THE KINGDOM OF SWAZILAND

MID-YEAR BUDGET REVIEW REPORT

2020/21

PRESENTED BY

Neal Rijkenberg
MINISTER OF FINANCE

TO THE

PARLIAMENT
OF THE
KINGDOM OF SWAZILAND

ON

NOVEMBER, 2020

A. Introduction

1. Mr. Speaker, esteemed members of Parliament, I have the honour to table the 2020/21 Mid-Year Budget Review statement to this Honourable House. This report outlines the performance and critical review of most recent economic developments in the first half of the fiscal year 2020/21.

2. The medium-term budget review statement seeks to assess effectiveness of resource allocations during the financial year and to reaffirm the medium-term policy stance grounded on fiscal sustainability. It echoes the spirit of doing more with less and it further supports a package of mutually-reinforcing economic recovery stimulus intervention to enhance direct investment and private sector participation.

3. Mr. Speaker, economic activity slowed down in the first half of the year due to the COVID-19 pandemic. The growth-retarding effect of the pandemic emanated from containment measures – quarantines, lockdowns, and social distancing – that government implemented to curb the spread of the virus.

4. Government has been running persistent fiscal deficits in the recent past. By committing to a Fiscal Consolidation processes in past period, the anticipation was to deviate from the trend and improve the overall budget balance. Recent global and regional economic developments caused by the outbreak of the corona virus pandemic has however drastically deteriorated the prospect for

domestic economic recovery, a situation not unique for Eswatini but rather a global trend.

5. To prevent the economic crisis from deepening and further deterioration of Government's fiscal account, Government has adopted a Post COVID-19 Economic recovery plan as well as a Fiscal Adjustment Plan, which includes both revenue enhancing and expenditure decreasing measures. The Post COVID-19 Economic Recovery Plan is a short-term high impact economic stimulus package that will resuscitate the economy by initiating a number of productive economic activities.

6. The Fiscal Adjustment Plan is fixed to span over three years with implementation starting in 2021/22 financial year. The scope for fiscal consolidation has been determined at 6.5 percent of GDP. The Fiscal Adjustment Plan was also a pre-condition for Government of Eswatini to receive budget support under the Rapid Financing Instrument (RFI) from the International Monetary Fund (IMF).

B. International Economic Performance

7. Mr. Speaker, according to the World Economic Outlook, global growth for 2020 has been revised down by about 1.9 percentage points to -4.9 percent and is projected to recover to 5.4 percent in 2021. Global trade declined by 3½ percent in the first quarter of 2020. Oil prices dropped sharply, with prices on some contracts briefly going into negative territory in April, but since then

recovered as OPEC+ output reduction deal was reached. Global economic activity is projected to contract significantly in 2020. However, the severity of the economic downturn is partially moderated by a faster-than-expected recovery in China and the better-than expected second quarter GDP outturn in advanced economies (AEs). Emerging market and developing economies (EMDEs), excluding China, are expected to contract in 2020 owing to the continued spread of the pandemic amidst overwhelmed health care systems and the pronounced effects of COVID-19 containment measures on tourism and commodity dependent sectors.

8. Looking forward, global growth is expected to partially recover in 2021, following the growth uptick seen in the third quarter of 2020. Economic recovery, however, remains subject to high uncertainty and unevenness related to the speed and breadth of re-opening and the resurgence of infections. In addition, uncertainty remains over the extent of loss of human capital, global spill overs from soft demand, and possible changes in financial market sentiment.

9. Mr. Speaker, the economic outlook for 2020 for sub-Saharan Africa is considerably worse than was anticipated in April and subject to much uncertainty. GDP growth is expected to contract sharply in 2020, driven by pronounced declines in travel, trade, tourism, remittances, and capital inflows. Economic activity for SSA is now projected to contract by 3.2 %, reflecting a weaker external environment and measures to contain the COVID-19 outbreak.

