



UNITED NATIONS
ESWATINI



THE POTENTIAL SOCIO - ECONOMIC IMPACT OF COVID-19 OUTBREAK IN ESWATINI

A light gray world map serves as a background for the 'COVID-19' text.

COVID-19

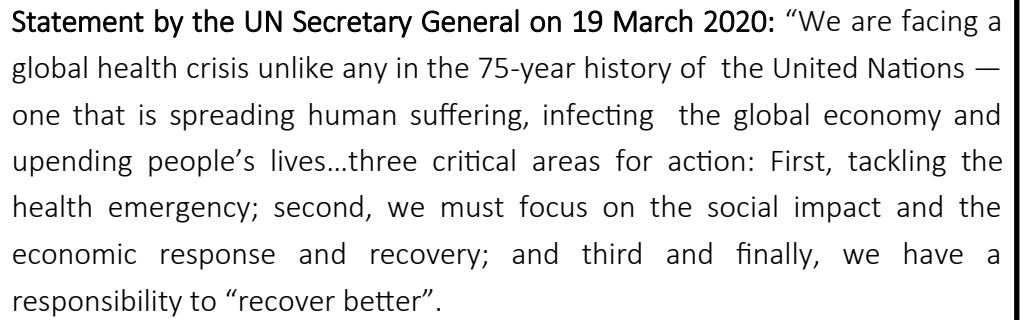
ECONOMIC SITUATION REPORT #1—COVID-19

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PREPARED BY UNRCO ECONOMIST, MPHUCUKO MAMBA

while this is being issued, data/info still being collected in this challenging environment.





The coronavirus' impact on Eswatini's economy will be felt from multiple aspects. Given the exponential dynamics of the COVID-19 spread and the uncertainty of both the intensity and the duration of the outbreak, global economic institutions and economic experts and institutions in the country are reluctant to forecast the extent of the economic impact of the COVID-19 outbreak.

Transmission channels of socio-economic impact of COVID-19 & How will various sectors be affected

The supply shock will, in turn, affect household consumption, which will have a ripple on effect on the demand. As demand falls, the economy will experience a slowdown. IMF reviewed 2020 global growth projections to 3.3 percent (January 2020 projections) from 3.4 percent (October 2019 projections) in light of the slow performance in emerging market economies.¹

His Majesty the King, in his State of the Nation Address (SONA), had announced that the economy of Eswatini was projecting a growth rate of 2.6% in 2020.² At this stage, it is difficult to estimate the rate of economic slowdown, owing to several factors including how fast the coronavirus pandemic can be brought under control.

Businesses that experience lower than expected revenue and those losing their wage employment will be forced to reduce household expenditure.³ With lower demand, businesses may be forced to cut down on their production and let go of some of their workers.

Jobs losses and lower demand for businesses tend to feed into each other. In Eswatini, a vast majority of businesses can be categorized as micro and small enterprises. One can assume that, in the event of an economic slowdown in the country, owners of such businesses may not have the necessary and sufficient cushions or safety nets to resist the shock.

¹World Economic Outlook Update Reports, October 2019 and 09 January 2020

² Eswatini State of National Address, February 2020

³ Economic Bulletin Quarter 4 of 2019, 24 March 2020

Global recession is looming and will bring about unemployment, drop in public revenues, decline in profitability and a long recovery, among other adverse impacts. It is thus important to look at unemployment along with the informality of certain sectors and the vulnerability of those who have a job but are economically poor.

Evidence has shown that low-income households tend to spend a higher proportion of their income on food and basic family needs, health, and education.

At present, 59% of Swazi are living below the nationally defined poverty line.⁴ Those ones will be even more vulnerable to the economic shocks emanating from COVID-19. Among the poor, levels of deprivations and vulnerabilities vary. For those close to the poverty line, COVID-19 may easily bring them further below the poverty threshold. In Eswatini, close to 29% of the population is living in extreme poverty.

Food insecurity among households is another manifestation of vulnerability. Eswatini as a whole is extremely food insecure and since the 1990's has shifted from being a net exporter of food to Importer.⁵ Food and Agriculture Organisation (FAO) and World Food Programme (WFP) argue that HIV and AIDS in Eswatini is the main underlying drive of food insecurity at household level.⁶ COVID-19 pandemic has potential to worsen the already worse situation whereby women and rural population will suffer the most.

Besides the above, there are several other dimensions of vulnerability. Globally, many deaths from coronavirus and the severity of the infection are higher among the elderly population. The Eswatini population above 65 years of age represented 3% of the total population in 2018.⁷ In the present circumstances, this group is considered as highly vulnerable.

Another important consideration under the socio-economic impact of the crisis will be the access to health services for people affected, especially for the elderly. COVID-19 is primarily a health crisis and emergency due to the infection rate of the deadly virus.

The health system in Eswatini, as it is the case in

several countries around the globe, is not adequately equipped to respond to a global pandemic of this nature and this magnitude. Moreover, while the population is concentrated in the valleys, 75% of people live in rural areas;⁸ the mountainous terrain of the country makes it difficult for the population to access health facilities.

