INTERNATIONAL MONETARY FUND

IMF Country Report No. 20/229

THE KINGDOM OF ESWATINI

July 2020

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE KINGDOM OF ESWATINI

In the context of the Request for Purchase Under the Rapid Financing Instrument (RFI), the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 29, following discussions that ended on July 8, with the officials of the Kingdom of Eswatini on economic developments and policies underpinning the IMF arrangement under the Rapid Facility Instrument. Based on information available at the time of these discussions, the staff report was completed on July 20.
- A **Statement by the Executive Director** for the Kingdom of Eswatini.

Letter of Intent sent to the IMF by the authorities of the Kingdom of Eswatini*

*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR20/274

IMF Executive Board Approves US$110.4 Million in Emergency Support to The Kingdom of Eswatini to Address The COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- The COVID-19 pandemic has magnified Eswatini's existing economic and social challenges, leading to a sharp decline in growth and large financing needs.
- The IMF approved US$110.4 million in emergency financial assistance under the Rapid Financing Instrument to support the authorities' efforts in addressing the severe economic impact of the COVID-19 pandemic.
- The immediate priority is to support public health, vulnerable groups and businesses.
- Once the impact of the pandemic subsides, it is critical to implement the authorities' fiscal consolidation plan and structural and governance reforms to ensure debt sustainability and achieve a fast and inclusive recovery.

WASHINGTON, DC – July 29, 2020: The Executive Board of the International Monetary Fund (IMF) approved the Kingdom of Eswatini's request for emergency financial assistance of SDR78.5 million (about US$110.4 million, 100 percent of quota) under the Rapid Financing Instrument (RFI) to meet the urgent balance of payment needs stemming from the COVID-19 pandemic.

The pandemic is severely affecting Eswatini's economy at a time when the country is already facing deep economic and social challenges. Before the pandemic, growth was subdued, the fiscal deficit and public debt were rising, and international reserves declining, amid elevated unemployment and widespread poverty. The pandemic has resulted in a sharp decline in growth and generated large financing needs, magnifying these challenges. The authorities have swiftly instituted a response package to contain the spread of the pandemic and mitigate its impact on vulnerable households and businesses.

The IMF emergency financial support will help to address urgent balance of payments needs triggered by the pandemic and catalyze additional financing from other international financial institutions. IMF support will complement the authorities' policy response to the pandemic, and their post-COVID-19 fiscal consolidation and structural reform plans to ensure economic stability and promote growth that benefits all Emaswati.

Following the Executive Board's discussion on Eswatini, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, issued the following statement:

"The authorities' immediate actions to respond to the COVID-19 pandemic have been timely and appropriate. The FY20/21 supplementary budget reprioritizes public spending towards health care and support to vulnerable groups to mitigate the impact of the crisis on households and businesses. The Central Bank of Eswatini has also taken timely action. It has lowered the policy rate, ensured supportive liquidity conditions, and strengthened its liquidity management framework and monitoring and regulatory standards to safeguard financial stability.

“The authorities’ commitment to transparently use and report all emergency spending—including through the publication of pandemic-related spending execution, awarded procurement contracts, and independent audit of such spending—is crucial to ensure that emergency funds are used for their intended purposes. Accelerating public financial management (PFM) reforms, including by applying the implementation guidelines for the 2017 PFM law and strengthening public procurement process, will be key towards improved fiscal transparency and governance.

“Once the pandemic subsides, steadfast implementation of the authorities’ multi-year fiscal consolidation strategy and structural reform agenda will be critical to ensure debt sustainability and to support a durable and inclusive recovery and stronger governance.”

More information

IMF Lending Tracker (emergency financing request approved by the IMF Executive Board)
https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker

IMF Executive Board calendar
https://www.imf.org/external/NP/SEC/bc/eng/index.aspx

INTERNATIONAL MONETARY FUND

KINGDOM OF ESWATINI

July 20, 2020

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT

EXECUTIVE SUMMARY

Context. The COVID-19 pandemic is having a severe impact on Eswatini's economy at a time when the country is already facing deep economic challenges, and the government has begun fiscal consolidation efforts. A national lockdown to contain the spread of the virus, disruptions in supply chains, and lower external demand for key exports are curtailing economic activity. While the authorities' policy response has been timely and proactive, the economic shock and containment policies are triggering a severe recession with significant social costs, and have created urgent balance of payments needs. The pandemic is unfolding in a context of high prevalence of HIV/AIDS and a stretched health care system, which increase Eswatini's vulnerability.

Request for Fund support. The authorities are seeking financial assistance under the Rapid Financing Instrument (RFI) for SDR 78.5 million (100 percent of quota), to address the external financing needs arising from the economic impact of the pandemic. They are also requesting the RFI to be disbursed as direct budget support to back fiscal policies addressing external financing needs. Staff assess that Eswatini meets the qualification criteria and other applicable requirements and supports the request. IMF engagement is expected to play a catalytic role in securing additional financing from Eswatini's development partners, and the authorities are seeking financing from the World Bank and African Development Bank (AfDB) to cover remaining financing needs.

Policy discussions. The authorities' immediate priority is to cope with the impact of the pandemic while preserving macroeconomic stability. They have increased health spending, and introduced measures to protect the most vulnerable members of society and support the private sector. In the context of the currency peg, the central bank has reduced the policy rate and increased the provision of liquidity. Beyond the short-term objectives, the authorities remain committed to implement their medium-term fiscal consolidation plan to stabilize public debt and restore external buffers. Moreover, they are pressing ahead with structural reforms to strengthen governance, transparency and accountability, reduce vulnerabilities to state-capture and other forms of corruption, and support stronger growth. The authorities have committed to publish bi-monthly reports on emergency-response spending, procurement contracts, and to undertake and publish the result of an independent audit of crisis-mitigation spending and procurement processes. They will also accelerate public financial management (PFM) reforms, including the implementation of the 2017 PFM law and public procurement.

Approved By
David Robinson (AFR) and Bjoern Rother (SPR)

An IMF team comprising Mr. G. Palomba (Head), Ms. P. Ganum, and Messrs. A. Habib and V. Thakoor (all AFR), and Mr. K. Eckhold (MCM) held discussions remotely with Finance Minister N. Rijkenberg, Central Bank of Eswatini Governor S. Sithole, Minister of Public Services C. Ntshangase and other senior government officials on financing under the Rapid Financing Instrument during July 7-8, 2020. Messrs. D. Robinson (AFR), D. Mahlinza, and M. Ismail (both OED) also participated in the policy discussions. Ms. Z. Wang and Mr. H. Alsokhebr contributed to this report.

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CONTEXT

1. Prior to the COVID-19 pandemic, Eswatini's economy faced severe economic and social challenges, and the government had begun fiscal consolidation efforts. Years of expansionary budget spending policies and declining Southern African Customs Union (SACU) revenues had widened the fiscal deficit, resulting in rising public debt, and accumulation of domestic arrears. The current account surplus had narrowed and international reserves declined. Despite expansionary policies, decelerating private investment and declining external competitiveness resulted in subdued growth. Weak governance, vulnerabilities to state capture and other forms of corruption, and a difficult business environment compound to reduce Eswatini's attractiveness as an investment destination. With low growth, the country's socio-economic challenges have remained entrenched with 40 percent of the population estimated to be living in poverty, and high inequality and unemployment.[1] In FY19/20, the authorities had taken measures of about 2⅓ percent of GDP as a first step towards addressing the underlying fiscal and external imbalances.

2. The pandemic is hitting Eswatini hard, exacerbating its vulnerabilities and creating immediate financing needs. The first COVID-19 cases were detected in early March and cases have been rising quickly. The country's proximity to South Africa—the most impacted country in sub-Saharan Africa—raises further concerns that the virus could propagate rapidly given Eswatini's high HIV/AIDS prevalence and an already pressured health care system. The government has declared a national emergency and imposed a partial lockdown since mid-March, which includes travel bans and closure of non-essential activities. These measures, combined with lower external demand, are having a pronounced effect on the economy, with declining GDP, deteriorating external balances, and a larger fiscal deficit.

3. To cushion the impact of the pandemic, the authorities have requested emergency financial assistance through the Rapid Financing Instrument (RFI). The authorities' immediate priority is to contain the impact on public health and limit social, economic, and financial dislocation. To finance these efforts, they are seeking emergency financial assistance to help address the immediate needs. Moreover, Fund engagement is expected to catalyze additional assistance from Eswatini's development partners, including the World Bank and the African Development Bank.

IMPACT OF COVID-19, OUTLOOK AND RISKS

A. Macroeconomic Developments Before the COVID-19 Pandemic

4. Ahead of the COVID-19 pandemic, the economy was decelerating amid persistent fiscal and external imbalances. GDP growth is expected to have slowed to about 1 percent in 2019 as agriculture activity stabilized after a post-drought rebound, and the government implemented

[1] On January 31, 2020, the Executive Board completed the 2019 Article IV consultation https://www.imf.org/en/Publications/CR/Issues/2020/02/10/Kingdom-of-Eswatini-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-49037.

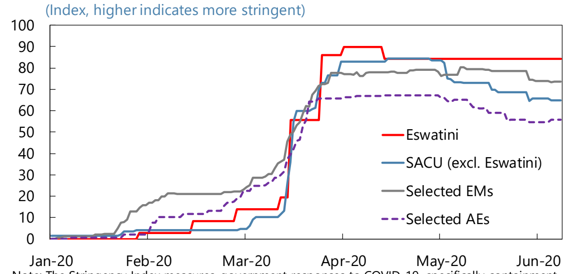
wage and employment containment policies. Headline inflation averaged 2.6 percent in 2019, reflecting the weakening economy and a freeze of electricity and water tariffs. Despite some success in containing the wage bill, the fiscal deficit remained elevated, translating into further domestic arrears and public debt build-up. On the positive side, a temporary surge in manufacturing exports and weak domestic demand contributed to improve the external current account. However, increased portfolio investment and currency and deposits outflows offset improvements in the current account and, by end-2019 international reserves remained below 3 months of imports. While the banking sector remained broadly sound, with the weak economy, private sector credit growth slowed down and banks' asset quality deteriorated.

B. Economic Impact of COVID-19

5. The authorities' immediate response to contain the social and economic impact of the crisis has been multi-pronged (Box 1). To reduce the spread of the virus, the authorities have implemented a partial lockdown across the country and authorized additional health spending to improve the capacity of the health care system. To contain the impact on vulnerable households, they ramped up food assistance programs, increased social protection transfers, and accelerated the delivery of water and sanitation facilities to the most vulnerable with a cost of about 1½ percent of GDP.[2] They have also implemented policies to mitigate the effects on firms' cash flow, through temporary tax payment deferrals. Meanwhile, in the context of the currency peg, the CBE has progressively reduced the policy rate by 250 basis points, in line with the South Africa Reserve Bank (SARB), and increased liquidity provision.

Policy Stringency Index

(Index, higher indicates more stringent)



Note: The Stringency Index measures government responses to COVID-19, specifically containment and closure policies including school closures and restrictions in movement. The index should not be interpreted as scoring the appropriateness or effectiveness of a country's response. A higher index value does not mean a better or worse response. SACU (excl. Eswatini) = Botswana, Lesotho, Namibia, and South Africa. Selected EMs = Brazil, China, India, Indonesia, Mexico, Russia, and Turkey. Selected AEs = Germany, Japan, United Kingdom, and United States. June-20 is as of June 11, 2020
Source: Oxford COVID-19 Government Response Tracker.

Eswatini: COVID-19 Fiscal Response Package

	Emalangeni (Millions)	Percent of GDP
Health and Other Frontline Services	246	0.4
Food Distribution Programs	335	0.5
Water and Sanitation Services (vulnerable groups)	121	0.2
Urban Human Settlements	156	0.2
Commerce Industry and Trade	105	0.2
Education and Social Protection Services	37.4	0.1
Total	1000	1.5

Source: Eswatini authorities and IMF staff calculations.

[2] The COVID-19 social assistance response utilizes an existing disaster relief program and its targeting mechanism. The program covers about 150,000 individuals (as of FY 2018/19). Beneficiaries are identified based on proxies for vulnerabilities, including income level and source, household size, and number of meals per day. The authorities have been engaging with development partners on enhancing the existing cash transfer programs (largely untargeted old-age grants), including piloting a program for poor children. In the 2019 Article IV consultation, staff concluded that existing cash transfer programs, while offering some relief, are not adequately targeted and offer only partial coverage of the poorest segments of the population (IMF Country Report 20/41).

Box 1. Authorities' Response to the COVID-19 Pandemic

The government's immediate response has focused on containing the spread of the disease and ramping up the capacity of the health system. In mid-March, the government declared a national state of emergency and implemented a partial lockdown. The latter included: suspension of all international passenger flights, establishment of isolation facilities, quarantine of at-risk persons, cancellation of national events, restrictions on social gatherings and movement across cities, closure of schools and universities and social distancing. The authorities have also increased collaboration with development partners to accelerate the procurement of medicine, equipment, and mobilize financing. Actions have been coordinated by an inter-ministerial committee and have been communicated in daily press briefings. The National Disaster Management Agency (NDMA), an extra-budgetary entity, will execute crisis-related spending under a revamped monitoring and reporting framework.

Moreover, the authorities have taken fiscal, monetary, and financial measures to contain the economic impact of the pandemic and support jobs and businesses.

Fiscal measures

- Additional spending of E100 million (0.14 percent of GDP) in FY19/20 to improve crisis preparedness.
- In FY20/21, additional E1 billion (1½ percent of GDP) spending on drugs, health equipment and other health spending, and improved access to food, water, and sanitation to vulnerable households.
- Increases in electricity and water tariffs have been postponed.
- Tax relief to businesses, granting the possibility of filing of provisional loss returns with no tax payment; extending by 3 months the deadline to file tax return (for the first three quarters of the fiscal year); and stepping up payment arrangements for taxpayers facing cash flow problems.
- About E90 million (0.13 percent of GDP) in tax refunds have been budgeted for SMEs that are tax compliant, retain employees, and continue to pay them during the pandemic.

Monetary and financial measures

- The policy rate has been reduced by 250 basis points to 4 percent; the liquidity requirement reduced (from 25 to 20 percent for commercial banks; from 22 to 18 percent for development banks); and reserve requirements lowered (from 6 to 5 percent of deposits).
- The CBE has encouraged banks to restructure loans and use payment holidays for affected clients. It has encouraged banks with excess capital to utilize these buffers to lend, while discouraging dividend payments, which will now require CBE approval.
- The mobile money transaction limits have been raised, and both banks and mobile network operators have been encouraged to use electronic payments.
- To enhance monitoring, the CBE has required banks to report daily on liquidity and deposits, and report quarterly stress test results.
- The CBE has permitted banks to suspend provisioning rules and maintain same risk weights on COVID-19 affected loans for six months, while advising that credit risk for loans receiving payment holidays should not automatically be increased.

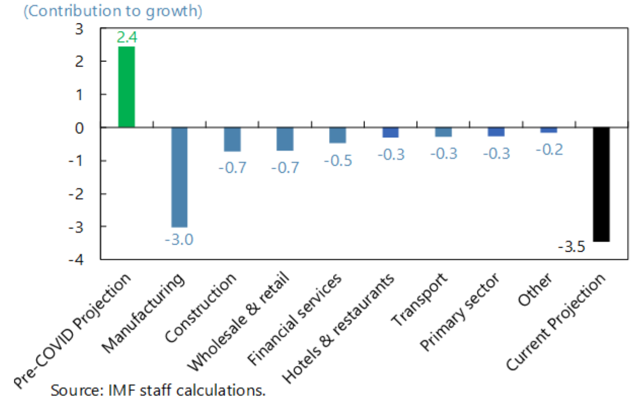
Jobs and businesses

- The government has suspended social contribution payments and wage negotiations in the private sector to preserve jobs. Several private enterprises have reduced wages.
- Consideration is being given to providing short-lived cash transfers to SMEs, laid off workers, and covering a portion of salary for vulnerable businesses.

6. Containment measures and weak external demand will trigger a deep economic recession in 2020 and have created urgent balance of payments needs and affected the budget.

- The economy is expected to contract by 3.5 percent in 2020, 6 percentage points below the pre-pandemic baseline. The lockdown in place since mid-March will negatively affect domestic demand, particularly manufacturing, construction, and trade sectors. Moreover, weak global demand, disruptions in supply chains, and border closures will adversely affect traditionally resilient sectors such as sugar processing and textiles and beverages, which account for 80 percent of the country's goods exports, further depressing economic activity. A longer lockdown, or slower than expected recovery in external demand, would generate an even deeper recession. Possible delays in arrears clearance planned for the year would further weigh on growth. Inflation is expected to increase to 4.1 percent in 2020 as temporary inflation pressures from the depreciation of the exchange rate and rent increases are only partially offset by falling oil prices and economic slack.

Revisions to 2020 Real GDP Growth Projections
(Contribution to growth)



Source: IMF staff calculations.
Note: Blue bars show the revisions in contribution to GDP growth of each sector.

