ECONOMIC REVIEW AND OUTLOOK 2019 - 2022

Ministry of Economic Planning and Development

May 2020

Ministry of Economic Planning And Development 2020©

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EXECUTIVE SUMMARY

Economic growth in Eswatini is estimated to have declined from 2.4 percent in 2018 to 1.3 percent in 2019. Underpinning the decline in growth was a slump in economic activity in the primary and tertiary sectors of the economy. Furthermore, the continued government's fiscal challenges which constrained public expenditure, coupled with the adverse weather conditions predominantly resulted in the poor performance of these sectors. Economic growth forecasts for 2020 had given prospects for economic recovery with a projection of more than 2 percent, however, with the global outbreak of the novel corona virus disease of 2019 (COVID-19), the country's economic growth projections have been revised downwards and a significant contraction in economic activity is anticipated in 2020.

The 2019 performance of 1.3 percent in economic growth is explained by mixed performance within the three major sectors of the economy. The primary sector contracted by 4.6 percent largely due to a slump in economic activity in the agriculture and mining subsectors. Agricultural activities were affected significantly by adverse weather conditions in particular the growing of crops such as sugar-cane and maize production. On the other hand, mining activity remained subdued due to geological constraints hindering production, even though it had shown signs of recovery. The secondary sector, on the contrary rebounded as it recorded a growth of 6.4 percent against a contraction of 0.1 percent in 2018. The sector's stellar performance is attributed to increased economic activity in the manufacture of beverages subsector due to improved external demand emanating particularly from the Republic of South Africa (RSA). The tertiary sector's performance was affected by constrained public spending which contributed to tepid demand resulting in decrease in growth to -1.3 percent from the 3.1 percent recorded in 2018.

On the external front, economic growth among Eswatini's major trade partners remained sluggish. Global growth declined from 3.6 percent in 2018 to 2.9 percent in 2019. The African Growth and Opportunity Act (AGOA) which offers a market to the USA witnessed a decrease in economic activity due to its protracted trade tensions with China. The European Union (EU) which is the world's largest economic bloc, and allows Eswatini to integrate economically via the Economic Partnership Agreement (EPA) and European Free Trade Agreement (EFTA), experienced economic contraction. This was due to the second-round effects of the trade tensions between the USA and China, which weakened manufacturing activity particularly in its leading economy, Germany and the uncertainty surrounding Brexit. On a positive note, there was a marginal acceleration in growth brought about by the

recovery of commodity prices particularly oil and provided a boost to the Sub Saharan Africa's (SSA) economy. Nonetheless, the continent's economic performance record for the period varied across countries. Nigeria, which is one of the largest economies in Africa, had a surge in its economic activity owing to increased oil prices. Whilst on the contrary, RSA's economy, Eswatini's main trading partner, succumbed to a technical recession in the first half of 2019 due persistent power outages, unsustainable debt levels by public enterprises, labour strikes, adverse weather conditions as well as weak external demand.

The initial economic growth projections for the medium term outlook beginning 2020, had indicated a resurgence due to improved government spending spurring growth in the tertiary sector coupled with improved weather conditions to favour agricultural activity, as well as improved external demand particularly emanating from RSA. These had to be revised downwards to incorporate the adverse potential economic impact of the COVID-19 outbreak. The devastating effect of the pandemic on the economy is expected to emanate from disruptions in production, weakened domestic and external demand, travel restrictions, and a fall in commodity prices among other factors. Owing to the uncertainty surrounding the duration of the pandemic and lockdown, projections for the medium-term outlook have been estimated based on different scenarios. Optimistic scenario is when the outbreak lingers for a moderate time period of 8 months with the lockdown extended for 1 to 2 months, growth is anticipated to contract to -1.9 percent. Whilst the pessimistic scenario, for a much prolonged duration of outbreak to 12 months and the lock-down extended for 3 to 4 months, growth is projected to drop off a further 4.3 percentage points and hence plummet to -6.2 percent.

On domestic price development, inflation declined from 4.8 percent in 2018 to 2.6 percent in 2019 promising improvements towards macroeconomic stability and consolidation. Declines in inflation occurred in the following categories - communication, transportation, as well as housing and utilities underpinning moderation in the general price level. The price moderation afforded the Central Bank of Eswatini (CBE) the opportunity to adopt an accommodative monetary policy stance to cushion economic activity.

The 2019 sluggish performance of the domestic economy as well as the headwinds presented by weakening global and regional economic performance (particularly RSA), influenced the CBE's monetary stance for the year, as the discount rate was reduced from 6.75 percent in 2018 to 6.5 percent in 2019. In accord, the prime rate declined as well. This accommodative monetary stance boosted total credit extension to households, whereas credit extension to business saw a dip. Gross official reserves, a

related monetary development saw a dip to 2.6 months import cover owing to continued government's fiscal challenges.

Trade performance improved significantly with exports far exceeding imports, as reflected in the increase in the trade surplus from E568 million in 2018 to E2.4 billion in 2019. There was a surge in exports of the three major export lines – miscellaneous edibles, sugar, and textiles. Textiles benefitted from the country re-admission into AGOA. Informing this strong performance in exports was partly because of the depreciation of the Lilangeni making exports relatively cheaper on the international market. The Lilangeni which is anchored to the RSA rand, depreciated against all three major currencies and in particular against the US dollar, it averaged E14.40 in 2019 compared with E13.20 in 2018. The country's major trading destination in terms of exports and imports remains the SACU region.

The fiscal situation improved modestly with increased revenue collection but unfortunately expenditure increased as well. Revenue collection increased in 2019/20 fiscal year partly due to the introduction of an excises levy on alcohol and cigarettes (sin tax) as well as improved VAT collection. For expenditure streams, recurrent expenditure takes the bulk of the budget compared to capital expenditure. The situation is expected to worsen in the fiscal year 2020/21, as demand for intervention measures to combat COVID-19 pandemic increase and government desiring to invest for economic recovery and this happening at the back of a much weaker revenue inflows.

The baseline medium-term macroeconomic framework reflects an urgent and serious need for restrains and adjustment of expenditures culminating in the development and implementation of an adjustment plan in the medium term. This will re-set the path for fiscal consolidation and macroeconomic stability as COVID-19 continues to amplify strain on the fiscal position that was already in a weak position prior to the outbreak. Notwithstanding the pressure on the budget due to COVID-19, delayed reforms will result in increased fiscal deficits, debt levels and difficulty to honour debt service obligations, and further deplete foreign reserves thus threatening sustainability of the Rand/Lilangeni peg. In addition, continued government's spending results in the accumulation of arrears and negatively impacting on the credibility of fiscal policy and provision of services in health and welfare. To improve on the confidence and credibility of government's efforts to stabilise the economy, an adjustment of the budget equivalent to 6 percent of GPD in the medium term is imperative. This calls for the implementation of necessary, albeit difficult reforms both in expenditure and revenue measures.

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1. INTRODUCTION

The Economic Review and Outlook provides an analysis on economic developments within the domestic economy for the year 2019 and a similar narrative on the medium-term outlook which spans from the period 2020–2022. To reflect on the country's economic status as a small open economy, the analysis also captures economic developments in the global economy as well as those of SSA and SACU.

A key insight from the report is that global economic activity as well as domestic economic activity slumped in 2019. At the continental front, a resurgence in commodity prices marginally increased SSA's economic growth. However, for Eswatini's major trade partner, RSA, economic activity saw a decline. Economic activity in the domestic economy succumbed to weaker demand emanating from government's fiscal challenges as well as adverse weather conditions and consequently slumped.

Concerning the report's key insights on the medium-term outlook, earlier projections for 2020 anticipated a resurgence in global and continental economic activity, afforded by the easing of uncertainty posed by Brexit and trade tensions, improved weather conditions as well as an uptick in commodity prices. However, the advent of the COVID-19 outbreak has cast doubt on an expected positive outlook as production disruptions, weakened demand, and labour supply disruptions among other factors could linger than expected and as a result dwindle economic activity. The outlook for the domestic economy, which was equally earlier projected to see a surge in economic activity, has been revised to dovetail economic happenings regionally and globally as a result of disruptions induced by the COVID-19 pandemic. Revised economic projections for Eswatini is now based on scenarios, conditional on the pandemic's duration, with a much more protracted time period expected to induce a more pronounced slump in economic activity.

The remainder of the report is structured as follows: Section 2 provides an economic review and outlook of international developments and assessment of its implication on the domestic economy. Section 3 reviews economic developments and prospects in the domestic economy; assessing the four pillars namely real, monetary, external, and fiscal sectors.

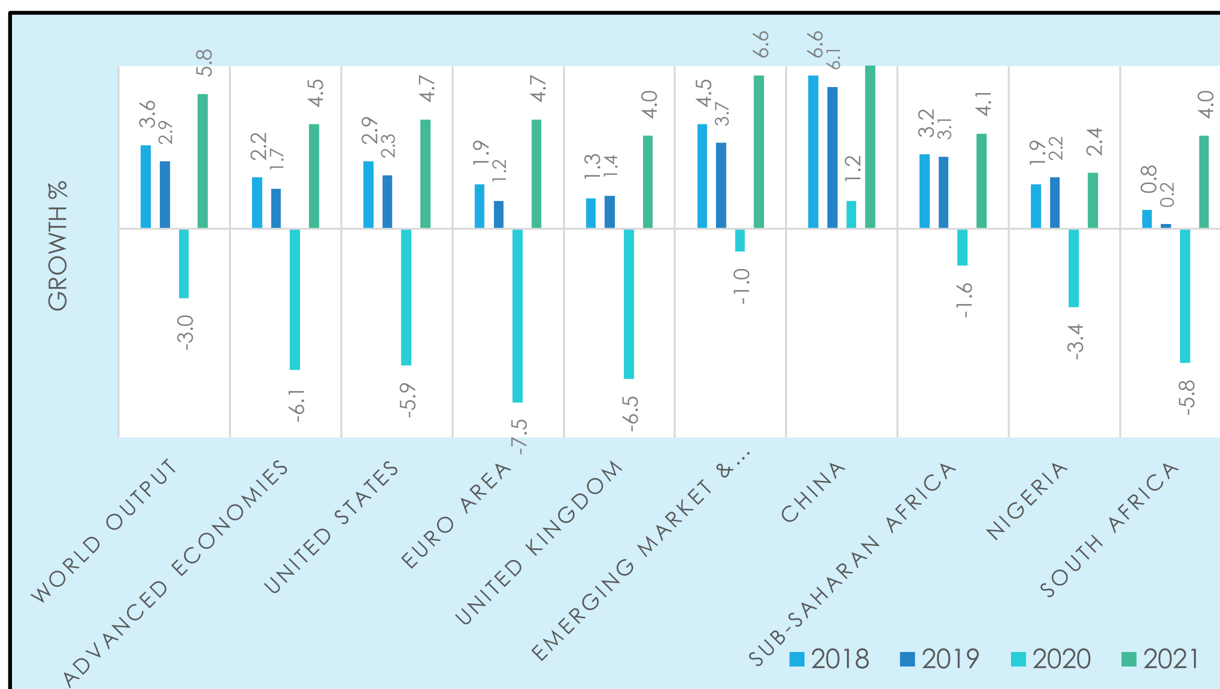
2. INTERNATIONAL ECONOMIC DEVELOPMENTS

Global economic growth decelerated to 2.9 percent in 2019, from the 3.6 percent recorded in 2018. This reduction in global growth showed a sharp decline coupled with normalization to historical trends of under-performing and stressed emerging market and developing economies (including Brazil, India, Mexico, Russia, and Turkey). The economic under-performance emanated from a reduction in trade growth, reflecting slumps in demand and investment.

Global growth for the mid-term was expected to increase marginally from 2.9 percent in 2019 to 3.3 percent in 2020. However, the advent of the COVID-19 pandemic has dented this prospect. Global growth has been revised downward to -3 percent for 2020 and expected to increase to 5.8 percent in 2021 conditional on the assumption that the pandemic is abated in the second half of this year. Specifically, for SSA, the pandemic is projected to slump the region's growth by -1.6 percent in 2020, with a rebound in growth of 4.1 percent expected in 2021.

The two major economies within the region, Nigeria and RSA, are expected to suffer much larger economic contractions than the regional average as the pandemic's toll on their economies is expected to be -3.4 percent and -5.8 percent, respectively in 2020. However, assuming the pandemic eases-off in the second half of this year, a rebound in economic activity is expected for these two economies. Globally, in 2020 economies will protect lives and allow health care systems to cope through required isolation, lockdowns, and widespread closures to slow the spread of the virus. The health crisis will therefore have a severe impact on economic activity. As a result of the pandemic, the global economy contraction is anticipated to be much worse than the 2008/09 financial crisis.

Figure 1: Global GDP Growth Estimates (2018-2019) & Projections (2020-2021) (%)



Source: *World Economic Outlook, April 2020*

North America

The economy of the USA led growth among the major advanced economies in 2019, leading with a growth rate of 2.3 percent which was a slowdown from the previous year's 2.9 percent. This economic slowdown was largely due to uncertainty surrounding trade policy that had not subsided due to the year-round trade wars with China. This run-around uncertainty led to lower growth rates as businesses in the US adopted a "wait and see" attitude, coupled with long-term demographic trends signalling a significant reduction in labour force. In as much as this hurt labour productivity, the US Government was prompted to lure more people into the workforce with a combination of "carrots and sticks". The carrots included tax cuts that increased take-home pays, while the sticks included work requirements and other adjustments to safety-net programs.

Developments in the US economy are of concern to Eswatini businesses for their vital role as a source of inputs and a consumer of some of Eswatini exports through the AGOA agreement. Consumer spending continues to be the main driver of economic growth for the US economy, giving opportunities to boost exports to the US.

Europe

The European economy has shown resilience amid a less supportive external environment. Economic growth in the Euro area continued in 2019, and there has been robust job creation coupled with strong domestic demand for goods and services. However, the European economy has been facing troubled waters in 2019 through prolonged periods of high uncertainty related to trade conflicts, rising geo-political tensions, persistent weakening of the manufacturing sector, and uncertainty surrounding Brexit. These pressures are anticipated to continue to dent expected economic growth rates.

European countries currently account for over 4.5 percent of Eswatini's total trade, boosted by the Economic Partnership Agreement (EPA) between the EU and the Southern African Development Community (SADC). The UK is one of Eswatini's largest trading partners through the EFTA agreements, hence trade agreements created between the Southern African Customs Union (SACU) and the UK after Brexit will determine exports to these areas.

Asia

Growth in emerging and developing Asia continues to display the highest regional growth in the world, growing as a region at 5.6 percent in 2019. Nevertheless, growth in the region has declined slightly, weighed down by the negative effects of the continued trade tensions between the USA and China. The envisaged partial roll-back of past tariffs and pause in additional tariff hikes as part of a "phase one" trade deal with the United States is likely to lessen near-term recurring weakness in China. However, unresolved disputes on broader US-China economic relations as well as needed domestic financial regulatory strengthening are expected to continue weighing on activity.

