GOVERNMENTOFESWATINI

2024

ESWATINI PUBLIC DEBT MANAGEMENT STRATEGY

MINISTRY OF FINANCE - DEBT MANAGEMENT UNIT

Table of Contents

EXECUTIVE SUMMARY iii
CHAPTER 1 1
INTRODUCTION AND BACKGROUND 1
CHAPTER 2 3
EXISTING GOVERNMENT DEBT 3
Monitoring Report 10
CHAPTER 3 10
OVERVIEW OF ECONOMIC PERFORMANCE 10
Economic Developments 10
Fiscal Developments 12
Credit Rating: Eswatini rated B2 with a stable outlook! 13
Key Risks to The Medium-Term Forecasts 13
CHAPTER 4 14
DEBT MANAGEMENT STRATEGY 14
Financing Strategy (S4) 2024/2025 – 2026/27 14
Cost and Risk indicators of existing and proposed strategy 15
Interest Rate and Exchange Rate Shock Scenarios 15
Annual Borrowing Plan FY 2024/25 16
CHAPTER 5 17
MONITORING & EVALUATION 17
Debt Strategy Operations and Targets 17
Managing refinancing risk: 17
Financing from external sources: 18
Debt Management Reforms: 18
Investor relations: 18

Table of Figures

Figure 1: MTDS Procedure..1
Figure 2: Debt Management Objectives 2
Figure 3: Evolution of Public Debt 2018/19 To 2023/24 3
Figure 4: Composition of Public Debt (Percentages Total).......................................3
Figure 5: Interest Type Composition 5
Figure 6: Cost and Risk Characteristics..5
Figure 7: Eswatini Macroeconomic Indicators (2023-2026) 10
Figure 8: Fiscal Indicators...12
Figure 9: Cost-Risk Results of Shocks 16

LIST OF ABBREVIATION

GDP	Gross Domestic Product
IMF	International Monetary Fund
JSE	Johannesburg Stock Exchange
MTDS	Medium Term Debt Strategy
NDP	National Development Plan
PFM	Public Finance Management
SDR	Special Drawing Rights
AfDB	African Development Bank
IBRD	International Bank for Reconstruction & Development
SOFR	Secured Overnight Financing Rate
JIBAR	Johannesburg Interbank Average Rate

EXECUTIVE SUMMARY

The public debt ratio has been on an upward trend, increasing from 31.4 percent of Gross Domestic Product (GDP) in 2019/20 to 39.5 percent of GDP in 2023/24. The International Monetary Fund (IMF) and World Bank composite indicator (CI) for economic and institutional performance classifies Eswatini as a weak performer with sustainable debt but rising debt vulnerabilities. This Medium Term Debt Strategy covers the period FY 2024/25 to 2026/27 and is underpinned by gross financing needs averaging around 15 percent of GDP with rollover requirements of around 12 percent of GDP and accounts payable of around 5 percent of GDP. Overall public debt is projected to peak at 43.9 percent of GDP by 2025/26 before receding to around 43 percent of GDP by the end of the strategy period. This reflects government's efforts to clear suppliers' arrears in line with the 2020 Arrear Clearance Strategy. Government will continue with efforts to diversify external financing sources to reduce pressure on the domestic market and manage refinancing risk. To this end, the government will continue tapping the Johannesburg Stock Exchange (JSE) while other external financing sources are explored. The credit ratings by the sovereign rating agency in November 2024, Moody's placed the Kingdom of Eswatini at B2 with a stable outlook.

The Government plan over the medium term is to focus on the Strategic Economic Recovery Plan that will ensure increased investment in key strategic areas such as: food security and nutrition, manufacturing, Universal Health Coverage and affordable housing. The Medium Term Debt Strategy (MTDP) also anchors its objective on the National Development Plan 2022/24-2027/28 (NDP) which supports these strategic initiatives aimed at creating the right business environment, jobs and ultimately promote broad based inclusive economic growth.

The current debt stock indicates that external debt constitute 49 percent whilst domestic debt constitutes 51 percent of the total debt as of 31st March 2024. The optimal strategy aims to reduce the proportion of domestic financing as it accounts for 75 percent of the total debt stock relative to external debt which stands at 25 percent. This will be achieved through the issuances of longer maturity papers under the JSE. Therefore, this strategy assumes a decrease in domestic debt from 75 percent to 60 percent by 2025. This projection based on the current status where domestic market generally has no appetite for the longer dated papers coupled with an inactive secondary market.

The success of this strategy depends on prudent implementation and government commitment to fiscal consolidation plan supported by a sound macroeconomic environment and deeper investor relations program. Further, the implementation of the strategy will require close monitoring and evaluation of the proposed work plan.

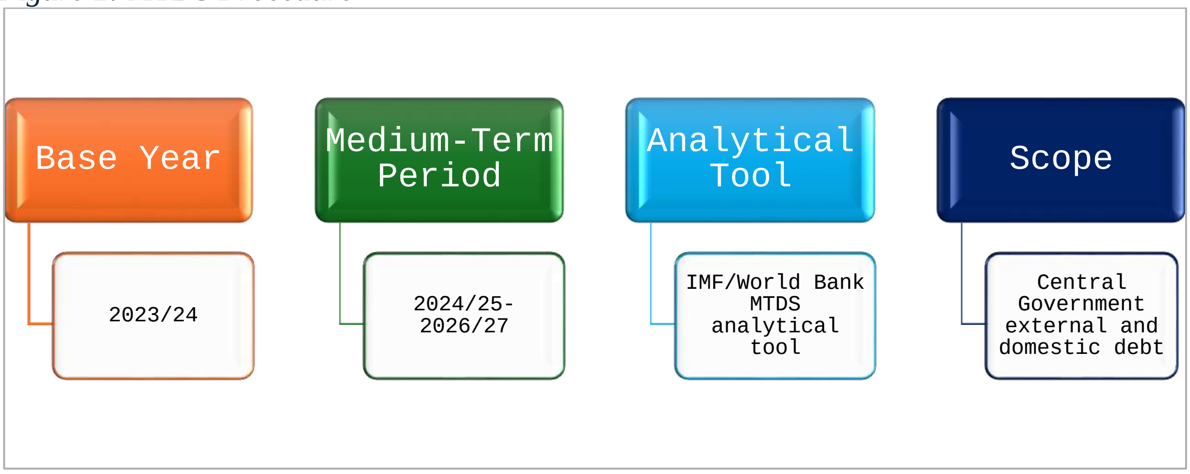
CHAPTER 1

INTRODUCTION AND BACKGROUND

The primary objective of Eswatini's debt management is to ensure that the financing needs and payment obligations of Government are met at the lowest possible cost consistent with a prudent management, measured risk, and coordinated fiscal policy. The secondary objective of the debt management is to support the development of the domestic market, enhancing liquidity and supply of high quality instruments in the domestic market; thus, development of the domestic financial system. These objectives guide Government in responding to the need to finance budget deficits.

The Public Finance Management (PFM) Act of 2017 requires the Government of the Kingdom of Eswatini to develop a medium-term debt management strategy, which must be updated annually on rolling basis. This strategy informs the financing of the fiscal deficit in the financial year 2024/25 and guide medium term borrowing hence it includes a consistent annual borrowing plan. In line with this mandate, the current Medium-Term Debt Management Strategy (MTDS) originally covering the period from 2021/22 to 2025/26 has been reviewed and updated to span from 2024/25 to 2026/27. This updated strategy, is based on the medium-term budget framework and articulates the Government policy regarding debt management, aligning with the objectives approved by the legislature under the PFM Act. The Ministry of Finance in collaboration with the Accountant General's Office, the Ministry of Economic Planning and Development, the Central Bank of Eswatini, and the Eswatini Revenue Service conducted the review and update of the MTDS. The strategy was prepared in September 2024, with technical assistance from the International Monetary Fund (IMF)'s AFRITAC South. The procedure entailed:

