ANNUAL PUBLIC DEBT MANAGEMENT STATISTICAL BULLETIN

FY2020/21

MINISTRY OF FINANCE – PUBLIC DEBT MANAGEMENT UNIT 2021

Contents

List of Tables

List of Figures

List of Boxes

FOREWORD

The legal framework for Public Debt Management is contained in the Public Finance Management (PFM) Act (2017) which stipulates that the Ministry will report on the country's debt overview to Parliament on an annual basis. In general, this framework entrenches and promotes prudent and sound debt management practices for both the central Government with the aim to enhance efficiency, transparency and accountability on debt issues.

The country's economy remains weak compared to other SACU countries due to fiscal challenges since 2016 which have been worsened by the Covid-19 pandemic. The debt situation has been maintained at relatively sustainable levels, but the medium-term outlook indicates that debt is growing at a faster rate, hence the need to keep it sustainable. A large proportion of the efforts have focused on developing domestic markets for Government securities as a way of reducing the economy's vulnerability to potential exogenous shocks as opposed to over-reliance on external funding.

This annual public debt management report highlights the public debt developments during the fiscal year 2020/21 including total public debt portfolio, composition and structure of the debt as well as debt service obligations. The report provides a broad view of the costs and risk characteristics of the country's public debt and debt related transactions.

In nominal terms, debt levels have been increasing with the debt ratio at 40.2 percent of GDP as at end of March 2021. The major currency composition of debt comprises of the United States Dollar (USD), Euro, Japanese Yen, Sterling Pounds (GBP) and the South African Rand. Most of the country's external debt has remained long-term; however, the country's reclassification to lower middle-income country has affected the average time to maturity. As at end of March 2021, the average maturity, grace period and average interest rate on new external loan commitments were 20 years, 4.4 years and 1.5 percent, respectively.

This report marks the Government's commitment to provide accurate debt information to the public through its various publications. This publication of the annual public debt management report is in accordance with the Public Finance Management (PFM) Act (2017) which underscores the relevance of the report to the wider public audience. Government will continue to implement reforms and restructure the Public Debt Management Department (PDMD), which is expected to adopt the three separate offices (front, middle and back office) in line with international best practice. Other reforms in the financial markets are being implemented in collaboration with other key stakeholders.

With these few remarks, I would like to present the report.

HON. NEAL H. RIJKENBERG MP

MINISTER OF FINANCE

ACKNOWLEDGEMENT

The Public Debt Management Department continued to carry out its mandate enshrined in the PFM Act, 2017 section 79 which is to ensure that public debt is managed in a prudent manner and remains sustainable over the medium term. As at end of March 2021, public debt stock stood at E26.1 billion equivalent to 40.2% of GDP composed of both domestic and external debt at 24.2 percent and 15.9 percent of GDP, respectively. Over the last financial year, major capital projects have been funded through both external and domestic financing which has seen total debt rise in nominal terms. Domestic debt as a percentage of total debt stood at 60.3 percent while external debt was at 49.7 percent. The main focus for government is to invest heavily on capital projects which is expected to create an enabling environment for the private sector to operate and at the same time, improve the welfare of the country's populace.

The legal and institutional arrangement for public debt management continues to be strengthened. The scope and coverage of this report reflects the Ministry's commitment to both transparency in reporting and accountability in the management of public debt. This is annual commitment by the Ministry to provide information on public debt to the public at large. In addition to the annual public debt management report, further information on public debt will be made available in a number of official publications hosted on the Government website: www.gov.sz.

The production of the Debt Bulletin is a collaborative effort involving various departments within the Ministry of Finance, Ministry of Economic Planning and Development, Treasury Department, Central Bank of Eswatini and the Eswatini Revenue Authority (Services). I recognise the tireless efforts of the Public Debt Management Unit (DMU) for spearheading the process. Likewise, I acknowledge the effort of the representatives from these various entities mentioned above.

I take this opportunity to invite you to read this report and we hope that it will provide valuable information that will enhance your understanding of public debt management in the Kingdom of Eswatini.

SIZAKELE P. DLAMINI

PRINCIPAL SECRETARY

LIST OF ABREVIATIONS

ADF	African Development Fund
AfDB	African Development Bank
ATM	Average Time to Maturity
CBE	Central Bank of Eswatini
FCCL	Fiscal Commitments and Contingent Liabilities
FY	Financial year
GDP	Gross Domestic Product
GoE	Government of the Kingdom of Eswatini
IDA	International Development Association
IFB	Infrastructure Bond
IMF	International Monetary Fund
MTBS	Medium Term Budget Statement
MTDS	Medium Term Debt Management Strategy
NBFI	Non-Bank Financial Institution
PDMD	Public Debt Management Department
PFMA	Public Finance Management Act
PPP	Public Private Partnership
PV	Present Value
SZL	Emalangeni
TEDS	Total External Debt Service
UK	United Kingdom
USA	United States of America
USD	United States Dollar

EXECUTIVE SUMMARY

The real GDP growth between 2015 and 2019 has remained subdued averaging 2.1 percent. In 2019, real GDP grew by 2.6 percent supported mainly by the recovery of the secondary sector at the back of improved economic activity in the manufacturing sector. Real GDP, in 2020, is estimated to plummet by 1.9 percent, recording a historic slump for the Eswatini economy. These sectors, which are predominantly contact-facing economic activities and demand driven were hampered severely by COVID-19 propelled containment measures, particularly, travel restrictions, social distancing and depressed real wages.

As at end March 2021, the outstanding total public and publicly guaranteed stood at SZL26.1 billion compared to SZL22.9 billion at end March 2020, an increase of 14.3 percent. Domestic and external debt accounted for 60.3 percent and 39.7 percent of total public debt as at end of March 2021, respectively. In nominal terms and as a percent of GDP, total public debt stood at 40.2 percent, while domestic debt accounted for 24.2 percent with external debt accounting for 15.9 per cent as end of March 2021.

The total public debt service payments as at end March 2021 amounted to SZL2.4 billion. External and domestic debt service totalled SZL1.3 billion and SZL1.1 billion, respectively for the year ending March 2021. As a component of the total public debt service, external and domestic debt service was 57.0 percent and 43 percent by March 2021 compared to 50.1 percent and 49.9 percent, respectively as at end March 2020. The ratio of debt service to revenues increased to 13.2 percent by end March 2021 from 10.2 percent by end March 2020.

The composition of domestic debt in terms of the stock of treasury bills was 27.7 percent and government bonds were 60.3 percent of total domestic debt, respectively as at end March 2021. Non-bank (non-residents and non-bank financial institutions including insurance companies, and pensions funds) were the largest holders of the total public domestic debt (SZL6.3 billion – 44.1 per cent) followed by the share held by commercial banks at SZL4.3 billion – 30.0 percent. In addition, the remainder was held by the Central Bank, individuals & other investors (individuals and saving schemes) were SZL3 billion and SZL860.0 million, respectively as at end March 2021.

Total public external debt slightly increased in the financial year ending March 2021 due to large investment in infrastructure projects from SZL9.3 billion in March 2020 to SZL10.4 billion as at end March 2021. External financing sources has continued to be dominated by multilateral, bilateral and commercial creditors. There has been a steady growth on commercial investors as more funding is becoming more accessible from these sources and at market prices.

The major currency composition of debt is of the United States Dollar (USD), Euro, Japanese Yen, Sterling Pounds (GBP) and South African Rand (ZAR). The other currencies account for an insignificant proportion of the debt portfolio. The country's external debt has remained long-term but due to the country's classification into lower middle-income country, it has affected the average time to maturity. As at end of March 2021, the average maturity, grace period and average interest rate on new external loan commitments were 20 years, 4.4 years and 1.5 percent respectively.

Eswatini's public debt remained within sustainable levels over the medium term although, it has exceeded the 35 per cent limit of GDP in nominal terms which is a recommendation of the Bretton Woods institutions i.e., the IMF and the World Bank Group.

CHAPTER ONE
LEGAL AND OPERATIONAL FRAMEWORK

a) Economy

The real GDP growth between 2015 and 2019 has remained subdued averaging 2.0 percent. In 2019, real GDP grew by 2.2 percent supported mainly by the recovery of the secondary sector at the back of improved economic activity in the manufacturing sector. Real GDP, in 2020, is estimated to plummet by -2.4 percent, recording a historic slump for the Eswatini economy. This slow-down in economic performance in 2020 owes to derailed economic activity mainly for manufacturing industries, which succumbed to weak external demand, as well as global value chain disruptions. Other notable poor performing sectors include: 'wholesale & retail', 'transport', 'hospitality', 'arts, culture & entertainment' and 'education'. These sectors, which are predominantly contact-facing economic activities and demand driven were hampered severely by COVID-19 propelled containment measures, particularly, travel restrictions, social distancing and depressed real wages.

In 2019, inflation averaged 2.6 percent compared to 4.8 percent in 2018. The slowdown in inflation was mainly on account of Government decree (austerity measures) to halt annual increments on highly volatile inflation lines, i.e., housing rent, water tariffs, electricity tariffs, and transport services fares. Whilst, the overall balance of payments position improved to record a surplus of US$ 103.91 million (2.6 percent of GDP) in the year to December 2020 from a deficit of US$ 8.25 million (-0.2 percent of GDP) in the year to December 2019. The current account recorded a surplus of US$ 265.48 million in the year to December 2020 from a surplus of US$ 172.10 million in the year to December 2019.

b) Fiscal Balance

The overall fiscal balance for 2020/21 registered a deficit of SZL 8.3 billion (8.3 percent of GDP) and was financed through net external borrowing of SZL3.8 billion (5.9 percent of GDP), net domestic financing of SZL1.4 billion (2.2 percent of GDP) (Table 1).

Table 1: Eswatini Financing Fiscal Balance (SZL Million)

Financing item	*2018/19*		*2019/20*		*2020/21*	
	SZL million	*As % of GDP*	*SZL million*	*As % of GDP*	*SZL million*	*As % of GDP*
Net Foreign Financing	872.87	*1.4%*	2,345.50	*3.6%*	3,824.02	*5.9%*
Net Domestic financing	3,184.81	*5.2%*	1,544.17	*2.4%*	1,427.62	*2.2%*
Total	4,057.68		3,889.67		5,251.65	

Source: Ministry of Finance.

c) Total Public Debt

As at end of March 2021, outstanding total public debt stood at SZL26.1 billion as illustrated in (table 2) compared to SZL22.9 billion at the end of March 2020. This shows a 14.3 percent year-on-year growth. Domestic debt increased from SZL 12.3 billion at the end of March 2020 to SZL 15.8 billion recorded at the end of March 2021, showing a growth of 28.4 percent.

On the other hand, external debt marginally decreased by 2.0 percent from SZL10.6 billion at the end of March 2020 to SZL 10.4 billion at the end of March 2021.

