Memorandum

From: Principal Secretary
Ministry of Finance

To: All Controlling Officers

Date: 30 October 2023

Our File Ref.: CF/51 **Your Ref:**

BUDGET CALL CIRCULAR: PREPARATION OF THE BUDGET ESTIMATES FOR THE FY 2024/25 AND THE MEDIUM TERM

Introduction

1. The objective of this Call Circular is to provide an overview of the economy, communicate fundamental policies and set out guidelines for the budget preparation process which ministries, departments and agencies or spending entities are to observe in the preparation of the 2024/25 - 2026/27 Budget Estimates.

2. The Circular aims to assist spending entities in formulating their MTEF Budget Estimates focusing mainly on 2022/23 outturns (whose estimates are firm), the outturns for 2023/24 (whose estimates are indicative only), accumulation of arrears, year-end accruals and deficits in the trading accounts (if any). It further seeks to ***communicate budget ceilings to which spending entities are expected to align their priorities*** to in the preparation of the budget for 2024/25 financial year.

3. Even though the Medium Term Fiscal Framework (MTFF) has not yet been approved by Cabinet, the Call Circular herein being issued is aligned to the Framework soon to be considered and approved by Cabinet. It is being issued to give ministries, departments and agencies the required time to finalise consultations and prepare for the submission of their budgets for the medium term in line with national priorities. The budget ceilings attached are therefore ***indicative and subject to further adjustments once the framework has been approved***, though adjustments may only apply to selected ministries, departments and agencies. Cabinet is yet to approve certain new policies that may have budgetary implications that would warrant these adjustments.

4. All Controlling Officers are therefore urged to immediately convene budget meetings to embark on the preparation of the entity budget estimates and budget framework papers (BFPs) for the FY 2024/25 and the medium term in line with the guidelines provided in the sections below. In this regard and as we strengthen our program-based budgeting as embedded in the PFM Act of

2017, you are advised to adhere to the framework and MTEF process to facilitate smooth deliberations and subsequent approval of your submissions and estimates.

Macroeconomic Developments

5. **The Macroeconomic fundamentals, internal and external, are central to the preparation of the national Budget in any country and are always taken into account**. This is because national budgets are not implemented in isolation, rather, in a dynamic medium of social and economic changes. The 2024/25 National Budget will take into account trends in the national GDP growth rates, the Post COVID 19 Economic Recovery Plan, and the Fiscal Adjustment Plan (FAP). The National Budget will also be aligned to the the Sustainable Development Goals (SDGs) and other national policies as articulated in the National Development Plan (NDP).

6. According to the IMF World Economic Outlook (WEO) for July 2023, global economic growth is projected to moderate to 3.0 percent in 2023, following a growth of 3.5 percent in 2022 and is expected to maintain a constant growth of 3.0 percent in 2024. The slowdown in global growth in 2023 is on the basis of tighter monetary policy conditions in the midst of sticky inflation, which is expected to stifle global demand in the short term.

7. Growth in advanced economies is envisaged to backslide to 1.5 percent in 2023 from 2.7 percent in 2022, at the back of subdued economic performance in the US economy, owing to continued tighter monetary policy coupled with observed banking instability. The US economy is projected to slowdown from 2.1 percent in 2022 to 1.8 percent in 2023 and 1.0 percent in 2024. Similarly, growth in the Euro area is anticipated to slow down from 3.5 percent in 2022 to 0.9 percent in 2023 before increasing to 1.5 percent in 2024.

8. On the contrary, growth in Emerging Markets and Developing Economies (EMDE's), is anticipated to be broadly stable at 4.0 percent in 2023 and 4.1 in 2024 on account of China's projected growth, which is at 5.2 percent in 2023 and 4.5 percent in 2024. China's consumption reflected strong improvements in the first quarter of 2023 supported by the full opening of the economy. However, investment under-performed due to poor performance of the real estate sector, which was however swiftly netted off by stronger net exports.

