



KINGDOM OF ESWATINI

2023 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR KINGDOM OF ESWATINI

May 2023

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2023 Article IV consultation with Kingdom of Eswatini, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 3, 2023, consideration of the staff report that concluded the Article IV consultation with Kingdom of Eswatini.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 3, 2023, following discussions that ended on March 10, 2023, with the officials of Kingdom of Eswatini on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 18, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Kingdom of Eswatini.

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IMF Executive Board Concludes 2023 Article IV Consultation with Kingdom of Eswatini

FOR IMMEDIATE RELEASE

Washington, DC – May 4, 2023: On May 3rd, 2023, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with the Kingdom of Eswatini.

Eswatini has shown resilience to multiple economic shocks. Real GDP contracted by a comparatively modest 1.6 percent in 2020 but surged by 7.9 percent in 2021 as manufacturing rebounded on the easing of COVID-19 restrictions and strengthened external demand. Real GDP growth declined in 2022 due in part to base effects but also as construction projects slowed in response to government cash constraints, and sugar cultivation and processing were affected by excessive rainfall, high fertilizer and pesticide costs, and arson. Inflation rose in the wake of surging international food and fuel prices but appears to have peaked in 2022.

Fiscal and external buffers are low. The fiscal deficit held steady at 4.5 percent of GDP in FY21/22 despite a drop in SACU revenues but is estimated to have widened to 5 percent in FY22/23 in the wake of further declines in SACU revenues and higher spending on goods and services, transfers, and interest payments. Public debt rose to an estimated 42.3 percent of GDP by end FY22/23. The trade balance worsened in 2022 with the rising cost of food and fuel imports—driving the external current account into deficit for the first time in over ten years. Together lower SACU receipts and weakening foreign direct investment, central bank foreign exchange reserves fell to about \$449 million by end-2022 (2.3 months of import cover). The external position is assessed as broadly in line with the level implied by economic fundamentals and desirable policies.

The banking sector is liquid and well-capitalized. Banks' profitability improved in the first half of 2022. Lending to the government remained high, reflecting large fiscal financing needs. Financial sector holdings of government securities amounted to about 16 percent of total assets in June 2022, leaving the sector exposed to sovereign risk. The ratio of non-performing loans to total loans increased to 6.5 percent at end-June 2022, from 5.6 percent a year earlier. Nonbank financial institutions continued to be the dominant element in the financial system, accounting for roughly 70 percent of total financial system assets.

The near-term outlook is buoyed by continued recovery and a surge in SACU revenue transfers, but downside risks remain. Real GDP growth is projected at 3.2 percent in 2023 and inflation is expected to stabilize at around 5 percent. SACU transfers will double in FY23/24. This should allow the overall FY23/24 fiscal deficit to narrow to 0.3 percent of GDP despite an expansionary fiscal policy. Public debt is projected to decline to 40.6 percent of GDP. The outlook is subject to downside risks, including the impact of weaker growth in South Africa, and new shocks to food, fuel, and fertilizer prices.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment²

Directors welcomed the authorities' response to the pandemic and efforts toward reform and fiscal consolidation even during difficult times. Directors noted that while the economy will be buoyed in the short run by strong Southern African Customs Union (SACU) revenue transfers, the medium-term outlook remains uncertain given low fiscal and external buffers and macro-structural weaknesses.

Directors called for continued fiscal adjustment to put public debt on a downward path, rebuild fiscal buffers, clear domestic payment arrears, and reduce pressure on the external accounts. While welcoming efforts to contain the wage bill, and the introduction of a SACU revenue stabilization fund, Directors emphasized the need for a revised medium-term fiscal adjustment plan anchored on a primary surplus and supported by macro structural reforms to facilitate private sector-led growth. In addition to further reductions of the public wage bill, they highlighted the criticality of public enterprise reform and rationalization of Eswatini's tax expenditure regime, together with efforts to improve the social safety net.

Directors agreed on the need for further reforms to public financial management, revenue, and tax administration. They welcomed the authorities' commitment to improving fiscal governance and saw the implementation of a Treasury Single Account and an Integrated Financial Management Information System as key. Directors noted that stronger budget planning and implementation are essential to avoid payment arrears.

Directors concurred that monetary policy should focus on price stability and maintaining adequate reserves to safeguard the exchange rate peg, and that the authorities should remain vigilant and maintain a data-dependent approach. They welcomed the financial sector's resilience but emphasized the need for continued vigilance—particularly on nonbank financial institutions. Directors highlighted the need for further efforts on financial inclusion and financial literacy to foster room for extension of private sector credit. They also emphasized the importance of addressing gaps in AML/CFT compliance, supported by capacity development from the IMF.

Directors encouraged the implementation of macro-structural and governance reforms to support private sector-led inclusive growth to reduce poverty and inequality. They agreed that continued efforts to improve the business climate, diversify the economy, and close gender gaps are key. Addressing governance weaknesses with support of an IMF governance diagnostic and strengthening climate resilience would also be important.

² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

Eswatini: Selected Economic Indicators, 2019–28

	2019	2020	2021	2022	2023	2024	2025	2026
		Prel.	Prel.	Prel.	Proj.	Proj.	Proj.	Proj.
	(Percentage changes unless otherwise indicated)							
National Account and Prices								
GDP at constant prices	2.7	-1.6	7.9	3.6	3.2	3.2	3.1	3.0
GDP deflator	2.4	2.6	-0.9	9.0	4.5	4.0	3.9	3.8
GDP at market prices (Emalangenzi billions)	65.0	65.6	70.1	79.2	85.4	91.6	98.1	104.9
GDP at market prices (US dollar billions)	4.5	4.0	4.7	4.9	5.2	5.5	5.7	6.0
Nominal GDP per capita (US dollar)	4,032	3,535	4,165	4,271	4,463	4,648	4,821	4,989
Consumer prices (average)	2.6	3.9	3.7	4.8	5.1	4.9	4.3	4.3
Consumer prices (end of period)	2.0	4.6	3.5	5.6	5.2	4.3	4.3	4.0
External Sector								
Exports (US dollar billions)	7.9	-13.2	19.9	-2.0	7.0	2.1	3.1	3.7
Imports (US dollar billions)	-4.7	-14.0	30.5	1.5	5.0	3.7	3.5	3.6
Average exchange rate (local currency per US dollar)	14.5	16.5	14.8	16.4	...	...	...	...
Nominal exchange rate change (– = depreciation) ¹	-2.8	-4.8	4.9	-2.3	...	...	...	...
Real effective exchange rate (– = depreciation) ¹	-3.8	-4.2	4.0	-4.7	...	...	...	...
Terms of trade (deterioration –)	0.2	6.6	-18.2	12.1	-6.4	-1.1	-1.3	0.6
Money and Credit								
Domestic credit to the private sector	4.6	3.3	4.8	4.4	7.9	7.5	6.8	7.0
Reserve money	30.9	24.0	-9.8	34.7	8.3	7.3	7.1	6.9
M2	1.8	15.4	0.3	12.8	7.8	7.3	7.1	6.9
Interest rate (percent) ²	6.5	3.8	3.8	6.5	...	...	...	...
	(Percent of GDP)							
National Accounts								
Gross capital formation	13.6	12.3	14.1	16.8	17.2	17.1	16.8	16.7
Government	4.9	12.2	7.2	6.7	7.3	7.2	7.1	7.0
Private	8.6	0.1	6.9	10.1	10.0	9.8	9.7	9.7
National savings	17.5	19.3	16.7	15.7	23.1	20.4	18.3	18.0
Government	1.4	3.3	1.5	0.9	5.7	4.8	3.5	3.3
Private	16.0	16.1	15.3	14.8	17.5	15.6	14.7	14.7
External Sector ³								
Current account balance								
(including official transfers)	3.9	7.1	2.7	-1.0	5.8	3.3	1.4	1.2
(excluding official transfers)	-5.6	-4.9	-7.1	-8.4	-7.3	-7.5	-7.6	-7.4
Trade balance	5.8	6.0	2.7	1.2	1.9	1.3	1.1	1.1
Financial account	3.0	3.4	3.2	-2.2	2.6	2.3	1.9	1.6
<i>of which</i> foreign direct investment	-2.4	-1.2	-1.2	-0.7	-0.7	-0.8	-1.2	-1.4
External debt	20.5	22.5	22.2	23.1	24.2	25.3	26.4	27.9
<i>of which</i> : public	12.7	15.2	15.2	16.9	18.3	19.6	21.1	22.9
Gross international reserves								
(months of imports)	2.6	3.0	3.0	2.3	2.9	3.0	2.8	2.5
(percent of GDP)	9.2	12.2	13.0	9.6	12.2	12.6	11.5	10.6
(percent of reserve money)	137	148	187	117	147	152	139	128
Central Government Fiscal Operations ⁴								
Overall balance	-6.7	-4.5	-4.5	-5.0	-0.3	-3.1	-3.8	-4.0
Total revenue and grants	27.3	28.9	24.8	23.8	30.1	26.9	26.5	26.7
<i>of which</i> : SACU receipts	9.7	12.5	8.8	7.2	13.5	9.7	9.1	9.1
Total expenditure	34.0	33.5	29.4	28.8	30.4	30.0	30.3	30.7
Public debt, gross	39.5	41.2	40.6	42.3	40.6	41.4	43.3	45.6
Public debt, net	33.7	31.4	34.0	36.3	36.8	37.9	40.0	42.5
Net lending (excl. SACU revenues)	-16.4	-17.1	-13.4	-12.2	-13.9	-12.9	-13.0	-13.1
Primary net lending (excl. SACU revenues)	-14.3	-14.9	-11.5	-10.4	-12.1	-11.4	-11.2	-11.0
Memorandum Item:								
Population (in million)	1.11	1.13	1.14	1.15	1.16	1.18	1.19	1.20

Sources: Eswatini authorities; and IMF staff estimates and projections

¹ IMF Information Notice System trade-weighted; end of period.² 12-month time deposit rate³ 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.



KINGDOM OF ESWATINI

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

April 18, 2023

KEY ISSUES

Context: Eswatini is at an important juncture as the authorities seek to address long-standing macroeconomic challenges in a shock-prone environment. While Eswatini has endured the pandemic and successive shocks from international commodity prices, fiscal and external buffers are low. Addressing long-standing macroeconomic imbalances—stemming mainly from fiscal overruns—remains a critical priority. Government efforts in this area have already begun but will need to be sustained over the medium-term. In tandem, shifting from a state-led to a private sector and export-led growth model will be essential to achieve higher and sustained levels of inclusive growth necessary for poverty reduction. Focused efforts to address the underlying causes of recent civil unrest, together with concerted efforts to tackle gaps in governance, are also needed.

Outlook and Risks: The near-term outlook is buoyed by continued economic recovery and a surge in SACU revenue transfers. Real GDP growth is projected at 3.2 percent in 2023 on the back of higher agricultural output and new manufacturing capacity. Inflation is expected to stabilize at around 5 percent in line with the gradual decline in international commodity prices. SACU transfers are doubling in FY23/24, which should allow the overall fiscal deficit to narrow to 0.3 percent of GDP. However, the balance of risks is to the downside. The specter of civil unrest clouds near-term prospects, as does the weaker outlook for South Africa. Potential new shocks to food, fuel, and fertilizer prices and downward pressure on the external position and foreign exchange reserves are also risks. Delays in fiscal consolidation risk continued macroeconomic imbalances.

Focus of the Article IV Consultation: The staff recognized government efforts to move forward with fiscal adjustment even during the pandemic but urged a “reboot” of the fiscal adjustment plan, linked to a medium-term operational target. Fiscal adjustment should continue to target a reduction in the public wage bill and transfers to public enterprises, but also a rationalization of Eswatini’s tax expenditure regime. Consolidation will need to be supported by stronger public financial management. Monetary and exchange rate policy should continue to focus on price stability and maintaining adequate reserves to safeguard the peg. Macro-structural reforms should focus on improving the business environment, bolstering governance and rule of law, and reducing the state’s footprint on the economy. Further progress is needed to improve financial sector supervision and address gaps in AML/CFT compliance.

Approved By
Andrea Richter Hume
(AFR) and Boileau
Loko (SPR)

Discussions were held in Mbabane during February 27 to March 10, 2023. The staff team comprised Todd Schneider (head), Victor Davies, Nelnan Fidèle Koumtingué, and Can Sever (all AFR). Mawek Tesfaye Mengistu (OEDAE) participated in the discussions. The team met with Minister of Finance Neal Rijkenberg, Principal Secretary Sizakele Dlamini, Governor Phil Mnisi, Deputy Governor Felicia Dlamini-Kunene, and other officials. Qiuyan Yin and Erick Trejo Guevara provided research and editorial assistance in the preparation of this report.

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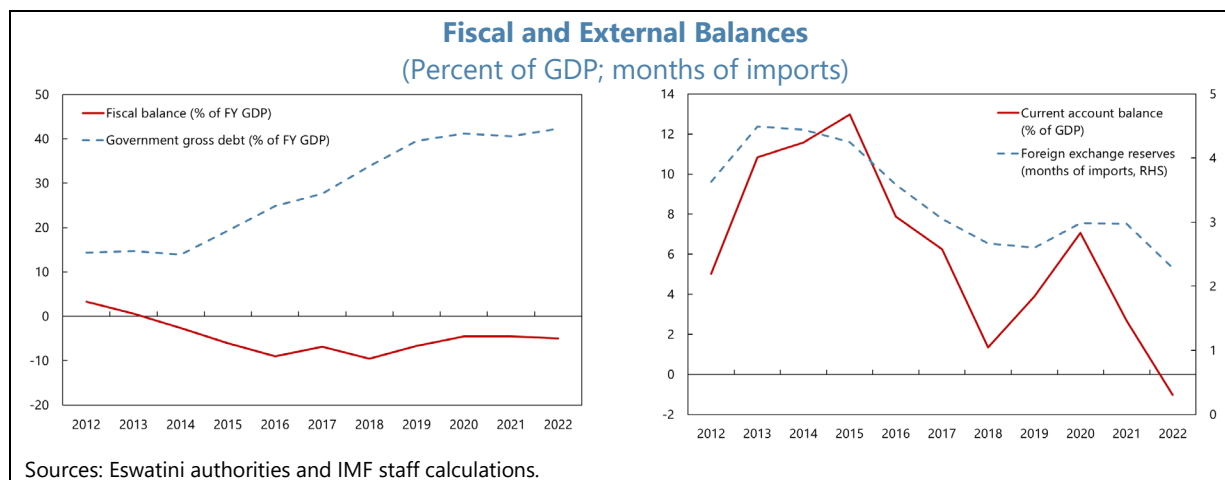
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CONTEXT

1. Eswatini is at an important juncture as the authorities seek to address long-standing macroeconomic challenges in a shock-prone environment. Low growth and macroeconomic imbalances have been persistent problems. Eswatini has yet to fully recover from the disinvestment that occurred following the lifting of sanctions on South Africa after apartheid ended in the mid-1990s. The contribution of capital to growth has been minimal since 2000, total factor productivity has been in decline, and export competitiveness has fallen (Annex VII). Income per capita has grown by only 1.8 percent per year on average since 2012. Shifting from a state-led to a private sector and export-led growth model is critical to prospects for higher and sustained levels of inclusive growth.¹

2. A concerted effort to address macroeconomic imbalances began in 2020. The initial response to low growth was a scaling-up of government recurrent expenditure—weakening public finances, tripling public debt over 2011–20, and creating downward pressure on the balance of payments and reserves. A Fiscal Adjustment Plan (FAP) was launched in 2020, targeting cumulative expenditure savings of 4.2 percent of GDP over three years—based largely on (i) reducing the public wage bill; (ii) lowering transfers to public enterprises; (iii) decreasing spending on goods and services; and (iv) broadening the tax base. Progress was made on the public wage bill (savings of about 1.8 percent of GDP between FY20/21 and FY22/23), and public investment spending has been curtailed. However, other savings have yet to materialize. Importantly, the authorities have launched a SACU revenue stabilization fund in FY23/24, which could help strengthen macro-fiscal management.



3. Civil unrest has emerged as a significant new challenge in recent years. Large-scale demonstrations calling for political reform occurred in 2021, leading to loss of life, closure of schools, and deployment of the army.² Protests called for reform of the political system. Tensions

¹ See *Creating Markets in Eswatini*, Country Private Sector Diagnostic, World Bank/IFC, 2022.

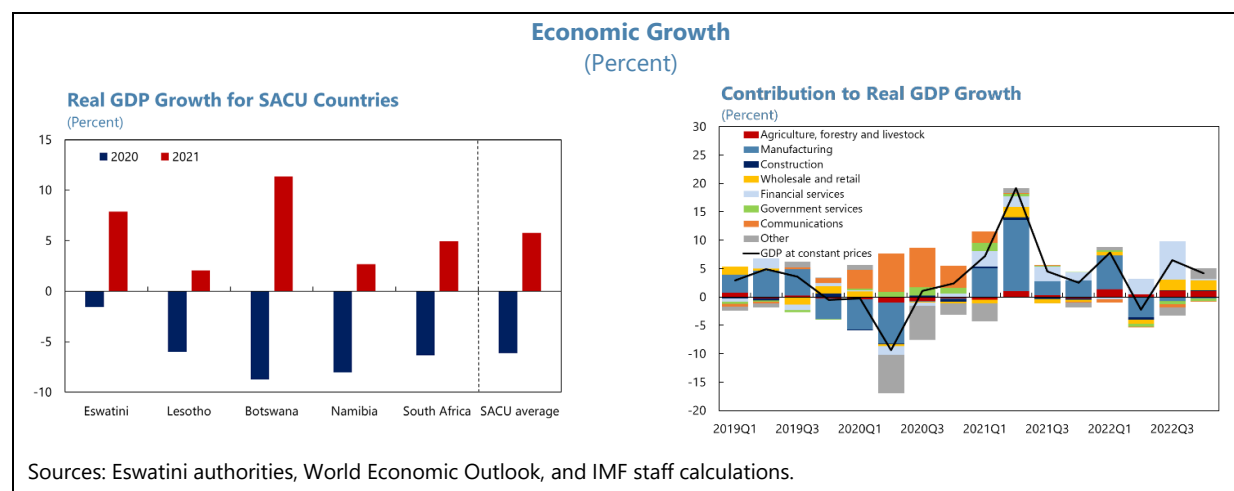
² A report by the Eswatini Commission on Human Rights and Public Administration indicated that at least 46 people died during the June 2021 protests.

persisted in 2022. A promised nationwide dialogue to address the unrest and defuse tension has been delayed. General elections are slated for the middle of 2023.

4. Recent unrest may reflect discontent with high poverty, inequality, and a lack of opportunities. An estimated 59 percent of the population is below the poverty line, with 29 percent of the population living in extreme poverty.³ Eswatini also ranks among countries with the highest income inequality and has the world's highest HIV prevalence rate among adults (27 percent). Income and gender inequalities are widespread (Annex IV) and unemployment is high, particularly among youth (58.2 percent).⁴ Food insecurity is a chronic problem for Eswatini.⁵

RECENT ECONOMIC DEVELOPMENTS

5. Eswatini's economy was comparatively resilient through the pandemic, but growth slowed in 2022. Real GDP contracted by a modest 1.6 percent in 2020 against a 6 percent average contraction in the SACU region. This relatively mild decline was supported by accelerated digitalization, growth in the ICT sector, and increased provision of government services in response to the health crisis. Real GDP growth surged to 7.9 percent in 2021 as manufacturing rebounded on the easing of COVID-19 restrictions and strengthened external demand, an increase in hydroelectric power generation due to high rains, and expansion of financial services through digitalization. Growth is estimated to have declined to 3.6 percent in 2022—linked to base effects, a slowing of construction projects in response to government cash constraints, and the negative effects of excessive rainfall, high fertilizer and pesticide costs, arson, and industrial action on sugar cultivation and processing. Inflation rose in the wake of surging international food and fuel prices but appears to have peaked in September 2022.



³ The poverty rate is based on the national poverty line, set at E975.3 per adult equivalent per month in 2017. The extreme poverty line is set at \$1.90 a day at the 2011 purchasing power parity (World Bank, 2020).

⁴ Integrated Labor Force Survey, 2021.

⁵ IPC (2022), Eswatini: Acute Food Insecurity June to September 2022 and Projection for October 2022 to March 2023. Accessed at: <https://www.ipcinfo.org/ipc-country-analysis/details-map/en/c/1155762/>.

6. External balances have deteriorated, despite depreciation of the lilangeni. The trade balance worsened in 2022 with the rising cost of food and fuel imports—driving the external current account into deficit (1 percent of GDP) for the first time in over ten years. Together with a further decline in SACU receipts and weakening foreign direct investment (FDI), foreign exchange reserves of the Central Bank of Eswatini (CBE) fell by 21 percent to \$449 million at end-December—equivalent to about 2.3 months of import cover, and below the ARA metric range of 3 to 4.6 months. The lilangeni depreciated by 11 percent (average) against the US dollar in 2022 in line with the South African Rand, and by 4.7 percent in real effective terms. The external position is assessed as broadly in line with the level implied by economic fundamentals and desirable policies. This assessment is subject to uncertainty due to statistical issues (Annex III).

7. Public wage restraint and reduced capital spending helped contain the FY21/22 fiscal deficit, but a deterioration is expected in FY22/23 and there remain outstanding payment arrears. The fiscal deficit held steady at 4.5 percent of GDP in FY21/22 despite SACU revenues contracting by 3.7 percentage points of GDP. This was made possible by a reduction in the public wage bill by 1.2 percentage points of GDP through a civil service hiring freeze and below-inflation salary adjustments. Capital expenditures were also reduced during this period. Public debt tripled as a share of GDP during 2010–20 but has largely plateaued. The fiscal deficit is projected to widen to 5 percent in FY22/23 in the wake of further declines in SACU revenues and higher government spending on goods and services, transfers, and interest payments. Financing needs are being covered through budget support from the World Bank and the African Development Bank. A financing gap of 1.9 percent of GDP was covered through accumulation of payment arrears to public enterprises and private sector suppliers.

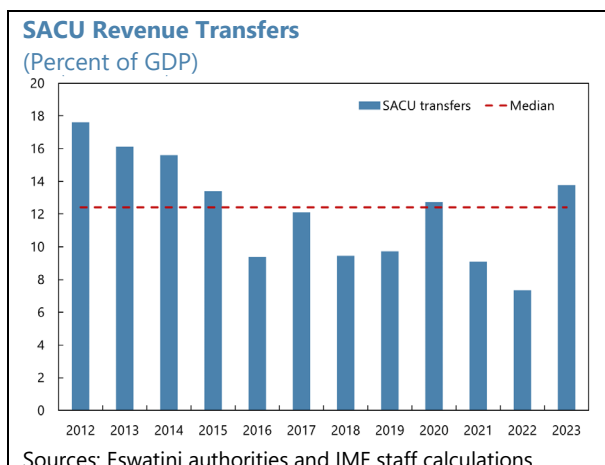
8. The CBE has maintained its policy rate broadly in line with the South African Reserve Bank (SARB), consistent with the peg of the lilangeni to the South African rand. The CBE lowered the discount rate by a cumulative 275 basis points (to 3.75 percent) during 2020–21, following the SARB. Starting in 2022, the CBE followed the tightening cycle of the SARB and raised its policy rate cumulatively by 350 basis points (to 7.25 percent) as of March 2023. CBE's discount rate is currently 50 bps below the SARB benchmark rate. Based on discussions with financial sector stakeholders and balance of payments data on capital flows, the gap vis-à-vis the SARB's benchmark rate does not appear to be inducing pressure on the peg. This is due in part to the presence of a call rate for bank deposits with the CBE, which is currently equal to the SARB rate. Private sector credit growth declined slightly from 4.8 percent in 2021 to 4.4 percent in 2022. CBE net claims on government turned positive starting in 2019 and remained at about 0.3 percent of GDP at end-2022.

9. The financial sector remains resilient, but risks remain. The banking sector is liquid and well-capitalized. Banks' profitability improved in the first half of 2022. Lending to the government remained high as of mid-year, reflecting large fiscal financing needs. Financial sector holdings of government securities amounted to about 16 percent of total assets in June 2022, leaving the sector exposed to sovereign risk. Non-performing loans to total loans increased to 6.5 percent at end-June 2022, from 5.6 percent a year earlier. Nonbank financial institutions continued to be the dominant element in the financial system, accounting for roughly 70 percent of total financial system assets.

While data weaknesses preclude an assessment of the potential risks in NBFIs, selected sectors (such as building societies, with NPLs of 15 percent) may warrant close supervision.

OUTLOOK AND RISKS

10. The near-term outlook is buoyed by continued recovery and a surge in SACU revenue transfers. Real GDP growth is projected at 3.2 percent in 2023. Agricultural output is expected to rise with implementation of the Mkhondvo-Ngwavuma Water Augmented Project (MNWAP) and the Lower Usuthu Smallholder Irrigation Project (LUSIP II). New manufacturing activities in the beverage and dairy sector are also expected to come online. Increased government capital spending is expected to bolster investment and construction activity. Inflation is expected to stabilize at around 5 percent in line with the gradual decline in international commodity prices. SACU transfers will double in FY23/24 (reflecting a large forecast error adjustment for the FY21/22 common revenue pool, an increase in the FY23/24 projected revenue pool, and an increase in Eswatini's share of that pool). This should allow the overall FY23/24 fiscal deficit to narrow to 0.3 percent of GDP despite an expansionary fiscal policy. Public debt is projected to decline to 40.6 percent of GDP.



11. Notwithstanding positive near-term developments, risks to the outlook are tilted to the downside (Annex 1). The potential for further civil unrest clouds near-term prospects. Weaker growth in South Africa has been accounted for in current projections, but ongoing difficulties with power generation and load shedding, and knock-on effects for neighboring Eswatini could undermine growth in the near term. New shocks to food, fuel and fertilizer prices would aggravate food insecurity and put additional pressure on the external position and foreign exchange reserves. Notwithstanding progress to date, risk of delays in needed fiscal consolidation appear high—particularly if SACU revenue transfers remain at high levels. Without adjustment, continued volatility in SACU receipts and weaknesses in public financial management, revenue administration, and the budget process remain significant risks to the macro-fiscal trajectory and public debt over the medium-term. Failure to implement macro-structural reforms, insufficient/incomplete governance reforms, and delays in shifting to a private-sector-led growth model risks continued anemic growth, poverty, inequality, and declining competitiveness. Climate shocks continue to be a source of vulnerability to macroeconomic growth and food security.

FISCAL REFORMS FOR SUSTAINABILITY AND GOOD GOVERNANCE

12. Medium term fiscal adjustment is the linchpin for macroeconomic stability, reducing public debt, eliminating arrears, containing inflationary pressures, and rebuilding fiscal and external buffers. The 2020 FAP reflected a break from years of unproductive fiscal expansion. Under the FAP, the authorities contained wage bill growth through a hiring freeze and below-inflation cost of living adjustments, and rationalized transfers and spending on goods and services. However, the COVID-19 pandemic, social tensions, and subsequent shocks from the war in Ukraine stymied some parts of the FAP—making deeper cuts to the wage bill and public enterprises reform particularly difficult given potential impact on employment and incomes.

13. Eswatini will benefit in the short run from high SACU transfers but has limited buffers to address new shocks. The authorities plan to maintain the overall fiscal deficit at about 2 percent of GDP over the next two fiscal years to consolidate recent gains and ensure macro-fiscal stability. The SACU revenue stabilization fund will be launched this fiscal year, with an initial capitalization of E1.5 billion (1.7 percent of GDP or roughly 12.7 percent of total SACU transfers in FY23/24).⁶ However, reforms to lower spending on public wages, public enterprises, and goods and services, and to broaden the tax base are on hold at least through national elections. Higher SACU receipts will buoy fiscal and external accounts in the near-term, but Eswatini remains at risk from the same vulnerabilities as at the onset of the pandemic. To highlight potential risks, staff's baseline macroeconomic framework is premised only on status quo policies. This baseline suggests a return to fiscal deficits of around 4 percent of GDP over the medium-term, a continued rise in public debt, increased risk of sovereign debt distress (Annex II), less room for private sector credit, downward pressure on external balances, and sub-optimal economic growth.

14. Rebooting the Fiscal Adjustment Plan is essential for medium-term macro-fiscal sustainability, stronger economic management, and reduced vulnerability. Staff estimates that an adjustment scenario based on measures to achieve an overall fiscal adjustment of 3 percentage points of GDP and anchored on achieving a primary budget surplus of about 1 percent by FY26/27 would put the debt-to-GDP ratio on a downward trajectory and help restore fiscal and external buffers. An adjustment of this magnitude would also, by lowering government consumption, reduce import demand and alleviate pressure on the balance of payments and create space to accumulate foreign exchange reserves to reach about 4 months of imports by the end of the medium term. Associated benefits in the form of lower gross financing needs, elimination of domestic payment arrears, higher private sector credit, and confidence effects from stronger economic management would enhance prospects for investment and economic growth—particularly if supported by macro-structural reforms to improve the business climate, governance, and rule of law.

⁶ The Revenue Stabilization Fund will become operational in the current fiscal year and will be used only to cover SACU revenue shortfalls in budget financing. Future deposits/withdrawals will be made using a 5-year rolling average of SACU transfers as the benchmark.

Medium Term Adjustment Scenario (Percent of GDP, unless otherwise specified)									
	2019	2020	2021	2022	2023	2024	2025	2026	2027
		Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Percent of GDP; unless otherwise indicated)									
Central government fiscal operations ¹									
Total revenue and grants	27.3	28.9	24.8	23.8	30.1	27.2	27.2	27.8	28.0
Total expenditure	34.0	33.5	29.4	28.8	30.4	29.8	29.6	28.9	29.2
Policy measures (cumulative)	0.0	0.0	0.0	0.0	0.0	-0.5	-1.7	-3.0	-3.2
Primary balance	-4.6	-2.4	-2.7	-3.2	1.4	-1.2	-0.6	1.0	1.0
Overall balance	-6.7	-4.5	-4.5	-5.0	-0.3	-2.7	-2.4	-1.1	-1.2
Financing gap	0.9	-0.2	1.5	1.9	0.0	0.0	0.0	0.0	0.0
Public debt, gross	39.5	41.2	40.6	42.3	40.6	40.9	41.5	40.9	40.7
o/w Arrears	7.8	4.3	4.5	5.9	5.5	4.6	2.8	1.3	0.0
Real GDP growth (percent change)	2.7	-1.6	7.9	3.6	3.2	3.0	3.2	3.3	3.3
External sector, current account, and international reserves									
Current account balance	3.9	7.1	2.7	-1.0	5.8	4.5	3.6	3.2	2.8
Gross international reserves (months of imports)	2.6	3.0	3.0	2.3	2.9	3.5	3.8	4.0	4.1
Gross international reserves (percent of reserve money)	137.1	148.4	187.4	116.5	146.9	167.4	182.8	197.4	208.0
Memorandum items:									
Fiscal Balance (excl. SACU revenues)	-16.4	-17.1	-13.4	-12.2	-13.9	-12.4	-11.5	-10.2	-10.4
GDP at market prices (Emalangeni millions)	64,965	65,588	70,123	79,160	85,373	91,621	98,117	104,921	111,977

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

¹ Fiscal year data (fiscal years run from April 1 to March 31).

15. Staff proposed that a revised FAP be embedded in the government’s medium-term fiscal framework and anchored around a primary fiscal surplus to guide year-to-year adjustment. Experience from the 2020 FAP suggests considerations as to the composition of future adjustment:

- In line with the objectives identified in the government’s 2020 FAP, reducing the public wage bill (currently equivalent to about 48 percent of tax revenue) should remain a priority, but measures need to be carefully evaluated with respect to fiscal impact.*** The government is considering an Enhanced Voluntary Early Retirement Scheme (EVERS) in 2024 with the aim of reducing the workforce by 10 percent.⁷ However, estimates suggest that budgetary savings from EVERS may be low.⁸ Staff recommends the government to develop a credible medium-term roadmap—targeted toward reducing the overall wage bill to 10 percent of GDP or less by the end of the medium-term—through adjustments to remuneration and size of the government workforce. This roadmap should guide salary review negotiations, annual decisions regarding cost-of-living adjustments and recruitment to ensure consistency with the medium-term fiscal adjustment plan and be supported by technical assistance from the IMF and development partners where needed.

⁷ An audit of the workforce aimed at identifying critical positions and underutilized units (to be abolished) is expected to be completed at end-March 2023 and inform the Enhanced Voluntary Early Retirement Scheme.

⁸ The cost of the EVERS is estimated at E700 million over two years (about 0.9 percent of GDP).

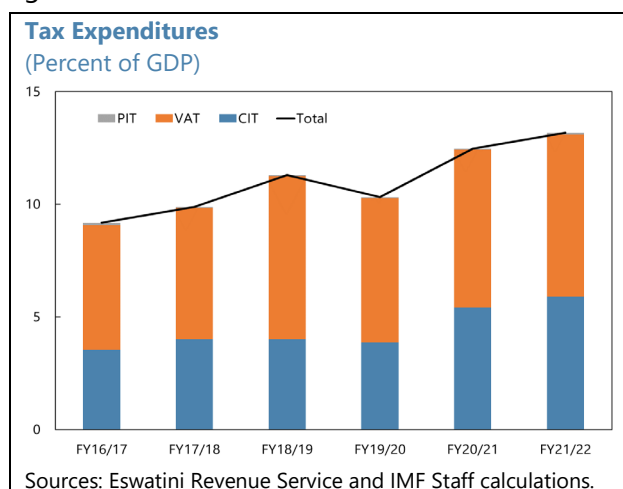
- **Public enterprise (PE) reform will require continuous effort, supported at the cabinet level, leveraging technical assistance, and extending through the medium term.**

Government transfers (largely to state enterprises, many of which are loss-making) are equivalent to about 5 percent of GDP annually or 17 percent of total expenditure. A reform roadmap aimed at reducing the number of public enterprises from 49 to 31 and transfers by about two-thirds of their FY20-21 levels was adopted by cabinet in October 2021. However, progress has been slow due to political resistance and limited capacity in the Public Enterprises Unit (PEU) (Annex V). Only five PEs are currently being restructured/merged.⁹ A detailed assessment of reform options, timeline, and potential fiscal savings is needed to support the roadmap, together with a consensus on economic activities warranting state presence. Details on subventions to public enterprises and government contingent liabilities should also be included in the annual budget.

	2024/25	2025/26	2026/27
Cumulative	0.5	1.7	3.0
Expenditure	0.2	1.0	1.9
Compensation of employees	0.0	0.5	0.9
Transfers	0.1	0.2	0.2
Goods and services	0.1	0.4	0.8
Revenue¹	0.3	0.7	1.1
Corporate income tax	0.1	0.2	0.3
Personal income tax	0.0	0.0	0.1
VAT	0.1	0.2	0.3
Excise	0.0	0.1	0.1
Other	0.1	0.1	0.2

¹ The composition of revenue measures is subject to a tax diagnostic assessment.
Source: IMF Staff calculations.

- **Revenue measures of about 1.1 percent of GDP are needed to balance the burden of adjustment.** The 2020 FAP achieved some gains from revenue mobilization measures, albeit limited due to delays in enacting tax legislation. Future gains are expected from improvements in tax administration. However, additional revenue from a rationalization of tax expenditures (foregone revenue from CIT exemptions, VAT exemptions and zero ratings, and investment incentives) may be needed. Tax expenditures amounted to nearly 13 percent of GDP¹⁰ in FY21/22—with about 99 percent accounted for by exempted/zero rated items under the



⁹ The FSRA and the Centre for Financial Inclusion are being merged with the Central Bank of Eswatini. The Sebenta National Institute (established to improve adult literacy) is being closed. And the Eswatini National Industrial Development Corporation is being dissolved.

