



THE KINGDOM OF SWAZILAND

MID-YEAR BUDGET REVIEW REPORT

2014/15

PRESENTED BY

**MARTIN G. DLAMINI
MINISTER OF FINANCE**

TO THE

**PARLIAMENT
OF THE
KINGDOM OF SWAZILAND**

ON

19th NOVEMBER, 2014

A. Introduction

1. **Mr. Speaker, I would like to thank Parliament for giving me the opportunity to present the Mid Year Budget Review report for the year 2014/15.** This is my first Mid Year Budget Review statement. I would like to use this occasion to give you all an update on the performance of the economy and its key performance indicators so far. With revenue collections that are projected to exceed the Budget by 3%, we have maintained a strong and stable position for the economy. However, uncertain SACU revenues, and increasing expenditures driven by the wage bill and transfers, are causes for concern in the near future. However, I am sure that all of us, collectively, can steer our country towards the path of stability and prosperity.

B. International Economic Performance

2. **Mr. Speaker, the progress of this year's Budget is critical, due to the uncertainties facing the global economy in the next few years.** Global economic output grew by 3.3 percent in real terms in 2013. It is projected to remain at the same level in 2014, before improving slightly to reach 3.8 percent in 2015. Growth in the Euro area, Swaziland's second largest trading partner, will remain sluggish. Growth rates in the Euro area are projected to remain low at 0.8 and 1.3 percent in 2014 and 2015 respectively.
3. **South Africa is Swaziland's main trading partner. South Africa faces an uncertain economic growth outlook.** South Africa accounts for around 60 and 90 percent of Swaziland's exports and imports respectively. Their success is our success. South Africa is forecasting 1.4% growth in 2014, followed by 2.3% in 2015. Declining prices for their exports; a large budget deficit; slow growth in Europe; and capital outflows, have all put pressure on our neighbour this year.
4. **In contrast, Sub-Saharan Africa continues to grow strongly. Forecasts for 2014 and 2015 growth are at 5.1% and 5.8% respectively.** Swaziland's economy needs to be in a position to exploit the opportunities of a rising Africa. To attract private investment from the rest of the continent, we need to accelerate business environment reforms. Swaziland needs to become an easier place to do business, to encourage Swazi and foreign entrepreneurs.

C. Domestic Economic Performance

5. **Mr Speaker, let me turn to our own performance over the past two years.** Swaziland's economic growth rate in 2013 is estimated at 3.0% in real terms, higher than the initial forecast of 2.8%. The recovery was underpinned by strong forestry, mining, construction, and retail growth following the 2010-12 crisis. Manufacturing grew moderately, at an estimated 1.9%.
6. **The estimate for 2014 is for 2.5% growth.** In 2014, agricultural growth is set to be strong, at 4.0%. This comes partly as a result of the continued increase of Government commitment towards the sector, as interventions such as the LUSIP project help to increase production.

7. **In 2014, manufacturing, construction and utilities growth is projected to slow slightly compared with 2013, to 2.7%.** Manufacturing growth is projected to slow down to 1.3% in 2014. On the other hand, implementation of Government's capital programme, combined with stronger private construction activity, is expected to boost construction activity.
8. **The services sector, which includes Government services, is expected to benefit from the strength of the other two sectors in 2014.** It is expected to grow at 2.7% in 2014.
9. **Consumer inflation pressures were subdued in 2013 with headline inflation averaging 5.6 percent mainly due to low food and transport prices.** The weakening exchange rate may continue to exert pressure on inflation outcomes in the medium term. However, in the year so far, inflation remains close to target, at 6.2 percent this September.
10. **Mr Speaker, growth in 2015 is set to slow to 2.5% of GDP.** However, measures to improve the business environment remain a key source to unlock growth. Opportunities, especially in manufacturing and mining, depend on making Swaziland an efficient investment destination; a place where all Swazis can become entrepreneurs.

D. Summary of 2014/15 Budget execution

11. **Mr Speaker, in February I committed to presenting a budget which invigorated the economy. I am pleased to announce that, based on our half-year estimates, we can project that the Budget is broadly on track.** Special recognition should go to the Swaziland Revenue Authority, who have exceeded expectations again; and to the Ministry of Economic Planning and Development, who have already released over half of the budget for government funded capital projects.

D.1 Revenues and grants

12. **Revenues are essential to fund our recurrent expenditures, and investments that are essential for our country's growth.** Swaziland's efforts to diversify revenue sources away from SACU continue. Mr. Speaker, the Budget estimated that, in total, E14.3 billion would be collected through taxes, other revenue sources and grants. Our forecasts indicate that revenue collection may exceed the Budget by around 3%.
13. **Around 56% of total budgeted revenues were set to come from SACU receipts. The remaining 46% of budgeted revenues are collected domestically.** SACU this year will be received as budgeted, at E7.5 billion. The bulk of our domestic revenues, around 78%, is collected through corporate tax, VAT and income taxes from individuals.

