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April 28, 2023

**Statement by Mr. Subramanian and Mr. Jain on Kingdom of Eswatini
(Preliminary)
Executive Board Meeting
May 3, 2023**

1. We thank staff for the comprehensive reports on Eswatini. We also thank Mr. Nakunyada, Ms. Vumendlini, and Mr. Mengistu for the buff statement.
2. According to staff's assessment, the near-term outlook for Eswatini's economy is positive, though the growth is projected to moderate from 3.6 per cent in 2022 to 3.2 per cent in 2023. While the economy is expected to be supported by revenue transfers from Southern African Customs Union (SACU) leading to an increase in government expenditure, the potential for further civil unrest clouds near-term prospects. *We, however, note that growth rates provided in the report for period 2022-2028 are significantly different from projections published in April 2023 World Economic Outlook. Staff may like to explain the reasons.*
3. We note that the outcomes of the Fiscal Adjustment Plan (FAP) - launched in 2020 aiming to achieve cumulative expenditure savings of 4.2 percent of GDP over three years - have been mixed. In our view, accumulation of payment arrears to public enterprises and private sector suppliers is a worrisome development. Various measures suggested by staff to reboot the FAP are noteworthy and essential for medium-term macro-fiscal sustainability, stronger economic management, and reduced vulnerability. While Fund's capacity development efforts in improving public financial management are well appreciated, these efforts need to be accelerated to address gaps in other critical areas. We stress that the authorities should continue to strengthen FAP to ensure fiscal sustainability and rebuild external buffers which are also essential to boost the credibility of the currency peg.

4. In our view, the fiscal deficit estimated at 5 per cent for FY2022-23 is too far from the FAP's target set for FY2023-24. Staff projects a sharp decline in fiscal deficit to 0.3 per cent of GDP in 2023-24 on account of higher SACU revenues. The report also states that the authorities plan to maintain the overall fiscal deficit at about 2 per cent of GDP over the next two fiscal years. *Does this imply that the authorities are less sanguine than staff's assessment on country's fiscal outlook? Further, the economy of Eswatini is highly integrated with South Africa. In our view, therefore, a sharp fall in South Africa's GDP growth projected in 2023 may pose downside risks not only for Eswatini's growth performance but also fiscal performance. In this regard, Staff's views are welcome.*

5. We are concerned that the overall risk of sovereign distress is high. Weak domestic institutions, absence of any significant policy adjustment and limited absorptive capacity of domestic markets will increase roll-over risks for the government. The Fund should continue to extend support for country's medium-term capacity development strategy which aims to strengthen various areas of domestic policy frameworks.

6. The nonbank financial sector needs to be strengthened by addressing oversight and regulatory gaps. As Non-bank financial institutions have played an important role in promoting financial inclusion in the economy, their viability is key to mitigate potential risks. *Staff may like to elaborate: Why the draft Financial Services Regulatory Authority (FSRA) Bill could not be passed yet and when the proposed merger of FSRA with the CBE will be effective?*

7. We also note the development challenges relating to high unemployment, inequality, and poverty. The authorities need to accord high priority on social spending to reduce poverty and inequality. In our view, several measures suggested by staff would be helpful for the authorities in providing well targeted social protection to the most vulnerable in the country.

8. Finally, we wish the authorities and people of Eswatini all the best in their future endeavors.