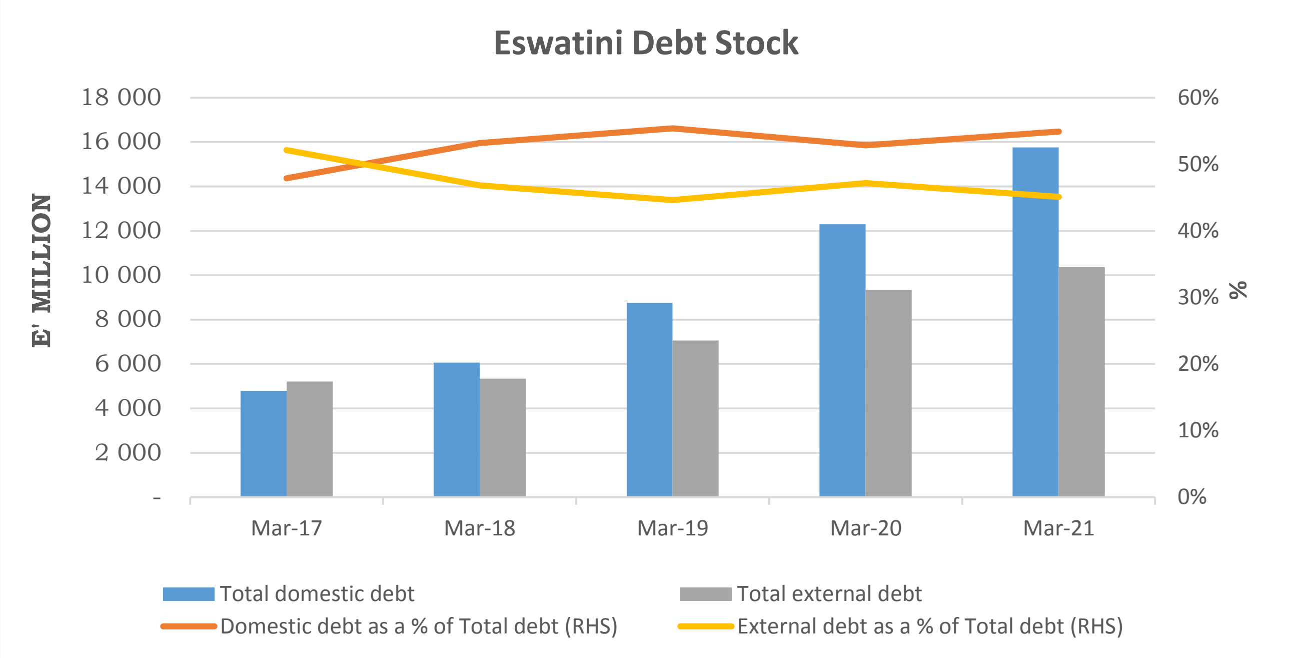
Table 2: Total Debt Stock (SZL Million)

Debt Type	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
DOMESTIC DEBT					
Central Bank	3.07	3.32	1,296.27	1,303.15	1,295.79
Commercial Banks	2,352.88	2,430.86	2,636.74	2,846.10	4,308.39
Non-Bank Financial Inst.	2,197.66	3,314.98	4,507.69	7,158.52	9,254.88
Other	236.89	310.74	327.10	967.03	896.14
Total Domestic Debt	**4,790.49**	**6,059.90**	**8,767.80**	**12,274.80**	**15,755.20**
as a % of GDP	8.5%	10.3%	14.2%	19.0%	24.2%
as a % of Total Debt	47.9%	53.2%	55.4%	53.7%	60.3%
EXTERNAL DEBT					
Multilateral	3,271.39	3,157.10	3,938.17	5,701.76	6,460.02
Bilateral	966.23	960.44	1,113.10	1,316.39	1,036.08
Private Creditors	978.49	1,218.80	2,006.70	3,563.94	2,870.80
Total External Debt	**5,216.10**	**5,336.34**	**7,057.96**	**10,582.10**	**10,366.90**
as a % of GDP	9.3%	9.1%	11.4%	16.4%	15.9%
as a % of Total Debt	52.1%	46.8%	44.6%	46.3%	39.7%
GRAND TOTAL	**10,006.59**	**11,396.24**	**15,825.76**	**22,856.90**	**26,122.10**
Total Debt as % of GDP	17.8%	19.4%	25.6%	35.4%	40.2%
Memorandum Item					
GDP in Millions (SZL)	56,132.11	58,688.99	61,770.68	64,614.60	65,045.98

Source: Ministry of Finance, Central Statistics and Central Bank of Eswatini.

In nominal terms and as a percent of GDP, total public debt was 40.2 percent as at the end of March 2021 compared to 36 percent as at the end of March 2020 (Table 2 and Fig. 1). Domestic debt was at 24.2 percent compared to 18.9 percent, while external debt stood at 15.9 percent and 14.3 percent of GDP as at the end of March 2021 and March 2020, respectively.

Figure 1: Eswatini Public Debt Stock (SZL Millions)



Source: Ministry of Finance, Central Statistics and Central Bank of Eswatini.

d) Debt service

The total public debt service payment as at the end of March 2021 amounted to SZL 2.4 billion. Debt service increased by SZL 478.5 million (or 26.0 percent) from SZL 1.9 billion recorded at the end of March 2020. The increase was largely attributed to the depreciation of the local currency against major foreign currencies and disbursing loans coupled with the introduction of new programmes in the domestic market.

External and Domestic debt service was SZL 1.3 billion and SZL 1.1 billion, respectively as at the end of March 2021. As a percentage of the total public debt service, external and domestic debt service was 57.0 percent and 43.0 percent by March 2021 compared to 50.1 percent and 49.9 percent, respectively as at the end of March 2020.

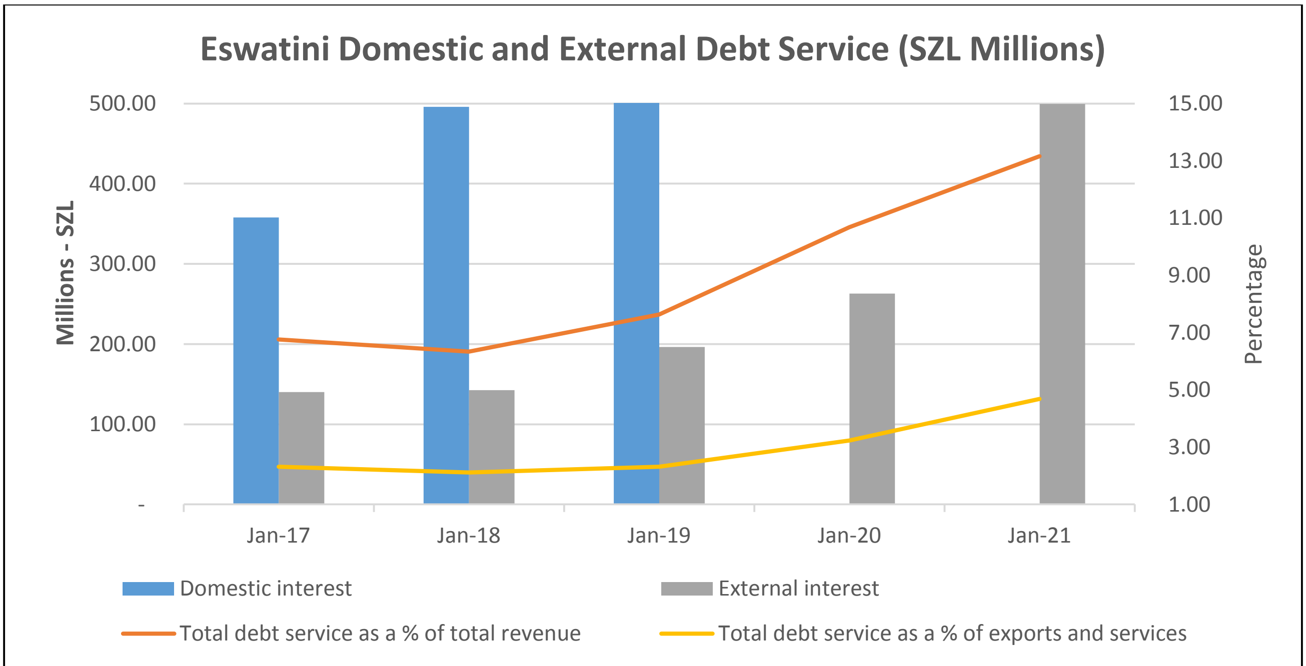
The ratio of debt service to revenues increased to 13.2 percent at the end of March 2021 from 10.7 percent at the end of March 2020 (Table 3 and Figure 2)

Table 3: Eswatini Total Public Debt Service

Eswatini Total Public Debt Service (Million SZL)					
Debt Type	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
External Debt Service					
External Principal	437.6	394.3	410.4	664.8	828.4
External Interest	140.0	142.7	196.2	263.1	499.5
Total External Debt Service (TEDS)	577.6	537.0	606.6	927.9	1,327.9
TEDS as a % of Total debt service (TDS)	61.7	52.0	51.4	50.1	57.0
Domestic Debt Service					
Domestic interest	358.0	495.8	574.1	1,038.3	1,001.6
Domestic interest as a % of TDS	38.3	48.0	48.6	49.9	43.0
Total Debt Service (TDS)	935.5	1,032.9	1,180.6	1,851.0	2,329.5
Total Debt Service as a % of Total Revenue	6.76	6.34	7.64	10.68	13.16
Total External Debt Service as a % of Exports and Services	2.32	2.11	2.32	3.23	4.68
Memorandum items					
Total Revenue	13,834.4	16,300.5	16,100.0	17,330.5	17,694.2
Export earnings (goods and services)	24,937.5	25,411.8	26,163.2	28,693.9	28,348.5

Source: Ministry of Finance, Central Statistics and Central Bank of Eswatini

Figure 2: Eswatini Domestic and External Debt Service (SZL Million)



Source: Ministry of Finance.

e) Cost and Risk Characteristics of the existing Debt Portfolio

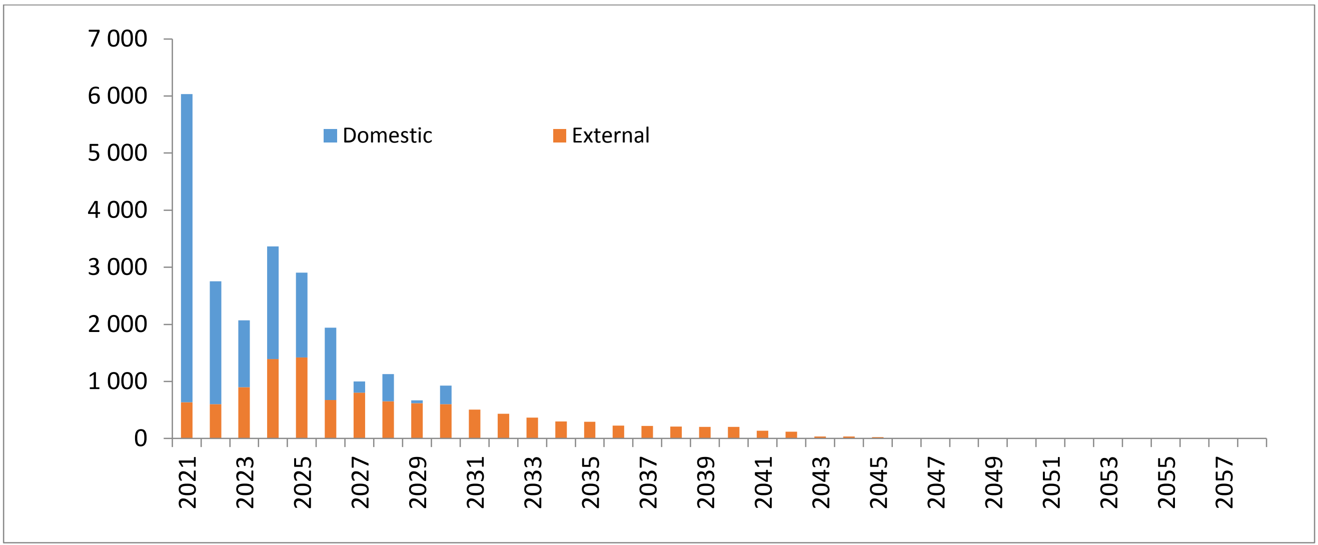
1. The cost and risks of the debt portfolio as at end of March 2021 were evaluated using a few key parameters. The cost of debt was mainly evaluated by considering interest payments to GDP, whereas the risks considered are mainly the market risks, that is, refinancing risk, and exchange and interest rate risks.

