EXECUTIVE SUMMARY

Background: Swaziland's economic performance remains weak. Poverty has escalated in the face of high and rising unemployment, food shortages, and the world's highest HIV/AIDS infection rate. In 2006, growth slowed to around 2 percent; inflation is rising; and the current account surplus is narrowing. Significant windfall revenue from the South Africa Customs Union (SACU) during 2006/07—greater than anticipated during the 2005 Article IV mission—is expected to improve the fiscal balance temporarily despite a lack of fiscal reform and rising expenditure, particularly for wages. It also contributed to an increase in official reserves from 1.2 months of imports in December 2005 to 2.3 months in November 2006. An opportunity exists for the authorities to address overdue fiscal reforms using the windfall revenues, which are projected to stay high through 2007/08 but then sharply decline.

Key Policy Issues: The 2006 streamlined Article IV consultation focused on the following:

- **Fiscal sustainability**: The current fiscal stance will be unsustainable as SACU revenues begin to fall. Deficit financing has relied on drawdowns of government financial assets closely connected with international reserves, a practice which risks undermining the exchange rate parity in the Common Monetary Area (CMA). Staff recommended immediate action to improve budget management, reduce the wage bill, and begin civil service reform and privatization. Over the medium term, this would permit a build-up of international reserves and create fiscal space to fight poverty.

- **Financial sector vulnerability:** Concentration of lending in a few sectors makes Swaziland's financial system vulnerable. Supervision needs strengthening, particularly for deposit-taking nonbank financial institutions, which are expanding rapidly. With the support of MCM, the central bank is intensifying commercial bank supervision and improving reserve management, and is beginning to address weaknesses in nonbank supervision.

- **External competitiveness and structural reforms:** Swaziland is susceptible to a range of potentially permanent shocks, including erosion in the preferential treatment of major exports and the SACU revenue decline. Since Swaziland remains pegged to the rand, structural reforms are key to improving competitiveness—including labor market reforms; simplifying business licensing requirements and procedures; improving transportation, energy, and telecommunication infrastructures; and enhancing land productivity by a strategy for land reform.

I. Background

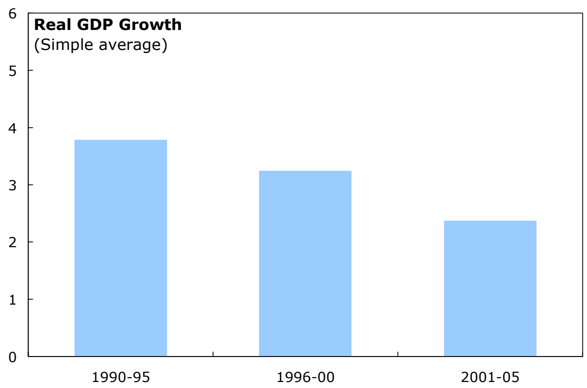
1. **Swaziland's economic performance remains weak.** Because of a substantial real appreciation of the lilangeni during 2002-04, erosion of trade preferences, and recurrent droughts, growth has averaged only 2 percent since 2000.[1] Over that same period, rising government expenditures, especially on the wage bill, undermined fiscal sustainability and reduced foreign reserves to critically low levels. Swaziland has one of the highest income-inequality among low-middle-income countries with a Gini coefficient of 0.61. Poverty has escalated in the face of high and rising unemployment, food shortages, and the world's highest HIV/AIDS infection rate. The World Food Program estimates that about 20 percent of the population required food aid during 2006 (Figure 1).

2. **In 2005/06 fiscal and external imbalances were masked by a temporary rise in revenues from the South Africa Customs Union (SACU).** GDP growth in 2006 is estimated at about 2 percent, close to the average of the last five years. Inflation is expected to reach 5.4 percent at end-year as food prices continued to rise. The surge in SACU revenues (related to South Africa's higher import bill) sharply reduced the fiscal deficit to 1.5 percent of GDP in 2005/06 from 4.6 percent in 2004/05. Despite weak export growth following the elimination of textile quotas, a small external current account surplus is expected in 2006 because of the SACU windfall, and net international reserves increased from 1.2 months of imports in December 2005 to 2.3 months in November 2006. Since December 2005, the real effective exchange rate has depreciated by 8.4 percent, primarily reflecting movements in the rand-U.S. dollar exchange rate (Figure 2). Consistent with the peg to the rand, the Central Bank of Swaziland (CBS) has maintained its interest rates in line with South Africa's; in December, the CBS increased the discount rate by 50 basis points to 9 percent.

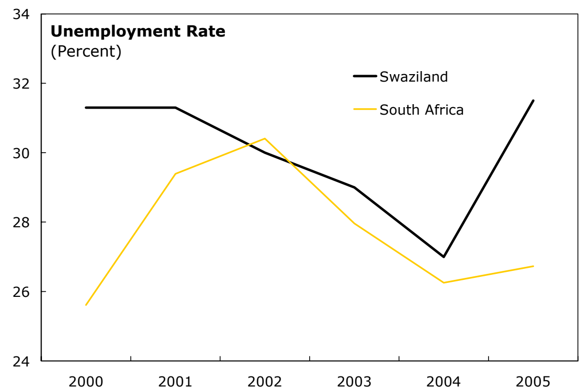
[1] See IMF Staff Country Report No. 03/22, January 2003.

Figure 1: Swaziland: Main Challenges

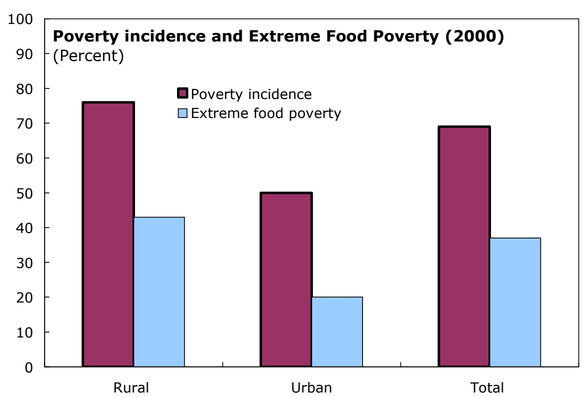
The deterioration in real GDP growth continues….



…and unemployment has risen sharply.



Poverty is rising and food is still scarce.



HIV/AIDS prevalence is the highest in the world.

HIV/AIDS Prevalence in SACU Countries, 2005
(Percentage of adult population, ages 15-49)

Botswana	24.1
Lesotho	23.2
Namibia	19.6
South Africa	18.8
Swaziland	**33.4**
Sub-Saharan Africa	6.1

Although growth lags behind the region…

Real GDP Growth, 2001-2005 (Percent)

	2001	2002	2003	2004	2005	2000-05 Average
SSA average	4.1	3.5	4.0	5.7	5.6	4.6
SACU average	3.0	4.5	3.7	4.4	3.7	3.8
Botswana	4.9	5.6	6.3	6.0	6.2	5.8
Lesotho	3.3	3.6	3.2	2.7	1.3	2.8
Namibia	2.4	6.7	3.5	6.6	4.2	4.7
South Africa	2.7	3.7	3.0	4.5	4.9	3.7
Swaziland	**1.6**	**2.9**	**2.9**	**2.1**	**2.3**	**2.4**

…Swaziland remains a middle- income country—but with extensive income inequality.