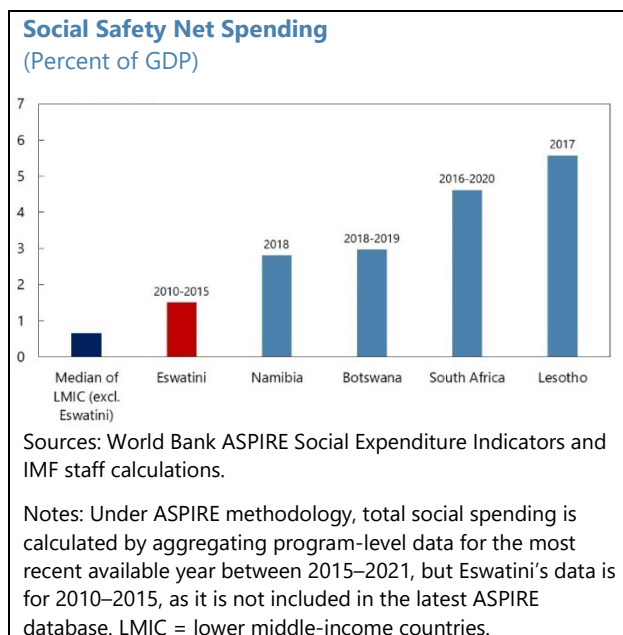
¹⁰ Tax expenditures are estimated to reduce tax revenues by an average of around 4 percent of GDP among countries that report on them, with some countries forgoing more than 10 percent on preferential treatment of specific sectors, firms, and/or individuals. See, *How to Evaluate Tax Expenditures*, IMF, 2022.

VAT, and exemptions granted under the corporate income tax. A summary of tax expenditures and their cost should also be included in the annual government budget.

16. Stronger public financial management will be essential to safeguard fiscal consolidation gains and ensure an efficient use of public resources. Progress was made in numerous areas (supported by IMF CD), including the closing of major trading accounts and stronger screening of special accounts. The authorities are working to implement a Treasury Single Account (TSA) and are moving toward an Integrated Financial Management System (IFMIS) within the next two years. However, gaps remain in critical areas, which could undermine consolidation efforts. Linchpin reforms include:

- **Strengthening budget preparation and execution:** (i) identify financing sources for medium term fiscal frameworks and annual budgets (i.e., no financing gaps); (ii) issue budget circulars with expenditure ceilings for all line ministries and by main expenditure lines; (iii) make commitment authority approval process transparent and rules based; (iv) publish monthly cash-based budget execution reports; (v) consolidate responsibility for budget preparation in the MOF; (vi) undertake a Public Expenditure and Financial Accountability Assessment (PEFA); and (vii) support automation of budget preparation and budgetary controls through rollout of TSA and IFMIS.
- **Implementing a transparent arrears clearance strategy:** The government's arrears clearance strategy in 2020 facilitated a sharp reduction in the stock of arrears from E5.1bn to E2.9bn (4.3 percent of GDP) at end FY20/21. Arrears rose again to an estimated E4.8bn (5.9 percent of GDP) at end-FY22/23 in the presence of financing gaps and insufficient commitment control and cash management systems. The authorities should prioritize arrears clearance and prevent future arrears through PFM improvements noted above.
- **Implementing the SACU revenue stabilization fund:** Passage of the stabilization fund and its initial E1.5 billion capitalization is a major first step in improving fiscal and economic management. The government should integrate further capitalization into the medium-term fiscal framework, taking as a reference point that the standard deviation of SACU revenue transfers over the past decade is about 3 percentage points of GDP. Transparent rules and strong governance will be key for the fund's effective operation. It is suggested, for example, to establish the fund through binding legislation rather than regulation. Greater detail on procedures for deposit and withdrawal from the fund, reporting, accountability rules, and the methodology and criteria for the calculations and who makes them would also be welcome.
- **Bolstering capacity to manage and reform public enterprises by:** (i) strengthening the PEU through legislation and resources to make it the gateway for the creation, supervision, restructuring, or dissolution of PEs in Eswatini; (ii) establishing a centralized database of all financial information on PEs and a standardized approach to financial evaluation; and (iii) undertaking a comprehensive financial evaluation of key and high-risk PEs to identify and mitigate fiscal risks and guide the government in PE privatization, dissolution, or reform.

17. The social safety net needs to be strengthened to protect the most vulnerable. Despite high levels of poverty and inequality, Eswatini spends less on social assistance programs compared to its SACU peers. The social safety net is fragmented and comprises the orphans and vulnerable children (OVC) grant, the old age grant, and the disability grant. There is no social safety net in place for working-age adults and grants in place are not based on a means test. The Covid-19 pandemic and subsequent shocks have exposed gaps in existing social protection programs and highlighted the need for a more effective social safety net. Staff recommends improving the targeting of existing programs to reach the neediest population, including through an adequate legal framework and the implementation of the National Social Assistance Policy. Establishing a single unified social registry will facilitate the targeting, implementation and monitoring of existing programs, and integration with interventions implemented outside the government. Devoting more resources to social protection could improve living standards and lay the ground for more inclusive growth.



18. Eswatini’s overall risk of sovereign distress is assessed to be high (Annex II). The maturity structure and composition of public debt bear significant rollover and liquidity risks as well as vulnerability to exchange rate movements. Short-term debt (mostly T-bills, CBE advances, and domestic payment arrears) accounts for 31 percent of the debt stock. Under staff’s baseline scenario, gross financing needs would remain high and public debt to GDP would continue to rise over the medium-term. Domestic liabilities are projected to account for about 75 percent of government’s GFN over the projection period. Given the limited absorptive capacity of domestic markets (as manifest in yearly financing gaps in the government’s budget), the government is subject to rollover risks. Absent policy adjustment, the financing gap would likely widen, suggesting even further liquidity risks. Public debt denominated in foreign currency rose to 18 percent of GDP in FY22/23 and is subject to exchange rate fluctuations.

19. Progress was made in the implementation of governance commitments under the RFI. Most Covid-19 resources were channeled through the budgetary process to the Natural Disaster Management Agency (NDMA), to execute emergency spending.¹¹ The authorities have regularly published reports on COVID-19 spending execution and procurement contracts, including information on awarded company names and their directors. However, beneficial ownership

¹¹ An envelope of E482 million was approved for COVID-19 emergency response, of which E353.5 million was transferred to NDMA. About E100 million was allocated to the Ministry of Health.

information was not made available. Audit reports covering the operations of NDMA and COVID-19 spending have been published. The Auditor General’s compliance audit report for the FY20–21 noted some unaccounted-for expenditure related to COVID-19 emergency response.¹²

Authorities’ Views

20. The authorities reiterated their commitment to fiscal consolidation over the medium-term and agreed on the key areas for reform. They highlighted the progress made on wage restraint even during the pandemic, as well as the Cabinet-endorsed roadmap for public enterprises reform and launching of the SACU revenue stabilization fund, but also mentioned reform fatigue and the need to find the right pace for sustainable adjustment. They also acknowledged the limitations of a civil service hiring freeze and the need to achieve future savings through targeted reductions of non-critical positions. They welcomed recent IMF technical assistance on wage bill reform and the staff’s caution on using EVERS to achieve budgetary savings. They highlighted the difficulties in reforming complex public enterprises but agreed that such reform was vital to fiscal consolidation. The authorities welcomed closer engagement with the Fund on designing a revamped fiscal adjustment plan, which could be considered after national elections and formulation of the FY24/25 budget.

MONETARY POLICIES TO SUPPORT THE PEG

21. Monetary policy should continue to preserve the currency peg and maintain price stability. The current monetary policy stance is broadly appropriate, but the low level of reserves remains a concern in the context of the peg. It is not clear that maintaining a gap between the CBE’s discount rate and the SARB’s benchmark rate is supporting the economy as banks remain highly liquid and private sector credit growth is flat as a share of GDP. Maintaining the policy rate in line with the SARB’s rate and strengthening international reserves are needed to support the peg to the Rand. In parallel, enhancing CBE’s liquidity forecasting framework and introducing an emergency liquidity facility will support active management of liquidity. The mission recommended CBE should:

- Maintain a data-dependent approach in monetary policy decisions given changing economic conditions—with attention to capital flows and inflation developments—and stand ready to close the 50 bps spread vis-a-vis the SARB’s benchmark rate.
- Evaluate how the use of a call rate in excess of the discount rate and a CBE deposit facility may be affecting bank behavior, capital flows, and extension of credit to the private sector.
- Refrain from providing further budget financing given the shift into positive net financing of the government since 2019.

22. The mission recommended the CBE aim to build up foreign exchange reserves to a level equivalent to 4 months of import cover (the mid-point of the IMF’s adequacy range) to

¹² Kingdom of Eswatini (2022), *Compliance Audit Report of the Government of the Kingdom of Eswatini for the Financial Year Ended 31st March 2021*. Office of the Auditor General.

cushion against historically volatile current and financial accounts.¹³ Together with stronger management of SACU revenues, fiscal consolidation and reforms to boost competitiveness would help to maintain the peg and support reserve accumulation. A reduction of fiscal deficits as envisaged under the proposed adjustment scenario would alleviate pressure on external accounts and contribute to bringing reserves closer to adequate levels. Stronger fiscal and external positions would also boost the credibility of the peg and allow the CBE to maintain the policy rate at a positive spread vis-a-vis the SARB when necessary to compensate for any risk differential, as well as preclude the need for the CBE to engage in budget financing.

Authorities' Views

23. The authorities acknowledged staff views but felt that the current monetary stance was an appropriate balance between support for the peg and support for the economy. They highlighted that the CBE aims to support economic growth while preserving the peg and containing inflation. In this context, they noted that the current gap with the SARB rate helps the CBE achieve this goal, with no visible pressures on capital flows, inflation, or the peg. They highlighted the continued need for the CBE deposit facility and the call rate to help minimize capital outflows to South Africa but agreed that a part of this could be ameliorated by a stronger business environment and more bankable projects in Eswatini.

FINANCIAL SECTOR STABILITY AND INCLUSIVENESS

24. The banking sector¹⁴ remains resilient to multiple shocks that have hit the economy, but risks have risen. Despite the lifting of COVID-19 relief measures such as reduced liquidity and capital requirements, the banking system has met liquidity and capital ratio requirements, and profitability improved in the first half of 2022. However, non-performing loans to total loans increased to 6.5 percent at end-June 2022, from 5.6 percent a year earlier, and bank credit to the private sector has remained roughly constant at around 20 percent of GDP for the last 15 years. New products include mobile money, unsecured loans, e-wallets, and mortgages.

25. Current risks center in the nonbank financial sector given rapid growth in assets but gaps persist in oversight and regulation compared to the banking system. NBFIs account for roughly 70 percent of total financial sector assets. Potential risks are systemic due to interconnectedness between NBFIs and commercial banks and the high levels of financial sector holdings of government securities (Annex VI).¹⁵ There remain weaknesses in NBFI oversight, which is the responsibility of the Financial Services Regulatory Authority (FSRA). A revised FSRA Bill has been drafted but has not been passed into law. New regulations for the oversight of savings and credit cooperatives (SACCO) have also not been issued. These gaps have impeded the ability of FSRA to impose and enforce appropriate minimum regulatory standards. The FSRA also faces challenges with

¹³ Standard deviation of current and financial accounts in 2013–22 were 4.5 and 3.2 percent of GDP, respectively.

¹⁴ Eswatini's banking system is comprised of the central bank, three commercial banks (all headquartered in South Africa) and one local development/commercial bank.

¹⁵ Eswatini will benefit from a Financial Sector Stability Review (FSSR), expected to commence in Q2 2023.

respect to timely collection of data from licensed entities. A forthcoming merger of the FSRA with the CBE¹⁶ offers an opportunity to address gaps in NBF supervision.

26. A macroprudential policy framework and toolkit together with a robust financial safety net are needed. Key steps include swift passage of the Financial Stability Bill to create a financial stability framework with a clear macroprudential mandate, and improved coordination among the CBE, FSRA, and the Ministry of Finance. The mission also advised the authorities (CBE and FSRA) to develop a comprehensive framework to assess climate related risks in the financial system. The strategy should include raising financial institutions' awareness regarding the relevance of climate-related shocks and integrating climate-related risks into their risk management systems as well as disclosure frameworks.

27. Raising financial inclusion has been a key government goal. Although the rate of financial inclusion is high by standard metrics, some gaps and risks remain. Financial inclusion (measured by share of the population that use formal financial services) is around 87 percent, with an increasingly important role of mobile money service providers, NBFs, and the use of digital platforms for government disbursements (all of which surged during the Covid pandemic). However, women seem to lag men in financial inclusion. The mission advised addressing such gender-based gaps (Annex IV). Efforts to mitigate potential risks such as over-indebtedness, fraud and cybercrime should be undertaken, such as improving financial literacy and monitoring the operations and lending activities of NBFs and mobile money service providers more closely.

28. Eswatini's AML/CFT regime has undergone notable reform but efforts to address deficiencies will need to accelerate. Core functions for safeguarding the financial system from illicit use and combating money laundering and terrorist financing are now performed by a range of stakeholders including the National Task Force comprising the Council (a policy making body), the Central Bank of Eswatini, the FSRA, the Public Prosecutor, police, and the anti-corruption committees, assisted by the independent and autonomous Financial Intelligence Unit (FIU). The National Task Force is intended to develop national AML/CFT policies and strategies and ensure their effective implementation. However, Eswatini has received low effectiveness ratings on all 11 immediate outcomes relating to the effectiveness of its AML/CFT framework in the 2022 Mutual Evaluation Report (MER) produced by the Eastern and Southern Africa Anti-Money Laundering Group. The 2022 MER also identified a low level of technical compliance with respect to Eswatini's legal and regulatory framework—some 7 out of 40 recommendations rated as non-compliant and 19 out of 40 recommendations rated as partially compliant. The government and FIU should accelerate efforts to address shortcomings identified in the MER.¹⁷

29. Safeguards assessment. The first-time assessment of the CBE, completed in June 2022, found that the governance arrangements are broadly strong, including recent strengthening of the

¹⁶ FSRA is to be consolidated with CBE as part of public enterprise reform.

¹⁷ The March 2023 Evaluation and Compliance Group (EAG) meeting recommended that Eswatini address the gaps in technical compliance by the end of the three years after adoption of the MER. The CBE has requested CD support from the Fund.

audit committee's independence. The internal and external audit functions comply with international standards. Key recommendations included need to strengthen the CBE Law particularly with respect to CBE autonomy. Steps to address the vulnerabilities have been initiated by the CBE, but a firm timeline for the legal reforms is yet to be established.

Authorities' Views

30. The authorities acknowledged that financial stability faces several risks. They indicated that the regulatory structure under a merged CBE and FSRA is yet to be decided but acknowledged the opportunity to improve oversight of NBFIs. The CBE agreed that climate-related risks can have important implications for financial stability and indicated that it is planning to focus on physical and transition risks in the banking system with the goal of developing frameworks to guide banks on how to manage those risks in their balance sheets. The authorities emphasized efforts regarding financial inclusion. The CBE and the Center for Financial Inclusion (under the Ministry of Finance) coordinate to enhance financial inclusion, bridge gender-based gaps in the use of formal financial services, increase financial inclusion among youth, bolster credit to climate-friendly businesses and projects, and monitor related risks.

31. The authorities highlighted progress to date on AML/CFT issues and reiterated their commitment to address remaining deficiencies but noted capacity constraints. They expressed concern regarding the recent grey listing of South Africa and potential knock-on effects for Eswatini should South African firms face difficulties in financing or if the greylisting prompts higher capital outflows to South Africa. They requested additional Fund CD in various areas, including developing a guidance note for ultimate beneficial ownership, a regulatory framework for cross-border money transfer service providers, a regulatory framework for virtual assets and virtual assets service providers, capital flows management framework, and AML/CFT risk based supervisory framework and sanctions regime.

MACRO-STRUCTURAL AND GOVERNANCE REFORMS TO SUPPORT PRIVATE SECTOR-LED GROWTH

32. Macro-structural reforms are needed to enhance competitiveness, support private sector-led growth, and create jobs. The economy faces deep structural challenges, with declining private investment and productivity growth. Years of expansionary policies and the prevalence of public enterprises in many sectors have hindered competitiveness and reduced space for private sector participation. Perceptions of public sector corruption have worsened. Eswatini has a comparative advantage in agribusiness—sugarcane, beef, and forestry value chains— and textile manufacturing. As a member of the SADC, SACU, and COMESA regional communities, Eswatini enjoys duty-free access to these markets, partially mitigating constraints posed by a small domestic market. Eswatini also has underutilized preferential market access for beef and textiles, duty-free and quota-free access to the EU, and could leverage the trend toward regionalization of value chains and expansion of supplier bases. To enhance prospects for private sector-led growth the mission recommended efforts to:

- **Strengthen the governance framework and restructure some PEs to separate commercial activities from regulatory functions and open new sectors to private investment.** Rationalizing public enterprises as envisaged in the reform roadmap, improving financial oversight, and enhancing transparency of operations would help create a level-playing field for the private sector and improve market efficiency. Plans to unbundle the Eswatini Posts and Telecommunications Corporation (EPTC), and consolidate or close other PEs, have yet to materialize—a study by the World Bank and the International Telecommunication Union has been commissioned to recommend a strategy to unbundle EPTC. Expedited PE reform could encourage private sector activity in new sectors and boost competition—such as renewable power generation where new investments could help reduce dependence on South Africa and lower high electricity costs.
- **Improve the business environment, especially for SMEs, to support job creation.** An online one-stop window has been established under the Eswatini Investment Promotion Agency (EIPA) as a precursor to a physical one-stop shop under the Royal Science and Technology Park (RSTP—a Special Economic Zone). A credit guarantee scheme for small businesses, which guarantees 50 percent of loans, is in operation but is underutilized.
- **Address corruption¹⁸ and strengthen the rule of law.** The Anti-Corruption Commission remains ineffective, handicapped by lack of clarity over its legal powers. In 2022, the Commission received 25 new allegations of corruption on top of 233 outstanding corruption investigations from 2021. Out of the 258 cases, only two have been referred for prosecution. The commercial court, established in 2022, has also faced challenges over its constitutionality. The requirement for public officials to declare assets upon taking and leaving office has been minimally observed in the absence of a penalty for noncompliance. In this context, bringing the anti-corruption legal framework in line with the UN Convention against Corruption and strengthening the asset declaration system remain priorities.
- **Reduce the skills gap.** Job creation is an urgent priority. The overall unemployment rate is 33.3 percent—58 percent for youth (the 15–24 age group). One of the six pillars of the forthcoming five-year National Development Plan is human capital development, with an emphasis on Science, Technology, Engineering, and Mathematics (STEM).
- **Address systemic weaknesses in governance.** Given the cross-cutting nature of governance challenges in Eswatini, staff recommended undertaking an IMF governance diagnostic to provide a holistic analysis of key corruption vulnerabilities and governance weaknesses, identify reform measures to address the vulnerabilities, and establish a strategic reform plan.

¹⁸ Eswatini's score on Transparency International's Corruption Perception Index declined from 39 in 2021, suggesting an increase in the perceived level of corruption in the public sector. The Corruption Perceptions Index (CPI) aggregates data from several different sources that provide perceptions by businesspeople and country experts of the level of corruption in the public sector. Data uses confidence intervals. Accuracy of the index can be biased by expert's views (instead of facts on corruption).

Authorities' Views

33. The authorities affirmed their commitment to orient the economy toward export-driven private-sector-led growth and pursue the necessary reforms. They expect a robust push in this direction after the upcoming elections. They expressed potential interest in a governance diagnostic but indicated that there would need to be political consensus on such an exercise, which should be considered after elections and formation of a new cabinet.

OTHER ISSUES

34. A holistic approach to gender equality is needed to reduce overall inequality and support inclusive economic growth. Enabling women to fully participate in economic activities could play an important supporting role in the shift to private sector led economic growth. Prevalent gender-based disparities in such areas as healthcare, entrepreneurship, education, labor market, ownership of assets, financial inclusion and legislation, prevent women from fulfilling their economic potential and hamper the allocation and utilization of talent and resources, thereby weighing down on economic growth and development (Annex IV). The mission emphasized the need for multifaceted efforts to close gender-based gaps in these areas, including an acceleration of nationwide programs to change perceptions and alleviate the issue of gender-based violence.

35. Eswatini's capacity to repay the Fund is adequate. Total outstanding credit based on existing and prospective drawings to the IMF is projected at about 87.5 percent of quota by end-2023, equivalent to 4 percent of exports and 14.8 percent of gross official reserves (Table 6). High SACU transfers in the medium-term contribute to reducing capacity-to-repay risk.

36. Eswatini is a high-intensity CD recipient. The 2023 medium-term capacity development (CD) strategy (Annex X) focuses on supporting fiscal adjustment efforts and public financial management, strengthening the capacity to manage macro-financial risks, bolstering transparency and governance, and improving the quality of macroeconomic data.

Authorities' Views

37. The authorities agreed that moving toward gender equality remains critical for Eswatini's economic performance. They emphasized that efforts have intensified since the adoption of the first National Gender Strategy in 2010, while social traits remain as an important driver of gender-based disparities.

STAFF APPRAISAL

38. The Eswatini economy has weathered the pandemic and more recent shocks comparatively well and made initial headway toward needed fiscal adjustment. Real GDP declined by a modest 1.6 percent in 2020, despite the impact of COVID-19, and activity in 2020–21 benefited from the loosening of COVID-19 restrictions. The impact of higher commodity prices is most visible in the balance of payments, but also remains a concern going forward with respect to

inflation, agricultural production, and food security—as does the sharp slowdown in growth in South Africa. Despite a difficult economic landscape, the authorities made progress where possible on fiscal adjustment—most notably through wage restraint, and development of a roadmap for public enterprise reform. The introduction of a SACU revenue stabilization fund in the coming fiscal year also represents a significant step forward in macro-fiscal management given wide swings in SACU revenue transfers.

39. Recent progress notwithstanding, Eswatini’s macroeconomic imbalances are a source of vulnerability and further adjustment is critical. The size of fiscal deficits and the skew toward current expenditure through the wage bill and transfers to public enterprises (together about 54 percent of total government spending) translate into large gross financing needs, a crowding out of private sector credit, accumulation of domestic payment arrears, less room for needed capital spending, and downward pressure on the balance of payments and foreign exchange reserves. Particularly in the current shock-prone external environment, adjustment is essential to put public debt on a downward path and rebuild fiscal and external buffers.

40. A revised Fiscal Adjustment Plan, embedded in a medium-term framework and linked to a fiscal anchor, is needed to guide year-by-year adjustment. The original adjustment plan represented a critical shift in Eswatini’s macroeconomic policy stance and offered ambitious adjustment through expenditure cuts to public wages, public enterprises, and spending on goods and services. It encountered challenges in implementation linked to both the pandemic and the complexities of civil service and state enterprise reform. Staff recommended that the lessons of the past three years be incorporated into a revised Fiscal Adjustment Plan, linked to the government’s medium-term fiscal framework, and anchored to achieving a primary budget surplus by FY26/27.

41. Policies should combine expenditure cuts that reduce the state footprint on the economy with revenue gains from improved tax administration and reduction of tax expenditures. The public wage bill (at roughly 37 percent of total expenditure) is high by international comparison; reducing it is a critical element of medium-term fiscal consolidation. The hiring freeze and below-inflation salary increases have helped, but a comprehensive look at potential savings through staffing levels will be needed, based on the forthcoming Management Audit. Public enterprise reform and rationalization also remain vital—both from a fiscal savings perspective and for better governance and service delivery. Support at the cabinet level and strengthening the PEU will be essential to implementing the public enterprise reform roadmap. Finally, staff strongly recommends extending the adjustment plan to include a rationalization of Eswatini’s extensive tax expenditure regime.

42. Continued reforms to strengthen public financial management are essential to the success of medium-term consolidation. Progress has been made in some areas, but there remain significant gaps in key elements of budget preparation, implementation, commitment control, and cash management. Implementation of a Treasury Single Account is a high priority, followed by a well-designed Integrated Financial Management Information System (IFMIS), tailored to Eswatini and supported by technical assistance. A well-targeted social protection system is needed to protect the most vulnerable.

43. Monetary policy should focus on maintaining the credibility of the peg to the South African rand. While the current gap in the CBE's discount rate vis-à-vis the SARB benchmark rate does not appear to be inducing capital outflows, the CBE should stand ready to close the gap and preserve the credibility of the peg. Private sector credit from the banking system has remained flat as a share of GDP, highlighting the need for improvements to the business environment, financial literacy, and enabling more bankable projects. Eswatini's overall external position is assessed to be broadly in line with the level implied by medium-term fundamentals and desirable policies.

44. The financial sector appears sound, although risks from concentration and uneven supervision remain. The merger of the FSRA with the CBE offers an opportunity to make material advancement in the oversight, regulation, and reporting on NBFIs. Efforts to expedite the passage and implementation of laws and regulations, develop macroprudential policy framework and toolkit, strengthen crisis preparedness and management, and address deficiencies in the AML/CFT framework remain a high priority and should be supported by IMF capacity development.

45. Macro-structural reforms to improve the business environment, governance, and rule of law are critical to facilitate a shift to a private sector-led growth model. Together with merger, dissolution, or privatization of public enterprises, concerted efforts are needed to improve the business environment (particularly for SMEs), facilitate entry into new sectors such as renewable power generation, ensure access to credit, and tackle perceptions of corruption and an ineffective court system. A governance diagnostic could be an essential tool for taking these reforms forward.

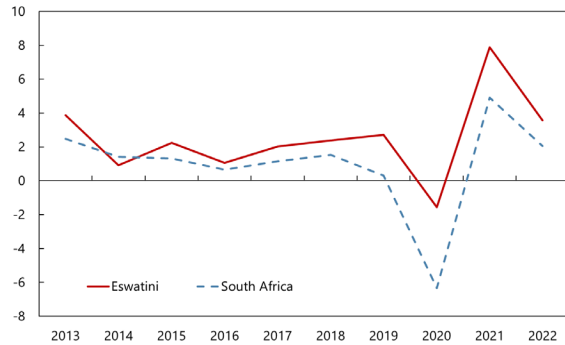
46. It is proposed that the next Article IV consultation with Eswatini takes place on the standard 12-month cycle.

Figure 1. Eswatini: Real Sector Developments

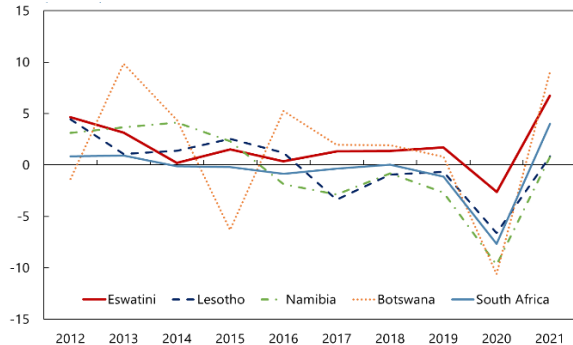
GDP growth moving back to equilibrium after post-pandemic boom.

With real GDP per capita growth outpacing the region.

Real GDP Growth (Percent)



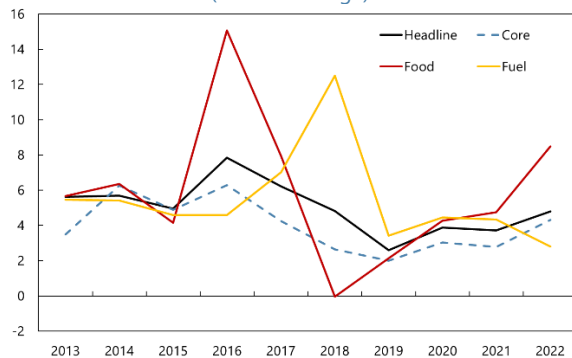
Real GDP Per Capita Growth (Percent)



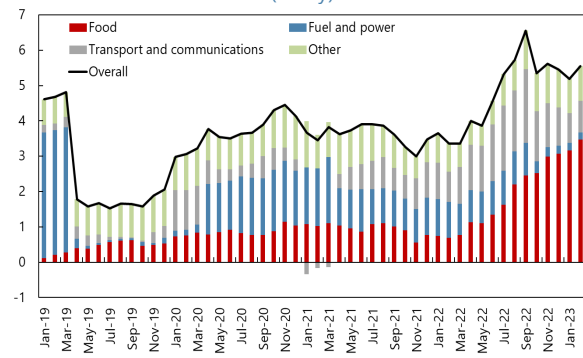
Inflation remains elevated but well below earlier peaks...

Driven largely by food, fuel, and transport prices.

Inflation (Annual average)



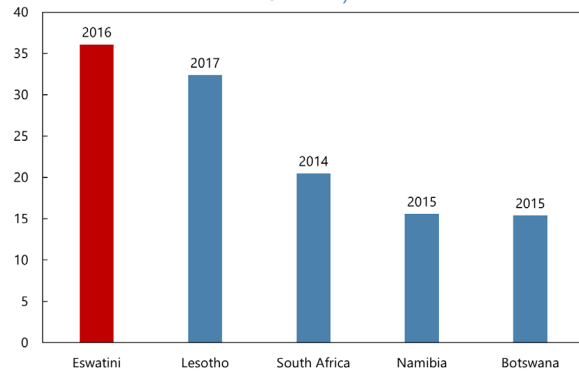
Contribution to Inflation (Y-o-y)



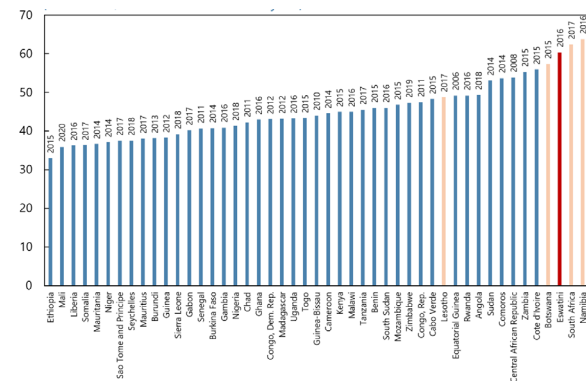
Poverty levels remain among the highest in SACU region.

And income inequality among the highest in Africa.

SACU Poverty Headcount Ratios (Percent of population living on less than \$2.15 a day at 2017 PPP)



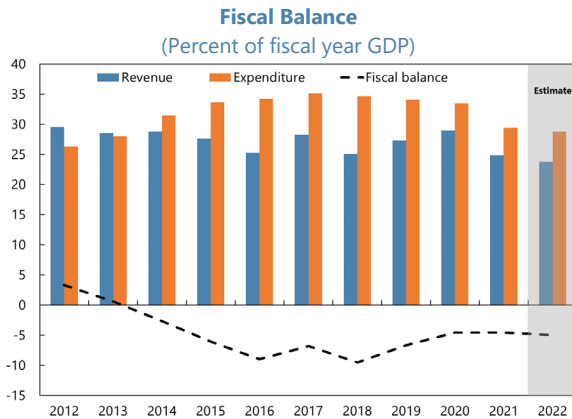
Income Inequality in sub-Saharan African Countries (Gini index, latest year available)



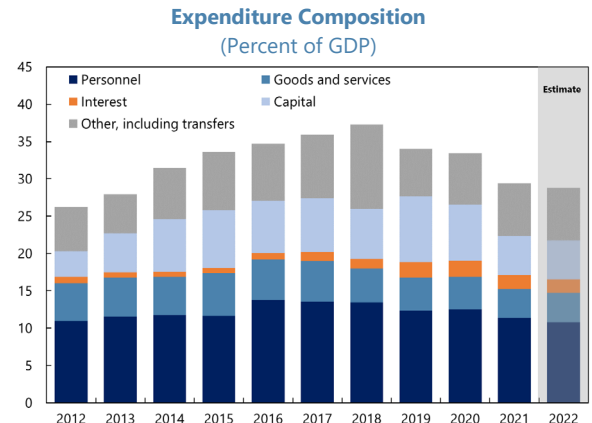
Sources: IMF World Economic Outlook, World Bank World Development Indicators, Eswatini Central Statistical Office, Standardized World Income Inequality Database (version 9.4), and IMF staff calculations.

Figure 2. Eswatini: Fiscal Developments

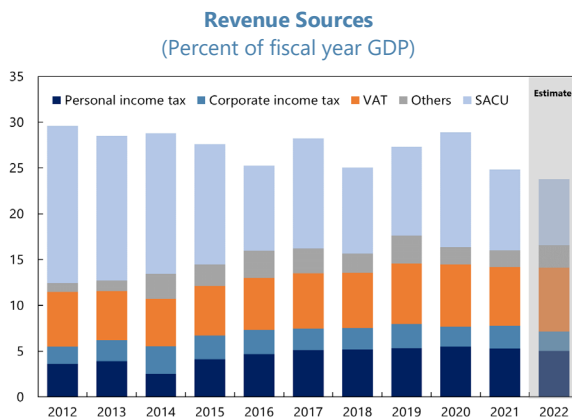
Fiscal deficit has narrowed, reflecting consolidation efforts....



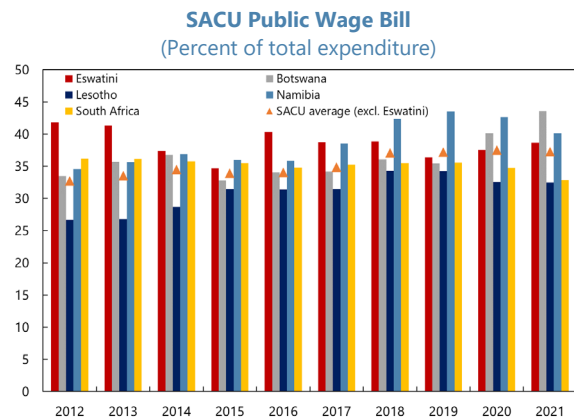
With expenditure restraint making the biggest impact...



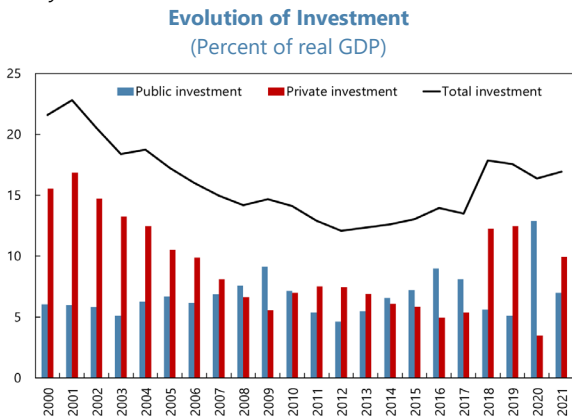
...while total revenue weakened--driven by SACU revenues.



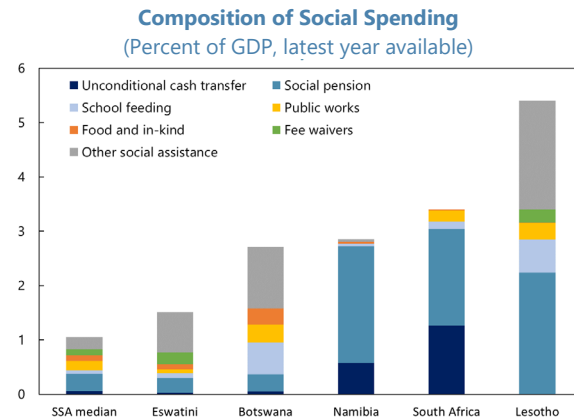
Public wage bill is among the highest in SACU region.



Private investment is showing signs of revival after decades of steady decline.



Eswatini lags its SACU peers in terms of social spending.