9. In the Sub-Saharan Africa (SSA) growth is forecasted to moderate to 3.5 percent in 2023 before rebounding to 4.1 percent in 2024. In Nigeria, growth is projected to moderate from 3.3 percent in 2022 to 3.2 percent in 2023 and 3.0 percent in 2024, reflecting uncertainty in the production and supply of crude oil. Similarly, according to the Reserve Bank of South Africa (SARB), the South African economy, is also expected to slow down from 1.9 percent in 2022 to a revised growth of 0.7 percent in 2023 before growing to 1.0 percent in 2024. The deceleration in economic activity for the RSA economy in 2023 is underpinned on the ongoing electricity supply challenges. Since, South Africa is one of the major trading partners of Eswatini, effects

of slow economic growth will likely have indirect effects on demand for some of Eswatini's exported products.

10. Risks to the global outlook remain on the downside. China's recovery could be slowed down partly due to the real estate challenges with negative cross border effects, and is likely to dampen global demand. Furthermore, following the financial turbulence affecting the US and Swiss banking sectors, inflation could remain high and rise even further if other shocks could occur, including those from the intensification of the Russia-Ukraine conflict, which could lead to tight monetary policy. This could then increase debt distress.

11. The regional average growth for SADC region is projected at 3.7 percent in 2023, reflecting a slight moderation from the 3.9 percent recorded in 2022. The slight moderation in growth was attributable to tight monetary policy conditions in the period in response to the high inflationary environment induced by the geopolitical tensions. Growth for the SADC region is projected to average at 4.2 percent in 2024.

12. Similarly, the average growth of the SACU region is projected at 2.8 percent in 2023 reflecting a marginal slowdown from the 2.9 percent recorded in 2022. Growth for the SACU region is projected to average 4.2 percent in 2024.

Domestic Developments

13. Real Gross Domestic Product (GDP) is projected to recover from the prolonged effects of the economic shocks experienced by the Eswatini economy over the past 3 years. Real GDP slowed to 0.5 percent in 2022 from a revised growth of 10.7 percent in 2021. This slow growth in 2022 was on account of previous year's high base effects, negative impacts of geo-political tensions, tightening financial conditions as well as fiscal challenges due to lower Southern African Customs Union (SACU) inflows in the fiscal year 2022/23. Real GDP growth in 2023 is forecasted to strengthen to 4.7 percent, as domestic economic activity is projected to recover in the short-term, benefiting from an improved fiscal position which will support public spending and investment as well as other demand driven sectors, and is expected to outweigh the envisaged global economic challenges.

14. The medium-term (2024 – 2026) outlook for Eswatini remains positive, as real GDP is expected to average 3.3 percent with a peak of 4.9 percent in 2024. The key growth drivers in the medium term will be the continued implementation of the multi-billion Emalangeni projects (such as the Mkhondvo-Ngwavuma Water Augmented Project) as well as the kick-starting of projects designated to support the energy industry (i.e., solar, biomass, and hydro related projects).

15. Following the persistent fiscal challenges, fiscal consolidation has remained the country's major priority. The country has for the longest time, grappled with widening fiscal deficits, triggered by increasing expenditures against the slowing growth of revenues. The advent of covid-19 has

exerted pressure on the fiscus and Government had to re-channel resources towards social and health expenditure. In addition, the recent political unrest has resulted in unexpected additional expenditures.

16. However, due to base effects and the projected completion of large-scale public projects, which will coincide with the low uptake of newer projects of comparable size in light of the sustainability of public debt, the growth in the latter years will drop marginally. Since SACU inflows are cyclical, there will be less spending in the later years of the cycle due to higher debt levels and interest payments as a percentage of GDP. Moreover, increasing private sector investment will depend on improving financial conditions and the reduction in both domestic and global concerns.

17. Given the country's extensive trading connections with the rest of the globe, emerging global shocks continue to pose a serious threat to the country's economic outlook. Recent global headwinds include the protracted and intensifying geopolitical tensions and unexpected outbreak of pandemics. Agriculture output as well as other important economic sectors continue to be threatened by climate change issues, which has resulted in erratic weather patterns. In addition, from domestic vulnerabilities, insufficient budgetary room and any potential delays in the execution of large-scale projects are potential risks for the medium-term outlook.

18. Over the medium-term, Government will be challenged by increasing expenditures as demand for Government services is high and as such expenditure is expected to continue to surpass total revenue. However, Government will need to remain committed to the continuous implementation of measures to contain expenditure and grow revenues to keep the fiscal balance at sustainable levels.

