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KINGDOM OF SWAZILAND

July 2014

2014 ARTICLE IV CONSULTATION—STAFF REPORT; AND PRESS RELEASE

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 2014 Article IV consultation with the Kingdom of Swaziland, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on May 12, 2014, 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 June 25, 2014.
- An **Informational Annex** prepared by the IMF.
- A **Press Release**

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

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INTERNATIONAL MONETARY FUND

KINGDOM OF SWAZILAND

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION

June 25, 2014

KEY ISSUES

Setting: Swaziland has gradually recovered from the fiscal crisis of 2010−11, buoyed by the improved revenues from the Southern African Customs Union (SACU). Growth modestly recovered, and international reserves rebounded. Swaziland's challenges, however, remain significant, in view of its high vulnerability to exogenous shocks and its sluggish growth performance, while facing significant social and development challenges with high unemployment and the prevalence of HIV/AIDS. Swaziland now stands at a critical juncture to strengthen its resilience to exogenous shocks, address its weak growth performance, and meet critical social and development needs.

Outlook and risks: Under the status-quo policies, the outlook is for continued sluggish growth and increasing fiscal and external imbalances, reflecting low private investment, elevated government spending, and prospective decline in SACU revenues. Risks are associated with the high volatility of the SACU revenues, possible negative spillovers from South Africa (including higher policy rate and lower growth), and uncertain prospects for preferential trade agreements with the U.S. and EU.

Strengthening Resilience to Shocks: Over the medium term, international reserves should be targeted at five to seven months of imports, and public debt be kept below 30 percent of GDP. This calls for a prudent fiscal policy stance, with fiscal deficit below 2 percent of GDP.

Raising growth: It is essential to enhance the efficiency of the public sector and promote private sector-led growth through structural reforms including improving business climate and accelerating land reforms.

Maintaining financial stability: Financial soundness indicators are generally strong. The strong growth of the nonbank financial sector in recent years calls for strengthening of supervision and regulation for the sector.

Past advice: There is broad agreement between the Fund and the authorities on macroeconomic policy and structural reform priorities. With the authorities' fiscal consolidation efforts and the improved SACU revenues, fiscal and external sustainability is being restored, consistent with staff's advice. However, progress on structural reforms—including re-launching the privatization process, improving access to modern finance and improving the business climate—has been modest.

Approved By
Anne-Marie Gulde-Wolf and Ranil Salgado

Discussions took place in Mbabane April 28–May 12, 2014. The team comprised Messrs. Honda (head), Wu, Torres, and Ms. Jirasavetakul (all AFR). Ms. Dlamini-Kunene (OED) and Mr. Im (the World Bank) also participated in the meetings. Ms. Robertson provided excellent editorial assistance.

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APPENDICES

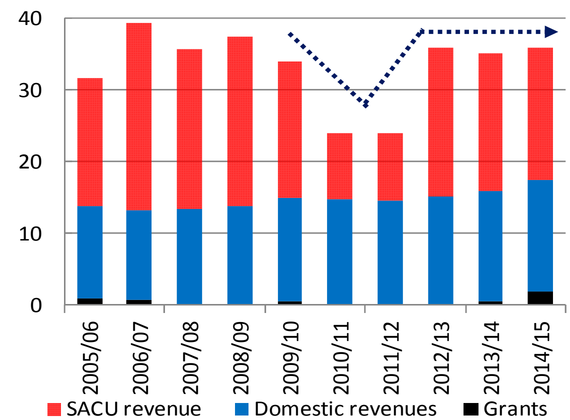
RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

A. Recent Economic Developments

1. Swaziland's economic performance has improved since the fiscal crisis of 2010–11, underpinned by the recovery of revenues from the Southern African Customs Union (SACU). Driven mainly by communication, manufacturing, and construction (as a result of large capital spending), real GDP growth in 2013 is estimated at 2¾ percent, recovering from –½ percent in 2011. Several indicators suggest the return of business confidence; commercial bank credit to the private sector is growing strongly, and the risk premium on T-bills continues to decline (Figure 1). Meanwhile, inflation has slightly risen, reaching 5.3 percent in April 2014, owing to increases in food and some administered prices (e.g., electricity and fuel).

2. Improved SACU revenue since 2012/13 reduced the pressure on fiscal and external balances. The SACU revenue recovered from about 9 percent of GDP in 2010/11-2011/12 to over 18–20 percent of GDP since 2012/13.

Fiscal Revenues by Type
(Percent of GDP)



Sources: Swazi authorities and IMF staff estimates.

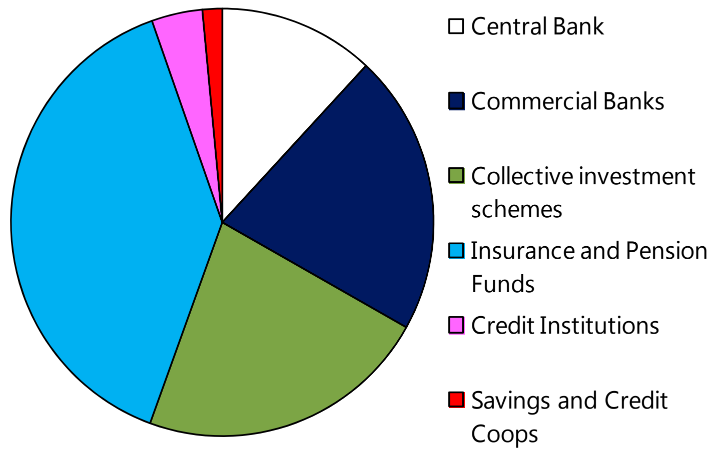
- With the recovery of SACU revenue, fiscal balances improved significantly in recent years. A surplus of 4½ percent of GDP was recorded in 2012/13. In 2013/14, though spending pressure increased owing to the adjustment of wages and a revival of capital expenditures (after two years of stagnation), a small surplus (¼ percent of GDP) was recorded, partly aided by enhanced domestic revenue collection efforts (e.g., enhanced efficiency in VAT collection, and strengthened auditing and compliance).

- The external current account turned from a deficit of 8¼ percent of GDP in 2011 to a surplus of 3¾ percent in 2012 and is estimated to have reached a surplus of 6 percent in 2013. This outcome was driven mainly by an increase in the SACU revenue and robust growth in exports (e.g., coal and iron ore). International reserves have reached 3¾ months of imports by March 2014, recovering from the low level of 2 months at end-March 2012.

3. Staff analysis suggests that Swaziland's real effective exchange rate is moderately overvalued.[1] The lilangeni has depreciated in real effective terms in line with the South African rand since 2011. While different estimation approaches give mixed results, the overall assessment points to a moderate overvaluation (Appendix 1).[2]

4. According to the financial sector soundness indicators, commercial banks are generally sound and liquid, and their asset quality has recently improved (Table 9), while financial system risks remain in nonbank financial institutions (NBFI). The banking sector appears well capitalized, with the capital adequacy ratio of the banks reaching 24 percent of risk-weighted assets. The asset quality of banks has improved with the nonperforming loan ratio falling to 6¾ percent at end–2013 from 8¾ percent at end-2012. The NBFIs— including pension funds, insurance companies, collective investment schemes, and savings and credit cooperatives (SACCOs)—account for about two-third of the financial sector (in terms of asset). Given that supervisory surveillance has not yet been fully extended to these institutions, some risks remain in the institutions.[3]

Financial Sector Assets by Industry (2012)
(Percent of the total financial sector assets)



Sources: Swazi authorities and IMF staff estimates.

B. Development and Social Challenges

5. Swaziland continues to face serious development challenges, including high unemployment, poverty, and the prevalence of HIV/AIDS (Figure 2). Unemployment (particularly for youth) stays high.[4] The high prevalence of HIV/AIDS (at about 26 percent for adults aged 15–49) has significantly lowered life expectancy (UNAIDS, 2012). Although there has been some progress in

[1] The analysis is based on the status quo scenario.

[2] Swaziland continues to maintain an exchange restriction subject to Fund approval under Article VIII arising from a 50 percent limit on the provision for advance payments for the import of capital goods in excess of 10 million emalangeni.

[3] The authorities are taking steps to strengthen the surveillance of NBFIs. Large SACCOs are being assessed, and the rest is expected to be also assessed soon. Based on technical assistance from the IMF, the authorities plan to strengthen the regulatory and supervisory frameworks for NBFIs as well as building capacity for both off-site and on-site supervision.

[4] The overall unemployment rate stood at 28.5 percent in 2010, while the youth unemployment reached 52.4 percent. No newer figures are available, but indications are that unemployment stays high.

poverty reduction, an estimated 63 percent of the population still lives below the national poverty line in 2010 (down from 69 percent in 2001). This level is generally higher than other countries at the same income level (Figure 2), suggesting that there is room to enhance the inclusiveness of growth.

6. Protracted weak growth performance contributed to the lack of progress in social developments. Though growth rebounded after the crisis, Swaziland has long suffered from sluggish growth performance, with average real GDP growth over 2004–13 at about two percent per year. This modest growth—less than half of the level of its neighboring countries (Botswana, Lesotho, and Namibia)—is also associated with high unemployment and limited progress in social developments (with widespread poverty and high inequality).

7. The new government has indicated its intention to address significant social and development challenges. Following parliamentary elections in September 2013, a new administration was formed. The prime minister was reappointed, and the minister of finance and the central bank governor switched their posts.[5] The new minister of finance stated in his 2014/15 budget speech that the government would focus on invigorating economic growth, creating employment opportunities, and accelerating public sector reforms.

C. Outlook and Risks

8. Based on status-quo policies (baseline scenario), sluggish growth performance is expected to continue, while Swaziland would remain vulnerable to exogenous shocks. In the near term, growth is expected to remain low (at about 2 percent per annum), reflecting low private sector investment. Furthermore, the prospective decline in the SACU revenue and increases in public sector wages—as envisaged under the government's medium-term fiscal framework—would translate into large fiscal deficits and external imbalances.[6] With potential crowding out of the credit to the private sector (owing to large financing needs of the government), growth would gradually decline to below 2 percent over the medium term. Capital inflows would remain low, international reserves would fall to 3 months of imports, and the debt-to-GDP ratio would steadily increase to 30 percent. Should SACU revenues fall significantly (as in 2010–11), its impact on the economy could be even larger (compared with the previous crisis), given that Swaziland would be less resilient to the shocks owing to reduced policy space.

[5] Swaziland is a monarchy, where the King holds the executive authority, which may be exercised either directly or through the Cabinet or a Minister. Parliamentary elections are held every five years, following which the King appoints cabinet members, 20 out of 30 senators, and 10 out of 65 members of the lower house.

[6] The SACU revenues will remain high in 2014/15 (19 percent of GDP), but medium-term prospects are uncertain. The authorities expect that the revenue would stabilize around their historical average of 17 percent of GDP.

Staff Medium-Term Projections (Baseline Scenario)

(Percent of GDP, unless otherwise indicated)

	2012/13 Prel.	2013/14 Est.	2014/15 Proj.	2015/16 Proj.	2016/17 Proj.	2017/18 Proj.	2018/19 Proj.	2019/20 Proj.
GDP growth (annual change)	1.9	2.8	2.1	2.0	2.1	1.8	1.7	1.7
Consumer price (end of period, annual change)	8.9	5.6	5.8	5.6	5.4	5.2	5.2	5.2
Broad money (annual change)	10.0	15.9	11.2	10.0	9.8	9.0	8.2	7.1
Credits to private sector (annual change)	-1.7	20.2	17.9	10.5	8.4	7.1	6.5	6.2
Fiscal balance	4.4	0.3	-0.9	-3.4	-4.5	-4.6	-4.8	-5.0
Fiscal balance (excluding SACU revenue)	-16.3	-18.9	-19.4	-20.4	-21.5	-21.6	-21.8	-22.0
Total revenue	36.0	35.2	35.9	33.2	33.0	33.0	33.0	33.0
Domestic revenue	15.1	15.5	15.5	15.5	15.5	15.5	15.5	15.5
of which SACU revenues	20.7	19.2	18.5	17.0	17.0	17.0	17.0	17.0
External grants	0.1	0.5	1.9	0.7	0.5	0.5	0.5	0.5
Total expenditure	31.5	34.9	36.8	36.6	37.5	37.6	37.8	38.0
Recurrent expenditure	27.4	28.1	27.6	29.0	29.6	30.0	30.3	30.5
Capital expenditure	4.2	6.8	9.2	7.7	7.9	7.5	7.5	7.5
Current account balance (including grants)	3.8	6.1	1.4	0.4	-0.5	-1.6	-2.0	-2.8
Gross international reserves (month of imports)	2.9	3.8	4.2	4.5	4.4	4.1	3.6	3.1
Total debt	17.4	17.8	17.2	19.4	22.6	25.7	28.1	30.2
External debt	8.3	9.0	10.0	9.9	9.2	8.6	8.0	7.5
Domestic debt	9.0	8.7	7.3	9.5	13.4	17.1	20.1	22.7

Sources: Swazi authorities; and IMF staff estimates and projections.

9. **The main near-term risks are associated with the uncertain external environment (developments in South Africa, in particular) and the high volatility of the SACU revenue (see the risk assessment matrix (RAM))**. The Central Bank of Swaziland (CBS) would have to raise its discount rate if the South African Reserve Bank hikes its policy rate further (as expected by the market). If South Africa's growth weakens and/or international capital flows to South Africa significantly decline, adverse outward spillovers from the country may rise—possibly channeled through lower SACU revenue and trade and financial flows. Furthermore, uncertain prospects for the fate of preferential trade agreements—the Economic Partnership Agreements (EPA) with the EU and the African Growth and Opportunities Act (AGOA) with the U.S.—would affect production and investment in the textile and sugar sectors.[7,8]

[7] During Swaziland's annual review for AGOA eligibility in December 2013, the U.S. Government determined that Swaziland failed to satisfy the AGOA eligibility requirements due to violations of worker rights. Though the deadline was extended to May 15, 2014 for the Swaziland Government to satisfy five conditions, Swaziland failed to satisfy these conditions. The authorities are currently making efforts to meet the conditions by end-year, with a view to renewing the AGOA eligibility. Should Swaziland lose its eligibility from 2015, although the trade and growth impacts would likely be moderate (the GDP share of textile industry is about 3 percent), it could have large employment and social impacts.

[8] The EU and the Africa, the Caribbean, and the Pacific Group of States (ACP) are committed to signing EPAs between the EU and regional groups of ACP countries, rather than bilaterally. While the current interim EPA is set to expire in October 2014, Swaziland is currently negotiating the EPA as part of the Southern African Development Community (SADC) group. Swaziland largely benefits from the EPA for its sugar exports to the EU (accounting for about half of its sugar exports and 9 percent of the total exports). A loss of preferential access to the EU market could have large

(continued)

Staff Medium-Term Projections (Reform Scenario)
(Percent of GDP, unless otherwise indicated)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	Prel.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
GDP growth (annual change)	1.9	2.8	2.1	1.8	2.4	3.0	3.5	4.0
Consumer price (end of period, annual change)	8.9	5.6	5.8	5.6	5.4	5.2	5.2	5.2
Broad money (annual change)	10.0	15.9	11.2	9.8	10.0	10.6	10.8	11.3
Credits to private sector (annual change)	-1.7	20.2	17.7	10.0	9.6	10.4	10.9	11.8
Fiscal balance	4.4	0.3	-0.9	-2.8	-2.9	-2.1	-1.7	-1.5
Fiscal balance (excluding SACU revenue)	-16.3	-18.9	-19.4	-19.8	-19.9	-19.1	-18.7	-18.5
Total revenue	36.0	35.2	36.1	33.4	33.2	33.2	33.2	33.2
Domestic revenue	15.1	15.5	15.6	15.7	15.7	15.7	15.7	15.7
SACU revenues	20.7	19.2	18.6	17.0	17.0	17.0	17.0	17.0
External grants	0.1	0.5	1.9	0.7	0.5	0.5	0.5	0.5
Total expenditure	31.5	34.9	36.9	36.3	36.1	35.3	34.9	34.7
Recurrent expenditure	27.4	28.1	27.6	27.6	27.2	26.8	26.2	25.8
Capital expenditure	4.2	6.8	9.4	8.7	8.9	8.5	8.7	8.9
Current account balance (including grants)	3.8	6.1	1.4	0.5	-0.1	-0.8	-0.9	-1.6
Gross international reserves (month of imports)	2.9	3.8	4.2	4.5	4.7	4.9	5.0	5.2
Total debt	17.4	17.8	17.2	18.9	20.4	21.0	20.9	20.6
External debt	8.3	9.0	10.0	9.9	9.2	8.5	7.8	7.2
Domestic debt	9.0	8.7	7.3	9.0	11.2	12.4	13.1	13.5

Sources: Swazi authorities; and IMF staff estimates and projections.

10. **Enhanced reform efforts, combined with prudent fiscal policy, would improve Swaziland's growth potential and strengthen its resilience to shocks.** The reform scenario envisages structural reforms to stimulate private sector-led growth and a prudent fiscal policy (with the fiscal deficits of less than 2 percent of GDP over the medium-term) to secure fiscal and external sustainability. The impacts of enhanced revenue mobilization efforts are cautiously estimated under this scenario, which implies possible room for further adjustment by greater revenue mobilization (in case the risk of a SACU revenue fall should materialize). Current account balance would be stronger than the baseline scenario, and capital inflows would be higher. International reserves would exceed five months of imports over the medium term, and public debt would remain below 25 percent of GDP. Swaziland would be then better positioned to cope with another SACU revenue shock. Increased capital spending (e.g., to meet critical infrastructure needs), following through project appraisal and selection, would help to raise Swaziland's growth potential. Furthermore, with enhanced efforts to improve business climate and financial intermediation, private investment is expected to increase, and GDP growth would reach 4 percent.

POLICY DISCUSSIONS

While Swaziland has been recovering from two years of fiscal crisis (2010–2011), it remains highly vulnerable to exogenous shocks. Furthermore, Swaziland continues to face serious development

impact on Swaziland's exports and the economy. Protracted slower growth in Europe would also adversely affect Swaziland's sugar exports.

challenges, with weak growth performance, high unemployment and prevalence of HIV/AIDS. Swaziland now stands at a critical juncture to (i) strengthen its resilience to exogenous shocks, while meeting critical social and development needs, and (ii) address its sluggish growth performance and promote inclusive growth.

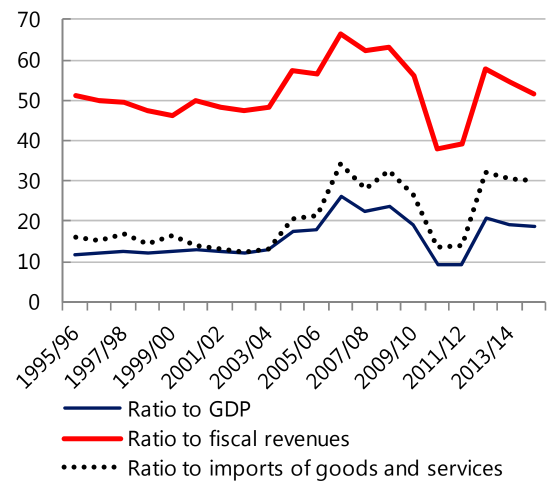
A. Strengthening Resilience to Exogenous Shocks

Building cushion to respond to shocks

11. The experience of the 2010–11 fiscal crisis underlines Swaziland's high vulnerability to shocks because of its heavy reliance on the highly volatile SACU revenue. The significant fall in the SACU revenue (by 10 percent of GDP) during the crisis led to large fiscal and current account deficits. Since the authorities' consolidation efforts (largely through reduced capital spending) could not fully accommodate the shock, they ran large fiscal deficits in 2010–11, with financing from the drawdown of government deposits and accumulation of debt, which eventually led to a decline in international reserves.

SACU Revenues

(Percent of GDP, fiscal revenues, and imports)



Sources: Swazi authorities and IMF staff estimates.

12. Staff emphasized the need to strengthen the economy's resilience to exogenous shocks, through securing a sufficient international reserve cushion and maintaining debt sustainability.

- To respond to exogenous shocks (such as a significant fall in the SACU revenue), international reserves should be further increased to five to seven months of imports over the medium-term (Appendix 2). Though this reserve target may stand at the higher end of traditional reserves adequacy estimates, this level of reserves should be secured, in light of Swaziland's high vulnerability to shocks, as reflected by the severity of the recent crisis experience.[9]

- Public debt should be maintained below 30 percent of GDP, to create sufficient buffer to address future shocks. Though the public debt stood at a modest level (17.2 percent of GDP) at end–2013, gross financing needs stay high (Appendix 3). To ensure debt sustainability, a prudent fiscal policy, together with debt management strategies, should be implemented.

[9] International reserves stood at 4 months of imports, or 24 percent of GDP at end–2009. Yet, the government had to cut spending markedly during 2010–11 when the SACU revenues declined substantially, and reserve coverage dropped to 2.3 months of imports at the end of 2011.

The strategy should incorporate the debt from public enterprises and all relevant risks. Specifically, the projected increase in gross financing needs is a source of concern, as it could raise interest rate and rollover risks; with possible financing constraints due to the small size of Swaziland's financial sector.

13. The authorities concurred with staff on the need to strengthen resilience to shocks, by building sufficient international reserves and maintaining modest debt distress. On international reserves, the authorities agreed with the proposed level of 5–7 months of imports, noting that it is in line with CBS's internal target of 6 months as set under the Southern African Development Community (SADC)'s macroeconomic convergence criteria. On debt limit, they broadly agreed with staff's assessment, while setting 35 percent of GDP as the absolute ceiling of public debt. Taking into account the potential rollover risks, they expressed their intention to take advantage of the current favorable domestic liquidity conditions to better manage the term structure of financing.

Maintaining a prudent fiscal stance, while meeting critical social and development needs

14. Given the desirability of maintaining the exchange rate peg (to maintain price stability and facilitate capital and current transactions with South Africa), Swaziland will have to rely on fiscal adjustment and structural reforms to accumulate international reserves. Following two consecutive years of the fiscal surplus, the 2014/15 fiscal framework envisages an overall deficit of 1 percent of GDP. Over the medium-term, however, the deficits are expected to increase to 5 percent of GDP, owing to the prospective decline in SACU revenue, the scheduled review of public sector wages, and planned increase in capital spending.[10, 11] In light of already high public sector wages (the compensation of employees increased from 10 percent of GDP in 2000/01 to 14¼ percent in 2013/14), the minister alerted in his budget speech that "*the level of government's wage bill has reached unsustainable levels*".

[10] The last review of the public sector wages took place in 2004, through which the overall compensation of employees increased by 24 percent in 2005/06 from the previous year.

[11] The 2014/15 capital budget covers the ongoing projects (including the completion of a new international airport and road construction) and some new projects (the construction of a hotel and convention centre), with a view to boosting the tourism industry.

Fiscal Balance
(Percent of GDP)

	2009/10	2010/11	2011/12	2012/13	2013/14 Est	2014/15 Proj.
Total revenues	34.0	23.9	24.0	36.0	35.2	35.9
Total revenues (excl. grant)	33.4	23.9	23.9	35.8	34.7	34.0
Domestic revenues	14.3	15.0	14.6	15.1	15.5	15.5
SACU revenues	19.1	9.1	9.3	20.7	19.2	18.5
Grant	0.6	0.0	0.1	0.1	0.5	1.9
Total expenditures	37.3	34.5	28.6	31.5	34.9	36.8
Expenses	29.1	27.9	25.3	27.4	28.1	27.6
Nonfinancial assets	8.2	6.6	3.3	4.2	6.8	9.2
Overall fiscal balance [2]	-3.3	-10.6	-4.6	4.4	0.3	-0.9
Overall fiscal balance [2] (excl. SACU rev.)	-22.4	-19.7	-13.9	-16.3	-18.9	-19.4

Sources: Swazi authorities and IMF staff estimates.
1. Based on the status quo policy (no new fiscal adjustment measure is incorporated).
2. Commitment basis.

15. **Staff pointed to the importance of maintaining a prudent fiscal target (to secure a sufficient buffer for shocks), while safeguarding critical social spending and growth-promoting capital expenditures.**[12] With the increasing spending pressures and a prospective decline in the SACU revenue over the medium term, Swaziland's international reserves would stay significantly below the adequate level. A prudent fiscal policy stance is necessary going forward, with a fiscal deficit ceiling of 2 percent of GDP over the medium term, to help maintain adequate international reserves and ensure debt sustainability. To achieve the target, the following policy measures are called for:

- *Improving revenue administration*. The Swaziland Revenue Authority (SRA) should continue to expand taxpayer's registration, increase compliance and service delivery, enhance self-assessment, and strengthen VAT collections. Furthermore, the cost of tax exemptions should be reassessed to eliminate those whose benefits are not commensurate to the cost.

