Swaziland

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Basic information about the country:

The kingdom of Swaziland is one of the world's last remaining absolute monarchies. It occupies an area of 17,364 square km on the northeast border of South Africa, just south of Mozambique. The country's natural resources include coal, quarry stone, timber, and talc.

Population

Swaziland is virtually homogenous, most of the population being of the same tribe. The ethnic groups in the country are African 97%, European 3% [ii]. Additional data can be found below in table 1.

Table 1: Swaziland Population data

Data	**Source = UN**	**Source = CIA WFB**	**Source = IMF**
Population	1.141 million	1.123 million	1.1 Million
Population Growth Rate	0.6%	-0.459% (2009 est.)	0.37% (2007)
Urban Population	24%		
Age Structure	39% 0-14 yrs, 50% 15-65 yrs, 11% 65+ yrs	39.9% 0-14 years, 56.5% 15-64 years, 3.6% 65 years + (2008 est.)	
Life Expectancy	M: 40 yrs, F: 39 yrs (2006)	31.88 years (2009 est.)	41 (2006)

Government

Swaziland was granted independence from the British (who ruled since 1902) on September 6th, 1968. Since then, The King of Swaziland has ruled by decree. Swaziland's first constitution in 30 years went into effect February 8, 2006, however political parties remain banned. According to Swazi law and custom, the monarch holds supreme executive, legislative, and judicial powers.

Swaziland is a member of the Southern African Customs Union (SACU) which allows for the free movement of goods and services between member countries Botswana, Lesotho, Namibia and Swaziland (BLNS). The U.S. began negotiations a free trade agreement with the SACU in May 2003.

Major Industries

Subsistence agriculture occupies approximately 70% of the population. The manufacturing sector has diversified since the mid-1980s. Sugar and wood pulp remain important foreign exchange earners. Mining has declined in importance in recent years with only coal and quarry stone mines remaining active. Although 70% of Swazis live in rural areas, nearly every homestead has a wage earner. See table 2 below for the major industries of the country.

Table 2: Swaziland Major Industries

Data	Source = CIA WFB	Source = IMF
Major Industries	• Wood pulp • Coal • Sugar • Soft drink concentrates • Textiles • Apparel	• Agriculture and forestry • Mining and quarrying • Manufacturing • Construction • Distribution and tourism • Transport & comm. • Social & personal services

Macroeconomic Data

The past few years have seen wavering economic growth, which has been exacerbated by the economy's inability to create new jobs at the same rate that new job seekers enter the market. This is due in part to the country's population growth rate, which strains the natural heritage and the country's ability to provide adequate social services, such as health care and education. Swaziland recently surpassed Botswana as the country with the world's highest known HIV/AIDS prevalence rate. Overgrazing, soil depletion, drought, and floods are persistent problems.

Swaziland is heavily dependent on South Africa from which it receives more than nine-tenths of its imports and to which it sends 60% of its exports. Swaziland's currency is pegged to the South African rand, subsuming Swaziland's monetary policy to South Africa.

The country exports $1.77 billion in goods (soft drink concentrates, sugar, pulp, canned foods, and cotton yarn) to South Africa (80%), EU (10%), and Mozambique (10%). It Imports $2.01 billion in goods (chemicals, clothing, foodstuffs, machinery, motor vehicles, and petroleum products). Swaziland has diplomatic ties with Taiwan rather than China

Table 3: Key Macroeconomic Measures

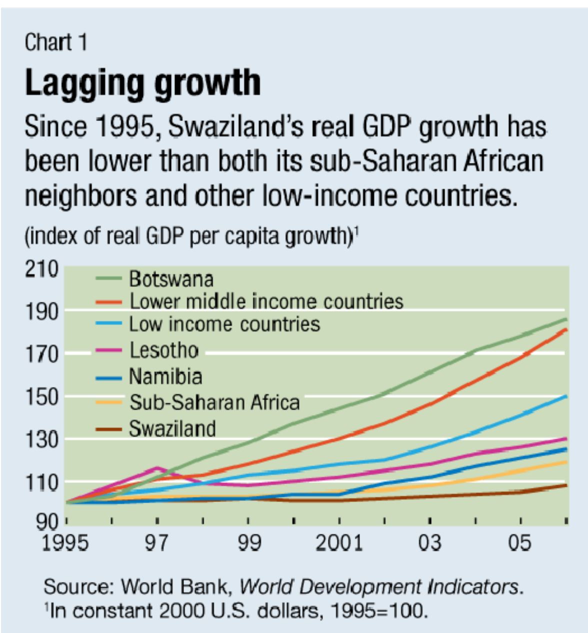
GDP (PPP)	$5.703 billion (2008 est.)	**Inflation**	12.7% (2008 est.)
GDP (Real Exch Rate)	$2.968 billion (2008 est.)	**Labor Force**	300,000 (2006)
GDP real growth rate	2.7% (2008 est.)	**Unemployment Rate**	40% (2006 est.)
GDP per capita	$5,100 (2008 est.)	**Public Debt**	$548 million (31 Dec 2008 est.)
GDP per sector	agriculture: 11.9%, industry: 45.1%, services: 43% (2008 est.)	**Budget**	Revenues: $1.215 bil Expend: $1.155 bil (2008 est.)

