THE KINGDOM OF ESWATINI

FISCAL FRAMEWORK PAPER

2022/23

PRESENTED BY

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MINISTER FOR FINANCE

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OBJECTIVE OF THE FISCAL FRAMEWORK PAPER

1. The Fiscal Framework Paper (FFP) provides, as per the Public Finance Management Act of 2017, a fiscal framework for Government consistent with the Fiscal Responsibility Principles outlined in the Act.

2. The Fiscal Framework Paper outlines a set of fiscal projections underpinned by macroeconomic analysis that seek to describe the path of fiscal aggregates over the medium term, including government revenue, expenditure, fiscal balance and debt levels. The FFP, based on the estimates of the medium-term fiscal framework (MTFF) is a key policy document for the top-down budget process and forms the backbone of the entire budget cycle. It is the basis for setting budget ceilings for all government ministries, allowing them to priorities their allocated resources whilst being mindful of the macroeconomic reality.

3. The purpose of the FFP is to facilitate policy-making and for Government to be able to follow fiscal development, to avoid deteriorating fiscal scenarios. It provides an opportunity to extend the fiscal policy making horizon beyond the annual budgetary calendar, which is imperative for sound fiscal policy as most fiscal measures have budgetary implications that go beyond the usual yearly budgetary cycle.

4. In general, the FFP is structured to begin with a baseline scenario which illustrates fiscal projections based on the existing policy framework. In this scenario, no new policy measures are integrated and the forecasts are conducted as if nothing substantial changes. In addition to the baseline, the FFP often includes several policy scenarios which are incorporated into the fiscal estimates. Government committed to a Fiscal Adjustment Plan to be implemented in the medium term starting from 2021/22 and the Fiscal Framework Paper does not present any additional different policy scenarios as substantial policy changes, as detailed in the Fiscal Adjustment Plan already have been approved by Cabinet during 2020/21 and therefore applied to form part of the projections.

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MEDIUM-TERM MACROECONOMIC DEVELOPMENTS

1. GLOBAL MACROECONOMIC OUTLOOK

Global economy is expected to be on a rebounding trajectory following the historic recession experienced in 2020. Economic growth prospects have picked up for most economies but remain below the pre-pandemic levels, following the COVID-19 induced disruptions in the previous year. Global economic activity is thus projected to rebound by 6.0 percent, picking up from an estimated contraction of 3.3 percent, backed by the continuous implementation of supportive fiscal and monetary policy as well as the successful rollout of vaccine programs (WEO, July 2021). Economic activity is expected to then moderate to 4.4 percent in 2022.

The year 2020 became a remarkable period for the entire globe and was characterized by imposed containment measures including; travel restrictions, lockdowns, social distancing, among others, which affected mainly face-contact activities and disrupted global supply chain. Consequently, sectors such as tourism, manufacturing, transport, arts & entertainment were amongst the hardest hit. Advanced economies were the hardest hit with economic output falling by 4.7 percent: the United States of America (USA) contracting by 3.5 percent, the Euro Area falling by 6.6 percent, and the United Kingdom (UK) falling by 9.9 percent. In the medium-term, advanced economies are expected to rebound strongly, growing by 5.1 percent in 2021 and then moderate to 3.6 percent in 2022.

The Emerging markets and developing economies group, is estimated to have declined by 2.2 percent in 2020, affected by global supply disruptions. The group is envisaged to rebound by 6.7 percent in 2021 and 5.0 percent in 2022. Similarly, the Sub-Saharan Africa (SSA) group is also estimated to have contracted by 1.9 percent in 2020 and then rebound by 3.4 percent and 4.0 percent in 2021 and 2022, respectively. The largest economies in the SSA, namely, the Republic of South Africa (RSA) and Nigeria are estimated to have fallen by 7.0 percent and 1.8 percent, respectively in 2020.

However, the uneven distribution in the roll-out of vaccine programs as well as the slow implementation of fiscal and monetary policy still remain a negative risk to the medium-term projections.

IMF-WEO		**Projections**	
	2020	**2021$_f$**	**2022$_f$**
World Output	-3.3	6.0	4.4
Advanced Economies	-4.7	5.1	3.6
United States	-3.5	6.4	3.5
Euro Area	-6.6	4.4	3.8
Germany	-4.9	3.6	3.4
Japan	-4.8	3.3	2.5
UK	-9.9	5.3	5.1

Emerging & Developing Economies	-2.2	6.7	5.0
China	2.3	8.4	5.6
India	-8.0	12.5	6.9
Sub-Saharan Africa	-1.9	3.4	4.0
Nigeria	-1.8	2.5	2.3
South Africa	-7.0	3.1	2.0

Source: *IMF's World Economic Outlook (July 2021)*

At regional level, preliminary estimates for SADC portray that the community GDP contracted by 4.7 percent in 2020, as a result of COVID-19 induced disruptions (SADC Annual report 2020). The decline in economic output was experienced in all member states with the exception of Malawi and the Republic of Tanzania who recorded positive growth rates for real GDP not exceeding 5.5 percent. Other indicators such as inflation averaged at 50 percent for the region primarily driven by the hyper-inflation experienced in Zimbabwe. Excluding Zimbabwe, the inflation rate for the region averaged 6.8 percent in 2020. Public debt for the region continued an upward trend, reaching 63.2 percent of GDP in 2020 from 55 percent in 2019 due to weakening fiscal positions. The outlook remains optimistic for the region, with a 2 percent rebound projected in 2021 and 3.2 percent in 2022. The advent of COVID-19 remains a negative risk for the projections, in terms of the region's coping mechanism and responses to the virus.

As an open economy, Eswatini's economic performance follows that of global economic developments. As such, a recovery in global economic activity, particularly in the Southern Africa region and the European Union (EU), the country's two major trade partners, could spur Eswatini's growth; the reverse could induce an opposite effect. Underpinning this positive anticipation following an increase in global economic activity is the potential rebound in the demand for Eswatini's main export products as well as an uptick in their prices, an increase in capital inflows, and exchange rate stability owing to a potential rebound in South Africa's economic activity. However, in addition to the downside risks to SSA's growth listed above, a moderate threat to Eswatini's economic performance in the medium-term is a rise in oil prices as a result of increased external activity. This could lead to an increase in domestic fuel prices and consequently the prices of some products.

2. DOMESTIC ECONOMIC PERFORMANCE AND OUTLOOK

2.1. REAL GDP GROWTH

Similarly, to the global developments, the domestic economy is expected to rebound, albeit slower than previously anticipated in earlier projection[1]. Real Gross Domestic Product (GDP) is anticipated to rebound by 1.4 percent in 2021, subsequent to the COVID-19 disruptions experienced in 2020 that resulted in an economic output contraction of 1.9 percent (CSO, Provisional Estimates 2020). Domestic economic activity illustrated strong recovery in the first half of 2021 as external demand gradually picked up and thus supported key sectors including manufacturing. Manufacturing activity is expected to improve, benefiting from strengthened demand for Eswatini's exports in major advanced economies as well as the continued ease of lockdown restrictions, which ensures increased production activity. Other positive developments are anticipated in the services for 'information & communication' and 'financial & insurance activities' in light of continued demand and improvements in use of digital platforms.

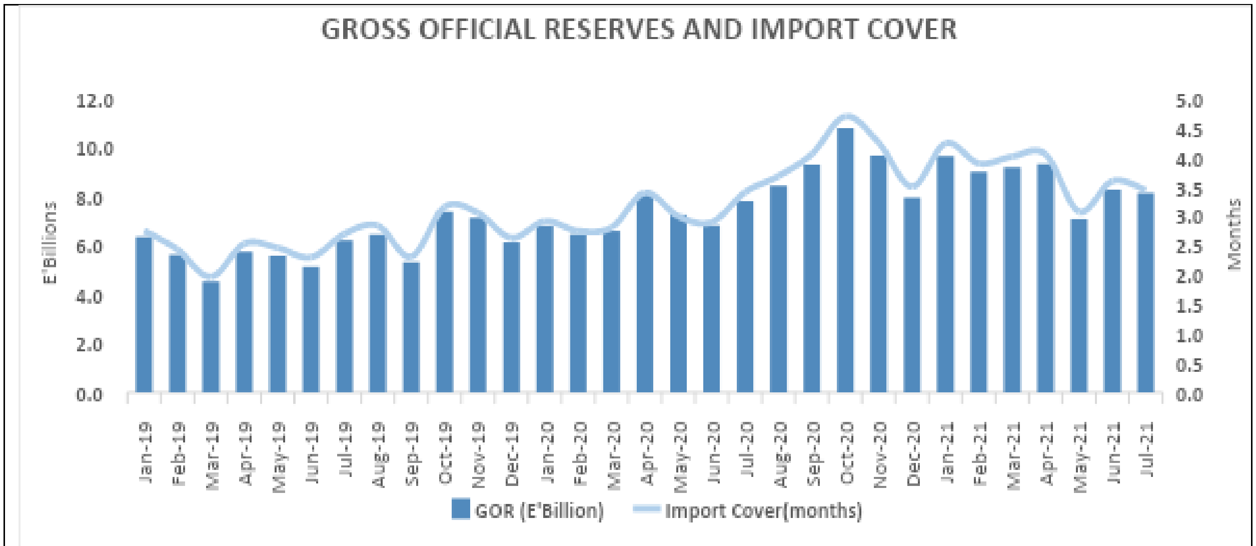
However, recovery of other sectors is expected to lag behind owing to continued suppressed demand. The 'wholesale and retail' activity is projected to remain constrained by weak local demand, depressed incomes and further exacerbated by the recent socio-political riots that resulted in severe disruptions in the operations of this sector in the year 2021. Other sectors, such as; 'tourism-related activities, 'education', and 'transport services' are expected to remain depressed in 2021 due to international travel restrictions and continuous COVID-19 related containment measures.

The medium term outlook indicates that there are heightened headwinds, owing to the resurgence of COVID-19 waves, emergence of new virus's variants, the pace of the vaccination programmes and most recently, the negative effects of the socio-economic riots experienced in the country and neighboring RSA. This poses a threat to the timely easing of restrictions and therefore full opening of economies including that of Eswatini. Additionally, second round effects such as reduced SACU shares and full implementation of Fiscal Adjustment Plan (FAP) would likely put strain on the government finance position and thus weigh heavily on domestic demand. Additionally, protectionism policies pursued by major trading partners and continuous deterioration in competitiveness will weigh negatively on selected manufacturing subsectors, particularly the textile and sugar subsectors. Nevertheless, earmarked investments under the Post COVID-19 Economic Recovery Plan and the support provided through the Reconstruction Fund are expected to support growth in 2022. Furthermore, sectors that faced a delayed recovery such as 'tourism related activities' and 'wholesale & retail trade' are expected to pick up from low-base effects of the previous two years (2020 & 2021).

[1] GDP review Projections January 2021.

2.2. GROSS OFFICIAL RESERVES

The stock of gross official reserves was reported to stand at E7.98 billion in December 2020, which was enough to cover 3.5 months of imports. This was a 29.8 percent increase from the E6.14 billion recorded in December 2019. The growth in the stock of reserves was boosted by higher SACU receipts received in FY 2020/21 as well as the foreign exchange proceeds from multilateral institutions for budget support received during the period under review. At this level, the reserves were sufficient to meet the import cover threshold of 3 months and far below the SADC macroeconomic convergence target of 6 months. As at July 2021, the stock of reserves stood at E8.15 billion which was enough to cover 3.4 months of imports. Within the short-to-medium term the stock of reserves is likely to be impacted by lower-than-expected SACU receipts for FY 2021/22 as well as the potential increase in debt servicing.



