



KINGDOM OF ESWATINI

MID-TERM BUDGET REVIEW REPORT

2024/25

PRESENTED BY

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MINISTER OF FINANCE**

TO THE

**PARLIAMENT
OF THE
KINGDOM OF ESWATINI**

ON

13 NOVEMBER 2024

A. INTRODUCTION

1. Mr. Speaker, allow me to begin by conveying my sincere gratitude and honour to present to this August House the mid-year budget review statement for the first half of the financial year 2024/25. The Statement gives an update on fiscal and economic developments during the first six months of the year, progress on the implementation of the 2024/25 National Budget and also lay-out a summarised outlook of the medium-term.
2. Mr. Speaker, the budget was created under the Nkwe mandate, implying that the turnaround time in service delivery needs to be swift and very responsive within the constraints of the resource envelope. Government had to take measures in a bid to contain public spending within the limited financial resources, whilst ensuring that every LiSwati is getting efficient service. Conversely, there was mounting pressure for increased Government expenditure in the 2024/25 financial year due to expanding infrastructure needs, debt servicing, and the implementation of new government policies. This has seen the budget expenditures shooting up by 2 percent of GDP compared to the 2023/24 fiscal year. In comparison, revenues grew by 1 percent of GDP in the same period.
3. Mr. Speaker, despite a challenging economic setting the Government has remained steadfast in ensuring that the fiscus is steered towards a sustainable position and public debt maintained at sustainable levels. The implementation of fiscal measures and reforms in recent years have proven to be difficult but the Government has made good progress in the containment of expenditures and mobilisation of additional revenues. Significant progress continues to be realised in addressing the bottlenecks that impede and discourage the participation and attraction of high impact

private sector investments into the economy. Government opted to be intentional with prioritisation of economic growth related projects.

4. Mr. Speaker, Government is thoughtful of the global crisis posed by climate change in deliberations aimed at strengthening response interventions to the threats of climate change within the context of sustainable development and efforts to eradicate poverty. This will include making finance flows consistent with a pathway towards climate-resilient development.
5. Mr. Speaker, the country has achieved a significant milestone in tax reform with the Eswatini Revenue Service's introduction of a new VAT system. This system is expected to bring increased efficiency and effectiveness in tax collection. Additionally, the introduction of a presumptive tax will make it easier for small business owners to meet their tax obligations, offering them more manageable repayment terms while enabling them to continue operating and contributing to the economic recovery. Furthermore, the successful launch of the State-Business Relations Program is fostering greater ownership and active partnership between the government and the private sector, strengthening the role of business in driving economic growth.

B. GLOBAL ECONOMIC OUTLOOK

6. Mr. Speaker, global economic growth as reported by the International Monetary Fund (IMF WEO October 2024), is projected to moderate to 3.2 percent in 2024 and 2025 following the growth of 3.3 percent recorded in 2023. The global economy continues to battle with the persistent effects of intensifying geopolitical tensions, which triggered supply chain disruptions and elevated global inflationary pressures thereby heightening economic vulnerabilities for most countries.

7. Regionally, Sub-Saharan Africa is projected to grow by 3.6 percent in 2024 owing to weak growth prospects in the Nigerian and South African economies. The SADC region is projected to decelerate to 2.5 percent in 2024, following a growth of 2.7 percent in 2023. In 2025, growth for the region is projected to pick up to about 3.3 percent. Closer to home, growth in the South African economy, which is our largest trading partner, is projected at 1.1 percent in 2024 rising to 1.7 percent in 2025. The rebound in the South African economy is underpinned by the waning effects of load shedding and improving logistics, which have affected economic activity in the previous period.

8. The global outlook remains on the balance, public investment in advanced economies is likely to increase growth, spurred by the green transitions, infrastructural upgrades, as well as science and technological investments. Additionally, structural reforms could likely boost productivity for advanced economies. On the downside, potential threats emanating from emerging market debt distress from tighter global financing conditions, and economic slowdowns due to hikes in commodity prices from climate shocks or geopolitical tensions are anticipated to offset the positive gains.

C. DOMESTIC ECONOMIC PERFORMANCE

9. Mr. Speaker, Eswatini's economy is projected to moderate by 3.6 percent in 2024, following a stellar growth of 5.0 percent in 2023 (according to the rebased national accounts). The slowdown in the period will be mainly on account of a high base effect in the services sector in 2023, which was an election year, as well as a slow start in the implementation of big projects earmarked for the medium term.

