



GOVERNOR'S TALKING NOTES ON THE 2018/19 INTEGRATED ANNUAL REPORT PRESENTATION ROYAL VILLAS, 09 OCTOBER 2019

Programme Director

Senior Government Officials

Central Bank Board of Directors

Members of Monetary Policy Consultative Committee

Heads and representatives of banks and other financial institutions

CEOs and representatives of private sector companies

Management & staff of CBE

Representatives of the media

Invited guests

Ladies and gentlemen

INTRODUCTION

1. It is that time of the year where the Central Bank of Eswatini briefs key stakeholders by presenting its Integrated Annual Report. It therefore gives me great pleasure and I feel greatly honoured to deliver the Bank's 2018/19 Integrated Annual Report.
2. The structure of this Report is informed by the Bank's primary mandate and responsibilities, as well as the governance structures and enabling functions that underpin its ability to sustainably execute its role in the economy and society at large.

INTEGRATED REPORTING

3. Ladies and gentlemen, Integrated Reporting is considered the right way to achieve a more coherent corporate reporting system, fulfilling a need for a single report that provides a fuller picture of an organisation's ability to create value over time.



4. 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.

MATERIALITY

5. Programme director, allow me to first highlight that in ascertaining matters of materiality for disclosure in this Report, we have considered whether the matter significantly or has a potential to significantly affect our strategy, business model, input factors and ultimately our ability to create value over time. The issues of materiality pertains 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.

GLOBAL DEVELOPMENTS

Programme director, distinguished ladies and gentlemen, I will now highlight developments in the Global Economy.

6. According to the International Monetary Fund's World Economic Outlook released in July 2019, global growth is forecast at 3.2 per cent in 2019, before picking up to 3.5 per cent in 2020. The softer projections follow a 3.6 per cent expansion recorded in 2018. Global growth remains sluggish and precarious, with the dynamism in the global economy being weighed down by prolonged policy uncertainty as trade tensions remain.
7. The IMF further reported that headline inflation has remained subdued across most advanced and emerging market economies. These developments have contributed, in part, to market pricing of expected inflation dropping sharply in the United States and the Eurozone. Consumer prices in advanced economies, on average, are projected to rise to 1.6 per cent in 2019, edging up marginally to 2.0 per cent in 2020.
8. The IMF projects inflation in emerging market and developing economies, on average, to rise to 4.8 per cent in 2019, before declining to 4.7 per cent in 2020.

SOUTH AFRICA



9. Ladies and gentlemen, coming closer home in South Africa, latest figures released by Statistics South Africa indicate that the South African economy grew by 3.1 per cent quarter-on-quarter in the three months to June 2019, following a downwardly revised 3.1 per cent contraction in the previous period and beating market expectations of a 2.4 per cent expansion.
10. On latest developments, the SARB MPC decided unanimously to leave its benchmark repo rate unchanged at 6.50 per cent on 19 September 2019, as widely expected, after trimming it by 25 basis points in the prior meeting. Policymakers noted that inflation expectations continued to moderate and said that they will continue to focus on anchoring inflation expectations near the mid-point of the inflation target in the interest of balanced and sustainable growth.
11. The South African consumer price inflation rose to 4.3 per cent in August 2019, up from 4.0 per cent in July 2019. The acceleration in consumer price inflation emanated from increases in the price indices for ‘food and non-alcoholic beverages’, ‘transport’ as well as ‘housing and utilities’.

KINGDOM OF ESWATINI

Programme director, distinguished ladies and gentlemen, let me now turn focus and address developments in the domestic economy.

GDP developments

12. According to official provisional estimates released by the Central Statistics Office, the Gross Domestic Product, which is a measure of economic activity, is estimated to have expanded by 2.4 per cent in 2018 compared to 2.0 per cent in 2017. This increase is mainly accounted for by strong positive developments in the primary and tertiary sectors.
13. High frequency data reflects that economic activity expanded by 6.1 per cent on a year-on-year basis (seasonally adjusted) in the second quarter of 2019, up from a revised 3.3 per cent in the previous quarter. The significant increase on



a year-on-year basis largely benefitted from improvements in the secondary sector.