- The COVID-19 pandemic has weakened the external position and created additional balance of payments (BOP) needs of about 8½ percent of GDP (US$369 million) compared to the pre-COVID baseline (February 2020).[3] The current account surplus is projected to narrow by about 2¾ percent of GDP (US$ 135 million) compared to the pre-COVID projections as lower exports of goods and services, depressed returns on investments abroad, and low remittances are only partly offset by a fall in imports due to sluggish domestic demand and lower oil prices. The financial account will deteriorate (about 6 percent of GDP, US$234 million) largely due to a temporary halt in foreign investments inflows, increased portfolio outflows, and a decline in government's external financing

Eswatini. Balance of Payments: COVID-19 Impact
(In millions of US dollars)

	2020 Pre-COVID	2020 Post-COVID	Change
Current account	**174.8**	**39.5**	**-135.2**
(in percent of GDP)	3.7	1.0	-2.7
o/w Trade balance	114.8	15.3	-99.5
Capital account and Financial account 1/	**31.2**	**-202.5**	**-233.7**
(in percent of GDP)	0.7	-5.3	-5.9
o/w Foreign direct investment 2/	-36.0	-6.0	30.0
Portfolio investment	94.8	137.4	42.6
Financial derivatives	9.9	8.6	-1.3
Other investment	-101.9	61.4	163.3
BOP financing needs 3/	**205.9**	**-162.9**	**-368.9**
(In percent of GDP)	4.3	-4.2	-8.6
Potential financing	**-205.9**	**162.9**	**368.9**
IMF (RFI)	...	107.3	107.3
Multilateral financing (WB and AFDB)	...	100.0	100.0
International reserves (- = increase)	-205.9	-44.3	161.6

Source: Fund staff estimates.
1/ Capital account minus financial account balance.
2/ Positive numbers for FDI, portfolio investment, financial derivatives, and other investment indicate net outflows.
3/ Negative numbers indicate a financing gap.

[3] The pre-COVID baseline is an updated version of the 2019 Article IV Staff Report baseline (February 2020).

for capital projects.[4] The financing gap for 2020 would be about US$163 million. With international reserve coverage having already fallen in 2019,[5] even accounting for additional funding envisaged from Eswatini's development partners, reserves in 2020 are expected to remain slightly below the lower bound of the IMF's reserve adequacy metric; although at around 170 percent of reserve money, they would still exceed the operational floor monitored by the CBE in the context of the currency peg.

- The FY20/21 budget financing needs are projected to increase by about 4.4 percent of GDP (US$168 million) compared to the pre-COVID baseline (February 2020). Some spending reductions, particularly in wages, government's operations and capital outlays, will make room for the additional expenditures related to the pandemic (about 1½ percent of GDP) to keep overall spending within the original budget ceiling. However, the fiscal deficit is expected to widen by 3 percent of GDP on the back of a sharp decline in domestic non-SACU revenue and lower GDP. The higher deficit, combined with lower external project financing, will substantially increase the budget financing gap in 2020 to about US$207 million, and gross financing needs will rise to about 25.8 percent of GDP.

Eswatini. Fiscal Accounts: COVID-19 Impact FY20/21

	Pre-COVID	Post-COVID	Pre-COVID	Post-COVID
	(In millions of Emalangeni)		(In percent of GDP)	
Revenue	**20,462**	**18,632**	**28.0**	**27.2**
o/w Domestic (non SACU) revenue	12,113	10,284	16.6	15.0
SACU revenue	8,348	8,348	11.4	12.2
Expenditure	**24,523**	**24,562**	**33.5**	**35.9**
Recurrent	18,528	19,577	25.3	28.6
o/w Compensation of employees	8,272	8,133	11.3	11.9
Goods and services	3,108	3,112	4.2	4.5
Transfers	5,542	6,804	7.6	9.9
of which COVID-19 related	-	1,000	...	1.5
Capital	5,995	4,985	8.2	7.3
Overall balance	**-4062**	**-5930**	**-5.6**	**-8.7**
(In millions of US dollars)	-232	-339	-232	-339
Financing gap	**681**	**3627**	**0.9**	**2.7**
(In millions of US dollars)	38.9	207.3	38.9	107.3
Additional gap		**2946**		
(In millions of US dollars)		168		
	(In millions of US dollars)			
Potential financing	**38.9**	**207.3**		
IMF (RFI)	...	107.3		
Multilateral financing (WB and AFDB	...	100.0		
Memorandum:				
Nominal GDP (US$ millions)	4,740	3,848		

Source: Fund staff estimates.

7. The impact of the pandemic on the financial sector will roll out over time and is likely to accentuate existing macro-financial vulnerabilities. The banking sector entered this crisis with substantial capital buffers and ample liquidity. However, NPLs were rising, reflecting government's domestic arrears and economic slack, and significant disparities existed across banks in terms of asset quality and capitalization. Moreover, banks' funding largely relies on wholesale deposits, and lending is heavily concentrated on highly-leveraged salaried workers and on sectors such as construction, tourism, and manufacturing, that are hit hard by the pandemic. As the recession puts pressure on both firms' and households' balance sheets, banks' asset quality will likely worsen, leading to substantial credit losses and prompting banks to deleverage, creating adverse feedback

[4] The decline in government's project financing reflects the FY20/21 budget strategy to bring to completion existing projects for which the external financing component has been exhausted.

[5] For an assessment of reserve adequacy, see IMF Country Report 20/41. Using 2020 projections, the IMF's metric would suggest that an adequate level of international reserves would be in the range of 3.3-5 months of imports.

loops on growth. The large non-bank financial sector is closely intertwined with banks and the government and is a conduit of risks. NBFIs own a large share of banks' deposits and hold over 50 percent of government's domestic debt, and are exposed to potentially severe impact on returns from their domestic and Common Monetary Area (CMA) investments. While any impact on asset returns will likely be temporary, given the NBFIs' relative size, any rebalancing in their portfolio could put further pressure on domestic banks and the government's financing position.

C. Medium-Term Outlook and Risks

8. **Beyond 2020, the economic outlook remains fragile and highly dependent on continued fiscal adjustment and the implementation of structural reforms.** Assuming a gradual global recovery, including in South Africa, and the lifting of domestic containment measures in the second half of 2020, growth is expected to rebound to 1.4 percent in 2021. Growth will remain subdued in the following years as the authorities implement their fiscal consolidation plans (6½ percent of GDP over 2021-23), before stabilizing at around 2 percent over the medium term. Public debt remains sustainable, peaking at around 52½ percent of GDP in FY23/24, before starting to decline slowly. However, government's annual gross financing needs would remain high averaging about 19.4 percent of GDP, leading to continued financing vulnerabilities. Moreover, the slowdown in South Africa will adversely affect future SACU revenue, particularly in FY22/23, thus generating additional budget and external financing pressures.[6] On the positive side, fiscal adjustment will contain domestic demand and contribute to improve the current account balance to restore international reserve buffers. Medium-term growth prospects could improve above this baseline if successful implementation of structural reforms alleviate constraints to private investment and growth.[7]

Eswatini: Baseline Medium-Term Outlook and Government's Policies
(Percent of GDP, unless otherwise specified)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
Real GDP growth (percent change)	2.0	2.4	1.1	-3.5	1.4	0.8	1.0	1.9	2.1
Credit to the private sector (percent change)	3.9	5.1	4.6	-0.4	8.4	6.7	6.2	7.3	7.6
Fiscal Balance 1/	-7.0	-9.9	-7.3	-8.7	-6.4	-6.2	-2.9	-3.1	-3.1
Revenue	28.0	24.8	26.5	27.2	26.4	24.8	26.0	26.0	26.0
Expenditure	35.0	34.7	33.8	35.9	34.5	35.0	35.4	35.7	35.7
Adjustment measures (cumulative)	0.0	0.0	0.0	0.0	-1.7	-4.0	-6.5	-6.5	-6.5
Primary Fiscal Balance	-5.9	-8.6	-5.5	-6.4	-3.5	-3.0	0.6	0.6	0.6
Gross Financing Needs	17.6	22.1	20.5	25.8	20.5	18.7	16.7	17.9	16.8
Public debt, gross	25.1	33.8	38.0	47.9	49.9	52.1	52.6	52.0	51.4
o/w Stock of Arrears	4.0	7.1	8.1	5.0	7.3	9.0	8.5	7.9	7.4
Current account balance	6.2	1.3	4.2	1.0	5.7	4.4	6.0	6.0	5.4
Gross international reserves (months of imports)	3.1	2.7	2.5	3.2	4.1	4.5	5.0	5.3	5.9
Gross international reserves (percent of reserve money)	244	186	137	166	201	208	234	246	254

Sources: Staff estimates.
1/ Fiscal year data (April 1 - March 31).

[6] Eswatini's common external tariff revenues for the current year are likely to be lower than assigned before the crisis. Under the SACU revenue sharing formula, FY20/21 revenue distributed in excess of actual outturns will be clawed back in FY22/23.

[7] For an analysis of the growth impact of structural reforms in Eswatini, see IMF Country Report 20/41.

9. The outlook is subject to significant uncertainty and downside risks. A deeper and prolonged duration of the pandemic could further deteriorate the outlook and create additional external and budget financing pressures. Even under current assumptions, the outlook critically depends on the government's ability to deliver on its medium-term fiscal adjustment plans. If adjustment plans are not fully implemented, domestic arrears and public debt would rise further, and financing pressures would exacerbate, adversely affecting growth and undermining macroeconomic stability. Moreover, international reserves would be further pressured, potentially undermining confidence in the peg. External shocks could exacerbate these vulnerabilities. Lower external demand, particularly a prolonged recession in South Africa, would negatively affect the economic recovery and reduce SACU revenue, weakening the fiscal and external positions. On the upside, lower oil prices for longer could support the economic recovery by reducing energy costs and the import bill, and progress with structural reforms could trigger stronger medium-term growth outcomes.[8]

POLICY DISCUSSIONS

Discussions focused on: (i) supporting the government's immediate priorities to limit the impact of the pandemic, while protecting the most vulnerable, and preserving economic stability and the peg; (ii) ensuring medium-term fiscal sustainability and strengthening external buffers through continued fiscal consolidation; and (iii) implementing governance and structural reforms to enhance fiscal transparency and bolster inclusive and sustainable growth. The authorities remain committed to deliver on their medium-term fiscal consolidation agenda to stabilize public debt, and to implement their strategy to strengthen fiscal transparency and support inclusive and strong growth.

A. Managing the Pandemic and Protecting Social and Macroeconomic Stability

10. With limited fiscal space, the authorities intend to contain the adverse effect of the pandemic on this year's fiscal deficit by reprioritizing spending. Cabinet has approved a supplementary budget that preserves the original overall budget spending ceiling and creates fiscal space to cover pandemic-related spending, through containment of wage and operating expenditure and lower capital outlays.[9] However, with automatic stabilizers on the revenue side operating fully (revenue loss about 2½ percent of GDP), and the lower GDP, they expect the FY20/21 fiscal deficit to reach 8.7 percent of GDP (4.7 percent of GDP in the original budget).

[8] Structural reforms that help to close part of the gap with middle-income countries in key product market, governance and labor market indicators could boost growth up to 1.3-2 percentage points annually (IMF Country Report 20/41).

[9] The supplementary budget is expected to be presented to parliament in July.

11. Beyond the short-term, they have developed fiscal consolidation plans to stabilize public debt over time, and plan structural reforms to bolster inclusive growth and good governance.

- Over the next three years, the authorities intend to implement fiscal consolidation measures of about 6½ percent of GDP starting in FY21/22. The consolidation plan, recently approved by cabinet, aims to restore debt sustainability, while protecting the most vulnerable through a combination of spending and revenue measures. The plan will be implemented in the context of the future annual budget cycles and is centered around four pillars: reducing public wage spending, through gradual employment reduction and below inflation salary adjustments; rationalizing transfers and expenditure of state-owned entities; reducing operational expenditures and improving the targeting of the main social assistance programs; and, increasing domestic revenue through rate increases of some major taxes and base broadening measures, while suspending plans to introduce reforms that would reduce corporate income revenue. They intend to contain reductions in capital spending and better prioritize investment toward high growth impact projects.[10]

Eswatini. Authorities' Fiscal Consolidation Plans (Preliminary)
(Percent of GDP, cumulative)

	2021/22	2022/23	2023/24
Cumulative	**1.7**	**4.0**	**6.5**
Expenditure	**0.6**	**2.2**	**4.1**
Compensation of employees	0.3	0.7	1.1
Transfers	0.1	0.5	1.0
Goods & Services	0.2	0.5	1.0
Capital spending	0.0	0.5	0.9
Revenue	**1.1**	**1.9**	**2.4**
PIT	0.4	0.4	0.4
VAT	0.3	0.7	0.8
Excise	0.3	0.6	0.9
Other	0.1	0.2	0.4

- The authorities are committed to continue strengthening public financial management (PFM), as well as governance, transparency and accountability standards. To enhance transparency and accountability of all COVID-19-related spending, they are using specific budget lines for such spending, and will publish on the website of the National Disaster Management Agency (NDMA) bi-monthly reports on spending execution. They will also publish procurement contracts for pandemic-related spending, including amount, awarded legal persons and beneficial owners, and ex-post validation of delivery. In addition, they will undertake and publish the result of independent ex-post audits of such spending and procurement processes (Letter of Intent, paragraph 8). Moreover, Cabinet has approved a strategy to liquidate past arrears through the standard budget process, and the authorities have taken actions to control the main sources of arrears and avoid new ones, including by phasing out special accounting treatments for some extra-budgetary entities that have been responsible for significant spending overruns in the past (so called trading accounts). Finally, to strengthen the PFM framework, they have finalized regulations to implement the new PFM law that are expected to be approved by Cabinet in July 2020. The implementation of the new law is a first step toward strengthening the budget process, helping formulate credible budgets and tightening budget execution processes. Moreover, expediting the

[10] The development of the authorities' adjustment plans has benefited from Fund's technical assistance on tax policy, in particular VAT (January 2017, July 2019); expenditure rationalization, particularly wage policies and transfers to selected entities (October 2018); and, a recent Public Investment Management Assessment, PIMA (July 2019).

adoption of a new information management system, adopting comprehensive commitment controls and a single treasury account, and enhancing public procurement will be critical to support the full implementation of the regulations and improve public financial management.

- The authorities will continue to push through their Recovery Strategy to support private investment and boost long-term growth. They continue to facilitate the setting up of large foreign investment projects and developing the recently established special economic zones. They also intend to accelerate reform implementation to improve Eswatini's poor doing business ranking (e.g., setting up a one-stop shop for businesses, simplifying license requirements).

12. While the fiscal deficit will widen this year, public debt is expected to moderately decline over the medium term, although financing needs would remain large, posing funding risks.

- Staff projects the FY20/21 fiscal deficit to reach 8.7 percent of GDP (5½ percent of GDP in the pre-COVID scenario), creating a budget financing gap for the year of about 5.3 percent of GDP (about US$207 million). The gap is expected to be covered by the RFI purchase (US$107 million), and loans of about US$100 million from the World Bank and the AfDB.

Eswatini: Central Government Financing Needs and Sources
(Millions of Emalangeni)

	2019/20 Prel.	2020/21 Proj.	2021/22 Proj.	2022/23 Proj.	2023/24 Proj.
Gross Financing Needs	**13,656**	**17,652**	**14,847**	**14,348**	**13,544**
Fiscal Deficit	4,847	5,930	4,637	4,730	2,323
Amortization (ST and MLT debt)	8,809	11,722	10,209	9,618	11,222
External Debt	541	977	1,173	1,324	2,008
of which IMF RFI		0	0	0	442
Domestic Debt	8,268	8,745	9,037	8,293	9,214
Pending bills from previous years to be paid	0	2,000	0	0	0
Gross Financing Sources	**12,084**	**14,024**	**12,247**	**11,967**	**13,544**
Issuance of External Debt	2,487	3,964	2,084	2,201	2,330
Project disbursements	2,487	1,964	2,084	2,201	2,330
Commercial loan		2000			
Domestic Debt	9,597	10,060	10,163	9,767	11,383
Deposit change	-197	38	0	0	-169
Financing gap	**1,572**	**3,627**	**2,600**	**2,381**	**0**
IMF RFI		1,877	-	-	
WB/AfDB		1,750			
Residual gap	1,572	0	2,600	2,381	0
Memo:					
Financing Gap (percent of GDP)	*2.4*	*5.3*	*3.6*	*3.1*	*0.0*
Gross financing needs (percent of GDP)	20.5	25.8	20.5	18.7	16.7
Unpaid invoices (stock)	5,400	3,400	5,274	6,888	6,888
Nominal GDP	66,552	68,405	72,579	76,636	81,245

- A successful implementation of the authorities' fiscal adjustment plans will first stabilize the public debt ratio at a sustainable level and then place it on a moderately declining path over the medium-term. In the near-term, it would, however, have temporary adverse effects on growth. This outlook is subject to risks, particularly contingent liabilities from public entities as the financial situation of some entities has been deteriorating in recent years. Moreover, the expected decline in SACU revenue in FY22/23, coupled with the gradual pace of adjustment envisaged by the authorities, will translate into large financing needs in the next years, which will test the absorption capacity of the domestic market and require identifying additional financing sources. Aware of the challenges, the authorities are seeking technical and financial support from the World Bank, the AfDB, and other development partners.