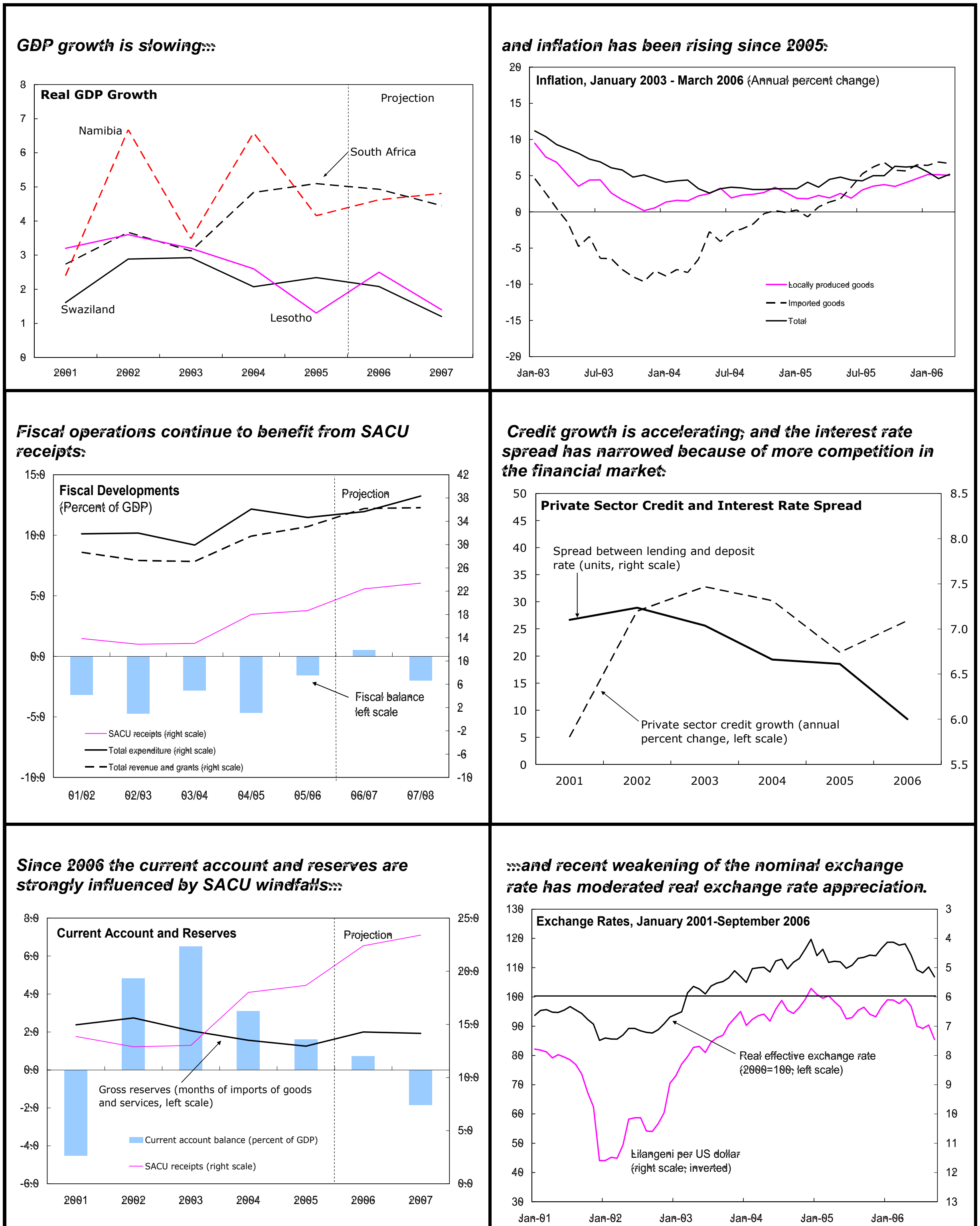
GNI per Capita, 2001-04 (PPP, Current dollars)

	2001	2002	2003	2004	2000-04 Average
SSA average	1,671	1,713	1,770	1,871	1,756
SACU average	6,192	6,508	6,832	7,310	6,711
Botswana	7,700	8,190	8,900	9,590	8,595
Lesotho	2,800	2,940	3,090	3,270	3,025
Namibia	6,300	6,720	6,990	7,520	6,883
South Africa	9,570	9,970	10,340	11,160	10,260
Swaziland	**4,590**	**4,720**	**4,840**	**5,010**	**4,790**

Source: World Bank, World Development Indicators.

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

Figure 2: Swaziland: Recent Economic Developments



Sources: National authorities and IMF staff projections.

II. Report on the Policy Discussions

A. Outlook, Future Challenges, and Strategy

3. **The authorities and staff agreed that the medium-term outlook remains difficult despite the short-term fiscal and external benefits from the temporary SACU revenues.**[2] Trade preference erosion, especially the anticipated reductions in preferential prices for sugar exports to the EU by 36 percent over the next three years, the forecast decline in SACU tariff revenues as import demand slows in South Africa, and Swaziland's limited diversification are likely to contribute to slowing growth to about 1 percent in the medium term.

4. **Growth is hampered also by institutional factors.** Poor labor productivity, the high cost of doing business, and low governance and transparency indicators deter new investment. The high prevalence of HIV/AIDS seriously undermines human development prospects. The low revenue base, weak public expenditure management, and wage pressures inhibit the effective execution of the government's Poverty Reduction Strategy and Action Plan and the mobilization of much-needed development assistance.

5. **Staff presented two scenarios to illustrate the policy challenges** (see text table). The first assumes no change in current policies, leading to a worsening in fiscal balances, rapid debt accumulation, and subdued real growth. Without structural reforms to improve competitiveness, activity will continue to stagnate, causing the current account deficit to widen and reserves to decline to uncomfortably low levels. Under a reform scenario anchored on fiscal consolidation and a range of structural improvements, the growth rate could gradually rise to around 3 percent. The fiscal and external positions would strengthen and increased external reserve accumulation would bolster confidence in the peg. Key prerequisites are improved business and governance climates, needed to support higher donor participation and private investment, particularly in the export sector.[3]

6. **To address the key challenges, the 2006 streamlined Article IV consultation focused on:** (i) medium-term fiscal sustainability; (ii) financial sector vulnerability; and (iii) structural reforms to strengthen external competitiveness.

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[2] The short-term outlook is significantly better than at the time of the 2005 Article IV consultation, due to the sharp (6 percent of GDP) upward revision of estimated 2006/07 SACU revenue, and to significant data revisions in the external sector—implying a lower fiscal deficit and public debt than in Country Report No. 06/106, March 2006. Moreover, SACU revenue is now projected to remain high in 2007/08 before declining.

[3] In December 2006, the US Congress extended the provision allowing the use of third-country fabrics in textile export manufactures under the African Growth and Opportunity Act (AGOA) from 2007 to 2012. However, the ban on beef exports to the EU remains.