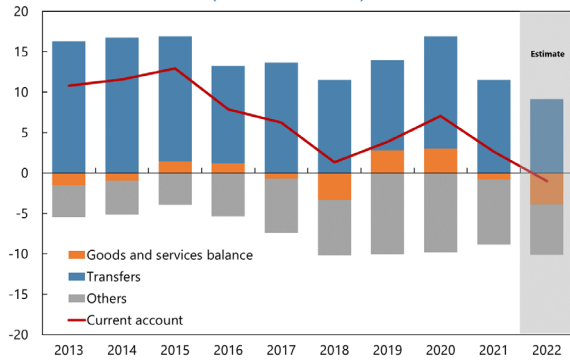


Sources: Ministry of Finance, IMF World Economic Outlook, IMF Social Protection and Labor Toolkit, and IMF staff calculations.

Figure 3. Eswatini: External Sector Developments

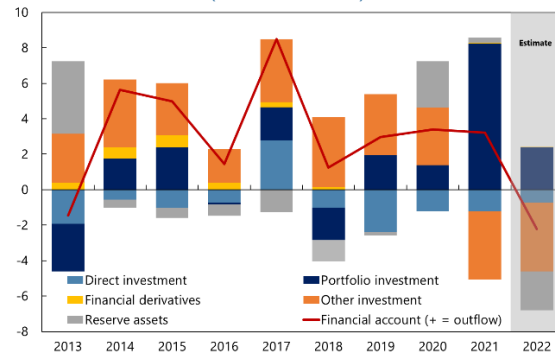
Current account shifted to deficit in 2022 due to weaker goods balance and lower SACU revenues.

Current Account Balance
(Percent of GDP)



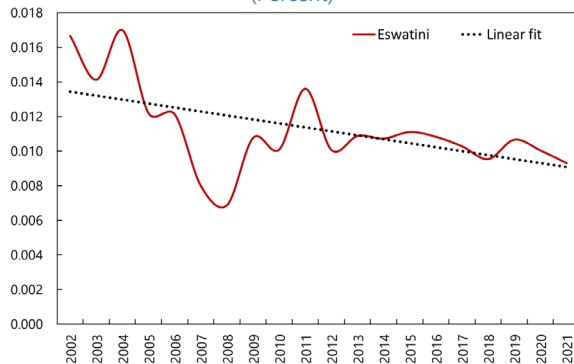
Financial account turned to inflows in 2022 due to lower portfolio outflows and larger other investment inflows.

Financial Account
(Percent of GDP)



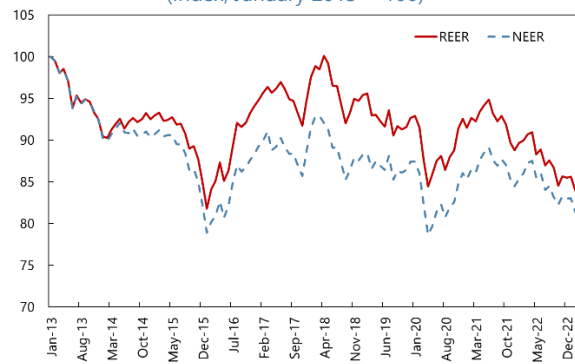
Eswatini's share in world imports has been declining.

Share of World Imports
(Percent)



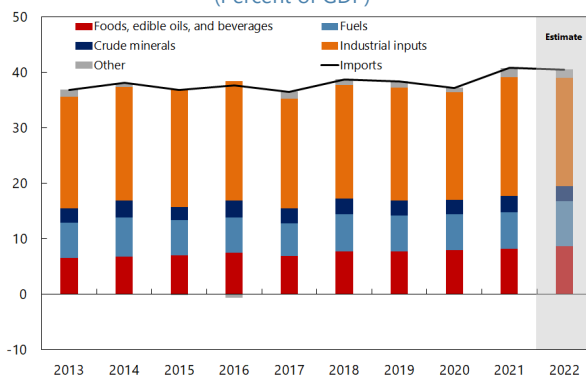
The Lilangeni depreciated during 2022, reflecting a depreciation of the Rand.

Effective Exchange Rates
(Index, January 2013 = 100)



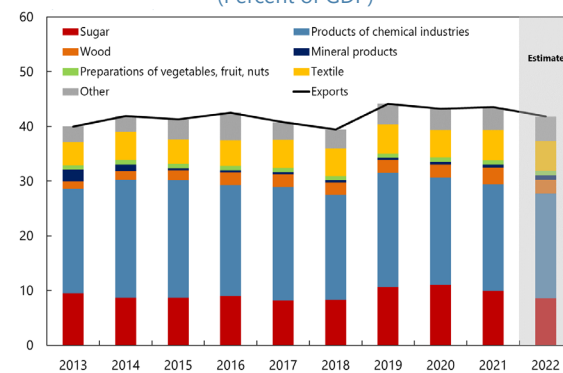
Imports as share of GDP decreased in 2022.

Imports of Goods
(Percent of GDP)



Exports to GDP ratio also decreased in 2022, but to a larger extent.

Exports of Goods
(Percent of GDP)

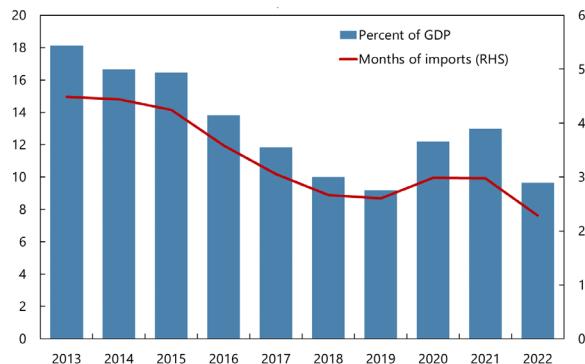


Sources: Central Bank of Eswatini, IMF Information Notice System, and IMF staff calculations.

Figure 4. Eswatini: Monetary Policy and Financial Sector

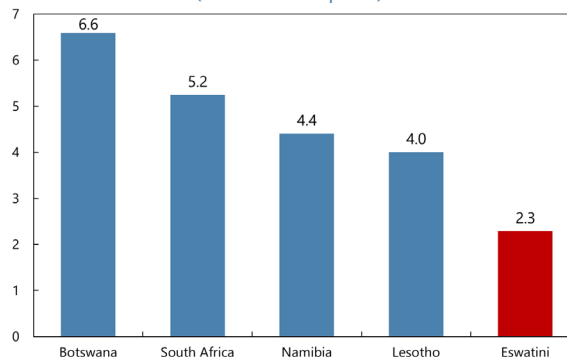
Reserves declined to 2.3 months of imports in 2022 due to a worsening in trade balance and decline in SACU revenues.

International Reserves
(Percent of GDP and months of imports)



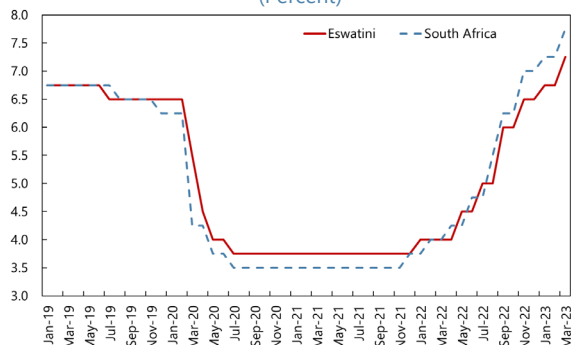
Eswatini has the lowest level of reserve cover in SACU.

International Reserves, 2022
(Months of imports)



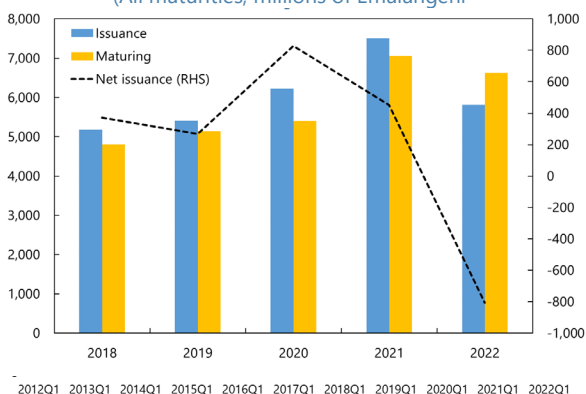
CBE started tightening cycle following SARB—increasing the policy rate by cumulative 350 bps since the beginning of 2022.

Policy Rate
(Percent)



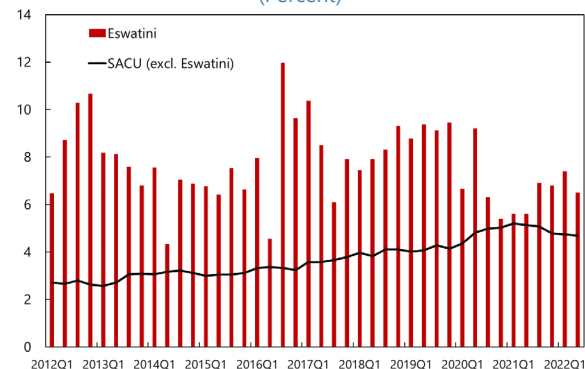
Lower use of T-bill financing reflected negative net issuance.

T-Bill Issuance
(All maturities; millions of Emalangeni)



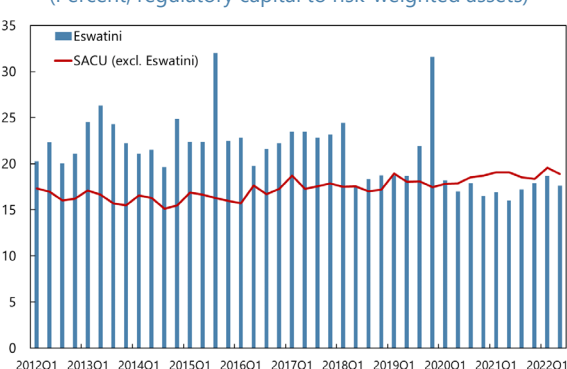
NPLs appear to have passed their post-pandemic peak.

Non-performing Loans to Total Gross Loans
(Percent)



Banks remain liquid and above minimum capital adequacy requirements.

Bank Capital Adequacy
(Percent, regulatory capital to risk-weighted assets)



Sources: Central Bank of Eswatini, IMF Financial Soundness Indicators, and IMF staff calculations.

Table 1. Eswatini: Selected Economic Indicators, 2019–28

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
		Prel.	Prel.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Percentage changes; unless otherwise indicated)										
National Account and Prices										
GDP at constant prices	2.7	-1.6	7.9	3.6	3.2	3.2	3.1	3.0	2.9	2.8
GDP deflator	2.4	2.6	-0.9	9.0	4.5	4.0	3.9	3.8	3.7	3.7
GDP at market prices (Emalangenzi billions)	65.0	65.6	70.1	79.2	85.4	91.6	98.1	104.9	112.0	119.4
GDP at market prices (US dollar billions)	4.5	4.0	4.7	4.9	5.2	5.5	5.7	6.0	6.3	6.4
Nominal GDP per capita (US dollar)	4,032	3,535	4,165	4,271	4,463	4,648	4,821	4,989	5,154	5,239
Consumer prices (average)	2.6	3.9	3.7	4.8	5.1	4.9	4.3	4.3	4.0	4.0
Consumer prices (end of period)	2.0	4.6	3.5	5.6	5.2	4.3	4.3	4.0	4.0	4.0
External Sector										
Exports (US dollar billions)	7.9	-13.2	19.9	-2.0	7.0	2.1	3.1	3.7	4.3	2.6
Imports (US dollar billions)	-4.7	-14.0	30.5	1.5	5.0	3.7	3.5	3.6	4.3	2.7
Average exchange rate (local currency per US dollar)	14.5	16.5	14.8	16.4	...	...	...	...	...	...
Nominal exchange rate change (- = depreciation) ¹	-2.8	-4.8	4.9	-2.3	...	...	...	...	...	...
Real effective exchange rate (- = depreciation) ¹	-3.8	-4.2	4.0	-4.7	...	...	...	...	...	...
Terms of trade (deterioration -)	0.2	6.6	-18.2	12.1	-6.4	-1.1	-1.3	0.6	1.3	-0.5
Money and Credit										
Domestic credit to the private sector	4.6	3.3	4.8	4.4	7.9	7.5	6.8	7.0	6.7	6.6
Reserve money	30.9	24.0	-9.8	34.7	8.3	7.3	7.1	6.9	6.7	6.6
M2	1.8	15.4	0.3	12.8	7.8	7.3	7.1	6.9	6.7	6.6
Interest rate (percent) ²	6.5	3.8	3.8	6.5	...	...	...	...	...	...
(Percent of GDP)										
National Accounts										
Gross capital formation	13.6	12.3	14.1	16.8	17.2	17.1	16.8	16.7	16.7	16.8
Government	4.9	12.2	7.2	6.7	7.3	7.2	7.1	7.0	6.8	6.7
Private	8.6	0.1	6.9	10.1	10.0	9.8	9.7	9.7	9.8	10.0
National savings	17.5	19.3	16.7	15.7	23.1	20.4	18.3	18.0	17.7	17.6
Government	1.4	3.3	1.5	0.9	5.7	4.8	3.5	3.3	3.1	2.9
Private	16.0	16.1	15.3	14.8	17.5	15.6	14.7	14.7	14.6	14.7
External Sector ³										
Current account balance										
(including official transfers)	3.9	7.1	2.7	-1.0	5.8	3.3	1.4	1.2	0.9	0.8
(excluding official transfers)	-5.6	-4.9	-7.1	-8.4	-7.3	-7.5	-7.6	-7.4	-7.5	-7.6
Trade balance	5.8	6.0	2.7	1.2	1.9	1.3	1.1	1.1	1.2	1.1
Financial account	3.0	3.4	3.2	-2.2	2.6	2.3	1.9	1.6	1.5	1.4
of which: foreign direct investment	-2.4	-1.2	-1.2	-0.7	-0.7	-0.8	-1.2	-1.4	-1.4	-1.5
External debt	20.5	22.5	22.2	23.1	24.2	25.3	26.4	27.9	29.2	30.5
of which: public	12.7	15.2	15.2	16.9	18.3	19.6	21.1	22.9	24.5	26.1
Gross international reserves										
(months of imports)	2.6	3.0	3.0	2.3	2.9	3.0	2.8	2.5	2.2	2.2
(percent of GDP)	9.2	12.2	13.0	9.6	12.2	12.6	11.5	10.6	9.6	8.7
Central Government Fiscal Operations ⁴										
Overall balance	-6.7	-4.5	-4.5	-5.0	-0.3	-3.1	-3.8	-4.0	-4.2	-4.3
Total revenue and grants	27.3	28.9	24.8	23.8	30.1	26.9	26.5	26.7	26.8	26.8
of which: SACU receipts	9.7	12.5	8.8	7.2	13.5	9.7	9.1	9.1	9.1	9.1
Total expenditure	34.0	33.5	29.4	28.8	30.4	30.0	30.3	30.7	31.0	31.1
Public debt, gross	39.5	41.2	40.6	42.3	40.6	41.4	43.3	45.6	48.1	50.0
Public debt, net	33.7	31.4	34.0	36.3	36.8	37.9	40.0	42.5	45.2	47.3
Net lending (excl. SACU revenues)	-16.4	-17.1	-13.4	-12.2	-13.9	-12.9	-13.0	-13.1	-13.3	-13.4
Primary net lending (excl. SACU revenues)	-14.3	-14.9	-11.5	-10.4	-12.1	-11.4	-11.2	-11.0	-11.0	-10.9
Memorandum Item:										
Population (in million)	1.11	1.13	1.14	1.15	1.16	1.18	1.19	1.20	1.21	1.23

Sources: Eswatini authorities; and IMF 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: Balance of Payments, 2019–28
(US dollar millions, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	
		Prel.	Prel.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	
Current Account	175	281	126	-51	301	178	78	71	57	50	
Trade balance	259	238	128	57	100	69	65	69	72	72	
Exports, f.o.b.	1984	1722	2064	2022	2165	2209	2279	2363	2465	2529	
Imports, f.o.b.	1725	1484	1936	1966	2064	2140	2214	2294	2393	2457	
Services (net)	-134	-118	-166	-247	-217	-210	-215	-225	-240	-245	
Income (net)	-453	-392	-381	-308	-353	-370	-385	-401	-422	-426	
Of which: interest on public debt	-17	-13	-15	-16	-20	-32	-44	-54	-64	-73	
Transfers	503	554	546	448	770	688	614	628	646	649	
Official transfers	429	476	465	364	679	590	511	515	525	535	
Other transfers	74	78	82	84	92	98	103	113	122	113	
Capital and Financial Account ¹	-126	-134	-156	107	-138	-128	-109	-98	-96	-89	
Capital account	8	2	-4	-3	-2	-2	-2	0	0	0	
Financial account ²	134	136	152	-109	136	126	106	98	96	89	
Foreign direct investment	-108	-49	-57	-36	-38	-43	-66	-86	-91	-93	
Portfolio investment	87	55	391	117	127	128	130	123	126	128	
Financial derivatives	1	0	1	0	0	0	0	0	0	0	
Other investment	154	129	-183	-191	47	40	42	60	60	54	
Medium and long-term	174	86	-175	-44	61	78	96	112	110	112	
Of which:											
Public sector (net)	-131	-67	-20	-48	-121	-134	-123	-112	-102	-92	
Official assets	0	0	0	0	0	0	0	0	0	0	
Disbursements	173	100	56	66	138	165	170	174	177	181	
Amortization	-42	-33	-36	-17	-17	-31	-47	-62	-76	-90	
Errors and Omissions	-57	-44	45	-164	0	0	0	0	0	0	
Overall Balance ³	-8	104	15	-108	163	50	-31	-27	-38	-40	
Financing	8	45	-15	259	-176	-103	-13	22	26	30	
Change in international reserves (- = increase)	8	-104	-15	108	-163	-50	31	27	38	40	
IMF RFI (net)											
Disbursement		109	0	0	0	0	0	0	0	0	
Amortization		0	0	0	-13	-53	-40	0	0	0	
Multilateral Financing (WB and AfDB)		40	0	151	0	0	5	4	12	10	
				(percent of GDP)							
Current Account	3.9	7.1	2.7	-1.0	5.8	3.3	1.4	1.2	0.9	0.8	
Trade balance	5.8	6.0	2.7	1.2	1.9	1.3	1.1	1.1	1.2	1.1	
Exports, f.o.b.	44.1	43.2	43.5	41.1	41.7	40.4	39.8	39.4	39.4	39.3	
Imports, f.o.b.	38.4	37.3	40.8	40.0	39.8	39.2	38.6	38.3	38.2	38.2	
Of which: oil	-6.6	-6.5	-6.6	-8.3	-7.5	-7.2	-7.0	-6.9	-6.8	-6.9	
Services (net)	-3.0	-3.0	-3.5	-5.0	-4.2	-3.8	-3.8	-3.8	-3.8	-3.8	
Income (net)	-10.1	-9.8	-8.0	-6.3	-6.8	-6.8	-6.7	-6.7	-6.7	-6.6	
Of which: interest on public debt	-0.4	-0.3	-0.3	-0.3	-0.4	-0.6	-0.8	-0.9	-1.0	-1.1	
Transfers	11.2	13.9	11.5	9.1	14.8	12.6	10.7	10.5	10.3	10.1	
Official transfers	9.5	12.0	9.8	7.4	13.1	10.8	8.9	8.6	8.4	8.3	
Other transfers	1.6	1.9	1.7	1.7	1.8	1.8	1.8	1.9	1.9	1.8	
Capital and Financial Account ¹	-2.8	-3.4	-3.3	2.2	-2.7	-2.3	-1.9	-1.6	-1.5	-1.4	
Capital account	0.2	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	
Financial account ²	3.0	3.4	3.2	-2.2	2.6	2.3	1.9	1.6	1.5	1.4	
Of which foreign direct investment	-2.4	-1.2	-1.2	-0.7	-0.7	-0.8	-1.2	-1.4	-1.4	-1.5	
Errors and Omissions	-1.3	-1.1	0.9	-3.3	0.0	0.0	0.0	0.0	0.0	0.0	
Overall Balance ³	-0.2	2.6	0.3	-2.2	3.1	0.9	-0.5	-0.4	-0.6	-0.6	
Memorandum Items:											
Official transfers	9.5	12.0	9.8	7.4	13.1	10.8	8.9	8.6	8.4	8.3	
Gross International Reserves ⁴	425	545	573	449	613	658	620	586	540	496	
(months of imports)	2.6	3.0	3.0	2.3	2.9	3.0	2.8	2.5	2.2	2.2	
(share of GDP)	9.2	12.2	13.0	9.6	12.2	12.6	11.5	10.6	9.6	8.7	
External debt (US dollar millions) from IIP	923	896	1,053	1,136	1,257	1,382	1,515	1,673	1,826	1,962	
Short-term debt (US dollar millions)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
National currency per US dollar (average)	14.5	16.5	14.8	16.4	16.8	17.2	17.8	18.6	19.5	20.5	
National currency per US dollar (eop)	14.0	14.7	15.9	17.0	17.0	17.5	18.2	19.1	20.0	21.0	
GDP at market prices (US dollar millions)	4,495	4,495	4,744	4,917	5,193	5,465	5,730	5,993	6,258	6,428	

Sources: Eswatini authorities; and IMF 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 2019, gross international reserves exclude unmatured forward contracts.

Table 3a. Eswatini: Fiscal Operations of the Central Government, 2019/20–28/29¹
(Emalangeni millions)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
		Prel.	Prel.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total Revenue	17,793	19,289	17,986	19,201	26,140	25,086	26,470	28,480	30,468	32,692
Tax revenue	16,367	18,650	17,303	18,039	24,971	23,929	25,234	27,161	29,062	31,188
Taxes on income, profits, and capital gains	5,675	5,691	6,187	6,452	6,984	7,750	8,416	9,175	9,850	10,614
<i>of which</i> : Corporate income tax	1,707	1,441	1,837	1,706	1,813	2,084	2,298	2,578	2,751	2,946
<i>of which</i> : Personal income tax	3,483	3,671	3,815	4,049	4,550	4,929	5,329	5,753	6,199	6,705
Taxes on property	40	31	41	45	45	68	80	85	91	97
Taxes on international trade and transactions	6,327	8,361	6,384	5,826	11,759	9,097	9,128	9,756	10,409	11,146
<i>of which</i> : SACU receipts	6,318	8,349	6,375	5,818	11,753	9,091	9,121	9,749	10,401	11,138
Domestic taxes on goods and services	4,294	4,542	4,637	5,642	6,133	6,970	7,571	8,103	8,669	9,283
Other taxes	34	27	50	74	50	35	37	40	43	46
Non-tax revenue	875	406	526	590	538	604	644	686	729	778
Grants	552	234	157	572	631	553	592	634	677	726
Project grants	552	234	157	572	631	553	592	633	675	723
Expense	16,389	17,320	17,493	18,998	20,585	21,845	23,697	25,674	27,720	29,893
Compensation of employees	8,064	8,374	8,229	8,718	9,117	10,485	11,284	12,143	13,068	14,064
Purchases or use of goods & services	2,850	2,898	2,811	3,187	3,608	3,791	3,982	4,184	4,395	4,617
Interest	1,343	1,444	1,333	1,447	1,557	1,346	1,769	2,227	2,659	3,076
<i>of which</i> : Domestic	1,080	1,189	1,121	1,170	1,195	742	925	1,157	1,359	1,528
Other expense	4,132	4,603	5,120	5,646	6,302	6,224	6,662	7,121	7,597	8,135
<i>of which</i> : Subsidies	45	45	101	91	91	97	104	111	119	127
<i>of which</i> : Grants (transfers)	2,879	3,535	3,615	3,878	4,400	4,183	4,478	4,786	5,107	5,468
Gross Operating Balance	1,404	1,970	493	203	5,555	3,240	2,772	2,806	2,749	2,799
Transactions in Nonfinancial Assets:										
Net acquisition of nonfinancial assets	5,759	4,999	3,786	4,232	5,854	6,155	6,589	7,042	7,513	8,045
Foreign financed	3,482	1,450	860	1,772	3,318	3,435	3,677	3,930	4,193	4,490
Domestically financed	2,282	3,556	2,927	2,460	2,536	2,720	2,912	3,112	3,320	3,556
Total Expenditure	22,148	22,319	21,279	23,229	26,439	28,000	30,286	32,716	35,233	37,938
Primary Net Lending / Borrowing	-3,012	-1,586	-1,960	-2,581	1,258	-1,568	-2,047	-2,010	-2,105	-2,170
Net Lending / Borrowing	-4,355	-3,030	-3,293	-4,028	-299	-2,914	-3,817	-4,236	-4,764	-5,246
Transactions in Financial Assets and Liabilities:										
Net acquisition of financial assets	3,767	3,139	2,187	2,522	299	2,914	3,816	4,236	4,765	5,246
<i>of which</i> : SACU Stabilization Fund (net)	-117	183	507	156	-1,343	158	70	70	70	70
Net incurrence of liabilities	3,883	2,956	1,680	2,366	1,642	2,756	3,746	4,166	4,694	5,176
Domestic	1,618	1,757	985	-517	-745	653	1,293	1,178	1,982	2,781
<i>of which</i> : Policy lending	-5	-167	182	0	0	-282	-235	-195	-163	679
Foreign	2,265	3,272	695	2,883	2,387	2,103	2,453	2,988	2,712	2,395
<i>of which</i> : IMF RFI (net)	0	1,957	0	0	-578	-1,112	-774	-129	-987	0
Payments of pending bills	0	-2,074	0	0	0	0	0	0	0	0
Financing Gap	588	-109	1,106	1,506	0	0	0	0	0	0
Memorandum Item:										
Gross public debt	25,732	27,513	29,397	34,119	35,306	38,619	43,259	48,620	54,719	60,894
Domestic	16,907	17,146	18,629	19,618	18,873	19,527	20,820	21,998	23,719	25,527
External	8,824	10,367	10,768	14,501	16,433	19,091	22,439	26,621	31,000	35,367
Stock of arrears	5,085	2,902	3,284	4,790	4,790	4,790	4,791	4,791	4,791	4,791
Net lending (excl. external financing)	-873	-1,580	-2,433	-2,257	3,019	520	-140	-306	-572	-757
Net lending (excl. SACU revenues)	-10,682	-11,391	-9,677	-9,854	-12,058	-12,012	-12,945	-13,992	-15,173	-16,392
Primary net lending (excl. SACU revenues)	-9,339	-9,947	-8,344	-8,407	-10,501	-10,666	-11,175	-11,765	-12,514	-13,316
GDP at market prices (Emalangeni billions)	65,121	66,722	72,382	80,713	86,935	93,245	99,818	106,685	113,821	121,886

Sources: Eswatini authorities; and IMF staff estimates and projections.

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

Table 3b. Eswatini: Fiscal Operations of the Central Government, 2019/20–28/29¹
(Percent of GDP)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
		Prel.	Prel.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total Revenue	27.3	28.9	24.8	23.8	30.1	26.9	26.5	26.7	26.8	26.8
Tax revenue	25.1	28.0	23.9	22.3	28.7	25.7	25.3	25.5	25.5	25.6
Taxes on income, profits, and capital gains	8.7	8.5	8.5	8.0	8.0	8.3	8.4	8.6	8.7	8.7
<i>of which</i> : Corporate income tax	2.6	2.2	2.5	2.1	2.1	2.2	2.3	2.4	2.4	2.4
<i>of which</i> : Personal income tax	5.3	5.5	5.3	5.0	5.2	5.3	5.3	5.4	5.4	5.5
Taxes on property	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Taxes on international trade and transactions	9.7	12.5	8.8	7.2	13.5	9.8	9.1	9.1	9.1	9.1
<i>of which</i> : SACU receipts	9.7	12.5	8.8	7.2	13.5	9.7	9.1	9.1	9.1	9.1
Domestic taxes on goods and services	6.6	6.8	6.4	7.0	7.1	7.5	7.6	7.6	7.6	7.6
Other taxes	0.1	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Non-tax revenue	1.3	0.6	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6
Grants	0.8	0.4	0.2	0.7	0.7	0.6	0.6	0.6	0.6	0.6
Project grants	0.8	0.4	0.2	0.7	0.7	0.6	0.6	0.6	0.6	0.6
Expense	25.2	26.0	24.2	23.5	23.7	23.4	23.7	24.1	24.4	24.5
Compensation of employees	12.4	12.6	11.4	10.8	10.5	11.2	11.3	11.4	11.5	11.5
Purchases or use of goods & services	4.4	4.3	3.9	3.9	4.2	4.1	4.0	3.9	3.9	3.8
Interest	2.1	2.2	1.8	1.8	1.8	1.4	1.8	2.1	2.3	2.5
<i>of which</i> : Domestic	1.7	1.8	1.5	1.5	1.4	0.8	0.9	1.1	1.2	1.3
Other expense	6.3	6.9	7.1	7.0	7.2	6.7	6.7	6.7	6.7	6.7
<i>of which</i> : Subsidies	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<i>of which</i> : Grants (transfers)	4.4	5.3	5.0	4.8	5.1	4.5	4.5	4.5	4.5	4.5
Gross Operating Balance	2.2	3.0	0.7	0.3	6.4	3.5	2.8	2.6	2.4	2.3
Transactions in Nonfinancial Assets:										
Net acquisition of nonfinancial assets	8.8	7.5	5.2	5.2	6.7	6.6	6.6	6.6	6.6	6.6
Foreign financed	5.3	2.2	1.2	2.2	3.8	3.7	3.7	3.7	3.7	3.7
Domestically financed	3.5	5.3	4.0	3.0	2.9	2.9	2.9	2.9	2.9	2.9
Total Expenditure	34.0	33.5	29.4	28.8	30.4	30.0	30.3	30.7	31.0	31.1
Primary Net Lending / Borrowing	-4.6	-2.4	-2.7	-3.2	1.4	-1.7	-2.1	-1.9	-1.8	-1.8
Net Lending / Borrowing	-6.7	-4.5	-4.5	-5.0	-0.3	-3.1	-3.8	-4.0	-4.2	-4.3
Transactions in financial assets and liabilities:										
Net acquisition of financial assets	-0.2	0.3	0.7	0.2	-1.5	0.2	0.1	0.1	0.1	0.1
<i>of which</i> : SACU Stabilization Fund (net)					-1.7	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	6.0	4.4	2.3	2.9	1.9	3.0	3.8	3.9	4.1	4.2
Domestic	2.5	2.6	1.4	-0.6	-0.9	0.7	1.3	1.1	1.7	2.3
<i>of which</i> : Policy lending	0.0	-0.3	0.3	0.0	0.0	-0.3	-0.2	-0.2	-0.1	0.6
Foreign	3.5	4.9	1.0	3.6	2.7	2.3	2.5	2.8	2.4	2.0
<i>of which</i> : IMF RFI (net)	0.0	2.9	0.0	0.0	-0.7	-1.2	-0.8	-0.1	-0.8	0.0
<i>of which</i> : Multilateral financing (WB and AfDB)	0.0	0.9	0.7	3.1	0.0	0.0	0.1	0.1	0.2	0.0
Payments of pending bills	0.0	-3.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Gap	0.9	-0.2	1.5	1.9	0.0	0.0	0.0	0.0	0.0	0.0
<u>Memorandum Item:</u>										
Gross public debt	39.5	41.2	40.6	42.3	40.6	41.4	43.3	45.6	48.1	50.0
Domestic	26.0	25.7	25.7	24.3	21.7	20.9	20.9	20.6	20.8	20.9
External	13.6	15.5	14.9	18.0	18.9	20.5	22.5	25.0	27.2	29.0
Unpaid invoices	7.8	4.3	4.5	5.9	5.5	5.1	4.8	4.5	4.2	3.9
Net lending (excl. external financing)	-1.3	-2.4	-3.4	-2.8	3.5	0.6	-0.1	-0.3	-0.5	-0.6
Net lending (excl. SACU revenues)	-16.4	-17.1	-13.4	-12.2	-13.9	-12.9	-13.0	-13.1	-13.3	-13.4
Primary net lending (excl. SACU revenues)	-14.3	-14.9	-11.5	-10.4	-12.1	-11.4	-11.2	-11.0	-11.0	-10.9
GDP at market prices (Emalangeni billions)	65,121	66,722	72,382	80,713	86,935	93,245	99,818	106,685	113,821	121,886

Sources: Eswatini authorities; and IMF staff estimates and projections.

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

Table 4. Eswatini: Monetary Accounts, 2019–28¹
(Emalangeni millions, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
			Prel.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Emalangeni millions)										
Depository Corporation Survey										
Net foreign assets	6,752	7,891	7,354	7,930	10,182	11,527	11,624	11,918	12,061	12,075
Net domestic assets	11,616	13,315	13,909	15,558	15,789	16,338	18,208	19,977	21,971	23,736
Claims on central government (net)	2,358	1,240	2,453	3,876	3,038	2,424	1,937	1,503	1,110	629
Claims on other sectors	14,821	15,810	16,101	17,319	18,368	19,749	21,094	22,564	24,094	24,957
<i>Of which</i> : Claims on private sector	13,494	13,940	14,612	15,257	16,468	17,710	18,906	20,221	21,592	23,023
Broad money	18,369	21,206	21,264	23,988	25,871	27,764	29,732	31,794	33,932	36,168
Currency in circulation ²	715	897	768	796	937	1,009	1,011	1,021	1,075	1,161
Deposits	17,654	20,309	20,495	23,192	24,933	26,756	28,722	30,773	32,857	35,007
Central Bank										
Net foreign assets	5,186	5,269	4,556	5,168	7,424	8,769	8,867	9,160	9,304	8,963
Gross reserves	5,963	8,003	9,112	7,631	10,416	11,525	11,312	11,172	10,794	10,404
Net domestic assets	-836	123	308	1,381	-334	-1,162	-723	-453	-13	938
Reserve money	4,350	5,392	4,863	6,549	7,090	7,607	8,144	8,707	9,291	9,901
(percent of GDP)										
Depository Corporation Survey										
Net foreign assets	10.4	12.0	10.5	10.0	11.9	12.6	11.8	11.4	10.8	10.1
Net domestic assets	17.9	20.3	19.8	19.7	18.5	17.8	18.6	19.0	19.6	19.9
Claims on central government (net)	3.6	1.9	3.5	4.9	3.6	2.6	2.0	1.4	1.0	0.5
Claims on other sectors	22.8	24.1	23.0	21.9	21.5	21.6	21.5	21.5	21.5	20.9
<i>Of which</i> : Claims on private sector	20.8	21.3	20.8	19.3	19.3	19.3	19.3	19.3	19.3	19.3
Broad money	28.3	32.3	30.3	30.3	30.3	30.3	30.3	30.3	30.3	30.3
Currency in circulation ²	1.1	1.4	1.1	1.0	1.1	1.1	1.0	1.0	1.0	1.0
Deposits	27.2	31.0	29.2	29.3	29.2	29.2	29.3	29.3	29.3	29.3
Central Bank										
Net foreign assets	8.0	8.0	6.5	6.5	8.7	9.6	9.0	8.7	8.3	7.5
Net domestic assets	-1.3	0.2	0.4	1.7	-0.4	-1.3	-0.7	-0.4	0.0	0.8
Reserve money	6.7	8.2	6.9	8.3	8.3	8.3	8.3	8.3	8.3	8.3
Memorandum Items:										
(12-month percentage change; unless otherwise indicated)										
Reserve money	30.9	24.0	-9.8	34.7	8.3	7.3	7.1	6.9	6.7	6.6
M2	1.8	15.4	0.3	12.8	7.8	7.3	7.1	6.9	6.7	6.6
Credit to the private sector	4.6	3.3	4.8	4.4	7.9	7.5	6.8	7.0	6.7	6.6
Money multiplier (broad money/reserve money)	4.2	3.9	4.4	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Velocity (GDP/broad money)	3.5	3.1	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3

Sources: Eswatini authorities; and IMF staff estimates and projections.

¹ End of period.

² Excludes rands in circulation.