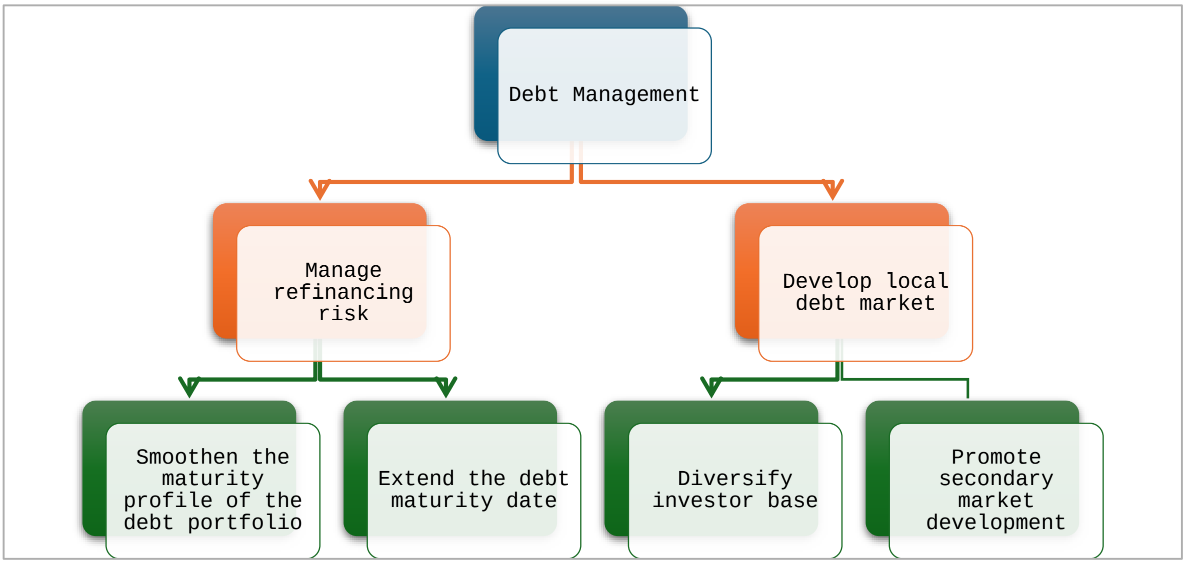
Figure 1: MTDS Procedure



Source: CBE, MoF & MEPD

The objectives of the debt management policy in Eswatini are to meet the Government's financing needs at the lowest possible cost while maintaining an acceptable degree of risk and to support development of the domestic debt markets as summarized by figure 2 below:

Figure 2: Debt Management Objectives



Source: CBE, MoF & MEPD

The MTDS will focus on the Central Government's debt portfolio managed by the Ministry of Finance which is linked to the Annual Borrowing Plan and the Medium-Term Fiscal Strategy. It will encompass the current debt portfolio as of 30 March 2024 and consider the utilization of securities and financing instruments available to the Government for the fiscal years 2025/25 to 2026/27. In line with the principle of prudent and sustainable debt management, this has been developed to guide the Government's debt management decisions and operations. It outlines how the Government intends to borrow and manage sovereign debt to achieve a portfolio that aligns with its cost and risk preferences while meeting financing needs. Key costs and risks to be managed include foreign currency risk; interest rate risk; and refinancing risk.

The updated MTDS represents a robust framework for prudent debt management. It provides a systematic approach to decision-making regarding the appropriate composition of external and domestic borrowing to finance the Government's 2024/25 Budget. The cost-risk trade-off of alternative borrowing strategies under the MTDS has been evaluated within the medium-term context. The MTDS, having considered both global and domestic market environments and related vulnerabilities, recommends an appropriate financing mix to mitigate costs and risks while achieving the desired composition of the public debt portfolio concerning borrowing from external and domestic sources.

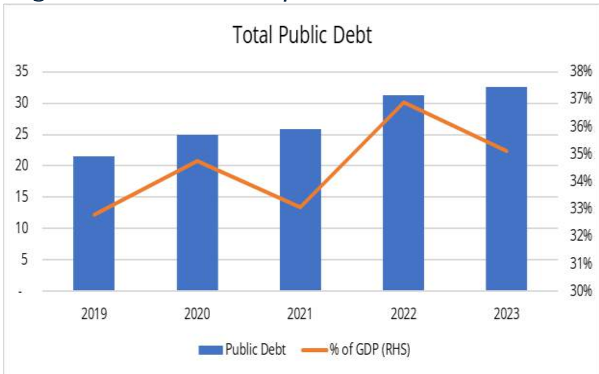
With the implementation of the MTDS for the period 2024/25-2026/27, the previously approved MTDS for the period 2020/21-2025/26 has been annulled. The practice of regularly reviewing the MTDS demonstrates the government's commitment to promoting transparency and accountability in public debt management, considering new debt policy direction in the emerging economic environment.

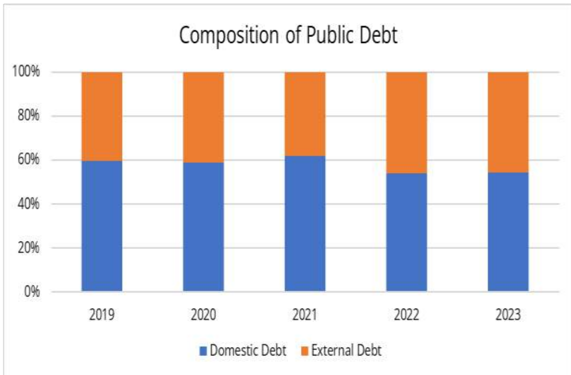
CHAPTER 2
EXISTING GOVERNMENT DEBT

Total public debt stock has been on an upward trajectory over the past five years, increasing from E22.68 billion which is equivalent to 36.00 percent of GDP in March 2021 to E34.18 billion which is equivalent to 39.50 percent of GDP by the end of March 2024. As a percentage of GDP, public debt increased by 3.5 percentage of GDP to 35 percent during period under review, as illustrated by (Figure 3).

Domestic debt accounted for 51 percent of the E34.18 billion public debt as at 31st March 2024, while external debt accounted for the remaining 49 percent. The proportion of domestic debt in the total debt portfolio has been falling over the review period, a reflection of shortfalls in net issuance of treasury bills and bonds, which contributed to cash management challenges and domestic payment arrears.

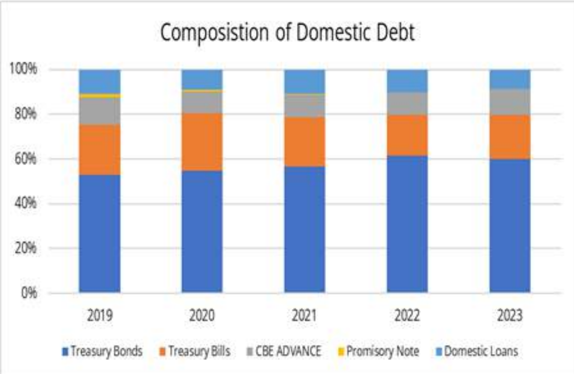
Figure 3: Evolution of Public Debt 2018/19 to 2023/24

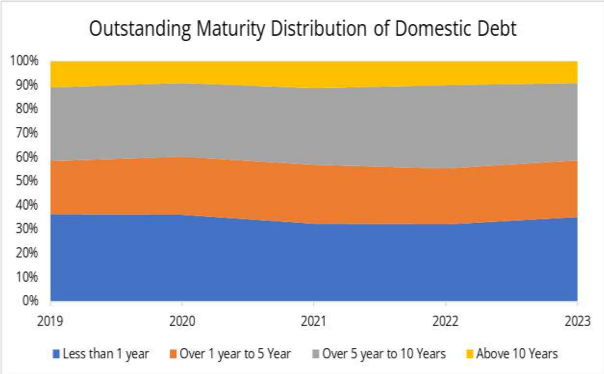




Source: CBE, MoF & MEPD

Figure 4: Composition of Public Debt (Percentages Total)





