THE DYNAMICS OF SAVINGS IN SWAZILAND

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Abstract

The paper provides an overview of the dynamics of savings in Swaziland for the period from 1970 to 2014. The paper tracks the growth rate of savings in response to the policy initiatives implemented by the government of Swaziland to promote savings. Savings providers in Swaziland are classified into two groups; the formal and informal savings providers. The formal savings providers include the banking and non-banking sector. The formal savings sector is regulated by the Central Bank of Swaziland and the Financial Services Regulatory Authority. The informal savings providers include; accumulated savings and credit associations (ASCAS), rotating savings and credit associations (ROSCAS) and village money lenders, most often referred to as ‘shylocks’. In order to promote savings in the country, Swaziland implemented policy initiatives aimed at improving the legal, regulatory, supervisory and rehabilitation of the infrastructure for savings providers. Despite the reform of the savings environment in Swaziland some challenges remain. The main challenge threatening the growth of national savings is that the formal savings providers are mostly situated in urban areas and their products are suitable for the salaried population. A major challenge for the informal sector is that the informal savings institutions are not regulated.

Keywords: Gross Domestic Savings, Economic Growth, Swaziland.

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Contact: bongiled@uniswa.sz. The author declares that he has no relevant or material financial interests that relate to the research described in this paper. Also, the author declares that the submitted paper is his original work and that, upon publication, nothing contained in it will not constitute an infringement of any copyright. Paper received 02.03.2018. Approved 27.04.2018. This paper is licensed under the Creative Commons Attribution-Non Commercial-No Derives 3.0. License. This paper is published with Open Access at www.socioeconomica.info. The author would like to thank the reviewers of this journal for their valuable comments and suggestions on the earlier version of this paper. The quality of this paper has greatly improved from those comments.
1. Introduction

Understanding the behavior of savings in an economy is important in designing policies that encourage savings and investment (Kudaisi, 2013). It is therefore not surprising that most empirical macroeconomic studies focus on the behavior of savings in various economies (Jappelli and Pagano, 1998). According to Adewuyi et al. (2010), a sufficiently strong savings performance is an important pre-condition for achieving economic growth, macroeconomic balance and price stability. A relatively low level of domestic saving could limit growth and make the country much more vulnerable to international capital shifts (Adewuyi et al. 2010).

Unlike the East Asian region, that experienced doubled savings rates in the past three decades, the sub-Saharan African region, Latin America and the Caribbean recorded stagnated savings rates (Loayza and Shankar, 2000). According to Chinweuba and Sunday (2014), this has created a disparity that has made savings a policy concern, especially in developing countries.

According to Levine (1997), mobilizing savings is important because it provides capital for growth and development; and it is one of the key roles played by the financial sector. The financial institutions pool savings in order to fund investment in productive projects. Savings require forgoing current consumption for future consumption in the hope that these spooled savings can build up to fund profitable assets, send a child to school, cope with emergencies or protect against an income shock (Thom et al., 2014).

Despite the undisputed role of saving in the economic growth process, research coverage on the saving in Swaziland is scant. This paper, therefore, aims to contribute to the filling up of this gap by analyzing the dynamics of savings in Swaziland in the period from 1970 to 2014. The study provides an overview of the savings environment in general and it also analyses the performance of savings providers and the challenges they face while mobilizing savings in the country. The paper also identifies policy initiatives implemented by the government of Swaziland in promoting savings. The rest of the paper is organized as follows: Section 2 outlines an overview of the savings environment in Swaziland. The trend analysis of savings in Swaziland is discussed in Section 3. Section 4 outlines the policy reforms associated with savings promotion in Swaziland and the last section concludes the study.

2. An Overview of Savings Providers in Swaziland

The providers of savings in Swaziland are classified into two groups; the formal and informal savings institutions. The formal savings providers comprise mainly of the banking sector and non-bank financial institutions; and are going to be discussed in detail in Sections 2.1 and 2.2. The informal savings providers are primarily informal organizations offering saving products to the public; and these are discussed in Section 2.3.
2.1. Performance of the Banking sector in Swaziland

The structure and performance of the Swaziland banking sector is illustrated in Figure 1.

Figure 1: Swaziland’s Financial Sector Structure and Performance (2014)

![Swaziland's Financial Sector Structure and Performance](image)

Source: Central Bank of Swaziland (2014); International Monetary Fund Country Report (2015)

The structure of Swaziland’s financial sector presented in Figure 1 shows the predominant role played by commercial banks (46%) and the retirement funds (31%). The remainder of the financial sector is largely accounted for by the collective investment schemes and the insurance market. Figure 2 shows the trends of the prime lending rates and deposit rates offered by Swaziland banks.