13. Staff recommend preparing contingency fiscal plans in case the shock worsens and strengthening the medium-term financing strategy. Given Eswatini's limited fiscal space, it is important to identify possible spending, including low-priority public investment projects, to be curtailed in case the need for additional crisis-mitigating spending in health and programs to support the vulnerable arises. Moreover, the authorities should use the October 2020 mid-year budget review to re-assess budget spending execution and prioritization, as well as financing prospects for the current fiscal year and, if needed, further curtail non-essential spending to avoid the accumulation of domestic arrears. With large medium-term financing needs, a clear financing strategy to support the authorities' gradual adjustment path, potentially including multi-year financial support from International Financial Institutions, or a more front-loaded adjustment, would be needed to address projected financing needs.

14. It is also critical to enhance fiscal transparency and strengthen governance, overall transparency and accountability standards. As most of the pandemic expenses will be carried out through the National Disaster Management Agency (NDMA), an independent public entity outside the central government, staff strongly recommend to swiftly implement enhanced transparency and accountability standards to ensure against the risk of any misappropriation of emergency expenditures. As identified by the authorities, such standards would include the monitoring and publication of all COVID-19 related spending and procurement contracts as well as ex-post independent audits of crisis-mitigation spending and procurement processes (see Letter of Intent, paragraph 8). Moreover, it is important to liquidate past arrears in a transparent manner and through the safeguards of the standard budget process. Accelerating the adoption of the 2017 PFM law regulations is a first critical step to strengthen public financial management systems, together with the need to adopt a new information management system and comprehensive commitment controls, and enhance public procurement. Adopting reforms to strengthen institutions, promote good governance, transparency and accountability, and reducing vulnerabilities to state-capture and other forms of corruption (e.g., strengthening the anti-corruption framework and the public procurement system) will be critical for long-term sustainable and inclusive growth.[11]

B. Safeguarding the Peg and Financial Stability

15. The CBE has reacted appropriately to contain the macro-financial effects of the shock, while preserving financial stability and supporting the peg. In the context of the currency peg, following the South African Reserve bank (SARB), the CBE has adopted an accommodative monetary policy stance and gradually reduced the policy rate by 250 basis points since mid-March. To ensure liquidity in the system, it has reduced banks' liquidity and reserve requirements, and is updating the toolkit to manage liquidity. In addition, the CBE has encouraged banks to use repayment holidays for borrowers affected by the pandemic, prudently restructure loan repayments, and has temporarily suspended provisioning and changes to the risk weighting for such loans in line with other central banks in the region, and strengthened information requirements (Box 1). The CBE has also

[11] For an analysis of key structural reforms to boost growth in Eswatini, see IMF Country Report 20/41.

suspended plans to relax the single exposure limits and is developing an early intervention framework.

16. Efforts should continue to maintain an orderly financial system, manage liquidity, and coordinate micro and macro-prudential policies. It will be vital for the CBE to continue ensuring that the banking system can access liquidity should needs arise, including through the creation of an emergency liquidity facility. At the same time, as the government takes up new external loans to finance its operations, it will be important to stabilize any excess liquidity in the banking system to avoid pressures on domestic markets and international reserves, including by swiftly operationalizing CBE bill auctions and the new liquidity management toolkit. The CBE bill program would only target excess liquidity, thus leaving enough liquidity to support normal demand for treasury securities. The CBE should also ensure that banks' loan classification and provisioning standards are fully maintained, encourage the adoption of strict criteria for acceptable loan restructuring to be limited to viable firms and previously performing loans, step up supervisory oversight, and encourage banks to regularly conduct portfolio reviews and risk assessments. Oversight of the major NBFIs by the FSRA also needs to be stepped up and the update of the sector's legal framework prioritized, through the passage of pending legislations. To improve the coordination between the CBE and the FSRA, the establishment of the planned Financial Stability Panel should be finalized.

FUND SUPPORT UNDER THE RAPID FINANCING INSTRUMENT

17. The authorities are requesting a purchase under the RFI equivalent to 100 percent of quota (SDR78.5 million or around US$107.3 million). Eswatini meets the eligibility criteria for support under the RFI and staff consider the requested access appropriate. The COVID-19 pandemic has generated urgent BOP needs that, if unaddressed, would result in major economic disruptions. The external financing needs triggered by the pandemic are expected to resolve within the next 12 months without major changes to existing policy plans. The RFI purchase would cover part of the external financing needs. The remaining financing needs will be covered by loans, currently under discussion, from the World Bank and the African Development Bank. Despite these interventions and policies laid out in the attached letter from the authorities, international reserves in 2020 will remain below the lower bound of the IMF's adequacy metric, though above the operational floor used by the CBE for maintaining the currency peg. Upon the authorities' request, the RFI purchase will be disbursed as direct budget support.

18. The RFI purchase is assessed to have no material impact on Eswatini's debt sustainability. The updated DSA using the revised baseline including the COVID-19 pandemic's impact (Annex I) shows that implementation of the authorities' fiscal consolidation agenda would put public debt on a declining path over the medium-term, although financing needs will remain large. The impact of Fund support on debt sustainability is not significant, while its impact on the nation's humanitarian needs would be critical.

19. Eswatini's capacity to repay the Fund is adequate (Table 6). Eswatini currently has no outstanding loans from the Fund. The RFI purchase would result in Fund exposure to Eswatini of 2.8 percent of GDP (24 percent of international reserves). Repayments to the Fund would represent a small share of total projected external debt service, peaking at around 4 percent of government revenue in 2024.

20. In line with IMF safeguards policy, the authorities are committed to undergoing a safeguards assessment. This will be the first safeguards assessment for the CBE and will be completed before Board approval of any subsequent arrangement to which the safeguards policy applies. Moreover, the CBE has committed to provide Fund staff with the most recently completed external audit reports and to authorize the external auditors to hold discussions with staff. The authorities have also committed to enhance transparency and accountability on the planning, monitoring and reporting of all COVID-19 related public spending (see above).

21. A Memorandum of Understanding (MoU) has been finalized between the CBE and the Ministry of Finance regarding the servicing of financial obligations to the Fund. As the RFI financing will be used in its entirety as budget support, the MOU sets out the roles of the CBE and the Ministry of Finance in the timely servicing of financial obligations to the Fund.

STAFF APPRAISAL

22. The COVID-19 pandemic is having a severe impact on Eswatini's economy. A significant decline in exports and the adverse impact on domestic demand of virus containment measures would lead to a sharp recession in 2020. The pandemic has also created external financing needs of about 4.2 percent of GDP. Moreover, the fiscal situation, which was already difficult, will deteriorate further, as the need for additional spending to respond to the health and humanitarian crisis and tax revenue shortfalls create additional budget financing needs.

23. The authorities have taken swift actions to mitigate the impact of the pandemic and are committed to medium-term fiscal consolidation to preserve debt sustainability. Following the first infection cases, the government increased funding for health spending, scaled up assistance programs to protect the most affected segments of the population, and introduced revenue measures to support firms. To safeguard public finances and fairness, these measures are temporary and targeted. To address the pandemic shock, the CBE has adopted an accommodative monetary policy and taken steps to ensure adequate domestic liquidity. Beyond this immediate response, cabinet has approved a medium-term fiscal consolidation plan. Steadfast implementation of this multi-year consolidation plan will be critical to deliver substantial fiscal adjustment and ensure debt sustainability. The authorities remain also committed to advancing the structural reform agenda spelt out in their Recovery Strategy to boost competitiveness and accelerate private investment.

24. Staff urge the authorities to prepare contingency plans to address possible deepening of the pandemic shock, strengthen the financing strategy, and further enhance governance. Given Eswatini's limited fiscal space, the cost of a more protracted shock will need to be financed through budget spending reallocations or additional emergency financing. With significant financing relief, staff welcome the authorities' commitment to swiftly implement enhanced transparency and accountability standards for pandemic relief spending, and encourage the authorities to accelerate public financial management reforms, including public procurement. Going forward, despite the ambitious fiscal adjustment plans to preserve debt sustainability, financing needs remain large and the authorities need to develop a financing strategy that can support their gradual adjustment path or stand ready for a more front-loaded adjustment to cope with financing constraints.

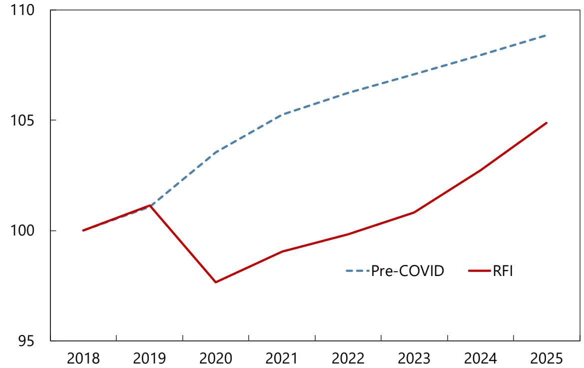
25. Going forward, the CBE should strengthen liquidity management operations and continue implementing prudential rules to support the soundness of the banking system. The central bank should swiftly implement plans to enhance the liquidity management framework and tools, step up banks' monitoring and supervisory oversight of the banking system, particularly for NPLs, and ensure that loan classification, provisioning standards, and capital buffers are maintained.

26. Against this background, staff support the authorities' request for a purchase under the Rapid Financing Instrument in the amount of SDR 78.5 million (100 percent of quota). Staff support is based on the severity of the impact of the pandemic on the economy, the urgent balance of payments needs arising from the pandemic, and the authorities' existing and prospective policies and commitments to address this external shock and preserve macroeconomic stability. The RFI would support the authorities' immediate efforts to save lives and livelihoods and, together with financing from other international institutions, contribute to cover external and budget financing needs. While the risks to the outlook are substantial and budget financing needs elevated, Eswatini's public debt is sustainable, the capacity to repay the Fund is adequate, and the authorities remain committed to maintain close engagement with the Fund.

Figure 1. Eswatini: Macroeconomic Effects of the COVID-19 Pandemic

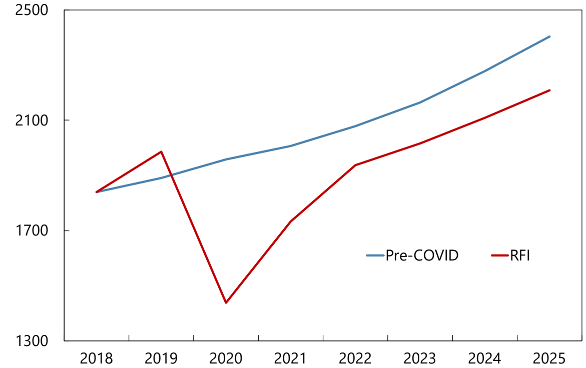
The COVID-19 pandemic is expected to trigger a sharp contraction in the economy…

Real GDP
(2018 = 100)



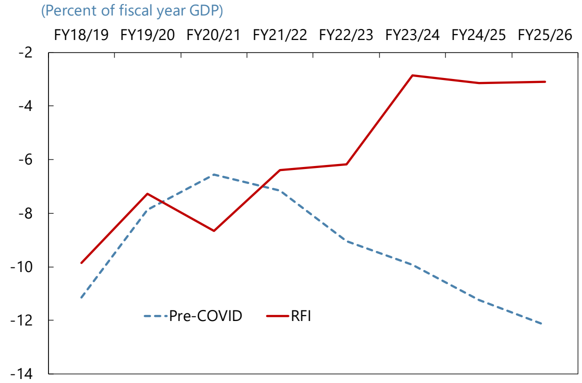
… and an abrupt decline in external demand for exports.

Exports of Goods
(US$ millions)



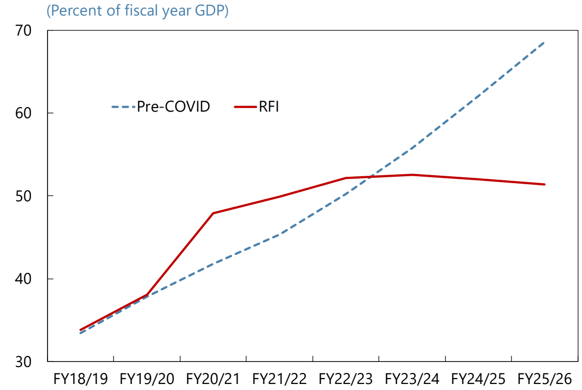
The implementation of the government's fiscal adjustment plans will narrow the fiscal deficit over time…

Overall Fiscal Balance
(Percent of fiscal year GDP)



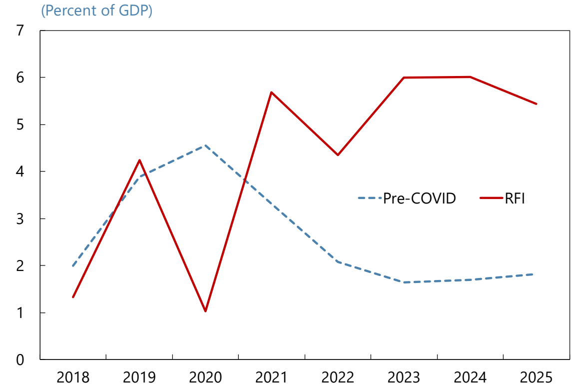
.. stabilizing the public debt ratio and then placing it on a moderately declining path.

Gross Public Debt
(Percent of fiscal year GDP)



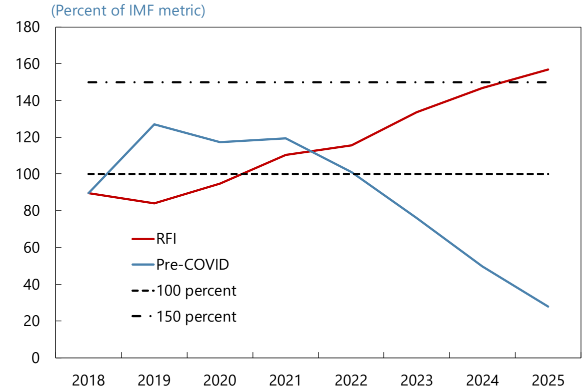
With fiscal adjustment, the current account would improve..

Current Account Balance
(Percent of GDP)



… and international reserves increase.

Gross International Reserves
(Percent of IMF metric)



Sources: Eswatini authorities and staff estimates.

