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KINGDOM OF ESWATINI

NATIONAL BUDGET BRIEF
2018/2019

This brief analyses the size and composition of budget allocations for the fiscal year 2018/19, and offers insights into the efficiency, equity and adequacy of past spending for the national budget. The main objectives of the brief are, firstly, to synthesize complex budget information so that it can be easily understood by all stakeholders and, secondly, to put forth key messages which can inform policy and budgeting decision-making processes.

KEY MESSAGES AND RECOMMENDATIONS

The Kingdom's budget has historically been one of the least transparent in the world. Providing more and better budget information within the public domain in combination with introducing more opportunities for civil society to participate in government budget dialogue – such as through this first citizens' budget – will result in a uniquely fostered Eswatini-led movement to end poverty and inequality for all emaSwati.

Eswatini faces serious macroeconomic challenges which limit its capacity to invest in priority sectors like education and health. Targeting less borrowing and restocking government reserves are short-term imperatives. Without action, the country will continue to face economic hardship.

Income inequality continues to present significant challenges. In order to promote sustainable growth to address the high levels of poverty in the country (estimated at 58.9%) as well as reduce the income gap between the rich and the poor (Eswatini has one of the highest Gini index values in Africa), the government must ramp up its investments in human capital, while also continuing to develop a strong private sector that can create jobs and opportunities for all citizens.

Government spending remains largely concentrated on the daily running costs of public institutions. The majority of recurrent spending supports salaries of civil servants, including for much needed teachers and nurses. However, this needs to be better balanced with investments to build key social infrastructure, including roads, schools, hospitals and water and sanitation systems. This is a tall order. Involving the public on how their money is spent enables better decision making on how to spend scarce resources and create new opportunities for all persons.

Social protection spending continues to fall far below international targets. Thousands of children in the Kingdom are at risk or already suffering from multiple deprivations of poverty, which requires urgent action. As a first step, the government should develop a social protection strategy and then prioritize public investments to carry out this plan. There is strong potential for external partners to help fill the spending gaps, especially where the government can demonstrate value for money and strong accountability over related investments.

The Kingdom remains overly dependent on Southern African Customs Union (SACU) revenue. To ensure fiscal sustainability and greater predictability in budget planning processes, new and progressive measures should be identified to diversify the revenue base. Such a plan could be initiated now and formalized in the unveiling of the upcoming Budget Speech 2019/20.

MACRO AND SOCIOECONOMIC SITUATION

The Kingdom of Eswatini experienced macroeconomic recovery and stability over the 2010-16 period. This was driven by, among other things, the rebound in revenues from the Southern African Customs Union (SACU), expansionary policies to support growth and development and the pegging of the Lilangeni to the South African Rand. Despite the sustained, positive growth, structural impediments hindered private investment and kept unemployment high, which limited progress on poverty and income inequality.[1]


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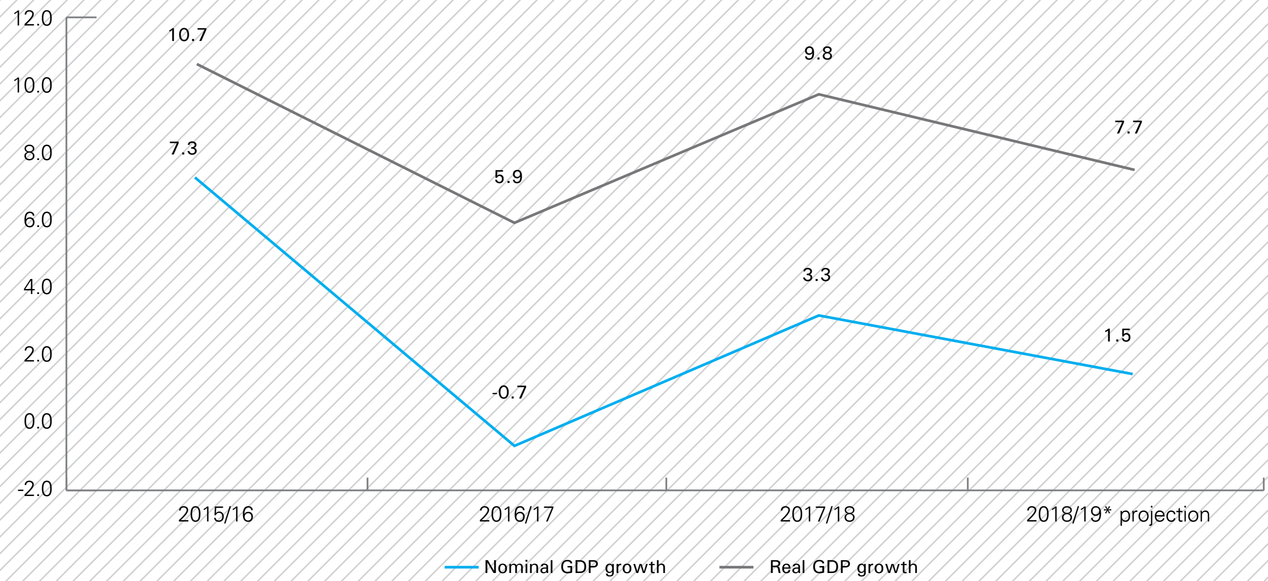
Since 2016, macroeconomic conditions have deteriorated. This was the result of two shocks: a prolonged drought combined by a sharp decline in SACU revenues. In response, the government adopted an expansionary fiscal policy, which led to growing fiscal deficits that reached nearly 10% of gross domestic product (GDP) in fiscal year 2016/17 and are projected to be around 5% of GDP in the current fiscal year.[2] At the same time, economic growth declined in real terms from 7.3% in fiscal year 2015/16 to -0.7% in 2016/17 and is projected to slightly rebound to around 1.5% in real terms by 2018/19 (Figure 1). Beyond rising deficits and slow growth, other key concerns include growing public debt, dwindling central bank reserves and the build-up of arrears (Table 1).

