.4
National currency per US$	8.4	7.3	…	…	…	…	…	…

Sources: Swazi authorities and IMF staff estimates and projections.

Table 7. Swaziland: Financial Sector Indicators, 2005–10

	2005	2006	2007	2008	2009	2010
Banking indicators			(Percent)			
Capital adequacy						
Capital to assets	14.4	13.7	17.3	17.6	16.9	12.2
Regulatory capital to risk-weighted assets	17.3	26.3	23.6	33.8	26.3	20.1
Regulatory Tier 1 capital to risk-weighted assets	14.4	19.5	20.7	18.1	17.1	20.4
Nonperforming loans net of provisions to capital	...	33.5	32.8	35.3	35.0	16.8
Asset quality						
Large exposure to capital	138.8	137.1	151.8	105.7	160.3	89.3
Nonperforming loans to total gross loans	7.0	7.7	7.5	7.6	8.1	8.0
Sectoral distribution of loans to total loans						
Agriculture	23.7	23.6	13.5	9.7	13.7	14.6
Mining and quarrying	0.0	0.0	0.0	0.1	0.0	0.0
Manufacturing	20.6	14.1	11.8	10.3	11.0	12.8
Construction	6.0	6.1	7.2	3.3	5.3	7.5
Distribution and tourism	16.0	15.0	21.7	12.8	22.0	18.8
Transport and communication	4.1	3.7	7.9	8.4	7.4	6.7
Community, social and personal services	9.7	6.8	5.0	7.8	4.7	5.9
Other	19.8	30.7	32.9	47.6	35.9	33.7
Earnings and profitability						
Trading income to total income	31.5	34.8	25.4	26.1	31.6	46.1
Return on assets	2.7	2.9	1.9	4.0	2.4	3.3
Return on equity	19.0	21.2	14.8	22.7	14.4	19.4
Interest margin to gross income	54.9	53.4	76.0	59.2	58.2	85.9
Noninterest expenses to gross income	73.7	65.2	53.5	64.5	68.4	64.9
Personnel expenses to noninterest expenses	45.1	49.7	53.1	45.9	44.9	51.1
Liquidity						
Liquid assets to total assets	15.2	18.6	7.0	12.9	12.2	16.6
Liquid assets to short-term liabilities	18.7	16.6	16.2	16.5	15.7	25.9
Customer deposits to total (non-interbank) loans	138.9	116.2	94.1	117.8	127.2	133.6
Exposure to foreign exchange risk						
Net open position in foreign exchange to capital	112.4	101.9	48.3	89.6	127.2	126.6
Foreign currency deposits to total deposits ratio	1.8	1.2	1.5	1.4	1.1	0.6
Financial system structure			(Number of financial institutions)			
Banks	4	4	4	4	4	4
Private commercial	0	0	0	0	0	0
State-owned	1	1	1	1	1	1
Foreign-owned subsidiaries	3	3	3	3	3	3
Branches of foreign banks	24	24	25	25	26	28
			(Emalangeni millions)			
Assets						
Banks	4,794	5,133	5,886	7,051	7,903	9,508
Private commercial	...	...	...	...	...	...
State-owned	725	802	955	1,255	1,321	1,684
Foreign-owned subsidiaries	4,069	4,331	4,931	5,795	6,582	7,824
Branches of foreign banks	...	...	...	...	...	...
Deposits	0	0	0	0	0	0
Banks	3,296	3,691	4,657	5,431	6,330	7,506
Private commercial	...	...	...	...	...	...
State-owned	396	462	570	773	813	972
Foreign-owned subsidiaries	2,900	3,229	4,086	4,657	5,517	6,534

Sources: Central Bank of Swaziland and IMF staff estimates.