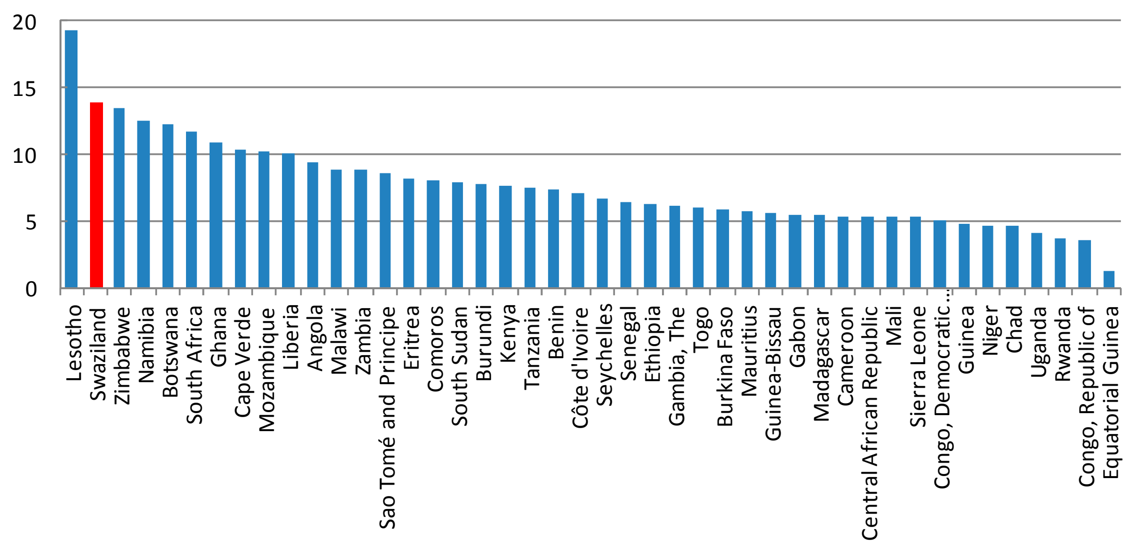
- *Rationalizing recurrent expenditures* (focusing on spending on goods and services and compensation of employees). The authorities should identify possible savings in non-priority spending, while safeguarding critical social expenditures. Recent increases in compensation of employees, as well as the scheduled salary review, raise a concern as they could squeeze out critical social and capital expenditures (Box 1). To this end, the staff shared the minister's concern about the level of government's wage bill and argued that, to contain further increase, public sector wage bills should be kept constant in real terms (e.g., by containing

[12] Under the 2014/15 budget, the education sector received the highest allocation (17 percent) of the total budget, to provide universal primary education and advanced skills training.

salary increases and pursuing public sector reforms) and new hiring should be limited to critical areas (e.g., education and health).

Compensation of Employees of Sub-Saharan African Countries

(Percent of GDP, average of 2011–2013)



Sources: Country authorities and IMF staff estimates.

- *Effectively implementing planned public sector reforms (including the payroll and skill audits)*. To contain the wage bills, the staff supported the government's plan for public sector reforms (including payroll audits and the staff inspection function). These reforms should be implemented promptly and effectively, if needed, with technical assistance by Swaziland's international partners.

- *Strengthening public financial management (PFM)*. The enactment and effective implementation of the PFM Bill are critical to strengthen PFM and macroeconomic analysis. Furthermore, in line with the authorities' PFM action plan, key reform measures include (i) preparing a coherent medium-term fiscal and expenditure framework; (ii) improving cash management; and (iii) strengthening commitment control to prevent arrears.[13] It is important to enhance fiscal reporting and transparency (posting the budget outturn on the website is a good step forward), while effectively addressing the issues identified in the auditor general's reports.[14] Reconciliation exercises should also be conducted on regular basis. Furthermore,

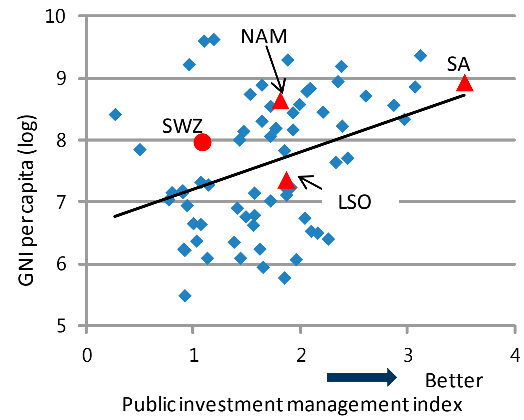
[13] To assist the rationalization process, a set of spending reviews (driven by a medium term expenditure framework)—with ranking key priority policies and service delivery outcomes and outputs, and identifying opportunities for prioritizing resource allocation and reducing manpower costs—should be undertaken.

[14] The 2012/13 Auditor General's report found that the consolidated financial statements did not present fairly the financial position of the government. The report specifically identified: i) the lack of working relations between the Internal Audit and Auditor General's office, ii) failure to submit audited financial statements by 14 out of 39 public

(continued)

in light of Swaziland's weakness in public investment management (relative to other countries), thorough project selection and appraisal and programming are essential to ensure high efficiency of public investment.[15] For this purpose, a high-level appraisal committee—equipped with sufficient capacities—may help to improve the quality of projects.

Public Investment Management Index



Sources: Dabla-Norris et. al. (2011) and the World Bank.

Sample: 68 middle and low income countries.

16. The authorities generally agreed with maintaining a prudent fiscal policy stance, while reiterating the need to secure critical social and development spending. They affirmed their intention to maintain a prudent fiscal policy, noting that the fiscal deficit ceiling of 2 percent of GDP would be achievable, while safeguarding critical social and development spending. They therefore expected that fiscal outcome would turn out to be better than envisaged in the current medium-term fiscal framework. Nevertheless, they saw the upcoming review of public sector wages as a challenge. Such spending pressures are expected to be partially offset by the ongoing efforts for public sector reforms (in particular through payroll audits). As part of the effort to strengthen PFM, the authorities planned to implement the PFM action plan more rigorously, with assistance from Swaziland's international partners.

enterprises for the past two years, and iii) the lack of reconciliation between ministries and the Accountant General's office.

[15] All the domestically-financed capital projects are appraised by the Ministry of Economic Planning and Development, based on the planning officer's manual.

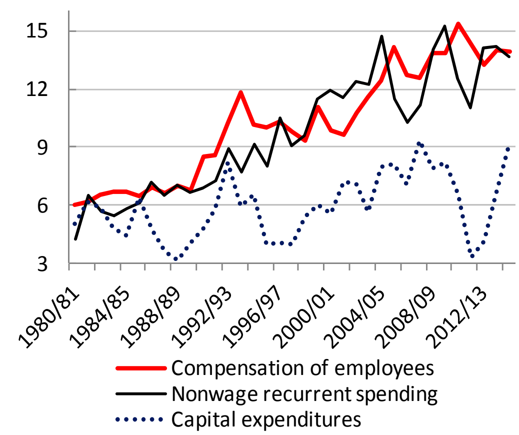
Box 1. Public Sector Wage Increases and Planned Public Sector Reforms

Swaziland's public wage bill has steadily increased over the last three decades, reaching 14 percent of GDP in 2013/14. This level is exceptionally high among Sub-Saharan African countries. The wage bill accounts for about 40 percent of total expenditures, limiting fiscal policy flexibility. Thus, fiscal consolidation was often conducted by significantly reducing capital expenditures (as in 2010–11).

The increase in nominal wage bill is largely explained by the increase in the average per head wage (largely as a result of periodic salary reviews, cost of living adjustments, and notch increases) and the increasing number of government employees. For the last ten years, the total wage bill expanded by 176 percent, while the per head wage increased by 116 percent. The pace of increase in the per head wage far exceeded inflation, and even higher than nominal GDP per capita.

Fiscal Spending by Type

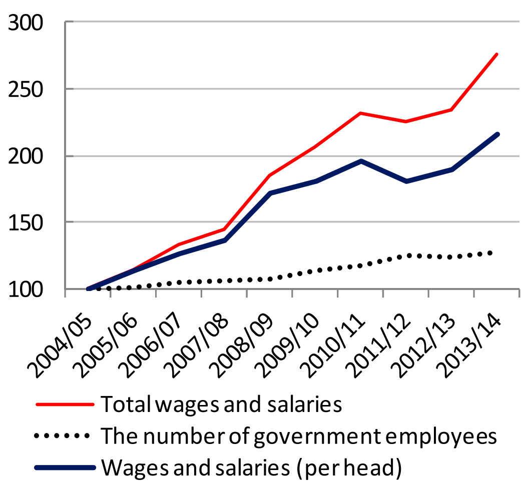
(Percent of GDP)



Sources: Swazi authorities and IMF staff estimates.

Total Wages and Wages Per Head

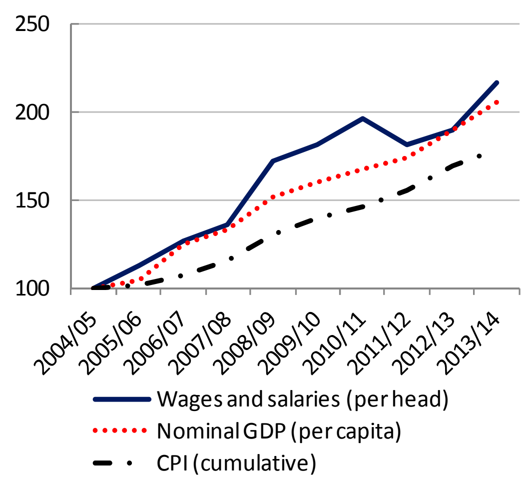
(2004/05=100)



Sources: Swazi authorities and IMF staff estimates.

Wages Per Head and CPI

(2004/05=100)



Sources: Swazi authorities and IMF staff estimates.

The authorities plan to step up efforts for public sector reforms, including:

(i) Intensifying the staff inspection function
(ii) Monitoring and managing wage bills
(iii) Fully implementing payroll audit
(iv) Preparing strategic plans by every ministry
(v) Introducing performance management systems

17. In view of the high volatility and uncertainty of the SACU revenue, a fiscal framework to better manage this uncertainty is worth exploring. The authorities are exploring the option of implementing a revenue rule that would only incorporate into the budget their estimated steady state level of SACU revenue (17 percent of GDP, the historical average) with any additional SACU revenue saved in a stabilization fund (to be used when the revenue is lower than the average).

- In the staff's view, a credible fiscal rule could help ensure fiscal and external sustainability and mitigate the adverse impacts of exogenous shocks on the economy. For the rule to be successful, however, it would be important to complete the groundwork before its introduction (Box 2). Specifically such a framework (i) would require strong PFM (e.g., fiscal monitoring, transparency, internal and external audit) and (ii) should be compatible with a sustainable macroeconomic framework. In terms of a stabilization fund, it would be important to (i) ensure its full transparency and accountability and (ii) implement strict regulation/rule for its use.

- The authorities expressed their intention to carefully explore such a framework; initially by anchoring the fiscal policy with a medium-term international reserve target of 5–7 months of imports, while exploring a fiscal rule or a stabilization fund with enhancing efforts to strengthen PFM or complete the groundwork, assisted by the IMF technical assistance.

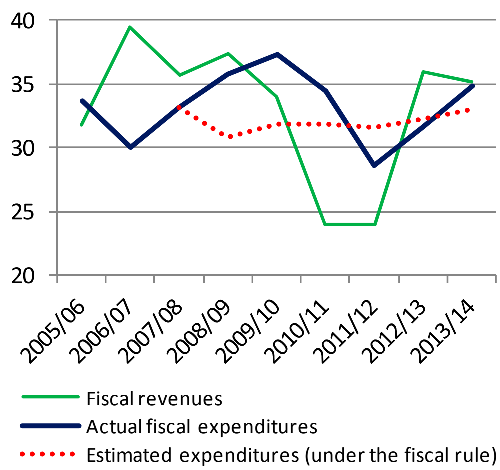
Box 2. Groundwork for Successful Fiscal Rules

Following the fiscal crisis, the authorities are exploring different fiscal policy frameworks to better manage the high volatility of SACU revenue. Specifically, they envisage a revenue rule that would only incorporate into the budget their estimated steady state level of SACU revenue of 17 percent of GDP (the historical average) with any additional SACU revenue saved in a stabilization fund.

A fiscal rule is worth considering, in view of successful experiences in some resource-rich countries with similar challenges to manage highly volatile revenues.[1] A credible fiscal rule could help to manage the high volatility of SACU revenue. The staff's preliminary analysis suggests that, compared with the status quo, a fiscal rule which targets a non-SACU fiscal deficit of 17 percent (similar in spirit with the authorities' plan), if implemented effectively, may work better to ensure fiscal and external sustainability and mitigate the adverse impacts of exogenous shocks on growth.[2]

If a non-SACU deficit target of 17 percent of GDP had been introduced in 2008/09, expenditures would have been more stable...

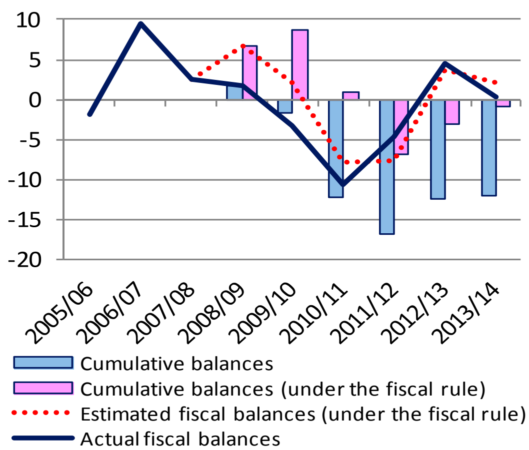
Estimated Expenditures under the Fiscal Rule



Sources: Swazi authorities and IMF staff estimates.

...leading to additional saving before the crisis and allowing higher spending during the crisis .Cumulative fiscal imbalances would be mitigated over the medium term.

Estimated Fiscal Balances under the Fiscal Rule



Sources: Swazi authorities and IMF staff estimates.

For a fiscal rule to work effectively, however, adequate PFM systems are prerequisites.[3] Specifically it is important to have: (1) reliable data as well as a minimum technical forecasting capacity (to predict budgetary aggregates with sufficient accuracy); (2) comprehensive budget reporting systems (to produce in-year and timely end-year reports); (3) effective internal and external audit systems (to ensure that public resource utilization is fully accounted for); and (4) publication of fiscal data (to allow external monitoring of the rule). The stabilization fund—which may be seen as a convenient way to set aside surges in revenues— would also call for strong PFM. In particular it is important to (i) create the fund within the budget; (ii) ensure its full transparency and accountability, and (iii) implement strict regulation/rule for its use.

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[1] IMF, 2012, "Macroeconomic Policy Frameworks for Resource-Rich Developing Countries".

[2] IMF and World Bank, "Options of Fiscal Rules to Manage High Volatility of SACU revenues", forthcoming.

[3] IMF, 2009, "Fiscal Rules—Anchoring Expectations for Sustainable Fiscal Finance," www.imf.org/external/np/pp/eng/2009/121609.pdf.

B. Raising Growth Potential and Creating Jobs

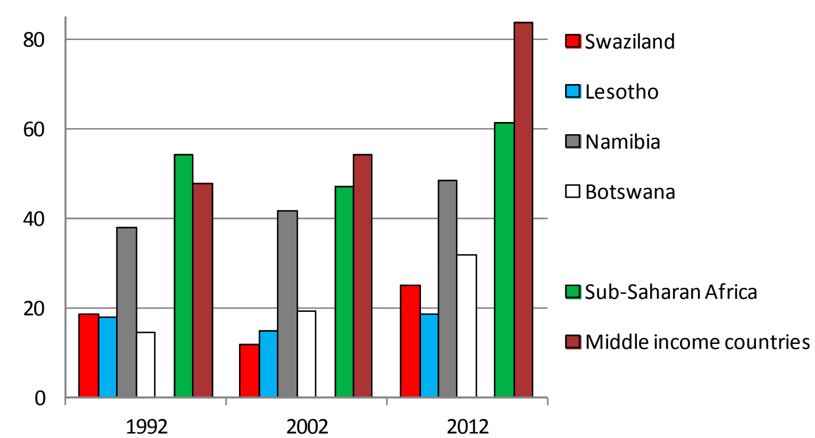
18. The weak growth performance for the last decade has been associated with low private sector developments and the apparent low growth impact of fiscal spending. This weak growth performance, particularly with low private sector development, is also associated with high unemployment and limited progress in poverty reduction.

- **In the past decades, the government pursued expansionary fiscal policies, while trend growth has continually decelerated**. The government increased spending from about 18 percent of GDP in 1980s to 32 percent in 2000s, though growth averaged about 8 percent in the early 1980s and thereafter it has continually decreased to about 2 percent for the last ten years. Furthermore, the increasing number of public enterprises (from 28 in 2007 to 45 in 2014) raises concerns on public sector efficiency and the lack of competitiveness.

- **Private sector development has been depressed, as shown by the slow pace of capital accumulation** (Figure 4)**.** While middle-income countries and sub-Saharan countries have gradually increased their fixed capital formation since 2000, Swaziland experienced a sharp decline in investment, reaching less than half the level (in terms of GDP) from the early 2000s. This is caused by a significant decline in private-sector investment, suggesting the stagnation of the sector over a long period. There have also been little new FDI inflows in recent years. There is a risk that Swaziland may be trapped in a "vicious cycle," with sluggish growth prospects leading to low private investment (which adversely affects productivity growth and industrial diversification) and this further reducing the growth potential.

- **Financial intermediation has been contained**. Though commercial banks' credit to the private sector is recently growing, its level (relative to GDP) is still relatively low, compared with other countries in the region. The nonbanking sector (mainly pension and insurance sectors) has grown significantly in recent years. To facilitate financial intermediation and promote private sector development and inclusive growth, the CBS has recently embarked on the preparation of the Financial Sector Strategy, with technical assistances from the IMF and the World Bank. To effectively implement the Strategy, a comprehensive

Commercial Bank Credit to Private sector (Percent of GDP)



Sources: Country authorities and IMF staff estimates.

Financial Sector Development Implementation Plan, with a prioritized time-bound sequence of actions, will be prepared.

19. The authorities expressed concerns about the weak growth performance, although their previous efforts, through several strategies, have thus far not been fruitful. The Economic Recovery Strategy (ERS), for example, rightly identified several structural weaknesses (including unfavorable business environment and low efficiency in public expenditure) as constraints to growth and laid out a set of measures to address them. Nevertheless, growth has remained well below the ERS's target of "at least 5 percent". Notwithstanding some progress under these strategies, the implementation of reform has been generally slow. The new minister of finance stated in his 2014/15 budget speech that the government would focus on invigorating economic growth, creating employment opportunities, and accelerating public sector reforms.

20. Staff highlighted the needs to address sluggish growth performance, through effective implementation of structural policy measures. To raise potential growth (and then to enhance employment and reduce poverty and inequality), it is essential to improve the efficiency of the public sector and promote private sector-led, inclusive growth, through wide-ranging structural reforms.[16] Improvement in Swaziland's competitiveness, through these reforms, is also called for, given an appreciated real exchange rate.

- *Improve the efficiency of public spending* (Appendix 4). To raise the growth impact of public spending, it is essential to strengthen PFM and public investment management (e.g., project appraisal and evaluation), introduce program-based budgeting (with implementing a program classification as a first step), and allocate higher weight to capital expenditures. Improved efficiency of public spending could also lead to creating fiscal space for critical social spending and investment to promote inclusive growth. Expenditures for such fiscal space, following careful assessments (e.g., MTEF-driven spending reviews, project appraisals), should focus on the areas to help achieve the government's objectives of promoting growth and creating jobs. Furthermore, in light of the recent pace of increase in public enterprises, staff also pointed to the need to review the status of public enterprises and revisit the Privatization Road Map.[17]

[16] To raise growth, the World Bank suggested the following policy measures in its recent report ("Institutions, Governance and Growth: Identifying Constraints to Growth in Swaziland"): (i) enhancing the business environment (e.g., by improving and standardizing time period and procedures for company registration and ameliorating investor protection); (ii) enhancing public sector efficiency (e.g., by controlling recurrent expenditures and the public wage bill, increasing the efficiency and performance of public enterprises, providing more predictable and transparent regulatory systems, and accelerating the pace of implementation of reforms); and (iii) implementing the land reform (e.g., by assessing the current land management framework and building consensus around a unifying vision of land governance —a first step already identified in the Draft Land Policy of 2009, alleviating coordination problems faced by smallholders and providing better enforcement and dispute resolution mechanisms for commercial investors).

[17] Based on the Privatization Policy (approved by cabinet in 2006), the privatization roadmap was formulated in 2007, which, however, has not been fully implemented.

- *Promote private sector developments* (Appendix 5). Staff suggests the authorities' to (i) accelerate the improvement of the business climate (e.g., on starting a business and enforcing contracts), (ii) accelerate planned land management reforms (e.g., to finalize and implement the draft Land Policy), and (iii) strengthen anti-corruption efforts, including by mobilizing the anti-money laundering framework. Effective implementation of a set of comprehensive structural measures is called for to break the vicious circle of sluggish growth and low private investment. Private sector-led growth, with these structural reforms, would benefit broad segments of the population, helping to reduce inequality and enhance employment.

- *Enhance financial intermediation with proper regulatory oversight.* To facilitate private sector development, the staff also argued for further enhancement of financial intermediation (particularly for the access to credit by small and medium enterprises), while ensuring financial sector stability. To this end, the staff also advised the Financial Services Regulatory Authority (FSRA) to further step up its efforts to strengthen the supervision and regulation for nonbank financial institutions (including the implementations of legal frameworks for the regulations for insurance companies and capital market institutions).[18] Despite the relatively small size of the SACCOs (with the total asset accounting for 1½ percent of the total financial sector assets), strengthening supervision and regulation of the sector is important to ensure confidence in the financial sector. Furthermore, as some of the pension funds and insurance companies are granting loans, close monitoring of their risks associated with such activities (e.g., credit risk) is also warranted.

21. The authorities, recognizing these challenges, generally agreed with the staff's suggestions. Acknowledging the importance of efficient and effective public spending, they plan to (i) further develop internal audit to eliminate wastage and corruption and (ii) to introduce performance budgeting. To ensure progress in improving business climate, the government has re-launched the Investor Roadmap in 2012. In terms of privatization, the authorities explained that the increase in public enterprises reflects the needs to establish regulatory authorities for some industries, while agreeing to revisit the privatization policy and the rationalization of current public enterprises. On financial intermediation, the authorities acknowledged that there was room to enhance the access to credit, particularly for small and medium enterprises. To this end, they expected their current efforts (to formulate a financial sector strategy, with technical assistance from the IMF and the World Bank) to help enhance financial sector developments and access to credit. The authorities, however, expressed difficulty in undertaking land reforms pending wider consultations, largely due to the complexity of the land management issues. In terms of nonbank financial institutions (specifically SACCOs), the authorities acknowledged the needs to strengthen

[18] The FSRA Act came into force in June 2010. It is now operational with the appointment of key staffs and the issuance of a set of core regulations. Most of the Savings and Credit Cooperatives (SACCOs) have been licensed, and large SACCOs are being assessed, with corrective actions being taken, based on recommendations by the IMF TA. The assessments will eventually cover all SACCOs. The FSRA, however, still faces operational challenges, owing to its weak capacity and resource constraints.

supervisory oversight, and the newly-established FSRA plans to expand the coverage of its supervisory assessments for all financial sectors, while building capacity for off-site and on-site supervision and implementing regulatory frameworks for all nonbank financial institutions.

C. Other Surveillance Issues

22. Data provision is broadly adequate for surveillance with some data shortcomings in national account and fiscal sector statistics. Staff welcomed the authorities' recent efforts to update the economic survey as a basis for the national account statistics, which will be rebased and updated in late 2014. On fiscal data, weak cash management is associated with the lack of proper fiscal monitoring, which resulted in relatively large unidentified financing (2¾ percent of GDP in 2013/14). To this end, it is critical to conduct reconciliation exercises on a regular basis and strengthen cash management.

STAFF APPRAISAL

23. Swaziland's economy has been recovering from the fiscal crisis of 2010–11. Improved SACU revenue has relieved the pressure on fiscal and external balances, and economic growth is gradually recovering. The buildup in international reserves (to 3¾ months by end-March 2014) suggests that the likelihood of an immediate crisis has receded. Swaziland's economic outlook, however, remains subject to downside risks (mainly associated with the uncertain prospects for South African economy and the high volatility of the SACU revenue). Close monitoring on the regional and global economic developments is warranted.

24. Swaziland's medium-term challenges remain significant. The recent fiscal crisis points to the need to strengthen Swaziland's resilience to shocks, while the economy has suffered from weak growth performance, which has adversely affected social developments. Swaziland's key economic policy challenges are therefore to strengthen its resilience to exogenous shocks and achieve high, inclusive growth, while meeting critical social and development needs. Building on the progress since the fiscal crisis, Swaziland now stands at a critical juncture to decisively address these challenges.

25. To strengthen Swaziland's resilience to shocks, it is essential to build sufficient international reserve buffer and maintain modest debt distress. In light of these objectives and the need to safeguard the exchange rate peg, a prudent fiscal policy stance (with a fiscal deficit below 2 percent of GDP) should be maintained over the medium-term, while protecting critical social and development expenditures. Such a prudent fiscal policy stance would help build a sufficient international reserve buffer (five to seven months of imports) and maintain modest debt distress, and provide Swaziland with better protection for possible shocks. The prospects for achieving the prudent fiscal policy target over the medium term, however, appear challenging, in light of the prospective decline in the SACU revenue and the scheduled salary review for public officials. It is therefore important to (i) improve revenue administration, (ii) rationalize recurrent expenditure (while safeguarding critical social and development expenditures), (iii) effectively implement public sector reforms, and (iv) enhance efforts to strengthen PFM.