Preliminary Resource Envelope for FY 2023/24

19. The preliminary resource envelope, as per the Medium-Term Fiscal Framework (MTFF) baseline analysis, is projected to average E25.5 billion between FY 2024/25 and FY 2026/27. While domestic revenues are expected to grow, SACU receipts on the other hand are expected **to slightly decline in FY2024/25 and average around E9 billion** in the medium term

20. Domestic revenues are projected to contribute over 60 percent of the total revenues excluding grants. The improvement in domestic revenues is linked to the economic growth as it is projected to average 3.3 percent between 2023 and 2026 with a peak of 4.9 percent in 2024. In addition, ERS continual improvement in tax administration and efficiency is expected to yield positive results.

21. With successful implementation of measures to stop tax evasions and introduction of new systems of tax administration, domestic collection is expected to increase substantially over the medium-term, further leading to reduced dependence on SACU receipts, which have proven to be an important but volatile source of income in the recent past. Importantly, the SACU stabilization fund will reduce the volatility on SACU receipts and this has been a long-term objective for Government to improve fiscal stability.

22. Ministries are therefore advised to prepare comprehensive estimates for FY 2024/25 within the ceilings prescribed in Annex 1 by reprioritising entity programmes. **Ministries, departments and spending agencies are urged to adhere to the above instruction as submissions above the prescribed ceiling will not be processed until the necessary adjustments have been made.** ***If the adjustments are therefore not initiated by the respective Ministry or department/agencies, the PBC team will therefore be at liberty to process the cuts on their behalf and this may not be favourable to the relevant entities.*** Furthermore, it is requested that you take into cognizance the limited fiscal space currently facing Government when preparing budget estimates for 2024/25 and the medium term.

23. **Ministries and departments are strongly advised to take serious note of the current government fiscal position and be factual and more realistic when budgeting for their programmes and administrative costs.** In the past years, the first claims on the new financial year's budget have been the commitments of the previous years. However, every effort should be made to liquidate these commitments from the current year's allocation. ***The tendency by some ministries and spending agencies to issue orders outside the Government budgeting/payment system (i.e., making commitments over and above the allocated budget) and not following the necessary procurement processes has been noted with grave concern. Ministries are warned to desist from such with immediate effect as stiff action will be taken to punish those who continue to perpetuate such counter-productive actions.***

24. Draft estimates of expenditure for goods and services must provide for the payment of Value Added Tax (VAT), particularly for the externally funded projects to avoid delays in the implementation of the entity's programmes /projects. In the same vein, these should also cater for the clearance of outstanding bills such as utilities, professional services etc. Furthermore, **in light of the financial challenges highlighted above, ministries and departments are urged to utilize government facilities in the preparation of the budget and avoid at all cost holding meetings in paid-for facilities. Ministries are also strongly urged to ensure full utilization of existing Government platforms (such as the Government website and press) for all advertisements in order to reduce overall expenditure on goods and services.**

Alignment of the Budget to the National Development Plan (NDP) and Strategic Road Map (SRM)

25. The National Development Plan (NDP) alongside the Strategic Road Map (SRM) will continue to guide expenditure priorities and resource allocation for the 2024/2025 financial year and the medium term. Hence, sector policies and strategic plans, objectives, priorities and budget frameworks must be well articulated within the areas of ongoing capital projects, pro-poor targeted expenditures at the same time limiting non-priority expenditures, while recognizing the importance of mainstreaming youth and gender issues. Capital projects planned to be implemented over the medium-term, in line with the priorities stipulated in the National

Development Plan aim to boost economic growth and facilitate the implementation of the sustainable development agenda. The focus should be on implementation of the National Development Plan that will stimulate economic growth and also create employment. To this effect, priority projects and activities from within the medium term expenditure framework will be considered.

Allocative Efficiency in Budget Allocations

26. The application of MTEF requires all spending agencies to exercise a high degree of allocative efficiency in light of the limited available resources. Under MTEF, the spending agencies are expected to identify priority areas and efficiency measures within the entities and reallocate resources to those areas and interventions that will have the greatest impact for realization of objectives of the entity and Government. It is important to align your resources with your priorities to avoid in-year virements as the PFM Act 2017 restricts reallocations to 5% of activities total allocation. **Ministries are therefore urged to liaise with their counterparts (sectoral officers) at the Ministry of Finance, to facilitate the re-alignment and this should be done immediately after PBC Budget Consultations.**

Linking Resources to Development Results (MTEF Approach)

27. The Medium-Term Expenditure Framework approach is the process employed by Government in the preparation of entity and national budgets. As enshrined in the PFM Act 2017, the MTEF approach to budgeting places Government policies and priorities at the heart of budget planning. It provides a realistic budgetary resource ceiling against which to prioritize the allocation of resources consistent with policy objectives. Therefore, the major purpose of MTEF is to prioritize resources within a resource constrained environment and to link them (resources) to development results for purposes of improving performance and monitoring all Government programmes.