Source: CBE & MoF

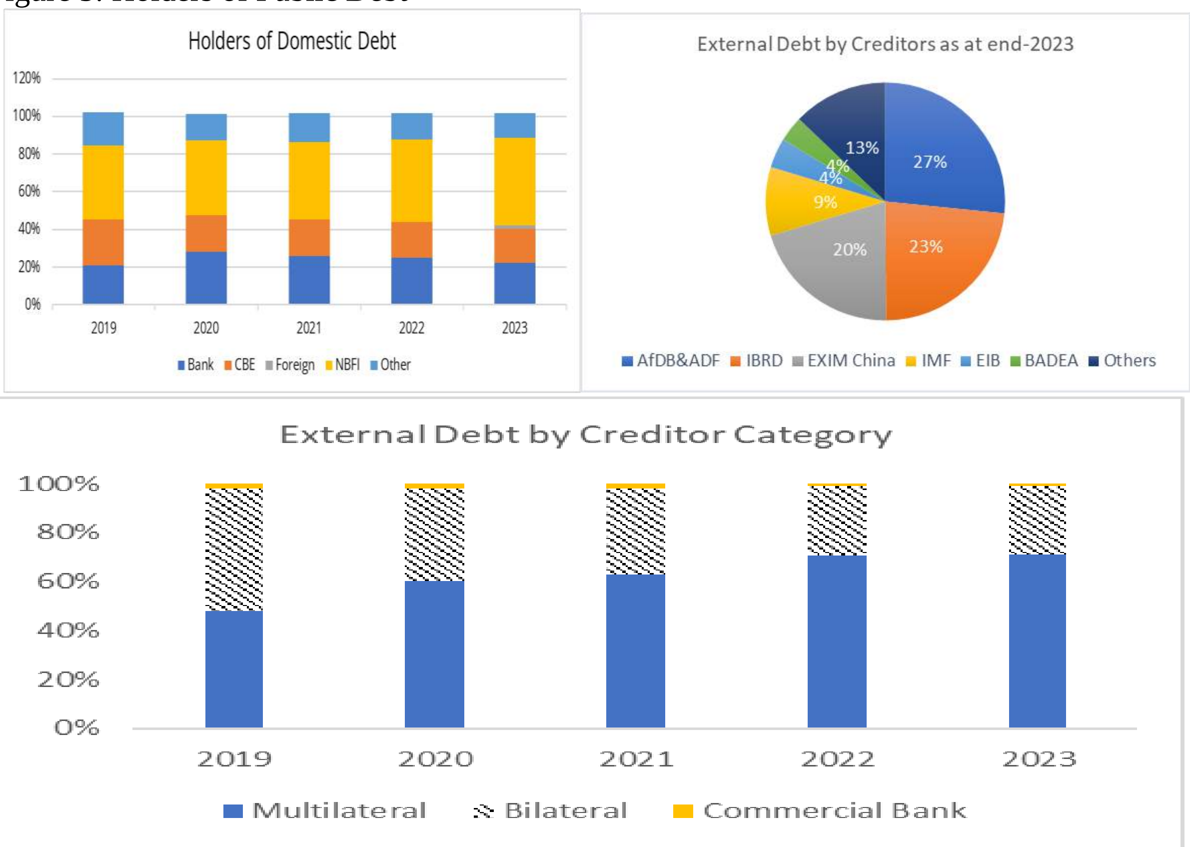
The maturity and composition of domestic debt presents significant rollover and liquidity risks. As of the end of March 2024, domestic debt is comprised of Treasury Bonds (60%), Treasury Bills (20%), Domestic Loans (9%), and Central Bank Advance (11%). Promissory notes have been part of domestic debt until they were phased out in December 2023. The majority of the outstanding domestic debt is in the period of less than one year and the period of over 5 years to 10 years accounting for 35 percent and 32 percent, respectively. Debt between one- and five-years accounts for 23 percent of the outstanding amount with the remaining balance of 9 percent under the period of above 10 years. The increase in short-term domestic liabilities raises the gross financing needs going forward and exposes the country to short-term rollover risks.

Non-Bank Financial institutions holds most of the domestic debt outstanding with a percentage holding of 47 percent at the end of March 2024. Banks currently holds 22 percent of domestic debt, while the central bank holds 18 percent with other investors holding the remaining 13 percent. Foreign participation in the domestic market were observed for the first time in January 2024 and their holdings of domestic debt reached 2 percent of the total outstanding domestic debt as at end March 2024. This may be a signal of growing nonresident investor interest in Eswatini's Government securities market since the issuance of the ZAR-denominated bond on the JSE has put the country on the international market. This is set to improve with a structured investor relations strategy.

The majority of external debt is generally owed to multilateral and bilateral creditors with a negligible portion owed to commercial banks. The ratio of multilateral debt has been on the rise during the past 5 years with a sharp rise in 2022 due to an increase in budget support loans. As at end of March 2024, about 27 percent of external debt is from African Development Bank (AfDB), 23 percent from International Bank for Reconstruction & Development (IBRD), 20 percent from Export-Import (EXIM) Bank of China and the remainder from other creditors.

Debt denominated in foreign currency has also increased from E13.70 billion in March 2021 to E16.70 billion in March 2024. Given the recent depreciation in the domestic currency and increasing recourse to external loans, foreign exchange risks are heightened.

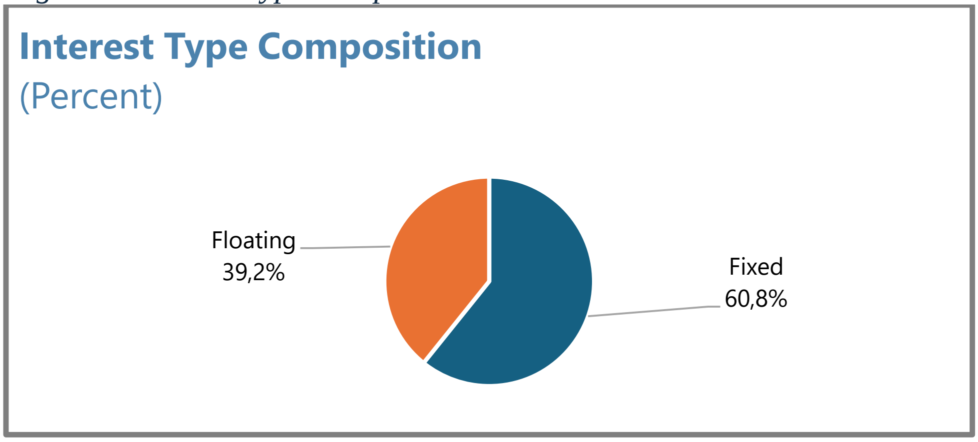
Figure 5: Holders of Public Debt



Source: CBE & MoF

Fixed rate debt comprises 60.8 percent of total debt portfolio, and mostly relates to domestic treasury securities and few multilateral and bilateral concessional projected related loans. The remaining 39.2 percent is subject to variable Secured Overnight Financing Rate (SOFR) and the Johannesburg Interbank Average Rate (JIBAR) which relates to budget support loans from the multilateral creditors, particularly the African Development Bank and World Bank's IBRD.