Source: CIA World Fact book [ii]

Table 4: Percentage Sector Contribution to GDP at Basic Prices

Sector	2003	2004	2005	2006	2007
Manufacturing	33.3	32.7	32.1	31.9	31.7
Agriculture, hunting, forestry, and fishing	13.6	13.1	13.4	12.8	12.7
Transport, storage, and communications	8.5	9.8	10.5	10.4	10.3
Wholesale, retail, hotels, and restaurants	7.1	7.5	7.9	8.5	9.0
Real estate, renting, and business activities	6.9	6.8	6.7	6.7	6.7
Finance intermediation	4.2	4.2	4.2	4.3	4.3
Construction	4.6	4.4	3.7	3.7	3.5
Public Admin & defense, education, and health & social care	1.6	1.6	1.5	1.5	1.5
Electricity, Gas, & Water Supply	1.5	1.4	1.4	1.5	1.5
Mining & Quarrying	0.3	0.3	0.3	0.3	0.2

Source: Central Bank of Swaziland 2008/09 Annual Report – Domestic Economy [viii]



When the rest of sub-Saharan Africa was growing over the last decade, the economy of the Kingdom of Swaziland stagnated. Swaziland ranks as a lower middle-income country, but it's estimated that 69% of the population lives in poverty. 20 percent of the population claims 2/3 of the income and most of the high-level economic activity is in the hands of non-Africans.

Swaziland's real per capita GDP growth declined from an annual rate of 2 ½ percent during 1980-94 to 0.7 percent since then. See image to the left taken from the IMF Survey Magazine, August 2008 [vi]. In contrast, real growth in all of sub-Saharan Africa has averaged 1 ½ percent annually since 1995 and in other lower-middle-income countries, growth averaged 7 ½ percent. A major contributor to the stagnating Swazi economy has been its financial sector

Additional information on the linkages between the real economy and the financial sector in Swaziland can be found in the IMF Survey Magazine Article entitled "Swaziland's Economy Stagnates; Financial Reforms Needed" [vi]

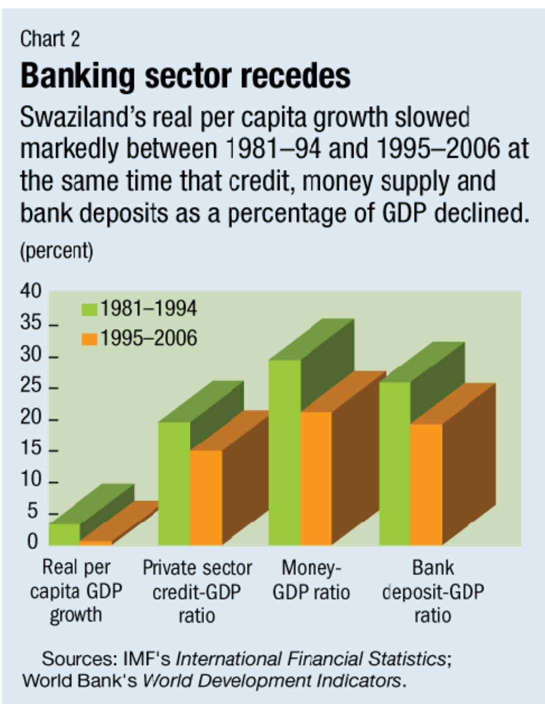
Banking System:

There are four (4) authorized commercial banks in Swaziland; each regulated by the Central Bank of Swaziland using strict policies. Table 5 below lists the banks and associated key metrics.

Table 5: Swaziland Commercial Banks

Name of Institution	Branche s	Ownershi p	Lend Rate	Website
Swazi Bank	10	Domestic	12.50% (Feb 2009)	http://www.swazibank.co.sz
Standard Bank Swaziland	14	Foreign	?	http://www.standardbank.co.sz
First National Bank Swaziland	9	Foreign	?	https://www.fnbswaziland.co.sz
Nedbank Swaziland	7	Foreign	13.50% (Apr 2009)	http://www.nedbank.co.sz

Source: Bank websites respectively unless otherwise noted



Swaziland's banking system has become shallower. Private sector lending, money supply, and bank deposits as a percentage of GDP have all declined since 1995 while high poverty and income inequality persist. The image to the left, from IMF Survey Magazine August 2008 [vi] displays the slowed growth between 19981-94 and 1005-2006.

The commercial banking system has largely concentrated on export financing while under serving a large portion of the adult population. This limited access to financing has reduced the amount of growth-enhancing investment projects in the country. As an added strain on the banking system, the nonbank financial institutions (NBFIs) that developed to fill the financial need have been inadequately regulated and supervised.

Additionally, Swaziland has a weak investment climate (to be discussed further in following section), and as a result the cost of capital and rate of return that investors seek is inflated. Most private domestic savings are invested in South Africa's deeper financial markets. The depth of the Swaziland financial markets is further limited by lack of access to collateral for many borrowers. For example, farmers have a difficult time securing loans to invest in increasing agricultural yields because about sixty (60) percent of the land is held in public trust, which they cannot use.

Swaziland Commercial banks are the lowest performers of the SACU countries. At the end of 2007, the commercial banks generate assets in the amount 31%1 of GDP [vii]. Tables 22 below, taken from the Kingdom of Swaziland: Selected Issues and Statistical Appendix [vii], lists key financial measures for Swaziland commercial banks. For additional banking information see tables 23-25 in the appendix of this document.

[1] According to the Swaziland Business Yearbook [source v], the banking and insurance sectors contribute about 11% of GDP to the economy.

Table 22. Swaziland: Assets and Liabilities of Commercial Banks, 2003–07 [1]
(In millions of emalangeni, end of period)

	2003	2004	2005	2006	2007
Foreign assets	521	531	443	419	766
Claims on government	287	332	315	309	344
Claims on private sector	2,328	3,013	3,531	3,635	5,216
Reserves	236	256	211	211	499
Balances with CBS	121	146	111	111	284
Cash in tills 2/	72	66	99	99	159
CBS bills	0	0	0	0	56
Other items (net) 3/	-168	-103	587	1,109	4
Assets = liabilities	3,204	4,030	5,087	5,683	6,828
Foreign liabilities	52	41	69	124	68
Government deposits	0	2	13	64	175
Private sector deposits	2,664	2,946	3,898	4,088	5,023
Demand	834	844	1,046	1,106	1,417
Time	1,353	1,517	2,175	2,982	3,605
Savings	476	585	677	0	0
Balances due to CBS	0	34	0	20	0
Capital accounts	488	1,007	1,106	1,387	1,563

Source: Central Bank of Swaziland (CBS).

