

Banking Sector Supervision

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During the period under review, the banking sector depicted sluggish growth in terms of the balance sheet size.

The total assets for the banking sector stood at E26.3 billion in March 2023, reflecting a decrease of 6.7 per cent when compared with the E28.8 billion recorded in March 2022.

An improvement in asset quality was also observed for the period under review as demonstrated by a reduction in industry NPL ratios over the same period. An improvement in some of the banks' NPLs partially resulted in the industry NPL ratio declining by 0.2 percentage points to 7.2 per cent in March 2023 from 7.4 per cent recorded at the end of the previous financial year.

Total industry gross loans and advances reflected a marginal increase, indicating a shy credit intermediation by the banks. As at March 2023, gross loans and advances were reported at E14.77 billion compared to E13.25 billion in March 2022. The capitalisation of the banks, however, continued to exhibit sound and resilient levels. In the period under review, total capital ratio and common equity Tier 1 were recorded at 18.6 per cent and 16.3 per cent, respectively; exceeding their corresponding legal requirements of 8.0 per cent and 4.5 per cent.

The banks continued to post reasonable total income, albeit at different profitability path levels. Profitability of

banks is important for financial stability and monetary policy transmission. The banking industry after-tax-profit for the period ended March 2023 was recorded at E147.1 million from E111.9 million in March 2022.

The industry remains liquid and reported satisfactory liquidity levels above the statutory minimum requirements. As at March 2023, the liquidity ratio was reported at 36.8 per cent against a statutory requirement of 22 per cent.

Pursuant to the preservation of the liquidity ratio and cash reserve ratio post the revocation of Circular 1 on COVID-19 interventions, effective 1st December 2022, the Central Bank raised the minimum liquidity requirement by 200 basis points to 22.0 per cent for commercial banks and by 250 basis points to 20.5 per cent for the development banks. The unwinding of the policy was a partial reversal, as the ratio remained 300 basis points below pre-COVID-19 levels. This development ensured that the capacity for banks to extend credit and boost economic activity is not compromised. In addition, the statutory reserve requirement was raised by 100 basis points to 6.0 per cent; fully reverting to the pre-COVID-19 level.

On policy formulation, the CBE has continued to strengthen regulatory reforms by conducting regulatory policy research to enhance regulations and industry guidelines in order to align with international best practice and prevailing socio-economic status. Also, 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. Furthermore, the CBE issued revised bank license investigation fees which had remained unchanged for a long time. This was to also align the investigation fees with the different categories of banking institutions under the new licensing policy.

With regard to market conduct and consumer protection, the Bank continues to strengthen supervision to ensure that financial consumers are treated fairly including monitoring banks' compliance with the Consumer Credit Act, 2016 as amended. Also, the CBE introduced a robust pricing review for the banking industry to ensure that banks charge fair fees for their products and services. It is through this exercise that the Bank in December 2022 directed banks to provide free monthly statements on all types of accounts as well as reducing the statement charge per page on subsequent statements in a month.

During the period under review, all the banks developed and introduced a No-Frills account. Minimum features for a No-Frills account include issuing of an ATM/Debit card, several free withdrawals per month, and no periodic maintenance or administration fees. This will go a long way towards the pursuit of the goal of increasing financial inclusion in Eswatini. Furthermore, a Financial Literacy Strategy for Eswatini was jointly formulated by the CBE, Center for Financial Inclusion and Financial Services Regulatory Authority, as well as other relevant stakeholders. This seeks to ensure that there is a comprehensive, sustainable, and effective range of financial literacy programmes in the country.