GOVERNMENT OF THE KINGDOM OF ESWATINI

INFORMATION STATEMENT
in respect of the
ZAR4,000,000,000
MEDIUM TERM NOTE PROGRAMME

The Government of the Kingdom of Eswatini (the **Issuer**) intends to issue notes from time to time (the **Notes**) under the ZAR4,000,000,000 Medium Term Note Programme (the **Programme**) on the basis set out in the Programme Memorandum dated _20 November__ 2023, as amended and restated from time to time (the **Programme Memorandum**).

The Notes may be issued on a continuing basis and be placed by the Dealer specified in the section headed "Summary of Programme" under the Programme Memorandum and any additional Dealers appointed under the Programme from time to time by the Issuer, which appointment may be for a specific issue or on an ongoing basis.

The specific aggregate nominal amount, the status, maturity, interest rate, or interest rate formula, dates of payment of interest, purchase price to be paid to the Issuer, any terms for redemption or other special terms, currency or currencies, form and denomination of Notes, information as to financial exchange listings and the name of the dealer, underwriters or agents in connection with the sale of Notes being offered at a particular time will be set forth or referred to in the terms and conditions contained in the Programme Memorandum (the **Terms and Conditions**), read together with the pricing supplement applicable to any Notes (the **Applicable Pricing Supplement**) and this information statement (the **Information Statement**).

Availability of Information

This Information Statement is also available on the Issuer's website at https://www.gov.sz/index.php/budget-monetary-affairs/public-debt:

Information on the Issuer's website, other than in this Information Statement and the Programme Memorandum, is not intended to be incorporated by reference into this Information Statement, save for those documents which are incorporated by reference in the section headed "*Documents Incorporated by Reference*" in the Programme Memorandum.

Recipients of this Information Statement should retain it for future reference. It is intended that the Programme Memorandum read together with the Applicable Pricing Supplement in connection with the issuance of Notes, will refer to this Information Statement for a description of the Issuer, its financial condition and results of operations (if any) and investor considerations/risk factors of the Issuer, until a new information statement is issued. This Information Statement is not intended, and should not be construed as, the Programme Memorandum and/or the Applicable Pricing Supplement(s). It is not a standalone document and cannot be read without reference to the Programme Memorandum and/or the Applicable Pricing Supplement(s).

Information Statement dated 20 November 2023.

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GENERAL

Capitalised terms used in this section headed "General" shall bear the same meanings as defined in the Terms and Conditions in the Programme Memorandum, except to the extent that they are separately defined in this section, or this is clearly inappropriate from the context.

The Issuer certifies that to the best of its knowledge and belief there are no facts that have been omitted from this Information Statement which would make any statement false or misleading and that all reasonable enquiries to ascertain such facts have been made, and that this Information Statement contains all information required by law and the Debt Listings Requirements of the JSE. The Issuer accepts full responsibility for the accuracy of the information contained in this Information Statement.

The JSE takes no responsibility for the contents of this Information Statement, the Programme Memorandum, the published audited annual financial statements, the integrated annual reports, the constitutional documents of the Issuer, the Applicable Pricing Supplement(s) and any amendments or supplements to the aforementioned documents. The JSE makes no representation as to the accuracy or completeness of this Information Statement, the Programme Memorandum, the published audited annual financial statements, the annual reports and the Applicable Pricing Supplement(s) and any amendments or supplements to the aforementioned documents and the JSE expressly disclaims any liability for any loss arising from or in reliance upon the whole or any part of the aforementioned documents. The JSE's approval of the registration of the Programme Memorandum and listing of the Notes is not to be taken in any way as an indication of the merits of the Issuer or of the Notes and that, to the extent permitted by law, the JSE will not be liable for any claim whatsoever.

In addition, the Issuer, having made all reasonable inquiries, confirms that this Information Statement contains or incorporates all information which is material in relation to the issuing and the offering of the Notes, that all information contained or incorporated in this Information Statement is true and accurate in all material respects and that the opinions and the intentions expressed in this Information Statement are honestly held and that there are no other facts, the omission of which, would make this Information Statement or any of such information or expression of any such opinions or intentions misleading in any material respect.

The Arranger, the Dealer, the JSE Debt Sponsor or any of their respective subsidiaries or holding companies or a subsidiary of their holding companies (**Affiliates**) and the professional advisors have not separately verified the information contained in this Information Statement. Accordingly, no representation, warranty or undertaking, expressed or implied, is made and no responsibility is accepted by the Arranger, Dealer, the JSE Debt Sponsor, their Affiliates or any of the professional advisors as to the accuracy or completeness of the information contained in this Information Statement or any other information provided by the Issuer. None of the Arranger, the Dealer, the JSE Debt Sponsor, their Affiliates nor any of the professional advisors accepts any liability in relation to the information contained in this Information Statement or any other information provided by the Issuer in connection with the Notes. The statements made in this paragraph are without prejudice to the responsibilities of the Issuer.

No person has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Information Statement or any other information supplied in connection with the issue and sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Arranger, the Dealer, the JSE Debt Sponsor, their Affiliates or the professional advisors. Neither the delivery of this Information Statement nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof, or that any other financial statement or other information supplied in connection with the Information Statement is correct at any time subsequent to the date indicated in the document containing same.

Neither this Information Statement nor any other information supplied in connection with the Notes constitutes the rendering of financial or investment advice by or on behalf of the Issuer, the Arranger, the Dealer, the JSE Debt Sponsor, their Affiliates or any professional advisor.

This Information Statement and any other information supplied in connection with the Notes is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Arranger, the Dealer, the JSE Debt Sponsor, their Affiliates or any professional advisor, that any recipient of this Information Statement should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs and its own appraisal of the creditworthiness, of the Issuer. Each potential investor should consult its own advisors to make its investment decision and to determine whether it is legally permitted to purchase the Notes under Applicable Laws and regulations.

Neither this Information Statement nor any other information supplied in connection with the Notes constitutes an offer or invitation by or on behalf of the Issuer, the Arranger, the Dealer, the JSE Debt Sponsor, their Affiliates or the professional advisors to any person to subscribe for or to purchase any Notes.

This Information Statement does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. None of the Issuer, the Arranger, the Dealer, the JSE Debt Sponsor, their Affiliates nor any professional advisor, represents that this Information Statement may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arranger, the Dealer, the JSE Debt Sponsor, their Affiliates or the professional advisors which would permit a public offering of any Notes or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Information Statement nor any advertisement nor other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any Applicable Laws and regulations. The Arranger or the Dealer have represented that all offers and sales by them will be made on the same terms and in compliance with this prohibition.

The distribution of this Information Statement and the offer for the subscription or sale of Notes may be restricted by law in certain jurisdictions. Currently, the Notes are only available for subscription by South African residents. Persons into whose possession this Information Statement or any Notes come must inform themselves about, and observe, any such restrictions. In particular there are restrictions on the distribution of this Information Statement and the offer for the subscription or sale of Notes in the United States of America, the European Economic Area, the United Kingdom and South Africa.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) and may not be offered or sold in the United States of America or to, or for the account or benefit of, US persons (as defined in Regulation S under the Securities Act (**Regulation S**)). The Notes will be offered and sold only in offshore transactions outside the United States of America in accordance with Regulation S and, subject to certain exceptions, may not be offered, sold or delivered within the United States of America or to, or for the account or benefit of, US persons.

Information and opinions presented in the Information Statement were obtained or derived from public sources that the Arranger, the Dealer, the JSE Debt Sponsor, their Affiliates or the professional advisors believe are reliable but make no representations as to the accuracy or completeness thereof. Any opinions, forecasts or estimates (if any) herein constitute a judgment as at the date of this Information Statement. There can be no assurance that future results or events will be consistent with any such opinions, forecasts or estimates. Past performance should not be taken as an indication or guarantee of future performance and no representation or warranty, express or implied is made regarding future performance. The price, value of and income from any of the securities or financial instruments mentioned in this Information Statement (if any) can fall as well as rise. Any opinions expressed in this Information Statement are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of the Arranger, the Dealer, the JSE Debt Sponsor, their Affiliates or the professional advisors as a result of using different assumptions and criteria. Furthermore, the Arranger or the Dealer (and their respective directors, employees, representatives and agents), the JSE Debt Sponsor, their Affiliates or any professional advisors accept no liability for any direct or indirect loss or damage incurred arising from the use of the material presented in this Information Statement, except as provided for by law.

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Copies of this Information Statement are available by request from the registered offices of the Issuer.

INVESTOR CONSIDERATIONS / RISK FACTORS

Capitalised terms used in this section headed "Investor Considerations/Risk Factors" shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section, or this is clearly inappropriate from the context.

The Issuer believes that the factors outlined below may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are also described below. The value of the Notes could decline due to any of these risks and investors may lose some or all of their investment.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information available to it at the date of this Information Statement (the ***Information Statement Date****), or which it may not be able to anticipate at the Information Statement Date. Accordingly, the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive.*

Prospective investors should also read the detailed information set out elsewhere in the Programme Memorandum to reach their own views prior to making any investment decision.

References below to the "Terms and Conditions", in relation to Notes, shall mean the "Terms and Conditions of the Notes" set out under the section of the Programme Memorandum headed "Terms and Conditions of the Notes".

Factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme

Risks Relating to the Notes

The Notes may not be a suitable investment for all investors
Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in the Programme Memorandum or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such an investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured and appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

There may not be an active trading market for the Notes
Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. There is no assurance as to the development or liquidity of any trading market for any particular Tranche of Notes.