1/ Includes the Swaziland Development and Savings Bank.
2/ Excludes rand in circulation.
3/ Includes balances held with other banks in Swaziland, bills payable, unclassified assets, and unclassified liabilities.

Insurance companies and other financial institutions:

The financial systems of SACU countries are in the nascent stages and thus leave ample opportunity for the widespread development of NBFIs. The growth of the NBFIs in Swaziland has been facilitated by a combination of relatively small financial sector and the high costs associated with using formal banking services. Further, access to banking services is generally not available to certain segments of the population (as mentioned in the above section) such as those living in rural areas or without steady incomes. It is among these groups that the NBFIs such as savings and credit cooperatives (SCCOs) and microfinance institutions have found the most resonance. More importantly insufficient regulatory support and coordination further weaken effective supervision and prevent regulatory arbitrage.

In 2008 the number of NBFIs grew significantly as they attempt to take advantage of the liquidity surge from the requirement that all insurance and retirement funds must increase their holdings of domestic assets from 10 to 30 percent of total assets through 2009

At the end of 2007, there were 266 NBFIs in Swaziland [vii]. Table 6 lists their types and key characteristics.

Table 6: Swaziland NBFIs

Financial Institution	Count	Regulatory Auth	Assets as % GDP
Insurance Companies	5	Companies, Ministry of Finance (MF) Registrar of Pension Funds and Insurance	2%
Pension Funds	200	Companies, MF	41%
Building Societies[2]	1	CBS	3%
Credit Cooperatives	56	Ministry of Agriculture and Credit	2%
Micro Finance Inst.	100+	Ministry of Finance	-
Others (Devlpmt Inst, Unit Trusts, etc)	4	CBS	6%

Source: IMF Kingdom of Swaziland Selected Issues and Statistical Appendix [vii]

Insurance Companies

Income and wealth, macroeconomic stability, and the regulatory framework are the main determinants of insurance business. As in many developing countries, the main line of insurance business is compulsory motor insurance, which is often subject to regulation and attracts low premiums.

In Swaziland, the oldest and also the largest insurance company is the Royal Insurance Company, which is 40 percent government owned. The company had monopoly in the industry until the Registrar of Insurance and Retirement Funds was founded and the Insurance Act was established to open the market to competition in November 2006. As of March 2008 the Registrar of Insurance and Retirement Funds has licensed 5 Insurers, 9 Insurance Brokers, 18 Insurance Agents, 3 Retirement Funds and 1 Fund Administrator [xi]. No foreign funds or investment managers were registered.   The names of the Swazi insurance companies are listed below:

- Royal Insurance Company – Domestic Insurer
- Old Mutual Swaziland – Foreign Insurer
- Liberty Life Swaziland – Foreign Insurer

[2] In Swaziland, the building society liabilities are included in broad money supply. [vii]

- Metropolitan Life Swaziland – Foreign Insurer
- PFM Swaziland – Foreign Insurer

Pension Funds:

Two state pension funds, the Swaziland National Provident Fund (SNPF) and the Public Service Pension Fund (PSPF), dominate the pension sector, though a few small private pension and provident funds also exist. The PSPF and the SNPF are defined benefit plans and they hope to move to defined contribution plans. While the SNPF covers all public and private employees, the PSPF covers government, prostates, and other public servants.

Table 7: Swaziland Pension Fund data

	PSPF	SNPF
Investments (E'Million)	• Swazi Empowerment Limited • Swaziland Property Investments Ltd • The Royal Swazi Sugar Corporation Ltd • SPTC Bonds • African Alliance Lilangeni Fund • Managed Unit Trust Swaziland • Stanlib Swaziland Limited • Standard Bank Swaziland • First National Bank of Swaziland Ltd • Nedbank Swaziland Limited • Swaziland Building Society • Swazi Bank • Swaziland Government • Allan Gray Limited • Coronation Asset Management Ltd • RMB Asset Management Ltd • Foord Asset Management Ltd • Standard Bank of South Africa Ltd	• Listed shares and unit trust: 528 • Local listed: 12 • Local unlisted: 63 • Insurance policies: 62 • Bonds: 21 • Direct loans: 8 • Investment property: 171
Current Assets 2007 (E'Million)	305,164	17
Total Assets 2007 (E'Million)	7,361,733	1,156

Other financial institutions:

As mentioned in earlier sections, the financial sector has become vulnerable as a result of inadequate regulation and supervision of nonbank financial institutions (NBFIs). Outside of insurance companies, pension funds and stock exchanges, other financial intermediaries include:

- Savings and credit cooperatives
- Fund administrators
- Unit trusts
- Assets managers
- Investment consultants
- Insurance brokers
- Dealers
- Exchange houses
- Burial societies
- Special investment vehicles
- Finance and leasing companies
- Unit trusts
- Friendly societies
- Savings clubs

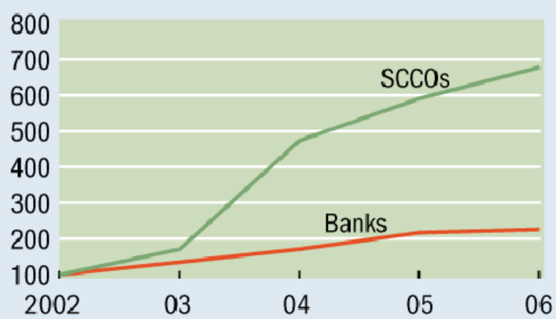
Of these, savings and credit cooperatives (SCCOs) are by far the most important players. Many sprung up to fill the financial needs of the many Swazis abandoned by the commercial banking sector. Since 2002, lending by SCCOs has grown 116 percent, compared with 26 percent for banks. [vi]. For more information on SCCO's in Swaziland, see the report 'Growth and Potential of SCC's' [xii].