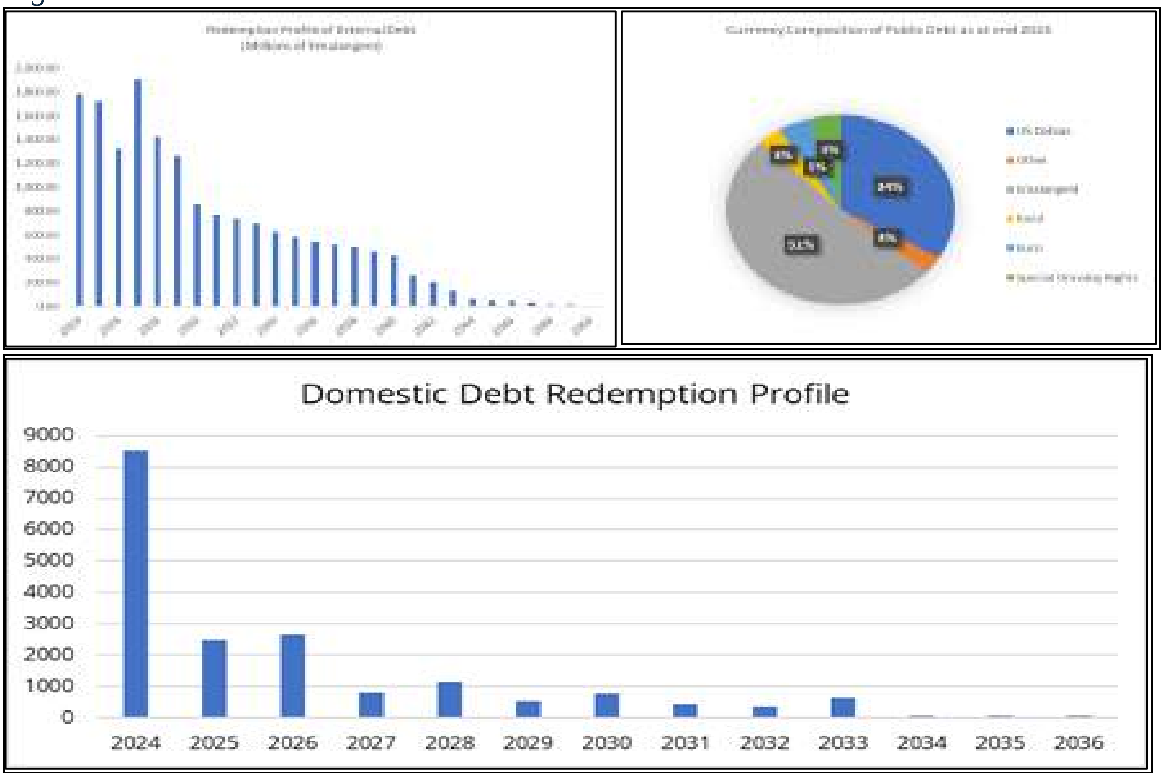
Figure 6: Interest Type Composition



Source: CBE & MoF

Overall, the maturity and composition of public debt bear significant rollover and liquidity risks, as well as exchange rate vulnerabilities (Figure 6 & Table 1) provides a summary of the cost and risk indicators of Government's total debt portfolio as at the end of FY2023/24.

Figure 7: Cost and Risk Characteristics



Source: CBE & MoF

More than 60 percent of the external debt matures between 2024-2030 owing to the budget support loans due within an average of 8 years. Foreign currency debt accounts for 49 percent of total debt with the US dollar accounting for 34 percent and the remaining 15 percent coming from other currencies such as the Euro and Special Drawing Rights (SDR).

Out of the outstanding domestic debt, 43 percent is due to mature in one year. This is mostly influenced by the high proportion of Treasury Bills and Central Bank advance in the domestic debt stock. Maturities due in two years' time account for 13 percent whilst maturities due in in three years' time account for 14 percent. Debt maturing after three years to 10 years' averages at 4 percent of the outstanding amount.

Table 1: Cost and Risk Indicators of the Debt Portfolio: 2023/24 2020/21 versus

				2023/24	**2020/21**
Risk Indicators		**External debt**	**Domestic debt**	**Total debt**	**Total debt**
Amount (in millions of SZL)		16 722.5	17 596.5	34 319.0	27 345.6
Amount (in millions of USD)		913.9	961.7	1 875.6	1 888.5
Nominal debt as percent of GDP		19.3	20.3	39.5	39.0
PV as percent of GDP[1]		18.5	20.3	38.8	37.0
Cost of debt[2]	Interest payment as percent of GDP[3]	**1.1**	**1.5**	**2.6**	**2.7**
	Weighted Av. IR (percent)	**5.6**	**7.6**	**6.6**	**7.0**
Refinancing risk[2]	ATM (years)	**6.6**	**2.4**	**4.5**	**4.4**
	Debt maturing in 1yr (percent of total)	**11.0**	**36.4**	**23.6**	**26.0**
	Debt maturing in 1yr (percent of GDP)	**2.3**	**7.4**	**9.6**	**10.2**
Interest rate risk[2]	ATR (years)	**2.1**	**2.0**	**2.1**	**2.4**
	Debt refixing in 1yr (percent of total)	**75.3**	**54.7**	**65.1**	**56.6**
	Fixed rate debt incl. T-bills (percent of total)	**26.7**	**93.2**	**59.7**	**61.2**
	T-bills (percent of total)	**0.0**	**32.9**	**16.3**	
FX risk	FX debt (percent of total debt)			48.7	50.1
	ST FX debt (percent of reserves)			24.3	28.0

Source: CBE & MoF.

Cost of Debt: The weighted average interest rate of the existing portfolio stands at 6.6 percent. The cost of domestic debt, at 7.6 percent, is higher than for external debt, at5.6 percent. The lower interest rate on external debt is driven by some degree of concessionality of external debt from the multilateral creditors, while the domestic debt is mostly on market terms. Compared to End-March 2020/21, the weighted average cost of the debt portfolio increased by 100 basis points (1 percent), underpinned by the increase in the SOFR and JIBAR as market conditions tightened with global monetary policy tightening cycles to fight inflation.

Refinancing Risk: The Average Time to Maturity (ATM) of the overall debt portfolio was 4.5 years compared to 4.9 years in 2020/21. This is largely influenced by the short-term nature of the domestic debt which has ATM of 2.4 years. Debt maturing in one year accounts for 23.6 percent of the total portfolio compared to 23.1 percent in 2020/21 which is 9.7 percent of GDP. Domestic debt contributes 7.4 percent of GDP to the ratio of debt maturing in one year.

Interest Rate Risk: Debt refixing in one year accounts for 65.1 percent of total debt. External debt refixing in one year stands at 75.3 percent of total external debt which is driven by the sizable amount of external debt with floating interest. Treasury bills account for 16.3 percent of total debt which are all issued domestically.

Foreign exchange risk: as measured by the ratio of external debt over total debt, has increased to 48.7 percent as at end-2023/24 from 44.6 percent in FY2020/21. This increase is attributed to negative net domestic debt issuances. The Government will continue to manage foreign currency exposure over the medium term by using swap operations on debt owed to IBRD. The Government remains mindful of the exchange rate risk associated with external borrowings and will work towards achieving a prudent level.

MAIN DIRECTION & SPECIFIC OBJECTIVES OF THE NEW STRATEGY

Debt cost

The main focus of the MTDS 2024/25 – 2026/27 will be lowering the risk exposures, particularly the risks associated with the domestic debt portfolio and the foreign currency risk. Reducing risk exposure in the debt portfolio will contribute to reducing risk premiums, thereby lowering the cost of debt servicing. Additionally, the development of the government securities market will reduce risk premiums that currently stem from the low liquidity of government securities, will also help to keep debt cost under control. Government will also put in place an investor relations strategy to promote diversification of the investor base in the government securities market.

Risk Management

The risk management of the debt portfolio includes a number of medium-term key objectives, which aim to reduce the risks in the medium term.

Refinancing risk: The existing debt level and the structure of annual payments of principal raise the need for significant refinancing in annual amounts up to 10 percent of GDP (or 24 percent of the total debt portfolio), and about 77 percent of these amounts on average is required for the domestic debt. Therefore, it is necessary to continue the implementation of the measures undertaken to further reduce the exposure to refinancing risk, with the following objectives: a) increasing the share of medium and long-term securities in the domestic debt portfolio, through gradual reduction of financing through short-term securities (T-bills) in line with the opportunities offered by the domestic market; and b) smoothening the maturity profile, by assessing the possibility of using liability management operations (bond buybacks and exchanges).

Interest rate risk: The current interest rate resetting in a year in the total debt portfolio of 65 percent (75 percent external and 55 percent domestic) poses eminent interest rate risk for the Government due to investors' preference for shorter-dated securities and floating rate external debt instruments. Given the high level of short-term debt (24 percent of total debt portfolio) and floating rate debt (39 percent of the total debt portfolio), the long-term increase of the reference market interest rates would represent a significant threat to fiscal sustainability, and consequently increase the debt substantially. In this regard, measures for reducing the share of short-term debt and variable interest rate debt will need to be put in place, in line with market opportunities and creditor preferences.

Exchange rate risk: Exchange rate risk is the risk that the debt position will deteriorate due to depreciation of Emalangeni's exchange rate against other currencies. Currently, the exchange rate risk is kept under control, and foreign exchange reserves are actively managed according to the guidelines set for foreign exchange composition. The exchange rate risk will continue to be kept on acceptable levels in the medium term by undertaking activities that aim to: a) monitor and maintain the foreign currency debt to total government debt ratio at acceptable levels; b) concentrate the foreign currency borrowing into Emalangeni and ZAR currencies; c) increase the foreign currency debt stock (nominal stock / in the medium term) in line with the increase of exports and foreign exchange reserves; and d) assess the potential use of financial derivatives to control this risk if required.