The Notes may be redeemed prior to maturity
Unless in the case of any particular Tranche of Notes the Applicable Pricing Supplement specifies otherwise, in the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the government of South Africa or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions.

In addition, if in the case of any particular Tranche of Notes the Applicable Pricing Supplement specifies that the Notes are redeemable at the Issuer's option in certain other circumstances, the Issuer may choose to redeem the Notes at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Notes.

Because uncertificated Notes are held in the CSD, investors will have to rely on their procedures for transfer, payment and communication with the Issuer

Notes issued under the Programme which are listed on the Interest Rate Market of the JSE or such other or additional Financial Exchange and/or held in the CSD may, subject to Applicable Laws and the Applicable Procedures, be issued in uncertificated form. Unlisted Notes may also be held in the CSD in uncertificated form. Notes held in the CSD will be issued, cleared and settled in accordance with the Applicable Procedures through the electronic settlement system of the CSD. Except in the limited circumstances described in the Terms and Conditions, investors will not be entitled to receive Individual Certificates. The CSD will maintain records of the Beneficial Interests in Notes issued in uncertificated form, which are held in the CSD (whether such Notes are listed or unlisted). Investors will be able to trade their Beneficial Interests only through the CSD and in accordance with the Applicable Procedures.

Payments of principal and/or interest in respect of uncertificated Notes will be made to the CSD or the Participants and the Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the CSD or the Participants for distribution to their account holders. A holder of a Beneficial Interest in uncertificated Notes, whether listed or unlisted, must rely on the procedures of the CSD to receive payments under the relevant Notes. Each investor shown in the records of the CSD or the Participants, as the case may be, shall look solely to the CSD or the Participant, as the case may be, for their share of each payment so made by the Issuer to the registered holder of such uncertificated Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, such Beneficial Interests.

Holders of Beneficial Interests in uncertificated Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the CSD to appoint appropriate proxies.

Credit Rating
Tranches of Notes issued under the Programme, the Issuer, as the case may be, may be rated or unrated. A Rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning Rating Agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes issued under the Programme.

Any amendment in the Rating of the Issuer, as the case may be, after the Programme Date, will be announced on SENS.

Risks related to the structure of the particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

Notes subject to optional redemption by the Issuer
An optional redemption feature is likely to limit the market value of the Notes. During any period when the Issuer may elect to redeem the Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period. The Issuer may be expected to redeem Notes when it's cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to re-invest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index-Linked and Dual Currency Notes
The Issuer may issue Notes the terms of which provide for interest or principal payable in respect of such Notes to be determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a **Relevant Factor**) or with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- the market price of such Notes may be volatile;
- no interest may be payable on such Notes;
- payments of principal or interest on such Notes may occur at a different time or in a different currency than expected;
- the amount of principal payable at redemption may be less than the Nominal Amount of such Notes or even zero;
- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable is likely to be magnified; and
- the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Partly paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Variable Rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate may at any time be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

Notes where denominations involve integral multiples: Individual Certificates

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive an Individual Certificate in respect of such holding and would need to purchase a Nominal Amount of Notes such that its holding amounts to a minimum Specified Denomination.

If Individual Certificates are issued, holders should be aware that Individual Certificates which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Modification and waivers and substitution

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

Change of law

The Notes are governed by, and will be construed in accordance with, South African law in effect as at the Programme Date. No assurance can be given as to the impact of any possible judicial decision, change to South African law or administrative practice in South Africa after the Programme Date.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Risks Relating to the Government of the Kingdom of Eswatini

Rising Government Debt Levels

Notes issued under the Programme represent claims on the Government of the Kingdom of Eswatini (the **Government** or the **Issuer**) such that a fundamental risk relating to the Notes is the ability and willingness of the Issuer (as represented by the Ministry of Finance) to execute its obligations under the Programme in relation to payment of interest (coupons) and principal on redemption of the Notes. Although relatively low compared to other sovereigns, the Issuer's external debt has been on an upward trajectory over the past few years due to the Government's weak fiscal position. Persistent fiscal deficits and muted economic growth has caused Eswatini's debt to Gross Domestic Product (**GDP**) to rise from below 20 per cent a decade ago to 38.4 per cent as at the end of 2022. Persistent growth in debt levels accompanied by poor revenue growth have the potential to limit the Government's ability to service future debt.

Dependency on SACU
The Southern African Custom Union (**SACU**) revenues account for a significant portion of the country's total Government revenues (about 40 per cent average over the past few years), leading to challenges for the Kingdom of Eswatini (the **Kingdom** or **Eswatini**). The volatility in SACU receipts poses challenges for the Government in planning fiscal policy over the medium-term. This has been an issue for several years and led to the Government aiming to rely less on the SACU revenue and instead increase domestic tax collection. A significant decline in SACU revenues leads to widening fiscal deficits with a negative impact and have a negative impact on the economy. Another risk associated with SACU is the possibility in future of the SACU revenue sharing formula being revised such that smaller states like Eswatini end up receiving a lower share of the revenue pool. To circumvent this challenge, the Government has found it crucial to create a SACU stabilization fund which will assist cushion the shocks in SACU revenue, whilst also enhancing domestic revenue collection in order to strengthen the fiscus.

Monetary policy limitations
Although participation in the Common Monetary Area (**CMA**) has so far yielded positive results in terms of containing inflation and ensuring financial stability in Eswatini, joining the CMA has ensured that Eswatini surrenders its ability to conduct monetary policy independently. This prevents Eswatini from implementing policies that allow the country to independently manage the impact of external shocks that could hit the country. The Issuer cannot unilaterally use the exchange rate as a policy tool to either deal with external shocks or promote export competitiveness.

Low & volatile economic growth
The country's economic growth over the past decade has been relatively low but stable and highly susceptible to global dynamics due to its openness. Shocks to the global economy experienced in previous years such as the fiscal crisis and the Covid-19 pandemic have caused sharp contractions in Eswatini's economy. Furthermore, the strong links with South Africa through both trade and the CMA imply that shocks and disruptions in the South African economy have the potential to adversely affect Eswatini's economic performance.

Social unrest risk
Eswatini is noted to have a relatively high youth unemployment rate (15-24 years) estimated at 58.2 per cent (Labour Force Survey (**LFS**), 2021) and noted to be high in both urban and rural areas. Over the past few years, the country has experienced protests and social unrest in the major towns with calls for improved public finance management, transparency and political reform. Failure by the Government to address the prevailing poverty and income inequality in the near future would most likely intensify social unrest and calls for political reform undermining peace and stability.

Climate change impact on the economy
The country is exposed and vulnerable to weather-related environmental risks emanating from global climate change. These risks include, amongst others, the prevalence of droughts, floods and wild fires. The strong role of the agricultural sector in the economy implies that the country needs to prioritize climate change mitigation and adaptation measures. With a majority of the population residing in rural areas and relying on subsistence farming, adverse weather changes have the potential to exacerbate the high poverty and inequality challenges.

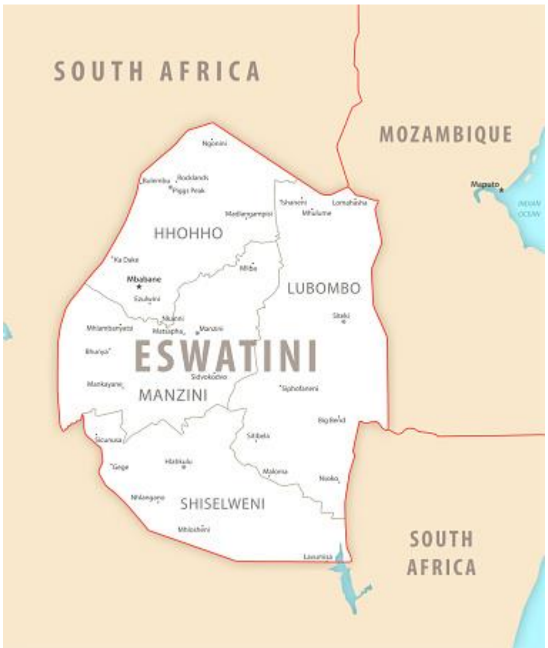
Fiscal Sustainability
The Government has in recent years been putting into place reforms to put the fiscal account into a sustainable path. The implementation of the Fiscal Adjustment Plan (**FAP**) has come with challenges, nevertheless the commitment to contain expenditure has been the Government's main priority. Expenditure in the last three years has averaged E22.2 billion regardless of the expenditure pressures emanating from cyclone Eloise, the advent of the Covid-19 pandemic, the destruction of infrastructure due to social unrest, etc. To contain expenditure, the Government has been reallocating from on-going programs to cater for emerging issues other than increasing expenditure.

The FAP was amended in October 2021, due to alterations in projections and difficulty in implementing some of the policy measures initially planned. The amended FAP with an adjustment of 4.8 per cent of GDP over the medium term has also proven to be difficult to implement in the set time period due to pressing needs in the Kingdom. 2023/24 is an election year and there is pressure on expenditures since the Government has to provide for the election's activities. The anticipated expenditure savings from the FAP (EVERS, SOE reforms, Scholarship Fund) have proven to be difficult to implement in the medium term as there are certain processes that need to be completed first. The Government however remains committed to implementing the reforms in the medium to long term.

Furthermore, policy measures intended to increase revenue collections have also been delayed. For example, the fuel tax increase has been halted due to the Russia- Ukraine war that has exerted pressure on global fuel prices making it impossible for the country to put additional tax. On the positive side, SACU revenues are expected to increase and reach about E10 billion and the Government intends to save part of the revenue in a stabilization fund to cater for SACU volatility.

