ESWATINI

Table 1	2019
Population, million	1.2
GDP, current US$ billion	5.1
GDP per capita, current US$	4349.2
International poverty rate ($1.9)[a]	29.2
Lower middle-income poverty rate ($3.2)[a]	52.1
Upper middle-income poverty rate ($5.5)[a]	72.0
Gini index[a]	54.6
School enrollment, primary (% gross)[b]	115.2
Life expectancy at birth, years[b]	59.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011 PPPs.
(b) WDI for School enrollment (2017); Life expectancy (2018)

The COVID-19 pandemic has exposed Eswatini structural weakness. Real GDP is projected to contract by 3.5 percent in 2020, as COVID-containment measures have disrupted supply chains and depressed demand since March. Lower revenue and rising expenditures (including on COVID-containment measures) are exerting pressure on fiscal accounts. Inflation is rising, although it remains within the target band. Poverty is projected to increase as the pandemic has caused company closures, increased unemployment and restricted activity especially in the informal sector.

Key conditions and challenges

Eswatini economic growth has been slowing, even before the COVID-19 pandemic. Over the past five years Eswatini's growth has averaged 1.8 percent, consistently below the Sub-Saharan Africa average. Economic growth declined to 1.3 percent in 2019 from 2.4 percent in 2018 on the back of a deteriorated fiscal situation and low agricultural output. Expenditure has been rising since 2016, while Southern African Customs Union (SACU) revenues have been declining, contributing to widening fiscal deficits, rising debt and accumulation of domestic expenditure arrears. Delayed clearance of domestic arrears strain banks' balance sheets and undermines lending to the private sector and economic recovery. Declining private investments and weakening external competitiveness have kept growth subdued, hindering the long-term growth prospects of the economy.

The economy is vulnerable to developments in South Africa, as Eswatini is dependent on South Africa for trade, government finances (through the SACU transfers which constitute 40 percent of the revenue), remittances and informal trade. The slowdown in South Africa will adversely affect future SACU revenues, particularly in FY22/23, thus generating additional budget and external financing pressures, and put further pressure on foreign currency reserves.

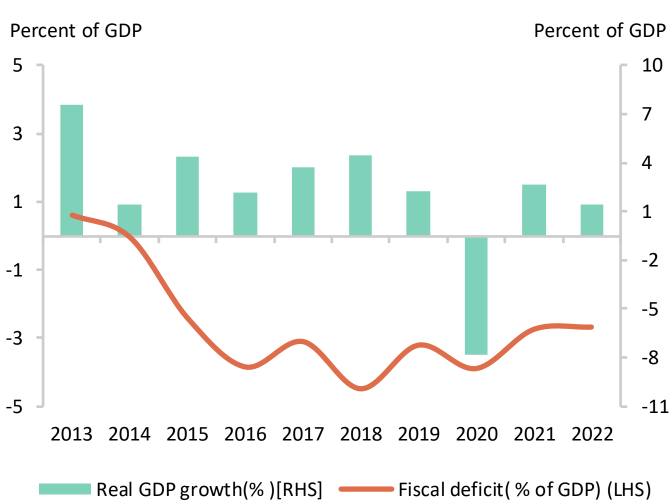
The pandemic is unfolding in a context of high prevalence of HIV/AIDS and a stretched health care system, which increase Eswatini's vulnerability. Poverty levels have historically been high, with close to 30 percent of the population living below the US$1.90/day international poverty line. This, together with high inequality levels – with a consumption per capita Gini index of 54.6 in 2017 – increases vulnerability to the economic shocks. Unemployment has been high even before COVID-19 at 23 percent in 2016 and mostly in the informal sector.

Recent developments

The COVID-19 pandemic is driving Eswatini into its first recession since 1976. COVID-19 containment measures have brought the economy almost to a standstill. Since March 2020, the Government imposed severe mobility restrictions and temporary closure of businesses with person-to-person contact. As a result, almost all economic sectors contracted during the lockdown, except for health and communication. The mobility restrictions and business closures have led to job losses.

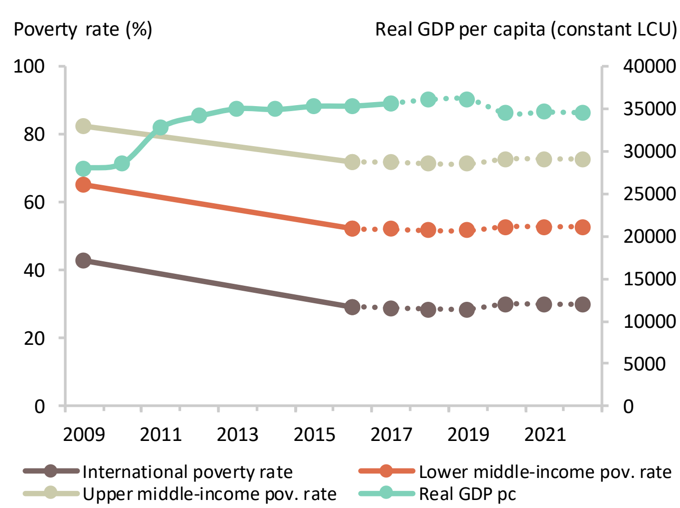
COVID-19 related expenditures have reversed the fiscal consolidation efforts that government had started in 2019, amid declining revenues. Since the beginning of the pandemic, the Government has approved two supplementary budgets, in March 2020 (0.1 percent of GDP) and in June 2020 (1.5 percent of GDP). Inflation year-on year (y/y) has started to pick up in 2020, rising

FIGURE 1 Eswatini / Fiscal deficit and Real GDP



Source: Ministry of Finance.