Operational risk: Reducing the operational risk will have an important focus throughout the strategy time horizon. It will aim strengthening the public debt management unit through: a) well-defined functions in the debt management unit; b) standardization and formalization of procedures in debt management activities; and c) increase human resources stability in accordance with the approved structure and improve management capacity.

Liquidity risk: In addition to activities to reduce refinancing and interest rates risks that have an impact on liquidity risk, the Ministry of Finance will undertake activities that will aim to achieve a more active cooperation between the debt management department and the departments responsible for cash flow forecasting (expenditure and revenue) in order to improve cash management.

Development of the government securities market

The government securities market will be developed through activities that will aim to achieve: a) higher liquidity; b) investor diversification; c) increased transparency; and (d). market-based funding mechanisms. Achieving these objectives is a long-term goal, whereas undertaking the activities and implementing the various measures is a process that has already begun and will continue to be carried out continuously.

Increasing liquidity: The measures and activities undertaken to increase liquidity will contribute to the elimination of premiums arising from the limited level of liquidity of government securities. Additionally, these activities will contribute to increased demand from that part of investors who have an interest in investing in liquid assets and not in holding them to maturity, including nonresident investors. The above factors are expected to reduce the interest rate premiums in the medium and long term, thereby reducing the cost of debt. The main activities that are planned to be undertaken in the medium term are:

- Concentrating issuances in benchmark tenors to reach minimum sizes necessary to foster secondary market trading through regular reopening. Large size improves the potential for wider distribution of the security among different types of investors with different incentives to trade, thereby increasing trading opportunities and reducing the liquidity premium demanded by the market. The target size will be determined in the context of Government's ability to manage refinancing risk. Improvements to debt management capacity over time, including the ability to undertake buybacks and exchanges, build cash balances in anticipation of a large refinancing, and better manage temporary cash surplus and shortfalls, will allow the Government to progressively refinance larger benchmarks.
- Phasing out nonmarket based issuance mechanisms such as private placements. This also include eliminating securities that have similar characteristics and compete with each other in order to reduce demand fragmentation.
- Adaptation of borrowing policies (including buy back and exchange of government securities) to market conditions and demand for certain securities.
- Develop and implement a robust investor relations strategy

Undertake a diagnostic assessment of the government securities market to identify constraints to the functionality of the market and develop a reform plan to develop the market. The assessment will determine the level of development of the market and identify constraints to the functionality of each building block of the market, namely the money market, primary market, secondary market, investor base, legal and regulatory framework, and the market infrastructure. This will inform the design of a tailored reform plan to address the identified gaps.

Increasing transparency: The measures and activities undertaken to achieve this objective will contribute to the reduction of uncertainties and the increase of predictability in the government securities market, including transparent and timely communication of monthly, quarterly and annual borrowing plans; and publication of auction results in the shortest possible time.

An investor relations strategy will be developed in collaboration with relevant government stakeholders and CBE. The strategy will provide a framework for Government to actively engage resident and nonresident investors and other market participants. It will include a communications plan that supports a regular schedule of publications providing information related to recent macroeconomic developments and debt management activities including debt operations. This will allow investors to plan their investment strategy in government debt more effectively.

Drafting and publishing an annual borrowing plan: In order to increase the transparency, predictability and effectiveness of the borrowing process, and to ensure the implementation of the strategy towards the achievement of the objectives, the Ministry of Finance will establish the necessary practice for preparation and publication of an annual borrowing plan, before the start of the new fiscal year. The Government will start the implementation of this process with the support of the IMF's AFRITAC South technical assistance, which will aim to adopt and implement the best practice for this purpose.

Monitoring Report

The Ministry of Finance, at the end of each fiscal year, assesses the progress on the implementation of the Medium-Term Debt Management Strategy, and drafts the relevant monitoring report. The monitoring report is prepared after the end of the fiscal year and published on the website of the Ministry of Finance and CBE.

CHAPTER 3

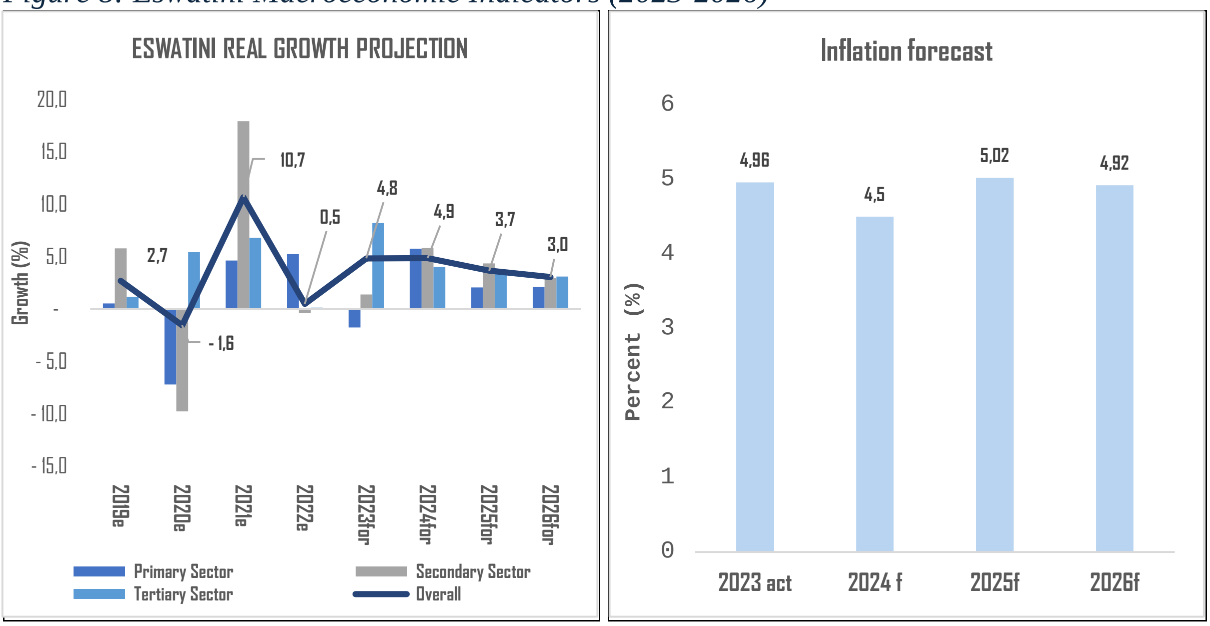
OVERVIEW OF ECONOMIC PERFORMANCE

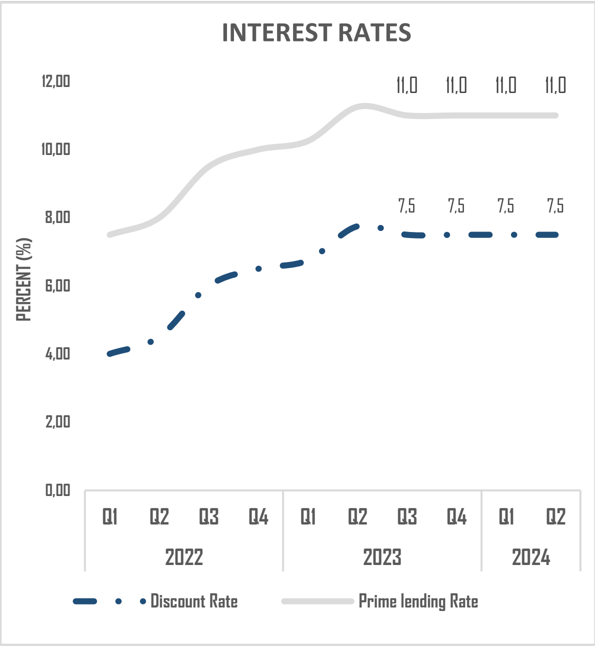
Economic Developments

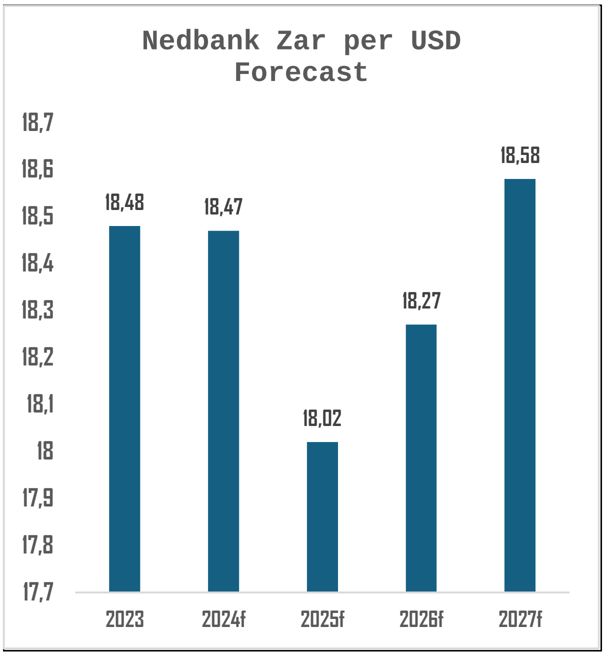
The Eswatini economy reflected signs of resilience, with a projected growth of 4.8 percent in 2023. This comes after three years of consecutive shocks. On average, between 2018 and 2022 (a 5-year average) domestic economic activity is estimated to have grown by a tepid 2.9 percent at the back of supply chain disruptions caused by the Coronavirus disease 2019 (COVID-19) and hikes in commodity prices due to geopolitical tensions which prompted restrictive monetary policy cycle by the Central Bank.