10. The impact is higher in tourism-dependent and mineral exporting economies, the diversified economies are also expected to experience a slowdown in economic activity. While the pandemic has exposed pre-existing vulnerabilities, including constrained fiscal space and weak social safety nets, fiscal and export revenues have also declined considerably. Rising health-related expenditures and imports necessitated by the crisis, have also contributed to large fiscal and external financing gaps. Concurrently, large capital outflows experienced in emerging market and frontier economies and the limited access to international capital markets have heightened financing needs.

11. Growth is projected to recover to 3.4 % in 2021 subject to the continued gradual easing of restrictions that started in recent past weeks and, importantly, if the region avoids the same epidemic dynamics that have played out elsewhere.

C. Domestic Economic Performance

12. Mr Speaker, The Gross Domestic Product (GDP) for 2020 is projected to contract by 5.6 percent from a 2.2 percent growth estimated in 2019. The growth was hindered by weakened demand in major advanced economies due to lockdowns and supply chain disruptions. Additionally, lockdown measures enforced in the domestic economy disrupted production in non-essential industries, imposed travel restrictions, social distancing and other containment measures. As a result, most export industries and travel related sectors were hit hard with the manufacturing (beverages), construction, wholesale & retail,

transport and leisure sectors being the major contributors to the anticipated contraction.

13. Eswatini's employment was negatively affected by the COVID-19 pandemic with non-essential industries halting operations and others that were deemed essential, reducing operation capacity. Moreover, investments weakened further due to slowing of economic activity with COVID-19 outbreak. An accommodative monetary stance was pursued in response to the slowdown and also included implementation of measures such as a reduction in the liquidity ratio requirement in order to increase access to liquidity and thereby supporting investments.

14. Whilst the medium term outlook remains uncertain, improved economic activity is anticipated in the short term as the easing of restrictive lockdown measures was observed in the second half of 2020. External budget support and arrears clearance is expected to aid economic recovery in the short to medium term. However, second round effects of the pandemic, anticipated declines in SACU revenues and the commencement of loan repayment obligations will put strain on the fiscal position and stifle economic activity.

D. Summary of Budget Execution

15. Mr. Speaker, let me now touch on the mid-year fiscal outturn. The budget I presented early this year was on the basis of fiscal consolidation initiated in previous years. With successful implementation of some revenue enhancing

measures and strict adherence to the budget, it was expected that Government would reduce the fiscal deficit to 4.5% of GDP and halt the accumulation of arrears.

16. Mr. Speaker, total revenue and grants in 2020/21 fiscal year were budgeted at E21.2 billion but have been subject to a downward revision and are expected to reach E18.5 billion, implying a shortfall of E2.7 billion. Out of that, core tax items like individual income tax (PAYE) and company tax have been revised downwards by E1.4 billion. This was due to supply chain disruptions and weaker global and local demand leading to temporarily closing of businesses and retrenchment of workers. Taxes on goods and services will fall by E1.2 billion, mainly caused by an underperformance in the major tax items VAT and fuel tax. The substantial revisions of revenue collection and reallocation between different expenditure items resulted in the drafting of a revised budget for 2020/21.

17. Mr. Speaker, to cater for the unexpected expenditure caused by the COVID 19 pandemic, Government, supported by this August House was compelled to implement a non-expansionary supplementary budget with the aim of reallocating resources to protect citizens against the hardship of the pandemic and the imposed necessary lockdown measures. Subsequently, Government is ensuring that the overall approved expenditure ceiling is maintained while at the same time providing for COVID-19 related expenditure.

18. Mr. Speaker, Government expenditure remained largely on track in the first half of the year although cash flow constraints persisted. Total recurrent expenditure has been executed up to 41 percent and the execution rate for locally funded capital projects stands at 40 percent.

19. During the first six months of the financial year, Government's cash flow position has become increasingly important as revenues struggle to meet day to day obligations. Limitations to availability of cash for Government to deliver essential services have been a point of pressure in the recent past. The situation has escalated this year due to a shortfall in projected revenue collection and simultaneous pressure to increase health and social security related expenditure. As of half year, Government was operating on a cash flow deficit of above E3 billion, which is the difference between available cash and payables from current year and arrears from previous financial years.