Figure 2: Trends in Prime Lending and Bank Deposits Rates in Swaziland (1985-2013)

![Trends in Prime Lending and Bank Deposits Rates](image)

Source: Central Bank of Swaziland (1997; 2009; 2015)
Figure 2, shows that Swaziland commercial banks constantly offer interest rates on deposits that are much lower than the prime lending rates.

Savings products mostly offered by Swaziland commercial banks are demand deposits, savings deposits and time deposits (Central Bank of Swaziland, 2012). The performance of these savings products as a percentage of total bank deposits is presented in Figure 3:

**Figure 3: Savings Products Offered by Banks in Swaziland (% of total deposits) 1990 -2014**

![Chart showing savings products offered by banks in Swaziland](chart.png)

Source: Central Bank of Swaziland (1997, 2002 and 2014)

Figure 3 shows that total savings held in Swazi commercial banks are dominated by time deposits\(^1\) which account for over 50% each year as a percentage of total deposits (Central Bank of Swaziland, 2014). However, though time deposits are the dominant savings product offered by banks in Swaziland, Figure 3 also shows that in the period between the 1990’s and beyond 2000, this product has declined on average from 58.79% in the 1990’s to 52.27% in the years post 2000. The decline in time deposits is attributed to the fall in the deposit interest rates in Swaziland from an average of 10.67% in the 1990’s to 5.61% in the period beyond 2000 (Central Bank of Swaziland, 2015). Demand deposits and savings deposits have grown on average from 22.62% and 18.30% in the 1990’s to 28.75% and 18.97% respectively in the years after 2000 (Central Bank of Swaziland, 2014).

According to the IMF (2015) country report, commercial banks in Swaziland should ensure that they charge their depositors a fair real interest rate in order to sustain their deposit/savings mobilization levels.

### 2.2. Performance of the Non-Banking Sector in Swaziland

The non-banking sector in Swaziland is mostly dominated by contractual savings institutions which comprise of the pension funds and the insurance market. Other non-bank financial institutions present in Swaziland are: savings and credit cooperatives and

\(^1\) Time deposits in Swaziland are interest bearing bank deposit accounts that have a specified date of maturity. They are most often referred to as 'fixed term accounts’. The depositor can make a withdrawal by giving the bank a notice.
collective investment schemes. According to the IMF (2014; p5) country report, non-bank financial institutions (NBFI) in Swaziland account for about 45% of the formal financial sector in terms of assets. Each one of the NBFI is discussed in detail as follows:

i) The Pension and Provident Funds

The Swaziland National Provident Fund (SNPF) is a compulsory life assurance scheme for the private sector employees and it was established under the Swaziland National Provident Fund Act of 1962. A large share of SNPF assets is invested in real estate in Swaziland. SNPF assets accounts for about 9% of total assets in the financial sector (Financial Services Regulatory Authority, 2014).

However, a large part of this sector is the many smaller pension and provident funds based in South Africa which was estimated at around E600 million in 1995 (IMF, 1996). These other retirement funds account for about 23% of total assets of the financial institutions (Central Bank of Swaziland, 2014).

As a group, these contractual savings institutions are the fastest growing and most dynamic component of the formal financial sector. In future, these institutions will soon surpass the commercial banks in terms of total assets managed (Financial Services Regulatory Authority, 2013). According to Fin Mark Trust (2011), retirement fund savings in Swaziland generally require employment and regular income contributions and are largely used by the formally employed citizens.

ii) Insurance Business in Swaziland

The insurance business in Swaziland has mainly been conducted through the Swaziland Royal Insurance Corporation (SRIC) which was established under the Swaziland Royal Insurance Corporation Order (1973). The SRIC also manages a small amount of pension and provident fund business, and it also issues life insurance policies (FSRA, 2013). Excess funds collected by the SRIC are largely invested in Swaziland and a smaller part is invested in the South African market (Central Bank of Swaziland, 2013).

The insurance business in Swaziland is currently regulated by the Financial Services Regulatory Authority (FSRA), which was established by the FSRA Act, of 2010 as an integrated regulator with the mandate to license, regulate and supervise the activities of all non-bank financial institutions in Swaziland. The industry offers both the long-term and short-term insurance to Swazis (Central Bank of Swaziland, 2014).