26. To address a long-standing problem of weak growth performance, a set of comprehensive structural reforms should be implemented effectively. The weak growth performance has been largely associated with a low multiplier of fiscal spending and low private sector development (depressed private investment in particular). The authorities should improve the efficiency of spending, through strengthening PFM and public investment management, and allocating higher weight to growth-promoting capital expenditures. Furthermore, it is also essential to promote private sector-led, inclusive growth. In particular, enhanced steps should be taken to further improve business climate, facilitate financial intermediation, and pursue land management reforms. Should fiscal deficits increase substantially—as envisaged under the medium term fiscal framework, the government's large financing needs would likely crowd out private sector credit, further squeezing private sector developments. Maintaining soundness of the financial sector—with further efforts to strengthen the supervision and regulation for nonbank financial institutions—is also critical for private sector-led growth. In most cases, the authorities have rightly acknowledged the areas of reforms. Staff encouraged the new government to step up efforts to implement reforms, seeking technical assistance from Swaziland's international partners, as needed. The CBS's initiative to embark on a financial sector strategy is encouraging.

27. While Swaziland continues to maintain one exchange restriction related to advanced payments for certain imports (subject to Fund approval under Article VIII), the authorities have not requested and staff does not recommend the approval of this restriction.

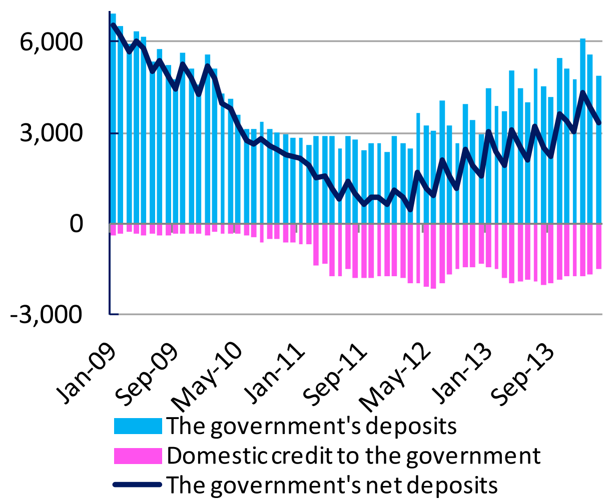
28. Staff recommends that the next Article IV consultation with Swaziland take place on the standard 12–month cycle.

Figure 1. Improving Economic and Financial Conditions since the 2010–11 Fiscal Crisis

Thanks to large SACU revenue, the government's financial position is gradually improving, and…

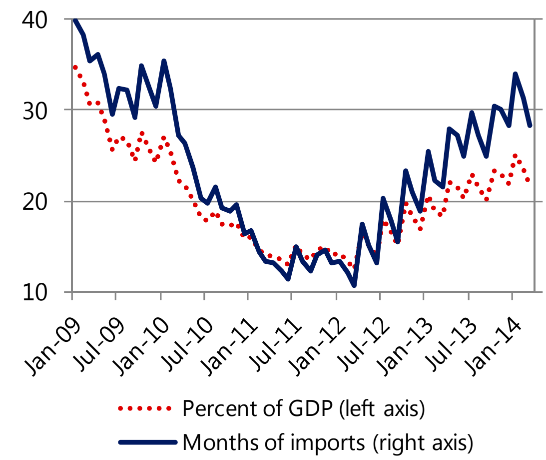
Government's Net Position at Banking system

(Millions of Emalangeni)



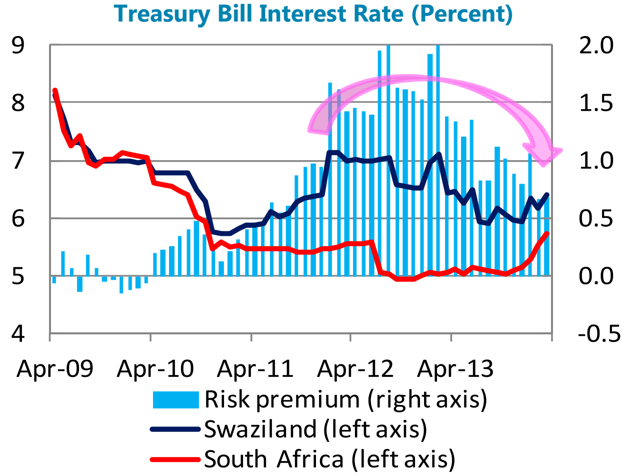
…international reserves are recovering.

Gross International Reserves



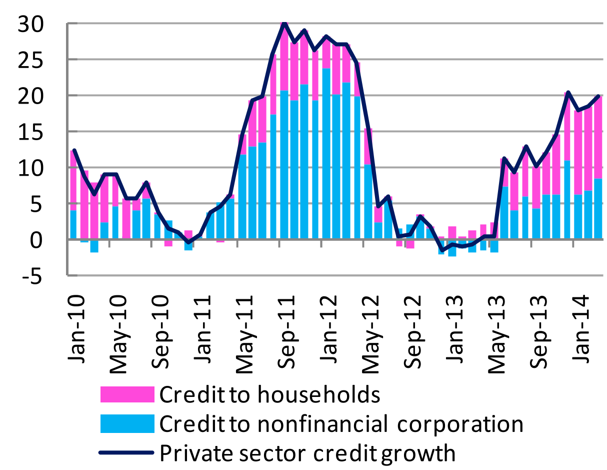
Risk premium on treasury bills has moderated.

Treasury Bill Interest Rate (Percent)



Private sector credit— both household and corporate lending—is growing.

Commercial Bank Credits to Private Sectors

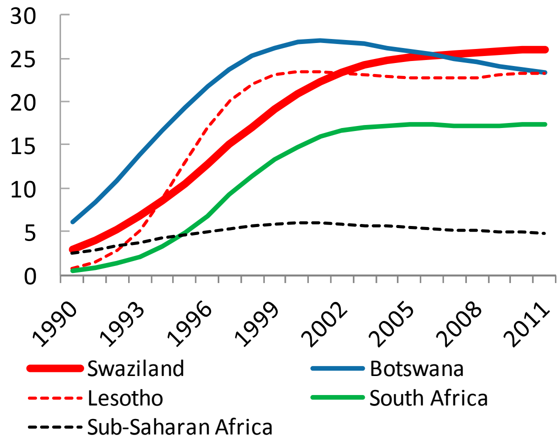


Sources: Swazi authorities and IMF staff estimates.

Figure 2.Swaziland: Social Developments

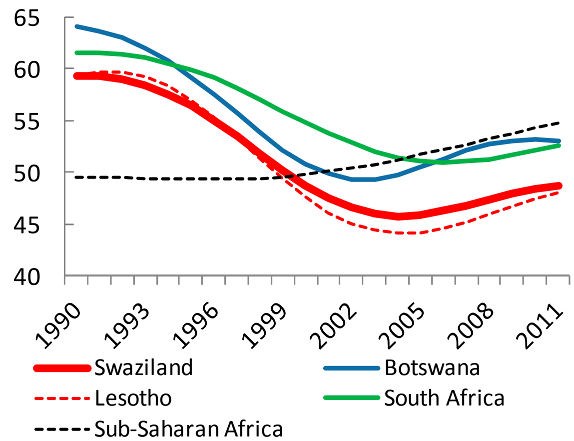
Swaziland suffers from the world's highest HIV prevalence rate…

Prevalence of HIV (% of population)



…and one of the lowest average life expectancies.

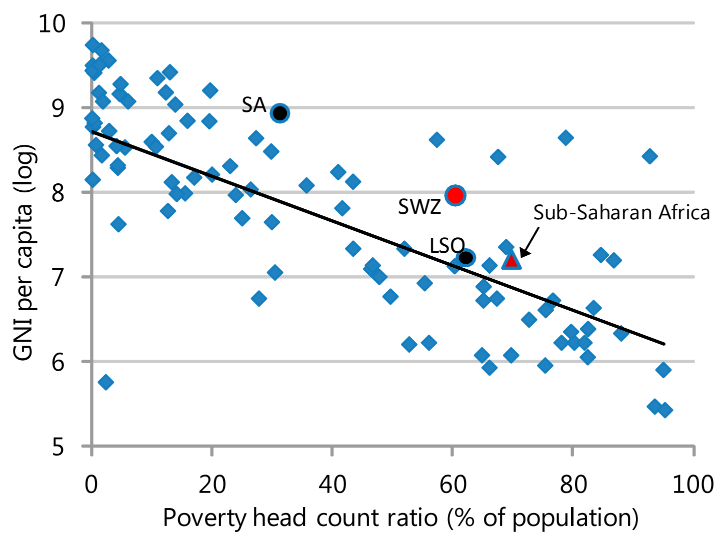
Life Expectancy (years)



Swaziland is still suffering from inequality and poverty.

GDP Per Capita and Poverty Headcount Ratio

(Developing Countries, latest available data)

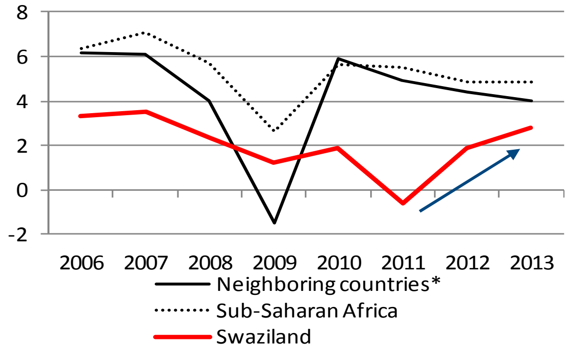


Source: The World Bank.

Figure 3. Recent Macroeconomic Performance and Outlook

Economic growth has been gradually recovering…

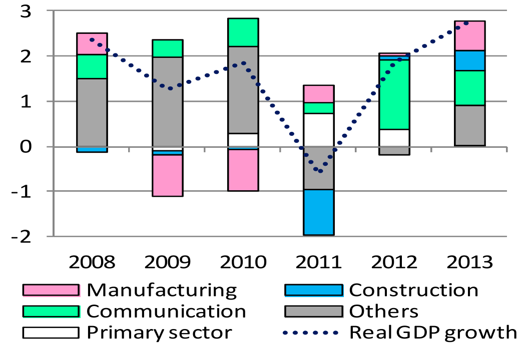
Real GDP Growth (Percent)



* Simple average of Botswana, Namibia, Lesotho, and South Africa,

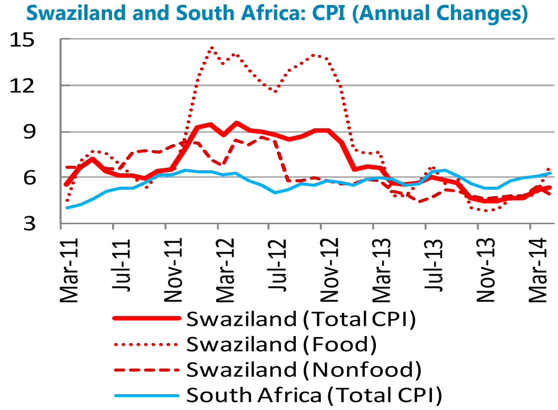
… driven mainly by communication, manufacturing, and construction (as a result of large capital spending)

Contributions to Real GDP Growth by Industry (Percent)



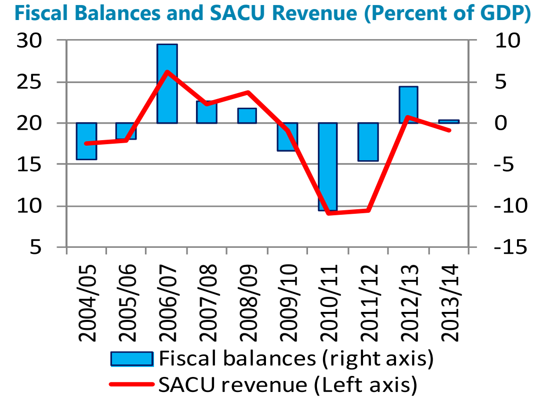
Inflation has slightly risen, owing to increases in food and some administered prices.

Swaziland and South Africa: CPI (Annual Changes)



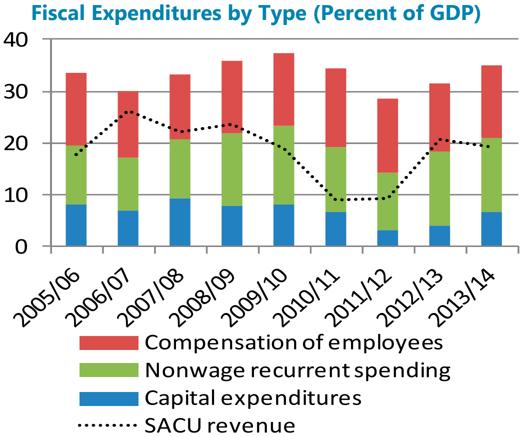
The fiscal balances improved significantly, with increased SACU revenue…

Fiscal Balances and SACU Revenue (Percent of GDP)



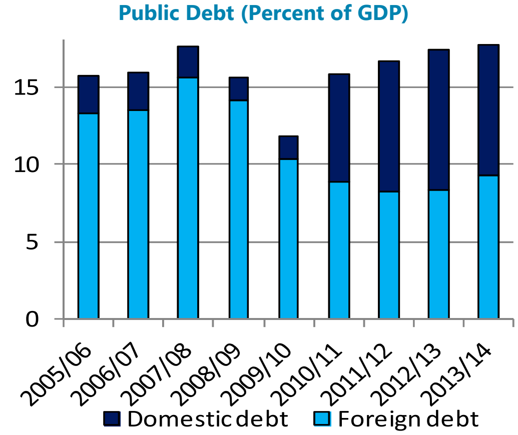
…while both recurrent and capital spending increased from the crisis level.

Fiscal Expenditures by Type (Percent of GDP)



Public debt-to-GDP ratio, though increased through the crisis, still stays at a modest level.

Public Debt (Percent of GDP)

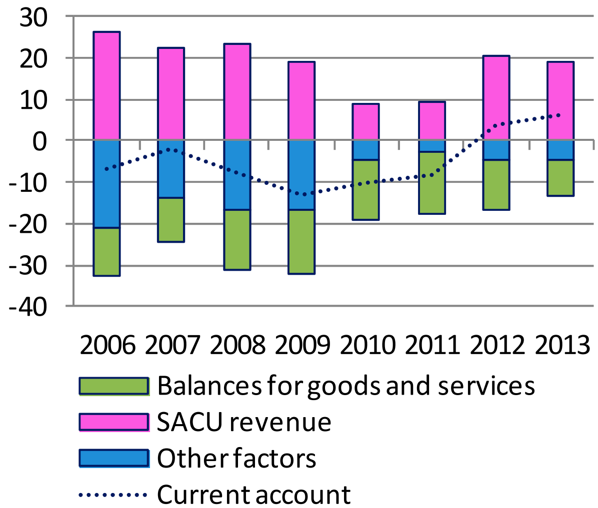


Sources: Country authorities and IMF staff estimates.

Figure 3. Recent Macroeconomic Performance and Outlook (concluded)

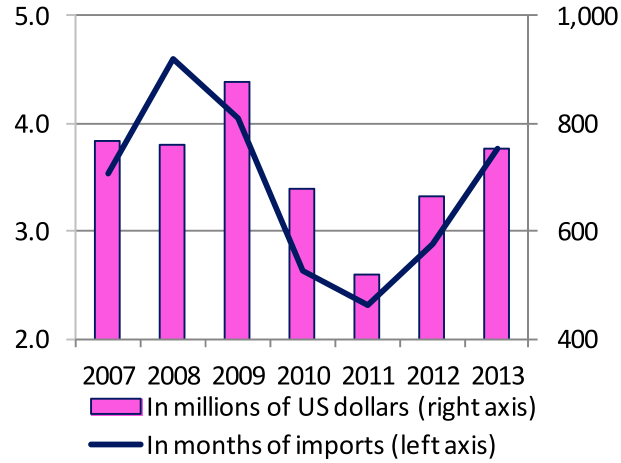
The current account recorded surplus in recent years, largely owing to large SACU revenue…

Current Account Balances (Percent of GDP)



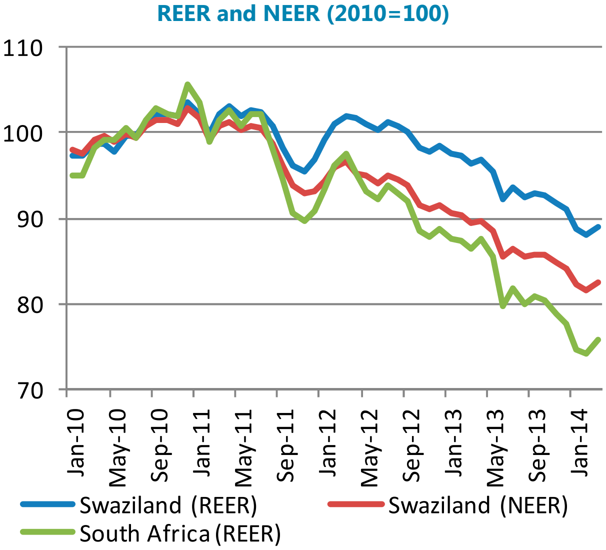
…and international reserves have improved significantly, reaching close to the pre-crisis (2009) level.

International Reserves



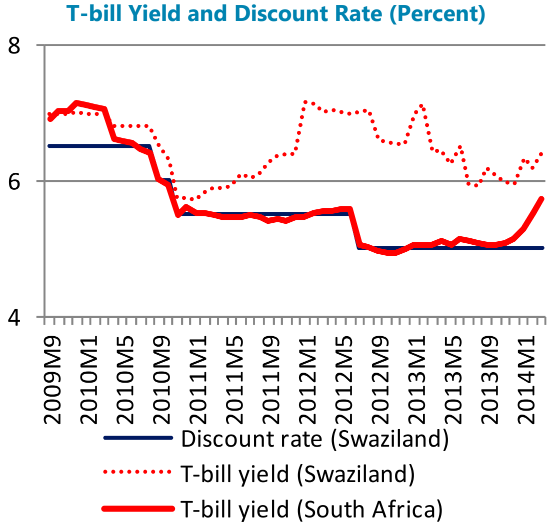
The REER largely tracks that of South Africa.

REER and NEER (2010=100)



Swaziland's T-bill yield increased in line with the SARB's repo rate, while the CBS maintained its discount rate.

T-bill Yield and Discount Rate (Percent)



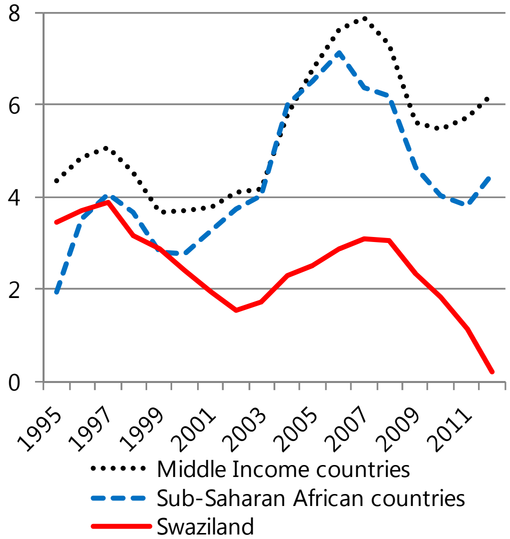
Sources: Country authorities and IMF staff estimates.

Figure 4. GDP Growth and Private Sector Investment

Growth performance has been sluggish since late 1990s….

Real GDP Growth

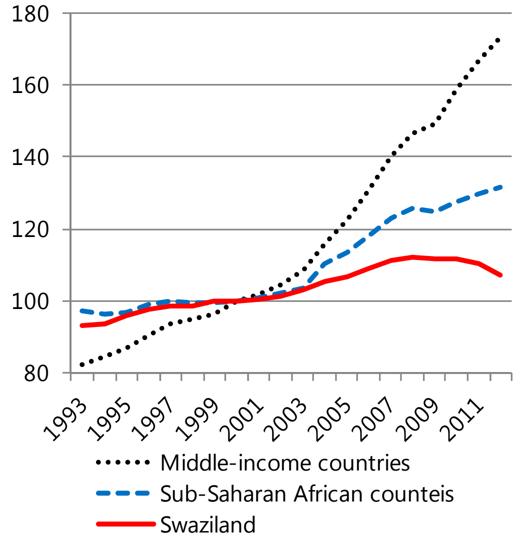
(In Percent, three years moving average)



…resulting in little increase in per capita income in real terms.

Real GDP Per Capita

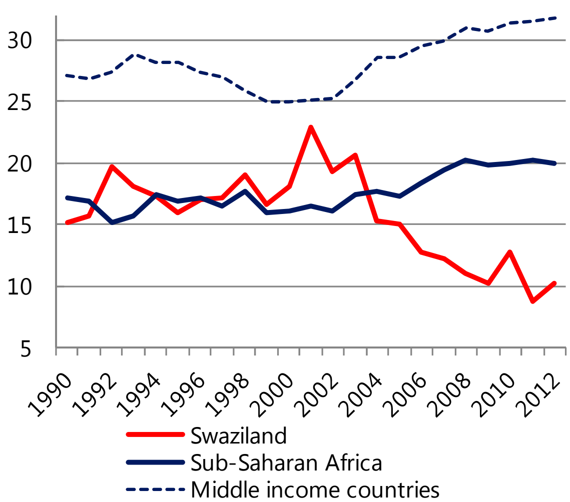
(Constant 2005 US dollar prices, 2000=100)



Investment activities in Swaziland have been declining since early 2000s,…

Fixed Capital Formation

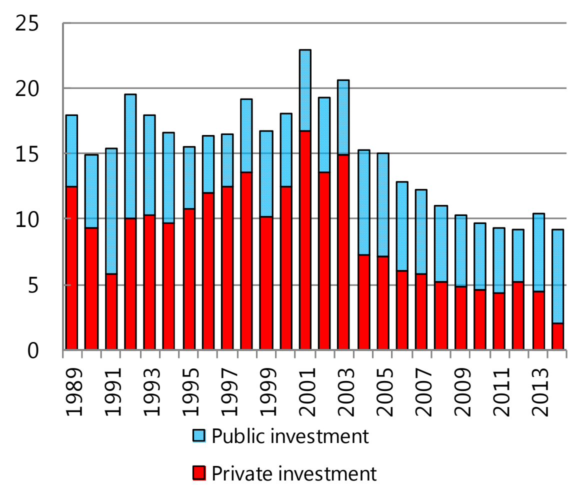
(Percent of GDP)



…driven by low private investments.

Public and Private Investments

(Percent of GDP)



Sources: the World Bank, country authorities and IMF staff estimates.

Table 1. Swaziland: Risk Assessment Matrix[1]

Nature/source of main risks	Likelihood of realization in the next three years	Expected impact on economy if risk is realized	Possible Policy Response
Protracted period of slower growth in advanced and emerging economies • Advanced economies: Lower-than-anticipated potential growth and persistently low inflation due to a failure to fully address legacies of the financial crisis, leading to secular stagnation. • Emerging markets: Maturing of the cycle, misallocation of investment, and incomplete structural reforms leading to prolonged slower growth.	*HIGH* • Protracted slower growth in Europe would adversely affect sugar exports (one of Swaziland's key export items) to Europe. • Protracted slower growth in South Africa could lower South Africa's imports and weaken demand for Swaziland's exports.	*MEDIUM* • External balances would deteriorate with weaker import demands from Europe and Swaziland's neighboring countries. Economic growth would also be affected.	• Step up structural reforms to promote private sector development. • Diversify export markets.
A temporary decline in SACU revenue (after 2015/16)	*MEDIUM* • SACU revenue may decline as a result of possible weakening of import demand in South Africa or possible adjustments for previous SACU revenue.	*HIGH* • A large decline in SACU revenue would significantly worsen the fiscal and external balance. • Economic growth would slow down, as financing constraint tightens.	• Implement fiscal consolidation, by reducing recurrent expenditures and enhancing revenue mobilization. • Improve the efficiency of public spending by strengthening PFM and enhancing public sector reforms.
The expiration of EPA in October 2014	*MEDIUM to HIGH* • The current interim EPA is set to expire in October, unless an agreement on a formal EPA is reached.	*MEDIUM* • The fiscal surplus would narrow, as the pressure on government spending intensifies. International reserves would decline. • Current account deficit would increase, but the implications for growth would be modest, given the low value added generated by the sector.	• Tighten fiscal policy to rebuild international reserves. • Step up structural reforms to generate private sector jobs.
The expiration of AGOA in 2015	*MEDIUM to HIGH* • The AGOA is set to expire by end-2014, unless an agreement on its extension is reached.	*MEDIUM* • The fiscal surplus would narrow, as the pressure on government spending intensifies. International reserves would decline. • Current account deficit would increase, but the implications for growth would be modest, given the low value added generated by the sector.	• Tighten fiscal policy to rebuild international reserves. • Step up structural reforms to generate private sector jobs.