28. The selection of priority key outputs to be implemented at entity/sector level should thus be guided by the identification of those outputs that are likely to have the greatest impact on achieving its objectives and development results. Following submission of your Budget Proposals on the **17th November 2023**, the PBC Technical Team will review the proposals to ensure this has been adequately done. Costing of your objectives, outputs and activities should be done using the MTEF costing template.

29. It is also critical to note that MTEF places more emphasis on a bottom up approach to budget preparation that will ensure participation by relevant stakeholders in the budgeting process in an open and transparent manner. This is aligned to budget transparency and participation by in the budget preparation process and therefore a necessary requirement. One of the key takeaways from Sibaya is 'taking the Budget to the people, i.e., to the Constituencies (Tinkhundla), which further emphasises the need to ensure full participation. Governments ministries, departments and agencies are therefore urged to ensure that participation is extended to all sector stakeholders, including women and children, the disabled and other vulnerable groups in the preparation of entity budgets. ***Ministries are further implored to keep records and all proof***

documents including minutes of budget meetings, budget meeting invitations to demonstrate that budget consultations have been extensively undertaken. Kindly note that this is not a choice but a requirement, all Government ministries, departments and agencies are required to include such proof documents when submitting their budgets.

MINISTERIAL MTEF/BUDGET PROCESS:

30. As a build-up to the determination of sectoral strategies, Ministries, Departments and Agencies (MDAs) are involved in the bottom-up expenditure review and planning. The following steps should be considered;

Step 1: Review the Ministry's / Department's programmes against its functions and objectives to establish their relevance.

Step 2: Bottom-up expenditure analysis of past expenditure and performance for the preparation of programme spending proposals and performance targets.

Step 3: Resource allocation proposals which match resource availability with spending needs through a process of trade-offs.

Step 4: Finalizing Resource Allocations in line with sector development plans and crafting the detailed Budget estimates in consultation with the Ministry of Finance for submission and approval by Parliament. Please see Figure 1 for your necessary action.

Figure 1: MTEF Budget Process

	Goals/Objectives		
	↓		
	Strategy		
	↓		
	Programs		
	↓		
Agree on outputs	Yr 1 Outputs	Yr 2 Outputs	Yr 3 Outputs
	↓	↓	↓
Activities to deliver outputs	Yr 1 Activities	Yr 2 Activities	Yr 3 Activities
	↓	↓	↓
Identify inputs	Inputs (Rec + K)	Inputs (Rec + K)	Inputs (Rec + K)
	↓	↓	↓
Prepare 3yr estimate	Total cost Est	Total cost Est	Total cost Est
	↓	↓	↓
Compare needs with ceiling	Ceiling	Ceiling	Ceiling
	↓	↓	↓
Prioritize to fit in ceiling	Priority Outputs	Priority Outputs	Priority Outputs

Performance Contracts

31. Controlling Officers should note that they are required to sign Performance Contracts, which will form the basis of accountability on how public resources are being linked to intended results and form the structure for quarterly progress reporting as required by the PFM Act 2017. These quarterly reports will indicate the achievement of planned outputs within the expenditures that were appropriated to every Entity. The planned outputs should be the same as those included in the MTEF costing template and Budget Framework Papers.