10. In the medium term, growth is envisaged to average 5.4 percent with a peak of 8.3 percent in 2025. The medium term growth is underpinned on commencement of construction in the energy related projects as well as prospective pick up in implementation of public and private sector projects including the construction of the Mpakeni dam under the Mkhondvo-Ngwavuma Water Augmentation project (MNWAP), the Siphofaneni-Maloma-Nsoko (MR 14) and Maloma-Siphambanweni (MR 21) roads, construction of head offices, private malls and shopping complexes, amongst others. Other supporting sub sectors such as professional services, transportation, quarried stone production, manufacturing, Wholesale & Retail as well as financial services will also benefit from the construction activity and contribute to the overall outcome. The manufacturing subsector is expected to benefit from expansions in some industries such as sugar processing, textiles and chemicals. The Mining & Quarrying subsector is expected to maintain strong growth, buoyed by increased coal production and the exploration of other minerals.

11. Mr. Speaker, headline inflation averaged 4.2 percent in the first nine (9) months of 2024, moderating from 5.1 percent in the same period in 2023. This decline was mainly driven by a 10.2 percentage point deceleration in inflation for food and non-alcoholic beverages, with notable decreases in bread and cereals, amongst others. Conversely, housing and utilities prices reflected an uptick of 3.4 percentage points, driven by a 5.7 percentage point increase in actual rental costs.

12. The Central Bank of Eswatini's September 2024 forecast predicts that headline inflation will average 4.2 percent in 2024. This is attributable to sustained reductions in food prices and moderating global Brent crude oil

prices. Inflation is expected to stabilise in the medium term, with forecasts of 4.9 percent for 2025 and 4.8 percent for 2026

13. In view of the moderating inflationary pressures, the global monetary policy stance has been loosened following the tight stance adopted in the past 2 years. Hence, in September 2024, the Central Bank of Eswatini reduced the discount rate by 25 basis points from 7.50 percent in 2023 to 7.25 percent in the period under review. Following the same trend, the prime lending rate was also reduced to 10.75 percent, to stimulate aggregate demand and also provide relief to businesses and consumers.

14. Mr. Speaker, total credit extended to the private sector was recorded at E19.92 billion as at September 2024, reflecting a 7.4 percent growth compared to the same period in 2023. This was mainly driven by an increase in credit extended to businesses and households, while credit extended to other sectors declined in the review period. Growth in credit extended to businesses was observed in sub sectors such as manufacturing, construction, distribution and tourism, transport and communication as well as other sectors, reflecting normal economic activity.

D. SUMMARY OF BUDGET EXECUTION

15. Mr. Speaker, budget execution has been impacted by persistent fiscal and cash flow challenges and arrears which were accumulated in the past years stemming from expenditure pressures as the country was on a recovery path.

16. The budget for the 2024/25 financial year has significantly increased when compared to the previous year, from E26.44 in 2023/24 to E29.42 in 2024/25.

Total revenues and grants are budgeted at E27.5 billion excluding about E1.5 billion for the SACU stabilisation fund. The overall fiscal deficit for the current financial year is now projected E953 million, equivalent to 1.1 percent of GDP an upward revision from the budgeted deficit of E1.8 billion (2.1 percent of GDP).

17. In the 2024/25 financial year, total expenditure at half year stood at E13.67 billion compared to E11.86 billion in 2023/24. The increase is mainly due to inflationary pressure on goods and services, the implementation of the Cost of living Adjustment (COLA) and interest payments. This financial year recurrent expenditure at half year stood at E10.73 billion while capital expenditure stood at E2.93 billion. The recurrent budget execution rate stands at 46 percent in the current financial year, which is lower when compared to the 54 percent from last financial year. In addition, capital budget execution rate stands at 46 percent at mid-year.

18. Mr. Speaker, in the 2024/25 financial year, Government total expenditure is expected to be lower than the budget allocations. This is a result of lower implementation of capital projects, which is caused by cash flow constraints. Domestically financed capital projects are expected to reduce the budget by about E670 million. However, the Government is still pursuing a budget support loan from the World Bank and African Development Bank to ease the cash flow pressure.