Positive measures are being taken to address the current challenges. The 2018/19 budget emphasizes the restoration of macroeconomic stability, including minimizing public debt, containing the public wage bill, prioritizing capital outlays and reducing transfers to extra-budgetary entities. Over the medium term, this could create the necessary fiscal space to support priority investments, especially in the social sectors. However, the government must stick to its plan and not foster an environment for reprioritization of spending after the budget is released.

FIGURE 1: NOMINAL AND REAL GDP GROWTH, 2015/16 TO 2018/19 (AS A %)



Source: Government of Swaziland Medium Term Expenditure Framework (MTEF)

1 IMF (2017) Washington, DC: IMF.

2 Ibid.

TABLE 1. SELECT MACROECONOMIC INDICATORS

INDICATOR	VALUE	YEAR
Nominal GDP	63.4 billion	2018/19 *
Real GDP growth rate (%)	1.5	2018/19 *
Gross national income (GNI) per capita (US$)	2,960	2017 **
Inflation rate (%)	5.4	2017/18***
Total government expenditure (% of GDP)	34.6	2018/19*
Fiscal deficit (% of GDP)	8.7	2018/19*
Donor funding (% of revenue)	6.1	2016/17
Tax revenue (% of GDP)	27.1	2016/17

*Sources: Government of Lesotho 2018/19 MTFF and Budget Speech 2018/19; *Forecast; ** Latest data from the World Bank (2017); *** Latest forecast from the IMF (2018)*

Despite its middle-income status, Eswatini faces significant development challenges including high rates of poverty and inequality. The proportion of people living below the poverty line has marginally shifted over the past few decades, with 58.9% of the population living below the national poverty line and an even higher percentage (70%) of children being affected (Table 2).

Other key challenges relate to the high incidence of HIV/AIDS, limited employment opportunities, especially for youth, and the absence of a social protection system. To address these pressing issues, the government developed a Programme of Action (2013-18), which aims to fast track progress toward its longer-term goals set out in Vision 2022. This includes eight focus areas for economic policy, namely: (i) economic prosperity, (ii) agriculture and environmental sustainability, (iii) education, (iv) health, (v) government service delivery, (vi) infrastructure, (vii) governance, and (viii) corruption. While more funding is required to reach the Vision 2022 commitments, solutions also require strengthening government systems and capacity to deliver.

TABLE 2. SELECT SOCIOECONOMIC INDICATORS

INDICATOR	VALUE	INDICATOR	VALUE
Total population (2018)	1,139,370	Human Development Rank (2016)	148/188
Population growth rate	1.2%	Life expectancy at birth – males (years)	55.1
Children under 18 (2018)	568,656	Life expectancy at birth – females (years)	59.1
Children as % of population (2018)	49,9%	Maternal mortality rate (per 100,000 births)	589
National poverty rate (2017)	58.9%	HIV/AIDS rate among 14 to 49-year-olds	27.2%
Child poverty rate (2013)	70%	Co-infection of HIV/AIDS & tuberculosis	71%
Extreme poverty (2017)	20.1%	Literacy rate	87.5%
Human Development Index (2016)	0.541	Unemployment rate	25%

Sources: UNICEF (2013) Child and orphan poverty in Swaziland; UNDP Human Development Report (2016); World Development Indicators (WDI) database (2018); UNICEF (2016) State of The World's Children; Eswatini Household Income and Expenditure Survey 2016/17 (2018)