According to a study conducted by Thom et al. (2014), insurance uptake in Swaziland is fairly high among the employed population (64% of the civil servants and 35% of company employees). Only about 5% of the employed population has insurance with burial societies. The study further revealed that Swazi people have instead found other ways to cope with the impact of risks, such as saving or borrowing. The study found that about 16% of savers in Swaziland save towards medical expenses and about 22% of those who save do so to allow for non-medical emergencies (Thom et. al. 2014).

iii) Savings and Credit Cooperatives (SACCOs)

Cooperatives in Swaziland started in 1964 when the first cooperative proclamation was introduced, during the colonial regime. The main objective for
encouraging cooperatives in Swaziland was to promote rural development for indigenous Swazi farmers (Central Bank of Swaziland, 1996). After the establishment of FSRA under the FSRA Act of 2010, SACCOs in Swaziland are now regulated and supervised by the Authority (FSRA, 2013).

Cooperative societies in Swaziland are empowered by law to undertake deposit-taking activities. About 7% of national deposits come from SACCOs and 8.3% of the Swazi population participates in savings and credit cooperatives (Central Bank of Swaziland, 2014). This sector has been growing rapidly over the years from 14 registered SACCOs in 1968 to 67 SACCOs by March 2013 (FSRA, 2013). Prosperous SACCOs in Swaziland are mainly those run by employed members who have regular monthly income. Such SACCOs include among others those formed by; Police, Army, Prison Services, Town Councils, Teachers, etc. This limitation to employed members constrains future growth, as employment is limited in Swaziland (Thom et al, 2014). Most of the rural cooperative that were formed for self-employed and mostly farming communities have failed, because of lack of regular income flows to the members, (Fin Mark Trust, 2003).

Cooperatives in Swaziland have improved the quality of life of its members by providing them access to quality products and services such as; providing better education for their children, access to affordable loans, construction of modern houses and fostering the entrepreneurship spirit (Thom et al. 2014).

iv) Collective Investment Schemes

Licensed collective investment scheme managers currently operating in Swaziland consists of six companies. Figure 1 shows that collective investment schemes account for about 4% of total financial sector assets (IMF, 2014).

v) Alternative Savings Distribution Channels in Swaziland

The distribution of savings products and services to low-income and rural population is the main challenging factor facing the formal savings providers in Swaziland (Central Bank of Swaziland, 2012). The traditional provision of savings products through bank branches and agents with trained staff is expensive and can seldom be justified to viably serve the low income clientele in the rural areas (Thom et al. 2014). Further, the transport costs and the inconvenience to access urban savings centers often places the formal savings services outside the reach of many low income people (Fin Mark Trust 2011). The formal institutional layout of the formal financial institutions also provides barriers to savers who feel intimidated and uncomfortable to transact in an environment that is foreign to them. To overcome this distributional challenge of mobilizing savings, the country has allowed alternative distribution channels which include among others; MTN mobile network operator, the Post Office and retailers (Thom et al, 2014). Each one of the alternative savings distribution channels is discussed in detail in the following paragraphs:

i) Mobile Network Operator (MTN)

Mobile phones in Swaziland are a convenient low cost method to transact and save money. Using mobile phones to access formal savings products and services is
convenient and reduces transport costs that would have been incurred in order to access most financial services. Storing and sending money through mobile phone linked accounts is also safer than using the informal methods as it removes the easy access to the physical funds and it is possible to do so privately. Mobile phone accounts further offer privacy from others, allowing funds to be built up anonymously without the pressure to lend to relatives or friends in need, with often little hope of getting repaid (MTN, 2013).

According to the Fin Mark Trust (2011) study, there is a high mobile phone penetration in Swaziland. More than 80% of Swazi people own a mobile phone. A study conducted by MTN Swaziland in 2013 found that 800,000 mobile phone accounts have been opened in Swaziland (MTN, 2013). This implies that significantly more Swazi people own a mobile phone than they have a bank account with the formal banking institutions.

With MTN Swaziland, the only mobile network operator in Swaziland, users only need to register for one type of account to send or receive from any Swazi with a mobile phone. This therefore, facilitates a particular convenient cash in and cash out functionality (Thom et al, 2014). According to the Central Bank of Swaziland (2013) annual report, MTN currently has 422 registered agents, 130 of which are currently active. This means that the distribution infrastructure for MTN is larger than any other financial services provider in Swaziland. Figure 4 shows the relative distribution of MTN’s active agents between the rural and urban areas in Swaziland in 2013.

Figure 4: The Distribution of MTN Mobile Money Agents in Swaziland (2013)

![Figure 4: The Distribution of MTN Mobile Money Agents in Swaziland (2013)](image)

Source: Central Bank of Swaziland (2013)

Figure 4 shows that the majority of the active agents are situated in urban areas, although a significant proportion of agents are situated in the rural areas; hence the MTN mobile money has a greater rural area reach than other distributional channels.

