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July 28, 2020

**Joint Statement by Mr. Psalidopoulos, Mr. Rashkovan, Mr. Voinea, and Ms. Cerami on
Kingdom of Eswatini
(Preliminary)
Executive Board Meeting 20/84
July 29, 2020**

We thank staff for the clear report and Mr. Mahlinza and Mr. Ismail for their helpful Buff. The Covid-19 pandemic has deteriorated the outlook and the fiscal position of the Eswatini's economy and created urgent financing needs. We agree with staff that the country meets the eligibility criteria for the Rapid Financing Instrument and support the authorities' request for an amount equivalent to 100 per cent of quota. We offer the following remarks:

- **The policy response has been timely and comprehensive but further support might be needed.** In addition to stringent containment measures, the authorities have introduced a broad package of economic measures, that rightly focus on strengthening the already pressured health system and expanding services and aid to the most vulnerable. The package includes measures to support businesses and employment mainly through tax and social contributions relief, but consideration could also be given to liquidity measures, including cash transfers and loan guarantees. *How would staff assess the need and space for liquidity measures to support SMEs and jobs?*
- **The central bank should continue to support the currency peg and preserve financial stability.** Monetary and liquidity easing have alleviated the impact of the crisis. However, we note that after the latest cut, the policy rate is now aligned with that of the South Africa Reserve Bank (SARB), whereas staff in the latest Article IV consultation had advised to restore a positive spread with the policy rate set by the SARB, in order to maintain price stability under the peg to the rand. *Does staff confirm their previous recommendation under the current circumstances?*
- **The RFI will help overcome the immediate crisis but steadfast policy action will be needed to restore economic and fiscal sustainability.** The Eswatini's economy was already facing economic and fiscal challenges before the pandemic. To address these challenges bold and decisive fiscal and structural measures are needed. We therefore welcome the authorities' commitment to deliver on fiscal consolidation, and

to continue strengthening public financial management, as well as governance, transparency and accountability standards, including with regard to emergency spending. As the fiscal consolidation plan envisages increases in VAT and in personal income tax, **we stress the importance of ensuring an adequate level of progressivity of the tax system**, given the high level of inequality and poverty. Similarly, the authorities' intention not to introduce measures that would reduce corporate income tax revenue is welcome but vague. *Therefore, we would appreciate staff's comments on the structure of the planned fiscal consolidation. We would also ask staff to detail the structure and accumulation of the large stock of arrears, as we note that most of the IMF financing in 2020 will be used to pay for those arrears.*

- **We also support staff's recommendation to prepare contingency plans in case of a more severe crisis.** As staff recognizes the potential need for multi-year financial support from IFI to support the authorities' gradual adjustment path, *we wonder whether the authorities have considered a possible UCT program, when there will be more clarity about their financing needs.* While we would welcome such a successor program, we note with concern that the Letter of Intent on the RFI is disproportionately long and detailed in authorities' commitments, resembling implicit conditionalities typical of a standard program (relative to most other RFI beneficiaries). It is our position that emergency financing should remain unconditional, while explicit conditionalities should be introduced in a possible successor program.