DESCRIPTION OF THE GOVERNMENT OF THE KINGDOM OF ESWATINI

Capitalised terms used in this section headed "Description of the Government of the Kingdom of Eswatini" shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section, or this is clearly inappropriate from the context.



Source: International Press Telecommunications Council

1. INTRODUCTION AND SUMMARY

The Kingdom of Eswatini (formerly known as Swaziland) (**Eswatini**) is a small land-locked open economy with a land area of 17,364 km^2 and a population of 1.2 million people. The country shares ¾ of its borders (north, south and west) with the Republic of South Africa and ¼ to the east with the Republic of Mozambique. With a GDP per capita of USD 3,987 (World Bank), Eswatini is classified as a lower middle-income country. The Kingdom gained independence in September 1968 from the United Kingdom and is a monarchical democracy with His Majesty King Mswati III (the **King**) as the Head of State ruling in consultation with a government constituted of modern institutions (the executive, legislature and judiciary). Eswatini is geographically divided into four districts – Hhohho (with the administrative capital Mbabane), Manzini (the commercial district), Lubombo and Shiselweni. Within each district are regional constituencies, defined as Tinkhundla through which social services are delivered as part of Government's decentralization policy. The Tinkhundla centres also serve as a key pillar for political organization and popular representation of people in Parliament through direct elections. The country changed its name from Swaziland to Eswatini in 2018.

Eswatini has an open economy and strong economic ties in the region characterized by its membership in the Southern African Customs Union[1] (**SACU**) and the CMA. South Africa is the country's major trading partner with 65 per cent of the country's total exports destined for South Africa and Eswatini importing 70 per cent of its total imports from South Africa. The country's currency, the Lilangeni, is pegged at par to the South African Rand (the **Rand**). Through the country's membership in the CMA, together with South Africa, Lesotho and Namibia, the Rand also enjoys legal tender status in Eswatini. Participation in the CMA has ensured that the country has a credible monetary policy with the Central Bank of Eswatini's policy discount rate closely tracking the South African Reserve Bank's (the **SARB**) repo rate. The CMA membership also guarantees free capital flows between Eswatini and South Africa with no exchange controls in place amongst all CMA members.

[1] SACU is the regional customs union with Botswana, Lesotho, Namibia, South Africa and Eswatini as members.

Eswatini has a dual legal system with Swazi law and custom being of the same force as Roman Dutch law (the common law). This allows for a duality of courts which apply either Swazi law and custom or Roman Dutch law which has a heavy influence of English common law. Matters predominantly of a customary nature are brought before the Swazi courts. The common law courts apply both criminal and civil law, with the Supreme Court being the highest court in the Land. The judiciary is created in terms of the constitution which provides for the separation of powers and guarantees the rule of law. All courts are guided by the principal of legal precedence (*stare decisis*), with consequences that all lower courts are bound by the decisions of the higher court.

2. THE ECONOMY

Overview

The global economy is weathering yet another storm, just a year after grappling with the COVID-19 pandemic. The ongoing geopolitical tension (Russia – Ukraine war) has led to further supply and trade disruptions, triggering significant hikes in commodity prices (i.e., international oil and food prices). Internationally, economies are overwhelmed by a high inflationary environment, which has contributed to tighter financial and monetary conditions. This has in turn raised concerns for another potential economic recession and compounded heightened policy uncertainty.

Economic Projections 2022

On the back of a significant growth in 2021, economic activity is projected to be slower in 2022 at 0.4 per cent and driven by a contraction in the secondary sector.

a) Primary Sector Developments

The primary sector is estimated to have grown by 2.3 per cent in 2022, from 2.5 per cent in 2021. Positive performance was observed in ‘crop production’ and ‘mining & quarrying’ activities. Rain-fed crops such as maize and cotton recorded significant growth rates benefited from above-normal rains during planting season for the 2021/22 season. Maize harvest for 2022 is estimated to have reached a record high of 127,315 metric tonnes in 2022 while cotton output recovered from a low of 417 metric tonnes in 2021 to 913 metric tonnes in 2022. Sugarcane production also increased by 5.4 per cent to 5.57 million metric tonnes in 2022. However, heavy rains during peak of harvesting coupled with an industrial action in the sugar industry, which resulted in delays in harvesting of sugarcane, weighed negatively on sucrose yields. The animal production subsector, on the other hand, recorded negative growth largely due to rising feeding costs, which mainly affected the piggeries and poultry subsectors. The ‘mining & quarrying’ subsector rose by a significant 51.2 per cent in 2022, compared to 3.1 per cent in 2021. The increase is mainly attributable to mining activities. Evidently, anthracite coal production rose by a significant 67.7 per cent in period under review, boosted by the mining of a high-yielding crownland that was awarded in October 2021. On the contrary, quarrying activities declined by 30.1 per cent in the year under review, in line with a slowdown in construction activity particularly in relation to road infrastructure.

b) Secondary Sector

The secondary sector contracted by 1.2 per cent in 2022 down from an increase 15.4 per cent in 2021, contributing negative 0.41 percentage points to the overall growth outcome for 2022. The manufacturing subsector is estimated to have declined by 1.0 per cent in 2022, from a high base of 16.6 per cent in the previous year. The ‘manufacturing of food and beverages’ recorded flat growth in line with modest growth in sugar production and flat performance in the manufacturing of beverages, particularly on soft drinks concentrates. Manufacturing of ‘textiles & wearing apparel’ and ‘wood & wood products’ recorded declines of 2.6 and 18.2 per cent, respectively in the period under review. The poor performance in all four major lines of key exports suggest that external demand somewhat softened in the period under review and disruption on trade arising from Russia-Ukraine conflict potentially affected local export-oriented manufacturers.

In addition, subsectors such as construction and water supply also posted negative performance. Construction activity contracted significantly by 8.6 per cent in 2022, from zero growth in the previous year. The decline in the construction subsector was mainly a result of completion of capital projects coupled with no significant projects of similar magnitude earmarked for the year 2022 in line with fiscal cashflow challenges in the year under review. Similarly, water supply is estimated to have declined by 2.0 per cent, from a significant 15.0 per cent in the previous year.

Electricity supply, on the other hand, reported a double-digit growth for the second successive year in the period under review. Hydro power generation continued to benefit from above normal rains experienced over the past two years which kept dam levels at high levels for a prolonged period.

c) Tertiary Sector

The tertiary sector grew by 0.9 per cent in 2022, compared to 4.1 per cent in 2021. Developments in the sector were mixed. Sectors that performed negatively include ‘wholesale & retail’, ‘financial services’, ‘health’ and ‘public administration’ subsectors. The ‘wholesale & retail’ subsector is estimated to have declined by 2.2 per cent in the period under review compared to 0.7 per cent in the previous year. The decrease is mainly attributed to strained real disposable incomes as food and fuel inflation were highly elevated. Economic activity in the ‘public administration’ subsector receded by 1.7 per cent, in-line with the on-going fiscal consolidation program implementation, which includes a hiring freeze on public sector payroll that was sustained in the review period. Similarly, the ‘financial’ sector declined by 4.1 per cent in 2022, compared to 30.9 per cent in 2021, owing to declining activity in ‘insurance & pension funding’ services. The health subsector is estimated to have contracted by 8.7 per cent in 2022 owing to high base effects.

Subsectors that performed positively were ‘tourism’, ‘Information & communication’ and ‘professional services’. The tourism subsector proceeded on a recovery path, recording a strong growth of 63.1 per cent in the year 2022, from a lower 0.3 per cent in the previous year. Worth noting, is that the tourism sector remains lower than pre-COVID-19 levels. Economic activity in the ‘professional services’ and ‘information & communication’ subsectors grew by 13.9 and 8.2 per cent, respectively, in the year under review. The ‘information & communication’ subsector continued to benefit from new ways of doing business that is optimizing on the digital economy.