14. **Personal and other income taxes total E1.1 billion as at end of September this year.** We project that we will raise E2.2 billion by the end of the year, an increase of 7% on 2013/14. The higher projection follows a strong half-yearly performance and larger returns at the very end of last year.
15. **Since the introduction of VAT in April 2012, Swaziland has had a fairer tax system, where goods and services are taxed once.** This year, we project that VAT will raise E1.8 billion, a 6% increase on 2013/14. Domestic VAT collections collected totalled E1.0 billion on a cash basis by the end of September.
16. **Corporate income tax totals E0.5 billion, as of 30th September this year.** We project that we will raise E1.1 billion overall.
17. **On other revenues, lower than expected fuel tax will be offset by high profits returned to Government from the Central Bank.** Loan repayment from scholarships in the first six months remains very low, at only E4 million so far this year, barely 1% of the annual scholarships budget.
18. **Mr. Speaker, grants help the Government in its work on specific development projects.** They are earmarked to specific items of expenditure, so they do not impact on the overall government deficit. The budget for grants was E778 million. For this year's Budget the majority of grants were donated by the European Union. An estimated E652 million of budgeted grants have been disbursed.
19. **I'd like to take this opportunity to thank all of our donors and NGOs for their tireless work in assisting Swaziland, and for believing in our potential to overcome our development obstacles.** I quote from this Cabinet's Programme of Action when I say we must work together to develop a country 'where all citizens are able to sustainably pursue their life goals, and enjoy lives of value and dignity'.

D.2 Expenditure

20. **Mr. Speaker, total expenditure was budgeted at E15.3 billion, and I am pleased to announce that most expenditure items remain within target.** Around 76% of the Budget was for recurrent, and 24% for capital.
21. **Mr Speaker, Government is under great pressure to deliver on development aims.** Recent years have seen notable spending increases on top Government priorities, including Universal Primary Education, Elderly Grants and essential drugs. The Government has also endeavoured in various projects intended to kickstart economic growth.

22. **Mr. Speaker, spending continues to be high on the wage bill. Estimated expenditure for 2014/15, including the cost-of-living, is expected to total E5.9 billion including pension contributions.** This is almost a 12% increase from the previous year. A supplementary Budget will reallocate the resources necessary to cater for the overexpenditure, but must be restricted to only the most essential items to avoid pressure in later years.

D.3 Deficit and financing

23. **Mr. Speaker, Swaziland's average growth rates continues to be lower than other SACU countries. Swaziland must pursue a fiscal strategy based on available resources, while reforming policy based on its future ambitions under Vision 2022.** The 2014/15 Budget allocated an overall deficit of around 3% of GDP. GDP was revised upwards, so the budgeted deficit is restated, at 2.5% of GDP. High revenue collections in February and March this year resulted in a revised forecast. We can now forecast a deficit of 1.7% of GDP, around E700 million.

E. Medium-term outlook

24. **Mr. Speaker, going forward, given the performance of the South African economy, I would like to inform the House that we shouldn't expect an increase in total revenues. SACU revenues are confirmed in December, so the projections are still very tentative.** The risks will be manageable, and bold steps will be taken to ensure that Government budgets within its means.

25. **Many expenditure items are in need of reform and reprioritisation.** As a Government, we cannot simply spend our way to higher rates of economic growth. We must make the changes and implement the controls required, for the private sector to thrive in a stable fiscal environment. We must make the necessary choices about what Government should do, in what sequence, and what should be left to the private sector.

26. **For the remainder of this year, I urge my colleagues in every ministry to minimize hiring in all sectors and submit to Public Service to close unused posts.** If the projected revenue risks materialize, Government will do everything possible to protect front-line services in priority sectors, such as health and education.

F. Conclusion

27. **Mr. Speaker, I have explained that the 2014/15 Budget is credible. Revenue and budgeted expenditure are broadly on target.** I have also explained that the future remains uncertain and that greater efforts are needed to firmly put the Swaziland economy on a sustainable platform. Without credible budgets, we cannot raise the rate of economic growth; and we cannot make progress against the Swaziland Development Indicators. The 2015/16 Budget will be fundamental to achieving the goals of Vision 2022. For those who are able to contribute more, I hope they do so.

28. **Mr. Speaker, efforts to improve the fiscal sustainability of the Budget will be assisted greatly by greater transparency and accountability as required by the draft PFM Bill.** To make a credible step towards this goal, the Ministry of Finance will publish this speech and the associated figures online before the end of November.
29. **Mr. Speaker, we must learn from our past. Government needs to be more prepared for SACU volatility in future.** This is fundamental to any development progress.
30. **Thank you, Mr. Speaker.**