Source: *CBE*

2.3. INTEREST RATES

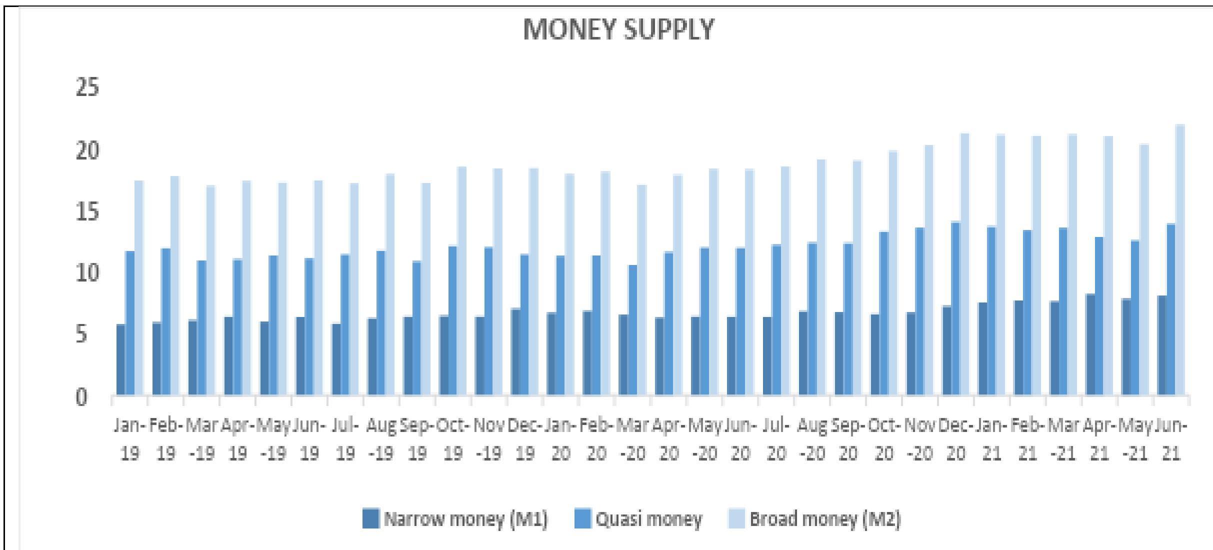
An accommodative monetary policy stance was pursued by the Central Bank in the period between 2018 and July 2021. In the period between 2018 and the end of 2019, the discount rate was slashed by 50 basis points from 7 percent in December 2018 to 6.5 percent in December 2019. This was done in consideration of factors such as the geopolitical and trade tensions as well as the weakened performance of the South African economy. On the back of these developments, the prime lending rate followed a similar path set by the discount rate, going down from 10.5 percent in 2018 to 10 percent in December 2019.

In 2020, the discount rate was further cut by a cumulative 275 basis points, from 6.5 percent in December 2019 to 3.75 percent in Dec 2020. This was done as a swift policy response to supposed economic activity amid threat of COVID-19 which was dismantling economies. Similarly, the prime lending rate followed the same trend having been cut down by 275 basis points from 10 percent in December 2019 to 7.25 in December 2020. As at July 2021, both the discount rate and prime lending rate have been maintained at the same levels since December 2020, to continue supporting economic activity and the envisaged recovery. However, going forward, given that inflationary pressure is projected to be on the uptick, the CBE is likely to increase the discount rate to control inflation.

2.4. MONEY SUPPLY

On an annual basis, in line with the accommodative policy stance, broad money supply (M2) increased by 15.5 percent at the end of December 2020 compared to a growth of 1.8 percent in the same period of 2019. In absolute terms, the stock of broad money (M2) was estimated at E21.2 billion at the end of December 2020, compared to E18.4 billion in the same period in the previous year. The increase in broad money supply (M2) emanated from both of its components namely, narrow money (M1) and quasi money. Narrow money supply, grew by 2.8 percent from E7.0 billion at the end of December 2019 to close 2020 at E7.2 billion. Similarly, quasi money supply increased by 23.2 percent to E14.0 billion by the end of December 2020, from E11.4 billion at the end of December 2019, reflecting an increase in both of its components - time deposit (25.5 percent) and savings deposits (11.8 percent).

As at July 2021, the stock of broad money stood at E21.89 billion, reflecting a 19.9 percent increase relative to the E18.25 billion recorded in July 2020, which is in line with private sector credit. The acceleration in broad money supply was mainly attributable to both its components as Narrow money supply grew by 26.6 percent while quasi money supply increased by 16.4 percent during this period.

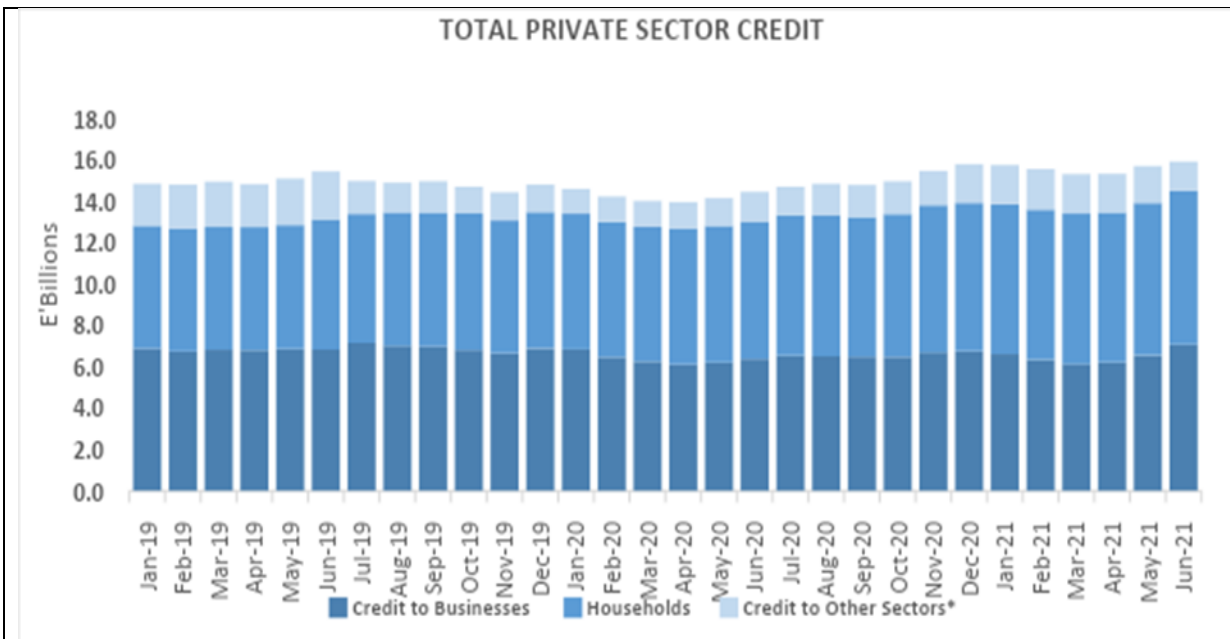


Source: *CBE*

2.5. CREDIT EXTENSION

Similarly, in line with the accommodative monetary policy stance, as at December 2020, total credit extension grew by 6.7 percent and was recorded at E15.80 billion relative to the E14.81 billion recorded in the same period in 2019. The acceleration in credit extension was mainly driven by a 9.1 percent growth in credit extended to households which was recorded at E7.19 billion in 2020 compared to E6.6 billion recorded in 2019, at the back of an increase in unsecured personal loans. In contrast, credit extended to businesses fell by 2.2 percent in 2020 from the E6.9 billion recorded in 2019 to E6.74 billion at the end of 2020. Notably, sectors such as 'Agriculture & Forestry', 'Construction', 'Mining', 'Community, Social and Personal services' as well as 'Real Estate', credit plummeted by 6.1 percent, 13.8 percent, 97.3 percent, 43.4 percent, and 11.2 percent, respectively. However, moderating the decline in credit extended were sectors such as, 'Distribution & Tourism', 'Manufacturing' as well as 'Other' the appetite to borrow grew by 9.3 percent, 19.9 percent, and 47.1 percent, respectively.

As of July 2021 total credit extension stood at 15.9 billion, which was an 8.3 percent increase relative to the same period in 2020. The growth in total credit extension was attributable to an 8.0 uptick in credit extended to businesses as well as a 9.1 percent acceleration in credit extended to households. While, the growth in credit extended to households was driven by an increase in other unsecured personal loans, the growth in credit to businesses was driven by increased borrowing from the agricultural & forestry, manufacturing and tourism sectors. In spite of the economic benefits of the accommodative monetary policy stance, the continued spread of the coronavirus is likely to increase Non-Performing Loans (NPLs) which could, in turn, cripple the banking system in the medium term.



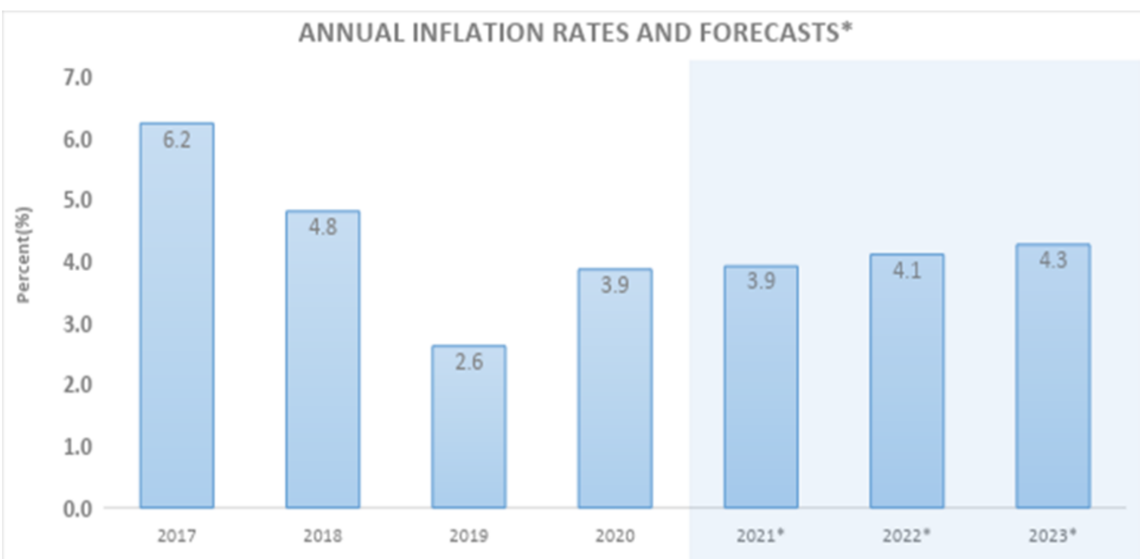
***Source**: CBE*

2.6. INFLATION (PRICE) DEVELOPMENTS

Headline inflation averaged 2.6 percent in 2019, having declined by 2.2 percent from the 4.6 percent recorded in 2018, at the back of a slowdown in inflationary pressure mainly attributed to the freezing in administered prices, primarily the housing and utilities basket, during the period.