19. Mr. Speaker, at mid-year total revenue and grants stood at E12.25 billion compared to E10.95 billion in 2023/24. This shows a E1.3 billion increase which is largely caused by the significant increase in SACU revenue and the

administrative efficiency from Eswatini Revenue Services (ERS) which is expected to improve tax collections. SACU receipts increased from E11.75 billion in 2023/24 to E13.07 billion in 2024/25 which is 11.2 percent increase from the previous year. At half-year, domestic revenue realised stood at E7 billion which is E1.3 million more than the previous year's collection of E5.7 billion in the same period.

20.The Government will continue looking into ways of enhancing resource mobilisation whilst putting controls on expenditures to ensure the fiscus is on a sustainable path. With domestic borrowing following short of financing needs, the Government working together with the Central Bank is considering other ways of raising financing and growing the financial markets.

D.1 Revenue

21. Mr. Speaker, when looking into the revenue side of our budget, domestic revenue collection at half year amounted to E7 billion compared to E5.7 billion in the year 2023/24. Domestic revenue collected at half year reflects 46 percent collection of the projected domestic revenue of E15 billion. Grants received at half year amounted to E156 million compared to the year 2023/24 which was 94 million. At half year 2024/25 total revenue and grants stood at E13.17 billion compared to E10.95 billion in 2023/24. The increase is mainly due to the improved SACU receipts.

22.SACU receipts increased from E11.75 billion in the year 2023/24 to E13.07 billion in 2024/25. In the half year, we received E6.53 billion from SACU receipts compared to E5.1 billion in the year 2023/24. This reflects the

increase of SACU receipts expected this year when compared to last year. This source of revenue continues to prove volatile and there is little control to manage it. Mr. Speaker, we remain committed to building buffers as at half year, we have set aside E750 million in the reserves for the SACU stabilisation Fund and we intend to save E1.5 billion by the end of the financial year.

23.Mr. Speaker, Income Tax remains our largest contributor to domestic revenue collection, followed by the Value Added Tax. Company Tax, PAYE, and Other Income Tax collections remain relatively stable at E3.8 billion at half year.

24.Company Taxes collected during the first half of the financial year amounted to E902 million, that is, 45.8 percent of the annual company taxes projected of E1.97 billion. Individual Taxes, that is, Pay as You Earn (PAYE), collected at half year amounted to E2.3 billion. This equates to 55 percent collection of the projected annual PAYE of E5.26 billion and an increase of E494 million collected at the same time last financial year. This is despite the 4 percent CoLA payment to civil servants.

25.Mr. Speaker, taxes on Goods and Services constitute our second largest contributor to domestic revenue collection. VAT collection remains the largest source of revenue within these taxes. At half year, this totalled E2.43 billion, 50 percent of the projected outturn of E 4.88 billion annual VAT collection. The collection of VAT shows a slight increase compared to the 2023/24 collection in the same period which was E1.88 billion.

26. A total of E136 million has been collected from non-tax revenue as at the half year mark. This is lower than the E224 million collected at half year 2023/24.

D.2 Expenditure

27. Mr. Speaker, turning to the expenditure side, the budget was prepared with a focus on fiscal consolidation. However, achieving this goal has proven difficult due to the growing pressure to spend by line ministries whilst cash flows remain a challenge. The Government continues to monitor expenditure trends to ensure that commitments are contained within the available resources.

28. Total expenditure for the 2024/25 Financial year was budgeted at E29.4 billion (33 percent of GDP), of which E23.1 billion is recurrent (26 percent of GDP) and E6.3 billion (7 percent of GDP) is capital expenditure. It is projected that spending will be contained as implementation of the domestically financed projects will be below target due to cash flow constraints.

29. Mr. Speaker, it appears that expenditure trends are in line with mid-year expectations as E13.7 billion (15.3 percent of GDP) has been committed against a budget of E29.4 billion, which is about 46 percent execution. The wage bill, being the largest single component of total expenditure, stood at E4.8 billion against a budget of E9.8 billion, which is about 49 percent of execution. Goods and services stood at E1.5 billion against a budget of E4 billion, which is 38 percent of execution. Transfers stood at E2.3 billion against a budget of E4.5 billion, which is 51 percent execution. Finally, interest payments stood at E1.25 billion against a budget of E2.3 billion, which is 54 percent execution.

