ESWATINI

Table 1	2020
Population, million	1.2
GDP, current US$ billion	4.5
GDP per capita, current US$	3918.9
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]	114.7
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) Most recent WDI value (2018).

Economic growth is estimated to have contracted by 3.1 percent in 2020-an upward revision from previous projection of -3.5 percent reflecting some recovery witnessed during the second half of 2020. However, the second wave of pandemic is dampening the recovery in 2021. Fiscal deficit increased in 2020 reflecting higher COVID-19 related expenditure and declining revenues. The slow recovery from the pandemic, will contribute to stagnation in poverty reduction, with around a third of the population projected to live in extreme poverty.

Key conditions and challenges

The Eswatini economy is closely integrated with the South Africa economy which makes it vulnerable to developments in South Africa. It exports over 65 percent of its exports and imports over 70 percent from South Africa. Eswatini's currency, the emalangeni, is pegged to the South African rand, with the banking sector dominated by South African banks. Fiscal revenues largely depend on Southern African Customs Union (SACU) revenues, which are shaped by developments in South Africa. The country's heavy dependence on highly volatile SACU revenues translate into significant fluctuations in public spending and pose a challenge to the management of fiscal resources.

The COVID-19 pandemic has exposed Eswatini's deeper economic and health challenges. COVID-19 related deaths increased significantly during the second wave, increasing by over 500 in just two months compared to less than 150 during the first phase. The pandemic has stretched the health care system complicated by high prevalence of HIV/AIDS. The pandemic contributed to the contraction of the economy in 2020. Over the past decade, poverty levels, jobs and the incomes of the average Eswatini citizens have stagnated, while public finances have deteriorated. Addressing the underlying structural challenges remain a key priority for the economy to sustainably grow at higher levels.

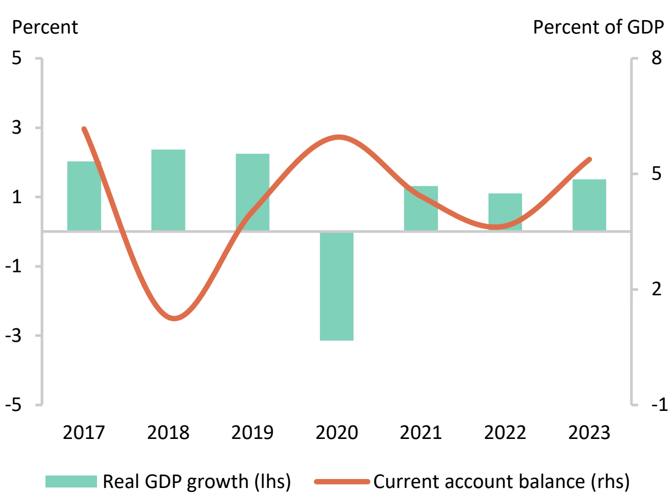
Poverty levels have historically been high and there has been little progress in reducing them, with close to 30 percent of the population living below the US$1.90/day (2011 PPP) international poverty line. The poverty level rises to just over half of the population when the lower-middle-income-country threshold of US$3.20/day is used. This, together with high inequality levels – with a consumption per capita Gini index of 54.6 in 2017 – increases vulnerability to economic shocks. Unemployment was high even before COVID-19, affecting 23 percent of the labor force in 2016.

Recent developments

The economy partly recovered during the second half of 2020, as reflected in the service and industry sectors. It is estimated to have contracted by 3.1 percent in 2020, a slight upward revision from a previously projected contraction of 3.5 percent. Easing of lockdown restrictions supported some construction, manufacturing and services activities. Though the manufacturing sector contracted in 2020, some signs of recovery were witnessed through a lesser decline in exports in 2020H2 compared to 2020H1.

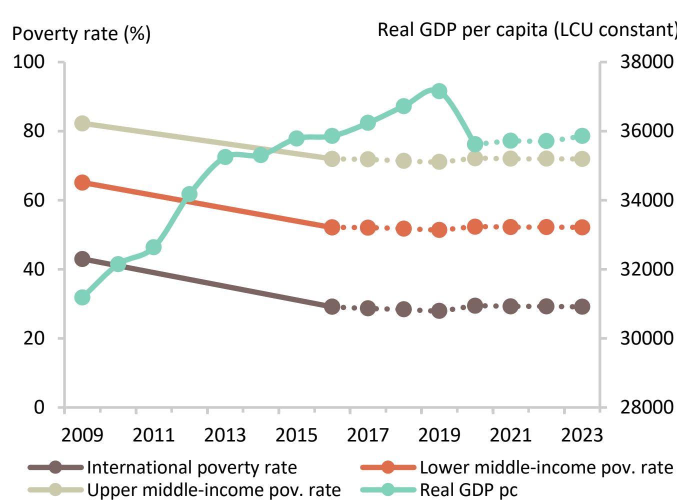
Domestic revenue declined year on year (y/y) by 2.7 percentage points of GDP in 2020 due to the COVID-19 pandemic while SACU revenues increased by 3 percent to 12.9 percent of GDP. The decline in

FIGURE 1 Eswatini / Real GDP growth and Current account balance



Sources: Ministry of Finance, Eswatini.

