MINISTRY OF ECONOMIC
PLANNING AND DEVELOPMENT

CENTRAL BANK
OF ESWATINI
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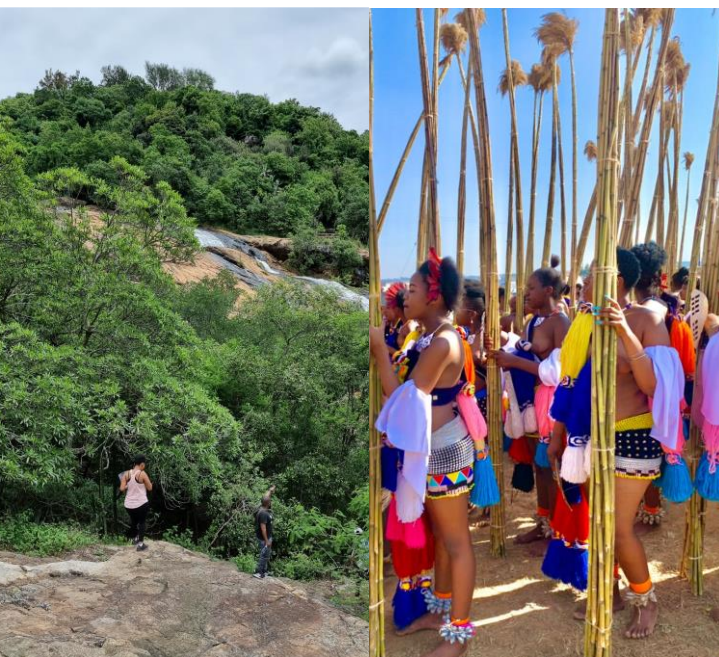
2023 GROSS DOMESTIC PRODUCT (GDP) forecast review

JANUARY 2024

MINISTRY OF ECONOMIC PLANNING AND DEVELOPMENT

IN COLLABORATION WITH THE CENTRAL BANK OF ESWATINI

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PRESS STATEMENT: HONOURABLE DR. E. T. GINA's STATEMENT OF THE RECENT ECONOMIC PERFORMANCE.

OVERVIEW

Global economic developments, as depicted by the World Bank's Global Economic Prospects as at January 2024, suggest that global economic activity was subdued in 2023 increasing by 2.6 percent, relative to a growth of 3.0 percent observed in 2022. Global inflation moderated on the back of highly synchronized monetary policy tightening effected in 2022, as well as slowing food and energy prices. Heading into 2024, global economic output is projected to decelerate further owing to continued fragmentation in light of intensifying geopolitical tensions, financial stress associated with tight monetary policy conditions from the past, weakening growth in the Chinese economy weighing negatively on global demand, as well as climate-related disasters.

On a positive note, global inflation is expected to maintain a downward trend as international crude oil prices are projected to remain contained despite escalating conflicts in the Middle-East. The United States (US) Energy Information and Administration (EIA), January 2024) forecasts annual international crude oil prices to average US $82/barrel in 2024, and potentially decline to US$79/barrel in 2025. This is on account of an increase in oil production by the US and other non-Organization of the Petroleum Exporting Countries (non-OPEC) coupled with a projected slowdown in global demand, which will counteract the negative impact of supply disruptions from rising geopolitical tensions and production cuts implemented by the OPEC countries and their allies (OPEC+).

Developments in the Sub-Saharan Africa (SSA) region indicate that growth is estimated to have slowed to 2.9 percent in 2023 compared to 3.7 percent recorded in 2022 (World Bank's Global Economic Prospects of January 2024). Contributing to the downturn in growth were heightened inflationary and exchange rate pressures, as well as debt vulnerabilities in most African countries. In 2024, the SSA growth is projected to rebound to 3.8 percent on account of improved performances in non-resource intensive countries, as well as falling inflation in the region. Closer to home, the South African (SA) economy is estimated to have grown by 0.8 percent in 2023(South African Reserve Bank (SARB), November 2023), which is relatively higher than the 0.4 percent

projected in July 2023. However, the energy crisis continues to be a major risk to the South African economy, posing a threat to key productive sectors such as agriculture, manufacturing, and mining. The SARB projects that the SA economy will grow by 1.2 percent and 1.3 percent, respectively, in 2024 and 2025.

Weather developments as reported by the World Meteorological Organization in July 2023, highlighted a possible return of the El Niño conditions (i.e., dry weather condition, with below-normal rains) after 3 years of La Niña (i.e., wet weather conditions with above-normal rains). The Latest indications (as of December 2023) reflect that the Southern Africa part is indeed in an El Niño state although at varying stages across the region. However, in the Eswatini context rainfall has been at normal to above normal levels (200mm to 500mm) in the first half of the summer season (October to December) according to Eswatini Meteorological Services seasonal forecast, September 2023 to January 2024. In this regard, the anticipated El Niño impact on the domestic economy have been muted in the short term, although the heightened uncertainty and rapid change in climate events, culminating to erratic weather patterns, will continue to be a major threat to economic activity.