Growth in Japan was perpetual at 1 percent in 2019, which showed a 0.1 percentage point increase of the 0.9 percent recorded in 2018. This increase on growth reflects healthy private consumption, supported in part by government counter-measures that accompanied the October 2019 increase in the consumption tax rate, robust capital expenditure, and historical revisions to national accounts. In 2019, economic activity in the Taiwanese economy was faced with low economic growth due to lower demand from trade partners as well as tensions that took place between China and the United States. Growth rates stood at a 2.7 percent in 2018, fell to 2 percent in 2019 and is expected to fall further to 1.9 percent in 2020 at the back of continued trade wars. Outlook for trade between Eswatini and

Taiwan is expected to improve bolstered by the signed of the Economic Cooperation Agreement (ECA) in 2018, which is expected to remove tariffs on 153 export items thus encouraging increased exports.

Sub-Saharan Africa

The growth of the Sub-Saharan African region is continually recovering, although the increasing number of countries e.g. Mozambique and Zambia in debt-distress is limiting the region's growth. Growth slightly improved from 3.2 percent in 2018 to 3.3 percent in 2019. The expected recovery, however, was at a slower pace than previously envisaged for about two-thirds of the countries in the region, partly due to a challenging external environment. Growth in Nigeria was estimated at 2.3 percent in 2019, marginally higher than 1.9 percent in 2018. This growth was attributed mainly in transport, an improved oil sector, as well as information and communications technology. On the other hand, agriculture in the Nigerian economy was hurt by sporadic flooding and by conflicts between herdsmen and local farmers. Kenya, in Eastern Africa, recorded an estimated 6.8 percent in 2019, slightly down from 7 percent in 2018. A markedly diversified economy, characterized by robust private consumption, substantial public spending, strong investment growth, and an upturn in exports underpinned the growth in the period under review. Nigeria, Kenya, and Tanzania are consistently among Eswatini's top five export destinations thus remain an important export market for the domestic economy.

SACU Region

Growth in RSA is estimated to have declined from 0.8 percent in 2018 to 0.7 percent in 2019 amid domestic and global downside risks. Contraction in agriculture and mining contributed to slow growth in 2019. Agriculture and mining contracted by 4.8 percent and 1.7 percent respectively in 2019. Besides erratic weather, a prolonged debate about land reform weighed on agriculture. Electricity shortages and prolonged strikes contributed to the mining sector output decline. Manufacturing production was depressed by frequent electricity shortages, higher input prices, and weak demand amid on-going international trade tensions.

The outlook for RSA is continually uncertain and although growth is expected to pick up gradually, this will largely depend on gradual improvements in business and consumer confidence, and more effective public infrastructure spending will be partially offset by slower global growth. While there has been progress on economic reforms, more effective implementation is needed. Government's efforts to stabilize state-owned companies including the reconfiguration of Eskom, and infrastructure

reforms are expected to support faster growth and investment in the years ahead. Measures to relieve policy uncertainty and blockages have begun to yield results that will support investment in mining, telecommunications and tourism.

External developments will also play a critical role, however, exchange rate developments such as the appreciation of the Rand relative to major trading currencies could reduce demand for exports. Moreover, weakened commodity prices could exacerbate the pressure on the RSA mining sector. Positive supply-side developments in the mining sectors of Namibia and Botswana, on the other hand, are continually expected to stimulate growth for the two countries in the medium-term. Eswatini is heavily trade dependent on the SACU region, particularly on RSA, with over 70 percent of exports destined to the region and over 75 percent of imports sourced from the region.

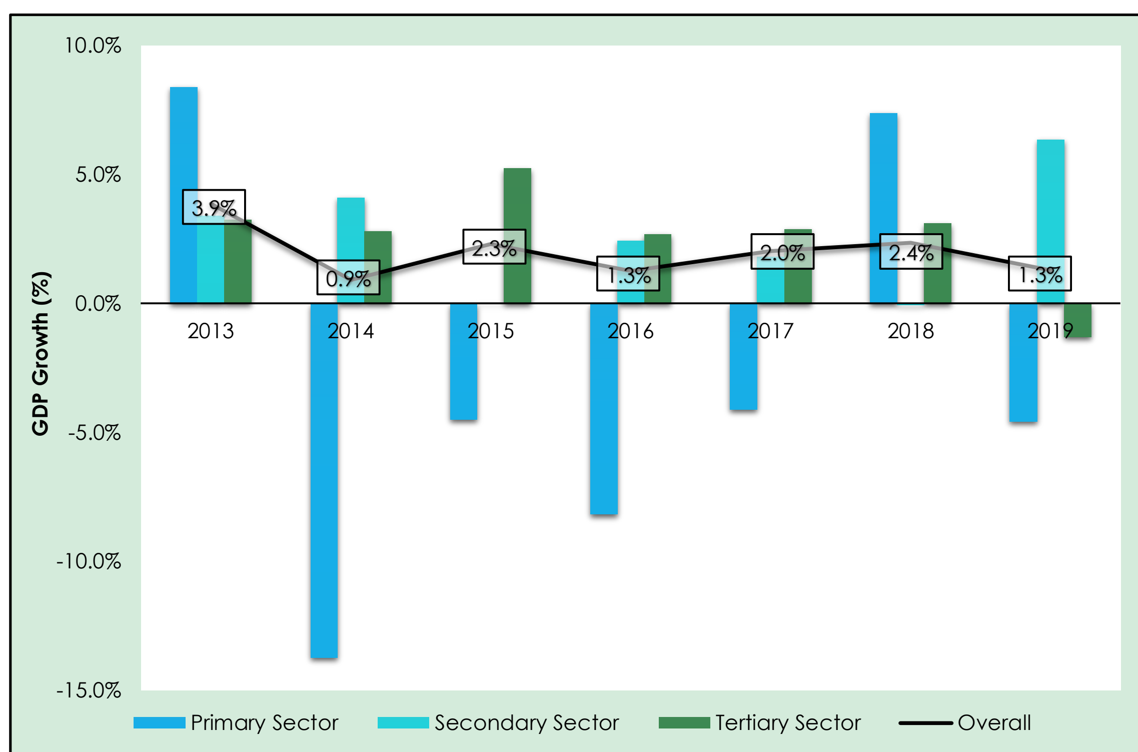
3. DOMESTIC ECONOMIC DEVELOPMENTS

3.1. REAL SECTOR DEVELOPMENTS – ECONOMIC GROWTH

The total value of goods and services produced within the economy i.e. gross domestic product (GDP) slumped in 2019. To emphasize, GDP growth was not only lower compared with that of 2018 which stood at 2.4 percent, but it was revised down[1] (marginally) from 1.4 percent to 1.3 percent. Analysis of historical economic growth figures indicate that the last time GDP performance hit a similar position was 2016, and for the period spanning 2013 to 2019, with the year 2014 having been the worse.

[1] A GDP revision exercise is normally undertaken in January by the Macro unit in the Ministry of Economic Planning and Development and the Real sector unit of the Central Bank of Eswatini.

Figure 2 : Overall GDP and Sectoral Growth



Source: *CSO –National Accounts Unit, Macro Unit - MEPD & Research Unit- CBE*

The underlying reasons for the decline in economic growth can be attributed chiefly to government's fiscal challenges and unfavourable weather conditions. Specifically, adverse weather conditions dwindled economic activity in the agricultural sub-sector, notably, the production of sugarcane and consequently that of sugar. Government' fiscal challenges on its part led to limited public expenditure and an acceleration in the accumulation of arrears which had an adverse effect on sub-sectors performance including wholesale and retail, public administration, tourism, and construction that rely significantly on demand induced by public expenditure.

In the medium term beginning in 2020, economic growth was expected to see a rebound due to the anticipated easing of government's fiscal position resulting from an inflow of SACU receipts, an improvement in weather conditions to benefit mostly the agricultural sub-sector, and the sustenance in external demand from RSA expected to at least maintain the positive performance of the manufacturing sector. However, the on-going outbreak of the COVID-19 virus is expected to hamper growth at least for the year 2020 and possibly the following years depending on the severity and longevity of the outbreak.

3.1.1. Primary Sector developments

Primary sector activity after experiencing a rebound in 2018, contracted by 4.6 percent in 2019. Agriculture and forestry as well as mining and quarrying, which comprise the two main sub-sectors of primary economic activity both saw a dip in their performance with that of the latter been more pronounced (-17.9 percent). Delving into agriculture and forestry activity, all activities i.e. growing of crops, animal production, and agricultural support activities, but forestry and logging experienced a decline in growth. For the medium term, the outlook for primary sector economic activity is positive as conditions including adverse weather conditions, geological constraints, technical hitches and low demand emanating from reduced construction activity, that accounted for the sectors slump are expected to have waned or abated.

Growing of Crops

Output from the growing of crops declined by 8.5 percent in 2019 from a height of 26.2 percent in 2018. Swazi Nation Land (SNL) under which maize and cotton are grown slumped by 11.8 percent. Informing this drop was the decline in maize production which was large enough to offset the modest increase in cotton production. The slump in maize production of 15.1 percent emanated from two factors, first, adverse weather conditions which contributed to a rise in post-harvest losses, and second, lapses in the implementation of government's subsidy programme which reduced the number of hectares ploughed. The bundle of crops grown under individual tenure farms (ITF) suffered a similar fate in performance as their collective growth dipped by 7.9 percent. Sugarcane production, which is a salient crop grown under this umbrella of farms saw a 9.1 percent decline in its growth. Consequently, sucrose production plummeted as well, leading to their yields per cane dwindling from 14.1 percent in 2018 to 13.9 percent in 2019.

Figure 3: Maize Production

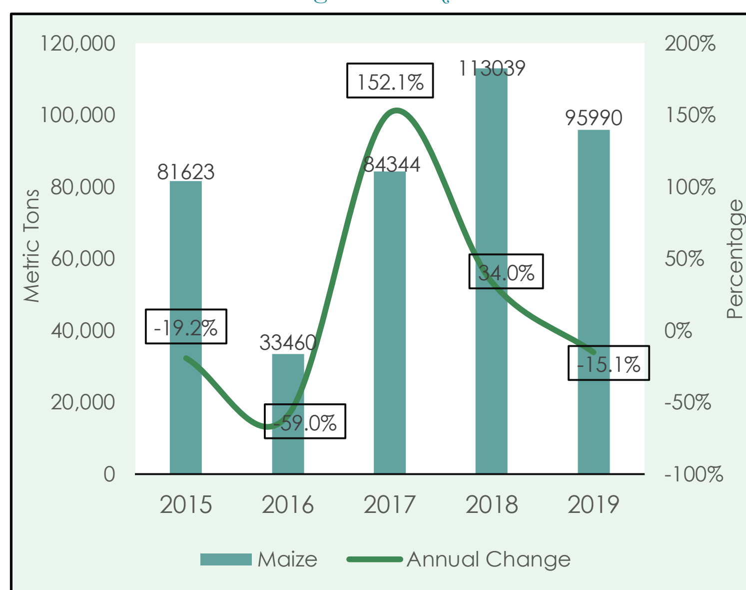
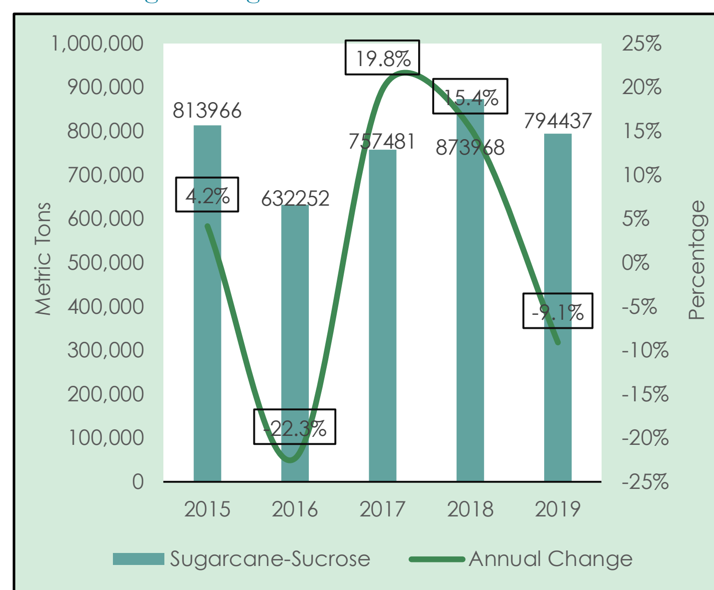


Figure 4: Sugarcane Production



Source: *CSO –National Accounts Unit, Macro Unit - MEPD & Research Unit- CBE*

Animal Production

Animal production activity contracted by 2.4 percent in 2019 compared with a decline of 3.7 percent in 2018 indicating that the sub-sector is on a trajectory of recovery from the El Nino shock. Cattle stocks which were among the severest affected by the El Nino shock, owe their increased performance in 2019 to an improvement in pastures. Similarly, poultry and pig production saw an improvement in growth with that of the latter largely driven by a surge in breeding.

Forestry

Although the growth of forestry activity remained positive at 1.8 percent in 2019, it signified a deceleration in performance as that of 2018 stood at 8.1 percent. Underlying this subdued performance were production constraints inclusive of forest fires and capacity constraints that basseted sub-contractors at the operational level. Additionally, weak external demand for wood related products from RSA contributed to the subdued performance.

Mining

Mining activity continued its decline in growth in 2019 albeit at a decelerated rate. Specifically, the decline in the sub-sector's growth saw a modest improvement as it declined from negative 26.5 percent in 2018 to negative 17.9 percent. A slump in coal production was the main culprit for the sub-sector's continued poor performance. Geological constraints as well as unreliable power supply were the main

constraints to the production of coal. Other minerals notably gold and iron at least saw a sustenance in production volumes, are still small scale and hence could not offset the hefty reduction in coal production.

3.1.2. Secondary Sector developments

Secondary sector activity rebounded in 2019 recording a growth rate of 6.4 percent against a contraction of 0.1 percent in 2018. Underlying this positive development was the significant resurgence in performance of the manufacture of beverages sub-sector. Growth in other sub-sectors decelerated but remained in positive territory. Of notable exception was the construction sub-sector which declined in performance, reflecting the fact that it was still reeling under government's fiscal challenges. The sector's medium-term outlook is expected to see a slump owing to supply disruptions and weakened external demand for manufactured products.

