Table 5. Swaziland: Balance of Payments, 2004-2010 [1]
(Millions of U.S. dollars, unless otherwise specified)

	2004	2005	2006	2007	2008	2009	2010
		Est.	Projections				
Current account balance	74.0	41.6	18.9	-49.9	-82.9	-118.6	-120.1
Trade balance	140.0	72.9	67.2	-21.9	-83.9	-83.7	-46.1
Exports, f.o.b.	1,741.1	1,824.7	1,876.9	1,913.8	1,904.2	1,973.2	2,056.2
Imports, f.o.b.	-1,601.1	-1,751.8	-1,809.7	-1,935.7	-1,988.1	-2,056.9	-2,102.3
Services (net)	-177.8	-194.7	-224.8	-220.0	-173.3	-175.2	-188.6
Exports of services	232.1	266.3	236.3	231.3	243.2	252.3	264.4
Imports of services	-409.9	-461.0	-461.1	-451.3	-416.5	-427.5	-453.0
Goods and services balance	-37.8	-121.8	-157.6	-241.9	-257.2	-258.9	-234.7
Income (net)	19.3	19.6	14.6	6.8	11.6	5.4	-6.6
Income (credits)	144.3	132.2	152.6	149.5	157.5	156.1	156.6
Income (debits)	-124.9	-112.6	-138.0	-142.7	-145.9	-150.8	-163.2
Of which : interest	-24.9	-23.5	-22.4	-23.3	-24.7	-26.4	-28.4
Transfers (net)	92.4	128.1	161.8	185.2	162.8	134.9	121.2
Official sector (mainly SACU receipts) [2]	213.0	193.9	300.3	335.2	323.2	308.5	311.3
Private sector	-120.6	-65.8	-138.4	-150.0	-160.4	-173.6	-190.1
Capital and financial account balance	-193.8	-73.6	123.2	57.7	56.9	56.1	53.9
Capital account balance	-0.6	1.1	8.6	0.0	0.0	0.0	0.0
Financial account balance (excluding reserve assets)	-193.2	-74.7	114.6	57.7	56.9	56.1	53.9
Direct investment	72.2	8.8	52.1	50.4	48.7	47.1	45.4
Portfolio investment	-11.3	0.9	-2.6	-2.7	-2.8	-2.9	-3.0
Other investment	-254.2	-84.4	65.1	10.0	11.0	11.9	11.5
Errors and omissions	165.6	2.2	0.0	0.0	0.0	0.0	0.0
Overall balance	45.8	-29.8	142.1	7.8	-25.9	-62.5	-66.2
Memorandum items:							
Current account/GDP (percent)	3.1	1.6	0.7	-1.8	-3.0	-4.1	-4.0
Goods and services balance/GDP (percent)	-1.6	-4.7	-6.0	-8.9	-9.2	-9.0	-7.8
Net official reserves (end of period)	257.4	228.1	374.0	381.4	350.7	280.3	230.9
In months of imports of goods and services	1.5	1.2	2.0	1.9	1.8	1.4	1.1
Gross official reserves (end of period)	261.8	230.9	378.2	383.9	353.0	282.6	233.2
In months of imports of goods and services	1.6	1.3	2.0	1.9	1.8	1.4	1.1
Total external debt	571.1	473.7	457.6	481.1	514.6	545.0	581.5
Total external debt/GDP (percent)	23.9	18.2	17.4	17.6	18.5	18.9	19.3

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

[1] Without corrective policy measures.

[2] SACU: Southern African Customs Union.

INTERNATIONAL MONETARY FUND
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IMF Executive Board Concludes 2006 Article IV Consultation with the Kingdom of Swaziland

On January 31, 2007, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Kingdom of Swaziland.[1]

Background

Swaziland's economic performance has remained weak with growth averaging only 2 percent since 2000, owing to a substantial real appreciation of the lilangeni during 2002-04, erosion of trade preferences, recurrent drought, and stagnant investment. Over that same period, rising government expenditures, especially on the wage bill, undermined fiscal sustainability and reduced foreign reserves to critically low levels. Poverty has escalated in the face of high and rising unemployment, food shortages, and the world's highest HIV/AIDS infection rate.

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 and inflation at year-end was 5.4 percent as food prices continued to rise. The surge in SACU revenues sharply reduced the fiscal deficit to 1.5 percent of GDP in 2005/06 from 4.6 percent in 2004/05. Significant windfall SACU revenue continues during 2006/07 and is expected to help improve the fiscal balance temporarily despite a lack of fiscal reform and rising expenditure, particularly for wages. 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. Net

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

international reserves increased from 1.2 months of imports in December 2005 to 2.3 months in November 2006.

Monetary developments have reflected those in South Africa. 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. Consistent with the peg to the rand, the Central Bank of Swaziland (CBS) has maintained its interest rates in line with South Africa's, increasing the discount rate by 50 basis points to 9 percent in December 2006.

Swaziland faces significant economic challenges over the medium-term. Economic growth is likely to be adversely affected by continued erosion of trade preferences and SACU tariff revenues are projected to decline.

Executive Board Assessment

Executive Directors expressed concern about Swaziland's continued weak economic performance. In the wake of a substantial real appreciation of the lilangeni during 2002-04, the erosion of trade preferences, and recurrent droughts, growth has averaged only 2 percent since 2000. Moreover, poverty has escalated in the face of high and rising unemployment, food shortages, and the world's highest HIV/AIDS prevalence rate. Windfall revenues from SACU are masking underlying pressures on the fiscal deficit and official reserves.

Directors considered that the key policy priority for the authorities is to tackle the impediments to higher growth and improved living standards, while adjusting to an expected decline in SACU revenues over the medium term. This will also involve addressing the challenges arising from the erosion of trade preferences and limited economic diversification. In light of this, Directors emphasized the need for fiscal consolidation and structural reforms to improve the business climate, promote higher private sector-led growth, and contribute to a stronger current account. While the authorities' intention to address these issues is encouraging, decisive action and implementation are now urgently needed. This will also be key to mobilizing stronger assistance from the international community.

Directors stressed the need for fiscal reforms to safeguard macroeconomic stability and to help preserve the credibility of the exchange rate peg to the South African rand, which continues to be appropriate given Swaziland's close integration with the region. Directors urged the authorities to use the opportunity provided by temporarily higher SACU revenues to move ahead expeditiously with pending fiscal reforms, including right-sizing the civil service to lower the wage bill, improving revenue administration, introducing the VAT, and tightening expenditure control.

Directors welcomed the recent efforts to strengthen commercial bank supervision, reduce lending concentration, and improve reserve management. However, the weak supervision of the rapidly growing deposit-taking nonbank financial institutions entails risks for depositors. Directors therefore welcomed the authorities' intention to work with Fund assistance on strengthening financial supervision, and urged enactment of pending bills to help regulate the sector.

Structural reforms will be key to enhancing competitiveness and improve investor confidence. Although the recent depreciation of the lilangeni will improve competitiveness in the short run, reforms are urgently needed to enhance labor and land productivity and improve the business climate. This will involve sustained efforts to improve skills training, strengthen governance, and promote land reform, while the privatization of utility companies should lower costs of key services. Against this background, Directors welcomed the recent enactment of an anti-corruption act and the establishment of a Business Economic Advisory Panel, and urged the authorities to build on these initiatives.

Directors called for improvements in the quality and timeliness of data to facilitate policy decision making and monitoring.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.