FIGURE 2 Eswatini / Actual and projected poverty rates and real GDP per capita



Source: World Bank staff calculations.

from 2.7 percent in January 2020 to 3.9 percent July 2020, partly due to COVID-19 induced supply chain disruptions.

As part of its response to minimize the economic fallout from the pandemic, the Central Bank of Eswatini has continued with accommodative monetary policy in 2020 to support economic activity. The Central Bank reduced the repo rate four times (cumulative 275 basis points) since March 2020 leaving the repo rate at 3.75 percent. However, accommodative monetary policy has not stimulated credit demand, as most companies were closed during the lockdown.

The first month of the lockdown saw a sharp adjustment in external trade. With mobility restrictions, exports fell by 40 percent y/y in April 2020, while imports contracted by 45 percent. The trend continued to July, with some recovery thereafter in exports and imports, as South Africa has relaxed the lockdown and Eswatini has allowed companies to restart operations. The trade balance and current account have remained in surplus.

COVID-19 is projected to increase poverty. The $1.90/person/day international poverty rate is projected to increase from 28.4 percent in 2019 to 29.9 percent in 2020. This is largely because COVID-19 related mobility restrictions and market closures have led to income losses, price increases and subsequently consumption losses. Further, the adverse trade impacts of lockdown measures are likely to worsen the situation with disproportionate impacts on women and the rural population.

Outlook

The economy is projected to contract by 3.5 percent in 2020, reflecting the economic impact of the COVID-19 pandemic. The manufacturing and service sectors are particularly hit hard by disruptions in global value chains and travels restrictions respectively. Eswatini's medium term economic recovery hinges on the evolution of the COVID-19 pandemic and the pace of recovery of the global and regional economies, particularly that of South Africa. A weak global recovery would lead to a delayed pick-up in trade, investment, and tourism (due to averseness towards travel). The authorities have approved a three-year Fiscal Adjustment Plan that will constrain demand. Inflation is expected to rise, but remain within the 3-6 percent target band, due to deferment of electricity tariff adjustments to 2021. This subdued economic growth, together with high unemployment, will continue to be associated with high poverty levels, with the 1.90/person/day international poverty rate projected at 29.8 percent in 2021 and 2022.

The fiscal deficit is projected to increase significantly to 8.7 percent of GDP in 2020 (from 7.3 percent in 2019). Domestic revenues are projected to fall due to weak economic activity. Expenditures are projected to increase as the Government spends more on health and support to individuals and businesses to mitigate the impact of the crisis. The pandemic has increased borrowing needs particularly external borrowing given the shallow domestic financial markets. External debt is projected to increase significantly in FY20/21 from 14.9 percent of GDP in 2019 to 24 percent in 2020. The fiscal deficit is projected to narrow over the medium term, as the Government implements its three-year Fiscal Adjustment Plan approved in June 2020.

The surplus on the current account is expected to decline significantly (to 1.0 percent of GDP in 2020 from over 4 percent in 2019) due to low exports and tourism receipts, and reduced remittances in 2020. The surplus is, however, expected to pick up from 2021 onwards as COVID-19-related trade and supply disruptions ease, and fiscal adjustments contain the growth of imports.

TABLE 2 Eswatini / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	2.0	2.4	1.3	-3.5	1.5	0.9
Private Consumption	5.6	2.7	2.6	-3.7	2.6	2.2
Government Consumption	2.9	-4.7	-3.5	-5.4	-3.7	-2.5
Gross Fixed Capital Investment	-1.0	34.3	-2.1	-1.0	1.1	3.1
Exports, Goods and Services	4.6	10.9	8.0	-5.6	4.9	3.7
Imports, Goods and Services	7.9	-8.7	6.0	-6.0	4.1	5.1
Real GDP growth, at constant factor prices	1.8	2.3	1.3	-3.5	1.5	0.9
Agriculture	-4.3	8.0	-4.4	4.8	4.0	5.5
Industry	1.8	-0.2	1.0	-5.3	4.1	1.9
Services	2.9	3.1	2.5	-3.6	-0.6	-0.6
Inflation (Consumer Price Index)	6.2	4.8	2.6	4.1	4.2	4.6
Current Account Balance (% of GDP)	6.2	1.3	4.1	1.0	5.6	4.3
Net Foreign Direct Investment (% of GDP)	2.7	-0.9	-2.1	-0.1	-0.7	-0.7
Fiscal Balance (% of GDP)	-7.0	-9.9	-7.3	-8.7	-6.4	-6.2
Debt (% of GDP)	27.6	24.6	31.1	41.1	44.1	49.6
Primary Balance (% of GDP)	-5.9	-8.8	-5.6	-6.6	-3.7	-3.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	28.8	28.5	28.4	29.9	29.8	29.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	52.1	51.8	51.8	52.7	52.7	52.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	71.9	71.5	71.4	72.8	72.8	72.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on 2016-HIES. Actual data: 2016. Nowcast: 2017-2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2016) with pass-through = 0.7 based on GDP per capita in constant LCU.