DOMESTIC DEVELOPMENTS ON MACROECONOMIC LANDSCAPE

Eswatini's economy depicted a recovery in 2023 from the low growth experienced in 2022. Real Gross Domestic Product (GDP) grew by 3.0 percent quarter-on-quarter and 7.7 percent on a year-on-year basis (seasonally adjusted) in the third quarter of 2023. Exports of goods, on the other hand, grew by 19.2 percent in 2023, compared to 6.3 percent in 2022, largely benefitting from a 12 percent depreciation of local currency against major trading currencies. On price developments, overall inflation increased to 5.0 percent in 2023 relative to 4.8 percent in the previous year. The discount and prime lending rates were unchanged at 7.50 percent and 11.0 percent respectively. Credit to the private sector increased by 2.9 percent in real terms in 2023 down from 7.0 percent in 2022. Gross Official Reserves rose by 15.2 percent in 2023 compared to a decline of 15.4 percent in 2022. The recovery in reserve position was largely buoyed by rebound in the Southern African Customs Union (SACU) receipts, which increased from E5.82 billion in 2022/23 fiscal year to E11.75 billion in 2023/24. The country's gross official reserves were sufficient to cover 2.8 months of import cover as of December 2023, falling below the international benchmark of 3.0 months of import cover.

MEDIUM TERM GDP PROJECTIONS REVIEW

According to the latest projections (January 2024 review), the Eswatini GDP is estimated to have expanded by 4.8 percent in 2023, reflecting a slight upward revision from the previous projection of 4.7 percent (in September 2023). The increase is accounted for by a strong performance from the tertiary sector, which counteracted a slowdown in the secondary sector and a poor performance in the primary sector. As previously anticipated, the second half of 2023 marked the commencement of Phase I of the Mkhondvo-Ngwavuma Water Augmentation Program (MNWAP), which includes the construction of the Mpakeni dam estimated at E2.629 billion. This is expected to be one of the main drivers of growth for the short-to-medium term, coupled with other developments within other sectors of the economy. Real GDP is projected to grow by 4.9 percent in 2024 (unchanged from previous projections), whilst the outer years 2025 and 2026, are projected to average 3.4 percent, which is an upward revision from the previously projected average of 2.5 percent.

PRIMARY SECTOR

The primary sector, which comprises of 'agriculture & forestry' and 'mining & quarrying' activities is estimated to have contracted by 2.3 percent (from a previous projection of -0.2 percent). Developments in the primary sector were mixed. The decline is largely attributed to developments in the 'agriculture & forestry' sub-sector. Varying degrees of unfavorable weather conditions weighed negatively on crop production. Droughty conditions during the 2022/23 planting season negatively affected rain-fed crops, particularly cotton production, which decreased by 45.1 percent. Above normal rains in the latter part of 2023 increased cloud cover and weighed negatively on sucrose yields. In addition, sugarcane yields were further compromised by the harvesting of young cane due to a prolonged harvesting season in the previous year. As a result, crop production is estimated to have declined by 6.8 percent in 2023, which is worser than -2.9 percent projected previously. Similarly, the forestry sub-sector is estimated to have declined by 9.4 percent (relative to a previously projected growth of 14.5 percent). The notable downward revision is attributable to logistical challenges in shipments of timber products in the second half of 2023, coupled with a slowdown in external demand particularly in the South African market, due to continued load-shedding issues.

On a positive note, the 'mining & quarrying' sub-sector was revised to 46.5 percent, higher than a previous projection of 35.5 percent. This was largely attributable to an acceleration in coal production, which continued to benefit from the mining of high yielding crown land following the awarding of two (2) mining licenses in 2022, as well as the reopening of previously discontinued

shafts. Notably, coal production rose to a record high of 128,815 metric tonnes (MT) for 2023Q3, which is more than double the average quarterly volumes recorded in the first half of 2022.

In 2024, the primary sector is projected to strongly rebound to 6.3 percent, in consideration of low-base effects from the previous year, a recovery in the sugar industry considering additional sugarcane production from the Lower Usuthu Smallholder Irrigation Project (LUSIP) II, and sustained growth earmarked for the Mining & Quarrying subsector. However, the uncertainty over the well-publicized El Niño phenomenon discouraged some farmers from planting, particularly maize farmers. Notably, tractor planting hours depicted a decline of more than 30 percent in the 2023/24 planting season, which will result in a lower maize output in 2024. Conditional on favorable weather conditions and continuous implementation of planned projects such as LUSIP II and MNWAP, the primary sector is projected to average 2.1 percent in the medium term (i.e. 2025 & 2026).