The MTN mobile money service charges no interest on deposit fees, which make it attractive for low value frequent saving (Central Bank of Swaziland, 2014). Due to the low costs and wide distribution associated with mobile money, the service would also be
a viable vehicle for the alternative distribution of insurance products as premiums can be paid at a low cost and there are no travel expenses incurred by the subscribers. MTN has already started to partner with insurance companies to offer this option, but the service has not yet been implemented (Thom et al, 2013).

ii) The Swazi Post Office

Swazi Post, which is part of Swaziland Post and Telecommunication Corporation (SPTC), is a parastatal that operates Swaziland’s post offices and fixed line providers. SPTC currently has 31 operating post offices in the country, through which it offers money transfers (financial services) both domestically and across the border, with other post offices in the region (SPTC, 2013). The financial services include postal orders, money orders, bill payments and school fees (SERA, 2013). The distribution footprint places SPTC in a strong position to offer financial services. However, expansion of the financial service strategies in the short run appears unlikely, given the current uncertainties about the future configuration of the company (SPTC, 2014).

2.3. Performance of the Informal Savings Providers in Swaziland

The informal savings providers offering financial savings in Swaziland are savings groups, which include amongst others; accumulating savings and credit associations (ASCAS) and Rotating Savings and Credit Associations (ROSCAs) often called ‘stokvels’; and informal village money lenders, mostly referred to as ‘shylocks’ in Swaziland (Central Bank of Swaziland, 2012). The informal savings groups accept deposits and also offer credit to both members and non-members. Some of these informal credits organizations have developed into more formalized cooperatives and are reasonably large and operating with excess funds (IMF, 1996).

A majority of these savings groups are women’s clubs that provide financial support for women in the same way as the ROSCAs. In Swaziland, married women are legally disadvantaged within the banking system; as the country adopted the Roman Dutch Law of South Africa which treats married women as legal minors (IMF, 2014). Unable to be sued in a court of law (as legal minor), married women cannot undertake many basic financial activities without the consent of the husbands, including opening a bank account and taking a loan. Although the application of this discriminatory practice is not uniform, it places impediments on the development of an important group of entrepreneurs in the Swazi society (IMF, 1996).

A major challenge for the informal savings providers is the lack of a formal regulatory authority for these groups (IMF, 2014). Abuse of member funds in informal savings groups is eminent (IMF, 2014). The lack of a formal identity for these savings groups means that members have little opportunity for formal recourse if member funds are mismanaged or misappropriated. These groups would not be able to report any information to a regulator, but registration alone may offer members some protection (Thom et al, 2014). Creating a formal regulatory provision for such groups may therefore

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2 Such as electricity for Swaziland Electricity Company (SEC), airtime for MTN, water bills for Swaziland Water Corporations Services (SWCS), TV licence for the Swaziland Television Authority (STVA) and telephone bills for Swazi Telecom.

3 SERA stands for Swaziland Energy Regulatory Authority
help to improve trust in these organizations as members would have access to appropriate recourse mechanisms if required.

3. Policy Initiatives for Promoting Savings in Swaziland

Policy reforms aimed at promoting savings in the Kingdom of Swaziland have focused on improving the legal, regulatory, supervisory and rehabilitation of the infrastructure for savings providers. Some of the policy initiatives aimed at promoting savings mobilization are discussed in the following paragraphs:

i) The Insurance Act, 2005

Since 1973, the Swaziland Royal Insurance Corporation (SRIC) has been the only official provider of insurance in Swaziland. The Insurance Act of 2005 removed the official monopoly in the insurance industry which had existed for 32 years. The liberalization of the insurance industry triggered significant entry of insurance providers into the market (Central Bank of Swaziland, 2014). By 2014, the total number of insurers that had entered the insurance industry was ten (FSRA, 2014). This includes six long-term insurers, three short-term insurers and one composite insurer (SRIC). All the insurers are majority foreign owned. SRIC is the dominant player on the short-term insurance products (FSRA, 2013). In the long-term insurance market, the other insurers have gained market share, reducing SRIC’s market share to 36% of gross premiums by 2012 (FSRA, 2014).

