Governor's Statement

Introduction

It gives me great pleasure to present to the Minister for Finance, Eswatini citizens and other stakeholders the fifth Central Bank of Eswatini (CBE) Annual Integrated Report for the financial year ended 31 March 2022. The Report provides a comprehensive overview of the work of the CBE as well as a summarised version of the financial statements.

Coverage

Matters included in the Report are aimed at informing and providing assurance to stakeholders on the CBE's ability to deliver on its mandate, commitment to sustained relationships and responsible corporate citizenship. The issues of materiality pertain to the stability of the financial sector and price stability conducive to economic growth to fulfil stakeholder expectations in the short, medium and long-term.

Materiality

Material matters are considered as developments in the operating environment that either affect or have a potential to affect our operating model. The same can be said about input factors which can ultimately affect the Bank's ability to perform and create value over time.

Ten (10) factors from both the internal and external operating environment of the Bank were considered to pose significant challenges or opportunities in the Bank's strategic initiatives and day-to-day operations for the financial year 2021/22. These were monitored and reviewed on a quarterly basis to inform implementation of intervention measures to ensure that the mandate of the Bank is fulfilled.

Response to COVID-19

The Pandemic Task Team continues to steer and oversee the Bank's response to COVID-19 with guidance from the Ministry of Health, World Health Organisation and other institutions to ensure continued compliance with COVID-19 regulations and provide guidance, support to affected staff as well as communication on matters related to the pandemic.

The Bank revoked Inspection Circular No.1 of 2020 as of 1 April 2022 following feedback from banks which indicated that the COVID-19 impact on their banking book credits has been minimal. However, the liquidity ratio; cash reserve requirement; higher transactional limits; as well as regulatory relief measures and guidance to digital Payment Service Providers were maintained as stipulated by the Circular.

Business Model

Fostering price and financial stability which are conducive to the economic development of Eswatini remain central to our work. Our mission captures the mandate of the Bank. Through our vision, we have defined a desired future state that enables us to continue to deliver on the mandate.

Our Strategy

Our strategy seeks to drive operational efficiency and strategic effectiveness. We run our operations through business processes and we execute our strategy through programmes. In all our undertakings, business departments remain integral in driving our processes.

Economic Developments

Global Economic Developments

According to the IMF's World Economic Outlook (WEO) Update published in April 2022, global GDP grew by an estimated 6.1 per cent in 2021 following a contraction of 3.3 per cent in 2020. Latest projections show that the global economy will grow by 3.6 per cent in both 2022 and 2023.

This indicates a downward revision from January 2022 WEO projections – largely caused by the direct impact of the Russia-Ukraine war on the global economy with related spill overs.

Global risks to world GDP growth are to the upside. These include tighter sanctions on Russia that could lead to additional rupture of trade connections, including crucial energy links between Russia and Europe with detrimental effects on cross-border investment.

Global Inflation

According to the IMF's forecast published in the April 2022 WEO Update, elevated global inflation is expected to remain for a longer period. This is happening amid geopolitical tensions, the continuing war in Eastern Europe, and broadening price pressures. The Russia–Ukraine war is likely to have a protracted impact on commodity prices, affecting oil and gas prices more severely in 2022 and food prices well into 2023.

South Africa

According to Statistics South Africa, considering the full year of 2021, South Africa's GDP increased by an estimated 4.9 per cent, from a pandemic-induced contraction of 6.4 per cent in 2020. The South African economy grew by 1.9 per cent quarter-on-quarter in the first quarter of 2022 following a 1.4 per cent expansion in the fourth quarter of 2021.

In the first quarter of 2022, GDP is estimated to have grown by 4.5 per cent, on a year-on-year and seasonally adjusted basis, from a growth of 2.0 per cent in the fourth quarter of 2021.

The South African Reserve Bank (SARB) has been on a hiking cycle, raising the benchmark interest rate by 25 basis points in November 2021, another 25 basis points in January 2022 and a further 25 basis points in March 2022 to leave the rate at 4.25 per cent. SARB policymakers mentioned that the risks to the inflation outlook are assessed to be on the upside.

Local Economic Developments

GDP Developments

The Central Statistics Office (CSO), reported that the country's economic output is estimated to have grown by 7.9 per cent in 2021 rebounding from a revised 1.6 per cent contraction in 2020. The stronger-than-expected recovery was mainly driven by activities in the secondary sector.

In the first quarter of 2022, GDP is estimated to have grown by 4.5 per cent, on a year-on-year and seasonally adjusted basis, from a growth of 2.0 per cent in the fourth quarter of 2021. The pick-up in economic activity was mainly supported by resilient growth in the primary and secondary subsectors.