Personnel Expenses

32. The Ministry of Public Service will continue to budget for salaries and other personnel expenses for all Ministries and Agencies. By far the largest single item of Government expenditure is the compensation of Government employees and growth in the wage bill has been unavoidable due to the automatic notching built into the salary structure. The wage bill has been contained in recent past years owing to the hiring freeze and no award of cost of living adjustment policies implemented. Government through the Fiscal Adjustment Plan continues to implement policy measures that are expected to further decrease the wage bill in the medium term. All Controlling Officers are therefore urged to submit Personnel Emoluments based on the staff on the ground at the end of the financial year and desist from requesting to fill posts which are not critical. However, as a measure to ensure that adequate provisions are made in the budget, ***all Ministries and Agencies should provide relevant information on the number of staff in-post by directorate/department/section, and by salary scale and workplace/workstation/school. The number of vacant posts within the approved structures and staff ceilings should also be provided.*** This information should be updated and submitted to the Ministry of Public Service for their analysis and recommendations in an attempt to rationalize the Public Service with a view to improve efficiency while at the same time ensuring cost saving.

Budgeting for Utilities, CTA and any other Statutory Expenditures

33. The Ministry of Finance is aware that spending agencies continue to face challenges when it comes to budget allocations for their utilities. All ministries and agencies should attempt to develop evidence-based estimated expenditures for utilities (water, telephone, electricity). The utilities estimated to be not paid up to March 2024 and in arrears due to lack of sufficient budgets should be incorporated in the budget of 2024/25 to achieve realistic estimates. To complement this, efforts to reduce spending on this item should continue in order to realize the intended savings. All Government Offices must switch off all electrical appliances such as computers and heaters when not in use especially during the night and weekends.

Every spending agency should provide relevant information on the number of vehicles on the ground by directorate/department/section, and by type, boarded vehicles, new ones acquired in the past one year by workplace/workstation/school. This information should be updated and submitted to the department of CTA under the Ministry of Public Works and Transport for their analysis and recommendations. ***The reforms on CTA spending introduced by the Ministry of Public Works and Transport (through Circular no. 1 of 2020 on the CTA transition) will continue to be implemented in the medium term.*** Challenges of the transition and reforms were expected and some have been noted in the implementation of the 2021/22 budget, the Ministry of Finance together with the Ministry of Public works and Transport will continue to work with all stakeholders to address them.

Budgeting for Capital Projects

34. As per normal practice, Ministries are requested to prepare and submit Form 2A to the Ministry of Economic Planning and Development. Given the financial constraint highlighted above, Ministries are advised not to come up with new capital projects. The focus should be on completing the on-going projects.

As per the PFM Act of 2017, all ministries are also required to submit multi-year commitments for each capital project which should form the basis for committing funds under the capital projects. Thus, all ministries are required to indicate the cash and commitment requirements separately.

Expenditure Rationalization

35. The process of expenditure rationalization has been incorporated into the FAP which seeks to correct Governments fiscal imbalances by making adjustments to governments expenditure and revenue. All Controlling Officers are urged to follow the procedure of commitment of funds appropriated to line ministries, to avoid over expenditure against the allocated budget. The purpose of this procedure is for the Ministry of Finance to be able to control and monitor the budget implementation and to hold ministries accountable for the commitment of funds. This is to avoid misuse of funds and to instil a culture of fiscal prudence with regard to budget management.

Grants

36. As per the PFM Act of 2017, ministries, departments and agencies cannot receive grants unless it is approved in the annual budget or approved by Cabinet after considering the advice of the Minister responsible for Finance and the line minister. The only other exception is when such grant is exempted by the Minister responsible for Finance and Minister responsible for donor funding and placed before the Parliament within 10 days of such exemption.

37. Thus all ministries are requested to declare all grant funding (both recurrent and capital) received from various development partners and submit to the Aid and Coordination Management Section (ACMS) under the Ministry of Economic Planning and Development, for consolidation and submission to the Ministry of Finance to incorporate these for the financial year or medium term for proper planning, budgeting and reporting purposes in line with the requirements of the PFM Act 2017.

Non Tax Revenue (NTR) Estimates

38. The process of transferring the collection of Non Tax Revenue (NTR) to the Eswatini Revenue Authority is still underway even though it has taken longer than earlier anticipated. In the meantime, every Ministry and Agency that collects non-tax revenues is requested to continue to cooperate with the Ministry of Finance in the review of the rates for each NTR source and propose new rates that are economical and realistic. The NTR estimates should be submitted in the following format:

Summary of Non Tax Revenue by Source (in '000 Emalangeni)

NTR Outturn FY 2022/23			NTR Budget FY 2023/24 Half Year Collection			Estimated NTR FY 2024/25			
ATR Source(s)	Rate	Outturn	Rate	Budget	Projected outturn	Current Rate	Estimated revenue at current rate	New proposed rate	Estimated revenue at new rate