[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Table 2. Swaziland: Selected Economic and Financial Indicators, 2012–19

	2012	2013	2014		2015		2016		2017		2018		2019	
	Prel.	Est.	Proj.		Proj.		Proj.		Proj.		Proj.		Proj.	
			Baseline	Reform	Baseline	Reform	Baseline	Reform	Baseline	Reform	Baseline	Reform	Baseline	Reform
			(Percentage changes; unless otherwise indicated)											
National account and prices														
GDP at constant prices 1/	1.9	2.8	2.1	2.1	2.0	1.8	2.1	2.4	1.8	3.0	1.7	3.5	1.7	4.0
GDP deflator	8.4	7.2	6.5	6.5	5.8	5.8	5.5	5.5	5.3	5.3	5.3	5.3	5.3	5.3
GDP at market prices (Emalangeni billions)	33.2	36.6	39.8	39.8	43.0	42.9	46.3	46.3	49.6	50.2	53.1	54.7	56.9	59.9
Consumer prices (average)	8.9	5.6	5.8	5.8	5.6	5.6	5.4	5.4	5.2	5.2	5.2	5.2	5.2	5.2
External sector														
Average exchange rate (per US$)	8.2	9.7	...	...	...	...	...	...	...	...	...	...	...	...
Nominal exchange rate change [1]	4.3	7.3	...	...	...	...	...	...	...	...	...	...	...	...
Real effective exchange rate [1]	0.0	5.8	...	...	...	...	...	...	...	...	...	...	...	...
Gross international reserves														
(months of imports)	2.9	3.8	4.2	4.2	4.5	4.5	4.4	4.7	4.1	4.9	3.6	5.0	3.1	5.2
(percent of GDP)	17.0	21.6	23.4	23.3	24.2	24.5	23.2	24.8	21.1	25.2	18.7	25.8	15.7	26.0
(percent of reserve money)	314.2	416.1	433.4	433.1	439.9	445.1	413.7	442.4	371.1	442.0	326.1	445.2	273.7	441.2
Gross reserves minus reserve money														
(percent of deposits)	1.1	5.4	12.3	12.2	18.0	18.9	17.1	22.4	12.6	26.3	8.9	30.4	4.8	33.1
Money and credit [2]														
Domestic credit to the private sector	-1.5	16.1	14.8	14.6	9.2	8.7	7.4	8.4	6.1	9.1	5.6	9.5	5.2	10.3
Reserve money	0.1	1.1	2.2	2.2	1.7	1.7	1.7	1.7	1.5	1.8	1.4	1.9	1.2	2.0
M2	10.0	15.9	11.2	11.2	10.0	9.8	9.8	10.0	9.0	10.6	8.2	10.8	7.1	11.3
Interest rate (percent) [3]	5.5	5.0	...	...	...	...	...	...	...	...	...	...	...	...
			(Percent of GDP)											
National accounts														
Gross capital formation	8.0	9.6	11.5	10.6	11.0	10.6	10.9	10.9	10.7	11.2	10.6	11.8	10.6	12.7
Government	3.0	4.6	6.5	6.6	6.0	6.6	5.9	6.6	5.7	6.5	5.6	6.5	5.6	6.7
Private	5.0	5.0	5.0	4.0	5.0	4.0	5.0	4.3	5.0	4.7	5.0	5.3	5.0	6.0
National savings	11.8	15.7	12.9	11.9	11.5	11.2	10.4	10.8	9.1	10.4	8.6	10.9	7.9	11.1
Government	6.4	7.8	9.7	9.7	6.2	7.5	4.1	6.5	3.5	6.8	3.3	7.4	3.1	7.8
Private	5.4	7.8	3.2	2.2	5.2	3.7	6.2	4.3	5.6	3.6	5.4	3.5	4.8	3.2
External sector														
Current account balance														
(including official transfers)	3.8	6.1	1.4	1.4	0.4	0.5	-0.5	-0.1	-1.6	-0.8	-2.0	-0.9	-2.8	-1.6
(excluding official transfers)	-19.2	-17.1	-17.7	-17.8	-16.6	-16.5	-17.0	-16.6	-18.1	-17.3	-18.5	-17.5	-19.3	-18.2
External public debt	8.3	9.0	10.0	10.0	9.9	9.9	9.2	9.2	8.6	8.5	8.0	7.8	7.5	7.2
Central government fiscal operations [4]														
Overall balance (commitment basis)	4.4	0.3	-0.9	-0.9	-3.4	-2.8	-4.5	-2.9	-4.6	-2.1	-4.8	-1.7	-5.0	-1.5
Total revenue and grants	36.0	35.2	35.9	36.1	33.2	33.4	33.0	33.2	33.0	33.2	33.0	33.2	33.0	33.2
Total expenditure	31.5	34.9	36.8	36.9	36.6	36.3	37.5	36.1	37.6	35.3	37.8	34.9	38.0	34.7
Public debt, gross	17.4	17.8	17.2	17.2	19.4	18.9	22.6	20.4	25.7	21.0	28.1	20.9	30.2	20.6
Public debt, net	5.6	4.0	4.5	4.5	7.6	7.1	11.7	9.5	15.5	10.9	19.3	11.7	23.1	12.2
Memorandum item:														
Population (in million)	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.2	1.2	1.2	1.2

Sources: Swazi authorities; and Fund staff estimates and projections.

[1] IMF Information Notice System trade-weighted; end of period. A negative sign indicates depreciation.

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

[3] 12-month time deposits rate.

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

Table 3. Swaziland: Fiscal Operations of the Central Government, 2010/11–19/20 [1]

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
			Prel.	Est.	Proj.[2]	Proj.[2]	Proj.[2]	Proj.[2]	Proj.[2]	Proj.[2]
Transactions affecting net worth:										
Total revenue	6,918	7,404	12,263	13,162	14,600	14,554	15,538	16,650	17,830	19,092
Tax revenue	6,684	7,262	11,942	12,734	13,570	13,956	15,010	16,085	17,224	18,444
Taxes on income, profits, and capital gains	2,552	2,724	2,533	3,214	3,489	3,762	4,047	4,336	4,644	4,972
Taxes on property	25	24	26	29	32	34	37	39	42	45
Taxes on international trade and transactions	2,631	2,884	7,066	7,172	7,535	7,447	8,010	8,583	9,192	9,842
of which: SACU receipts	2,631	2,884	7,066	7,172	7,535	7,447	8,010	8,583	9,192	9,842
Domestic taxes on goods and services	1,478	1,627	2,316	2,319	2,517	2,715	2,920	3,129	3,350	3,588
Other taxes	24	28	27	29	29	32	34	36	39	42
Non-tax revenue	223	124	278	232	252	271	292	313	335	359
Grants	10	18	43	196	778	327	236	252	270	289
Budget support	0	0	0	0	0	0	0	0	0	0
Project grants	10	18	43	196	778	327	236	252	270	289
Expense	8,072	7,811	9,327	10,527	11,193	12,695	13,949	15,171	16,371	17,634
Compensation of employees	4,445	4,406	4,524	5,230	5,650	6,438	6,978	7,563	8,099	8,672
Purchases or use of goods & services	1,731	1,456	2,012	2,053	2,267	2,421	2,636	2,825	3,025	3,239
Interest	204	265	350	344	461	701	849	1,048	1,247	1,440
Other expense	1,693	1,684	2,441	2,900	2,815	3,135	3,486	3,735	4,000	4,283
Gross operating balance	-1,154	-407	2,936	2,634	3,407	1,859	1,589	1,479	1,459	1,458
Transactions in nonfinancial assets:										
Net acquisition of nonfinancial assets	1,906	1,019	1,427	2,527	3,756	3,357	3,709	3,792	4,061	4,349
Foreign financed	99	79	98	426	1,709	776	565	606	649	695
Domestically financed	1,807	940	1,328	2,100	2,047	2,581	3,144	3,186	3,412	3,654
Total expenditure	9,978	8,830	10,753	13,054	14,949	16,053	17,658	18,964	20,432	21,983
Primary net lending / borrowing	-2,857	-1,161	1,860	452	112	-797	-1,271	-1,265	-1,355	-1,451
Net lending/borrowing	-3,060	-1,426	1,509	108	-349	-1,498	-2,121	-2,314	-2,602	-2,890
Transactions in financial assets and liabilities:										
Net acquisition of financial assets	1,421	507	-1,216	-1,165	0	0	0	0	400	653
of which: Policy lending	52	48	14	0	0	0	0	0	0	0
Net incurrence of liabilities	1,918	540	-789	20	349	1,498	2,121	2,314	2,202	2,237
Domestic	2,037	676	-643	-90	-336	1,373	2,148	2,340	2,231	2,271
of which: accumulation of arrears	730	453	-1,183	-240	-240	-140	0	0	0	0
Foreign	-119	-136	-146	110	685	125	-27	-26	-29	-34
Memorandum item:										
Overall balance (cash basis)	-2,330	-973	326	-132	-589	-1,638	-2,121	-2,314	-2,602	-2,890
Stock of arrears	-410	-312	0	0	0	0	0	0	0	0
Gross public debt	4,581	5,140	5,924	6,651	7,000	8,513	10,655	12,989	15,211	17,469

Sources: Swazi authorities; and Fund staff estimates and projections.

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

[2] Staff estimates based on the baseline scenario.

Table 4. Swaziland: Fiscal Operations of the Central Government, 2010/11–19/20 [1]

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
			Prel.	Est.	Proj.[2]	Proj.[2]	Proj.[2]	Proj.[2]	Proj.[2]	Proj.2
Transactions affecting net worth:										
Total revenue	23.9	24.0	36.0	35.2	35.9	33.2	33.0	33.0	33.0	33.0
Tax revenue	23.1	23.5	35.0	34.0	33.4	31.9	31.9	31.9	31.9	31.9
Taxes on income, profits, and capital gains	8.8	8.8	7.4	8.6	8.6	8.6	8.6	8.6	8.6	8.6
Taxes on property	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Taxes on international trade and transactions	9.1	9.3	20.7	19.2	18.5	17.0	17.0	17.0	17.0	17.0
of which: SACU receipts	9.1	9.3	20.7	19.2	18.5	17.0	17.0	17.0	17.0	17.0
Domestic taxes on goods and services	5.1	5.3	6.8	6.2	6.2	6.2	6.2	6.2	6.2	6.2
Other taxes	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Non-tax revenue	0.8	0.4	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Grants	0.0	0.1	0.1	0.5	1.9	0.7	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	0.0	0.0
Project grants	0.0	0.1	0.1	0.5	1.9	0.7	0.5	0.5	0.5	0.5
Expense	27.9	25.3	27.4	28.1	27.6	29.0	29.6	30.0	30.3	30.5
Compensation of employees	15.4	14.3	13.3	14.0	13.9	14.7	14.8	15.0	15.0	15.0
Purchases or use of goods & services	6.0	4.7	5.9	5.5	5.6	5.5	5.6	5.6	5.6	5.6
Interest	0.7	0.9	1.0	0.9	1.1	1.6	1.8	2.1	2.3	2.5
Other expense	5.9	5.4	7.2	7.7	6.9	7.2	7.4	7.4	7.4	7.4
Gross operating balance	-4.0	-1.3	8.6	7.0	8.4	4.2	3.4	2.9	2.7	2.5
Transactions in nonfinancial assets:										
Net acquisition of nonfinancial assets	6.6	3.3	4.2	6.8	9.2	7.7	7.9	7.5	7.5	7.5
Foreign financed	0.3	0.3	0.3	1.1	4.2	1.8	1.2	1.2	1.2	1.2
Domestically financed	6.3	3.0	3.9	5.6	5.0	5.9	6.7	6.3	6.3	6.3
Total expenditure	34.5	28.6	31.5	34.9	36.8	36.6	37.5	37.6	37.8	38.0
Primary net lending / borrowing	-9.9	-3.8	5.5	1.2	0.3	-1.8	-2.7	-2.5	-2.5	-2.5
Net lending / borrowing	-10.6	-4.6	4.4	0.3	-0.9	-3.4	-4.5	-4.6	-4.8	-5.0
Transactions in financial assets and liabilities:										
Net acquisition of financial assets	4.9	1.6	-3.6	-3.1	0.0	0.0	0.0	0.0	0.7	1.1
of which: Policy lending	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	6.6	1.7	-2.3	0.1	0.9	3.4	4.5	4.6	4.1	3.9
Domestic	7.0	2.2	-1.9	-0.2	-0.8	3.1	4.6	4.6	4.1	3.9
of which: accumulation of arrears	2.5	1.5	-3.5	-0.6	-0.6	-0.3	0.0	0.0	0.0	0.0
Foreign	-0.4	-0.4	-0.4	0.3	1.7	0.3	-0.1	-0.1	-0.1	-0.1
Memorandum item:										
Overall balance (cash basis)	-8.1	-3.1	1.0	-0.4	-1.4	-3.7	-4.5	-4.6	-4.8	-5.0
Stock of arrears	-1.4	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross public debt	15.9	16.6	17.4	17.8	17.2	19.4	22.6	25.7	28.1	30.2

Sources: Swazi authorities; and Fund staff estimates and projections.

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

[2] Staff estimates based on the baseline scenario.

Table 5. Swaziland: Monetary Accounts, 2011–19 [1]

	2011	2012	2013	2014	2015	2016	2017	2018	2019
			Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Emalangeni millions)								
Depository Corporation Survey									
Net foreign assets	4,024	6,269	7,867	9,185	9,985	10,021	9,467	8,619	7,266
Net domestic assets	4,754	3,388	3,330	3,264	3,708	5,007	6,906	9,091	11,697
Claims on central government (net)	-619	-1,589	-3,008	-3,368	-3,179	-2,788	-1,990	-807	852
Claims on other sectors	8,279	8,062	9,759	11,244	12,367	13,373	14,291	15,227	16,174
Of which: Claims on private sector	7,833	7,698	9,254	10,913	12,055	13,073	13,995	14,908	15,832
Other items (net)	-2,906	-3,084	-3,421	-4,612	-5,481	-5,578	-5,395	-5,330	-5,329
Broad money	8,778	9,658	11,197	12,449	13,693	15,028	16,373	17,709	18,963
Currency in circulation [2]	357	409	499	797	876	962	1,048	1,133	1,214
Deposits	8,421	9,248	10,698	11,652	12,816	14,066	15,326	16,576	17,749
Central Bank									
Net foreign assets	3,576	4,935	7,158	8,476	9,484	9,734	9,402	8,785	7,676
Net domestic assets	-1,795	-3,140	-5,256	-6,330	-7,123	-7,143	-6,579	-5,732	-4,406
Reserve money	1,781	1,794	1,901	2,146	2,361	2,591	2,823	3,053	3,269
	(percent of GDP)								
Depository Corporation Survey									
Net foreign assets	13.4	18.9	21.5	23.1	23.2	21.6	19.1	16.2	12.8
Net domestic assets	15.8	10.2	9.1	8.2	8.6	10.8	13.9	17.1	20.6
Claims on central government (net)	-2.1	-4.8	-8.2	-8.5	-7.4	-6.0	-4.0	-1.5	1.5
Claims on other sectors	27.5	24.2	26.6	28.2	28.8	28.9	28.8	28.7	28.4
Of which: Claims on private sector	26.0	23.2	25.3	27.4	28.0	28.2	28.2	28.1	27.8
Other items (net)	-9.6	-9.3	-9.3	-11.6	-12.8	-12.1	-10.9	-10.0	-9.4
Broad money	29.1	29.0	30.6	31.3	31.9	32.5	33.0	33.3	33.3
Currency in circulation [2]	1.2	1.2	1.4	2.0	2.0	2.1	2.1	2.1	2.1
Deposits	28.0	27.8	29.2	29.3	29.8	30.4	30.9	31.2	31.2
Central Bank									
Net foreign assets	11.9	14.8	19.5	21.3	22.1	21.0	19.0	16.5	13.5
Net domestic assets	-6.0	-9.4	-14.4	-15.9	-16.6	-15.4	-13.3	-10.8	-7.7
Reserve money	5.9	5.4	5.2	5.4	5.5	5.6	5.7	5.7	5.7
Memorandum items:	(12–month percentage change; unless otherwise indicated)								
Reserve money	52.1	0.7	6.0	12.9	10.0	9.8	9.0	8.2	7.1
M2	5.5	10.0	15.9	11.2	10.0	9.8	9.0	8.2	7.1
Credit to the private sector	26.0	-1.7	20.2	17.9	10.5	8.4	7.1	6.5	6.2
Money multiplier (broad money/reserve money)	4.9	5.4	5.9	5.8	5.8	5.8	5.8	5.8	5.8
Velocity (GDP/broad money)	3.4	3.4	3.3	3.2	3.1	3.1	3.0	3.0	3.0

Sources: Swazi authorities; and Fund staff estimates and projections.

[1] End of period.

[2] Excludes rand in circulation.

[3] Including valuation changes.

Table 6. Swaziland: Balance of Payments, 2011–19
(U.S. dollar millions; unless otherwise indicated)

	2011	2012 Prel.	2013 Est.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.
Current account	-339.0	154.6	230.1	52.6	17.9	-21.5	-69.9	-92.4	-133.0
Trade balance	-44.0	77.7	196.0	190.3	225.2	236.9	188.2	163.7	125.7
Exports, f.o.b.	1,907.9	1,926.0	1,879.3	1,854.6	1,895.2	1,934.6	1,916.1	1,927.7	1,927.0
Imports, f.o.b	-1,951.9	-1,848.3	-1,683.4	-1,664.3	-1,670.0	-1,697.7	-1,728.0	-1,764.0	-1,801.2
Services (net)	-569.2	-584.5	-510.6	-528.4	-553.1	-576.8	-601.2	-625.7	-651.2
Income (net)	-256.0	-313.8	-356.6	-366.7	-388.2	-405.0	-420.7	-436.3	-452.6
Of which: interest on public debt	-22.1	-19.0	-12.9	-17.8	-23.1	-24.6	-24.4	-24.1	-23.7
Transfers	530.2	975.1	901.3	757.3	734.0	723.3	763.8	805.9	845.1
Official transfers	425.9	931.6	877.3	734.3	685.5	692.2	723.4	755.7	789.2
Other transfers	104.3	43.5	24.0	23.0	48.5	31.1	40.5	50.3	55.9
Capital and financial account	135.5	33.6	-40.8	81.5	83.8	51.7	48.4	47.5	48.7
Capital account	20.3	113.3	25.8	11.5	19.8	10.9	10.2	10.6	11.2
Financial account	115.2	-79.7	-66.6	69.9	64.0	40.8	38.3	36.8	37.5
Foreign direct investment	102.3	96.1	64.7	70.7	74.2	77.4	80.8	84.2	87.8
Portfolio investment	-103.9	-13.1	-166.8	-29.2	-29.1	-30.4	-31.7	-33.1	-34.5
Other investment	116.7	-162.6	35.6	28.5	19.0	-6.3	-10.8	-14.3	-15.8
Medium and long-term	125.1	-142.7	35.2	28.1	18.5	-6.7	-11.2	-14.6	-16.1
Of which:									
Public sector (net)	-7.4	-16.4	4.8	52.2	24.8	1.0	-2.3	-2.4	-2.7
Disbursements	9.5	7.3	19.3	72.9	53.4	32.7	30.8	32.1	33.4
Amortization	-16.9	-23.7	-14.5	-20.7	-28.5	-31.7	-33.1	-34.5	-36.2
Short-term	-7.9	-20.0	0.4	0.4	0.5	0.5	0.4	0.3	0.3
Errors and omissions	108.4	-29.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-95.1	158.6	189.2	134.0	101.7	30.2	-21.4	-44.9	-84.3
Financing									
Net international reserves of the monetary authorities (– = increase)	95.1	-158.7	-189.2	-134.0	-101.7	-30.2	21.4	44.9	84.3
			(percent of GDP)						
Current account	-8.2	3.8	6.1	1.4	0.4	-0.5	-1.6	-2.0	-2.8
Trade balance	-1.1	1.9	5.2	5.0	5.6	5.6	4.3	3.6	2.6
Exports, f.o.b.	45.9	47.6	49.5	48.3	47.0	46.0	43.6	42.1	40.4
Imports, f.o.b	-47.0	-45.6	-44.4	-43.3	-41.4	-40.3	-39.3	-38.5	-37.8
Services (net)	-13.7	-14.4	-13.5	-13.8	-13.7	-13.7	-13.7	-13.7	-13.7
Income (net)	-6.2	-7.7	-9.4	-9.5	-9.6	-9.6	-9.6	-9.5	-9.5
Of which: interest on public debt	-0.5	-0.5	-0.3	-0.5	-0.6	-0.6	-0.6	-0.5	-0.5
Transfers	12.8	24.1	23.8	19.7	18.2	17.2	17.4	17.6	17.7
Capital and financial account	3.3	0.8	-1.1	2.1	2.1	1.2	1.1	1.0	1.0
Capital account	0.5	2.8	0.7	0.3	0.5	0.3	0.2	0.2	0.2
Financial account	2.8	-2.0	-1.8	1.8	1.6	1.0	0.9	0.8	0.8
Of which foreign direct investment	2.5	2.4	1.7	1.8	1.8	1.8	1.8	1.8	1.8
Errors and omissions	2.6	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-2.3	3.9	5.0	3.5	2.5	0.7	-0.5	-1.0	-1.8
Memorandum items:									
Official transfers	10.3	23.0	23.1	19.1	17.0	16.4	16.5	16.5	16.5
National currency per US$	7.3	8.2	9.7	…	…	…	…	…	…

Sources: Swazi authorities; and Fund staff estimates and projections.

Table 7. Swaziland: Millennium Development Goals, 1995–2013 or Latest

	1995	2000	2005	2010	2011	2012	2013
Goal 1: Eradicate Extreme Poverty and Hunger							
Employment to population ratio, 15+, total (%)	44.3	43.5	43.3	43.7	44.0	44.3	...
Employment to population ratio, ages 15-24, total (%)	26.9	26.1	25.8	25.8	25.8	25.9	...
Income share held by lowest 20%	2.7	...	...	4.1	...	...	...
Malnutrition prevalence, weight for age (% of children under 5)	...	9.1	...	5.8	...	...	...
Poverty headcount ratio at national poverty line (% of population)	...	...	...	...	...	...	...
Prevalence of undernourishment (% of population)	22.6	17.7	18.7	30.1	27.0	...	...
Vulnerable employment, total (% of total employment)	...	...	...	...	...	...	...
Goal 2: Achieve universal primary education							
Literacy rate, youth female (% of females ages 15-24)	...	92.9	...	...	95.3	...	...
Literacy rate, youth male (% of males ages 15-24)	...	90.7	...	...	92.2	...	...
Persistence to last grade of primary, total (% of cohort)	55.3	58.5	83.0	67.3	...	...	...
Primary completion rate, total (% of relevant age group)	63.4	60.9	65.6	76.7	76.8	...	...
Total enrollment, primary (% net)	74.5	72.3	76.5	...	...	...	...
Goal 3: Promote gender equality and empower women							
Proportion of seats held by women in national parliaments (%)	...	3.1	10.8	13.6	13.6	13.6	6.2
Ratio of female to male tertiary enrollment (%)	...	90.0	106.8	...	104.2	...	...
Ratio of female to male primary enrollment (%)	97.3	95.2	94.0	91.8	89.8	...	...
Ratio of female to male secondary enrollment (%)	...	100.9	102.0	99.9	97.2	...	...
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	33.2	...	...	...	...	...	...
Goal 4: Reduce child mortality							
Immunization, measles (% of children ages 12-23 months)	94.0	92.0	93.0	94.0	98.0	88.0	...
Mortality rate, infant (per 1,000 live births)	63.9	79.5	80.1	61.2	57.0	55.7	...
Mortality rate, under-5 (per 1,000)	88.4	121.4	127.2	91.9	84.9	79.7	...
Goal 5: Improve maternal health							
Adolescent fertility rate (births per 1,000 women ages 15-19)	115.5	105.2	93.8	78.4	75.2	...	...
Births attended by skilled health staff (% of total)	...	70.0	...	82.0	...	...	...
Contraceptive prevalence (% of women ages 15-49)	...	27.7	...	65.2	...	...	...
Maternal mortality ratio (modeled estimate, per 100,000 live births)	290.0	360.0	420.0	320.0	...	...	...
Pregnant women receiving prenatal care (%)	...	86.6	...	96.8	...	...	...
Goal 6: Combat HIV/AIDS, malaria, and other diseases							
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	...	25.5	...	...	...	...	0.0
Condom use, female (% ages 15-24)	...	...	44.0	...	...	...	...
Condom use, male (% ages 15-24)	...	...	66.0	...	...	...	...
Incidence of tuberculosis (per 100,000 people)	337.0	803.0	1147.0	1287.0	1317.0	1349.0	...
Prevalence of HIV, female (% ages 15-24)	...	...	...	...	...	20.0	...
Prevalence of HIV, total (% of population ages 15-49)	13.7	24.3	25.6	26.2	26.5	26.5	...
Tuberculosis case detection rate (all forms)	63.0	69.0	69.0	66.0	52.0	43.0	...
Goal 7: Ensure environmental sustainability							
CO2 emissions (kg per PPP $ of GDP)	0.1	0.3	0.2	0.2	...	...	...
CO2 emissions (metric tons per capita)	0.5	1.1	0.9	0.9	...	...	...
Forest area (% of land area)	28.8	30.1	31.5	32.7	33.0	...	...
Improved sanitation facilities (% of population with access)	49.5	51.8	54.1	56.5	57.0	...	...
Improved water source (% of population with access)	42.7	51.9	61.0	70.3	72.2	...	...
Marine protected areas (% of total surface area)	...	7.3	...	10.2	...	10.2	...
Goal 8: Develop a global parternership for development							
Net ODA received per capita (current US$)	59.9	12.3	42.2	76.6	103.0	...	...
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	1.5	2.1	1.4	...	...	...	...
Daily newspapers (per 1,000 people)	...	...	...	...	...	...	...
Mobile cellular subscriptions (per 100 people)	0.0	3.1	18.1	61.2	63.7	66.0	...
Telephone lines (per 100 people)	2.2	3.0	4.0	4.5	6.3	4.0	...
Other							
Fertility rate, total (births per woman)	4.9	4.2	3.9	3.6	3.5	...	...
GNI per capita, Atlas method (current US$)	1,740	1,580	2,300	2,630	2,630	2,630	2,630
GNI, Atlas method (US$ million, current)	1,685	1,613	2,644	3,119	3,119	3,119	3,119
Gross capital formation (% of GDP)	16.0	18.1	15.0	16.6	16.6	16.6	16.6
Life expectancy at birth, total (years)	56.4	48.7	45.9	48.3	48.7	...	...
Literacy rate, adult total (% of people ages 15 and above)	...	81.7	...	...	87.8	...	...

