Recent macroeconomic and financial developments

Eswatini's growth rebounded by 6.1% in 2021, from a 1.9% contraction in 2020, propelled by agriculture (on good weather) and industry (resurgent demand). Growth in services remained constrained by COVID-19–related restrictions. Aggregate demand is dominated by consumption (85% of GDP), followed at some distance by investment (12.3%) and net exports (2.7%). Monetary policy was accommodative, and the discount rate was maintained at 3.75% throughout 2021. Inflation averaged 3.8% in 2020 and 2021 as price increases of key drivers, such as food and transport, were marginal. The fiscal deficit widened to an estimated 6.4% of GDP in 2021, as government revenue remained tight against elevated spending needs, while public debt increased slightly to 40.6% of GDP (16.4% external) in December 2021, from 39% in December 2020.

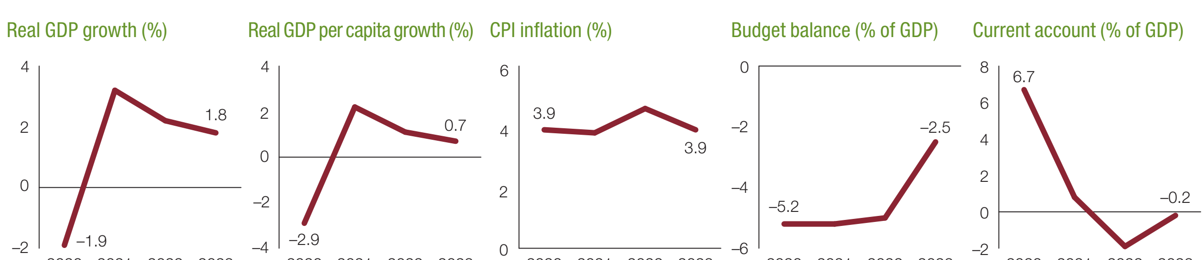
The current account surplus fell to about 0.8% of GDP in 2021 from 6.7% in 2020 as secondary income flows, mainly SACU receipts, declined. International reserves climbed to 3.6 months of import cover in 2021, from 3.2 months in 2020, buoyed by the SDR allocation ($107 million), held as reserves by the central bank. The local currency, pegged at par to the rand, stabilized in early 2022 after a sharp depreciation toward end-2021. NPLs increased as businesses affected by the civil unrest in 2021 struggled to service their loans but declined to 6.5% of total loans by end-2021. Poverty looms large, at 58.9% of the population. Unemployment hit 33.3% in 2021, sharply up from 23.1% in 2020, due to COVID-19.

Outlook and risks

Slower growth of 2.4% is projected in 2022, in all sectors, though is forecast to pick up a little in 2023 as COVID-19 effects wane with increased vaccination. The fiscal deficit is forecast to decline but remain elevated at 4.1% of GDP in 2022, largely reflecting the expected downturn in SACU revenues, but narrow further to 1.3% in 2023, with continued fiscal consolidation. Inflation is projected to nudge up to 4.5% in 2022, on adjustments in administered prices, higher oil prices, and a weaker currency, but subside again to 4.0% in 2023. In 2022, a current account deficit is projected at 0.4% of GDP owing to likely constraints on the secondary income account. Headwinds include volatile SACU receipts, new virus mutations, slow vaccination, and domestic and global political tensions. Major tailwinds include continued fiscal consolidation, vaccination rollout, structural reforms, and national political dialogue.

Climate change issues and policy options

Ranked 130 on the 2021 GCRI, Eswatini is vulnerable to climate shocks, particularly droughts. The 2015/16 El Niño drought caused agricultural output to contract by 8.4%, underscoring the expansion of water harvesting and irrigation infrastructure. Other sectors at risk include water, biodiversity, ecosystems, and human health. The country also experiences natural hazards including epidemic diseases, floods, and forest fires. The government is strongly committed to meet SDG 13 on climate action by 2030, but progress so far is moderate. Eswatini has written a National Drought Mitigation and Adaptation Plan 2016–2022, unveiled a National Climate Change Policy in 2016, and drafted a Climate Change Bill (2016), which seeks to promote climate resilience and inclusive low-carbon green growth, access to climate finance, and capacity building. It submitted its first NDC to the UNFCCC in 2015 and submitted its updated NDC in October 2021, with targets to reduce economy-wide GHG emissions by 5% between 2021 and 2030, at an estimated cost of at least $950 million.



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team. Data on the budget balance correspond to Eswatini's fiscal year, which runs from April 1 to March 31.