The medium-term outlook remains positive, with growth projected to average 3.9 percent (2024-2026), underpinned by both demand and supply factors. On the demand side, the sustained improved fiscal position will promote spending on both public consumption and investment, which will benefit sectors such as wholesale and retail (W&R), tourism-related activities, and construction. On the supply side, capacity expansions in manufacturing, particularly beverages manufacturing and textile manufacturing, as well as agriculture (LUSIP II extension), will drive growth in the medium term.

Figure 8: Eswatini Macroeconomic Indicators (2023-2026)







Source: CBE & MEPD

Headline inflation averaged 5.0 percent in 2023, reflecting a 0.2 percentage point increase from the 4.8 percent recorded in 2022. The increase in headline inflation was due to elevated food prices, which have been high since the second half of 2022, triggered by the supply disruptions induced by the Russia-Ukraine tensions.

Within the medium-term, headline inflation is projected to slow down, driven by a moderation in food, electricity, and global crude oil prices. In 2024, headline inflation is projected at 4.5 percent, with 2025 and 2026 forecasted at 5.0 percent and 4.9 percent, respectively.

In line with the prevailing sticky inflationary environment, the Central Bank of Eswatini, through the monetary policy committee, adopted a restrictive monetary policy stance. To tame inflation, the Central Bank increased the cost of borrowing, thus reducing aggregate demand in the period. Notably, discount rates were increased by 100 basis points in 2023 and averaged 7.5 percent, relative to the 6.5 percent in 2022. Similarly, the prime lending rate followed suit, increasing from 10.0 percent in 2022 to 11.0 percent in 2023. In the same vein, the domestic instruments yield also reflected increases in the period.

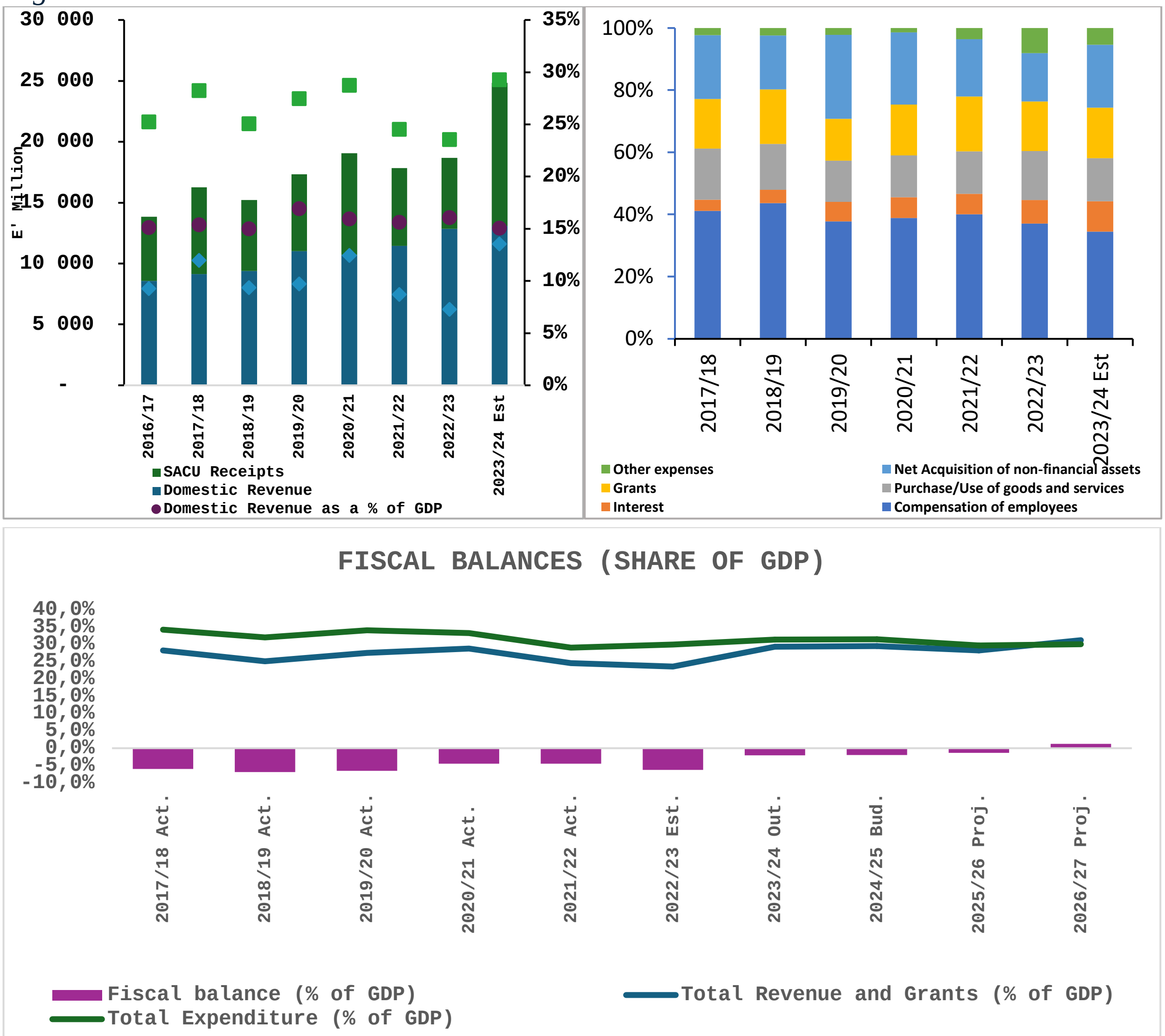
The Lilangeni, which is pegged one-on-one with the rand, depreciated by 12.7 percent against the US dollar, averaging E18.45 per dollar compared to E16.37 per dollar. This depreciation was largely due to the grey listing of the RSA economy, along with weak global risk sentiments. In 2024, the lilangeni is expected to strengthen by 0.1 percent, averaging E18.47 per dollar. This is due to positive investor sentiments following the outcome of the 2024 election and the successful negotiation of government post-elections. In 2025, the lilangeni is further expected to strengthen by 2.4 percent, averaging E18.02 per dollar. This is because the US Fed is starting the cutting cycle of the discount rate in the last quarter of 2024.

Fiscal Developments

Total revenue and grants amounted to E25.397 billion in the fiscal year FY 2023/24, which was equivalent to 29 percent of Gross Domestic Product (GDP). This reflected a 35 percent growth in revenue compared to FY 2022/23. The positive performance was attributed mainly by a windfall SACU receipts, improvements on income taxes (i.e., PAYE), as well as taxes on goods and services (i.e., VAT). SACU, taxes on income, and taxes on goods and services accounted for 14 percent, 8 percent, and 7 percent respectively of GDP.

In the medium term, revenue is expected to increase by 9 percent, 1 percent, and 11 percent in 2024/25, 2025/26, and 2026/27 respectively. The increases are attributable to new policies coupled with improved efficiencies in revenue collection.