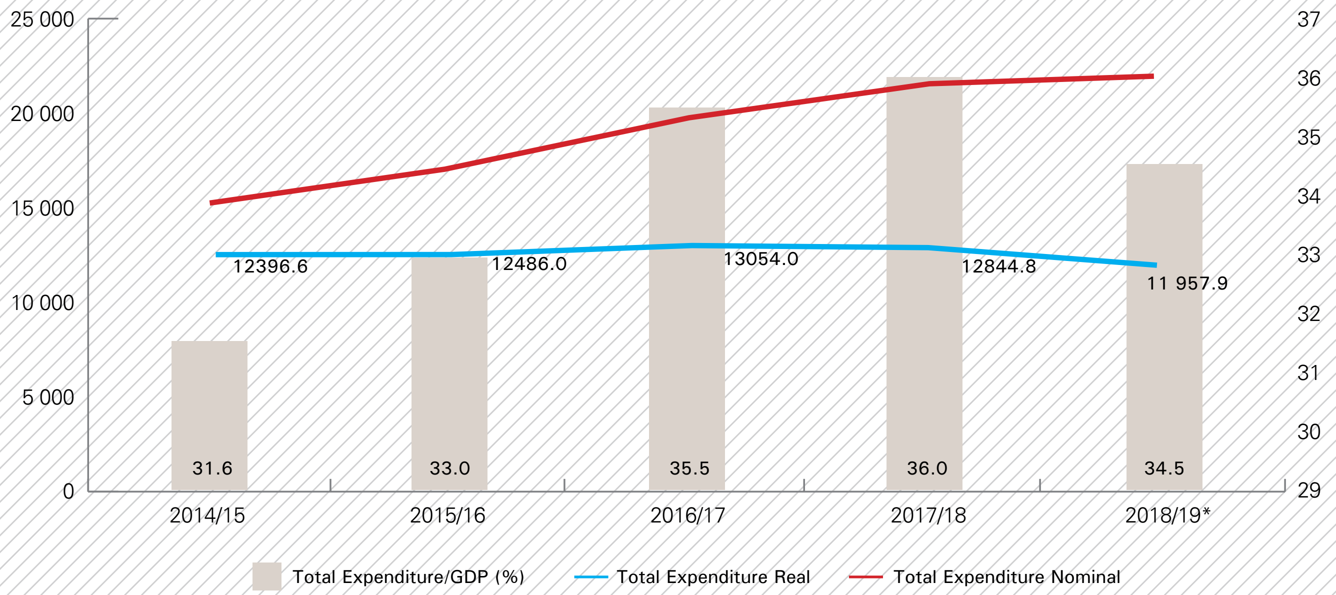
Takeaways

- Poor performance of key macroeconomic indicators remains a cause for concern in the current fiscal year, including slow economic growth, a large fiscal deficit, rising public debt, decreasing central bank reserves and arrears.
- Inflation is moderate and has declined significantly over the last few years and is forecasted to be around 4.8% in the current fiscal year.
- Children, youth and women are disproportionately affected by poverty, limited access to work outside the agriculture sector and weak access to basic social services.

SPENDING TRENDS AND PRIORITIES

The 2018/19 nominal budget is expected to reach 21,9 billion Emalangeni, which represents an increase of about 2% compared to the previous year. In real terms, however, actual spending will decline by close to 7%. As a share of the economy, expenditure is projected to be about 35% of GDP in the current fiscal year, which is slightly down from the high of 36% reached last year. When looking back over the past five years, nominal spending has increased by 43% although it has actually decreased by 3.5% once accounting for inflation.

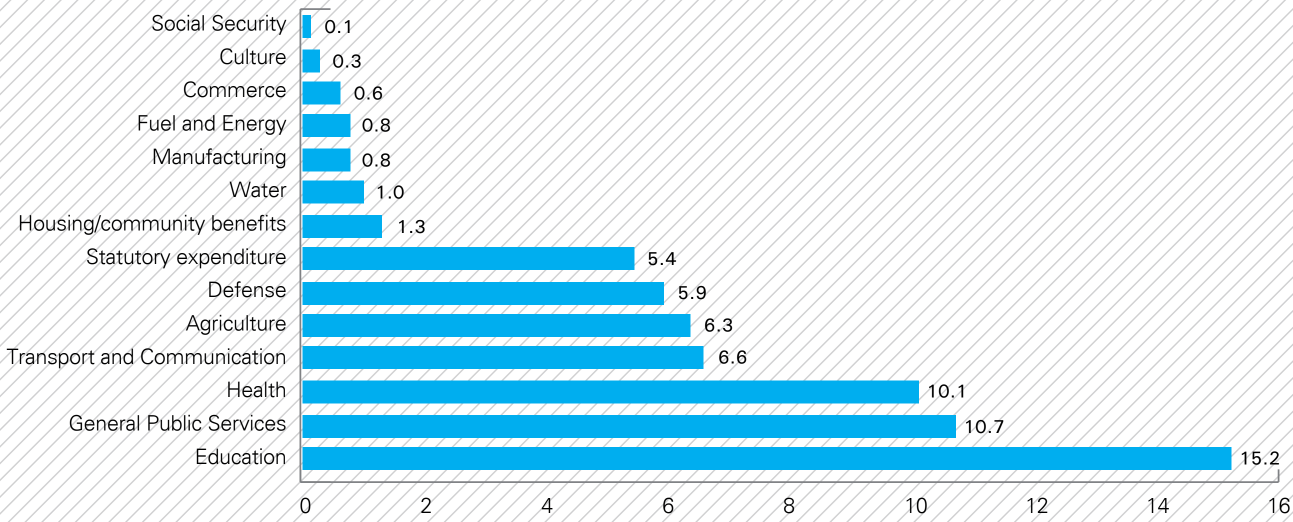
FIGURE 2: TOTAL GOVERNMENT EXPENDITURE, 2014/15-2018/19 (IN NOMINAL AND REAL VALUES, AND AS A % OF GDP)