2. Cost of Debt: The cost of domestic debt portfolio in terms of interest payment as a percentage of GDP was 1.1 percent compared to 0.2 percent for external debt with a weighted average interest rate of 8.5 percent compared to 3.2 percent for external debt. The current status is due to existing concessionary loans from the borrowers which have longer period to pay and attracts lower interest rate charges. The domestic debt is high as most of the borrowing is assumed not to be spread in the market to reach the long-term investors who will lower the debt service in the medium to long term.

3. Refinancing Risk: The average time to maturity (ATM) of the overall debt portfolio was 4.4 years. The ATM for external debt is 8.1 years while for domestic 2.2 years. The longer ATM for external debt is mainly due to some concessional loans whose maturity is about 40 years and grace period of 10 years on average. In addition, there are loans from South Africa which do not have an impact on the exchange rate since the local currency at parity with the South African rand on 1:1 basis. The ATM for domestic debt of 2.2 years is shorter compared to external debt due to dominance of treasury bills.

4. The total domestic debt maturing within one year was 58.4 percent which translates into high refinancing risk arising from rolling-over domestic debt. The increase in roll-over risk is largely attributed to the high appetite for short term domestic instruments over long term dated instruments by the domestic market investors. The redemption profile in Chart 3 depicts refinancing risk during the first year of the MTDS. The MTDS for the period 2018/19 – 2023/24, therefore, aims partly at mitigating refinancing risk associated with the domestic debt portfolio.

Figure 3: Redemption Profile of Existing Debt as at 2021 (SZL Million)



Source: Ministry of Finance.

5. Interest Rate Risk: In the current situation, the average time to re-fixing (ATR) for the total debt portfolio is 3.1 years. The ATR for external debt is 5.3 years while for domestic debt is 1.8 years. The debt re-fixing in one year as a percentage of total debt is 57.7 percent, which is being contributed by short-term domestic debt of 65.3 percent and the non-concessional borrowing with variable rates in external debt portfolio of 44.8 percent. Since concessional borrowing does not look feasible in the medium to long term, non-concessional borrowing is likely to increase thus raising risk for high interest rates coupled with the high risk of exchange rates that are dependent on many economic and political factors.

6. The proposed strategy of the existing debt portfolio is adopting the domestic borrowing where the country has to develop the market by borrowing more, although the interest stimulated may be high when the bidders are first invited as they would not be absorbed. But as time goes on the response would increase and therefore the interest will tend to decline. The cost and risk indicators are summarized below in Table 4.

Table 4: Cost and risk indicators for existing debt as at end 2020/21

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of SZL)		11,661.40	14,491.30	26,152.60
Amount (in millions of USD)		780.4	969.8	1,750.20
Nominal debt as % GDP		17.9	22.3	40.2
PV as % of GDP		15.9	22.3	38.2
Cost of debt	Interest payment as % GDP	0.6	1.7	2.2
	Weighted Av. IR (%)	3.2	7.5	5.6
Refinancing risk	ATM (years)	7.7	2.6	4.9
	Debt maturing in 1yr (% of total)	5.4	37.2	23.1
	Debt maturing in 1yr (% of GDP)	1	8.3	9.3
Interest rate risk	ATR (years)	2.6	2.5	2.5
	Debt refixing in 1yr (% of total)	68.5	43.3	54.5
	Fixed rate debt (% of total)	34.5	92.7	66.8
FX risk	FX debt (% of total debt)			44.6
	ST FX debt (% of reserves)			7.1

Source: Ministry of Finance.

f) Arrears

As at the end of March 2021, the stock of Government arrears was estimated at SZL1.5 billion from SZL5.3 billion in March 2020 and Government has made efforts to clear these arrears which have been accumulated since the fiscal year 2016/17. To this end, Cabinet has approved an arrears clearance and prevention strategy which is expected to bring them to manageable levels by doing the following:

a. Monitor and control all commitments with the aim to prioritise critical expenditure by avoiding unnecessary and wasteful expenditure;
b. Prioritise payment of these arrears and align them to cash available; and
c. Continue to explore other sources of funding including domestic sources and cooperating partners.

CHAPTER TWO

DOMESTIC DEBT

This chapter analyses the Government of the Kingdom of Swaziland domestic debt in details. Domestic debt is composed of stock of Government securities (treasury bills and bonds), promissory notes and the Central Bank advance to the Government.

a) Total Domestic Debt

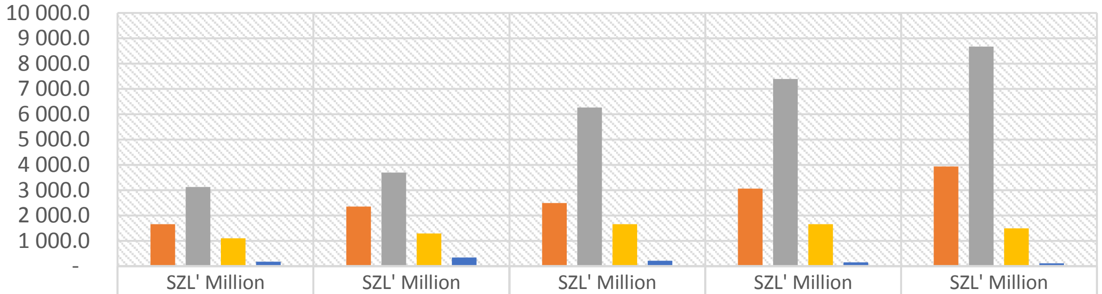
The stock of domestic debt at the end of March 2021 stood at SZL 14.2 billion which translates to an increase of 16.0 percent from SZL 12.3 billion in March 2020 (Table 5 and Figure 4). The increase in the stock was mainly attributed to an increase in outstanding government bonds that significantly increased by 17.3 percent from SZL 7.4 billion recorded in the previous financial year end to SZL 8.7 billion as at the end of the period under review. Treasury bills outstanding balanced increased by 28.8 percent from SZL 3.1 billion to SZL 4.0 billion in the period under review. The government advanced on the other hand, was reduced from SZL 1.7 billion to SZL 1.5 billion while promissory notes even in the period under review declined by 25.0 percent from SZL 154.1 million to SZL 115.6 million as Government suspended raising debt through these instruments.

Table 5: Outstanding Domestic Debt (SZL Million)

Instrument	Mar-17		Mar-18		Mar-19		Mar-20		Mar-21	
	SZL' Million	% of Stock	SZL' Million	% of Stock	SZL' Million	% of Stock	SZL' Million	% of Stock	SZL' Million	% of Stock
Total Stock of Domestic Debt	6,035	100	7,704	100	10,537.8	100	12,274.8	100	14,236.9	100
T-Bills	1,657.3	27.3	2,364	30.7	2,587.7	24.6	3,064.4	25.0	3,947.1	27.7
Bonds	3,093.2	51.6	3,695.9	48.0	6,180.1	58.6	7,396.3	60.3	8,674.3	60.9
Advance	1,100.0	18.1	1,292.6	16.8	1,660.0	15.8	1,660.0	13.5	1,500.0	10.5
Promissory Notes	184.5	3	351.6	4.6	110	1.0	154.1	1.2	115.6	0.9

Source: Central Bank of Eswatini.

Figure 4: Stock of Domestic Debt



	SZL' Million Mar-17	SZL' Million Mar-18	SZL' Million Mar-19	SZL' Million Mar-20	SZL' Million Mar-21
T-Bills	1 657.3	2 364.0	2 496.3	3 064.4	3 947.1
Bonds	3 133.2	3 695.9	6 271.5	7 396.3	8 674.3
Advance	1 100.0	1 292.6	1 660.0	1 660.0	1 500.0
Promissory Notes	184.5	351.6	220.0	154.1	115.6

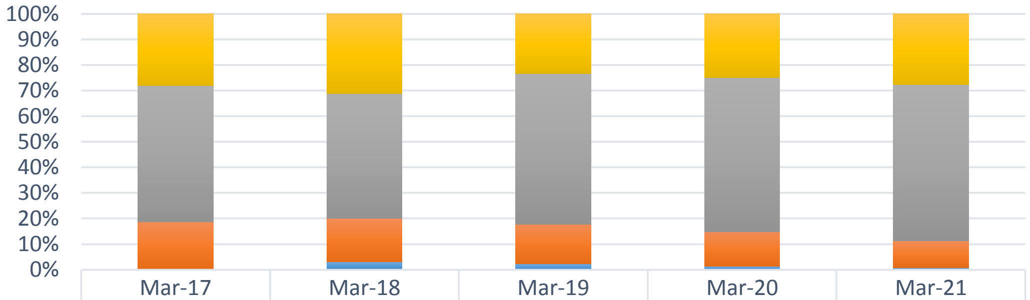
T-Bills Bonds Advance Promissory Notes

Source: Central Bank of Eswatini.

b) Domestic Debt by Instrument

The stock of treasury bills and bonds accounted for 27.7 percent and 60.9 percent of total domestic debt as at end March 2021 compared to 25.0 percent and 60.3 percent as at end March 2020, respectively (Figure 5). The proportion of Central Bank advance to Government marginally dropped by 3 percentage points from 13.5 percent to 10.5 percent of total domestic debt. Promissory notes outstanding proportion to total domestic debt decreased from 1.3 percent recorded in March 2020 to only 0.8 percent as at the end of March 2021.