In 2020, headline inflation averaged 3.9 percent, which reflected a 1.3 percentage points' increase compared to an average of 2.6 percent in 2019. The rise in domestic prices in this period was mainly driven by an increase in the costs of food and non-alcoholic beverages', housing and utilities as well as transport which went up by 2.1, 2.3 and 0.7 percentage points in the review period. The rise in housing and utility costs resulted from a hike in housing rentals and the water tariff, which were affected in the first half of 2020. The marginal increase in transport costs on the other hand was mainly due to a 25 percent hike in transport fares at the beginning of the year, while the hike in food costs can be mainly attributed to COVID-induced effects, especially in 2020. The Covid-induced restrictions also led to a fall in the prices of alcoholic beverages, restaurants and hotels services, communication as well as miscellaneous goods and services in this period.

According to the CBE July 2021 inflation forecasts, inflationary pressure is projected to remain stable at 3.9 percent in 2021 and then gradually increase to 4.1 percent and 4.3 percent in 2022 and 2023 respectively. The uptick in headline inflation in the medium-term is on account of external factors partly linked to COVID-19, namely the 3rd wave lockdowns (which are likely to cause supply chain disruptions), a slightly weaker Rand as well as the elevation of global crude oil prices in line with the projected economic recovery.



Source: *CSO & CBE*

2.7. EMPLOYMENT DEVELOPMENTS

According to the Labour Survey Report of 2021, the unemployment rate was recorded at 33.3 percent, which reflected a 10.3 increase from the 23 percent reported in 2016. Youth unemployment remains a major concern as the Eswatini economy is dominated by youth. The youth unemployment has significantly increased from 47 percent to 58 percent in the recent statistics. Regional statistic on unemployment shows that the Manzini region has the highest unemployment rates at 40 percent whilst the Lubombo region has recorded 26 percent. A vast majority of the new employment has been created in the manufacturing and construction sectors, while employment in services sectors has generally stagnated and agricultural employment has declined. In light of the COVID-19 pandemic and the recent social unrest, the unemployment rate is likely to rise over the medium-term. Key sectors, such as the Hospitality Industry and Mining & Quarrying are likely to carry prolonged scarred effects reflected through continued retrenchments in these subsectors (Ministry of Labour & Social Security, June 2021).

2.8. BALANCE OF PAYMENTS (BOP)

The current account balance reflected a surplus of E4.37 billion in 2020 which was a 76 percent growth from the surplus recorded in 2019 (CBE). This growth was mainly due to a surplus in the secondary income account, which improved from E7.3 billion in 2019 to E9.2 billion in 2020 as a result of increased SACU receipts. On the contrary, the primary income account continued to reflect a deficit even in 2020, indicating that outflows, in terms of compensation for labour inputs to production; dividends; and interest payments, exceeded inflows. Additionally, the services account also recorded a deficit reflecting continued shortage of skilled technicians and specialists resulting in the outflow of money due to importation of services. Over the medium term, the current account balance is anticipated to be under strain due to increased pressure on the secondary income account, in particular SACU revenues, anticipated to decline due to the second-round effects of the coronavirus pandemic.

2.9. EXCHANGE RATE DEVELOPMENTS

In 2020, the Lilangeni depreciated when compared against the three major currencies on an annual basis. Against the US Dollar, Lilangeni weakened by 14 percent and averaged E16.50 per US Dollar in 2020 compared to E14.40 per US Dollar in 2019. Likewise, against the British Pound, the Lilangeni reflected a depreciation of 13.7 percent; averaging E21.00 per British Pound in 2020 compared to E18.40 per British Pound in 2019, while against the Euro, Lilangeni weakened by 15.4 percent and averaged E18.70 per Euro in 2020 compared to E16.20 per Euro in 2019. The weakening of the Lilangeni against all the major trading currencies in this period can be attributed to the further downgrade of the South African economy to junk status by rating agencies coupled with fears emanating from the discovery of a newer COVID-19 South African variant. For the domestic economy, the depreciation of the Lilangeni against the major currencies made domestic exports cheaper, whilst making imports relatively expensive for domestic traders. Moreover, the depreciation of the currency also increased the costs of debt servicing for external loans, while inflating the value to external sourced loans.

Half-year analysis comparing 2020 relative to 2021 has reflected strengthening of the local currency when paired against the major currencies. This can be mainly attributed to improved global investor sentiments as they continued to favour higher yielding riskier emerging market assets as well as the improved covid-19 vaccination rollout, which is likely to strengthen economic activity going forward.

3. FISCAL PERFORMANCE AND OUTLOOK

Government has been running persistent fiscal deficits in the recent past and the efforts to bring the fiscal accounts onto a sustainable path by introducing consolidation measures was disrupted by the outbreak of the coronavirus pandemic in early 2020. Supply chain disruptions and measures to contain the spread of the virus has had a severe negative impact on the global as well as regional and domestic economy during financial year 2020/21 and continued in 2021/22.

To prevent the economic crisis from deepening and further deterioration of Government’s fiscal account, Government adopted a Post COVID-19 Economic recovery plan as well as a Fiscal Adjustment Plan (FAP) including both revenue enhancing as well as expenditure decreasing measures, in financial year 2020/21. The Recovery Plan does not replace Eswatini’s current Development Plans and Strategies towards achievement of the country’s Development Vision 2022. Instead, the Post COVID-19 Economic Recovery Plan is a short-term high impact economic stimulus package that will resuscitate the economy by initiating a number of productive economic activities.

The FAP, approved by Cabinet in June 2020, is fixed to span over three years with implementation starting in financial year 2021/22 and to be finalized in financial year 2023/24. The required scope for fiscal consolidation was been determined to be 6.5 percent of GDP. The purpose of the FAP is to structurally adjust Government’s fiscal imbalances by making lasting alterations to Government’s revenue collection as well as expenditure. Additionally, the FAP was a precondition for Government to receive budget support under the Rapid Financing Instrument (RFI) from the International Monetary Fund (IMF), in order to meet requirements of debt sustainability. For the purpose of credibility towards its lenders, it is important that Government implements the adjustment measures outlined in the FAP in a timely manner. Delays or alterations to the FAP could have an impact on Government’s ability to source external financing going forward.

The FAP has, due to alterations in projections and difficulty in implementing some of the policy measures initially planned, been amended in October 2020 and further in October 2021.

Government is struggling to meet the full adjustment in the medium term as the amended FAP reviews for an adjustment of 4.8 percent of GDP over the three-year period as opposed to the 6.5 percent of GDP initially planned. The shortfall in adjustment is almost exclusively stemming from lower than anticipated revenue collection due to delays or alterations to implementation of policy measures intended to increase the collection.

On the revenue side, the amended adjustment strategy includes a combination of policy measures and administrative efficiency gains to the following revenue items; individual income tax (PAYE), company tax, VAT, introduction of a carbon tax and other non-tax revenue items such as a plastic bag levy. The total adjustment to domestic revenue collection corresponds to 0.6 percent of GDP against 2 percent of GDP initially planned. On the expenditure side, savings on the following expenditure items have been planned; compensation of employees, goods and services, transfers and capital expenditure, which is the same items as initially lined out. The amended adjustment strategies to Government expenditure review for an adjustment of 4.2 percent of GDP compared to the original plan of adjusting 4.5 percent of GDP. A detailed review for the FAP and the policy measures will be presented together with the revenue and expenditure projections for the medium-term.

3.1. REVENUE OUTTURN AND PROJECTIONS

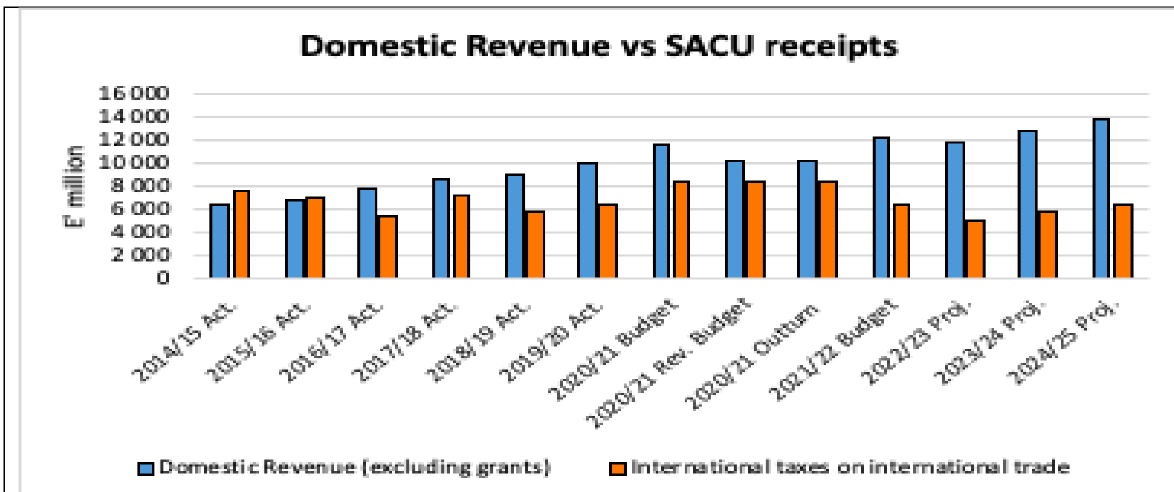
Total revenue and grants collected in 2019/20 amounted to E17.77 billion. The following year, total revenue and grants was budgeted at E21.1 billion but fell short of E2.3 billion as an economic consequence of the coronavirus pandemic and following lockdown measures and instead reviewed for a collection of E18.8 billion. In 2021/22 revenue and grants was budgeted at a total of E19.38 billion, an increase of 3.1 percent compared to the outturn for 2020/21, attributed to a recovery of the domestic economy resulting in a significant improvement of domestic revenue collection cushioning the decline in SACU receipts in the same year. SACU receipts are projected to decline from E8.35 in 2020/21 to E6.38 in 2021/22 but remain to be the largest single item of revenue accounting for 33 percent of total revenue collection.

Domestic revenue collection in 2021/22 has on the other hand been projected to bounce back by 23.2 percent compared to the 2020/21 outturn reaching a total of E12.6 billion. Out of domestic revenue collection, individual income tax (PAYE) has been projected to E4.08 billion and Company tax to E1.78 billion. Taxes on Goods and Services is projected to have increased by 26.9 percent amounting to a collection of E5.69 billion, where the major tax items VAT and fuel tax are expected to collect E3.96 billion and E1.55 billion respectively.

In 2022/23, total revenue and grants are expected to decline by E1.49 billion, equivalent to a 7.7 percent decline, compared to the 2021/22 budget, amounting to a total of E17.89 billion. The decline is mainly attributed to a significant decrease in SACU receipts, a consequence of the coronavirus pandemic in 2020/21 affecting the receipts with a two-year lag. SACU receipts are expected at E4.96 billion in 2022/23, a decline of 22.2 percent, representing 27.7 percent of the total revenue and grants. In 2020/21 SACU receipts represented 44.4 percent of total revenue collection, displaying the volatility of the SACU revenue resulting in difficulties to install sustainability to Government's revenue collection and consequently budgeting over the medium-term. The domestic revenue collection is expected to decrease by E72 million in 2022/23 compared to the 2021/22 budget, amounting to a total of E12.04 billion. The decline in domestic revenue is mainly attributed to a decrease in expected collection of fuel tax and a slight decrease of VAT.

