# KINGDOM OF ESWATINI

# MID-TERM BUDGET REVIEW REPORT

# 2022/23

PRESENTED BY

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**MINISTER OF FINANCE**

TO THE

**PARLIAMENT**
**OF THE**
**KINGDOM OF ESWATINI**

ON

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## A. INTRODUCTION

1. Mr. Speaker, it is my greatest honour and privilege to present to this August House the mid-year budget review statement for the first half of the financial year 2022/23. The focus of this report will be on how the economy performed, the report will also provide a summary of the medium-term outlook.

2. Mr. Speaker, the Government has been running persistent fiscal deficits in the recent past. This is as a result of volatile Southern African Custom Union (SACU) receipts causing large swings in revenue collection coupled with inadequate response in Government expenditure controls. Amidst the economic challenges faced by the country and the Southern African region in general, the Government of Eswatini continues toiling unwaveringly to turn the situation around.

3. Mr. Speaker, Eswatini experienced amplified headwinds in the medium-term. The country has for the longest time, grappled with widening fiscal deficits, triggered by increasing expenditures against the slowing growth of revenues. The advent of coronavirus (COVID-19) and the ongoing political stance has exerted pressure on the fiscus as the Government has found it hard to meet the revenue targets attributed to the fact that the economic landscape has been unfriendly towards business activity.

4. To mitigate the looming economic crisis, the Government has continued to implement a Post COVID-19 Economic Recovery Plan as well as a Fiscal

Adjustment Plan (FAP) including both revenue enhancing as well as expenditure decreasing measures.

5. Mr. Speaker, the FAP implementation has proven to be difficult under the prevailing economic conditions and the inflation pressure as a result of the Russia-Ukraine conflict which has also increased the burden on the Government expenditure (e.g. the demand for Cost of Living Adjustment (CoLA) over and above the budgeted 3 percent, farm input prices due to supply chain disruptions). However, the Government remains focused on the implementation of the FAP, even though the targeted quantum of 6.5 percent of Gross Domestic Product (GDP) will not be reached.

**B. GLOBAL ECONOMIC OUTLOOK**

6. Mr. Speaker, following an impressive recovery of about 6.1 percent in 2021, the global economy is set to grow by 3.2 percent and 2.9 percent in 2022 and 2023, respectively (IMF World Economic Outlook, July 2022). 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. Russia and Ukraine economies account for the largest share of the globe's food and energy supply, in the same vein with the imposed sanctions there has been disruptions in the supply of these commodities which has then triggered price escalations.

7. Moreover, China, being the globe's economic giant, implemented its Zero COVID-19 strategy where the economy battled with an outbreak of new 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-to-medium term, including the uncertainty around the potential intensity of the tensions.

8. Mr. Speaker, the economic outlook in Sub-Saharan Africa (SSA) continued to be constrained by low vaccination rates, narrow fiscal policy space, and rising unemployment. Growth in SSA is set to be sluggish in 2022 parallel to other regions, while pre-existing vulnerabilities have worsened, including rising public debt and inequality levels. The deterioration in household real incomes has also pushed substantial numbers of vulnerable populations into life-threatening poverty. Additional risks to the region originated from the new virus mutations, the slow access to vaccines, weakening labour market prospects, and limited scope for policy support, indicating a longer lasting impact of the pandemic.

9. Limited direct trade and financial linkages with Europe and Central Asia have helped contain some of the negative effects of the conflict between Ukraine and Russia on SSA. However, the sharp deceleration of global growth and the conflict related shortages of food and fuel are creating substantial headwinds for the region, even more so in countries reliant on wheat imports from Russia and Ukraine (i.e. Democratic Republic of Congo, Ethiopia, Madagascar, Tanzania etc). In many SSA countries, increasing living costs have also

tempered gains from slacker social restrictions and higher commodity export prices. Risks to the outlook are predominantly to the downside. A prolonged disruption to global trade in cereals and fertiliser due to the conflict between Ukraine and Russia would significantly worsen affordability and availability of staple foods across the region. In addition, insecurity and violence pose a threat to the outlook, especially in Low Income Countries (LICs), while rapid increases in cost of living risk escalating social unrest. A faster-than-expected slowdown of the global economy, which could be triggered by the accelerated policy tightening in advanced economies and the global resurgence of the COVID-19, would hurt many SSA commodity exporters.