Table 5. Eswatini: Financial Sector Indicators, 2012–June 2022
(Percent, unless otherwise indicated)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022Q1	2022Q2
Banking Indicators												
Capital adequacy												
Capital to assets	12.5	11.9	12.6	12.9	13.0	13.4	13.1	4.5	...	...	...	...
Regulatory capital to risk-weighted assets	21.1	22.2	24.9	22.5	22.2	23.2	18.8	31.6	16.5	17.9	18.7	17.6
Regulatory tier 1 capital to risk-weighted assets	18.2	19.3	21.3	20.0	20.0	20.8	16.0	22.2	14.2	15.7	16.3	15.5
Nonperforming loans net of provisions to capital	35.3	20.9	18.1	19.6	28.7	21.6	27.2	54.2	...	...	...	...
Asset Quality												
Large exposure to capital	103.3	63.6	119.5	120.4	75.5	117.4	...	88.1	...	...	...	...
Nonperforming loans to total gross loans	10.7	6.8	6.9	6.6	9.6	7.9	9.3	9.4	5.4	6.8	7.4	6.5
Sectoral distribution of loans to total loans												
Agriculture	12.9	18.2	14.6	11.5	11.9	11.2	11.2	16.8	16.1	17.4	15.7	17.7
Mining and quarrying	2.0	2.2	1.9	1.3	1.1	1.8	1.8	1.8	0.1	0.1	0.2	0.1
Manufacturing	20.1	19.1	21.5	14.9	7.9	4.2	5.1	6.7	8.2	8.6	10.1	9.9
Construction	7.0	8.7	10.9	9.6	6.5	6.0	6.1	7.7	6.8	9.1	8.9	8.2
Distribution and tourism	11.9	9.5	12.1	16.5	19.1	30.1	29.2	23.2	25.9	26.1	21.7	24.5
Transport and communication	9.6	8.8	8.9	8.6	8.4	10.1	9.8	10.9	10.2	12.3	13.4	12.1
Community, social and personal services	5.5	5.8	6.8	8.7	12.7	14.1	10.8	8.7	5.1	4.9	5.3	4.7
Other	31.1	27.7	23.3	28.8	32.4	22.4	26.0	24.2	27.7	21.4	24.7	22.8
Earnings and Profitability												
Trading income to total income	1.4	1.7	0.8	1.1	0.5	0.5	1.2	1.6	...	...	...	...
Return on assets	3.5	3.1	4.0	4.7	4.0	3.2	2.5	3.8	1.4	1.9	1.9	2.1
Return on equity	17.6	16.0	19.6	23.3	19.0	15.3	11.1	15.9	10.4	13.3	12.1	15.1
Interest margin to gross income	49.2	46.9	47.0	49.7	54.2	57.6	56.9	54.5	...	...	...	...
Noninterest expenses to gross income	61.1	59.9	58.7	53.9	58.3	63.5	67.9	60.2	...	...	...	...
Personnel expenses to noninterest expenses	50.1	50.7	47.1	54.0	47.0	47.8	44.5	48.4	...	...	...	...
Liquidity												
Liquid assets to total assets	19.6	19.6	20.5	20.8	22.4	21.8	25.1	13.6	...	32.4	30.5	29.2
Liquid assets to short-term liabilities	27.7	29.6	30.0	30.3	32.6	32.5	36.9	61.5	...	39.3	37.8	35.6
Customer deposits to total (non-interbank) loans	122.9	115.4	111.7	125.4	141.0	139.5	139.2	133.6	...	...	...	...
Exposure to Foreign Exchange Risk												
Foreign currency liabilities to total liabilities	4.2	0.1	6.0	4.9	12.4	8.6	...	2.1	...	...	...	...
Financial System Structure												
Banks												
Private commercial	0	0	0	0	0	0	0	0	0	0	0	0
State-owned	1	1	1	1	1	1	1	1	1	1	1	1
Foreign-owned subsidiaries	3	3	3	3	3	3	3	3	3	3	3	3
Branches of foreign banks	38	39	39	39	39	39	39	39	39	39	39	39
Deposits (Emalangeni millions)												
Banks												
Private commercial	8,119	9,448	10,050	11,649	14,458	15,039	16,015	16,283	...	...	...	...
State-owned	...	...	...	...	...	...	...	...	...	...	...	...
Foreign-owned subsidiaries	1,011	1,126	1,210	1,168	1,389	...	...	...	...	...	...	...
Foreign-owned subsidiaries	7,108	8,322	8,840	8,446	13,069	...	...	...	...	...	...	...

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

Table 6. Eswatini: Indicators of Capacity to Repay the Fund
(As of March 30, 2023)

	2023	2024	2025	2026	2027	2028
	(Millions of SDRs)					
Fund Obligations Based on Existing Credit						
Principal	9.81	39.25	29.44	0.00	0.00	0.00
Charges and interest	6.45	5.81	4.14	3.30	3.30	3.30
Fund Obligations Based on Existing and Prospective Credit						
Principal	9.81	39.25	29.44	0.00	0.00	0.00
Charges and interest	6.45	5.81	4.14	3.30	3.30	3.30
Total Obligations Based on Existing and Prospective Credit						
Millions of SDRs	16.26	45.06	33.58	3.30	3.30	3.30
Millions of Emalangeni	364.11	1,030.99	801.88	82.57	86.84	91.43
Percent of exports of goods and services	0.96	2.57	1.87	0.18	0.17	0.17
Percent of debt service	2.74	7.27	5.61	0.59	0.62	0.57
Percent of GDP	0.43	1.13	0.82	0.08	0.08	0.08
Percent of gross reserves	3.50	8.95	7.09	0.74	0.80	0.88
Percent of quota	20.71	57.40	42.78	4.20	4.20	4.15
Outstanding IMF Credit Based on Existing and Prospective Drawings						
Millions of SDRs	68.69	29.44	0.00	0.00	0.00	0.00
Millions of Emalangeni	1,538.16	673.60	0.00	0.00	0.00	0.00
Percent of exports of goods and services	4.04	1.68	0.00	0.00	0.00	0.00
Percent of debt service	11.59	4.75	0.00	0.00	0.00	0.00
Percent of GDP	1.80	0.74	0.00	0.00	0.00	0.00
Percent of gross reserves	14.77	5.84	0.00	0.00	0.00	0.00
Percent of quota	87.50	37.50	0.00	0.00	0.00	0.00
Net Use of IMF Credit (millions of SDRs)						
Disbursements	0.00	0.00	0.00	0.00	0.00	1.00
Repayments and repurchases	9.81	39.25	29.44	0.00	0.00	0.00
<i>Memorandum items:</i>	(Millions of Emalangeni, unless otherwise indicated)					
Nominal GDP (at market prices)	85,373	91,621	98,117	104,921	111,977	119,355
Exports of goods and services	38,099	40,053	42,904	46,367	50,437	54,040
Gross official reserves	10,416	11,525	11,312	11,172	10,794	10,404
Debt service	13,276	14,174	14,295	14,048	13,972	16,078
Quota (millions of SDRs)	78.50	78.50	78.50	78.50	78.50	79.50

Source: IMF staff projections.

Annex I. Risk Assessment Matrix¹

Source of Main Risks	Likelihood	Expected Impact on Economy	Recommended Policy Response
Conjunctural risks			
<p>Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems.</p>	High	<p>High. Deteriorating terms of trade could add to inflationary pressure, worsen the external position, and further undermine the recovery.</p>	<ul style="list-style-type: none"> • Advance fiscal consolidation to preserve debt sustainability reestablish fiscal space for poverty and inequality reduction. • Maintain the policy rate broadly in line with the SARB's to support the peg. • Provide targeted support to mitigate the impact of the crisis on vulnerable households.
<p>Social discontent. Supply shocks, high inflation, real wage drops, and spillovers from crises in other countries worsen inequality, trigger social unrest, and give rise to financing pressures and damaging populist policies with possible spillovers to other EMDEs. This exacerbates imbalances, slows growth, and triggers market repricing.</p>	High	<p>Medium. Social discontent in other countries (South Africa) could potentially reduce external demand for both goods and labor, lowering growth and real incomes, and further exacerbating poverty, inequality, and food security.</p>	<ul style="list-style-type: none"> • Advance fiscal consolidation to reestablish fiscal space and relieve pressure on the external accounts. • Move forward with macro-structural and governance reforms to enhance opportunities for economic diversification and resilience. • Strengthen, expand, and better target the social safety net.
<p>Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation.</p>	Medium	<p>Medium. A global slowdown would negatively impact manufacturing and exports (via impact on South Africa and key markets).</p>	<ul style="list-style-type: none"> • Advance fiscal consolidation to preserve debt sustainability. • Advance structural reforms to improve the business environment and foster private sector-led growth and economic diversification. • Strengthen, expand, and better target the social safety net.
<p>Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.</p>	Medium	<p>High. Higher global food, energy and fertilizer prices could intensify pressure on food costs and worsen food insecurity.</p>	<ul style="list-style-type: none"> • Provide targeted support to mitigate the impact of the shocks on vulnerable households. • Strengthen and expand the social safety nets system.

¹ Based on the February 2023 G-RAM. The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Source of Main Risks	Likelihood	Expected Impact on Economy	Recommended Policy Response
Conjunctural risks			
Monetary policy miscalibration. Amid high economic uncertainty and volatility, major central banks slow monetary policy tightening or pivot to loosen monetary policy stance prematurely, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets.	Medium	Medium. Given the peg to the South African Rand, a premature loosening by the SARB could create real effective depreciation of the Lilangeni and add to domestic inflation via import prices.	<ul style="list-style-type: none"> Carefully monitor price and exchange rate developments in South Africa and periodically assess the credibility of the peg in helping to maintain price stability in Eswatini.
Systemic financial instability. Sharp swings in real interest rates, risk premia, and assets repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing markets dislocations and adverse cross-border spillovers.	Medium	Medium. Potential risk to private sector credit and availability of credit for government finance through branches and subsidiaries of foreign banks in Eswatini.	<ul style="list-style-type: none"> Advance fiscal consolidation to alleviate gross financing needs and facilitate private sector credit. Maintain and bolster financial sector supervision, particularly on nonbank financial institutions.
Structural risks			
Deepening geo-economic fragmentation. Broader and deeper conflict(s) and weakened international cooperation led to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	High	Medium. Further, geo-economic fragmentation would negatively impact external demand and growth (via its impact on South Africa and other key markets).	<ul style="list-style-type: none"> Advance structural reforms to improve the business environment and foster a private sector-led growth. Seek to diversify economic activity, exports and external links to increase resilience.
Cyberthreats. Cyberattacks on critical domestic and/or international physical or digital infrastructure (including digital currency and crypto ecosystems) trigger financial and economic instability.	High	Medium. With the rapid increase in digitalization, cyber-attacks could have significant effects on economic activity— notably the provision of e-government and financial services.	<ul style="list-style-type: none"> Strengthen cyber resilience while supporting digital financial inclusion. Incorporate cyber risks into financial stability analysis. Work toward building capacity in cyber security and implementation of strategic objectives under National cyber security plan (2020-25).
Extreme climate events. Extreme climate events cause more severe than expected damage to infrastructure (especially in smaller vulnerable economies) and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing growth.	Medium	Medium. Higher frequency of adverse climate events would negatively affect economic growth, increase poverty and inequality, and exacerbate food security.	<ul style="list-style-type: none"> Develop contingency plans for natural disasters. Build fiscal and external buffers to shocks. Build upon existing adaptation plans to address key climate vulnerabilities.

Source of Main Risks	Likelihood	Expected Impact on Economy	Recommended Policy Response
Domestic risks			
Social unrest. Prolonged social and political tensions and related uncertainties exacerbate the fragile social context and undermine growth.	High	High. Continued social tensions would weigh on investment and undermine growth.	<ul style="list-style-type: none"> • Advance structural reforms to improve the productivity and competitiveness. • Implement governance reforms to support long-term growth and employment.
Incomplete policy implementation. Delays in the implementation of fiscal adjustment measures exacerbate debt vulnerabilities and undermines confidence in the government's ability to control public finances.	High	High. Delays in fiscal consolidation efforts would worsen the fiscal and external positions and increase public debt.	<ul style="list-style-type: none"> • Advance fiscal consolidation to preserve debt sustainability. • Formulate a credible medium-term fiscal path to support investor confidence

Annex II. Sovereign Risk and Debt Sustainability Analysis

Figure AII.1. Eswatini: Summary of the Sovereign Risk and Debt Sustainability Assessment

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	High	The overall risk of sovereign stress is assessed as high reflecting high risks in the medium term and moderate level of vulnerabilities in the long term.
Near term 1/			
Medium term	High	High	The medium-term risk of sovereign stress is high reflecting rising public debt to GDP and the absence of any significant policy adjustment. The GFN module point to a moderate risk of debt distress while the fanchart module points to a high risk.
Fanchart	High	...	
GFN	Moderate	...	
Stress test	...	...
Long term	...	Moderate	Long-term risks are assessed as moderate reflecting debt vulnerabilities associated with fiscal financing gaps. Vulnerabilities could arise from the absence of a fiscal rule to manage the volatility of SACU transfers and a consolidation strategy to put debt on a sustainable path.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	Not applicable
Debt stabilization in the baseline			No

DSA Summary Assessment

Commentary: Eswatini's risk of sovereign stress over the medium-term is assessed to be high. Public debt as a share of GDP has tripled over the past decade due to elevated fiscal deficits and is projected to reach a new high of 42.3 percent of GDP in FY22/23. However, the rate of increase in public debt has slowed since 2020, reflecting the authorities' efforts at expenditure constraint. Under staff's baseline scenario, which includes a large increase in SACU revenues in the near term but no significant policy adjustment, gross financing needs would remain high and public debt to GDP would continue to rise over the medium-term—raising concern over the sustainability of the macro-fiscal trajectory.

Source: IMF staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

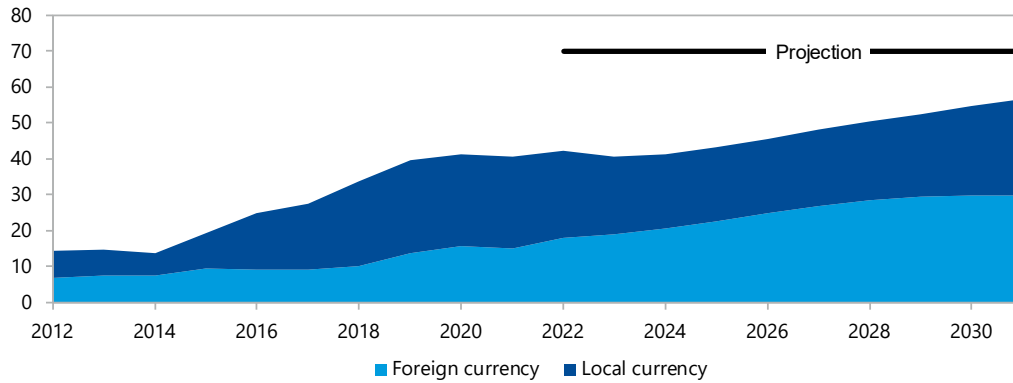
1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.
2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure All.2. Eswatini: Debt Coverage and Disclosures

Figure All.2. Eswatini: Debt Coverage and Disclosures										Comments			
1. Debt coverage in the DSA: 1/		CG	GG	NFPS	CPS	Other							
1a. If central government, are non-central government entities insignificant?							No						
2. Subsectors included in the chosen coverage in (1) above:													
Subsectors captured in the baseline							Inclusion						
CPS	NFPS	GG: expected	CG	1	Budgetary central government		Yes						
				2	Extra budgetary funds (EBFs)		No						
				3	Social security funds (SSFs)		No					No SSF in operation.	
				4	State governments		No					No data is currently available	
				5	Local governments		No					No data is currently available	
				6	Public nonfinancial corporations		No						
				7	Central bank		No						
				8	Other public financial corporations		No						
3. Instrument coverage:		Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGGs 3/							
4. Accounting principles:		Basis of recording		Valuation of debt stock									
		Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/							
5. Debt consolidation across sectors:		Consolidated		Non-consolidated									
Color code: ■ chosen coverage ■ Missing from recommended coverage ■ Not applicable													
Reporting on Intra-government Debt Holdings													
		Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total		
		Issuer											
CPS	NFPS	GG: expected	CG	1	Budget. central govt							0	
				2	Extra-budget. funds								0
				3	Social security funds								0
				4	State govt.								0
				5	Local govt.								0
				6	Nonfin pub. corp.								0
				7	Central bank								0
				8	Oth. pub. fin. corp								0
		Total	0	0	0	0	0	0	0	0	0		
1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector. 2/ Stock of arrears was used as a proxy in the absence of accrual data on other accounts payable. 3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities. 4/ Includes accrual recording, commitment basis, due for payment, etc. 5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes). 6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity. 7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.													
Commentary: The coverage in this DSA is debt issued by the budgetary central government. Debt by public enterprises is not included. Work is underway to bring the coverage up to full central government.													

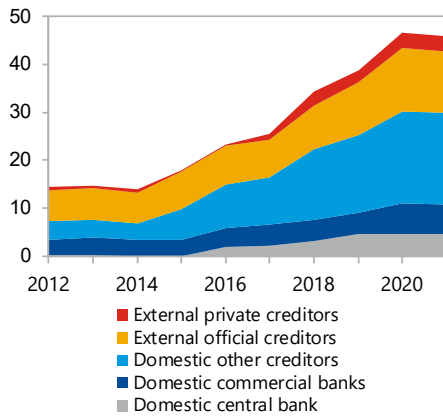
Figure All.3. Eswatini: Public Debt Structure Indicators

Debt by Currency (percent of GDP)



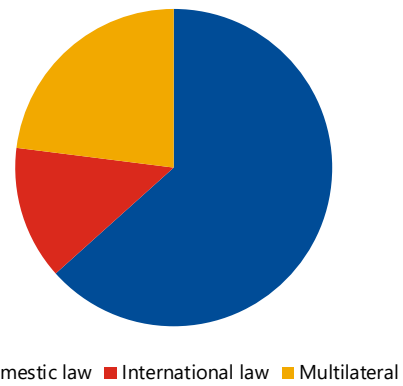
Note: The perimeter shown is central government.

Public Debt by Holder (percent of GDP)



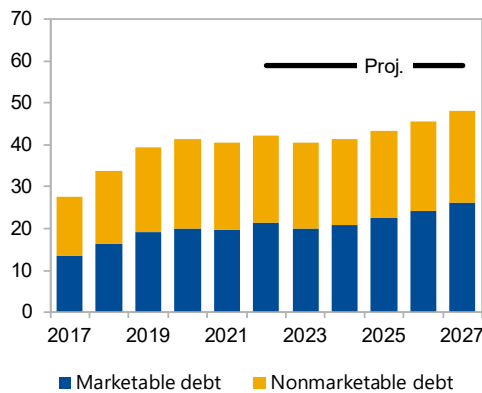
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2021 (percent)



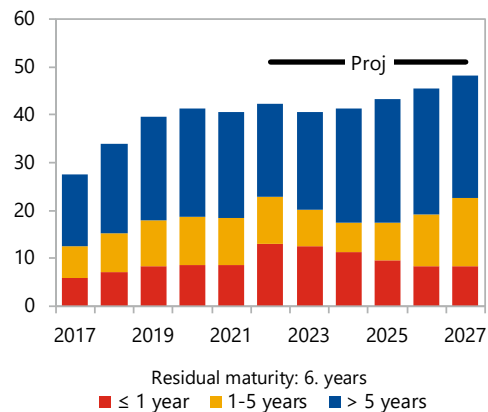
Note: The perimeter shown is general government.

Debt by Instruments (percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (percent of GDP)



Note: The perimeter shown is general government.

Commentary: Eswatini's public debt increased threefold over the past ten years to 42.7 percent of GDP in FY21/22. Domestic debt accounted for about 57 percent of the debt stock. External debt is owed largely to official creditors.

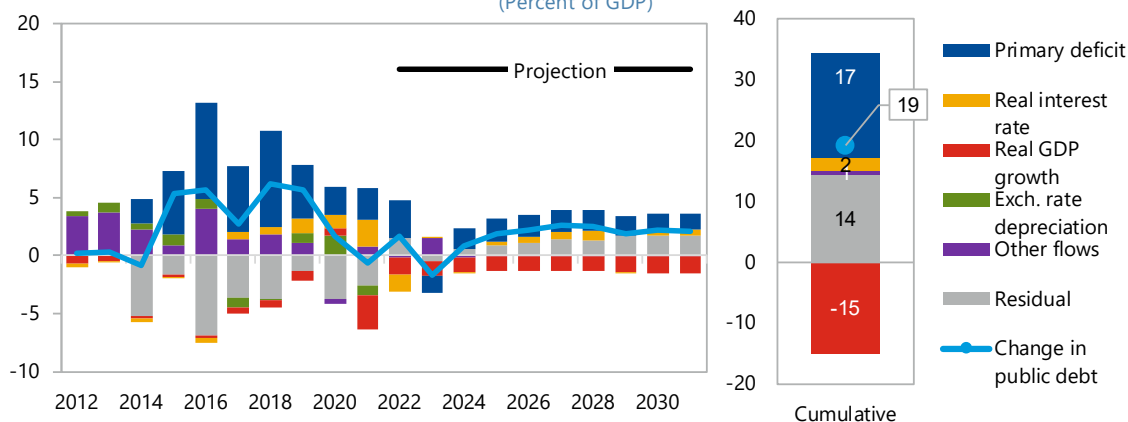
Figure All.4. Eswatini: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Public Debt	40.6	42.3	40.6	41.4	43.3	45.5	48.1	50.6	52.5	54.7	56.7
Change in public debt	-0.6	1.7	-1.7	0.8	1.9	2.2	2.6	2.5	1.9	2.2	2.1
Contribution of identified flow	1.3	1.0	-0.8	0.5	1.3	1.4	1.6	1.6	1.0	1.2	1.0
Primary deficit	2.7	3.2	-1.4	1.7	2.1	1.9	1.8	1.8	1.6	1.5	1.4
Noninterest revenues	24.8	23.8	30.1	26.9	26.5	26.7	26.8	26.8	26.8	26.9	26.9
Noninterest expenditures	27.6	27.0	28.6	28.6	28.6	28.6	28.6	28.6	28.4	28.4	28.3
Automatic debt dynamics	-2.2	-2.1	-1.0	-1.0	-0.7	-0.4	-0.2	-0.1	-0.5	-0.3	-0.4
Int. rate-growth differenti	-0.8	-2.9	-1.3	-1.3	-1.0	-0.8	-0.6	-0.5	-1.4	-1.0	-1.0
Real interest rate	2.2	-1.5	0.0	-0.1	0.3	0.5	0.7	0.8	-0.1	0.5	0.5
Real growth rate	-3.0	-1.4	-1.3	-1.3	-1.2	-1.3	-1.3	-1.3	-1.4	-1.4	-1.5
Real exchange rate	-0.8	...	...	...	...	...	...	...	...	...	...
Relative inflation	-0.6	0.8	0.3	0.3	0.3	0.4	0.4	0.4	0.9	0.7	0.6
Other identified flows	0.8	-0.2	1.5	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	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	0.0
Other transactions	0.8	-0.2	1.5	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0
Contribution of residual	-2.0	0.7	-0.8	0.3	0.6	0.8	1.0	0.9	0.9	1.0	1.0
Gross Financing Needs	19.8	17.1	12.6	15.2	15.0	13.9	13.3	13.8	13.4	14.9	15.8
of which: debt service	17.1	13.9	14.0	13.5	12.9	12.0	11.5	12.0	11.7	13.4	14.4
Local currency	16.0	13.3	12.6	11.0	10.5	9.8	8.3	8.3	7.8	8.2	8.9
Foreign currency	1.0	0.6	1.4	2.5	2.4	2.2	3.1	3.7	4.0	5.2	5.5
Memo:											
Real GDP growth (percent)	7.9	3.6	3.2	3.2	3.1	3.0	2.9	2.8	2.8	2.8	2.9
Inflation (GDP deflator; percer)	-0.9	9.0	4.5	4.0	3.9	3.8	3.7	3.7	5.5	4.4	4.4
Nominal GDP growth (percent)	8.5	11.5	7.7	7.3	7.0	6.9	6.7	7.1	8.2	7.4	7.4
Effective interest rate (percent)	4.8	4.9	4.5	3.8	4.5	5.1	5.3	5.4	5.4	5.4	5.4

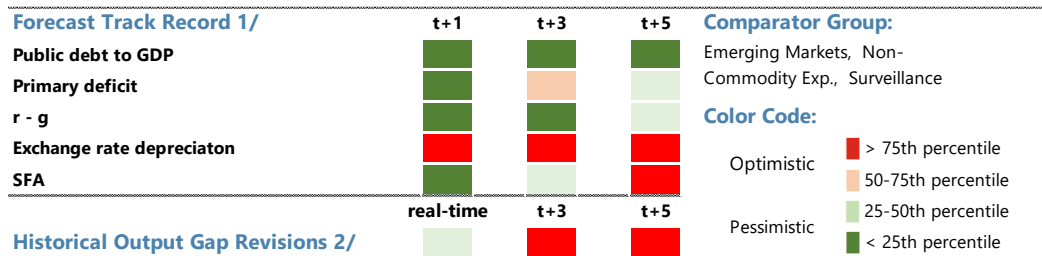
Contribution to Change in Public Debt

(Percent of GDP)

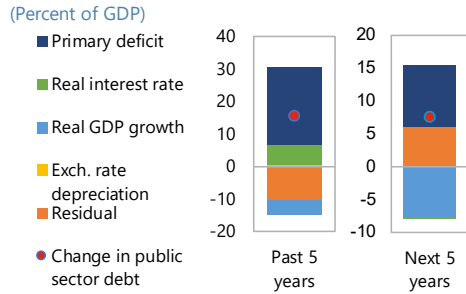


Commentary: Following a peak in FY22/23, public debt is projected to decline in FY23/24 before picking up due to the accumulation of primary deficits.

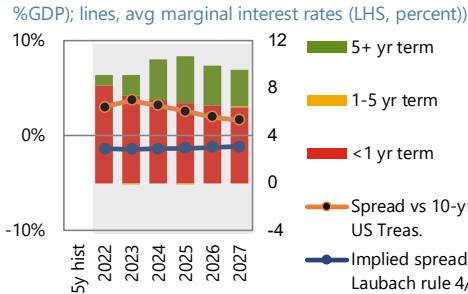
Figure All.5. Eswatini: Realism of Baseline Assumptions



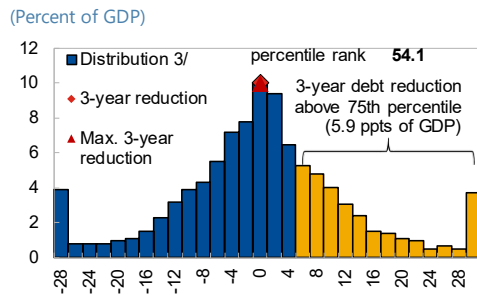
Public Debt Creating Flows



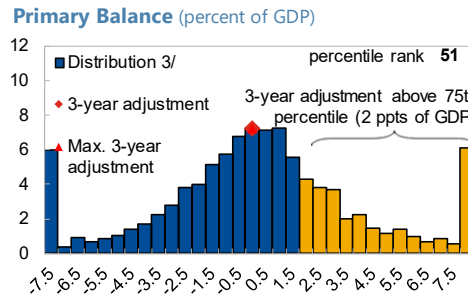
Bond Issuances (bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



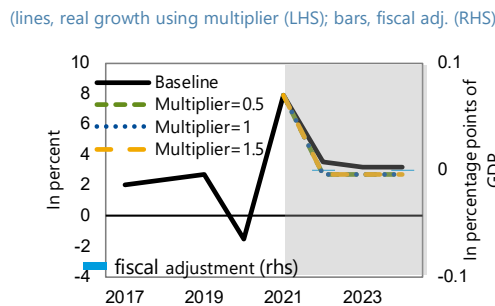
3-Year Debt Reduction



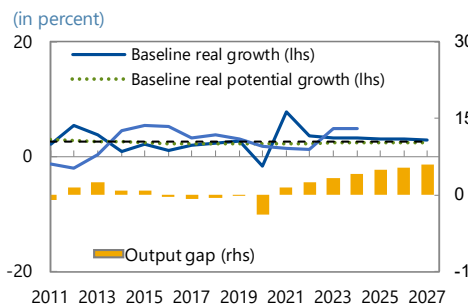
3-Year Adjustment in Cyclically-Adjusted



Fiscal Adjustment and Possible Growth Paths



Real GDP Growth



Commentary: The projected increase in public debt is low compared to the country's past 5 years reflecting a debt decline in the near-term. The three year debt reduction adjustments is on the high end of the country's own experience but in the mid-range of the distribution for the comparator group.

Source : IMF Staff.

- 1/ Projections made in the October and April WEO vintage.
- 2/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.
- 3/ Starting point reflects the team's assessment of the initial overvaluation from EBA (or EBA-Lite).
- 4/ The Lauback (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure All.6. Eswatini: Medium-Term Risk Analysis

Debt Fanchart and GFN Financeability Indexes

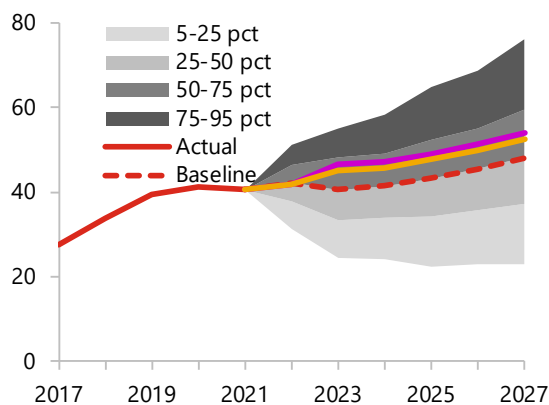
(percent of GDP unless otherwise indicated)

Module	Indicator	Value	Risk index	Risk signal	Adv. Econ., Non-Com. Exp, Program				
					0	25	50	75	100
Debt fanchart module	Fanchart width	53.1	0.8	...	[Bar chart showing interquartile range and Eswatini position]				
	Probability of debt not stabilizing (pct)	100.0	0.8	...	[Bar chart showing interquartile range and Eswatini position]				
	Terminal debt level x institutions index	36.8	0.8	...	[Bar chart showing interquartile range and Eswatini position]				
Debt fanchart index		...	2.4	High					
GFN financeability module	Average GFN in baseline	14.5	4.9	...	[Bar chart showing interquartile range and Eswatini position]				
	Bank claims on government (pct bank assets)	16.2	5.2	...	[Bar chart showing interquartile range and Eswatini position]				
	Chg. in claims on govt. in stress (pct bank assets)	19.4	6.5	...	[Bar chart showing interquartile range and Eswatini position]				
GFN financeability index		...	16.7	Moderate					

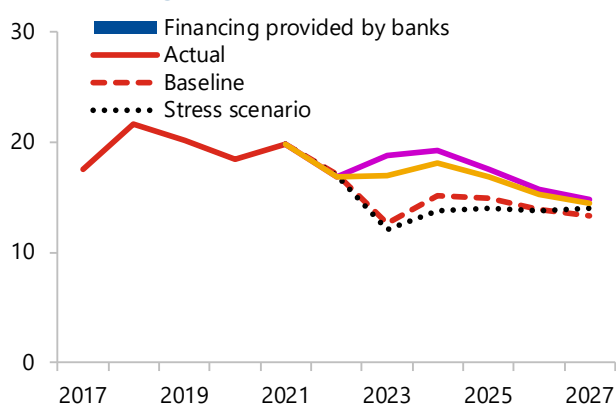
Legend:

Interquartile range Eswatini

Final Fanchart (pct of GDP)



Gross Financing Needs (pct of GDP)

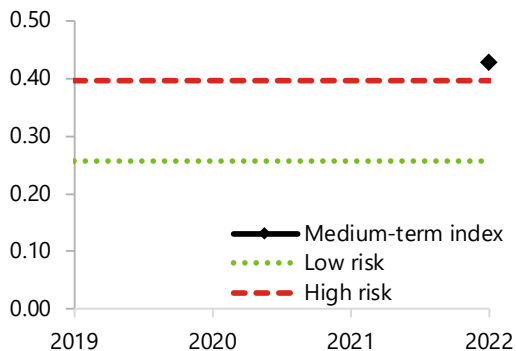


Triggerred stress tests (stress tests not activated in gray)

Banking crisis Commodity prices Exchange rate Contingent liab. Natural disaster

Medium-term Index

(index number)



Medium-term Risk Analysis

	Low risk threshold	High risk threshold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.5
GFN financeability index	7.6	17.9	0.5	0.3
Medium-term index (MTI)	0.3	0.4	...	0.4, High

Prob. of missed crisis, 2022-2027 (if stress not predicted): 54.5 pct.

Prob. of false alarm, 2022-2027 (if stress predicted): 8.0 pct.

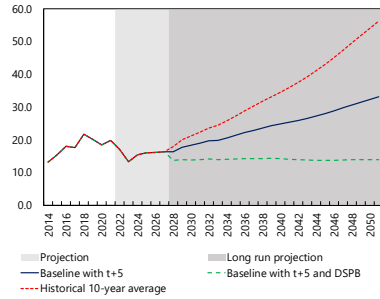
Commentary: The Debt Fanchart Module suggests a high level of sovereign stress risks while the GFN Financeability Module point to a moderate level of risks. Under the two stress test scenarii (natural disaster and contingent liabilities shocks), GFN would increase by 5 to 7 percent of GDP on impact and remain above the baseline in the medium-term.

Figure AII.7. Eswatini: Long-Term Risk Analysis

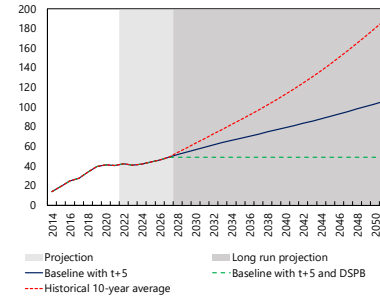
Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	High Risk (Red)
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	Medium Risk (Green)
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	Medium Risk (Green)
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		Medium Risk (Green)

GFN-to-GDP ratio

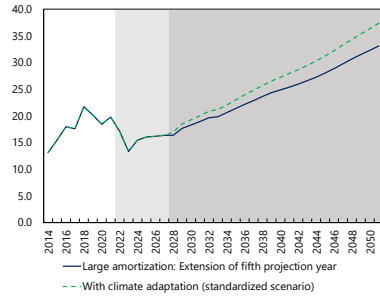


Total public debt-to-GDP ratio

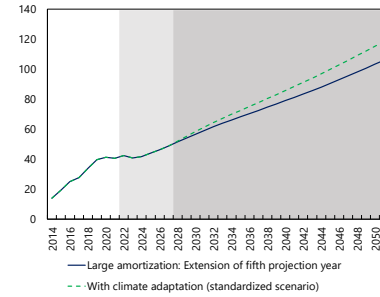


Climate Change: Adaptation

GFN-to-GDP ratio

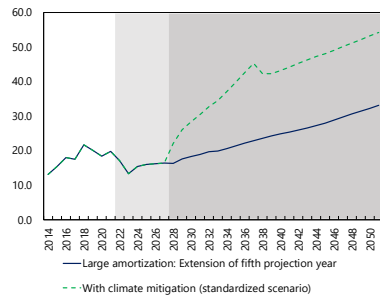


Total public debt-to-GDP ratio

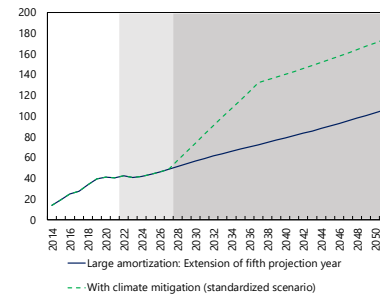


Climate Change: Mitigation

GFN-to-GDP ratio



Total public debt-to-GDP ratio



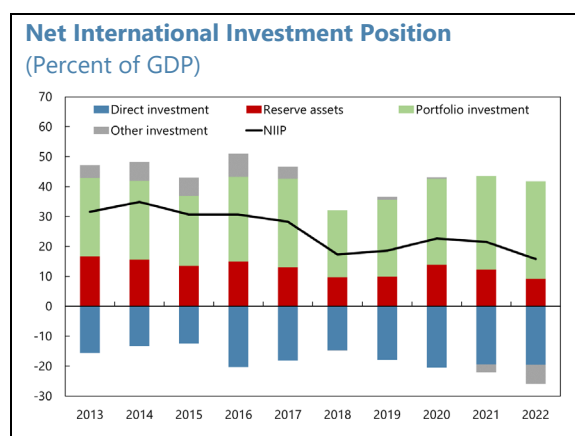
Commentary: The large amortization module calculates gross financing needs and debt-to-GDP ratios based on amortization from existing debt under three illustrative scenarios. Under the constant t+5 values and the historical 10-year average scenarios, both debt and GFN-to-GDP ratios increased throughout the projection period. The climate adaptation module adds climate-related adaptation cost estimates equivalent to 0.6 percent of GDP in the medium term. The climate mitigation module considers mitigation cost equivalent to 5.7 percent of GDP.

