ESWATINI

Table 1	2021
Population, million	1.2
GDP, current US$ billion	4.7
GDP per capita, current US$	4049.6
International poverty rate ($2.15)[a]	36.1
Lower middle-income poverty rate ($3.65)[a]	58.0
Upper middle-income poverty rate ($6.85)[a]	78.1
Gini index[a]	54.6
School enrollment, primary (% gross)[b]	114.5
Life expectancy at birth, years[b]	60.7
Total GHG emissions (mtCO2e)	2.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2017 PPPs.
b/ WDI for School enrollment (2019); Life expectancy (2020).

Real GDP growth is projected to slow to 1.1 percent in 2022 from 7.9 percent in 2021, reflecting statistical base effects, the implementation of government's three-year fiscal adjustment program, and the inflationary impacts of the Ukraine war. Declining SACU revenues and higher food and fuel import costs are expected to push the current account into a deficit. These trends will slow per capita GDP growth and constrain poverty reduction, which is projected to hover around 54 to 55 percent in the medium term.

Key conditions and challenges

Since the relocation of firms back to South Africa at the end of apartheid in 1994, private investment has remained low, constrained by heavy state involvement in the economy and a generally weak business environment. The government is taking steps to reduce its footprint in the economy to promote market competition and encourage private investment. The challenges from relying on state-led development include high fiscal deficits, accumulation of expenditure arrears, and the crowding out of private investment.

Eswatini remains highly dependent on South Africa, through various channels- including trade, remittances, and Southern African Customs Union (SACU) revenues. Overreliance on SACU revenues has led to substantial fluctuations in public spending and continues to pose a challenge to managing fiscal resources and the growth potential. Volatile SACU receipts coupled with rigid government expenditure have led to persistent fiscal deficits in the recent past.

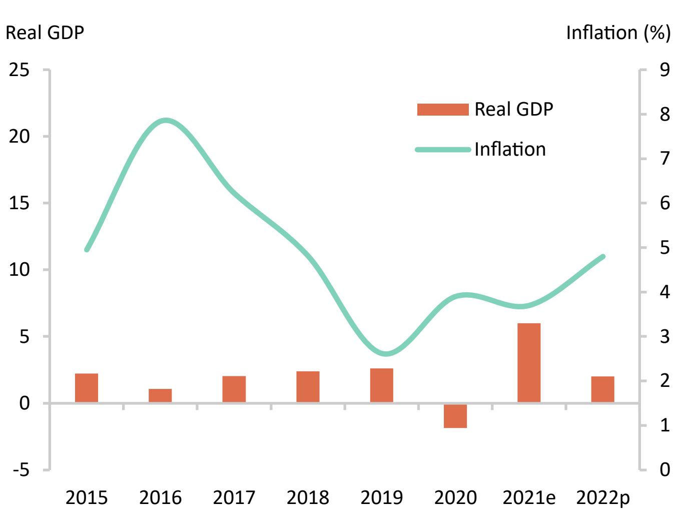
Poverty reduction in Eswatini is constrained by limited job opportunities in the private sector and relatively low salaries amid weak labor productivity. Lack of formal job creation results in high unemployment and informality. About 32 percent of the population is estimated to live below the US$2.15/day (2017 PPP) international poverty line, while 55.4 percent of the population is under the lower-middle-income country poverty line ($3.65/day, 2017 PPP). Inequality remains high, with a risk of fueling social tension.

Recent developments

Economic activity picked up in 2022Q1, with real GDP growing by 4.5 percent from 1.9 percent in 2021Q4. Growth was underpinned by a strong performance of the primary (mainly animal production and forestry) and secondary sectors (manufacturer of beverages, processing of preserved meat, and preserved fruits). Agriculture benefited from good rains, while manufacturing benefited from increased foreign demand. On the other hand, services contracted, reflecting subdued demand due to low domestic disposable incomes and weakening growth of the ICT sector as COVID-19 restrictions, were lifted (leading to reduced use of ICT). Moreover, the impact of Ukraine war and its related inflationary impacts is expected to result in a moderation of growth.

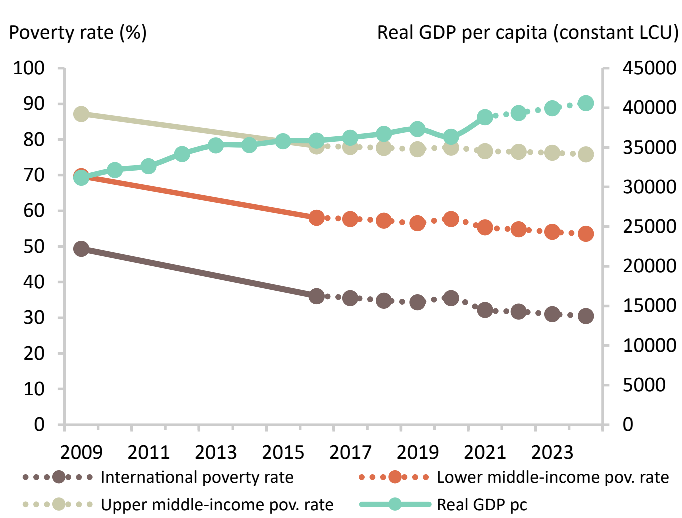
Inflationary pressures picked up during 2022Q2, mainly driven by food and transport costs, and a depreciating local currency. Annual inflation averaged 4.2 percent in 2022Q2, higher than 3.2 in 2022Q1 and 3.7 in 2021Q2; and increased further in July 2022 to 5.4 percent from 4.6 percent in June 2022. Transport and food contributed over half of the annual inflation—the exchange rate depreciated by 5.9 percent during 2022H1. In response to the high

FIGURE 1 Eswatini / Inflation and real GDP



Sources: Ministry of Finance and WB staff estimates.