ii) Retirement Act of 2005

In 2005, concurrent to the establishment of the Insurance Act of 2005, the government of the Kingdom of Swaziland also passed the retirement funds Act of 2005, which applies only to private retirement funds (Central Bank of Swaziland, 2013). The reason why the insurance and retirement Acts were established at the same time is because the registrar appointed in terms of the Insurance Act, 2005 also acts as registrar for retirement funds in Swaziland (Central Bank of Swaziland, 2006). There is an obligation for retirement funds operating in Swaziland to invest 30% of assets within Swaziland and in compliance of the schedules of approved local and international assets types and corresponding maximum exposure (Central Bank of Swaziland, 20005). However, because of the illiquid nature of securities exchange in Swaziland, the retirement funds would likely place more emphasis on foreign securities, local bonds, and bank investments. Therefore the obligation of investing 30% in Swaziland would hold true if a local investment proportion is invested with a bank and then intermediated in the foreign market, then it would still be considered as having been invested in Swaziland since the funds become co-mingled in the balance sheet of the local bank (Thom et al, 2014).

iii) The FSRA Act of 2010

In 2010, the government of Swaziland established the Financial Services Regulatory Authority (FSRA) under the FSRA Act, of 2010 (Central Bank of Swaziland, 2012). FSRA is a supervisory authority of all non-bank financial institutions in Swaziland. The Authority was established in order to promote savings mobilization by non-bank financial institutions and ensuring that they are supervised and regulated accordingly. The objective of the FSRA Act is to foster the stability, fairness and
soundness of Swaziland’s financial services industry by means of regulation and prudential supervision by an independent authority (FSRA, 2013). According to the FSRA (2010) Act, the ambit of the act is limited to the following specific types of non-bank financial institutions: central securities depository; collective investment schemes; credit bureau; dealers; fund administrators; insurance agents and brokers; insurers; investment advisors; pawn brokers; medical aid schemes providers; SACCOs and retirement funds such as pension and provident funds.

iv) SACCOs Regulations, 2013

Ever since the FSRA Act of 2010 divorced SACCOs from Co-operatives in 2010, there was no legislative framework for SACCOs in Swaziland. A set of SACCOs regulations in similar form to an enactment was published by the Minister in terms of delegated authority contained in section 89 of the FSRA Act of 2010 (FSRA, 2013). The prudential and supervisory provisions of SACCO regulations are more structured than those of cooperatives and are more keen to banking supervision (FSRA, 2013). SACCOs, when compared to cooperatives, have become the credit providers of choice. Therefore, the IMF has raised their concern that SACCOs must at least be supervised by the Central Bank of Swaziland (Basdevant et al. 2012).

4. The Trend Analysis of Savings in Swaziland

The trend analysis of savings in the country is analyzed by examining the savings trend with macroeconomic indicators such as the gross domestic investment, the growth rate of GDP and public and private saving.

4.1. Gross Domestic Savings and Gross Domestic Investment in Swaziland

Gross domestic savings (GDS) as defined by the World Bank (2015) is calculated as GDP less final consumption expenditure. These national savings are therefore domestic resources that feed in the monetary system as sources of funds to finance investment (Shiimi and Kadhikwa, 1999). In Swaziland, GDS is calculated by deducting private consumption and public consumption from the real gross domestic product. Domestic savings in Swaziland comprise of private savings (which include household saving and business savings) and public savings (generally known as government savings).

Gross domestic investment, proxied by gross fixed capital formation (GFCF), on the other hand, measures the investment performance of a country. It consists of outlays on additions to the fixed assets of the economy plus net changes in the level of inventories (World Bank, 2015). In the Swazi national accounts, domestic investment consists of two elements: the fixed investment and the inventory investment. Both elements of investment are important in explaining the effects of domestic investment on aggregate demand in the economy. However, when the effect of domestic investment on economic growth is considered, fixed capital investment is more appropriate to use (Shiimi and Kadhikwa, 1999). It is on these grounds that the current study also uses gross fixed capital formation to measure domestic investment in Swaziland. The trends of gross domestic saving and
gross domestic investment as a percentage of GDP in Swaziland are presented in Figure 5.

**Figure 5: Gross Domestic Savings and Gross Capital Formation in Swaziland (% of GDP)**

![Graph showing Gross Domestic Savings and Gross Capital Formation in Swaziland](image)


Figure 5 shows that the growth rate of gross domestic savings (GDS) as a percentage of gross domestic product (GDP) in Swaziland has been declining in the period from 1970 to 2014; and most of the time it has been below the growth rate of domestic investment.

Gross domestic savings as a percentage of GDP averaged 29.48% in the 1970’s and dropped sharply to an average of 3.74% in the 1980’s (Central Bank of Swaziland, 1990). This decline was largely a result of a decline in the savings by the government of Swaziland, contrary to the savings rate in this period, the gross fixed capital investment as a percentage of GDP rose from an average of 26.67% in the 70’s to an average of 27.19 in the 80’s (IMF, 2014). This was largely due to the sudden increase in foreign direct investment (FDI) in Swaziland in the 1980’s, which was triggered by the unstable political situations in neighboring countries; South Africa and Mozambique (Central Bank of Swaziland, 1982). To foreign investors, it looked like Swaziland was an optimal country to undertake their business activities. This was also a period characterized by low levels of unemployment in Swaziland due to the absorption capacity of FDI at that time (World Bank, 1996).