10. Mr. Speaker, following a rebound of 4.2 percent in 2021, growth in Sub-Saharan Africa (SSA) has weakened this year as domestic price pressures, partly induced by supply disruptions owing to the war in Ukraine, are reducing food affordability and real incomes, especially in low-income countries (LICs). Sub-Saharan Africa's economy is expected to grow by 3.5 percent in 2022 and 3.8 percent in 2023, buoyed by rising commodity prices, the lifting of some anti-coronavirus restrictions and a pick-up in global trade. Slower vaccine delivery and coverage would impede the relaxation of COVID-19 disruptions in economic activity and project growth to slow down to 2.4 percent in 2023. Sub-Saharan Africa had witnessed a jump in public debt during the pandemic, with the region's average general government gross debt projected at 71 percent of gross domestic product for 2021, up 30 percentage points since 2013.

11. These global developments pose a major downside risk to the domestic economy, in particular export-oriented economies including Eswatini, which

are highly dependent on external demand.  Food prices have increased significantly amid local shortages and the rise in global food prices. Core inflation which removes the influence of food and energy prices has also risen in many countries.

## C. DOMESTIC ECONOMIC PERFORMANCE

12. Mr. Speaker, 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 strong rebound was underpinned by the real growth of manufacturing activity as well as better performance in agricultural production. 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. Lower Usuthu Irrigation Project Extension - LUSIP II).

13. Mr. Speaker, heightened uncertainty remains though for the domestic economy, in the short-to-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-to-medium term. From a domestic perspective, the tight fiscal space arising from lower-than-expected revenue collections (especially lower SACU revenues) and high accumulation of debt, limit the scope for discretionary spending and thereby weighing negatively on growth.

14. Overall inflation averaged 3.7 percent in 2021, slightly moderating from an average of 3.9 percent in 2020. Inflation is 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.

15. 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 percent in January 2022 to 6 percent 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 at the same time maintaining the Rand/Lilangeni Peg.

**D. Summary of Budget Execution**

16. Mr. Speaker, budget execution has been negatively affected by persistent fiscal and cash flow challenges, which have manifested through increasing expenditures against the slow growth of revenues.

17. The budget for the 2022/23 financial year estimated total revenues and grants of E19.36 billion, and expenditure of E23.13 billion. This translates into a planned overall fiscal deficit of E3.77 billion, equivalent to 4.9 percent of GDP (according to the GDP forecast of September 2021). Whilst, total expenditure was budgeted at E23.13 billion for the current financial year, this is a decline compared to the E24.04 billion estimate for 2021/22 financial year. In the 2022/23 financial year, total expenditure at half year stood at E10.13 billion compared to E13.33 billion in 2021/22. This reflects the government's efforts towards reducing expenditure to sustainable levels in order for spending to match revenue. This financial year recurrent expenditure at half year stood at E8.68 billion while capital expenditure stood at E1.45 billion. The capital budget execution rate is a bit slow this year when compared to 2021/22 while the recurrent budget execution rate is slightly above by 7.7 percent when compared to 2021/22.

18. In the 2022/23 financial year, Government total expenditure is expected to be a bit higher than the budget, at E23.15 billion against a budget of E23.128 billion. One of the drivers for the higher expenditure is the wage bill which has already committed more than the budgeted amount due to the granting of CoLA above the 3 percent that is allocated in the budget.

19. Mr. Speaker, at mid-year this financial year total revenue and grants stood at E7.87 Billion compared to E8.89 billion in 2021/22. This shows a E1.02 billion decrease which is largely caused by the decline in SACU revenue and the long term effects of the COVID pandemic. SACU receipts declined from E6.38 billion in 2021/22 to E5.82 billion in 2022/23 which is equivalent to 8.88

percent in the current year. At half-year, domestic revenue shows a decrease from E5.7 billion in 2021/22 to E4.8 billion in 2022/23.

20. 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 for specific expenditure items and thus have zero effect on the overall government deficit.

21. Despite adhering to the overall expenditure ceiling in terms of Government's total expense (excluding interest payments and wage bill), the shortfall in revenue collection, compared to the original budget, is projected to increase the fiscal deficit substantially as it is projected to reach E4.19 billion which translates to 5.5 percent of GDP.

**D.1 Revenue**

22. Mr. Speaker, allow me to turn your attention to the revenue side of our Budget. Compared to the original budget, domestic revenue collection has been revised downwards. Tax revenue is expected to be down by over E400 million, fortunately the non-tax revenue is expected to perform over the budget by about E200 million and the overall revenue is estimated to be down by E180 million. These estimates assume no disruptions in the economy.

23. Mr. Speaker, as at half year, the Government has collected E7.8 billion in revenues of which E2.9 billion is from SACU revenues, reflecting 40 percent collection of the projected annual revenue of E19.3 billion. Grants received at half year amount to E68 million.