Figure 5: Domestic Debt by Instrument



	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
T-Bills	27.3	30.7	23.4	25	27.7
Bonds	51.6	48	58.9	60.3	60.9
Advance	18.1	16.8	15.6	13.5	10.5
Promissory Notes	0	3	2.3	1.3	0.8

Promissory Notes Advance Bonds T-Bills

Source: Central Bank of Eswatini

c) Domestic Debt by Holder

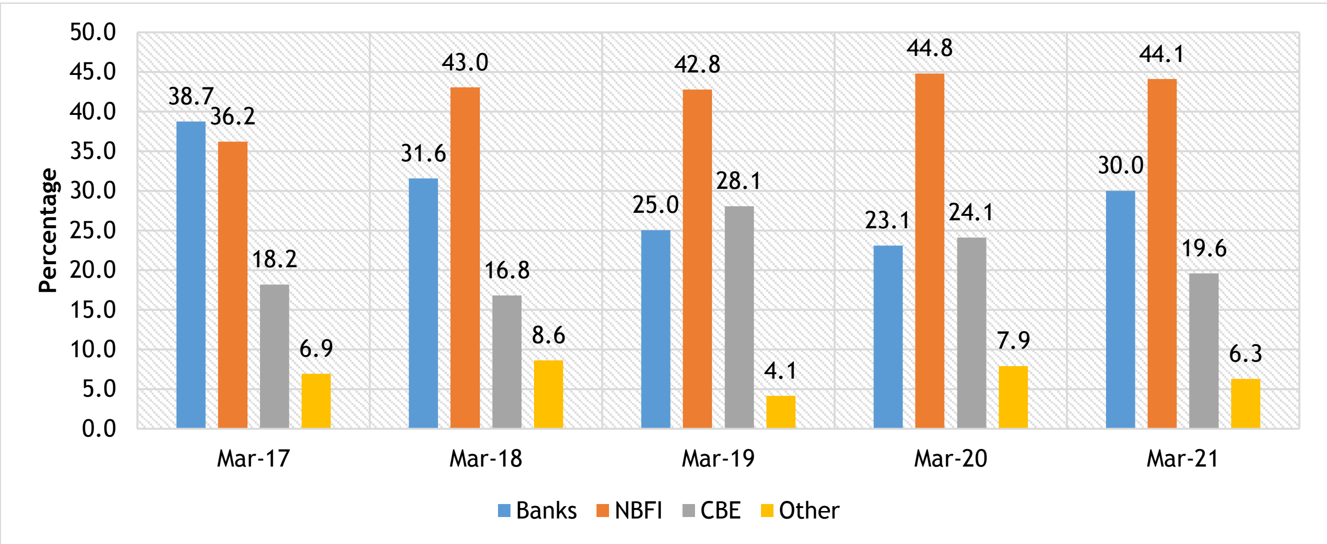
Commercial banks holdings increased to 30.0 percent of the total domestic debt as at end March 2021 compared to 23.2 percent in March 2020 which is equivalent to 6.4 percent of GDP and in nominal term, it increased from SZL 2.8 billion to SZL 4.3 billion. The share held by non-bank financial institutions marginally decreased from 44.8 percent held in March 2020 to 44.1 percent in March 2021. Their actual holdings increased by 14.1 percent from SZL 5.5 billion to SZL 6.3 billion in the period under review. Central Bank share to total debt outstanding decreased from 24.1 percent to 19.6 percent in March 2021 and their actual holdings also slightly decreased by 5.6 percent from SZL 3 billion to SZL 2.8 billion. The proportion of other investors' holdings decreased from 7.9 percent recorded in March 2020 to 6.3 percent in March 2021 whilst their actual holdings also decreased by 7.3 percent from SZL 966.7 million to SZL 896.0 million (Table 6 and Figure 6).

Table 6: Domestic Debt by Holder

Holder	Mar-17		Mar-18		Mar-19		Mar-20		Mar-21	
	SZL' Million	% of Stock	SZL' Million	% of Stock	SZL' Million	% of Stock	SZL' Million	% of Stock	SZL' Million	% of Stock
Banks	2,352.9	38.7	2,430.9	31.6	2,636.7	25.0	2,846.1	23.2	4,268.4	30.0
NBFI	2,197.7	36.2	3,315.0	43.0	4,507.7	42.8	5,498.8	44.8	6,276.7	44.1
CBE	1,103.1	18.2	1,295.9	16.8	2,956.3	28.1	2,963.1	24.1	2,795.8	19.6
Other	421.4	6.9	662.3	8.6	437.1	4.1	966.7	7.9	896.0	6.3
Total	6,075.0	100.0	7,704.0	100.0	10,537.8	100.0	12,274.8	100.0	14,236.9	100.0

Source: Central Bank of Eswatini.

Figure 6: Domestic Debt by Holder



Source: Central Bank of Eswatini.

d) Treasury Bills and Bonds by Holder

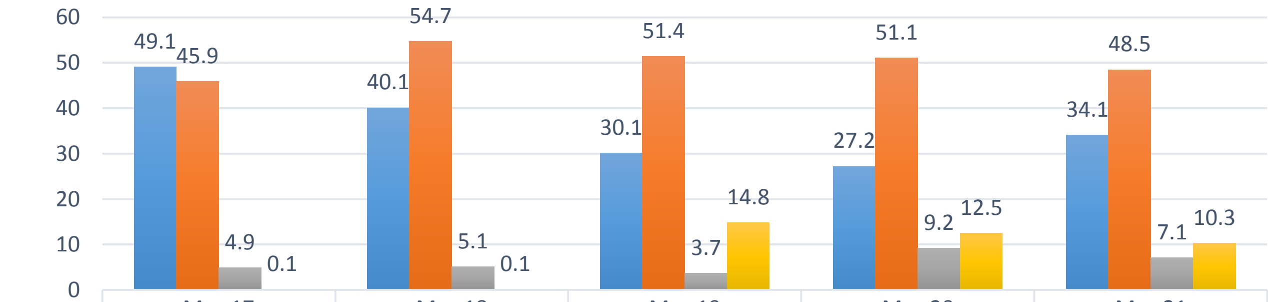
Out of the total outstanding treasury bills and bonds, non-bank financial institutions were the major holders with 48.5 percent in March 2021 decreasing from 51.1 percent held in March 2020. Even though their actual holdings increased by 14.5 percent from SZL 5.3 billion held in March 2020 to SZL 6.1 billion at the end of March 2021. Banks had their share immensely increasing by 51.4 percent from SZL 2.8 billion to SZL 4.3 billion in the period under review. However, unlike NBFI holdings, banks' share increased from 27.2 percent to 34.1 percent. Other investors' actual holdings also recorded a decline from 9.2 percent recorded in March 2020 to 7.1 percent in the period under review. Their outstanding balance decreased by 2.1 percent from SZL 967.0 million to SZL 896.1 million. The CBE had its actual decreasing in the period under review from 12.5 percent to 10.5 percent and the outstanding balanced remaining unchanged at SZL 1.3 billion as at the end March 2020.

Table 7: Outstanding Stock of Treasury Bills and Bonds by Holders

Holder	Mar-17		Mar-18		Mar-19		Mar-20		Mar-21	
	SZL Million	% of Total	SZL Million	% of Total	SZL Million	% of Total	SZL Million	% of Total	SZL Million	% of Total
Banks	2,352.9	49.1	2,430.9	40.1	2,636.7	30.1	2,846.1	27.2	4,308.4	34.1
NBFI	2,197.7	45.9	3,315.0	54.7	4,507.7	51.4	5,344.4	51.1	6,121.1	48.5
Others	236.9	4.9	310.7	5.1	327.1	3.7	967.0	9.2	896.1	7.1
CBS	3.1	0.1	3.3	0.1	1,296.3	14.8	1,303.2	12.5	1,295.8	10.3
Total	4,790.5	100.0	6,059.9	100.0	8,767.8	100.0	10,460.7	100.0	12,621.4	100.0

Source: Central Bank of Eswatini.

Figure 7: Outstanding Stock of Treasury Bills and Bonds by Holders



	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Banks	49.1	40.1	30.1	27.2	34.1
NBFI	45.9	54.7	51.4	51.1	48.5
Others	4.9	5.1	3.7	9.2	7.1
CBE	0.1	0.1	14.8	12.5	10.3

Banks NBFI Others CBE

Source: Central Bank of Eswatini

e) Treasury Bills by Holder

The stock of treasury bills increased by 28.8 percent to SZL 4.0 billion in the period under review from SZL 3.1 billion recorded in March 2020. The amount held by commercial banks increased by 29.2 percent from SZL 2.0 billion to SZL 2.6 billion which represents 67.0 percent of the total treasury bills outstanding. NBFI's holdings of treasury bills significantly increased by 34.9 percent from SZL 876.0 million to SZL 1.2 billion and their outstanding balance represents 29.9 percent of the treasury bills portfolio. Other investors had their outstanding balance marginally decreasing by 1.6 percent from SZL 140.8 million to SZL 117.6 million which is equivalent to 3.0 percent of the outstanding treasury bills. The Central Bank holds the least proportion of the outstanding treasury bills and its holdings slightly decreased from SZL 4.2 million to SZL 1.8 million, maintaining the same share of total outstanding bills at 0.1 percent as at the end of March 2020.

Table 8: Outstanding Stock of Treasury Bills by Holder

Holder	Mar-17		Mar-18		Mar-19		Mar-20		Mar-21	
	SZL Million	% of Total	SZL Million	% of Total	SZL Million	% of Total	SZL Million	% of Total	SZL Million	% of Total
Banks	1,316.1	79.4	1,574.1	66.6	1,775.5	71.1	2,043.5	66.7	2,646.3	67.0
NBFI	241.1	14.5	671.7	28.4	684.9	27.4	876.0	28.6	1,181.4	29.9
Others	98.0	5.9	115.9	4.9	33.2	1.3	140.8	4.6	117.6	3.0
CBE	2.2	0.1	2.4	0.1	2.7	0.1	4.2	0.1	1.8	0.1
Total	1,657.3	100.0	2,364.0	100.0	2,496.3	100.0	3,064.5	100.0	3,947.1	100.0

Source: Central Bank of Eswatini

f) Outstanding Treasury Bonds

Outstanding treasury bonds increased by 17.3 percent from SZL 7.3 billion in March 2021 to SZL 8.7 billion in March 2020. Holdings by commercial banks increased by 8.3 percent from SZL 802.6 million to SZL 1.7 billion and they hold 19.2 percent of total bonds outstanding. NBFI holdings slightly decreased by 3.5 percent from SZL 4.5 billion to SZL 4.9 billion which can mainly be attributed to their actively participations in both the infrastructure and suppliers bond programmes. NBFI holds represents 56.9 percent of the bond portfolio. Other investor's holdings decreased marginally by 2.2 percent from SZL 826.3 million to SZL 778.6 million with their holdings representing 9.0 percent of the total bonds outstanding. The Central Bank holdings recorded a slight decline from 17.5 percent in March 2020 to 14.9 percent at the end of the period under review while maintaining the same level of the bond portfolio at E1.3 billion same level as in March 2020.

Table 9: Outstanding Treasury Bonds

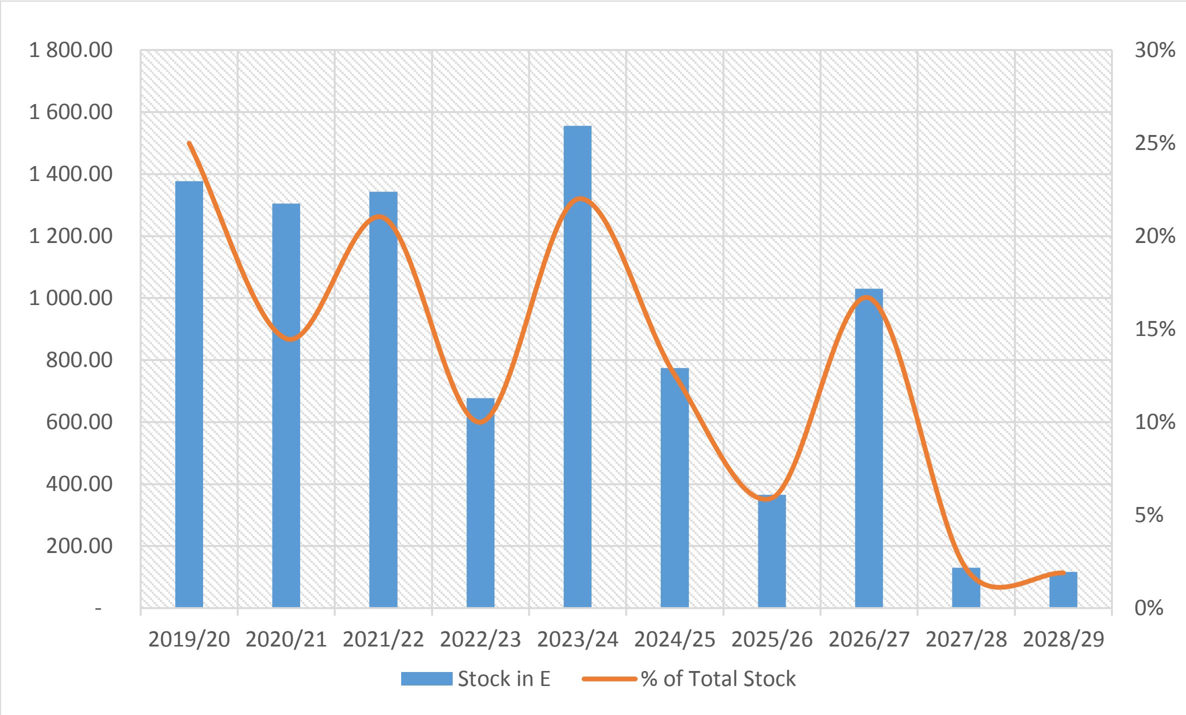
Holder	Mar-17		Mar-18		Mar-19		Mar-20		Mar-21	
	SZL' Million	% of Total	SZL' Million	% of Total	SZL' Million	% of Total	SZL' Million	% of Total	SZL' Million	% of Total
Banks	1,036.8	33.1	856.8	23.2	861.2	13.9	802.6	10.9	1,662.1	19.2
NBFI	1,956.6	62.5	2,643.3	71.5	3,822.8	61.9	4,468.4	60.4	4,939.7	56.9
Others	138.9	4.4	194.8	5.3	202.5	3.3	826.3	11.2	778.6	9.0
CBE	0.9	0.0	0.9	0.0	1,293.6	20.9	1,299.0	17.5	1,294.0	14.9
Total	3,133.2	100	3,695.9	100	6,180.1	100	7,396.3	100	8,674.4	100