| Mid-year results table | 2012/13 | 2013/14 | 2014/15 | 2014/15 | 2014/15 | 2014/15 | 2014/15 on | |
|--|---------------|---------------|--------------|---------------|---------------|------------|----------------|--------------|
| <i>E millions</i> | Actual | Prelim | Mid | Budget | Forecast | Mid | 2013/14 | |
| | | | | | | % exec. | % proj. growth | amount |
| Revenue and grants | 12,297 | 13,116 | 7,568 | 14,258 | 14,678 | 53% | 12% | 1,562 |
| Revenues | 12,255 | 12,920 | 6,967 | 13,480 | 13,900 | 52% | 8% | 980 |
| SACU revenue | 7,063 | 7,154 | 3,743 | 7,487 | 7,487 | 50% | 5% | 333 |
| Non-SACU tax revenue | 4,751 | 5,634 | 3,174 | 5,453 | 5,874 | 58% | 4% | 240 |
| Corporate income tax | 795 | 1,109 | 586 | 1,046 | 1,120 | 56% | 1% | 11 |
| Personal income tax and other income taxes | 1,476 | 2,064 | 1,065 | 1,844 | 2,214 | 58% | 7% | 150 |
| Domestic taxes on goods and services | 2,446 | 2,391 | 1,300 | 2,527 | 2,502 | 51% | 5% | 111 |
| VAT | 1,736 | 1,696 | 962 | 1,783 | 1,803 | 54% | 6% | 107 |
| Non-tax revenue | 441 | 183 | 50 | 540 | 540 | 9% | 195% | 357 |
| Grants | 43 | 196 | 601 | 778 | 778 | 77% | 297% | 582 |
| Total expenditure | 10,567 | 12,890 | 7,915 | 15,306 | 15,369 | 52% | 19% | 2,479 |
| Recurrent expenditure | 8,966 | 10,456 | 5,778 | 11,541 | 11,712 | 50% | 12% | 1,256 |
| Wage bill | 4,524 | 5,242 | 2,910 | 5,650 | 5,864 | 52% | 12% | 622 |
| Goods and services, including durables | 2,055 | 2,315 | 1,189 | 2,369 | 2,367 | 50% | 2% | 52 |
| Interest payments | 350 | 344 | 100 | 634 | 506 | 16% | 47% | 162 |
| Transfers and other expenses | 2,037 | 2,555 | 1,579 | 2,888 | 2,975 | 55% | 16% | 420 |
| Capital | 1,601 | 2,434 | 2,137 | 3,765 | 3,657 | 57% | 50% | 1,223 |
| Loans | 230 | 230 | 247 | 416 | 416 | 59% | 81% | 186 |
| Grants | 43 | 196 | 601 | 778 | 778 | 77% | 297% | 582 |
| Directly financed | 1,328 | 2,007 | 1,289 | 2,571 | 2,462 | 50% | 23% | 455 |
| Overall balance | 1,730 | 226 | -347 | -1,048 | -691 | 33% | -406% | -917 |
| Percentage of GDP | 4.9% | 0.6% | -0.8% | -2.5% | -1.7% | -- | -- | -- |
| Overall balance excluding SACU receipts | -5,333 | -6,929 | -4,082 | -8,535 | -8,177 | 48% | 18% | -1,248 |
| Percentage of GDP | -15.2% | -18.2% | -9.9% | -20.7% | -19.8% | -- | -- | -- |
| Financing | | | | | | | | |
| Net Financing | 528 | 191 | -173 | 714 | 514 | -24% | 169% | 323 |
| External | 28 | 39 | 36 | 205 | 205 | 18% | 426% | 166 |
| Domestic bills, bonds and loans | 499 | 152 | -209 | 509 | 308 | -41% | 103% | 156 |
| Treasury Bills | 539 | 251 | -160 | 349 | 146 | -46% | -42% | -105 |
| Bonds | 0 | 131 | 71 | 400 | 402 | 18% | 207% | 271 |
| Loans | -40 | -230 | -120 | -240 | -240 | 50% | 4% | -10 |
| Arrears, change, and other asset flows (1) | 1,018 | -749 | -- | -- | -- | -- | -- | -- |
| Debt stocks, gross official reserves, and GDP | | | | | | | | |
| Central Government Debt | 5,924 | 6,534 | 6,867 | 7,055 | 7,224 | 97% | 11% | 690 |
| Domestic Debt | 3,081 | 3,201 | 3,262 | 3,625 | 3,842 | 90% | 20% | 641 |
| External Debt | 2,843 | 3,333 | 3,604 | 3,431 | 3,382 | 105% | 1% | 49 |
| Central Government Debt | 16.9% | 17.2% | 16.7% | 17.1% | 17.5% | 98% | 2% | 0.3% |
| Domestic Debt | 8.8% | 8.4% | 7.9% | 8.8% | 9.3% | 90% | 11% | 0.9% |
| External Debt | 8.1% | 8.8% | 8.7% | 8.3% | 8.2% | 105% | -7% | -0.6% |
| Gross official reserves, end-of-period | 6,196 | 8,062 | 7,183 | -- | -- | -- | -- | -- |
| Revenues and Expenditure to GDP Ratios | | | | | | | | |
| Revenue and grants, % of GDP | 35.1% | 34.5% | 18.4% | 34.6% | 35.6% | -- | -- | -- |
| Total expenditure, % of GDP | 30.2% | 33.9% | 19.2% | 37.1% | 37.3% | -- | -- | -- |

(1) negative amount means additional net payments were made (outstanding payments decreased)