MINISTRY OF ECONOMIC

PLANNING & DEVELOPMENT

Macroeconomic Analysis

& Research Unit

ESWATINI ECONOMIC REVIEW AND OUTLOOK

FY 2022/23

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Table of Contents

LIST OF FIGURES

LIST OF TABLES

LIST OF BOXES

LIST OF ANNEXES

LIST OF ABBREVIATIONS

AE's	Advanced Economies
ANC	African National Congress
AU	African Union
CPI	Consumer Price Index
EMDE's	Emerging Market and Developing Economies
EU	European Union
LUSIP	Lower Usutfu Small-holder Irrigation Project
MNWAP	Mkhondvo-Ngwavuma Water Augmentation Project
NDP	National Development Plan
OPEC	Organization of the Petroleum Exporting Countries
SACU	Southern African Customs Union
SADC	Southern African Development Community
SOE's	State-Owned Enterprises
S&P	Standards & Poor

EXECUTIVE SUMMARY

'A derailed global recovery, at the wake of yet another economic shock.'

Whilst the global economy was on a gradual recovery path following the economic COVID-19 induced disruptions experienced in 2020 and 2021, newer economic fragilities emerged triggered by the intensifying geopolitical tensions, which disrupted global economic recovery and dampened medium-term global growth prospects. Elevated inflationary pressures emanating from the escalation of commodities prices as well as disruptions in supply chains were inevitable owing to the intense conflict between Russia and Ukraine, who are the world's largest suppliers of key commodities i.e., food and energy. The situation was further exacerbated by the reduced demand by the globe's economic power engine, China, following the implementation of strict lockdowns associated with the zero COVID-19 strategy. Consequently, the falling global demand, squeeze in consumers' purchasing power and reduced global investment inhibited global economic activity in 2022, with global growth estimated to have slowed and averaged at 3.4 percent in 2022 relative to a robust growth of 6.2 percent in 2021. While battling with the global inflationary situation, economies aggressively implemented restrictive monetary policies, in response, which was characterised by fast rising interest rates particularly in 'Advanced Economies', and somehow compromising the stability of the financial systems in most economies. In the short to medium-term, strain in most economies is expected to remain. Synchronised inflationary pressures and tightening monetary policies will continue to stifle economic activity, thereby slowing recovery in most economies. Global output is projected to slip-back to 2.8 percent in 2023, before reaching a modest growth of 3.0 percent in 2024.

In line with the global developments, the domestic economy also reflected weaknesses in the period. Following a strong rebound in 2021 – which was supported by the targeted policy response measures to the recent challenges, the favourable weather conditions, as well as the full-opening of the global economy – domestic economic activity is estimated to have been constrained in 2022. In the review period, the domestic economy grappled with weaker external demand, rising production costs as well as falling real wages, which all negatively affected domestic economic output. Poor performance was observed in key sectors such as 'agriculture & forestry', 'wholesale & retail', as well as the export-oriented 'manufacturing' activity. In the short-medium term, there are positive prospects envisaged as the domestic economy is expected to recover and growth by an average 4.4 percent. The rebound is expected to be largely driven by improvements in the country's fiscal position with the recovery in SACU revenues and is expected to support public consumption as well as investment in the period, thereby propelling activity in sectors such as the wholesale & retail and government operations. Furthermore, following the successful mobilization of funds for the earmarked multi-billion Emalangeni dam under the Mkhondvo-Ngwavuma Water Augmentation Project, construction activity is expected to commence in the fiscal year 2023/24, boosting economic activity mainly in construction and other related sectors e.g., 'mining', 'transport', and 'wholesale & retail'. From a supply-side, envisaged expansions and other investment in manufacturing industries are also expected to be drive economic growth in the short to medium term.

On price developments, following the heightened inflationary pressures in 2022 observed world-wide, higher inflation was transmitted into the economy through the import prices of key global commodities, which resulted in hikes of food, fuel, and transport prices in the domestic economy. Food and transport being the main drivers of the domestic inflation, contributed about 1.71 and 1.36 percentage points, respectively, to overall inflation, which averaged 4.8 percent in 2022, compared to 3.9 percent in 2021. However, administered prices such as housing rentals, electricity and water tariffs, accounting for a largest share in the country's consumption basket, declined in the period moderating inflation in Eswatini compared to peers in the CMA (i.e., Lesotho, Namibia, and South Africa), which all recorded inflation above the 6 percent target in the period. In the short-term, domestic inflation is envisaged to rise, before moderating in the medium-term, driven by persistent elevated food prices to be imported into the domestic economy coupled with anticipated fuel price hikes following OPEC's decision to cut production since May 2023. In the medium-term, global oil prices are envisaged to moderate supporting declining fuel prices in the domestic economy thereby contained inflationary pressures.

To tame inflation, the Central Bank of Eswatini responded by increasing the discount rate by a cumulative 275 basis points from 3.75 percent in 2021 to 6.50 percent in 2022, thereby increasing the cost of borrowing. However, credit extension reflected resilience as loans towards businesses and households continued to grow by 21.7 percent and 6.6 percent, respectively in 2022. Financial buffers, however, were lower in 2022 compared to 2021, as the country's gross international reserves declined by 15.4 percent, due to lower SACU transfers in the period. Reserves are however expected to improve in the short-term in view of a better SACU outlook, although downside risks such as exchange rate depreciation and hikes in commodity prices are envisaged to slowdown the build-up of reserves.

On government operations, the country's fiscal policy remained aligned to the fiscal adjustment plan developed in 2021/22, targeting a 3-year fiscal consolidation that will accumulate to savings equivalent to 4.2 percent of GDP. The focus for the FAP is to ensure the narrowing of the fiscal gap and stabilizing debt to sustainable levels through expenditure rationalization measures and enhanced revenue mobilization. In 2022/23 the fiscal deficit was estimated at 4.8 percent of GDP, as expenditure growth outpaced revenue collected in the period. In the short to medium term, the fiscal gap is expected to narrow with the deficit projected at 2.2 percent of GDP supported by improving revenues with SACU growing by 76 percent. Public debt, on the other hand, is expected to reach 41.9 percent of GDP in FY 2023/24 before stabilizing at around 35 percent of GDP as supported by implementation of the fiscal adjustment plan.

Developments in the external sector in the review period were also clouded by the prevailing inflationary conditions that were experienced in 2022. As a result, the country's external balance deteriorated in 2022, with the current account balance registering a deficit amounting to E1.919

billion (2.6 percent of GDP) for the first time since 2011 and resulting in a twin deficit for the economy (i.e., fiscal and CAB deficits). The CAB deficit was attributable to the faster growth in imports against exports because of the elevated import prices and the depreciation of the Lilangeni/ Rand currency against major trading currencies in the period. Imports of goods and services grew by 15.9 percent whilst the exports of goods and services rose by 8.8 percent in the period, leading to a trade deficit equivalent to E2.901 billion. Nevertheless, exports benefited from the currency depreciation in the period. The Lilangeni/Rand depreciated by 10.7 percent on average against the US Dollar, whilst appreciating by 0.7 percent and 1.6 percent against the Pound and the Euro, respectively. The Rand/Lilangeni traded at E16.37 on average to the US Dollar, pressured by the on-going structural challenges in the RSA economy, which resulted in the downgrading of the RSA economy by the international rating agencies. Existing economic conditions indicate that the local currency will remain strained in the short-term.

The recent economic developments and the envisaged prospects for the medium term reflect the need for continued implementation of prudent macro-fiscal management in the domestic economy to restore macroeconomic stability and further achieve inclusive and sustainable growth. Policies such as the recently developed National Development Plan, fiscal adjustment plan and the Post-COVID-19 Recovery Plan amongst others, remain crucial anchors for economic development in the short to medium term, which are envisaged to support the optimistic growth prospects as depicted in the country's baseline macroeconomic framework, though risks are tilted to the downside.

INTRODUCTION

The Economic Review and Outlook is a report that provides an analysis on economic developments domestically and globally. The report also provides short-medium term economic prospects, reflecting the key assumptions and implications of future economic developments on the domestic economy. This is to support policy direction in the domestic economy by depicting the prevailing macroeconomic environment as well as the portrayed picture by the country's medium-term macroeconomic outlook. This current report reviews the year 2022 relative to 2021 and further provides forecasts for 2023 up to 2025.

The outline of the report is presented as follows: part 1 is the assessment of developments and prospects in the global economy including global growth, global prices as well as global trade trends. Part 2 assesses the performance in the four sectors of the domestic economy i.e., real performance, monetary developments, fiscal situation, and the external sector performance. Finally, Part 3 of the report is the assessment of current policies pursued to achieve macroeconomic stability in the domestic economy.

PART I: DEVELOPMENTS IN THE GLOBAL ECONOMY

INTERNATIONAL ECONOMIC DEVELOPMENTS

'The global economy experienced yet another shock following the health induced economic crisis in 2020-21.'

Whilst the global economy was recovering from the effects of the COVID-19 pandemic, a new economic threat emerged emanating from the heightened geopolitical tension i.e., the Russia-Ukraine conflict. The situation triggered global food and energy market shocks, squeezing supply, and pushing up prices of these commodities to unprecedented levels. Russia and Ukraine combined have been the largest suppliers of energy (particularly to Europe), fertilizer as well as agricultural commodities such as cereals (wheat, maize) and edible oils. The disruptions culminated into heightened inflationary pressures as global consumer prices were pushed up to historic levels. Consequently, production costs escalated in the period, while real disposable incomes remained even more depressed consequently weakening global demand. The situation was further exacerbated by the slower demand by the world's economic engine, China, following the implementation of strict lockdowns associated with China's zero COVID-19 strategy. In view of these developments the International Monetary Fund (World Economic Outlook, April 2023), estimates global growth to have slowed in 2022 to reach 3.4 percent against a strong rebound of 6.2 percent in 2021.

Advance Economies (AE's)

Advanced economies are estimated to have moderated from 5.4 percent in 2021 to 2.7 percent in 2022 following subdued economic activity mainly in the United State (US) and Euro area. In the US economy, declining disposable incomes continued to exert pressure on consumption demand and was exacerbated by the rising interest rates, which dampened spending mainly on residential investment. Resultantly, growth is estimated to have declined to 2.1 percent in 2022 from 5.9 percent in 2021. Similarly, the Euro area is estimated to have slowed from 5.3 percent in 2021 to 3.5 percent in 2022 mainly owing to disrupted supply in Russia's gas as well as tighter financial conditions.

Emerging Markets and Developing Economies (EMDE'S)

Emerging Economies are estimated to have moderated in 2022, growing by 4.0 percent from a growth of 6.7 percent in 2021, driven by a slowdown in China's economic performance, which suffered from repeated episodes of COVID-19 outbreak and related lockdowns. Furthermore, persistent negative developments in the Chinese property market resulted in heightened anxiety over mortgage repayments leading to the poor performance of the real estate sector.

Sub-Saharan Africa (SSA)

The SSA region is estimated to have registered a moderated growth of 3.9 percent in 2022 compared to 4.7 percent in 2021, on account of weaker demand by trading partners, tighter financial and monetary conditions as well as negative shift in commodity terms of trade[1].

Developments in the South African (RSA) economy were clouded by the persistent structural challenges in particular the energy crisis, which weighed negatively on the performance of critical sectors in the economy i.e., manufacturing, mining. Notwithstanding these developments, the economy reflected robust performance in some sectors such as services following the recovery of some contact-facing activities i.e., hospitality industry. Overall, growth in the RSA economy is estimated to have declined to 2.0 percent in 2022 from 4.9 percent in 2021.

Box 1: The Big Funding Squeeze

Following the global financial strains brought about by the tightening monetary policies, Sub-Saharan Africa is expected to face a newer crisis, i.e., severe "Funding Squeeze". The situation is expected in consideration of confluence developments between higher global interest rates, elevated sovereign debt spreads, and exchange rate depreciations, among other factors. Two scenarios most likely for the region in the period; **i)** potential borrowers may likely find it difficult to get money as lenders fear disbursing new loans given the heightened uncertainty globally, and **ii)** if credit or loan is extended, however, only at a higher price that most potential borrowers will not be able to afford in times of debt distress. The situation will have serious ramifications for the region, where acquiring loans will be extremely expensive with debt situation worsening in most countries while also weakening SSA currencies.

The SSA region of was just beginning to recover from the economic impact of the COVID-19 epidemic when Russia invaded Ukraine, roiled financial and commodities markets, drove up inflation, and opened the way for rising interest rates around the world. These shocks, which are historic in and of themselves, are stacked in a region with low resilience, compounding already existing problems. According to the April 2023 Regional Economic Outlook, regional growth will decelerate to 3.6 percent in 2023 from 3.9 percent in 2022, before rebounding to 4.2 percent in 2024.

Global monetary policy tightening to combat inflation has resulted in increased interest rates, affecting Africa's borrowing costs on both local and foreign markets. Surprisingly, sovereign debt spreads in the region have risen to three times the emerging market average, effectively cutting off Africa's frontier market countries from international capital markets as of early 2022. Since the outbreak of the pandemic, two countries, Zambia, and Ghana, have already defaulted on their national debt. On May 17, 2023, the IMF Executive Board authorized a 36-month Extended Credit Facility (ECF) arrangement for Ghana worth SDR 2.242 billion (about US$3 billion). The Ghanaian government's economic program, which is supported by the ECF, builds on the government's Post COVID-19 Program for Economic Growth (PC-PEG), which aims to restore macroeconomic stability and debt sustainability and includes broad reforms to build resilience and lay the groundwork for stronger and more inclusive growth. Securing prompt debt restructuring agreements with foreign creditors will be critical to the new ECF arrangement's success.

Kenya, meanwhile, is unlikely to seek debt restructuring despite current pressures and the looming burden of a $2 billion Eurobond maturing in June 2024. Furthermore, the effective exchange rate of the US dollar reached a 20-year high in 2022, raising the expense of servicing existing dollar-denominated debt. This occurred in the context of a dip in Chinese bilateral funding, a vital source of critical infrastructure financing, and a long-term decline in traditional development money. This pressure in SSA shows that all primary sources of deficit financing, both current account and fiscal deficits, are now severely constrained.

Since these challenges are more prevalent throughout the SSA region, the IMF and World Bank would assist countries in the region, however their efforts may not be sufficient to ease the situation. Other bilateral creditors must step forward to help avert this liquidity crunch for the benefit of the region. Failure to act could impede African governments' ability to address an ongoing cost-of-living issue, potentially forcing countries to reduce health, education, and infrastructure resources. Longer term, Africa faces a significant financing shortage for climate adaptation.

[1] Terms of trade is the ratio between the index of export prices and import prices. A country's terms of trade is positive if export prices increase more that import prices.

Short-to-Medium-Term Global Growth Outlook

The global economy is expected to gradually recover in the short term; however, uncertainty remains. Inflation trends are observed to be gradually falling, while supply-chain disruptions seem to be unwinding. These developments together with the strong rebound of China's economy present positive prospects for the global economy. However, growth projections are expected to remain at historically low and below pre-crises levels, exacerbated by elevated financial risks threatening financial stability. Broadly, global output growth is projected to moderate to 2.8 percent in 2023, and modestly increase to 3.0 percent in 2024. The toned-down economic activity in 2023 is due to weaker economic performance assumed mainly for "advanced economies". Growth in 2024 is assumed at the back of easing inflationary pressures and the waning effects of restrictive monetary policy, which are expected to boost demand.

Advanced economies are projected to decelerate to 1.3 percent in 2023, due to imminent economic challenges in the US and UK economies as well as the Euro area. Continued tightening monetary policy as well as banking instability are expected to be the main source of vulnerability for the US economy. On the other hand, the United Kingdom (UK) and the Euro area economies are anticipated to weaken on the back of rising energy costs and higher (than above target) inflation. In 2024, advanced economies' output is expected to improve marginally by 1.4 percent.

In the EMDE's, economic growth is projected to reach 3.9 percent in 2023, and then rebound by 4.2 percent in 2024. Within this region, China is anticipated to lead the resurgence, expanding by 5.2 percent in 2023 reflecting improved mobility in line with the reopening of the economy in the second half of 2022. However, in 2024, the Chinese economy is projected to slow down to 4.5 percent before settling at below 4 percent over the medium term, amid declining business dynamism and slow progress on structural reforms.

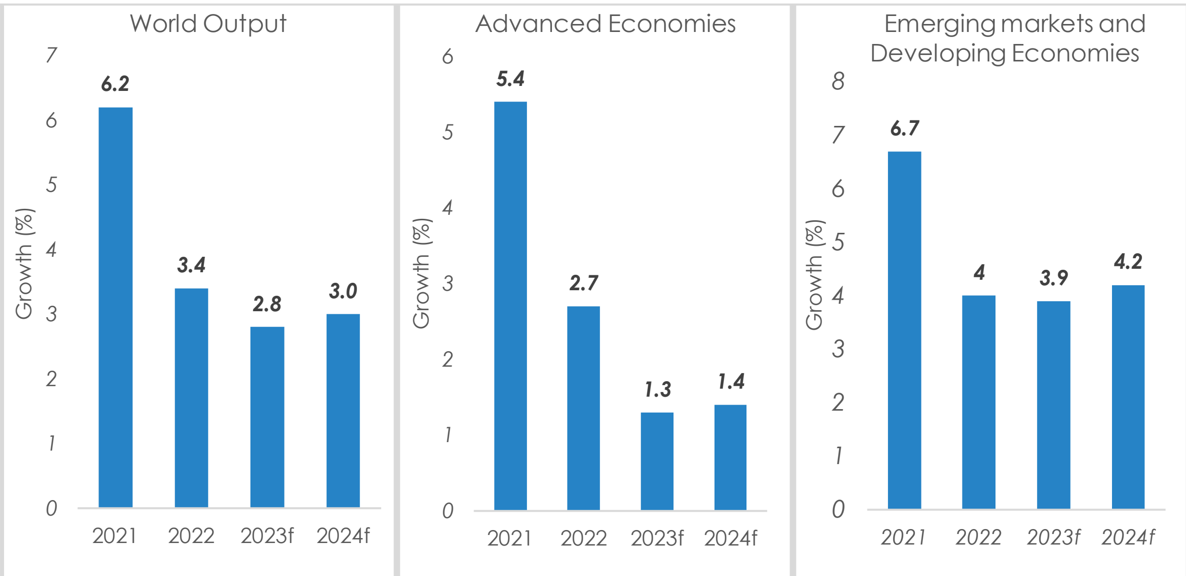
Growth in the SSA region is projected to slightly decrease to 3.6 percent in 2023. The forecasted underperformance for 2023 is mainly on account of tighter global financial conditions, resulting from the lingering inflationary pressures synchronized with tightening monetary policy in the forecasted period. Additionally, funding squeeze is anticipated for the region owing to higher borrowing costs, drying up of aid and the increased pressure on exchange rates. Moreover, weak performance of key regional economies such as South Africa is expected to weigh down on growth for the region. A sluggish growth of 0.1 percent is projected for South Africa in 2023, owing to challenges such as weak external demand and the intensification of the ongoing power supply crisis. In Nigeria, economic activity is projected to moderate to 3.2 percent in 2023 at the back of persistently low oil production in light of structural challenges as well as rising insecurity prospects. In 2024, the SSA region is anticipated to expand by 4.2 percent.