Swaziland: Medium-Term Scenario, 2005-2010
(Percent of GDP, unless noted otherwise)

	2005	2006	2007	2008	2009	2010
Main macroeconomic variables [1]						
Without measures						
Real GDP growth (percent)	2.3	2.1	1.2	1.0	1.0	1.0
Current account balance	1.6	0.7	-1.8	-3.0	-4.1	-4.0
Gross official reserves (millions of US dollars)	231	378	384	353	283	233
Gross official reserves (months of imports of goods and nonfactor services)	1.3	2.0	1.9	1.8	1.4	1.1
Government debt	15.6	14.1	14.4	16.7	19.9	24.0
Total Revenues and grants	32.5	35.5	35.9	33.7	32.2	31.7
of which : Domestic revenues	13.1	13.5	12.3	12.2	12.2	12.2
SACU	18.3	22.0	23.1	21.0	19.5	19.0
Total Expenditure and Net Lending	34.0	33.6	37.9	37.4	37.6	37.8
of which : Wages and salaries	14.4	15.6	15.4	15.4	15.4	15.4
Goods and services	5.9	5.2	6.0	6.0	6.0	6.0
Interest payments	1.1	1.8	1.3	1.0	1.2	1.5
Fiscal balance, including grants	-1.5	1.9	-2.0	-3.7	-5.4	-6.1
Reform policies scenario						
Real GDP growth (percent)	...	2.1	1.8	2.6	3.1	3.1
Current account balance	...	0.7	-0.3	1.5	2.2	2.4
Gross official reserves (millions of US dollars)	...	389	432	468	501	536
Gross official reserves (months of imports of goods and nonfactor services)	...	2.1	2.2	2.3	2.4	2.5
Government debt	...	14.1	9.8	9.0	7.3	5.8
Total Revenues and grants	...	35.5	36.3	35.1	33.7	33.4
of which : Domestic revenues	...	13.5	13.1	13.3	13.5	13.7
SACU	...	22.0	23.1	21.0	19.5	19.0
Total Expenditure and Net Lending	...	32.5	35.8	34.1	32.9	32.6
of which : Wages and salaries	...	15.6	15.0	14.4	13.9	13.4
Goods and services	...	4.5	5.5	5.5	5.5	5.5
Interest payments	...	1.8	1.2	0.7	0.8	1.0
Fiscal balance, including grants	...	3.0	1.3	1.0	0.8	0.8

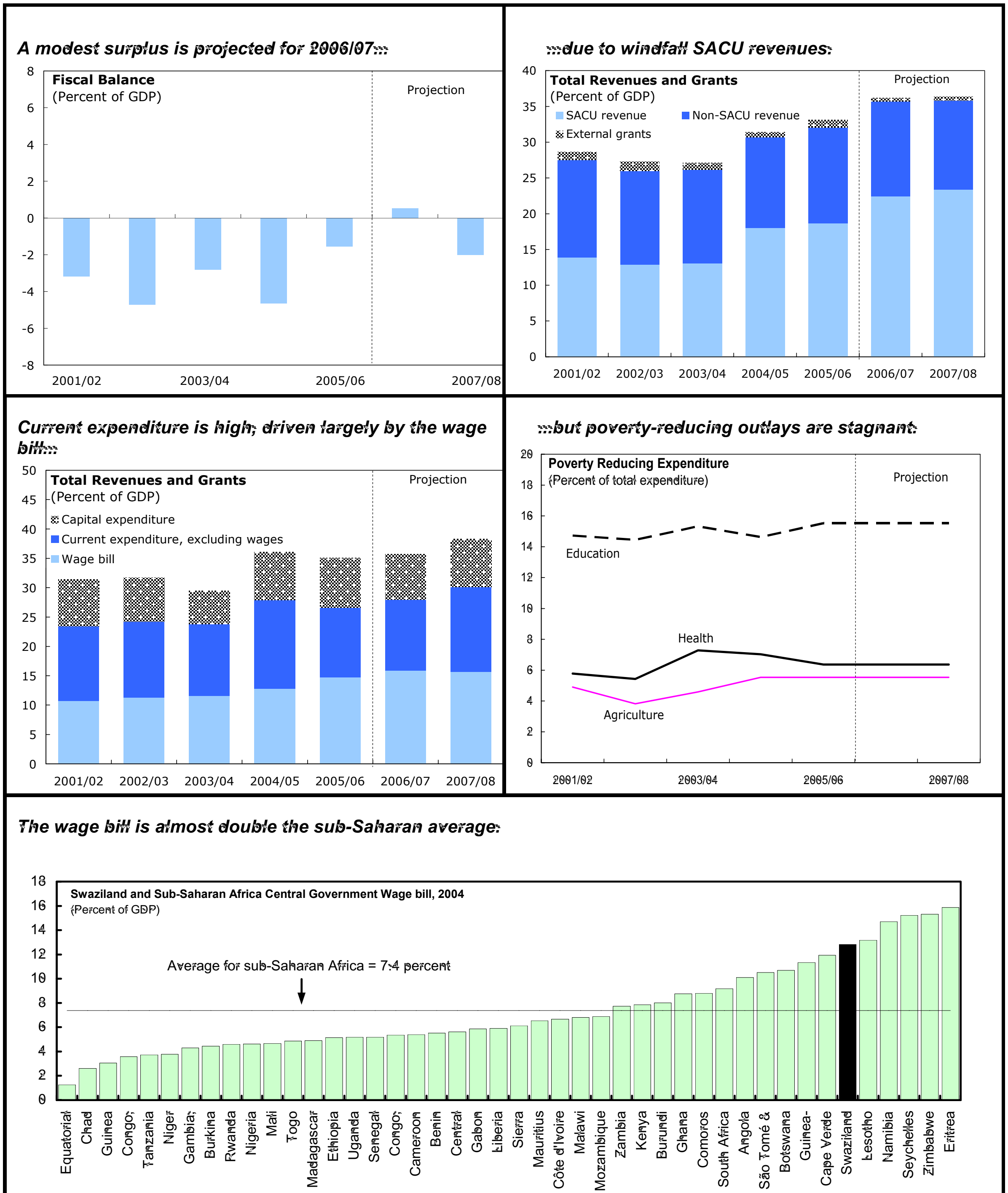
1 Fiscal year runs from April 1 to March 31.

B. Fiscal Sustainability

7. **Reforms to strengthen fiscal sustainability have been limited since the 2005 Article IV consultation.** Additional SACU revenue reduced the 2005/06 fiscal deficit, despite few policy measures. In 2006/07, progress towards reorienting expenditure and rightsizing the civil service by a partial freeze on filling vacancies has been offset by the creation of an additional ministry and new positions (Figure 3). A public expenditure management reform project became operational in 2006 but has yet to be extended to all line ministries. Parliament has, however, approved an anti-corruption act and a strategy for privatizing public enterprises that are a burden on the budget.

8. **Staff and the authorities agreed that current fiscal policies cannot be sustained, since they could jeopardize the credibility of the exchange rate peg.** Staff's baseline estimates for 2006/07 show too small a surplus to be consistent with the build-up of international reserves targeted by the authorities. Moreover, the authorities' medium-term budgetary framework allows for a spending increase of 3 percent of GDP in 2007/08, and is based on overly optimistic domestic revenue forecasts. Staff indicated that this expenditure level was not sustainable in the face of the expected SACU revenue decline. Financing for the implied large fiscal deficits would erode international reserves under the current

Figure 3: Swaziland: Fiscal Developments



Sources: National authorities and IMF staff projections.