Table 1. Eswatini: Selected Economic Indicators, 2017–25

	2017	2018	2019	2020	2021	2022	2023	2024	2025
		Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percentage changes; unless otherwise indicated)								
National account and prices									
GDP at constant prices	2.0	2.4	1.1	-3.5	1.4	0.8	1.0	1.9	2.1
GDP deflator	2.9	2.8	5.1	5.2	4.8	4.7	4.7	4.8	4.9
GDP at market prices (Emalangeni billions)	59.3	62.4	66.3	67.3	71.6	75.6	79.9	85.3	91.4
GDP at market prices (US dollar billions)	4.5	4.7	4.6	3.8	4.2	4.7	4.9	5.1	5.3
Consumer prices (average)	6.2	4.8	2.6	4.1	4.2	4.6	4.8	4.8	4.9
External sector									
Average exchange rate (local currency per US$)	13.3	13.2	14.5	…	…	…	…	…	…
Nominal exchange rate change (– = depreciation) [1]	-6.1	-0.3	3.0	…	…	…	…	…	…
Real effective exchange rate (– = depreciation) [1]	-7.8	-1.1	5.4	…	…	…	…	…	…
Terms of trade (deterioration -)	-15.6	-10.1	2.5	23.0	-2.8	-3.6	-2.3	-1.0	-1.0
Gross international reserves									
(months of imports)	3.1	2.7	2.5	3.2	4.1	4.5	5.0	5.3	5.9
(percent of GDP)	11.7	9.9	9.0	11.7	14.6	15.7	18.0	19.4	20.1
(percent of reserve money)	244	186	137	166	201	208	234	246	254
Gross reserves minus reserve money									
(percent of deposits)	24.5	16.4	9.2	16.0	23.9	26.4	33.5	37.6	39.5
Money and credit									
Domestic credit to the private sector	3.9	5.1	4.6	-0.4	8.4	6.6	6.2	7.3	7.6
Reserve money	-0.9	16.4	30.6	9.2	8.5	8.5	7.0	7.1	7.2
M2	3.8	4.1	1.7	10.7	12.6	7.3	6.3	7.5	8.0
Interest rate (percent) [2]	7.3	6.8	6.5	…	…	…	…	…	…
	(Percent of GDP)								
National accounts									
Gross capital formation	12.7	13.1	11.3	11.5	11.3	11.1	10.9	10.8	10.7
Government	7.5	5.3	6.2	6.2	6.0	5.7	5.5	5.4	5.3
Private	5.2	7.7	5.2	5.3	5.3	5.4	5.4	5.4	5.4
National savings	18.9	14.4	15.6	12.5	16.9	15.4	16.9	16.8	16.1
Government	0.3	-2.8	-0.3	-0.1	0.8	1.1	3.1	3.6	3.5
Private	18.6	17.1	15.9	12.6	16.1	14.4	13.7	13.2	12.6
External sector [3]									
Current account balance									
(including official transfers)	6.2	1.3	4.2	1.0	5.7	4.4	6.0	6.0	5.4
(excluding official transfers)	-5.0	-8.5	-5.1	-10.6	-5.5	-4.8	-3.6	-3.9	-4.4
Trade balance	4.2	0.6	5.7	0.4	5.4	6.4	7.7	7.6	7.2
Financial account	8.4	1.2	2.9	5.2	1.6	2.3	2.8	2.8	2.8
of which foreign direct investment	2.7	-1.0	-2.4	-0.2	-0.8	-0.8	-0.6	-0.6	-0.6
External debt	15.8	17.2	18.3	28.0	29.9	29.4	28.7	27.2	25.5
of which: public	8.9	9.8	11.7	21.3	23.5	23.1	22.7	21.3	19.9
Central government fiscal operations [4]									
Overall balance	-7.0	-9.9	-7.3	-8.7	-6.4	-6.2	-2.9	-3.1	-3.1
Total revenue and grants	28.0	24.8	26.5	27.2	26.4	24.8	26.0	26.0	26.0
of which: SACU receipts	11.8	9.2	9.5	12.2	10.9	8.6	9.9	9.9	9.9
Total expenditure	35.0	34.7	33.8	35.9	32.8	31.0	28.9	29.2	29.1
Public debt, gross	25.1	33.8	38.0	47.9	49.9	52.1	52.6	52.0	51.4
Public debt, net	20.1	28.2	32.4	42.5	44.8	47.3	47.8	47.9	47.5
Net lending (excl. SACU revenues)	-18.9	-19.1	-16.8	-20.9	-17.3	-14.9	-12.8	-13.1	-13.0
Primary net lending (excl. SACU revenues)	-17.7	-17.8	-15.0	-18.7	-14.4	-11.6	-9.4	-9.4	-9.3
Memorandum item:									
Population (in million)	1.09	1.10	1.11	1.13	1.14	1.15	1.16	1.18	1.19

Sources: Swazi authorities; and Fund staff estimates and projections.

[1] IMF Information Notice System trade-weighted; end of period.

[2] 12-month time deposit rate.

[3] The series reflect the adoption of the BPM6 methodology and recent data revisions.

[4] Public debt includes domestic arrears. Fiscal year runs from April 1 to March 31.

Table 2. Eswatini: Fiscal Operations of the Central Government, 2017/18–25/26[1]
(Emalangeni millions)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
		Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue	16,837	15,710	17,634	18,632	19,146	18,998	21,153	22,610	24,170
Tax revenue	15,669	14,959	16,302	17,478	17,925	17,709	19,787	21,150	22,610
Taxes on income, profits, and capital gains	4,860	5,213	5,601	5,156	5,741	6,234	6,609	7,064	7,548
of which: Corporate income tax	1,374	1,458	1,656	1,277	1,625	1,888	2,001	2,139	2,286
of which: Personal income tax	3,045	3,261	3,425	3,345	3,549	3,747	3,973	4,247	4,537
Taxes on property	43	47	53	55	58	61	65	69	74
Taxes on international trade and transactions	7,138	5,870	6,346	8,377	7,915	6,659	8,077	8,634	9,225
of which : SACU receipts	7,109	5,844	6,318	8,348	7,885	6,627	8,043	8,598	9,187
Domestic taxes on goods and services	3,608	3,802	4,277	3,865	4,184	4,727	5,006	5,349	5,727
Other taxes	21	23	25	25	27	28	30	32	34
Non-tax revenue	631	297	781	540	573	605	641	686	732
Grants	536	455	552	614	648	684	725	775	828
Project grants	536	455	552	614	648	684	725	775	828
Expense	16,911	18,610	17,644	19,577	19,932	21,432	23,077	24,919	26,602
Compensation of employees	8,080	8,429	7,943	8,133	8,789	9,476	10,269	11,134	12,072
Purchases or use of goods & services	2,860	2,626	2,980	3,112	3,243	3,397	3,560	3,731	3,731
Interest	691	822	1,203	1,528	2,126	2,462	2,795	3,228	3,461
of which : Domestic	549	626	948	956	1,440	1,774	2,085	2,499	2,743
Other expense	4,472	4,578	5,518	6,804	5,775	6,097	6,453	6,826	7,338
of which : Subsidies	39	47	50	51	54	57	61	65	69
of which : Grants (transfers)	3,258	3,398	3,570	3,670	3,893	4,111	4,347	4,575	4,933
of which : Covid-related spending				1,000					
Unidentified spending	807	2,155	0	0	0	0	0	0	0
Gross operating balance	-74	-2,900	-10	-945	-787	-2,434	-1,924	-2,309	-2,432
Transactions in nonfinancial assets:									
Net acquisition of nonfinancial assets	4,138	3,342	4,837	4,985	5,114	5,393	5,713	6,099	6,507
Foreign financed	1,587	1,655	3,039	2,578	2,732	2,885	3,055	3,266	3,487
Domestically financed	2,452	1,684	1,691	2,300	2,276	2,403	2,547	2,723	2,909
Regional Development Fund	110	5	110	110	110	110	110	110	110
Total expenditure	21,049	21,953	22,481	24,562	25,046	26,825	28,790	31,018	33,108
Primary net lending / borrowing	-3,521	-5,420	-3,644	-4,402	-3,774	-5,365	-4,841	-5,180	-5,478
Net lending/borrowing	-4,213	-6,242	-4,847	-5,930	-5,900	-7,826	-7,636	-8,408	-8,938
Policy measures (cumulative)	0	0	0	0	-1,263	-3,096	-5,313	-5,680	-6,069
After adjustments									
Primary net lending / borrowing	-3,521	-5,420	-3,644	-4,402	-2,512	-2,269	472	500	591
Net lending/borrowing	-4,213	-6,242	-4,847	-5,930	-4,637	-4,730	-2,323	-2,728	-2,870
Transactions in financial assets and liabilities:	-3,893	-3,504	-3,275	-5,930	-2,038	-2,350	-2,323	-2,728	-2,870
Net acquisition of financial assets (- drawdown)	-1,546	109	121	-381	-186	-287	87	-347	59
Net incurrence of liabilities	2,347	3,613	3,396	5,549	1,852	2,063	2,410	2,381	2,928
Domestic	1,690	2,823	1,450	934	940	1,187	2,088	2,573	2,475
Foreign	657	790	1,946	6,615	912	876	323	-192	454
of which : IMF RFI (net)				1,877	0	0	-442	-851	-525
RFI Disbursement				1,877	0	0	0	0	0
RFI Amortization				0	0	0	-442	-851	-525
of which : Multilateral financing (WB and AfDB)				1,750	0	0	0	0	0
Payments of pending bills	0	0	0	-2,000	0	0	0	0	0
Unidentified financing	*319*	*2,738*	*1,572*	*0*	*2,600*	*2,381*	*0*	*0*	*0*
Memorandum item:									
Gross public debt 2/	15,083	21,435	25,322	32,784	36,218	39,953	42,699	45,158	47,686
Domestic	9,747	15,056	17,139	16,343	19,272	22,289	24,458	26,992	29,466
External	5,336	6,380	8,183	16,441	16,947	17,664	18,241	18,166	18,220
Unpaid invoices (Stock of arrears)	2,389	4,493	5,400	3,400	5,274	6,888	6,888	6,888	6,888
Net lending (excl. external financing)	*-2,625*	*-4,587*	*-1,808*	-3,352	*-1,906*	*-1,846*	*733*	*538*	*618*
Net lending (excl. SACU revenues)	-11,321	-12,086	-11,165	-14,278	-12,522	-11,358	-10,366	-11,326	-12,056
Primary net lending (excl. SACU revenues)	-10,630	-11,264	-9,962	-12,751	-10,397	-8,896	-7,571	-8,098	-8,595
GDP at market prices (Emalangeni billions)	60,057	63,352	66,552	68,405	72,579	76,636	81,245	86,849	92,793

Sources: Swazi authorities; and Fund staff estimates and projections.

[1] The fiscal year runs from April 1 to March 31.

[2] Gross public debt includes domestic arrears.

Table 3. Eswatini: Fiscal Operations of the Central Government, 2017/18–25/26[1]
(Percent of GDP)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
		Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue	28.0	24.8	26.5	27.2	26.4	24.8	26.0	26.0	26.0
Tax revenue	26.1	23.6	24.5	25.6	24.7	23.1	24.4	24.4	24.4
Taxes on income, profits, and capital gains	8.1	8.2	8.4	7.5	7.9	8.1	8.1	8.1	8.1
of which: Corporate income tax	2.3	2.3	2.5	1.9	2.2	2.5	2.5	2.5	2.5
of which: Personal income tax	5.1	5.1	5.1	4.9	4.9	4.9	4.9	4.9	4.9
Taxes on property	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Taxes on international trade and transactions	11.9	9.3	9.5	12.2	10.9	8.7	9.9	9.9	9.9
of which : SACU receipts	11.8	9.2	9.5	12.2	10.9	8.6	9.9	9.9	9.9
Domestic taxes on goods and services	6.0	6.0	6.4	5.7	5.8	6.2	6.2	6.2	6.2
Other taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-tax revenue	1.1	0.5	1.2	0.8	0.8	0.8	0.8	0.8	0.8
Grants	0.9	0.7	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Project grants	0.9	0.7	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Expense	28.2	29.4	26.5	28.6	27.5	28.0	28.4	28.7	28.7
Compensation of employees	13.5	13.3	11.9	11.9	12.1	12.4	12.6	12.8	13.0
Purchases or use of goods & services	4.8	4.1	4.5	4.5	4.5	4.4	4.4	4.3	4.0
Interest	1.2	1.3	1.8	2.2	2.9	3.2	3.4	3.7	3.7
of which : Domestic	0.9	1.0	1.4	1.4	2.0	2.3	2.6	2.9	3.0
Other expense	7.4	7.2	8.3	9.9	8.0	8.0	7.9	7.9	7.9
of which : Subsidies	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
of which : Grants (transfers)	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.3	5.3
of which : Covid-related spending				1.5					
Unidentified spending	1.3	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating balance	-0.1	-4.6	0.0	-1.4	-1.1	-3.2	-2.4	-2.7	-2.6
Transactions in nonfinancial assets:									
Net acquisition of nonfinancial assets	6.9	5.3	7.3	7.3	7.0	7.0	7.0	7.0	7.0
Foreign financed	2.6	2.6	4.6	3.8	3.8	3.8	3.8	3.8	3.8
Domestically financed	4.1	2.7	2.5	3.4	3.1	3.1	3.1	3.1	3.1
Regional Development Fund	0.2	0.0	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Total expenditure	35.0	34.7	33.8	35.9	34.5	35.0	35.4	35.7	35.7
Primary net lending / borrowing	-5.9	-8.6	-5.5	-6.4	-5.2	-7.0	-6.0	-6.0	-5.9
Net lending / borrowing	-7.0	-9.9	-7.3	-8.7	-8.1	-10.2	-9.4	-9.7	-9.6
Policy measures (cumulative)	0.0	0.0	0.0	0.0	-1.7	-4.0	-6.5	-6.5	-6.5
After adjustments									
Primary net lending / borrowing	-5.9	-8.6	-5.5	-6.4	-3.5	-3.0	0.6	0.6	0.6
Net lending / borrowing	-7.0	-9.9	-7.3	-8.7	-6.4	-6.2	-2.9	-3.1	-3.1
Transactions in financial assets and liabilities:	-6.5	-5.5	-4.9	-8.7	-2.8	-3.1	-2.9	-3.1	-3.1
Net acquisition of financial assets	-2.6	0.2	0.2	-0.6	-0.3	-0.4	0.1	-0.4	0.1
Net incurrence of liabilities	3.9	5.7	5.1	8.1	2.6	2.7	3.0	2.7	3.2
Domestic	2.8	4.5	2.2	1.4	1.3	1.5	2.6	3.0	2.7
Foreign	1.1	1.2	2.9	9.7	1.3	1.1	0.4	-0.2	0.5
of which : IMF RFI (net)				2.7	0.0	0.0	-0.5	-1.0	-0.6
RFI Disbursement				2.7	0.0	0.0	0.0	0.0	0.0
RFI Amortization				0.0	0.0	0.0	-0.5	-1.0	-0.6
of which : Multilateral financing (WB and AfDB)				2.6	0.0	0.0	0.0	0.0	0.0
Payments of pending bills	0.0	0.0	0.0	-2.9	0.0	0.0	0.0	0.0	0.0
Unidentified financing	0.5	4.3	2.4	0.0	3.6	3.1	0.0	0.0	0.0
Memorandum item:									
Gross public debt[2]	25.1	33.8	38.0	47.9	49.9	52.1	52.6	52.0	51.4
Domestic	16.2	23.8	25.8	23.9	26.6	29.1	30.1	31.1	31.8
External	8.9	10.1	12.3	24.0	23.3	23.0	22.5	20.9	19.6
Unpaid invoices (arrears)	4.0	7.1	8.1	5.0	7.3	9.0	8.5	7.9	7.4
Net lending (excl. external financing)	-4.4	-7.2	-2.7	-4.9	-2.6	-2.4	0.9	0.6	0.7
Net lending (excl. SACU revenues)	-18.9	-19.1	-16.8	-20.9	-17.3	-14.8	-12.8	-13.0	-13.0
Primary net lending (excl. SACU revenues)	-17.7	-17.8	-15.0	-18.6	-14.3	-11.6	-9.3	-9.3	-9.3
GDP at market prices (Emalangeni billions)	60,057	63,352	66,552	68,405	72,579	76,636	81,245	86,849	92,793

Sources: Swazi authorities; and Fund staff estimates and projections.

[1] The fiscal year runs from April 1 to March 31.

[2] Gross public debt includes domestic arrears.

Table 4. Eswatini: Balance of Payments, 2017–25
(US$ millions, unless otherwise indicated)

