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July 28, 2020

Statement by Mr. Beblawi and Ms. Al-Riffai on Kingdom of Eswatini
(Preliminary)
Executive Board Meeting 20/84
July 29, 2020

We thank staff for their report and Messr. Mahlinza and Ismail for their informative Buff statement. As with the rest of the world, the COVID-19 crisis is negatively impacting the Kingdom of Eswatini, further exacerbating the already existing socio-economic challenges. The crisis has reduced external demand, disrupted supply chains, significantly curtailed economic activity, and generated a budget financing gap of over 5 percent of GDP. We commend the authorities on their swift response to contain and mitigate the impact of the crisis through a package of monetary, fiscal, and financial measures and support their request to purchase the equivalent of 100 percent of their quota under the Rapid Financing Instrument (RFI). We agree with staff's appraisal and highlight the following for emphasis.

Limited fiscal space due to years of expansionary fiscal policy, falling SACU revenue, and depressed growth due to COVID are constraining the government's ability to address COVID-related spending. Nonetheless, the authorities have appropriately proceeded with a fiscal stimulus package of 1.5 percent of GDP aimed at increasing health spending, food assistance programs, and social protection transfers, as well as accelerating the delivery of water and sanitation facilities to the most vulnerable. Though the existing cash transfer programs offer some relief, they are not adequately targeted and do not provide sufficient coverage to all the vulnerable. We, therefore, are pleased to note that the authorities, with the help of development partners, are working to enhance the existing cash transfer program. We note with concern the accumulation of domestic arrears which have partly financed the elevated fiscal deficit and are reassured that the authorities have set up a transparent arrear clearance strategy. To that end, the authorities state that they've contracted a commercial loan that is expected to partly pay for past arrears. *Can staff shed light on the details of that loan, specifically, how much and over how long it is expected to reduce these outstanding arrears*? Moving forward, we positively note that the authorities plan not to incur new domestic arrears.

Given Eswatini's limited fiscal space, we see merit in staff's advice to prepare a contingency plan should the COVID shock worsen and more spending become needed. To that end, we positively note that the authorities intend to do so through reductions in non-priority expenditures. We also welcome the authorities' plan to proceed with much needed fiscal consolidation over the medium term especially since the current maturity and composition of public debt are intensifying rollover, liquidity, as well as foreign exchange risks. The fiscal consolidation plan, recently approved by cabinet and set to commence in FY21/22, aims to restore debt sustainability while protecting the most vulnerable through a combination of spending and revenue measures. *We wonder if there are any plans for Technical Assistance (TA) in debt management*. We welcome staff's TA with the authorities to strengthen the Public Financial Management (PFM) framework and institutions, we are pleased to note the authorities' plans to accelerate PFM reforms, including the implementation of the 2017 PFM law and public procurement. We look forward to Cabinet's approval of the submitted regulations by the end of July 2020, and its eventual ratification by Parliament.

The banking sector started the COVID crisis liquid and with substantial buffers. However, NPLs have been rising as a result of the government's long-standing domestic arrears and slower economic activity. As with other countries, the COVID crisis is expected to negatively impact the firms' and households' balance sheets as well as the banks' asset quality, further stunting growth prospects in the absence of interventions. The Non-Bank Financial Institutions (NBFI), which are large and closely linked with the banks and the government, are sources of risk to the financial sector and the economy. We, therefore, see merit in staff's advice to enhance oversight of the major NBFIs and prioritize updating the sector's legal framework through the passage of pending legislation. We commend the authorities on their commitment to maintaining banks' loan classification and provisioning standards and their commitment to preserving financial stability.