Table 8. Swaziland: Millennium Development Goals, 1995–2011

	1995	2000	2005	2008	2009	2010	2011
Goal 1: Eradicate extreme poverty and hunger							
Employment to population ratio, 15+, total (percent)	49.0	49.0	49.4	49.9	50.0	...	...
Employment to population ratio, ages 15–24, total (percent)	34.1	32.0	30.9	30.5	30.5	...	...
Income share held by lowest 20percent	2.7	...	...	...	...	...	...
Malnutrition prevalence, weight for age (percent of children under 5)	...	9.1	...	...	...	...	...
Poverty headcount ratio at national poverty line (percent of population)	66.0	...	...	...	...	...	...
Prevalence of undernourishment (percent of population)	...	...	...	...	...	...	...
Vulnerable employment, total (percent of total employment)	...	...	...	...	...	...	...
Goal 2: Achieve universal primary education							
Literacy rate, youth female (percent of females ages 15–24)	...	89.8	...	...	94.9	...	...
Literacy rate, youth male (percent of males ages 15–24)	...	87.0	...	...	91.9	...	...
Persistence to last grade of primary, total (percent of cohort)	...	58.5	83.0	...	...	...	...
Primary completion rate, total (percent of relevant age group)	63.4	60.3	64.3	...	...	...	...
Total enrollment, primary (percent net)	74.7	71.4	75.0	...	...	...	...
Goal 3: Promote gender equality and empower women							
Proportion of seats held by women in national parliaments (percent)	...	3.0	10.8	...	13.6	13.6	13.6
Ratio of female to male tertiary enrollment (percent)	...	89.4	105.7	...	...	...	...
Ratio of female to male primary enrollment (percent)	96.8	94.4	93.3	...	...	...	...
Ratio of female to male secondary enrollment (percent)	...	100.3	101.0	...	...	...	...
Share of women employed in the nonagricultural sector (percent of total nonagricultural employment)	33.2	...	...	...	...	...	...
Goal 4: Reduce child mortality							
Immunization, measles (percent of children ages 12–23 months)	94.0	92.0	92.0	95.0	95.0	...	...
Mortality rate, infant (per 1,000 live births)	69.8	76.7	74.6	58.6	57.4	55.1	...
Mortality rate, under-5 (per 1,000)	97.6	114.0	115.9	85.8	81.8	77.7	...
Goal 5: Improve maternal health							
Adolescent fertility rate (births per 1,000 women ages 15–19)	...	105.2	91.3	80.7	77.5	...	...
Births attended by skilled health staff (percent of total)	...	70.0	...	...	...	...	...
Contraceptive prevalence (percent of women ages 15–49)	...	27.7	...	...	...	...	...
Maternal mortality ratio (modeled estimate, per 100,000 live births)	220.0	340.0	440.0	420.0	...	...	...
Pregnant women receiving prenatal care (percent)	...	87.0	...	...	...	...	...
Goal 6: Combat HIV/AIDS, malaria, and other diseases							
Children with fever receiving antimalarial drugs (percent of children under age 5 with fever)	...	25.5	...	...	...	...	...
Condom use, female (percent ages 15–24)	...	...	44.0	44.0	...	...	...
Condom use, male (percent ages 15–24)	...	...	66.0	66.0	...	...	...
Incidence of tuberculosis (per 100,000 people)	337.0	801.0	1141.0	1227.0	1257.0	...	...
Prevalence of HIV, female (percent ages 15–24)	...	...	...	...	15.6	...	...
Prevalence of HIV, total (percent of population ages 15–49)	10.6	22.3	25.6	25.9	25.9	...	...
Tuberculosis case detection rate (all forms)	63.0	68.0	63.0	61.0	67.0	...	...
Goal 7: Ensure environmental sustainability							
CO2 emissions (kg per PPP $ of GDP)	0.2	0.3	0.2	...	...	...	...
CO2 emissions (metric tons per capita)	0.5	1.1	0.9	...	...	...	...
Forest area (percent of land area)	...	30.1	31.5	...	...	32.7	...
Improved sanitation facilities (percent of population with access)	48.0	49.0	53.0	55.0	...	...	...
Improved water source (percent of population with access)	53.0	55.0	64.0	69.0	...	...	...
Marine protected areas (percent of total surface area)	...	...	...	...	...	...	...
Goal 8: Develop a global parternership for development							
Net ODA received per capita (current US$)	59.9	12.3	42.2	60.8	48.4	...	...
Debt service (PPG and IMF only, percent of exports, excluding workers' remittances)	1.5	2.1	1.4	2.5	2.1	...	...
Daily newspapers (per 1,000 people)	...	18.9	...	...	...	...	...
Mobile cellular subscriptions (per 100 people)	0.0	3.1	18.1	46.2	56.1	...	...
Telephone lines (per 100 people)	2.2	3.0	3.1	3.8	3.7	...	...
Other							
Fertility rate, total (births per woman)	4.9	4.2	3.8	3.5	3.4	...	...
GNI per capita, Atlas method (current US$)	1,740	1,580	2,300	2,600	2,380	2,630	...
GNI, Atlas method (US$ million, current)	1,673	1,676	2,542	2,991	2,785	3,119	...
Gross capital formation (percent of GDP)	16.0	17.4	15.4	15.3	16.9	16.6	...
Life expectancy at birth, total (years)	56.4	48.7	45.9	47.3	47.9	...	...
Literacy rate, adult total (percent of people ages 15 and older)	...	79.6	...	...	86.9	...	...
Population, total (million)	1.0	1.1	1.1	1.2	1.2	1.2	...
Trade (percent of GDP)	133.8	166.1	182.5	141.9	137.1	135.0	...
Unemployment, total (percent of total labor force)	21.7	...	...	...	...	...	...