The coronavirus outbreak is likely to lead to increased inflation due to higher costs of imported goods which, in turn, will have detrimental effects on Eswatini's revenue streams. Anticipated reduced economic activity in the manufacturing sector will result in a fall in profits and thus, a decline in company taxes. Also, reduced economic activity in South Africa will likely lead to a greater than expected fall in the SACU pool, thereby worsening the country's economic stance and significantly reducing Eswatini's share. This will compound strain on the fiscal position and on the country's economic activity.

Poverty, discrimination and human rights are the main causes of exclusion. Poverty, discrimination and human rights are the main causes of exclusion. Eswatini's recent slow growth has manifested in high rates of poverty and inequality in the country. Vulnerable groups often left behind or at risk of being left behind will be more dramatically affected by COVID-19 pandemic. Those groups include Women, Children, Elderly, Youth, Extreme poor and near poor, Persons with Disability, Informal sector workers, Migrants, SMEs/Entrepreneurs, People affected and Infected by HIV, Persons with TB, people in close setting (e.g. Prisons) and rural populations.

⁴ UN Eswatini CCA, February 2020

⁵ Economic Bulletin Quarter 4 of 2019, March 2020

⁶ The State of Food Security in Manzini, Eswatini 2012

⁷ <https://tradingeconomics.com>

⁸ UN Eswatini CCA February 2020

Containment Measures issued by Eswatini authorities

On the 17th of March, the Eswatini Government declared a State of Emergency⁹ for 2 months with cautionary measures to curb infection rates being put in place. These include a cancellation of national events (e.g. Army day, King's Birthday celebration, Good Friday and Easter services); a cancellation of social events (e.g. MTN Bushfire Festival, Intervarsity Games etc.); the closure of schools and tertiary institutions, social gatherings to not exceed 50 people; a travel ban of travellers from high risk countries and a limitation of unnecessary travel within the country, educational program publications; the continued screening and contact tracing etc.¹⁰

Through instructions from His Majesty, the Government has established emergency coordination structures that will implement the COVID-19 national Emergency Plan. These committees include a Cabinet sub-committee, an Emergency Task Force, Regional and Sector Committees. Although these measures are necessary, they adversely affect sectors such as Tourism, Transport and Wholesale & Retail activity in times of gathering restrictions and social distancing. On the other hand, a shift in consumer patterns can be anticipated from expenditure on social activities to increased bulk spending on food and hygiene products and well as increased expenditure on telecommunication and data usage.

Monetary-fiscal financial practices and advice in response to the pandemic	Announced policy measures in response to COVID-19
1. Increased emergency health spending	- E100 million supplementary budget for COVID-19 emergency was approved by Cabinet and Parliament - A portion of the Capital budget of this year will be redirected towards urgently refurbishing hospitals and completing wings of new hospitals
2. Targeted monetary-fiscal measures to protect vulnerable groups and sectors: - Widen social protection and extend social benefits for vulnerable groups - Protect vulnerable economic activities: tax reliefs and VAT tax extensions	- Provisional tax payments: Taxpayers projecting losses will file loss provisional returns, hence no payment will be required. - Decreasing electricity price - Fuel prices will come down during the first week of April 2020 - For old debts, SRA will waive of penalties and interest if principal is cleared by the end of September 2020. - Extension of returns filing deadlines by 3 months before penalties kick-in - The Banks have announced that those individuals and companies that need short term financial support or relief can approach them and each application will be assessed on a risk based approach. - Payment arrangements: Taxpayers facing cash flow problems should provide evidence to be considered for payment arrangements. - Government to compensate public transport for profit loss during the period of partial shut down¹¹
3. Accommodative monetary policy, financial measures to increase liquidity and broad-based fiscal stimulus to ease stress, boost aggregate demand and restore confidence	- The Central Bank has reduced the liquidity requirement for the banks from 25% to 20% giving the banks more liquidity. - The Central Bank has reduced the discount rate with 100 basis points that will reduce the cost of debt with 1%

⁹ The National Emergency Declaration, 17 March 2020

¹⁰ Prime Minister's Statement, COVID-19 Additional Response Measures

¹¹ Minister of Finance COVID-19 Additional Measures, 28 March 2020

Economic Measures enacted by Eswatini authorities

On 23 March 2020, in response to the pandemic, the Minister of Finance announced measures aimed at assisting individuals and businesses suffering from the consequences of COVID-19 economic impact.¹²

Possible Interventions that UN Eswatini may consider sharing with the Government

- It is critical that government initiate reserves of food and essential items such as medicines. It is equally important that measures are put into place for the distribution of such commodities directly to the vulnerable population. Moreover, plans should be developed for distribution through local retailers who will otherwise would experience challenges in procuring such supplies and commodities.
- Establish a fund for direct cash transfers to the neediest in the population. The targeted population could include the poorest, children and women-headed households, and persons living with disabilities. Contingency plans should be made with UN entities such as WFP, financial institutions and MTN, so that people may obtain cash from local bank branches and ATMs.
- Ensure that emergency funds are not diverted from the state budget for social spending. Some degree of budget prioritization may be needed in light of shortfalls in revenue. The Government should consider working closely with the UN, World Bank and other Bretton Woods institutions, and bilateral and multilateral development partners to access funds through various donor funding windows that have been set up as a response to COVID-19.
- The Government shall set up and activate a Resource Mobilization Committee or multilateral/multi-partner trust fund.

¹² Ministry of Finance press statement, 23 March 2020