Annex III. External Sector Assessment¹

The external position of Eswatini in 2022 was broadly in line with the level implied by macroeconomic fundamentals and desirable policies, while some statistical issues pose uncertainty to this assessment. The current account balance shifted to deficit on the back of declining SACU receipts and a lower trade balance. The financial account recorded inflows with relatively large “other investment” inflows and lower portfolio outflows compared to 2021. The deterioration in the current account led to a decline in international reserves in 2022. The current account balance is projected to return to surplus starting in 2023, and international reserves are projected to stabilize around 2.2 months of imports over the medium-term, while remaining below the lower bound of the IMF’s reserve adequacy metric. Going forward, staff’s proposed fiscal adjustment, a better management of SACU revenues and structural reforms in favor of export diversification and external competitiveness would contribute to maintain the external position broadly in line with macroeconomic fundamentals and build adequate international reserves.

A. Foreign Assets and Liabilities

1. Background. In 2022, the Net International Investment Position (NIIP) continued to be positive but decreased relative to 2021. Eswatini remained a net creditor to the world, with an NIIP of about 15.8 percent of GDP in 2022. The NIIP declined in 2022 due direct and other investment inflows, as well lower reserve assets in 2022. Most of the external assets are in the form of portfolio investment mainly owned by the non-bank financial and corporate sectors.



2. Assessment. The NIIP is expected to increase and stabilize around 23 percent of GDP over the medium-term. The principal drivers would be continued portfolio investment outflows and lower other investment inflows over time. However, in the absence of the necessary fiscal adjustment, the NIIP could shift to a declining path.

B. Current Account

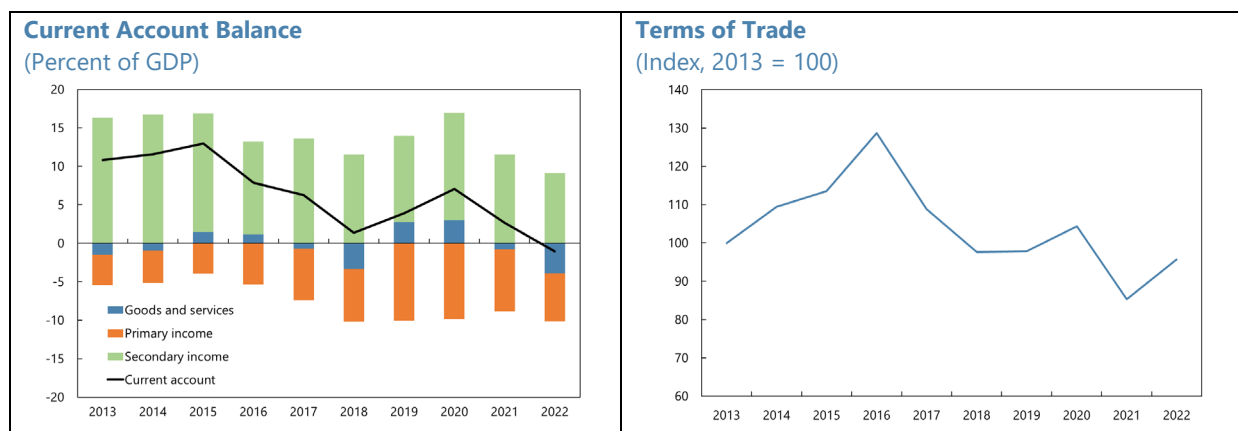
3. Background. The current account balance turned to deficit for the first time since 2011. Over the period of 2013–2021, although volatile, Eswatini’s current account (CA) surpluses averaged about 7.2 percent of GDP.² In 2022, the current account deteriorated to a deficit of

¹ Prepared by Can Sever.

² This annex is based on preliminary data 2022, posing notable uncertainty regarding the overall assessment of the external position. The external sector statistics in Eswatini reflect adoption of BPM6 methodology in 2018 and

(continued)

1.0 percent of GDP, compared to a surplus of 2.7 percent of GDP in 2021. This was driven by a deterioration in the trade balance and a decline in secondary income. The deterioration in the trade balance in 2022 was driven mostly by a larger increase in goods imports relative to the increase in goods exports, which was mainly due to high food and fuel prices. The decline in the secondary income in 2022 was a result of the decrease in the Southern African Customs Union's (SACU) receipts. Going forward, large fluctuations in SACU receipts, historically a major driver of the current account in Eswatini, represent a significant source of volatility in the external accounts and with direct implications for international reserves.



4. Assessment. The external position in 2022 was broadly in line with the level implied by macroeconomic fundamentals and desirable policies. The Fund's revised EBA-lite CA

methodology estimated a small current account gap of 0.2 percent of GDP and a real exchange rate gap of -0.7 percent. The 2022 cyclically adjusted CA (-0.2 percent of GDP) was broadly in line with the model's CA norm, estimated at -0.4 percent of GDP. While small, the current account gap is composed of a large policy gap of -3.1 percent of GDP, mainly reflecting a loose fiscal policy, and a residual. The residual may reflect productivity differentials (measured by output per worker) with the rest of the world and data issues that result in errors and omissions, or hint to the existence of other country-specific structural factors which may not be fully captured by the EBA-lite model regression. The presence of historically large and mostly negative errors and omissions points to the possibility of a weaker current account balance than reported, or leakages in financial and/or capital accounts, posing uncertainty to external sector assessment. Against this backdrop, the external position in 2022 is assessed as

EBA-lite Model Results, 2022

	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	-1.0	
Cyclical contributions (from model) (-)	-0.3	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	-0.5	
Adjusted CA	-0.2	
CA Norm (from model) 2/	-0.4	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	-0.4	
CA Gap	0.2	5.1
o/w Relative policy gap	-3.1	
Elasticity	-0.3	
REER Gap (in percent)	-0.7	-16.1
1/ Based on the EBA-lite 3.0 methodology		
2/ Cyclically adjusted, including multilateral consistency adjustments.		

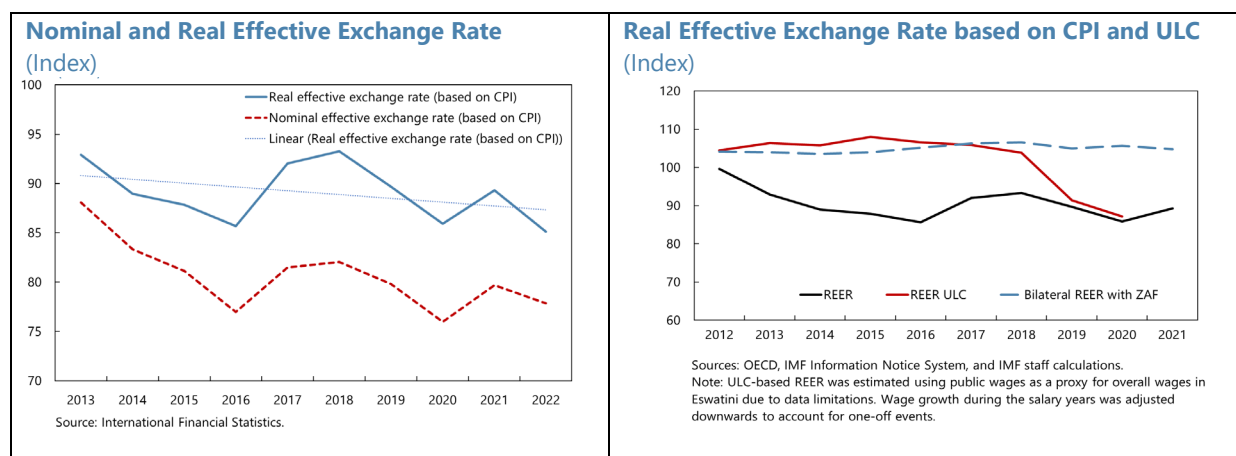
subsequent data revisions. However, historically large, and mainly negative errors and omissions reflect possible leakages in current, financial, or capital accounts, and therefore suggest significant room to improve the reliability of external statistics.

broadly in line with the level implied by macroeconomic fundamentals and desirable policies.³ Staff's proposed fiscal adjustment, together with a better management of SACU revenues and structural reforms to promote export diversification and improve external competitiveness,⁴ would contribute to improving the current account and maintain the external position broadly in line with macroeconomic fundamentals, and build adequate international reserves buffers.

C. Real Effective Exchange Rate

5. Background. The lilangeni is pegged at par to the South African rand, and the nominal exchange rate depreciation has followed the rand. The real effective exchange rate (REER) has exhibited a broadly similar trend as the nominal exchange rate.

6. Assessment. The REER approach suggests an undervaluation of 16.1 percent. Demographic factors (e.g., life expectancy, dependency ratio) played a role in this outcome, which would suggest that Eswatini's lower life expectancy should translate into low savings and a more appreciated exchange rate. However, this implication contrasts with Eswatini's high savings (15–20 percent of GDP in recent years). Given the uncertainty surrounding how well the REER model could serve to examine the characteristics of Eswatini, the CA methodology used above appears the preferable approach to assess the adequacy of the external position in Eswatini.



D. Capital and Financial Account

7. Background. Following persistent outflows since 2014, the financial account recorded inflows in 2022. Over the period of 2014–2021, annual financial outflows averaged about

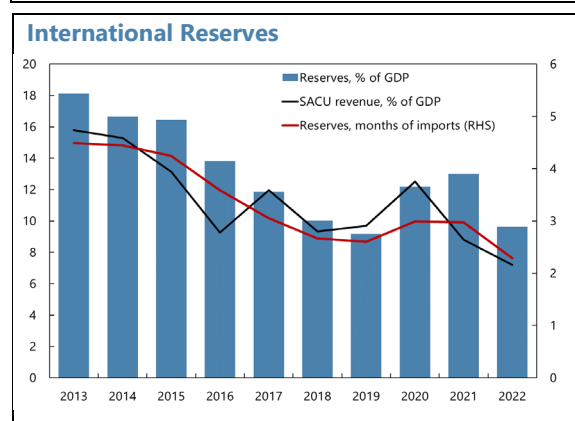
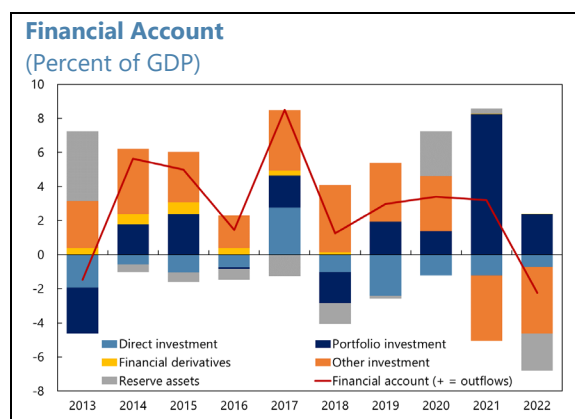
³ The large errors and omissions are likely to be in part due to data limitations in recording trade in services. External position assessment based on IMF, "The Revised EBA-lite Methodology", Policy paper No. 19/026, July 2019.

⁴ For a detailed analysis of the trends in Eswatini's export diversification and competitiveness, see "Kingdom of Eswatini 2019 Article IV Consultation—Press Release and Staff Report," IMF Country Report No. 20/41, February (Washington, DC).

3.9 percent of GDP. In 2022, however, financial inflows amounted to 2.2 percent of GDP. This was driven by “other investment” inflows and lower portfolio outflows in 2022 relative to 2021. While precise information on these flows is not available, they do not appear to be closely linked with economic activity/cycles.

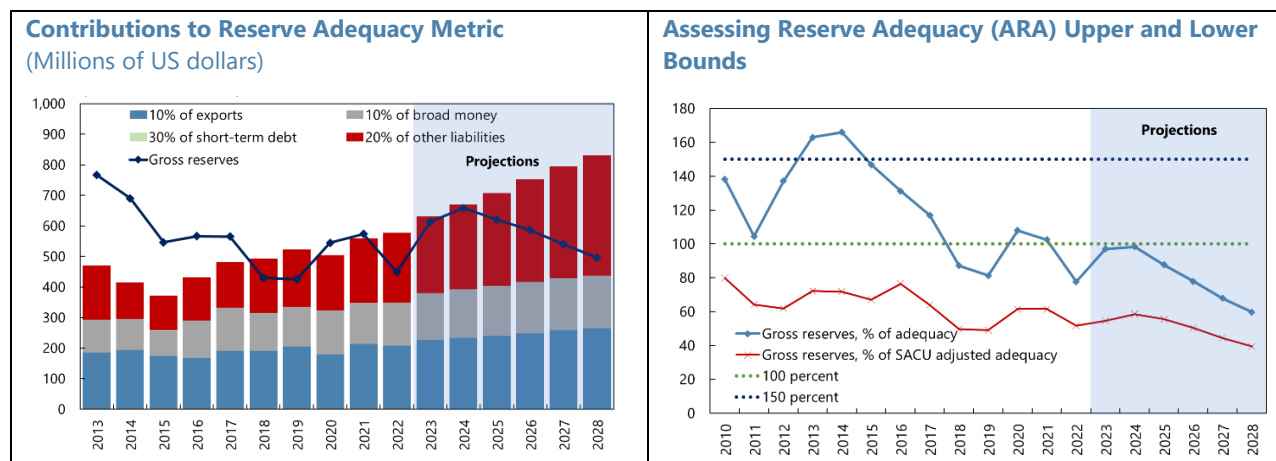
E. International Reserve Adequacy

8. Background. Eswatini’s international reserves declined in 2022 following two consecutive increases in 2020 and 2021. Reserve levels in Eswatini have been notably affected by fluctuations in SACU revenue. At end-2022, reserves stood at \$449 million, about 2.3 months of prospective imports, and 9.6 percent of GDP. The decline relative to 2021 was about 21 percent, which was largely driven by a weaker current account as a result of lower SACU receipts and a deterioration in the trade balance.



9. Assessment. Eswatini’s international reserves are below adequate levels. The IMF reserve adequacy matrix (ARA) captures vulnerabilities from multiple sources. In particular, it considers vulnerabilities from (i) export earnings as a proxy for potential losses from terms of trade shocks, (ii) short-term debt at remaining maturity to reflect roll-over risk, (iii) portfolio investment as well as medium and long-term debt to account for non-resident capital outflows, and (iv) broad money to proxy for residents’ capital flight, with the weights as indicated in the figure. Reserves in the range of 100–150 percent of the composite metric are in general considered adequate. Using preliminary data from 2022, this would correspond to international reserves between 3.0 and 4.6 months of projected imports (11.8 and 17.6 percent of GDP). In 2022, gross international reserves fell to about 78 percent of the lower bound of the IMF’s reserve adequacy metric, after touching the lower bound of the adequate level in 2021. During 2023–2024, reserves are projected to increase significantly and reach 98 percent of the adequacy metric, on the back of higher SACU receipts projections and a reversal of the 2022 CA deficit. Over the medium-term, reserves are projected to stabilize around 2.2 months of imports and below the lower threshold of the adequacy level, while these projections are largely prone to the fluctuations in the SACU revenues.⁵

⁵ International reserves have been adjusted to exclude FX forward purchase contracts between the Central Bank of Eswatini and commercial banks as these foreign assets would only be available to the central bank as international reserves upon reaching maturity.



10. The high dependence of the current account on structurally volatile SACU revenues would suggest for Eswatini a cautious approach in assessing the adequacy of reserves.

Reflecting the high volatility of SACU revenue and their role in the CA, potential reserve losses from fluctuations in SACU transfers indicate the need for Eswatini's reserves to be at the higher end of ARA reserve metrics. For example, assuming that SACU inflows could shift down by 20 percent (which is within historical experience and thus a plausible risk), the floor of the adequate reserve level would increase to about 4.6 months of imports, or 17.7 percent of GDP in 2022.⁶

⁶ The risk weight was chosen based on the largest drop in the SACU inflows since 2010.

Annex IV. The Macroeconomic Relevance of Gender Inequality in Eswatini¹

A. Introduction

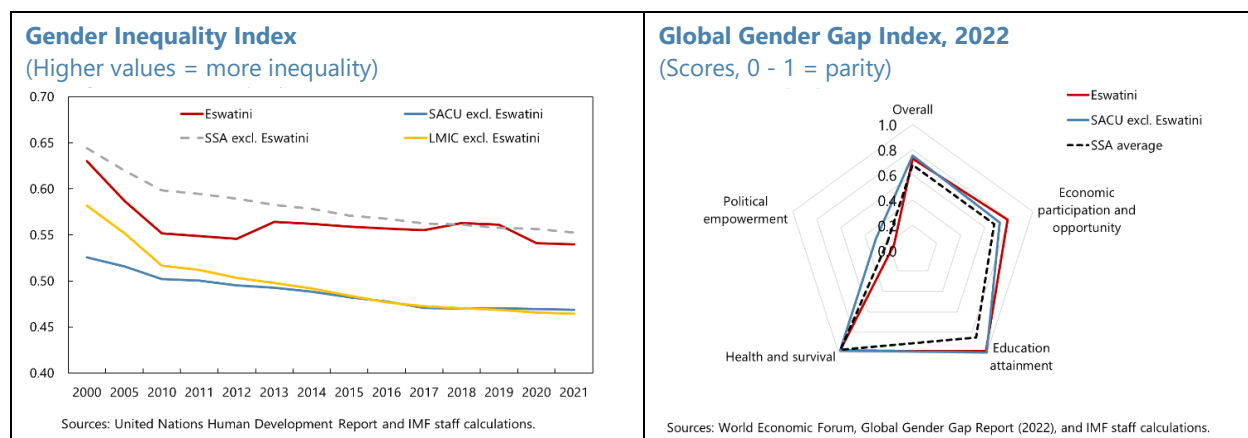
1. Eswatini is a small, trade-dependent economy in Southern Africa characterized by low-growth, high poverty, and high inequality. Eswatini has reached a crossroads with respect to its economic development, having exhausted the potential of its public sector-driven growth model adopted after the end of a private sector / FDI boom driven by apartheid-era sanctions on South Africa (which made Eswatini a comparatively attractive FDI destination). The government has signaled its desire to promote private sector led growth. Such a shift would serve not only to lift Eswatini out of its low growth equilibrium, but also generate more opportunities for inclusion, employment, and poverty reduction.

2. Addressing gender inequality and enabling women to fully and effectively participate in economic activities could play an important supporting role in the shift to private sector led economic growth in Eswatini. Gender-based disparities in access to education, healthcare, financial services, ownership of assets and the labor market prevent women from fulfilling their true economic potential. This in turn hampers the allocation and utilization of talent and resources, thereby weighing down on economic growth and development. Enabling the shift from state to private sector led economic growth will take reforms across a broad range of areas including macroeconomic management, education, skills development, healthcare, and access to finance. However, the shift to private sector led growth will likely rest heavily on labor force dynamics and opportunities to enable and support the creation of small and medium-size enterprises (which, inter alia, could also make the biggest contribution to boosting employment). Increasing women's participation in the economy as employees and employers can catalyze this process, enabling Eswatini build on a large but untapped economic potential. Therefore, tackling gender gaps takes on particular importance at this juncture.

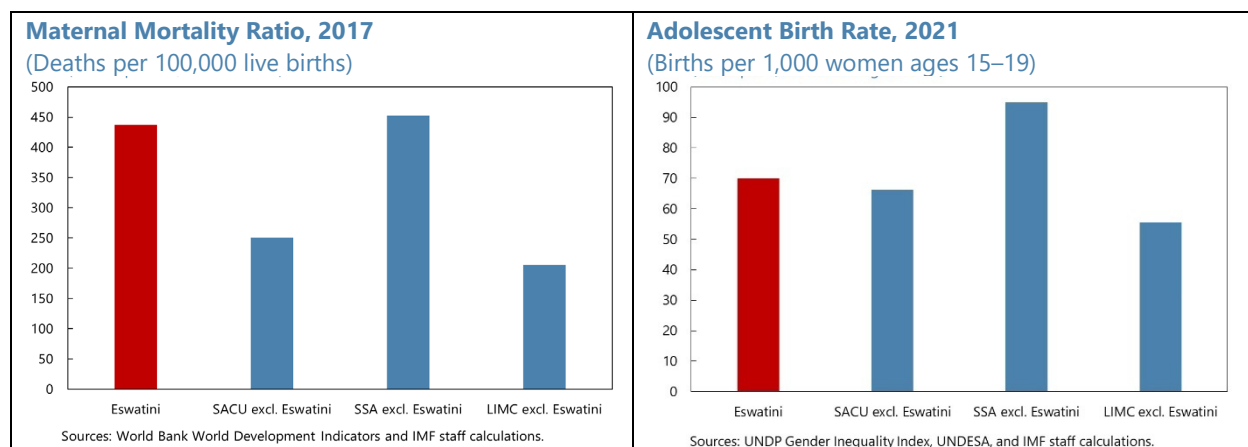
B. Gender Inequalities in Eswatini

3. Gender gaps are significant in Eswatini, with women lagging men in both opportunities and outcomes. Eswatini ranks 138th out of 170 countries in the UNDP's 2021 Gender Inequality Index (capturing gender disparities in health, empowerment, and labor market)-well below SACU peer countries. It also ranks low based on the World Economic Forum's 2022 Global Gender Gap index (a summary measure of gender gaps in reproductive health, political representation, and labor market). The low rank of Eswatini based on these composite indexes suggests that gender inequalities are spread over different areas. This is also visible, particularly in some areas, when individual dimensions of gender inequality are put under a microscope.

¹ Prepared by Can Sever and Qiuyan Yin.

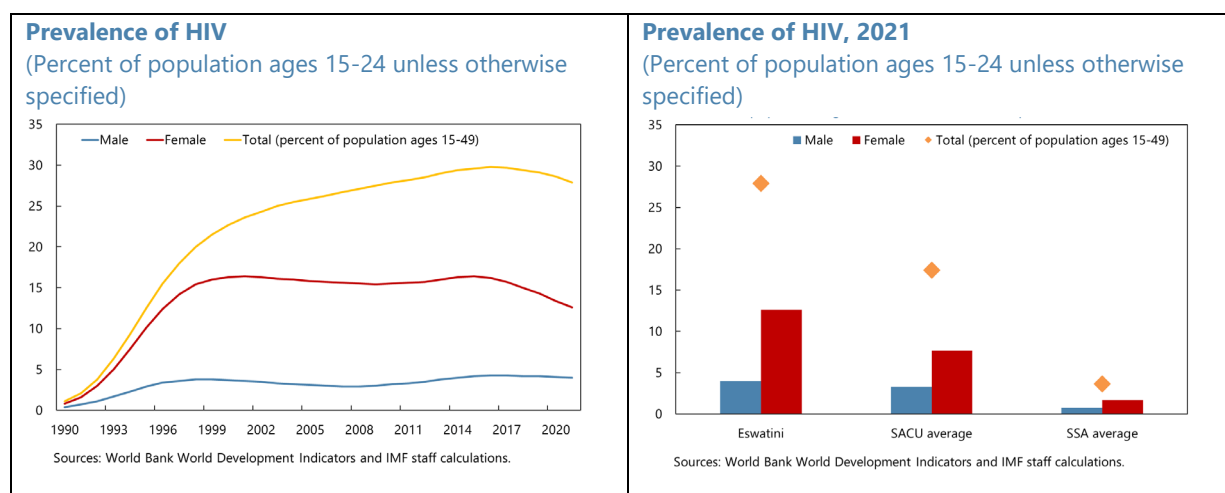


4. Reproductive Health and Rights. Eswatini's maternal mortality ratio (437 per 100,000 live births in 2017) and adolescent birth rate (70 births per 1,000 girls ages 15–19 in 2021), though having declined significantly since 2000, remain much higher than the averages for the lower-middle-income countries. Moreover, according to the United Nations Population Fund (UNFPA), 51 percent of women ages 15–49 in Eswatini lack the power to make their own decisions on issues regarding sexual and reproductive health and rights (including deciding on their own health care and use of contraception), and 111 per 1,000 women ages 15–49 had unintended pregnancies (according UNFPA data).



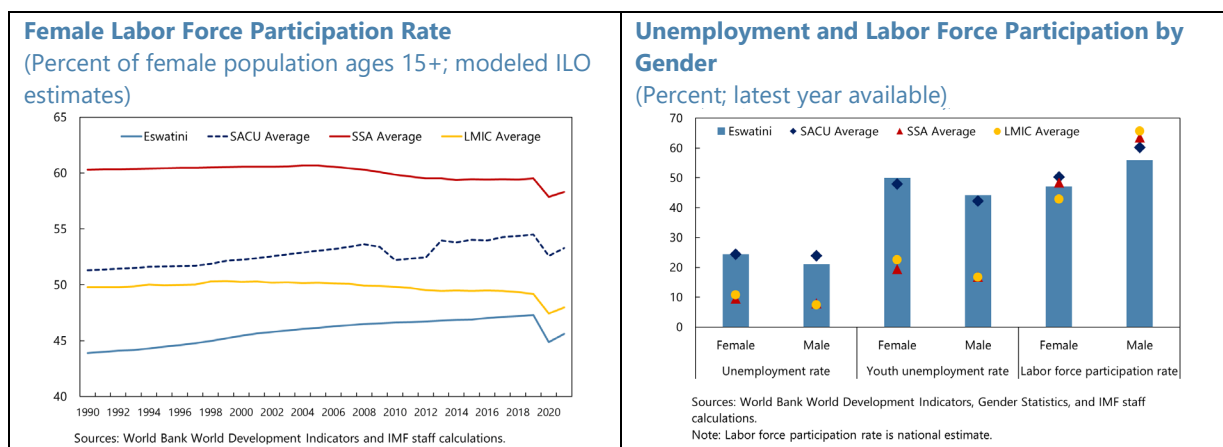
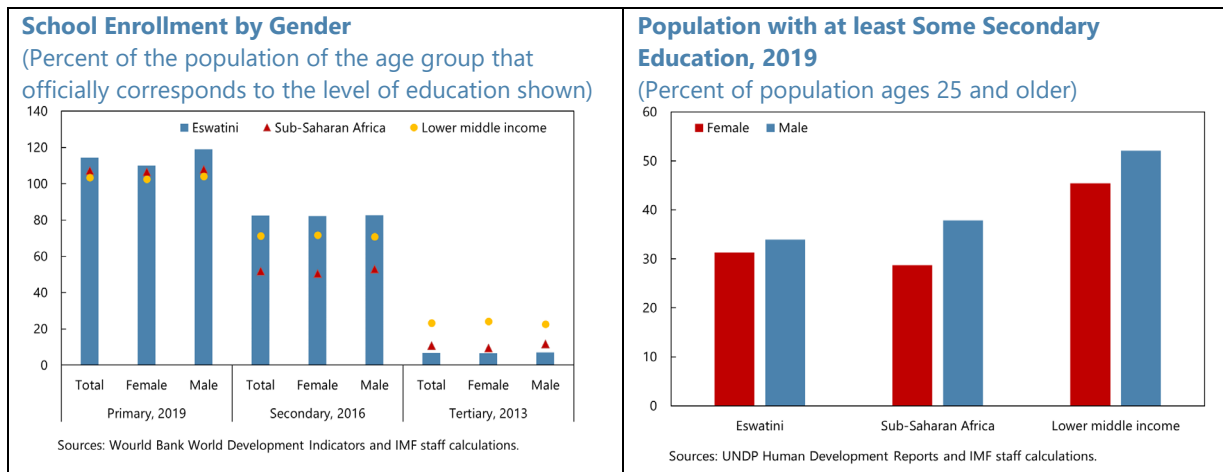
5. Gender-based violence. It is a major problem in Eswatini, severely affecting the well-being of women and girls. According to the UNFPA, in Eswatini, around one third of females have experienced some sort of sexual abuse by age 18 years, and almost half of women report to have experienced sexual violence during their life span. Based on the latest available survey data for 31 sub-Saharan African countries (Eswatini was not included) from 2006–2017 released by the United Nations Statistics Division, about 22 percent of ever-partnered women and girls ages 15–49 years were subjected to physical and/or sexual violence by an intimate partner in the 12 months prior to the survey. This proportion could be even higher for Eswatini, given that 71 percent of female respondents reported that gender-based violence happens very often in Eswatini, according to UN Women's 2021 COVID-19 Rapid Gender Assessment.

6. HIV Prevalence. Eswatini has the highest HIV prevalence rate in the world, and women and girls are disproportionately affected. Among the population ages 15–24, the gender gap in HIV prevalence has decreased in the past two decades, but it is still larger than the averages for SACU countries and sub-Saharan African countries, with the prevalence of females being triple that of males. The improvement of the fight against HIV could be affected by COVID-19, as health personnel and infrastructure were diverted, causing difficulties accessing services for the people living with HIV.



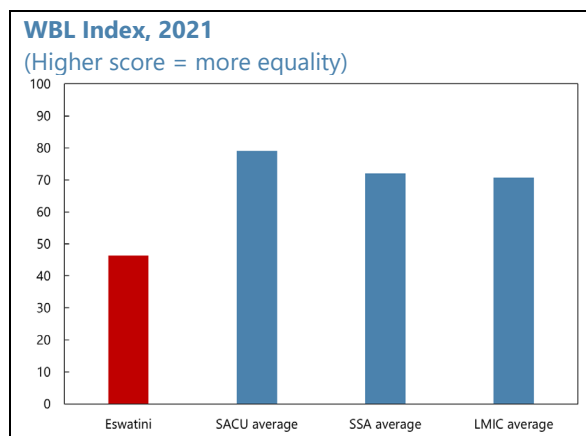
7. Education. Eswatini has made significant progress in closing gender gaps in school enrollment and educational attainment. Women are now close to men in terms of enrollment in secondary and tertiary education, as well as the share of population with at least some secondary education. Except for tertiary education, Eswatini performs better than sub-Saharan African and lower-middle-income countries in primary and secondary education enrollment. Additionally, women are roughly on par in terms of the literacy rate, 88.5 percent for women and 88.3 percent for men in 2018, according to data from the World Bank. However, there is still room for improvement. Moreover, albeit being relatively mild in Eswatini, gender-based gaps in education could even become wider, as girls are likely to be more disadvantaged relative to boys in terms of continuing their education after the long breaks experienced during the COVID-19 pandemic (World Bank 2021).

8. Labor Force Participation. Eswatini largely mirrors SACU peers and the sub-Saharan African average with respect to the gender gap in labor force participation rates. Little progress has been made over the past thirty years in raising total female labor force participation from one of the lowest bases in the region—from about 44 percent in 1990 to over 46 percent in 2018. Like many countries, the impact of the COVID-19 pandemic on female labor has been pronounced—with women and girls more likely to be unemployed, underemployed, underpaid and/or excluded from the labor force due to care work.

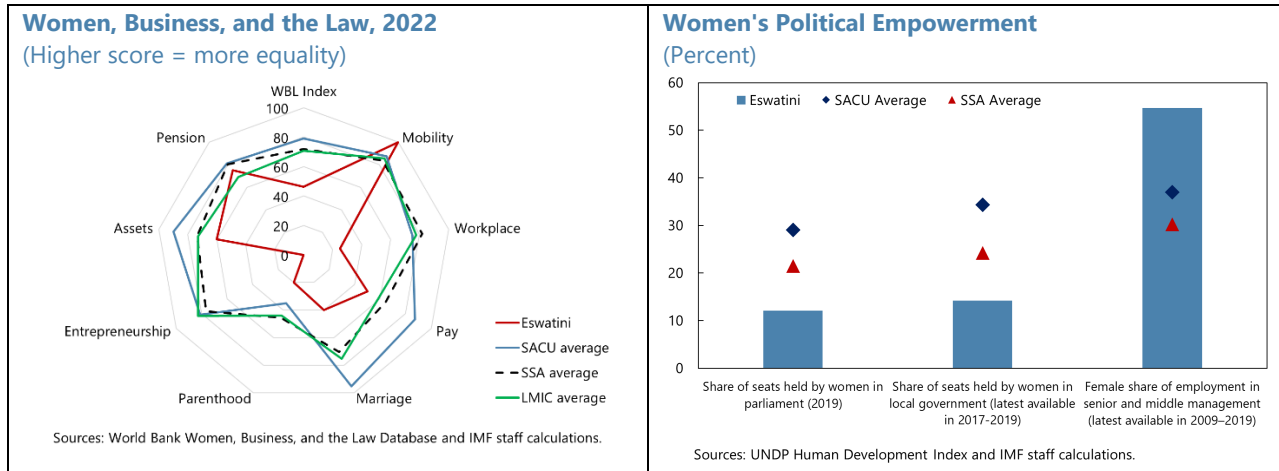


9. Workplace and Pay. Women have notably lower employment rates and earnings than men in Eswatini. Both unadjusted and unexplained gender earnings gaps are higher in self-employment than in wage employment. Median monthly earnings for women are E1,800 versus E2,500 for men. Tertiary education and urban location likely account for a large part of the gender earnings gap and mitigate high female propensity to self-employment (Brixiová and others 2021).

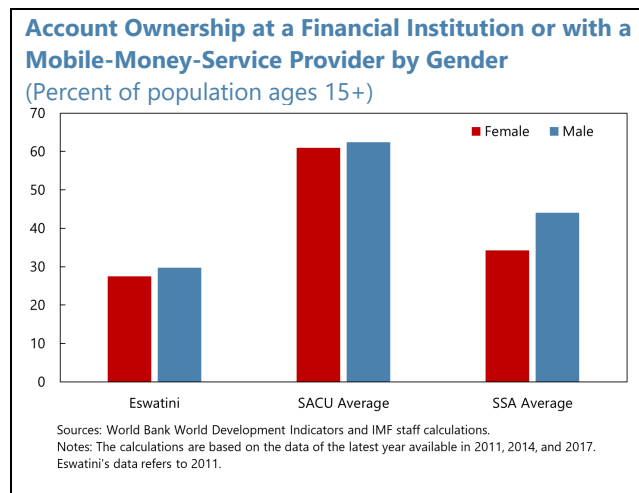
10. Legal Rights and Positions of Power. Eswatini scores 46.3 out of 100 in the World Bank's Women, Business, and the Law (WBL) survey, meaning that women have less than 50 percent of the rights that men have in the eight areas covered in WBL, namely (i) mobility, (ii) protection in the workplace, (iii) pay, (iv) marriage, (v) parenthood, (vi) entrepreneurship, (vii) ownership of assets, and (viii) pension system. This indicates that women in Eswatini still lacks equal economic opportunities. However, on the positive side, this means an improvement



compared to 38.8 in 2010, while still being lower than the average for sub-Saharan African countries (71.5). Moreover, women in Eswatini still have less economic rights relative to men spreading over various dimensions, i.e., in seven areas out of eight as covered in WBL. Full gender equality in the legislation has, to date, only been achieved in the mobility category. Despite the laws that sideline women, it is notable that more than half of the senior and middle-management positions in Eswatini are taken up by women. By contrast, women only represent 12 percent of parliamentarians and 14 percent heads of local government. These figures lag well behind SACU peers and the average for sub-Saharan Africa.

