

Governor's Statement



Dr. Phil Mnisi
Governor

It gives me great pleasure to present to the Minister for Finance, Eswatini citizens and other stakeholders the 6th Central Bank of Eswatini (CBE) Annual Integrated Report for the financial year ended 31 March 2023.

The Report provides a comprehensive overview of the work of the CBE during the reporting period.

Coverage

Matters included in the Report are aimed at informing and providing assurance to stakeholders on the Bank'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 terms.

Materiality

The CBE identified ten (10) internal and external factors that can substantively affect its ability to create value over the short, medium and long terms. These conditions posed by the operating environment are considered as threats and opportunities to the Bank's objectives – and as such inform the CBE's risk landscape.

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.

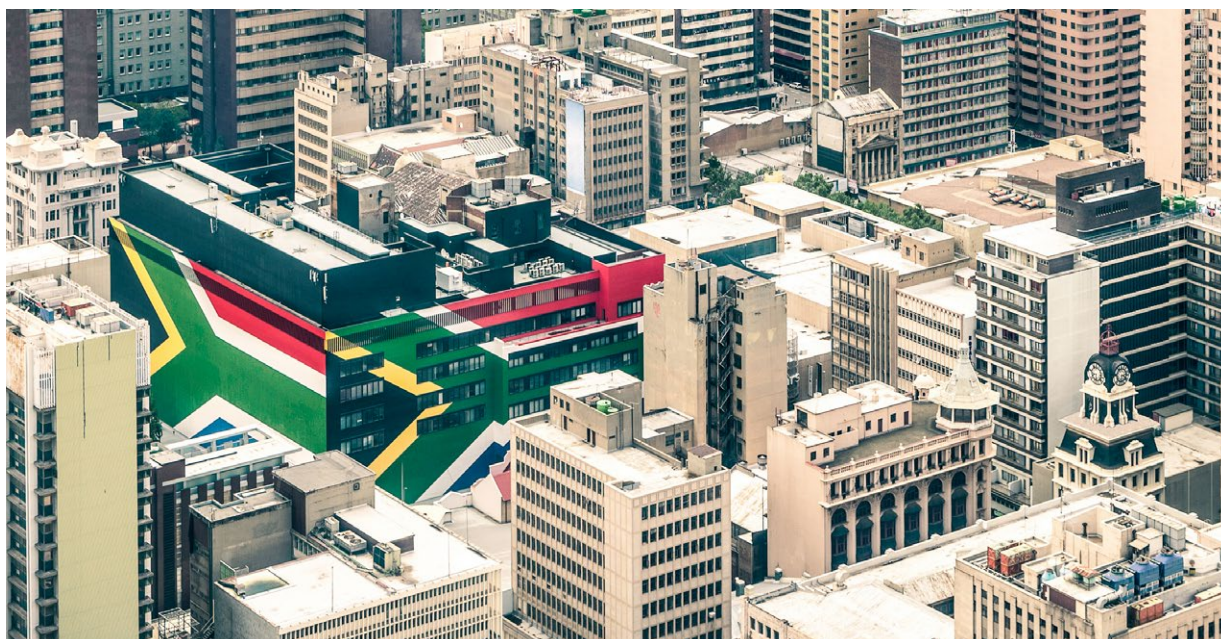
Our Strategy

The 2022/23 financial year marked the 2nd year of the implementation of our 2021-2024 Strategic plan. Our strategy is anchored on four key areas being: (a) Improvement of internal and external relations to achieve health dynamics; (b) Restructuring the balance sheet and pursuing operational efficiencies; (c) Transforming the CBE to a dynamic and responsive organisation; (d) Positioning the CBE to thrive in the new normal as influenced by the 4th Industrial Revolution. Our strategic objectives and action programmes, each with a detailed action plan, were derived from these focus areas.

Global Economic Developments

GDP Developments

According to the IMF World Economic Outlook (WEO) Update published on 25



 Johannesburg, South Africa's chief industrial and financial city.

According to Statistics South Africa, the economy grew by 1.9 per cent in 2022 compared to a higher growth of 4.7 per cent in 2021.

July 2023, global growth slowed down from 6.3 per cent in 2021 to 3.5 per cent in 2022. Growth for both 2023 and 2024 is projected at 3.0 per cent. According to the IMF, several shocks have hit a world economy already weakened by the pandemic. These include (a) Higher-than-expected inflation worldwide, especially in the United States and major European economies, triggering tighter financial conditions; (b) Worse-than-anticipated slowdown in China, reflecting COVID-19 outbreaks and lockdowns; and (c) Further negative spill-overs from the war in Ukraine.

