ESW
INVESTMENT GROUP

2020/21 NATIONAL BUDGET HIGHLIGHTS, SUMMARY & ANALYSIS

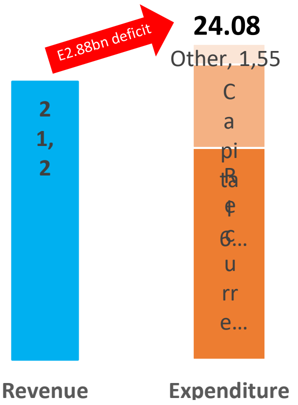
Overview

The 2020/21 National Budget comes at a time the country is facing external headwinds from sluggish growth in neighbouring South Africa, the destination for around two thirds of eSwatini's exports. Latest data show GDP growth in South Africa shrank by 1.4% in the fourth quarter of 2019 after a 0.8% reduction in the third quarter, a technical recession. For the full year 2019, the South African economy grew only by 0.2% in real terms, compared to 0.8% growth for 2018.

Lower growth in South Africa is associated with declines in the regional economies closely associated with Southern African powerhouse. For eSwatini which is a member of the Southern African Customs Union (SACU) with South Africa, Botswana, Namibia and Lesotho, a recession in South Africa suggests a lower shared revenue pool.

On the domestic front, the economy is facing structural and fiscal imbalances which have led to the weakening of confidence. As such, the 2020/21 aims at reducing these imbalances through continued fiscal consolidation measures.

Highlight/Development/Measure	Our Analysis
Global Economic Developments • Global economic activity is on a downward trend. • The IMF has revised downwards the global growth in 2019 to 2.9%, a record low since the global financial crisis in 2008. • In 2020, according to the IMF the global growth is expected to improve slightly to 3.3%.	• Improvement in global economic growth is important for commodity-reliant economies primary commodities exporters. • eSwatini relies much on sugar exports and sugar prices are expected to trend higher. • Output in the US was hit by frost while Mexico faced droughts. Brazil is expected to have a weak crop as producers divert more sugarcane to ethanol. • ***However, broader market concerns, especially related to the outbreak of Covid-19 (coronavirus) may restrain trade and weigh down on overall global economic growth.*** • ***There are chances that the Covid-19 together with trade tensions may send the global economy into a recession.*** • ***Already, major central banks have responded by cutting rates to near zero.***
Regional Economic Developments • Sub-Saharan Africa (SSA) growth revised downward to 3.3% in 2019 and 3.5% in 2020.	• The sluggish largely reflects slower growth in South Africa and Nigeria, the region's two largest economies. • Further risk to growth for most SSA economies include climate shocks such as severe droughts and flooding. • eSwatini however had a better season when compared to its regional peers. • On the downside, South Africa is eSwatini's major trading partner and any developments in South Africa are likely to have an impact on eSwatini
eSwatini Economic Growth • Economy grew by 1.4% in 2019 and expected to grow by 2.9% in 2020.	• The 1.4% growth in 2019 still implies a slowing economy heading into 2020.

Highlight/Development/Measure	Our Analysis
• 2020 growth is supported by an anticipated relief in government's fiscal position. • The relief is linked to the clearing of arrears coupled with a rebound in government spending and thereby stimulating domestic demand and promoting economic growth.	• Contrary to the budget we expect growth to cool to 1.5% as inflation rebounds and government austerity measures – including spending restrictions and a recent sharp hike in fuel tax – weigh on economic activity. • A continued challenging fiscal position will be a major constraint to growth, while also posing a broader threat to economic stability.
2019/20 Budget Review • 2019/20 revenue and grants are projected at E17.6bn, equivalent to 25% of GDP. • 2019/20 expenditure was budgeted at E21.8bn, 32% of GDP. • A deficit of E3.6bn is anticipated. **2020/21 Budget (E bn)** 	• The 2019/20 revenue was short of the initial estimate of E18.8bn due to the late implementation of revenue measures in the Finance Act of 2019 and non-passage of other revenue measures. • However, the revenue was higher than the 2018/19 reflecting the improvement in SACU receipts. • SACU receipts increased from E5.8bn to E6.3bn and contributed about 36% to the total revenue. • 2020/21 displays an increase in recurrent expenditure by 8.4% implying that fiscal consolidation will remain a challenge. • The budget deficits have been persistently high in recent years, in part due to weaker revenues from SACU amid slower regional growth. • Despite a renewed focus on fiscal consolidation, domestic arrears in the economy grew from around 3% of GDP in 2016 to over 10% by end-H1:19, creating an additional fiscal burden. • The knock-on effect of this imbalance has been a sharp rise in borrowing. • According to the CBE, total public debt rose 44% y-o-y to E19.6bn (USD1.4bn) at end-Sep-19, representing 29.8% of GDP (up from 21.9% a year earlier), and is projected to reach nearly 35% of GDP by the end of the current fiscal year. • Fiscal consolidation is key to restore confidence among both domestic and foreign investors.
Agriculture • E745.1m allocated to finance implementation of the Lower Usuthu Smallholder Irrigation Project (Phase 2) where a further 6,000 hectares of land is earmarked for irrigation development over the next four year.	• Despite fiscal challenges, continue to support the input subsidy programme with a budget allocation of E40m. • Agriculture remains key to the economy but there is need to diversify from the traditional sugar and maize. • Mechanisation and expanding irrigation capacity is important given recurring climate shocks.
Tourism • Government to review the Tourism Bill.	• The tourism sector holds much potential and may be one of the fast-growing sectors. • eSwatini is ranked as the 5th Best World Destination to visit in 2020 by Lonely Planet, which is one of the leading Global Travel Agencies. • The country is now a known international tourist destination of choice, which strongly justifies developing its tourism potential. • Review of the bill to enable it to create a thriving environment for tourism sector for the bill is important.