Chart 3

Serving the unbanked

Since 2002, lending by savings and credit cooperatives (SCCOs) in Swaziland rose far faster than that of commercial banks.

(index, 2000 = 100)



Source: Central Bank of Swaziland; Swaziland's Commission of Credit Cooperatives.

Table 2
Activities of SACCS compared with commercial banks, December 1997 (current Em.)

Institution	*Commercial banks*	*SACCS*[a]
Number	5	21
Branches	37	25[b]
Credit:		
Number of loans[c]	24,628	16,342
Total	947.69	50.05
Demand deposits:		
Number of accounts	43,078	-
Amount	382.76	-
Savings and Time Deposits:		
Number of accounts	155,317	18,344
Amount	1,145.77	55.63
Total deposits	1,528.54	55.63

Notes: (a) Only SACCS members of SASCCO; (b) Only permanent branch offices are included; (c) Loans outstanding at end of 1997.

Source: Central Bank of Swaziland, *Annual Report, 1997*, and SASCCO accounts.

Central bank and its role in the economy:

The Central Bank of Swaziland (CBS)[3] was established as the monetary authority in April 1974, empowering the bank to monitor, regulate and develop Swaziland's financial infrastructure. The Authority took on the function of a central bank in 1978 when the name was changed under the Monetary Authority (Amendment) Act of 1979 and additional powers were granted through amendment to the Acts in 1982 and 1986. Legislative amendments to the Order of 1974 provide the legal framework that enables the bank to adapt to the changing global environment and to incorporate new developments and financial supervision.

[3] http://www.centralbank.org.sz/

The core responsibilities of the CBS include issuing the national currency, advising the government, managing the country's official reserves, and dealing in the foreign exchange markets (involves both spot trading and dealings in the forwards market)[4]. Table 8 displays the assets and liabilities of the CBS.

Table 8: Assets and Liabilities of the CBS, 2003-07 (in mil of emalangeni, end period)

	2003	2004	2005	2006	2007
Foreign Assets	1,758	1,474	1,536	2,697	5,116
CBS Managed[5]	27	207	0	35	1,280
Government	83	252	101	55	15
Claims on government	12	10	9	20	8
Claims on private sector	0	0	2	22	2
Claims on commercial banks					
Assets = liabilities	1,853	1,736	1,648	2,795	5,190
Foreign liabilities	355	25	18	113	106
Government Deposits[6]	1,087	978	1,183	2,015	4,063
Of which: holdings abroad	713	667	0	39	1,283
Private sector deposits	92	96	8	3	2
Commercial banks	0	0	0	0	1
Reserve Money	430	477	490	566	706
Currency in circulation[7]	286	302	341	379	408
Commercial bank deposits	145	175	149	188	298
Other items (net)[8]	-111	159	-50	98	313

Source: IMF Kingdom of Swaziland Selected Issues and Statistical Appendix [vii]

Monetary Policy:

Monetary policy formulation is to a large extent influenced by the country's historic membership of the Common Monetary Area (CMA), which allows for a free flow of capital among member states, and the SACU.

The monetary agreement has its own advantages which include freeing Swaziland from the need to make decisions concerning monetary and exchange rate policies, and thus allowing her to concentrate efforts on more pressing and immediate tasks, largely fiscal tasks. However, this agreement has disadvantages, including severely limiting the country's ability to formulate

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[4] The commercial banks may manage limited sums of forex, reverting to the Central Bank if necessary
[5] Includes Capital Investment Fund, until 2005
[6] Includes counterpart of government foreign assets.
[7] Excludes rand in circulation.
[8] Includes balances held w/ other Swazi banks, bills payable, unclass. assets, and unclass. liabilities.

or influence monetary policy or respond to shocks affecting the country. Swazi monetary policy as it is highly influenced by the South African Reserve Bank.

To facilitate the smooth implementation of the CMA agreement, member countries agreed to hold regular consultations with a view to reconciling their respective interests in the event of one member country deciding to formulate, modify and implement its monetary policies.

Membership of a currency union with full integration and a fixed exchange rate regime precludes monetary policy independence. It is therefore essential to note that in the case of the tools available to affect price stability, the CBS has limited powers to influence price movements as enumerated below:

- **Exchange rate management** – The fixed exchange rate encouraged tourism and trade from South Africa. However this also precludes the use of this instrument of monetary policy. As a result the CBS has little control over imported inflation and strains placed on external debt obligations
- **Money supply** – The South African Rand circulates alongside the Lilangeni, causing the measurement of the money supply to be understated. In addition, there is free access to South African money and capital markets. Therefore money supply manipulation is a tool outside of the scope of the authorities.
- **Interest rate policy** – There is little room for interest rates to deviate from the CMA. If rates were higher, there would be a fear that Swaziland would attract more capital than could be absorbed or the converse if rates were lower. Interest rate management is largely through moral suasion.
- **Open market operations** – The absence of adequate investment instruments and excess liquidity in the domestic banking system have caused banks to look towards the SA markets to manage their liquidity. Funds shifted to SA are typically invested in short maturing deposits with the parent bank. The capital markets development unit was developed in 1998 to address this issue.
- **National payment system** – the CBS seeks to stabilize the financial sector by ensuring the integrity of the payment system. The bank's liquid assets, particularly reserve balances, are instruments in which the bulk of domestic obligations are finally settled, so the CBS intends to play a leading role.
- **Rediscount window** – The rate charged is determined by the CBS depending on the desired policy stance. The trend has been that growth in bank loans and advances have persistently outpaced growth in domestic deposits. Therefore, historically, there has been very little or no recourse to the central bank by commercial banks through the discount facility as banks have persistently been liquid. In practice the discount rate is only used as an indication rate to indicate the direction of interest rate movement.
- **Indirect instruments** – The CBS has at its disposal two kinds of indirect instruments – namely liquidity and reserve requirements. Both instruments are not directly used for monetary control purposes, but mainly for prudential reasons and to activate the domestic money market.