Source: World Bank; and Swailand authorities.

Table 8. Swaziland: Financial Sector Indicators, 2009–13 [1]

	2009	2010	2011	2012	2013
Banking indicators					
Capital adequacy					
Capital to assets	16.9	12.2	12.2	12.5	11.9
Regulatory capital to risk-weighted assets	28.4	19.8	20.3	29.1	24.4
Regulatory tier 1 capital to risk-weighted assets	18.0	17.4	17.4	19.3	19.3
Nonperforming loans net of provisions to capital	35.0	16.8	21.6	19.0	19.1
Asset quality					
Large exposure to capital	160.3	89.3	118.7	68.1	50.4
Nonperforming loans to total gross loans	8.6	9.3	6.7	8.7	6.8
Sectoral distribution of loans to total loans					
Agriculture	14.0	16.7	18.1	12.9	17.0
Mining and quarrying	0.0	0.0	1.8	2.0	2.0
manufacturing	22.9	14.9	21.6	20.1	19.6
Construction	5.9	10.7	7.6	7.0	8.8
Distribution and Tourism	13.6	12.4	10.6	11.9	9.4
Transport and Communication	8.5	8.5	6.8	9.6	9.0
Community, Socialand Personal services	4.2	4.4	4.8	5.5	5.9
Other	30.8	32.3	28.7	31.1	28.3
Earnings and profitability					
Trading income to total income	31.6	46.1	35.9	1.2	2.9
Return on assets	2.5	2.4	2.4	3.7	3.1
Return on equity	14.9	14.4	13.8	26.0	22.7
Interest margin to gross income	58.2	85.9	68.0	50.4	47.8
Noninterest expenses to gross income	68.4	64.9	66.0	61.9	60.0
Personnel expenses to noninterest expenses	44.9	51.1	52.7	50.7	55.4
Liquidity					
Liquid assets to total assets	12.2	16.6	17.0	7.3	8.0
Liquid assets to short-term liabilities	15.7	25.9	23.4	11.0	12.1
Customer deposits to total (non-interbank) loans	127.2	133.6	118.2	120.9	115.4
Exposure to foreign exchange risk					
Net open position in foreign exchange to capital	127.2	126.6	111.7	28.6	0.4
Foreign currency liabilities to total liabilities	1.1	0.6	0.4	7.0	28.7
Financial system structure					
Banks	4	4	4	4	4
Private commercial	0	0	0	0	0
State-owned	1	1	1	1	1
Foreign-owned subsidiaries	3	3	3	3	3
Branches of foreign banks	26	28	28	38	39
Deposits					
Banks	6,330	7,506	7,481	8,119	9,448
State-owned	813	972	989	1,011	1,126
Foreign-owned subsidiaries	5,517	6,534	6,492	7,108	8,322

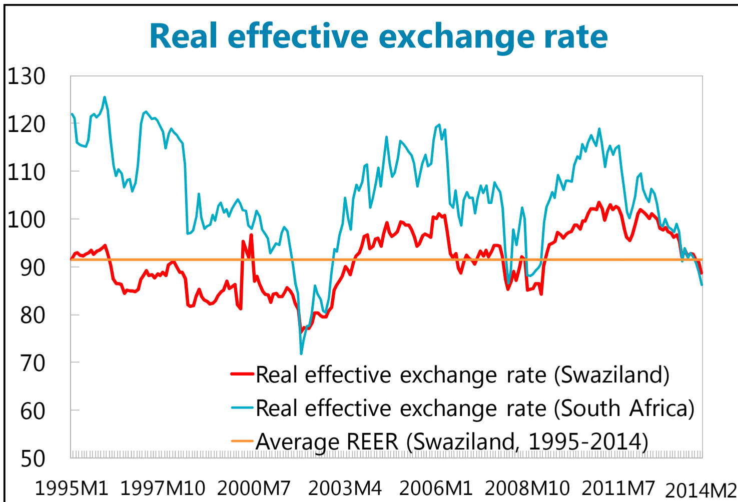
Sources: Central Bank of Swaziland; and IMF staff estimates.

[1] In line with the recommendation by recent IMF TA, from 2012, the statistics exclude the Building Society as it is not a bank.

Appendix I. Exchange Rate Assessment[1]

1. **Staff analysis suggests that Swaziland's real effective exchange rate (REER) is moderately overvalued.**[2] The estimated results are mixed using different approaches, but overall points to moderate overvaluation. Since the lilangeni is pegged to South African rand, monetary policy plays a passive role in Swaziland, following closely the policy rate in South Africa. This points to the need of structural reforms to improve Swaziland's competitiveness. It should also be noted that large uncertainties surround the analysis, as it involves many assumptions and projections.

2. **Swaziland's real effective exchange rate has been on a declining trend since its peak at end-2010.** The depreciation has followed the deprecation of South African rand. The REER has depreciated 14 percent over the past three years (9 percent over the past year) and currently stands at 2 percent below its long-term average over 1995–2013. The fact that the REER is below historical average and yet may still be overvalued suggests that Swaziland's equilibrium real exchange rate, as determined by fundamentals, may have declined over the past 20 years. It should also be noted that since its inflation is relatively higher, Swaziland has been losing competiveness with regard to South Africa.



Sources: Country authorities and IMF staff estimates.

3. **Staff assessed the REER based on the IMF's Consultative Group on Exchange Rate Issues (CGER) methodology.** The CGER methodology includes three different approaches that links equilibrium exchange rate to a set of fundamentals (Lee et al., 2008). The analysis uses coefficients from Vitek (2014), which extended the original CGER sample to include many developing countries.

Macroeconomic balance (MB) approach

4. **The MB approach first estimates Swaziland's equilibrium current account as -3.8 percent of GDP.** The current account is modeled on Swaziland's economic conditions, mostly relative to its trading partners. Specifically, it is computed as a function of the levels of these

MB approach (explaining current account)	
Relative population growth	–0.29**
Relative income	0.004
Relative output growth	–0.230***
Oil trade balance	0.207****
Relative fiscal balance	0.305****
Net foreign assets	0.026****
Aid inflows	–0.204***

****, ***, **, and * indicates significance at the 1%, 5%, 10%, and 20% levels.
Source: IMF staff estimates.

[1] Prepared by Yi Wu.

[2] The analysis is based on the baseline scenario.

variables projected to prevail in the medium term (2019). One exception is the net foreign asset (NFA) position, for which the latest data are for 2010, from the (updated) External Wealth of Nation database (Lane and Milesi-Ferretti, 2007). The NFA to GDP ratio stood at -3.9 percent in 2010, which is used in the calculation.

5. This approach suggests an overvaluation of Swaziland's REER by 7.4 percent. The exchange rate misalignment is the REER adjustment needed to close the gap between the equilibrium current account and the "underlying" current account. The medium-term (2019) projection of the current account (-2.8 percent of GDP) is taken to be the underlying current account, i.e., the level that would emerge at a zero output gap both for Swaziland and its trading partners. Using Swaziland's specific elasticity (0.28) and also controlling for multi-lateral consistency (a common correction factor to the estimated exchange rate adjustments since there can only be n–1 independent exchange rates among n currencies), this suggests an overvaluation of Swaziland's REER by 7.4 percent.

Equilibrium real exchange rate (ERER) approach

6. The ERER approach,however, suggests some undervaluation. The ERER approach models equilibrium real exchange rate as a function of (projected) medium-term values of fundamentals. The equilibrium REER is then compared with the latest real exchange rate data (February 2014), which suggests an undervaluation of 8.3 percent. It should however be noted that since Swaziland's REER has fallen markedly in recent years, the REER regression-based models are likely to (mistakenly) point to undervaluation, unless they can link the full downward trend of the REER to deteriorating fundamentals. We therefore give more weight to the MB approach.

ERER approach (explaining real exchange rate)	
Terms of trade	0.138***
Relative productivity	0.277****
Relative government consumption	0.700**
Net foreign assets	0.036***
Remittance inflows	0.604****

****, ***, and **indicates significance at the 1%, 5%, and 10% levels.
Source: IMF staff estimates.

External sustainability (ES) approach

7. Under the ES approach, the equilibrium current account is the level that would stabilize the ratio of the net foreign asset position to GDP at its 2010 level (the latest observation). The current account norm, based on medium-term projection for nominal GDP growth, is -0.3 percent of GDP. Comparing this to the projected 2019 current account suggests an overvaluation of the REER at about 11 percent.

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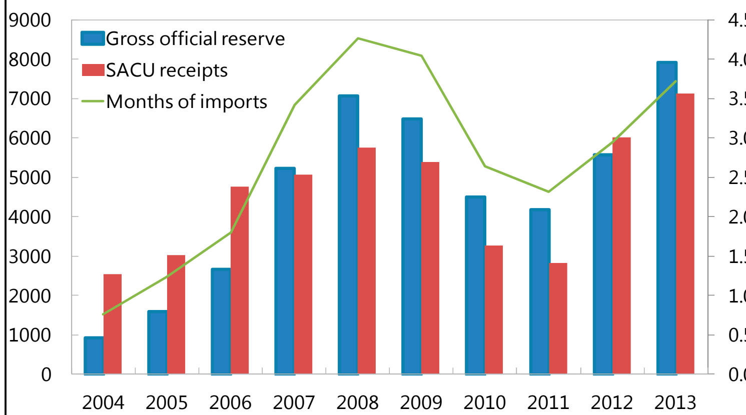
Appendix II. Adequate International Reserves[1]

1. Swaziland's international reserve level has grown rapidly over the past two years with the recovery of the SACU revenue. Reserve coverage dropped to 2.3 months of imports at end–2011, following a sharp decline of SACU receipts over 2010–11. Gross official reserves stood at US$732 million at end-March 2014, or 3.8 months of imports.

Gross official reserve and SACU receipts
(In millions Emalangeni)



Sources: Swazi authorities and IMF staff estimates.

2. Swaziland's international reserves are adequate based on traditional reserve metrics. The current level of reserves is significantly above traditional metrics based on imports, short-term debt and broad money. The traditional metrics, based on simple rules of thumb, certainly have relevance and the attraction of simplicity, but are by their nature arbitrary, and focus only on a particular aspect of vulnerability, and could give disparate results (IMF 2011a).

3. The current international reserves also exceed the level based on the standard IMF metric. This metric is a weighted average of four indicators, and seems to predict exchange market pressure and other crisis events better than traditional metrics (IMF 2011a, 2011b). Specifically, the metric for countries with fixed exchange rate regime is computed as:

Reserve Adequacy

	Billions of emalangen	Percent of 2013 GDP
Traditional metrics		
3 months of imports of goods and services	6.2	18%
100% of short-term debt by residual maturity 1/	1.5	4.4%
20% of broad money	2.2	6.4%
Standard IMF metrics (100%)	4.7	13%
Standard IMF metrics (150%)	7.0	20%
Modified IMF metrics A (100%)	11.4	33%
Modified IMF metrics B (100%)	10.4	30%
Reserve as of March 2014	8.0	23%

1/ One third of long-term private external debt is assumed to be due next year.
Source: IMF staff estimates.

30% of STD+ 15% of OPL + 10% of M2 + 10% of X,

4. Where STD stands for short-term debt by remaining maturity; OPL stands for longer-term debt and equity liabilities; M2 is broad money; and X stands for exports of goods and services. Equity liabilities data are from the (updated) External Wealth of Nation database (Lane and Milesi - Ferretti, 2007), where the latest observation is for 2010 (US$68 million). The suggested reserve coverage is 100 to 150 percent of the metric, and Swaziland's current coverage reaches 184 percent. This metric, however, does not take into account Swaziland specific risks.

[1] Prepared by Yi Wu.

5. Swaziland's own experience suggests that these levels of reserve are not adequate for it to withstand a severe external shock as experienced during 2010–11. Before the crisis, international reserves stood at 4 months of imports, or 24 percent of GDP at end–2009. Yet, the government experienced the fiscal crisis, with marked reduction in spending during 2010–11 (when the SACU revenue declined substantially), and reserve coverage dropped to 2.3 months of imports at end–2011.

6. To incorporate Swaziland-specific risks (regarding the uncertainty associated with the SACU revenue), modified metrics are explored. The variables used in the standard IMF metric are selected based on past episodes of exchange market pressure in emerging markets, where the coefficient assigned to each variable is based on the size of changes for these indicators during those episodes. For Swaziland, the largest shock, the crisis of 2010–11, came as a sharp decline in the SACU revenue. In particular, accumulated decline of SACU revenue during 2010–11 amounted to 94 percent of the SACU revenue before the crisis. In terms of GDP, the SACU revenue declined from 19½ percent in 2009 to 9–10 percent in 2010–11. Using the same concept for the construction of the standard IMF metric, we therefore explore the following two modified metrics which would be more suitable for Swaziland:

- The coefficient of 94 percent for the SACU revenue is used, in light of the changes in the SACU revenue from the pre-crisis level (2009).[2]

  30% of STD+ 15% of OPL + 10% of M2 + 10% of X + 94% of SACU revenue.

- A more conservative coefficient of 80 percent for the SACU revenue is used

  30% of STD+ 15% of OPL + 10% of M2 + 10% of X + 80% of SACU revenue.

7. Maintaining a 100 percent coverage of these metrics would call for international reserves at 33 percent of GDP (5½ months of imports) and 30 percent of GDP (5 months of imports), respectively. Maintaining a 150 percent coverage would call for international reserves at more than 45 percent of GDP (7½ months of imports).

8. Reserve adequacy is further analyzed using a cost-benefit analysis approach. Dabla-Norris et al. (2011) develop a cost-benefit approach to quantify the optimal level of reserves in low-income countries, focusing on the role of reserves in preventing and mitigating absorption drops triggered by large external shocks. Specifically, countries are assumed to maximize the net benefit of holding reserves (NBR):

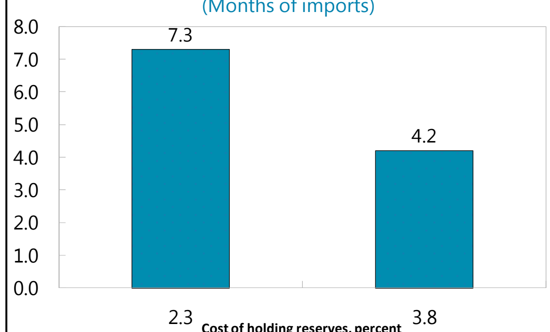
$$\max_{R} \mathrm{NBR} = -\, q * P(R, W) * C(R, Z) - r^{*}R,$$

[2] The SACU revenue declined by 94 percent during the crisis (2010/11– 2011/12, accumulated) from the level of 2009/10.

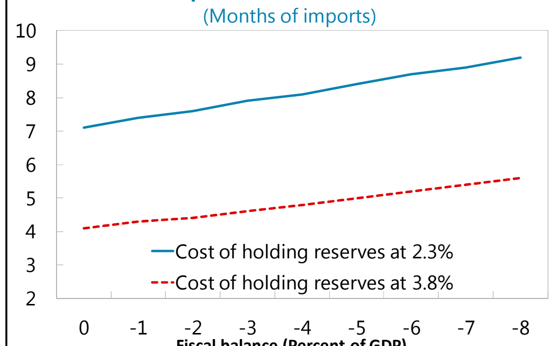
Where *P* and *C* represent, respectively, the conditional probability of a crisis given a large shock event and the utility cost of a crisis—where a crisis is defined by a sharp drop in absorption. Both of these variables depend on reserves *R* and other control variables (*W* and *Z*). The parameters *q* refers to the unconditional probability of a large shock event, which is set to be 0.4 based on the sample average. Large shock events are identified if the annual percentage change of the relevant variable falls below the 10^{th} percentile in the left-tail of the country-specific distribution. In particular, shock episodes include one or more of the following six shocks: external demand, terms-of-trade, FDI, aid flows, remittances, and large natural disasters. Finally, *r* represents the opportunity cost of holding reserves.

9. **Relevant values for Swaziland are derived from historical distributions.** Higher fiscal balance is found to be associated with smaller probability of crisis. We used the estimated fiscal balance for 2013/14. Higher World Bank's CPIA index, a broad indicator of the quality of a country's present policy and institutional framework, is also associated with lower crisis probability. The CPIA index is not available for Swaziland, so we used the value for Lesotho instead. Changes in external demand, terms of trade, FDI and aid to GDP ratio all affect the absorption loss when there is a crisis. For these variables, we used the 10^{th} percentile figure over the past 20 years. The external demand is compiled as the weighted average of real GDP growth of South Africa, the Euro area, and the U.S. using 2005 export share as the weights.

10. **The optimal level of reserves critically depends on the opportunity cost of holding reserves.** The cost is typically defined as the difference between the return on short-term foreign currency assets and the return on more profitable alternative investment opportunities. A common proxy is the interest rate differential between the domestic and U.S. government treasury bills. Currently the real interest rate for the 3-month U.S. T-bill is about -1 percent, and the real T-bill in Swaziland is about 1.3 percent, which implies a cost of holding reserves at about 2.3 percent. This corresponds to an optimal level of reserves equivalent to 7.3 months of imports. If one uses real GDP growth rate as the lost return, then the opportunity cost of holding reserves would be 3.8 percent (using the estimated 2013 growth rate). This corresponds to an optimal level of reserves equivalent to 4.2 months of imports.



Source: IMF staff estimates.



Source: IMF staff's estimates.

11. **The optimal level of reserves also depends on the fiscal balance, among other factors.** Countries with weaker fiscal balance would have to maintain higher reserve buffer. At a fiscal deficit of 5 percent as in the status quo scenario, Swaziland would need to maintain a reserve level equivalent to

5-8½ months of import coverage, depending on the cost of holding reserves.

12. **In conclusion, Swaziland needs to further increase its reserve coverage from the current level to secure sufficient buffer for exogenous shocks.** While there are uncertainties to the exact optimal level of reserves, the analyses using various methodologies suggest that Swaziland should increase its international reserve coverage to 30%-40% of GDP (equivalent to 5-7 months of imports).

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Appendix III. Debt Sustainability Analysis

Though Swaziland's public debt is low, large gross financing needs raise concerns. The debt sustainability analysis (DSA) indicates that, under the baseline scenario, most of the public debt indicators remain below their relevant indicative thresholds over the medium term, although high gross financing needs raises concerns for rollover risks and possible crowding-out of private sector credit. Should the SACU revenue fall significantly (as experienced in 2010–11), the debt level would rise sharply, leaving little scope for absorbing shocks.

Recent Developments

1. **Swaziland's public debt remains low, although it has gradually and continuously risen for the past few years.** The debt increased in nominal terms from 13 percent of GDP in 2009 to nearly 18 percent of GDP in 2013, owing to a large increase in primary deficit (particularly during the fiscal crisis in 2010–2011). Meanwhile, gross financing needs remain high, at about 10 percent of GDP, owing to an increasing reliance on short-term public debt. While improved SACU revenue after the fiscal crisis has relieved pressure on the fiscal front, a fiscal surplus was recorded for 2012 and 2013.

2. **The central government has steadily increased their reliance on domestic debt for its borrowing needs.** In terms of the composition of public debt, the proportion of debt denominated in domestic currency increased over time, reducing exposure to exchange rate risk. The share of domestic debt rose from 11 percent of total public debt in 2009 to about 50 percent in 2013. By the end of 2013, treasury bonds account for around 65 percent of the government's domestic debt. Treasury bills make up the balance of domestic debt, with the 91-days accounting for 41 percent of total treasury bills.

3. **The country's external public debt—primarily in the form of project loans from bilateral and multilateral sources as well as private creditors—is relatively high (51 percent of the total debt), albeit on a declining trend.** While its importance—relative to domestic public debt—has declined, the composition of external public debt has been quite stable over the past few years. Financing from multilateral organizations has accounted for nearly 60 percent of external public debt, while bilateral project loans and loans from private creditors have made up 30 and 10 percent of external public debt, respectively.

Medium Term Public DSA

4. **A heat map suggests that, while the public debt level is not subject to imminent risks, the country faces risks relating to its gross financing needs and debt profile (Figure 1)**. Under the baseline scenario, the gross financing needs would increase continuously and reach 15 percent of GDP benchmark by 2018. All standard macro-fiscal shocks would push the gross financing needs even higher. In particular, the standard primary balance shock and the combined macro-fiscal shock would raise the gross financing needs above the benchmark by 2016. The large share of debt held by non-residents—albeit on a downward trend—also highlights vulnerabilities in the debt profile.

Baseline Scenario

5. The baseline macroeconomic scenario for the DSA is based on the status-quo policies, consistent with the macroeconomic framework underlying the 2014 Article IV Staff Report. Specifically, growth is expected to remain sluggish (at about 2 percent per annum), reflecting low private sector investment. With a prospective decline in the SACU revenue (to a historical average of 17 percent of GDP), the fiscal revenues would slightly decline by 2015 and remain stable around 32 percent of GDP until 2019. Fiscal expenditures would increase by around 3 percentage points of GDP over the same period, taking into account spending pressure arising from the prospective review of wage bills and increasing interest payments. As a result, fiscal deficit is expected to increase by around 5 percentage points of GDP between 2013 and 2019. The realism of this scenario for DSA purposes is assessed in Figure 2. While the forecast errors for Swaziland for real GDP growth and inflation (deflator) have been mostly in line with other countries, those for the primary balance have been relatively larger—mostly reflecting the high uncertainty associated with prospective SACU revenue.

6. The DSA under the baseline scenario indicates that the debt level would stay modest over the medium term, although the fast pace of debt accumulation and the projected increase in gross financing needs raise concerns (Figure 3 and 4). Under the baseline scenario, the expected increase in fiscal deficits would lead to fast accumulation of public debt. The primary deficit averages about 2 percent of GDP during 2014–2019. Gross public debt would reach 30 percent of GDP by 2019. As it is expected to be financed mainly domestically by short- and medium-term treasury bills/bond, gross financing needs are projected to grow continuously, from 10 percent of GDP in 2013 to about 16 percent of GDP in 2019.

7. The alternative scenarios indicate that a prudent fiscal policy stance, if maintained over the medium term, would help to avoid a continuous increase in public debt and a high level of public gross financing needs. Assuming a constant primary balance from 2014 onwards, public gross financing needs would be brought down to around 8 percent of GDP by 2019, and gross public debt would be around 17 percent of GDP. A similar result would be achieved under the historical scenario where the real GDP growth, the primary balance, and the real interest rate are set at their historical averages.

Macro-Fiscal and Additional Stress Tests

8. While public debt dynamics are resilient to several stress tests, high gross financing needs point to emerging risks associated with the maturity structure and crowding out of the private sector credit. The results of the standardized macro-fiscal stress tests do not fundamentally alter the broad outlook for public debt previously discussed.[1] Under all standardized sensitivity cases,

[1] The macro-fiscal stress tests include standard shocks to growth and interest rates, a primary balance shock (a deterioration in the primary balance by a half of its 10-year historical standard deviation), an exchange rate shock (equal to a maximum historical movement over the past 10 years and an estimated exchange rate pass-through of 0.25), and a combined shock.

the public debt-to-GDP ratio nearly reaches 35 percent by the end of the projection period. Nonetheless, the macro-fiscal shocks (especially the primary balance shock) result in a more rapid increase in gross financing needs to around 17 to 19 percent of GDP by end–2019. The rapid increase in gross financing needs could potentially crowd out the private sector credit, as well as posing risks related to the maturity structure and debt roll-over.

9. The customized stress test, which simulates a SACU revenue shock, leads a relatively large increase in both public debt and gross financing needs. Given the heavy reliance on customs and excise revenues from SACU, the macroeconomic outlook is subject to downside risks related to external environment.[2] The customized shock, whereby SACU revenue temporarily falls to 9 percent of GDP in 2017–2018, would increase risks significantly.[3] Gross public debt would be estimated at 49 percent of GDP at end–2019. Moreover, the gross financing needs would exceed the benchmark of 15 percent of GDP by 2016, and reach 25 percent of GDP by 2019.

10. Under the reform scenario, public debt and gross financing needs are projected to be sustainable over the medium term. To strengthen the country's resilience to exogenous shocks, the reform scenario assumes a prudent fiscal policy, together with structural reform to stimulate growth (see main text). Such a fiscal policy stance—largely achieved through reduction in government recurrent expenditures—would also create fiscal space for critical social and development spending. As a result of these reforms, the primary deficit averages about 0.2 percent of GDP during 2014–2019. Public debt would be stabilized around 20 percent of GDP over the projection period, and gross financing needs would stay at a lower level, about 10 percent of GDP on average.