External Reserves

The reserves' import cover declined from 4.0 months the previous year to 2.6 months at end of March 2022, with 3.4 months average for the year. The Bank continues with its efforts to build the level of foreign exchange reserves through accumulation of foreign currency exports proceeds from local commercial banks; introduction of more diverse trading products to capture all export flows; implementation of an optimised portfolio for Special Drawing Rights (SDRs) holdings as well as improving monetary policy operations in order to manage domestic liquidity and its impact on reserves.

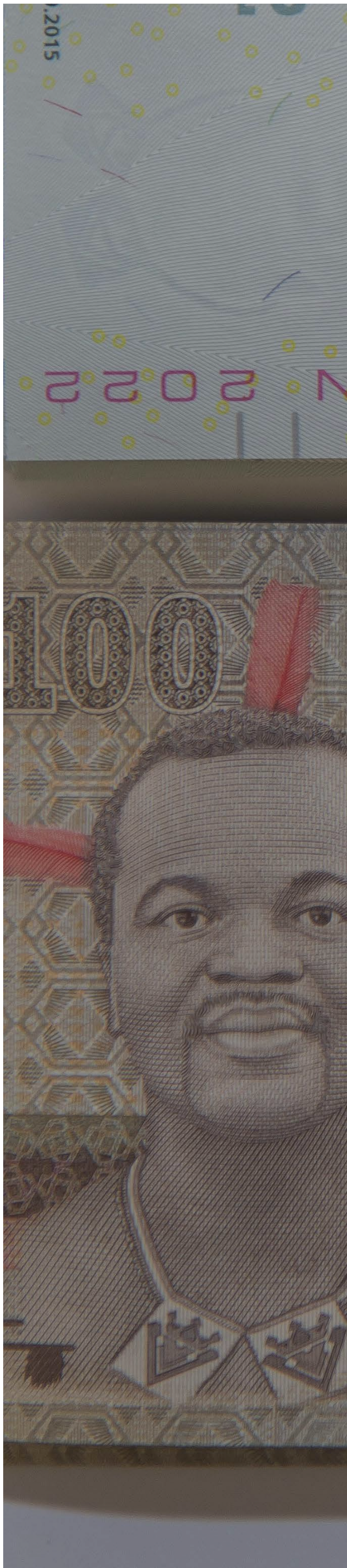
Private Sector Credit

The private sector remained resilient; supported, in part, by improved economic activity following the lifting of COVID-19 restrictions and the accommodative monetary policy stance pursued. As a result, credit to the private sector increased by 3.3 per cent over the year to reach E15.8 billion at the end of March 2022, from a growth of 9.3 per cent the previous year. The rise in private sector credit was largely supported by credit to the business and household sectors.

Banking Sector

The banking sector remained resilient amid COVID-19 challenges and the political unrest that occurred in the country in June 2021. Total banking sector assets amounted to E24.1 billion over the course of the current reporting period, reflecting a somewhat marginal decrease of 4 per cent when compared to E25.1 billion reported in the corresponding period in 2021.

The banking sector continued to hold high quality capital instruments and was adequately capitalised; thus, depicting a stronger resilience to withstand any adverse shocks or losses that may arise. The sector continued to be profitable, demonstrating financial sustainability.



Total industry gross loans and advances reflected an increase year-on-year indicating an uptick in intermediation by the banks. Gross loans and advances stood at E13.3 billion in March 2022 against E12.3 billion in March 2021. On the other hand, asset quality deteriorated as reflected by an increasing Non- Performing Loans (NPLs) ratio. The NPLs ratio increased to 7.4 per cent over the course of March 2022, from 5.6 per cent reported in March 2021.

Public Finance

Budget estimates for 2022/23 indicate a E3.8 billion deficit, an equivalent of 4.8 per cent of GDP. Government continues to pursue fiscal consolidation in order to bring the fiscus onto a sustainable level.

Total public debt is estimated at E27.5 billion or 35.3 per cent of GDP at the end of March 2022 compared to the E26.2 billion recorded at the end of March 2021. The rise was a result of growth in domestic debt as Government continued with the issuance of Securities; as well as the increase in public external debt as disbursements continued for on-going Government projects.

Balance of Payments

The country registered an overall balance of payments deficit of E1.294 billion in 2021 following a deficit of E1.712 billion in the previous year. The deficit was on account of transactions with the rest of the world during the year, which resulted in net outflows in the financial account.

Inflation Dynamics

Annual headline inflation averaged 3.7 per cent in 2021, which is slightly lower than the 3.9 per cent recorded in 2020. The moderation in consumer prices was a result of slower increases observed in the CPI for services.

The three months to March 2022 indicate that headline consumer inflation averaged 3.4 per cent. Inflationary pressures have mainly emanated from sustained increases in fuel prices, which were driven by an upward pressure in international oil prices.