In advanced economies, GDP slowed down from 5.4 per cent in 2021 to 2.7 per cent in 2022. For 2023, the grouping is expected to grow by a lower 1.5 per cent and further expand by a lesser 1.4 per cent in 2024. Notably, in advanced economies there is observed weaker manufacturing output as well as divergent factors, offsetting stronger services activity. Similarly, emerging market and developing economies (EMDEs) also slowed down from 6.8 per cent in 2021 to 4.0 per cent in 2022. GDP is expected to remain at the same level of 4.0 per cent in 2023 and slightly recover to 4.1 per cent in 2024. The IMF highlights that, the rise in central bank

policy rates to fight inflation continues to weigh on worldwide economic activity (IMF WEO Update, 25 July 2023).

Inflation

According to the IMF, inflation is easing in most countries. However, it remains elevated with divergences across economies and related inflation rescue measures. For 2022, world consumer prices were recorded at an annual average of 8.7 per cent following an average of 4.7 per cent in 2021.

In 2023, world consumer prices are expected to ease to 6.8 per cent and further edge lower to 5.2 per cent in 2024. In advanced economies, for 2022 the annual average inflation rate is estimated at 7.3 per cent and is forecast to recede to an annual average of 4.7 per cent in 2023 and further slow down to 2.8 per cent in 2024.

In EMDEs, annual inflation rate for 2022 averaged 9.8 per cent, before easing to 8.3 per cent in 2023. For 2024, EMDEs annual inflation rate is expected to edge lower to 6.8 per cent. The IMF highlights that, amid the accumulation of gas inventories in Europe and weaker than expected demand in China, energy and

food prices have dropped substantially from their 2022 peaks. Core inflation, has, on average, declined more gradually and remains well above most central banks' targets (IMF WEO Update, 25 July 2023).

South Africa

According to Statistics South Africa, the economy grew by 1.9 per cent in 2022 compared to a higher growth of 4.7 per cent in 2021. According to the South African Reserve Bank's GDP growth forecasts published during its July 2023 Monetary Policy Meeting, GDP growth for 2023 is forecast at 0.4 per cent amid energy and logistical constraints continuing to limit economic activity. Growth forecasts for 2024 and 2025 indicate steady growth of 1 per cent and 1.1 per cent, respectively (Statistics South Africa, 6 June - 20 July 2023).

Domestic Economic Developments

GDP Developments

Economic growth was recorded at 0.5 per cent in 2022 from a revised growth of 10.7 per cent in 2021. It is projected to grow by 4.7 per cent in 2023. In the outer years (2024 to 2026) growth is envisaged to average 3.3 per cent.

Quarterly Gross Domestic Product grew by a slower 1.1 per cent year-on-year

(seasonally adjusted) in the first quarter of 2023, down from a revised growth of 6.7 per cent in the fourth quarter of 2022. The slight growth observed was attributed to positive performance in the primary and tertiary sectors.

Inflation Dynamics

Annual consumer price inflation averaged 4.8 per cent in 2022 - up from an average of 3.7 per cent in 2021. The upsurge in consumer prices was a result of increases in food and transport inflation, which accounted for 65.3 per cent of the overall inflation outcome in 2022.

In the first three months of 2023, headline inflation averaged 5.5 per cent mainly driven by elevated food prices.

Public Finance

The 2023/24 budget projects a deficit of E1.8 billion - equivalent to 2.2 per cent of GDP - depicting an improvement from the 5.4 per cent of GDP of the previous year. The significant recovery in the fiscal position is attributed to a marked improvement in SACU revenues. Furthermore, Government has established a Revenue Stabilization Fund wherein E1.5 billion from the bumper SACU revenue will be put aside to cater for any reduced SACU receipts in the future.

Total public debt is estimated at E32.9 billion or 40.5 per cent of GDP at the end of March 2023, from E27.6 billion recorded in March 2022. The rise can largely be attributed to growth in external debt coupled with the continued issuance of Government securities.

Balance of Payments

Preliminary external sector data shows that the country recorded an overall balance of payments deficit of E970.1 million in 2022 following a surplus of E220.2 million in the previous year. The overall balance of payments deficit in 2022 was mainly on account of a significant deficit that was recorded in the current account. The country registered a current account deficit amounting to E1.919 billion in 2022, compared to a surplus of E1.866 billion in the previous year. The current account deficit in 2022 was equivalent to 2.7 per cent of GDP (as compared to a surplus of 2.6 per cent of GDP recorded in 2021).