Source: World Bank.

INTERNATIONAL MONETARY FUND

KINGDOM OF SWAZILAND

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

December 29, 2011

Prepared By | African Department (In collaboration with other departments)

CONTENTS

RELATIONS WITH THE FUND

As of November 30, 2011

Membership Status
Joined: September 22, 1969; Article VIII

General Resources Account:	**SDR Million**	**%Quota**
Quota	50.70	100.00
Fund holdings of currency	44.15	87.07
Reserve position	6.56	12.94

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	48.28	100.00
Holdings	44.41	91.98

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Projected Payments to Fund [1/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2011	2012	2013	2014	2015
Principal					
Charges/Interest		0.01	0.01	0.01	0.01
Total		0.01	0.01	0.01	0.01

[1/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

Exchange Rate Arrangements

The lilangeni (plural: emalangeni) is pegged at parity to the South African rand, which—alongside the lilangeni—is also legal tender. The intervention currency is the U.S. dollar; exchange rates for the U.S. dollar are based on the floating middle rate of the South African rand against the U.S. dollar. The rate on December 1, 2011 was E1 = US$0.12239. Swaziland maintains an exchange restriction subject to Fund approval under Article VIII arising from a 50 percent on the provision for advance payments for the import of certain capital goods.

Article IV Consultation

The last Article IV Consultation was concluded on January 10, 2011. Swaziland is on the standard 12-month Article IV Consultation cycle.

Technical assistance (2006-present)

Department	Purpose	Date of delivery	Beneficiary Agency
AFS	SRA Customs	August 2011	SRA[1]
	Legal framework and Public Financial Reform (PFM) strategy	October 2011	SRA
FAD	Revenue administration	March 2007	MoF[2]
	Modernizing the Ministry of Finance	May 2009	MoF
	Expenditure execution and budget monitoring	February 2010	MoF
	Diagnostic Revenue Administration	January 2011	SRA
	Expenditure management	February 2011	MoF
	Revenue administration	February 2011	MoF
	Public Financial Management	February 2011	MoF
	TPA TTF Module 4	September-November 2011	MoF
LEG	Exchange Control Regulations	April 2007	CBS[3]
	Exchange Control Regulations	April 2007	CBS
	Follow up on AML/CFT	December 2007	CBS
MCM	Foreign exchange operations and foreign exchange reserves management	January 2005	CBS
	Long-term TA on reserves management	Oct. 2005-April 2006	CBS
	Central bank accounting, central bank organization and financial sector supervision	November 2005	CBS
	Supervision of saving and credit cooperatives	April 2007	CBS
	Bank supervision, follow-up	August 2007	CBS
MCM	Insurance and pension funds supervision	September 2007	CBS
	Supervision of insurance companies	November 2007	CBS
	Insurance supervision	January 2008	CBS
	Review Payment System	March 2008	CBS

[1] Swaziland Revenue Authority.

[2] Ministry of Finance.