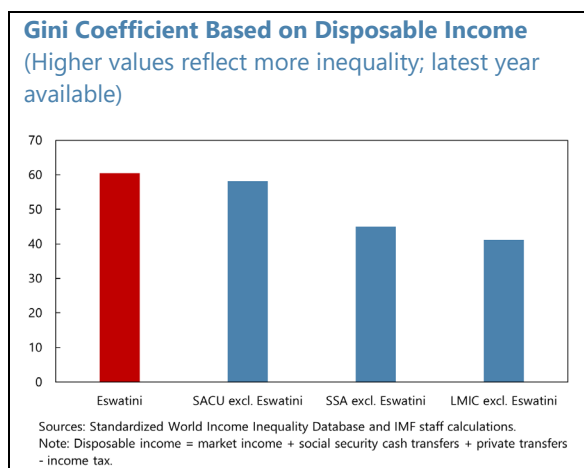


11. Financial Inclusion and Entrepreneurship. Eswatini scores very low compared to SACU and SSA peers with respect to female entrepreneurship, partly reflecting gaps in accessing credit or opening bank accounts, challenges in signing business contracts with the same rights as male counterparts, and inequalities with respect to registering a business, according to WBL. According to a 2016 Enterprise Survey, only 14 percent of women-led SMEs reported having access to a bank loan or line of credit (versus 32 percent for SMEs led by men).



C. Economic Benefits of Addressing Gender Inequality in Eswatini

12. Eswatini is characterized by both high poverty and high inequality. Poverty based on the national poverty line (E975.3 per adult equivalent per month) fell from 63 percent in 2010 to 58.9 percent in 2017, but the absolute number of poor increased as a result of population growth. At the same time, inequality in Eswatini (including inequality of opportunity) is also high. Eswatini is among the top 15 percent of countries in inequality as measured by the Gini Coefficient² (estimated by Solt 2020), which increased from 58.7 percent in 2001 to 60.4 percent in 2016. This high inequality is driven largely by uneven access to opportunities and distribution of resources and weakens links between growth and poverty. Primary contributors to inequality of opportunity are access to early education and parental education and the urban/rural divide.³ This level of inequality is something that Eswatini can ill afford.



13. High income inequality among citizens of Eswatini has significant macroeconomic implications. First, under the diminishing marginal utility, for a given amount of total income, greater inequality implies lower social welfare. Moreover, inequality can impede economic growth by leading to social or political instability, as well as jeopardizing human capital accumulation. Lower net income inequality (measured by the Gini coefficient after taking into account the effects of taxes and redistributive government programs) has been robustly associated with faster growth and longer growth spells for a large number of countries (e.g., Berg and Ostry 2011). Regarding to sub-Saharan Africa, recent simulations by IMF staff suggest that reducing income and gender inequality could deliver significant growth dividends in sub-Saharan Africa (growth could be higher by close to 1 percentage point if inequality were reduced to the levels observed in the Association of Southeast Asian Nations (ASEAN) countries (IMF African Department Regional Economic Outlook, October 2015).

14. Gender inequality is one important facet of Eswatini's generalized inequality challenge. In this regard, gender-based disparities are related to income inequality: gender wage gaps can deepen income inequality among citizens, and gender-based gaps in labor force participation rates and employment opportunities likely leads to inequality of earnings (Gonzales

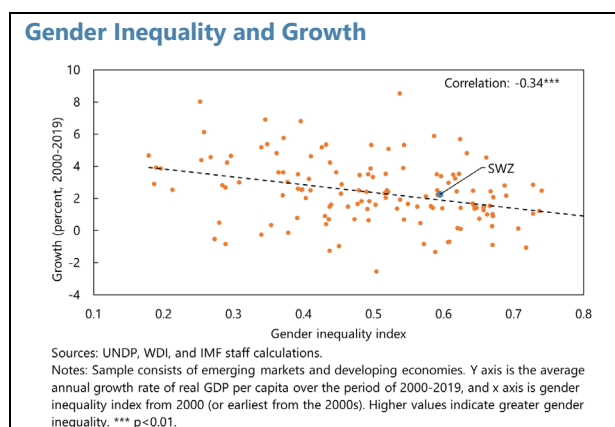
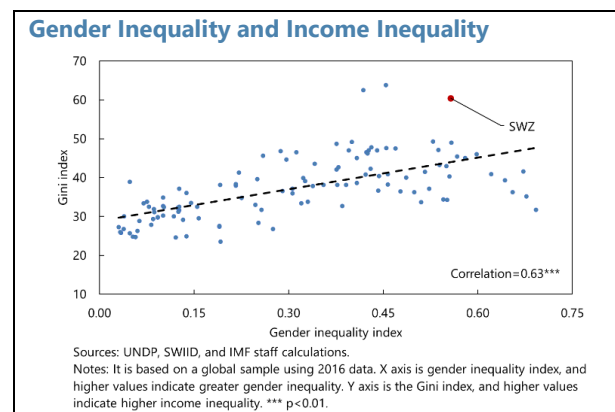
² Gini index is a standard measure of inequality of the extent to which the distribution of among individuals deviates from a fully equal distribution. It ranges from 0 to 100. A Gini index at 0 indicates perfect equality, and an index of 100 represents perfect inequality.

³ World Bank, Country Partnership Framework for Eswatini, FY23–27.

and others 2015). Consistently, the data shows that there is a significant correlation between the measures of income inequality and gender inequality: countries that have income inequality as a whole are the ones with higher gender-based inequality. Prevailing gender gaps in Eswatini, hence, is potentially a major driver of inequality in broader sense.

15. Lower gender inequality can support economic growth and development in

Eswatini through several channels. Economic literature is broadly supportive of the view that reducing gaps between men and women is likely to facilitate large economic gains including higher economic growth. As mentioned above and being very important for Eswatini, gender equality can boost growth by helping countries reduce income inequality. It can also facilitate growth through higher female labor force participation, accumulation of human capital, and higher productivity growth (see Bertay and others 2020, Sever 2022 for detailed reviews and discussions). Moreover, as women generally spend more for the food and healthcare of children, this supports human capital accumulation (Schultz 2002). Consistent with the vast majority of the previous literature on gender inequality and growth nexus, the figure on the right sideshows that emerging markets and developing economies which had greater gender inequality to start with grew at lower rates since the 2000s, compared to more gender-equal peers.



16. Aligning the government's drive to promote a shift to private sector-led economic growth with determined efforts to reduce inequality, including gender-based inequality, would be mutually reinforcing. This is particularly the case with respect to gender, where pronounced inequality is having a deleterious effect on growth and development outcomes.

D. Areas for Policy Focus

17. Policies to bridge gender gaps in the various dimensions noted above are all relevant for economic growth and development in Eswatini. Achieving better female health matters in particular for economic development for several reasons. First, healthy women can participate in the labor market at higher rates and more productively. Second, better health positively affects the returns to educational investment—for example, through lower morbidity rates supporting labor market participation. Third, maternal health affects the health of children during pregnancy and at birth, as well as through mothers' ability to breastfeed and nourish their children, thereby

contributing to transmission of human capital (Bloom and others (2015)).⁴ Closing gender-based gaps in education and labor market outcomes (i.e., increasing girls' school attendance, how long they stay in the education system, as well as their participation to the workforce after school) can facilitate economic growth and development through human capital accumulation and productivity gains. Boosting financial inclusion for all can contribute to economic development through supporting growth and mitigating poverty. Greater availability of financial services unleashes business opportunities for women and women-led firms, promoting the role of private sector in growth in Eswatini. It can also allow them to invest in education, cushion adverse shocks, and save for old age, supporting sustainable economic growth further (World Bank Global Financial Development Report 2014). Regarding economic rights, greater gender equality in the law can boost growth, and allow Eswatini to catch up with living standards in advanced economies (Sever 2022). Finally, mitigating gender inequality in all of these areas helps Eswatini tackle inequality more broadly in its population.

18. Efforts to promote greater gender equality in Eswatini in support of the government's development objectives should focus on several areas in which there are prevailing gender disparities:

- **Improving access and quality of health services for women.** High maternal mortality and HIV prevalence among females in Eswatini reflect gender-based gaps and vulnerabilities in the health system. Policies should focus on increasing access and affordability of healthcare for women (including primary care), providing wide-spread preventive and family planning services, training health professionals to serve the specific needs of women, building trust and ensuring confidentiality, and promoting women's presence in the health sector (including management positions).
- **Increasing access and quality of education for girls, as well as ensuring their stay in school and entry into the workforce after education.** Policies should focus on several aspects. First, increasing returns to education via labor market policies (as exemplified below) is crucial. This includes increasing female labor force participation rate and enabling women get access to well-paid jobs which require high skills, and longer career ladders. These efforts should be supported by programs to improve the quality of schools for all to make the youth equipped with skills that are most needed. Second, reducing direct, indirect and opportunity cost of education for girls, via policies such as carefully targeted compensation for families, supplying the means of education for girls in school, providing dorms or transportation particularly in rural/remote areas, providing safe and inclusive school environments, and fighting child labor (see World bank 2015). It is also important to introduce nation-wide programs to monitor girls in schools and take necessary actions to prevent dropouts.

⁴ In this regard, gender-based violence as a public health issue likely affects economic performance (see Ouedraogo and Stenzel 2021 for the economic costs of gender-based violence in SSA countries).

- Achieving a greater and effective participation of women to the workforce.** To boost female labor force participation and increase women's productivity by mitigating the factors that result in both supply and demand side impediments in the labor market, active labor market policies are crucial. Those policies can include, but are not limited to, (i) vocational training programs to equip women with the required skills and job search assistance programs; (ii) tackling disincentives for recruiters to hire more women (e.g., through parental leave and childcare subsidies); (iii) enabling/supporting development of affordable childcare facilities; (iv) labor regulations encompassing flexible work arrangements; (v) revising the tax code by reducing the effective tax rate on secondary earners in the household; and (vi) reforming gender discriminatory labor laws to prevent discrimination in the hiring process, as well as in pay and career ladders. Other regulations to protect women and address their needs in the workplace should complement (e.g., Christopherson and others 2022). In the medium term, various fiscal policy choices can provide incentives and create conditions for higher female labor force participation, including higher spending on infrastructure with higher return for women, such as electrification, safe water, public transportation, and better access to roads (Fabrizio and others 2020).
- Boosting women's financial inclusion.** To tackle low financial account ownership rates in Eswatini (particularly for women), the Government has already established some initiatives such as Imbita Women's Finance Trust and Women Economic Empowerment Trust (SWEET) to provide accessible credit and appropriate training and technical services to women in the low-income groups, which should be accelerated. Joint efforts from the authorities and private sector should accelerate in various aspects including programs focusing on financial literacy, incentivizing the introduction of new products and services by financial institutions, and promoting fintech and digital financial services. Digitalization of government payments can also play a role to improve women's financial inclusion. However, related risks such as data privacy, fraud, cyberattacks and over indebtedness should be monitored closely.
- Reforming gender-discriminatory laws to provide equal economic opportunities for women and men.** Gender inequality is not only a consequence of social norms or cultural traits but is also legitimized by law in many countries. Currently in Eswatini, women have less than half of the economic rights that men have according to the WBL, making legislative reforms a policy priority. In particular, existing laws fail to provide equal opportunities for women in becoming an entrepreneur, ensuring fair treatment as parents and spouses, guaranteeing equal pay and preventing discrimination in the workplace. On the positive side, addressing these legal gaps offers a window of opportunity for Eswatini, since changing laws can be achieved in the short term. As the laws that sideline, or discriminate against, women are repealed, this may also trigger changes in norms and traits, thereby supporting gender equality further.
- Improving the judicial system and allocating resources to address gender-based violence.** To tackle the issue of gender-based violence, it is crucial to ensure offenders' accountability, as well as survivors' safety and well-being. In this regard, policy actions

include revising the legislation to identify and fill the gaps, enabling survivors' access to the justice system, providing training for officials (including judges, prosecutors and law enforcement), launching specialized courts, enhancing court system decision-making, developing accessible shelters and safe houses for survivors, providing accessible counseling and support services to survivors, and accelerating wide-spread public programs to raise awareness of legal rights and provisions.

19. Reform efforts in the areas noted above should go hand in hand, since they are complementary in bolstering women's economic inclusion. Gender inequality is a multidimensional phenomenon and can only be achieved with multifaceted efforts and a holistic view. Addressing only one aspect of inequality in a vacuum is unlikely to have a significant macroeconomic impact. For example, for labor market policies to be effective in boosting female labor force participation, it is essential to improve access and quality of health services and education for women, and to enforce the laws that prevent discrimination in the workplace. For policies to increase girls' school attainment to yield desired results, it is crucial to increase female labor force participation through labor market policies, and to enforce laws preventing child marriage. For financial policies to boost women's financial inclusion, women should be able to work in paid employment, accumulate assets, and have legal rights to open bank accounts or get credit from formal financial institutions. Moreover, some policies to support gender equality can take more time to implement and translate into outcome, whereas some (such as reforming laws) can be undertaken relatively quickly. Overall, public education programs (with the goal of changing opinions and perceptions) could also support this process by increasing the effectiveness of other policies (also by mitigating gender-based violence). As those efforts supportive of gender equality go hand in hand, Eswatini can harvest large economic gains both in the shorter and medium terms, supporting its development objectives substantially.

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Annex V. Public Enterprises and Fiscal Risk in Eswatini¹

Public enterprises are prevalent in many sectors of the economy in Eswatini. They account for a large share of government transfers (2.8 percent of GDP at end-FY21/22) and have accumulated debt (16 percent of GDP) and tax arrears (1.9 percent of GDP)—increasing fiscal risks to the government. The authorities have embarked on reforms aimed at reducing the number of public enterprises and reducing the scale of government transfers, with the Public Enterprise Unit playing a key role. Strengthening the governance framework and transparency of the operations of public enterprises will be essential in guiding the reform process.

A. The Landscape of Public Enterprises in Eswatini

1. Public enterprises (PEs) are prevalent in many sectors of the Swazi economy. There are two categories of PEs in Eswatini: entities that are wholly or majority owned by the government (Category A), and those in which the government has a minority interest or entities monitoring other financial institutions (Category B). This annex focuses on Category A public enterprises. PEs provide key public services (transport, electricity, water) and are active in a broad spectrum of economic activities, including agriculture, health, and financial services (Table AV.1). The landscape of PEs in Eswatini is not significantly different compared to similar small developing states but their number has nearly doubled over the last decade to 49 active entities at end-2022. About one-third of PEs are considered as commercial entities and expected to generate profits.²

2. PEs account for an important share of employment, adding to the large state footprint in the formal sector employment. As at end-FY21/22, public enterprises had over 8,000 employees (equivalent to 18 percent of the civil service workforce). Non-profit making institutions accounted for 54 percent of the headcount. There is a large variation across institutions with at least one in five employees working for one of the two largest employers: the University of Eswatini and the Eswatini Post and Telecommunication Corporation. PEs have total assets equivalent to 81 percent of GDP but there is a large variation across PEs: the Public Service Pension Fund holds nearly half of the assets while non-commercial entities' combined assets account for about 10 percent of GDP.

3. The Public Enterprises (Control & Monitoring) Act of 1989 is the overarching framework governing public enterprises in Eswatini. It established the Public Enterprise Unit (PEU), under the Ministry of Finance, with the mandate to monitor and review the performance of Category A public enterprises and advise the Cabinet Standing Committee on Public Enterprises (SCOPE). Public enterprises are established by their respective enabling legislation, which typically defines their objectives, governance, reporting, and accountability requirements. They are under the purview of their respective line ministries but are governed by a Board of directors.

¹ Prepared by Nelnan Fidèle Koumtingué.

² A recent review by IMF's Statistics Department (IMF, 2022a) suggest that 26 Category A public enterprises should be classified as budgetary central government units (BCG) due to the nature of their operations and their dependence on the budget.

Figure AV.1. Public Enterprises Indicators, 2012-2022

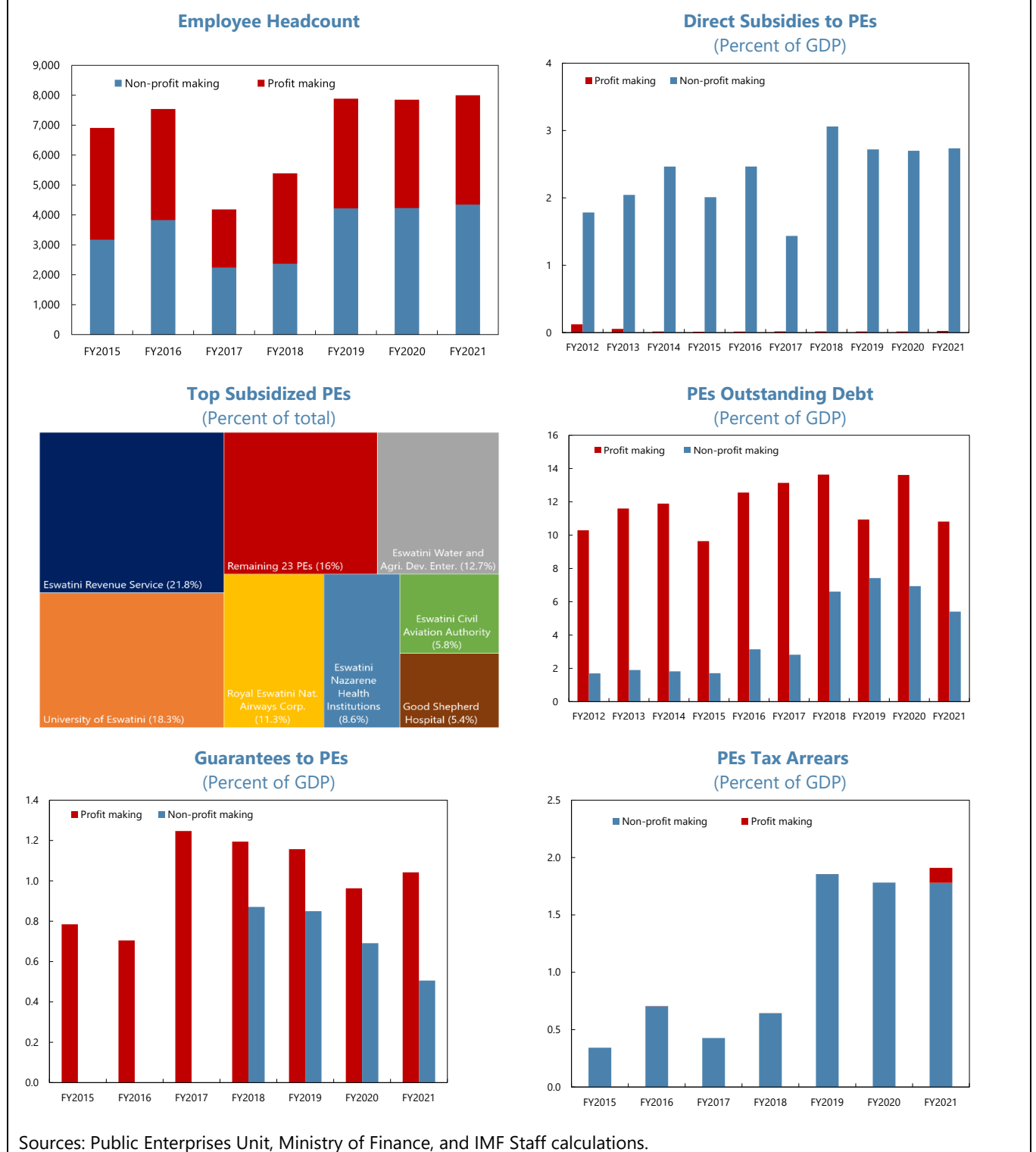
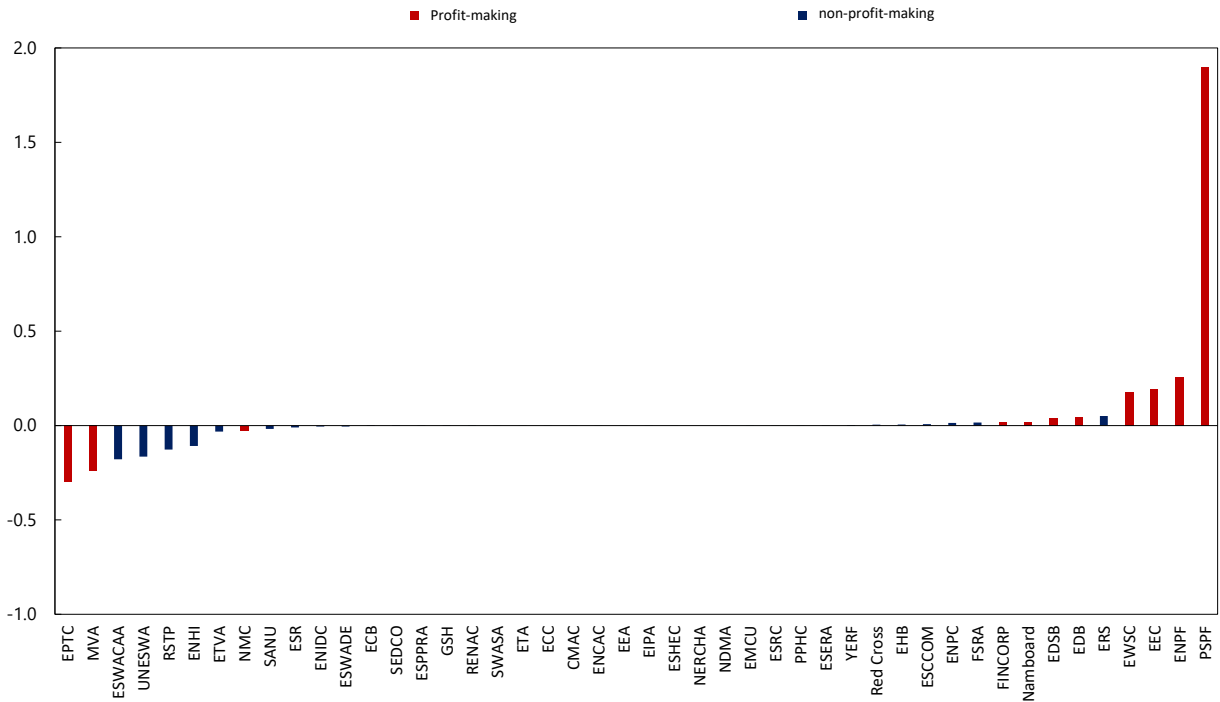
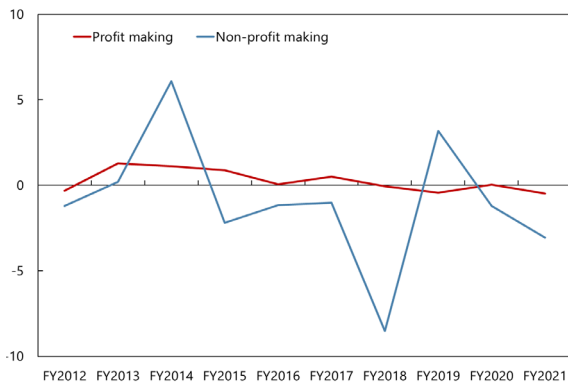


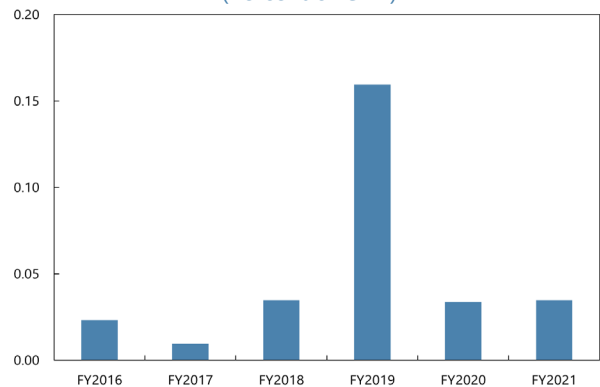
Figure AV.2. Selected Performance Indicators
Operating Surplus/Deficit after Subventions in FY20/21
 (Percent of GDP)



Average Return on Capital Employed



Dividends Received from PEs
 (Percent of GDP)



Sources: Public Enterprises Unit, Ministry of Finance, and IMF Staff calculations.

4. PEs oversight is carried out by the Parliament, the Auditor General, and the Cabinet Standing Committee on Public Enterprises (SCOPE). In addition to quarterly reports to the PEU, public enterprises are required to submit audited financial statements together with a report on their operations within four months after the end of their financial year. Reports are reviewed by the Auditor General and included in its report on the consolidated government accounts, which is presented to the parliament within 12 months from the end of the fiscal year. SCOPE meets regularly to review reports, contracts, and appointments.

B. Public Enterprises and Fiscal Risks

5. Public enterprises in Eswatini face increased vulnerabilities due to their weak performance. A majority of PEs (25 out of 46) reported an operating deficit in FY21/22 even after accounting for government transfers. The largest deficits were incurred by the Eswatini Posts and Telecommunications Corporation (EPTC) and the Motor Vehicle Accident Fund, two entities that do not receive subsidies from the government (Figure AV.2). The financial performance of PEs can be assessed based on three standards metrics:

- **The return on assets** (defined as the ratio of net income to total assets) measures the profitability of PEs. Although the return on assets is on average higher for profit-making entities, it is on a declining trend for both groups (Figure AV.2). Every year, about one-third of PEs (including commercial entities) have a negative return on assets, denoting a negative profitability. The accumulation of negative results for an extended period may result in negative equity and a need for recapitalization.
- **The liquidity ratio** (current assets to current liabilities ratio) measures the ability of PEs to cover their short-term obligations and face sudden shocks without the need for additional financing. In FY21/22, 18 PEs (out of 46) have a liquidity ratio below 1, indicating that they do not have enough liquidity to cover short-term obligations and are more vulnerable to shocks.
- **The solvency indicator** (debt-to-assets ratio) reflects a company's indebtedness relative to its assets. Although most have manageable debt levels (debt-to-asset ratio below 0.5), total debt exceeded assets for 7 companies in FY21/22 (mostly non-commercial entities). The University of Eswatini and the Eswatini Television Authority have debt levels equivalent to seven and four times the size of their assets, respectively. Such a high debt burden impairs their capacity to deliver on their mandates.

6. While a dividend policy has been in effect since 2015, poor profitability has caused dividend payments to be low (Figure AV.2). Few companies pay dividends, and many have not been declaring dividends for years. During FY21/22, the government received E23 million (0.03 percent of GDP) in dividends from Category A public enterprises.

7. Transfers to PEs are large and a fiscal drain on public finances. Government direct transfers to PEs have been well above 2 percent of GDP annually over the past decade (Figure AV.1). The top 5 public enterprises account for nearly 75 percent of subventions from the government (Figure AV.1).

8. Reflecting weak financial performance, public enterprise debt has ramped up—nearly doubling over the past decade to E13.1 billion at end FY21/22 (17.4 percent of GDP, Figure AV.1). Although commercial entities still account for most of the debt stock, debt by non-commercial entities increased rapidly, from less than a billion in FY12/13 to E4.4bn in FY21/22 (5.8 percent of

GDP). A sizeable amount of the debt is concentrated in a few entities, including the Eswatini Water Services Commission, the Royal Science and Technology Park and the Eswatini Electricity Company.

9. Similarly, PEs have accumulated tax arrears with a stock estimated at E1.5bn in FY21/22 (2.1 percent of GDP, Figure AV.1). Tax arrears are almost exclusively accumulated by non-commercial public enterprises and reflect largely unremitted VAT, income tax deductions on employee salaries, and utilities charges. Mirroring years of recurrent deficit, the University of Eswatini accounted for 58 percent of the stock of tax arrears. The accumulation of arrears may lead creditor companies to stop deliveries or increase procurement costs, and banks to limit their overdrafts to PEs. The government provided guarantees to various PEs (Eswatini Housing Board, Eswatini Electricity Company, and Eswatini Revenue Service) with a stock estimated at 1.7 percent of GDP at end FY21/22 (Figure AV.1).

10. The authorities have taken steps to rationalize PEs and contain their transfer needs. Under the FY21–23 Fiscal Adjustment Plan, the authorities reduced budgeted transfers by 10 percent in FY21/22. They also transformed the Central Transport Administration (CTA) into a department within its line ministry and suspended its trading account.³ In 2022, the Cabinet approved a reform roadmap aimed at reducing the number of PEs from 49 to 31 entities and transfer needs to about E700 million (1 percent of GDP). The reform envisages the PEU as the gateway for the creation, supervision, restructuring and dissolution of all PEs. However, the PEU is facing multiple challenges in carrying out an effective oversight, including those relating to the adequacy of the legal framework, the availability of data, and the human resources at its disposal.

C. Policy Options for Effective Oversight

11. Strengthening the governance framework is essential for mitigating fiscal risks and enhancing transparency and accountability. OECD guidelines suggest three pillars for a robust SOE governance framework:

- **A clear ownership policy setting out the rationale and objectives of the entity and the responsibilities of government ministries, the board and management.** Eswatini is following a coordinating agency model where the PEU monitors the financial performance of PEs while line ministries retain policymaking and shareholding rights. Such a setting requires a strong collaboration between PEU and line ministries. OECD guidelines recommend a clear separation between the policymaking function and shareholding responsibilities.⁴
- **Strong financial oversight.** Timely reporting on the financial and operational performance of PEs is essential for various stakeholders of the oversight framework. It allows the government to monitor the accountability of the management, the parliament to evaluate

³ The CTA is responsible for managing the use of government's fleet of vehicles and machines and was previously a public enterprise. Its trading account has become a recurrent source of overspending, suggesting some spending inefficiencies (IMF, 2018).

⁴ OECD Guidelines on corporate governance of SOEs, 2015.

the performance of the government, and the public to monitor the performance of public enterprises. PEU's oversight mandate does not currently cover all public enterprises. Entities in which the government has a minority interest and entities monitoring other financial institutions are not required to report to the PEU. In addition, there are differences in the PEU Act and the PFM Act regarding the role of the PEU: PEU is mandated by the PEU Act to establish PEs' performance targets, in consultation with the SCOPE and their board management while the PFM Act assigns this responsibility to line ministries. As a result, PEU does not have access to PEs' business plans and performance targets and is limited in its ability to monitor their progress towards these targets. Aligning the PEU Act with the PFM Act of 2017 will close the gap and strengthen PEU's oversight function. In line with international best practices, PEU could strengthen its monitoring system by identifying key performance indicators and developing a comprehensive dataset on financial information of PEs; aligning PEs goals and objectives with the overall goals of the government; and developing performance agreements that support the achievement of these goals and objectives.

- **A systematic and regular assessment of fiscal risks, ideally published as an annex to the budget, enhances accountability.** Transfers provided to PEs are not always associated with pre-established conditions regarding their obligations or mandate. There is no separate reporting of inflows and outflows from the budget. Currently, PEU produces an annual consolidation of balance sheet items with some aggregates such as total assets, operating surplus, and outstanding debt. The report could be usefully complemented by an analysis of transactions between the government and the PEs, an assessment of associated fiscal risks and their potential impacts on the budget. The assessment could be included as an annex to the budget. Such a reporting could help during the budgetary process and encourage the government to address potential weaknesses and prevent the buildup of risks.

Table AV.1. Eswatini: Category A Public Enterprises

Entity	Sector/function	Profit-making
Budgetary Central Government		
1. Eswatini Water and Agricultural Development Enterprise (ESWADE)	Agriculture	No
2. Eswatini National Council of Arts And Culture (ENCAC)	Arts and culture	No
3. Eswatini National Sports and Recreation Council (ENSRC)	Arts and culture	No
4. Eswatini National Youth Council (ENYC)	Arts and culture	No
5. Eswatini Investment Promotion Authority (SIPA)	Business promotion	No
6. Eswatini Revenue Service (ERS)	Department	No
7. National Disaster Management Agency (NDMA)	Disaster management	No
8. Eswatini Christian University (ESCU)	Education	No
9. Sebenta National Institute (SNI)	Education	No
10. University of Eswatini (UNESWA)	Education	No
11. Eswatini Youth Enterprise Revolving Fund (YERF)	Financial services	No
12. Eswatini Nazarene Health Institutions (ENHI)	Health	No
13. National Emergency Committee on HIV and AIDS (NERCHA)	Health	No
14. Conciliation Mediation Arbitration Commission (CMAC)	Regulatory	No
15. Eswatini Civil Aviation Authority (ESWACAA)	Regulatory	No
16. Eswatini Competition Commission (ECC)	Regulatory	No
17. Eswatini Energy Regulatory Authority (ESERA)	Regulatory	No
18. Eswatini Environmental Authority (EEA)	Regulatory	No
19. Eswatini Higher Education Council (ESHEC)	Regulatory	No
20. Eswatini Public Procurement Regulatory Agency (ESPPRA)	Regulatory	No
21. Eswatini Standards Authority (SWASA)	Regulatory	No
22. Eswatini Tourism Authority (ETA)	Regulatory	No
23. Royal Science and Technology Park Authority (RSTP)	Regulatory	No
Extrabudgetary units		
24. Eswatini Cotton Board (SCB)	Agriculture	Yes
25. Eswatini Dairy Board (SDB)	Agriculture	Yes
26. National Agricultural Marketing Board (NAMBoard)	Agriculture	Yes
27. National Maize Corporation (NMC)	Agriculture	Yes
28. South African Nazarene University (SANU)	Education	No
29. Motor Vehicle Accident Fund (MVAf)	Financial services	Yes
30. Siteki Good Shepherd Hospital (GSH)	Health	No
31. Eswatini National Housing Board (SNHB)	Housing	Yes
32. Eswatini Television Authority (ETVA)	ICT	No
33. Eswatini Communications Commission (ESCCOM)	Regulatory	No
34. Eswatini National Trust Commission (ENTC)	Regulatory	No
Public Nonfinancial Corporations		
35. Eswatini National Industrial Development Corporation (ENIDC)	Business promotion	No
36. Small Enterprises Development Company (SEDCO)	Business promotion	Yes
37. Eswatini National Petroleum Company (ENPC)	Energy	No
38. Pigg's Peak Hotel and Casino (PPHC)	Tourism	No
39. Eswatini Railway (ER)	Transport	Yes
40. Royal Eswatini National Airways Corporation (RENA)	Transport	No
41. Eswatini Electricity Company (EEC)	Utilities	Yes
42. Eswatini Posts and Telecommunications Corporation (EPTC)	Utilities	Yes
43. Eswatini Water Services Corporation (EWSC)	Utilities	Yes
Public Financial Corporations		
44. Financial Services Regulatory Authority (FSRA)	Financial services	No
45. Eswatini Development and Savings Bank (EDSB)	Financial services	Yes
46. Eswatini Development Finance Corporation (FINCORP)	Financial services	Yes
47. Eswatini National Provident Fund (ENPF)	Financial services	Yes
48. Public Service Pension Fund (PSPF)	Financial services	Yes
Others		
49. Baphalali Eswatini Red Cross Society (BERCS)	Disaster management	No

Source: PEU, Ministry of Finance, and IMF (2022a)

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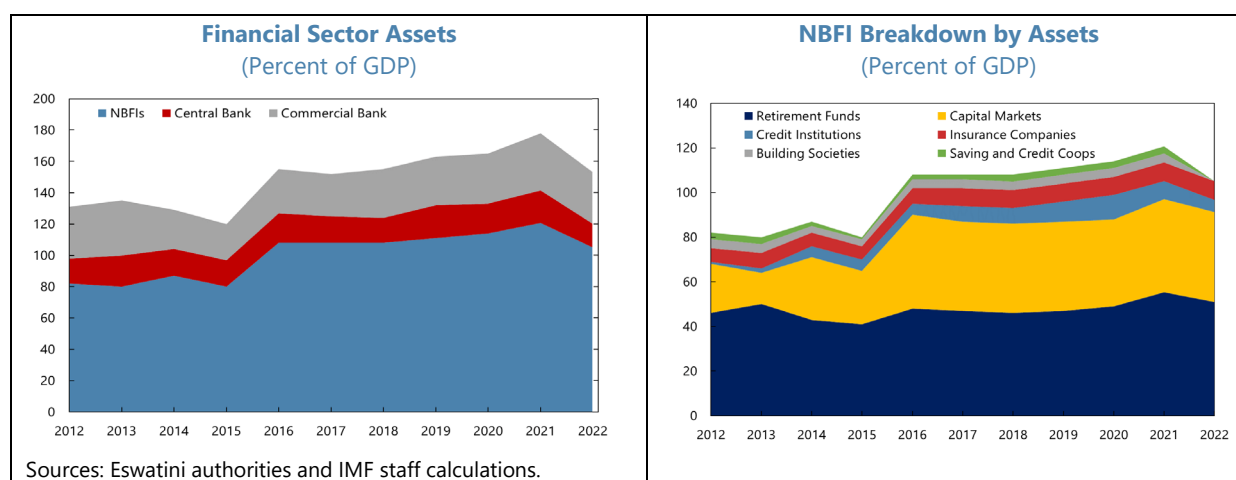
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Annex VI. Nonbank Financial Institutions in Eswatini: Risks to Financial and Economic Stability

Non-bank financial institutions (NBFIs) serve a wide cross-section of the Eswatini population, including those not served by banks. They dominate the financial sector, accounting for about 70 percent of total assets. They hold 18 percent of bank deposits and 60 percent of government treasury bills and bond, reflecting a high degree of interconnectedness with the banking system and government finances. NBFIs are thus systemically important in Eswatini and require proper regulation and supervision to mitigate potential risks to the financial system and the economy. IMF technical assistance has helped bolster oversight capacity. Gaps remain in the legal and regulatory frameworks, however. To safeguard financial and economic stability, the authorities would need to expedite passage of draft laws and regulations to strengthen and modernize oversight.