Medium Term External DSA

11. Swaziland's gross external debt has remained low and recently declined slightly from nearly 19 percent of GDP in 2009 to around 17 percent of GDP in 2013. Public external debt accounted for around 52 percent of gross external debt in 2013. Under the baseline assumptions, gross external debt is projected to only slightly increase to about 13 percent of GDP in 2019.

12. Stress tests, while pointing no imminent concerns for external debt trajectory, indicates vulnerability to shocks to the non-interest current account and large exchange rate depreciations. Standardized sensitivity analysis suggests that Swaziland's external debt is resilient to interest rate and growth shocks, but a 30 percent real depreciation would raise the external debt-to-GDP ratio to around 20 percent in 2019. A current account deficit that is 3 percentage points of GDP (one-half standard deviations) larger than projected in the baseline would likely put the country on

[2] Specifically, Swaziland is subject to outward spillovers from exogenous shocks to South Africa's economic performance. In particular, constrained external demand from Europe and the pull back of capital flows could adversely affect South African economy, and thus, result in weaker SACU revenues and terms of trade.

[3] This customized shock is based on the level of SACU revenues during the 2010–11 fiscal crisis, which was 9 percent of GDP.

an unsustainable path, as the external debt-to-GDP ratio would increase to 30 percent by 2019. Thus, moderating the non-interest part of the external current account balance is important for external debt sustainability.

Conclusion

13. Overall, the DSA indicates that, though the debt level is not posed to imminent risks, high gross financing needs and projected pace of debt accumulation raise concerns. Both public debt and external debt are on sustainable trajectories under the baseline scenario, and the results of stress tests indicate that debt dynamics are generally resilient to several shocks over the medium term. Nonetheless, should the expected pace of debt accumulation continue over the longer period, Swaziland could soon face higher debt distress. In addition, the analysis found that the public debt outlook is particularly vulnerable to a shock of SACU revenue. Furthermore, increasing gross financing needs projections—with excessive reliance on short- and medium-term financing—raise concerns for risks associated with distorted maturity structure, debt roll-over, and crowding-out of private sector credit.

14. Addressing these concerns is important for macroeconomic stability over the medium term. As presented in the analysis under the reform scenario, it is important to maintain a prudent fiscal policy stance over the medium term, which would moderate the pace of debt accumulation. Given that the economy has been recovering from the fiscal crisis with the return of confidence, the authorities should take this opportunity to seek diversification of financing sources.

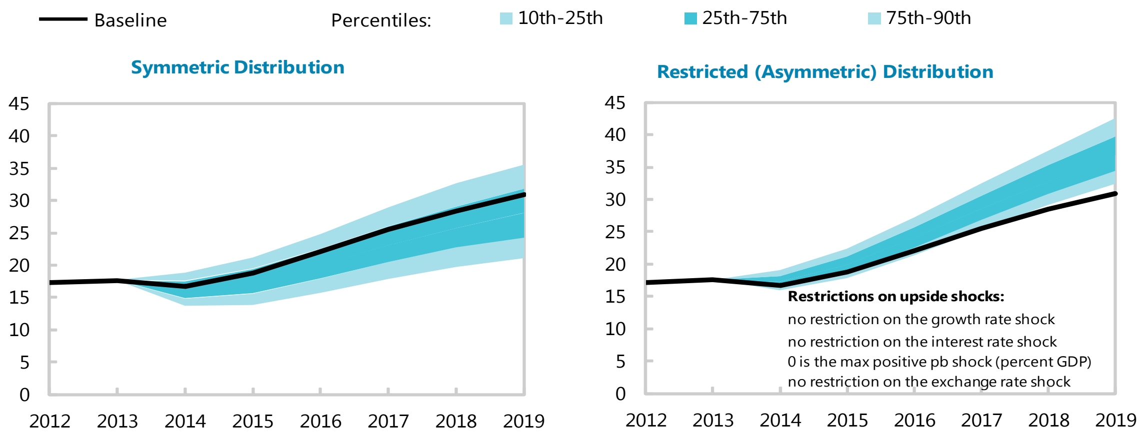
Figure 1: Swaziland Public DSA Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

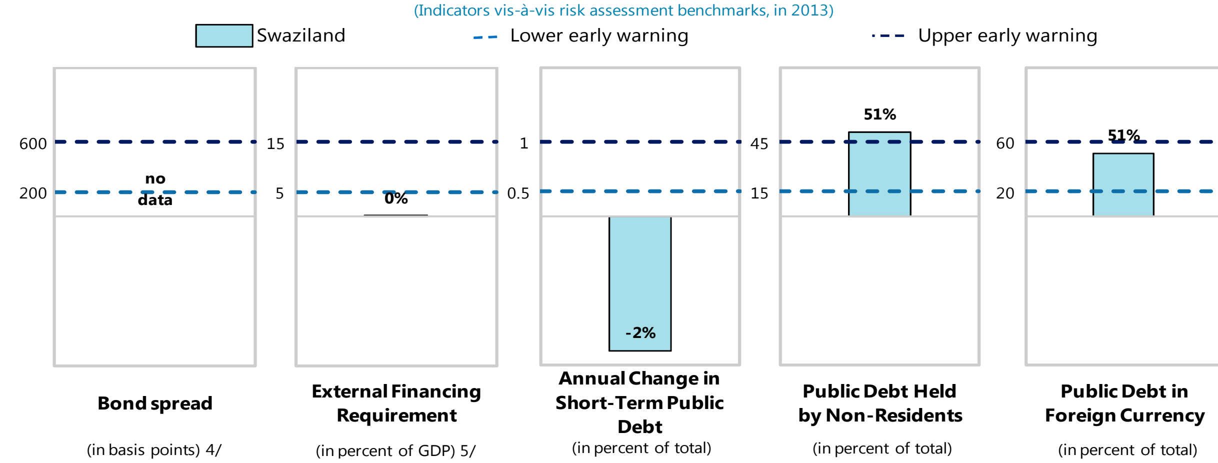
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2013)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

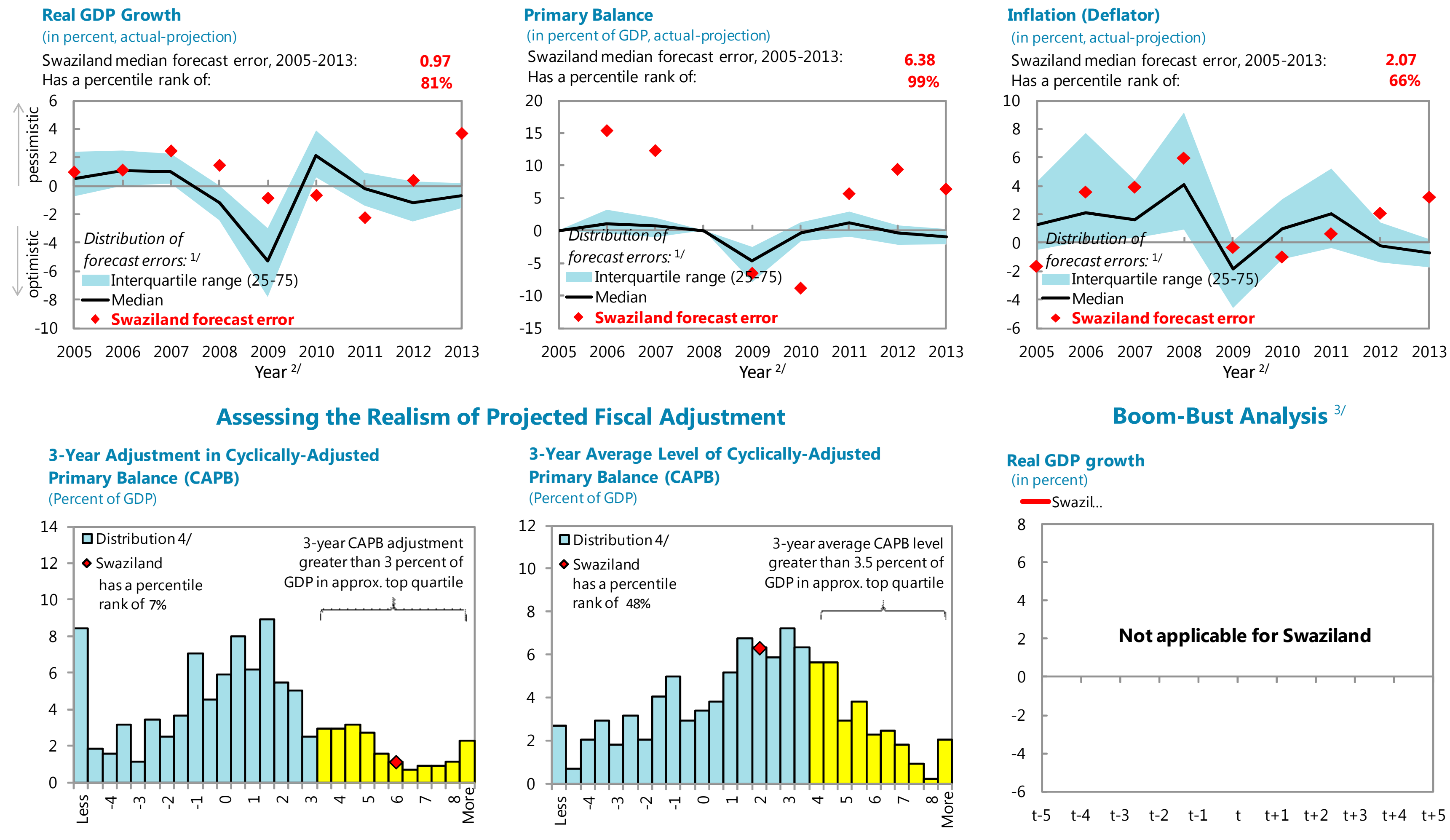
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over German bonds, an average over the last 3 months, 03-Feb-14 through 04-May-14.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 2: Swaziland Public DSA - Realism of Baseline Assumptions

Forecast Track Record, versus surveillance countries



Source : IMF Staff.

1/ Plotted distribution includes surveillance countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Swaziland, as it meets neither the positive output gap criterion nor the private credit growth criterion.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 3: Swaziland Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

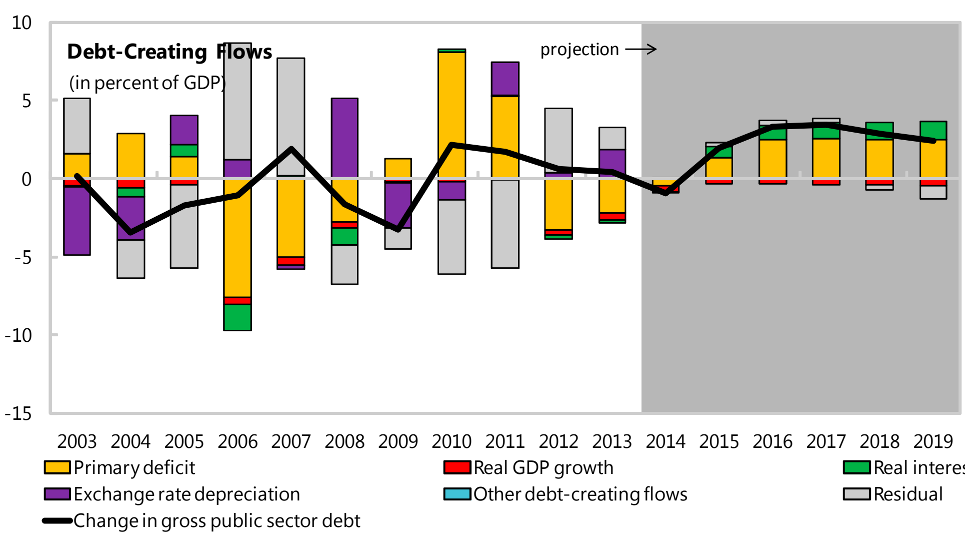
(in percent of GDP unless otherwise indicated)

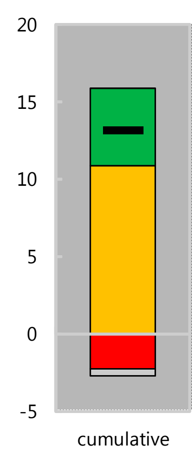
Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of May 04, 2014		
	2003-2011 [2/]	2012	2013	2014	2015	2016	2017	2018	2019	Sovereign Spreads		
Nominal gross public debt	16.7	17.2	17.7	16.7	18.7	22.1	25.6	28.4	30.8	EMBIG (bp) 3/		n.a.
Public gross financing needs	5.4	9.8	10.2	9.6	11.2	11.5	13.1	15.0	16.5	5Y CDS (bp)		n.a.
										Ratings	Foreign	Local
Real GDP growth (in percent)	2.1	1.9	2.8	2.1	2.0	2.1	1.8	1.7	1.7	Moody's	n.a.	n.a.
Inflation (GDP deflator, in percent)	7.7	8.4	7.2	6.5	5.8	5.5	5.3	5.3	5.3	S&Ps	n.a.	n.a.
Nominal GDP growth (in percent)	10.0	10.4	10.2	8.8	7.9	7.7	7.2	7.1	7.1	Fitch	n.a.	n.a.
Effective interest rate (in percent) [4/]	5.9	6.6	6.0	6.7	10.6	11.0	10.5	10.1	9.8			

Contribution to Changes in Public Debt

	Actual			Projections							
	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-0.6	0.6	0.4	-0.9	2.0	3.3	3.5	2.9	2.4	13.2	
Identified debt-creating flows	-0.2	-3.5	-1.0	-0.8	1.7	3.1	3.2	3.2	3.2	13.7	
Primary deficit	0.6	-3.3	-2.2	-0.5	1.3	2.5	2.6	2.5	2.5	10.9	0.7
Primary (noninterest) revenue and gra	31.7	33.2	35.3	35.7	33.9	33.0	33.0	33.0	33.0	201.7	
Primary (noninterest) expenditure	32.3	29.9	33.1	35.3	35.2	35.5	35.6	35.5	35.5	212.6	
Automatic debt dynamics [5/]	-0.7	-0.2	1.2	-0.3	0.4	0.6	0.7	0.7	0.7	2.8	
Interest rate/growth differential [6/]	-0.6	-0.6	-0.6	-0.3	0.4	0.6	0.7	0.7	0.7	2.8	
Of which: real interest rate	-0.3	-0.3	-0.2	0.0	0.7	0.9	1.1	1.1	1.2	5.0	
Of which: real GDP growth	-0.3	-0.3	-0.4	-0.3	-0.3	-0.4	-0.4	-0.4	-0.5	-2.2	
Exchange rate depreciation [7/]	-0.1	0.4	1.9	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net privatization proceeds (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euro	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	-0.4	4.2	1.4	-0.1	0.3	0.3	0.2	-0.3	-0.8	-0.5	





Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

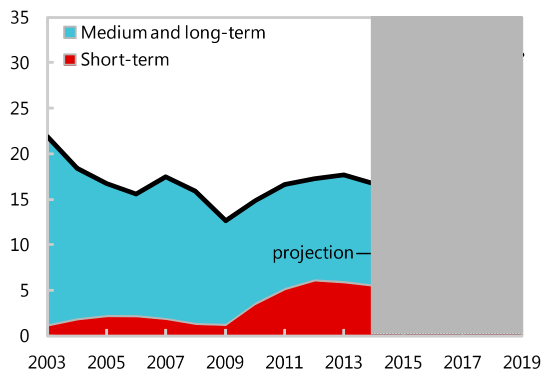
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

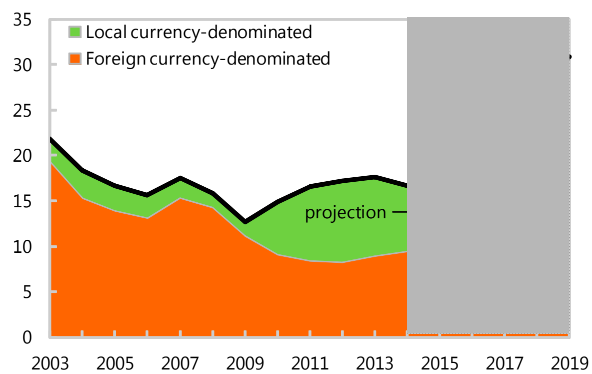
Figure 4: Swaziland Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



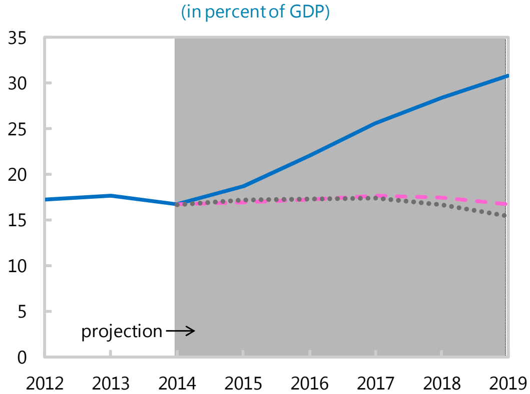
By Currency
(in percent of GDP)



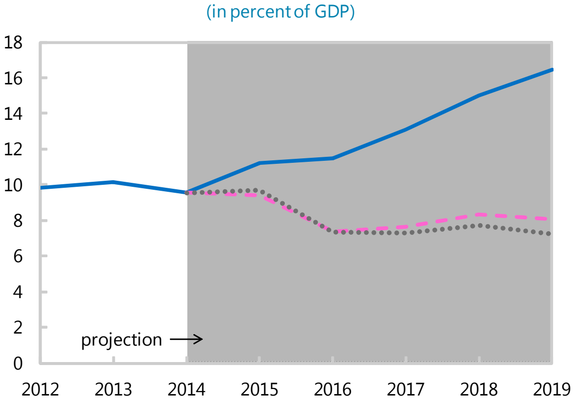
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

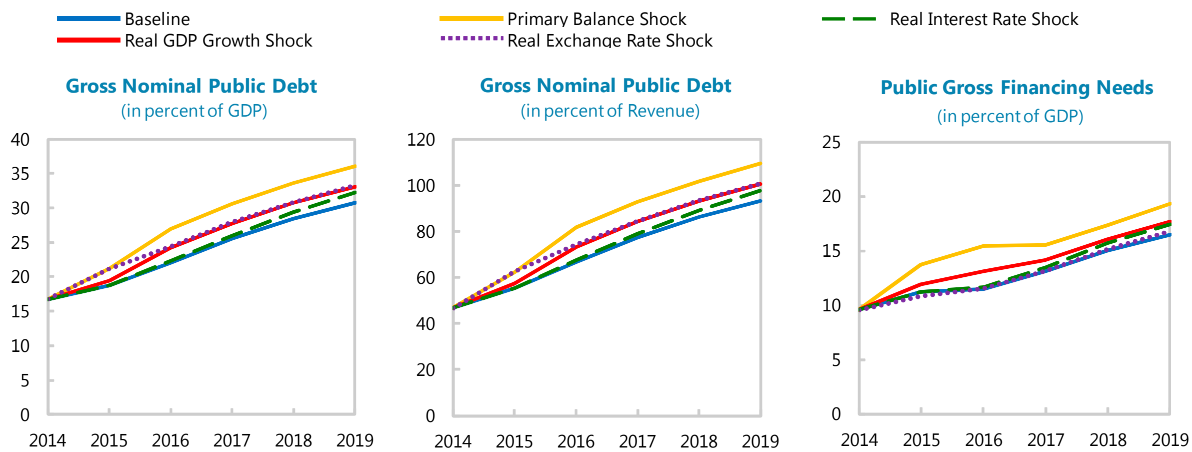
Baseline Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	2.1	2.0	2.1	1.8	1.7	1.7
Inflation	6.5	5.8	5.5	5.3	5.3	5.3
Primary Balance	0.5	-1.3	-2.5	-2.6	-2.5	-2.5
Effective interest rate	6.7	10.6	11.0	10.5	10.1	9.8
Constant Primary Balance Scenario						
Real GDP growth	2.1	2.0	2.1	1.8	1.7	1.7
Inflation	6.5	5.8	5.5	5.3	5.3	5.3
Primary Balance	0.5	0.5	0.5	0.5	0.5	0.5
Effective interest rate	6.7	10.6	11.4	11.4	11.1	10.9

Historical Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	2.1	2.2	2.2	2.2	2.2	2.2
Inflation	6.5	5.8	5.5	5.3	5.3	5.3
Primary Balance	0.5	0.2	0.2	0.2	0.2	0.2
Effective interest rate	6.7	10.6	8.2	7.8	6.7	6.4

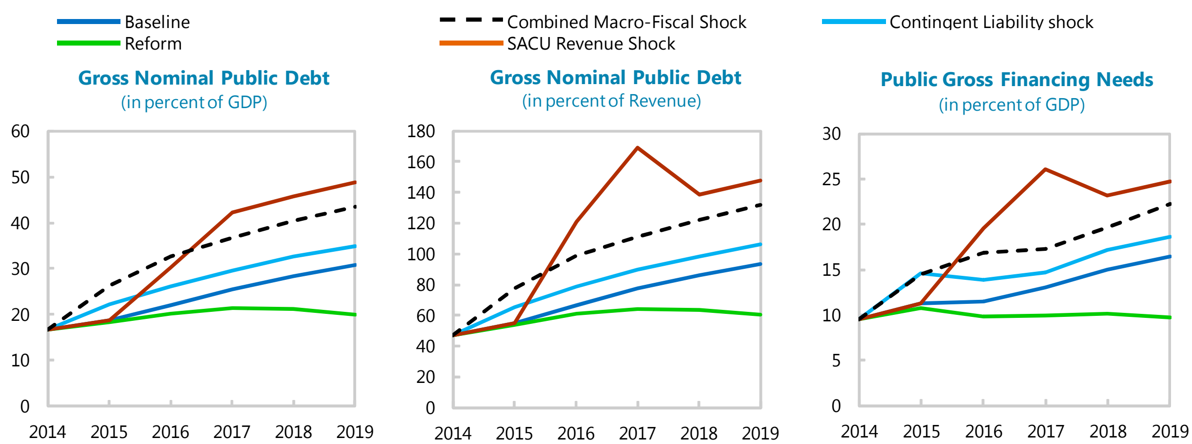
Source: IMF staff.

Figure 5: Swaziland Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2014	2015	2016	2017	2018	2019
Real GDP growth	2.1	2.0	2.1	1.8	1.7	1.7
Inflation	6.5	5.8	5.5	5.3	5.3	5.3
Primary balance	0.5	-3.8	-4.9	-2.6	-2.5	-2.5
Effective interest rate	6.7	10.6	10.9	10.4	10.0	9.6
Real Interest Rate Shock						
Real GDP growth	2.1	2.0	2.1	1.8	1.7	1.7
Inflation	6.5	5.8	5.5	5.3	5.3	5.3
Primary balance	0.5	-1.3	-2.5	-2.6	-2.5	-2.5
Effective interest rate	6.7	10.6	12.2	11.9	11.8	11.5
Combined Shock						
Real GDP growth	2.1	0.8	0.9	1.8	1.7	1.7
Inflation	6.5	5.5	5.2	5.3	5.3	5.3
Primary balance	0.5	-3.8	-4.9	-2.6	-2.5	-2.5
Effective interest rate	6.7	12.5	10.9	10.9	10.9	10.9
Reform						
Real GDP growth	2.1	1.8	2.4	3.0	3.5	4.0
Inflation	6.5	5.8	5.5	5.3	5.3	5.3
Primary balance	0.5	-0.9	-1.2	-0.4	0.2	0.5
Effective interest rate	6.7	10.6	11.1	10.8	10.5	10.3

Real GDP Growth Shock	2014	2015	2016	2017	2018	2019
Real GDP growth	2.1	0.8	0.9	1.8	1.7	1.7
Inflation	6.5	5.5	5.2	5.3	5.3	5.3
Primary balance	0.5	-1.8	-3.5	-2.6	-2.5	-2.5
Effective interest rate	6.7	10.6	11.0	10.5	10.0	9.7
Real Exchange Rate Shock						
Real GDP growth	2.1	2.0	2.1	1.8	1.7	1.7
Inflation	6.5	18.0	5.5	5.3	5.3	5.3
Primary balance	0.5	-1.3	-2.5	-2.6	-2.5	-2.5
Effective interest rate	6.7	12.5	10.1	9.8	9.5	9.3
Contingent Liability Shock						
Real GDP growth	2.1	0.8	0.9	1.8	1.7	1.7
Inflation	6.5	5.5	5.2	5.3	5.3	5.3
Primary balance	0.5	-4.0	-2.5	-2.6	-2.5	-2.5
Effective interest rate	6.7	14.0	10.9	10.3	10.0	9.6
SACU Revenue Shock						
Real GDP growth	2.1	2.0	1.0	0.9	1.7	1.7
Inflation	6.5	5.8	5.5	5.3	5.3	5.3
Primary balance	0.5	-1.3	-10.5	-10.6	-2.5	-2.5
Effective interest rate	6.7	10.6	11.0	10.6	10.4	9.8

Source: IMF staff.