20. Mr. Speaker, despite the overall expenditure ceiling maintained, the loss in revenue collection compared to the initial budget implies an increase in the fiscal deficit. The fiscal deficit for 2020/21 is now expected to reach E4.7 billion, 7.2 percent of GDP compared to a budgeted deficit of E3.3 billion, translated to 4.5 percent of GDP. This means that Government has to raise around E4.7 billion in the capital market in financial year 2020/21 to avoid further accumulation of arrears, a prior unprecedented requirement.

D.1 Revenues and grants

21. Mr. Speaker, allow me to turn your attention to the revenue side of our Budget. At the beginning of this financial year, a number of measures which were intended to enhance revenue collection, were in place and anticipated to perform well. However, the Covid-19 global pandemic led to noticeably slower economic growth, and in turn, lower reported revenue collection. Despite the unfavourable environment, mid-year target collection was achieved by SACU, the education loan replacement and other income tax; whilst the other revenue categories under performed.

22. As of half year 2020/21, estimated revenue collection is slightly below target. Total revenue collected amounted to approximately E8.6 billion, reflecting 42% collection of the annual Budget of E20.6 billion. This denotes a 15% increase when compared to the 2019/20 mid-year revenue collection, largely due to the increased SACU receipts, improved collections in Road toll, as well as the inflow from the scholarship recovery facility.

23. SACU receipts remain an essential though very unstable source of revenue. At half year 2020/21, we received E4.174 billion compared to E3.16 billion in 2019/20. This reflects the 32% increase in SACU receipts expected this year when compared to last year. This source of revenue continues to prove volatile and there is little control to manage it. However, to achieve higher growth rates in this revenue source, some short term measures were recommended, which include reducing the age restriction of second-hand motor vehicles imported

from outside SACU and minimizing as far as possible the importation of petroleum products from outside of SACU.

24. Domestic revenue collection at half year amounts to E4.47 billion. This is below the E5.27 billion collected at the same time last year. This reduction has come despite an overall increase in Taxes on Goods and Services, however Income Tax, Taxes on Property and non-tax Revenue collection has decreased in this period.

25. Mr. Speaker, Income Tax remains our largest contributor to domestic revenue collection. Company Tax, PAYE, Graded Tax and Other Income Tax collections stood at E2.21 billion at half year. This equates to 36% of the annual budget and is lower than the E2.73 billion collected at half year 2019/20. In truth Mr. Speaker, all income taxes have been greatly affected by the lockdown resulting from COVID-19. The taxpayers' inability to earn income has eroded the income tax base. We do anticipate that the gradual opening of the economy will improve performance going forward.

26. Company Tax collected during the first half amounts to E460 million, 26% of the annual Budget of E1.79 billion. This is a 43% decrease in collections when compared to mid-year collections in the 2019/20 financial year.

27. Individual Taxes, that is Pay as You Earn, collected at half year amounted to E1.49 billion. This equals a 39% collection of the annual Budget of E3.87

billion and a decrease on the E1.69 billion collected at the same time last financial year. This is despite the 3% cost of living adjustment and 1% once-off payment to civil servants in August 2020.

28. Mr. Speaker, taxes on Goods and Services constitute our second largest contributor to domestic revenue collection. VAT collection is the largest source within these taxes. At half year, this totalled E1.42 billion, 41% of the annual Budget of E3.45 billion. The collection of VAT shows a 4% decline compared to the 2019/20 collection in the same period, which can be attributed to the partial lockdown which greatly eroded the tax base.

29. Road toll revenue collected by mid-year amounts to E24 million, a 23% collection on the annual target of E106 million. The underperformance is due to the ban of non-essential international travel. On the other hand, fuel tax at mid-year is 40% of the target, this underperformance was caused by a decline in quantities of fuel demanded - mainly as a result of imposed restrictions due to Covid 19.

30. A total of E122.13 million has been collected from non-tax revenue as at the half year mark. This is significantly lower than the E422.9 million collected at half year 2019/20.