30.Mr. Speaker, personnel costs remain high, particularly due to the Government granting a 4 percent cost of living adjustment combined with on-going hiring in the education and health sectors.

31.Mr. Speaker, of the full year allocation for interest payments E1.25 billion has already been paid at half year, with a projected outturn of E2.6 billion against a budget of E2.3 billion. The rising interest payments are a cause for concern as projected outturn is expected to be 13 percent higher than the budget due to the domestic market increases and exchange rates movements in the external markets.

32.Mr. Speaker, the execution rate of the capital budget at half year stands at 46 percent, equivalent to an expenditure of E2.93 billion. This shows an improvement as it is higher than the E1.45 billion (27 percent) executed in the same period last year.

D.3 Deficit and Financing

33. The budget fiscal deficit is at E1.83 billion, which is about 2.1 percent of GDP, however projected outturns show that the deficit is expected to be at E953 million (1.1 percent of GDP).

34.Mr. Speaker, I am delighted to report that the listing of Government bonds on the Johannesburg Stock Exchange (JSE) has been successful. During the first half of the year, the Government has raised E400 million which has managed to decrease the backlog of arrears to suppliers, consequently bringing some relief to the private sector.

35. The total public debt stock is estimated to reach E36.4 billion at the end of 2024/25, equivalent to 40.8% of GDP, compared to 2023/24 where it reached E34 billion which translates to 39.2 percent of GDP. The debt stock comprises E16.8 billion (18.8% of GDP) external debt and domestic debt accounts for E19.7 billion (22.0% of GDP), indicating an increase of 7.2 percent from the previous year.

36. Government has been decisively reducing the stock of arrears. Projected outturns show that arrears will be fully cleared in the year 2024/25. This will materialise when we receive \$100 million budget support from both the World Bank and African Development Bank at \$50 million each. Mr. Speaker, I plead for the support of the house when I present the loan bills for the budget support.

37. Mr. Speaker, net domestic financing is projected at E450 million at the end of 2024/25 of which gross domestic financing is E11.6 billion and domestic financing needs are E11.2 billion.

E. MEDIUM-TERM OUTLOOK

38. Mr Speaker, expenditure pressures are anticipated in the medium term as a result of the strong demand for service delivery. Consequently, revenue collection is anticipated to grow, however, total government expenditures will continue surpassing the revenue collection.

39. In the medium term, the total revenue and grants records in 2025/26 depict an overall growth of about 6 percent amounting to E29.6 billion, E30.3 billion in 2026/27 and E35.1 billion in 2026/27. The projected slight increase on revenue is underpinned by the anticipated better performance of domestic revenue collection such as taxes on income, profits and capital gains. Taxes on income, profits and capital gains are envisaged to grow by an average of 12.4 percent driven mainly by a strong growth performance on personal income tax (PIT), which is projected to grow at an average of 11.8 percent, over the medium term. This is due to improvements in administrative changes as well as efficiency gains together with positive impacts of Income Tax Amendments.

40. Mr Speaker, although domestic revenues are anticipated to increase, SACU receipts are anticipated to see a modest drop in 2025/26 and average around E10.9 billion throughout the medium term which is a 4.7 percent decline. In the 2025/26 financial year, total revenue (excluding grants) are expected to increase by 2.1 percent, amounting to E29.2 billion. It is expected to surpass E34.6 billion in 2027/28 financial year, representing an increase over the preceding years.

41. Mr Speaker, non- SACU revenues are projected to contribute an average of 40 percent of the total revenues excluding grants. The improvement in domestic revenues is linked to the economic growth as it is projected to average 8.3 percent between 2025/26 and 2027/28 financial years with a peak of 9.5 percent in 2025/26.

42. With GDP growth predicted to be 8.3 percent in 2025, revenues are expected to grow in line with GDP. Domestic revenues are expected to perform well to complement volatile SACU receipts. The Government will continue to fund

the SACU stabilisation fund should the windfall from SACU receipts be experienced in the future. The continued improvement by Eswatini Revenue Services (ERS) in tax administration and efficiencies is expected to yield positive results in the medium term.