	2017	2018	2019 Prel.	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.
Current account	275.2	62.7	194.4	39.5	239.3	205.7	292.0	304.7	288.1
Trade balance	186.8	29.2	259.3	15.3	226.6	300.3	375.4	385.2	381.0
Exports, f.o.b.	1,795.7	1,838.7	1,984.5	1,437.3	1,733.1	1,937.2	2,015.6	2,107.8	2,209.2
Imports, f.o.b	1,608.9	1,809.5	1,725.2	1,422.0	1,506.6	1,636.9	1,640.2	1,722.6	1,828.2
Services (net)	-217.6	-184.9	-114.8	-141.1	-149.0	-180.0	-195.7	-210.9	-227.9
Income (net)	-295.4	-320.3	-452.8	-325.0	-378.6	-428.7	-440.1	-461.7	-484.1
Of which: interest on public debt	-10.7	-13.8	-16.6	-25.3	-38.7	-43.0	-43.0	-43.0	-41.7
Transfers	601.4	538.7	502.7	490.4	540.4	514.1	552.4	592.1	619.2
Official transfers	498.8	464.9	428.8	448.0	470.5	433.8	468.5	502.6	523.8
Other transfers	102.6	73.8	73.9	42.4	69.8	80.3	83.9	89.4	95.4
Capital and financial account 1/	-367.9	-60.8	-133.8	-202.5	-67.1	-109.9	-139.6	-142.9	-150.6
Capital account	6.8	-2.3	-1.0	-1.1	-1.2	-1.3	-1.2	-1.2	-1.2
Financial account 2/	374.7	58.4	132.8	201.3	65.9	108.7	138.4	141.7	149.5
Foreign direct investment	121.6	-47.0	-108.0	-6.0	-32.7	-36.6	-30.4	-28.8	-34.1
Portfolio investment	82.8	-85.6	85.8	137.4	-4.2	108.6	112.0	116.6	121.9
Financial derivatives	13.4	6.7	0.7	8.6	8.8	9.4	9.1	8.9	8.7
Other investment	156.9	184.2	154.4	61.4	94.0	27.3	47.6	45.0	53.0
Medium and long-term	259.5	275.0	174.5	-0.9	71.5	15.4	34.4	30.2	32.6
Of which:									
Public sector (net)	-46.1	-57.1	-114.7	-184.4	-54.7	-55.3	-48.3	-40.7	-52.1
Disbursements	76.6	87.8	149.8	234.0	120.8	135.7	140.1	145.6	151.7
Amortization	-30.4	-30.7	-35.2	-49.6	-66.1	-80.4	-91.8	-104.9	-99.6
Short-term	-102.5	-90.8	-20.1	62.3	22.4	11.9	13.2	14.8	20.4
Errors and omissions	37.6	-58.4	-68.8	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance 3/	-55.1	-56.4	-8.3	-162.9	172.2	95.7	152.5	161.7	137.5
Financing	55.1	56.4	8.3	162.9	-172.2	-95.7	-152.5	-161.7	-137.5
Change in international reserves (- = increase)	55.1	56.4	8.3	-44.3	-172.2	-95.7	-139.0	-107.8	-96.9
IMF RFI (net)									
Disbursement				107.3	0.0	0.0	0.0	0.0	0.0
Amortization				0.0	0.0	0.0	-13.5	-53.9	-40.6
Multilateral financing (WB and AfDB)				100.0	0.0	0.0	0.0	0.0	0.0
					(percent of GDP)				
Current account	6.2	1.3	4.2	1.0	5.7	4.4	6.0	6.0	5.4
Trade balance	4.2	0.6	5.7	0.4	5.4	6.4	7.7	7.6	7.2
Exports, f.o.b.	40.3	39.0	43.3	37.3	41.2	41.0	41.4	41.6	41.7
Imports, f.o.b	36.1	38.4	37.6	37.0	35.8	34.7	33.7	34.0	34.5
Services (net)	-4.9	-3.9	-2.5	-3.7	-3.5	-3.8	-4.0	-4.2	-4.3
Income (net)	-6.6	-6.8	-9.9	-8.4	-9.0	-9.1	-9.0	-9.1	-9.1
Of which: interest on public debt	-0.2	-0.3	-0.4	-0.7	-0.9	-0.9	-0.9	-0.8	-0.8
Transfers	13.5	11.4	11.0	12.7	12.8	10.9	11.3	11.7	11.7
Capital and financial account 1/	-8.3	-1.3	-2.9	-5.3	-1.6	-2.3	-2.9	-2.8	-2.8
Capital account	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account 2/	8.4	1.2	2.9	5.2	1.6	2.3	2.8	2.8	2.8
Of which foreign direct investment	2.7	-1.0	-2.4	-0.2	-0.8	-0.8	-0.6	-0.6	-0.6
Errors and omissions	0.8	-1.2	-1.5	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance 3/	-1.2	-1.2	-0.2	-4.2	4.1	2.0	3.1	3.2	2.6
Memorandum items:									
Official transfers	11.2	9.9	9.3	11.6	11.2	9.2	9.6	9.9	9.9
Gross International Reserves 4/	565	430	425	456	632	730	866	971	1,067
(months of imports)	3.1	2.7	2.5	3.2	4.1	4.5	5.0	5.3	5.9
National currency per US$ (average)	13.3	13.2	14.5	...	...	...	...	...	...
National currency per US$ (eop)	12.3	14.4	14.0	...	...	...	...	...	...
GDP at market prices (US dollar millions)	4452	4711	4587	3848	4211	4722	4869	5071	5298

Sources: Swazi authorities; and Fund staff estimates and projections.
Data reflects BPM6 classification.
1/ Capital account minus financial account balance.
2/ Positive sign indicates net outflows in the financial account and its components.
3/ Negative numbers for overall balance indicate a balance of payment needs.
4/ In 2018 and 2019, gross international reserves exclude unmatured forward contracts.

Table 5. Eswatini: Monetary Accounts, 2017–25[1]
(Emalangeni millions, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
					(Emalangeni millions)				
Depository Corporation Survey									
Net foreign assets	7,955	7,029	6,646	6,365	8,835	10,142	13,072	16,058	18,523
Net domestic assets	9,388	11,019	11,712	13,956	14,044	14,396	13,000	11,973	11,757
Claims on central government (net)	-63	2,430	2,364	4,564	4,995	5,451	5,496	5,410	5,680
Claims on other sectors	14,225	14,877	14,821	15,614	15,612	15,946	16,831	18,058	19,432
Of which : Claims on private sector	12,275	12,905	13,494	13,437	14,568	15,539	16,500	17,702	19,047
Other items (net)	-4,774	-6,288	-5,473	-6,222	-6,562	-7,002	-9,326	-11,495	-13,355
Broad money	17,343	18,048	18,358	20,321	22,879	24,538	26,072	28,031	30,279
Currency in circulation [2]	608	598	715	748	777	886	962	1,052	1,049
Deposits	16,735	17,450	17,643	19,573	22,102	23,652	25,110	26,980	29,230
Central Bank									
Net foreign assets	5,928	5,212	5,080	4,841	7,352	8,700	11,669	14,694	17,158
Gross reserves	6,959	6,183	5,963	7,874	10,430	11,825	14,393	16,546	18,401
Net domestic assets	-3,073	-1,888	-740	-102	-2,209	-3,118	-5,698	-8,302	-10,305
Reserve money	2,854	3,323	4,339	4,739	5,143	5,582	5,970	6,392	6,853
					(percent of GDP)				
Depository Corporation Survey									
Net foreign assets	13.4	11.3	10.0	9.5	12.3	13.4	16.4	18.8	20.3
Net domestic assets	15.8	17.7	17.7	20.7	19.6	19.1	16.3	14.0	12.9
Claims on central government (net)	-0.1	3.9	3.6	6.8	7.0	7.2	6.9	6.3	6.2
Claims on other sectors	24.0	23.9	22.4	23.2	21.8	21.1	21.1	21.2	21.3
Of which : Claims on private sector	20.7	20.7	20.4	20.0	20.3	20.6	20.7	20.7	20.8
Broad money	29.3	28.9	27.7	30.2	32.0	32.5	32.6	32.9	33.1
Currency in circulation [2]	1.0	1.0	1.1	1.1	1.1	1.2	1.2	1.2	1.1
Deposits	28.2	28.0	26.6	29.1	30.9	31.3	31.4	31.6	32.0
Central Bank									
Net foreign assets	10.0	8.4	7.7	7.2	10.3	11.5	14.6	17.2	18.8
Net domestic assets	-5.2	-3.0	-1.1	-0.2	-3.1	-4.1	-7.1	-9.7	-11.3
Reserve money	4.8	5.3	6.5	7.0	7.2	7.4	7.5	7.5	7.5
Memorandum items:					(12–month percentage change; unless otherwise indicated)				
Reserve money	-0.9	16.4	30.6	9.2	8.5	8.5	7.0	7.1	7.2
M2	3.8	4.1	1.7	10.7	12.6	7.3	6.3	7.5	8.0
Credit to the private sector	3.9	5.1	4.6	-0.4	8.4	6.7	6.2	7.3	7.6
Money multiplier (broad money/reserve money)	6.1	5.4	4.2	4.3	4.4	4.4	4.4	4.4	4.4
Velocity (GDP/broad money)	3.4	3.5	3.6	3.3	3.1	3.1	3.1	3.0	3.0

Sources: Swazi authorities; and Fund staff estimates and projections.

[1] End of period.

[2] Excludes rands in circulation.

Table 6. Eswatini: Indicators of Capacity to Repay the Fund
(SDR millions, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025
			(Millions of SDRs)			
Fund obligations based on existing credit						
Principal	0.00	0.00	0.00	0.00	0.00	0.00
Charges and interest	0.00	0.00	0.00	0.00	0.00	0.00
Fund obligations based on existing and prospective credit						
Principal	0.00	0.00	0.00	9.81	39.25	29.44
Charges and interest	0.61	0.83	0.83	0.83	0.57	0.15
Total obligations based on existing and prospective credit						
Millions of SDRs	0.61	0.83	0.83	10.64	39.82	29.59
Millions of Emalangeni	14.59	19.31	18.20	239.57	920.92	703.66
Percent of exports of goods and services	0.06	0.06	0.06	0.69	2.47	1.75
Percent of debt service	0.12	0.18	0.19	1.85	5.91	4.36
Percent of GDP	0.02	0.03	0.02	0.30	1.08	0.77
Percent of government revenue	0.08	0.10	0.10	1.16	4.14	2.96
Percent of quota	0.78	1.06	1.06	13.55	50.73	37.69
Outstanding IMF credit based on existing and prospective drawings						
Millions of SDRs	78.50	78.50	78.50	68.69	29.44	0.00
Millions of Emalangeni	1,877.42	1,826.68	1,721.56	1,546.63	680.86	0.00
Percent of exports of goods and services	7.25	5.93	5.31	4.47	1.83	0.00
Percent of debt service	15.58	17.21	17.73	11.95	4.37	0.00
Percent of GDP	2.79	2.55	2.28	1.94	0.80	0.00
Percent of government revenue	10.21	9.61	9.04	7.50	3.06	0.00
Percent of quota	100.00	100.00	100.00	87.50	37.50	0.00
Net use of IMF credit (millions of SDRs)						
Disbursements	78.50	0.00	0.00	0.00	0.00	0.00
Repayments and repurchases	0.00	0.00	0.00	9.81	39.25	29.44
Memorandum items:			(Millions of Emalangeni, unless otherwise indicated)			
Nominal GDP (at market prices)	67,344	71,588	75,553	79,885	85,328	91,413
Exports of goods and services	25,889	30,796	32,422	34,608	37,280	40,243
Government revenue	18,382	19,017	19,035	20,615	22,246	23,780
Debt service	12,047	10,614	9,708	12,937	15,569	16,141
Quota (millions of SDRs)	78.50	78.50	78.50	78.50	78.50	78.50

Source: IMF staff projections

Table 7. Eswatini: Financial Sector Indicators, 2011–June 2019

(Percent, unless otherwise indicated)

	2011	2012	2013	2014	2015	2016	2017	2018	2019Q1	2019Q2[1/]
Banking indicators										
Capital adequacy										
Capital to assets	12.2	12.5	11.9	12.6	12.9	13.0	13.4	13.1	14.2	14.3
Regulatory capital to risk-weighted assets	20.6	21.1	22.2	24.9	22.5	22.2	23.2	18.8	18.8	18.7
Regulatory tier 1 capital to risk-weighted assets	17.8	18.2	19.3	21.3	20.0	20.0	20.8	16.0	16.2	16.1
Nonperforming loans net of provisions to capital	5.9	35.3	20.9	18.1	19.6	28.7	21.6	27.2	23.7	7.6
Asset quality										
Large exposure to capital	105.8	89.2	55.2	102.2	107.1	68.0	105.1	...	72.5	66.7
Nonperforming loans to total gross loans	3.5	10.7	6.8	6.9	6.6	9.6	7.9	9.3	8.8	9.4
Sectoral distribution of loans to total loans										
Agriculture	18.1	12.9	18.2	14.6	11.5	11.9	11.2	11.2	12.3	13.9
Mining and quarrying	1.8	2.0	2.2	1.9	1.3	1.1	1.8	1.8	1.8	2.0
Manufacturing	21.6	20.1	19.1	21.5	14.9	7.9	4.2	5.1	5.2	6.5
Construction	7.6	7.0	8.7	10.9	9.6	6.5	6.0	6.1	5.9	5.5
Distribution and Tourism	10.6	11.9	9.5	12.1	16.5	19.1	30.1	29.2	27.6	27.1
Transport and Communication	6.8	9.6	8.8	8.9	8.6	8.4	10.1	9.8	9.5	10.6
Community, Socialand Personal services	4.8	5.5	5.8	6.8	8.7	12.7	14.1	10.8	10.6	8.7
Other	28.7	31.1	27.7	23.3	28.8	32.4	22.4	26.0	27.1	25.7
Earnings and profitability										
Trading income to total income	0.9	1.4	1.7	1.7	1.1	0.5	0.5	...	1.4	1.5
Return on assets	3.5	3.5	3.1	3.5	10.3	4.0	5.5	2.5	3.1	5.3
Return on equity	26.3	24.8	22.7	27.7	50.1	25.6	36.2	7.0	20.3	31.8
Interest margin to gross income	51.0	49.2	46.9	47.3	49.7	54.2	57.6	56.9	55.6	57.9
Noninterest expenses to gross income	60.0	61.1	59.9	54.3	53.9	58.3	63.5	67.9	62.5	62.0
Personnel expenses to noninterest expenses	54.8	50.1	50.7	48.3	54.0	47.0	47.8	...	44.4	47.3
Liquidity										
Liquid assets to total assets	9.8	9.0	8.0	9.7	10.5	11.2	9.9	11.9	12.0	13.2
Liquid assets to short-term liabilities	15.5	12.7	12.1	14.2	15.3	16.4	14.7	17.5	25.3	19.8
Customer deposits to total (non-interbank) loans	108.6	122.9	115.4	111.7	125.4	141.0	139.5	...	129.9	129.2
Exposure to foreign exchange risk										
Foreign currency liabilities to total liabilities	6.0	4.2	0.1	6.0	4.9	12.4	8.6	...	3.5	3.3
Financial system structure										
Banks	4	4	4	4	4	4	4	4	4	4
Private commercial	0	0	0	0	0	0	0	0	0	0
State-owned	1	1	1	1	1	1	1	1	1	1
Foreign-owned subsidiaries	3	3	3	3	3	3	3	3	3	3
Branches of foreign banks	28	38	39	39	39	39	39	39	39	39
Deposits										
Banks	7,451	8,119	9,448	10,050	11,649	14,458	15,039	16,015	...	...
Private commercial	...	...	...	...	...	...	...	...	...	...
State-owned	989	1,011	1,126	1,210	1,168	1,389	...	...	...	...
Foreign-owned subsidiaries	6,492	7,108	8,322	8,840	8,446	13,069	...	...	...	...

Sources: Central Bank of Swaziland; and IMF staff estimates.

[1/] 2019 Q2 data subject to revisions.

Annex I. Debt Sustainability Analysis[1]

Over the last four years, Eswatini's central government debt has more than doubled driven by elevated fiscal deficits, largely financed through domestic debt and accumulation of domestic arrears. To rectify this trend, the authorities begun implementing consolidation measures in FY19/20 and have recently approved fiscal consolidation plans of about 6½ percent of GDP to be implement over the next three years. Under the staff baseline, which includes the authorities' consolidation plans, public debt would remain below the stress threshold, peaking at around 53 percent of GDP in FY23/24, before starting to decline. Gross financing needs (GFN) would, however, be large and exceed the stress threshold, emphasizing short-term financing and rollover risks and the urgency for strong fiscal adjustment complemented by an adequate medium-term financing strategy. The DSA shock scenarios point to additional vulnerabilities arising from growth shocks and potential fiscal slippages. The external debt profile indicates vulnerabilities to current account shocks.

Public Debt[2]

Background

1. **Eswatini's public debt has doubled since 2015 driven by large primary deficits**. Between FY15/16 and FY19/20, the public debt to GDP ratio rose from 17.7 to 38 percent of GDP, owing to a large and growing primary deficit averaging about 8 percent of GDP.[3]

2. **With high and rising gross financing needs (GFN), the authorities have steadily increased their reliance on domestic financial markets**. With external financing limited to project loans,[4] the share of domestic debt rose from about 48 percent of total public debt in FY15/16 to about 68 percent in FY19/20, including central bank advances and domestic arrears. After reaching 14.8 percent of GDP in FY15/16, GFN further increased to 20.5 percent of GDP in FY19/20.

3. **The maturity and composition of public debt bear significant rollover and liquidity risks, as well as exchange rate vulnerabilities.** At end-March 2020, short-term treasury bills and other short-term debt (i.e., central bank advances, domestic arrears) accounted for about 58 percent of the government's domestic debt, over 80 percent of which is in the form of short-term treasury bills and pending invoices. The increase in short-term domestic liabilities raises the GFN going forward and exposes the country to short-term rollover risks. Even with fiscal adjustment, GFN would remain above the risk threshold, pointing to significant medium-term financing risks. Public

[1] The latest DSA was published in February 2020 (IMF Country Report No. 20/41). At that time, the authorities had not developed any fiscal adjustment plans. This DSA incorporates the fiscal adjustment strategy recently approved by Cabinet, targeting measures for about 6½ percent of GDP to be rolled out over the next three years.

[2] Analysis based on fiscal year and on central government debt. General government debt data are not available.

[3] As of March 2020, debt guaranteed by the central government amounted to 5½ percent of GDP.

[4] A new E2bn commercial loan to pay off part of domestic arrears has recently been finalized and incorporated in the FY20/21 projections, which also include the RFI and prospective financing from the World Bank and the AfDB.

debt denominated in foreign currency has also increased, reaching about 12.3 percent of GDP (about one third of central government public debt). Given the recent depreciation in the domestic currency and increasing recourse to external loans, foreign exchange risks are heightened.

Outlook and Risks

4. Under staff's baseline, which includes the government's fiscal adjustment plans, public debt would peak around 52½ percent of GDP before declining gradually, but financing needs would remain elevated.[5] The baseline incorporates 6½ percent of GDP in consolidation measures to reflect the authorities' commitment to reduce the fiscal deficit and stabilize public debt dynamics (see main text and the authorities' Letter of Intent). Under this baseline, the debt-to-GDP ratio would peak at in FY23/24 before starting to decline (Figure A3) and annual GFN would average around 19.4 percent of GDP.[6] Absent of deep enough domestic financial markets and additional external financing, a financing gap during the first two years of adjustment would translate in new domestic arrears. Moreover, if remaining past arrears are cleared with new borrowing, GFN could be significantly higher although this would extend the maturity profile of public debt. These factors point to the need to develop an adequate medium-term financing strategy.