Risks to Growth Prospects

However, risks to the global projections are tilted to the downside. In the forefront, is the severe tightening of global financial conditions coupled with sharper monetary policy tightening amid high debt levels. The severe tightening of financial conditions is envisaged to result in deteriorating household and business spending triggering reduced demand for imports. While the sharp monetary policy tightening is anticipated to result in debt overhang[2]. Moreover, stickier inflation, prolonging monetary policy tightening with adverse effects on growth and financial stability, is also a major downward risk for the global economy. Other risks to the projections include the escalation of the Russia-Ukraine conflict, remaining a major source of vulnerability for Europe and low-income countries; geopolitical fragmentation; and a derailed post-COVID-19 recovery of China's economy.

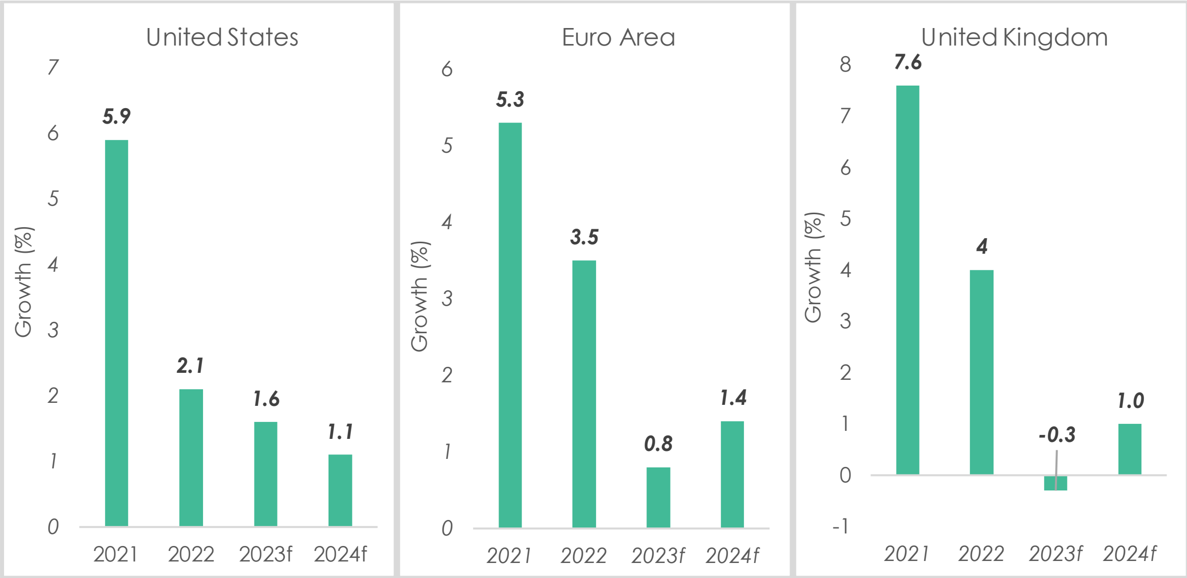
FIGURE 1: WORLD ECONOMIC OUTLOOK, APRIL 2023

Major economic blocs

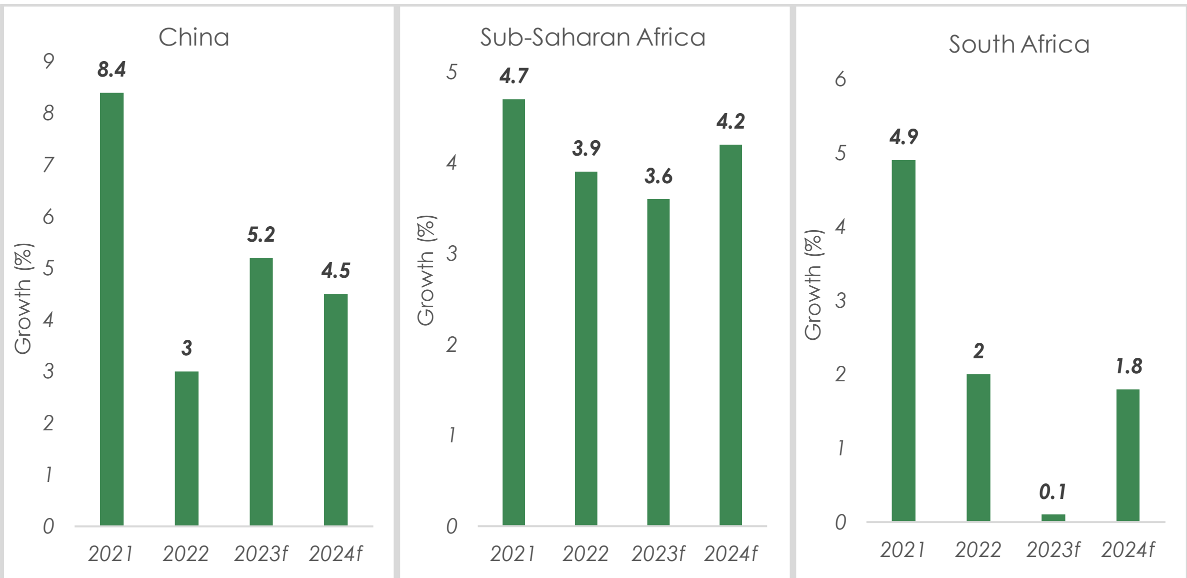


[2] Debt overhang is a challenge where the burden of debt is larger closing scope to accumulate newer debt.

Major Advanced Economies



Major and Selected Emerging Markets and Developing Economies



Source: International Monetary Fund

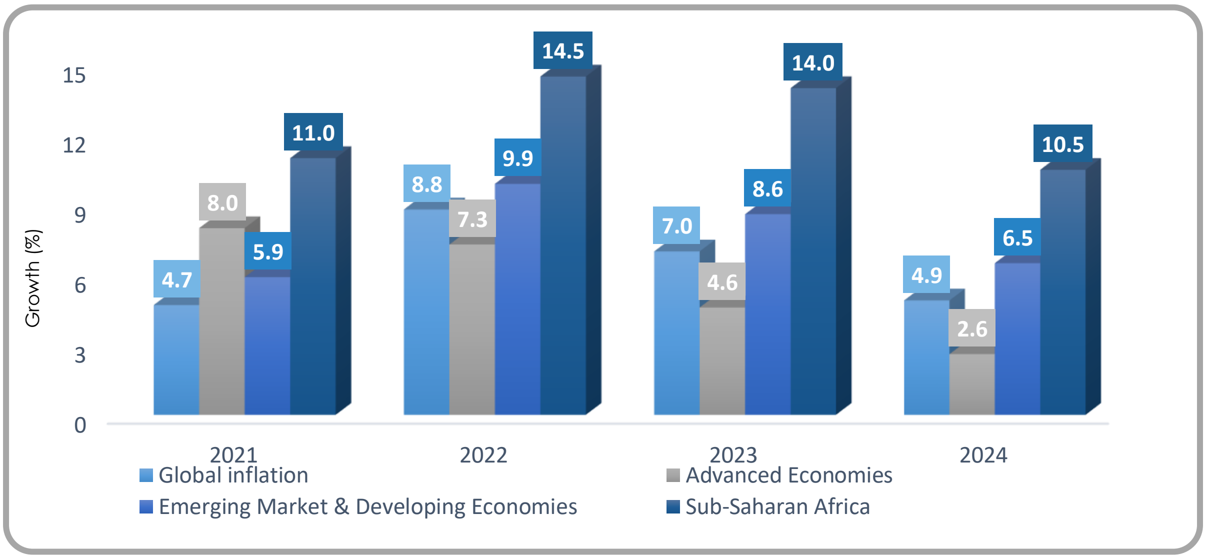
Global inflation

Global inflationary pressures escalated in 2022, as headline inflation averaged 8.8 percent accelerating from 4.7 percent in 2021. The elevated inflation was triggered by the Russia-Ukraine conflict, which worsened supply-chain disruptions, putting pressure on the prices of key commodities such as fuel and energy, food as well as fertilizers. According to the World Bank (2023) report[3], the median global headline inflation exceeded 9 percent in the second half of the year (2022), which was the highest since 1995. Inflation in the EMDEs reached almost 10 percent driven by the larger proportion of food in consumer spending, specifically for low-income countries, whilst in the advanced economies, inflation averaged 8 percent.

[3] The World Bank report on Global Economic Prospects January 2023.

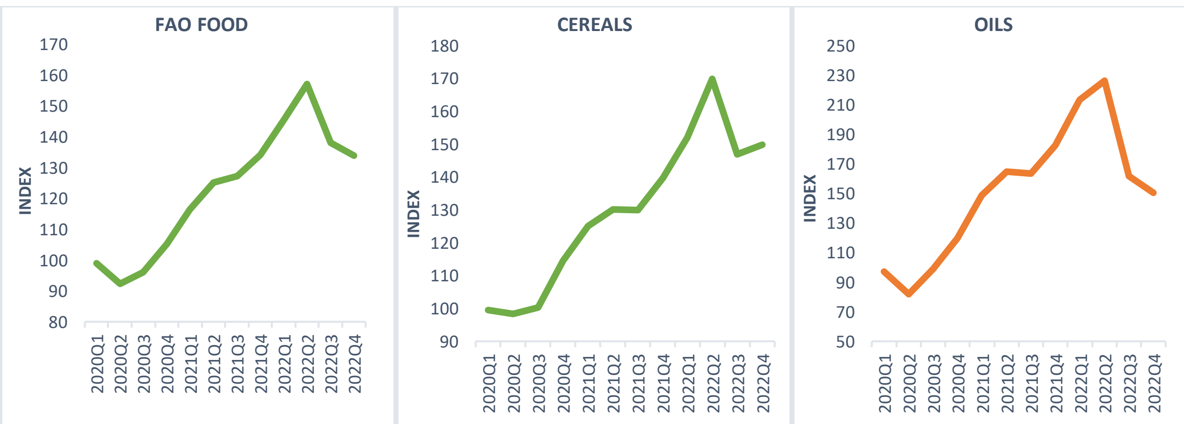
In line with observed inflation trends as at second half of 2022, inflationary pressures are expected to subside in the short term, reflecting weakening demand, easing supply disruptions as well as moderating prices for a number of non-energy commodities. Global inflation is projected to moderate to 7.0 percent in 2023 and further decline to 4.9 percent in 2024. Notably, these trends are also reflective of the cooling effect of monetary policy tightening on core inflation, which across the globe is projected to slow from 6.9 percent at the end of 2022 to 4.5 percent at the end of 2023. Headline inflation in advanced economies is projected to fall from 7.3 percent in 2022 to 4.6 percent in 2023 and 2.6 percent in 2024, while in the EMDEs, inflation is expected to fall from 9.9 percent in 2022 to 8.1 percent in 2023 and 5.5 percent in 2024.

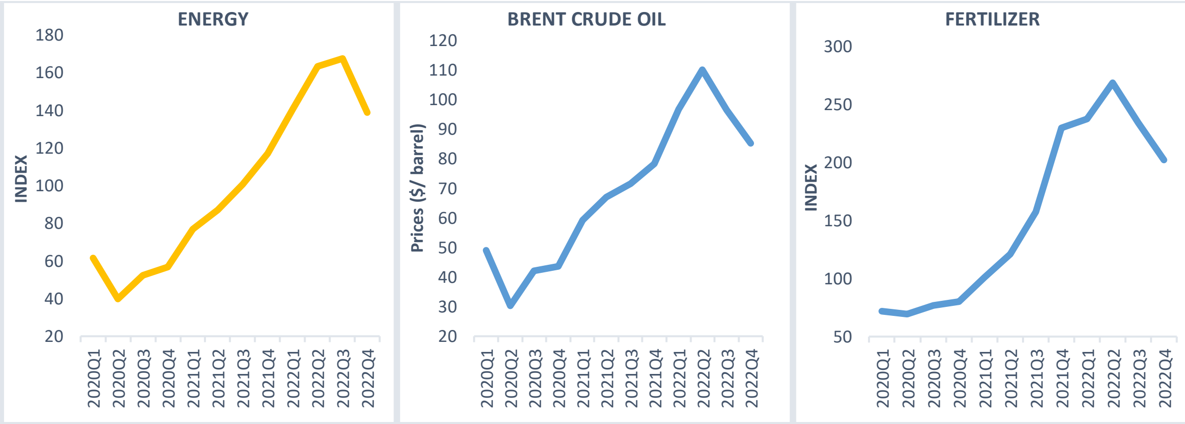
Figure 2: Global Inflation Developments



Source: World Economic Outlook, April 2023

Global Commodity Prices





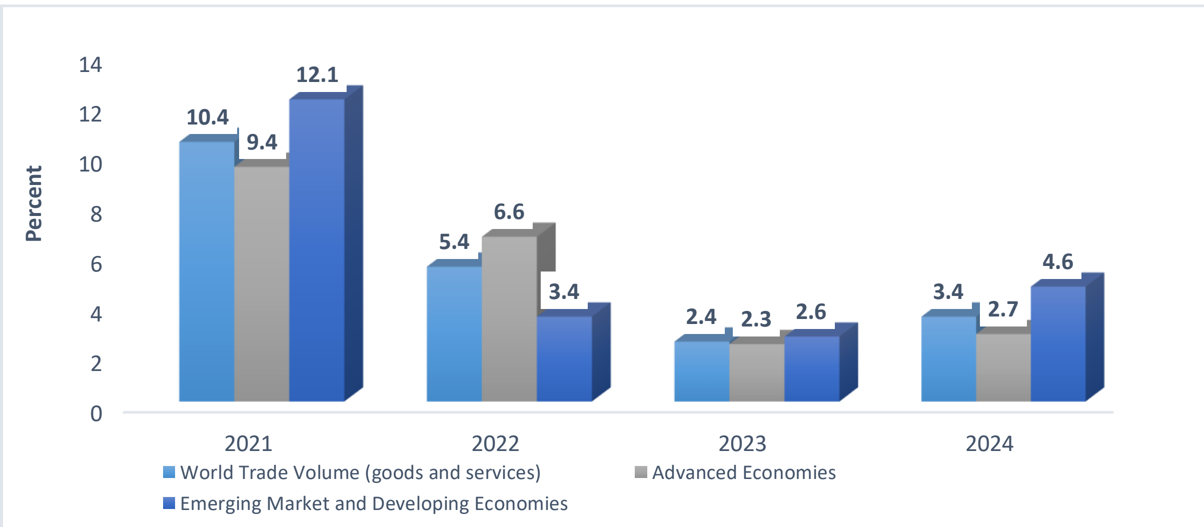
Source: FAO Food Indices & World Bank Pink Sheets

Global trade developments

In line with global economic trends, global trade volumes are estimated to have decelerated by 5.4 percent in 2022, following a 10.4 percent expansion in 2021. Merchandise trade volumes in the advanced economies as well as the EMDEs are estimated to have increased by 6.6 percent and 3.4 percent in 2022 compared to 9.4 percent and 12.1 percent in 2021 respectively. Weakening trade mirrored the slowdown in global industrial production shifting trade volumes from goods towards services in view of the recovery of the services sector from the COVID-19 effects. Nonetheless, trade in goods remained above pre-pandemic levels in 2022.

Global trade is projected to moderate to 2.4 percent in 2023 largely reflecting weakening global demand. This is anticipated to be more visible in "advanced economies" where trade volumes are forecasted to slow to 2.3 percent. Travel and tourism are expected to further pick up but will be constrained by slower global activity and high input costs. Trade in goods is expected to moderate owing to subdued demand and a gradual shift towards services. However, in 2024, trade in advanced economies and EMDEs are expected to rebound.

FIGURE 3: GLOBAL TRADE DEVELOPMENTS



Source: World Economic Outlook, April 2023

PART II: DEVELOPMENTS IN THE DOMESTIC ECONOMY

REAL SECTOR DEVELOPMENTS

'Muted economic activity in period, in light of squeezed consumers' purchasing power and weakened global demand.'

Following a robust rebound of 7.9 percent in 2021, real Gross Domestic Product (GDP) growth was projected to slow by 0.4 percent in 2022 (MFT medium term GDP forecasts, January 2023). However, latest quarterly data[4] reflect that economic activity turned-out better than what was earlier anticipated, depicting a better second half of the year 2022. This was mainly supported by the faster recouping of some losses under sugar cane production, than previously expected, following the experienced weather-related challenges (i.e., floods, intense cloud cover) in the period, which delayed the commencement of the harvesting processes. In monetary terms, Eswatini's GDP, in 2011 prices, was estimated E45.688 billion in 2022 compared to E45.511 billion in 2021. In current (nominal) prices, the country's GDP was estimated at E74.350 billion in 2022 against E70.123 billion in 2021. Weaker global demand, supply- chain challenges, high production costs as well as the rising costs of borrowing for investments, were amongst the leading challenges for the economy, muting growth for sectors such as manufacturing industries, mainly those export oriented. Moreover, domestic demand slumped pressured by the prevailing inflationary environment, which led to a deterioration in real wages and thereby consumers' purchasing power, whilst household spending also collapsed on account of tighter monetary policy and rising household debt.