43. With successful implementation of planned measures such as consideration of an increase in Alcohol and Tobacco levy in 2026/27, introduction of VAT on digital services, planned increase in VAT in 2027/28 financial year and improvements in efficient tax administration systems, domestic collection is expected to increase over the medium-term, further leading to reduced dependence on volatile SACU receipts. Importantly, the SACU stabilisation fund will cushion the volatility of SACU receipts, which has been a long-term objective for the Government to improve fiscal stability. The better revenue outlook is expected to support continued effort towards narrowing the budget deficit, despite the anticipated increase in government expenditure.

44. Mr Speaker, the fiscal position is expected to weaken from the decline in SACU receipts and the total government expenditure is expected to amount to E32.8 billion in 2025/26 with a growth of 14.4 percent when compared with outturn for 2024/25 financial year. Therefore, the budget deficit is projected to widen to about 3.3 percent of GDP in 2025/26 and 4.9 percent of GDP in 2026/27 financial year. However, our projections indicate that the deficit will ease gradually to 0.9 percent in the year 2027/28. The wage bill is anticipated to grow significantly in the medium term, due to the salary review and relaxation of the hiring freeze, exerting too much pressure on the already strained resources.

45. In line with the growth in wages and salaries, purchases of goods and services are anticipated to grow at an average rate of 8 percent over the medium

term, averaging E5.0 billion over the medium term. This also represents the full operation of all government services as a result of an increase in projected hiring by the government in the medium term. The interest payments are also expected to grow by 8 percent on average over the medium term amounting to E2.7 billion in 2025/26 financial year.

46. Mr. Speaker, total expenditure for 2025/26 financial year is projected to reach 35.8 percent of GDP of which recurrent is at 27 percent of GDP and capital at 8.8 percent of GDP. The increase is mainly as a result of inflationary pressure on goods and services and the wage bill as implementation of the salary review is anticipated. In the 2025/26 financial year, total expenditure is expected to reach E32.8 billion, of which E26.2 billion is budgeted for recurrent expenditure and E6.6 billion is capital expenditure. Assumption underlying these projections include;

i) Inflation rate for goods and services

ii) Implementation of salary review for the wage bill

iii) Employment growth of 2 percent

iv) Continued implementation of big projects like Mkhondvo-Ngwavuma 1A&1B, Parliament Building, Water Projects (Manzini & Shiselweni) ICC & FISH.

47. Mr. Speaker, the Planning and Budgeting Committee (PBC) remains alive to the need to raise more revenue in order to finance the Program of Action and grow the economy. This is a mammoth task which will need collaboration within Government and engaging Development Partners to fulfil the development mandate.

48. Mr. Speaker, the health sector still remains vulnerable as it is still facing challenges and the Government is working around the clock to find long lasting solutions to ensure Eswatini get service delivery to avoid loss of life. The recovery of the public health system at all levels through provision of the necessary medical supplies and medicines, remains a priority, the Government will continue to prioritise health related expenditures and payments.

49. Mr. Speaker, I cannot conclude without giving you an update on the status of Integrated Financial Management and Information System (**IFMIS**) as it is expected to positively contribute to the efficient management of public funds. Government officials from all relevant Ministries are working with the Rwanda Cooperative Initiative (RCI) (the consultant) in developing and implementing the system. Development of the system is at an advanced stage as the Planning and Budgeting module is almost complete and training is ongoing as we prepare to kick off the budget process. The aim is to start in 2025/26 financial year budgeting in the IFMIS, however, to ensure that we mitigate all risks, the current system will be used as a back-up as we all understand that new systems tend to have teething problems.

F. CONCLUSION

50. The local economy is expected to benefit from positive spill over effects resulting from a projected growth of the South African economy, which is Eswatini's major trading partner.

51. It is on this backdrop that the commencement of major construction projects by the government, as well as the prospective pick up in the implementation of private sector projects, is expected to propel local economic activity in the medium term. Other supporting economic sectors such as professional services and transportation are anticipated to benefit from the implementation of these projects and further contribute to the overall economic growth.

52. In conclusion, it is worth noting that the country is an open economy with regards to trade. As such, emerging global risks such as geopolitical tensions that lead to global supply chain disruptions render Eswatini's economy vulnerable to external shocks that may result in dampened macro-fiscal outcomes. Additional risks arising from climate change-related events pose a major concern, largely affecting output in the agriculture, agro-processing and hydro-power generation subsectors, and consequently pose a risk to projected fiscal outcomes.

I THANK YOU