Monetary Policy

The Governor makes monetary policy decisions after consultative meetings with the Monetary Policy Consultative Committee (MPCC). The MPCC held 6 ordinary meetings during the review period. The discount rate was held flat at 3.75 per cent in 2021 in line with subdued inflationary pressures and only effected a 25 basis points hike to 4.0 per cent in January 2022 as inflationary pressures began to emerge. In March 2022, the Bank held the discount rate at 4.0 per cent creating a negative differential of 25 basis points against the South African repo rate.

Financial Stability

Over the year ended December 2021, key risks to the financial system stability were elevated when compared to previous years, but with no destabilising impact. Risks emanating from the external economic environment, domestic economic environment, household sector and the corporate sector remained high. On the other hand, risks from the payment and settlement system fell. The year 2021 also presented a new threat to financial stability through political instability. The eruption of domestic political tensions threatened to reverse significant gains made over the past years on financial sector investments by the private sector and Government; as well as market confidence in the financial system.

National Payment Systems (NPS)

ollowing the advent of COVID-19, the use of digital financial services continued to rise. Point of Sale transactions continued to increase as more people avoided use of cash to reduce the possible spread of the virus. Credit EFTs also increased during the period under review.

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In order to align with the NPS Vision and Strategy 2021-2025 which calls for payment system digitalisation, the Central Bank and Industry are in the process of implementing a "payments switch". This will, among other things, advance efforts towards interoperability; local switching of domestic card-based transactions; instant payments; and open banking.

Also, in the spirit of digitalisation and to reduce risks associated with cheques, the banking industry and CBE agreed to discontinue the use of cheques effective 1 January 2022. Commercial banks were encouraged to educate and introduce their clients to available different digital channels offerings in the market.

Financial Technology

The Bank has set-up a working group dedicated to advancing its Central Bank Digital Currency (CBDC) research and experimentation. Further, the Bank monitors crypto asset activities in the country and has accelerated its efforts to investigate their implications on the local financial system. COVID-19 saw an increased electronic Know Your Customer (e-KYC) and to mitigate its risk. The Bank prepared a set of recommendations to ensure the safe and secure application of e-KYC.

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Credit Guarantee Schemes

Following the low utilisation of the Export Credit Guarantee Scheme (ECGS) and the Small Scale Enterprise Loan Guarantee Scheme (SSELGS), the Bank, in conjunction with the Ministry of Commerce Industry & Trade, Ministry of Agriculture as well as the Ministry of Finance relaunched the revised terms and conditions of ECGS and SSELGS in September 2021. Participating financing institutions were trained to facilitate operationalising the Schemes. Regional promotion of the Schemes was undertaken in collaboration with the Ministry of Commerce, Industry and Trade during the year.

ICT Strategy

As many staff continued to work remotely, the Bank provided the necessary remote support to staff whilst also ensuring that a cyber-secure environment is maintained. In line with this situation, the new Bank strategy identified the development of a Digital Transformation Strategy which is anticipated to contain aspects of an IT Strategy as it is largely dependent on external technological advancements and internal capabilities.

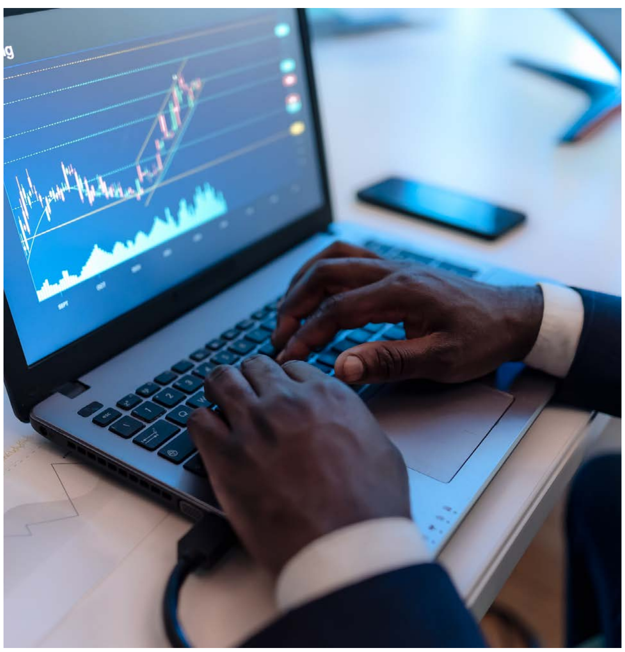
Financial Risk

The CBE is exposed to financial risks arising as a result of performing its statutory roles in terms of monetary policy implementation; investment activities relating to the management of the foreign exchange reserves; as well as operation of payments and settlement activities. These activities expose the Bank to a variety of financial risks including market risk, credit risk, and liquidity risk. The Bank, therefore, actively manages and mitigate these risks in its day-to-day business activities.