Source: Government of Swaziland Medium Term Expenditure Framework (MTEF)

The education and health sectors received the highest share of the 2018/19 approved budget together with general public services. Despite the high priority given to key social sectors, allocations fall well below international targets (Figure 3). Education is expected to receive 15.2% of the budget, which is short of the Education for All target of 20%, while health is expected to receive 8.9% of the budget, which is below the Abuja Declaration benchmark of 15%. At the same time, social development programmes are not prioritized, with social security, housing and water expected to receive just over 2% of the total budget.

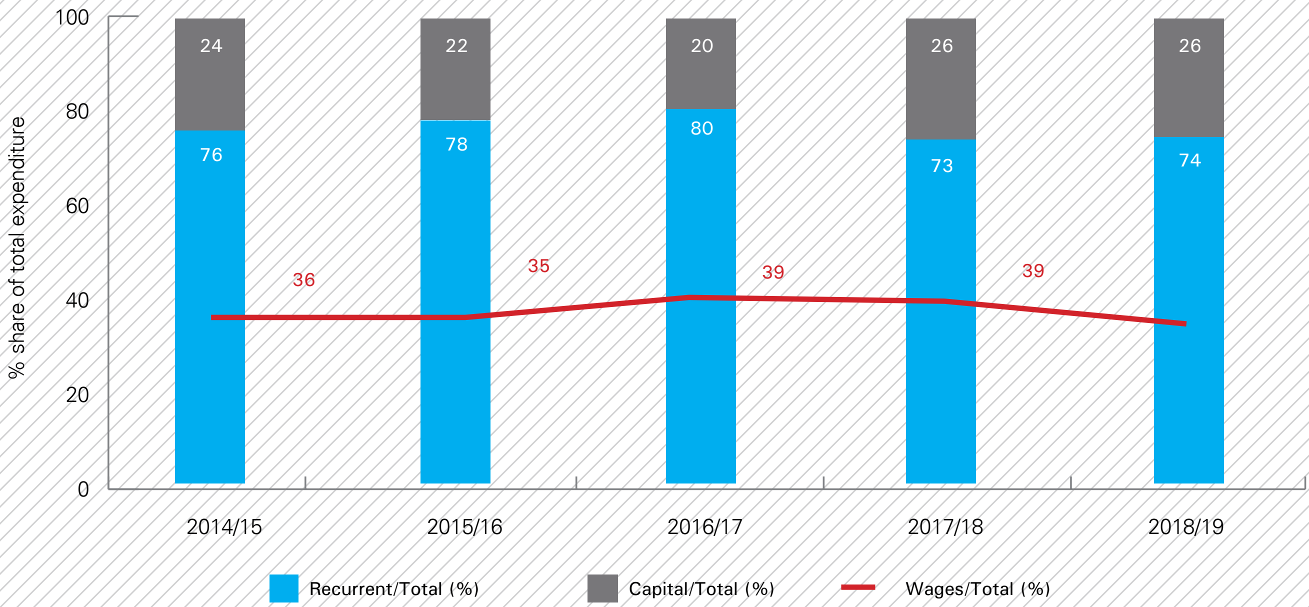
FIGURE 3: TOTAL SECTORAL EXPENDITURE AS A SHARE OF TOTAL EXPENDITURE, 2018/19



Source: The Government of the Kingdom of Eswatini (2018) estimates 1st of April 2018 to 31st of March 2021

In terms of investments on recurrent and development items, salaries remain a key priority, with a significant rise in wages over the last four years. Spending on recurrent items reached as high as 80% of total spending in 2016/17 but is projected to fall marginally to 74% in the current fiscal year (Figure 4). Of that, the wage bill rose from 35% of total expenditure in 2015/16 to 39% over the past two fiscal years but is expected to decline to around 34% in the current fiscal year. The rise in wage bill spending squeezed capital spending in 2016/17, but this trend has since reversed with capital spending forecasted to be around 26% of total expenditure this year.