Table 1: Swaziland External Debt Sustainability Framework, 2009-2019
(In percent of GDP, unless otherwise indicated)

		Actual							Projections						
		2009	2010	2011	2012	2013	10-Year Historical Average	10-Year Standard Deviation	2014	2015	2016	2017	2018	2019	Debt-stabilizing non-interest current account 6/
1	**Baseline: External debt**	18.6	18.2	15.5	14.2	17.2			**17.7**	**17.1**	**16.1**	**15.1**	**14.2**	**13.3**	**-1.6**
2	Change in external debt	2.7	-0.4	-2.7	-1.3	3.0			0.4	-0.5	-1.0	-1.0	-0.9	-0.9	
3	Identified external debt-creating flows (4+8+9)	10.5	3.2	4.6	-5.8	-6.8			-3.6	-2.6	-1.7	-0.5	-0.1	0.7	
4	Current account deficit, excluding interest payments	12.4	9.0	7.2	-4.6	-6.7			-2.2	-1.4	-0.4	0.7	1.2	2.0	
5	Deficit in balance of goods and services	15.3	14.4	14.8	12.5	8.3			8.8	8.1	8.1	9.4	10.1	11.0	
6	Exports	58.8	53.0	53.2	53.5	55.7			54.4	53.2	52.1	49.8	48.3	46.5	
7	Imports	74.1	67.4	67.9	66.1	64.0			63.2	61.3	60.2	59.2	58.4	57.6	
8	Net non-debt creating capital inflows (negative)	-1.9	-3.4	-2.5	-2.4	-1.7			-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	
9	Automatic debt dynamics 1/	0.0	-2.4	-0.2	1.2	1.6			0.5	0.6	0.6	0.6	0.6	0.6	
10	Contribution from nominal interest rate	0.7	1.0	0.9	0.8	0.7			0.8	0.9	0.9	0.9	0.8	0.8	
11	Contribution from real GDP growth	-0.2	-0.3	0.1	-0.3	-0.4			-0.4	-0.3	-0.3	-0.3	-0.2	-0.2	
12	Contribution from price and exchange rate changes 2/	-0.6	-3.1	-1.2	0.7	1.4			...	...	...	...	...	...	
13	Residual, incl. change in gross foreign assets (2-3) 3/	-7.8	-3.6	-7.3	4.5	9.8			4.0	2.1	0.6	-0.5	-0.8	-1.6	
	External debt-to-exports ratio (in percent)	31.7	34.3	29.1	26.5	31.0			32.4	32.2	30.9	30.4	29.4	28.7	
	Gross external financing need (in billions of US dollars) 4/	450.8	1429.3	731.0	-28.4	5.7			113.0	154.0	194.6	243.1	265.6	306.5	
	in percent of GDP	14.2	36.7	17.6	-0.7	0.1			2.9	3.8	4.6	5.5	5.8	6.4	
	Scenario with key variables at their historical averages 5/								**17.7**	**20.6**	**21.8**	**22.1**	**21.9**	**21.2**	**-2.7**
	Key Macroeconomic Assumptions Underlying Baseline														
	Real GDP growth (in percent)	1.2	1.9	-0.6	1.9	2.8	2.2	1.2	2.1	2.0	2.1	1.8	1.7	1.7	
	GDP deflator in US dollars (change in percent)	3.7	20.3	7.4	-4.3	-8.8	5.7	11.2	-0.8	2.8	2.3	2.5	2.5	2.5	
	Nominal external interest rate (in percent)	4.9	6.5	5.4	4.9	4.5	5.3	0.7	5.0	5.5	5.6	5.7	5.7	5.8	
	Growth of exports (US dollar terms, in percent)	4.1	10.4	7.0	-1.8	-2.6	1.6	9.5	-1.0	2.5	2.3	-0.3	1.0	0.5	
	Growth of imports (US dollar terms, in percent)	5.5	11.5	7.5	-5.2	-9.3	2.9	8.8	0.1	1.7	2.5	2.6	2.8	2.8	
	Current account balance, excluding interest payments	-12.4	-9.0	-7.2	4.6	6.7	-3.0	6.4	2.2	1.4	0.4	-0.7	-1.2	-2.0	
	Net non-debt creating capital inflows	1.9	3.4	2.5	2.4	1.7	2.2	1.5	1.8	1.8	1.8	1.8	1.8	1.8	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

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

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

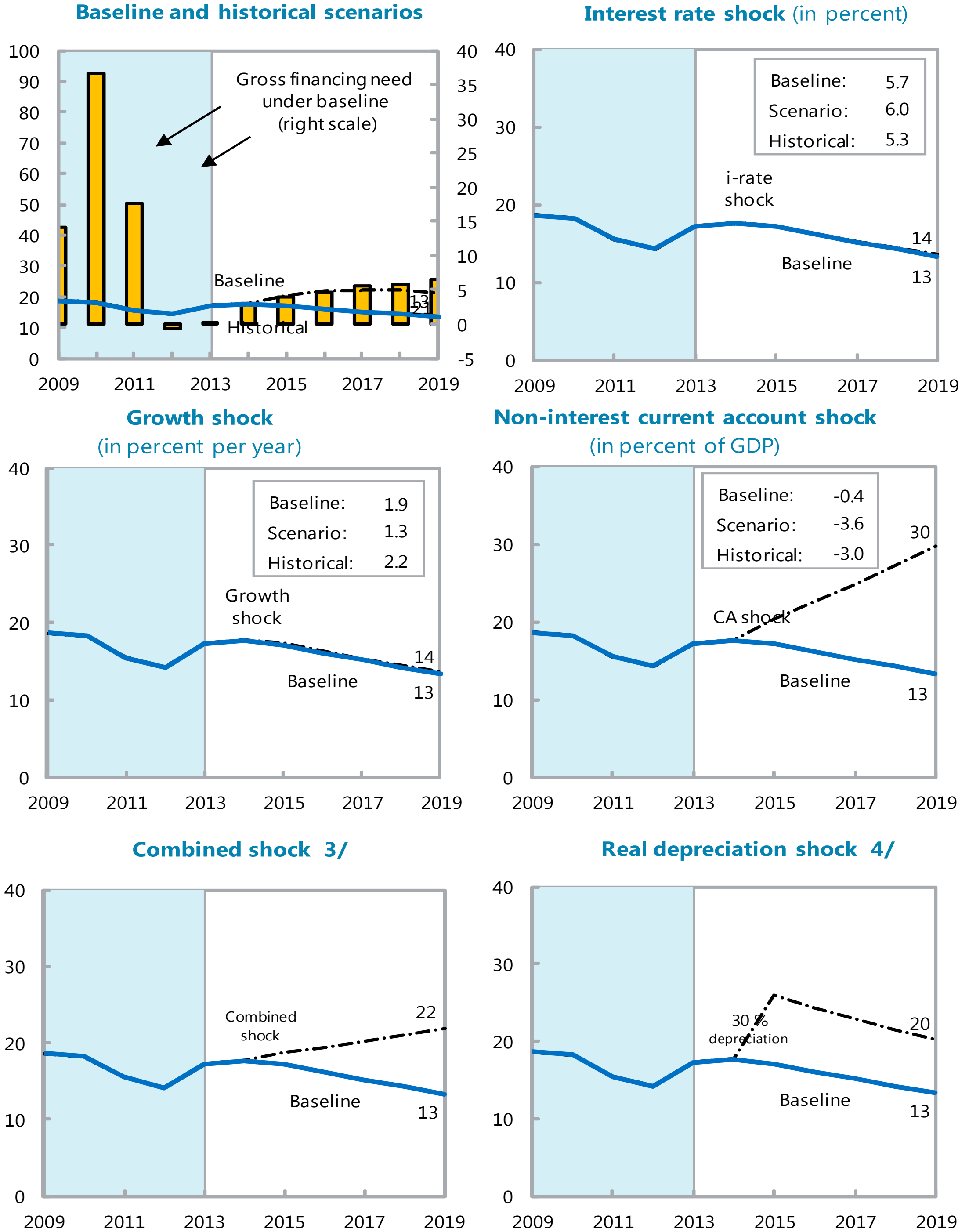
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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

Table 2: Swaziland External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



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

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2015.

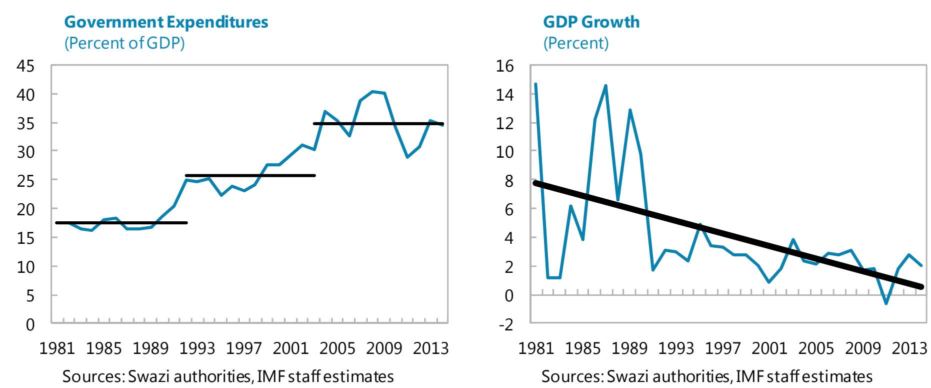
Appendix IV. Fiscal Multiplier in Swaziland[1]

For the past two decades potential growth has continually decelerated in Swaziland. Although the government has significantly expanded its outlays, they seem to have had a low impact on growth. The estimations suggest the fiscal multiplier in Swaziland is about 0.1. To increase the growth impact of public spending, the authorities could favor capital as opposed to current expenditures and improve public financial management.

A. Introduction

1. **For the past three decades the government pursued expansionary fiscal policies, while trend growth has continually decelerated**. In the early 80's growth averaged about 8 percent and thereafter it has continually decreased. Potential growth is currently estimated to be around 2 percent. At the same time the government pursued expansionary fiscal policies, as it increased its spending by about 20 percentage points of GDP in the past two decades.

Figure 1. Growth and Expenditures



2. **Against this backdrop of increasing expenditures and decelerating growth, it appears that public spending in Swaziland has a low growth impact**. This note estimates the effect of discretionary fiscal policy shocks on output (the so-called fiscal multiplier) and discusses some policy options to increase the output effect of public spending.

[1] Prepared by Jose Torres.

B. Literature Review

3. The fiscal multiplier is typically estimated using one of three competing methodologies. General equilibrium models (DSGE) as in Christiano et. al. (2011), structural vector autoregressions (SVAR) as in Blanchard and Perotti (2002), or with the so-called narrative approach (event analysis) as in Romer and Romer (2010).

4. There is no consensus on how to estimate the fiscal multiplier, as each of the above techniques has its own merits and pitfalls. The main drawback from the DSGEs is that the fiscal multiplier is ultimately determined by the assumptions and the calibration of the model. The narrative approach, intends to capture the effects of specific unexpected policy changes, however it typically suffers from endogeneity issues. SVARs are specifically designed to control for the automatic responses of endogenous variables, but require identification assumptions to recover the structural shocks.

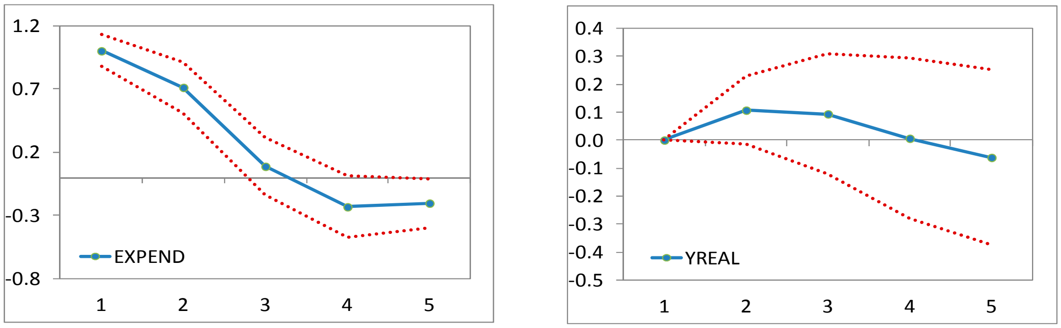
5. Empirical estimates of the fiscal multiplier tend to vary with country characteristics. Ilzetzki et. al. (2013) show that the multiplier tends to be larger in industrial than in emerging economies; under predetermined exchange rate regimes and zero with flexible exchange rates; smaller in economies that are more open to trade; and might even be negative in highly indebted countries. Moreover as shown by Auerbach and Gorodnichenko (2012), the multiplier also varies for a given country, depending on the state of the economy (larger during downturns).

C. Estimation of Fiscal Multiplier in Swaziland

6. This section presents some estimates of the multiplier for Swaziland, using a traditional SVAR approach. It should be noted, however, that given the severe data limitations, the exercise can only be conducted with annual data which casts some doubt on the identified structural fiscal shocks. Thus, the estimates should be interpreted with care.

7. The estimation includes two endogenous variables (real GDP and real government primary expenditures) and one exogenous variable (South Africa's real GDP) to control for the external environment. The estimation sample is from 1980 to 2013 and uses three lags (with less lags the errors have some residual autocorrelation, and with higher lags the results are similar). As explained above, since government spending affects GDP but output developments might also affect economic spending, the structural shocks are recovered with the standard assumption that real GDP shocks do not have a contemporaneous effect on fiscal policy.

Figure 2. Response to an Exogenous Unit Shock to Total Expenditures



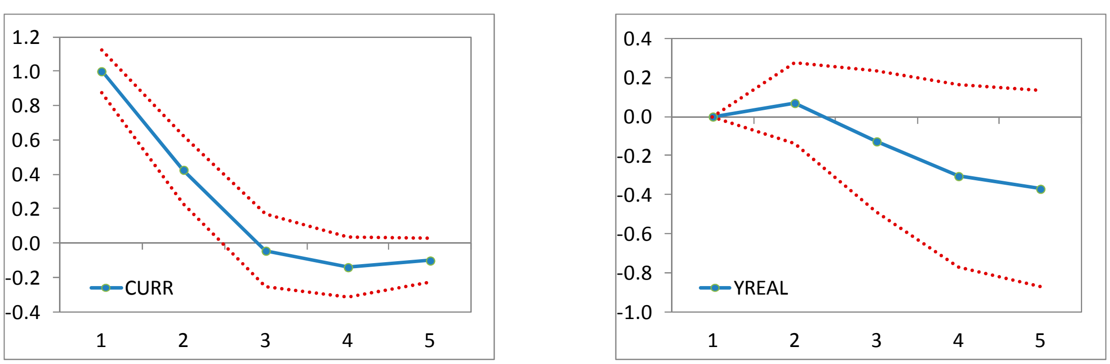
Sources: Swazi authorities, IMF staff estimates.

8. The expenditure multiplier in Swaziland is close to 0.1. The response to an exogenous shock to total expenditures (normalized to unity) is presented in Figure 2. As explained in Battini et. al. (2014), the effect vanishes after some periods (left panel), and has an inverted U shape with the maximum impact occurring in the second period (right panel). More precisely, after three periods the ratio of the accumulated response of output to the accumulated increase in spending (the fiscal multiplier) is around 0.1.

D. Factors Contributing to a Low Fiscal Multiplier in Swaziland

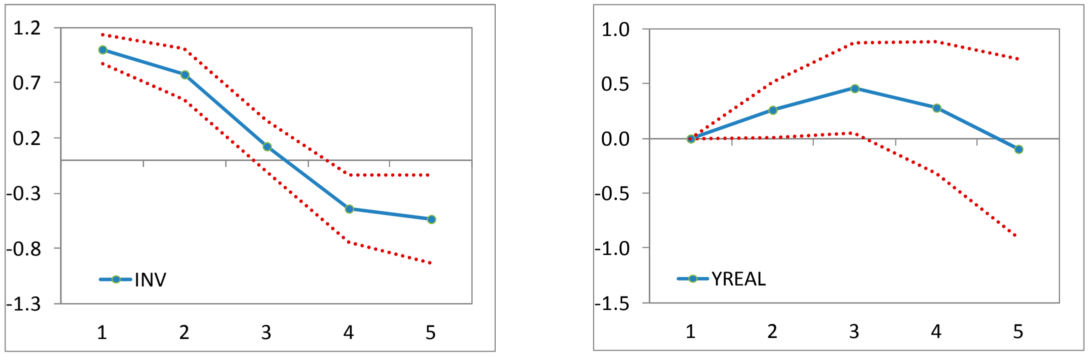
9. The composition of expenditures plays an important role in determining the effects of fiscal stimulus. The response to normalized shocks to current expenditures and public investment are presented in Figure 3 and Figure 4. Both shocks last about three periods, but the multipliers are 0.05 and 0.5, respectively. These estimates are broadly consistent with the work of Ilzetzki et. al. (2013). They find that in emerging markets spending multipliers range from 0.1 to 0.3, explained by a government consumption multiplier of zero and a public investment multiplier of 0.6. Moreover, as can be observed in Figure 5, the increase in government expenditures in the past three decades in Swaziland has also been accompanied by a decline in the share of public investment (which would tend to lower the size of the multiplier).

Figure 3. Response to an Exogenous Unit Shock to Current Expenditures



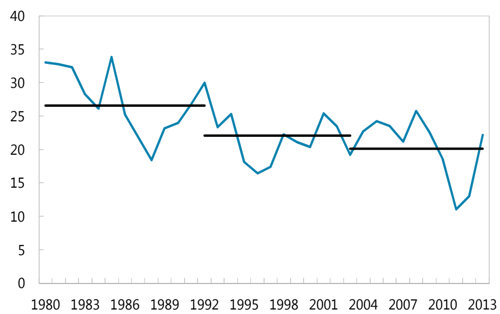
Sources: Swazi authorities, IMF staff estimates.

Figure 4. Response to an Exogenous Unit Shock to Public Investment



Sources: Swazi authorities, IMF staff estimates.

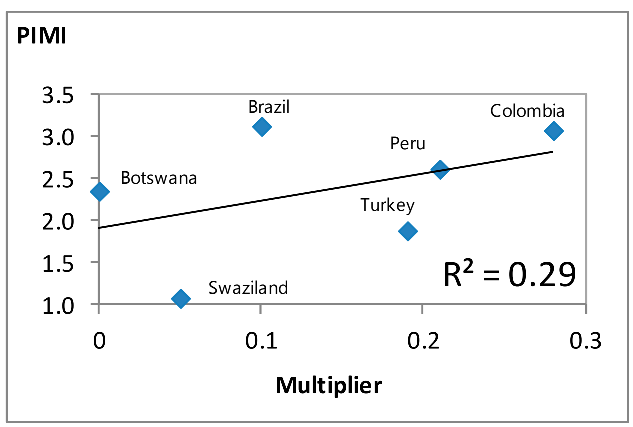
Figure 5. Share of public investment to total expenditures



Sources: Swazi authorities, IMF staff estimates.

10. The efficiency of public spending is correlated with the quality of public investment management (PIM). Arizala (2014) estimates fiscal multipliers using a panel SVAR for a sample of 40 emerging and advanced economies, and finds that the quality of public investment management (PIM), as measured by the Public Investment Management Index of Dabla-Norris et. al. (2011), is positively correlated with the size of the spending multiplier) as presented in Figure 6. The PIM index is based on the public expenditure and financial accountability assessments (PEFA) from the World Bank. Table 1 presents the components of the PIM Index for SADC countries. Swaziland is among the lowest in the region, and moreover performs poorly in all sub-categories, which reflects a poor institutional environment underpinning public spending.

Figure 6. PIM Efficiency Index and Spending Multiplier



Sources: Dabla-Norris et al. (2012) and Arizala (2014).

Table 1: Components of PIM Index for SADC Countries					
	PIMI	Appraise	Select	Implement	Evaluate
South Africa	3.5	4.0	4.0	2.8	3.3
Botswana	2.4	3.0	2.4	2.0	2.0
Lesotho	1.9	2.8	2.0	0.8	2.0
Zambia	1.9	1.5	2.8	1.9	1.3
Malawi	1.9	2.3	1.6	2.1	1.3
Namibia	1.8	0.5	2.8	1.6	2.3
Mozambique	1.6	0.3	2.0	2.8	1.3
Tanzania	1.4	0.3	1.6	2.3	1.3
Swaziland	1.1	1.3	1.6	1.1	0.3

Source: Dabla-Norris et al. (2012)

11. Other factors may have also contributed to the low multiplier in Swaziland. As explained in Battini et. al. (2014), more open economies tend to have lower multipliers and Swaziland is in the 80th percentiles of the world distribution of openness to trade (with exports and imports around 50 and 70 percent of GDP). Such a high degree of openness results from the customs union with South Africa, which has an economy that is one hundred times larger than that of Swaziland. As a result, the industrial base in Swaziland is small and relatively underdeveloped.

E. Conclusions

12. The growth effect of public spending is low in Swaziland and several factors may explain this result. First, although expenditures have risen significantly during the last two decades, an increasing share has been allocated for recurrent rather than capital spending. Secondly, a relatively weak public investment management has lowered the efficiency of spending. Finally, Swaziland's high propensity to import and its limited industrial base has resulted in a foreign demand leakage of fiscal spending. Thus, to improve the fiscal multiplier, it would be helpful to allocate higher weight to capital expenditures; improve the quality of PFM; and enhance the industrial base to reduce the dependency on imports.

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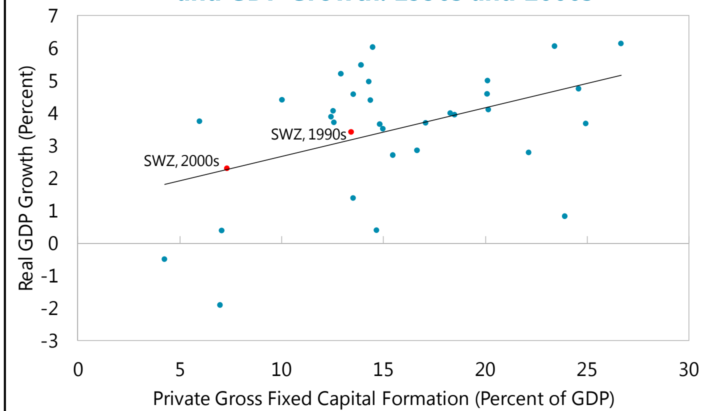
Appendix V. Causes of Low Private Sector Investment[2]

1. **Swaziland faces critical challenges to improve its growth performance.** The slowdown in economic growth—observed in the past decades—has been apparently associated with its inability to maintain private investment crucial for sustainable economic development (Figure 1). A couple of structural factors—some of which are also discussed in the World Bank's resent paper on growth in Swaziland (World Bank, 2014)—are identified behind these private sector developments.

Figure 1: Average Private Fixed Capital Formation and GDP Growth: 1990s and 2000s



Sources: IMF WEO, staff calculations.
Sample: Non-oil exporting middle income contries in North and Sub-Saharan Africa.

2. **First, relatively weak business environments in Swaziland have undermined private sector development, as recognized in the Economic Recovery Strategy (ERS) and the Investor Road Map (IRM)**. According to the World Bank's 2014 Doing Business Indicators, Swaziland is ranked 123rd out of 189th countries on the ease of doing business. Although some indicators show relatively good performance (e.g. dealing with construction permit and paying taxes), Swaziland ranks 172th and 176th on the ease of starting business and contract enforcement, respectively.[3] Though efforts have been made to formulate strategies (e.g., the Investor Road Map and the Economic Recovery Strategy) to enhance private sector development, their implementation has been limited.[4]

Table 1: World Bank's Doing Business Indicators (2014)

	Ease of Doing Business	Starting a Business	Dealing with Construction Permits	Getting Electricity	Getting Credit	Protecting Investors	Paying Taxes	Enforcing contracts	Resolving Insolvency
South Africa	41	64	26	150	28	10	24	80	82
Botswana	56	96	69	107	73	52	47	86	34
Namibia	98	132	31	72	55	80	114	69	85
Swaziland	123	172	51	163	55	128	59	176	68
Lesotho	136	89	145	136	159	98	101	144	104
Mozambique	139	95	77	171	130	52	129	145	148
Zimbabwe	170	150	170	157	109	128	142	118	156

Source: World Bank's Doing Business (2014).

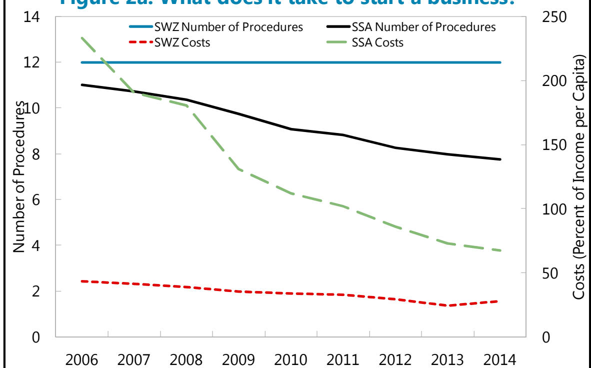
[2] Prepared by La-Bhus Fah Jirasavetakul.

[3] These indicators should be interpreted with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints and information availability.

[4] The recent achievements in the business climate reforms include: the introduction of VAT in 2012 (replacing the general sales tax) and the amendments of the Trade Licensing Act and the Shop Trading Hours Act in 2011.

