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Joint Statement by Mr. Inderbinen, Mr. Tanaka, Ms. Kikuchi, and Mr. Makhammadiev on Kingdom of Eswatini (Preliminary) Executive Board Meeting 20/84 July 29, 2020

We thank staff for the informative report and Mr. Mahlinza and Mr. Ismail for their helpful Buff statement. We note that Eswatini faces unprecedented challenges caused by the existing macroeconomic imbalances, an already stretched healthcare system and the pandemic. Therefore, we support the authorities' request for financial assistance under the Rapid Financing Instrument (RFI) in the amount of SDR 78.5 million (100 percent of quota).

Full implementation of medium-term fiscal consolidation is critical to stabilize public debt and help rebuild international reserves. We welcome the authorities' commitment in this regard and note the ambitious size of fiscal adjustment. Given large financing needs, we side with staff in advising the authorities to develop a robust medium-term financing strategy that can support the gradual adjustment path. The strategy should also take into account volatility of SACU revenue and reduce reliance on it. We agree with staff that contingency plans for the prolonged crisis scenario are called for, but note from the LOI that the authorities are already working on this. *Could staff comment on differences in views, if any, on contingency plans?* We take note of the initial steps toward addressing the accumulation of domestic arrears and improving the budget process. The authorities need to build on this and persevere with deep reforms in public financial management, including the reform of procurement system. To attain better social outcomes, cash transfer programs should be better targeted to the poor and those most in need.

We welcome strong governance commitments to ensure efficient use of emergency spending. However, we find it rather unusual that emergency spending will be conducted through an independent agency outside of the central government. *We wonder what the reasons for, and merits of, assigning the NDMA responsibility for COVID-19 related spending are. We would also be interested in staff's opinion on how accordance of the NDMA spending with budgetary principles, including budget unity and comprehensiveness, will be ensured.*

Accommodative monetary policy and liquidity support by the Central Bank of Eswatini is appropriate. On the financial stability side, we encourage the authorities to strengthen prudential supervision of the banking system in the context of rising NPLs and to closely monitor developments in the large non-bank financial sector. To this end, it is important to finalize preparation of the CBE and Financial Stability bills, improve existing supervisory tools and develop new ones.

We urge the authorities to make vigorous efforts to address corruption vulnerabilities, including state capture, red tape and other hurdles for private sector led growth. This would contribute to faster recovery from the crisis and improve the country's image within the international investment community. Supply-side reforms aimed at reducing the cost of electricity and telecommunications, and fostering human capital are essential in the medium term.