Department	Purpose	Date of delivery	Beneficiary Agency
	Monetary operations, bank supervision, and forex	April 2008	CBS
	Insurance supervision	April 2008	CBS
	Insurance supervision	June 2008	CBS
	Insurance supervision	July 2008	CBS
	Insurance supervision	November 2008	CBS
	Insurance supervision	February 2009	CBS
	Payments system Regional Advisor	February 2009	CBS
	Insurance supervision	April-May 2009	CBS
	Strengthening the CBS, including monetary and foreign exchange operations, the payment system, and banking supervision	February 2011	CBS
	Financial stability issues	November 2011	CBS
	Financial stability frameworks	May 2011	CBS
STA	National accounts statistics/GDDS Project for Anglophone Africa	October 2006	CSO
	Balance of payments statistics/GDDS Project for Anglophone Africa	March 2006	CBS
	Consumer Prices Index/GDDS Project for Anglophone Africa	March 2006	CSO
	Monetary Statistics/GDDS Project for Anglophone Africa	March 2006	CBS
	Consumer Prices Index/GDDS Project for Anglophone Africa	July 2006	CSO
	Balance of payments statistics and External Debt/GDDS Project for Anglophone Africa	November 2006	CBS
	Consumer Prices Index	June 2007	CSO
	National accounts statistics/GDDS Project for Anglophone Africa	July 2007	CSO
	Money and Banking Statistics/GDDS Project for Anglophone Africa	November 2007	CBS
	Government Finance Statistics/GDDS Project for Anglophone Africa	July 2008	MoF
	National Accounts Module mission/GDDS Project for Anglophone Africa	October 2008	CSO
	National accounts statistics/GDDS Project for Anglophone Africa	March 2009	CSO
	Money and Banking Statistics/GDDS Project for Anglophone Africa	May 2009	CBS
	Balance of Payment statistics	September 2010	CBS
	Monetary and Financial Statistics	August 2011	CBS

BANK-FUND JOINT MANAGEMENT ACTION PLAN

Title	Products	Mission Date [1]	Delivery Date [1]
A. Mutual Information on Relevant Work Program			
The World Bank work program in the next 12 months	Country Strategy	Consultation Workshop (Q1 2012)	Q3 2012
	Public Payroll Audit	Design and implementation (Q1 2012)	Q3 2012
	Customs Time Release Study	Implementation (Q1 2012)	Q1 2013
	Social Safety Net Review	Implementation (Q1 2012)	Q3 2012
	Study on Local Economic Impact of FDI	Implementation (Q1 2012)	Q3 2012
	Auditing and Accounting ROSC		Q3 2012
The Fund work program in the next 12 months	African Department 2011 Article IV Consultation	Nov-11	Jan-12
	Technical Assistance Supervision of non-bank financial institutions	Multiple missions in 2012	Dec-12
	PFM bill	Jan-12	Mar-12
	Revenue Administration follow-up	Multiple missions	Mar-12
B. Requests for Work Program Inputs			
Fund request to Bank	Public Expenditure Review (PER) Update		TBC
Bank request to Fund	Periodic macro updates		(ongoing)
C. Agreements on Joint Products and Missions			
Joint products in next 12 months	Support for implementation of PFM Action Plan	Q1 2012	Q3 2012