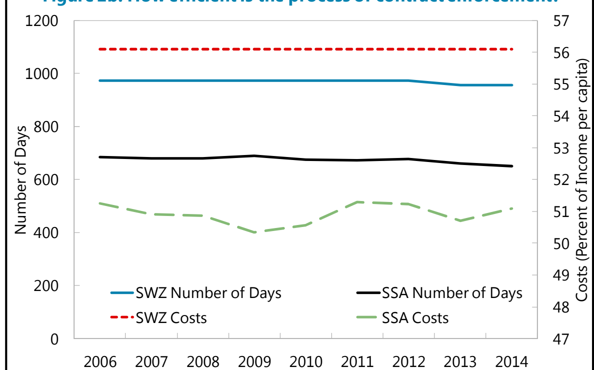
- Starting a business in Swaziland is more difficult, relative to the average of Sub-Saharan African countries. The number of procedures to legally start and operate a company in Swaziland has remained relatively high, and there has been no improvement in the costs of starting a business, while Sub-Saharan African countries, on average, have made progress. Meanwhile, contract enforcement in Swaziland—an indicator for the protection of investor rights—is quite slow (it takes about 952 days to enforce contracts) and costly (56.1 percent of the claim).

Figure 2a: What does it take to start a business?



Source: World Bank Doing Business (2014).

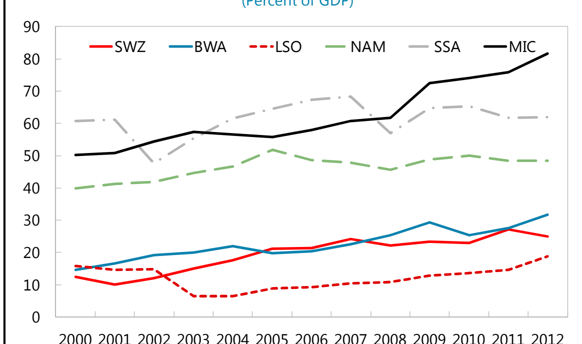
Figure 2b: How efficient is the process of contract enforcement?



Source: World Bank Doing Business (2014).

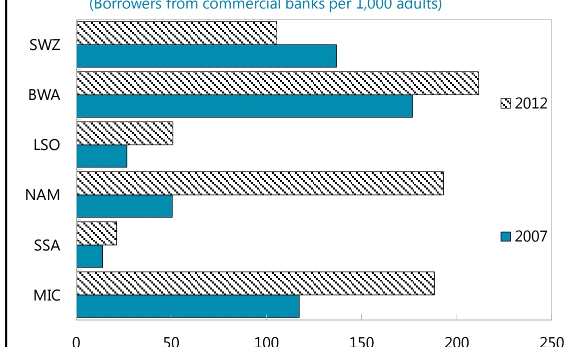
- Furthermore, the World Economic Forum's 2014 Global Competitiveness Indicators suggest that the major constraints to doing business in Swaziland are inefficient government bureaucracy, corruption, and access to financing. Particularly, relatively low domestic credit to private sector and the decline in access to finance suggest a potential room to improve credit, and thus, private sector activities.

Figure 3a: Domestic Credit to the Private Sector
(Percent of GDP)



Source: World Bank.

Figure 3b: Access to Credit
(Borrowers from commercial banks per 1,000 adults)

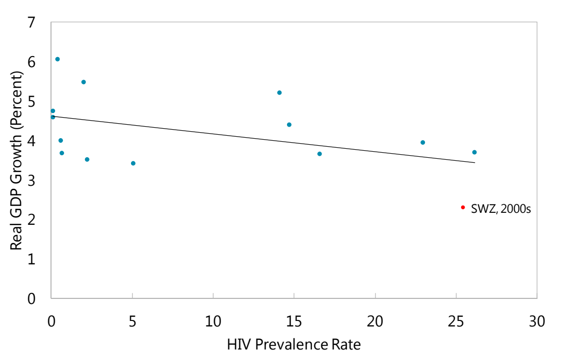


Source: World Bank.

3. **Second, macroeconomic uncertainties and prolonged weak growth performance may have also adversely affected investor confidence.** The recent fiscal crisis has proven Swaziland's vulnerability to exogenous shocks which has likely increased investors' perceived macroeconomic risks. Furthermore, with prolonged weak growth performance, the expected returns from investment are likely undermined. Swaziland seems to be trapped in a "vicious cycle," with sluggish growth prospects leading to low private investment, which in turn lowers the growth potential.

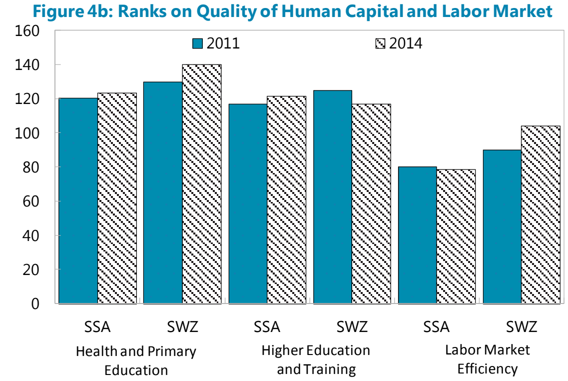
4. Third, high HIV/AIDS prevalence and slow progress on human development also appears to hold back investment and economic growth, while the recent improvement in medical treatment may mitigate some of the adverse effects of HIV/AIDS. The impact of the HIV/AIDS epidemic (prevalence rate is estimated at around 26.5 percent of adults ages 15−49 for 2012 (UNAIDS, 2013)) has resulted in high mitigation costs, absenteeism, and loss of human capital, which has adversely affected labor productivity and lowered the returns to investment (Simtowe et al., 2011; and Asiedu et al., 2012). This together with the low levels of human capital—as measured by the quality of education and training and labor market efficiency—may be possible factors behind skills mismatch, and high unemployment (IMF, 2013). Skills mismatch and structural unemployment could, in turn, restrict investment in new sectors with high growth potential. Going forward, however, as the HIV/AIDS prevalence rate has stabilized, and medical treatment options have recently improved, economic costs associated with HIV/AIDS are likely to be lowered, mitigating the adverse impacts on growth and private sector investments.

Figure 4a: HIV Prevalence Rate and GDP Growth: 2000s



Sources: IMF WEO, World Bank, and staff calculations.

Figure 4b: Ranks on Quality of Human Capital and Labor Market



Source: World Economic Forum (2014).

5. Fourth, some rigidities in land markets may have adversely affected private sector developments. Based on discussions with the Swaziland Investment Promotion Authority and investors, the World Bank (2014) identified tremendous demand from private sector investors for land. However, some features seem to prevent greater investment in the sector and a more efficient use of land. These include: (i) lack clarity and documentation of Swazi Nation Land (SNL) smallholders, which may limit some room to negotiate a more effective use of the land and may lower the incentives to invest in productivity-enhancing technology; (ii) limited access to credit, fragmentation and coordination problems for SNL smallholders, and (iii) unclear legal framework governing commercial investors' access to land. Creating a clear, transparent legal and regulatory framework for commercial investors and supporting new initiatives in SNL can lead to higher and more sustained levels of investment in the sector. Therefore, improvements in land governance and management can help attract investment into agriculture and reinvigorate growth in the sector and the overall economy. The Draft Land Policy (2009)—an initial step towards providing a practical framework to deal with these issues, though further consensus is required—has been prepared but not approved by the Parliament. This, in addition, has led to private investors' perceived uncertainty in land policies and markets.

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INTERNATIONAL MONETARY FUND

KINGDOM OF SWAZILAND

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

June 25, 2014

Prepared By

Staff of the International Monetary Fund in Consultation with the World Bank.

CONTENTS

RELATIONS WITH THE FUND

As of May 31, 2014

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	48.74	100.93

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				
	2014	2015	2016	2017	2018
Principal					
Charges/Interest		0.00	0.00	0.00	0.00
Total		0.00	0.00	0.00	0.00

[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 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 May 28, 2014 was E1 = US$0.095. Swaziland maintains an exchange restriction subject to Fund approval under Article VIII arising from a 50 percent limit on the provision for advance payments for the import of capital goods in excess of 10 million emalangeni.

Article IV Consultation

The last Article IV Consultation was concluded on February 8, 2013. Swaziland is on the standard 12 month Article IV Consultation cycle.

Technical assistance (2011-present)

Department	Purpose	Date of delivery	Beneficiary Agency
FAD	Organization Ministry of Finance	February 2011	MoF[1]
	PFM Act	May 2012	MoF
		August 2012	
		October 2012	
		January 2014	
	MTFF/Budget	March 2013	MoF
		May 2013	
		July 2013	
		August 2013	
		December 2013	
		January 2014	
	TPA TTF	December 2011	MoF
		April 2012	
		May 2013	
		February 2014	
	Chart of accounts	June 2013	MoF
		August 2013	
		January 2014	
	Customs revenue administration	October 2012	SRA[2]
	Tax Administration	July 2012	SRA
		October 2012	
		August 2013	
		December 2013	
MCM	Insurance supervision	January 2011	FSRA[3]
		March 2011	
		November 2011	
		August 2012	
		August 2013	

[1] Ministry of Finance.

[2] Swaziland Revenue Authority.

[3] Financial Sector Regulatory Authority

Department	Purpose	Date of delivery	Beneficiary Agency
MCM	Insurance supervision	October 2013	
		May 2014	
	Risk based supervision	November 2013	CBS
	Capital market supervision	June 2013	FSRA
		August 2013	
		December 2013	
		April 2014	
	SACCOs[4] Supervision	May 2012	FSRA
		August 2013	
		January 2014	
		May 2014	
	Supervision non-banks	November 2011	CBS
		March 2012	
	Compliance with Basel	April 2013	CBS
		May 2013	
STA	Monetary and Financial statistics	September 2013	CBS
	Financial Soundness Indicators	March 2014	CBS
	National Accounts Statistics	January 2012	CSO
		August 2012	
		October 2012	
		December 2013	
		April 2014	

[4] Savings and credit cooperatives

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 for the next 12 months	Customs Modernization	October 2014	November 2014
	Private Sector Competitiveness	July, October 2014 February, May 2015	June 2014
	Financial Sector Development	July, November 2014 April 2015	August 2015
	Skills development for agribusiness	May 2014	September 2015
	Internal Audit	May 2014	June 2015
	Public Service Payroll Audit	June 2014	June 2014
	Growth Report	July 2014	July 2014
	Country Partnership Strategy	May 2014	September 2014
	HIV/AIDS and TB	October 2014 March 2015	April 2015
	PFM Reform	TBD	TBD
	Public Sector Modernization	TBD	TBD
The Fund work program for the next 12 months	2014 Article IV Consultation	May 2014	July 2014
	Technical Assistance		
	• PFM (cash management, PFM action plan, MTEF, IFMIS)	Multiple missions in mid-2014	Ongoing
	• Revenue policy and administration (tax policy, tax and custom administration)	Multiple missions in 2014	Ongoing
	• Financial sector (financial stability, SACCOs supervision, risk-based supervision)	Multiple mission in late 2014	Ongoing
	• Statistics (open data initiative, national account)	Multiple missions in 2014	Ongoing
B. Requests for Work Program Inputs			
Fund request to Bank	Periodic updates on the work related to business climate; financial sector development; and fiscal developments and reforms.		Ongoing
Bank request to Fund	Periodic macro updates		Ongoing
C. Agreements on Joint Products and Missions			
Joint products in next 12 months	Fiscal rules to manage volatility of SACU revenues		September 2014
	Technical assistances for a financial sector strategy		2015

[1] Dates are tentative. Years are calendar years

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance	
General: Swaziland is assessed as "Category B" with regards to data adequacy for surveillance Purposes (data provision has some shortcomings, but is broadly adequate for surveillance). Staff's analysis is mainly affected by shortcomings in the national accounts and fiscal sector.	
Real sector statistics: STA missions have improved the **national accounts**. However, significant weaknesses remain, including the lack of timely and accurate **GDP** numbers—the latest data is for 2009 (released in September, 2010). Annual GDP estimates at current and constant prices are compiled using both the production and expenditure approaches. The Central Statistical Office (CSO) is currently working to update benchmark and base years from 1985 to 2011 (new estimates for 2010–2013 will be published by end year). Shortcomings remain with regards to the treatment of Southern African Customs Union (SACU) revenue. Although the SACU group meeting at end-2012 resulted in a common understanding among technicians from the statistical offices, the treatment of SACU revenue in national accounts has yet to be agreed by member commissions. CSO publishes labor market statistics with long delays. The most recent **unemployment** data is for 2010 and the 2013 numbers are only expected to be released by end–2014. For 2015, the authorities are planning to conduct the second labor force survey (first was published in 2010). 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 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 institutional coverage of the depository corporations' survey is limited, as it covers only the CBS and the commercial banks. 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, remain 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 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 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 June 1, 2014)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	May 14	May 14	M	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	May 14	May 14	W	M	M
Reserve/Base Money	Apr 14	May 14	M	M	M
Broad Money	Apr 14	May 14	M	M	M
Central Bank Balance Sheet	Apr 14	May 14	M	M	M
Consolidated Balance Sheet of the Banking System	Apr 14	May 14	M	M	M
Interest Rates[2]	May 14	May 14	M	M	D
Consumer Price Index	Apr 14	May 14	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Dec 13	May 14	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[4]	Dec 13	May 14	A	A	A
External Current Account Balance	Dec 13	May 14	Q	A	A
Exports and Imports of Goods and Services	Dec 13	May 14	Q	A	A
GDP/GNP	2009	Sep 10	A	A 2/ 3/	A
Gross External Debt	2013	May 14	A	A	A
International Investment Position[5]	2013	May 14	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.	72
Population			**Health**	
Total population (million)	1.2			
Population growth rate (percent)	1.5		Physicians per thousand people (2009)	0.2
Life expectancy at birth (2012, years)	49		Public health expenditure (2012, percent of GDP)	6.3
Infant mortality rate per thousand (2012)	56			
Urban Population (2012, percent of total)	21		HIV prevalence rate (2012, ages 15-49)	26
Population younger than 15	38			
(percent of total population)				
GDP per capita (US$)	3,042		**Education**	
Access to safe water (2012)			Adult literacy rate (2011,	88
Percent of total population	74		Primary school enrollment	
Urban	94		(2007, percent)	85
Rural	64			
			Poverty Indicators	
Labor Statistics (thousands)				
Labor Force (2012)	435		Share of income, lowest 20 percent	4.1
			GINI Index (2010)	51.5
Formal Employment (2006)	92			
Private Sector	65			
Public Sector	28			

Sources: *International Financial Statistics;* World Bank, *World Development Indicators, April 2012*, UNAIDS, 2012, *2012 Report on the Global Aids Epidemic*; and national authorities. Data refer to 2011, unless otherwise indicated.

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International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2014 Article IV Consultation with Swaziland

On July 15, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Swaziland and considered and endorsed the staff appraisal without a meeting.[2]

Swaziland's economic performance has improved since the fiscal crisis of 2010–11, underpinned by the recovery of revenues from the Southern African Customs Union (SACU). Real Gross Domestic Product (GDP) growth in 2013 is estimated at 2¾ percent, recovering from -½ percent in 2011. Business confidence has started to show signs of improvement, commercial bank credit to the private sector is growing strongly, and the risk premium on treasury bills has been declining. Meanwhile, inflation has slightly risen, reaching 5.3 percent in April 2014, owing to increases in food and some administered prices.

Improved SACU revenues since 2012/13 reduced the pressure on fiscal and external balances. A budget surplus of 4½ percent of GDP was recorded in 2012/13. In 2013/14, despite increasing spending pressure, a small budget surplus (¼ percent of GDP) is estimated, partly aided by enhanced domestic revenue collection efforts. International reserves have reached 3¾ months of imports by March 2014, recovering from the low level of 2 months at end-March 2012.

Swaziland's banking sector appears well capitalized, with the capital adequacy ratio of the banks reaching 24 percent of risk-weighted assets. Nonbank financial institutions (NBFIs)— including pension funds, insurance companies, collective investment schemes, and savings and credit cooperatives—account for about two-thirds of the financial sector (in terms of assets). With less than complete supervisory surveillance over these institutions, assessing relevant risks remains difficult.

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[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.

[2] Article IV consultations are concluded without a Board meeting when the following conditions apply: (i) there are no acute or significant risks, or general policy issues requiring Board discussion; (ii) policies or circumstances are unlikely to have significant regional or global impact; (iii) in the event a parallel program review is being completed, it is also being completed on a lapse-of-time basis; and (iv) the use of Fund resources is not under discussion or anticipated.

Swaziland faces significant forward looking challenges. Though growth rebounded after the crisis, the long-term growth trend remains low, with average real GDP growth over 2004–13 at about two percent per year, and Swaziland would remain vulnerable to exogenous shocks. Furthermore, there are risks to Swaziland's economic prospects, in particular the uncertain global and regional economic outlook that could lower SACU revenues. In addition, Swaziland continues to face serious development challenges, including high unemployment, poverty, and the prevalence of HIV/AIDS. Swaziland's key economic policy challenges therefore are to strengthen its resilience to exogenous shocks and achieve higher and more inclusive growth, while meeting critical social and development needs.

Executive Board Assessment

In concluding the 2014 Article IV consultation with Swaziland, Executive directors endorsed staff's appraisal, as follows:

Swaziland's economy has been recovering from the fiscal crisis of 2010–11. Improved SACU revenue has relieved the pressure on fiscal and external balances, and economic growth is gradually recovering. The buildup in international reserves (to 3¾ months by end-March 2014) suggests that the likelihood of an immediate crisis has receded. Swaziland's economic outlook, however, remains subject to downside risks (mainly associated with the uncertain prospects for South African economy and the high volatility of the SACU revenue). Close monitoring on the regional and global economic developments is warranted.

Swaziland's medium-term challenges remain significant. The recent fiscal crisis points to the need to strengthen Swaziland's resilience to shocks, while the economy has suffered from weak growth performance, which has adversely affected social developments. Swaziland's key economic policy challenges are therefore to strengthen its resilience to exogenous shocks and achieve high, inclusive growth, while meeting critical social and development needs. Building on the progress since the fiscal crisis, Swaziland now stands at a critical juncture to decisively address these challenges.

To strengthen Swaziland's resilience to shocks, it is essential to build sufficient international reserve buffer and maintain modest debt distress. In light of these objectives and the need to safeguard the exchange rate peg, a prudent fiscal policy stance (with a fiscal deficit below 2 percent of GDP) should be maintained over the medium-term, while protecting critical social and development expenditures. Such a prudent fiscal policy stance would help build a sufficient international reserve buffer (five to seven months of imports) and maintain modest debt distress, and provide Swaziland with better protection for possible shocks. The prospects for achieving the prudent fiscal policy target over the medium term, however, appear challenging, in light of the prospective decline in the SACU revenue and the scheduled salary review for public officials. It is therefore important to (i) improve revenue administration, (ii) rationalize recurrent expenditure (while safeguarding critical social and development expenditures), (iii) effectively implement public sector reforms, and (iv) enhance efforts to strengthen public financial management (PFM).

To address a long-standing problem of weak growth performance, a set of comprehensive structural reforms should be implemented effectively. The weak growth performance has been largely associated with a low multiplier of fiscal spending and low private sector development (depressed private investment in particular). The authorities should improve the efficiency of spending, through strengthening PFM and public investment management, and allocating higher weight to growth-promoting capital expenditures. Furthermore, it is also essential to promote private sector-led, inclusive growth. In particular, enhanced steps should be taken to further improve business climate, facilitate financial intermediation, and pursue land management reforms. Should fiscal deficits increase substantially—as envisaged under the medium term fiscal framework, the government's large financing needs would likely crowd out private sector credit, further squeezing private sector developments. Maintaining soundness of the financial sector—with further efforts to strengthen the supervision and regulation for nonbank financial institutions—is also critical for private sector-led growth. In most cases, the authorities have rightly acknowledged the areas of reforms. Staff encouraged the new government to step up efforts to implement reforms, seeking technical assistance from Swaziland's international partners, as needed. The CBS's initiative to embark on a financial sector strategy is encouraging.

While Swaziland continues to maintain one exchange restriction related to advanced payments for certain imports (subject to Fund approval under Article VIII), the authorities have not requested and staff does not recommend the approval of this restriction.

Staff recommends that the next Article IV consultation with Swaziland take place on the standard 12–month cycle.

Swaziland: Selected Economic and financial indicators, 2012-19

	2012	2013	2014		2015		2016		2017		2018		2019	
	Prel.	Est.	Proj.		Proj.		Proj.		Proj.		Proj.		Proj.	
			Baseline	Reform	Baseline	Reform	Baseline	Reform	Baseline	Reform	Baseline	Reform	Baseline	Reform
	(Percentage changes; unless otherwise indicated)													
National account and prices														
GDP at constant prices 1/	1.9	2.8	2.1	2.1	2.0	1.8	2.1	2.4	1.8	3.0	1.7	3.5	1.7	4.0
GDP deflator	8.4	7.2	6.5	6.5	5.8	5.8	5.5	5.5	5.3	5.3	5.3	5.3	5.3	5.3
GDP at market prices (Emalangeni billions)	33.2	36.6	39.8	39.8	43.0	42.9	46.3	46.3	49.6	50.2	53.1	54.7	56.9	59.9
Consumer prices (average)	8.9	5.6	5.8	5.8	5.6	5.6	5.4	5.4	5.2	5.2	5.2	5.2	5.2	5.2
External sector														
Average exchange rate (per US$)	8.2	9.7	...	...	...	...	...	...	...	...	...	...	...	...
Nominal exchange rate change [1]	4.3	7.3	...	...	...	...	...	...	...	...	...	...	...	...
Real effective exchange rate [1]	0.0	5.8	...	...	...	...	...	...	...	...	...	...	...	...
Gross international reserves														
(months of imports)	2.9	3.8	4.2	4.2	4.5	4.5	4.4	4.7	4.1	4.9	3.6	5.0	3.1	5.2
(percent of GDP)	17.0	21.6	23.4	23.3	24.2	24.5	23.2	24.8	21.1	25.2	18.7	25.8	15.7	26.0
(percent of reserve money)	314.2	416.1	433.4	433.1	439.9	445.1	413.7	442.4	371.1	442.0	326.1	445.2	273.7	441.2
Gross reserves minus reserve money														
(percent of deposits)	1.1	5.4	12.3	12.2	18.0	18.9	17.1	22.4	12.6	26.3	8.9	30.4	4.8	33.1
Money and credit [2]														
Domestic credit to the private sector	-1.5	16.1	14.8	14.6	9.2	8.7	7.4	8.4	6.1	9.1	5.6	9.5	5.2	10.3
Reserve money	0.1	1.1	2.2	2.2	1.7	1.7	1.7	1.7	1.5	1.8	1.4	1.9	1.2	2.0
M2	10.0	15.9	11.2	11.2	10.0	9.8	9.8	10.0	9.0	10.6	8.2	10.8	7.1	11.3
Interest rate (percent) [3]	5.5	5.0	...	...	...	...	...	...	...	...	...	...	...	...
	(Percent of GDP)													
National accounts														
Gross capital formation	8.0	9.6	11.5	10.6	11.0	10.6	10.9	10.9	10.7	11.2	10.6	11.8	10.6	12.7
Government	3.0	4.6	6.5	6.6	6.0	6.6	5.9	6.6	5.7	6.5	5.6	6.5	5.6	6.7
Private	5.0	5.0	5.0	4.0	5.0	4.0	5.0	4.3	5.0	4.7	5.0	5.3	5.0	6.0
National savings	11.8	15.7	12.9	11.9	11.5	11.2	10.4	10.8	9.1	10.4	8.6	10.9	7.9	11.1
Government	6.4	7.8	9.7	9.7	6.2	7.5	4.1	6.5	3.5	6.8	3.3	7.4	3.1	7.8
Private	5.4	7.8	3.2	2.2	5.2	3.7	6.2	4.3	5.6	3.6	5.4	3.5	4.8	3.2
External sector														
Current account balance														
(including official transfers)	3.8	6.1	1.4	1.4	0.4	0.5	-0.5	-0.1	-1.6	-0.8	-2.0	-0.9	-2.8	-1.6
(excluding official transfers)	-19.2	-17.1	-17.7	-17.8	-16.6	-16.5	-17.0	-16.6	-18.1	-17.3	-18.5	-17.5	-19.3	-18.2
External public debt	8.3	9.0	10.0	10.0	9.9	9.9	9.2	9.2	8.6	8.5	8.0	7.8	7.5	7.2
Central government fiscal operations [4]														
Overall balance (commitment basis)	4.4	0.3	-0.9	-0.9	-3.4	-2.8	-4.5	-2.9	-4.6	-2.1	-4.8	-1.7	-5.0	-1.5
Total revenue and grants	36.0	35.2	35.9	36.1	33.2	33.4	33.0	33.2	33.0	33.2	33.0	33.2	33.0	33.2
Total expenditure	31.5	34.9	36.8	36.9	36.6	36.3	37.5	36.1	37.6	35.3	37.8	34.9	38.0	34.7
Public debt, gross	17.4	17.8	17.2	17.2	19.4	18.9	22.6	20.4	25.7	21.0	28.1	20.9	30.2	20.6
Public debt, net	5.6	4.0	4.5	4.5	7.6	7.1	11.7	9.5	15.5	10.9	19.3	11.7	23.1	12.2
Memorandum item:														
Population (in million)	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.2	1.2	1.2	1.2

Sources: Swazi authorities; and Fund staff estimates and projections.

[1] IMF Information Notice System trade-weighted; end of period. A negative sign indicates depreciation.

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

[3] 12-month time deposits rate.

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