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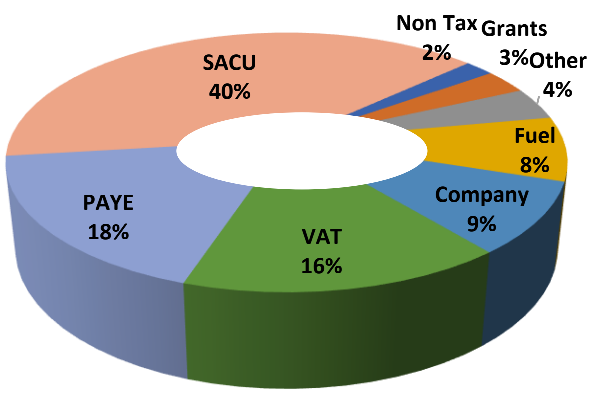
Financial Services • Government to develop and finalise the Financial Inclusion Policy	• 85% of emaSwati now have access to formal financial services highlighting the Kingdom's progress. • However, there is need for legislation to improve access to development finance. • The policy will also provide a framework and roadmap to educate emaSwati financially
Public Enterprises • Government to develop policy guidelines for the establishment and management of Public Enterprises	• In many countries, public enterprises continue to be a burden to the fiscus due to poor corporate governance and management frameworks. • Public enterprises reforms as well as governance framework will improve performance of and service delivery of these entities.
Social Security • Increased the allowance for Bogogo na Bomkhulu from E400 to E500 per month. • Monthly grant for the disabled increased from E180 to E280 per month with effect from January 2020. • Regional Development Fund (RDF) has been increased to E177 million.	• These payments are important for social protection and to alleviate poverty. • Fiscal consolidation including austerity without safety nets, sometimes throws a lot of citizens in poverty.
Micro Small and Medium Enterprises (MSMEs) • Government continues to foster the development and promotion of MSMEs. • A national quality assurance infrastructure has been set up.	• MSMEs are a critical force in the economy, driving innovation, economic development and job creation. • More than 90% of the world's businesses are MSMEs, and in smaller markets, are responsible for 80% of newly created jobs. • Despite their wide representation, they do not have a commensurate share in GDP and exports, signalling a clear need for improvement towards bolstering their contribution. • Empowering these MSMEs will assist in improving their access to markets and overall export performance.

The View

We see considerable risks on the revenue collection which will make fiscal consolidation a challenge. 40% of the budgeted E21.2bn revenue is expected to come from SACU as shown below:

Source of Government Revenue



With South Africa experiencing economic recession or slow growth, transfers from SACU may remain subdued.

Economic indicators are also expected to remain weak. GDP growth is projected to temporarily pick up in 2020, given government plans to repay some arrears, but growth would be subdued afterwards as fiscal imbalances persist and the private sector remains hamstrung. The fiscal deficit is expected to remain large and budget financing risks to be elevated.

The large deficit would raise public debt and contribute to further reduce international reserves. Downside risks weigh on this fragile outlook. Risks emanate from possible further fiscal slippages that could undermine confidence in the government's ability to control public finances and in the peg. Other risks arise from further decline in SACU revenue, weak demand for key exports, and rising interest rates. With a highly interconnected financial sector, macro-financial feedback loops could amplify the adverse effects of shocks.

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