Business Continuity Management

Since the start of the COVID-19 pandemic, the Bank has ensured that all critical functions and activities continue to operate while focusing on maintaining the health and wellbeing of its staff. The Bank continued to strengthen the resilience of ICT systems necessitated by COVID-19, including the resilience of remote-working technologies, the impact on ICT change programmes and business continuity plans for critical operations.

CBE Top 13 Risks



The 2021/22 environmental analysis and performance review in the strategy development process for the period 2021/2022 resulted in a revised corporate risk register. This culminated in the identification of the top 13 risks that were closely monitored and mitigated during the year under review.

Corporate Social Investment

The Bank's Corporate Social Investment interventions were aligned to both economic and philanthropic responsibilities. Economic responsibilities centred on providing price stability, strengthening the stability of the financial sector as well as effective regulation and supervision.

Investment directed to philanthropic initiatives amounted to E474,781 and focused on health, education and skills development.

Stakeholder Engagement

We pride ourselves for meaningful and effective stakeholder management. We had targeted to achieve at least 70 per cent stakeholder satisfaction levels by the end of the financial year which was surpassed as a survey indicated that stakeholder satisfaction levels were recorded at 74 per cent. We endeavour to strengthen stakeholder management initiatives to ensure healthy and productive relationships.

Governance

The Board maintains full and effective control over the Bank and is accountable and responsible for its performance and compliance. The Board reviews the strategic priorities of the Bank, determines the investment policies and delegates to management the detailed planning and implementation of the objectives and policies in accordance with acceptable risk parameters. The Board monitors compliance with policies and achievement against set objectives by holding management accountable for its activities through performance reporting and budget updates.

The Board governs through clearly mandated Board Committees. Each Committee has a specific written Charter approved by the Board and adopted by the Committee. The Board retains accountability and is satisfied that it has fulfilled its responsibilities in accordance with the Board Charter during the year.

Ombudsman

There exists an Office of the Ombudsman in the Bank which is responsible for providing redress and dispute resolution to bank customers free of charge. The Ombudsman was able to successfully resolve 40 complaints, out of the 46 handled during the year.

I extend my heartfelt gratitude to the former Governor of the Central Bank and Chairman of the Board of Directors, Mr Majozi Sithole for his immense contribution to the growth of the institution, as well as his leadership, which has contributed significantly to the achievement of the vision, mission and strategic objectives of the organisation.

Our Ethics

We hold ourselves to high ethical standards and integrity in all our business activities as guided by the Code of Ethics. The Code guides employees in daily decision-making and provides an ethical framework to our ethical risk management approach. In existence are specific internal policies in place in areas such as Outside Occupation, Code of Governance, Compliance Management Policy and Framework which help us maintain high standards of ethics and integrity in our behaviors within and outside the CBE environment.

Assurance

Assurance for us largely refers to all mechanisms to cover all sources, including external assurance, internal audit, regulatory inspections and management oversight. The assurance providers aim to enable the Board and management to assess whether the significant risks facing the Bank are completely assessed and adequately mitigated.

The implementation of the combined assurance model within the Bank is at an advanced stage. In particular, the framework and policy have been developed and assurance matrices have been drafted.

Our People

The Bank continued to attract and retain the best talent available in the Eswatini market, through robust recruitment and selection processes and keeping critical talent focused and engaged. The total of all staff positions that exist in the Bank is 352 whilst the number of positions filled was recorded at 290 at end of March 2022. Vacancies stand at 62 whilst the turnover rate was recorded at 3.8 per cent for the reporting period.

Bank's Financial Performance

Operationally, the Bank made a profit of E182.3 million in 2021/22, a decline from the E271.4 million recorded in the previous financial year. This was a result of normal expenditure pick-up in 2021/22, in response to the easing of COVID-19 pandemic restrictions on travel and gatherings.

Conclusion

It has been a strong team effort, and I would like to extend my sincere thanks and appreciation to the Minister for Finance and his Officials, Board of Directors, all staff of the Bank as well as financial institutions and other key stakeholders for their cooperation, commitment, and dedication to the attainment of price and financial stability that is conducive to the economic development of the Kingdom of Eswatini. I have no doubt that I can continue to rely on them for unwavering support and dedication in the execution of our mandate and objectives, in the interest of all Emaswati.

I would also like to extend my heartfelt gratitude to the former Governor of the Central Bank and Chairman of the Board of Directors, Mr Majozi Sithole for his immense contribution to the growth of the institution, as well as his leadership, which has contributed significantly to the achievement of the vision, mission and strategic objectives of the organisation. Let me also take this opportunity to express my gratitude to the former independent non-executive directors of the Central Bank, Prof Mike Matsebula; Mrs Sonile Dlamini; and Mr Stephen Potts for serving the Bank with distinction and excellence. Their unique talents, expertise and perspectives contributed immensely to the achievement realised by the Central Bank in our ecosystem.

Dr Phil Mnisi,
Governor