Source: Central Bank of Eswatini.

g) Treasury Bonds Maturity Profile

As shown in Table 9 above, the outstanding treasury bonds amounted to SZL 8.7 billion at the end of March 2021. The next financial year accounts for 21 percent of the upcoming maturities upcoming maturities.

Figure 8: Maturity Profile

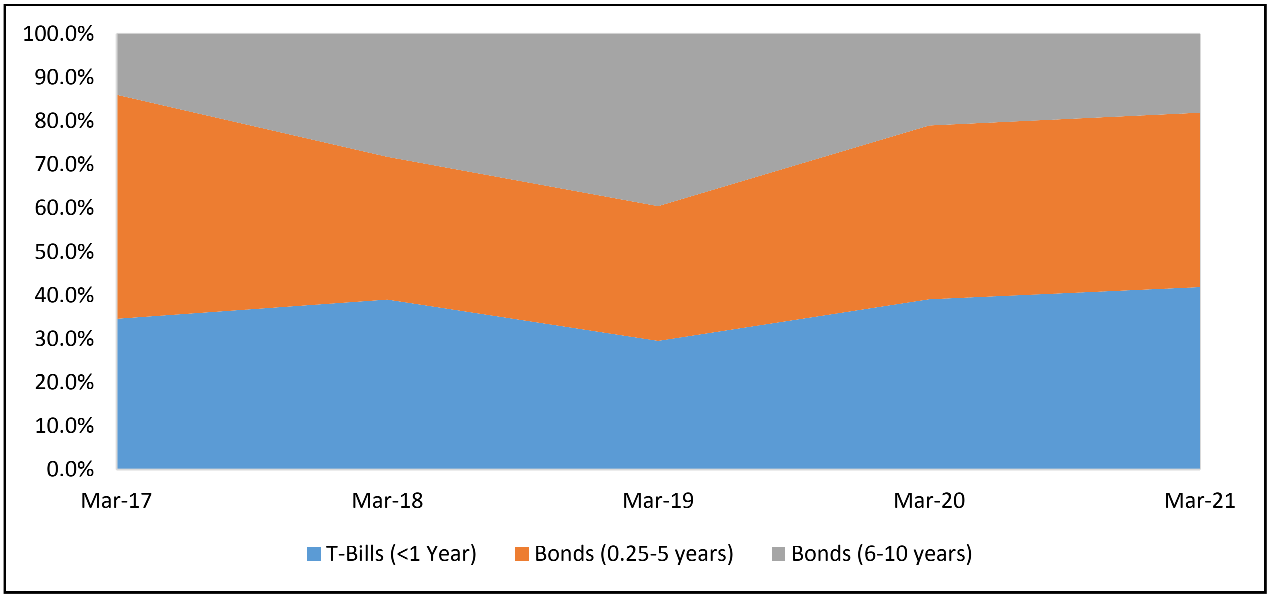


Source: Central Bank of Eswatini.

h) Treasury Bills and Bonds by Tenor

As a proportion of the total stock of treasury bills and bonds by end of March 2019, Treasury bills accounted for 29.5 percent while treasury bonds with tenors of 0.25-5 years and 6-10 years accounted for 30.9 percent and 39.6 percent respectively.

Figure 9: Outstanding Government Securities by Tenor



Source: Central Bank of Eswatini.

i) Infrastructure Bond (IFB) Programme

The Government of the Kingdom of Eswatini continued issuing debt for through the Infrastructure Bond programme for the purposes of raising finance capital for infrastructure projects, which seek to stimulate economic, business and social development. An issuance and a re-opening of the same paper were under taken in the 2019/20 financial year where a total of SZL 124.22 million was raised (Table 10).

Table 10: Primary Market Auction Performance of Infrastructure Bonds

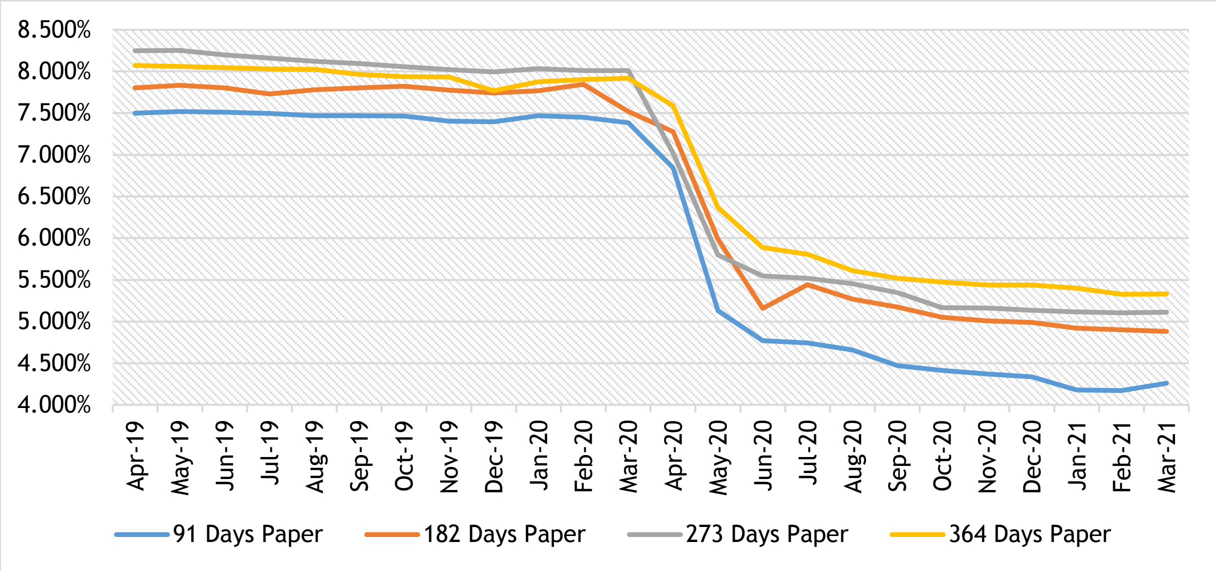
Issue No	Issue Date	Face Value Amt	Cost Value Amt	Weighted Average	Coupon Rate
SGIFB001	31-Jul-17	42,320,000.00	41,595,836.50	10.196%	9.750%
SGIFB002	31-Oct-17	222,020,000.00	213,835,021.14	10.698%	10.00%
SGIFB003	29-Dec-17	54,402,000.00	52,521,990.46	10.863%	10.25%
SGIFB004	31-Mar-18	130,400,000.00	124,617,505.57	10.738%	Prime-0.50%
SGIFB005	31-May-18	111,820,000.00	106,941,843.33	10.573%	9.75%
SGIFB006	28-Sep-18	190,000,000.00	192,860,000.00	10.738%	9.50%
SGIFB007	31-July-19	124,220,000.00	124,360,000.00	10.00%	9.75%

Source: Central Bank of Eswatini

j) Average Interest Rates on Treasury Bills

The average discount rate for the 2020/21 financial year decreased from an average of about 7.5% in 2019/20 to an average of about 4.6%. Discounts rates for almost all the papers showed a major decrease towards the end of the period under review.

Figure 10: Treasury Bills Interest Rates



Source: Central Bank of Eswatini

k) Interest Payments on Domestic Debt

The total domestic debt as at the end of March 2021 attracted an overall interest amounting to SZL 1.39 billion an increase from SZL 0.97 billion reported in March 2020. Interest payments on treasury bonds increased from SZL 648.6 million to SZL 1, 140.2 million as the total outstanding bond stock. Interest payments on treasury bills marginally declined from SZL240.1 million to SZL 197.9 million and represented 14.3 percent of the debt service. Promissory notes interest payments increased from SZL 7.2 million in March 2020 to SZL 12.1 million in March 2021. Interest payments on the CBE advance decreased drastically from SZL 77.7 million to SZL 35.6 million mainly due to reduction in the advance amount following a decline in SACU receipts.

Table 11: Interest Payments on Domestic Debt

Type of Debt	Mar-19		Mar-20		Mar-21	
	SZL' Million	% of Interest	SZL' Million	% of Interest	SZL' Million	% of Interest
T-Bills	196.5	27.2	240.1	24.7	197.9	14.3
Bonds	493.4	68.3	648.6	66.6	1 140.2	82.2
Promissory Note	22.8	3.2	7.2	0.7	12.1	0.9
Advance	9.9	1.4	77.7	8	35.6	2.6
Total Interest Payment	722.7	100.0	973.6	100	1 385.8	100

Source: Central Bank of Eswatini.

CHAPTER THREE
EXTERNAL DEBT

a) Total Central Government External Debt

Central government external debt stock was recorded at SZL10.4 billion in March 2021 from SZL9.3 billion in March 2021, denoting an 11.8 percent (Table 11). The increase was attributed to disbursements from private, multilateral and bilateral creditors as well as foreign exchange rate movements.

This increase is mainly attributable to disbursements of funds for on-going Government capital projects as well as budget support loans from the Brettonwoods Institutions. The increase was, however, offset by the appreciation of the local currency against USD and other major currencies in which the country's debt portfolio is denominated. The Lilangeni to the USD closed at E14.9427 in March 2021 versus E18.0162 in March 2020.