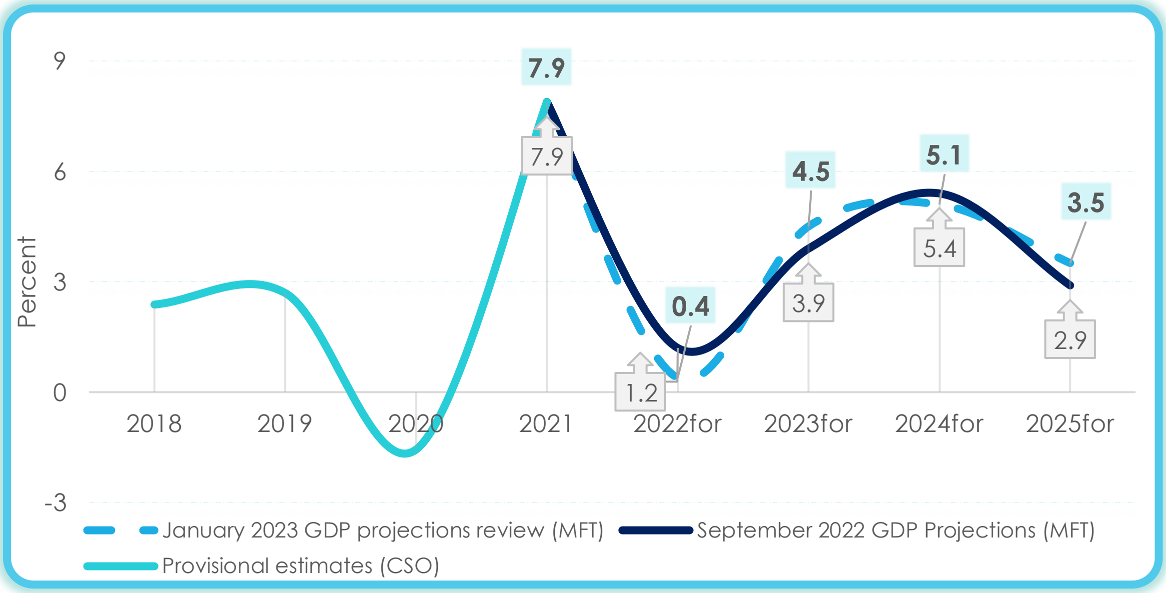
SHORT-MEDIUM TERM ECONOMIC GROWTH PROSPECTS

The country's short to medium-term economic prospects are optimistic. Real GDP growth is projected to expand by 4.5 percent, 5.1 percent, and 3.5 percent in 2023, 2024 and 2025, respectively (MFT, January 2023). The growth prospects are underpinned on several assumptions supporting improved performance in some sectors of the domestic economy. A major assumption is in line with the anticipated domestic fiscal improvements in the short-term, following better allocation of SACU receipts, which is anticipated to boost public consumption and investment in the economy and in that way contributing to sectors such as the wholesale & retail, government operations, construction, and other services amongst others.

Additionally, government has signed a loan agreement for the construction of the multiple dams under the Mkhondvo-Ngwavuma Water Augmentation Project (MNWAP). This project, which comprises of several packages, is expected to commence in the government financial year 2023/24, and is expected to link a number of sectors such as construction, wholesale & retail, and mining etc. In addition, following the country's drive to resuscitate the domestic economy from the COVID-19 effects (as outlined in the Post-COVID 19 Recovery Strategy), significant investments have been injected in the economy in different sectors such as manufacturing, construction, mining, wholesale & retail, agriculture, tourism, and power generation.

[4] Central Statistics Office - Quarterly real GDP data (QRGDP).

FIGURE 4: ECONOMIC GROWTH TRENDS - REAL GDP GROWTH RATES (%)



Source: *MFT*

Agriculture

Agriculture activity remains one of the key economic sectors for the Eswatini economy as a main source of livelihoods and given its immense forward and backward linkages with other sectors. In the Eswatini economy, agriculture activity includes the growing of various crops e.g., sugarcane, maize, cotton, fruit trees, vegetables etc.; animal production e.g., cattle, poultry, piggery; and forestry.

Overall agricultural output has been reflecting large variability in most recent years, grappling with supply related challenges mainly the weather conditions. The sector is highly dependent on rainfall, which due to climate change has been erratic characterised by heavy rains; flooding; or below normal rainfall leading to drought. Crops and animal production continued to be affected by these conditions and weighed negatively on the contribution of the agriculture sector to overall economic output. Sub-sectoral performances for this sector are discussed below.

Crops production

Sugar-cane production continued to be hampered by tough challenges in 2022. Weather related conditions i.e., above normal rainfalls and high cloud cover in the period, which are not conducive for cane growing, coupled with labour strives resulted in delayed harvesting and compromised yields in the 2022 season, hence the lower output. The tonnes of cane per hectare (TCH) (measuring yields) was estimated at an average of 92.71 relative to 99.34 in 2021. Maize production, on the other hand, registered one of the record high outputs in the period following the favourable rainfall during the planting period. This sector also benefitted from the introduction of the winter cropping project, which targets contract farmers to continue planting maize even during the winter season, in a quest for enhancing food security for the country.

TABLE 1: MAJOR CROPS OUTPUT

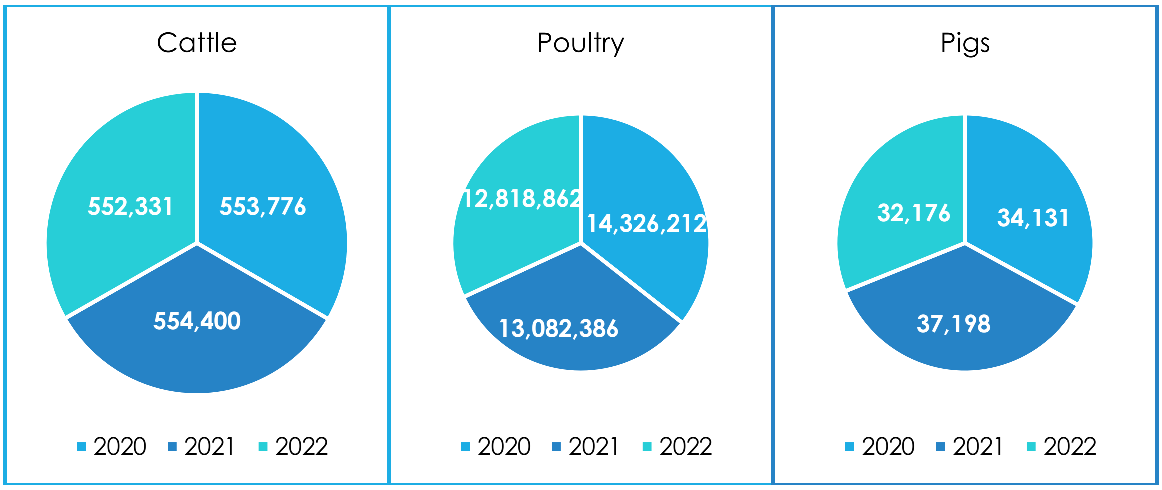
Year	2017	2018	2019	2020	2021	2022
Sugarcane output (MT)	5,405,151	6,197,753	5,690,255	5,759,016	5,863,625	5,447,308
Maize output (MT)	84,344	98,220	95,988	86,543	100,042	127,315

Source: *MFT*

Animal production

The subsector has been gradually recovering, supported by re-stocking (particularly cattle rearing) following the intense El'nino drought experienced 7 years back. However, the erratic weather conditions as well as pests and disease persistence derailed the rebounding of the livestock production. Poultry production remains driven by consumption patterns in the domestic economic, wherein in 2022 demand slumped due to squeezed consumers' purchasing power. Activity under piggery have been volatile suffering from supply – demand issues in the industry, despite recent initiatives implemented to boost the industry.

FIGURE 5: ANIMAL PRODUCTION TRENDS (2020 - 2022)

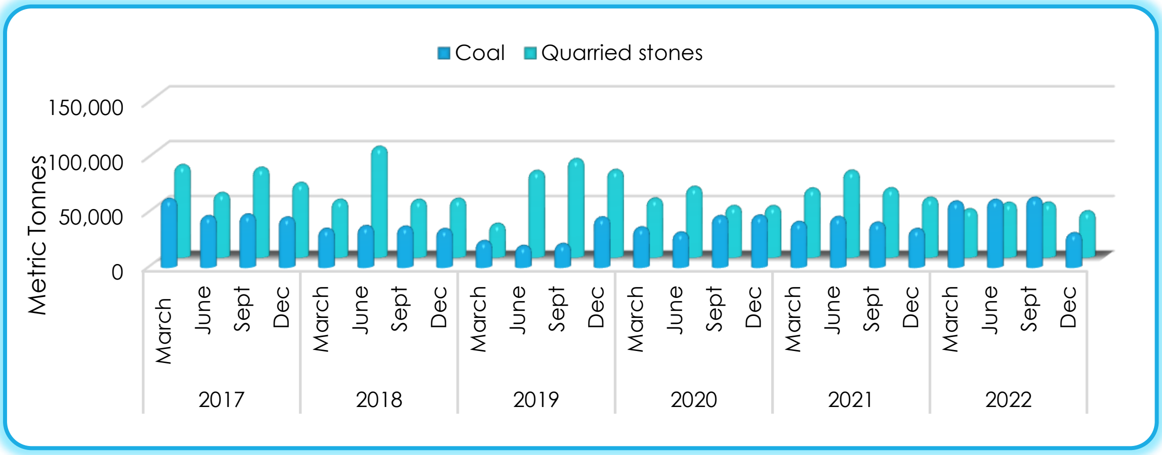


Source: *MOA*

Mining

Mining activity remains underdeveloped as few minerals are currently being extracted in the economy, yet the sector has vast potential. Coal production, which has been facing geological challenges in the past, benefitted from the awarding of a relief high yielding crown land to boost production volumes. Mining of quarry stones output, on the other hand moves in line with activity in the construction sector. In 2022, quarry volumes are estimated to have fallen on account of slowing construction of roads as major roads were being completed in the period. In the medium-term, quarry production is expected to benefit from the construction of the earmarked dam – Mkhondvo-Ngwavuma dam. Other minerals' production including iron-ore and gold which have been at minimal scale in the country are presenting positive prospects in the short-medium term. Iron-ore recently acquired a mining licence for the reclaiming of iron-ore dumps with full capacity output expected to reach 150,000 MT per month. On gold production side, activity resumed for the first time in 2022-Q4 since 2020, following halt in operations since 2020.

FIGURE 6: COAL & QUARRIED STONES OUTPUT

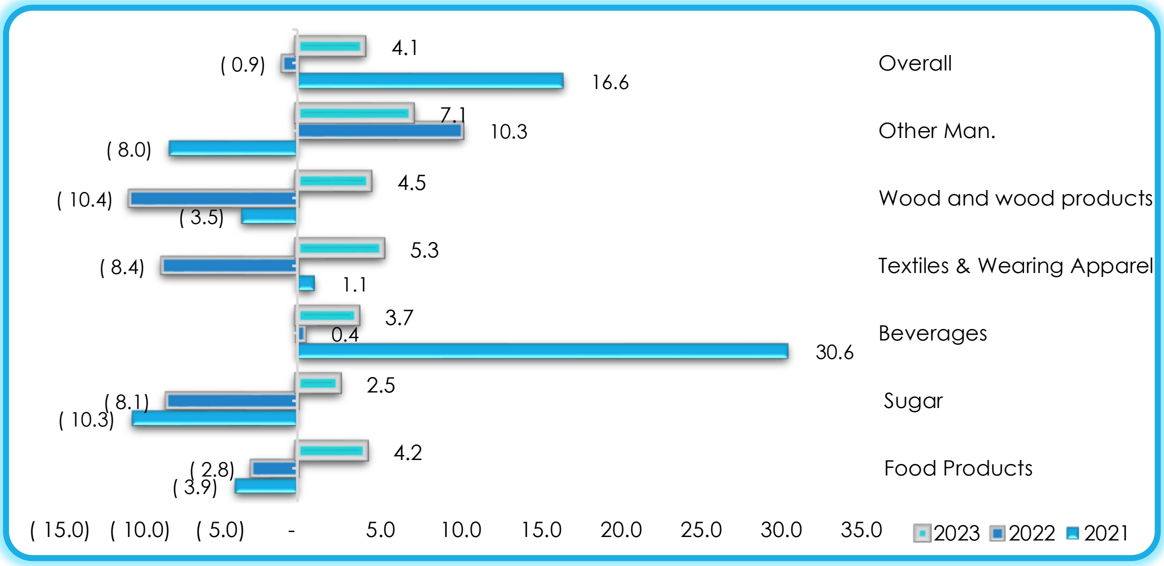


Source: *MFT.*

Manufacturing

Manufacturing activity in Eswatini continues to play a pivotal role in the economy, contributing immensely to total output, exports earnings as well as employment. However, there have been growing concerns on the sector's persistent declining investment as well as the high susceptibility to external shocks. In the review period, the manufacturing sector suffered from the effects of the ongoing geo-political tensions. The sector battled with supply constraints due to disrupted global supply value chains; increasing input costs; as well as weakened global demand affecting mainly export-oriented industries in the period. Despite these challenges, industry specific performance was somehow mixed as some industries proved to be resilient in the period.

FIGURE 7: MANUFACTURING ACTIVITY (GROWTH RATES)

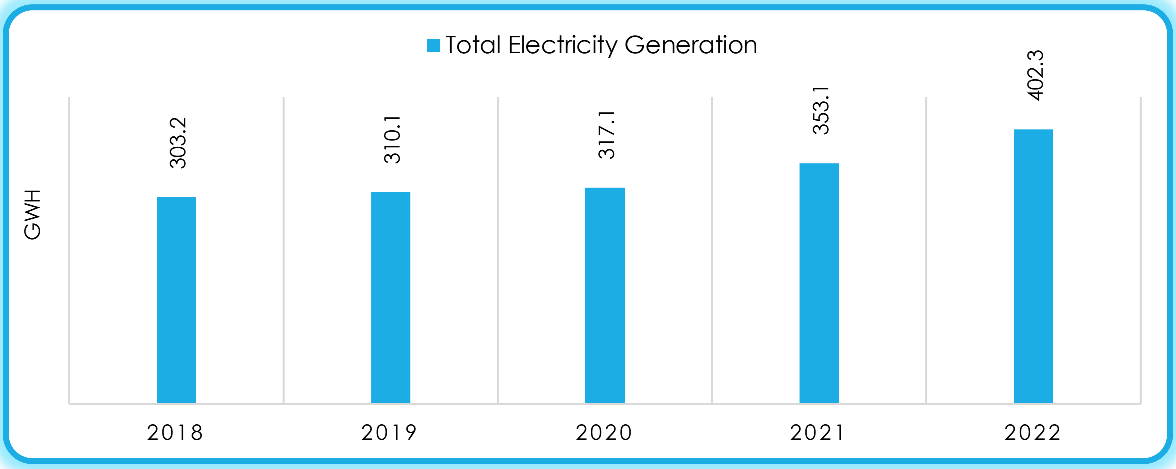


Source: *MFT*

Electricity generation and water supplies

Total electricity generation has gradually improved recently, boosted on one hand by favourable weather conditions, and on the other by the increase in other renewable sources of energy. Heavy rainfalls received in the review period boosted dams' water capacity used in hydro-power electricity generation. Under renewable sources of energy, the country invested in solar and biomass electricity generation capacity, which have boosted the energy supply in the domestic economy. In the short-medium term, the country will continue pursuing the implementation of energy self-sufficiency projects through the support of Individual Power Producers (IPPs). The strategy, as stipulated in the Energy Master Plan, is to reinforce imports substitution in the country by increasing domestic generation.

FIGURE 8: DOMESTIC ELECTRICITY GENERATION (TOTAL)



Source: *Eswatini Electricity Company*

TABLE 2: NUMBER OF ELECTRICITY CONSUMERS

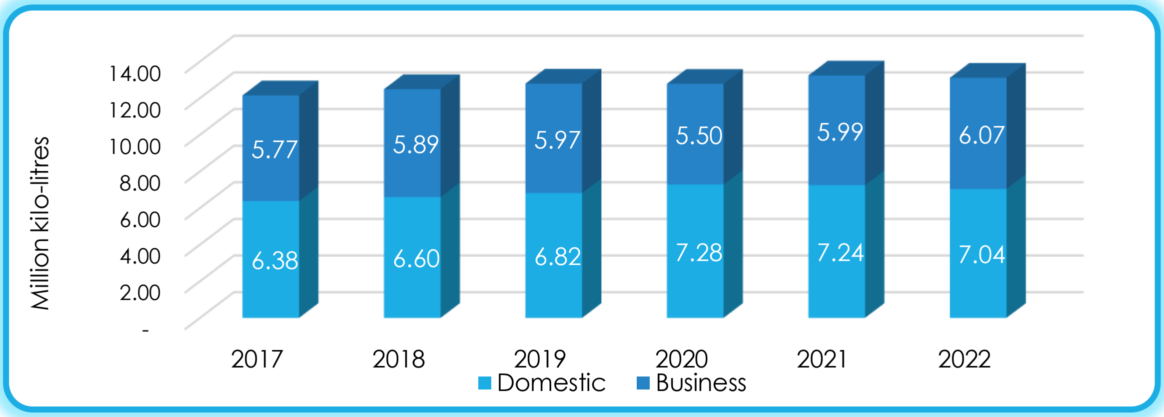
NUMBER OF ELECTRICITY CONSUMERS				
Year	*Total*	*Domestic*	*Business*	*Irrigation & bulk*
2018	217 659	200 327	16 116	1 216
2019	232 416	214 167	17 396	853
2020	243 742	224 735	18 122	885
2021	254 746	235 298	18 559	889
2022	267 934	247 627	19 375	932

Source: *Eswatini Electricity Company*

Analysis on electricity consumption reflects that the number of total consumers connected to the main grid line (under the management of Eswatini Electricity Company) increased by 5.2 percent in 2022 influenced by a relative rise in domestic connections. The domestic connections continued to benefit from government and donor funded projects such as the Taiwan Rural Electrification, RDF rural electrification and the World Bank supported network strengthening project. Irrigation water demand, continued to recover in the period, following a slip in 2018 and benefitting from the continued implementation of projects such as the LUSIP II.

On water supply and consumption, there was mixed performance in the consumption of water services with steady increase observed in the business category whilst there was a slight decrease in domestic consumption. Nonetheless, overall water consumption increased by 2.4 percent in the period. There are ongoing projects aimed at providing access to potable water to most communities and these include the Shiselweni Water Supply and Sanitation project (amounting to USD 45 million), Manzini Region Water and Sanitation project (to the tune of E825 million) and the Ezulwini Water and Sanitation project (project cost of USD 27 million). For short to medium term plans the country have identified certain priority projects that will assist the country in providing reliable water supply as well as access to universal water, in attainment of Sustainable Development Goals (SDG) goals. These projects include the construction of the Nondvo Dam, Lomahasha-Namaacha and the Manzini City Wide Water Supply.