Interest Rates:

Swaziland's membership of the CMA is characterized by the free flow of capital between member states. As such, Swaziland's interest rates are traditionally more or less on a par with those of South Africa. Despite tracking the South African interest rate structure, Swaziland's interest rate management is largely through moral suasion, where the CBS uses this instrument to encourage the local banking sector to lend to the private sector.

Table 9: Interest Rates in Swaziland and South Africa, 2003-08

	2003	2004	2005	2006	2007 Dec	2008 Mar	2008 Jun
Discount Rates							
Central Bank of Swaziland	8.0	7.5	7.00	9.00	11.00	11.00	11.50
South African Reserve Bank	8.0	7.5	7.00	9.00	11.00	11.00	11.50
Treasury Bills							
Swaziland	7.9	7.6	6.90	8.50	9.96	9.88	10.30
South Africa	7.5	7.5	9.80	8.50	10.00	10.04	10.51
Prime Lending Rate							
Swaziland	11.5	11.0	10.50	12.50	14.50	14.50	15.00
South Africa	11.5	11.0	10.50	12.50	14.50	14.50	15.00
Bank Time Deposits							
Swaziland – 31 days	4.4	3.9	3.40	5.41	7.30	7.30	7.66
South Africa – 31 days	7.4	7.2	6.80	8.90	10.94	11.05	11.46
Swaziland – 12 months	4.2	4.1	3.50	8.50	10.00	10.00	10.68
South Africa – 12 months	7.9	7.3	7.30	9.60	11.81	11.97	12.83
Bank Savings Deposits							
Swaziland	1.0-6.5	0.0-6.5	0.0-6.5	0.0-6.9	0.0-9.91		

Source: The Kingdom of Swaziland: 2008 Article IV Consultation [vii]

Exchange Rates:

The Swazi Lilangeni (SZL) is pegged 1 to 1 to the South African Rand (ZAR). South African bank notes, but not coins, are legal tender in Swaziland. The monetary arrangement between South Africa and Swaziland, which dates back to when both countries used British Sterling as their currency, was formalized in December 1974 with the signing of the Rand Monetary Area (RMA) Agreement which became the Common Monetary Area (CMA) in 1986. The signatories are South Africa, Swaziland, Lesotho and Namibia. The CMA provides for the free flow of funds between the four member countries with no exchange controls. However, fairly liberal regulations apply to the rest of the world.

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.

Table 10: Exchange Rates

SA Rand (ZAR)	Botswana Pula (BWP)	US Dollar (USD)	Japanese Yen (JPY)	UK Sterling (GBP)	Euro (EUR)
1	1 .2635	9.1590	10.7588	13.5947	12.1105

Source: Central Bank of Swaziland, as of 4/15/2009

Government Bond Market:

The Swazi government has enjoyed a net creditor position for a long time (up until 1993/94). For this reason, there was a feeling that there was no need to sell securities for financing. There are some small amounts of both Treasury bills (E40 million) and bonds (E30 million) that have been issued regularly purely for the purpose of encouraging the money market. These have not been adequate and from time to time the CBS also issues its own bills for the same purpose. The quantities are also small (E10 million) and the interest rate paid is below the market rate when compared to similar rates in South Africa. The Treasury and CBS bills are auctioned on a weekly and monthly basis. Each issue has been oversubscribed.

Bills issued and outstanding decreased, from E385.52 million at the end of September 2007 to E365.06 million at the end of December 2007. Participation continued to be dominated by the banks. The average discount showed a quarterly increase from 9.42 percent to 9.82 percent at the end of December 2007. The government stock remained at E50 million maturing in 2010, with no new stock issued [xiii].

Table 11: Holdings of Swaziland Government Bills (E'Million)

3 Month Government Treasury Bills	June '07	Sept'07	Dec'07
Total	390	385.52	365.06
Local Commercial Banks	372.75	347.56	318.34
Foreign Banks	0	0	0
Other Financial Institutions	1.00	1.00	1.40
Central Bank of Swaziland (OMO)	3.87	26.94	22.65

Other	12.38	9.99	10.83
Average Discount (%)	8.42	9.42	9.82
Average Yield (%)	8.89	9.43	10.08
% of Total Government Domestic Debt	88.64	88.52	89.95

Source: CBS Quarterly Review Write-up [xiii]

Table 12: Holdings of Swaziland Government Stock (E'Million)

	June '07	Sept'07	Dec'07
Total	50.00	50.00	50.00
Banks	39.00	39.00	39.00
Other Financial Institutions	5.00	5.00	5.00
Other	6.00	6.00	6.00
% of Total Government Domestic Debt	11.63	11.48	10.05

Source: CBS Quarterly Review Write-up [xiii]

Table 13: Government Bond Details

Bond Code	Name	Nom Value (E)	Coupon	Maturity	Intr 1	Intr 2	YTM	Date
SG004	SWD Govt	25,000	13.98	8/31/10	2/28/07	8/31/07	8.03	2/16/09
SG007	SWD Govt	25,000	14.00	8/31/10	2/28/07	8/31/07	8.33	2/16/09

Source: Swaziland Stock Exchange, as of 4/16/09 [ix]

See Appendix for Table 19 displaying Government Debt from 2003 through 2008.

Stock Market

A move towards a formal structure for capital markets development in Swaziland goes back 12 years (1989) when a working party, under the direction of the Central Bank, was commissioned to examine if there were economic benefits to be derived from the establishment of a stock exchange. The working party concluded that there was indeed a need and an opportunity for such a move; and proposed, as a first step, the formation of a stock broking company, which would be licensed under existing banking legislation pending the drafting of a securities law.