Table 12: External Debt by Creditor Type (SZL Million)

Creditor Type	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Multilateral	3,271	3,157	3,938	4,454	6,460
Bilateral	966	960	1,113	1,316	1,036
Private Creditors	978	1,219	2,007	3,564	2,871
Total External Debt Stock	5,216	5,336	7,058	9,334	10,367

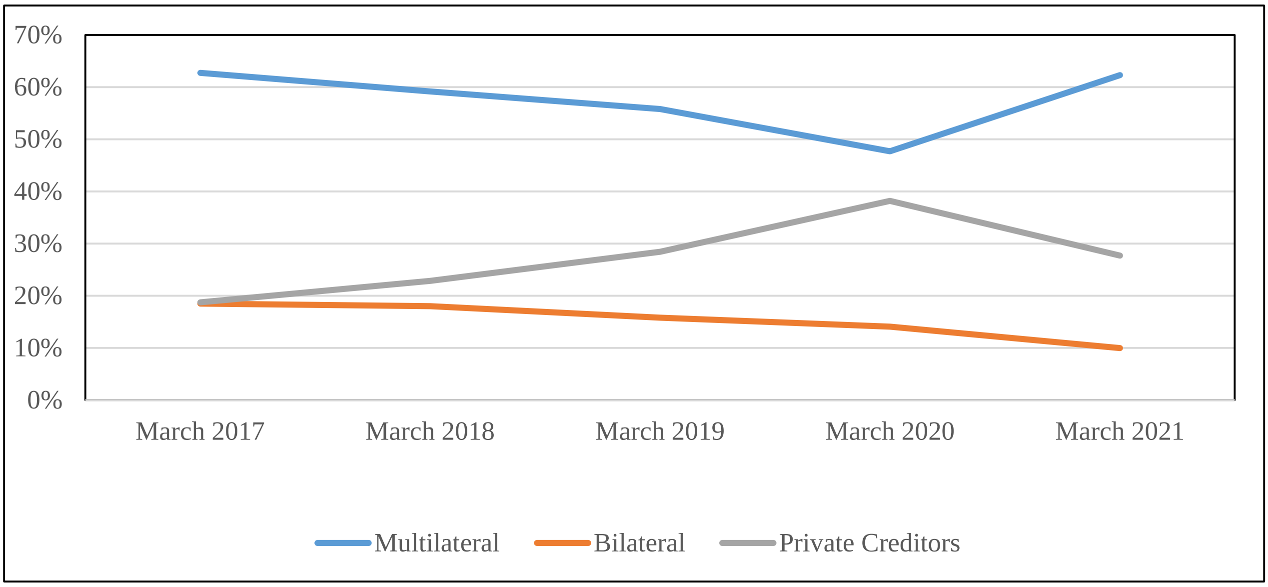
Source: Ministry of Finance.

b) Structure of Central Government External Debt

i. Classification by Creditor Category

As at end of March 2021, multilateral institutions hold a greater share of the external debt portfolio at 62 percent, AfDB being the major creditor in this category. Private creditors/commercial banks hold 28 percent and the least being held by bilateral creditors at 10 percent.

Figure 11: Central Government External debt by Creditor Category



Source: Ministry of Finance & Central Bank of Eswatini

c) External Debt Disbursements

Total public external debt disbursements for the period ending 31st March 2021 amounted to SZL 357.1 million, compared to SZL 1.54 billion recorded in the period ending 31st March 2020. The drawdowns can be attributed to the on-going projects in the period under review. The drawdowns were made from the following project loans:

1. Various financiers (AfDB, EIB, Kuwait Fund and BADEA on Lower Usuthu Smallholder Irrigation Project
2. AfDB Manzini Water Supply and Sanitation Project
3. Manzini – Mbadlane Highway Projects – Lot 1 and 2
4. IFAD Small Holder Market Led Project

5. IFAD FINCLUDE Project
6. World Bank Shiselweni Region Energy Reinforcement Project; and
7. World Bank Shiselweni Region Water Supply and Sanitation.

Table 13: External Loans Disbursements (SZL 'Million)

CENTRAL GOVERNMENT EXTERNAL DEBT DISBURSEMENTS BY CREDITOR CATEGORY							
for the financial year(s) 2014/15 - 2020/21							
Creditor Category	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Multilateral	192.9	310.1	486.2	551.8	1 039.5	2 022.1	2 953.6
Bilateral	15.9	85.2	129.9	14.6	377.5	156.0	201.3
Commercial Banks	162.9	539.4	359.3	33.5	1 001.9	752.1	657.5
Total	371.7	934.7	975.4	599.9	2 418.9	2 930.2	3 812.4

Source: Ministry of Finance.

CHAPTER FOUR

FISCAL COMMITMENTS AND CONTINGENT LIABILITIES

a) Recognizing Potential Fiscal Risks

The Kingdom of Eswatini is aware of increased accumulation of debt as a result of the desire to fund major infrastructure development projects as a catalyst to foster economic growth. To minimize exposure and risks associated with debt accumulation Government has embraced the Public Private Partnership's concept and approach. The Public Private Partnership (PPP) initiatives have been on the rise owing to increased demand to finance projects with high rate of return.

In addition to these contingent liabilities, Government has issued the following guarantees to the following Public Enterprises:

Table 14: Outstanding Government guarantees

No.	PE Name	Financier	Outstanding Amount as at 31 March 2021 (SZL Millions)
1	Eswatini Housing Board	Eswatini National Provident Fund	95.35
		Public Service Pension Fund	568.07
2	Eswatini Electricity Company	World Bank	84.48
3	FINCORP	African Development Bank	221.04
	TOTAL		968.94

Source: Ministry of Finance.

CHAPTER FIVE

PUBLIC DEBT STRATEGY AND DEBT SUSTAINABILITY

1. Public Debt Strategy
   a) The Medium-Term Debt Management Strategy

The Government of the Kingdom of Eswatini through the Ministry of Finance prepares a medium-term debt strategy (MTDS) in line with the Public Finance Management Act, 2017, which highlights the annual borrowing plan for each financial year. The aim of the MTDS is to achieve the debt management objectives enshrined in the PFMA as (a) to minimize the cost of public debt management and borrowing over the long-term taking account of risk; (b) to promote the development of the market institutions for Government debt securities; and (c) to ensure the sharing of the benefits and costs of public debt between the current and future generations.

The MTDS for 2021-2026 is a review of an MTDS that was done in 2018 taking into account the effects of COVID-19. The reviewing of the MTDS is mainly aimed at financing both infrastructure and strategic projects. This will be achieved through leveraging on semi-concessional, particularly bilateral loans while continuing to support the development of the domestic debt market by gradually lengthening our maturity profile.

As reflected in the preferred strategy, the choice for semi-concessional borrowing and development of domestic debt market through the lengthening of our maturity profile is necessitated by; the decline in accessing concessional sources of financing; and the need to minimize the refinancing risks associated with shorter domestic debt instruments. This strategy was arrived at after considering alternatives as presented in Box 1 below.

Box 1: FY 2020/2021 MEDIUM TERM DEBT MANAGEMENT STRATEGY (MTDS)

b) Alternative Borrowing Strategies

The 2021 MTDS evaluated the following four (4) possible debt financing strategies for the future (Table 6-1):

1. Strategy 1 (S1 - Current financing strategy): The strategy assumes that; the Government will continue to maintain gross external financing at 36 percent and domestic financing at 64 percent. The instrument composition of both external and domestic sources will continue to reflect the existing debt portfolio. This strategy further assumes that the concessional financing reflected in the debt portfolio is still accessible. The classification of Swaziland as a Low-Middle Income country means that the concessional window for borrowing is no longer accessible. The concessional debt reflected (Annex 1) is reflective of debt contracted while the country could still access concessional financing therefore rendering this strategy unfavourable.

2. Strategy 2 (S2 – Lengthen domestic debt maturity): This strategy intends to develop domestic debt market through increasing the proportion of domestic financing relative to external financing and lengthening domestic debt maturity. This strategy therefore assumes an increase in domestic debt to 80 percent in 2024. This strategy may however not be suitable because the secondary market is generally inactive therefore the capacity for the market to absorb higher domestic debt levels may not be possible. The limited liquidity in the market may also result in crowding out of the private sector.

3. Strategy 3 (S3 – More external semi-concessional debt): This strategy intends to smoothen the borrowing from concessional financing and domestic financing through increasing borrowing from the semi-concessional window. This strategy assumes an increase of semi-concessional financing from 27 percent to 50 percent of external debt in 2024. This strategy is desirable because concessional financing is no longer accessible while domestic and commercial borrowing prove to be more costly than semi-concessional financing. While it may increase interest rate exposure, the pool of creditors offering different borrowing terms may be used to mitigate against such a risk.

4. Strategy 4 (S4 - More domestic debt – develop domestic market): This strategy assumes lengthening the domestic debt maturities through issuance of securities of longer maturities. The strategy assumes an increase in the proportion of 5-, 7- and 10-year bonds to account for 50 percent of total domestic debt in 2024. This strategy is desirable in order to mitigate against refinancing risk. However, due to few investors in longer term securities (i.e. 10 year bond) the implementation of this strategy may not be fully practical.

Table 15: Cost and Risk Indicators under Alternative Strategies

Risk Indicators		2020	As at end 2025			
		Current	S1	S2	S3	S4
Nominal debt as % of GDP		40.2	48.6	48.6	48.5	48.6
Present value debt as % of GDP		38.2	41.5	41.6	41.1	42.2
Interest payment as % of GDP		2.2	3.3	3.3	3.2	3.4
Implied interest rate (%)		5.6	7.4	7.4	7.2	7.6
Refinancing risk	Debt maturing in 1yr (% of total)	23.1	11.3	10.7	10.5	11.8
	Debt maturing in 1yr (% of GDP)	9.3	5.5	5.2	5.1	5.7
	ATM External Portfolio (years)	7.7	10.9	10.9	11.1	10.5
	ATM Domestic Portfolio (years)	2.6	3.7	3.8	3.6	3.7
	ATM Total Portfolio (years)	4.9	8.7	8.6	9.1	8.2
Interest rate risk	ATR (years)	2.5	4.6	4.6	5.4	4.3
	Debt refixing in 1yr (% of total)	54.5	54.7	53.8	50.7	54.5
	Fixed rate debt (% of total)	66.8	55.1	55.4	58.3	55.3
FX risk	FX debt as % of total	44.6	64.0	63.6	67.5	59.8
	ST FX debt as % of reserves	7.1	4.5	4.5	4.5	4.5

Source: Ministry of Finance, Central Statistics and Central Bank of Eswatini

Table 15 indicates that continuation of the current financing, strategy 1 (S1), has higher nominal and present value of debt –to-GDP, largely due to high proportion of semi-concessional loans which have slightly higher interest rates, medium-long maturities and grace periods. The second strategy (S2) that aims at lengthening domestic debt maturities has lower refinancing and foreign exchange risks mainly due to relatively higher proportion of domestic debt and longer ended domestic instruments. Strategy 3 that considers more external semi-concessional was the favorable with a lower nominal and present value of debt to GDP. However, S3 has a higher exchange rate risk compared to other strategies on account of higher proportion of foreign denominated debt. Strategy 4 that seeks to issue more domestic debt in order to develop the country's domestic market was the second-best performer in terms of cost and risk indicators.

On the overall, the analysis show that Strategy 4 (S4) outperforms other strategies. However, our domestic market landscape amid the effects of the Covid-19 pandemic on the economy and the increased requirements to financing strategic projects, the feasibility of this strategy is limited. In this regards, Strategy 3 (S3), which assumes more proportion of external semi-concessional loans is the optimal strategy for implementation in the medium term.

Source: Ministry of Finance.

c) Implementation of the FY 2020/21 MTDS

The recommended strategy will be implemented through the annual borrowing plan that delivers the government gross funding needs over the medium term. The mix of the borrowing instruments be aligned to the 2021 MTDS. Specifically, issuance of the benchmark bonds of medium to long term tenor as the major financing instruments for domestic market. The Treasury Bills will be gradually reduced in an effort to reduce the refinancing risk and improve cash management.

