SIYINQABA

THE KINGDOM OF ESWATINI

FISCAL FRAMEWORK PAPER

2023/24

PRESENTED BY

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MINISTER FOR FINANCE

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OBJECTIVE OF THE FISCAL FRAMEWORK PAPER

1. The Fiscal Framework Paper (FFP) provides, a fiscal framework for Government consistent with the Fiscal Responsibility Principles outlined in the Public Finance Management Act of 2017.

2. The Fiscal Framework Paper presents a set of fiscal projections underpinned by macroeconomic analysis that seek to describe the path of fiscal aggregates over the medium term, including government revenue, expenditure, fiscal balance and debt levels. The FFP, based on the estimates of the medium-term fiscal framework (MTFF) is a key policy document for the top-down budget process and forms the backbone of the entire budget cycle. It is the basis for setting budget ceilings for all government ministries, allowing them to priorities their allocated resources whilst being mindful of the macroeconomic reality.

3. The purpose of the FFP is to facilitate policy-making and for Government to be able to follow fiscal development, to avoid deteriorating fiscal scenarios. It provides an opportunity to extend the fiscal policy making horizon beyond the annual budgetary calendar, which is imperative for sound fiscal policy as most fiscal measures have budgetary implications that go beyond the usual yearly budgetary cycle.

INTRODUCTION

The Government strategy remains aligned to fiscal consolidation, ensuring that in the medium term the fiscal position is moving towards a sustainable path. The aim is to reduce the budget deficit, ensure that the debt levels are contained at sustainable levels, minimize or eliminate the accumulation of arrears and mitigate any fiscal risks .Further, the Government remains focused on putting into place measures to enhance economic growth, enhance revenue generation efforts and provide efficient service to the nation.

However, currently the domestic social and economic environment is deteriorating as a result increasing events of social unrest and risks of distress in the economy becoming more acute. It is worth noting that the unrest has resulted in destruction of infrastructure, severely affecting service delivery and reducing economic activity. The Government will work on the bottlenecks and ensure that the nation moves together in addressing economic and social ills for improved economic growth and development.

The global macroeconomic outlook remains challenged and this has a major bearing on the domestic environment, as spillover effects are inevitable. The economy needs to build buffers and resilience as climatic conditions are also posing a threat to economic recovery and development.

1. MEDIUM-TERM MACROECONOMIC DEVELOPMENTS

1.1. GLOBAL MACROECONOMIC OUTLOOK

Subsequent to the notable recovery of about 6.1 percent in 2021, the International Monetary Fund (IMF) World Economic Outlook report of October 2022 suggests that the global economy is set to grow by 3.2 percent and 2.7 percent in 2022 and 2023, respectively. This is the weakest growth profile since 2001 except for the global financial crisis and the acute phase of the COVID-19 pandemic. The growth, which reflects revisions from previous forecasts, indicates the strain posed by the hiking inflationary pressures, induced by the ongoing Russia and Ukraine tension coupled with the compounded supply chain disruptions partly emanating from China's economic growth slowdown. Global inflation is forecast to rise from 4.7 percent in 2021 to 8.8 percent in 2022 but to decline to 6.5 percent in 2023 and to 4.1 percent by 2024. Russia and Ukraine economies account for the largest share of the globe's food and energy supply, similarly with the imposed sanctions there has been disruptions in the supply of these commodities, which has then triggered price escalations. Moreover, China, being one of the globe's economic giants, implemented its Zero COVID-19 strategy when the economy battled with a new outbreak of the COVID-19 cases, resulting in the complete shutdown of the world's largest global supply chain hub, 'Shanghai'. These developments have compounded the global trade and supply chain disruptions. There are downside risks for the global outlook in the short-medium term, including the uncertainty around the potential intensity of the tensions.

In general terms, the world is in an unpredictable period; economic, geopolitical, and ecological changes all impact the global outlook. Inflation has soared to multi decade highs, persuading rapid and synchronized monetary policy tightening and squeezing household budgets. Tighter global monetary and financial conditions will work their way through the economy, weighing demand down and helping to gradually reduce inflation. Many low-income countries are facing deep fiscal difficulties. At the same time, Russia's ongoing war in Ukraine and tensions elsewhere have raised the possibility of significant geopolitical disruption. Although the pandemic's impact has moderated in most countries, its lingering waves continue to disrupt economic activity, especially in China. Intense heat waves and droughts across Europe, central and south Asia have provided a taste of a more inhospitable future blighted by global climate change.

Risks to the outlook remain unusually large and to the downside. Monetary policy could miscalculate the right stance to subjugate inflation. Policy paths in the largest economies could continue to diverge, leading to further US dollar appreciation and cross-border tensions. More energy and food price shocks might cause inflation to persist for longer. Global tightening in financing conditions could trigger widespread emerging market debt distress. Halting gas supplies by Russia could depress output in Europe. A resurgence of COVID-19 or new global health scares might further stunt growth. A worsening of China's property sector crisis could spill over to the domestic banking sector and weigh heavily on the country's growth, with negative cross-border effects.

Warding off these risks starts with monetary policy staying the course to restore price stability. Aggressive monetary tightening is critical to avoid inflation de-anchoring as a result of households and businesses basing their wage and price expectations on their recent inflation experience. On the other hand, fiscal policy's priority is the protection of vulnerable groups through targeted near-term support to alleviate the burden of the cost-of-living crisis felt across the globe.

Growth in the emerging market and developing economy group is expected to decline from 6.6 percent in 2021 to 3.7 percent in 2022 and remain there in 2023, in contrast to the deepening slowdown in advanced economies. The forecast for 2022 is modestly upgraded from the July 2022 forecast, reflecting a smaller-than-expected contraction in emerging and developing Europe. In Sub-Saharan Africa, the growth outlook is slightly weaker than predicted earlier, with a decline from 4.7 percent in 2021 to 3.6 percent and 3.7 percent in 2022 and 2023, respectively—downward revisions of 0.2 percentage point and 0.3 percentage point, respectively. This weaker outlook reflects lower trading partner growth, tighter financial and monetary conditions, and a negative shift in the commodity terms of trade.

Table 1.1: Real GDP

		Projections	
	2021	2022	2023
World Output	**6.0**	**3.2**	**2.7**
Advanced Economies	**5.2**	**2.4**	**1.0**
Euro Area	5.2	3.1	0.5
UK	7.4	3.6	0.3
United States of America	5.7	1.6	1.0
Japan	1.7	1.7	1.6
Emerging & Developing Economies	**6.6**	**3.7**	**3.7**
Russia	4.7	-3.4	-2.3
China	8.1	3.2	4.4
Brazil	4.6	2.8	1.0
Sub-Saharan Africa	**4.7**	**3.6**	**3.7**
Middle Income Countries[1]	5.3	3.1	2.8
RSA	4.9	2.1	1.1
Zambia	4.6	2.9	4.0
Low-Income Countries	5.9	4.5	5.3
Ethiopia	6.3	3.8	5.3

Source: *IMF's World Economic Outlook (October 2022)*
Notes: [1]*Includes Botswana, Cabo Verde, Eswatini, Lesotho, Mauritius, Namibia, and Seychelles*

At regional level, latest data indicates that SADC regional GDP growth increased from a contraction of 4.8 percent in 2020 to 4.0 percent in 2021 with all Member States recording a positive real GDP growth. SADC region's annual inflation slowed to an average of 11.3 percent in 2021 from 49 percent in 2020, largely due to a significant slow-down of inflation in Zimbabwe. Annual inflation rate in the SADC region is projected to ease a bit to 10.5 percent in 2022 (SADC Annual Report, 2021/22 FY).

The global economic developments, weak commodity prices, adverse weather conditions and the impact of COVID-19 weighed down the regional economy in the second and third quarter of 2020 and these had varying negative impacts on the fiscal position of the region. Fiscal deficit slightly deteriorated to 4.2 percent of GDP in 2021 compared to 4.8 percent of GDP recorded in 2020.

The outlook for the region remains uncertain, replicating the global outlook, owing to the re-occurrences of COVID-19 waves, emergence of new virus variants, the slower than anticipated vaccine rollout, political unrest and the Ukraine-Russia conflict. The regional economic growth is estimated to increase to 3.8 percent in 2022. The forecasted economic recovery in 2022 will largely depend on global economic recovery and on political tensions.

1.2. DOMESTIC ECONOMIC PERFORMANCE AND OUTLOOK

1.2.1.REAL GDP GROWTH

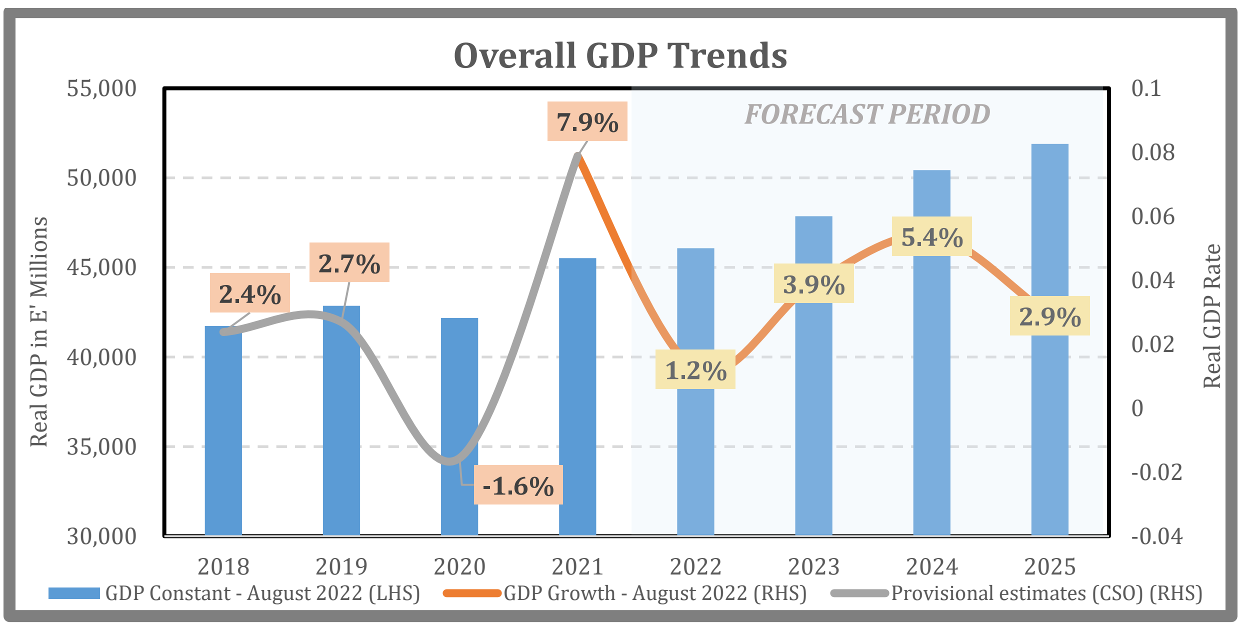
The domestic economy reflected strong resurgence in 2021, with an impressive growth of 7.9 percent, compared to a contraction of 1.6 percent in 2020. The growth was underpinned by strong performance of the primary and secondary activities, which reflected a 20.1 percent growth and 11.2 percent increase, respectively. The good performance in the primary sector was driven by the agricultural and forestry sub-sector, mainly the animal production and forestry activities, which grew by 17.6 and 45.2 percent, respectively. The secondary sector, on the other hand, profited from strong performance in the manufacturing activity particularly the manufacturer of beverages, processing of preserved meat, and processing of preserved fruits in the period under review.