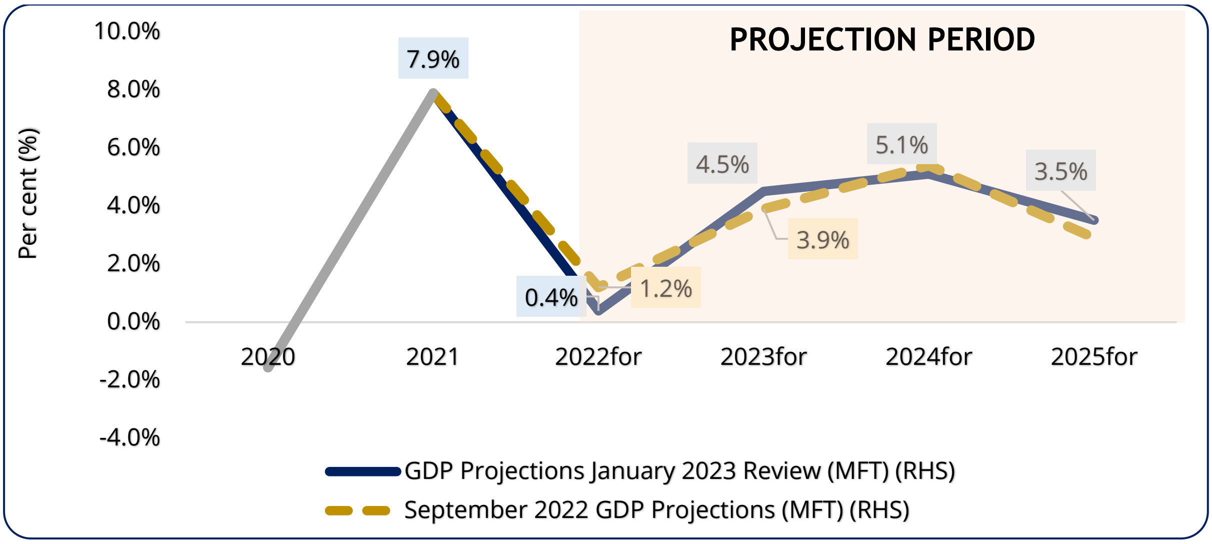
<u>Medium Term Outlook</u>

Economic activity is projected to grow by 4.5 per cent 2023, from 0.4 per cent in 2022. The growth in 2023 is mainly attributed to a higher revision of the tertiary sector, which is projected to grow by 4.9 per cent in the year under review compared to 0.9 per cent in 2022 and accounting for 2.6 percentage points to the overall growth. An anticipated improvement in the fiscal position is envisaged to support sectors linked to government operations such as ‘wholesale & retail’, ‘construction’ and ‘public administration’. The tertiary sector will also benefit from a continuous recovery of the tourism sector as travel restrictions remain eased. On the other hand, the government is expected to undertake multi-billion mega projects, which include: the Mkhondvo-Ngwavuma Water Augmented Project (**MNWAP**), that is earmarked to commence 2023, coupled with other ongoing projects such as the International Convention Centre & Five Star Hotel, Nhlangano-Sicunusa road among others.

The secondary sector is expected to rebound to 4.3 per cent in 2023, owing to a recovery in the ‘manufacturing’ and ‘construction’ sub sectors. The manufacturing sector will benefit from food processing, particularly sugar, as well as ‘manufacturing of beverages’ and ‘manufacturing of textiles’. Challenges faced by the sugar industry, which included lower yields (due to above normal rains), as well as labour strikes (in the past two years) are expected to subside in 2023. These, coupled with investments from the Lower Usuthu Smallholder Irrigation Project (LUSIP) II are expected to support a recovery in sugar production. Conditional on an improvement in trade disruptions and external demand, other export-oriented products mainly beverages, textiles and wood are also expected to perform positively. The construction sector is expected to rebound from a negative growth of 8.6 per cent to a positive growth of 5.8 per cent in line with the implementation of planned mega projects.

In the outer years, 2024 and 2025, growth is envisaged to remain above the long-term potential growth of 2.2 percent for the domestic economy with continued expansions anticipated in the manufacturing subsector and full implementation of the Lower Usuthu Smallholder Irrigation Project.

Figure 1: Eswatini GDP Developments; 2020 to 2025



Source: Macro Forecasting Team (January 2023)

Downside Risks or the country's economy

Heightened uncertainty remains for the short-medium outlook, emanating from global headwinds including, but not limited to, the prolonged geopolitical tension, which may intensify at any moment as well as any other potential disease outbreak. From a domestic perspective, tight fiscal space emanating from delayed and volatility of SACU revenues as well as high accumulation of debt. As a result, the implementation of new or on-going projects may be delayed. Additionally, the commencement of mega projects may further be delayed by any other unforeseen challenges. Other supply related risks including the climate change dynamics (i.e., extreme weather conditions in the form of drought, floods etc.) continue to pose a threat to agricultural production and other key economic sectors.

Table 1: Sectorial Developments; 2018 to 2025

Description	2018	2019	2020	2021	2022	2023	2024	2025
Agriculture and forestry	6.0	0.8	-7.5	2.5	1.6	2.7	7.3	2.6
Mining and quarrying	-26.5	-18.3	25.1	3.1	51.2	3.7	-27.6	9.6
Primary sector	**5.4**	**0.5**	**-7.2**	**2.5**	**2.3**	**2.7**	**6.5**	**2.7**
Manufacturing	-0.6	5.3	-10.0	16.6	-1.0	4.1	7.3	7.6
Electricity supply	20.3	68.2	-14.2	28.8	13.9	8.5	5.0	6.7
Water supply	2.5	-2.6	-12.3	15.0	-2.0	2.0	2.0	2.0
Construction	0.2	-0.8	-5.1	0.0	-8.6	5.8	17.3	-12.1
Secondary sector	**-0.2**	**5.8**	**-9.8**	**15.4**	**-1.2**	**4.3**	**7.9**	**6.0**
Wholesale and retail trade	5.2	2.2	0.0	-0.7	-2.2	2.1	1.9	-2.0
Transportation and storage	1.3	3.9	-11.0	-1.3	3.8	3.6	8.7	-1.3
Information and communication	4.5	3.3	93.3	7.1	8.2	1.4	4.2	6.6
Financial and insurance activities	7.6	3.8	-4.8	30.9	-4.1	11.6	8.8	6.4
Real estate activities	1.6	1.2	-2.4	0.2	0.5	3.8	2.6	2.8
Professional services	-6.0	3.5	3.9	-10.5	13.9	2.3	2.7	2.8
Public administration	0.8	-3.9	1.2	-1.2	-1.7	10.3	-3.9	0.0
Education	6.1	2.6	3.7	5.8	-0.5	1.0	1.1	1.1

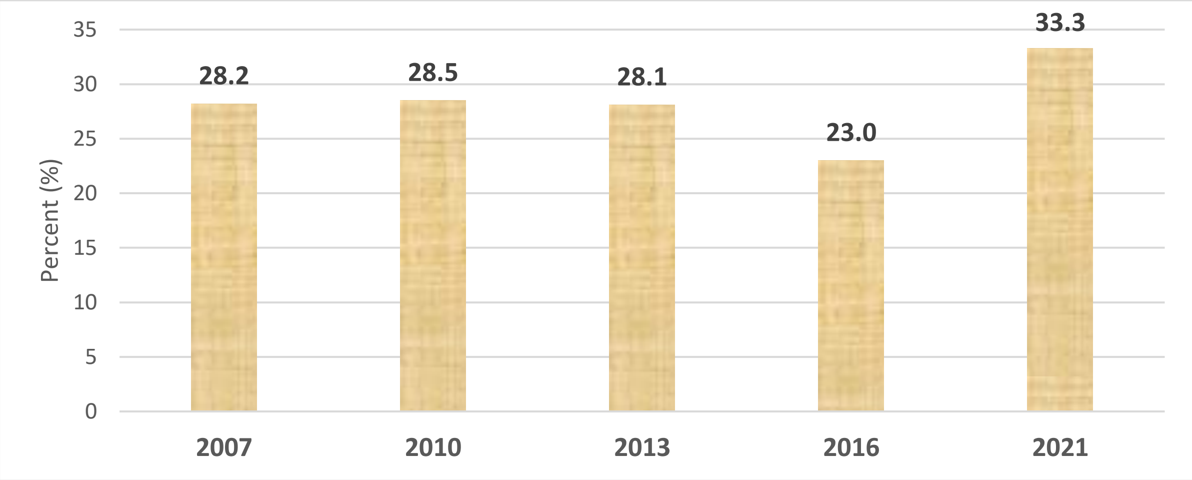
Health	-1.0	-7.1	23.2	6.2	-8.7	3.8	1.0	1.0
Tertiary sector	**2.94**	**1.17**	**5.41**	**4.12**	**0.95**	**4.88**	**3.08**	**2.08**
GDP by economic activity	**2.4**	**2.7**	**-1.6**	**7.9**	**0.4**	**4.5**	**5.1**	**3.5**

Source: Macro Forecasting Team (MFT)

Employment and Labour Statistics

The labour market in Eswatini can be divided into three segments: the public sector, the private formal sector and the informal sector. The informal sector is made up of unofficial economic activities that are organised without Government approval and are outside mainstream industry and commerce, and they are difficult to estimate for the economy due to the nature of the industry. Notably, the country's unemployment rate increased to 33.3 per cent as reported by the 2021 LFS compared to 23.0 per cent in the 2016 LFS. Eswatini is noted to have a relatively high youth unemployment rate (15-24 years) estimated at 58.2 per cent (LFS, 2021) and noted to be high in both urban and rural areas.

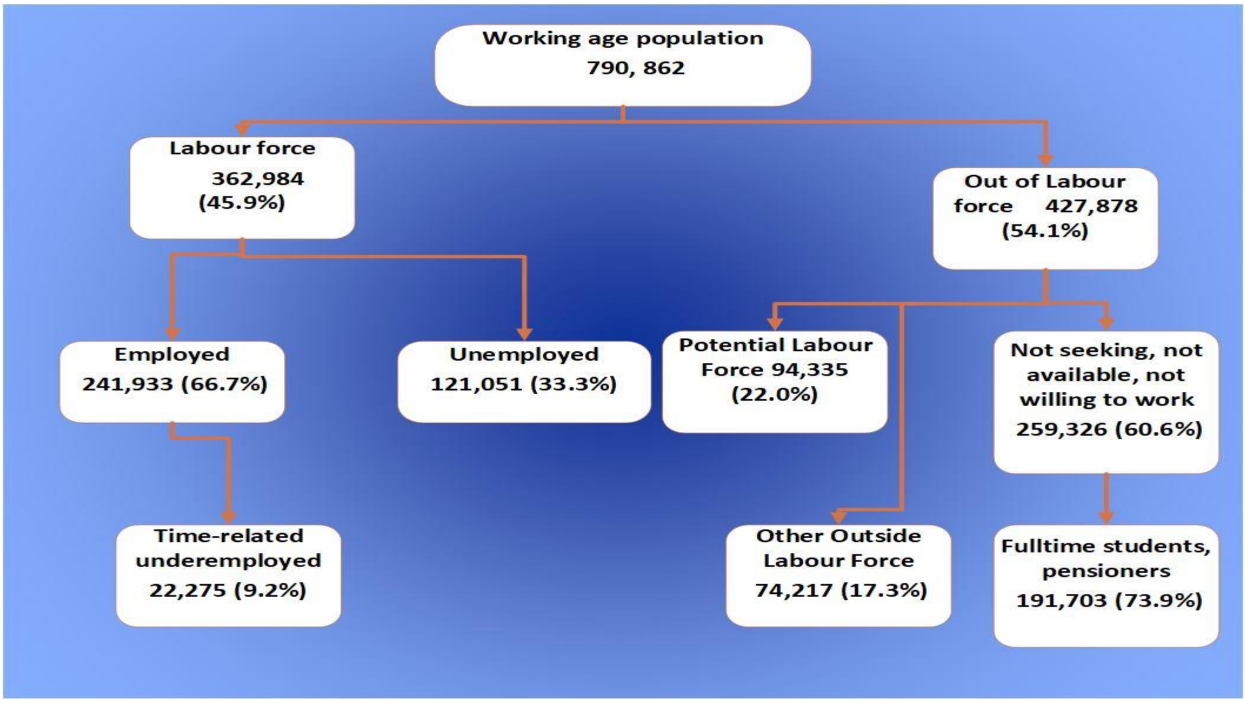
Figure 2: Unemployment Rate as % of the Total Labour Force