The external borrowing plan outlines the expected disbursements per creditor within each financial year. The plan specifies the creditor, the purpose of financing, the period and currency of the disbursement.

i. Implementation and Review

The issuance programme of the benchmark bonds will be implemented through an issuance calendar approved by the Minister and it will be reviewed through the Ministry's quarterly performance reports to Parliament. In addition, review of the Strategy implementation will through the quarterly performance reports.

ii. Monitoring and Review of Strategy: Cost and Risk Indicator Outturn

The outturn of the macroeconomic environment including the fiscal deficit, general price levels (exchange rates, inflation and interest rates) will be monitored against the target noted during the strategy formulation.

The cost and risk indicators spelled out in the optimal plan will be evaluated against the respective outturns during the strategy review. Deviations from targets versus the outturns will be used to inform strategy review in the MTDS cycle.

The evolution of public debt structure will inform the revision of the budget provision and management of the cost and risks of public debt. State own enterprises debt and contingent liabilities including stock of PPPs fiscal commitments will be tracked and also reported against sustainability levels.

2. DEBT SUSTAINABILITY ANALYSIS

i. Public Debt Sustainability

The Eswatini Government through the Public Debt department endeavours to maintain public debt and obligations at sustainable levels in line with section 72 of the Public Finance Management Act (PFMA), 2017. Public debt sustainability is the ability of a country to service its debt obligations as they fall due without disrupting its budget implementation.

The debt sustainability analysis for market access countries (MAC DSA) framework provided the analytical foundation for the debt sustainability assessment. The framework classifies countries as either lower or higher scrutiny depending on whether the ratios of public debt or gross financing needs are below or above the 50 percent and 10 percent indicative benchmarks respectively. Countries classified as high scrutiny are subjected to a rigorous analysis, including assessment of vulnerabilities that the debt portfolio is exposed to.

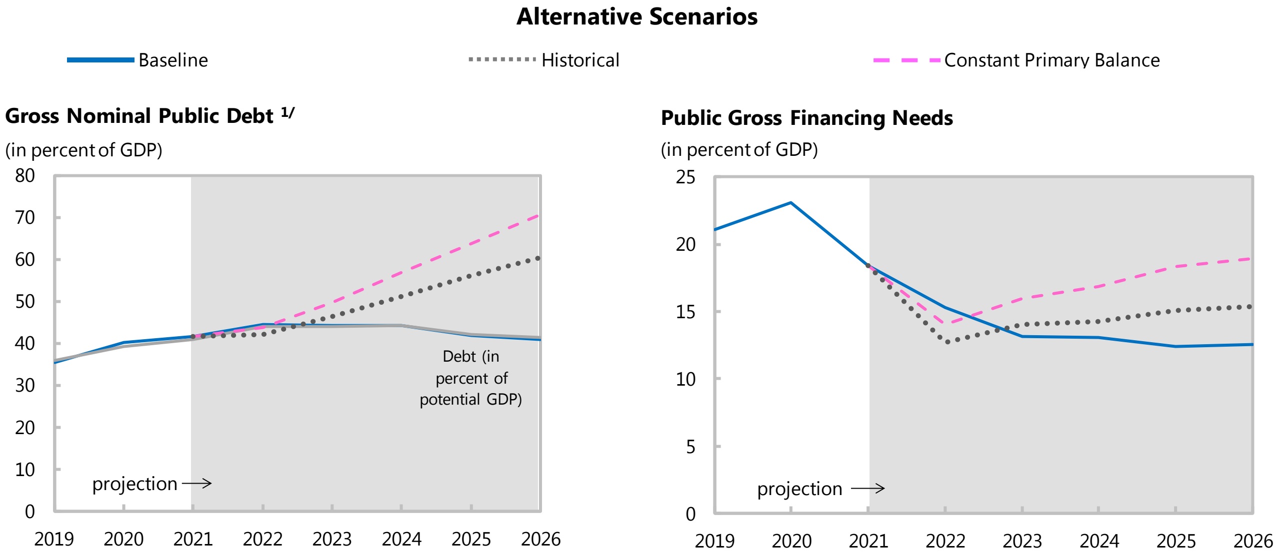
Eswatini's existing debt indicators places the country under the lower scrutiny category, a more granular analysis reminiscent of higher scrutiny countries was applied in view of emerging debt sustainability risks emanating from high primary deficit projected in the outlook, low potential output growth and domestic arrears.

ii. Results of Public DSA under baseline scenario

Under the baseline scenario one, Eswatini's nominal public debt is projected to moderate at 43.5 percent in the current macroeconomic and fiscal framework. This assumes a gradual reduction of domestic arrears, based on a projected medium term average primary deficit of 3.2 percent and a projected medium term potential GDP growth of 1.8 percent.

In baseline scenario two, the nominal public debt is projected to increase to 46.3 percent in the current macroeconomic and fiscal framework due to increased borrowing for the elimination of domestic arrears. Similarly, the gross financing needs are projected to reach 15.6 percent if the current macroeconomic framework is maintained.

Figure 12: Evolution of public debt and gross financing need indicators



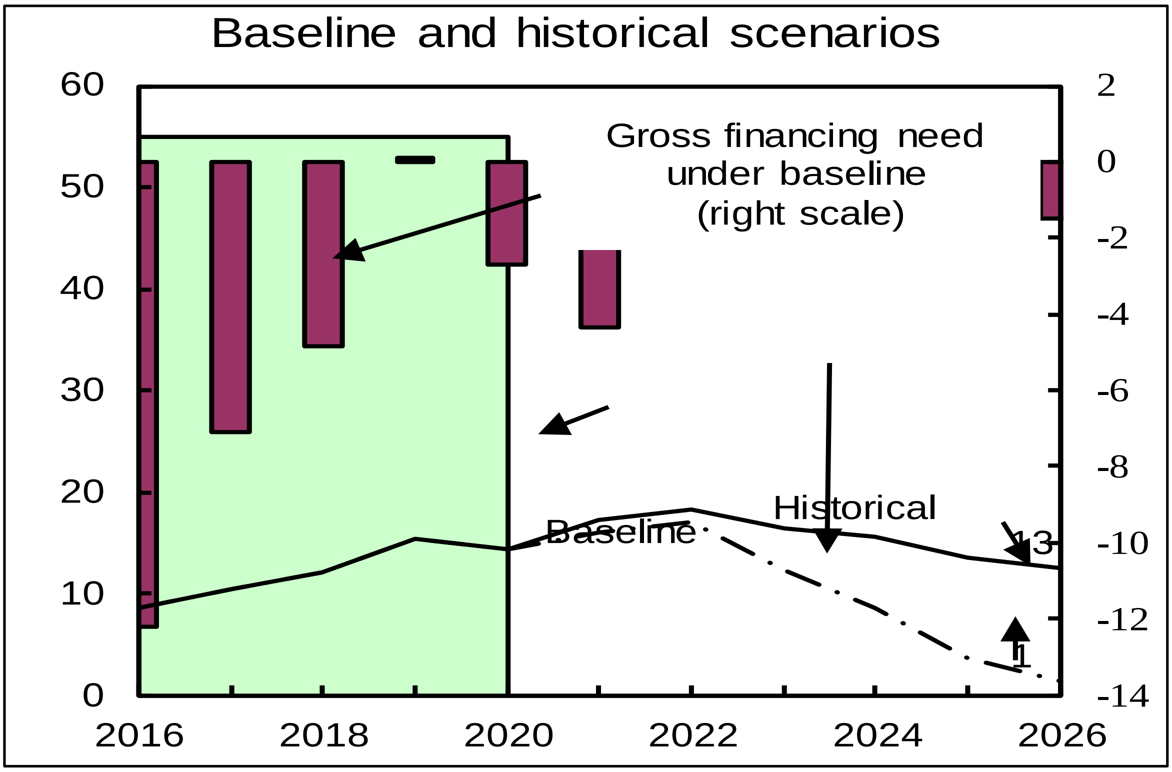
Source: Ministries of Finance and Economic Planning and Development

The country's debt ratio will increase and breach the threshold of 50 percent by 2026 if the country's historical trend is maintained. On the other hand, the gross financing needs will fall and stabilize at an average of 16.8 percent in the projection period assuming maintenance of the historical macroeconomic trajectory. However, a constant primary balance scenario, which assumes maintaining the 2020 primary balance for the entire projection period, also depicts explosive debt dynamics. This suggests that the current fiscal stance is unsustainable and measures need to be taken in the medium term to adjust the primary balance.

iii. External Debt Sustainability Analysis

External debt is forecasted to slightly rise and stabilize within comfortably lower levels over the projection period under the DSA baseline, with gross financing needs remaining contained due to the envisaged fiscal consolidation plan. The external debt ratio is projected to slightly increase from around 17 percent to 18 percent in 2022 and fall to averages of 15 percent of GDP. The lower external gross financing need of the public sector is explained by a healthy balance of payments that the country has been enjoying over the years. The country has been running an average current account surplus of 9.1 percent of GDP over the period 2014-2018.

Figure 13: Evolution of external debt and gross financing needs indicators



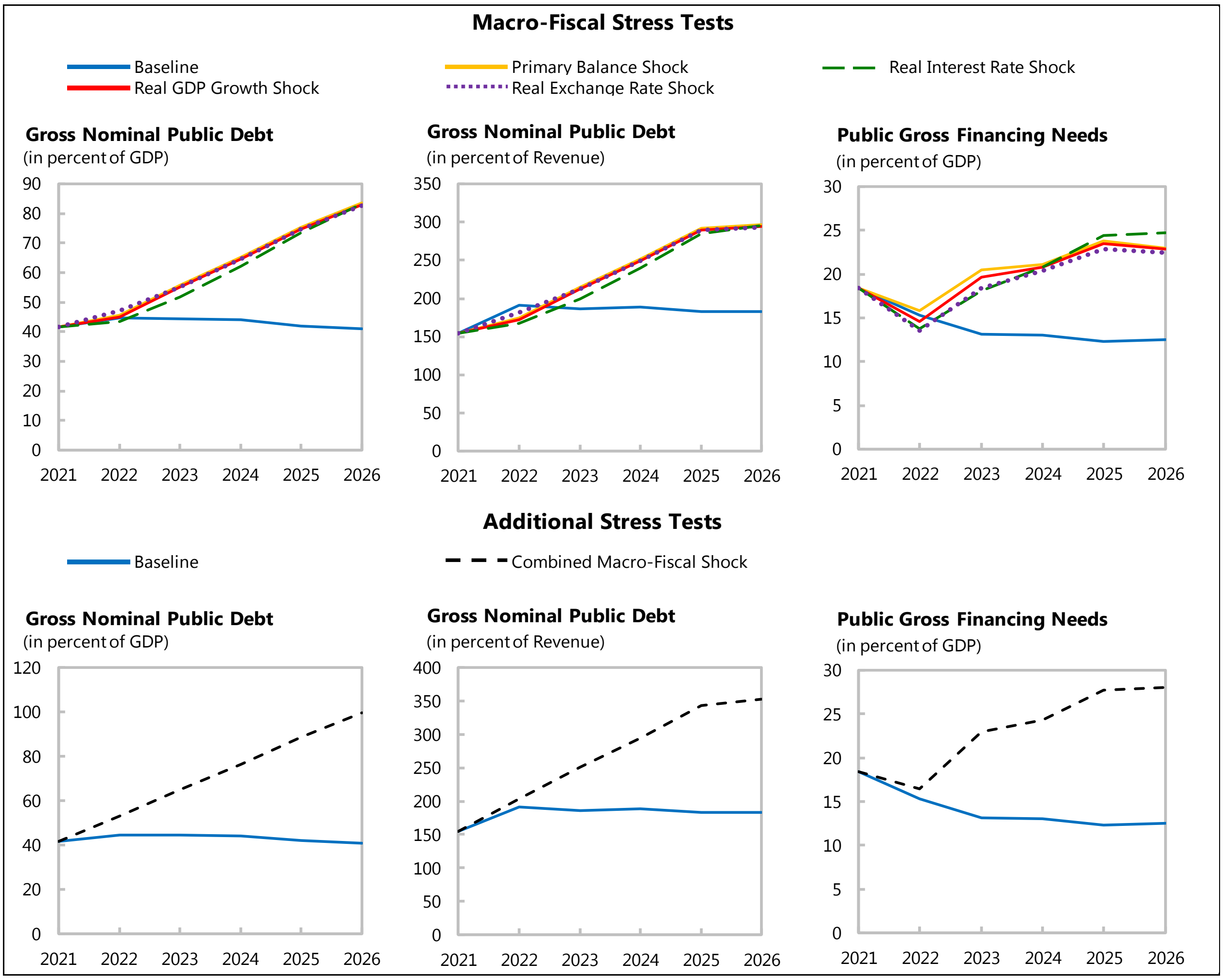
Source: Ministry of Finance and Central Bank of Eswatini