For eight years the stock market operated as an over the counter-single broker facility. It was not until July 1999 that a fully-fledged stock exchange, the Swaziland Stock Exchange (SSX), was inaugurated. Exchange operations are conducted under the supervision of the Capital Markets Development Unit ("the Unit") of the Central Bank, which has regulatory oversight over the operations of the market.

The Unit was formed in 1999. It does not only oversee the operations of the Exchange but authorizes and supervises collective investment schemes and fund managers. When the legislation is eventually passed, the Unit will also assume responsibility for the licensing, registration and regulation of dealers and their representatives, investment advisers and their representatives and central securities depositories.

The Exchange is made up of various members (including listed companies, stockbrokers, and institutional investors) and is regulated by a Committee of the Exchange. The Committee consists of two representatives from licensed stockbrokers, one representative from the Central Bank who acts as chairperson, one representative from the listed companies, a representative from institutional investors and a representative from transfer secretaries. A representative from the Capital Market Development Unit serves as secretary to the Committee.

Table 14: Trading Summary

Month	Trades	Volume of Shares	Turnover (SZL)	Turnover (USD)
Jan	1	100	990	136
Feb	2	1,290	3,521	485
Apr	1	100	740	104
Jun	2	5,400	25,390	3,579
Aug	1	1,000	7,400	1,042
Oct	4	2,002,500	24,023,950	3,643,857
Dec	2	15,000	162,000	23,831
2007	13	2,025,390	24,223,991	3,673,034
2006	27	70,840	428,000	60,801
%D06-07*	(51.85)	(64.16)	(47.67)	(46.04)

Source: CBS Annual Report – Capital Markets [viii]

Table 15: Market Cap and SSX All Shares Price Index - 2007

Month	Volume of Shares	Turnover (SZL)	Turnover (USD)
2007	1,601.0	235.5	201.45
2006	1,392.5	199.86	175.21
2005	1,245.2	197.09	156.68
%D06-07*	15%	23%	15%
%D05-07*	29%	19%	29%

Source: CBS Annual Report – Capital Markets [viii]

The Exchange, during the fourth quarter of 2007, adopted a different method of computing the

SSX All Share Index, and by extension, market capitalization. It resolved to move away from the historical way of computation, where the ruling prices for each counter were a determinant of the capitalization of the market. The new method incorporates the utilization of bid (buy) and offer (sell) prices in compiling the market indices.

Pursuant form the above developments; the local bourse recorded some activity. The SSX All Share Price Index attained a four-year high of 201.45 points by December end. Correspondingly, market capitalization broke the E1.5 billion barrier to close at E1.6 billion.

As of April 2009, the all share price was 209.69 and the market cap E1.43 billion

Corporate Bonds

By end of December 2007, corporate bonds quoted on the SSX were four (4). These corporate bonds have a nominal value of E170. The current Bonds as of April 2009 are listed below in table 16.

Table 16: Corporate Bond Details

Bond Code	Name	Coupon	Maturity	Intr 1	Intr 2	YTM	Date
ICL 01	Inyatsi Const	13.85	9/15/09	3/25/09	9/15/09	7.73	2/16/09
ICL 02	Inyatsi Const	12.50	9/15/11	3/25/09	9/15/09	11.17	2/16/09
ICL 03	Inyatsi Const	13.75	3/15/15	3/25/09	9/15/09	9.66	2/16/09
NWR02	NEWERA	11.50	3/15/10	9/15/07	3/15/08	10.23	2/16/09
NWR05	NEWERA	13.85	2/28/09	2/28/09	2/8/09	10.67	2/16/09
NWR06	NEWERA	14.60	3/15/09	3/25/09	3/25/09	11.17	2/16/09
NWR07	NEWERA	14.5	10/15/10	4/15/08	10/15/09	10.67	2/16/09
NWR09	NEWERA	14.5	5/31/09	11/30/08	5/31/09	10.67	2/16/09
NWR10	NEWERA	15.5	7/4/11	1/4/09	7/4/09	9.17	2/16/09
NWR11	NEWERA	14.00	12/18/09	6/19/09	12/18/09	0.00	2/16/09
NWR12	NEWERA	15.00	12/23/10	6/23/10	12/23/10	0.00	2/16/09
NWR13	NEWERA	14.50	1/13/10	7/13/09	1/13/10	0.00	2/16/09
NWR14	NEWERA	15.50	1/13/12	7/13/09	1/13/10	0.00	2/16/09
STD01	Std Bank	9.73	9/15/10	3/25/09	9/15/09	8.73	2/16/09
STD02	Std Bank	9.73	9/15/10	9/15/15	9/15/15	8.73	2/16/09

Source: Swaziland Stock Exchange, as of 4/16/09 [ix]

Equities

The fourth quarter of 2007 saw a huge volume of shares traded on the main board. Six (6) deals of 2, 017, 500 shares worth E24, 185, 950 were concluded during the reporting period. The Equity closing prices as of April 2009 are listed below in Table 17.

Table 17: Equities Closing Prices

Counter	Date Listed	P/E	E/Y	D/Y	RP	BUY	SELL	Date
Nedbank	1990	2.67	37.50	11.50	400	400	0	2009-02-18
Royal Swazi Sugar Corp	1999	4.68	21.39	5.20	1000	1000	0	2009-02-18
Swaziland Empowerment	2004	10.00	0.10		1380	1380	0	2009-02-18
Swaprop	1997	14.81	6.75	0.00	290	300	0	2009-02-18
Swazispa Holdings	1991	9.52	16.88	16.00	750	750	0	2009-02-18

Source: Swaziland Stock Exchange, as of 4/16/09 [ix]

Other Types of Finance/Financial Market

Microfinance

For a number of the rural poor, their only form of financing is only through microfinance institutions that may be organized at the local level. While banks charge an average annual interest of prime rate of 13.5 percent plus 10 percent, micro lenders on the other hand charge an average annual interest of 30 percent[9].