24. At half year 2022/23, we received E 2.9 billion from SACU receipts compared to E3.2 billion in the year 2021/22. This reflects the decrease of 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.

25. Domestic revenue collection at half year amounts to E4.78 billion. This is just above the E4.47 billion collected at the same time last year. This shows an improvement on domestic taxes due to efficiencies in collection made by Eswatini Revenue Service.

26. Mr. Speaker, Income Tax remains our largest contributor to domestic revenue collection. Company Tax, PAYE, Graded Tax and Other Income Tax collections stood at E2.6 billion at half year. This equates to 37 percent of the annual revenue collection and is higher than the E2.2 billion collected at half year in 2021/22. It is anticipated that the opening of the economy will improve performance going forward.

27. Company Taxes collected during the first half of the financial year amounted to E674 million, i.e., 32 percent of the annual company taxes projected of E2.1 billion. Individual Taxes, that is Pay as You Earn (PAYE), collected at half year amounted to E1.65 billion. This equals a 38 percent collection of the projected annual PAYE of E4.29 billion and an increase of E1.49 billion

collected at the same time last financial year. This is despite the 3 percent CoLA and 1 percent once-off payment to civil servants.

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 E1.57 billion, 41 percent of the projected annual VAT collection of E3.83 billion. The collection of VAT shows a slight increase compared to the 2021/22 collection in the same period which was E1.42 billion.

29. A total of E275 million has been collected from non-tax revenue as at the half year mark. This is significantly higher than the E122 million collected at half year 2021/22. The increase is due to an improved performance in the economy.

**D.2 Expenditure**

30. Mr. Speaker, let me now focus on the expenditure side of our budget. This budget was prepared based on a fiscal consolidation plan, which entailed strict adherence to the budget and implementation of some revenue enhancing and expenditure reduction measures. Actual Government expenditure for the current financial year is anticipated to be below the budget estimates due to lower implementation of the investment budget, i.e., capital budget. In as much as some lines of expenditures are expected to be slightly over the budget, especially the wage bill and interest payments, this has not stopped efforts to maintain expenditure to budgeted levels.

31. Mr. Speaker, it appears that expenditure trends are in line with mid-year expectations as E10.13 billion has been committed against a budget of E23.13 billion, which is about 44 percent execution. The wage bill, being the largest single component of our total expenditure, stood at E4.64 billion against a budget of E8.01 billion, which is about 58 percent execution. Goods and services stood at E1.81 billion against a budget of E3.1 billion, which is 58 percent execution. Transfers stood at E1.56 billion against a budget of E3.81 billion, which is 41 percent execution. Finally, interest payments stood at E0.67 billion against a budget of E1.12 billion, which is 61 percent execution.

32. Mr. Speaker, despite the hiring freeze, personnel costs remain high, particularly due to the cost of living adjustment (CoLA) which has already committed more than the budget (i.e. over the 3 percent that was budgeted for). Managing the ever-expanding wage bill is a key element to curtailing expenditure and alleviating the fiscal strain. However, we recognize that this is a contentious concern and should be handled with caution as we find amicable ways of addressing the wage bill without creating a social burden to the Government and causing further socio-economic challenges.

33. Mr. Speaker, interest payments are a cause for concern. Government has already paid more than 60 percent of the 2022/23 financial year budget at half year as the outturn stood at E688 million against a budget of E1.21 billion. This is attributed to the fact that the Government is now having to pay more interest due to the depreciation of the Lilangeni.

34. Mr. Speaker, the execution rate of the capital budget at half year stands at 27 percent, equivalent to an expenditure of E1.45 billion. For the 2022/23 financial year, capital expenditure is projected to execute at most 80 percent of the budget on the locally financed projects, 85 percent of grants and foreign financed projects are expected to be fully executed. 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. Over the years, it has been noted that capital projects are usually not implemented at 100 percent of the budget due to issues of capacity in some instances.

**D.3 Deficit and Financing**

35. The shortfall in revenue collection, compared to the original budget, is projected to increase the fiscal deficit. The fiscal deficit for 2022/23 is now expected to reach E4.19 billion which translates to 5.5 percent of GDP (based on September 2022 GDP forecast) compared to a budgeted deficit of E3.88 billion (4.9 percent of GDP based on September 2021 figures). This implies that to avoid further accumulation of arrears, the Government has to raise about E2.7 billion in the capital market in the financial year 2022/23, a prior unprecedented requirement.

36. The public debt stock in 2022/23 is estimated to be E 33.1 billion which translates to 43.8 percent of GDP. The scope for extended domestic financing has been limited.