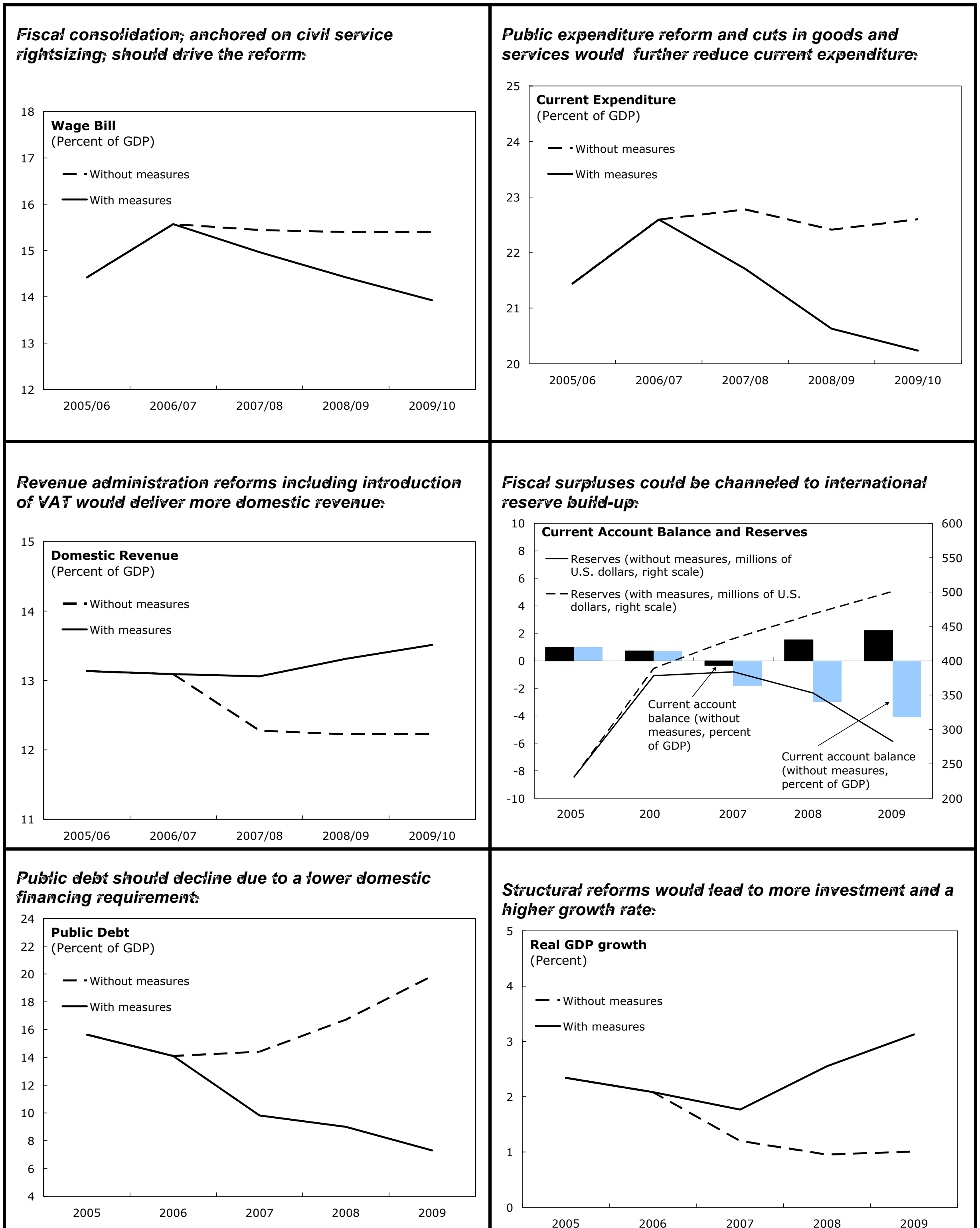
exchange rate arrangement given Swaziland's lack of access to concessional external resources and limited scope for domestic financing without incurring arrears.

9. **The reform scenario discussed with the authorities targets small fiscal surpluses over the medium term to enable a build-up of international reserves** (Figure 4). An initial spending reduction of 1.1 percent of GDP in the rest of 2006/07 would, together with continued high SACU receipts, yield a surplus of 3 percent of GDP. In the medium-term, fiscal consolidation and structural reforms should improve the business climate, promote private sector growth, and contribute to higher real GDP and a stronger current account. Staff urged the authorities to take advantage of the SACU windfall to quickly implement key fiscal measures that would drive the outcome in the reform scenario. These include reform of civil service rightsizing to lower the wage bill, the tax administration and introduction of a VAT to raise domestic revenue, and privatization of public enterprises to reduce subsidies and transfers.

10. **The authorities agreed on the need to safeguard macro-stability by targeting fiscal consolidation through implementation of the required reforms, especially reducing the excessive wage bill.** While reiterating that no supplementary budget would be issued and new wage costs would be allocated within the 2006/07 budget, they stressed the political difficulties of implementing extensive civil service reforms at this time. Nevertheless, they have initiated plans to eliminate vacant positions in 2007/08 and review the appropriate staff size for each ministry, and have introduced a performance management system. The authorities have requested technical assistance from FAD and the African Development Bank to accelerate the establishment of the revenue authority in 2007/08, and then the introduction of a VAT. They also plan to further implement public expenditure management reforms and eliminate arrears. This reform is critical, given the serious cash flow problems and arrears accumulation of the last few years.

11. **The authorities confirmed their commitment to accumulate international reserves in the medium term to at least 3 months of imports of goods** (2.6 months of imports of goods and services). Staff supported this objective. While reserves are now comfortable in relation to the domestic monetary base (reflecting the free circulation of the rand) and external debt (which stands at less than 24 percent of GDP), preventing the projected reserve decline would increase confidence in the peg and cushion against adverse external shocks. More specifically, the authorities committed to increasing reserves by E400 million at end-March 2007, which would raise reserve cover to 2.4 months of imports, and indicated that, by end-November 2006, they had already deposited E300 million at the CBS.

Figure 4: Swaziland: Baseline and Reform Scenario



Source: National authorities and IMF staff projections.

C. Financial Sector Stability and Vulnerability

12. **Swaziland's financial sector is relatively diverse.** Three majority-owned South African commercial banks, the government-owned SwaziBank, and 66 savings and credit cooperatives are the main deposit-taking institutions. The rest of the financial sector comprises the Swaziland Building Society and the Swaziland Industrial Development Company. Contractual savings institutions such as the Swaziland National Provident Fund, the Public Service Pension Fund, and the Royal Swaziland Insurance Corporation are also active. There is a small, relatively inactive, stock exchange and a small bond market which opened in 2002.

13. **The authorities have made progress in strengthening commercial bank supervision but vulnerabilities remain.** The authorities and staff concurred that the CBS should move towards a prudential and regulatory framework consistent with international norms and best practices. The authorities indicated that they have recently intensified onsite supervision and that, if necessary, external auditors could be called in.

14. **Additional vulnerability could arise from the high concentration of credit in the tradable sector, especially sugar** (Figure 5). Staff noted that, considering the structure of the economy, the acceleration of credit growth and its concentration may stretch banks' capacity to assess and manage credit risk. The authorities responded that banking system credit is now subjected to a single obligor limit, thereby mitigating risks.