5. Alternative scenarios and stress tests highlight the importance of fiscal adjustment to ensure debt sustainability and resilience to shocks. Even temporary delays in implementing the government's adjustment plans would result in public debt approaching or exceeding the debt risk threshold and exacerbate financing needs. With full implementation of the adjustment plans, stress test analysis suggests that debt levels and GFN are particularly sensitive to GDP growth shocks. In the case of a combined GDP growth, primary balance and macroeconomic shock, public debt would exceed 90 percent of GDP. The recent recourse to external financing increases exchange rate risks, particularly in the context of the peg to the rand, which has recently been subject to significant depreciation and volatility due to the deteriorated economic conditions in South Africa. Mitigating factors include a large share of medium-term debt held by a large domestic non-bank financial sector, including a fully funded pension fund.

6. The debt sustainability analysis critically depends on the authorities' ability to deliver fiscal adjustment. In the extreme case of no fiscal adjustment, the public debt-to-GDP ratio would breach the DSA risk threshold in the last year of the projection period. The annual fiscal deficit would exceed 10 percent of GDP and GFN would average 24½ percent of GDP—5 percent of GDP above the baseline scenario, thus posing significant financing and sustainability risks. Arrears would increase further, hamstringing the private sector and weighing on growth and financial stability.

[5] Gross financing needs exclude obligations arising from financing any fiscal financing gap.

[6] The DSA framework uses risk thresholds of 70 percent of GDP for public debt and 15 percent of GDP for gross financing needs. Exceeding these benchmarks is reported with yellow color in the heat map if the benchmarks are passed in a stress scenario and a red color if they are exceeded in the baseline. The benchmarks are based on a cross-country early-warning exercise of EMs that have experienced episodes of debt distress. Debt distress events are defined as default to commercial or official creditors, restructuring and rescheduling events, or IMF financing.

External Debt[7]

7. Eswatini's external debt and gross financing needs have been relatively flat and remain low (Table A1). In 2019, the stock of external debt increased by about 1 percent of GDP to reach 18.3 percent of GDP. About two thirds of external debt is owned by public entities. Half of public external debt in 2019 was with multilateral creditors, one third was with private creditors and the remaining was official bilateral debt. [8] External debt is expected to increase further in 2020 by 9.8 percent of GDP as the government taps external financing to fund immediate external needs arising from the COVID-19 pandemic and to start repaying domestic arrears. Gross external financing needs declined to 1.7 percent of GDP in 2019 owing to a temporary recovery in the current account surplus and are expected to temporarily increase in 2020.

8. Under the DSA baseline, after an initial increase, external debt will moderately decline over the projection period with contained gross financing needs. The external debt ratio is projected to peak at 29.9 percent in 2021 and decline over the projection period to 25.5 percent of GDP, as the current account surplus, above the debt stabilizing level, offsets exchange rate depreciation pressures. Gross external financing needs are expected to stabilize at around 1.2 percent of GDP over the medium term (Table A1).

9. Sensitivity tests suggest that Eswatini' s external debt is particularly sensitive to current account and currency depreciation shocks (Figure A6). A shock to the non-interest current account would place the external debt-to-GDP ratio on a sharp upward path, reaching 43 percent of GDP over the medium term. This result is driven by the high historical volatility of Eswatini's current account balance, largely due to fluctuations in SACU transfers. However, higher interest rates or a slowdown in economic growth would, by themselves, have very limited effects on debt dynamics. A combined (interest rate, growth, current account) shock has, therefore, an impact on debt similar to the current account shock. A one-time real depreciation of 30 percent would raise the debt level, but it would not place debt on an upward path.

[7] Analysis based on calendar year.

[8] Given delays and possible limitations in data collection, the stock of private external debt might be somewhat underestimated.

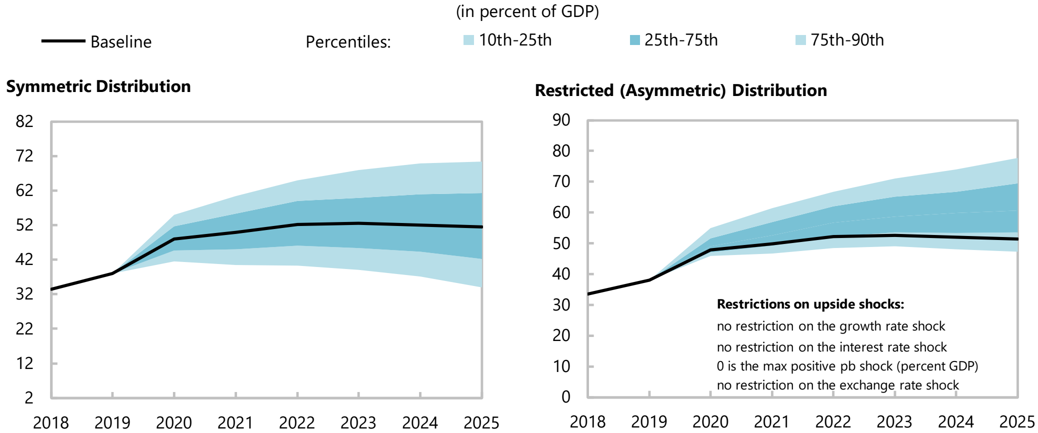
Figure A1. Eswatini: Public DSA Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

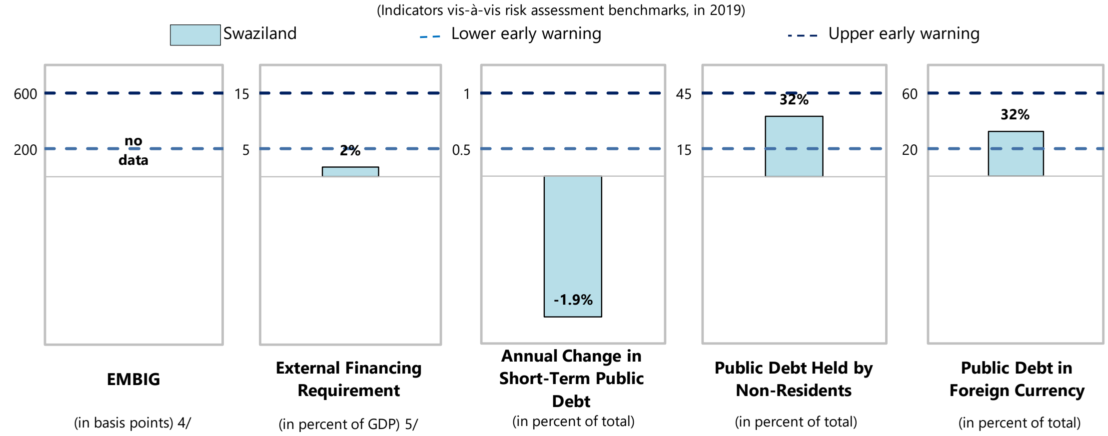
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2019)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

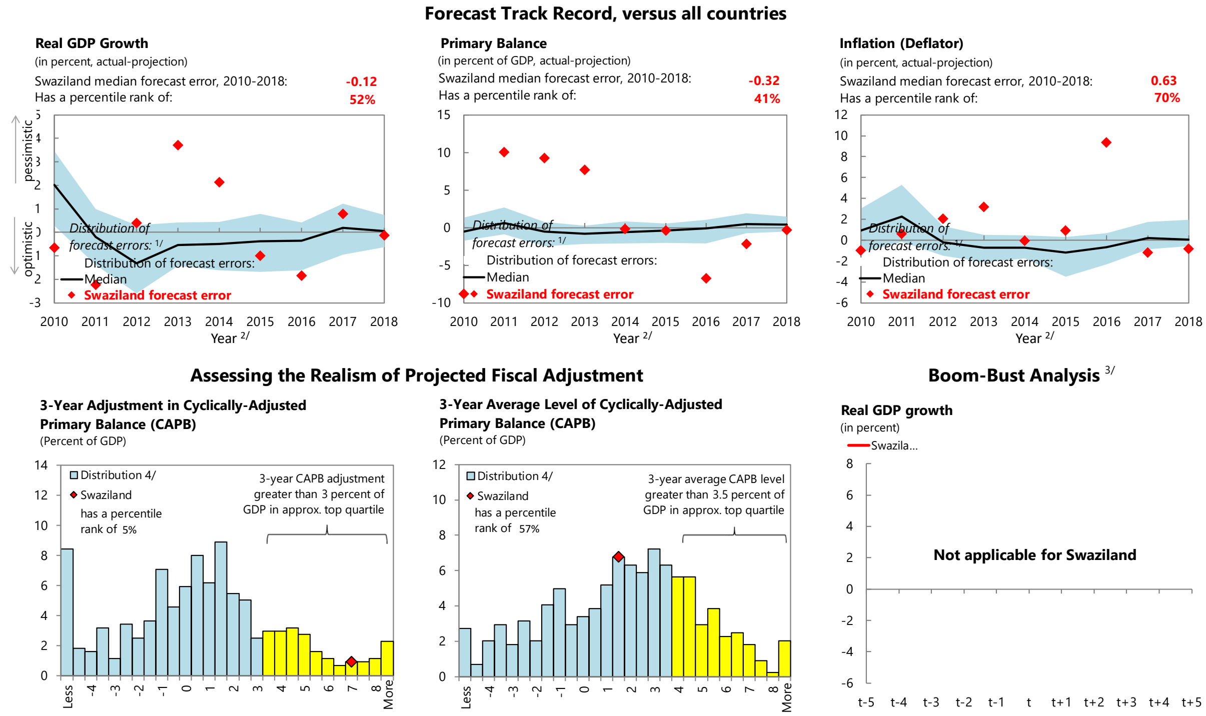
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 19-Feb-20 through 19-May-20.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure A2. Eswatini: Public DSA—Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Swaziland, as it meets neither the positive output gap criterion nor the private credit growth criterion.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure A3. Eswatini: Public Sector Debt Sustainability Analysis (DSA)—Baseline Scenario

(In percent of GDP unless otherwise indicated)

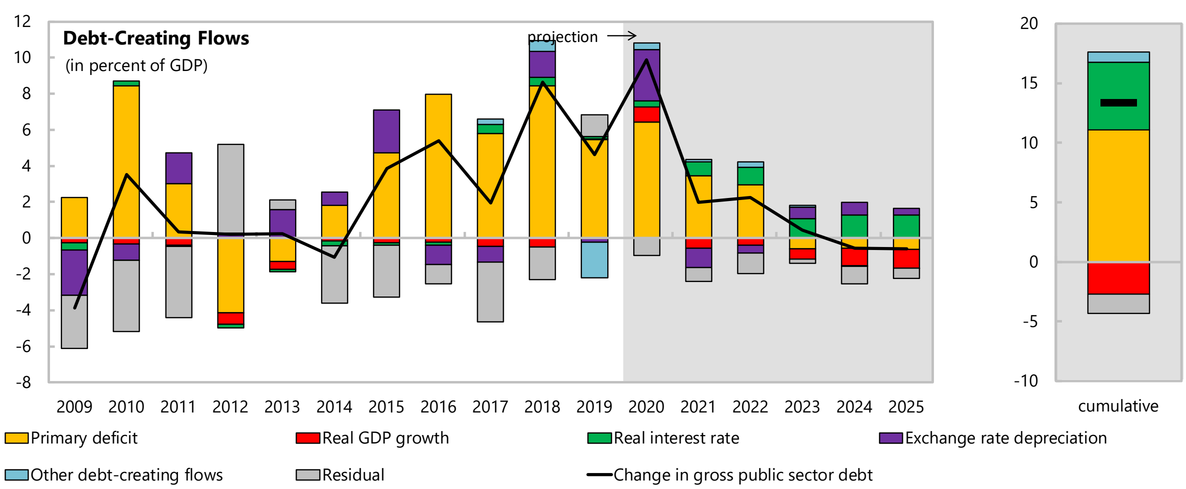
Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2009-2017 [2]	2018	2019	2020	2021	2022	2023	2024	2025
Nominal gross public debt	16.2	33.4	38.0	47.9	49.9	52.1	52.6	52.0	51.4
Public gross financing needs	10.8	12.6	23.4	27.7	22.1	20.2	18.1	19.4	18.5
Real GDP growth (in percent)	2.6	2.0	-0.3	-2.3	1.3	0.8	1.2	2.0	2.1
Inflation (GDP deflator, in percent)	6.1	3.4	4.0	5.1	4.8	4.7	4.7	4.8	4.9
Nominal GDP growth (in percent)	9.0	5.4	3.7	2.8	6.1	5.6	6.0	6.9	6.8
Effective interest rate (in percent) [4]	5.6	6.1	6.8	5.9	6.5	6.8	7.0	7.6	7.7

As of May 19, 2020		
Sovereign Spreads		
EMBIG (bp) 3/		n.a.
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	B2	B2
S&Ps	n.a.	n.a.
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance [9]
Change in gross public sector debt	1.2	8.6	4.6	9.9	2.0	2.2	0.4	-0.6	-0.6	13.3	
Identified debt-creating flows	2.9	10.5	3.4	8.0	3.8	3.8	0.0	-0.3	-0.4	14.9	
Primary deficit	3.2	8.4	5.5	6.4	3.5	3.0	-0.6	-0.6	-0.6	11.1	0.6
Primary (noninterest) revenue and grants	26.4	24.5	26.5	27.2	26.4	24.8	26.0	26.0	26.0	156.5	
Primary (noninterest) expenditure	29.5	32.9	32.0	33.7	29.8	27.8	25.5	25.5	25.4	167.6	
Automatic debt dynamics [5]	-0.3	1.4	-0.1	1.2	0.2	0.6	0.5	0.3	0.3	3.0	
Interest rate/growth differential [6]	-0.4	0.0	0.2	1.2	0.2	0.6	0.5	0.3	0.3	3.0	
Of which: real interest rate	-0.1	0.5	0.2	0.3	0.7	1.0	1.1	1.3	1.3	5.7	
Of which: real GDP growth	-0.3	-0.5	0.0	0.8	-0.6	-0.4	-0.6	-1.0	-1.0	-2.7	
Exchange rate depreciation [7]	0.1	1.4	-0.2	2.8	-1.1	-0.4	0.6	0.7	0.4	3.0	
Other identified debt-creating flows	0.0	0.6	-1.9	0.4	0.2	0.3	0.1	0.0	0.0	0.9	
Change in Domestic Arrears (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Policy lending	0.0	0.6	-1.9	0.4	0.2	0.3	0.1	0.0	0.0	0.9	
Residual, including asset changes [8]	-1.8	-1.8	1.2	-1.0	-0.8	-1.1	-0.2	-1.0	-0.6	-4.6	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

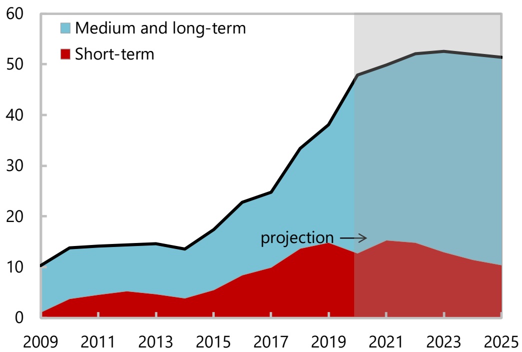
8/ Includes asset changes and interest revenues (if any).