In 2023/24, total revenue is expected to equate to E19.78 billion, implying an increase of 10.5 percent, attributed to both an increase in SACU receipts and in domestic revenue collection, in particular on the items PAYE, company tax and VAT. In 2024/25, total revenue is projected to reach E21.41 billion, representing an increase of 8.3 percent, caused by a rebound in SACU receipts and increased domestic revenue collection, in particular individual income tax, company tax, VAT and fuel tax.

As demonstrated in the medium-term projections, the volatility in SACU receipts poses challenges for Government in planning fiscal policy over the medium-term. This has been an issue for several years and led to Government aiming to rely less on the SACU revenue and instead increase domestic tax collection. The diagram below illustrates the projected increase in domestic revenue while SACU receipts decline as a share of total revenue and continues to be an unstable source of income. The projected increase in domestic revenue collection is mainly attributed to policy measures implemented in the recent past and only partly relies on the timely implementation of the amended FAP. This since substantial alterations have been made to the original FAP pertaining to revenue collection.



Source: Ministry of Finance

The FAP was amended in October 2021 due to abolishing and delays in implementation of certain policy measures initially planned on the revenue side. Compared to the original FAP, the scope for increasing revenue collection has been revised downwards from an initially planned adjustment of 2 percent of GDP[2] to a 0.6 percent of GDP adjustment. The delays in implementation and abolishing of certain measures passed in Cabinet during the financial year of 2020/21 can be reviewed for in the table below. The FAP was initially set to adjust revenue and expenditure measures from 2021/22. Pertaining to the revenue side, the policy measures are set to be implemented from 2022/23 combined with additional measures in 2023/24. The delays in implementation puts additional pressure on Government to forcefully implement all proposed measures, to avoid a further shortfall in projected revenue collection.

Revenue Policy Options								
E'Million	2021/22 October	2021/22 Amended	2022/23 October	2022/23 Amended	2023/24 October	2023/24 Amended	Total October	Total Amended
Company Tax (a combination of measures)	181	0	0	134	0	0	181	134
Personal Income tax	140	0	0	0	0	37	140	37
Value Added Tax (Standard rate some	237	0	346	84	100	0	683	84
Fuel Tax (Increase rate of tax by 30c)	102	0	104	107	106	0	312	107
Carbon tax	78	0	0	0	0	74	78	74
Other (Non-tax revenue)	0	0	51	48	73	0	124	48
Total Annual Adj.	738	0	501	373	279	110	1518	483
Cumulative Adj.	738	0	1239	373	1518	483	1518	483
Cumulative Adj. (% of GDP)	1.0%	0.0%	1.6%	0.5%	1.8%	0.6%	1.8%	0.6%

The amended FAP contains the following policy measures in terms of revenue collection.

- **Individual income taxation** to be increased by 37 million due to a revision of tax rates.
- **Value Added Tax (VAT)** to be increased by E84 million. This by increasing the tax base to include certain items currently exempted such as diary and standard rating of electricity.
- **Fuel tax** to generate increased revenue of E107 million by increasing the rate of 30 cents per liter.
- **Company tax** to generate increased revenue of E134 million through introduction of a turnover based alternative minimum tax at 0.5% of turnover, a revision of allowances and an introduction of a worldwide taxation.
- **Carbon taxation** to be introduced generating revenue of E74 million.
- **Non-tax revenue** to increase by E48 million by the implementation of the Finance Bill in April 2022 including alterations to several Government fees.

[2] The original FAP used the September 2020 GDP projections as a base and total adjustment on the expenditure side amounted to 2 percent of GDP. For comparability purposes the September 2021 GDP projections have been used in the table, revising the adjustment down to 1.8 percent of GDP on the revenue side in the original FAP.

The combined revenue adjustments correspond to an alteration of E483 million or 0.6 percent of GDP. The previous revenue measures approved in October 2020 were set to increase revenue by E1.518 billion, due to alterations and delays to certain policies, the estimate has been significantly revised downwards, posing challenges to fulfil the initial requirement of a total adjustment of 6.5 percent of GDP and putting pressure on reducing expenditure even further. The significant shortfall is partly explained by the fact that none of the policy measures initially planned to increase collection in 2021/22 are projected to have resulted in an increased revenue collection on respective item due to a failure of timely implementation.

3.2. EXPENDITURE OUTTURN AND PROJECTIONS: CAPITAL EXPENDITURE

Total capital expenditure in the financial year 2020/21 amounted to E 5.09 billion. In terms of the economic sector, the General Public Services sector represented the largest area of expenditure (31 percent of total expenditure) followed by Agriculture, Forests and Fisheries sector (19 percent of total capital expenditure). The Transport and Communication sector which was the highest in the financial year 2019/20 became third at 18 percent of total capital expenditure. In 2020/21, 71.2 percent of the funds for the capital budget were sourced from Government while 28.8 percent came from both loans and grants. The major external funder was African Development Bank with 10.8 percent of the actual total capital expenditure which went towards Manzini to Mphandze road, Manzini water supply and irrigation systems at the lower Usuthu irrigation project (LUSIP 2).

The budget allocated to capital expenditure in the financial year 2020/21 reduced to E 6.2 billion from E6.37 which was a result of a supplementary budget appropriation to accommodate the Covid-19 response fund. The necessity to cater for expenditure related to the coronavirus related response, predominantly health, education and national disaster emergency response expenditure, resulted in reallocation of funds from the capital budget amounting to E313 million in total via a supplementary budget. Simultaneously, the revised projections of disbursement to capital projects at mid-year increased by E105 million, cushioning the effect of the reallocation for coronavirus expenditure. The revised capital budget for financial year 2020/21 consequently stood at E6.17 billion. The end of year execution rate stood at 77 percent overall, while at 89 for domestic funds.

The 2021/22 budget allocated a total amount of E6.37 billion to the capital programmes, maintained at the level of the original budget of 2020/21. The mid-year report for 2021/22 has so far indicated an execution rate of the capital expenditure at 35.24 percent, equivalent to an expenditure of E2.2 billion. Projected execution rate for the capital budget in the medium term is estimated at 85 percent. This execution rate is based on the assumption that the top-ten largest projects already are expected to disburse close to 100 percent, and certain projects are expected to require a supplementary budget providing additional funds. Another contributing factor to the projected execution rate of 85 percent is the already observed increase in execution rate of the domestically financed component due to minimized supply chain disruptions and the positive response to the COVID-19 vaccination.

Implementation of the large ongoing capital projects is anticipated to be less than expected owing to the persistent cash flow challenges within Government. About 12 percent (E757 million) of the current capital expenditure is already queuing at the Treasury for payment. The cash flow problem, if not addressed will lead to further accumulation of domestic arrears and increased expenditure due to accumulation of penalties for delayed payments.

The FAP stipulates a reduction of capital expenditure by E1.1 billion spread between financial years 2022/23 and 2023/24 and introduces a lower replacement rate of completed capital projects. This has been taken into account when projecting the capital expenditure over the medium-term. The estimated total expenditure on capital programmes in 2022/23 is projected to E5.36 billion, followed by E5.49 billion in 2023/24 and at 5.64 billion in 2024/25. The projections of the capital expenditure are more reliant on the Government getting over **E2 billion new loans** is the medium term. Failure to realize foreign financing on capital projects will results in lower projection of the program which will have a negative impact on economic growth.

Over the medium term some large capital projects are expected to be completed. A detailed review of large capital projects expected to be finalized over the medium-term can be reviewed in the table below:

	2022	**2024**
	Buhleni Police Station	Construction of two factory shells
	Ezulwini water supply project	Disaster recovery centre in Siteki
	Upgrading of MR3 from Manzini to Mphandze (Lot 1)	
	Upgrading of MR3 from Mphandze to Mbadlane (Lot 2)	
	Lukhula - Big Bend road	
	The International Convention Centre (ICC)	
	Five Star International Hotel (FISH)	

Despite a slowdown in the implementation of capital projects, a number of new capital projects are planned to be implemented over the medium-term, in line with the priorities stipulated in the National Development Plan aiming to boost economic growth and facilitate the implementation of the sustainable development agenda. The objective of the capital projects starting up over the medium term is further to build human capital to acquire skills as well as adhering to the Sustainable Development Goals and create opportunities for SMEs to actively participate in the economy.

The medium term capital budget will continue to accommodate the COVID-19 Economic Recovery Plan and additional projects under the Reconstruction Fund. The projects in the Reconstruction Fund include the Construction of Tinkhundla offices, Construction of Hlathikhulu Factory shell and three projects under the Ministry of Health (Shiselweni regional offices, KaMfishane clinic, NCD offices in Manzini, health vehicles, equipment and furniture. Other capital projects to be initiated over the medium term include the construction of a new parliament building, Royal villas, Data Recovery Site, construction at Sikhuphe Airport (VVIP and compensations) and a thermal power generation station.

Adhering to the expenditure ceilings stipulated in the FAP and simultaneously undertaking imperative Government projects to boost economic growth is anticipated to be a daunting task and cash flow disruptions are likely to hamper timely completion of planned projects. To avoid stalling of capital projects, arrears should be budgeted for in the outer years.

3.3. EXPENDITURE OUTTURN AND PROJECTIONS: RECURRENT EXPENDITURE

In the financial year 2019/20 total recurrent expenditure stood at E17.2 billion, followed by E17.75 billion in 2020/21. Despite increased expenditure on health care and social welfare in 2020/21 to protect citizens from the negative health and economic effects of the coronavirus pandemic, the overall actual expense did not exceed the original budgetary ceiling of E18.03 billion. Instead an under execution of 1.5 percent was materialized in 2020/21. This was due to a substantive reallocation process between different expenditure items within the Government budget. The execution rate of the different expenditure items however varied significantly within the recurrent budget, with expenditure on Government wages and Goods and Services review for an under execution and domestic interest payments and internal transfers an over expenditure. Expenditure to combat the pandemic is however explaining the over expenditure on internal transfers as a substantial amount was reallocated from Goods and Services and transferred to NDMA for this purpose.

