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July 27, 2020

**Statement by Mr. Bhalla and Mr. Natarajan on Kingdom of Eswatini
(Preliminary)
Executive Board Meeting
July 29, 2020**

1. We thank the staff for the useful report and Mr. Mahlinza and Mr. Ismail for the informative Buff. Eswatini's economy has been hit hard due to the lockdown measures implemented since mid-March to prevent the propagation of COVID-19 pandemic. To manage the financial difficulties arising due to the economic impact, the authorities have sought emergency financial assistance.
2. The economy is expected to contract by 3.5 percent in 2020 compared to a modest 1.1 percent growth in 2019 and pre-COVID projection of 2.4 percent growth. This is due to the severe disruptions to the supply chains because of the lockdown and weakening external demand. Traditionally important sectors like textiles and sugar processing are adversely affected, depressing the general economic activity.
3. Authorities have taken several fiscal measures to contain the socio-economic impact of the pandemic which include - enhanced health spending, tax relief to businesses and cash transfers. The expenditure is expected to increase from estimated 26.5 percent in 2019 to 28.6 percent in 2020. Fiscal deficit is expected to increase from 5.5 percent in 2019 to 6.4 percent in 2020.
4. We take note of the staff assessment that the economic outlook depends on the ability to undertake medium-term fiscal adjustment plans through measures like reprioritization of spending and debt sustainability. Public debt is expected to increase from 38 percent in 2019 to 47.9 percent in 2020. The debt sustainability analysis points to significant rollover and liquidity risks due to short-term debt which constitutes about 58 percent of domestic debt. *Could the staff comment on the extent of near-term debt sustainability/liquidity risks and any measures considered to mitigate the risk?*
5. Monetary authorities have enhanced liquidity by gradual reduction of policy rate by 250 basis points to 4 percent since March '20, and reduced bank reserve requirements. The

banking sector has adequate capital and liquidity. However, there has been an increase in NPLS and government's domestic arrears. We encourage the authorities to closely monitor the sector. Current account surplus is expected to decrease from 4.2 percent in 2019 to 1 percent in 2020 due to weak external demand. Inflation is expected to rise from 2.6 percent to 4.1 percent during the same period.

6. Considering the need for urgent financial support, we support the staff proposal for assistance under rapid Financing Instrument (RFI).