Economic activity is envisaged to slow down in 2022, owing to moderation of most economic sectors from the previous year's high base coupled with economic strain as posed by the high inflationary environment. Growth in the medium term is expected to improve, supported by increasing public and private investment growth (i.e. construction of high growth multiplier projects such as the dam and mining) and the returns to investment (e.g. the Lower Usuthu Smallholder Irrigation Project (LUSIP) II).

Heightened uncertainty remains though for the domestic economy, in the short-medium term, largely emanating from global headwinds. Critically, prolonged geopolitical tension, which may intensify at any moment as well as any other potential disease outbreak, have remained the emerging source of the downside risks for the short-medium term. From a domestic perspective, the tight fiscal space arising from lower-than-expected revenue collections and high accumulation of debt, limit the scope for discretionary spending and thereby weighing negatively on growth.

Economic activity is expected to accelerate in the medium term and average 4.1 percent between 2023 and 2025. The main sources of growth are earmarked to emanate from full implementation of the LUSIP II as well as the commencement of the multi-billion Mkhondvo – Ngwavuma Water Augmented Program (MNWAP). The LUSIP II Project would bring an additional 4,000 hectares under sugarcane production by 2025 and 1,200 hectares on other crops. This is expected to boost the agricultural production as well as agro-processing. The first Phase of MNWAP, which includes the construction of the Mpakeni Dam and subsequent development of 10,000 hectares under irrigation infrastructure, is projected to commence in 2023. This would yield broad based economic activity touching on multiple sectors such as construction, 'mining & quarrying', transport and services in general. Other notable public projects envisaged in the period include the construction of Strategic oil reserve, completion of ongoing projects such as the Nhlangano – Sicunusa road, International Convention Centre (ICC) amongst others.

On the private sector side, projects under the broad procurement of energy, include the construction of a 40 MW solar and 40 MW biomass energy generation plants (by the Independent Power Producers – IPPs) as reflected in the Energy Master Plan. While there has been delays in the procurement of the 40 MW Solar Power, initially expected to come through in 2022, it is expected that in the medium term there would be notable progress as the country aims to improve local power generation. In addition, the tourism sector is expected to continue in its recovery path throughout the medium term as travel restrictions are projected to remain eased. On the contrary, fiscal consolidation measures are expected to remain in force and curtail growth on subsectors directly linked to Government.

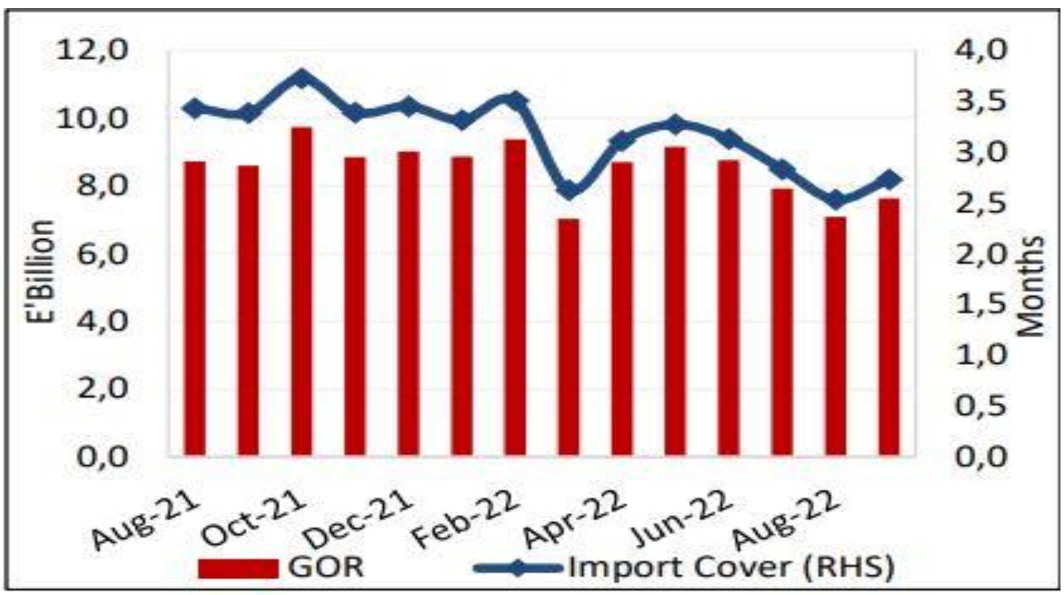


Source: MEPD

1.2.2.GROSS OFFICIAL RESERVES

The stock of gross official reserves amounted to E7.6 billion as at September 2022, equivalent to 2.7 months of import cover. The domestic reserves are currently below the international benchmark of 3 months of import cover, and not advisable if we are to protect the peg with the South African Rand. The rapid drawdown in reserves is a result of the continued pressures on the honoring of obligatory payments i.e. debt servicing, as well as the net outflows of foreign currency from trade with local banks. However, the reduction of the 0.5 percent gap in the repo rate to 0.25 percent and the positive developments on the Balance of Payments, which has been negative over the first few months of 2022, which are now positive, will to a large extent correct this.

Gross Official Reserves and Import Cover



Source: *CBE*

1.2.3. EXCHANGE RATES DEVELOPMENTS

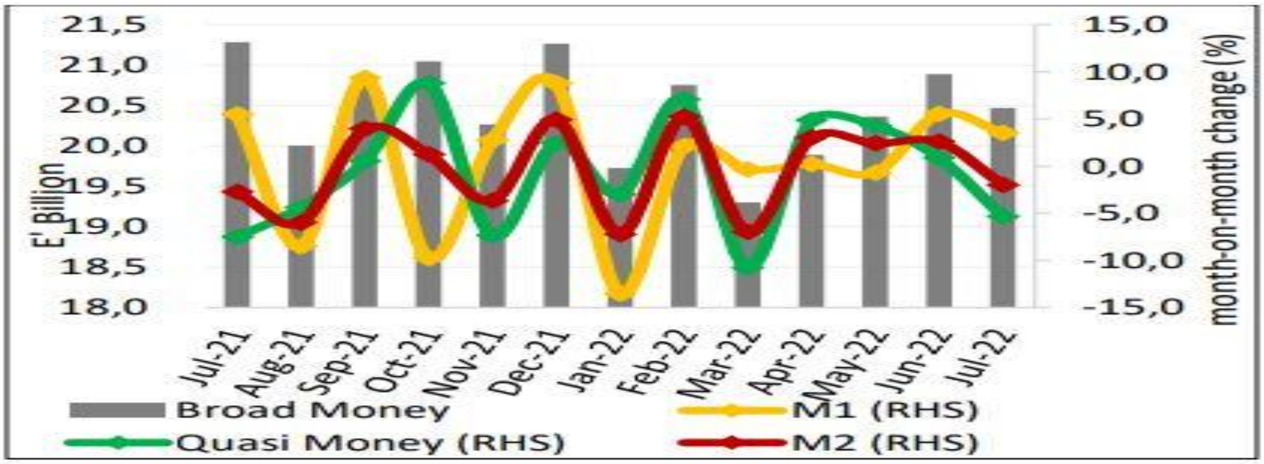
During the month of August 2022, the Rand/Lilangeni recovered from previous losses and appreciated against major trading currencies. The domestic currency appreciated by 0.7 percent against the US Dollar and traded at a month average of E16.69 per US Dollar. The appreciation was mainly supported by the South African Reserve Bank (SARB) monetary policy stance and the weaker US Dollar.

In the short to medium-term, the performance of the Rand depends on the possibility of global economic recession, US monetary policy developments, power supply and economic growth prospects in South Africa. The Rand/Lilangeni closed the month of August 2022 at E16.96 to the US Dollar, E19.81 against the Pound Sterling and E16.99 against the Euro.

1.2.4.MONEY SUPPLY

Broad money supply (M2) stood at E20.5 at the end of July 2022, down by 2.0 percent from June 2022 and 3.8 percent over the year. The month-on-month fall in M2 was driven by quasi money supply while narrow money supply (M1) expanded, as depositors preferred to hoard cash over long-term investments. In real terms, year-on-year growth in M2 remained suppressed, recording a decline of 9.2 percent for two-months, consecutively. Quasi money supply contracted by 5.3 percent relative to June 2022 and 4.0 percent year-on year to settle at E12.3 billion at the end of July 2022, on account of time deposits. Time deposits, which are fixed longer-term investments, fell by 6.7 percent to E10.2 billion whilst near-cash savings deposits grew by 2.0 percent to E2.1 billion. Narrow money supply (M1), which is cash and near-cash money, recorded an increase of 3.5 percent over the month and fell by 3.5 percent year-on-year to E8.2 billion at the end of July 2022. The month-on-month growth in M1 was supported by both components, currency in circulation and transferable (demand) deposits. Currency in circulation grew by 10.8 percent to E765.4 million while transferable deposits rose by 2.8 percent to E7.4 billion at the end of July 2022.