37. Mr. Speaker, in the period under review, Domestic Debt Stock stood at E17.3 billion which is 23 percent of GDP. Net domestic financing is at E1.3 billion of which gross domestic financing is E9.6 billion and domestic financing needs are E8.3 billion. External debt is expected to account for 48 percent of the total public debt stock in 2022/23, which is composed of externally financed capital expenditure as well as acquired budget support loans.

**E. Medium-Term Outlook**

38. Mr. Speaker, over the medium-term, the Government remains committed to bringing the fiscus into a sustainable path. Expenditure rationalisation and revenue enhancing measures are expected to continue into the medium term. The fiscal deficit is anticipated to average 2.3 % of GDP over the medium-term. The reforms on state enterprises are also expected to yield positive results, however, the process is taking longer than anticipated, consequently delaying the gains from the reforms in the outer years.

39. Total revenue is expected to grow both on the domestic collection and SACU receipts in the medium-term. In 2023/24, revenue and grants are expected to amount to E23.85 billion. Total revenue and grants are expected to grow by around 24 percent in 2023/24 when compared to 2022/23. The growth projection is attributed to higher anticipated domestic revenue collection, specifically on items such as income tax and taxes on goods and services, and a rebound on SACU receipts. In the 2024/25 financial year, total revenue and grants are expected to slightly decrease by 6 percent, amounting to E22.5 billion followed by a 3 percent growth in 2025/26 financial year which translates to E23.2 billion.

40. In general, SACU receipts are expected to rebound and average over E7 billion in the medium term. In 2023/24 financial year, SACU is expected to grow by 67.2 percent to E9.66 billion from E5.8 billion, followed by E7.09 billion in 2024/25 and E7.12 billion in 2025/26, assuming some of the SACU receipts are put in the proposed SACU Stabilisation Fund. In tandem to that, total domestic tax collection is expected to increase over the medium-term by an average 6 percent, amounting to E12.98 billion in 2023/24 followed by E14.95 billion in 2024/25 and E14.81 billion in 2025/26.

41. Mr. Speaker, the projected increase in domestic revenue collection in the medium term is largely attributed to a number of proposed revenue measures forming part of the FAP, efficiency gains and favourable economic growth. The Government is working tirelessly to ensure that revenue enhancement reforms are put into place, the strategy includes the following policy changes:

- Establishment of the SACU Stabilisation Fund, wherein draft regulations are already with the Attorney General;
- Efficiency gains coming from transferring all other revenue collections offices to Eswatini Revenue Services;
- The Income Tax (Amendment) Bill of 2022. The bill is projected to be promulgated by the end of the current year and implementation date is expected to be 1st July 2023. Currently, the bill has been submitted to the House of Assembly and public hearings have been conducted and completed;

- The Finance (Amendment) Bill, 2022. The bill has been submitted to Parliament and the Finance Portfolio Committee has been workshoped.
- The repeal of the Graded Tax Bill, 2022. The bill is currently being drafted, whilst, simultaneously, stakeholder consultation is in progress;
- Introduction of Alternative Minimum Tax proposed for the year FY 2024/25;
- Introduction of Carbon Tax in the year FY 2025/26; and
- The introduction of an automated system by ERS is expected to have a considerable positive impact on VAT collection.

42. Mr. Speaker, with successful implementation of these revenue measures, domestic collection is expected to increase substantially over the medium-term, further leading to reduced dependence on SACU receipts, which have proven to be an important but volatile source of income in the recent past. Importantly, the SACU Stabilisation Fund will reduce the volatility on SACU receipts, which has been a long-term objective for the Government, in order to improve fiscal stability.

43. Mr. Speaker, total Government expenditure for the 2023/24 financial year is projected to reach 31 percent of GDP and showing a 3 percent increase from the 2022/23 financial year budget and only a 1 percent increase from the 2022/23 financial year estimated outturn. The increase is mainly as a result of inflationary pressure on goods and services. The other expenditure items are decreasing in real terms as they have been kept constant at 2022/23 financial year level. Rationalising expenditure in the medium term remains

central to the Government's objective of driving the fiscus on a sustainable trajectory.

44. In a nutshell, Mr. Speaker, with the above mentioned fiscal reforms and policies implemented, it is anticipated that the budget deficits and fiscal challenges experienced in previous years can be overcome in the medium-term.

**F. Conclusion**

45. In conclusion, Eswatini’s economy remains vulnerable to external shocks, particularly the spill over effects of the geo-political tensions between Ukraine and Russia, which have caused inflationary pressures as well as disruptions to the global supply chains of food and energy. It remains essential for the Government to implement the reforms in the FAP fully and without any further delays in order to bring the fiscus to a sustainable path.

I THANK YOU