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

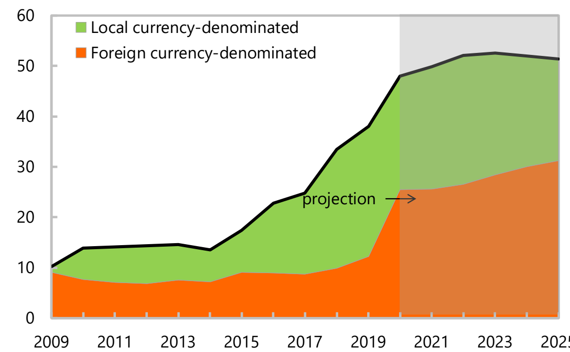
Figure A4. Eswatini: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



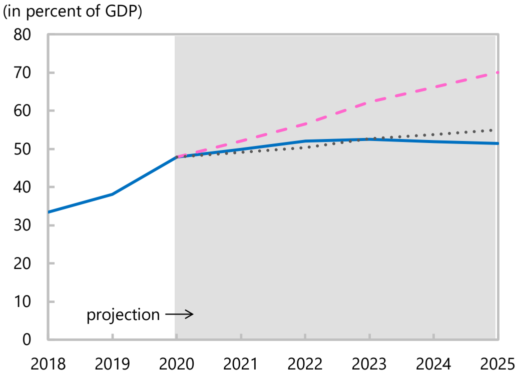
By Currency
(in percent of GDP)



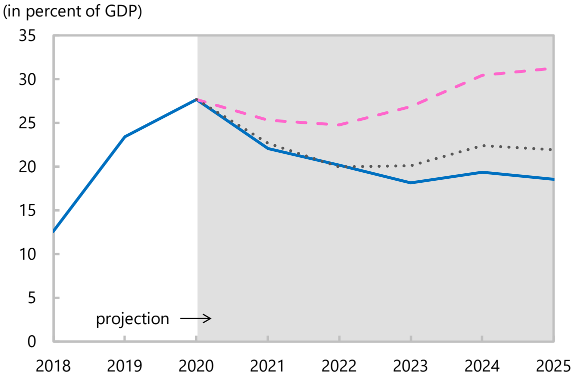
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

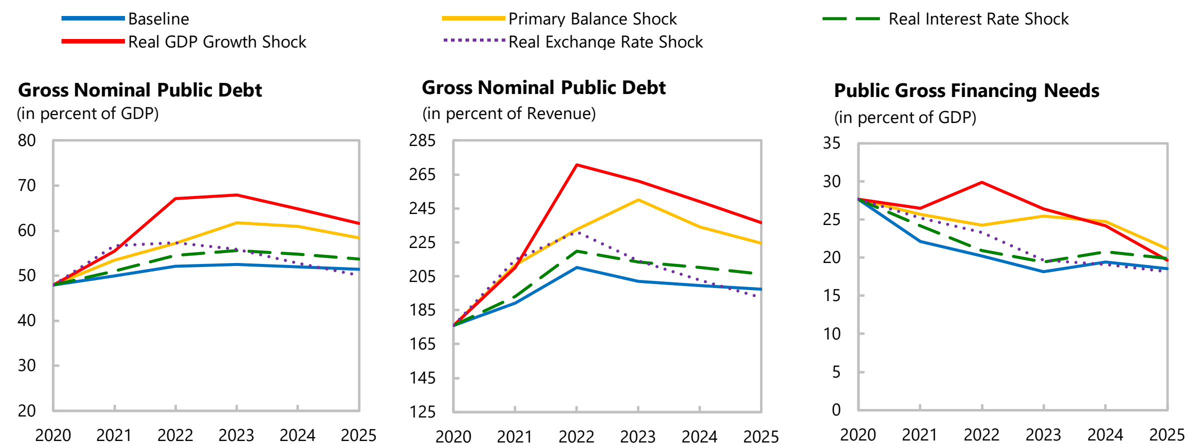
Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-2.3	1.3	0.8	1.2	2.0	2.1
Inflation	5.1	4.8	4.7	4.7	4.8	4.9
Primary Balance	-6.4	-3.5	-3.0	0.6	0.6	0.6
Effective interest rate	5.9	6.5	6.8	7.0	7.6	7.7
Constant Primary Balance Scenario						
Real GDP growth	-2.3	1.3	0.8	1.2	2.0	2.1
Inflation	5.1	4.8	4.7	4.7	4.8	4.9
Primary Balance	-6.4	-6.4	-6.4	-6.4	-6.4	-6.4
Effective interest rate	5.9	6.5	6.7	6.9	7.3	7.1

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-2.3	2.3	2.3	2.3	2.3	2.3
Inflation	5.1	4.8	4.7	4.7	4.8	4.9
Primary Balance	-6.4	-4.0	-4.0	-4.0	-4.0	-4.0
Effective interest rate	5.9	6.5	6.0	6.2	6.8	6.8

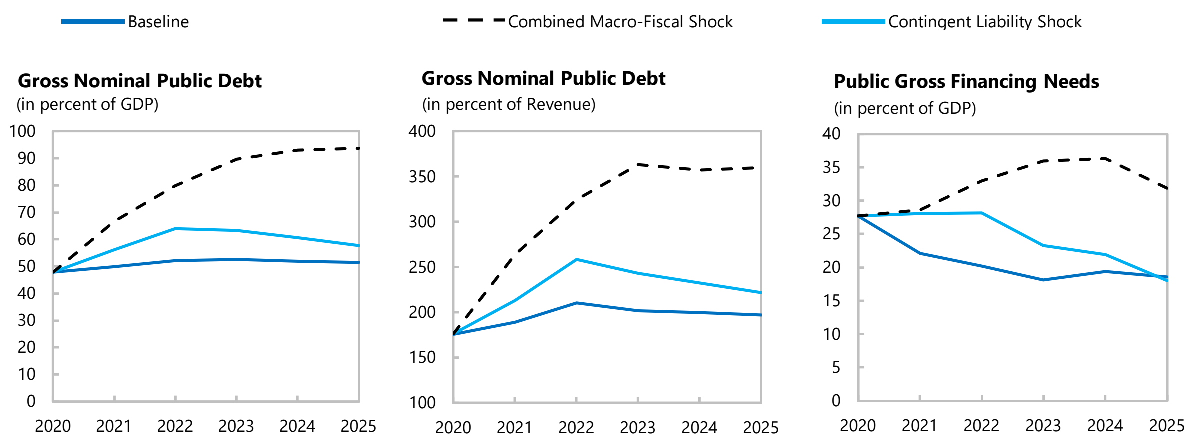
Source: IMF staff.

Figure A5. Eswatini: Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-2.3	1.3	0.8	1.2	2.0	2.1
Inflation	5.1	4.8	4.7	4.7	4.8	4.9
Primary balance	-6.4	-7.9	-3.7	-4.7	0.6	0.5
Effective interest rate	5.9	6.5	10.2	8.0	11.2	8.1
Real Interest Rate Shock						
Real GDP growth	-2.3	-2.8	-3.3	-2.8	-2.3	-1.8
Inflation	5.1	4.8	4.7	4.7	4.8	4.9
Primary balance	-6.4	-3.5	-3.0	0.6	0.6	0.6
Effective interest rate	5.9	6.5	7.5	7.6	8.2	8.4
Combined Shock						
Real GDP growth	-2.3	-2.8	-3.3	-2.8	-2.3	-1.8
Inflation	5.1	0.7	0.6	4.7	4.8	4.9
Primary balance	-6.4	-7.9	-8.1	-4.7	0.6	0.5
Effective interest rate	5.9	6.8	9.1	10.0	10.6	8.0

Real GDP Growth Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-2.3	-2.8	-3.3	1.2	2.0	2.1
Inflation	5.1	0.7	0.6	4.7	4.8	4.9
Primary balance	-6.4	-6.0	-7.9	0.6	0.6	0.6
Effective interest rate	5.9	6.5	8.7	10.6	7.9	8.0
Real Exchange Rate Shock						
Real GDP growth	-2.3	1.3	0.8	1.2	1.5	1.1
Inflation	5.1	6.6	4.7	4.7	4.8	4.9
Primary balance	-6.4	-3.5	-3.0	0.6	0.6	0.6
Effective interest rate	5.9	6.8	6.0	6.2	6.8	7.0
Contingent Liability Shock						
Real GDP growth	-2.3	-1.5	-1.9	1.2	2.0	2.1
Inflation	5.1	2.0	2.0	4.7	4.8	4.9
Primary balance	-6.4	-7.5	-3.0	0.6	0.6	0.6
Effective interest rate	5.9	7.9	13.3	8.0	8.4	8.5

Source: IMF staff.

Table A1. Eswatini: External Debt Sustainability Framework, 2015–2025

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2015	2016	2017	2018	2019			2020	2021	2022	2023	2024	2025	Debt-stabilizing non-interest current account 6/
Baseline: External debt	13.4	17.7	15.8	17.2	18.3			**28.0**	**29.9**	**29.4**	**28.7**	**27.2**	**25.5**	**-0.8**
Change in external debt	0.1	4.3	-2.0	1.4	1.1			9.8	1.9	-0.5	-0.7	-1.6	-1.6	
Identified external debt-creating flows (4+8+9)	-12.8	-7.7	-5.9	-3.2	-6.1			-0.5	-6.8	-5.3	-6.9	-7.1	-6.6	
Current account deficit, excluding interest payments	-13.4	-8.4	-6.8	-2.0	-4.9			-2.1	-6.9	-5.6	-7.2	-7.1	-6.5	
Deficit in balance of goods and services	-1.4	-1.1	0.7	3.3	-3.2			3.3	-1.8	-2.5	-3.6	-3.4	-2.8	
Exports	43.0	43.8	43.1	40.5	45.2			38.4	43.0	42.9	43.3	43.7	44.0	
Imports	41.5	42.6	43.8	43.8	42.0			41.7	41.3	40.5	39.7	40.3	41.2	
Net non-debt creating capital inflows (negative)	-1.0	-0.7	2.7	-1.0	-2.4			-0.2	-0.8	-0.8	-0.6	-0.6	-0.6	
Automatic debt dynamics 1/	1.6	1.4	-1.8	-0.2	1.2			1.8	0.9	1.0	0.9	0.6	0.5	
Contribution from nominal interest rate	0.5	0.6	0.6	0.6	0.7			1.1	1.2	1.2	1.2	1.1	1.1	
Contribution from real GDP growth	-0.3	-0.2	-0.3	-0.4	-0.2			0.8	-0.4	-0.2	-0.3	-0.5	-0.5	
Contribution from price and exchange rate changes 2/	1.5	1.0	-2.1	-0.5	0.7			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	12.9	12.1	3.9	4.6	7.2			10.2	8.8	4.8	6.2	5.5	5.0	
External debt-to-exports ratio (in percent)	31.2	40.5	36.6	42.3	40.4			72.9	69.6	68.5	66.3	62.2	58.0	
Gross external financing need (in billions of US dollars) 4/	-0.3	-0.2	0.0	0.2	0.1			0.2	0.0	0.1	0.0	0.1	0.1	
in percent of GDP	-8.5	-4.0	0.7	4.2	1.7	10-Year	10-Year	5.1	0.6	1.9	0.7	1.2	1.2	
Scenario with key variables at their historical averages 5/								**28.0**	**33.6**	**36.9**	**39.1**	**40.6**	**41.6**	**-0.6**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	2.3	1.3	2.0	2.4	1.1	2.5	1.4	-3.5	1.4	0.8	1.0	1.9	2.1	
GDP deflator in US dollars (change in percent)	-10.0	-7.0	13.6	3.4	-3.7	0.4	9.9	-13.1	7.9	11.3	2.1	2.2	2.3	
Nominal external interest rate (in percent)	3.3	4.0	4.0	4.3	4.0	4.3	1.0	4.9	4.8	4.6	4.1	4.1	4.1	
Growth of exports (US dollar terms, in percent)	-9.8	-4.0	14.1	-0.4	8.6	2.0	10.6	-28.6	22.5	11.9	4.1	5.0	5.3	
Growth of imports (US dollar terms, in percent)	-14.6	-3.3	19.1	6.0	-6.6	-0.9	12.5	-16.8	8.3	10.0	1.2	5.8	6.8	
Current account balance, excluding interest payments	13.4	8.4	6.8	2.0	4.9	5.2	7.1	2.1	6.9	5.6	7.2	7.1	6.5	
Net non-debt creating capital inflows	1.0	0.7	-2.7	1.0	2.4	1.1	1.6	0.2	0.8	0.8	0.6	0.6	0.6	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

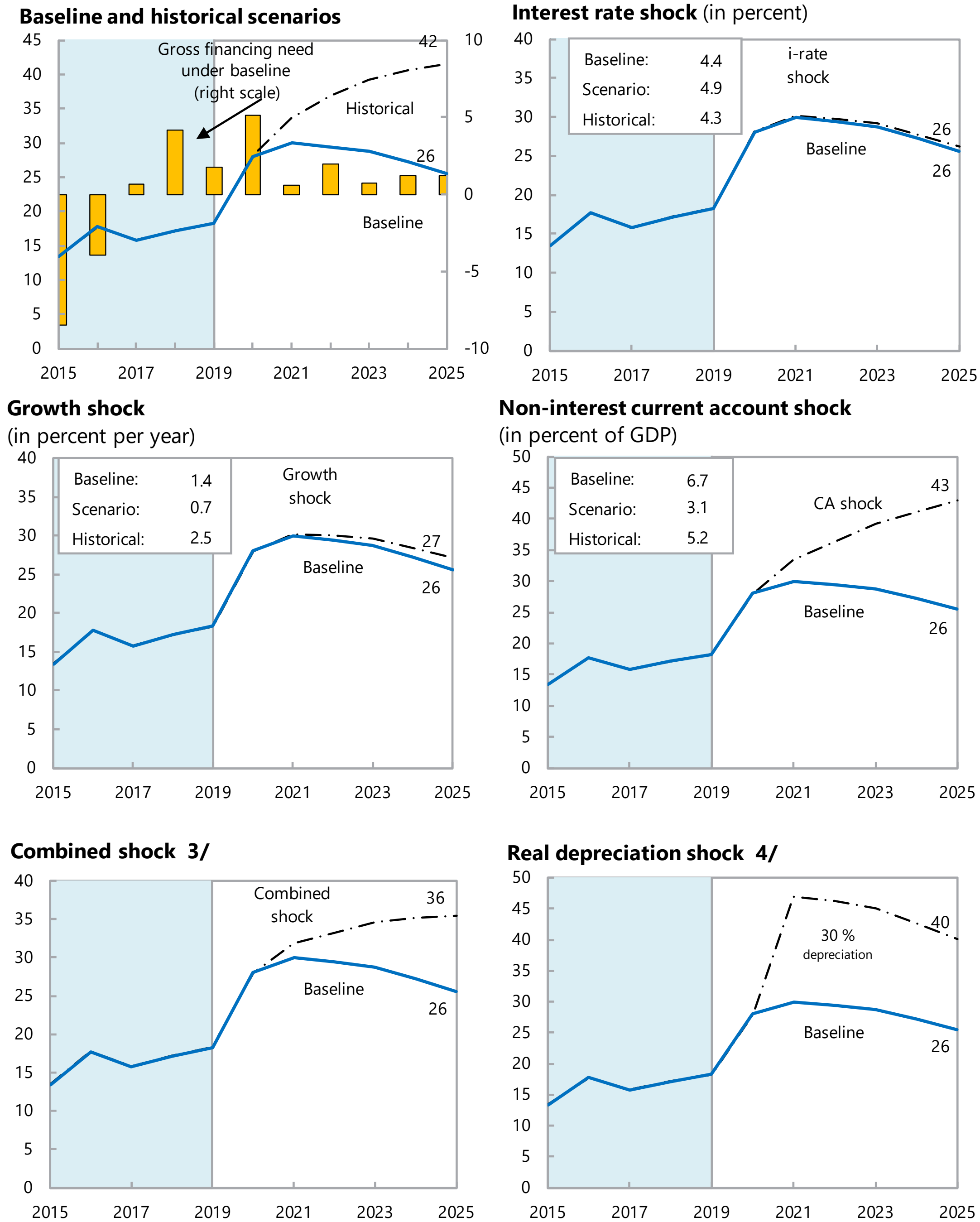
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure A6. Eswatini: External Debt Sustainability: Bound Tests [1/ 2/]

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2021.

Appendix I. Letter of Intent

Mbabane, July 20, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Georgieva,

1. The Government of the Kingdom of Eswatini hereby requests financial support from the IMF under the Rapid Financing Instrument (RFI) in the amount of SDR 78.5 million (100 percent of quota) to mitigate the urgent balance of payments needs arising from the adverse impact of the COVID-19 pandemic on the economy. The government also requests that, upon approval by the IMF's Executive Board, and following parliamentary approval of the loan, the full amount of the RFI purchase be made available as direct budget support to the Ministry of Finance's account at the Central Bank of Eswatini (CBE). This purchase is critical to help the government to address the impact of the pandemic on the economy.

2. The COVID-19 pandemic is having a severe impact on Eswatini. The virus is spreading rapidly, and Eswatini's relatively high HIV/AIDS prevalence and an already pressured health care system exacerbate risks that the pandemic could propagate even faster. To contain the pandemic, the government has swiftly put in place an array of containment measures. It has declared a national emergency and imposed a partial lockdown across the country, including travel bans, closure of schools and universities, and a suspension of all non-essential activities. These measures, combined with a sharp decline in external demand for Eswatini's key exports and spillovers from South Africa, are causing a dramatic fall in economic activity. Our preliminary assessment suggests a contraction in real GDP of 3.5 percent this year, 6 percentage points lower relative to our estimate from just a few months ago. Given the uncertainty as to the depths and duration of this crisis, this estimate comes with significant risks.

3. To support the economy and preserve financial stability, the CBE has adopted a more accommodative policy stance and supported liquidity provision. In the context of the peg, the CBE has followed the South African Reserve Bank and reduced the policy rate by 250 bps since mid-March and reduced banks' liquidity and reserve requirements.

4. Despite the policy response, our external position is under stress and urgent BOP needs have emerged. The current account surplus is projected to decline to about 1 percent of GDP compared to 4.2 percent of GDP in 2019, as a reduction in the country's key exports (beverages, sugar, and textile), and lower remittances and returns from investment abroad would only be partially offset by a slowdown in imports. SACU receipts still support a positive current account, but

the financial account is posited to deteriorate largely because of a decline in FDI, temporary higher portfolio outflows, as investors search for safer investments, and lower external financing for government's capital projects. Despite a depreciation of the currency, we expect external financing needs of US$163 million for this year that, if not financed, will lead to a further decline in already low international reserves.