FIGURE 9: WATER CONSUMPTION



Source: *Eswatini Water Services Corporation*

Construction

Construction activities slowed in 2022 as a sizeable number of public projects were being completed or towards completion, and not matched by an intake of projects with a similar scope in the period. Amongst the completed projects include the Manzini - Mbandlane road, the Mbandlane - Sikhuphe and the Manzini Interchange. However, on the positive side, private sector construction reflected growth in the period supported by activities such as the construction of commercial buildings, office space and residential apartments. In the short-medium, the landscape for the sector is expected to improve, mainly influenced by the proposed construction of dams under the Mkhondvo-Ngwavuma Augmented Project.

Wholesale and retail

Wholesale and retail activities have remained muted in the past few years. In 2022, the sector battled with elevated inflationary pressures and depressed real wages, which dampened consumption demand. Additionally, in the period, prices of key basic goods such as the food and energy were at their historical high levels prompting shifts in consumption patterns and thereby weighing heavily on the sector's performance. Nonetheless, the sector is expected to recover in the short-medium term driven by the anticipated demand from government supported sectors in view of the improved fiscal position.

Financial and insurance

In the period under review, financial services were partially affected by the implemented monetary policy tightening in response to the inflationary situation, which somewhat deterred the demand for credit extension by both businesses and households. The cost for borrowing was relatively higher in the period with the interest rate raised by a cumulative 275 basis points. On the insurance side, the sector continues to benefit from greenfield investments and the introduction of newer packaged products that are affordable for the domestic market. The insurance industry has been observed to have somehow reached saturation particularly on long-term insurance, however other specific products remain under subscribed giving room for potential growth in the future.

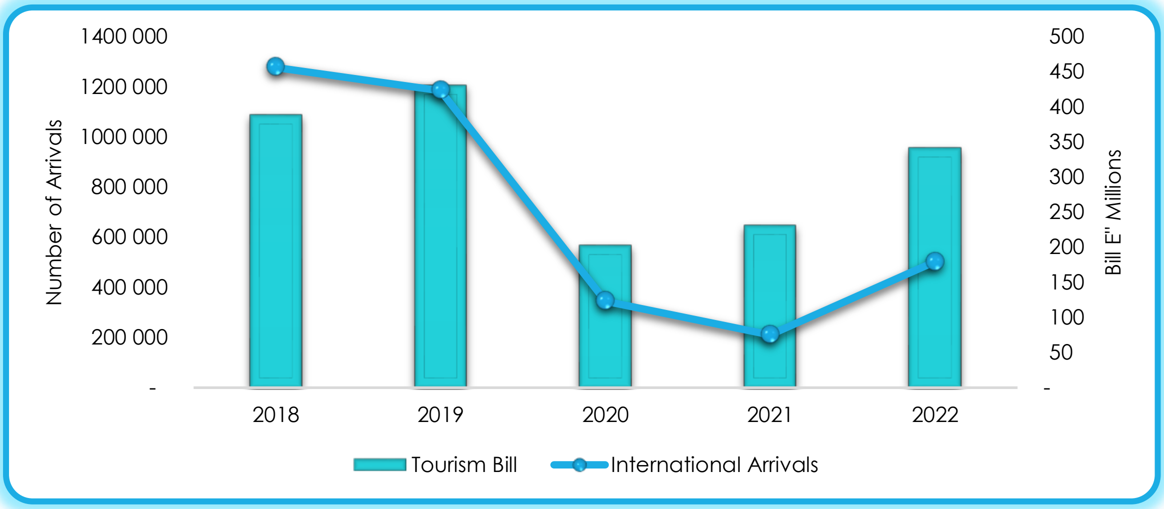
Transport

The transport industry is mainly linked to the performance of other sectors. Road freight moves in line with activities under manufacturing, construction, as well as agriculture. In the period under review transport services contended with high fuel prices, which increased by 22.7 percent in the period thus affecting productivity. On the rail side, haulage transportation increased in the period largely benefiting from transit mainly from RSA. On air transportation, the industry continued to benefit from the rebounding of tourism activities and the opening of economies worldwide.

Tourism

Tourism and tourists related activities continued with its recovery trajectory in the period, following the complete wipe-out of global tourism due to the COVID-19 pandemic since 2020. The sector, though remaining below its pre-crisis levels, has rebounded strongly recently as most economies eased restrictions relating to COVID-19 tests requirement and vaccination certificates. In the period under review, international arrivals in the country increased by 139 percent backed by return of national festivals and cultural event such as Bushfire, Luju, Buganu, Umhlanga and Incwala ceremonies. In line with global tourism trends, the sector is anticipated to continue recovering reaching pre-COVID 19 levels in the medium term.

FIGURE 10: TOURISM PERFORMANCE



Source: *Eswatini Tourism Authority*

General Government, health, and education

Government operations continued to be driven by the ongoing fiscal consolidation policy that the country committed to in FY2021/22. The policy, which aims to redirect the country's macro-fiscal position to a sustainable path, has identified several strategies including those targeted at expenditure rationalization i.e., hiring freeze, efficiency spending under goods and services as well as merging of State-owned enterprises. As a result, the sector is estimated to have remained strained in the period under review. Similarly, health and education output were subdued in the period reflecting the normalizing of these sectors from the COVID-19 effects. In the short term, the anticipated improvements in the country's fiscal position together with the 2023 elections are expected to benefit government operations.

Other services

Information, communication, and technology services have recently benefited from the new norm of doing business induced by COVID-19 pandemic, the increasing use of Fin-tech as well as the reduction in wholesale data prices. Demand for data, though now increasing at a declining rate since 2020, have been sustained in the period. On the other hand, technical support services (i.e., architects, Auditors & Business Advisors, Lawyers), which trend with activities in key sectors such as manufacturing and construction, amongst others, grew moderately in the period.

DOMESTIC CONSUMER PRICES

'Price shocks observed in domestic basic goods, such as bread and edible oils, affecting the most vulnerable.'

A country's inflation is determined by the overall change in consumer prices based on a representative basket of goods and services over time. This measurement is known as the Consumer Price Index (CPI) and consist of weighted goods and services such as such as food, energy, clothing, housing, medical care, education, as well as communication and recreation. In the Eswatini context the consumer basket is largely on Housing & Utilities (27.7 %), Food & Non-Alcoholic Beverages (20.2%), Transport (17.5%), Communication (7.4%), accounting for more than 70% of the consumption basket.

TABLE 3: COMPARISON OF INFLATION WEIGHTS ACROSS COUNTRIES

Consumer Price Index Weights	SADC*	Eswatini	RSA	Botswana	Lesotho	Namibia	UK	US
Overall CPI	100	100	100	100	100	100	100	100
Food & Non-alcoholic beverages	31.2	20.15	17.14	13.55	32.61	16.45	11.9	14.5
Alcohol and Tobacco	6.1	5.02	4.29	4.34	6.41	12.59	4.2	1.3
Clothing & Footwear	5.3	5.57	3.65	5.95	8.12	3.05	5.8	3.1
Housing, Water, Electricity, Gas	18.9	27.69	24.49	17.45	14.9	28.36	14.1	44.3
Furnishings, Household Equipment	5.5	4.73	4.37	4.85	3.32	5.47	6.8	5.3
Health	2.0	1.27	1.44	3.38	1.91	2.01	2.4	6.4
Transport	11.9	17.53	14.35	23.43	11.13	14.28	13.7	17.1
Communications	4.6	7.36	2.42	6.94	4.39	3.81	2.3	3.5
Recreation and culture	2.5	1.78	5.2	2.82	1.38	3.55	13.8	5.4
Education	3.7	6.57	2.62	4.6	4.86	3.65	2.9	2.2
Restaurants and Hotels	3.1	0.19	3.25	3.66	6.55	1.39	13.8	1.1
Miscellaneous goods and services	4.9	2.14	14.81	9.01	4.41	5.39	8.3	0.9

Source: *Central Statistical Offices of respective countries [*] This denotes that the SADC average has been computed using 12 members state consumer price index information.*

In line with the global developments, domestic prices were elevated in 2022 driven by the rising prices of food and transport. These cost push factors were transmitted into the domestic economy as triggered by the Russia-Ukraine conflict, which resulted in the prices of global food and crude oil skyrocketing in the period. Headline inflation in the country averaged at 4.8 percent in 2022 compared to 3.7 percent in 2021. Despite the elevated inflationary pressures, the headline inflation was still within the band of 3-6 percent targeted for the domestic economy.

Inflation drivers

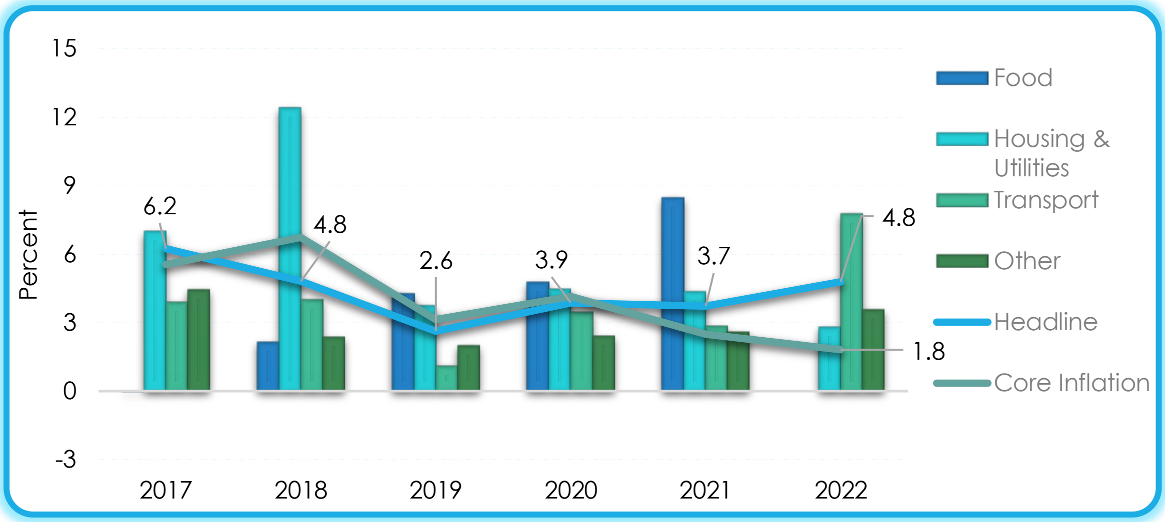
In 2022, headline inflation changed by 1.1 percentage points relative to the 0.2 percentage point decrease in 2021. Food and non-alcoholic beverages contributed 1.71 percentage point to overall inflation in the period owing to significant hikes in the prices of bread and cereal category. Bread prices increased by 6 percent – equivalent to 69 cents – in March 2022, and was further increased by 20.8 percent in July 2022 – translating to a cumulative E2.35 increase. Additionally, prices for "other cereals, flour and other products" increased by 7.5 percentage points at the back of global supply disruptions particularly of wheat and barley, which large production quantities are from Ukraine and Russia.

Transport prices also surged in the period, contributing 1.36 percentage points to overall inflation. Transport prices moved in line with increases in the prices of fuel, which grew by 22.74 percent in 2022, necessitating a 4.5 percent price increase in public transport fares. Petrol prices were on the rise from March 2022 to July 2022, cumulatively increasing by E6.70, and retailing at historical record high of E23.85 per litre. As global fuel prices moderated in the second half of 2022, this supported price reduction in domestic fuel prices in the period of August – December 2022. The retail price declined by a cumulative E4.35, closing the year at a retail price of E19.50 per litre.

Diesel prices, on the other hand, mimicked the price movements of petrol between the months of March – July 2022, increasing by E7.40, and retailing at E23.50 per litre in July 2022. Diesel prices further increased by E1.50 in November 2022, reaching a peak of E25.00 per litre. As at December 2022 diesel prices were retailing at E22.4 per litre, indicating a decline of E2.60 between November/December 2022.

On the contrary, prices of 'housing and utilities' moderated this high inflation in the period, declining by 1.5 percentage points. This was partly due to falling prices in the 'Actual rentals for housing' category, which declined by 3.1 percentage points in the period.

FIGURE 11: INFLATION DYNAMICS



Source: *Ministry of Economic Planning and Development*

Inflation for goods and services

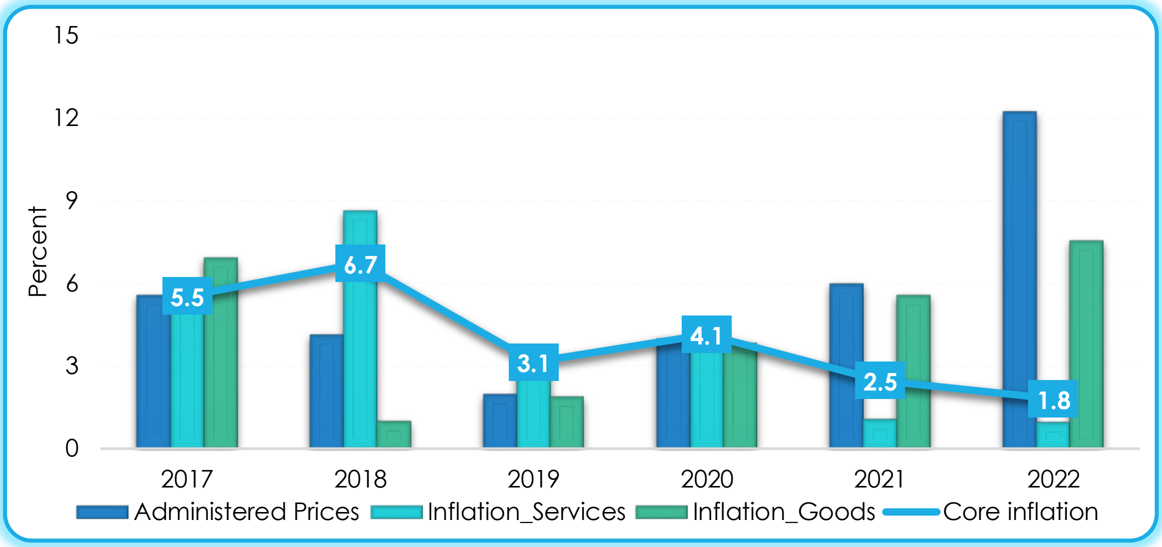
Prices for goods remained high in the period increasing on average by 7.6 percent in 2022 and indicating a 2.0 percentage points increase relative to 2021. The notable increase was on account of elevated prices of non-durable goods such as food and fuel, triggered by the high global commodity prices in the period. However, prices for durable goods and semi-durable goods (i.e., tools and equipment for household and garden and clothing) fell by 0.9 and 1.3 percentage points, respectively.

Prices for services on the other hand, fell by 0.1 percentage point on account of declining prices for 'miscellaneous goods and services'. There were, however, mixed developments around price changes amongst other services categories such as transport, outpatients, and financial services.

Core inflation and Administered prices

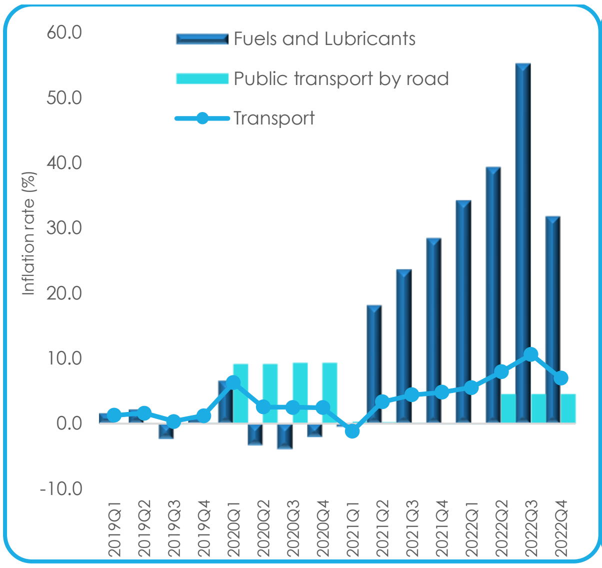
Core inflation, which is defined as the change in the prices of all goods and services excluding the volatile items i.e., 'food and non-alcoholic beverages', 'auto-fuel' and 'energy', grew at a declining rate of 1.8 percent relative to the previous year[i5]. This confirms that domestic inflation in the period was mainly driven by the volatile items. Administered prices (that is bread, fuel, public transport fares, electricity, water, and newspapers amongst others – under the Government Gazette), on the other hand, increased by a significant 6.2 percentage points in the period. There were notable increases in the prices of goods and service such as 'bread' (9.3 percentage points increase), 'electricity' (1.9 percentage points), 'out-patient services' fees (16.3 percentage points increase), 'fuel for personal transport' (22.7 percentage points increase).

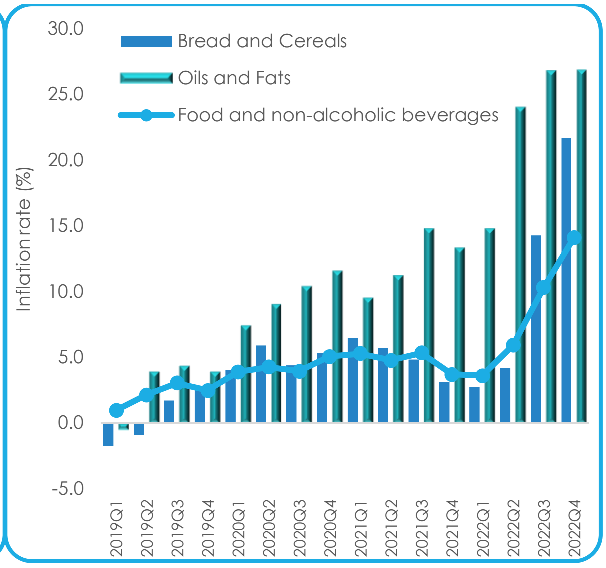
FIGURE 12: INFLATION DYNAMICS ADMIN-PRICES CORE GOODS & SERVICES



Source: *Ministry of Economic Planning and Development*

[5] Measuring core inflation is important because it provides a clearer picture of underlying inflation trends. Core inflation is important for businesses, investors, and consumers as it provides a better indication of how processes are changing over the long-term, which can inform decision-making or planning purposes.