Table 1: Secondary Sector Growth

	2015	2016	2017	2018	2019
Manufacturing	1.8	1.5	3.2	-0.4	7.3
Electricity, gas, steam and air conditioning supply	-33.9	-31.8	11.3	20.3	2.3
Water supply; sewerage, waste management and remediation activities	-12.9	1.6	-6.8	1.7	1.4
Construction	9.4	20.0	-9.9	-0.3	-1.1
Secondary sector	**1.1**	**2.4**	**1.8**	**-0.1**	**6.4**

Source: *CSO –National Accounts Unit, Macro Unit - MEPD & Research Unit- CBE*

Manufacturing

After taking a dip in 2018, manufacturing activity surged in 2019, largely due to significant growth in most of its sub-sectors except for the manufacture of food products and sugar. The manufacture of food products contracted by 3.6 percent from a height of 10.6 percent in 2018. Informing this decline was the low production of beef which was still suffering from dwindled stock numbers due to the El Nino-induced drought in earlier years. Other food production activity such as fruit canning, dairy processing and sugar confectionary products faced challenges in the form of weak external demand, imported cheap substitutes, and the re-allocation of production activity externally which hampered

their growth. Sugar production also slumped from 14.9 percent in 2018 to -9.5 percent in 2019 largely due to the fall in sugarcane and sucrose yields.

Table 2: Manufacturing Sector Growth

	2016	2017	2018	2019
Manufacture of Food Products	-9.0	0.0	10.6	-3.6
of which Sugar	-15.7	10.9	14.9	-9.5
Manufacture of Beverages	3.0	4.1	-5.4	10.9
Manufacture of Textiles & Wearing Apparel	7.5	5.3	7.6	9.6
Manufacture of wood and wood products	55.0	10.2	5.1	15.6
Other manufacturing	1.2	-3.2	-2.2	2.8
Overall	**1.5**	**3.2**	**-0.4**	**7.3**

Source: *CSO –National Accounts Unit, Macro Unit - MEPD & Research Unit- CBE*

The manufacture of beverages recovered from its slump as the sub-sector upturned the negative growth recorded in 2018 into a significant growth of 10.9 percent in 2019. The sub-sector's recovery emanated from two factors, first, the resurgence in external demand from RSA which dwindled due to the recession and second, the weathering in by Eswatini's beverage manufacturers of the sugar tax imposed in RSA. The resurgence in external demand from RSA also afforded a boost in growth of the manufacture of textiles & wearing apparel sub-sector. Similarly, an increase in both domestic and external demand spurred growth in the manufacture of wood and wood products sub-sector.

Construction

Growth in construction activity continued its decline. The sub-sector's growth deteriorated further from -0.3 percent in 2018 to -1.1 percent in 2019. Government's continued fiscal challenges meant that there was a delay in the implementation of some public projects and for those that were implemented a delay in payments implied cash-flow constraints for contractors. Hence the continued slowdown in construction activity.

Utilities

The utilities sub-sector, comprising water and electricity continued to grow in 2019 but at a decelerated rate. The dip in growth was more pronounced for electricity i.e. about -17percentage point difference

from the 2018 figure. Unfavourable rainfall conditions as well as a dip in demand were the underlying sources of the decline in performances for utilities particularly electricity which rely on hydro generation.

3.1.3. Tertiary Sector

Having seen a growth of 3.1 percent in 2018, tertiary sector activity declined by -1.3 percent in 2019. The sub-sector that accounted for most of the sector's poor performance was wholesale and retail. In general, most economic activity within the tertiary sector depends chiefly on government spending-induced demand within the economy. Hence, government's fiscal challenges weighted significantly on wholesale and retail activity as well as domestic tourism. In the medium-term, the sector is expected to see a decline in economic activity due to a decline in external demand and disruptions in global value chains.

Figure 5: Tertiary Sector Growth

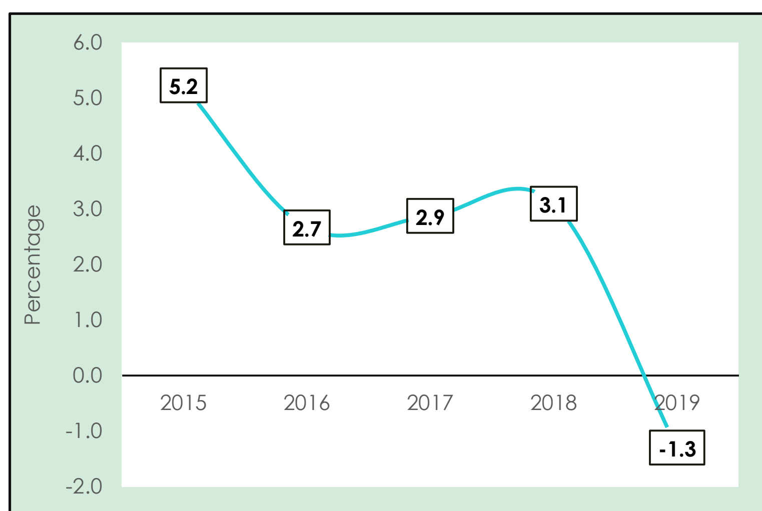
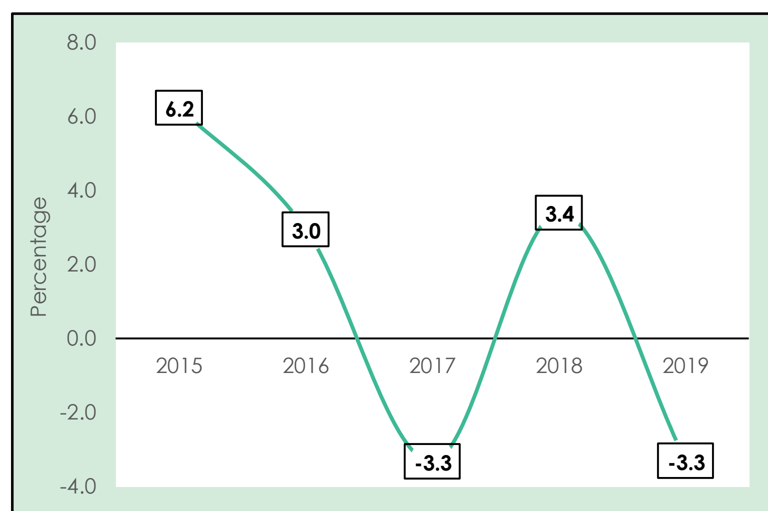


Figure 6: Wholesale & Retail Performance



Source: *CSO –National Accounts Unit, Macro Unit - MEPD & Research Unit- CBE*

Wholesale and Retail Trade

Wholesale and retail activity contracted by 3.3 percent in 2019 against a growth of 3.4 percent in 2018. Informing this significant decline in activity was largely government's fiscal challenges which resulted in delayed payments for some services rendered as well as the inability to offer a cost of living allowance for public servants. Particularly on the latter factor, this meant that real wages remained subdued in 2019 and consequently enfeebled consumer demand and/or real purchasing power. What is more,

relatedly government's arrears accumulated against construction firms also contributed to a slump in the demand for construction and related products. An additional reason for the sub-sector's decline in activity emanated from the increased presence of cheaper imported substitutes which posed a challenge to domestic vehicle retailers.

Public Administration

Since 2016, activity in this sub-sector has grown at a decelerated rate and finally contracted by 2.8 percent in 2019. Accounting for the sub-sectors adverse growth are government's fiscal challenges. Such challenges led to a freeze in hiring of new workers, strained spending as well as stagnated wage growth for the public sector.

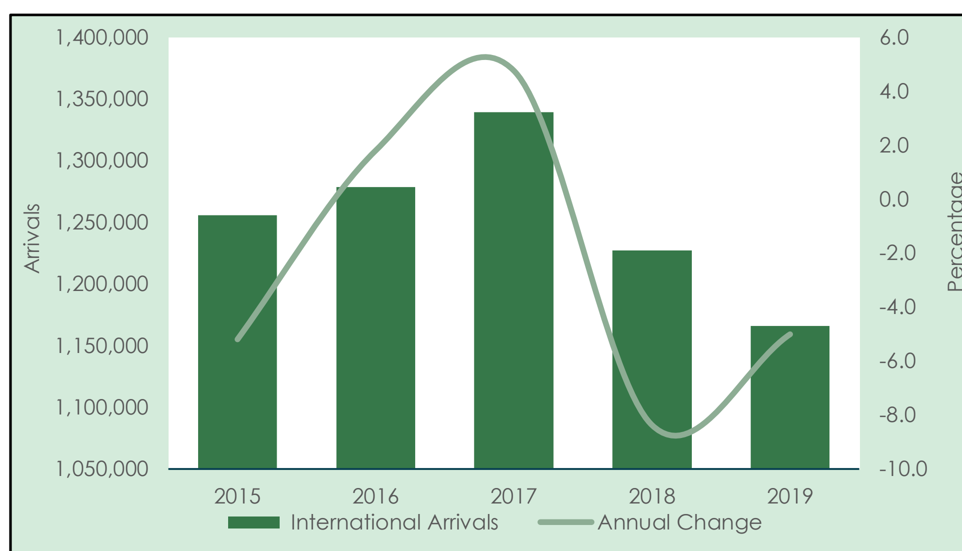
Financial Sector

The financial sector continued to see an increase in growth in 2019. However, the sub-sector's growth had decelerated given the fact that the 2019 figure of 2.5 percent compares unfavourably with that of 2018 which stood at 12.2 percent. The deceleration in growth was observed for all sub-activity i.e. financial services activities, insurance and pension funding, and other financial activities in the financial sector. Contributing to the modest growth of the financial sector was, among others, the increase in credit extension by financial service institutions, notably banks which boosted their revenues through increased interest income. However, the tepid economic growth as well as government's fiscal challenges in 2019 adversely affected the clients of most financial institutions and hence hampered growth. Additionally, compliance with certain statutory regulations also contributed to the erosion of income for some financial sector players which also contributed to their relatively weaker growth.

Tourism

The decline in growth for the tourism sub-sector continued in 2019. The sub-sector contracted by 5.0 percent compared with that of 2018, which stood at 8.4 percent of the sector hence providing a glimpse of recovery in tourism activity. The sub-sector's performance is anchored on external demand i.e. international tourist arrivals as well as patronage of conference facilities by mostly the government and NGOs. However, government's fiscal challenges suppressed the demand for conference activities by public institutions thus resulting in a decline in revenue for some tourism enterprises. Furthermore, tepid economic growth in RSA, increasing competition from other tourist destinations particularly in Mozambique, as well as a reduction in patronage from foreign tourists notably from the EU, contributed to a decline in international arrivals and consequently revenues for domestic tourist institutions.

Figure 7: International Tourist Arrivals



Source: *Eswatini Tourism Authority*

Transportation

Economic activity within the transportation sub-sector slumped in 2019 to -6.1 percent from 2 percent in 2018. The subsector suffered from a decline in passenger numbers for air transport as well as weak growth in rail activity and a decline in freight transport by road. The form of travel that spurs growth in the air transport sector is business-related of which the public sector is the largest customer base. Thus, government's fiscal challenges led to a reduction in business-related travel which presented an adverse impact on air transport performance. Furthermore, subdued production of some export commodities also posed a challenge for the transport sub-sector particularly rail.

Information & Communications and Other Sectors

The performance of the information and communication sub-sector dipped marginally in 2019. The sub-sector, which was afforded a boost to its sales volumes owing to a reduction in wholesale prices by the communications regulator, was inflicted with certain challenges which marginally reduced growth from 6.6 percent in 2018 to 5 percent in 2019. These challenges emanated from the delayed payments (accumulation of arrears) of some clients, particularly in the public sector owing to government's fiscal challenges. Additionally, the lack of CoLA in 2019 also reduced patronage for communication services, particularly by civil servants whose demand (with a possible multiplier effect emanating from their dependents) is significant for the sub-sector's enterprises.

Other Services

Other sub-sectors within the tertiary sector such as real estate, education, health and professional services all witnessed a slump in performance in 2019 largely due to government's fiscal challenges. The fiscal constraints meant that some contracts were not honoured and for those that were honoured, payments were delayed. Additionally, adverse impact which is peculiar to the health sector and caused by government's fiscal challenges has resulted in limited supplies of certain essential health products and/or services vital for the sub-sector's performance. On real estate, a similar peculiar factor owed to regulations limiting the involvement of foreigners in the sub-sector's activities adversely affected its performance.

BOX 1: POTENTIAL ECONOMIC IMPACT ANALYSIS OF CORONAVIRUS (COVID-19) OUTBREAK IN ESWATINI

1 BACKGROUND

The World Health Organization (WHO) declared the novel coronavirus (COVID-19) outbreak a global pandemic as it spread all across the world, straining the capacity of health-care systems and causing an alarming number of deaths. African countries are scrambling to improve their weak health-care systems capacity in preparation for mass cases as they have materialized on the other continents. Countries have initiated quarantine, border, port and air travel controls to stop importing cases. In Africa, states have also restricted travel, mass gatherings in a bid to curb community infections. As the cases increase, the measures taken also become increasingly severe. The coronavirus outbreak has reduced global economic activity, caused supply and demand disruptions, financial markets crush, depreciation of currencies, caused share prices to fall and resulted in a significant fall in various commodity prices (e.g. Brent crude oil price).

The United Nations Economic Commission for Africa (UNECA) projects Sub Saharan Africa (SSA) growth to be 1.8 percent for 2020 at the back of declines in FDI and significant declines in trade with Europe and China (major trading partners). The International Monetary Fund (IMF) and World Bank Group(WBG) project a recession for the SSA region both expecting a contraction of 1.6 percent and -5.1 percent respectively as various governments imposed lockdowns to curb the spread of COVID-19 pressuring most economies some of which were already vulnerable. A recession is expected in the Republic of South Africa (RSA) following the impact of COVID-19 in 2020, with the growth projection revised downwards to -0.2 percent by the South African Reserve Bank (SARB). Moreover, on the 27th of March, 2020, Moody's Credit Rating Agency downgraded RSA credit rating to sub-investment grade (junk status). A recession is also likely in Eswatini given that RSA its largest trade partner.

The domestic economy has not been spared, as the first case was reported on the 14th March 2020. In response to the COVID-19 outbreak, on 17th March 2020, Eswatini declared a "state of national emergency" and subsequently announced a 20-day partial lockdown, putting restrictions on unnecessary travel beyond homes, encouraged 'work from home' and staff staggering, closure of none essential industries, and tightened measures that enforce social distancing. A number of sectors will be affected by these developments with transmissions channels hitting both supply (production) and demand (Consumption and Spending). Table 1 provides the different multi-dimensional channels that have been considered.