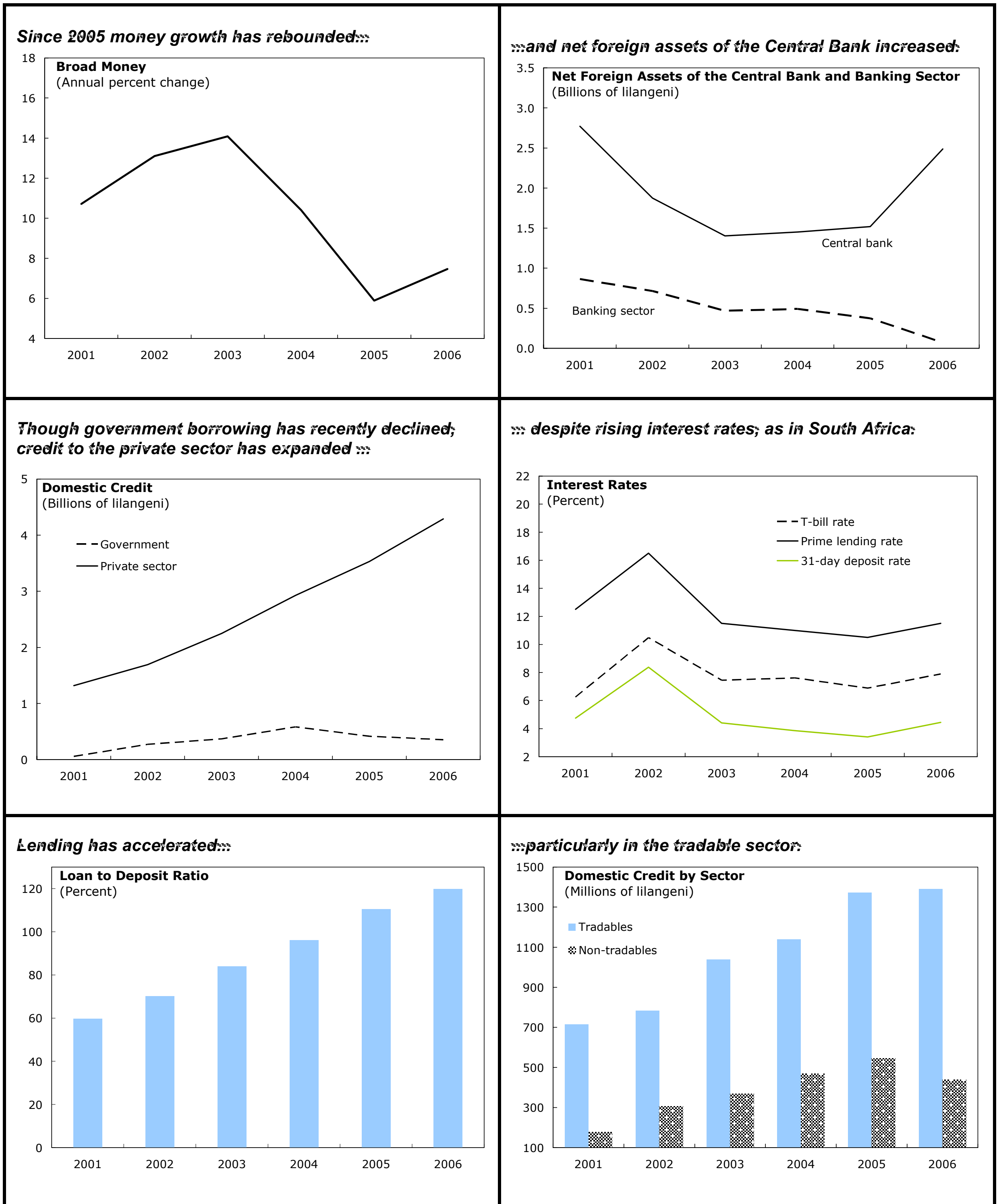
15. **Staff raised concerns about the rapid growth and poor supervision of deposit-taking nonbank financial institutions,** which currently account for about 11 percent of banking system deposits. Credit has expanded especially among rural dwellers with little or no access to the formal banking system. The Ministry of Agriculture and Cooperatives exercises only moderate oversight. As the nonbank financial sector has expanded, two credit cooperatives requested government guarantees; if approved they would create a contingent liability of E 60 million (1 percent of government expenditure). The authorities concurred with the mission that government should not act as guarantor to these institutions. They also agreed that the inadequate supervision could be risky for depositors and expressed keen interest in working with the Fund to improve supervision.

Swaziland: Deposit-taking Cooperative Societies

	2003	2004	2005
Registered societies	59	51	66
Membership, thousands	40.5	35.5	39.9
Savings			
Millions of emalangeni	251.2	270.6	352.1
Percent of banking system deposits	9.1	8.9	10.9
Percent of GDP	1.7	1.8	2.1
Loans			
Millions of emalangeni	167.9	189.6	258.3
Percent of private sector domestic credit	7.5	6.5	7.3
Percent of GDP	1.2	1.2	1.6

Source: Swaziland Ministry of Agriculture and Cooperatives

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



Sources: National authorities and IMF staff projections.

[1] For 2006, data are as of July, except for the loan-to-deposit ratio and domestic credit by sector, which are as of June, and interest rates, which are as of August.

D. External Competitiveness and Structural Reforms

16. **Staff supports the authorities' view that maintaining the peg to the rand is appropriate, given Swaziland's close economic integration with Southern Africa.** However, this creates challenges for competitiveness. The recent depreciation of the rand has also resulted in a moderate depreciation of the lilangeni in real effective terms. However, further inflationary pressures could arise given the ongoing depreciation of the rand. If such effects are not contained (for example, by controlling wage and fiscal pressures), competitiveness vis-à-vis South Africa and other trading partners may be further eroded.[4] More fundamentally, poor governance indicators and low labor productivity threaten future competitiveness (Figure 6).

17. **The authorities and staff concurred that competitiveness-enhancing reforms to increase productivity, reduce the cost of doing business, and improve governance are needed to complement macro-policies**. Key elements should include skills-training combined with policies to alleviate the productivity-eroding impact of skill mismatches, labor-market rigidities, and HIV/AIDS. To attract investment the authorities should: (i) simplify business licensing requirements and procedures; (ii) improve transportation, energy, and telecommunication infrastructures; and (iii) increase land productivity, partly by a land reform strategy. The authorities noted their efforts to improve competitiveness through parliamentary passage of an anti-corruption bill; establishment of a Business Economic Advisory Panel to improve Swaziland's image; and approval of a national export strategy. The World Bank is assisting with an Investment Climate Assessment Survey. While welcoming these initiatives, staff stressed the importance of prompt implementation of recent USAID recommendations ("The Swaziland Investor Roadmap 2005"), which confront complications caused by government regulations; and of making the anticorruption commission operational.

E. Other Issues

18. **The authorities and staff share the view that data improvements are needed.** These are particularly important for the national accounts and balance of payments, which are subject to large and frequent revisions. Staff encouraged the authorities to facilitate public participation in policy development, by improving statistics and the dissemination of information. This year for the first time, government reported to parliament on the quarterly budget execution.

