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July 28, 2020

**Statement by Mr. Mozhin and Mr. Palei on Kingdom of Eswatini
(Preliminary)
Executive Board Meeting 20/84
July 29, 2020**

1. We thank staff for the concise report and Mr. Mahlinza and Mr. Ismail for highlighting the authorities' short-term response to the COVID-19 challenges as well as their medium-term economic strategy. We support the authorities' request for purchase under the RFI in the amount of SDR78.5 million (100 percent of quota).
2. In January the Board discussed formidable challenges in implementing lasting reforms in the country. The fiscal framework was weak with the public debt doubling over 2015-2017. The weak performance had to be partially attributed to the declining revenues from the Southern African Customs Union (SACU), and the authorities intended to compensate the shortfalls through higher excises on alcohol, tobacco, and fuel.
3. The COVID-19 economic crisis aggravates the deficiencies in the fiscal framework. The authorities are facing a potent combination of global, regional, and domestic shocks. In the short run, it is essential to focus on protecting health of the population and mitigating the structural damage to the economy. We agree with the authorities and staff that the projected widening of the fiscal deficit is advisable and support the Fund's financing of the budget. At the same time, we question the possibility to subsequently implement large fiscal consolidation exceeding 6 percent of GDP over three years. Given that the fiscal consolidation seems to be overly ambitious, we join other Directors in calling on the authorities to devise a set of fiscal contingency measures with an eye on promoting growth in the economy.
4. We welcome the authorities' focus on strengthening governance and transparency in the fiscal area. These measures are currently narrowly focused on COVID-related

expenditures. While such an attention is important, the authorities should aim at expanding the same principles, monitoring instruments and the accountability framework to the broader budget. Indeed, an evaluation of fiscal transparency by the Fund, the PIMA exercise, and the assessment of the role of the SOEs could be helpful in building up on the emergency response to COVID-19.

5. Another policy priority area in the Kingdom of Eswatini is the strengthening of the social safety net. The headcount poverty ratio and Gini income inequality are much higher in the country than the LMIC average. In response to COVID-19, many countries are quickly expanding their social safety nets, and there is an abundance of both errors and positive experience. We invite staff to digest this experience and to offer the Fund's members a well-thought-through advice on the best practices. The Fund's knowledge exchange, in conjunction with the experience of the World Bank, should play a prominent role in this area of reforms. In this respect, we believe that the Board should reflect on the recommendations in the recent IEO report as soon as possible.

6. Finally, as we had suggested in January, the authorities need to focus on the ease of doing business in the country and, preferably, devise an elaborate reform plan, in cooperation with the World Bank.

With these remarks, we wish the Kingdom of Eswatini success in dealing with the COVID-19 crisis.