Table 3: Summary table of multi-dimensional effects

EXTERNAL/ GLOBAL	DOMESTIC
COMMERCE, INDUSTRY & TRADE DISRUPTIONS - trade with the EU (6% export, 5% imports) - trade with Asia (export 1%, 13% imports) of which China (0.01% exports, 7% imports) - trade with the USA (1% exports, 2% imports) - trade with RSA (64% exports, 73% imports) Commodities to be affected on **exports** include: food products (sugar, raw & processed fruits, meat), beverages, textile, wood products, electric appliances (fridges) Commodities to be affected on **imports**: intermediate goods (used for production) and final consumer good (consumption).	**PRODUCTION/CONSUMPTION** - **Global supply chain** disruption affecting the supply of goods and inputs (affecting manufacturing sector: 32% of GDP) - **Labour supply constraints** due to containment, quarantine efforts as well as disruptions caused by infections at workplace. - **Increase in job losses** contributing to increased unemployment - **Uncertainty affecting consumers and business spending** due to precautionary measures such as containment, quarantine efforts. - Demand for **tourism activities** (accommodation, bars, restaurants and excursions) severely affected reduced mobility (social distancing and travel restrictions). - **Transportation sector** to be severely affected due to travel restrictions and limited social gathering (social distancing) including early closure of schools.

TOURISM & TRAVEL RESTRICTIONS
- **decline in international arrivals**
    o International arrivals from EU & rest of the world.
    o Africa (88%), of which South Africa (70%) & Mozambique (12%) and rest of Africa (7%)
- **grounding of flights**
- quarantine and containment efforts
- **Closure of selected borders**
	FISCAL
	- **Increased health related spending** towards COVID-19 containment and anticipated spending to support affected sectors.
	- **Decrease in tax revenue** (weak economic activity to affect direct taxes i.e. income tax and indirect taxes i.e. consumption taxes such as VAT.
	- **Rising debt levels** (increased borrowing to mobilize funds for health expenditures and stimulus spending.
	- **arrears accumulation**
	- **fall in SACU revenues** in the next 2years (2022)
	- potential **decrease in grant** funding due to pressures at sources

GLOBAL SUPPLY CHAINS DISRUPTIONS - Decline in global demand - Commodity price effects - Financial market effects	**MONETARY/ FINANCIAL** - Depletion of country's official reserves to support fiscal obligations. - Increase in Non-Performing Loans (NPLs) due to weak economic activity - Poor performance both offshore and domestic investment assets due to spill-over effects of collapse in global financial markets. - Rising debt levels and stress for households - Increase in inflation

	SOCIAL
	- **Anticipated lay-offs and job losses may result in**:
	    o Rising unemployment rates
	    o Deepening poverty
	    o Hike in crime
	- Informal activity which was a source of livelihood for some households severely affected by precautionary measures e.g. social events such as supporting sporting activities and other social events.
	- Loss of income for handy-craft markets that depend on tour buses.

Source: MFT, 2020

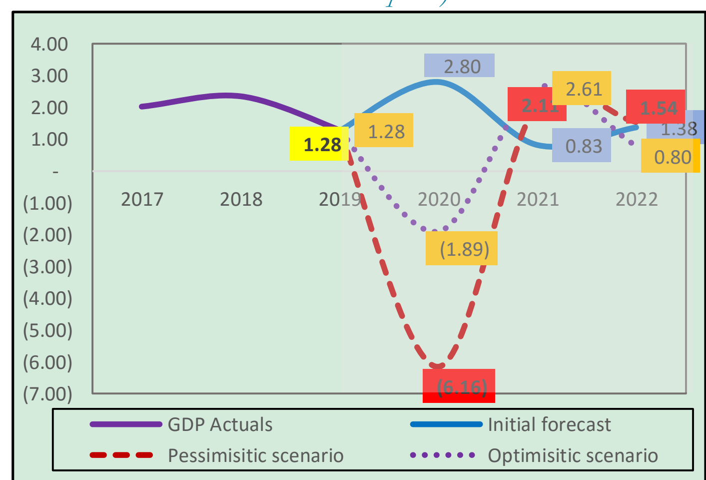
2 THE MACROECONOMIC IMPACT ANALYSIS OF CORONA VIRUS

The COVID-19 has imposed restrictive measures affecting supply, demand and other administrative services causing a multitude of implications across sectors necessitating different scenario analysis. With respect to scenario analysis it is important to note that the assessment of the impact of COVID-19 is highly dependent on the period it would take at global level to manage the COVID-19 pandemic outbreak and bring the situation to normalized levels. There are two plausible scenarios that has been considered:

- **Optimistic scenario 1 – '*Moderate Effects*'**: the underlying assumption was a shortened period of 8 months (restrictive measures up to August 2020) before situation fully normalizes and with milder effects of COVID-19 in the domestic economy. It fully considers the impact of travel restrictions, trade disruptions, increased demand of essential products and services as well as short-term uncertainties that affect business and consumer spending.
- **Pessimistic scenario 2 – '*Severe Effects*'**: extended the period of COVID-19 impact to 12 months up to December 2020 and with more severe effects on the country's productive sectors. In addition to magnifying the impacts of trade disruptions, travel restrictions and weak demand, this scenario also incorporates anticipated labour supply disruptions caused by first and second round effects of the COVID-19 pandemic outbreak particularly on labour-intensive industries. Second-round effects of the COVID-19 on trade disruptions are also expected to potentially manifest through significant reduction in SACU receipts which can potentially affect.

The analysis results of the two scenarios on real GDP growth are summarized graphically in Figure 1 and compared to the previous projections to show the impact of potential loss. The results depict that growth will fall to -1.89 percent in 2020 for the optimistic scenario (4.69 percentage points lower than previous projection of 2.8 percent). In the pessimistic scenario, real GDP growth is estimated at -6.16 percent for 2020 (8.96 percentage points lower than the previous projection). The nominal Gross Value Added losses in both scenarios is estimated at E6.275 billion and E3.285 billion, for the pessimistic and the optimistic scenarios, respectively.

Figure 8: Impact of COVID-19 on GDP (Growth rates at constant 2011 prices)

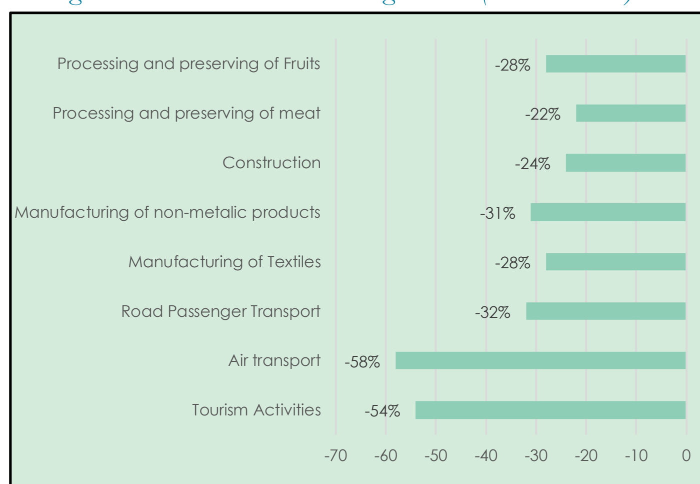


Source: *Macro-forecasting Team*

Accordingly, the manufacturing sub-sector is expected to lose about E2.669 billion (under the

pessimistic scenario) which account for 42.5 per-cent of the total losses in value and 9 per cent of the potential growth rate. The economy's export-oriented manufacturing sector will be hit heavily by weak global demand and disruptions in global value chains and trade. Other severely affected sectors include tourism and other related activities which are however small in size in relation to GDP but have suffered massively in potential growth point of view. Most of these sectors face steeper challenges in cash-flows if they are to survive shutdowns and maintain employment levels. The sectors that are estimated to decline by more than 20 percent relative to potential growth include tourism related activities (-54.2 percent), air transport (-58.3 percent), and manufacturing of textiles (-27.8 percent), manufacture of non-metal goods - including curios for tourism industry (-30.8 percent) among others (Figure 2). Most of these sectors employ the lower end of the labour market (i.e. employs low

Figure 9: Selected Sectors with Huge Losses (Growth Rates)



Source: *Macro-forecasting Team*

and semi-skilled labour). Henceforth, any potential loss of such jobs has huge negative impact on livelihoods and social developments which may manifest through increased crime rates and other illegal activities.

3 POTENTIAL LOSSES IN FISCAL AND EXTERNAL SECTORS

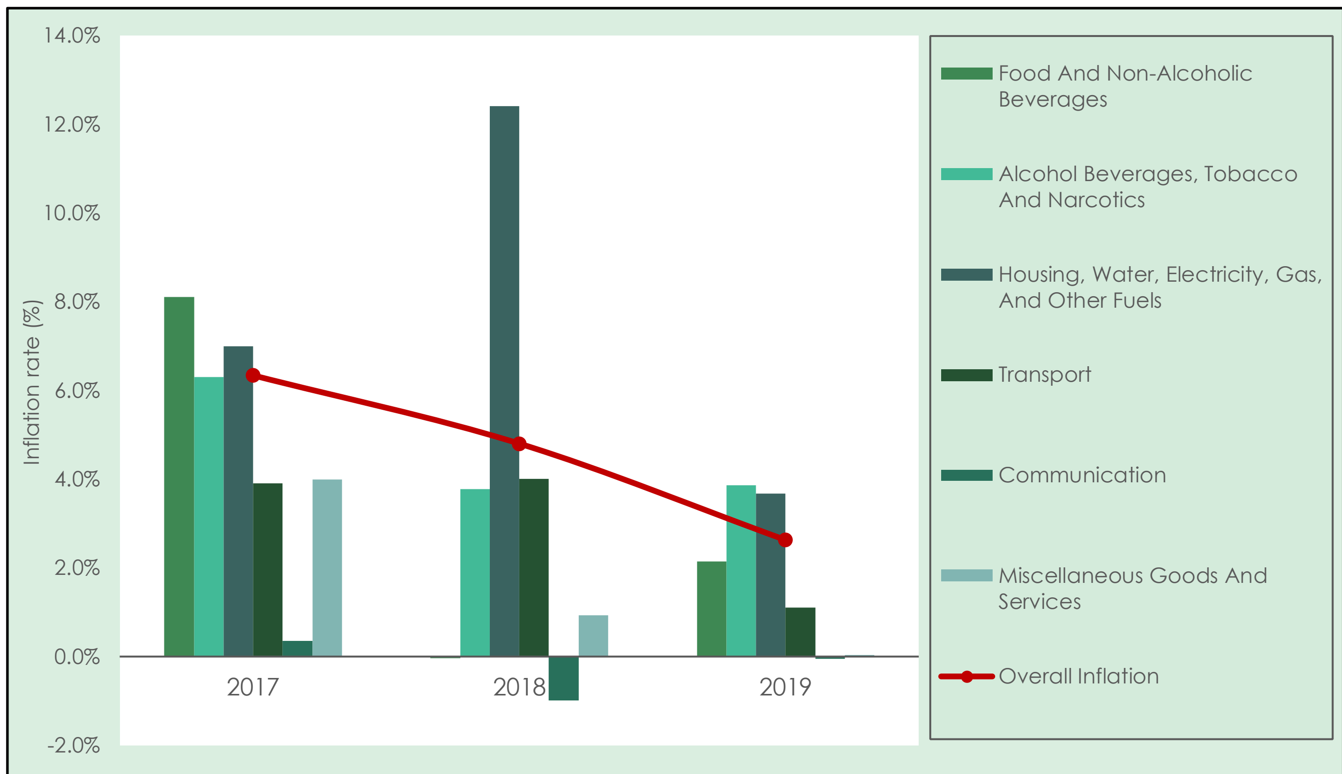
The loss in potential revenues across different sectors would result in lower government revenue generation relative to what was budgeted for using the previous growth projections. For the 2020/2021 fiscal year, overall government revenue is estimated to be lower by E827 million in optimistic scenario and E1.549 billion in the pessimistic scenario. Major losses are expected to come through lower than expected corporate tax income as well as lower consumption tax as both businesses and households spending would be constrained. This coupled with the fall in nominal GDP will translate to a larger financing gap.

From external sector analysis, both exports and imports of goods are expected to be affected by weak global and domestic demand reinforced by trade and supply chains disruptions that came with the COVID-19. Exports are expected to be lower by 5.96 percent (E1.721 billion) in the optimistic scenario or 8.43 percent (E2.433 billion) in the pessimistic scenario. Imports are also expected to be lower by 4.94 percent (E1.304 billion) in optimistic scenario or 8.8 percent (E2.325 billion) in the worst-case scenario.

3.2. PRICE DEVELOPMENTS

Inflation continued its downward streak in 2019, depicting a moderation in the general price level within the country. Underlying the decline in inflation from 4.8 percent in 2018 to 2.6 percent in 2019, was the slump in the inflation of communication, transport, as well as that of housing and utilities, with the latter being more pronounced. Conversely, inflation for consumable items i.e. food and alcoholic beverages surged.

Figure 10: General Inflation & Subcategories



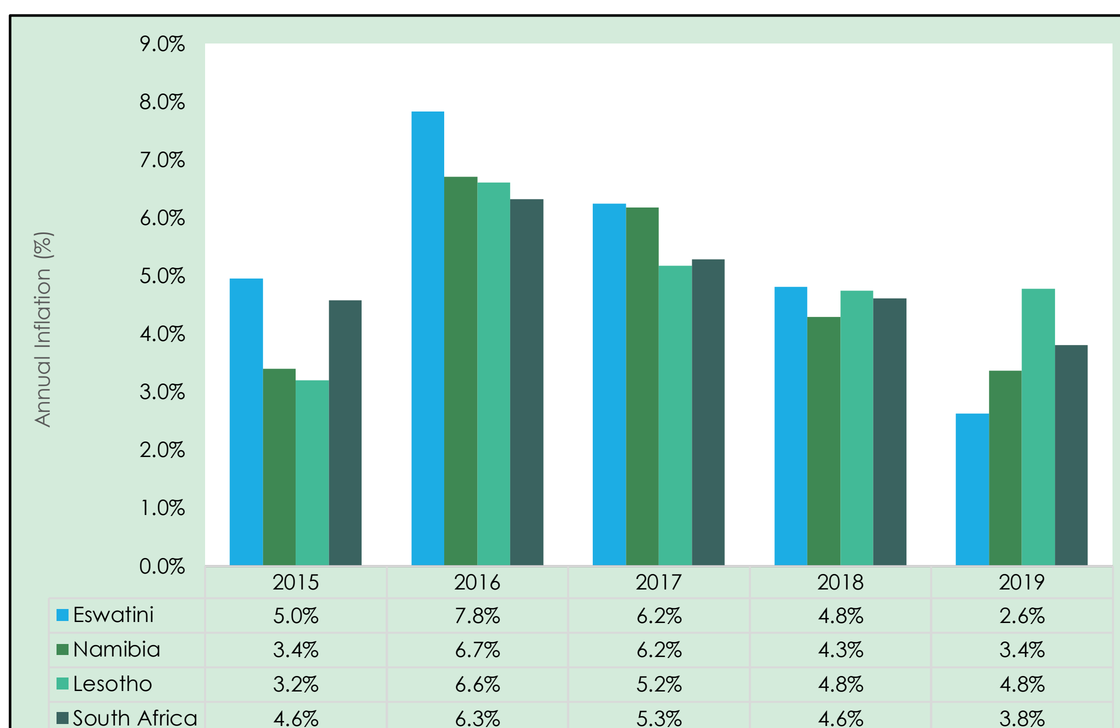
Source: *CSO, Price Section*

Attempting a plausible assessment of the sources of decline and/or surge in inflation, housing and utilities which saw a significant decline of about 8.4 percent, was as a result of the imposition of a freeze on the tariffs for these items. Informing the decline in inflation for communication was the reduction in wholesale prices of communication services by the regulatory authority as well as increased competition from the entry of new player(s) in the industry, both factors culminated into a moderation in the price increases of some communication services. The reduction in inflation for transportation services reflected the fall in global oil prices that

contributed to a deceleration in the rise of transport fares. Conversely, considering food inflation which witnessed a significant surge in inflation over the period, this was informed by the slump in agriculture which caused an acceleration in the prices of some food items.