Money Supply



Source: *CBE*

1.2.5.CREDIT EXTENSION

Credit extended to the private sector grew by 3.4 percent year-on-year to E16.7 billion at the end of July 2022. Growth was observed in credit to other sectors of the economy and Households & Non-profit Institutions Serving Households (NPISH) while credit to businesses declined. In real terms however, annual growth in private sector credit further fell from -0.2 percent in June 2022 to -2.0 percent in July 2022 as domestic inflation rose by 0.8 percentage points to 5.4 percent in July 2022.

Credit extended to other sectors of the economy improved by 11.2 per cent month-to-month and fell by 42.4 percent over the year to E844.5 million at the end of July 2022. The month-on-month increase was supported by credit to other financial corporations which grew by 23.2 percent to E542.5 million. Credit to parastatals and local government on the other hand, contracted by 6.0 percent to E261.8 million and 1.7 percent to E40.2 million, respectively. Credit extended to NPISH amounted to E7.9 billion in July 2022, reflecting an increase of 5.8 percent year-on-year. Growth was observed in housing and other personal (unsecured) loans which overshadowed the fall in motor vehicle loans. Housing and other personal (unsecured) loans grew by 1.9 per cent to E3.9 billion and 0.8 percent to E3.1 billion, respectively. Motor vehicle loans however, fell by 0.3 percent to E903.4 million. Credit extended to the businesses contracted by 1.8 percent from June

2022, however, increased by 10.3 percent over the year to close at E7.9 billion at the end of July 2022. The month-on-month decline was observed in credit to the distribution & tourism, manufacturing, agriculture & forestry, as well as mining & quarrying industries. Growth was however, observed in credit to the construction, real estate, transport & communication, and community, social & personal services industries.

The quality of the banking sector's loan book, as measured by non-performing loans, increased by 2.4 percent month-on-month and 22.7 percent year-on-year to E937.1 million at the end of July 2022. The month-on-month rise in non-performing loans was registered in the following sectors: parastatals (5.6 percent), households & NPISH (4.3 percent), private financial corporations (2.2 percent), as well as businesses (1.3 percent). As a result, the non-performing loans ratio rose by 0.2 percentage points to 6.7 percent in July 2022.

1.2.6.INFLATION (PRICE) DEVELOPMENTS

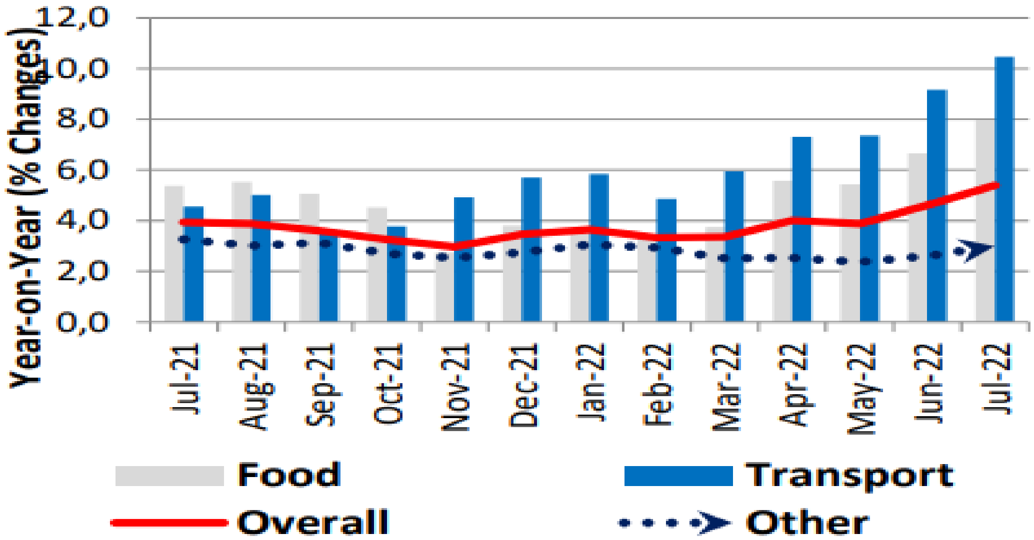
In 2021, overall inflation averaged 3.7 percent, slightly moderating from an average of 3.9 percent in 2020. Inflation remains on an upward trajectory, expected to rise to about 4.4 percent in 2022 driven by hiking prices of certain basic commodities and services i.e. fuel, food, transport, utilities. The mounting inflationary pressures reflected pass-through effects from the recent global inflation developments triggered mainly by hikes in international oil and food prices.

Food price increases continue to be noted in the prices for edible oils, which remain elevated on the back of the Russia-Ukraine War, coupled with the government's approval of a 20.76 percent hike in the price of bread effective 13th July 2022. Similarly, transport inflation further grew to 10.5 percent during the month under review, from 9.2 percent in the previous month, mainly benefitting from persistent increases in the prices for 'fuel & lubricants for personal transport equipment'. On the contrary, decreasing rates of growth were noted in the price indices for 'recreation & culture' and 'restaurants & hotels', thereby counteracting the above increases.

The inflation outlook remains on an upward trend, with inflationary pressures emanating from fuel, transport, food and anticipated hikes in administered prices. Moreover, the uncertainty in the global front in particular the exchange rate developments as well as expectations on global inflation is expected to exert upward pressure on domestic inflation.

In the medium term, inflation for 2023 and 2024 are higher than the previous forecasts. This upward revision also aligns with more pronounced second round effects which will, in turn, generate persistent inflationary pressures. In this forecast period, the Rand is expected to remain weaker, exerting upward pressure on inflation. Increases in domestic administered prices are expected to continue as an upside risk. Although the forecasts for 2024 is revised upward, it is still lower than the forecast rate for 2023. This is partly due to expected Brent oil prices being lower for 2024 than 2023. Therefore, inflation for 2023 is forecasted at 5.18 percent (from 4.52 percent) and 2024 at 4.73 percent (from 4.21 percent).

Inflation Trends



Source: CBE

1.2.7.INTEREST RATES

In response to the inflationary environment, the monetary policy stance has tightened; as it increased the discount rate (policy rate) by a cumulative 225 basis points from 3.75 per cent in January 2022 to 6 per cent in September 2022. Similarly, the prime lending rate increased from 7.25 percent to 8.50 percent in the same period. These developments are expected to weigh-in heavily on short-to-medium term investments as the cost of borrowing gradually becomes more expensive for most economic sectors, which are still battling with the COVID-19 induced effects. However, the aggressive monetary policy stance is expected to combat inflation, whilst preventing capital flight and maintaining the Rand/Lilangeni Peg.

1.2.8.EMPLOYMENT DEVELOPMENTS

In 2022, there has been no major changes as recent data is still based on the Labour Survey Report of 2021. The report shows that unemployment rate was recorded at 33.3 percent, which reflected a 10.3 increase from the 23 percent reported in 2016. Youth unemployment remains a major concern as the Eswatini economy is dominated by youth. The youth unemployment has significantly increased from 47 percent to 58 percent in the recent statistics. Regional statistic on unemployment shows that the Manzini region has the highest unemployment rates at 40 percent whilst the Lubombo region has recorded 26 percent. A vast majority of the new employment has been created in the manufacturing and construction sectors, while employment in services sectors has generally stagnated and agricultural employment has declined. In light of the COVID-19 pandemic and the recent social unrest, the unemployment rate is likely to rise over the medium-term. Key sectors, such as the Hospitality Industry and Mining and Quarrying are likely to carry prolonged scarred effects reflected through continued retrenchments in these subsectors (Ministry of Labour and Social Security, June 2021).

1.2.9.EXTERNAL SECTOR

South Africa remains the country's main trading partner with 66.3 percent of exports destined to that market and 74.4 percent of imports originating from the same market. In the month of August 2022, a trade surplus of E264.5 million was recorded, wider than the surplus of E182.5 million from the previous month. Year-to-date figures indicate that exports which were E20.207 billion were 7.6 percent higher as at August 2022 when compared to the eight months to August 2021. Imports which amounted to E20.758 billion as at August 2022 registered a 13.1 percent increase when compared to August 2021, resulting in a year to-date trade deficit balance of E551.4 million. Seasonally adjusted data indicates that the country recorded an E96.0 million trade surplus position for the month of August 2022, with seasonally adjusted exports amounting to E2.725 billion for the month and imports seasonally adjusted to total E2.629 billion.

2. FISCAL PERFORMANCE AND OUTLOOK

Government has been in recent years 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. Government expenditure in the past three years has averaged E22.2 billion regardless of the expenditure pressures emanating from cyclone Eloise, the advent of COVID-19, and the destruction of structures 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 which is very commendable and showing commitment to fiscal stability.

The FAP has, due to alterations in projections and difficulty in implementing some of the policy measures initially planned, been amended in October 2021. The amended FAP with an adjustment of 4.8 percent of GDP over the medium term has also proved to be difficult to implement in the set time period due to pressing needs in Government. The FY 2023/24 is an election year and there is pressure on expenditures since the Government has to provide for the elections activities. In addition, security pressure exerted by the social unrest and continued hiring freeze in Government, the security forces have reduced in numbers and Government has to cater for hiring of about 1700 personnel. Consequently, any anticipated saving on the wage bill will not be realized. The expenditure savings (from EVERS, SOE reforms, Scholarship Fund) which were anticipated with the FAP have proven to be difficult to implement in the medium term as there are certain processes that need to be completed first. Government, however, remains dedicated to implement 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 impact of the Russia-Ukraine war 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 over E10 billion and Government will be utilizing part of the revenue to establish a SACU Stabilization Fund in order to cater for SACU volatility.