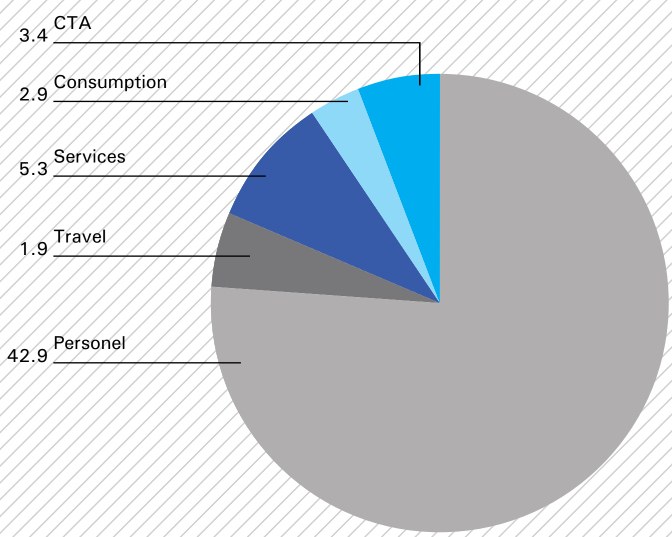
FIGURE 4: RECURRENT AND CAPITAL SPENDING TRENDS, 2014/15-2018/19 (% OF BUDGET)



Source: Government of Swaziland Medium Term Expenditure Framework (MTEF)

Recurrent expenditure is dominated by outlays for personnel. In the current fiscal year, this is expected to amount to 42.9% of the recurrent budget (Figure 5). Following personnel, the recurrent budget is primarily allocated to services (5.3%), Central Transport Authority (3.4%), consumption (2.8%) and travel (1.9%).

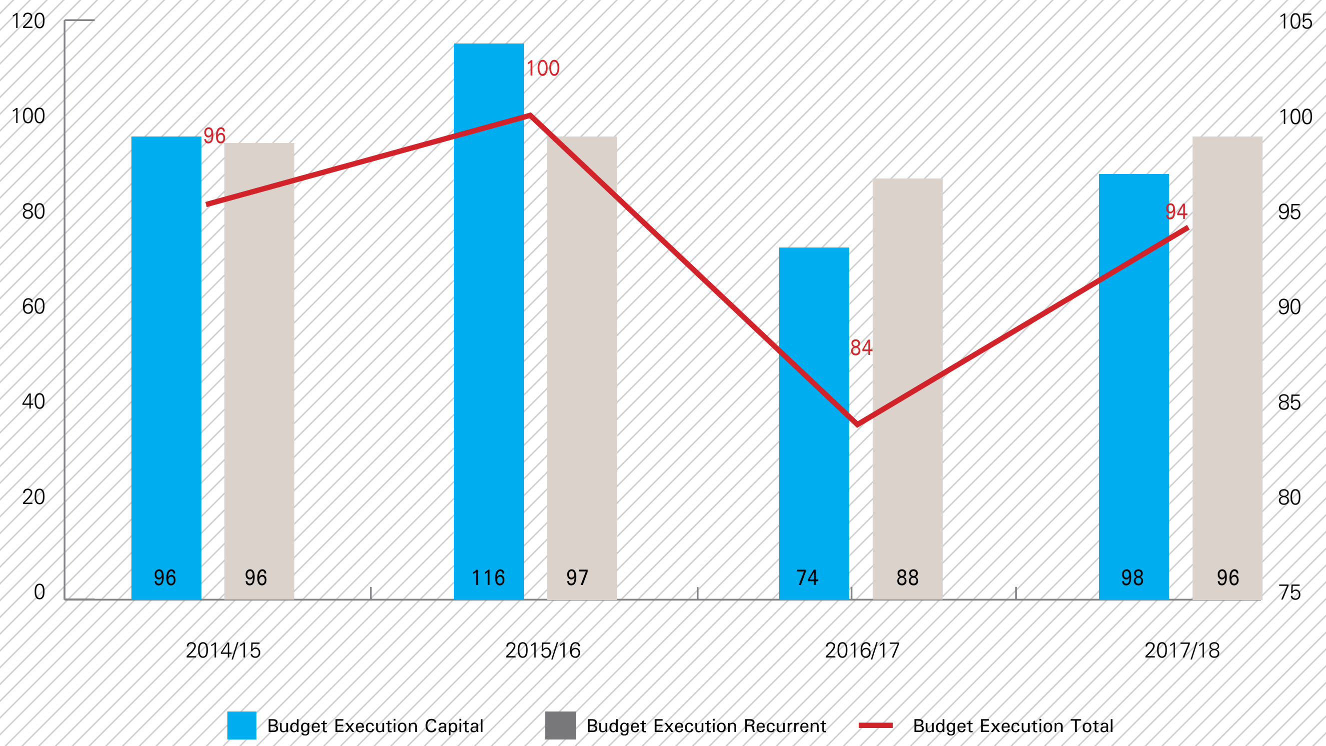
FIGURE 5: EXPENDITURE BY ECONOMIC CLASSIFICATION, 2018/19 BUDGET (AS A %)