14. Economic activity is projected to decelerate to 1.4 per cent in 2019 from 2.4 per cent in 2018 largely due to worsening fiscal challenges. The main sectors that are projected to perform poorly include 'Construction', 'Wholesale and Retail' and 'General Public Administration'.
15. Going forward, GDP is projected to increase by 2.9 per cent in 2020 and then retreat to 1.3 per cent and 1.7 per cent in 2021 and 2022, respectively.

Consumer inflation

16. The annual consumer inflation was relatively contained in the 2018/19 financial year, averaging 5.0 per cent compared to 5.5 per cent in the previous financial year. The moderation in consumer inflation mainly benefitted from favourable food prices, which recorded a deflation of 0.2 per cent in the period under review down from 5.2 per cent the previous financial year.
17. The freeze on increases in the electricity tariff has been reflected in the inflation outcome for April 2019 where inflation fell to a low of 1.8 per cent down from 5.3 per cent recorded in March 2019. The water tariff in May 2019 was also suspended for the year 2019 which was reflected in the low inflation figures due to higher base effects. Inflation rate increased to 2.0 per cent in August 2019, following a flat growth rate of 1.7 per cent recorded in June and July 2019.

Inflation outlook

18. The inflation outlook, which remains a predominant guide for monetary policy, is on a downward trend with expected upward risks towards the end of 2019. The inflation trajectory swings hinge on policy uncertainty as we come to grips with the freeze on increases in water and electricity tariffs introduced by Cabinet. Food prices, which account for the largest weight in the CPI basket,



are expected to stabilise as the adverse effects of unfavourable weather conditions seen in the previous years have dissipated.

- 19.** The advent impact of imported inflation given the expected weaker exchange rate and volatile oil prices remain key risk factors to the inflation outlook in the medium-term. The Bank's inflation forecast for 2019 was reviewed downwards in September 2019 to 2.7 per cent, from 2.87 per cent projected in July 2019.

External reserves

- 20.** Eswatini's external reserves continued to fall as the Government made drawdowns on its deposits held at the Bank to meet her financial obligations. In terms of estimated imports of goods and services, the reserves were sufficient to cover 2.0 months of imports at the end of March 2019, remarkably below the three-month threshold and also lower than the 3.2 months covered at the same time in the previous year.
- 21.** During the course of the financial year, the Bank engaged in an exercise to buy foreign exchange originating from export proceeds from the local commercial banks. The accumulation of these funds has assisted to buffer the reserves portfolio against outflows. In the absence of this intervention, reserves levels would have been significantly lower.
- 22.** The Bank will continue with its efforts to acquire foreign exchange from the local market as a long-term objective to boost the level of reserves. The Bank will also continue to monitor developments and offer appropriate advice to the Government in order to retain the reserves at levels above the threshold of three months cover of imports of goods and services.
- 23.** As at 04 October 2019, the Reserves were sufficient to cover an estimated 3 months of imports of goods and services.

Private sector credit

- 24.** Ladies and gentlemen, growth in credit extended to the private sector slowed down from the double-digit rate recorded in the past year, to single digit



as the demand for credit by ‘households’ weaned. The growth, though weaker, was largely supported by increased demand for credit towards ‘businesses’ and ‘other sectors’ (namely ‘other financial corporations’). The accelerated growth in credit to businesses is a positive development as this sector drives domestic economic growth.

Public finance

25. The 2019/20 budget was presented under an unprecedented economic crisis, where the country is faced with pressure on Government revenues, accumulating arrears, depleted reserves and sluggish growth. As such, restoring prudent public finance management remains pivotal in helping the country achieve sustainable and inclusive growth. The fiscal consolidation measures pursued by the Government are expected to yield positive results.

Balance of payments

26. Ladies and gentlemen, the country posted an overall balance of payments deficit of E2.314 billion in the financial year 2018/19, triple the deficit of E799.3 million recorded in the 2017/18 financial year. This necessitated a reduction in reserve assets, as a financing item for the deficit recorded in the overall balance of payments.

OUR BUSINESS MODEL

27. Ladies and gentlemen, allow me to pronounce that the Central Bank of Eswatini has a very clear mandate; therefore, process efficiency drives our business model. It is our task to create monetary and macro-prudential policies that will bring about price and financial stability within Eswatini. Where we succeed, we will continue to refine and maintain operational efficiency. Where we do not achieve this to optimal level, we will revise our strategic intent so that our strategy becomes more effective. In this, we ensure that we deliver on our given mandate, whilst securing the relevance of our mandate.