Source: Labour Force Survey (2021)

The country's working age population stood at 790,862 (LFS, 2021), whereby 362,984 (45.9%) is encompassed in the labour force, whilst 427,878 (54.1%) was reported to be out of the labour force. Out of the total population in the labour force, 241,933 (66.7%) are employed and economically active whereas 121,051 (33.3%) are termed to be unemployed. The out of labour force group is inclusive of potential labour force individuals together with those not seeking, not available and/or not willing to work.

Figure 3: Current Status of Population Aged 15 Years and Above



Source: Labour Force Survey (2021)

Inflation

Eswatini's inflation has remained below 6 per cent for the past four (4) years. Annual consumer prices increased to an average of 4.8 per cent in 2022 from 3.7 per cent in 2021. The upsurge in consumer prices was a result of increases observed in the CPI for goods. The CPI for goods accelerated to average 9.4 per cent in the year under review, compared to 6.7 per cent in the previous year, mainly driven by increases in the prices for 'non-durable' goods. The advent of the Russia-Ukraine conflict has resulted in supply disruptions in commodity prices particularly those that are linked to either Russia or Ukraine, mainly food and fuel prices. Within the food category, commodities that recorded notable increases included 'edible oils' and 'cereals'. Prices of edible oils rose by 23.1 per cent in the period under review, compared to an increase of 12.2 per cent in the previous period, whilst prices for 'bread & cereals' grew by 10.7 per cent in 2022, compared to 5.0 per cent in 2021. Of note, the Ministry of Commerce, Industry and Trade increased the price of bread cumulatively by 26.8 per cent in 2022. Similarly, fuel prices surged by an average of 40.2 per cent in 2022 compared to 17.4 per cent in 2021. The CPI for services on the other hand, moderated slightly to average 1.0 per cent in 2022, compared to 1.1 per cent in 2021. Services that recorded a notable moderation were 'housing rentals', 'water supply' and 'education'. The inflation for water supply grew by a slower 7.3 per cent in the period under review, compared to 17.6 per cent in the previous period. The decrease in 'water supply' inflation was largely due to base effects as there was no capacity for increases of the same magnitude in water tariffs in the year under review. Similarly, housing rentals inflation recorded a deflation of 0.5 per cent in 2022, from 2.7 per cent in the previous year. The CPI for 'education' recorded a deflation of 0.1 per cent in the year under review, compared to 0.5 per cent in 2021 owing to decreases in the tuition fees for secondary education.

3. FOREIGN TRADE AND BALANCE OF PAYMENTS

Balance of Payments

Preliminary external sector data shows that the country recorded an overall balance of payments deficit of E970.1 million in 2022 following a surplus of E220.2 million in the previous year. The deficit posted in 2022, which is explained as a net E970.1 million contraction in the country's foreign reserves, was on account of transactions with the rest of the world during the year. The country registered a current account deficit amounting to E1.919 billion in 2022, after a E1.866 billion surplus in the previous year. Notably, this is the first current account deficit recorded since 2011. This is largely due to a shrinking merchandise trade surplus and a widening net services account outflow that nearly doubled in 2022 when compared to 2021. The current account deficit, in 2022, was equivalent to 2.66 per cent of GDP from a surplus of 2.58 per cent of GDP in 2021.

Table 2: Balance of Payments (In Millions of Emalangeni, Flow Statistics); 2019 to 2022

Description			**2019**	**2020**	**2021**	**2022**
Current account			**2,526.8**	**4,633.0**	**1,865.9**	**-1,919.4**
	Goods		*3,747.5*	*3,911.6*	*1,890.8*	*1,119.7*
		Exports f.o.b.	28,678.9	28,347.4	30,513.8	33,298.5
		Imports f.o.b.	24,931.4	24,435.8	28,622.9	32,178.8
	Services		*-1,940.8*	*-1,942.0*	*-2,460.6*	*-4,020.2*
		Exports	961.9	1,111.5	1,070.1	1,060.0
		Imports	2,902.8	3,053.5	3,530.7	5,080.2
	Primary Income		*-6,544.4*	*-6,455.6*	*-5,638.0*	*-6,353.9*
		Credit	1,790.5	1,697.9	1,649.6	2,222.9
		Debit	8,334.8	8,153.6	7,287.6	8,576.8
	Secondary Income		*7,264.5*	*9,119.1*	*8,073.7*	*7,335.0*
		Credit	7,693.5	9,768.3	8,688.9	8,194.5
		Debit	428.9	649.2	615.2	859.5
Capital Account			**115.4**	**86.4**	**-50.8**	**-55.8**
		Credit	155.6	120.6	78.5	51.5
		Debit	40.2	34.3	129.3	107.3
Financial Account			**1,814.8**	**3,943.5**	**2,469.6**	**-2,047.1**
	Direct investment		*-1,561.0*	*-799.3*	*-845.3*	*-554.1*
		Assets (Abroad)	320.9	-208.2	891.3	-284.7
		Liabilities (In Eswatini)	1,881.9	591.1	1,736.7	269.5
	Portfolio investment		*1,254.5*	*905.4*	*5,784.5*	*-368.5*
		Assets	1,254.5	905.4	5,784.5	-368.5
		Liabilities				
	Financial derivatives		*9.6*	*3.9*	*14.5*	*2.4*
	Other investment		*2,230.9*	*2,121.2*	*-2,704.3*	*-156.8*
		Assets	1,883.3	3,850.8	689.6	4,282.6
		Liabilities	-347.6	1,729.6	3,393.9	4,439.4
	Reserve assets		*-119.3*	*1,712.2*	*220.2*	*-970.1*
Net Errors and Omissions			-827.3	-775.9	654.5	-71.8

Source: Central Bank of Eswatini

Imports and Exports

The table below shows the value of expenditure on imports and export earnings from 2019 to 2022.

Table 3: Value of Expenditure on Imports and Export Earnings from 2019 to 2022

	2019	2020	2021	2022
Total Exports	28,679	28,347	30,514	33,091
	-	-	-	-
Soft Drink Conentrates (Conco)	13,557	12,397	13,693	14,552
Sugar and Sugar Products (HS 17 Excl. Conco)	6,737	7,127	6,804	6,398
Textiles	1,553	1,552	2,095	2,259
Wood and wood articles (HS 44)	3,417	3,235	3,876	3,971
	2019	2020	2021	2022
Total Imports	24,931	24,436	28,623	32,162
Food and Bevarages	4,754	5,090	5,670	6,366
Fuel products and Electrical Energy (HS 27)	4,280	3,785	4,195	5,751
Machinery and Electrical Appliances	2,688	2,543	3,031	3,184
Textile Inputs (HS 50 - 63)	2,356	2,052	2,790	3,131
Vehicles and Other Transport Means (HS 86 - 89)	1,650	1,171	1,554	1,576
Optical & Medical Instruments	249	314	977	371
Pharmaceutical Products	508	785	776	608
Trade Balance	3,747	3,912	1,891	929

Source: Eswatini Revenue Service (ERS)

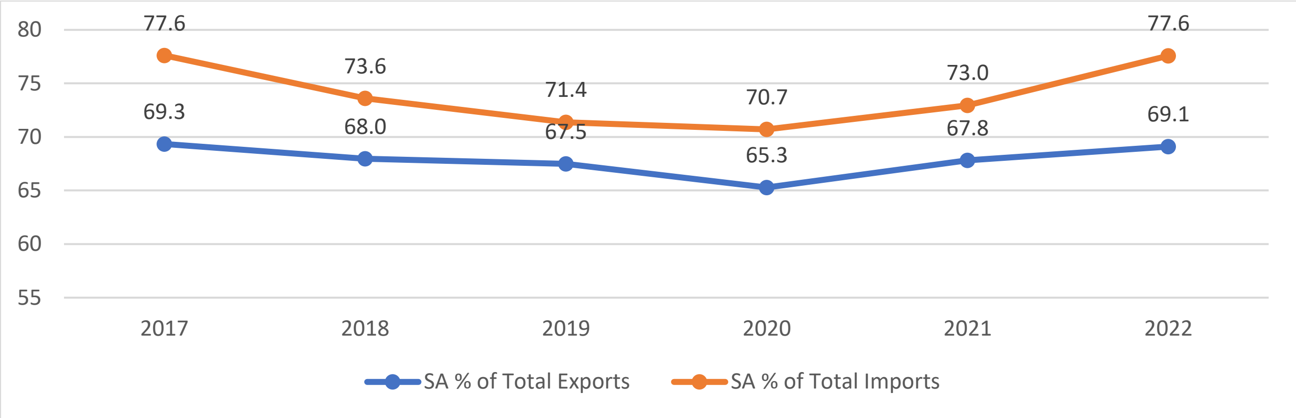
In 2022, Eswatini recorded a trade surplus amounting to E1.120 billion, reflecting a significant decline of 51.7 per cent from the positive trade balance recorded in 2021, as the import bill increased at a faster pace of 12.4 per cent to E32.179 billion, year-on-year, while export income rose by a lesser 9.1 per cent to E33.299 billion. Worth noting is that the overall increase in imports was largely attributed to inflationary pressures, which weighed heavily on key import baskets, while the slower than expected growth in exports was driven by the underperformance of the ‘sugar and sugar products’, which registered subdued volumes.