In the 1990’s the GDS declined further to an average of 2%. This was largely due to the drought that hit the Sub-Saharan African region in the 1990’s. The drought also impacted negatively on agricultural production in the country as it fell by about 10% of GDP in the 1990’s (Central Bank of Swaziland, 1995). Of note also in this period is the slowdown in the manufacturing sector’s production as investors disinvested from Swaziland in favor of the South African market where there were improvements in that country’s political situation. The slowdown in economic activity in Swaziland in this period, resulted in the country experiencing an increase in the level of unemployment,
which increased by an average of 3.6% per annum for formal employment in 1991 (World Bank, 1996).

In the period 2000 to 2009, domestic savings in Swaziland improved and recorded on average 8.8%. This increase was a result of high transfers from the Southern African Customs Union (SACU). This increase was also experienced in all the other member countries of SACU during this period (Central Bank of Swaziland, 2008). Domestic investment, as measured by the gross fixed capital formation, however recorded a downward trajectory averaging 15.78% in this period when compared to the 1990’s where it averaged 17.19% as shown in Figure 4.4. In 2001, the country experienced a collapse to its rule of law. The lack of independence in the judiciary system created a state of uncertainty to investors who wanted to start businesses in Swaziland. This problem exacerbated the decline in economic growth in the country as it dropped to an average of 2.33% in this period (as shown in figure 4.5) when compared to an average of 4.88% in the 1990’s (Central Bank of Swaziland, 2003).

Gross domestic savings, however, deteriorated substantially to a low average of 0.7% in the period 2010 to 2014. Such low savings rates were also experienced in other Sub-Saharan African countries such as Namibia during this period. A major challenging issue that faced most African countries, especially the smaller members of the Common Monetary Area (CMA)\(^4\), which have resulted in the low savings rates in this period, is the excessive liquidity in the banking sectors of these countries. This is exacerbated by the fact that economic expansion in the real sectors of these countries is unable to tap into these excess resources (Ogbokor and Musilika, 2014).

4.2. Gross Domestic Savings and the Growth Rate of Gross Domestic Product

The drought that hit the Southern African countries in the 1990’s, Swaziland included, impacted negatively on the economic growth performance of these countries (Central Bank of Swaziland, 1995). The trends of the growth rate of GDP and gross domestic savings is presented in Figure 6.

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\(^4\) Members of the Common Monetary Area are South Africa, Swaziland, Namibia and Lesotho.
Figure 6: Gross Domestic Savings and Real Economic Growth Rate in Swaziland 1970 to 2014

Figure 6 shows that the average annual real economic growth rate dropped from 8.6% in the 1980’s to less than 5% in the 1990s as a result of the drought (Central Bank of Swaziland, 1995).

In 2011, the Swaziland government was hit hard by a fiscal crisis that resulted in a sharp reduction in SACU revenue in 2011/12. The situation was exacerbated by the government’s inability to raise funds domestically and externally. As a result, government cash-flow problems resulted in reduced spending (mainly on capital projects) and accumulation of payment arrears to private sector suppliers (Central Bank of Swaziland, 2011). These developments in turn compromised service delivery, national savings and dampened growth prospects in most sectors of the economy, particularly the secondary and tertiary sectors (Central Bank of Swaziland, 2012).

Another factor that contributed to the low savings and growth in the period 2010 -2014 was the general slowdown in global economic activity experienced in 2012. The Eurozone crises affected the country in two ways: firstly, directly through Swaziland’s trade links with the European Union (EU) and secondly, indirectly through South Africa’s trade links with the EU. The poor performance in the EU and South African markets, which collectively consumes about 70% Swaziland exports, translated to a slower performance in the domestic economy (International Monetary Fund, 2014). From the domestic front, the economy of Swaziland endured the second round effects of the fiscal crisis which was evident not only to the government sector but also in other sectors which are directly or indirectly linked with the government sector5 (Central Bank of Swaziland, 2013).

The slowdown in real output growth in this period was also a result of a decrease in global demand for iron ore which led to falling prices for this mineral (IMF, 2015). The plunge in international iron ore prices led to the sudden closure of the only iron ore

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5 These include inter alia; commerce, construction and financial intermediaries.
production mine in Swaziland in the last quarter of 2014. The closure affected both the mining and services sectors of the economy, notably the transport sector, which was one of the key beneficiary sectors of the iron ore production (Central Bank of Swaziland, 2015).