The Swaziland Finance Development Corporation (Fincorp) was launched by King Mswati III in November 1995 with a primary objective of providing access to credit and business development services to local entrepreneurs. The ultimate goal is to create jobs and make a positive contribution in the alleviation of poverty.

The Inhlanyelo Fund was created through a private enterprise initiative. The fund is used to promote viable micro projects in the informal business sector in all regions of Swaziland. The fund is also used to promote and support entrepreneurial talent, to assist with the establishment of self-employment projects and to create job opportunities.

Name	Type of Institution	Gross Loan Port	Num of Active

[9] http://allafrica.com/stories/200903120017.html

		(USD)	Borrowers
FINCORP	Non-Bank Financial Institution	28,700,890	14,340
Inhlanyelo Fund	Non-Profit (NGO)	-	2,100

Source: The Mix Market (http://www.mixmarket.org)

There have been some recent challenges in repayment of loans in the industry. The Swazi government, like major private sector employers, entered into an agreement with four micro lenders - MP Swaziland, Select Management Services, Swaziland Finance Development Services and Blue Financial Services - to deduct monies owed to them by civil servants directly from the salaries of public servants, greatly reducing the recovery risk for the lenders.

However, this plan backfired because government soon found itself deducting 100 percent of the paycheck of some public servants, in violation of the Employment Act, which states that no more than a third of government employee's monthly wages may be attached.

In December 2008, government ordered micro lenders to stop disbursing loans to civil servants until they found a new strategy to recover their monies.

Sources

[i] BBC News Country Profile: http://news.bbc.co.uk/2/hi/africa/country_profiles/1069035.stm

[ii] CIA World Fact Book: https://www.cia.gov/library/publications/the-world-factbook/geos/wz.html

[iii] UN Data: http://data.un.org/CountryProfile.aspx?crName=Swaziland#Economic

[iv] US Department of State: http://www.state.gov/r/pa/ei/bgn/2841.htm

[v] Swaziland Business Yearbook: http://www.swazibusiness.com/sbyb2007/investment.html

[vi] IMF Survey Mag: http://www.imf.org/external/pubs/ft/survey/so/2008/CAR072508A.htm

[vii] The Kingdom of Swaziland: 2008 Article IV Consultation (documents on webcafe)

[viii] The Central Bank of Swaziland 2008/09 Annual Reports (documents on webcafe)

[ix] Swaziland Stock Exchange: http://www.ssx.org.sz/

[x] Monetary Policy in Swaziland (document on webcafe)

[xi] Registrar of Insurance & Retirement Funds_An Report 08

[xii] Growth and Potential of Savings and Credit Cooperative Societies in Swaziland

[xiii]

Appendix: Additional Data Tables and Figures

Table 19. Swaziland: Outstanding Domestic Government Debt by Type of Instrument, 2003–08
(In millions of emalangeni; end of period)

	2003	2004	2005	2006	2007	Mar-08
Government bonds and stocks	260.0	180.0	99.0	50.0	50.0	50.0
Central Bank of Swaziland	0.0	0.0	19.0	0.0	0.0	0.0
Banks	176.7	146.3	59.3	39.0	39.0	39.0
Other financial institutions	53.9	14.5	6.5	5.0	5.0	5.0
Other	29.4	19.2	14.2	6.0	6.0	6.0
Treasury bills 1/	217.7	374.0	427.3	422.0	365.1	390.0
Central Bank of Swaziland	40.0	73.0	50.0	55.7	22.7	0.1
Banks	160.0	280.0	234.4	337.2	318.3	374.8
Other	17.7	21.0	143.0	29.1	24.1	15.1
Total domestic government debt	477.7	554.0	507.3	472.0	415.1	440.0
By original maturity						
Less than one year	217.7	374.0	427.3	422.0	365.1	390.0
From one to five years	210.0	130.0	0.0	0.0	0.0	0.0
From five to ten years	50.0	50.0	80.0	50.0	50.0	50.0
Over ten years	0.0	0.0	0.0	0.0	0.0	0.0

Source: Central Bank of Swaziland.

1/ The maturity of treasury bills is three months.

Table 20. Swaziland: Monetary Survey, 2003–08 [1]