An analysis of exports by basket indicated that ‘soft-drink concentrates’ sold abroad increased by 6.3 per cent, year-on-year, to E14.552 billion, accounting for 43.7 per cent of total exports. The sale of ‘sugar and sugar products’ amounted to E6.398 billion, depicting a decline of 6.0 per cent on an annual comparison. ‘Wood and word articles’ exported were valued at E3.971 billion, reflecting a 2.5 per cent rise from previous year and accounting for 11.9 per cent of total exports. Income generated from the sale of textile goods increased notably by 7.8 per cent to E2.259 billion on year-on-year comparison, due to an increase in international demand, and accounted for 6.8 per cent of Eswatini’s total exports.

Imports of ‘food and beverages’ contributed the highest to the country’s bill, with a share of 19.8 per cent, and a total value of E6.366 billion, reflecting a significant rise of 12.3 per cent from previous year, due to inflationary pressures. ‘Fuel and electricity’ sourced abroad amounted to E5.751 billion, depicting a substantial price driven growth of 37.1 per cent from the sum paid in 2021, whilst accounting for 17.9 per cent of the total bill, as volumes of electricity imported dropped notably by 8.9 per cent. The volume of petroleum products imported remained relatively flat, with a marginal growth of 2 per cent from previous year. ‘Textile inputs’ amounted to E3.131 billion, reflecting an increase of 12.2 per cent from previous year expenditure, with a contribution of 9.7 per cent towards total imports. ‘Vehicles and other transport means' purchased abroad remained flat at E1.576 billion, accounting to 4.9 per cent of the total bill.

The South African market accounted for 69.1 per cent and 77.6 per cent of exports and imports respectively, while the Lilangeni depreciated by 10.7 per cent against the US dollar, partially contributing to the reduced surplus, as majority of the country's imports were final and necessity products. On the other hand, majority of Eswatini's exports were made on an order basis, which did not allow a notable degree of price variation therefore, this limited the scope of realizing foreign exchange gains.

Figure 4: Share of Trade with South Africa; 2017 to 2022



Source: Central Bank of Eswatini

Foreign Direct Investment

The financial account shows that in 2022, the country recorded a net borrowing position balance of E2.047 billion after recording a net lending position of E2.470 billion in outflows in 2021. Total incurred liabilities increased by E4.709 billion while financial assets acquired grew by E2.662 billion. The net inflow was attributable to an increase in 'other investment' liabilities in the account.
The foreign direct investment account (FDI) posted a net E554.1 million inflow in 2022 due to inflows consisting of both a reduction of assets abroad and an increase in direct investment liabilities. In 2021, FDI assets abroad grew by E891.3 million while in 2022 the same declined by E284.7 million. FDI liabilities on the other hand, increased by a less impressive E269.5 million in 2022 as opposed to the E1.737 billion increase observed in the previous year. FDI movements in Eswatini are largely driven by loans and reinvested earnings.

Trade Policy

Generally, Eswatini has a supportive legal and regulatory framework for investment which is mindful of the essential interests of the State. The policy framework for regulation of the various sectors of the economy rest with the central government and may be allocated by the relevant line ministry to a department, parastatal, or board. The primary custodian of policy and regulation is the minister responsible for the relevant law. All laws, regulations and policies are applied at a national level.

Laws applicable to business operations in the Kingdom conform to international standards and best practices. Such laws are based on a framework of legislation relating to business activity such as company, copyrights, patents, trademarks amongst others. The Kingdom subscribes to a number of international Conventions such as the World Intellectual Property Organisation (**WIPO**).

Eswatini is signatory to a number of bilateral and multilateral agreements that support an open trade policy that facilitates a comparative advantage for the country's foreign direct investors. The table below show the different trade markets where Eswatini is a member.

Table 4: Eswatini's List of Trade Agreement Partners

Southern African Customs Union (SACU)
Eswatini – Republic of China (Taiwan) – Economic Cooperation Agreement (ECA)
Southern African Development Community (SADC)
Common Market for Eastern and Southern Africa (COMESA)
Generalized System of Preferences (GSP)
African Growth Opportunity Act (AGOA)
Economic Partnership Agreement (SADC-EU EPAs)
SACU-European Free Trade Association (PTA)
SACU – MERCOSOUR (PTA)
Tripartite Free Trade Area (COMESA-EAC-SADC)
African Continental Free Trade area (AfCTA)
Tripartite Free Trade Area (COMESA-EAC-SADC)

Source: Ministry of Commerce Industry & Trade

4. PUBLIC FINANCE

Revenue

In Financial Year 2021/22 revenue and grants were budgeted at a total of E19.38 billion, however, the outturn was at E17.99 billion (a shortfall of about E1.4 billion). The low collections were attributed to poor revenue performance as a result of lockdowns and social unrest which affected mostly the retail businesses. In addition, grants were also lower than budgeted.

The budget for financial year 2022/23 had total revenue and grants of E19.25 billion as the economy was expected to recover, however, the outturn is estimated at E18.97 billion. SACU receipts declined from E6.38 billion in the financial year 2021/22 to E5.82 billion in 2022/23 but still remain the largest revenue item accounting for 32.0 per cent of total revenue collection.

Domestic revenue collection in 2022/23 has on the other hand been projected to increase by 9.8 per cent compared to the 2021/22 outturn reaching a total of E12.6 billion. Out of domestic revenue collection, individual income tax (PAYE) has been projected at E4.05 billion and company tax to E1.95 billion. Taxes on goods and services are projected to increase by 13.4 per cent translating to E5.26 billion, where major tax items such as VAT and fuel tax are expected to collect E3.7 billion and E1.3 billion respectively.

In 2023/24, total revenue and grants is expected to amount to E24.64 billion, implying an increase of 24 per cent (E4.88 billion) compared to the 2022/23 budget. The increase in revenue is attributed to both an impressive rebound in SACU receipts and an increase domestic revenue collection, in particular on the items PAYE, company tax and VAT.SACU revenues are expected to reach about E9.66 billion, showing over 65 per cent increase compared to the 2022/23 financial year.

Total revenue is projected to reach E25.70 in the 2024/25 financial year as domestic revenue is expected to grow in particular individual income tax, company tax and VAT in line with economic growth and as a result of administrative efficiencies.

In the 2025/26 financial year, total revenue and grants is expected to increase to E26.19 billion. The increase is mainly attributed to increase in domestic revenues as economic performance is expected to improve.

The volatility in SACU receipts poses challenges for the Government in planning fiscal policy over the medium-term. This has been an issue for several years and led to Government aiming to rely less on the SACU revenue and instead increase domestic tax collection. To circumvent this challenge, Government have found it crucial to create a SACU Stabilization Fund which will assist cushion the shocks in SACU revenue. The Fund is expected to start receiving funds from the 2023/24 SACU collections.

Expenditure

The budget for the 2021/22 financial year was set to a total expenditure of E24.04 billion. Of that, recurrent budget amounted to E17.67 billion and capital budget amounted to E6.37 billion. The outturn was at E21.28 billion due to low implementation of the capital program whose outturn amounted to E3.79 billion translating to 60 per cent implementation rate. On foreign loans, the country disbursed 42.0 per cent lower than the previous year due to delays in implementation. The African Development Bank and World Bank remain the leading development partners to provide loans for Government capital projects.

Total expenditure for 2022/23 was budgeted at E23.13 billion and outturn is estimated at E23.15 billion. As 2023/24 is an election year, total expenditure is expected to reach E26.44 billion, translating to a 14 per cent increase. The growth in expenditure is mainly driven by elections activities and the wage bill. Capital expenditure on the other hand is expected to be at E5.85 billion.

In the financial years 2024/25 and 2025/26, total expenditure is projected to almost remain constant as Government implement fiscal consolidation measures focusing on expenditure rationalization.

On a positive note, current public debt obligations are expected to ease in the medium to long term. A spike in debt service is envisaged in 2023/24 due to interest payments on domestic debt as well as commencement of repayment of the International Monetary Fund (**IMF**) Rapid Financing Instrument (**RFI**). This loan has accelerated payments which are steep but will be repaid in 2025 bringing significant relief on the fiscus.