Coming to inflation developments in the common monetary area (CMA), the trend is similar across all countries i.e., inflation has been on a descending trajectory. Notably, Eswatini's inflation rate which until 2015 was the highest in the CMA, fell closer to those of other CMA countries in 2018 and eventually in 2019 was the lowest. In Eswatini's stead, Lesotho's inflation which was the lowest in 2015 assumed the highest in 2019.

Figure 11: Inflation across CMA Countries



	2015	2016	2017	2018	2019
Eswatini	5.0%	7.8%	6.2%	4.8%	2.6%
Namibia	3.4%	6.7%	6.2%	4.3%	3.4%
Lesotho	3.2%	6.6%	5.2%	4.8%	4.8%
South Africa	4.6%	6.3%	5.3%	4.6%	3.8%

Source: *CSO, Price Section*

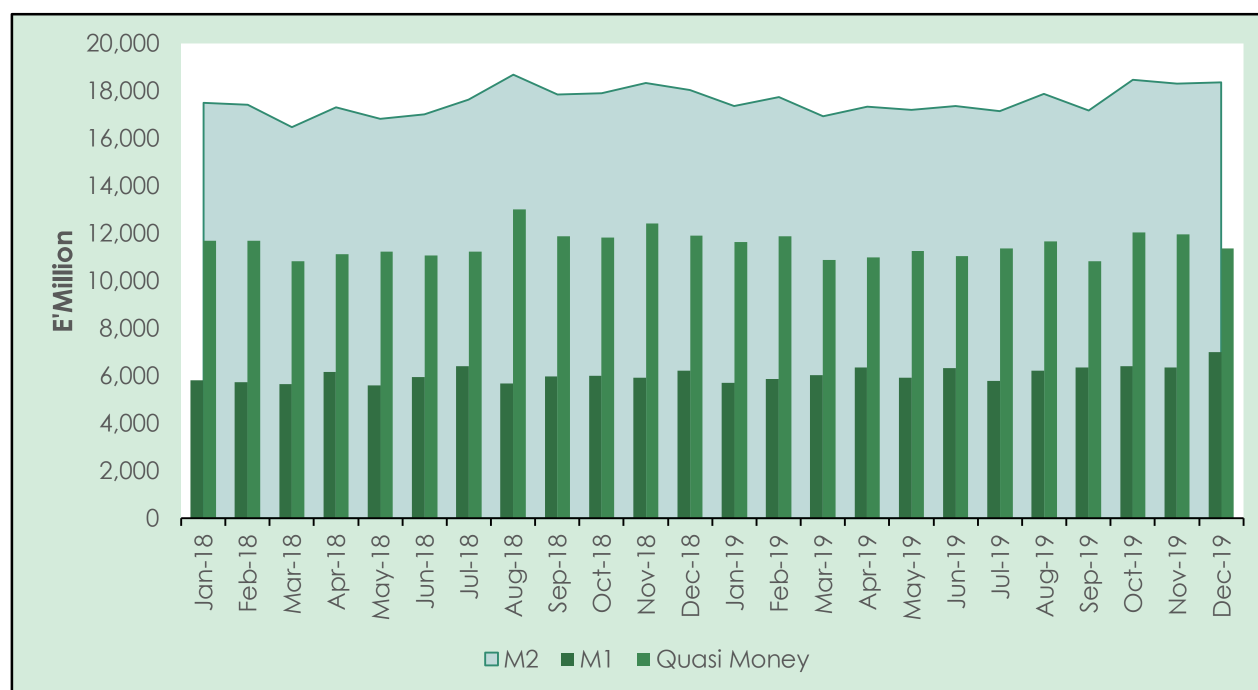
3.3. MONETARY DEVELOPMENTS

3.3.1. Interest rates & money supply

An accommodative monetary policy stance was pursued in the review period, with the discount rate being slashed by 25 basis points in July 2019. Specifically, at the end of the year, it stood at 6.5 percent having plunged from 6.75 percent in 2018. This was done in consideration of global, regional, and local economic conditions such as trade and geo-political tensions and weakened South African economic performance. On

the back of these developments, the prime lending rate also followed a similar path set by the discount rate, going down from 10.25 percent in 2018 to 10 percent in 2019. In line with the loose monetary policy stance, both narrow and broad money supply increased in the period under review. Narrow money supply (M1) grew by 12.2 percent and was recorded at E6.99 billion in December 2019 compared to E6.23 billion in the same period of 2018. This was mainly driven by a 19.5 percent increase in currency and coins in circulation, which implies that there was more cash for transactions in the economy. Broad money supply (M2), on the other hand, marginally grew by 1.7 percent and stood at E18.36 billion in December 2019 compared to E18.04 billion in 2018. However, Quasi-money supply went down by 3.8 percent, from E11.82 billion in 2018 to E11.37 billion in December 2019. This was mainly driven by a 5.3 percent decline in time deposits which went down from E10.04 billion in 2018 to E9.51 billion in 2019. Given the low inflationary pressures in the domestic economy, further growth in the money supply is anticipated going into the medium term. This would be boosted interest rate cuts, which would increase credit extension thus accelerating GDP growth which was hampered by the emergence of the COVID-19 pandemic. Despite these efforts, the increased money supply is likely to push up inflationary pressures which will then necessitate the adoption of a tight monetary policy stance.

Figure 12: Money Supply

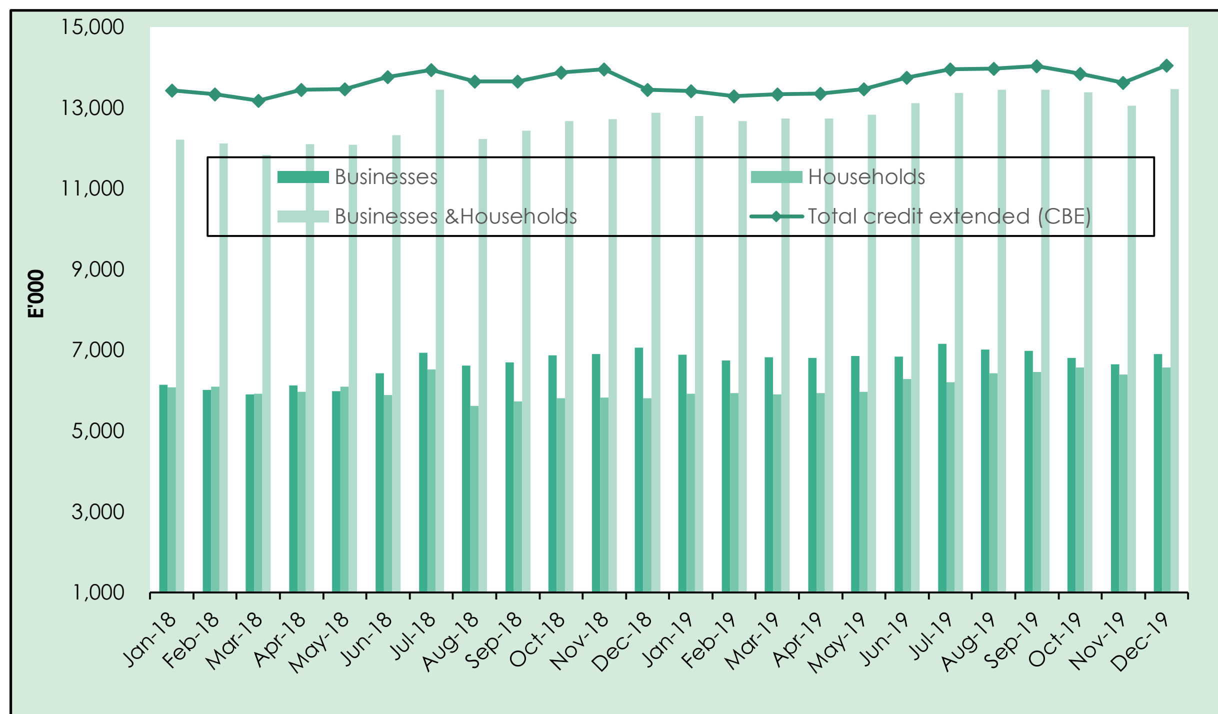


Source: *Central Bank Eswatini*

3.3.2. Credit Extension

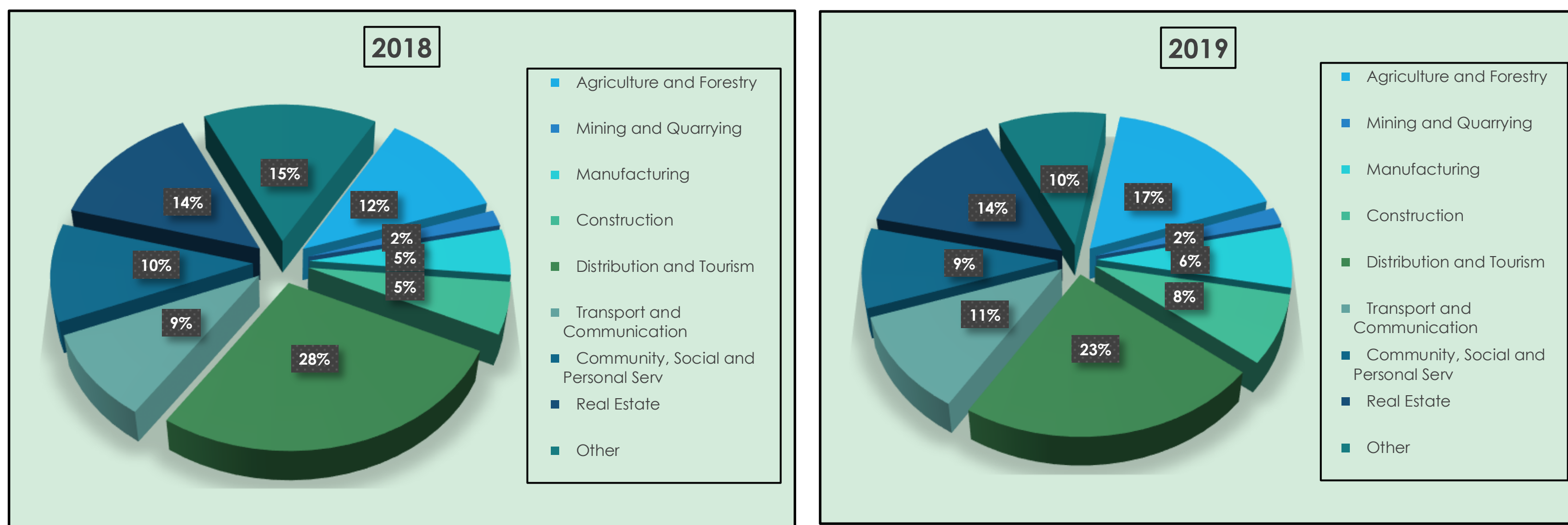
In line with the accommodative policy stance, total credit extended to households and businesses increased in the review period. It went up by 4.5 percent and was recorded at E13.5 billion at the end of 2019 compared to E12.9 billion recorded in the same period in 2018. This was mainly driven by a 12.9 percent growth in credit extended to households which was recorded at E6.6 billion in 2019 compared to E5.8 billion recorded in 2018, as a result of an increase in unsecured personal loans. Credit extended to businesses fell in the period under review. It went down by 2.3 percent and stood at E6.9 billion at the end of 2019. This was noted in sectors such as 'distribution & tourism', 'community, social and personal services' as well as 'other', where the amount of credit plummeted by 18.77 percent, 18.84 percent, and 38.81 percent respectively. However, credit extended to sectors such as 'agriculture & forestry', 'manufacturing' as well as 'construction' significantly improved, going up by 39.3 percent, 31.7 percent, and 34.4 percent respectively. In spite of the economic benefits of the accommodative monetary policy stance, the continued spread of the corona virus is likely to increase Non-Performing Loans (NPLs), which could in turn cripple the banking system in the medium term.

Figure 13: Credit Extension



Source: *Central Bank Eswatini*

Figure 14: Credit Extension by Sector

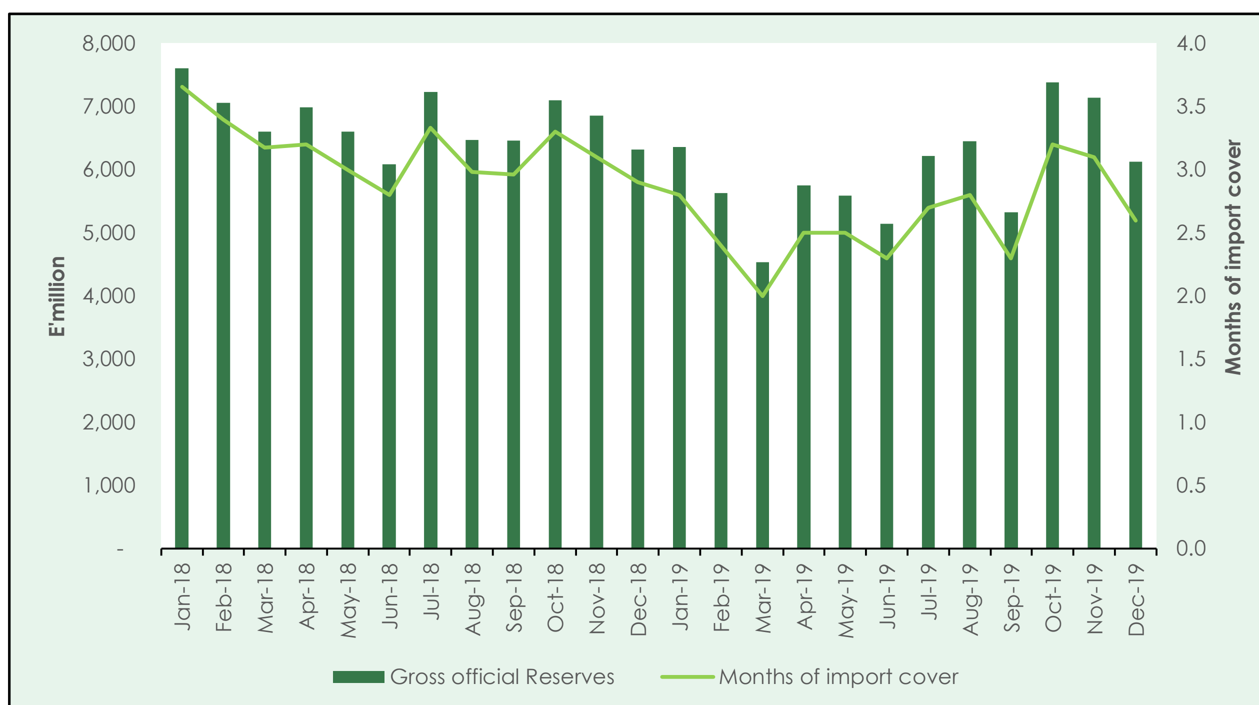


Source: *Central Bank Eswatini*

3.3.3. Gross Official Reserves

The stock of gross official reserves was E6.12 billion at the end of 2019 which was enough to cover 2.6 months of imports. This represented a 3.1 percent decline from the E6.32 billion recorded in the same period in 2018. At this level, the reserves were below the international import cover threshold of 3 months and far below the SADC macroeconomic convergence target of 6 months. This can be attributed to the continued fiscal challenges which have led to a rapid drawdown of the reserves, which could be amplified by the increased government spending on fighting and mitigating the repercussions of the novel corona virus in the medium term. This could be detrimental to the local economy as it could wane investor confidence in the local currency, which is likely to further affect the Lilangeni to the Rand peg. Furthermore, reserves are critical for buffering the country against shocks to SACU receipts and export earnings, in which case the country would have a limited stock of foreign currency to draw on in order to pay for imports.