5. The COVID-19 pandemic is also severely affecting the budget. The economic recession is affecting domestic revenue, which are expected to fall short of the budget target by 2.6 percent of GDP. Moreover, to mitigate the impact of the pandemic, the government has put in place a response package at the cost of about 1.5 percent of GDP. The package includes additional health spending, ramped up food assistance programs, increased social protection transfers, and improved access to water and sanitation facilities for the vulnerable. Given the limited fiscal space, Cabinet has approved a supplementary budget for FY20/21 to accommodate the additional pandemic-related spending within the existing overall budget ceiling by curtailing spending authorization for capital outlays, selected operating expenses, including transfers to public entities, and limiting hiring plans. Despite this prudent approach, given the reduction in GDP, the fiscal deficit is projected to widen to about 8½ percent of GDP, compared to 4.7 percent targeted in the 2020 budget and gross financing needs are projected to approach 25.8 percent of GDP. While part of the budget financing needs will be covered in the domestic market, we estimate an additional US$207 million (5.3 percent of GDP) is required to close the fiscal financing gap for the year. We expect the immediate budgetary impact of the pandemic to subside towards the end of the year.

6. The requested RFI purchase will finance part of the projected external financing needs arising from the COVID-19 shock in 2020. It will also play a catalytic role in securing additional support from our development partners. Beyond a commercial loan already secured to partially repay past domestic arrears, we expect additional financing from the World Bank and the African Development Bank to address the impact of the COVID-19 emergency and contribute to fully finance the FY20/21 budget and cover part of the financing needs for the following years as SACU revenues are expected to decline. We are also developing a contingency plan, should the need emerge, to further scale up pandemic-related government spending, to be financed through reductions in non-priority expenditures. Finally, if there is any remaining budget financing gap in FY20/21, in the context of the October 2020 Mid-year Budget Review, we will issue a supplementary budget to avoid the accumulation of new arrears.

7. Going beyond the current year, the government of the Kingdom of Eswatini remains fully committed to its Recovery Roadmap and to implement policies to preserve macroeconomic stability.

- First and foremost, we have developed a detailed medium-term fiscal consolidation plan to stabilize public debt and bolster external buffers, while protecting the most vulnerable. Cabinet has approved a plan to adopt consolidation measures of 6½ percent of GDP over the next three years starting in FY21/22, which are part of the government's Medium-Term Recovery Strategy. The current economic recession and the expected slow recovery will require us to implement the adjustment gradually, backloading some measures. Our fiscal adjustment strategy is centered around four pillars. We will contain public wage spending, continuing our policies of gradual employment reduction and lower-than inflation salary adjustments. We have commissioned an external review of the extra budgetary sector with the aim of rationalizing spending and transfers to key state-owned entities and merge entities with similar mandates over time. We will also continue to pursue new ways to reduce our operational expenditures, and intend to improve the targeting of our main social assistance programs. In addition, about 40 percent of our adjustment plan relies on boosting our domestic revenue by broadening tax bases, increasing some tax rates such as personal taxation and VAT, and continuing strengthening tax administration. To protect revenue collection, we also commit not to introduce measures that would reduce corporate income tax revenue. This strategy will allow us to broadly preserve capital spending and domestic capital accumulation, and caring more effectively for the most vulnerable members of the society.

- We are committed to support the peg and enhance the banking system liquidity management. The CBE has issued a public notice to communicate its objective to stabilize excess liquidity in the banking system, including liquidity injected through the expected external flows to finance public spending, and its enhanced liquidity management instruments. It has advised the market that it is reactivating weekly auctions of CBE bills as the main tool to stabilize excess liquidity and stands ready to modify reserve requirements as needed. As part of the effort to modernize the liquidity management strategy, the CBE has also improved the terms on which banks can obtain liquidity by reducing the cost of its overnight lending facilities, and has introduced a term discount window facility and will continue to develop its liquidity forecasting capacity.

- Preserving financial stability remains a key policy objective. The CBE has recently introduced temporary regulatory relief measures for COVID-19 affected loans, including payment holidays and forbearance measures. It has also enhanced reporting requirements on banks' liquidity and deposits, introduced more frequent stress tests for key categories of risk in bank's balance sheets, including for COVID-19 affected loans, and required banks to more frequently conduct portfolio reviews and risk assessments. To ensure risks in the banking sector are well managed, the CBE has suspended plans to increase single exposure limits, has taken steps to ensure that loan classification and provisioning standards are maintained. To further strengthen the regulatory framework, the CBE intends to introduce over the next months an early intervention regime. We are also improving the coordination between the CBE and the Financial Services Regulatory Authority (FSRA), by fast-tracking the establishment of the planned Financial Stability Panel. Moreover, to bolster our crisis management framework, we intend to eventually extend the emergency liquidity assistance toolkit to non-bank financial institutions.

8. The government will intensify reforms to strengthen governance, transparency and accountability, and reduce vulnerabilities to state-capture and other forms of corruptions. We have taken a multi-pronged approach.

- First, we fully recognize the importance of ensuring that financial assistance and budget allocations to support COVID 19-related spending are used for intended purposes. To that end, we will: (i) use specific budget lines to facilitate the tracking and reporting of the release of funds of all crisis-mitigation spending, and (ii) publish on the National Disaster Management Agency (NDMA)'s website (www.ndma.org.sz) bi-monthly reports on funds released and expenditures incurred for health, social and other crisis-mitigation spending; (iii) regularly publish, on the Eswatini Public Procurement Regulatory Agency (ESPPRA)'s website (www.sppra.co.sz), signed public procurement contracts for crisis-mitigation spending, along with the names of awarded legal persons and their beneficiary owners, and ex-post validation of delivery; in addition, (iv) the Auditor General will undertake a financial and compliance audit of all crisis-mitigation spending and related procurement processes using independent external audit companies and will publish the results within six-months from the end of the 2020/21 fiscal year. Moreover, the Eswatini Public Procurement Regulatory Agency (ESPPRA) will undertake separate compliance and value-for money audits of all procurement activities related to COVID-19 spending, and publish the result on its website.

- Second, we have set up a transparent strategy to start clearing domestic arrears. All claims will be subject to the standard internal budget spending verification process, including validation of delivery, and the process will be subject to an ex-post review by the Auditor General as part of the budget audit certification process. Cabinet has approved the clearance strategy, which includes Cabinet's approval of any detailed liquidation schedule before payments occur. Moreover, before clearing any arrears, we will publish on the government's website (www.gov.sz) the liquidation strategy and schedule, and all pending claims, both verified and not, with information on claiming legal entities.

- Moreover, to strengthen our PFM framework, we have submitted regulations to fully implement the 2017 PFM law to the Attorney General's Office for final review, and we expect these regulations to be approved by Cabinet in the second half of July 2020, before being presented to Parliament for approval. The full implementation of the law will overhaul PFM processes, strengthening budget credibility and medium-term fiscal planning, and tightening budget execution processes.

- Finally, the government continues to support the strengthening of the Anti-Corruption Commission. Despite the fiscal constraints, the funding to the agency has increased in the last two years to support the upgrading of its systems, building staff capacity, and accelerate the solution of pending cases.

9. As the crisis abates, the government will scale up structural reform implementation to facilitate private investment and support more inclusive and stronger growth. Our objective is to create an enabling business environment focusing on the ease of doing business by *l*everaging the Recovery Strategy and the 2019 National Development Plan. We are facilitating the setting up of large foreign investment projects by providing factory shells, and will continue developing the recently created special economic zones. We also intend to accelerate reform implementation to

improve Eswatini's low doing business ranking, amongst others, by setting up a one-stop shop for businesses, and simplifying license requirements, and property registration. The regulatory framework is being reviewed and will be amended in line with international best practice, including to improve protection of minority investors, and taxpayers' appeal rights.

10. As we request the RFI's purchases to be made available as budget support, the Ministry of Finance and the Central Bank of Eswatini have signed a Memorandum of Understanding on their roles in the timely servicing of Eswatini's financial obligations to the Fund.

11. The Kingdom of Eswatini does not have outstanding credit from the Fund and its capacity to repay the RFI purchase is adequate. Repayments will peak at 1.1 percent of GDP and 2.5 percent of exports of goods and services and will remain manageable. The government intends to meet its financial obligations to the IMF on a timely basis. Moreover, our external and public debt sustainability indicators will not change significantly because of the additional financing to cope with the current crisis.

12. In line with IMF safeguards policy, we commit to undergoing a safeguards assessment conducted by the Fund. To this end, we authorize IMF staff to hold discussions with external auditors and provide IMF staff access to the CBE's most recently completed external audit reports. Moreover, we do not intend to introduce measures or policies that would exacerbate balance of payments difficulties. We do not intend to impose new or intensify existing exchange rate and trade restrictions.

13. We are determined to meet the challenge the COVID-19 pandemic has created and the support of the international community will be critical. We look forward to an early approval of financial assistance by the IMF—which will help our effort to bring Eswatini's economy back on a strong path and sustain our fight against poverty. Beyond this much needed immediate financial assistance, we reaffirm our willingness to fully remain engaged with the IMF, to benefit from its policy advice, its technical assistance and, if needed, financial support.

14. In line with our commitment to transparency in government operations, we agree to the publication of this letter and all the documents submitted to the Executive Board in relation to this request.

Sincerely yours,

/s/	/s/
Neal Rijkenberg	Majozi V. Sithole
Minister of Finance	Governor, Central Bank of Eswatini

Statement by Mr. Dumisani Hebert Mahlinza and Mr. Muayad Ismail on Eswatini
July 29, 2020

Introduction

Our Eswatini authorities thank Fund management and staff for their timely response to the request for emergency financing under the Rapid Financing Instrument (RFI). They consider assistance under the RFI as important in catalyzing additional resources from other development partners.

The Eswatini economy has been severely affected by the COVID-19 pandemic, exacerbating pre-existing economic challenges and hindering the authorities' efforts to restore fiscal sustainability and support recovery from previous shocks. In addition, domestic measures to contain the pandemic, coupled with spillovers from South Africa and lower external demand, have led to a significant contraction in economic activity and emergence of financing gaps. Against this background, the authorities request purchase under the RFI in the amount of SDR 78.5 million, equivalent to 100 percent of quota, to help address urgent balance of payment needs created by the COVID-19 pandemic. They are also seeking additional financing from other development partners to close the residual financing gap.

To ensure the transparent and accountable use of COVID-related resources, the authorities will use a single account and create specific budget lines to facilitate tracking of all pandemic-related spending. In addition, they plan to publish bi-monthly reports on spending execution on the website of the National Disaster Management Agency (NDMA), as well as details of respective procurement contracts. Further, under the coordination of the Auditor General, they plan to conduct a financial and compliance audit of all crisis-mitigation spending and procurement processes using independent external audit companies, and to publish the audit results. At the same time, the Eswatini Public Procurement Regulatory Agency will separately conduct compliance and value-for-money audits of all procurement activities related to COVID-19 spending and publish the results on their website. Moreover, the Central Bank of Eswatini (CBE) is committed to undergo a safeguards assessment before Board approval of any subsequent arrangement.

Impact of the COVID-19 Pandemic

Since the first confirmed COVID-19 case registered on March 14, 2020, the number of cases has risen sharply to 1,894 as of July 21, 2020, partly reflecting a relatively strong testing capacity. As a result, the pandemic has exerted pressure on the already stretched health care system.

Reflecting the negative repercussions of the pandemic, GDP growth is projected to contract by 3.5 percent in 2020, which is about 6 percentage points lower than the pre-crisis growth projection. This largely reflects the growth constraining effects of domestic containment measures, disruptions in supply chains, and subdued external demand. At the same time, the current account surplus is expected to decline by about 2.8 percent of GDP relative to the pre-crisis level, also underpinned by depressed returns on investments abroad and decline in remittances. The drop in international oil prices and its impact on the import bill is, however, expected to partially moderate these adverse current account developments. Inflation pressures are expected to mount on the back of exchange rate depreciation and rent increases.

Consistent with the decline in economic activity, fiscal revenue is expected to fall short of the budget target by 2.6 percent of GDP in 2020, while spending on health care and transfers to vulnerable households and businesses will increase. As a result, the fiscal deficit is projected to widen to 8.7 percent of GDP in FY2020/21 compared to 5.5 percent of GDP in the pre-COVID scenario. This has created a budget financing gap of about 5.3 percent of GDP, to be covered by the RFI purchase and loans from the WB and AfDB.

Policy Responses to the Pandemic

In mid-March, the authorities declared a national state of emergency and swiftly took measures to contain the spread of the pandemic, including implementing a partial lockdown. Key response measures adopted include suspension of air travel, restrictions on gatherings and movement across cities, and closure of schools, universities, and non-essential businesses. In parallel, they enhanced collaboration with development partners to accelerate the procurement of medical supplies, while mobilizing the required financing. As a result, strong testing capacity has been established together with isolation facilities. Further, an inter-ministerial committee was constituted to coordinate government efforts and communicate pandemic-related developments in daily press briefings. At the same time, the National Disaster Management Agency (NDMA) was tasked with executing crisis-related spending under a robust monitoring and reporting framework.

To mitigate the impact of the pandemic on vulnerable households and businesses, the authorities instituted a package of fiscal, monetary, and financial sector measures. Key fiscal policy measures include scaling up of healthcare spending, expanding food assistance programs, improving access to water and sanitation for the vulnerable households, and increasing social protection transfers. To accommodate additional spending on the response package, a supplementary budget that reallocates budgetary resources within existing spending ceilings has been submitted to Parliament. In addition, the authorities have granted temporary tax relief to affected businesses conditional on retaining employees. The government has also postponed planned increases in electricity and water tariffs. They have also secured a loan from Afreximbank to partially repay past arrears and ease private sector financing pressures.

The CBE has implemented several accommodative monetary policy measures, including reducing the policy rate by 250 basis points to 4 percent to mitigate the impact of the pandemic on vulnerable businesses. In addition, the authorities have relaxed reserve requirements to help ease liquidity conditions in the financial system. Further, the CBE has encouraged banks to restructure loan repayments and provide payment holidays for affected clients. They have also raised limits on mobile money transactions to encourage the use of electronic payment and promote social distancing.

Post-crisis Measures

Starting in the FY2021/22, the authorities intend to implement their recently adopted fiscal consolidation plan. The plan entails a fiscal adjustment equivalent to 6.5 percent of GDP over a period of three years and aims to stabilize public debt while strengthening external resilience. The plan is centered around four pillars: increasing domestic revenue through rate increases and base broadening measures; reducing public wage spending; rationalizing transfers and expenditure of state-owned entities; and improving the targeting of social assistance programs. The authorities intend to contain reductions in capital spending and better prioritize growth-enhancing investments in line with the recommendations of the recent PIMA exercise.

To boost long-term growth and private investment, the authorities plan to accelerate implementation of their Medium-Term Recovery Strategy once the crisis abates. Meanwhile, they have continued to facilitate the setting up of large foreign investment projects and developing the recently established special economic zones. Concurrently, they continue to implement reforms to improve the business environment to further enhance the country's investment appeal.

The CBE remains committed to supporting the exchange rate peg through prudent liquidity and international reserve management. To this end, they will stabilize excess liquidity stemming from external flows to finance public spending through the reactivation of weekly auctions of CBE bills, introducing a term discount window facility, and improving the terms on which banks can obtain liquidity. Moreover, the CBE stands ready to modify banks' reserve requirements as needed to address excess liquidity and will continue to enhance its liquidity forecasting capacity going forward. To further strengthen financial sector's oversight and preserve financial stability, the CBE has enhanced monitoring and reporting requirements on bank deposits and liquidity positions, suspended plans to relax the single exposure limits and is developing an early intervention regime. The central bank is also considering the extension of emergency liquidity assistance toolkit to non-bank financial institutions to further strengthen the crisis management framework.

Furthermore, the authorities are stepping up efforts to strengthen governance and intensify the fight against corruption. In this regard, they have increased funding to the Anti-corruption Commission to support the upgrading of its systems, building staff capacity, and expediting the resolution of pending cases. To further preserve fiscal sustainability, the authorities have made significant strides to stop accumulation of arrears. In this regard, they are determined to implement the arrears clearance strategy, that has been approved by Cabinet, to transparently liquidate past arrears through the standard budget process. In this respect, they have started phasing out special accounting treatment for some extra-budgetary entities. At the same time, regulations to fully implement the Public Financial Management (PFM) Act have been submitted to the Attorney General's Office for final review prior to the Cabinet's approval.

Conclusion

The authorities remain committed to restoring macroeconomic stability and supporting economic recovery in the medium term. To this end, they view continued Fund support as critical to help them advance reforms to ensure fiscal and debt sustainability while promoting sustainable and inclusive growth. They look forward to Executive Directors' support on their request for emergency financing under the RFI to mitigate the pandemic shock.