2.1. REVENUE OUTTURN AND PROJECTIONS

In FY 2021/22 total revenue and grants collection amounted to E17.99 billion, a decreased by 6.8 percent when compared to the FY 2020/21 total revenue and grants which amounted to E19.29 billion. The outturn was about E 1.4 billion lower than the budget as the budget stood at E19.38 billion for total revenue and grants. The decrease is mainly a result of continued economic disruptions resulting from the coronavirus pandemic which came with lockdowns as well as the social unrest which affected mostly the retail businesses.

In FY 2022/23 revenue and grants was budgeted at a total of E19.25 billion but has been revised down to E18.97 billion, a 1 percent decrease compared to the budget. This is however, an increase of 5.5 percent compared to the outturn for FY 2021/22, attributed to a recovery of the domestic economy resulting in a significant improvement of domestic revenue collection cushioning the decline in SACU receipts in the same year. SACU receipts declined from E6.38 billion in FY 2021/22 to E5.82 billion in FY 2022/23 but remain to be one of the largest item of revenue accounting for 32.0 percent of total revenue collection.

Domestic revenue collection in FY 2022/23 has on the other hand been projected to increase by 9.78 percent compared to the 2021/22 FY outturn reaching a total of E12.58 billion. Out of domestic revenue collection, individual income tax (PAYE) has been projected to E4.05 billion and Company tax to E1.95 billion. Taxes on Goods and Services are projected to increase by 13.36 percent amounting to a collection of E5.26 billion, where the major tax items VAT and fuel tax are expected to collect E3.73 billion and E1.3 billion respectively.

In FY 2023/24, total revenue and grants are expected to increase by E4.88 billion, equivalent to a 25.7 percent increase, compared to the FY 2022/23 budget, amounting to a total of E23.85 billion (29.3 percent of GDP). The increase is mainly attributed to an impressive rebound in SACU receipts, a consequence of the economic recovery from the easing of the coronavirus pandemic lockdown restrictions. SACU receipts expected to be utilized for the budget are estimated at E9.7

billion (12.0 percent of GDP) in FY 2023/24, an increase of 66.0 percent, representing 40.5 percent of the total revenue and grants. The domestic revenue collection is expected to increase by E766 million in FY 2023/24 compared to the FY 2022/23 budget, amounting to a total of E13.52 billion (16 percent of GDP). The increase in domestic revenue is mainly attributed to an increase in expected collection of individual tax and VAT.

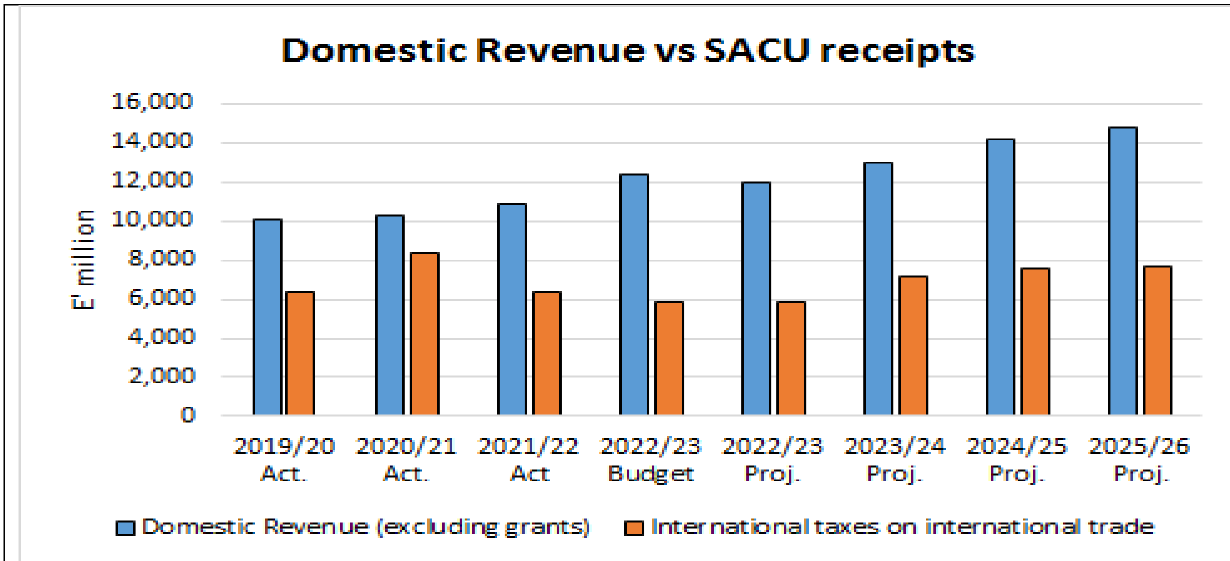
The volatility of the SACU revenue together with the absence of revenue stabilization instruments have resulted in difficulties to install sustainability to Government's revenue collection and consequently budgeting over the medium-term. The higher-than previously anticipated revenues will improve government's short-term cash position, but most of the windfall from SACU receipts are expected to fall away over the next two years. In this regard, the Government will not rely on transitory revenue gains to fund permanent spending increases, but will instead use these funds to finance once-off expenditures related to the FY 2023/24 elections and reduce previous years' arrears.

Total revenue is projected to reach E22.46 billion in FY 2024/25, representing a decline of about 6.0 percent, caused by a decline in SACU. SACU revenue is expected to reach slightly over E7 billion, a 27.0 percent drop from the FY 2023/24 collection. The domestic revenue is however 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 FY 2025/26, total revenue and grants is expected to amount to E 23.16 billion an increase of about 3.0 percent for the previous year. The increase is mainly attributed to increase in domestic revenues as economic performance is expected to improve. SACU revenues on the other hand is expected to remain at around E7 billion.

Government has realized the challenges posed by the volatility in SACU receipts and the impediments thereof in Government in planning fiscal policy over the medium-term. This has been an issue for several years and has led to Government aiming to rely less on the SACU revenue and instead improve domestic tax collection. To circumvent this challenge, Government has found it crucial to create a SACU Stabilization Fund which will help cushion the shocks in SACU revenue. A portion of the FY 2023/24 SACU receipts will be utilized to establish the Fund.

The following diagram illustrates the projected increase in domestic revenue while SACU receipts decline as a share of total revenue and continues to be an unstable source of income.



Source: Ministry of Finance

As demonstrated in the medium-term projections, the volatility in SACU receipts poses challenges for Government in planning fiscal policy over the medium-term collection, hence the need to improve domestic tax collection. The projected increase in domestic revenue collection is mainly attributed to policy measures implemented in the recent past and partly relies on the implementation of some of the FAP measures which are feasible to implement in the medium term. Since substantial alterations have been made to the original FAP pertaining to revenue collection it is difficult to project the revenues that will be collected until the Finance Bills representing the measure have been passed to an Act. History has shown us that we need to include only the measures that have been passed as an Act to avoid over projection on revenues which in turn leads to increased expenditure expectations.

2.2. EXPENDITURE OUTTURN AND PROJECTIONS: CAPITAL EXPENDITURE

Total capital expenditure in the financial year 2021/22 amounted to E3.79 billion, this is equivalent to about 60.0 percent of the budget which stood at E6.37 billion. Out of the outturn, E2.93 billion was financed entirely from Government revenues and E860 million was financed by foreign sourced loans and grants. The grants amounted to E157 million a reduction of about 33.0 percent when compared to the previous year. On foreign loans, the country disbursed 42.0 percent lower than FY 2020/21 due to delays in implementation. The African Development Bank and the World Bank remain the leading development partners to provide loan financing for our capital projects whilst the Republic of China (Taiwan) and the European Union are mostly on grant funding. Capital projects that are financed from Government revenue sources were also lower than the previous year by 18.0 percent. The low implementation was a result of mixed factors, one of which was cash flow challenges and political unrest which was threatening the infrastructure development as there was burning of equipment for construction companies.

The FY 2022/23 budget allocated a total amount of E5.33 billion to the capital programmes. The mid-year report for FY 2022/23 has so far indicated an execution rate of the capital expenditure at 27.3 percent, equivalent to an expenditure of E1.45 billion. For the FY 2022/23, capital expenditure is projected to execute at most 80.0 percent of the budget on the locally financed projects and 85.0 percent of grants and foreign financed projects expected to be fully executed. While other projects are slow in implementation, the big projects like the construction of International Convention Centre (ICC), Manzini Golf Course Interchange, Nhlangano-Sicunusa and other road projects are expected to implement close to 100 percent.

Another factor to consider is that, out of the E3.37 billion budget for locally financed capital projects, about E300 million was redirected to cater for supplementary budget in other lines of expenditure. On the balance which is about E 3 billion, considering the mid-year execution, the capital program is not going to fully implement and expected to execute at least 80 percent. Looking at historical trends the capital program does not implement the budget fully, and it has been noted that cash flow challenges and capacity issues in some cases contribute to low implementation.

The FY 2023/24 budget is focusing on finishing on-going projects and no scope for new projects as Government continues to contain expenditures within financeable levels. The estimated budget for capital projects is at 6.4 percent of GDP that is E5.22 billion, slightly lower than the previous years' budget (about E100 million less). The locally financed capital projects are the ones that are mostly affected by the fiscal adjustment plan as only E2.3 billion is budgeted for, whilst loans and grant financing will cater for projects worth E2.9 billion. The completion of on-going commitments on big projects remains Government priority. The big projects to be implemented in the medium term include the following;

- International Convention Center
- LUSIP II
- Construction of a new Parliament Building
- Sicunusa-Nhlangano Road
- Mkhondvo-Ngwavuma Water Augmentation Project
- Manzini Water and Sanitation Project
- Network Reinforcement Access to Energy at Shiselweni Region, and
- Construction of Factory Shells in rural areas.

Over the medium term, some large capital projects are expected to be completed, creating a scope for new capital projects that are planned to be implemented. Government will consciously rationalize and identify projects that are no longer priority and defer or abandon to provide for priority projects, in line with the priorities stipulated in the National Development Plan aiming to boost economic growth and facilitate the implementation of the sustainable development agenda.