Figure 15: Gross Official Reserves



Source: *Central Bank of Eswatini*

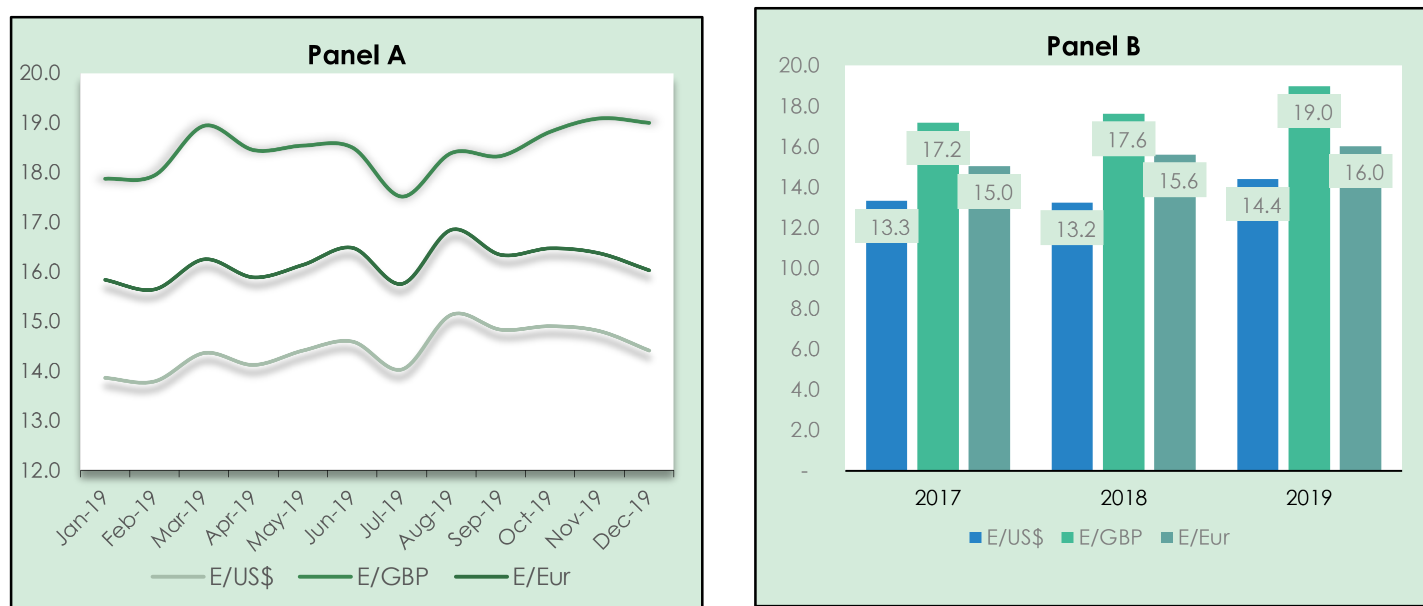
3.4. EXTERNAL DEVELOPMENTS

3.4.1. Exchange rates

The performance of the Lilangeni, which is pegged with the South African Rand through a fixed exchange rate regime, is linked to development in the RSA economy as well as developments in the global environment. In 2019, the Lilangeni depreciated when compared against the three major currencies on an annual basis. When paired against the US Dollar, the Lilangeni weakened by 9 percent, averaging E14.4 per US dollar at the end of 2019, compared to E13.2 per US dollar in the same period of 2018. The weakening of the Lilangeni against the US dollar can be attributed to the weakened performance of the South African economy in 2019, coupled with the temporary agreement between the US and China, which eased trade tensions, thus driving investors into buying the US treasury securities which are regarded the safest in the world. Similarly, against the British Pound Sterling, the Lilangeni also depreciated by 8 percent in 2019 to average E19.0 per Pound Sterling, compared to the E17.6 per Pound Sterling recorded in 2018. Moreover, against the Euro, the lilangeni depreciated by 3 percent, averaging E16.0 per Euro in 2019 compared to E15.6 per Euro recorded in 2018.

The depreciation of the Lilangeni against the Euro and the Pound Sterling can be attributed to the settled fears on Brexit, following the Conservative Party's general election victory in December 2019, which also pushed investors into buying more UK-focused shares. The depreciation of the Lilangeni compared to the three major currencies intuitively made domestic exports cheaper while making imports costly for local producers that imports inputs from the rest of the world.

Figure 16: Monthly (panel A) and Annual (panel B) Exchange Rate Developments



Source: *Central Bank of Eswatini*

3.5. EXTERNAL TRADE

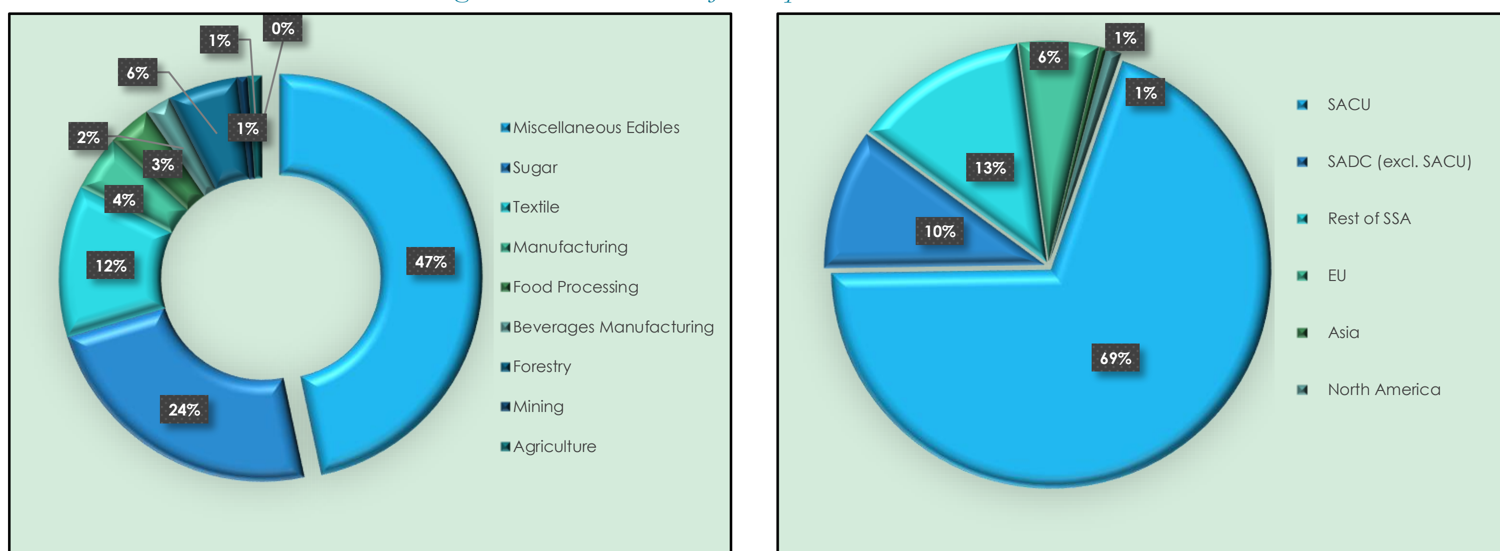
In 2019, Eswatini recorded a merchandise trade surplus of E2.431 billion, compared to the trade surplus of E568 million which was recorded in 2018. This trade surplus was attributed to a record 17.2 percent increase in exports relative to a 9.9 percent increase in imports depicting that exports were growing faster compared to imports due the review period.

3.5.1. Exports

In 2019, Eswatini's total exports grew by 17.2 percent to record E28.9 billion compared to E24.6 billion recorded in 2018. This growth was mainly driven by an increased uptake in sugar, miscellaneous edibles and textile exports during the period under review. Sugar exports, which account for 24 percent of total exports

surged by 37.5 percent, boosted by good yields in the 2018/19 growing season and stock piling during tough market conditions. Moreover, miscellaneous edibles which accounts for 47 percent of total exports, were up by 15 percent, boosted by the new market penetrations. Textile exports, which contribute 12 percent to total exports, grew by 12.5 percent as a result of the country's readmission into the Africa Growth Opportunity Act (AGOA) market in 2018. On the contrary, agricultural exports went down by 5.3 percent as a result of the hailstorms that the country experienced in 2019.

Figure 17: Eswatini's Major Exports and destination



Source: *Eswatini Revenue Authority*

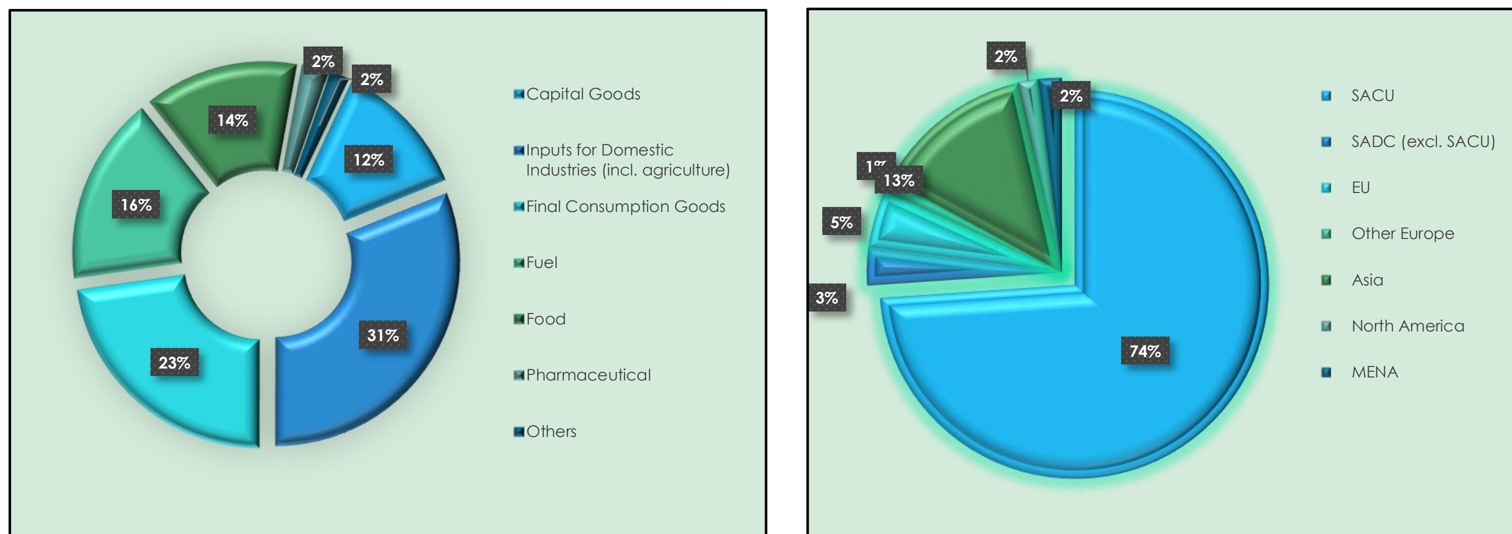
In terms of exports destinations, the SACU region continued to be a major destination for Eswatini exports, absorbing 69 percent of total exports, despite the South African technical recession that was experienced in the second half of the year. It was followed by the Sub-Saharan African region and SADC region which accounted for 13 percent and 10 percent of total exports, respectively. This shows that Eswatini is regionally integrated, with a large proportion of their exports sent to the African continent whilst the European Union (EU), Asia and North America, particularly the United States of America, accounted for 5 percent and 1 percent, respectively.

3.5.2. Imports

In line with the exports, Eswatini's total imports also grew by 9.9 percent and were recorded at E26.4 billion in 2019, when compared to the E24 billion recorded in 2018 on a year-on-year basis. This was mainly driven by increases in imports of "capital goods", "final consumption goods", inputs for domestic industries" as well as "fuel" imports. Fuel imports, which account for 16 percent of total imports grew massively by 48.1 percent,

driven by continued construction activity and agricultural activity during the period. Similarly, imports of capital goods which account for 13 percent of total imports, increased by 6.6 percent due to continued construction activity. Moreover, imports for final consumption goods (23 percent) and inputs for domestic industries (31 percent) grew marginally by 7.5 and 4.8 percent, respectively. The growth in these imports categories was driven by demand for these goods in the manufacturing sectors and the wholesale and retail sector.

Figure 18: Eswatini's Major Imports and Origins



Source: *Eswatini Revenue Authority*

In terms of imports origins, the SACU region continues to be the major source of the country's imports accounting for 74 percent of total imports. Followed by the Asian region which accounted for 13 percent of total imports. However, imports from the Asian market marginally went down by 1.2 percent in 2019 due to the emergence of the novel corona virus disease (COVID-19) in the last quarter of 2019, which led to a lockdown that hindered imports of goods and services from the region.

3.6. FISCAL DEVELOPMENTS

There is great concerns about fiscal sustainability because of the uncertainty about COVID-19 severity, length and impact on the country's economy given that the fiscal situation was already fragile prior to the outbreak. The Medium-term Fiscal Framework (MTFF) was thus revised to incorporate the effects of the COVID-19 outbreak. A reduction in domestic revenues, cuts in the capital programme and increased expenditure in some sectors especially in health is anticipated.

