

UMNTSHOLI NEWS

Umntsholi News is an information sharing platform where the Central Bank of Swaziland (CBS) shares information with its stakeholders to pierce the veil of 'secrecy'.

Umntsholi WeMaswati, as CBS is affectionately known, refers to an inner secret storage. This name resonates well with the Bank's responsibility of storing the nation's wealth. This best explains the closed book syndrome, as naturally, human beings tend to protect their hard earned wealth from any potential harm.

Umntsholi News is published once a month for you to understand the operations of the Central Bank.

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Welcome to Umntsholi News



With your hostess, Senior Communications and International Relations Officer, Lindokuhle Sithole Shabangu

YOUR NOTE ON DIGITAL CURRENCIES

It is without a doubt that the use of digital currencies has gradually increased and gained worldwide attention. So why are central banks around the world bothered, or not, by this new age currency.

Well, it is basically because of its association with crime — especially money laundering as well as an alarming amount of price volatility that has left regulators and financial-market participants wary of its potential implications, and therefore reluctant to embrace it.

Moreover, and according to a statement recently released by the Central Bank of Swaziland, the CBS Order 1974 (as amended) stipulates that only notes and coins issued by the Central Bank shall be legal tender in Swaziland.

Currently, the Bank has authorized, as legal tender in Swaziland, the Lilangeni (SZL), as well as the South African Rand (ZAR) which continue to circulate side by side and on par.

Other foreign currencies are traded by licensed institutions in the country in line with applicable exchange control legislation and it is understood that these foreign currencies have, as a key attribute, the feature that they are issued and redeemed by the duly authorized institution in their country of issue and hence enjoy legal tender status, which a cryptocurrency by definition, does not.

Against this backdrop, technology has significantly transformed the global financial services industry. New and innovative service delivery methods have been

introduced and are marked by continuous improvement. New technologies relevant to the industry include artificial intelligence, block-chain and distributed ledger technology and the emerging digital currencies. These are all poised to drastically change traditional methods of financial service delivery and will without a doubt enhance the user experience.

Digital Currencies - by definition

Digital currencies as defined:

- are a digital representation of value that can be digitally traded,
- they function as a medium of exchange and
- are a unit of account and a store of value which does not have legal tender status.

There is a further distinction between centralized and decentralized digital currencies. A key feature of decentralized digital currencies is that they are not centrally owned or controlled by any institution but are issued and facilitated by peer to peer networks of computers using block-chain technology.

This negates the need for intermediaries such as central and commercial banks by placing full and direct control of the currency in the hands of its holders. Some decentralised digital currencies are based on the use of cryptography to control the creation of additional units of the currency and also to record and control transactions carried out on their network. These are called cryptocurrencies.

The Central Bank of Swaziland on Bitcoin

The Bank is aware that Bitcoin is one of the leading cryptocurrencies globally, and has been advised of instances where this currency is being marketed and traded in Swaziland

However, the Bank notes like other peer central banks that due to its nature as a cryptocurrency, there are no restrictions, disclosures or regulatory compliance applicable to transactions executed using Bitcoin and yet, like any other currency, it can be used for illegal purposes or to facilitate fraudulent activity. In fact, the anonymity and speed of execution in transacting with cryptocurrency makes it more susceptible to abuse by unscrupulous persons. This presents a risk to users of the currency because there is no protection or legal recourse available from any institution including the Central Bank in the event that the user suffers financial loss from the use of Bitcoin or any other cryptocurrency.

The Bank is also aware that a few regulators have afforded legal tender status to cryptocurrency for use in trade while some have also licensed virtual currency exchanges to engage in the trade of the actual cryptocurrency. This is considered to be one way of mitigating the increased systemic risk that the use of cryptocurrency could introduce to the economy through, for example, modifying

the money supply or facilitating illicit outflows of money. The general observation globally however is that cryptocurrency is not yet widely accepted as a form of payment in many markets and as such, it tends to be held for speculative or investment purposes.

In Swaziland the act of collecting deposits from members of the public in exchange for future returns is a regulated activity that requires an appropriate license to be issued by the regulating authority. The Central Bank has not yet licensed any person or entity to carry out any activities related to the acquisition, sale and trade of cryptocurrency, in particular Bitcoin.

It is important then, that you and me recognize the clear distinction between cryptocurrency and electronic money (e-money). While cryptocurrency is denominated in its own units of measure without a central issuer, electronic money is a digital representation of legal tender and is denominated to the Lilangeni that is issued and redeemed by the Central Bank. Electronic money is issued, circulated and redeemed within a regulated space by the Bank, commercial banks and licensed mobile money operators. One example of electronic money is the mobile money product whose growth and usage the Bank recognizes as a positive development in the financial industry.

In essence, the Central Bank, in line with its mandate to issue and redeem currency as well as to promote safe and accessible payment systems, continues to closely monitor developments in the financial services industry with a view to ensure that the regulatory framework remains relevant and appropriate. The Bank acknowledges its role in supporting innovation and adoption of new technologies in the industry and together with many other regulatory institutions worldwide, adopts an optimistic but cautious view that the financial services industry will certainly benefit from these technologies but that their development and deployment must be done in a manner that sufficiently safeguards the interest of the users.

So whether such technology achieves approval from the Bank, remains to be seen at this stage, because of the reasons cited above.

Until next time!