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



Source: World Bank. Notes: see Table 2.

inflationary pressures, the Central Bank tightened the money supply, increasing the discount/repo rate by a cumulative 100 basis points to 5 percent. Transport and food inflation disproportionately affect the poor, who spend a higher share of their resources on these items than higher-income households.
The authorities remained committed to fiscal adjustment plans during FY2022/23Q1 despite political pressure to increase wages. The fiscal deficit was contained within the budget limits, as the government implemented expenditure cuts, including public investment, in line with its three-year fiscal adjustment plan. The reduction in the fiscal deficit took place in the context of lower overall revenues amid lower SACU revenues. However, public debt increased as the government accessed loans from the World Bank and African Development Bank to finance the budget deficit.
Inflows from newly contracted external loans kept official gross reserves above 3 months of import cover during 2022H1. This level of reserves was achieved despite a higher trade deficit during 2022H1 compared to the same period last year, as costs of imports increased due to the Ukraine war. The current account worsened as a result.

Outlook

Real GDP growth is projected to slow to 1.1 percent in 2022 and average 2.7 percent for 2023-2024, reflecting the implementation of the government's three-year fiscal adjustment program and inflationary pressures from the Ukraine war. The fiscal adjustment will dampen growth in sectors linked to government operations such as construction, public administration, wholesale, and trade, while inflationary pressures dampen domestic demand. Annual average inflation is projected to increase to 4.8 in 2022 from 3.7 percent in 2021. Further, the tight monetary policy will discourage borrowing and constrain economic activity. The risk of further social unrest creates uncertainty for medium-term private sector investment and growth.
Poverty is projected to remain relatively stagnant and hover around 54 to 55 percent, based on the lower-middle-income country poverty line, due to the slow economic recovery in the medium term. The unemployment rate that rose by 10 percentage points to 33.3 between 2016 and 2021, will marginally decline in the medium term.
The fiscal deficit is projected to decline in the medium term as authorities implement the fiscal adjustment plan. Though SACU revenues are projected to fall in 2022 due to the second-round effects of the pandemic, domestic revenues are projected to recover as authorities implement various revenue measures (fees, VAT, company tax increase) proposed in the adjustment plan. Expenditure adjustment includes public wage containment and lower transfers to state-owned enterprises. The deficit will marginally increase in 2022 as expenditure pressures increase to cushion households from rising inflation. In the medium term adherence to the adjustment program is critical to contain fiscal deficit within set limit. Inflation will decline in the medium term as fiscal consolidation proceeds. Public debt is projected to peak in 2022 and decline from 2023, in line with the fiscal adjustment plan.
The current account balance is projected to turn into a deficit of 1.7 percent of GDP in 2022—the first time since the 2010/11 fiscal crisis. This trend partly reflects declining SACU revenues and rising imports due to higher fuel/food costs arising from the Ukraine war. A current account surplus is projected from 2023 as SACU revenue recover and the effects of the COVID-19 crisis dissipate.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	2.7	-1.6	7.9	1.1	2.6	2.7
Private Consumption	-1.5	0.5	3.3	2.0	4.5	3.2
Government Consumption	-2.0	6.8	-8.7	-3.7	-6.4	-1.1
Gross Fixed Capital Investment	1.0	-8.2	11.4	9.6	2.9	2.7
Exports, Goods and Services	16.3	-2.4	9.9	6.0	3.1	2.5
Imports, Goods and Services	1.5	-1.3	14.4	1.6	2.5	2.0
Real GDP growth, at constant factor prices	2.8	-1.4	7.9	1.1	2.6	2.7
Agriculture	0.9	-7.5	2.5	1.4	1.6	3.5
Industry	5.7	-9.7	15.4	3.8	3.9	2.1
Services	1.2	5.4	4.1	-0.8	1.8	2.9
Inflation (Consumer Price Index)	2.6	3.9	3.7	4.8	4.4	4.3
Current Account Balance (% of GDP)	4.7	6.5	1.3	-1.7	0.4	0.8
Net Foreign Direct Investment Inflow (% of GDP)	-2.4	-0.1	-0.7	-0.8	-0.8	-0.7
Fiscal Balance (% of GDP)	-6.5	-4.6	-4.6	-4.9	-1.4	0.0
Debt (% of GDP)	40.0	41.6	42.4	45.1	43.1	39.9
Primary Balance (% of GDP)	-5.3	-2.4	-2.9	-2.0	1.4	2.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	34.3	35.5	32.2	31.7	31.0	30.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	56.6	57.7	55.4	54.8	54.1	53.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	77.3	77.8	76.8	76.5	76.3	75.8
GHG emissions growth (mtCO2e)	5.2	1.6	1.4	1.1	1.1	1.2
Energy related GHG emissions (% of total)	35.9	36.1	37.2	38.1	38.9	39.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on 2016-HIES. Actual data: 2016. Nowcast: 2017-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2016) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.