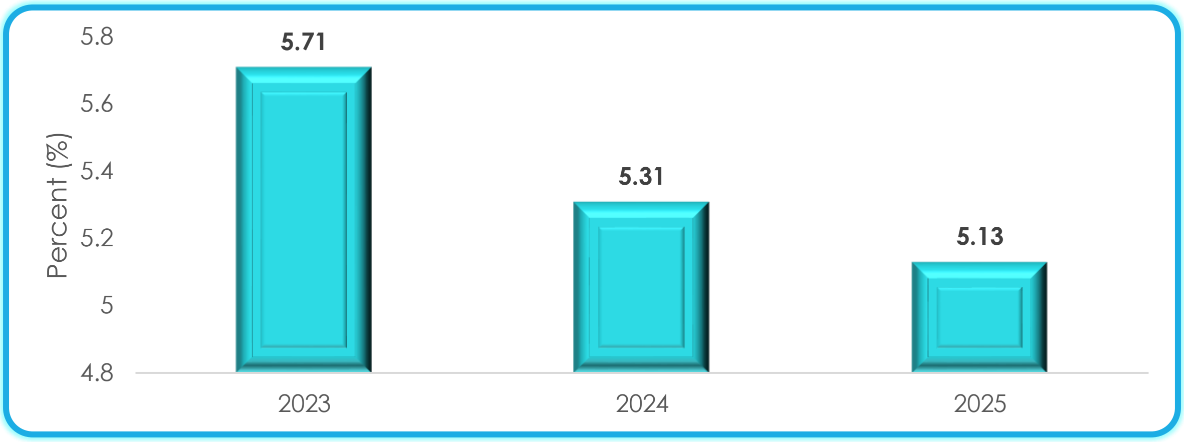
Source: *Ministry of Economic Planning and Development*

Inflation forecasts

In consideration of prevailing economic developments and other influencing factors, the domestic prices outlook reflects continued uptick in inflationary pressures in the short-term followed by a slight moderation in the outer years. According to the Central Bank of Eswatini's (CBE) March 2023 inflation forecasts, inflation is expected to average at 5.4 percent between 2023 - 2025. Assumptions underpinning the inflation outlook include the anticipated developments on Brent oil prices, the performance of the RSA economy in relation to exchange rates developments and the policy stance regarding domestic administered prices. Although brent oil prices are expected to rise in the short-term, there is a slight optimism that these prices will moderate by 2025. In the short-term, developments around China's rebounding economy combined with supply constraints considering uncertainty regarding the Russia-Ukraine conflicts, and production cut-back by OPEC are expected to exert pressure on global supply.

In the RSA economy, food prices have been sticky and are expected to remain elevated in the short-term, exerting upward pressure on domestic inflation. In the medium term however, food prices are forecasted to begin easing, supported by weaker domestic demand, lower global food prices, and ample domestic food production in response to the Russia-Ukraine conflict's effects. The introduction of a diesel levy exemption to food manufacturers is anticipated to assist in the containing of costs from the higher use of diesel generators and thereby contain prices. Risks to the RSA inflation outlook are however on the downside due to the rising input costs, driven by the additional cost of generating electricity from diesel amid load-shedding, unpredictable weather patterns, and a vulnerable rand.

FIGURE 13: INFLATION FORECASTS - MAY 2023

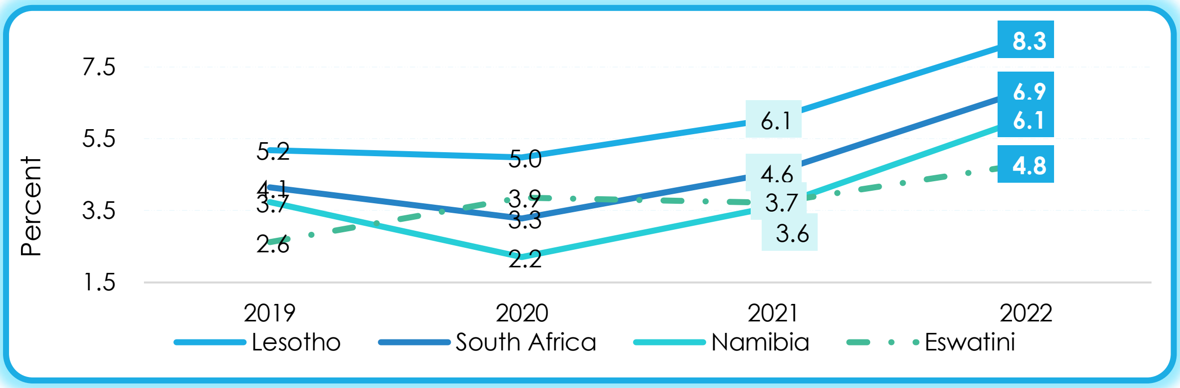


Source: *Ministry of Economic Planning and Development*

Price movements in the CMA

Common Monetary Area (CMA) countries reflected similar inflationary trends that mirrored the global conditions. Lesotho, Namibia, and South Africa inflation was above the 3 – 6 percent CMA inflation target band, at an average of 8.3 percent, 6.9 percent, and 6.1 percent, respectively, in 2022. Inflation drivers for all the CMA countries showed consistency across the group, as 'food and non-alcoholic beverage' prices, 'transport' prices (fuel and public transportation prices), 'housing and utility' prices, and 'education' prices were the key factors that soared during the period, as triggered by prevailing global economic conditions.

FIGURE 14: COMMON MONETARY AREA INFLATION



Source: *Central Bank of Eswatini, Namibia, Lesotho, and the South African Reserve Bank.*

MONETARY SECTOR

'The monetary policy reflected a tightening position in the year 2022, responding to the high inflationary environment.'

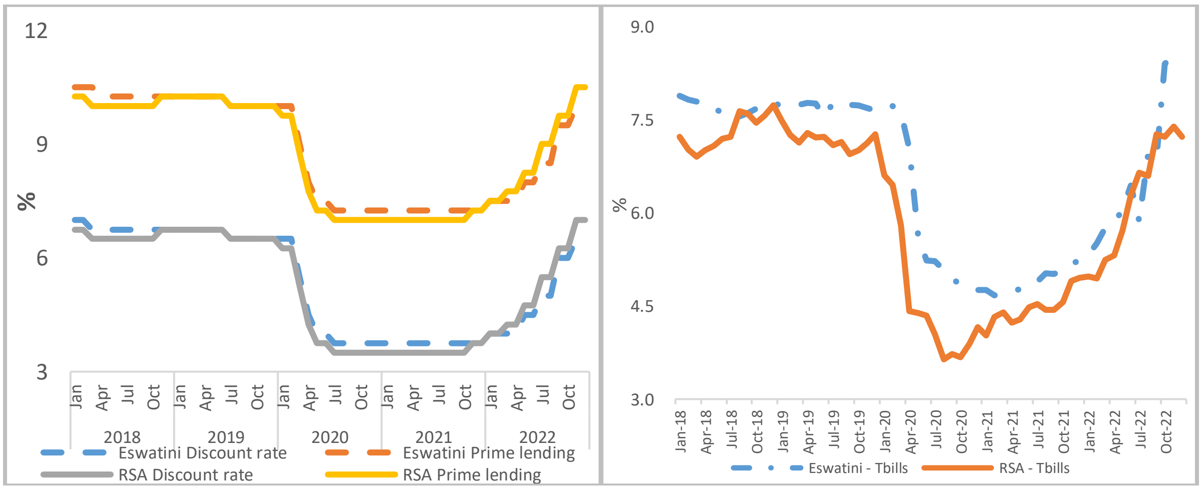
In response to the elevated inflationary pressures in the year under review, the CBE increased the discount rate by a cumulative 275 basis points, from 3.75 percent in 2021 to 6.50 percent in 2022, which reflected a tightening monetary policy stance. The prime lending rate followed a similar trend and reached 10.0 percent in 2022. The policy stance pursued by the domestic economy was a similar stance observed by most central banks which eventually slowed down economic activity in most economies.

Definitions

According to economic theory, one of the instruments used by Central Banks in maintaining price stability in economies is the use of interest rates. The premises for central banks to increase discount rates during a high inflationary environment is to dampen consumption demand for goods and services through discouraging economic agents from acquiring new loans by raising the cost of borrowing. On the flip side, the high interest rates for savings accounts also increase and make savings more attractive. This policy is seen effective in lowering demand, which helps contain inflation. For instance, the cost of a loan (either for house or car) will be more if the interest rate is higher thus consumers are expected to spend less or reduce the uptake of new loans thereby reduce the demand for goods and services in an economy. Subsequently, when demand decreases, prices decrease too consequently falling inflation.

Monetary policy stance in the short-term is expected to remain somehow restrictive responding to inflation developments. However, in line with global economic developments, there is an anticipation of an easing monetary policy in the medium as inflationary pressures are ultimately contained.

FIGURE 15: COMPARATIVE INTEREST & T-BILL RATES: ESWATINI & RSA



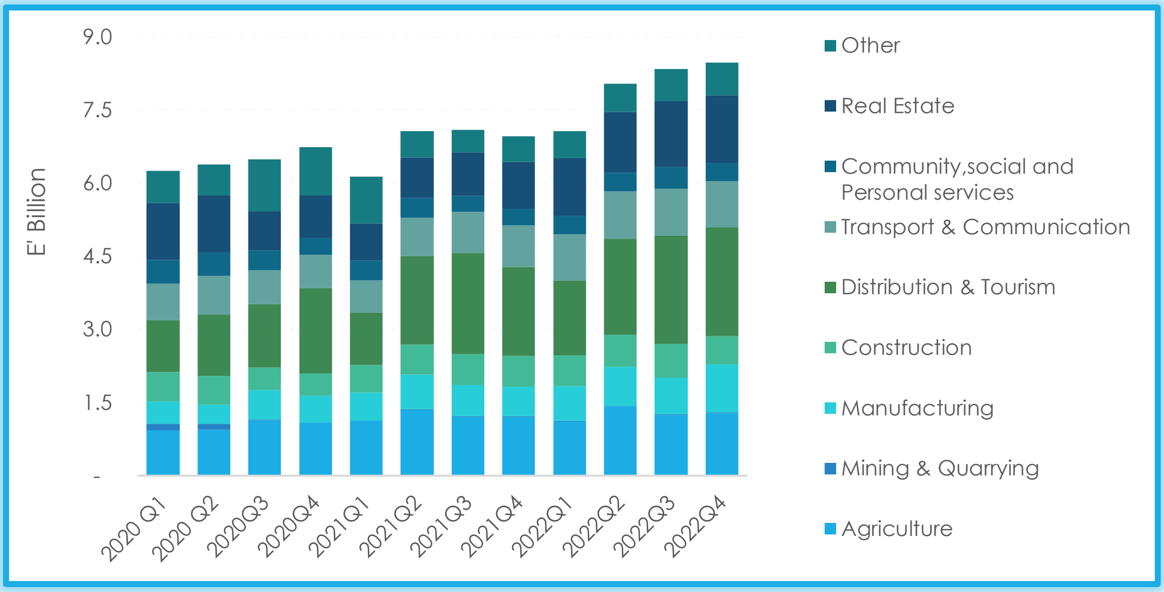
Source: *Central Bank of Eswatini*

Credit Extension

Total private sector credit was reported at E17.256 billion in 2022, depicting a 7.3 percent growth compared to 2021. The increase was on account of improved credit extended to both businesses and households, expanding by 21.7 percent and 6.0 percent respectively. In terms of sectors, manufacturing (64.3 percent), real estate (47.0 percent), distribution & tourism (22.6 percent), transport & communication (10.2 percent), community social and personal services (6.9 percent), agriculture (6.3 percent) as well as other sectors (25.2 percent), contributed to the increase in credit extended to businesses. Credit extended to the construction (8.7 percent) as well as the mining & quarrying (24.2 percent) subsectors, however, slumped indicating slowing demand in the period.

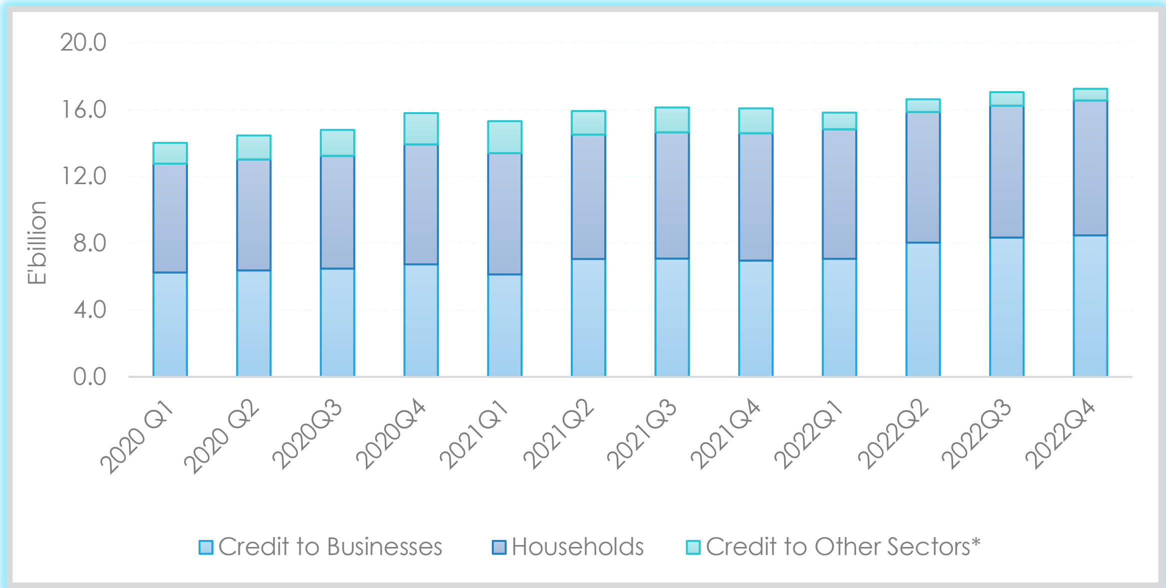
In terms of credit extended to households, there was an observed increase in mortgage funding (7.1 percent) and motor vehicles (5.6 percent) as well as the acquisition of other personal (unsecured) loans (4.6 percent). Trends in non-performing loans (NPL's) remained on the rise, increasing by 7.5 percent with the NPL's ratio averaging 6.80 percent compared to 6.61 percent in 2021. The high ratio of NPLs reflected continued strain in the servicing of loans by consumers.

FIGURE 16: CREDIT EXTENSION BY SECTOR



Source: *Central Bank of Eswatini*

FIGURE 17: CREDIT EXTENSION

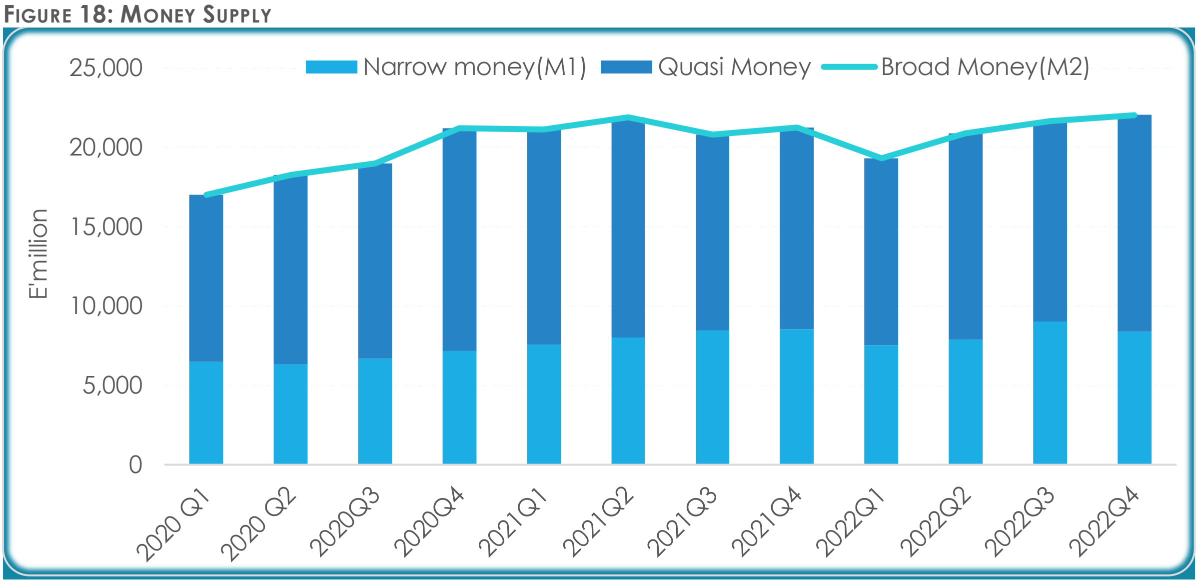


Source: Central Bank of Eswatini

Monetary aggregates

Broad money supply (M2), which is a category that measures the amount of money in circulation (money supply), was reported at E22.034 billion in 2022. Representing a 3.6 percent increase compared to the preceding year. The growth in broad money was at the back of an increase in quasi-money supply while narrow money (M1) fell in the period. Quasi-money refers to highly liquid non-cash assets such as government bonds, saving accounts and promissory notes etc. Quasi-money expanded by 7.6 percent owing to an increase in time (interest earning) deposits. Narrow money is all money in circulation, demand deposits as well as most liquid assets such as cash and checkable deposits. Narrow money contracted by 2.1 percent on account of a 2.4 percent decline in demand deposits, which amounted to E7.594 billion in 2022.