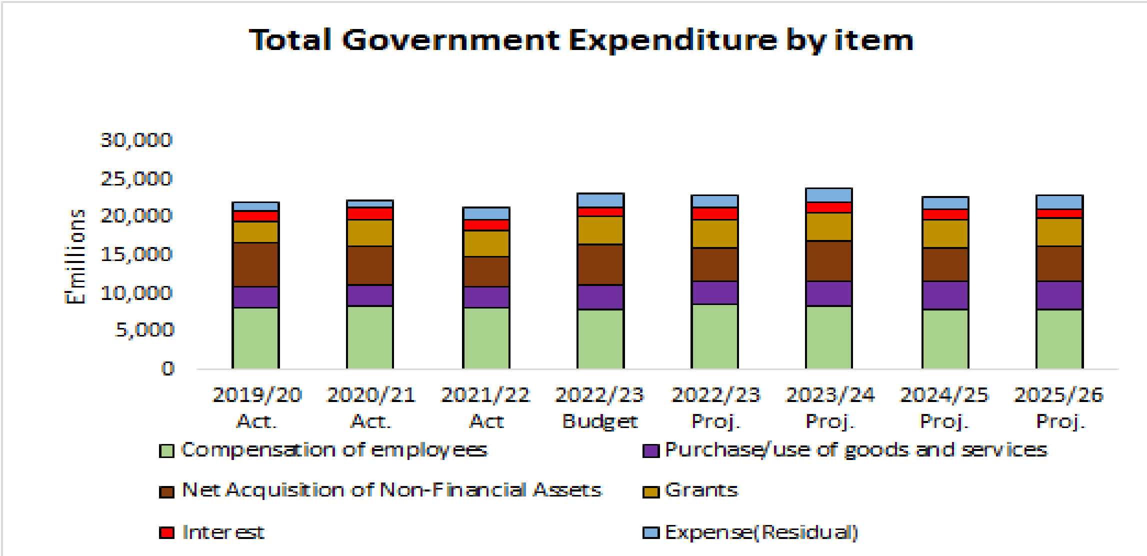
The capital budget is expected slowdown and average around E4.4 billion in the medium-term. Even with the lower capital expenditure in the medium term, Government will ensure that there is provision of counterpart funding for loans and grants, prioritize of rehabilitation of roads, provide for arrears with Ministries and Departments that do not have a budget provision for them. The objective of the capital projects implemented still remains to build human capital, to acquire skills as well as adhering to the Sustainable Development Goals and create opportunities for SMEs to actively participate in the economy.

2.3. EXPENDITURE OUTTURN AND PROJECTIONS: RECURRENT EXPENDITURE

In the financial year 2020/21, total recurrent expenditure stood at E17.3 billion, followed by E17.5 billion in FY 2021/22. Despite increased expenditure on health care and social welfare in FY 2021/22 to protect citizens from the negative health and economic effects of the coronavirus pandemic, the overall actual expense did not exceed the original budgetary ceiling of E17.7 billion. Instead an under execution of 1.02 percent was realized in FY 2021/22. This was due to a substantive reallocation process between different expenditure items within the Government budget. The execution rate of the different expenditure items however varied significantly within the recurrent budget, with expenditure on Government wages, goods and services review for an under execution while on interest payments and internal transfers there was an over expenditure. Interest payments were over the budget due to exchange rate depreciation against the lilangeni, whilst transfers were a result of COVID-19 funds under National Disaster Management Agency.

The budget allocation for recurrent expenditure in FY 2022/23 amounts to E17.8 billion, with the projected outturn for the year at E18.9 billion. Total recurrent expenditure for FY 2023/24 is forecast at E19.8 billion, representing an 11.4 percent increase compared to the budget allocation for recurrent expenditure in financial year 2022/23. This is followed by a projection of E20.7 billion in FY 2024/25 representing an increase of 4.5 percent and anticipated to be E20.8 billion in FY 2025/26 representing a slight increase of 0.2 percent.

Out of total Government expense, compensation of employees is by far the largest single item, averaging around 50.0 percent of total recurrent expense in the past years. The Government's wage bill (wages and salaries, social contributions) has been growing rapidly over the past years, threatening fiscal sustainability and limiting fiscal space for expenditure on national priorities for stimulating growth in the economy. While the Government wage bill has proven challenging to contain, the introduction of a hiring freeze to all Government entities in FY 2018/19 has had a positive effect on the expenditure on wages and salaries. For the past 3 years, the wage bill has been contained around E8.2 billion, which is a reduction in real terms. However, mounting pressure to increase the wage bill in the medium term is envisaged as inflationary pressures are experienced.



Source: Ministry of Finance

2.3.1. COMPENSATION OF EMPLOYEES

In the financial year 2020/21, the Government wage bill amounted to a total of E8.37 billion followed by E8.23 billion in FY 2021/22, reflecting a decrease of 1.9 percent. The decrease is mainly attributed to a continuation of the hiring freeze in all Government entities introduced in FY 2018/19. In addition to freezing all hiring, the policy stance on rationalizing public service expenditure further included reviewing the permanent establishments in order to identify vacant positions necessary for the effective functioning of Government and remove excessive permanent positions. Whilst undergoing this exercise, acting arrangements and temporary appointments were not made for most of these positions except for crucial senior positions.

The budget for the financial year of 2021/22 is estimated at total spending on wages to equal E8.23 billion. This implies that between the financial year 2020/21 and 2021/22, compensation to employees has decreased by 1.7 percent, despite the annual notch-increase and cost of living adjustment awarded to civil servants in 2021/22 of 3.0 percent. This proves the hiring freeze efficiency as the increased costs attributed to the salary adjustments has been cushioned by the hiring freeze, decreasing the overall expenditure on salary and wages.

In the financial year 2022/23 compensation of employees is projected to amount to E8.64 billion, an increase of 7.9 percent compared to the initial budget, attributed to the annual notch-increase and cost of living adjustment awarded to civil servants of 3.0 percent and the 1.0 percent once-off.

In the financial year 2023/24, compensation of employees is estimated to amount to E9.09 billion, an increase of 13.4 percent compared to the previous year's budget. The sharp increase in expenditure on wages and salaries is mainly attributed to the ex-gratia allowances for outgoing politicians, settling allowances for incoming politicians, and the ongoing recruitment exercise in the security forces.

In FY 2024/25 and FY 2025/26, the wage bill is estimated to average E9.9 billion. This is a major increase brought by the anticipated implementation of the salary review. The salary review is expected to increase the wage bill by at least 16.0 percent. As much as the wage bill is increasing, it will still be lower than the pre hiring freeze years, as it is expected to be around 11.0 percent of GDP against the over 13.0 percent of GDP increase in prior years.

2.3.2. INTEREST OBLIGATIONS

The total expenditure on interest obligations in the financial year 2020/21 amounted to E1.44 billion followed by a decrease of 7.64 percent to E1.33 billion in FY 2021/22. The decrease in 2021/22 is attributed to lower interest payments on the domestic debt stock coupled with favorable exchange rates. The budget for financial year 2022/23 allocated a total of E1.12 billion to interest obligations, E775 million to domestic creditors and E347 million to external creditors. The estimated outturn for FY2022/23 is E1.45 billion with E1.17 billion to domestic creditors and E277 million to external sources. This implies an increase of 9.0 percent on interest payments expenditure compared to the FY2021/22 financial year outturn. The higher interest payments in the estimated FY2022/23 outturn is attributable to an increase on the domestic side while the external interest payments have decreased.

Over the medium term, interest payments are expected to be on a downward trend, following a spike in the FY 2023/24. In the FY2023/24, interest payments are estimated at E1.56 billion followed by E1.34 billion and E1.29 billion in the outer years, respectively. The spike in external interest payments is partly due to the interest for the IMF budget support loan but also as a consequence of higher disbursements of the loan component to finance capital projects in recent years. The slowing down in interest payment in the medium term is mainly a result of the repayment of the IMF Rapid Financing Instrument (RFI) loan which is going to reduce by a significant amount in FY 2023/24, further reduced the following year and finally paid off in FY 2025/26. This was a short term concessional loan which came with huge cost of debt service since it will be repaid on a quarterly basis.

2.3.3. GOODS AND SERVICES

Expenditure on Goods and Services amounted to E2.9 billion in the financial year 2020/21 followed by E2.8 billion in the financial year 2021/22. The slight decrease in expenditure on goods and services in financial year 2020/21 was a result of reallocations to cater for increased health and social assistance costs during the pandemic in 2020/21 which was transferred as a grant to the National Disaster Management Agency (NDMA).

The budget for the financial year 2022/23 allocated the amount of E3.1 billion for Goods and Services. This implies a 6.2 percent increase from the 2021/22 budget. The estimated outturn is about E3.2 billion and about E100 million higher than the budget. This is a result of pressure on external travel as the global world is reverting back to normal after COVID-19 lockdowns.

Expenditure on goods and services is projected to increase by 11.7 percent amounting to E3.56 billion in financial year 2023/24. The increase, despite saving measures, is stemming from the assumption that the cost of goods and services will increase with projected inflation and additional expenditures that will come as a result of elections.

In financial year 2024/25 expenditure on goods and services is projected to increase to E3.77 billion, followed by a 6.0 percent increase and amount to E3.98 billion in financial year 2025/26. The expenditure is projected to increase due to inflation and increase in standard rates especially in utilities.