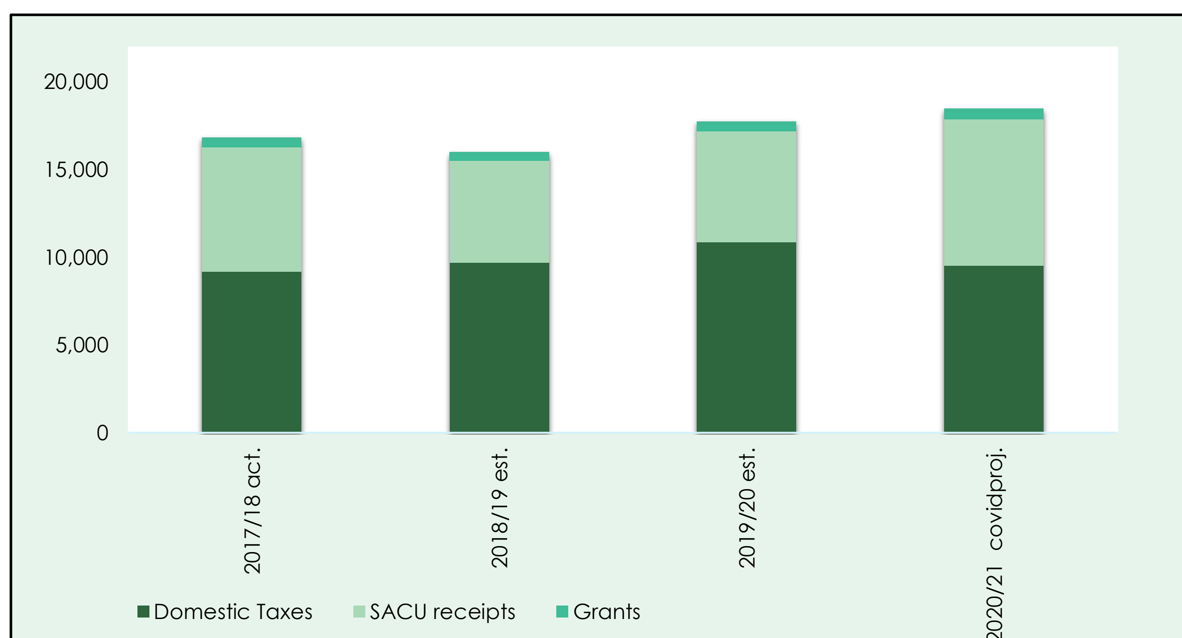
Table 4: Selected Fiscal Indicators (% of GDP)

	2017/18	2018/19	2019/20	2020/21	2020/21
	Act.	**Est.**	**Proj.**	**Budget**	**COVID Proj.**
Total Revenue	**27,3**	**24,6**	**25,5**	**28,2**	**27,2**
Domestic Tax Revenue	14,3	14,9	15,0	15,9	13,5
SACU Receipts	11,9	9,3	9,4	11,4	12,7
Total Recurrent Expenditure	**33,8**	**31,3**	**32,5**	**33,5**	**37,1**
of which Wages & Salaries	13,5	13,3	12,4	11,1	12,3
Capital Expenditure	**4,1**	**2,7**	**2,9**	**5,2**	**5,8**
of Which Rural Development Fund	0,2	0,0	0,2	0,2	0,3
Gross Operating deficit/ Surplus	**1,2**	**-0,7**	**1,3**	**4,5**	**0,9**
Fiscal Deficit	5,7	6,0	6,1	4,5	9,0
Financing Gap	-4,5	-4,7	-4,9	-2,6	-6,9
Total Public Debt Stock	5,5	6,7	8,5	8,4	13,4

Source: *Ministry of Finance*

3.6.1. Revenues

Figure 19: Government Revenue FY 2016/17 - 2021/22



Source: *Ministry of Finance*

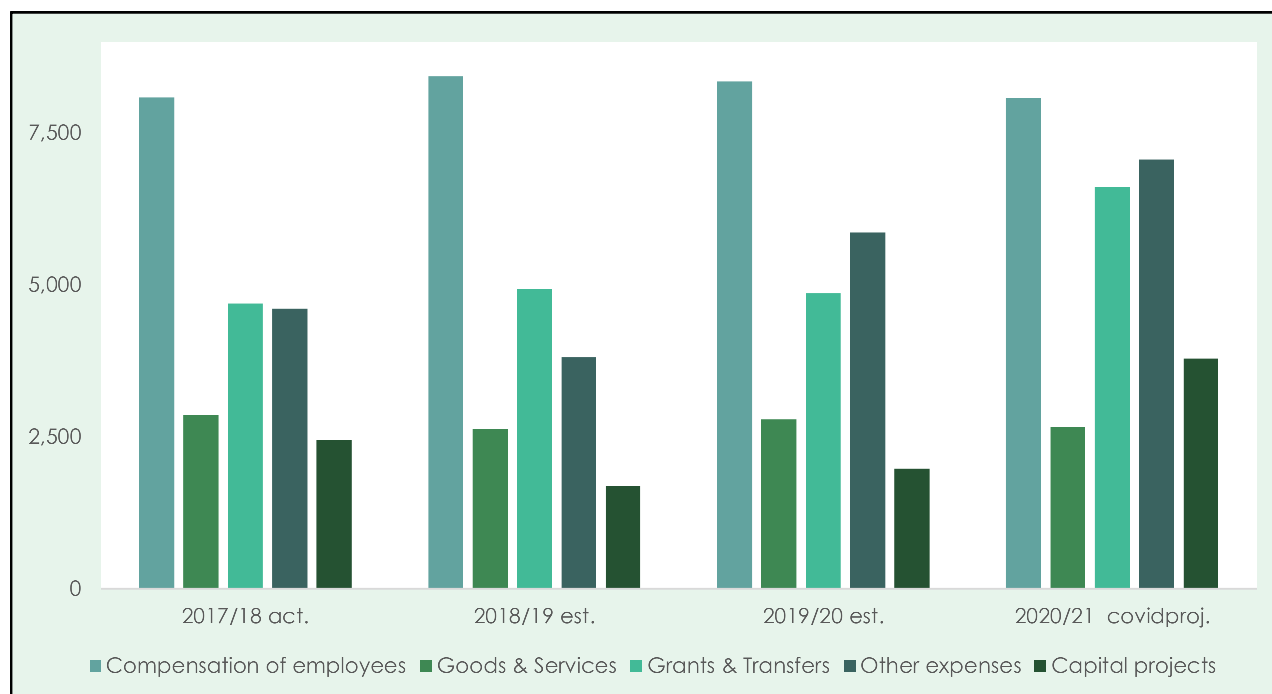
Total revenues and grants were estimated to have grown by 10.9 percent in 2019/20 to E17.7 billion from E16.0 billion in 2018/19. This is attributed to increased domestic revenues and SACU receipts. Domestic

revenues in particular reflected a 12.1 percent growth in 2019/20 having increased from E9.7 billion in 2018/19 to E10.9 billion in 2019/20. The introduction of excise duties on alcohol and cigarettes contributed to the significant increase in the period under review. Value Added Tax (VAT) also reflected increased collections of 11.9 percent from E2.65 billion in 2018/19 to E2.96 billion in 2019/20. In 2019/20, SACU receipts constituted 36.8 percent of total revenues, are estimated to have amounted to E6.3 billion reflecting an increase of 8.1 percent when compared to the E5.84 billion collected in 2018/19.

Total domestic revenues are projected downwards for 2020/21 from the appropriated budget as revenue streams are taking a knock from the effects of the COVID-19 outbreak. Companies halted and/or reduced production due to imposed necessary lockdowns in the first quarter of the fiscal year thus reduced output and profits are expected overall leading to anticipated decline in government company tax collections. Also, revenues projected from PAYE is anticipated to fall by 10.9 percent from a fall in taxable individuals as employment becomes uncertain, possible shifts being reduced and other outcomes. 2020/21 revenue estimates with COVID-19 implications considered were revised downward from that budgeted for the period. Total revenue and grants estimates were revised to E18.5 billion, down from E21.1 billion. This will put additional strain on the country's fiscal situation as expenditure will increase while revenues decline. Nonetheless, overall, they are expected to increase by 4 percent from revenues estimated for fiscal year 2019/20. This is almost entirely due to 2020/2021 SACU revenues having reflected an increase of 40.6 percent due to higher projections of the revenue pool. In 2020/21, VAT is expected to decrease due to COVID-19 implications as increased strain on disposable income is anticipated.

3.6.2. Expenditures

Figure 20: Government Expenditure FY 2016/17 - 2021/22 (E'millions)



Source: *Ministry of Finance*

In 2019/20, total public expenditure outturn is estimated to have increased by 9.4 percent to E21.9 billion from E19.8 billion in 2018/19. These estimates are lower than the initially budgeted figures presented in the March 2019 budget speech due to the persistent fiscal challenges. Fiscal prudence stance was continued with the hiring freeze implemented amongst other measures. Total recurrent expenditure for 2019/20 accounted for 25 percent of GDP and was estimated at E16.8 billion. This reflects a 2.3 percent increase from that estimated for 2018/19. The increase in recurrent expenditure can be attributed to an increase of 5.8 percent on purchases of goods and services. Compensation of employees, grants, and transfers on the other hand, declined by 0.9 percent and 1.5 percent respectively. Compensation of employees which constitutes 12.4 percent of GPD, declined due to the hiring freeze as well as the non-granting of cost of living adjustment. Domestically financed capital expenditure in 2019/20 grew by 9.4 percent from E1.68 billion in 2018/19 to E1.97 billion. This was in spite of considerable projects being shifted to the next financial year due to fiscal pressures. Foreign financed capital projects in 2019/20 were estimated to have amounted to E2.94 billion from E1.66 billion from 2018/19 reflected a 77.8 percent increase. This constituted 58.6 percent of total capital expenditure. 47.6 percent of the capital expenditure was financed through external loans which was estimated at E2.4 billion in 2019/20. Overall, capital expenditure increased by 47.2 percent in 2019/20 amounting to E4.91

billion from E3.34 billion in 20118/19. Grants were estimated at E551 million accounting for 11 percent of total capital expenditure. Capital projects financed by government is mainly funded through domestic borrowing programme inclusive of the Rural Development Fund (RDF), which is under the Micro Projects Unit and is aimed at directing development programmes and projects to the country's rural areas across all regions. Domestic financing accounted for 39.3 percent and the RDF accounted for 2.9 percent. Expenditure on these is expected to remain constant in 2020/21 as well as into the medium term.

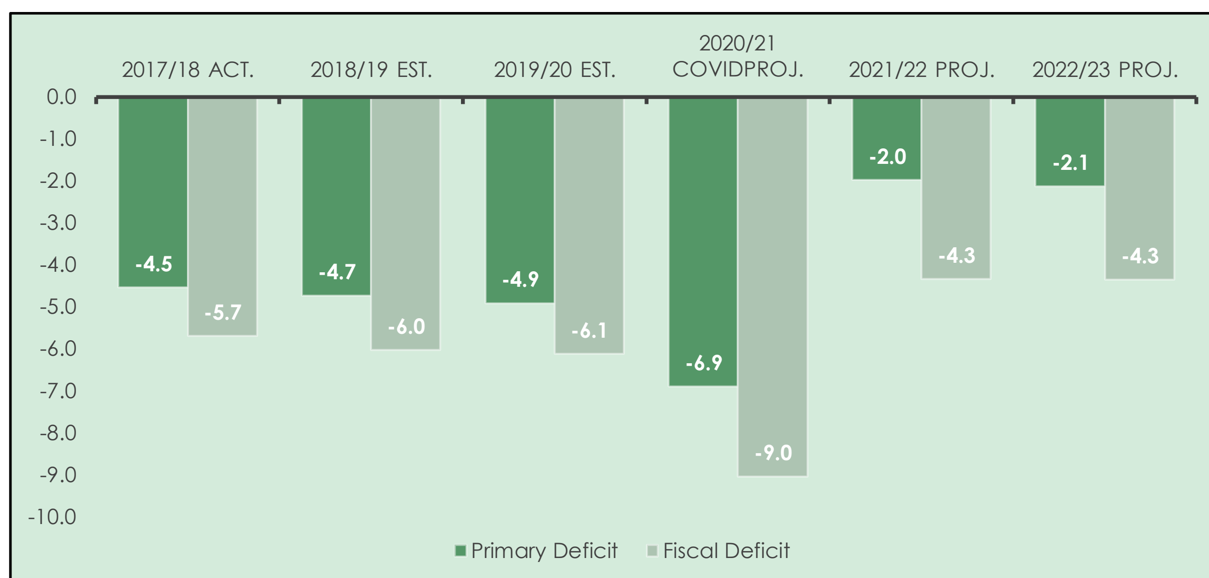
The fiscal year 2020/21 is expected to have an increase of 10.4 percent in total public expenditure and in the outer years averaging a growth of 2.2 percent. This can mainly be attributed to anticipated increased spending on grants and transfers that is projected to grow by 26.4 percent amounting to E6.5 billion from E4.9 billion estimated in 2019/20. In 2020/21, capital expenditure was projected to increase to E3.79 billion. The likelihood of this coming to culmination remains unlikely given amplified fiscal pressures from the COVID-19 outbreak implications as well as labour disruptions from containment measures. Likewise, implementation rate of externally financed projects are also expected to be negatively impacted.

3.6.3. Fiscal balances

The primary balance for 2019/20 was estimated to have recorded a deficit of E3.3 billion from a revised estimate of a E2.98 billion deficit recorded in 2018/19. It is expected to intensify in 2020/21 due to increased pressure on expenditure in the health sector. 2020/21 is projected to reflect a E4.54 billion deficit and the country is expected to record subsequent deficits in the medium-term averaging at E1.7 billion per year. Domestic and external interest payments combined are estimated to have declined by 0.8 percent in 2019/20 driven by a decline in domestic interest payments. Foreign interest however grew from E196 million to E263 million. In 2020/21, interest payments are projected to increase by 73 percent in line with increased financing sourced from loans to total to E1.4 billion accounting for 2.1 percent of GDP.

The fiscal deficit in 2019/20 is estimated to increase to E4.1 billion (6.1 percent of GDP) compared to E3.8 billion (6.0 percent of GDP) in 2018/19. In 2020/21, it is projected to increase to E5.95 billion (9.0 percent of GDP) and E3.5 billion average in the medium term. In terms of domestic finance acquisition, only E1.3 billion was estimated to have been raised through the issuing of bonds and treasury bills. As a result, the stock of arrears is estimated to have increased to E5.7 billion in 2019/20. Increased accumulation is expected in 2020/20 and in the medium-term averaging at E8.8 billion (average of 11.7 percent of GDP).