Private Sector Credit

Credit extended to the private sector remained resilient but at a slower pace than in 2021. It grew at an average of 4.2 per cent in 2022 compared to an average of 8.2 per cent in 2021. Private sector credit growth accelerated to 10.7 per cent during the first three months of 2023. The growth was mainly reflected in credit extended to the business sector which rose even further to reach 20.8 per cent in March 2023.

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 continued with its efforts to promote the Schemes in various fora to increase visibility and improve their performance. The CBE had two promotional sessions for SSELGS with Construction Industry Council as well as the Council's stakeholders. The ECGS was promoted through a presentation to exporters in a Seminar



The MPCC held 6 ordinary meetings during the review period. Over the reporting period, the CBE pursued a restrictive monetary policy stance in line with tightening regional and global monetary conditions.

titled 'Trade Finance Incentives' hosted by Eswatini Investment Promotion Authority. Alongside the promotion of the Schemes is the conduct of refresher training for participating financing institutions to increase their utilisation.

External Reserves

The reserves' import cover declined from 2.6 months the previous year to 2.5 months at end of March 2023. The Bank continues to explore opportunities to (a) build reserves through accumulation of foreign currency export proceeds from local commercial banks; (b) push for more diverse trading products to capture all export flows; (c) implement an optimised portfolio for Special Drawing Rights (SDRs) holdings; and (d) improve open market operations in order to manage domestic liquidity and its impact on reserves.

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. Over the reporting period, the CBE pursued a restrictive monetary policy stance in line with tightening regional and global monetary conditions. At the end of March 2023, the Bank held the discount rate at 7.25 per cent keeping a negative differential of 50 basis points against the South African repo rate. This happened as the CBE tried to be relatively supportive of economic growth.

Financial Technology

The CBE partnered with renowned international technology group Giesecke+Devrient (G+D) in September 2022 to research and explore the development of a potential Central Bank Digital Currency (CBDC). G+D's appointment stemmed from the completion of the 1st Phase of the CBDC Diagnostic Study conducted which found that a retail CBDC presented the strongest and direct opportunity for the adoption of a digital currency in Eswatini.

To ensure that consumers continue to have access to legally backed CBE money through the CBDC project, the Bank has continued its investigation into the possibility of issuing a Digital Lilangeni as a complement to cash. This involves understanding used cases and exploring design concepts of a potential digital currency in Eswatini which includes aspects of governance, accessibility, interoperability, security and programmability. At the same time, there is an assessment of the potential impact on monetary policy.

Banking Sector

The banking system remains sound - with strong liquidity buffers and adequately capitalised. The sector continued to be profitable, demonstrating financial sustainability. At the same time, asset quality marginally improved as reflected by a decrease in the industry's non-performing loans (NPLs) ratio. The NPLs ratio declined to 7.2 per cent in March 2023 from the 7.4 per cent reported in March 2022.

On Licensing, the Bank believes that it has significantly lowered the perceived barriers to entry in the industry by opening for more players through the introduction of the new CBE Policy on Licensing of Banking and Financial Institutions No.1 of 2021 that accommodates various types of licenses at tiered levels.

With regard to market conduct and consumer protection, the Bank continues to strengthen supervision



Governor,
Dr. Phil Mnisi
presenting the
Monetary Policy
Statement
during a press
conference.



to ensure that financial consumers are treated fairly including monitoring banks' compliance with the Consumer Credit Act, 2016 as amended. The CBE also introduced a robust pricing review for the banking industry to ensure that banks charge fair fees for their products and services.

Financial Stability

The Bank is continuously monitoring economic developments to ensure that imminent risks are swiftly corrected to preserve financial stability. The aim is to ensure that the financial system is capable of withstanding internal and external shocks. Key risks to the financial system stability were elevated when compared to the previous years, but with no destabilising impact. Risks emanating from the external economic environment, domestic economic environment, household sector, corporate sector and banking sector remained high. On the other hand, risks from the payment and settlement system remained relatively low over the reporting period.

National Payment Systems

The national payment system of Eswatini continues to undergo tremendous transformation. Following the discontinuation of cheques, the use of digital platforms continued to be on the rise. Mobile money usage has continued to grow over the years and has been identified as one of the key drivers of financial inclusion in the country. The Bank has also seen an increase in government-to-person payments.