2.3.4. TRANSFERS (GRANTS)

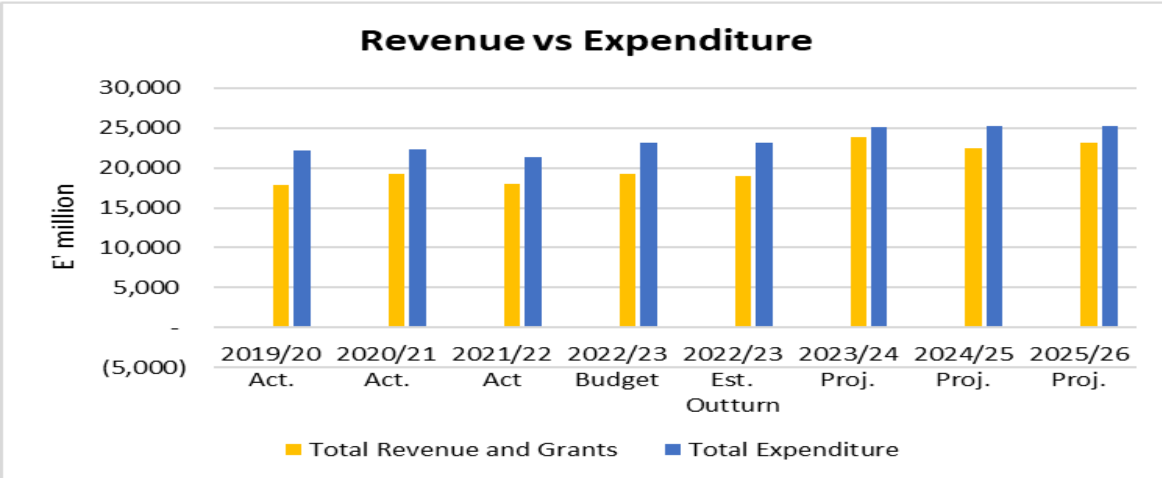
In the financial year 2020/21, expenditure on transfers amounted to E3.53 billion followed by E3.62 billion in 2021/22 FY, representing an increase of 2.3 percent. While some other entities had their subventions reduced, the increase was mainly attributed to transfer to NDMA as it was the entity responsible for COVID-19 related issues.

A total of E3.72 billion was budgeted for transfers in the 2022/23 financial year, an increase of about 3 percent compared to the previous year. The historic trend of increased expenditure on transfers has mainly been driven by a higher allocation to grants to other Government units, specifically state-owned enterprises. The Government has continued to introduce new entities and fully operationalize entities, necessitating more funding from the consolidated funds.

The projected estimate for expenditure on transfers in 2023/24 amounts to E3.72 billion, which is maintained throughout the 2024/25 and 2025/26 financial years. As the Government is working on streamlining and merging the state owned enterprises, it is not envisaged that they will be a need to increase the budget in the medium term. Once the study on reforming the state owned enterprises is fully implemented, the budget is expected to reduce, however, the outcome will be observed outside the MTFF period.

2.3.5. STATUTORY EXPENDITURE

Statutory expenditure amounted to E1.11 billion in the financial year 2020/21, followed by a decrease of 4.5 percent leading to an expenditure of E1.06 billion in 2021/22. A total of E1.09 billion was allocated in the 2022/23 financial year, representing an increase of 2.5 percent in statutory expenditure. Statutory expenditure has been kept at around E1.1 billion as there was no much activity as a result of COVID-19 which restricted travelling. Mounting pressure from travelling has been witnessed in the last half of the fiscal year which will more likely push expenditures upwards. However, in the medium term the expenditures are projected to remain at the same level. The medium term projections are showing improved status of Government revenues and expenditure as displayed in the following graph.



Source: Ministry of Finance

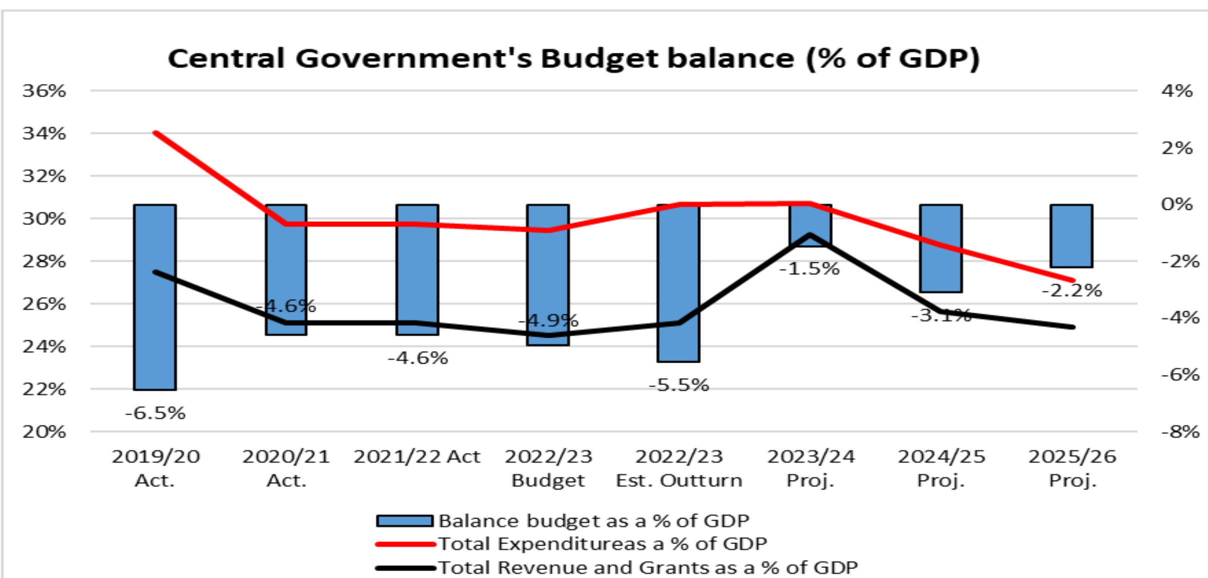
2.4. FISCAL DEFICIT

Government has made positive strides in reducing the fiscal deficit over the recent years. The commitment to implement the FAP has made Government take a conscious decision to put the fiscus into a sustainable trajectory. Even though the FAP was not fully implemented, the efforts have yielded positive results as the fiscal deficit levels have improved. In the historical past, Government has been consistently spending more than the total revenue collection and this has put a strain on the public finances, resulting in high annual fiscal deficit. However, in recent past Government was able to control expenditure and maintain expenditures around E22 billion and the fiscal deficit contained around 5.0 percent of GDP. Government expenditures have reduced from over 33.0 percent of GDP to about 30.0 percent of GDP in recent years. Even with the reduced speed of expenditure, the Government revenue has not been able to fully-finance the budget, resulting in sourcing budget support from development partners. This has caused an increase in public debt leading to higher debt servicing costs.

The fiscal deficit for financial year 2023/24 is estimated to substantially improve and reach E1.2 billion, equivalent to 1.5 percent of GDP, and a primary balance surplus of E356 million, about 0.4 percent of deficit. This is a desirable position for the country as at this level the country can be able to stabilize its debt levels at an international acceptable ratio.

However, this position is threatened by low financing instruments as the Government will have a financing gap of E208 million. While the financing gap is minimal, it is still a concern for the health of the economy, as the Government has to be able to fully finance the deficit in order to stop accumulation of arrears. To ensure that the budget is fully financed, the Government is looking at other financing instruments to close the gap as well as mop the pending arrears that have been accumulated over the years. The International Monetary Fund has opened a financing facility under the Food Shock Window (FSW) budget support instrument to member countries which are faced with food crisis as a result of the Russia-Ukraine war and the Government will be considering this financing instrument.

The fiscal deficit for FY 2024/25 is expected to be E2.73 billion, equivalent to 3.1 percent of GDP and slightly improve in FY 2025/26 to 2.2 percent of GDP. E1.5 billion or 1.8 percent of GDP followed by E240 million or 0.3 percent of GDP in 2024/25. These projections are however, dependent on continued efforts of Government to contain expenditures and improve revenues.



Source: Ministry of Finance

2.5. FINANCING AND DEBT

Financing the Government deficit is always challenging as the Government needs to use debt instruments to raise financing. Having a deficit usually means that the Government needs to borrow to cover the estimated level of spending, therefore, public debt stock grows as the Government accumulates new net financing. In the case where the Government manages to raise enough debt instruments to finance the fiscal deficit, the public debt stock grows by the same magnitude as the budgeted fiscal deficit. Increasing debt at a speed higher than economic growth is ghoulish for the economy as it implies that the economy cannot generate enough revenue to service the debt.

In the financial year 2020/21, the public debt stock stood at E25.9 billion or 38.6 percent of GDP, and in 2021/22 the stock had increased in nominal terms to E26.12 billion, corresponding to 41.3 percent of GDP. This implies that the Government's public debt stock in FY 2021/22 continued to surpass the country's set debt to GDP threshold of 35 percent recommended by international institutions. The increase in the public debt stock in 2021/22 is a consequence of the substantial shortfall in revenue collection caused by the coronavirus pandemic and following economic crisis, widening the fiscal deficit, hence increasing the pressure to mobilize financing to avoid deterioration of Government's fiscal accounts. To mobilize additional financing in 2020/21, the Government solicited budget support from the IMF under the Rapid Financing Instrument (RFI) of E1.96 billion and the World Bank loan of E640 million.

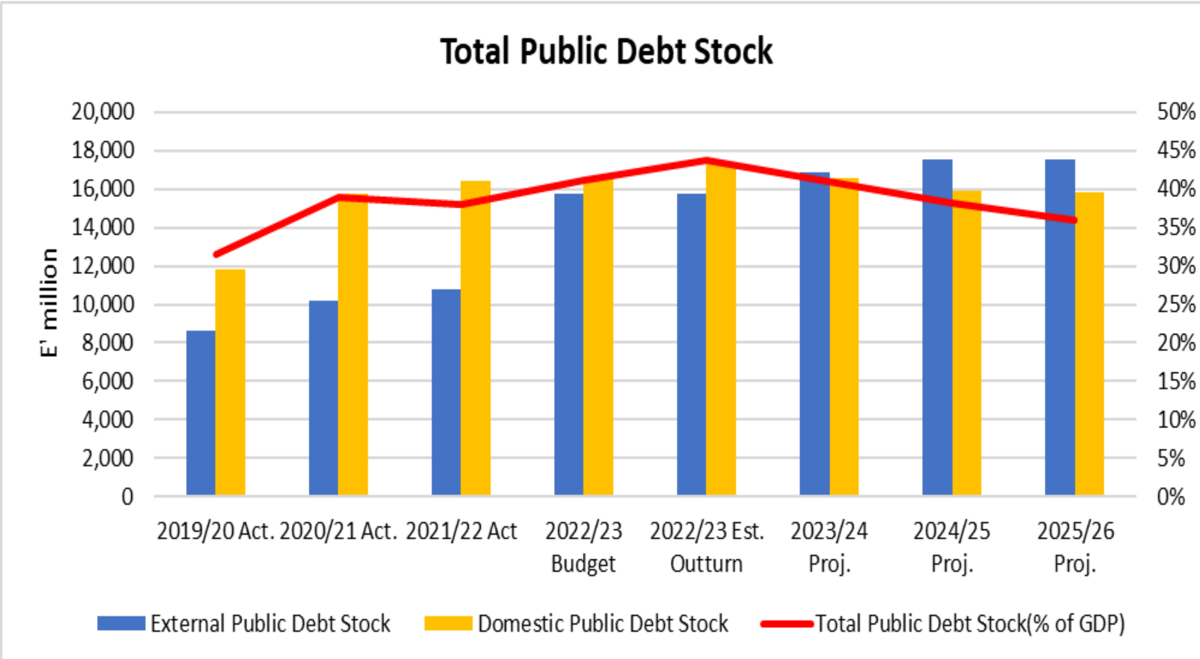
In 2022/23, the public debt stock is estimated to reach E33.09 billion or 44.0 percent of GDP, increasing by 22.0 percent compared to 2021/22. Out of this, domestic debt accounts for 53.0 percent and external debt for 47.0 percent comprising of externally financed capital expenditure as well as newly acquired budget support loans. Domestic debt is projected to grow by 5.0 percent in 2022/23 followed by a slight decrease of 4.5 percent in 2023/24, an increase of 3.4 percent in 2024/25.The domestic debt figure is expected to remain the same in 2025/26.