Source: The Government of the Kingdom of Eswatini, Ministry of Finance

When looking at the performance of spending, the government is characterized by poor budget execution. This is demonstrated by both large over and under spending of recurrent and development (capital) budgets over the 2014/15 to 2017/18 period. In terms of overall execution, the budget was under spent by 4%, 16% and 6% in 2014/15, 2016/17 and 2017/18, respectively (Figure 6). The capital budget has shown the largest deviations, for example, overspending by 16% in 2015/16 and underspending by 26% the following year. Over the latest two fiscal years, budget execution improved markedly, with the capital execution rate jumping from 74% to 89% and the recurrent going from 88% to 96%.

FIGURE 6: BUDGET EXECUTION – RECURRENT, CAPITAL AND TOTAL BUDGET IN %, 2014/15-2017/18



Source: The Government of the Kingdom of Eswatini, Ministry of Finance

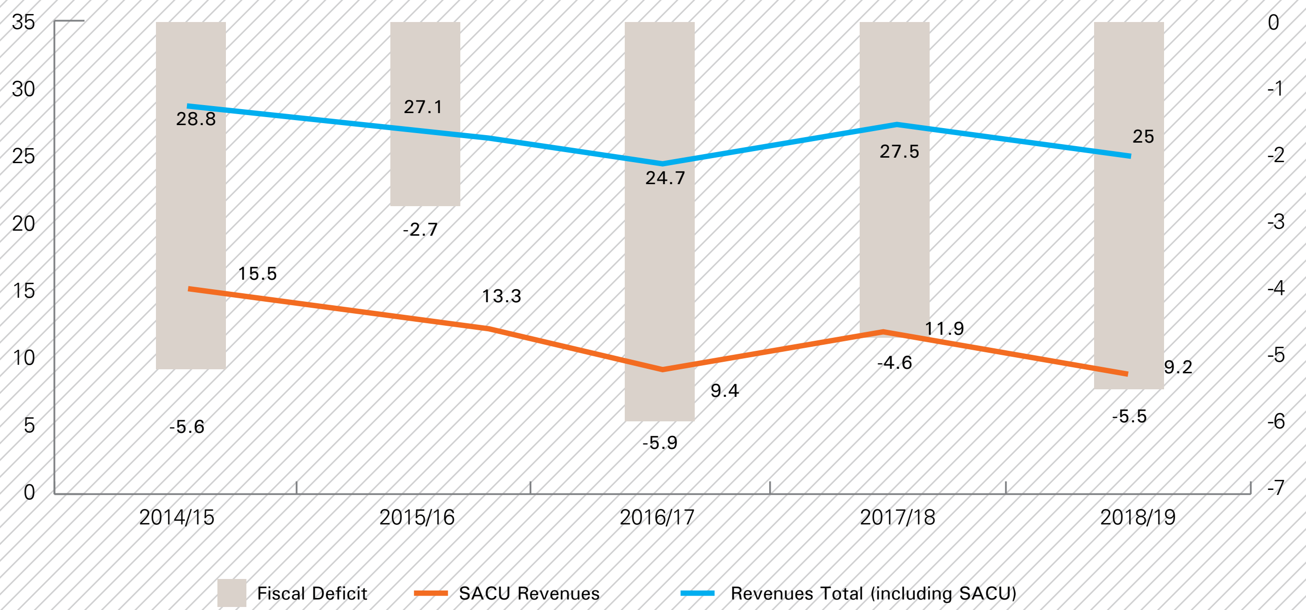
Takeaways

- Although the budget is expected to increase by 2% compared to the previous fiscal year, overall spending will actually decrease by nearly 7% once accounting for rising prices.
- The national budget is dominated by the wage bill, which has contributed to a large fiscal deficit in an environment of volatile and declining SACU revenue.
- Education, health and social protection are key investment priorities for the government, although allocations in the current year fall short of international spending targets.
- Given the high levels of poverty and inequality in the country, social development programmes remain severely underfunded.
- The performance of spending has been erratic in recent years, with large over and under execution for both the development and recurrent budgets.