External debt is also projected to significantly fall in the horizon period if the historical balance of payments trajectory is maintained into the medium term. However, higher borrowing costs may arise from a tightening of global financial conditions. The debt-stabilizing non-interest current account surplus is estimated at 0.6 percent of GDP which is less than the projected current account surpluses of around 4.9 percent. This implies that the external debt to GDP ratio would remain stable or decline in the projection period.

c) Sensitivity analysis

The results from sensitivity analysis suggest that Eswatini's public debt is susceptible to macro-fiscal shocks, notably, the growth, interest rate and primary balance shocks. The results are shown in the figure below.

Figure 14: Macro Fiscal Stress Tests



Source: Ministries of Finance and Economic Planning and Development

Lowering the real output growth by one standard deviation relative to the baseline for the projection period would increase public debt up to 82 percent in 2026, compared to 44 percent in the baseline. Concerning interest rate shock, a 200 basis points increase in the interest rate starting in 2021 would still increase public debt with the same margin as the real GDP growth shock. The gross financing need would also follow an upward trend assuming less favourable terms by 200 basis points from the baseline.

On the fiscal front, fiscal slippages, in the form of a cumulative deterioration in the primary balance of about 2.7 percent over the medium term would push the public debt to GDP ratio up to 60 percent in 2024. Precisely, the constant primary balance shock suggests that if the primary balance remains at the 2020 level of 6 percent during the rest of the projection period, the projected debt level would increase to almost 82 percent in 2026.

Finally, a combined macro-fiscal shock to growth and interest rates, a primary balance shock and an exchange rate shock results in an increase in the debt-to-GDP ratio to 100 percent by 2026 and gross financing needs to 28 percent which is way above the 15 percent high-risk threshold. The public debt-to revenue ratio would also remain at an elevated level over the medium-term, and on an increasing course toward the end of the projection period, in this scenario.

CHAPTER SIX
OUTLOOK FOR THE MEDIUM TERM

a) PUBLIC DEBT STOCK IN THE MEDIUM TERM

The total public debt in nominal terms rose to SZL 26.1 billion in March 2021 from SZL 22.9 billion in March 2020 and is further estimated to increase to SZL 27 billion in March 2022 (Table 14). As a proportion of nominal GDP, public debt is estimated to increase to 37.8 percent in March 2022 from 35.1 percent in March 2020 exceeding the threshold recommended by the IMF and the World Bank for Eswatini.

As a proportion of GDP, external debt is estimated to increase to 16.8 percent in March 2022 from 16.3 percent in March 2020. The domestic debt will also increase to 21 percent in March 2022 from 18.9 percent in March 2020.

Table 16: Projected Public Debt Stock

(Millions SZL)					
	2017/18	2018/19	2019/20	2020/21	2021/22
External debt	5,336.3	7,058	10,582.1	10,366.9	12,027.2
as a % of GDP	8.9	11.1	16.3	14.5	16.8
Domestic Debt	6,059.9	8,767.8	12,274.8	15,755.2	15,005.3
as a % of GDP	10.1	13.8	18.9	22.0	21.0
Total public debt	11,396.2	15,825.8	22,856.9	26,122.5	27,032.5
as a % of GDP	19	25	35.1	36.5	37.8
Memorandum items					
Nominal GDP	60,082.6	63,338.5	65,080.0	66,506.9	71,600.4
Total Revenue	16,300.5	16,100.0	17,330.5	17,694.2	19,040.0

Source: Ministries of Finance, Economic Planning & Development, and Central Bank of Eswatini.

b) Debt Service in the Medium Term

In nominal terms, the total debt service as a proportion of revenue is estimated to increase to 11.7 percent in 2021/22 from 10.7 percent in 2019/20 (Table 15). As a percentage of GDP, total debt service is estimated to increase to 3.1 percent in 2021/22 from 2.8 percent in 2019/20.

Domestic interest is estimated to decline to SZL 861.4 million in 2021/22 from SZL 1,038.3 million in 2019/20. As a percentage of revenue, domestic interest is estimated to decrease to 4.5 per cent in 2021/22 from 6 per cent in 2019/20. As a ratio of GDP, domestic interest will decrease to 1.2 percent in 2021/22 from 1.5 percent 2019/20.

Interest on external debt is estimated to increase to almost double to record SZL 561.2 million in 2021/22 from SZL 263.1 million in 2019/20. As a ratio of GDP, interest on external debt will rise to 0.9 percent in 2021/22 from 0.4 percent in 2019/20.

Principal repayments on external debt is estimated to increase to SZL 850 million in 2021/22 from SZL 664.8 million in 2019/20. As a ratio of GDP, the external repayments will increase to 1.2 per cent in 2021/22 from 1 per cent in 2019/20.

Table 17: Projected Debt Service

Projected Public Debt Service in SZL Million					
Debt Service		**2018/19**	**2019/20**	**2020/21**	**2021/22**
Domestic interest	Amount	574.1	1038.3	1001.6	861.4
	as % of GDP	0.9	1.5	1.5	1.2
	% of Revenue	3.6	6.0	5.7	4.5
External Interest	Amount	196.2	263.1	499.5	516.2
	% of GDP	0.3	0.4	0.8	0.7
	% of Exports	0.7	0.9	1.8	1.8
Total Interest payments	Amount	770.3	1,186.2	1,501.1	1,377.6
	% of GDP	1.2	1.9	2.3	1.9
	% of Revenue	4.3	6.8	8.5	7.2
External Principal Repayments	Amount	410.4	664.8	828.4	850.0
	% of GDP	0.6	1.0	1.2	1.2
	% of Exports	1.6	2.3	2.9	2.9
Total Debt service	Amount	1,180.7	1,851.0	2,329.5	2,227.6
	% of GDP	1.9	2.8	3.5	3.1
	% of Revenue	7.3	10.7	13.2	11.7
Memo items					

Projected Public Debt Service in SZL Million					
Debt Service		**2018/19**	**2019/20**	**2020/21**	**2021/22**
Total Revenue	Amount	16,100.0	17,330.5	17,694.2	19,040.0
Nominal GDP	Amount	63,338.5	65,080.0	66,506.9	71,600.4
Exports of Goods and Services	Amount	26,163.2	28,693.6	28,348.5	28,885.5

Source: MoF, MEPD and CBE

GLOSSARY

- **Bond Re-opening**

  This involves opening up or offering the same paper to the primary market on a date other than its original issue date with a view to increasing its outstanding size.

- **Concessionality**

  A measure of the softness of a credit reflecting the benefit to the borrower compared to a loan at market rate. Technically, it is calculated as the difference between the nominal value and the present value of the debt service as of the date of disbursement, calculated at a discount rate applicable to the currency of the transaction and expressed as a percentage of the nominal value.

- **Debt Service**

  The amount of funds used for repayment of principal and interest of a debt.

- **Debt Sustainability**

  Sustainable debt is the level of debt which allows a debtor country to meet its current and future debt service obligations in full, without recourse to further debt relief or rescheduling, avoiding accumulation of arrears, while allowing an acceptable level of economic growth.

- **Debt Sustainability Analysis**

  This is conducted in the context of medium-term scenarios. These scenarios are numerical evaluations that take account of expectations of the behaviour of economic variables and other factors to determine the conditions under which debt and other indicators would stabilize at reasonable levels, the major risks to the economy, and the need and scope for policy adjustment. In this analysis, macroeconomic uncertainties, such as the outlook for the current account, and policy uncertainties, such as for fiscal policy, tend to dominate the medium term outlook.

- **Disbursement**

  The actual transfer of financial resources or of goods or services by the lender to the borrower.

- **Domestic Borrowing**

Government borrowing through issuance of local Government securities and direct borrowing from the Central Bank.

- **External Borrowing**

  Government borrowing from both official (Government or Government agencies) and private institutions domiciled outside the country.

- **Government Securities**

  Financial instruments used by the Government to raise funds from the primary market.

- **Grant Element**

  It measures the concessionality of a loan, in the form of the present value of an interest rate below the market rate over the life of a loan.

- **Present Value**

  The present value (PV) is defined as the sum of all future cash flows (interest and principal) discounted at the appropriate market rate. For a loan, whenever the interest rate on a loan is lower than the market rate, the resulting PV is lower than its face value.

- **Official Development Assistance**

  Loans and grants from official development agencies to countries received by the public sector, for promotion of economic development and welfare as the main objective and, extended at concessional financial terms (with minimum grant element of 25 per cent). Loans and credits for military purposes are excluded in this definition.

- **Primary Market**

  This is a market where financial instruments are originated through initial issuance.

- **Public Debt**

  This refers to outstanding financial obligations of government arising from past borrowing. It includes government guaranteed debts to state corporations and local authorities.

- **Public Domestic Debt**

Part of the overall debt owed by government to creditors domiciled in the economy. The debt includes money owed to commercial banks, non-bank financial institutions, individuals among others.

- **Public External Debt**

  Part of the overall debt owed by government to creditors domiciled outside the economy. The debt includes money owed to private commercial banks, other governments, or international financial institutions such as the IMF and World Bank.

- **Secondary Market**

  This is a market where already issued financial instruments are traded.

- **Sovereign Bond**

  A debt security issued by a national government within a given country and denominated in a foreign currency. The foreign currency used will most likely be a hard currency.

- **Suppliers' Credit**

  An arrangement under which a supplier or exporter agrees to allow the customer to defer payment under a sales contract.

- **Tap sale**

  It is a continued issuance of a security after its original auction where there was an under subscription.

- **Treasury Bills**

  It is a short-term borrowing instrument issued by government to finance the budget.

- **Treasury Bond**

  This is a medium to long-term term debt instrument issued by government to finance the budget.

- **Yield Curve**

  It is the relationship between the interest rate and maturity of bonds. A normal yield curve shows interest rates for short-term securities lower than interest rates for long-term securities.