Figure 9: Fiscal Indicators



Source: CBE, MoF& MEPD

Total government expenditure reflected a growth 13 percent in FY 2023/24 amounting to E27.165 billion which was equivalent to about 31 percent of GDP. The growth in government expenditures was driven by interest payment, the wage bill as well as goods and services. In fiscal year, 2024/25 total government expenditures were budgeted at E29.415 billion which was maintained at around 31 percent of GDP and reflecting a growth of 8.3 percent in the period. This growth is anticipated to be at the back of both recurrent and capital expenditures. The budget priorities in the period include higher spending on healthcare, education, as well as national security. Capital expenditures in the period will focus growth stimulating projects such as the construction of dams, roads, factory shells, and buildings, as well as water and energy projects

The government continued to experience fiscal deficits with the expenditures growing at the faster pace compared to revenues collection. Notably, preliminary outturn figures for FY 2022/23 depicted that the fiscal deficit was at 6.3 percent of GDP amounting E5.060 billion. In 2023/24 the fiscal deficit reflected improvements and was reported at 2.0 percent of GDP amounting 1.88 billion. At this level the fiscal deficit was within the country's fiscal adjustment targets of less than 2.0 percent of GDP. Within the medium-term fiscal deficit is project to continue to narrow and eventually become a surplus by of 1.2 percent of GDP by the 2026/27. The narrowing of the fiscal deficit will be supported by both revenue and expenditure measures which are meant to address the revenue volatility.

Credit Rating: Eswatini rated B2 with a stable outlook!

Credit rating of the Kingdom of Eswatini is carried out by one major agency: Moody`s. The agency provides annual credit rating reviews for Eswatini. Recent assessment by the credit rating agency has also covered the country's economic growth and sustainability, institutional and governance capacity, fiscal policy, and sensitivity to potential risks. The country was rated at B2, with a stable outlook. The rating agency point out that based on the continuous data on indicators used, Eswatini's credit profile appears to balance the progress on the implementation of reforms and the continuous structural economic challenges and limited institutional strength, compared to other countries. Nevertheless, Eswatini's credit profile is exposed to external shocks due the small size of its economy.

Key Risks to the Medium-Term Forecasts

The risks to the medium term are on the balance, on the downside risks include slow implementation rate or delays in the execution of major capital projects such as MNWAP, and energy projections can lead to a slow GDP growth. Similarly, climate change induced challenges can affect agro-processing related sectors and lead to slower GDP growth. From the fiscal position revenue shocks induced by the SACU volatility and lack of buffers will lead to fiscal pressures and cash flow challenges. Similarly, from an expenditure position unsustainable growth in the wage bill could likely put pressure on the fiscal position. On the upside, the moderation in inflationary pressures particularly food and energy coupled with the commencement of the cutting cycle of discount rate by the US Fed will likely bring domestic interest rates downwards and also lead to a slowdown in exchange rates.

CHAPTER 4

DEBT MANAGEMENT STRATEGY

Financing Strategy (S4) 2024/2025 – 2026/27

To guide future borrowings, four alternative financing strategies were identified and evaluated on the basis of their cost and risk profile to the government debt portfolio. These are: status quo, reflects the existing debt levels, Strategy 1 maintains the 2023/24 funding profile of 75 percent domestic and 25 percent external borrowing. Strategy 2 assumed a recourse to the South African bond market, tapping into the existing South African Rand (ZAR) 4 billion Medium-Term Note already registered on the Johannesburg Stock Exchange (JSE). Strategy 3 modeled a recourse to domestic borrowing, to be met through a combination of suppliers' bonds to clear arrears; private placements mostly floating rate instruments; central bank advance facility; and marketable securities which are fixed rate instruments. **Strategy 4** assumed a balance between external and domestic financing, maximizing issuance of ZAR-denominated JSE-listed bonds on the external side and planning domestic borrowing with the objective of developing the government securities market.

Rationale for selected Strategy (4)

Results show that the four strategies have different effects on the composition of the debt portfolio, but in all cases resulting in upward trending debt-to-GDP ratios. Strategies 2 and 4 produced attractive cost and risk profiles at the end of the strategy period. However, Government selected strategy 4 on the basis that it steers borrowing decisions toward achieving the desired composition of debt portfolio while allowing to pursue the objective of promoting government securities market and broadening the investor base by tapping the JSE.

This strategy intends to reduce the proportion of domestic financing as it currently stands at 75 percent of total debt stock relative to external debt which stands at 25%. This will be achieved through issuances of longer maturity papers under the Johannesburg Stock Exchange (JSE). This strategy therefore assumes a decrease in domestic debt from 75 percent to 60 percent by 2025. This was based on the current status where domestic market generally has no appetite for the longer dated papers coupled with an inactive secondary market.

Cost and Risk indicators of existing and proposed strategy

Table 2: Alternative financing strategies and the associated cost and risk profiles to the Government debt portfolio

Risk Indicators		2023	As at end 2026			
		Current	S1	S2	S3	S4
Nominal debt as percent of GDP		39.5	43.2	43.4	43.2	43.3
Present value debt as percent of GDP		38.8	41.8	41.4	42.3	41.6
Interest payment as percent of GDP		2.6	2.9	2.9	3.0	2.9
Implied interest rate (percent)		6.6	6.4	6.2	6.7	6.3
Refinancing risk2	Debt maturing in 1yr (percent of total)	23.6	30.4	20.1	38.8	17.8
	Debt maturing in 1yr (% of GDP)	9.6	13.2	8.7	16.8	7.7
	ATM External Portfolio (years)	6.6	8.5	8.7	7.4	9.3
	ATM Domestic Portfolio (years)	2.4	1.7	2.1	1.6	2.5
	ATM Total Portfolio (years)	4.5	5.5	7.0	4.0	6.9
Interest rate risk2	ATR (years)	2.1	2.2	2.7	1.8	2.8
	Debt refixing in 1yr (percent of total)	65.1	66.7	64.6	65.5	61.0
	Fixed rate debt incl T-bills (percent of total)	59.7	60.4	52.1	70.0	53.5
	T-bills (percent of total)	16.3	19.0	8.5	22.1	8.3
FX risk	FX debt as % of total	48.7	55.7	73.5	40.6	64.7
	ST FX debt as % of reserves	24.3	21.0	32.8	19.9	18.5

Source: CBE, MoF& MEPD

At the end of 2023/24 financial year, the overall risk exposure of the country's existing debt portfolio was highly influenced by interest rates and refinancing of debt as illustrated in Table 3. The current debt portfolio is characterized by debt maturing in 1 year, which is 23.6 percent of total debt. Treasury bills as a percent of total are 16.3, indicating high risk of debt maturing within 1 year, hence the refinancing risk is 23.6 percent of total debt. In the same vein, debt to refixing is 65.1 percent of total debt.

When compared to the baseline, Strategy 4 indicates lower refinancing risk with debt maturing in 1 year lowest. Both average time to maturity of external and domestic debt indicate longer periods compared to the baseline scenario, and debt refixing in 1 year is lower at 61 percent of total debt. S4 assumes lower new issuance treasury bills as an effort to reduce the amount of debt maturing in one year and achieve a smoother repayment profile.