4.3. The Saving – Investment Gap

The saving-investment gap which basically shows the extent to which domestic investment is being financed by saving in Swaziland is shown in Figure 7.

Figure 7: Gross Domestic Savings, Gross Capital Formation and the Current Account in Swaziland

![Graph showing Gross Domestic Savings, Gross Capital Formation and the Current Account in Swaziland](source)

It shows that in Swaziland, over the period 1970 to 2014, investment consistently outperformed savings except in the periods between 1970 and 1976. This means that during this period, the country generated sufficient domestic savings to finance domestic investment (Central Bank of Swaziland, 1980).

According to Shiimi and Kadhikwa (1999), a balance between domestic savings and investment in an economy usually reflects the foreign saving position of that economy. Thus, if a country experiences excess saving over investment, then that would lead to foreign lending which is reflected by an outflow of capital to neighboring countries like South Africa. On the other hand if there is a deficiency in a country’s savings over investment, then that would lead to an import of capital through foreign borrowing. Developing countries like Swaziland save less than they invest. Figure 7 also shows that in the period 1977 to 2014, where savings are less than investment, and this is largely because of the low initial income levels. This therefore results in persistent current account deficits in such economies (Adom and Elbahnasawy, 2014).

The ratio of gross domestic savings to GDP averaged 34.4% in the period 1970 to 1976, while the ratio of investment to GDP averaged 21.3% in the same period. This implied a positive saving – investment gap in Swaziland in that period. In that period the external current account registered an average overall surplus of about 15.03 % of GDP (World Bank, 1980). The key driver of domestic investment in that period was the sudden
increase in foreign direct investment (FDI) in Swaziland in the late 70’s which was triggered by the unstable political situations in neighboring countries; South Africa and Mozambique. During this period the Swaziland government experienced significant surpluses in its budget and current account, as illustrated in Figure 7 (Central Bank of Swaziland, 1982).

In the period from 1977 to 2014 Swaziland experienced current account deficits which averaged around -4%. This is the period where the country had a negative savings-investment gap as the savings rates were below the investment rates (World Bank, 2015), as shown in figure 4.6. This implies that Swaziland in this period sought foreign investment in order to supplement its internally generated savings to finance its domestic investment. The current account deficits in this period could be attributed to imbalances in government’s budget (Central Bank of Swaziland, 2014).

It is worth noting that the low savings rates and large savings-investment gaps in developing countries, like Swaziland, could have been the result of the fact that from attaining independence until the beginning of the 21st Century, these countries relied heavily on overseas development aid (ODA) to fund the bulk of investment that was needed to boost economic growth. Consequently, the heavy reliance on ODA resulted in these countries neglecting their domestic and regional financial markets as sources of funds and as a such private savings, especially household savings suffered a lot since there were no viable policies implemented to promote them (Adom and Elbahnasawy, 2014). The heavy reliance on ODA could explain the declining trend of the GDS for Swaziland shown in Figure 7.

One last factor that could also explain the low savings rates and huge saving-investment gaps in developing countries, like Swaziland, is that generally a large proportion of domestic savings in African households is held in a form of non-financial assets. This factor compounds the other existing factors affecting savings mobilization in developing countries in that it drastically reduces the pool of resources available through the financial capital market (Aryeetey and Udry, 2000).

Against the short fall in saving and investment, the only way out for Swaziland is to attract foreign capital. Ever since the establishment of the Swaziland Investment Promotion Authority (SIPA) in 1998, FDI to Swaziland has improved and the saving-investment gap since then has narrowed, implying that foreign saving is effective in financing domestic investment. Although the gap has narrowed ever since SIPA’s establishment, there is still a need to design policies to promote domestic saving in Swaziland and to attract more foreign investment (IMF, 2015).

4.4. Public and Private Savings in Swaziland

Gross domestic savings in Swaziland comprise of private savings (which include household saving and business/corporate savings) and public savings (generally known as government savings). Public savings generally indicates how much government is

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6 SIPA is a gateway to investing in Swaziland. The authority offers the following services to foreign investors: Facilitates company registration and business licences, It provides investor facilitation and aftercare services, facilitates work permits and visas for investors and it also provides a one stop shop information and support facility for businesses.
savings. This implies that public saving equals to the difference between government current revenue collected from taxes (T) and government expenditure (G). When government revenue in a form of taxes exceeds government expenditure then the economy is said to be running a budget surplus. On the other hand, when government spending exceeds government revenue, then that government is said to be running a budget deficit and it is dis-saving.