SECONDARY SECTOR

The secondary sector, which comprises of manufacturing, electricity & water supply' and construction activities is estimated to have grown by 1.4 percent in the January Review 2024, which is a downward revision from 2.7 percent in the September 2023 projections. The downward revision in the secondary sector was at the back of a decrease in electricity supply and a slowdown in construction activities. Recent data depicts a marginal 0.8 percent decline in electricity supply compared to a previous forecast of 8.3 percent (in September 2023) as hydro power generation was curtailed by maintenance of some generation plants, which led to a halt in production in some part of the fourth quarter of 2023. Construction activities on the other hand, is estimated to have increased by a 4.0 percent relative to 17.9 percent projected in September 2023. The slowdown is largely attributed to a slow implementation rate on existing projects and delays in the commencement of new mega projects (such as MNWAP). The growth in overall manufacturing output was unchanged from the previous projections of 1.2 percent in 2023 as downward revision on agro-processing (i.e. sugar) were fully offset by upward revisions in other manufacturing lines, notably 'manufacturing of beverages'.

In 2024, the secondary sector is projected to grow by 5.8 percent, in line with previous projections. This will be supported by growth in the manufacturing activities, envisaged record 3.8 percent in 2024 at the back of anticipated rebound in the sugar industry. Additionally, construction activity is expected to increase by 32.8 percent (unchanged from previous projections), benefiting from earmarked implementation of mega projects. The further improvement in SACU inflows for 2024/25 fiscal is expected to ease some cashflow challenges and fast-track the implementation of

ongoing capital infrastructure projects, thereby supporting growth in the construction and related subsectors. In the medium term, the secondary sector is projected to average 3.7 percent from a previous average of 2.7 percent indicating a much-improved outlook for the manufacturing and construction subsectors.

TERTIARY SECTOR

The tertiary sector is composed of all services such as 'wholesale & retail', 'transport', 'information communication and technology' (ICT), 'financial services', 'tourism activities', 'government services' and other services. Growth in the tertiary sector has been revised upwards to 8.2 percent in 2023 compared to a previous projection of 6.7 percent. The upward revision was on account of a stronger than previously anticipated rebound in the ICT and 'financial services' subsectors. In addition, there was an acceleration in the economic activity for 'tourism activities' and 'wholesale & retail' subsectors relative to previous projections.

The ICT subsector is estimated to have grown by 17.3 percent in 2023, owing to continued infrastructural investment in the form of increases in base stations aimed at increasing access to network coverage. The 'financial services' subsector is estimated to have expanded by 13.4 percent in 2023, which is significantly higher than the previously projected 5.6 percent, in September 2023. The upward revision is supported by a higher than previously projected growth in banking and insurance activities. An upward revision was also observed in the 'wholesale & retail' subsector, with the output for this subsector estimated to have increased by 6.0 percent in 2023, against an earlier projection of 3.9 percent. Growth in the 'wholesale & retail' subsector benefitted from increased spending in goods and services, in the second half of the year, in support of national activities including National Elections, Double Celebration, hosting of SACU Summit amongst others, as well as easing pressures on real disposable incomes following the awarding of cost-of-living adjustment (COLA) for both public and private sector employees.

The tertiary sector is projected to grow by 4.0 percent mainly supported by ICT, 'transport and storage', 'professional services', and 'tourism activities' subsectors. The ICT subsector is expected to continue its infrastructural investment i.e., introduction of wireless ICT-technology, fibre network, and the potential rollout of 5G network. Tourism-related activities are expected to remain on a recovery path and reach pre-COVID-19 levels within the medium term. Developments in the primary and secondary sectors earmarked for the medium term are expected to support growth in other services such as 'transport & storage', 'wholesale & retail', 'professional services', and 'financial services' amongst others, thereby supporting growth for the tertiary sector at large. The average growth for the tertiary sector in the medium term is 3.3 percent.

Figure 1: Annual Real GDP Contributions

Source: Macro Forecasting Team

KEY RISKS TO THE MEDIUM TERM

Whilst the medium-term outlook is broadly positive, risks remain imminent in the short-to-medium term. Challenges relating to climate change resulting in erratic weather conditions could pose a threat to sectors such as agriculture, agro-processing, hydro power generation, and water supply, amongst others. Unforeseen delays in the implementation of mainly mega public sector projects will likely dampen anticipated demand linked with construction activity – affecting sectors like 'mining & quarrying', 'construction', amongst others. The uncertainty in RSA around energy, infrastructure, and election outcomes will pose a threat to the Eswatini economy in the short-term, potentially through disruptions in production, trade, and exchange rate movements of the Rand,

which is pegged to the Lilangeni. Globally, prolonged and intensifying geopolitical tensions continue to cause global value chain disruptions, which affect commodity prices and currency markets. The global developments tend to curtail external demand, which weigh negatively on exports growth and disrupt input supply to productive sectors, thereby affecting domestic output.