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



Source: World Bank staff calculations.

revenues reflects lower economic activity due to COVID-19 containment measures. Expenditures remained within the supplementary budget approved in June 2020. The fiscal deficit for FY2020/21 is estimated to have reached 8.5 percent of GDP, mainly financed by higher SACU receipts and loans from the World Bank and the IMF to deal with the pandemic. Public debt increased to about 45 percent of GDP in 2020, driven by external debt.

Annual inflation increased to 3.9 percent in 2020, from 2.6 percent in 2019, reflecting COVID-19 induced supply chain disruptions. The freeze of utility prices kept inflationary pressures lower in 2020. Monetary policy remained accommodative in January 2021, as the repo rate was kept constant at 3.75 percent since July 2020.

Current account surplus increased in 2020, partly due to surpluses recorded in trade balance and secondary income account (largely higher SACU revenue). Although both exports and imports contracted in 2020, trade balance remained in surplus.

As a result of the socio-economic impact of the pandemic, poverty is projected to increase. The $1.90/person/day international poverty rate is estimated to have increased from 28 percent in 2019 to 29.4 percent in 2020. This was mainly due to lower household consumption as reduced economic activity resulted in loss of employment. The dominance of the informal sector means most businesses have no means or safety nets to withstand the economic shock induced by COVID-19. Furthermore, the pandemic has exacerbated the household food insecurity challenge.

Outlook

The second wave of the COVID-19 pandemic is projected to reverse the economic gains witnessed during the second half of 2020 and constrain economic activity in the short to medium term. The economy is projected to grow by 1.3 percent of GDP in 2021, reflecting COVID-19 related containment measures implemented in early 2021. Inflation is expected to increase in 2021, partly due to rising oil and domestic administered prices. The US$1.90/person/day international poverty rate is projected at 29.3 percent in 2021 and 29.3 percent in 2022 given the mild economic recovery, together with high unemployment. Overall, the recovery remains uncertain and hinges on the evolution of the COVID-19 pandemic, rollout of the vaccines and the pace of recovery of the global and regional economies, particularly that of South Africa.

The fiscal deficit is projected to decrease to 6.5 percent of GDP in 2021, reflecting the start of the implementation of three-year Fiscal Adjustment Plan. In 2021, the plan focuses on recurrent expenditure containment amounting to 0.6 percent of GDP (reducing wages, goods and services and transfers to SOEs) and boosting domestic revenue by 1.1 percent of GDP. Further, the recovery in 2021 will lead to increase in revenues, while the loans already disbursed by the World Bank and IMF have helped to cushion the financing gap and reduced domestic expenditure arrears. Debt levels will remain high in 2021, as the country is projected to borrow externally, given constrained domestic financial market.

The current account surplus is projected to decrease in 2021, partly due to declining SACU revenues and higher imports of medical necessities to deal with the second wave of COVID-19. However, fiscal adjustments are projected to contain the growth of other imports while supply disruptions are projected to ease in the second half of 2021 boosting exports.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.4	2.2	-3.1	1.3	1.1	1.5
Private Consumption	2.7	2.6	-3.7	2.6	2.2	2.2
Government Consumption	-4.7	-3.5	-5.4	-3.7	-2.5	-2.5
Gross Fixed Capital Investment	35.1	3.3	2.3	0.3	2.9	5.3
Exports, Goods and Services	10.9	8.0	-3.2	4.9	3.7	3.9
Imports, Goods and Services	-8.7	6.0	-3.6	4.1	4.5	5.1
Real GDP growth, at constant factor prices	2.4	2.2	-3.1	1.3	1.1	1.5
Agriculture	5.9	-0.6	1.9	4.5	3.4	2.5
Industry	-0.3	4.4	-7.6	3.0	-0.3	4.2
Services	3.7	1.3	-0.9	-0.3	1.6	-0.4
Inflation (Consumer Price Index)	4.8	2.6	3.9	5.6	4.6	4.8
Current Account Balance (% of GDP)	1.3	4.0	5.6	4.0	3.3	5.0
Net Foreign Direct Investment (% of GDP)	-0.9	-2.1	-0.1	-0.6	-0.7	-0.7
Fiscal Balance (% of GDP)	-10.0	-7.2	-8.5	-6.5	-6.2	-2.9
Debt (% of GDP)	24.6	30.9	45.7	51.2	55.8	52.8
Primary Balance (% of GDP)	-8.8	-5.6	-6.4	-3.6	-3.1	0.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	28.4	28.0	29.4	29.3	29.3	29.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	51.8	51.4	52.3	52.2	52.2	52.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	71.4	71.1	72.1	72.0	72.0	72.0

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: 2017-2020. Forecast are from 2021 to 2023.
(b) Projection using neutral distribution (2016) with pass-through = 0.7 based on GDP per capita in constant LCU.