28. To ensure that we grasp the environment within our scope of work, we do an annual Exposure, Opportunities and Processes (EOP) analysis. This analysis



enables us to identify what our risk **exposure** (E) is; to exploit our **opportunities** (O); and to fix our **process** inefficiencies (P). In doing so, we will have policies that ensure price and financial stability within Eswatini.

MONETARY POLICY

- 29.** The Bank has the ultimate aim of attaining price stability as well as stable and sound financial systems, in order to ensure sustainable economic growth. Given the CMA Agreement, the intermediate goal of monetary policy in Eswatini is to maintain the peg with the South African Rand. This requires that the country's currency in circulation be backed by foreign currencies, as well as keeping the level of reserves to at least three months of import cover.
- 30.** Ladies and gentlemen, on monetary policy, the Bank makes monetary policy decisions after consultative meetings with the Monetary Policy Consultative Committee (MPCC). In 2018/19 financial year, the MPCC held 6 meetings bi-monthly. In these meetings, the MPCC reviewed developments on inflation (including inflation forecasts) as well as other macroeconomic indicators of the domestic, regional and international economies. Over the reporting period, the discount rate was kept unchanged at 6.75 per cent. The liquidity requirement was unchanged at 25 per cent for commercial banks, and 22 per cent for savings and development banks. The reserve requirements for all banks was also left unchanged at 6 per cent.
- 31.** On the 20th of September 2019, the Bank, in consultation with the MPCC held a meeting to consider the appropriate monetary policy stance for the upcoming two months. The Bank decided to maintain the discount rate at 6.5 per cent (following a 25 basis point reduction in the prior meeting) after considering global, regional and domestic economic developments. The Bank will continue to monitor international and domestic developments that influence the movements of inflation and will act appropriately in line with its core mandate



of fostering price and financial stability that is conducive to the economic development in Eswatini.

FINANCIAL STABILITY

- 32.** With regard to financial stability, the Bank, through its macro-prudential mandate, is committed to mitigate risks to financial stability. The financial stability mandate complements the price stability objective of the Bank through formulation and implementation of appropriate macro-prudential policy measures. After sufficient deliberations on financial stability issues, the Financial Stability Committee discharges its accountability through the publication of the annual Financial Stability Report.
- 33.** Based on key financial soundness indicators, the banking sector remained stable, financially sound and complied with statutory requirements during the year under review.

FINANCIAL SECTOR DEVELOPMENT IMPLEMENTATION PLAN

- 34.** Ladies and gentlemen, the Bank continued to coordinate the implementation of the Financial Sector Development Implementation Plan (FSDIP). The FSDIP has four pillars namely; financial stability, financial inclusion, diversification of the financial system and modernisation of the financial system. Detailed information, including FSDIP achievements, are reflected in the Report being presented today.

NATIONAL PAYMENT SYSTEMS

- 35.** On issues of National Payment Systems, operations of designated systemically important national payment systems continued to run smoothly during the reporting period. During this period, the Bank approved an application from Eswatini Mobile to provide mobile money transfer services to its customers. Eswatini Mobile has partnered with Eswatini Bank, who will also be holding the



required trust account for deposit-taking from agents. The service will provide financial services to the banked, underbanked and unbanked population.

FINANCIAL TECHNOLOGY

36. Programme director, allow me to report that the range, prevalence and evolution of financial innovations have since increased tremendously. In the wake of these technological advancements on financial services, regulators and supervisors face the challenge of harnessing the potential of Financial Technology, while making sure not to undermine consumer protection, integrity of financial markets and stability of the financial system as a whole.

37. The Central Bank of Eswatini, in partnership with other stakeholders established a regulatory Sandbox to foster innovation in the financial sector. This platform provides an opportunity to test innovative solutions in a live environment whilst ensuring consumer protection.

RISK MANAGEMENT APPROACH

38. Programme director, the Bank closely monitors the operating environment using the risk exposure, opportunities and process-efficiency approach to identify threats and avoid these; as well as find and pursue opportunities in fulfilling its mandate. This is attained through integrating the Bank's strategy, risk and performance for effective planning and monitoring.