Table 5: Summary Medium Term Fiscal Framework; 2019/20 to 2025/26

E. million	***2019/20 Act.***	***2020/21 Act.***	***2021/22 Act.***	***2022/23 Budget***	***2022/23 Est Outturn***	***2023/24 Proj.***	***2024/25 Proj.***	***2025/26 Proj.***
Total Revenue and Grants	***17,893***	***19,289***	***17,986***	***19,246***	***18,965***	***24,640***	***25,699***	***26,193***
Total Expenditure	***22,148***	***22,319***	***21,279***	***23,128***	***23,154***	***26,439***	***26,164***	***26,045***
Overall Balance	*-4,255*	*-3,030*	*-3,293*	*-3,881*	*-4,189*	*-1,799*	*-465*	*-148*
% of GDP	*-6.5%*	*-4.6%*	*-4.6%*	*-4.9%*	*-5.5%*	*-2.2%*	*-0.5%*	*-0.2%*
Total Identified Financing	***3,448***	***5,416***	***3,297***	***2,728***	***1,497***	***1,801***	***467***	***1,231***
Drawdown on foreign loans	*3,010*	*3,886*	*2,537*	*1,950*	*1.999*	*3,357*	*2,864*	*2,704*
Redemption of foreign public debt	*-665*	*-509*	*-540*	*-560*	*-551*	*-1,092*	*-1,564*	*-1,327*
Net domestic financing	*1,103*	*2,039*	*1,300*	*1,338*	*49*	*-465*	*-834*	*-147*

Financing gap (-)/surplus (+) (est.)	***-806***	***2,386***	***4***	***-1,153***	***-2,692***	***2***	***1***	***1,379***
% of GDP	*-1.2%*	*3.6%*	*0.0%*	*-1.5%*	*-3.6%*	*0.0%*	*0.0%*	*1.5%*
Public Debt Stock	***20,453***	***25,944***	***27,157***	***32,306***	***33,087***	***34,150***	***33,695***	***33,374***
% of GDP	*31.4%*	*39.0%*	*37.9%*	*41.1%*	*43.8%*	*41.9%*	*38.5%*	*35.9%*

Source: Ministry of Finance

5. PUBLIC DEBT

As of December 2022, total public debt stood at E31.6 billion, of which E17.4 billion accounted for domestic debt while E14.3 billion accounted for external debt. Government borrowing needs have been met from both domestic and external sources. Domestic funding sources have been treasury bills, government bonds and an advance to the Government from the CBE. External sources have consisted of various multilateral, bilateral and commercial creditors. On the overall, domestic debt accounts for 49.9 per cent of total debt and external debt accounts for 50.1 per cent. Local commercial banks dominate the short end of the domestic market while pension funds, insurance companies and collective investment schemes dominate the capital market.

A bulk of Government domestic borrowing has been geared towards budget financing while external debt has largely been directed at project financing and recently Government has borrowed for budget support from the IMF.

Table 6: Government of Eswatini Outstanding Debt; 2019 to 2022

	2019	**2020**	**2021**	**2022**
Nominal GDP	**64,965.0**	**65,588.0**	**70,123.0**	**74,019.0**
Total Export of Goods and Services	**28,678.8**	**28,347.4**	**30,513.7**	**34,138.8**
Foreign Debt Stock	**7,511.3**	**9,985.1**	**11,278.5**	**14,268.2**
Bilateral	1,167.9	1,167.0	1,095.4	981.1
As per cent of Total	15.5	11.7	9.7	6.9
Multilateral	3,610.2	5,692.9	6,977.7	9,987.9
As % of Total	48.1	57.0	61.9	70.0
Private/Commercial	2,733.2	3,125.2	3,205.4	3,299.2
As % of Total	36.4	31.3	28.4	23.1
Foreign Debt Service	745.8	874.0	802.0	943.5
As % of Exports	2.6	3.1	2.6	2.8
Domestic Debt Stock	**10,444.9**	**12,373.9**	**13,600.1**	**14,189.8**
Treasury Bills	2,835.8	3,699.5	4,106.8	3,567.6
As% Total	27.1	29.9	30.2	25.1
Internal Registered stock	7,609.1	8,674.4	9,493.3	10,622.2
As % of Total	72.9	70.1	69.8	74.9
Total Central Government Debt	**17,956.22**	**22,359.04**	**24,878.60**	**28,457.97**

Proportion of Total Debt				
Foreign Debt Stock	41.8	44.7	45.3	50.1
Domestic Debt Stock	58.2	55.3	54.7	49.9
As % of GDP				
Foreign Debt Stock	11.6	15.2	16.1	19.3
Domestic Debt Stock	16.1	18.9	19.4	19.2
Total debt	27.6	34.1	35.5	38.4

Source: Central Bank of Eswatini and Ministry of Finance

Eswatini's external debt has been on an upward trajectory over the past few years due to Government fiscal pressures. The debt particularly increased in 2020 by 33 per cent to reach E9.9 billion from E7.5 billion recorded in 2019. The increase was primarily due to a "*Budget Support*" loan received from the IMF at the dawn of the COVID-19 pandemic. The further increases in 2021 and 2022 can be attributed to contraction of loans from multilateral creditors targeted at economic recovery in response to the Covid-19 pandemic as well as contraction of project loans for agricultural development.

The increase in foreign debt in 2022 can further be attributed to the depreciation of the Lilangeni against the US Dollar and other major currencies in which the country's external liabilities are denominated. The table below shows Eswatini's principal, interest and service charges regarding its foreign debt over a 6- year horizon.

Table 7: Total Debt Service E' Millions; 2023 to 2028

Year	Commitment Fees Due	Interest Due	Principal Due	Total
2023	5.68	377.88	801.15	1,184.71
2024	5.56	345.55	1,597.05	1,948.16
2025	5.67	299.02	1,611.69	1,916.39
2026	4.04	261.44	1,134.44	1,399.92
2027	4.04	228.45	1,305.35	1,537.84
2028	4.05	181.46	1,182.15	1,367.66

Source: Central Bank of Eswatini and Ministry of Finance

6. POLITICAL SYSTEM

The Constitution of the Kingdom of Eswatini Act, 2005 (the **Constitution**) was adopted in 2005 and is the supreme law of Eswatini. Section 79 of the Constitution states that the system of Government in the Kingdom is democratic and participatory based on the "*Tinkhundla system of Governance*". The Constitution provides for three independent organs of Government; namely the Executive, the Judiciary and a bicameral Legislature comprising of the House of Assembly (lower house) and a Senate (upper house). Members (**MPs**) of the House of Assembly are elected from the various Tinkhundla centres in the country. The House of Assembly has a total of sixty five (65) MPs, of which fifty-five (55) are elected directly through a popular vote from the Tinkhundla centres and ten (10) are appointed by the King. The Senate comprises thirty (30) Members (know as Senators), twenty (20) who are appointed by the King and ten (10) by the House of Assembly. The King appoints the Prime Minister of Eswatini from among the members of the House of Assembly as per Section 67(1) of Constitution. The Prime Minister is the head of the Government and together with the Cabinet (recommended by the Prime Minister and appointed by the King) exercises executive authority in the Kingdom. Elections in the country are held every 5 years where the respective Tinkhundla elect their representative MPs to the House of Assembly. The key functions of Parliament are to enact legislation, maintain oversight of the Executive on behalf of the people of Eswatini and to represent the interests and aspirations of the constituents for the promotion of democratic governance and achievement of sustainable development. The system of government emphasizes the devolution of state power from central government to the people.

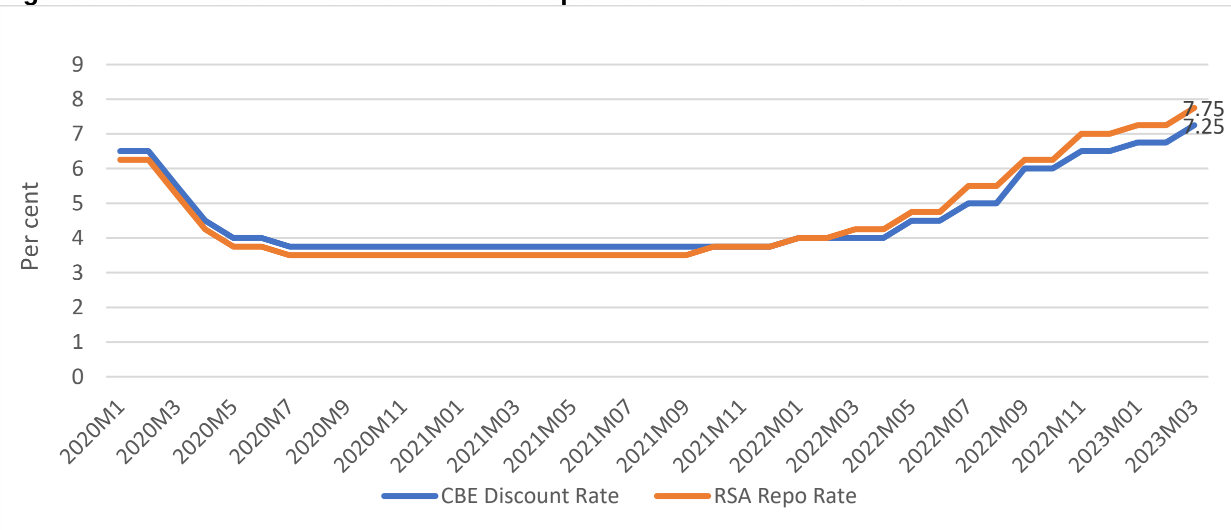
7. MONETARY SYSTEM

Monetary Policy

The monetary policy of Eswatini is characterised by its membership to the CMA, which comprises of four members, namely Eswatini, Lesotho, Namibia and South Africa. It is premised on the CMA Agreement (known as the Multilateral Monetary Agreement, Amended – MMA of 1974) which broadly defines the overall framework in which the four member states conduct monetary arrangements among themselves. It allows the South African currency, the Rand, to circulate freely in all three-member states alongside their national currencies. The Rand is pegged at par with the other member states' currencies and there is unrestricted flow of funds within the CMA. The pegged exchange rate and open capital market limits Eswatini's discretion to set monetary and exchange rate policies. However, as a member of the CMA, Eswatini benefits from the policy credibility of the SARB, free access to South African capital and money markets, low and stable interest rates and inflation, all of which contribute to Eswatini's financial stability.