FINANCING THE BUDGET

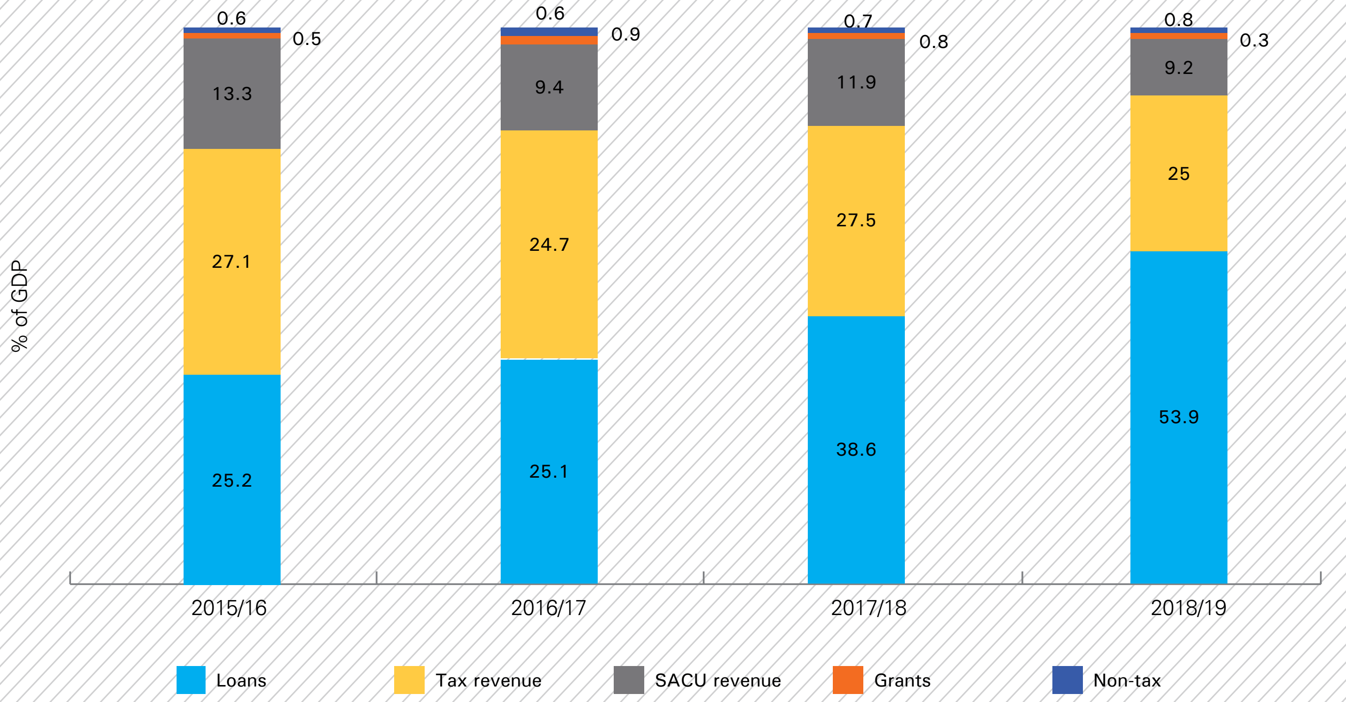
Key revenue sources are expected to decline in the current fiscal year. SACU revenue has been a major source of income for the government, but this has been steadily declining since 2014/15. In 2018/19, SACU revenue is projected to contribute 9% of total revenue, which represents a drop of 22.7% as compared to last year. Tax revenue is also expected to drop significantly compared to last year from 27.5% of GDP to 25% of GDP (Figure 7). Grants follow a similar trend and will only contribute to 0.8% of GDP or 4% of total revenue this year (Figure 8).

FIGURE 7: KEY REVENUE AND KEY MACRO FISCAL TRENDS, 2014/15-2018/19 (AS A% OF GDP)



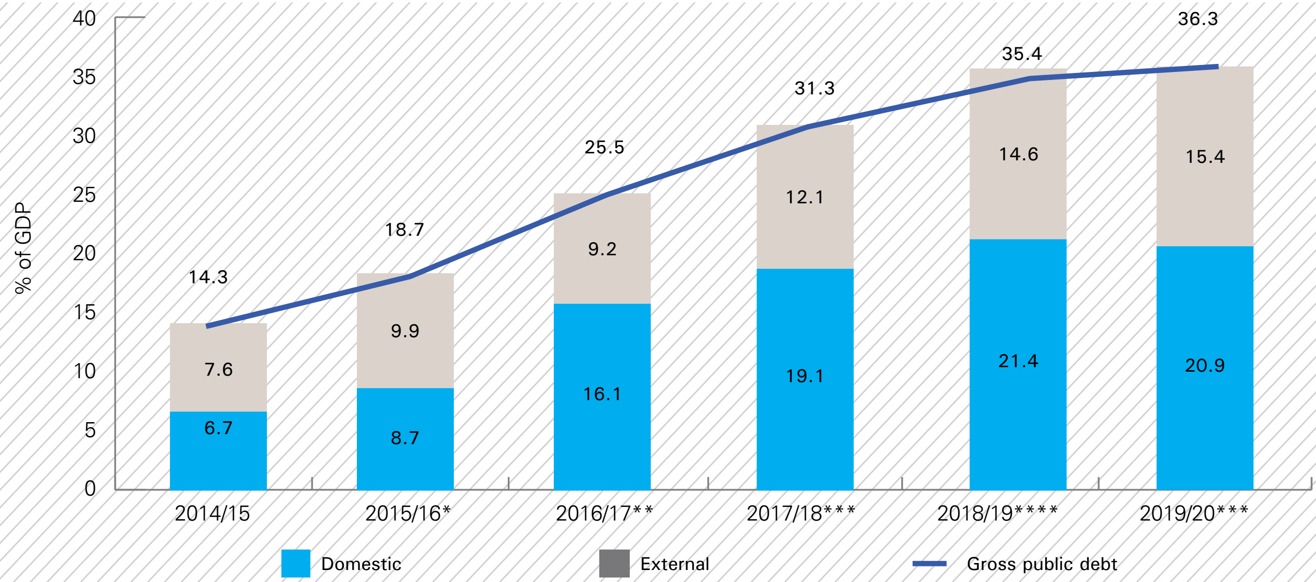
*Sources: Government of Lesotho 2018/19 MTFF and Budget Speech 2018/19; *Forecast; ** Latest data from the World Bank (2017); *** Latest forecast from the IMF (2018)*