A. NBFIs Dominate the Financial Sector

1. NBFIs dominate Eswatini's financial system. Their assets have grown steadily in recent years to about 70 percent of the total for the financial system, or 124 percent of GDP in 2022.



2. NBFIs in Eswatini consist of credit and saving institutions, capital market institutions, insurance companies and intermediaries, and retirement funds. With their growing numbers and linkages, NBFIs have become increasingly popular and are the preferred or sole providers of financial services for some segments of the population. Five hundred and forty-four licensed entities provide products and services across the sub-sectors. Some NBFIs are individually systemically important: total assets of the largest retirement fund are roughly equivalent to aggregate assets of all commercial banks, and the largest building society is of a similar size to a commercial bank. The retirement funds subsector, about 46 percent of the NBI sector by assets, is dominated by the Public Service Pension Fund and the Eswatini National Provident Fund.

3. A range of factor underlie the expansion of NBFIs. NBFIs serve segments of the population with limited or no access to commercial banks. Loans can typically be obtained more

easily from savings and credit institutions than from commercial banks. Some NBFIs, such as one of the two pension funds, are state-owned-enterprises (SOEs) with membership or participation obligatory for public workers.

4. The literature suggests NBFIs could foster economic growth by increasing savings and investment and permitting risk allocation. On the other hand, if NBFIs are not properly regulated, there is a risk that they may take excessive risk, with potentially devastating consequences for the financial sector and the economy (Rateiwa and Aziakpono, 2017, Liang and Reichert, 2012).

B. Risks

5. A comprehensive framework for the establishment, governance, and oversight of NBFIs is lacking. The Financial Services Regulatory Authority (FSRA), a state-owned enterprise under the Ministry of Finance, oversees NBFIs. The IMF has provided capacity development (CD) to improve oversight capacity. Such CD covered preparatory work to clarify the legal architecture, drafting of laws and regulations, and development of a regulatory impact analysis framework and risk management guidelines for all the financial service providers; development of a comprehensive FSRA Supervisory Manual covering all key aspects of the supervision process; training for FSRA staff on key techniques of offsite and onsite supervision; improvements in collection and assessment of data; and improvements in FSRA intervention actions. A revised draft of the overarching regulatory law, the Financial Service Regulatory Authority (FSRA) Act, aimed at modernizing and making it consistent with sectoral laws, has been pending since 2019. Several industry-specific laws are either missing or outdated. There are no regulations for savings and credit cooperatives and building societies. The reasons for the protracted delay in enacting the pending laws and regulations remain unclear. The FSRA is being integrated into the Central Bank of Eswatini, mandated to oversee the banking system and ensure overall financial stability. While the new institutional arrangement for oversight of financial institutions has yet to be decided, centralize oversight could facilitate monitoring of the interconnectedness between NBFIs and the banking system.

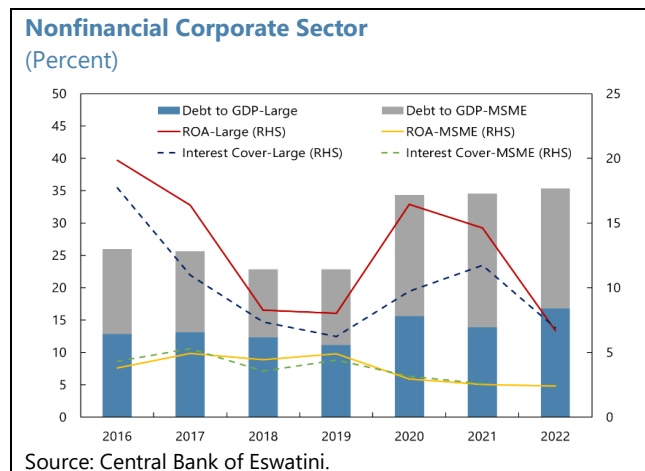
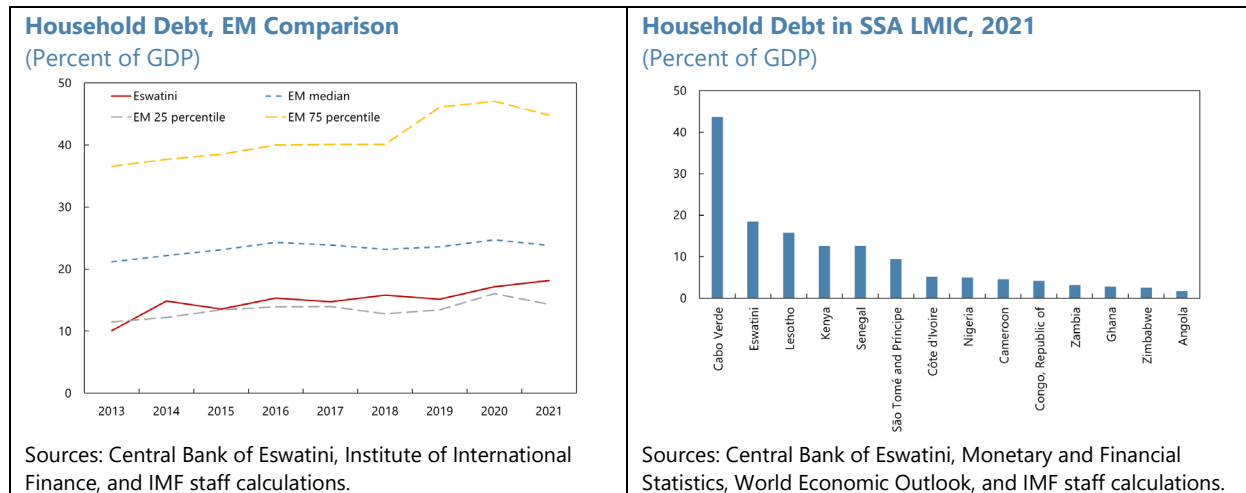
6. Interconnectedness with the banking system poses risks of contagion. Banks provide financing to NBFIs: Claims on building societies amounted to about 5.6 percent of banks' total assets in 2021. Conversely, NBFIs account for about 18 percent of banks' deposits. Further interconnection comes through exposure to government securities—which could potentially amplify fiscal risk spillovers. In 2022, NBFIs held 60 percent of government treasury bills and bonds, constituting 9.1 percent of NBFIs' total assets.

7. NBFIs are exposed to risky market segments, which is a particular concern given reporting gaps. While broadly in line with other emerging economies, household leverage is elevated in Eswatini compared to its regional peers. The household debt-to-GDP ratio exceeded 18 percent in 2021. NBFIs, especially savings and credit cooperatives, may be more exposed to the high-risk market segment resulting from their aggressive expansion. Nonperforming loans (NPLs) in the household sector stood at about 5 percent for banks in 2021Q2 but exceeded 15 percent among building societies. Given the relatively high and rising leverage ratio, household sector risks need to

be closely monitored, particularly in the current, shock-prone environment. However, data collection is particularly challenging with NBFIs, given their large numbers and limited institution capacity. Compliance with prudential and regulatory standards is therefore difficult to monitor.

8. Asymmetric prudential and regulatory standards provide an incentive for regulatory arbitrage. Compared to banks, NBFIs are subject to less stringent regulation and supervision, and prudential norms, an incentive for risking-taking and risk migration from banks to NBFIs. Notably, there are no lending limits in some subsectors. Moreover, some NBFIs perform bank-like functions, for instance, accepting deposits, and thus fall outside the coverage of regulations applicable to such functions.

9. The macroprudential and crisis management frameworks are incomplete and there is no safety net. Effective systemic risk monitoring and inter-agency policy coordination are limited. The absence of any safety nets leaves low-income customers vulnerable to welfare loss in the event of default of their provider.



C. Policy Recommendation

- 10. To mitigate potential risks to the financial sector and ensure that NBFIs are part of a virtuous growth cycle in Eswatini, continued progress is needed on supervisory capacity and the regulatory framework.** Considerable progress has already been made. However, given the rapid growth of NBFIs, their pivotal role in the financial system, and the specific risks noted above, continued efforts to build supervisory capacity will be essential. Rigorous oversight and careful monitoring will be critical particularly in the current environment embodying both domestic and external risks.
- 11. Passage of outstanding laws and regulations need to be expedited.** Despite progress in building oversight capacity, regulators are unable to impose and enforce appropriate minimum regulatory standards because changes to laws and regulations have not been passed into law.
- 12. A review of prudential and regulatory standard for NBFIs vis-à-vis commercial banks to mitigate regulatory arbitrary.** The integration of the FSRA offers prospects for harmonizing prudential norms and regulations with a view to minimizing the scope for regulatory arbitrage.
- 13. A macroprudential policy framework and toolkit together with a robust financial safety net are needed.** Passage of the Financial Stability Bill will help create a financial stability framework with a clear macroprudential mandate. A comprehensive framework to assess climate related risks in the financial system is also needed.
- 14. The table below shows the status of policy recommendations made under past IMF TA.**

Table AVI.1. Eswatini: Status of Key IMF TA Recommendations Made in 2019

	Cross-sector Recommendations	Time Frame	Status
1	The authorities should take urgent action to ensure that the draft changes in laws delivered by the project are enacted and implemented.	0-6 months	Pension and insurance laws passed. Revised Building Societies and other laws pending.
2	The Board, CEO, and management of the FSRA should implement effective procedures to ensure that FSRA staff utilize the Supervisory Manual	0-6 months	Outstanding
3	The Board, CEO, and management of the FSRA should implement an FSRA-wide set of rigorous minimum standards for timely collection of data from licensed entities, generation of quarterly risk assessments, updating and follow-up of intervention plans, and reporting within the FSRA and to the wider community on the state of NBFIs.	0-6 months	Outstanding.
	Credit and Savings Institutions		
4	The authorities should resolve the future regulatory status of the largest building society as a bank or nonbank.	0-6 months	Building society intends to convert to a commercial bank.
5	The authorities should ensure that a new SACCO law and regulations are implemented.	0-6 months	Legislation has been amended.
6	The FSRA should improve the quality of data submitted by SACCOs.	0-6 months	Strategic inspection and training undertaken.
7	The FSRA should be more active with interventions and resolutions of troubled or failed SACCOs given the extensive problems in this sub-sector.		FSRA is overseeing merging of some SACCOs.
	Capital Market Institutions		
8	The FSRA should focus its supervision of CMLs on financial weaknesses and conflicts of interests.	6-24 months	FSRA has identified troubled entities.
9	The FSRA should continue its strategy of separating the FSRA's governance from that of the Eswatini Stock Exchange (ESE).	6-24 months	FSRA is finalizing strategy to propose independence of ESE.
10	The FSRA should complete regulatory acts to support the introduction of automated trading surveillance on the Eswatini Stock Exchange.	0-6 months	Done. Already in operation.
	Insurance and Retirement Funds		
11	The FSRA should complete consultations on the proposed risk-based capital adequacy rules for insurers and the requirements finalized and put into force.	0-6 months	Consulted completed in 2019.
12	The FSRA should enforce the submission of acceptable plans for the transition to IFRS 17 Insurance Contracts by all insurers and actively monitor their implementation during the transition.	6-24 months	One local company has completed transition. Other companies request more time.

Source: Technical Assistance report on Kingdom of Eswatini, FIRST: Strengthening the Supervision of the Nonbank Financial Institutions, May 2021. Monetary and Capital Markets Department, International Monetary Fund.

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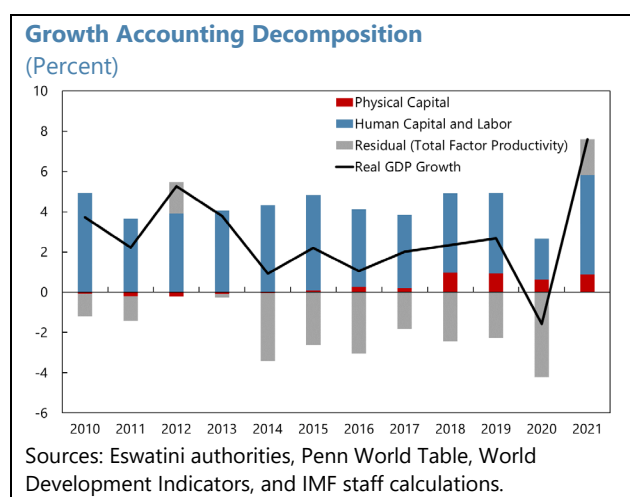
Annex VII. Growth Impediments and Macrostructural Reforms

Eswatini enjoys duty-free access to the SADCC, SACU, and COMESA regional markets, potentially mitigating the constraint to economic growth posed by a small domestic market of only 1.3 million people. The country also has underutilized preferential market access for beef and textile, duty-free and quota-free access to the EU, and could leverage the trend toward regionalization of value chains and expansion of supplier bases. Reforms are needed to exploit these opportunities by reorienting the economy from fiscally unsustainable public-spending-propelled growth toward private-sector-led growth.

A. Background

1. Eswatini's economic growth has fallen in recent years. GDP growth fell from an average of 5 percent between 1981 and 1999, to 3 percent between 2000 and 2019. Poverty remains widespread. An estimated 59 percent of the population lives below the poverty line and 29 percent of the population lives in extreme poverty, while 58.2 percent of youth are unemployed. The relatively strong growth in 1981–99 was driven by foreign direct investment inflows from companies seeking to avoid sanctions against Apartheid South Africa while servicing its market. Eswatini lost this advantage when Apartheid ended in 1994 and South Africa became the regional hub for investment and skilled labor. FDI fell from an average of 4.7 percent of GDP during 1980–1995 to 2 percent of GDP during 1996–2021. Similarly, domestic investment fell from 22 percent of GDP in 1980–1995 to 16 percent of GDP during 1996–2021.

2. Total factor productivity and export competitiveness have declined. Since the early 2000s, the contribution of export to growth and Eswatini's share of world exports have been in a secular decline. This deterioration in competitiveness reflects relatively high labor costs, elevated costs for production inputs (electricity, telecommunications) and several nontariff barriers in the region. Private investment has also decelerated. The contribution of capital has been negligible in recent years and productivity growth has been negative.

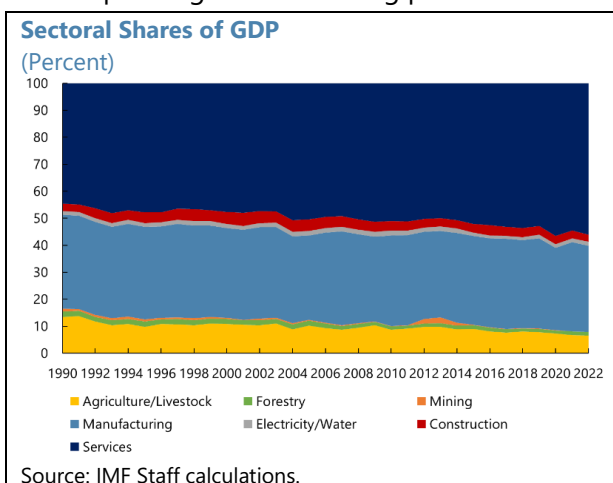


3. This note examines past and current impediments to growth, and highlights risks and policies to promoting stronger and more inclusive economic growth over the medium-term.

B. Impediments to Growth

4. A mix of factors have impeded Eswatini from reaching higher levels of inclusive growth over the past decades. Some relate to Eswatini's status as a small developing state. Others stem from exogenous shocks, while still others relate to macroeconomic and macro-structural policies and their implementation.

- Small market size and geography.** Eswatini is the second smallest state on mainland Africa with a land area of 17,364 square kilometers and a population of 1.2 million. This small size results in a narrow domestic market; limited scope for economies of scale, diversification, and competition; and high production costs. The country is landlocked, leading to high transport costs and dependence on South Africa, which surrounds Eswatini almost entirely. Given its small size, Eswatini's economic cycles are also closely linked with South Africa, and weak growth in South Africa in recent years have lowered export earnings and fiscal revenues.
- Vulnerability to climate shocks.** Frequent drought, attributed to climate change, has led to periodic declines in food production and food insecurity. The prolonged drought between 1989 and 1992 negatively impacted economic growth, while the drought induced by the El Niño effect in 2015 and 2016 cost the government 19 percent of its annual expenditures—roughly 7 percent of GDP. About 16 percent of sugarcane, 67 percent of maize, and 90 percent of cotton failed, while 10 percent of the national livestock died (World Bank: Country Private Sector Diagnostic, 2022).
- Fiscally unsustainable and inefficient public-spending to offset falling private investment.** The government scaled up recurrent spending to offset falling private investment at the end of Apartheid in South Africa. This has facilitated the growth of the services sector (now the single largest sector in the economy), with little impact on productivity. Despite considerable volatility in revenue transfers from the Southern African Customs Union (SACU) since 2014, recurrent spending has remained high, financed by domestic borrowing and accumulation of payment arrears, crowding out private investment. The financial sector holds 16 percent of its assets in government securities, an exposure to sovereign risk. Eswatini recorded an overall



efficiency gap of 35 percent on the IMF metric of the efficiency of public investment spending in Sub-Saharan Africa.¹ This, along with subventions to loss-making SOEs, reflect inefficiencies in public investment spending.

- **Weak human capital accumulation.** Challenges to accumulating human capital abound such as the highest HIV prevalence rate in the world for people ages 15–49, poor maternal and child health, and a high incidence of noncommunicable diseases. The COVID-19 pandemic further strained the health system. About 25.5 percent of children under five are stunted, and half of the children are affected by micronutrient deficiencies. The education system does not meet the needs of the labor market, generating a large skills gap. Also, South Africa—a hub for skilled labor in the region— attracts a high percentage of Eswatini’s skilled labor.
- **A large state presence in economic activity, hindering competition and private sector participation.**² Public enterprises (PEs), many loss-making, are virtually universal. Competition is further constrained by sector regulations that restrict entry, foster collusion, and discriminate among market players (see paper on SOEs). In October 2022, Cabinet adopted a reform roadmap to reduce the number of PEs from 49 to 31. However, only five SOEs are currently being restructured or merged. Plans to unbundle the Eswatini Posts and Telecommunications Company (EPTU) have yet to materialize—a study by the World Bank and the International Telecommunication Union has been commissioned to recommend a strategy. Political resistance and the limited capacity of the Public Enterprises Unit (PEU) overseeing SOE reform processes have hindered progress.
- **An inauspicious business environment.** In a survey conducted by the Ministry of Economic Planning and Development and the Central Bank of Eswatini in 2019, the private sector highlighted the following challenges: (i) an unsustainable fiscal situation partly funded by domestic borrowing and public expenditure arrears, crowding out the availability of credit to the private sector; (ii) excessive regulation; (iii) unfair competition from both state-owned enterprises and foreign companies; (iv) high cost of utilities, including electricity and water; (v) a high investment threshold for tax concessions, penalizing local small and medium enterprises; (vi) shortages of skilled personnel (vii) high tax rates, and difficulties in getting refunds for the value added tax.
- **Corruption.** Eswatini is in the bottom third of countries worldwide in terms of the perception of corruption (Transparency International). The Anti-Corruption Commission remains handicapped by lack of clarity over its legal powers. In 2022, the Commission received 25 new allegations of corruption on top of 233 outstanding corruption

¹ The metric constructs a frontier consisting of the countries achieving the highest output on public investment compared to per capita public capital stock.

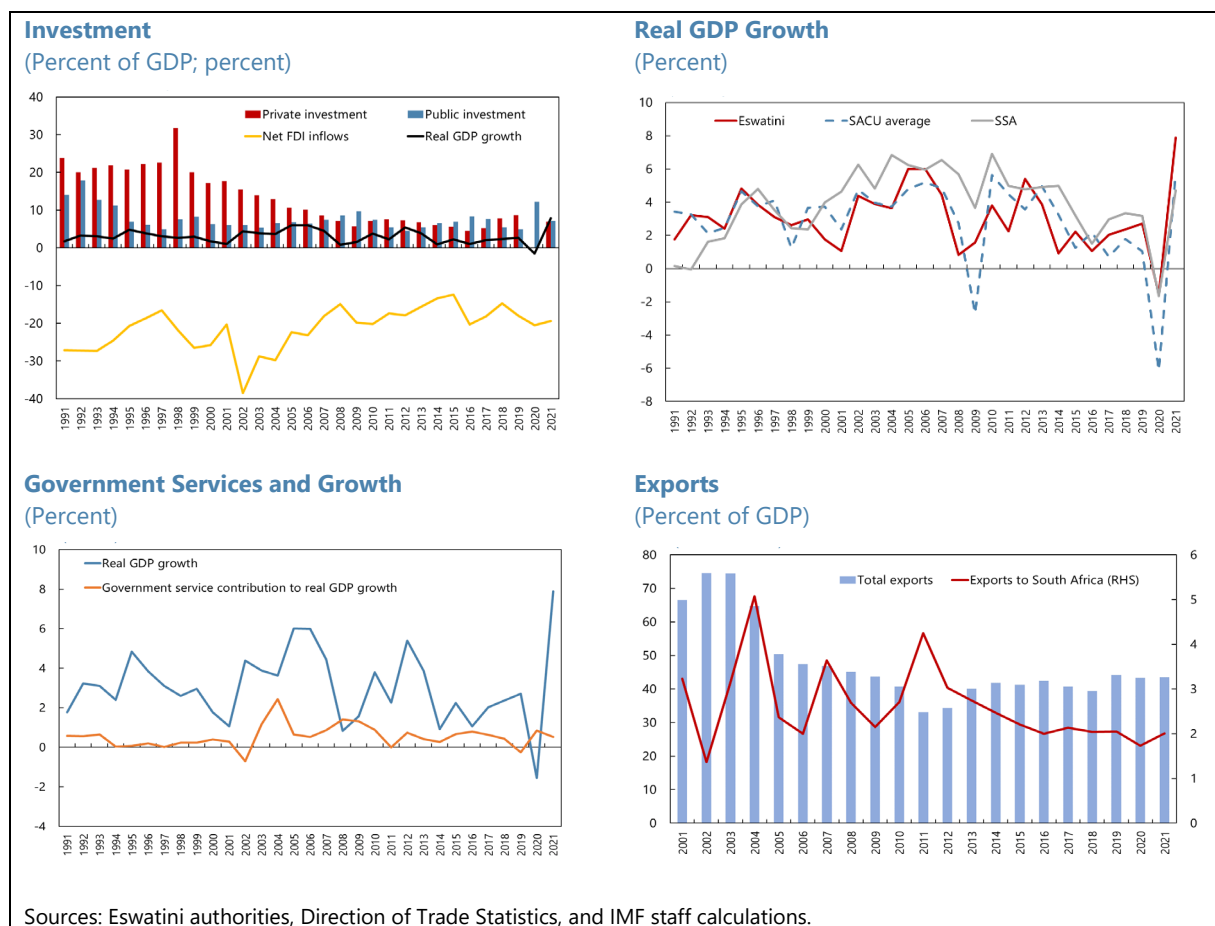
² The annex focuses on three of the six state functions most relevant to economic activity as identified in the Fund’s 2018 Framework for Enhanced Engagement on Governance: fiscal governance, product market regulation, and the rule of law, as well as corruption with a recognition of its harmful impact on the economy.

investigations from 2021. Out of the 258 cases, only two have been referred for prosecution. The commercial court, established in 2022, has been boycotted by lawyers challenging its constitutionality. The requirement for public officials to declare assets upon taking and leaving office has been minimally observed in the absence of a penalty for noncompliance.

- **Civil unrest.** The civil unrest of 2021 reflects discontent over high unemployment and poverty rates, especially in rural areas, and inequality in access to assets, markets, opportunities, and rights, especially for women and youth. The immediate and direct economic loss from the political unrest in Eswatini has been estimated at US\$210 million, (World Bank: Country Private Sector Diagnostic, 2022). The government is offering part compensation to businesses affected by the unrest. The risk of further civil unrest has likely undermined economic growth and clouds the outlook for economic activity and investment.³
- **Inequality.** Eswatini has one of the highest levels of inequality in the world with a Gini coefficient of 54.6 in 2020. Gender inequality is an important element in this insofar as women do not contribute their full potential to economic activity because of historical barriers (see paper on gender disparities).
- **Land governance challenges that impede investment in agriculture.** The absence of formal land tenure constrains investment, especially for agriculture, and prevents landholders from using land as collateral for loans.
- **Limited access to finance.** Private sector credit in Eswatini is highly concentrated. Weaknesses in technical and managerial skills constrain the ability of SMEs to identify and develop bankable projects, hindering access to credit.

5. The COVID-19 pandemic has aggravated preexisting challenges. The pandemic caused business closures, job losses, and export losses. In a survey in 2020, over 75 percent of MSMEs reported revenue losses of more than 50 percent. Women-owned small and medium enterprises (SMEs) suffered larger turnover losses than male-owned businesses. Job losses were mainly in the textile and hospitality industries. The secondary sector contracted by 9.8 percent in 2020. Trade, tourism, remittances, and fiscal revenue from SACU were adversely affected (World Bank: Country Private Sector Diagnostic, 2022).

³ *The Macroeconomic Impact of Social Unrest*, IMF Working Paper No. 2021/135.



C. Links Between Macrostructural Reforms and Economic Growth

6. There is a broad consensus in the literature that structural reforms can be important components of a strategy to invigorate economic growth. Structural reforms boost aggregate income by promoting both faster capital accumulation and a more efficient allocation of resources (see, for instance, IMF (2019), Ostry and others (2009), Antonio and others (2020), Kouamé and Tapsoba (2018), and Anil and others (2022). IMF (2019) assesses the macroeconomic effects of structural reforms using a newly constructed database covering regulations for many emerging market economies and low-income developing countries during 1973–2014 in five areas: trade (tariffs); domestic finance (credit and interest rate controls, entry barriers, public ownership, quality of supervision in the domestic financial system); external finance (capital account openness, encompassing regulations governing international transactions); labor market regulation (stringency of job protection legislation); and product market regulation (stringency of regulations and public ownership in two large network industries—namely, electricity and telecommunications). The authors find that a reform push in such areas as governance, domestic and external finance, trade, and labor and product markets could deliver sizable output gains in the medium term.

7. The research noted above suggests a strong potential for macrostructural reforms to sustainably boost economic growth. A major and comprehensive reform package can potentially

double the speed of convergence of living standards for an average emerging market or developing economy to those of advanced economies—raising annual GDP growth by about 1 percentage point for an extended period. Ostry and others (2009), using a dataset of indicators of structural reform covering 91 developed and developing countries across all income groups over three decades, examine the contribution of structural policies to economic performance. Specifically, the impact of increasing the role of market forces and competition while maintaining appropriate regulatory frameworks to deal with market failures. They find that such reforms have boosted per capita income growth in all segments of the Fund’s membership. Financial sector reforms have raised growth through a number of channels, including a reduction in domestic credit constraints and larger inflows of foreign direct investment. Structural reforms have exerted statistically and economically meaningful effects on allocative efficiency as firms across different sectors react to the shifts in comparative advantage brought about by deregulation.

8. Growth effects from macro-structural reform differ significantly depending on prevailing circumstances and under alternative sequencing strategies. Some important considerations suggested by empirical research and country experience include the following:

- ***Reforms may pay off only if strong core institutions are in place***—notably rule of law and institutions that deliver strong governance (Acemoglu, Johnson, and Robinson 2005). Similarly, addressing one market imperfection may not necessarily help the economy if other market distortions are not remedied (Hausmann, Rodrik, and Velasco 2005).
- ***Reform gains also tend to be larger when governance and access to credit—two binding constraints on growth—are strong***, and where labor market informality is higher given that well implemented reform strategies can bring more informal labor and activity into the formal economy (IMF 2019).
- ***Some reforms—easing job protection regulation and liberalizing domestic finance—may entail greater short-term costs*** when carried out in bad times, suggesting they are best implemented under favorable economic conditions and early in authorities’ electoral mandate.
- ***Research suggests that it can take at least three years for significant positive effects*** on output to materialize. However, some reforms—such as product market deregulation—can pay off more quickly.

D. Policy Priorities and Sequencing

9. Shifting to a more sustainable, export-oriented growth model will require overlapping reforms to foster an expansion of private sector activity and investment. Many of these reforms have been addressed in a granular way by other international financial institutions (see IFC 2022). While there is no single recipe for success, the economic literature highlights the importance of reforms to governance and the rule of law as a condition to the success of other structural reforms. This suggests a rough order of priority. Reforms in different areas can be concurrent, depending on

the strength of commitment and institutional capacity. However, a focus on macro structural measures related to governance, rule of law, civil and political stability, and public enterprise reform could lay the ground for additional reforms to improve the business environment, address human capital challenges, and build a more inclusive financial system.

Reform Priorities			
<p>Fiscal Management</p> <ul style="list-style-type: none"> • Bolster public financial management. • Clear (and prevent) payments arrears. • Improve public investment management. • SACU revenue stabilization fund. 	<p>Public Enterprise Reform</p> <ul style="list-style-type: none"> • Transparent and consistent information on PE performance and government subventions. • Proceed with plans to close, privatize, or merge PEs under the fiscal action plan. 	<p>Political/Civil Stability</p> <ul style="list-style-type: none"> • Advance national political dialogue to reduce civil unrest and restore investor confidence. • Improve efficacy on anti-corruption commission. • Address key issues related to inequality. 	<p>Rule of Law</p> <ul style="list-style-type: none"> • Independent and effective judiciary. • Effective commercial court. • Ensure integrity of court processes for enforcing claims. • Protection or property rights.
Business Environment	Product Market Deregulation and Infrastructure	Human Capital	Financial Access

E. Conclusion

10. Macro-structural reforms are needed to support private sector-led growth, create jobs, improve living standards, and promote peace. Eswatini is at a critical juncture. Years of expansionary policies and the mushrooming of public enterprises have hindered competitiveness and limited private sector participation in the economy. Perceptions of corruption in governance have heightened, while the social unrest of 2021 and the ensuing uncertainty have undermined the country's status as a peaceful, low-crime investment destination. The multiplicity of the required reforms calls for sequencing, based on capacity constraints, political conditions, and guidance from the literature.

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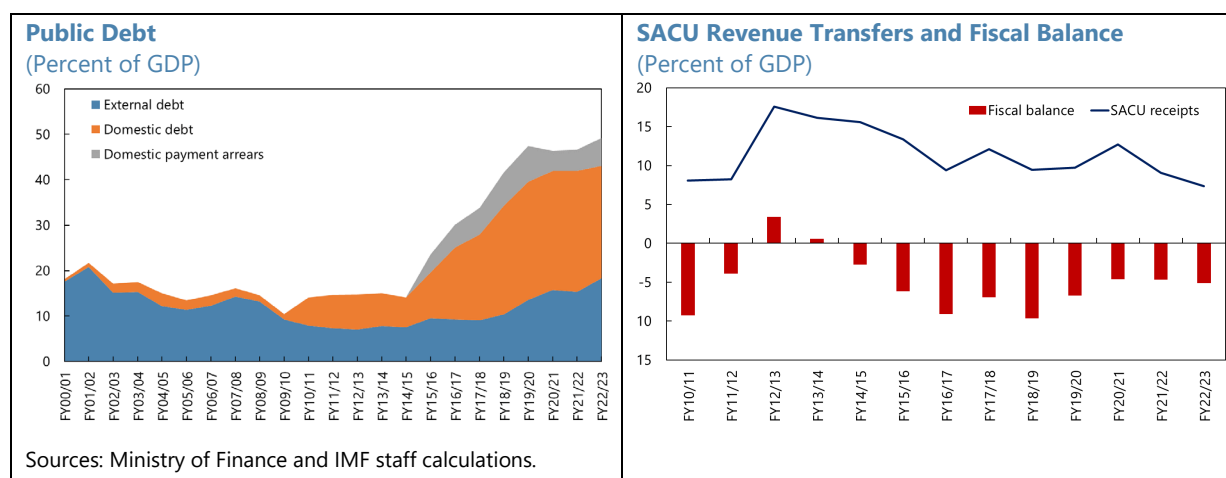
Annex VIII. Status of Key Recommendations from the 2019 Article IV Consultation

	Recommendation	Status
Fiscal Policy	Implement fiscal consolidation over three years to restore fiscal sustainability and bring public debt on a gradually declining path. Given the limited financing options, some front-loading of consolidation efforts is needed.	<ul style="list-style-type: none"> Authorities implemented a Fiscal Adjustment Plan over FY2021–23, targeting an adjustment package of 4.5 percent of GDP. The Covid-19 pandemic and subsequent shocks delayed the plan, leaving the country facing the same long-standing macroeconomic imbalances with high level of public debt, limited fiscal and external buffers.
	Rationalize extra-budgetary entities and public enterprises (PE) to enhance the sector efficiency and governance, while contributing to fiscal adjustment.	<ul style="list-style-type: none"> Authorities closed some major trading accounts and strengthened the screening of special accounts. A study on PEs was concluded in 2022 and led to the adoption of a roadmap outlining a reform strategy to rationalize PEs and reduce transfers. The Public Enterprises Unit (PEU) is being strengthen, with the support of IMF CD, to be the gateway for the creation, supervision, restructuring and dissolution of PEs.
	Accelerate reforms to strengthen public financial management (PFM) and procurement systems.	<ul style="list-style-type: none"> The regulations to implement the new PFM law were submitted to the Parliament in 2021 but its consideration is subject to further amendment to the PFM Act. An amendment to the PFM Act has been submitted to Cabinet for clearance. The authorities have identified bank accounts as a step toward the implementation of a Treasury Single Account and are finalizing an assessment of the financial management system, with a view of rolling out the Integrated Financial Management Information System within the next two years. The Public Procurement regulations were adopted in 2020.
	Implement a transparent strategy to clear existing arrears to support the normalization of the fiscal situation and ease pressure on the private sector.	<ul style="list-style-type: none"> The government started implementing an arrears clearance strategy in 2020, leading to nearly halving the stock of arrears at end FY20/21 (4.3 percent of GDP). However, the stock of arrears rose again to an estimated 6.4 percent of GDP at end-FY22/23 in the presence of continued budget financing gaps and lack of sufficient commitment controls and cash management systems.
Monetary and Exchange Rate Policy	Support the peg, refrain from providing further budget financing, and control base money creation and domestic liquidity.	<ul style="list-style-type: none"> The CBE maintained the policy rate broadly with the SARB's rate, whereas it recently lowered the rate 50 bps below the SARB's rate. CBE's claims on the government remained high but there was no further advances to the government.