[1] Dates are tentative. Years are calendar years

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance	
General: Data provision has some shortcomings, but is broadly adequate for surveillance. Staff's analysis is affected by shortcomings in the national accounts and the external sector. The authorities provide available data to the Fund with a lag of one to three months, except for the national accounts, international trade data, and the international investment position, which are reported irregularly.	
Real sector statistics: STA GDDS missions have resulted in significant improvements in the **national accounts**. Current and constant price (base = 2000) GDP estimates are now available from both the production and expenditure approaches. These new estimates have not yet been published, as there are still some shortcomings concerning the treatment of Southern African Customs Union revenue. The authorities are planning the first labor force survey with support from the World Bank/GDDS project. The **consumer price index** was significantly revised in May 2007 in the context of the GDDS initiative, incorporating improvements in compilation methodology, market basket coverage, flexibility for introducing new pricing outlets and new varieties of products, and enhanced processing capabilities. Four new geographical indices, as well as a national index, with updated market basket weights, are now available. Monthly consumer price data are published by the Central Statistical Office (CSO) with a one-month lag.	
Monetary and financial statistics: Although some progress was achieved in the reporting of data on the other depository corporations (ODCs), quality problems remained, particularly in the areas of coverage, classification, and sectorization. The majority of the ODCs reported various degrees of difficulty in providing accurate data to the Central Bank of Swaziland (CBS). Furthermore, the institutional coverage of the depository corporations' survey is limited, as it covers only the CBS and the commercial banks. Recently, the CBS started to include the Swaziland Building Society into the monetary data backdated to December 2006. The credit and savings cooperatives, representing about 8 percent of the deposits of the commercial banks, are still outside the deposit corporations' survey.	
External sector statistics: Annual balance of payments statistics are compiled by the CBS according to a methodology consistent with the fifth edition of the *Balance of Payments Manual (BPM5)*. However, shortcomings in the timeliness and availability of trade data impart a certain degree of uncertainty to external sector statistics and surveillance. The CSO publishes data on foreign trade on a quarterly basis, but the lack of sufficient computer resources results in long lags in the production of trade data, especially regarding imports. Further actions are required to improve the accuracy and reliability of external sector data.	
II. Data Standards and Quality	
Participant in the General Data Dissemination System (GDDS) since February 11, 2003.	No data ROSC is available.
III. Reporting to STA	
The CBS reports monetary and financial statistics to STA regularly, although the timeliness of data could be improved. Balance of payments and international investment position data are published in *International Financial Statistics (IFS)* and in the *Balance of Payments Yearbook.*	

Swaziland: Table of Common Indicators Required for Surveillance

(As of December 1, 2011)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	Nov 11	Nov 11	M	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Nov 11	Nov 11	W	M	M
Reserve/Base Money	Oct 11	Nov 11	M	M	M
Broad Money	Oct 11	Nov 11	M	M	M
Central Bank Balance Sheet	Oct 11	Nov 11	M	M	M
Consolidated Balance Sheet of the Banking System	Oct 11	Nov 11	M	M	M
Interest Rates[2]	Nov 11	Nov 11	M	M	D
Consumer Price Index	Oct 11	Nov 11	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Jun 11	Nov 11	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[4]	Jun 11	Nov 11	A	A	A
External Current Account Balance	Jun 11	Nov 11	Q	A	A
Exports and Imports of Goods and Services	Jun 11	Nov 11	Q	A	A
GDP/GNP	2009	Sep 10	A	A 2/ 3/	A
Gross External Debt	2010	Mar 11	A	A	A
International Investment Position[5]	2010	Nov 11	A	A	A

[1]Any reserve assets that are pledged of otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means, as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] Including currency and maturity composition.

[5] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[6] Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I); and not available (NA).

SOCIAL AND DEMOGRAPHIC INDICATORS

Area (sq. km.)	17,364	**Population Density** (per sq. km)	69
Population		**Health**	
Total population (million)	1.2		
Population growth rate (percent)	1.5	Physicians per thousand people (2004)	0.2
Life expectancy at birth (2009, years)	48	Public health expenditure (2008, percent of GDP)	3.5
Infant mortality rate per thousand	55		
Urban Population (percent of total)	26	HIV prevalence rate (ages 15-49, 2009)	25.9
Population younger than 15 (percent of total population)	...		
GDP per capita (US$)	3,073	**Education**	
Access to safe water (2008)		Adult literacy rate (2009,percent)	87
Percent of total population	69	Primary school enrollment (2007, percent)	83
Urban	92		
Rural	61		
		Poverty Indicators	
Labor Statistics (thousands)			
Labor Force (2009)	453	Share of income, lowest 20 percent (2001,percent)	4.5
		GINI Index (2001)	50.7
Formal Employment (2006)	92		
Private Sector	65		
Public Sector	28		

Sources: *International Financial Statistics;* World Bank, *World Development Indicators, April 2011*, UNAIDS, 2010, *2010 Report on the Global Aids Epidemic*; and national authorities. Data refer to 2010, unless otherwise indicated.

Statement by the Staff Representative on the Kingdom of Swaziland
Executive Board Meeting
January 23, 2012

The points below summarize the information that has become available since the issuance of the staff report (SM/11/341). It does not change the thrust of the staff appraisal.