[4] An overwhelming majority of Swaziland's trade flows are accounted for by South Africa, which therefore plays a crucial role in determining the real effective exchange rate.

Figure 6: Swaziland: Competitiveness Indicators

High labor cost is hurting competitiveness…

Garment Sector Wages for Selected Countries, 2002

	Wages per hour (US dollars)
Swaziland [1]	0.86
SACU	
South Africa	1.38
Lesotho [2]	0.45
AGOA	
Kenya	0.38
Mauritius	1.25
Madagascar [3]	0.33
Asia	
China [4]	0.78
India	0.38
Sri Lanka	0.48

Source: USITC (2004); Cadot and Nasir (2001), USAID (2004).

[1] Estimate based on a US$155 monthly wage reported in USAID and a 45hr work week.

[2] Midrange of monthly wages as reported in USITC (US$80-100) and a 50hr work week.

[3] Data for 2001 computed in Cadot and Nasir (2001).

[4] Midrange between US$0.68-0.88 as reported in USITC.

…as is the inefficient business environment.

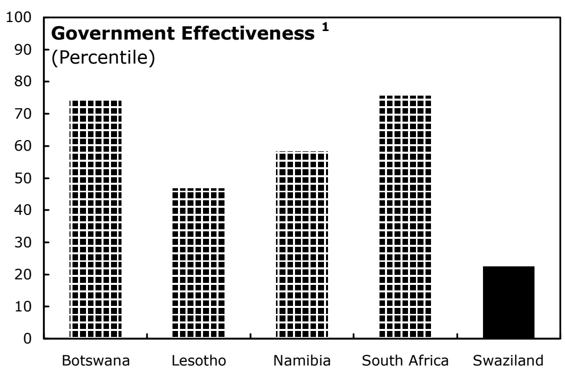
Doing Business [1]

	2006 rank	2005 rank	Change
Doing business	76	67	-9
Starting a business	112	94	-18
Dealing with licenses	16	20	4
Registering property	140	134	-6
Getting credit	21	19	-2
Protecting investors	168	168	0
Trading across borders	133	130	-3
Enforcing contracts	132	130	-2

Source: World Bank.

[1] Ranking based on the 175 countries surveyed.

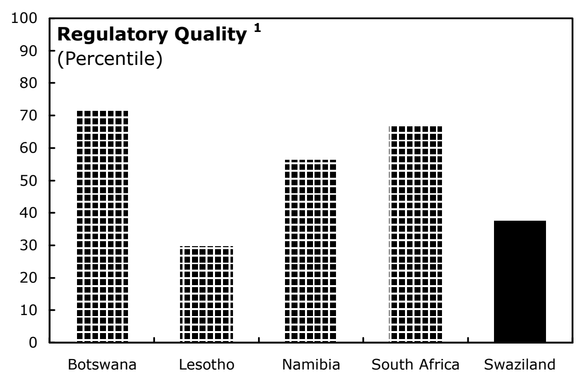
The quality of public service is the lowest in the region.



Source: Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi, "Governance Matters V: Governance Indicators for 1996-2005."

[1] Government effectiveness measures the quality of public services, civil service, policy formulation and implementation.

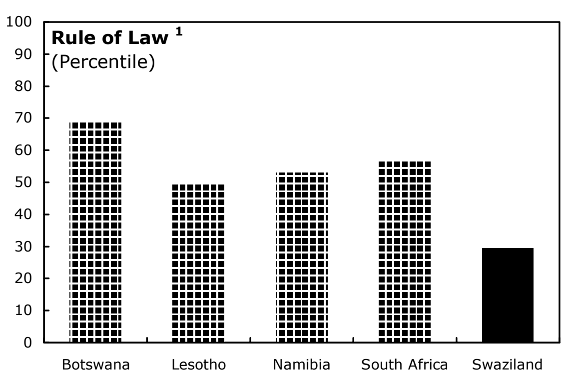
Poor regulation impedes private sector development.



Source: Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi, "Governance Matters V: Governance Indicators for 1996-2005."

[1] Regulatory quality measures the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.

The inadequate rule of law lowers foreign investor confidence…



Source: Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi, "Governance Matters V: Governance Indicators for 1996-2005."

[1] Rule of law measures the extent to which agents have confidence in and abide by the rules of society, in particular the quality of contract enforcement, the police, and the courts.

…as do negative perceptions of corruption.

Corruption Perception Index, 2004-2006

	2004	2005	2006
Botswana	31	32	37
Lesotho	…	70	79
Namibia	54	47	55
South Africa	44	46	37
Swaziland	**…**	**103**	**121**

Source: Transparency International.

III. Staff Appraisal

19. **Swaziland's economic performance remains weak.** Growth has slowed, exacerbating widespread poverty. The medium-term outlook is difficult because of a continued erosion of preferential treatment for Swaziland's main export industries, poor competitiveness, and an expected decline in SACU revenue. The key policy challenge is, therefore, to address impediments to higher growth and improved living standards, while adjusting to declining SACU revenues over the medium term.

20. **Fiscal reforms are essential to safeguard macroeconomic stability and the credibility of the exchange rate peg**. Recent fiscal improvement has been due largely to SACU revenue windfalls rather than implementation of the authorities' reform programs. Expenditure continues to escalate and, as a share of GDP, the wage bill is among the highest in the sub-Saharan region. Given the expected SACU revenue decline, staff urges the authorities to exercise a conservative fiscal stance. As well as allowing for international reserve accumulation to bolster confidence in the peg and provide a cushion against external shocks, fiscal policy should aim to reorient spending to poverty reduction priorities. In this connection, the planned 2007/08 budget, which accommodates an expenditure increase of 3 percent of GDP, is a step in the wrong direction. Staff urges the authorities to use the opportunity provided by the 2007/08 SACU windfalls to immediately implement pending fiscal reforms, including right-sizing the civil service, improving revenue administration and introducing the VAT, tightening expenditure control, and implementing the privatization strategy. Staff welcomes the authorities' commitment to refrain from issuing a supplementary budget and to introduce a computerized expenditure control system.

21. **Maintenance of the exchange rate peg to the rand is appropriate, given Swaziland's close integration with the region.** Confidence in the peg will be bolstered by the authorities' planned build-up of international reserves. However, success in this area will depend on progress with fiscal consolidation and the entrenchment of fiscal sustainability.

22. **Staff welcomes recent efforts by the CBS to strengthen the supervisory framework, reduce the concentration of sectoral lending, and improve the management of international reserves.** It supports the plan to extend financial supervision to nonbank deposit-taking institutions with MCM assistance, and urges enactment of the pending bills to help regulate the sector.

23. **Acceleration of structural reforms is essential to enhance competitiveness and improve investors' perception of Swaziland as an investment destination.** Staff recommends immediately operationalizing the anti-corruption commission, eliminating cumbersome and inconsistent administrative requirements for investors, accelerating land reform, enhancing labor productivity, and combating HIV/AIDS. The privatization of key utilities would also help improve the economy's competitiveness through lower costs of services.

24. **Greater efforts are urgently needed to improve the quality and timeliness of data to facilitate policy decision-making and monitoring.** Data shortcomings continue to hamper surveillance. Review and revision of GDP data should be given high priority and

there should be a greater effort at data dissemination as a means of demonstrating the government's commitment to transparency.