39. Risk management remains the main area of focus and management is committed to applying international best practice and standards to ensure that the effects of uncertainty on objectives are systematically and continuously monitored. This is done through periodic assessments of strategic objectives, projects and day-to-day processes, using various tools as prescribed in the CBE Enterprise Risk Management Framework.



STAKEHOLDER ENGAGEMENT

40. Ladies and gentlemen, we now have a Stakeholder Management Framework in place that guides our engagement with stakeholders. During the reporting year, we developed a Meaningful Stakeholder Engagement Project as one of our strategic activities. We developed a stakeholder engagement measurement tool to quantify the level of engagement, based on identified key engagement measurement indicators. Our stakeholders continue to be concerned about the domestic economic challenges, slow regulatory reforms, compliance and reputational implications.

SOCIAL CORPORATE INVESTMENT

41. Through our Corporate Social Investment (CSI) programme, we pursue excellence in community involvement and upholding generally accepted principles underlying good corporate social responsibility. The focus of the CSI programme is three priority areas, namely; community health programmes, educational initiatives (covering primary school, high school, tertiary institutions) and national research institutions. Total amount invested in this programme for the financial year was E1.7 million.

OUR STRATEGY

42. Our 'super-goal' (V4 target) is to be an agile, efficient and integrated central bank by the year 2021. We may achieve all other strategic targets, but if we miss this one, our entire strategy will fail. In the previous year, we captured our V4 targets for the 2018/19 financial year.

43. We identified four strategic areas of focus, namely; human dynamics, financial sustainability, regulatory reform and business intelligence. Each of these strategic areas is overseen by a champion. A total of fifteen (15) programmes are run under these strategic areas, with each programme headed by a manager reporting to the relevant champion.



44. With regards to performance against strategy, progress on the 15 projects under the four strategic areas are reported monthly to the Projects and Change Management Committee.

STRATEGY OUTLOOK

45. *Programme director, distinguished ladies and gentlemen*, coming to our strategy outlook, the question we continuously ask ourselves is **‘Where are we going?’** Assuming that success was a place, how would we know we are there? We thus must speak to our most important goals to be achieved in the next 12 months. Again, we focus on our V4 targets, process outputs and strategic projects. This is where we demonstrate ‘The 4 Disciplines of Execution’ approach, in that;

- We have not discarded any targets in the process of identifying our important goals. Instead, we allocated weights to help us prioritise the targets. The weighting and prioritisation was based on an assessment of which targets assisted the Bank more towards achieving agility, efficiency and integration.
- We have developed both Lag and Lead Measures for all our targets. This will make it easier for project teams to know what is expected of them in the next 12 months.
- We have implemented monthly monitoring scorecards for the Projects and Change Management Committee and the quarterly scorecards for the Board Capital Projects and Investment Committee, which will provide compelling scoreboards for tracking delivery.
- We use information attained from Departmental, Management Committee, Executive Committee and Board meetings to hold each other accountable, so that the goals do not naturally disintegrate in the whirlwind.



GOVERNANCE

- 46.** On issues of Governance, I wish to emphasise that the Board maintains full and effective control over the operations of the Bank and is accountable and responsible for its performance and compliance. The Board reviews the strategic priorities of the Bank, determines 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 achievements against set objectives by holding management accountable for its activities through performance reporting and budget updates.
- 47.** The Board is assisted by four committees which all have their functions set-out in specific committee charters. The structure and composition of the committees is in line with international corporate governance best practice in central banks.
- 48.** Following the ever-evolving corporate governance developments locally and internationally, which call for increased regulation, greater transparency, and more rigorous scrutiny of large institutions, the ethics and compliance function becomes integral to the strategic core of organisations gearing to maintaining public trust. Therefore, beyond responding to changes in the industry, the Bank continues to invest its efforts in creating a scalable ethics and compliance ecosystem that will help meet its needs today and in the future.

CONCLUSION

- 49.** *Programme director, distinguished ladies and gentlemen*, let me conclude by recognising that it has been a strong team effort, and I would like to extend my sincere thanks and appreciation to the Minister of 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 in the Kingdom of Eswatini.



50. I have no doubt that the Bank 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.

51. Without further ado, Programme director, I invite all of you to read the 2018/19 CBE Integrated Annual Report and we will gladly welcome feedback to inform continuous improvement in our reporting.

I Thank You!