Private savings generally show how much the people who reside within an economy are saving. The private savings is therefore what is left after the people residing in that economy have paid taxes and consumed goods. In Swaziland, private savings comprise of personal / household savings and corporate savings (Central Bank of Swaziland, 2013). The national accounts of Swaziland, just like in Namibia, lumps together these components of private saving, but it is generally known that personal savings are quite stable and trend consistently when compared to the volatile trend of corporate savings.

Private savings in Swaziland mostly come from contractual savings institutions. Contractual savings in Swaziland comprises of individual savings from pension funds, provident funds and insurance policy premiums (Central Bank of Swaziland, 2014). Figure 8 presents trends in public and private savings in Swaziland during the period from 1980 to 2014.

Figure 8: Public and Private Savings in Swaziland (% of GDP)

![Figure 8: Public and Private Savings in Swaziland (% of GDP)](source: Central Bank of Swaziland (1980 – 2014) and African Development Bank Group (ADBG) (2015))

Figure 8 shows that in the period from 1980 to 1987, general government savings averaged around -1.28 % of GDP and it was dis-saving. Coincidentally, during this period private savings also recorded low levels of savings which averaged around -1.10 percent of GDP. However, in the late 1980’s in the period from 1988 to 1992, general government savings improved to an average of 3.65 percent and private savings also recorded an impressive average of 9.44 percent of GDP (Central Bank of Swaziland, 1990). The overall gross domestic savings in this period also recorded the highest average savings of 13.08% and the GDP real growth rate in that period averaged around 4% (Central Bank of Swaziland, 1990).
In the late 1980’s Swaziland experienced rapid industrialization which was coupled with substantial economic growth performance. This was a result of the upswing in foreign direct investment (FDI) which started in the early 1980’s. Most FDIs disinvested from South Africa because of the political unrest and established their investments in Swaziland (Central Bank of Swaziland, 1995). That is why in this period the country economic performance was most outstanding.

In the period from 1992 to 1996, Swaziland experienced significant economic challenges such as drought, decline in international commodity prices especially, oil prices and the effects of HIV/AIDS which drained most of the country’s revenue (Central Bank of Swaziland, 1997). Public savings declined from an average of 3.65% in the late 1980’s to an average of -2.14 percent in the early 1990’s (Central Bank of Swaziland, 1999). Private savings also declined from an average of 9.44 percent in the 1980’s to 3.37 percent in the 1990’s. In 1994, South Africa had its first successful democratic elections, which attracted foreign direct investment inflows to South Africa. This resulted in most FDIs that had invested in Swaziland opting to disinvest from the country in favor of the South African markets (Central Bank of Swaziland, 1997). The slowdown in economic performance in this period weakened the country’s fiscal position such that country mostly experienced fiscal deficits which resulted in the decline in public savings (Central Bank of Swaziland, 1999).

In the period from 2000 to 2014, public savings as a percentage of GDP averaged around -2.3%. Private savings on the hand has improved from an average of 3.37% to 7.6% (IMF, 2015). This period has mainly recorded fiscal deficits. Government expenditure was mostly dominated by recurrent expenditure which comprises of civil servants remunerations. The persistent rise in personnel expenditure has resulted in fewer resources being channeled to capital projects. The IMF (2015) has therefore recommended the need to stress the importance of fiscal prudence and the need for government expenditure to closely tally with budgeted revenues for Swaziland, to ensure that the fiscal deficits are consistent with other macroeconomic policies.

5. Conclusion

The study explored the behaviour of savings in Swaziland for the period 1970 to 2014; it provided an overview of the savings environment in Swaziland, highlighting the performance of the institutions that provide savings in the country. The study found that the national savings trend was higher in the 1970’s averaging around 29% of GDP and it gradually fell to low levels of savings averaging 0.7% in 2014. Factors that contributed to the fall in gross domestic savings in the study period include drought, a fall in SACU receipts and the excessive liquidity in the banking sector. The study also found that savings providers in Swaziland are classified into two groups; the formal and informal savings providers. The informal savings providers are the most dominant providers of savings in Swaziland than the formal savings providers because they are affordable to the low income population in the rural areas. The challenging factor facing the formal savings providers is that they are situated in urban areas and their products are suitable for the salaried population. Their savings products and services cannot be afforded by the low income clientele in the rural areas. A major challenge with the informal savings institutions in Swaziland is that they are not regulated. In order to promote savings in country, Swaziland implemented policy initiatives most of which were aimed at
improving the legal, regulatory, supervisory and rehabilitation of the infrastructure for savings providers.

References