31. The education loan replacement recorded in the quarter under review amounted to E49.43 million which is 288% above collection under the same

quarter in 2019/20 FY. This collection is 61% above target for the 2020/21 financial year. At this point, Mr. Speaker, I would like to thank and encourage all EmaSwati that continue to honour their repayments to the education scholarship fund; and to assure them that this is no small feat, as it ensures the continued support to aspirant recipients of tertiary scholarships.

32. Mr. Speaker, some legislation which is intended to improve our revenue collections, has been heavily debated in this esteemed House; today, I am happy to report that the Tax Administration Bill, 2020 is being prepared for tabling in Parliament. Mr Speaker, in 2019 the Revenue Appeals Tribunal Act was passed, and the Ministry of Finance is in the process of drafting the regulations which will operationalize the Act. The Revenue Appeals Tribunal Act seeks to provide a platform to hear and determine appeals from rulings and assessments of the Commissioner General under any Revenue law. The Income Tax Amendment Bill which has been drafted as part of Government's strategy of improving efficiency in revenue collection as well as widening the tax base in order to generate additional revenue for Government, is under review. Consultations are underway with Eswatini Revenue Authority as well as tax policy experts from the IMF, with the aim of getting input on other avenues to expand the tax net. We therefore urge for the support of this Honourable House, to hasten the passage and enactment of outstanding legislative reforms, which will propel diversification and boost domestic revenues.

33. For the period under review, Mr Speaker, I am pleased to report that VAT relief was provided to the Ministry of Education and Training's Home

Study/Fundza Usekhaya educational program. The relief was also provided to the Deputy Prime Minister's Office and Ministry of Health, for the purchase of personal protective equipment and related accessories used to combat Covid-19. The VAT relief instruments shall remain in effect until the Covid-19 pandemic has been pronounced as under control and no longer a threat to human life.

34. Mr Speaker, one cannot help but emphasize the significance of our development partners in the invaluable role they play in the improvement and expansion of our economy. The grants element of our revenue sources is a vital one, helping to supplement the budget as they are earmarked to specific expenditure items and thus have zero effect on the overall government deficit. This financial year, the budget for Grants is E553 million, around 0.3 percent higher than 2019/20.

35. In the wake of Covid-19, Mr Speaker, we want to express our endless gratitude to all the entities that have donated PPE materials, skill, expertise and time to the Government and EmaSwati as we operate under this new normal.

D.2 Expenditure

36. Mr. Speaker, on the spending side of our budget, total expenditure was budgeted at E24.4 billion for this current financial year. Of this, recurrent expenditure was budgeted at E16.41 billion and capital expenditure at E6.4

billion. The outturn is expected to stand at E23.2 billion in the 2020/21 financial year. This is mainly attributed to the impact of Covid 19 which is resulted in lower implementation of Government programs, in particular, capital projects.

37. Mr. Speaker, despite the hiring freeze initiated in previous years, the wage bill has continued to grow year-on-year. Personnel cost for 2020/21 fiscal year were budgeted at E8.42 billion. This line item has grown by approximately 3 percent compared to 2019/20, attributed to the notch increases and cost of living adjustment awarded to civil servants. Part of the increased costs due to the salary adjustments have however been cushioned by the hiring freeze.

38. Mr. Speaker, halting the ever-expanding wage bill is a key component to curtailing expenditure and alleviating the fiscal difficulties. This will be achieved through the implementation of the fiscal adjustment measures pertaining to compensation of employees. These include a continuation of the ongoing hiring freeze, alteration to allowances, removal of the automatic salary notching, reallocation of support staff between ministries, alternative service delivery, COLA below inflation (if awarded) and Early Voluntarily Retirement Scheme (EVERS).

39. Mr. Speaker, spending on goods and services is fairly in line with the budget. In my previous midyear statement, I mentioned financial pressures arising from budget items like CTA and external travelling. May I report that on CTA, reforms are underway, while spending on the latter is contained owing to travel restrictions imposed early this year due to the COVID-19 pandemic.