FIGURE 18: MONEY SUPPLY



Source: *Central Bank of Eswatini*

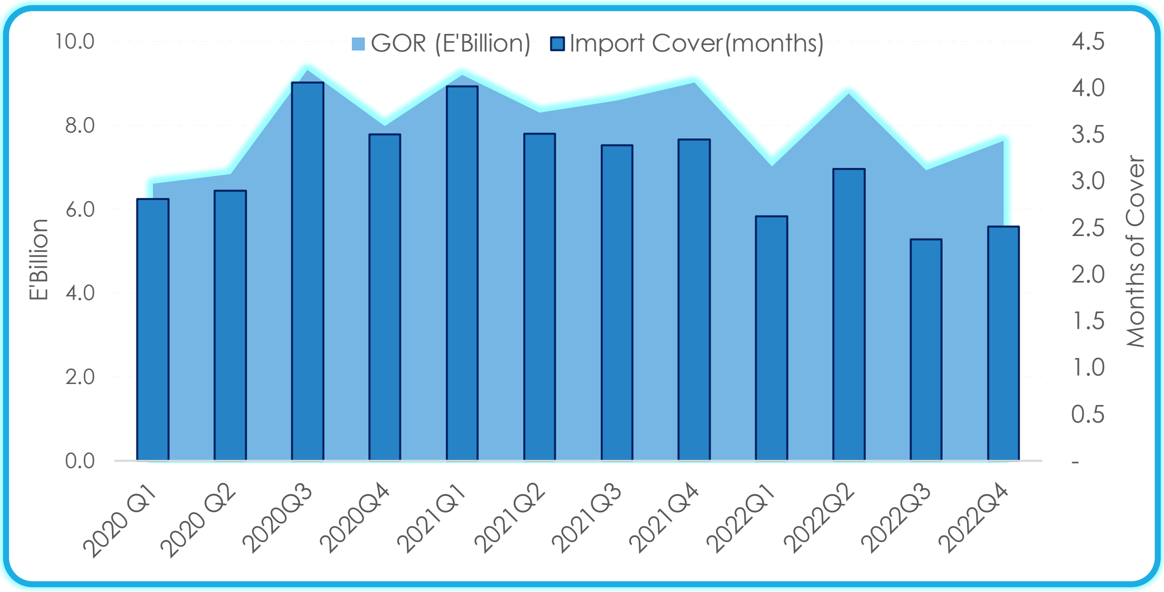
Gross Official Reserves

Gross official reserves comprise of the gross foreign assets held at the Central Bank of Eswatini, which includes holding of assets in the form of foreign currency, monetary gold, special drawing rights (SDR) and other reserve assets. Reserves are normally kept for meeting balance of payments financing needs, intervening to uphold currency peg and for maintaining confidence in the economy.

In 2022, the stock of gross official reserves was recorded at E7.630 billion, which was sufficient to cover 2.5 months of imports, falling below the internationally recommended threshold of 3 months. Compared to the preceding year, the reserves reflected a 15.4 percent decline, on the back of an 8.7 percent fall in SACU receipts, an increased outflow of currency emanating from companies procuring imports and paying out dividends in line with economic activity as well as base effects from the levelling-off of external funding (e.g., the IMF budget support loan and the SDR allocation) obtained in 2021. In SDR's terms, the reserves stood at SDR 338.1 million, which was an 18.5 percent decline compared to 2021.

In the short to medium term, the country's gross official reserves are expected to improve, supported by the anticipated SACU increase, as well as positive prospects in economic activity. On the downside, weakened exchange rate, elevated commodity prices and government obligations are anticipated to hasten the drawdown of reserves.

FIGURE 19: GROSS OFFICIAL RESERVES AND IMPORT COVER



Source: *Central Bank of Eswatini*

FISCAL DEVELOPMENTS

Fiscal policy

The fiscal policy is a tool that influences government spending and taxation to promote sustainable growth and the reduction of poverty. Fiscal policy can either be contractionary, which is set to cut government spending and raise taxation for a reduction in aggregate demand, or expansionary that is set to be in action when the government increases its spending and lowers tax rates for boosting economic growth. As part of its policy drive, the government of Eswatini committed to a three-years fiscal consolidation policy targeting an adjustment equivalent to 4.2 percent of GDP since 2021/22 to 2024/25.

Definitions:

The Eswatini fiscal adjustment plan (FAP) was formulated targeting both expenditure rationalization and revenue enhancement measures, to reduce the fiscal deficit and stabilize debt to sustainable levels. Measures under revenue mobilization include increasing the basket of VAT products by including eggs and dairy products as well as the standard rating of electricity and improving administrative efficiencies for some taxes. Under expenditure rationalization, specific to the wage bill some of the proposed measures include the use of alternative service delivery for some services and effecting a hiring freeze. With regards to transfers, the proposed measure includes merging and privatizing some SoEs. On the public investment aspect, much emphasis has been placed on the completion of the ongoing projects with limited scope for implementing sizeable new projects. On the goods and services aspect, the proposed adjustment is expected to control over expenditure through efficiency gains including measures such as terminating trading account and other efficiency measures.

Revenue performance

Recent preliminary outturn estimates of March 2023 showed that government revenue mobilization in FY 2022/23 recorded a growth of 4.4 percent amounting E18.784 billion in the review period. This modest growth was underpinned on better performance for domestic tax categories such as taxes on income and profits as well as taxes on goods and services. Moderating the growth was taxes on international trade which recorded a second consecutive decline in the review period.

Taxes on income and profits grew by 4.2 percent driven by the strong performance personal income tax (PIT), which grew by 6.7 percent in the review period. This growth was supported the continued recovery of the economy from the recent economic shocks (social unrest and COVID-19 restrictions) experienced in the previous year, coupled with the cost-of-living adjustment awarded in-light to employees. Similarly, taxes of goods and service also recorded growth in the review period increasing by 22.5 percent, owing to a stellar growth in value added tax (V.A.T), which mainly benefited from administrative efficiencies. On the contrary taxes on international trade, particularly under SACU, continued to decline falling by 8.7 percent in the period after contracting by 23.6 percent the preceding period. Moreover, corporate income tax also fell by 7.1 percent depicting a strain of profits for most companies due to high production costs in the year.

TABLE 4: GOVERNMENT REVENUE PERFORMANCE

Share of GDP (%)	2018/19	2019/20	2020/21	2021/22	2022/23
	Act.	Act.	Act.	Act	Est. Outturn
Total Revenue and Grants	**25.1%**	**27.3%**	**29.0%**	**25.1%**	**24.9%**
Total Revenue	24.3%	26.5%	28.7%	24.9%	24.6%
Taxes	23.8%	25.1%	28.0%	24.2%	23.9%
Taxes on income, profits, and capital gains	8.3%	8.7%	8.6%	8.6%	8.5%
Taxes on international trade and transactions	9.4%	9.7%	12.6%	8.9%	7.7%
Taxes on goods and services	6.0%	6.6%	6.8%	6.5%	7.5%
Other taxes	0.0%	0.1%	0.0%	0.1%	0.1%
Other revenue	0.5%	1.3%	0.6%	0.7%	0.7%
Grants	0.7%	0.8%	0.4%	0.2%	0.2%

Source: *Ministry of Finance – March 2023.*

Expenditures

Total government expenditure outturn figures of March 2023 revealed that government consumptions increased by 5.3 percent in FY 2022/23 to record an amount of E22.384 billion compared to the E21.279 billion recorded FY 2021/22. The growth was underpinned on the increase in both recurrent and capital expenditures. In term of the recurrent expenditure, compensation of employees (C.E) grew by 7.5 percent in FY2022/23 to stand reach E8.847 billion. The increase in compensation of employees reflected a 3.0 percent cost of living adjustment awarded by the government as well as replacements of vacant critical positions within the civil service. In line with the growth in wages, purchases of goods and services also grew by 2.1 percent, recorded at E2.870 billion, representing the full return of operations of all government services following the disruption induced by COVID-19 the previous year. Interest servicing also grew by 8.6 percent and was recorded at E1.447 billion in the period as government had to honour its debt obligations for the acquired loans. Transfers on the other hand were flat and stood at E3.615 billion same as the previous year.

On public investment, the country's total capital expenditure fell by 19.9 percent and was recorded at E3.033 billion in the FY 2022/23. The decline was mainly attributed to the completion of some major projects; Manzini Golf Course Interchange; MR3 lot I Manzini – Mphandze; MR3 lot II Mphandze – Mbhadlane; Biotechnology Park at Phocweni; and the Ezulwini Water Supply project amongst others.

Table 5: Government Expenditure Performance

Share of GDP (%)	2018/19	2019/20	2020/21	2021/22	2022/23
	Act.	Act.	Act.	Act	Est. Outturn
Total Expenditure	**32.0%**	**34.0%**	**33.6%**	**29.7%**	**29.6%**
Expense	26.6%	25.2%	26.0%	24.4%	25.6%
Compensation of employees	13.4%	12.4%	12.6%	11.5%	11.7%
Purchase/use of goods and services	4.6%	4.4%	4.4%	3.9%	3.8%
Interest	1.3%	2.1%	2.2%	1.9%	1.9%
Transfers	5.4%	4.4%	5.3%	5.0%	4.8%
Capital Expenditure	5.3%	8.8%	7.5%	5.3%	4.0%

Source: *Ministry of Finance – March 2023.*

Fiscal Balances

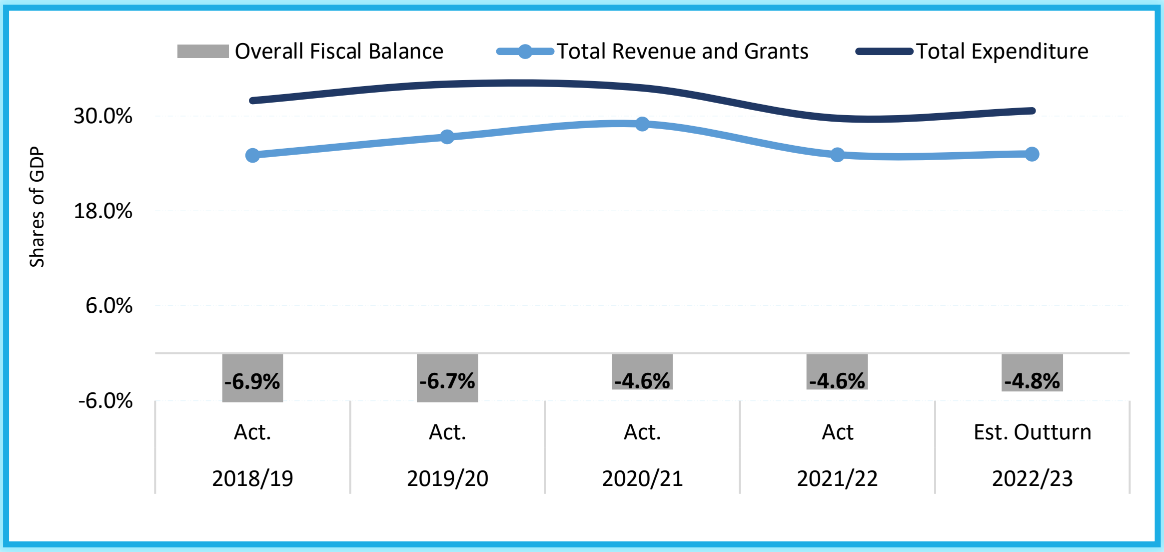
In terms of fiscal balances, the gross operating balance[6] (G.O.B) which represents all costs of operations for government in a financial year recorded a deficit of E568 million equivalent to 0.8 percent of GDP in FY 2022/23 and was a 215 percent contraction from the E493 million recorded the previous year. This implied that, when excluding capital expenditures, the government already had a financing need that was equivalent to the gross operating balance reflected above. Similarly, the overall fiscal balance, which represents the net financing need of the government, recorded a deficit of E3.600 billion and was equivalents to 4.8 percent of GDP. This deficit emanated from elevated expenditures pressures way above the revenue mobilization in the period. At this level the fiscal balance widened by 9.3 percent from the previous year where it was recorded at E3.293 billion and was equivalent to 4.60 percent of GDP. In line with the overall fiscal balance, the primary balance also recorded a deficit of E2.153 billion equivalent to 2.9 percent of GDP. The primary balance depicts how much government can spend on core expenditures without worrying about its debt obligations. At this level, deficit on the primary balance grew by 9.8 percent compared to the previous fiscal year where it stood at E1.960 billion and was equivalent to 2.74 percent of GDP.

Table 6: Fiscal Balances

Share of GDP (%)	2018/19	2019/20	2020/21	2021/22	2022/23
Balances	Act.	Act.	Act.	Act	Est. Outturn
Gross Operating Balance (G.O.B)	-1.56%	2.31%	2.96%	0.69%	-0.75%
Primary Balance	-5.58%	-4.63%	-2.38%	-2.74%	-2.85%
Overall Fiscal Balance	-6.89%	-6.69%	-4.56%	-4.60%	-4.77%

[6] The gross operating balance calculated revenue minus expense other than consumption of fixed capital.

FIGURE 20: OVERALL FISCAL BALANCES



Source: *Ministry of Finance – March 2023.*

Financing and Debt

Consistent with the increase in the net financing needs for government (overall fiscal balance), the total debt stock stood at E32.874 billion in FY 2022/23, that is about 43.5 percent of GDP. This indicated a growth of 21.1 percent in the public debt stock relative to the debt stock amounting to E27.157 billion in FY 2021/22. External debt grew by 40.5 percent in FY 2022/23 and stood at E15.130 billion (equivalent to 20.0 percent of GDP) whilst the domestic debt grew by 8.1 percent and stood at E17.717 billion (equivalent to 23.5 percent of GDP) in the review period. The growth in public debt was mainly attributable to projects loans as well as budget support loan received in the period.

TABLE 7: TOTAL PUBLIC DEBT

	2018/19	2019/20	2020/21	2021/22	2022/23
TOTAL PUBLIC DEBT	Act.	Act.	Act.	Act	Est. Outturn
Total Public Debt Stock	**16,614.90**	**20,453.10**	**25,943.90**	**27,157.10**	**33,086.90**
in percent of GDP	*26.50%*	*31.40%*	*39.00%*	*37.90%*	*43.80%*
External	**6,379.80**	**8,645.30**	**10,207.30**	**10,767.90**	**15,757.80**
in percent of GDP	*10.20%*	*13.30%*	*15.30%*	*15.00%*	*20.90%*
Domestic	**10,235.10**	**11,807.90**	**15,736.50**	**16,389.20**	**17,329.10**
in percent of GDP	*16.40%*	*18.10%*	*23.70%*	*22.90%*	*23.00%*

Source: *Ministry of Finance – March 2023.*

Medium-Term Fiscal Framework

In fiscal year 2023/24, the national budget appropriated the total revenues and grants at E24.640 billion (30.2 percent of GDP) reflecting an improvement in revenue collection. The improvements in revenue collection are anticipated to emanate from broadening the value added tax base (i.e., electricity) as well as continued efficiency in tax collection, couple with a windfall in SACU receipts in the period.

In line, with the improvement in revenue mobilization, total expenditures were appropriated at E26.439 billion (32.4 percent of GDP). The projected growth in expenditures has been attributed to increased expenses on youth and national security, which have been prioritized in the period. As such, the allocation for capital and recurrent expenditures increased by 93.0 percent and 6.4 percent, respectively. The fiscal balance has been budgeted at 2.2 percent of GDP reflecting an improvement as it is narrowing from the outturn recorded in 2022/23.

EXTERNAL SECTOR

Eswatini as an open economy, interacts more with its trading partners, indicating the importance of close monitoring of developments in the external sector. The key trading partners for Eswatini includes RSA, EU, Nigeria, Taiwan, USA etc., The country has been consistently recording current account surpluses since 2012 until in 2022 where a negative CAB was recorded.

Definitions:

External sector developments involve the assessment of economic transactions between the domestic economy and the rest of the world. It includes the dealings of trade, primary and secondary incomes (current account balance-CAB), capital account and financial account all accounted for under the balance of payment (B.O.P) account. When the B.O.P balance is in deficit, this indicates that the country imports more commodities, capital and services that it exports. This also means that the country must borrow from other countries to pay for its imports.

Current Account balance

In 2022, the current account balance recorded a deficit of E1.919 billion, equivalent to 2.6 percent of GDP as merchandise exports grew slower by 9.1 percent, than imports which grew by 12.4 percent. Softened global demand, together with higher commodity prices exerting inflationary pressures deterred export growth in the period. Imports on the other hand were strongly driven by higher prices of 'fuel and energy', 'agriculture', 'capital goods', 'textile input', and 'food' amongst others. Trade in services sustained a deficit amounting to E4.020 billion in the period. In the year, the country continued to be a net importer of all services, with considerable outflows going to imports of travel, transportation, telecommunications, computer and information services, as well as other business-related services.

Income balances (i.e., the primary income, and secondary income) continued to portray contrasting dynamics, with the primary income maintaining a deficit while the secondary income continued to record a surplus in the period. In 2022, lower SACU receipts, which is the largest contributor, underpinned the performance of 'secondary income – credit', which fell by 5.7 percent to record E8.195 billion.

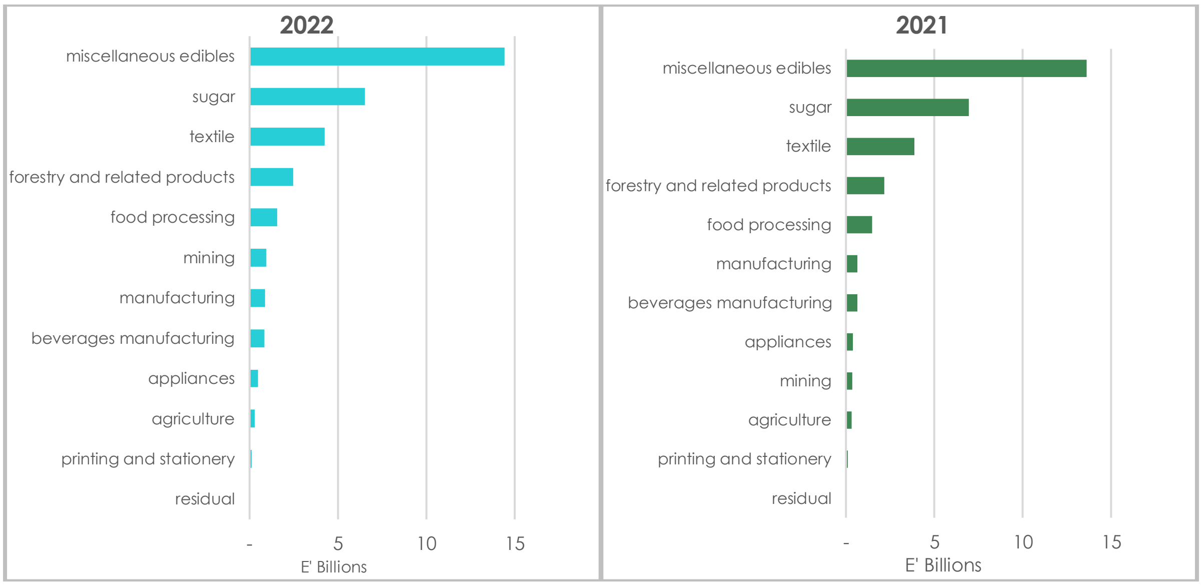
Merchandise Trade

In line with global economic developments affecting trade trends in the review period, Eswatini was not spared. Softened global demand (owing to geo-political frictions, persisting inflation and tightening monetary policy), falling prices of key commodities, and RSA operational challenges (due to extensive load shedding and Transnet labour strives) inhibited export growth resulting in the trade balance significantly decreasing by 40.8 percent on a year-on-year – to record E1.120 billion – as exports grew at a slower rate than imports.