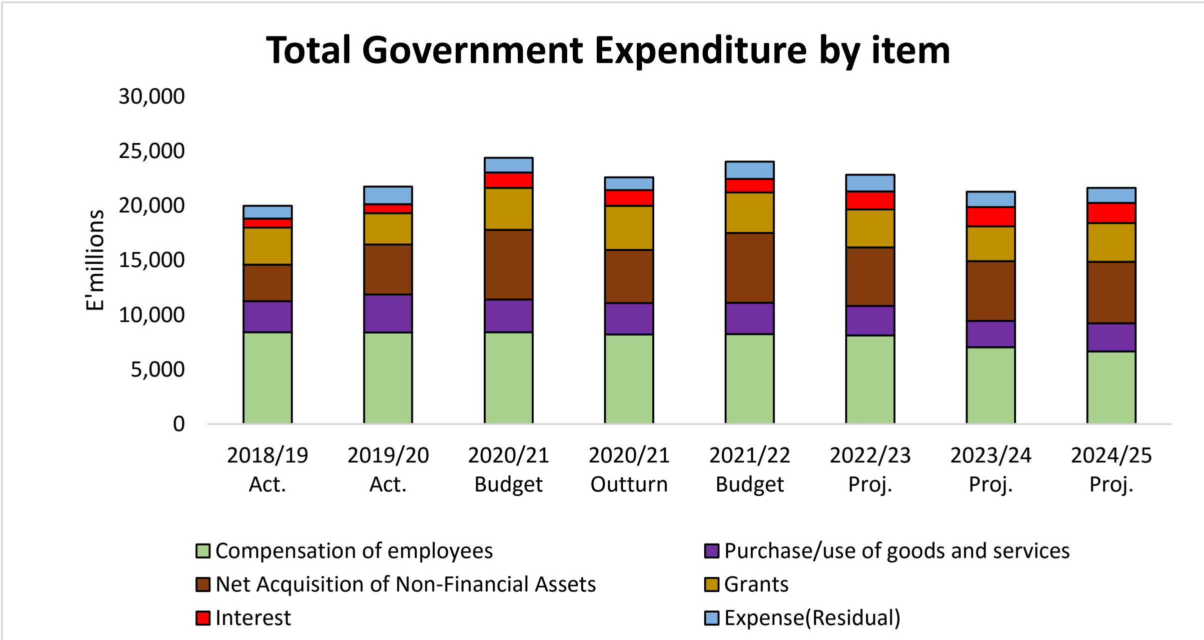
The budget allocation for recurrent expenditure in 2021/22 amounts to E17.67 billion. The projections for total recurrent expenditure for 2022/23 stand at E17.47 billion, this is a 1.2 percent decline compared to the budget allocation for recurrent expenditure in financial year 2021/22. This is followed by a projection of E15.8 billion in 2023/24 representing a decrease of 9.6 percent and anticipated to be E16.1 billion in 2024/25 representing a slight increase of 1.4 percent, assuming full implementation of the amended FAP. The significant decrease of the recurrent budgetary ceiling in the outer year is a consequence of shifting policy measures in the FAP towards the end of the adjustment period, in particular measures pertaining to the Government Wage Bill and internal transfers.

The amended FAP contains alterations to the same following expenditure items as the original FAP, although at a different magnitude of savings have been estimated on respective item: wages and salaries generating savings of E802 million, goods and services of E851 million and transfers of E788 million. A comparison between the original FAP and the amended FAP can be reviewed in the table below[3].

Expenditure Policy Measures								
(E'Million)								
Expenditure item	*2021/22 Original*	***2021/22 Amended***	*2022/23 Original*	**2022/23 Amended**	*2023/24 Original*	**2023/24 Amended**	*Total original*	**Total Amended**
Wages	*230*	***109***	*295*	**116**	*378*	**577**	*903*	**802**
Goods & Services	*123*	***128***	*245*	**245**	*478*	**478**	*846*	**851**
Transfers	*95*	***80.1***	*300*	**288**	*420*	**420**	*815*	**788**
Capex	*0*	**0**	*541*	**548**	*541*	**549**	*1082*	**1097**
Total Annual cuts	*448*	***317***	*1381*	***1196***	*1817*	***2024***	*3646*	**3537**
Total Cumulative cuts	*448*	***317***	*1829*	**1513**	*3646*	**3537**	*3646*	**3537**
Cumulative cuts (% of GDP)	*0.6%*	***0.4%***	*2.3%*	***1.9%***	*4.3%*	***4.2%***	*4.3%*	***4.2%***
GDP F/Y	*71,600*	***71,600***	*78,525*	***78,525***	*84,214*	***84,214***		

Out of total Government Expense, Compensation to employees is by far the largest single item, averaging around 50 percent of total recurrent expense in the past years. The Government's Wage Bill (wages and salaries, social contributions) has been growing rapidly over the past years, threatening fiscal sustainability and limiting fiscal space for expenditure on national priorities for stimulating growth in the economy. While the Government Wage Bill has proven challenging to contain, the introduction of a hiring freeze to all Government entities in 2018/19 has had an effect on the expenditure on wages and salaries. Expenditure on goods and services average around 34 percent of the Government wage bill. Crowding out expenditure on goods and services in favour of a ballooning wage bill will in the long-run imply that Government pays employees just to report to work, without adequate equipment to perform the duties.

[3] The original FAP used the September 2020 GDP projections as a base and total adjustment on the expenditure side amounted to 4.5 percent of GDP. For comparability purposes the September 2021 GDP projections have been used in the table, revising the adjustment down to 4.3 percent of GDP on the expenditure side.



Source: Ministry of Finance

3.3.1.Compensation of Employees

In the financial year 2019/20 the Government wage bill amounted to a total of E8.39 billion followed by E8.23 in 2020/21, reflecting a decrease of 1.9 percent. The decrease is mainly attributed to a continuation of the hiring freeze to all Government entities introduced in 2018/19. In addition to freezing all hiring, the policy stance on rationalizing public service expenditure further included reviewing the permanent establishments in order to identify vacant positions necessary for the effective functioning of Government and remove excessive permanent positions. Whilst undergoing this exercise, acting arrangements and temporary appointments were not made for most of these positions except for crucial senior positions.

The budget for the financial year of 2021/22 estimated a total spending on wages to equal E8.26 billion. This implies that between the financial year 2019/20 and 2021/22, compensation to employees has decreased by 1.6 percent, despite the annual notch-increase and cost of living adjustment awarded to civil servants in 2021/22 of 3 percent. This proves the hiring freeze efficiency as the increased costs attributed to the salary adjustments has been cushioned by the hiring freeze, decreasing the overall expenditure on salary and wages.

In the financial year 2022/23 compensation of employees is estimated to amount to E8.14 billion, a decrease of 1.4 percent compared to the 2021/22 budget, attributed to policy measures in the amended FAP. The measures implemented in 2022/23 resulting in a total saving of E116 million includes a continuation of the hiring freeze, implementation of recommendations from the management audit and outsourcing of certain Government services.

In the financial year 2023/24, compensation of employees is estimated to amount to E7.05 billion, a decrease of 13.5 percent compared to previous year. The sharp decline in expenditure on wages and salaries is mainly attributed to the introduction of an Early Voluntarily Retirement Scheme (EVERS), decreasing the wage bill by 17.4 percent. In total, the net saving stipulated in the amended FAP is E577 million. The scheme will assist Government to realize savings by offering employees a beneficial reimbursement package if deciding to retire before the age of 60. The details of the reimbursement package and eligibility is currently under discussion within relevant Government structures. The reimbursement packages imply a cost for Government in the implementing and succeeding year of a total of E700 million. Despite the high fixed cost, EVERS is a policy measure ensuring fiscal sustainability of Government wages and consequently operations over the long-term. In addition to the introduction of EVERS the savings will be realized through the following measures: a continuation of the hiring freeze, alternative service delivery and a transfer of the revenue department.

In 2024/25 the wage bill is estimated to E6.66 billion, a decrease of 5.5 percent. To conclude, the fiscal adjustment measures pertaining to compensation of employees are expected to decrease the expenditure on wages and social contributions by E802 million over the three-year period.

It is expected that the freeze on hiring to all Government entities implemented through the call circular in 2018/19 will result in a decrease of the headcount of Government employees. Between 2018/19 and 2020/21 the head count decreased from an average of 45,600 employees to 44,900 employees corresponding to a decline of 1.5 percent. The medium-term projections are underpinned by the assumptions of an annual increase of 1 percent due to the automatic notching and a 1 percent increase due to the filling of critical vacant positions. Fiscal consolidation measures in line with the amended FAP, however, cushions the effect of the described increases, resulting in a net decrease in the wage bill.

3.3.2. Interest obligations

The total expenditure on interest obligations amounted in the financial year 2019/20 to E815 million followed by an increase of 77 percent to E1.44 billion in 2020/21. The sharp increase in expenditure on interest payments was not unique for the financial year 2020/21 but rather followed the upward trend displayed over the past years. The increase in 2020/21 is attributed to higher interest payments on the domestic debt stock as a consequence of higher issuance of domestic debt instruments in the past years to cover the budget deficit Government has recorded.

The budget for financial year 2021/22 has allocated the amount of E1.22 billion to interest obligations, E807 million to domestic creditors and E416 to external creditors. This implies that the total expenditure on interest payments has decreased by 15.4 percent, compared to the outcome of the financial year 2020/21. The lower interest payments in the 2021/22 budget is attributed to a decrease on the domestic side while the external interest payments have increased, although not by the same magnitude. External interest payments have increased partly due to the acquisition of budget support loans but also as a consequence of higher disbursements of the loan component to finance capital projects in recent years.

Two loans previously classified under domestic debt generating interest payments under the domestic component have in the presented MTFF been reclassified under external debt hence also reclassified to external interest payments. These loans are financing the capital projects PROBASE and the PPP project for the Lukhula-Big Bend road.

Over the medium term, interest payments are expected to continue on the previously recorded upward trend, implying 2021/22's decrease in interest payments was rather an outlier than a structural change. In 2022/23, interest payments are expected at E1.63 billion followed by E1.75 and E1.85 billion in the outer years. This is caused by an obligation to pay interest on debt accumulated in the domestic market, mainly Government bonds and Treasury Bills, external loan agreements such as project loans financing capital investments as well as the budget support loans from the IMF, the World Bank and the African Development Bank. The growth of the interest payment is a concern for the Government, however, without significant increases in domestic revenue, the country is compelled to resort to borrowing which over the medium-term is costlier to Government.

3.3.3.Goods and Services

Expenditure on Goods and Services amounted to E3.5 billion in the financial year 2019/20 followed by E2.87 billion in the financial year 2020/21. The substantial decrease in expenditure on Goods and Services in financial year 2020/21 rather following the trend observed in previous years, where 2019/20 reviewed for a significantly higher amount compared to the trend. The high expenditure in 2019/20 was a result of the repayment of domestic arrears accumulated from purchasing goods and services in previous financial years, enabled by the approval of a supplementary budget.

To cater for increased health and social assistance costs during the pandemic in 2020/21 part of the allocation towards Goods and Services was reallocated and transferred as a grant to the National Disaster Management Agency (NDMA), to cater for the increased expenditure.

The budget for the financial year 2021/22 allocated the amount of E2.87 billion for Goods and Services. This implies that this expenditure item is maintained at the same levels of 2020/21. In real terms, as there are cost drivers such as inflation and increase in annual rates on for example utilities, a maintained allocation implies a decrease and a necessity to save. The FAP set out to adjust expenditure on Goods and Services by E128 million in 2021/22. Adjustment measures to

Goods and Services have been incorporated by weighting the different detailed expenditure items as a share of the aggregate expenditure item. This implies that each expenditure item has been reduced proportionally.

Expenditure on goods and services is projected to decrease by 6.7 percent amounting to E2.68 billion in financial year 2022/23. In financial year 2023/24 expenditure on Goods and Services is projected to decline to E2.39 billion, followed by a slight increase of E2.57 billion in financial year 2024/25, assuming successful implementation of expenditure reduction measures. The expenditure is projected to increase in financial year 2024/25 as the adjustment period has ended and inflation and increase in standard ratings such as utilities increase on an annual basis without policy measures. The total savings on the goods and services expenditure item stipulated in the amended FAP amounting to E851 million, will be realized through closing of trading accounts for certain expenditure items such as medical stores, improvement of the system for commitment of funds as well as enhanced efficiency in the procurement process.