	2003	2004	2005	2006	2007	2008 June
	(In millions of Emalangeni)					
Monetary authorities						
Net foreign assets	1,404.7	1,450.2	1,518.4	2,584.6	5,059.6	5,817.8
Central Bank of Swaziland (CBS)	1,378.2	1,243.3	1,518.4	2,549.2	3,780.0	5,817.8
Of which: Capital Investment Fund (CIF), managed by CBS.	712.9	666.7	0.0	0.0	0.0	0.0
Government 2/	26.5	206.9	0.0	35.4	1,279.6	0.0
Net domestic assets	-974.8	-973.2	-1,028.5	-2,018.5	-4,353.9	-5,047.0
Central government (net)	-1,030.8	-933.2	-1,082.5	-1,960.0	-4,048.6	-4,487.9
CBS claims on government	82.6	251.8	100.6	55.1	14.7	10.9
Government deposits	-1,113.4	-1,185.0	-1,183.0	-2,015.1	-4,063.4	-4,498.8
Domestic	-374.0	-311.3	-1,183.0	-1,976.1	-2,780.2	-4,494.9
Foreign 2/	-739.4	-873.6	0.0	-38.9	-1,283.2	-3.9
Private sector	12.0	10.0	8.9	20.5	7.5	9.4
Commercial banks (net)	0.0	0.0	2.3	21.9	1.9	1.9
Other items (net)	44.0	-50.0	42.7	-100.8	-314.7	-570.5
Reserve money	430.3	477.1	489.9	566.1	705.7	770.7
Commercial banks						
Net foreign assets	469.4	490.4	374.5	761.9	697.5	1,145.4
Reserves	194.0	211.0	210.5	353.6	499.0	525.0
Domestic credit	2,614.1	3,344.2	3,832.3	4,581.2	5,385.3	5,506.8
Central government (net)	286.4	331.0	301.7	305.5	169.1	80.1
Claims on Government	286.7	332.5	315.0	369.4	343.7	378.7
Government deposits	0.3	1.5	13.3	63.8	174.6	298.6
Private sector	2,327.7	3,013.2	3,530.6	4,275.7	5,216.3	5,426.7
Other items (net)	-613.0	-1,100.0	-1,196.1	-1,588.6	-1,559.3	-1,696.9
Private sector deposits	2,663.7	2,945.9	3,221.2	4,088.2	5,022.5	5,480.3
Monetary survey						
Net foreign assets	1,874.1	1,940.6	1,892.9	3,346.5	5,757.1	6,963.2
Domestic credit	1,595.3	2,421.0	2,758.7	2,641.7	1,344.2	1,028.3
Central government (net)	-744.4	-602.2	-780.8	-1,654.4	-3,879.6	-4,407.8
Private sector	2,339.7	3,023.2	3,539.5	4,296.2	5,223.8	5,436.1
Other items (net)	-500.4	-1,083.6	-1,180.5	-1,646.3	-1,828.5	-2,235.2
Broad money	2,969.0	3,278.0	3,471.0	4,342.0	5,272.8	5,756.4
Currency in circulation 3/	213.5	235.8	242.1	250.5	248.6	274.6
Deposits	2,755.5	3,042.2	3,228.9	4,091.4	5,024.2	5,481.8
	(Annual change in percent of beginning-of-period broad money)					
Broad money	14.1	10.4	5.9	25.1	21.4	14.1
Net foreign assets	-27.5	2.2	-1.5	41.9	55.5	37.8
Domestic credit	34.5	27.8	10.3	-3.4	-29.9	26.7
Central government (net)	13.1	4.8	-5.4	-25.2	-51.2	14.7
Private sector	21.4	23.0	15.7	21.8	21.4	12.0
Other items (net)	7.1	-19.6	-3.0	-13.4	-4.2	-50.4
Memorandum items:						
Currency/broad money (percent)	7.2	7.2	7.0	5.8	4.7	4.8
Reserve money/deposits (percent)	15.6	15.7	15.2	13.8	14.0	14.1
Money multiplier (broad money/reserve money)	6.9	6.9	7.1	7.7	7.5	7.5
Velocity (GDP/period average broad money)	4.9	4.9	4.5	4.4	4.2	4.1

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

1/ End-of-year data.

2/ Beginning in end-2006, includes government holdings abroad.

3/ Excludes rand in circulation.

Table 23. Swaziland: Commercial Banks' Deposits by Sector, 2003–07[1]
(In millions of emalangeni, end of period)

	2003	2004	2005	2006	2007
Demand deposits	834	845	1055	1110	1430
Central government	3	1	6	1	9
Other public bodies 2/	49	23	63	37	57
Personal	264	201	235	172	265
Business	517	620	751	900	1099
Savings deposits	477	586	679	699	1038
Central government	0	0	0	0	1
Other public bodies 2/	2	0	0	0	29
Personal	436	492	646	447	811
Business	38	94	33	252	197
Time deposits	1,353	1,517	1,498	1,783	2,740
Central government	0	0	7	9	165
Other public bodies 2/	291	106	351	237	281
Personal	264	230	250	193	478
Business	798	1182	890	1345	1815
Total deposits	2,663	2,948	3,233	3,593	5,207
Central government	0	2	13	10	175
Other public bodies 2/	342	129	415	274	367
Personal	964	922	1,131	813	1,554
Business	1,353	1,896	1,674	2,496	3,112

Source: Central Bank of Swaziland (CBS).

1/ Excluding bank checks outstanding.
2/ Comprises local government, city councils, and statutory corporations.

Table 24. Swaziland: Commercial Banks' Liquidity Position, 2002–07
(In millions of emalangeni, end of period)

	2003	2004	2005	2006	2007
Total liquid assets 1/	508	561	549	741	857
Of which: balance with CBS	121	146	111	225	282
Required liquid assets	371	415	446	529	609
Domestic liquidity surplus	137	146	102	212	248
Net due from foreign banks	397	394	291	715	663
Total liquidity surplus	533	540	393	927	911
Memorandum items:					
Liquidity ratios (in percent)					
Required liquidity to deposits	13	13	13	13	13
Actual liquidity to deposits	17	17	15	17.7	17.8

Source: Central Bank of Swaziland (CBS).

1/ Comprises cash in tills, treasury bills and eligible stock issued by the Swazi government, balances with the CBS and other banks, and other approved liquid assets. Also including rand notes and coins held by banks.

Table 25. Swaziland: Commercial Bank Loans and Advances by Category of Borrower, 2003–07
(In millions of emalangeni, end of period)

	2003	2004	2005	2006	2007
Industry	1,578	1,877	2,465	2,367	2,967
Agriculture and forestry	365	403	598.4	273	399
Mining and quarrying	7	0	1	0	1
Manufacturing	486	428	393.2	291	317
Construction	118	136	201.3	252	140
Distribution and tourism	178	307	379.6	457	628
Transport and communications	115	196	205.2	177	247
Social and personal services	138	137	140.1	140	144
Other	171	269	546.7	777	1092
Personal loans 1/	530	874	1,030	1,294	1583
Statutory bodies	38	70	70.1	50	71
Other 2/	91	10	17	23	25
Total	2,237	2,830	3,582	3,733	4,646

Source: Central Bank of Swaziland (CBS).

1/ Includes small amounts lent to nonresidents.
2/ Local authorities and private financial institutions.