Other developments in this space include the National Payment Switch project which kicked-off in the last quarter of the financial year following the contract award to Paylogic SA. The project is estimated to take 18-24 months to implement - delivering fast payments, local switching, clearing and settlements of Card/POS/ATM transactions and open banking functionality for third-party payment service providers.

ICT Strategy

As part of best practice on the alignment of IT to business, the Bank progressed and concluded the redesign of its IT Governance System in line with the Control Objectives for Information and Related Technologies 2019 Framework. This will improve oversight over information and technology for the CBE, thereby ensuring that benefits are realised, risks and resources are optimised whilst improving stakeholder transparency.

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 foreign exchange reserves; as well as operation of payments and settlement activities. These activities expose the Bank to a variety of financial risks including foreign exchange, credit, interest rate and liquidity risks. The CBE, actively manages and mitigates these risks in its day-to-day business activities.

Business Continuity Management

Through its Business Continuity Management (BCM) Unit, the Bank continued to monitor business continuity risks to which it was exposed, as well as the impact of those risks on mission critical processes. This involved training of BCM Champions on how to manage BCM risks, review of business continuity plans and developing strategies to ensure that critical functions can continue to operate during and after a disaster.

Strategic Risks

For the financial year 2022/23, 13 of the 27 (i.e., 48 per cent) of risks identified to have the potential of affecting the strategic objectives had an exposure level above the set appetite levels. These were mitigated through specific plans and none of these materialised or caused significant major incidents.

Corporate Social Investment

The Bank's Corporate Social Investment interventions were mainly directed to philanthropic initiatives. The interventions amounted to E315,000 and focused on education, skills development and cultural activities.

Stakeholder Engagement

During the reporting period, the Bank undertook a stakeholder satisfaction survey in order to identify gaps in stakeholder engagement and apply identified solutions to bridge the gap. The target was to achieve at least 75 per cent stakeholder satisfaction levels by the end of the financial year. The survey indicated that stakeholder satisfaction levels stood at 74 per cent – marginally lower than our target.

Governance

The Board maintains full and effective control over the CBE. It is accountable and responsible for its performance as well as its 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 itself. The Board retains accountability and is satisfied that it has fulfilled its responsibilities in accordance with the Board Charter during the year.

Ombudsman

In the year under review, the Office of the Ombudsman handled a total number of 36 complaints. Out of



 CBE Board, Executive committee, management and other Bank officials during a Strategy Reset session held in November 2022.

these, the Ombudsman was able to successfully resolve 30; leaving 6 complaints to be carried over. Five (5) complaints were referred to the Ombudsman for Financial Services as they were related to institutions regulated by the Financial Services Regulatory Authority.

Our Ethics

The CBE is committed to the highest standards of ethical conduct and integrity in all its business activities. Our organisational culture provides and promotes an environment that seeks to safeguard the interests of all our stakeholders. We hold ourselves to high ethical standards, support ethical decision-making and prevent as well as mitigate unethical actions.

Assurance

The Bank's Internal Audit Department has, throughout the year, focused on providing risk-based and objective assurance, advice, as well as insights possessed by the Board and Management.

To further enhance assurance, the CBE has also established a Combined Assurance Forum which will be integrated into the Bank's assurance processes, ensuring a robust and comprehensive approach to assurance

throughout the organisation. This development strengthens our commitment to fostering effective collaboration among various assurance functions - ultimately enhancing the CBE's ability to manage risks, ensure governance effectiveness, and safeguard our stakeholders' interests.

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 number of all staff positions that exist in the CBE is 352 whilst the number of positions filled was recorded at 290 at end of March 2023. Vacancies stand at 63 whilst the turnover rate was recorded at 4.4 per cent for the reporting period.

The Bank offers a structured graduate trainee programme aimed at fast-tracking the development of graduates for a specific period. Similarly, the CBE has an internship programme meant for undergraduates to obtain practical experience relevant to their programme of study.

CBE Financial Performance

Operationally, the Bank made a profit of E385.8 million in 2022/23 - an increase

from the E182.3 million profit recorded in 2021/22. A total of E445.46 million was paid by the CBE as dividend to the Government of Eswatini in line with the CBS Order of 1974 (as amended). These payments were made after calculating a total comprehensive income of E1.01 billion (which also takes into account the E627.4 million revaluation gains) realised by the Bank in 2022/23.

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, the Board, all staff of the CBE 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 as well as achievement by the CBE in our ecosystem. 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.

Dr. Phil Mnisi,
Governor