40. The necessity to cater for expenditure related to the coronavirus pandemic response, predominantly health and social security expenditure, resulted in a reallocation of funds from both the recurrent and capital budget of E665 million and E313 million respectively, through the supplementary budget.

41. The execution rate of the capital budget at half year stands at 40 percent, equivalent to an expenditure of E2.5 billion. Projected execution rate for the capital budget for financial year 2020/21 stands at 85 percent. Of this, domestically financed programme is estimated at an execution rate of 65 percent, bringing the total capital expenditure to reach E5.2 billion. This execution rate of 85 percent for this financial year is based on the assumption that the top-ten largest projects will assume disbursement of close to 100 percent. The relatively low execution rate of the domestically financed component is explained by supply chain disruptions and other negative consequences of the COVID-19 pandemic.

D.3 Deficit and Financing

42. Mr. Speaker, financing the deficit remains a sore concern as Government has been running persistent fiscal deficits in the recent past. The accumulation of arrears coupled with liquidity constraints indicate a difficult economic climate, and sends out unfavourable warning signals to the external debt markets. The coronavirus pandemic has caused recent global and regional economic

developments which have significantly deteriorated the prospect for domestic economic recovery.

43. The fiscal deficit, or Government's budget balance, Mr. Speaker, is the difference between total revenue and total expenditure; this implies that reducing the deficit can be achieved by either collecting more revenue or reducing expenditure. In the financial year 2020/21, a deficit initially projected at E3.3 billion or 4.5% of GDP in the original budget is expected to reach E4.7 billion or 7.2% of GDP. This is due to the impact of the Covid-19 global pandemic. The significant shortfall in revenue collection which was caused by the Coronavirus pandemic and subsequent economic crisis, has culminated in a widened fiscal deficit. This has resultantly increased the pressure to mobilize financing, so as to avoid deterioration of Government's fiscal accounts and further increase the accumulation of domestic arrears.

44. Mr. Speaker, in the period under review, Domestic Debt Stock stood at E13,3 billion. Net domestic financing is at E1,1 billion of which gross domestic financing is E5,9 billion and domestic financing needs are E4,8 billion. External debt is expected to account for 47% of the total public debt stock in 2020/21, which is composed of externally financed capital expenditure as well as newly acquired budget support loans.

45. The ability to raise additional financing from multilateral institutions such as the IMF and the World Bank to cater for part of the revenue loss in 2020/21 has

however resulted in a financing surplus of E545 million, which will be used to pay outstanding obligations to suppliers.

46. The public debt stock in 2020/21 is estimated to be E23.6 billion which translates to 37% of GDP, and net financing at E5.2 billion. The scope for extended domestic financing has been limited and Government therefore negotiated budget support from external multilateral financial institutions. Government has been successfully granted E1.96 billion budget support from the International Monetary Fund (IMF) under the Rapid Financing Instrument (RFI). Mr. Speaker, I am pleased to inform you that Government has also secured budget support of E678 million in 2020/21 from the World Bank.

47. Mr. Speaker, at the end of September 2020, the domestic stock of arrears stood at E5.15 billion. This includes around E3.59 billion in outstanding arrears from previous years and E1.57 billion worth of payables accumulated during this financial year. Government remains committed to facilitating financing of these arrears by all reasonable means. The measures from the Fiscal Adjustment Plan (FAP) as well as the Covid-19 Economic Recovery Plan are not meant to replace the Government Strategic Roadmap, however, they are intended to meet the requirements of debt sustainability, and fast track fiscal consolidation within Government.

48. Government continues to engage in facilitating the financing of externally funded capital projects and those financed through the Private Public

Partnership arrangement. Unlike the beginning of the financial year, it is expected that a lower disbursement rate of loan finance will take place due to Government's cash flow situation. Two Private Public Partnership (PPP) projects have begun to disburse financing, these are, the Probase and Lukhula Big Bend Roads. Other projects currently disbursing loan funds include the Manzini-Mbadlane MR3 road, the Five Star Hotel, Ezulwini Water Supply and Sanitation, and other health projects.