Figure 2: Real GDP Trends (2019 - 2026)
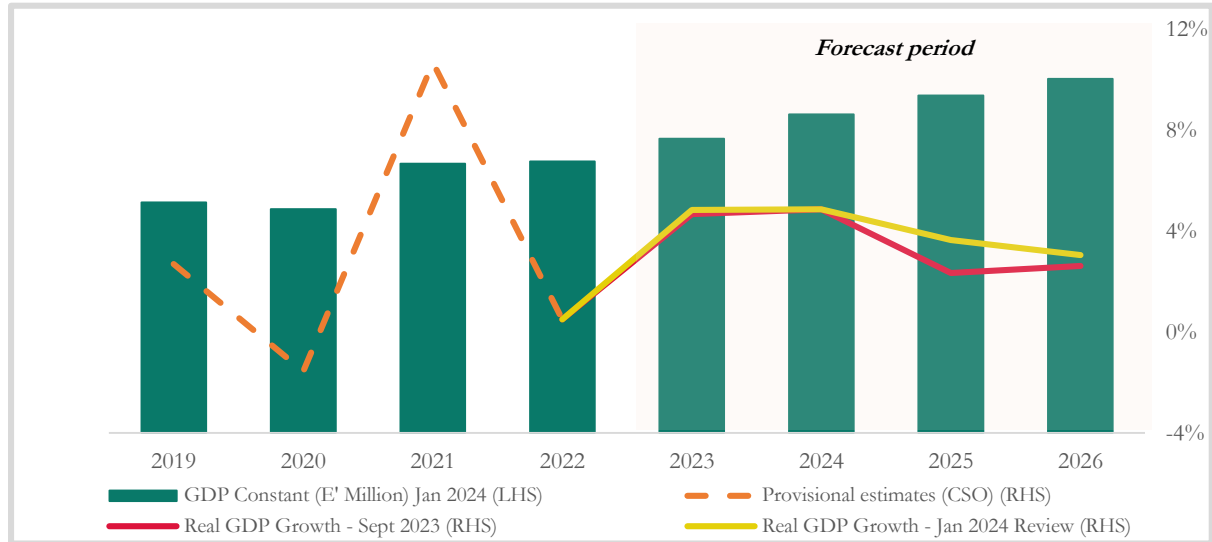
Source: Central Statistics Office, Macro Forecasting Team

Table 1: Growth Rates by Production Sectors (2022 – 2026)

	GDP Growth Rates by Production Sectors						
	2022	2023*	2023**	2024*	2024**	2025**	2026**
Primary Sector	**5.2%**	**-0.2%**	**-1.8%**	**6.9%**	**5.8%**	**2.1%**	**2.1%**
Agriculture & Forestry	5.1%	-0.7%	-2.5%	4.9%	3.9%	1.9%	2.0%
Mining	17.3%	35.5%	46.5%	100.5%	84.5%	6.8%	4.9%
Secondary Sector	**-0.4%**	**2.7%**	**1.4%**	**5.8%**	**5.8%**	**4.4%**	**3.0%**
Manufacturing	-0.6%	1.2%	1.2%	4.2%	3.8%	3.9%	3.9%
Construction	0.3%	17.9%	4.0%	32.3%	32.7%	7.9%	-9.6%
Tertiary Sector	**0.1%**	**6.7%**	**8.2%**	**3.9%**	**4.0%**	**3.5%**	**3.1%**
Wholesale & Retail	2.5%	3.9%	6.0%	4.0%	4.2%	1.4%	2.3%
Information Comm. Technology	-8.7%	12.5%	17.3%	6.0%	4.2%	10.6%	5.6%
General Govt. Services	4.7%	9.9%	7.7%	-1.0%	3.5%	1.5%	1.5%
Overall Real GDP Growth	**0.5%**	**4.7%**	**4.8%**	**4.9%**	**4.9%**	**3.7%**	**3.0%**
GDP Constant (E' millions)	46,915	49,111	49,186	52,706	51,581	53,465	55,095
GDP Current (E' millions)	78,390	84,879	84,847	97,182	92,642	98,640	105,918

Source: Central Statistics Office, Macro Forecasting Team
Notes: * represents projections as at September 2023, ** denotes projection as of January 2024's Review