Exports

Total merchandise exports were recorded at E33.296 billion in 2022, reflecting a 9.1 percent growth compared to the preceding year. Growth was observed in 'appliances' (17.0 percent), 'beverages manufacturing' (0.1 percent), 'miscellaneous edibles' (5.9 percent), 'food processing' (8.8 percent), 'forestry and related products' (14.9 percent), 'manufacturing' (32.5 percent), 'mining' (158.5 percent), 'printing and stationery' (0.4 percent), as well as 'textile' (9.0 percent). Sectors such as 'agriculture' (-2.2 percent), as well as 'sugar' (-6.2 percent) recorded contractions. The SACU region absorbed about 71.8 percent of the country's exports in 2022, compared to 69.9 percent in 2021, further flagging high reliance on this market. The rest of the Africa region accounted for 22.1 percent, whilst the EU and Asia regions accounted for 3.3 percent and 0.9 percent, respectively indicating potential for Eswatini to explore further these markets.

FIGURE 21: ESWATINI EXPORT COMMODITIES



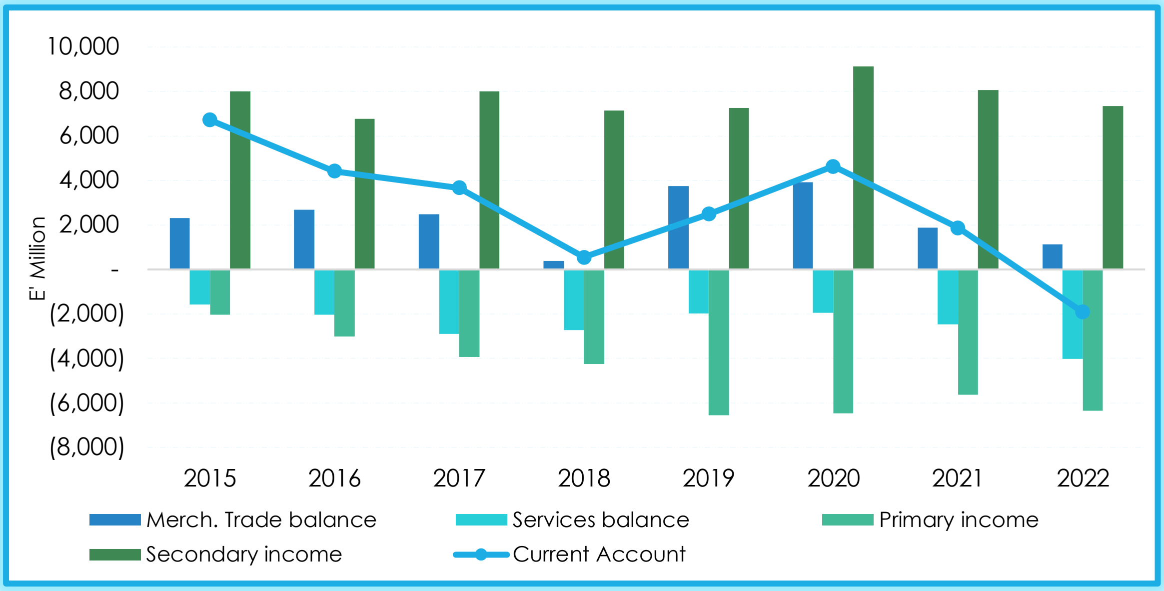
Source: *ERS*

Imports

Merchandise imports increased by 12.4 percent in 2022, following a 17.1 percent increase in 2021, to reach E32.179 billion. The increase is linked to an increase in imports of all final consumption products, including food, fuel and energy, pharmaceuticals, and other intermediary consumption. The country continued to rely on its traditional markets for imports, with the SACU region[7] accounting for 76.6 percent of total imports during the period.

[7] SACU member states include RSA, Namibia, Lesotho, Botswana and Eswatini

FIGURE 22: SELECTED EXTERNAL ACCOUNTS



Source: *Central Bank of Eswatini.*

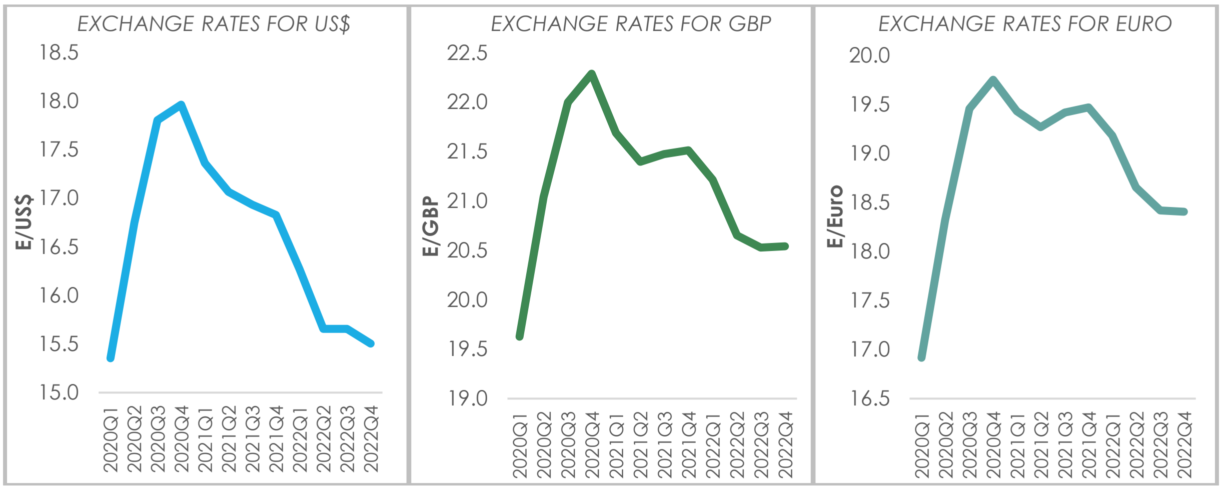
Exchange Rate Developments

Eswatini, as a member of the CMA (along with South Africa, Lesotho, and Namibia), has its currency (the Lilangeni) pegged to the South African Rand on a fixed E1 = R1 regime and influences monetary policy developments in the domestic economy. Broad depreciation of the local currency was observed in the period, mainly driven by the negative downgrading of the South African economy by two of the largest Credit Ratings Agencies (Moody's, Fitch, and S&P).

In the review period, the Rand/Lilangeni showed mixed developments. On average, the lilangeni depreciated by 10.7 percent against the US Dollar to average E16.37 in 2022, from E14.79 in 2021. Contrary, the Lilangeni appreciated against the Pound (-0.7 percent) and the Euro (-1.6 percent) to average E20.18, and E17.22, on average, respectively. On end-of-period terms, the Lilangeni appreciated against the Pound to end the year at E20.46, reflecting a 4.7 percent increase. Against the US dollar and Euro, the local currency depreciated to end the year at E16.95, and E18.07 to reflect a 6.6 percent and 0.4 percent depreciation, respectively.

The CMA currencies benefited from a what-could-have-been-worse situation due to the rand's surge emanating from the collapse in global risk appetite, gaining ground against a receding US dollar. The rand's case was further aided by South African Reserve Bank's (SARB) persistent policy tightening and the re-election of current ANC's leader in December 2022, which lessened some of the political uncertainties. The rand is expected to remain volatile in 2023, spurred by trends in global risk appetite, which is expected to set the course for the Rand. While emerging market risk sentiment is expected to improve from the 2022's collapse, tighter liquidity conditions, slowing global growth, and vulnerable commodity prices pose significant downside risks. On top of these concerns is the load-shedding affecting domestic growth prospects, and the widening of current account deficit, which is expected to exert downward pressure to the Rand.

Figure 23: Exchange Rates of Major Currencies



Source: *Central Bank of Eswatini.*

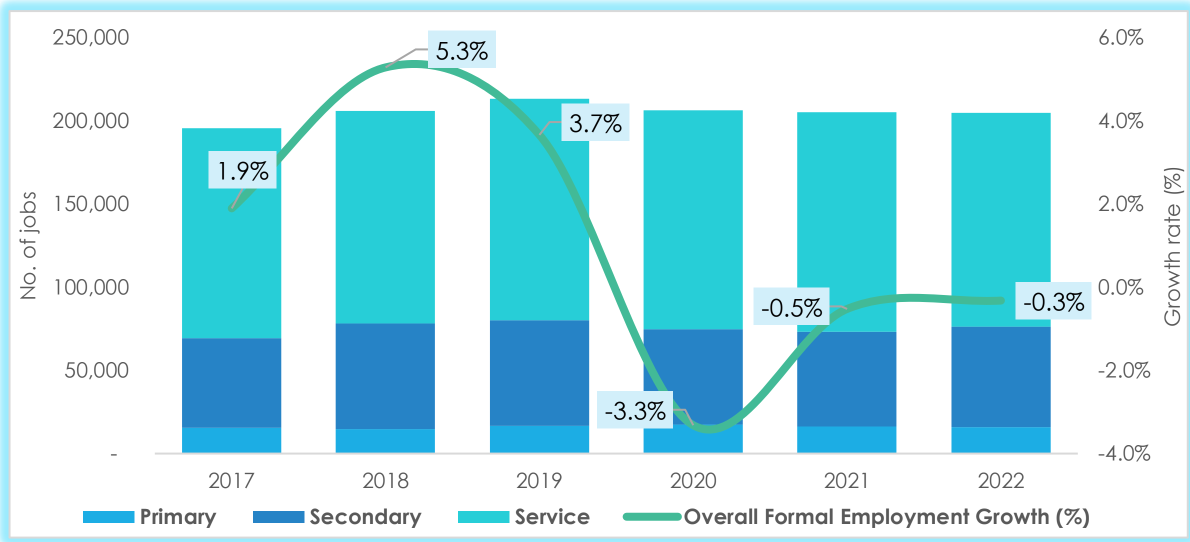
SOCIO-ECONOMIC INDICATORS

'Economic challenges experienced continues to negatively impact development progress.'

Employment

Total formal employment statistics inferred using pay-as-you-earn (P.A.Y.E) tax payments[8] data reflected that employment stagnated in 2022, recording 204,658 jobs in the economy for the period. This reflected a marginal shedding of 658 jobs, which is about 0.32 percent compared to the 205,394 jobs recorded in 2021.

FIGURE 24: FORMAL EMPLOYMENT BY SECTOR TREND



Source: *Eswatini Revenue Service.*

The main contributors to the job losses in the review period was the primary and service sector shedding about 507 and 3,854 jobs, respectively in the period. The primary sector recorded 15,914 jobs, whereas the service sector reported 128,398 jobs in the period. Within the primary sector some of the job shedding occurred in the agriculture and forestry subsector while the mining subsector added 168 new jobs in the period related to positive development in the mining industry. Similarly, on the services sector a number of jobs were lost in wholesale & retail, transport and storage as well as the public administration subsectors. Loses of jobs in the public administration subsector was on account of the continued hiring freeze stance by government, which made it difficult to fill vacant positions timely. Whereas loses of jobs in the W&R were associated with the high inflationary environment triggering cash-flow challenges for many businesses in the subsector. However, there were some realized job gains within the ICT, financial, insurance, health, and education subsectors.

[8] Pay-As-You-Earn (P.A.Y.E) employment statistics only include formal employment for those that are compliant with their tax obligations, it excludes informal employment.

The secondary sector on the other hand, recorded positive job gains in 2022 with employment growing by 6.5 percent to stand at 60,346 jobs. The growth in the secondary sector employment was mainly underpinned on the manufacturing subsector bringing about 5,161 jobs in the period through expansions and the establishment of new firm in the period. On the contrary, construction-related employment recorded a dip due contracts closures of some major road projects.

Employment prospects for the domestic economy are optimistic linked to positive economic growth prospects. Anticipated expansions and new players in the manufacturing sector, the new multi-billion mega projects in the construction sector as well as some developments within services sector are expected to create several jobs for the domestic economy. Additionally, public sector employment is anticipated to grow at the back of recruitment to fill-up vacant posts in the critical positions coupled with fixed-term employment for elections.

FIGURE 25: EMPLOYMENT TRENDS BY ISIC CLASSIFICATION

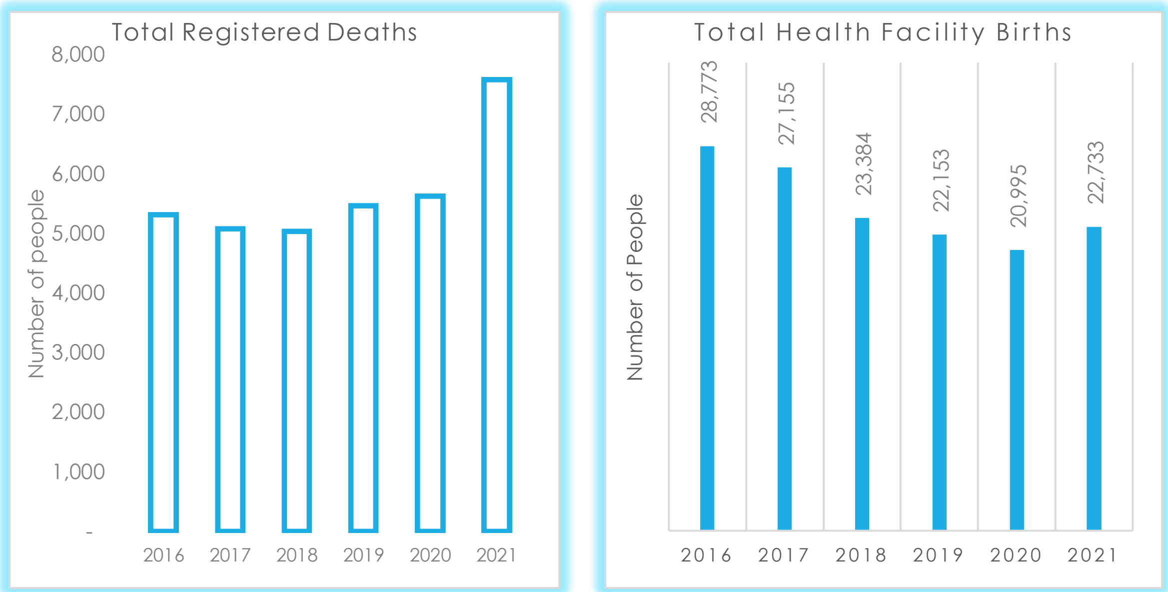
SECTOR	*2020*	*2021*	*2022*	*Growth 2022 (%)*
PRIMARY SECTOR	**17,473**	**16,421**	**15,914**	**-3.09%**
Agriculture	10,749	10,154	9,486	**-6.58%**
Forestry	5,811	5,507	5,500	**-0.13%**
Mining	913	760	928	**22.11%**
SECONDARY SECTOR	**57,156**	**56,643**	**60,346**	**6.54%**
Manufacturing	41,958	41,538	46,699	**12.42%**
Electricity Supply	1,153	1,149	1,193	**3.83%**
Water Supply	1,439	1,487	1,469	**-1.21%**
Construction	12,606	12,469	10,985	**-11.90%**
TERTIARY SECTOR	**131,765**	**132,252**	**128,398**	**-2.91%**
Wholesale & Retail	20,999	20,829	19,219	**-7.73%**
Transport & Storage	6,008	6,032	5,255	**-12.88%**
Accommodation & Food service	4,216	3,665	3,687	**0.60%**
Information & Communication	2,182	2,248	2,281	**1.47%**
Financial & Insurance	7,344	7,661	7,848	**2.44%**
Real Estate	1,167	1,087	1,061	**-2.39%**
Public administration & Defense	49,437	48,647	47,629	**-2.09%**
Professional services	21,585	22,285	21,907	**-1.70%**
Education	6,140	6,480	6,879	**6.16%**
Health	6,503	7,247	7,443	**2.70%**
Art, Entertainment & Recreation	957	757	497	**-34.35%**
Other service activity	5,227	5,314	4,692	**-11.70%**
Overall formal Employment	**206,394**	**205,316**	**204,658**	**-0.32%**

Source: *Eswatini Revenue Service*.

Population

According to the Annual Vital Statistics report (2021), 22,733 children were born in 2021, which reflected an 8.3 percent growth compared to the preceding year, adding to the country's population. The country's total population is projected at 1,160,362 and is envisaged to consistently grow by 1.2 percent in the short to medium term. Similarly, the number of fatalities expanded by 34.6 percent and were recorded at 7,578 in 2021 compared to 5,629 in 2020. This was mainly attributable to ailments such as cardio-vascular diseases (i.e., diseases of the heart and blood vessels), which accounted for 16 percent (1,210) of these deaths, the COVID-19 pandemic as well as respiratory diseases (such as asthma), at 8.3 percent (627) and 7.8 percent (589), respectively.

FIGURE 26: POPULATION DYNAMICS



Source: *Ministry of Health.*

Poverty trends

COVID-19 pandemic caused unprecedented reversals in poverty reduction. In 2022, Russia's invasion of Ukraine exacerbated the situation following the disruption of agriculture production and trade from one of the world's major food exporting regions and threatening food security for millions of people around the world including Eswatini. Due to the unequal distribution of incomes, surging food and energy prices this is expected to affect households in very different ways. Unaffordable costs of food and energy and other necessities will push vulnerable populations into poverty and even extreme poverty.

The World Bank updated the global poverty lines in September 2022. The new extreme poverty line of $2.15 per person per day, which replaces the $1.90 poverty line, is based on 2017 purchasing power parities (PPPs) – the main data used to convert different currencies into a common, comparable unit and account for price differences across countries. As differences in price levels across the world evolve, the global poverty line has to be periodically updated to reflect these changes. The rise in the international poverty line reflects an increase in the costs of basic food, clothing, and shelter needs in low-income countries between 2011 and 2017, relative to the rest of the world. In other words, the real value of $2.15 in 2017 prices is the same as $1.90 was in 2011 prices.