Figure 21: Fiscal Balance



Source: *Ministry of Finance*

Total public debt stock is estimated to have amounted to E16.1 billion in 2019/20 following increased borrowing in the period. Total domestic debt at E6.1 billion consists mainly of longer-term bonds and treasury bills. Interest payments in 2019/20 are estimated to amount to E815 million. External debt interest payment is expected to increase by 34 percent. Total public debt is forecast to accumulate to E18.8 billion in 2019/20 driven by an increased in public investment in the heath sector. The stock of external public debt is likely to continue to increase in double-digit growths in the medium term as the country continues to seek external finance to address the ongoing fiscal challenges and to combat the COVID-19 outbreak.

4. BASELINE MEDIUM TERM MACROECONOMIC FRAMEWORK 2020/21 – 2022/23

The medium term outlook for the Eswatini economy have deteriorated further to an unsustainable position following the economic challenges emanating from the COVID-19 pandemic. Several socio-economic indicators have reflected depilated state in the medium term. The situation necessitates an immediate consolidation plan and stimulus for economic resuscitation.

Economic growth is expected to remain weak as the effects of the lockdown due the impact of COVID-19 brings a total halt to major industrial production chains and effects on demand driven sectors such as tourism and wholesale and retail suffer from changes in the consumption patterns. With slowing economic activity and anticipated company closures, this will result in the shrinking of the tax base which will put more pressure on public spending. Moreover, the escalating pressure in the health system will require increased investment in this sector to mitigate social, human and economic impact of the virus.

Table 5: Baseline Macroeconomic Framework

MACROECONOMIC FRAMEWORK - KEY INDICATORS						
Indicator	2017/18 Act.	2018/19 Act.	2019/20 Est.	2020/21 Projc.	2021/22 Projc.	2022/23 Projc.
% of GDP unless otherwise indicated						
REAL SECTOR						
Nominal GDP (E'Million)	**59 723**	**63 612**	**65 102**	**64 356**	**68 048**	**71 155**
Consumption	***89,8%***	***87,4%***	***85,5%***	***82,4%***	***84,2%***	***82,4%***
Private	71,4%	70,0%	68,4%	65,4%	67,9%	66,6%
Government	18,3%	17,4%	17,1%	17,0%	16,3%	15,7%
Investment	***13,0%***	***13,7%***	***13,2%***	***14,6%***	***14,5%***	***14,2%***
Private	6,1%	8,5%	5,5%	4,4%	4,8%	4,8%
Government	6,9%	5,3%	7,7%	10,2%	9,7%	9,4%
Net Exports	***-2,8%***	***-1,1%***	***1,3%***	***3,0%***	***1,3%***	***3,5%***
Exports	41,9%	41,5%	45,5%	43,5%	44,0%	46,3%
Imports	44,7%	42,7%	44,2%	40,5%	42,7%	42,9%
Real GDP Growth (%)	**2,6%**	**2,7%**	**1,2%**	**-4,2%**	**1,9%**	**1,0%**
Inflation CPI (%)	**5,5%**	**5,0%**	**1,9%**	**3,5%**	**4,1%**	**3,9%**
FISCAL SECTOR						
Total Revenue & Grants	**27,3%**	**24,4%**	**26,3%**	**28,6%**	**29,9%**	**28,7%**
SACU Reciepts	*11,9%*	*9,2%*	*9,7%*	*13,0%*	*11,0%*	*9,2%*
Domestic Revenue Collections	*14,5%*	*14,5%*	*15,8%*	*14,8%*	*18,2%*	*18,7%*
Grants	*0,9%*	*0,7%*	*0,8%*	*0,9%*	*0,8%*	*0,8%*
Total Expenditure	**33,9%**	**31,1%**	**34,1%**	**37,9%**	**36,8%**	**35,8%**
Wage-Bill	*13,5%*	*13,3%*	*12,8%*	*12,6%*	*12,0%*	*11,7%*
Goods & Services	*4,8%*	*4,1%*	*4,3%*	*4,1%*	*3,9%*	*3,7%*
Interest Servicing	*1,2%*	*1,3%*	*1,8%*	*2,2%*	*2,7%*	*2,6%*
Capital Expenditures	*6,9%*	*5,3%*	*7,7%*	*10,2%*	*9,7%*	*9,4%*
Other Expenditures	*7,5%*	*7,2%*	*7,5%*	*8,9%*	*8,4%*	*8,4%*
Overall Budget Balance	**-5,7%**	**-6,0%**	**-7,0%**	**-8,4%**	**-6,0%**	**-6,4%**
Arrears Repayment(+)/Accumulation(-)	**-1,2%**	**-0,3%**	**-3,0%**	**-0,8%**	**-2,6%**	**-4,3%**
Public Debt Stock (inc. Arrears)	**27,8%**	**31,6%**	**38,6%**	**46,7%**	**50,0%**	**54,1%**
Public Debt Stock (excl. Arrears)	***22,3%***	***26,2%***	***30,3%***	***37,5%***	***38,8%***	***39,1%***
Domestic	*12,9%*	*16,1%*	*17,8%*	*20,2%*	*21,2%*	*21,1%*
External	*9,4%*	*10,1%*	*12,5%*	*17,3%*	*17,6%*	*18,0%*
Arrears	*5,5%*	*5,4%*	*8,2%*	*9,2%*	*11,2%*	*15,0%*
EXTERNAL SECTOR						
Current Account Balance	**4,4%**	**3,1%**	**-3,6%**	**12,3%**	**6,4%**	**5,4%**
Trade Balance	***-2,8%***	***-1,1%***	***1,3%***	***3,0%***	***1,3%***	***3,5%***
Exports	41,9%	41,5%	45,5%	43,5%	44,0%	46,3%
Imports	44,7%	42,7%	44,2%	40,5%	42,7%	42,9%
Primary Income Balance	***-6,8%***	***-6,8%***	***-16,3%***	***-5,4%***	***-7,4%***	***-8,7%***
Credit	4,1%	3,1%	2,5%	1,3%	1,8%	2,3%
Debit	10,9%	10,0%	18,8%	6,7%	9,2%	11,0%
Secondary Income Balance	***14,0%***	***11,1%***	***11,4%***	***14,7%***	***12,6%***	***10,7%***
Credit	14,9%	11,8%	12,1%	15,4%	13,3%	11,4%
Debit	0,9%	0,7%	0,8%	0,8%	0,7%	0,7%
Gross Official Reserves Stock	**11,1%**	**7,1%**	**9,6%**	**12,6%**	**9,7%**	**6,4%**
Months of Import Cover	*3,0*	*2,0*	*2,6*	*3,7*	*2,7*	*1,8*
MONETARY SECTOR						
Discount Rate (%)	**6,75**	**6,75**	**6,50**	**4,50**	**5,50**	**6,00**
Net Foreign Assets	**12,8%**	**7,7%**	**10,7%**	**14,0%**	**10,8%**	**7,1%**
Net Domestic Assets	**14,7%**	**18,9%**	**18,0%**	**21,1%**	**18,2%**	**18,2%**
Claims on Central Government (Net)	*1,8%*	*5,6%*	*5,1%*	*5,7%*	*5,9%*	*5,9%*
Claims on Other Sectors	*23,2%*	*23,5%*	*22,8%*	*25,7%*	*21,9%*	*21,4%*
Other Items (Net)	*-10,3%*	*-10,2%*	*-9,8%*	*-10,4%*	*-9,6%*	*-9,1%*
Broad Money	**27,6%**	**26,6%**	**26,8%**	**31,3%**	**27,0%**	**27,0%**
Currency in Circulation	*0,9%*	*1,1%*	*1,1%*	*1,3%*	*1,1%*	*1,1%*
Deposits	*26,7%*	*25,5%*	*25,7%*	*30,0%*	*25,9%*	*25,9%*
Velocity (GDP/Broad Money)	**3,63**	**3,76**	**3,74**	**3,20**	**3,71**	**3,71**

Source: *Macro forecasting Team*

The situation is expected to exacerbate the already widening fiscal deficit in the domestic economy and debt position, with public debt levels continuing on an upward trajectory to a position that the country will be

unable to service its debts obligation. Reserves would also be eroded prospectively and threaten sustainability of the Rand/Lilangeni peg.

Moreover, the effects of lack of fiscal policy reform on reserves and debt sustainability affects the 'ability to pay/repay' on maturing liabilities and this undermines the credibility in accessing financing to fill widened gap that has come from the COVID-19 negative impacts.

The picture depicted by the macroeconomic framework indicates a serious need for an adjustment plan in the medium term. To stabilise, the International Monetary Fund (IMF) has advised that the economy needs to obtain an adjustment on the fiscal sector equivalent to 6 percent of GPD. This requires implementation of reforms both in expenditures and revenue measures. The proposed reforms could be set in line with international benchmarks (Table 6, below).

Table 6: Target benchmark rules for expenditure reforms

Item	Benchmark rules
Compensation of Employees	Target 30 percent of revenue / less than 10 percent GDP
Transfers	Target 20 percent of revenues
Good and Services	Target 12 percent of revenues
Capital expenditure	Target 30 percent of revenue

Source: *Macro-fiscal Team*

5. KEY POLICY RECOMMENDATIONS FOR MACROECONOMIC STABILITY

Designing and implementing comprehensive policy strategies is imperative to promote sustainable economic growth. Some policy recommendations to facilitate this across various sectors are outlined below.

- Increasing performance in the mining sector by unlocking it and curbing disinvestment. Attracting increased investment to allow bypassing geological constraints.

- Commercialization of SNL land and improving its resilience to adverse weather shocks through increased investment in dam infrastructure and irrigation facilities with a replication of the SWADE model in various areas.
- Improving access to finance to SMMEs through various means such as developing Liquidity Term Structures that incentivize lending and pulling funds from extra room provided in reducing liquidity requirements and channelling them to productive sectors in an incentivized program.
- Diversify the country's export mix by identifying, allocating resources and promoting various high value crops and vegetables and other products that Eswatini may have a comparative advantage for export purposes.
- Consolidation in forestry sector with dwindling external demand and increased diversification to other sectors with growing potential.
- Promotion of value chains and import substitution industrialization, linking SMMEs with big industries for supply of raw material identify currently imported input goods that can be efficiently produced locally and link SMME's with big local industries and export markets.
- Capital expenditure to be reprioritization and improved efficiencies with emphasis made on projects with high multipliers and larger potential to contribute to economic growth e.g. dams construction.
- Prioritise renewable energy supply by allocating resources to support IPPs to reduce reliance on imports.
- Develop trade facilitation by prioritizing resource allocation to support SMMEs targeting production for export purposes by extending support measures through market facilitation, capacitate and assists businesses on standards and steps needed to export, Increase marketing of Eswatini products internationally, identify borders and fast track 24-hour operation of key boarders, promote investment and trade in niche markets, reduce transaction cost associated by transport cost by using rail.
- Promote regional integration by investing in infrastructure targeting reduced transportation costs to increase potential opportunities for producers to have access to regional markets.
- Fast-track technological innovation adaptation in order to improve local productivity and competitiveness.
- Identify potential infant industry SMMEs that are engaged in production of non-traditional agricultural products or those that do light-scale manufacturing that have the potential to grow and become

significant contributors to economic growth. Protect these industries from external shocks such fluctuations in commodity prices and provide with concessionary credit, tariff protection, fiscal incentives, and sound investment advice.

6. CONCLUSION

Contained in this report is an analysis of economic activity for the year 2019 and its outlook spanning the period 2020–2022 for the Eswatini economy. A similar, but brief, exercise is conducted for the global and SSA economies, and specifically for the RSA economy. Also, related economic happenings in connection with macroeconomic stability, external (trade) engagements, fiscal developments and monetary policy have been discussed.

Global economic activity suffered a setback in 2019 due to ongoing trade tensions between the USA and China. Although a resurgence in commodity prices engineered an acceleration in (moderate) growth for SSA, the economy of RSA succumbed to unfavourable weather conditions, labour unrest, and weaker external demand, which led to a decline economic growth. For the domestic economy, activity in secondary sector spurred by the resurgence in growth in the manufacture of beverages, increased significantly but was not enough to neuter poor performance of the primary and tertiary sectors. Consequently, growth for 2019 shrank to 1.3 percent from 2.4 percent in 2018. Adverse weather conditions, particularly in the second half of the year, dealt an adverse shock to agricultural economic activity and as a result, in addition to production and geological constraints hampering mining activity, waned growth in the primary sector. Weakened domestic demand as result of constrained public expenditure and lack of CoLA underpinned the dwindled growth of the tertiary sector.

The medium-term outlook for the domestic economy as well as those of other economies, been revised to reflect the economic impact the COVID-19 pandemic will potentially exert. Initial projections for Eswatini's medium term outlook looked bright owing to the potential injection of SACU receipts which was anticipated to encourage activity among demand-dependent sub-sectors such as wholesale and retail, tourism, and construction. Also, a moderation of weather conditions and the sustenance of external demand was expected to contribute to growth in the medium term. However, subdued demand, production constraints, and dwindled commodity prices all induced by the outbreak of the virus, has made this outlook unlikely. The revised outlook

is dependent on the duration of the virus outbreak, with an optimistic scenario projecting growth to fall to -1.9 percent while a pessimistic one anchors it to -6.2 percent.

In terms of macroeconomic stability, Eswatini saw further gains in 2019 as a salient indicator i.e. inflation continued to decelerate. Inflation moderated to 2.6 percent from 4.8 percent in 2019. On the back of subdued economic activity domestically as well as in RSA, the moderation in the general price level afforded the CBE the opportunity to adopt an expansionary monetary policy stance which reflected in declines in both the discount and prime rates. The relaxed monetary stance provided a boost to total credit extension within the economy. In terms of external activity, subdued activity in RSA as well as a moderation in trade tensions between the USA and China contributed to a fall in the value of the Rand (and as a consequence the Lilangeni) against major currencies including the US dollar. On the back of a depreciated currency, in part, exports growth exceeded that of imports resulting in a surge in the trade surplus. Despite the gains in trade, fiscal challenges, compelled government to temper with gross official reserves, hence dwindling that coffers.

In the aftermath of the virus, the pace and intensity of the domestic economy's recovery, is dependent on the conduciveness of the weather for agricultural activity, effective use of revenues especially that of SACU receipts, and moderated if not abated external risks particularly that emanated from RSA.

As well, structural issues within the economy pertaining to easing constraints within the business environment could also be given a consideration to propel private sector growth and to attract more FDI. Additionally, the sustenance, if not an increase, in capital expenditure could be essential in boosting economic efficiency and diversifying export product mix. On-going agricultural projects as well as proposed ones could be expedited in terms of execution to enhance the mitigation of adverse weather shocks. Finally, to aid in insulating the economy from adverse economic shocks including, for example, that which is induced by the COVID-19, government could strengthen its adherence to the PFM, engage in attempts to ease tax administration, and broaden the base to include the informal sector, so as to boost gross official reserves as well as moderate reliance on volatile revenue sources such as SACU.