Government bonds and Treasury Bills have generated less new net financing in recent years, a trend which has continued in 2022/23. For Treasury Bills, this is caused by an increase in maturities. This is because in the fiscal year 2020/21, the Ministry of Finance amended the green shoe option from 50 percent to 100 percent of the amount on offer on all bonds and bills. The upward trend is as a result of that increase, as more securities were issued and consequently are maturing in the coming year.

The fall in Suppliers Bond issuance in the medium-term is due to the Government receiving the two budget support loans from the World Bank and IMF and using those proceeds to pay suppliers, drastically decreasing the stock of payables.

The domestic market is now less responsive to Government debt instruments and as such raising domestic instruments to finance the budget is becoming increasingly difficult, the only avenue is to go to the external market. Over the medium term, external debt is forecast to grow by 7.0 percent in the 2023/24 financial year, 3.7 percent in 2024/25 and maintained at the 2024/25 level in 2025/26.

Overall public debt in FY 2023/24 is projected to reach E33.45 billion which is 1.0 percent increase from the previous years estimated outturn. The projected debt in FY 2023/24 includes the country's first listing on the Johannesburg Stock Exchange which is expected to bring about E600 million financing. In the last two years of the MTFF, the debt is expected to average around E33.4 billion which is at 36 percent of GDP in FY2025/26. It should be noted though that the public debt stock does not include stock of pending arrears nor does it include debts from state owned enterprises, but only debt stock from central government budget.



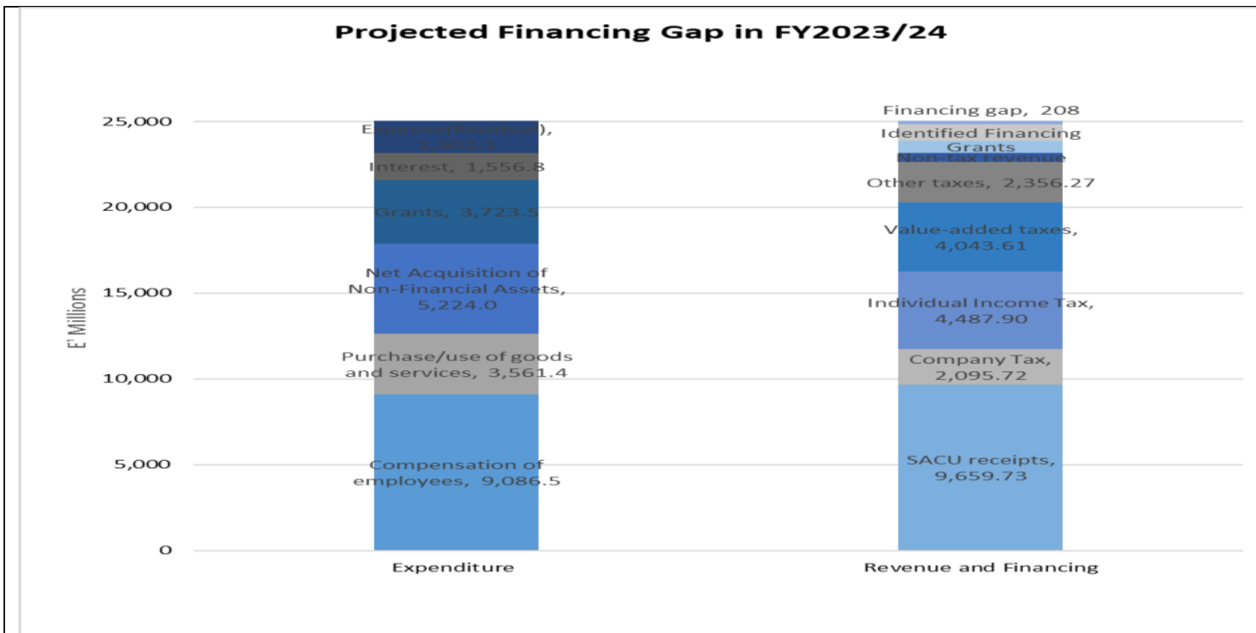
Source: Ministry of Finance

2.6. SUSTAINABILITY- FINANCING GAP AND ACCUMULATION OF ARREARS

Government expenditure has so far surpassed the available revenue for several years, leading to a negative budget balance i.e. a fiscal deficit. Ideally, the Government deficit would be financed entirely through various debt instruments. However, increased expenditures, volatility of SACU revenue, shortfall in domestic revenue collection, coupled with low confidence in the Government's macro-fiscal situation, domestic debt markets are now saturated to extend Government enough credit to cover the deficit, result in a financing gap. The financing gap leads to delayed payments to suppliers by Government and has negative effects in the economy, henceforth the efforts by the Government to clear arrears in the medium term and avoid accumulation of new arrears.

The financing surplus observed in 2020/21 was at 3.6 percent of GDP, amounting to E 2.4 billion, which was used to reduce the arrears, owing to the IMF Rapid Financing Instrument loan which was extended to countries to fight effects of COVID-19 and World Bank budget support loan. This gave the economy a temporary relief in 2021/22, a financing surplus of E4 million.

In 2022/23, financing will be a major challenge as most of our financing sources using concessional funds are fully utilized and borrowing at commercial rates is not desirable under the current macroeconomic situation. The financing gap is projected to be E2.7 billion, corresponding to 3.6 percent of GDP which will increase the stock of arrears. To stop the accumulation of arrears, Government has to make a tough decision to cut expenditure or severely reduce commitments such that the budget is not fully executed. However, mid-year commitment show that the budget will be executed by over 95 percent, especially on recurrent. While capital expenditure indicates a slow implementation rate, it usually picks up in the last half of the year. The acute cash flow challenges experienced in the last half of the year will also contribute in slow implementation of the budget.



Source: Ministry of Finance

The windfall from SACU revenues in 2023/24FY is expected to close the financing gap to E208 million, i.e. 0.3 percent of GDP. In FY 2024/25, the financing gap is expected to increase to E2.7 billion, representing 3.1 percent of GDP. This is by and large a result of a projected significant fall in SACU revenues. In the subsequent year, the gap is projected to amount to E1.2 billion, equivalent 1.3 percent of GDP. The stock of arrears is expected to reach E4.9 billion by the end of FY 2022/23 and substantially grow and reach E8.9 billion (9.6 percent of GDP) by FY 2025/26. This assumes Government will not be raising any financing other than the already available financing sources.

The Government fiscal account would have moved into a sustainable trajectory if the measures as stipulated in the FAP were fully implemented in a timely manner, however, the FAP in its entirety has proven difficult to implement under the prevailing macroeconomic environment.

3. FISCAL RISKS DEVELOPMENTS

In the medium term, the fiscal position is expected to improve, however there are underlying risks which if they materialize are expected to have vast negative effects on the public finances. The ongoing political climate if it intensifies, will jeopardize efforts to stabilize the fiscal accounts, and exert pressure on Government resources.

Macroeconomic risks

Tax revenue is now estimated to average E22 billion in the medium-term, an improvement when compared to average of E18 billion in prior years. However, there is significant uncertainty associated with this projection. Revenue projections have changed rapidly before, during and after the COVID-19 pandemic. Any significant downward revisions would place the current fiscal strategy under pressure.

The global economy has in recent time experienced high inflation and if aggressive global monetary policy tightening results in a protracted slowdown in global growth, the country's fiscal outlook could deteriorate as revenue collections will be compromised whilst debt-service costs increase. Other than interest rate increases and while the depreciation of the lilangeni is good for export, it also has a negative risk on debt services as some of the country's debt is denominated in foreign currency. This will also imply higher debt servicing cost than the projected. An increase in debt service will crowd out other productive expenditures and compromise Government service delivery as this is non-discretionary expenditure.

Furthermore, failure to address current political tensions in the economy would result in economic growth decelerating, placing additional pressure on the fiscal position. The political turbulence is posing a risk to the revenue projections. Proposed disruption in supply chains by political groups, is likely to have a negative impact on the domestic tax collection such as fuel tax and VAT. In general, political unrest has been proven to negatively affect the ability to attract foreign direct investment as well as boosting domestic investment and therefore has a severe negative impact on the wider economy, in turn affecting a Government's macro-economic position both through revenue collection and the ability to raise debt. A continuation of the current political situation poses severe threats to the recovery of the wider economy, to the country's reputation in terms of investment security and consequently to the public finances and operations of Government.

Expenditure risks

Compensation of employees remains the largest spending item. The projections are assuming the implementation of cost of living of 3 percent in FY 2023/24 and salary review at 16 percent of the wage bill in FY 2024/25. If a wage agreement is reached in FY 2023/24 that exceeds the available budget, it would pose a significant risk to the in-year and medium-term fiscal projections. Given that higher-than-anticipated wage increases would have cost implications in the medium term.