The Central Bank of Eswatini's (the **CBE**) primary monetary policy mandate, as spelled out in Section 4 (a) of the Central Bank of Swaziland Order (Amended) of 1974, is to promote monetary (price) stability. This objective is achieved by ensuring the peg between the Lilangeni and the Rand, which is a form of a "soft" fixed exchange rate regime. The peg is attained by maintaining gross international reserves at a level that is sufficient to guarantee that for every Lilangeni issued there is basket of foreign currency equivalent reserves, which is the level that underwrites the peg. The CBE operationalises the monetary policy decision through conduct of open market operations which influences the short-term interest rates with a view to align them with those in the CMA, albeit with an allowable deviation margin (Figure 5 below). This is to manage capital outflows within the CMA sub-region, especially with South Africa.

Figure 5: CBE Discount Rate versus RSA Repo Rate: 2020M1 to 2023M3



Source: Central Bank of Eswatini

Preceding the onslaught on the COVID-19 pandemic, between 2018 and 2019 the CBE pursued an accommodative and neutral monetary policy stance as inflationary pressures fuelled by the 2016/17 drought condition subsided. The Monetary Policy Consultative Committee (**MPCC**) cut the benchmark policy rate (discount rate) by 25 basis points in March 2018 and again in July 2019 to 6.5 per cent by the end of 2019. At the beginning of 2018, the CBE maintained an interest rate differential of 25 basis points with the South African benchmark policy rate (repo rate) to curb capital flight. However, the differential was abandoned in November 2018, following the SARB's 25 basis point interest rate hike, after which, the interest rates remained at par up to December 2019.

From the onset of the COVID-19 pandemic in the first quarter of 2020, the CBE adopted a more accommodative monetary policy stance to curtail the negative impact of the virus on the economy. The MPCC reduced the interest rates three times in 2020, amounting to a decline of 275 basis points from

6.5 per cent in January 2020 to 3.75 per cent by the end of 2020. The policy stance afforded a conducive environment for economic recovery and improved banking system liquidity as the country contended with lockdowns and other restrictive measures to slow the spread of the pandemic. Throughout 2021, monetary policy was neutral with the discount rate remaining unchanged at 3.75 per cent, on the backdrop of subdued inflationary pressures. Between 2020 and 2021, the CBE maintained an interest rate differential of 25 basis points for the better part of the review period.

Beginning in late 2021, parts of the global economy begun to experience unrelenting inflationary pressures which prompted sharp global policy tightening. Contagion to the regional and domestic economy intensified in the first quarter of 2022. To rein in domestic inflation, the CBE pursued a restrictive monetary policy and raised interest rates throughout 2022. In five of its six scheduled sittings in 2022, the MPCC raised interest rates by a cumulative 250 basis points from 3.75 per cent in December 2021 to 6.5 per cent by December 2022. The interest rate differential between the discount rate and the repo rate widened from 0 to -50 basis points between January and December 2022, on account of aggressive monetary policy tightening by the SARB while the CBE adopted a more cautious approach mindful not to restrain economic growth. In the first quarter of 2023, the CBE continued on a tightening stance raising the interest rate by a cumulative 75 basis points. It first raised the discount rate by 25 basis points to 6.75 per cent in January 2023 which was followed by a 50 basis points hike to 7.25 per cent in March 2023. The CBE maintained the -50 basis points different against the RSA repo rate during the first quarter of 2023.

Private Sector Credit

Despite the accommodative monetary policy stance pursued from early 2020, private sector credit extension remained weak throughout 2020 reflecting heightened credit risks associated with the COVID-19 pandemic, as well as due to the time lag in monetary policy transmission. The banking industry adopted a risk aversion stance towards lending while businesses deferred investment decisions, both to the detriment of growth in private sector credit. As COVID-19 related restrictions began to ease up, annual growth in private sector credit began to improve in 2021, whilst also benefiting from the lower lending rates. Over the 12 months of 2022, private sector credit growth slowed down mainly due to the higher cost of borrowing and base effects. The average growth in credit to the private sector came down to 4.2 per cent in December 2022 on a year-on-year basis, from 8.2 per cent over the same period in 2021. As at the end of February 2023, year-on-year credit to the private sector improved to 10.1 per cent. The private sector credit growth was largely supported by recovery in credit to business, which recorded double-digit growth for the better part of 2022 and the first 2 months of 2023 while accounting for an average 49.1 per cent of private sector credit. Credit to business was concentrated in three sub-sectors, namely, manufacturing, distribution & tourism and real estate.

Table 8: Net Foreign Assets and Gross Official Reserves; 2018 to February 2023

	Net Foreign Assets (E)	**Gross Official Reserves (E)**	**Import Cover (months)**
2018	7,429,990,554	6,321,370,100	2.8
2019	6,854,608,889	6,144,815,048	2.6
2020	9,275,419,434	7,976,034,023	3.5
2021	9,499,090,196	9,015,180,265	3.5
2022	7,931,025,651	7,630,174,116	2.5
February 2023	7,128,289,185	7,922,376,169	2.6

Source: Central Bank of Eswatini

Eswatini's net foreign assets have been on a downward trend since the last half of 2021, mainly due to lower SACU receipts in 2021/22 and 2022/23 fiscal years; the levelling-off of COVID-19 related external funding received in 2020 and 2021; as well as the appreciation of the Lilangeni/Rand exchange rate against major trading currencies from late 2021. At the end of February 2023, net foreign assets declined by 26.0 per cent year-on-year to E7.1 billion from a decline of 11.2 per cent in February 2022.This contraction was due to the reduction in net foreign assets of the CBE and those of the banking sector. The net foreign assets of the CBE decreased by 23.9 per cent year-on-year to E5.4 billion in

February 2023. The net foreign assets of commercial banks, on the other hand, declined by 31.9 per cent over the year to E1.7 billion in February 2023, mainly due to a fall in its deposits to non-resident banks, particularly within the CMA.

Consistent with developments in net foreign assets, Eswatini's external reserves trended downwards from late 2021 and throughout 2022 and the two months of 2023. Gross official reserves contracted by 15.5 per cent year-on-year to E7.9 billion in February 2023. This decline was contrary to the 4.1 per cent increase recorded the previous year. The deterioration in reserves was largely attributed to the 8.7 per cent decline in SACU receipts for the fiscal year 2022/23 coupled with the base effects from the weaning-off of COVID-19 related budget support loans and IMF's additional special drawing rights (**SDR**) allocation. In terms of imports of goods and services, the reserves were sufficient to cover 2.6 months in February 2023, substantially lower than the 3.5 months covered the previous year and the benchmark of 3 months. Notably, the import cover fluctuated between 2.3 months and 3.5 months between February 2022 and February 2023.

Money Supply

Year-on-year growth in broad money supply (**M2**) surged by 15.4 per cent in 2020 on the backdrop of improved net foreign assets. In 2021, annual growth in M2 slowed down to 0.3 per cent and 3.6 per cent in 2022 then turned to negative territory in February 2023 on account of base effects and the fall in net foreign assets. At the end of February 2023, M2 declined by 2.8 per cent over the year to E19.9 billion, relative to a 2.5 per cent fall the previous year. The fall was discernible in quasi money while narrow money (**M1**) increased slightly. Quasi money contracted by 4.5 per cent year-on-year to E12.3 billion in February 2023, from the 3.2 per cent contraction recorded in February 2022. The decline was attributed to a fall of 5.1 per cent in time (interest bearing) deposits and 1.4 per cent in savings deposits. However, M1 rose by 0.3 per cent over the year to E7.6 billion at the end of February 2023, contrary to the 1.4 per cent fall observed the previous year. The growth in M1 was reflected in transferable (demand) deposits going up by 1.8 per cent while currency in circulation fell by 12.7 per cent.

Financial Sector

The country's financial sector comprises five commercial banks (three of which are subsidiaries of South African banks) and several non-bank financial institutions (pension funds, insurance companies, collective investment schemes and savings and credit cooperatives). The banking sector is fundamentally sound, adequately capitalised and stable with good adherence to statutory prudential requirements. With the CBE responsible for regulating the banking sector, the Financial Services Regulatory Authority supervises the non-bank financial institutions (**NBFIs**) which have assets estimated at 110 per cent of GDP. Eswatini's financial markets are underdeveloped with South African markets a major destination for Eswatini savings. With the rising fiscal deficits, the Government issues a number of instruments in the local market including treasury bills, plain vanilla bonds, infrastructure bonds and supplier bonds. Due to the CMA arrangement, domestic borrowing costs are anchored by yields in the South African market, with government paper of different tenors yielding positive spreads ranging between 100 and 275 basis points above South African government paper.

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For and on behalf of
THE GOVERNMENT OF THE KINGDOM OF ESWATINI
(ACTING THROUGH THE MINISTRY OF FINANCE)

____

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Capacity: Minister of Finance
Who warrants his/her authority hereto

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