FIGURE 8: SOURCES OF FINANCE FOR GOVERNMENT BUDGET, 2014/15-2018/19 (AS A SHARE OF GDP)



Source: Government of Swaziland Medium Term Expenditure Framework (MTEF) and IMF (2017) IMF Staff Country Report No. 17/274, *Washington*

FIGURE 9: PUBLIC DEBT AS % OF GDP, 2014/15-2018/19



*Source: IMF (2017) IMF Staff Country Report No. 17/274, Washington, DC: IMF; * estimates**preliminary***forecast*

Takeaways

- Government income streams are declining, including SACU revenue as well as grants and loans.
- The government's move to finance the budget deficit through additional borrowing comes with a high cost due to weak credibility and the high premiums on debt from international markets.
- Debt remains stable as a percentage of GDP but must be monitored and regulated to avoid further fiscal and monetary stresses.

NEW DEVELOPMENTS IN PUBLIC FINANCIAL MANAGEMENT REFORMS

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The Government of Eswatini is currently designing a public financial management (PFM) action plan supported by a number of partners such as the World Bank. The PFM action plan will be centred on capacity building in five main areas: the macro-fiscal framework, cash flow management, fiscal management, PFM in general, and the accountability and transparency frameworks.

A Public Finance Management Act was approved this year which clarifies roles, responsibilities and key areas for reform. In particular, the Act decrees that the Government of Eswatini must (a) maintain prudent levels of public debt to share the burden of debt between generations; (b) achieve reasonable reserves position; (c) ensure that the fiscal balance is maintained at a sustainable level over the medium term; (d) manage resources in a fiscally and environmentally sustainable way; (e) manage fiscal risks in a prudent manner; and (f) develop fiscal policies and strategies consistent with the achievement of macroeconomic stability and economic growth.

Annex A

BUDGET CALENDAR

MONTH	ACTIVITY
July/August	The Fiscal Framework Paper is prepared and presented to Cabinet for approval. Once approved, the ceilings for line ministries are calculated.
September	The Budget call circular is issued in mid-September to all ministries. It communicates key information such as expenditure ceilings, timelines and priority programme areas for government.
November/December	The Planning and Budgeting Committee conducts roundtable discussions with every ministry and reviews and shapes their budget submission.
January	Cabinet approves final allocations for each ministry for recurrent and capital expenditure.
February	The Minister of Finance tables the national budget through the Appropriation Bill in Parliament.
March	Parliament approves the Appropriation Bill after debating it in the House of Assembly and the Senate and making modifications where recommended.

Source: Ministry of Finance

Annex B

ROLES AND RESPONSIBILITY FOR THE NATIONAL BUDGET

- The fiscal (budget) year in Eswatini is from 1 April in one year to 31 March of the next year.
- Key institutional stakeholders within the executive and legislative branches of Eswatini exert varying degrees of influence over the formation of the national budget. A description of their roles is highlighted below:
  - **Controlling officer within each line ministry:** The controlling officer is usually the Principal Secretary of the Ministry. He/she is expected to submit a Budget Framework Paper to the Planning and Budgeting Committee.
  - **Planning and Budgeting Committee (PBC)**: This committee consists of officials and the ministers from the central planning agencies, i.e. the Ministry of Finance, the Ministry of Economic Planning and Development and the Ministry of Public Service. At the technical level, they engage with every line ministry, critically evaluate their budget proposals, align them to government's development priorities and aggregate the budgets of individual ministries into the draft national budget.
  - **Cabinet:** The Cabinet of Ministers deliberates upon the national budget draft, reviews budget submissions by ministries and approves the draft national budget to be presented to Parliament.
  - **Parliamentary Finance Portfolio Committee:** This Parliamentary Committee questions the PBC members on the draft national budget and recommends changes where required.
  - **Parliament:** After the budget speech by the Minister of Finance, Parliament debates upon the national budget and recommends changes where necessary.

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