Social spending as a result of natural disasters would necessitate that Government solicit funding as the projections are assuming normal conditions. Any deviations which might need Government to provide social safety nets will imply that Government must find ways to increase revenue, decrease spending or a combination of the two. Without a disaster risk fund, this would threaten the sustainability of the public finances.

Contingent liabilities

Contingent liabilities represent financial commitments that Government may have to fulfil in the future if particular outcomes materialize. Most contingent liability risks originate from the poor financial condition of major state-owned companies. Whilst these risks have not yet fully materialized, some risks are starting to show and it is worth flagging out the associated risks as Government have observed with concerns on the operations and indebtedness of subvented entities. Some of this entities have started to withhold pay as you earn (PAYE) taxes for their own operations and do not pay Value Added Tax (VAT). The debt relief which maybe a resulted of this will imply loss of Government revenues or increased expenditure to bail out these entities, risking fiscal sustainability.

Guarantees

Government's guarantee portfolio exposure is minimal and over the years it has been going down as there are only about six entities that are using the instrument. The minimum criteria for the consideration of guarantee require the state-owned companies to demonstrate their ability to service debt that would be acquired using the guarantee. In recent years, no guarantee requests that met the minimum criteria were received, so no new guarantees were issued.

CONCLUSION

The fiscal position is expected to improve in the medium term as a result of better-than-expected revenue collection especially from SACU receipts. Government will use this revenue to slightly increase spending in health, education, government services, security and safety and create a stabilization fund. At the same time, it will narrow the budget deficit, and address fiscal and economic risks posed by political unrest. Government remains committed to returning the public finances to a sustainable position and to ensure economic growth and development is not compromised.

ANNEX 1: Summary Medium Term Fiscal Framework- October 2022

Summary Fiscal Table 2019/20 - 2025/26								
E. million	2019/20	2020/21	2021/22	2022/23	2022/23	2023/24	2024/25	2025/26
	Act.	Act.	Act.	Budget	Est.Outturn	Proj.	Proj.	Proj.
Total Revenue and Grants	**17,893**	**19,289**	**17,986**	**19,246**	**18,965**	**23,854**	**22,462**	**23,155**
Total Expenditure	**22,148**	**22,319**	**21,279**	**23,128**	**23,154**	**25,054**	**25,185**	**25,223**
Overall Balance	**-4,255**	**-3,030**	**-3,293**	**-3,881**	**-4,189**	**-1,201**	**-2,723**	**-2,068**
% of GDP	-6.5%	-4.6%	-4.6%	-4.9%	-5.5%	-1.5%	-3.1%	-2.2%
Total Identified Financing	**3,448**	**5,416**	**3,297**	**2,728**	**1,497**	**993**	**-33**	**881**
Drawdown on foreign loans	3,010	3,886	2,537	1,950	1,999	2,926	2,364	2,354
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	-842	-834	-147
Financing gap (-)/surplus (+) (est.)	**-806**	**2,386**	**4**	**-1,153**	**-2,692**	**-208**	**-2,757**	**-1,188**
% of GDP	-1.2%	3.6%	0.0%	-1.5%	-3.6%	-0.3%	-3.1%	-1.3%
Public Debt Stock	**20,453**	**25,944**	**27,157**	**32,306**	**33,087**	**33,452**	**33,395**	**33,374**
% of GDP	31.4%	39.0%	37.9%	41.1%	43.8%	41.0%	38.1%	35.9%
Stock of Pending Bills (est.)	**4,450**	**2,063**	**2,059**	**3,212**	**4,751**	**4,958**	**7,715**	**8,902**
% of GDP	9.4%	3.1%	2.9%	4.1%	6.3%	6.1%	8.8%	9.6%

Source: Ministry of Finance

ANNEX 2: Detailed Medium Term Fiscal Framework- October 2022

Medium-Term Fiscal Framework 2019/20 - 2025/26								
Estimates as of end September 2022	2019/20	2020/21	2021/22	2022/23	2022/23	2023/24	2024/25	2025/26
(E million)	Act.	Act.	Act	Budget	Est. Outturn	Proj.	Proj.	Proj.
Total Revenue and Grants	17,893	19,289	17,986	19,246	18,965	23,854	22,462	23,155
Total Revenue	17,341	19,056	17,829	18,573	18,393	23,181	21,789	22,482
Taxes	16,367	18,650	17,303	18,205	17,803	22,643	21,242	21,930
Taxes on income, profits, and capital gains	5,674	5,690	6,185	6,951	6,623	7,231	7,924	8,320
Payable by corporations and other enterpris	1,707	1,441	1,837	2,100	1,951	2,096	2,274	2,347
Payable by individuals	3,483	3,671	3,815	4,285	4,052	4,488	4,955	5,266
Other taxes on income, profits and capital ga	483	578	533	566	620	648	695	707
Taxes on international trade and transactions	6,327	8,361	6,384	5,831	5,826	9,669	7,101	7,132
SACU receipts	6,318	8,349	6,375	5,818	5,818	9,660	7,091	7,121
Taxes on goods and services	4,294	4,542	4,637	5,374	5,257	5,646	6,119	6,381
General taxes on goods and services	2,971	3,123	3,134	3,831	3,727	4,044	4,417	4,621
Value-added taxes	*2,964*	*3,119*	*3,134*	3,831	3,727	4,044	4,417	4,621
Excises	1,225	1,291	1,334	1,458	1,351	1,419	1,515	1,570
On fuel	*1,208*	*1,261*	*1,290*	1,409	1,298	1,361	1,451	1,501
On alcohol and cigarettes	*16*	*29*	*44*	50	53	59	64	68
Taxes on specific services	11	11	10	9	9	10	10	10
Taxes on use of goods and on permission to u	87	117	159	76	169	173	177	180
Motor vehicle taxes	*13*	*12*	*12*	13	12	13	13	13
Other	*74*	*105*	*146*	*63*	157	161	164	167
Business and professional licenses	16	55	32	0	155	159	163	166
Other taxes on permission to/or use goods	*57*	*49*	*114*	63	65	68	71	74
Other taxes	34	27	50	24	50	50	51	51
Other revenue	875	406	526	368	590	538	547	552
Property income	655	175	201	142	203	205	209	211
Interest	18	24	10	0	11	11	12	12
Dividends	637	151	191	142	192	194	197	199
Sales of goods and services	142	156	263	172	279	283	288	291
Administrative fees and charges	117	128	231	150	246	249	254	257
Incidental sales by nonmarket establishment	11	15	20	9	20	20	21	21
Imputed sales of goods and services	13	12	12	13	12	12	12	12
Fines, penalties and forfeits	78	75	62	54	109	50	50	50
Grants	552	234	157	673	572	673	673	673
Project grants	552	234	157	673	572	673	673	673

Source: Ministry of Finance

Medium-Term Fiscal Framework 2019/20 - 2025/26								
Estimates as of end September 2022	2019/20	2020/21	2021/22	2022/23	2022/23	2023/24	2024/25	2025/26
(E million)	Act.	Act.	Act	Budget	Est. Outturn	Proj.	Proj.	Proj.
Total Expenditure	22,148	22,319	21,279	23,128	23,154	25,054	25,195	25,223
Expense	16,389	17,320	17,493	17,801	18,922	19,830	20,733	20,771
Compensation of employees	**8,064**	**8,374**	**8,229**	**8,010**	**8,643**	**9,087**	**9,986**	**9,866**
Wages and salaries	6,810	7,099	7,007	6,990	7,698	7,889	8,894	8,788
Social contributions	1,254	1,275	1,222	1,020	944	1,198	1,091	1,078
Purchase/use of goods and services	**2,850**	**2,898**	**2,811**	**3,099**	**3,187**	**3,561**	**3,768**	**3,986**
Interest	**1,343**	**1,444**	**1,333**	**1,121**	**1,447**	**1,557**	**1,354**	**1,293**
of which: Domestic	1,080	1,189	1,121	775	1,170	1,195	1,010	970
of which: External	263	255	213	347	277	362	344	323
Subsidies	**45**	**45**	**101**	**91**	**91**	**91**	**91**	**91**
Grants	**2,879**	**3,535**	**3,615**	**3,723**	**3,878**	**3,723**	**3,723**	**3,723**
To international organisations	97	181	156	180	175	180	180	180
To other general government units	2,781	3,354	3,459	3,544	3,704	3,544	3,544	3,544
Budgetary/Extrabudgetary/NPI	*1,515*	*2,031*	*2,051*	2,104	2,104	2,104	2,104	2,104
RDF	110	177	173	177	177	177	177	177
Grants to subnational governments	*28*	*34*	*175*	176	336	176	176	176
Statutory	*1,128*	*1,111*	*1,060*	1,087	1,087	1,087	1,087	1,087
Social Benefits	**552**	**590**	**656**	**676**	**676**	**676**	**676**	**676**
Social assistance	552	590	656	676	676	676	676	676
Other expense	**480**	**301**	**748**	**1,081**	**1,001**	**1,136**	**1,136**	**1,136**
Gross Operating Balance (Total revenue less exper	1,504	1,970	493	1,446	43	4,023	1,729	2,384
Net Acquisition of Non-Financial Assets	5,759	4,999	3,786	5,327	4,232	5,224	4,462	4,452
Foreign financed capital projects	**3,482**	**1,450**	**860**	**1,953**	**1,772**	**2,929**	**2,467**	**2,457**
of which: Loans	2,930	1,216	702	1,280	1,200	2,256	1,794	1,784
of which: Grants	552	234	157	673	572	673	673	673
Domestically financed capital projects	**2,282**	**3,556**	**2,927**	**3,374**	**2,460**	**2,295**	**1,995**	**1,995**
Primary Balance	-2,912	-1,586	-1,960	-2,760	-2,741	356	-1,380	-775
Net Lending/Borrowing (Fiscal Balance)	-4,255	-3,030	-3,293	-3,881	-4,189	-1,201	-2,733	-2,068

Source: Ministry of Finance