Structure of the Budget Framework Papers (BFPs)

39. **All Heads should prepare their BFPs based on the format attached in Annex 2.** In brief, each BFP should include the following:

1. *Minister 's Forwarding Letter*
2. *Overview of Entity Expenditures/Snapshot of the Medium Term Budget Allocations*
3. *Entity Background*
4. *Medium Term Policy Objectives [for the Entity as a whole]*
5. *Entity past Performance and Contribution to NDS.*
6. *Contribution to Strategic Roadmap*
7. *Entity Challenges*
8. *Three year (Medium Term) Planned/Priority Outputs for each Department/Unit*
9. *Proposed Budget Allocations by Objective/outputs (for each department/unit)*
10. *Proposed Budget Allocations by Control Items (for each department/unit)*
11. *Estimates of receipts and expenditures under trading accounts (Cash required for below the line accounts.)*
12. *New Policies and Programs*
13. *Status of Entity Key Performance Indicators and Targets for the Medium Term*
14. *Proof documents that extensive budget consultations have been undertaken*
15. *Conclusion*

Submission of BFPs and Preliminary Budget Estimates

40. Controlling Officers /Heads of Departments should indicate in their covering memoranda, that the draft estimates of all departments and agencies under their control, have been fully examined at the most senior level and that the recommendations reaching the Ministry of Finance and the Ministry of Economic Planning and Development have their full concurrence. Controlling Officers/Heads of Departments are also encouraged to identify a person who will serve as the point of contact within the organization, for all enquiries concerning the Draft Estimates for FY 2024/25.

41. Entity BFPs and preliminary budget estimates must be submitted in both hard and soft copies to the **Principal Secretary Ministry of Finance, for the attention of the Director Budget not later than Friday, November 17, 2023.** The submissions will immediately be analysed by the PBC to ensure compliance with the above guidelines. Emails can be sent to bndzinisa@gmail.com, copied to vusie.apple@gmail.com.

42. Ministries and Departments are expected to organize themselves in a manner that would facilitate or ease the coordination and smooth running of the PBC meetings, allowing for timely and adequate consultation by the entity Controlling Officer and his/her Minister where required.

Thanking you in advance for your usual co-operation.

SIZAKELE P. DLAMINI
PRINCIPAL SECRETARY

CC: Hon. Minister of Finance
Hon. Minister of Economic Planning and Development
Hon. Minister of Public Service
The Secretary to Cabinet
The Principal Secretary/Ministry of Public Service
The Principal Secretary/Ministry of Economic Planning and Development
The Auditor General

HEAD	BUDGET CEILING '000s
02 Parliament	113,928
03 Private and Cabinet Offices	83,247
04 Ministry of Tourism & Environmental Affairs	86,482
05 Police	1,105,185
06 Deputy Prime Minister's Office	849,624
07 Ministry of Foreign Affairs & International Coopera	345,000
08 Ministry of Defence	1,274,852
09 Ministry of Tinkundla Administration & Development	353,827
10 Ministry of Natural Resources and Energy	106,795
15 Geological Surveys, Minerals and Mines Departments	25,762
20 Ministry of Agriculture	343,292
23 Ministry of Economic Planning & Development	183,432
24 Ministry of Housing & Urban Development	382,850
26 Fire and Emergency Services	128,354
29 Ministry of Commerce Industry and Trade	130,693
30 Ministry of Education & Training	3,925,533
34 Ministry of Finance	735,756
35 Treasury and Stores	55,324
38 Internal Audit	16,459
40 Ministry of Labour and Social Security	740,902
41 Ministry of Public Service	215,398
43 Ministry of Information, Communication & Technology	245,000
44 Elections & Boundaries Commission	29,359
45 Ministry of Health	2,549,864
46 Ministry of Justice and Constitutional Affairs	98,252
47 Anti - Corruption Commission	25,409
48 Judiciary	88,452
49 Correctional Services	550,824
50 Ministry of Home Affairs	130,000
51 Swazi National Treasury	445,037
52 King's Office	3,788
53 Ministry of Public Works and Transport	1,039,289
56 Ministry of Sports Culture and Youth Affairs	73,581
58 Audit	27,955