25. Staff recommends that the next Article IV consultation with Swaziland be held on the standard 12-month cycle.

Table 1. Swaziland: Basic Economic and Financial Indicators, 2003-2010

	2003	2004	2005	2006	2007	2008	2009	2010
		Est.	Est.			Projections		
			(Annual percentage change, unless stated otherwise)					
National income and prices								
GDP at constant prices	2.9	2.1	2.3	2.1	1.2	1.0	1.0	1.0
GDP per capita at constant prices	0.5	-0.1	0.4	0.3	-0.3	-0.4	-0.3	-0.4
GDP deflator	11.6	3.4	4.8	5.1	5.8	4.6	4.6	4.6
CPI (period average)	7.4	3.4	4.8	5.1	5.8	4.6	4.6	4.6
CPI (end of period)	4.6	3.2	5.0	5.4	5.2	4.6	4.6	4.6
External sector								
Current account balance (millions of U.S. dollars)	124.3	74.0	41.6	18.9	-49.9	-82.9	-118.6	-120.1
Export volume, f.o.b.	-3.1	4.2	2.3	2.7	-7.0	3.6	1.8	1.6
Import volume, f.o.b.	-19.1	3.8	-2.4	-3.4	-0.5	1.6	1.4	-0.9
Real effective exchange rate [1]	13.0	3.0	1.7	-5.2	...	...	...	...
Terms of Trade	0.6	-1.2	3.6	-3.0	...	...	...	...
Money and credit								
Broad money	14.1	10.4	5.9	15.3	...	...	...	...
Prime lending rate (percent, end of period)	11.5	11.0	10.5	10.5	...	...	...	...
Interest rate on 12-month time deposits (percent, end of period)	4.2	4.1	3.5	7.4	...	...	...	...
Discount rate (end of period)	8.0	7.5	7.5	8.0	...	...	...	
				(Percent of GDP)				
Gross national savings	24.5	21.5	19.5	14.7	13.8	12.1	10.5	10.1
Of which : government	3.3	3.6	6.5	8.2	6.2	4.4	2.7	1.9
Gross domestic investment	18.0	18.4	18.0	14.0	15.6	15.0	14.6	14.1
Of which : government	5.7	8.2	8.5	4.6	6.6	7.0	6.6	6.1
Central government finances (fiscal year) [2]								
Total revenue and grants	26.7	30.8	32.5	35.6	35.9	33.7	32.2	31.7
Of which : South African Customs Union (SACU) receipts	12.8	17.7	18.3	22.0	23.1	21.0	19.5	19.0
Total expenditure and net lending	29.4	35.4	34.0	35.1	37.9	37.4	37.6	37.8
Current expenditure and net lending	23.4	27.4	26.1	27.5	29.8	29.4	29.6	29.8
Central government balance (including grants)	-2.8	-4.6	-1.5	0.5	-2.0	-3.7	-5.4	-6.1
Primary balance (including grants)	-1.6	-3.5	-0.4	2.4	-0.6	-2.7	-4.2	-4.7
Government debt	19.4	18.0	15.6	14.1	14.4	16.7	19.9	24.0
External sector								
Current account balance	6.5	3.1	1.6	0.7	-1.8	-3.0	-4.1	-4.0
Trade balance (merchandise goods)	5.4	5.9	2.8	2.5	-0.8	-3.0	-2.9	-1.5
Capital and financial account balance	-3.7	-8.9	-7.3	4.3	2.1	2.0	1.9	1.8
Overall balance	-2.3	-0.8	-4.5	5.1	0.3	-0.9	-2.2	-2.2
External debt	21.7	23.9	18.2	17.4	17.6	18.5	18.9	19.3
Memorandum items :								
GDP in current prices (millions of emalangeni) [3]	14,422	15,390	16,616	17,931	19,084	20,073	21,083	22,157
Balance of payments (millions of U.S. dollars)	67	46	-30	142	8	-26	-63	-66
Gross official reserves (millions of U.S. dollars)	265	262	231	378	384	353	283	233
(months of imports of goods and nonfactor services)	2.1	1.6	1.3	2.0	1.9	1.8	1.4	1.1
(months of imports of goods)	2.5	2.0	1.6	2.5	2.4	2.1	1.6	1.3
Net official international reserves (millions of U.S. dollars)	212	257	228	374	381	351	280	231
(months of imports of goods and nonfactor services)	1.6	1.5	1.2	2.0	1.9	1.8	1.4	1.1
(months of imports of goods)	2.0	1.9	1.6	2.5	2.4	2.1	1.6	1.3
Total external debt (millions of U.S. dollars)	413	571	474	458	481	515	545	582

Sources: Swazi authorities; and IMF staff projections.

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

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

[3] Under review by the CSO; data on indirect taxes used for estimation of GDP may contain errors and are subject to downward revision.

Table 2. Swaziland: Summary of Central Government Operations, 2004/05-2010/11 [1/]