- Consumer price inflation accelerated to 7.8 percent year-on-year in December 2011, compared to 6.5 percent the previous month. This acceleration reflected a large increase in food and fuel prices.

- The government drew down E 283 million (1 percent of GDP) from the Reserves Replenishment Account at the Central Bank of Swaziland in December 2011 in order to pay civil servants' salaries. This reduced gross official reserves of the Central Bank of Swaziland to E 4 billion at end-December 2011, equivalent to 2.2 months of import cover.

- As expected, the government received the quarterly revenue (E 720 million) from the Southern African Customs Union (SACU) in the first week of January 2012. It eased somewhat the government cash situation and helped temporarily replenish the reserves at the central bank.

- The authorities announced the appointment of the chief executive officer of the new supervisory agency for non-bank financial institutions in December 2011.

Statement by Mr. Majoro on Kingdom of Swaziland
Executive Board Meeting
January 23, 2012

Introduction

On behalf of my authorities, I thank staff for the candid deliberations during the 2011 Article IV Consultations in Mbabane. My authorities welcome the frank assessment of the current and medium term policy challenges facing Swaziland and broadly agree with the thrust of the staff appraisal.

The second round effects of the global economic crisis negatively impacted SACU receipts that depend largely on trade, and accounting for more than 40 percent of total government revenues. The reduction in SACU receipts by more than 50 percent coupled with a slowing economic growth have exerted tremendous pressure on government revenues and compromised the ability of the country to provide social services and alleviate poverty. Additionally, the authorities continue to face and respond to many underlying challenges including, inter alia, the country's high wage bill, poverty levels and lackluster economic growth. In this regard, my authorities acknowledge the urgent need for fiscal consolidation and structural reforms to unleash the country's growth potential.

Recent Economic developments and outlook

Economic activity improved slightly in 2010 registering real GDP growth of 2.0 percent boosted by positive performance in the primary and tertiary sectors. However, growth is expected to decelerate slightly in 2011. Prospects for growth remain challenging in the medium term, clouded by the persistent fiscal crisis. It is anticipated that the government's continued cash flow problems will compromise economic activity especially in sectors that are linked to government such as construction and tertiary sectors. These sectors are expected to remain subdued as government has significantly cut spending on goods, services and capital projects. On the other hand, the recovery in manufacturing output which accounts for about 40 percent of GDP will cushion, to some extent, the contraction in government activity. Inflation ticked up in 2011 but remained in single digits supported mainly by a stronger currency. It is projected that inflation will urge up slightly but remain in single digits due to pressures emanating from rising prices for food, fuel and utilities.

Fiscal policy developments and reforms

The fiscal situation in Swaziland continues to worsen despite efforts by the government to cut spending, mainly due to the drying up of both external and domestic financing. The authorities in November 2011, submitted to parliament, a supplementary budget which proposed to further cut spending in goods and services by E100 million (0.4 percent of GDP) and capital spending by E460 million (1.5 percent of GDP). As an additional measure, the authorities continue to enforce the issuance of the release warrants where expenditures are approved directly by the Minister of Finance only if there are funds available. To better understand the nature and composition of the arrears, my authorities, carried out an audit and are developing a strategy and mechanism to reduce the arrears in the next fiscal year. They also made an effort to minimize the impact on the private sector. As a result, private sector arrears are estimated to account for just a quarter of total arrears with the bulk of the arrears owed to parastatals and the public pension fund.

My authorities recognize that good fiscal policy hinges on a credible budget and strong public finance management systems. They note that the current budget process and spending controls are weak but deeper reforms cannot be achieved in the short term. To that end, they intend to revive the efforts to improve the medium term fiscal and expenditure frameworks and are preparing to include a broad set of PFM reforms in the forthcoming public finance management bill. These efforts are being supported by a new high-level PFM reform committee that spans 22 departments and 12 Ministries to ensure proper ownership, improved coordination and sequencing.