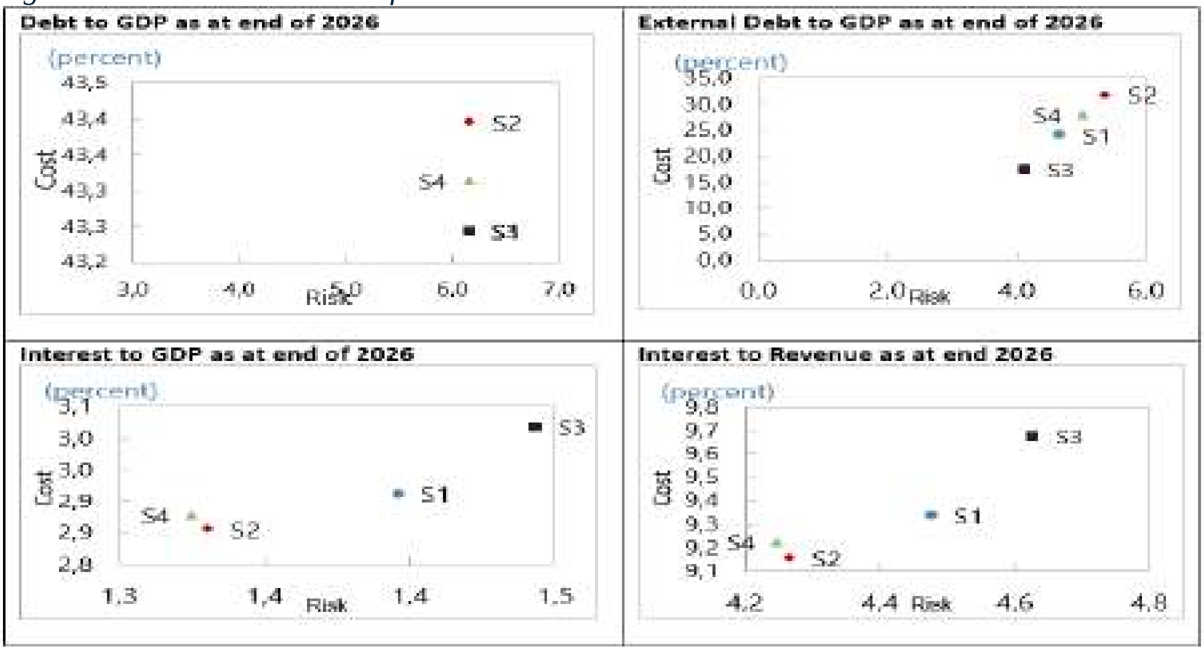
Interest Rate and Exchange Rate Shock Scenarios

The MTDS tool provides for a sensitivity analysis which determines how indicators are affected based on changes in exchange rates and interest rates environment beyond what is accommodated in the baseline projections.

i. In the worst-case scenario, exchange rate shock is applied in 2024, where the Lilangeni is depreciated by 30 percent against the US Dollar. In the moderate scenario, the exchange rate is depreciated by 15 percent.

ii. Likewise, the interest rate shocks were based on a moderate 2 percent increase and an extreme 4 percent increase.

Figure 10: Cost-Risk Results of Shocks



Source: CBE, MoF& MEPD.

The choice of the best strategy is guided by the overall cost risk minimization of new contracted loans, while maintain sustainable levels of debt. In this perspective Strategy 4 stands out among all designed strategies. At the end of 2026/27, debt to GDP is projected to be 43.3 percent and interest payments to revenue are the lowest at 9.2 percent. On the other hand, interest payments to GDP are projected to reach 2.9 percent with lowest risk of risk profile.

Annual Borrowing Plan FY 2024/25 (See Annex 1)

An Annual Borrowing Plan was drafted to outline how the selected strategy would be operationalized (financed) in the next budgetary period. The total net financing requirement for Fiscal Year (FY) 2024/25 as per the National Budget was estimated to be SZL20, 486 million. The government will pursue a mixture of domestic and foreign currency borrowing to finance the 2024/25 Budget deficit of SZL1, 871 million through both external and domestic borrowing. On the domestic front, it will be through the issuance of Treasury Bonds and Treasury Bills, including a recently approved new commercial borrowing window from a local commercial bank earmarked for infrastructure development. While on the external sources: a total of SZL 1.8 billion will be financed through external budget support loans from the Government's multilateral creditors and as well semi-concessional loan drawdowns of on-going loan projects.

The Government will continue to utilize cheap and semi-concessional avenues of financing by engaging actively with its multilateral and bilateral partners. Currently there is an engagement with both the World Bank and the African Development Bank for budget support loans of USD50 million from each financial institution in the fiscal year 2024/25.

CHAPTER 5

MONITORING & EVALUATION

Debt Strategy Operations and Targets

In line with the primary debt management objectives of minimizing cost with a prudent level of risk and the development of the domestic debt market, the following steps are set out to operationalize the preferred debt strategy:

- Lessen reliance on treasury bills to mitigate risk of refinancing or rollover risk.
- Reduce variable interest rate borrowing to increase ATR
- Reduce commercial borrowing to minimize interest cost
- Prioritize semi-concessional financing from external sources in order to secure affordable financing.

Table 3: Cost-Risk Targets

Goal	Indicator	23/2024	Target 25/2026
Manage Refinancing Risk	• Debt maturing in 1 year as a % total of previous year's revenues • ATM (Average Time to Maturity) Domestic portfolio	**23.6%** **2.4 years**	**Below 17.8%** **Above 2.5 years - or beyond 3 years**
Manage Interest rate risk	**Fixed rate debt as a % of total debt.** • debt refixing in 1 year as a % of total • T-bills (% of total)	**65.1%** **16.3%**	**Below 65%** **Below 8.3%**
Manage Foreign exchange risk	• Stock of foreign debt as a percentage of reserves – • Target JSE for longer tenure 7-10 year tenure.	**24.3%**	**Below 18.5%**

Source: CBE, MoF& MEPD.

Refinancing risk:

Refinancing risk of debt maturing in 1 year is currently at 23.6 percent with the target being 17.8 percent of the previous year's revenues. Average Time to Maturity (ATM) of domestic portfolio- currently stands at 2.4 years' and the target is 2.5 years or beyond 3 years (i.e. the aim is to have the domestic debt portfolio's ATM extended to longer tenures. Fixed rate of debt as a percent of total debt currently stands at 65.1% and the target is below the 65 percent going forward. T-bills as a percentage of total debt currently stands at 16.3 percent and the target is 8.30 percent. Foreign exchange risk as a percentage of reserves stands at 24.3 percent with the target being 18.5%.

Progress to be measured by targeting baseline key performance indicators which are refinancing risk, Interest rate risk and foreign exchange risk. Commonwealth Meridian will continue to be used as a tracking tool for all current and new debt, disbursement projections, interest and principal payment.

Steps to be taken if conditions change

The debt management strategy will be reviewed on a regular basis (i.e. annually to ensure consistency with budget cycle), or more often if macro or market conditions change significantly.

Financing from external sources

Government will continue to explore innovative financing mechanisms to reduce currency risk and expand the borrowing capacity at reasonable cost. In terms of the structure diversification. There are other alternative financing options being explored such as the listing of a government programme at the Johannesburg Stock Exchange with a longer tenure (7-10 years) over the medium term to finance public projects**,** and simultaneously manage the foreign exchange rate risks.

Debt Management Reforms

Key initiatives to be undertaken over the medium term to improve debt management practices includes:

Domestic debt Market development

The government will continue to develop the domestic debt market to improve its depth, liquidity and efficiency. As part of this effort, it will develop closer engagement with the existing domestic investor base and aim to commit to market-based funding mechanisms. As part of developing the market Government will also continue with measures aimed at promoting the growth of non-bank institutions sectors such as pension funds, insurance and other private sources (corporative associations or mutual savings). These are endeavors to increase the capacity of the domestic market. The growth of new financing products such as the retail bonds is envisaged to enhance the expansion and stability of the domestic market.

Investor relation

Given that Eswatini is accessing the international markets, it will be prudent for Government to manage the investor relation very closely in terms of the debt information on the country's economic objectives and policies, borrowing plans, and public debt management.

ANNEXURE 1

Annual Borrowing Plan

	SZL millions	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25
A	**Gross External Financing**												
External Source	Total	68	1,271	96	19	0	180	240	748	160	188	167	1,875
	Concessional	11	8	0	0	0	20	25	15	10	0	19	0
	Semi-Concessional	50	0	93	19	0	160	100	33	150	138	147	1,855
	FX Commercial Loan	6	862	4	0	0	0	115	50	0	50	0	20
	International Bond	0	400	0	0	0	0	0	650	0	0	0	0
	FX Security	0	0	0	0	0	0	0	0	0	0	0	0
	FX Other	0	0	0	0	0	0	0	0	0	0	0	0

	SZL millions	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25
	Gross Domestic Financing*												
Alternative	Total	973	1,028	1,017	1,197	1,654	1,102	1,261	1,077	1,071	1,577	1,377	2,147
	T-bills	506	384	273	430	687	410	560	410	510	410	510	410
	Bonds	0	177	277	0	500	225	234	200	94	300	50	420
	DX Commercial Loan	0	0	0	0	0	0	0	0	0	0	0	0
	Central Bank	467	467	467	767	467	467	467	467	467	867	817	1,317
	DX Other	0	0	0	0	0	0	0	0	0	0	0	0

*Gross Financing = gross face value issuance without netting off in-year rollover; the information corresponds to the auction calendar.