3.3.4.Transfers (Grants)

In the financial year 2019/20 expenditure on transfers amounted to E2.85 billion followed by E4.05 billion in 2020/21, representing an increase of 42 percent. The substantial increase in expenditure on transfers in 2020/21 is partly attributed to the additional expenditure on health and social assistance to cater for the pandemic, a reallocation from Goods and Services to a transfer to NDMA as well as an increased transfer to the Regional Development Fund.

The budget for the financial year 2021/22 allocated E3.71 billion, a decrease of 8.3 percent compared to the previous year. The decrease in expenditure on transfers in 2021/22 is following the trend recorded in the previous years, where the substantially higher expenditure in 2020/21 was an outlier caused by the coronavirus pandemic. The historic trend of increased expenditure on transfers has mainly been driven by a higher allocation to grants to other Government units, specifically state-owned enterprises and by increased statutory expenditure.

The projected estimate for expenditure on transfers in 2022/23 amounts to E3.5 billion, followed by E3.2 billion in 2023/24 and E3.53 billion in 2024/25. These projections are based on the assumption of successful implementation of measures aimed at decreasing expenditure on transfers stipulated in the amended FAP. The measures are in total expected to reduce expenses on transfers by E788 million over the adjustment period, E288 in 2022/23 and E420 million in 2023/24. These savings will be realized through a 10 percent reduction to all public enterprises and streamlining and merging of public entities with similar mandates in line with recommendations from the study of the public enterprises in 2023/24, an annual cap of E2.5 million budget per Tinkhundla, a slight reduction in municipality grants, outsourcing scholarships to a Scholarship Fund and reprioritization of subscription to international organizations (external grants).

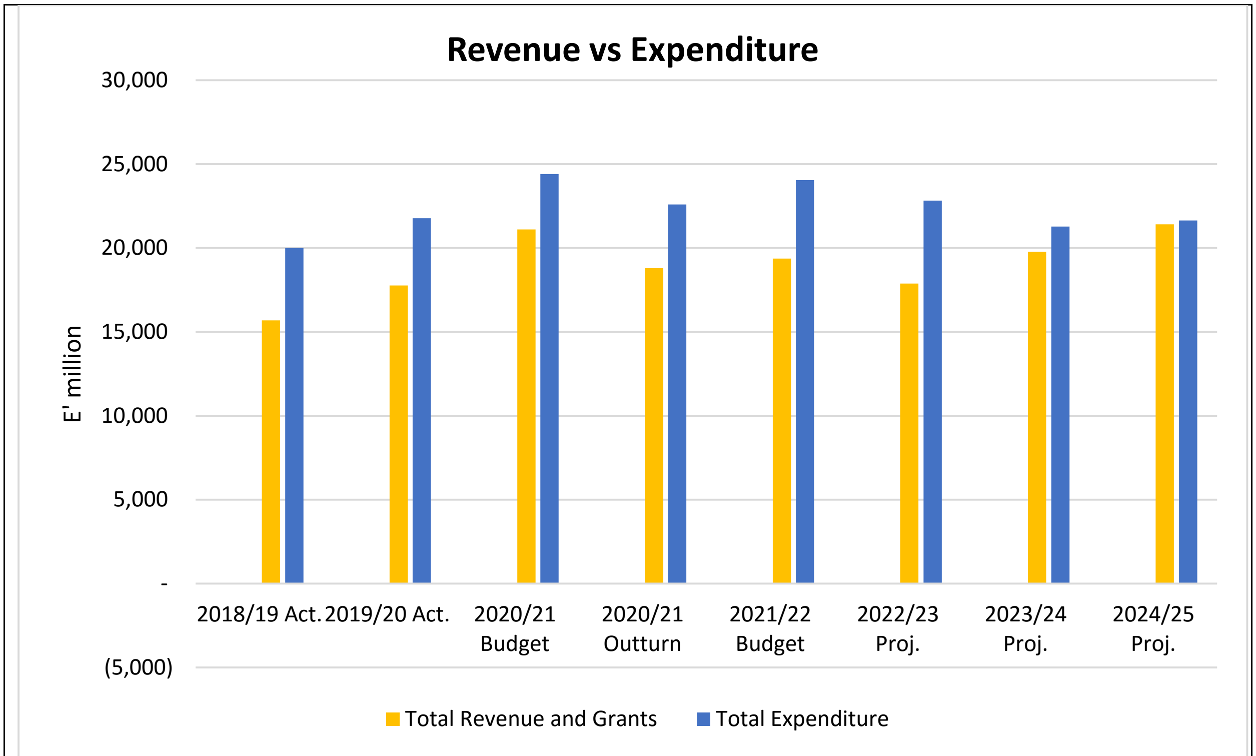
3.3.5.Statutory expenditure

Statutory expenditure amounted to E1.14 billion in the financial year 2019/20, followed by an increase of 37 percent leading to an expenditure of E1.55 billion in 2020/21. The 2021/22 budget allocated a total of E1.16 billion for statutory expenditure, representing a decrease of 24.5 percent The decrease is a result of the reduction of the budget for the Royal Eswatini National Airways Corporation (RENAC) an airline which is solely used for state travel and reduced travel budget for international relation as there were restrictions on international travel due to Covid-19. Projections show that statutory expenditure is expected to decrease over the medium-term, amounting to E1.14 billion in 2022/23 followed by E1.1 billion in 2023/24, to be substantially increased again in 2024/25 to E1.43 billion in 2024/25.

3.4. FISCAL DEFICIT

Government consistently spending more than the total revenue collection in recent years has put a strain on the public finances and resulted in an annual fiscal deficit. The persistent fiscal deficit can partly be explained by the volatility of Government's single largest revenue item, the SACU receipts, but attention also has to be drawn to Government being unable to control expenditure and failing to implement policies aiming to reduce expenditure in a timely manner. This has caused a decline in international reserves and an increase in public debt leading to higher debt servicing costs.

To curb these developments, the Government committed to a Fiscal consolidation process effective from the financial year 2019/20 with the aim of reducing the fiscal deficit. The fiscal deficit, or Government's budget balance, is the difference between total revenue and total expenditure, implying that reducing the deficit can be achieved by either collecting more revenue or reducing expenditure. The consolidation process initiated in 2019/20 successfully reduced the fiscal deficit to E3.99 billion or 6.1 percent of GDP in 2019/20. Regardless of the disruptions from the coronavirus pandemic, Government's efforts to improve the fiscal position were not into vain as fiscal in 2020/21 recorded a fiscal deficit of E3.79 billion or 5.7 percent of GDP. This was mainly to the lockdowns which resulted in low implementation of capital projects and lower consumption of goods and services.

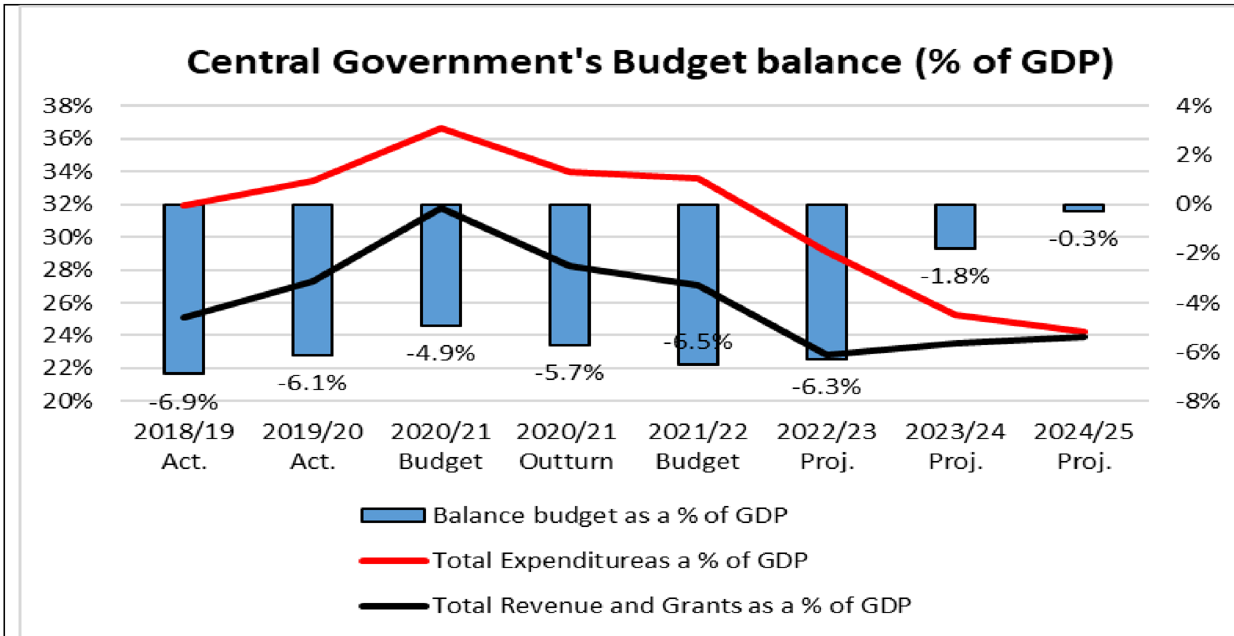


Source: Ministry of Finance

To respond to the deteriorated fiscal position and move into a sustainable path, in 2020/21 Government adopted the FAP, aiming to reinforce the efforts of improving Government's fiscal position. The FAP was set out to adjust the public finances by 6.5 percent of GDP between 2021/22 until 2023/24. Alterations and delays to the implementation of the policies in the FAP has however led to a downward revision in the estimated adjustment. The amended FAP of October 2021 reviews for an adjustment of **4.8 percent of GDP**. The fiscal deficit for financial year 2021/22 was, despite fiscal adjustment measures, budgeted to reach E4.66 billion or 6.5 percent of GDP, which combined with challenges to source adequate financing threatens fiscal sustainability.

The fiscal deficit for financial year 2022/23 is, regardless of substantial fiscal adjustment measures in particular pertaining to Government expenditure, estimated to reach E4.94 billion, equivalent to 6.3% of GDP, posing challenges to source adequate financing using debt instruments. Without adequate financing or further policy measures to reduce Government expenditure or the increase revenue collection, Government is expected to accumulate arrears, demonstrated to harm the recovery of the wider economy. To avoid the accumulation of arrears, the Government is working tirelessly on finding alternative sources that are available to finance the budget including the use of the special drawing rights (SDR) from the IMF.

The effect of the substantial adjustment policy measures in the amended FAP will be visible on the fiscal deficit for 2023/24 expected to improve significantly and amount to E1.5 billion or 1.8 percent of GDP followed by E240 million or 0.3 percent of GDP in 2024/25. These projections are however dependent on timely and full implementation of the amended FAP, any deviations will have a direct impact on the fiscal deficit over the medium-term.



Source: Ministry of Finance

3.5. FINANCING AND DEBT

In order to finance the fiscal deficit, the Government generally tries to raise debt instruments on the capital market. This implies that each year the Government passes a budget with a fiscal deficit, the public debt stock grows as the Government accumulates new net financing. In the case where the Government manages to raise enough debt instruments to finance the fiscal deficit, the public debt stock grows by the same magnitude as the budgeted fiscal deficit. In the financial year 2019/20, the public debt stock stood at E20.45 billion or 31.4 percent of GDP.