	2004/05	2005/06	2005/06	2006/07	2006/07	2007/08	2008/09	2009/10	2010/11
	Actual	Budget	Actual	Budget	Est.	Projections			
				(In millions of emalangeni)					
Total revenue and grants	4,842	5,049	5,499	6,490	6,470	6,936	6,855	6,881	7,135
Tax revenue	4,628	4,861	5,190	6,288	6,266	6,724	6,632	6,647	6,889
SACU receipts	2,773	2,796	3,101	4,017	4,017	4,465	4,268	4,164	4,273
Non-SACU revenue	1,855	2,065	2,088	2,271	2,249	2,258	2,364	2,483	2,616
Nontax revenue	98	113	137	114	114	115	121	127	134
Total expenditure and net lending	5,557	5,943	5,758	6,396	6,117	7,318	7,600	8,023	8,508
Current expenditure	4,295	4,496	4,416	5,011	5,011	5,752	5,974	6,315	6,709
Wages and salaries	1,964	2,642	2,443	2,836	2,836	2,985	3,130	3,288	3,463
Goods and services	1,421	867	996	946	946	1,160	1,220	1,281	1,349
Interest payments	168	254	194	334	334	258	206	256	326
Subsidies and transfers	742	733	783	894	894	1,349	1,418	1,490	1,569
Capital expenditure	1,259	1,452	1,410	1,392	1,114	1,566	1,626	1,708	1,799
Net lending	3	-5	-68	-7	-7	0	0	0	0
Primary balance	-547	-640	-64	428	686	-124	-539	-886	-1,046
Overall balance (including grants)	-715	-894	-259	94	352	-382	-745	-1,143	-1,372
Overall balance (excluding grants)	-831	-969	-431	6	262	-479	-847	-1,250	-1,485
Financing	715	894	259	-94	-352	382	745	1,143	1,372
Foreign (net)	255	100	212	-54	-54	209	226	250	277
Domestic (net) 2/	460	794	47	-40	-298	173	518	892	1,095
Increase in financial assets (reserves, CBS)	...	...	...	...	-228	...	...	...	...
Central Bank recapitalization	...	...	...	...	-20	...	...	...	...
Settlement of arrears	...	...	...	...	-50	...	...	...	...
Government debt	2,507	2,972	2,735	2,641	2,568	3,022	3,767	4,910	6,282
Foreign	2,096	2,392	2,308	2,254	2,151	2,504	2,754	3,004	3,254
Domestic	411	580	427	387	417	519	1,013	1,906	2,128
				(In percent of GDP, unless otherwise specified)					
Total revenue and grants	30.8	29.8	32.5	35.6	35.5	35.9	33.7	32.2	31.7
Tax revenue	29.5	28.7	30.6	34.5	34.4	34.8	32.6	31.1	30.6
SACU receipts	17.7	16.5	18.3	22.0	22.0	23.1	21.0	19.5	19.0
Non-SACU revenue	11.8	12.2	12.3	12.5	12.3	11.7	11.6	11.6	11.6
Nontax revenue	0.6	0.7	0.8	0.6	0.6	0.6	0.6	0.6	0.6
Grants	0.7	0.4	1.0	0.5	0.5	0.5	0.5	0.5	0.5
Total expenditure and net lending	35.4	35.1	34.0	35.1	33.6	37.9	37.4	37.6	37.8
Current expenditure	27.4	26.5	26.1	27.5	27.5	29.8	29.4	29.6	29.8
Of which:									
Wages and salaries	12.5	15.6	14.4	15.6	15.6	15.4	15.4	15.4	15.4
Goods and services	9.1	5.1	5.9	5.2	5.2	6.0	6.0	6.0	6.0
Interest payments	1.1	1.5	1.1	1.8	1.8	1.3	1.0	1.2	1.5
Subsidies and transfers	4.7	4.3	4.6	4.9	4.9	7.0	7.0	7.0	7.0
Capital expenditure	8.0	8.6	8.3	7.6	6.1	8.1	8.0	8.0	8.0
Primary balance	-3.5	-3.8	-0.4	2.4	3.8	-0.6	-2.7	-4.2	-4.7
Overall balance (including grants)	-4.6	-5.3	-1.5	0.5	1.9	-2.0	-3.7	-5.4	-6.1
Overall balance (excluding grants)	-5.3	-5.7	-2.5	0.0	1.4	-2.5	-4.2	-5.9	-6.6
Financing	4.6	5.3	1.5	-0.5	-1.9	2.0	3.7	5.4	6.1
Foreign (net)	1.6	0.6	1.2	-0.3	-0.3	1.1	1.1	1.2	1.2
Domestic (net)	2.9	4.7	0.3	-0.2	-1.6	0.9	2.6	4.2	4.9
Government debt	16.0	17.5	16.1	14.5	14.1	15.6	18.5	23.0	24.0
Foreign	13.4	14.1	13.6	12.4	11.8	13.0	13.5	14.1	14.5
Domestic	2.6	3.4	2.5	2.1	2.3	2.7	5.0	8.9	9.5
Memorandum items:									
Payment arrears	2.0	...	...	...	0.3	...	...	...	...
GDP at current prices (in millions of emalangeni)	15,697	16,945	16,945	18,219	18,219	19,331	20,325	21,352	22,490

Sources: Ministry of Finance; and Fund staff projections.

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

[2] Including domestic payment arrears estimated at 2 percent of GDP for 2004/05. For 2005/06 onwards, including financing gaps.

Table 3. Swaziland: Monetary Survey, 2002- Sep. 2006 1/
(in millions of emalangeni)

	2002	2003	2004	2005	2006 Sep.
Monetary authorities					
Net foreign assets	1,873	1,405	1,450	1,518	2,370
Central Bank of Swaziland (CBS)	1,863	1,378	1,243	1,518	2,264
Of which : Capital Investment Fund (CIF), managed by CBS.	1,220	713	667	0	0
Government	10	27	207	0	106
Net domestic assets	-1,544	-974	-973	-1,029	-1,611
Central government (net)	-1,300	-1,031	-933	-1,082	-1,526
CBS claims on government	57	83	252	101	179
Government deposits with CBS	-1,357	-1,113	-1,185	-1,183	-1,705
Domestic	-127	-374	-311	-1,183	-1,705
Foreign 2/	-1,230	-739	-874	0	0
Private sector	-77	-80	-86	1	8
Commercial banks (net)	0	0	0	2	0
Other items (net)	-167	136	46	50	-92
Reserve money	329	430	477	490	550
Commercial banks					
Net foreign assets	715	469	490	374	72
Reserves	209	236	256	211	276
Domestic credit	1,985	2,614	3,344	3,832	4,609
Central government (net)	215	286	331	302	327
Claims on Government	215	287	332	315	344
Government deposits	0	0	2	13	17
Private sector	1,770	2,328	3,013	3,531	4,282
Other items (net)	-552	-655	-1,110	-1,196	1,328
Private sector deposits	2,357	2,664	2,946	3,221	3,657
Monetary survey					
Net foreign assets	2,588	1,874	1,941	1,893	2,442
Domestic credit	609	1,504	2,325	2,751	3,090
Central government (net)	-1,084	-744	-602	-781	-1,200
Private sector	1,693	2,248	2,927	3,532	4,290
Other items (net)	-595	-409	-987	-1,173	-1,530
Broad money	2,602	2,969	3,278	3,471	4,002
Currency in circulation 3/	155	213	236	242	268
Deposits	2,447	2,756	3,042	3,229	3,734
	(Annual change in percent of beginning-of-period broad money) 4/				
Broad money	13.1	14.1	10.4	5.9	15.3
Net foreign assets	-45.5	-27.5	2.2	-1.5	15.8
Domestic credit	58.3	34.4	27.7	13.0	9.8
Central government (net)	42.1	13.1	4.8	-5.4	-12.1
Private sector	16.2	21.3	22.9	18.4	21.8
Other items (net)	0.3	7.1	-19.5	-5.7	-10.3
Memorandum items:					
Currency/broad money (percent)	6.0	7.2	7.2	7.0	6.7
Reserve money/deposits (percent)	13.5	15.6	15.7	15.2	14.7
Money multiplier (broad money/reserve money)	7.9	6.9	6.9	7.1	7.3

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

[1] End-of-year data.

[2] Counterpart of government external assets in rand and in CIF.

[3] Excludes rand in circulation.

[4] For July 2006, change from Dec. 2005.

Table 4. Swaziland: Commercial Banks' Performance Ratios, Dec. 2003 - Sep. 2006

	2003 Dec.	2004 Dec.	2005 Dec.	2006 Sep.
		(in percent)		
Performance Ratios				
Basle capital ratio (Tier 1)	14	14	15	19
Basle capital ratio (Tier 2)	20	16	17	21
Asset Quality				
Loans to deposit ratio [1]	75	73	83	101
Earning assets to total assets	90	87	92	92
Nonperforming loans to total loans [1]	2	3	2	2
Reserve for losses to total loans	9	8	7	7
Liquidity Ratios				
Liquid assets to total deposits	19	18	17	14
Available reserves to total deposits	18	19	20	20
Liquid assets to total assets	14	14	13	14
Profitability Ratios				
Net income to average total assets (return on assets)	4	3	3	4
Net income to average total equity (return on equity)	29	20	20	20
Total expenses to total income	60	64	68	64

Source: Central Bank of Swaziland.

[1] Excluding the Swaziland Development and Savings Bank, which is owned by the government and offers both development finance and commercial banking services since its relaunch by government in 2001 and its recapitalization in 2003.