As a result of the PPP update, the Eswatini poverty rate is expected to further increase at the back of the continual economic shocks pushing more people below the poverty line. Low economic activity, high unemployment especially among the youth, high dependency ratios, food insecurity, as well as a slow growing private sector are all subjecting Emaswati into the poverty status. It remains government's priority to reduce poverty in Eswatini. As such, developments such as MNWAP, LUSIP-II extension, more major roads construction, increased rural electrification, increased mobile telecoms coverages, free primary school education, input-subsidy by the Ministry of Agriculture, decentralized construction of factory shells into constituencies, increased potable water coverage, re-ignition of mining activities, planned major projects such as the Lothair, amongst other, are expected to aid Emaswati in their bid to alleviate poverty through direct and indirect impact. More projects of these magnitudes are expected to continually contribute to the eradication of poverty in Eswatini.

Part III: RESTORING MACRO-FISCAL STABILITY IN THE DOMESTIC ECONOMY

ESWATINI MEDIUM-TERM MACROECONOMIC FRAMEWORK

Overview

Despite the headwinds in 2022, characterised by a twin deficit on one hand and a stagflation on the other, emanating from the recent hikes in commodity prices (particularly food and energy prices) as induced by the Russia-Ukraine tension, and that has further triggered a hawkish monetary policy environment in short-term for the domestic economy and the world at large. In light of these developments, government remains committed to ensuring macroeconomic stability and prudent fiscal management through the use of both fiscal and monetary policies.

Short-to-medium-term macro-fiscal outlook

According to the current baseline, the short-to-medium term prospects for the Eswatini economy are on a positive side, with growth anticipated to average at 4.0 percent between 2023/24 to 2025/26, at the back of anticipated improved consumption demand, particularly private consumption which is expected to benefit from expansions in some sectors of the economy, e.g., manufacturing. Moreover, both public and private investments are also envisaged to upsurge bolstered by the expected implementation of the multi-billion mega project amongst others, the "Mkhondvo-Ngwavuma Water Augmented Project" (MNWAP) which is expected to support other sectors of the economy.

From a fiscal perceptive, in the short-term revenues are expected to increase in 2023/24 underpinned by better SACU receipts in the period coupled with some efficiency measures in domestic tax collection. Moreover, revenues are expected to average at 27.0 percent of GDP in the medium term. The better revenue outlook is expected to support continued efforts towards narrowing the fiscal deficit, despite an anticipated expansionary fiscal policy in the period. Expenditure pressures such as the replacement of critical positions in the civil service following a protracted period of hiring freeze, awarding of cost-of-living adjustment, elections and other related expenses are expected to increase total spending in 2023/24. Notwithstanding these developments, government remains committed to pursuing fiscal consolidation with expenditures projected to stabilize in the medium-term at 28.1 percent of GDP through the continued implementation of expenditure rationalizing measures. Moreover, the fiscal deficit is projected to continue to narrow averaging at 1.7 percent of GDP from 4.8 percent of GDP in 2022/23, while public debt to be stabilized at around 35.0 percent of GDP from 43.5 percent.

From an external position, the current account is anticipated to register surpluses in the short-to-medium term after recording its first deficit since 2011. The deficit in 2022, was as a result of a negative trade balance in 2022 with the rising costs of food and fuel imports, which was coupled with lower SACU in the period compared to the previous year. However, in the short to medium term, the current account balance is expected to recover benefiting from the exchange rate deprecation, which will improve Eswatini's exports earnings coupled with some gains from expansions in the export-oriented manufacturing.

In the short-term, monetary policy remains hawkish amidst the high inflationary environment as the policy rates has been increased to respond to the inflationary pressures. However, in the medium-term the restrictive monetary policy is anticipated to arrest inflation and encourage consumption and investment in the domestic economy.

Risks to the Medium-Term Macroeconomic Framework

Notwithstanding the optimistic prospects, risks to the outlook are, however, on the downside. One major risk for the outlook is the delay in the implementation of some of the envisaged projects from both the public and private sector undermining growth. Another emerging risk is the threat of a debt distress following the tightening financial conditions globally having adverse effects on the economy. Structural challenges in South Africa including the electricity crisis are expected to continue to dampen growth in RSA and result in knock-on effects for the domestic economy as its major trading partner. Risk of SACU revenue volatility, defaulting in the implementation of fiscal consolidation and weaker mobilization of domestic revenue could pose risks to macro-fiscal trajectory and debt management. Moreover, climate related risks and the continuation of geopolitical fragmentation also pose a risk to the outlook.

FIGURE 27: MACROECONOMIC FRAMEWORK - MAY 2023

Detailed Item	2020/21 Act.	2021/22 Act	2022/23 Outturn	2023/24 Projc.	2024/25 Projc.	2025/26 Projc.
			Real Sector			
Real GDP Growth (base year 2011)	**0.8%**	**5.9%**	**1.4%**	**4.7%**	**4.7%**	**3.2%**
Nominal GDP at market prices (E' Million)	66,722	71,179	76,052	82,783	89,096	94,538
GDP Deflators	155	156	165	171	176	181
Inflation	**3.9**	**3.7**	**4.8**	**5.7**	**5.3**	**5.1**
Exchange rates	16.5	14.8	16.4	17.5	17.2	17.4
Population	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
			Fiscal Sector (Shares of GDP)			
Overall balance	**-4.5%**	**-4.6%**	**4.8%**	**-2.2%**	**-1.2%**	**-0.4%**
			External sector (Share of GDP)			
Current account balance	**6.4%**	**2.3%**	**0.2%**	**3.0%**	**0.7%**	**1.3%**
Gross Official Reserves (months-of-import cover)	4.0	2.6	2.4	3.0	3.0	3.0
			Monetary sector			
Broad Money (Growth)	15.4%	0.3%	3.6%	9.4%	9.9%	-1.3%
Velocity of Money	3.15	3.35	3.33	3.31	3.30	3.30

Source: *Macro Forecasting Team.*

THE COUNTRY'S DEVELOPMENT AGENDA

The country remains committed to preserving macroeconomic stability to support the creation of wealth, ensure sustainability and equity. Strengthening macroeconomic stability through the pursuant of relevant policies is amongst the key priorities for the domestic economy. The country is currently targeting policies and strategies geared towards economic resuscitation, regaining fiscal prudence, creation of jobs, improving the investment climate, pursuing green economy as well as eradicating poverty. In pursuit of macroeconomic management, the country's development agenda is underpinned on the long-term plan, the "Vision 2022'', which is operationalised through several short-medium national and sectoral plans and aligned with regional (SADC, AU) and United Nations' development agendas. The National Development Strategy (1997 – 2022) aims at improving domestic economic performance and achieving the highest level of human development based on good governance principles, national and political stability. The strategy reached its end in 2022, and the country is in the process of developing a successor long-term strategy.

Definitions:

Upholding macroeconomic stability has been identified as the key prerequisite for sustained and inclusive development in most countries. Macroeconomic stability is said to exist when key economic relationships or linkages in an economy are in balance/ consistent. Examples of these linkages include the balance between domestic demand and output, the balance of payments, fiscal revenues, and expenditure, as well as savings and investment. However, certain imbalances could occur, such as fiscal and current account deficits or surpluses are perfectly compatible with economic stability if they can be financed in a sustainable manner.

Most recently, the country developed the National Development Plan, NDP FY2023/24 – 2027/28, which is a five-year rolling plan identifying crucial policy options to take the country to greater tides. The NDP is focused on delivering sustainable economic growth and the implementation of a fiscal consolidation, strongly backed by good governance. Six strategic policy initiatives have been prioritised in the 5-year period and these include:

a. Good governance;
b. Human capital development focusing on harnessing the demographic dividend and addressing youth unemployment;
c. Strengthening infrastructure to support economic recovery;
d. Greening economic growth through the adoption of climate change related measures to build sustainability and resilience;
e. Strengthen service delivery to improve well-being of all emaSwati; and
f. Promoting private sector to be an engine for growth.

The NDP supports existing policy frameworks implemented in the domestic economy, such as, the Post-COVID-19 recovery Plan, the Fiscal Adjustment Plan amongst others. Elements of these policies are discussed briefly below:

The Post-COVID 19 Recovery plan - is a plan that was established to resuscitate economic activity following the COVID-19 effects. The plan is mainly focused on the following aspects:

(a) a private sector-led economy that is committed to economic reforms;

(b) a focus on Big Projects for faster and higher levels of growth; and

(c) attracting high net worth individuals and investment that can transform Eswatini into the ultimate head office destination for multinational corporations.

In this regard, the Recovery Plan identified key project to be implemented over an 18-24 months' period in eight sectors that include agriculture, tourism, energy, infrastructure, manufacturing, textiles, as well as wholesale and retail. To date, investment worth E11 billion has been injected into the domestic economy, with several projects completed and a number still ongoing.

The Fiscal Adjustment Plan

the government of Eswatini committed to a fiscal consolidation in 2020, which the IMF had recommended as the linchpin for macroeconomic stability in the domestic economy to reduce public debt, eliminating arrears, and rebuilding fiscal and external buffers. The fiscal adjustment plan targets rebuilding fiscal prudency in the domestic economy following years of fiscal expansions. The FAP targets a cumulative expenditure savings equivalent to 4.2 percent of GDP by FY23/24, to be achieved through savings and efficiency gains from capital and recurrent spending i.e., wage bill, lower transfers to public enterprises, a rationalization of expenditure on goods and services, and some increases in revenue through broadening the tax base and improved tax collection.

Restoring macroeconomic stability in the domestic economy mainly hinges on the commitment and the successful implementation of these key policies. Restoring macroeconomic stability will achieve the following in the domestic economy:

1. ***Revive and stabilize economic growth:*** achieving inclusive and sustainable growth remain critical for the domestic economy. The recent economic shocks i.e., the COVID-19 pandemic, social unrests, floods, and the skyrocketing commodity prices, have further weakened growth prospects in the domestic economy, which was already slowing down prior to these catastrophic events. To improve the sluggish growth and revert the economy to a stable and upward trajectory, key strategies have been identified in the NDP aimed at revitalizing growth, which is targeted at 5.0 percent in the medium-term.
2. ***Narrow the Fiscal Deficit:*** The fiscal policy has a critical influence on macroeconomic stability. Government seeks to narrow the fiscal deficit to sustainable levels of less than 2.0

percent of GDP. The lowering of the deficit is in line with the Government Policy to reduce and stabilize debt at around 35.0 percent of GDP as targeted in the NDP. The Fiscal Adjustment Plan has been identified as a foundation for sound macro-fiscal management and a first step for a reform programme for the domestic economy, with the objective of paving a way for fiscal prudency and bringing back credibility to the national budget.

3. ***Private sector led growth:*** The current emphasis is to ensure and promote the private sector to be an engine for growth to create the needed jobs and exports to earn foreign earnings and boost the current account in the balance of payments.

4. ***Monetary stability:*** The medium-term focus is to create sufficient buffers for the economy by rebuilding the gross official reserves to be above the international requirement of 3 months import cover, which will also assist in upholding investor confidence in the Lilangeni/Rand peg.

5. ***Public sector reforms***: implementation of public sector reforms to reduce the size of the establishment and promote culture of excellency in public servants. Focus is to be on establishing monitoring and evaluation (M&E) and performance management systems as well as compliance.

Box 2: The National Development Plan: 2023/24 – 2027/28

The National Development Plan (NDP) 2023/24- 2027/28 is government's pathway towards economic recovery in the next 5 years, underlined by good governance, sound macro-fiscal management and sustainable livelihoods. It aspires to address the root causes of the economic crisis and poor public service delivery, as well as the underlying reasons for continuous poverty experienced by households and individuals and aims to improve the impacts of poverty. This NDP is focused on growth and fiscal consolidation with good governance as the anchor since it is the bolt and nut for economic development. Some of the national and sectoral outcomes it is geared to achieve are as follows:

National Outcomes	Sectoral Outcomes
1.Good governance, Economic Recovery, and fiscal stability	1. Sustainable and Inclusive Growth 2. Stop the Bleeding: Fiscal Crisis Stabilised 3. Improved Fiscal Expenditure Management 4. Resource Envelope Risks Mitigated Clarity on the Role of the Public Sector Restored
2.Enhanced and dynamic private sector supporting sustainable and inclusive growth	1. Re-engineered Economic Growth for Recovery 2. Strengthened Business Environment 3. Increased Employment-Stimulating Investment 4. Dynamic Entrepreneurship and MSMEs Fostered 5. Modernized Agriculture for Increased Resilient Production and Value Addition Climate Smart Investment
3.Enhanced Social and Human capital development and sustainable livelihoods.	1. Improved Access to Quality Health and Health-related Services 2. Improved Access to Quality, Relevant and Inclusive Education and Lifelong Learning Opportunities 3. Improved Management and Access to Safe Drinking Water Sanitation and Hygiene 4. Enhanced Food Security and Nutritious Food 5. Reduced Poverty Rates in all its Forms 6. Enhanced Social Cohesion and National Unity 7. The Youth and Other Vulnerable Groups Empowered with Adequate Skills and Opportunities 8. Improved and Well-targeted Social Protection Services 9. Improved Decent Housing for Vulnerable emaSwati
4.Efficient Public Service Delivery that respects human rights, justice and the rule of law	1. An Efficient, Productive, Dependable and Modern Government Service 2. Safe and Secure Country and Living Environment 3. Strengthened Implementation and Enforcement of Human Rights, Law and Order, and Constitutionalism 4. Enhanced Service Delivery Focused on Improving Citizens Livelihoods Rural Communities Developed
5.Well managed natural resources, environmental sustainability and disaster risk management.	1. Improved Management of Water Resources, Access to Safe Drinking Water and Sanitation for all 2. Improved Land Governance, Land Use Planning and Management 3. More Equitable, Inclusive, Sustainable and Appropriate Management of Energy, Renewable and Non-renewable Natural Resources 4. Improved National and Community Resilience to Climate Change impacts and Disaster Risks 5. Clean and Safe Environment and Sustainable Use of Natural Resources Enhanced Enabling Environment for Green Growth Strengthened
6.Efficient economic infrastructure, network and innovation.	1. Upgraded Physical Infrastructure to Enhance Access and Connectivity 2. Improved Coverage, Quality, Reliability and Affordability of Digital Infrastructure and Services 3. Sustainable, Clean and Affordable Energy Secured Investments in Water Services Sector strengthened

Source: *Ministry of Economic Planning and Development*

Annex 1: Eswatini GDP Forecasts as at January 2023

	Projections as at January 2023 Review						
Description	2019	2020	2021	2022	2023	2024	2025
Agriculture and forestry	3,679	3,401	3,487	3,542	3,636	3,900	4,001
Growing of crops	1,247	1,231	1,150	1,164	1,189	1,362	1,434
Growing of crops: ITF	1,059	1,061	954	910	959	1,085	1,176
Growing of crops: SNL	188	170	196	253	229	277	257
Animal production	1,751	1,536	1,612	1,588	1,635	1,668	1,683
Support activities to agriculture	164	167	169	193	185	211	205
Forestry and Logging	516	467	556	597	627	659	680
Mining and quarrying	38	47	49	74	76	55	61
Primary sector	**3,716**	**3,448**	**3,536**	**3,616**	**3,713**	**3,956**	**4,062**
Manufacturing	13,618	12,250	14,282	14,139	14,717	15,787	16,992
Electricity	428	368	474	540	585	615	656
Water supply	168	147	169	166	169	173	176
Construction	1,316	1,249	1,249	1,141	1,207	1,416	1,245
Secondary sector	**15,530**	**14,013**	**16,174**	**15,985**	**16,679**	**17,990**	**19,068**
Wholesale and retail trade	5,821	5,819	5,778	5,648	5,768	5,874	5,756
Transportation and storage	1,088	969	956	992	1,028	1,118	1,103
Accommodation and food service	301	199	203	323	412	492	530
Information and communication	1,303	2,518	2,697	2,918	2,957	3,083	3,288
Financial and insurance activities	2,683	2,555	3,345	3,207	3,579	3,894	4,141
Financial service act., except insurance	1,909	1,866	1,976	2,156	2,420	2,653	2,813
Insurance and pension funding	597	516	1,175	854	951	1,011	1,073
Activities auxiliary to financial services	178	173	194	197	208	231	255
Real estate activities	2,417	2,357	2,363	2,375	2,466	2,531	2,603
Real estate activities, market	1,365	1,328	1,322	1,322	1,400	1,452	1,511
Owner-occupied dwellings	1,052	1,029	1,041	1,053	1,066	1,079	1,092
Professional, admin and support services	1,635	1,699	1,521	1,733	1,774	1,822	1,872
Public administration and defense	2,661	2,692	2,658	2,613	2,883	2,772	2,772
Education	2,976	3,087	3,266	3,249	3,280	3,316	3,352
Human health and social work activities	938	1,156	1,227	1,121	1,163	1,175	1,187
Arts, entertainment, and recreation	146	105	102	175	240	264	287
Other service activities	84	95	96	103	104	105	106
Activities of households as employers	93	95	96	83	84	85	86
Tertiary sector	**22,147**	**23,346**	**24,308**	**24,538**	**25,737**	**26,529**	**27,082**
Unspecified (FISIM)	-616.81	-631.84	-680.82	-734.82	-774.06	-819.29	-832.06
Total: All industries	**40,777**	**40,176**	**43,336**	**43,405**	**45,354**	**47,656**	**49,380**
Taxes on products	2,077	2,010	2,175	2,284	2,392	2,524	2,559
GDP by economic activity	**42,854**	**42,186**	**45,511**	**45,688**	**47,746**	**50,180**	**51,940**
GDP Growth (%)	**2.7**	**-1.6**	**7.9**	**0.4**	**4.5**	**5.1**	**3.5**

Annex 2: Inflation Developments

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Headline	5.7	5.0	7.8	6.2	4.8	2.6	3.9	3.7	4.8
Food	6.3	4.2	15.0	8.1	0.0	2.2	4.3	4.8	8.5
Housing & Utilities	3.5	4.6	4.6	7.0	12.4	3.7	4.5	4.4	2.8
Transport	8.8	4.1	9.6	3.9	4.0	1.1	3.4	2.8	7.8
Other	5.6	6.1	4.1	4.4	2.4	2.0	2.4	2.6	3.6
Core Inflation	5.5	5.3	5.0	5.5	6.7	3.1	4.1	2.5	1.8
Policy Rate: Discount	5.1	5.5	6.8	7.3	6.8	6.6	4.5	3.8	5.0
Policy rate: Prime	8.6	9.0	10.3	10.8	10.3	10.1	8.0	7.3	8.5

Notes