As an immediate measure, for the 2012/13 budget the authorities required line ministries to present medium term budgetary requirements anchored on policies and projects as opposed to the previous one year expansion of resource allocation and input mix. This will assist in identifying priority areas and implications of the projects on future resource requirements and is in line with Fund TA recommendations on Strengthening Expenditure Management. The authorities also plan to maintain the 2011/12 budget level and use the additional SACU revenues to clear arrears. The Government has also requested a ROSC Accounting & Auditing from the World Bank, with a target of issuing the report by June 30, 2012.

To broaden the tax base and enhance revenues, my authorities submitted to parliament the Sales Tax Amendment Bill which has subsequently been passed. The amended bill has widened the tax coverage to include institutions, businesses, economic agents, goods and services previously excluded. They will also be introducing VAT in April 2012.

Further, the authorities with the assistance of the ADB have developed a fiscal adjustment road map (FAR) which aims at addressing both the fiscal and structural challenges. Through implementation of the FAR, the authorities plan to reduce the civil service by 7000 workers by 2015 and this will put the wage bill on a more sustainable path. However, given the political sensitivities surrounding the civil service reform, the authorities have adopted a more cautious approach which seeks to foster a buy in from key stakeholders. They are also preparing to implement a voluntary retirement scheme. To facilitate these processes, my authorities have requested assistance from the World Bank for a civil service audit which will provide a basis for retrenchments.

Monetary policy and financial sector developments

As a member of the Common Monetary Area, Swaziland's monetary policy stance is influenced predominantly by developments in South Africa. During 2011, the monetary policy stance remained broadly accommodative with the discount rate left unchanged at 5.5

percent for the better part of 2011 which augured well for economic activity. Credit extended to the private sector rose by 2.8 percent in November 2011, mainly driven by increased lending to other non-financial corporations' (industry) and household sectors. Credit extended to industry increased by 3.2 percent, while credit extended to households and non-profit institutions serving households rose by 3.3 percent.

Swaziland's financial system remains stable amid the ongoing government's cash flow problem due to continued prudent supervision and oversight of the banking system. In July 2011, the central bank introduced a minimum liquid asset requirement in order to anchor financial sector soundness by ensuring that the banks hold appropriate levels of liquidity and cash reserves especially in light of the prevailing fiscal situation. Nonperforming loans have not increased significantly to indicate that the financial system is at risk. However, the central bank remains fully aware of the emerging risks for the banking sector and through its supervision department, continues to monitor developments in the banking system. In addition, a cash flow committee comprising the central bank and ministry of finance has been tasked to monitor government's cash flow position closely.

Exchange rate policy developments

The Swaziland authorities remain committed to the fixed exchange rate regime. They have undertaken to protect the 1 to 1 peg with the South African rand and remain mindful that a divergence from the peg has significant downside risks and would be detrimental for the economy. Despite the precarious cash flow situation, my authorities have refrained from making significant draw downs on government deposits with the central bank. At the end of November 2011, the country's gross official reserves stood at E4.4 billion, reflecting a 2.8 percent increase from the previous month. The moderate rise in reserves was due to revaluation gains from the depreciation of the rand against major trading currencies over the month. At this level, the reserves were enough to cover 2.5 months of imports of goods and services, higher than the 2.4 months cover recorded in October 2011. The government continues to seek other options to finance the fiscal deficit with the aim of minimizing draw downs on reserves and protecting the peg. The unavailability of external support renders these efforts extremely difficult.

Conclusion

My authorities value Fund advice and are committed to continued engagement. They are aware of the urgent need to implement the much needed reforms in order to anchor macroeconomic stability.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No.12/39
FOR IMMEDIATE RELEASE
February 7, 2012

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes 2011 Article IV Consultation with the Kingdom of Swaziland

On January 23, 2012, the Executive Board of the International Monetary Fund concluded the 2011 Article IV consultation with the Kingdom of Swaziland.

Under Article IV of its Articles of Agreement, the IMF has a mandate to exercise surveillance over the economic, financial and exchange rate policies of its members in order to ensure the effective operation of the international monetary system. The IMF's appraisal of such policies involves a comprehensive analysis of the general economic situation and policy strategy of each member country. IMF economists visit the member country, usually once a year, to collect and analyze data and hold discussions with government and central bank officials. Upon its return, the staff submits a report to the IMF's Executive Board for discussion. The Board's views are subsequently summarized and transmitted to the country's authorities.