In 2020/21 the stock had increased to E26.12 billion, corresponding to 39.3 percent of GDP. This implies that the Government's public debt stock in 2020/21 surpassed the regional debt to GDP target of 35 percent. Additionally, it is important to note that the debt stock does not include the current stock of arrears that the Government has accumulated. The sharp increase in the public debt stock in 2020/21 is a consequence of the substantial shortfall in revenue collection caused by the coronavirus pandemic and following economic crisis, widening the fiscal deficit, hence increasing the pressure to mobilize financing to avoid deterioration of Government’s fiscal accounts. To mobilize additional financing in 2020/21, the Government solicited budget support from the IMF under the Rapid Financing Instrument (RFI) of E1.96 billion and the World Bank loan of E640 million.

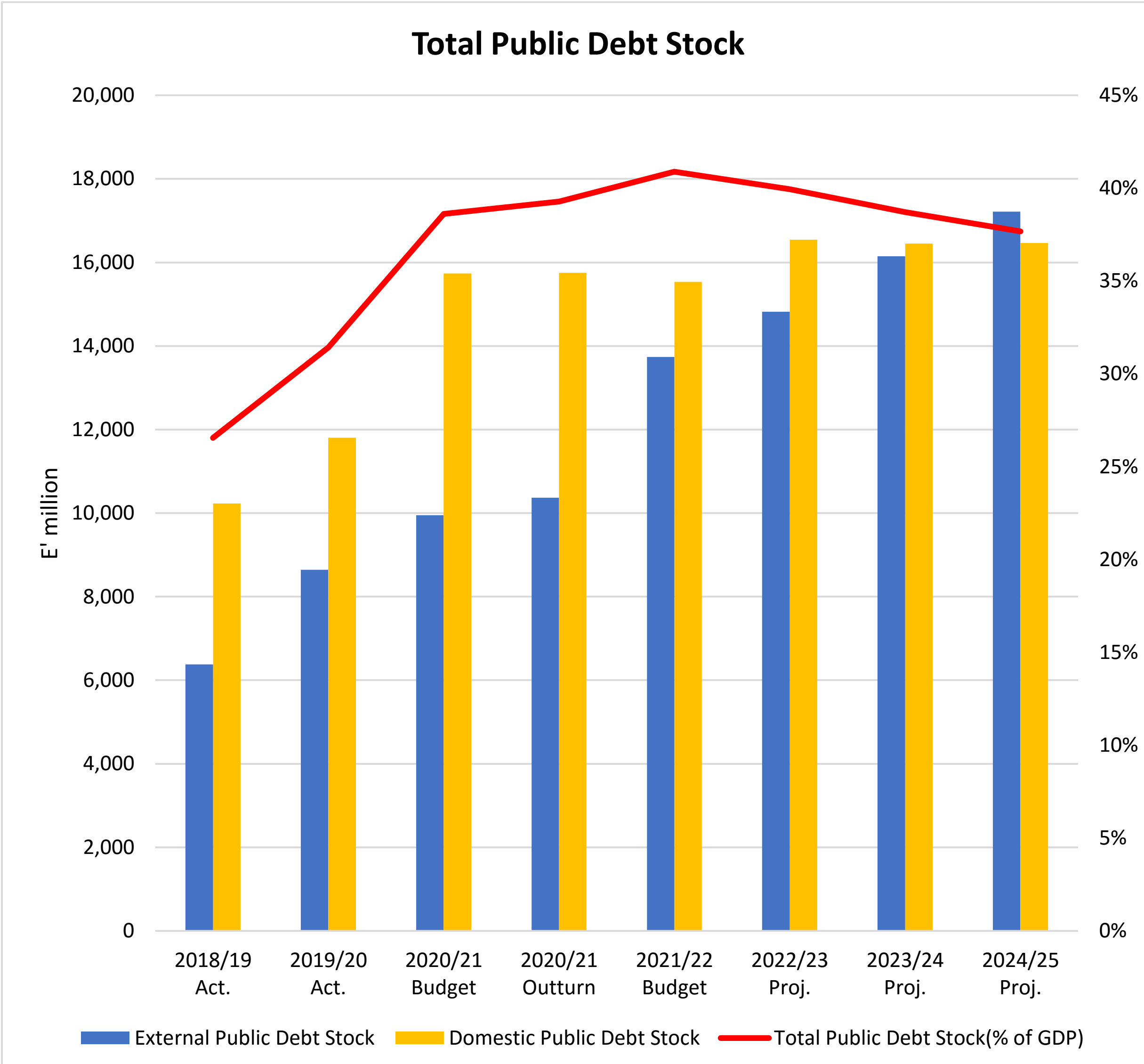
In the 2021/22 the public debt stock is estimated to reach E29.28 billion or 41 percent of GDP, an increase by 12 percent compared to 2020/21. Out of this, domestic debt accounts for 53 percent and external debt for 47 percent comprising of externally financed capital expenditure as well as newly acquired budget support loans. Domestic debt is projected to grow by 6 percent in 2022/23 followed by a slight decrease of 0.6 percent in 2023/24 and an insignificant increase of 0.1 percent in 2024/25.

Government bonds and Treasury Bills have generated less new net financing the past years, a trend which is being continued in 2022/23. For Treasury Bills, this is caused by an increase in maturities in the fiscal year 2021/22. This is because in the fiscal year 2020/21 the Ministry of Finance amended the green shoe option from 50% to 100% of the amount on offer on all Bonds and Bills. The rise in the coming year is as a result of that increase, as more securities were issued and consequently are maturing in the coming year.

The fall in Suppliers Bond issuance in the medium-term is due to the Government receiving the two budget support loans from the World Bank and IMF and using those proceeds to pay suppliers, drastically decreasing the stock of payables. A smaller stock of arrears to suppliers means lower issuance in the suppliers' bond programme.

The domestic market is now saturated and as such raising domestic instruments to finance the budget will be unlikely, the only avenue is to go to the external market. Over the medium term, external debt is forecast to grow by 8 percent in 2022/23, 9 percent and 6.6 percent in 2023/24 and 2024/25 respectively.

In general, the trend of a rapidly increasing public debt stock observed in the recent past continues in the medium term when looking at the nominal values, however as a percentage of GDP is projected to peak in 2022/23 and slightly decline over the medium-term, equaling 37.7 percent of GDP in 2024/25. The peak in the public debt stock is mainly attributed to challenges of raising more debt instruments on the domestic market. It is essential that the growth of the public debt remains lower than the growth in GDP, however, the country is experiencing the opposite which poses a risk in the cost of debt serving crowding out other developmental expenditures.



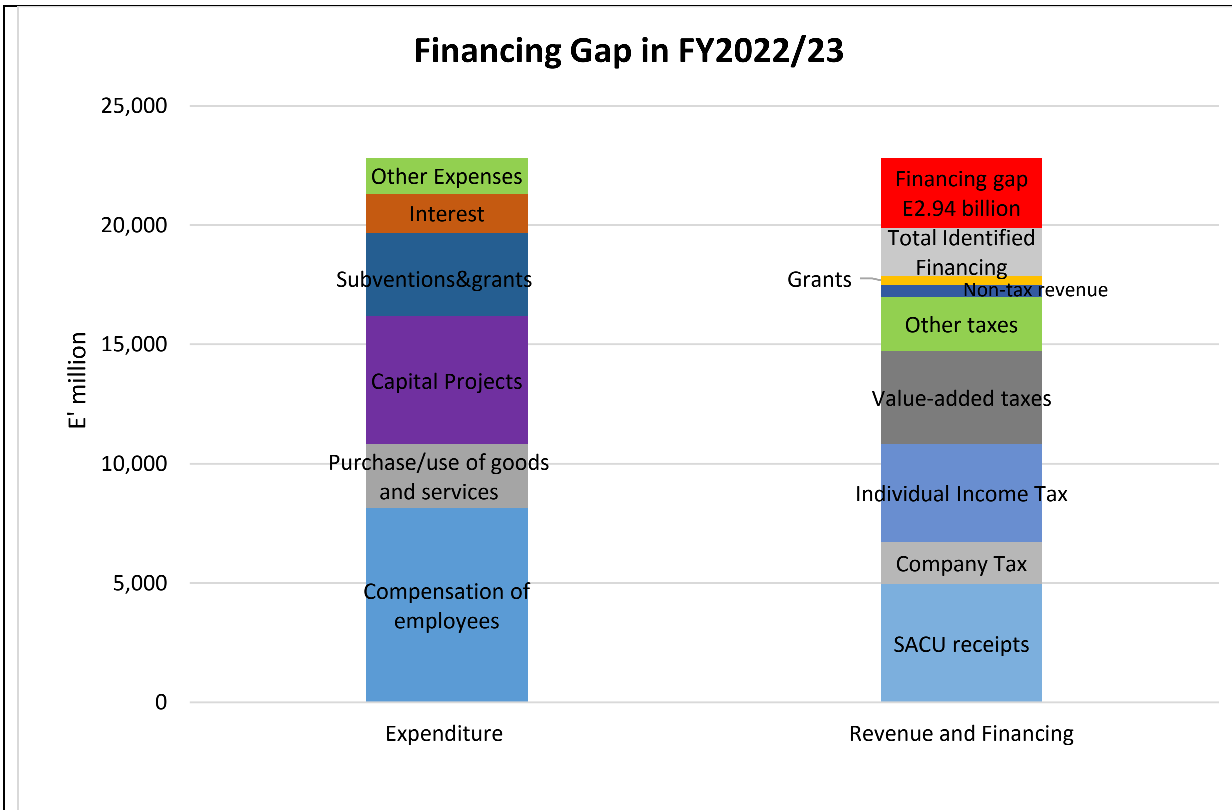
Source: Ministry of Finance

3.6. SUSTAINABILITY- FINANCING GAP AND ACCUMULATION OF ARREARS

Ideally, the Government should not be implementing budgets that are not fully financed by either revenue or borrowing, but the country has found itself in a dire situation, hence the accumulation of arrears in the recent past. Increased expenditures coupled with volatility of SACU revenue, shortfall in domestic revenue collection and limited scope for financing in the debt market has resulted in a financing gap over several years. This forced borrowing by Government has negative effects in the economy, henceforth the effort by the Government to clear arrears in the medium term and avoid accumulation of new arrears. The implementation of the FAP is expected to reduce arrears substantially compared to when there is no adjustment.

The financing gap in 2019/20 was at 0.8 % of GDP, amounting to E 549 million, implying the stock of arrears are increasing by the same amount. In 2020/21, there was a financing surplus of E1.58 billion which was used to reduce the arrears, owing to the IMF Rapid Financing Instrument loan which was extended to countries to fight effects of Covid-19 and World bank budget support loan. This gave the economy a temporal relief as in 2021/22, an estimated financing gap of E571 is expected if the budget will be fully implemented and this might increase if revenue performance is lower that estimated in the budget.

In 2022/23, financing will be a major challenge as most of our financing sources using concessional are fully utilized and borrowing and commercial rates is not desirable under the current macroeconomic situation. The financing gap is projected to be E2.94 billion, corresponding to 3.7 percent of GDP which will increase the stock of arrears. To stop the accumulation of arrears, Government have to make a tough decision to cut expenditure over and above the FAP measures.



Source: Ministry of Finance

The continual implementation of the FAP in 2023/24 and recovery of SACU revenues is expected to close the gap and financing projected to be just E74 million, i.e. 0.1 percent of GDP. In 2024/25, with the full implementation of the FAP the country is expected to be in a sustainable path as a financing surplus of E1.04 billion is realized. In the absence of arrears this surplus was going to be used boost the Government deposits and increase reserves. However, as the country is accumulating arrears, it is expected to reduce arrears to about E6.1 billion from E7.15 billion the previous year.