E. Medium-Term Outlook

49. Mr. Speaker, the medium term outlook remains uncertain. Due to the negative implications of the COVID-19 pandemic, growth is projected to contract by 5.6 percent in 2020 from a 2.2 percent growth estimated for 2019. The second-round-effects of the pandemic, suggest declines in SACU revenues and the commencement of loan repayment obligations will put pressure on the fiscal position and stifle economic activity. Notwithstanding this, economic activity is expected to improve in the short to medium term due to easing of astringent lockdown measures in the second half of 2020. Also, budget support and arrears clearance is expected to boost economic recovery in the short to medium term.

50. Total revenue and grants are expected to reach E18.95 billion in 2021/22, which is a growth of 2.2 percent compared to the 2020/21 revised projection. This growth is driven by higher anticipated domestic revenue collection,

particularly income tax and taxes on goods and services, which will cushion the negative effect of a decrease in SACU receipts. In 2022/23, total revenue is expected to equate to E18.2 billion, implying a decrease of 4 percent. The significant decrease in expected revenue collection is caused by considerably lower SACU receipts. The weak economic performance in 2020/21 fiscal year caused by the corona virus pandemic has an effect on SACU receipts in 2022/23, since the receipts are determined by the performance of the economies of the SACU member states, predominantly RSA, with a two-year lag. In 2023/24, total revenue is projected to reach E20.1 billion, representing an increase of 10.5 percent. This increase will be driven by a rebound in SACU receipts and increased domestic revenue collection in particular individual income tax and VAT.

51. Mr. Speaker, total Government expenditure is projected to decline by 1.5 percent in 2021/22 compared to 2020/21 budget. In 2022/23, a decline by 7.8 percent is expected followed by 6.1 percent in 2023/24. This will equate to a total of E24.0 billion, E22.2 billion and E20.8 billion respectively. These projections are dependent on several crucial factors particularly the timely implementation of the Fiscal Adjustment Plan, and would if materialized, see total expenditure declining as a share of GDP from 35.9 percent in 2020/21, to 26.2 percent in 2023/24.

52. Notwithstanding fiscal adjustment measures, the fiscal deficit for 2021/22 fiscal year is estimated to reach E4.9 billion, equivalent to 7.0 percent of GDP. In 2022/23, the fiscal deficit is expected to slightly improve, standing at E4.1

billion or 5.4 percent of GDP followed by E0.8 billion or 1.0 percent of GDP in 2023/24. Going forward there will be a need to review Government revenue and expenditure to avoid further accumulation of arrears, demonstrated to harm the recovery of the economy.

53. Mr. Speaker, external debt is projected to grow by 6 percent and domestic debt by 15 percent in 2021/22 followed by 7 percent in 2022/23 and maintained in 2023/24. In general, the trend of a rapidly increasing public debt stock observed in the recent past is projected to peak in 2020/21 and slightly decline over the medium-term. This provides evidence that Government is moving towards a more sustainable accumulation of public debt.

54. In summary Mr. Speaker, going forward into the medium term, Government will continue in its fiscal consolidation path with the overall fiscal deficit restricted. This will ensure debt is maintained within sustainable levels. This deliberate fiscal consolidation plan also resonates well with the SADC macroeconomic convergence protocol target of maintaining the deficit at a single digit. To achieve this target, Government will continue to restrict growth in recurrent spending and double its effort in domestic resource mobilization.

F. Conclusion

Mr. Speaker, the short-term prospects for Eswatini's economy present us with many challenges. It is clear that fiscal limits have been reached and must be addressed immediately. Although it seems daunting, I urge my colleagues to see this as an opportunity to build a sustainable path that will guide the Kingdom towards prosperity and stability for all. A stronger domestic revenue base, efficient expenditure and a vibrant private sector are the key ingredients to long-term success.

It is therefore important that together we pursue the same goal and where possible support the enactment of relevant pieces of legislation in order to fast-track the implementation of the measures proposed in the Fiscal Adjustment Plan and the Post-Covid Economic Recovery Plan, noting as we do so, that all countries in the globe are faced with similar unnerving challenges and are pursuing similar policy measures.

I thank you all.