	Recommendation	Status
Financial Sector	<ul style="list-style-type: none"> • Intensify banking supervision. • Prioritize the finalization of legislative changes and continue efforts to scale up FSRA’s supervisory role. • Prioritize the approval of the Financial Stability Bill and strengthen the coordination between CBE, FSRA and the Ministry of Finance. • Develop an effective crisis preparedness and management framework. • Adopt the implementing regulations of the 2011 Money Laundering and Financing of Terrorism Prevention Act; develop a beneficial ownership framework, set up a central register for beneficial ownership information, and enhance the identification of domestic politically exposed persons. 	<ul style="list-style-type: none"> • CBE is working to improve supervisory capacity and compliance with Basel II regulations. • FSRA supervisory role has been boosted with Fund TA. Draft new or revised sector-specific laws, notably the revised Building Societies Act, have not been enacted. Financial Stability Bill has yet to be enacted. FSRA is to be integrated into the CBE, which could facilitate coordinate of oversight of the banking system and NBFIs. • Crisis preparedness and management framework has not been developed. • The implementing regulations of the 2011 Money Laundering and Financing of Terrorism Prevention Act have not been enacted yet. Additional work is needed to develop a beneficial ownership framework, set up a central register for beneficial ownership information, and enhance the identification of domestic politically exposed persons.
Supply-Side and Governance Reforms	Implement supply-side and governance reforms to reignite growth.	<ul style="list-style-type: none"> • Cabinet has recommended a phased SOE reform strategy. Only five of the 49 PEs are slated to feature in Phase 1. • A number of biomass, solar, and hydro-power generation projects are planned to increase domestic power generation capacity. • An online one-stop window has been established under the Eswatini Investment Promotion Agency as a precursor to a physical one-stop shop. The one-stop window aims to register investors and obtain trading licenses for them as well as work permits for foreign workers. • The 2023-27 National Development Plan adopts human capital development—with an emphasis on Science, Technology, Engineering, and Mathematics (STEM)—as one of its six pillars. • A commercial court was established in 2022, but lawyers have boycotted it, challenging its constitutionality. • The authorities contained public sector wage growth through below-inflation cost of living adjustment.

Annex IX. Fiscal Management Reforms to Support Consolidation

1. **Eswatini's recent economic performance has been characterized by gaps in macroeconomic management (particularly fiscal), exacerbated by a high degree of revenue volatility.** Fiscal deficits have expanded to an average of 6.7 percent of GDP over the past seven years, compared with 0.4 percent in the preceding decade. As a result, public debt as a share of GDP has tripled in the last decade, and domestic payment arrears have emerged since 2015. Fiscal management challenges have been exacerbated by rigidities in public spending and volatility in SACU transfers—which constitute about 41 percent of annual revenues and have a standard deviation of close to 2.6 percent of GDP.



2. **In June 2020, the authorities launched a Fiscal Adjustment Plan (FAP) with the aim of reducing expenditures, boosting revenues, and putting public finances on a more sustainable footing.** A critical element in bringing about a lasting shift in the fiscal trajectory and strengthening macroeconomic management more generally will be addressing the gaps in fiscal management. Critical steps in this process are in the following areas:

- **Strengthening budget preparation and execution.** Key measures include (i) no longer issuing medium term fiscal frameworks (MTFF) or annual budgets with financing gaps; (ii) issuing budget circulars with expenditure ceilings for all line ministries and by main expenditure lines; (iii) making commitment authority approval process transparent and rules based; (iv) publishing monthly cash-based budget execution reports; (v) consolidating responsibility for budget preparation in the Ministry of Finance; and (vi) undertaking a Public Expenditure and Financial Accountability Assessment as a gateway to designing a PFM reform strategy. Setting out medium-term fiscal targets, undertaking a comprehensive stocktaking of arrears and implementing a transparent arrears clearance strategy will complement these efforts. The new Integrated Financial Management Information System (IFMIS) will support the automation of the budget preparation process and the implementation of some budgetary controls.

- **SACU revenue stabilization.** The authorities have tabled a proposal (implementing regulations are currently under review by the Attorney General) to establish a SACU Revenue Stabilization Fund. The intention is to launch the fund in FY24, with a view to stabilizing SACU revenues utilized in annual budgets at a level equivalent to about 7 percent of GDP. Effective operation of this fund would be a major step forward in mitigating the annual volatility of SACU revenues. Transparent rules and strong governance will be key for the effectiveness of the fund.
- **Wage and salary reforms.** An essential element in the FAP is reduction of the public wage bill to a level equivalent to 9.8 percent of GDP (compared with 11.6 percent in FY21–22). Here also, structural measures are needed to achieve the nominal target, and center on (i) a continued hiring freeze; (ii) implementation of management audits to find and eliminate vacant positions; (iii) awarding cost of living adjustments below prevailing inflation; (iv) abolishing automatic notch increases in pay increments based on longevity; and (v) reintroduction of the voluntary early retirement scheme (EVERS).
- **Public enterprise management.** Public enterprises (PEs) in Eswatini receive more than one-fourth of budgetary noncapital spending and are a source of significant fiscal risk—including substantial tax liabilities. Rationalizing transfers to PEs is an essential element of the FAP, with a targeted reduction of about 2.5 percent of GDP. Essential steps in gaining more effective control over these enterprises include: (i) strengthening the Public Enterprise Unit (PEU) through legislation and resources to make it the gateway for the creation, supervision, restructuring, and dissolution of all PEs in Eswatini; (ii) establishing a centralized database (in the PEU) of all financial information on PEs, together with a standardized approach to financial evaluation; and (iii) a comprehensive financial evaluation of key and high-risk PEs to identify and mitigate fiscal risks and guide the government in PE privatization, dissolution, or reform. These efforts will create an effective framework for a successful implementation of the SOE reform strategy.
- **Strengthening tax administration.** Eswatini has made solid progress in improving tax administration, but more remains to be done. Only 15 percent of indicators under a recent TADAT assessment exhibited performance that is sound or exceeded international good practice. Key issues for action include (i) an active policy (with enforcement) for managing tax arrears; (ii) improving compliance risk management; and (iii) mitigating risks associated with the ongoing restructuring of the Eswatini Revenue Service.

3. Achieving the objectives of the FAP will depend not only on clear objectives for the wage bill, state enterprise reform, recurrent government expenditure and mobilizing domestic revenue, but also on having sufficient fiscal management capacity. The government has made notable progress on many of the key areas noted above, supported by technical assistance from the IMF. But much remains to be done and will require additional TA and support in the future.

Annex X. Capacity Development Strategy

Context

1. Eswatini endured the pandemic years and subsequent shocks from the war in Ukraine comparatively well, but has low fiscal and external buffers, and gaps in public financial management and financial sector oversight. Years of expansionary budget spending policies and volatile SACU revenues widened the fiscal deficit, resulting in rising public debt and accumulation of domestic arrears. A fiscal adjustment plan (FAP) was launched in FY20–21 and has yielded some savings—even during the pandemic—but has also encountered delays in implementation. Progress has been made on reducing the wage bill, but savings from public enterprise reform are yet to materialize, and further progress is needed on rationalizing public spending on goods and services. Unprecedented social unrest struck the Kingdom in 2021, and the specter of new unrest continues to cloud the outlook. The external balance remains prone to risks, including volatile international commodity prices, and knock-on effects from a significant downturn in neighboring South Africa.

CD Strategy

2. Eswatini faces four key policy challenges and surveillance priorities: (i) fiscal adjustment (through expenditure reduction and revenue enhancement) to preserve debt sustainability and rebuild fiscal and external buffers; (ii) public financial management reform to support stronger fiscal governance and consolidation objectives; (iii) structural reforms to boost private investment, create opportunities for private-sector led growth and employment generation; and (iv) financial sector reforms to better manage macro-financial risks; and (v) legal and regulatory reforms to strengthen AML/CFT compliance and effectiveness.

3. Eswatini’s 2023 medium-term capacity development (CD) strategy, developed in coordination with the authorities, aims to support their efforts to achieve progress on selected areas consistent with the surveillance priorities. The strategy focuses on supporting fiscal adjustment efforts and public financial management, strengthening the capacity to manage macro-financial risks, bolstering transparency and governance, and improving the quality of macroeconomic data to assist the authorities in making timely policy decisions.

4. In this context, the strategy identifies the following CD priorities: (i) improving public financial management systems, including through credible annual and medium-term budget frameworks and stronger budget execution and commitment controls; (ii) further mobilizing domestic revenue; (iii) strengthening financial sector supervision and the regulatory framework; (iv) strengthening the legal and regulatory AML/CFT framework in line with the revised FATF standard and effectiveness with respect to implementation of requirements; (v) advancing governance reform; and (vi) improving the quality and timeliness of key fiscal, national accounts, and balance of payments statistics.

Key Overall CD Priorities Going Forward

Priorities	Objectives
Public Financial Management: budget preparation, execution, and controls	Strengthen annual budget and medium-term budget frameworks; strengthen budget execution and commitment control systems to deliver budget objectives and prevent the accumulation of domestic arrears; strengthen public investment management processes; improve the governance framework, monitoring, and risk management of large extrabudgetary entities, including public enterprises; implement the SACU revenue stabilization fund and integrate it with the medium-term fiscal framework.
Domestic revenue mobilization: revenue administration and tax policy	Enhance domestic revenue collection through strengthening tax administration and introducing reforms to broaden the CIT and VAT tax bases and rationalize tax expenditures and special tax relief schemes; enhance tax arrears management.
Financial sector oversight and capital flows framework	Conduct a comprehensive financial sector assessment to detect risks and vulnerabilities (FSSR); complete the overhaul of key financial sector legislation; develop liquidity forecasting and management capacity at CBE; continue to support the adoption of advanced Basel core principles; enhance regulation and supervision of nonbank financial institutions; develop the macroprudential framework and toolkit; advance the creation of a crisis preparedness framework; refocus the exchange control regime to a Capital Flows Management Regime, and establish guidance on how to facilitate and monitor special economic zones.
AML/CFT	Strengthen the AML/CFT legal and regulatory framework in line with the 2012 FATF revised recommendations and address technical gaps and low levels of effectiveness identified in the Eastern and Southern Africa AML Group's 2022 Mutual Evaluation Report; develop capacity in the CBE on ultimate beneficial ownership as well as a guidance note for the industry; develop a regulatory framework for cross-border forex bureaus, money transfer providers, and virtual asset service providers; strengthen application of risk-based supervisory and sanctions regime.
Fiscal, national accounts, and balance of payments statistics	Strengthen quality, consistency, timeliness, and dissemination of core macroeconomic statistics, including fiscal, national accounts, and balance of payments data, to support policy making and surveillance activities.
Governance and anti-corruption	Conduct a governance diagnostic assessment; fulfil the commitments in the 2020 RFI LOI.
Climate change	Undertake a climate macroeconomic assessment.

Main Risks and Mitigation

5. Eswatini is a high-intensity TA recipient, and past implementation of Fund TA has been mixed. On the positive side, the authorities have: adopted the Public Procurement Regulations, 2020; submitted to Parliament the implementing regulations for the 2017 PFM Act; implemented policies to contain the wage bill (following CD on expenditure rationalization); introduced a new invoice tracking system to monitor spending commitments and arrears accumulation (supported by a PFM resident advisor); improved tax administration functions; strengthened the supervisory

framework of NBFIs; drafted key financial sector legislation (with IMF CD support) and implemented Basel II standards; made progress toward a Treasury Single Account and are in plans to implement the Integrated Financial Management Information System; and made progress toward the compilation of quarterly national account statistics. However, they have faced challenges in developing a fully effective and comprehensive process for budget formulation, effective commitment controls and cash management systems, and effective oversight of extra-budgetary entities. These gaps are due largely to limited implementation capacity (including technology) and staffing constraints, and, in some cases, lack of political support. Capacity issues are a major constraint to TA absorption and better progress can be achieved by hands-on training, presence of a resident advisor and/or close and continuous CD engagement.

Authorities' Views

The authorities consider IMF CD of significant value. They regularly seek the Fund's advice to structure the reform strategy in areas such as CBE's strategic plan, PFM, revenue administration, expenditure management, financial sector supervision and regulation, and macroeconomic statistics. They also suggested that Fund CD activities could achieve greater results by relying more on hands-on support, resident advisors, peer learning and comparisons with international best practices to complement written recommendations.



KINGDOM OF ESWATINI

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

April 18, 2023

Prepared By

The African Department in collaboration with other
Departments

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RELATIONS WITH THE IMF

As of February 28, 2023

Membership Status

Joined: September 22, 1969

Accepted the obligations of Article VIII, Section 2, 3, and 4: December 11, 1989

General Resources Account:	SDR Million	Percent of Quota
Quota	78.50	100.00
Fund holdings of currency	150.44	191.65
Reserve position	6.56	8.36
SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	123.52	100.00
Holdings	20.18	16.34
Outstanding Purchases and Loans:	SDR Million	Percent of Quota
Emergency assistance	78.50	100
Financial Arrangements		None

Projected Payments to Fund

(SDR million; based on existing use of resources and present holdings of SDRs):

	2023	2024	2025	2026	2027
Principal	9.81	39.25	29.44	0.00	0.00
Charges/Interest	5.25	6.19	4.44	3.55	3.55
Total	15.06	45.44	33.87	3.55	3.55

Implementation of HIPC Initiative Not applicable

Exchange Arrangements. The currency of Eswatini is the Eswatini lilangeni (plural: emalangeni). The exchange rate arrangement is a conventional pegged arrangement vis-à-vis the South African rand, which is also legal tender. Exchange rates for the Lilangeni vis-à-vis the U.S. dollar are based on the exchange rate of the South African rand against the U.S. dollar.

Eswatini has accepted the obligations under Article VIII, Sections 2(a), 3, and 4 of the Fund's Articles of Agreement and maintains an exchange system free of multiple currency practices

and restrictions on the making of payments and transfers for current international transactions.

Safeguards Assessment. The first-time assessment of the Central Bank of Eswatini (CBE), completed in June 2022, found a relatively strong safeguards framework. The CBE Board plays an active role in overseeing the central bank's operations, and its Audit Committee composition was recently strengthened with the requirement to only include independent non-executive members of the Board. Sound accountability practices include timely publication of audited financial statements, and internal and external audit functions that comply with international standards. Nevertheless, the strong institutional framework and practices are not well supported by the CBE Law which includes outdated provisions with weak de-jure safeguards for the CBE's autonomy. A draft Bill had been prepared by the CBE to address most of the identified vulnerabilities, however a concrete timeline for the legal reforms is not yet established.

Article IV Consultation. Eswatini is on a standard 12-month consultation cycle. The last Article IV Consultation was concluded by the Executive Board on January 31, 2020.

Technical Assistance, 2018–2022

Department	Date of Delivery	Purpose	Beneficiary Agency
Fiscal Affairs Department (FAD)			
	February 2018	Reviewing the ERA Organization Structure and Guiding the implementation of the Operational Policy Division (OPD) in the Domestic Taxes Department (DTD)	ERA
	June 2018	Strengthening Tax Compliance: Developing A Comprehensive Compliance Risk Management Program	ERA
	June 2018	Developing the New Government Public Financial Management Regulations [AFRITAC]	MOF
	July 2018	Strengthening Budget Preparation and Managing Arrears	MOF
	September 2018	Developing the New Government Public Financial Management Regulations [AFRITAC]	MOF
	October 2018	Expenditure Rationalization	MOF
	October 2018	Revenue Administration	ERA
	April 2019	Developing the New Government Public Financial Management Regulations [AFRITAC]	MOF
	June 2019	Excise Administration and Controls [AFRITAC]	ERA
	July 2019	Public Investment Management Assessment	MOF, MEPD
	May 2020	Strengthening the Framework for Loan Guarantees	MOF
	June 2020	Organizational Structure of the Treasury Department	MOF
	July 2020	COVID-19 Tax Policy Responses and Options for Revenue Mobilization	MOF, ERA
	September 2020	Tax Administration	ERA
	December 2020	Improving Capital Project Appraisal and Selection Processes	MEPD
	January 2021	Strengthening Budget Processes and Wage Bill Management	MOF
	August 2021	Revenue Forecasting, Tax Expenditures Estimates, and Tax Policy Unit	MOF
	March 2022	Public Investment Management Digitalization Strategy	MEPD
	May 2022	Fiscal Risks Monitoring of Public Enterprises	MOF
	October 2022	Excise	ERS (ex-ERA)
Monetary and Capital Markets (MCM)			
	February 2018	Strengthening NBFi Supervision	FSRA
	February 2018	Basel II Implementation [AFRITAC]	CBE
	April 2018	Strengthening Compliance with the CPSS-IOSCO Principles for Financial Market Infrastructures [AFRITAC]	CBE
	May, June 2018	Strengthening the Supervision of the NBFIs, Capital Markets, Credit and Saving Institutions	FSRA

Department	Date of Delivery	Purpose	Beneficiary Agency
	August, September, 2018	Strengthening the Supervision of the NBFIs, Insurance and Retirement Funds, Credit and Saving Institutions, Capital Markets	FSRA
	November, December 2018	Credit and Savings Institutions, Insurance and Retirement Funds	FSRA
	February 2019	Insurance and Retirement Funds, Capital Markets	FSRA
	June 2019	Capital Markets Intermediaries, Credit and Savings Institutions, Basel II/III Implementation	FSRA
	July, August, 2019	Insurance, Retirement Funds	FSRA
	October, November 2019	Insurance Retirement Funds, capital markets intermediaries, Credit and Savings Institutions	FSRA
	February 2021	Liquidity Monitoring and Forecasting	CBE
	January 2022	Review of RTGS Self-Assessment against the PFMI	CBE
	October 2022	Governance Regulatory Reform	CBE
	November 2022	Establishing a Deposit Insurance Scheme	CBE
Statistical Department (STA)			
	March, May, October 2018	National Accounts [AFRITAC]	CSO
	April 2018	Monetary and Financial Statistics	CBE
	May 2018	Government Finance Statistics	MOF
	July 2018	Price Statistics [AFRITAC]	CSO
	August 2018	External Sector Statistics	CBE
	April, July, October 2019	National Accounts [AFRITAC]	CSO
	July 2019	Government Finance Statistics	MOF
	July, November 2019	Price Statistics [AFRITAC]	CSO
	January 2020	Residential Property Price Indices	CBE
	February 2020	External Sector Statistics	CBE
	January 2021	Economic Census	CSO
	March 2021	Government Finance Statistics	MOF
	April 2021	Residential Property Price Indices	CBE
	April, August 2021	National Accounts	CSO
	November 2021	Real Sector: Prices	CSO
	December 2021	Financial Soundness Indicators	CBE
	February 2022	Residential Property Price Indices	CBE
	August 2022	National Accounts	CSO

Department	Date of Delivery	Purpose	Beneficiary Agency
	July 2022	Government Finance Statistics and Public Sector Debt Statistics	MEPD
	November 2022	Real Sector: Prices	CSO

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- World Bank: <https://www.worldbank.org/en/country/eswatini>
- African Development Bank: <https://www.afdb.org/en/countries/southern-africa/eswatini>
- Regional Technical Assistance Center for South Africa: <https://www.southafritac.org>

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings but is broadly adequate for surveillance (Category B). The most important shortcomings concern timely and reliability of national accounts statistics, coverage and reliability of fiscal operations, and compilation of external sector data.

National Accounts: The Central Statistical Office (CSO) has revised past annual national accounts data from 2011 to reflect revisions in the balance of payments statistics and is planning to finalize rebasing GDP estimates to 2019 by the end of September 2024. With CD from the Fund and donors, the CSO has integrated tax data in the GDP compilation framework, improved the consistency with balance of payments series and started publishing quarterly GDP estimates. Shortcomings remain with frequent GDP data revisions, large statistical discrepancies for the demand-side of GDP series, quality of quarterly GDP series, and delays in finalizing GDP series with about a year lag. The COVID-19 pandemic and the social unrest of 2021 brought primary data collection to a halt.

Price Statistics: The CSO is working on updating the weights for the CPI and plans to rebase the index in 2025 using the Household Budget Survey scheduled for 2023–2024. Monthly consumer price data are disseminated by the CSO with a one-month lag. With Fund assistance, the CSO is also developing a producer price index. The CSO conducted the 2021 Labor Force Survey, the 2017 Population Census, and the 2016/17 Household Budget Survey.

Government Finance Statistics: Annual budgetary central government data by fiscal year are reported on an invoice-registered basis by spending entity and only to the Fund in the GFSM 2014 format. With Fund support, implementation of GFS classification standards has been recently improved. Large discrepancies are common in the fiscal operations of the Central Government, no fiscal statistics are disseminated for extra budgetary funds and institutions, and consolidated general government. These issues point to several shortcomings and need for improvements, including: coverage of central government statistics, timely registration of invoices, development of consolidated general government fiscal data; data collection of potential fiscal risks from extrabudgetary funds, and compilation of high frequency budgetary central government (BCG) data.

Monetary and Financial Statistics: The Central Bank of Eswatini (CBE) reports monthly monetary statistics on standardized report forms for the CBE balance sheet and other depository corporations (banks, and the Eswatini Building Society since January 2006). Credit and savings cooperatives remain outside the deposit corporations' survey. The CBE reports Financial Soundness Indicators (FSIs) to the Fund for four commercial banks and a Savings and Development Bank on a quarterly basis. The commercial banks' source data have improved since the 2018 CD mission, though some data quality issues remain. The CBE reports data on several indicators of the Financial Access Survey (FAS) including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals.

<p>Balance of Payments and International Investment Position Statistics: The coverage and classification of balance of payments (BOP) and international investment position (IIP) data reported by the CBE are largely in line with the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6). The CBE reports BOP and IIP data annually and quarterly. However, frequent and large data revisions and large errors and omissions point to the need for further actions to improve the accuracy and reliability of the BOP data. The exchange control data collection system used to compile balance of payments data needs further improvements and validation.</p>
<p>II. Data Standards and Quality</p>
<p>No data ROSC is available for Eswatini. Eswatini implemented the Enhanced General Data Dissemination System (e-GDDS) in January 2017 but needs to improve the timeliness of data posted on its National Summary Data Page. Most metadata have not been updated since 2005.</p>
<p>III. Reporting to STA</p>
<p>The CBE reports monetary and financial statistics to STA regularly, although the timeliness of data could be improved. Balance of payments data are published in International Financial Statistics (IFS) and in the Balance of Payments Yearbook. For the first time, in 2019 Eswatini submitted fiscal data in GFSM format to STA for publication in the Government Finance Statistics Yearbook.</p>

Eswatini: Table of Common Indicators Required for Surveillance

(As of February 24, 2023)

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of Publication ⁶
Exchange Rates	Feb 23	Feb 23	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Feb 23	Feb 23	W	W	M
Reserve/Base Money	Dec 22	Feb 23	M	M	M
Broad Money	Dec 22	Feb 23	M	M	M
Central Bank Balance Sheet	Dec 22	Feb 23	M	M	M
Consolidated Balance Sheet of the Banking System	Dec 22	Feb 23	M	M	M
Interest Rates ²	Feb 23	Feb 23	M	M	D
Consumer Price Index	Jan 23	Feb 23	M	M	M
Revenue, Expenditure, Balance, and Composition of Financing ³ – Central Government	Mar 22	Feb 23	I	A	A
Stocks of Central Government and Central Government-Guaranteed Debt ⁴	Dec 22	Feb 23	Q	Q	Q
External Current Account Balance	Mar 22	Oct 22	Q	Q	Q
Exports and Imports of Goods and Services	Dec 22	Jan 23	M	Q	Q
GDP/GNP	2021	Sep 22	A	A	A
Gross External Debt	Dec 22	Feb 23	Q	Q	Q
International Investment Position ⁵	Dec 22	Feb 23	Q	Q	Q

¹ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means, as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

² Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ Including currency and maturity composition.

⁵ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁶ Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I); and not available (NA).

Statement by Mr. Willie Nakunyada Executive Director for the Kingdom of Eswatini, Ms. Vuyelwa Vumendlini Alternate Executive Director for the Kingdom of Eswatini and Mr. Mawek Mengistu Advisor to the Executive Director for the Kingdom of Eswatini
May 3, 2023

Introduction

1. Our authorities appreciate the constructive engagement with Fund staff during the 2023 Article IV Consultation. They broadly share staff's appraisal and policy recommendations.
2. Eswatini's economy has remained resilient to the multiple shocks from the pandemic, adverse weather conditions, domestic unrest, and the spillovers from the war in Ukraine. Notwithstanding the challenging domestic and external conditions, the authorities pressed ahead with fiscal adjustment efforts underpinned by revenue enhancement and expenditure management measures. As such, prudent macro-fiscal management has assumed a central role in the authorities' efforts to consolidate gains attained in the implementation of the homegrown 2020 *Fiscal Adjustment Plan (FAP)*. Concurrently, in the context of growing social tensions, the authorities have placed a high premium on addressing longstanding structural challenges including high levels of poverty, income inequality and elevated unemployment rates. Importantly, they view steadfast structural reform efforts as essential to promote private sector-led inclusive growth, underpinned by good governance. Against this backdrop, the authorities prepared a five-year National Development Plan (NDP) (2023/24-2027/28) under the broader theme of "*Governance; the Anchor for Economic Recovery, Green Growth, and Sustainable Livelihoods*" to guide their medium-term policy priorities.

Recent Economic Developments and Outlook

3. Real GDP growth, which rebounded strongly to 7.9 percent in 2021, decelerated to 3.6 percent in 2022, on the back of waning base effects, declining construction activity, excessive rains that undermined agricultural production, rising costs of agricultural inputs, and industrial action in the sugar industry. Going forward, growth is projected to decline modestly to 3.2 percent in 2023, on the back of anemic growth in South Africa, and adverse climate conditions. The growth slowdown is, however, expected to be moderated by strong performance in the manufacturing and agriculture sectors, on account of ongoing mega public projects in irrigation and hydroelectric power generation. In addition, the estimated high revenue from Southern African Customs Union (SACU) for FY2023/24 is expected to provide further growth impetus. Meanwhile, inflation remained relatively contained, although it increased to 5.6 percent in 2022 from 3.5 percent in 2021, on account of high global food and energy prices. Nevertheless, inflation is expected to marginally subside to 5.2 percent in 2023, partly reflecting the impact of lower administered prices.
4. The external current account deteriorated from a surplus of 2.7 percent of GDP in 2021 to a deficit of 1.1 percent of GDP in 2022, owing to increases in imports driven

by the surge in global prices of food and fuel, alongside lower SACU transfers. This, coupled with lower Foreign Direct Investment (FDI), exerted pressure on international reserves. Consequently, gross reserves declined from 3.0 months to 2.3 months of prospective import cover between 2021 and 2022. Going forward, the current account is expected to rebound strongly to a surplus of 5.8 percent of GDP in 2023, driven by high SACU revenues. Resultantly, by the end of 2023, gross international reserves are expected to firm up to 2.9 months of prospective import cover.

Fiscal Policy

5. Our authorities are committed to pursuing growth-friendly fiscal consolidation to ensure debt and fiscal sustainability, while building buffers to enhance the economy's resilience to shocks. They view the staff's proposed fiscal adjustment of 3.0 percentage points of GDP over the coming three years required to place public debt on a downward trajectory, as achievable. As such, the FY2023/24 budget assumes a fiscal deficit of 2.2 percent of GDP, considering spending pressure related to the 2023 general elections. Further, the authorities plan to capitalize on their success under the 2020 FAP to further contain the fiscal deficit, by steadfast efforts demonstrated during the pandemic and episodes of social tensions. Building on these achievements, they plan to intensify domestic revenue mobilization efforts and enhance efficiency of public spending. The authorities concur with staff on the need to ensure consistency between the fiscal adjustment plan and the government's medium-term fiscal plan, while calibrating the pace and timing of reforms to align with the election cycle.
6. On the revenue front, the authorities are sustaining efforts to strengthen tax collection, including through enhanced administration and amendment of tax legislations. They will continue to work on effective tax enforcement by enhancing the capacity of the Eswatini Revenue Service (ERS) and raising public awareness, among other measures. In the same vein, they plan to continue leveraging digitalization through e-filing and managing taxpayer databases to enhance compliance. The authorities have also successfully reduced tax arrears including by increased recoveries from private sector players, following the lapse of the tax relief program initiated in August 2022. Meanwhile, they have also reduced the accumulation of new tax arrears both from private and public enterprises. At the same time, the authorities have made the provision of budget outlays to public enterprises, conditional upon being current on tax obligations. Further, the authorities are planning to amend VAT, corporate and personal income tax legislations, benefitting from Fund TA. In addition, discussions are underway to streamline tax incentives and introduce taxation on carbon emission and digital services.
7. Despite pressing spending pressures, the authorities successfully contained public expenditure over the past three years. In this regard, wage spending was reduced through a hiring freeze and implementation of below inflation cost-of-living adjustment. At the same time, capital spending and transfers to public enterprises was scaled down. There is also an ongoing Management Audit Study to inform the civil service employment reforms including reduction of non-critical positions. Simultaneously, the authorities are considering the Enhanced Voluntary Early

Retirement Scheme in 2024 to further rationalize the wage bill. Further, they are increasing budget outlays to strengthen the social transfer scheme to increase the number of beneficiaries and strengthen their social safety nets, by leveraging the mobile money system. Relatedly, the Office of the Deputy Prime Minister is running the social safety net programs, focusing on elderly grants, people with disability, as well as the orphaned and vulnerable children (OVC) initiative. At the same time, the authorities continue to prioritize capital spending and strengthen project implementation capacity.

8. The authorities are stepping up efforts to strengthen public financial management (PFM), guided by the PFM Act of 2017. Concurrently, they are finalizing the establishment of a SACU Revenue Stabilization Fund with initial capitalization of E1.5 billion (US\$82 million), which should help address macro-fiscal challenges arising from volatile SACU revenues. As articulated in its regulation, the utilization of the fund is linked only to SACU revenue movements within a transparent rules-based and strong governance framework. In parallel, they are benchmarking with peers to implement the Treasury Single Account (TSA) while budget resources have been allocated in FY2023/24 to procure the Integrated Financial Management System (IFMIS) and e-procurement system. In addition, the authorities have reduced outstanding domestic payment arrears while the accumulation of new arrears has been significantly restrained. Going forward, the authorities are determined to eliminate expenditure arrears in line with the FY2023/24 balanced budget.
9. Ensuring public debt sustainability continues to rank high on the authorities' policy priorities. In this connection, they aspire to reduce public debt to 38 percent of GDP in FY2027/28 from the current level of 43 percent of GDP, as articulated in the NDP. To this end, efforts will be directed towards careful analyses of implications of new borrowing on debt sustainability, before new loans are contracted, while also confining new borrowing to projects with higher economic returns. At the same time, the authorities will continue to rely more on concessional resources.

Monetary and Financial Sector Policies

10. The authorities reaffirm their commitment to preserve the currency peg with the South African Rand and maintain price stability. To this effect, the Central Bank of Eswatini (CBE) raised its discount rate by 50 basis points from 6.75 percent to 7.25 percent in March 2023, which is within its tolerable 50 basis points spread target, vis-à-vis the South African Reserve Bank (SARB)'s benchmark rate. The authorities consider maintaining the discount rate below SARB's benchmark rate as important to encourage credit to the private sector, even as there is lack of concrete evidence of capital flow reversals attributed to the interest rate differential. Nevertheless, the CBE will continue to use its deposit facility and call rate to manage capital flows and support the peg. That said, they concur that building reserve buffers remains warranted to maintain the credibility of the peg. The establishment of the SACU Revenue Stabilization Fund, accompanied by fiscal consolidation, is envisaged to support attainment of this goal. Meanwhile, the authorities are taking measures to enhance the autonomy of the central bank, alongside legal reforms to strengthen the CBE's governance framework.

11. While banks have remained resilient to overlapping shocks, with ample liquidity and capital buffers, the authorities remain attentive to pockets of vulnerabilities emanating from the non-bank financial sector. Considering the growing role of non-bank financial institutions (NBFIs) and their interconnectedness with the domestic banking sector, the authorities are strengthening their legal and regulatory frameworks. In this regard, notable progress has been made to strengthen the supervisory capacity of the Financial Services Regulatory Authority (FSRA), while work to bridge legislative gaps is progressing with support from Fund CD. The authorities are advancing work to integrate the FSRA into the CBE, alongside the Center for Financial Inclusion, which will facilitate the centralization of oversight and mitigate regulatory arbitrage risks. At the same time, the authorities are diligently working to address identified deficiencies in the AML/CFT regime, with the national taskforce comprising different institutions playing an oversight role. Importantly, the authorities are continuously assessing the implications of South Africa's recent grey listing by FATF on their domestic financial system. They have requested IMF TA to further strengthen their AML/CFT framework.

Structural Policies

12. The authorities are determined to address structural bottlenecks to improve the business environment, enhance private sector-led and inclusive growth. They are considering the IMF's governance diagnostic tool to identify areas of weakness and take appropriate corrective measures. Furthermore, the authorities established the online one-stop window aimed to improve the process of starting a business through the Eswatini Investment Promotion Authority (EIPA). Concurrently, they are committed to expand factory shells to attract new investors while ensuring quality services in those that are in operation. Efforts to strengthen Micro, Small and Medium Enterprises (MSMEs) including through mentorship, incubation and credit guarantee scheme will be scaled up. Further, efforts will be exerted to fully leverage the preferential market access that Eswatini is entitled to.
13. The authorities view public enterprise reforms as critical to promote private sector development. In line with the 2021 public enterprise reform roadmap, the authorities commenced the implementation phase, beginning with five public enterprises, which includes the consolidation of the three financial sector regulators. They also regard effective communication on the importance of these reforms, as critical to manage political economy dynamics and enhance traction. However, they have adapted a cautious approach to ensure that public enterprises reforms will preserve quality service delivery. To reduce unemployment and poverty, the authorities are making concerted efforts to bridge attendant skills gaps. In this context, they plan to make significant investments in Science, Technology, Engineering, and Mathematics (STEM), in line with the market needs. They are also increasing grants to expand access to primary and secondary education, while expanding Technical and Vocational Education and Training (TVET) institutions across the country.
14. Our authorities are persistently working towards promoting gender equality, in the context of their cultural setting. They believe that increased investment in education and the health sectors will improve gender outcomes in the medium to long term. In the same vein, they are committed to boosting financial inclusion, which will also

support achievement of the gender equality objectives. To this end, they have launched the gender inclusive financial roadmap, which aims to improve access to finance for women enterprises. Further, rapid development of NBFIs alongside the increasing role of mobile money service providers and digitalization of government payments, places Eswatini's financial inclusion rate at 87 percent, among the highest in the region. The authorities are leveraging on this high financial inclusion rate to deepen usage of financial services, including through intensified efforts to enhance financial literacy and development of tailored financial products.

15. As part of the efforts to lessen the potential adverse impact of power shortages in South Africa and promote climate change adaptation, the authorities are working to ensure energy self-sufficiency. In this regard, they are investing in hydropower energy generation while undertaking assessment for the development of wind energy generation capacity. They aspire to generate 50 percent of the country's electricity mix from renewable sources.

Conclusion

16. Our authorities are committed to ensure macroeconomic stability and address structural bottlenecks to deliver sustainable and inclusive growth to realize the key objectives of the NDP. They highly appreciate the Fund's valuable advice and technical support and look forward to the Executive Directors' support in concluding the 2023 Article IV Consultation.