The Government fiscal position would move into a sustainable trajectory if the measures as stipulated in the FAP are fully implemented in a timely manner, and the FAP is driven at political level.

4. FISCAL RISKS DEVELOPMENTS

The ongoing political climate is going to take a strain on the already stretched fiscal position. In the current year 2021/22 budget, Government had to reallocate a budget of E500 million to reconstruct the structures that have been demolished by fires during the July 2021 protests. The current situation shows that a number of structures are yet to be demolished as the protests are still on going and burning of the Government structures is targeted.

It is inevitable that the Government have to put more resources in the reconstruction of structures, especially schools that have been severely damaged by the ongoing protest as this have a negative effect in the macro and socio-economic development of the country. Government's fiscal position may be further weakened by the ongoing socio-economic events, disrupting all the Government efforts of reforms and adjustment into a fiscal sustainable path.

In addition to the impact the ongoing political climate has on Government expenditure through the necessity to cater for previously unforeseen reconstruction costs, the political turbulence is posing a risk to the revenue projections. Disruption in supply chains, particularly the fuel and other consumable goods, experienced in July due to the ongoing political situation is likely to have an impact on the domestic tax collection such as fuel tax and VAT. Lockdown measures imposed by Government connected to the political unrest will further impact other revenue items such as company tax and PAYE.

In general, political unrest has been proven to negatively affect the ability to attract foreign direct investment as well as boosting domestic investment and therefore has a severe negative impact on the wider economy, in turn affecting a government's macro-economic position both through revenue collection and the ability to raise debt.

A continuation of the current political situation poses severe threats to the recovery of the wider economy, to the country's reputation in terms of investment security and consequently to the public finances and operations of Government.

ANNEX 1: Summary Medium Term Fiscal Framework- October 2021

Summary Fiscal Table 2018/19 - 2024/25							
E. mil	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Act.	Act.	Outturn	Budget	Proj.	Proj.	Proj.
Total Revenue and Grants	**15,684**	**17,772**	**18,806**	**19,381**	**17,892**	**19,778**	**21,413**
Total Expenditure	**19,997**	**21,769**	**22,605**	**24,044**	**22,827**	**21,276**	**21,652**
Overall Balance	**-4,313**	**-3,998**	**-3,798**	**-4,663**	**-4,936**	**-1,498**	**-240**
% of GDP	-6.9%	-6.1%	-5.7%	-6.5%	-6.3%	-1.8%	-0.3%
Total Identified Financing	**4,295**	**3,448**	**5,375**	**4,092**	**1,998**	**1,424**	**1,277**
Drawdown on foreign loans	1,283	3,010	3,886	4,104	2,049	2,730	2,880
Redemption of foreign public debt	-410	-665	-509	-660	-900	-1,330	-1,740
Net domestic financing	3,423	1,103	1,998	648	850	24	136
Financing gap (-)/surplus (+) (est.)	**-17**	**-549**	**1,576**	**-571**	**-2,937**	**-74**	**1,037**
% of GDP	0.0%	-0.8%	2.4%	-0.8%	-3.7%	-0.1%	1.2%
Public Debt Stock	**16,615**	**20,453**	**26,122**	**29,277**	**31,365**	**32,600**	**33,682**
% of GDP	26.5%	31.4%	39.3%	40.9%	39.9%	38.7%	37.7%
Stock of Pending Bills (est.)	**4,591**	**5,140**	**3,563**	**4,134**	**7,072**	**7,145**	**6,109**
% of GDP	6.4%	7.2%	5.0%	5.8%	9.0%	9.1%	6.8%

Source: Ministry of Finance

ANNEX 2: Detailed Medium Term Fiscal Framework- October 2021

Medium-Term Fiscal Framework 2018/19 - 2024/25							
Estimates as of October 2021	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
(E million)	Act.	Act.	Outturn	Budget	Proj.	Proj.	Proj.
Total Revenue and Grants	**15,684**	**17,772**	**18,806**	**19,381**	**17,892**	**19,778**	**21,413**
Total Revenue	**15,229**	**17,220**	**18,573**	**18,970**	**17,481**	**19,367**	**21,002**
Taxes	**14,915**	**16,366**	**18,448**	**18,482**	**16,996**	**18,872**	**20,490**
Taxes on income, profits, and capital gains	**5,212**	**5,678**	**5,574**	**6,342**	**6,427**	**7,048**	**7,672**
Payable by corporations and other enterprises	1,458	1,707	1,441	1,860	1,779	2,046	2,365
Payable by individuals	3,261	3,483	3,556	3,888	4,083	4,414	4,691
Other taxes on income, profits and capital gains	494	488	578	594	565	587	616
Taxes on payroll and workforce	**1**	**1**	**1**	**1**	**1**	**1**	**1**
Taxes on property	**49**	**55**	**19**	**34**	**32**	**32**	**34**
Taxes on international trade and transactions	**5,870**	**6,327**	**8,361**	**6,395**	**4,972**	**5,805**	**6,316**
SACU receipts	5,844	6,318	8,349	6,375	4,957	5,789	6,300
Customs and other import duties	26	9	12	20	15	15	16
Taxes on exports	0	0	0	0	0	0	0
Other taxes on international trade and transactic	0	0	0	0	0	0	0
Taxes on goods and services	**3,759**	**4,268**	**4,480**	**5,686**	**5,535**	**5,883**	**6,364**
General taxes on goods and services	2,650	2,965	3,119	3,956	3,917	4,225	4,634
Value-added taxes	*2,650*	*2,965*	*3,119*	*3,956*	*3,917*	*4,225*	*4,634*
Sales taxes	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Excises	1,050	1,218	1,291	1,589	1,523	1,562	1,631
On fuel	*1,050*	*1,202*	*1,261*	*1,549*	*1,480*	*1,515*	*1,579*
On alcohol and cigarettes	*0*	*16*	*29*	*40*	*43*	*47*	*51*
Other	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Taxes on specific services	11	12	9	16	16	16	16
Taxes on use of goods and on permission to use g	48	73	60	125	79	81	84
Motor vehicle taxes	*12*	*13*	*11*	*15*	*19*	*19*	*20*
Other	*36*	*60*	*49*	*109*	*61*	*62*	*64*
Business and professional licenses	*0*	*0*	*0*	*1*	*0*	*0*	*0*
Licenses and permits for households	*1*	*1*	*0*	*0*	*1*	*1*	*1*
Other taxes on permission to/or use goods not	*35*	*59*	*49*	*108*	*60*	*61*	*63*
Other taxes	**23**	**36**	**13**	**24**	**29**	**103**	**104**
Other revenue	**314**	**854**	**125**	**488**	**485**	**495**	**512**
Property income	**139**	**646**	**9**	**275**	**187**	**191**	**198**
Interest	33	66	4	19	26	26	27
Dividends	106	581	4	256	161	165	171
Property income from investment income disburs	0	0	0	0	0	0	0
Sales of goods and services	**135**	**153**	**91**	**158**	**252**	**256**	**263**
Sales by market establishments	14	15	1	1	1	1	1
Administrative fees and charges	109	123	71	131	208	212	219
Incidental sales by nonmarket establishments	12	14	7	13	30	30	31
Imputed sales of goods and services	0	0	12	13	13	13	13
Fines, penalties and forfeits	**41**	**55**	**26**	**55**	**46**	**47**	**49**
Premiums, fees and current claims	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Other nontax	**0**	**0**	**0**	**0**	**0**	**1**	**1**
Grants	**455**	**552**	**234**	**411**	**411**	**411**	**411**
Budget support grants	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Debt relief	0	0	0	0	0	0	0
HIPC	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0
Other budget support	0	0	0	0	0	0	0
Project grants	**455**	**552**	**234**	**411**	**411**	**411**	**411**
From foreign governments	0	0	0	0	0	0	0
From international organisations	455	552	234	411	411	411	411
From other general government units	0	0	0	0	0	0	0

Medium-Term Fiscal Framework 2018/19 - 2024/25							
Estimates as of October 2021	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
(E million)	Act.	Act.	Outturn	Budget	Proj.	Proj.	Proj.
Total Expenditure	**19,997**	**21,769**	**22,605**	**24,044**	**22,827**	**21,276**	**21,652**
Expense	**16,660**	**17,200**	**17,753**	**17,670**	**17,465**	**15,781**	**16,007**
Compensation of employees	**8,412**	**8,390**	**8,230**	**8,258**	**8,142**	**7,045**	**6,660**
Wages and salaries	7,362	7,178	7,004	7,211	6,904	5,548	5,476
Social contributions	1,050	1,212	1,226	1,047	1,237	1,497	1,184
Purchase/use of goods and services	**2,850**	**3,504**	**2,870**	**2,868**	**2,675**	**2,391**	**2,574**
JP Morgan Swap Fee*	**178**	**178**	**133**	0	**0**	**0**	**0**
Consumption of fixed capital	**0**	**0**	**0**	0	0	0	0
Interest	**822**	**815**	**1,444**	**1,222**	**1,629**	**1,746**	**1,846**
of which: Domestic	626	552	1,189	807	991	1,062	1,084
of which: External	196	263	255	416	639	684	762
Subsidies	**47**	**45**	**44**	**90**	**85**	**78**	**78**
Grants	**3,397**	**2,852**	**4,045**	**3,726**	**3,504**	**3,203**	**3,531**
To foreign governments	0	0	0	0	0	0	0
To international organisations	75	91	165	177	151	135	135
To other general government units	3,323	2,761	3,880	3,549	3,353	3,067	3,395
Budgetary/Extrabudgetary/NPI	*1,588*	*1,486*	*2,118*	2,037	1,895	1,688	1,688
RDF	*5*	*110*	*177*	177	148	104	104
Grants to subnational governments	*21*	*28*	*34*	178	176	173	173
Statutory	*1,709*	*1,137*	*1,551*	1,157	1,135	1,102	1,431
Social Benefits	**490**	**605**	**480**	**666**	**666**	**666**	**666**
Social assistance	490	605	480	666	666	666	666
Other expense	**464**	**812**	**507**	**840**	**763**	**652**	**652**
Gross Operating Balance (Total revenue less expense)	**-975**	**572**	**1,053**	**1,712**	**427**	**3,997**	**5,405**
Net Acquisition of Non-Financial Assets	**3,337**	**4,569**	**4,852**	**6,374**	**5,362**	**5,495**	**5,645**
Foreign financed capital projects	**1,655**	**2,942**	**1,450**	**2,853**	**2,389**	**3,071**	**3,221**
of which: Loans	1,200	2,391	1,216	2,442	1,978	2,660	2,810
of which: Grants	455	552	234	411	411	411	411
Domestically financed capital projects	**1,684**	**1,632**	**3,408**	**3,521**	**2,973**	**2,424**	**2,424**
Sale of Government Assets	**-2**	**-5**	**-6**	0	**0**	**0**	**0**
Primary Balance	**-3,491**	**-3,182**	**-2,354**	**-3,441**	**-3,306**	**248**	**1,606**
Overall Balance:Net Lending (non-financial)	**-4,313**	**-3,998**	**-3,798**	**-4,663**	**-4,936**	**-1,498**	**-240**